

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

COMMENTARY NUMBER 526
April Durable Goods and Revisions, Home Sales

May 24, 2013

Revised Durable Goods Orders Showed a Weaker “Recovery”

Home Sales Remained Stagnant

*PLEASE NOTE: The Special Commentary assessing U.S. fiscal reality, Federal Reserve policies, the U.S. economy, developing political scandals, etc., and related implications for the U.S. dollar and prices of the monetary precious metals, **will contain significant new detail**, and is on track for publication, late today (May 24th) or tomorrow (May 25th). Happy reading for the holiday weekend, its posting will be advised, as usual, by e-mail to subscribers.*

The next regular Commentary is scheduled for Thursday, May 30th, covering the first-revision (second estimate) of first-quarter 2013 GDP. A subsequent Commentary on Friday, May 31st, will assess the benchmark revisions to the retail sales series.

Best wishes to all for a happy Memorial Day Weekend! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Historical Downside Revisions Continue. As was seen in the benchmark revisions to industrial production and new orders for durable goods, when better-quality data become available, revised economic activity shows a weaker “recovery” from the formally-recognized 2007-to-2009 recession. In turn, upcoming significant benchmark revisions to retail sales (May 31st) and GDP (July 31st) should show that the economy has been weaker than previously believed by consensus forecasters, particularly in the period following the official end to the recession in June 2009. There has been no recovery.

Separately, ongoing stagnation was the pattern seen in the latest headline reporting of durable goods orders and home sales. *Special Commentary (No. 527)*, which is planned for release shortly, will cover a broader summary of the current economic outlook.

April 2013 New Orders for Durable Goods and the Benchmark Revision. The 2013-benchmark revisions to new orders for durable goods generally left the reported history of orders activity weaker than previously estimated. In the context of those revisions, April 2013 new orders remained virtually stagnant, along with a general downtrend in year-to-year growth. The pattern of stagnation and slowing activity remains of a nature that usually precedes or coincides with a recession or an intensifying contraction in economic activity.

The headline 3.32% monthly gain in durable goods orders, once again, reflected a jump in commercial aircraft orders, and otherwise was well within the normal volatility of the series. The April gain followed a benchmark-revised estimate of a 5.87% monthly contraction in March.

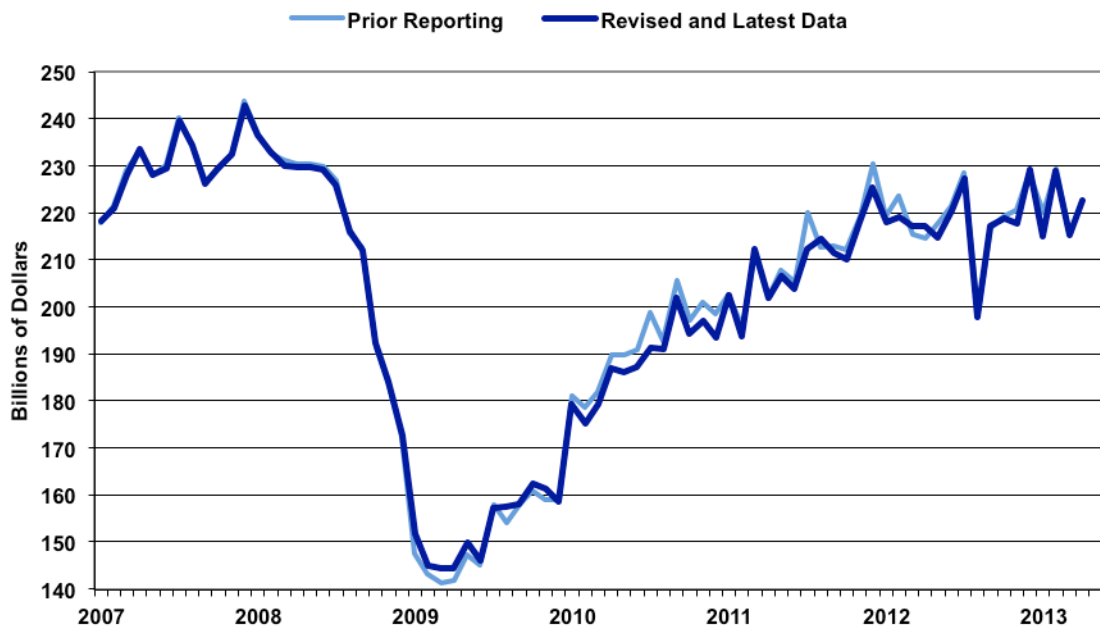
Irregular and highly volatile long-term nondefense aircraft orders rose by 18.15% month-to-month in April, versus a benchmark-revised 43.04% monthly contraction in March. Net of those highly unstable, long-range commercial aircraft orders, aggregate new orders still rose by 2.56% in April, following a benchmark-revised 2.62% monthly contraction in March. Commercial aircraft orders also dominated the April headline gain of 3.33% in nondefense capital goods orders, which was up by 0.88% ex-nondefense aircraft. That followed a benchmark-revised 9.04% monthly contraction (a 0.95% gain, ex-commercial aircraft) in March.

