John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 875
Durable Goods, New- and Existing-Home Sales, Freight Index, Business Cycle

March 24, 2017

Details of Economic Depression versus Recession, Recovery and Expansion

Amidst Signals of Renewed Downturn, the Broad Business Outlook Continues for Non-Recovering Activity and Economic Disruption

Net of Inflation and Irregularly-Surging Commercial Aircraft Orders, the Headline Gain of 1.7% in February Durable Goods Orders Was a Monthly Contraction of 0.3% (-0.3%)

Freight Index Annual Growth Moved Higher for Third Straight Month, Still Holding in a Pattern of Low-Level Stagnation

Suggestive of Continuing Financial-System Liquidity Stresses, Rising Portions of Existing-Home Sales Were in Foreclosure and/or Were All Cash Sales

Mixed Monthly Activity in February New- and Existing-Home Sales Continued in the Context of Low-Level Non-Recovery

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PLEASE NOTE: The next regular Commentary*, scheduled for Friday, March 30th, will cover the third revision to Fourth-Quarter 2016 GDP. Please call me at (707) 763-5786, if you have questions or would like to talk.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Real-World Economic Conditions—Depression versus Recession, Recovery and Expansion (Part I). Where the popular media commonly have used the terms "Recession," "Recovery" and "Expansion" in recent years to describe the economic environment since 2007, ShadowStats contends that the term "Depression" also should be in the current economic descriptors, but not "Expansion," at least not yet.

In the pre-World War II economic lexicon, an economic contraction was known simply as a "Depression." Depression represented a dip in business activity, and it was composed of two phases, a "Recession," which described the period of economic contraction from the business cycle's pre-contraction peak activity to its trough. The second phase of a Depression was its "Recovery," from the cycle trough to the recovery of the pre-recession peak. Growth beyond the Recovery commonly was known as "Expansion."

Post-World War II and post-Great Depression, common usage of economic-cycle descriptors dropped the term "Depression" in favor of the "Recession" and "Recovery" sub-components. Nonetheless an economy in "Recovery" still is in "Depression" having not fully recovered its prior peak activity, and "Recovery" is not the same as "Expansion." When ShadowStats argues that the economy has not recovered, that is in terms of economic activity not having recovered its pre-recession high.

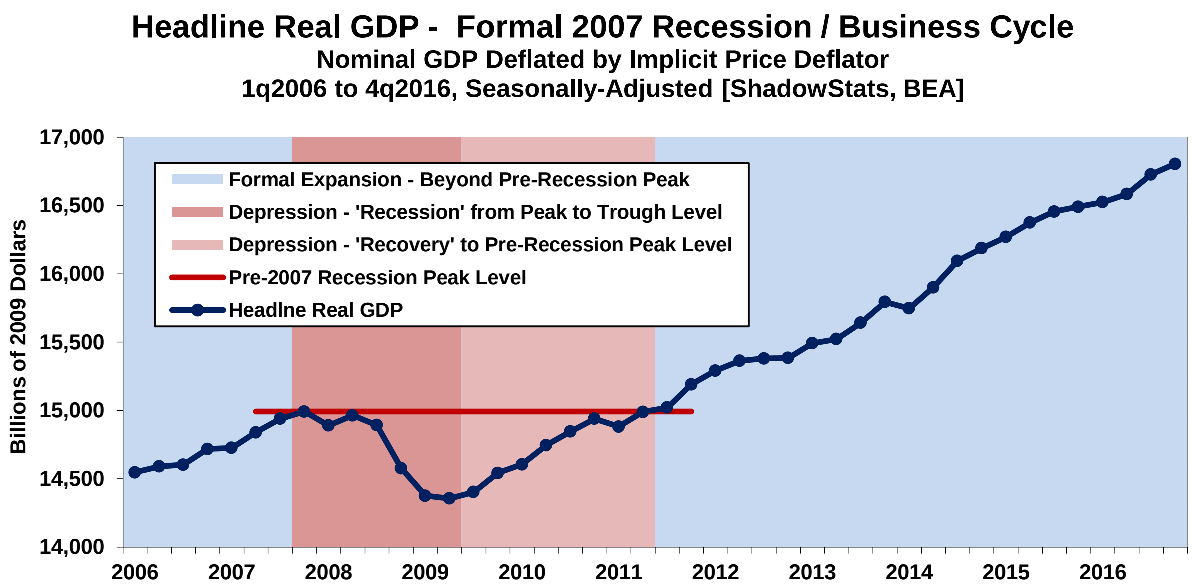
That said, as reflected in the accompanying *Opening Graphs*, the headline inflation-adjusted, real Gross Domestic Product (GDP) completed its latest, headline Depression Cycle, which began in fourth-quarter 2007, troughed in second-quarter 2009, and fully recovered its pre-recession peak in third-quarter 2011. Since then, headline real GDP activity has been in continual Expansion, standing 12.1% above its pre-recession high, as of the second-estimate of fourth-quarter 2016 (see *Commentary No. 869*), subject to the third estimate of same on Thursday, March 30th (*Commentary No. 876*), and an annual benchmark revision on July 28th. Current economic conditions will be reviewed in *No. 876* along with an expanded Part II of these *Opening Comments*.

Unfortunately, as frequently discussed here, better-quality economic indicators than the headline GDP broadly fail to confirm the happy economic expansion reported in that headline, fantasy series. Consider New Orders for Durable, for example, where the headline February detail was released today and is covered later in the *Executive Summary* and *Reporting Detail*. The *Opening Graphs* reflect business-cycle patterns, where the first graph plots the quarterly levels of the headline real GDP, while the second graph plots the quarterly levels of real New Orders for Durable Gods (Ex-Commercial Aircraft).

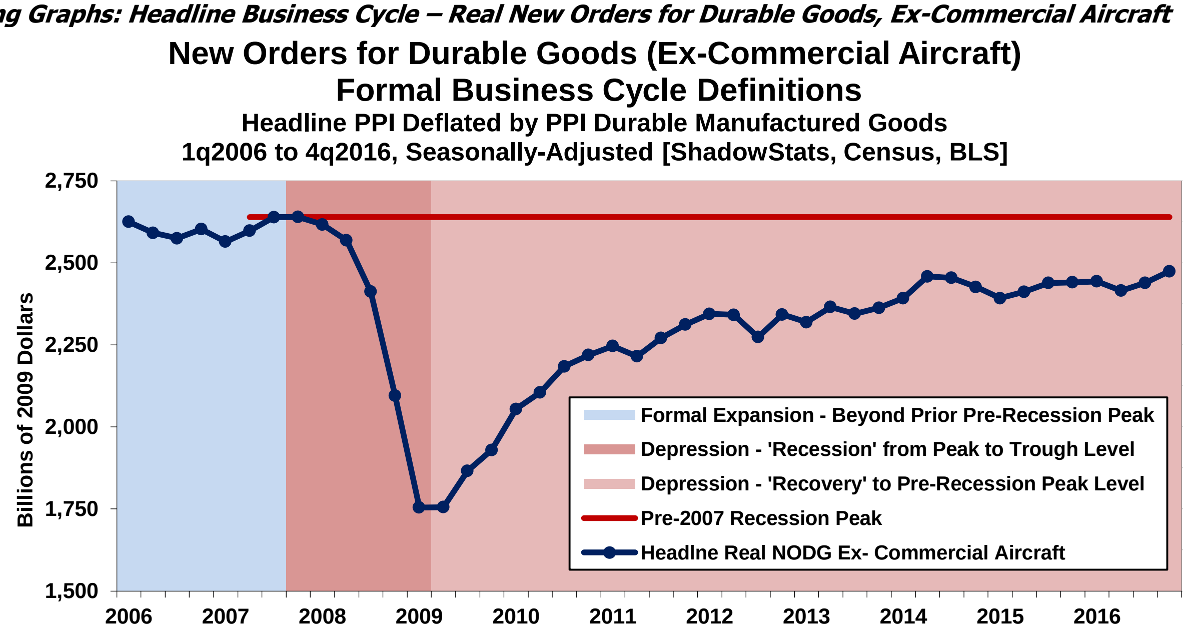
Consider the first graph of headline GDP. The Depression stretches from 2007 to 2011, ranging from the pre-recession peak in fourth-quarter 2007, Recessing to the cycle trough in second-quarter 2009 and Recovering to the pre-recession peak in third-quarter 2011, entering Expansion ever after.

In contrast, the second graph shows the Durable Goods Depression stretching from 2007 but still ongoing, ranging from a pre-recession peak in fourth-quarter 2007, Recessing to the cycle trough of first-quarter 2009 and Recovering in a sporadic pattern through fourth-quarter 2016, still not having recovered its pre-recession high. If the activity should turn meaningfully lower again, such would reflect a double-dip or multiple-dip recession or depression. As noted in [*Commentary No. 869*](), the headline Industrial Production and related Manufacturing series already are rivaling the Great Depression in terms of the number of quarters of non-Expansion, a pattern common with a number of headline series, including New Orders, Construction, Home Sales, the Cass Freight Index, real Corporate Revenues, etc. Of those series that have entered Expansion, no major series (such as headline Real Retail Sales, Employment and Payrolls) has Expanded at a pace close to matching that of the "fantasy" headline GDP series.

Opening Graphs: Headline Business Cycle – Real Gross Domestic Product (GDP)



Opening Graphs: Headline Business Cycle – Real New Orders for Durable Goods, Ex-Commercial Aircraft



All the major headline series on which ShadowStats reports will be updated in a form similar to the preceding, in Part II of this series, along with next week's March 30th reporting of the third estimate of fourth-quarter 2016 GDP in *Commentary No. 876*. The state of the current U.S. business will be facing a reality assessment along with some likely redefinition.

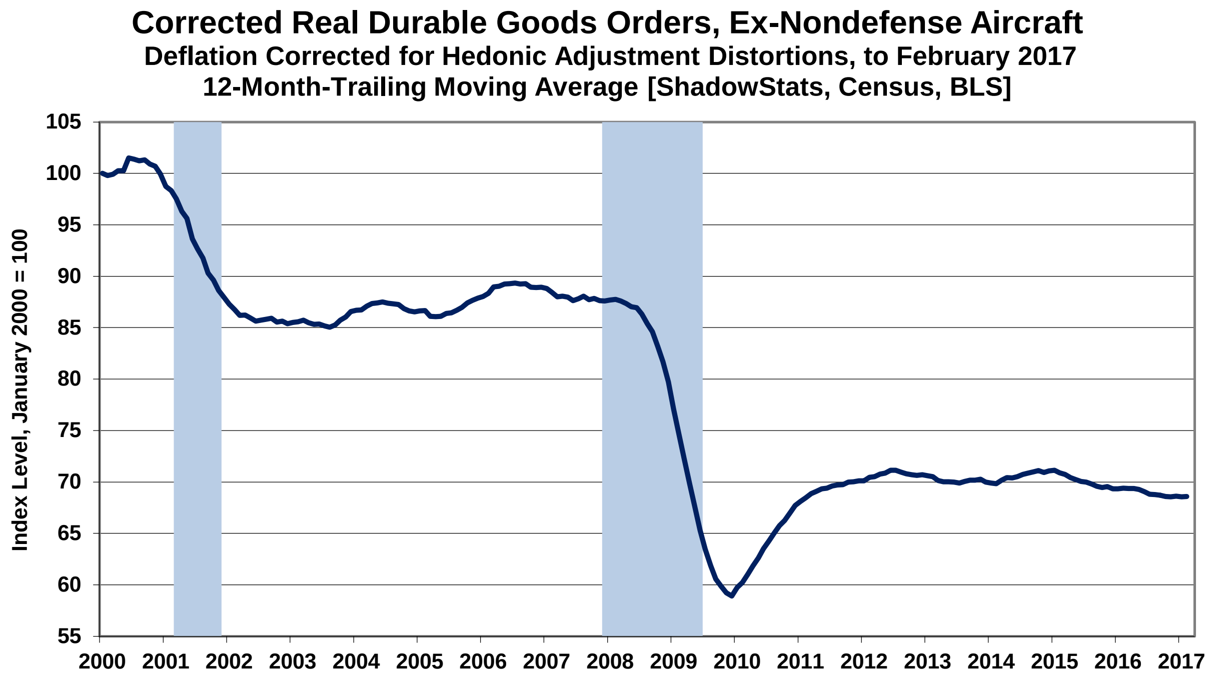
Economic Collapses Eventually Bottom Out, But Pre-Recession Peaks Have to Be Regained Before Formal Expansion Begins. *ShadowStats* follows a number of economic indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. The Cass Freight Index™ is one such indicator. The headline detail for the February 2017 index showed the third-consecutive, monthly year-to-year gain, exciting industry speculation that the recession in freight activity had hit bottom. As discussed in the prior section on the business cycle, when activity recovers, such happy growth does not get clocked formally as a new economic expansion, until the series breaks above its pre-recession high. Specifically, the ShadowStats smoothed headline reading on the Cass Freight Index, through February 2017, was down 12.9% (-12.9%) from recovering its pre-recession high of December 2007. While the "Recovery" receives the benefit of growth off of low levels of activity, the deficit in activity versus the prior-peak level has to be overcome before formal, economic "Expansion" begins to be tallied.

