

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

**COMMENTARY NUMBER 773**  
**November CPI, Real Retail and Earnings**  
**December 15, 2015**

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**Annual Real Retail Sales Growth Slowed to 0.9%,  
Indicating Recession**

**Early Trend in Fourth-Quarter Real Retail Sales Now Is Flat**

**Monthly Real Average Weekly Earnings Flattened Out in November**

**November Annual Inflation Turned Positive Across the Board:  
0.5% (CPI-U), 0.1% (CPI-W), 0.1% (C-CPI-U), 8.1% (ShadowStats)**

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*PLEASE NOTE: The next regular Commentary, scheduled for tomorrow, Wednesday, December 16th will cover November Industrial production and Housing Starts. In the event of developments requiring a timely response later in the week, a Flash Commentary will follow.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Economic Slowdown Is Intensifying.** Annual growth in inflation-adjusted real retail sales slowed sharply in November 2015, to 0.9%, a level rarely seen outside of, or leading into, a recession. Quarterly real retail sales growth slowed from an annualized pace of 2.89% in third-quarter 2015, to an early-trend of 0.17% for fourth-quarter 2015 (with two out of three months in place). Real retail sales likely will turn

negative for the quarter, next month. Industrial production also should do the same, with a solid indication of that in tomorrow's headline reporting. Tomorrow's *Commentary No. 774* will update the near-term economic outlook, based on all available November detail. At present, third-quarter 2015 GDP growth likely faces a downside revision in next week's third estimate, while fourth-quarter 2015 GDP growth appears to be headed increasingly for an outright quarterly contraction.

**Today's *Commentary* (December 15th).** The balance of these *Opening Comments* provides summary coverage of the November Consumer Price Index (CPI) and the related real Retail Sales and Average Weekly Earnings series.

With the U.S. dollar under some selling pressure going into tomorrow's FOMC policy announcement, the *Hyperinflation Watch* updates the gold and U.S. dollar graphs and the regular discussion that accompanies them. The *Hyperinflation Outlook Summary* revision has been pushed back until after the FOMC meeting and what may be rapidly unfolding developments in the next week or so. The broad outlook has not changed. If there are any circumstances that require timely comment, a *Flash Commentary* will be issued as needed, between *Regular Commentaries*. In the interim, the latest *Summary Outlook* (November 4, 2015-based) is available here: [Commentary No. 768](#).

The *Week Ahead* previews the reporting of the November Industrial Production and Housing Starts.

**Consumer Price Index (CPI)—November 2015—Annual Inflation Rebounds, Reflecting Year-Ago Distortions.** Despite a further decline in gasoline prices, and with positive seasonal adjustments not enough to push the energy-inflation sector into the plus-column, headline monthly consumer inflation CPI-U was “unchanged” in November 2015. Yet, unadjusted annual inflation jumped to 0.5%, from 0.2% in October 2015, the strongest annual inflation showing since December 2014. In an environment of relatively less-severe declines in gasoline prices, the jump in annual November inflation partially reflected the more-severe hit that headline inflation took a year ago, again from collapsing gasoline prices. The headline-reporting pattern in November likely will repeat in December 2015.

Where December 2015 gasoline prices have fallen further versus November 2015, positive seasonal factors and year-ago reporting conditions should combine, again, not only to push the headline December 2015 CPI-U to a flat-to-positive month-to-month reading, but also to push year-to-year inflation higher by a another couple of notches.

Against the particularly-weak headline CPI-U showing of a year ago, the headline upturn in annual November 2015 inflation also was despite recent, continued spikes in the U.S. dollar and ongoing manipulations by the Federal Reserve and other central banks. The inflation upturn in the CPI-U also was mirrored in the CPI-W and the C-CPI-U, with both those series breaking into positive annual-inflation territory.

**CPI-U.** The headline, seasonally-adjusted November 2015 CPI-U was “unchanged” at a gain of 0.03% at the second decimal point. Such followed a headline month-to-month gain of 0.20% in October 2015. The headline month-to-month November gain generally was in line with market expectations.

On a not-seasonally-adjusted basis, November 2015 CPI-U declined by 0.21% (-0.21%), following an unadjusted monthly decline of 0.05% (-0.05%) in October. Also not seasonally adjusted, November 2015 year-to-year inflation for the CPI-U rose to 0.5% at the first decimal point, to 0.50% at the second decimal point. That followed headline annual inflation of 0.2% for October 2015 at the first decimal point, up by 0.17% at the second decimal point.

Encompassed by the seasonally-adjusted gain of 0.03% in the November 2015 CPI-U [down by an unadjusted 0.21% (-0.21%)], November energy inflation fell by a seasonally-adjusted 1.26% (-1.26%) for the month [down by an unadjusted 2.69% (-2.69%)]. In the other major CPI sectors, adjusted November food inflation declined by 0.11% (-0.11%) [down by an unadjusted 0.30% (-0.30%)], while adjusted “core” inflation (ex-food and energy) rose by 0.18% [up by 0.04% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.02% in November 2015, versus 1.91% in October 2015.

**CPI-W.** The seasonally-adjusted, headline November 2015 CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, declined month-to-month by 0.02% (-0.02%), versus an unadjusted monthly decline of 0.28% (-0.28%). That followed an adjusted October monthly gain of 0.19%, versus an unadjusted decline of 0.12% (-0.12%).

Unadjusted, November 2015 annual CPI-W inflation turned positive for the first time since December 2014, up year-to-year by 0.07%. That followed an October 2015 annual contraction of 0.37% (-0.37%).

**Chained-CPI-U.** Headline year-to-year inflation for the unadjusted November 2015 C-CPI-U also turned positive, up by 0.11%, following an annual decline of 0.17% (-0.17%) in October 2015. Annual growth in the C-CPI-U last was positive in July 2015.

**Alternate Consumer Inflation Measures.** The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 4.1% in November 2015, versus 3.8% in October 2015. The November 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 8.1%, versus 7.8% in October 2015.

**Real (Inflation-Adjusted) Retail Sales—November 2015—Flatten Quarterly Growth, Intensified Slowing of Annual Growth.** Not adjusted for inflation, headline nominal retail sales rose by 0.22% in November 2015, following an upwardly-revised gain of 0.06% in October, as detailed in [Commentary No. 772](#). Year-to-year November 2015 nominal retail sales growth slowed to 1.35%, following a downwardly revised 1.68% annual gain in October 2015.

Based on the headline monthly gain of 0.03% in the seasonally-adjusted November 2015 CPI-U, and in the context of a headline gain of 0.20% in the seasonally-adjusted October 2015 CPI-U, November 2015 real retail sales rose by 0.19%, following a revised month-to-month real sales decline of 0.14% (-0.14%) in October.

First-quarter 2015 real retail sales contracted at a revised annualized pace of 1.39% (-1.39%), with unrevised annualized second-quarter 2015 growth at 3.72%, revised third-quarter growth at 2.89%, and—based on reporting for just October and November—an early indication for a minimal, annualized

quarterly gain of 0.17% in fourth-quarter 2015. Based on just October reporting, the initial indication had been for a fourth-quarter contraction of 0.15% (-0.15%). The quarter likely will close out in contraction.

Real Year-to-Year Growth Still Generated a Deepening Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation up by 0.44% in November 2015 and by 0.17% in October 2015, year-to-year growth in November 2015 real sales fell below one-percent to 0.91%, versus a downwardly revised gain of 1.55% in October 2015.

In normal economic times, annual real growth at or below 2.0% signals an imminent recession. That signal had been given in February, April, June and August 2015, indicating a deepening downturn, with an intensified fall-off in October and November. Current reporting remains consistent with a signal of unfolding recession. *Graphs 11 and 13*, in the *Reporting Detail*, show the latest patterns of headline annual real growth in retail sales.

Discussed in [Commentary No. 772](#), the primary issues constraining headline retail sales activity remain intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity. Without real growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable growth in real retail sales or personal consumption.

As official consumer inflation to increase in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of the real earnings difficulties discussed in the next section—these data should continue trending meaningfully lower, in what increasingly is gaining recognition as a formal “new” or double-dip recession.

