

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

**COMMENTARY NUMBER 535**

**Fed Jawboning, May Durable Goods, New- and Existing-Home Sales**

**June 25, 2013**

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**Irregular Surge in Commercial Aircraft Sales  
Generated Bulk of Gain in Durable Goods Orders**

**Single-Unit Housing Starts, New- and Existing-Home Sales Down Respectively  
by 67.1%, 65.7% and 28.7% from Pre-Recession Peaks**

**Five-Year High in Confidence Still Is in Recession Territory**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, June 26th, covering the third estimate, second revision of first-quarter 2013 GDP.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Federal Reserve Jawboning Did Not Work So Well.** The June 19th comments from the Federal Open Market Committee (FOMC) and from Federal Reserve Chairman Ben Bernanke were clear. The market-feared shutdown of quantitative easing—specifically the bond buying of QE3—would not happen until

such time as the economy had recovered in line with the relatively rosy economic projections from the Fed. As the stock market began to tank on Bernanke's early comments in the press conference, the Fed chairman sputtered something along the lines of, "No, you don't understand me. If the economy is weaker, we'll have to increase the easing." The Fed was playing a mind game with its critics and with the markets, trying to appease both groups. Jawboning was viewed as a major tool for generating easy shifts in public perceptions, as desired by the Fed, without the Fed having to take hard action. Yet stocks, bonds and gold tanked in response to a resulting, consensus perception that QE3 would be gone by the middle of next year. Where such a message could have been taken easily from what was said, that did not appear to be what Mr. Bernanke intended, if one listened carefully to his remarks. As a result, the Fed chairman likely was frustrated by market reactions, except possibly for the decline in the gold price.

The harsh reality remains that the Fed is locked into its extraordinary easing by ongoing solvency issues in the banking system (only hinted at in the press conference), and by the political cover provided by a weakening economy. The Fed Chairman acknowledged that the Fed's guiding economic projections could prove to be overly optimistic. Indeed, the chances of an economic recovery in 2014 remain nil, and that should become apparent to the financial markets in the next several months.

Ongoing market instabilities remain suggestive of a continuing shift in global economic and financial perceptions. The ShadowStats outlook has not changed, as outlined in the accompanying *Hyperinflation Outlook* summary. More will follow in tomorrow's (July 26th) *Commentary*.

**Latest Numbers on the Economy.** Home sales and durable goods orders broadly were in line with market expectations, but continued to be consistent with economic stagnation. The five-year high in June consumer confidence would have been happy news, if only the economy had not been in a deepening recession five years ago, as it also is today.

**May 2013 New Orders for Durable Goods.** Headline May 2013 new orders for durable goods rose by a nominal (not-adjusted-for-inflation) 3.61% for the month, following a revised 3.59% gain in April. The bulk of the May gain reflected an increase in highly-volatile commercial aircraft orders.

Usually with an extremely long lead-time, aircraft orders rarely impact near-term economic activity. Nondefense aircraft orders rose by 50.98% month-to-month in May, versus a revised 18.29% gain in April. Net of these highly unstable orders, aggregate new orders rose by 0.83% in May, versus a revised 2.84% increase in April.

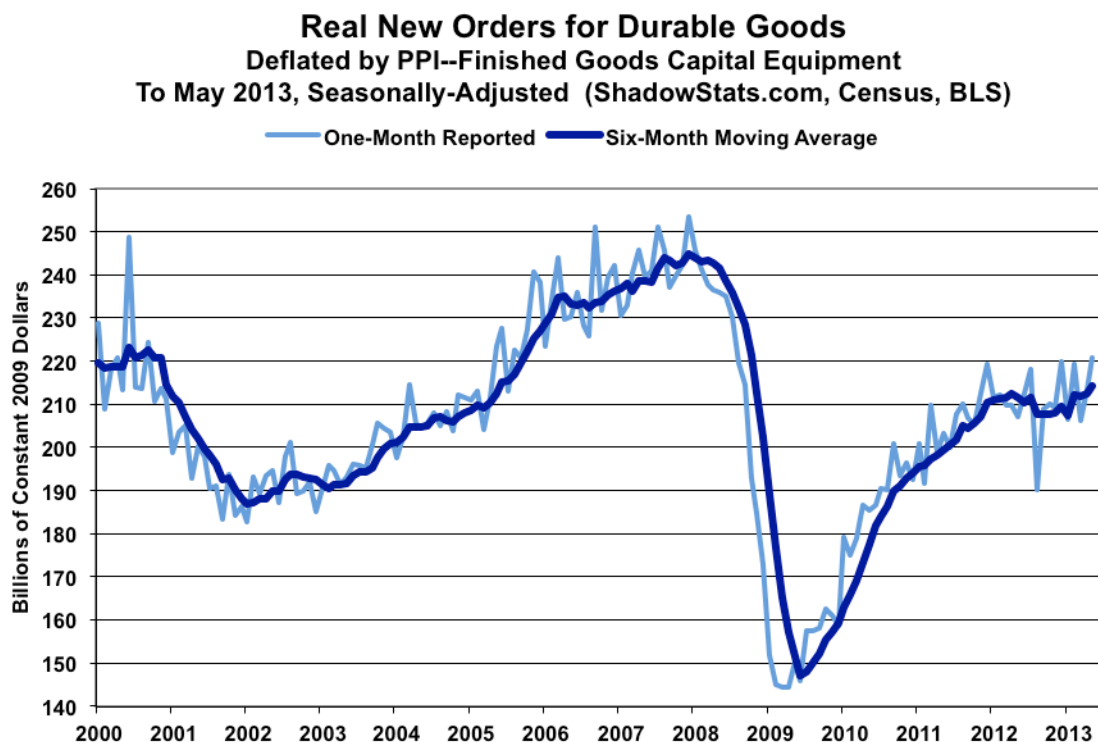
Again dominated by aircraft sales, the highly-volatile year-to-year change in the seasonally-adjusted aggregate nominal new orders rose to 7.59% in May 2013, versus a revised 2.62% annual gain in April 2013.