Economic downturns eventually hit bottom, and the current circumstance likely will not be the exception. The economic collapse that formally has been recognized from peak activity in December 2007 to a trough in June 2009 is accurate in terms of timing the bottom. The contention remains, though, that the headline economy fully (the real Gross Domestic Product) recovered thereafter, entering a period of new economic expansion in second- or third-quarter 2011, expanding ever after. ShadowStats contends that the economy never fully recovered, moving instead into a period of protracted, low-level stagnation, which began to turn down anew in December 2014. That timing still should gain recognition as a "new" recession, or otherwise as a second leg in a double-dip or multiple-dip recession. What the Cass numbers suggest here, again, is that the second downturn might have hit its bottom and has entered a period of recovery. For background on the ShadowStats general outlook, see *No. 859 Special Commentary*.

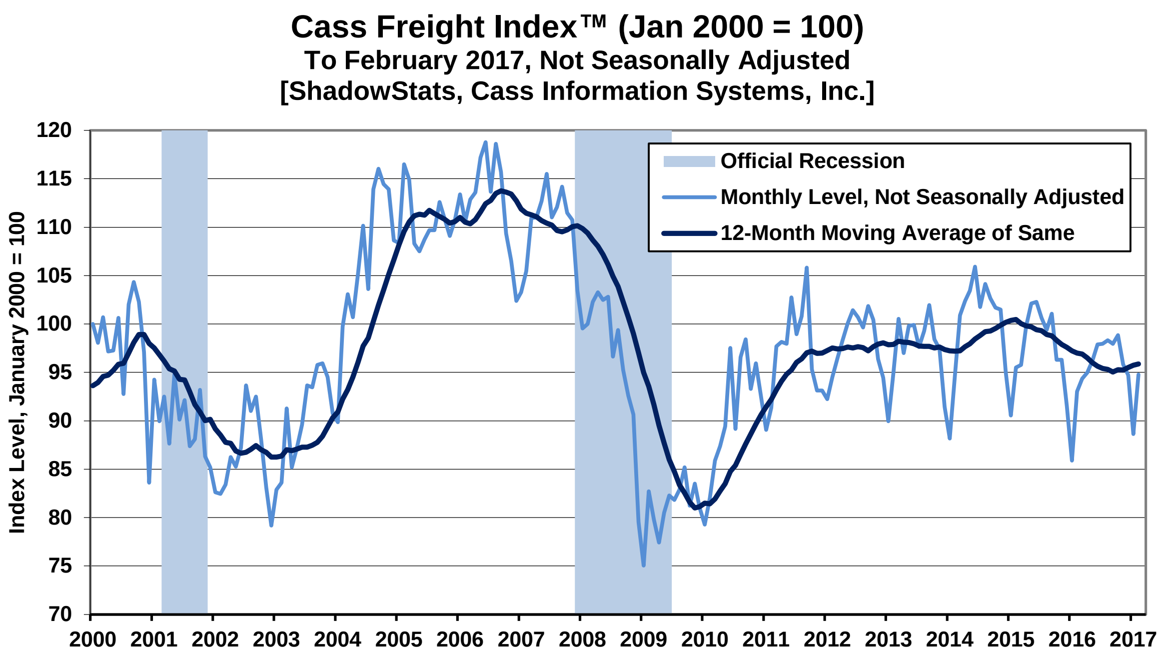
The specific analysis here looks at the latest parallel reporting in the trailing twelve-month moving average of the "corrected" New Orders for Durable Goods series in *Graph 1* (see the discussion in the *Executive Comments*) with the twelve-month trailing average of the Cass Freight Index in *Graph 2*. The series continue to reflect similar patterns of activity. While there certainly may be a bottoming in the works, recovering pre-collapse levels of activity remains well into the future and is dependent on the Trump Administration being able to get some of its stimulus programs into place.

February 2017 CASS Freight Index Showed Third Consecutive Year-to-Year Gain, but the Series Remained in Low-Level Stagnation, Shy by 12.9% (-12.9%) of Its Pre-Recession Peak. Patterns of continued low-level stagnation in the general economy and business activity were reflected once again in the headline detail of the February 2017 Cass Freight Index™, although for the third consecutive month, the fourth month in the last five, monthly activity was higher on a year-over-year basis (see *Graph 3*). A consecutive string of nineteen months of annual contraction began in March 2015, consistent with a "new" recession signal following the Industrial Production peak in November 2014. The production series that began a string of fifteen monthly annual contractions in September 2015, a pattern never seen outside of formal economic recessions in the 99-year history of the Industrial Production series.

Graph 1: Corrected Durable Goods Orders Index – Ex Commercial Aircraft, Twelve-Month Trailing Average



Graph 2: CASS Freight Index ™ (2000-February 2017)



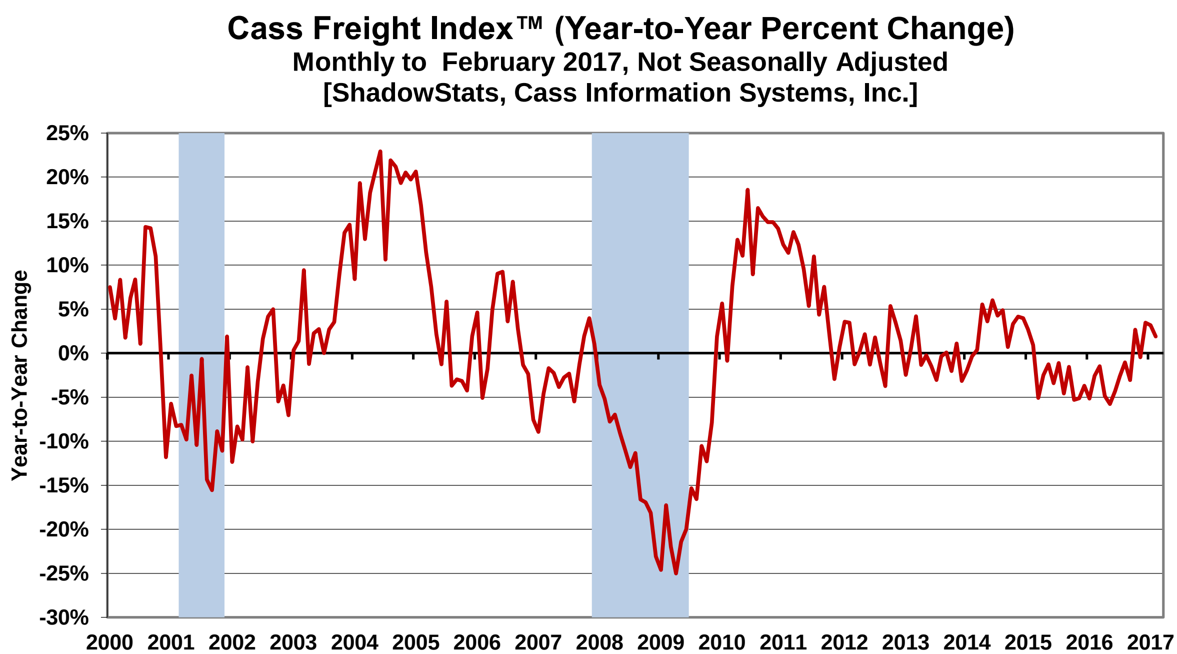
The production series also just showed its third consecutive monthly year-to-year gain, as did the real new orders for durable goods series (ex-commercial aircraft). The durables series, however, has been flat, but not consistently negative year-to-year in the last year, as seen in *Graph 6*. Again, real durable goods, headline industrial production and the Cass Freight Index, all are among the non-recovered series.

Beginning with Commentary No. 782 (further background available there), ShadowStats published the 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.

Graph 2 reflects the monthly numbers updated through February 2017. 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 here. The headline index published by Cass is based at January 1990 = 100.

The plot of the trailing twelve-month average of the freight index shows that it hit a near-term peak in February 2015, consistent with onset of a "new recession" in December 2014, and had been slowing since, through September 2016. Other than minimal upticks in October and December 2016 to February 2017, the level of twelve-month moving average has been flat to minus, with the February 2017 twelve-month moving average showing a decline of 4.6% (-4.6%) from the February 2015 near-term peak average, and down by 12.9% (-12.9%) from its pre-economic collapse high in December 2007. The February 2017 twelve-month average reading also was down by 1.2% (-1.2%) year-to-year in February 2017, versus an annual decline of 1.5%% (-1.5%%) in January 2017.

Graph 3: CASS Freight Index, Year-to-Year Percent Change, Monthly through February 2017



Year-to-Year Annual Change by Individual Month Has Turned Positive. Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in

Graph 3. The unadjusted monthly detail had been in continual year-to-year decline since March of 2015, down at an intensified annual rate of 3.05% (-3.05%) in September 2016. It rallied to an annual gain of 2.66% in October 2016, but fell back into year-to-year contraction of 0.05% (-0.05%) in November 2016, coming back to the plus-side by 3.46% in December 2016 and easing slightly to 3.18% in January 2017, and again to 1.89% in February 2017. As a result, fourth-quarter 2016 showed an annual gain of 2.17%, the first such gain year-to-year since fourth-quarter 2014, with first-quarter 2017 on track for an annual gain as well. Such a pattern will be seen when the annual declines in monthly growth bottom out and turn higher, but the regular volatility seen in this series leaves open the question as to whether a sustainable, near-term bottom has been reached.

Again, with the headline smoothed reading through February 2017 down by 12.9% (-12.9%) versus its pre-recession high, that is a deficit that has to be overcome before formal economic expansion begins.

In combination, *Graphs 2* and *3* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level stagnation thereafter and a renewed downturn effectively coincident with a "new" recession, which, again, likely will be timed from December 2014, whether or not it has bottomed.

