

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

**COMMENTARY NUMBER 440**  
**Durable Goods Orders Annual Benchmark Revision**

**May 18, 2012**

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**Durable Goods Orders Collapsed More Sharply in 2009,  
Rebounded More Sharply in 2010, and Showed a Somewhat Softer Gain in 2011**

**Auto Industry Turmoil Appears to Have Disrupted Orders Reporting**

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*PLEASE NOTE: The next regular Commentary is scheduled for Thursday, May 24th, covering April new orders for durable goods, and April new and existing home sales.*

*Best wishes to all — John Williams*

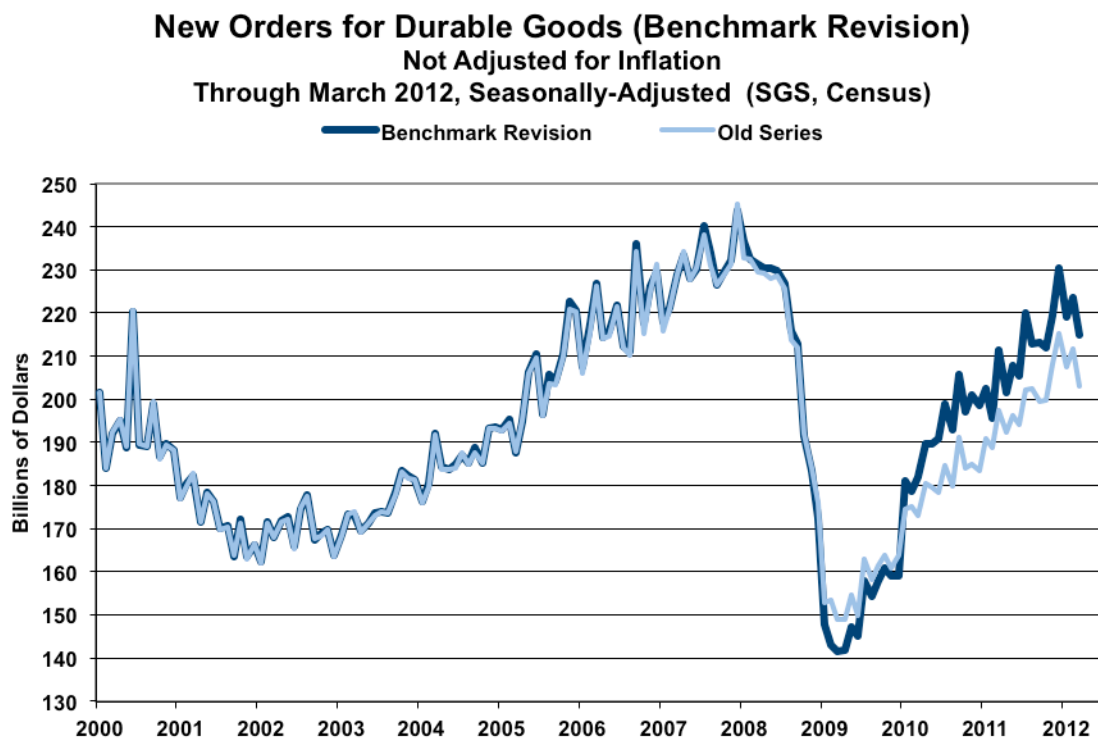
**REPORTING DETAIL**

**NEW ORDERS FOR DURABLE GOODS (Annual Benchmark Revision).** The annual benchmark revision to new orders for durable goods showed a deeper collapse in industry orders through 2009, with a stronger bounce-back in 2010 than previously reported. The bulk of the revisions appear to have been tied to reporting problems out of the troubled auto industry. Shipments reported in the 2010 annual