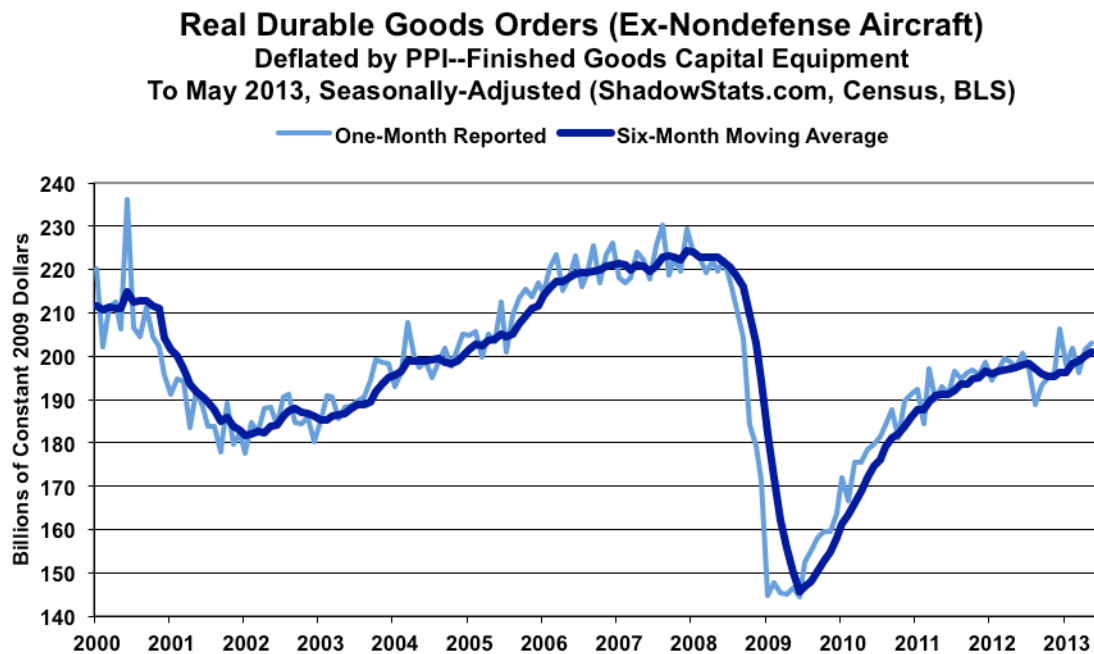
The nominal 3.61% gain in aggregate monthly May 2013 orders was a real (inflation-adjusted) gain of 3.54%, after adjusting for a 0.06% (rounding difference) monthly gain in the PPI finished goods capital equipment deflator. The revised nominal 3.59% monthly gain in April was 3.46% in real terms. On a year-to-year basis, the inflation- and seasonally-adjusted year-to-year change was a gain of 6.61% in May, versus a revised 1.68% in April.

*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. These graphs show 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 unstable commercial-aircraft order sector, and, accordingly, it is somewhat smoother than the first graph. As reflected in these graphs of still-irregular activity, the moving-average levels 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 May 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.





**May 2013 Existing- and New-Home Sales.** In the wake of the housing crash, which began in 2006 (sales actually began slowing 2005), activity in both existing- and new-home sales still has been relatively stagnant, although an uncertain uptrend has developed in the unstable existing-home sales reporting. New-home sales have shown a minor uptrend, but the ongoing monthly changes generally remain well within the limits of being statistically-insignificant.

