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

COMMENTARY NUMBER 912

New Orders for Durable Goods, Home Sales, Hurricane Economic Disruptions

September 27, 2017

**Mixed Hurricane Impact on Economic Reporting
Likely Will Be of Substance in the Next Several Months,
Beginning with September 2017 Detail**

Other than for August Industrial Production, Impact Has Been Negligible, So Far

Underlying Negative Economic Trends Should Not Be Altered Meaningfully

Net of Inflation and Gyrating Commercial-Aircraft Orders, Durable Goods Orders Were Down by 9.2% (-9.2%) from Their Non-Recovered, Pre-Recession Peak

In Deepening Quarterly Contractions, August New- and Existing-Home Sales Were Down Respectively by 59.7% (-59.7%) and 26.4% (-26.4%) from Pre-Recession Peaks

Six-Month-Smoothed Trends in Home Sales Have Turned Increasingly Negative, Showing Low-Level, Non-Recovered, Faltering Stagnation

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PLEASE NOTE: The next regular Commentary, *Thursday, September 28th, will cover the third-estimate of, second-revision to Second-Quarter 2017 GDP.*

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

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Today's (September 27th) ***Opening Comments and Executive Summary*****.** The ***Opening Comments*** discusses unfolding economic activity in the context of continued, stagnating, downtrending non-recovery and the pending impact from regional hurricane damage and disruption, with the ***Executive Summary*** covering highlights of August 2017 New- and Existing-Home Sales and this morning's release of August 2017 New Orders for Durable Goods.

The ***Reporting Detail*** (page 18) provides a more-detailed analysis of the headline homes sales and new orders indicators.

The ***Consumer Liquidity Watch*** (page 26) has been updated for just-released Second-Quarter 2017 Household Sector, Real Credit Market Debt Outstanding and the initial September estimate of the Conference Board's Consumer Confidence Index®; otherwise, the *CLW* reporting is unchanged, repeated from its prior version.

The ***Week, Month and Year Ahead*** (page 36) provides links to recent *Commentaries* and updates the preview for tomorrow's third estimate of Second-Quarter 2017 GDP.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Watch for Mixed, Hurricane-Related Impact in Headline September Economic Data. Catastrophic damages and disruptions from Hurricane Harvey in late-August over the Texas Gulf Coast/Houston region, Hurricane Irma in early to mid-September in the Caribbean and over Florida and parts to the north, followed two weeks later by Hurricane Maria, which wreaked extraordinary devastation on Puerto Rico, all have had and will continue to have varying impacts on the U.S. economy, specifically impacting related economic reporting in the months ahead.

With Hurricane Maria now a Tropical Storm headed back out into the Atlantic, where it should continue to devolve, and with no other major storm a threat to the United States mainland, at the moment, one could hope that the bad-storm season was behind us. Yet, the Atlantic hurricane season traditionally extends to November 30th.

Where the economies of Puerto Rico and the U.S. Virgin Islands are not incorporated in the aggregate U.S. GDP calculations and headline economic data, the extraordinary damages there from Hurricane Irma and particularly Hurricane Maria, will have no direct impact on U.S. economic activity other than for secondary and tertiary impact from the U.S. government and mainland U.S. companies involved in relief, rebuilding or recovery activities, in affected trade flows and in the context of other affected flows of commercial activity, between the mainland United States and Puerto Rico and/or the Virgin Islands.

In terms of August 2017 economic detail, only Industrial Production clearly was impaired by late-month Hurricane Harvey hitting oil and gas production and refining facilities in the general Houston, Texas area. August employment, retail sales and housing-industry related details reflected no impact or had only limited national impact, given the timing of surveys and/or the nature of the surveyed economic impact. That will change with the headline September economic detail, including employment, where full impact from Hurricane Harvey and at least partial surveying of Hurricane Irma damage will be estimated.

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Headline economic activity usually does not measure destruction of physical property, although business disruption does come into play. Disruptions to activity generally will have negative impact on the economy from the standpoint of production and employment. Destruction of physical property usually triggers temporary gains to employment and production/construction as the damaged property (not counted as an economic negative) is repaired or replaced. All these factors will contribute to headline volatility in economic reporting of the months ahead.

As circumstances stabilize—elevated gasoline prices have been holding steady or easing in the last week or two, suggesting a more-normal gasoline supply situation—conditions will return to normal and the current underlying economic reality of a stagnant, non-recovering domestic economy should reassert itself. Gyrations in the headline data will prove reasonably fleeting.

As to headline August 2017 New Orders for Durable Goods and New- and-Existing Home Sales, covered in today's *Commentary*, the monthly numbers were affected only minimally.

As we go to press, there appears to be a broken link on the Census Bureau website, where it indicated it "cannot isolate the effects of Hurricanes Harvey and Irma [Irma was September] on either the Advance Report or Full Report [August 2017] on Manufacturers' Shipments, Inventories and Orders, because the survey is designed to estimate the month-to-month change in manufacturing activity at the national level and not at specific geographic areas."

Nonetheless, "In addition to the usual analysis done every month, [Census] reviewed independent data sources and discussed the effects of the hurricanes with companies in the M3 survey [the Census report identification number, not the money supply]."

"... We will continue to ask questions of manufacturers that will help us monitor the effects on manufacturing activity throughout the supply chain inside and outside of the affected areas. We will monitor data responses and make adjustments, if necessary. Storms of this magnitude are known to create power outages and infrastructure problems that lead to supplier issues. Delays in the transit of intermediary goods, in turn, may create interruptions in the supply chain for manufacturers inside and outside of the affected areas."

Where there was negligible impact on August orders, September and October orders likely will see a pickup in a variety of areas, including automobiles and a wide range of durable goods destroyed or damaged by the tempests, which will need to be replaced.

Noted by Census for *Hurricane Impact on New Home Sales*, no impact was indicated. Nonetheless, the National Association of Realtors (NAR) suggested there might have been some negative impact on Existing-Home Sales. Impact on both these measures would have been minimal on a national basis in August; the impact on September sales, though likely will be of substance.

More will follow here, as specific details begin to surface.

EXECUTIVE SUMMARY: New Orders for Durable Goods—August 2017—Net of Continued Monthly Gyrations in Commercial Aircraft, Orders Held in Fluctuating, Low-Level Stagnation. August 2017 new orders detail reflected negligible impact from month-end Hurricane Harvey (see the

Opening Comments), but September and October orders likely will see some spikes, tied to replacement of automobiles and other durable goods damaged in both Hurricanes Harvey and Irma, along with some possible secondary/tertiary impact from Hurricane Maria.

Nonetheless, headline nominal New Orders for Durable Goods jumped anew by 1.7% in August 2017, following a revised plunge of 6.8% (-6.8%) in July and an unrevised surge of 6.4% in June. Those changes all were dominated by respective monthly swings of a 44.8% jump in August, a 71.1% (-71.1%) plunge in July and a 129.2% surge in June irregularly-volatile, commercial-aircraft orders.

Adjusted for inflation, real aggregate orders in August 2017 gained in the month by 1.64%, having declined by 6.84% (-6.84%) in July and gained by 6.31% in June. Net of the impact of the unstable commercial aircraft orders, real month-to-month orders rose by 0.23% in August 2017, by 0.48% in July and by 0.20% in June.

Real total new orders rose year-to-year by 3.52% in August 2017, by 2.43% in July 2017 and by 14.27% in June 2017. Ex-commercial aircraft, August 2017 real orders rose year-to-year by 2.33%, having gained 3.94% in July 2017 and 4.93% in June 2017.

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

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. Updated for this morning's (September 27th) headline August 2017 numbers, *Graphs 1* and *2* show the 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 broad pattern of smoothed, real activity remains one of low-level, non-recovered stagnation, albeit minimally uptrending.

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 and a renewed surge in aircraft orders in August.

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*. The 12-month trailing average is used for the freight index, since the monthly index level is not seasonally adjusted, as discussed in prior *Commentary No. 911*. 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 *Commentary No. 902-B* and *No. 859 Special Commentary*), never entering a post-recession period of economic expansion. Recovering pre-collapse levels of activity,

with underlying series' growth moving into post-recession expansion, remains well into the future, dependent heavily on the Administration and Congress putting in place some meaningful, 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 (see *Commentary No. 910*) and in the Cass Freight Index (see the discussion in the *Opening Comments* of *Commentary No. 911*). While positive, annual growth in those series generally has been trending lower.

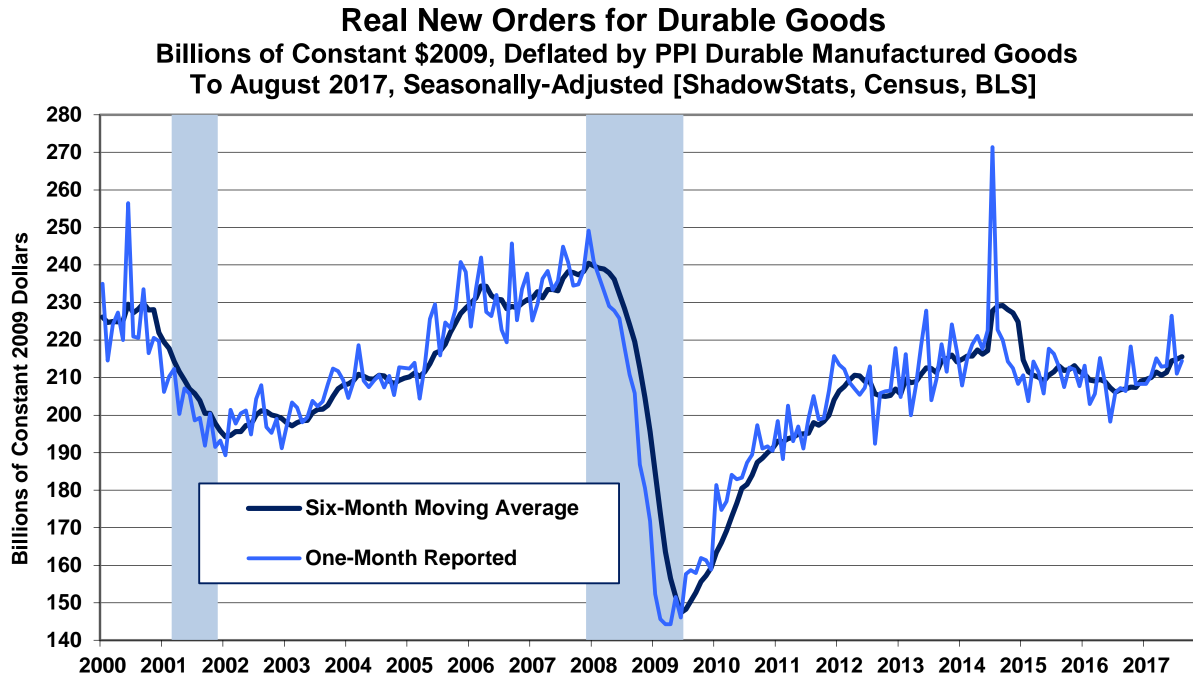
The level of annual growth for the inflation-adjusted August 2017 new orders for durable goods, ex-commercial aircraft, continued to slow. That broadly was consistent with the fluttering low level of downtrending annual growth and non-recovered stagnation seen in both the manufacturing and freight-index series, with annual growth currently 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, an issue addressed later with *Graphs 8* to *11*. Nonetheless, as shown also *Graphs 5* and *6*, the year-to-year change in the ex-aircraft durable goods orders series 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.

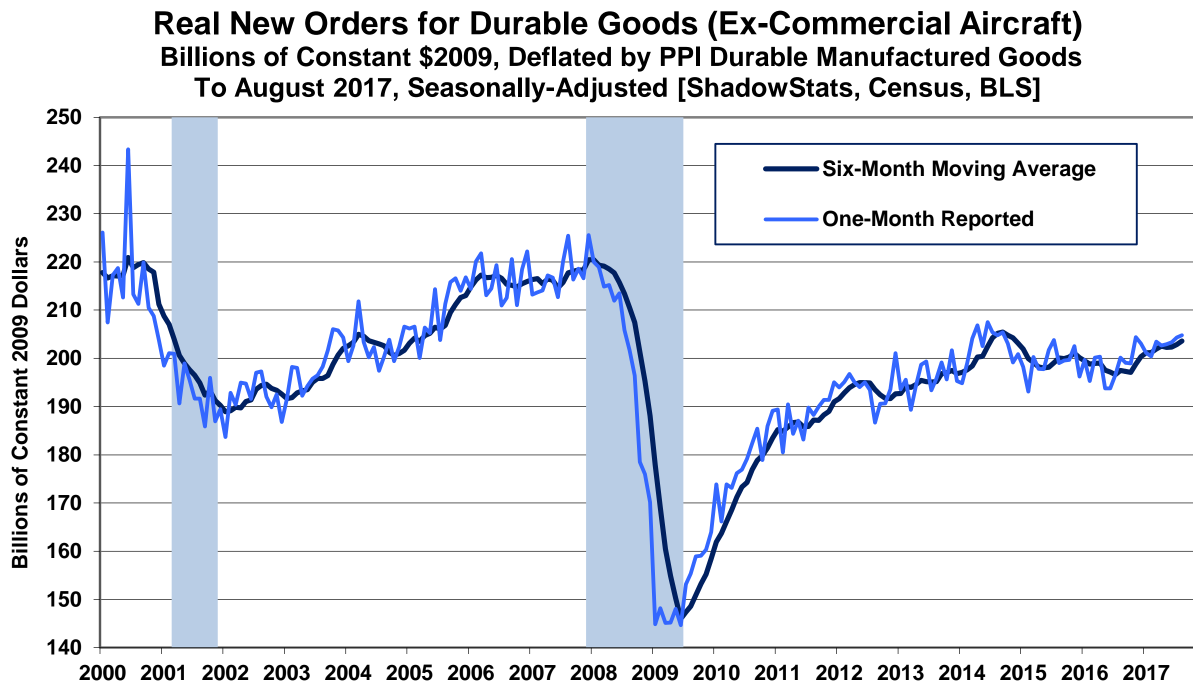
Broadly, there has been a general pattern of stagnation or bottom-bouncing evident in the orders of recent years —clearly not the booming recovery seen in official GDP reporting. The real monthly and six-month moving-average levels of new orders in August 2017 remained below both the pre-2007 recession 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. Again, the series remains in non-recovered, non-expanding, low-level stagnation.

