New Graphs Show Smoothed Housing Trends

Housing Starts Stagnant at Low Level of Activity, Never Recovered, Not Recovering

Payroll Employment Benchmark Revision Was Nil (Plus 7,000)

Longer-Term Economic Detail Shows Ongoing Collapse, Shorter-Term, Pre-Election Fluff Has Been Mixed

Why Is the Dollar Stronger and Gold Weaker?

PLEASE NOTE: The next regular Commentary is scheduled for Thursday, September 25th, covering August new orders for durable goods and new- and existing-home sales, followed by one on Friday the 26th, covering the third-estimate of second-quarter 2014 GDP.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

U.S. Economy Has Not Recovered, Remains Stagnant/Turning Down Anew. Reporting of the last two weeks has provided new insights as to the functioning of the broad domestic economy in recent years, as well as in recent months. U.S. economic activity plunged through 2008 into mid-2009 and then flattened out in a period of protracted stagnation, at a low level of activity. The economy never
recovered, and despite near-term headline fluff in certain pre-election data, not only is it not recovering, but it is turning down anew. Of course, this pattern of apparent “plunge and stagnation” contrasts with the happier, official version of “plunge and recovery” (2009 recovery) for the U.S. economy.

No Recovery Occurred. Of greater reporting quality, and in terms of the broadest economic perspective, the longer-term data involved the Bureau of Labor Statistics’ (BLS) 2013 Consumer Expenditures survey (Commentary No. 656), the Census Bureau’s 2013 Income and Poverty survey (Commentary No. 658) and the BLS’s annual benchmark revision to payroll employment (this Commentary). As discussed later, the BLS’s payroll benchmark revision effectively was nil; the other reports were of current substance.

The 2013 Consumer Expenditures survey showed not only that aggregate real (CPI-U-deflated) consumer income turned down in 2010 and 2011, in ongoing recession, but that after some income rebound in 2012, it turned down anew for the year of 2013. In like manner, aggregate real consumer expenditures contracted into 2010 (no 2009 recovery) and, with no full recovery in 2011 and 2012, also contracted anew in 2013.

The 2013 Income and Poverty survey showed the pattern of collapse in real (CPI-U-deflated) median annual household income throughout the headline 2007 recession and into 2011 (not 2009), where the income measure has stagnated, at a low level, ever since (through 2013). The Census Bureau detail confirmed the accuracy of the monthly reporting of this series by Sentier Research. The nature of these annual and monthly numbers highlights the liquidity crisis that constrains consumer activity and has prevented a normal consumption-driven economic rebound. Also, extremes of income variance through 2013, foreshadow new economic and financial crises.

No Recovery Pending, Activity Turning Down Anew. In terms of the more-transient reporting quality and of pre-election fluff potential, the near-term headline data of the last two weeks covered August employment and unemployment (Commentary No. 655), nominal and real retail sales (Commentary No. 656, Commentary No. 659), industrial production (Commentary No. 657), housing starts (this Commentary), and inflation (Commentary No. 658, Commentary No. 659).

The employment and unemployment, industrial production and housing starts detail all suggested renewed downturn, in the context of varied indications of the economy not having recovered from the recession. Those issues were discussed in the individual Commentaries. Possibly real-retail sales and certainly the most-recent GDP reporting (Commentary No. 653) are in the pre-election fluff arena. Separately, corrected for overstatement of the inflation rate used in deflating these series, corrected real retail sales and GDP both show patterns of “plunge and stagnation” for the 2007 recession, instead of the official pattern of “plunge and recovery.”

So, How Come the Dollar Is Stronger and Gold and Silver Prices Are Weaker? Significant financial-market misperceptions exist as to the actual relative strength and stability of the U.S. economy, banking system, and fiscal and monetary conditions. Purportedly, all is fine with the world. Wall Street, the Fed and some domestic politicians pander to these financial-market myths, reinforcing the pandering with occasional direct intervention in the markets.