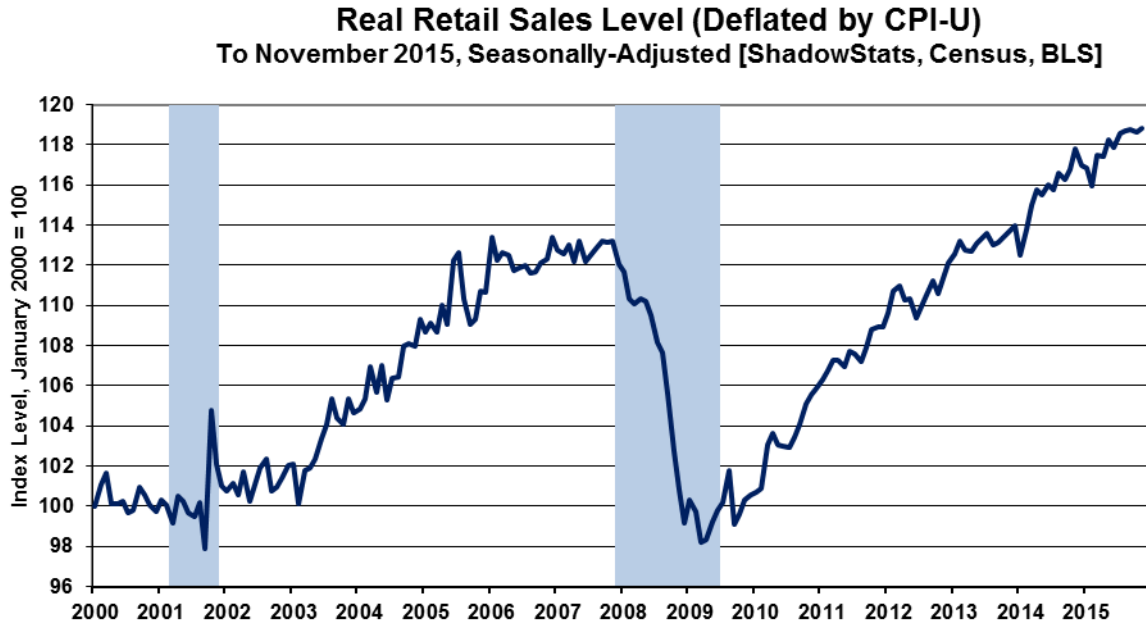
Real Retail Sales Graphs. In the *Reporting Detail*, *Graphs 10 and 12* show the level of real retail sales activity (deflated by the CPI-U); while *Graphs 11 and 13* show the year-to-year percent change for the same period. The level of headline monthly activity turned lower in October with an uptick in November, with recent headline growth dissipating in recent revisions, and now flattening out. Annual real growth has slowed markedly.

Corrected Real Retail Sales—October. The apparent “recovery” of headline real retail sales shown in *Graph 1* (see also *Graph 10*) generally continued into late-2014, although headline reporting turned down in December 2014, into first-quarter 2015, turned higher into the third-quarter 2015 and slowed to a standstill, so far in fourth-quarter 2015. Nonetheless, headline real growth in retail sales continues to be overstated heavily, due to the understatement of the rate of inflation used in deflating the retail sales series. Discussed more fully in *Chapter 9* of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) and [Public Commentary on Inflation Measurement](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

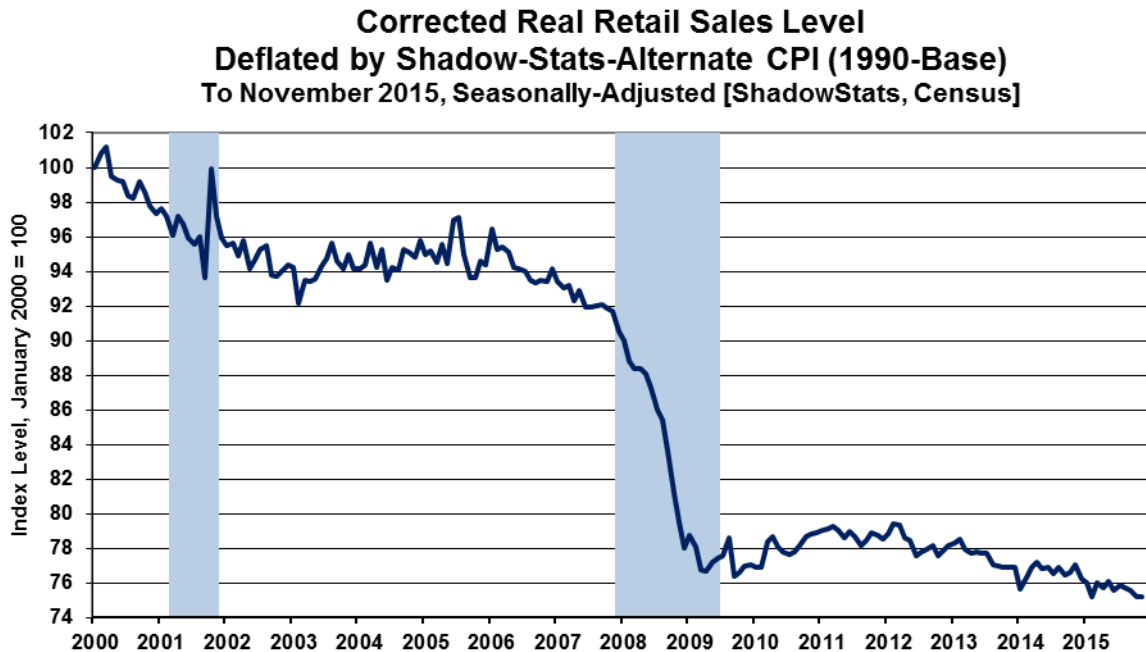
Both of the accompanying graphs are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment (including the regular plots of industrial production, new orders for durable goods and GDP). The first graph reflects the official real retail sales series, except that it is indexed, instead of being expressed in dollars. The plotted patterns of activity and rates of growth are exactly same for the official series, whether the series is indexed or expressed in

dollars, as can be seen in a comparison of *Graph 1* with *Graph 10* of real retail sales in the *Reporting Detail* section.

**Graph 1: Headline Real Retail Sales Level, Indexed to January 2000 = 100**



**Graph 2: "Corrected" Real Retail Sales Level, Indexed to January 2000 = 100**

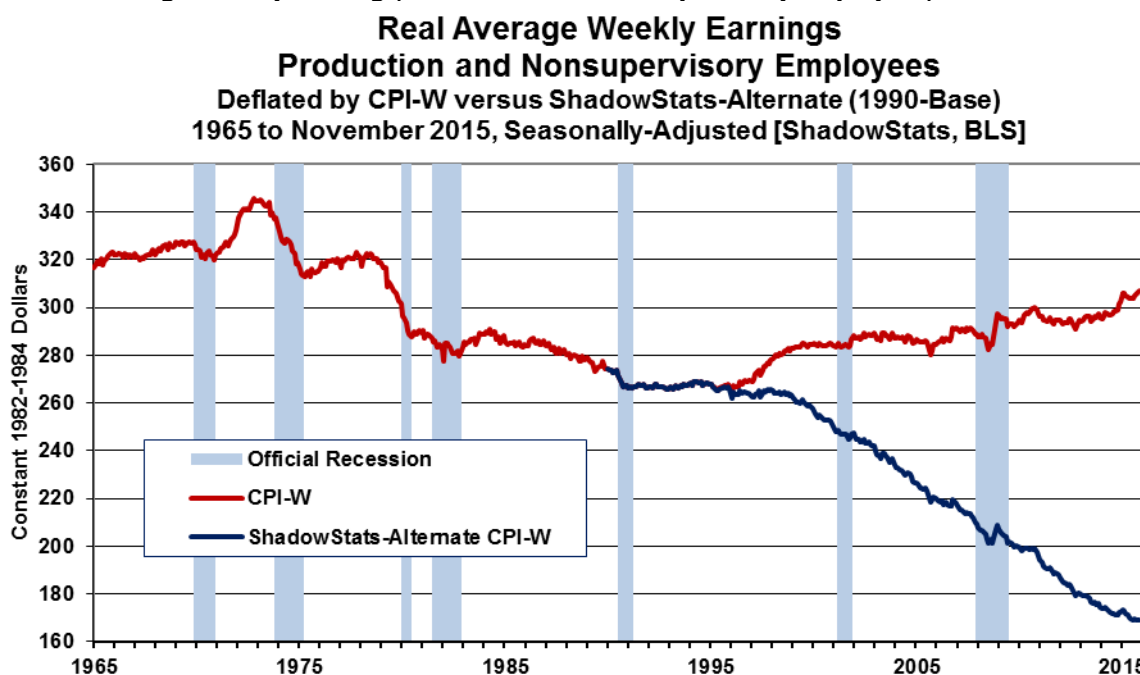


Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers—in *Graph 2*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, consistent with patterns seen in consumer indicators like real average weekly earnings (see *Graph 3*), broad unemployment and in most housing statistics (see [Commentary No. 761](#)).

A topping out in late-2011 and early-2012 reverted to renewed decline in second-quarter 2012 in this series, which had been bottom-bouncing at a low-level plateau of economic activity since the economic collapse into 2009. The renewed contraction has trended into and deepened into the first eleven months of 2015, allowing for the occasional and temporary upside blips.

