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

COMMENTARY NUMBER 678
October Durable Goods Orders, New-Home Sales, November Consumer Conditions

November 26, 2014

No Economic Boom in Durable Goods Orders or Housing Activity

Real Durable Orders Goods Set Early Pace of
Flat-to-Down Activity for Fourth-Quarter 2014

New-Home Sales Revised Lower in Third-Quarter;
October Broad Sales Activity Remained Stagnant

Consumer Confidence and Sentiment Remain at Levels
Consistent with Historical Recessions

PLEASE NOTE: The next Commentary *is planned for Friday, December 5th, covering November employment and unemployment, the October trade deficit and construction spending, and an update and review of financial-market conditions.*

Best wishes to all for a Happy Thanksgiving! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

No Economic Boom in New Orders for Durable Goods or New-Home Sales. Plunge-and-stagnation continues to describe the pattern of general activity in the housing industry for the last eight years or so. Similarly, no economic boom is in play for real new orders for durable goods. There has been no meaningful rebound in broad economic activity, contrary to the nonsensical GDP reporting of the last two quarters, in particular (see yesterday's *Commentary No. 677*).

Today's Missive (November 26th). This holiday-abbreviated *Commentary* concentrates on the today's releases of October new orders for durable goods and new-home sales (in both the *Opening Comments* and *Reporting Detail*), and an update of consumer-condition indicators (*Opening Comments*). ShadowStats will review and update financial-market conditions in the next regular *Commentary*, scheduled for December 5th.

The *Hyperinflation Outlook Summary* was revised in yesterday's *Commentary No. 677*. It is included in today's *Commentary*, but unchanged except for minor wording changes referring to *No. 677*. Separately, in the *Week Ahead* section, outlooks are reviewed for next week's releases of November payrolls and unemployment and for the October trade deficit and construction spending.

New Orders for Durable Goods—October 2014—Orders were Flat for the Month, Net of Inflation; Initial Fourth-Quarter Activity was Flat-to-Down. Annualized quarterly growth in inflation-adjusted (real) new orders—ex-commercial aircraft—slowed sharply in third-quarter 2014, to a revised 4.2% (previously 3.4%), down from an unrevised 14.9% in second-quarter 2014, and it turned negative for fourth-quarter activity, using headline-October reporting as a surrogate number for the quarter. If real fourth-quarter orders held at October's level, annualized quarterly change in fourth-quarter 2014 activity would be a decline of 0.9% (-0.9%).

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, up by 315.6%, and down by 74.0% (-74.0%) respectively. They were followed by a smaller commercial-aircraft order decline in September of 16.0% (-16.0%), and a negligible order decline of 0.1% (-0.1%) in October, all before inflation adjustment. Current order activity and the recent extreme volatility are seen in the first of the four accompanying graphs. 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 the minimal decline in commercial-aircraft orders, headline October 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, are discussed and graphed in the accompanying graphics section. The inflation-adjusted series remain broadly stagnant and of a nature that commonly precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) October 2014 Reporting. The regularly-volatile, seasonally-adjusted, nominal level of October 2014 new orders for durable goods rose by a headline 0.04% for the month, following a revised decline in September of 0.89% (-0.89%) and a revised August decline of 18.30% (-18.30%). Net of prior-period revisions, October aggregate new orders rose by 0.09% for the month.

Year-to-year and seasonally-adjusted growth in October 2014 durable goods orders rose by 5.51%, versus a revised 3.78% gain in September and a revised 8.75% gain in August.

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 particularly-mild monthly headline decline of 0.08% (-0.08%) in October commercial aircraft orders, October aggregate orders rose by 0.44% for the month. Net of a revised headline decline in September commercial aircraft orders of 16.00% (-16.00%), aggregate orders rose by a revised 0.32%. Net of an unrevised 74.00% (-74.00%) plunge in August commercial-aircraft orders, aggregate orders for durable goods fell by a revised 1.34% (-1.34).