These issues, however, should be short lived. A sharp break in those misperceptions—most likely related to underlying economic reality—should roil the markets and trigger significant flight from the U.S. dollar. Aside from standard economic reporting, areas such as tax receipts and corporate profits increasingly will
reflect the renewed downturn. Other potential issues are discussed in today’s limited update of the Hyperinflation Outlook Summary or otherwise were covered in Commentary No. 656.

Payroll Employment Annual Benchmark Revision—March 2014—Aggregate Increase of Just 7,000 Jobs. The Bureau of Labor Statistics (BLS) announced this morning, September 18th, its annual benchmarking of payroll employment activity to state unemployment insurance records, as of March 2014. The BLS has upped its estimate of not-seasonally-adjusted payroll employment by 7,000 for that month (a gain of 47,000 in aggregate private payrolls versus a loss of 40,000 in aggregate government payrolls). The net benchmark revision was the smallest in memory and is preliminary. The changes will be massaged into the aggregate payroll data from March 2013 through January 2015, when final revisions to be published along with the release of the January 2015 payroll data in February 2015. The aggregate impact on historical payroll reporting should be close to nil.

The 7,000 jobs gain was the net balance of revisions across various employment categories, with gains seen in areas such as Construction (89,000), Information (65,000), Manufacturing (44,000) and Other (60,000), being offset by reductions in areas such as Professional and Business Services (-151,000), Education and Health Services (-72,000), Trade, Transportation and Utilities (-18,000) and Natural Resources and Mining (-16,000).

Housing Starts—August 2014—Extreme Reporting Volatility Generates Meaningless Initial Estimates of Activity. The month-to-month roller-coaster ride continued, with a headline plunge in August 2014 housing starts activity. Without taking into account ensuing revisions, which often have been large, consider that beginning with the benchmark reporting of April 2014, headline April housing starts jumped by 13.2% for the month, May starts fell by 6.5% (-6.5%), June starts fell by 9.3% (-9.3%), July starts soared by 15.7%, and now August starts plummeted by 14.4% (-14.4%). The last two headline monthly changes were statistically-significant at the 95% confidence level.

What nonsense! These monthly data are unstable and unreliable, best viewed minimally in the context of an extended period of time and, perhaps, more productively in terms of six-month moving averages. Accordingly, graphs of headline monthly detail and six-month moving averages now are provided at the end of this section, for the aggregate, single-unit and multiple-unit housing-starts series. Where the aggregate index has been trending somewhat higher, it remains well below any recovery level. To the extent there is an aggregate uptrend there, that reflects recovering activity in multiple-unit housing starts. The dominant, single-unit housing starts category, however, has remained stagnant for some time, at a low level of activity. It never recovered from the housing collapse from 2006 into 2009.

Seen in the graphs, and as should be confirmed generally in ongoing reporting, housing starts activity broadly has continued to stagnate, with the personal housing sector constrained by consumer liquidity issues discussed most recently in the Opening Comments of yesterday’s Commentary No. 659.

The last eight-plus years of housing-market collapse and stagnation have been dominated by impaired consumer activity. Without real (inflation-adjusted) growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel real
growth in private housing. Underlying economic fundamentals have not supported, and do not support a sustainable turnaround in the housing industry, let alone a turnaround in broader economic activity.

**August 2014 Housing-Starts Reporting.** The seasonally-adjusted, headline monthly drop in August 2014 housing starts of 14.4% (-14.4%) was statistically-significant. That monthly decline, however, was after a 2.2% upside revision to the previously-reported level of July housing starts. Headline July 2014 housing starts rose by a revised 22.9%. Net of prior-period revisions, August housing starts fell by a still-statistically-significant 12.5% (-12.5%).

Year-to-year change in the seasonally-adjusted, aggregate August 2014 housing-starts measure was a statistically-insignificant gain of 8.0%, versus a revised 24.4% annual gain in July 2014.

The headline 14.4% (-14.4%) August month-to-month drop was dominated by a 31.5% (31.5%) plunge in the “five units or more” category and a 2.4% (2.4%) decline in the “one unit” category, but only the drop in the multiple-units category held separate statistical-significance.