**Peak-to-Trough and Peak-to-Current.** As of May 2013, and as reflected in the accompanying graphs, the related housing series—although off bottom—still remain well shy of their pre-recession highs. In terms of peak-to-trough decline, existing-home sales fared better than the construction-related series, down by 49.4% (June 2005 to August 2010). New-home sales (July 2005 to February 2011) were down, peak-to-trough by 80.6%, as were single-unit housing starts (January 2006 to March 2009).

As of May 2013, existing-home sales activity still was down 28.7% from the June 2005 pre-recession peak. Given the volatility, instabilities and uncertainties in the compilation of the existing sales data, however, not too much can be read into the reported trends.

While monthly year-to-year growth in new-home sales has been sporadically statistically-significant, as was the case for May 2013, the level of sales activity in May 2013 remained 65.7% below the July 2005 pre-recession high. That is roughly consistent with starts for single-unit houses in May 2013, which were 67.1% below the January 2006 pre-recession high.

**Consumer Liquidity Issues Constrain Activity.** 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 broad economic recovery. To the contrary, as discussed recently and frequently (see the *Opening Comments*, [Commentary No. 532](#), [Commentary No. 534](#) and [No. 485: Special Commentary](#)), factors affecting the consumer's ability and willingness to consume generally have been deteriorating anew. Nonetheless, a continuing boost to housing sales has come from increased, speculative private investment.

*Home Sales Prices.* The published median and average sales price data for both the existing- and new-home sales series tend to be of limited usefulness, since they can reflect shifting patterns of home buying—between differently-priced segments—more than they do changes in truly comparative prices. That said, where both median and mean existing-home sales prices in May 2013 (not seasonally-adjusted) were up month-to-month and year-to-year, median and mean prices were down month-to-month and up year-to-year for new-home sales.

*Existing-Home Sales.* May 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 4.2%. May's gain was within the normal month-to-month volatility for the series. On a year-to-year basis, May 2013 sales rose by 12.9%, versus an annual gain in April of 9.7%.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into an uptrend, as suggested in the first graph following. The data are of enough questionable quality to leave the suggested trends uncertain.

The portion of total sales in distressed properties held even in the latest reporting. The NAR estimated “distressed” sales in May 2013 were 18% of the total (11% foreclosures, 7% short sales), unchanged in magnitude or composition from the April estimate. 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 May were at 33% of total sales, up from 32% in April, 30% in March, and up from 28% in May 2012.

*New-Home Sales.* May 2013 new-home sales (counted based on contract signings, Census Bureau) showed a statistically-insignificant 2.1% month-to-month gain. That followed a revised 3.3% month-to-month gain in April. Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years.

The May 2013 year-to-year gain of 29.0% in new-home sales, however, was statistically-significant. Annual growth in April revised to 32.4%. The volatility in annual change increasingly reflects the monthly volatility and instability in the series.

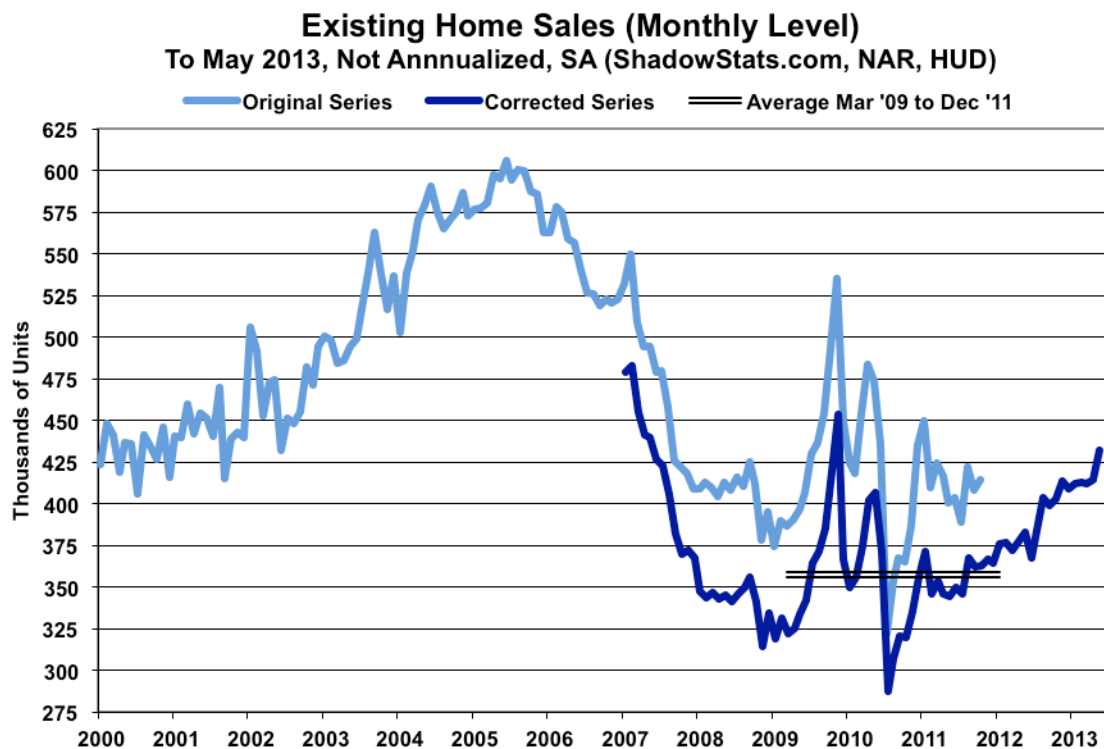
Parallel patterns of activity have been seen fairly consistently between the new-home sales and the single-unit housing starts data, again, as detailed in the second and third graphs following.

