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

COMMENTARY NUMBER 889
GDP Revision, April Durable Goods and Home Sales

May 26, 2017

Nonsense in the Gross Domestic Product (GDP) Reporting

Gross Domestic Income (GDI) - Theoretical Equivalent of the GDP - Gained 0.85% in First-Quarter 2017, After a Revised Fourth-Quarter Contraction of 1.38% (-1.38%), Previously up by 1.00%

First-Quarter 2017 GDI Activity Still Is Below Third-Quarter 2016

Headline First-Quarter Details Otherwise Showed Stalling Economy, with GDP at 1.15%, GDI at 0.85%, GNP at 0.99%

Better-Quality Series Still Show Continuing, Protracted Economic Collapse, with No Recovery of Pre-Recession Highs and No Economic Expansion

In the Context of Downside Benchmark Revisions, Durable Goods Orders Declined Month-to-Month, Before and After Inflation and/or Commercial Aircraft Orders

Monthly New- and Existing-Home Sales Declined in March, In the Continuing Context of Low-Level, Non-Recovered Stagnation

Real Median Monthly Household Income Has Shown No Net Gain Since February 2002

PLEASE NOTE: The next regular Commentary *scheduled for June 2, 2017 will cover May 2017 Employment and Unemployment, along with April Construction Spending. Where the monthly April Trade Deficit detail and accompanying Annual Revisions will be released coincident with the Employment data, an extensive Trade analysis will go over the weekend, scheduled for a separate* Commentary *on Monday, June 5th, including an updated economic outlook.*

Best wishes to all for a most enjoyable Memorial Day Weekend! — John Williams (707) 763-5786

Today's *Commentary* (May 26th). Broad economic conditions are reviewed in the ***Opening Comments***, with the headline monthly details of the first revision to First-Quarter 2017 GDP, April New Orders for Durable Goods and New and Existing Home Sales discussed in the ***Executive Summary***.

The ***Reporting Detail*** (beginning page 27) provides extended analysis and additional graphics on the new headline reporting.

The ***Week, Month and Year Ahead*** (beginning page 43) reviews recent *Commentaries* and previews next week's Labor data for May and the April Trade Deficit and Construction Spending..

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economy Remains in Trouble, with Fourth-Quarter Activity Looking Much Worse. In the context of downside benchmark revisions to new orders for durable goods, April orders declined month-to-month and growth slowed year-to-year, both before and after consideration for inflation and/or relative change in commercial aircraft orders. Such was a signal for a stalling economy, as were the nonsensical headline details in the latest Gross Domestic Product (GDP) reporting, as likely were the headline monthly declines in the unstable reporting of new- and existing-home sales. A major review of the economic outlook will follow next week's headline labor reporting, along with the analysis of the trade-deficit revisions. As suggested in the *Executive Summary* of the GDP data, underlying reality is not a happily expanding U.S. economy.

The financial markets often have moved sharply, when headline reporting of GDP growth has varied minimally, say plus or minus 0.2%, from consensus expectations. Yet, nothing happens when the Gross Domestic Income (GDI) revises unexpectedly in the fourth-quarter 2016 from an annualized quarterly real gain of 1.00% to a contraction of 1.38% (-1.38%), with headline first-quarter 2017 activity now below that of third-quarter 2016.

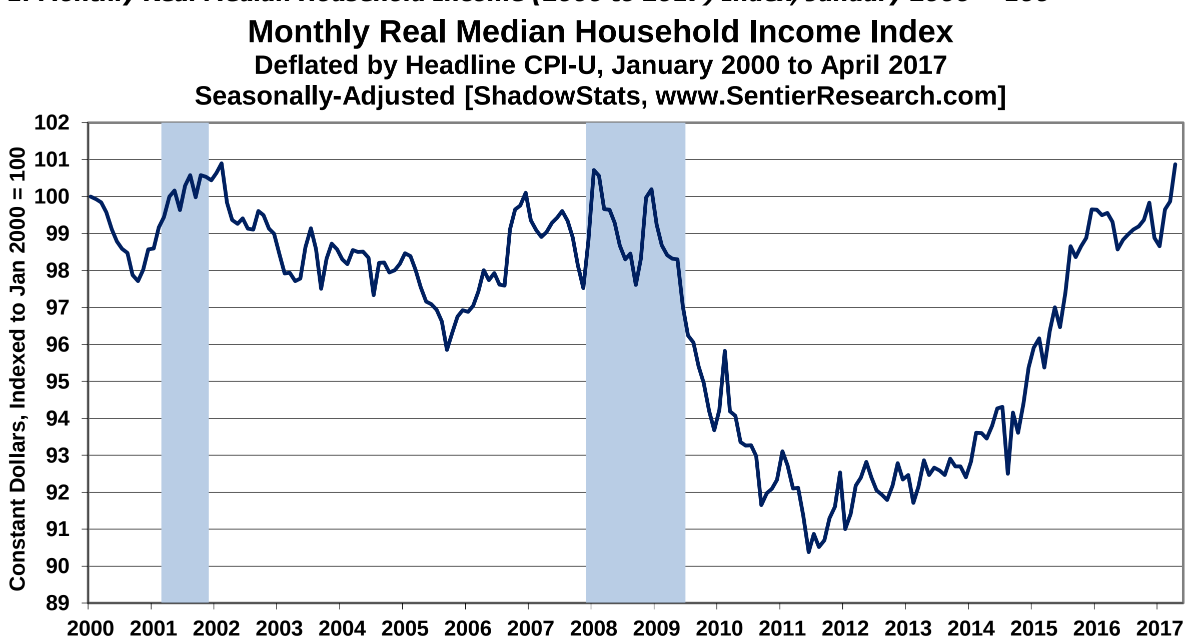
The GDI is the income-side equivalent of the consumption-side GDP. Although the Bureau of Economic Analysis (BEA) touts the GDP as the more-accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through. The BEA recently even has begun to publish a combined GDP and GDI measure, an average of the quarterly growth rates, as perhaps a better way of looking at the economy. The broad, official picture for fourth-quarter 2016 economic activity just took a big hit, although fourth-quarter GDP activity will not be revised until the annual benchmark revisions to GDP are published on July 28th.

April 2017 Real Median Household Income Just Recovered Its Level of 2002. Separately, there has been no net gain in real median monthly household income since February 2002. In the context of the recently faltering gains in consumer optimism and boosted by a relatively softer or negative headline Consumer Price Index (CPI-U), weakened by seasonally-adjusted gasoline price declines, April 2017 Real Median Monthly Household Income showed a "statistically significant" monthly gain of 1.00%, per www.SentierResearch.com. That followed a statistically-insignificant monthly gain of 0.22% in March 2017. As shown in *Graph 1*, that enabled April 2017 real monthly median household income to regain a level last seen fifteen years ago, in February 2002. Year-to-year real median household income rose by 1.57% in April 2017, following an annual gain of 0.31% in March 2017 (see *Graph 2*).

Where real median income plunged to a trough with the economic collapse in 2009, the recent "rebound" still leaves consumers financially strapped. This headline measure of April 2017 real monthly median household income updates the detail discussed in prior *Special Commentary No. 888* (see *Graphs 16* and *17* there on page 14), which goes into deeper and greater detail.

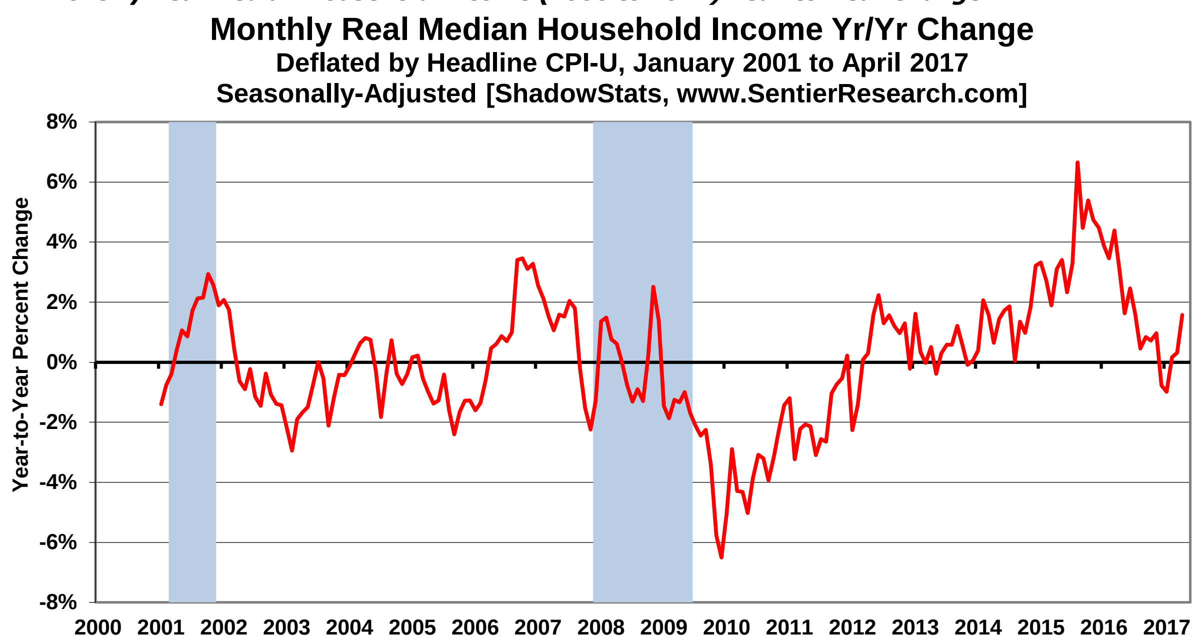
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. Again, the income series had been in low-level stagnation, with the post-2014 uptrend in the inflation-adjusted monthly index boosted specifically by collapsing gasoline prices and related, negative headline CPI-U consumer inflation. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions. It should resume turning down anew, as headline monthly consumer inflation generally picks up at an accelerating pace.

Graph 1: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for the last couple of months, the effects of changing gasoline prices generally have reversed, pushing headline consumer inflation higher.

Graph 2: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



Executive Summary—Gross Domestic Product (GDP)—First-Quarter 2017, Second Estimate—Nonsense Reporting. A rapidly deteriorating broad economic picture emerged from the first round of monthly Gross Domestic Product (GDP) revisions and initial reporting of Gross Domestic Income (GDI is the income-side equivalent to the consumption-side GDP), and Gross National Product (GNP is GDP net of international flows in interest and dividend payments) for first-quarter 2017. Suggestions here are for a potentially interesting GDP benchmark revision on July 28th.

While current headline, annualized first-quarter real growth estimates are tepid at 1.15% for the GDP, 0.85% for the GDI and 0.99% for the GNP, the GDI was just revised sharply lower, into a quarterly contraction for fourth-quarter 2016, with first-quarter 2017 activity still below that of third-quarter 2016. Such a pattern is consistent with the onset of a new recession, which suddenly looks like it might be gaining some credence in headline national income accounting. Reporting of the next two months and the July 28th GDP benchmarking will be telling.

Headline year-to-year real growth in first quarter 2017 GDP revised higher to 2.04% (previously 1.92%), versus 1.96% in fourth-quarter 2016. Plots of the historical GDP levels as well as annual GDP changes are found in the *Reporting Detail*, along with related *Graphs 3* to *6* and a set of comparative *Graphs 7* to *11*, later in this *Executive Summary*.

First-Quarter 2017 GDP, Second Estimate - Growth Distribution. The second estimate of first-quarter 2017 GDP at 1.15% [previously 0.69%] reflected combined growth patterns from four sub-categories. The annualized growth contribution from each sub-category of consumer spending, business/residential investment, trade deficit and government spending is additive, summing in combination to the total headline change in GDP, where 0.44% + 0.78% + 0.13% - 0.20% = 1.15%. *Commentary No. 883* of April 28th detailed the growth-distribution for the initial reporting of first-quarter 2017 GDP.

Regrouped by general product line, the BEA second estimate was that the headline first-quarter gain of 1.15% [previously 0.69%] GDP encompassed a growth-rate contribution of 0.21% [previously 0.03%] from services, a negative contribution of 0.08% (-0.08%) [previously 0.13% (-0.13%)] from goods and a 1.02% contribution [previously a 0.80%] from structures.

Contributing Growth Factors. Headline first-quarter 2017 GDP growth remained dominated by a sharp decline in inventory building, declining auto sales, a weather-induced declining utility usage and declining government spending, offset by surging investment in structures and equipment, healthcare and a small trade surplus. The net upside "first revision" was spread largely across most areas,

- ***Consumer Spending Contributed 0.44% [previously 0.23%] to First-Quarter 2017 Growth, Fourth-Quarter 2016 Growth Contribution Was 2.40%.*** The consumer spending category was dominated by declining motor vehicle sales (with some offset from recreational vehicles), declining energy consumption and surging healthcare. Energy consumption revised weaker, but significant relative improvement was found in the healthcare/hospital categories.

- ***Business/Residential Investment Contributed 0.78% [previously 0.69%] to First-Quarter 2017 Growth, Fourth-Quarter 2016 Growth Contribution Was 1.40%.*** Real estate investment in both residential and nonresidential structures surged in the quarter, along with investment in equipment. Those areas more than offset a revised negative growth contribution of 1.07% (-1.07%) [previously 0.93% (-0.93%)] from declining inventory growth. Accordingly, headline final sales—GDP net of inventory change—revised to an annualized quarterly growth rate of 2.22% (previously 1.62%), versus a 1.07% fourth-quarter 2016 increase.

- ***Net Exports Contributed 0.13% [previously 0.07%] to First-Quarter 2017 Growth, Subtracted 1.82% (-1.82%) from Fourth-Quarter 2016 GDP Growth.*** Also running counter to more-negative indications, net-export activity turned positive, quarter-to-quarter, reflecting what eventually should prove to be a faux trade surplus in the quarter (see *Commentary No. 878*).

- ***Government Spending Subtracted 0.20% (-0.20%) [previously 0.30% (-0.30%)] from First-Quarter 2017 Growth, Fourth-Quarter 2016 Growth Contribution Was 0.03%.*** Federal government spending subtracted 0.14% (-0.14%) from the headline first-quarter GDP growth, largely in reduced defense spending. The narrowed, negative contribution of 0.06% (-0.06%) in state and local government spending was in the nebulous and irregularly-volatile "investment" area.

Implicit Price Deflator (IPD) and ***Gross National Product (GNP) and Gross Domestic Income (GDI)*** details are covered in the *Reporting Detail*.

Underlying Economic Reality. *[Much of the following section is repeated from the earlier* GDP Commentaries*, but the detail reflects the latest developments and economic reporting (also see the* ECONOMY *section of* No. 859 Special Commentary*, and related headline issues raised in* Special Commentary No. 888, Commentary No. 887, Special Commentary No. 885, Commentary No. 877 *and* Commentary No. 876 *all incorporated here by reference.)*

NOTE: Separately, the National Income series all are due for annual benchmark revisions on July 28th, which will revise GDP history back to 2014, likely showing a weaker economic story, in the context of recent annual revisions to Industrial Production, Retail Sales and Manufacturers' Shipments (see Commentary No. 877, Commentary No. 882 *and* Special Commentary No. 888. *It will be the next comprehensive GDP benchmarking in 2018, however, with revisions back to 1929, that most likely will show a more realistic picture of the economic collapse into 2009.]*

Despite the booming 3.51% real annualized GDP growth in third-quarter 2016, a fourth-quarter 2016 gain of 2.08% and a revised headline gain of 1.15% in first-quarter 2017 detail, realistic, underlying U.S. economic activity has continued in a deepening-to-flattening and as-yet-unrecognized "new" recession. Headline monthly reporting activity in better-quality subsidiary economic series continues to confirm that general direction (the ShadowStats contention remains that the "new" downturn is in reality just a continuation of the economic crash into 2009, from which the aggregate real-world economy never fully recovered.

Such is despite some corrective actions taken by the Trump Administration, and new policies planned to generate new economic stimulus. Assuming eventual legislative cooperation from Congress, and given basic economic lead times, the first major, positive impact on the economy from that would be mid-2018, at the earliest. Interim economic activity and even headline GDP reporting still should turn lower in the next several quarters.

Discussed in *Commentary No. 823*, the 2016 GDP benchmark revisions effectively were neutral in aggregate, with the business-cycle reporting "smoothed" by the BEA. The revisions were not of a nature to trigger formal immediate recognition of a "new" or double-dip recession, which likely still will be clocked from December 2014. While that should happen eventually, the focus now should be on the rapidly weakening economy in the months ahead (one more revision to first-quarter 2017 GDP, with initial second-quarter 2017 GDP reporting and accompanying 2017 annual benchmark revisions, since first-quarter 2014), which still might trigger a "formal" recession recognition.

Beyond the smoothing gimmicks of the 2016 benchmarking, the prior year's 2015 GDP annual benchmark revisions coverage—in *Commentary No. 739*—noted that annual benchmarkings increasingly were reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips. By the next "comprehensive" GDP benchmark revision in July 2018 (a restatement of activity back to 1929), post-2007 historical GDP reporting should be confirming a non-recovering, multiple-dip economic collapse including a "new" or ongoing recession.

That circumstance should encompass the evolving, current downturn in broad, domestic economic activity, discussed in *No. 859 Special Commentary*. Again, the present, unofficial "new" recession or multiple-dip downturn remains likely to be timed from December 2014, even without headline back-to-back contractions of quarterly GDP currently in place. Formal recognition of same remains pending, where consecutive quarterly GDP contractions no longer are necessary for formal recession recognition (see the opening paragraphs of *Commentary No. 823*).

Headline Aggregate GDP Remains Heavily Overstated versus Underlying Reality. Formal headline GDP activity continues to run well above economic reality as signaled by a number of better-quality business indicators, as reviewed here and in *No. 859 Special Commentary*. A sampling of those indicators—plotted in this section—includes such varied series as domestic freight activity (*Graph 7*), industrial production of consumer goods (*Graph 8*), U.S. petroleum consumption (*Graph 9*), total real U.S. construction spending (*Graph 10*) and the employment-population ratio (*Graph 11*). Either the GDP reporting is wrong, or most other major economic series are wrong (see *Commentary No. 876* and *Commentary No. 877*).

While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to measure real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the headline post-2009 faux ongoing economic recovery and expansion.

Accordingly, the broad ShadowStats economic outlook has not changed, and, again, the gist of most of following text remains along the lines as expounded upon in *No. 859*. The details and numbers here, however, are updated for the latest headline information. In combination, these various collapsing economic indicators eventually should engender a formal recession call, irrespective of the timing of actual, if any, headline quarterly contractions in real GDP, or what likely was related political gaming of the GDP data up through year-end 2016.

Fundamental, real-world economic activity shows that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in late-2014, early-2015. Irrespective of the reporting gimmicks introduced in the July 2013, July 2014 and July 2016 GDP benchmark revisions—including a recent pattern of inclusion and estimation of highly-questionable data on the Affordable Care Act (ACA) and related healthcare spending—a consistent, fundamental pattern of faltering historical activity is shown in the accompanying "corrected" GDP graphs (see *Graphs 4* and 5).

Discussed in *Consumer Liquidity Conditions* section of prior *Special Commentary No. 888*, with liquidity-strapped consumers unable to fuel sustainable growth in consumption, a full business recovery could not have taken place since 2009. A "Recovery" and renewed economic "Expansion" (see *Commentary No. 875* for definitions) will not be forthcoming until consumer structural income and liquidity problems are resolved, including more-normal credit functioning of the domestic banking system.