Benchmark Revisions. Annual benchmark revisions to the durable goods new orders series were released May 17th. As suggested by ShadowStats, and in line with the traditional patterns of benchmark economic revisions during periods of economic contraction, the general trend in those revisions showed that economic reporting of recent years had been overstated. Where new and better-quality data were available, the downside revisions were the greatest. Where existing, overly optimistic assumptions and modeling remained in place, the changes were much less dramatic. Similar patterns of re-estimation are likely for the pending retail sales revision on May 31st (see *Week Ahead* section).

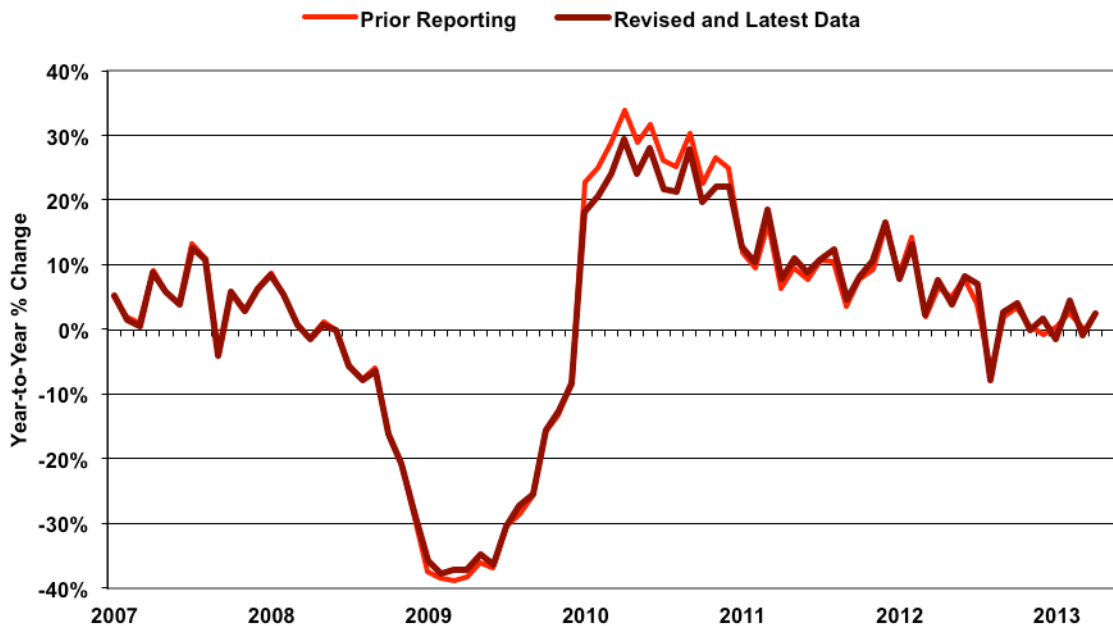
Specifically, reflecting the results of the 2011 Annual Survey of Manufactures, and the 2010/2011 Manufacturers' Unfilled Orders Survey, annual new orders for durable goods were revised lower by 1.8% in 2010, 0.7% in 2011 and by 0.3% in 2012. Suggesting a somewhat shallower trough in the economic collapse, however, 2009 orders were revised higher by 1.3%. As a result, the annual contraction in 2009 orders revised to 29.4% from a previous 30.3% decline, while the annual change in 2010 orders was a slightly less robust 23.3%, versus a prior annual gain of 27.1%.

Where the revisions, including corrected data and revamped seasonal factors went back to the 1992-beginning of the current series, the larger revisions were post-2009. Comparative revision details since 2007 are shown in the next two graphs, both in terms of nominal (not-adjusted-for-inflation) level and year-to-year change. Revised real (inflation-adjusted) graphs are shown in the following section.

