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

COMMENTARY NUMBER 518
Durable Goods Orders, Home Sales, Monetary Base,
Gold and GDP-Outlook Updates

April 24, 2013

First-Quarter Durable Goods Orders Contracted at 1.6% Annualized Pace

Home Sales Activity Constrained by Consumer Liquidity Woes

GDP Revision Games

Monetary Base Tops $3 Trillion

PLEASE NOTE: The next regular Commentary *is scheduled for Friday, April 26th, covering the release of the initial estimate of first-quarter 2013 GDP.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Latest Data Show Troubled Economy and Financial System. New orders for durable goods have slowed and turned down at an accelerating pace, while existing- and new-home sales have flattened out or turned down anew, hit by deepening consumer-liquidity troubles. Initial first-quarter GDP reporting on

April 26th likely will be weaker than consensus forecasts, while some details of the July 31st comprehensive GDP benchmark revision have started to surface in the popular financial media. These areas are discussed further in this *Opening Comments* section.

At the same time that the economy is faltering anew, the monetary base has hit another record high, and broad money supply growth has been slowing. The divergence in the annual monetary growth patterns continues to generate a tentative signal of intensifying domestic banking-system problems, discussed in the *Hyperinflation Watch*. Also in that section, there are an unchanged *Hyperinflation Outlook* and the promised, updated graphs of inflation-adjusted gold and silver and inflation-adjusted stock indices.

March 2013 New Orders for Durable Goods. A plunge in commercial aircraft orders dominated the headline 5.72% monthly decline in March durable goods orders, much as the downwardly revised 4.33% growth in January was dominated by an aircraft-order surge. Aircraft orders rarely impact near-term economic activity, due to their long-lead-time nature, with the effect that the monthly decline in the series was within the scope of normal volatility.

The pattern of generally slowing orders—seen since early-2012—remains in place and is of a nature that usually precedes or coincides with a recession or, as likely is the present circumstance, a re-intensification of an economic downturn. On a seasonally-adjusted, annualized quarterly growth rate basis (the way GDP growth is calculated), first-quarter 2013 orders declined by 1.6%, following a 15.8% gain in fourth-quarter 2012 GDP. The first-quarter contraction was the fourth such decline in the last five quarters.

Year-to-year change in seasonally-adjusted March new orders narrowed to a 0.5% gain, versus a downwardly revised 2.6% gain in February. Not-seasonally-adjusted, March 2013 orders declined by 1.5% from March 2012.

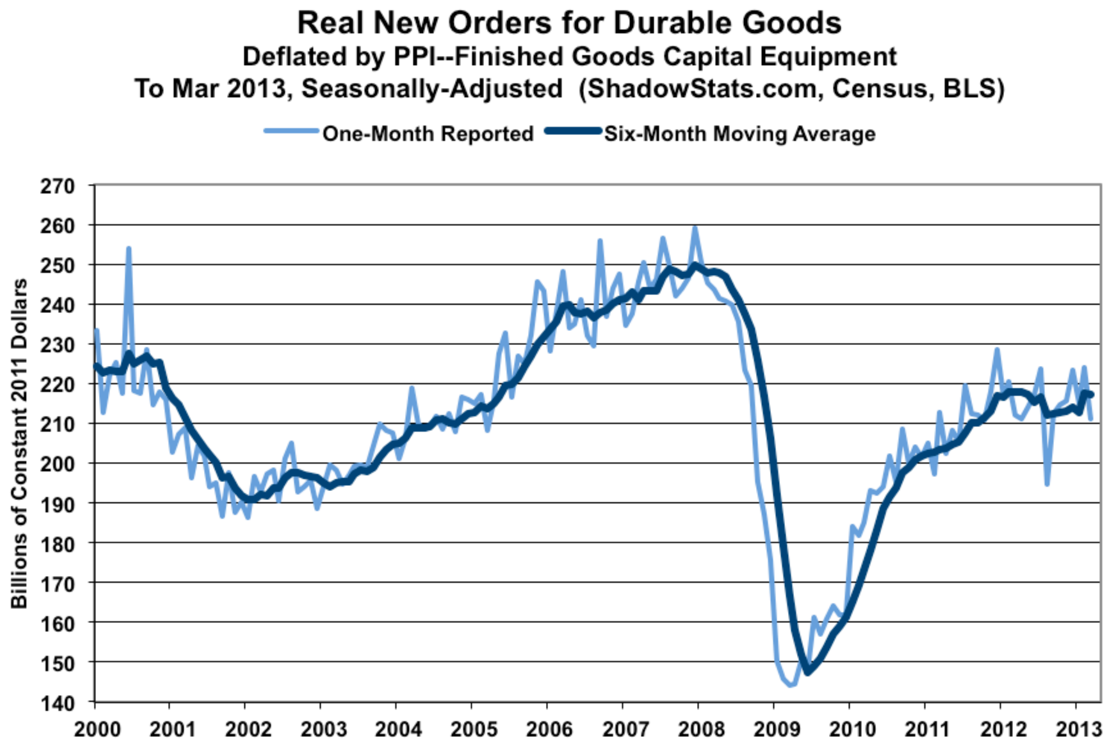
Adjusted for inflation, the real decline in monthly March orders was 5.84%, versus a 4.27% gain in February. On a year-to-year basis, the inflation- and seasonally-adjusted year-to-year change was a contraction of 0.49% in March, versus a real gain of 1.67% in February.

Annual benchmark revisions to this series are due for release on May 17th. A likely general trend in the results of those revisions should be that economic reporting of recent years has been overstated.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. Previously shown and discussed in the regular *Commentaries* that cover the reporting of new orders for durable goods, the following two graphs plot the new orders, adjusted for inflation (using the PPI finished goods capital equipment index, December 2011 = 100) and smoothed.

These graphs plot the monthly as well as a six-month moving average of activity levels. The first graph shows the aggregate new orders series; the second series is net of the extremely volatile commercial-aircraft order sector. As reflected in these graphs of still-irregular activity, the durable goods series appears again to be in a renewed economic downturn.

In terms of inflation-adjusted activity, these series have shown a slowing uptrend and flattening-out in the last two-to-three years—now in a general pattern of downturn—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in March 2013 remained below both the pre-2001 and pre-2007 recession highs. The pattern of recent softness seen in the inflation-adjusted series also is one that commonly precedes or is coincident with a recession.


