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

COMMENTARY NUMBER 629
April New- and Existing-Home Sales, Revised GDP Contraction?

May 23, 2014

First-Quarter GDP Contraction in Next Week's Revision?

First Contemporary Reporting of a GDP Contraction Since the Formal 2007 Recession

Despite Minimal and Statistically-Insignificant Headline Monthly Gains, Annual Contractions Continued for Both New- and Existing-Home Sales

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PLEASE NOTE: The next regular Commentary *is scheduled for Tuesday, May 27th, covering April new orders for durable goods, followed by one on May 29th, covering the second estimate, first revision to first-quarter 2014 GDP.*

Best wishes to all for a most enjoyable Memorial Day weekend! — John Williams

OPENING COMMENTS AND EXECUTIVE COMMENTARY

Unexpected Economic Weakness Should Contribute to Financial-Market Turmoil. Market expectations appear to have settled on a downside revision to the quarterly headline-growth estimate for first-quarter 2014 GDP. Against an initial annualized growth estimate of 0.1%, expectations have moved towards a quarterly contraction of about 0.5% (see *Week Ahead* and *Hyperinflation Watch* sections). Anything is possible in reporting out of the Bureau of Economic Analysis (BEA), but a solidly-negative consensus forecast is in line with what the BEA likely was signaling to consensus forecasters with its first estimate, and a negative consensus meaningfully improves the odds of the BEA reporting an outright contraction. As was discussed in *Commentary No. 623*, at the time of the first estimate:

"The Bureau of Economic Analysis has tremendous leeway in the level of growth that it reports in its first or 'advance' estimate of headline GDP growth in a given quarter. Usually, the BEA attempts to target the initial headline growth estimate to consensus expectations, moving the internal BEA estimate towards the consensus number. Where the consensus appears to have been about 1.0% coming into this morning's (April 30th) report, and where the BEA gave a 0.1% headline growth estimate—the lowest positive growth rate possible—the message was negative as to what the BEA was seeing in reality. The internal BEA estimate probably was for a quarterly contraction, and the message from the BEA to consensus forecasters likely was that the numbers were worse than they appeared, and that downside revisions are pending."

A negative first-quarter 2014 GDP would be the first contemporary reporting of a quarterly GDP contraction since the formal 2007 recession, which purportedly ended with a contraction in second-quarter 2009 GDP.