Official and Corrected GDP. Reviewed and graphed in the *Opening Comments* of *Commentary No. 876*, the full economic Recovery and post-third-quarter 2011 Expansion indicated by headline real GDP numbers, remains an illusion. In scope, it is not supported by other major economic series. It is a statistical mirage created at least partially by using a too-low rate of inflation in deflating (removing certain inflation effects) from the GDP series. The accompanying graphs also tell that story, updated for the second estimate of first-quarter 2017 GDP, as well as reflecting a sampling of other elements of economic reality.

The first set of graphs (*Graphs 3* and *4*) updates the detail 1970-to-date, expressed in billions of 2009 dollars as used with the headline GDP. The graphs show official periods of recession as shaded areas, with ShadowStats-defined recessions indicated by the lighter shading in *Graph 4*, the second graph of the first set, as published initially in *2014 Hyperinflation Report—Great Economic Tumble*.

The second set of graphs (2000-to-date) is the one that traditionally has been incorporated in the GDP *Commentaries*. *Graphs 5* and 6 show short-term detail, expressed on an index base where first-quarter 2000 = 100.0.

Shown in the first graph of each set (*Graphs 3* and *5*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—fully recovered and in economic expansion—since third-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for GDP inflation (the implicit price deflator or IPD), the second estimate of first-quarter 2017 GDP currently stands 12.5% above its pre-recession peak-GDP estimate of fourth-quarter 2007. Again, no other major economic indicators are showing recovery or expansion close to the GDP's. None of the series covered in this section and in *No. 859* has shown a significant recovery.

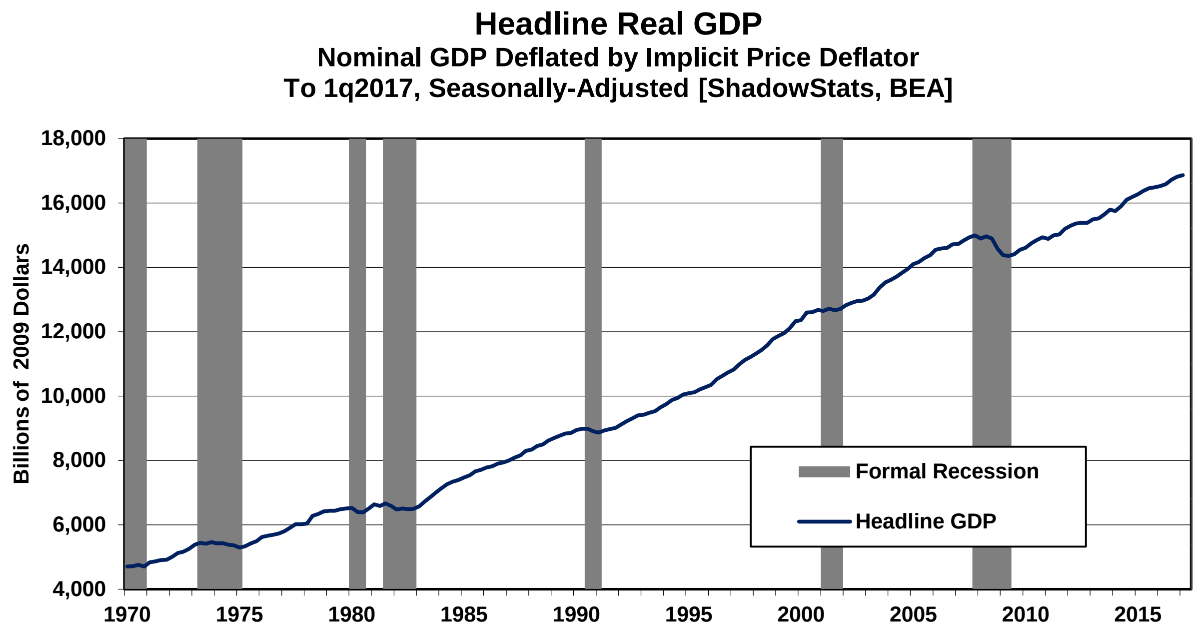
In contrast, the "corrected" GDP version, in the second graph of each set (*Graphs 4* and *6*), shows first-quarter 2017 GDP activity to be down by 7.3% (-7.3%) from its pre-recession peak of first-quarter 2006. Noted in *General Commentary No. 867*, *Commentary No. 869* and *Commentary No. 887*, headline Industrial Production and the related Manufacturing series are rivaling the Great Depression in terms of the number of quarters or months of non-Expansion.

Again, the second graph in each series (*Graphs 4* and *6*) plots the *Corrected Real GDP*, adjusted for the understatement inherent in official inflation estimates (see *Public Commentary on Inflation Measurement*), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation in recent years. The inflation understatement has resulted from hedonic-quality adjustments, also as discussed in the *Hyperinflation Reports*.

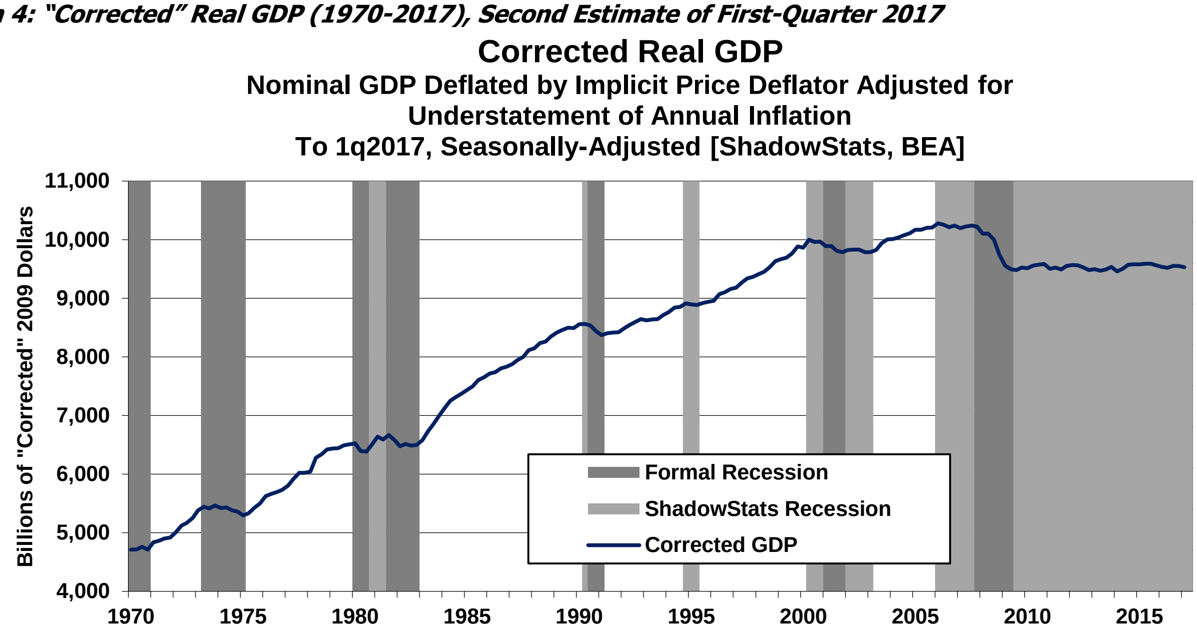
The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is seen with many series. As shown in *Graphs 7* to *11* (again also see *No. 859*), better-quality independent numbers—including some U.S. government—put the lie to the gimmicked headline reporting that has been massaged for decades by government agencies and consulting academics.

[Graphs 3 to 11 begin on the following page.]

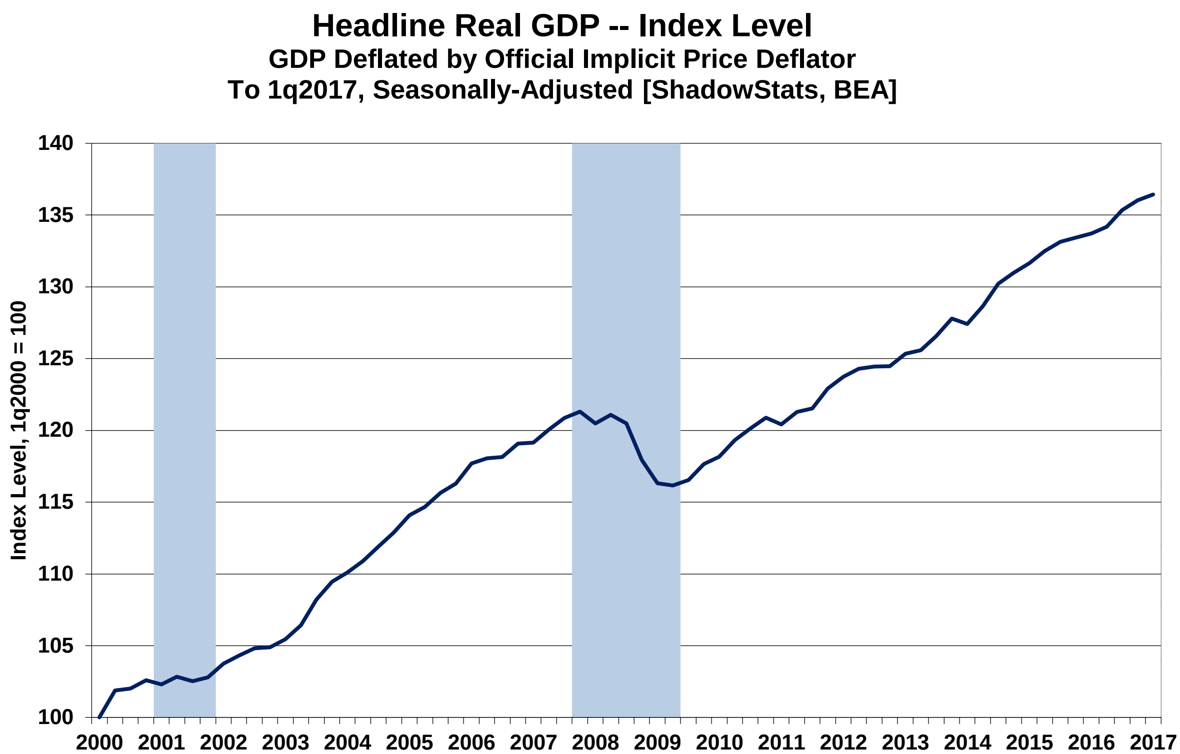
Graph 3: Real GDP Index (1970-2017), Second Estimate of First-Quarter 2017



Graph 4: "Corrected" Real GDP (1970-2017), Second Estimate of First-Quarter 2017



Graph 5: Real GDP Index – Headline Real GDP through Second Estimate of First-Quarter 2017



Comparative Indicators. *Graph 6* of the "corrected" GDP series follows, along with a sampling of comparative economic indicators (see the expanded coverage in *No. 859*). The comparative indicators here generally confirm the story from the "corrected" GDP graph that the economy never recovered from its collapse into 2009 and is either in renewed downturn or in continuing low-level stagnation, albeit some of the latter may be slightly up-trending.

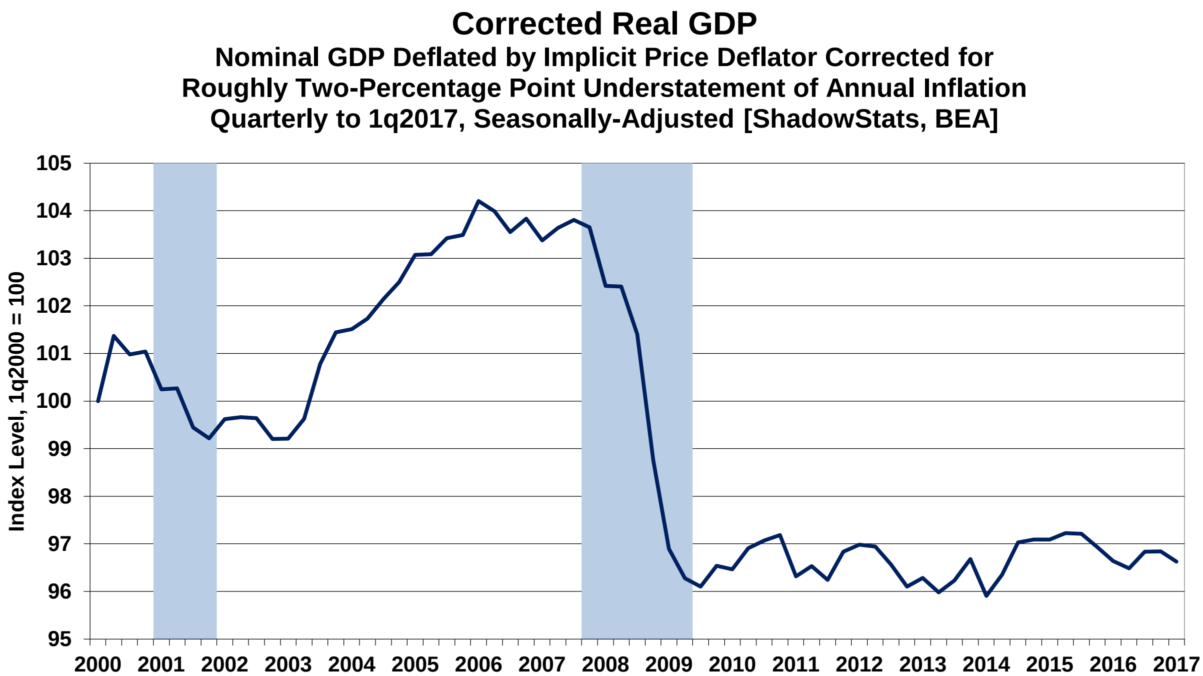
Graph 7 shows the Cass Freight Index™ measure of North American freight volume through March 2017 (see *Commentary No. 881*), used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity. As a broad measure of basic domestic economic activity, the index has much more in common with the "corrected" GDP in *Graph 6*, than with the headline GDP of *Graph 5*. It also tends to follow activity in New Orders for Durable Goods, again, as noted in *Graphs 21* and *22* the New Orders for Durable Goods section following. The Cass Index should be updated for April 2017 in the immediate future and covered in the next *Commentary No. 890*.

Graph 8 plots the headline level of activity for industrial production of consumer goods, which represents 17% of GDP (see *Commentary No. 887*).

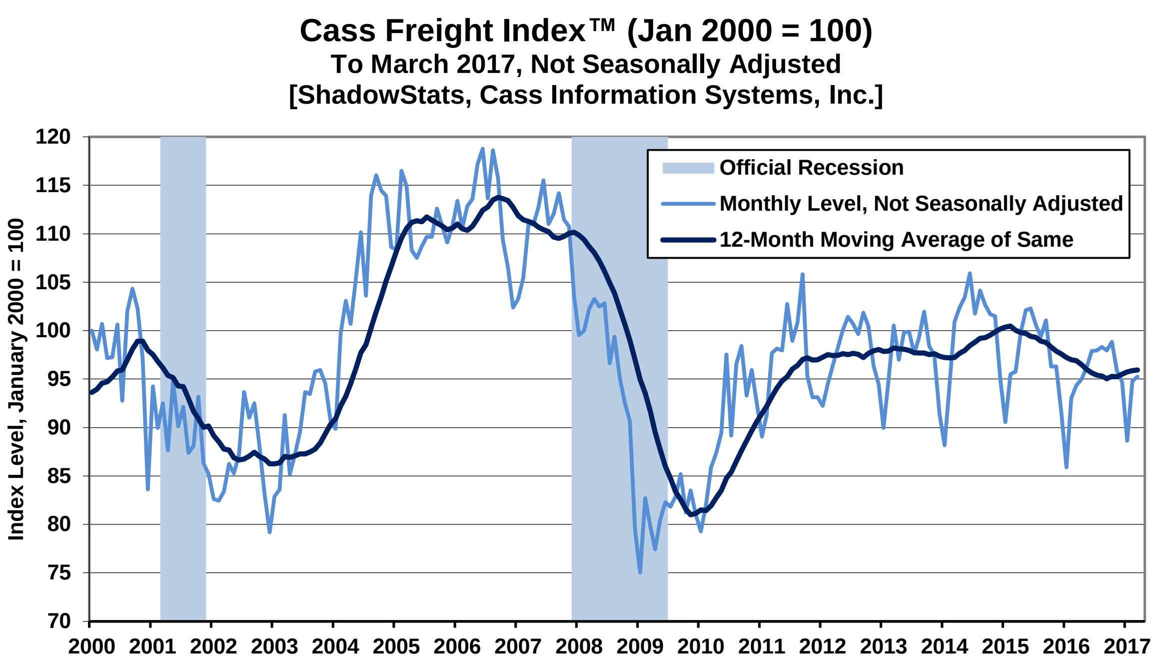
Graph 9 of U.S. Petroleum Consumption and *Graph 10* of inflation-adjusted total U.S. Construction Spending (see *Commentary No. 878*, including everything from roads and office buildings to residential construction) are among the variety of indicators that show patterns of economic collapse into 2009/2011, followed by some minimal (not full) recovery and ongoing stagnation.

Graph 11 of the employment-to-population ratio remains a solid indicator of underlying labor conditions in the context of the broad population and long-term discouraged and displaced workers, reflected there through April 2017 (see *Special Commentary No. 885*).

