

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

COMMENTARY NUMBER 586
November Durable Goods Orders, New-Home Sales
December 24, 2013

Pattern of Stagnation Continued for Durable Goods Orders
November New-Home Sales Reporting Remained Unstable

PLEASE NOTE: The next Commentary is scheduled for Tuesday, December 31st. As planned, it will be the first installment of Hyperinflation 2014—The End Game, a fully-updated hyperinflation report. The first installment will cover the hyperinflation rationale and circumstance, and summaries of the two subsequent installments. The second installment will review economic history and the outlook for economic activity in 2014, and the third installment will examine various approaches and options for handling what will be an extremely difficult time. Any changes in the planned publication detail will be advised in the schedule box on the home page of www.ShadowStats.com.

Merry Christmas! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Instabilities in Continued in Latest Reporting. This Christmas Eve missive is short, providing summary detail and analysis just on today's two economic releases: November new orders for durable goods and new-home sales. Particularly for the new-home sales series, reporting instabilities appeared to

remain an issue. The prior [Commentary No. 585](#) discussed the disruptive effects of the October government shutdown on a variety of economic releases in the last month or so.

New Orders for Durable Goods (November 2013)—Stagnation Continued. The headline gain in November new orders for durable goods was influenced heavily by irregular commercial aircraft orders, with aggregate new orders rising by 3.50% for the month. To the extent that the headline durable goods orders were impacted by data-gathering or analysis distortions tied to the October shutdown of the federal government—as seen in a number of other series (see [Commentary No. 585](#))—such should become apparent in the next several months of reporting.

Net of the volatility in airplane orders, new orders for durable goods broadly have been stagnant on a monthly basis for the last six months, although up by 1.97% in November. Even with the aggregate monthly gain of a rounded 3.5%, the November increase was not meaningful, remaining well within the normal variability of the series. As a result, the ongoing long-term pattern of stagnation remains in place—despite any short-term blips—particularly when viewed net of inflation. The growth patterns in this series remain of a nature that usually precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) November 2013 New Orders. The regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of November 2013 new orders for durable goods rose by 3.50%, following a revised 0.72% (previously 1.98%) contraction in October. The revised, less-negative contraction in October's aggregate orders was dominated by an upside revision to commercial aircraft orders. Before prior-period revisions, total new orders in November rose by 4.95%.

The reporting of contractions and surges in commercial aircraft orders is seen in an irregularly-repeating 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.

Nondefense (or commercial) aircraft orders rose by 21.76% in November, following a revised 5.28% monthly decline in October. Net of prior-period revisions, November commercial aircraft orders rose by 37.08%. Net of the aircraft numbers, total new orders rose by 1.97% in November, following a revised 0.32% decline in October.

What these numbers show over the last six months is no meaningful growth (up by 1.38%)—effectively stagnation—in new orders for durable goods, net of commercial aircraft order activity and before any consideration for the effects of inflation. The six-month gain is 0.95% net of the PPI capital goods inflation.