By-Unit Category. Where the irregular housing-starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit housing starts—generally for individual consumption—resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in August declined month-to-month by a statistically-insignificant 2.4% (-2.4%), following a revised headline monthly gain of 11.1% in July. The statistically-insignificant August year-to-year gain of 4.2% followed a revised year-to-year gain of 10.6% in July.
Reporting of housing starts for apartment buildings (generally 5-units-or-more) in August 2014 plunged by a statistically-significant 31.5% (-31.5%). That followed a revised monthly surge of 51.0% in July. August’s year-to-year gain of 19.2% was statistically-insignificant, and was against a revised annual gain of 56.9% in July.

Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

Accordingly, the statistically-significant, aggregate August monthly decline of 14.4% (-14.4%) was composed of a statistically-insignificant decline of 2.4% (-2.4%) in one-unit housing starts, combined with a statistically-significant monthly contraction of 31.7% (-31.7%) in multiple-unit structures (2-units-or-more, including the 5-units-or-more category).

**Graphs of Housing-Starts Activity.** In addition to the usual graphs of monthly detail for the housing-starts series, ShadowStats is pleased to introduce plots for those measures, where activity has been smoothed with a six-month moving average. Accordingly, three sets of graphs follow for the aggregate, single-unit, and multiple-unit housing-starts categories.

Headline reporting of housing starts is expressed by the Census Bureau as an annualized monthly pace of activity, which was 956,000 units in August, versus a revised 1,117,000 (previously 1,093,000) units in July. Those annualized details are reflected in the aggregate housing starts graphs at the end of the Reporting Detail section. Non-annualized monthly rates, however, are used in the graphs of this Opening Comments section. With the use of either scale, though, the appearance of the graphs and the relative monthly, quarterly and annual percentage changes are the same.

Given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series—such as seen with the headline August 2014 reporting—the magnitude of monthly activity, and changes in same, more realistically are reflected at the non-annualized monthly rate. For example, the monthly rate of starts was 79,667 in August 2014, instead of the annualized 956,000 headline in August. Based on the annualized numbers, housing starts declined by 161,000 units in August 2014. Yet, such a headline decline, by itself, is more than any single, seasonally-adjusted month’s total level of non-annualized activity since May 2006.

The record monthly low seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the August 2014 headline number was up by 100%, but it still was down by 58% (-58%) from the January 2006 series high.
Single-Unit Housing Starts (Monthly Rate)
To August 2014, Seasonally-Adjusted (ShadowStats.com, Census)

Single-Unit Housing Starts (Six-Month Moving Average)
To August 2014, Seasonally-Adjusted (ShadowStats.com, Census)
[For further detail on August Housing Starts, see the Reporting Detail section. Various graphics and drill-down options for the headline data are available at ShadowStats affiliate www.ExpliStats.com.]
HYPERINFLATION WATCH

Hyperinflation Outlook Summary. This Summary was updated today (September 18th), with new or altered text underlined. The long-standing 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, along with ongoing updates in the regular Commentaries, including a review in Commentary No. 639.

Primary Summary. The primary and basic summary of the broad outlook and the story of how and why this crisis has unfolded and developed over the years—particularly in the last decade—is found in the Opening Comments and Overview and Executive Summary of that First Installment Revised (linked above). The following section summarizes the underlying current circumstance.

Consistent with the above Special Commentaries, the unfolding economic circumstance, 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. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending total loss of U.S. dollar purchasing power.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity has turned down anew, with headline first-quarter 2014 GDP having contracted at an annualized real pace of 2.11% (-2.11%), following 3.50% fourth-quarter 2013 growth, per the July 30th GDP benchmark revisions. The second estimate of second-quarter 2014 GDP growth came in at 4.17%, heavily overstating recent actual economic activity. It remains subject to further revision (see Week Ahead section). The “advance” estimate of third-quarter GDP on October 30th will be the last reporting before the midterm election. While third-quarter GDP should show a quarterly contraction within its standard revision cycle, one should not underestimate the ability of the Bureau of Economic Analysis to keep that final pre-election number in positive territory, in initial reporting.