Real New Orders for Durable Goods
Deflated by PPI--Finished Goods Capital Equipment
To Mar 2013, Seasonally-Adjusted (ShadowStats.com, Census, BLS)
One-Month Reported
Six-Month Moving Average
Billions of Constant 2011 Dollars
270
260
250
240
230
220
210
200
190
180
170
160
150
140
2000
2001
2002
2003
2004
2005
2006
2007
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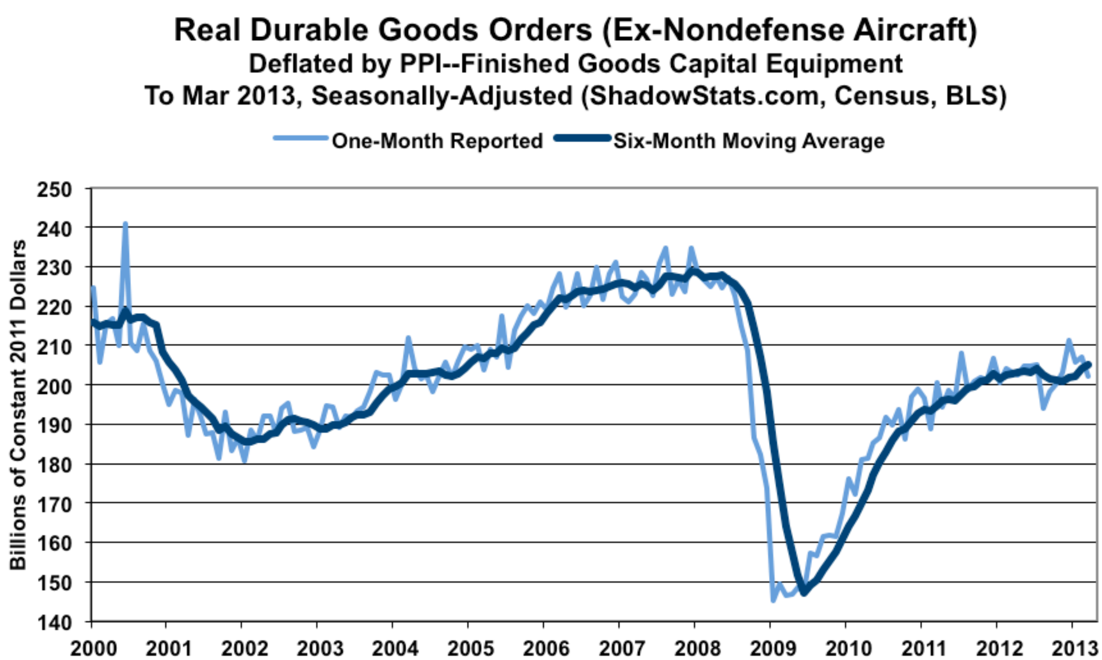
2009
2010
2011
2012
2013


Real Durable Goods Orders (Ex-Nondefense Aircraft)
Deflated by PPI--Finished Goods Capital Equipment
To Mar 2013, Seasonally-Adjusted (ShadowStats.com, Census, BLS)
One-Month Reported
Six-Month Moving Average
Billions of Constant 2011 Dollars
250
240
230
220
210
200
190
180
170
160
150
140
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

If the deflation measure here were corrected meaningfully for the hedonic-adjusted understatement of inflation, the post-2009 uptrend in real orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity, with the most-recent reporting turning increasingly negative.

March 2013 Existing- and New-Home Sales. Activity in both the existing- and new-home sales series appears to be stagnating or to have turned down anew in the post-housing-crash environment. Increasingly, structurally-impaired consumer liquidity has been acting as a constraint on consumption, whether in retail sales or housing.

Indeed, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or a broad economic recovery. To the contrary, as discussed frequently (see *Commentary No. 513* and *No. 485: Special Commentary*), liquidity conditions for the consumer appear to be deteriorating.

Existing-Home Sales. The March 2013 headline 0.6% monthly decline in existing-home sales was in the context of a downside revision of the headline February growth rate to 0.2% from 0.8%. On a year-to-year basis, March 2013 sales rose by 10.3%, versus a revised 9.5% gain in February. Smoothed for irregular distortions, the series remains statistically consistent with an ongoing pattern of broad stagnation.

For March, the National Association of Realtors (NAR) estimated "distressed" sales at 21% of the total (13% foreclosures, 8% short sales), down from 25% (15% foreclosures, 10% short sales) in February. Reflecting ongoing lending issues within the banking industry and a reasonably-steady influx of investment money, the NAR also estimated that all-cash sales in March were at 30% of total sales, versus 32% in February.

New-Home Sales. March 2013 new home sales also continued a pattern of stagnation in the aftermath of the housing-industry collapse from 2006 into 2009. Sales rose by a statistically-insignificant 1.5% for the month, following a revised 7.6% contraction in February. The year-to-year gain of 18.5% in March also was statistically-insignificant.

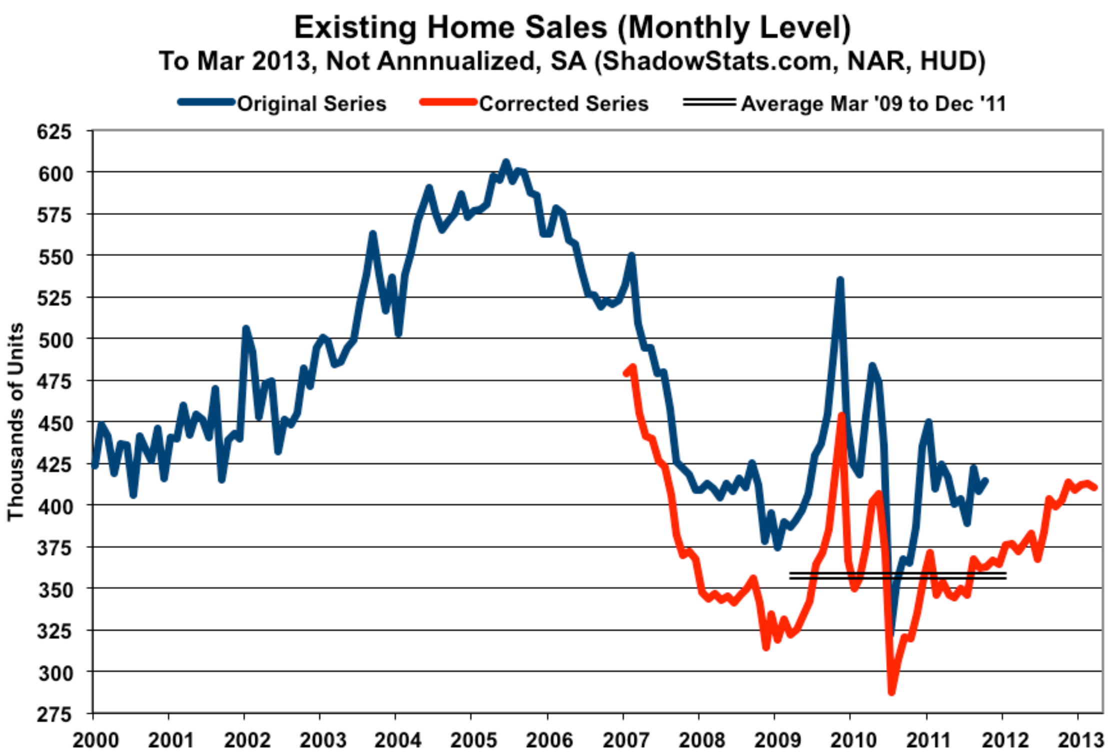
Home-Sales Graphs. Following are the regular monthly graphs of existing- and new-home sales, plus a comparative graph of single-unit housing starts. Each series reflects seasonally-adjusted activity level, as measured in thousands of housing units per month. The series usually are expressed at an annualized monthly rate, but that is not too meaningful with series that are as volatile as these.