**Real Average Weekly Earnings—November 2015—Flattened Out in November.** Based on the CPI-W, the BLS estimated real average weekly earnings for November 2015. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings rose by 0.06% in November 2015, versus a downwardly-revised 0.49% gain in October. With “no change” in hours worked or in wage levels in November, the entire minimal “gain” in real earnings was due to the headline CPI-W contraction of 0.02% (-0.02%) and rounding issues on those “unchanged” hours and hourly earnings. The headline reporting here reflected the usual surveying and seasonal-factor instabilities common to BLS payroll survey reporting.

**Graph 3: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date**



Year-to-year and seasonally-adjusted, annual growth in November 2015 real average weekly earnings slowed to 1.73%, versus an unrevised 2.66% in October 2015. Not seasonally adjusted, annual growth in November 2015 slowed to 1.59% from 2.70% in October 2015. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility, with



the occasional exception of unusual patterns resulting from negative inflation, depressed by falling gasoline prices.

*Graph 3* plots this series, showing earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Even so, official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the [Public Commentary on Inflation Measurement](#) for further detail.

*[The Reporting Detail section includes further material on the November CPI and related series.]*

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## HYPERINFLATION WATCH

### GOLD GRAPHS, PENDING FOMC ACTION AND THE U.S. DOLLAR

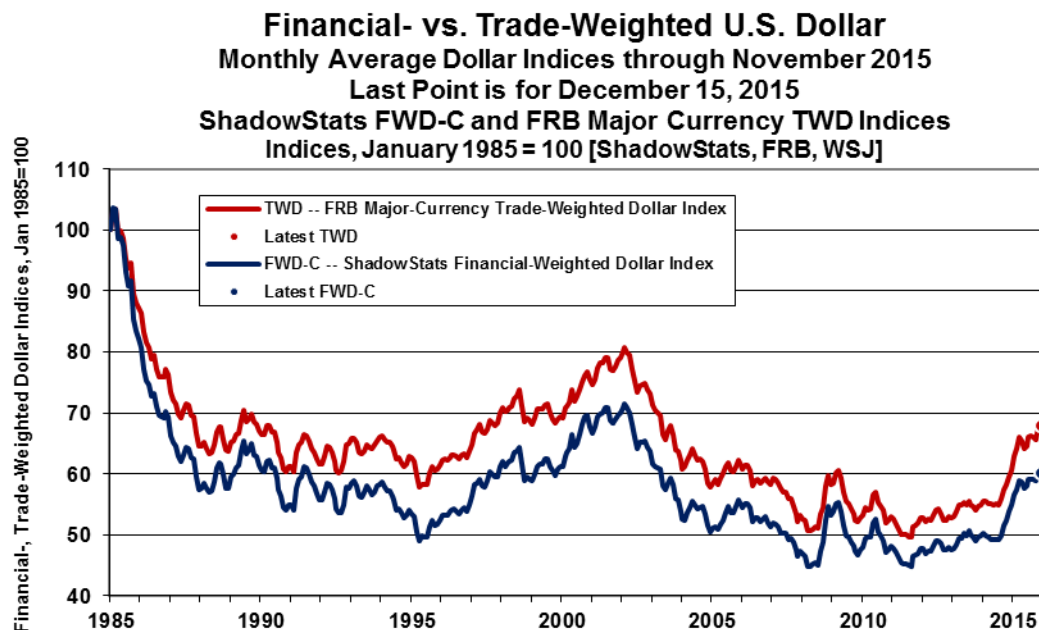
**Monthly Gold Graphs and Related Comments—FOMC Meeting and a Solidifying U.S. Economic Downturn Suggest Increasingly Unstable Circumstances for the U.S. Dollar and the Financial Markets.** Mounting, broad-market acceptance of seriously-contracting, domestic U.S. economic activity should hit the exchange rate value of the U.S. dollar hard, particularly in the context of tomorrow's (December 16th) pending announcement by the Federal Reserve's Federal Open Market Committee (FOMC) of any changes in monetary policy. A hike in the federal funds rate broadly is expected, but nothing is certain, as discussed in [Commentary No. 772](#) and [Commentary No. 771](#).

Global market expectations for a Fed rate hike have been primary in driving the U.S. dollar higher in the currency markets. Underlying those expectations have been the hype of a strengthening U.S. economy. As the economy increasingly falls apart, the Fed again will be forced into "easing," into accommodating liquidity for a U.S. Treasury faced with much-larger-than-expected government fiscal shortfalls, and into maintaining adequate liquidity in the banking system.

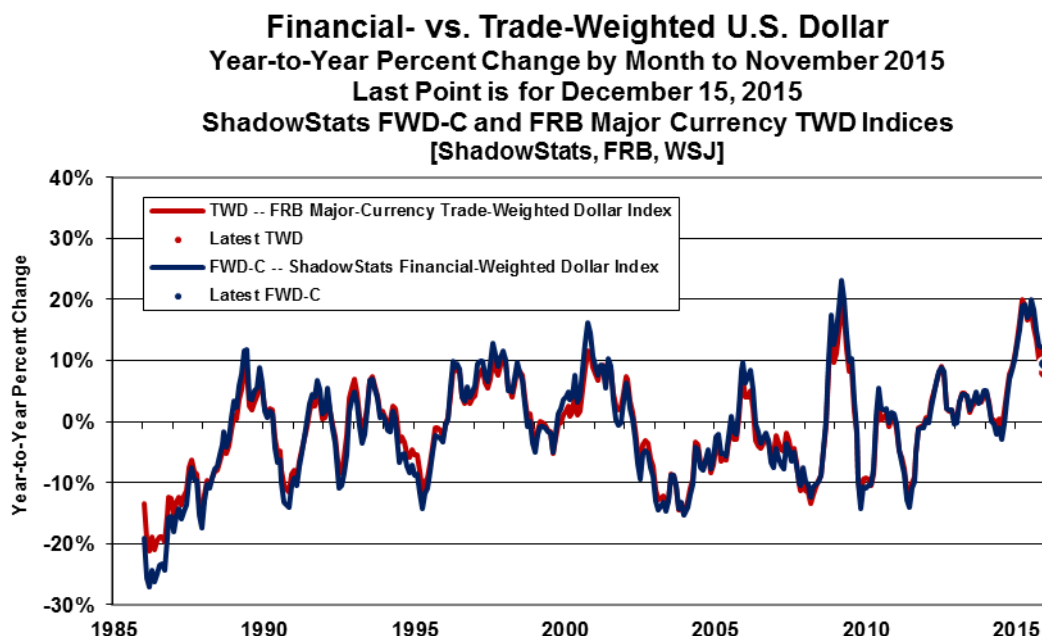
The monthly plots of the U.S. Dollar (*Graphs 4 and 5*) and the three gold graphs (*Graphs 6, 7 and 8*) that regularly accompany the *CPI Commentaries* follow. The trade- and financial-weighted dollar measures generally have been easing, coming into the FOMC meeting and along with mounting expectations for a

rate hike. Increasingly, the global markets do not appear to buying the concept that all is right with the U.S. financial system and economy. The “Latest December” points in these graphs reflect late-day New York prices for December 15th.

**Graph 4: Financial- versus Trade-Weighted U.S. Dollar**



**Graph 5: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar**



Discussed and described in prior [Commentary No. 772](#), the ShadowStats Financial-Weighted Dollar measure has been expanded to incorporate that Chinese Yuan (CNY)/Renminbi (RMB).



