

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

COMMENTARY NUMBER 922

October 2017 New Orders for Durable Goods, Existing-Home Sales

November 22, 2017

Market Irrationality and Vulnerability Amidst Expectations for a Booming Economy in 2018

**Hurricane-Disruptions Boosted Recent Headline Economic Activity,
With Continued Upside Impact on October 2017 Durable Goods Orders**

**Nonetheless, Orders Contracted Both Before and After
Consideration of Inflation and Volatile Commercial Aircraft Orders**

Real Orders Remained Down by 11.6% (-11.6%) from Recovering Pre-Recession Peak

**Monthly Gain of 2.0% in October Existing-Home Sales Included a
Downside Revision to September Activity and Some Hurricane Recovery, Along With a
Year-to-Year Sales Decline of 0.9% (-0.9%)**

**With Monthly Activity Still Shy of Recovering Its Pre-Recession High by 24.6% (-24.6%),
Smoothed Existing-Home Sales Continued in Low-Level, Faltering Stagnation**

PLEASE NOTE: The next Regular Commentary, Wednesday, November 29th, will cover the second estimate of, first revision to Third-Quarter 2017 Gross Domestic Product and October New-Home Sales.

Happy Thanksgiving! — John Williams (707) 763-5786

Today's (November 22nd) *Opening Comments and Executive Summary*. The *Opening Comments* review some irrational economic expectations for 2018, along with implications for some increasingly likely, pending financial-market turmoil. The *Executive Summary* (page 3) reviews highlights of today's (November 22nd) release of October New Orders for Durable Goods, and yesterday's release of October Existing-Home Sales.

The ***Reporting Detail*** (page 13) discusses October New Orders for Durable Goods and Existing-Home Sales in greater detail.

The ***Consumer Liquidity Watch*** (page 19) has been updated for the full-month November reading of the University of Michigan's Consumer Sentiment measure.

The ***Week, Month and Year Ahead*** (page 29) provides background on recent *Commentaries* and previews next week's releases of the first revision to Third-Quarter 2017 Gross Domestic Product (GDP) and October New-Home Sales.

OPENING COMMENTS

Irrational Forecasts for the 2018 Economy and the Financial Markets Promise Pending Turmoil.

With headline unemployment at a 17-year low and with industrial production and retail sales just booming along, choruses of "Happy Days Are Here Again" can be heard from some in the financial arena, with forecasts for a booming economy in 2018 being touted. As discussed here, however, most of the recent improvements in those headline data have resulted from near-term economic reporting boosted or distorted by temporary effects from the major hurricanes of August and September. Those effects continued to have some positive impact on both the headline October New Orders for Durable Goods and Existing-Home Sales.

A subscriber recently queried along the lines of the weakest link in today's global economy, if there were one thing that would snap, despite ongoing central bank efforts to prop the financial markets. My answer broadly was as follows.

The primary systemic problem facing the United States remains its long-term sovereign-solvency issues, which no one in the government appears willing to approach. Unless seriously addressed, the question of ultimate U.S. sovereign solvency is the fundamental issue underlying an inevitable collapse in the value of the U.S. dollar. It is the market valuation of the U.S. dollar that I view as the weakest link in the currently unstable domestic- and global-financial markets (see [No. 859 Special Commentary](#)). The near-term danger in this circumstance is intensified sharply by the Federal Reserve's ongoing inability to stabilize the domestic- and global-banking systems, post-2008-Panic. The still-uncontainable effects of the near-collapse of the financial system remain constrained only by ongoing central-bank bluff, bluster and intervention. That remains an open vulnerability for those "controlling" the system.

Despite the happy hype in the year-end markets of a booming economy in hand, and forecasts for same continuing in the New Year—fundamental positives for the dollar and the equity markets, if accurate—the current headline economic data have been distorted heavily on the positive side by the effects of recent hurricanes. A number of the data hysteresis should know better.

Specifically distorted on the positive side of reporting have been closely followed series such as: October employment and unemployment, in the household survey; October Retail Sales; October Industrial Production, including Manufacturing; and Housing Starts, beyond the normal extreme volatility in that series (see [Commentary No. 919-B](#), [Commentary No. 920](#) and [Commentary No. 921](#)). Some non-recurring positive impact also was seen in October New-Homes Sales and October New Orders for Durable Goods, discussed later in this missive.

Noted in recent *Commentaries* (again, see [No. 920](#) and [No. 921](#)), those distortions largely should have worked out of the economic reporting system by, or with, headline January 2018 detail, with a resulting and suddenly “renewed” downtrend developing in the better-quality economic data, such as production. That circumstance should rattle current market expectations and perceptions of the longer-term direction in domestic economic activity, FOMC policy and U.S. dollar strength. I look for a massive, negative shift in U.S. dollar sentiment as the best bet to pummel the domestic equity and credit markets by early in the New Year.

As offered regularly to subscribers, please feel free to call, if you would like to discuss this circumstance, or otherwise – John Williams (707) 763-5786.

EXECUTIVE SUMMARY: New Orders for Durable Goods (October 2017)—Despite Hurricane-Boosted Motor Vehicles, Orders Fell Both Before and After Inflation and Commercial Aircraft. Net of rising inflation and a monthly drop in the irregular commercial aircraft orders, real new orders for durable goods declined month-to-month, continuing to hold in fluctuating, non-recovering, low-level stagnation, albeit with a smoothed upside bias.

That said, total nominal New Orders for Durable Goods declined by 1.2% (-1.2%) in October 2017, having gained an unrevised 2.2% in September and a revised 2.1% in August. Other than for hurricane-related disruptions to the monthly data, the monthly changes were dominated by large swings in commercial-aircraft orders, with a decline there of 18.6% (-18.6%) in October 2017, following gains of 33.9% in September and 33.5% in August. Ex-commercial aircraft, new orders declined by 0.2% (-0.2%) in October 2017, versus a minimally-revised gain of 0.8% in September and an unrevised 1.0% gain in August. Net of inflation, new orders ex-commercial aircraft, reflected a monthly decline of 0.6% (-0.6%) in October 2017 and gains of 0.8% in September and 1.0% in August.

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 the headline October 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 generally 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 by 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 and a continued gain in September. Even net of declining aircraft orders in October 2017, durable orders still declined month-to-month, both before and after adjustment for inflation.

Graph 3 shows the annual year-to-year percent change in the real new orders series, net of commercial aircraft orders (a comparative plot of parallel year-to-year headline changes in the manufacturing sector of industrial production is shown in *Graph 4*).

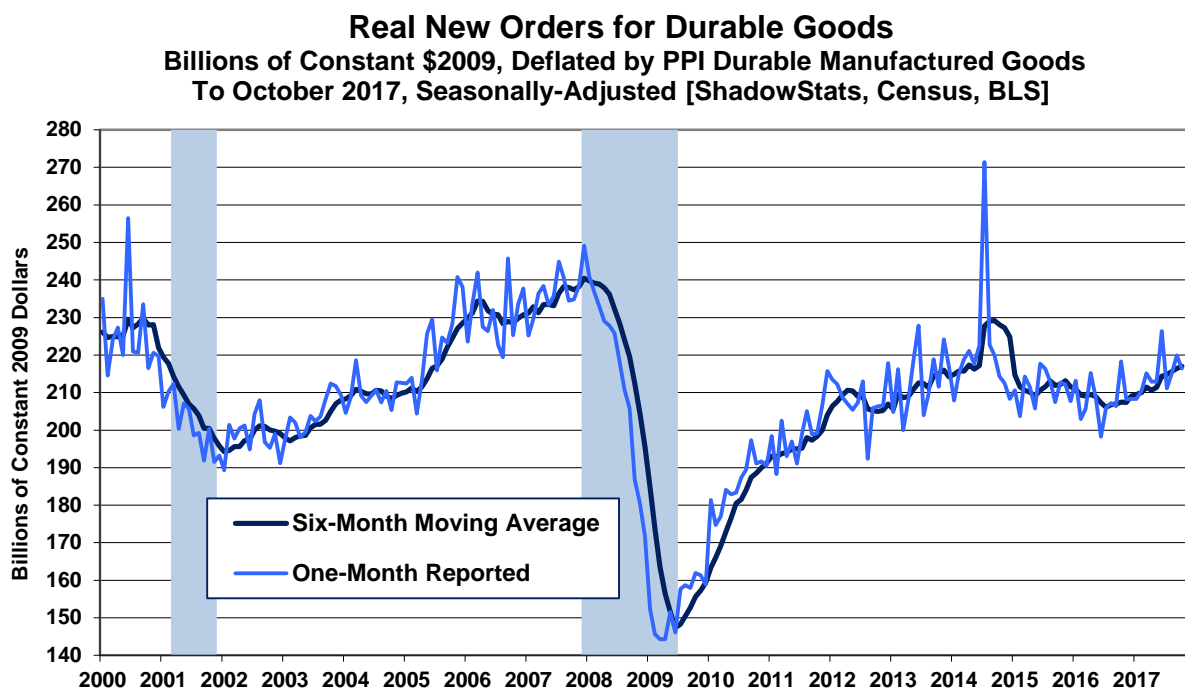
The annual growth slowed for the inflation-adjusted October 2017 new orders for durable goods, ex-commercial aircraft. Despite the hurricane-distorted jump in October 2017 annual growth in the manufacturing series, the orders series suggests that will slow anew in the months ahead.

Where the low-level of positive annual growth 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 5* to *8*. Again, shown in *Graphs 3* and *4*, the year-to-year change in the ex-commercial 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.

