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

COMMENTARY NUMBER 782
December Durable Goods Orders, New- and Existing-Home Sales

January 28, 2016

New Orders for Durable Goods Fell in Fourth-Quarter 2015, Both Before and After Consideration for Commercial Aircraft and Inflation

Orders Signaled Deepening Downturn and Contracting First-Quarter Production

North American Freight Activity Has Indicated Renewed Economic Contraction in the Context of No Economic Recovery

With Heavy Systemic Distortions Recognized in Headline Existing-Home Sales Swinging from Down by 10.5% (-10.5%) in November to Up by 14.7% in December, Consistent Sales Numbers Were Closer to Down by 4.8% (-4.8%) and Up by 1.9%

Fourth-Quarter 2015 Existing-Home Sales Plunged by 20.0% (-20.0%) against Third-Quarter Activity, Irrespective of the Monthly Reporting Issues

Although Not Statistically Significant, New-Home Sales Rose Month-to-Month, Year-to-Year and Quarter-to-Quarter

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PLEASE NOTE: The next regular Commentary*, scheduled for tomorrow Friday, January 29th, will cover the first or "advance" estimate of fourth-quarter 2015 GDP, along with updates on Monetary and Consumer-Liquidity Conditions.*

Best wishes to all — John Williams

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OPENING COMMENTS AND EXECUTIVE SUMMARY

Sinking Durable Goods Orders Add Downside Pressures on Fourth- and First-Quarter GDP. Headline December New Orders for Durable Goods came in well below market expectations and would tend to confirm contracting fourth-quarter 2015 GDP. The headline reporting details for New- and Existing-Home Sales were unstable, generally confirming a pattern of a non-recovering U.S. economy, beginning to turn down anew. In terms of tomorrow's (January 29th) first estimate for fourth-quarter 2015 GDP, although the consensus outlook appears to have moved towards annualized, quarterly real growth below 1.0%, as noted in the *Week Ahead* section, headline reporting likely will come in below consensus, but remain in positive territory, turning negative in the first revision on February 26th.

Other Confirmation of Non-Recovery and Renewed Economic Downturn. ShadowStats is pleased to begin publishing some graphic detail on the Cass Freight Index™, a measure of North American freight volume, as calculated by, and used with the permission of Cass Information Systems, Inc. Many thanks to Cass for sharing their data with our subscribers. The plot in *Graph 1* reflects monthly numbers that are not adjusted for broad seasonal patterns, such as retailers stocking for the holiday shopping season, so ShadowStats has plotted the series using a trailing twelve-month average. For comparison purposes, *Graph 2* shows the ShadowStats Corrected Real Durable Goods Orders Series, Ex-Commercial Aircraft also smoothed using a twelve-month moving average. As described by Cass:

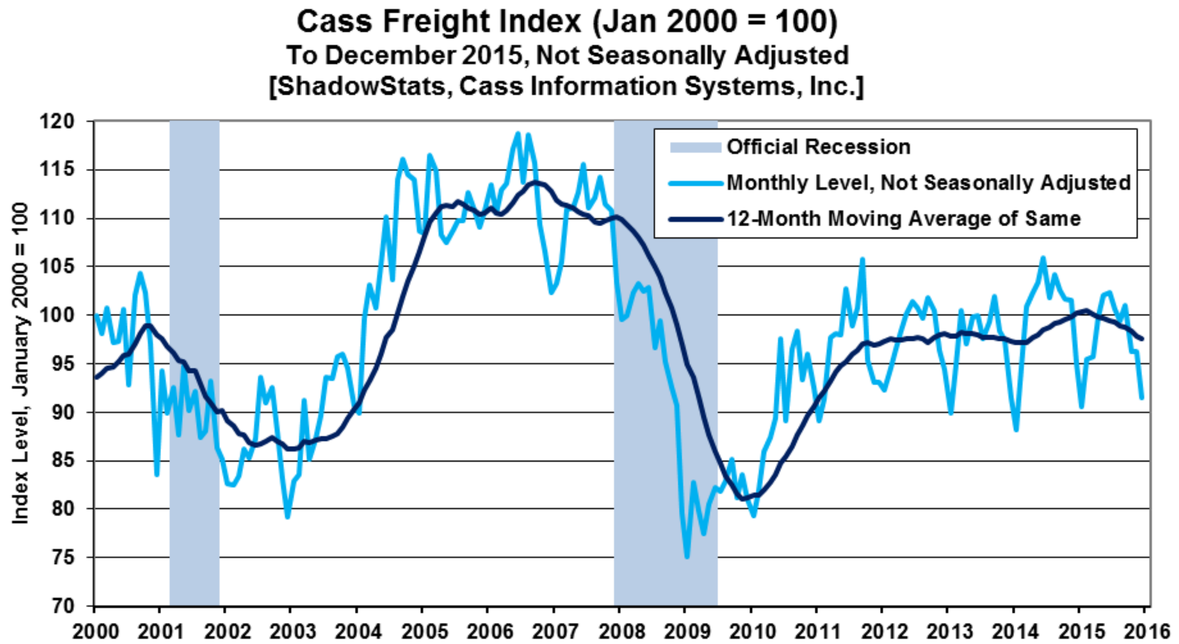
- Data within the [Freight] Index include all domestic freight modes and are derived from $26 billion in freight transactions processed by Cass annually on behalf of its client base of hundreds of large shippers. These companies represent a broad sampling of industries including consumer-packaged goods, food, automotive, chemical, OEM, retail and heavy equipment. Annual freight volume per organization ranges from $1 million to over $1 billion. The diversity of shippers and aggregate volume provide a statistically valid representation of North American shipping activity.

- The Cass Freight Index uses January 1990 as its base month. The index is updated with monthly freight expenditures and shipment volumes from the entire Cass client base. Volumes represent the month in which transactions are processed by Cass, not necessarily the month when the corresponding shipments took place. The January 1990 base point is 1.00 [ShadowStats has re-based the series here to January 2000 = 100]. The [headline] Index point for each subsequent month represents that month's volume in relation to the January 1990 baseline.

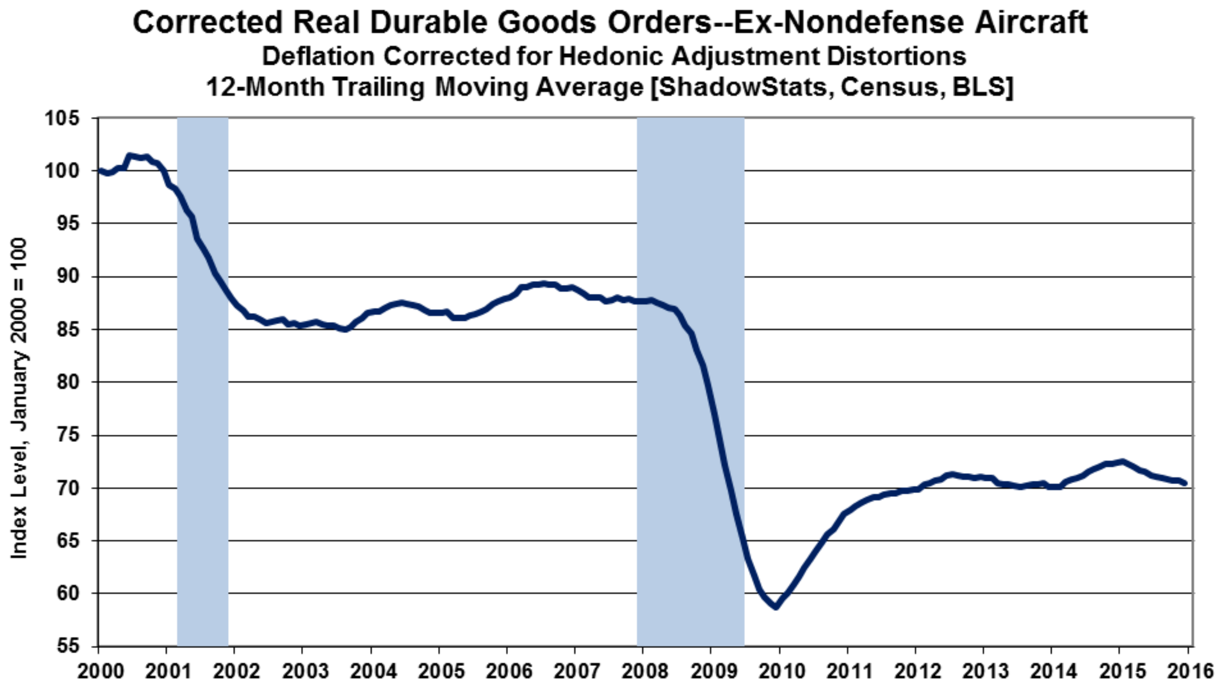
- Each month's volumes are adjusted to provide an average 21-day work month. Adjustments also are made to compensate for business additions/deletions to the volume figures. These adjustments help normalize the data to provide a sound basis for ongoing monthly comparison."

Again, the accompanying ShadowStats graph of the Cass Freight Index, rebased to January 2000 = 100, puts the plot on a consistent basis with other index graphs used in these *Commentaries* (see *Graphs 2* and *5* to *8* in the current missive). Seen in the plot of the unadjusted monthly Cass data, there still are regular, broad seasonal variations to the index throughout the year. That has been addressed in *Graph 1* by plotting the unadjusted series the basis of a twelve-month average, which tends to eliminate the apparent seasonality.

Graph 1: Cass Freight Index to (2000-2015), Trailing 12-Month Average vs. Unadjusted Monthly Index



Graph 2: Corrected Durable Goods Orders – Ex-Commercial Aircraft, Trailing 12-Month Average



Graph 2 is similar to the six-month moving average shown in *Graph 8*, discussed later in these *Opening Comments*. Other than a bounce off the economic-collapse bottom, neither of the preceding series has shown a full economic recovery, and both are showing patterns of renewed downturn.

Today's *Commentary* (January 28th). The balance of these *Opening Comments* provides summary coverage of December 2015 New Orders for Durable Goods, and New-and Existing-Home Sales.

The *Hyperinflation Watch* includes the reformatted *Hyperinflation Outlook Summary*. Beginning with the February 2016 *Commentaries*, that *Summary* and regular updates to same will be handled as a link within the weekly *Commentaries.* Such will save roughly ten pages of often-repetitive material in subsequent physical missives, while preserving immediate access to the desired detail.

The *Week Ahead* updates the preview of tomorrow's "advance" or first-estimate of fourth-quarter 2015 Gross Domestic Product (GDP).

New Orders for Durable Goods—December 2105—Quarterly Orders Contracted Both Before and After Adjustment for Inflation and for Commercial Aircraft. December 2015 durable goods orders were weaker than market expectations, both before and after adjustments for commercial aircraft orders. Further, despite sharply negative headline inflation for manufactured durable goods, on both a monthly and annual basis, quarter-to-quarter fourth-quarter orders declined both before and after inflation adjustment. The only "net-positive" from the negative durables inflation rate was that annual real growth in total December orders was pushed into positive territory, while the real ex-commercial aircraft series held in negative year-to-year territory.

Where headline, nominal total orders declined by 5.1% (-5.1%) month-to-month and by 0.6% (-0.6%) year-to-year, only part of the drop was attributable to slower aircraft orders. Net of commercial aircraft orders activity, new orders fell by 3.6% (-3.6%) month-to-month and by 2.3% (-2.3%) year-to-year. Such was somewhat outside the normal reporting bounds of this otherwise highly-irregular and volatile series. The December order details also were in the context of small downside revisions to headline October and November activity.

Given the patterns of general decline in the monthly, quarterly and annual activity of the last year, the broad signal for unfolding U.S. economic activity remained sharply negative, with the summary statistics and smoothed six-month trends signaling still a deepening and ongoing recession.

