

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

COMMENTARY NUMBER 816

Durable Goods Orders, Home Sales, Freight Index, Household Income, Brexit

June 24, 2016

**In the Context of Almost-Certain Heavy Central-Bank Interventions,
Headline Market Volatility Largely Retrenched from
Recent Hype that Brexit Would Lose**

Yen and Gold Were Strongest Versus the Dollar Since 2014

Real Median Household Income Tumbled Anew in May

**Ex-Commercial Aircraft, Real Durable Goods Orders Are in a Trend
for Second-Quarter Annualized Contraction of 1.8% (-1.8%)**

**Aggregate Real Durable Goods Orders Continued in Smoothed,
Low-Level, Stagnant Non-Recovery**

**In the Context of Downside Corrections to Prior Months,
May New-Home Sales Fell Sharply**

**Continuing in Low-Level Stagnation, Non-Recovering New-Home Sales
Remained Shy of Pre-Recession Peak by 60.3% (-60.3%)**

**Despite Highest Existing-Home Sales Level Since 2007,
Activity Remained Shy of Pre-Recession Peak by 23.9% (-23.9%),
Continuing in a Smoothed Pattern of Stagnation**

Freight Index Showed Continuing Non-Recovery and Deepening New Recession

PLEASE NOTE: The next regular Commentary, scheduled for Tuesday, June 28th, will cover the third estimate of, second revision to first-quarter 2015 GDP.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

The UK Voted to Exit the European Union; Negative Market Reactions, So Far, Largely Have Reversed the Effects of Recent, Heavily-Biased Hype. With strongly-vested interests providing nonstop hype and anti-Brexit propaganda in the last month, and with market expectations having been built up for an anti-Brexit victory as late as the early hours following the close of the last night's polls, global financial and currency markets responded sharply to the pro-Brexit vote, in today's (June 24th) trading. In the context of almost-certain, heavy central-bank interventions, market reactions largely reversed what had been a month-long faux build-up into yesterday's polling. Aside orchestrated games with the British pound, meaningful flight to safety also was seen from the U.S. dollar with gold and the yen, with the London afternoon gold fix and the Japanese yen hitting their strongest levels since 2014.

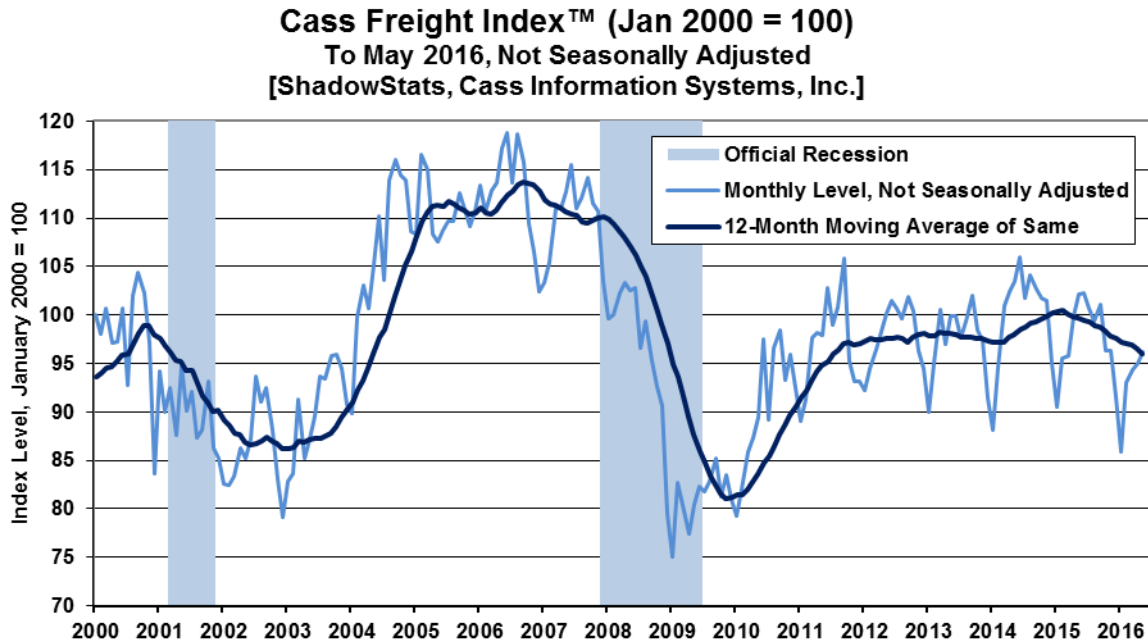
Generally, the market gyrations should calm down fairly quickly, with longer-term implications for the British pound very much on the positive side, despite all the anti-Brexit propaganda. With talk mounting of others—such as France and Italy—possibly now exiting the European Union, the potential for an overhaul or restructuring of the euro and the European Union itself likely will be discussed anew in the week and months ahead. Varying possibilities and implications, including a stronger, revamped euro versus the dollar, will be explored in the pending *Special Commentary*.

Recession Recognition Looms Post-GDP Benchmarking. Discussed in the *Week Ahead*, market expectations appear to be for some upside revision to the headline third-estimate of first-quarter 2016 real GDP growth, although expectations may have softened a bit, given downside, prior-period revisions to the May 2016 New-Home Sales. Last estimated at an annualized real quarterly growth of 0.84%, a revision to an outright first-quarter contraction remains unlikely next week. Of interest, though, will be the first revision to the first-quarter 2016 real Gross National Product, which showed a headline, annualized contraction of 0.21% (-0.21%) in its initial estimate (see [Commentary No. 809](#)).

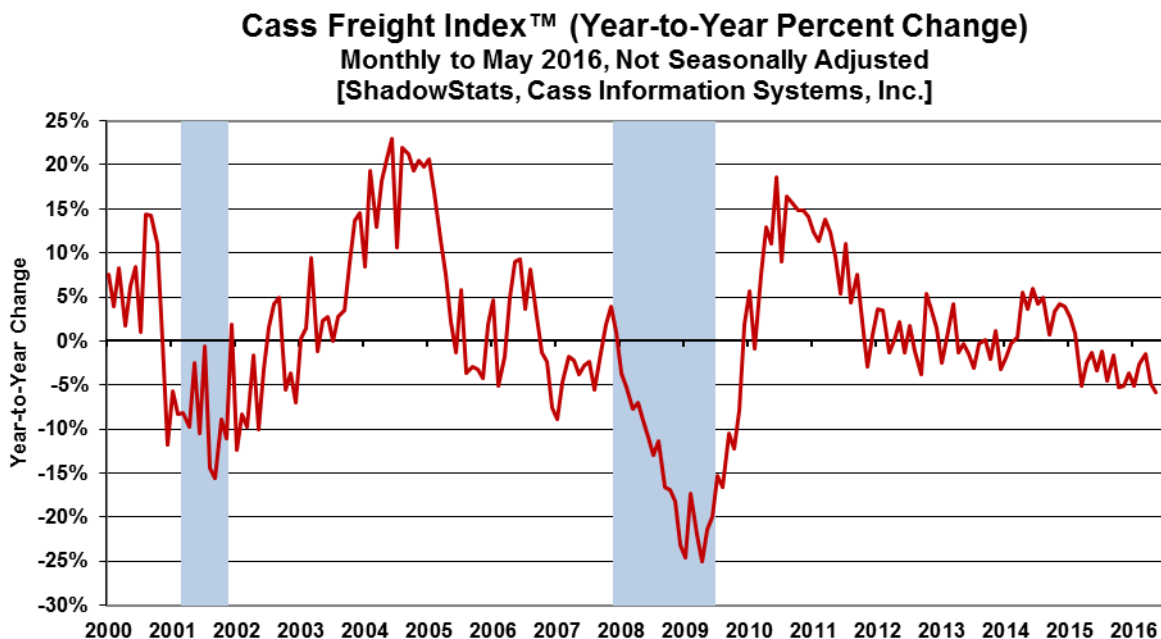
Discussed in prior [Commentary No. 815](#), formal recession recognition likely will follow in response to downside GDP benchmark revisions on July 29th, which should show at least three quarterly real GDP contractions since first-quarter 2015. Coincident with that circumstance, extreme pressure should develop for the Fed to re-expand its quantitative easing, in an effort to counter pressures that never were addressed properly post-Panic of 2008, or in the still-unfolding, multiple-dip economic contraction/collapse that hit so hard at the end of 2007. Intervening economic reporting in the month ahead also should turn increasingly negative, including monthly detail from non-government surveys.

May Freight Index Confirmed Continuing Renewed Economic Downturn and Non-Recovery. Patterns of non-recovery in the general economy and renewed downturn in business activity were reconfirmed in the headline detail of the May 2016 [Cass Freight Index™](#), published June 20th.

Graph 1: CASS Freight Index, Unadjusted Monthly and Trailing 12-Month Average, through May 2016



Graph 2: CASS Freight Index, Year-to-Year Percent Change, Monthly through May 2016



Beginning with [Commentary No. 782](#) (further background available there), ShadowStats published the graphic detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. As background, freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States.

The plot in *Graph 1* reflects the monthly numbers updated through May 2016. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail plotted in the background. ShadowStats also has re-indexed the series to January 2000 = 100, so as to be consistent with other graphs used. The headline index published by Cass is based at January 1990 = 100.

In [Commentary No. 810](#) (see pages 11 to 16 there), a variation on *Graph 1* was compared with various U.S. unemployment and economic measures. Shown in *Graph 1*, the trailing twelve-month average peaked in January 2015 and has been slowing since, with the twelve-month average level through May 2016 down by 4.4% (-4.4%) from that peak, currently down 3.7% (-3.7%) year-to-year from the May 2015 average.

Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph 2*. The unadjusted monthly detail has been in continual year-to-year decline since March of 2015, down by 5.8% (-5.8%) year-to-year as of May 2016, versus an annual drop of 4.9% (-4.9%) in April 2016.

In combination, *Graphs 1* and *2* are consistent with a pattern of economic collapse into 2009, low-level stagnation thereafter and renewed downturn effectively coincident with a “new” recession, which likely will be timed from December 2014. There is no evidence of an economic rebound or recovery in the works, based on this independent (as in non-government) and broadly-based indicator of business activity, or on other independent indicators such as S&P 500 revenues (again, see [Commentary No. 810](#)).

Today’s Commentary (June 24th). The balance of these *Opening Comments* provides a summary of the May 2016 New Orders for Durable Goods and New- Existing-Home Sales, with additional coverage found in the *Reporting Detail* section, along with an update to *Consumer Liquidity* measures, including May 2016 Real Median Household Income and full-month June 2016 Consumer Sentiment.

The most-recent *Hyperinflation Outlook Summary* is found in [Commentary No. 783](#), with [Commentary No. 814](#), [General Commentary No. 811](#), [Commentary No. 799](#) and [No. 777 Year-End Special Commentary](#) as background to the unfolding financial circumstances. These documents will be updated and consolidated shortly in a new *Special Report*, when first half-2016 economic detail is in place.

The *Week and Month Ahead* section previews the *Pending Release* in the week ahead of the third-estimate, second revision to first-quarter 2016 GDP, also discussed in the opening paragraphs of these *Opening Comments*.

New Orders for Durable Goods—May 2016—Real Orders on Track for a Second-Quarter

Contraction, Net of Commercial Aircraft. Headline May 2016 new orders for durable goods declined, irrespective of inflation-adjustment or exclusion of commercial aircraft orders. With two of three months in hand, second-quarter real orders, ex-commercial aircraft, were on track for an annualized quarterly contraction of 1.8% (-1.8%), a negative leading indicator for third-quarter 2016 industrial production, a series that has been in definitive recession since December 2014 (see [Commentary No. 813](#)).

Headline May 2016 New Orders for Durable Goods fell month-to-month by a nominal 2.23% (-2.23%) in aggregate, by 2.49% (-2.49%) ex-commercial aircraft, along with minimal prior-period revisions. Net of headline inflation adjustment those respective monthly May contractions were 2.41% (-2.41%) and 2.66% (-2.66%), respectively. Smoothed with six-month moving averages, both of those highly-volatile, inflation-adjusted real series remained in non-recovering, low-level stagnation. Those patterns signal an ongoing and deepening “new” recession.

Headline Nominal Detail. The regularly-volatile, seasonally-adjusted, nominal level of headline May 2016 New Orders for Durable Goods declined month-to-month by 2.23% (-2.23%), following a downwardly-revised 3.27% gain in April, and an upwardly-revised 1.97% gain in March. Net of prior-period revisions, May 2016 orders fell by 2.22% (-2.22%), instead of the headline 2.23% (-2.23%).

Year-to-year, May 2016 durable goods orders gained 3.20%, following a minimally-revised 1.92% annual gain in April 2016 and a shallower annual decline of 2.82% (-2.82%) in March 2016. The headline May 2016 detail, again, was before consideration of the volatility in commercial-aircraft orders.

