

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

**COMMENTARY NUMBER 560**  
**August Durable Goods Orders, Home Sales**  
**September 25, 2013**

---

**Durable Goods Orders Activity Stagnated in August**  
**Despite Statistically-Insignificant Upside Blip,**  
**New-Home Sales Continued in Renewed Contraction**

---

*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Thursday, September 26th, covering the third estimate, second revision to second-quarter 2013 GDP.*

IMPORTANT: It has come to our attention that some subscribers did not receive the usual e-mail advice of postings at [www.shadowstats.com](http://www.shadowstats.com), for one or two recent and important *Commentaries*. [Commentary No. 558](#) (September 18th) on the government's annual report on household income (the Poverty Report), and [Commentary No. 559](#) (September 19th), covering the FOMC meeting and updating the summary *Hyperinflation Outlook*, both contain new information. As a reminder, irrespective of the e-mail advice, all *Commentary* postings are available immediately and at any time thereafter to subscribers, in the left-hand column of the home page at [www.shadowstats.com](http://www.shadowstats.com).

We apologize for any inconvenience to affected subscribers. The e-mail issues should be fully resolved. Please advise if you are having any problems receiving regular advice of the postings, or otherwise.

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Latest Numbers on the Economy.** Reporting on August new orders for durables suggested stagnate-to-down economic activity, and a similar trend can be read into the August new-home sales detail. The pending second revision to second-quarter GDP likely will be little more than statistical noise, holding near the last headline growth estimate of 2.5%, but the also pending initial estimate of the 2013 benchmark revision to payroll employment, also due for release sometime tomorrow (September 26th), should be on the downside and could be interesting. The September 26th *Commentary* will cover details.

**August 2013 New Orders for Durable Goods Were Stagnant.** With the usually highly-unstable sector of commercial aircraft orders largely unchanged, August 2013 new orders for durable goods were stagnant on a monthly basis. The 0.1% headline gain was not meaningful and was well within the normal volatility of the series.

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

The seasonally-adjusted nominal (not-adjusted-for-inflation) level of August 2013 new orders for durable goods rose by 0.12% in August, following a revised monthly decline of 8.07% (previously 7.27%) in July, and a revised 3.91% (previously 3.92%, initially 4.23%) monthly gain in June. Before prior-period revisions, August new orders fell by 0.75%.

Nondefense (or commercial) aircraft orders notched lower by 1.22% in August, following a revised 58.93% (previously 52.33%) plunge in July, and an unrevised 33.79% (initially 31.41%) month-to-month gain in June. Net of prior-period revisions, August commercial aircraft orders fell by 14.91%. Usually with an extremely long lead-time, these aircraft orders rarely impact near-term economic activity. Net of these orders, aggregate new orders rose by 0.20%, fell by a revised 1.57% (previously 1.51%) in July, and gained a revised 1.02% (previously 1.04%, initially 1.59%) in June.

What these numbers show is no growth—stagnation—in new orders for durable goods in the last three months, net of commercial aircraft order activity.

Aircraft order volatility also has impacted year-to-year change in seasonally-adjusted, total new orders. Total orders in August 2013 were up by 13.68% (up 8.68% ex-commercial aircraft), versus a revised 1.13% (previously 0.23%) decline in July (up a revised 3.91% ex-commercial aircraft), following a revised year-to-year gain of 10.87% (previously 10.86%) in June (4.05% ex-commercial aircraft).

Also affected by aircraft-order activity, seasonally-adjusted new orders for nondefense capital goods in August declined by 0.17% for the month (up by 0.01% ex-commercial aircraft), versus a revised decline

of 17.39% (previously 15.42%) in July (up by a revised 0.48%, previously 0.42%, ex-commercial aircraft). All of the preceding is before adjustment for inflation.

***Inflation-Adjusted and Smoothed, August 2013.*** The nominal 0.12% gain in aggregate monthly August 2013 orders was a real (inflation-adjusted) gain of 0.18%, after allowing for a 0.06% monthly decline in the PPI finished goods capital equipment deflator. That was against a revised 8.07% (previously 7.27%) real monthly decline in June.