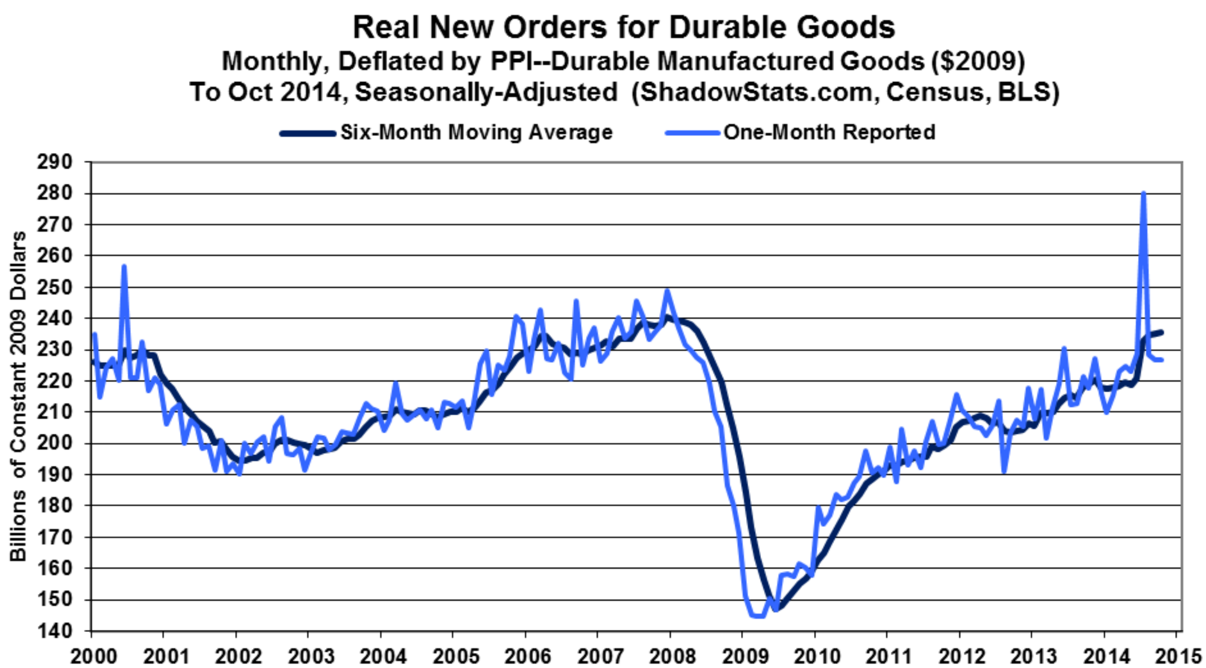
Real (Inflation-Adjusted) Durable Goods Orders—October 2014. ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline positive 0.42% monthly pace of inflation in October, following a negative 0.06% (-0.06%) pace of monthly inflation in September, with headline annual inflation at 1.33% in October 2014, versus 1.34% in September.

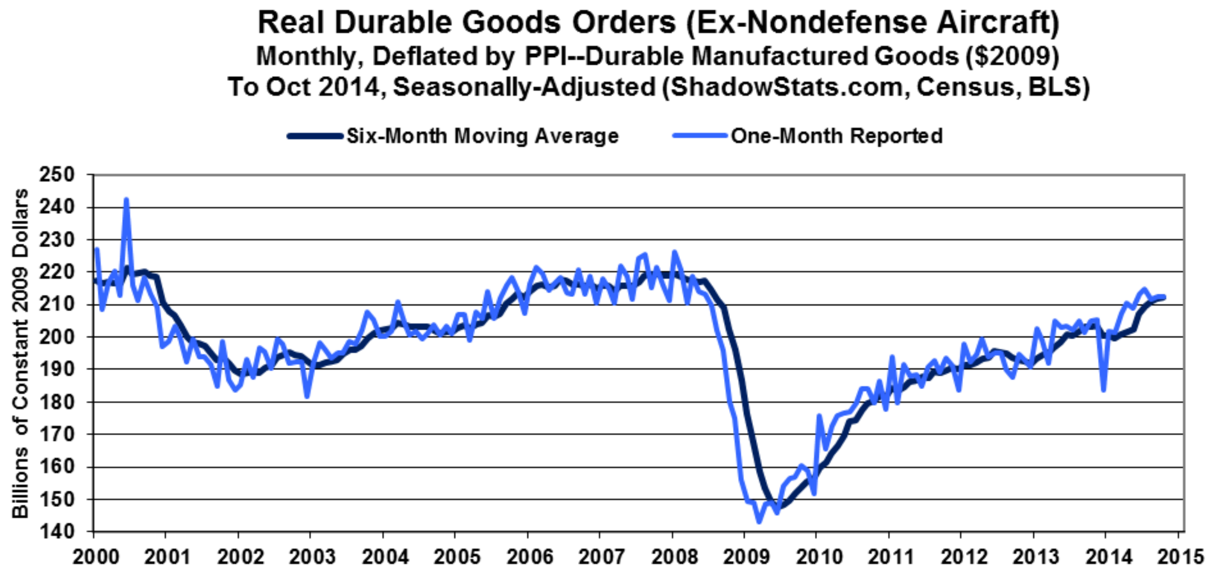
Adjusted for that inflation, and again as reflected in the accompany graphs, real month-to-month aggregate orders declined by 0.02% (-0.02%) in October, versus a revised September monthly decline of 0.83% (-0.83%), following a revised August decline of 18.30% (-18.30%). Ex-commercial aircraft, real orders rose by 0.02% in October, following a revised September gain of 0.38% and a revised drop of 1.46% (-1.46%) in August.

Real year-to-year aggregate orders rose by 4.12% in October, versus a revised 2.41% gain in September and a revised 7.31% gain in August. Ex-commercial aircraft, orders rose year-to-year by 3.73% in October, versus a revised 5.55% gain in September and a revised 3.20% gain in August.

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 and October 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 two 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 October 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.