*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.

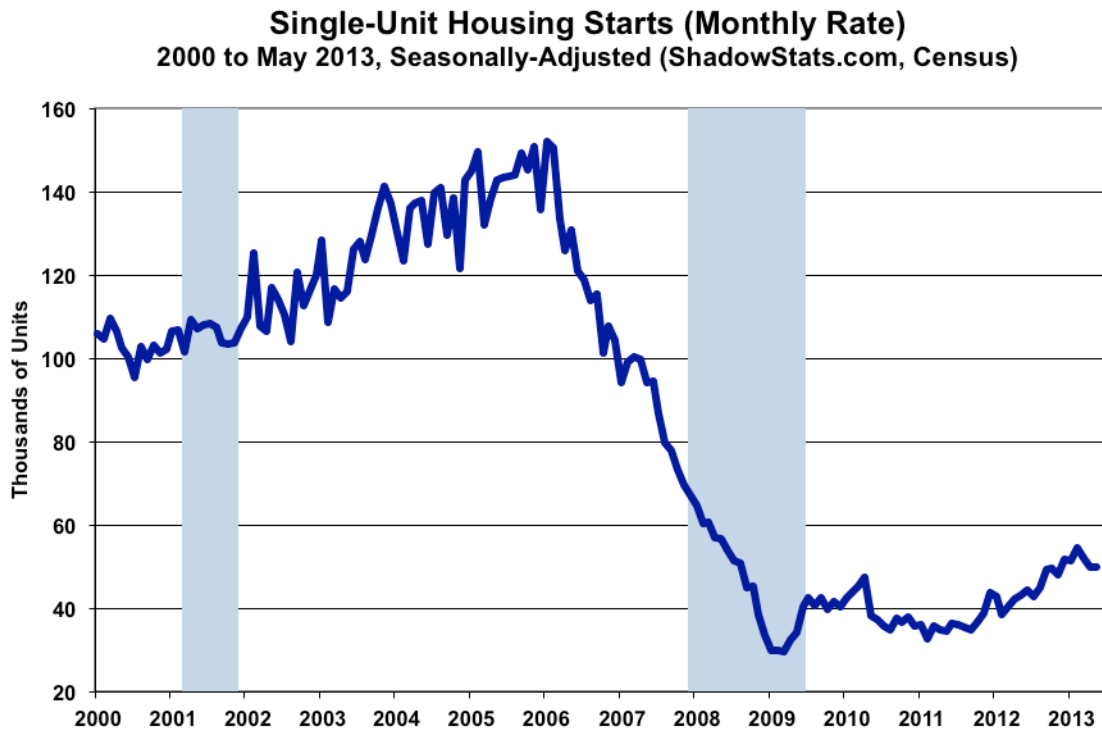
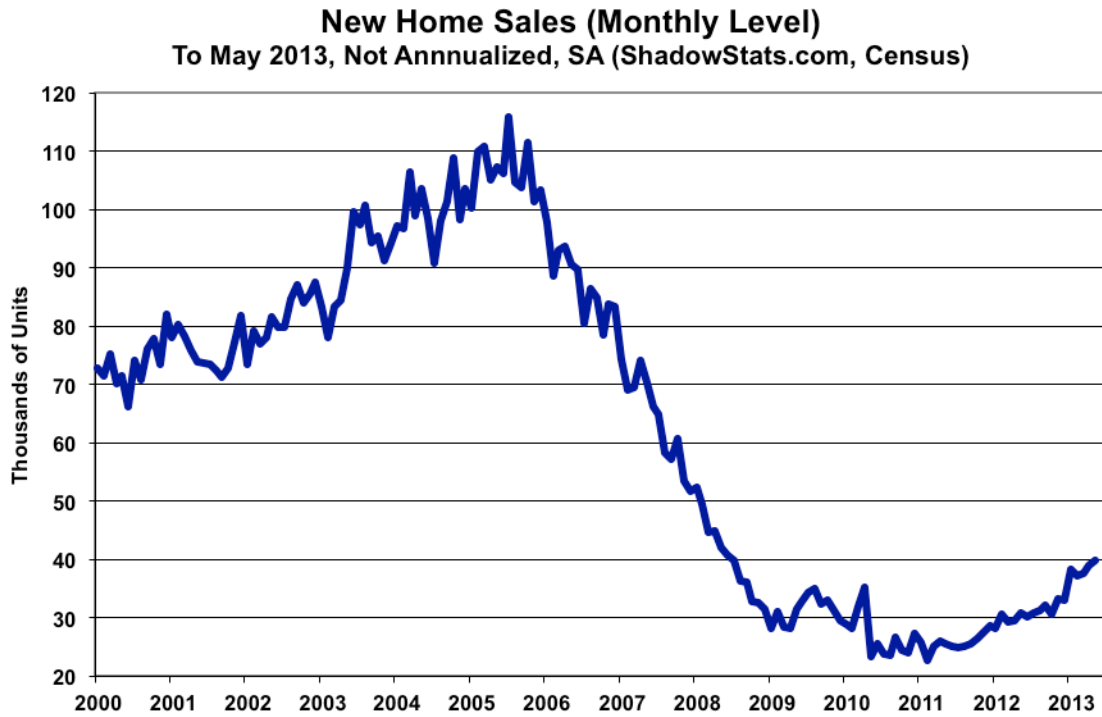
In the first graph, beyond the massive downside corrections to the existing-home sales series—published with November 2011 data—reporting for the existing-home sales series has remained subject to a high

