John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 843
Special Comments, Durable Goods Orders, New- and Existing-Homes Sales, Fed Shenanigans

October 27, 2016

Fedspeak Enters the Realm of the Ridiculous, Suggesting Healthy Payroll Growth at a Recessionary 50,000-to-100,000 Jobs per Month

The Fed Moves to Redefine U.S. Economic Normalcy as Reflecting Non-Recovering, Stagnant Activity and Large Numbers of Labor-Force Non-Participants

An Extraordinarily Volatile and Uncertain Presidential Campaign May Be Constraining Near-Term Economic Activity

Third-Quarter Durable Goods Orders Declined Quarter-to-Quarter and Year-to-Year, Both Before and After Adjustment for Inflation; Ex-Commercial Aircraft, Orders Gained

Home Sales Activity Continued in Broad, Non-Recovering Stagnation

September New-Home Sales Gained in the Month, Only Because of Massive Downside Revisions Back to June

September Existing-Home Sales Gain Boosted by Downside August Revision

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PLEASE NOTE: The next regular Commentary*, scheduled for, tomorrow, Friday, October 28th, will cover the first or "advance" estimate of third-quarter 2016 GDP.*

Please call at (707) 763-5786 if you have questions or would like to discuss current issues or otherwise. Best wishes to all — John Williams

SPECIAL COMMENTS

THE FEDERAL RESERVE, THE ECONOMY AND THE ELECTION

Economic Misdirection of the Worst Kind. The Federal Reserve continues to shift headline tactics—downgrading economic guidelines—likely in an effort to justify raising interest rates, despite an economy that continues in deteriorating non-recovery. Underlying reality remains that the U.S. economy collapsed into 2009, rebounded into protracted low-level stagnation and is turning down anew, as suggested in just-released activity for September residential real estate and new orders for durable goods, as well a variety of other economic and business series (see *Commentary No. 836*). Despite continued rate-hike jawboning, no change in policy is likely out of the Fed's Federal Open Market Committee (FOMC) meeting that ends on November 2nd, given the close timing of the election. Market expectations still remain elevated for a rate hike out of the December FOMC meeting (see the discussion in the *Special Comments* of *Commentary No. 841*).

Such is amidst faux concerns of an "overheating" economy. Some Federal Reserve Board members have warned that recent headline U.3 unemployment readings around 5.0% show the economy to be near full employment (see *Commentary No. 838*); they know better. The latest nonsense, however, comes from research at Fed Chair Janet Yellen's home base of the San Francisco Federal Reserve Bank. The new story is that monthly jobs growth of 50,000 to 110,000 is adequate "to maintain a healthy labor market." Many thanks to Grant Noble gnoble@sbcglobal.net, who brought the study to my attention and whose insights I always enjoy.

ShadowStats examined the claims of the new research and found, to the contrary, that the implied annual payroll growth rates, from the touted 50,000 to 110,000 monthly jobs-growth range, were common only to formal post-World War II recessions and to the 1952 Steel Strike, never to a healthy economy.

Apologists for those who have driven the domestic economy into a non-recovering collapse are trying to redefine that circumstance as the new economic "normal" for the United States. That helps to rationalize going forward without any effort to resuscitate the significant, core economic and income potential that otherwise could move economic activity and prosperity back towards former levels of U.S. population participation. Although deliberately and heavily obfuscated by those fighting to destroy "American exceptionalism"—as they call it—this issue is at the heart of the current U.S. presidential campaign.

From the latest (October 24th) economic research of the San Francisco Federal Reserve *Trend Job Growth: Where's Normal?*:

> With the U.S. labor market at or near maximum employment, assessing trend job growth has become increasingly important. This "breakeven" rate, which is the pace of job growth needed to maintain a healthy labor market, depends primarily on growth in the labor force. Estimates that account for population aging and potential labor force participation trends [a.k.a. accumulating discouraged workers] suggest that trend growth ranges between about 50,000 and 110,000 jobs per month. Actual job growth has been well above this pace, implying that it can slow substantially in the future without undermining labor market health.

Consider that those targeted numbers, if actually reported in a given month, would not even be considered statistically significant—meaningfully different from zero—by the Bureau of Labor Statistics (BLS). From the most recent BLS press release (page 9) on payrolls:

> BLS analyses are generally conducted at the 90-percent level of confidence. For example, the confidence interval for the monthly change in total nonfarm employment from the establishment [payroll] survey is on the order of plus or minus 115,000. [ShadowStats uses a 95% confidence interval, which is on the order of plus or minus 135,000. The difference between a 90% and a 95% confidence interval is the expectation that the actual result will fall outside the confidence interval 1-in-10 times, versus 1-in-20 times.]

Not separately considered here are the upside bias factors added into the headline monthly payroll data. As discussed in the *Birth-Death Model* section of *Commentary No. 838*, the monthly upside biases added into the payroll numbers more than account for what the San Francisco Fed research purports to be the minimal jobs growth needed for healthy labor conditions.

Purported Healthy Pace of Jobs Growth Yields Weak, Annual Payroll Growth Seen Only in Recessions and Other Difficult Times. The headline gain in September 2016 payrolls was 156,000. If monthly payroll growth dropped to 50,000 jobs per month and held there, beginning with the November 4th release of October 2016 payrolls, the current headline year-to-year payroll growth of 1.7% would slow to 0.4% by October 2017 and remain there. The related, stable annual growth rate for 110,000 monthly payroll jobs growth would settle in at 0.9%.

With the exception of two months affected by the 1952 Steel Strike, year-to-year change in payroll employment never has declined to 0.9% or below, let alone to 0.4%, outside of a formal recession or immediately preceding same. Such growth-rate patterns—declining to 0.9% or below—were seen in every one of the eleven post-World War II recessions, but never during periods of economic growth or expansion. With the one exception of annual payroll growth declining to 0.9% in November 2007, preceding by one month the formal onset of the 2007 recession in December 2007, all of the other declines to 0.9% and below (including all the 0.4% readings) were contained historically within the formal periods of recession.

On the upside, in economic recoveries, annual jobs growth rates standardly rise, lagging the formal recovery timing and eventually passing only once through 0.4% and 0.9%, on their way higher. In the official recoveries following all post-World War II recessions, breaking above 0.9% usually followed within 10 to 11 months of the formal recession end, not to be seen again until the decline into the next recession. Following the three recessions in 2001 and after, however, the period before breaking above 0.9% stretched out to 20 months or more, most commonly reflecting a politically-gimmicked, premature calling of a recession's end. It is in the patterns of declining annual growth through 0.9% that those historical rates are consistent with recessions; annual growth breaking above 0.9% on the upside usually is reflective of economic activity beginning to turn off the bottom, but still well shy of breaking above full recovery levels, above pre-recession activity.

What an unhappy new precedent these payroll-gain targets would be for the U.S. economy! Further discussion will follow in *Commentary No. 845* covering the headline October 2016 employment and unemployment reporting of November 4th.

Control of the Post-Election Federal Reserve Likely Will Not Shift Quickly. The seven members of Board of Governors of the Federal Reserve System are nominated by the President and confirmed by the

Senate, for fourteen-year terms. The Chairman of the Board is appointed from the sitting Governors by the President and, again, confirmed by the Senate, but for a four-year term. The Governors and Chairman cannot be removed from office, except for cause; once confirmed, they do not serve at the pleasure of the President. At present, there are only five sitting Governors, all appointed by President Obama. Two other Obama nominees have been either scuttled or delayed in Senate confirmation hearings.

Janet Yellen's four-year term as Chairman of the Board of Governors of the Federal Reserve System runs through February 3, 2018. Although appointed by the President, the position of Federal Reserve Chairman was designed to be politically independent. Again, the Chairman does not serve at the pleasure of the President.

Previously noted (*No. 841*), if Secretary Clinton wins the election, her Board of Governors and Fed Chairman basically already are in place. If Mr. Trump wins the election, it likely will be difficult for him to replace Janet Yellen before her term expires in 2018. Among other issues, Mr. Trump most likely would have to nominate and get at least one new Governor on the Board, in order to select a friendly Chairman. Post-election control of Congress will affect that circumstance.

Near-Term Economic Activity—Hurt by Presidential Campaign Uncertainty? Given unusually-sharp, headline monthly declines in the Conference Board's Consumer Confidence Index® (October) and the University of Michigan's Consumer Sentiment Index (early-October), the near-term economy may be taking something of a hit, in the context of the uncertainty and political turmoil being generated by the presidential campaign. With at least some of that uncertainty due for resolution on November 8th, anecdotal evidence suggests a number of individuals and companies have pulled back in the interim, temporarily putting certain actions or decisions on hold, ranging from going out to dinner, to hiring new employees.

If that indeed is this case, headline October economic data to be released in the weeks ahead may surprise market expectations on the downside, much as did the initial measures on October consumer attitudes. Further detail will follow in tomorrow's *Commentary No. 844*, along with updated *Consumer Liquidity Conditions*, including the full-October Consumer Sentiment reading and a graph of today's release by www.SentierResearch.com of their estimate of the September 2016, real monthly median household income, which continued to stagnate off its recent near-term peak.

EXECUTIVE SUMMARY AND COMMENTS ON THE REPORTING DETAIL

Today's *Commentary* (October 27th). The balance of these *Opening Comments* provides a summary of September 2016 New Orders for Durable Goods and New- and Existing-Home Sales reporting, with more-detailed coverage in the *Reporting Detail* section.

The *Week and Month Ahead* section updates the outlook for tomorrow's release of the "advance" estimate of third-quarter 2016 GDP.

New Orders for Durable Goods—September 2016—Total Third-Quarter Orders Contracted Quarter-to-Quarter and Year-to-Year, Both Before and After Inflation Adjustment. In the context of a 12.49% jump in monthly commercial aircraft orders, and mixed prior-period revisions, September 2016 new orders for durable goods declined by 0.12% (-0.12%) for the month but rose by 1.60% year-to-year. Excluding commercial aircraft, new orders declined by 0.62% (-0.62%) for the month and gained 1.10% year-to-year.

With initial full reporting in place for third-quarter 2016, total new orders for durable goods contracted at respective quarterly and year-to-year paces of an annualized 1.04% (-1.04%) and 1.22% (1.22%) before inflation, and by 2.02% (-2.02%) and 1.21% (-1.21%) after inflation adjustment. Those same numbers were in positive territory, net of commercial aircraft orders, up at respective quarterly and year-to-year paces of 5.50% annualized and a negligible 0.15% before inflation, and by 4.49% and 0.15% after inflation adjustment. Part of the real quarterly gain in the ex-commercial aircraft category remained due to highly suspect, increasingly-negative monthly inflation in related PPI reporting (see *Real Durable Goods Orders* in the *Reporting Detail*).

Activity here generally has remained a negative leading indicator for fourth-quarter 2016 industrial production, a series that has remained in definitive recession since December 2014.