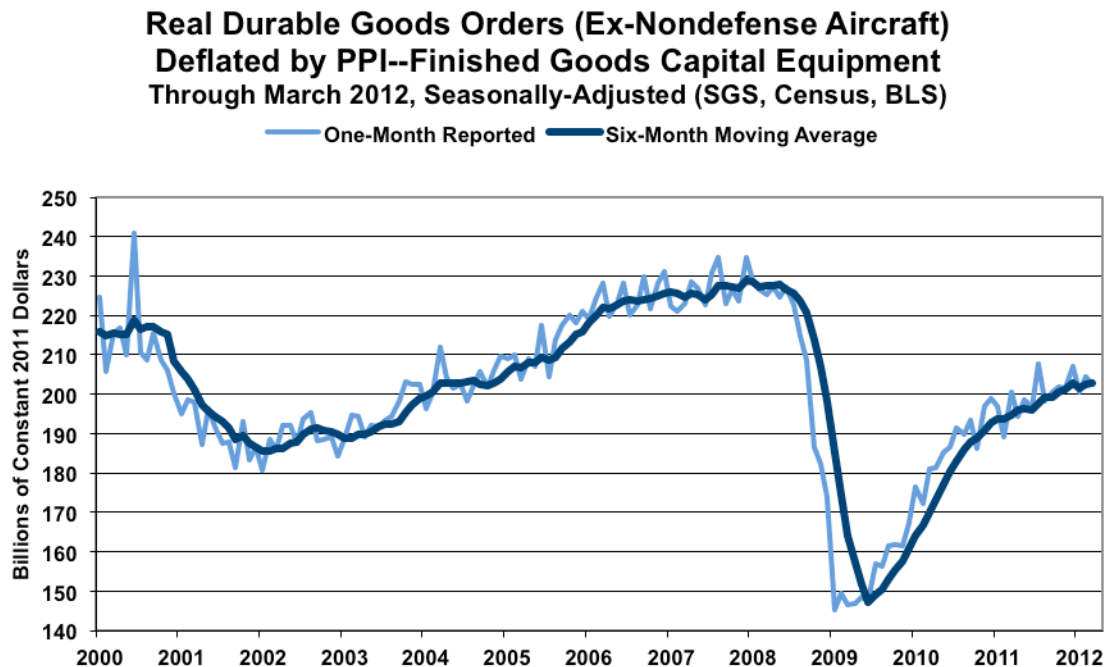
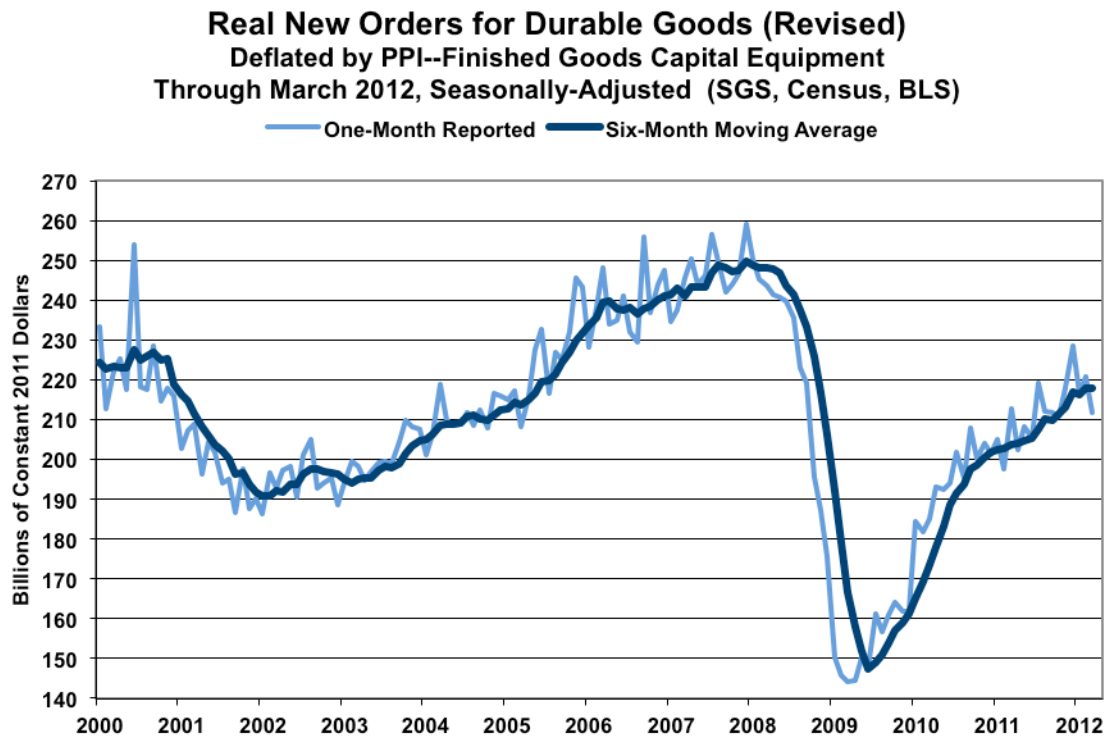
survey of manufacturers were used to back into what the orders purportedly should have been. The revisions do not change the general outlook for the U.S. economy.

