

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

**COMMENTARY NUMBER 551**

**July New Orders for Durable Goods, New- and Existing-Home Sales**

**August 26, 2013**

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**In Ongoing Stagnation, Durable Goods Orders  
Are Suggestive of Pending Downturn**

**New-Home Sales Are in Renewed Contraction**

**Existing-Home Sales Jump  
But Remain of Questionable Quality**

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*PLEASE NOTE: The next regular Commentary is scheduled for Thursday, August 29th, covering the first revision, second estimate of second-quarter 2013 GDP.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Economy Still Appears to Be Turning Down Anew.** Despite what likely will be an upside revision to the second estimate of second-quarter 2013 GDP, on Thursday, August 29th, the economy appears to be in renewed contraction, as discussed in [Commentary No. 550](#) and as suggested by the subsequent July reporting of new orders for durable goods and new-home sales.

As discussed in the *Week Ahead*, the bulk of any upside GDP revision will be due to a narrowed trade-deficit estimate, which is tied to a temporary distortion in the flow of trade and related paperwork. Those distortions will reverse in later reporting or revisions.

The markets were roiled on Friday, August 23rd, following an unexpected plunge in new home sales, which knocked reported sales for July to a level that was 20.7% below where they had stood as of the prior reporting for June. With the realignment of earlier data, new-home sales activity appears suddenly to be in renewed decline, consistent with housing starts and various consumer measures.

But for private, speculative investment, existing-home sales might be showing a pattern of renewed contraction, too. That series, though, is unreliable in a way that is not measurable. The 6.5% monthly gain for July was large, enhanced by a downside revision to June activity. The problem with the series is that it is of questionable quality; it is in the process of regaining its credibility following the correction of massive reporting flaws. There is little of meaning that can be read into the existing-home sales numbers, at present. It well may be rising; maybe it is not. The passage of time will tell.

Headline new orders for durable goods fell by 7.3% in July, dominated by a plunge in the irregular new orders for commercial aircraft. Allowing for the impact of a recent string of irregular gains in that aircraft series, aggregate orders continued in stagnation, signaling a recession or pending renewed downturn in economic activity.

Beyond the GDP revision, the August 29th *Commentary* should update elements of consumer and systemic liquidity. The *Hyperinflation Outlook* has not been updated.

**Latest Numbers on the Economy.** In the last week, there were downside surprises in reporting for July 2013 new-home sales and new orders for durable goods; existing-home sales were about as expected. There is nothing that has changed in the broad, general economic outlook.

**July 2013 New Orders for Durable Goods.** The plunge in July 2013 new orders for durable goods was dominated by irregularly-timed orders for nondefense aircraft. Reporting patterns, however, remained within the regular scope of the series, showing an ongoing pattern of stagnation, which remained consistent with a renewed slowing or pending downturn in broad economic activity. The recent slight uptrend in the durable goods order series has reflected an unusually protracted string of large monthly gains in aircraft orders. The string of gains began to self-correct with the July reporting.

As usually happens when the reporting of commercial aircraft orders surge in one month, or in two or more consecutive months (three months in the current circumstance), those orders tend to collapse month-to-month in a largely offsetting month or two, irregularly repeating the process over time. This happens because the Department of Commerce has no meaningful way to seasonally adjust the aircraft orders.

Despite the short-term volatility, however, new orders for the commercial aircraft industry have shown positive growth over time, up 13.5% year-to-date July 2013, versus 2012, and up for the full year of 2012. These orders are booked well into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

In contrast, new orders for computer products were down by 5.2% year-to-date July 2013, versus 2012, and down for the full year of 2012. These orders are more indicative of prospects for near-term manufacturing activity. (Auto industry orders were up by 9.3% year-to-date July 2013, versus 2012, and for the full year of 2012, but there are a number of issues with this series that go beyond normal economic demand, which will be discussed in a separate *Commentary*).

Where the swings in the long-term aircraft new orders usually are large enough to dominate the monthly change in aggregate durable goods orders, it is meaningful to view total manufacturing order activity net of commercial aircraft. Separately, with the impact of the government's defense orders removed, new orders often are viewed popularly for just nondefense capital goods. For July 2013, ex-commercial aircraft, new orders fell by 1.5%, rather than by the headline 7.3%. Nondefense capital goods, however, were down by 15.4%, dominated still by the commercial aircraft order activity (they were up by 0.4% ex-commercial aircraft).

Considering the volatility of airplane orders, recent monthly aggregate activity has remained well within the normal range of reporting for the series. As a result, the ongoing, long-term patterns of stagnation remain in place, despite any short-term upside blips. The growth patterns in this series remain of a nature that usually precedes or coincides with a recession or deepening downturn.

*Official, Nominal July 2013 Reporting.* The regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of July 2013 new orders for durable goods fell by 7.27%, following a revised 3.92% (previously 4.23%) gain in June. Again, the bulk of the headline July decline was due to a plunge in the long-term and irregular commercial aircraft orders.

Nondefense (or commercial) aircraft orders fell by 52.33% in July, following a revised 33.79% month-to-month gain in June (the unusual string of gains also included monthly increases of 67.64% in May and 18.36% in April). With an extremely long lead-time, aircraft orders rarely impact near-term economic activity. Net of these orders, aggregate new orders still fell by 1.51% in July, after a revised 1.04% gain in June.