Quarterly Growth. Annualized quarterly declines in real new orders (ex-commercial aircraft) were 5.58% (-5.58%) in fourth-quarter 2014, and 7.73% (-7.73%) in first-quarter 2015. Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted.

Annualized real change for second-quarter 2015 new orders was a gain of 2.10%, while the pace of annualized growth for third-quarter activity, revised minimally higher to a gain of 10.38% (due to PPI revisions). Based on initial full reporting for fourth-quarter 2015, quarterly growth in new orders contracted at an annualized pace of 2.30% (-2.30%). The quarterly gains and muted real contractions here are due partially to highly-suspect, increasingly-negative durable goods inflation in the PPI reporting, which has had the effect of boosting the real monthly-, quarterly- and annual-growth detail.

Third-quarter industrial production growth was on the plus-side, but fourth-quarter 2015 industrial production collapsed, as discussed in *Commentary No. 780*. The current headline durable goods detail is a negative indicator for first-quarter 2016 production and remains a solid signal for continuing and deepening national recession.

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On a nominal basis (before inflation adjustment), initial fourth-quarter 2015 orders growth—again, ex-commercial aircraft—fell at an annualized pace of 3.23% (-3.23%), versus a third-quarter 2015 unrevised annualized gain of 8.63%, second-quarter 2015 quarterly annualized growth of 0.57%, a first-quarter 2015 annualized contraction of 7.29% (-7.29%), and a decline of 4.36% (-4.36%) in fourth-quarter 2014.

Headline Nominal (Not-Adjusted-for-Inflation) December 2015 Reporting. The regularly-volatile, seasonally-adjusted, nominal level of December 2015 new orders for durable goods declined by a headline 5.06% (-5.06%), versus a downwardly-revised monthly change, from "unchanged" to a decline of 0.49% (-0.49%), and a downwardly-revised monthly gain of 2.85% in October. Net of the revisions to November, aggregate new orders in December declined in the month by 5.59% (-5.59%).

The year-to-year change in December 2015 durable goods orders was a decline 0.58% (-0.58%), following a sharply, downwardly-revised gain of 0.64% in November 2015, and a downwardly-revised annual gain of 0.36% in October 2015.

The headline December detail, again, is before consideration of volatility in commercial-aircraft orders. With the aircraft orders considered, headline changes in December still were negative, consistent with a downturn in what had been a continuing pattern of broad stagnation. The inflation-adjusted ex-commercial aircraft real series, and that same series corrected for the understatement of official inflation are discussed along with accompanying graphs. The corrected series—net of commercial aircraft orders—has remained relatively flat, at a low-level and now down-trending pattern of stagnation, with the other plotted series still showing an unfolding downturn of a nature that usually precedes or coincides with a recession or a deepening business downturn.

Detail Net of Volatility in Commercial-Aircraft Orders. The reporting of extreme contractions and surges in commercial-aircraft orders is seen commonly 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.

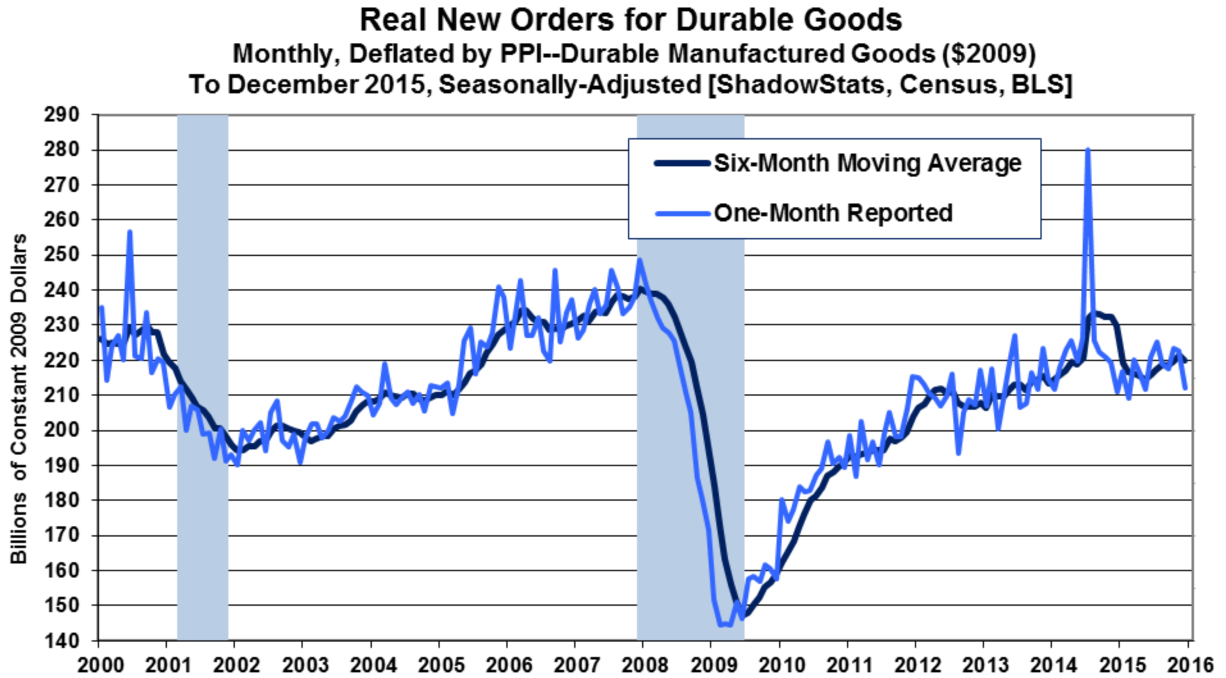
Net of a headline decline of 29.36% (-29.36%) in December 2015 and a revised, deeper decline of 23.28% (-23.28%) in November 2015 commercial aircraft orders, aggregate new orders still fell by a 3.63% (-3.63%) in December 2015. Following a minimally-revised gain of 78.75% in October 2015 commercial aircraft orders, aggregate new orders, ex-commercial aircraft rose by a sharply- and downwardly-revised 1.29% in November. Ex-commercial aircraft, orders decline by 0.45% (-0.45%) in October.

Year-to-year and seasonally-adjusted, December 2015 new orders (net of commercial aircraft) fell by 2.31% (-2.31%), following a sharply- and downwardly-revised gain of 1.49% in November 2015, and a revised, minimally steeper decline of 0.68% (-0.68%) in October 2015.

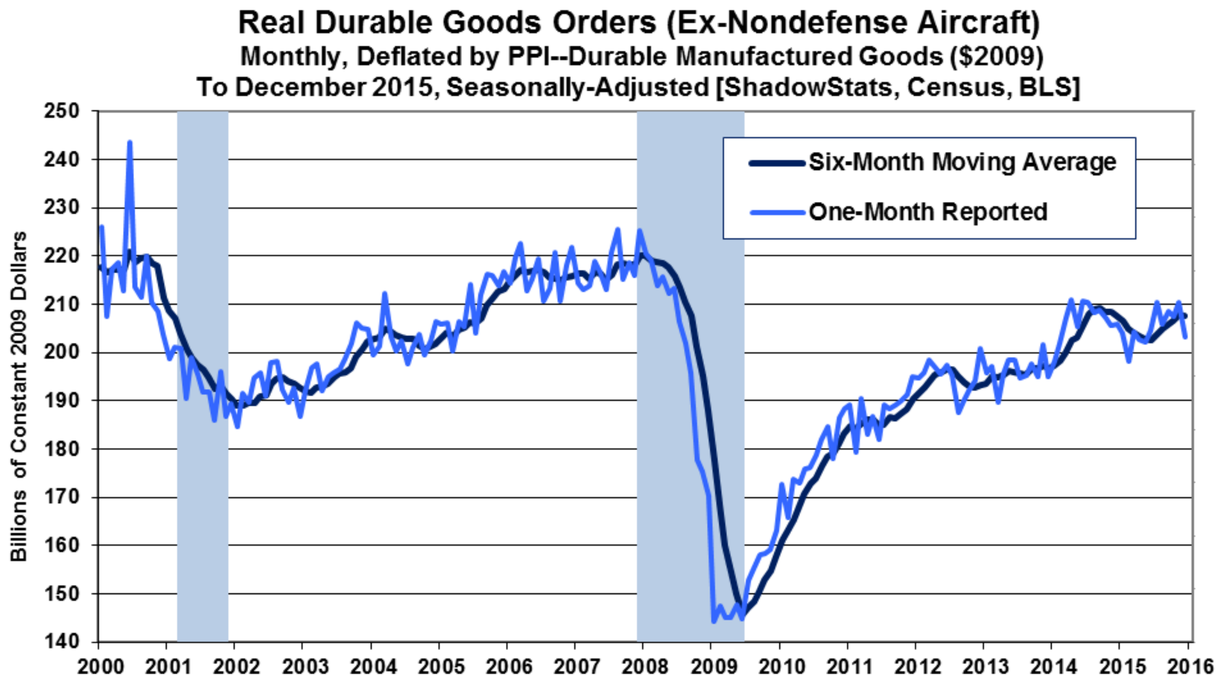
Real (Inflation-Adjusted) Durable Goods Orders—December 2015. ShadowStats uses the PPI component inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related December 2015 PPI series remained on the minus-side, month-to-month, having contracted on monthly basis in nine of the preceding ten months. The related PPI series fell month-to-month by 0.24% (-0.24%) in December 2015, having declined by 0.18% (-0.18%) in November. Headline annual inflation contracted at a negative

year-to-year pace of 1.02% (-1.02%) in December 2015, having been down by 0.90% (-0.90%) in November 2015.

Graph 3: Real Total New Orders for Durable Goods to Date



Graph 4: Real New Orders for Durable Goods – Ex Commercial-Aircraft Orders to Date



Adjusted for that monthly decline of 0.24% (-0.24%) in headline December 2015 inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders in December 2015 fell by 4.83% (-4.83%), following a revised decline of 0.49% (-0.49%) in November. Ex-commercial aircraft, monthly real orders fell by 3.39% (-3.39%) in December 2015, versus a downwardly-revised gain of 1.47% in November.

Real year-to-year aggregate orders rose in December 2015 by 0.44%, following a downwardly-revised 1.55% gain in November 2015. Ex-commercial aircraft, December 2015 real orders declined year-to-year by 1.30% (-1.30%), versus a downwardly-revised annual gain of 2.41% in November 2015.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. The preceding *Graphs 3* and *4* show the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft orders. The moving-average levels in both series had turned lower into year-end 2014 and after some uptick in mid-2015—some smoothed bounce-back—the smoothed trend is turning down anew.

Broadly, there has been a general pattern in recent years of stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery that has been seen in official GDP reporting. The real (inflation-adjusted) monthly and six-month moving-average level of new orders in December 2015 remained below both the pre-2007 recession high, as well as the pre-2000 recession high. The pattern of low-level stagnation and fluctuating downtrend in the annual inflation-adjusted series since mid-2014—net of the irregular aircraft-order effects—again is one that usually precedes or is coincident with a recession.

The Real New Orders Series Corrected for Inflation Understatement. As with other economic series deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods generally are overstated, due to the understatement of official inflation. That understatement here comes from the government's use of hedonic-quality adjustments—quality issues usually not perceived by users or consumers of the involved products—in justifying a reduced pace of headline inflation (see *Public Commentary on Inflation Measurement*).