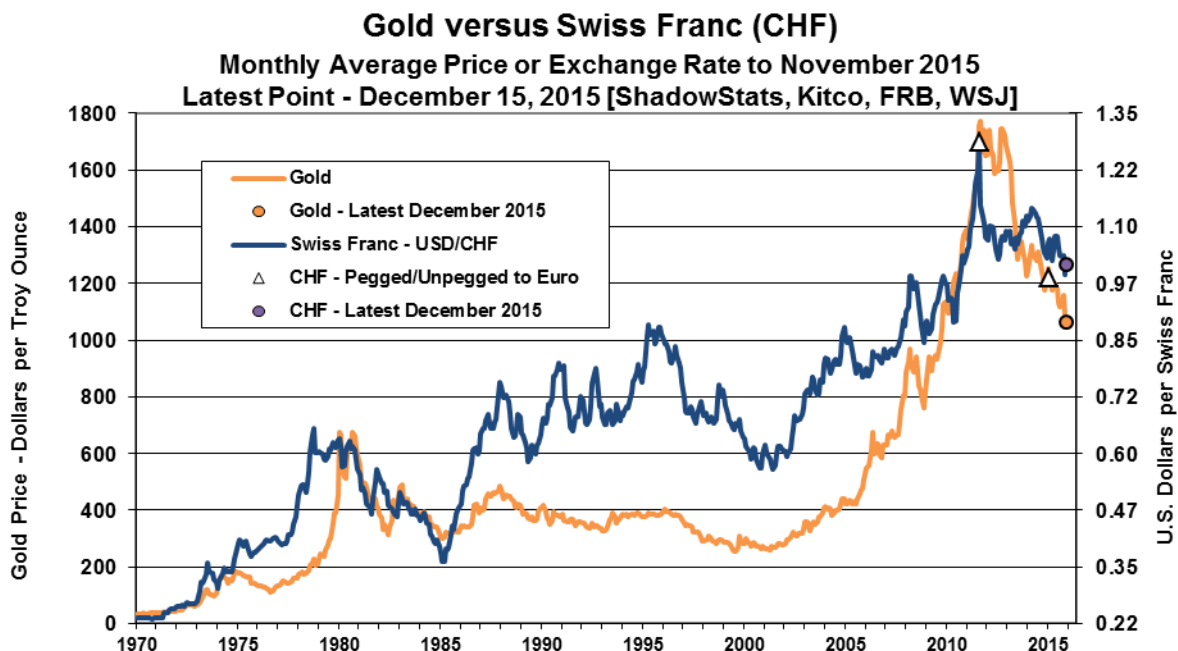
The dynamics of intensifying, negative shifts in global perceptions of U.S. economic activity and U.S. systemic stability rapidly should gain dominance in driving the U.S. currency and equity markets, irrespective of any U.S. Treasury or Federal Reserve activity, or lack of same. Continuing strength in the exchange-rate value of the U.S. dollar against other major Western currencies has been the primary distorting element in various financial markets and global circumstances.

Global financial markets have become increasingly vulnerable to shocks, along with the mounting domestic and global economic and political instabilities. ShadowStats continues to look for a massive flight from the U.S. dollar in the year ahead, to the stronger Western currencies and precious metals, likely much sooner than later, and quite possibly with little advance warning. These various issues also have been discussed broadly recently in the August 10th [No. 742 Special Commentary: A World Increasingly Out of Balance](#), as well as in the regular weekly *Commentaries*.

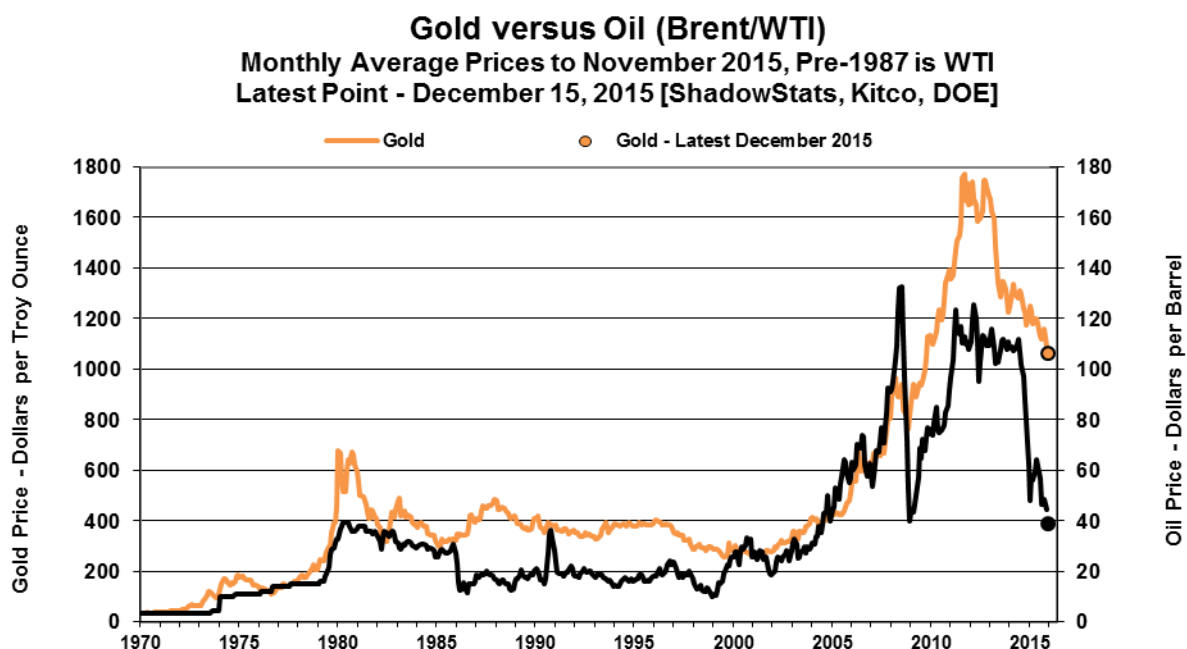
Reflecting the U.S. dollar strength of the last eighteen months, and exacerbated by a variety of jawboning (including purported pending FOMC rate hikes) and interventions of various forms, prices for gold, silver and oil have been hit particularly hard. Those circumstances should reverse as the U.S. dollar comes once again under heavy, fundamental selling pressure.

A rebound in oil prices should coincide with the downturn in the dollar, and that, in turn, also should rekindle U.S. inflation. As the U.S. dollar faces increased, fundamental debasement, holdings of physical gold and silver will continue to offer the strongest options for preserving the purchasing power and desired liquidity for one's wealth and assets through the difficult times ahead.

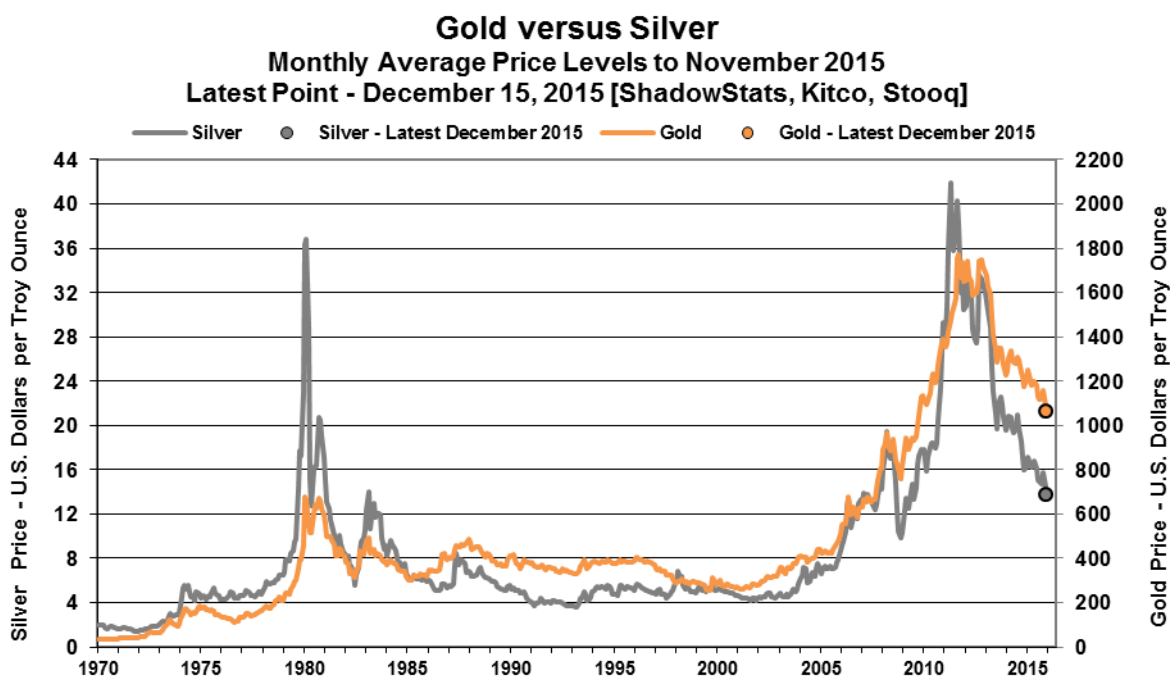
**Graph 6: Gold versus the Swiss Franc**



**Graph 7: Gold versus Oil**



**Graph 8: Gold versus Silver**



**HYPERINFLATION OUTLOOK SUMMARY.** In the process of being updated for the latest economic, Federal Reserve and global-political developments, a revised *Hyperinflation Outlook Summary* will follow in the week after the FOMC meeting and related aftershocks. Such allows for what could

become rapidly unfolding developments in the week ahead. The broad outlook has not changed. If there are intervening developments that require immediate comment, a *Flash Commentary* will follow. In the interim, the latest *Summary Outlook* (November 4, 2015-based) is available here: [Commentary No. 768](#).