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

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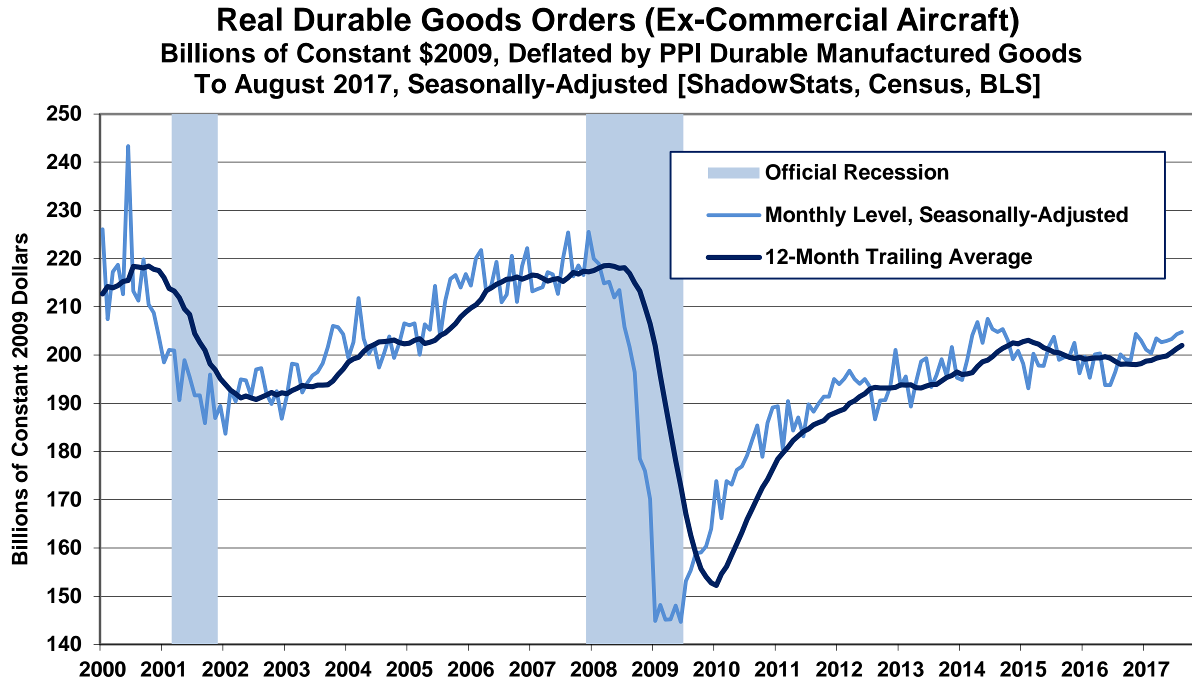
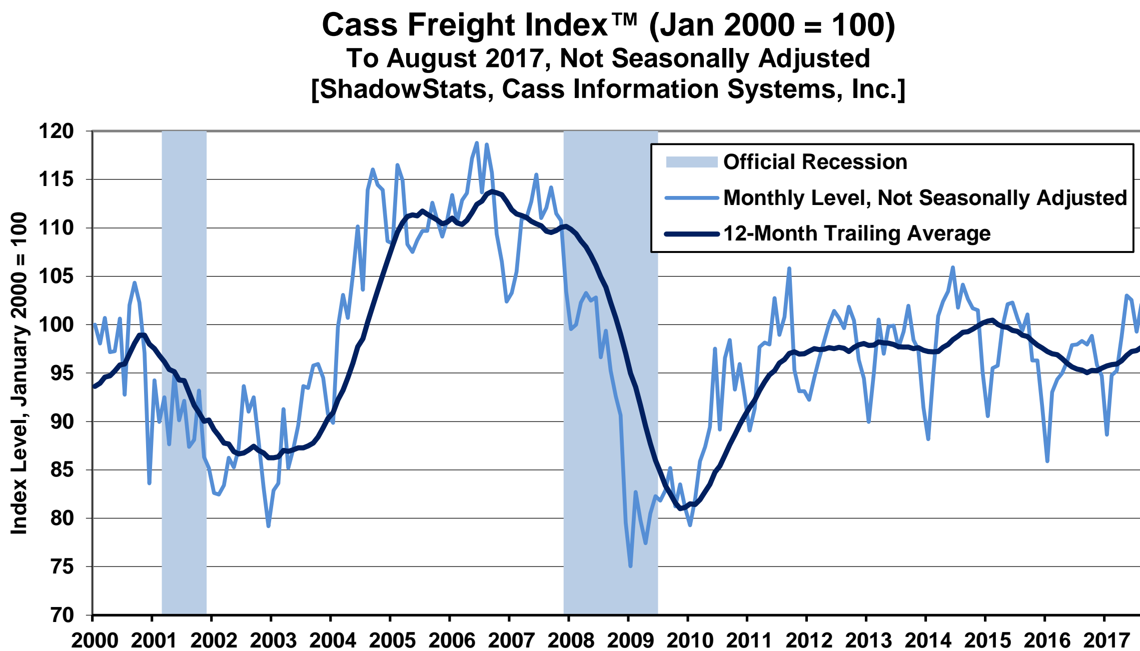
Graph 3: Real Durable Goods, ex-Commercial Aircraft, Moving-Average Level (Trailing 12-Month Average)



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

(Graph OC-1 on page 3 of Commentary No. 911)



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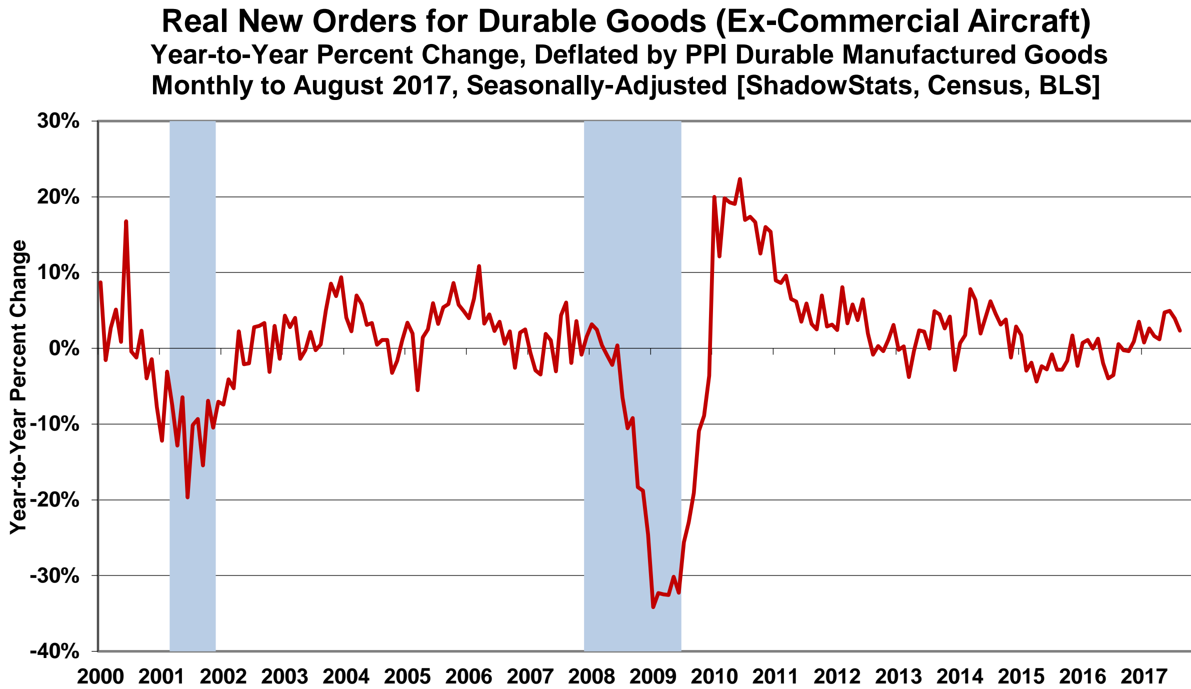
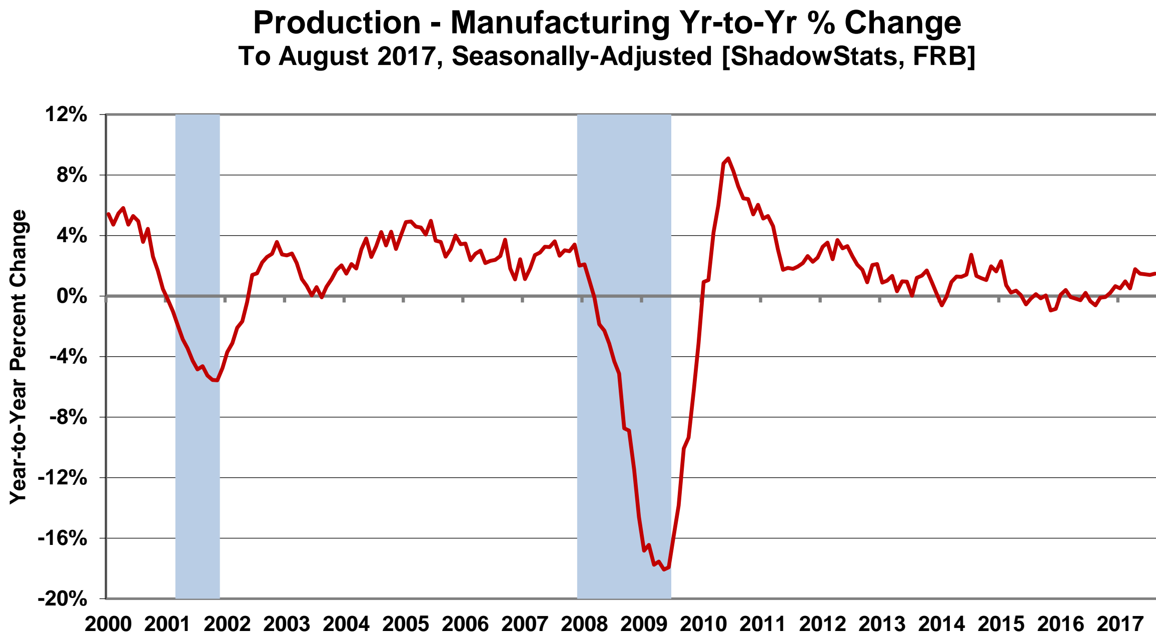
Graph 5: Year-to-Year Percent Change, Real New Orders for Durable Goods – Ex-Commercial Aircraft to Date



Graph 6: Industrial Production - Manufacturing, Year-to-Year Percent Change (2000 to August 2017)
(Same as Graph 10, page 14 of Commentary No. 910)



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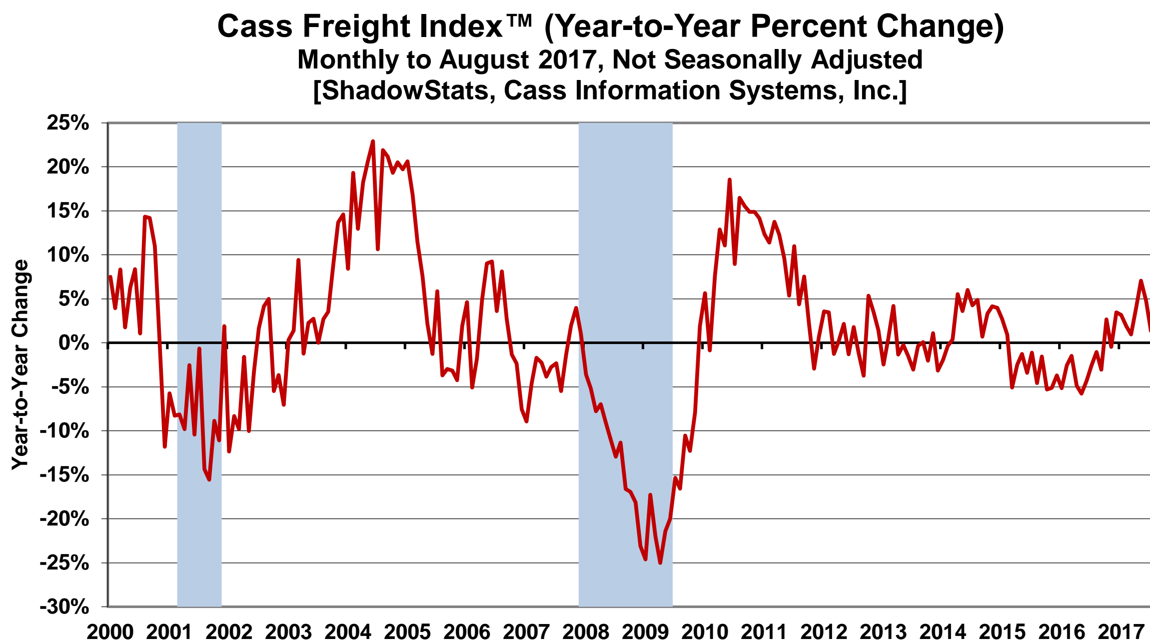
Graph 7: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to August 2017)
(Graph OC-3 on page 4 of Commentary No. 911)



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*).

