

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

**COMMENTARY NUMBER 661**  
**"False Dawn," Hyperinflation, Durable Goods Orders, Home Sales**  
**September 25, 2014**

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**A "False Dawn" It Is**  
**Hyperinflation Forecast Remains in Play**  
**Stock Crashes versus October Residual-Squirrelling Instincts**  
**Durable Goods Orders Crashed 18.0% (-18.0%), Reversing July's 22.2% Surge,**  
**Dominated Again by Irregular Commercial-Aircraft Orders**  
**Down for the Month, August Existing-Home Sales Were in Tenth Month of Annual Decline**  
**August New-Home Sales Surge of 18.0% Was Statistically-Insignificant**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Friday, September 26th covering the third-estimate, second-revision of second-quarter 2014 GDP.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Extraordinarily Perilous Times for the Financial Markets.** Former Federal Reserve Chairman Alan Greenspan has been ruminating for months on his concerns that the much-heralded economic recovery could be another "false dawn." A September 19th *Standard & Poor's Lookout Report* cited a recent

CNBC appearance by the ex-Fed Chairman on the matter. Despite a number of issues I have had with Mr. Greenspan's official actions and positions since 1987, he has this one right.

Given the biased nature of current U.S. economic reporting, and the delicate steps taken by the Federal Reserve Board to avoid crashing the U.S. financial markets, hopes that fundamental systemic stability and economic growth have been restored have little chance of being anything but illusions.

These illusions should be shattered in the months ahead, as economic and systemic realities resurface in the post-election environment. The financial panic and partial-systemic collapse of 2008, and the economic collapse that has been underway since 2006, continue to reverberate throughout the global financial markets and economies. The banking system and economic woes in Europe and elsewhere are part of the ongoing turmoil, collapse and unsettled global conditions that still include the United States.

Second-quarter GDP contractions have been reported in economically-more-stable countries that still favor production growth and wealth creation. Headline second-quarter 2014 GDP plunged by an annualized 7.1% (-7.1%) in Japan and fell by 0.6% (-0.6%) in Germany, for example, with the Eurozone GDP flat for the quarter. The global economy is and has been in recession/non-recovery, in tandem with the United States, when viewed from the standpoint of economic reality.

Issues plaguing major U.S. trading partners also are in play in the United States, but domestically the problems increasingly have been camouflaged by a heavily-rigged economic reporting system, and masked by a U.S. central bank that is playing with the U.S. financial markets much as cat plays with seriously-wounded prey.

The outright 2.1% (-2.1%) contraction in the first-quarter 2014 U.S. GDP was representative of real world activity, not a fluke. The fluke in U.S. reporting is the purported boom in second-quarter growth. The markets expect a headline second-quarter GDP boom to be confirmed tomorrow (September 26th), at somewhere close to five-percent annualized real growth. Again, the first-quarter contraction was closer to reality, and that reality should surface anew in the reporting of the months ahead.

How can the U.S. be in recovery, and the U.S. banking system back to normal, with the rest of the world still in depression and global banking risks still a major issue? How can the U.S. be in recovery, and the U.S. banking system back to normal, with Main Street U.S.A. seeing neither an economic recovery nor normal lending practices restored within the domestic banking system?

Contrary to underlying economic and financial-system reality, the U.S. dollar has been stronger (gold prices weaker) recently. This is in response particularly to faulty, stronger U.S. economic data, and to the carefully-crafted story of resulting renewed monetary prudence by the Federal Reserve, versus the likely, increasing monetary degeneracy among major U.S. trading partners. The Federal Reserve's return to monetary degeneracy could be no further off than the next, unexpectedly-weak monthly labor report.

Indeed, that warm glow along the horizon soon will prove to be a "false dawn." Breaching the horizon is a great financial and economic conflagration. Never resolved in 2008, it only was pushed into the future. That long-forestalled day-of-reckoning nears, once again.

**Hyperinflation Forecast Is Intact.** The *Hyperinflation Outlook Summary (Summary)* in *Hyperinflation Watch* section remains as it was in the prior *Commentary*, but it should be viewed in the context of these *Opening Comments*. The *Summary* will be updated next week, incorporating what is covered here.

As 2014 progresses, the odds of a full-fledged hyperinflation hitting in this calendar year are declining, with that prospect potentially being pushed into early-2015. As discussed in the prior section, the U.S. dollar has strengthened recently; it has not collapsed in panic selling. Nonetheless, a dollar selling-panic remains the most likely proximal trigger of near-term hyperinflation, and that panic remains pending, likely with very little, if any, meaningful advance warning. When the global markets turn on the dollar, it should happen rapidly and violently. It could happen in the next month; there remains a solid chance of it happening before year-end. It could push into early-2015.

As detailed in the *Summary*, underlying fundamentals could not be more negative against the U.S. currency, although they all are not necessarily fully recognized, at the moment. As perspectives shift, such as with some unexpectedly-weak economic data, the markets can turn just as quickly.

As this circumstance explodes and the fantasies dissolve, the U.S. dollar should be pummeled, with domestic inflation spiking sharply, setting the early stages of the hyperinflation. Those holding hard assets such as physical gold and silver, as hedges against the declining purchasing power of their U.S. dollar-denominated paper assets, will have the ability to preserve the purchasing power of their assets wealth, with liquidity, through the very difficult financial times ahead.

**Stock-Market Crashes and Squirreling Instincts.** Three days into autumn, the squirreling season already is upon us. Back in the late-1980s, I retained a mass-psychologist in an effort to explain why stock market crashes tended to take place in October and November. His answer was that humans had a vestigial squirreling instinct. As the squirrels suddenly start gathering acorns for the winter, so too do humans, or at least their investment strategies suddenly can shift enough towards safety to burst an extreme stock-market bubble.

There are parallel stresses in other circumstances. For example, particular alignments of the sun and moon can help to trigger an earthquake, as was seen with the recent quake near Napa, California. "Ah, but we don't have an earthquake with every new or full moon!" noted my prescient wife in response to a comment to that effect after having been awakened by the temblor.

"True, but the wooden chairs do not always collapse when I sit on them," I noted, having broken more than my share of old wooden chairs, due to the basic fragility of the chair, my bulk and the active shifting of my body, while sitting. "The effects of those stresses build up and damage a chair over time," I explained. "When the chair is vulnerable to breaking, it will do so, given the right pressure."