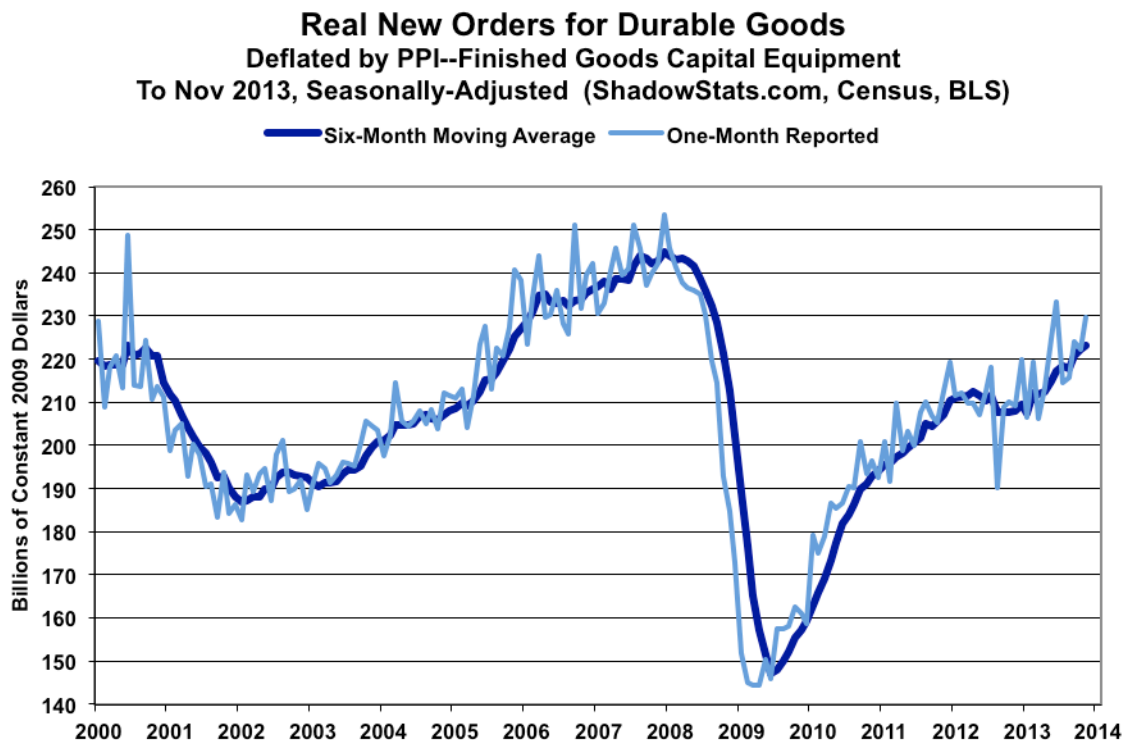
Aircraft order volatility also has impacted year-to-year change in seasonally-adjusted, total new orders. They rose at an annual rate of 10.90% (up by 7.42% ex-commercial aircraft) in November, versus a revised gain of 6.74% (up by 6.12% ex-commercial aircraft) in October 2013.

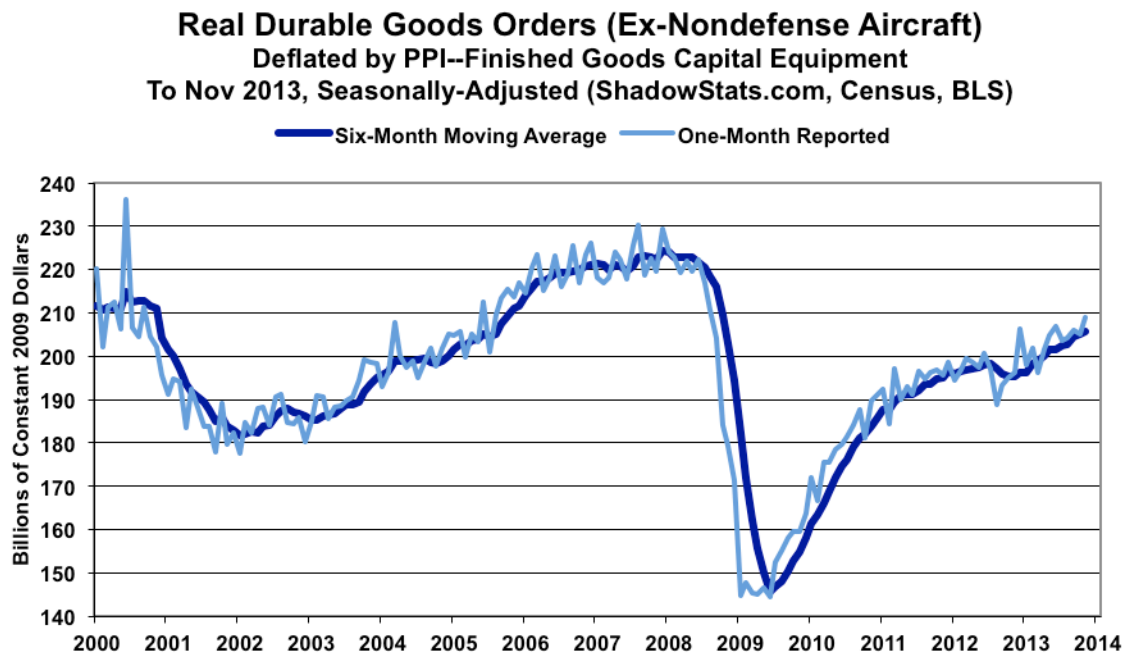
Further affected by aircraft-order activity were the seasonally-adjusted new orders for nondefense capital goods, which rose by 9.38% in November (up by 5.79% ex-commercial aircraft), versus a revised 0.92% decline (up by 0.42% ex-commercial aircraft) in October.