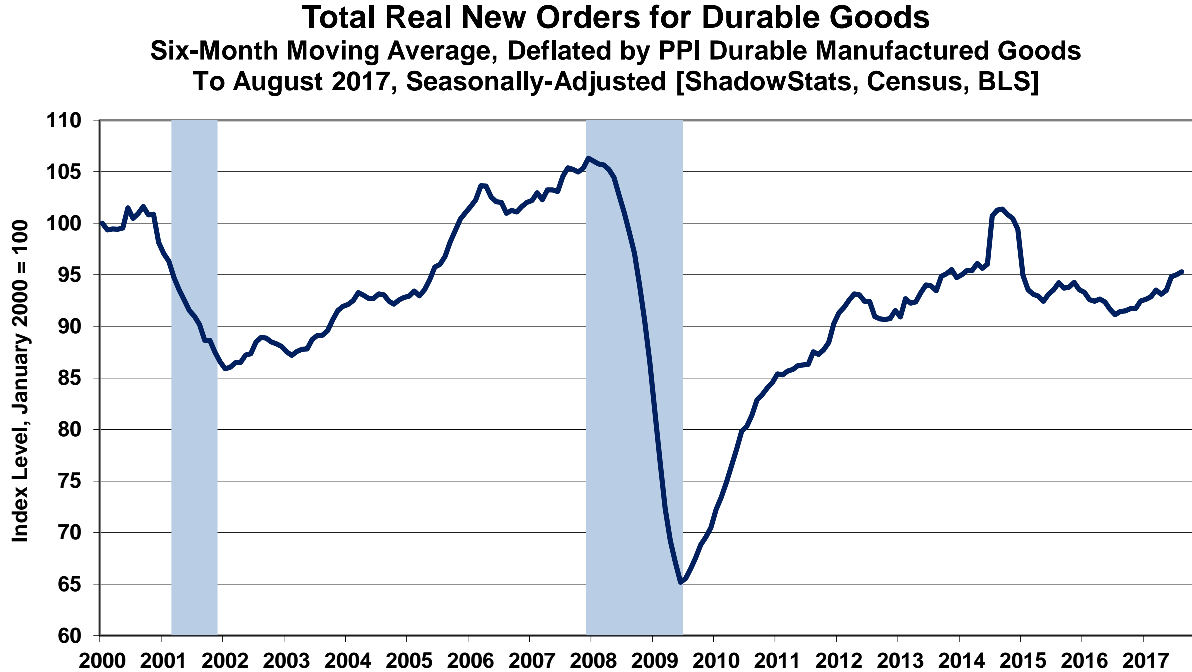
As done for other series such as Industrial Production and Real Retail Sales (see respectively *Graphs 2* and *4* of *Commentary No. 910*) and GDP (see *Graph 13* in *Commentary No. 902-B*, to be updated in tomorrow's *Commentary No. 913*), ShadowStats publishes an experimental, corrected-inflation version 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.

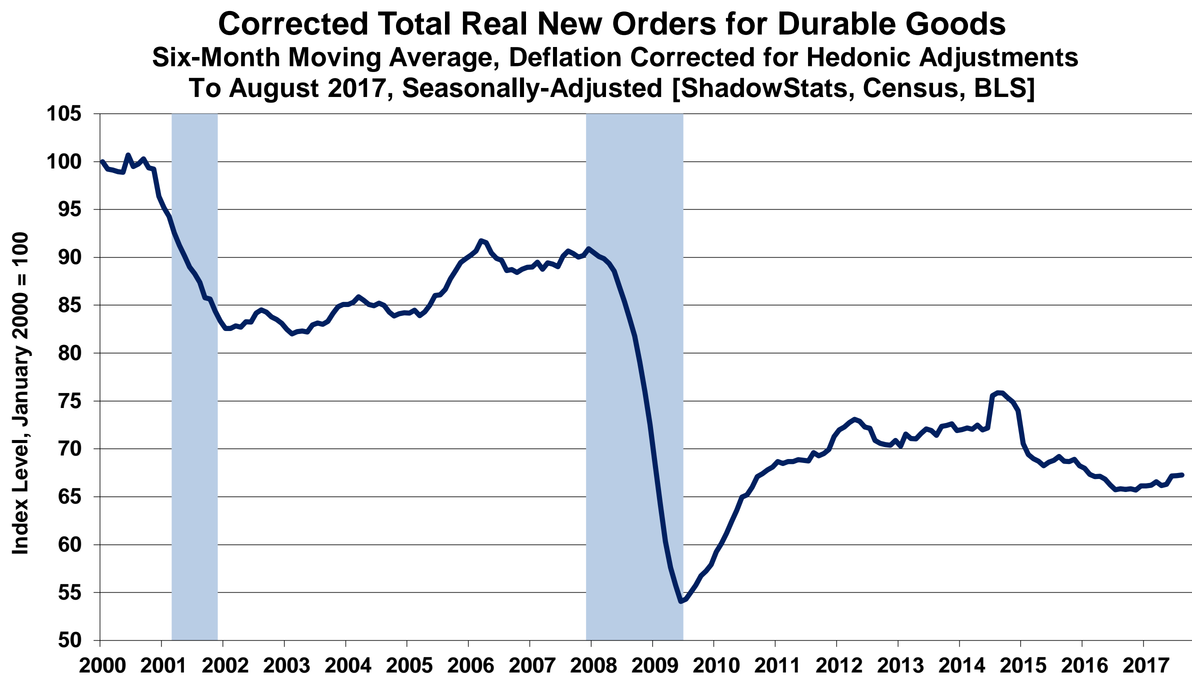
The first graph in each of the two sets shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph, but it has

been re-deflated to correct for the ShadowStats estimate of the understatement of the PPI manufactured 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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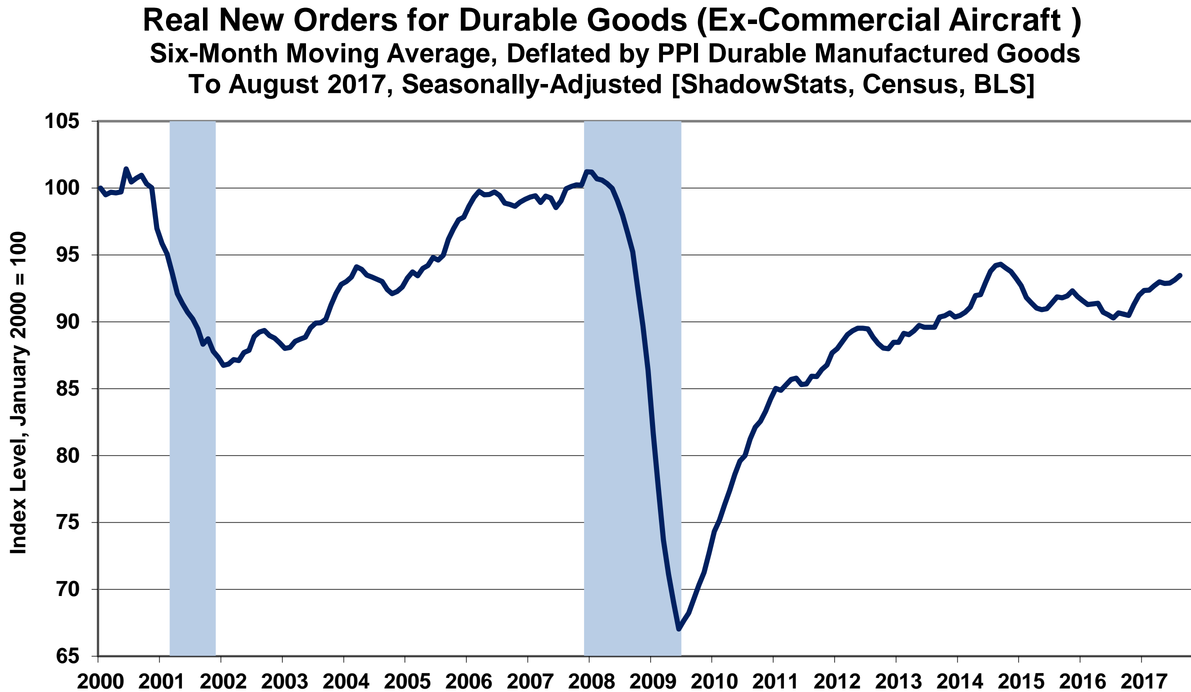
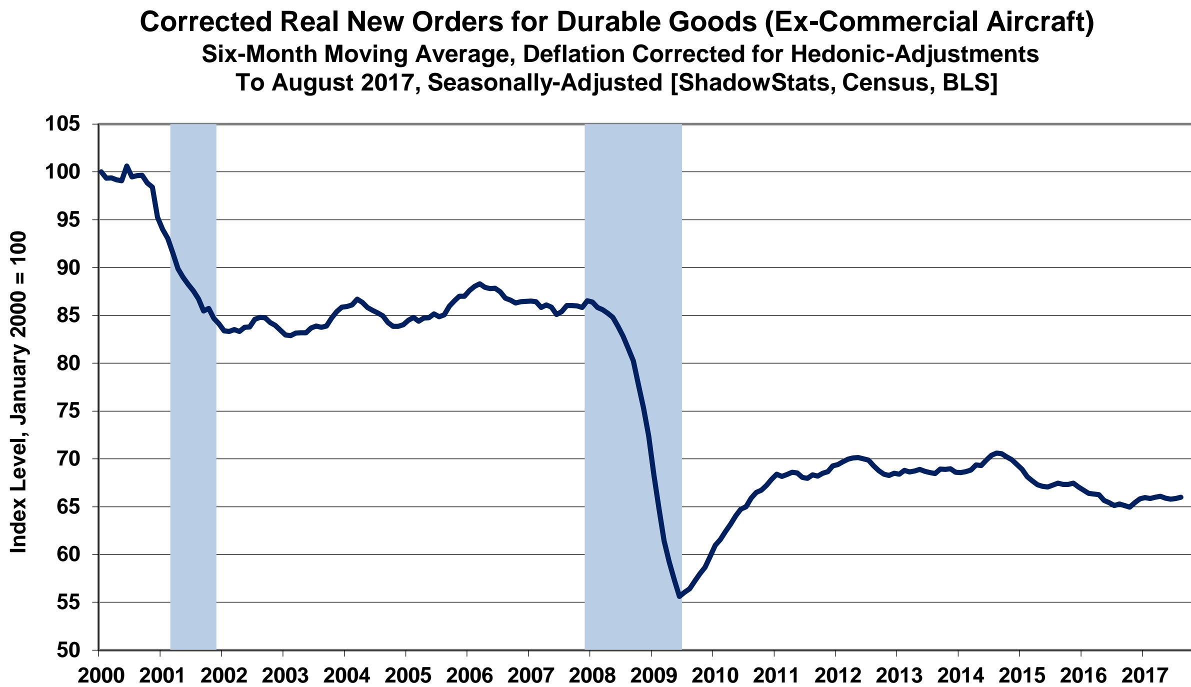
Graph 10: Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



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



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New- and Existing-Home Sales—August 2017—With Negligible Storm Impact, So Far, Monthly and Quarterly Sales Contracted, Showing Continued Low-Level, Downtrending and Non-Recovering Stagnation. August 2017 New- and Existing-Home Sales series both remained in "great depression" (see *Commentary No. 754*), down respectively by 59.7% (-59.7%) and 26.4% (-26.4%) from their pre-recession peak levels of activity. Both series declined month-to-month, with slowing or contracting annual growth, turning down sharply into third-quarter 2017 activity, having contracted quarter-to-quarter in second-quarter 2017, and now with low-level stagnation seen in their smoothed six-month moving averages also having turned to a deepening downtrend (see *Graphs 14* and *18*).

Industry Activity Remained Non-Expanding, Non-Recovered and in New Downturn. Discussed in the *Opening Comments*, while there is some suggestion of minor, negative impact on both headline new- and existing-home sales in August 2017, from Hurricane Harvey hitting the Texas Gulf Coast late in the month, any impact likely was minimal in terms of aggregate national activity. In the case of August new-home sales, prior months' pre-hurricane activity was revised lower by more than the headline decline in August. September's impact on both sales series, however, could be of substance. In like manner, construction activity should see some spike in the next several months, from rebuilding and repairs in hurricane-impacted areas.

That said, at present, none of the home sales or housing construction series has come close to recovering fully from the economic collapse into 2009, and none is likely to do so in the near future, despite likely near-term rebuilding activity. Contrary to headline second-quarter 2017 GDP reporting, which stood 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 59.7% (-59.7%) and 26.4% (-26.4%) in August 2017 New- and Existing-Home Sales, consider that versus pre-recession peaks, the headline August 2017 levels of activity also were down for Building Permits by 42.6% (-42.6%), and by 48.1% (-48.1%) for Housing Starts, as discussed in prior *Commentary No. 911*. Separately, aggregate real Construction Spending in the United States was down by 23.1% (-23.1%) in its most-recent reporting of July 2017, from its pre-recession peak (see *Commentary No. 908-B*). A variety of signals from those construction series have shown weakening or negative growth patterns last seen in the housing collapse of 2006 (again, see *908-B* and *No. 911*).

Consumer Liquidity Constraints. The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as discussed in today's *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, despite any near-term boosts to activity from disaster recovery.

New-Home Sales—August 2017—Monthly, Annual and Quarterly Sales Declined; Smoothed Long-Term Trend Continued Negative. August 2017 New-Home Sales declined by 3.4% (-3.4%) month-to-month, against an upwardly revised, less-negative July reading, which was more-than offset by even

greater downside revisions to aggregate monthly activity in June and May, yet the headline monthly reporting remained of no substance, short term. 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, 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 August 2017 activity.

The early-trend for third-quarter 2017 activity in this highly- and irregularly-volatile series was for an annualized contraction of 20.3% (-20.3%), versus a second-quarter 2017 contraction of 8.8% (-8.8%).

Headline New-Home Sales. Based on contract signings, as reported by the Census Bureau, August 2017 new-home sales fell by a seasonally-adjusted 3.4% (-3.4%) [there is no meaning in showing growth to the second-decimal point for this unstable series], following a revised monthly decline of 5.5% (-5.5%) in July and revised monthly gains of 1.3% in June and 2.7% in May. Net of prior-period revisions, the month-to-month decline in August 2017 was 1.9% (-1.9%), instead of the also statistically-insignificant headline 3.4% (-3.4%).

Year-to-year August 2017 sales declined by a statistically-insignificant 1.2% (-1.2%), which followed a revised annual contraction of 7.5% (-7.5%) in July 2017 and revised annual gains of 9.8% in June 2017 and 8.2% in May 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.

New-Home Sales Graphs. Accompanying *Graph 12* plots the headline New-Home Sales monthly detail through August 2017, supplemented by *Graph 14* of the six-month moving average. Added for comparison are parallel graphs of the headline and six-month moving-average versions of August 2017 Housing Starts for single-unit construction (*Graphs 13* and *15*), from prior *Commentary No. 911*.

Existing-Home Sales—August 2017—Monthly, Annual and Quarterly Trends Continued to Deteriorate, Smoothed Long-Term Downtrend Deepened. August Existing-Home Sales declined month-to-month by 1.7% (-1.7%), following unrevised monthly drops of 1.3% (-1.3%) in July and 2.0% (-2.0%) in June. August 2017 year-to-year growth slowed to 0.2%, from 2.1% in July 2017 and 0.6% in June 2017. Quarter-to-quarter contractions intensified in the unfolding trend for third-quarter 2017 activity.