The same is true with earthquake faults and irrational stock markets.

The current U.S. stock market is one that should be viewed with extreme caution, particularly in the next two months. Underlying fundamentals that eventually will pummel the dollar should have similar impact on domestic equities and Treasury securities.

**Today's Missive.** The balance of today's (September 25th) missive concentrates on the reporting of August 2014 new orders for durable goods and existing- and new-home sales. There was nothing of substance in those reports to support the developing consensus outlook for a booming U.S. economy.

**New Orders for Durable Goods—August 2014—Commercial Aircraft Orders Reverse July Surge, Headline Aggregate Orders Fell 18.0% (-18.0%).** Activity in new orders for durable goods is irregularly volatile, usually due to extreme and irregular patterns in nondefense- or commercial-aircraft orders. Even so, the order swings in July and August 2014 reporting were the most-extreme events of recent years, as can be seen in the first of the four graphs for the new-orders series displayed at the end of this section. The last of those four graphs shows the plot of new orders that perhaps is the most relevant to looming production activity.

Net of the unusual 74.3% (-74.3%) plunge in commercial-aircraft orders, the headline 18.0% (-18.0%) decline in August 2014 new orders for durable goods fell by 0.8% (-0.8%). In July, aircraft orders soared by 315.6%, with aggregate orders up by 22.2%, up by 0.6% net of the aircraft orders.

In addition, continued poor-quality seasonal adjustments were reflected in a headline 6.4% (-6.4%) plunge in August motor vehicle orders, versus a headline gain of 10.0% in July. Further, an 8.4% (-8.4%) August drop in computer orders, on top of a 7.7% (-7.7%) orders decline in July, was not a good sign for pending economic activity.

Net of the unusual aircraft factors, headline August durable goods orders otherwise remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of ongoing stagnation.

**Nominal (Not-Adjusted-for-Inflation) August 2014 Reporting.** The regularly-volatile, seasonally-adjusted, nominal level of new orders for durable goods fell by a headline 17.99% (-17.99%) in August 2014, following a revised gain of 22.23% in July, and an unrevised 2.73% gain in June. On a year-to-year basis (seasonally-adjusted), August 2014 durable goods orders eased back to an 8.94% gain, versus a revised 33.40% jump in July, and a revised 0.44% increase in June.

Nondefense or commercial aircraft orders often provide extreme monthly volatility to the total orders series. Again, those aircraft orders fell by an extraordinary 74.31% (-74.31%) in August, after a 315.63% increase in July, accounting for the vast bulk of headline July and August movements in aggregate orders.

In this traditionally unstable durable-goods series, net of the commercial-aircraft orders, the headline July and August monthly and annual gains were within the scope of normal month-to-month volatility. A longer-term pattern of stagnation has remained in place for the durable goods series, particularly when viewed net of inflation. The patterns of activity in this series remain of a nature that commonly precedes or coincides with a recession or deepening business downturn. The inflation-adjusted real series, and the same series corrected for understatement of the official inflation series, are discussed and graphed at the end of this section.

**Detail Net of Volatility in Commercial Aircraft Orders.** The reporting of extreme contractions and surges in commercial aircraft orders is seen commonly in an irregularly-repeating process throughout the year and often dominates the change in headline monthly durable goods orders. These extremely volatile

aircraft orders are booked well into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

In August, nondefense (or commercial) aircraft orders fell by 74.31% (-74.31%), following a revised 315.63% gain July, and a revised 11.19% gain in June. Net of the aircraft numbers, month-to-month orders fell by 0.80% in August, following a revised 0.56% gain in July, and a revised 2.15% gain in June. Year-to-year orders, ex-commercial aircraft, were up by 4.89% in August 2014, versus a revised 7.40% gain in July, and a revised 6.11% gain in June.

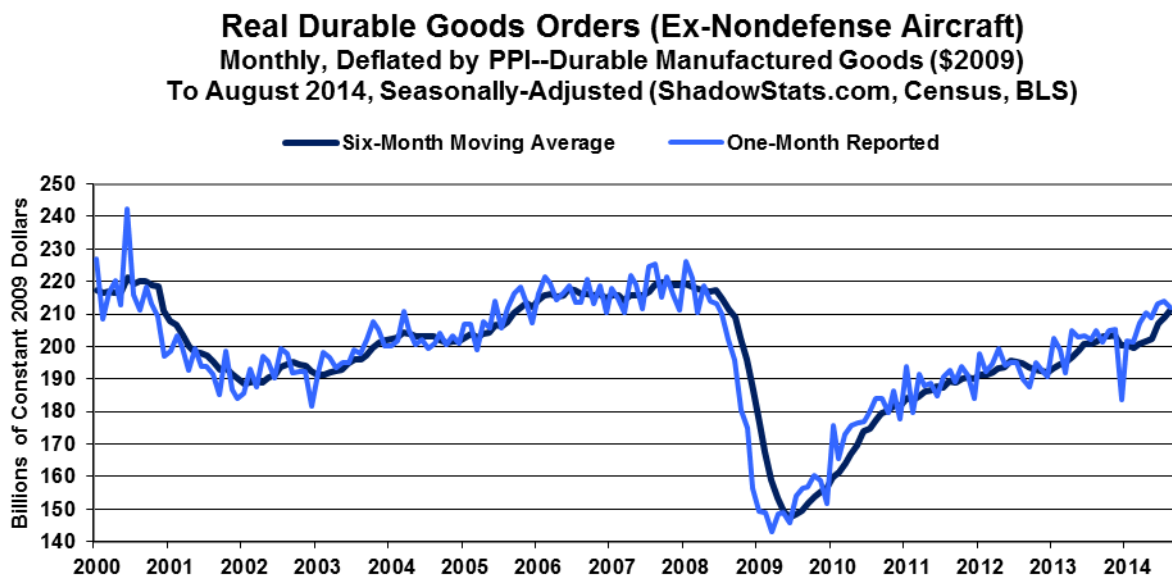
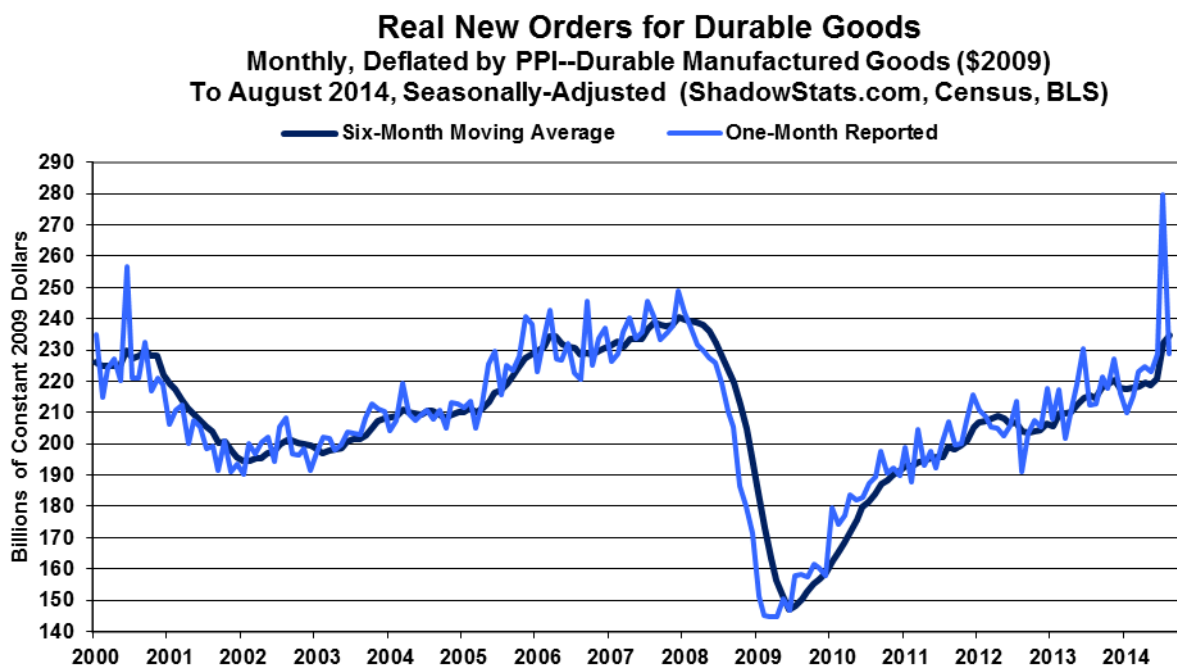
***Real (Inflation-Adjusted) Durable Goods Orders—August 2014.*** ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline 0.12% pace of monthly inflation in August 2014, following 0.06% inflation in July, with headline annual inflation of 1.34% in August 2014, versus 1.34% in July.