Real (Inflation-Adjusted) Durable Goods Orders—November 2013. Headline monthly inflation in the November PPI finished goods, capital equipment measure was a seasonally-adjusted 0.06%, month-to-month gain, versus a 0.12% monthly gain in October. On an annual basis, November 2013 inflation was reported at 0.98%, the same as in October.

Adjusted for that inflation, and reflected in the following graphs, real month-to-month aggregate orders rose by 3.44% in November, versus a revised 0.85% decline in October, and, ex-commercial aircraft, they rose by 1.91% in November, following a revised monthly decline of 0.44% October. Real year-to-year aggregate orders gained 9.83% in November, versus a revised 5.70% in October, and, ex-commercial aircraft, they gained 6.38% in November, versus a revised 5.09% in October.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. As usually shown and discussed in the *Commentaries* covering new orders for durable goods, the following two graphs plot the new orders, adjusted for inflation. These graphs show monthly as well as a six-month moving average of the activity level. 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 mixed uptrend.





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 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 November 2013 remained at or 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.

New-Home Sales (November 2013)—Reporting Instabilities Continued. While headline November new-home sales fell by a statistically-insignificant 2.1%, upside revisions to the previously-unbelievable data for October, and before, showed ongoing reporting instabilities. The pattern of recently-surging activity here also has run counter to that estimated for rapidly-slowing existing-home sales (see [Commentary No. 585](#) and the related graph later in this section). That said, headline November 2013 new-home sales activity stood 3.5% above the level reported for January 2013, 24.4% above a near-term trough in July 2013, but still was down by 66.6% from the pre-recession peak activity, seen in June 2005.

As discussed in [Commentary No. 585](#), which also covered November economic releases, and in [Commentary No. 578](#), which covered the prior new-home sales report, post-government shutdown