Graph 6: "Corrected" Real GDP Index (2000-2017), Second Estimate of First-Quarter 2017

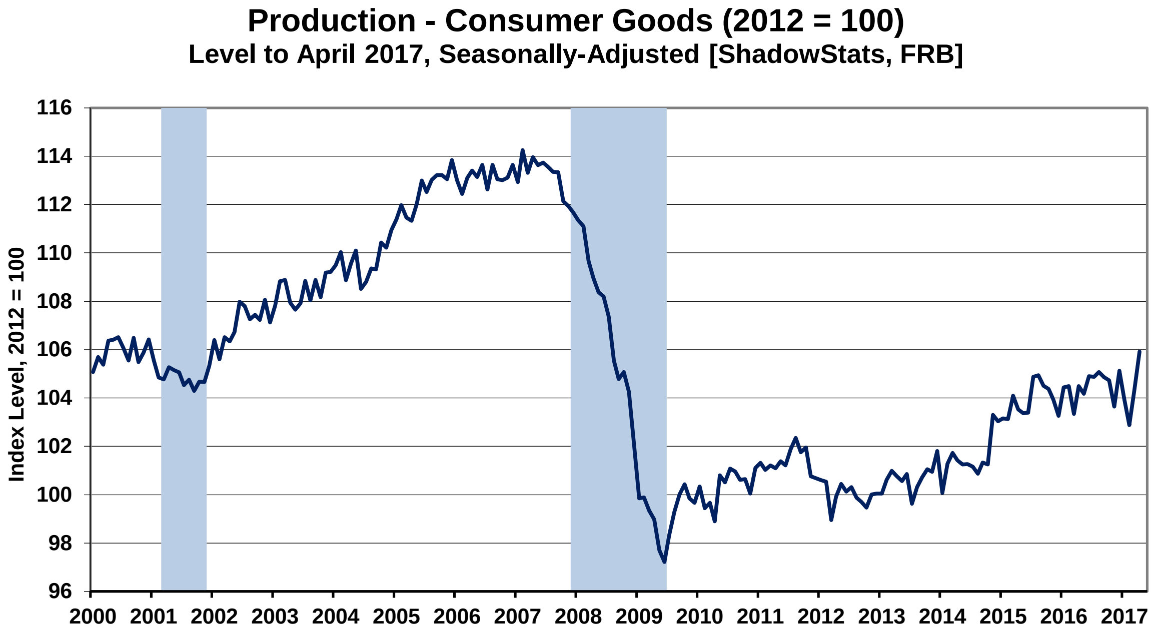


Graph 7: Cass Freight Index ™ (2000-March 2017)

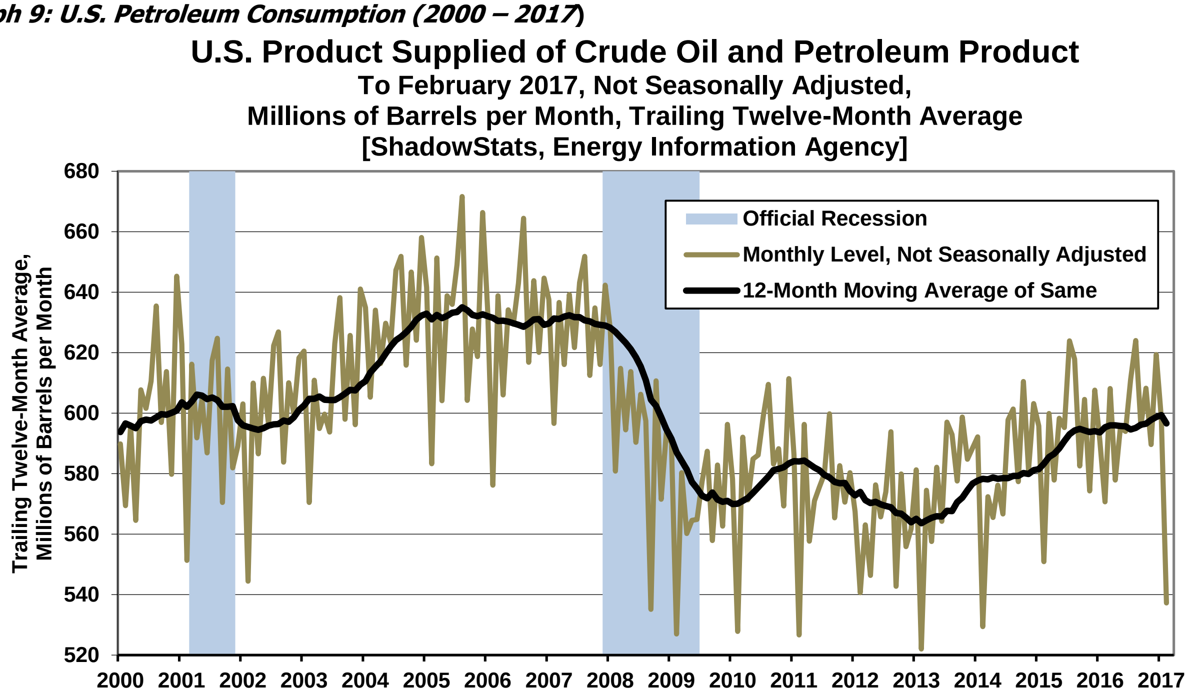


Graph 8: Industrial Production – Consumer Goods (2000-2017)

(Graph 27 on page 28 of Commentary No. 887)

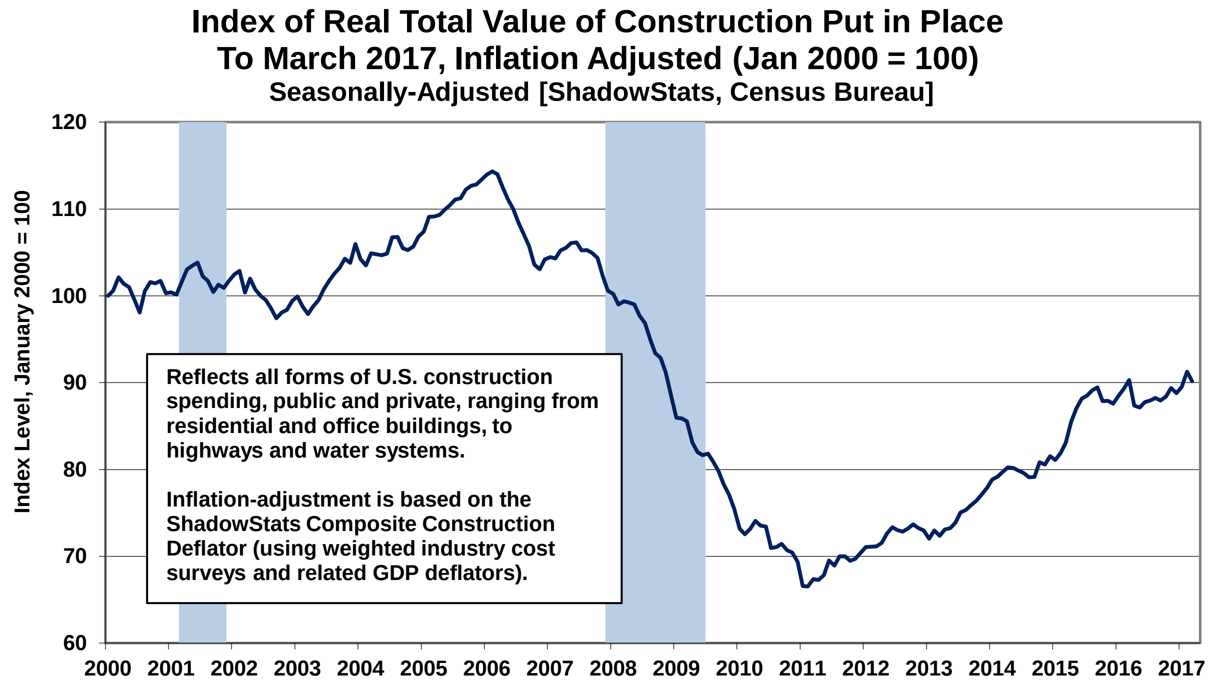


Graph 9: U.S. Petroleum Consumption (2000 – 2017)



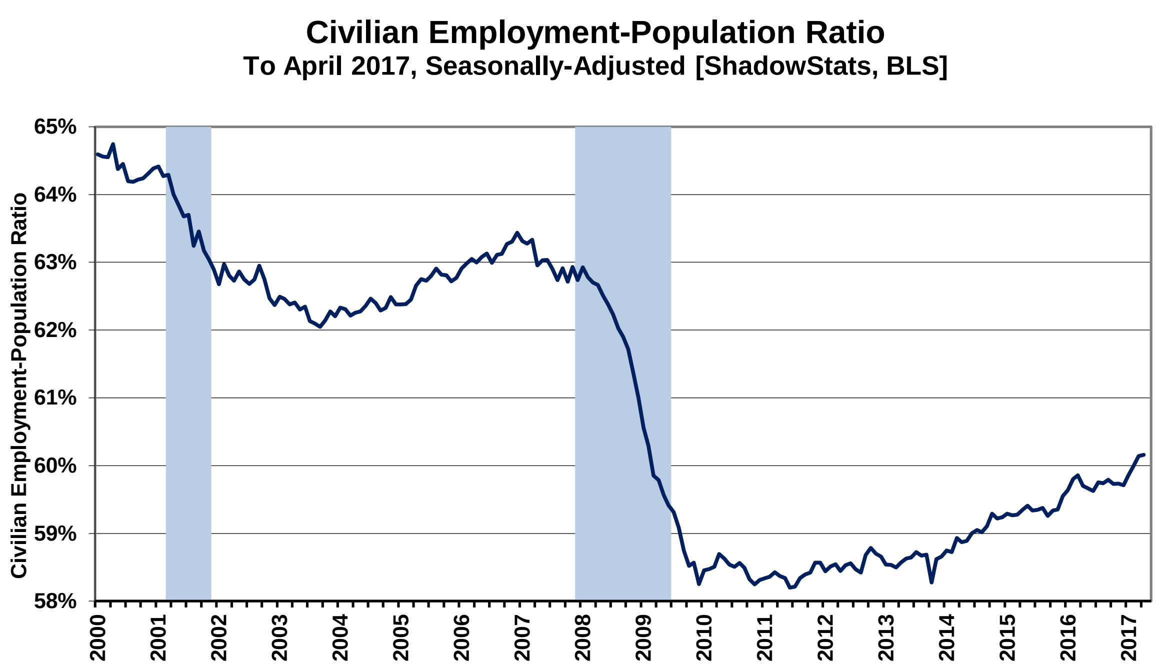
Graph 10: Real Total U.S. Construction Spending (2000 - 2017)

(Graph 8 on page 13 of Commentary No. 884)



Graph 11: Civilian Employment-Population Ratio (2000-2017)

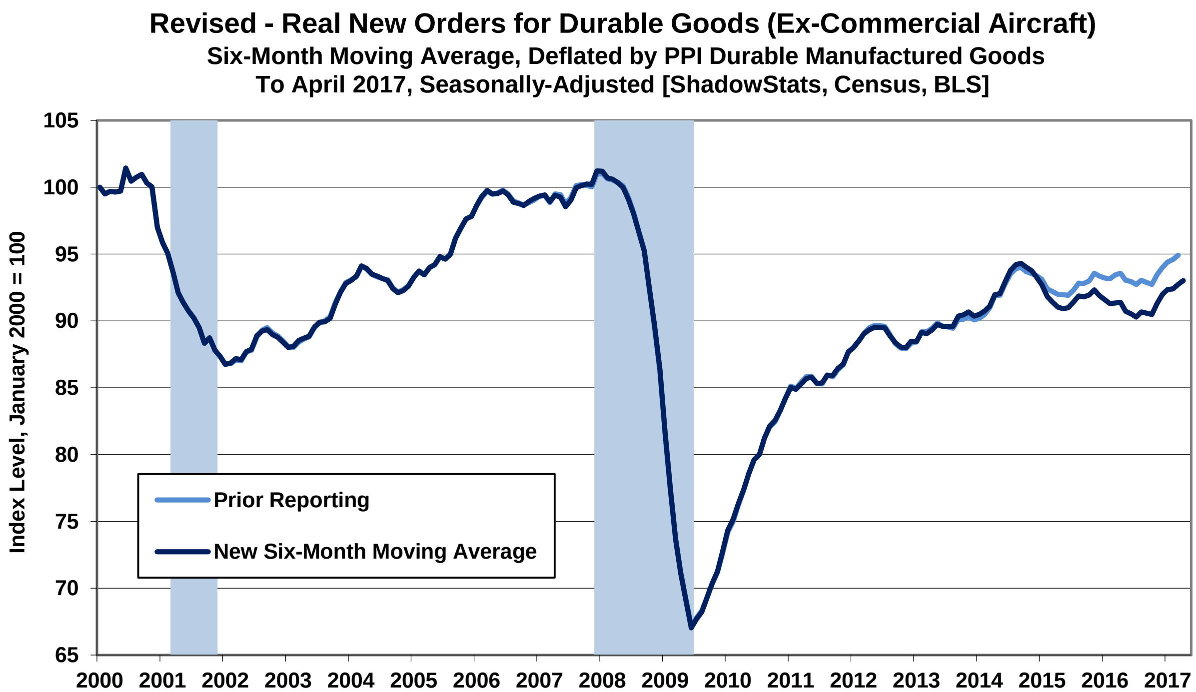
(Graph 3 on page 10 of Special Commentary No. 885)



New Orders for Durable Goods—April 2017—Total Orders Fell Month-to-Month by 0.7% (-0.7%), by 0.4% (-0.4%) Ex-Commercial Aircraft and Inflation. In the context of, and reflecting the downside annual revisions to Manufacturers' Shipments and New Orders for Durable Goods reviewed in *Special Commentary No. 888*, a combination of positive inflation and some offsetting decline in commercial-aircraft orders narrowed the headline, nominal month-to-month decline in April 2017 aggregate new orders for durable goods from 0.67% (-0.67%) to a real decline in monthly new orders, ex-nondefense (or ex-commercial) aircraft orders to 0.42% (-0.42%).

As an example of the downside revisions to and restatement of recent activity, consider accompanying *Graph 12*, which shows the net revisions to the six-month moving average of real New Orders for Durable Goods, ex-commercial aircraft. Again, a more complete review of the downside annual benchmark revisions to historical New Orders for Durable Goods, and the parent Manufacturers' Shipments series is found in *No. 888*.

Graph 12: Benchmark Revisions to Real Total New Orders for Durable Goods, Ex-Commercial Aircraft.



In this series, the best leading indicator to industrial production (particularly manufacturing, see *Graph 15*) and to the general economy, is inflation-adjusted real new orders, with real year-to-year annual growth slowing to 1.16% in April 2017, from 1.65% in March 2017 and 2.75% in February 2017.

As benchmarked, the biggest downside revisions were seen in late 2014 and 2015 (see the *Reporting Detail*) third-quarter 2016. that said, the annualized real series, ex-aircraft, showed an annualized quarterly gain of 5.46% [down by 1.10% (-1.10%) year-to-year], fourth-quarter 2016 activity showed an annualized quarterly gain of 7.35% [up by 1.33% year-to-year], followed by a first-quarter 2017 annualized contraction of 0.75% (-0.75%) [up by 1.71% year-to-year] , with second-quarter activity on an early track for an annualized 1.74% quarterly pace [up by 3.40% year-to-year].

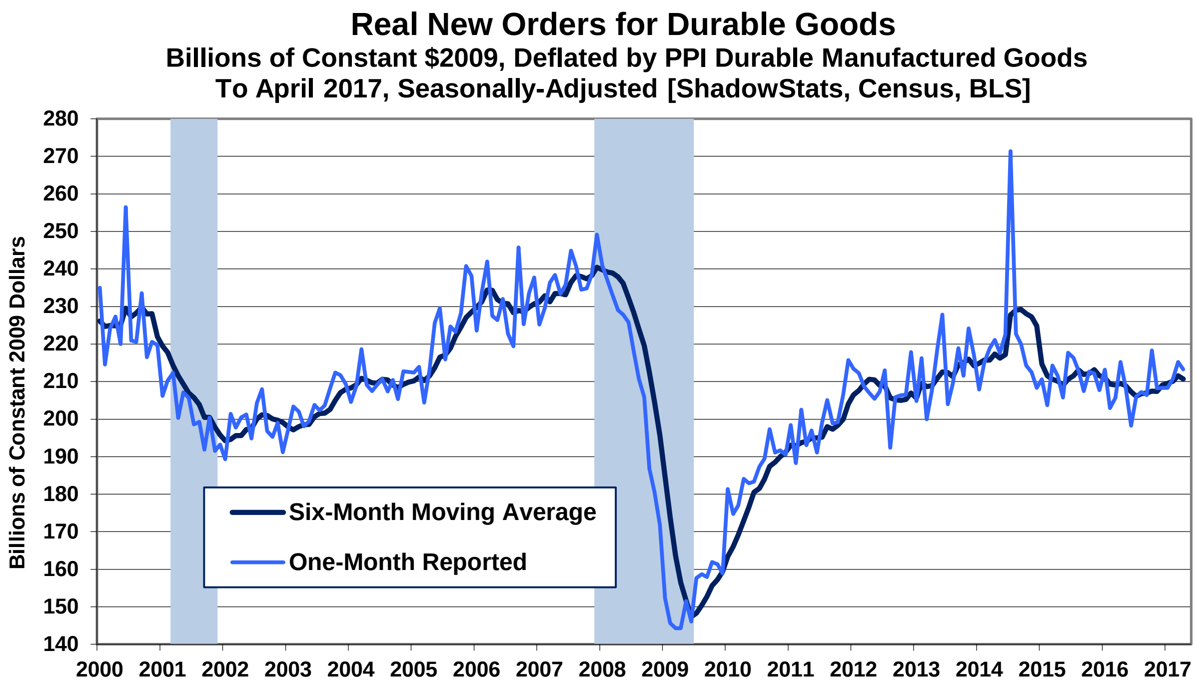
Despite the recent mixed gains (although at reduced levels of activity than before the benchmarking), the series remained in low-level, non-recovering stagnation, and it still is a tentative, leading indicator for softening activity in second-quarter 2017 industrial production, a series that has remained in definitive recession since December 2014 (see *Commentary No. 887*).

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. Following *Graphs 13* and *14* 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 irregularly-volatile commercial-aircraft orders.

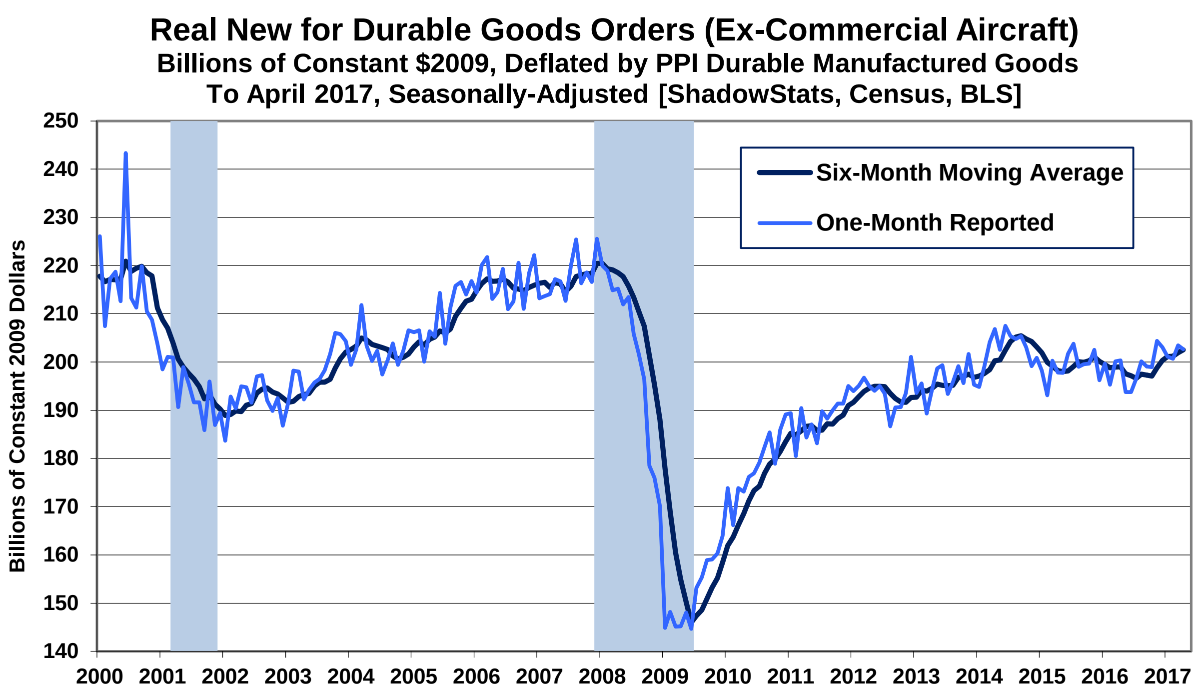
The moving-average levels in both series turned lower into year-end 2014, and after an uptick in mid-2015—some smoothed bounce-back—the trend turned down anew into late fourth-quarter 2015, with continued minor fluttering into third-quarter 2016, and initially a small uptick in fourth-quarter 2016 activity continuing on the upside into 2017, which was much reduced in the benchmarking.

[Graphs 13 and 14 follow on the next page.]