Smoothed with six-month moving averages, both of these highly volatile, inflation-adjusted real series remained in non-recovering, low-level, down-trending stagnation. Those patterns remained consistent in signaling an ongoing and deepening "new" recession (see *Graphs 3* to *6*).

Headline Nominal Detail. The regularly-volatile, seasonally-adjusted, nominal level of September 2016 aggregate new orders for durable goods declined by 0.12% (-0.12%) month-to-month, versus a 0.27% gain, previously a contraction, in August and a downwardly-revised monthly gain of 3.60% in July. Net of prior-period revisions, orders rose by 0.15%, instead of the headline decline of 0.12% (-0.12%).

Year-to-year, September 2016 durable goods orders rose by 1.60%, versus a revised, narrower annual decline of 1.00% (-1.00%) in August and a somewhat wider revised annual decline of 4.09% (-4.09%) in July 2016. The preceding detail, however, was before consideration of the irregular volatility in commercial-aircraft orders. Before and after consideration of commercial-aircraft orders and other monthly irregularities in the headline reporting of new orders, the smoothed trends of broad activity continued to be down-trending, consistent with a downturn in what had been a continuing pattern of broad stagnation.

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 the 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 monthly gain in September commercial aircraft orders boosted the aggregate orders into a monthly decline of just 0.12% (-0.12%), from what otherwise was a decline of 0.62% (-0.62%).

Net of a headline monthly gain of 12.49% in September 2016 commercial aircraft orders, a deeper, revised decline of 24.24% (-24.24%) in August 2016, and a slightly narrowed gain, in revision, of 72.87%

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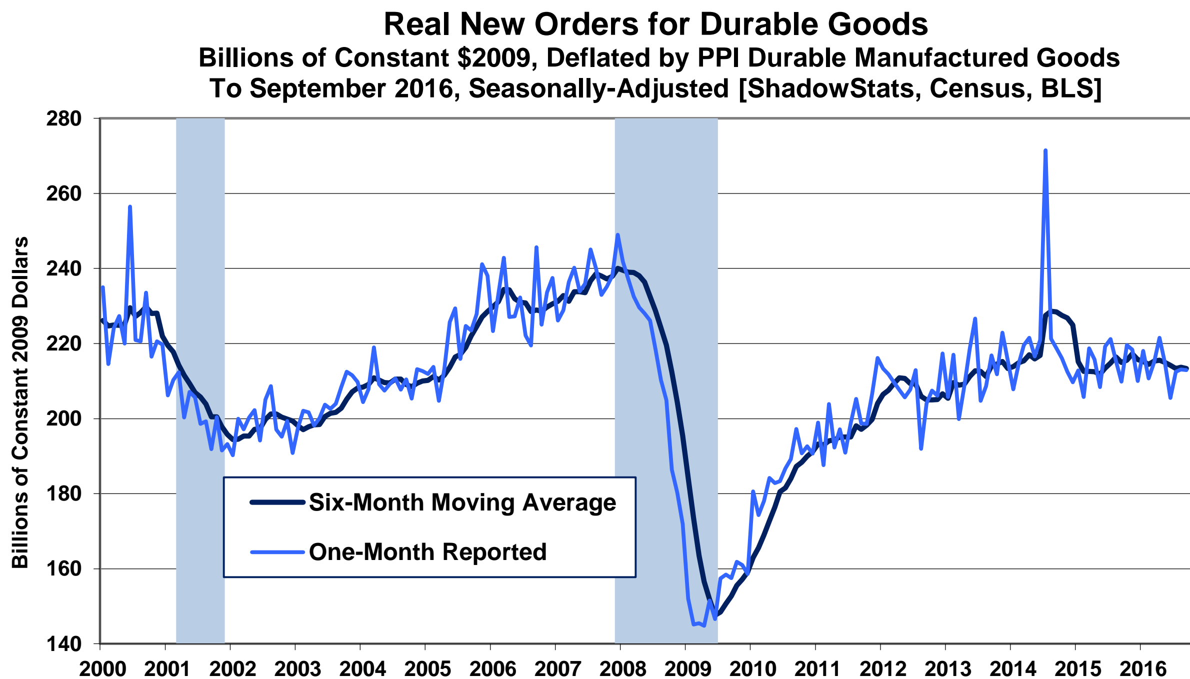
in July 2016, new orders declined by 0.62% (-0.62%) in September 2016, gained an upwardly revised 1.56% in August, and a negligibly-revised gain of 1.45% in July 2016.

Year-to-year and seasonally-adjusted, September 2016 new orders (net of commercial aircraft) rose by 1.10%, having gained by an upwardly-revised 1.79% in August 2016, and having declined by a slightly deeper 2.37% (-2.37%) in July 2016.

Real Durable Goods Orders—September 2016. Reflected in *Graphs 1* and *2*, ShadowStats uses the PPI component inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series, as detailed in the *Reporting Detail*. Adjusted for negative 0.06% (-0.06%) September 2016 monthly inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders in September 2016 declined by 0.06% (-0.06%), gained 0.27% in August and 3.42% in July. Ex-commercial aircraft, real month-to-month orders declined by 0.56% (-0.56%) in September 2016, having gained 1.56% in August and 1.27% in July.

Real aggregate new orders rose year-to-year by 1.48% in September 2016, having declined in August 2016 by 1.06% (-1.06%) and by 3.92% (-3.92%) in July 2016. Ex-commercial aircraft, real orders in September 2016 showed an annual gain of 0.98%, having gained 1.73% in August 2016 and having declined by 2.19% (-2.19%) in July 2016.

Graph 1: Real Total New Orders for Durable Goods to Date

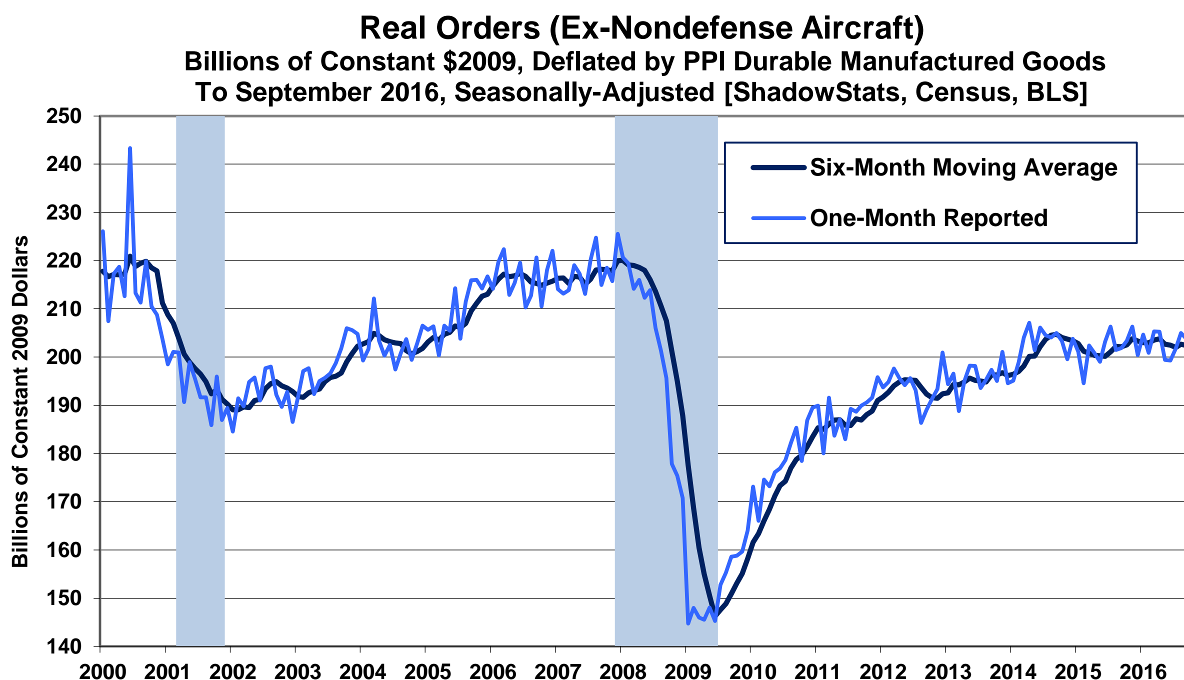


Real Quarterly Growth, Ex-Commercial Aircraft. Where the inflation-adjusted series, ex-commercial aircraft, is the best leading economic indicator out of these data, following are the annualized real quarterly changes in that series. Beginning at the onset of eventually what should become recognized as a formal recession, the real ex-commercial aircraft orders series showed annualized quarterly declines 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, a gain of 0.31% in fourth-quarter 2015 activity, and a 0.48% gain in first-quarter 2016.

In second-quarter 2016, the series declined with a revised, somewhat narrower real contraction of 4.46% (-4.46%) due to PPI revisions. Based on initial full reporting for third-quarter 2016, the annualized change was a gain of 4.49%, reflecting both upside revisions to the nominal data and increasingly-negative headline month-to-month inflation.

Graph 2: Real New Orders for Durable Goods – Ex Commercial-Aircraft Orders to Date



Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. The preceding *Graphs 1* and *2* 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.

The moving-average levels in both series had turned lower into year-end 2014 and after an uptick in mid-2015—some smoothed bounce-back—the smoothed trend turned down anew into late fourth-quarter 2015 and, with minor fluttering, also turning lower into third-quarter 2016. With initial full reporting in hand for the third-quarter, the smoothed real third-quarter orders contracted quarter-to-quarter for both series.

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 September 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 and/or coincides with a recession, as is the current circumstance.

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The Real New Orders Series Corrected for Inflation Understatement. As with other economic series deflated by official government inflation measures, headline 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, industrial production and real retail sales (see *Commentary No. 836*, *Commentary No. 840* and *Commentary No. 841*), 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.

Three sets of graphs follow, including an independent graph that tends to confirm underlying economic reality. The first set (*Graph 3* and *Graph 4*) shows the aggregate series or total durable goods orders; the second set (*Graph 5* and *Graph 6*) shows the ex-commercial aircraft series. The third set (*Graph 7* and *Graph 8*) shows a twelve-month moving average of the ex-commercial aircraft series and the CASS Freight Index™ on something of a similar basis.

The aggregate orders series in *Graphs 3* and *4* includes the monthly 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 5* and *6* 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 1* and *Graph 2*, 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 ShadowStats estimate of the understatement of the PPI manufactured durable goods inflation measure used in the headline-deflation process. The "corrected" graphs all are indexed to January 2000 = 100.

[Graphs 3 to 8 begin on the following page.]