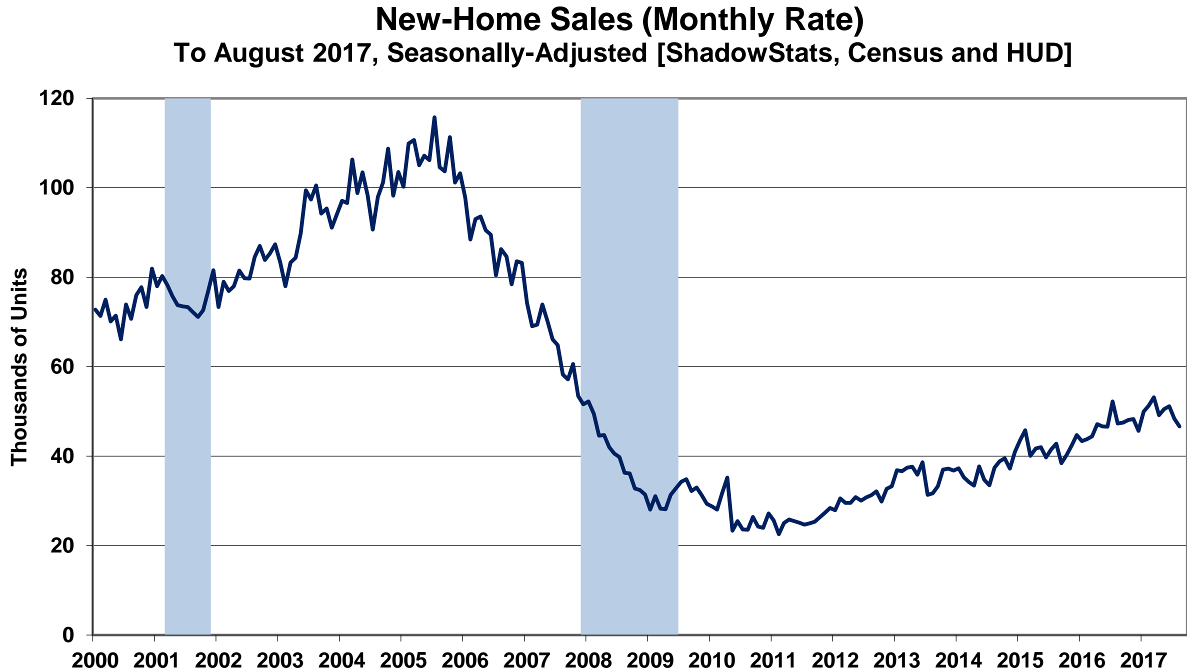
Headline Existing-Home Sales. Based on actual closings of home sales, as reported by the National Association of Realtors®, and at the second decimal point, Existing-Home Sales declined for the third straight month, down by 1.65% (-1.65%) in August 2017, following unrevised monthly declines of 1.27% (-1.27%) in July and 1.96% (-1.96%) in June. Year-to-year growth in August 2017 existing sales slowed to 0.19%, versus unrevised annual gains of 2.06% in July 2017 and 0.55% in June 2017.

First-quarter 2017 annualized growth slowed to 5.4%, with second-quarter 2017 turning negative, down at an annualized pace of 4.0% (-4.0%). Based solely on the initial estimates of July and August 2017 details, third-quarter 2017 is on early track for an annualized contraction of 11.6% (-11.6%).

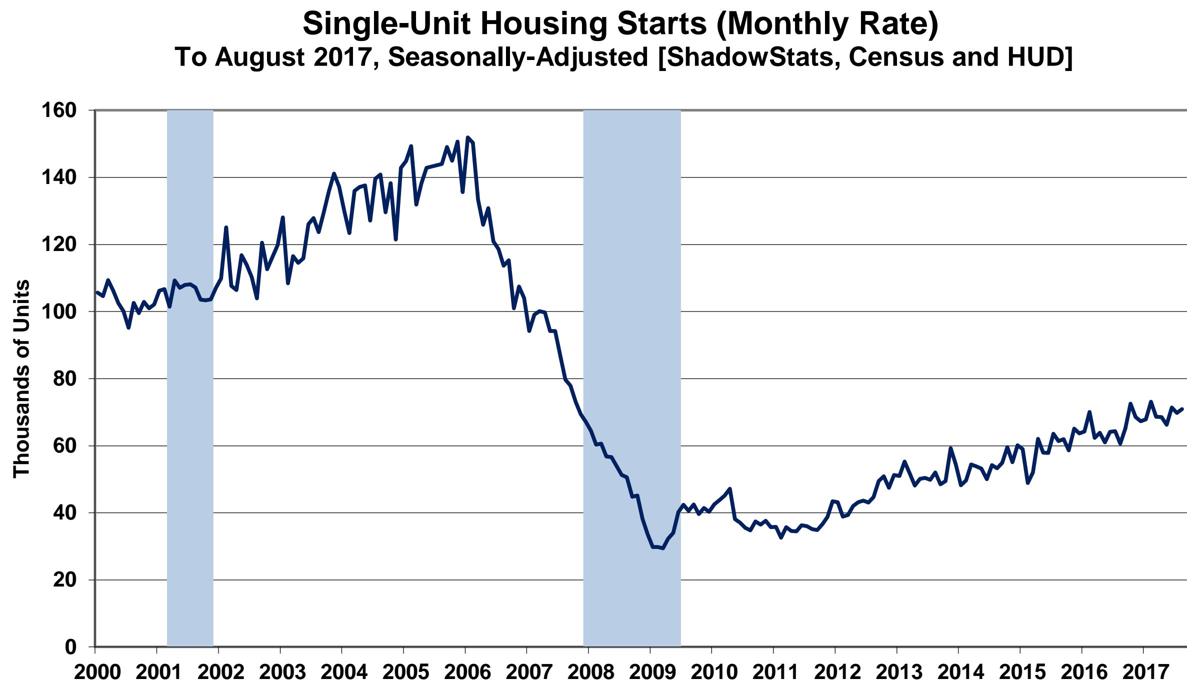
Existing-Home Sales Graphs. The accompanying *Graph 16* plots the traditional headline Existing-Home Sales monthly detail, supplemented by *Graph 18* of the six-month moving average of Existing-Home

Sales. Accompanying the Existing-Home Sales plots are comparative graphs of August 2017 aggregate Housing Starts activity, from prior *Commentary No. 911*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 17* and *19*).

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



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



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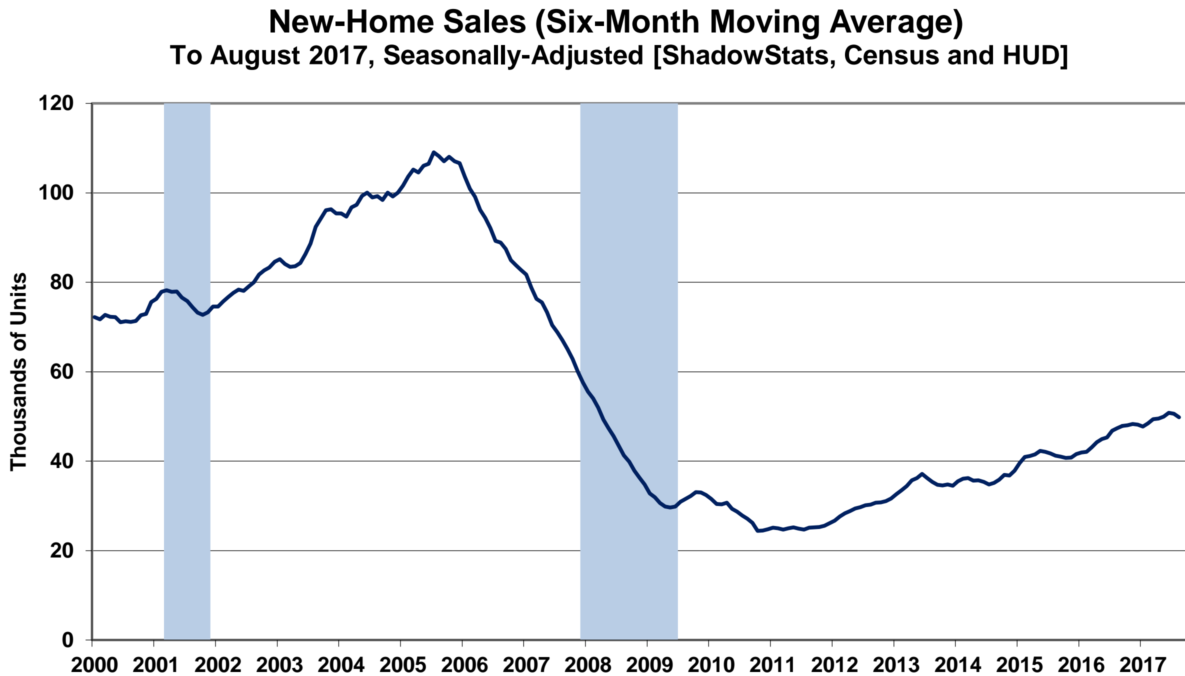
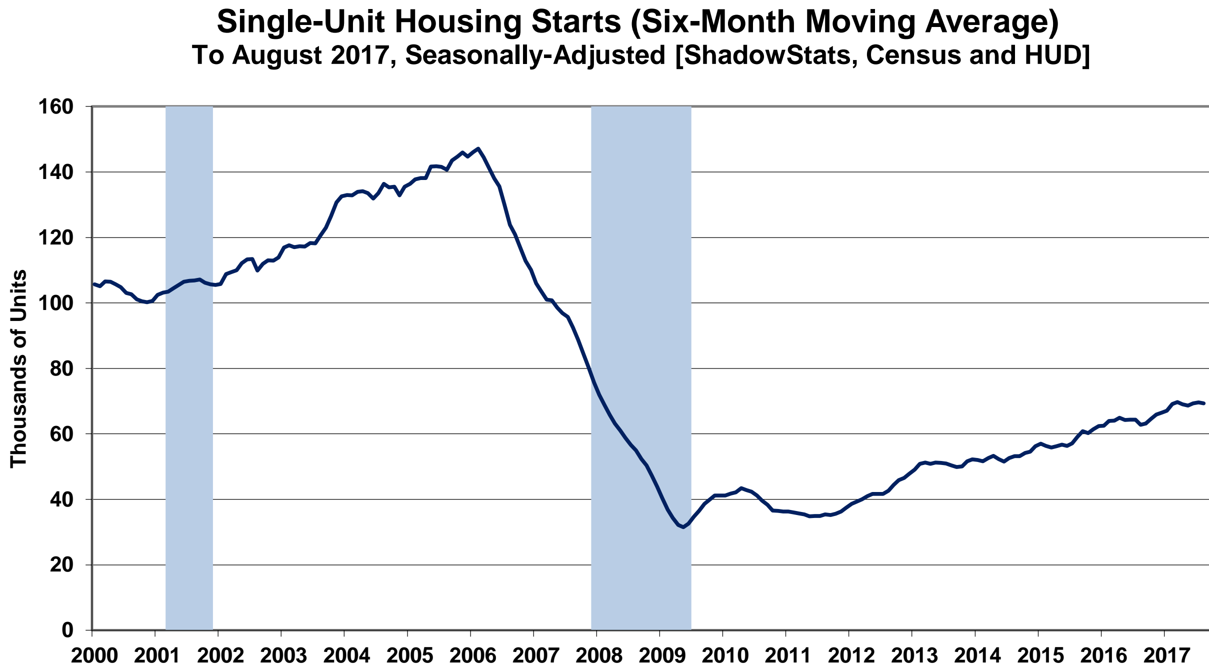
Graph 14: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



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



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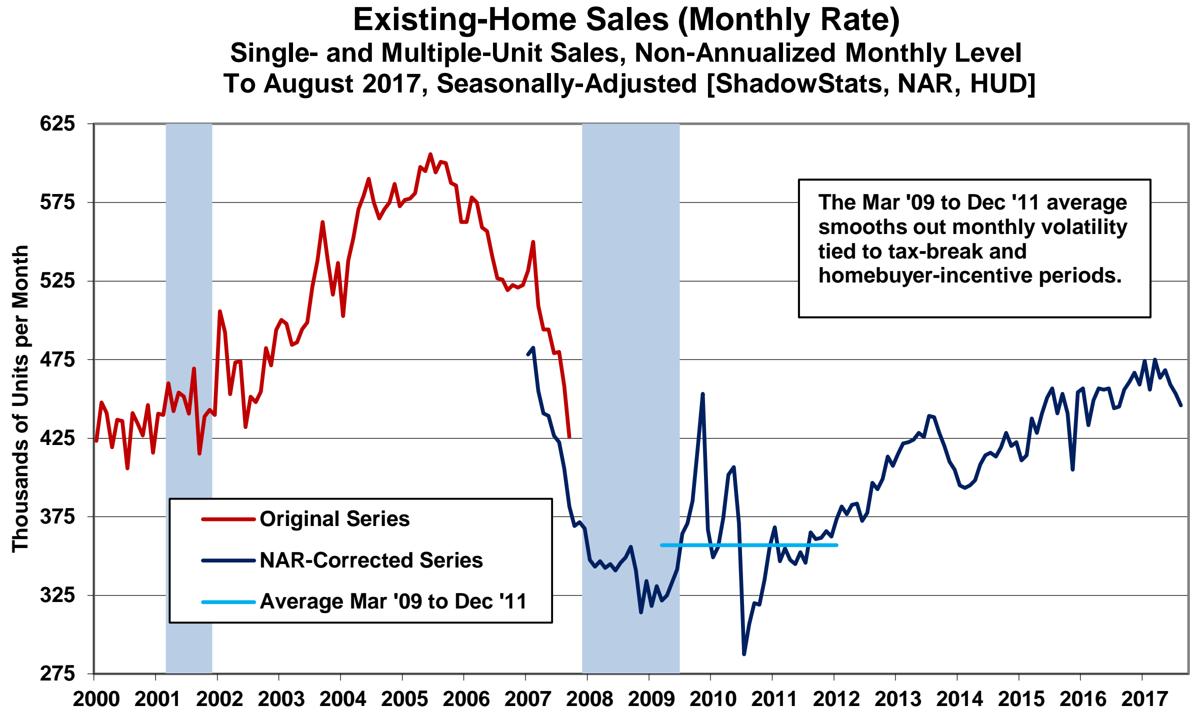
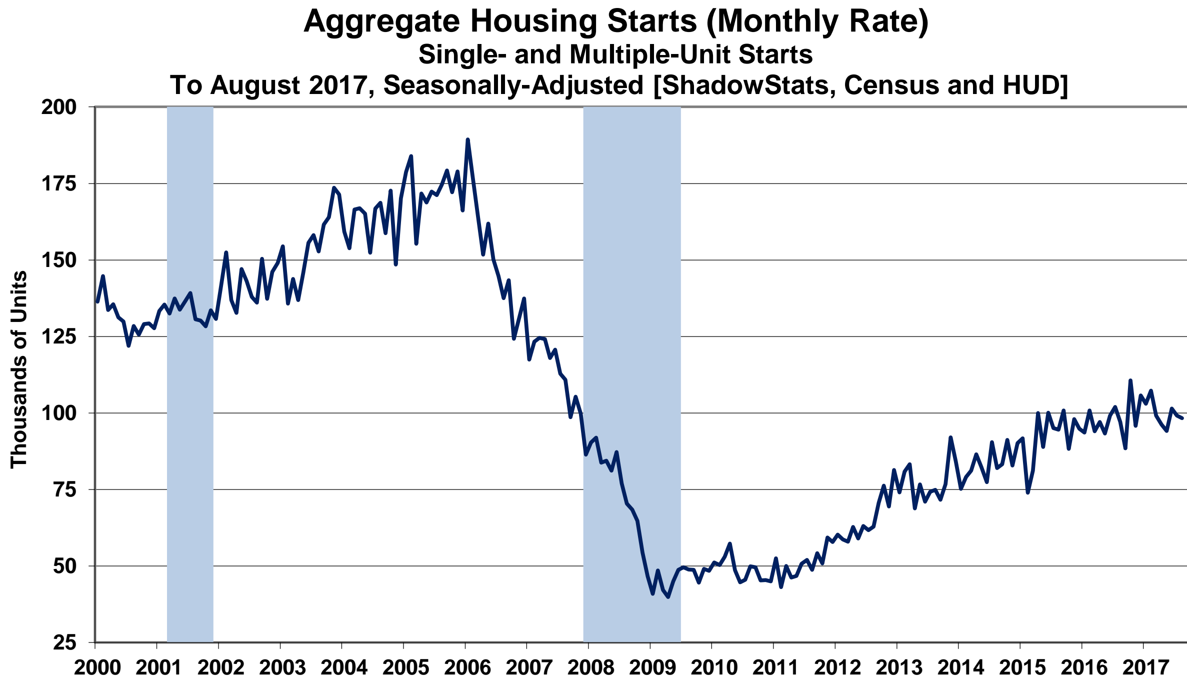
Graph 16: Existing-Home Sales – Monthly Level