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.



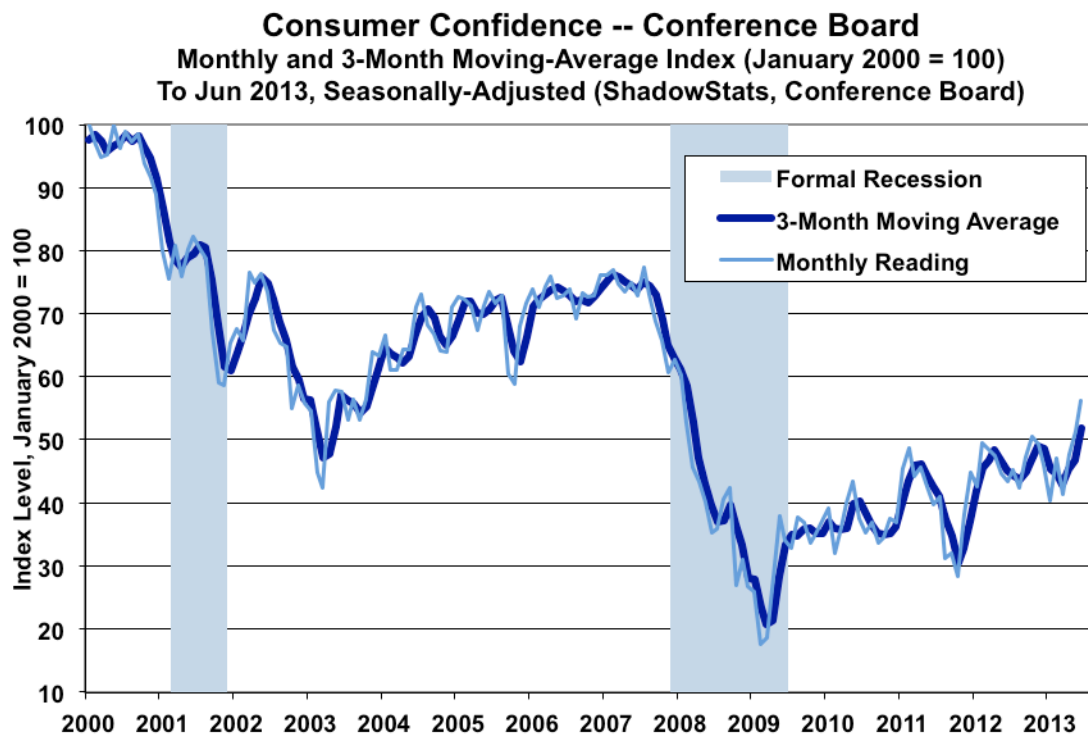
The second graph shows the level of new-home sales in a pattern that is typical of economic series that have not been biased with bad-quality inflation-adjustment. The pattern seen here, as well as in the third graph showing single-unit housing starts, is one of downturn beginning in 2005 or 2006, into 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. Although the existing home sales series shows some uptrend, the new homes activity statistically remains in stagnation, despite a minor uptrend in the monthly levels of activity. As discussed earlier, these series are not particularly reliable, and, as reported, remain well off their pre-recession highs.