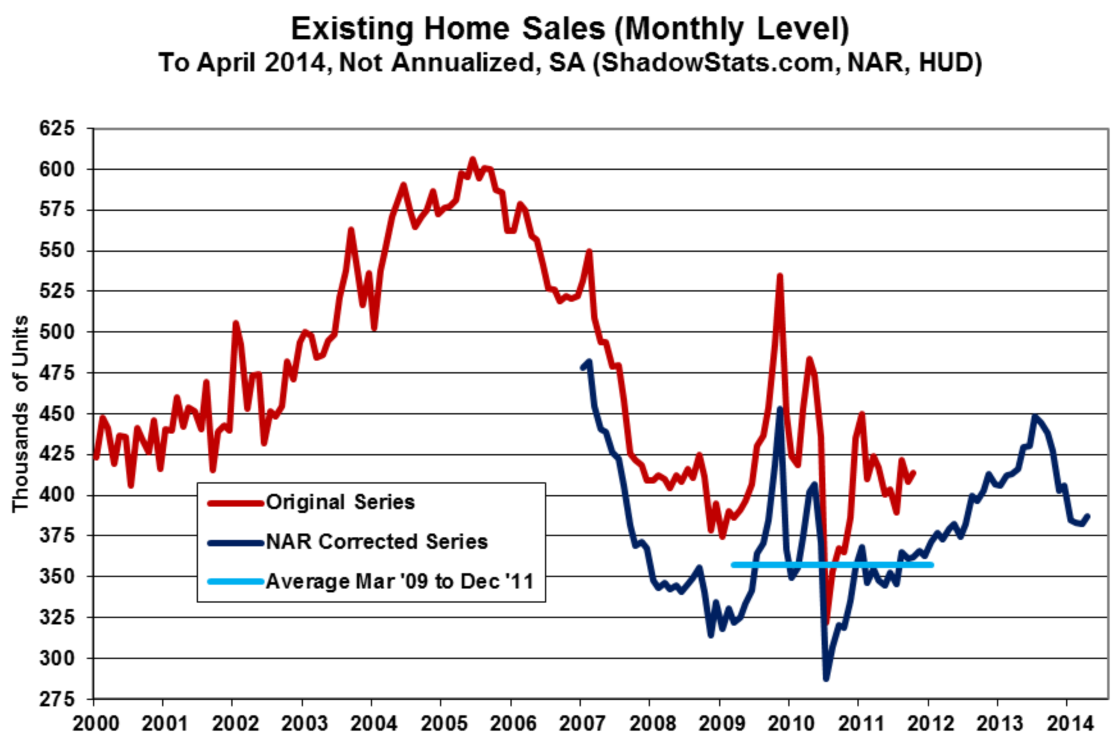
Current GDP history, however, now shows a one-quarter annualized contraction of 1.3% in first-quarter 2011. Of course, the initial headline reporting for first-quarter 2011 was positive, with contemporary initial reporting of annualized quarterly growth at 1.8% (1.9% in the second revision). The eventual reporting of the first-quarter 2011 quarterly contraction was generated only three annual benchmarks later, in July 2013. As an aside, the eventual 3.1% revised swing in the annualized quarterly growth rate still was reported within the 95% confidence interval of +/- 3.5% for this otherwise generally worthless series.

Second-Quarter 2014 GDP Also Should Contract. Traditionally, it takes two back-to-back quarterly contractions to make a recession. Consensus expectations are that second-quarter 2014 GDP growth will soar, versus the now-accepted and likely first-quarter downturn. Yet, underlying weak economic fundamentals also should lead to a headline second-quarter contraction in the initial estimate due on July 30th. Additionally, the developing pattern of weakness in GDP reporting should be exacerbated by the 2014 annual benchmark revision to the GDP, also due on July 30th (see *Commentary No. 628*).

Such should confirm a "renewed" recession, a general circumstance that likely will gain recognition in the global financial markets before the July 30th releases. That circumstance, in confluence with other fundamental fiscal, monetary and domestic and global political issues, should place mounting and massive selling pressure on the U.S. dollar and potentially could resurrect elements of the 2008-Panic.

Homes Sales. The balance of today's (May 23rd) missive focuses on the reporting of April 2014 new- and existing-home sales, which showed minimal and statistically-insignificant headline monthly gains in an environment of ongoing annual contractions. As discussed in *Commentary No. 626* and *Commentary No. 628*, there has been no underlying improvement in fundamental consumer liquidity conditions, and most underlying economic numbers are showing a renewed economic downturn. There is no basis for expecting or projecting an imminent recovery in the housing market.

Existing-Home Sales—April 2014—Annual Growth Down for Sixth Straight Month, Despite First Headline Monthly Gain in Five Months. Except for a headline 1.3% gain in April 2014 and a one-month bounce of 0.8% in December 2013, existing-home sales activity has been in a downhill slide since July 2013. April 2014 sales activity, at an annualized pace of 4,650,000 also was down by 6.8% year-to-year, the sixth straight monthly annual decline; it was down by 13.6% from the post-recession high of July 2013 and down by 36.0% from the July 2005 pre-recession peak in activity.



Headline April Existing-Home Sales: Up 1.3% for the Month, Down 6.8% Year-to-Year. Headline April 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 1.3% month-to-month gain, versus an unrevised 0.2% decline in March. On a year-to-year basis, April 2014 annual sales contracted by 6.8%, versus a 7.5% drop in March. The April annual contraction was the sixth consecutive month where headline sales were reported below those of the year before.