Graph 17: Total Housing Starts – Monthly Level



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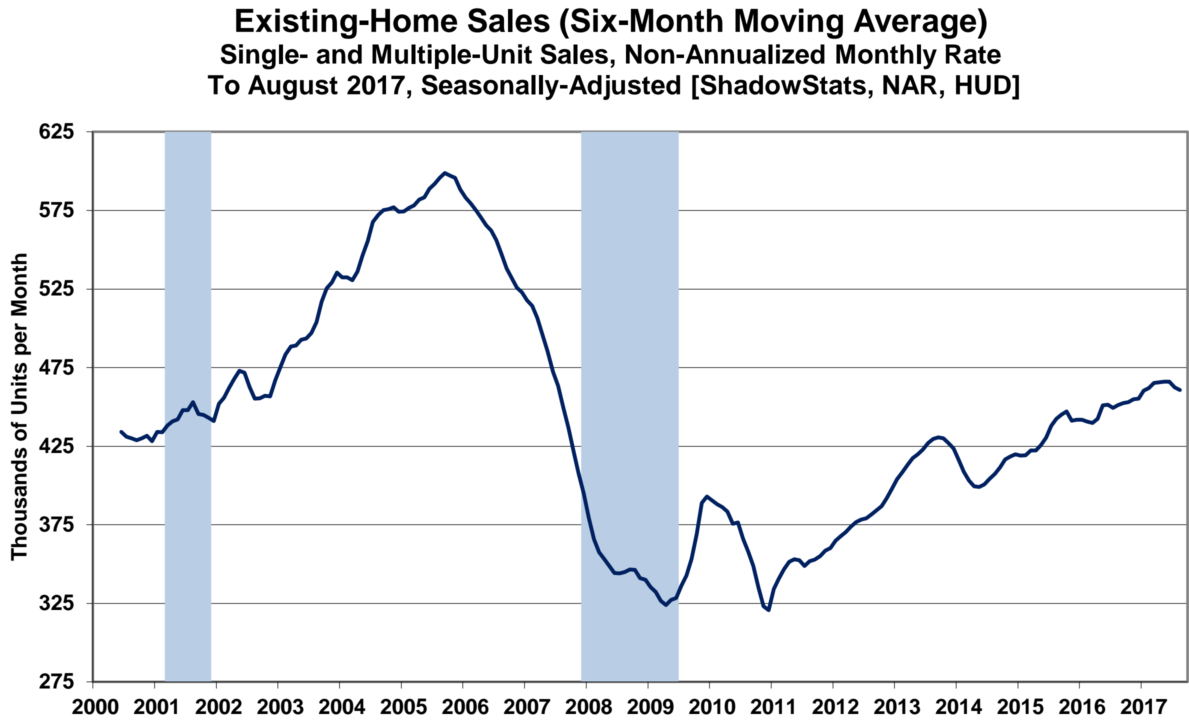
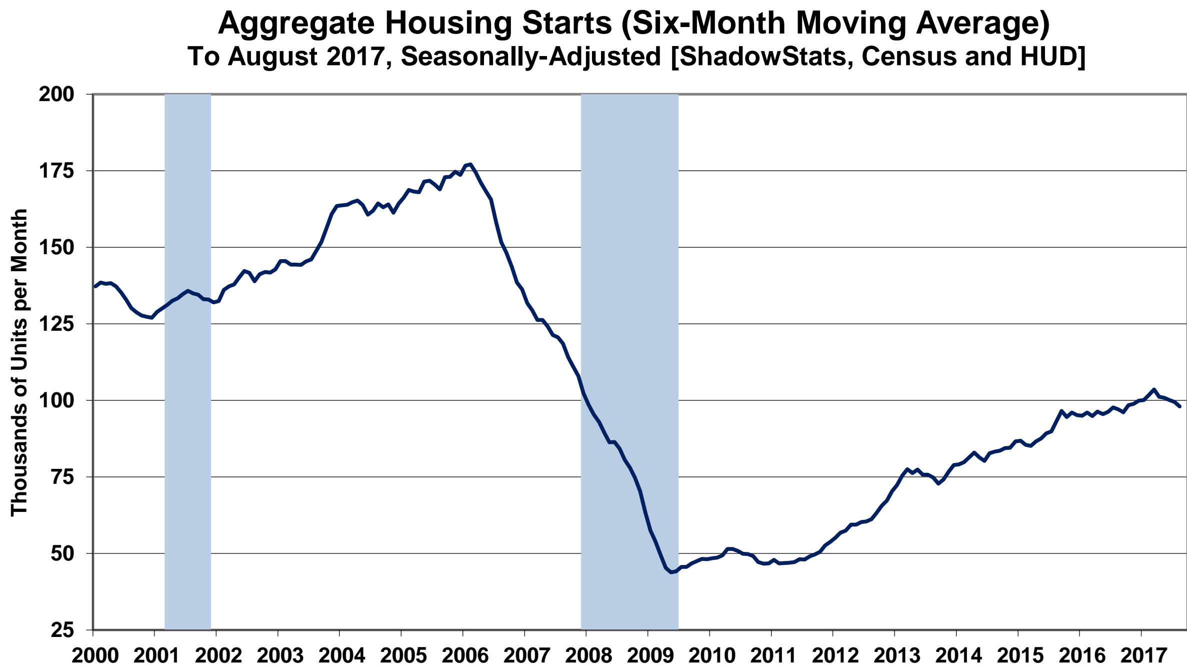
Graph 18: Existing-Home Sales (Six-Month Moving Average)



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.***]*

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (August 2017)

Net of an Upsurge in Highly-Irregular Commercial Aircraft Orders, Real New Orders for Durable Goods Held in Fluctuating, Non-Recovering Low-Level Stagnation. Discussed in the *Opening Comments*, the August 2017 new orders detail reflected negligible impact from the month-end Hurricane Harvey, but orders likely will see some spikes in September and October activity, tied to replacement of automobiles and other durable goods damaged in both Hurricanes Harvey and Irma, along with some possible secondary/tertiary impact from Hurricane Maria.

That said, headline nominal New Orders for Durable Goods jumped anew by 1.7% in August 2017, following a revised plunge of 6.8% (-6.8%) in July and an unrevised surge of 6.4% in June. Those changes all were dominated by respective monthly swings of a 44.8% jump in August, a 71.1% (-71.1%) plunge in July and a 129.2% surge in June irregularly-volatile, commercial-aircraft orders. Ex-commercial aircraft, new orders rose by 0.3% in August 2017, following unrevised monthly gains of 0.5% in July and 0.3% gain in June. With highly-suspect, related negligible month-to-month inflation, a component of the Producer Price Index (PPI), the inflation-adjusted real month-to-month gains were 0.2% in August 2017, 0.5% in July and 0.2% in June.

Discussed later, these extremely volatile, commercial 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 continue in non-recovered, non-expanding, low-level stagnation.

There is no economic expansion underway, as heavily touted to the contrary in the popular media. Expansion reflects growth beyond the pre-recession peak of an economic series. The happy hype in the media primarily reflects a purported expansion in headline Gross Domestic Product (GDP) currently at 13.5% above its precession high (see *Commentary No. 902-B*). That said, underlying fundamental economic activity, such as seen in August 2017 real new orders for durable goods series, was down by 12.4% (-12.4%) versus its pre-recession high, while the real new orders for durable goods series, ex-commercial aircraft, was down by 9.2% (-9.2%) from its pre-recession peak.

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* there), 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. 910*). Real new orders, ex-commercial aircraft, remains the best coincident/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 alternate-inflation detail. Those patterns have remained consistent in signaling ongoing or non-recovering recession (see *Graphs 8* to *11* in the *Executive Summary*).

Headline Nominal Detail—August 2017. The Census Bureau reported this morning, September 27th, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate new orders for durable goods rose by 1.70% in August 2017, having declined by a revised 6.84% (-6.84%) [previously 6.79% (-6.79%)] in July, having gained by a revised 6.38% [previously 6.45%] in June, versus an unrevised "unchanged" 0.00% in May.

Year-to-year, August 2017 nominal durable goods rose by 5.14%, following revised gains of 4.03% [previously 4.15%] in July 2017, and 16.20% [previously 16.27%, initially 16.13%] in June 2017, and versus an unrevised gain of 3.97% 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 irregular and unstable month-to-month commercial-aircraft orders 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, in a pattern of low-level stagnation, albeit somewhat uptrending. 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 (including the most-recent three months), 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 August 2017, a monthly gain of 44.78% in aircraft orders boosted headline aggregate orders to a gain of 1.70%, from what otherwise would have been a monthly gain of 0.26%, such followed a revised July monthly decline in aircraft orders of 71.07% (-71.07%) [previously down by 70.67% (-70.67%)], a revised monthly aircraft-order surge of 129.20% [previously 129.30%, initially 131.24%] in June and an unrevised monthly decline in May of 1.37% (-1.37%).

Net of commercial-aircraft orders, month-to-month and seasonally-adjusted, August 2017 new orders rose by 0.29%, by 0.48% in July, by 0.26% in June and by 0.65% in May. Year-to-year and seasonally-adjusted, August 2017 new orders ex-aircraft rose by 3.93%, having gained 5.56% in July 2017, 6.70% in June 2017 and 6.55% in May 2017.

Real Durable Goods Orders—August 2017. ShadowStats uses the PPI component inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on

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a not-seasonally-adjusted basis, the related August 2017 PPI series showed headline month-to-month inflation as 0.06%, against no [0.00%] inflation in July, a monthly increase of 0.06% in June and again no [0.00%] monthly inflation in May. Related year-to-year annual inflation was 1.56% in August 2017, following 1.56% in July 2017, 1.60% in June 2017 and 1.75% in May 2017 (see *Commentary No. 909*).

Adjusted for that 0.06% month-to-month inflation reading in August 2017, the respective inflation rates in earlier months, and as reflected in the graphs in the *Executive Summary* section, real aggregate orders in August 2017 gained by 1.64%, having declined by 6.84% (-6.84%) in July, having gained 6.31% in June and having been "unchanged" at 0.00% May. Ex-commercial aircraft, real month-to-month orders rose by 0.23% in August 2017, 0.48% in July, 0.20% in June and by 0.06% in May.

Real total new orders rose year-to-year by 3.52% in August 2017, by 2.43% in July 2017, 14.27% in June 2017 and 2.18% in May 2017. Ex-commercial aircraft, August 2017 real orders rose year-to-year by 2.33%, having gained 3.94% in July 2017, 4.93% 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-commercial 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 an unrevised, annualized contraction of 0.94% (-0.94%). Year-to-year, first-quarter 2017 orders rose by an unrevised 1.67%. Second-quarter 2017 activity rose at a revised annualized quarterly pace of 2.65% [previously 2.82%, initially], up by a revised 3.58% [previously 3.69%, initially] year-to-year.

Based solely on headline July and August 2017 detail, third-quarter 2017 activity shows an early-trend for annualized quarterly growth of 3.11%, with year-to-year growth of 3.00%. Based just on the initial estimate for July 2017 activity, the early-trend was for annualized quarterly growth of 2.74%, with year-to-year growth of 2.95%.