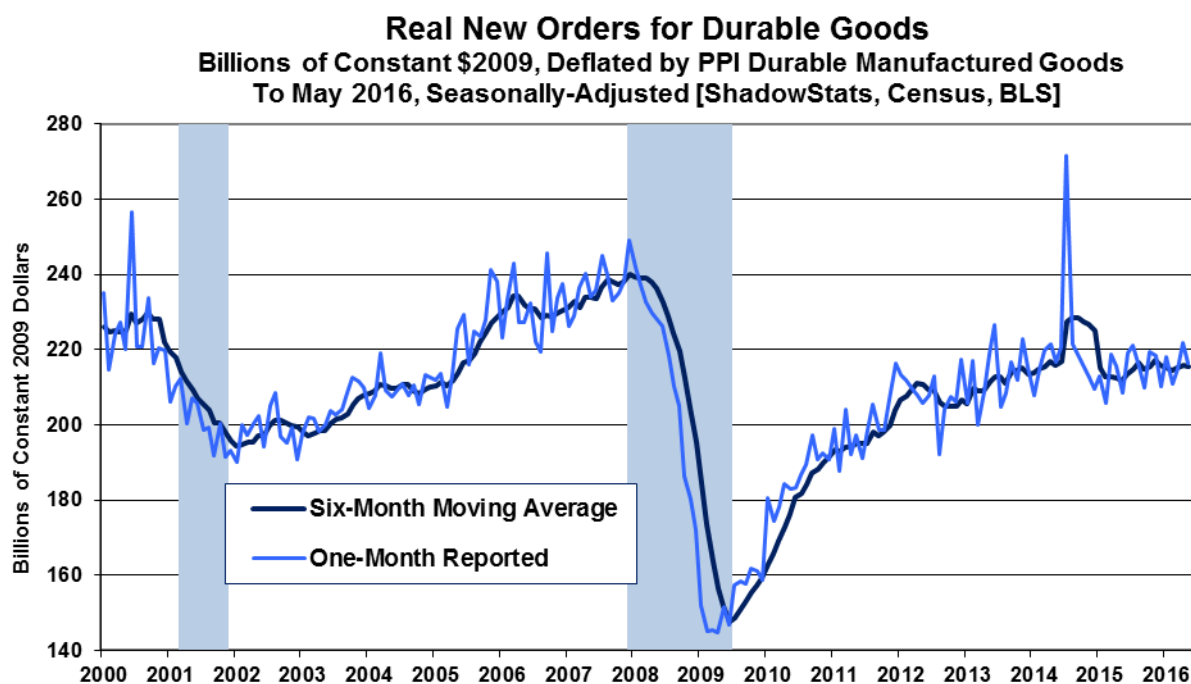
Detail Net of Volatility in Commercial-Aircraft Orders. The reporting of extreme contractions and surges in commercial-aircraft orders is seen in an irregularly-repeating process throughout the year, and that often dominates changes in headline monthly durable goods orders. These extremely volatile aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity. In the current circumstance, a relatively small monthly gain in May commercial aircraft orders deepened the aggregate orders decline to 2.5% (-2.5%), from where it was down otherwise by 2.3% (-2.3%).

Net of a headline monthly gain of 0.96% in May 2016 commercial aircraft orders, a minimally-revised revised gain of 69.35% in April, and an unrevised decline of 1.97% (-1.97%) in March, aggregate new orders declined by 2.49% (-2.49%) in May 2016, rose by a revised 0.17% in April, and rose by a revised 2.16% in March.

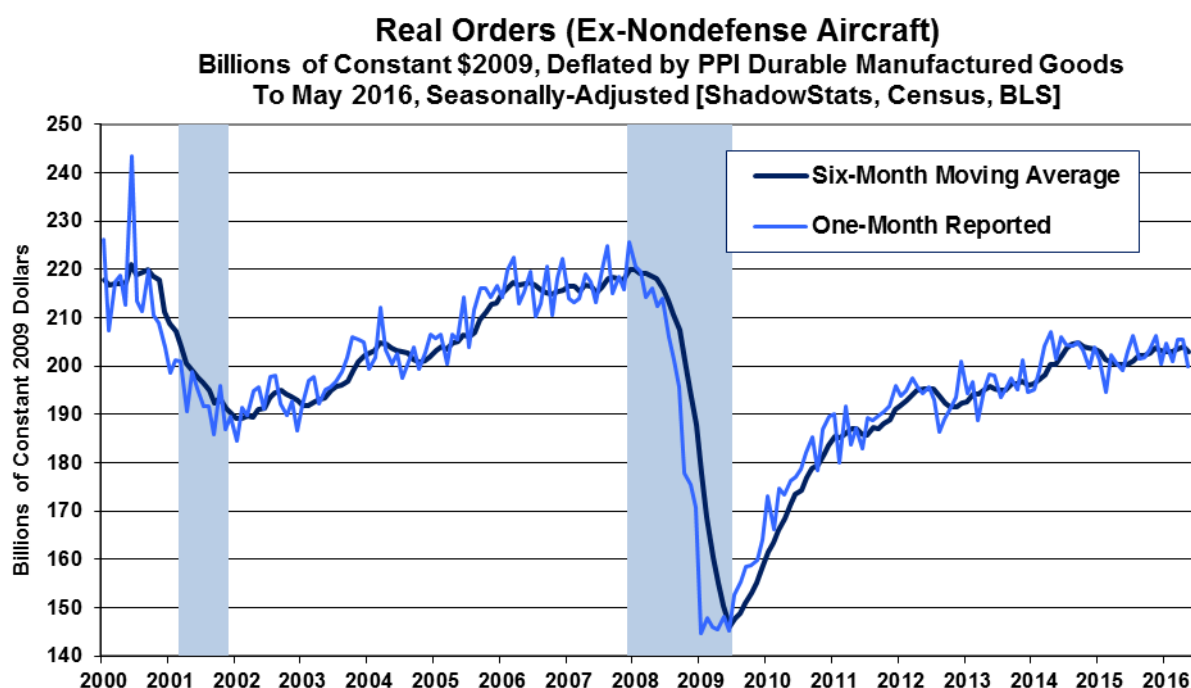
Year-to-year and seasonally-adjusted, May 2016 new orders (net of commercial aircraft) declined by 0.11% (-0.11%), following a revised gain of 1.47% in April 2016, and a revised gain of 0.31% in March 2016.

Real Durable Goods Orders—May 2016. ShadowStats uses the PPI component inflation measure “Durable Manufactured Goods” for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related May 2016 PPI series showed a headline monthly gain of 0.18%, following a gain of 0.12% in April. Headline annual inflation fell by 0.60% (-0.60%) year-to-year in May 2016, following an annual decline of 0.84% (-0.84%) in April 2016 (see the *Reporting Detail* for more-extensive details).

Graph 3: Real Total New Orders for Durable Goods to Date



Graph 4: Real New Orders for Durable Goods – Ex Commercial-Aircraft Orders to Date



Adjusted for that 0.18% monthly May 2016 inflation, and as shown the accompanying graphs, real month-to-month aggregate orders in May fell by 2.41% (-2.41%), rose by a revised 3.15% in April and by 1.97% in March. In like manner, ex-commercial aircraft, monthly real orders in fell by 2.66% (-2.66%) in May, rose by a downwardly revised 0.05% in April, and rose by a revised 2.16% in March.

Real aggregate new orders rose year-to-year by 3.82% in May 2016, versus a revised gain of 2.97% in April 2016, and fell by a revised 1.70% (-1.70%) in March 2016. Ex-commercial aircraft, real orders in May 2016 rose year-to-year by 0.49%, versus a downwardly revised 2.33% gain in April 2016 and by an upwardly revised 1.46% in March 2016. Annual real gains here were boosted by negative year-to-year inflation.

Real Quarterly Growth, Ex-Commercial Aircraft. Where the inflation-adjusted series, ex-commercial aircraft, is the best leading economic indicator out of these data, following are the annualized real quarterly change in that series. The real ex-commercial aircraft series showed annualized quarterly declines in real new orders of 4.44% (-4.44%) in fourth-quarter 2014, and 5.54% (-5.54%) in first-quarter 2015. Annualized real change for second-quarter 2015 was a gain of 3.31%, a gain of 4.52% in third-quarter activity, with a gain of 0.31% in fourth-quarter 2015 activity, and a revised 0.56% gain in first-quarter 2016.

Based on April and May 2016 detail, the trend for second-quarter 2016 is for an annualized contraction of 1.83% (-1.83%). Previously, the early-trend estimate had been 4.52%, based just on the initial estimate of April 2016 activity.

Graphs of Inflation-Adjusted and “Corrected” Smoothed Durable Goods Orders. The preceding *Graphs 3 and 4* show the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft orders. All graphs here reflect the prior April 2016 reporting and revisions, and incorporate the significantly-negative, annual benchmark revisions to durable goods orders as reviewed in the May 20th [Supplemental Commentary No. 807-A](#).

The moving-average levels in both series had turned lower into year-end 2014 and after some uptick in mid-2015—some smoothed bounce-back—the smoothed trend turned down anew into late fourth-quarter 2015 and into first-quarter 2016, and with a flat-to-minus trend into May 2016.

Broadly, there has been a general pattern in recent years of stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery seen in official GDP reporting. The real (inflation-adjusted) monthly and six-month moving-average level of new orders in May 2016 remained below both the pre-2007 recession high, as well as the pre-2000 recession high for the series. The pattern of low-level stagnation and fluctuating trend in the annual inflation-adjusted series since mid-2014—net of the irregular aircraft-order effects—again is one that usually precedes or coincides with a recession.

The Real New Orders Series Corrected for Inflation Understatement. As with other economic series deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods generally are overstated, due to the understatement of official inflation. That understatement comes from the government’s use of hedonic-quality adjustments—quality issues usually not perceived by users or consumers of the involved products—in justifying a reduced pace of headline inflation (see [Public Commentary on Inflation Measurement](#)).

As done for other series such as the GDP, real retail sales and industrial production (see [Commentary No. 809](#), [Commentary No. 814](#) and [Commentary No. 813](#)), ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

Two sets of graphs follow. The first set (*Graph 5* and *Graph 6*) shows the aggregate series or total durable goods orders; the second set (*Graph 7* and *Graph 8*) shows the ex-commercial aircraft series.

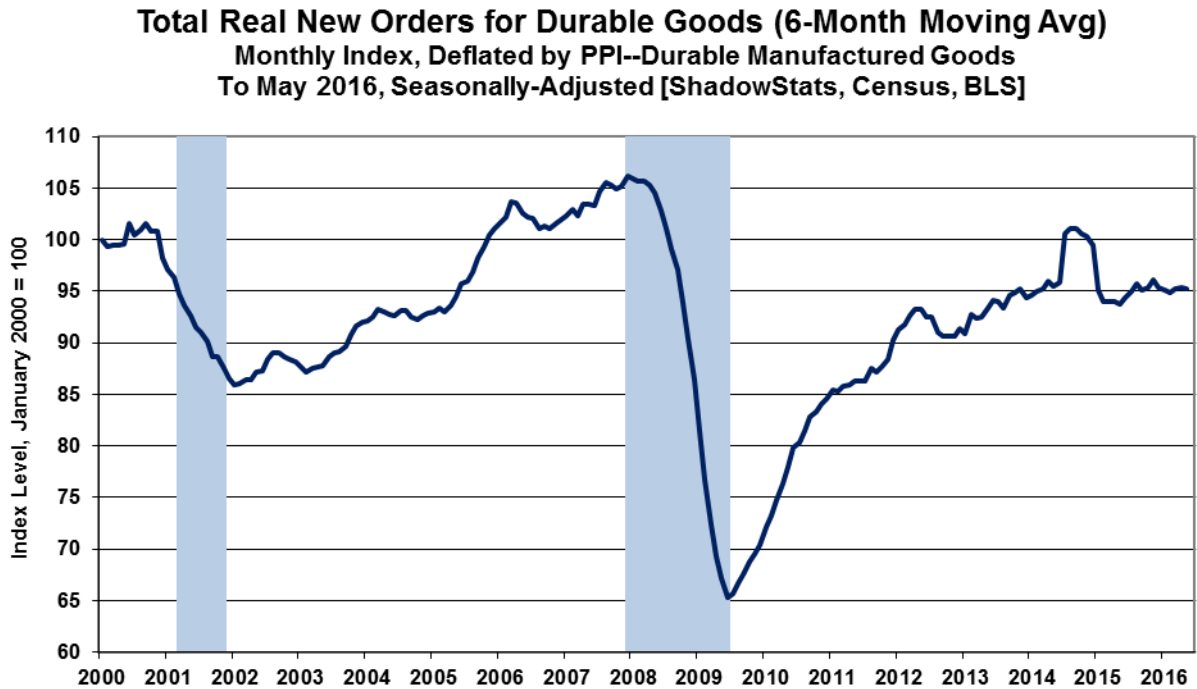
The aggregate orders series in *Graphs 5* and *6* includes commercial aircraft orders. Placed years in advance, aircraft orders are a better indicator of long-range production activity, than they are as a near-term leading indicator of production activity. Again, *Graphs 7* and *8* are shown net of the volatile commercial aircraft orders.