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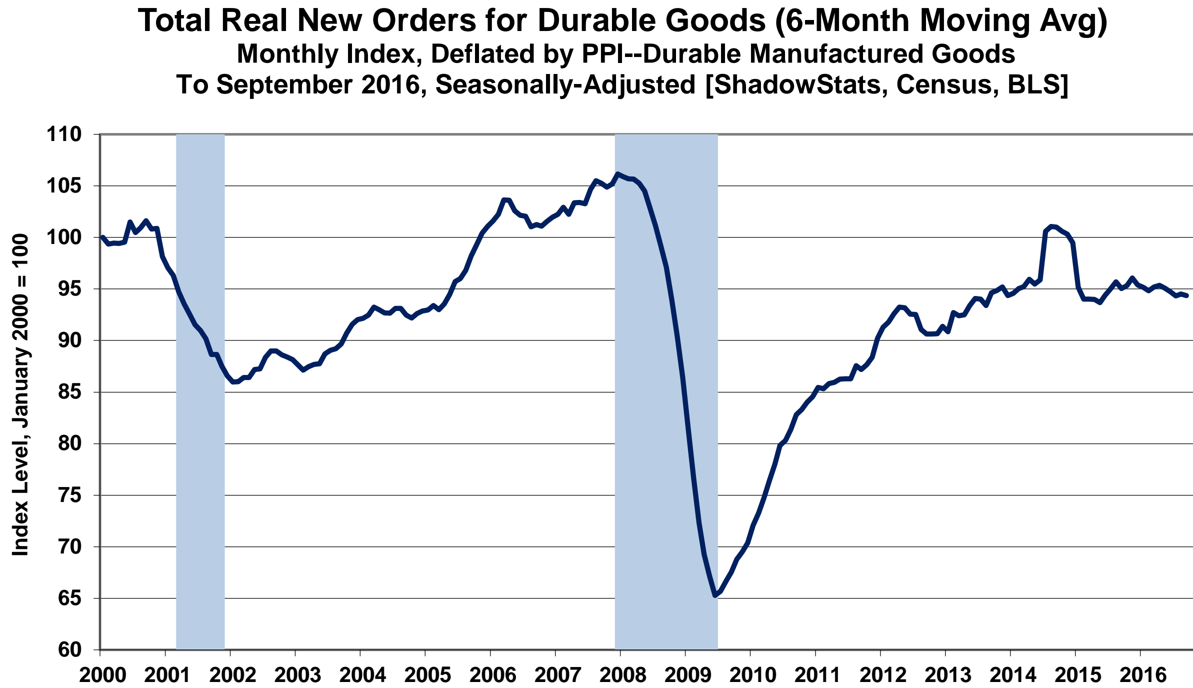
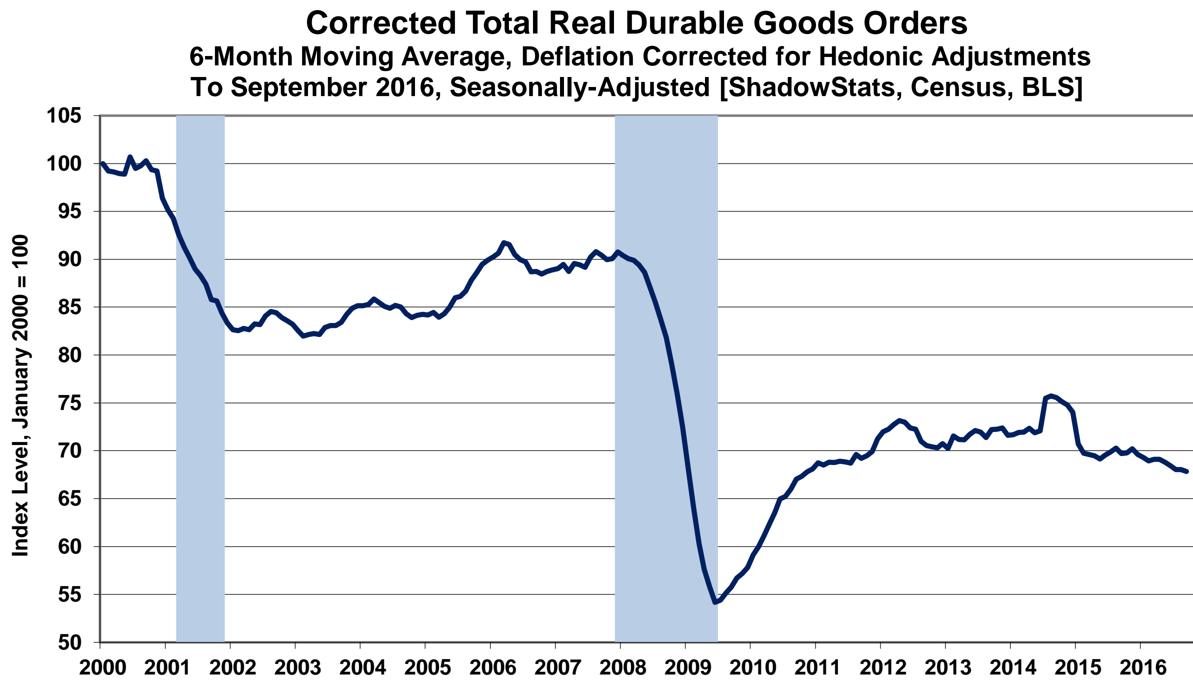
Graph 3: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



Graph 4: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



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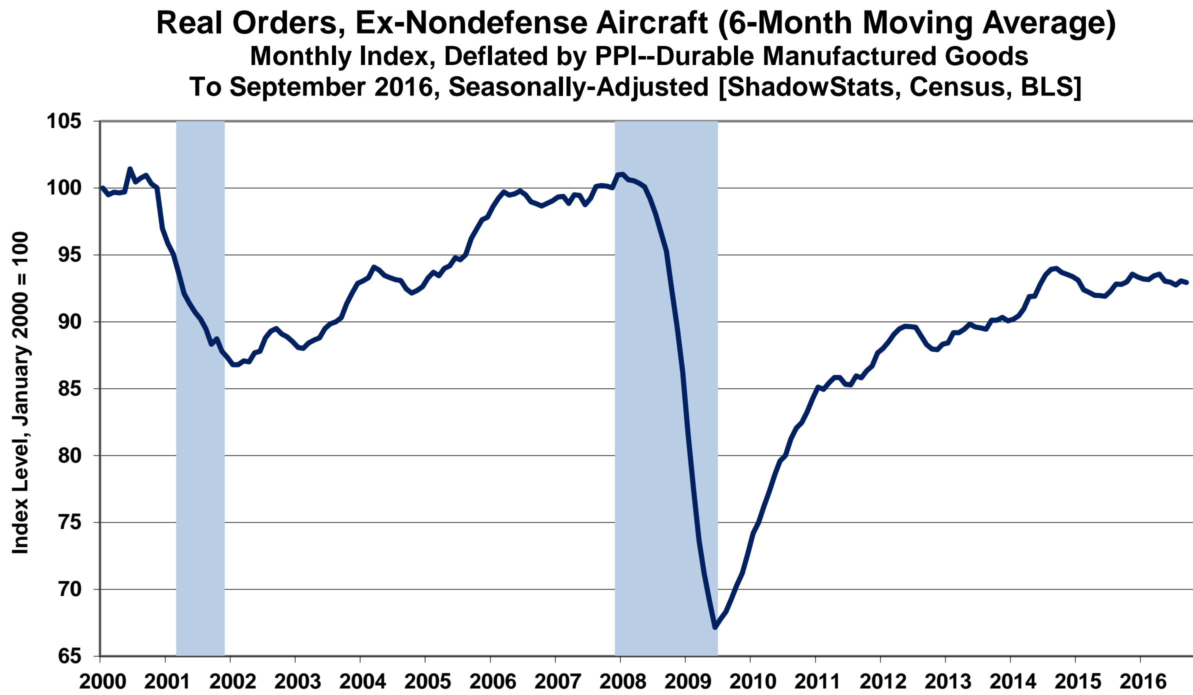
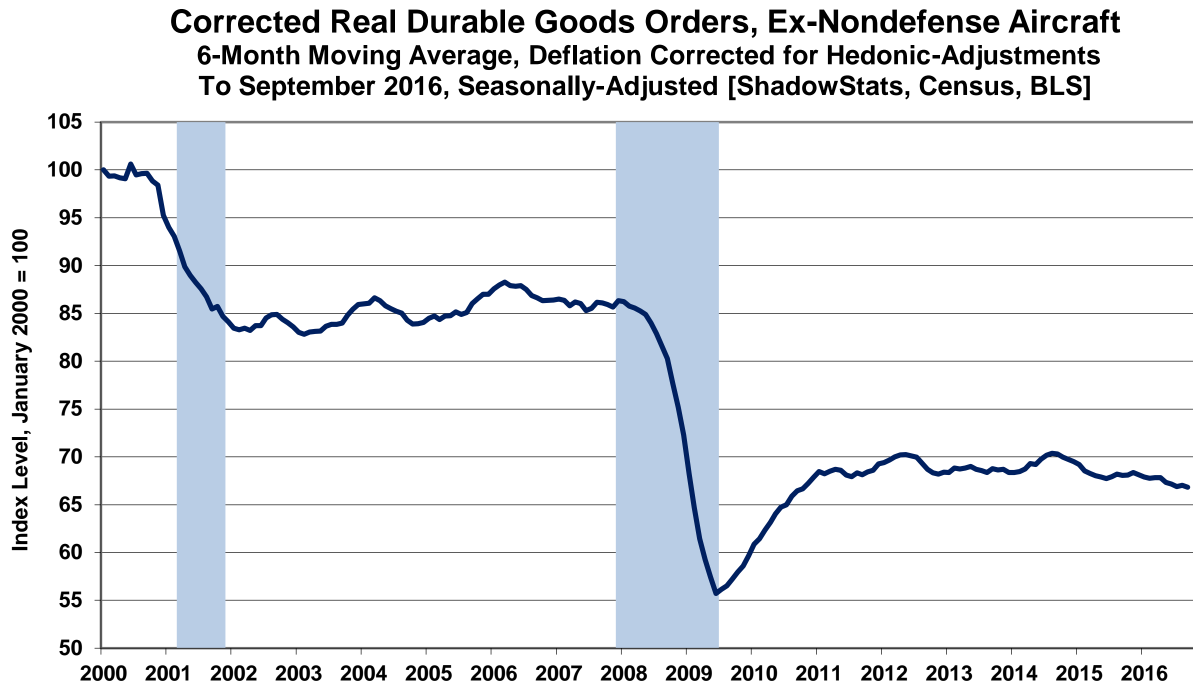
Graph 5: Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