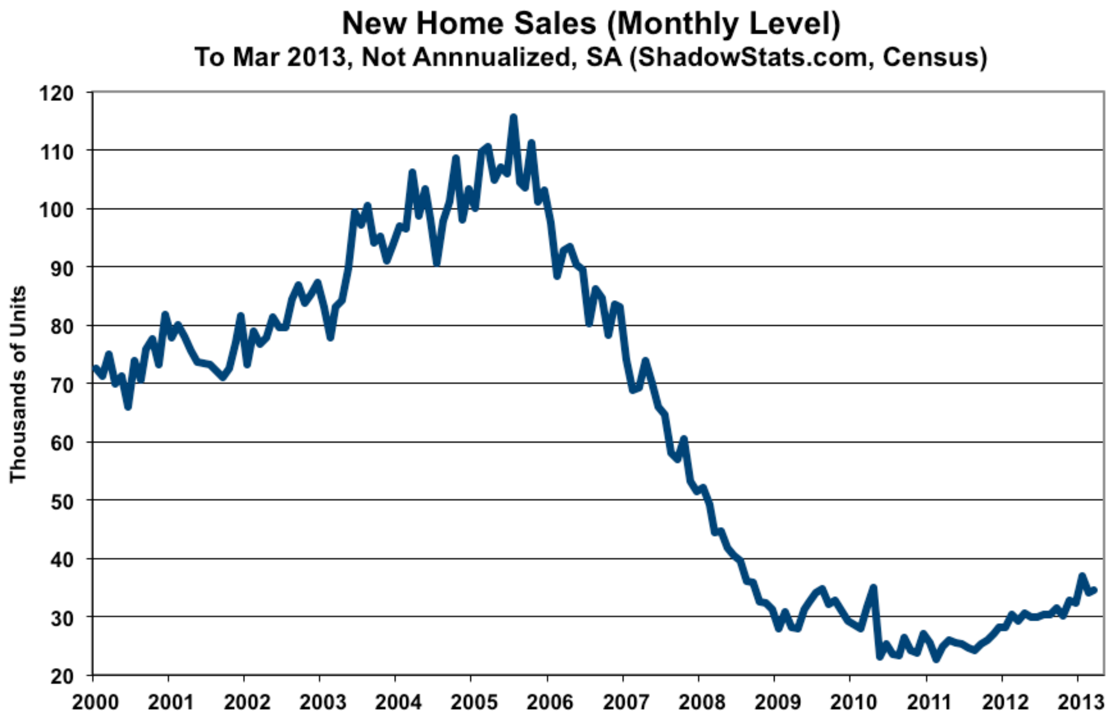
In the first graph, beyond the massive downside corrections to the existing-home sales series—published with November 2011 data—reporting for the existing-home sales series has remained subject to a high level of irregular volatility and significant seasonal-factor instabilities, as also has been seen in a number of government series, particularly the residential sales and construction series. Those seasonal-factor distortions are a result of the severe depth and length of the economic contraction, a circumstance that post-World War II (or modern) economic reporting never was designed to handle.

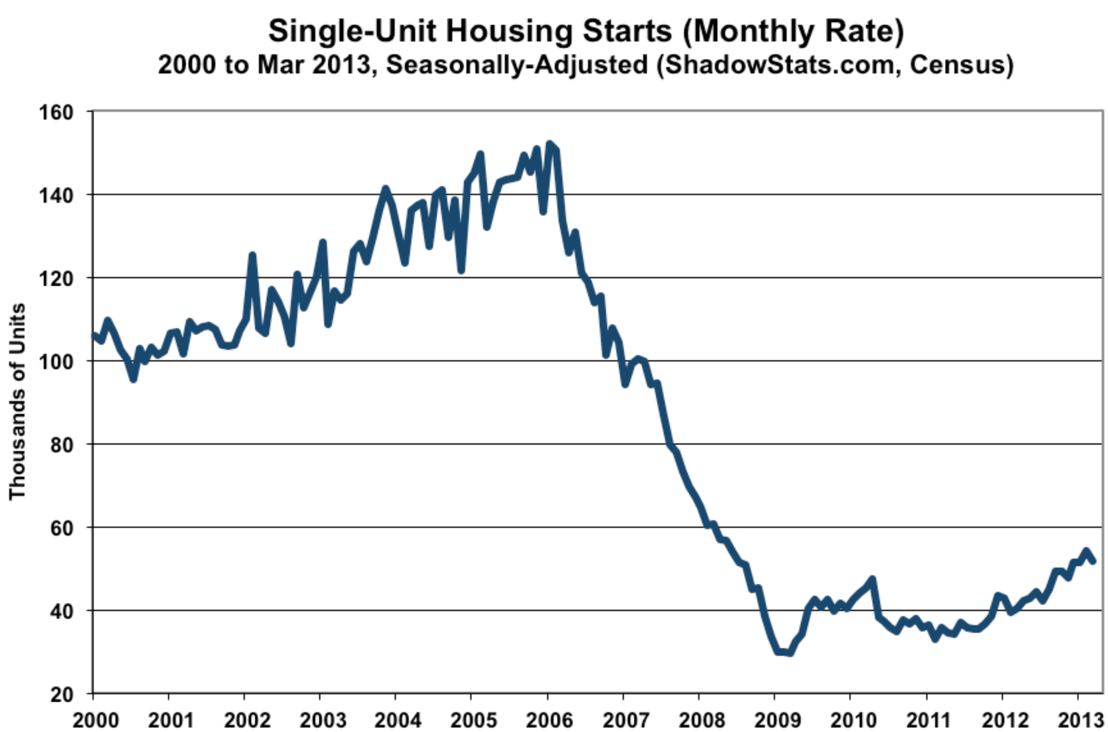
The monthly variability for existing-home sales also has been exacerbated by the introduction of various government tax-incentive programs and expiration of same. The horizontal line in that graph is the average monthly level for the period of extreme sales volatility, though December 2011. With those sales swings averaged out, the pattern of activity resembles the bottom-bouncing seen in the accompanying graphs of new-home sales and in single-unit housing-starts activity, although the existing-home sales peak-to-trough contraction never was as severe as that seen in the sales tied to new construction.