The third graph used (preceding) is single-unit housing starts. It is the closest construction-related series to the homes sales market as discussed and shown in [Commentary No. 534](#).

**Consumer Confidence (June 2013).** The Conference Board’s survey of consumer confidence hit a five-year high in June 2013, per today’s (June 25th) release. Economic-recovery hype is moving to frenetic levels. Unfortunately, as shown in the accompanying graph, the economy was in a state of collapse five years ago. The current level of consumer confidence still is at recession-level, as it has been for the last five-plus years. Separately, the timing of the June 2013 survey likely did not catch the impact of recent financial-market turmoil, which should have some dampening effect in the reporting of this highly-volatile series in July.



*[For further detail on May durable goods orders and new- and existing-home sales, see the Reporting Detail section.]*



## HYPERINFLATION WATCH

**Hyperinflation Outlook—Unchanged Summary.** *[This section will be updated in tomorrow's June 26th Commentary.]* The hyperinflation outlook was revised and updated with new detail on May 29th, in [No. 527: Special Commentary](#), and this summary was revised and expanded to reflect the content of that *Special Commentary* in [Commentary No. 531](#) of June 8th. The following text has not been changed since *No. 531*. It is intended as background material for new subscribers and for those looking for a brief summary of the broad outlook of the economic, systemic and inflation crises that face the United States in the year or so ahead.

**Background Material.** [No. 527: Special Commentary](#) (May 2013) supplemented [No. 485: Special Commentary](#) (November 2012), reviewing shifting market sentiment on a variety of issues affecting the U.S. dollar and prices of precious metals. *No. 485*, in turn, updated [Hyperinflation 2012](#) (January 2012)—the base document for the hyperinflation story—and the broad outlook for the economy and inflation, as well as for systemic-stability and the U.S. dollar. Of some use, here, also is the [Public Comment on Inflation](#).

These are the primary articles outlining current conditions and the background to the hyperinflation forecast, and they are suggested reading for subscribers who have not seen them and/or for those who otherwise are trying to understand the basics of the hyperinflation outlook. The fundamentals have not changed in recent years, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, the next, fully-updated hyperinflation report is targeted for publication late this month (June 2013).

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

Typical of an approaching, major turning point in the domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and Federal Reserve policy also have been in increasing flux, but the markets are stuck with underlying reality and, eventually, they will have to recognize same. The economy remains in continued and deepening trouble, and the Federal Reserve—despite currency-market platitudes to the contrary—is locked into quantitative easing by persistent problems now well beyond its control.

At the same time, rapidly deteriorating expectations for domestic political stability reflect widening government scandals, in addition to the dominant global-financial-market concern of there being no viable

prospect of those controlling the U.S. government addressing the long-range sovereign-solvency issues of the United States government. All these factors, in combination, show the end game to be nearing.

The most visible and vulnerable financial element to suffer early in this crisis likely will be the U.S. dollar in the currency markets (all dollar references here are to the U.S. dollar, unless otherwise stated). Heavy dollar selling should evolve into massive dumping of the dollar and dollar-denominated paper assets. Dollar-based commodity prices, such as oil, should soar, accelerating the pace of domestic inflation. In turn, that circumstance likely will trigger some removal of the U.S. dollar from its present global-reserve-currency status, which would further exacerbate the currency and inflation problems tied to the dollar.

This still-forming great financial tempest has cleared the horizon; its impact on the United States and those living in a dollar-based world will dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on the precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises. Attempts to save the system all have inflationary implications. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of next year (2014). The shifting underlying fundamentals are discussed in [No. 527: Special Commentary](#); some of potential breaking crises will be expanded upon in the next revision to the hyperinflation report.

***Still Living with the 2008 Crisis.*** 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 (see new detail in [Commentary No. 530](#)). The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see [No. 527: Special Commentary](#), [Commentary No. 528](#) and [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 ongoing panicked actions by the Federal Reserve, where it still proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before and since the mid-April rout in gold prices, there had and has been mounting hype about the Fed potentially pulling back on its “easing” and a coincident Wall Street push to talk-down gold prices. As discussed in [No. 527: Special Commentary](#), those factors appear to be little more than platitudes to the Fed’s critics and intensified 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 (see [No. 527: Special Commentary](#)).

