COMMENTARY NUMBER 669
September Durable Goods Orders, New-Home Sales
October 28, 2014

Broad Weakness in September Durable Goods Orders
New-Home Sales Remained Stagnant, Despite Nonsensical Reporting Volatility
Expanding Scope of Data-Falsification Issues at the Census Bureau?

PLEASE NOTE: The next regular Commentary is planned for Thursday, October 30th, covering the "advance" or first estimate of third-quarter 2014 GDP.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Third-Quarter 2014 Durable Goods Orders Slowed Meaningfully. Consistent with the sharply slowing pace of third-quarter 2014 economic activity, as reviewed in the Opening Comments section of prior Commentary No 668, the annualized pace of inflation-adjusted new orders for durable goods (ex-commercial aircraft) slowed to 3.4% in third-quarter 2014, from 14.9% in the second-quarter, with
September reporting showing a broad downturn in activity. There remain reporting-quality problems with this Census Bureau series, however, tied to seasonal-adjustment issues, as discussed in the Reporting Detail section for the durable goods orders.

Separate reporting-quality issues, in terms of extreme and unstable monthly headline reporting and revisions, leave the Census Bureau's headline new-home sales reporting virtually worthless in the near-term. The best that can be said for this series is that it appears to be stagnant, having never recovered from the collapse in the housing market.

The U.S. Bureau of Census surveys activity and reports a variety of economic series, including Retail Sales, New Orders for Durable Goods, Construction Spending, housing starts, new-home sales and, aside from the decennial federal census, it also conducts the monthly Current Population Survey (CPS), from which the detail of Bureau of Labor Statistics (BLS) unemployment reporting is drawn. Reporting-quality issues are inherent with all those series. Expanding rapidly, however, are concerns of data falsification in the CPS, as discussed in the next section.

Beyond the various reporting-quality issues tied to the Census Bureau, the balance of today's (October 28th) missive concentrates on the headline reporting of September 2014 new orders for durable goods and existing- and new-home sales.

Further Issues with the Falsification of Census Bureau Unemployment Surveying. With the October headline unemployment data due for release on November 7th, post-election, it will be interesting to see when the BLS offers comment on the reporting-quality issues surrounding its household survey, conducted by the Census Bureau. A deepening scandal has been indicated per recent press coverage.

As discussed in the October 3rd Commentary No. 663: "Reporting-quality issues continue to intensify for the popularly-followed employment and unemployment series. The House Committee on Oversight and Government Reform and the U.S. Congress Joint Economic Committee have been investigating 'data falsification' in the monthly Current Population Survey (CPS, a.k.a. the Household Survey), which is conducted by the U.S. Census Bureau on behalf of the Bureau of Labor Statistics.

"The investigation was triggered by the November 18, 2013 New York Post story by John Crudele, Census 'faked' 2012 election jobs report. A Congressional Staff Report published on September 18, 2014, indicated data falsification had taken place at the Philadelphia Regional Office of the Census Bureau, in order to meet survey-participation requirements for the CPS. In reading the report, there are indications of all offices being involved, including direction from headquarters in Washington. While there has been no finding of the data being altered for specific political purposes, that had been alleged, and the behavior of the Obama Administration, through its Commerce Department and subsidiary Census Bureau during the investigation, could be described as 'obstructive.' The Staff Report can be found here: U.S. Census Bureau: Addressing Data Collection Vulnerabilities. The body of the report includes interesting detail."

Subsequent to the above cited material, John Crudele of the New York Post has published two further articles indicating that the reporting issues with the CPS indeed extended to other Census offices, specifically to the Denver and Los Angeles offices. Links to those articles in the Post are found here: October 6th, Crudele on Denver; October 22nd, Crudele on Los Angeles.
To the extent that the honesty and/or the statistical significance of the data have been or have not been compromised, some comment by the involved Bureaus (Census Bureau is Department of Commerce, Bureau of Labor Statistics is Department of Labor) should be forthcoming.

New-Home Sales—September 2014—Extremes in Unstable Reporting Leave the Stagnation Trend Intact, Headline Data Worthless. There is no stability and little of substance in the Census Bureau's headline monthly reporting of new-home sales. Particularly obvious, as seen in the accompanying graph, is that sudden initial headline surges in monthly activity appear to provide no more than one-shot media or market hypes, which disappear with the next month's revisions.