The first graph in each of the two series shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 3* and *Graph 4*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph, but it has been re-deflated to correct for the understatement of the PPI manufactured durable goods inflation measure used in the headline-deflation process. ShadowStats estimates that inflation understatement, with the “corrected” graphs indexed to January 2000 = 100.

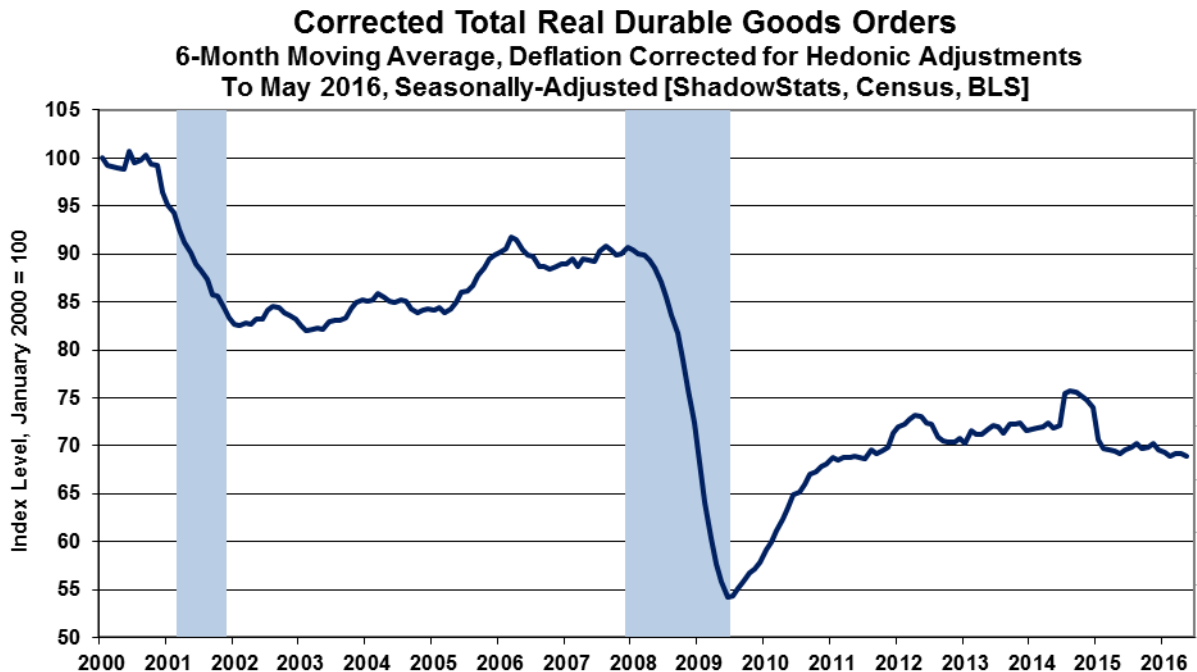
Graph 8, entitled “Corrected Real Orders—Ex-Commercial Aircraft” (a six-month trailing average) is perhaps the best indicator of broad underlying order activity in the durable goods sector, in the context of signaling in advance actual near-term production and economic activity.

[Graphs 5 to 8 begin on the following page.]

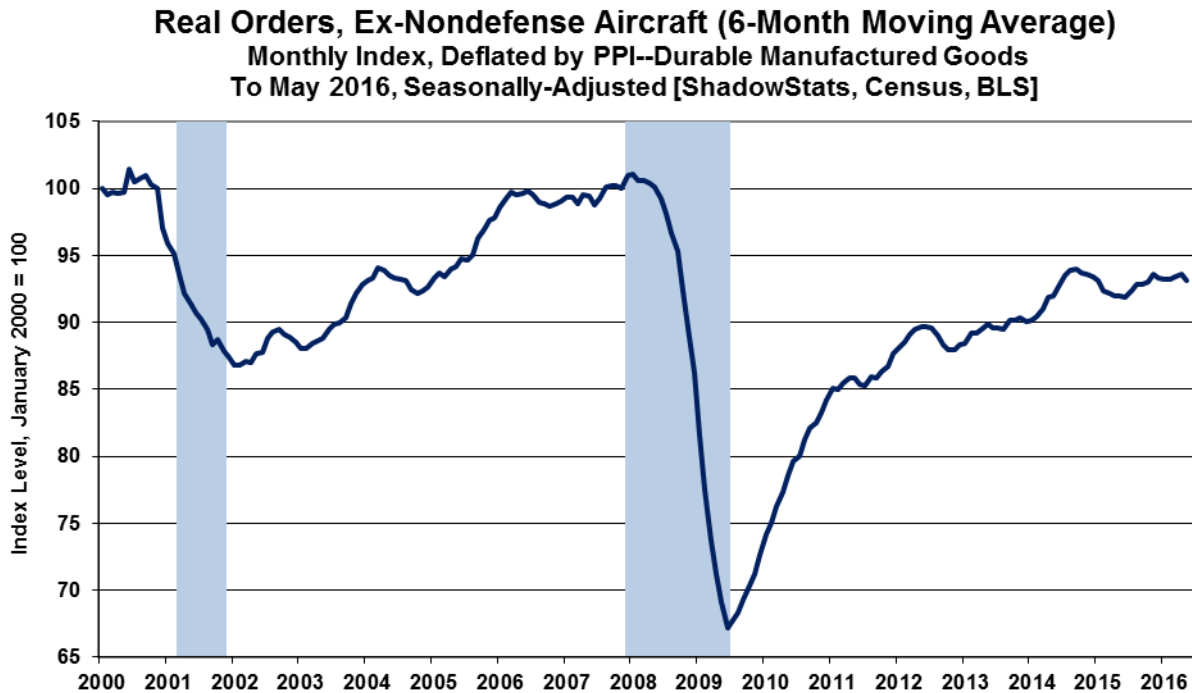
Graph 5: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



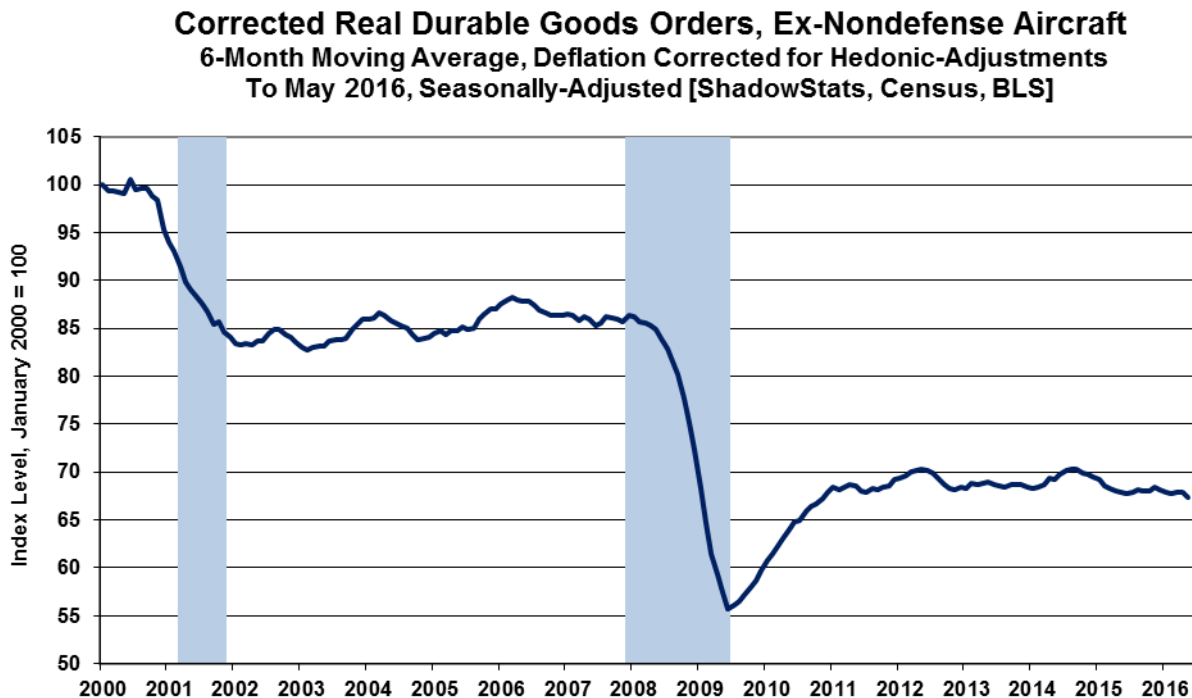
Graph 6: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



Graph 7: Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



Graph 8: Corrected Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



New- and Existing-Home Sales—May 2016—Continued Low-Level Stagnation and No Recovery, Despite Respective Downside Corrections and a Monthly Gain. May 2016 New- and Existing-Home Sales series both remained in depression territory (see [Commentary No. 754](#)), down respectively by 60% (-60%) and by 24% (-24%) from pre-recession peaks.

Holding in low-level stagnation, with statistically-insignificant changes in volatile headline activity for New-Home Sales, smoothed activity has been relatively flat (*Graph 11*) in the latter part of 2015 and through May 2016, although minimally up-trending. Despite recently-unstable headline detail in Existing-Home Sales, and in the context of shifting patterns in smoothed, low-level stagnation, Existing-Home Sales activity turned to the downside (*Graph 15*) in the latter part of 2015, but now also up-trending into May 2016. These series never have recovered from the economic collapse into 2009. After going through a period of protracted, low-level stagnation, general housing construction and sales activity broadly have been stagnant.

More fully discussed in [General Commentary No. 811](#) and updated briefly in the *Consumer Conditions* section that follows, the primary underlying issues restraining current residential real estate activity remain intense, structural-liquidity woes and conditions besetting the consumer.

New-Home Sales—May 2016—Unstable Headline Reporting Tumbled Anew in Context of Downside Prior-Period Revisions; Smoothed Data Held in Low-Level Stagnation. Headline monthly reporting of this series almost never is of substance. The unexpectedly-large 16.6% month-to-month surge seen in April 2016 sales was not meaningful, and it largely disappeared with May's revisions and headline detail, as had been suggested in [Commentary No. 808](#).

On a monthly basis, the unstable May 2016 headline reporting of 551,000 units in annualized sales (a 45,917 monthly rate as used in the graphs) fell by 6.0% (-6.0%) for the month, following a downside revision of 5.3% (-5.3%) to the level of April sales, in the context of other large downside revisions to monthly activity back through February 2016. Accordingly, the downside revision to April 2016 monthly growth was to 12.3%, from the prior estimate of 16.6%. May 2016 year-to-year change slowed to 8.7%, from a downwardly revised 17.2% in April 2016. As usual, neither the monthly nor annual headline change was statistically significant, with May 2016 activity still below the 2005 pre-recession peak by 60% (-60%).

ShadowStats assesses such unstable series by considering the gyrations in monthly activity in the context of a six-month moving-average of the headline numbers. With the otherwise meaningless monthly swings in these numbers smoothed out, new-home sales activity continued in a broad pattern of low-level, albeit minimally up-trending stagnation, as seen in *Graph 11*.

Graphed either way, smoothed or not, the various housing series generally have continued to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing activity never recovered with the purported GDP recovery. From the series' pre-recession peak of July 2005, headline May 2016 New-Home Sales still were down by 60.3% (-60.3%), while May 2016 Single-Unit Housing Starts were down by 58.1% (-58.1%) from their January 2006 pre-recession high (see [Commentary No. 814](#)).

New-Home Sales Headline Reporting. May 2016 New-Home Sales (counted based on contract signings) fell month-to-month by a headline, seasonally-adjusted, statistically-insignificant 6.0% (-6.0%). That was

against a downwardly-revised monthly gain of 12.3% in April, a narrowed monthly decline in March of 0.6% (-0.6%), swinging from gain of 2.3% to a contraction of 0.2% (-0.2%), in revision, for February. Net of prior-period revisions, the monthly contraction in May 2016 was 11.0% (-11.0%), instead of the headline drop of 6.0% (-6.0%).

Year-to-year, May 2016 sales rose by a statistically-insignificant 8.7%. That followed a downwardly revised April 2016 annual sales gain of 17.2%, a downwardly-revised annual gain of 6.5% in March 2016, and a deeper, revised annual decline of 4.4% (-4.4%) in February 2016.