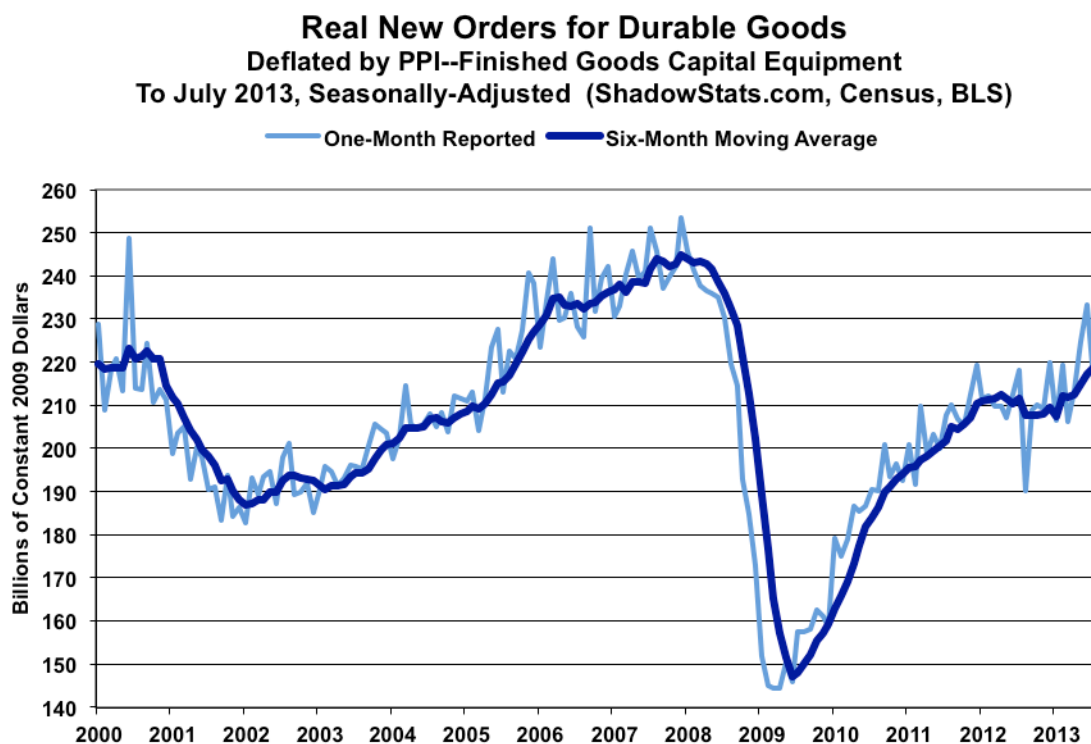
Declining aircraft orders also the hit year-to-year change in seasonally-adjusted, total nominal new orders, which fell in July by 0.23% (gained 3.98% ex-commercial aircraft), following a revised year-to-year gain of 10.86% (4.07% ex-commercial aircraft) in June.

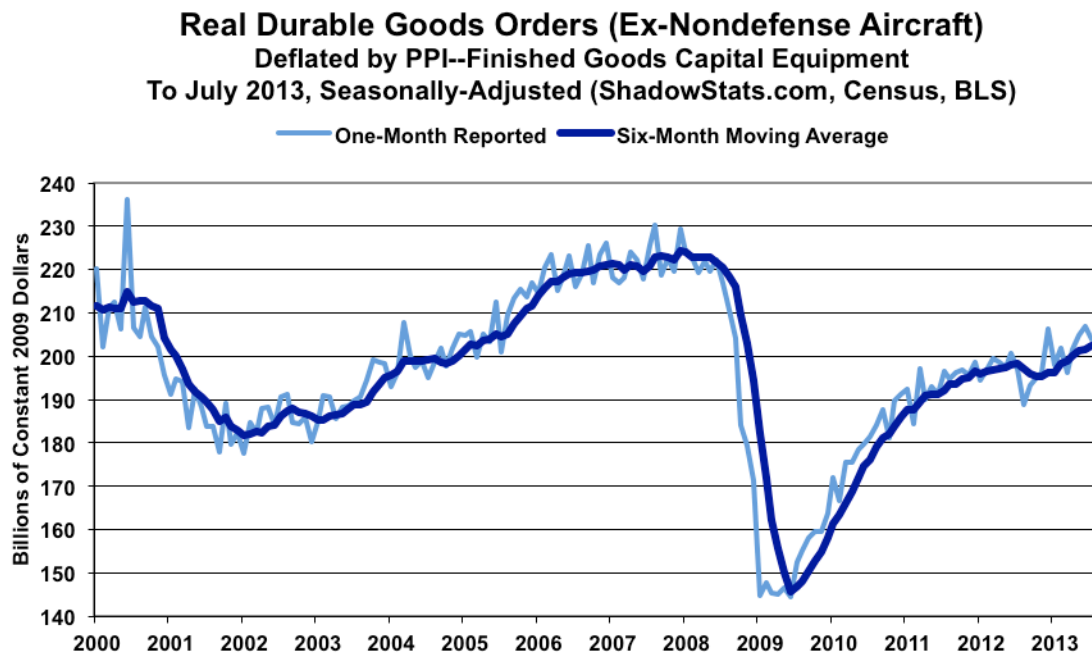
Also dominated by aircraft-order activity, seasonally-adjusted new orders for nondefense capital goods in July fell by 15.42% for the month (up by 0.42% ex-commercial aircraft), versus a revised gain in June of 7.06% (down by 1.40% ex-commercial aircraft). All of the preceding is before consideration for inflation.