Today's *Commentary* (March 24th). The balance of these *Opening Comments and Executive Summary* covers summary detail and graphs of February 2017 New Orders for Durable Goods and New-and Existing Home Sales, with the headline numbers expanded upon in the *Reporting Detail*.

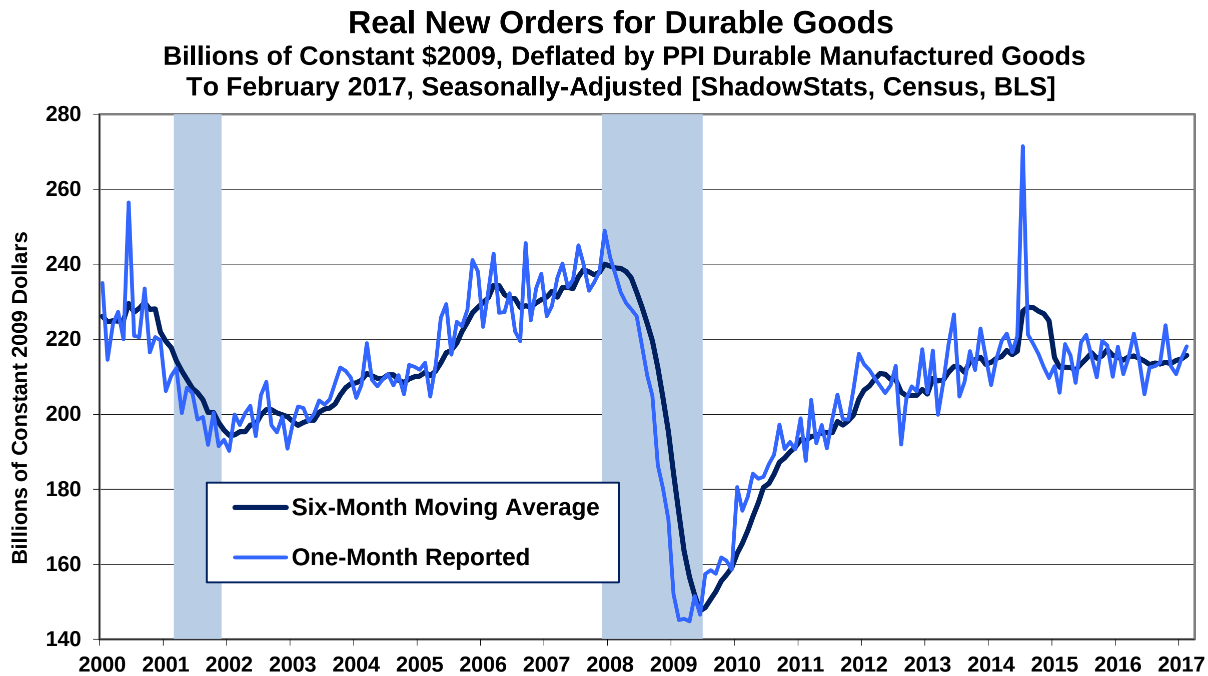
The *Week, Month and Year Ahead* previews next week's reporting of the third-estimate of, second revision to Fourth-Quarter 2016 GDP.

Executive Summary: New Orders for Durable Goods—February 2017—Real Orders Rose Month-to-Month; Ex-Commercial Aircraft, Orders Declined for the Month. In the context of a 47.7% monthly jump in February commercial-aircraft orders, on top of an upwardly-revised level of January aircraft orders, nominal February 2017 new orders rose 1.7% month-to-month and 5.0% year-to-year. The upside revision to January's headline monthly gain to 2.3%, from 1.8%, largely reflected the upside revision in commercial-aircraft orders. Excluding commercial aircraft activity, new orders declined by 0.1% (-0.1%) in February 2017, versus a revised monthly gain of 0.6% in January.

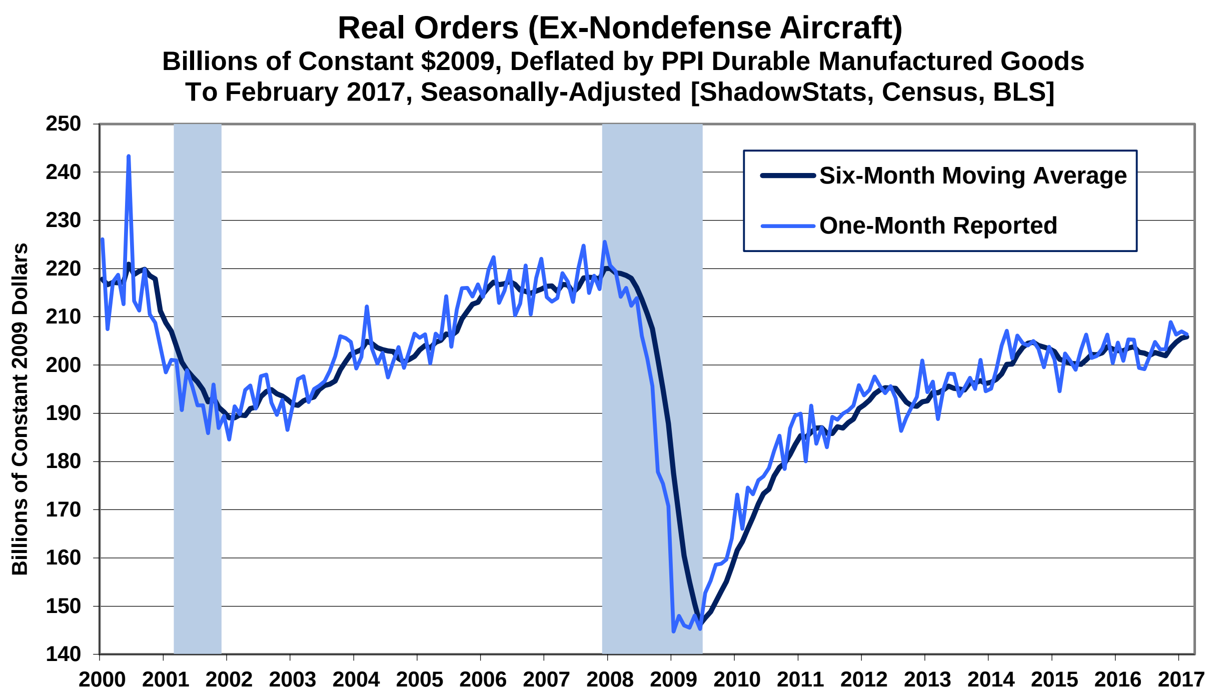
The best leading indicator here to industrial production (particularly manufacturing) and to the broad, general economy, is inflation-adjusted new orders, ex-commercial aircraft, which fell by 0.3% (-0.3%) in February 2017, versus a revised monthly gain of 0.3% in January 2017. Year-to-year, real annual growth rose to 2.7% in February 2017, versus 1.1% in January 2017.

For fourth-quarter 2016, the annualized real series, ex-aircraft, showed a quarterly gain of 5.8%, but the early trend (based on two months) for first-quarter 2017 growth, slowed to an annualized 1.0% quarterly pace. Despite the headline monthly gains, the series remained in low-level, non-recovering stagnation, and it is a tentative, neutral leading indicator to second-quarter 2017 industrial production. Nonetheless, those patterns remain consistent with ongoing recession.

Graph 4: Real Total New Orders for Durable Goods to Date



Graph 5: Real New Orders for Durable Goods – Ex-Commercial-Aircraft Orders to Date

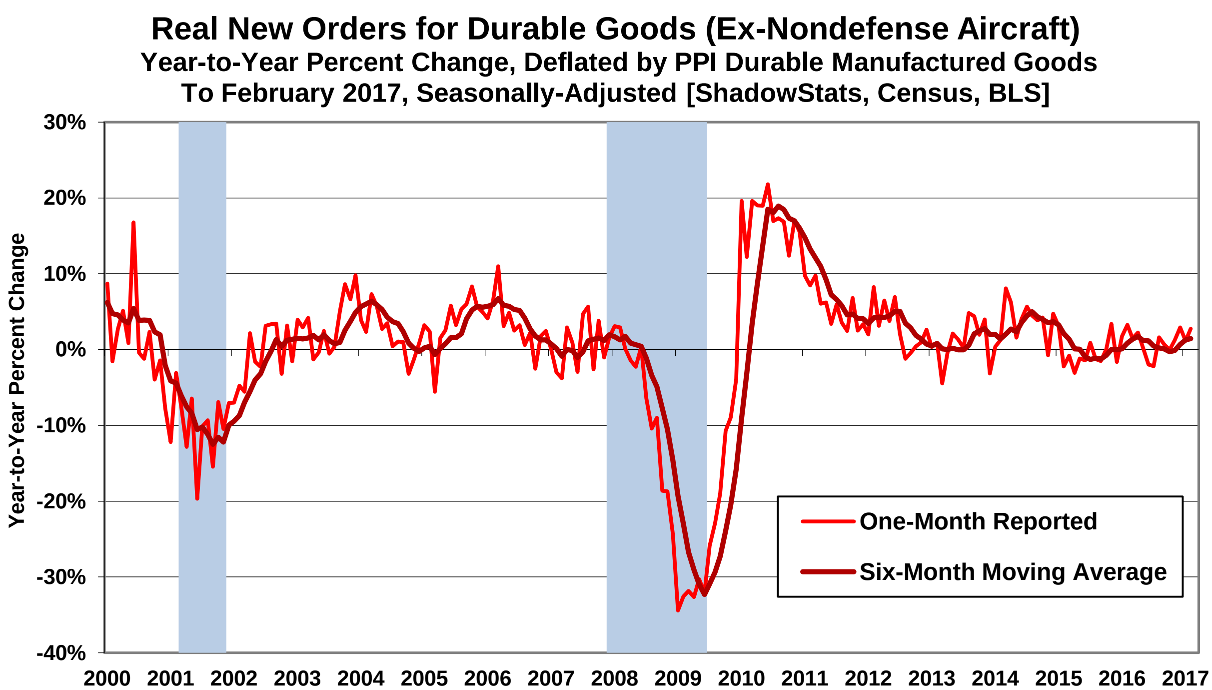


Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. *Graphs 4* and *5* show the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the irregular commercial-aircraft orders. The moving-average levels in both 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, with continued minor fluttering, into third-quarter 2016, a small uptick in fourth-quarter 2016, continuing on the upside into February 2017.

Graph 6 shows the annual year-to-year percent change in the real series net of commercial aircraft orders, on both monthly and six-month-smoothed moving-average bases, the annual growth for February picked up, holding in positive territory.

While that might suggest a near-term bottoming of the series, as discussed in *General Commentary No. 867*, such partially is an artefact of roughly two-percentage-points understatement of the inflation used in deflating the headline series. As shown in *Graph 10*, the smoothed series, corrected for the understated deflator largely has been stagnant since 2011. Before correction, as seen in *Graph 9*, the series generally has led the broad pattern reflected in the headline level of manufacturing in industrial production (see *Graph 5* on page 11 of *Commentary No. 874*).

Graph 6: Year-to-Year Percent Change, Real New Orders for Durable Goods – Ex-Commercial Aircraft to Date



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 (see *Commentary No. 869*) which will be updated with next week's (March 30th) *Commentary No. 876*. The real monthly and six-month moving-average levels of new orders in February 2017 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 most commonly precedes and/or coincides with a recession, as is the current circumstance. The series remains in non-recovered, low-level stagnation (see the discussion in the *Opening Comments*).

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 the users or consumers of the involved products—in justifying a reduced pace of headline inflation used in deflating some series (see *Public Commentary on Inflation Measurement*).