Nonetheless, new reporting of relatively hard annual numbers from 2013 showed ongoing economic contraction, with no trend towards sustainable economic growth. Despite any short-term pre-election fluff, basic underlying economic series, such as the trade deficit, retail sales, industrial production and payroll employment, increasingly should show weakness in headline activity in the months ahead, providing consensus expectations with downside shocks. That increasingly should shift the popular outlook towards a “new recession,” with negative shifts in the economic consensus eventually disrupting stability in the financial markets.
As financial-market expectations increasingly shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressures on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, hence a perceived need for expanded, not reduced, quantitative easing. The highly touted and ongoing “tapering” by the FOMC is pre-conditioned by a continued flow of “happy” economic news. Banking-system and other systemic (i.e. U.S. Treasury) liquidity needs likely still will be provided, as needed, by the Fed, under the ongoing political covering of a weakening economy—a renewed, deepening contraction in business activity.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal “good news” is from cash-based, not GAAP-based accounting projections, and comparative year-ago cash numbers are distorted against U.S. Treasury and government activity operating sub rosa, in order to avoid the limits of a constraining debt ceiling.

All these crises will combine against the U.S. dollar, likely in the very-near future. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility have boosted the U.S. dollar’s strength in global trading and have contributed to savaging the prices of precious metals. Such should not prevail in the context of underlying reality. The fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed. The key issues include, but are not limited to:

- A severely damaged U.S. economy, which never recovered post-2008 and is turning down anew. The circumstance includes a sharply widening trade deficit, as reflected in headline first- and second-quarter reporting, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy.

- U.S. government unwillingness to address its long-term solvency issues. Those controlling the U.S. government have demonstrated not only a lack of will to address long-term U.S. solvency issues, but also the current political impossibility of doing so. Any current fiscal “good news” comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run in the $6-trillion-plus range for annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities.

- Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury. The current pace of the Fed’s monetization is at 58.2% of effective net issuance of the federal debt to be held by the public in calendar-year 2014 (through September 3rd). The pace of effective monetization has been 65.9% since the January 2013 expansion of QE3.

- Mounting domestic and global crises of confidence in a dysfunctional U.S. government, where the relative positive rating by the public of the U.S. President tends to have a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. Positive ratings for both the President and Congress are pushing, if not at, historic lows.
• Mounting global political pressures contrary to U.S. interests. Downside pressures on the U.S. currency generally are increasing, in the context of global political and military developments that have been contrary to U.S. strategic, financial and economic interests.

• Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.

Renewed and intensifying weakness in the U.S. dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. Both dollar weakness and the resulting higher inflation should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (August 2014)

Extreme Reporting Volatility Generates Meaningless Initial Estimates of Housing-Starts Activity. The month-to-month roller-coaster ride continued, with a headline plunge in August 2014 housing starts activity. Without taking into account the next month’s revisions, which often have been large, and beginning with the benchmark reporting of April 2014, headline April housing starts jumped by 13.2% for the month, then May starts fell by 6.5% (-6.5%), June starts fell by 9.3% (-9.3%), July starts soared by 15.7%, and now August starts plummeted by 14.4% (-14.4%). The last two headline monthly changes purportedly were statistically-significant at the 95% confidence level.

This is nonsense. These monthly data are unstable and unreliable, best viewed minimally in the context of an extended period, as shown in the graphs of aggregate activity and/or perhaps in the context of activity smoothed by a six-month moving average. Such graphs now are available in the Opening Comments section, with the usual plots of aggregate activity at the end of this section. While the aggregate series has been trending somewhat higher, it remains well below any recovery level. To the extent there is an aggregate uptrend, it reflects recovering activity in multiple-unit housing starts. The dominant, single-unit housing starts category, however, has remained stagnant for some time at a low level of activity, never having recovered from the housing collapse from 2006 into 2009.
Seen in the graphs, and as should be confirmed generally in ongoing reporting, housing starts activity broadly has continued to stagnate, with the personal housing sector constrained by consumer liquidity issues, as discussed most recently in the Opening Comments of yesterday’s Commentary No. 659.