The NAR estimated the portion of total sales in "distressed" properties in April rose to 15% (10% foreclosures, 5% short sales), versus 14% (10% foreclosures, 4% short sales) in March 2014.

Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in April 2014 were 32%, versus 33% in March 2014 and 32% in April 2013.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, with both fourth-quarter 2013 and first-quarter 2014 in quarter-to-quarter contractions, and first-quarter 2014 in year-to-year contraction. Those patterns are reflected in the preceding accompanying graph. The data quality, though, remains questionable.

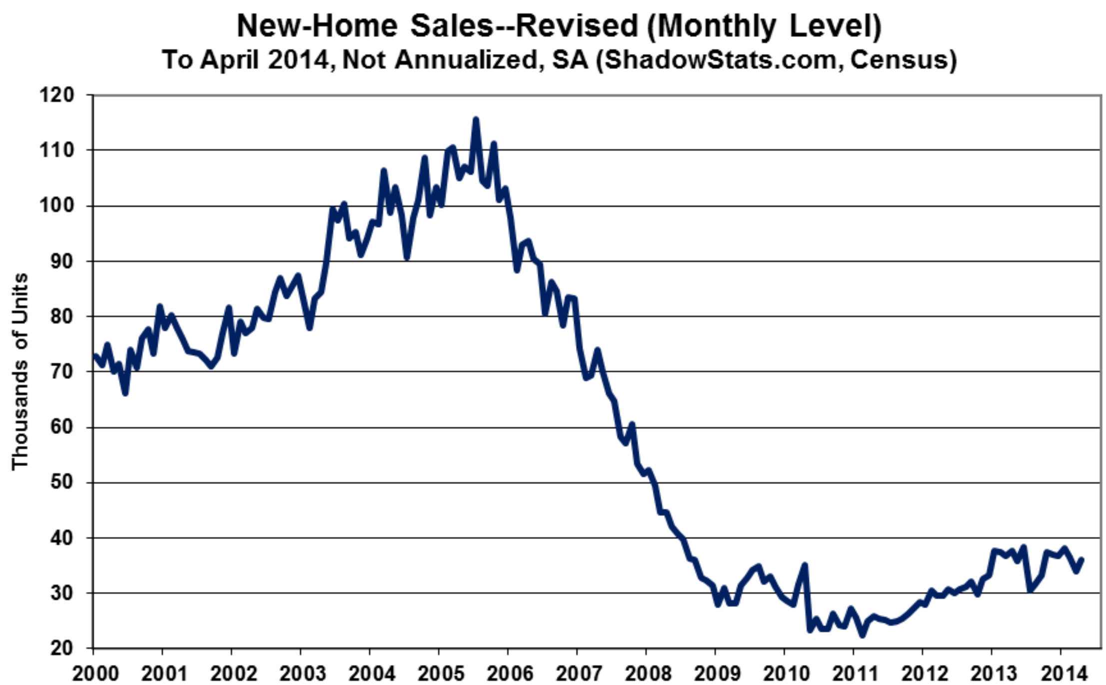
New-Home Sales—April 2014—Revisions Muted Some Large Swings in Sales Activity and Boosted April Sales, but Downturn Remained Intact. The 6.4% gain in monthly new-home sales activity for April 2014 was in the context of the annual revision to seasonal adjustments for the prior two years, where seasonals shifted with the effect of giving some extra growth to the April period.

