John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 727
May Industrial Production and the Produce Price Index (PPI)

June 15, 2015

It Still Looks a Lot Like a "New" Recession

Production Contracted in First-Quarter 2015;
Second-Quarter Production Contraction Now Is a Virtual Certainty

Longest String of No Monthly Growth, and Worst Annual and
Quarterly Production Activity Since the Economic Collapse

May PPI Surge of 0.55% Reflected Some Catch-Up Reporting

PLEASE NOTE: The next regular Commentary, *scheduled for tomorrow, Tuesday, June 16th, will detail May 2015 housing starts. A subsequent* Commentary *on Thursday, June 18th, will cover the May Consumer Price Index (CPI) along with related reporting of Real Retail Sales and Earnings. Separately, a* Public Comment *on unemployment measurement is pending.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Industrial Production Indicates a Recession. Economic euphoria that was building up in the last several weeks likely experienced some setback with today's (June 15th) production reporting. Headline May 2015 industrial production effectively locked in a second-quarter 2015 quarterly contraction in industrial activity, the second consecutive quarterly decline for the series. Quarterly production has not contracted otherwise since the economic collapse into 2008-2009.

Annual production growth in May slowed to 1.4%, a pattern last seen in February 2008. Monthly production has been in contraction or unchanged for six-months, a circumstance not seen since the economic collapse, and generally not seen outside of recessions.

The accompanying graph (the first graph following) of headline production activity already shows enough of a downturn to suggest that the beginning point of the next official-recession-shaded area will be at the end of 2014. Industrial production is one the primary indicators used by the National Bureau of Economic Research (NBER)—official arbiter of U.S. recessions—in timing recession activity.

Further disappointments loom in headline reporting of the weeks ahead. The near-term outlook for GDP reporting will be updated with the ShadowStats *Commentary* on Thursday.

Today's Missive (June 15th). The balance of today's *Opening Comments* concentrates on the detail from the headline reporting of May 2015 industrial production and the PPI.

The *Hyperinflation Outlook Summary* in the *Hyperinflation Watch* section is unchanged from its updated version in the prior *Commentary*. Separately, the *Week Ahead* section provides previews—updated for late-consensus expectations—of May economic releases due later this week, specifically Housing Starts, and the Consumer Price Index (CPI).

Industrial Production—May 2015—Second Consecutive Quarterly Contraction Appears Set. In the context of revisions that shifted prior activity back in time, headline May 2015 industrial production fell by 0.2% (-0.2%), disappointing consensus expectations for a 0.2% gain [MarketWatch, Bloomberg]. Net of prior-period revisions, May activity contracted by 0.1%. As the Federal Reserve reports the headline monthly change in production (at one decimal point), there has been no growth in monthly production for six consecutive months.

Reflecting this protracted and broad weakness in production, first-quarter 2015 industrial production fell at a revised, annualized quarterly pace of 0.30% (-0.30%), with second-quarter 2015 production declining at an annualized pace of 2.36% (-2.36%), based on just the reporting for April and May. June production would have to jump by an improbable 1.9% month-to-month in order to turn headline second-quarter activity flat. As to earlier periods, the annualized quarterly production gain in fourth-quarter 2014 was a revised 4.67%, versus an unrevised 4.08% in third-quarter 2014.

The contraction in first-quarter 2015 production was the first-quarterly contraction in the series since second-quarter 2009, the formal trough of the recent economic collapse. A second consecutive quarterly downturn is in play. The current string of six months with no growth in production, and annual production growth slowing to 1.4%—as seen in May 2015—usually do not occur other than at the onset of, or in a recession. Accordingly, the Fed's industrial production series is indicating that broad economic activity has entered a "new" recession, likely to be timed officially from December 2014.

Reporting for June 2015 production is scheduled for July 15th, and that should reflect the two quarterly contractions. The series goes through a benchmark revision on July 21st, however, and anything can happen in the revised reporting there. Nonetheless, today's revisions to the headline series likely set the relative monthly patterns to be parallel the pending revisions. Such action by the reporting entity is not uncommon, preceding benchmarks.

Industrial Production—May 2015. The Fed's first estimate of headline, seasonally-adjusted May 2015 industrial production showed a monthly decline of 0.2% (-0.2%) [down by 0.17% (-0.17%) at the second decimal point], the sixth consecutive month of no growth at the headline first decimal point.

That followed a revised drop of 0.50% (-0.50%) in April, a revised "unchanged" at up 0.01% in March, a revised February "unchanged" at down 0.04% (-0.04%), a revised January decline of 0.42% (-0.42%), and a revised "unchanged" at up 0.02% in December. Net of prior-period revisions, May 2015 production contracted month-to-month by 0.07% (-0.07%).

By major industry group, the headline May 2015 monthly decline of 0.2% (-0.2%) [April contraction of 0.5% (-0.5%)] in aggregate production was composed of a contraction of 0.2% (-0.2%) in manufacturing activity in May [an April gain of 0.1%]; a May decline of 0.3% (-0.3%) [April decline of 1.3% (-1.3%)] in mining (oil and gas production); and a May gain of 0.2% [April decline of 3.7% (-3.7%)] in utilities.

Year-to-year growth in May 2015 production slowed to 1.37%, versus a revised 2.03% annual gain in April 2015, a revised 2.63% gain in March 2015, a revised 3.47% gain in February 2015, a revised 4.49% gain in January 2015, and a revised gain of 4.66% in December 2014. **A**nnual growth has not slowed to below 1.37% since February 2008, as the U.S. economic collapse began to intensify.