Repeating a pattern seen in May 2014, for example, August 2014 annualized unit new-home sales soared in initial headline reporting by 18.0% for the month, to 504,000, up from 427,000 in July. That headline number then revised to 466,000 with September's revision to the August detail. If initially reported at
466,000, the headline August gain would have been a less-spectacular 9.1%.  The revised monthly gain for August, however, was a revised 15.3%, because September revisions also knocked down July sales, from the 427,000 of August's reporting to 404,000.

As for September 2014, headline sales were 467,000, up by just 0.2% from the new August number, but they were down by 7.3% (-7.3%) for the month before all the prior-period revisions.

In the initial May 2014 headline circumstance, sales soared by a not-credible 18.6%, but that growth settled down to 10.8%, after revisions.  Also incredible is that the Census Bureau bothers to publish the monthly detail, as it does.  Appropriately, even the extreme headline monthly swings rarely, if ever, are statistically-significant at the 95% confidence level.

Consider, too, that even when the wild-revision gyrations end, the headline series still continues to show a regular roller-coaster pattern of activity.  Instead of reflecting heavy monthly swings in underlying economic conditions, what is more likely here—as with most of the headline Census Bureau numbers—are unstable seasonal-factor adjustments.  In such an environment, one approach to assessing these data on somewhat-meaningful basis is to consider the volatile monthly changes in the context of the six-month moving average of the headline sales.  ShadowStats also has taken that approach with the extreme and unstable monthly reporting of the housing-starts series (see Commentary No. 667).

Plotted either way, the various housing series continue to show a pattern of economic plunge and then stagnation, with stagnation continuing at a low level of activity.  Housing never recovered with the GDP reporting.  Headline September 2014 new-home sales activity still was down by 66.4% (-66.4%) from the pre-recession peak of July 2005, while September housing starts were down by 55.3% (-55.3%) from the January 2006 high of that series.

Most-recently discussed in Commentary No. 665, there has been no improvement in underlying consumer fundamentals.  With no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis here for expecting an imminent recovery in the housing market.

**September 2014 New-Home Sales Consistent Within a Broad Pattern of Stagnation.** In the context of a massive downside revision to headline August 2014 activity, September 2014 headline new-home sales (counted based on contract signings, Census Bureau) gained a statistically-insignificant 0.2%.  In turn, August sales rose by a revised 15.3%.  Net of prior period revisions, September's sales declined by 7.3% (-7.3%) for the month.

Year-to-year, September 2014 sales rose by a statistically-insignificant 17.0%.  That followed a revised annual gain of 23.0% in August.

**New-Home Sales Graphs.** The regular monthly graphs of new-home sales activity follows, based on both the monthly rate (not annualized) and of a six-month moving average of same.  For comparison, the third graph also is the smoothed (six-month moving average of the non-annualized monthly rate) September housing starts for single-unit construction (see Commentary No. 667), and the regular plot of existing home sales (see Commentary No. 668).
New Orders for Durable Goods—September 2014—Broad Weakness in Aggregate Orders.
Annualized quarterly growth in inflation-adjusted new orders—ex-commercial aircraft—slowed sharply in third-quarter 2014 to 3.4%, down from 14.9% in second-quarter 2014, with declines in monthly...
September 2014 orders for automobiles and computers, along with further declines in orders for both commercial and defense aircraft.

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, related commercial-aircraft order swings in July and August 2014 reporting were the most-extreme events of recent years, while the small decline in September sales was set across a wide variety of industries (including commercial aircraft). Current orders activity and the recent extreme volatility are seen in the first of the accompanying four graphs. The last of the graphs shows the plot of new orders (ex-aircraft and net of inflation) that perhaps is the most relevant to looming production activity.

Both before and after consideration of a 16.1% (-16.1%) decline in commercial aircraft factors, headline September durable goods orders remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of ongoing stagnation. The broad patterns of activity here remain of a nature that commonly precedes or coincides with a recession or deepening business downturn.

**Nominal (Not-Adjusted-for-Inflation) September 2014 Reporting.** The regularly-volatile, seasonally-adjusted, level of September 2014 new orders for durable goods declined by a headline 1.32% (-1.32%) for the month, following a revised 18.34% (-18.34%) decline in August, and a revised gain of 22.47% in July. Net of prior-period revisions, September new orders declined by 1.56%.

Year-to-year and seasonally-adjusted growth in September 2014 durable goods orders eased back to a 3.37% gain, versus a revised 8.69% gain in August, and a revised 33.67% commercial-aircraft-induced jump in July.

**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 changes 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.

Net of a 16.09% (-16.09%) headline decline in commercial aircraft orders, September's orders declined by 0.13% (-0.13%). Net of a revised 74.00% (-74.00%) plunge in August commercial-aircraft orders, orders for durable goods fell by a revised 1.40% (-1.40%). In July, net of aircraft orders that soared by an unrevised 315.63%, orders rose by a revised 0.82%.