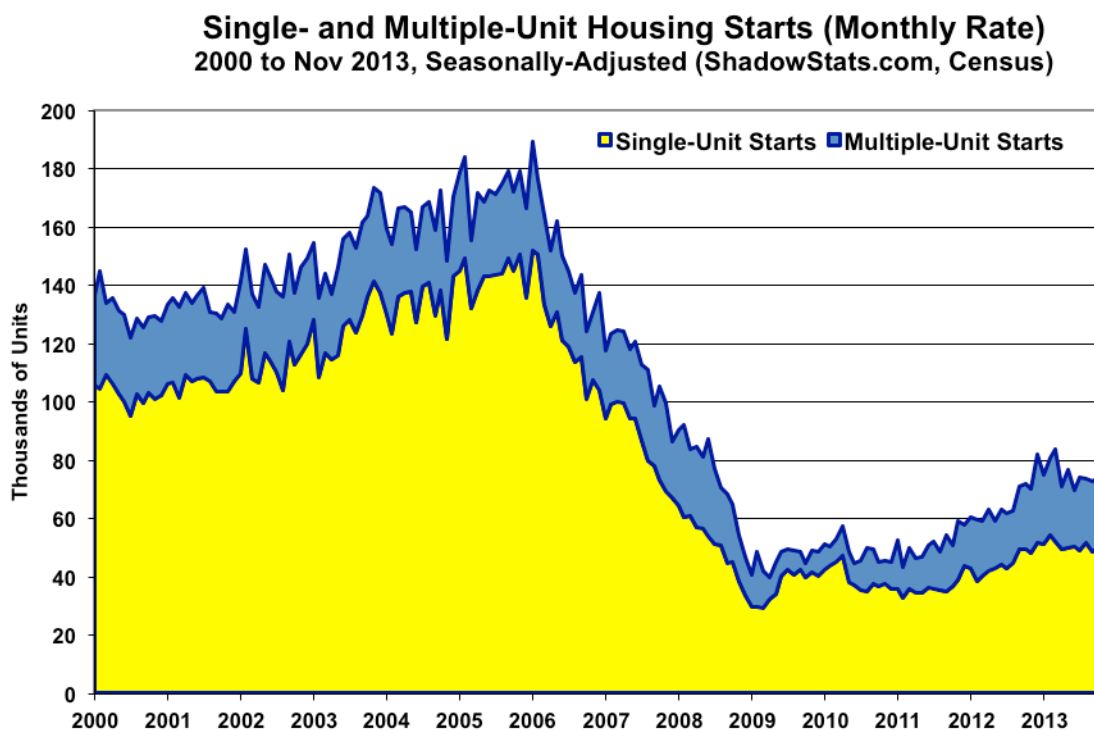
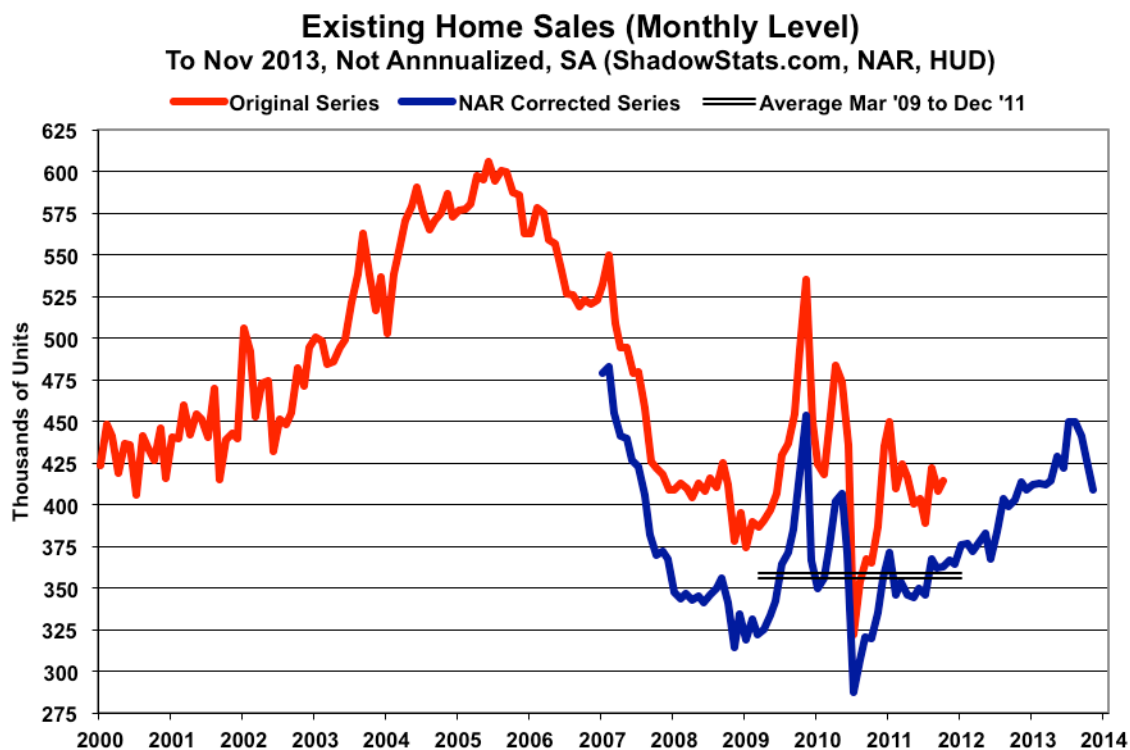
statistical reporting has been unstable, particularly for the housing-industry data. These terribly-flawed numbers are discussed and graphed here as reported and revised. Nonetheless, they are not credible. Reporting in the next several months should help to clarify circumstances in the housing sector.

Structurally-impaired consumer liquidity has been a consistent constraint on consumption, in housing as well as in retail sales. 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, where the only growth in consumer credit continues to be in student loans, and where consumer confidence and sentiment are holding deep in traditional recession territory, not at levels usually seen in an economic recovery, as indicated by headline GDP reporting.