Adjusted for that inflation, and again as reflected in the accompanying graphs, real month-to-month aggregate orders fell by 18.08% (-18.08%) in August, versus a revised 22.15% gain in July, and an unrevised 2.67% gain in June. Ex-commercial aircraft, real orders fell by 0.92% (-0.92%) in August, versus a revised 0.50% gain in July, and a revised 2.09% increase in June.

Real year-to-year aggregate orders rose by 7.50% in August, versus a revised 31.64% gain in July, and a revised decline of 0.77% (0.77%) in June. Ex-commercial aircraft, orders rose year-to-year by 3.51% in August, versus a revised 5.98% gain in July, and a revised 4.84% gain in June.

***Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series.*** The first two graphs show new orders for durable goods, adjusted for inflation, using the Producer Price Index (PPI) measure for "Durable Manufactured Goods." 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, including the extreme swings in commercial-aircraft orders in July and August 2014. The second graph is the headline series, net of the unstable commercial-aircraft order sector. Accordingly, the ex-commercial aircraft plot is somewhat smoother than the first graph. Given the extreme surge in July 2014 aircraft orders, the six-month moving average in the aggregate series, or first graph, is going to look like anaconda swallowing a cow, for the next four months, until that number passes from the moving average.

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—with a dip and upside bouncing into 2013, and renewed stagnation in recent reporting, feeding into the temporary July surge. Broadly, there has been a recent general pattern of stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery that has been seen in official GDP reporting. The real (inflation-adjusted) six-month moving-average level of new orders in August 2014, even allowing for the extraordinary July surge in aircraft orders, remained at or below the pre-2007 recession high, and below the pre-2000 recession high, ex-commercial aircraft. The pattern of recent stagnation and/or downturn in the inflation-adjusted series—net of the irregular aircraft-order effects, also is one that commonly precedes or is coincident with a recession.