New Orders for Durable Goods -- Benchmark Revision
Not Adjusted for Inflation, Reporting to April 2013
Seasonally-Adjusted (ShadowStats.com, Census)



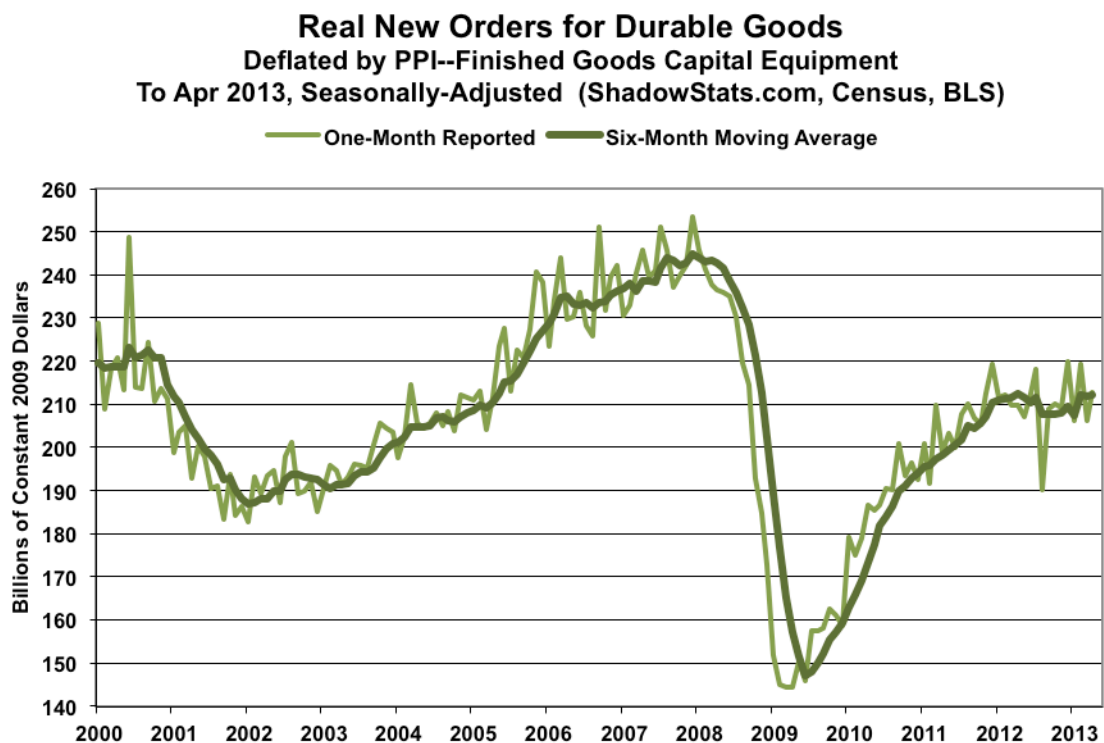
New Orders for Durable Goods -- Benchmark Revision
Year-to-Year Percent Change, Reporting to April 2013
Seasonally-Adjusted (ShadowStats.com, Census)