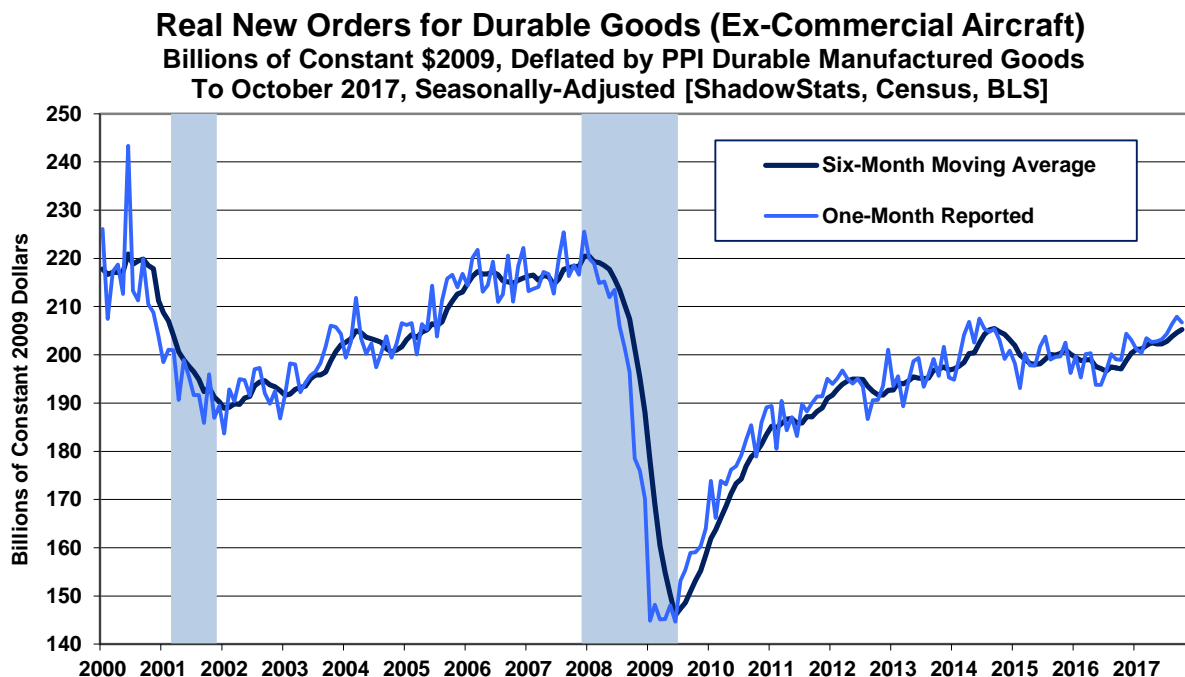
Broadly, there has been a general pattern of stagnation or bottom-bouncing evident in the orders of recent years—clearly not the booming recovery seen in official GDP reporting. The real monthly and six-month moving-average levels of new orders in October 2017 remained below both the pre-2007 recession 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 4 begin on the next page.]

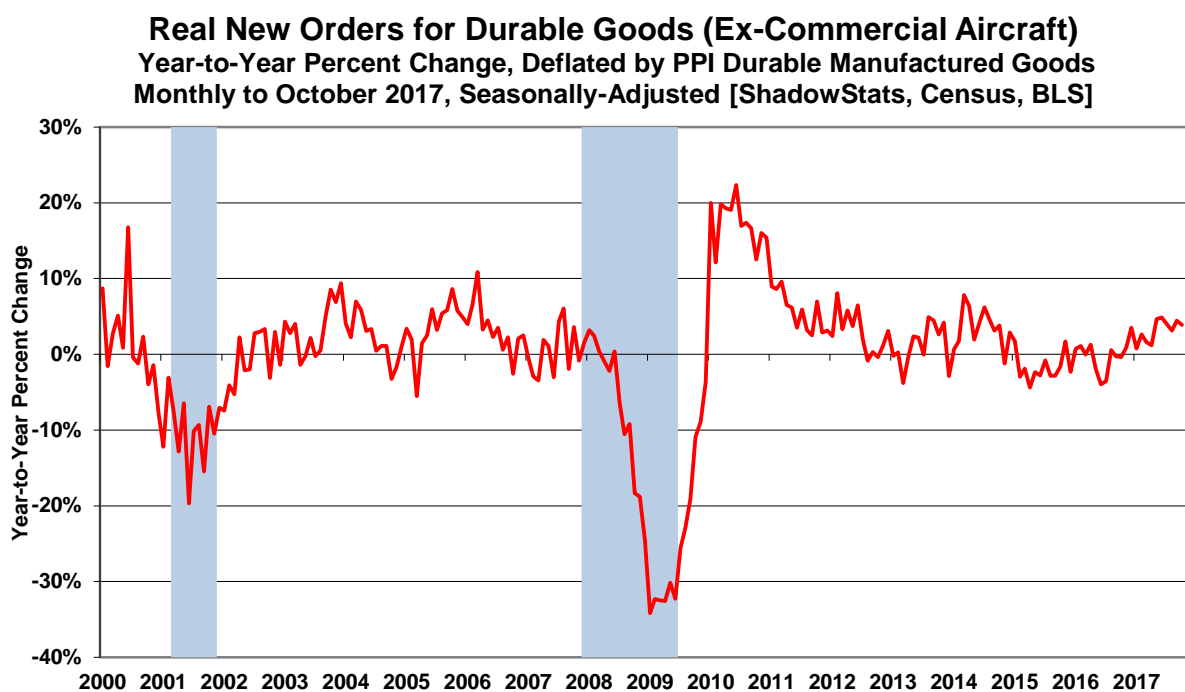
Graph 1: Real Total New Orders for Durable Goods to Date



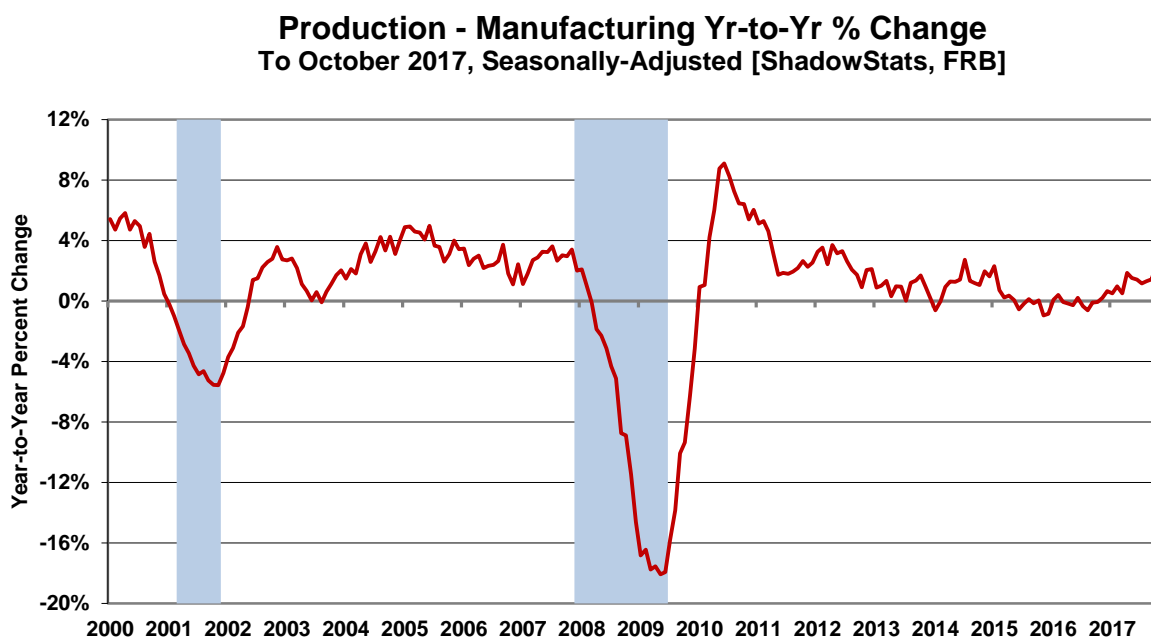
Graph 2: Real New Orders for Durable Goods – Ex-Commercial-Aircraft Orders to Date



Graph 3: Year-to-Year Percent Change, Real New Orders for Durable Goods – Ex-Commercial Aircraft to Date



Graph 4: Industrial Production - Manufacturing, Year-to-Year Percent Change Since 2000
(Same as Graph 16 in [Commentary No. 921](#))



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](#)).

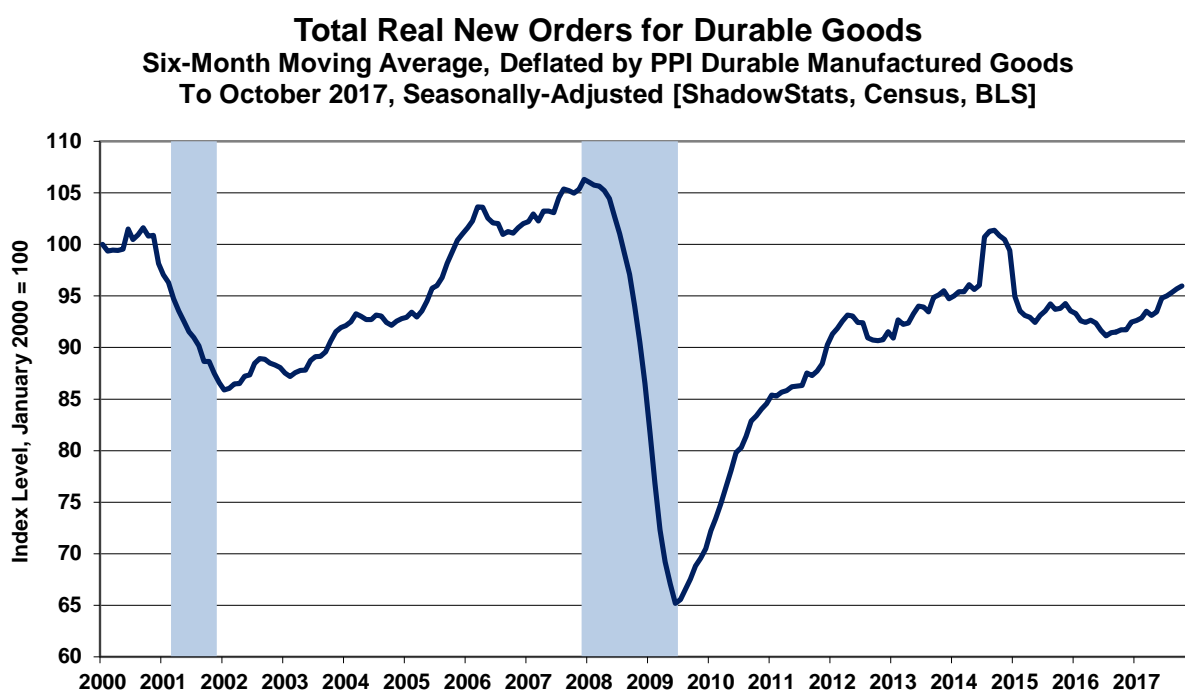
As done for other series such as Industrial Production (see [Commentary No. 921](#)), Real Retail Sales (see [Commentary No. 920](#)) and GDP (see [Special Commentary No. 918-B](#)), ShadowStats publishes an experimental, corrected-inflation version of the graph of real New Orders for Durable Goods. Real activity, in this case, is corrected for the understatement of the inflation used in deflating the new orders series with the headline PPI inflation for manufactured durable goods (see the *Reporting Detail*).

Two sets of graphs follow. The first set (*Graph 5* and *Graph 6*) shows the aggregate series or total durable goods orders; the second set (*Graph 7* and *Graph 8*) shows the ex-commercial aircraft series. The aggregate orders series in *Graphs 5* and *6* 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 7* and *8* are shown net of those volatile commercial aircraft orders.