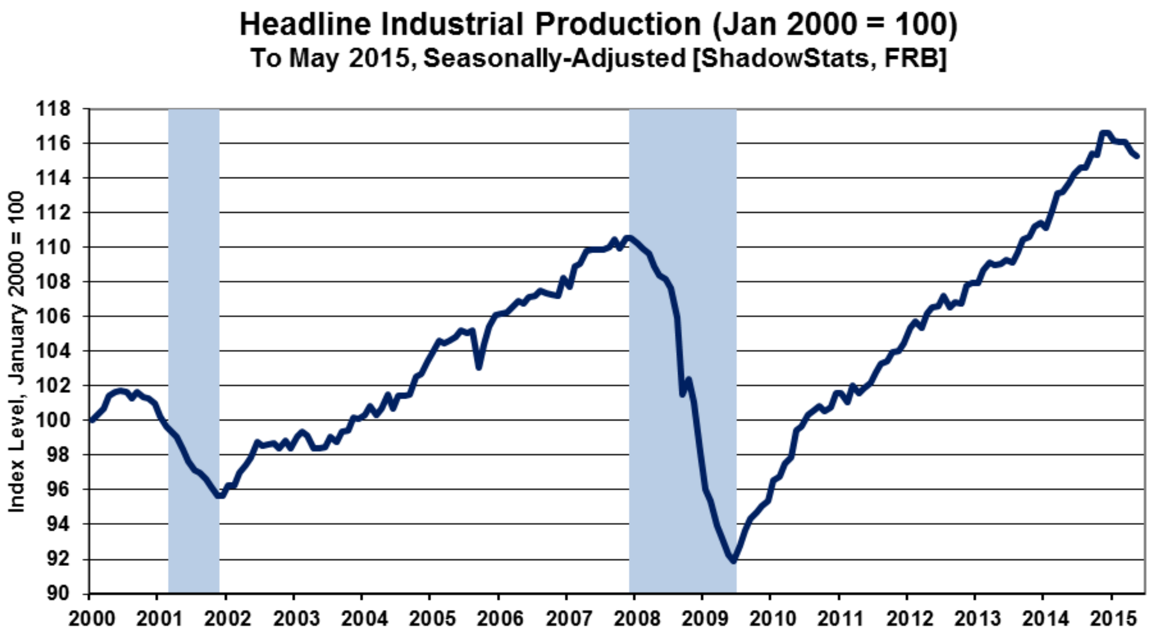
Production Graphs—Corrected and Otherwise. The *Reporting Detail* section includes the regular graphs of the industrial production level and year-to-year change, through May 2015. The level of headline production showed a topping-out process late in 2014, followed by renewed downturn in first-quarter 2015 and into second-quarter 2015. Such patterns of monthly and quarterly declines were last seen in the depths of the economic collapse from 2007 (or earlier) into 2009. Annual growth in May 2015 slowed to a level not seen since February 2008, a level that usually would signal a recession.

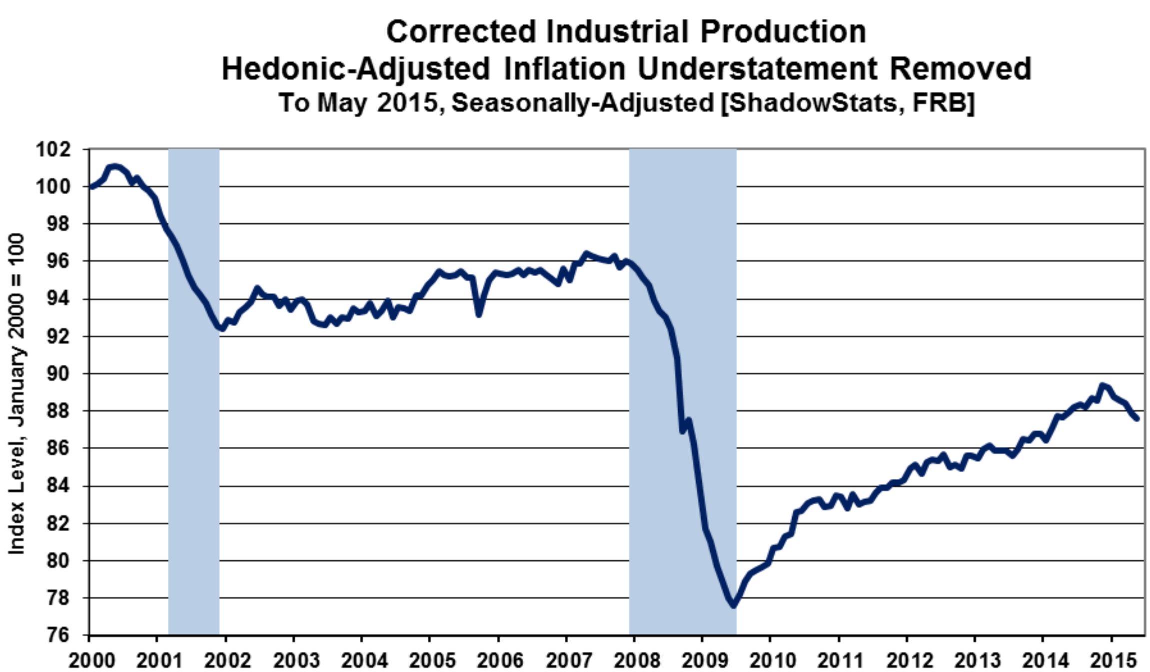
The two graphs that follow in this section address reporting quality issues tied just to the overstatement of headline growth that directly results from the Federal Reserve Board using too-low an estimate of inflation in deflating some components of its production estimates into real dollar terms, for inclusion in the index of industrial production.

Hedonic quality adjustments to the inflation estimates understate the inflation rates used in deflating those components. Such has the effect of overstating the resulting inflation-adjusted growth in the headline industrial production series (see *Public Comment on Inflation* and the *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble*).

The first graph following shows official, headline industrial production reporting, but indexed to January 2000 = 100, instead of the Fed's formal index that is set at 2007 = 100. The 2000 indexing simply provides for some consistency in the series of revamped "corrected" graphics (including real retail sales, new orders for durable goods and the GDP); it does not affect the appearance of the graph or reported growth rates (as can be seen with the graphs in the *Reporting Detail* section).

The second graph is a recast version of the first, corrected for the estimated understatement of the inflation used in deflating components of the production index. Estimated hedonic-inflation adjustments have been backed-out of the official industrial-production deflators used for headline reporting.





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The "corrected" graph shows some growth in the period subsequent to the official June 2009 near-term trough in production activity. Yet, that upturn has been far shy of the full recovery and the renewed expansion reported in official GDP estimation (see *Commentary No. 723*). Unlike the headline industrial production data and the headline GDP numbers, corrected production levels have not recovered pre-recession highs. Instead, corrected production entered a period of protracted low-level, but up-trending, stagnation in 2010, with irregular quarterly contractions seen through 2014, and an irregular uptrend into 2014, a topping-out in late-2014 and now turning down into the first two quarters of 2015. Where the corrected series has remained well shy of a formal recovery, both the official and corrected series suffered renewed quarterly contractions in first-quarter 2015 and—with two of three months reporting for the quarter in hand—remain on track for a further quarterly contraction in second-quarter 2015.

Producer Price Index—May 2015—Inflation Spike of 0.55% Reflected Some Corrective Catch-Up in Energy Inflation. Final Demand Goods monthly inflation rose by 1.29% in May, dominated by a headline 5.88% gain in energy goods, with the food and "core" goods categories also positive. The gain in goods inflation dominated the aggregate headline PPI gain of 0.55%, with the services category "unchanged" and the construction category up by 0.09% for the month. Where the total PPI declined by 0.36% (-0.36%) in April, the May headline reporting reflected some bounce-back from the understated headline energy inflation the month before (see *Commentary No. 719*).