The second graph shows the level of new-home sales in a pattern that is typical of economic series that have not been biased with bad-quality inflation-adjustment. The pattern seen here, as well as in the third graph showing single-unit housing starts, is one of downturn beginning in 2006, into 2007, plunging into 2009 and then followed by a protracted period of volatile bottom-bouncing or stagnation at a low-level of activity. There has been no recovery. The most recent reporting reflects a renewed turn to the downside.

Where previously the third graph used here was total housing starts, that series increasingly is being moved by apartment or multi-unit starts. The single-unit starts is the closest series to the homes sales market as discussed and shown in [Commentary No. 517](#).




New Home Sales (Monthly Level)
To Mar 2013, Not Annnualized, SA (ShadowStats.com, Census)
Thousands of Units
120
110
100
90
80
70
60
50
40
30
20
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Single-Unit Housing Starts (Monthly Rate)
2000 to Mar 2013, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
160
140
120
100
80
60
40
20
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

GDP—Upcoming Reporting and the Comprehensive Revision. The "advance" estimate of first-quarter 2013 GDP is due for release on Friday, April 26th, from Bureau of Economic Analysis (BEA). Discussed in the updated *Week Ahead* section at the end of this *Commentary*, market expectations for a headline annualized quarterly growth rate of around three-percent have a fair chance of being disappointed.

Separately, a "comprehensive" benchmark revision to the GDP is due for release on July 31st, with the level of a redefined GDP to be boosted by about three-percentage points. That change has received heavy press in the last several days, and a number of subscribers have asked ShadowStats to comment on the implications for GDP reporting, going forward. As an aside, these issues were discussed, at least minimally, in both the *Opening Comments* and *Reporting Detail* sections of *Commentary No. 513* of March 28th. The ShadowStats comments there included:

"The BEA also is redefining and recalculating the GDP back to 1929, so as to include 'capitalization of research and development expenditures,' 'capitalization of entertainment, literary and other artistic originals,' and 'capitalization of ownership transfer costs of residential fixed assets.' Those three items previously were expensed. By themselves, they are estimated to add about $430 billion or 2.7% to the current GDP level, per the BEA."

Methodological changes, such as those discussed, sometimes have been lobbied for. They can be used in order to help certain industries look stronger and/or to add new, sustainable (although sometimes short-lived) growth areas to a series that otherwise has lost momentum. Quarterly growth rates will be affected, likely to the plus-side. Rarely are definitional changes made that are intended to result in the reporting of weaker growth, going forward.

The higher level of nominal (not-adjusted-for-inflation) GDP will reduce slightly the federal debt-to-GDP ratio. It also will increase estimates of the velocity of money (GDP/money supply), or how many times the money supply turns over in the economy in a given year. Separately, the changes will boost the reported size of the U.S. economy on a comparative basis versus the rest of the world, although the underlying economic reality will not have changed at all.

These methodological shifts also should result in the reporting of a somewhat less-severe Great Depression, as a result of "Pollyanna Creep" that is discussed in the *GDP Primer Series*.

Otherwise, the general trend in GDP revisions due to the availability of better-quality historical information in recent years still should be to the downside. Even with the new gimmicks and inflated nominal levels of aggregate activity, real (inflation-adjusted) GDP growth back into the prior decade should revise lower, showing weaker than previously estimated activity. Even so, the GDP will remain the most-worthless and heavily-massaged major economic series put out by the federal government's statistical agencies.

[Further details on March new orders for durable goods and new- and existing home sales are found in the* Reporting Detail *section.]