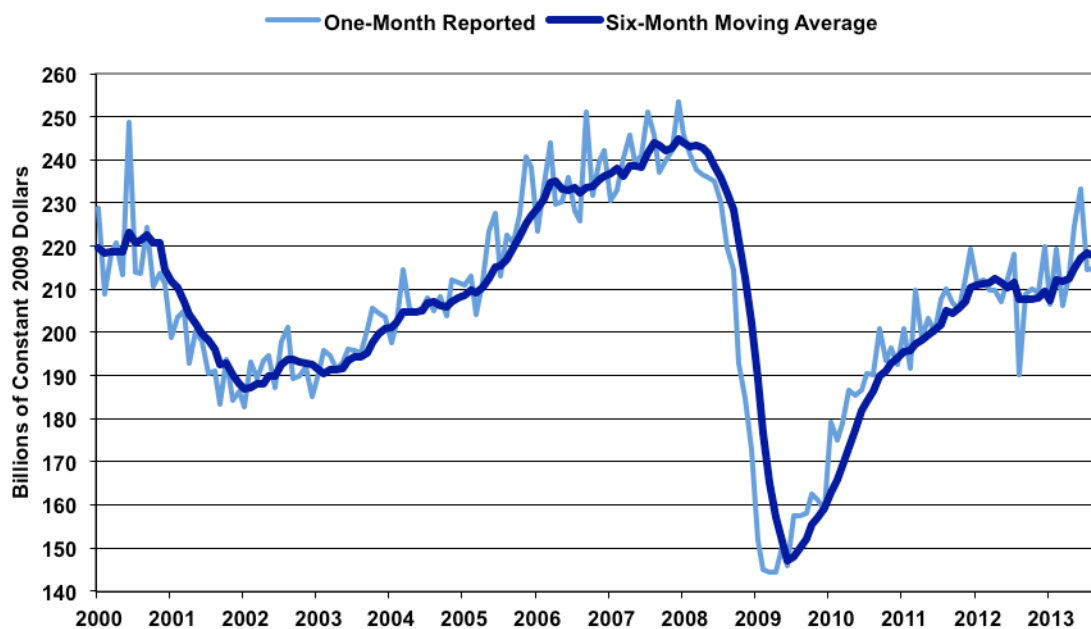
On a year-to-year basis, the inflation- and seasonally-adjusted change was an annual gain of 13.06% in August 2013, versus a revised annual decline of 1.67% (previously 0.81%) in July. For August and July 2013, ex-commercial aircraft, the respective real monthly changes were a gain of 0.26% and a decline of 1.57%, with the respective annual increases at 8.08% and 3.34%.

***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 mixed trends the most-recent months. In particular, recent successive large monthly gains in commercial aircraft orders had spiked the aggregate numbers, but the pattern of those orders usually is more irregular, as seen in the last three months, tending to balance out some in July and August, as happens over time.

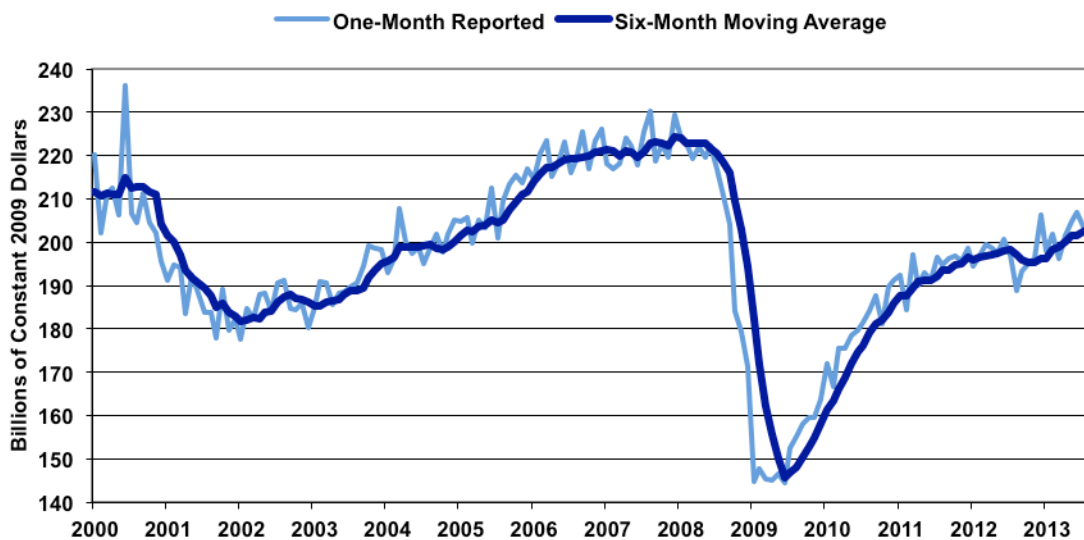
In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—most recently with a dip and minor upside bouncing, a general pattern of stagnation or bottom-bouncing—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in August 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 the respective PPI inflation measure, 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.

