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

COMMENTARY NUMBER 906
July New Orders for Durable Goods, New- and Existing-Home Sales

August 25, 2017

Faltering Economic Activity and Intensifying Political Discord
Continue to Peril the Dollar and to Intensify Risks of Market Turmoil

Better-Quality Reporting than Gimmicked GDP and Employment Shows
No Full Recovery from the Economic Collapse, No Economic Expansion, with
Real Business Activity Increasingly Stagnant or in Renewed Downturn

Net of Headline Inflation and Gyrations in Commercial-Aircraft Orders, New Orders
Were Down by 9.3% (-9.3%) from Their Non-Recovered, Pre-Recession Peak

Offering Some Caution for Booming Headline Retail Sales,
Motor Vehicle Orders and Shipments Declined in June and July

Housing and Construction Activity Continued In Deepening Contraction;
Six-Month Smoothed Trends All Have Turned Down

New- and Existing-Home Sales Fell in July, into Third-Quarter 2017,
Having Contracted in Second-Quarter 2017

July Existing-Home Sales Were Down by 25.2% (-25.2%) and
New-Home Sales Were Down by 58.9% (-58.9%) from Pre-Recession Peaks

Parallel Monthly and Quarterly Declines Were Seen Recently in
July Building Permits and Housing Starts, Respectively Also
Down by 46.0% (-46.0%) and by 49.2% (-49.2%) from Pre-Recession Highs

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PLEASE NOTE: The next Regular Commentary*, planned for Wednesday, August 30th, will cover the second estimate of Second-Quarter 2017 GDP and initial quarterly estimates for the GDI and GNP, followed on Friday, September 1st, by an early and brief "Advance" Commentary, providing summary coverage of the August 2017 Employment and Unemployment and July Construction Spending released on that date. Given the amount of new material released and the ensuing Labor Day Weekend, full analysis of the labor and construction details will follow in a* Regular Commentary *on Wednesday, September 6th, which also will cover the initial 2017 Benchmark Revisions to Payroll Employment and the July Trade Deficit, as released on that date.*

Best wishes to all — John Williams (707) 763-5786

Today's *Opening Comments and Executive Summary* (August 25th). The ***Opening Comments and Executive Summary*** update economic trends evident in the latest headline reporting, including specific highlights and key graphs of July New Orders for Durable Goods and New- and Existing-Home Sales.

The ***Reporting Detail*** (page 10) provides extended analysis of the durable goods orders and home sales data.

The ***Consumer Liquidity Watch*** (page 26) has been updated for the early-August reading on Consumer Sentiment as reported by the University of Michigan.

The ***Week, Month and Year Ahead*** (page 36) provides links to recent *Commentaries* and previews the next two weeks' releases of August Employment (including the initial payroll benchmark revisions) and Unemployment, and the July Trade Deficit and Construction Spending.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economic Troubles Continue to Mount. In the context of the "Alert" issued with *Special Commentary No. 904* of August 14th, incorporated here by reference, economic reporting of this week came in on the downside of expectations for home-sales activity, with durable goods orders about as expected—stagnant in real terms, net of commercial-aircraft orders—in a state of non-recovered, non-expanding activity. Intensifying negative-economic trends are likely in most economic releases of the month ahead, as headline economic activity increasingly turns down anew. That circumstance should pressure the Federal Reserve to back-off its promised tightening, forcing central-bank policy to revert towards expanded quantitative easing. Again, as discussed in the "Alert," such action should pummel the U.S. dollar, which increasingly would reflect flight of capital from the U.S. equity and credit markets.

The outlook from the New Orders for Durable Goods series has not changed. The story remains one of non-recovery in the broad economy with low-level stagnation holding in place for U.S. manufacturing activity. Risks remain to the downside. As defined traditionally, economic recovery means recovering the prior peak level of economic activity, seen before a recession. Economic expansion is defined as the growth beyond the prior peak. Again, the better-quality economic series do not show a recovery from the formal 2007 Recession, which troughed in 2009. The period of subsequent non-economic expansion now

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is of the longest duration ever seen in the history of modern economic reporting, which covers roughly that last 100 years, the post-World War I era (see *Commentary No. 876* and *Commentary No. 905*).

Discussed in the New- and Existing-Home Sales coverage, reporting of recent home sales activity, in conjunction with New Residential Construction, specifically Housing Starts and Building Permits (see *Commentary No. 905*) and U.S. Construction Spending, adjusted for inflation (see *Commentary No. 903*), have been turning down long enough, and have continued enough below consensus forecasts to indicate that a new, meaningful downturn in the housing and construction industries series is underway. This is despite the extreme and irregular volatility usually seen in these series over time, and despite those series never having recovered their pre-recession highs back in 2006.

EXECUTIVE SUMMARY: New Orders for Durable Goods—July 2017—Net of Irregularly-Surging and Sinking Commercial Aircraft Orders, Aggregate Orders Held in Fluctuating, Low-Level Stagnation. After two months of headline monthly contractions, New Orders for Durable Goods rose by a revised 6.4% in June, boosted by a 129.3% monthly surge in the irregularly-volatile, commercial-aircraft orders, then sank by 6.8% (-6.8%) in today's (August 25th) headline July 2017 detail, hit by a 70.7% (-70.7%) plunge in the same irregularly-volatile commercial aircraft orders. Ex-commercial aircraft, new orders rose by 0.5% in July, following a revised 0.3% gain in June.

Adjusted for inflation and as reflected in the graphs, real aggregate orders in July 2017 declined by 6.79% (-6.79%), having gained 6.38% in June and having been "unchanged" at 0.00% May. Net of the impact of the highly unstable monthly commercial aircraft orders, real month-to-month orders rose by 0.48% in July 2017, by 0.27% in June and by 0.06% in May.

Real total new orders rose year-to-year by 2.54% in July 2017, having gained 14.35% in June 2017 and 2.18% in May 2017. Ex-commercial aircraft, July 2017 real orders rose year-to-year by 4.00%, having gained 5.00% in June 2017 and 4.71% in May 2017.

More-extensive coverage of these monthly numbers and revisions to same are found in the *Reporting Detail*, while the related graphs follow here.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. *Graphs 1* and *2* show the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the same series net of the irregularly-volatile commercial-aircraft orders.

The moving-average levels in *Graphs 1* and *2* 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 early-2017, which was much reduced in the annual benchmarking of May 18th. With subsequent softening headline monthly detail into May 2017 new orders, orders then were boosted by irregularly-surging commercial aircraft orders in June 2017, with reverse impact from a sharp decline in similar orders in July 2017.

Graph 3 shows the same series in *Graph 2*, net of commercial-aircraft orders, but with a 12-month trailing average, for purposes of comparison with the Cass Freight Index™ shown in *Graph 4*. Discussed in prior *Commentary No. 905*, freight activity is a broad indicator of domestic economic activity and correlates

strongly with activity in new orders for durable goods (ex-commercial aircraft), as well as with activity in the dominant manufacturing sector of industrial production. The trailing twelve-month average of the freight index shows that it hit a near-term peak in February 2015, consistent with the onset of a "new recession" in December 2014, slowing through September 2016 and then flattening out and turning minimally to the upside. These 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. Recovering the pre-collapse levels of activity remains well into the future, dependent heavily on the increasingly-unlikely circumstance of the Administration and Congress putting in place some near-term economic stimulus.

Graphs 5, *6* and *7* show comparative plots of the annual year-to-year percent change in the real new orders series, net of commercial aircraft orders, along with a comparative plots of parallel year-to-year headline changes in the manufacturing sector of industrial production and also in the Cass Freight Index, where annual growth just slowed sharply (again, see the discussion in the *Opening Comments* of *Commentary No. 905*).

The level of annual growth for the inflation-adjusted July 2017 new orders for durable goods, ex-commercial aircraft, moved slightly lower versus June 2017. That broadly was consistent with the fluttering low level of uptrending, non-recovered stagnation seen in the manufacturing series, with both measures in positive territory.

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 also 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 official GDP reporting. The real monthly and six-month moving-average levels of new orders in July 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, non-expanding, low-level stagnation.

[Graphs 1 to 7 begin on the next page.]

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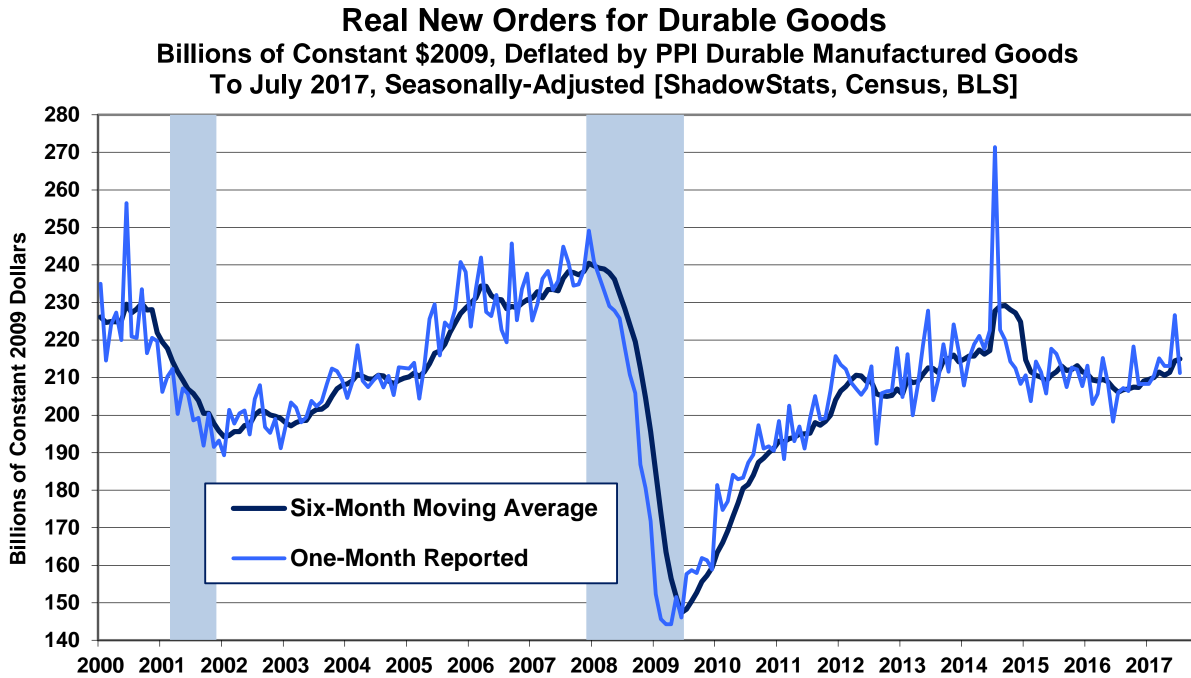
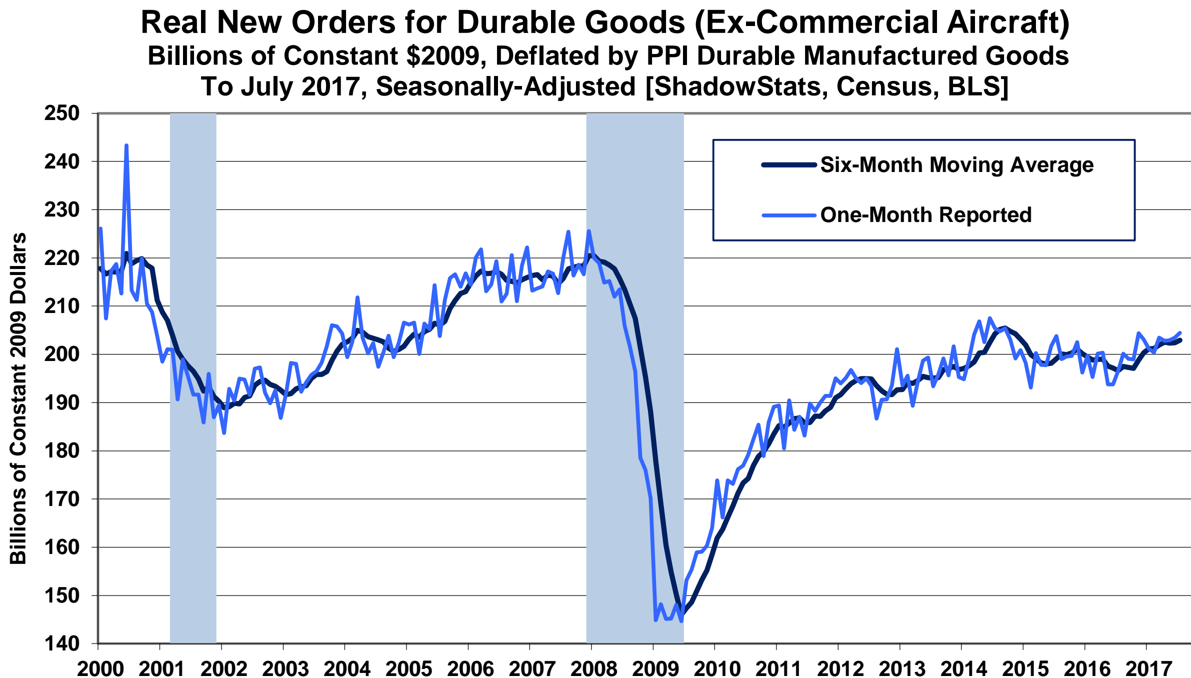
Graph 1: Real Total New Orders for Durable Goods to Date