From a practical standpoint, however, the aggregate Final Demand Producer Price Index still has little relationship to real-world activity. Beyond issues of substitution and hedonic-quality-adjustment methodologies (see *Public Commentary on Inflation Measurement*), problems in the goods area have been and remain unstable seasonal factors, versus shifting market activity. In the services sector—the dominant component of the index—inflation is defined in terms of profit margins, not prices, where those margins often move initially in the opposite direction of related prices.

May 2015 Headline PPI Detail. The seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for May 2015 jumped by 0.55% (rounds to 0.5%), versus a monthly contraction of 0.36% (-0.36%) in April.

Along with energy-related seasonal adjustments moving out of negative territory in May, the broad impact of seasonal adjustments on headline PPI reporting turned more positive, with unadjusted month-to-month May inflation rising by 0.27%, versus an unadjusted contraction of 0.27% (-0.27%) in April.

Also on a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI inflation dropped by a narrower 1.08% (-1.08%) in May 2015, versus an April 2015 annual decline of 1.26% (-1.26%).

For the three major subcategories of May 2015 Final Demand PPI, headline monthly Goods inflation rose by 1.29%, Services inflation was "unchanged" at 0.00%, and Construction inflation rose by 0.09%.

Final Demand Goods (Weighted at 34.67%). Running somewhat in parallel with the old Finished Goods PPI series, headline monthly Final Demand Goods inflation rose by 1.29% in May 2015, versus a contraction of 0.73% (-0.73%) in April. There was an aggregate positive impact on the headline May reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, May final demand goods inflation rose by 1.10% for the month.

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Unadjusted, year-to-year goods inflation was down by 4.26% (-4.26%) in May 2015, versus an annual decline of 5.47% (-5.47%) in April 2015.

Headline seasonally-adjusted monthly changes by major components of the May 2015 Final Demand Goods:

- "Foods" inflation rose month-to-month by 0.77% in May 2015, following a monthly decline of 0.93% (-0.93%) in April, with May's headline gain boosted by seasonal adjustments. Unadjusted, May food inflation rose by 0.59% in the month. Unadjusted and year-to-year, May 2015 foods inflation fell by 3.34% (-3.34%), versus a decline of 4.23% (-4.23%) in April 2015.
- "Energy" inflation jumped by 5.88% in May 2015, having been down month-to-month by 2.90% (-2.90%) in April, with the May gain boosted by seasonal adjustments. Unadjusted, May energy inflation rose by 5.57% month-to-month. Unadjusted and year-to-year, the annual contraction in energy prices narrowed to 19.47% (-19.47%) in May 2015, versus an annual decline in April 2015 of 23.96% (-23.96%).
- "Less foods and energy" inflation, or "core" goods prices, rose by 0.18% in May 2015, following a decline of 0.09% (-0.09%) in April. Seasonal adjustments were positive for monthly core inflation, with the unadjusted May gain at 0.09%. Unadjusted and year-to-year, May 2015 core inflation rose by 0.46%, following an annual gain of 0.27% in April 2015.

Final Demand Services (Weighted at 63.31% of the Aggregate). Headline monthly Final Demand Services inflation was "unchanged" at 0.00% in May 2015, following a month-to-month contraction of 0.09% (-0.09%) in April. The overall seasonal-adjustment impact on headline May services inflation was positive, with an unadjusted monthly May contraction of 0.18% (-0.18%).

Year-to-year, unadjusted May 2015 services inflation was 0.64%, versus 0.92% in April 2015.

The headline monthly changes by major component for May 2015 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation, or the "Other" category, showed monthly inflation down by 0.18% (-0.18%) in May 2015, offsetting the headline gain of 0.18% in April. Seasonal-adjustment impact on the adjusted May detail was positive, where the unadjusted monthly change was a contraction of 0.28% (-0.28%). Unadjusted and year-to-year, May 2015 "other" services inflation gained 1.03%, versus an annual increase 1.21% in April 2015.
- "Transportation and warehousing" inflation declined month-to-month by 0.09% (-0.09%), for the second straight month, in May 2015. Seasonal adjustments had a positive impact, where the unadjusted monthly decline in May was 0.43% (-0.43%). Unadjusted and year-to-year, May 2015 transportation inflation fell by 2.29% (-2.29%), following an annual drop of 1.86% (-1.86%) in April 2015.
- "Trade" inflation rose by 0.64% month-to-month in May 2015, following a monthly decline of 0.81% (-0.81%) in April. Seasonal adjustments also had a positive impact here, where the unadjusted monthly inflation increase in May was 0.27%. Unadjusted and year-to-year, May 2015 trade inflation rose by 0.54%, versus a gain of 1.01% in April 2015.

Final Demand Construction (Weighted at 2.02% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published, and month-to-month construction inflation rose by 0.09% in May 2015, for the third straight month. The impact of seasonal factors on the May reading was neutral. On an unadjusted basis, month-to-month May 2015 construction inflation also was up by 0.09%.

On an unadjusted basis, year-to-year construction inflation was up by 1.81% in May 2015, versus 1.72% in April 2015.

- "Construction for private capital investment" inflation in May 2015 was "unchanged" at 0.00% for the second straight month. Seasonal adjustments had neutral impact, where the unadjusted monthly inflation also was "unchanged." Unadjusted and year-to-year, May 2015 private construction inflation held at 1.73%, also for the second straight month.

- "Construction for government" inflation rose month-to-month by 0.18% in May 2015, versus a month-to-month gain of 0.27% in April. Seasonal adjustments had negative impact, where unadjusted monthly May inflation was 0.27%. Unadjusted and year-to-year, May 2015 government construction inflation rose to 1.90%, versus 1.63% annual inflation in April 2015.

[The* Reporting Detail *section includes greater detail on the May PPI and Industrial Production.]

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HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for a Hyperinflation Crisis. Updated in prior *Commentary No. 726*, this *Hyperinflation Outlook Summary* has not been revised further, other than for updated internal links, minor language corrections and corrected typographical errors. The U.S. economy remains in ongoing downturn, while the U.S. dollar faces a massive decline, with implications for a meaningful upturn in inflation evolving into a great hyperinflationary crisis. Signs of systemic instability are increasing anew.