As done for other series such as the GDP, real retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

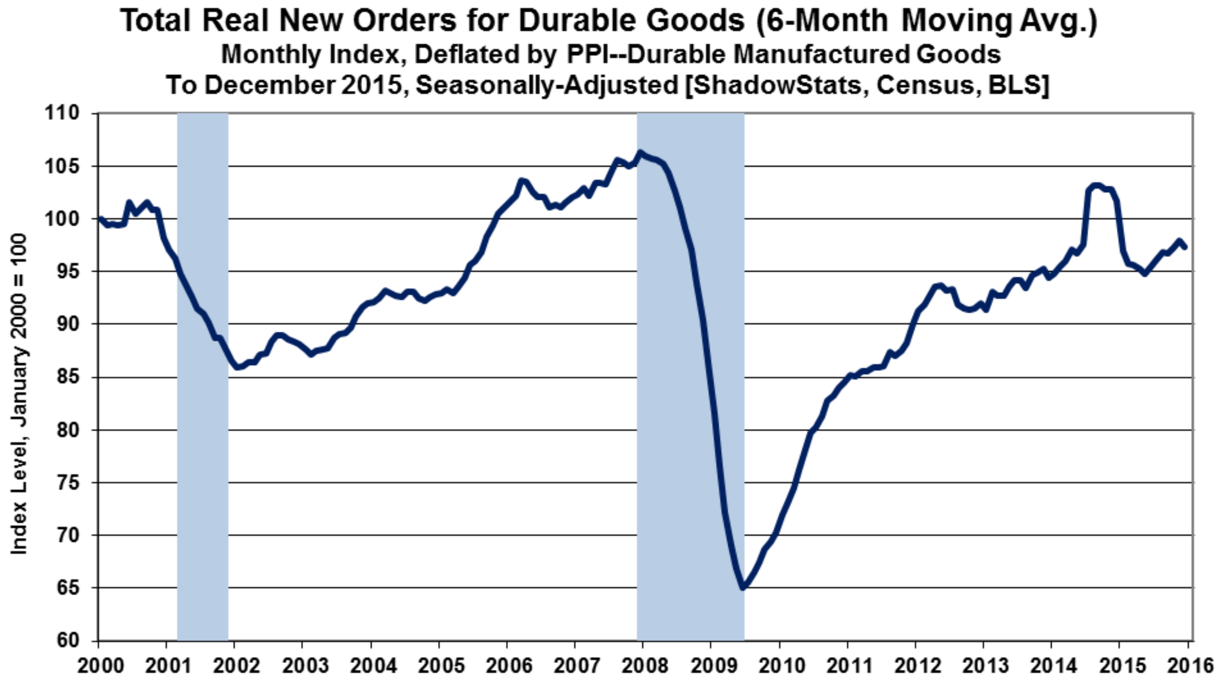
Two sets of graphs follow. The first set (*Graph 5* and *Graph 6*) shows the aggregate series or total durable goods orders; the second set (*Graph 7* and *Graph 8*) shows the ex-commercial aircraft series.

The aggregate orders series in *Graphs 5* and *6* includes 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. *Graphs 7* and *8* are shown net of the volatile commercial aircraft orders.

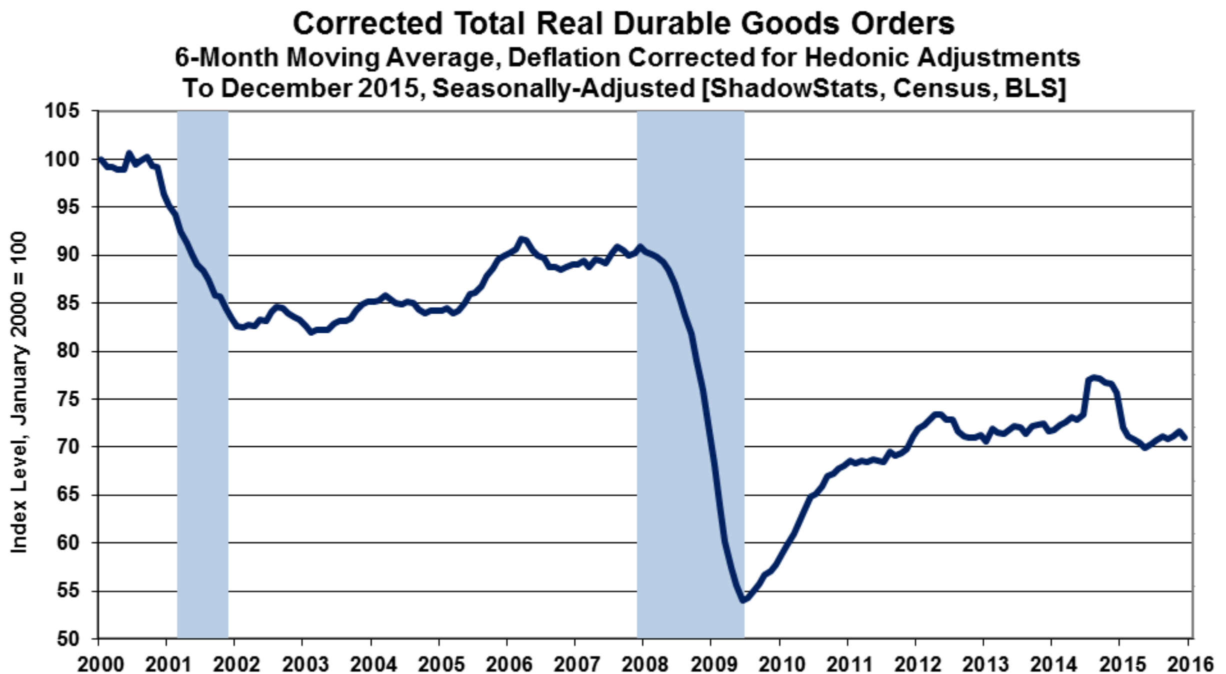
The first graph in each of the following two series shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 3* and *Graph 4*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph, but it has been re-deflated so as to correct for the understatement of the PPI durable goods inflation measure

used in the headline-deflation process. ShadowStats estimates that inflation understatement, with the graphs indexed to January 2000 = 100.

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



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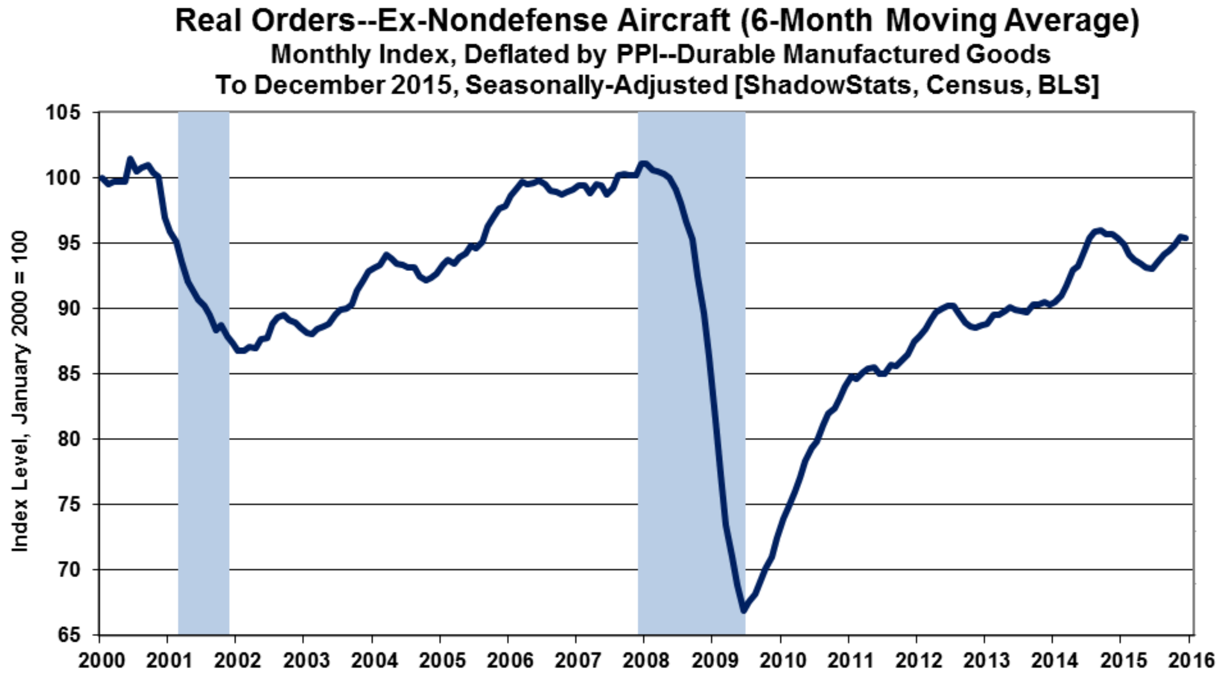
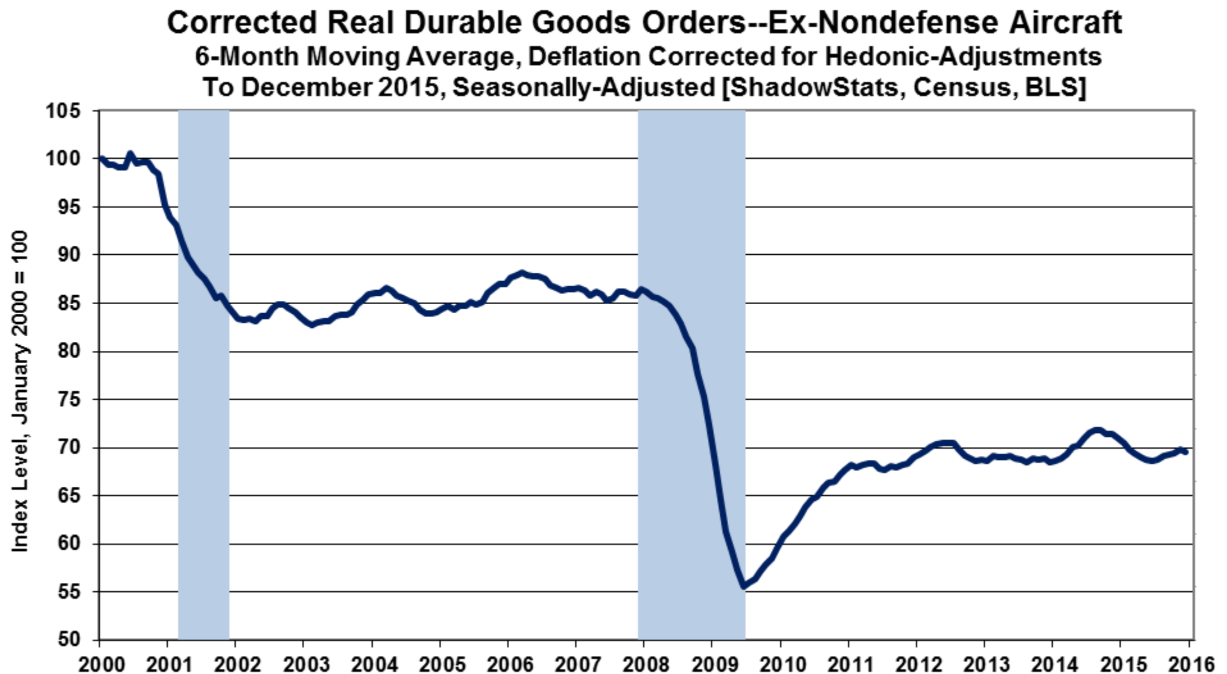
Graph 7: Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



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



Graph 8, entitled "Corrected Real Orders—Ex-Commercial Aircraft" (a six-month trailing average) is perhaps the best indicator of broad underlying order activity in the durable goods sector, in the context of signaling in advance actual near-term production and economic activity. *Graph 2* in the opening paragraphs of these *Opening Comments* shows the same ex-commercial aircraft series with a trailing twelve-month moving average.

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New- and Existing-Home Sales—December 2015—Never Recovered, Mixed Growth, Poor-Quality Reporting. December 2015 New- and Existing-Home Sales series both remained deep in depression (see *Commentary No. 754*), down respectively by 61% (-61%) and likely in excess of 25% (-25%) from their pre-recession peaks. Holding in low-level stagnation, with statistically-insignificant changes in headline activity for New-Home Sales, with and slowing-annual and contracting-quarterly growth for Existing-Home Sales, these series not only never recovered from the economic collapse into 2009, but generally are stagnating or turning down anew.