*Inflation-Adjusted and Smoothed Reporting.* The nominal 7.27% decline in aggregate monthly July 2013 orders also was a real (inflation-adjusted) decline of 7.27%, after allowing for an unchanged July 2013 reading in the PPI finished goods capital equipment deflator. The revised nominal 3.92% monthly gain in June was 3.86% in real terms. Year-to-year, the inflation- and seasonally-adjusted change was an annual decline of 0.81%, versus a revised gain of 9.93% in June. For July and June 2013, ex-commercial aircraft, the respective real monthly changes were a decline of 1.51% and a gain of 0.98%, with the respective annual increases at 3.41% and 3.18%.

*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 have been holding in a pattern of near-stagnation, with some uptrend in the more recent months. In particular, recent successive large monthly gains in commercial aircraft orders have spiked the aggregate numbers, but the pattern of those orders usually is more irregular (as seen in the June and July data), and it will tend to balance out over time.

In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—most recently with a dip and now a small bounce to the upside, a general pattern of stagnation or bottom-bouncing—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in July 2013 remained below both the pre-2001 and pre-2007 recession highs. The pattern of recent stagnation 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 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 a pattern of renewed downturn now well entrenched.

***No Relief in Structural Consumer-Liquidity Problems.*** Where structurally-impaired consumer liquidity increasingly has been a constraint on consumption, whether in retail sales or housing, there have been no improvements in underlying economic fundamentals that would suggest a pending housing-industry turnaround or a broad economic recovery. Structural income and credit problems continue, where real median household income remains near its cycle low, and where the only growth in consumer credit continues to be in federally-owned student loans. As discussed recently and frequently (see for example the *Opening Comments* of [Commentary No. 549](#), [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, some boost to existing-home sales has been suggested in the form of increased, speculative private investment.

***July 2013 Existing- and New-Home Sales—The More Reliable Housing Data Have Begun to Contract Anew.*** Despite big swings, neither the monthly nor annual changes in July 2013 new-home sales were statistically-significant. The same likely would be true with July existing-home sales, if the error margins there were quantifiable.

In the wake of the housing crash, which began in 2006 for the construction industry (sales actually began slowing 2005), activity in both existing- and new-home sales still has been relatively stagnant, although an unreliable uptrend has developed in the unstable existing-home sales reporting. New-home sales had

shown a minor uptrend, with ongoing monthly changes generally remaining well within the limits of being statistically-insignificant or within the limits of normal series instabilities. In the July 2013 reporting, however, including accompanying prior-period revisions, that series has moved sharply lower. Although the changes were not “statistically significant,” thanks to the handling of the revisions, the movement there was consistent with the housing-starts and a number of consumer-liquidity series.

*Peak-to-Trough and Peak-to-Current.* As of July 2013 reporting, 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).

Indeed, despite the ongoing positive press on the “housing recovery,” the latest numbers remain far from showing a recovery. As of July 2013, existing-home sales activity still was down 25.9% 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.

Reflecting the sudden, downside shift in trend for new home sales, the July 2013 sales level was 71.6% below the July 2005 pre-recession high. That still is roughly consistent with the circumstance for single-unit housing starts in July 2013, which was 67.6% below the January 2006 pre-recession high.

*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, for existing-home sales, median and mean existing-home sales prices in July 2013 (not seasonally-adjusted) both were down month-to-month and up year-to-year. For July new-home sales, median and mean prices were down and up, respectively, month-to-month, while both measures were higher year-to-year.

***Existing-Home Sales Gain Boosted by Downside Revision to June.*** Repeating an increasingly-frequent reporting pattern, the headline 6.5% monthly gain in July 2013 existing-home sales was in the context of a downside revision to June’s prior reporting. Where the headline July gain pushed the bounds of the general monthly volatility seen in this series, that gain also likely will be subject to downside revisions. Given questions of the reliability of the series, particularly the quality of, and the volatility, instabilities and uncertainties in the reporting of existing-home sales, not too much should be read into the reported trends.

*July 2013 Reporting.* July 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly increase of 6.5%, in the context of, and against a downwardly revised sales estimate for June. The revised monthly contraction in June was 1.6% (previously 2.2%). Net of prior-period revisions, the monthly decline for July was 6.1%. On a year-to-year basis, July 2013 sales rose by 17.2%, versus a revised 14.7% (previously 15.2%) in June.

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 first graph following. The data, however, remain of questionable enough quality to leave the indicated trend highly uncertain.



The portion of total sales in “distressed” properties was unchanged for July 2013, at 15% (9% foreclosures, 6% short sales), versus 15% (8% foreclosures, 7% short sales) in June. Where the July and June distressed readings were the lowest reported by the NAR since it started tracking the series during the 2008 panic, the activity here most likely remains timing distortions, rather than improvements in consumer liquidity and finances.