Graph 13: Real Total New Orders for Durable Goods to Date

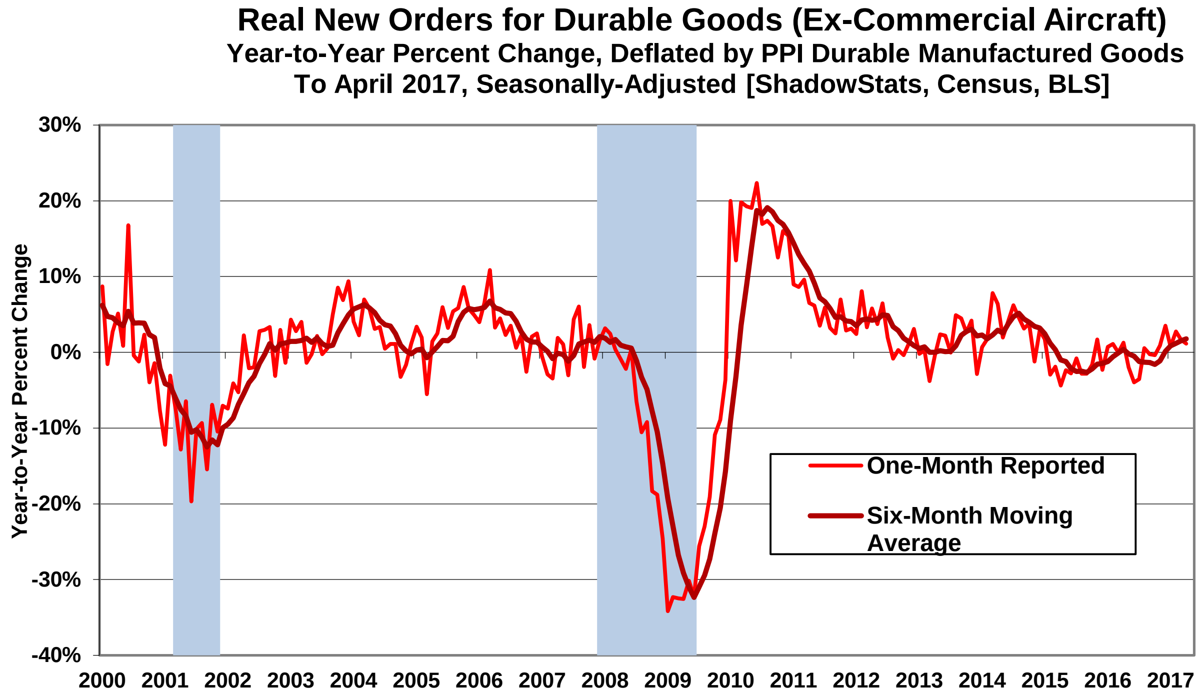


Graph 14: Real New Orders for Durable Goods – Ex-Commercial-Aircraft Orders to Date



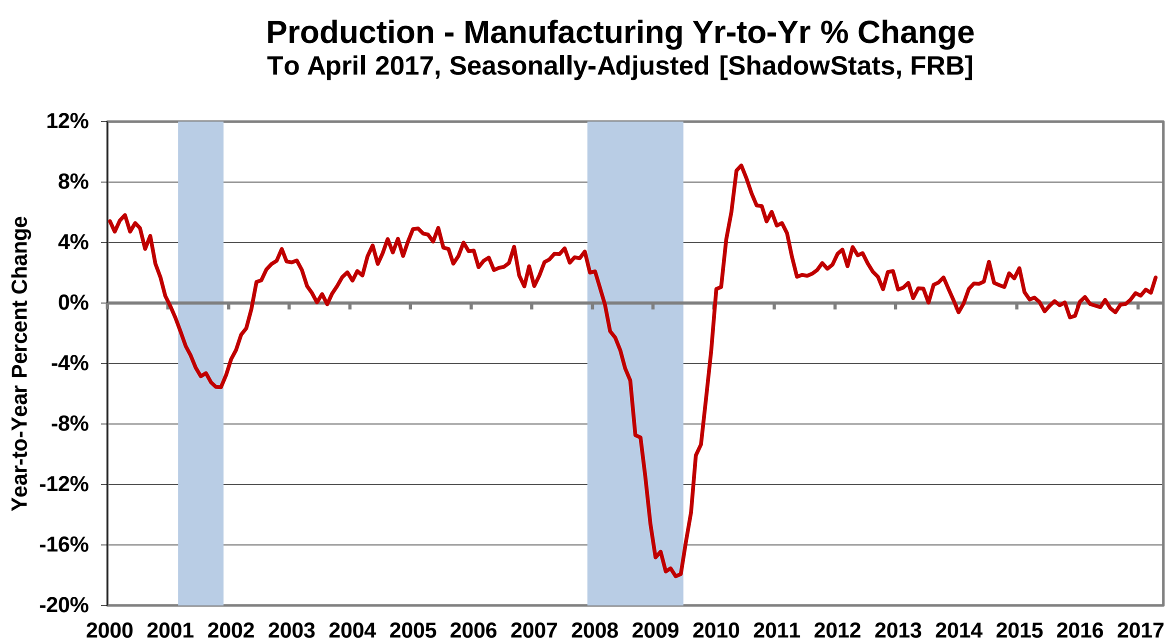
Graphs 15 and *16* show the annual year-to-year percent change in the real new orders series, net of commercial aircraft orders, on both monthly and six-month-smoothed moving-average bases, along with a comparative plot of parallel year-to-year headline changes in the manufacturing sector of industrial production.

Graph 15: Year-to-Year Percent Change, Real New Orders for Durable Goods – Ex-Commercial Aircraft to Date



Graph 16: Industrial Production - Manufacturing, Year-to-Year Percent Change Since 2000

(Graph 26 on page 27 of [Commentary No. 887](#))



The annual growth for April 2017 new orders slowed, holding minimally in positive territory. That broadly was consistent with the fluttering low level of uptrending, non-recovered stagnation seen in the manufacturing series.

While that might suggest a near-term bottoming in orders (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 durable goods series. Nonetheless, as shown in the graphs, the year-to-year change in the series ex-aircraft orders generally has led the broad pattern of annual growth reflected in the headline level of annual change in the manufacturing sector of industrial production, a series that also suffers inflation-reporting distortions.

Broadly, there has been a general pattern of stagnation or bottom-bouncing evident in the orders of recent years —clearly not the booming recovery seen in today's official GDP reporting. The real monthly and six-month moving-average levels of new orders in April 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.

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*).

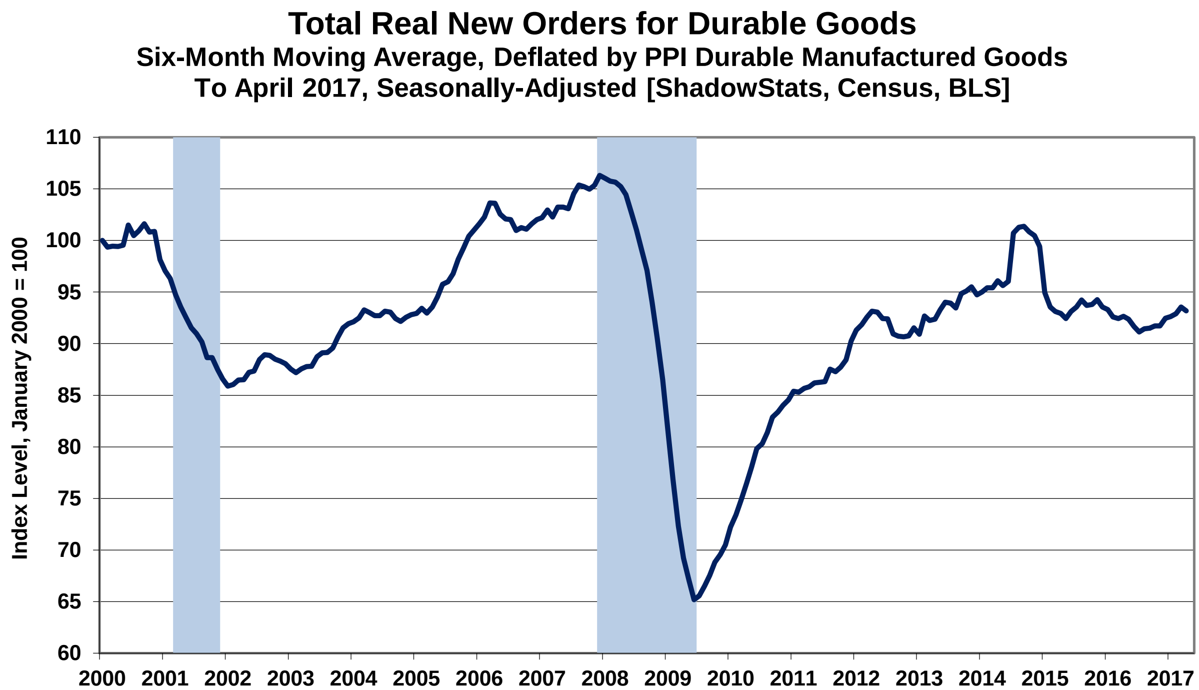
As done for other series such as Real Retail Sales (see *Graph 2* on page 4 of *Commentary No. 886*), Industrial Production (see *Graph 14* on page *12* of prior *Commentary No. 887*) and the GDP (see *Graphs 4* and *6* in the prior GDP section), ShadowStats publishes an experimental, corrected-inflation version of the graph of real New Orders for Durable Goods. Real activity, in this case, is corrected for the understatement of the inflation used in deflating the new orders series with the headline PPI inflation for manufactured durable goods (see the *Reporting Detail*).

Three sets of graphs follow. The first set (*Graph 17* and *Graph 18*) shows the aggregate series or total durable goods orders; the second set (*Graph 19* and *Graph 20*) shows the ex-commercial aircraft series. The aggregate orders series in *Graphs 17* and *18* 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 19* and *20* are shown net of those volatile commercial aircraft orders.

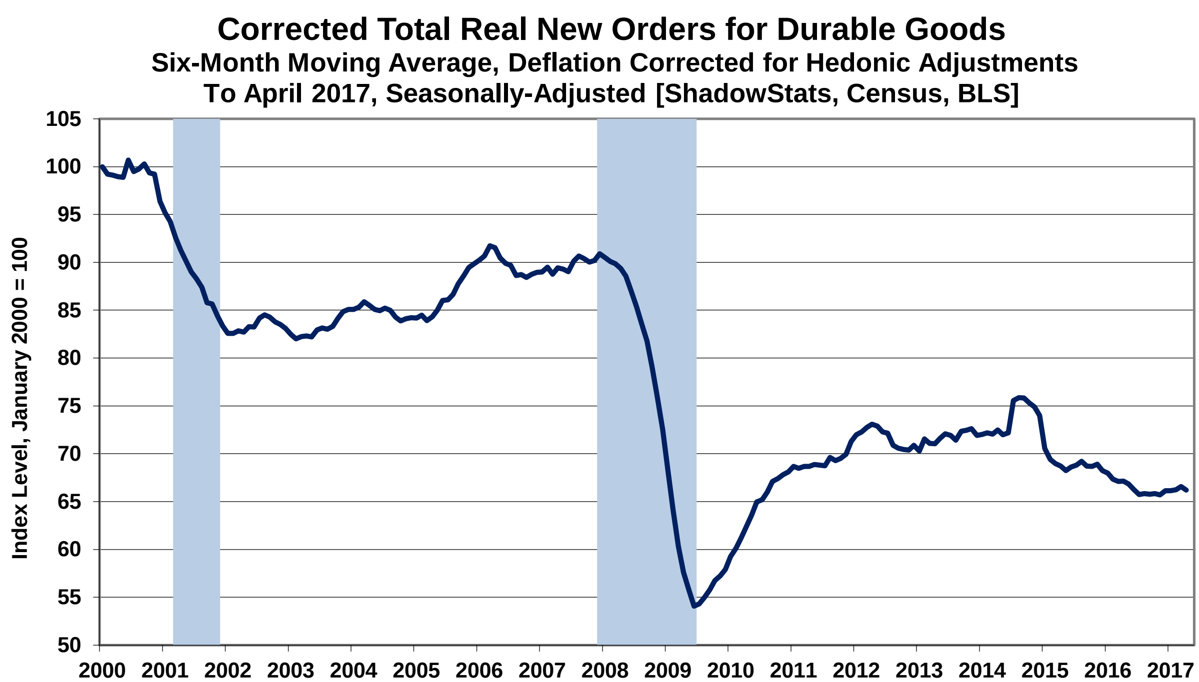
The first graph in each of the first two sets shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 13* and *Graph 14*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph, but it has been re-deflated to correct for the 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.

A third set (*Graphs 21* and *22*) allows 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™ (see *Graph 8* in the earlier GDP section).

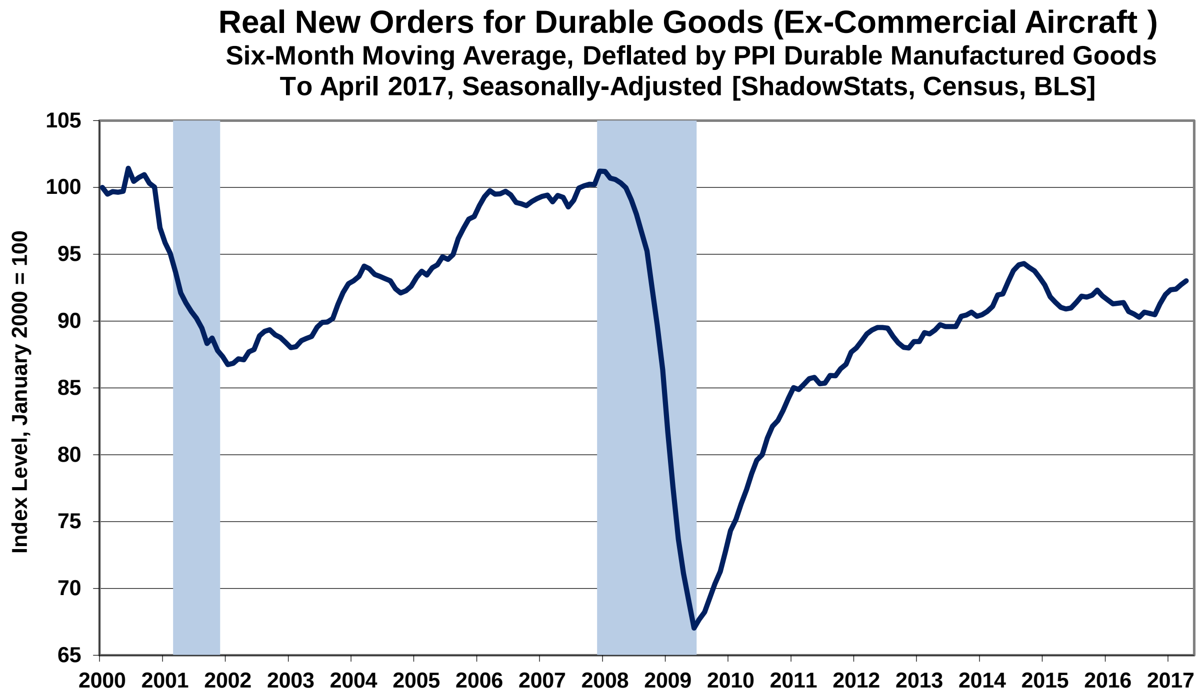
Graph 17: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



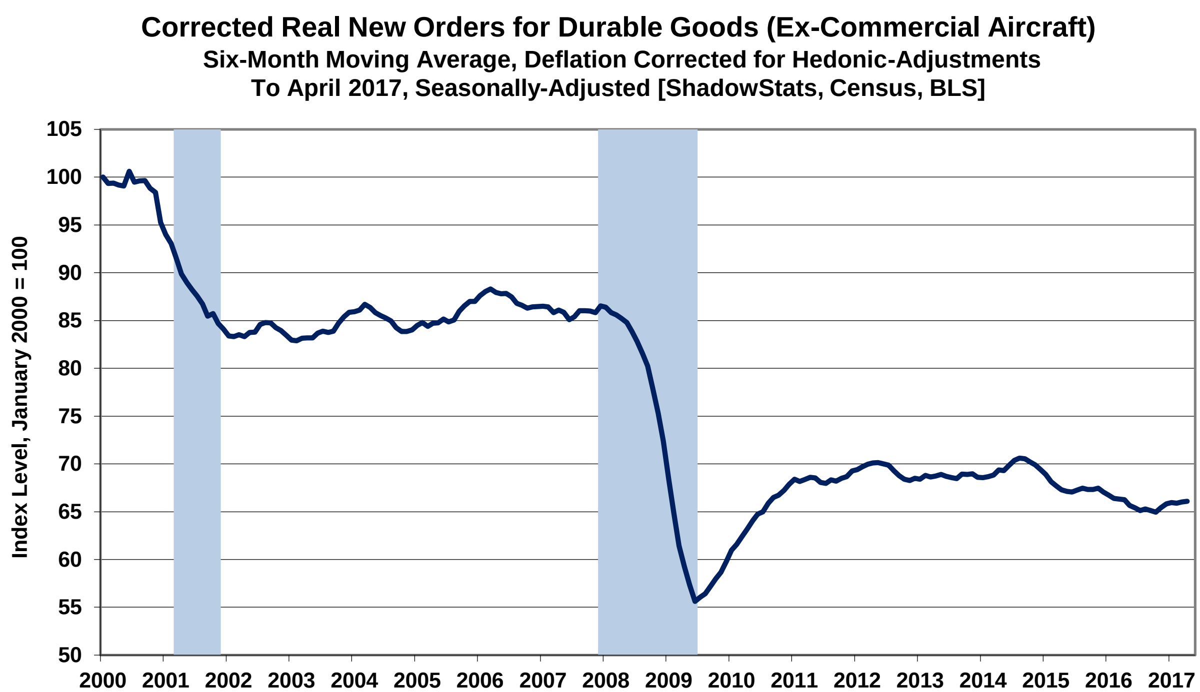
Graph 18: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



Graph 19: Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



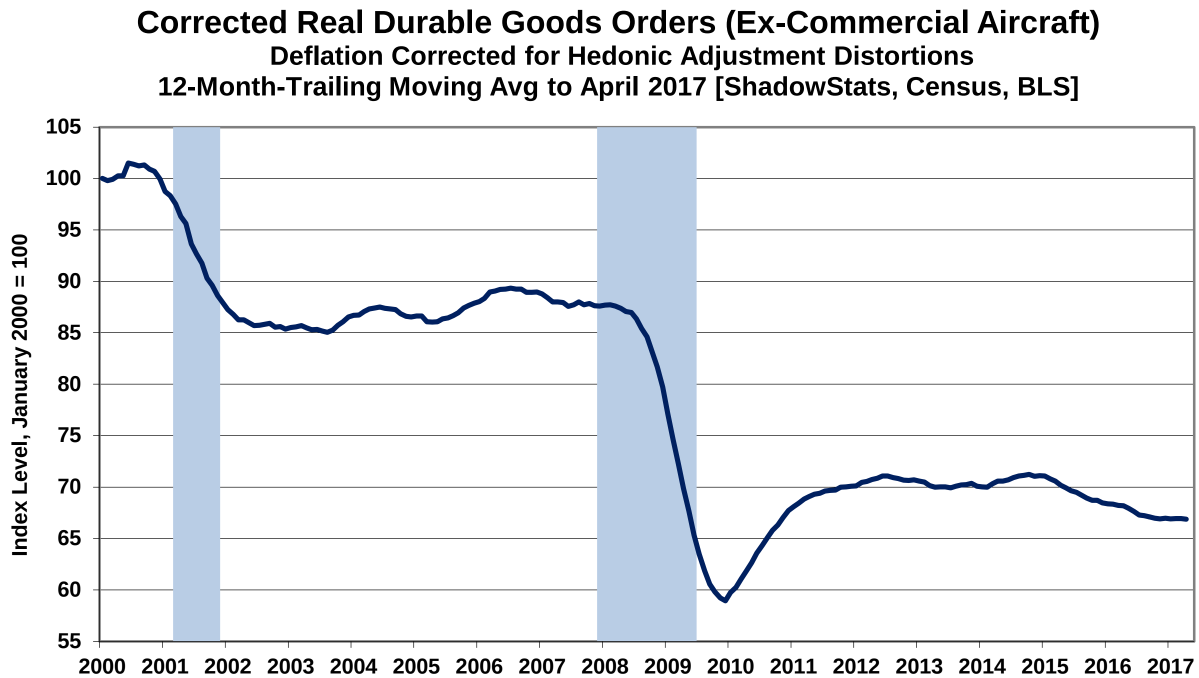
Graph 20: Corrected Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