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 softening annual growth in the broad money supply, despite a soaring pace of annual growth in the monetary base, and in global banking-system stress that followed the crisis in Cyprus and continuing, related aftershocks.

***Still Living with the U.S. Government's Fiscal Crisis.*** Again, as covered in [No. 527: Special Commentary](#), the U.S. Treasury is in the process of going through extraordinary accounting gimmicks, at present, in order to avoid exceeding the federal-debt ceiling. Early-September appears to be the deadline for resolving the issues tied to the debt ceiling, including—in theory—significant budget-deficit cuts.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that still 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. There still appears to be no chance of a forthcoming, substantive agreement on balancing the federal deficit.

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, including briefly postponing conflict over the Treasury's debt ceiling, bought the politicians in Washington minimal time in the global financial markets, but the time 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](#).

***U.S. Dollar Remains Proximal Hyperinflation Trigger.*** 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 has given way to mounting instabilities, and severe market turmoil likely looms, despite the tactics of delay by the politicians and ongoing obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. As discussed earlier, a dollar-selling panic is likely this year—still of reasonably high risk in the next month or so—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.

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## REPORTING DETAIL

### NEW ORDERS FOR DURABLE GOODS (May 2013)

**May 2013 Durable Goods Activity Remained in Stagnation, Net of Irregular Commercial Aircraft Orders.** The headline 3.6% monthly gain in May durable goods orders, once again, was dominated by a jump in commercial aircraft orders. Even before allowing for the aircraft orders impact, the headline gain 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 remain in place. The growth patterns in this series remain of a nature that usually precedes or coincides with a recession or deepening downturn.

***Official, Nominal May 2013 Reporting.*** The Census Bureau reported today, June 25th, that the regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of May 2013 new orders for durable goods rose by 3.61% for the month following a revised 3.59% (previously 3.32%) monthly gain in April. The bulk of the May headline gain reflected an increase in long-term and highly-volatile commercial aircraft orders.

Nondefense (or commercial) aircraft orders rose by 50.98% month-to-month in May, versus a revised 18.29% (previously 18.15%) gain in April. Usually with an extremely long lead-time, aircraft orders rarely impact near-term economic activity. Net of these orders, aggregate new orders still rose by 0.83% in May, versus a revised 2.84% (previously 2.56%) increase in April.

Again dominated by aircraft orders, year-to-year change in the seasonally-adjusted aggregate nominal new orders rose to 7.59% in May 2013, versus a revised 2.62% (previously 2.42%) annual gain in April 2013.

Also dominated by aircraft order activity, seasonally-adjusted new orders for nondefense capital goods rose by 9.32% (up by 1.30% ex-nondefense aircraft), following a revised 3.53% (1.10% ex-nondefense aircraft) gain April. For May, the unadjusted year-to-year change in the series, ex-aircraft, was a 4.73% gain, following a revised April gain of 4.88%, all before any consideration for inflation.

*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 recent annual benchmark revision, subsequent April and May 2013 reporting made all historical reporting prior to March 2013 inconsistent with the current headline numbers.*

***Inflation-Adjusted and Smoothed.*** The nominal 3.61% gain in aggregate monthly May 2013 orders was a real (inflation-adjusted) gain of 3.54%, after adjusting for a 0.06% (rounding difference) monthly gain in the PPI finished goods capital equipment deflator. The revised nominal 3.59% monthly gain in April was 3.46% in real terms. On a year-to-year basis, the inflation- and seasonally-adjusted year-to-year change was a gain of 6.61% in May, versus a revised 1.68% in April.

In terms of inflation-adjusted levels, as indicated in 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 May 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 (May 2013)**

**May Existing-Home Sales Highest Since Tax-Incentive-Based Spike of November 2009.** The headline 4.2% monthly gain in May 2013 existing-home sales continued an uptrend in headline monthly reporting, but remained within the bounds of normal monthly volatility, as graphed in the *Opening Comments* section. Nonetheless, the series remains down by 28.7% from its June 2005 pre-recession



high. Given the volatility, instabilities and uncertainties in the reporting of this series, not too much can be read into the reported trend.

**May 2013 Existing-Home Sales Reporting.** The June 20th release of May 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 4.2%. May's gain to a seasonally-adjusted, monthly-unit sales pace of 432,000 (an annualized pace of 5,180,000), from an unrevised 414,000 (annualized 4,970,000) in April, still was within the normal month-to-month volatility for the series. On a year-to-year basis, May 2013 sales rose by 12.9%, versus an annual gain in April of 9.7%.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into an uptrend, as suggested by the graph in the *Opening Comments* section. The data, however, are of enough questionable quality to leave the indicated trend uncertain.