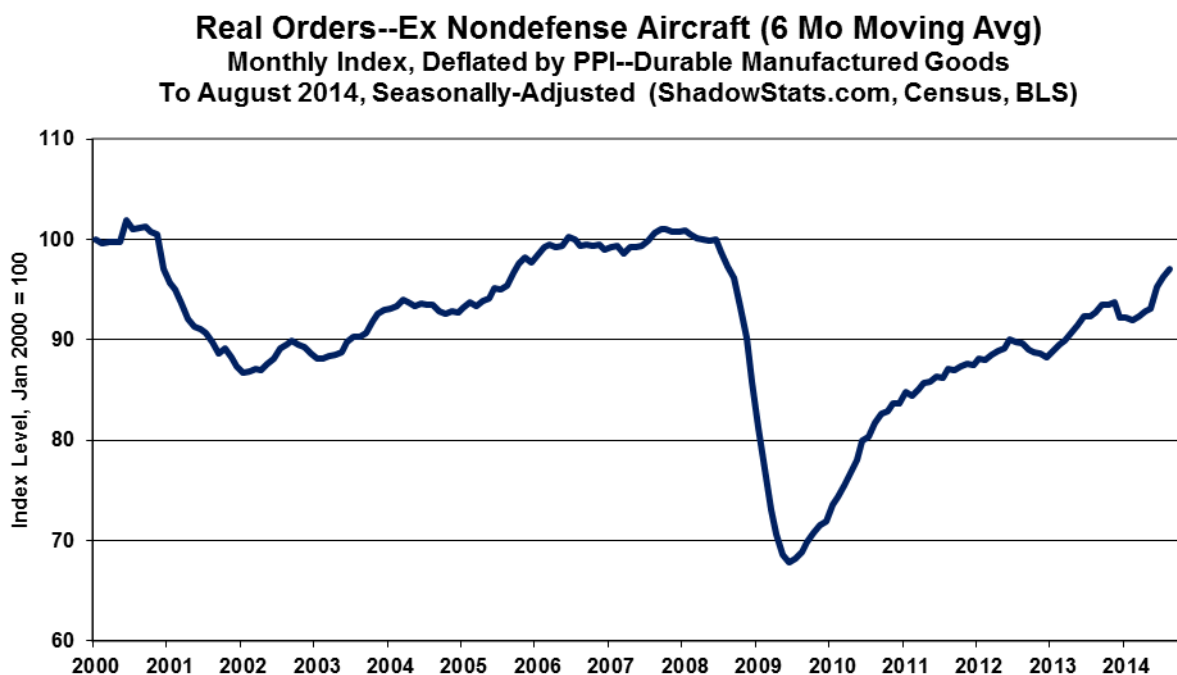


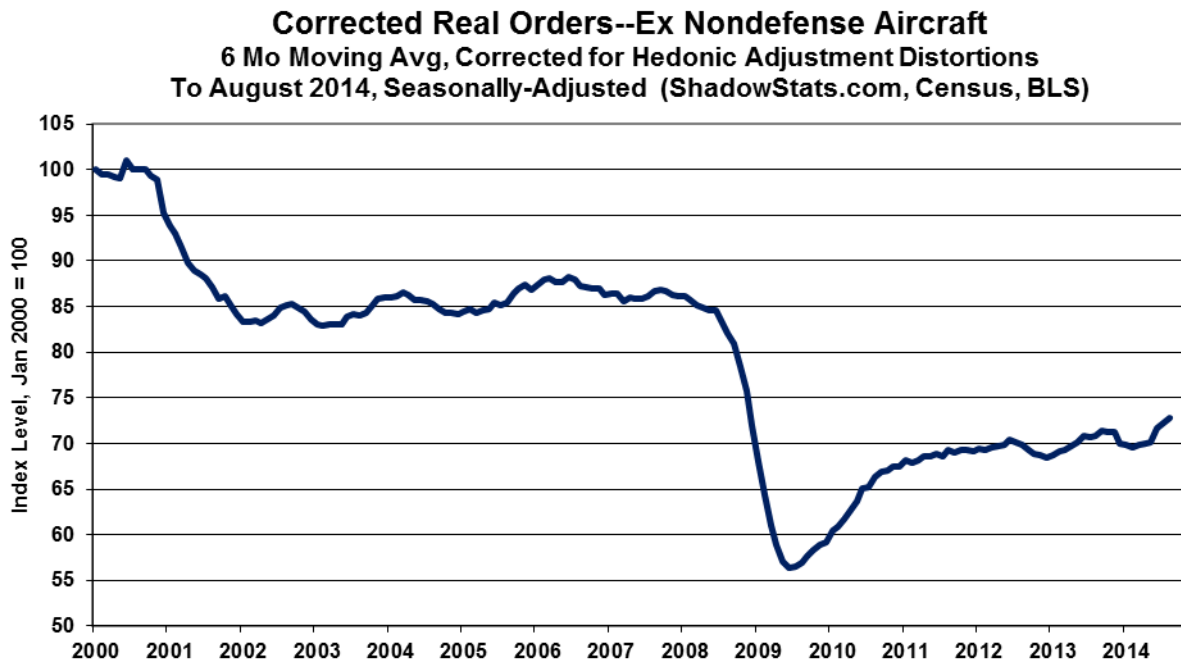
***The Real Orders Series Corrected for Inflation Understatement.*** As with other economic series deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods are overstated, due to the understatement of the official inflation. That understatement here

is through the government's use of hedonic-quality adjustments—quality issues usually not perceived by the consumer—in justifying a reduced pace of headline inflation (see [Public Comment on Inflation](#)).

As has been done with other series such as the GDP, retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

The following two graphs are of the ex-commercial aircraft series. The first plot is the six-month moving average shown in the earlier set of graphs. The second plot is the same series as re-deflated to correct for the understatement of the PPI-related inflation measure used in the headline-deflation process. This set of graphs is indexed to January 2000 = 100.0. The second graph, entitled "Corrected Real Orders--Ex Nondefense Aircraft," is perhaps the best indicator of broad underlying order activity in the durable goods sector, in the context of signaling actual, near-term production and economic activity. The aggregate orders series is not plotted here. Again, as shown in and discussed with the earlier graphs, it has started a temporary six-month bloat, as July's extreme and irregular commercial-aircraft orders surge passes through the six-month moving average system. Placed years in advance, aircraft orders are a better indicator of long-range production activity, than they are as a near-term leading indicator of production activity.





**Existing-Home Sales—August 2014—Down for the Month, Sales Fell Year-to-Year for the Tenth Month.** Continuing with a pattern of prior-period revisions, the headline 1.8% (-1.8%) month-to-month decline in August existing home sales was in the context of a small downside revision to July's estimated level of activity. Net of the prior-period revision, August sales were down by 1.9% (1.9%) for the month, the first decline in monthly sales since March. For the tenth straight month, annual sales declined year-to-year, down by 5.3% in August 2014 from August 2013, with August 2014 also down 6.1% from the near-term peak in activity seen in July 2013. August 2014 sales activity, at the headline annual sales pace of 5,050,000 (an average monthly pace of 420,833), also was down by 30.5% (-30.5%) from the June 2005 pre-recession peak in activity.

**August Existing-Home Sales Declined by 1.8% (-1.8%) for the Month, Fell by 5.3% (-5.3%) Year-to-Year.** Headline August 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 1.8% (-1.8%) month-to-month decline, following a revised 2.2% (previously 2.4%) gain in July. Net of prior-period revisions, August sales were down by 1.9% (-1.9%) for the month. The NAR attributed the headline decline in August sales to "...investors paying in cash [having] retreated from the market."