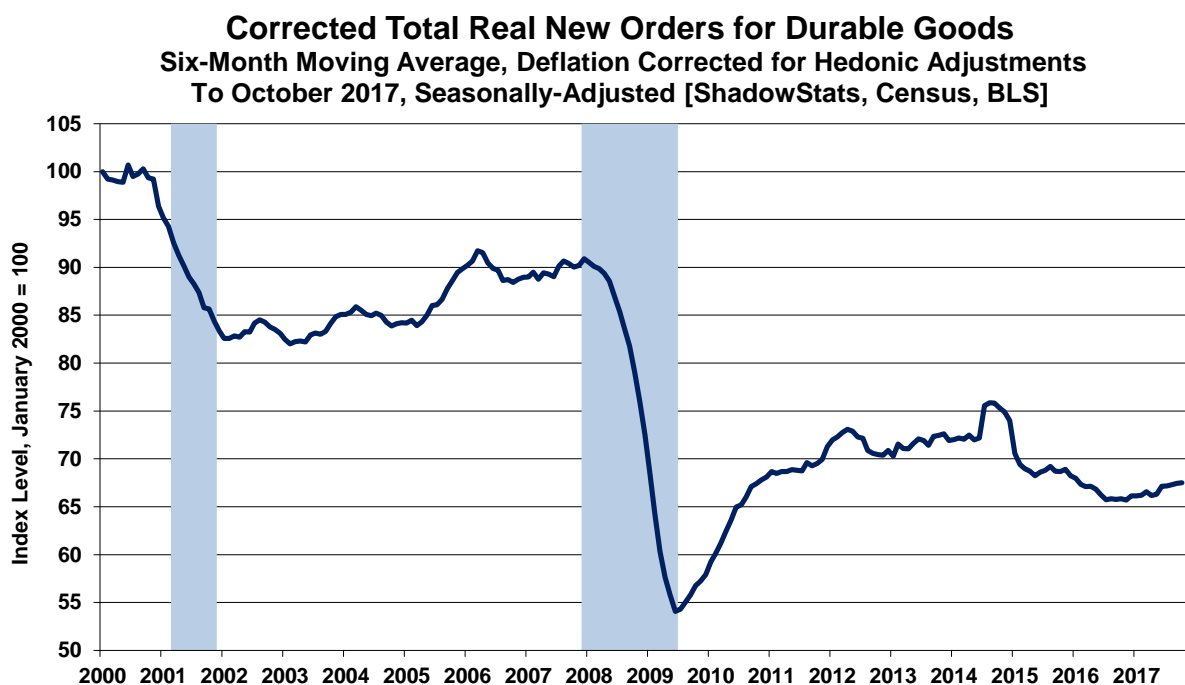
The first graph in each of the two sets shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph,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

[Graphs 5 to 8 begin on the next page.]

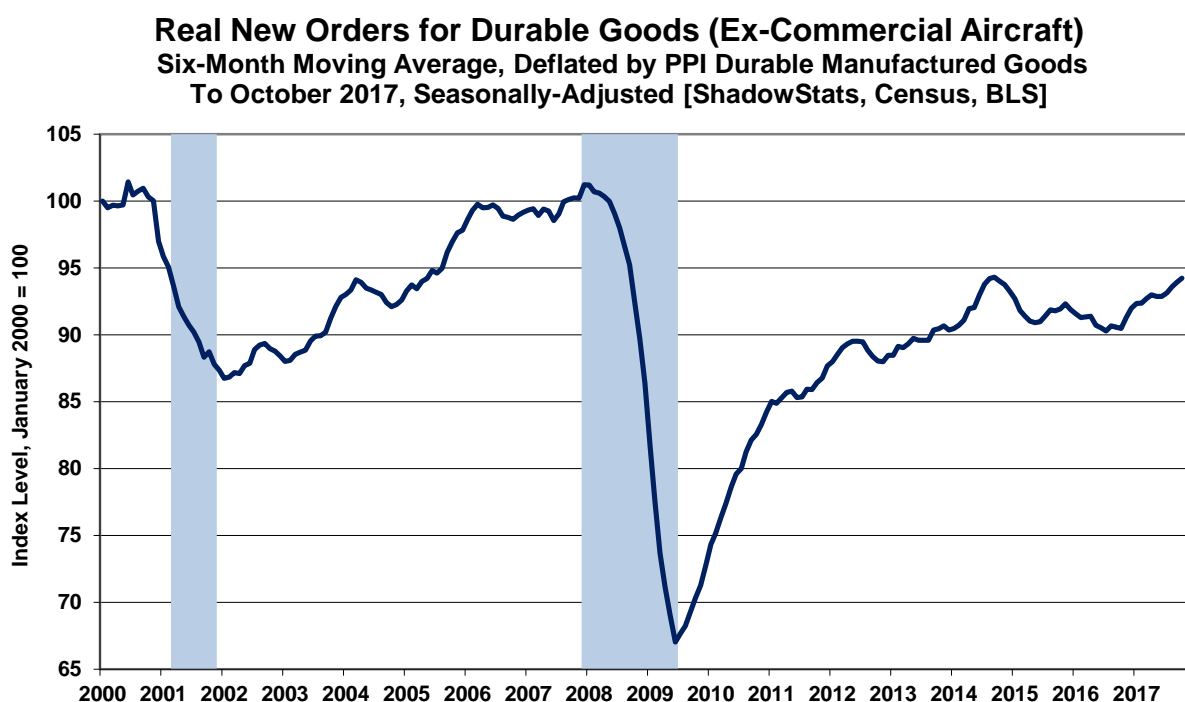
Graph 5: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



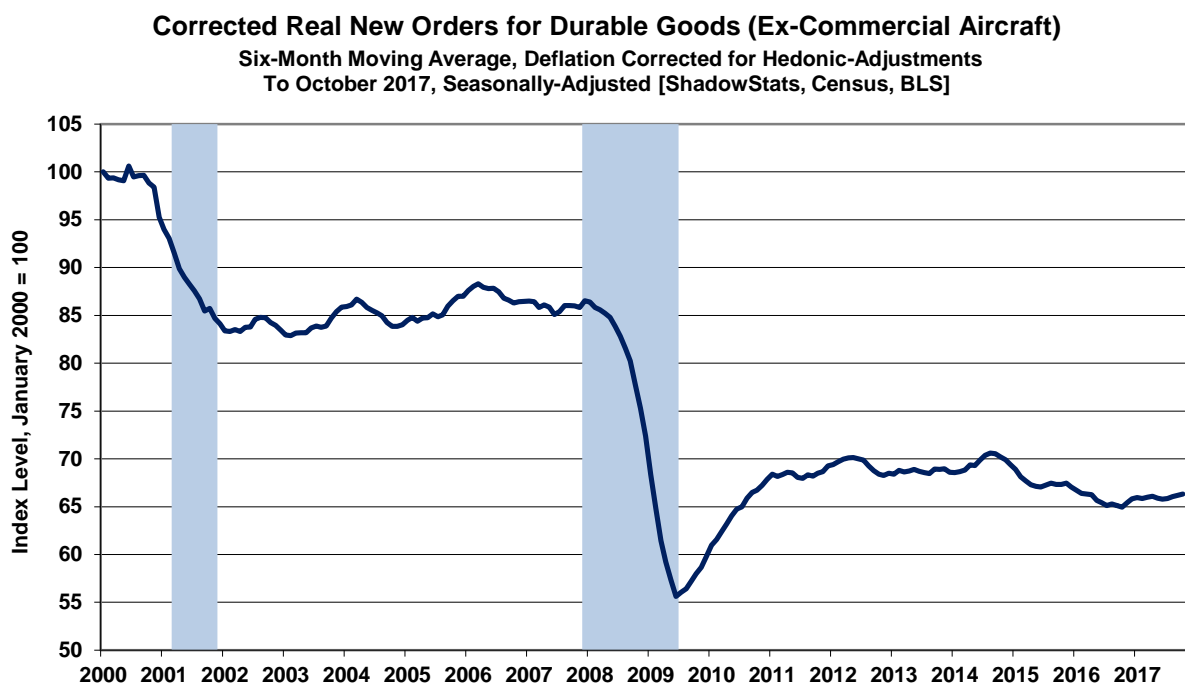
Graph 6: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



Graph 7: Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



Graph 8: Corrected Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



Existing-Home Sales (October 2017)—Monthly Sales Boosted by Hurricane Distortions and Revision; Annual Sales Contracted, and Smoothed Data Held in Non-Recovering Downtrend.

The headline monthly gain of 2.0% in October 2017 for Existing-Home Sales, was on top of a downside revision of 0.4% (-0.4%) to previously-reported level of September 2017 activity, as well as having received a boost in regional activity from the South, a region that reflected some downside impact from Hurricane Irma's disruptions to September activity in Florida. The aggregate Existing-Home Sales series remained well shy of ever having recovered its 2006 pre-recession peak, still down by 24.6% (-24.6%), as of October 2017.

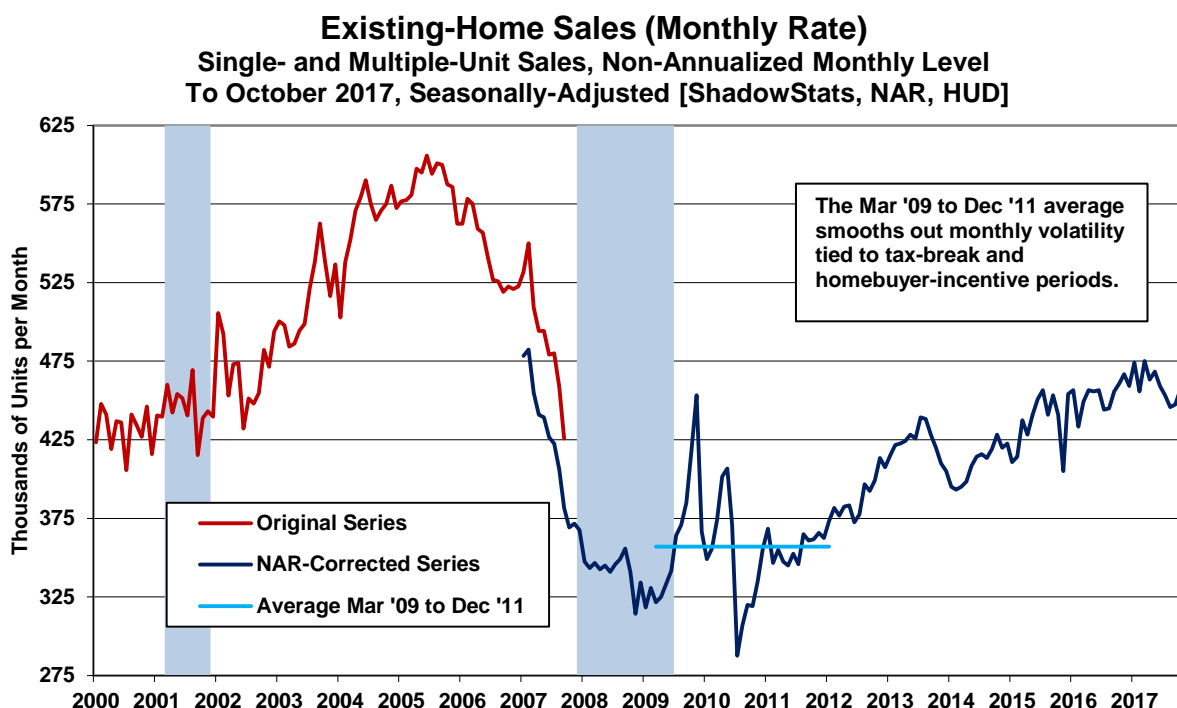
Headline monthly sales rose by 2.05% in October 2017, against a downwardly-revised 0.37% gain in September. Net of prior-period revisions, monthly activity gained by 1.67%, instead of the headline 2.05%. Annual growth contracted by 0.90% (-0.90%) in October 2017, following a revised deeper annual contraction of 1.83% (-1.83%) in September 2017.