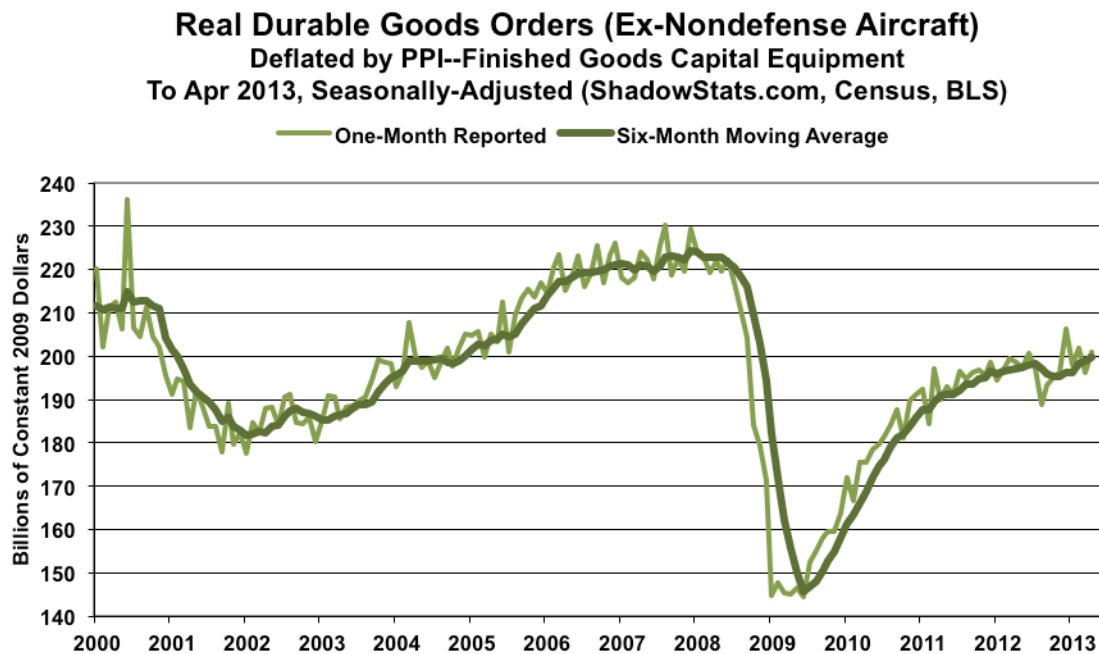


Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. As shown and discussed in the regular *Commentaries* that cover reporting of new orders for durable goods, the following two graphs plot the new orders, adjusted for inflation. There are changes in these graphs, however, from previous versions. First, the data have been updated to reflect the May 17th benchmark revision, discussed in the prior section. Second, the inflation adjustment used is the PPI finished goods capital equipment index, 2009 = 100 (previously used was December 2011 = 100). The change in the base period for the inflation was made so as to have the base year consistent with the base-year adjustment that will be introduced in the July 31st comprehensive revision of the GDP. The change in the base-year for inflation does not alter the appearance of the graphs. In addition, as done previously, the data are 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 smoothed levels of activity in both series appear to be holding in a pattern of ongoing stagnation.

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/flattening—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in April 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.





If the deflation measure here were corrected meaningfully for the related 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.

April 2013 Existing- and New-Home Sales. In the wake of the housing crash, which began in 2006, activity in both existing- and new-home sales still appears to be relatively stagnant. Increasingly, structurally-impaired consumer liquidity has been acting as a constraint on consumption, whether in retail sales or housing. There have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or a broad economic recovery.

Of some continuing help to the housing-sales industry, though, has been some boost from outside private investment.

Existing Home Sales. Counted based on actual closings, the National Association of Realtors (NAR) reported a headline gain of 0.6% in April 2013 existing-home sales, versus a revised 0.2% monthly contraction in March sales. Year-to-year, April sales rose by 9.7%, a somewhat slower pace of growth than the revised 10.8% estimated for March. Smoothed for irregular distortions, the series remains statistically consistent with an ongoing pattern of broad stagnation. Current activity remains within the bounds of normal monthly volatility. Ongoing sales activity appears to have flattened out, as suggested in the accompanying graph.

The portion of total sales in distressed properties decreased in the latest reporting. The NAR estimated “distressed” sales in April 2013 were at 18% of the total (11% foreclosures, 7% short sales), versus the

March estimate of at 21% (13% foreclosures, 8% short sales). Reflecting ongoing lending problems within the banking industry and some steady-to-increasing influx of investment money, the NAR also estimated that all-cash sales in April were at 32% of total sales, versus March's 30% estimate.

New Home Sales. In the context of annual seasonal-adjustment revisions, which were minimal, previously estimated January through March new-home sales were revised higher. That all was in conjunction with the reporting of an initial, statistically-insignificant headline monthly gain of 2.3% in April 2013 sales, and a revised 3.5% gain in March. The April year-to-year increase of 29.0% was statistically-insignificant.

Parallel patterns of activity have been seen fairly consistently between the new-home sales and the single-unit housing starts data, as detailed in the accompanying graphs.