As noted earlier, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery. Reflecting ongoing lending problems (and likely related solvency issues) within the banking industry, as well as some continuing influx of investment money, the NAR also estimated that all-cash sales in July 2013 were at 31% the same level as in June 2013, but up from 27% in July 2012.

***July New-Home Sales Plunge Was Muted by Massive Downside Revision to June.*** A quick look at the graph of new-home sales activity (second graph following) gives a suggestion of just how hard expectations of recovering home sales activity may have been hit by July’s new-home sales reporting of Friday, August 23rd. The short red line reflects the way the markets viewed new-home sales, based on the prior June 2013 reporting, while the ongoing blue line reflects the new July reporting.

From the level of sales that had been reported initially at an annual pace of 497,000 units in June, to the new level reported for July of 394,000, the month-to-month decline was 20.7%, which would have been statistically significant, but the swing was not statistically significant. Coincident with July reporting, the June estimate was revised lower by 8.5% to 455,000, so the resulting June-to-July monthly drop of “only” 13.4% was statistically insignificant.

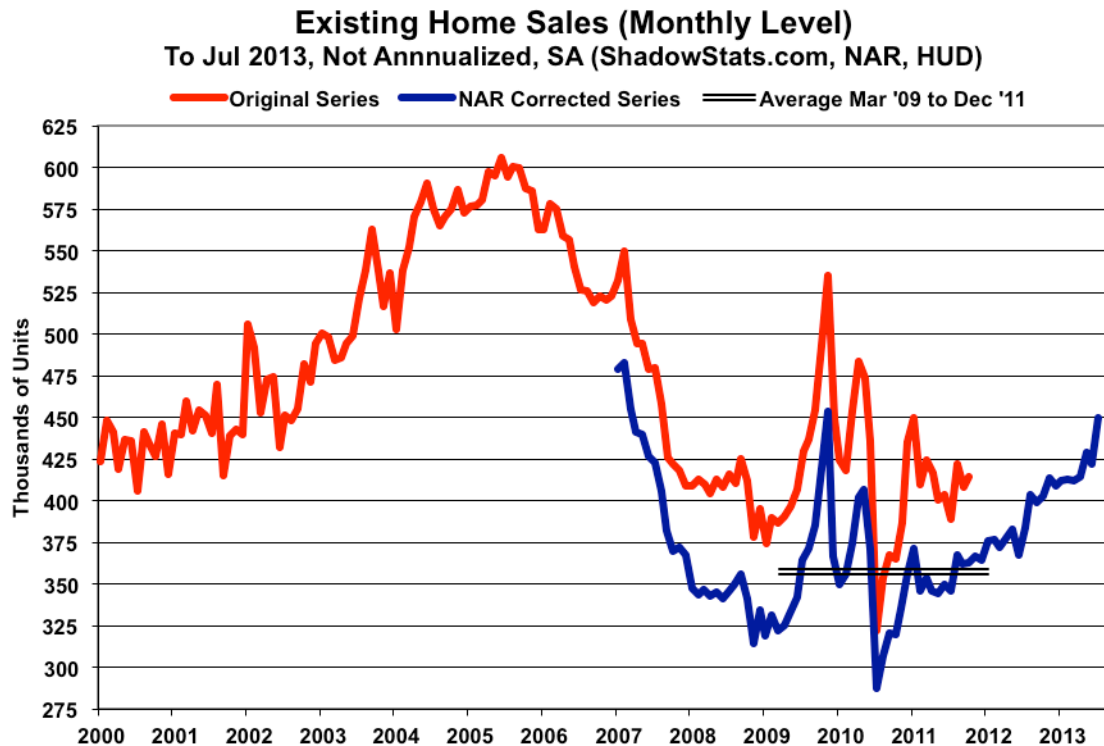
***July 2013 Reporting.*** The decline in July home sales was in the context of another heavy round of downside revisions to the prior three months of reporting, an increasingly common pattern in the new-home sales series (existing-home sales, which usually are revised back only one month, otherwise are showing a similar pattern). July 2013 new-home sales (counted based on contract signings, Census Bureau) showed a statistically insignificant 13.4% plunge (down by 20.7% before prior-period revisions) +/- 17.0% (all confidence intervals are at the 95% level). That followed a revised 3.6% (previously 8.3%) gain in June. Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years.

The July 2013 year-to-year gain of 6.8% +/- 21.8% in new-home sales also was not statistically significant. Annual growth in June revised to 26.4% (previously 38.1%). The volatility in annual change increasingly reflects the monthly volatility and other instabilities in the series.

Again, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery.

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 a seasonally-adjusted activity level, as measured in thousands of housing units per month. The series usually are expressed at an annualized monthly rate, by the issuing authority, but that is not too meaningful with series as volatile as these.