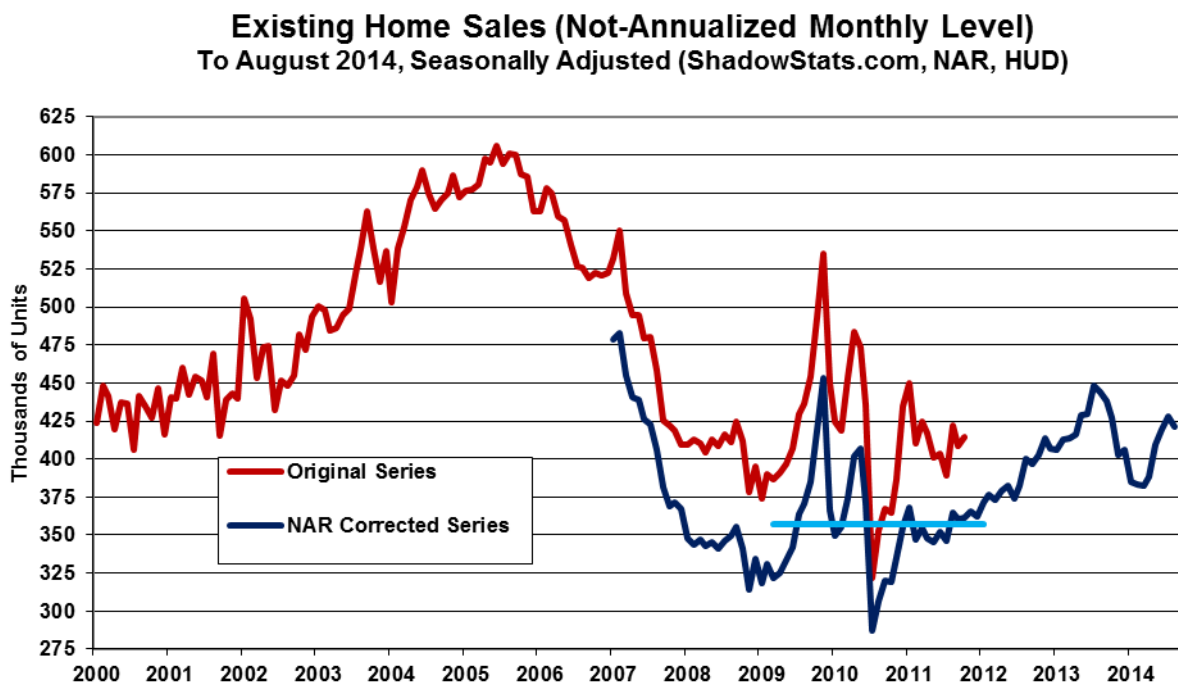
On a year-to-year basis, August 2014 annual sales declined more steeply, by 5.3% (-5.3%), than was seen in the revised July annual decline of 4.5% (-4.5%). August's annual contraction was the tenth consecutive month where headline sales were below those of the year before. That is the longest period of annual decline in the series since before the official end of the recession in June 2009.

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 accompanying graph. The quality of data remains questionable.

The NAR estimated that the portion of total sales in "distressed" properties fell to its lowest level in August 2014 since the NAR began tracking the issue in October 2008. For August, distressed sales were at 8% of the total (6% foreclosures, 2% short sales), versus the July reading of 9% (6% foreclosures, 3% short sales). 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 August 2014 fell to 23% of the total, down from 29% in July 2014, and down from 32% in August 2013.

Most-recently discussed in [Commentary No. 659](#), there has been no underlying improvement in fundamental consumer liquidity conditions. Correspondingly, there is no basis here for expecting an imminent recovery in the housing market.

**Existing-Home Sales Graph.** The regular monthly graph of existing-home sales activity follows, along with the graphs of August new-home sales and August housing starts for single-unit construction, in the next section, for comparison purposes.



**New-Home Sales—August 2014—Despite Extremes in Unstable Reporting, Stagnation Trend Remained Intact.** Gyrating wildly month-to-month, as seen also with the extreme and unstable monthly reporting of the housing-starts series in [Commentary No. 660](#), headline August new-home sales rose by an incredible 18.0% for the month. Even more incredible—as to why the Census Bureau even bothers to publish the current detail—a headline monthly gain of that magnitude was not statistically-significant at the 95% confidence level.

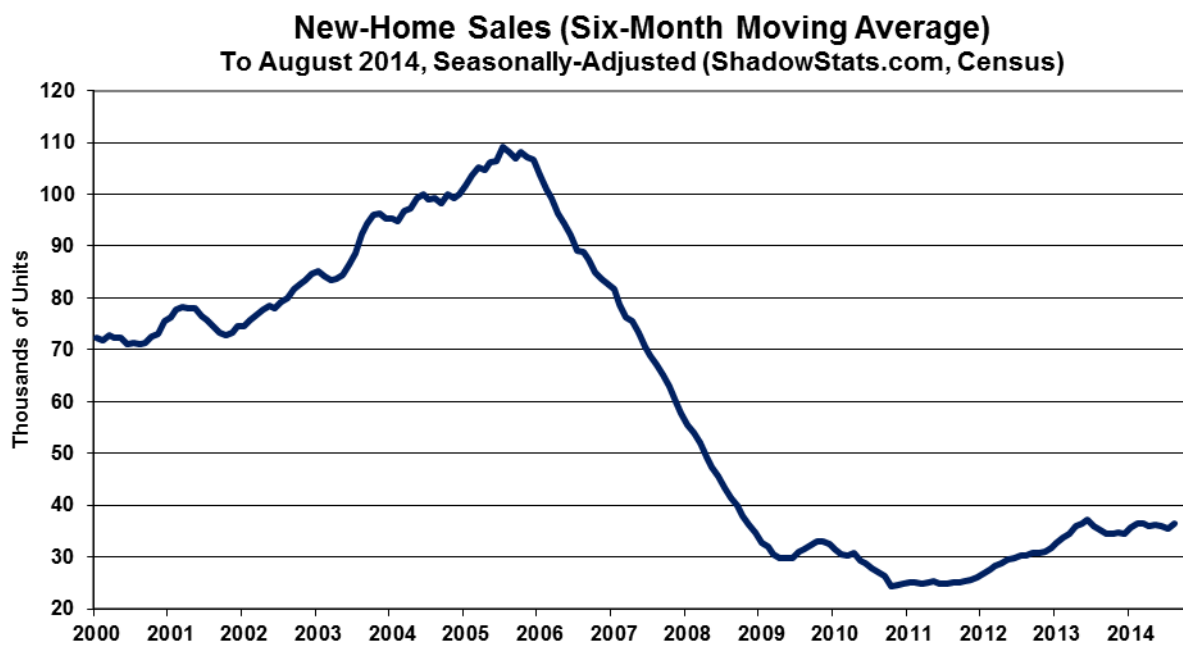
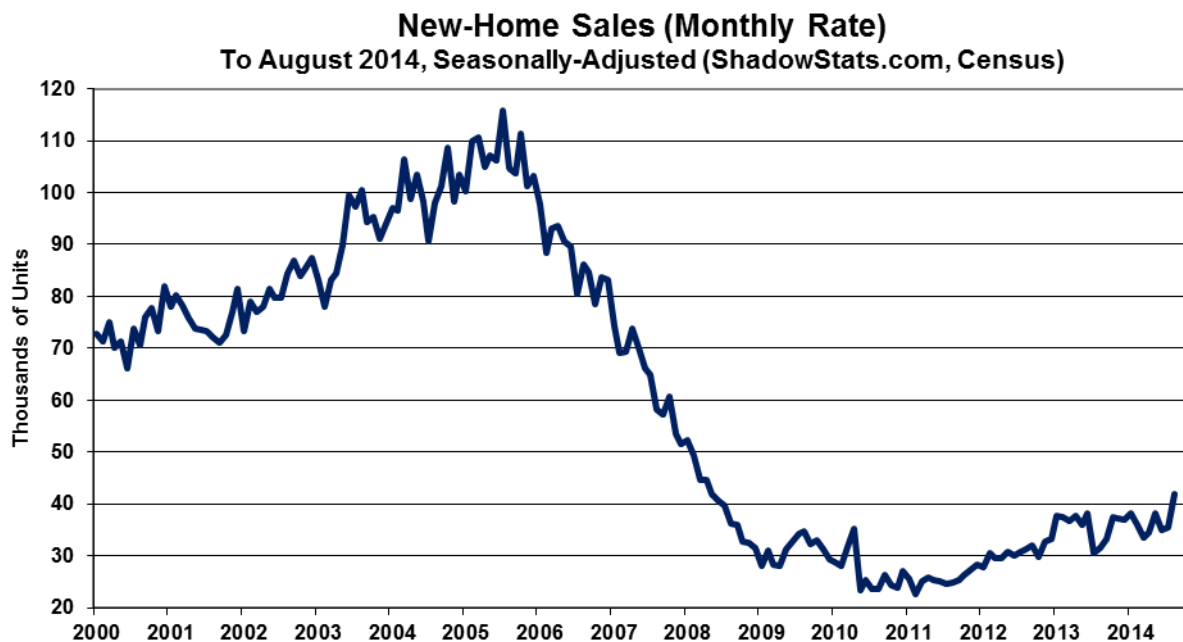
Indeed, the headline monthly reporting in this and the related housing starts series rarely are meaningful. Putting the numbers into a more-stable perspective, ShadowStats is pleased to introduce a graph of new-home sales activity smoothed using a six-month moving average. The same approach was used in the prior *Commentary* with the housing-starts series. Both the headline and smoothed versions are plotted for each series, with the new-home sales and single-unit housing starts graphs following. Again, see [No. 660](#) for further discussion on the housing-starts detail.