Background. Underlying this missive, *No. 692 Special Commentary: 2015 - A World Out of Balance* of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, the long-standing hyperinflation and economic outlooks were updated with the publication of *2014 Hyperinflation Report—The End Game Begins* – *First Installment Revised*, on April 2, 2014, and publication of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. One other reference should be considered here, in terms of underlying economic reality, and that is the *Public Commentary on Inflation Measurement*.

Primary Summary. Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation, likely by 2020. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis at the end of this decade into the current period.

The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of the *Hyperinflation Report—First Installment Revised* (linked earlier). The following summarizes the underlying current circumstance and recent developments.

The U.S. dollar rallied sharply from mid-2014 into early-2015, initially reflecting likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and heavily over-estimated by the global markets looking to support the dollar. Yet structural faults started to appear in the foundation underpinning U.S. dollar strength (see *Commentary No. 711*).

Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As a result, the U.S. dollar backed off its recent highs, with some related upside pressure having been seen on oil prices, but those changes have been relatively small, so far.

First-quarter 2015 U.S. GDP contracted by 0.7% (-0.7%) in its first revision. Although early reporting on the second-quarter economy indicated the likelihood of a second, consecutive quarterly GDP downturn, which would constitute a new recession, reporting of the last several weeks has been relatively strong, as discussed in the *Opening Comments* of *Commentary No. 726*. Such strong numbers should prove fleeting, and a second-quarter GDP contraction remains likely.

Nonetheless, the Fed could raise interest rates at any time, irrespective of economic activity. Where the stock and currency markets pretty much already have anticipated such action in their pricing, the big market moves ahead should come from areas such as downside surprises in U.S. economic reporting, which increasingly will show an ongoing contraction in activity.

Domestic economic data should continue to falter, increasingly moving market expectations towards an imminent new recession, not only further pummeling expectations for a significant tightening in Fed policy, if the Fed has not already tightened, but also renewing expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting

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rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on the direction of domestic economic activity, should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. These circumstances should continue to unwind what had been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances began, then faltered recently, but should resume shortly, possibly a matter of weeks. It likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; and related rallies in precious metals and oil. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful near-term risk for providing further fuel for heavy selling of the dollar.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals*.** U.S. economic activity is turning down anew, despite brief fluttering in unstable series. GDP and industrial production face heavy downside-benchmark revisions through the end of July. Other key series all have benchmarked to the downside. Weak, underlying economic reality generally has surfaced in headline reporting and should become increasingly and painfully obvious to the financial markets in the detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit, payroll employment and increasingly the headline GDP.

As financial-market expectations resume shifting towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, more than fully reversing the dollar's gains since June 2014, and pushing the dollar once again to historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. Nonetheless, the Fed still likely will move to normalize interest rates (again, see *Opening Comments* of *Commentary No. 726*), if it can get away with it.

The Panic of 2008 never was resolved, and the Fed increasingly is finding that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; if the Fed does not act quickly to extricate itself from prior actions, QE4 will become the near-term question.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). Such throws off estimates of U.S. Treasury funding

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needs and estimates as to how long the Treasury effectively can dodge the limits of the recently re-imposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it thought it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

Again, in the event of a QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would become a rapidly-increasing pace of domestic U.S. inflation.

Strength in the U.S. dollar should continue to reverse sharply, in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, increasingly against the U.S. currency. That process may have started with the shift in Swiss National Bank policy early in the year, but it has become dominated by increasingly-negative global perceptions of stability in U.S. economic activity and the ability of the Federal Reserve to control its monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see the *Opening Comments* and *Commentary No. 723*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for the intensifying the unfolding dollar debacle.

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around $5 trillion for the annual shortfall, while many in Washington look to continue increasing spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details were discussed in *Commentary No. 672*, and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see *Commentary No. 702*). This circumstance now operates in the context of the formal constraint of a renewed debt ceiling.

- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see *Commentary No. 672*). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion to quantitative easing, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for any new or expanded systemic accommodation in any "renewed" economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress in addressing fundamental fiscal and economic issues are nil, except possibly for new trade legislation, which would compound domestic economic problems. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis, and addressing the nation's long-range solvency issues should continue to devolve, into extreme political crises.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.

- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing

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short-term instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation, likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 692 Special Commentary: 2015 - A World Out of Balance*, for other factors afoot in the current environment.

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REPORTING DETAIL

INDEX OF INDUSTRIAL PRODUCTION (May 2015)

Second Consecutive Quarterly Contraction in Production Appears Set. In the context of revisions shifting prior activity back in time, headline May 2015 industrial production fell by 0.2% (-0.2%), disappointing consensus expectations for a 0.2% gain [MarketWatch, Bloomberg]. Net of prior-period revisions, May activity contracted by 0.1%. As the Federal Reserve reports the headline monthly change in production (to one decimal point), there has been no growth in monthly production for six consecutive months.

Reflecting this protracted and broad weakness in production, first-quarter 2015 industrial production fell at a revised, annualized quarterly pace of 0.30% (-0.30%) [previously down by 0.66% (-0.66%), initially down by 0.97% (-0.97%)], with second-quarter 2015 production declining at an annualized pace of 2.36% (-2.36%), based on just the reporting for April and May. June production would have to jump by an improbable 1.9% month-to-month in order to turn headline second-quarter activity flat. Based solely on the initial April 2015 detail, second-quarter activity was on track for an annualized 1.98% (-1.98%) contraction. As to earlier quarters, annualized quarterly production growth for fourth-quarter 2014 was a revised gain of 4.67% (previously up by 4.58%, initially up by 4.63%), versus an unrevised 4.08% in third-quarter 2014.

The contraction in first-quarter 2015 production was the first-quarterly contraction in the series since second-quarter 2009, the formal trough of the recent economic collapse. A second consecutive quarterly downturn is in play. The current string of six months with no growth in production, and annual production growth slowing to 1.4%—as seen in May 2015—usually do not occur other than at the onset of a recession. Accordingly, the Fed's industrial production series is indicating that broad economic activity has entered a "new" recession, likely to be timed officially from December of 2014.

Reporting for June 2015 production is scheduled for July 15th, and that should reflect two quarterly contractions. The series goes through a benchmark revision on July 21st, however, and anything can happen in the revised reporting there. Nonetheless, today's revisions to the headline series likely set the relative monthly patterns to be parallel the pending revisions. Such is not uncommon preceding benchmarks.

Industrial Production—May 2015. The Federal Reserve Board released its first estimate of seasonally-adjusted, May 2015 industrial production this morning (June 15th). Headline monthly production in May declined by 0.2% (-0.2%) [down by 0.17% (-0.17%) at the second decimal point], the sixth consecutive month of no growth at the headline first decimal point.