That said, smoothed for six-month moving averages, the series had been in uptrending stagnation into 2017, which recently shifted to downtrending stagnation, as reflected in *Graph 9* and particularly in *Graph 11* of the Existing-Home Sales series (see also *Graphs 10* and *12* of the Housing Starts, from [Commentary No. 921](#)), where both series reflect activity in terms of single- and multiple-housing units).

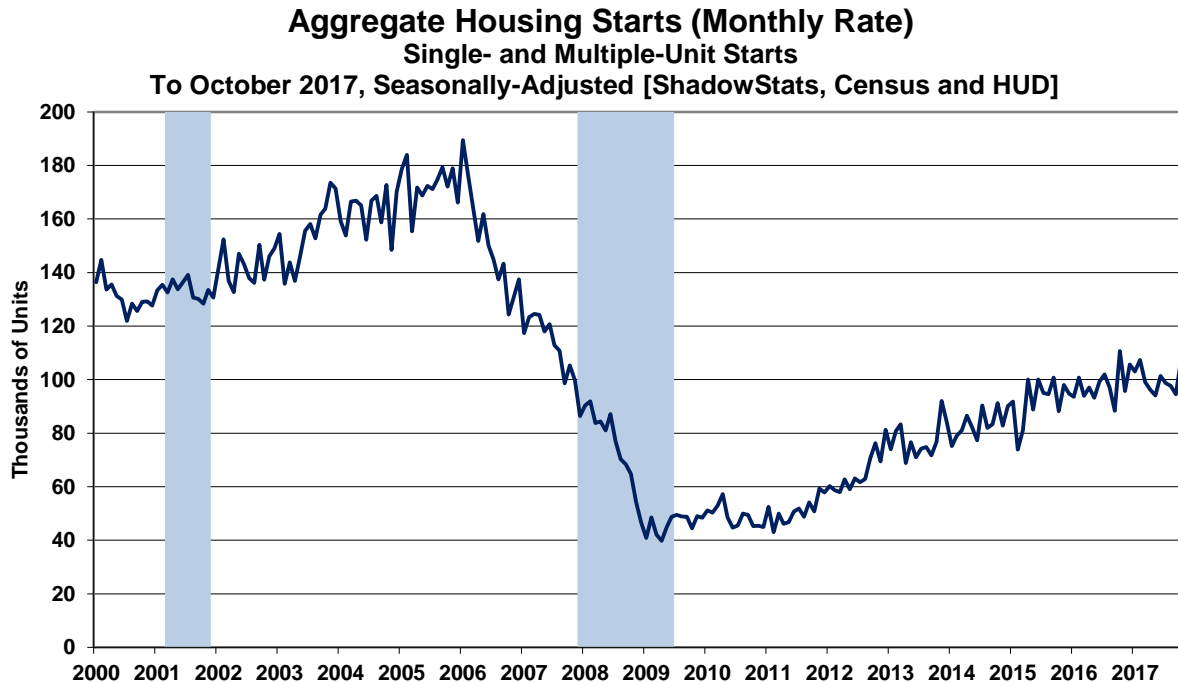
Extended discussion on the Existing-Home Sales series is found in the *Reporting Detail* section.

[Graphs 9 to 12 begin on the next page.]

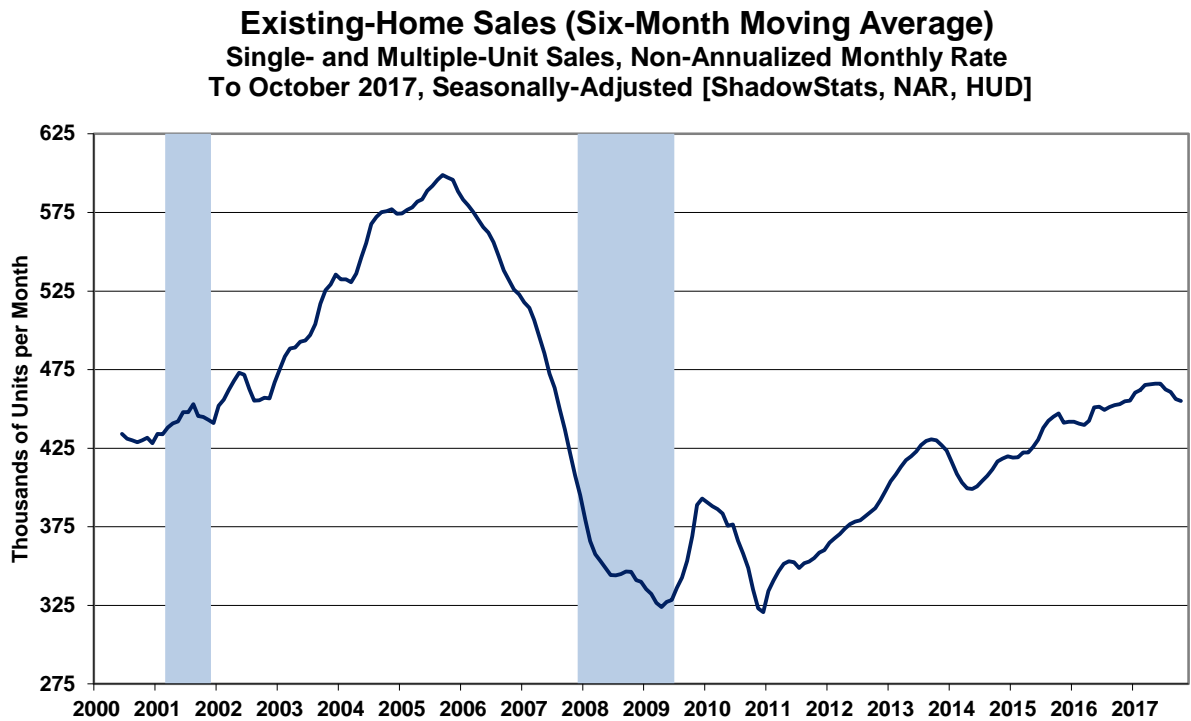
Graph 9: Existing-Home Sales – Monthly Level



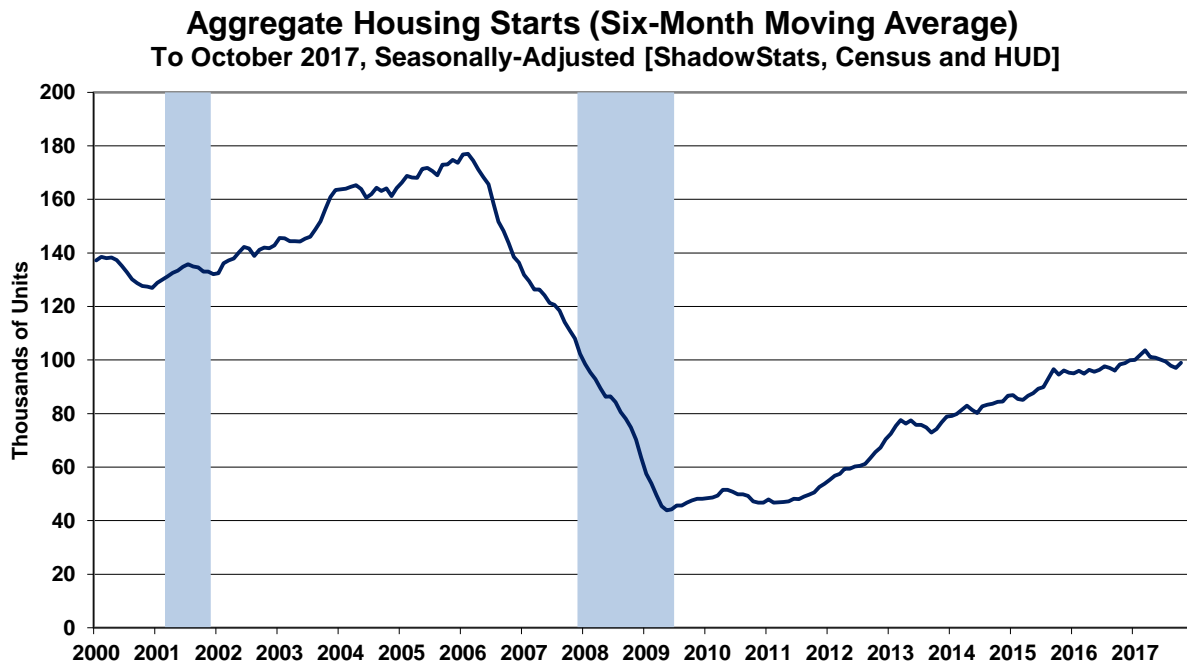
Graph 10: Aggregate Housing Starts (Monthly Rate of Activity)



Graph 11: Existing-Home Sales (Six-Month Moving Average)



Graph 12: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



[Extended analysis and graphics follow in the Reporting Detail.]

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS—October 2017

Despite a Continued Hurricane-Driven Boost for Motor Vehicles orders, New Orders Contracted Both Before and After Consideration of Commercial Aircraft Orders and Inflation. Net of rising inflation and a monthly drop in the highly-irregular commercial aircraft orders, real new orders for durable goods declined month-to-month, continuing to hold in fluctuating, non-recovering, low-level stagnation in third-quarter 2017, albeit with a smoothed upside bias.

In the initial reporting of August 2017 new orders for durable goods, meaningful impact from late-August Hurricane Harvey was not obvious, but that changed with the headline September 2017 detail. September new orders included not only impact from mid-September's Hurricane Irene, but also late changes to August detail, which included upside revisions to new orders for motor vehicles (likely Houston-area flood losses), with those orders holding at a continued high level in September. October 2017 motor vehicle orders continued to rise, with minimal prior-period revisions.

That said, total nominal New Orders for Durable Goods declined by 1.2% (-1.2%) in October 2017, having gained an unrevised 2.2% in September 2017 and a revised 2.1% [previously 2.0%] in August. Other than for hurricane-related disruptions to the monthly data, the month-to-month changes were dominated by large swings in the irregularly-volatile, commercial-aircraft orders, with a decline of 18.6% (-18.6%) in October 2017, following a revised 33.9% gain in September, on top of an unrevised 33.5% jump in August. Ex-commercial aircraft, new orders declined by 0.2% (-0.2%) in October 2017, versus a minimally-revised gain of 0.8% in September and an unrevised 1.0% gain in August. With highly-suspect, related negligible month-to-month inflation, a component of the Producer Price Index (PPI), the inflation-adjusted real monthly changes, ex-commercial aircraft, reflected a decline of 0.6% (-0.6%) in October 2017 and gains of 0.8% in September and 1.0% in August.