November New-Home Sales versus Wildly Gyrrating Revisions and Prior Reporting. November 2013 headline new-home sales fell by a statistically-insignificant 2.1%, following a revised 17.6% (previously 25.4%) gain in October. Due to other prior-period revisions, October sales actually were revised higher by 6.8% from initial reporting. Before prior-period revisions, November sales gained 4.5% for the month. Year-to-year, November sales rose by a statistically-insignificant 16.6%, versus a revised annual gain of 29.9% (previously 21.6%) in October. Again, the numbers here are unstable and not reliable.

New-Home Sales Graphs. The regular monthly graph of new-home sales activity follows, along with graphs of the latest existing-home sales and housing starts (respectively from [Commentary No. 585](#) and [Commentary No. 584](#)), for comparison. Even with the big upswing into October sales, new-home sales activity appears to be stagnant (if the highly-volatile recent months are averaged together).





[For further details on November new orders for durable goods orders and new-home sales, see the Reporting Detail Section.]

HYPERINFLATION WATCH

Summary Hyperinflation Outlook. This summary is intended as guidance for both new and existing subscribers 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.

Unchanged Summary. The *Summary Hyperinflation Outlook* is as it was last updated in *Commentary No. 584* of December 20th. Publication plans for *Hyperinflation 2014—The End Game*, which will be a fully-updated and expanded version of [Hyperinflation 2012](#), are discussed in today's opening *Note*, with the first installment scheduled to be released on December 31st.

Recommended Background Material. [Commentary No. 559](#) (September 2013) and [No. 527: Special Commentary](#) (May 2013) supplemented [No. 485: Special Commentary](#) (November 2012), which reviewed 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 use here also are [No. 500: Special Commentary](#) on GAAP-based federal deficit reality and 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 or recent months, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014.

Hyperinflation Timing, Set for 2019 Back in 2004, Advanced to 2014 in Aftermath of 2008 Panic. While the U.S. government has lived excessively beyond its means for decades, it was not until the December 2003 (federal government's 2004 fiscal year) enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 that the United States was set solidly on a course for eventual hyperinflation. Back in 2004, ShadowStats began forecasting a hyperinflation by 2019; that forecast was advanced to an outside timing of 2014 as a result of the nature of, and the official handling of the 2008 panic and near-collapse of the domestic financial system. The hyperinflation forecast for 2014 remains in place, with 90% odds estimated in favor of its occurrence.

The initial unfunded liabilities for the Medicare overhaul, alone, added nearly \$8 trillion in net-present-value unfunded liabilities to the fiscal-2004 federal deficit, based on generally accepted accounting principles (GAAP accounting), exceeding the total \$7.4 trillion gross federal debt of the time. When approached by ShadowStats as to how this circumstance likely would lead to an eventual domestic hyperinflation, the response from a member of the Bush Administration was “that is too far into the future to worry about.”

That future has come too quickly. Adjusted for one-time events, GAAP-based federal deficits have averaged \$5 trillion per year for the last seven years, with government spending and financial commitments exploding out of control. As of fiscal-2012 the GAAP-based annual federal deficit was an uncontrollable and uncontrollable \$6.6 trillion, with gross federal debt at \$16.1 trillion and total federal obligations (net present value) in excess of \$85 trillion, more than five-times the level of annual GDP and deteriorating at an annual pace in excess of \$6 trillion per year. Indeed, for fiscal 2013, the GAAP-based annual deficit likely remained well in excess of \$6 trillion, with gross federal debt (adjusted for year-end debt-ceiling accounting gimmicks) about \$17.1 trillion and total federal obligations in excess of \$90 trillion. Details and discussion can be found in [No. 500: Special Commentary](#) and [Commentary No. 577](#).

On a GAAP-basis, the United States faces long-range insolvency. The global financial markets know it, and so do the miscreants currently controlling the U.S. government. Yet, as was demonstrated in the October 2013 crisis negotiations (and in negotiations of recent years) surrounding the debt ceiling, and as openly confirmed in the two-year “budget deal” just passed by Congress, there will be no action taken in the foreseeable future to address the long-term solvency issues facing the United States. There simply is no controlling, political will in Washington to do so.

Recent budget negotiations have reflected no more than the formal, continued posturing and political delay of the same issues and crisis that nearly collapsed the U.S. dollar in August and September of 2011, that then were pushed beyond the 2012 election, and now, after further multiple delays, have been pushed until after the 2014 midterm election. Chances that the global financial markets will give the gutless politicians in Washington a pass on this are nil, and renewed selling pressure on the U.S. dollar in the global currency markets has begun to pick up.