That followed a revised drop of 0.50% (-0.50%) [previously down by 0.26% (-0.26%)] in April, a revised "unchanged" at up 0.01% [previously down by 0.32% (-0.32%), initially down by 0.64% (-0.64%)] in March, a revised February "unchanged" at down 0.04% (-0.04%) [previously down by 0.06% (-0.06%), up by 0.10%, and initially up by 0.07%], a revised January decline of 0.42% (-0.42%) [previously down by 0.34% (-0.34%), by 0.41% (-0.41%), by 0.32% (-0.32%) and initially up by 0.15%], and a revised "unchanged" at up 0.02% [previously a decline of 0.05% (-0.05%)] in December.

Net of prior-period revisions, May 2015 production contracted month-to-month by 0.07% (-0.07%).

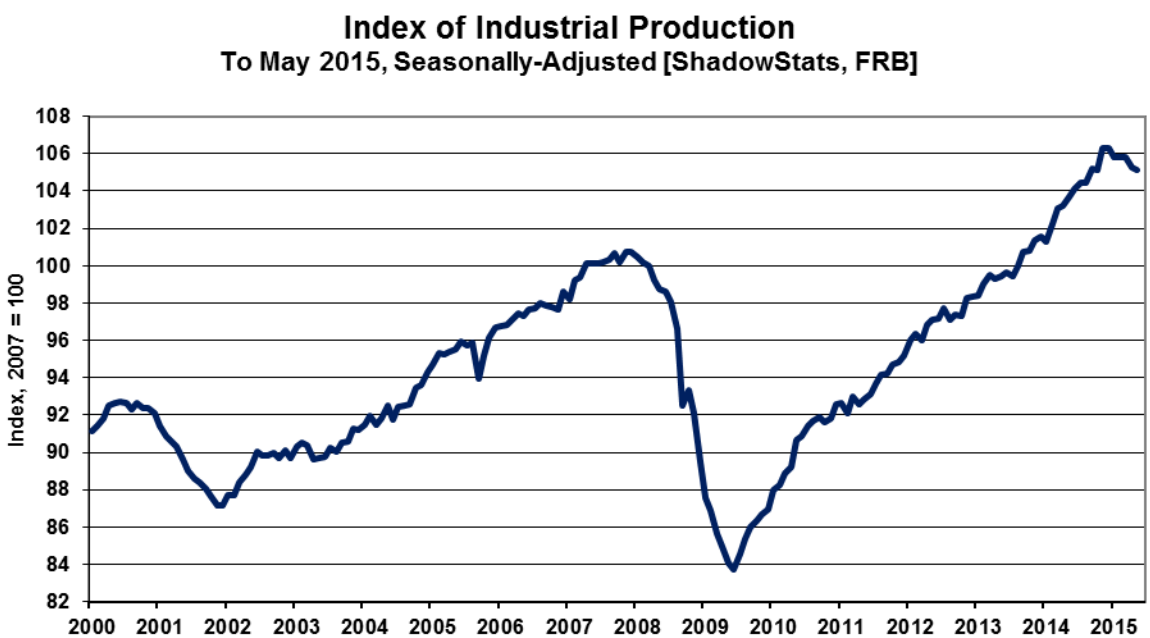
By major industry group, the headline May 2015 monthly decline of 0.2% (-0.2%) [April contraction of 0.5% (-0.5%)] in aggregate production was composed of a contraction of 0.2% (-0.2%) in manufacturing activity in May [an April gain of 0.1%]; a May decline of 0.3% (-0.3%) [April decline of 1.3% (-1.3%)] in mining (oil and gas production); and a May gain of 0.2% [April decline of 3.7% (-3.7%)] in utilities.

Year-to-year growth in May 2015 production slowed to 1.37%, versus a revised 2.03% (previously 1.93%) annual gain in April 2015, a revised 2.63% [previously a 2.28%, initially a 2.05%] gain in March 2015, a revised 3.47% [previously a 3.46%, a 3.56% and initially a 3.47%] gain in February 2015, a revised 4.49% [previously a 4.50%, a 4.42%, a 4.36% and initially a 4.81%] gain in January 2015, and a revised gain of 4.66% [previously up by 4.59%] in December 2014. **A**nnual growth has not slowed to below 1.37% since February 2008, as the U.S. economic collapse began to intensify.

July 21st Benchmark Revisions Should Show Weaker Historical Production, with Negative Implications for GDP Benchmarking. With the annual benchmark revisions to industrial production scheduled for July 21st, ten days shy of the July 31st annual revisions to the GDP, the new production detail should be incorporated into the GDP revisions.

The Federal Reserve's revisions to the industrial production series will correct historical detail for more complete information, as it has become available, along with redefinitions back to 1972. Last year's (March 2014) benchmark revision largely was incomplete, lacking detail from the regular Census of Manufactures (2012), which apparently had been delayed in its release by the government shutdown of October 2013. As a result, what should have been massive downside revisions to 2012 and 2013 industrial production activity (and broader GDP activity) never took place (see *Commentary No. 613*). That should be corrected on July 21st.

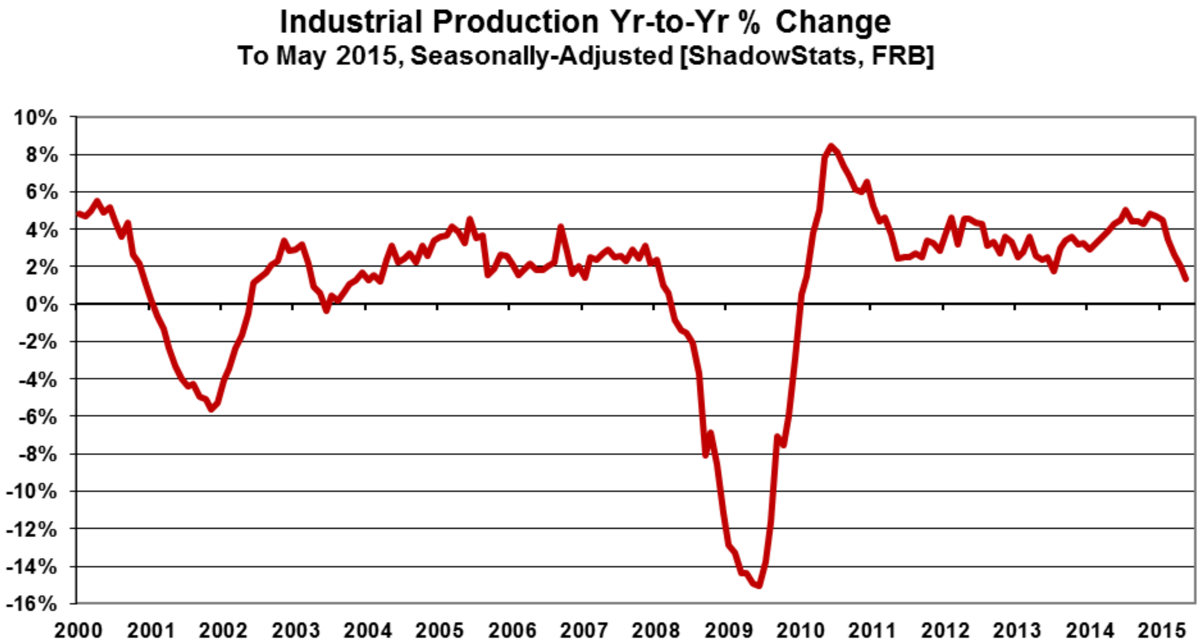
Production Graphs. The following two sets of graphs reflect headline industrial production activity to date. The first graph in the first set shows the monthly level of the production index, with a topping-out and renewed downturn—monthly and quarterly contractions—seen in the last six months of reporting. Such patterns of monthly and quarterly decline were last seen in the depths of the economic collapse from 2007 (or earlier) into 2009.