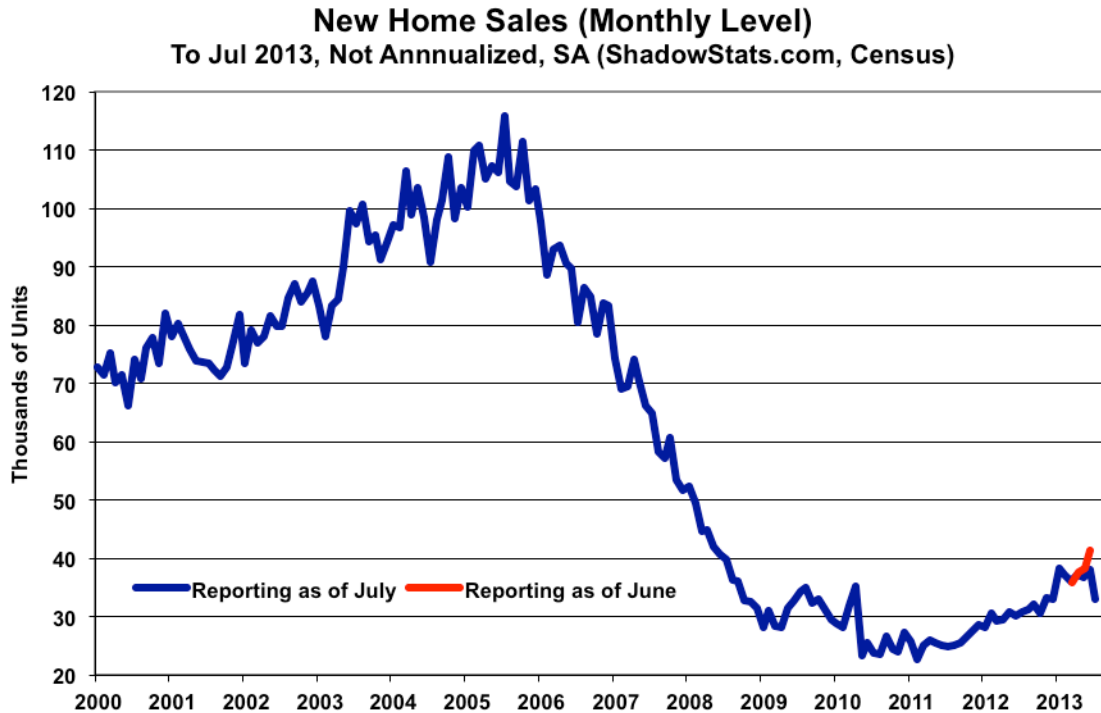


The first graph (above) shows the estimated monthly levels of existing home sales activity. This industry-generated data is of questionable reporting quality, where the credibility of the series is in the lengthy process of re-establishing itself. Beyond the massive downside corrections to the existing-home sales series—as estimated and published by the realtors association with the reporting of November 2011—reporting for existing-home sales 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 direct 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 unusual sales volatility, through December 2011. With those sales swings averaged out, the pattern of activity more-closely resembles the bottom-bouncing seen in the 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.

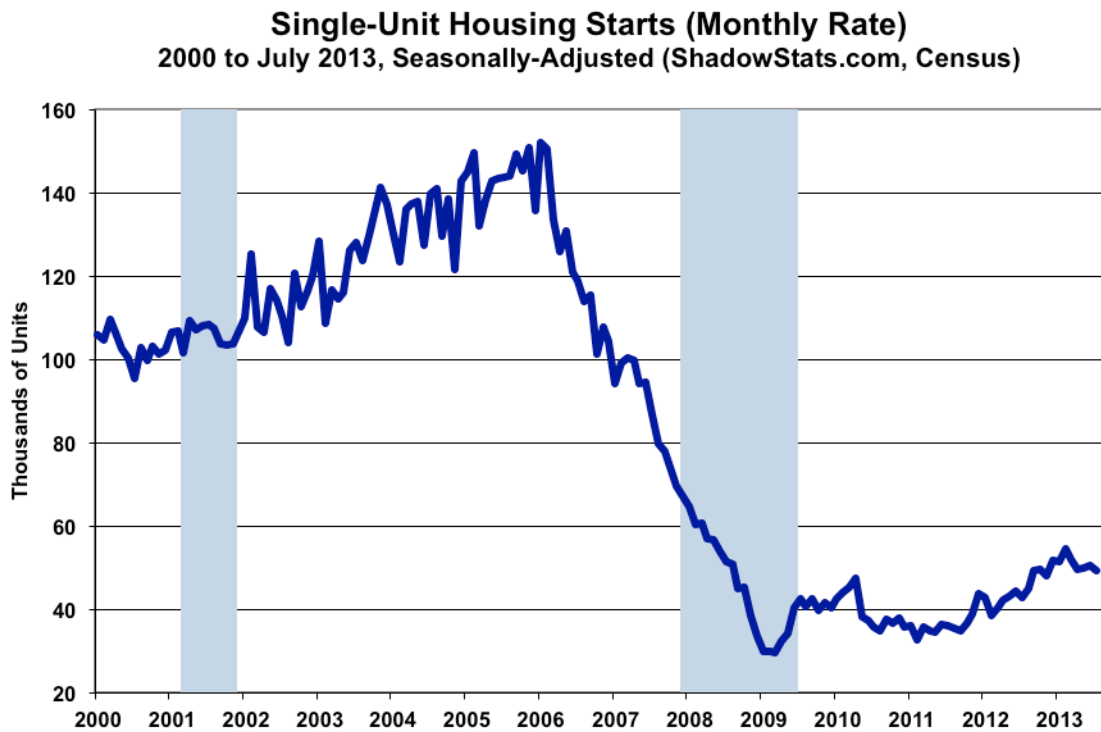
The purported sharp monthly upturn for July's existing-home sales activity is unusually large and should be assessed in the context of monthly revisions and headline reporting of the next several months.