**Real New Orders for Durable Goods**  
Deflated by PPI--Finished Goods Capital Equipment  
To Aug 2013, Seasonally-Adjusted (ShadowStats.com, Census, BLS)

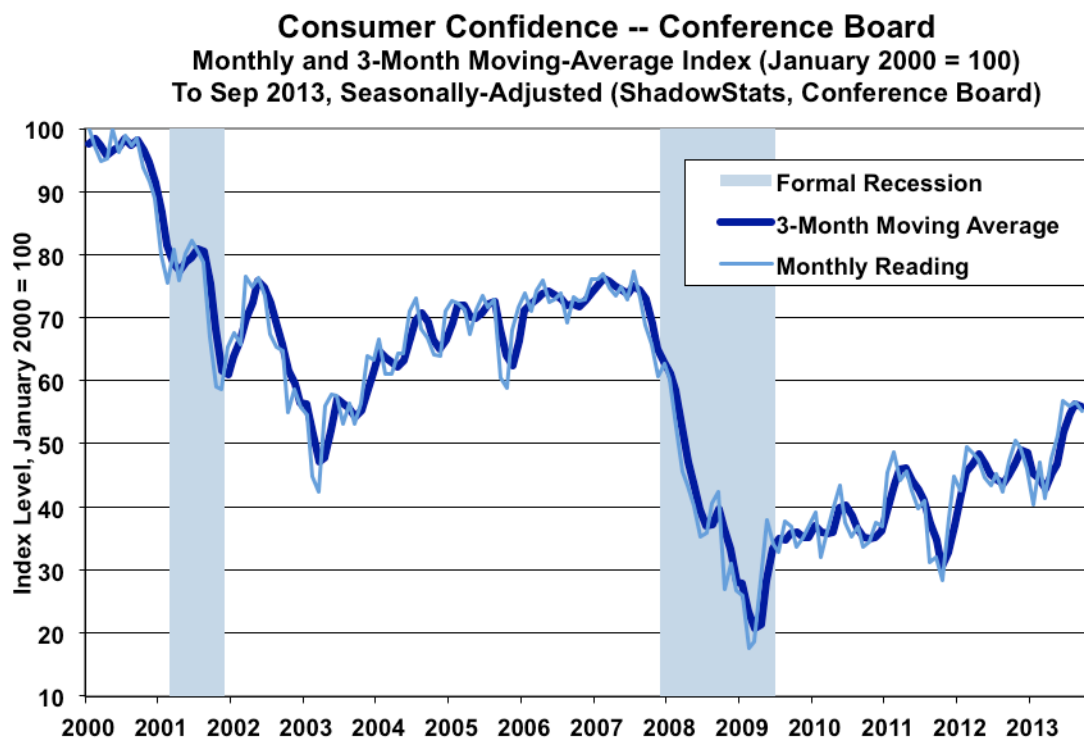


**Real Durable Goods Orders (Ex-Nondefense Aircraft)**  
Deflated by PPI--Finished Goods Capital Equipment  
To Aug 2013, Seasonally-Adjusted (ShadowStats.com, Census, BLS)



**Home Sales Activity Restrained by Ongoing Structural Consumer-Liquidity Problems.** 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. These issues have been discussed most recently in [Commentary No. 558](#), and in the *Opening Comments* of the [Commentary No. 557](#). Without income growth or adequate credit availability, there remains no near-term chance of the consumer supporting a rebound in the housing sector activity or in the broader economy. Nonetheless, some boost to existing-home sales has been suggested recently in the form of increased, speculative private investment.