Plotted either way, the various housing series continue to show an economic pattern of plunge and stagnation. Housing never recovered with the GDP reporting, with headline August 2014 new-home sales activity still down by 63.7% (-63.7%) from the pre-recession peak of July 2005. As most-recently discussed in [Commentary No. 659](#), there has been no underlying improvement in fundamental consumer liquidity conditions. Correspondingly, there has not been a basis here for a recovery, past, present or pending, in the housing market.

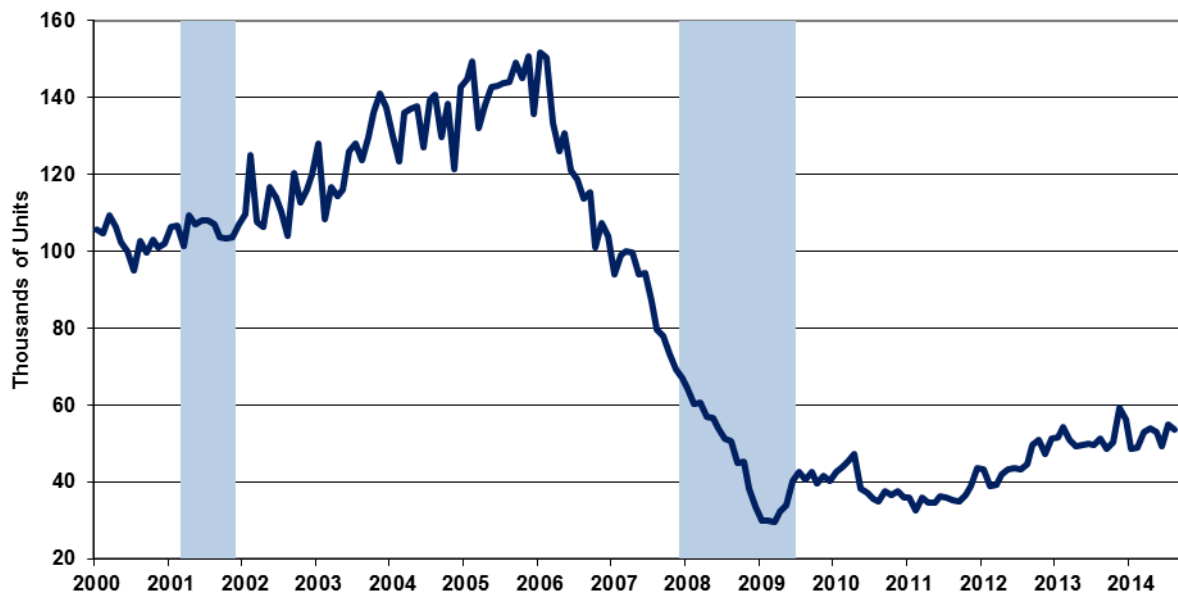
**August 2014 New-Home Sales Soared, But Not Meaningfully.** The headline estimate of August 2014 new-home sales (counted based on contract signings, Census Bureau) jumped by a statistically-insignificant 18.0%. In turn, July sales rose by a revised a revised 1.9%, with August's sales by 22.3% in the month, net of prior-period revisions.

Year-to-year, August 2014 sales rose by a statistically-significant 33.0%, which followed a revised annual gain of 16.3% in July.