In the area of continued extreme volatility, consider that the annualized quarterly pace of sales gain in first-quarter 2015 was 50.1%, with second-quarter 2015 sales activity in an annualized quarterly decline of 19.8% (-19.8%). Third-quarter 2015 new-home sales declined by 5.0% (-5.0%), with the fourth-quarter sales gain estimated at 18.7%. First-quarter 2016 activity showed a downwardly-revised annualized gain of 13.5%, with second-quarter 2016 in an early trend for annualized quarterly growth of 38.2%, based just on April and May reporting. Previously, the initial pace of growth had been 83.7%, based just on the temporary headline April 2016 detail. The downside revisions here should be enough to soften, somewhat, the consensus expectations for first- and second-quarter 2016 GDP growth.

Existing-Home Sales—May 2016—Despite Highest Level Since 2007, Activity Remained Down by 23.9% (-23.9%) from Its Pre-Recession Peak. Despite a headline gain in May 2016 Existing-Home Sales that took the series to its highest reading since 2007, the series remained in depression, still down by 24% (-24%) from its pre-recession peak. Smoothed with a six-month moving average, Existing-Home sales activity held in low-level stagnation, albeit now up-trending.

Indeed, this series—among the broader real estate and construction measures—never recovered from the economic collapse into 2009, a common issue in the residential real estate industry. After going through a period of protracted, low-level stagnation and non-recovery, and irrespective of higher May 2016 Existing-Home Sales, general housing construction and related sales activity broadly have begun to turn down anew.

Indeed, Existing-Home Sales activity in May 2016 still was down by a headline 23.9% (-23.9%) from its June 2005 pre-recession peak, a high that has not been matched since the ensuing economic collapse into 2009. In like manner, May 2016 headline monthly Housing Starts remained down by 48.8% (-48.8%) from their January 2006 pre-recession high.

Existing-Home Sales Headline Reporting. Headline Existing-Home Sales [based on actual closings of home sales, the National Association of Realtors® (NAR)] showed a seasonally-adjusted, headline monthly gain of 1.8% in May 2016, against a downwardly-revised 1.3% monthly gain in April and an unrevised 5.7% monthly gain in March 2016. On a year-to-year basis, May 2016 sales rose by 4.5%, versus a downwardly revised annual gain of 5.6% in April 2016 and an unrevised gain of 2.1% in March. Net of prior-period revisions, the month-to-month May gain was 1.5%, versus the headline 1.8% increase.

First-quarter 2015 Existing-Home Sales showed an annualized quarterly sales decline of 2.6% (-2.6%), with the second-quarter 2015 pace of annualized growth at 19.5%. Third-quarter 2015 growth slowed to an annualized pace of 9.7%, with fourth-quarter 2015 activity contracting at an annualized pace of 14.2% (-14.2%), and first-quarter 2016 expanding at an annualized pace of 7.9%. Based on April and May 2016 detail, the second-quarter was on track for annualized quarterly growth of 14.3%. Previously, based

solely on initial April 2016 reporting, second-quarter 2016 was on early track for an annualized quarterly gain of 11.8% in this highly volatile series.

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years. All that said, smoothed for irregular distortions, the reporting remained statistically consistent with a period of low-level broad stagnation, albeit now up-trending, as seen in *Graph 15*.

Proportion of Distressed Sales Declined to 6% in May, with All Cash Sales Easing to 22%. The NAR estimated the portion of May 2016 sales in “distress” eased in the month to 6% (5% foreclosures, 1% short sales), from 7% (5% foreclosures, 2% short sales) in April 2016, and from 10% (7% foreclosures, 3% short sales) in May 2015. Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales were 22% of May 2016 activity. That was down from 24% in April 2016, and 24% in May 2015.

Graphs of New- and Existing-Home Sales. These series and comparative numbers are plotted in the accompanying *Graphs 9 to 16*.

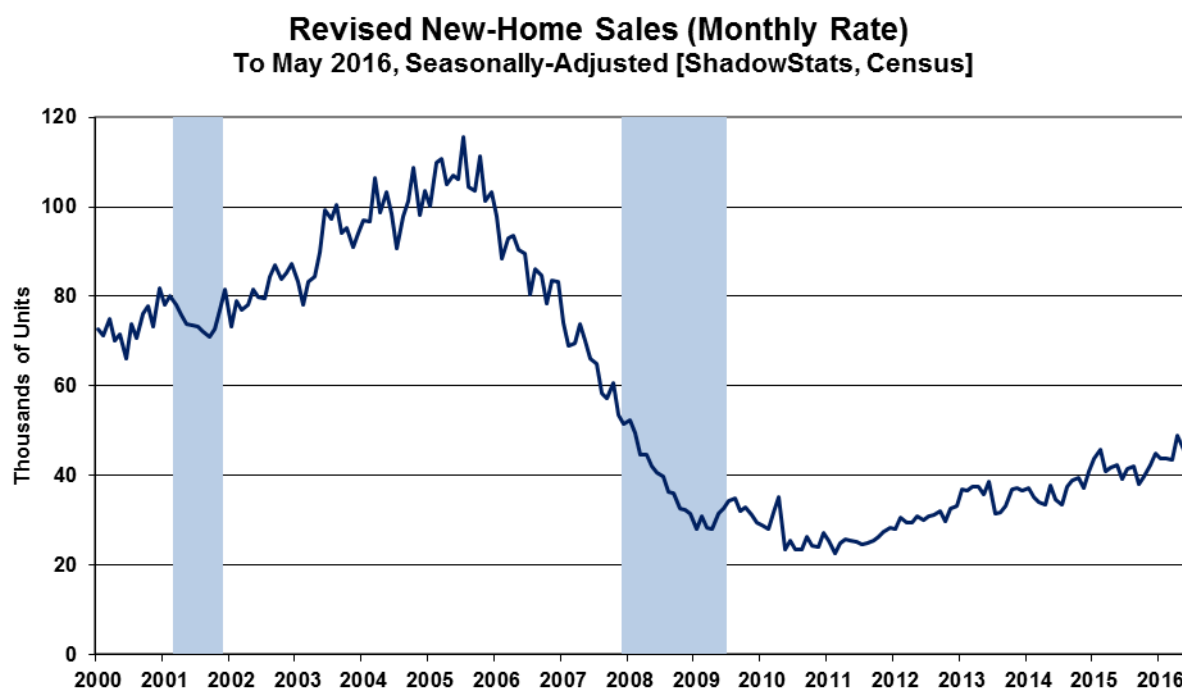
New-Home Sales. *Graphs 9 and 11* show the regular monthly and six-month moving-average versions of New-Home Sales activity. Added for comparison purposes are parallel graphs of the headline and monthly and six-month moving-average versions of May 2016 Housing Starts for single-unit construction (*Graphs 10 and 12*) from prior [Commentary No. 814](#).

Existing-Home Sales. *Graph 13* shows the traditional headline Existing-Home Sales monthly detail, supplemented by *Graph 15* of the Six-Month Moving Average of Existing-Home Sales. Unlike the levels shown in *Graph 13* of the monthly series, there are no special averages to smooth the effects of government programs to create buyer incentives *Graph 15*. The series is smoothed only by a six-month moving average, and a related transitional averaging joining the old and new series plotted separately in *Graph 13*.

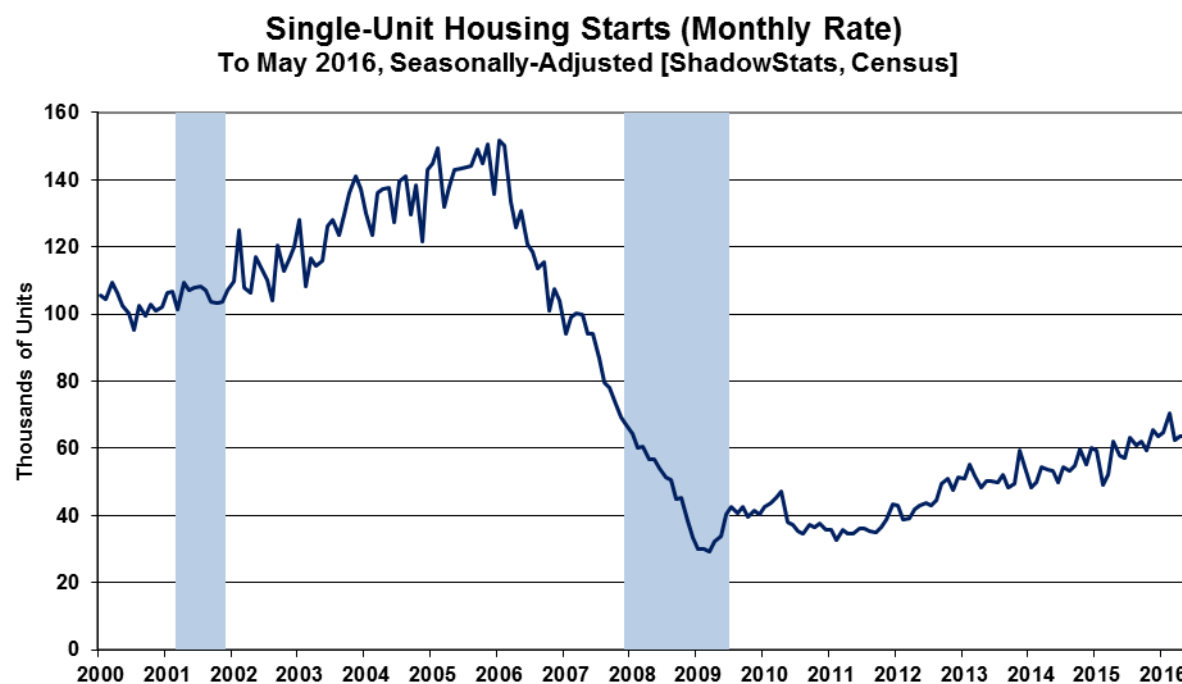
Accompanying the Existing-Home Sales plots are comparative graphs of May 2016 aggregate Housing Starts activity, from [Commentary No. 814](#), where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 14 and 16*).

[Graphs 9 to 16 follow, beginning on the next page]

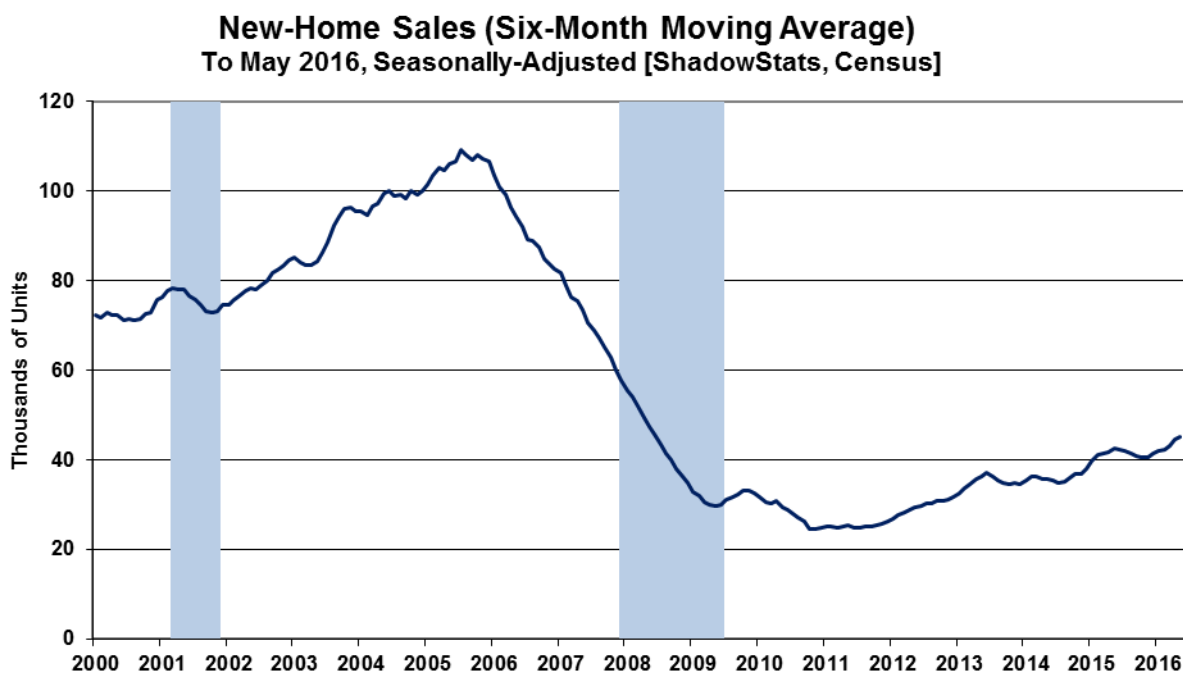
Graph 9: New-Homes Sales – Monthly Rate of Activity