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 (see *Graph 2* in the *Executive Summary*), as a leading indicator to broad economic activity reflected in the dominant Manufacturing sector of Industrial Production (see *Graph 15* in prior [Commentary No. 921](#)). Neither of those series has recovered its pre-recession high of 2007; both continue in non-recovered, non-expanding, low-level stagnation. Annual growth patterns in those two series are compared in *Graphs 3* and *4*.

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

(third-quarter 2017) at 14.4% above its precession high (see [Special Commentary No. 918-B](#)). That said, underlying fundamental economic activity, such as seen in October 2017 real new orders for durable goods series, was down by 11.6% (-11.6%) from recovering its pre-recession high, while real new orders for durable goods, ex-commercial aircraft, was down by 8.3% (-8.3%) 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), October headline detail, again, showed the broad economy in ongoing non-expansion. That also as has been the case for the manufacturing sector in industrial production (again, see [Commentary No. 921](#)). Real new orders, ex-commercial aircraft, again, remains the best coincident/leading indicator to industrial production (*i.e.*, manufacturing) and to the general economy.

Smoothed with six-month moving averages, and adjusted for inflation, both of the highly volatile new orders series (total and ex-commercial aircraft) generally have remained in long-term, non-recovering, low-level, downtrending stagnation, which recently had started to show some minimal uptrend, then downtrend—some fluttering—flattening-out, particularly when viewed with the alternate-inflation detail. Those patterns have remained consistent in signaling an ongoing or non-recovering recession (see *Graphs 5 to 8* in the *Executive Summary*).

Headline Nominal Detail—October 2017. The Census Bureau reported this morning, November 22nd, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate new orders for durable goods declined by 1.18% (-1.18%) in October 2017. Orders gained by a revised 2.18% [previously 2.16%] in September and a revised 2.06% [previously 2.04%, initially 1.70%] in August, having declined by an unrevised 6.81% (-6.81%) in July and having gained 6.38% in June, versus an “unchanged” 0.00% in May.

Year-to-year, October 2017 nominal durable goods rose by just 0.97%, following revised annual gains of 8.39% [previously 8.33%] in September 2017, 5.55% [previously 5.52%, initially 5.14%] in August 2017 and unrevised gains of 4.06% in July 2017, 16.20% in June 2017 and 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, 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 October 2017, a monthly contraction of 18.58% (-18.58%) in aircraft orders contributed to pushing headline aggregate orders into a decline of 1.18% (-1.18%), from what otherwise would have been a monthly contraction of 0.18% (-0.18%). That followed a revised monthly gain of 33.91% [previously 31.45%] in September aircraft orders, a revised monthly gain of 33.47% [previously 33.49%, initially 44.78%] in August, an unrevised July monthly decline in aircraft orders of 71.07% (-71.07%), a monthly aircraft-order surge of 129.20% in June and a monthly decline in May of 1.37% (-1.37%).

Net of commercial-aircraft orders, month-to-month and seasonally-adjusted, October 2017 new orders, again, contracted by 0.18% (-0.18%), versus gains of 0.81% in September, 1.04% in August, 0.51% in July, 0.26% in June and 0.65% in May. Year-to-year and seasonally-adjusted, October 2017 new orders ex-aircraft rose by 5.82%, having gained by 6.27% in September 2017, 4.74% in August 2017, 5.59% in July 2017, 6.70% in June 2017 and 6.55% in May 2017.

Real Durable Goods Orders—October 2017. ShadowStats uses the PPI component inflation measure “Durable Manufactured Goods” for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related October 2017 PPI series showed headline month-to-month inflation of 0.41%, up from 0.06% in both September and August, and a contraction of 0.06% (-0.06%) in July. Related year-to-year annual inflation was 1.86% in October, following 1.74% in September 2107, 1.56% in August 2017 and 1.56% in July 2017 (see [Commentary No. 920](#)).

Adjusted for that 0.41% month-to-month inflation reading in October 2017 and respective inflation rates in earlier months, and as reflected in the graphs in the *Executive Summary* section, real aggregate orders in October 2017 declined by 1.58% (-1.58%), having gained by 2.12% in September, by 2.00% in August and having declined by 6.75% (-6.75%) in July. Ex-commercial aircraft, real month-to-month orders declined by 0.59% (-0.59%) in October 2017, having gained by 0.75% in September, 0.98% in August 2017 and 0.57% in July.

Real total new orders declined year-to-year by 0.87% (-0.87%) in October 2017, versus annual gains of 6.53% in September 2017, 3.92% in August 2017 and 2.46% in July 2017. Ex-commercial aircraft, October 2017 real orders rose year-to-year by 3.89%, having gained 4.45% in September 2017, 3.12% in August 2017 and 3.97% in July 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 still 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 annualized contraction of 0.94% (-0.94%). Year-to-year, first-quarter 2017 orders rose by 1.67%. Second-quarter 2017 activity rose at a revised annualized quarterly pace of 2.49% [previously 2.57%, initially 2.65%], up by a revised 3.54% [previously 3.56%, initially 3.58%] year-to-year. Third-quarter 2017 annualized quarterly growth was a revised 6.71% [previously 6.66%], with year-to-year growth at an unrevised 3.85%.

Based solely on initial October 2017 reporting, the early-trend for fourth-quarter 2017 was for annualized quarterly growth slowing to 0.93%, with year-to-year growth easing to 2.26%.

Graphs of Inflation-Adjusted and “Corrected” Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 1 to 8*) are displayed in the *Executive Summary*. The first set (*Graphs 1 to 4*) 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) as well as a comparative plot of year-to-year change in the manufacturing sector, which new orders tend to lead. The moving-average levels in both the durable goods series (*Graphs 1 and 2*) 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 May benchmarking and now shows a minimally-uptrending level of stagnation.

The second set of graphs (*Graphs 5 and 6*) 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 7 and 8*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders.

Graph 13: Benchmark Revisions to Real Total New Orders for Durable Goods, Ex-Commercial Aircraft.

Benchmarking - Real New Orders for Durable Goods (Ex-Commercial Aircraft)
Six-Month Moving Average, Deflated by PPI Durable Manufactured Goods
Reporting to October 2017, Seasonally-Adjusted [ShadowStats, Census, BLS]



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 13*. 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 the October 2017 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](#).

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 (October 2017) inconsistent with the currently published headline historical numbers.

EXISTING HOME SALES—October 2017

Monthly Existing-Sales Boosted by Hurricane Distortions and Revision, with Annual Sales in Contraction, and Smoothed Data in Continuing, Non-Recovered, Downtrending Stagnation. The headline monthly gain of 2.0% in October 2017 for Existing-Home Sales, was on top of a downside revision of 0.4% (-0.4%) to previously-reported September 2017 activity. Where the September detail had to reflect some downside impact on existing-home sales activity in Florida, due to Hurricane Irma that month, there was a 1.9% monthly rebound in October sales in the South (based on actual closings). That October gain in the South, though was on top of a downside revision to September sales of 0.5% (-0.5%). Nonetheless, October sales in the South were down by 1.8% (-1.8%) year-to-year, versus the national sales in October being down by 0.9% (-0.9%) year-to-year. Aside from an annual decline in October 2017 sales in the Midwest of 1.5% (-1.5%), sales in the Northeast were unchanged at 0.0%, with an annual increase of 0.8% in West.

The aggregate Existing-Home Sales series remained well shy of ever having recovered its 2005 pre-recession peak, still down by 24.6% (-24.6%).

Consumer Liquidity Constraints. The extreme liquidity bind besetting consumers continues to constrain residential real estate activity (see the *Consumer Liquidity Watch* and 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 2005 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.

Existing-Home Sales Continued in Downtrend and Held Negative Year-to-Year, Despite a Monthly Gain. Released by the National Association of Realtors (NAR) on November 21st, Existing-Home Sales (closings of home sales) rose by 2.04% in October 2017, following a downwardly-revised gain of 0.37% [previously 0.75%] in September, and unrevised monthly declines of 1.65% (-1.65%) in August and 1.27% (-1.27%) in July. October 2017 year-to-year growth continued negative, down by 0.90% (-0.90%), following a downwardly-revised annual decline of 1.83% (-1.83%) [previously down by 1.46% (-1.46%)] in September 2017, and unrevised annual gains of 0.19% in August 2017 and 2.06% in July 2017.

Third-quarter 2017 activity contracted for the second straight quarter, at a deepening annualized pace, down by 12.11% (-12.11%) [previously down by 11.67% (-11.67%)], following an annualized decline of 3.97% (-3.97%) in second-quarter 2017. Based solely on headline October 2017 detail, fourth-quarter 2017 activity was on an early-trend for annualized growth of 7.11%.

Proportion of Distressed Sales Held at 4% in October, and All-Cash Sales Held at 20%. The NAR estimated the portion of October 2017 sales in “distress” at 4% (3% in foreclosure, 1% short sales), the same level and proportions seen in September 2017, but down from 5% (4% in foreclosure, 1% short sales) in October 2016. The NAR began 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 continuing 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 all-cash sales held at 20% October 2017, the same level as in September 2017, but down from 22% in October 2016.

Graphs 9 to 12 in the Executive Summary plot the Existing-Home Sales Series, along with comparative graphs of the related Housing Starts series (see [Commentary No. 921](#)). Detail on October 2017 New Home sales will be released on November 27th and covered in *Commentary No. 923* of November 29th.

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

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[The CLW has been updated for the full-November reading of Consumer Sentiment.]

Liquidity Stresses Continue to Mount, Amidst Mixed Optimism, Aggravated Temporarily by Natural Disasters. The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales of recent months (the headline September sales gains were spiked heavily by hurricane damages), home sales and related construction indicators, and ultimately as reflected in broader-based economic series such as Industrial Production. Where all of those measures face near-term, disaster-triggered reporting disruptions, liquidity stresses nonetheless have been intensified, at least temporarily, in hurricane-hit regions of the United States, where, for example, related September and October 2017 employment/unemployment details were heavily disrupted/distorted (see [Commentary No. 919-B](#)).

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

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

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

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real

retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real (73.0% of nominal), second-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in [Special Commentary No. 918-B](#).

Consumer Optimism: October Consumer Confidence and Sentiment Boomed, November Has Signaled a Pull-Back. This detail reflects the October 2017 readings of The Conference Board's Consumer-Confidence Index[®] (Confidence) and the October and Full-November readings of the University of Michigan's Consumer Sentiment Index (Sentiment) as of November 22nd. Reflected in *Graphs CLW-1* and *CLW-2*, both Confidence and Sentiment jumped sharply to multi-year highs in October, but the full-November Sentiment reading pulled back sharply, albeit revised slightly higher from its early-November estimate, largely retrenching from its October jump. A year ago September 2016 Confidence and Sentiment jumped and then plunged in October 2016, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting surges in consumer optimism into early-2017. Both series then topped and pulled back, with mixed numbers in August and September 2017, but with the October 2017 Sentiment measure showing an large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see [Commentary No. 916](#))? The Conference Board blamed hurricane impact in Texas and Florida for the downturn in September 2017 Confidence, but those numbers also exploded into October 2017.