As done for other series such as the GDP (again, see *Commentary No. 869*), industrial production and real retail sales (see respectively *Commentary No. 874* and *Commentary No. 872*), ShadowStats publishes an experimental, corrected version of the inflation-adjusted graph of real new orders for durable goods. Real activity, in this case, is corrected for the understatement of the inflation measurement used in deflating the new orders series with the headline PPI inflation for manufactured durable goods (see *Reporting Detail*).

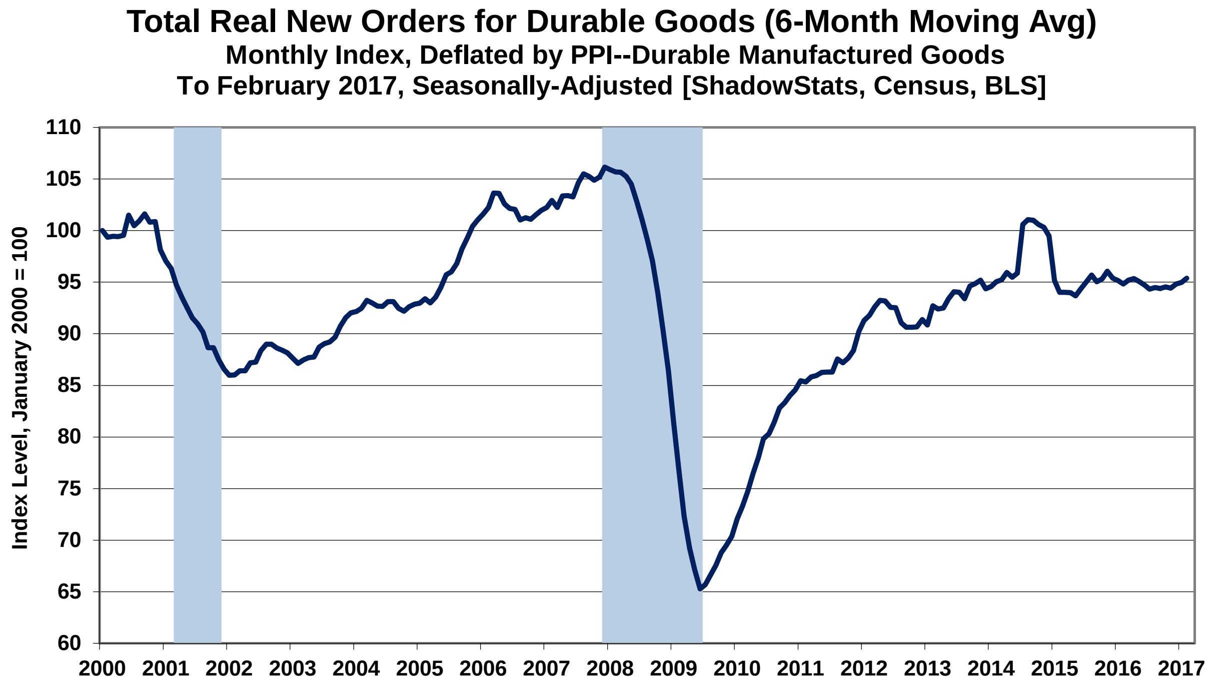
Two sets of graphs follow. The first set (*Graph 7* and *Graph 8*) shows the aggregate series or total durable goods orders; the second set (*Graph 9* and *Graph 10*) shows the ex-commercial aircraft series. The aggregate orders series in *Graphs 7* and *8* includes the monthly commercial aircraft orders. 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 9* and *10* are shown net of those 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 4* and *Graph 5*, 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.

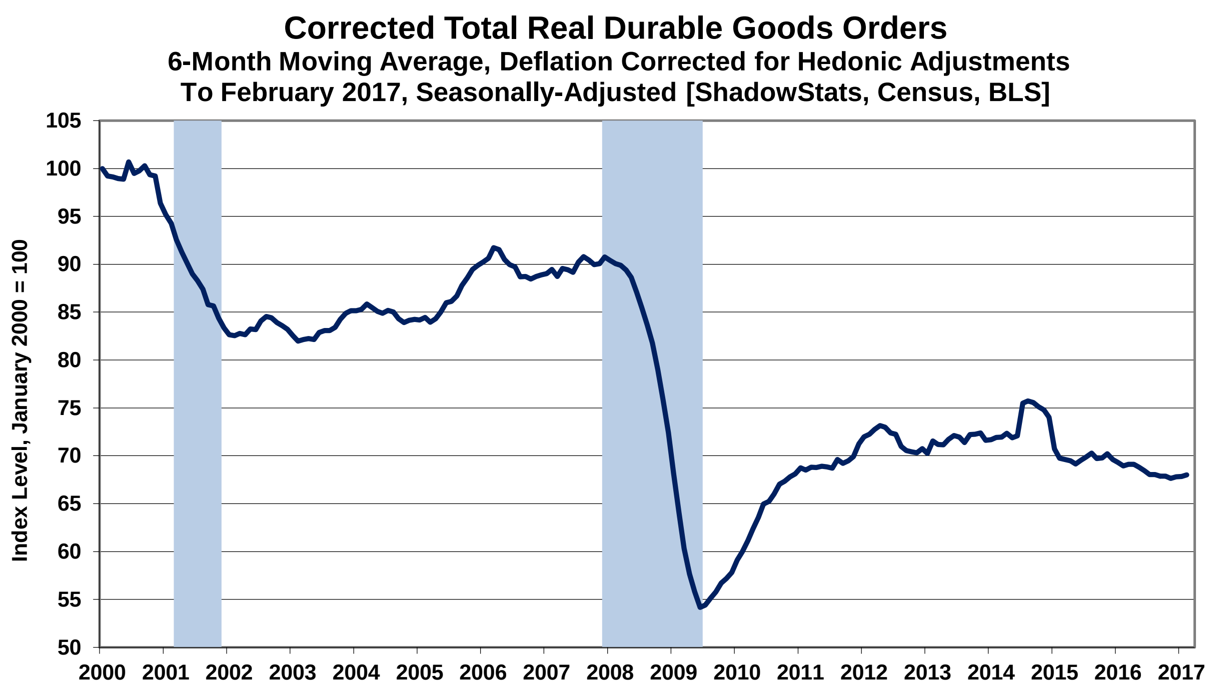
For comparison purposes, also consider *Graphs 1* and *2* in the *Opening Comments*, which allow for the comparison of the trailing twelve-month moving-average of the real durable goods series, ex-commercial aircraft, corrected for the understatement of inflation used in the deflation process, with the twelve-month moving-average of the Cass Freight Index™.

[Graphs 7 to 10 begin on the next page.]

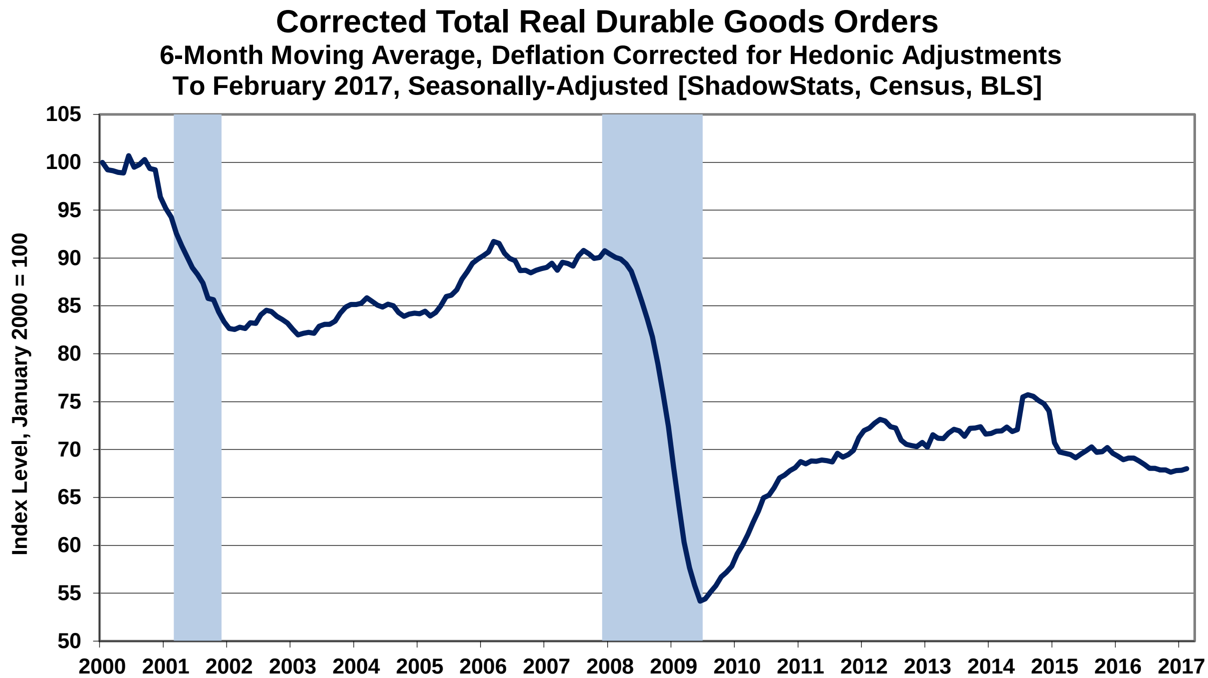
Graph 7: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



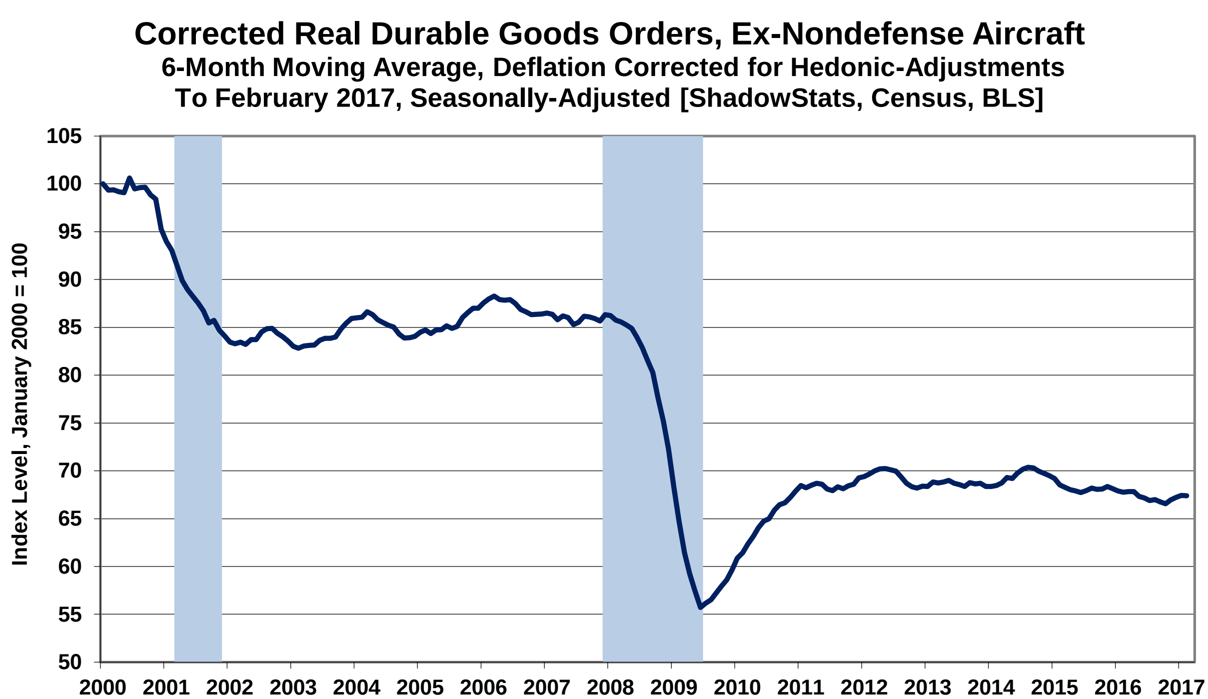
Graph 8: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



Graph 9: Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



Graph 10: Corrected Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



New- and Existing-Home Sales—February 2017—Mixed Monthly Activity; Both Series Continued in Low-Level, Non-Recovering Stagnation. The February 2017 New- and Existing-Home Sales series both remained in depression territory (see the *Opening Comments* and *Commentary No. 754*), down respectively by 57.4% (-57.4%) and 24.6% (-24.6%) from their pre-recession peaks.