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## REPORTING DETAIL

### CONSUMER PRICE INDEX—CPI (November 2015)

**Rebounding Headline Annual CPI-U Inflation Reflected Year-Ago Distortions.** [*The first three paragraphs here largely are repeated from the Open Comments section.*] Despite a further decline in gasoline prices, and with positive seasonal adjustments not enough to push the energy-inflation sector into the plus-column, headline monthly consumer inflation CPI-U was “unchanged” in November 2015, yet unadjusted annual inflation jumped to 0.5%, from 0.2% in October 2015, the strongest annual inflation showing since December 2014. In an environment of relatively less-severe declines in gasoline prices, the jump in annual November inflation partially reflected the more-severe hit that headline inflation took a year ago, again from collapsing gasoline prices. The headline-reporting pattern in November likely will repeat in December 2015.

Where December 2015 gasoline prices have fallen further versus November 2015, positive seasonal factors and year-ago reporting conditions should combine, again, not only to push the headline December 2015 CPI-U to a flat-to-positive month-to-month reading, but also to push year-to-year inflation higher by a another couple of notches.

Against the particularly-weak headline CPI-U showing of a year ago, the headline upturn in annual November 2015 inflation also was despite recent, continued spikes in the U.S. dollar and ongoing manipulations by the Federal Reserve and other central banks. The inflation upturn in the CPI-U also was mirrored in the CPI-W and the C-CPI-U, with both those series breaking into positive annual-inflation territory.

Discussed in the *Gold Graphs* section of the *Hyperinflation Watch*, mounting, broad-market acceptance of seriously-contracting, domestic economic activity should negatively impact the global demand for U.S. dollars, rapidly and meaningfully, whether or not the FOMC is able to make a strong, definitive statement tomorrow on its monetary policy. As dollar selling intensifies, so too will the upturn headline U.S. consumer inflation.

Separately, although the pace of annual CPI-U inflation in November rose to 0.5%, year-to-year inflation is not and has not been quite as soft as indicated by headline reporting, when considered in the context of traditional CPI reporting and common experience. The ShadowStats Alternate Inflation Measures rose to 4.1% annual inflation in November, based on 1990 methodologies, and to 8.1% annual inflation in October, based on 1980 methodologies.

**Longer-Range Inflation Outlook.** Discussed generally in [No. 742 Special Commentary: A World Increasingly Out of Balance](#), [No. 692 Special Commentary: 2015 - A World Out of Balance](#) and [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), high risk of an massive flight from the U.S. dollar in the months ahead threatens to generate rapid, upside energy and global-commodity inflation, which would drive headline U.S. consumer inflation much higher. Nascent dollar problems continue to vacillate, should solidify shortly and begin to accelerate. Intensifying financial-market turmoil surrounding deteriorating global and domestic political, fiscal and monetary instabilities, and rapidly worsening economic activity, all should pummel the U.S. dollar and could do so with little further warning (see the *Gold Graphs* section in the *Hyperinflation Watch* and No. 742, linked above). Ongoing economic and financial-system-liquidity crises still threaten systemic instabilities that, as with their 2008 Panic precursors, cannot be contained without further, official actions that have serious inflation consequences.

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### **Notes on Different Measures of the Consumer Price Index**

*The Consumer Price Index (CPI) is the broadest inflation measure published by the U.S. Government, through the Bureau of Labor Statistics (BLS), Department of Labor:*

*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis except for outright errors.*

*The **CPI-W (CPI for Urban Wage Earners and Clerical Workers)** covers the more-narrow universe of urban wage earners and clerical workers and is used in determining cost of living adjustments in government programs such as Social Security. Otherwise, its background is the same as the CPI-U.*

*The **C-CPI-U (Chain-Weighted CPI-U)** is an experimental measure, where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the “new inflation” measure being proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS introduced changes to the C-CPI-U estimation process with the February 26, 2015 reporting of January 2015 inflation, aimed at finalizing the C-CPI-U estimates on a more-timely basis, and enhancing its ability to produce lower headline inflation than the traditional CPI-U.*

*The **ShadowStats Alternative CPI-U Measures** are attempts at adjusting reported CPI-U inflation for the impact of methodological change of recent decades designed to move the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

***CPI-U.*** The Bureau of Labor Statistics (BLS) reported this morning, December 15th, that headline, seasonally-adjusted November 2015 CPI-U was “unchanged” at 0.0%, a gain of 0.03% at the second decimal point. Such followed a headline month-to-month gain of 0.2% in October 2015, a gain of 0.20% at the second decimal point. The headline month-to-month November gain generally was in line with market expectations.

The adjusted headline November inflation number was boosted by seasonal adjustments across the three major sectors. On a not-seasonally-adjusted basis, November 2015 CPI-U declined by 0.21% (-0.21%), following an unadjusted monthly decline of 0.05% (-0.05%) in October.

Seasonal adjustments for monthly gasoline-inflation were positive in November 2015, turning an unadjusted headline decline of 4.21% (-4.21%) into an adjusted headline contraction of 2.45% (-2.45%). A headline, unadjusted monthly decline of 5.32% (-5.32%) had been estimated by the Department of Energy (DOE) for November.

Major CPI-U Groups. Encompassed by the seasonally-adjusted gain of 0.03% in the November 2015 CPI-U [down by an unadjusted 0.21% (-0.21%)], aggregate November energy inflation fell by a seasonally-adjusted 1.26% (-1.26%) for the month [down by an unadjusted 2.69% (-2.69%)]. In the other major CPI sectors, adjusted November food inflation declined by 0.11% (-0.11%) [down by an unadjusted 0.30% (-0.30%)], while adjusted “core” inflation rose by 0.18% [up by 0.04% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.02% in November 2015, versus 1.91% in October 2015.

Year-to-Year CPI-U. Not seasonally adjusted, November 2015 year-to-year inflation for the CPI-U rose to 0.5% at the first decimal point, to 0.50% at the second decimal point. That followed headline annual inflation of 0.2% for October 2015 at the first decimal point, up by 0.17% at the second decimal point.

Year-to-year, CPI-U inflation would increase or decrease in next month’s December 2015 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline contraction of 0.33% (-0.33%) in December 2014 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for December 2015, the difference in December’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the November 2015 annual inflation rate of 0.50%. For example, a seasonally-adjusted, headline monthly “unchanged” reading in the December 2015 CPI-U would push annual December 2015 inflation up to roughly a positive 0.8% [plus-or-minus, depending on rounding].

***CPI-W.*** The November 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, declined month-to-month by 0.02% (-0.02%), versus an unadjusted monthly decline of 0.28% (-0.28%). That followed an adjusted October monthly gain of 0.19%, versus an unadjusted decline of 0.12% (-0.12%).



Year-to-Year CPI-W. Unadjusted, November 2015 annual CPI-W inflation turned positive for the first time since December 2014, up year-to-year by 0.07%. That followed an October 2015 annual contraction of 0.37% (-0.37%).

***Chained-CPI-U.*** Headline year-to-year inflation for the unadjusted November 2015 C-CPI-U also turned positive, up by 0.11%, following an annual decline of 0.17% (-0.17%) in October 2015. Annual growth in the C-CPI-U last was positive in July 2015.

See discussions in the earlier CPI [Commentary No. 721](#) and in the opening notes in the *CPI Section* of [Commentary No. 699](#) as to recent changes in the series. More-frequent revisions and earlier finalization of monthly detail are designed to groom the C-CPI-U series as the new Cost of Living Adjustment (COLA) index of choice for the budget-deficit-strapped federal government, as discussed in the [Public Commentary on Inflation Measurement](#).

***Alternate Consumer Inflation Measures.*** Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 4.1% in November 2015, versus 3.8% in October 2015. The November 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 8.1% (8.12% for those using a second decimal point) year-to-year, versus 7.8% in October 2015.

*Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from the components of the BLS's CPI-U-RS series. That series provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The changes reflected there are parallel with and of the same magnitude of change as estimated by the BLS, when a given methodology was changed. The ShadowStats estimates are adjusted on an additive basis for the cumulative impact on the annual inflation rate from the various BLS changes in methodology (reversing the net aggregate inflation reductions by the BLS). The series are adjusted by ShadowStats for those aggregate changes, but the series otherwise are not recalculated.*

*Over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive ShadowStats adjustment since 1980 reflect the BLS's formal estimate of the annual impact of methodological changes; roughly two percentage points reflect changes by the BLS, where ShadowStats has estimated the impact not otherwise published by the BLS. For example, the BLS does not consider more-frequent weightings of the CPI series to be a change in methodology. Yet that change has had the effect of reducing headline inflation from what it would have been otherwise (See [Public Commentary on Inflation Measurement](#) for further details.)*

***Gold and Silver Historic High Prices Adjusted for November 2015 CPI-U/ShadowStats Inflation—***

***CPI-U: GOLD at \$2,593 per Troy Ounce, SILVER at \$151 per Troy Ounce***  
***ShadowStats: GOLD at \$12,211 per Troy Ounce, SILVER at \$710 per Troy Ounce***

Despite the September 5, 2011 historic-high gold price of \$1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of \$48.70 per troy ounce (London fix of April 28,

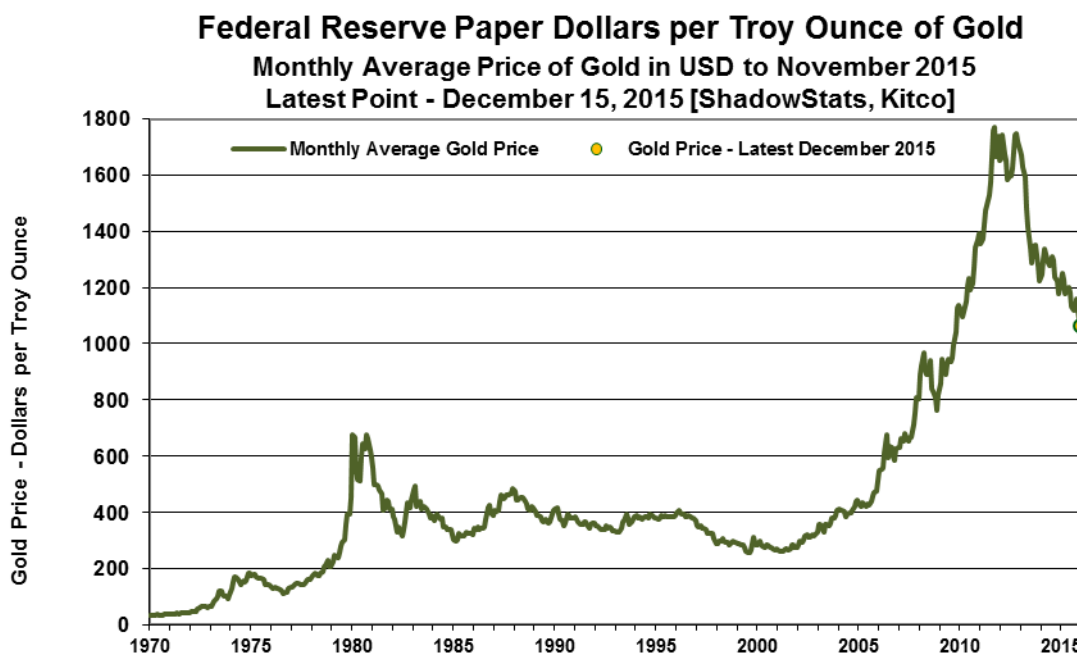


2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The earlier all-time high of \$850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980 would be \$2,593 per troy ounce, based on November 2015 CPI-U-adjusted dollars, and \$12,211 per troy ounce, based on November 2015 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (all series not seasonally adjusted).

In like manner, the all-time high nominal price for silver in January 1980 of \$49.45 per troy ounce (London afternoon fix, per silverinstitute.org)—although approached in 2011—still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on November 2015 CPI-U inflation, the 1980 silver-price peak would be \$151 per troy ounce and would be \$710 per troy ounce in terms of November 2015 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1, on page 31 of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation. They also effectively have come close to fully compensating for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

**Graph 9: Monthly Average Gold Price in Dollars (Federal Reserve Notes)**



**Real (Inflation-Adjusted) Retail Sales—November 2015—Flat Quarterly Growth, Intensified Slowing of Annual Growth.** Not adjusted for inflation, headline nominal retail sales rose by 0.22% in November 2015, following an upwardly-revised gain of 0.06% [previously up by 0.05%] in October, as detailed in prior [Commentary No. 772](#) of December 11th. Year-to-year November 2015 nominal retail sales growth slowed to 1.35%, following a downwardly revised 1.68% [previously 1.69%] annual gain in October 2015.

Based on today's (December 15th) reporting of a headline monthly gain of 0.03% in the seasonally-adjusted November 2015 CPI-U, and in the context of a headline gain of 0.20% in the seasonally-adjusted October CPI-U, November 2015 real retail sales rose by 0.19%, following a revised month-to-month real sales decline of 0.14% (-0.14%) [previously down by 0.15% (-0.15%)] in October.

First-quarter 2015 real retail sales contracted at a revised annualized pace of 1.39% (-1.39%), with unrevised annualized second-quarter 2015 growth at 3.72%, revised third-quarter growth at 2.89%, and—based on reporting for just October and November—an early indication for a minimal, annualized quarterly gain of 0.17% in fourth-quarter 2015. Based on just October reporting, the initial indication was for a fourth-quarter contraction of 0.15% (-0.15%).

Real Year-to-Year Growth Still Generated a Deepening Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation up by 0.44% in November 2015 and up by 0.17% in October 2015, year-to-year growth in November 2015 sales fell below one-percent to 0.91%, versus a downwardly revised gain of 1.55% [previously up by 1.57%] in October 2015.

In normal economic times, annual real growth at or below 2.0% signals an imminent recession. That signal had been given in February, April, June and August 2015, indicating a deepening downturn, with an intensified fall off in October and November. Current reporting remains consistent with a signal of unfolding recession. *Graphs 11* and *13*, following, show the latest patterns of headline annual real growth in retail sales.

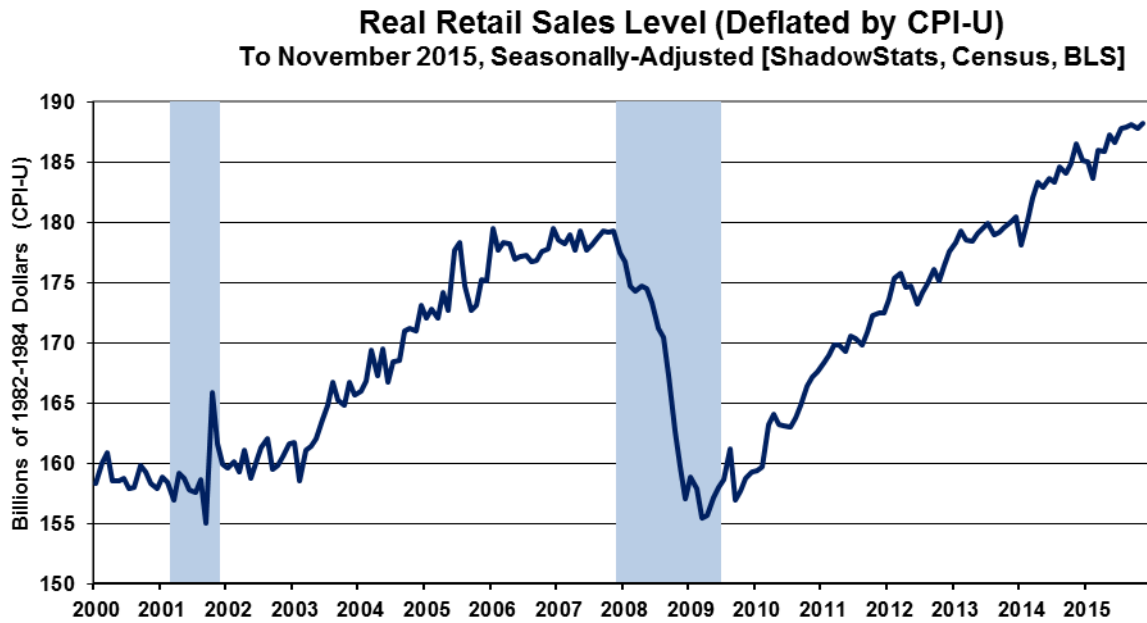
Discussed in [Commentary No. 772](#), the primary issues constraining headline retail sales activity remain intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity. Without real growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable growth in real retail sales or personal consumption.

As official consumer inflation resumes its upside climb in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of the real earnings difficulties discussed in the next section—these data should continue trending meaningfully lower, in what increasingly is gaining recognition as a formal “new” or double-dip recession.