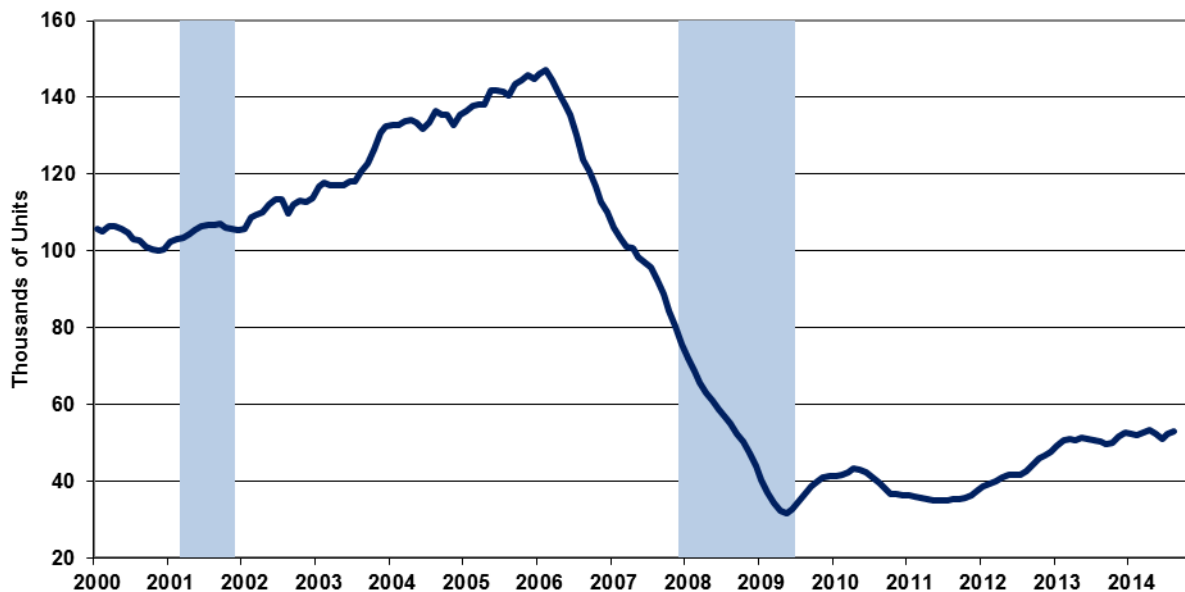
**New-Home Sales Graphs.** The regular monthly graph of new-home sales activity is follows, along with August housing starts for single-unit construction the new six-month moving average version for both series, plus August existing-home sales (preceding section), all included for comparison.



**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 New Order for Durable Goods,  
and New- and Existing-Home Sales, see the Reporting Detail section.]*

## HYPERINFLATION WATCH

**Hyperinflation Outlook Summary.** Unchanged from the prior *Commentary*, this *Summary* should be read in the context of today's (September 25th) *Opening Comments* on the global circumstance and hyperinflation. A revised *Summary* will follow, along with a *Commentary* in the week ahead. 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.

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## REPORTING DETAIL

### NEW ORDERS FOR DURABLE GOODS (August 2014)

**Reversing the Impact of the Irregular Surge in July Commercial Aircraft Orders, August Aggregate Orders Plunged by 18.0% (-18.0%).** Activity in new orders for durable goods is irregularly volatile, usually due to extreme and irregular patterns in nondefense- or commercial-aircraft orders. Even so, the order swings in July and August 2014 reporting were the most-extreme events of recent years, as can be seen in the first of the four graphs for the new-orders series displayed in the *Opening Comments* section. The last of those four graphs shows the plot of new orders that perhaps is the most relevant to looming production activity.

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Net of the unusual aircraft factors, headline August durable goods orders otherwise remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of ongoing stagnation.

***Nominal (Not-Adjusted-for-Inflation) August 2014 Reporting.*** The Census Bureau reported today, September 25th, that the regularly-volatile, seasonally-adjusted, nominal level of August 2014 new orders for durable goods fell by a headline 17.99% (-17.99%) for the month, following a revised gain of 22.23% (previously up by 22.58%) in July, and an unrevised 2.73% (initially 0.74%) gain in June. On a year-to-year basis (seasonally-adjusted), August 2014 durable goods orders eased back to an 8.94% gain, versus a revised 33.40% (previously 33.79%) jump in July, and a revised 0.44% increase [previously a gain of 0.43%, initially a decline of 1.58% (-1.58%)] in June.

Nondefense or commercial aircraft orders often provide extreme monthly volatility to the total orders series. Again, those aircraft orders fell by an extraordinary 74.31% (-74.31%) in August, after a 315.63% increase in July, accounting for the vast bulk of headline July and August movements in aggregate orders.

In this traditionally-unstable durable-goods series, net of the commercial-aircraft orders, the headline July and August monthly and annual gains were within the scope of normal month-to-month volatility. A longer-term pattern of stagnation has remained in place for the durable goods series, particularly when viewed net of inflation. The patterns of activity in this series remain of a nature that commonly precedes or coincides with a recession or deepening business downturn. The inflation-adjusted real series, and the same series corrected for understatement of the official inflation series, are discussed and graphed at the in the *Opening Comments* section.

***Detail Net of Volatility in Commercial Aircraft Orders.*** The reporting of extreme contractions and surges in commercial aircraft orders is seen commonly in an irregularly-repeating process throughout the year and often dominates the change in headline monthly durable goods orders. These extremely volatile aircraft orders are booked well into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

In August, nondefense (or commercial) aircraft orders fell by 74.31% (-74.31%), following a revised 315.63% (previously 317.97%) gain July, and a revised 11.19% (previously 11.06%, initially 8.24%) gain in June. Net of the aircraft numbers, month-to-month orders fell by 0.80% in August, following a revised 0.56% (previously 0.80%) gain in July, and a revised 2.15% (previous 2.16%, initially 0.23%) gain in June. Year-to-year orders, ex-commercial aircraft, were up by 4.89% in August 2014, versus a revised 7.40% (previously 7.66%) gain in July, and a revised 6.11% (6.12%, initially 4.02%) gain in June.

*Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems 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—as was seen on May 15th this year—subsequent reporting already has made all historical reporting prior to June 2014 inconsistent with the current headline numbers.*

***Real (Inflation-Adjusted) Durable Goods Orders—August 2014.*** ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline 0.12% pace

of monthly inflation in August 2014, following 0.06% inflation in July, with headline annual inflation of 1.34% in August 2014, versus 1.34% in July.

Adjusted for that inflation, and again as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders fell by 18.08% (-18.08%) in August, versus a revised 22.15% (previously 22.51%) gain in July, and an unrevised 2.67% (initially a 0.68%) gain in June. Ex-commercial aircraft, real orders fell by 0.92% (-0.92%) in August, versus a revised 0.50% (previously 0.74%) gain for the month of July, and a revised 2.09% (previously 2.10%, initially up 0.17%) increase in June.