Usual reporting instabilities and distortions, involving high volatility, irregular seasonality and lack of statistical significance, continued to warp the New-Home Sales series, which gained month-to-month, in the context of an upside revision to January activity, but also in the context of continued downside revisions to fourth-quarter activity, and a related, implied quarter-to-quarter contraction. Despite continuing extreme, near-term volatility, albeit statistically-insignificant, as usual, the series remained in low-level, non-recovering stagnation. As shown in *Graph 11*, that stagnation had had a recent, minor flattening uptrend over time, which now has turned to a fluttering negative downtrend, as seen in the smoothed *Graph 13*.

Headline February Existing-Home Sales declined month-to-month, with a pick-up in year-to-year change. In the context of shifting patterns in smoothed, low-level stagnation, Existing-Home Sales activity has turned to a shallow uptrend as seen in *Graphs 15* and *17*. February 2017 monthly detail held below its pre-recession high by 24.6% (-24.6%).

These series never have fully recovered from the economic collapse into 2009 (again, see the *Opening Comments*). 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 starts in February 2017, also down from their pre-recession highs, respectively by 52.2% (-52.2%) and by 43.3% (-43.3%).

Consumer Liquidity Constraints. The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as updated in *Commentary No. 871* and as fully reviewed in the *CONSUMER LIQUIDITY* section of *No. 859 Special Commentary*. 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 real estate activity. That circumstance—in the last ten-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Where the private housing sector never fully 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 does not appear to be in the offing.

New-Home Sales—Continued Unstable Reporting, with the Smoothed Series 57.4% (-57.4%) Below Its Pre-Recession Peak. Headline monthly reporting of New-Home Sales remained of no substance, short term, as seen most frequently here with massive, unstable and continuously shifting revisions to recent history, along with statistically-insignificant monthly and annual changes that just as easily could be a gain or a loss. In the latest reporting, the monthly reporting was to the upside, with the prior-month revised higher, but earlier revisions were to the downside.

February New-Home Sales (Census Bureau, counted based on contract signings) rose a statistically-insignificant 6.1%, following an upwardly-revised monthly gain of 5.3% in January, and negatively revised 7.5% (-7.5%) monthly contraction in December. Year-to-year, February 2017 sales rose by a statistically-insignificant 12.8%, following an upwardly revised annual gain of 6.1% in January 2017 and a downwardly-revised annual decline of 1.5% (-1.5%) in December 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.

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 somewhat up-trending—stagnation, which recently flattened out/turned down (*Graph 13*).

Existing-Home Sales—Non-Recovering Stagnation, Monthly Sales Dropped, Activity Remained Down from Pre-Recession Peak by 24.6% (-24.6%). In the context of a rising portion of existing sales in foreclosure, along with a rising portion of sales that are all cash, seasonally-adjusted Existing Home Sales declined by 3.7% (-3.7%) in February 2017, following an unrevised gain of 3.3% in January and a decline of 1.6% (-1.6%) in December (actual closings, the National Association of Realtors®). Year-to-year growth in February 2017 sales was 5.4%, versus 3.8% in January 2017 and 1.1% in December 2016.

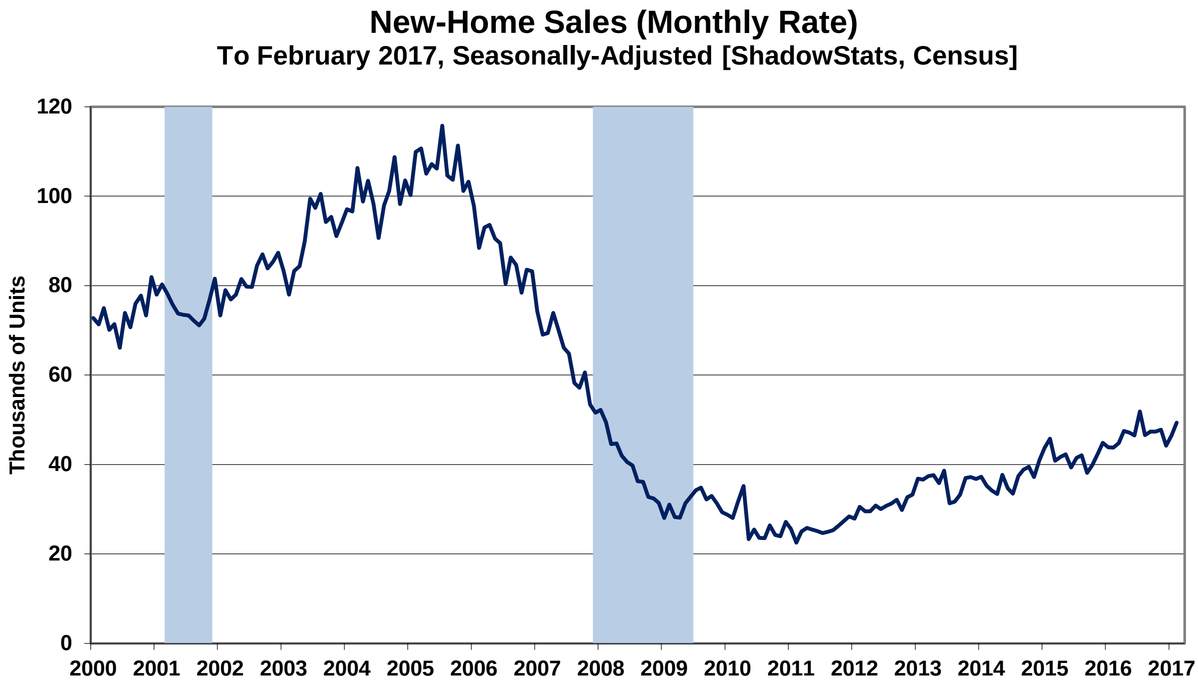
Despite the prior January 2017 sales level having been at the highest monthly pace since February 2007—headline February 2017 activity still was down by 24.6% (-24.6%) from the pre-recession peak of the series. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, albeit currently in a fluctuating uptrend.

New-Home Sales Graphs. The regular monthly graph of February 2017 New-Home Sales follows, along with a six-month moving-average version of the series (see *Graphs 11* and *13*). Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of February 2017 Housing Starts for single-unit construction, *Graphs 12* and *14*, from *Commentary No. 873*.

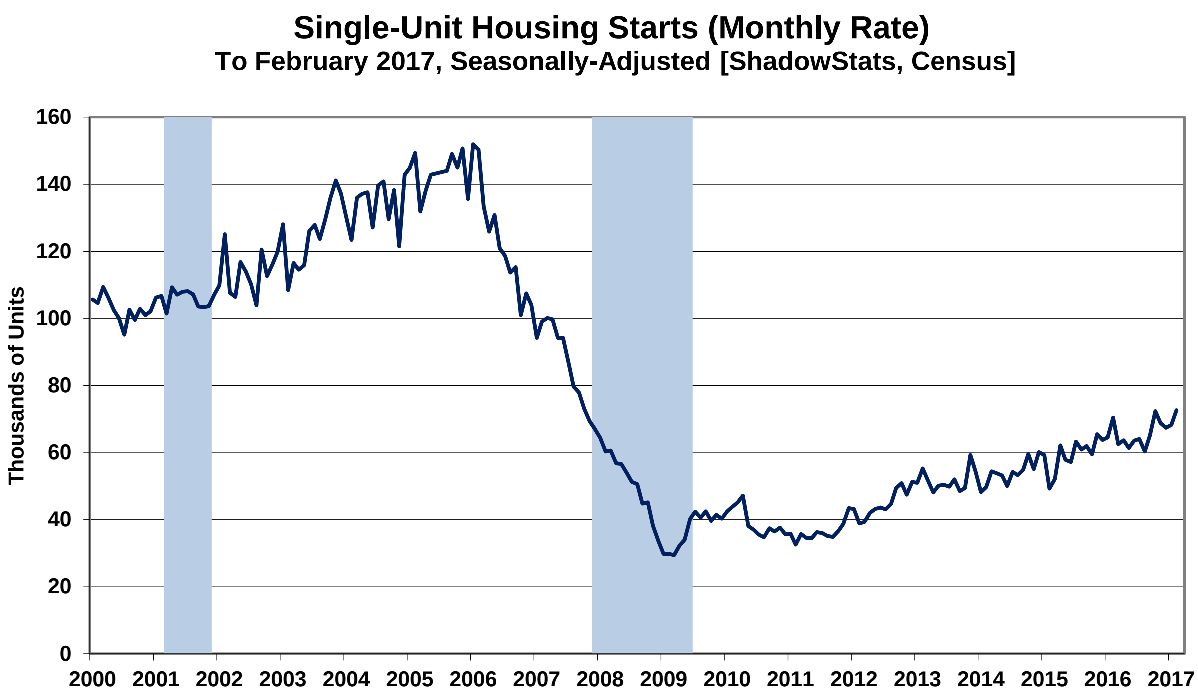
Existing-Home Sales Graphs. *Graph 15* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 17* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of February 2017 aggregate Housing Starts activity, again, from *Commentary No. 873*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 16* and *18*).

[Graphs 11 to 18 begin on the following page.]