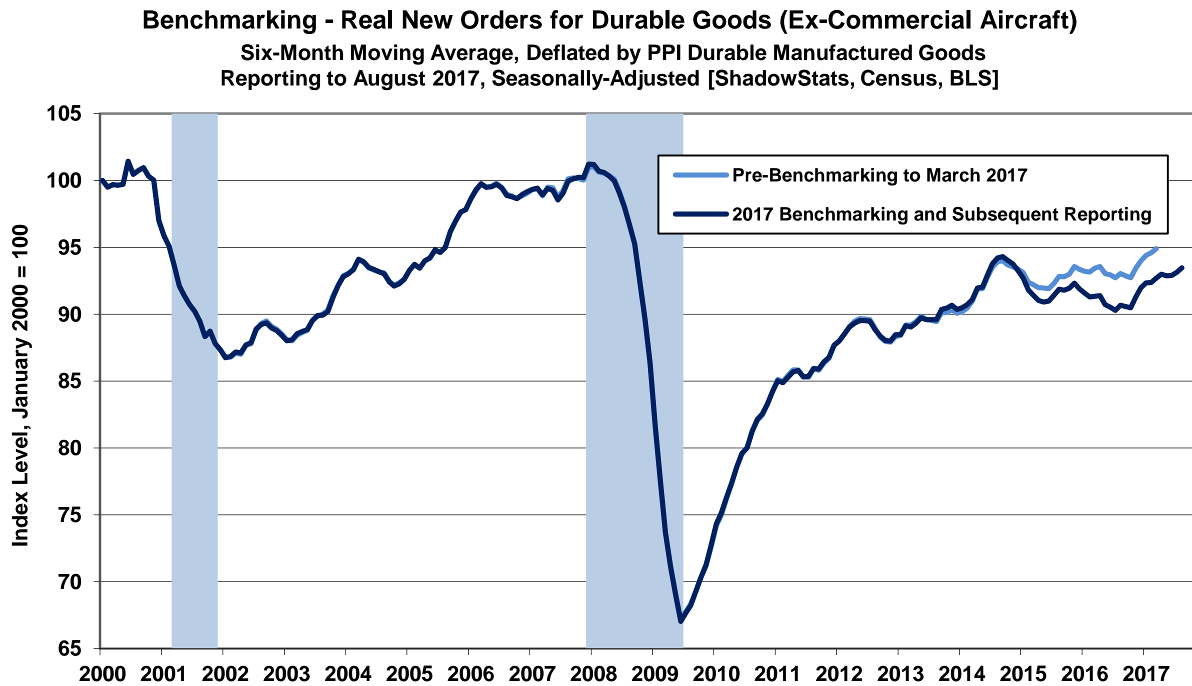
Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 1* to *11*) are displayed in the *Executive Summary*. The first set (*Graphs 1* to *7*) shows the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the irregular commercial-aircraft orders. They also show annual growth for the real series (net of commercial aircraft), plus plots of annual growth in 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 regular, annual downside restatement of recent activity, consider the following *Graph 20*. It shows the net revisions to the six-month moving average of real New Orders for Durable Goods (ex-commercial aircraft) from the May 18, 2017 benchmark revisions and subsequent reporting through today's headline detail, versus the pre-benchmarking detail. For a more-substantive review of the last two years of benchmark revisions to 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 commonly 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 2017 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 (August 2017) inconsistent with the currently published headline historical numbers.

NEW-HOME SALES (August 2017)

August Monthly Sales Declined Irrespective of Likely Minimal Hurricane Impact and Pre-August Sales Revised Lower, All in the Context of Continued Low-Level, Downtrending and Non-Recovering Stagnation. The August 2017 New-Home Sales series remained in deepening "great depression" territory (see *Commentary No. 754*), down by 59.7% (-59.7%) from its pre-recession peak level of activity, a condition found commonly in the home sales and housing construction series, all pre-hurricane disruptions (see the discussion on Hurricane Harvey's impact in the *Executive Summary*).

August 2017 sales declined month-to-month by 3.4% (-3.4%), against an upwardly revised, less-negative July reading, which was more-than offset by even greater downside revisions to aggregate monthly activity in June and May. The revised July monthly activity showed a decline of 5.5% (-5.5%). August 2017 unit sales declined by 1.2% (-1.2%) year-to-year, versus a revised annual decline of 7.5% (-7.5%) in July 2017.

The early-trend for third-quarter 2017 activity in this highly- and irregularly-volatile series was for an annualized contraction of 20.3% (-20.3%), versus a revised, deepened second-quarter 2017 contraction of 8.8% (-8.8%).

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 today's *Consumer Liquidity Watch*.

New-Home Sales—Continued Unstable Reporting, with the Smoothed Series 59.7% (-59.7%) 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 headline detail, August's monthly reporting was to the downside, with an upside revision to negative July activity more offset by downside revisions to levels of June and May headline sales.

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 and August. The ongoing, short-term extreme monthly volatility in the headline monthly detail (see *Graph 12*), reflected August 2017 activity, again, holding below its never-recovered 2005 pre-recession peak by 59.7% (-59.7%), still deep in "great-depression" territory.

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Headline August 2017 New-Home Sales Reporting. Estimated by the Census Bureau and the Department of Housing and Urban Development, September 26th, the August 2017 headline reporting of 560,000 units in annualized New-Home Sales (a 46,667 monthly rate as used in the graphs in the *Executive Summary*) was down month-to-month by a headline, seasonally-adjusted and statistically-insignificant 3.4% (-3.4%) +/- 15.2% (all confidence intervals are at the 95% level). That monthly decline was exaggerated by an upside revision to July, which initially had been reported at 571,000 units, now at 580,000 units. Net of that revision, August sales would have declined instead by 1.9% (-1.9%). Aggregate recent history, though, deteriorated, with June sales revising down to 614,000 (previously 630,000) units and with May sales revising down to 606,000 (previously 618,000).

The headline August 2017 decline of 3.4% (-3.4%), followed a revised monthly decline of 5.5% (-5.5%) [previously 9.4% (-9.4%)] in July, and revised monthly gains of 1.3% [previously 1.9%, initially 0.8%] in June and 2.7% [previously 4.7%, 4.9%, initially 2.9%] in May. Again, net of prior-period revisions, the month-to-month decline in August 2017 was 1.9% (-1.9%), instead of the statistically-insignificant headline 3.4% (-3.4%).

Year-to-year August 2017 sales declined by a statistically-insignificant 1.2% (-1.2%) +/- 21.6%. That followed a revised annual contraction of 7.5% (-7.5%) [previously down by 8.9% (-8.9%)] in July 2017 and revised annual gains of 9.8% [previously 12.7%, initially 9.1%] in June 2017 and 8.2% [previously 10.4%, 8.0%, initially 8.9%] in May 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 second revision to full reporting of second-quarter 2017 activity, new sales contracted at a revised annualized pace of 8.8% (-8.8%) [previously 3.0% (-3.0%), initially 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 August July 2017 detail, third-quarter 2017 annualized New-Home Sales showed an early trend for a quarterly decline of 20.33% (-20.33%) [previously 24.6% (-24.6%) based just on initial July 2017 detail.

Unfortunately, for the housing sector, though, all other related industry reporting reflects meaningful quarter-to-quarter contractions for second-quarter 2017, with early third-quarter 2017 also trending in mixed patterns.

New-Home Sales Graphs. *Graph 12* in the *Executive Summary* plots the headline New-Home Sales monthly detail through August 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 August 2017 Housing Starts for single-unit construction (*Graphs 13* and *15*), from prior *Commentary No. 911*, along with comparative graphs of the Existing-Home Sales and related series (*Graphs 16* to *19*).

EXISTING-HOME SALES (August 2017)

Monthly Decline of 1.7% (-1.7%), August Level Still 26.4% (-26.4%) Shy of Recovery, Sharply Deepening Annualized Quarterly Declines. Existing-Home Sales declined month-to-month by 1.7% (-1.7%) in August 2017, against unrevised drops of 1.3% (-1.3%) in July and 2.0% (-2.0%). August 2017 year-to-year growth slowed to 0.2%, from 2.1% in July 2017 and 0.6% in June 2017.

Down from recent peak activity of March 2017 by 6.1% (-6.1%)—March 2017 monthly sales were the highest since February 2007—headline August 2017 activity was down by 26.4% (-26.4%) from its pre-recession peak of the series [March 2017 activity had been down by 21.6% (-21.6%) from the series' pre-recession peak]. Both monthly measures still were 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) still has touted the aggregate 2016 sales level as the strongest since 2006. Yet that 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 section, 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 August 2017 Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® reported September 20th a seasonally-adjusted, headline monthly decline of 1.65% (-1.65%) in August 2017 Existing Home Sales, following an unrevised monthly drop of 1.27% (-1.27%) in July and a decline in June of 1.96% (-1.96%). Year-to-year growth in August 2017 existing sales slowed to 0.19%, versus unrevised annual gains of 2.06% in July 2017 and 0.55% in June 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 5.4%, with second-quarter 2017 turning negative, down at an annualized pace of 4.0% (-4.0%).

Based solely on the initial estimates of July and August 2017 details, third-quarter 2017 is on early track for an annualized contraction of 11.6% (-11.6%). That early-trend had been for an annualized contraction of 8.6% (-8.6%), based just on the initial July reporting.

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

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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 Narrowed to 4% in August, While All-Cash Sales Rose to 20%. The NAR estimated the portion of August 2017 sales in "distress" at 4% (3% in foreclosure, 1% short sales), down from 5% (4% in foreclosure, 1% short sales) in July 2017, from 5% (4% foreclosure, 1% short sales) in August 2016.

The "distressed" portion in the current headline detail matches lows seen various since September 2016, the lowest levels 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 20% in August, versus 19% in July 2017, 18% in June 2017 but against and versus 22% in August 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 August 2017 aggregate Housing Starts activity, from prior *Commentary No. 911*, 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.

[Updated for Second-Quarter 2017 Household Sector, Real Credit Market Debt Outstanding, the initial September Conference Board's Consumer Confidence Index® reading and with minimal changes in the opening paragraph, the CLW *otherwise is unchanged from its prior version in [Commentary No. 911]().]*

Liquidity Stresses Continue to Mount, Amidst Faltering Optimism, Aggravated Temporarily by Natural Disasters. The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of headline economic activity, including Employment conditions, Real Retail Sales, Home Sales and related construction indicators, and ultimately as reflected in broader-based economic series such as Industrial Production. Liquidity stresses have intensified, at least temporarily, in hurricane-hit regions of the United States (see today's *Opening Comments*).

***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.

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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—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in *Commentary No. 907*.

Consumer Optimism: September Consumer Confidence and Sentiment Measures Have Weakened. This detail includes the initial September 2017 reading of The Conference Board's Consumer-Confidence Index® (Confidence) of September 26th, as well as the September 15th advance-September 2017 reading for the University of Michigan's Consumer Sentiment Index (Sentiment). Reflected in *Graphs CLW-1* and *CLW-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 then appeared to have topped and pulled back in June, with some mixed rebound into August, with the numbers now turning lower in September 2017. Blaming the impact of hurricanes on Confidence in Texas and Florida, the Conference Board just reported a downturn in September 2017, in the context of a sharp downside revision to the previously strong gain estimated with the headline August reading. Nonetheless, both the latest Confidence and Sentiment levels remained off their respective post-election, euphoric peaks of March 2017 (Confidence) and January 2017 (Sentiment). Although annual growth is its weakest since the onset of the Post-Election euphoria, and levels of confidence/sentiment remain above pre-recession peaks.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-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, yet the still-high moving averages also have begun to falter.

Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-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 continue as 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 CLW-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

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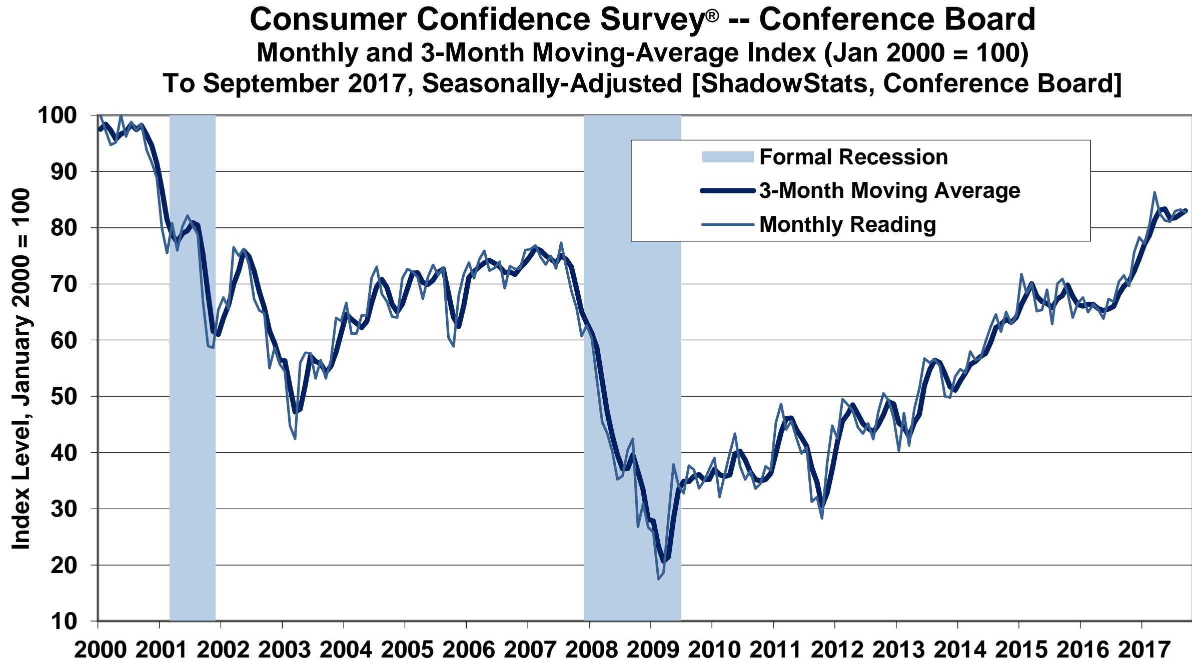
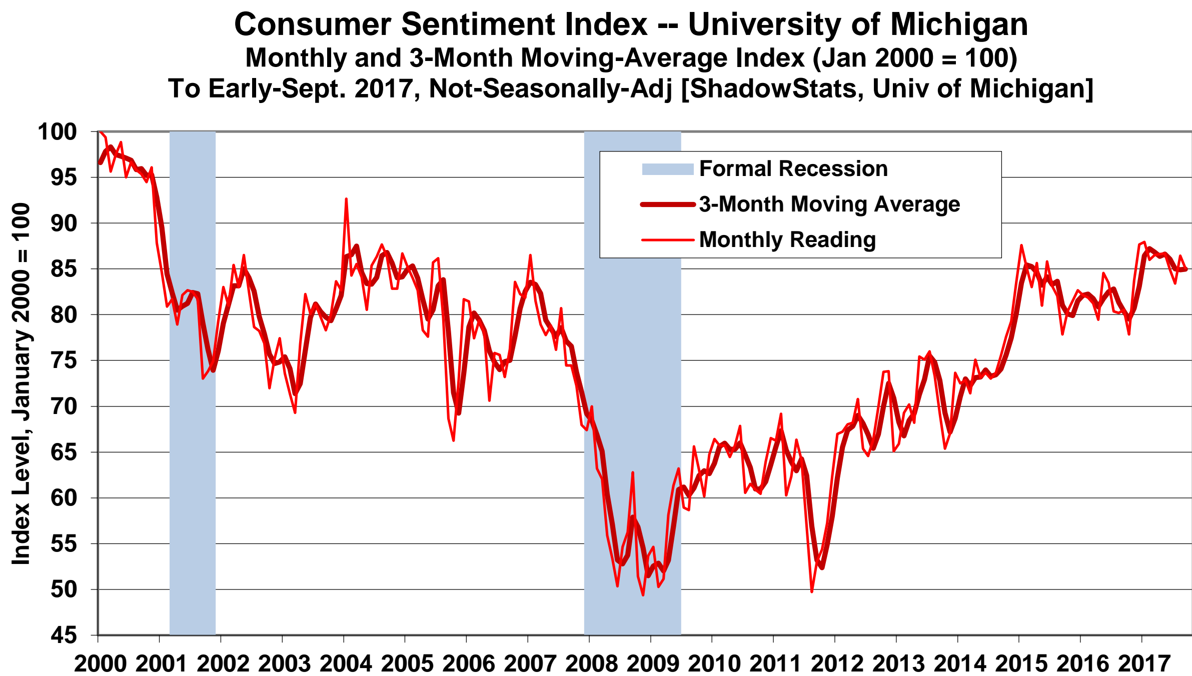
second-and third-quarter 2015 and for third-quarter 2016 and unfolding for second-quarter 2017. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