For both 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*), 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 had begun to falter in September, before the unusual October 2017 surges.

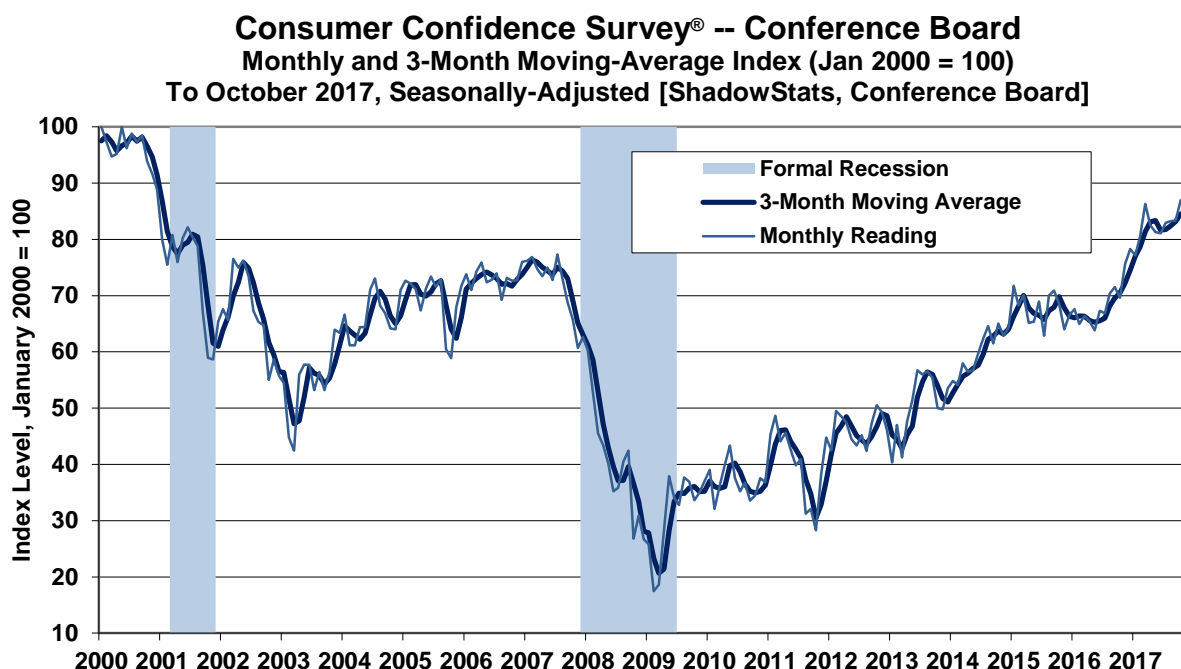
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index[®] is set with 1985 = 100, 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. Headline financial and economic reporting in the months ahead should continue as increasingly-negative and unstable. With near-term headline financial and economic reporting suggestive of a renewed and intensifying downturn, successive negative hits to both the confidence and sentiment readings are increasingly likely in the near future, despite the artificial, headline-spiked October 2017 readings. Again, they likely were built upon some temporary or faux, hurricane-boosted employment gains from the household survey, which already have begun to unwind (see [Commentary No. 919-B](#)).

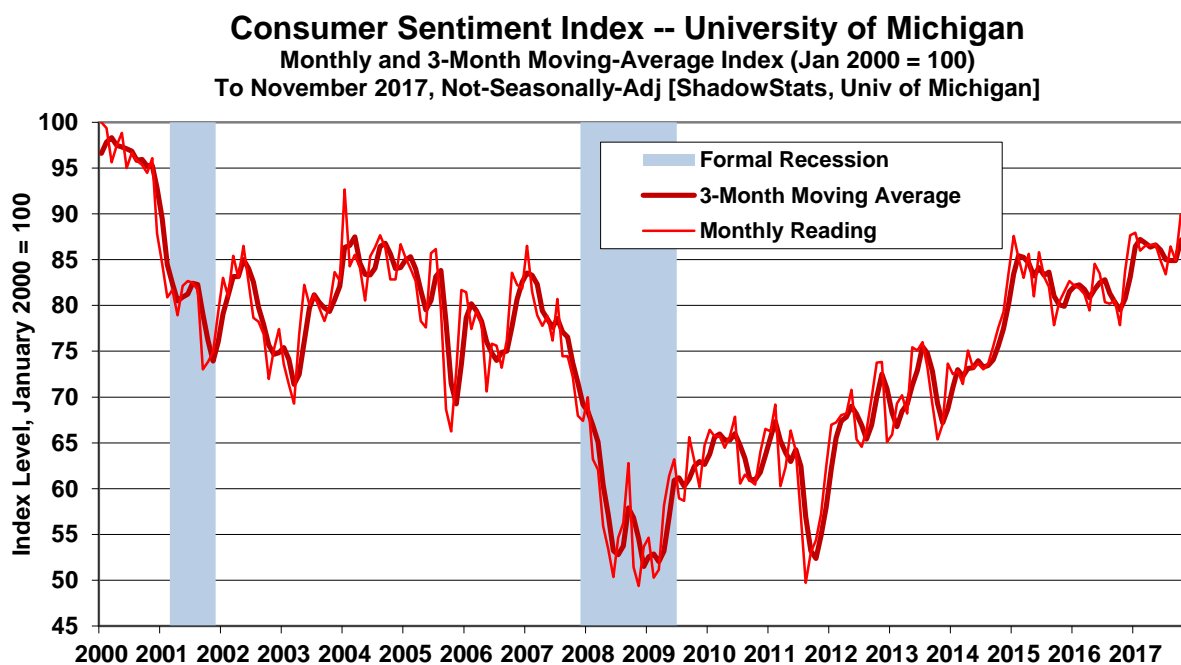
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having

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)



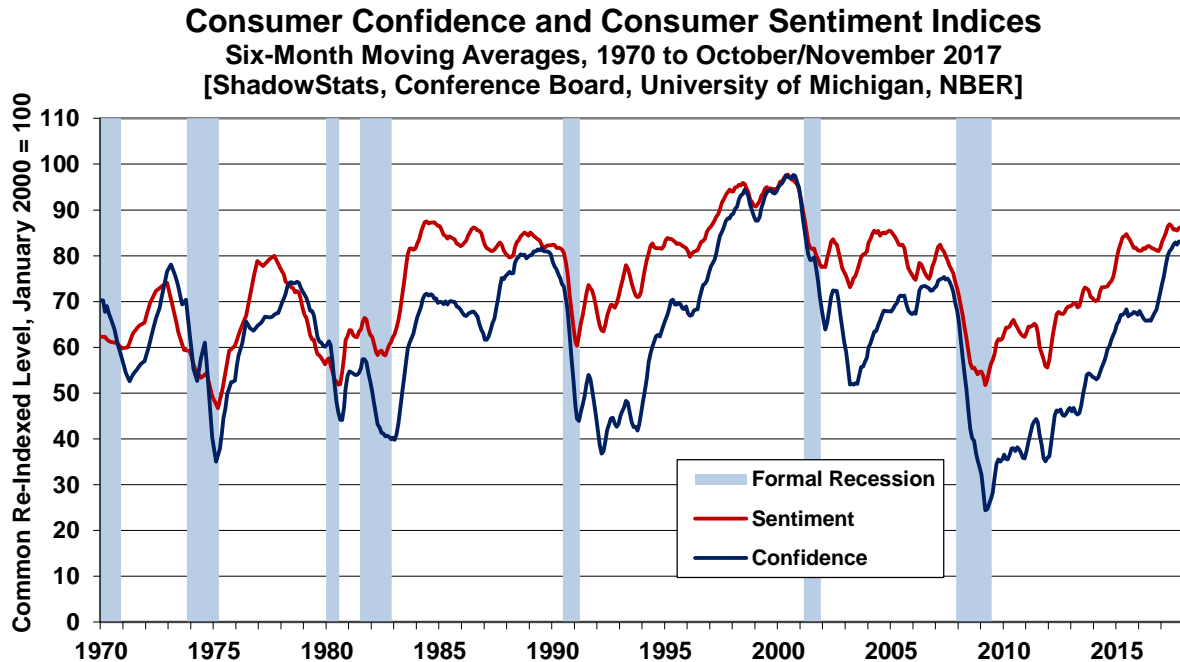
Graph CLW-2: Consumer Sentiment (2000 to 2017)



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.

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

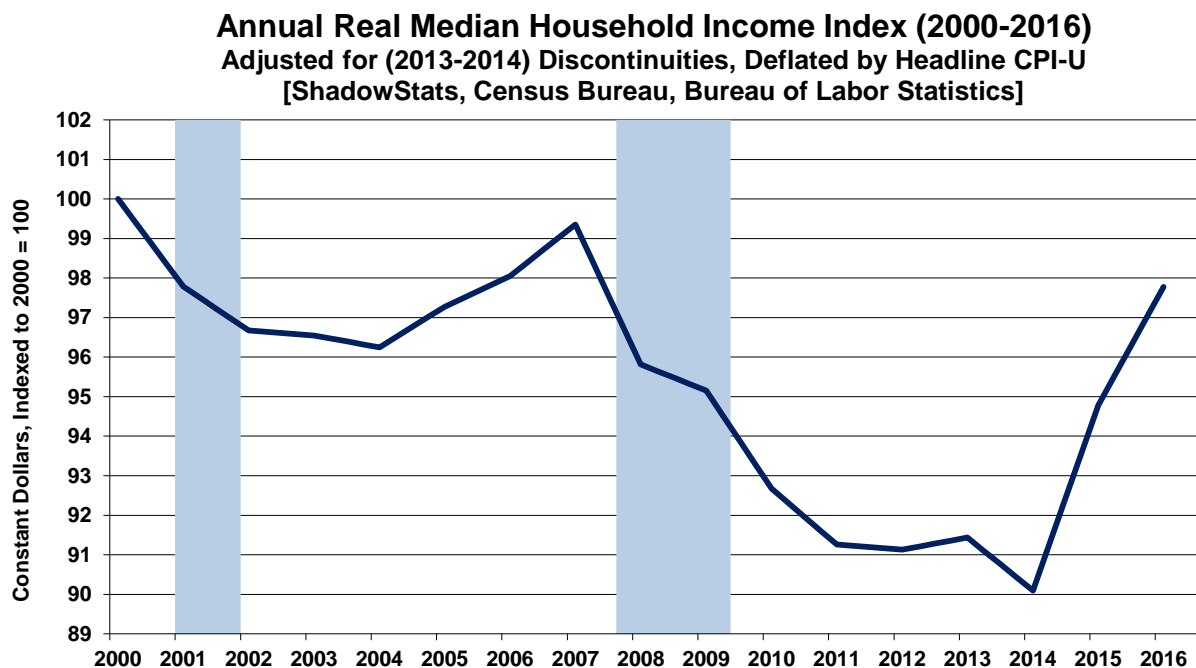


2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version 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 seen 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.