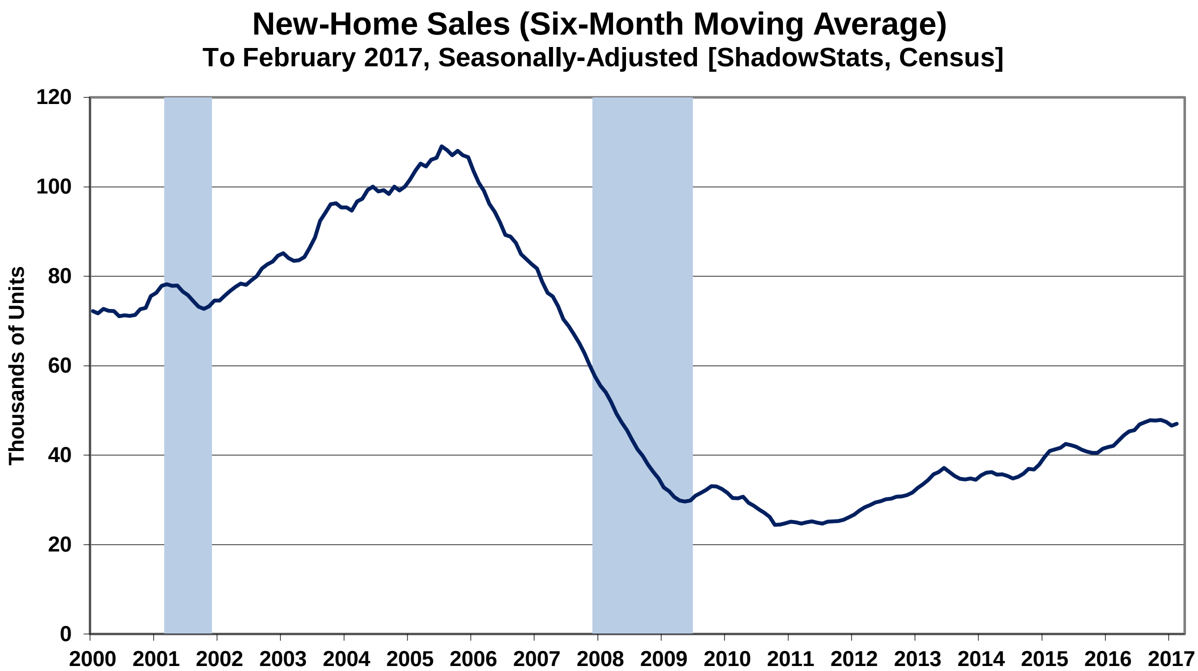
Graph 11: New-Homes Sales – Monthly Rate of Activity



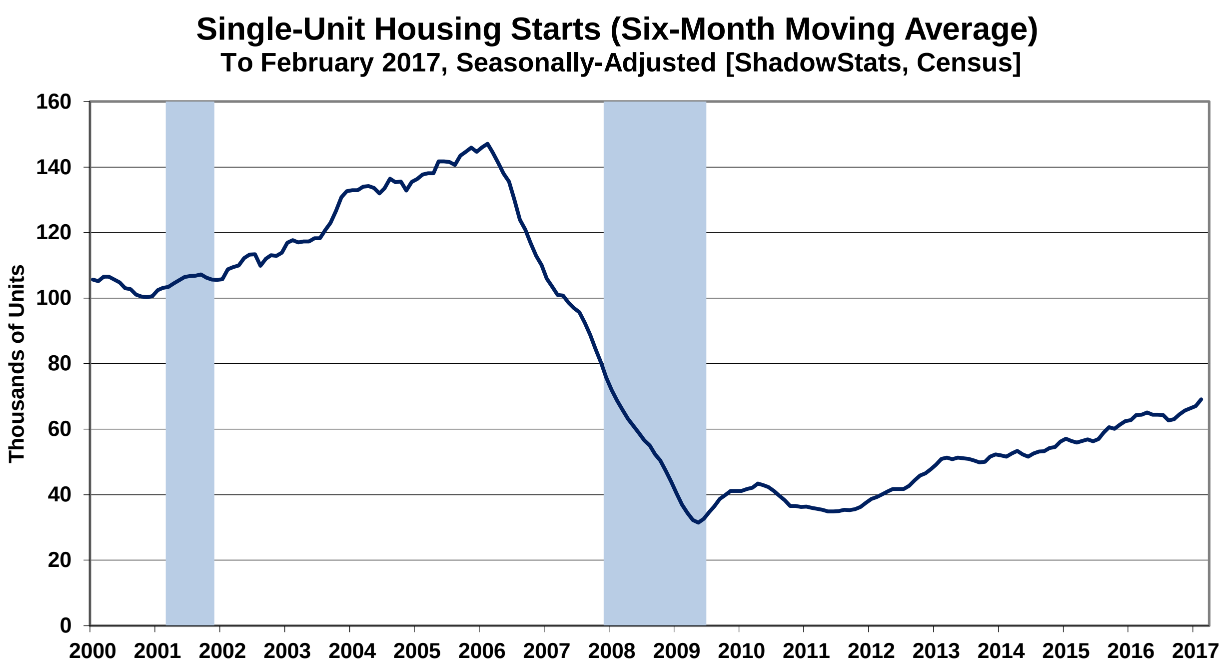
Graph 12: Single-Unit Housing Starts, Monthly Rate of Activity



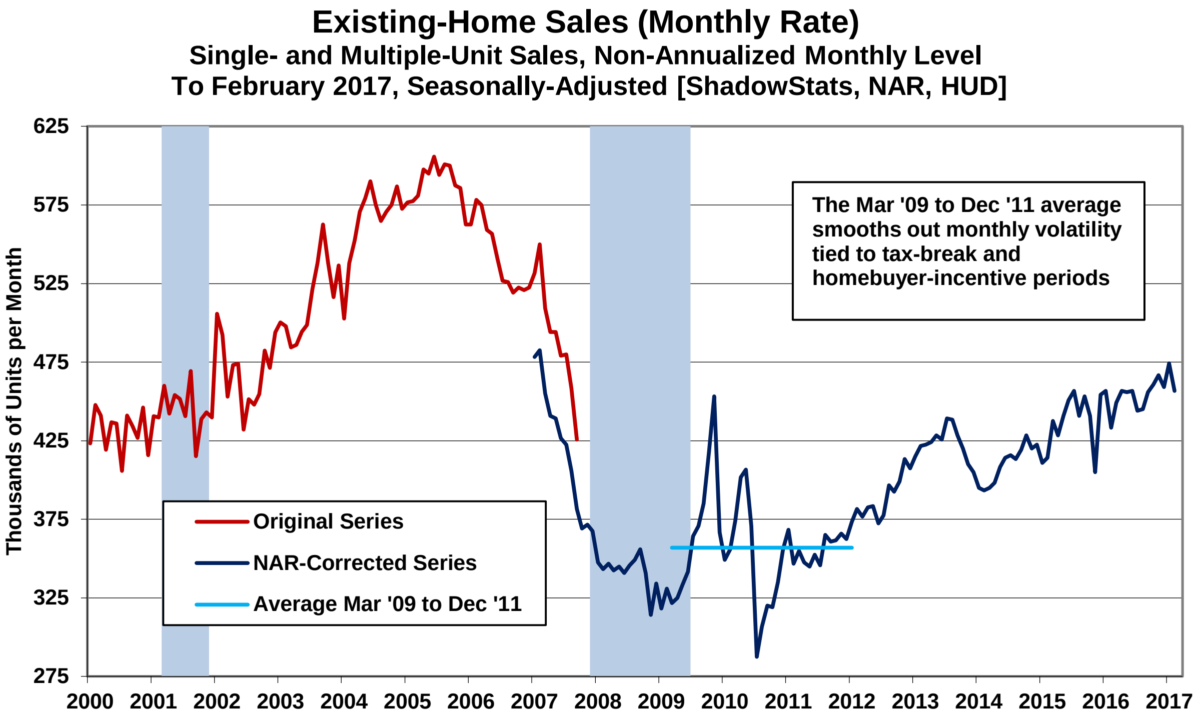
Graph 13: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



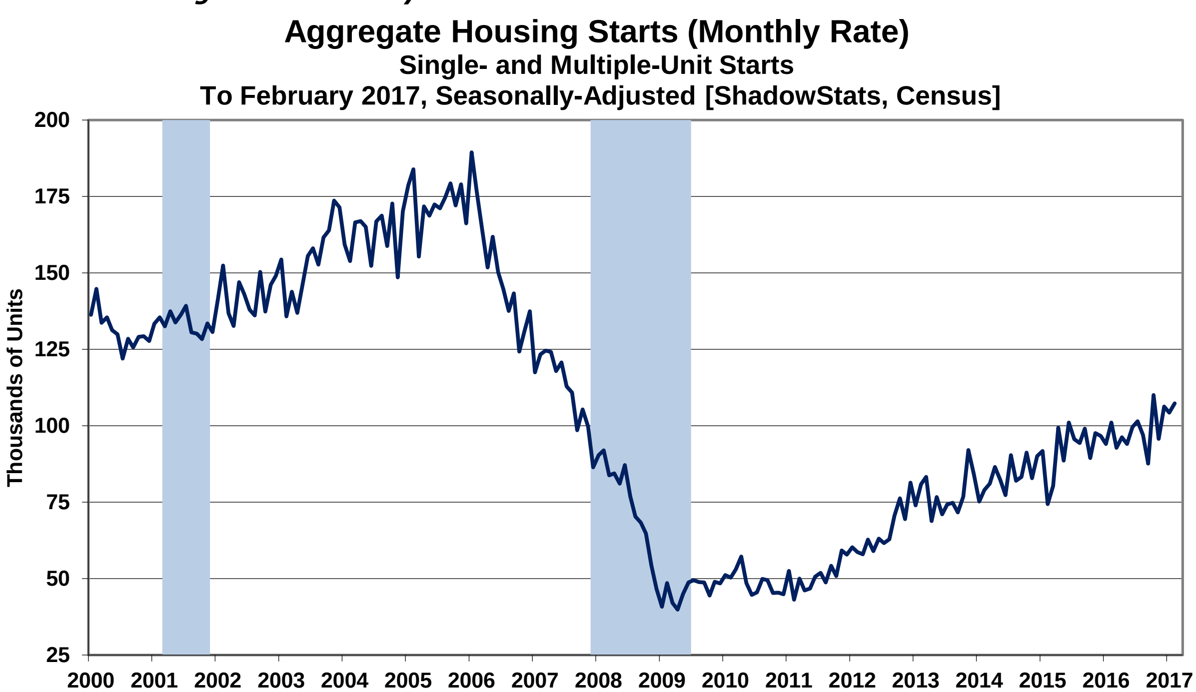
Graph 14: Single-Unit Housing Starts, Six-Month Moving Average, Monthly Rate of Activity



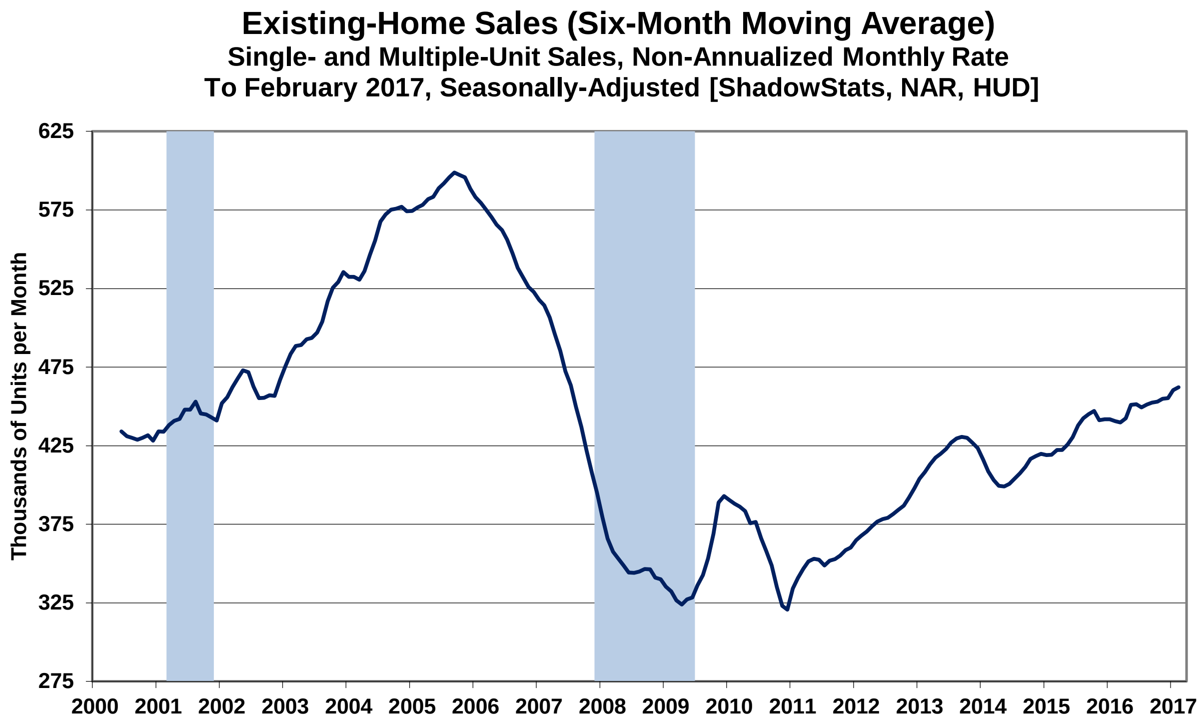
Graph 15: Existing-Home Sales – Monthly Level