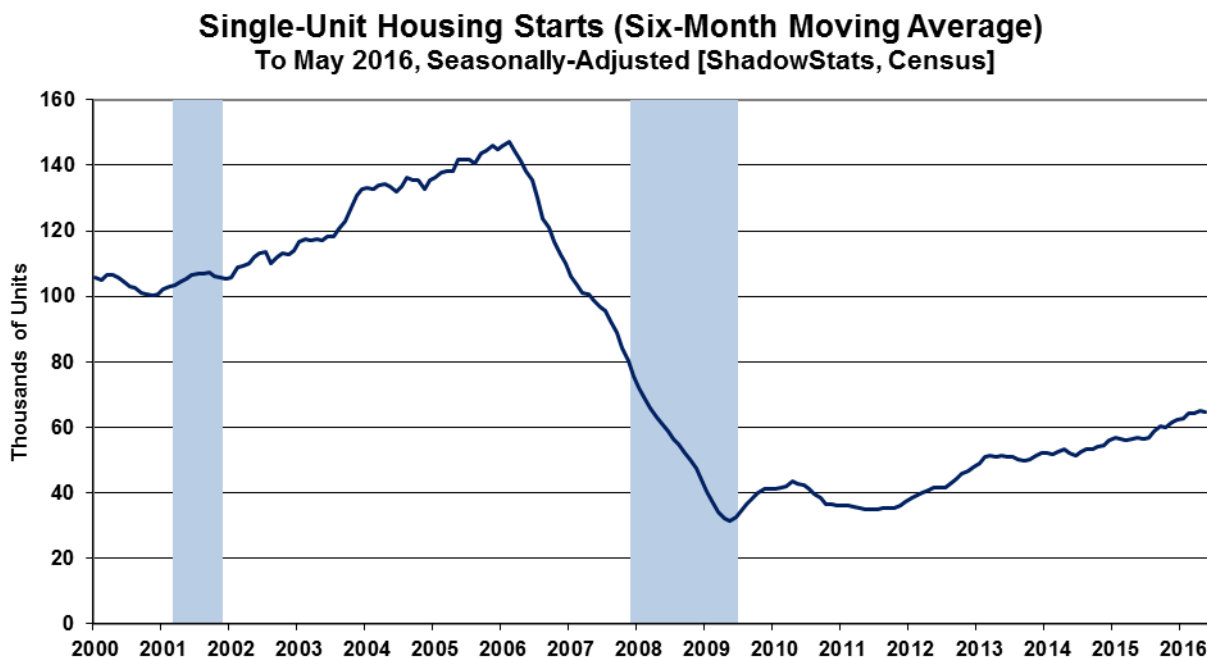
Graph 10: Single-Unit Housing Starts, Monthly Rate of Activity



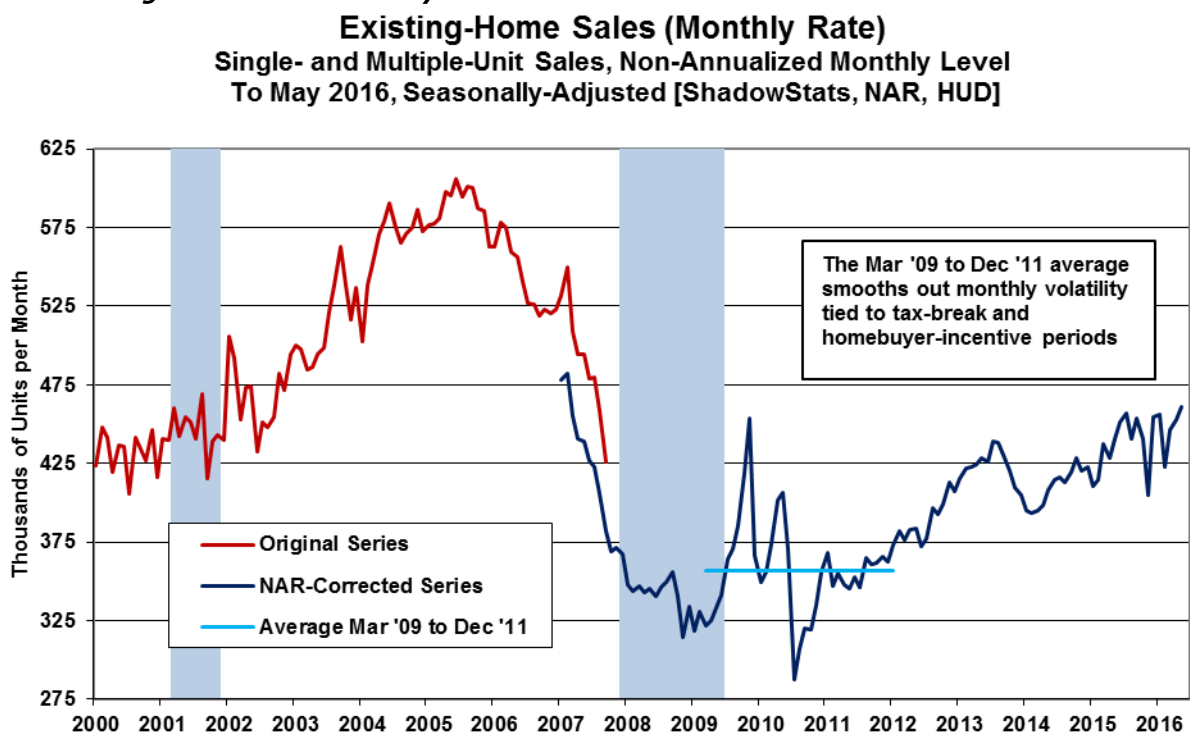
Graph 11: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



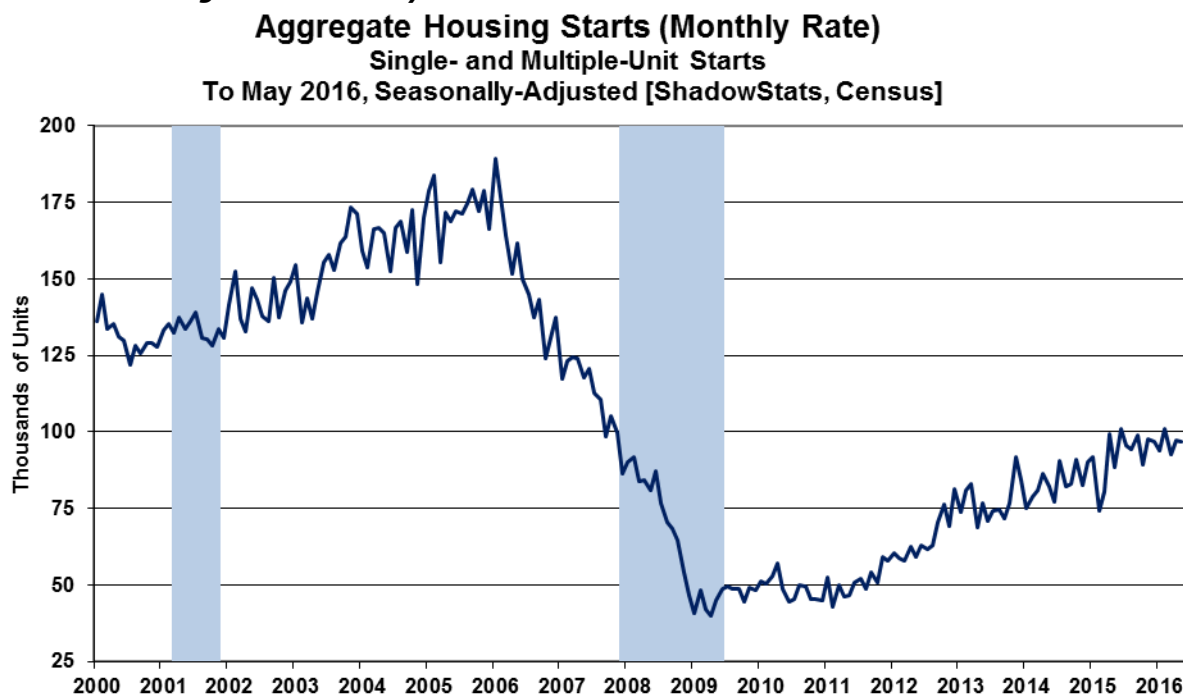
Graph 12: Single-Unit Housing Starts, Six-Month Moving Average, Monthly Rate of Activity



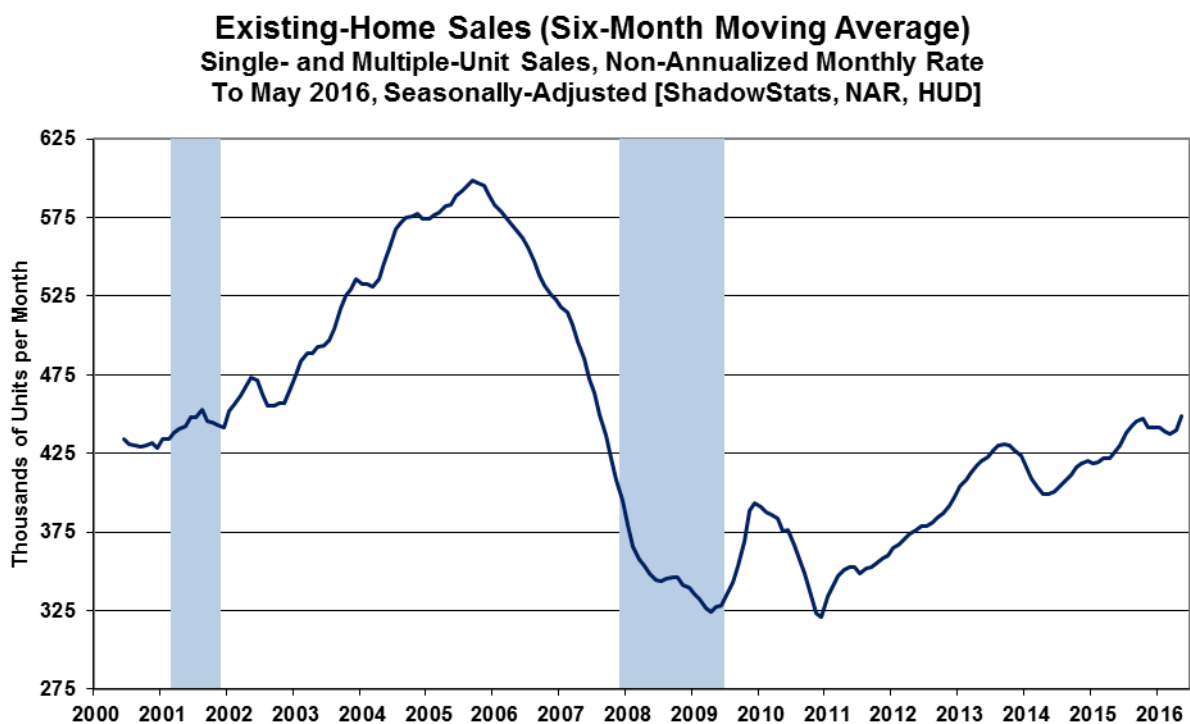
Graph 13: Existing-Home Sales – Monthly Level



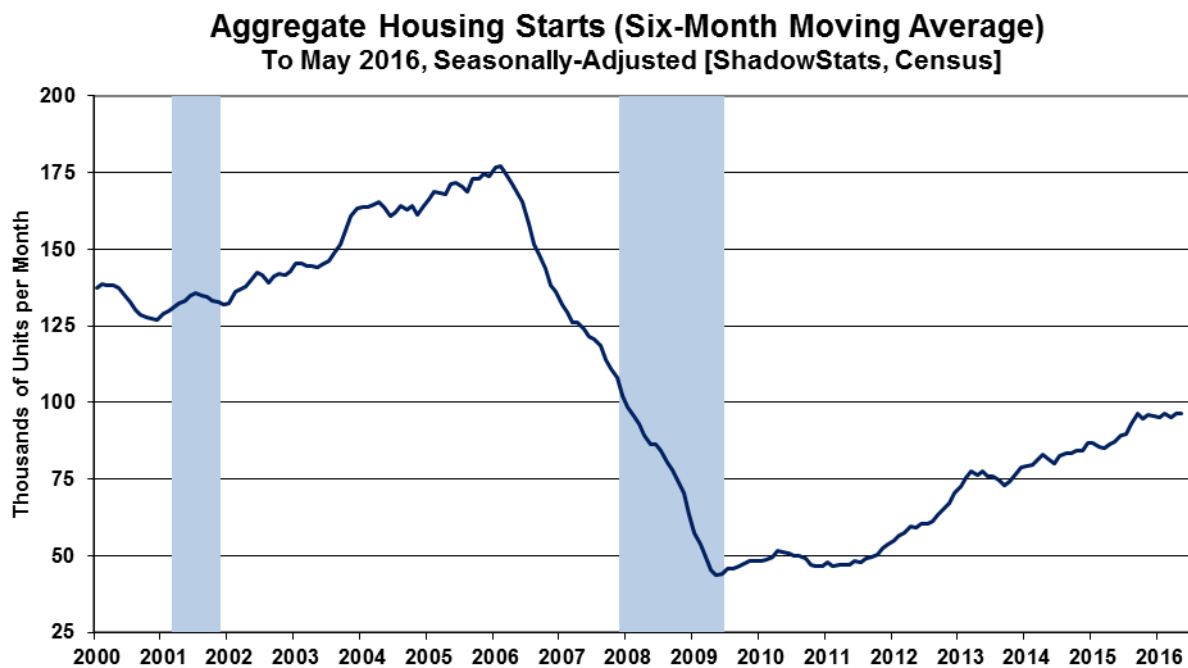
Graph 14: Total Housing Starts – Monthly Level



Graph 15: Existing-Home Sales (Six-Month Moving Average)



Graph 16: Total Housing Starts (Six-Month Moving Average)



Consumer Liquidity Conditions Still Constrain Sustainable Economic Recovery. Consumer liquidity conditions last were reviewed fully in [General Commentary No. 811](#) of June 10th. Conditions are updated here for the latest detail on May 2016 Real Monthly Median Household Income (June 23rd by www.SentierResearch.com) and today's (June 24th) release of the University of Michigan's full-month estimate for the June 2016 Consumer Sentiment measure. More extensive general background detail is available in [No. 777 Year-End Special Commentary](#).