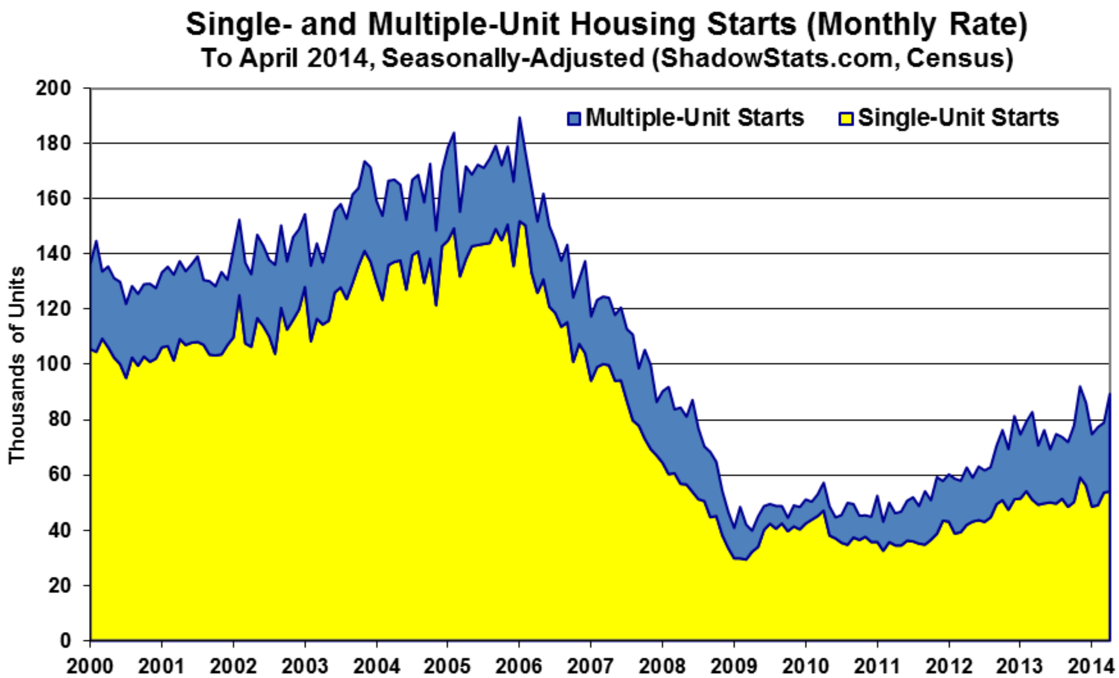
Shown in the accompanying graph, the revised seasonal adjustments muted a recent surge and subsequent plunge in reported sales. The shift favoring April seasonals can be seen in the upside revision to April 2013 sales. The new patterns, however, did not alter the basic picture. Where the headline monthly gain in April was statistically insignificant (as was the annual contraction), the level was at the average level of first-quarter 2014, which, in turn remained negative on a quarterly basis and down on a year-to-year basis. Headline April 2014 sales activity still was down 68.8% from the pre-recession peak seen in July 2005.

April 2014 New-Home Sales Headline Gain Was Insignificant. April 2014 headline new-home sales (counted based on contract signings, Census Bureau), and in the context of annual seasonal-adjustment revisions, rose by a statistically-insignificant 6.4%, following a revised 6.9% decline in March, and a revised 4.4% decline in February. As reflected partially in the seasonal revisions, the monthly changes can be highly unstable.

Year-to-year, April 2014 sales declined by a statistically-insignificant 4.2%. That followed a revised annual decline of 7.5% in March, and a revised 2.5% decline in February.

The regular monthly graph of new-home sales activity follows and incorporates the annual revisions. The second graph following reflects the latest housing starts, broken out in aggregate and by single and multiple unit sales (see *Commentary No. 628*). The housing starts series also just was revised in terms of its seasonal adjustment factors.





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

HYPERINFLATION WATCH

Hyperinflation Summary Outlook. The hyperinflation and economic outlooks were updated with the publication of *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, on April 2nd, and publication of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, on April 8th. A basic summary of the broad outlook is found in the *Opening Comments* and *Overview and Executive Summary* in the *First Installment Revised*. The broad outlook for a hyperinflationary great depression beginning this year has not changed—only evolved—with various details continuing to fall into place. A formal and more-condensed summary of the extraordinarily-difficult times ahead will take over this section, soon. What follows here is detail on the evolving economic outlook—with new language in the *Pending GDP Contractions* section versus the text of the prior *Commentary No. 628*—all to be incorporated into that summary.