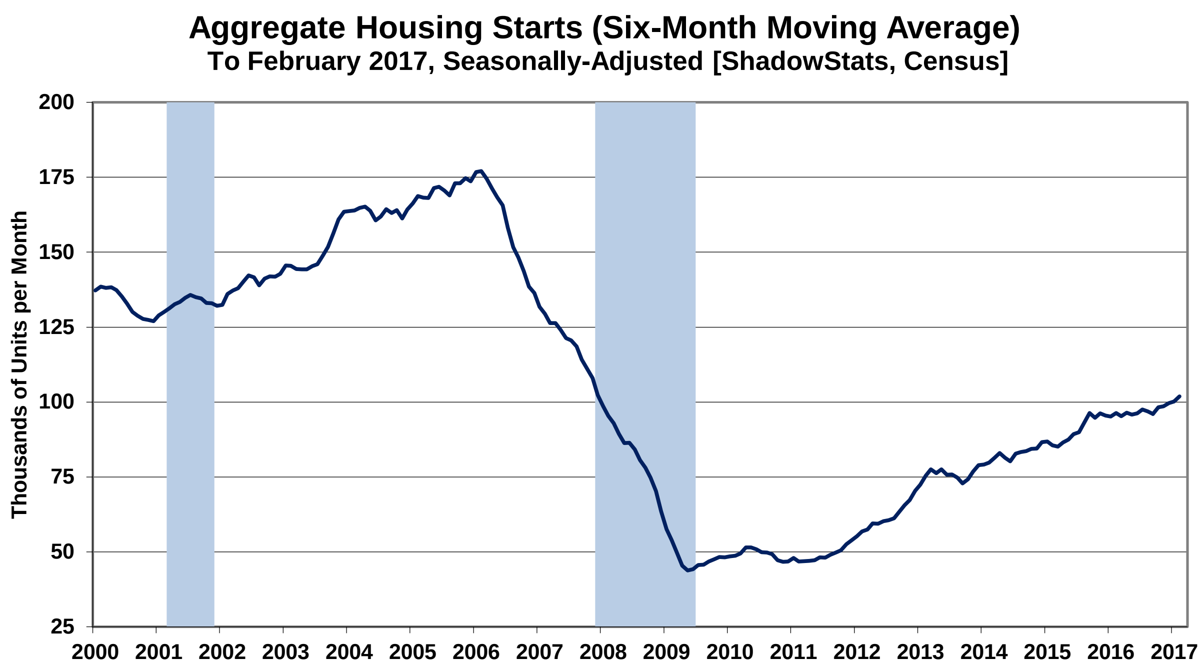
Graph 16: Total Housing Starts – Monthly Level



Graph 17: Existing-Home Sales (Six-Month Moving Average)



Graph 18: Total Housing Starts (Six-Month Moving Average)



[The* Reporting Detail *contains significant further analysis on Durable Goods Orders and New- and Existing-Home Sales.]

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (February 2017)

Aggregate Real Orders Rose Month-to-Month and Year-to-Year; Ex-Commercial Aircraft, Orders Declined for the Month, Up for the Year. In the context of a 47.70% monthly jump in February commercial-aircraft orders, versus an upwardly-revised level of January aircraft orders, nominal February 2017 new orders rose by 1.67% for the month and 5.05% year-to-year. The upside revision to January's headline gain to 2.34%, from 1.79%, also was due to largely to the upside revision in commercial-aircraft orders. Excluding commercial aircraft, new orders declined by 0.10% (-0.10%) in February 2017, versus a revised monthly gain of 0.62% [previously 0.34%] in January.

In this series, the best leading indicator to industrial production (particularly manufacturing) and to the general economy, is inflation-adjusted real new orders, ex-commercial aircraft, which showed a February 2017 month-to month decline of 0.28% (-0.28%), versus a revised gain of 0.32% in January 2017. Year-to-year real annual growth was 2.75% (rounds to 2.7%) in February 2017, versus 1.14% in January 2017.

For fourth-quarter 2016, the annualized real series, ex-aircraft, showed a quarterly gain of 5.80%, up by 1.37% year-to-year, with an early trend (based on two months) of first-quarter 2017 growth slowing to an annualized 1.03% quarterly pace, up by 1.51% year-to-year.

Despite the headline gains, the series remained in low-level, non-recovering stagnation, and it is a tentative, neutral leading indicator to second-quarter 2017 industrial production, a series that has remained in definitive recession since December 2014 (see prior *Commentary No. 874*).

Smoothed with six-month moving averages, and adjusted for inflation, both of the highly volatile new orders series (total and ex-commercial aircraft) generally remained in non-recovering, low-level stagnation. Those patterns also remained consistent in signaling ongoing or non-recovering recession (see *Graphs 7* to *10* in the *Executive Summary*).

Headline Nominal Detail. The Census Bureau reported this morning, March 24th, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate new orders for durable goods rose in February 2017 by 1.67%, month-to-month, having gained a revised 2.34% [previously 1.79%] in January, and having declined by a revised 0.86% (-0.86%) [previously down by 0.82% (-0.82%), initially down by 0.43% (-0.43%)] in December. Net of prior-period revisions, February 2017 orders rose by 2.18%, instead of the headline 1.67%.

Year-to-year, February 2017 nominal durable goods orders rose by 5.05% (rounds to 5.0%), having declined by a revised 0.10% (-0.10%) [previously down by 0.60% (-0.60%)] in January 2017 and having gained by a downwardly-revised 1.27% [previously 1.31%, initially 1.62%] in December 2016. That headline 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 generally continued to be flat, consistent with a downturn that had been holding in 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 *Executive Summary* section in the *Opening Comments*.

The corrected series—net of commercial aircraft orders—has remained relatively flat to down-trending, in a pattern of low-level 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 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 47.64% gain in February 2017 commercial aircraft orders boosted aggregate orders to a monthly gain of 1.67%, from what otherwise was a decline 0.10% (-0.10%). Net of an upwardly-revised headline monthly gain of 83.29% [previously 69.93%] in January 2017 commercial aircraft orders gained 0.62%, while a downwardly-revised gain of 9.10% [previously 9.31%, initially up by 42.44%] in December 2016 aircraft orders left the month with a net 1.05% (-1.05%) contraction.

Year-to-year and seasonally-adjusted, February 2017 new orders (net of commercial aircraft) rose by 4.24%, having gained a revised 2.49% in January 2017 and a revised 3.93% in December 2016.

Real Durable Goods Orders—February 2017. 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 February 2017 PPI series showed monthly inflation of 0.18%, versus 0.30% in January and 0.18% in December. Related year-to-year annual inflation has continued to rise, up to 1.45% in February 2017, versus 1.33% in January 2017 and 0.97% in December 2016 (see *Commentary No. 872*).

Adjusted for that 0.18% month-to-month inflation reading in February 2017, and as reflected in the graphs in the *Executive Summary* section, real month-to-month aggregate orders in February 2017 rose by 1.49%, having gained 2.03% in January 2017 and having declined by 1.03% (-1.03%) in December 2016. Ex-commercial aircraft, real month-to-month orders declined by 0.28% (-0.28%) in February 2017, having gained 0.32% in January 2017, following a decline in December 2016 of 1.22% (-1.22%).

Real total new orders rose year-to-year by 3.54% in February 2017, having declined in January 2017 by 1.41% (-1.41%) and having gained 0.30% in December 2016. Ex-commercial aircraft, February 2017 real orders rose year-to-year by 2.75% (rounds to 2.7%), having gained 1.14% in January 2017 and 2.93% in December 2016.

Real Quarterly Change, 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 or renewed downturn, 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 at an annualized real pace of 4.53% (-4.53%). Third-quarter 2016 showed an unrevised annualized gain of 4.03%, with fourth-quarter 2016 reporting revised to an annualized gain of 5.80% [previously 5.68%, initially 5.09%]. Based solely on the headline January and February details, first-quarter 2017 is on early track for an annualized gain of 1.03% [previously estimated at 0.71%, based on initial January reporting].

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 4* to *10*) are displayed in the *Executive Summary*. The first set (*Graphs 4* to *6*) 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, as well as annual growth for the series net of commercial aircraft. 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, ongoing downturn into 2016 with a late-year uptick continuing into early 2017.

The second set of graphs (*Graphs 7* and *8*) 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 understatement of that inflation (and for the corresponding overstatement of official, inflation-adjusted growth). The third set of graphs (*Graphs 9* and *10*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders. Separately, consider *Graph 1* in the *Opening Comments* of the twelve-month moving average of the real series, ex-commercial aircraft, shows patterns of activity that are parallel to activity indicated in *Graph 2* there of the historical Cass Freight Index™ (see *General Commentary No. 867*) and other broad indicators of economic activity. Those series show the general economy to be down-trending in recent years, never having recovered fully from the economic collapse into 2009 (see also *No. 859 Special Commentary*).

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 the February 2017 detail, unpublished historical revisions calculated along with the February seasonal adjustments, have made all historical reporting prior to December 2016 inconsistent with the current headline numbers.*

2016 Benchmark Revision. All historical data will be briefly consistent, once again, come the benchmark revision on May 18, 2017. Detailed in today's *Press Release*, the benchmarking will incorporate the 2015 Annual Survey of Manufactures and a variety of other data revisions, including revamped seasonal-adjustments back to February 2002.

NEW-HOME SALES (February 2017)

Amidst Further Downside Revisions to Fourth-Quarter Activity, and January and February Gains, the Smoothed Series Still Is 57.4% (-57.4%) Below Its Pre-Recession Peak. Headline monthly reporting of New-Home Sales remained of no substance, short term, as seen most frequently here with large, unstable and continuously shifting revisions to recent history, along with statistically-insignificant monthly and annual changes that just as easily could be a gain or a loss. Despite near-term gains, the reporting trend is flat, with the growth pattern of the smoothed six-month, moving-average turning flat-to-minus, as seen in *Graph 13* in the *Executive Summary*.

The February 2017 headline reporting of 592,000 units in annualized sales (a 49,333 monthly rate as used in the graphs in the *Executive Summary*) was up by 6.1% month-to-month, following a widened monthly gain of 5.3% in January, a deepened drop of 7.5% (-7.5%) in December 2016, with monthly November activity revising to a gain of 0.9%. As usual, neither the monthly nor annual headline change was statistically meaningful. The ongoing, short-term monthly volatility continued in the context of headline February 2017 activity holding below its never-recovered 2005 pre-recession peak by 57.4% (-57.4%), still deep in depression territory (see *Commentary No. 754*).

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 data smoothed out, New-Home Sales activity continued in a broad pattern of low-level stagnation, which continued flat-to-down with the headline reporting and revisions (again, see *Graph 13* in the *Executive Summary*).