Underlying fundamentals to consumer economic activity, such as liquidity, have been severely impaired in the last decade or so, driving economic activity into collapse and preventing meaningful or sustainable economic rebound, recovery or ongoing growth. The level of and growth in sustainable real income, and the ability and willingness of the consumer to take on new debt remain at the root of the liquidity issues.

Generally, the higher and stronger those measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes remain off their lows, and one—real monthly median household income—actually had spiked recently to pre-recession levels, reflecting the temporary collapse in gasoline prices and deflation by the otherwise underestimated headline CPI-U inflation, but it has since begun to tumble lower, again, with a pickup in inflation (see *Graph 17*). Yet, these underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic era, limited growth in household income and credit, and a still generally, faltering consumer outlook, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers.

Such has driven the housing-market collapse and ongoing stagnation in consumer-related real estate sales and construction activity, as well as constraining both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential-construction categories of the Gross Domestic Product (GDP). Together, those sectors account for more than 70% of total GDP activity in the United States.

Now, with the economy never having recovered fully from the collapse into 2009, consumers again are pulling back on consumption, as evidenced by a renewed slowdown in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a meaningful, fundamental upturn in consumer- and banking-liquidity conditions.

Household Income Measures Continue to Signal Broad-Based Economic Difficulties. Discussed and graphed in [Commentary No. 752](#) are the Census Bureau's most-recent (2014) annual measures of household income. Unexpected weakness in some of the headline annual income data, though partially masked by changes in survey questions, signaled increasing liquidity difficulties for U.S. households. The headline 2015 detail is planned for release in September 2016.

Shown first in *Graph 17* is the latest monthly real median household income detail through May 2016, as reported by www.SentierResearch.com. The headline reporting has turned down anew, with a statistically-significant monthly decline in May 2016, after several months of statistically-insignificant flutterings around its near-term January 2016 peak.

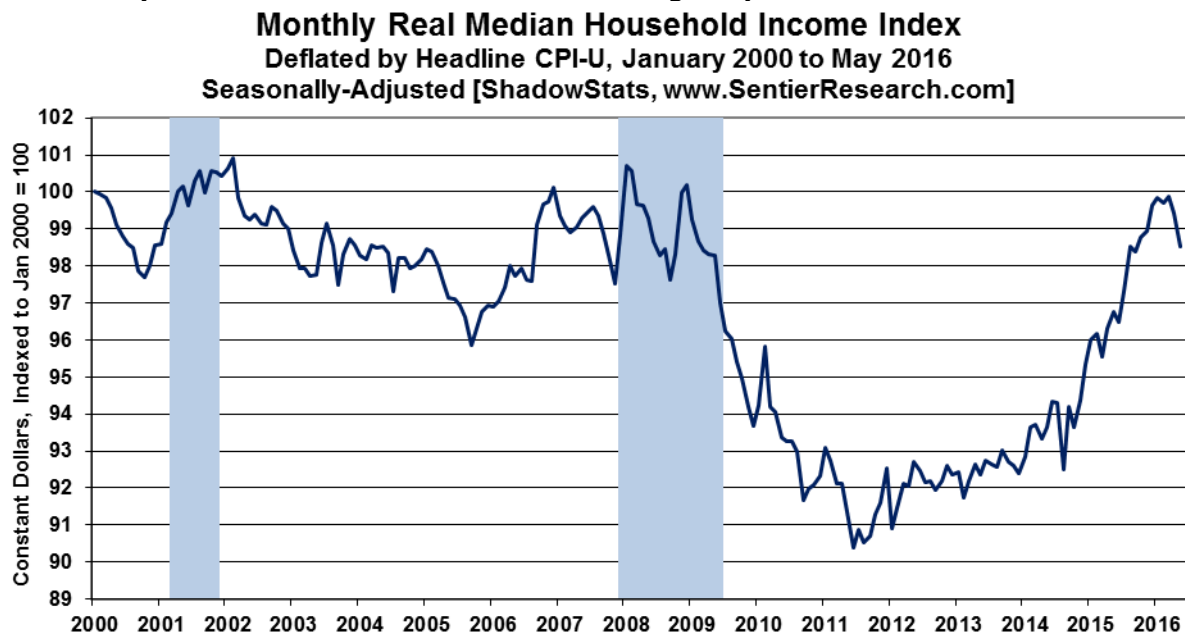
This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 18*, but the monthly specifics are generated from separate surveying and questioning by the Census Bureau.

On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. Generally, the income series had been in low-level stagnation, with the recent uptrend in the monthly index boosted specifically by collapsing gasoline prices and the related, negative headline CPI-U consumer inflation. The index reached pre-recession levels in the December 2015 reporting, but it remains minimally below the pre-recession highs for both the formal 2007 and 2001 recessions. It should continue to turn down anew, as consumer inflation rebounds in the months ahead.

Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally had been used to pay down unsustainable debt or other obligations, not to fuel new consumption. Again, the effects of lower gasoline prices have begun to reverse with prices increasing anew.

Differences in the Monthly versus Annual Median Household Income. That general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 18*, with the latest 2014 real annual median household income at a ten-year low. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau.

Graph 17: Monthly Real Median U.S. Household Income through May 2016

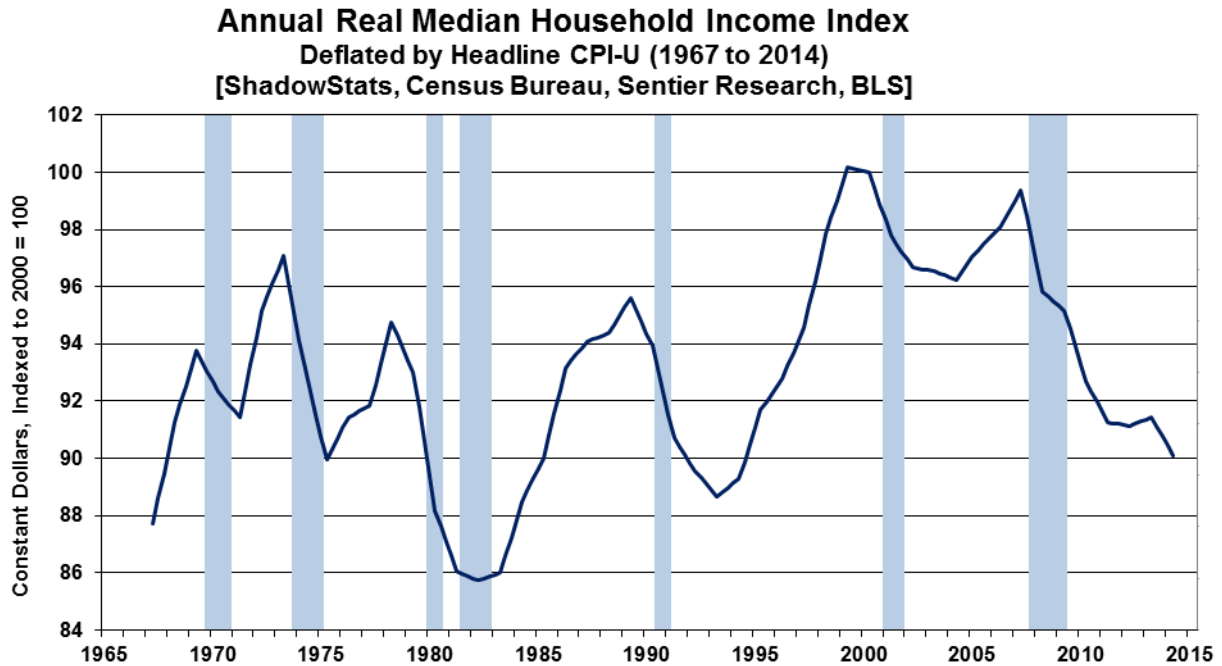


Where Sentier uses monthly questions surveying current annual household income, the headline annual Census detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income.

Again, discussed in [Commentary No. 752](#), the Census Bureau changed its annual income questionnaire for 2014, with the effect of boosting income levels reported in 2014. The details on changes between 2013 and 2014, however, also were available on a consistent and comparable basis, and the consistent

aggregate annual percentage change of median household income in 2014, versus 2013, was applied to the otherwise consistent historical series to generate *Graph 18*.

Graph 18: Annual Real Median U.S. Household Income through 2014



In historical perspective from *Graph 18*, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s, with the 2014 income level below the readings through most of the 1970s, aside from being at a ten-year low. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy (see related discussions in [2014 Hyperinflation Report—The End Game Begins](#) and particularly [2014 Hyperinflation Report—Great Economic Tumble](#)).

Consumer Confidence, Sentiment and Credit. The weakening May 2016 reading for the Conference Board’s Consumer-Confidence measure and the pullback in the full-June 2016 reading for the University of Michigan’s Consumer-Sentiment measure are reflected in *Graphs 19 to 21*.

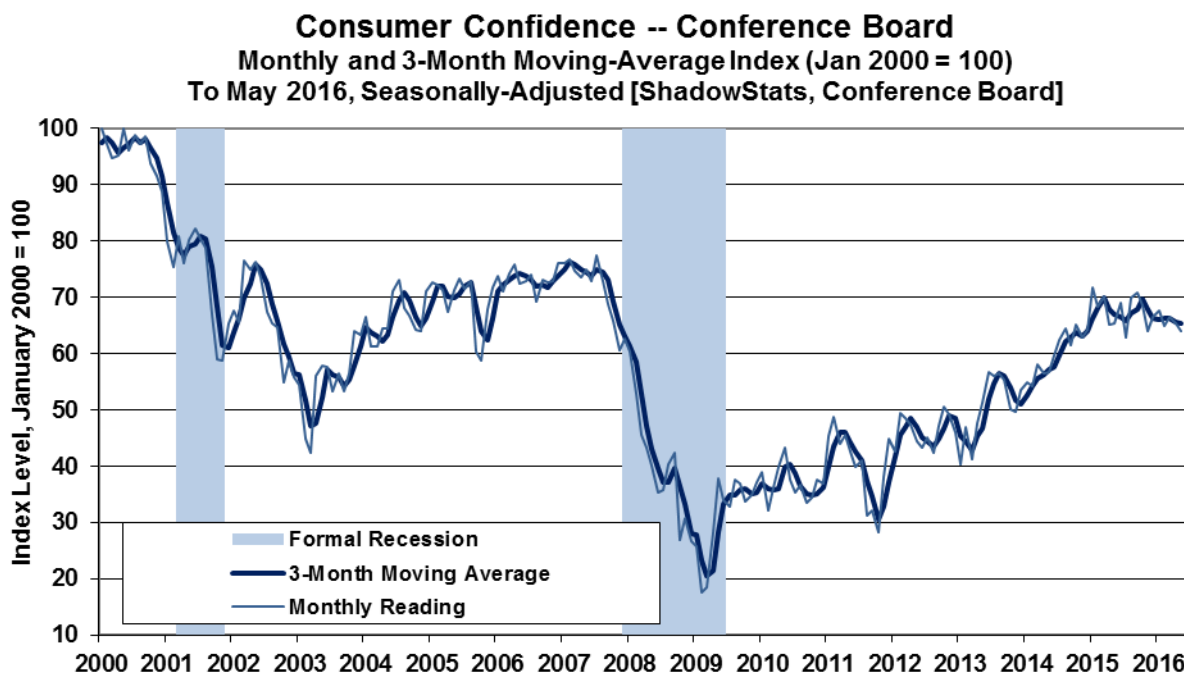
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 19 to 21* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board’s Consumer Confidence Index is set with 1985 = 100, while the University of Michigan’s Consumer Sentiment Index is set with January 1966 = 100.