The last eight-plus years of housing-market collapse and stagnation have been dominated by impaired consumer activity. Without real (inflation-adjusted) growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel real growth in private housing. Underlying economic fundamentals have not supported, and do not support a sustainable turnaround in the housing industry, let alone a turnaround in broader economic activity.

August 2014 Housing-Starts Reporting. The Census Bureau reported today, September 18th, a statistically-significant, seasonally-adjusted headline monthly decline in August 2014 housing starts of 14.4% (-14.4%) +/- 9.2% (all confidence intervals are at the 95% level). That monthly decline, however, was after a 2.2% upside revision to the previously-reported level of July housing starts.

Headline July 2014 housing starts rose by a revised 22.9% (upside revision to July, a 3.8% downside revision to the June level), initially reported up by 15.7% month-to-month. Net of prior-period revisions, August housing starts fell by a still-statistically-significant 12.5% (-12.5%).

Year-to-year change in the seasonally-adjusted, aggregate August 2014 housing-starts measure was a statistically-insignificant gain of 8.0% +/- 13.1%, versus a revised 24.4% (initially 21.7%) annual gain in July 2014.

The August monthly drop was dominated by a monthly 31.5% (-31.5%) plunge in the “five units or more” category and a 2.4% (-2.4%) decline in the “one unit” category, but only the drop in the multiple-units category was separately statistically-significant.

By-Unit Category (See Graphs in the Opening Comments). Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit housing starts—generally for individual consumption—resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in August declined month-to-month by a statistically-insignificant 2.4% (-2.4%) +/- 11.3%, following a revised headline monthly gain of 11.1% (initially up by 8.3%) in July. The statistically-insignificant August year-to-year gain of 4.2% +/- 12.6%, followed a revised year-to-year gain of 10.6% (initially up by 10.1%) in July.

Reporting of housing starts for apartment buildings (generally 5-units-or-more) in August 2014 plunged by a statistically-significant 31.5% (-31.5%) +/- 17.7%. That followed a revised monthly surge of 51.0% (initially a gain of 33.0%) in July, which reflected both an upside revision to July and a downside revision to June activity. August’s year-to-year gain of 19.2% +/- 32.3% was statistically-insignificant, and was against a revised year-to-year gain in July 2014 of 56.9% (previously up by 49.5%).

Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series).
Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

Accordingly, the statistically-significant aggregate August monthly decline of 14.4% (-14.4%) was composed of a statistically-insignificant decline of 2.4% (-2.4%) in one-unit housing starts, combined with a statistically-significant monthly contraction of 31.7% (-31.7%) in multiple-unit structures (2-units-or-more, including the 5-units-or-more category). Again, these series are graphed in the Opening Comments section.

**Graphs of Aggregate Housing Starts Activity.** Headline reporting of housing starts is expressed by the Census Bureau as an annualized monthly pace of starts, which was 956,000 in August, versus a revised 1,117,000 (previously 1,093,000) in July. Those annualized details are reflected in the following, aggregate graphs.

Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series—such as seen with the headline August 2014 reporting—the magnitude of monthly activity, and changes in same, more realistically is reflected at the non-annualized monthly rate. For example, the monthly rate of 79,667 in August 2014, instead of the annualized 956,000 headline, is used in the scales of the graphs in the Opening Comments section.

Based on the annualized numbers, housing starts declined by 161,000 units in August 2014. Yet such a headline decline, by itself, is more than any single, seasonally-adjusted month’s total, non-annualized level of housing starts activity since May 2006.

With the use of either scale, however, the appearance of the graph and the relative monthly, quarterly and annual percentage changes are the same.