**Real (Inflation-Adjusted) Durable Goods Orders—September 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 negative 0.06% (-0.06%) pace of monthly inflation in September, following a 0.12% headline monthly inflation gain in August, with headline annual inflation holding at 1.34% in September 2014, versus 1.34% in August 2014.

Adjusted for that inflation, and again as reflected in the accompanying, real month-to-month aggregate orders declined by 1.26% (-1.26%) in September, following a revised 18.44% (-18.44%) decline in August, and a revised 22.40% gain in July. Ex-commercial aircraft, real orders fell by 0.07% (-0.07%) in September, following a revised 1.52% (-1.52%) drop in August, and a revised 0.76% gain in July.
Real year-to-year aggregate orders rose by 1.91% in September, versus a revised 7.25% in August, and a revised 31.91% gain in July. Ex-commercial aircraft, orders rose year-to-year by 5.01% in September, versus a revised 3.15% gain in August, and a revised 6.26% gain in July.

**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, with a return to some stability in September 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 three 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 September 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 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 estimated 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.
Real Orders--Ex Nondefense Aircraft (6 Mo Moving Avg)
Monthly Index, Deflated by PPI--Durable Manufactured Goods
To Sep 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)

Corrected Real Orders--Ex Nondefense Aircraft
6 Mo Moving Avg, Corrected for Hedonic Adjustment Distortions
To Sep 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)

[For further detail on September New Orders for Durable Goods and New-Home Sales, see the Reporting Detail section. Various drill-down and graphics options on the headline Durable Goods Orders are available to ShadowStats subscribers at our affiliate: www.ExpliStats.com].

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HYPERINFLATION WATCH

Hyperinflation Outlook Summary. This section has not been updated since minor text revisions were made in Commentary No. 668 of October 23rd. If this is being read for the first time, reading it in the context of the Opening Comments of Commentary No. 664 of October 10th is suggested.

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 Commentary No. 661. The two 2014 Hyperinflation Report installments remain the primary background material for the hyperinflation and economic analyses and forecasts.

Primary Summary. Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis into the 2014 period. The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic 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 and recent developments.

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, despite sharp recent rallies in the U.S. dollar's exchange rate and related heavy selling in the gold and silver markets.

Current relative U.S. economic strength versus major U.S. trading partners is seriously over-estimated, with a crash back to recognition of realistic domestic-economic circumstances likely to be accompanied by a crash in the U.S. dollar versus major currencies, such as the euro, yen, pound, Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil; and related sell-offs in the domestic stock and bond markets.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity is turning down anew. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom was the aberration. Such should become increasingly and painfully obvious to the financial markets in the domestic economic reporting of the weeks and months ahead.
New reporting of relatively hard annual numbers from 2013 showed ongoing economic contraction, with no trend towards sustainable economic growth (see Commentary No. 656). Also, as discussed in today's Opening Comments section and Commentary No. 664, real business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis in putting the GDP growth estimates together—has been flat-to-minus, with real sales of the S&P 500 suggesting a decline in third-quarter 2014 activity.

Despite any short-term pre-election fluff, those basic underlying, increasingly negative economic conditions will show up in various series, such as the trade deficit, retail sales, industrial production and payroll employment, providing consensus expectations with downside shocks. In turn, that should shift the popular outlook quite rapidly towards a "new recession," with negative shifts in the economic consensus further disrupting the already-disintegrating stability in the financial markets.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, specifically 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 cover of a weakening economy—a renewed, deepening contraction in business activity.

Accordingly, some speculation already has begun to circulate as to an added round of Federal Reserve quantitative easing, QE4. That would be a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it could, with continual, negative impact on the U.S. economy. The easing to date, however, appears to have been a prop to the equity markets (see Commentary No. 663). In the event of QE4, any resulting renewed boost to U.S. equities likely would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would be a rapidly-increasing pace of domestic U.S. inflation.

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 and accounting projections, where comparative year-ago cash numbers recently were 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 should 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 significantly in global trading and have contributed to savaging the prices of precious metals. Again, such should not prevail in the context of underlying reality. The actual 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 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 has continued to run in the $6-trillion-plus range for annual shortfall—and should have done so again in the just-completed fiscal-2014—while those in Washington continue to increase spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the Hyperinflation Report, as previously linked.