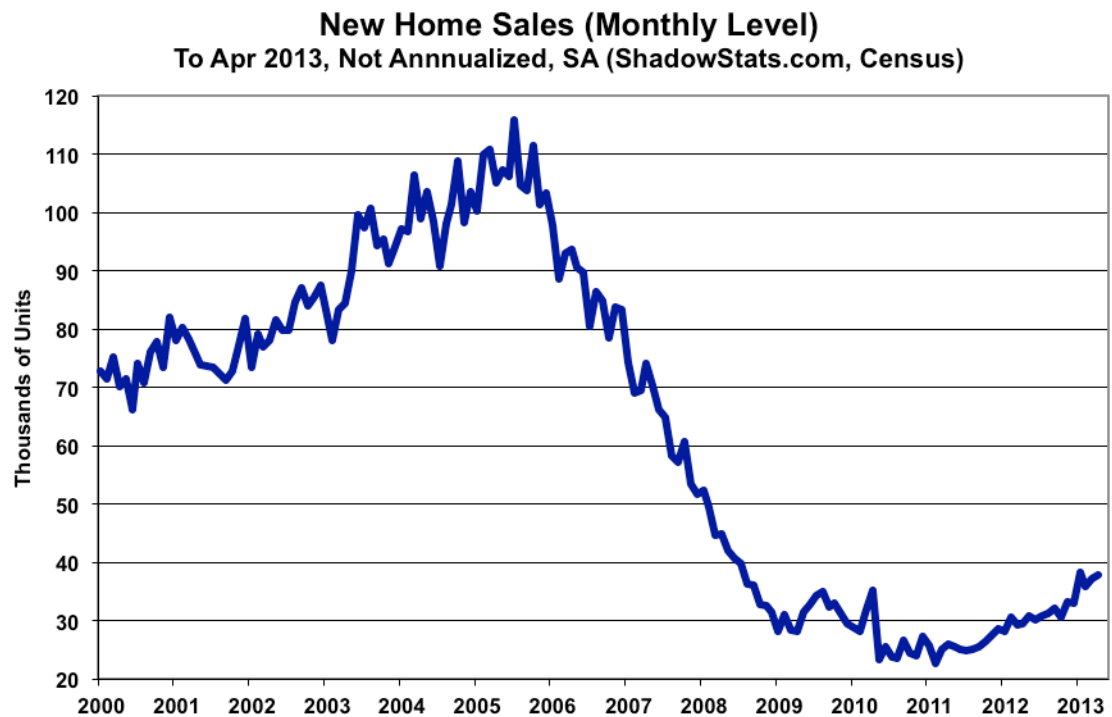
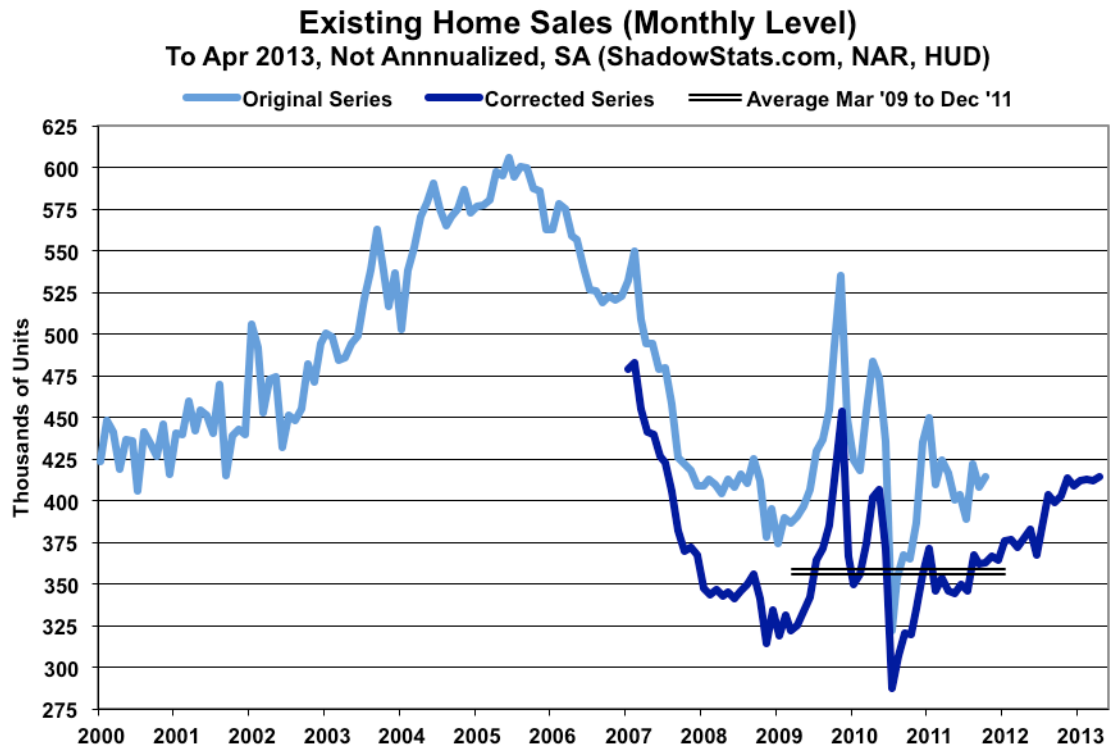
Home-Sales Graphs. Following are the regular monthly graphs of existing- and new-home sales, plus a comparative graph of single-unit housing starts. Each series reflects seasonally-adjusted activity level, as measured in thousands of housing units per month. The series usually are expressed at an annualized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