The second graph (above) shows the level of new-home sales, with the sharp downturn in July activity, and the downside revisions to previous reporting for April, May and June. Please note that the short red line reflects April-to-June new home sales reporting that was in place with the prior month's (June) release. The pattern of currently-estimated sales activity level 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, new-home sales activity—despite a minor uptrend in the monthly activity apparent in June reporting—now is in downtrend. As discussed earlier, these series are not particularly reliable, and, as reported, remain well off their pre-recession highs.

The single-unit housing starts graph is the closest construction-related series to the home-sales market, as discussed and shown previously in [Commentary No. 550](#). Activity here generally has remained stagnant in the post-housing-crash environment, and, after a slight uptrend has headed lower again in recent months.



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

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## HYPERINFLATION WATCH

**Hyperinflation Outlook—Unchanged.** This summary of the *Hyperinflation Outlook* has been not been changed since the prior *Commentary No. 550* of August 16th. The comments here are 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, a fully-updated hyperinflation report is planned in the near future.

***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. The FOMC and Federal Reserve Chairman Ben Bernanke have put forth a plan for reducing and eventually ending quantitative easing in the form of QE3. The tapering or cessation of QE3 is contingent upon the U.S. economy performing in line with overly-optimistic economic projections provided by the Fed. Initially, market reaction pummeled stocks, bonds and gold. Yet, the talk of ending (or extending/expanding) QE3 still appears to be little more than jawboning, aimed either at placating a growing chorus of Fed critics or at manipulating variously the gold, currency and domestic-stock markets. Indeed, as part of the ongoing mind-games with the public, various Fed officials regularly offer contradictory stories, when the stock market needs a boost or distraction from other concerns, such as pending discord over U.S. fiscal policy.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift increasingly towards no imminent end to QE3, and then to expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, eventually, they will have to recognize same. Business activity 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. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, driving the quantitative easing. Economic issues are secondary concerns for the Fed; they are used as political cover for QE3. That cover will continue for as long as the Fed needs it.

At the same time, 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. These factors, in combination, show the end game to be nearing, and while they may have been in recent summer-holiday hibernation, post-Labor Day political turmoil is imminent.

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, at any time, with little or no warning. 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 precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises, hoping to push the problems even further into the future. Such attempts to save the system, however, all have exceptional inflationary implications.

The global financial markets appear ready to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Accordingly, the U.S. dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment still 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.*** Despite the happy news from the redefined GDP series that the recession was shallower, and the recovery more rapid, than previously estimated, there still never has been an actual recovery following the economic downturn that began in 2006, and collapsed into 2008 and 2009. No other major economic series has confirmed the pattern of activity now being reported in the GDP.

Instead, what followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012 (see the corrected GDP graph in the *Opening Comments* section of [Commentary No. 546](#)). 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 still should gain eventual recognition as the second-dip in a double- or multiple-dip recession, with current reporting in basic economic series coming into synchronization with a renewed downturn in broad economic activity starting in second- and third-quarter 2013.

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. As of August 15, 2013, the Fed had monetized 110% of the net issuance of U.S. Treasury debt, since the beginning of the calendar year.

The Fed's unconscionable market manipulations and games playing in fueling speculation over the future of quantitative easing clearly have been used to move the U.S. dollar (the purpose of initial quantitative

easing was U.S. dollar debasement). QE3 and continuing efforts at dollar-debasement are not about to go away. 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. The loss of some reserve status for the U.S. dollar is likely, as the crises break, and that would intensify both the dollar-selling and domestic U.S. inflationary pressures.

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 soft 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 still 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 have put forth outlines of ten-year budget proposals that remain 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](#)). Recent reductions reported in the year-to-date cash-based 2013 deficit reflect gimmicks such as the U.S. government declaring itself dividends out of government-backed and controlled Fannie Mae and Freddie Mac. Those dividends also have helped the Treasury operate around the limits of the current debt ceiling. If the government consolidated those entities into its financial statements, as would happen in the corporate world, the deficit position would be much bleaker, as it is otherwise with generally accepted accounting principles or GAAP-based accounting.