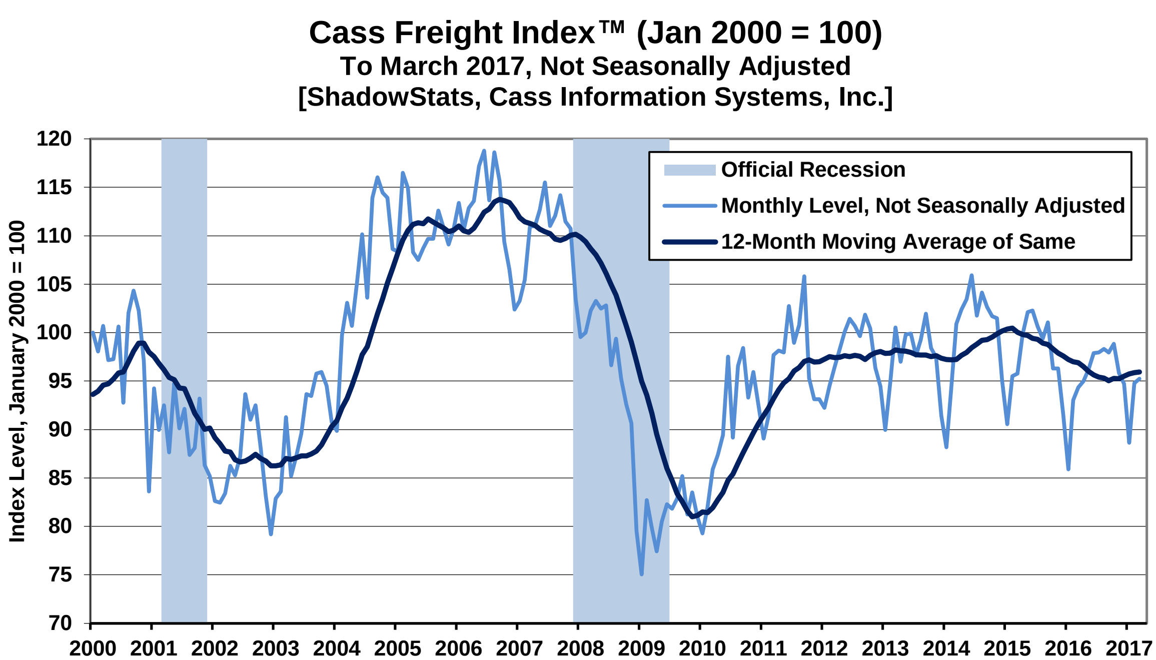
Graphs 21 and *22* look at the latest parallel reporting in the trailing twelve-month moving averages of the "corrected" New Orders for Durable Goods the Cass Freight Index. While there certainly may be a bottoming of broad activity in the works (see discussion in *Commentary No. 881* on the Cass Index

detail), recovering pre-collapse levels of activity remains well into the future, dependent heavily on the Administration and Congress putting some economic stimulus in place.

Graph 21: Corrected Durable Goods Orders Index – Ex-Commercial Aircraft, Twelve-Month Trailing Average



Graph 22: CASS Freight Index ™ (2000-March 2017)



New- and Existing-Home Sales—April 2017—Sales Soften Anew, Continuing in Low-Level, Non-Recovering Stagnation. The April 2017 New- and Existing-Home Sales series both remained in "great depression" or "depression" territory (see *Commentary No. 754*), down respectively by 59.0% (-59.0%) and 23.4% (-23.4%) from their pre-recession peak levels of activity.

These series never have fully 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 starts in April 2017, also down from their pre-recession highs, respectively by 54.2% (-54.2%) and by 48.4% (-48.4%).

Consumer Liquidity Constraints. The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as updated in prior *Special Commentary No. 888* and 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 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 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.

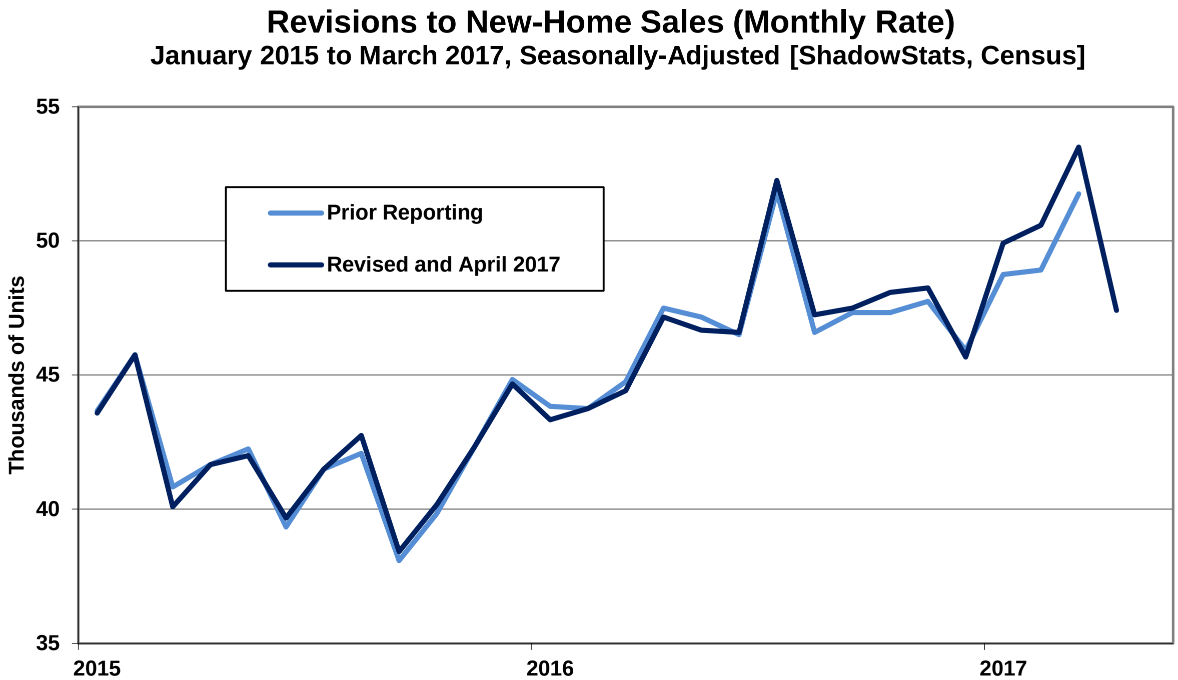
New-Home Sales—Continued Unstable Reporting, with the Smoothed Series 59.0% (-59.0%) Below Its Pre-Recession Peak. Headline monthly reporting of New-Home Sales remained of no substance, short term, as seen most frequently here with massive, unstable and continuously shifting revisions to recent history, 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 downside, while the level of prior-month revised higher.

In the context of annual seasonal-adjustment revisions (see *Graph 23*) April 2017 New-Home Sales declined month-to-month by a statistically-insignificant 11.4% (-11.4%), following an unrevised monthly gain of 5.8% in March, a February gain of 1.3% and a gain of 9.3% in January.

Year-to-year, April 2017 sales rose by 0.5%, following revised annual gains of 20.5% in March 2017, 15.6% in February 2017 and 15.2% in January 2017. Again, this series is extraordinarily unstable and consistently unreliable on a near-term, month-to-month basis and usually 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 26*).

Graph 23: New-Homes Sales – Annual Revisions to Monthly Rate of Activity



Existing-Home Sales—Continuing, Non-Recovering Stagnation: Monthly Sales Increased but Activity Remained Down from Pre-Recession Peak by 23.4% (-23.4%). The seasonally-adjusted, headline monthly decline of 2.28% (-2.28%) in April 2017 Existing Home Sales, following a downwardly-revised gain of 4.20% and an unrevised decline of 3.87% (-3.87%) in February.

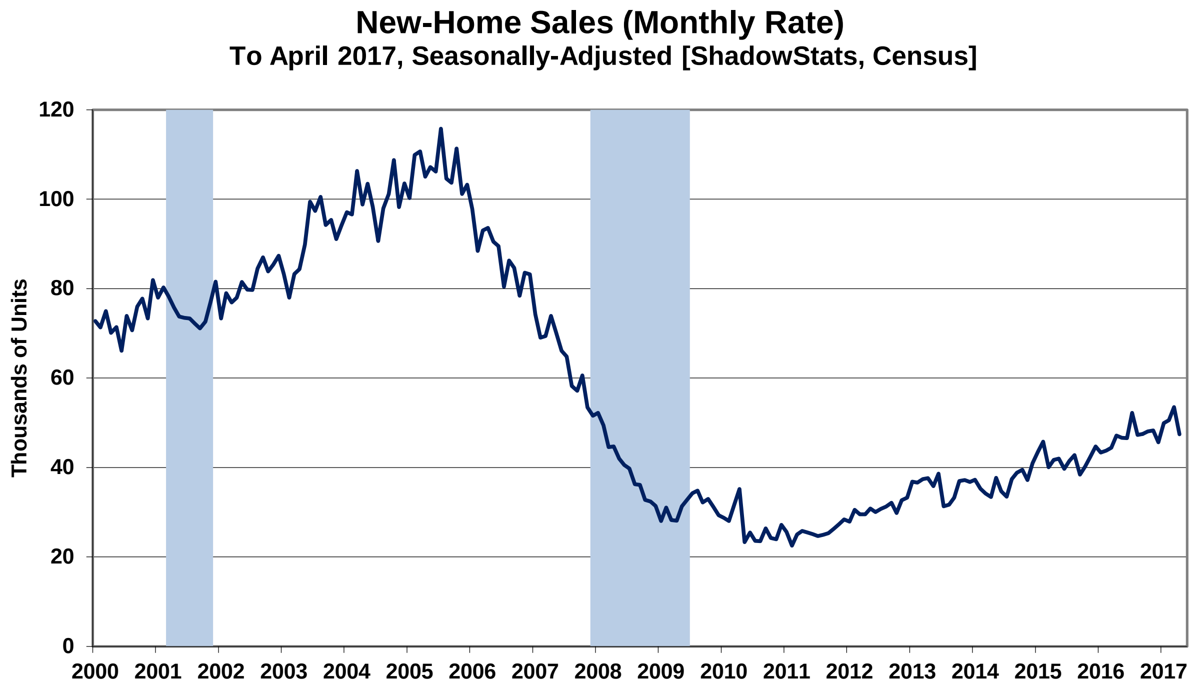
Year-to-year growth in April 2017 existing sales slowed to 1.64%, from a downwardly-revised 5.75% in

Despite the prior month's (March 2017) sales level having been at the highest monthly pace since February 2007—headline March 2017 activity still was down by 21.5% (-21.5%) from the pre-recession peak of the existing-sales series in August 2005. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, albeit currently in a fluctuating uptrend.

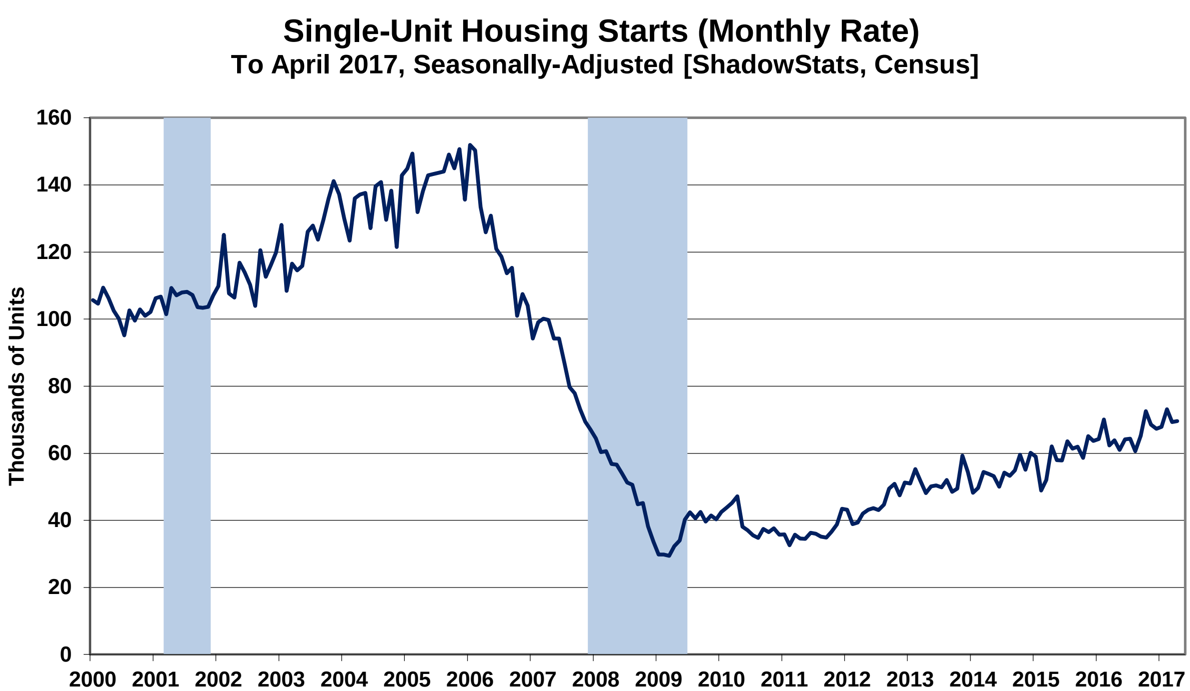
New-Home Sales Graphs. Annual revisions to series reflected no more than shifts to seasonal factors in 2015 and 2016, although January through March 2017 detail was revised higher, with a subsequent plunge reported in April 2017 activity. Following the plot of the annual revisions to the monthly sales activity in *Graph 23*, the regular monthly graph of historical New-Home Sales through April 2017 follows, along with a six-month moving-average version of the series (see *Graphs 24* and *25*). Added for purposes of comparison are parallel graphs of the headline and six-month moving-average versions of April 2017 Housing Starts for single-unit construction, *Graphs 25* and *27*, from *Commentary No. 887*.

Existing-Home Sales Graphs. *Graph 28* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 30* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of April 2017 aggregate Housing Starts activity, again, from *Commentary No. 881*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 29* and *31*).

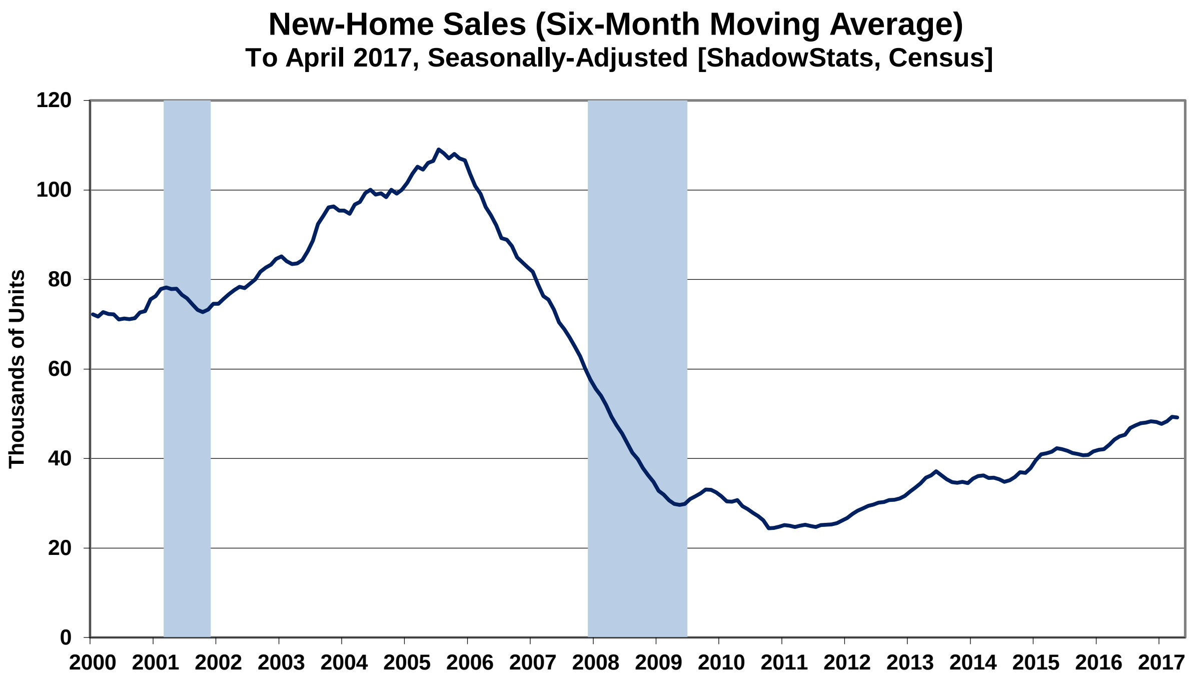
Graph 24: New-Homes Sales – Monthly Rate of Activity



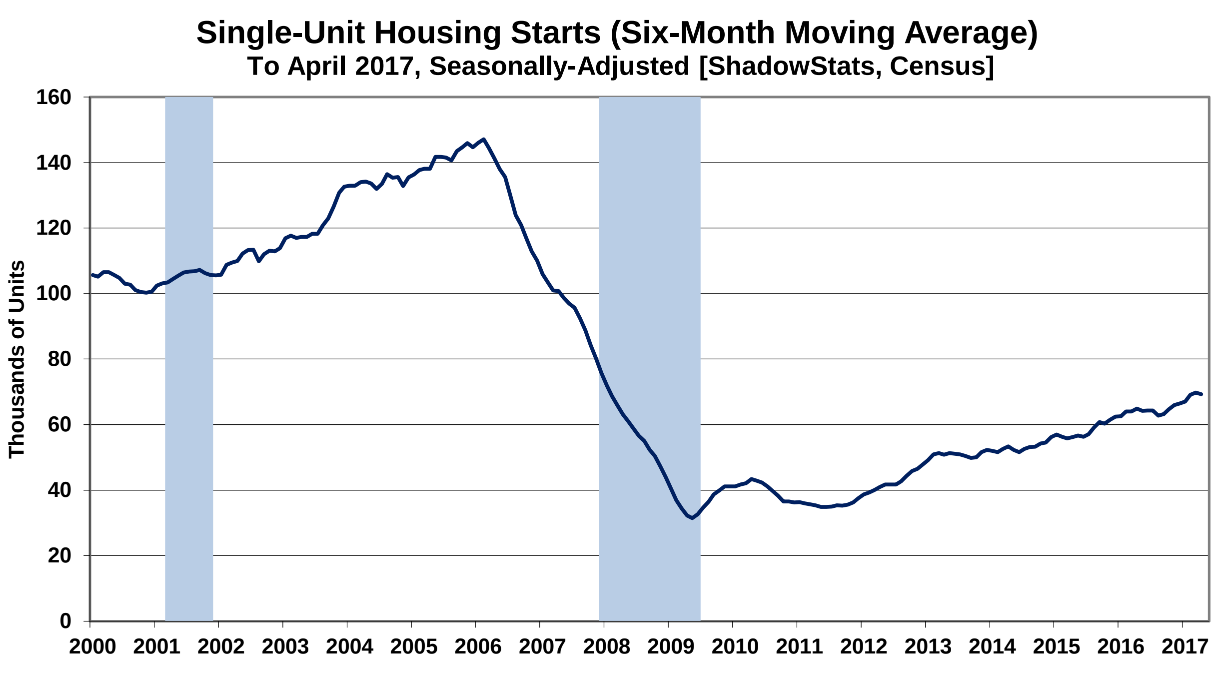
Graph 25: Single-Unit Housing Starts, Monthly Rate of Activity