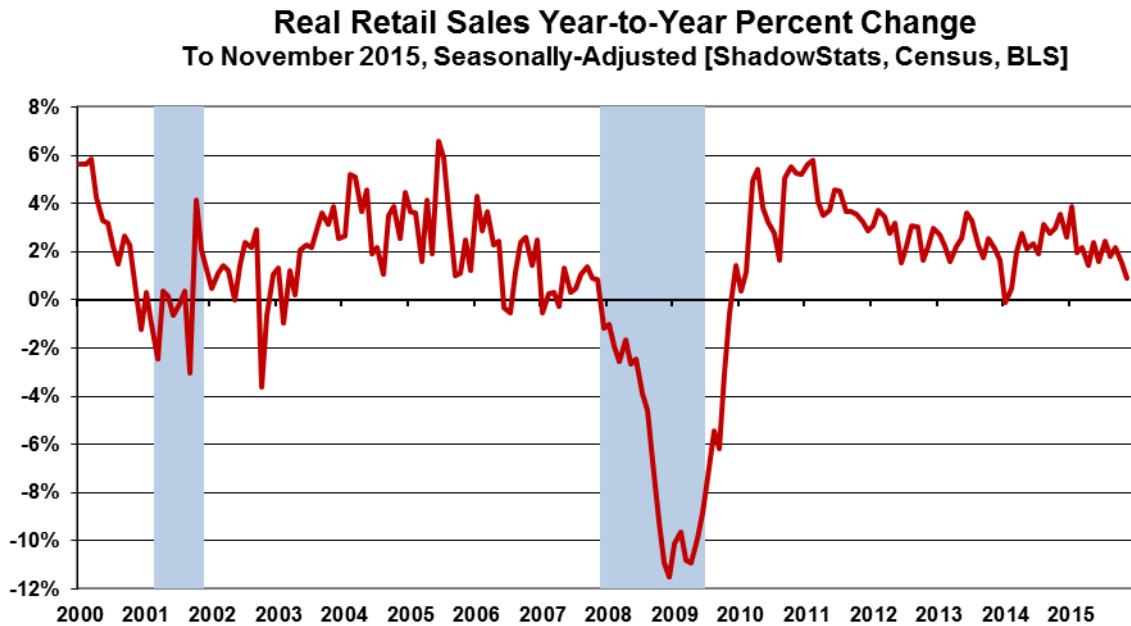
Real Retail Sales Graphs. *Graph 10*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 11* shows the year-to-year percent change for the same period. The level of headline monthly activity turned lower in October with an uptick in November, with recent headline growth dissipating in recent revisions, and now flattening out. Annual real growth has slowed markedly.

Year-to-year activity, which had plunged to a near-standstill in January and February 2014, had bounced back irregularly, hitting its recent high level in January 2015, spiked by negative inflation at the time. Yet, it fell back in February and has been fluctuating since, slowing sharply in October, and again in November, generating an intense, traditional recession signal, as discussed earlier. *Graphs 12* and *13* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

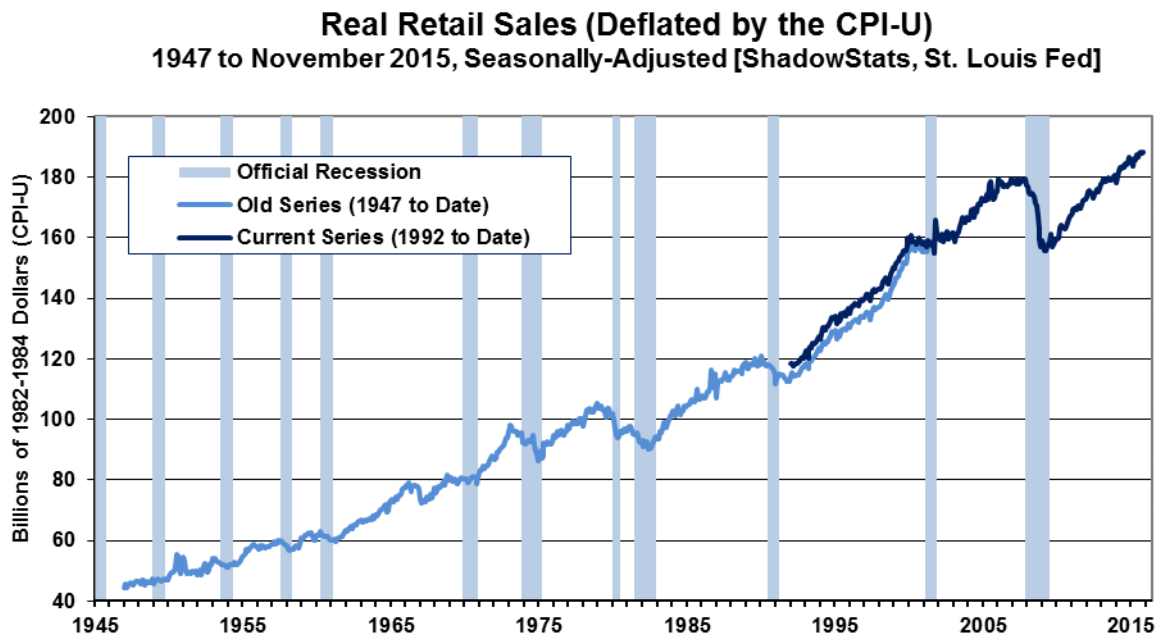
**Graph 10: Real Retail Sales (2000 to 2015)**



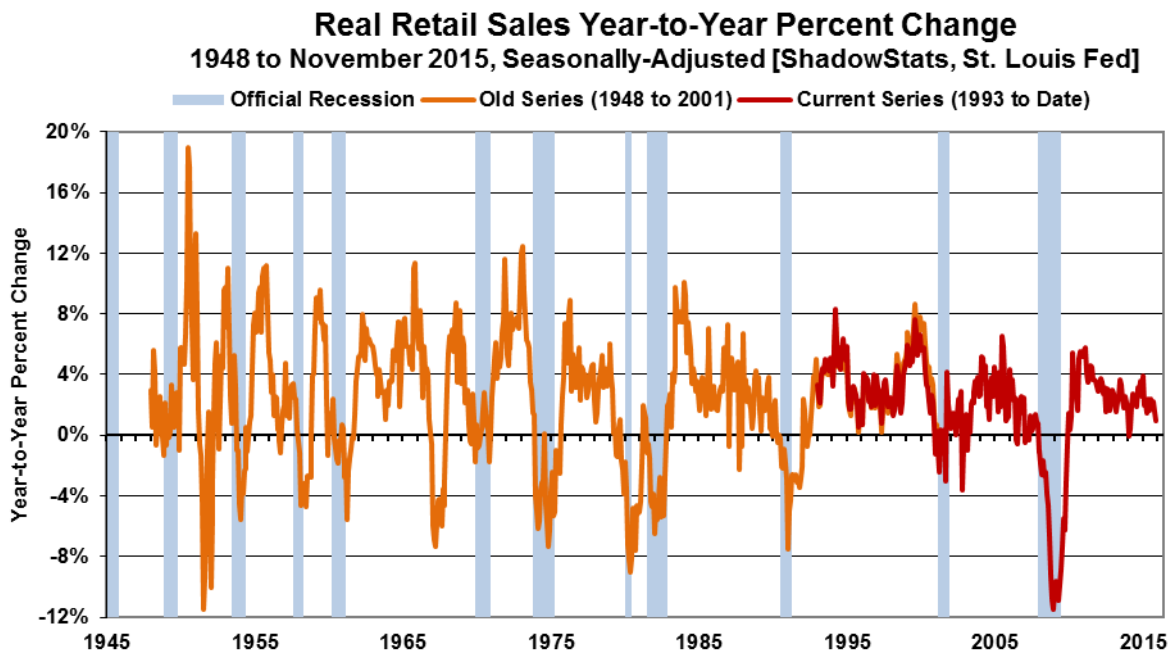
**Graph 11: Real Retail Sales (2000 to 2015), Year-to-Year Percent Change**



**Graph 12: Real Retail Sales (1947 to 2015)**



**Graph 13: Real Retail Sales (1948 to 2015), Year-to-Year Percent Change**



Irrespective of first-quarter 2015 reporting weakness, the current, apparent topping-out “recovery” in the real retail sales series, and the recovery in the headline industrial production series through year-end 2014, after which it turned down, largely has been due largely to the understatement of the rate of inflation used in deflating retail sales and other series. As discussed more fully in *Chapter 9* of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

As shown in the latest “corrected” real retail sales—*Graph 2* in the *Opening Comments* section—with the deflation rates corrected for the understated inflation reporting of the CPI-U, the recent pattern of real sales activity has turned increasingly negative. The corrected graph shows that the post-2009 period of protracted stagnation ended, and a period of renewed and ongoing contraction began in second-quarter 2012 and continues to date. The corrected real retail sales numbers use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U.

***Real (Inflation-Adjusted) Average Weekly Earnings—November 2015—Real Earnings Flattened Out in November.*** Coincident with the release of the November 2015 CPI-W, the BLS published its estimate for real average weekly earnings in November. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings rose by 0.06% in November 2015, versus a downwardly-revised 0.49% [previously 0.54%] gain in October. With “no change” in hours worked or in wage levels, the entire minimal “gain” in real earnings was due to the headline CPI-W contraction of 0.02% (-0.02%) and rounding issues on those “unchanged” hours and hourly earnings. The headline reporting here reflected the usual surveying and seasonal-factor instabilities common to BLS payroll survey reporting.