The following graph of the Conference Board's consumer confidence measure is updated for the preliminary September 2013 index number. Current consumer confidence remains at a level that usually is seen in the depths of ongoing economic contractions (recessions), not in the midst of an expanding economic recovery that otherwise is indicated by current GDP reporting.



**August 2013 Home Sales—Modest Gains Consistent with Stagnation.** Neither the monthly nor annual changes in August 2013 new-home sales were statistically-significant, and the same likely would be true

with existing-home sales activity, if the error margins there were quantifiable. Annual gains either were statistically insignificant (new-home sales) or slowing (existing-home sales).

***Peak-to-Trough and Peak-to-Current.*** As of August 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).

Despite the ongoing positive press on the “housing recovery,” the latest numbers remain far from showing a recovery. As of August 2013, existing-home sales activity still was down 24.6% 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 recent, downside shift in trend for new home sales, the August 2013 sales level was 69.7% below the July 2005 pre-recession high. That still is roughly consistent with the circumstance for single-unit housing starts in August 2013, which was 65.6% below the January 2006 pre-recession high.

***August New Home-Sales Reporting Left Downtrend Intact.*** In the context of downside revisions to new home sales in each of the months in the standard revision period (May, June and July in the August report), the statistically-insignificant headline monthly gain of 7.9% did not offset the revised 14.1% (previously 13.4%) drop in July sales activity. It also left the recent downtrend in place for the series. Due to earlier revisions, July 2013 was down by 12.6% since the unrevised April 2013 level, versus an 11.7% decline in the same period, as reported last month. Further, for a second month, year-to-year change in sales activity was not statistically significant.

August 2013 new-home sales showed a statistically-insignificant 7.9% headline monthly gain (up by 6.8% before prior-period revisions), following a revised 14.1% (previously 13.4%) plunge in monthly July activity. In like manner, the August 2013 year-to-year gain of 12.6% in new-home sales was not statistically significant, for a second month. Annual growth in July revised to 5.7% (previously 6.8%). 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 second and third graphs following.

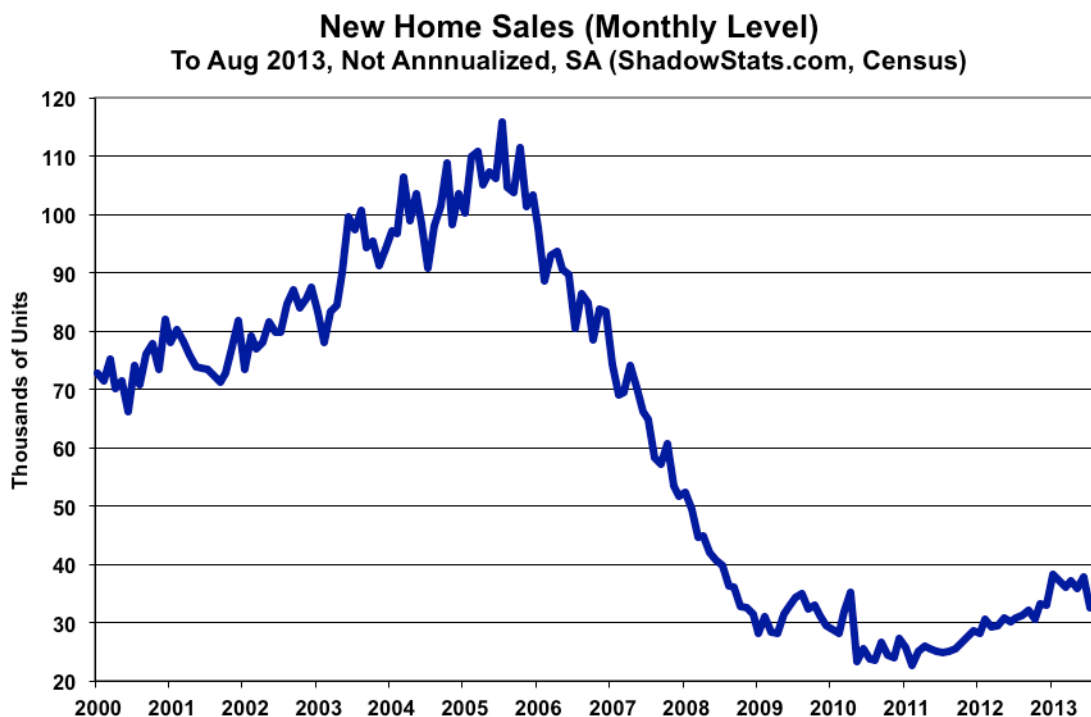
***Existing-Home Sales Gain Was Minimal, Symptomatic of Stagnation in August.*** August 2013 existing home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 1.7%, against an unrevised 6.5% increase in July. The August detail on this series was covered in the prior [Commentary No. 559](#). For purposes of comparisons between the various housing series, however, the latest existing-home sales graph is copied at the end of this *Opening Comments* section, with the text from No. 559, repeated in the *Reporting Detail* section.