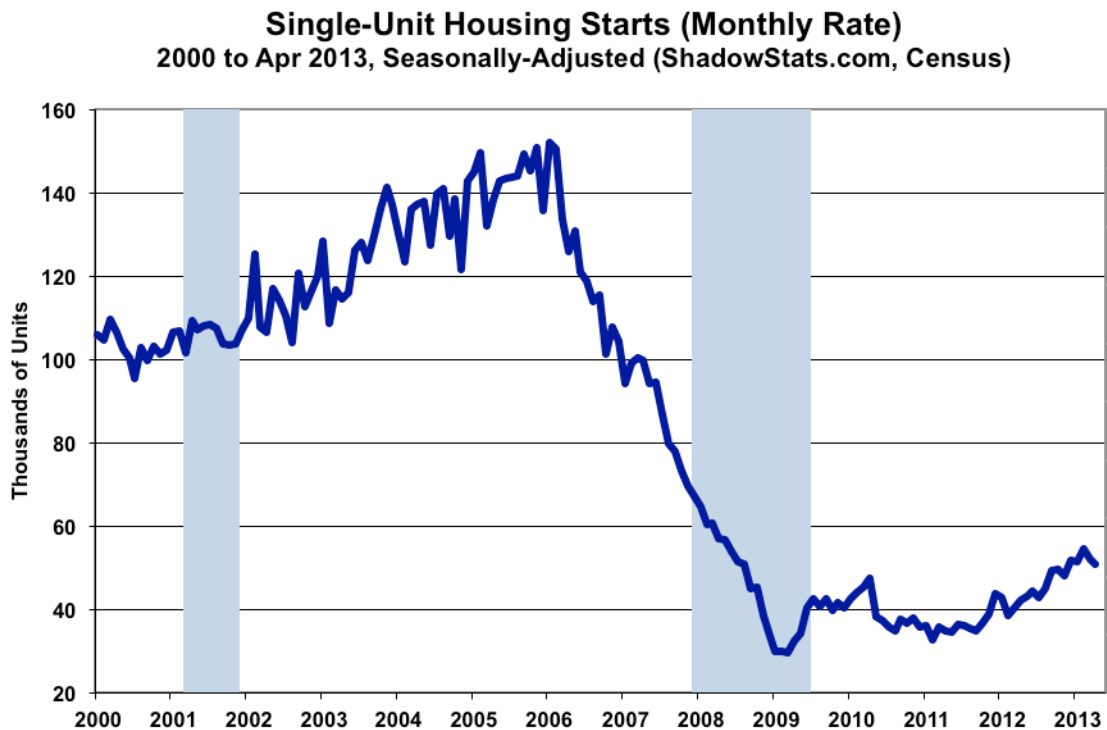
In the first graph, beyond the massive downside corrections to the existing-home sales series—published with November 2011 data—reporting for the existing-home sales series has remained subject to a high level of irregular volatility and significant seasonal-factor instabilities, as also has been seen 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.

The third graph used here is single-unit housing starts. It is the closest construction-related series to the homes sales market as discussed and shown in [Commentary No. 517](#).





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

HYPERINFLATION WATCH

Hyperinflation Outlook. *The current hyperinflation outlook will be revised and updated with new detail in the Special Commentary (No: 527), planned for for release late today (May 24th) or tomorrow (May 25th). Reflecting the content of the Special Report, the regular synopsis of the general outlook will be revamped with the next regular Commentary, due for release on May 30th.*

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (April 2013 and Annual Benchmark Revision)

Benchmark Revisions Showed Weaker Historical Orders; April 2013 Activity Remained in Stagnation. The 2013-benchmark revision to new orders for durable goods generally left the reported history of orders activity weaker than previously estimated. Details, including graphs of the revisions, are covered in the *Opening Comments* section.