Graphed either way, smoothed or not, the various housing series generally have continued to show patterns 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. Including New-Home Sales, related real-estate activity never has recovered along with the purported rebound in real GDP, which now stands 12.1% above its pre-recession high (see the *Opening Comments*). For example, from the series' pre-recession peak of July 2005, February 2017 New-Home Sales, again, were down by 57.4% (-57.4%), while February 2017 Single-Unit Housing Starts were down by 52.2% (-52.2%) from the January 2006 pre-recession high of that series (see *Commentary No. 873*).

Discussed in the *Executive Summary* section, the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential-real-estate sales 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.

Headline February 2017 New-Home Sales Reporting. Reported by the Census Bureau on March 23rd, in the context of an upside monthly revision to January 2017 activity, and downside monthly revisions for November and December 2016, February 2017 New-Home Sales (counted based on contract signings) rose month-to-month by a headline, seasonally-adjusted and statistically-insignificant 6.1% +/- 20.2% (all confidence intervals are at the 95% level).

That followed a revised monthly gain of 5.3% [previously 3.7%] in January, a revised December decline of 7.5% (-7.5%) [previously 7.0% (-7.0%)], and a revised November month-to-month gain of 0.9%

[previously 1.2%, 4.7%, initially up by 5.2%]. Net of prior-period revisions, the month-to-month change in February 2017 was a gain of 6.7%, instead of the headline 5.3%, still well shy of being statistically significant.

Year-to-year, February 2017 sales rose by a statistically-insignificant 12.8% +/- 21.1%. That followed a revised annual gain of 6.1% [previously 5.5%] in January 2017, a revised annual decline of 1.5% (-1.5%) [previously 0.6% (-0.6%), initially 0.4% (-0.4%)] in December 2016, and a revised annual gain of 12.8% [previously 13.2%, 17.7%, initially up by 16.5%] in November 2016. This series is 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 annualized gain of 17.9%, with second-quarter 2016 up by 29.5%, and third-quarter activity at an annualized pace of 13.6%. Fourth-quarter 2016 sales contracted at a revised annualized pace of 16.6% (-16.6%) [previously 15.3% (-15.3%), initially down by 9.7% (-9.7%)], with the initial first-quarter 2017 trend a gain of 8.6%, based just on January and February detail [previously a contraction of 3.1% (-3.1%), based solely on headline January 2017 detail].

New-Home Sales Graphs. The regular monthly graph of New-Home Sales is included in the *Executive Summary* section, along with a six-month moving-average version of the series (*Graphs 11* and *13*). Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of February 2017 Housing Starts for single-unit construction, from *Commentary No. 873*, (*Graphs 12* and *14*) along with comparative graphs of the Existing-Home Sales and related series (see *Graphs 15* to *18*).

EXISTING-HOME SALES (February 2017)

Sales Activity Declined Month-to-Month and Rose Year-to-Year, but It Still Held in Non-Recovering Stagnation, Down by 24.6% (-24.6%) from Its Pre-Recession Peak. In the context of the proportion of monthly sales in foreclosure rising to a nine-month high, and all-cash sales jumping to 27%, matching the highest level since November 2015, Existing-Home Sales declined month-to-month in February 2017 by 3.7% (-3.7%). That was against an unrevised monthly gain of 3.3% in January and a decline of 1.6% (-1.6%) in December. Going against a steeper monthly decline of 5.1% (-5.1%) in February 2016, February 2017 year-to-year growth rose to 5.4%, versus 3.8% in January 2017 and 1.1% in December 2016.

The series remained in depression (see *Commentary No. 754*). Although the prior month of January 2017 had been the highest monthly sales level since February 2007, headline February 2017 activity still was down by 24.6% (-24.6%) from the pre-recession peak of the series. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, albeit currently in a fluctuating uptrend. All that said, the National Association of Realtors (NAR) has touted the aggregate 2016 sales level as the strongest since 2006. Yet the 2016 annual sales rate still was down by 15.9% (-15.9%) from 2006, and down by 22.8% (-22.8%) from the pre-recession peak annual-average sales rate of 2005.

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 for the 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-to-rising trends, but well below anything approaching formal recovery in economic activity.

Discussed in the *Executive Summary*, the underlying problem remains that a U.S. consumer 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 properties.

Specifically, Existing-Home Sales activity in February 2017, again, was down by 24.6% (-24.6%) 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 43.3% (-43.3%) from their January 2006 pre-recession high (see *Commentary No. 873*).

Headline February Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® reported March 22nd a seasonally-adjusted, headline monthly decline of 3.69%(-3.69%) in February 2017 Existing Home Sales, following an unrevised gain of 3.27% in January and a 1.61% (-1.61%) decline in December.

Year-to-year growth in February 2017 existing sales was 5.38%, versus 3.83% in January 2017 and 1.10% in December 2016.

Going back a year on quarter-to-quarter activity, 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%).

Incorporating recast seasonal factors in 2016, from last month's detail, first-quarter 2016 sales expanded at an annualized 12.6% (previously 7.9%) pace of growth, followed by 9.3% (16.3%) in second-quarter 2016, with an annualized contraction of 6.9% (-6.9%) [8.0% (-8.0%)] in third-quarter 2016 activity and 13.0% [previously 14.0%] gain in fourth-quarter 2016 activity. With just the initial January and February 2017 detail in place, first-quarter 2017 activity is on early track for a slower 2.8% pace of annualized growth.

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years (*Graph 15*). All that said, smoothed for irregular distortions, the reporting remained statistically consistent with a period of low-level, broad stagnation, moving from up-trending to down-trending and to up-trending, again, as indicated in *Graph 17* of the *Executive Summary*.

Proportion of Distressed Sales Held at 7% in January, with All-Cash Sales Jumping to 23%. The NAR estimated the portion of February 2017 sales in "distress" at 7% (6% foreclosures, 1% short sales) held even with January 2017 and December 2016, where December had notched higher, for the third consecutive month, to 7% (5% foreclosures, 2% short sales). February 2017 distressed sales were down from 10% (7% foreclosures, 3% short sales) in February 2016. With a shift in the mixture of the "distressed" properties, however, actual sales in foreclose rose to 7%, the highest level in nine months, since May 2016.

The September 2016 reading of existing-home sales in distress at 4% (3% in foreclosure, 1% short sales) had been 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. The October aggregate reading moved to 5%, with November at 6% and December 2016 at 7%, again, with in January 2017 at 7%.

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 jumped to 27% in February, versus 23% in January 2017 and 25% in February 2016.

Existing-Home Sales Graphs. Shown in the *Executive Summary*, *Graph 15* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 17* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of February 2017 aggregate Housing Starts activity, from *Commentary No. 873*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 16* and *18*). *Graphs 11* to *14* show comparative graphs of New-Home Sales and related series.

WEEK, MONTH AND YEAR AHEAD

Despite Recent Rate Hike, Continuing Economic Woes Promise a Compromised, Frustrated Fed and Deteriorating U.S. Dollar Support. The outlook for future FOMC actions was reviewed in the *Opening Comments* of *Commentary No. 873*, while the latest assessment of current economic activity is found in *Commentary No. 874* as well as in today's *Opening Comments*.

Broadly, as reflected in common experience, actual U.S. economic activity continues in economic stagnation or downturn, never having recovered fully its level of pre-economic-collapse (its pre-2007-recession peak). While the latest headline GDP shows economic expansion of 12.1% since that series recovered its 2007-pre-recession high in 2011, no other "recovered" economic series come close to showing that expansion. The majority of the better-quality series has remained in continuing, not-recovered status, in a period of protracted downturn that now rivals that of the Great Depression (see *Commentary No. 869*). With new signals for intensifying, near-term economic woes in hand, the FOMC shortly should shift policies, once again, reverting to some form of quantitative easing, in an effort to address renewed solvency risks in the domestic banking system.

Discussed in *No. 859 Special Commentary*, the Trump Administration faces extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on prospects for long-range U.S. Treasury solvency and for stability and strength in the U.S. dollar. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, before it meaningfully impacts the broad economy. Needed at the same time are a plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control, and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (again, see *No. 859*).

Prior General Background. *No. 859 Special Commentary* also updated near-term economic and inflation conditions, and the outlook for same, including the general economic, inflation and systemic distortions evolving out of the Panic of 2008 that have continued in play, and which, again, need to be addressed by the new Administration in the immediate future (see also the *Hyperinflation Watch* of *Commentary No. 862* and *Commentary No. 869*).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a "new" formal recession (see *General Commentary No. 867*).

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has been making loud noises of continuing to raise interest rates, in order to contain an overheating economy. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *Commentary No. 869*, *No. 777 Year-End Special Commentary* (December 2015*)*, *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). Those publications updated the long-standing hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Recent Commentaries:

Commentary No. 874 reviewed February 2017 Industrial Production and updated the general economic outlook.

Commentary No. 873 discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with a review of the February 2017 Residential Construction reporting.

Commentary No. 872 offered some initial comment on the FOMC rate hike, in conjunction with the review of February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

Commentary No. 871 covered February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

Commentary No. 870 assessed the headline details for the January 2017 Trade Deficit and January Construction Spending, and reviewed prospects for an FOMC rate hike on March 15th.

Commentary No. 869 reviewed and assessed underlying economic reality and a broad variety of indicators in the context of the second-estimate of fourth-quarter 2016 GDP.

Commentary No. 868 covered the prior reporting of January 2017 New Orders for Durable Goods.

General Commentary No. 867 assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 analyzed the prior January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations. The GAAP-detail will be reviewed this month in a *Special Commentary*.

No. 859 Special Commentary reviewed and previewed economic, financial and systemic developments of the year passed and the year or so ahead.

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 inflation and to overstate economic activity—as generally viewed in the common experience of Main Street, U.S.A.—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 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 2016 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 July 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*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING RELEASE: Gross Domestic Product (GDP)—Fourth-Quarter 2016, Third Estimate, Second Revision. The Bureau of Economic Analysis (BEA) will publish its third guesstimate of fourth-quarter 2016 Gross Domestic Product (GDP), along with initial estimates of Gross Domestic Income (GDI) and Gross National Product (GNP) for the quarter, on Thursday, March 30th. Detail will be covered in *Commentary No. 869* of that date.

With continued minimal or offsetting revisions to underlying headline data, the initial headline guess of 1.9% annualized real quarterly growth in fourth-quarter 2016, and the second headline guess of 1.9%, likely will be little altered in the third headline guess, despite fourth-quarter GDP growth likely having contracted quarter-to-quarter in real-world activity. In any event, the growth rate still should hold sharply below the headline 3.5% annualized real quarterly growth of third-quarter 2016.

That said, the initial reporting of fourth-quarter GDI—the income-side's theoretical equivalent to the GDP's consumption side—always can offer an unusual surprise with its headline detail. More meaningfully, so, too, can the initial reporting of the GNP, which is the broadest measure of domestic economic activity, reflecting the GDP net of the trade balance in factor income (interest and dividend payments).

PENDING SPECIAL COMMENTARIES: *GAAP-Based Accounting of the U.S. Government (Fiscal-Year 2016).* With some preview in *Commentary No. 861* and *No. 859 Special Commentary*, full analysis is planned as a *Special Commentary* in next week, before the March 30th GDP revision and the March 31st annual benchmark revisions to Industrial Production.

The consolidation of the major *ShadowStats* reporting into one volume, including the recommended reading list now is targeted for the third full week in April.