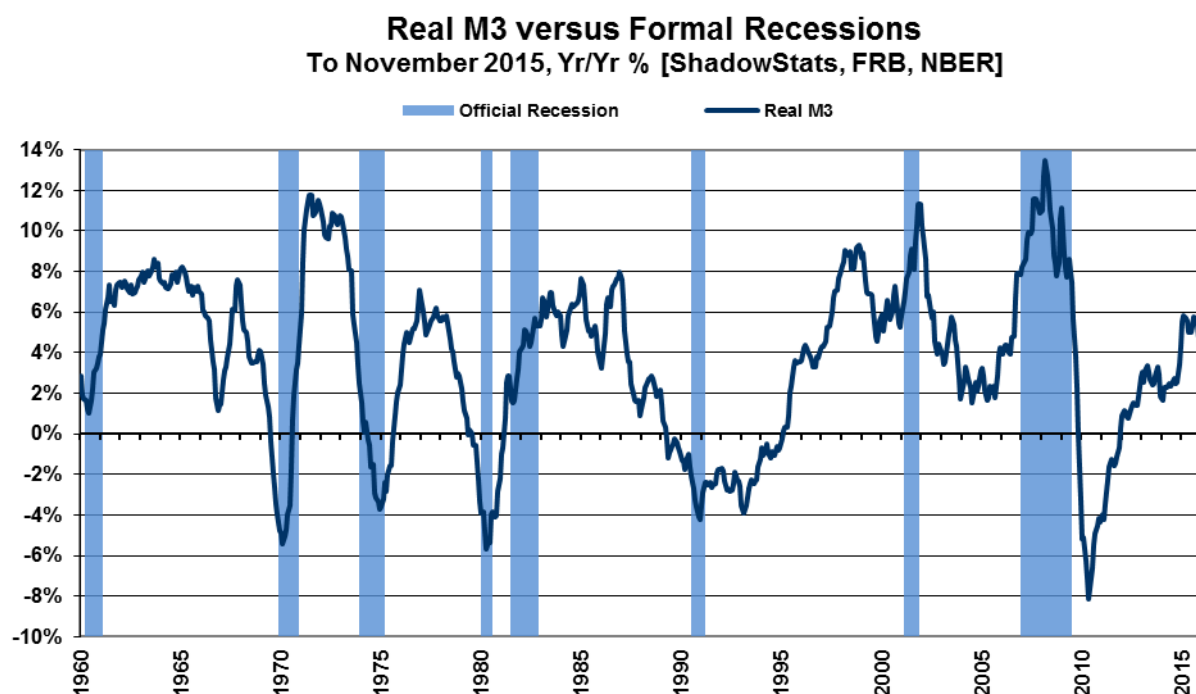
Year-to-year and seasonally-adjusted, annual growth in November 2015 real average weekly earnings slowed to 1.73%, versus an unrevised 2.66% in October 2015. Not seasonally adjusted, annual growth in November 2015 slowed to 1.59% from 2.70% in October 2015. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility, with the occasional exception of unusual patterns resulting from negative inflation, depressed by falling gasoline prices.

Found in the *Opening Comments* section, *Graph 3* plots this series, showing earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the [Public Commentary on Inflation Measurement](#) for further detail.

***Real (Inflation-Adjusted) Money Supply M3—November 2015—Pace of Declining Growth Intensified.*** The signal for a double-dip, multiple-dip or simply protracted, ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), remains in place and rapidly is deepening anew, despite real annual M3 growth having rallied in positive territory for several years. As shown in the accompanying graph—based on November 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in November 2015 M3 slowed to

4.7%, its lowest level in a year, from an unrevised 5.4% in October. The decline in the monthly rate of year-to-year change reflected both an increase in annual CPI-U inflation (contributing 0.3% to the monthly decline) and a continuing decline in annual M3 growth (contributing 0.4% to the monthly decline, see [Commentary No. 771](#)).

**Graph 14: Real M3 Annual Growth versus Formal Recessions**



The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other for the broad economy. The current “new” downturn signal was generated in December 2009, even though there had been no upturn since the economy purportedly hit bottom in mid-2009. Again, when real M3 growth breaks above zero, there is no signal; the signal is generated only when annual growth moves into negative territory. The broad economy tends to follow in downturn or renewed deterioration roughly six-to-nine months after the signal. Weaknesses in a number of economic series have continued to the present, with significant new softness in recent reporting. Actual post-2009 economic activity has remained at relatively low levels of activity—in protracted stagnation, with no actual recovery (see [Commentary No. 739](#)).

Despite the purported, ongoing recovery shown in headline GDP activity, a renewed downturn in official data is underway and should gain official recognition in the near future of a “new” or double-dip recession (see [Commentary No. 769](#)). Reality remains that the economic collapse into 2009 was followed by a plateau of low-level economic activity—no meaningful upturn, no recovery from or end to the official 2007 recession—and the unfolding renewed downturn remains nothing more than a continuation and re-intensification of the downturn that began unofficially in 2006. Further discussion of this issue is found in [No. 742 Special Commentary: A World Increasingly Out of Balance](#) of August 10th, and most broadly in [Chapter 8 of the 2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#).



## WEEK AHEAD

**Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices.** Still in a fluctuating, general trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless can gyrate some with the latest economic hype in the popular media. That general effect holds the consensus outlook still at overly-optimistic levels, with current expectations exceeding any potential, underlying economic reality. Where the net trend continues towards weakening expectations, movement towards recession recognition remains at something of an accelerating pace.

Headline reporting of the regular monthly economic numbers increasingly should continue to turn lower in the weeks and months ahead, along with likely downside revisions and otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GNP) into 2016. That includes the December 22nd second revision to third-quarter 2015 GDP, and intensifying early signals of a headline contraction in fourth-quarter 2015 GDP, due for release on January 29, 2016.

CPI-U consumer inflation—intermittently driven lower this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Annual CPI-U turned minimally positive in June 2015, for the first time in six months, notched somewhat higher in July and August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. Gasoline prices bottomed out, again, with a combination of relatively stable gasoline prices and related, positive seasonal adjustments helping to boost headline October 2015 CPI-U annual inflation to 0.2%. Despite some further negative gasoline-price impact on headline monthly November CPI-U inflation, year-to-year inflation jumped to 0.5%, its highest level since December 2014.

Significant inflation pressures should mount anew, at such time as oil prices rebound meaningfully. Again, that process eventually should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those areas, the general economic outlook and longer range reporting trends were reviewed broadly, recently, in [No. 742 Special Commentary: A World Increasingly Out of Balance](#), and [No. 692 Special Commentary: 2015 - A World Out of Balance](#) and in the *Hyperinflation Outlook Summary* of [Commentary No. 768](#).

**Note on Reporting-Quality Issues and Systemic-Reporting Biases.** Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic

distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten years—have 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, discussed and 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](#)).

The BLS also has suspended reporting of key earnings data from the period of economic collapse, due to reporting errors. More will follow there, along with the indicated downside benchmark revisions to 2015 payroll employment on February 5, 2016.

#### ***PENDING RELEASES:***

***Updated - Index of Industrial Production (November 2015).*** Tomorrow, Wednesday, December 16th, the Federal Reserve Board will release its estimate of the Index of Industrial Production for November 2015. Headline reporting detail remains a good bet to come in below a minimally-negative consensus, along with continuing downside revisions to prior-period reporting. An unlikely, monthly gain of 0.55% (net of revisions) would be needed in order for headline November 2015 production not to turn negative, year-to-year, for the first time since the economic collapse (see the opening paragraphs in the *Opening Comments* of prior [Commentary No. 772](#)).

As one of the traditional markers of the onset of formal recession, a continued downtrend in these numbers should intensify further the shift in consensus expectations towards renewed economic contraction. Headline production detail should be suggestive of some downside revision to third-quarter 2015 GDP in the December 22nd third estimate, as well as indicative of an outlook for intensifying fourth-quarter 2015 GDP contractions, on both an annual and quarter-to-quarter basis.

***Updated - Residential Construction—Housing Starts (November 2015).*** The Census Bureau will release November 2015 residential construction detail also tomorrow, Wednesday, December 16th. In line with common-reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful, holding in a general pattern of down-trending stagnation. While consensus expectations are on the upside, they also are statistically significant.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts should remain consistent with the low-level, albeit slightly up-trending, stagnation, seen in the series at present, where current activity still is down by about 53% from its pre-recession high. Such is particularly evident with the detail viewed in the context of a six-month moving average. 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 major monthly economic series, the monthly headline reporting detail here simply is worthless. The series best is viewed in terms of a six-month moving average. Again, not only is month-to-month reporting volatility frequently extreme, but also those headline monthly growth rates rarely come close to being statistically significant.

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