The headline 3.3% monthly gain in April durable goods orders, once again, reflected a jump in commercial aircraft orders and otherwise was within the normal volatility of the series, despite reporting complications from regular instabilities created by the use of concurrent seasonal factors. Accordingly, the ongoing patterns of stagnation and slowing activity remain in place. It is of a nature that usually precedes or coincides with a recession or deepening downturn.

Official, Nominal April 2013 Reporting. The Census Bureau reported today, May 24th, that the regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of April 2013 new orders for durable goods rose by 3.32% for the month, following a benchmark-revised estimate of a 5.87% monthly contraction in March. Part of the headline April gain again reflected an increase in commercial aircraft orders. The latest numbers also were in the context of annual benchmark revisions published on May 17th, which generally showed weaker levels of previously estimated order activity.

Irregular and highly volatile long-term nondefense aircraft orders rose by 18.15% month-to-month, in April 2013, versus a benchmark-revised 43.04% monthly contraction in March. 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 rose by 2.56% in April, following a benchmark-revised 2.62% monthly contraction in March.

Volatile year-to-year change in the seasonally-adjusted aggregate nominal new orders rose to 2.42%, in April 2013, following a benchmark-revised annual contraction of 0.83% in March. The plot of nominal year-to-year change in the *Opening Comments* section shows a clear and ongoing downtrend in annual growth since 2010, consistent with an ongoing recession or an intensifying economic downturn.

Also dominated by commercial aircraft orders, seasonally-adjusted new orders for nondefense capital goods rose by 3.33% (0.88% ex-nondefense aircraft), following a benchmark-revised 9.04% monthly contraction (0.95% ex-aircraft gain) in March. For April, the unadjusted year-to-year change in the series, ex-aircraft, was a 2.64% gain, following a benchmark-revised annual contraction of 0.42%.

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. While those issues were brought into balance, temporarily, with the annual benchmark revision, the

subsequent April 2013 reporting made all historical reporting prior to February 2013 inconsistent with the current headline numbers.

Inflation-Adjusted and Smoothed. The nominal 3.32% gain in aggregate monthly April 2013 orders was a real (inflation-adjusted) gain of 3.19%, after adjusting for a 0.13% monthly gain in the PPI finished goods capital equipment deflator. The benchmark-revised nominal 5.87% monthly contraction in March was 5.98% in real terms. On a year-to-year basis, the inflation- and seasonally-adjusted year-to-year change was a gain of 1.48% in April, versus a benchmark-revised real contraction of 1.74% in March.

In terms of inflation-adjusted levels, as indicated in the second set of 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 stagnation or downturn, the series clearly are not in recovery as seen in official GDP reporting. The real (inflation-adjusted) level of orders in April 2013 remained below both the pre-2001 and pre-2007 recession highs.

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 (April 2013)

April Existing-Home Sales Gain of 0.6% Remained Suggestive of Stagnation. The April 2013 headline 0.6% monthly gain in existing-home sales was in the context of an upside revision of the headline March change to a 0.2% contraction, from an initial 0.6% headline contraction. Current activity remains within the bounds of normal monthly volatility. It appears to have flattened out, as graphed in the *Opening Comments* section.

April 2013 Existing-Home Sales Reporting. The May 22nd release of April 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 0.6% (a 1.0% gain before prior period revisions). April’s gain to a seasonally-adjusted monthly-unit sales pace of 414,000 (an annualized pace of 4,970,000) was well within the normal month-to-month volatility for the series. The monthly change in March 2013 sales was revised to a 0.2% (previously a 0.6%) contraction. The graph usually shown in this here is included in the *Opening Comments* section.

On a year-to-year basis, April 2013 sales rose by 9.7%, a somewhat slower annual pace of growth than the revised 10.8% (previously 10.3%) estimated for March. Smoothed for irregular distortions, the series

remained statistically consistent with an ongoing pattern of broad stagnation as suggested by the graph, again, in the *Opening Comments* section.

The portion of total sales in distressed properties decreased in the latest reporting. The NAR estimated “distressed” sales in April 2013 were at 18% of the total (11% foreclosures, 7% short sales), versus the March estimate of at 21% (13% foreclosures, 8% short sales). Reflecting ongoing lending problems within the banking industry and some steady-to-increasing influx of investment money, the NAR also estimated that all-cash sales in April were at 32% of total sales, versus March’s 30% estimate.

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.