Broadly discussed in *No. 777 Year-End Special Commentary* and updated briefly in *Commentary No. 780*, the primary underlying issues restraining current residential real estate activity remain intense, structural-liquidity woes besetting the consumer. In the last eight-plus years of economic collapse and stagnation, that circumstance has continued to prevent a normal recovery in broad U.S. economic activity, particularly tied to homeowner real estate, with the private-housing sector never having recovered from the business collapse of 2006 into 2009. Consumer liquidity conditions will be updated in tomorrow's *Commentary No. 783*, reflecting the latest monthly detail on December Real Median Household (tentatively scheduled for a January 29th release), along with full-month reporting on January 2016 Consumer Confidence (Conference Board) and Consumer Sentiment (University of Michigan).

Without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. There remains no chance of a near-term, sustainable turnaround in the housing market, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

New-Home Sales—December 2015—Gains Were Not Statistically Significant. As usual, the volatile reporting of monthly and annual changes in December 2015 New-Home Sales was not statistically significant; the same was true for the initial estimate of a fourth-quarter gain in sales. In the context of continuing, irregular revisions to previously-reported activity, headline December sales rose by 10.8% for the month, up by 11.0% net of prior-period revisions. Year-to-year annual growth was 9.9% in December 2015, with November 2015 annual growth revised higher to 9.4% from initial reporting of 9.1%.

Where the unstable reporting of a headline December 2015 annualized sales level of 544,000 units (45,333 monthly rate as used in the graphs) remained below February 2015 reporting, it also was down by 61% (-61%) from the pre-recession peak for the series.

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 (see *Graph 11*).

Graphed either way, smoothed or not, the various housing series generally have continued to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing activity never recovered with the purported GDP recovery. From its pre-recession peak of July 2005, headline December 2015 New-Home

Sales activity still was down by 60.8% (-60.8%), while December 2015 Single-Unit Housing Starts were down by 57.9% (-57.9%) from the January 2006 high of that series.

Headline New-Home Sales Reporting. Headline December 2015 New-Home Sales (Census Bureau, counted based on contract signings) increased month-to-month in the context of upside revisions to activity in September and through November (primarily in September and October). Headline December 2015 sales rose by a statistically-insignificant 10.8%, following a downwardly-revised gains of 1.9% in November and 5.5% in October, and a narrowed month-to-month contraction of 9.9% (-9.9%) in September. Again, net of prior-period revisions, December 2015 monthly sales rose by a still statistically-insignificant 11.0%, instead of the headline gain of 10.8%.

Year-to-year, December 2015 sales increased by a statistically-insignificant 9.9%. That followed an upwardly-revised annual gains of 9.4% in November 2015 and 2.1% in October 2015, and a narrower contraction of 0.4% (-0.4%) in September 2015.

In the arena of continued extreme volatility and unstable, nonsensical headline reporting, consider that the annualized quarterly pace of sales gain in first-quarter 2015 was 43.9%, with the second-quarter 2015 sales activity in an annualized quarterly decline of 14.8% (-14.8%). Third-quarter 2015 new-home sales showed a revised, narrower annualized contraction of 6.8% (-6.8%), with the initial fourth-quarter sales gain estimated at a statistically-insignificant 15.3%.

Existing-Home Sales—December 2015—Fourth-Quarter Contraction of 20% (-20%) Amidst Disrupted November and December Detail. Disrupted by systemic issues, not by reporting quality, neither the headline monthly jump of 14.7% in December 2015 Existing-Home Sales, nor the monthly plunge of 10.5% (-10.5%) in November was indicative of underlying economic reality.

Instead, the headline sales numbers reflected disruptive shifts in the timing of Existing-Home-Sales closings, where the "Know Before You Owe initiative pushed a number of November's would-be transactions into last month's [December] figure, according to the National Association of Realtors®." The NAR had cautioned previously that "some of the [November monthly] decrease was likely because of an apparent rise in closing timeframes." New regulations were imposed by the Consumer Financial Protection Bureau, effective in October 2015, overhauling disclosure forms and adding an extra three days for consumers to review their mortgage packages.

At this point, the effect on fourth-quarter 2015 aggregate data appears to be minimal, with the result of an annualized headline quarter-to-quarter contraction of 20.0% (-20.0%).

While the NAR assessed its latest numbers, looking at November and December activity added together, effectively averaged, there is an approach to weighting more-realistic shifts in aggregate activity. Specifically, all-cash sales, as surveyed by the NAR should not have been impacted by the regulatory changes. All-cash sales were 24% of December 2015 sales, versus 27% in November 2015, in line with what might have been expected due to distortions in the mortgage-based closings. Using the percentage of all-cash sales as a benchmark suggested that aggregate headline sales rose by about 1.9% in December versus November, with a consistent November over October contraction of 4.8% (-4.8%). ShadowStats reworked the headline November and December monthly Existing-Home Sales on that basis as reflected in *Table 1* in the *Reporting Detail*. These data remain unstable, and further adjustments may lie ahead, particularly when the formal annual revisions to the series are published.

Graph 13 shows the ShadowStats estimates in the main plot, with the distortion-acknowledged headline detail plotted in the accompanying plunging and soaring gray line.

Deepening Pace of Quarterly Contraction, Ongoing Lack of Recovery from Collapse into 2009. Existing-Home Sales in December 2015 were down by a headline 24.9% (-24.9%), ranging to a ShadowStats estimate of 29.7% (-29.7%), from the June 2005 pre-recession peak, a high that has not been matched since the collapse. In contrast, the December 2015 headline monthly Housing Starts remained down by 49.5% (-49.5%) versus its January 2006 pre-recession high.

First-quarter 2015 showed an annualized quarterly sales contraction of 6.7% (-6.7%) in existing sales, with the second-quarter 2015 pace of annualized growth at 28.7%. Third-quarter 2015 growth slowed to an annualized pace of 14.3%, with initial reporting of annualized fourth-quarter 2015 activity contracting at an annualized pace of 20.0% (-20.0%).

Headline Existing-Home Sales Detail. In the context of the earlier discussion on data distortions, December 2015 existing-home sales (counted based on actual closings, NAR) showed a seasonally-adjusted, headline monthly gain of 14.7% [ShadowStats alternate of 1.9%], following an unrevised month-to-month decline of 10.5% (-10.5%) [ShadowStats alternate 4.8% (-4.8%)] in November. On a year-to-year basis, December 2015 annual sales were up by 7.7% [ShadowStats alternate 1.7%], following a November 2015 annual sales contraction of 3.8% (-3.8%) [ShadowStats alternate 2.3% gain].

The headline numbers have moved outside the normal scope of reporting volatility for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, albeit now flat-to-down-trending, again, as seen in *Graph 13*. The quality of data underlying this series remains highly questionable.

Proportion of Distressed Sales Declined, Along with All-Cash Sales in December. The NAR estimated the portion of December 2015 sales in "distress" declined for the month to 8% (6% foreclosures, 2% short sales), from 9% (7% foreclosures, 2% short sales) in November, and against 11% (8% foreclosures, 3% short sales) in November 2014. The extent of any impact on these measures from the closing-timing issues is unknown.

Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in December 2015 were 24% of December 2015 sales, versus 27% in November 2015 and versus 26% in December 2014.

New- and Existing-Home Sales Graphs. Following are the regular monthly graphs of December 2015 New-and Existing-Home sales activity. The New-Home Sales plots (*Graph 9* and *Graph 11*) reflect activity based both on headline monthly reporting as well as using a smoothed, six-month moving average of the series. Those graphs are accompanied by comparative graphs of December 2015 Single-Unit Housing Starts activity (*Graph 10* and *Graph 12*), measures which are limited to single-unit activity.

The Existing-Home Sales graph (*Graph 13*) [see also *Table 1* and accompanying discussion in the *Reporting Detail*] is accompanied by comparative plots of aggregate Housing Starts activity (*Graph 14* and *15*). Those measures include both single- and some multiple-unit activity. The various comparative Housing Starts graphs are repeated from (*Commentary No. 778*).

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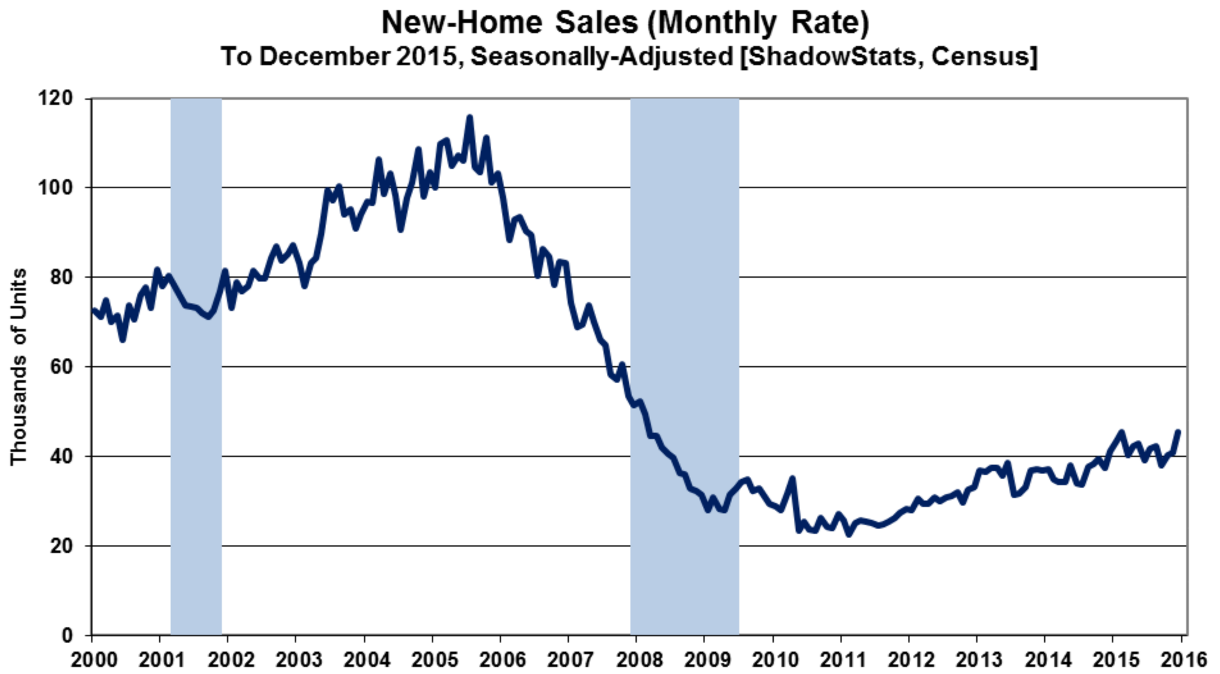
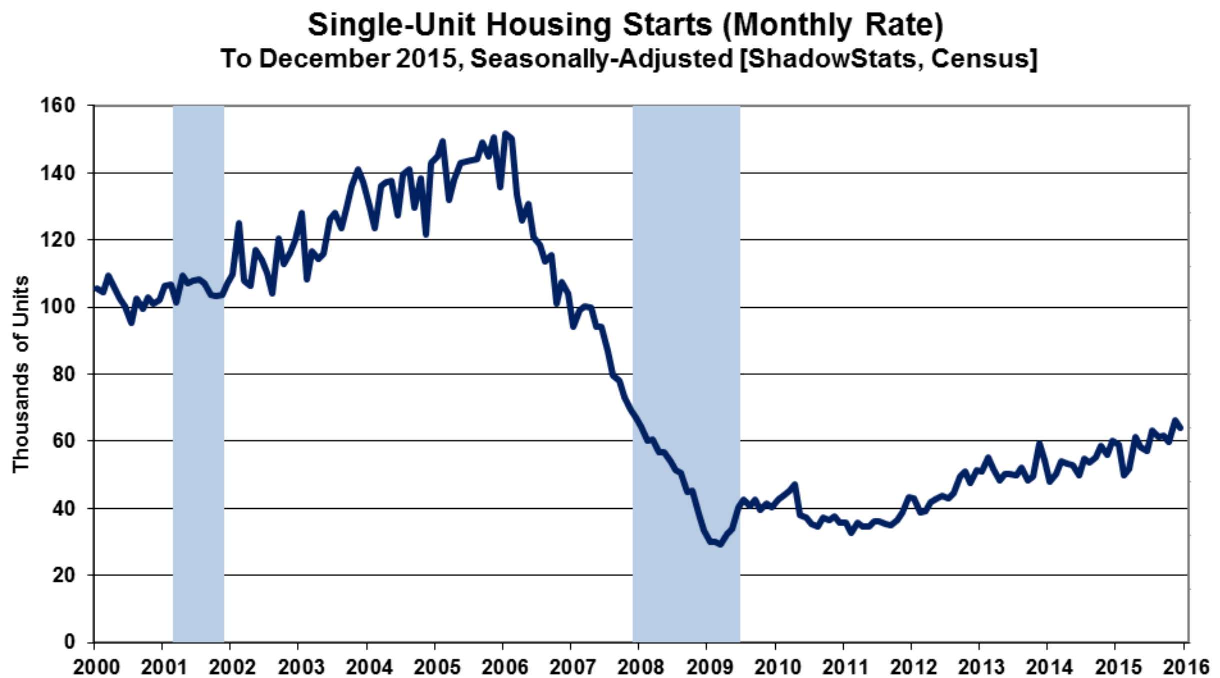
Graph 9: New-Homes Sales – Monthly Level