***Home Sales Pricing.*** 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 August 2013 (not



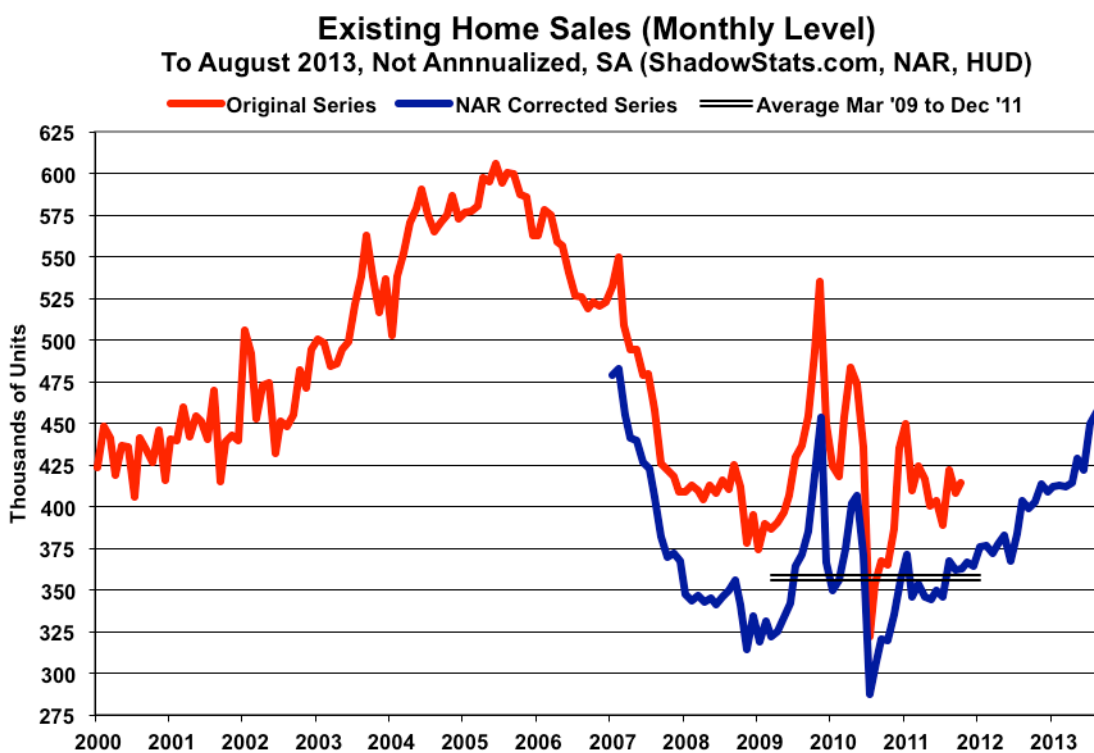
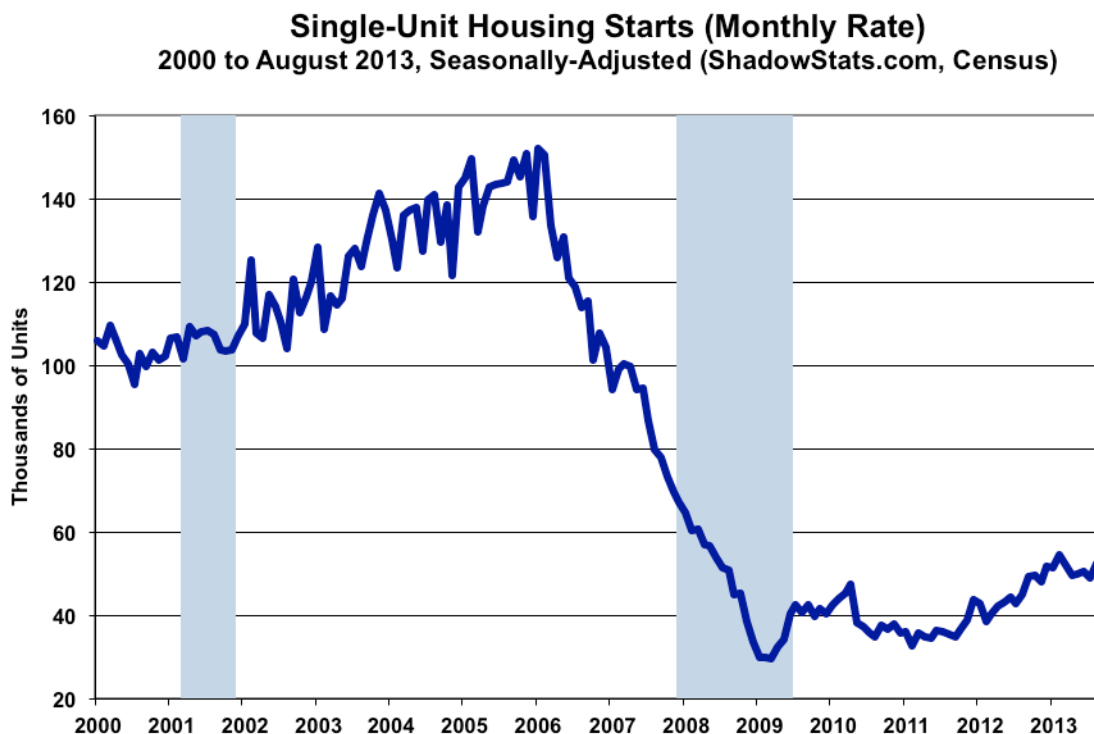
seasonally-adjusted) both were down month-to-month and up year-to-year, again. For August new-home sales, again, median and mean prices were down and up, respectively, month-to-month, while both measures were higher year-to-year.