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



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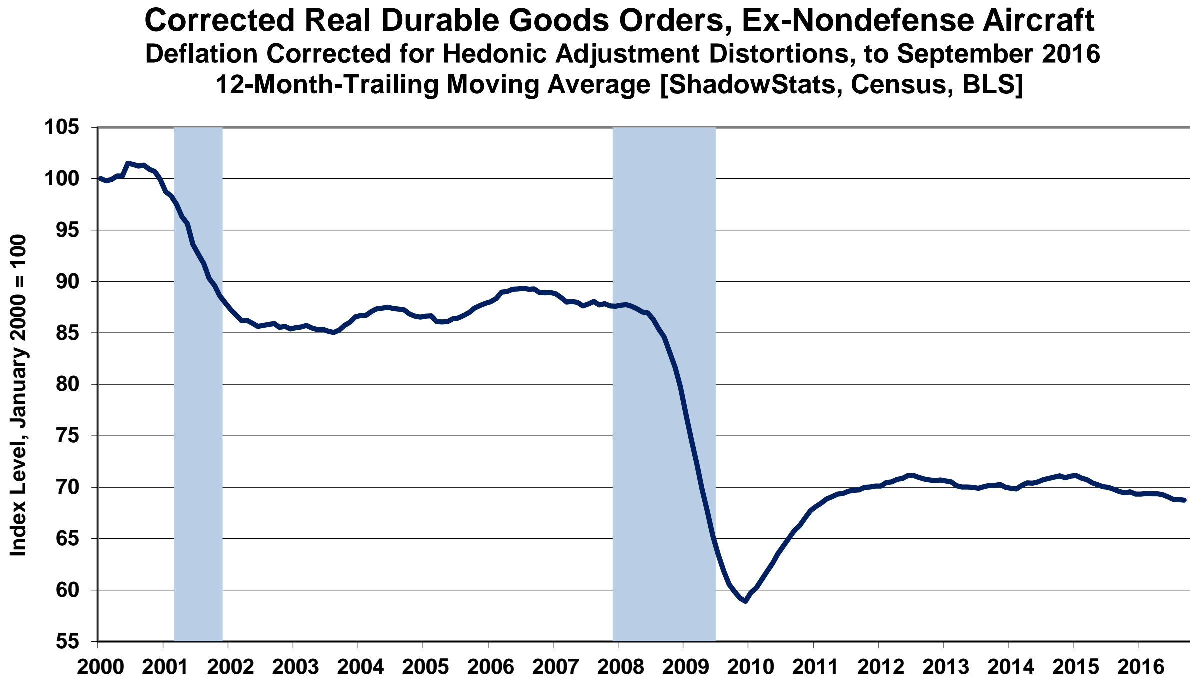
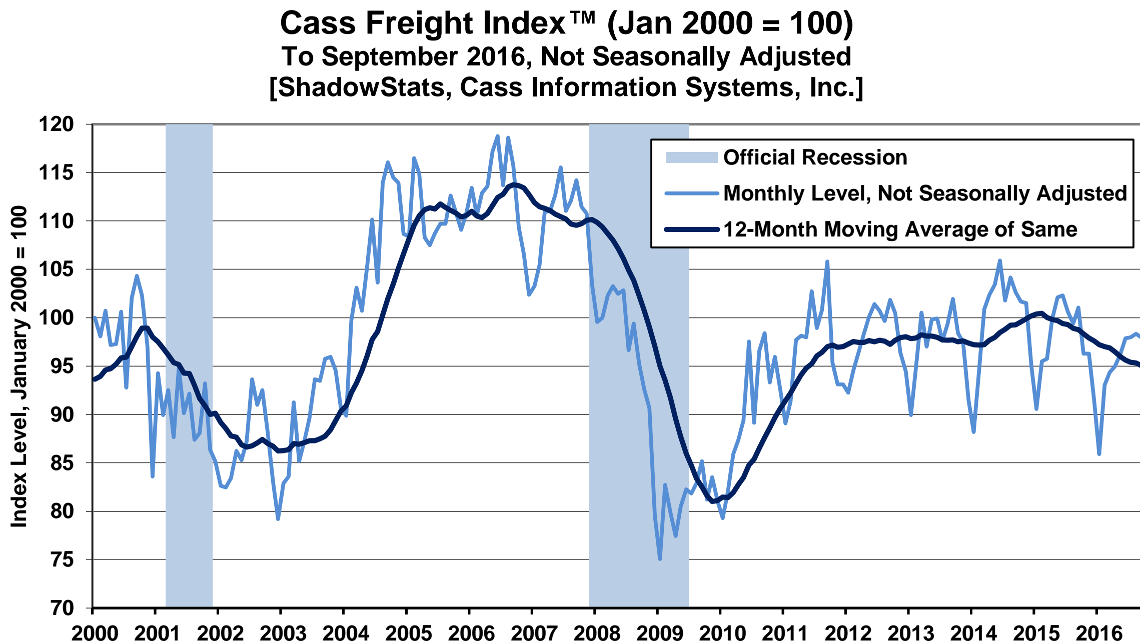
Graph 7: Corrected Index of Durable Goods Orders – Ex Commercial Aircraft, 12-Month Moving Average



Graph 8: CASS Freight Index, Unadjusted Monthly and Trailing 12-Month Average, through August 2016



Preceding *Graph 7*, entitled "Corrected Real Orders—Ex-Commercial Aircraft" (a twelve-month trailing average) is very close to what is seen in the six-month moving average in *Graph 6*, but *Graph 7* is on a parallel twelve-month average basis with independent *Graph 8* of the CASS Freight Index™.

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The patterns seen in *Graphs 7* and *8* also reflect activity in a number of economic series that will be highlighted with tomorrow's (October 28th) coverage of the "advance" estimate of third-quarter 2016 GDP. *Graph 8* shows headline detail of the September 2016 Cass Freight Index™, borrowed from and reviewed in detail in *Commentary No. 841*. The freight index tends to confirm the patterns of broad non-recovery, as well as the renewed downturn in U.S. business activity, also as seen in *Graph 7*. Both the freight index and the twelve-month moving average of real new orders for durable goods are high-quality reflections of underlying reality in broad, general U.S. economic activity.

New- and Existing-Home Sales—September 2016—Unstable Reporting Continued, with Low-Level Stagnation and No Recovery. The September 2016 New- and Existing-Home Sales series both remained in depression territory (see *Commentary No. 754*), down respectively by 57% (-57%) and 25% (-25%) from their pre-recession peaks.

Usual instabilities and reporting distortions, involving high volatility and irregular seasonality, continued to warp the New-Home Sales series, specifically with heavy downside revisions to the prior three months of reporting. What was headlined as a 3.1% sales monthly gain in September 2016 sales, actually was a decline of 2.6% (-2.6%) from the previously-reported level of August 2016 activity. Despite continuing extreme, near-term volatility, albeit statistically-insignificant, the series remained in low-level, non-recovering stagnation. As shown in *Graph 11*, that stagnation has had a recent, minor uptrend over time, albeit shallower now than it was last month.

The headline monthly gain in Existing-Home Sales also reflected, at least partially, weaker activity in August than previously had been reported. 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, with an continuing uptrend, despite sharp monthly declines in July and August, and a monthly upturn in September 2016 headline detail. September 2016 monthly detail, however, remained below the level of June 2016.

These series never have recovered from the economic collapse into 2009. General housing construction and sales activity broadly have shown patterns of protracted, low-level, non-recovering stagnation, with related single-unit housing starts and aggregate housing down respectively from their pre-recession highs by 57% (-57%) and 54% (-54%).

Consumer Liquidity Problems Continue to Impair Housing Activity. An extreme consumer-liquidity bind continues to constrain residential real estate sales and related construction activity, with the liquidity issues updated in *Commentary No. 839* and *Commentary No. 833*, and with supplemental detail following in tomorrow's *Commentary No. 844.*

Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including aggregate real estate activity. That circumstance—in the last nine-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity, 70% of which is dependent on personal spending, including real estate.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in home-sales activity, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

New-Home Sales—September 2016—Amidst Highly Unstable Reporting, the Headline Monthly Gain of 3.1% Was a Contraction of 2.6% (-2.6%) Net of Prior-Period Revisions; Third-Quarter Expanded. Headline monthly reporting of new-home sales remained of no substance, as seen most frequently here in the massive, unstable and continuously shifting revisions to recent history, along with statistically-insignificant monthly changes that just as easily could be a loss or a gain.

The September 2016 headline reporting of 593,000 units in annualized sales (a 49,417 monthly rate as used in the graphs) rose by 3.1%, following a revised, deeper monthly decline of 8.6% (-8.6%) in August, and a downwardly revised gain of 12.7% in July. As usual, the headline monthly change was not statistically meaningful. That short-term monthly volatility continued in the context of headline September activity still holding below its never-recovered 2005 pre-recession peak by 57% (-57%).

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 up-trending stagnation, although the uptrend weakened markedly with the headline downside revisions back to June (see *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, with some bounce off the bottom and then stagnation, with the stagnation continuing at a low level of activity to date. Beyond new-home sales, related housing activity never has recovered along with the purported rebound in real GDP, which now stands 10% above its pre-recession high. For example, from the series' pre-recession peak of July 2005, headline September 2016 New-Home Sales still were down by 57.3% (-57.3%), while September 2016 Single-Unit Housing Starts were down by 57.0% (-57.0%) from the January 2006 pre-recession high of that series (see *Commentary No. 842*).

Headline Detail for New-Home Sales. In the context of meaningful downside monthly revisions back to June 2016, September 2016 New-Home Sales (Census Bureau, counted based on contract signings) rose month-to-month by a headline, seasonally-adjusted and statistically-insignificant 3.1%.

That was against a revised, deeper monthly decline of 8.6% (-8.6%) in August, a downwardly revised monthly gain of 12.7% in July, and a turn to the downside in revision of 1.4% (-1.4%) from a prior gain in June. Net of prior-period revisions, the month-to-month change in September 2016 was a decline of 2.6% (-2.6%), instead of the headline 3.1% gain, still well shy of being statistically significant.

Year-to-year, September 2016 sales rose by a marginally, statistically-significant 29.8%. That followed a sharp downside revision in August 2016 annual growth to 13.9%, with downwardly-revised annual gains of 26.3% in July 2016 and 18.2% in June 2016. This series remains extraordinarily unstable and consistently unreliable on a near-term, month-to-month basis and often on a long-term basis, as to whether headline sales actually increased or decreased.

In the arena of continued extreme volatility, consider that the annualized quarterly pace of sales change gyrated from a sales gain in first-quarter 2015 of 50.1%, to a second-quarter 2015 annualized quarterly sales 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 an unrevised annualized gain of 17.9%. With headline September reporting, second-quarter 2016 showed a downwardly-revised, annualized quarterly gain of 29.5%. Based on initial full reporting, third-quarter 2016 activity was up at an annualized pace of 26.6%, but that softened from the 51.3% pace suggested by the initial headline July and August 2016 detail.

Existing-Home Sales—September 2016—Sales Gained in the Month but Fell Quarter-to-Quarter; Still in Non-Recovery; Down by 25% (-25%) from Their Pre-Recession Peak. Existing-Home Sales rose in September 2016, gaining 3.21% for the month, boosted slightly by a downside revision to the level of activity in August. Year-to-year sales rose by 0.55% in September 2016, having gained a shallower, downwardly-revised 0.19% in August 2016. The broad series remained in depression, still down by 25% (-25%) from its pre-recession peak. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, albeit currently in a sputtering uptrend.

Along with the broader real estate and construction measures and new-home sales—existing-home sales 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, general housing construction and related smoothed sales activity continued broadly with minimal variation around flat trends, again, well below any formal recovery in economic activity.