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



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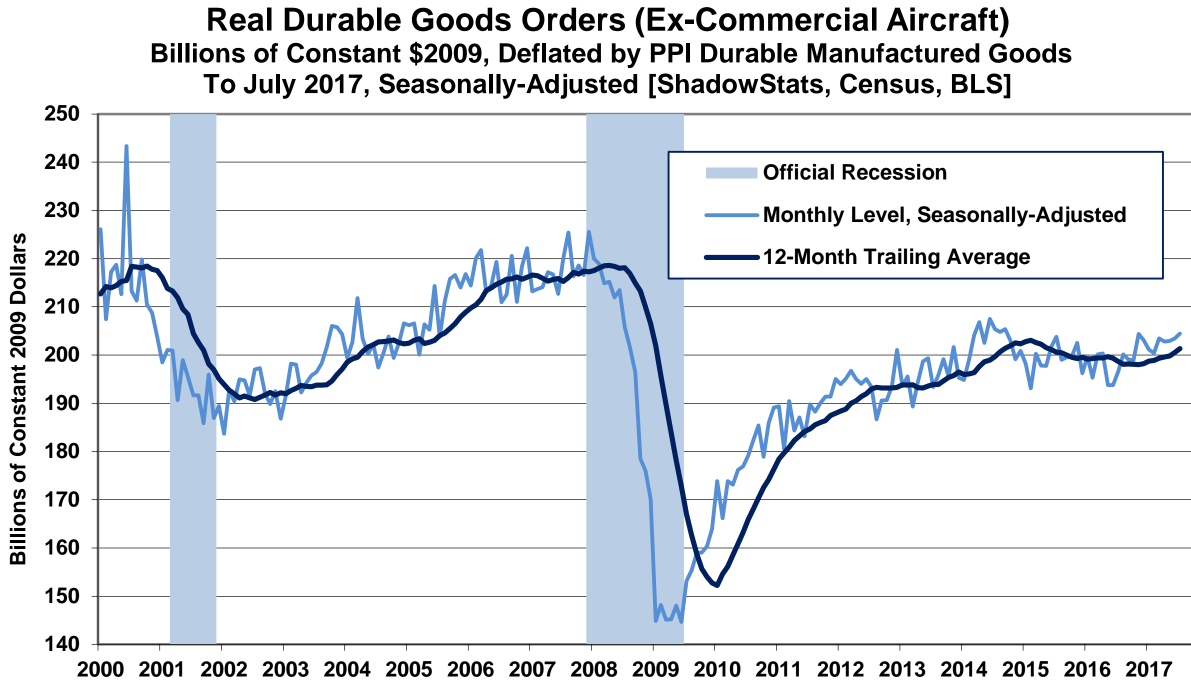
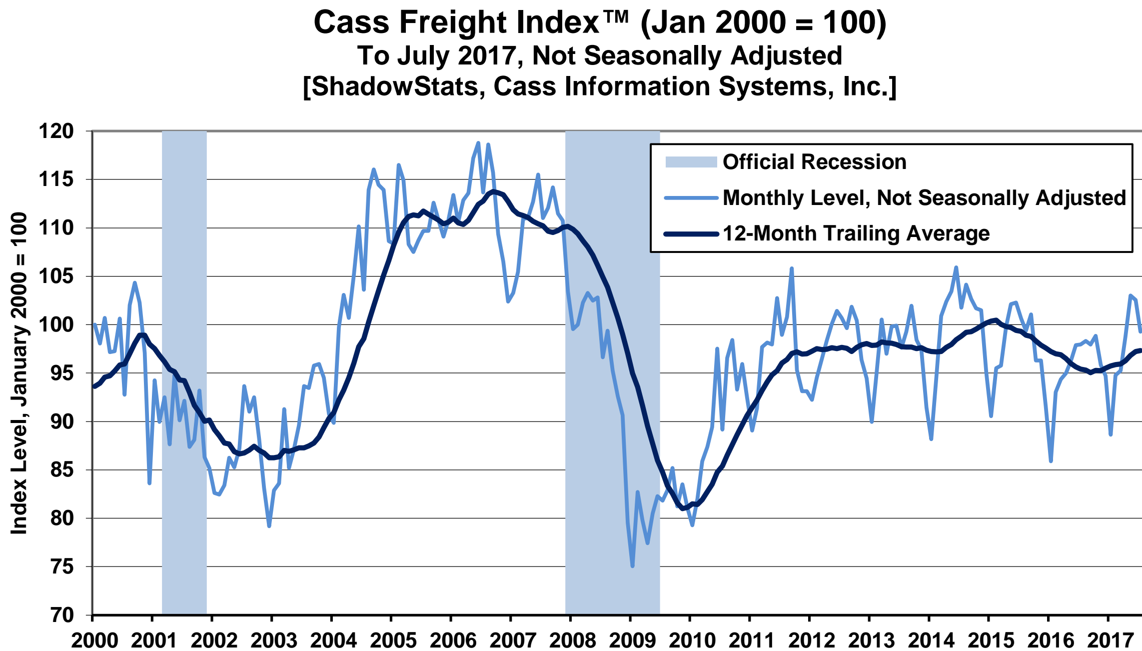
Graph 3: Real Durable Goods, ex-Commercial Aircraft, Moving-Average Level (Trailing 12-Month Average)



Graph 4: CASS Freight Index ™ Moving-Average Level (2000 to July 2017)

(Graph OC-1 on page 4 of [Commentary No. 905](#))



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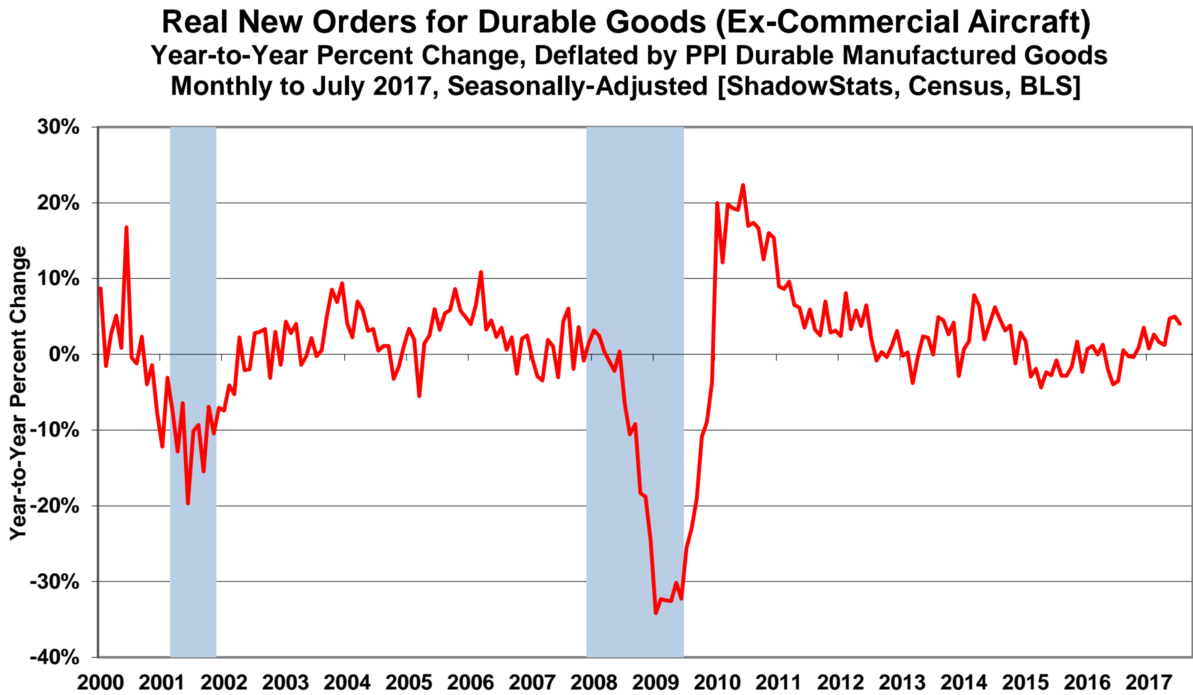
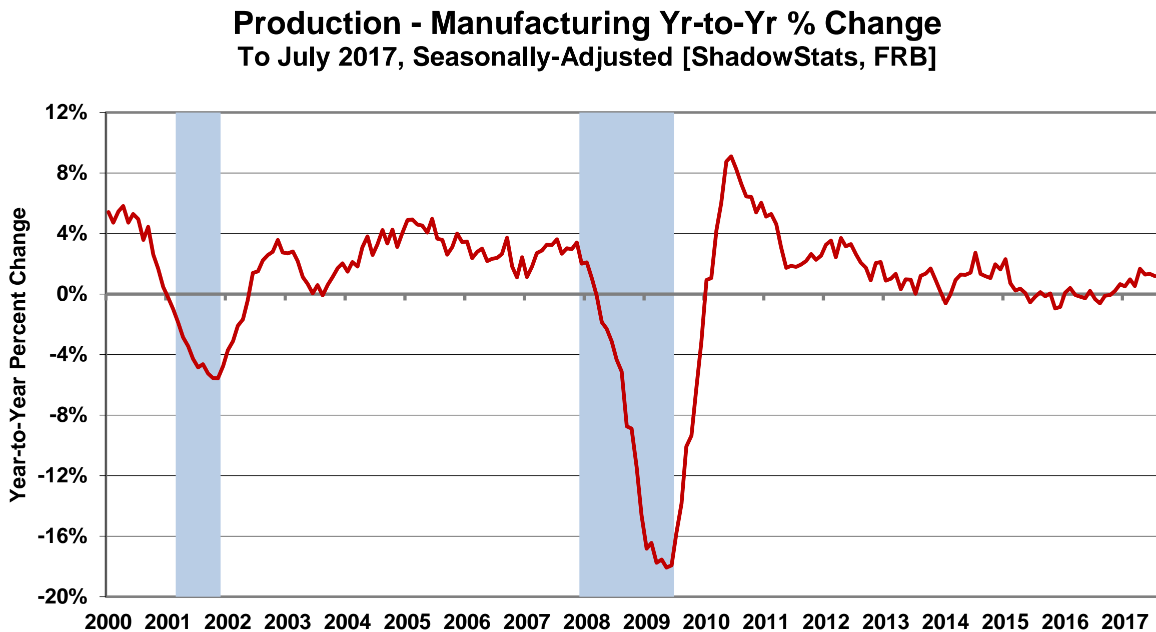
Graph 5: Year-to-Year Percent Change, Real New Orders for Durable Goods – Ex-Commercial Aircraft to Date



Graph 6: Industrial Production - Manufacturing, Year-to-Year Percent Change Since 2000

(Graph 18 on page 25 of Commentary No. 905)



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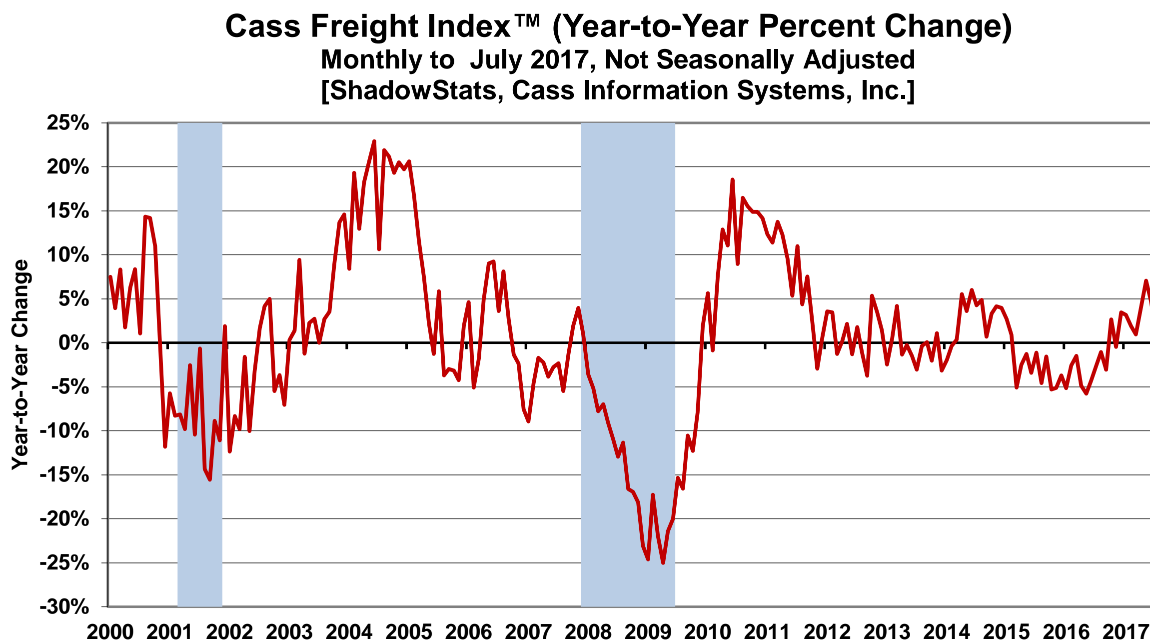
Graph 7: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to July 2017)
(Graph OC-3 on page 5 of Commentary No. 905)



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 Industrial Production and Real Retail Sales (see respectively *Graphs 2* and *4* of *Commentary No. 905*) and GDP (see *Commentary No. 902-B*), 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*).

Two sets of graphs follow. The first set (*Graph 8* and *Graph 9*) shows the aggregate series or total durable goods orders; the second set (*Graph 10* and *Graph 11*) shows the ex-commercial aircraft series. The aggregate orders series in *Graphs 8* and *9* 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 10* and *11* are shown net of those volatile commercial aircraft orders.

The first graph in each of the two sets shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph, but it has been re-deflated to correct for the ShadowStats estimate of the understatement of the PPI manufactured

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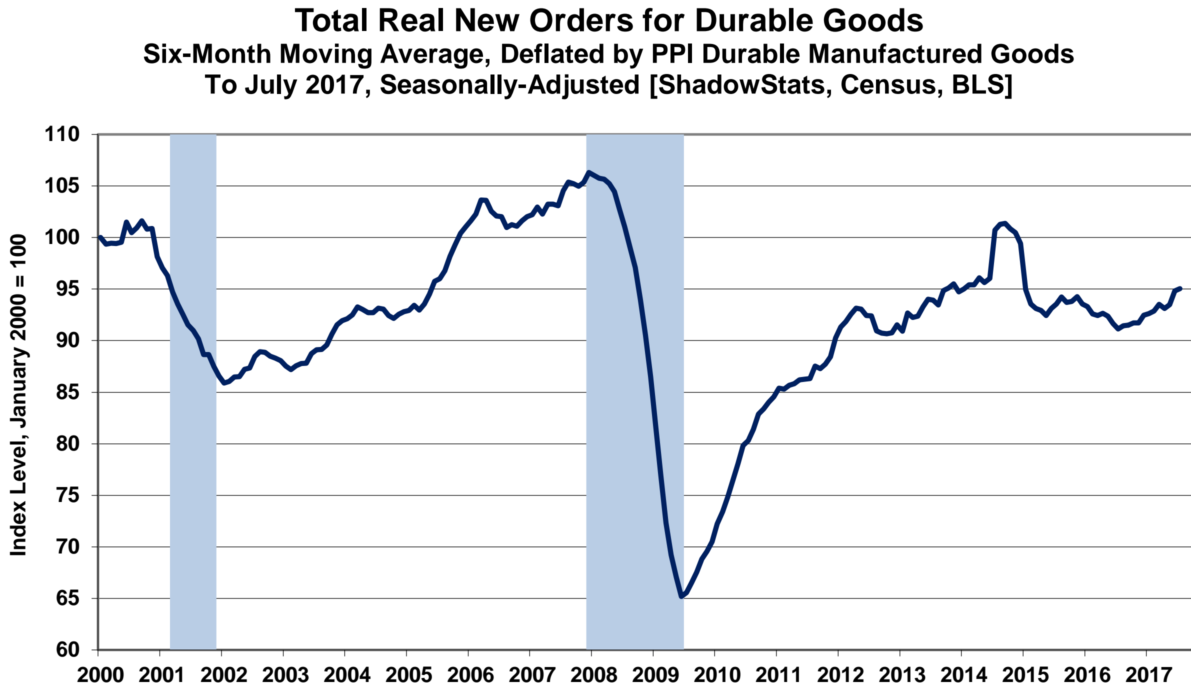
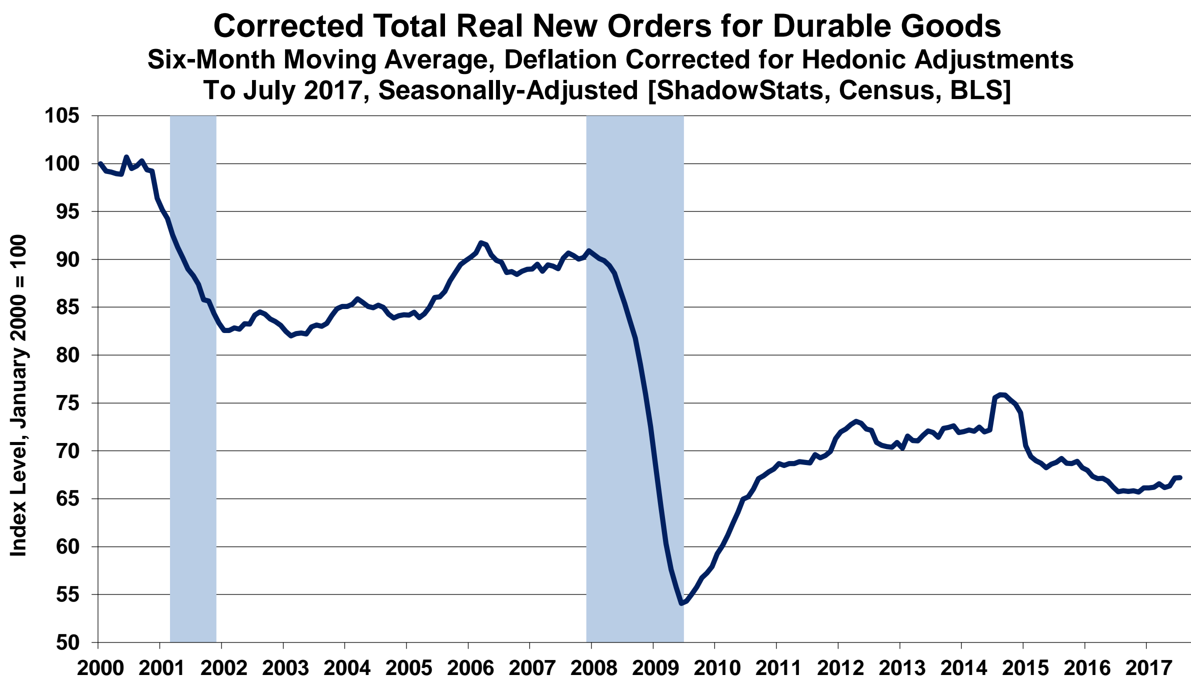
durable goods inflation measure used in the headline-deflation process. The "corrected" graphs all are indexed to January 2000 = 100.