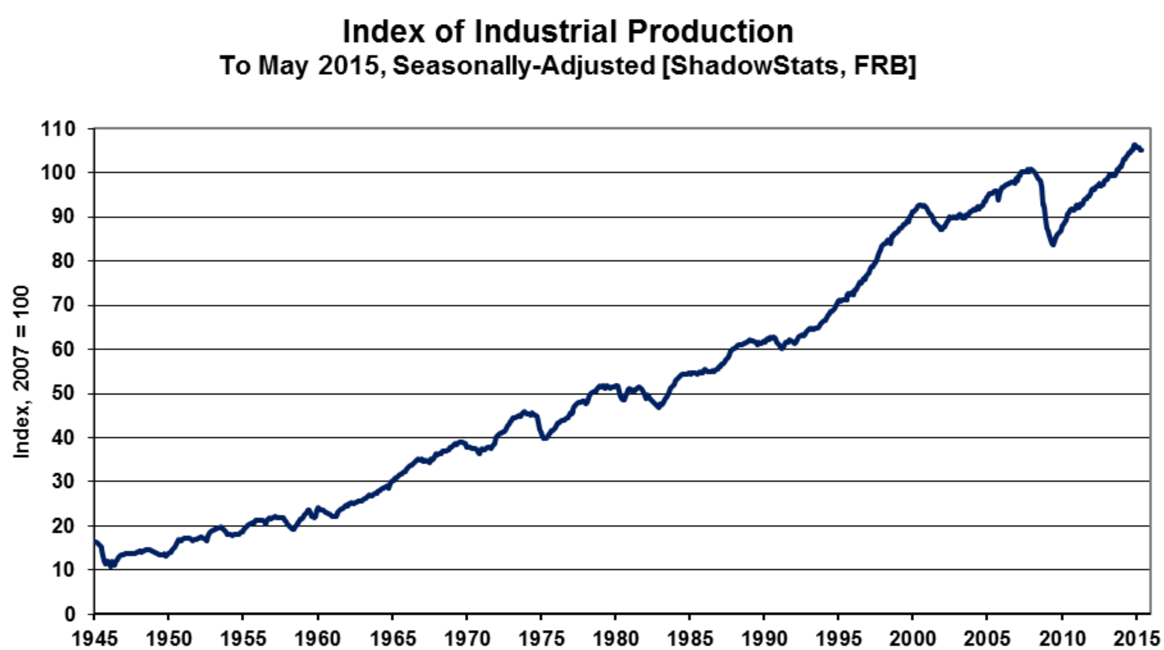


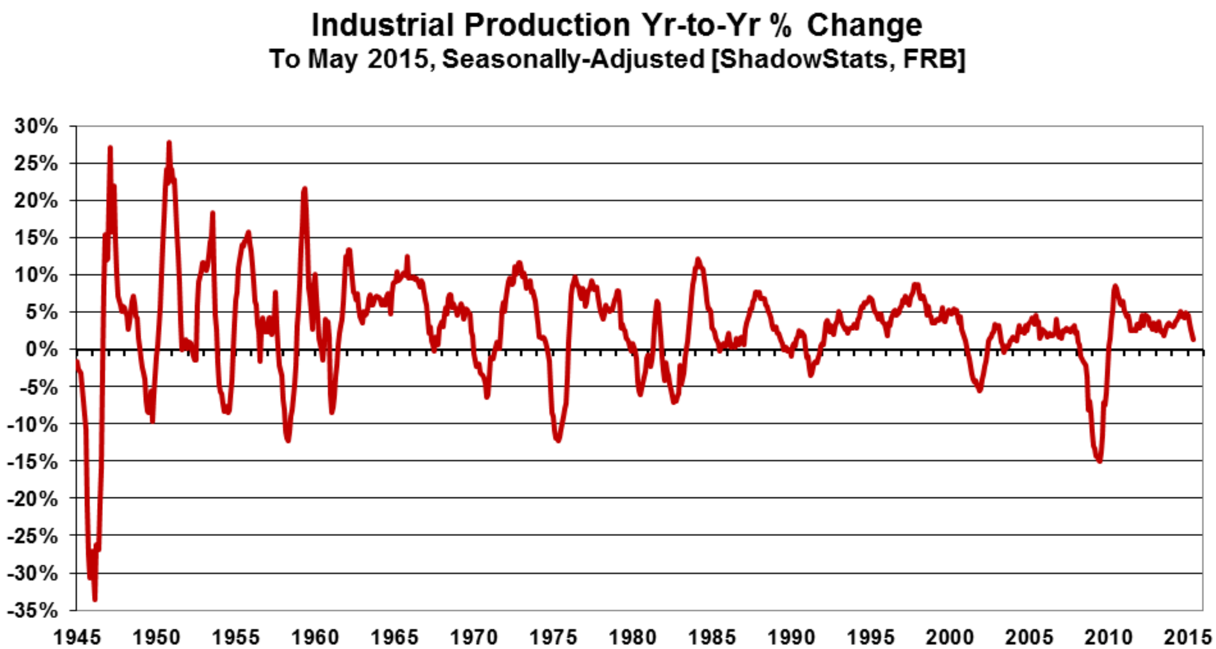
The second graph shows the year-to-year percentage change in the same series for recent historical detail, beginning January 2000. Annual growth has slowed sharply, to a level that almost always precedes or accompanies the onset of headline recessions (the circumstance with the 2001 recession lingered into 2003, see *2014 Hyperinflation Report—Great Economic Tumble*). The second set of graphs shows the same data in historical context since World War II.