Specifically, Existing-Home Sales activity in September 2016 was down by a headline 24.8% (-24.8%) from its June 2005 pre-recession peak, a high that has not been matched since the ensuing economic collapse into 2009. In like manner, headline monthly Housing Starts remained down by 53.9% (-53.9%) from their January 2006 pre-recession high (see prior *Commentary No. 842*).

Headline Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® (NAR) reported a seasonally-adjusted, headline monthly gain of 3.21% in September 2016 Existing Home Sales, against a deeper, revised monthly contraction of 1.49% (-1.49%) in August 2016 and an unrevised monthly decline of 3.41% (-3.41%) in July. On a year-to-year basis, September 2016 sales gained 0.55%, versus a downwardly-revised annual gain of 0.19% in August 2016 and an unrevised annual decline of 1.82% (-1.82%) in July 2016.

Going back a year, 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%).

First-quarter 2016 sales expanded at an annualized pace of 7.9%, followed by 16.3% in second-quarter 2016, with an annualized contraction of 8.4% (-8.4%) in third-quarter 2016 activity, based on initial, full reporting for the quarter.

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*.

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New-Home Sales Graphs. The regular monthly graph of September 2016 New-Home Sales follows, along with a six-month moving-average version of the series (see *Graphs 9* and *11*). Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of September 2016 Housing Starts for single-unit construction, from prior *Commentary No. 842* (see *Graphs 10* and *12*).

Existing-Home Sales Graphs. *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 September 2016 aggregate Housing Starts activity, from *Commentary No. 842*, 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]

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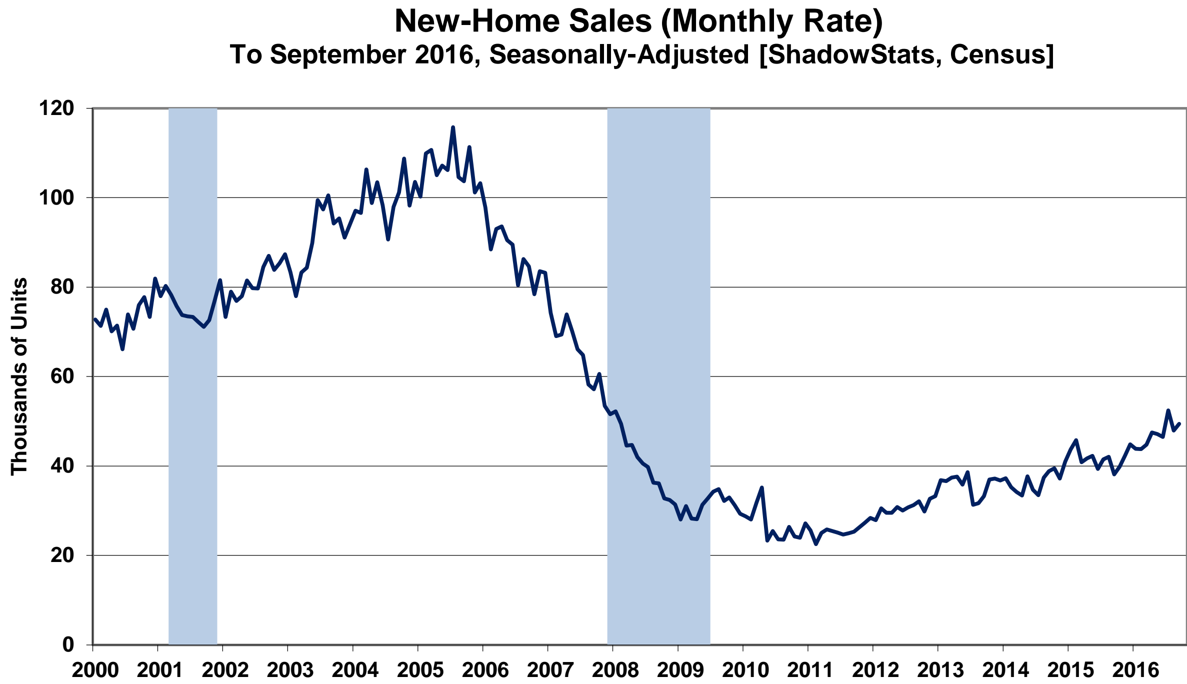
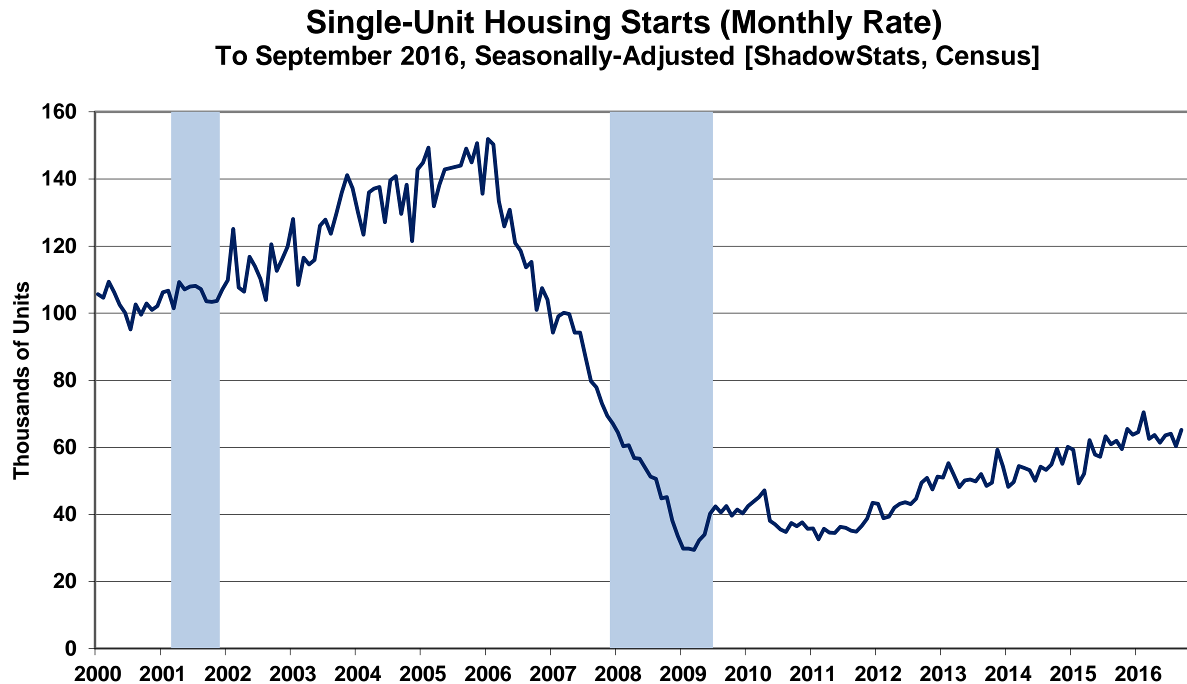
Graph 9: New-Homes Sales – Monthly Rate of Activity



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



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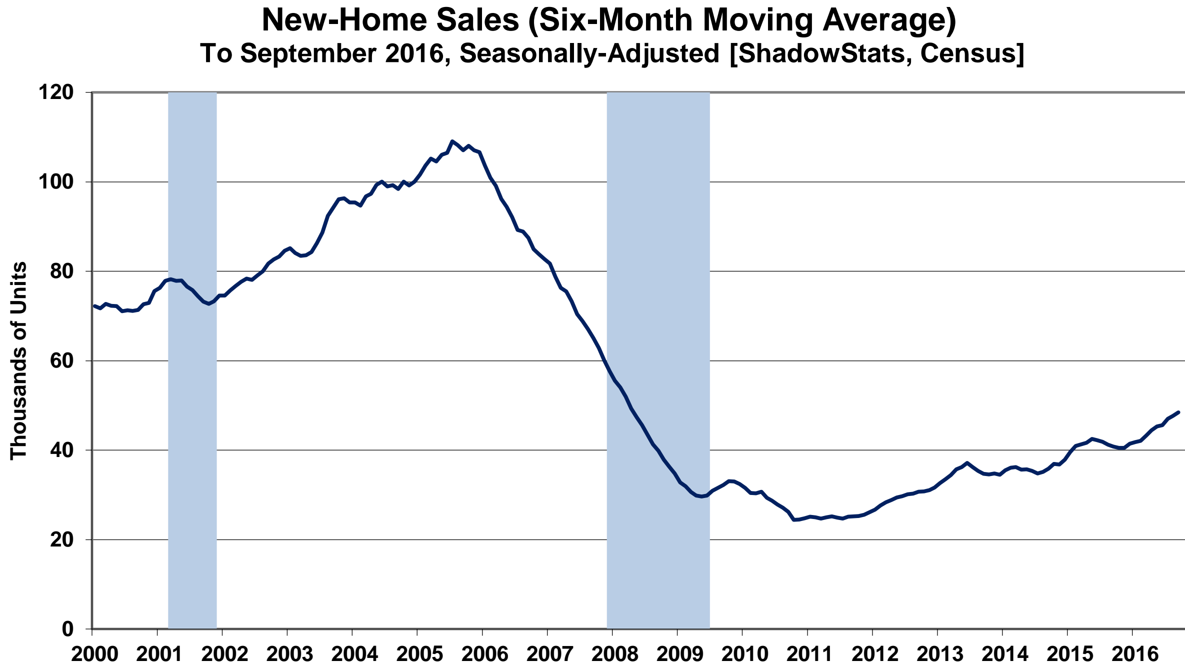
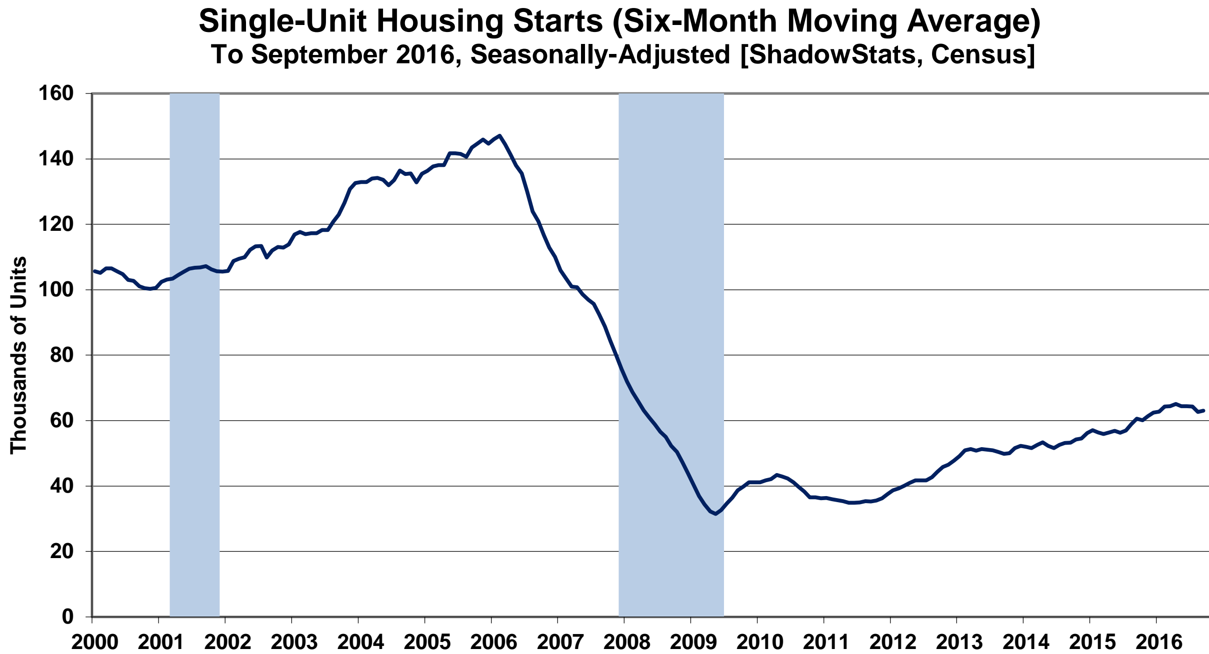
Graph 11: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