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



Graph 9: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



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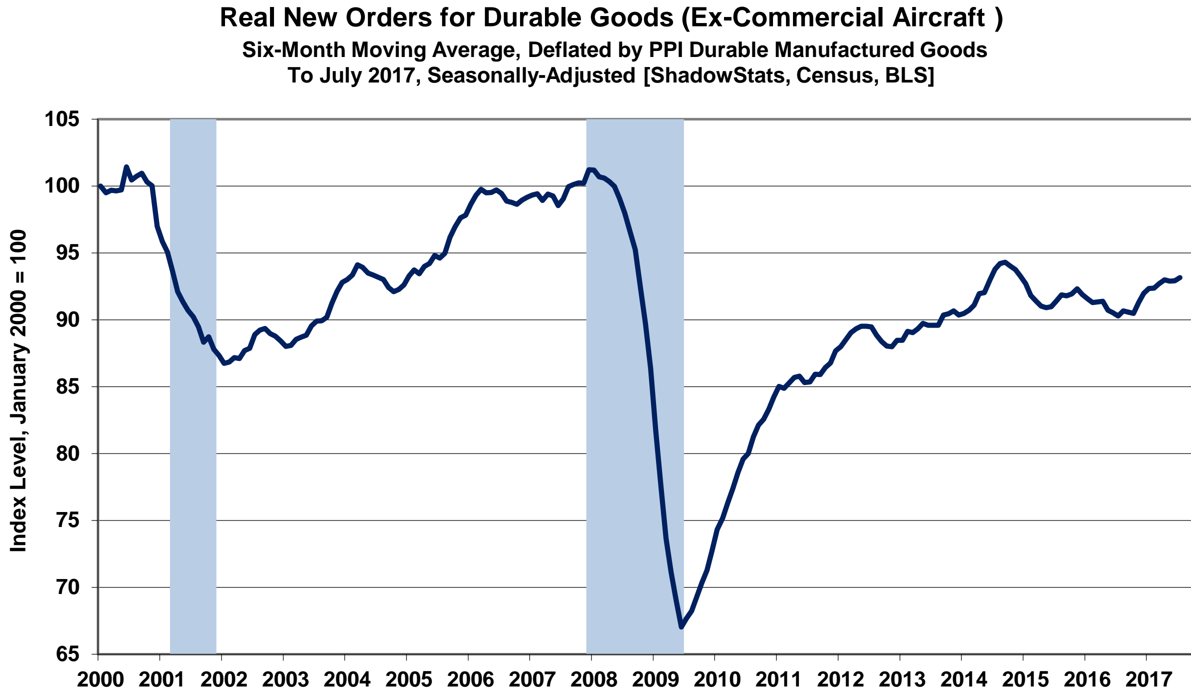
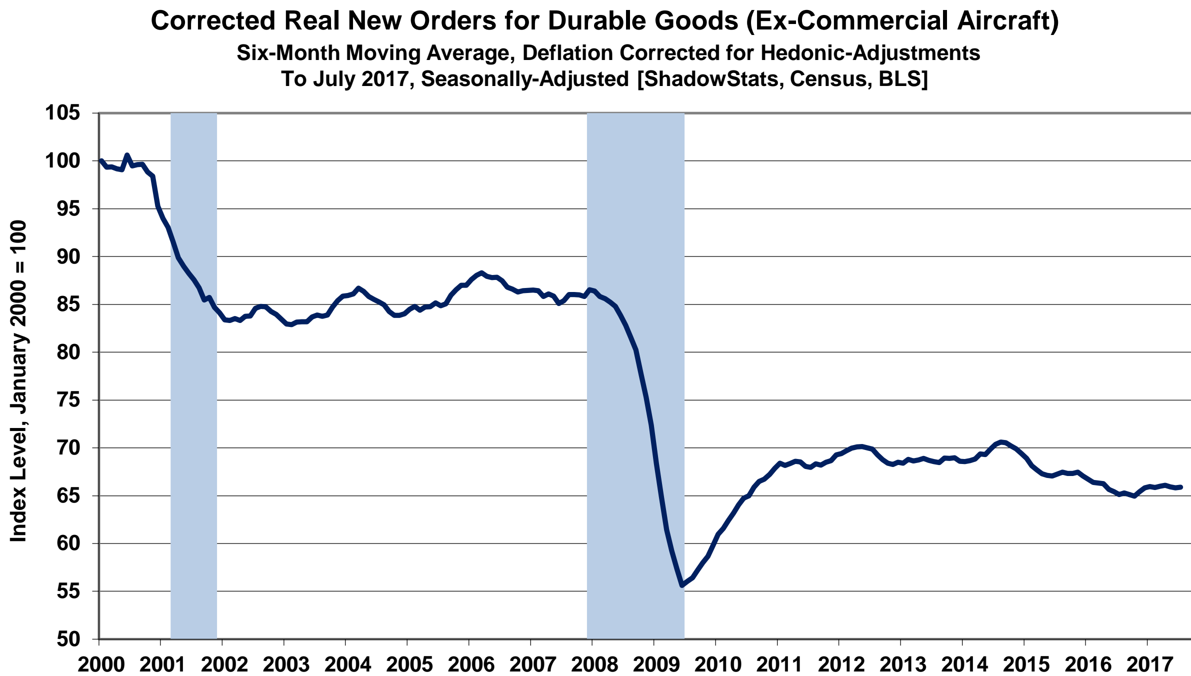
Graph 10: Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



Graph 11: Corrected Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



New- and Existing-Home Sales—July 2017—Monthly and Quarterly Sales Contracted, all in the Context of Continuing Low-Level, Downtrending and Non-Recovering Stagnation. The July 2017 New- and Existing-Home Sales series both remained in "great depression" (see *Commentary No. 754*), down respectively by 58.9% (-58.9%) and 25.2% (-25.2%) from their pre-recession peak levels of activity. Both series declined in July, turning down into third-quarter 2017 activity, having contracted quarter-to-quarter for second-quarter 2017, and now with the low-level stagnation seen in the smoothed six-month moving averages also having now turned to a downtrend (see *Graphs 14* and *18*).

Industry Activity Remains Non-Expanding, Non-Recovered and Turning Down Anew. None of the home sales or housing construction series has come close to recovering fully from the economic collapse into 2009, and indeed they all are turning down anew. Contrary to headline second-quarter 2017 GDP reporting, which stands at 13.5% above its pre-recession peak, general housing construction and related residential-real-estate sales broadly have shown patterns of protracted, low-level, non-recovering stagnation, to date. Separate from the respective declines, again, of 58.9% (-58.9%) and 25.2% (-25.2%) in July 2017 New- and Existing-home sales, consider that versus pre-recession peaks, the headline July 2017 levels of activity also were down for Building Permits by 46.0% (-46.0%), and by 49.2% (-49.2%) for Housing Starts, as discussed in prior *Commentary No. 905*. Separately, aggregate real Construction Spending in the United States was down by 23.1% (-23.1%) in its most-recent reporting of June 2017 from its pre-recession peak (see *Commentary No. 903*).

Activity in the housing/construction industry had been slowing or stagnant; as of the latest reporting, it now appears to be in decline a manner reminiscent of the period preceding the formal onset of the 2007 recession. Annualized second-quarter 2017 contractions in the home sales and related construction series were 3.0% (-3.0%) for New-Home Sales, 4.0% (-4.0%) for Existing-Home Sales, 11.0% (-11.0%) for Building Permits and 21.9% (-21.9%) for Housing Starts. Each of those measures not only entered third-quarter 2017 on the downside, but also smoothed for six-month moving averages, each series now shows a downtrend.

As of the most-recent (June 2017) reporting for the downtrending Construction Spending series, the second-quarter 2017 annualized quarter-to-quarter real contraction was 9.2% (-9.2%), the worst showing since the formal 2007 recession, with a year-to-year real contraction in June 2017 activity of a magnitude not seen since the housing collapse in 2006.

Consumer Liquidity Constraints. The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as discussed the *Consumer Liquidity Watch* (see also 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—July 2017—Monthly, Annual and Quarterly Sales Declined; Smoothed Long-Term Trend Turned Negative; Series Was Below Its Pre-Recession Peak by 58.9% (-58.9%). Based on

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contract signings, the Census Bureau reported New-Home Sales declined month-to-month and year-to-year in July, but the headline monthly reporting remained of no substance, short term.

As seen most frequently here, with massive, unstable and continuously-shifting revisions to recent history, the usually statistically-insignificant monthly and annual changes just as easily could be gains or losses. Headline July 2017 monthly reporting was to the downside, exaggerated partially by upside revisions to activity in the April-to-June period (second-quarter 2017). As a result, the previously indicated annualized pace of decline in second-quarter activity of 12.3% (-12.3%), narrowed to a decline of 3.0% (-3.0%) in revision, with third-quarter activity showing an early-trend for annualized decline of 24.6% (-24.6%).

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 now minimally downtrending—stagnation (*Graph 14*), never having recovered its pre-recession high. The ongoing, short-term monthly volatility in the latest headline detail in *Graph 12* reflects July 2017 activity.

Headline New-Home Sales. July 2017 New-Home Sales fell month-to-month by a seasonally-adjusted and statistically-insignificant 9.4% (-9.4%). That monthly plunge was exaggerated by prior-period revisions, where without an upside revision to June's activity, July sales otherwise would have shown a monthly drop of 6.4% (-6.4%). Activity in each of the previous three months revised higher.

The headline July 2017 decline of 9.4% (-9.4%), followed revised monthly gains of 1.9% in June and 4.7% in May, and a revised monthly decline in April of 7.5% (-7.5%).

More reflective of the relative monthly revisions, year-to-year July 2017 sales declined by a statistically-insignificant 8.9% (-8.9%), following upwardly-revised annual gains of 12.7% in June 2017, 10.4% in May 2017 and 4.2% in April 2017. This series remains extraordinarily unstable and consistently unreliable on a near-term basis as to whether headline sales actually increased or decreased on a month-to-month or year-to-year basis.

New-Home Sales Graphs. Accompanying *Graph 12* plots the headline New-Home Sales monthly detail through July 2017, supplemented by *Graph 14* of the six-month moving average. Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of July 2017 Housing Starts for single-unit construction, from prior Commentary No. 905 (*Graphs 13* and *15*), along with comparative graphs of the Existing-Home Sales and related series (see *Graphs 16* to *19*).

Existing-Home Sales—July 2017—Monthly and Quarterly Sales Declined, Smoothed Long-Term Trend Continued Negative, Series Was Below Its Pre-Recession Peak by 25.2% (-25.2%). Based on the National Association of Realtors® estimate of actual closings of home sales in July 2017, Existing Home Sales showed a seasonally-adjusted, headline monthly decline of 1.27% (-1.27%), following a revised, deeper monthly decline in June of 1.96% (-1.96%) and an unrevised gain 1.08% in May. Year-to-year growth in July 2017 rose to 2.06% from a downwardly-revised 0.55% in June 2017, versus and unrevised annual gain of 2.74% in May 2017.

Going back a year on quarter-to-quarter activity, first-quarter 2016 Existing-Home 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 unrevised gain of 5.4%, with second-quarter 2017 turning negative, down at a revised, deeper annualized pace of 4.0% (-4.0%). Based solely on the initial estimate of July 2017 activity, third-quarter 2017 Existing-Home Sales is on early track for an annualized contraction of 8.6% (-8.6%).

Existing-Home Sales Graphs. The accompanying *Graph 16* plots the traditional headline Existing-Home Sales monthly detail, supplemented by *Graph 18* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of July 2017 aggregate Housing Starts activity, from prior *Commentary No. 905*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 17* and *19*). *Graphs 12* to *15* show comparative graphs of New-Home Sales and related series.

[Graphs 12 to 19 begin on the next page.]

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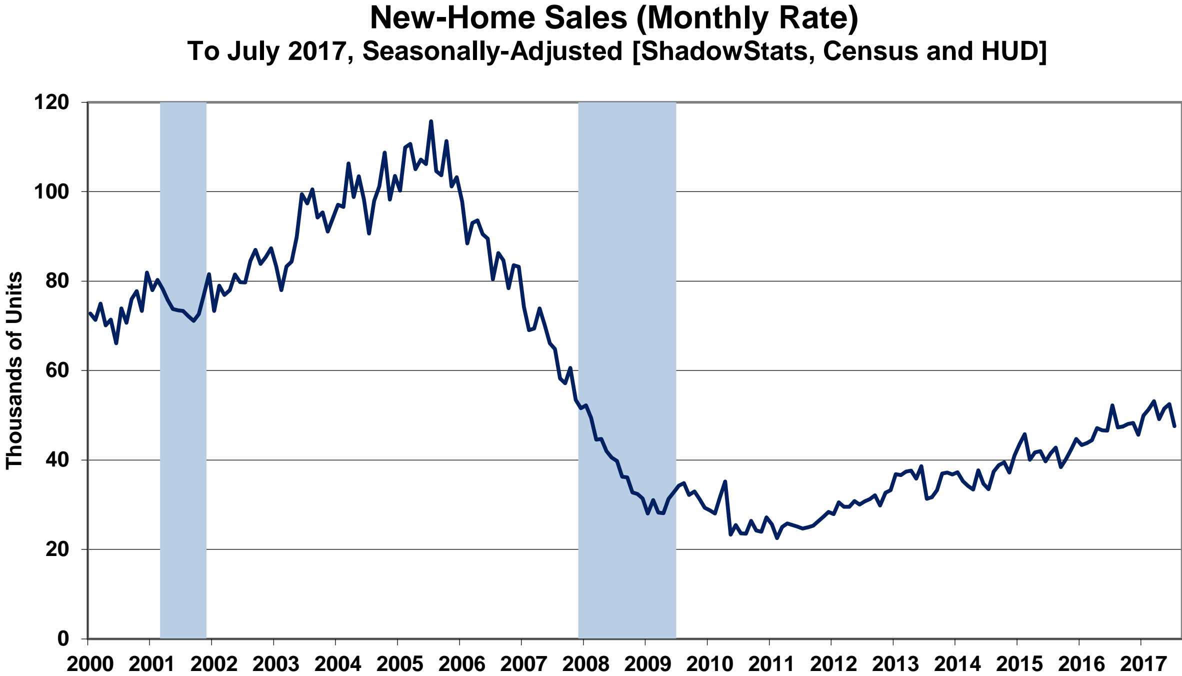
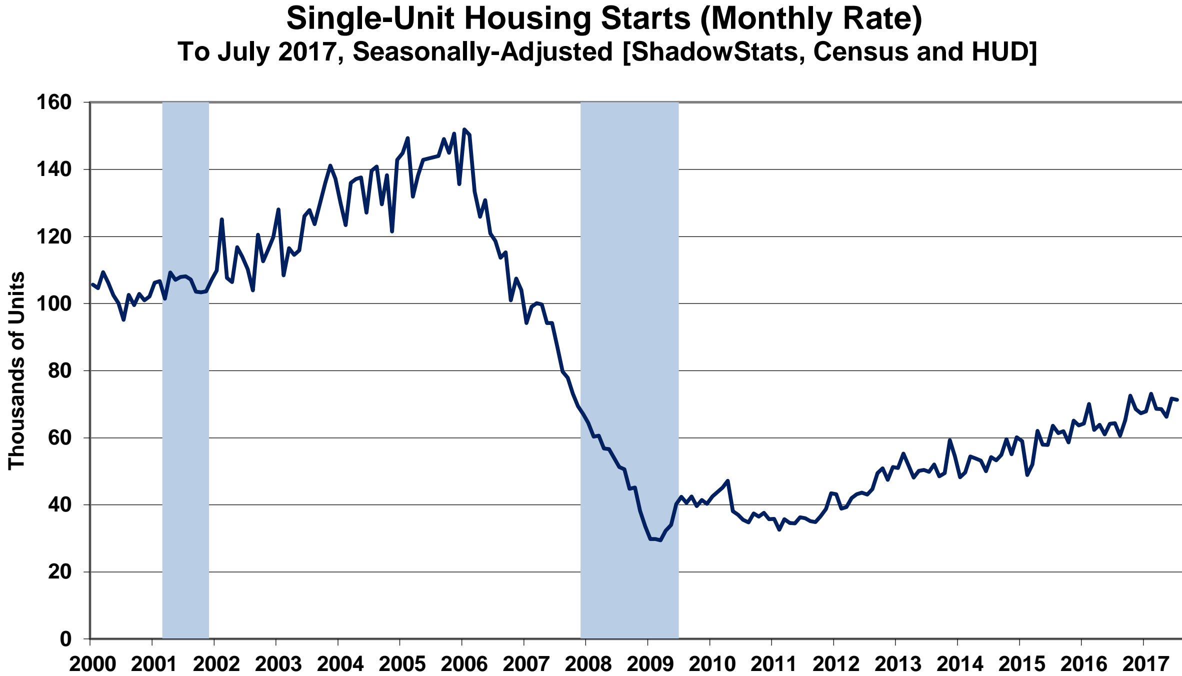
Graph 12: New-Homes Sales – Monthly Rate of Activity