The odds of the United States actually not paying its obligations or interest over the long-term are negligible. Instead, typically a country, which issues its debt in the currency it prints, simply prints the cash it needs when it no longer can raise adequate funds through what usually become confiscatory tax rates, and when it can no longer sucker the financial markets and its trading partners into funding its spending. That results in inflation, eventual full debasement of the currency, otherwise known as hyperinflation. The purchasing power of the current U.S. dollar effectively will drop to zero.

Therein lies the root of a brewing crisis for the U.S. dollar (all “dollar” references here are to the U.S. dollar unless otherwise specified). Global financial markets have wearied in the extreme of the political nonsense going on in Washington. No one really wants to hold dollars to or hold investments in dollar-denominated assets, such as U.S. Treasury securities.

Due to ongoing solvency issues within the U.S. banking system, that Federal Reserve is locked into a liquidity trap of flooding the system with liquidity, with no resulting surge in the money supply (see [Commentary No. 580](#)). Yet, the Fed’s quantitative easings have damaged the dollar, which in turn has triggered sporadic inflation from the related boosting of oil prices. The overhang of dollars in the global

markets—outside the formal U.S. money supply estimates—is well in excess of \$10 trillion. As those funds are dumped in the global markets, the weakening dollar will trigger dumping of U.S. Treasury securities and general flight from the U.S. currency. As the Fed moves to stabilize the domestic financial system, the early stages of a currency-driven inflation will be overwhelmed by general flight from the dollar, and a resulting surge the domestic money supply. Intensifying the crisis, and likely coincident with heavy flight from the dollar, odds also are high of the loss of the dollar's global-reserve-currency status.

These circumstances can unfold at anytime, with little or no warning. Irrespective of short-lived gyrations, the dollar should face net, heavy selling pressure in the months ahead from a variety of factors, including, but certainly not limited to: (1) inability/refusal of those controlling the government to address the long-range sovereign-solvency issues of the United States; (2) lack of meaningful Fed reversal on QE3; (3) concerns of increased quantitative easing by the Fed; (4) lack of economic recovery and renewed downturn; (5) declining confidence in, and mounting scandals involving the U.S. government.

It is the global flight from the dollar—which increasingly should become a domestic flight from the dollar—that should set the early stages of the domestic hyperinflation.

Approaching the End Game. As previously summarized, 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 flux. On December 18, 2013, the FOMC pulled back minimally on QE3, but allowed for re-expansion, depending on underlying conditions. Ongoing systemic-solvency issues favor expanded, not reduced QE3, and continuing weakness in the economy provides ongoing political cover for whatever the Fed would like to do. The current “tapering” most likely was political posturing by the Fed, versus its critics, in advance of Janet Yellen becoming the new Fed Chairman.

In a related area, manipulated market reactions and verbal and physical interventions, tied to tapering or not tapering, have been used to prop stocks and the dollar, and to pummel gold.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment could shift from what now is initial acceptance of the first tapering put into place, to a re-expansion of QE3. The markets and the Fed are stuck with the 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 fundamental quantitative easing by persistent problems now well beyond its control. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, which have been 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.

These systemic problems face incoming Fed Chairman Janet Yellen, along with the same quandaries and issues addressed by current Chairman Ben Bernanke. Where she also has been involved actively in formulating current Fed policies, no significant shifts in Fed policy are likely. QE3 should continue for the foreseeable future. Even as QE3 has been modified minimally in the near-term, in order to placate the Fed's critics, ongoing economic weakness and systemic instabilities favor increased, not reduced, Federal Reserve quantitative easing during the months ahead.

At the same time, deteriorating expectations for, and an increasing lack of confidence in 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 at hand.

This still-forming great financial tempest has cleared the horizon; its early ill winds are being felt with increasing force; and 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 to have begun to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Again, the dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of 2014.