The record monthly low seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the August 2014 headline number was up by 100%, but it still was down by 58% (-58%) from the January 2006 series high.
WEAK WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases Should Be Much Weaker; Inflation Releases Should Be Increasingly Stronger. Although shifting to the downside, again, amidst wide fluctuations, market expectations for business activity generally remain overly optimistic, well above any potential, underlying economic reality. Market outlooks should be hammered, though, by ongoing, downside corrective revisions and by an accelerating pace of downturn in headline economic activity.

Longer-Range Reporting Trends. The initial stages of the process shifting economic-growth expectations to the downside already have been seen in the recent headline reporting of major economic series (see 2014 Hyperinflation Report—Great Economic Tumble – Second Installment), including the sharp pace of economic decline seen in real first-quarter 2014 GDP, which largely survived the GDP benchmark revisions. The strong bounce-back estimated by the Bureau of Economic Analysis (BEA) for headline second-quarter GDP still faces revision, and a third-quarter GDP contraction is likely, come post-election revisions.

Indeed, weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should remain the general trend until the unfolding “new” recession receives broad recognition, which likely would follow the next reporting of a headline contraction in real GDP growth.

A generally stronger inflation trend remains likely to continue, as seen in recent months (August 2014 excepted). Beyond the spread of earlier oil-based inflation pressures into the broad economy, upside pressure on oil-related prices should continue and be rekindled from the intensifying impact of global political instabilities and a likely near-term weakening of the U.S. dollar in the currency markets. Again, near-term food inflation has been picking up, partially due to supply issues. The dollar faces pummeling from the weakening economy, continuing QE3, the ongoing U.S. fiscal-crisis debacle, 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 U.S. inflation across the board.

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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment, and unemployment data). These issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.
**Pending Releases:**

**Existing-and New-Home Sales (August 2014).** August 2014 existing-home sales are due for release on Monday, September 22nd, from the National Association of Realtors, with the August 2014 new-home sales report from the Census Bureau due on Wednesday, September 24th.

Despite an uptrend in recent, headline monthly reporting of existing-home sales, year-to-year activity has held in contraction. A faltering headline uptrend is likely to develop in conjunction with ongoing consumer liquidity problems (see Commentary No. 659).

A pattern of stagnation or intensifying downturn also appears to be in play for new-home sales. While monthly changes in activity usually are not statistically-significant, still-unstable reporting and revisions (both likely to the downside) also remain a fair bet.

Both series remain highly unstable, but increasingly they should move to the downside in activity, looking more and more like the graph of single-unit housing starts shown in the Opening Comments section.

**New Orders for Durable Goods (August 2014).** The reporting of August 2014 new orders for durable goods is scheduled for Thursday, September 25th, by the Census Bureau. July orders jumped by 22%—a gain unprecedented in modern times—due to an irregular surge in commercial aircraft orders. Accordingly, market expectations reasonably are looking for a balancing reversal in August reporting.

The aircraft orders are long-term—years in advance—so they have limited impact on near-term production. Also, by their nature, they do not lend themselves to meaningful seasonal adjustment.

As a result, sharp and irregular volatility in commercial aircraft orders should continue to dominate the numbers in the next several months. Otherwise, orders have been stagnant, plus or minus, particularly net of inflation. Some new downside activity is likely in the near-term, coincident with slowing activity seen in the broad economy. Beyond the expectations of a significant downside correction to the August numbers, headline reporting generally still remains a fair bet to disappoint those expectations on the downside.

**Gross Domestic Product—GDP (Second-Quarter 2014, Third Estimate, Second Revision).** On Friday, September 26th, the Bureau of Economic Analysis (BEA) will publish its third estimate of, and second revision to second-quarter 2014 GDP. Reported initially with 4.0% growth, and revised to 4.2% in the first revision. Usually second revisions are no more than statistical noise, but some estimates of the second revision are for further upside, perhaps approaching 5%.

Those growth rates remain fantasy numbers. A downside revision would be much more realistic, where the headline second-quarter growth rate still is massively overstated. In this pre-election period, however, anything is possible, and 5.0% growth would not be a surprise, just ongoing statistical nonsense.