Graph 13: Single-Unit Housing Starts, Monthly Rate of Activity



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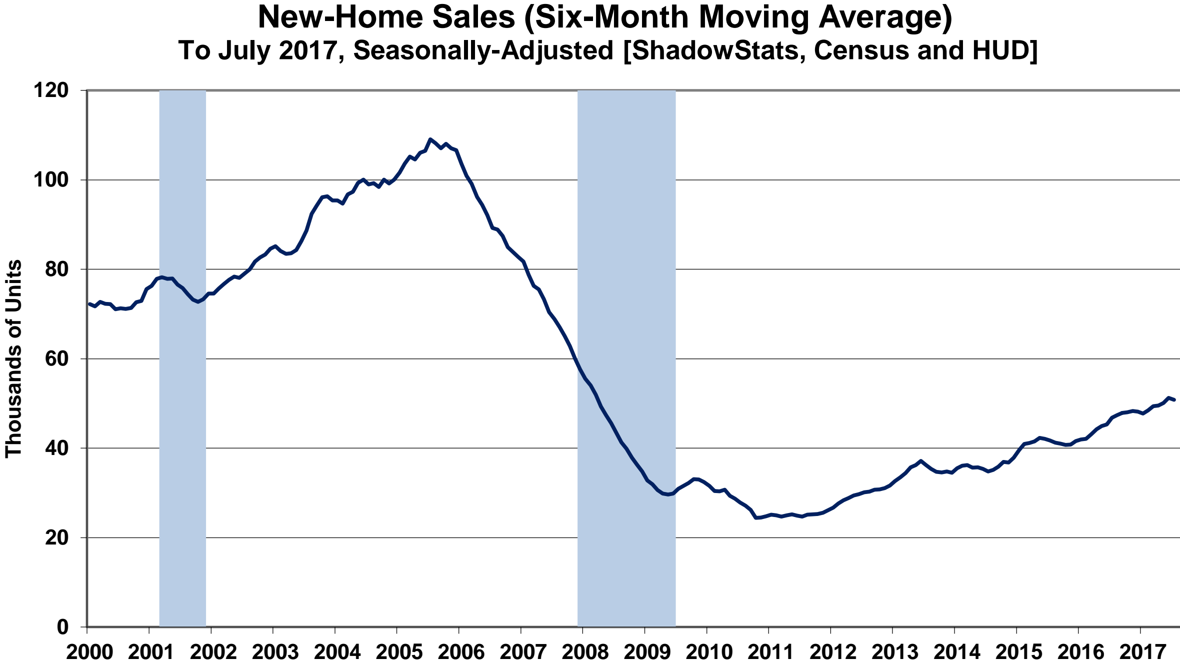
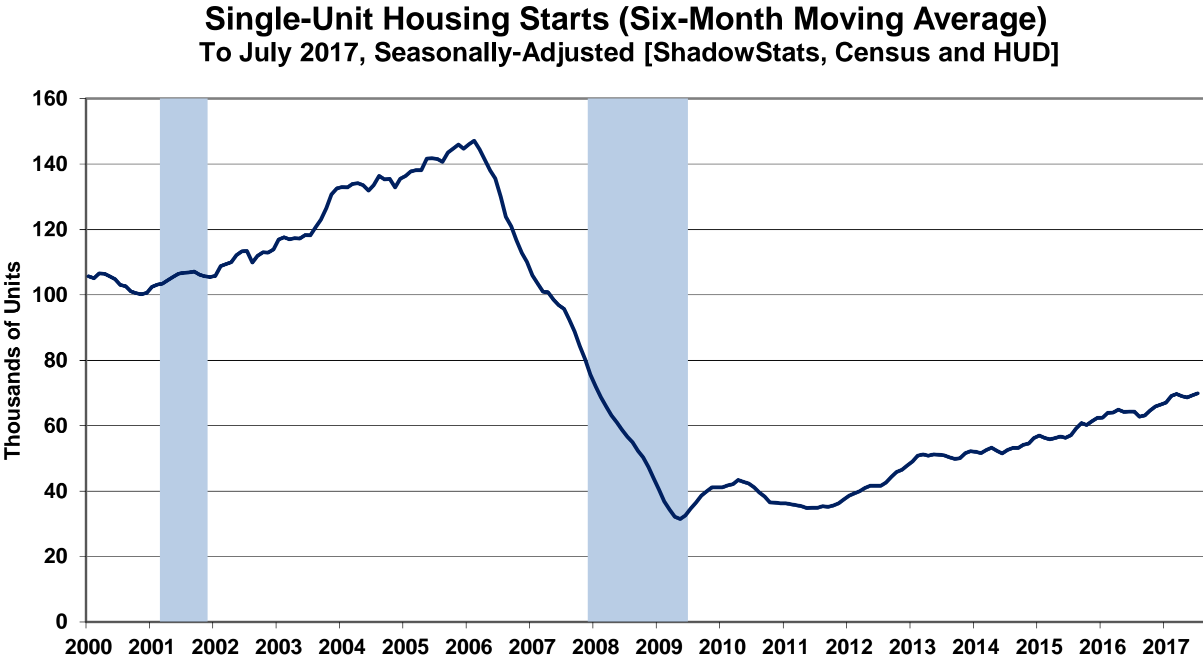
Graph 14: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



Graph 15: Single-Unit Housing Starts, Six-Month Moving Average, Monthly Rate of Activity



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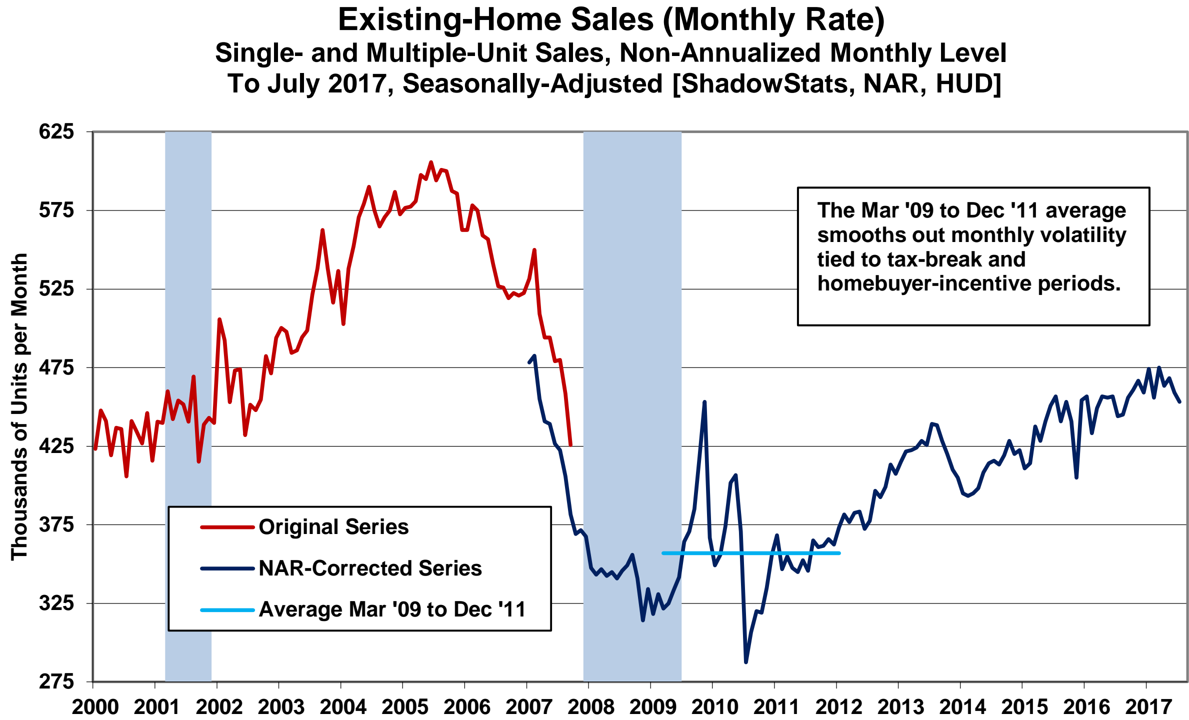
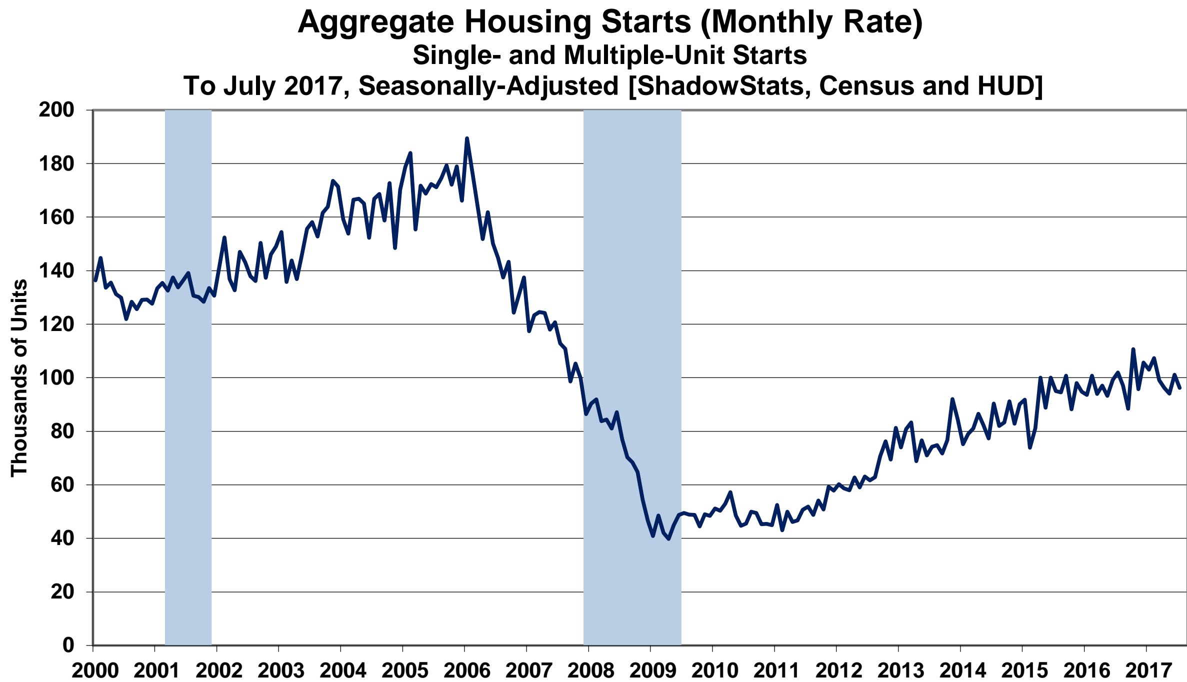
Graph 16: Existing-Home Sales – Monthly Level