Economy Turns Down Anew. Consistent with the above *Special Commentaries*, a renewed U.S. business slowdown/downturn was evident in the initial headline estimate of first-quarter 2014 GDP, with an annualized headline growth of 0.11% (*Commentary No. 623*). As the patterns of headline growth in economic reporting continue to slow and to turn down, financial-market expectations increasingly should shift towards renewed or deepening recession. That circumstance, in turn, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

The fundamental issues threatening the dollar, again, include, but are not limited to: the U.S. government not addressing its long-term solvency issues; monetary malfeasance by the Federal Reserve seeking to provide liquidity to a troubled banking system, and to the U.S. Treasury, with a current pace of 70% monetization of effective net issuance of public federal debt; a mounting domestic and global crisis of confidence in a dysfunctional U.S. government; mounting global political pressures contrary to U.S. interests; and a severely damaged U.S. economy, which never recovered post-2008 and is turning down anew (including a widening trade deficit).

Pending GDP Contractions. The reporting of the March 2014 trade data, confirmed the steep deterioration in the first-quarter trade deficit, sharply reducing the chances for a major change to initial, headline first-quarter GDP growth in the pending two regular revisions. As noted in the *Week Ahead* section, though, market expectations are for the first revision (May 29th) to take headline first-quarter-2014 GDP growth into contraction. Watch out, though, for the annual GDP benchmarking and the initial headline estimate of second-quarter 2014 GDP growth on July 30th.

Generally reflecting weaker data in revisions to underlying data, downside revisions to recent GDP reporting are likely in the annual benchmark revisions. Specifically, underlying current economic activity actually is deteriorating and weak enough that the benchmark GDP revision likely will show a contracting first-quarter 2014 GDP (if not already in place), coincident with the initial reporting of a contraction in second-quarter 2014 GDP. That circumstance quickly should gain formal recognition as a new recession.

Despite the unstable, questionable and otherwise horrendous unemployment reporting for April 2014 (see *Commentary No. 624*), the subsequent headline downturns in April industrial production and real retail sales, and the headline upturns in the CPI and PPI, even weaker economic data and stronger inflation are likely in the months ahead. If those patterns continue, market expectations—and related financial-market reactions—should move into the "renewed recession" camp, before or coincident with the July 30th annual revisions to GDP.

REPORTING DETAIL

EXISTING-HOME SALES (April 2014)

First Monthly Gain for Existing Home Sales in Five Months, But Sales Fell Year-to-Year for Sixth Straight Month. Except for a headline 1.3% gain in April 2014 and a one-month bounce of 0.8% in December 2013, existing-home sales activity has been sliding since July 2013. April 2014 sales activity, at an annualized pace of 4,650,000 also was down by 6.8% year-to-year, the sixth straight monthly annual decline; it was down by 13.6% from the post-recession high of July 2013 and down by 36.0% from the July 2005 pre-recession peak in activity.

Headline April Existing-Home Sales Were Up 1.3% for the Month, Down 6.8% Year-to-Year. The May 22nd release of April 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 1.3% month-to-month gain, versus an unrevised 0.2% decline in March.

On a year-to-year basis, April 2014 annual sales contracted by 6.8%, versus a 7.5% drop in March. The April annual contraction was the sixth consecutive month where headline sales were reported below those of the year before.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the graph in the *Opening Comments*. The data quality, though, remains questionable.

The NAR estimated the portion of total sales in "distressed" properties in April rose to 15% (10% foreclosures, 5% short sales), versus 14% (10% foreclosures, 4% short sales) in March 2014.

Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in April 2014 were 32%, versus 33% in March 2014 and 32% in April 2013.

As discussed in *Commentary No. 626* and *Commentary No. 628*, there has been no underlying improvement in fundamental consumer liquidity conditions, and most underlying economic numbers are showing a renewed economic downturn. There is no basis here for an imminent recovery in the housing market.