As discussed previously, the Conference Board’s seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 19*) declined in both April 2016 and May 2016, with the three-month moving average down by 6.8% (-6.8%) from its peak in March 2015. The full-month estimate for June 2016 will be published on Tuesday, June 28th, and updated in *Commentary No. 817* of that date.

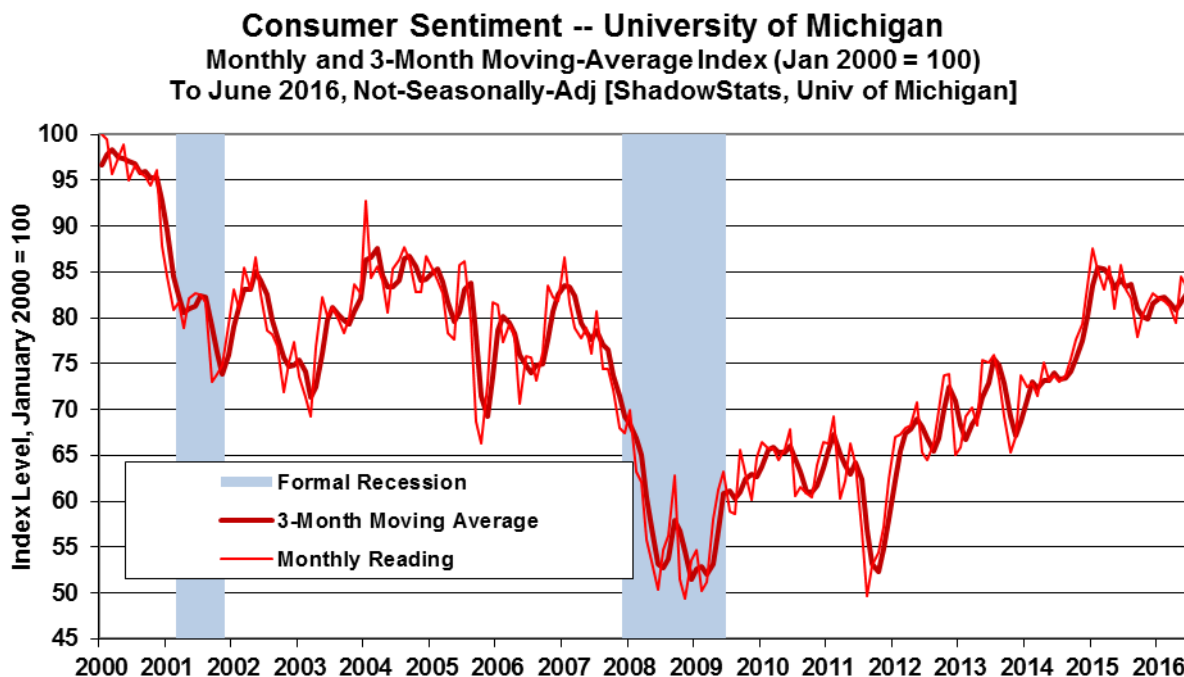
The University of Michigan’s not-seasonally-adjusted Consumer-Sentiment Index (*Graph 20*) soared in the early-May 2016 reading, eased back slightly in its final version, moved minimally lower in early-June

and again in full-June, with its three month-moving average for all of June 2016 down by 3.4% (-3.4%) from its February 2015 peak.

Graph 19: Consumer Confidence to May 2016



Graph 20: Consumer Sentiment to June 2016

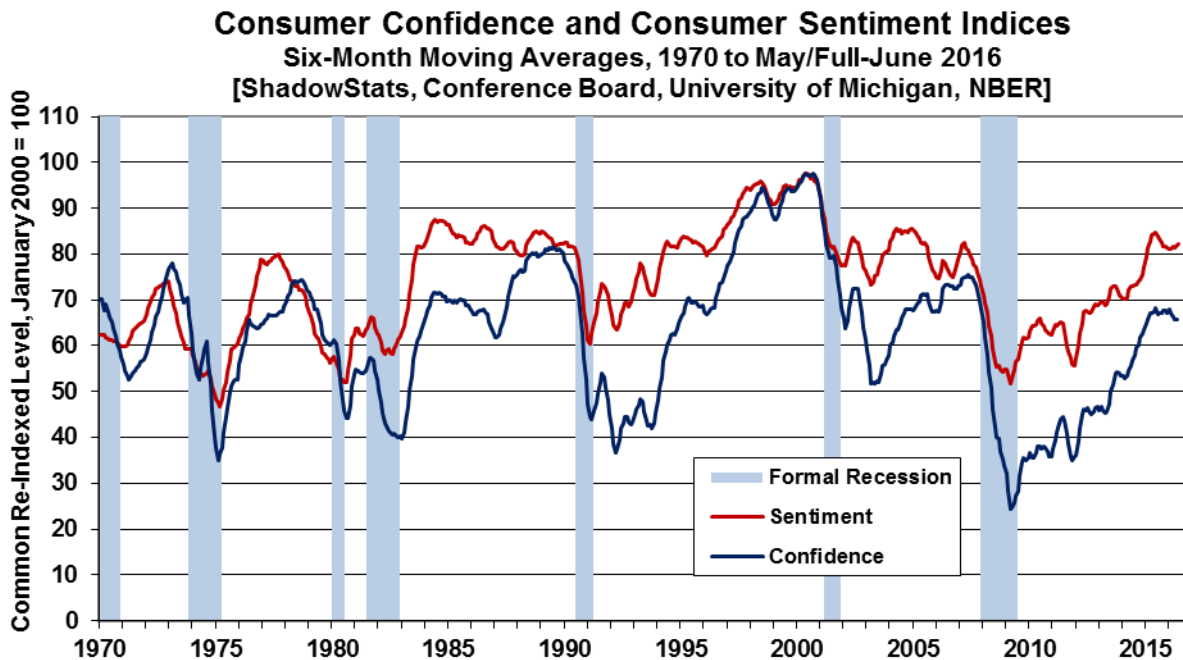


Both series also continued to hold off near-term peaks, as smoothed for six-month moving-average readings (*Graph 21*), with the measures down respectively by 3.7% for Confidence and by 3.0% for Sentiment from their June 2015 highs.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With increasingly-negative, unstable and uncertain headline financial and economic reporting and developments at hand and ahead, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the months ahead.

Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 21*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth seen in 2014 and as indicated for second-and third-quarter 2015 GDP growth.

Graph 21: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970



[The Reporting Detail section contains additional statistical analysis.]

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (May 2016)

Real Durable Goods Orders Are on Track for a Second-Quarter Contraction, Net of Commercial Aircraft Orders. In the context of meaningfully negative benchmark revisions ([Supplemental Commentary No. 807-A](#)) and subsequent reporting of April 2016 detail, headline May 2016 new orders for durable goods declined, irrespective of inflation-adjustment or exclusion of commercial aircraft orders. With two of three months in hand, second-quarter real orders, ex-commercial aircraft, were on track for an annualized quarterly contraction of 1.8% (-1.8%), a negative leading indicator for third-quarter 2016 industrial production, a series that has been in definitive recession since December 2014 (see [Commentary No. 813](#)).

Headline May 2016 New Orders for Durable Goods fell month-to-month by a nominal 2.23% (-2.23%) in aggregate, by 2.49% (-2.49%) ex-commercial aircraft, along with minimal prior-period revisions. Net of headline inflation adjustment those respective monthly May contractions were 2.41% (-2.41%) and 2.66% (-2.66%), respectively. Smoothed with six-month moving averages, both of those highly volatile inflation-adjusted real series remained in non-recovering, low-level stagnation. Those patterns remained consistent in signaling an ongoing and deepening “new” recession.

Headline Nominal Detail. The Census Bureau reported this morning, June 24th, that the regularly-volatile, seasonally-adjusted, nominal level of May 2016 new orders for durable goods declined by 2.23% (-2.23%), following a downwardly-revised 3.27% [previously 3.36%] gain in April, and an upwardly-revised 1.97% [previously 1.87%] monthly gain in March. Net of prior-period revisions, May 2016 orders fell by 2.22% (-2.22%), instead of the headline 2.23% (-2.23%).

Year-to-year, May 2016 durable goods orders gained 3.20%, following a minimally-revised 1.92% [previously 1.91%] annual gain in April 2016 and a shallower annual decline of 2.82% (-2.82%) [previously down by 2.91% (-2.91%)] in March 2016. The headline May 2016 detail, again, was before consideration of the volatility in commercial-aircraft orders.

Before and after consideration of commercial-aircraft volatility and monthly irregularities in the headline reporting of new orders, the smoothed trends of activity continued to be flat-to-negative, consistent with a downturn in what had been a continuing pattern of broad stagnation. The inflation-adjusted real series, and that same series corrected for the understatement of official inflation, are discussed and graphed in the *Opening Comments* section. The corrected series—net of commercial aircraft orders—has remained relatively flat, at a low-level and now in a down-trending pattern of stagnation, with the other plotted series still showing an unfolding downturn of a nature that usually precedes or coincides with a recession or deepening business downturn.

Detail Net of Volatility in Commercial-Aircraft Orders. The reporting of extreme contractions and surges in commercial-aircraft orders is seen in an irregularly-repeating process throughout the year, and that often dominates changes in headline monthly durable goods orders. These extremely volatile aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity. In the current circumstance, a relatively small monthly gain in May commercial aircraft orders deepened the aggregate orders decline to 2.5% (-2.5%), from where it was down otherwise by 2.3% (-2.3%).

Net of a headline monthly gain of 0.96% in May 2016 commercial aircraft orders, a minimally-revised revised gain of 69.35% [previously 64.92%] in April, and an unrevised decline of 1.97% (-1.97%) in March, aggregate new orders declined by 2.49% (-2.49%) in May 2016, rose by a revised 0.17% [previously up by 0.47%] in April, and rose by a revised 2.16% [previously up by 2.06%] in March.

Year-to-year and seasonally-adjusted, May 2016 new orders (net of commercial aircraft) declined by 0.11% (-0.11%), following a revised gain of 1.47% [previously up by 1.67%] in April 2016, and a revised gain of 0.31% [previously up by 0.21%] in March 2016.

Real Durable Goods Orders—May 2016. ShadowStats uses the PPI component inflation measure “Durable Manufactured Goods” for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related May 2016 PPI series showed a headline monthly gain of 0.18%, following a gain of 0.12% in April. Those have been the only monthly upticks in durable goods inflation since October 2015. The April increase followed “unchanged” readings of 0.00% month-to-month, in March, February and January, where previously there had been negative headline monthly inflation of 0.06% (-0.06%) in January 2016.

Headline annual inflation fell by a narrower year-to-year by 0.60% (-0.60%) in May 2016, following ever-narrowing annual declines of 0.84% (-0.84%) in April 2016, 1.14% (-1.14%) in March 2016, 1.25% (-1.25%) in February 2016 and 1.31% (-1.31%) in January 2016.

Adjusted for that 0.18% monthly May 2016 inflation, and as reflected in the graphs in the *Opening Comments* section, real month-to-month aggregate orders in May fell by 2.41% (-2.41%), rose by a revised 3.15% [previously up by 3.23%] in April, and rose by 1.97% [previously up by 1.87%] in March. In like manner, ex-commercial aircraft, monthly real orders in May fell by 2.66% (-2.66%), rose by a downwardly-revised 0.05% [previously up by 0.35%] in April, and rose by 2.16% [previously up by 2.06%] in March.

Real aggregate new orders rose year-to-year by 3.82% in May 2016, versus a revised gain of 2.97% [previously 2.77%] in April 2016, fell by a revised 1.70% (-1.70%) [previously down by 1.79% (-1.79%)] in March 2016. Ex-commercial aircraft, real orders in May 2016 rose year-to-year by 0.49%, versus a downwardly revised 2.33% [previously 2.53%] gain in April 2016 and by an upwardly revised 1.46% [previously up by 1.36%] in March 2016. Annual real gains here were boosted by the headline, negative year-to-year inflation.

Real Quarterly Growth, Ex-Commercial Aircraft. Where the inflation-adjusted series, ex-commercial aircraft, is the best leading economic indicator out of these data, following are the annualized real quarterly change in that series. The real ex-commercial aircraft series showed annualized quarterly declines in real new orders of 4.44% (-4.44%) in fourth-quarter 2014, and 5.54% (-5.54%) in first-quarter

2015. Annualized real change for second-quarter 2015 was a gain of 3.31%, a gain of 4.52% in third-quarter activity, with a gain of 0.31% in fourth-quarter 2015 activity, and a revised 0.56% [previously 0.42%] gain in first-quarter 2016.

Based on April and May 2016 detail, the trend for second-quarter 2016 is for an annualized contraction of 1.83% (-1.83%). Previously, the early-trend estimate had been 4.52%, based just on the initial estimate of April 2016 activity.