Graph 17: Total Housing Starts – Monthly Level



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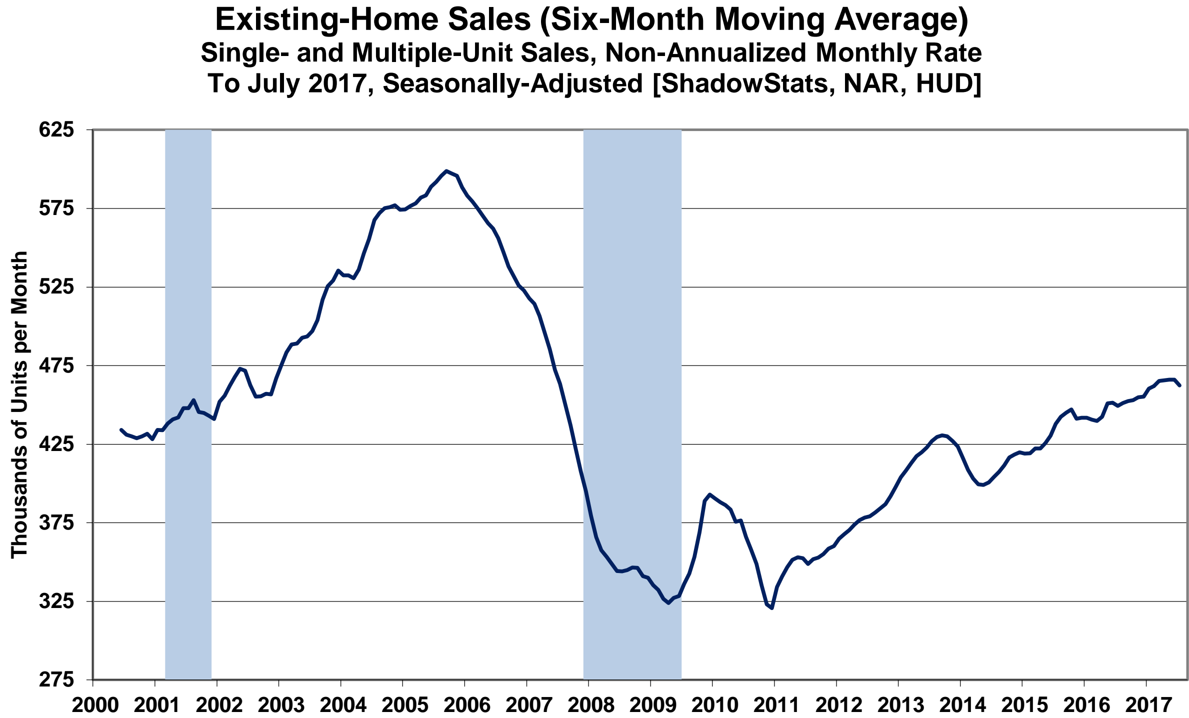
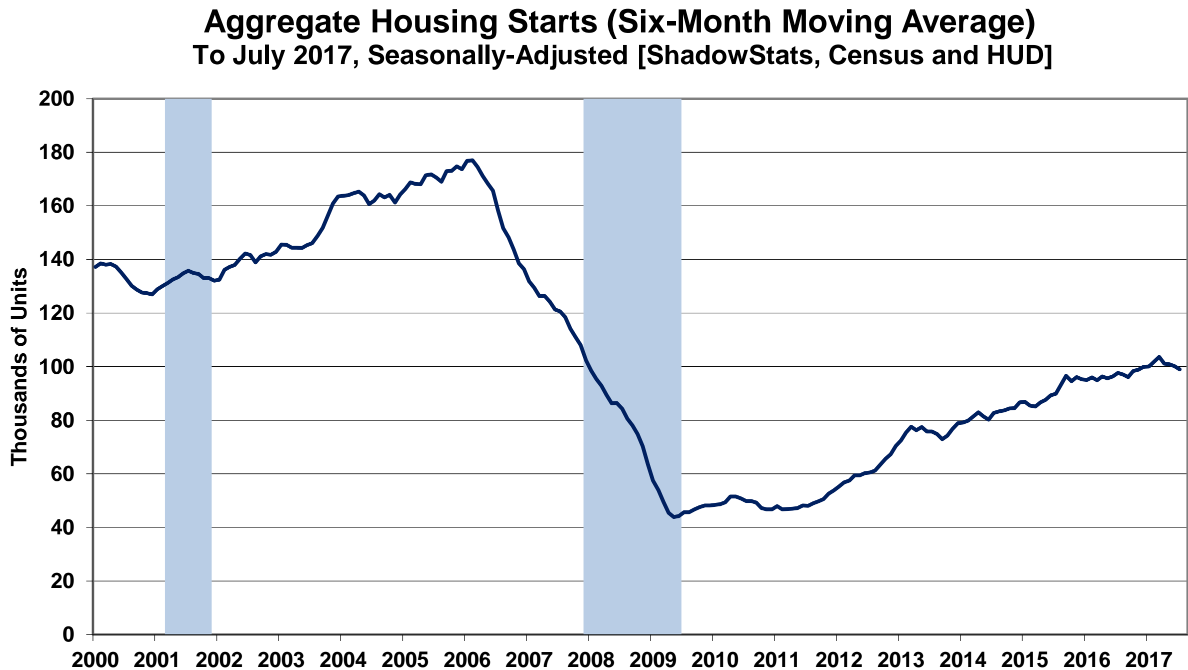
Graph 18: Existing-Home Sales (Six-Month Moving Average)



Graph 19: Total Housing Starts (Six-Month Moving Average)



[Where most of the current graphs are shown in this **Executive Summary,**
extended analysis follows in the **Reporting Detail.***]*

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (July 2017)

Net of Irregularly-Surging and Sinking Commercial Aircraft Orders, Real New Orders for Durable Goods Held in Fluctuating, Low-Level Stagnation. After two months of headline monthly contractions, New Orders for Durable Goods rose by a revised 6.4% in June, boosted by a 129.3% monthly surge in the irregularly-volatile, commercial-aircraft orders, then sank by 6.8% (-6.8%) with the headline July 2017 detail, hit by a 70.7% (-70.7%) plunge in the same irregularly-volatile commercial aircraft orders. Ex-commercial aircraft, new orders rose by 0.5% in July, following a revised 0.3% gain in June. With highly-suspect, related negligible month-to-month inflation, a component of the Producer Price Index (PPI), the real month-to-month changes were the same as the as the nominal changes in June and July, at the first decimal point.

Discussed later, the 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. Accordingly, ShadowStats concentrates on the inflation-adjusted real New Orders for Durable Goods series, ex-commercial aircraft, as a leading indicator to broad economic activity reflected in the dominant Manufacturing sector of Industrial Production and as paralleled in domestic freight activity (see *Graphs 3* to *7* in the *Executive Summary*). Not one of those series has recovered its pre-recession high of 2007; all are continuing in non-recovered, non-expanding, low-level stagnation. There is no economic expansion underway, as heavily touted to the contrary in the popular media. That said, July 2017 real new orders for durable goods series was down by 13.7% (-13.7%) versus its pre-recession high, while the real new orders for durable goods series, ex-commercial aircraft, was down by 9.3% (-9.3%) from its pre-recession peak.

Separately, as a contrary indicator to recent gains in and upside revisions to headline retail sales activity—suggestive of continued, softening consumer demand—monthly shipments and new orders for motor vehicles turned down respectively in July by 1.2% (-1.2%) and by 1.2% (-1.2%), and down in June by 0.8% (-0.8%) and 0.7% (-0.7%).

In the context of the May 18th annual benchmark revisions to the new orders series, which lowered the general level of headline activity in recent years (see *Special Commentary No. 888* and the accompanying *Graph 20*), today's headline detail, again, showed the broad economy in ongoing non-expansion, as has been the case for the manufacturing sector in industrial production (see *Commentary No. 905*). Real new orders, ex-commercial aircraft, remains the best leading indicator to industrial production (*i.e.,* manufacturing, see *Graphs 5* and *6* in the *Executive Summary*) and to the general economy.

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 had started to show some minimal uptrend, then downtrend—some fluttering—flattening-out, particularly when viewed with the alternate-inflation detail.

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Those patterns have remained consistent in signaling ongoing or non-recovering recession (see *Graphs 8* to *11* in the *Executive Summary*).

Headline Nominal Detail—July 2017. The Census Bureau reported this morning, August 25th, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate new orders for durable goods declined by 6.79% (-6.79%) in July 2017, having gained by an unrevised 6.45% in June, versus an upwardly-revised "unchanged" at 0.00% [previously down by 0.13% (-0.13%), initially down by 1.08% (-1.08%)] in May 2017.

Year-to-year, July 2017 nominal durable goods rose by 4.15%, having gained a revised 16.27% [previously 16.13%] in June 2017, versus a revised gain of 3.97% [previously 3.84%, initially 2.71%] in May 2017. That headline detail, though, was before consideration of the irregular volatility in commercial-aircraft orders, let alone inflation.

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 somewhat fluttering. The inflation-adjusted real series, and that same series corrected for the understatement of official inflation, again, are discussed and graphed in the *Executive Summary*.

The corrected series—net of commercial aircraft orders—has remained relatively flat, now somewhat downtrending, 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 July 2017, a monthly decline of 70.67% (-70.67%) in aircraft orders reduced headline aggregate orders to a decline of 6.79% (-6.79%) from what otherwise would have been a monthly gain of 0.48%, such followed a revised monthly aircraft-order surge of 129.30% [previously 131.24%] in June and a revised monthly decline of 1.37% (-1.37%) [previously down 1.44% (-1.44%) in May.

Net of commercial-aircraft orders, month-to-month and seasonally-adjusted, July 2017 new orders rose by 0.48%, by 0.33% in June and by 0.65% in May. Year-to-year and seasonally-adjusted, July 2017 new orders rose by 5.63%, having gained 6.77% in June 2017 and 6.55% in May 2017.

Real Durable Goods Orders—July 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 July 2017 PPI series showed headline month-to-month inflation as "unchanged" at 0.00%, having shown a monthly increase of 0.06% in June and no [0.00%] monthly inflation in May. Related year-to-year annual inflation was 1.56% in July 2017, following 1.60% in June 2017 and 1.75% in May 2017 (see *Special Commentary No. 904*).

Adjusted for that "unchanged" month-to-month inflation reading in July 2017, and as reflected in the graphs in the *Executive Summary* section, real aggregate orders in July 2017 declined by 6.79% (-6.79%),

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having gained 6.38% in June and having been "unchanged" at 0.00% May. Ex-commercial aircraft, real month-to-month orders rose by 0.48% in July 2017, by 0.27% in June 2017 and by 0.06% in May.

Real total new orders rose year-to-year by 2.54% in July 2017, having gained 14.35% in June 2017 and 2.18% in May 2017. Ex-commercial aircraft, July 2017 real orders rose year-to-year by 4.00%, having gained by 5.00% in June 2017 and by 4.71% in May 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 annualized quarterly declines of 7.92% (-7.92%) in fourth-quarter 2014 and 7.36% (-7.36%) in first-quarter 2015. Annualized real change was a gain of 3.87% for second-quarter 2015, a gain of 3.46% in third-quarter 2015 and an annualized contraction of 2.59% (-2.59%) in fourth-quarter 2015 activity.

First-quarter 2016 orders showed an annualized real contraction of 2.22% (-2.22%), with the series declining at an annualized real pace of 4.74% (-4.74%) in second-quarter 2016. For third-quarter 2016, the annualized real series, ex-aircraft, showed an annualized quarterly gain of 5.46%, fourth-quarter 2016 activity showed an annualized quarterly gain of 7.35%.

First-quarter 2017 showed a revised, annualized contraction of 0.94% (-0.94%) [previously down by 0.86% (-0.86%), initially down by 0.70% (-0.70%)]. That revision was due solely to a revised increase the related PPI inflation. Year-to-year, first-quarter 2017 orders rose by a revised 1.67% [previously 1.69%, initially 1.73%]. Second-quarter 2017 activity rose at a revised annualized quarterly pace of 2.82% [previously 2.26%], up by a revised 3.69% [previously 3.50%] year-to-year.

Based solely on headline July 2017 detail, third-quarter 2017 activity is showing an early-trend for annualized quarterly growth of 2.74%, with year-to-year growth of 2.95%.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 1* to *11*) are displayed in the *Executive Summary*. The first set (*Graphs 1* to *7*) 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 plots of annual growth freight activity and in the manufacturing sector, for comparison. The moving-average levels in both the durable goods 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 was revised away with the recent benchmarking and now shows a minimally-uptrending level of stagnation.

The second set of graphs (*Graphs 9* and *10*) 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 11* and *12*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders.

Caution: Non-Comparability of the Regular Headline Month-to-Month Data. As an example of the downside restatement of recent activity, consider accompanying *Graph 20*. It shows the net revisions to

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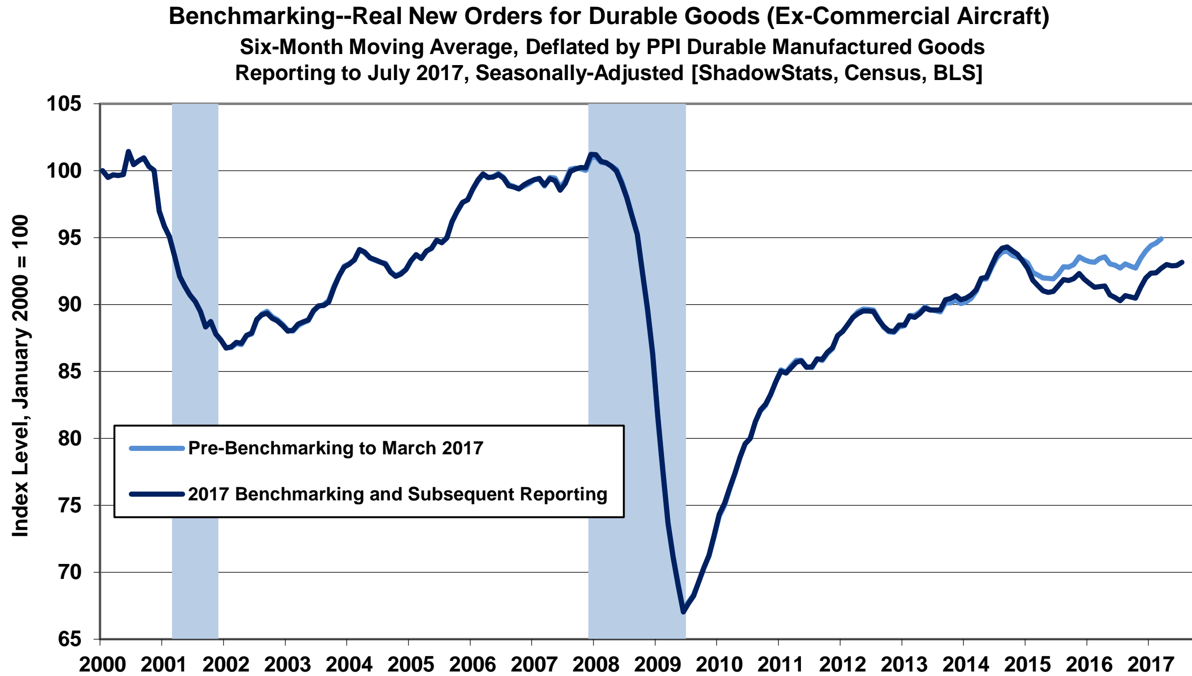
the six-month moving average of real New Orders for Durable Goods, ex-commercial aircraft from the May 18th benchmarking and subsequent reporting through today's headline detail, versus the pre-benchmarking detail (for a more substantive review of the recent revisions to historical New Orders for Durable Goods, and the parent Manufacturers' Shipments series, see *Special Commentary No. 888*).

Graph 20: Benchmark Revisions to Real Total New Orders for Durable Goods, Ex-Commercial Aircraft.



Current durable goods reporting remains subject to many of the same upwardly-biased sampling assumptions and concurrent-seasonal-adjustment problems seen in the pre-revision reporting as well as 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 (again see *No. 888*), that consistency ceased with the May 26th release of headline April 2107 detail.

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

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NEW-HOME SALES (July 2017)

Monthly Sales Plummeted; Annual Sales Tanked and Negative Quarterly Trends Deepened, All in the Context of Continued Low-Level, Now-Downtrending and Non-Recovering Stagnation. The July 2017 New-Home Sales series remained in deepening "great depression" territory (see *Commentary No. 754*), down by 58.9% (-58.9%) from its pre-recession peak level of activity, a condition found commonly in the home sales and housing construction series (see the *Executive Summary*). July 2017 sales plunged month-to-month by 9.4% (-9.4%) against an upwardly revised June gain of 1.9%, fell year-to-year by 8.9% (-8.9%) versus an upwardly revised 12.7% gain in June 2017, while the early-trend for third-quarter 2017 activity in this highly- and irregularly-volatile series was for an annualized contraction of 24.6% (-24.6%), versus a revised, narrowed second-quarter contraction of 3.0% (-3.0%).

None of the home sales or housing construction series has come close to recovering fully from the economic collapse into 2009. Consumer liquidity restraints continue to impair industry activity as discussed in the *Executive Summary* and in the *Consumer Liquidity Watch*.

New-Home Sales—Continued Unstable Reporting, with the Smoothed Series 58.9% (-58.9%) Below Its Pre-Recession Peak. Headline monthly reporting of New-Home Sales remained of limited 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 gains or losses. In the latest reporting, the monthly reporting was sharply to the downside, more than offsetting upside revisions to the prior three months of reported headline activity.

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 stagnation (*Graph 14* in the *Executive Summary*). Although the smoothed series was minimally uptrending into June, it turned to a downtrend in July. The ongoing, short-term extreme monthly volatility in the headline monthly detail (see *Graph 12*), reflected July 2017 activity, again, holding below its never-recovered 2005 pre-recession peak by 58.9% (-58.9%), still deep in "great-depression" territory.

Headline July 2017 New-Home Sales Reporting. Reported by the Census Bureau and the Department of Housing and Urban Development, August 23rd, the July 2017 headline reporting of 571,000 units in annualized New-Home Sales (a 47,583 monthly rate as used in the graphs in the *Executive Summary*) was down month-to-month by a headline, seasonally-adjusted and statistically-insignificant 9.4% (-9.4%) +/- 15.1% (all confidence intervals are at the 95% level). That monthly plunge was exaggerated some by prior period revisions, where June 2017, previously reported at 610,000 units, revised higher to 630,000 units, which resulted in the headline July sales plunge of 9.4% (-9.4%), which otherwise would have been a drop of 6.4% (-6.4%). The levels of each of the previous three months (April to June) revised higher.