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



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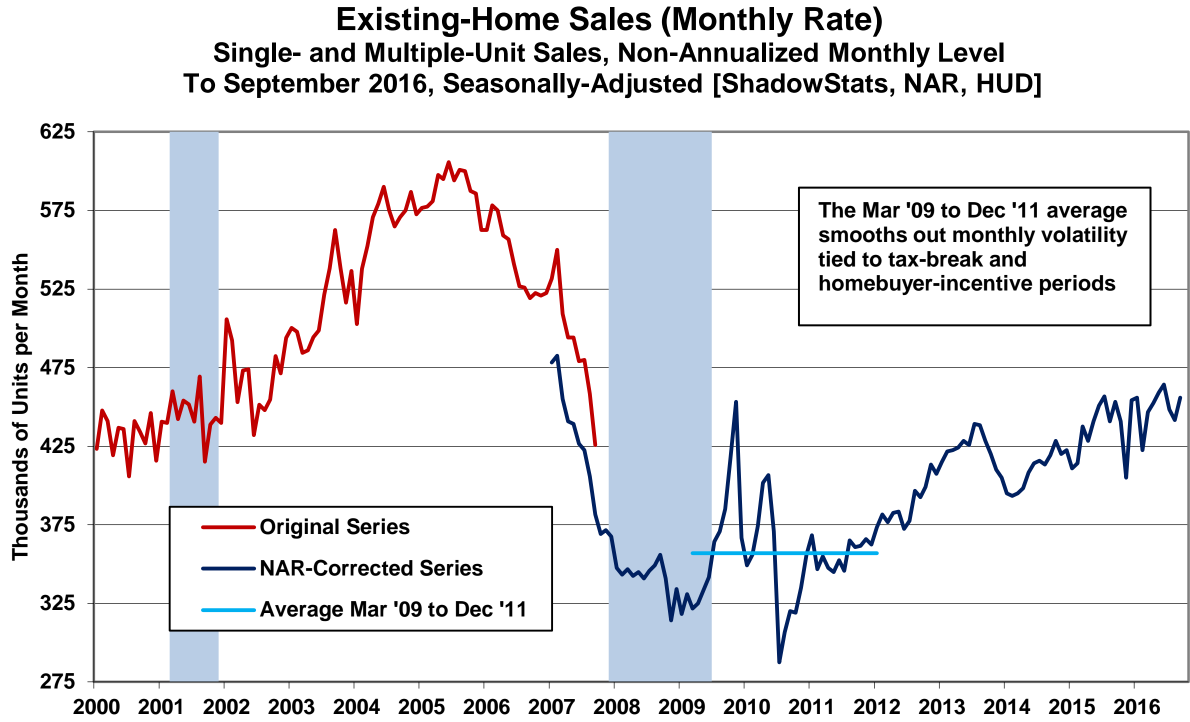
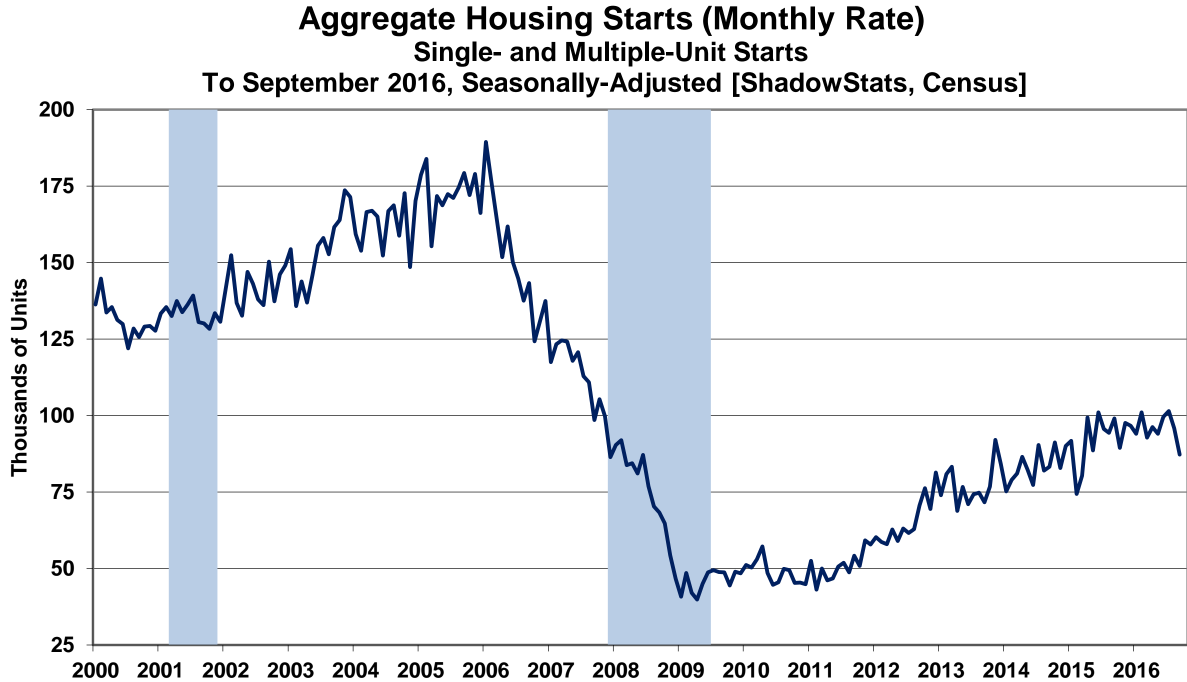
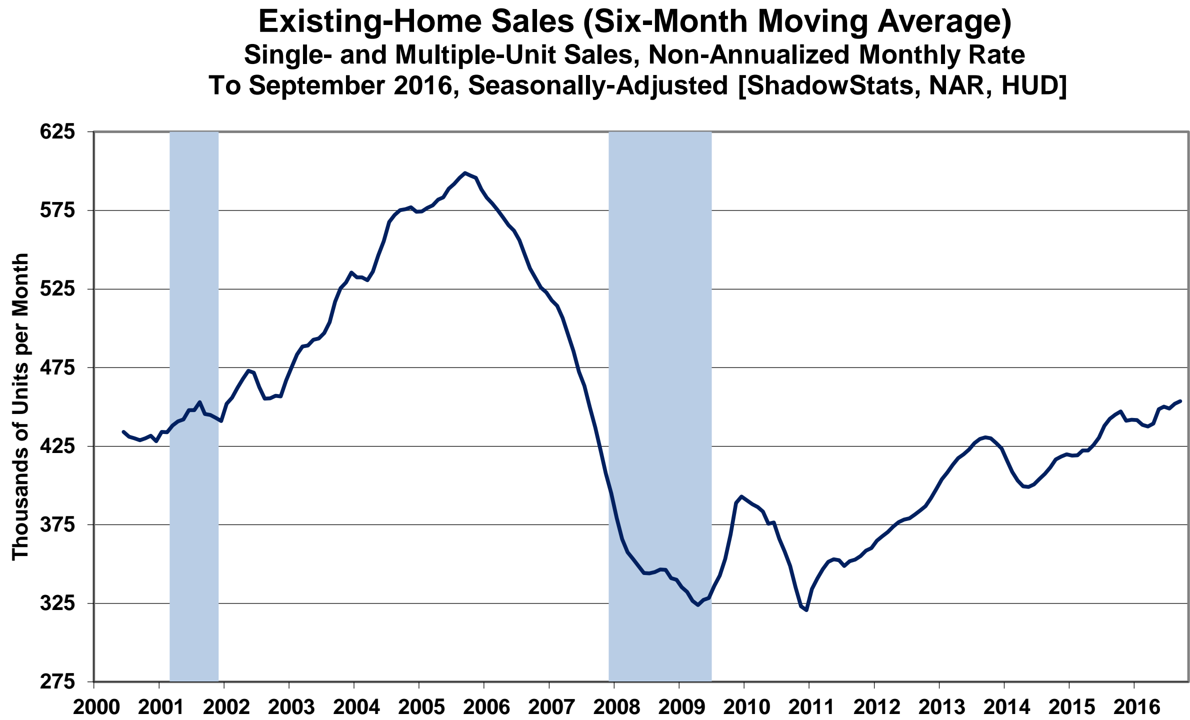
Graph 13: Existing-Home Sales – Monthly Level



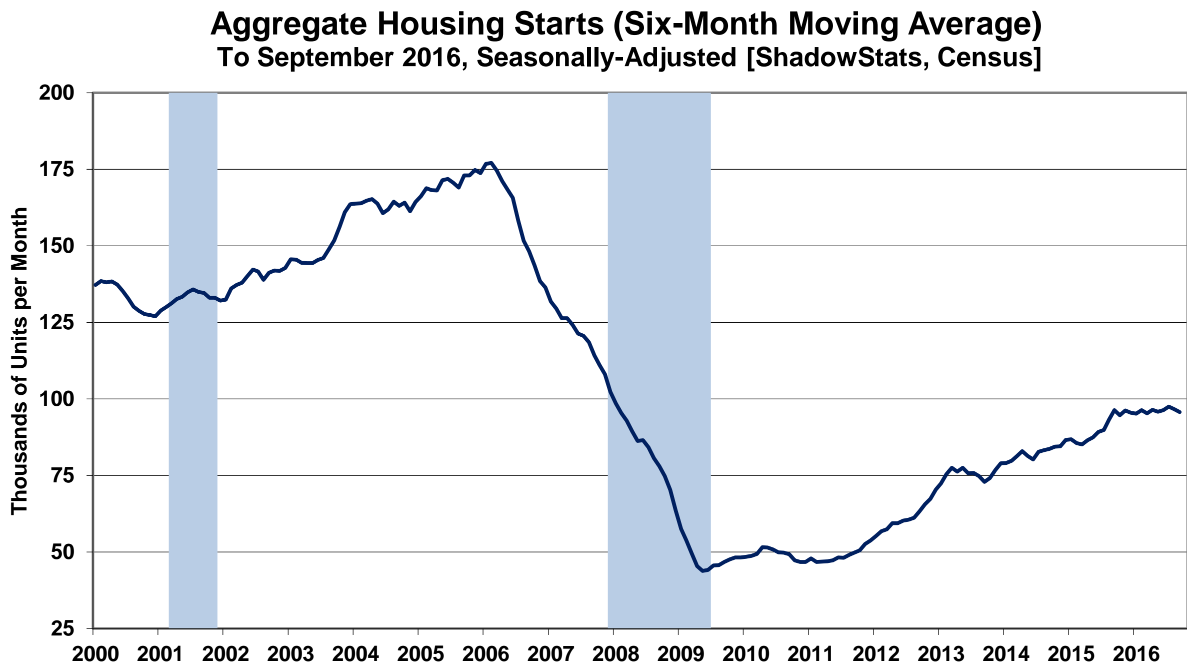
Graph 14: Total Housing Starts – Monthly Level