The portion of total sales in distressed properties held even in the latest reporting. The NAR estimated "distressed" sales in May 2013 were 18% of the total (11% foreclosures, 7% short sales), unchanged in magnitude or composition from the April estimate. 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 May were at 33% of total sales, up from 32% in April, 30% in March, and up from 28% in May 2012.

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 the *Opening Comments*, [Commentary No. 532](#), [Commentary No. 534](#) and [No. 485: Special Commentary](#)), liquidity constraints on the consumer have been deteriorating anew.

## NEW-HOME SALES (May 2013)

**May New-Home Sales Continue to Bottom-Bounce with a Slight Uptrend.** May 2013 new home-sales continued a pattern of stagnation in the aftermath of the housing-industry collapse from 2005 or 2006 into 2009. Sales rose by a statistically-insignificant 2.1% for the month, following a revised 3.3% gain in April. While the year-to-year gain of 29.0% in May was statistically-insignificant, the level of activity in May 2013 remained 65.7% below the July 2005 pre-recession high. That roughly is consistent with starts for single-unit houses in May 2013 holding at 67.1% below the January 2006 pre-recession high, as reflected in the graphs in the *Opening Comments*.

**May 2013 New-Home Sales Reporting.** Today's June 25th release of May 2013 new-home sales (counted based on contract signings, Census Bureau) showed a statistically-insignificant 2.1% month-to-month gain (up by 4.8% before prior-period revisions) +/- 19.4% (all confidence intervals are at the 95% level). That followed a revised 3.3% (previously 2.3%) month-to-month gain in April. Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years.

The May 2013 year-to-year gain of 29.0% +/- 20.2% in new-home sales, however, was statistically-significant. Annual growth in April revised to 32.4% (previously 29.0%). The volatility in annual change increasingly reflects the monthly volatility and instability in the series.

As previously noted, 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 the *Opening Comments*, [Commentary No. 532](#), [Commentary No. 534](#) and [No. 485: Special Commentary](#)), liquidity constraints on 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, where both median and mean existing-home sales prices in May 2013 (not seasonally-adjusted) were up month-to-month as well as year-to-year, median and mean prices were down month-to-month and up year-to-year for new home sales.

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## WEEK AHEAD

**Weaker Economic and Stronger Inflation Data Are Likely for June and Beyond.** *[Except for the series details on the GDP, which has been revised, the text in this Week Ahead section is unchanged from the prior Commentary.]* In the context of a near-consensus May payroll report, an above-consensus retail sales number and below-consensus industrial-production and housing-starts growth, most remaining economic reporting in the month ahead, and data into June and beyond, likely will disappoint a still overly-optimistic consensus view of the broad economy. Separately, with the energy-inflation related seasonal adjustment factors swinging to the plus-side in June, higher inflation reporting is likely in the months ahead.

Going forward, reflecting the still-likely negative impact on the U.S. dollar in the currency markets from continuing QE3 and the still-festered fiscal crisis/debt-ceiling debacle, reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see [No. 527: Special Commentary](#)).

Where expectations for economic data in the months and year ahead should tend to soften, weaker-than-expected economic results still remain likely, given the 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, new orders for durable goods, retail sales, and the trade deficit, and as likely is pending for construction spending (July



1st). The big event, though, will be the July 31st comprehensive overhaul, benchmark revision and redefinition of the GDP back to 1929. A ShadowStats estimate of the likely net shift in GDP reporting patterns (generally slower growth in recent years) will be published before that revision.

***Reporting Quality Issues and Systemic Reporting Biases.*** Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were 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 impaired reporting methodologies provide particularly unstable headline economic 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 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, severely-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 out happy analyses on otherwise negative numbers. Pushing the politicians and media, the financial markets and their related spinmeisters do their best to hype anything that can be given a positive spin, to avoid recognition of serious problems for as long as possible. Those imbedded, structural problems, though, have horrendous implications for the markets and for systemic stability, as discussed in [Hyperinflation 2012, No. 485: Special Commentary](#) and [No. 527: Special Commentary](#).

**Gross Domestic Product—GDP (First-Quarter 2013, Third Estimate, Second Revision).** The third estimate of first-quarter GDP by the Bureau of Economic Analysis (BEA) is due for release tomorrow, Wednesday, June 26th. In line with market expectations, any revision likely will be no more than statistical noise. If the annualized rate of growth changes, at all, it most likely would be to the downside. This will be the last estimation of GDP activity before the publication of the comprehensive revisions and series redefinition back to 1929, due for release on July 31st.