The headline July 2017 decline of 9.4% (-9.4%), followed revised monthly gains of 1.9% [previously 0.8%] in June and 4.7% [previously 4.9%, initially 2.9%] in May, and a revised monthly decline in April of 7.5% (-7.5%) [previously 9.5% (-9.5%), 7.9% (-7.9%) and initially down by 11.4% (-11.4%)]. Again, net of prior-period revisions, the month-to-month decline in July 2017 was 6.4% (-6.4%), instead of the headline decline of 9.4% (-9.4%), which also was well shy of being statistically significant.

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More reflective of relative monthly revisions, year-to-year July 2017 sales declined by a statistically-insignificant 8.9% (-8.9%) +/- 16.8%. That followed revised annual gains of 12.7% [previously 9.1%] in June 2017, 10.4% [previously 8.0%, initially 8.9%] in May 2017 and 4.2% [previously 1.9%, 4.8%, initially 0.5%] in April 2017. This series remains extraordinarily unstable and consistently unreliable on a near-term, month-to-month basis and usually on a year-to-year basis, as to whether headline sales actually increased or decreased.

In the arena of continued extreme volatility, initial estimates of the quarterly changes remained relatively meaningless as indicators of stable trends in activity. With the first revision to full reporting of second-quarter 2017 activity, new sales contracted at a revised annualized pace of 3.0% (-3.0%) [previously down by 12.3% (-12.3%)], following an unrevised annualized boom of 39.5% in first-quarter 2017, an annualized decline of 12.9% (-12.9%) in fourth-quarter 2016 and an annualized gain of 20.1% in third-quarter 2016.

Based only on the initial July 2017 detail, third-quarter 2017 annualized New-Home Sales showed an early trend for a quarterly decline of 24.6% (-24.6%).

Unfortunately, for the housing sector, all other related industry reporting is reflecting meaningful quarter-to-quarter contractions for second-quarter 2017, with early third-quarter 2017 also trending in contraction.

New-Home Sales Graphs. *Graph 12* in the *Executive Summary* plots the headline New-Home Sales monthly detail through July 2017, supplemented by *Graph 14* of the six-month moving average. Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of July 2017 Housing Starts for single-unit construction (*Graphs 13* and *15*), from prior *Commentary No. 905*, along with comparative graphs of the Existing-Home Sales and related series (*Graphs 16* to *19*).

EXISTING-HOME SALES (July 2017)

Existing-Home Sales—July 2017—Monthly Decline of 1.3% (-1.3%), Annualized Quarterly Declines of 4.0% (-4.0%) in 2q2017, 3q2017 Early Trend of 8.6% (-8.6%), Still 25.2% (-25.2%) Shy of Recovery. Existing-Home Sales declined by 1.3% (-1.3%) in July 2017, against a revised, deeper monthly decline of 2.0% (-2.0%), following gain of 1.1% May. July 2017 year-to-year growth rose to 2.1%, from a downwardly-revised 0.6% in June 2017 and against an unrevised 2.7% in May 2017.

Recent March 2017 activity was the highest monthly sales level since February 2007, with the headline July 2017 activity continuing to falter, now down by 25.2% (-25.2%) from its pre-recession peak of the series [March 2017 activity had been down by 21.6% (-21.6%)], both measures still in "great depression" or "depression" territory, as discussed in *Commentary No. 754*). Smoothed with a six-month moving average, Existing-Home Sales activity has held in low-level stagnation, fluctuating at present around a deepening downtrend. 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 was down by 15.9% (-15.9%) from 2006 and by 22.8% (-22.8%) from the pre-recession peak annual-average sales rate of 2005.

As previously noted, in the New-Home Sales detail none of the home sales or housing construction series has come close to recovering fully from the economic collapse into 2009. Consumer liquidity constraints

continue to impair industry activity as discussed in the *Executive Summary* and in the *Consumer Liquidity Watch*.

Headline July 2017 Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® reported August 24th a seasonally-adjusted, headline monthly decline of 1.27% (-1.27%) in July 2017 Existing Home Sales, following a revised, deeper monthly decline in June of 1.96% (-1.96%) [previously down by 1.78% (-1.78%)], an unrevised gain 1.08% in May and an unrevised decline of 2.46% (-2.46%) in April. Year-to-year growth in July 2017 existing sales rose to 2.06%, versus a downwardly-revised 0.55% [previously 0.73%] in June 2017, versus unrevised annual gains of 2.74% in May 2017 and 1.46% in April 2017.

Going back two years 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 unrevised gain of 5.4%, with second-quarter 2017 turning negative, down at a revised annualized pace of 4.0% (-4.0%) [previously down by 3.7% (-3.7%)].

Based solely on the initial estimate of July 2017 details, third-quarter 2017 is on early track for an annualized contraction of 8.6% (-8.6%).

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years, in *Graph 16*. All that said, smoothed for irregular distortions, the reporting remained statistically consistent with a period of low-level, broad stagnation, having moved from slightly up-trending to downtrending, as reflected in *Graph 18*.

Proportion of Distressed Sales Dropped Notched Higher to 5% in July, While All-Cash Sales Rose to 19%. The NAR estimated the portion of July 2017 sales in "distress" at 5% (4% in foreclosure, 1% short sales), up from 4% (3% in foreclosure, 1% short sales) in June 2017, but "unchanged" from 5% (4% foreclosure, 1% short sales) in July 2016.

The "distressed" portion of the previously-reported June 2017 sales levels matched those seen in September 2016, which then had been the lowest level seen 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 ongoing 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 notched higher to 19% in July 2017, versus 18% in June 2017, and versus 21% in July 2016.

Existing-Home Sales Graphs. *Graph 16* in the *Executive Summary* plots the traditional headline Existing-Home Sales monthly detail, supplemented by *Graph 18* of the six-month moving average of

Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of July 2017 aggregate Housing Starts activity, from prior *Commentary No. 905*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 17* and *19*). *Graphs 12* to *15* show comparative graphs of New-Home Sales and related series.

[The* Consumer Liquidity Watch *begins on the next page.]

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[The Consumer Liquidity Watch *has been updated for the early-August Consumer Sentiment measure.]*

Liquidity Stresses Mounted Amidst Faltering Optimism. The U.S. consumer faces continuing financial stress, increasingly reflected in the renewed softening of headline economic activity, including Real Retail Sales, Home Sales and impacted construction series and as reflected ultimately in affected broader-based economic series such as Industrial Production.

Liquidity Issues Limit Economic Activity. Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the inability and/or unwillingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Not surprisingly, consumer optimism has begun to falter anew.

Including the various consumer income stresses discussed in *Special Commentary No. 888*, broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a turnaround in general economic activity—a post “Great Recession” expansion—and broadly are consistent with a “renewed” downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real (73.0% of nominal), second-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—

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irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in *Commentary No. 902-B*.

Consumer Optimism: July Consumer Confidence and Early-August Sentiment Measures Both Jumped. This detail incorporates the early-August 2017 reading for the University of Michigan's Consumer Sentiment Index (Sentiment) of August 18th, as well as the July 2017 reading of The Conference Board's Consumer-Confidence Index® (Confidence) of July 25th. Reflected in *Graphs CL-1* and *CL-2*, both Confidence and Sentiment rose in September 2016 and plunged in October, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting a surge in consumer optimism into early 2017. Both series appeared to have topped and pulled back in June, but the July Confidence number rebounded anew, albeit on top of a downwardly-revised reading for June, while the full-July Sentiment number continued to pull back, although it was revised minimally higher versus the advance-July estimate. That said, the Early-August Sentiment reading jumped anew. Nonetheless, both the Confidence and Sentiment levels remained off their respective post-election, euphoric peaks of March 2017 (Confidence) and January 2017 (Sentiment).

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CL-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CL-2*), again, both soared post-election, into early 2017, with Confidence booming into and topping in March and with sentiment booming into and topping in January 2017. The three-month moving averages in both series also had broken to pre-recession highs, with the Confidence hitting levels not seen since before the 2001 recession, but the moving averages also have begun to falter, although still at high levels.

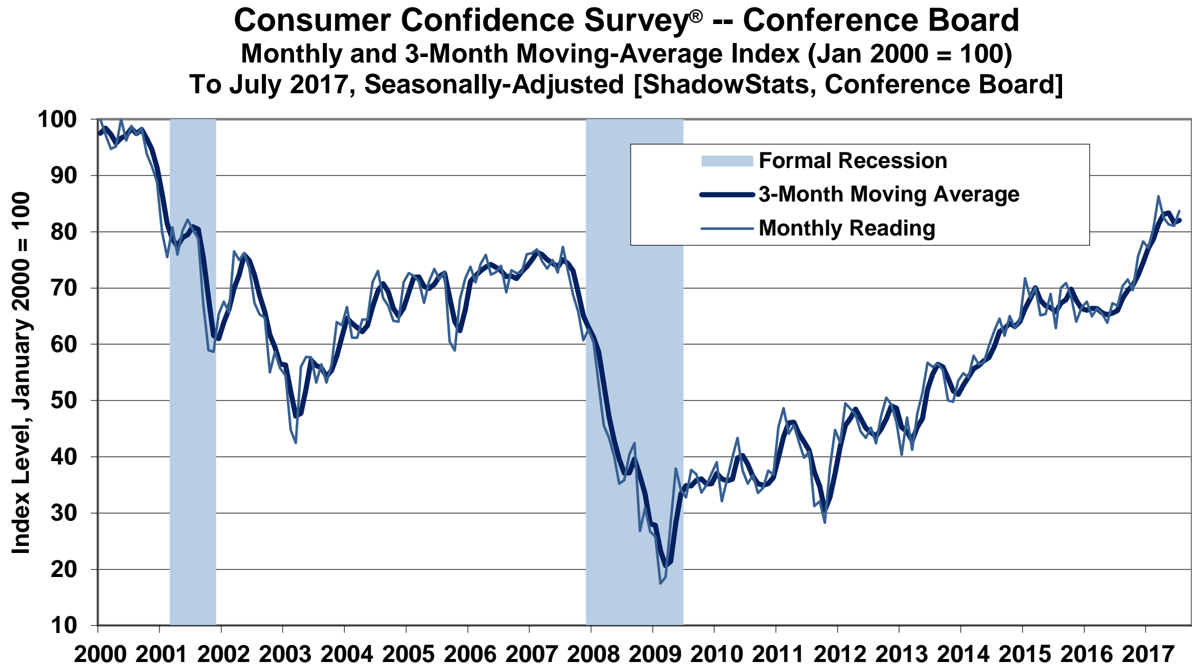
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CL-1* to *CL-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With what should become increasingly-negative, unstable and uncertain headline financial and economic reporting in the months ahead—beyond the early change-in-government euphoria—continued, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the near future.

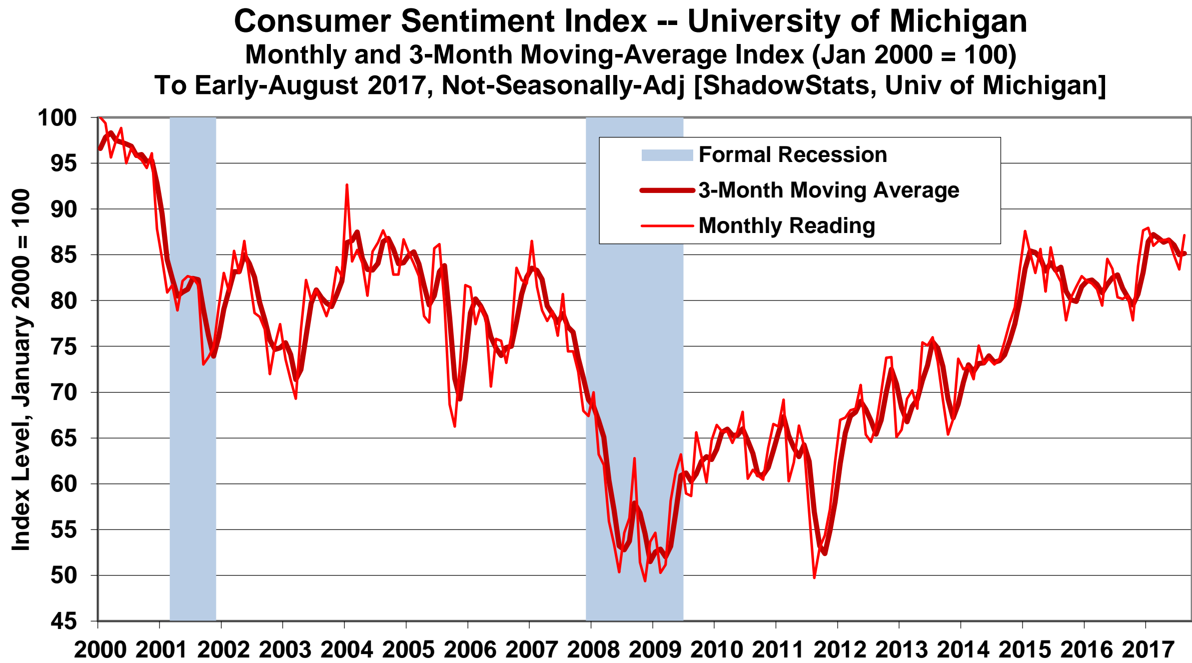
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CL-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

Graph CL-1: Consumer Confidence (2000 to 2017)



Graph CL-2: Consumer Sentiment (2000 to 2017)



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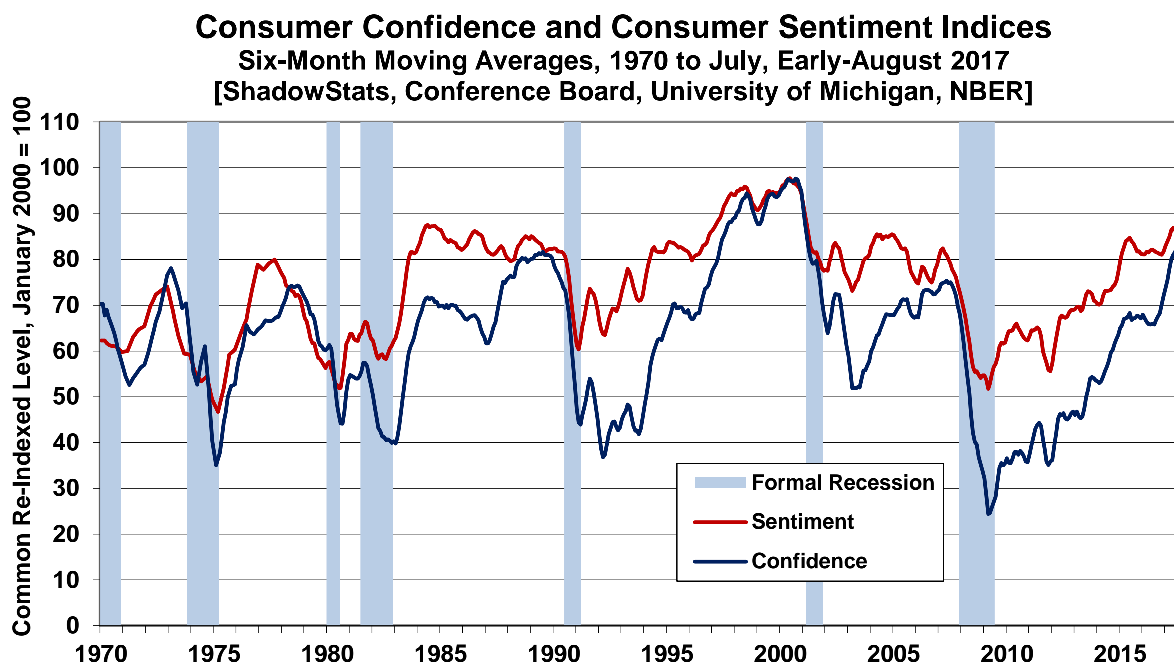
Graph CL-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)



Consumer Income: May 2017 Real Median Household Income Was Statistically Unchanged, Despite a Boost from Falling Gasoline Prices. Discussed in *General Commentary No. 894*, and in the contexts of continued, faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%), as reported by www.SentierResearch.com. That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CL-4*, such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CL-5*). The May detail, however, may be the final reporting of the monthly series (see the following *Special Note*).