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. Despite the "tapering" of the Fed's asset purchases, the current pace of the Fed's monetization was at 58.9% of effective net issuance of the federal debt to be held by the public in calendar-year 2014 (through October 8th). The pace of effective monetization was 66.0% since the January 2013 expansion of QE3.

Mounting domestic and global crises of confidence in a dysfunctional U.S. government. The relative positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. Positive ratings for both the President and Congress are at historic lows and still are sinking.

Mounting global political pressures contrary to U.S. interests. Downside pressures on the U.S. currency generally are mounting, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the situation in Ukraine versus Russia and the extremely-volatile circumstances in the Middle East.

Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status. Active efforts or comments against the U.S. dollar have been seen with Russia, China, France and India, along with some rumblings in OPEC and elsewhere.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the 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. These circumstances will trigger the early stages of a hyperinflation.

Both the renewed dollar weakness and the resulting inflation spike 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

NEW ORDERS FOR DURABLE GOODS (September 2014)

Broad Weakness in September Aggregate Durable Goods Orders. Annualized quarterly growth in inflation-adjusted new orders—ex-commercial aircraft—slowed sharply in third-quarter 2014 to 3.4%, down from 14.9% in second-quarter 2014, with declines in September 2014 monthly orders for automobiles and computers, along with further order declines for both commercial and defense aircraft.

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, related commercial-aircraft order swings in July and August 2014 reporting were the most-extreme events of recent years, while the small decline in September sales was set across a wide variety of industries. Current orders activity and the recent extreme volatility are 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.

Both before and after consideration of a 16.1% (-16.1%) decline in commercial aircraft factors, headline September durable goods orders remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of ongoing stagnation. The inflation-adjusted real series, and that same series corrected for understatement of the official inflation series, also are discussed and graphed at the in the Opening Comments section. They remain of a nature that commonly precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) September 2014 Reporting. The Census Bureau reported today, October 28th, that the regularly-volatile, seasonally-adjusted, nominal level of September 2014 new orders for durable goods declined by a headline 1.32% (-1.32%) for the month, following a revised 18.34% (-18.34%) decline in August [previously down by 17.99% (-17.99%)], and a revised gain of 22.47% [previously up by 22.23%, initially up by 22.58%] in July. Net of prior-period revisions, September new orders declined by 1.56%.

Year-to-year and seasonally-adjusted growth in September 2014 durable goods orders eased back to a 3.37% gain, versus a revised 8.69% [previously 8.94%] gain in August, and a revised 33.67% [previously 33.40%, initially 33.79%] commercial-aircraft-induced jump in July.

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 changes 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.

Net of a 16.09% (-16.09%) headline decline in commercial aircraft orders, September's orders declined by 0.13% (-0.13%). Net of a revised 74.00% (-74.00%) plunge in August commercial-aircraft orders, orders for durable goods fell by a revised 1.40% (-1.40%). In July, net of aircraft orders that soared by an unrevised 315.63%, orders rose by a revised 0.82%.

_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 July 2014 inconsistent with the current headline numbers._

**Real (Inflation-Adjusted) Durable Goods Orders—September 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 negative 0.06% (-0.06%) pace of monthly inflation in September, following a 0.12% headline monthly inflation gain in August, with headline annual inflation holding at 1.34% in September 2014, versus 1.34% in August 2014.

Adjusted for that inflation, and again as reflected in the graphs of the _Opening Comments_ section, real month-to-month aggregate orders declined by 1.26% (-1.26%) in September, following a revised 18.44% (-18.44%) decline in August, and a revised 22.40% gain in July. Ex-commercial aircraft, real orders fell by 0.07% (-0.07%) in September, following a revised 1.52% (-1.52%) drop in August, and a revised 0.76% gain in July.

Real year-to-year aggregate orders rose by 1.91% in September, versus a revised 7.25% in August, and a revised 31.91% gain in July. Ex-commercial aircraft, orders rose year-to-year by 5.01% in September, versus a revised 3.15% gain in August, and a revised 6.26% gain in July.

**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 had been holding in a pattern of near-stagnation, with some recent downturn 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.
NEW-HOME SALES (September 2014)

Continued Extremes in Unstable Reporting of New-Home Sales Leave Stagnation Trend Generally Intact, Headline Data Worthless. There is no stability and little of substance in the Census Bureau's headline monthly reporting of new-home sales. Particularly obvious, as seen in the Opening Comments graph of New-Home Sales Reporting and Revisions, is that sudden initial headline surges in monthly activity appear to provide no more than one-shot media hypes, which disappear with the next month's revisions.