Shown more clearly in the first set of graphs, the pattern of year-to-year activity dipped anew in 2013, again, to levels usually seen only at the onset of recessions, bounced higher into mid-2014, fluctuated thereafter and has headed even lower in recent months. Annual growth remains well off the recent relative peak for the series, which was 8.49% in June 2010, going against the official June 2009 trough of the economic collapse. Indeed, as shown in the second set of graphs, the year-to-year contraction of

15.06% in June 2009—the end of second-quarter 2009—was the steepest annual decline in production since the shutdown of war-time production following World War II.







Although official production levels have moved higher since the June 2009 trough, corrected for the understatement of inflation used in deflating portions of the industrial production index (see the *Opening Comments* section) the series has shown more of a pattern of stagnation with a slow upside trend, since 2009, with irregular quarterly contractions interspersed. The slow uptrend continued into a topping out pattern in late-2014 and now is in quarterly contraction for first-quarter 2015 and on track for a second-quarter 2015 contraction as well. The "corrected" series remains well shy of a formal recovery.

PRODUCER PRICE INDEX—PPI (May 2015)

May PPI Spiked 0.55%, Reflecting Some Corrective Catch-Up in Energy Inflation. Final Demand Goods monthly inflation rose by 1.29% in May, dominated by a headline 5.88% gain in energy goods, with the food and "core" goods categories also positive. The gain in goods inflation dominated the aggregate headline PPI gain of 0.55%, with the services category "unchanged" and the construction category up by 0.09% for the month. Where the total PPI declined by 0.36% (-0.36%) in April, the May headline reporting reflected some bounce-back from the understatement of headline energy inflation the month before (see *Commentary No. 719*).

From a practical standpoint, however, the aggregate Final Demand Producer Price Index still has little relationship to real-world activity. Beyond issues of substitution and hedonic-quality-adjustment methodologies (see *Public Commentary on Inflation Measurement*), problems in the goods area have been and remain unstable seasonal factors, versus shifting market activity. In the services sector—the dominant component of the index—inflation is defined in terms of profit margins, not prices, where those margins often move initially in the opposite direction of related prices.

Inflation that Is More Theoretical than Real World? *[This background text is as published previously.]* Effective with January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see *Commentary No. 591*). In the new headline monthly measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new and otherwise dominant Final Demand Services sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the circumstance of "increased" margins—due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly declining oil prices; it tends to mute the decline in Final Demand inflation.

The new PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just six years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

May 2015 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported June 12th, that the seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for May 2015 jumped by 0.55% (rounds to 0.5%), versus a monthly contraction of 0.36% (-0.36%) in April.

Along with energy-related seasonal adjustments moving out of negative territory in May, the broad impact of seasonal adjustments on headline PPI reporting turned more positive, with the unadjusted month-to-month May inflation rising by 0.27%, versus an unadjusted contraction of 0.27% (-0.27%) in April. Also on a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI inflation dropped by a narrower 1.08% (-1.08%) in May 2015, versus an April 2015 annual decline of 1.26% (-1.26%).

For the three major subcategories of May 2015 Final Demand PPI, headline monthly Goods inflation rose by 1.29%, Services inflation was "unchanged" at 0.00%, and Construction inflation rose by 0.09%.

Final Demand Goods (Weighted at 34.67%). Running somewhat in parallel with the old Finished Goods PPI series, headline monthly Final Demand Goods inflation rose by 1.29% in May 2015, versus a contraction of 0.73% (-0.73%) in April. There was an aggregate positive impact on the headline May reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, May final demand goods inflation rose by 1.10% for the month.

Unadjusted, year-to-year goods inflation was down by 4.26% (-4.26%) in May 2015, versus an annual decline of 5.47% (-5.47%) in April 2015.

Headline seasonally-adjusted monthly changes by major components of the May 2015 Final Demand Goods:

- "Foods" inflation rose month-to-month by 0.77% in May 2015, following a monthly decline of 0.93% (-0.93%) in April, with May's headline gain boosted by seasonal adjustments. Unadjusted, May food inflation rose by 0.59% in the month. Unadjusted and year-to-year, May 2015 foods inflation fell by 3.34% (-3.34%), versus a decline of 4.23% (-4.23%) in April 2015.
- "Energy" inflation jumped by 5.88% in May 2015, having been down month-to-month by 2.90% (-2.90%) in April, with the May gain boosted by seasonal adjustments. Unadjusted, May energy inflation rose by 5.57% month-to-month. Unadjusted and year-to-year, the annual contraction in energy prices narrowed to 19.47% (-19.47%) in May 2015, versus an annual decline in April 2015 of 23.96% (-23.96%).
- "Less foods and energy" inflation, or "core" goods prices, rose by 0.18% in May 2015, following a decline of 0.09% (-0.09%) in April. Seasonal adjustments were positive for monthly core inflation, with the unadjusted May gain at 0.09%. Unadjusted and year-to-year, May 2015 core inflation rose by 0.46%, following an annual gain of 0.27% in April 2015.

Final Demand Services (Weighted at 63.31% of the Aggregate). Headline monthly Final Demand Services inflation was "unchanged" at 0.00% in May 2015, following a month-to-month contraction of 0.09% (-0.09%) in April. The overall seasonal-adjustment impact on headline May services inflation was positive, with an unadjusted monthly May contraction of 0.18% (-0.18%).

Year-to-year, unadjusted May 2015 services inflation was 0.64%, versus 0.92% in April 2015.

The headline monthly changes by major component for May 2015 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation, or the "Other" category, showed monthly inflation down by 0.18% (-0.18%) in May 2015, offsetting the headline gain of 0.18% in April. Seasonal-adjustment impact on the adjusted May detail was positive, where the unadjusted monthly change was a contraction of 0.28% (-0.28%). Unadjusted and year-to-year, May 2015 "other" services inflation gained 1.03%, versus an annual increase 1.21% in April 2015.
- "Transportation and warehousing" inflation declined month-to-month by 0.09% (-0.09%), for the second straight month, in May 2015. Seasonal adjustments had a positive impact, where the unadjusted monthly decline in May was 0.43% (-0.43%). Unadjusted and year-to-year, May 2015 transportation inflation fell by 2.29% (-2.29%), following an annual drop of 1.86% (-1.86%) in April 2015.
- "Trade" inflation rose by 0.64% month-to-month in May 2015, following a monthly decline of 0.81% (-0.81%) in April. Seasonal adjustments also had a positive impact here, where the unadjusted monthly inflation increase in May was 0.27%. Unadjusted and year-to-year, May 2015 trade inflation rose by 0.54%, versus a gain of 1.01% in April 2015.