Where real median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. 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 until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the July 2017 CPI.

Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or other

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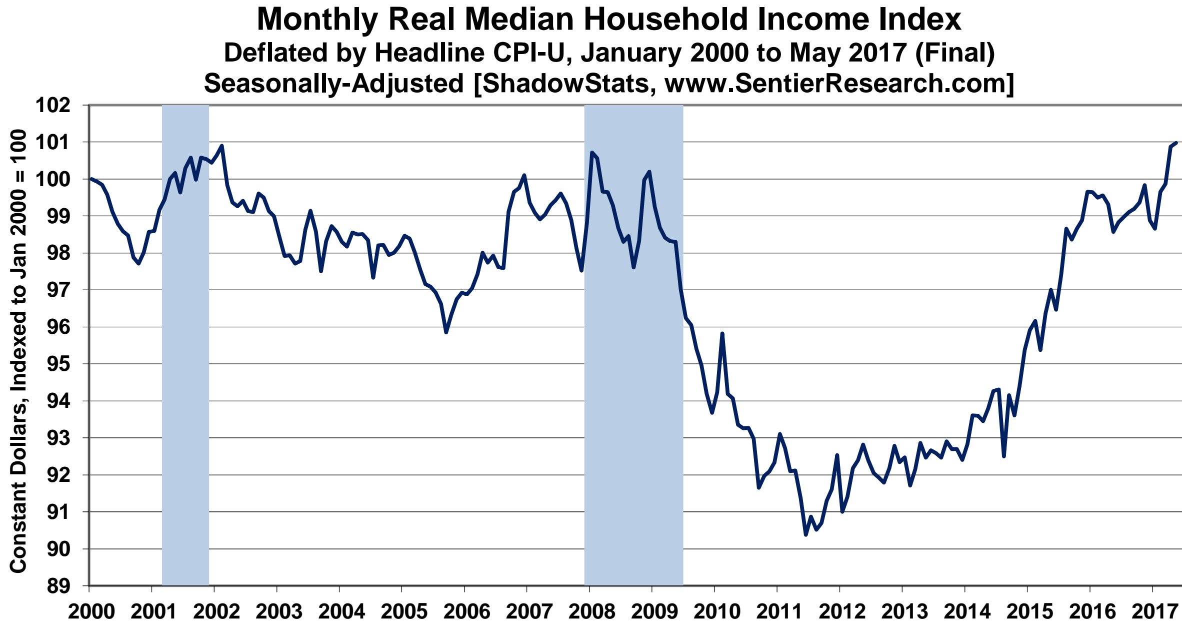
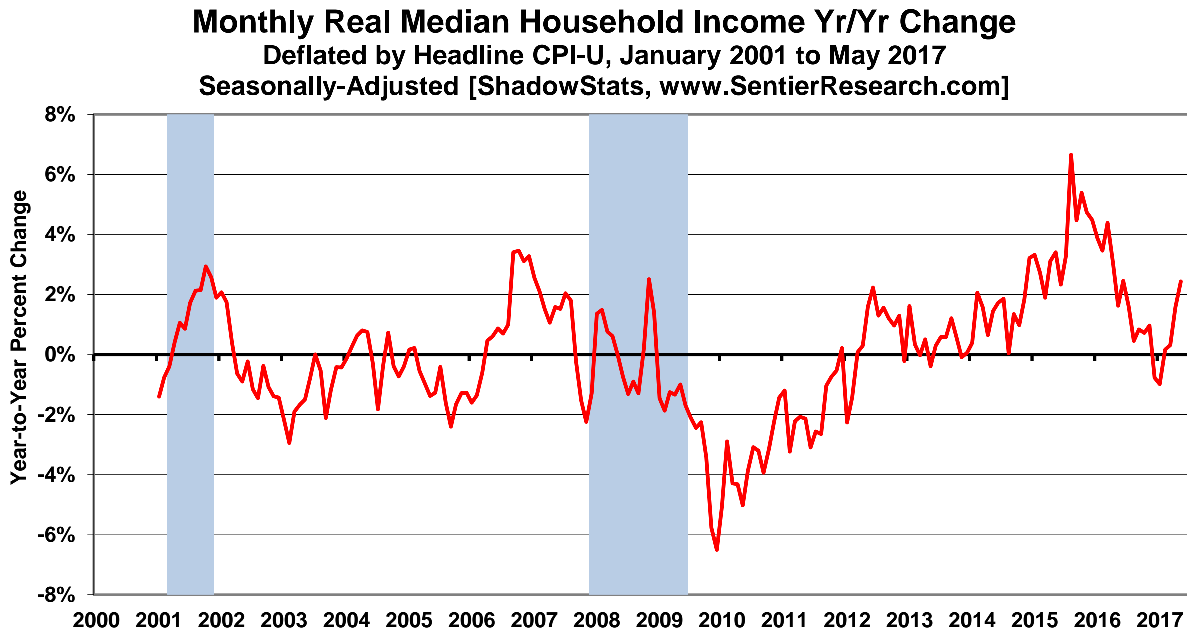
obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

Graph CL-4: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



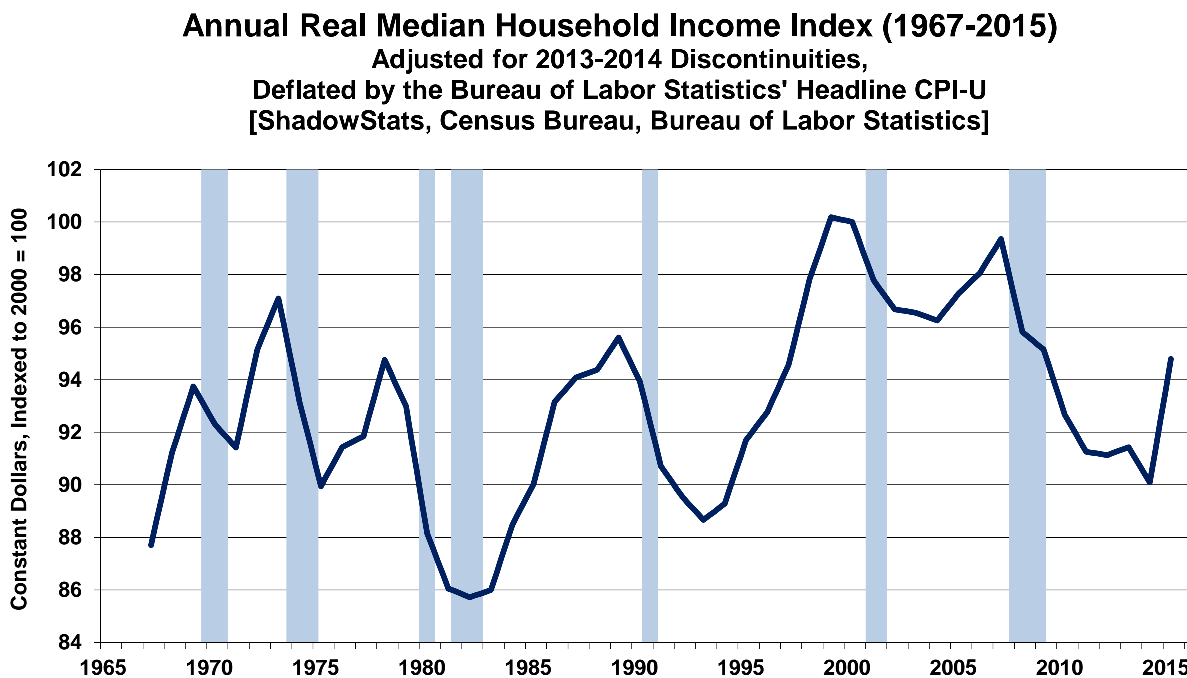
Graph CL-5: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph CL-6*, which was updated ten months ago for 2015 detail (see the full analysis of the 2015 annual household income reporting in *Commentary No. 833*, including an analysis of annual detail on income variance or "inequality"). The relative jump seen in the headline annual 2015

median income, despite formal adjustment for discontinuities in the recent annual reporting, was due largely to series redefinitions, not due to a sudden change in consumer liquidity, other than as tied to the collapse in gasoline prices and a related spike in the inflation-adjusted numbers. The level of real annual median household income for 2015, not only was below that seen at the purported trough of the economic collapse into 2009, but also it was below levels seen in the early-1970s and the late 1980s.

Graph CL-6: Annual Real Median U.S. Household Income (1967 to 2015)



Special Note**:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

> Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see *Commentary No. 833* for the 2015 detail published in 2016.

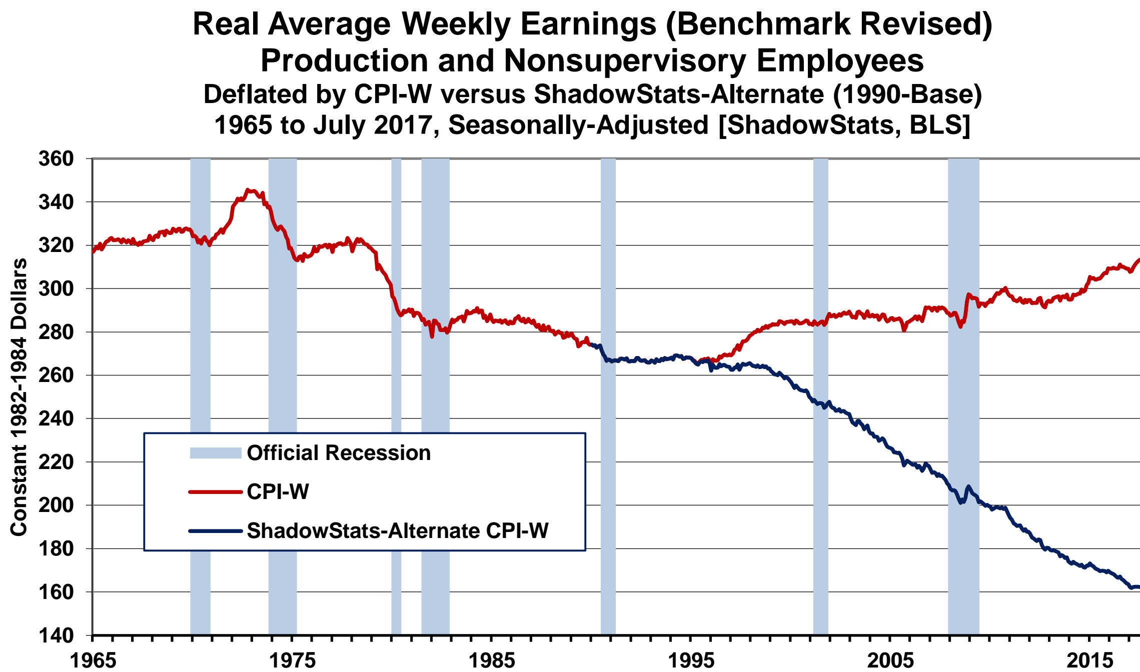
Differences in the Monthly versus Annual Median Household Income. The general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census Bureau numbers,

again, shown in preceding *Graph CL-6*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 annual number still holding below that seen when the collapsing economy hit its purported trough in 2009. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

Real Average Weekly Earnings—July 2017—Month-to-Month Real Earnings Rose. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on page 12 of *Special Commentary No. 904*), the regularly-volatile real average weekly earnings were up by 0.18% in July 2017 (as reported by the Bureau of Labor Statistics on August 11th). That was against a downwardly-revised 0.27% monthly gain in June and a revised 0.34% gain in May. The adjusted July 2017 year-to-year real change slowed to 0.71%, versus a revised 1.14% in June 2017 and a revised 0.89% gain in May 2017.

Graph CL-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



Based solely on volatile initial reporting for July 2017, the early-trend for real third-quarter 2017 activity was for an annualized real quarterly gain of 1.89%. Second-quarter 2017 activity reflected a revised, annualized real quarterly gain of 4.49%, following unrevised contractions in first-quarter 2017 of 1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

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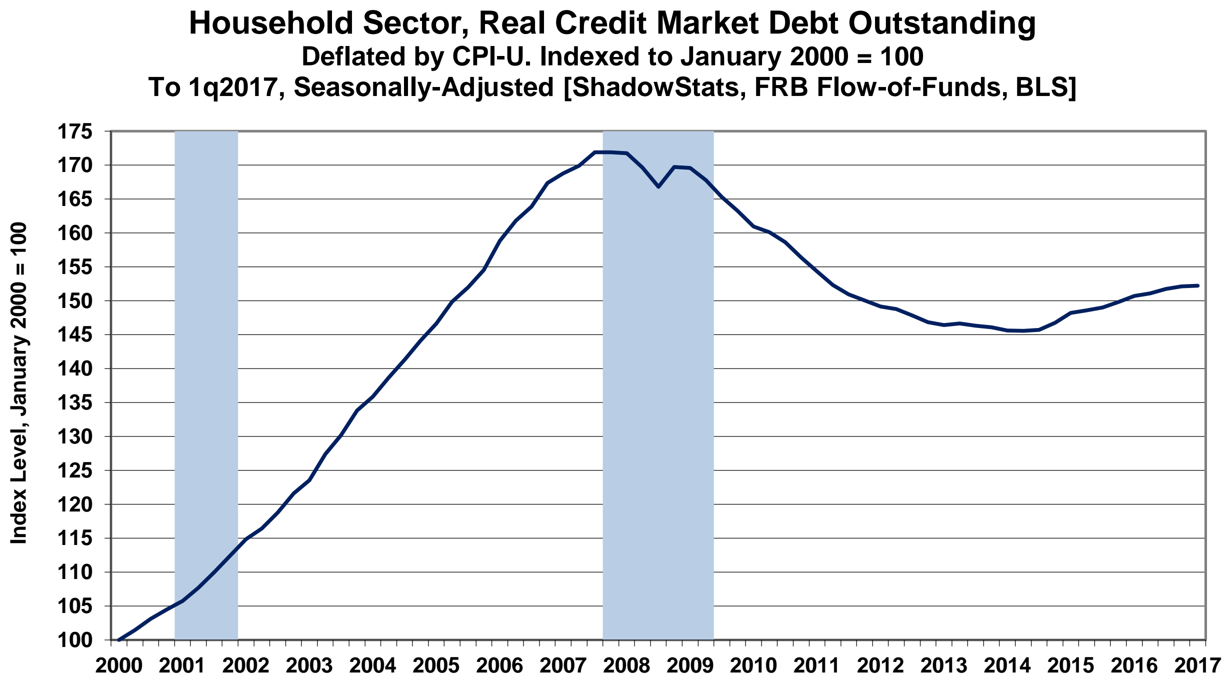
The early-trend for third-quarter 2017 year-to-year real earnings growth was 0.94%, while second-quarter 2017 earnings rose by a revised 0.84%, following an unrevised annual contraction of 0.29% (-0.29%) in first-quarter 2017, the first annual or year-to-year quarterly contraction since fourth-quarter 2012, when the real GDP effectively was unchanged quarter-to-quarter. The signal there highlighted financial stresses on the consumer and major downside risk to headline real GDP reporting.