As released this morning (May 18th) by the Census Bureau, the annual change in durable goods orders was revised to a contraction of 6.0% (previously 6.1%) in 2008, to a contraction of 30.3% (previously 27.6%) in 2009, to a gain of 27.1% (previously 15.5%) in 2010, and to a gain of 9.7% (previously 10.0%) in 2011.

Net of the changes to transportation orders, however, the revisions were less-severe, revised to a contraction of 25.7% (previously 23.5%) in 2009, to a gain of 18.0% (previously 14.1%) in 2010, and to a gain of 8.6% (previously 8.8%) in 2011. Though not obvious in the published detail, motor vehicle orders accounted for the bulk of the revisions, per comments from the Commerce Department.



The revisions to the aggregate series are shown in the preceding graph, as the thicker dark line. Net of the downside changes to 2009 and the upside changes in 2010, the 2011 pattern pretty much is as it was before, just at a higher level. The current upside biases remain in place. The following two graphs incorporate the revisions and show the total new orders series, and the same net of volatile nondefense aircraft orders, adjusted for inflation, and on both a monthly and six-month moving-average basis. As was the case before the benchmarking, both series show new orders to be below the levels going into the 2001 recession, and still far short of recovering their pre-2007 recession highs.



These series are plotted to the same scale, and are deflated by the producer price index (PPI) finished goods capital equipment inflation measure. That inflation index, as seen with other series such as GDP and industrial production, tends to understate inflation, due to the use of hedonic quality adjustments. Appropriately adjusted for that, the post-trough upturn seen in the two preceding graphs would reflect a pattern much closer to ongoing economic stagnation.

**Week Ahead.** *Recognition of an intensifying double-dip recession as well as an escalating inflation problem remains sporadic. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news; and the financial markets will do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.*

*Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.*

**New Home Sales (April 2012).** The April 2012 existing home sales release is scheduled for Tuesday, May 22nd, from the National Association of Realtors. New home sales data are due for release from the Census Bureau on Wednesday, May 23rd. As usually is the case for both series, entrenched patterns of bottom-bouncing likely will continue, and the new monthly results are not likely to be statistically significant.

**New Orders for Durable Goods (April 2012).** Against the backdrop and new base for the durable goods orders series as just benchmarked, the initial estimate for April 2012 new orders for durable goods is scheduled for release on Thursday, May 24th. As has continued to be the case in recent months, whatever month-to-month change is reported for this regularly volatile series, it likely will not be meaningful, remaining well within the bounds of regular monthly swings, and subject to the irregular activity in nondefense aircraft orders.

In terms of the potential inflation contribution to new orders growth, the seasonally-adjusted, month-to-month seasonally-adjusted change in the April PPI finished goods capital equipment index was an increase of 0.2%, with year-to-year inflation at 2.0%.