Graphs of Inflation-Adjusted and “Corrected” Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 3 to 8*) are displayed in the *Opening Comments* section. The first set (*Graphs 3 and 4*) shows the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft orders. The moving-average levels in both series had turned lower into year-end 2014 and into the first two quarters of 2015, with some smoothed bounce-back into third-quarter 2015, followed by renewed downturn into second-quarter 2016.

The second set of graphs (*Graphs 5 to 6*) shows the patterns of six-month moving averages of historical, headline real new orders for durable goods, net of official inflation, as well as that pattern “corrected” for the understatement of that inflation (and for the related overstatement of official, inflation-adjusted growth). The third set of graphs (*Graphs 7 to 8*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders.

Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems seen with retail sales, payroll and unemployment reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly and annual changes. While those issues were brought into balance, for a period of ten days, with annual benchmark revision to durable goods orders on May 18, 2016, April and May’s (today’s) subsequent monthly reporting and revisions have made all historical reporting prior to March 2016 inconsistent with the current headline numbers. All the historical data will be briefly consistent, once again, come next year’s May 2017 benchmark revisions.

NEW-HOME SALES (May 2016)

Unstable Headline Reporting of New-Home Sales Tumbles Anew in Context of Downside Prior-Period Revisions; Smoothed Data Held in Low-Level Stagnation. Discussed frequently, headline monthly reporting of this series almost never is of substance. The unexpectedly-large 16.6% month-to-month surge in April 2016 sales was not meaningful, and it largely disappeared in May’s revisions and headline detail, as had been suggested in [Commentary No. 808](#).

On a monthly basis, the unstable May 2016 headline reporting of 551,000 units in annualized sales (a 45,917 monthly rate as used in the graphs) fell by 6.0% (-6.0%) for the month, following a downside revision to the level of April sales by 5.3% (-5.3%), in the context of other large downside revisions to monthly activity back through February 2016. Accordingly, the downside revision to April 2016 headline monthly growth was to 12.3%, from the prior estimate of 16.6%. May 2016 year-to-year change slowed to 8.7%, from a downwardly revised 17.2% [previously 23.8%] in April 2016. As usual, neither the

monthly nor annual headline change was statistically significant, with headline May 2016 activity still below its 2005 pre-recession peak by 60% (-60%).

ShadowStats assesses such unstable series by considering the gyrations in monthly activity in the context of a six-month moving-average of the headline numbers. With the otherwise meaningless monthly swings in these numbers smoothed out, new-home sales activity continued in a broad pattern of low-level, albeit minimally up-trending stagnation (see *Graph 11* in the *Opening Comments*).

Graphed either way, smoothed or not, the various housing series generally have continued to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing activity never recovered with the purported GDP recovery. From the series' pre-recession peak of July 2005, headline May 2016 New-Home Sales still were down by 60.3% (-60.3%), while May 2016 Single-Unit Housing Starts were down by 58.1% (-58.1%) from the January 2006 pre-recession high of that series (see [Commentary No. 814](#)).

Discussed in the *Opening Comments* section, there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity and other conditions to fuel increasing activity, there is no basis for a current or imminent recovery in the housing market.

Headline April 2016 Reporting. Reported by the Census Bureau on June 23rd, May 2016 New-Home Sales (counted based on contract signings) fell month-to-month by a headline, seasonally-adjusted, statistically-insignificant 6.0% (-6.0%) +/- 15.0% (all confidence intervals are at the 95% level). That was against a downwardly-revised monthly gain of 12.3% [previously up by 16.6%] in April, a narrowed monthly decline of 0.6% (-0.6%) [previously down by 1.3% (-1.3%)] in March, swinging from gain of 2.3% to a contraction of 0.2% (-0.2%), in revision, for February. Net of prior-period revisions, the monthly contraction in May 2016 was 11.0% (-11.0%), instead of the headline drop of 6.0% (-6.0%).

Year-to-year, May 2016 sales rose by a statistically-insignificant 8.7% +/- 17.1%. That followed a downwardly revised April 2016 annual sales gain of 17.2% [previously up by a 23.8%], a downwardly-revised annual gain of 6.5% [previously up by 8.4%] in March 2016, and a deeper, revised annual decline of 4.4% (-4.4%) [previously down by 2.0% (-2.0%)] in February 2016.

In the arena of continued extreme volatility, consider that the annualized quarterly pace of sales gain in first-quarter 2015 was 50.1%, with second-quarter 2015 sales activity in an annualized quarterly decline of 19.8% (-19.8%). Third-quarter 2015 new-home sales declined by 5.0% (-5.0%), with the fourth-quarter sales gain estimated at 18.7%. First-quarter 2016 activity showed a downwardly-revised annualized gain of 13.5% [previously up by 29.0%], with second-quarter 2016 in an early trend for annualized quarterly growth of 38.2%, based just on April and May reporting. Previously, the initial pace of growth had been 83.7%, based just on the temporary headline April 2016 detail.

The downside revisions here should be enough to soften, somewhat, the consensus expectations for first- and second-quarter 2016 GDP growth.

New-Home Sales Graphs. The regular monthly graph of New-Home Sales is included in the *Opening Comments* section, along with a six-month moving-average version of the series. Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of May 2016

Housing Starts for single-unit construction, from prior [Commentary No. 814](#), along with comparative graphs of Existing-Home Sales and aggregate Housing Starts (see *Graphs 9 to 16*).

EXISTING-HOME SALES (May 2016)

Despite May Sales Hitting Highest Level Since 2007, Activity Remained Down by 23.9% (-23.9%) from Pre-Recession High. Despite a headline gain in May 2016 Existing-Home Sales, which took it to its highest reading since 2007, the series remained in depression (see [Commentary No. 754](#)), still down by 24% (-24%) from its pre-recession peak. Smoothed with a six-month moving average, Existing-Home sales activity held in low-level stagnation, albeit now up-trending.

Indeed, this series—among the broader real estate and construction measures—never recovered from the economic collapse into 2009, a common issue in the residential real estate industry. After going through a period of protracted, low-level stagnation and non-recovery, and irrespective of higher May 2016 Existing-Home Sales, general housing construction and related sales activity broadly have begun to turn down anew.

Updated in the *Opening Comments*, the U.S. consumer remains in an extreme liquidity bind, which prevents a meaningful recovery in national home-sales growth. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the consumer has been unable to sustain positive growth in broad U.S. economic activity, particularly as tied to residential real estate and personal consumption.

Indeed, Existing-Home Sales activity in May 2016 still was down by a headline 23.9% (-23.9%) from its June 2005 pre-recession peak, a high that has not been matched since the ensuing economic collapse into 2009. In like manner, May 2016 headline monthly Housing Starts remained down by 48.8% (-48.8%) from their January 2006 pre-recession high (see prior [Commentary No. 814](#)).

Headline May Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® (NAR) reported June 22nd a seasonally-adjusted, headline monthly gain of 1.8% in May 2016 Existing-Home Sales, against a downwardly-revised 1.3% [previously 1.7%] monthly gain in April and an unrevised 5.7% monthly gain in March 2016. On a year-to-year basis, May 2016 sales rose by 4.5%, versus a downwardly revised annual gain of 5.6% [previously up by 6.0%] in April 2016 and an unrevised gain of 2.1% in March. Net of prior-period revisions, the month-to-month May gain was 1.5%, versus the headline 1.8% uptick.

First-quarter 2015 Existing-Home Sales showed an annualized quarterly sales decline of 2.6% (-2.6%), with the second-quarter 2015 pace of annualized growth at 19.5%. Third-quarter 2015 growth slowed to an annualized pace of 9.7%, with fourth-quarter 2015 activity contracting at an annualized pace of 14.2% (-14.2%), and first-quarter 2016 expanding at an annualized pace of 7.9%. Based on April and May 2016 detail, the second-quarter was on track for annualized quarterly growth of 14.3%. Previously, based solely on initial April 2016 reporting, second-quarter 2016 was on early track for an annualized quarterly gain of 11.8% in this highly volatile series.

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years. All that said, smoothed for irregular distortions, the reporting remained statistically consistent with a period of low-level broad stagnation, albeit now up-trending, as can be seen in *Graph 15* of the *Opening Comments*.

Proportion of Distressed Sales Declined to 6% in May, with All Cash Sales Easing to 22%. The NAR estimated the portion of May 2016 sales in “distress” eased in the month to 6% (5% foreclosures, 1% short sales), from 7% (5% foreclosures, 2% short sales) in April 2016, and from 10% (7% foreclosures, 3% short sales) in May 2015.

Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales were 22% of May 2016 activity. That was down from 24% in April 2016, and 24% in May 2015.

Existing-Home Sales Graphs. Shown in the *Opening Comments*, *Graph 13* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 15* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of May 2016 aggregate Housing Starts activity, from [Commentary No. 814](#), where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 14* and *16*).

WEEK AND MONTH AHEAD

Economic Deterioration Should Intensify in the Weeks and Month Ahead, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and continued Fed-policy retrenchment in the near term. The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect a broad spectrum of market-disappointing headline data. That unfolding circumstance has been detailed in [Commentary No. 815](#), [Commentary No. 814](#), [Commentary No. 813](#), [Commentary No. 812](#), [General Commentary No. 811](#), [Commentary No. 810](#), [Commentary No. 809](#), [Supplemental Commentary No. 807-A](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796-A](#), [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

Allowing for near-term, short-lived gyrations following the Brexit vote (see the *Opening Comments*), and otherwise in response to perpetual economic non-recovery and a renewed, intensifying downtrend in

underlying economic activity, negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices. Market activity has been mixed, somewhat on oil, at the moment, as discussed in [No. 814](#), [No. 811](#), [No. 807](#) and [No. 799](#). These market reactions reflect, at least in part, the intensifying sense of Federal Reserve impotence, with bleak longer term implications for the U.S. dollar. Further tightening by the Fed prior to the election remains unlikely, instead, renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds and becomes increasingly obvious in the next several months.

Rapidly weakening, regular monthly economic reporting should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), as seen minimally with the initial reporting of a first-quarter 2016 contraction in the Gross National Product (GNP)—the broadest measure of U.S. economic activity—discussed in [No. 809](#).

Such includes a limited chance of a reported outright quarterly contraction in first-quarter 2016 GDP in next week's June 28th second monthly revision. Pending are meaningful downside revisions to GDP history (including likely headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29, 2016 annual GDP benchmark revisions, again, as discussed in [Commentary No. 815](#).

Consistent with the relatively neutral benchmark revisions to retail sales and housing starts, and in line with recent sharp downside revisions to industrial production, durable goods orders, the annual revisions to the real merchandise-trade deficit and likely negative benchmark revisions to construction spending next month, expectations for the GDP benchmarking also should fall sharply. Discussed in the *Opening Comments* of [No. 810](#), upside redefinitions to the service-sector trade surplus could have some minimal upside revision impact pre-2015. Nonetheless, that GDP benchmarking now appears to be the most-likely point at which the elements for a “formal” recession call will be in full play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline monthly March to May 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise minimally in June and likely going forward, still boosted by a weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Gasoline price seasonal adjustments also shift to the plus-side in July. Fundamental reporting issues with the headline CPI are discussed here: [Public Commentary on Inflation Measurement](#).

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 nine-to-eleven 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). That was discussed and explored in the labor-numbers related [Supplemental Commentary No. 784-A](#) and [Commentary No. 695](#).

Further, discussed in [Commentary No. 778](#), a heretofore unheard of spate of “processing errors” surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government’s headline economic reporting. At the same time, it indicates an increasing openness of the involved statistical agencies in revealing the reporting-quality issues.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS 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](#)). John Crudele of the *New York Post* continues his investigations in reporting irregularities: [Crudele Investigation](#).

PENDING RELEASE:

Gross Domestic Product (GDP)—First-Quarter 2016, Second Revision, Third Estimate. The Bureau of Economic Analysis (BEA) will publish its second revision to, third estimate of first-quarter 2016 Gross Domestic Product (GDP) on Tuesday, June 28th. As noted in the *Opening Comments*, market expectations appear to be for some upside revision to the headline second-estimate of annualized real quarterly growth of 0.84%, although such may have softened a bit in the context of the downside, prior-period revisions to the May 2016 New-Home Sales. A revision next week to an outright contraction, remains unlikely. Of some interest will be the first revision to the broader first-quarter 2016 real Gross National Product (GNP), which showed a headline, annualized quarterly contraction of 0.21% (-0.21%) in its first estimate, last month.

The recent, sharply negative annual benchmark revisions to Industrial Production ([No. 796-A](#)), Manufacturers’ Shipment, Orders (including Durable Goods) and Inventories ([No. 807-A](#)) and the trade balance ([No. 810](#))—and with the same still likely in the pending construction spending detail—all promise meaningful downside adjustments to historical and recent headline GDP growth in benchmark revisions of July 29th. Formal recession recognition should follow in response to the economics and financial-market communities absorbing and assessing that GDP benchmarking, which should include a number of real quarterly contractions, including first-quarter 2016.