The 2015 rally in real annual income and the subsequent slowdown in latter 2016 and pickup in 2017 pickup all were tied and continue to be tied directly to the impact of irregularly-collapsing/rising gasoline prices, with subsequent rebound/decline in inflation-adjusted income.

Graph CL-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the [*Public Commentary on Inflation Measurement*] for further detail.

Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Graph CL-8: Household Sector, Real Credit Market Debt Outstanding (2000 through First-Quarter 2017)



Consider *Graph CL-8* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through first-quarter 2017. Household Sector, Real Credit Market Debt Outstanding in first-quarter of 2017 still was down by 11.5% (-11.5%) from its pre-recession peak of third-quarter 2007, the same as in fourth-quarter 2016.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016. Current activity also has reflected continued relative strength from student loans, as shown in the *Graphs CL-9* to *CL-11*.

The ShadowStats analysis usually focuses on the particular current weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following graphs are so plotted.

Shown through the latest reporting (June 2017), *Graph CL-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CL-8* on real Household Sector debt. Where *Graph CL-9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CL-10) and year-to-year change (*Graph CL-11*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly dips in the not-seasonally-adjusted consumer credit reflect a seasonal pattern, the pace of year-to-year growth continues to slow, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in June 2017 (released August 7th) was down from its December 2007 pre-recession peak by 12.3% (-12.3%). Year-to-year growth in *Graph CL-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

[Graphs CL-9 to CL-11 begin on the next page.]

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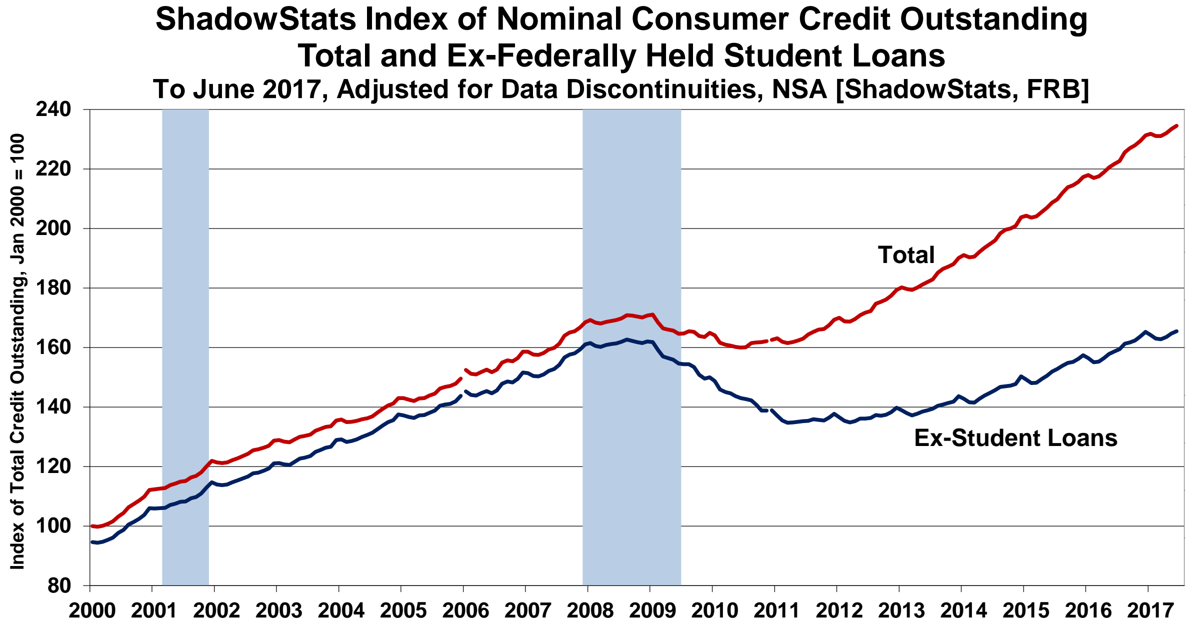
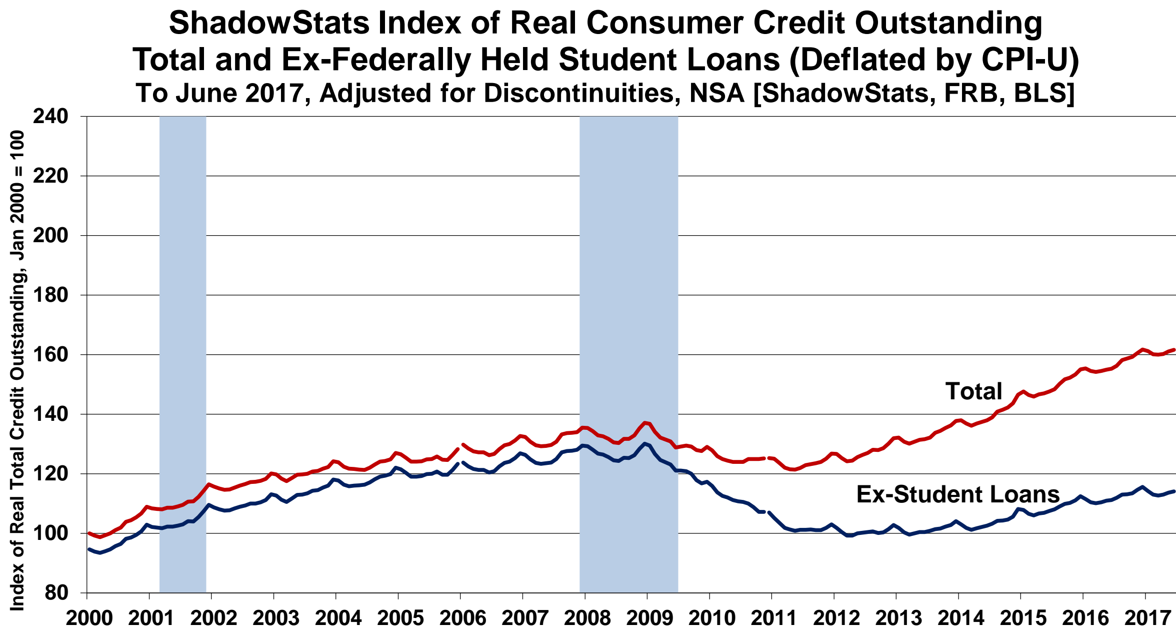
Graph CL-9: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CL-10: Real Consumer Credit Outstanding (2000 to 2017)



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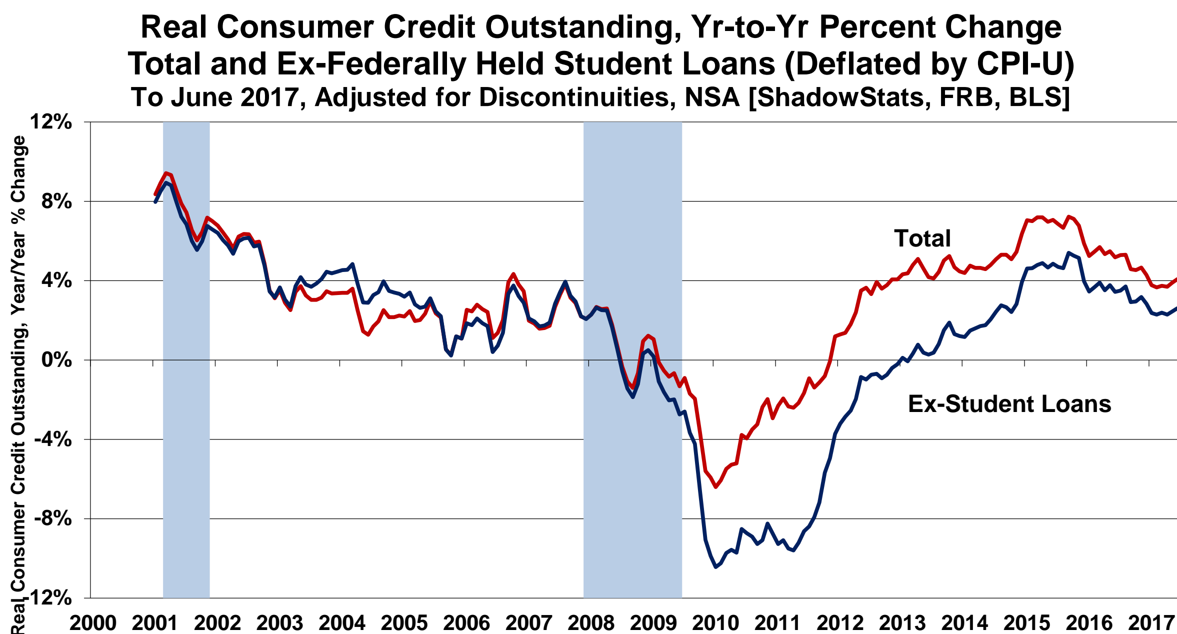
Graph CL-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



WEEK, MONTH AND YEAR AHEAD

Exacerbated by Deteriorating Domestic and Global Political Circumstances, Continued Softening of Underlying Economic Activity Should Compromise Fed Policies, Pummel the Dollar, Boost the Price of Gold and Foster Other Financial-Market Turmoil. Supplemental to and as discussed in the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904*, despite relatively-positive headline activity in initial reporting of second-quarter 2017 GDP, stronger-than expected labor-market and retail sales data for July (see the *Opening Comments* of *Commentary No. 905*), underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen again in the latest housing and construction series. Key economic releases in the week and month ahead are at high risk of disappointing market expectations, where weaker-than-expected reporting likely would intensify/accelerate a negative shift in market economic outlook.

With that circumstance threatening a shift in FOMC policy, combined with the mounting political discord discussed in *Special Commentary No. 904* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for financial-market turmoil in the near future,

particularly as would be triggered by a market-related, heavy sell-off in the U.S. Dollar. The balance of this text has been updated minimally from prior *Commentary No. 905*, other than for the *Pending Releases* section, which always is updated for the week ahead.

Irrespective of the GDP benchmarking and the heavily-gimmicked July labor numbers discussed in *Commentary No. 902-B* and *Commentary No. 903*, broad economic activity never has recovered fully recovered from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of *Commentary No. 899* and *General Commentary No. 894*, and further to the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting during June, July and early August of 2017, has shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve 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 continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Separately, recent benchmark revisions to Construction Spending (see *Commentary No 897*), the Trade Deficit (*Commentary No. 890*), Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*), and reporting subsequent to the benchmarks, broadly have confirmed that historical activity in recent years has been overstated and/or that it is turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite recent near-term improvement in some headline details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-

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market risks remains potential political surprise, discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not changed.

Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows an otherwise unconfirmed economic expansion of 13.5%.

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 highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Increasing 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 cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will break well before the 2018 Congressional Election will have a chance to stabilize the outlook for economic policy objectives.

No. 859 Special Commentary updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (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 remained and 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*). Formal economic expansion does not begin until economic recovery breaks above its pre-recession high.

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an "overheating" economy, but that "overheating" activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *Commentary No. 902-B*, *General Commentary No. 894*, *Special Commentary No. 885*, *Commentary No. 869*, *No. 859 Special Commentary*, *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 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. *[Listed here are* Commentaries *of the last month, plus recent* Special Commentaries *and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 905 (August 17th) reviewed the headline detail of for July 2017 Industrial Production, Retail Sales (Nominal and Real), New Residential Construction and the Cass Freight Index™.

Special Commentary No. 904 (August 14th) issued an "Alert" on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

Advance Commentary No. 902-A (July 28, 2017) provided an initial assessment and highlights of the first-estimate of Second-Quarter 2017, along with the accompanying annual benchmark revisions, more-fully reviewed in today's *Commentary No. 902-A*.

Commentary No. 901 (July 27, 2017) discussed possible financial-market impact on continuing political discord in Washington, and reviewed the June 2017 Cass Freight Index, New Orders for Durable Goods and New- and Existing Home Sales.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident "advance" estimate of second-quarter 2017 GDP.

Commentary No. 899 (July 17, 2017) covered headline June 2017 Retail Sales, Industrial Production, the Consumer Price Index (CPI) and the Producer Price Index (PPI), along with a review of current circumstances affecting the markets, U.S. dollar, gold and silver and the FOMC.

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

Commentary No. 896 (June 29, 2017) reviewed the third estimate of first-quarter 2017 GDP.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an "unexpected" headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 892 (June 15, 2017) reviewed May 2017 Industrial Production and assessed current circumstances and likely pending shifts in FOMC policy, in the context of rapidly-deteriorating, headline economic data.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Special Commentary No. 888 (May 22, 2017) 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 (May 18, 2017) 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.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and New- and Existing-Home Sales.

Commentary No. 877 (April 2, 2017) 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 (March 30, 2017) 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 (March 24, 2017) 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™.

General Commentary No. 867 (February 24, 2017) 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 (February 8, 2017) 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 (January 13, 2017) 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.

No. 859 Special Commentary (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *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 both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect 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). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. 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 several years 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*). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING ECONOMIC RELEASES: Gross Domestic Product—GDP—(Second Estimate, Second-Quarter 2017). The Bureau of Economic Analysis (BEA) will release its second-estimate of, first-revision to Second-Quarter 2017 GDP on Wednesday, August 30th, along with the initial estimates of Second-Quarter 2017 Gross Domestic Income (GDI) and Gross National Product (GNP), all in the context of the July 28th annual benchmark revisions covered in *Commentary No. 902-B.* The latest detail will be covered in *Commentary No. 907* of August 30th.

Given, in particular, the recent upside revisions to monthly retail sales (*Commentary No. 905*), expectations likely will be for an upside revision to the "advance" second-quarter annualized real growth guesstimate of 2.6%. Negative surprises are possible from the construction and trade data, let alone in the initial headline details of second-quarter 2017 GDI and GNP.

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Employment and Unemployment (August 2017) and the "Advance" 2017 Payroll Employment Benchmark Revision. 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 August 2017 labor data on Friday, September 1st. Separately, the BLS will release its 2017 summary benchmark revisions to Payroll Employment on Wednesday September 6th. The August monthly labor data will be highlighted in the *"Advance" Commentary No. 908-A* of September 1st, with full coverage along with details of the benchmarking data in *Commentary No. 908-B* of September 6th.

Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, remain open for negative headline surprises in August, given the increasingly stagnant-to-weakening tone in a number of the better business indicators.

Specifically, headline detail likely should turn weaker, not stronger, despite what likely will be positive headline expectations for both payrolls and the unemployment rates. Month-to-month headline unemployment-rate details are not comparable, as discussed in the usual monthly *Commentaries* covering the series, and recent lows have stretched series credulity—severely—irrespective of various reporting gimmicks.

Due to the excessively-positive bias factors regularly built into the headline monthly payroll employment numbers, the annual benchmark revisions usually are to the downside.

Construction Spending (July 2017). The Commerce Department will release its estimate of July 2017 construction spending on Friday, September 1st. Detail will be highlighted in the *"Advance" Commentary No. 908-A* of that date, with full coverage in *Commentary No. 908-B* of September 6th. The June 2017 release (see *Commentary No. 903*) provided a number of signals for an intensifying downturn in the construction industry. Barring major upside revisions to this regularly-volatile series, serious signals of a new, unfolding industry downturn are fair bet, particularly in real terms, net of inflation.

U.S. Trade Deficit (July 2017). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for July 2017, on Wednesday, September 6th, to be covered in ShadowStats *Commentary No. 908-B* of that date. While consensus expectations, at present likely are for some narrowing of the deficit, that market sentiment will be shifted by whatever comes out in the often-worthless "advance" estimate to be released on August 28th, two days before the GDP revision. Irrespective of the "advance" guess, the headline monthly trade detail is due for some net deterioration. Such is a fair bet for the July 2017 headline reporting.

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