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



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



[The **Reporting Detail** *section contains additional analysis and graphs.]*

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (September 2016)

Third-Quarter Aggregate Durables Goods Orders Contracted Quarter-to-Quarter and Year-to-Year, Both Before and After Inflation Adjustment. In the context of a 12.49% jump in monthly commercial aircraft orders, and mixed prior-period revisions, September 2016 new orders for durable goods declined by 0.12% (-0.12%) for the month but rose by 1.60% year-to-year. Excluding commercial aircraft, new orders declined by 0.62% (-0.62%) for the month and gained 1.10% year-to-year.

With initial full reporting in place for third-quarter 2016, total new orders for durable goods contracted at respective quarterly and year-to-year paces of an annualized 1.04% (-1.04%) and 1.22% (1.22%) before inflation, and by 2.02% (-2.02%) and 1.21% (-1.21%) after inflation adjustment. Those same numbers were in positive territory, net of commercial aircraft orders, up at respective quarterly and year-to-year paces of 5.50% annualized and a negligible 0.15% before inflation, and by 4.49% and 0.15% after inflation adjustment. Part of the real quarterly gain in the ex-commercial aircraft category remained due to highly suspect, increasingly-negative monthly inflation in related PPI reporting (see *Real Durable Goods Orders*). Activity here generally has remained a negative leading indicator for fourth-quarter 2016 industrial production, a series that has remained in definitive recession since December 2014 (see *Commentary No. 840*).

Smoothed with six-month moving averages, both of these highly volatile, inflation-adjusted real series remained in non-recovering, low-level, down-trending stagnation. Those patterns remained consistent in signaling an ongoing and deepening "new" recession (see *Graphs 3* to *6* in the *Opening Comments*).

Headline Nominal Detail. The Census Bureau reported this morning, October 27th, that the regularly-volatile, seasonally-adjusted, nominal level of September 2016 aggregate new orders for durable goods declined by 0.12% (-0.12%) month-to-month, versus an upwardly-revised 0.27% gain [previously a decline of 0.04% (-0.04%)] in August and a downwardly-revised monthly gain of 3.60% [previously up by 3.64%, initially up by 4.41%] in July. Net of prior-period revisions, September 2016 orders rose by 0.15%, instead of the headline decline of 0.12% (-0.12%).

Year-to-year, September 2016 durable goods orders rose by 1.60%, versus a revised, narrower annual decline of 1.00% (-1.00%) [previously down by 1.27% (-1.27%)] in August and a somewhat wider annual decline, in revision, of 4.09% (-4.09%) in July 2016 [previously down by 4.06% (-4.06%), initially down by 3.27% (-3.27%)]. That headline September 2016 detail, though, was before consideration of the irregular volatility in commercial-aircraft orders.

Before and after consideration of commercial-aircraft orders and other monthly irregularities in the headline reporting of new orders, the smoothed trends of broad activity continued to be down-trending,

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 in a down-trending pattern of stagnation. In parallel with the other plotted series, the corrected series still shows an unfolding economic contraction 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 the 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 monthly gain in September commercial aircraft orders boosted the aggregate orders into a monthly decline of just 0.12% (-0.12%), from what otherwise was a decline of 0.62% (-0.62%).

Net of a headline monthly gain of 12.49% in September 2016 commercial aircraft orders, a deeper, revised decline of 24.24% (-24.24%) [previously down by 21.90% (-21.90%)] in August 2016, and a slightly narrowed gain, in revision, of 72.87% [previously up by 73.66%, initially up by 89.85%] in July 2016, new orders declined by 0.62% (-0.62%) in September 2016, gained an upwardly revised 1.56% [previously up by 1.12%] in August, and a negligibly-revised gain of 1.45% [previously 1.46%, initially 1.76%] in July 2016.

Year-to-year and seasonally-adjusted, September 2016 new orders (net of commercial aircraft) rose by 1.10%, having gained by an upwardly-revised 1.79% [previously up by 1.36%] in August 2016, and having declined by a slightly deeper 2.37% (-2.37%) [previously down by 2.36% (-2.36%), initially down by 1.98% (-1.98%)] in July 2016.

Real Durable Goods Orders—September 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 September 2016 PPI series showed a headline monthly decline of 0.06% (-0.06%), following an "unchanged" reading at 0.00% in August and a monthly gain of 0.18% in July. Headline year-to-year annual inflation rose by 0.12% in September 2016, following an annual gain of 0.06% in August 2016 and a year-to-year decline of 0.18% (-0.18%) in July 2016.

Adjusted for that negative 0.06% (-0.06%) September 2016 monthly inflation, and as reflected in the graphs in the *Opening Comments* section, real month-to-month aggregate orders in September 2016 declined by 0.06% (-0.06%), gained 0.27% in August and 3.42% in July. Ex-commercial aircraft, real month-to-month orders declined by 0.56% (-0.56%) in September 2016, having gained 1.56% in August and 1.27% in July.

Real aggregate new orders rose year-to-year by 1.48% in September 2016, having declined in August 2016 by 1.06% (-1.06%) and by 3.92% (-3.92%) in July 2016. Ex-commercial aircraft, real orders in September 2016 showed an annual gain of 0.98%, having gained 1.73% in August 2016 and having declined by 2.19% (-2.19%) in July 2016.

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

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quarterly changes in that series. Beginning at the onset of eventually what should become recognized as a formal recession, the real ex-commercial aircraft orders series showed annualized quarterly declines 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, a gain of 0.31% in fourth-quarter 2015 activity, and a 0.48% gain in first-quarter 2016.

In second-quarter 2016, the series declined with a revised, somewhat narrower real contraction of 4.46% (-4.46%) [previously 4.53% (-4.53%)] due to PPI revisions. Based on initial full reporting for third-quarter 2016, the annualized change was a gain of 4.49% [it had been in an early trend for a gain of 3.41%, based on initial July and August detail], reflecting both upside revisions to the nominal data and increasingly-negative headline month-to-month inflation .

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Four sets of inflation-adjusted graphs (*Graphs 1* to *8*) are displayed in the *Opening Comments* section. The first set (*Graphs 1* and *2*) 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 irregular 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 third-quarter 2016.

The second set of graphs (*Graphs 3* to *4*) 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 5* to *6*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders. The fourth set of graphs (*Graphs 7* to *8*) shows a twelve-month average of the "corrected" ex-commercial aircraft orders compared with a similar pattern found independently in the historical Cass Freight Index™.

*Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems seen with retail sales, and 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 the annual benchmark revision to durable goods orders on May 18, 2016 (*Supplemental Commentary No. 807-A*), for subsequent months of reporting up through today's September detail, unpublished historical revisions calculated along with the September seasonal adjustments, have made all historical reporting prior to July 2016 inconsistent with the current headline numbers. All historical data will be briefly consistent, once again, come next year's May 2017 benchmark revisions.*

NEW-HOME SALES (September 2016)

Amidst Highly Unstable Reporting, September's Headline Monthly Sales Gain of 3.1% Was a Contraction of 2.6% (-2.6%), Net of Prior-Period Revisions. Headline monthly reporting of new-home sales remained of no substance, as seen most frequently here in the massive, unstable and continuously shifting revisions to recent history, along with statistically-insignificant monthly changes that just as easily could be a loss or a gain.

The September 2016 headline reporting of 593,000 units in annualized sales (a 49,417 monthly rate as used in the graphs in the *Executive Summary*) rose by 3.1%, following a revised, deeper monthly decline of 8.6% (-8.6%) in August, and a downwardly revised gain of 12.7% in July. As usual, the headline monthly change was not statistically meaningful. That short-term monthly volatility continued in the context of headline September activity still holding below its never-recovered 2005 pre-recession peak by 57% (-57%).

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 with up-trending stagnation, although the uptrend weakened markedly with the headline revisions back to June (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, with some bounce off the bottom and then stagnation, with the stagnation continuing at a low level of activity to date. Beyond new-home sales, related housing activity never has recovered along with the purported rebound in real GDP, which now stands 10% above its pre-recession high. For example, from the series' pre-recession peak of July 2005, headline September 2016 New-Home Sales still were down by 57.3% (-57.3%), while September 2016 Single-Unit Housing Starts were down by 57.0% (-57.0%) from the January 2006 pre-recession high of that series (see *Commentary No. 842*).

Discussed in the *Opening Comments* section, the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential-real-estate sales activity. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer remains unable to sustain positive growth in broad domestic economic activity.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in home-sales activity, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Headline September 2016 Reporting. Reported October 26th by the Census Bureau, in the context of meaningful downside monthly revisions back to June 2016, September 2016 New-Home Sales (counted based on contract signings) rose month-to-month by a headline, seasonally-adjusted and statistically-insignificant 3.1% +/- 19.0% (all confidence intervals are at the 95% level).

That was against a revised, deeper monthly decline of 8.6% (-8.6%) [previously down by 7.6% (-7.6%)] in August, a downwardly revised monthly gain of 12.7% [previously up by 13.8%, initially up by 12.4%] in July, and a turn to the downside in revision of 1.4% (-1.4%) [previously a gain of 2.3%, up by 1.7% and initially up by 3.5%] in June. Net of prior-period revisions, the month-to-month change in September 2016 was a decline of 2.6% (-2.6%), instead of the headline 3.1% gain, still well shy of being statistically significant.

Year-to-year, September 2016 sales rose by a marginally, statistically-significant 29.8% +/- 27.4%. That followed a sharp downside revision in August 2016 annual growth to 13.9% [previously up by 20.6%],

with downwardly-revised annual gains of 26.3% [previously up by 32.3%, initially up by 31.3%] in July 2016 and 18.2% [previously up by 22.7%, up by 23.3% and initially up by 25.4%] in June 2016. This series remains extraordinarily unstable and consistently unreliable on a near-term, month-to-month basis and often on a long-term basis, as to whether headline sales actually increased or decreased.