Repeating a pattern seen in May 2014, for example, August 2014 annualized unit new-home sales soared in initial headline reporting by 18.0% for the month, to 504,000, up from 427,000 in July. That headline number then revised to 466,000 with September's revision to the August detail. If initially reported at 466,000, the headline August gain would have been a less-spectacular 9.1%. The revised monthly gain for August, however, was a revised 15.3%, because September revisions also knocked down July sales, from the 427,000 of August's reporting to 404,000.

As for September 2014, headline sales were 467,000, up by just 0.2% from the new August number, but they were down by 7.3% (-7.3%) for the month before all the prior-period revisions.

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In such an environment, one approach to assessing these data on somewhat-meaningful basis is to consider the wild monthly gyrations in the context of the six-month moving average of the headline sales. ShadowStats also has taken that approach with the extreme and unstable monthly reporting of the housing-starts series (see Commentary No. 667).

Plotted either way, the various housing series continue to show a pattern of economic plunge and then stagnation, with stagnation continuing at a low level of activity. Housing never recovered with the GDP reporting. Headline September 2014 new-home sales activity still was down by 66.4% (-66.4%) from the pre-recession peak of July 2005, while September housing starts were down by 55.3% (-55.3%) from the January 2006 high of that series. As most-recently discussed in Commentary No. 665, 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.

September 2014 New-Home Sales Consistent Within a Broad Pattern of Stagnation. As reported by the Census Bureau, Friday, October 24th, in the context of a massive downside revision to the estimate of August 2014 reporting, September 2014 headline new-home sales (counted based on contract signings) gained a statistically-insignificant 0.2% +/- 18.4% (all confidence intervals are at the 95% level). In turn, August sales rose by a revised 15.3% (previously an 18.1% gain). Net of prior period revisions, September's sales sank by 7.3% (-7.3%) for the month.

Year-to-year, September 2014 sales rose by a statistically-insignificant 17.0% +/- 24.1%. That followed a revised annual gain of 23.0% (previously up by 33.0%) in August.
**New-Home Sales Graphs.** The regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with the six-month moving average version of those sales, and September housing starts for single-unit construction the six-month moving average version for that series, plus September 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 having shifted some 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 increasingly should be hammered, though, by ongoing, downside corrective revisions and by an accelerating pace of downturn in broad-based headline economic activity.

**Longer-Range Reporting Trends.** The process of downside shifting in economic-growth expectations has been sporadic, but the underlying fundamentals remain extraordinarily negative. Other than for nonsense-growth in the headline second-quarter GDP (see *Commentary No. 662*), renewed weakness has been, and increasingly will be seen in the headline reporting of other major economic series (see *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*), particularly subsequent to the November 4th election. Indeed, weaker-than-consensus economic reporting should remain the general trend until the unfolding "new" recession receives broad recognition, which minimally would follow the next reporting of a headline contraction in real GDP growth.

A generally stronger consumer 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. Such excludes any near-term efforts to push oil prices lower as an informal financial sanction against Russia.

The dollar faces eventual pummeling from the weakening economy, continuing perceptions of needed, ongoing quantitative easing, 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 prospective, significantly-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 (Third-Quarter 2014, "Advance" or First Estimate). The Bureau of Economic Analysis (BEA) will publish its "advance" or first-estimate of third-quarter 2014 GDP on Thursday, October 30th. Following an extremely-overstated, annualized quarterly real headline growth rate of 4.6% for second-quarter GDP, market expectations are for a still heavily-overstated headline 3.0% growth rate in the initial third-quarter estimate. As the last major economic indicator from the federal government before the November 4th midterm election, the initial GDP estimate here will be vulnerable to political considerations.

The prospects for the reporting of third-quarter economic growth are reviewed in the Opening Comments section of prior Commentary No 668. Given the political timing, and the tendency of the BEA to target its "advance" reporting to consensus expectations, a headline estimate at or somewhat below the near-three-percent consensus could be expected.

The initial growth estimate should be dominated by a positive boost from the net-exports account, which is based only on partial data. Pending trade deficit reporting and revisions (November 4th) could knock down the initial GDP growth estimate sharply, to below two-percent, potentially into negative territory, along with other factors. That circumstance will be discussed in later Commentaries covering the respective revised, underlying details.

Headline GDP Reporting Likely Will Not Be Statistically Meaningful. In any event, an initial third-quarter GDP estimate of 3.0% or so (+/- 3.5% ninety-five percent confidence interval), would not be statistically significant in the reporting of this most-worthless, most-heavily-gimmicked and massaged government economic indicator.