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 global markets previously had expressed their extreme discomfort with the unresolved longer-range sovereign solvency issues of the United States, by dumping dollars at the time of the failed July/August 2011 fiscal negotiations. The continuing unwillingness and political inability of the current government to address those issues, only

pushes along the regular unfolding of events that eventually will trigger a massive flight from the U.S. dollar and 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 extreme 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 near-term—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 intermittent panicked selling of gold has not been. 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 (July 2013)

**July 2013 Plunge in Durable Goods Activity Was Dominated by Irregularly-Timed Orders for Commercial Aircraft.** With the reporting of irregular surges in commercial aircraft orders comes largely offsetting monthly order declines in later periods, irregularly repeating the process throughout the year. July 2013 orders experienced such an offset. This happens because the Department of Commerce has no meaningful way to seasonally adjust the aircraft orders. Despite the extreme short-term volatility, however, new orders for the commercial aircraft industry have been a net positive, up by 13.5% year-to-date July 2013, versus 2012, and up for the full year of 2012. These orders are booked well into the



future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

Where the swings in the long-term aircraft new orders usually are large enough to dominate the monthly change in aggregate durable goods orders, it is meaningful to view total manufacturing order activity net of commercial aircraft. Similarly, with the impact of the government's defense orders removed, new orders often are viewed commonly for just nondefense capital goods. For July 2013, ex-commercial aircraft, new orders fell by 1.5%, rather than by the headline 7.3%. Nondefense capital goods orders, however, were down by 15.4%, dominated still by the commercial aircraft activity (they were up by 0.4% ex-commercial aircraft).

Net of the volatility in airplane orders, recent monthly activity in aggregate activity has remained well within the normal reporting range of the series. As a result, the ongoing long-term patterns of stagnation remain in place, despite any short-term upside blips. The growth patterns in this series remain of a nature that usually precedes or coincides with a recession or deepening downturn.

**Official, Nominal July 2013 Reporting.** The Census Bureau reported today, August 26th, that the regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of July 2013 new orders for durable goods fell by 7.27%, following a revised 3.92% (previously 4.23%) gain in June. Again, the bulk of the headline July decline was due to a plunge in the long-term and highly-volatile commercial aircraft orders.

Nondefense (or commercial) aircraft orders fell by 52.33% in July, following a revised 33.79% (previously 31.41%) month-to-month gain in June (the unusual string of gains also included monthly increases of 67.64% in May and 18.36% 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 fell by 1.51% in July, after a revised 1.04% (previously 1.59%) gain in June.

Declining aircraft orders hit year-to-year change in seasonally-adjusted, total nominal new orders, which fell in July by 0.23% (gained 3.98% ex-commercial aircraft), following a revised year-to-year gain of 10.86% (4.07% ex-commercial aircraft) in June. Those same numbers in initial June reporting were 10.93% (4.32% ex-commercial aircraft).

Also dominated by aircraft-order activity, seasonally-adjusted new orders for nondefense capital goods in July fell by 15.42% for the month (up by 0.42% ex-commercial aircraft), versus a revised gain in June of 7.06% (down by 1.40% ex-commercial aircraft). All of the preceding is before 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, payroll and unemployment 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 to durable goods orders, subsequent reporting has made all historical reporting prior to May 2013 inconsistent with the current headline numbers.*

**Inflation-Adjusted and Smoothed.** The nominal 7.27% decline in aggregate monthly July 2013 orders also was a real (inflation-adjusted) decline of 7.27%, after allowing for an unchanged July 2013 reading in the PPI finished goods capital equipment deflator. The revised nominal 3.92% monthly gain in June was

3.86% in real terms. On a year-to-year basis, the inflation- and seasonally-adjusted change was an annual decline of 0.81%, versus a revised gain of 9.93% in June. For July and June 2013, ex-commercial aircraft, the respective real monthly changes were a decline of 1.51% and a gain of 0.98%, with the respective annual increases at 3.41% and 3.18%.

In terms of inflation-adjusted levels, as shown in the two graphs in the *Opening Comments* section, both the smoothed aggregate new orders, and the aggregate orders net of commercial aircraft series, have shown a slowing uptrend and flattening-out in the last two-to-three years—most recently with a dip and now a small bounce to the upside. This still is a general pattern of stagnation or bottom-bouncing—clearly not the recovery that has been reported for official GDP activity. The real level of orders in July 2013 remained below both the pre-2001 and pre-2007 recession highs.

If the deflation measure here were corrected meaningfully for its hedonic-quality-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](#)). Efforts are underway at developing a more meaningful deflator.*

## EXISTING-HOME SALES (July 2013)

**July Existing-Home Sales Gain Boosted by Downside Revision to June.** Repeating an increasingly-frequent reporting pattern, the headline 6.5% monthly gain in July 2013 existing-home sales was in the context of a downside revision to June’s prior reporting. Where the headline July gain pushed the bounds of the general monthly volatility seen in this series, as suggested in the graph in the *Opening Comments* section, that gain also likely will be subject to downside revisions. Despite the positive press, July 2013 activity still remained 25.9% below the June 2005 pre-recession high for the series. Given questions of the reliability of the series, particularly the quality of, and the volatility, instabilities and uncertainties in the reporting of existing-home sales, not too much should be read into the reported trends.

**July 2013 Existing-Home Sales Reporting.** The August 21st release of July 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly increase of 6.5%, in the context of, and against a downwardly revised sales estimate for June. The revised monthly contraction in June was 1.6% (previously 2.2%). Net of prior-period revisions, the monthly decline for July was 6.1%.

The July increase to a seasonally-adjusted, monthly-unit sales pace of 449,200 (an annualized pace of 5,390,000), from a revised 421,700 (5,060,000 annualized) in June, which previously was 423,300 (5,080,000 annualized), still was within normal month-to-month volatility for this otherwise unstable series. On a year-to-year basis, July 2013 sales rose by 17.2%, versus a revised 14.7% (previously 15.2%) in June.