Still Living with the 2008 Crisis. Despite the happy news from headline GDP reporting that the recession ended in 2009, that the economy fully recovered by second-quarter 2011, and that it has been in ongoing expansion ever since (first-quarter 2011 excepted), there never was an actual recovery following the economic crash 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. Although uncorrected headline series for inflation-adjusted retail sales and industrial production have recovered their pre-recession highs (lagging the GDP by roughly two years), both series continue to falter and are not showing meaningful, ongoing expansion, yet.

Where income fundamentally drives economic activity, 2012 household income data from the Census Bureau and related subsequent private data have shown no recovery there whatsoever. Corrected for the use of understated inflation used in deflating real retail sales, industrial production and the GDP, those series do not show a post-2009 recovery in the economy.

What followed the economic crash 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). Indeed, 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.

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. Through the government shutdown in October, the Fed had monetized in excess of 100% of the net issuance of U.S. Treasury debt, since the beginning of calendar-year 2013. That has dropped back, though, to 65.5% of net issuance of publicly-held debt (to 60.7% of net issuance of gross federal debt), as of Dec 11th, due to a catch-up surge of \$480 billion in net government borrowing following President Obama's waiving the debt ceiling. Nonetheless, the Fed's purchases of U.S. Treasury securities have continued at a steady pace of about \$10 billion per week (easing to \$9 billion per week in January 2014).

The Fed's unconscionable market manipulations and games playing of the last year 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 appears 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 mounting global banking-system stress.

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 move sustainably against the U.S. dollar, a movement that may have begun. As discussed earlier, a dollar-selling panic is likely in the next several months, 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 (November 2013)

November 2013 Gain in Durable Goods Orders Was Affected Heavily by the Volatile Commercial Aircraft Sector. Irregular commercial-aircraft orders again heavily influenced reporting of new orders for durable goods, with aggregate new orders rising by 3.50% for the month in November. To the extent that the headline durable goods orders were impacted by data-gathering or analysis distortions tied to the October shutdown of the federal government—as seen in a number of other series (see [Commentary No. 585](#))—such should become apparent in the next several months of reporting.

Net of the volatility in airplane orders, new orders for durable goods broadly have been stagnant on a monthly basis for the last six months, although up by 1.97% in November. Even with the aggregate monthly gain of a rounded 3.5%, the November increase was not meaningful, remaining well within the normal variability of the series. As a result, the ongoing long-term pattern of stagnation remains in place—particularly when viewed net of inflation—despite any short-term blips. The growth patterns in this series are of a nature that usually precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) November 2013 Reporting. The Census Bureau reported today, December 24th, that the regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of November 2013 new orders for durable goods rose by 3.50%, following a revised 0.72% (previously 1.98%) contraction in October. The revised, less-negative contraction in October's aggregate orders was dominated by an upside revision to commercial aircraft orders. Before prior-period revisions, total new orders in November rose by 4.95%.

The reporting of contractions and surges in commercial aircraft orders is seen in an irregularly-repeating 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.

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What these numbers show over the last six months is no meaningful growth (up by 1.38%)—effectively stagnation—in new orders for durable goods, net of commercial-aircraft order activity and before any

consideration for the effects of inflation. The six-month gain is 0.95% net of the PPI capital goods inflation.

Aircraft order volatility also has impacted year-to-year change in seasonally-adjusted, total new orders. Total orders in November 2013 were up by 10.90% (up by 7.42% ex-commercial aircraft), versus a revised annual gain of 6.74% (up by 6.12% ex-commercial aircraft) in October 2013.

Further affected by aircraft-order activity were the seasonally-adjusted new orders for nondefense capital goods, which rose by 9.38% in November (up by 5.79% ex-commercial aircraft), versus a revised 0.92% decline (up by 0.42% ex-commercial aircraft) in October.

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 and annual changes. While those issues are brought into balance, temporarily, with an annual benchmark revision to durable goods orders (usually in May), subsequent reporting makes all historical reporting prior to September 2013 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—November 2013. Headline monthly inflation in the November PPI finished goods, capital equipment measure was a seasonally-adjusted 0.06%, month-to-month gain, versus a 0.12% monthly gain in October. On an annual basis, November 2013 inflation was reported at 0.98%, the same as in October.