Real year-to-year aggregate orders rose by 7.50% in August, versus a revised 31.64% (previously 31.86%) gain in July, and a revised decline of 0.77% (0.77%) [previously down 0.89% (-0.89%), initially down 2.77% (-2.77%)] in June. Ex-commercial aircraft, orders rose year-to-year by 3.51% in August, versus a revised 5.98% (previously 6.11%) gain in July, and a revised 4.84% (previously 4.72%, initially 2.77%) gain in June.

***Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders.*** Two sets of inflation-adjusted graphs are found in the *Opening Comments* section. The first set shows 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 a recent turn to the downside, prior to the extreme movements in July and August. Please note that due to the extreme July number, the six-month moving average for the aggregate series will be showing a large bump for the next four months, until the July number has passed through the smoothing process.

The second set of graphs in the *Opening Comments* section also shows the pattern of historical real new durable goods orders net of official inflation and as "corrected" for the understatement of that inflation (overstatement of official, inflation-adjusted growth), for the series net of commercial aircraft orders.

## **EXISTING-HOME SALES (August 2014)**

### **Down for the Month, August Existing-Home Sales Fell Year-to-Year for the Tenth Month.**

Continuing with a pattern of prior-period revisions, the headline 1.8% (-1.8%) month-to-month decline in August existing home sales was in the context of a small downside revision to July's estimated level of activity. Net of the prior-period revision, August sales were down by 1.9% (1.9%) for the month, the first decline in monthly sales since March. For the tenth straight month, annual sales declined year-to-year, down by 5.3% in August 2014 from August 2013, with August 2014 down 6.1% from the near-term peak in activity seen in July 2013. August 2014 sales activity, at the headline annual sales pace of 5,050,000 (an average monthly pace of 420,833), also was down by 30.5% (-30.5%) from the June 2005 pre-recession peak in activity.

***August Existing-Home Sales Declined by 1.8% (-1.8%) for the Month, Fell by 5.3% (-5.3%) Year-to-Year.*** Monday's (September 22nd) release of August 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 1.8% (-1.8%) month-to-month decline, following a revised 2.2% (previously 2.4%) gain in July. Net of prior-period revisions, August sales fell by 1.9% (-1.9%) for the month.

The NAR attributed the headline decline in August sales to "...investors paying in cash [having] retreated from the market."

On a year-to-year basis, August 2014 annual sales declined more steeply, by 5.3% (-5.3%), than was seen in the revised July annual decline of 4.5% (-4.5%), which previously had been down by 4.3% (-4.3%). August's annual contraction was the tenth consecutive month where headline sales were below those of the year before. That is the longest period of annual decline in the series since before the official end of the recession in June 2009.

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 quality of data remains questionable.

The NAR estimated that the portion of total sales in "distressed" properties fell to its lowest level in August 2014 since the NAR began tracking the issue in October 2008. For August, distressed sales were at 8% of the total (6% foreclosures, 2% short sales), versus the July reading of 9% (6% foreclosures, 3% short sales). 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 August 2014 fell to 23% of the total, down from 29% in July 2014, and down from 32% in August 2013.

***Bleak Outlook Based on Underlying Fundamentals.*** As most-recently discussed in [Commentary No. 659](#), there has been no underlying improvement in fundamental consumer liquidity conditions. Correspondingly, there is no basis here for expecting 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 the graphs of August new-home sales and August housing starts for single-unit construction, for comparison.

## NEW-HOME SALES (August 2014)

**Continued Extremes in Poor-Quality and Unstable Reporting in New-Home Sales Still Leaves Stagnation Trend Intact.** Gyrating wildly month-to-month, as seen also with the extreme and unstable monthly reporting of the housing-starts series (see [Commentary No. 660](#)), headline August new-home sales rose by an incredible 18.0% for the month. Even more incredible—as to why the Census Bureau even bothers to publish the current detail—a headline monthly gain of that magnitude was not statistically-significant at the 95% confidence level.

Indeed, the headline monthly reporting in this and the related housing starts series rarely are meaningful. Putting the numbers into a more-stable perspective, ShadowStats is pleased to introduce a graph of new-home sales activity smoothed using a six-month moving average. The same approach was used with the housing-starts series. Both the headline version and smoothed version are plotted for each series, with the new-home sales and single-unit housing starts shown in the *Opening Comments* section. Again, see [No. 660](#) for further discussion on the housing starts detail.

Plotted either way, the various housing series continue to show an economic pattern of plunge and stagnation. Housing never recovered with the GDP reporting, with headline August 2014 new-home sales activity still down by 63.7% (-63.7%) from the pre-recession peak of July 2005. As most-recently discussed in [Commentary No. 659](#), there has been no underlying improvement in fundamental consumer liquidity conditions. Correspondingly, there has not been a basis here for a recovery, past, present or pending, in the housing market.

**August 2014 New-Home Sales Soared, But Not Meaningfully So.** As reported by the Census Bureau, yesterday, September 24th, in the context of an upside revision to the estimate of July activity, August 2014 headline new-home sales (counted based on contract signings) jumped by a statistically-insignificant 18.0% +/- 19.1% (all confidence intervals are at the 95% level). In turn, July sales rose by a revised a revised 1.9%, which previously had been a 2.4% (-2.4%) headline contraction. Net of prior period revisions, August's sales rose by 22.3% in the month.

Year-to-year, August 2014 sales rose by a statistically-significant 33.0% +/- 25.4. That followed a revised annual gain of 16.3% (previously up by 12.3%) in July.

**New-Home Sales Graphs.** The regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with August housing starts for single-unit construction the new six-month moving average version for both series, plus August existing-home sales, all included for comparison.

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## 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:***

### **Gross Domestic Product—GDP (Second-Quarter 2014, Third Estimate, Second Revision).**

Tomorrow, 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 at 4.0% growth, the first revision took the annualized growth rate to 4.2%. Usually second revisions are no more than statistical noise, but market expectations appear to have settled in somewhat shy of 5.0%, an unusually-strong reading and far beyond any credible reporting (see *Opening Comments*).

Those growth rates remain fantasy numbers. A sharp downside revision to the GDP number would be a much more realistic indicator of real world activity. Headline second-quarter growth rate at present still is massively overstated. In this pre-election period, however, anything is possible, and revised 5.0% growth would not be a surprise, just ongoing statistical nonsense.