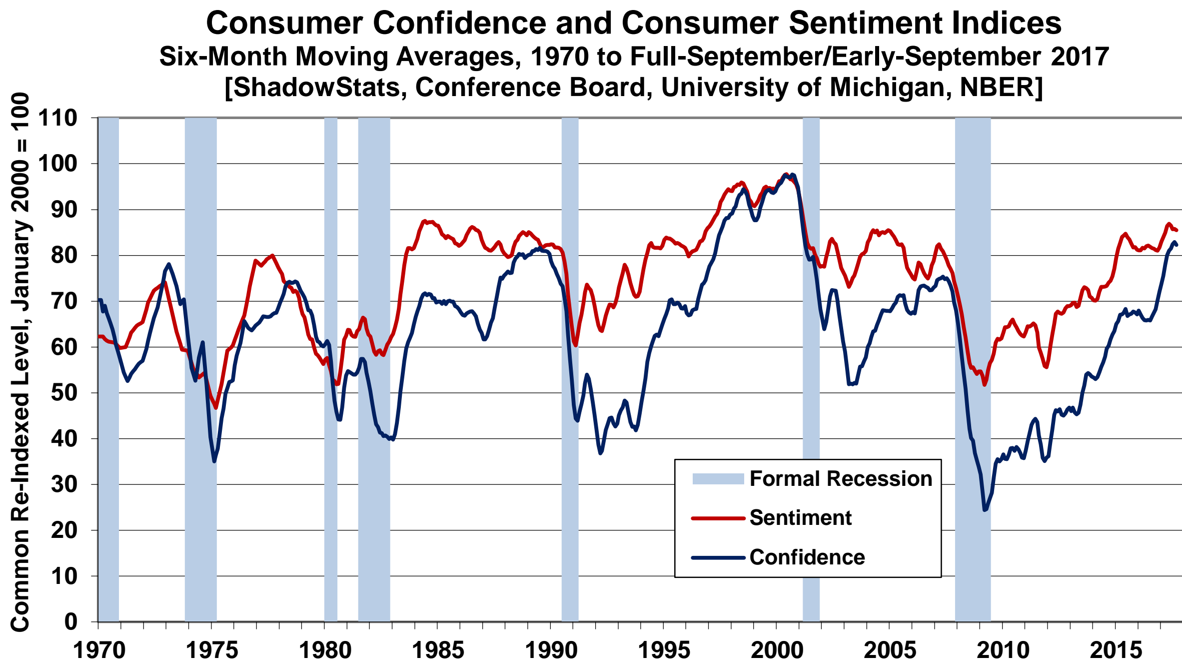
Graph CLW-1: Consumer Confidence (2000 to 2017)



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



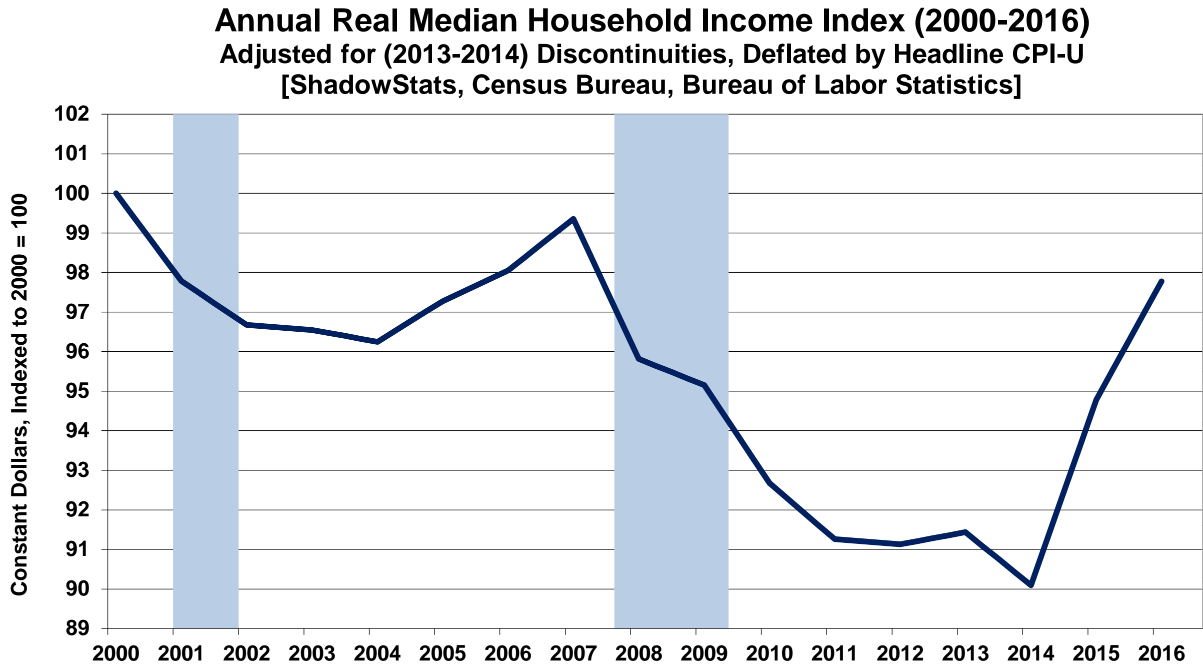
Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)



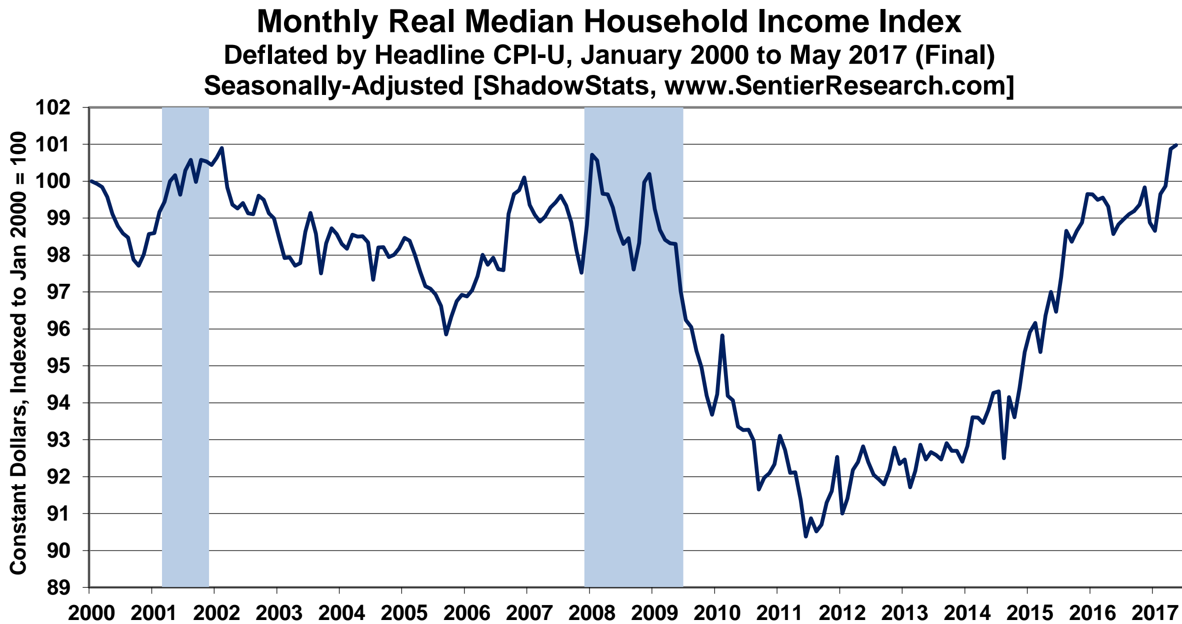
2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*. The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity see in the mid-1970s (see *Graph OC-1* in *No. 909*). The Sentier details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research, 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 then-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%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-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 CLW-5*). The May detail, however, may have been the final reporting of the monthly series (see the *Special Note* that follows).

Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)



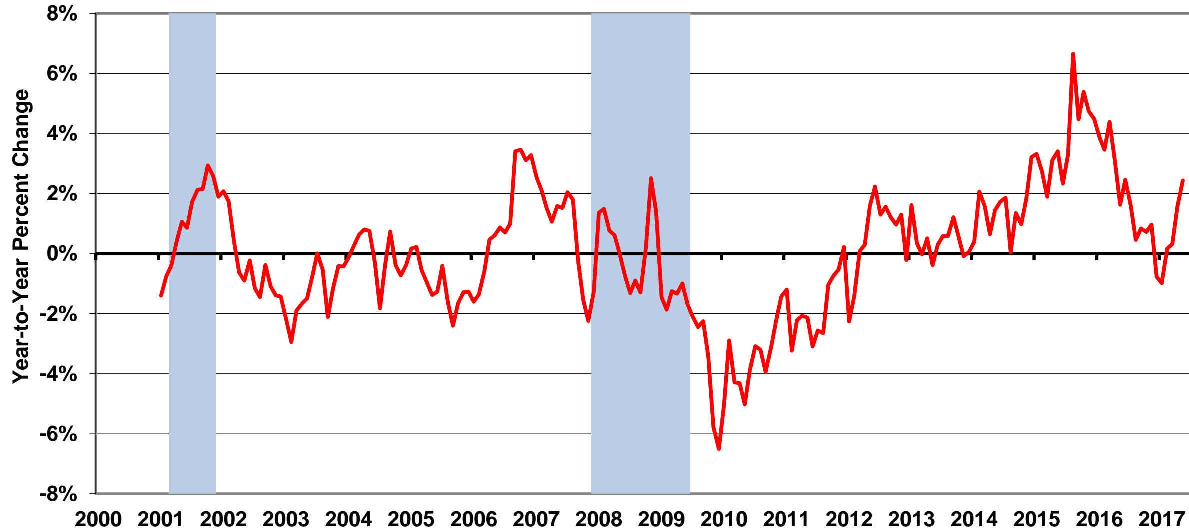
Graph CLW-5: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



Where real monthly 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 August 2017 CPI.

Graph CLW-6: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



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 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.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of *Commentary No. 909*) the monthly and annual series had remained broadly consistent, although based on separate questions within the 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.

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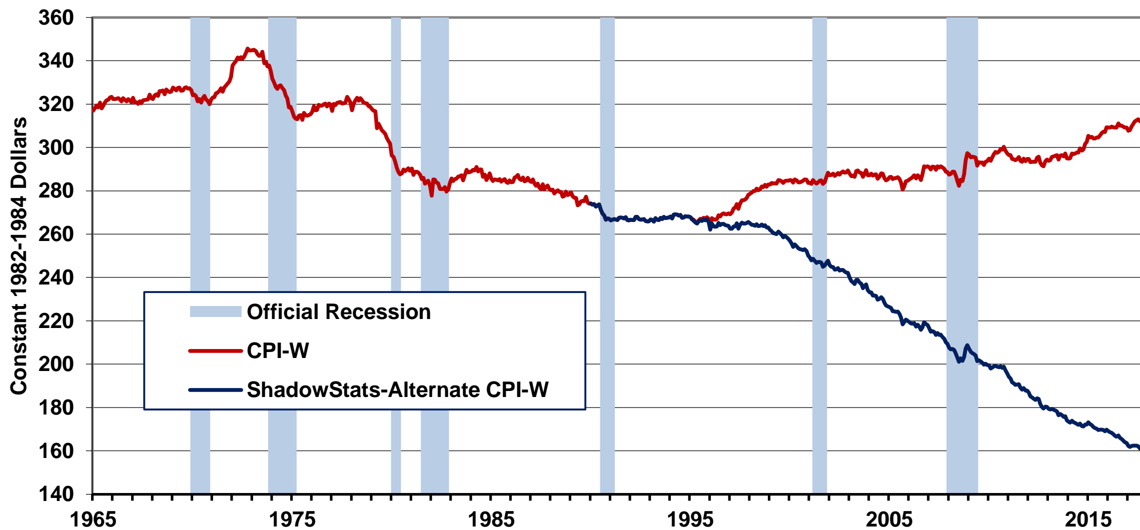
Special Note: Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

> 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.

Real Average Weekly Earnings—August 2017—Month-to-Month Real Earnings Declined. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on page 16 of *Commentary No. 909*), the regularly-volatile real average weekly earnings fell month-to-month by 0.28% (-0.28%) in August 2017, versus downwardly-revised gains of 0.13% in July and 0.23% in June. Year-to-year, the adjusted August 2017 real change rose to 0.68%, versus a downwardly revised gains of 0.62% in July 2017 and 1.10% in June 2017.