**Home-Sales Graphs.** Following are the regular monthly graphs of new- and existing-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 by the Census Bureau or the NAR—the issuing authorities—at an annualized monthly rate, but those annualized numbers have little monthly relevance in seasonally-adjusted series that are as volatile as these.



The first graph (above) shows the level of new-home sales, with a small upside bounce in August activity, along with the downwardly revised levels for May, June and July reporting. 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 next graph showing single-unit housing starts, is one of downturn beginning in 2005 or 2006, into 2007, activity plunging into 2009, 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—remains in a 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. 558](#). Activity here generally has remained stagnant in the post-housing-crash environment, and, after a slight uptrend has headed lower and/or been in stagnation, again, in recent months.





The third housing 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 in recent years by 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.

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

---

## HYPERINFLATION WATCH

**Hyperinflation Outlook—Summary.** This *Hyperinflation Outlook* summary was just updated in *Commentary No. 559* of September 19th, and it is repeated here. The summary is intended as background material for new subscribers and for those looking for a brief version of the broad outlook on 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 month ahead.

***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 early talk of tapering QE3 was 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.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment even could shift from what now is no imminent end to QE3, to an expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, increasingly, they are beginning to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve 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 government scandals and conflicting policy actions, 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. Indeed, 2012 household income data from the Census Bureau show no recovery whatsoever.

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. 552](#)). 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](#) 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, such as housing, retail sales and production (not the GDP), 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 2013, the Fed had monetized in excess of 100% 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 were 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. Late-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.