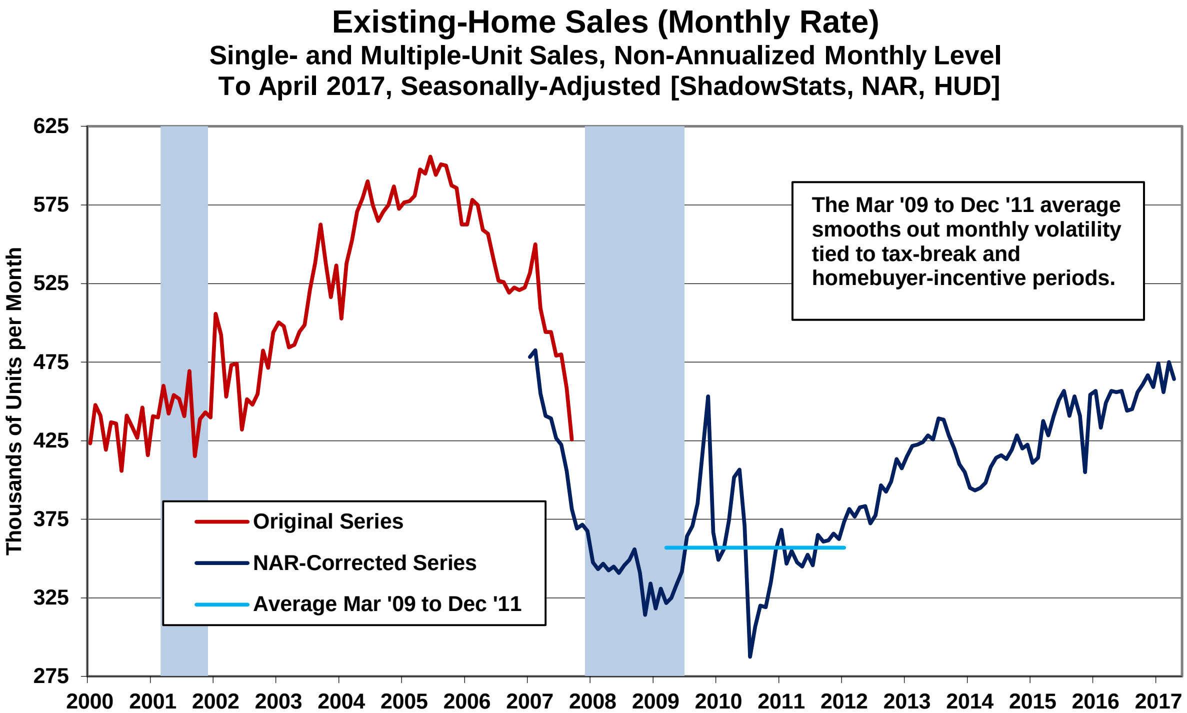
Graph 26: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



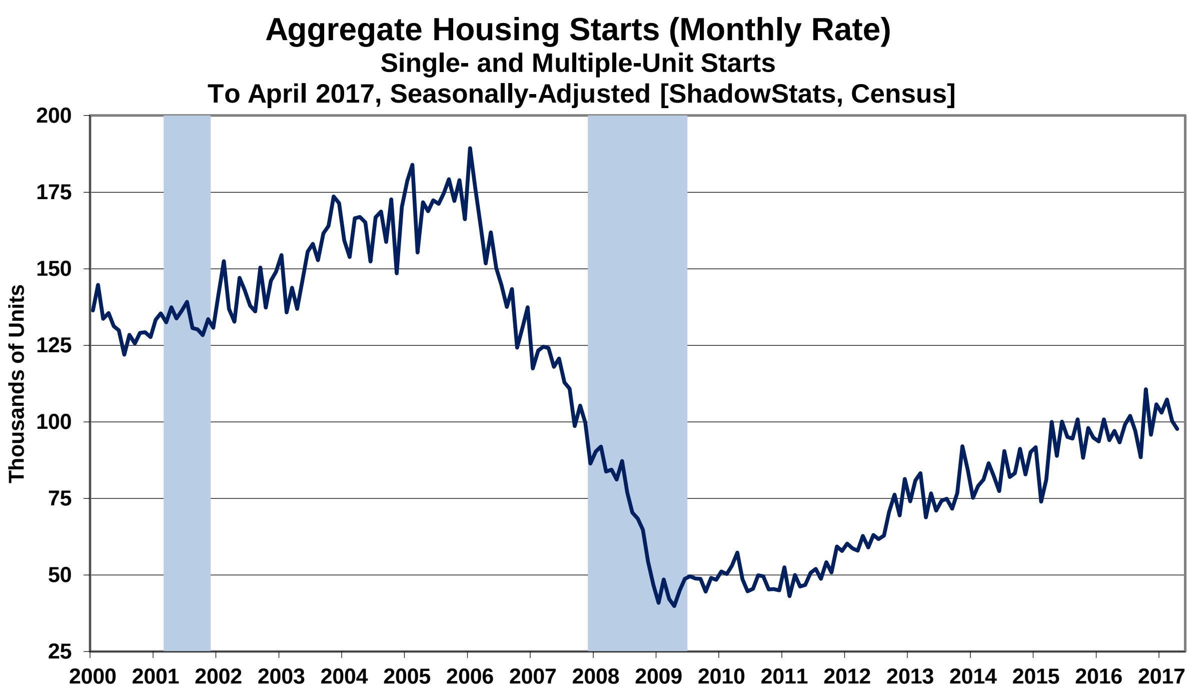
Graph 27: Single-Unit Housing Starts, Six-Month Moving Average, Monthly Rate of Activity



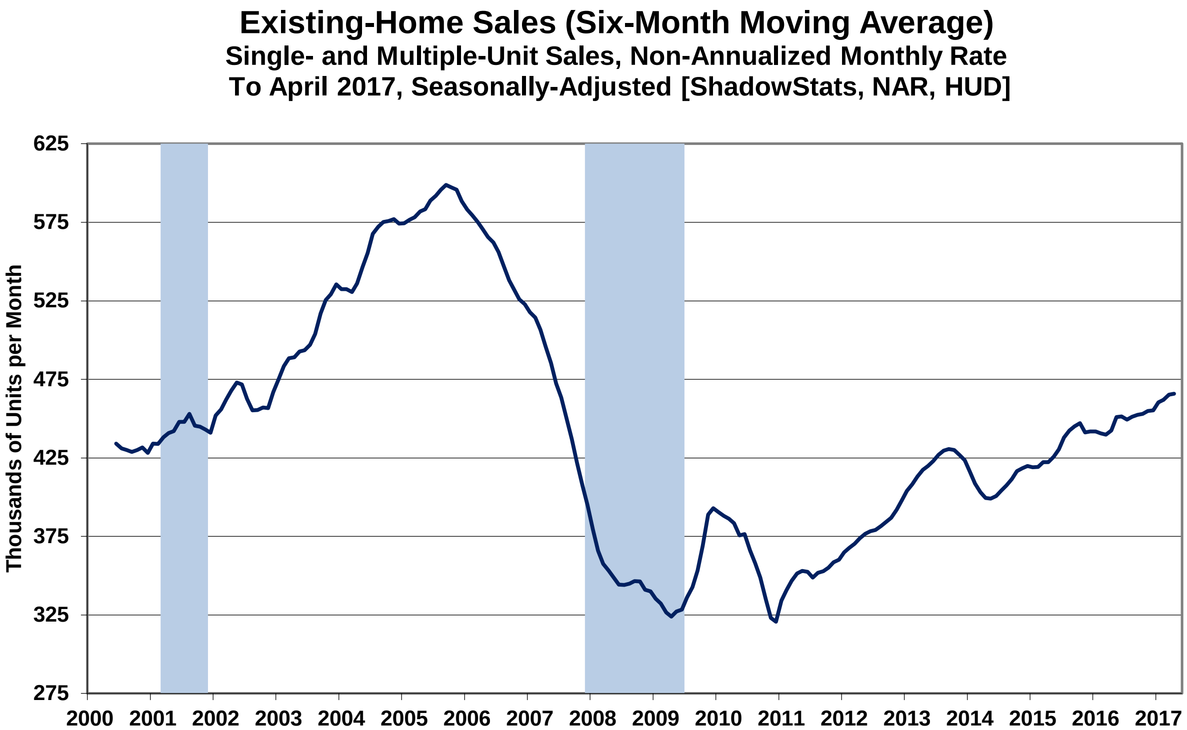
Graph 28: Existing-Home Sales – Monthly Level



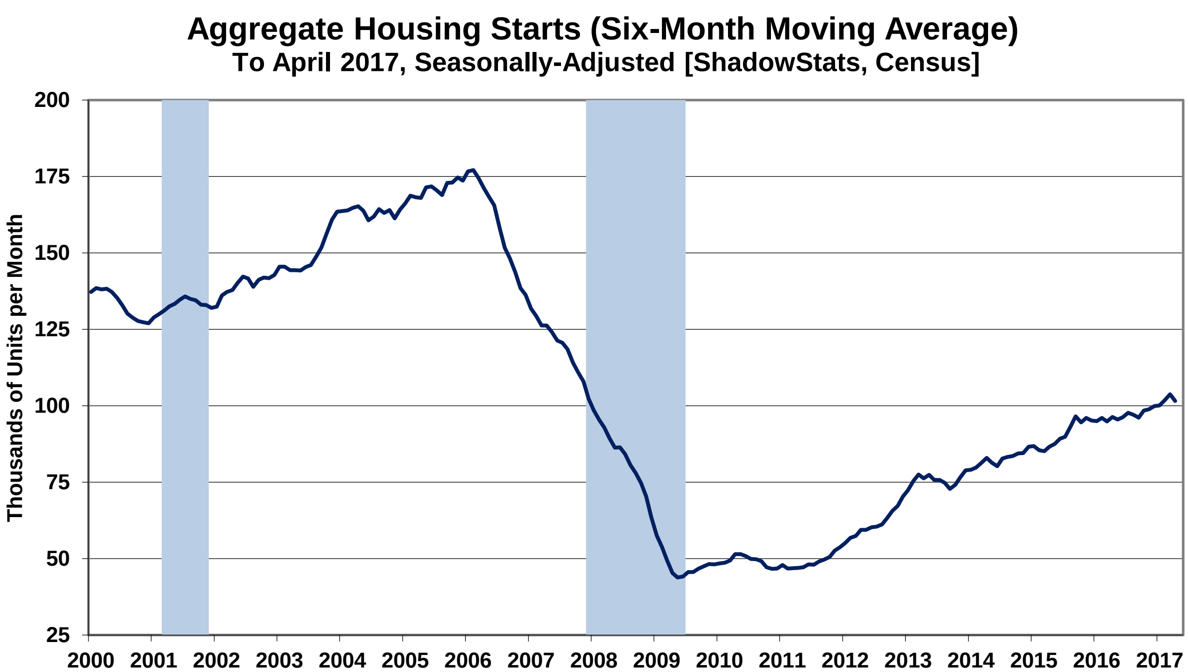
Graph 29: Total Housing Starts – Monthly Level



Graph 30: Existing-Home Sales (Six-Month Moving Average)



Graph 31: Total Housing Starts (Six-Month Moving Average)



[The* Reporting Detail *contains extended analysis and graphs.]

REPORTING DETAIL

GROSS DOMESTIC PRODUCT (First-Quarter 2017, Second Estimate, First Revision)

Underlying Recession Continued in Play, Despite the Still Heavily Bloated GDP Detail and Absurd Reporting Volatility. Irrespective of the stronger-than-expected upside revision to 1.15% (previously 0.69%) annualized, quarterly real growth in the second-estimate of headline reporting of first-quarter 2017 GDP, underlying reality remained that broad U.S. economic activity never recovered fully from its crash into 2009, never entered a period of formal, new economic expansion, and that it began to turn down anew in December 2014. Those circumstances were reviewed extensively in the *Opening Comments* of *Commentary No. 876*, in today's *Executive Summary* and in the *ECONOMY* section of *No. 859 Special Commentary*.

***Heavily Followed but of Extremely Poor Quality*.** In this most-politically-sensitive of popularly followed economic series, the GDP does not reflect properly or accurately the changes to the underlying economic fundamentals and measures that drive the broad economy. Discussed in the *Executive Summary*, various separately-reported measures of real-world economic activity have shown that the general economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering fully, never entering a phase of economic Expansion—and then began to turn down anew in late-2014 (see graphs in the *Executive Summary* and in the *ECONOMY* section of *No. 859 Special Commentary*).

The GDP (or the broader GNP detail headlined in earlier decades) simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s, and that reporting quality deteriorated anew, sharply in 2016 benchmarking (see the *Opening Comments* of *Commentary No. 823*).

The 2017 benchmarking scheduled for July 28th, generally should show weaker economic activity than previously reported, since 2014 (the onset period of the pending revisions). It is, however, the comprehensive, full-system benchmarking of July 2018 back through 1929, which offers the opportunity to shift the headline GDP reporting back towards a more-meaningful indicator of near-term economic activity, instead of an instrument of political and financial-market hype.

Notes on GDP-Related Nomenclature and Definitions

For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:

Gross Domestic Product (GDP) *is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.*

Gross Domestic Income (GDI) *is the theoretical equivalent to the GDP, but the popular press generally does not follow it. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a "statistical discrepancy." Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.*

Gross National Product (GNP) *is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.*

Real *(or* ***Constant Dollars****) means the data have been adjusted, or deflated, to reflect the effects of inflation.*

Nominal *(or* ***Current Dollars****) means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.*

GDP Implicit Price Deflator (IPD) *is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on "Chained 2009 Dollars," as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. "Chained" refers to the substitution methodology, which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by $105.5 billion in "residual," as of the second estimate of second-quarter 2016.*

Quarterly *growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to 1.01 x 1.01 x 1.01 x 1.01 = 1.0406 or 4.1%, instead of 4 x 1% = 4%.*

Annual *growth refers to the year-to-year change of the referenced period versus the same period the year before.*

Gross Domestic Product (GDP). Published May 26th by the Bureau of Economic Analysis (BEA), the second estimate, first revision of first-quarter 2017 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 1.15% +/- 3.5% (95% confidence interval), which previously had been 0.69%. That was down from 2.08% in fourth-quarter 2016. Distribution of first-quarter 2017 GDP growth by major category is detailed in the *Executive Summary*. The current headline detail is in the context of the July 29, 2016 annual GDP benchmark revisions discussed in *Commentary No. 823*, and it is subject to one further monthly revision before the next round of annual GDP benchmarking scheduled for July 28, 2017. That 2017 benchmarking will be coincident with the "advance" or first estimate of second-quarter 2017 GDP.

The second estimate of first-quarter 2017 GDP growth came in above consensus expectations of 0.8% to 0.9%, at a continuing, still-not-credibly-positive pace of headline activity. The headline first-quarter 2017 annualized real growth of 1.15% (previously 0.69%) followed gains of 2.08% in fourth-quarter 2016, 3.51% in third-quarter 2016, 1.42% in second-quarter 2016, 0.83% in first-quarter 2016 and 0.87% in fourth-quarter 2015.

Still-slackening, headline first-quarter 2017 GDP growth remained dominated by a sharp decline in inventory building, declining auto sales, weather-induced declining utility usage and declining government spending, offset by surging investment in residential and nonresidential structures and equipment, surging healthcare spending and a small trade surplus.

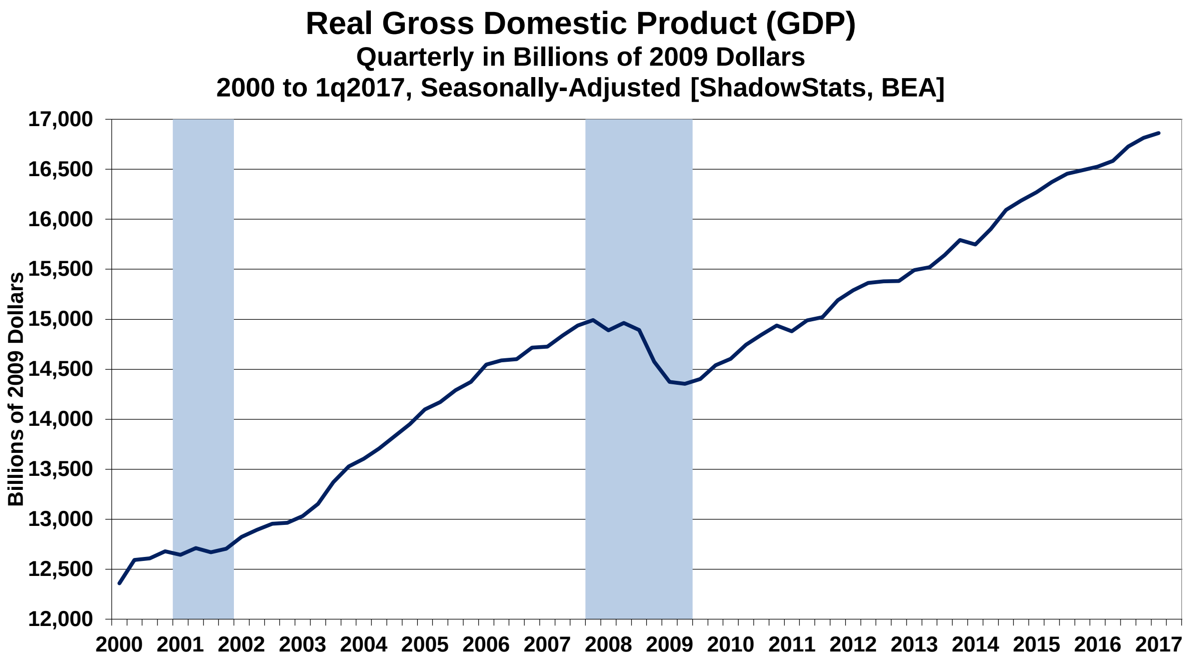
Graphs 32 and *34* plot headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives. *Graph 36* shows the level of annual real GDP activity, as estimated beginning in 1929.

Shown in *Graphs 33* and *35*, headline year-to-year real GDP growth in the second estimate of first-quarter 2017 notched minimally higher to 2.04% (initially 1.92%), versus 1.96% in fourth-quarter 2016, up from 1.65% in third-quarter 2016, 1.28% in second-quarter 2016 and 1.57% in first-quarter 2016. Through second-quarter 2016 reporting, real annual growth had been in a continual slowing pattern since the near-term peak of 3.31% in first-quarter 2015, the post-recession high annual growth for the series. A sharp downtrend in annual growth is common at the onset of formal recessions. Shown in *Graph 37*, annual-average real GDP growth in 2016 slowed to 1.62%, versus 2.60% in 2015, effectively tied with 2011 for slowest pace of annual growth in the post-2009 "recovery."