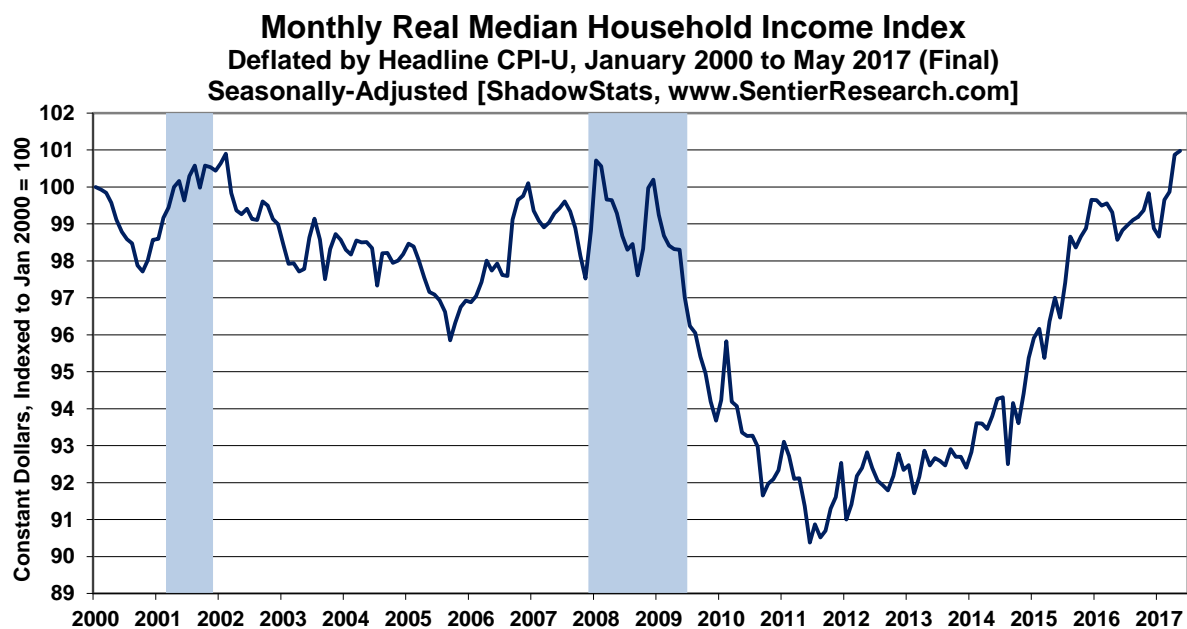
Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in [General Commentary No. 894](#), and in the contexts of then-faltering gains 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)

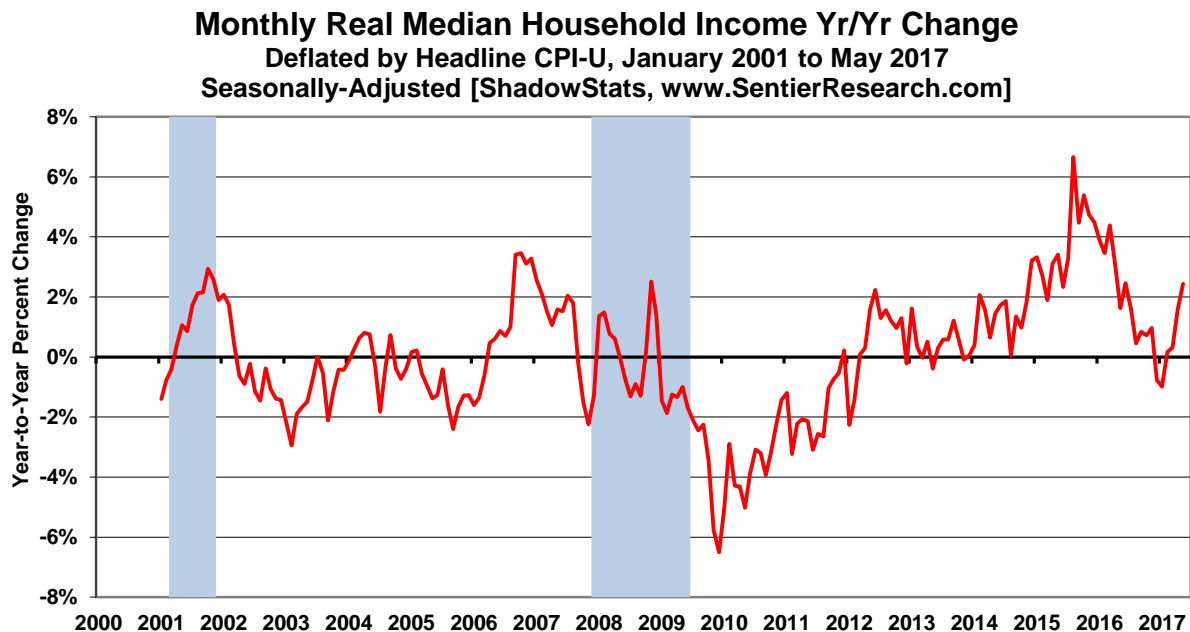


Graph CLW-5: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



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.

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.

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



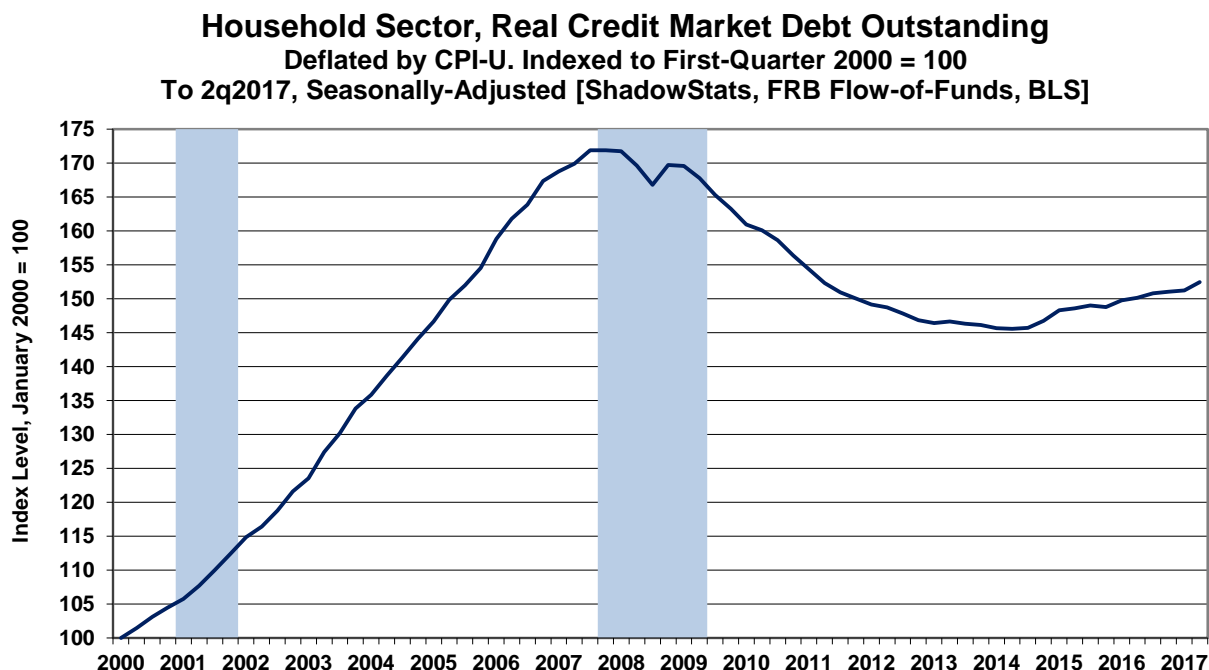
Real Average Weekly Earnings—October 2007—Month-to-Month Real Earnings Notched Higher, Third-Quarter Still Showing Flat/Minimal Contraction, Early Fourth-Quarter Trend Negative. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on in the *Reporting Detail* of [Commentary No. 920](#)), the regularly-volatile,

real average weekly earnings rose month-to-month in October 2017 with a small quarterly contraction already in place for in third-quarter 2017 activity, and a deepening quarterly contraction unfolding in the early-trend for fourth-quarter 2017.

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, 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%), recently revised to 11.3% (-11.3%). The visual uptick in the latest point in *Graph CLW-8* resulted from a lowered

estimate of first-quarter activity (consumer credit revised lower by more than the upside revision mortgages), with the headline 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.

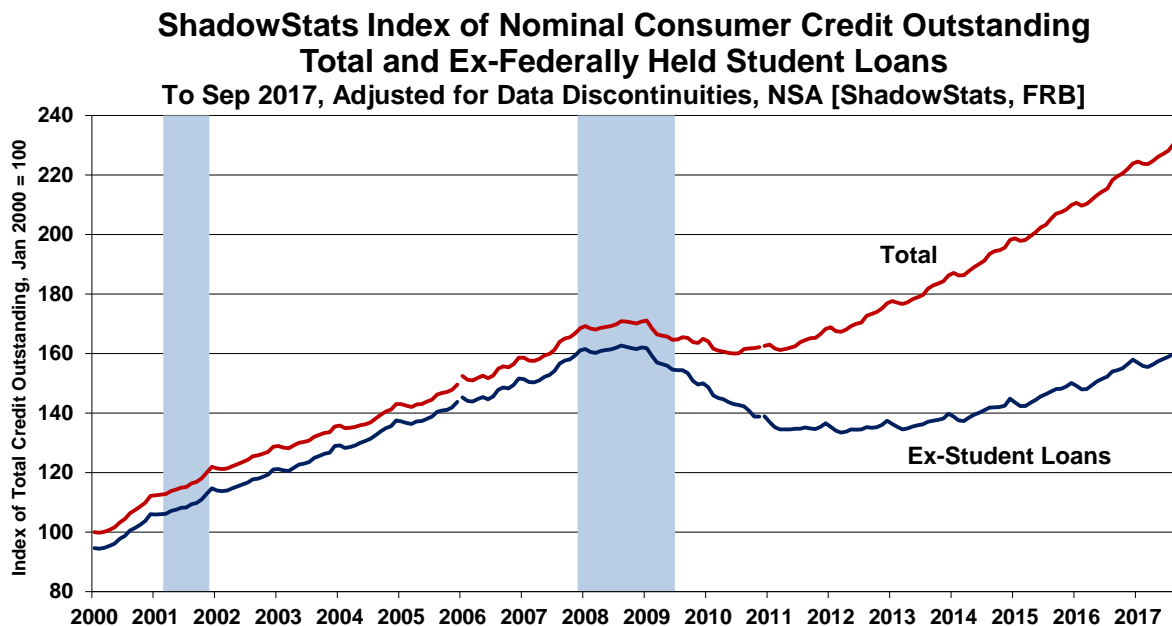
Shown through the September 2017 reporting, *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for monthly Consumer Credit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

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.