---

## REPORTING DETAIL

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

**August 2013 Durable Goods Orders Were Stagnant, with Muted Change in the Irregularly-Timed Orders for Commercial Aircraft.** Given a breather in the usually highly-volatile sector of commercial aircraft orders, August 2013 new orders for durable goods were stagnant on a monthly basis. The 0.1% headline gain was not meaningful and was well within the normal volatility of the series.

The reporting of surges and contractions in commercial aircraft orders are seen in an irregularly repeating the process throughout the year. These extremely volatile orders, which usually dominate the aggregate durable goods growth numbers, are booked well into the future and are indicative more of longer-term,

rather than shorter-term prospects for manufacturing activity. For August 2013, however, there was no major impact here on the headline monthly growth estimate.

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 blips. August reporting, again, was consistent with stagnation. The growth patterns in this series remain of a nature that usually precedes or coincides with a recession or deepening downturn.

**Official, Nominal August 2013 Reporting.** The Census Bureau reported today, September 25th, that the regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of August 2013 new orders for durable goods rose by 0.12% in August, following a revised monthly decline of 8.07% (previously 7.27%) in July, and a revised 3.91% (previously 3.92%, initially 4.23%) monthly gain in June. Before prior-period revisions, August new orders fell by 0.75%.

Nondefense (or commercial) aircraft orders notched lower by 1.22% in August, following a revised 58.93% (previously 52.33%) plunge in July, and an unrevised 33.79% (initially 31.41%) month-to-month gain in June. Net of prior-period revisions, August commercial aircraft orders fell by 14.91%. Usually with an extremely long lead-time, these aircraft orders rarely impact near-term economic activity. Net of these orders, aggregate new orders rose by 0.20%, fell by a revised 1.57% (previously 1.51%) in July, and gained a revised 1.02% (previously 1.04%, initially 1.59%) in June.

What these numbers show is no growth—stagnation—in new orders for durable goods in the last three months, net of commercial aircraft order activity.

Aircraft order volatility also has impacted year-to-year change in seasonally-adjusted, total new orders. Total orders in August 2013 were up by 13.68% (up 8.68% ex-commercial aircraft), versus a revised 1.13% (previously 0.23%) decline in July (up a revised 3.91% ex-commercial aircraft), following a revised year-to-year gain of 10.87% (previously 10.86%) in June (4.05% ex-commercial aircraft).

Also affected by aircraft-order activity, seasonally-adjusted new orders for nondefense capital goods in August declined by 0.17% for the month (up by 0.01% ex-commercial aircraft), versus a revised decline of 17.39% (previously 15.42%) in July (up by a revised 0.48%, previously 0.42%, ex-commercial aircraft). All of the preceding is before adjustment 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, August 2013.** The nominal 0.12% gain in aggregate monthly August 2013 orders was a real (inflation-adjusted) gain of 0.18%, after allowing for a 0.06% monthly decline in the PPI finished goods capital equipment deflator. That was against a revised 8.07% (previously 7.27%) real monthly decline in June.



On a year-to-year basis, the inflation- and seasonally-adjusted change was an annual decline gain of 13.06% for August 2013, versus a revised annual decline of 1.67% (previously 0.81%) in July. For August and July 2013, ex-commercial aircraft, the respective real monthly changes were a gain of 0.26% and a decline of 1.57%, with the respective annual increases at 8.08% and 3.34%.

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 August 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 (ShadowStats is working on that), 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.*

## NEW-HOME SALES (August 2013)

**August Sales Gain Did Not Reverse July Plunge.** In the context of downside revisions to new home sales in each of the months in the standard revision period (May, June and July in the August report), the statistically-insignificant headline monthly gain of 7.9% did not offset the revised 14.1% (previously 13.4%) drop in July sales activity. It also left the recent downtrend in place for the series. Due to earlier revisions, July 2013 was down by 12.6% since the unrevised April 2013 level, versus an 11.7% decline in the same period, as reported last month. Further, for a second month, year-to-year change in sales activity was not statistically significant.