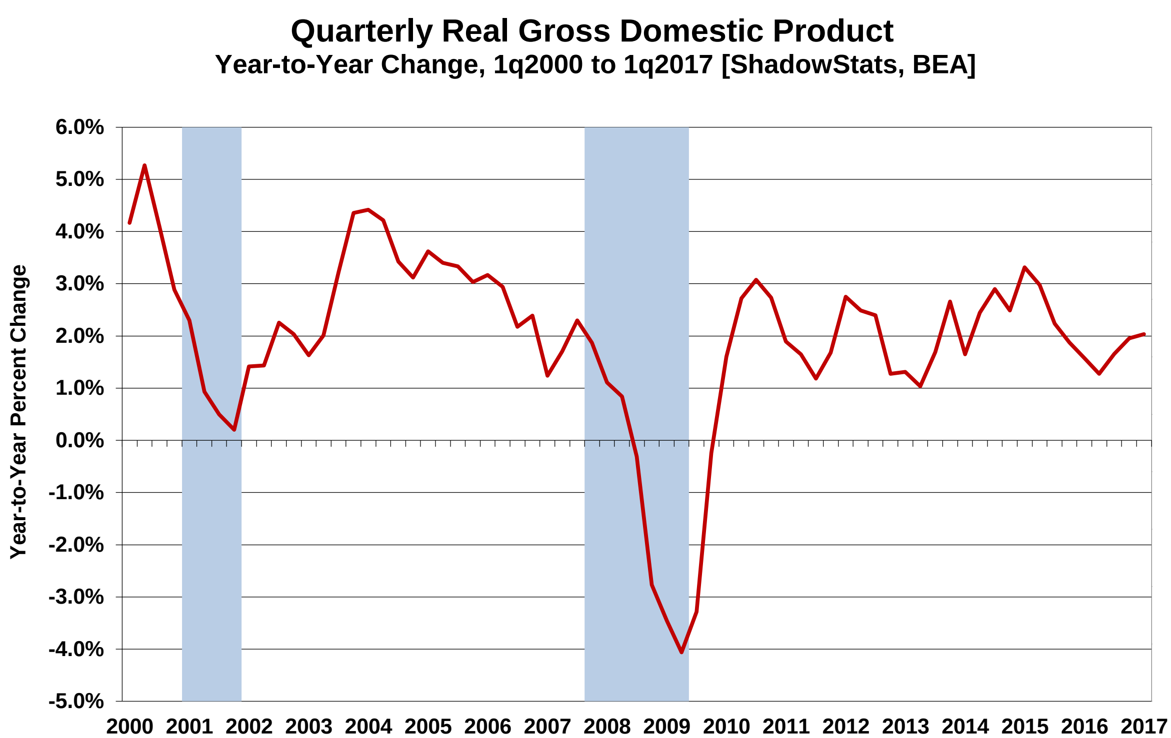
The current-cycle trough in quarterly annual change was in second-quarter 2009 (see *Graphs 33* and *35*), reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail). *Graph 33* shows current year-to-year quarterly detail, from 2000-to-date, where *Graph 35* shows the same series in terms of its full quarterly, year-to-year history back to 1948. In annual terms (*Graph 37*), the year-to-year decline of 2.78% (-2.78%) in 2009 was the steepest regular annual drop in economic activity since the Great Depression. The 1946 production shutdown and economic reorganization following World War II, however, resulted in an annual GDP decline of 11.58% (-11.58%), minimally narrower than the 1932 annual economic crash of 12.89% (-12.89%).

[Graphs 32 to 37 begin on the following page.]

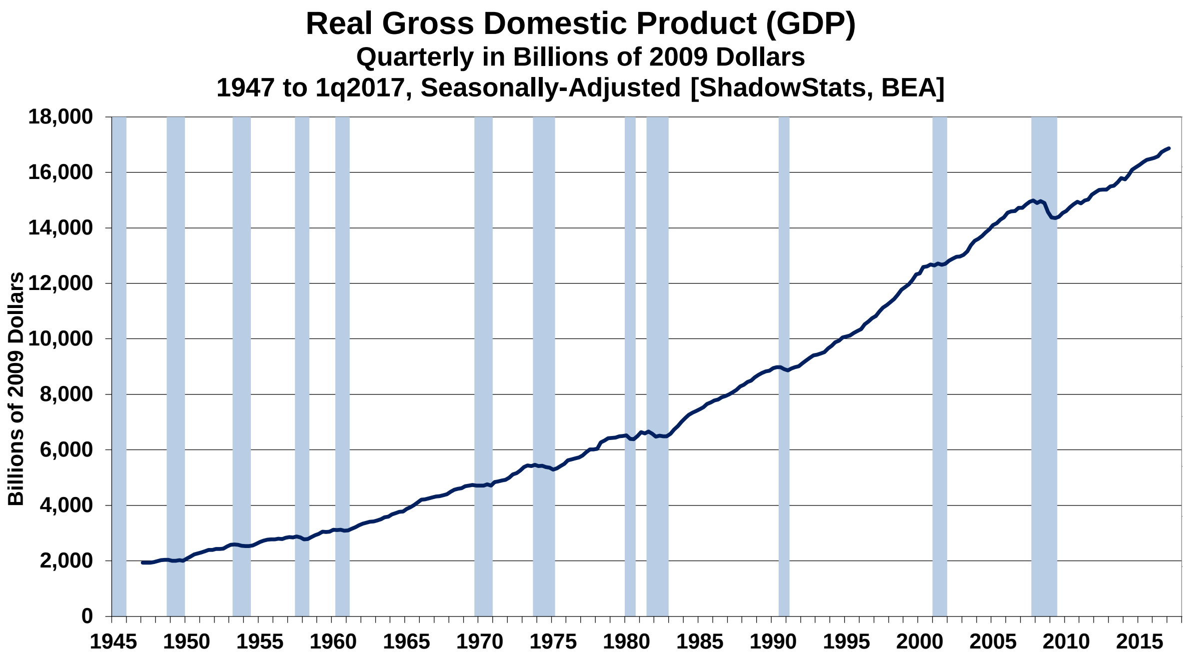
Graph 32: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), Second Estimate of First-Quarter 2017



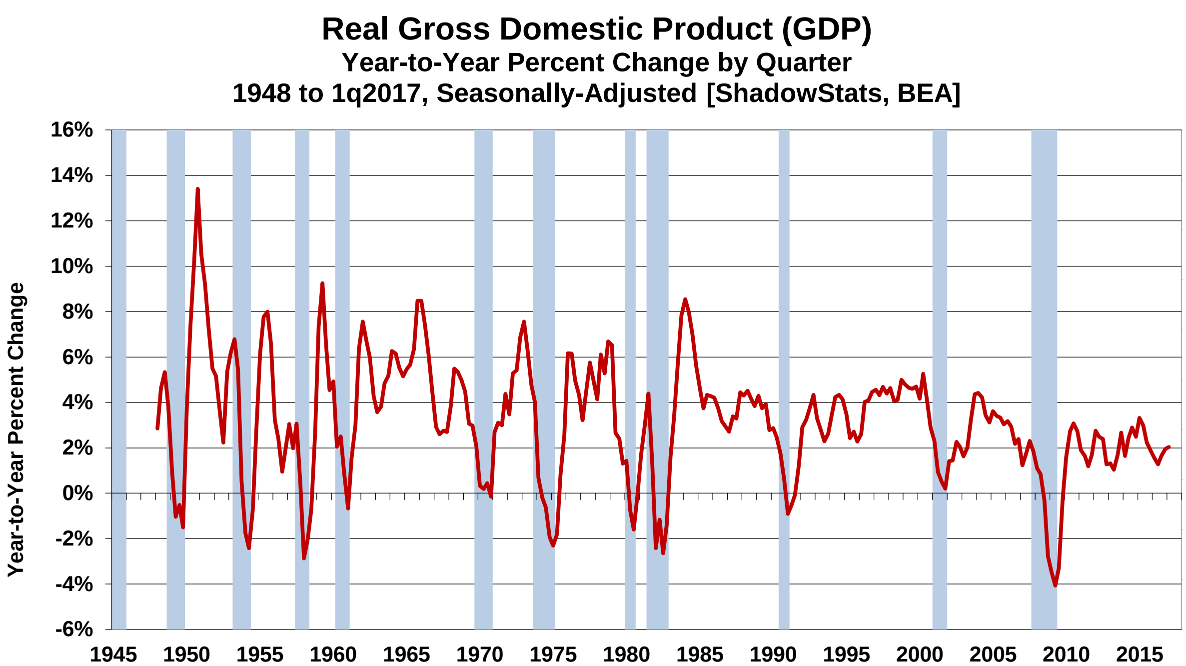
Graph 33: Quarterly GDP Real Year-to-Year Change (2000 to 2017), Second Estimate of First-Quarter 2017



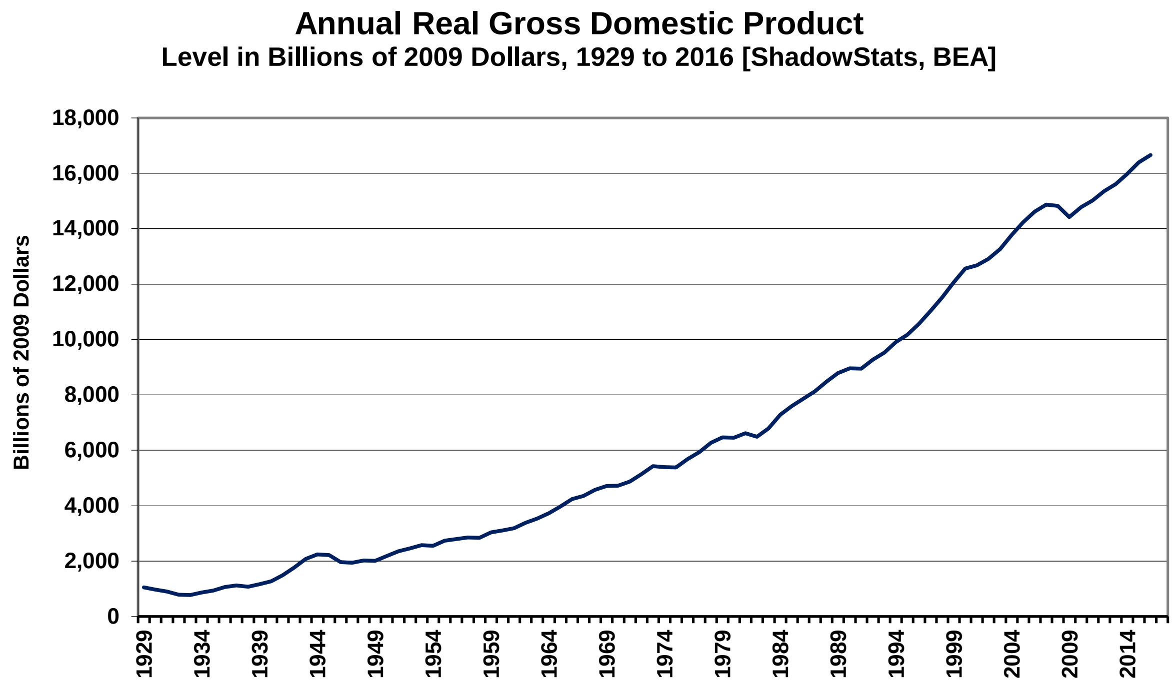
Graph 34: Quarterly GDP in Billions of 2009 Dollars (1947-2017), Second Estimate of First-Quarter 2017



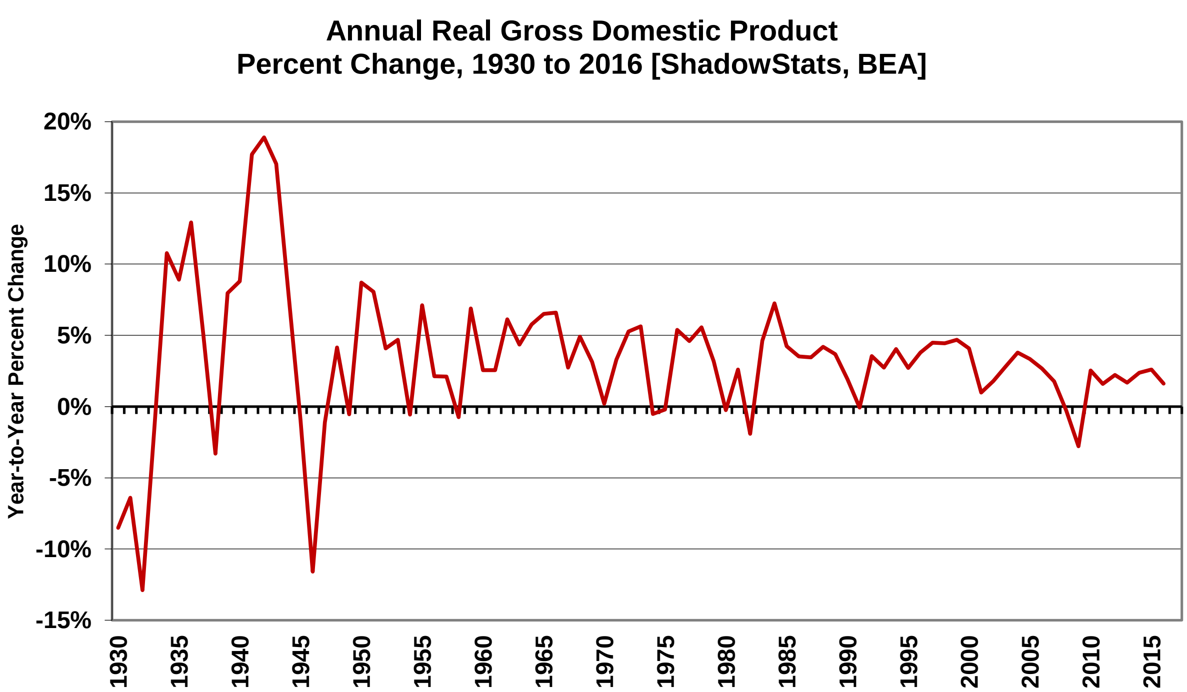
Graph 35: Year-to-Year GDP Real Change (1948-2017), Second Estimate of First-Quarter 2017



Graph 36: Annual GDP in Billions of 2009 Dollars (1929-2016)



Graph 37: GDP Real Annual Percent Change (1930-2016)



Implicit Price Deflator (IPD). The second estimate of first-quarter 2017 GDP inflation, or the implicit price deflator (IPD), showed a revised annualized quarterly change of 2.22% (previously 2.25%), versus an annualized 2.10% in fourth-quarter 2016, 1.41% in third-quarter 2016, 2.29% in second-quarter 2016, 0.46% in first-quarter 2016, 0.91% in fourth-quarter 2015, 1.22% in third-quarter 2015, 2.25% in second-quarter 2015 and 0.04% in first-quarter 2015.

As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa.

Year-to-year, the headline first-quarter 2017 IPD inflation revised to 2.00% (previously 2.01%), versus 1.56% in fourth-quarter 2016, 1.27% in third-quarter 2016, 1.22% in second-quarter 2016, 1.21% in first-quarter 2016, 1.10% in fourth-quarter 2015, 1.00% in third-quarter 2015, 1.11% in second-quarter 2015 and 1.10% in first-quarter 2015.

In terms of year-over-year, average annual inflation, the 2016 IPD inflation was 1.30%, versus 1.08% in 2015 and 1.79% in 2014.

For purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U rose by an annualized 3.15% in first-quarter 2017, versus 3.04% in fourth-quarter 2016, 1.78% in third-quarter 2016, 2.33% in second-quarter 2016, 0.11% in first-quarter 2016, 0.35% in fourth-quarter 2015, 1.50% in the third-quarter 2015, 2.35% in second-quarter 2015 and a quarterly contraction of 2.52% (-2.52%) in first quarter of 2015.

Unadjusted, year-to-year quarterly CPI-U inflation showed annual gains of 2.54% in first-quarter 2017, 1.80% in fourth-quarter 2016, 1.12% in third-quarter 2016, 1.05% in second-quarter 2016, 1.08% in first-quarter 2016, 0.47% in fourth-quarter 2015, 0.11% in third-quarter 2015, and quarterly contractions of 0.04% (-0.04%) in second-quarter 2015 and 0.06% (-0.06%) in first-quarter 2015.

In terms of year-over-year, average annual inflation, the 2016 CPI-U inflation was 1.26%, versus 0.12% in 2015 and 1.62% in 2014 (see *Commentary No. 862* and *Commentary No. 866*).

Gross National Product (GNP) and Gross Domestic Income (GDI). The first estimates of first-quarter GNP and GDI were released today (May 26th) coincident with the headline release of the second estimate of first-quarter GDP. That month delay (two months for the fourth-quarter) is standard, a circumstance due to quality issues with the available "advance" estimates of the quarterly, a problem also specifically common to the headline GDP reporting.

GNP remains the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of what had become a relatively weaker GNP. Headline, annualized real first-quarter 2017 GNP growth came in at 0.99%, versus 2.88% in fourth-quarter 2016 and 3.38% in third-quarter 2016. Year-to-year, first-quarter 2017 real growth was 2.35%, versus 2.09% in fourth-quarter 2016 and 1.71% in third-quarter 2016. For all of 2016, annual real GNP growth was 1.60%, versus 2.33% in 2015.

GDI is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a "statistical discrepancy" to the GDI-side of the equation. First-quarter 2017 real GDI rose at an annualized pace of 0.85%, versus a revised annualized quarterly contraction of 1.38% (-1.38%) [previously a gain of 1.00%] in fourth-quarter 2016 and 5.01% in third-quarter 2016. Year-to-year, first-quarter 2017 real growth was 1.27%, versus a revised 1.26% [previously 1.86%] in fourth-quarter 2016 and 1.98% in third-quarter 2016. For all of 2016, annual real GDI growth was a revised 1.48% [previously 1.64%], versus 2.52% in 2015.

Increasingly touted by the BEA as *the* GDP counterpart, the regularly-unstable GDI has been bloated heavily by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS). The purported income gains have reflected heavily-upside-biased income estimates out of the otherwise-rigged nonfarm payroll survey. Reflecting those instabilities, the nominal "statistical discrepancy" between the headline level of GDP minus GDI narrowed to a -129.9 billion dollars in first-quarter 2017, versus a revised -143.1 billion dollars in fourth-quarter 2016 [having previously narrowed to -256.8 billion dollars in fourth-quarter 2016 and -304.7 billion dollars in third-quarter 2016].

ShadowStats Alternate GDP. The ShadowStats-Alternate GDP first-quarter 2017 GDP estimate is a year-to-year contraction of 1.9% (-1.9%), versus a second estimate of a first-quarter 2017 annual real headline GDP gain of 2.0%. That circumstance was against a ShadowStats 1.8% (-1.8%) annual-decline estimate for fourth-quarter 2016, versus the official headline annual gain of 2.0% in fourth-quarter 2016 GDP.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the statistically-insignificant, second-estimate of annualized, headline quarter-to-quarter gain of 1.2% in first-quarter 2017 was much weaker, net of all the happy assumptions, regular reporting gimmicks and any short-term political gaming coming into the headline detail. Actual quarterly contractions appear to have been a realistic possibility for inflation-adjusted GDP in most quarters since the official, second-quarter 2009 end to the 2007 recession.

Adjusted for understated inflation and other methodological changes—such as the inclusion of intellectual property, software and recent accounting for the largely not-measurable and questionable impact of the Affordable Care Act (ACA)—the business collapse that began in 2006/2007 is ongoing; there has been no meaningful economic rebound, as discussed in today's *Opening Comments and Executive Summary*. The "corrected" real GDP *Graphs 4* and *6* in the *Executive Summary* (see also the *ECONOMY* section in *No. 859 Special Commentary* and *2014 Hyperinflation Report—Great Economic Tumble*), are based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, here, which reflects reversing additional methodological distortions ("Pollyanna Creep") of recent decades.

NEW ORDERS FOR DURABLE GOODS (April 2017)

Total New Orders Fell Month-to-Month by 0.7% (-0.7%), by 0.4% (-0.4%) Ex-Commercial Aircraft and Inflation. In the context of annual benchmark revisions, which lowered the general level of headline activity in recent years (see *Special Commentary No. 888*, incorporated here by reference, and *Graph 12* in the *Executive Summary*), a combination of positive inflation and some offsetting decline in commercial-aircraft orders narrowed the headline, nominal month-to-month decline in April 2017 aggregate new orders for durable goods from 0.67% (-0.67%) to a real decline in monthly new orders, ex-nondefense (or ex-commercial) aircraft orders to 0.42% (-0.42%).