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



Based solely on volatile initial reporting for July and August 2017, the early-trend for real third-quarter 2017 activity is for an annualized quarterly gain of 1.01%. Second-quarter 2017 activity reflected a revised, annualized real quarter-to-quarter gain of 4.43%, following contractions in first-quarter 2017 of

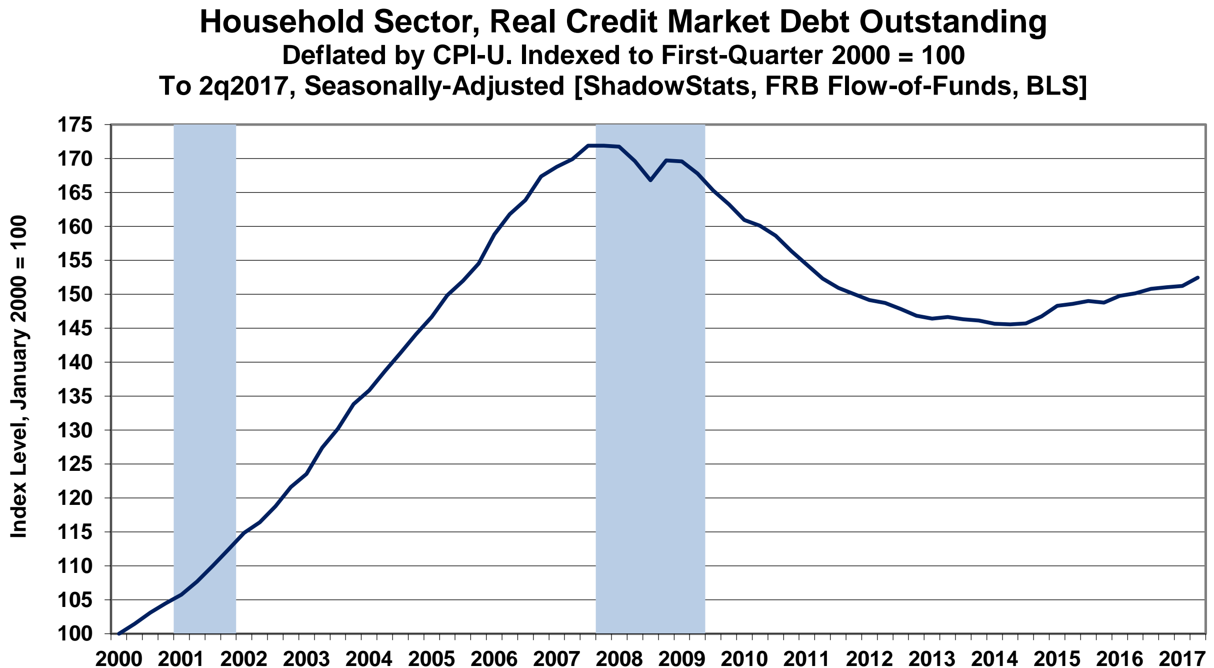
1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), and third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

Year-to-year change in third-quarter 2017 was on early track for 0.71%, where second-quarter 2017 real earnings rose by a revised 0.83%, following an annual contraction of 0.29% (-0.29%) in first-quarter 2017, the first annual or year-to-year quarterly contraction since fourth-quarter 2012. 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 CLW-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 (see today's *Opening Comments*), 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 CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Second-Quarter 2017)



Consider *Graph CLW-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 second-quarter 2017, released on September 21st. Household Sector, Real Credit Market Debt Outstanding in second-quarter 2017 still was down by 11.3% (-11.3%) from its pre-recession peak of third-quarter 2007. That was against an initial first-quarter 2017 decline of 11.5% (-11.5%), just revised to 11.3% (-11.3%). The visual uptick in the latest point in *Graph CLW-8* a lowered estimate of first-quarter activity (consumer credit revised lower by more than the upside revision mortgages), with second-quarter inflation-adjusted level of activity boosted by a relatively-rare, annualized quarterly contraction in the seasonally-adjusted second-quarter CPI-U.

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 CLW-9* to *CLW-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 July 2017 reporting, *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-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 CLW-10) and year-to-year change (*Graph CLW-11*). The August detail includes a downside revision to the last five years of total credit outstanding.

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 upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth continued to slow, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in July 2017 (released September 8th) was down from its December 2007 pre-recession peak by 15.3% (-15.3%) [that previously had been down by 12.3% (-12.3%) in June 2017, before the recent downside revisions to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

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

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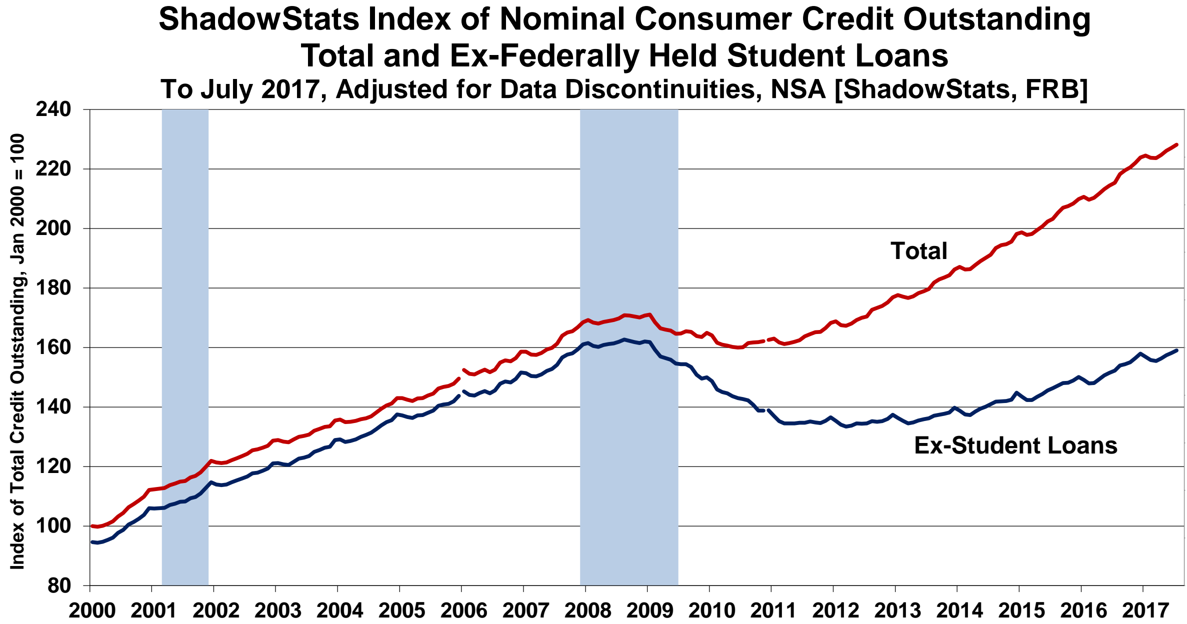
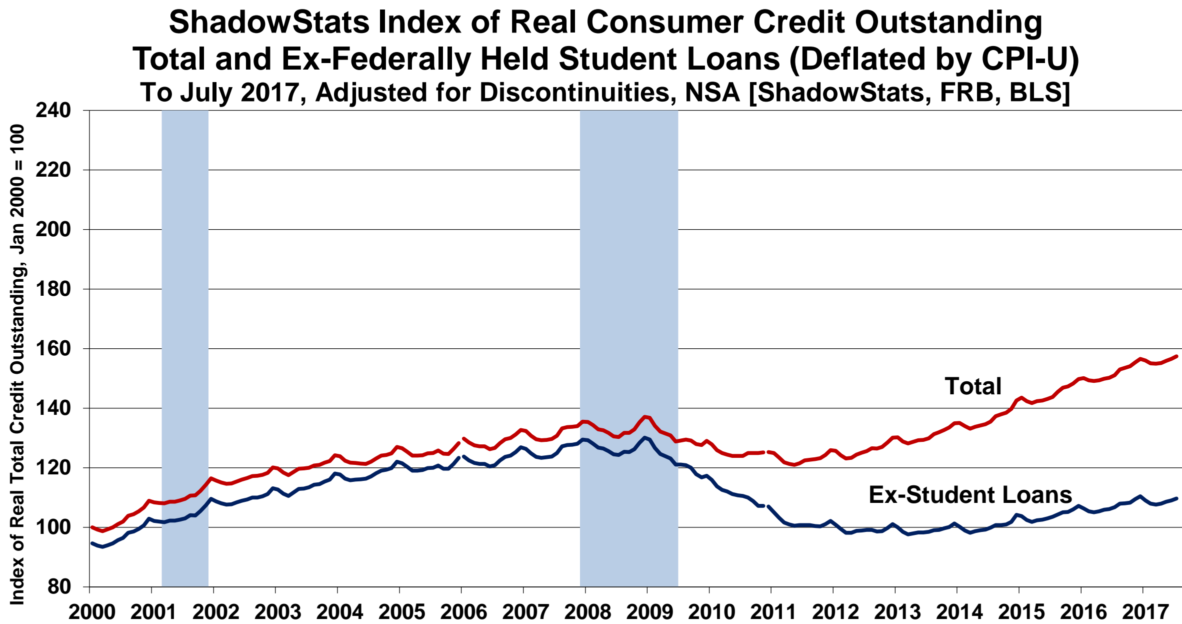
Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



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



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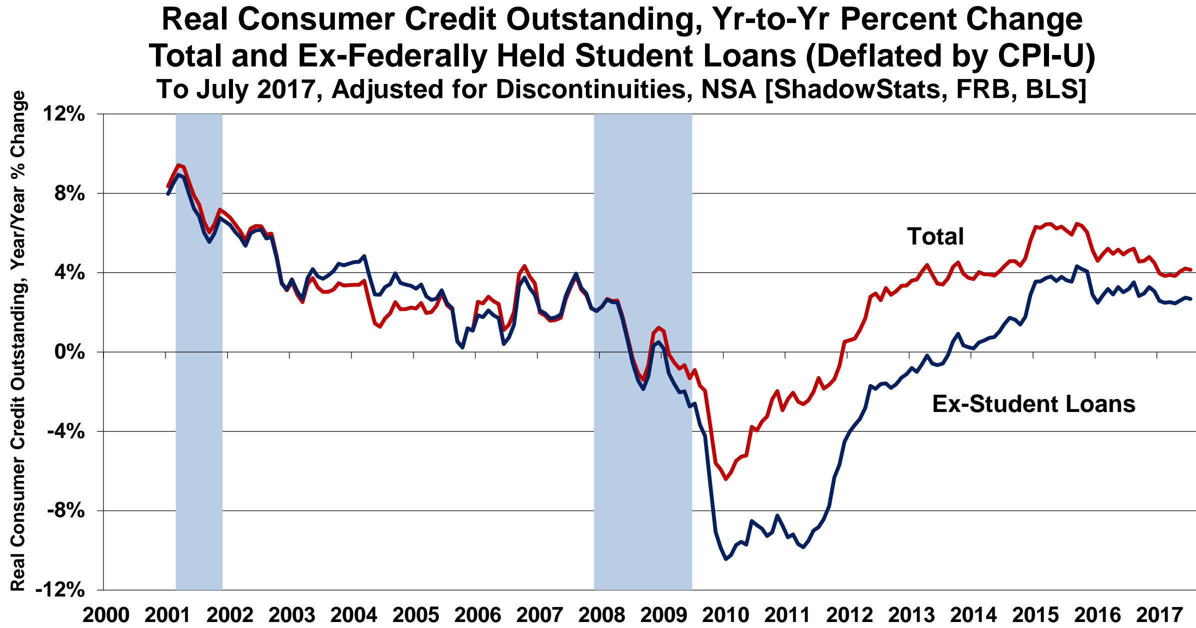
Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



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WEEK, MONTH AND YEAR AHEAD

Deteriorating Domestic and Global Political Circumstances and Continued Softening of the Economy Increasingly Should Pummel the Dollar, Boost the Price of Gold and Foster Financial-Market Turmoil. The *Hyperinflation Watch* of [Commentary No. 909](#) speaks for itself. Given the continuing and broadening weakness in the U.S. economy, despite varied impact in the next several months, from a disastrous hurricane season (see *Opening Comments*), given shifting political instabilities/circumstances in Washington and unusual noises from Federal Reserve Chair Janet Yellen, sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely, in the near-term, despite mixed pronouncements to the contrary. Accordingly, selling pressure against the U.S. dollar still should intensify, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace. Tax and pending economic proposals by the Administration will be considered and the broad outlook reviewed in *Commentary No. 914*, planned for October 6th.

In brief, the economy still is getting worse, rapidly. The financial markets remain at high risk of panicked declines. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving purchasing power of your assets, in the context of liquidity and portability. Other than for the *Pending Release* paragraph, changes to this section from its prior version in *No. 912*, simply are nil other than for the updating of references.

Please call me at (707) 763-5786 if you would like to discuss current circumstances, or otherwise.
-Best wishes – John Williams

In the context of the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904* and the *Opening Comments* of *Commentary No. 905*, underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters. .

Unfolding circumstances still threaten 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 intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never 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, had 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, 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-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 13.7%.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but still 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 intensify 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.

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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. 911 (September 19th) covered detail on August New Residential Construction, including monthly Building Permits and Housing starts, and the August Cass Freight Index™.

Commentary No. 910 (September 15th) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14th) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an update *Alert* on the financial markets

Commentary No. 908-B (September 6th) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

Advance Commentary No. 908-A (September 1st) provided summary coverage of the headline reporting on August 2017 Labor and Monetary conditions and July 2017 Construction Spending.

Commentary No. 907 (August 30th) reviewed the second estimate of, first revision to Second-Quarter 2017 GDP and initial quarterly reporting of the related GDI and GNP series.

Commentary No. 906 (August 25th) covered July 2017 New Orders for Durable Goods and New- and Existing-Home Sales, with further discussion of the unfolding "new" downturn in economic activity.

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.

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. 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™.

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. 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 RELEASE: ***Updated*** **- Gross Domestic Product—GDP—(Third Estimate, Second-Quarter 2017).** The Bureau of Economic Analysis (BEA) will release its third-estimate of, second-revision to Second-Quarter 2017 GDP tomorrow, September 28th, along with the second estimates of Second-Quarter 2017 Gross Domestic Income (GDI) and Gross National Product (GNP). The latest detail will be covered in *Commentary No. 913* of that date.

Despite, in particular, the recent sharp downside revisions to monthly retail sales (*Commentary No. 905*), expectations are for no or a small upside revision to last month's upwardly revised, annualized real growth of 3.03%, from the initial "advance" estimate of 2.57% for the second-quarter GDP. Expectations appear to be around 3.0% to 3.1%. A downside revision remains a fair bet.

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