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 August 2013 was 69.7% below the July 2005 pre-recession high. That is reasonably consistent with housing starts for single-unit houses in August 2013, which was at 65.6% below the January 2006 pre-recession high, again as reflected in the graphs in the *Opening Comments*.

**August 2013 New-Home Sales Reporting.** The 7.9% gain in August home sales, reported in today’s, September 25th release by the Census Bureau, was in the context of another round of downside revisions to the prior three months of reporting, an increasingly common pattern in the new-home sales series. August 2013 new-home sales (counted based on contract signings) showed a statistically insignificant 7.9% gain (up by 6.8% before prior-period revisions) +/- 17.1% (all confidence intervals are at the 95%



level), following a revised 14.1% (previously 13.4%) plunge in monthly July activity. Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years.

The August 2013 year-to-year gain of 12.6% +/- 17.9% in new-home sales also was not statistically significant for a second month. Annual growth in July revised to 5.7% (previously 6.8%). 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.

**Home Sales Pricing.** 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 August 2013 (not seasonally-adjusted) both were down month-to-month and up year-to-year, again. For August new-home sales, again, median and mean prices were down and up, respectively, month-to-month, while both measures were higher year-to-year.

## EXISTING-HOME SALES (August 2013)

**Annual Growth Slowed for August Existing-Home Sales.** *[For purposes of allowing direct comparability of the new- and existing-home sales reporting, this section is repeated from prior Commentary No. 559.]* Despite the positive press surrounding the reported 1.7% monthly gain in August 2013 existing-home sales, the latest activity remained 24.6% below the June 2005 pre-recession high for the series, with annual growth slowing to 13.2% in August, from 17.2% in July.

Given questions of the series' reliability, 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. These data will be reviewed in the context of new home sales and residential construction in the upcoming September 25th *Commentary*.

**August 2013 Existing-Home Sales Reporting.** This morning's (September 19th) release of August 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 1.7%, against an unrevised 6.5% increase in July.

The August increase to a seasonally-adjusted, monthly-unit sales pace of 456,700 (an annualized pace of 5,480,000), from 449,200 (5,390,000 annualized) in July, was within normal month-to-month volatility for this otherwise unstable series. On a year-to-year basis, August 2013 annual sales slowed to 13.2%, from 17.2% in July.

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 shown in the *Opening Comments* section. Again, the data 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 to a post-2008 Crisis low. The NAR estimated “distressed” sales in August 2013 were 12% of the total (8% foreclosures, 4% short sales), versus 15% (9% foreclosures, 6% short sales) in July.

As discussed in [Commentary No. 558](#), however, 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 continuing influx of speculative investment money, the NAR also estimated that all-cash sales in August 2013 were at 32% of the total, up from 31% in July 2013 and 27% in August 2012.

---

## WEEK AHEAD

**Weaker-Economic and Stronger-Inflation Reporting Likely in the Months Ahead.** *[Other than for dropping the detail of since-published economic series, the Week Ahead section is unchanged from the prior Commentary.]* Despite continuing downside adjustments to consensus expectations on the domestic economy, the markets still are overly optimistic. That circumstance, and underlying fundamentals that are suggestive of deteriorating business activity, mean that weaker-than-consensus economic reporting should remain the general trend. Inflation likely will be higher than market expectations.

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors are on the plus-side through the end of the year. That, combined with likely stable or higher oil and gasoline prices, means stronger-than-expected headline CPI and PPI are a good bet for at least the next four months, and beyond. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, and the soon-to-resurface fiscal-crisis/debt-ceiling debacle (see opening comments and the *Hyperinflation Outlook* section). Particularly in tandem with the likely weakened dollar, inflation reporting in the year ahead generally should reflect much higher-than-expected inflation (see also [No. 527: Special Commentary](#)).

**A Note on 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.

**GDP (Second-Quarter 2013, Third Estimate, Second Revision).** The third estimate of second-quarter 2013 GDP is due for release on Thursday, September 26th, by the Bureau of Economic Analysis (BEA). While the developing consensus may be for a slight upside revision to the third estimate, versus the 2.5% annualized headline growth rate currently in place, any revision should be minimal and no more than ongoing statistical noise. 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.

---