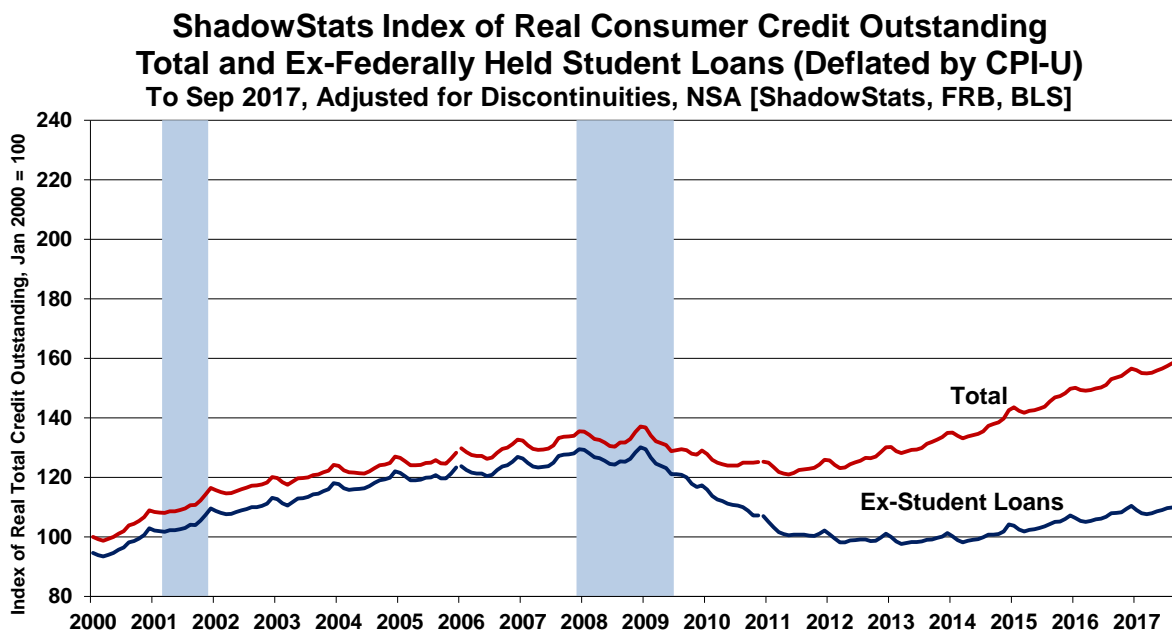
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in September 2017 was down from its December 2007 pre-recession peak by 15.2% (-15.2%) [that previously had been down by 12.3% (-12.3%) in June 2017, before a recent downside revision 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.]

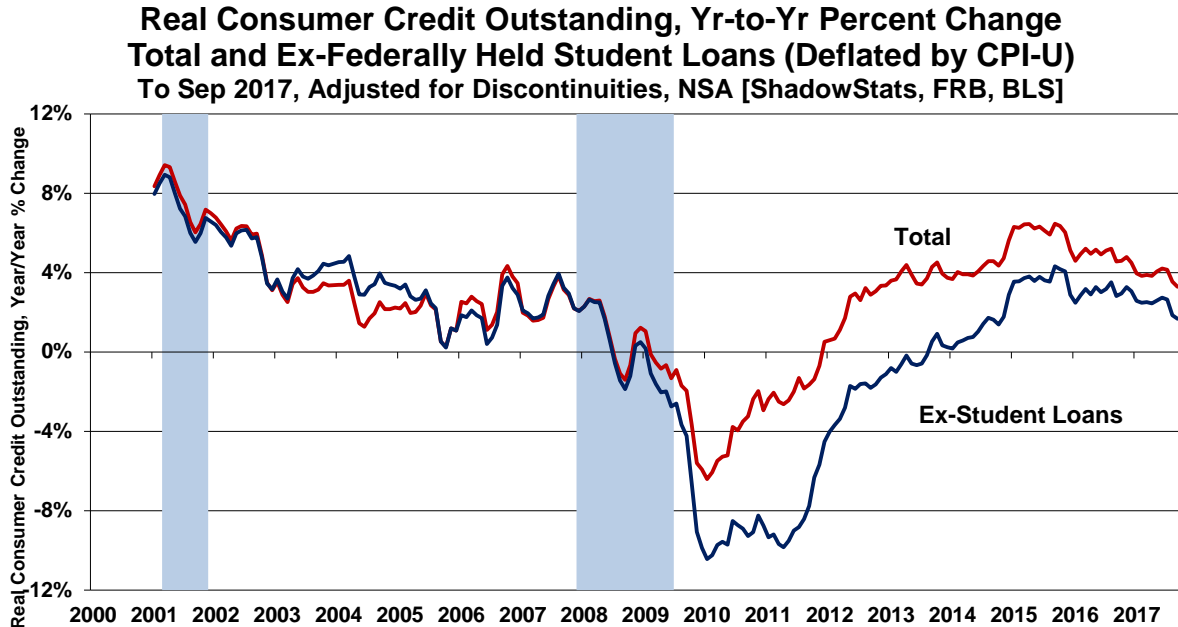
Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



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



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



WEEK, MONTH AND YEAR AHEAD

Economic and Financial-Market Outlooks Continue to Darken; Deteriorating Domestic and Global Political Circumstances Continue. Irrespective of continued nonsense reporting of the GDP and in the context of recent, extreme hurricane-related distortions to household-survey employment and unemployment detail, retail sales, industrial production and housing starts, underlying reality continues to indicate the broad U.S. economy in near-term, deteriorating non-expansion, as discussed in today's (November 22nd) *Opening Comments*. The U.S. dollar and financial markets remain at extraordinarily-high risk of panicked declines. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's assets, in the context of liquidity and portability, as discussed in the November 15th *Hyperinflation Watch* of [Commentary No. 920](#), which speaks for itself. Brief references to other recent *Hyperinflation Watch* and *Special Comments* follow.

Other than for the *Pending Releases* paragraphs and updated links, language changes here from the prior *Commentary* are minimal. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

Recent Hyperinflation Watch and Special Comments. Previous background to the markets and potential near-term FOMC activity have been reviewed recently in the *Hyperinflation Watch* of [Special Commentary No. 918-B](#) of October 30th, with the nomination for the new Fed Chairman, touched upon in the *Hyperinflation Watch* [Commentary No. 919-A](#) of November 3rd.

Discussed in *Hyperinflation Watch* of [Commentary No. 909](#), given the continuing and broadening weakness in the U.S. economy and shifting political instabilities/circumstances in Washington, mixed pronouncements of sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely to solidify as promised. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, 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.

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 the promised 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 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.

Generally, 2017 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, confirmed that historical activity in recent years has been overstated and/or that it was turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite some recent near-term improvement in 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 14.4%.

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 and continuing 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 any chance to stabilize the political outlook for economic policy.

[No. 859 Special Commentary](#) updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (see also the *Hyperinflation Watch* of [Commentary No. 862](#) and [Commentary No. 869](#)).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remained and remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a “new” formal recession (see [General Commentary No. 867](#)). Formal economic expansion does not begin until economic recovery breaks above its pre-recession high.

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

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: [Commentary No. 902-B](#), [General Commentary No. 894](#), [Special Commentary No. 885](#), [Commentary No. 869](#), [No. 859 Special Commentary](#), [No. 777 Year-End Special Commentary](#) (December 2015), [No. 742 Special Commentary: A World Increasingly Out of Balance](#) (August 2015) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#) (February 2015). Those publications updated hyperinflation and economic outlooks published in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#) (April 2014) and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the [Public Commentary on Inflation Measurement](#) and the [Public Commentary on Unemployment Measurement](#).

Recent Commentaries. *[Listed here are Commentaries of the last month or so, 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. 921](#) (November 17th) reviewed October 2017 Industrial Production, Housing Starts and Building Permits.

[Commentary No. 920](#) (November 15th) reviewed October 2017 Retail Sales along with the monthly Consumer and Producer Price Indices (CPI and PPI) and update *Hyperinflation Watch*.

[Commentary No. 919-B](#) (November 6th) provided more in-depth detail on the October 2017 labor detail.

[Commentary No. 919-A](#) (November 3rd) provided initial detail and background on October labor data, and reviewed the October 2017 Conference Board Help Wanted OnLine[®] Advertising, the September Cass Freight Index[™], Trade Deficit and Construction Spending, and updated Monetary Conditions.

[Special Commentary No. 918-B](#) (October 30th) provided a more comprehensive review of the initial third-quarter 2017 GDP detail, along with update versions of the *Hyperinflation Watch* and *Consumer Liquidity Watch*.

[Advance Commentary No. 918-A](#) (October 27th) provided a brief summary of the headline detail of the first or “advance” estimate of third-quarter 2017 GDP.

[Commentary No. 917](#) (October 26th/27th) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

[Commentary No. 916](#) (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

[Commentary No. 915](#) (October 6th) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

[Commentary No. 913](#) (September 28th) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

[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 updated *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.

[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 RELEASES: New-Home Sales (October 2017), Reporting of October 2017 New-Home Sales is due for release on Monday, November 27th, from the Census Bureau and the Department of Housing and Urban Development. It will be covered in *Commentary No. 923* of November 29th. This irregular and highly volatile series usually is nonsense in terms of any statistical significance for monthly or annual changes, or in the scope of regular monthly revisions, even when exacerbated by outside effects, such as hurricane distortions.

The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as discussed the *Consumer Liquidity Watch*. 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 residential real estate activity and related demand for residential construction. 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. Smoothed for month-to-month variability, patterns of low-level downtrending stagnation should continue in play for this nonsensically-volatile series, again, irrespective of any unusually-wild sales swings resulting from hurricane distortions.

Gross Domestic Product (Third-Quarter 2017, First Revision). The Bureau of Economic Analysis (BEA) will release its second-estimate of, first-revision to Third-Quarter 2017 GDP on Wednesday,

November 29th, along with the initial estimates of Third-Quarter 2017 Gross Domestic Income (GDI) and Gross National Product (GNP), all to be covered in *Commentary No. 923* of that date.

Given recent hurricane-related positive distortions to the unemployment, retail sales, production and housing starts series (see the *Opening Comments*), market expectations for the first revision likely will be on the upside of the initial third-quarter GDP headline growth guesstimate of 3.0% [2.99% at the second decimal point]. That said, the initial headline reporting was broadly inconsistent with indicated hurricane distortions at the time (see [Special Commentary No. 918-B](#)), which suggested a weaker initial GDP estimate would have been appropriate. That remains the case, irrespective of whatever games the Census Bureau chooses to play with these numbers.

The initial headline details of third-quarter 2017 GDI (the theoretical income-side equivalent to the consumption-side GDP) and the GNP (the GDP net of the usual deficit in the international flows of interest and dividend payments) always offer the risk of a surprise.