Final Demand Construction (Weighted at 2.02% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published, and month-to-month construction inflation rose by 0.09% in May 2015, for the third straight month. The impact of seasonal factors on the May reading was neutral. On an unadjusted basis, month-to-month May 2015 construction inflation also was up by 0.09%.

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On an unadjusted basis, year-to-year construction inflation was up by 1.81% in May 2015, versus 1.72% in April 2015.

- "Construction for private capital investment" inflation in May 2015 was "unchanged" at 0.00% for the second straight month. Seasonal adjustments had neutral impact, where the unadjusted monthly inflation also was "unchanged." Unadjusted and year-to-year, May 2015 private construction inflation held at 1.73%, also for the second straight month.

- "Construction for government" inflation rose month-to-month by 0.18% in May 2015, versus a month-to-month gain of 0.27% in April. Seasonal adjustments had negative impact, where unadjusted monthly May inflation was 0.27%. Unadjusted and year-to-year, May 2015 government construction inflation rose to 1.90%, versus 1.63% annual inflation in April 2015.

Discussed in *Commentary No. 724*, ShadowStats uses the "final demand construction" index for deflating headline activity in the monthly construction-spending series. The May 2015 construction spending series will be released on July 1st and covered in the ShadowStats *Commentary* of July 2nd.

PPI-Inflation Impact on Pending Reporting of Durable Goods. As to the upcoming reporting of May 2015 new orders for durable goods, unadjusted monthly inflation for new orders for manufactured durable goods in May 2015 was a decline of 0.12% (-0.12%), versus a monthly contraction of 0.24% (-0.24%) in April. Annual inflation was a positive 0.24% in May 2015, versus 0.42% in April 2015. May 2015 durable goods orders will be released on June 23rd and covered in the ShadowStats *Commentary* of that date.

WEEK AHEAD

Headline Economic Reporting and Revisions Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Rising Oil Prices. In a fluctuating trend to the downside, amidst still-predominantly-negative reporting and surprises in headline numbers, market expectations for business activity nonetheless respond to the latest market hype. The general effect tends to hold the market outlook at overly-optimistic levels. Expectations exceed any potential, underlying economic reality.

GDP excesses from 2014 should face downside adjustments in the July 30, 2015 GDP benchmark, and subsequent to the current headline contraction in first-quarter 2015 GDP, expectations for headline growth in second-quarter 2015 should resume shifting to the downside, increasingly towards (eventually into) negative territory, as headline economic reporting turns lower in the week and weeks ahead.

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Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low, having shown monthly declines in annual inflation of less than a full 0.1% (-0.1%) in the three months through March 2015, but dropping by 0.2% (-0.2%) in April 2015. A large jump in gasoline prices for May 2015 and a softening of negative seasonal-adjustments for gasoline promise a headline increase in May 2015 CPI-U inflation, with annual inflation likely pulling at least even with zero.

Significant upside inflation pressures are building, as oil prices rebound, a process that should accelerate rapidly with the eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in *No. 692 Special Commentary: 2015 - A World Out of Balance* and in the *Hyperinflation Outlook Summary*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Again, see *Commentary No. 722* as to recent market and political pressures on the Bureau of Economic Analysis (BEA) relative to GDP reporting. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned for the July 30, 2015 benchmarking, would be extraordinary in terms of BEA behavior and are not likely. Still, some gimmicked, less-negative summary numbers already have been planned for publication.

Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities were induced partially by the still-evolving economic turmoil of the last eight years, which has been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data, explored in the labor-numbers related *Commentary No. 695*).

Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see *Commentary No. 669*).

PENDING RELEASES:

Updated **Residential Construction—Housing Starts (May 2015).** The Census Bureau will release May 2015 residential construction detail, including housing starts, tomorrow, Tuesday, June16th. In line with common-reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful. Irrespective of the headline detail, the broad pattern should remain generally consistent with the down-trending stagnation seen currently in the series. Such is particularly evident with the detail viewed in the context of a six-month moving average of activity. This series also is subject to regular and extremely-large prior-period revisions.

As discussed in *Commentary No. 660* on the August 2014 version of this most-unstable of monthly economic series, the monthly headline reporting detail here simply is worthless, again, best viewed in terms of a six-month moving average. Not only is month-to-month reporting volatility extreme, but also those headline monthly growth rates rarely come close to being statistically significant.

All that said, late-consensus expectations are holding for decline of about 3.1% (-3.1%) [MarketWatch], and looking for a decline of roughly 4.0% (4.0%) [Bloomberg], offsetting somewhat the massively-overstated monthly gain of April. Even with a downside consensus, the actual numbers are a fair bet to disappoint expectations, with housing activity still suffering from unimproved consumer conditions. The broad, general pattern of down-trending stagnation almost certainly continued in May.

In the wake of a 75% collapse in aggregate activity from 2006 through 2008, and of an ensuing seven-year pattern of housing-starts stagnation at historically low levels, little has changed. Discussed in *Commentary No. 723* and in the *Opening Comments* of *Commentary No. 726*, there remains no chance of a near-term, sustainable turnaround in the housing market, until there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Updated **Consumer Price Index—CPI (May 2015).** The May 2015 CPI is scheduled for release on Thursday, June 18th, by the Bureau of Labor Statistics (BLS). The headline CPI-U should be on the plus-side for the third month, with late expectations holding for a headline monthly gain of 0.5% [MarketWatch, Bloomberg]. An inflation gain is likely, due to higher energy, food and "core" inflation (ex-food and energy), helped by a swing towards the plus-side in monthly seasonal adjustments to gasoline prices.

The average gasoline price moved higher in May 2015, up by 9.69% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). BLS seasonal adjustments to gasoline prices in May traditionally turn neutral-to-slightly-minus, leaving the headline, unadjusted gain in gasoline prices enough higher to contribute 0.3% to the headline CPI-U monthly inflation rate. With higher food and “core” (net of food and energy) inflation, the consensus expectations are not unreasonable.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in May 2015 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.30% monthly inflation gain reported for May 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for May 2015, the difference in May’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the April 2015 negative annual inflation rate of 0.20% (-0.20%). Headline monthly inflation approaching roughly 0.5% would be needed in May 2015, in order to push the headline annual CPI-U inflation rate into positive territory. That happens to be the consensus expectation.

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