In this series, the best leading indicator to industrial production (particularly manufacturing, see *Graph 15* in the *Executive Summary*) and to the general economy, is inflation-adjusted real new orders, ex-commercial aircraft, which, again, showed a monthly decline of 0.42% (-0.42%) in April 2017, a monthly gain of 1.42% in March 2017 and a month-to-month decline of 0.26% in February, with real year-to-year annual growth slowing to 1.16% in April 2017, from 1.65% in March 2017 and 2.75% in February 2017.

For third-quarter 2016, the annualized real series, ex-aircraft, showed an annualized quarterly gain of 5.46% [down by 1.10% (-1.10%) year-to-year], fourth-quarter 2016 activity showed an annualized quarterly gain of 7.35% [up by 1.33% year-to-year], followed by a first-quarter 2017 annualized contraction of 0.75% (-0.75%) [up by 1.71% year-to-year], with second-quarter activity on an early track for an annualized 1.74% quarterly pace [up by 3.40% year-to-year].

Despite the mixed gains, the series remained in low-level, non-recovering stagnation, and it still is a tentative, leading indicator for softening activity in second-quarter 2017 industrial production, a series that has remained in definitive recession since December 2014 (see *Commentary No. 887*).

Smoothed with six-month moving averages, and adjusted for inflation, both of the highly volatile new orders series (total and ex-commercial aircraft) generally have remained in long-term, non-recovering, low-level, downtrending stagnation, which recently has started to show some minimal uptrend. Those patterns have remained consistent in signaling ongoing or non-recovering recession (see *Graphs 17* to *22* in the *Executive Summary*).

Headline Nominal Detail. In the context of annual benchmark revisions published on May 18th (see *Special Commentary No. 888*), the Census Bureau reported this morning, May 26th, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate new orders for durable goods declined in April 2017 by 0.67% (-0.67%) having gained month-to-month by 2.32% in March and by 1.37% in February.

Year-to-year, April 2017 nominal durable goods rose by 0.94%, down from 6.45% in March 2017 and from 5.36% in February 2017. 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, albeit now somewhat uptrending. 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, now somewhat uptrending (albeit at a lower level than before the benchmarking), 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 April 2017, a monthly decline of 9.24% (-9.24%) in commercial aircraft orders depressed aggregate orders to a deeper headline monthly contraction of 0.67% (-0.67%), from what otherwise would have been a contraction of 0.18% (-0.18%). Net of a 15.36% gain in March 2017 in commercial aircraft orders, a 2.32% headline gain in aggregate orders was reduced to a gain of 1.66%. Net of a headline monthly gain of 41.88% in February 2017 commercial aircraft, a headline 1.37% gain in aggregate orders was reduced to a monthly contraction of 0.06% (-0.06%).

Year-to-year and seasonally-adjusted, April 2017 new orders (net of commercial aircraft) rose by 3.05%, having gained 3.44% in March 2017, and 4.24% in February 2017.

Real Durable Goods Orders—April 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 April 2017 PPI series showed monthly inflation of 0.24%, 0.24% in March and 0.18% in February. Related year-to-year annual inflation has continued to rise, up to 1.87% in April 2017, versus 1.75% in March 2017 and 1.45% in February 2017 (see *Commentary No. 886*).

Adjusted for that 0.24% month-to-month inflation reading in April 2017, and as reflected in the graphs in the *Executive Summary* section, real aggregate orders in April 2017 declined by 0.91% (-0.91%) in the month, having gained 2.08% in March and 1.19% in February. Ex-commercial aircraft, real month-to-month orders declined by 0.42% (-0.42%) in April 2017, having gained 1.42% in February and having declined by 0.26% (-0.26%) in February.

Real total new orders declined year-to-year by 0.92% (-0.92%) in April 2017, having gained 4.62% in March 2017 and 3.86% in February 2017. Ex-commercial aircraft, April 2017 real orders rose year-to-year by 1.16%, having gained 1.65% in March 2017 and 2.75% in February 2017.

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 post 2017 benchmarking annualized quarterly declines of 7.92% (-7.92%) [pre-benchmarking it was down by 4.44% (-4.44%)] in fourth-quarter 2014, and 7.36% (-7.36%) [previously 5.54% (-5.54%)] in first-quarter 2015. Annualized real change for second-quarter 2015 was a gain of 3.87% [previously 3.31%], a gain of 3.46% [previously 4.52%] in third-quarter activity, a contraction of 2.59% (-2.59%) [previously a gain of 0.31%] in fourth-quarter 2015 activity.

First-quarter 2016 activity showed an annualized real contraction of 2.22% (-2.22%) [previously a gain of 0.48%], with the series declining at an annualized real pace of 4.74% (-4.74%) [previously down by 4.53% (-4.53%) in second-quarter 2016. Third-quarter 2016 showed an annualized gain of 5.46% [previously 4.03%], with fourth-quarter 2016 up by 7.35% [previously 5.89%]. First-quarter 2017 activity showed an annualized contraction of 0.75% (-0.75%) [previously up by 2.07%]. Based just on one month of reporting, second-quarter 2017 is on early track for annualized quarterly gain of 1.74%.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Four sets of inflation-adjusted graphs (*Graphs 13* to *22*) are displayed in the *Executive Summary*. The first set (*Graphs 13* to *16*) 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 real series net of commercial aircraft, plus a plot of annual growth in the manufacturing sector, for comparison. The moving-average levels in both series had turned lower into year-end 2014 and the first two quarters of 2015, with some smoothed bounce-back into third-quarter 2015, followed by renewed downturn into 2016 with a late-year uptick continuing into March 2017, which largely revised away with the benchmarking.

The second set of graphs (*Graphs 17* and *18*) 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 19* and *20*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders. The fourth set of graphs (*Graphs 21* and *22*), shows the twelve-month moving average of the real series, ex-commercial aircraft side-by-side with parallel activity in the historical Cass Freight Index™. 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*), never entering a post-recession period of economic expansion.

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 eight days, with the annual benchmark revision to durable goods orders through March 2017 on May 18, 2017 (see Special Commentary No. 888*), that consistency ceased with today's May 26th realease of headline April 2107 detail.*

For all monthly reporting from the April 2017 detail until the May 2018 benchmarking, unpublished historical revisions calculated along with current headline month's seasonal adjustments (April 2017 at present), and with each month to follow, make all historical reporting prior to April 2017 (or the current headline month) inconsistent with the current headline historical numbers.

NEW-HOME SALES (April 2017)

In the Context of Meaningless Annual Revisions and Unstable Upside First-Quarter Revisions, April Sales Plunged. This highly volatile and unstable monthly series, smoothed for a six-month moving average, however, remained in low-level stagnation, still never having recovered its pre-recession high. The ongoing, short-term extreme monthly volatility continued in the context of headline monthly April 2017 activity holding below its never-recovered 2005 pre-recession peak by 59.0% (-59.0%), still deep in depression territory (see *Commentary No. 754*).

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 gains or a losses. Despite a an upwardly revised gain in recent first-quarter reporting, the broad reporting trend remained close to flat, with the growth pattern of the smoothed six-month, moving-average holding flat with some uptrend, as seen in *Graph 26* in the *Executive Summary*. The annual seasonal-adjustment revisions in 2015 and 2016 had negligible impact, as can be seen in *Graph 23* of the *Executive Summary*.

The April 2017 headline reporting of 569,000 units in annualized sales (a 47,417 monthly rate as used in the graphs in the *Executive Summary*) was down by 11.4% (-11.4%) month-to-month, following an unrevised monthly gain of 5.8% (although at a higher level in March than previously reported) and stronger monthly gains of 1.3% in February and 9.3% in January. As usual, neither the monthly nor annual headline change was statistically meaningful.

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 generally flat with a small upside bias, in the context of the latest headline reporting and revisions smoothed for a six-month moving average (again, see *Graph 26* 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 stood at 12.5% above its pre-recession high, as of today's headline second estimate of first-quarter 2017 GDP. For example, from the series' pre-recession peak of July 2005, April 2017 New-Home Sales, again, were down by 59.0% (-59.0%), while April 2017 Single-Unit Housing Starts were down by 54.2% (-54.2%) from the January 2006 pre-recession high of that series (see *Commentary No. 887*).

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 April 2017 New-Home Sales Reporting. Reported by the Census Bureau on May 23rd, in the context of annual seasonal-factor revisions and upside monthly revisions to March, February and January 2017 New-Home Sales (counted based on contract signings), April 2017 sales plunged month-to-month by a headline, seasonally-adjusted and statistically-insignificant 11.4% (-11.4%) +/- 12.3% (all confidence intervals are at the 95% level).

That followed an unrevised monthly gain of 5.8% in March, albeit at much higher level, a February gain of 1.3% [previously 0.3%] and a revised gain of 9.3% [previously 6.2%] in January. Net of prior-period revisions, the month-to-month change in April 2017 was a decline of 8.4% (-8.4%), instead of the headline drop of 11.4% (-11.4%), also well shy of being statistically significant.

Year-to-year, April 2017 sales rose by a statistically-insignificant 0.5% +/- 13.2%. That followed revised annual gains of 20.5% [previously 15.6%] in March 2017, 15.6% [previously 11.8%] in February 2017 and 15.2% [previously 11.2%] in January 2017. This series is extraordinarily unstable and consistently unreliable on a near-term, month-to-month basis and usually on a long-term basis, as to whether headline sales actually increased or decreased.

In the arena of continued extreme volatility, the quarterly changes remain meaningless as indicators of stable trends in activity. Consider that second-quarter 2017 is on early track for an annualized quarterly contraction of 27.2% (-27.2%), following a revised annualized boom of 38.3% [previously 21.6%] in first 2017, a revised annualized decline of 12.9% (-12.9%) [previously 12.4% (-12.4%) in the context of only minimal annual seasonal-adjustment revisions] in fourth-quarter 2016, and a revised annualized gain of 20.1% [previously 13.6%] in third-quarter 2016.

New-Home Sales Graphs. A special *Graph 23* in the *Executive Summary* shows the annual revisions (just shifted seasonal adjustments in 2015 and 2016) that were published along with headline April 2017 detail. Otherwise, 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 (see *Graphs 24* and *26*). Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of April 2017 Housing Starts for single-unit construction, from *Commentary No. 887* (*Graphs 25* and *27*), along with comparative graphs of the Existing-Home Sales and related series (see *Graphs 28* to *31*).

EXISTING-HOME SALES (April 2017)

Sales Activity Declined Month-to-Month and Year-to-Year, but It Still Held in Non-Recovering Stagnation, Down by 23.4% (-23.4%) from Its Pre-Recession Peak. In the context of a continuing pattern of prior-month downside revisions, Existing-Home Sales declined by 2.3% (-2.3%) month-to-month in April 2017. That was against a revised, 4.2% gain in March and an unrevised month-to-month decline in February of 3.9% (-3.9%). April 2017 year-to-year growth slowed to 1.6%, from a downwardly revised annual gain of 5.8% in rose to March 2017 and an unrevised 5.2% in February 2017.

The series remained in depression (see *Commentary No. 754*). Although the prior month's March activity had been the highest monthly sales level since February 2007, headline April 2017 activity was down by 23.4% (-23.3%) and March 2017 activity was down by 21.6% (-21.6%) 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, minimal 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, and well shy of approaching renewed economic expansion.

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

Specifically, Existing-Home Sales activity in April 2017, again, was down by 23.4% (-23.4%) 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 48.4% (-48.4%) from their January 2006 pre-recession high (see *Commentary No. 887*).

Headline March Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® reported May 24th a seasonally-adjusted, headline monthly decline of 2.28% (-2.28%) in April 2017 Existing Home Sales, following a downwardly-revised gain of 4.2% [previously 4.39%] and an unrevised decline of 3.87% (-3.87%) in February.

Year-to-year growth in April 2017 existing sales slowed to 1.64%, from a downwardly-revised 5.75% [previously 5.94%] in March 2017 and an unrevised annual gain of 5.19% in February 2017.

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%).

First-quarter 2016 sales expanded at an annualized 12.6% pace of growth, followed by 9.3% in second-quarter 2016, with an annualized contraction of 6.9% (-6.9%) in third-quarter 2016 activity and a 13.0% gain in fourth-quarter 2016 activity.

First-quarter 2017 annualized growth slowed to a revised 5.4% [previously 5.6%], with second-quarter 2017 on early track for an annualized contraction of 3.51% (-3.51%).

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years (*Graph 28*). 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 flat and to up-trending, again, as indicated in *Graph 30* of the *Executive Summary*.

Proportion of Distressed Sales Eased to 5% in April, with All-Cash Sales easing to 21%. The NAR estimated the portion of April 2017 sales in "distress" at 5% (3% foreclosure, 2%, short sales), down from 6% (5% foreclosures, 1% short sales) in March 2017, and down from 7% (5% foreclosures, 2% short sales) in April 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 such numbers 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 declined to 21% in April 2017, versus 23% in March 2017 24% in April 2016.

Existing-Home Sales Graphs. Shown in the *Executive Summary*, *Graph 28* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 30* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of April 2017 aggregate Housing Starts activity, from *Commentary No. 887*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 29* and *21*). *Graphs 24* to *27* show comparative graphs of New-Home Sales and related series.

WEEK, MONTH AND YEAR AHEAD

Continued Economic Weakening, Stagnation and Downturn Still Should Compromise Fed Policies, Pummeling the U.S. Dollar and Boosting the Price of Gold. *[Please Note: Other than for the* Pending Economic Releases *section, text here has not been changed meaningfully from Special Commentary No. 888.]* Recent benchmark revisions to Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*) broadly have confirmed that recent historical activity has been overstated and/or that it is turning down anew, despite near-term spikes in some headline April details, such as the labor numbers and industrial production. Reporting patterns likely will continue to weaken in the next month or so, which should trigger anew financial-market concerns as to the direction of pending Fed policy actions. Adding uncertainty are risks of political surprise, as surfaced last week. Otherwise, the broad outlook has not shifted.

In the context of the *Opening Special Comments* of *Special Commentary No. 885*, and as discussed in the *Opening Comments* of *Commentary No. 883*, the still-unfolding downshift in economic expectations increasingly should move market expectations for Federal Reserve policy away from rate hikes and the normalization of the Fed's balance sheet, towards renewed quantitative easing. The problem for the U.S. central bank remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function, in practice, always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it is one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning.

The outlook for future FOMC activity is updated in the *Hyperinflation Watch* of *Commentary No. 886*, and remains otherwise as reviewed in the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 880*, and as previously reviewed in *Commentary No. 873*. The circumstances and outlook remain as broadly outlined in *No. 859 Special Commentary*.

As reflected in common experience, actual U.S. economic activity generally continues in 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 12.5% since that series purportedly recovered its 2007-pre-recession high in 2011, no other "recovered" economic series has come close to showing that expansion either in terms of magnitude or in the purported brevity of the depression. Most of the better-quality series have remained in continuing, not-recovered status, in a period of protracted downturn that now rivals that of the Great Depression (see *Commentary No. 887*, and *Commentary No. 869*). With intensifying signals, near-term economic woes, the FOMC soon should come under pressure to shift policies, once again, reverting to some form of quantitative easing, in an effort to address related, intensifying solvency risks in the domestic banking system.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face 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, once in play, before it meaningfully affects the broad economy. Delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible 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 (see *No. 859*), but they will not happen without the cooperation of Congress.

Prior General Background. *No. 859 Special Commentary* 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 had been making loud noises of continuing to raise interest rates, in order to contain an overheating economy, but that "overheating" activity has started to fade. 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: *Special Commentary No. 885*, *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 (Most-Recent Coverage of Specific Series or with Special Features):

Special Commentary No. 888 discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers' Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

Commentary No. 886 reviewed the headline details of the April 2017 CPI and PPI detail, along with headline reporting of nominal and real Retail Sales, real Average Weekly Earnings and regular monthly review of U.S. dollar conditions and prospects.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 884 reviewed the March 2017 details for the U.S. Trade Deficit and Construction Spending and the Conference Boards' reporting of April 2017 Help Wanted OnLine.

Commentary No. 883 covered the headline detail for the "advance" or first-estimate of first-quarter GDP, along with an update to *Consumer Liquidity Conditions*.

Commentary No. 882 summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and for New- and Existing-Home Sales.

Commentary No. 881 reviewed the prior March 2017 Industrial Production, Housing Starts and the Cass Freight Index™, along with an economic update in advance of the initial first-quarter 2017 GDP estimate.

Commentary No. 880 detailed the prior March 2017 headline reporting the of both Real and Nominal Retail Sales, Real Earnings, the CPI, the PPI and updated Consumer Liquidity, where mounting stresses on consumer income and credit are signaling major economic issues ahead.

Commentary No. 879 covered March 2007 Employment and Unemployment, Help-Wanted Advertising and an update on monetary policy and Money Supply M3 (the ShadowStats Ongoing Measure).

Commentary No. 878 reviewed detail on the February 2007 Trade Deficit and Construction Spending, along with the latest update on Consumer Liquidity conditions.

Commentary No. 877 outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

Commentary No. 873 discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with the prior 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 last month's February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

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

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.

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 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 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. With some historical detail updated recently *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, 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* has continued his investigations in reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales* (worth a review in the context of the recently-published 2017 retail sales benchmarking).

PENDING ECONOMIC RELEASES: Construction Spending (April 2017). The Commerce Department will release its estimate of April 2017 construction spending on Thursday, June 1st. Detail will be covered in the ShadowStats *Commentary No. 890* of June 2nd. As usual, headline monthly changes should not be statistically-significant. Irrespective of almost perpetually-positive market expectations for this series, the detail generally should continue in flat-to-downtrending stagnation, particularly in real terms, net of inflation. Annual revisions to the series back through 2014 will be released along the May 2017 report on July 3rd.

Employment and Unemployment (May 2017). In the context of reporting issues discussed in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, the Bureau of Labor Statistics (BLS) will publish its headline May 2017 labor data on Friday, June 2nd, to be covered in ShadowStats *Commentary No. 890* of that date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, are open for negative headline surprises, given the ongoing, general stagnant-to-weakening tone in a number of the better business indicators. Specifically, headline detail likely will be weaker, not stronger that the headline drop in the April headline U.6 unemployment rate of 4.40%, and the seasonally-adjusted headline payroll jobs gain of 211,000 in April.

Underlying Reality Remains to the Downside of Expectations. In the context of recent the extreme volatility and inconsistencies in payroll and unemployment detail, almost anything remains possible within near-term BLS reporting. Where, underlying reality remains a much weaker-than-expected economy, such increases the odds of negative surprises to the headline reporting of both the payroll and household-survey detail, against what likely will be relatively strong consensus expectations.

U.S. Trade Deficit (April 2017) and Annual Revisions. The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for April 2017, including annual revisions back through 2014 (back through 2014 in the nominal series, back to 2009 in inflation-adjusted real terms) on Friday, June 2nd, to be covered in ShadowStats *Commentary No. 891* of June 5th. That estimate will revise the often worthless "advance" estimate in merchandise trade, which showed a widening of $2.5 billion in the month-to-month goods deficit for April, as released May 25th. To the extent that the "advance" number has any credibility, the deficit narrowed due to the monthly decline in exports exacerbated by an increase in monthly imports. The revisions "advance" estimate, however, could be suggestive of net-negative (wider deficit) revisions pending not only in the annual trade-deficit benchmark revisions, but also for the pending annual GDP benchmarking due for July 28th.