In the arena of continued extreme volatility, consider that the annualized quarterly pace of sales change gyrated from a sales gain in first-quarter 2015 of 50.1%, to a second-quarter 2015 annualized quarterly sales 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 an unrevised annualized gain of 17.9%. With headline September reporting, second-quarter 2016 showed a downwardly-revised, annualized quarterly gain of 29.5% [previously 36.0%, 38.9% and initially 42.8%]. Based on initial full reporting, third-quarter activity was at an annualized pace of 26.6%, but that softened from the 51.3% pace suggested by the initial headline July and August 2016 detail.

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 September 2016 Housing Starts for single-unit construction, from prior *Commentary No. 842*, along with comparative graphs of Existing-Home Sales and aggregate Housing Starts (see *Graphs 9* to *16*).

EXISTING-HOME SALES (September 2016)

September Existing-Home Sales Gained in the Month but Fell Quarter-to-Quarter; Still in Non-Recovery; Down by 25% (-25%) from Their Pre-Recession Peak. Existing-Home Sales rose in September 2016, gaining 3.21% for the month, boosted slightly by a downside revision to the level of activity in August. Year-to-year growth rose by 0.55% in September 2016, having gained a shallower, downwardly-revised 0.19% in August 2016.

The broad series remained in depression (see *Commentary No. 754*), still down by 25% (-25%) from its pre-recession peak. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, albeit currently in a sputtering uptrend.

Along with the broader real estate and construction measures and new-home sales—existing-home sales 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, general housing construction and related smoothed sales activity continued broadly with minimal variation around flat trends, again, well below any formal recovery in economic activity.

Discussed in the *Opening Comments*, the underlying problem remains that the U.S. consumer is 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.

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Specifically, Existing-Home Sales activity in September 2016 was down by a headline 24.8% (-24.8%) from its June 2005 pre-recession peak, a high that has not been matched since the ensuing economic collapse into 2009. In like manner, headline monthly Housing Starts remained down by 53.9% (-53.9%) from their January 2006 pre-recession high (see prior *Commentary No. 842*).

Headline September 2016 Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® (NAR) reported October 20th a seasonally-adjusted, headline monthly gain of 3.21% in September 2016 Existing Home Sales, against a deeper, revised monthly contraction of 1.49% (-1.49%) [previously down by 0.93% (-0.93%)] in August 2016 and an unrevised monthly decline of 3.41% (-3.41%) in July. On a year-to-year basis, September 2016 sales gained 0.55%, versus a downwardly revised annual gain of 0.19% [previously up by 0.76%] in August 2016 and an unrevised annual decline of 1.82% (-1.82%) in July 2016.

Going back a year, 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%).

First-quarter 2016 sales expanded at an annualized pace of 7.9%, followed by 16.3% in second-quarter 2016, with an annualized contraction of 8.4% (-8.4%) in third-quarter 2016 activity, based on initial, full reporting.

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 4% in September, with All Cash Sales Notching Lower, Back to 21%. The NAR estimated the portion of September 2016 sales in "distress" notched lower to 4% (3% foreclosures, 1% short sales), down from 5% (4% foreclosures, 1% short sales) in August and down from 7% (6% foreclosures, 1% short sales) in September 2015.

The September 2016 percent of existing-home sales in distress was the lowest level since the NAR began such surveying in October 2008. Consider, though, that October 2008 already was more than three years into the housing-market collapse.

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 fell back to 21% in September 2016, having risen by 1% to 22% in August 2016, and they were down from 24% in September 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 September 2016 aggregate Housing Starts activity, from *Commentary No. 842*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 14* and *16*).

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WEEK AND MONTH AHEAD

Near-Term Headline Economic Deterioration Should Intensify, Increasingly Frustrating Fed Provocateurs, Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should continue to deteriorate, amidst intensifying, negative headline economic reporting. Irrespective of continuing talk by some FOMC members of a near-term rate hike, an ongoing and deepening domestic economic downturn promises intensified stress on systemic liquidity. That circumstance ultimately dooms the U.S. central bank to an intensified quantitative easing.

Commentary No. 842 showed negative shifts in monthly, quarterly and annual growth patterns of the housing-starts series, with related details from new- and existing- home sales activity discussed in today's *Commentary*.

Noted in *Commentary No. 841*, consumer inflation has started to rebound, along with higher gasoline prices, yet the economy continues to falter as indicated in September freight activity, and as seen in the headline detail of September housing starts. The *Special Comments* in *No. 841* also looked a little deeper into the likely impact of unusually protracted and negative economic conditions on the presidential election and on the post-election environment for the U.S. dollar and precious metals. That area, and some of the effects of the campaign process on current economic conditions are discussed further in today's *Special Comments*.

September industrial production detail also disappointed market expectations and deteriorated sharply in the context of downside, prior-period revisions. Such was reviewed in *Commentary No. 840*. *Commentary No. 839* provided the opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets. Consumer liquidity conditions also were updated, along with a review of September 2016 nominal Retail Sales and the PPI.

September employment and unemployment circumstances were covered in *Commentary No. 838*. Fed-policy retrenchment should remain very much alive, shifting towards that renewed quantitative easing, in the post-election environment, as discussed in the *Opening Comments* of *No. 839*, and those of *Commentary No. 837* and *Commentary No. 835*, which respectively also reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

Commentary No. 836 updated the latest GDP reporting (third-estimate of second-quarter 2016), as well as provided an economic reality check on some harder, less-theoretical and more-independent (non-government) economic numbers.

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Underlying consumer liquidity and household income conditions were updated fully in *Commentary No. 833*, along with continuing discussion of FOMC options and the latest consumer inflation detail.

The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect an ongoing broad spectrum of market-disappointing headline data, such as seen in the industrial production detail (*No. 840*) and in *Commentary No. 832*. Earlier FOMC considerations also were covered in *Commentary No. 831*, while the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*.

Broad economic and systemic details detail otherwise have been reviewed recently in *Commentary No. 827*, *Commentary No. 826*, *Commentary No. 825*, *Commentary No. 824*, *Commentary No. 823*, *Commentary No. 822*, *Commentary No. 821*, *Commentary No. 820*, *Commentary No. 818*, *Commentary No. 817*, *General Commentary No. 811*, *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*.

Negative market reactions had surfaced in trading of the U.S. dollar and in related financial markets, with some upside pressure on gold, silver and oil prices, subsequent to recent, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Then, Fed rate-hike jawboning put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency. The downside spike to gold prices on October 4th was considered in *Commentary No. 837* and was discussed further in *No. 841*, in the context of the evolving domestic political conditions.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Even if the Fed should raise rates in the near future, ongoing negative economic pressures still will mount, forcing the U.S. central bank back into a position of having to support domestic financial- and banking-system liquidity needs. Effectively, the Fed will have no way out other than to return to some form of expanded quantitative easing, post-election.

Temporary jawboning aside, market reactions increasingly should reflect a renewed sense of Federal Reserve impotence in the wake of the latest no rate hike, with bleak longer-term implications for the U.S. dollar. While anything is possible, Fed tightening on November 2nd—the last formal opportunity prior to the November 8th election—appears to be out of consideration, with market expectations for a rate hike now centering on December 2016. Nonetheless, renewed quantitative easing increasingly should become the target of post-election speculation, as the deepening recession continues to unfold.

Rapidly weakening, regular monthly economic reporting should continue and result in much worse-than-expected—increasingly negative—reporting for at least the next several quarters of GDP (and GDI and GNP).

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—has seen its near-term, year-to-year low. Headline monthly March to June 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation was "unchanged"—minimally negative—with a switch to positive seasonal adjustments for gasoline prices only partially offsetting the unadjusted monthly drop in gasoline prices in July. August CPI was boosted by "core" inflation, while the September CPI was spiked by gasoline prices and positive seasonal adjustments. The October CPI looks to be similarly destined. Going

forward, a weakening U.S. dollar increasingly should boost inflation, with a related upturn in oil prices, gasoline and other commodities. The *Public Commentary on Inflation Measurement* reviews fundamental reporting issues with the headline CPI.

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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is 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. That construction-spending issue now appears to have been structured as a gimmick to help boost the recently-published 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

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,* and as just updated on October 24th: *Crudele*. In the 1990s, the Census Bureau and BLS played political-reporting games with the nature of statistical sampling size in "inner cities" in the Census Bureau surveying tied to the monthly Household Surveys and the annual piggy-backed Poverty Survey. Such had major distorting impact on the headline data, and it may be in the works, again.

PENDING RELEASE:

***Updated* - Gross Domestic Product (GDP)—Third-Quarter 2016, First or "Advance" Estimate.** The Bureau of Economic Analysis (BEA) will publish its first or "advance" guesstimate of third-quarter 2016 Gross Domestic Product (GDP) tomorrow, Friday, October 28th. Detail will be covered in *Commentary No. 844* of that date.

Given the political circumstance of the 2016 presidential election following eleven days later, on November 8th, almost anything is possible. That said, the consensus outlook is unrealistically high at 2.5%. Where the BEA likes to target the consensus outlook in the initial GDP estimate, that would be up

from the sharply from the current headline, annualized quarterly real gain of 1.4% in second-quarter 2016 GDP, a politically-acceptable improvement. Underlying reality remains much weaker, likely in actual contraction. The first revision to third-quarter GDP on November 29th is a good bet to revise well below 2.0%, if the initial headline number did not come in close to that, otherwise to below 1.0%, perhaps to around 0.7% to 0.8%, heading lower thereafter.

PLANNED UPDATES: Comprehensive *Special Report* and ShadowStats Website. ShadowStats is updating fully, into one, massive background piece—a *Special Report (Commentary)*—the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). All of that will be in the context of incorporating and fully revising, wherever necessary, the materials in the *2014 Hyperinflation Report—The End Game Begins*, *2014 Hyperinflation Report—Great Economic Tumble*, *No. 777 Year-End Special Commentary* and other intervening missives, including the most-recent *Hyperinflation Outlook Summary* as found in *Commentary No. 783*.

The various background articles available at the www.ShadowStats.com site also will be updated in the process, including those first published in 2004 as introductory articles to the site. As usual, all original material will remain available to subscribers (all original public material also will remain available to anyone visiting the site).

As to timing, the *Special Report* will follow the November U.S. presidential election, as discussed in the *Special Note to Subscribers* at the beginning of *Commentary No. 839*. It will include updated, consistent GAAP-based financial detail on the U.S. government's financial condition through September 30, 2015 and initial prospects for the fiscal year ended September 30, 2016.

Updates to the various public materials on the Web site will be staggered through year-end. The introduction of the *2004 Primer Series* will be first (the link is to the initial background article that addressed among other issues political manipulation of data).

We also will introduce, in conjunction with the *Special Report*, a section with links to books and articles that we and/or our readers have found of particular interest and substance. Many thanks to those who already have submitted recommendations of specific books and publications. Anyone with materials they would like to have considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.

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