Graph 10: Single Unit Housing Starts – Monthly Level



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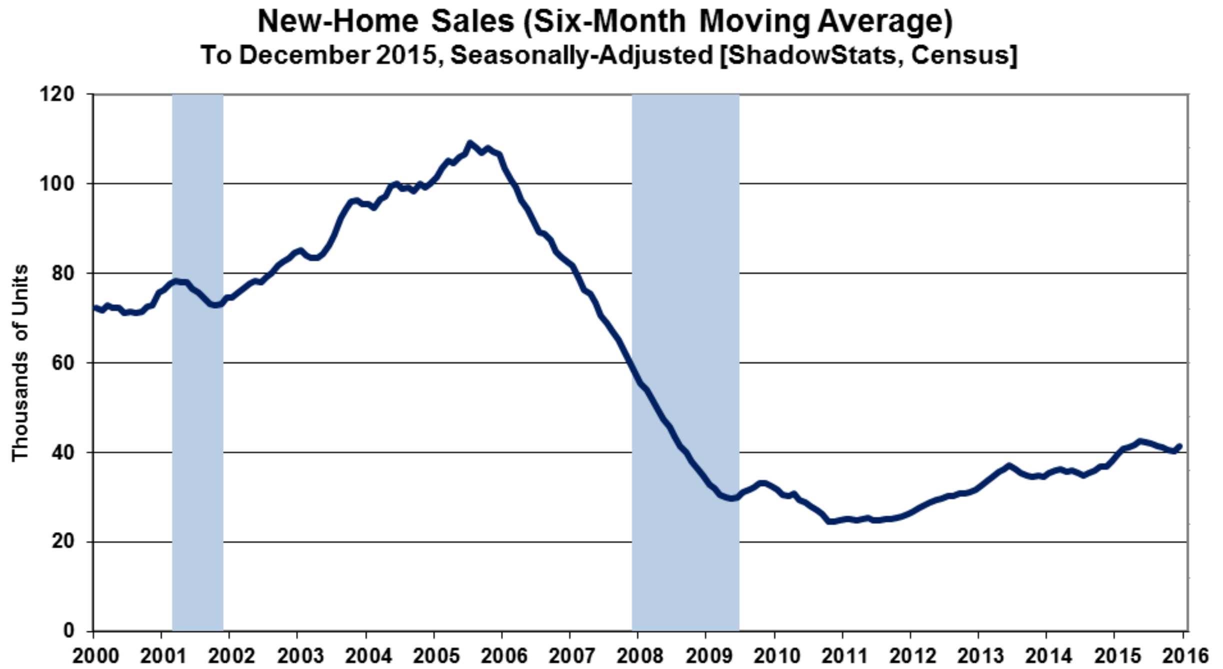
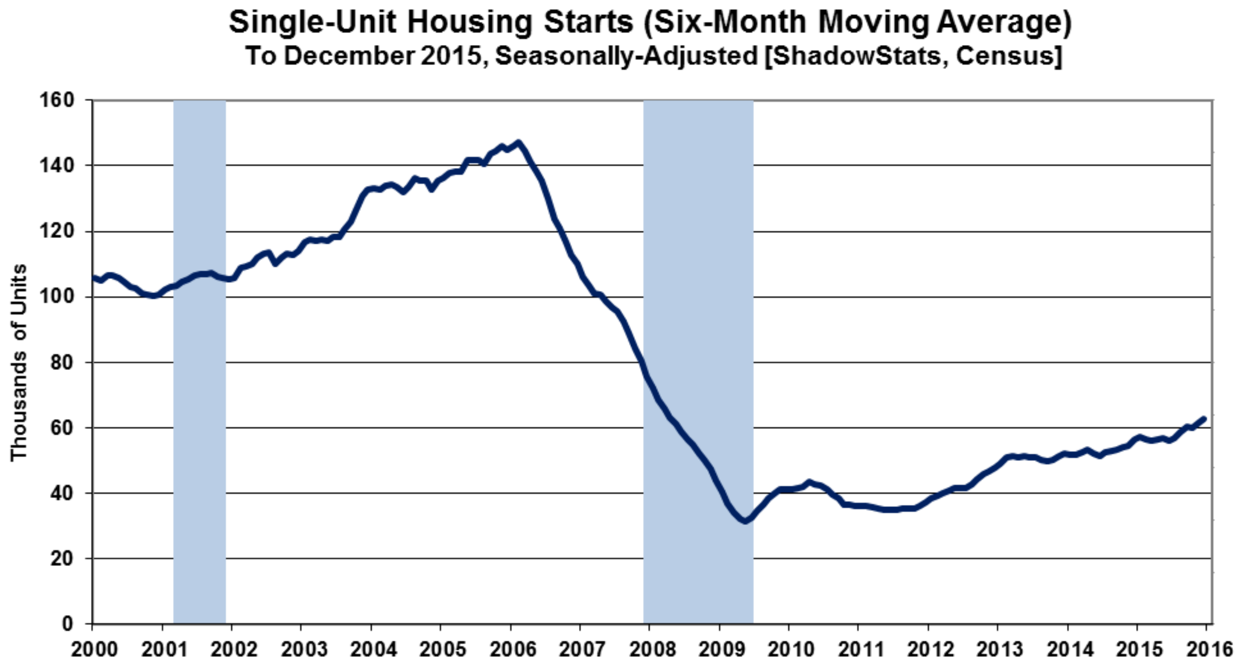
Graph 11: New-Homes Sales – Six-Month Moving Average



Graph 12: Single Unit Housing Starts – Six-Month Moving Average



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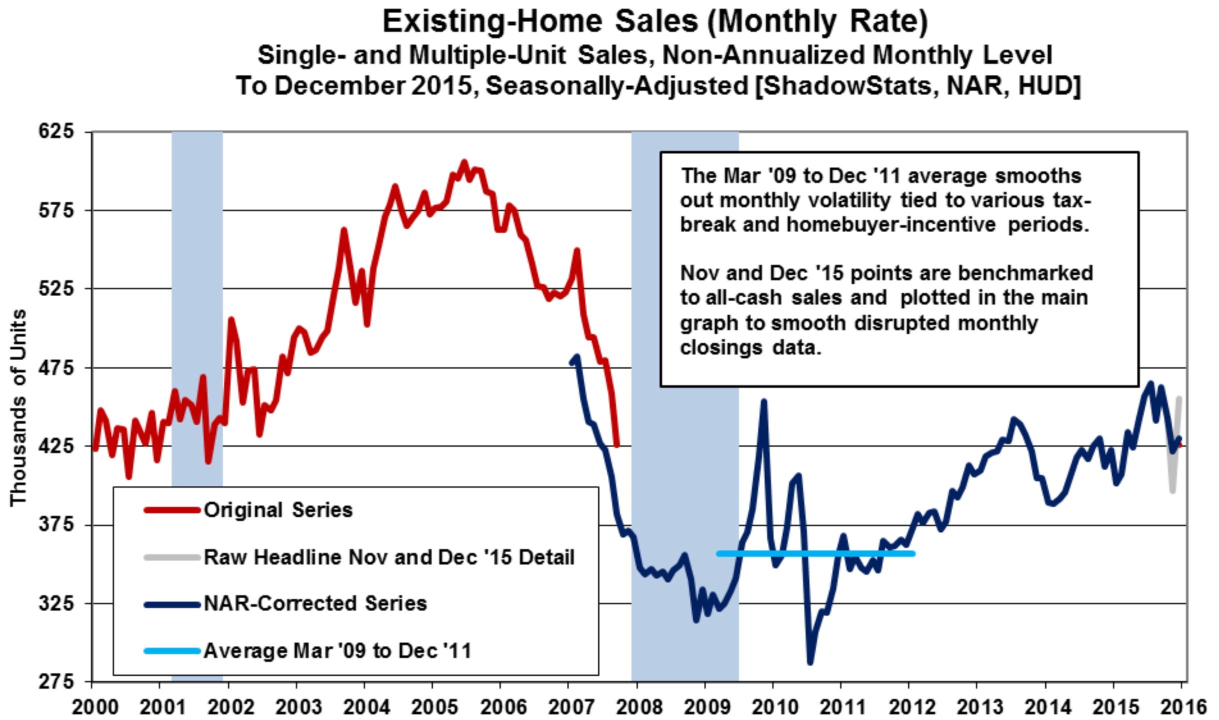
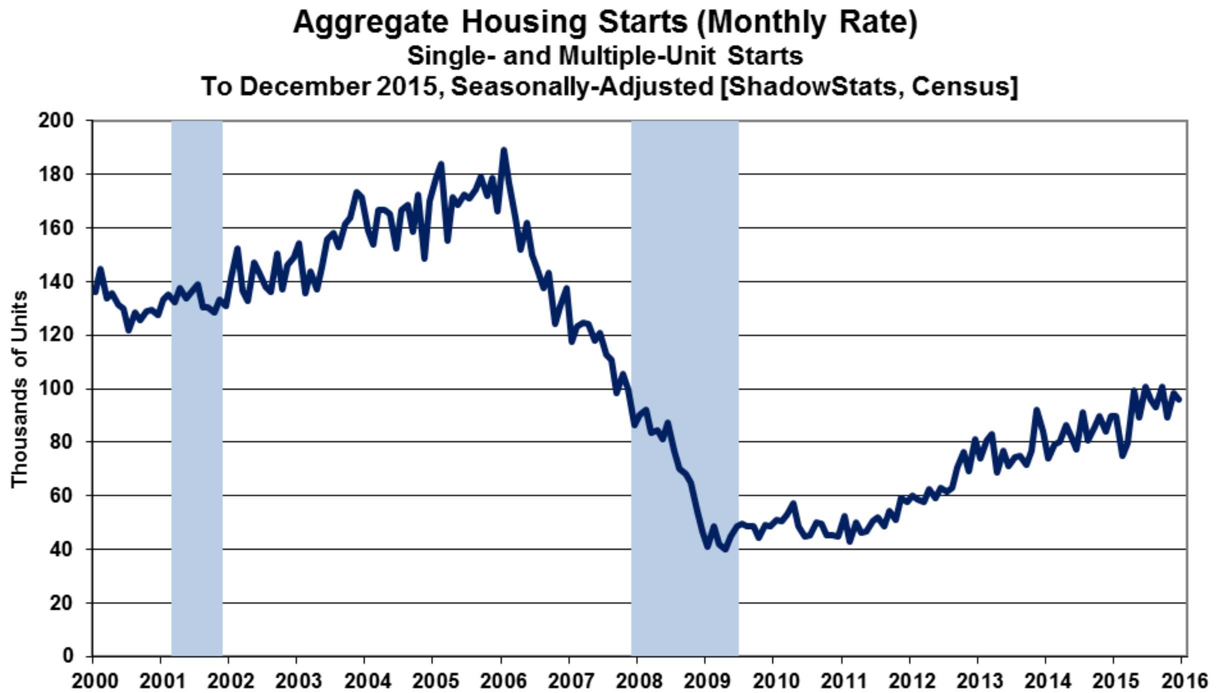
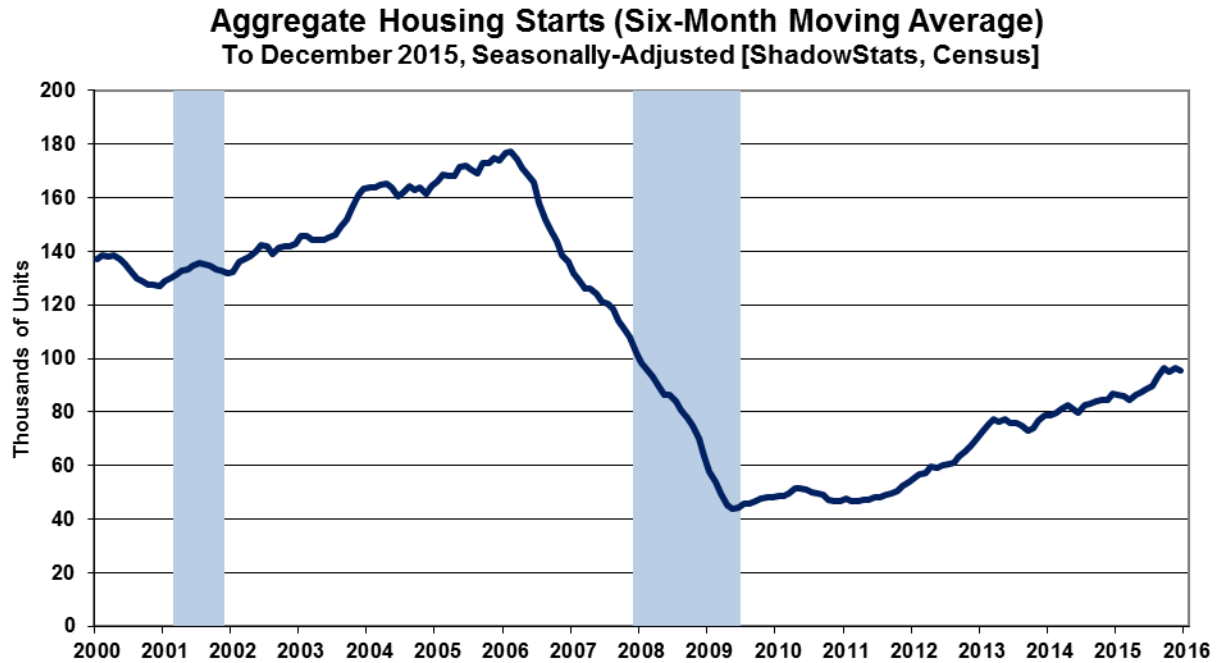
Graph 13: Existing-Home Sales – Monthly Level