Existing-Home Sales Graph. The regular monthly graph of existing-home sales activity is included in the *Opening Comments* section, along with graphs of the latest new-home sales and housing starts. Existing-home sales activity recently has turned down anew, with both fourth-quarter 2013 and first-quarter 2014 in quarter-to-quarter contractions, and first-quarter 2014 in year-to-year contraction.

NEW-HOME SALES (April 2014)

Annual Seasonal-Adjustment Revisions Muted Some Wild Monthly Swings, Helped to Boost April 2014 Sales, but Left the Renewed Downturn Intact. The 6.4% gain in monthly new-home sales activity for April 2014 was in the context of the annual revision to seasonal adjustments for the prior two years, where seasonals were shifted with the effect of giving some extra growth to the April period.

The revisions are graphed in the *Opening Comments*. The shifted seasonals muted a recent surge and subsequent plunge in reported sales. The shift favoring April seasonals can be seen in the upside revision to April 2013 sales. The new patterns, however, did not alter the basic picture. Where the headline gain in April activity was statistically insignificant (as was the annual contraction), the sales level was at the average level of first-quarter 2014, which, in turn remained negative on a quarterly basis and remained down year-to-year basis. Headline April 2014 sales activity still was down 68.8% from the pre-recession peak, seen in July 2005.

Again, as discussed in *Commentary No. 626* and *Commentary No. 628*, there has been no underlying improvement in fundamental consumer liquidity conditions, and most underlying economic numbers are showing a renewed economic downturn. There is no basis for projecting an imminent recovery in the housing market.

April 2014 New-Home Sales Headline Gain Was Insignificant. As reported this morning (May 23rd) by the Census Bureau, April 2014 headline new-home sales (counted based on contract signings), and in the context of annual seasonal-adjustment revisions, rose by a statistically-insignificant 6.4% +/- 18.6%, following a 6.9% decline in March, and a revised 4.4% decline in February. As reflected partially in the seasonal revisions, the monthly changes can be highly unstable.

Year-to-year, April 2014 sales declined by a statistically-insignificant 4.2% +/- 16.6%. That followed a revised year-to-year decline of 7.5% in March, and a revised 2.5% decline in February.

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. Again, even with the revisions, new-home sales activity appears to have turned down anew, with first-quarter 2014 in quarter-to-quarter and year-to-year contraction.

WEEK AHEAD

Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic series (see *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*), including the initial estimate of first-quarter 2014 GDP.

Weakening, underlying economic fundamentals indicate deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding "new" recession receives general recognition.

Stronger inflation reporting also remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing global political instabilities. Food inflation has started to pick up as well. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. and global political conditions (see *Hyperinflation 2014—The End Game Begins (Updated) – First Installment*). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last eight 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:

New Orders for Durable Goods (April 2014). The reporting of April 2014 new orders for durable goods is scheduled for Tuesday, May 27th, by the Census Bureau. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant, to down, particularly net of inflation. Commercial aircraft orders usually are booked years in advance with relatively minimal impact on near-term production activity. Net of the unstable aircraft reporting, some intensification in downside activity is likely, at least in the next month or two, coincident with slowing activity currently seen in other major indicators.

Gross Domestic Product—GDP (First-Quarter 2014, Second Estimate, First Revision). The Bureau of Economic Analysis (BEA) has scheduled its release of the second estimate of, first revision to, first-quarter 2014 GDP for Thursday, May 29th. Expectations appear to be for a downside revision in the quarterly headline growth estimate from an initial headline estimate of 0.1% quarterly growth to an annualized quarterly contraction of around 0.5% (see the discussion in the *Opening Comments* section).

The market expectations are reasonable, but greater revision activity likely will come on July 30th, as part of the annual GDP benchmark revision, and coincident with the likely initial reporting of a headline contraction in second-quarter 2014 GDP. That should confirm that a renewed recession is in place (see *Commentary No. 628*).