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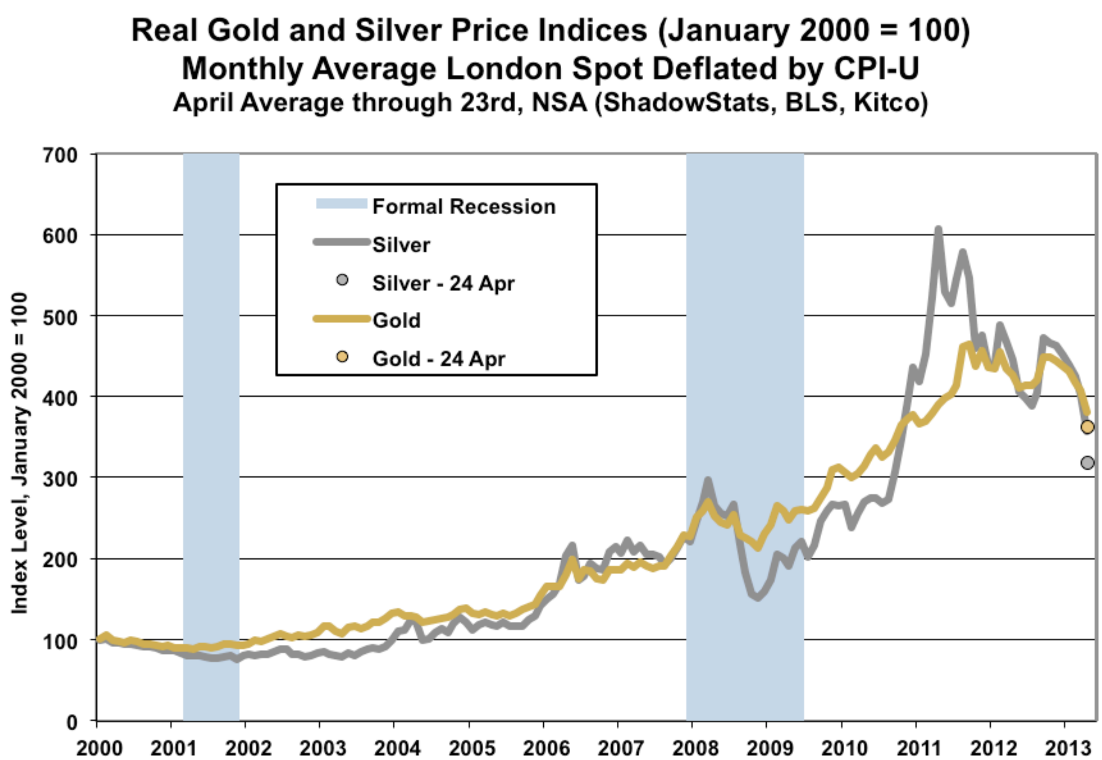
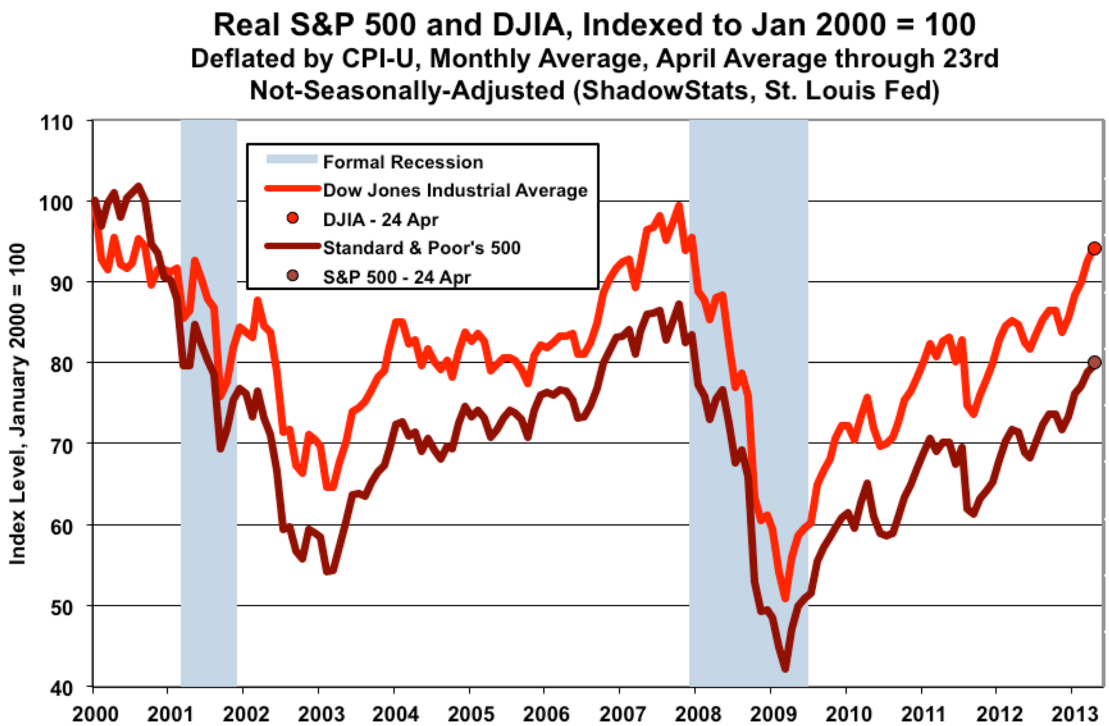
HYPERINFLATION WATCH

Gold and Silver versus Stock Indices Updated. Further to *Commentaries Nos.* *516* and *517*, in the wake of the recent sell-off in gold and silver prices, and as promised in the latter missive, here are the updated gold and stock-market graphs. The plots show the monthly average prices or index levels of silver and gold, and the Dow Jones Industrial Average and Standard & Poor's 500, with the gains from inflation removed and the series indexed to January 2000 = 100. The inflation rate used here is government's official CPI-U.

Today's indexed prices—indicated by the small circles—are the latest London fixes or market indications as of roughly 11 a.m. New York time, April 24th. What the graphs show is that $100 invested in gold or silver in January 2000, would be worth somewhat over $300, today, after removing the gains that could be attributed to inflation, per official government reckoning of consumer inflation.

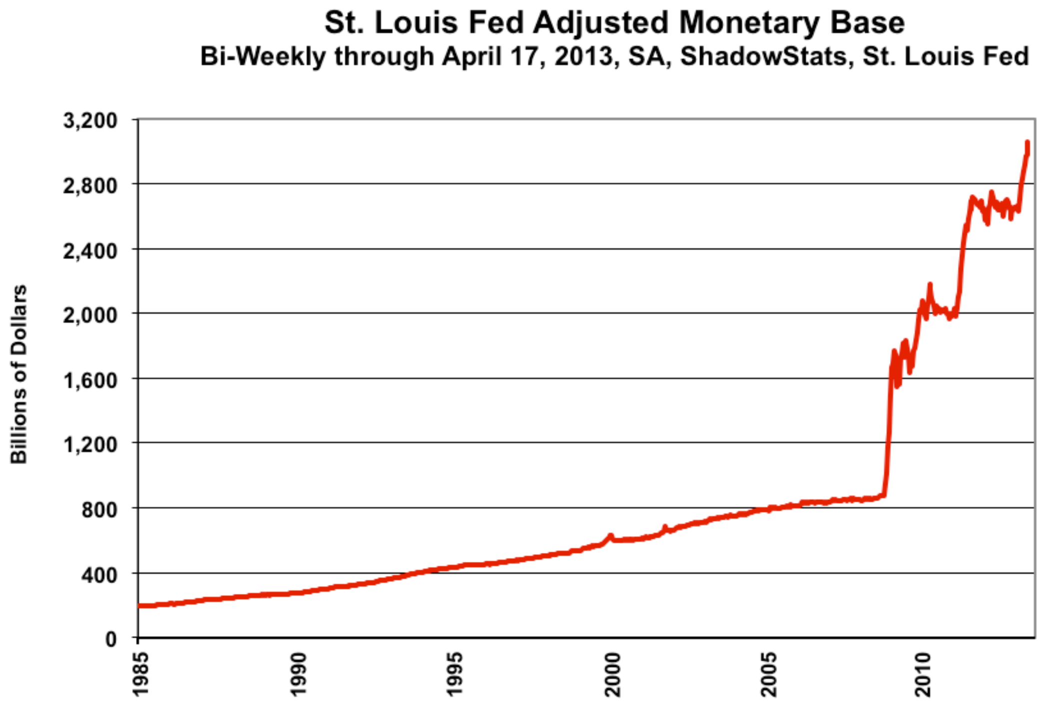
In like manner, $100 invested in the DJIA or S&P 500 in January 2000 would be worth, today, roughly $94 and $80, respectively, after inflation adjustment, assuming an investor changed stock holdings coincident with the various re-compositions of the indices.