Graph 14: Total Housing Starts – Monthly Level



Graph 15: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



[The *Reporting Detail* section includes additional material on the Durable Goods Orders and New-and Existing Home Sales.]

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HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Massive Sell-Off Remains Likely Soon for Extremely Overvalued U.S. Dollar. This *Hyperinflation Summary Outlook* revises the prior version last published in *Commentary No. 768* of November 18, 2015, summarizing subsequent material, specifically including *No. 777 Year-End Special Commentary of December 30, 2015*. There has been no fundamental shift in the broad outlook, just some general movement forward in variety of related areas. Going forward as of the February 2016 *Commentaries*, this *Summary* and regular updates to same will be incorporated as a link within the weekly *Commentaries.* Such will save roughly ten pages of often-repetitive material in subsequent physical missives, while preserving immediate access to the desired detail.

An updated review of monetary issues will follow separately in the *Hyperinflation Watch* of tomorrow's (January 29th) *Commentary No. 783.*

Background Documents to this Summary. *Underlying the Hyperinflation Outlook as general background are* No. 777 Year-End Special Commentary *of December 30, 2015*, No. 742 Special Commentary: A World Increasingly Out of Balance *of August 10, 2015, and* No. 692 Special Commentary: 2015 - A World Out of Balance *of February 2, 2015, which updated the* Hyperinflation 2014 *reports and the broad economic outlook. Previously, the long-standing hyperinflation and economic outlooks were updated with the publication of* 2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, on April 2, 2014, and publication of* 2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, on April 8, 2014. The two 2014* Hyperinflation Report *installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. In terms of underlying economic reality, one other reference is the* Public Commentary on Inflation Measurement*. The regular weekly* Commentaries *also update elements of the general outlook, as circumstances develop. An all-encompassing background document is planned for first-half 2016.*

Federal Reserve and Other Central Banks Have No Way—the Eventual Problem Remains Hyperinflation, Not Hyper-Deflation. Having taken little but stopgap measures to prevent systemic collapse in the Panic of 2008, the Federal Reserve and the U.S. Treasury still face problems of systemic insolvency or instability in the near future. Some forecasters look for the current situation to evolve into a deflationary collapse of debt. While likely meaningful insolvencies in the global financial system loom, the process becomes hyper-deflationary only in the circumstance where the banking system collapses and money supply disappears, as happened in the 1930s. With the precedent of the Panic of 2008 in hand, much more likely is a systemic bailout, very possibly in the extreme, with hyperinflationary consequences. Those controlling the system have already made clear their desire in answer to the question raised by Robert Frost in his poem *Fire and Ice*; their choice appears solidly to be for the world to end in fire (*2014 - The End Game Begins* page 26).

"New" Recession Should Hit the U.S. Dollar Hard. In announcing the federal funds rate hike of December 17, 2015, the Federal Reserve's Federal Open Market Committee (FOMC) declared that its monetary policy was based on economic concerns, despite numerous and obvious prior actions to the contrary. Discussed frequently in ShadowStats *Commentaries* (see for example *Commentary No. 779*), the FOMC generally has used a "weak" economy as political cover when introducing the various stages of quantitative easing, which generally were used to help bailout the banking system, not to stimulate general economic activity.

Discussed in recent reporting (see *Opening Comments*), U.S. economic activity has been turning down meaningfully, and news on the economy should become increasingly bleak in the weeks and months ahead. Presumably, that should remove some pressure from the FOMC for a round of aggressive rate hikes. Speculation even could mount for a rate cut. If the Fed needs to provide liquidity to the banking system or to the U.S. Treasury, as it did with QE3, the political cover of a weak economy will around for some time to come. With Fed monetary policy in abeyance, at the moment, shifting market expectations towards a "new" recession should trigger meaningful selling pressure against the U.S. dollar. The term

"new" is used in that ShadowStats contends that the intensifying downturn is no more than a continuation of the economic collapse that began in early 2006.

Updated Hyperinflation and U.S. Dollar Outlook. Rapidly slowing economic activity and an increasingly-likely quarterly contraction in fourth-quarter GDP—in its first revision— have significant negative implications, ranging from mounting selling pressure on the U.S. dollar, to unexpected and additional widening of the federal budget deficit and U.S. Treasury funding needs, to increased political volatility in what already is shaping up as an extraordinarily-significant presidential election year.

When Main Street U.S.A. suffers enough financial and other pain, the common reaction, historically, has been to dump those running the system. That pain threshold was crossed in 2008, and the year ahead assuredly will not be a happy one for many incumbents or for those who are counting on politics as usual.

That said, a heavily politics-as-usual budget deal has been put in place until after the election. With promised higher deficit spending. With no debt limit to contain continuing excesses until after the election, who is going to fund the expanded spending ahead? Who is going to buy the proffered U.S. Treasury securities? Recent big buyers such as China, Japan and the Federal Reserve either are selling for a variety of reasons or otherwise are sitting on their hands. The most likely answer is that the Fed will end up as the continuing to buyer of last resort (*i.e.* QE4).

The U.S. Dollar continues to live on borrowed time, and the unfolding confluence of the factors raised here remains likely to push the dollar into a heavy sell-off. The FOMC has raised rates, but also has continued publicly to tie its policy to U.S. economic health. That leaves the weak economy as political cover should the Fed need such cover, again, which is likely. Yet, that also should help to intensify the negative-impact selling pressure on the dollar, from news of an intensifying downturn in an already-contracting economy.

The traumatic rate-raising process for FOMC up through the mid-December 2015 rate action likely masked serious other problems in the domestic and global financial systems. One likely major concern has to have been for continued stability and liquidity of the market for U.S. Treasury securities. Beyond domestic and global banks, the biggest beneficiary of QE3 was the U.S. Treasury.

Nothing has changed here, including the ShadowStats broad outlook for ongoing economic stagnation and downturn, intensifying systemic instabilities and a looming massive decline in the U.S. dollar. Along with the pending dollar crisis are the ongoing implications ultimately for severe inflation, for a domestic hyperinflation. Already in the early months of 2016, forces are gathering to trigger heavy dollar selling. A massive U.S. dollar sell-off remains the likely proximal trigger for the early stages of the inflation, and that dollar selling could be as near as the next, severely-negative economic surprise.

Primary Summary. The U.S. dollar continues to face a massive decline in the wake of the extraordinary and generally still-ongoing rally seen since June 2014, in the context of an intensifying, renewed downturn in the U.S. economy, ongoing domestic fiscal imbalances and financial- and political-system instabilities. Financial-system concerns, including possible Treasury-funding issues, likely will be factors behind slowness of the Federal Reserve's Federal Open Market Committee (FOMC) in putting forth significant, further interest rate hikes. Those factors have implications for a meaningful upturn in domestic inflation, eventually evolving into a great hyperinflationary crisis.

Fed policy, if anything, has exacerbated the long-term economic stagnation and renewed business downturn, where the quantitative easings always were intended as covert bailouts for the banking system, not as stimuli for the economy. Instead, the weak economy regularly was used as political cover for the effective banking-system bailouts.

Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by eventual, unfettered monetization of the national debt and obligations, leading to a hyperinflation. As first estimated by ShadowStats in 2004, such hyperinflation appeared likely by 2020. That time horizon for the hyperinflation forecast was moved to 2014, because of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) responses to same. That hyperinflation forecast remains in place, but it has been adjusted into 2016 and the year ahead, as discussed in *No. 742* and *No. 777*.

The basic story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of the *2014 Hyperinflation Report—The End Game Begins*.

Dollar Circumstance. The U.S. dollar rallied sharply from mid-2014 to date, despite some fluttering up to year-end, and now into early 2016. The rally, initially, likely reflected covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and over-estimated by global markets looking to support the dollar.

The U.S. economy remains in contraction, with a variety of key indicators, such as industrial production, real retail sales, domestic freight activity and revenues of the S&P 500 companies continuing to show a recession. Although formal recognition could several months, consensus recognition of a "new" recession should gain rapidly, in tandem with a variety of monthly, quarterly and annual data reflecting the downturn in business activity. When formal recognition comes, timing of the onset of the recession likely still will be from December 2014.