NEW-HOME SALES (April 2013)

April New-Home Sales Revised Higher in 2013 Reporting. In the context of annual seasonal adjustment revisions, which were minimal, previously estimated January through March 2013 new-home sales were revised higher, in conjunction with the reporting of the initial headline estimate of April 2013 sales.

April 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 2.3% for the month, following a revised 3.5% gain in March. The year-to-year gain of 29.0% in April, though, was statistically-insignificant.

April 2013 New-Home Sales Reporting. The May 23rd release of April 2013 new-home sales (counted based on contract signings, Census Bureau) showed a statistically-insignificant 2.3% month-to-month gain (up by 8.9% before prior-period revisions) +/- 15.0% (all confidence intervals are at the 95% level). That followed a revised 3.5% (previously 1.5%) month-to-month decline in March. Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years.

April’s year-to-year gain of 29.0% +/- 24.2% in new-home sales was statistically-significant. March annual growth revised to 27.2% (previously 18.5%). 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, and again, as discussed recently and frequently, liquidity conditions for the consumer have been deteriorating anew.

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

The published median and average sales price data for both existing- and new-home sales series 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- and new-home sales prices in April 2013 (not seasonally-adjusted) were up month-to-month as well as year-to-year.

WEEK AHEAD

Weaker Economic and Inflation Data Likely in the Month Ahead. As seen in more recent months of consumer inflation reporting, May 2013 consumer inflation also should be muted by seasonally-adjustment constraints on oil and gasoline prices. That said, the highly irregular oil and gasoline price movements, once again, appear to have bottomed out. Distortions from increasingly irrelevant, shifting and severely-negative gasoline and oil price seasonal adjustments should flip to positive-side distortions with June and July's adjusted CPI reporting, and to neutral in May and then to positive in June for the PPI. Going forward, reflecting the still-likely negative impact on the U.S. dollar in the currency markets from the continuing QE3 and the still-festered fiscal crisis/debt-ceiling negotiations, reporting in the ensuing months and year generally should reflect much higher-than-expected inflation.

Where expectations for economic data in the months and year ahead should tend to soften, weaker-than-expected economic results still remain likely, given intensifying structural liquidity constraints on the consumer. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as has been seen already in industrial production and new orders for durable goods, and as pending for retail sales (May 31st), the trade deficit (June 4th), construction spending (July 1st) and the GDP (July 31st—comprehensive overhaul and redefinition back to 1929).

Reporting Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain tied largely to systemic distortions of seasonal adjustments. Distortions have been induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These distortions provide particularly unstable reporting results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

With an increasing trend towards intensifying downside surprises in near-term economic reporting, recognition of an intensifying double-dip recession should continue to gain. Nascent concerns of a mounting inflation threat, though muted, increasingly have been rekindled by the Fed's monetary policies.

Again, though, significant inflation shocks are looming in response to the fiscal crisis and a likely, severe negative response in the global currency markets against the U.S. dollar.

The political system and Wall Street would like to see the issues disappear, and the popular media do their best to avoid publicizing unhappy economic news, putting happy spins on otherwise negative numbers. Pushing the politicians and media, the financial markets and their 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, No. 485: Special Commentary](#) and subsequent *Commentaries*, and as will be discussed in the pending *No. 527: Special Commentary*.

GDP (First-Quarter 2013, Second Estimate, First Revision). The second estimate of first-quarter 2013 GDP is due for release on Thursday, May 30th, by the Bureau of Economic Analysis (BEA). The developing consensus appears to be for little or no revision to the headline growth, which was estimated at 2.5% in the initial reporting. Underlying economic reality would be consistent with a downside revision, although there should be some fair upside pressure on the new growth rate, based on the March trade data. Given the circumstances surrounding this most worthless of economic series, an upside revision likely would be the better bet.

Also pending are initial estimates of first-quarter gross domestic income (GDI) and gross national product (GNP), where GDI is the income-side equivalent to the consumption-side GDP, and where GDP is GNP net of trade flows in factor income (interest and dividend payments). These series receive less attention than the GDP but often offer some surprises.

Whatever is reported, the new growth estimate 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. As with other series, those revisions should show economic growth in recent years has been weaker than currently is being reported.

Retail Sales (2013 Benchmark Revision). The annual benchmark revision to the retail sales series is due for release on Friday, May 31st. The benchmark will include new samples, revamped seasonal factors and data from the 2011 Annual Retail Trade Survey. As with most annual benchmarks of series that have internal, overly optimistic assumptions, the bulk of the revisions should be to the downside, particularly those tied to the 2011 survey.