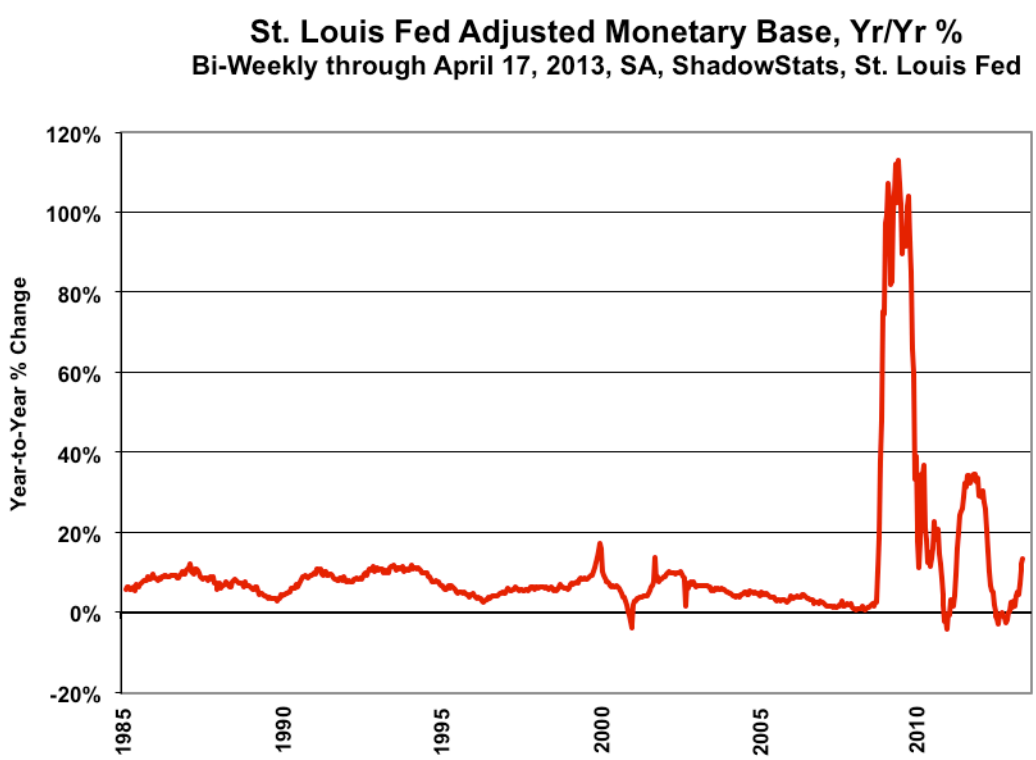




Monetary Base at New High. Mirroring the ongoing and expanded quantitative easing (QE3) by the Federal Reserve, the monetary base continues to set successive historic highs, with a 13.8% pace of rising year-to-year growth that has not been seen since March of 2011, when QE2 was exploding. As shown in the accompanying graphs, the monetary base hit a record-high, seasonally-adjusted (SA) two-week average level of $3,061.5 billion in the April 17th accounting, topping the $3.0 trillion mark for the first time.

The monetary base is currency in circulation (part of M1 money supply) plus bank reserves (not part of the money supply) (see a more-complete definition in the *Money Supply Special Report*). Banks are parking their excess reserves with the Federal Reserve, not lending the available cash into the normal flow of commerce. When the Fed monetizes U.S. Treasury securities, as it has been doing, that usually adds directly to the broad money supply, and it contributes to selling pressure against the U.S. dollar. Faltering year-to-year broad money supply growth in this circumstance, as seen in March 2013, tends to indicate mounting systemic stress in the banking industry. It is too early in the reporting of April money supply (latest numbers are through April 8th) to estimate the month's activity.


St. Louis Fed Adjusted Monetary Base
Bi-Weekly through April 17, 2013, SA, ShadowStats, St. Louis Fed
Billions of Dollars
3,200
2,800
2,400
2,000
1,600
1,200
800
400
0
1985
1990
1995
2000
2005
2010


St. Louis Fed Adjusted Monetary Base, Yr/Yr %
Bi-Weekly through April 17, 2013, SA, ShadowStats, St. Louis Fed
Year-to-Year % Change
120%
100%
80%
60%
40%
20%
0%
-20%
1985
1990
1995
2000
2005
2010

Hyperinflation Outlook—Unchanged. *This synopsis is unchanged from that published in* Commentary No. 517 *of April 17th. The summary outlook here is intended for new subscribers and for readers looking for a condensed version of the broad overview of economic, inflation and financial circumstances, or who otherwise are not familiar with the hyperinflation report or special commentaries, linked below. Those latter documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two.*

The November 27, 2012 *Special Commentary (No. 485)* updated *Hyperinflation 2012* and the broad outlook for the economy and inflation, as well as for systemic stability and the U.S. dollar. These remain the two primary articles outlining current conditions and the background to the hyperinflation forecast. The basics have not changed here, other than events keep moving towards the circumstance of a domestic hyperinflation by the end of 2014. Nonetheless, the next fully-updated hyperinflation report is targeted for publication around mid-May.

Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The system remains still in the throes and aftershocks of the 2008 panic and the near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation is inevitable.

The economic and systemic solvency crises of the last eight years continue. There never was an actual recovery following the economic downturn that began in 2006 and collapsed into 2008 and 2009. What followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012. The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see *Public Comment on Inflation*). Nonetheless, given the nature of official reporting, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

What continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 turmoil. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That the crises continue can be seen in deteriorating economic activity and in the panicked actions by the Federal Reserve, where it proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before the mid-April rout in gold prices, there had been mounting hype about the Fed potentially pulling back on its “easing” and a coincident Wall Street push to talk-down gold prices. Those factors still appear to be little more than hype, designed for jawboning to support the U.S. dollar and to soften gold, in advance of the still-festering crises in the federal-budget and debt-ceiling negotiations. Despite orchestrated public calls for “prudence” by the Fed, the underlying and deteriorating financial-system and economic instabilities have self-trapped the Fed into an expanding-liquidity or easing role that likely will not be escaped until the ultimate demise of the U.S. dollar. Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the dollar in international trade, such as seen most recently in the developing relationship between France and China.

The Fed's recent and ongoing liquidity actions themselves suggest a signal of deepening problems in the financial system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed's continuing easing moves appear to have been primarily an effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury, under the political cover of a "weakening economy." Mounting signs of intensifying domestic banking-system stress are seen in a renewed weakening of broad money growth, despite a soaring monetary base, and in global banking-system stress, as reflected in the recent Cyprus crisis and its ongoing aftershocks.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that are shy on detail. The ten-year plan by the Republican-controlled House proposes to balance the cash-based deficit as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate does not look to balance the cash-based deficit. Given continued political contentiousness and the use of unrealistically positive economic assumptions to help the budget projections along, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of upcoming negotiations. With the release of the Administration's budget for fiscal-year 2014, these issues should be coming to a head, now, in April and May; there still appears to be no chance of a substantive agreement.