As market expectations move increasingly towards an imminent, new recession, such not only should reduce expectations for significant tightening in Fed policy, but also should renew expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting rallies in equity prices should be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. These circumstances should unwind what has been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets. Further, oil prices should spike anew, along with a sharp reversal in the dollar's strength, irrespective of current supply disruptions.

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Unexpected economic weakness intensifies stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course, and now an initial rate hike is in place. Future Fed behavior—moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Fed tightening likely is close to being on hold until after the 2016 presidential election, irrespective of near-term economic pressures. Suggestions that all was right again with world were nonsense. The Fed's games likely now will be played out as far as possible, with hopes, once again, of avoiding a financial-system collapse.

A renewed economic downturn also savages prospective federal budget deficit prognostications (particularly the 10-year versions). Such throws off estimates of U.S. Treasury funding needs. Current fiscal "good news" remains from cash-based, not GAAP-based accounting projections and is heavily impacted by changes in business activity.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided for, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any significant, renewed market speculation in the near future as to an added round of Federal Reserve quantitative easing, QE4, could become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it thought it could, with continual, negative impact on the U.S. economy. Again, the easings to date, however, appear to have been largely a prop to the banking system and to the increasingly unstable equity markets. While higher domestic interest rates tend to act as a dollar prop, the hike in rates also may trigger a round of other systemic problems. Again, there is no happy way out of this for the Fed.

The fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, increasingly against the U.S. currency. That process likely will become dominated by deteriorating global perceptions of stability in U.S. economic activity, its political system, and the ability of the Federal Reserve to control its monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** Fourth-quarter 2015 GDP should be reported in outright, inflation-adjusted contraction as of February 26th. Formal recession recognition should follow shortly thereafter, timed from December 2014. Ongoing severe, structural-liquidity constraints on the consumer, are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see *No. 777 Year-End Special Commentary*).

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. Serious consideration of the government addressing the fiscal imbalances has been shifted to post-2016 election timing.

Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections, where the GAAP shortfall is not slated to be addressed by the current government. The GAAP-based version continues to run around $4 to $5 trillion for the annual shortfall, with total net obligations of the U.S. government exceeding $100 trillion, including the net present value of unfunded liabilities. Still, many in Washington look to continue increasing spending and to take on new, unfunded liabilities. What remains to be seen is for how long the concerns of the global financial markets will remain on hold (see *No. 777*).

- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see *Commentary No. 672*). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The 2014 monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury, but more of that lies ahead. As has been commonplace, the Fed likely will seek political cover for any new or expanded systemic accommodation in the intensifying economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the Congress in addressing fundamental fiscal and economic issues are nil. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency issues should continue to devolve into extreme political crises in the year ahead.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency are intensifying, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Active efforts or comments against the U.S. dollar also continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. The process moved forward recently with the Chinese yuan gaining global reserve currency status as of October 2016. Where recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term global financial instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. See Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 777*, for other factors afoot in the current environment.

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (December 2015)

Fourth-Quarter Orders Contracted, Both Before and After Adjustment for Inflation and for Commercial Aircraft. December 2015 durable goods orders were weaker than market expectations, both before and after adjustments for commercial aircraft orders. Further, despite sharply negative headline inflation for manufactured durable goods, on both a monthly and annual basis, quarter-to-quarter fourth-quarter orders declined both before and after inflation adjustment. The only "net-positive" from the negative durables inflation was that annual real growth in total December orders was pushed into positive territory, while the real ex-commercial aircraft series held in negative year-to-year territory.

Where headline, nominal total orders declined by 5.1% (-5.1%) month-to-month and by 0.6% (-0.6%) year-to-year, only part of the drop was attributable to slower aircraft orders. Net of commercial aircraft orders activity, new orders fell by 3.6% (-3.6%) month-to-month and by 2.3% (-2.3%) year-to-year. Such was somewhat outside the normal reporting bounds of this otherwise highly-irregular and volatile series. The December order details also were in the context of small downside revisions to headline October and November activity.

Given the patterns of general decline in the monthly, quarterly and annual activity of the last year, the broad signal for unfolding U.S. economic activity remained sharply negative, with the summary statistics and smoothed six-month trends still signaling a deepening and ongoing recession.

Quarterly Growth. Annualized quarterly declines in real new orders (ex-commercial aircraft) were 5.58% (-5.58%) in fourth-quarter 2014, and 7.73% (-7.73%) in first-quarter 2015. Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted.

Annualized real change for second-quarter 2015 orders was a gain of 2.10%, while the pace of annualized growth for third-quarter activity, revised minimally higher to a gain of 10.38% [due to PPI revisions, previously a gain of 10.46%, 10.57% and initially up by 10.24%]. Based on initial full reporting for fourth-quarter 2015, quarterly growth contracted at an annualized pace of 2.30% (-2.30%). The quarterly gains or muted real contractions here are due partially to highly-suspect, increasingly-negative durable goods inflation in the PPI reporting, which has the effect of boosting the real monthly-, quarterly- and annual-growth detail.

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Third-quarter industrial production growth was on the plus-side, but fourth-quarter 2015 industrial production collapsed, as discussed in *Commentary No. 780*. The current headline durable goods detail is a negative indicator for first-quarter 2016 production and a solid signal for continuing and deepening recession.

On a nominal basis (before inflation adjustment), initial fourth-quarter 2015 orders growth—again, ex-commercial aircraft—fell at an annualized pace of 3.23% (-3.23%), versus a third-quarter 2015 unrevised annualized gain of 8.63%, second-quarter 2015 quarterly annualized growth of 0.57%, a first-quarter 2015 annualized contraction of 7.29% (-7.29%), and a decline of 4.36% (-4.36%) in fourth-quarter 2014.

Headline Nominal (Not-Adjusted-for-Inflation) December 2015 Reporting. The Census Bureau reported today, January 28th, that the regularly-volatile, seasonally-adjusted, nominal level of December 2015 new orders for durable goods declined by 5.06% (-5.06%), versus a downwardly-revised monthly change, a decline of 0.49% (-0.49%) [previously "unchanged" at up by 0.03%], and a downwardly-revised monthly gain of 2.85% [previously up by 2.88%, initially up by 2.99%] in October. Net of the revisions to November, aggregate new orders in December declined in the month by 5.59% (-5.59%).

The year-to-year change in December 2015 durable goods orders was a decline of 0.58% (-0.58%), following a downwardly-revised gain of 0.64% [previously up by 1.20%] in November 2015, and a downwardly-revised annual gain of 0.36% [previously up 0.40%, initially up by 0.51%] in October 2015.

The headline December detail, again, is before consideration of volatility in commercial-aircraft orders. With the aircraft orders considered, headline changes in December still were negative, consistent with a downturn in what had been a continuing pattern of broad stagnation. The inflation-adjusted real series, and that same series corrected for the understatement of official inflation, also are discussed and graphed in the *Opening Comments* section. The corrected series—net of commercial aircraft orders—has remained relatively flat, at a low-level and now down-trending pattern of stagnation, with the other plotted series still showing an unfolding downturn of a nature that usually precedes or coincides with a recession or a deepening business downturn.

Detail Net of Volatility in Commercial-Aircraft Orders. The reporting of extreme contractions and surges in commercial-aircraft orders is seen commonly in an irregularly-repeating process throughout the year, and that often may dominate 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.

Net of a headline decline of 29.36% (-29.36%) in December 2015 and a revised, deeper decline of 23.28% (-23.28%) [previously down by 22.17% (-22.17%)] in November 2015 commercial aircraft orders, aggregate new orders still fell by a 3.63% (-3.63%) in December. Following a minimally-revised gain of 78.75% [previously up by 78.74%, initially up by 81.02%] in October 2015 commercial aircraft orders, aggregate new orders, ex-commercial aircraft rose by a downwardly-revised 1.29% [previously up by1.76%] in November. Ex-commercial aircraft, total orders decline by 0.45% (-0.45%) in October.

Year-to-year and seasonally-adjusted, December 2015 new orders (net of commercial aircraft) fell by 2.31% (-2.31%), following a downwardly-revised gain of 1.49% [previously up by 2.01%] in November 2015, and a revised, somewhat steeper decline of 0.68% (-0.68%) [previously down by 0.65% (-0.65%), initially down by 0.62% (-0.62%)] in October 2015.

Real (Inflation-Adjusted) Durable Goods Orders—December 2015. 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 December 2015 PPI series remained on the minus-side, month-to-month, having contracted on monthly basis in nine of the preceding ten months. The related PPI series fell month-to-month by 0.24% (-0.24%) in December 2015, having declined by 0.18% (-0.18%) in November, having gained 0.12% in October 2015, and been down by a revised 0.12% (-0.12%) [previously down by 0.06% (-0.06%)] in September. Headline annual inflation contracted at a negative year-to-year pace of 1.02% (-1.02%) in December 2015, having been down by 0.90% (-0.90%) in November 2015, down by 0.78% (-0.78%) in October 2015 and down by 0.48% (-0.48%) in September 2015.

Adjusted for that monthly decline of 0.24% (-0.24%) in headline December 2015 inflation, and as reflected in the graphs in the *Opening Comments* section, real month-to-month aggregate orders in December 2015 fell by 4.83% (-4.83%), following a revised decline of 0.49% (-0.49%) [previously up by 0.21%] in November. Ex-commercial aircraft, monthly real orders fell by 3.39% (-3.39%) in December 2015, versus a downwardly-revised gain of 1.47% [previously up by 1.95%] in November.

Real year-to-year aggregate orders rose by in December 2015 by 0.44%, following a downwardly-revised 1.55% [previously up 2.12%] gain in November 2015. Ex-commercial aircraft, real orders declined year-to-year by 1.30% (-1.30%) in December 2015, versus a downwardly-revised annual gain of 2.41% [previously up by 2.93%] in November 2015.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 3* to *8*) are displayed in the *Opening Comments* section. The first set (*Graphs 3* and *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 unstable commercial-aircraft orders. The moving-average levels in both series had turned lower into year-end 2014 and into the first two quarters of 2015, with some smoothed bounce-back now turning to a downtrend in the most recent months.

The second set of graphs (*Graphs 5* to *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 the understatement of that inflation (and for the related overstatement of official, inflation-adjusted growth). The third set of graphs (*Graphs 7* to *8*) shows the same patterns, but for the aggregate durable goods series, net of commercial aircraft orders.

Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems seen with retail sales, 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, temporarily, with the annual benchmark revision to durable goods orders on May 14, 2015, subsequent monthly reporting and revisions have made all historical reporting prior to October 2015 inconsistent with the current headline numbers.

NEW-HOME SALES (December 2015)

December Sales Gains Were Not Statistically Significant. As usual, the volatile reporting of monthly and annual changes in December 2015 New-Home Sales was not statistically significant; the same was

true for the initial estimate of a fourth-quarter gain in sales. In the context of continuing, irregular revisions to previously-reported activity, headline December sales rose by 10.8% for the month, up by 11.0% net of prior-period revisions. Year-to-year annual growth was 9.9% in December 2015, with November 2015 annual growth revised higher to 9.4% from initial reporting of 9.1%.

Where the unstable reporting of a headline December 2015 annualized sales level of 544,000 units (45,333 monthly rate as used in the graphs) remained below February 2015 reporting, it also was down by 61% (-61%) from the pre-recession peak for the series.

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 (see *Graph 11* in the *Opening Comments*).

Graphed either way, smoothed or not, the various housing series generally have continued to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing activity never recovered with the purported GDP recovery. From its pre-recession peak of July 2005, headline December 2015 New-Home Sales activity still was down by 60.8% (-60.8%), while December 2015 Single-Unit Housing Starts were down by 57.9% (-57.9%) from the January 2006 high of that series.

Discussed in the *Opening Comments* section, there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis for a current or imminent recovery in the housing market.