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, remain of questionable enough quality to leave the indicated trend highly uncertain.

The portion of total sales in distressed properties declined in the latest reporting. The NAR estimated “distressed” sales in July 2013 were 15% of the total (9% foreclosures, 6% short sales), versus 15% (8% foreclosures, 7% short sales) in June. Where the July and June “distressed” readings were the lowest reported by the NAR since it started tracking the series during the 2008 panic, the activity here most likely reflected timing distortions, rather than improvements in consumer liquidity and finances.

As discussed in the *Opening Comments*, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery.

Reflecting ongoing lending problems (and likely related solvency issues) within the banking industry, and some continuing influx of investment money, the NAR also estimated that all-cash sales in July 2013 were at 31% of the total, the same level as in June 2013, but up from 27% in July 2012.

## NEW-HOME SALES (July 2013)

**July Sales Plunge Was Muted By Massive Downside Revision to June.** A quick look at the graph of new-home sales activity in the *Opening Comments* section gives a suggestion of just how hard expectations of recovering home sales activity may have been hit by July’s new-home sales reporting of Friday, August 23rd. The short red line reflects the way the markets viewed new-home sales, based on the prior June 2013 reporting, while the ongoing blue line reflects the new July reporting. From the level of sales that had been reported initially at an annual pace of 497,000 units in June, to the new level reported for July of 394,000, the month-to-month decline was 20.7%, which would have been statistically significant. It was not statistically significant, however, because coincident with July reporting the June estimate was revised lower by 8.5% to 455,000, so the resulting June-to-July monthly drop of “only” 13.4% was statistically insignificant.

Again, the consumer remains severely constrained by structural liquidity issues, as discussed in the *Opening Comments*. There have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery. Reflecting that circumstance, the level of new-home sales activity in July 2013 was 71.6% below the July 2005 pre-recession high. That is reasonably consistent with housing starts for single-unit houses in July 2013, which held at 67.6% below the January 2006 pre-recession high, again as reflected in the graphs and discussion in the *Opening Comments*.

**July 2013 New-Home Sales Reporting.** The decline in July home sales, reported in the Census Bureau’s August 23rd release, was in the context of another heavy round of downside revisions to the prior three months of reporting, an increasingly common pattern in the new-home sales series. July 2013 new-home sales (counted based on contract signings) showed a statistically insignificant 13.4% plunge (down by 20.7% before prior-period revisions) +/- 17.0% (all confidence intervals are at the 95% level). That followed a revised 3.6% (previously 8.3%) gain in June. Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years.

The July 2013 year-to-year gain of 6.8% +/- 21.8% in new-home sales also was not statistically significant. Annual growth in June revised to 26.4% (previously 38.1%). The volatility in annual change increasingly reflects the monthly volatility and other instabilities 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 graphs in the *Opening Comments* section.

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, for existing-home sales, median and mean existing-home sales prices in July 2013 (not seasonally-adjusted) both were down month-to-month and up year-to-year. For July new-home sales, median and mean prices were down and up, respectively, month-to-month, while both measures were higher year-to-year.

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## WEEK AHEAD

**Weaker-Economic and Stronger-Inflation Reporting Remain Likely in the Month and Months Ahead.** *[Except for the detail on the pending second-quarter 2013 GDP revision, the balance of this Week Ahead section is unchanged from the prior Commentary.]* Given underlying economic activity that continues to appear weaker than overly-optimistic market expectations, and given underlying fundamentals that are suggestive of deteriorating business activity, weaker-than-consensus economic reporting should be the ongoing trend.

Separately, given that energy-inflation-related seasonal-adjustment factors are on the plus-side for a couple of months, combined with stable or higher oil and gasoline prices, stronger-than-expected headline CPI and PPI also are likely for at least the next month or two.

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

Where market expectations for economic data in the months and year ahead should begin to soften, weaker-than-expected economic results remain likely, given the still-intensifying structural liquidity constraints on the consumer, as discussed in the *Opening Comments* section of [Commentary No. 549](#).

***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](#).

**GDP (Second-Quarter 2013, Second Estimate, First Revision).** The second estimate of second-quarter 2013 GDP is due for release on Thursday, August 29th, by the Bureau of Economic Analysis (BEA). The developing consensus appears to be for the first revision to the quarterly data to be to the upside, perhaps by 0.5%, on top of the initial headline estimate of 1.7% annualized quarterly real growth for second-quarter 2013. By itself, the narrowing of the second-quarter trade deficit—due to the sharp trade-flow disruptions in June data—would be enough to add 0.8% annualized growth on top of the initial headline GDP growth rate (see [Commentary No. 548](#)). Those numbers are not real, however, and eventually they will be reversed out or reflected in a sharp negative swing in third-quarter data. Other factors, such as industrial-production reporting, suggest some downside revision. Accordingly, the consensus estimate could be close to the official reporting. Whatever is reported for this most-worthless of economic series, the new growth estimate will not be statistically significant and will remain useless in terms of providing a meaningful picture of current, broad economic activity.

Also pending should be the initial estimates of second-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.