Indeed, ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Chances also remain nil for the government fully addressing the GAAP-based deficit that hit $6.6 trillion in 2012, let alone balancing the popularly-followed, official cash-based accounting deficit that was $1.1 trillion in 2012 (see *No. 500: Special Commentary*).

Efforts at delaying meaningful fiscal action, and at briefly postponing conflict over the Treasury's debt ceiling, have bought the politicians in Washington minimal time in the global financial markets, but the time largely has run out and patience in the global markets is near exhaustion. The continuing unwillingness and political inability of the current government to address seriously the longer-range U.S. sovereign-solvency issues, only pushes along the regular unfolding of events that eventually will trigger a domestic hyperinflation, as discussed in *Commentary No. 491*.

The unfolding fiscal catastrophe, in combination with the Fed's direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility likely will not last much longer, despite the tactics of delay by the politicians and obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. A dollar-selling panic is likely this year—of reasonably high risk in the next month or two—with its effects and aftershocks setting hyperinflation into action in 2014. Gold remains the primary and long-range hedge against the upcoming debasement of the U.S. dollar, irrespective of any near-term price gyrations in the gold market.

The rise in the price of gold in recent years was fundamental. The recent panicked sell-off in gold was not. With the underlying fundamentals of ongoing dollar-debasement in place, the upside potential for gold, in dollar terms, is limited only by its inverse relationship to the purchasing power of the U.S. dollar (eventually headed effectively to zero). Again, physical gold—held for the longer term—remains as a store of wealth, the primary hedge against the loss of U.S. dollar purchasing power.

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (March 2013)

Non-Defense Aircraft Orders Partially Depressed March 2013 Durable Goods Orders. The headline 5.7% monthly decline in March durable goods orders was dominated by a monthly drop in the extremely irregular commercial, or non-defense, aircraft orders, much as the downwardly revised 4.3% growth in January was dominated by an aircraft order surge. Aircraft orders rarely impact near-term economic activity, due to the long-lead-time nature of the orders. Despite reporting complications from regular instabilities created by the use of concurrent seasonal factors, the monthly decline in the series still was within the scope of normal volatility. Accordingly, the pattern of slowing activity remains in place and is of a nature that usually precedes or coincides with a recession (contracting, broad economic activity).

Official, Nominal March 2013 Reporting. The Census Bureau reported today, April 24th, that the regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of March 2013 new orders for durable goods fell by 5.72% (a decline of 6.82% before prior-period revisions) for the month, following a downwardly revised 4.33% (previously 5.65%) gain in February. The downside revision to aggregate February orders largely was accounted for by downside revisions in commercial aircraft orders.

The irregular and highly volatile long-term nondefense aircraft orders fell month-to-month in March 2013 by 48.2% (down by 50.4% before prior period revisions), versus a revised February gain of 86.4% (previously up by 95.3%). Usually with an extremely long lead-time, Aircraft orders rarely impact near-term economic activity. Net of the highly unstable commercial aircraft orders, aggregate new orders still fell by 2.2% in March, following a revised 0.7% (previously 1.6%) monthly gain in February.

Year-to-year change in seasonally-adjusted March 2013 aggregate nominal new orders narrowed to a 0.5% gain, versus a revised 2.6% (previously 3.8%) gain in February. Not-seasonally-adjusted, March 2013 orders declined by 1.5% from March 2012.

On an seasonally-adjusted, annualized quarterly rate basis (the way GDP growth is calculated), first-quarter 2013 orders declined by 1.6% for the quarter, following a 15.8% annualized pace of growth in fourth-quarter 2012 GDP.

Also dominated by commercial aircraft orders, seasonally-adjusted new orders for nondefense capital goods fell by 10.6% in March 2013, following a revised 7.1% (previously 10.0% gain) in February. For March, the unadjusted year-to-year change in the series was 1.6% decline, following a revised annual contraction of 0.7%, which initially had been reported as a 0.5% gain.

Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems that are seen with retail sales and payroll reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly changes.

Inflation-Adjusted and Smoothed. The nominal 5.72% contraction in aggregate monthly March 2013 orders was a real (inflation-adjusted) decline of 5.84%, after adjusting for a 0.12% monthly gain in the PPI finished goods capital equipment deflator. The revised nominal 4.33% gain in February was 4.27% in real terms. On a year-to-year basis, the inflation- and seasonally-adjusted year-to-year change was a contraction of 0.49% in March, versus a real gain of 1.67% in February.

In terms of inflation-adjusted levels, as indicated in the two graphs in the *Opening Comments* section, both the smoothed aggregate new orders and aggregate orders net of commercial aircraft series, have shown a slowing uptrend and flattening-out in the last two-to-three years. Now generally in a pattern of downturn, the series clearly is not in recovery as seen in official GDP reporting. The real (inflation-adjusted) level of orders in March 2013 remained below both the pre-2001 and pre-2007 recession highs.

Annual benchmark revisions to this series are due for release on May 17th. A likely general trend in the revisions should show that economic reporting of recent years has been overstated.

If the deflation measure here were corrected meaningfully for its hedonic-adjusted understatement, the post-2009 uptrend seen in the graphs of real orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity, with the recent pattern of downturn now well entrenched.

Note on Deflating and Smoothing New Orders for Durable Goods: As described in Special Commentary No. 426, there is no fully appropriate inflation measure available for deflating durable goods. The one used in the "real" graphs is the PPI's inflation measure for finished goods capital equipment (PPI-FGCE), an official inflation measure. The problem with that measure is in the hedonic quality adjustments to prices, which tend to understate inflation and to overstate inflation-adjusted growth (see Public Comment on Inflation).

EXISTING-HOME SALES (March 2013)

March Existing-Home-Sales Decline of 0.6% Within Normal Month-to-Month Variations, Suggestive of Stagnation. The March 2013 headline 0.6% monthly decline in existing-home sales was in the context of a downside revision of the headline February growth rate to 0.2% from 0.8%. Current activity appears to have flattened out and is turning down anew, a pattern that is reflected also in new-home sales and in single-unit housing starts, as graphed in the *Opening Comments* section.