Adjusted for that inflation, and reflected in the graphs in the *Opening Comments*, real month-to-month aggregate orders rose by 3.44% in November, versus a revised 0.85% decline in October, and, ex-commercial aircraft, they rose by 1.91% in November, following a revised monthly decline of 0.44% in October. Real year-to-year aggregate orders gained 9.83% in November, versus a revised 5.70% in October, and, ex-commercial aircraft, they gained 6.38% in November, versus a revised 5.09% in October.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. The usual two inflation-adjusted graphs are found in the *Opening Comments* section. Those graphs show the monthly as well as a six-month moving average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft order sector. The moving-average levels in both series have been holding in a pattern of near-stagnation, with some upside trend.

In terms of inflation-adjusted activity, both of those series have shown a slowing uptrend and flattening-out in the last two-to-three years, with the real levels of the November 2013 orders remaining at or 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. Please note that the inflation series here will be revised after the publication of the revamped producer price index series, due for publication in February 2014 (see [Commentary No. 582](#)).

NEW-HOME SALES (November 2013).

Reporting Instabilities Continued. While headline November new-home sales fell by a statistically-insignificant 2.1%, upside revisions to the previously-unbelievable data for October and before showed ongoing reporting instabilities. The pattern of recently-surging activity here also has run counter to that estimated for rapidly-slowing existing-home sales (see [Commentary No. 585](#) and the related graph in the *Opening Comments*). That said, headline November 2013 new-home sales activity stood 3.5% above the level reported for January 2013, 24.4% above a near-term trough in July 2013, and still was down by 66.6% from the pre-recession peak activity, seen in June 2005.

As discussed in [Commentary No. 585](#), which also covered November economic releases, and in [Commentary No. 578](#), which covered the prior new-home sales report, post-government shutdown statistical reporting has been unusually unstable, particularly for the housing-industry data. These terribly-flawed numbers are discussed here and graphed in the *Opening Comments* section, as reported and revised. Nonetheless, they are not credible. Reporting in the next several months should help to clarify circumstances in the housing sector.

Structurally-impaired consumer liquidity has been a consistent constraint on consumption, in housing as well as in retail sales. 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, where the only growth in consumer credit continues to be in student loans, and where consumer confidence and sentiment are holding deep in traditional recession territory, not at levels usually seen in an economic recovery, as indicated by headline GDP reporting.

November New-Home Sales Were on Top of Wildly Gyrating Revisions and Prior Reporting. As reported today (December 24th) by the Census Bureau, November 2013 headline new-home sales fell by a statistically-insignificant 2.1% +/- 24.9% (all confidence intervals are at the 95% level), following a revised 17.6% (previously 25.4%) gain in October. Due to other prior-period revisions, October sales actually were revised higher by 6.8% from initial reporting. Before prior-period revisions, November sales gained 4.5% for the month.

Year-to-year, November sales rose by 16.6% +/- 34.4%, versus a revised annual gain of 29.9% (previously 21.6%) in October. Again, the numbers here are unstable and not reliable.

New-Home Sales Graphs. The regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with graphs of the latest existing-home sales and housing starts. Even with the big upswing into October sales, new-home sales activity appears to be stagnant (if the highly-volatile recent months are averaged together).

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Likely in the Months Ahead. *[The only major economic release in the week ahead is construction spending, covered in the Pending Releases. Otherwise, this Week Ahead section is unchanged from the prior Commentary.]* The markets generally remain overly optimistic as to the economic outlook, although expectations have softened during the last year. That circumstance, and underlying fundamentals that remain highly 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. Data distortions resulting from the October government shutdown temporarily increase the risk for unusual reporting and revisions in most federal-government and related series.

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors will be turning negative in December. They were not positive enough in November to offset declines in unadjusted energy prices fully in the PPI and the CPI. That said, 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 ongoing U.S. fiscal-crisis debacle (see the *Summary 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.

PENDING RELEASES:

Construction Spending (November 2013). The Commerce Department will release its estimate for November 2013 construction spending on Tuesday, January 2nd. Although market expectations seem to favor a strong monthly gain in spending, mirroring the heavily distorted November housing-starts number (see *Commentaries* [No. 584](#) and [No. 585](#)), the monthly changes—in line with more-usual circumstances—likely will not be statistically significant. The series should continue its recent trend of month-to-month stagnation, particularly after revisions and consideration of inflation impact.