Headline December 2015 Reporting. Reported by the Census Bureau, yesterday, January 27th, December 2015 New-Home Sales (counted based on contract signings) increased month-to-month in the context of generally upside revisions to activity in September and through November (primarily in September and October). Headline December 2015 sales rose by a statistically-insignificant 10.8% +/- 20.0% (all confidence intervals are at the 95% level). That followed a downwardly-revised gain of 1.9% [previously up by 4.3%] in November, a downwardly-revised gain of 5.5% [previously up by 6.3%, initially up by 10.7%] in October, and a narrowed month-to-month contraction of 9.9% (-9.9%) [previously down by 12.8% (-12.8%), down by 12.9% (-12.9%) and initially down by 11.5% (-11.5%)] in September. Again, net of prior-period revisions, December 2015 monthly sales rose by a still statistically-insignificant 11.0%, instead of the headline gain of 10.8%.

Year-to-year, December 2015 sales increased by a statistically-insignificant 9.9% +/- 29.3%. That followed an upwardly-revised annual gain of 9.4% [previously up by 9.1%] in November 2015, an upwardly-revised 2.1% annual gain [previously a contraction of 0.4% (-0.4%), initially a gain of 4.9%] in October 2015, and a narrower contraction of 0.4% (-0.4%) [previously down by 3.7% (-3.7%), down by 2.6% (-2.6%) and initially a gain of 2.0%] in September 2015.

In the arena of continued extreme volatility and unstable, nonsensical headline reporting, consider that the annualized quarterly pace of sales gain in first-quarter 2015 was 43.9%, with the second-quarter 2015 sales activity in an annualized quarterly decline of 14.8% (-14.8%). Third-quarter 2015 new-home sales showed a revised, narrower annualized contraction of 6.8% (-6.8%) [previously down by 10.6% (-10.6%), down by 7.8% (-7.8%) and initially up by 2.7%], with the initial fourth-quarter sales gain estimated at a

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statistically-insignificant 15.3% +/- 28.5%. Previously, based solely on October and November reporting, fourth-quarter New-Home Sales had been declining at an annualized pace of 2.5% (-2.5%). Based just on the first October reporting, the initial trend in fourth-quarter New-Home Sales reporting was at a positive annualized pace of 7.0%.

New-Home Sales Graphs. The regular monthly graph of New-Home Sales is included in the *Opening Comments* section, along with a six-month moving-average version of the series. Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of December 2015 Housing Starts for single-unit construction, from *Commentary No. 778*, along with comparative graphs of Existing-Home Sales (see *Graphs 9* to *15*).

EXISTING-HOME SALES (December 2015)

Fourth-Quarter 2015 Sales Declined at a 20.0% (-20.0%) Annualized Pace, Despite Distorted November and December Headline Detail. Disrupted by systemic issues, not by reporting quality, neither the headline monthly jump of 14.7% in December 2015 Existing-Home Sales, nor the monthly plunge of 10.5% (-10.5%) in November was indicative of underlying economic reality.

Instead, the headline sales numbers reflected disruptive shifts in the timing of Existing-Home-Sales closings, where the "Know Before You Owe initiative pushed a number of November's would-be transactions into last month's [December] figure, according to the National Association of Realtors®." The NAR had cautioned previously that "some of the [November monthly] decrease was likely because of an apparent rise in closing timeframes." New regulations were imposed by the Consumer Financial Protection Bureau, effective in October 2015, overhauling disclosure forms and adding an extra three days for consumers to review their mortgage packages.

At this point, the effect on fourth-quarter 2015 aggregate data appears to be minimal, with the result of an annualized headline quarter-to-quarter contraction of 20.0% (-20.0%).

Table 1 - Existing-Homes Sales (See Text)

	NAR Headline Reporting			
	Millions/Yr	Thousands/Mo	Mo/Mo	Yr/Yr
Oct 2015	5.320	44.333	-4.1%	3.1%
Nov	4.760	39.667	-10.5%	-3.8%
Dec	5.460	45.500	14.7%	7.7%
	ShadowStats Re-Estimation			
	Millions/Yr	Thousands/Mo	Mo/Mo	Yr/Yr
Oct 2015	5.320	44.333	-4.1%	3.1%
Nov	5.062	42.183	-4.8%	2.3%
Dec	5.158	42.983	1.9%	1.7%

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While the NAR assessed its latest numbers looking at November and December activity added together, effectively averaged, there is an approach to weighting more-realistic shifts in aggregate activity. Specifically, all-cash sales, as surveyed by the NAR should not have been impacted by the regulatory changes. All-cash sales were 24% of December 2015 sales, versus 27% in November 2015, in line with what might have been expected due to distortions in mortgage-based sales. Using the percentage of all cash sales as a benchmark suggested that aggregate headline sales rose by about 1.9% in December versus November, with a consistent November over October contraction of 4.8% (-4.8%). ShadowStats reworked the headline November and December monthly Existing-Home Sales on that basis as reflected in the accompanying *Table 1*.

Graph 13 shows the ShadowStats detail in the main plot, with the distortion-acknowledged headline detail plotted in the accompanying plunging and soaring gray line. These data remain unstable, and further adjustments may lie ahead, particularly in the formal annual revisions to the series.

Deepening Pace of Quarterly Contraction, Ongoing Lack of Recovery from Collapse into 2009. Existing-Home Sales in December 2015 were down by a headline 24.9% (-24.9%) to a ShadowStats estimate of 29.7% (-29.7%) from the June 2005 pre-recession peak, a high that has not been matched since the collapse. In contrast, the December 2015 headline monthly Housing Starts remained down by 49.5% (-49.5%) versus its January 2006 pre-recession high.

First-quarter 2015 showed an annualized quarterly sales contraction of 6.7% (-6.7%) in existing sales, with the second-quarter 2015 pace of annualized growth at 28.7%. Third-quarter 2015 growth slowed to an annualized pace of 14.3%, with initial reporting of annualized fourth-quarter 2015 activity contracting at an annualized pace of 20.0% (-20.0%). Based just on October and the negatively exaggerated November reporting—fourth-quarter activity was contracting at an annualized pace of 28.3% (-28.3%), where the initial fourth-quarter estimate, based solely on the initial headline October activity, was for a quarterly contraction of 8.3% (-8.3%).

Headline Detail for December 2015 Existing-Home Sales. In the context of the prior discussion in the opening paragraphs of this section, the January 22nd release of December 2015 existing-home sales (counted based on actual closings, NAR) showed a seasonally-adjusted, headline monthly gain of 14.7% [ShadowStats Alternate of , following an unrevised month-to-month decline of 10.5% (-10.5%) in November. On a year-to-year basis, December 2015 annual sales were up by 7.7%, following a November 2015 annual sales contraction of 3.8% (-3.8%).

These numbers have moved outside the normal scope of reporting volatility for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, albeit now flat-to-down-trending, again, as seen in *Graph 13* in the *Opening Comments*. The quality of data underlying this series remains highly questionable, as usual.

Proportion of Distressed Sales Declined, Along with All-Cash Sales in December. The NAR estimated the portion of December 2015 sales in "distress" declined for the month to 8% (6% foreclosures, 2% short sales), from 9% (7% foreclosures, 2% short sales) in November, and against 11% (8% foreclosures, 3% short sales) in November 2014. The extent of any impact on these measures from the closing-timing issues is unknown.

Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in December 2015 were 24% of December 2015 sales, versus 27% in November 2015 and versus 26% in December 2014.

The primary, underlying difficulty for the housing market remains intense, structural-liquidity constraints on the consumer, which continued to prevent a normal recovery in broad U.S. business activity from the economic collapse, as discussed in the *Opening Comments*.

Existing-Home Sales Graph. The regular monthly graph of Existing-Home Sales is found in the *Opening Comments* section, accompanied by a comparative graphs of December 2015 aggregate Housing Starts activity from *Commentary No. 778*. Both series reflect activity in terms of single- and multiple-housing units (see *Graphs 13* to *15*), along with comparative graphs of Existing-Home Sales (see *Graphs 9* to *12*).

WEEK AHEAD

Economic Reporting Should Continue Trending Weaker than Expected, Well into 2016 Reporting; Inflation Should Rise Anew—Along with Oil Prices—in Response to a Weakening Dollar. Fluctuating increasingly to the downside, amidst intensifying, negative headline reporting, market expectations for business activity nonetheless still gyrate with the latest economic hype in the popular media. That effect helps to hold the consensus outlook at overly-optimistic levels, with current expectations still exceeding underlying reality. Along with the broad trend in weakening expectations, however, movement towards looming recession recognition continues at an accelerating pace, as discussed in the *Opening Comments*, in *Commentary No. 778*, in *No. 777 Year-End Special Commentary* and in the *Pending Release* (GDP).

Headline reporting of the regular monthly economic numbers increasingly should weaken in the weeks and months ahead, along with much worse-than-expected reporting for at least the next several quarters of GDP (and GDI and GNP), for fourth-quarter 2015 and well into 2016. That includes mounting odds for an eventual outright quarterly contraction in fourth-quarter 2015 GDP activity, as well as pending downside revisions to recent GDP history in the 2016 annual benchmark revision, due on July 29th (see *Pending Releases*).

CPI-U consumer inflation—intermittently driven lower this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Annual CPI-U

turned minimally positive in June 2015, for the first time in six months, notched somewhat higher in July and August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. With positive seasonal adjustments countering some of the monthly weakness in gasoline prices, combined with particularly weak headline inflation one year ago, headline November 2015 CPI-U annual inflation rose to 0.5%, with further upside movement in annual inflation to 0.7% in December. The potential for some pullback in January CPI inflation, however, is discussed in today's CPI detail. Separately, fundamental reporting issues with the CPI are discussed here: *Public Commentary on Inflation Measurement*.

Despite heavily-negative oil-supply circumstances, at present, significant inflation pressures should mount anew, at such time as oil prices rebound, a process that should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those areas, the general economic outlook and longer range reporting trends were reviewed broadly, most recently, in *No. 777 Year-End Special Commentary* in complement to *No. 742 Special Commentary: A World Increasingly Out of Balance*, *No. 692 Special Commentary: 2015 - A World Out of Balance* and the *2014 Hyperinflation Reports: The End Game Begins and Great Economic Tumble.*

Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten 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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data, discussed and explored in the labor-numbers related *Commentary No. 695*).

Separately, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" has surfaced, currently involving surveys of earnings and construction spending. This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. At the same time, it indicates an openness of the involved statistical agencies in revealing the reporting-quality issues. Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' 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*).

PENDING RELEASE:

***Updated* - Gross Domestic Product (GDP)—Fourth-Quarter 2015, "Advance" or First Estimate.** The Bureau of Economic Analysis (BEA) will publish its first or "advance" estimate of fourth-quarter 2015 Gross Domestic Product (GDP) tomorrow, Friday, January 29th. Discussed in the opening paragraphs of *Commentary No. 781*, indications already are in place for an inflation-adjusted, real

contraction in fourth-quarter 2015 GDP. Yet, the most likely initial headline reporting will be positive, albeit below consensus expectations.

History has shown that the BEA will hold back in reporting a headline quarterly GDP contraction, when the consensus outlook is positive. The broad, late-consensus outlook appears now to have declined to a still-positive annualized pace, albeit below 1.0%.

With the underlying numbers so weak, the BEA likely will publish headline growth that is positive, but well below consensus. Both the consensus numbers and the BEA reporting then likely would turn negative in the second estimate of fourth-quarter GDP, on February 26th. Such a pattern would be similar to that seen with first-quarter 2015 GDP. Initial reporting of the first-quarter GDP was a gain of 0.2%, then down by 0.7% (-0.7%) in the first revision. That quarterly change, however, was taken into positive territory with July 2015 benchmark revisions.

Formal recession recognition (timed from December 2014) likely will follow in the wake of the eventual announcement of a headline contraction in fourth-quarter 2015 GDP.

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