March 2013 Existing-Home Sales Reporting. The April 22nd release of March 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly decline of 0.6% (a drop of 1.2% before prior period revisions). March's decline to a seasonally-adjusted monthly-unit sales pace of 410,000 (an annualized pace of 4,920,000) was well within the normal month-to-month volatility for this series. The monthly change in February 2013 sales was a downwardly revised increase of 0.2% (previously a gain of 0.8%).

On a year-to-year basis, March 2013 sales rose by 10.3%, versus a revised 9.5% (previously 10.2%) annual gain in February. Smoothed for irregular distortions, the series remains statistically consistent with an ongoing pattern of broad stagnation as suggested by the graphic in the *Opening Comments* section.

The portion of total sales that was in distressed properties decreased in the latest reporting. The NAR estimated "distressed" sales in March 2013 were at 21% (13% foreclosures, 8% short sales), versus February 2013 were at 25% (15% foreclosures, 10% short sales). Reflecting ongoing lending issues within the banking industry and some reasonably-steady influx of investment money, the NAR also estimated that all-cash sales in March were at 30% of total sales, versus February's 32% estimate.

Indeed, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery. To the contrary, as discussed recently and frequently (see *Commentary No. 513* and *No. 485: Special Commentary*), liquidity conditions for the consumer have been deteriorating anew.

The published median and average sales price data for existing homes tend to be of limited usefulness, here, since they can reflect shifting patterns of home buying—between differently-priced segments—more than they do changes in truly comparative prices. That said, both median and mean existing-home sales prices in March 2013 (not seasonally-adjusted) again were up month-to-month as well as year-to-year.

Again, the graph usually shown in this section is included in the *Opening Comments* section.

NEW-HOME SALES (March 2013)

March New-Home Sales Activity Remained in a Pattern of Ongoing Stagnation. March 2013 new home sales continued a pattern of stagnation in the aftermath of the housing-industry collapse from 2006 into 2009. Sales rose by a statistically-insignificant 1.5% for the month, following a revised 7.6% contraction in February. The year-to-year gain of 18.5% in March also was statistically-insignificant, once again.

March 2013 New-Home Sales Reporting. The April 23rd release of March 2013 new-home sales (counted based on contract signings, Census Bureau) showed a statistically-insignificant 1.5% month-to-month gain (also up by 1.5% before prior-period revisions) +/- 19.8% (all confidence intervals are at the 95% level). That followed a revised 7.6% (previously 4.6%) month-to-month decline in February. Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years.

March's year-to-year gain of 18.5% +/- 20.1% in new-home sales was statistically-insignificant. February annual growth held at 12.3%, but it also was a statistically-insignificant gain. The volatility in annual change increasingly reflects the monthly volatility and instability in the series.

There have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery. To the contrary, as discussed recently and frequently (see *Commentary No. 513* and *No. 485: Special Commentary*), liquidity conditions for the consumer have been deteriorating anew.

Parallel patterns of activity have been seen consistently between the new-home sales and the single-unit housing starts data, again, as detailed in the graphs in the *Opening Comments* section.

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WEEK AHEAD

Weaker Economic and Stronger Inflation Data Should Surface in the Near-Term. Reflecting the intensifying structural liquidity constraints on the consumer, and in anticipation of the likely negative impact, of the continuing and expanded QE3 and the still-pending fiscal crisis/debt-ceiling negotiations, on the U.S. dollar in the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and weaker-than-expected economic results. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as was seen for industrial production, and as pending for new orders for durable goods (May 17th), retail sales (May 31st), trade deficit (June 4th) and GDP (July 31st—comprehensive overhaul and redefinition back to 1929).

Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain tied largely to systemic distortions of seasonal adjustments, distortions that have been induced by the still-ongoing economic turmoil of the last five years. The recent economic collapse has been without precedent in the post-World War II era of modern economic reporting. These distortions have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series. In any event, where reported numbers are too far removed from common experience, they tend to be viewed by the public with extreme skepticism.

Still, recognition of an intensifying double-dip recession continues to gain, while recognition of a mounting inflation threat has been rekindled by the Fed's monetary policies. The political system would like to see the issues disappear, and it still appears to be trying to work numerical slight-of-hand with series such as the GDP and related projections of the federal budget deficit. The media do their best to *avoid publicizing unhappy economic news or, otherwise, they put a happy spin on the numbers. Pushing the politicians and media, the financial markets and related spinmeisters 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, as discussed in* Hyperinflation 2012 *and* No. 485: Special Commentary.

Updated: Gross Domestic Product—GDP (First-Quarter 2013, First or "Advance" Estimate). The "advance" estimate of first-quarter 2013 GDP is due for release on Friday, April 26th, by the Bureau of Economic Analysis (BEA). Market consensus appears to have settled around a strong pick-up in growth, from the annualized headline 0.4% for fourth-quarter 2012, to something close to 3.0%, plus or minus several tenths of a percentage point. A consensus result would be near the historical average for GDP, but, despite market and political hype and/or wishful thinking, the functioning of the economic system is not close to normal or average.

Recent underlying economic reporting, indeed, would suggest that a higher growth rate is likely for the initial first-quarter estimate, versus the fourth-quarter, but even with the report likely to be targeted by the BEA at overly-optimistic consensus guesses, headline reporting is a fair bet to come in below expectations.

In terms of underlying economic reporting for first-quarter 2013, relative first-quarter versus second-quarter growth patterns in the various series, as they relate to quarterly GDP growth, are as follows: trade deficit change is negative, payroll growth is neutral, growth in retail sales is less positive, growth in housing starts and industrial production are more positive.

Today's (April 24th) release of March 2013 new orders for durables reflected a quarter-to-quarter contraction, both before and after adjustment for inflation, a negative indicator for first- and second-quarter GDP. Durable goods shipments, however, showed more-positive growth in the first-quarter, versus the fourth-quarter, a net plus for first-quarter GDP.

The least solid of the underlying series, and one that enables easy massaging of "advance" GDP estimates is the change in business inventories, which, like the trade numbers, is available only for the first two months of the quarter at the time of the "advance" GDP. The latest inventory reporting suggests a positive increase in the pace of relative quarterly inventory change, which also would increase GDP growth, but not by enough to generate three-percent annualized first-quarter headline growth.

In aggregate, a headline growth rate of roughly one- to two-percent would be consistent with these discussed underlying data, and relative to the fourth-quarter's GDP reporting, but that still is well shy of market expectations.

Whatever is reported in this most-worthless of government economic estimates likely will not be statistically significant. It also will be fully revamped in the upcoming revisions and overhaul to the GDP series—back through 1929—due for release on July 31st (see the *Opening Comments* section). As with other series, those revisions should show economic growth in recent years has been weaker than currently is being reported.

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