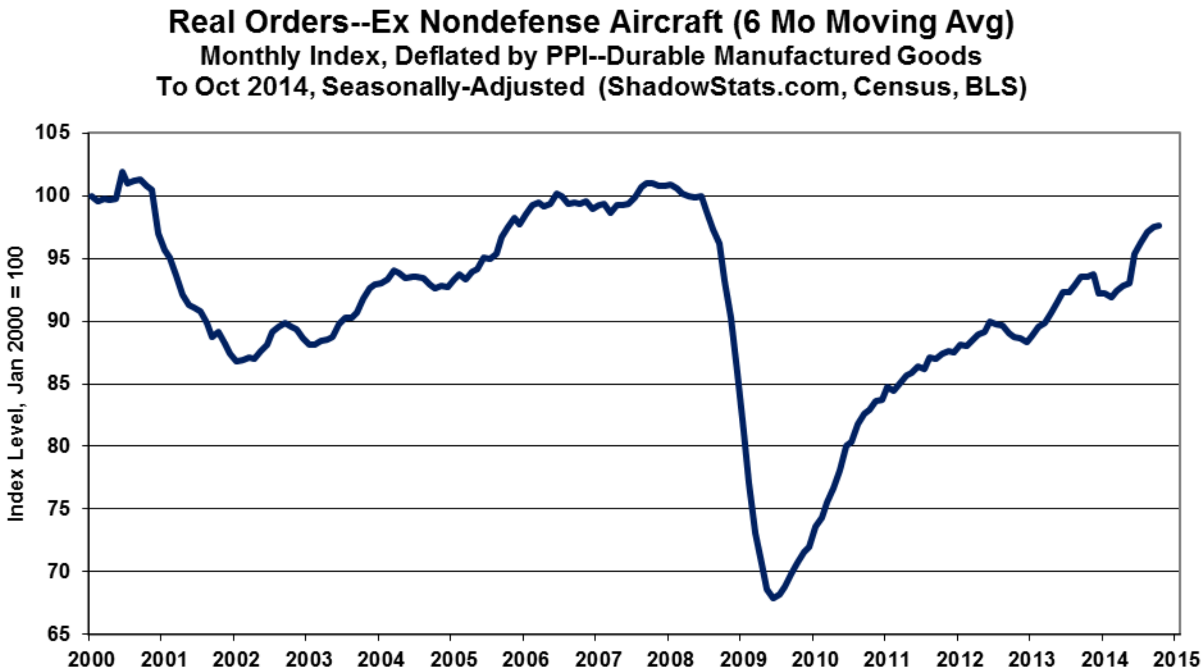


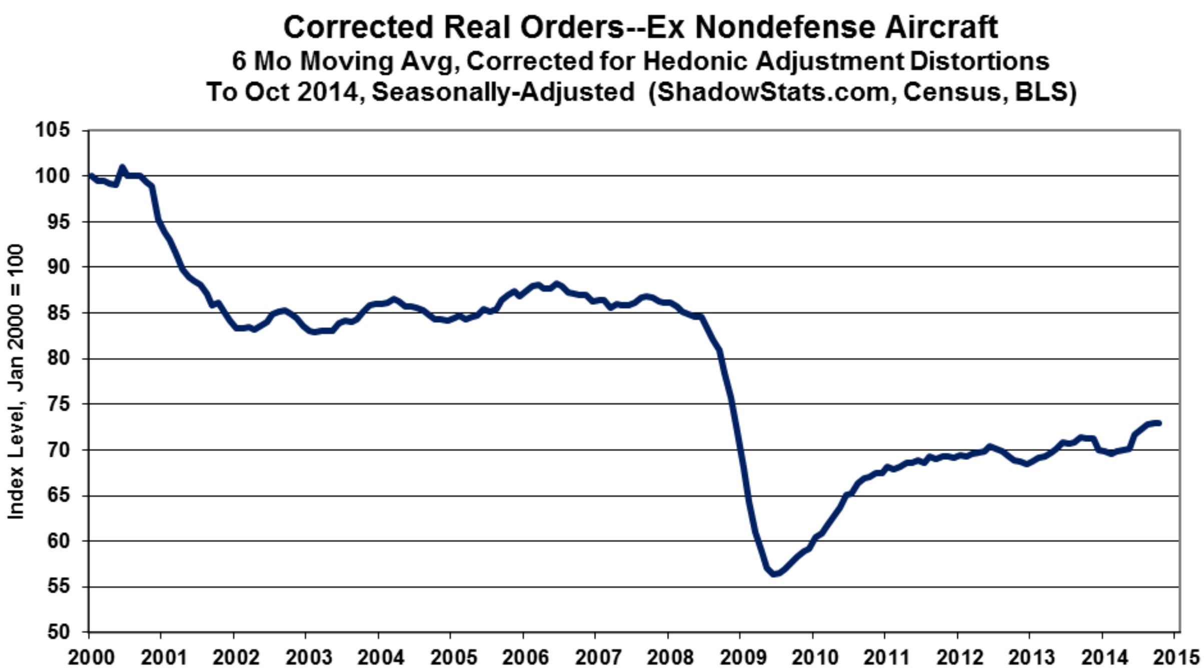


The Real Orders Series Corrected for Inflation Understatement. As with other economic series deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods are overstated, due to the understatement of the official inflation. That understatement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

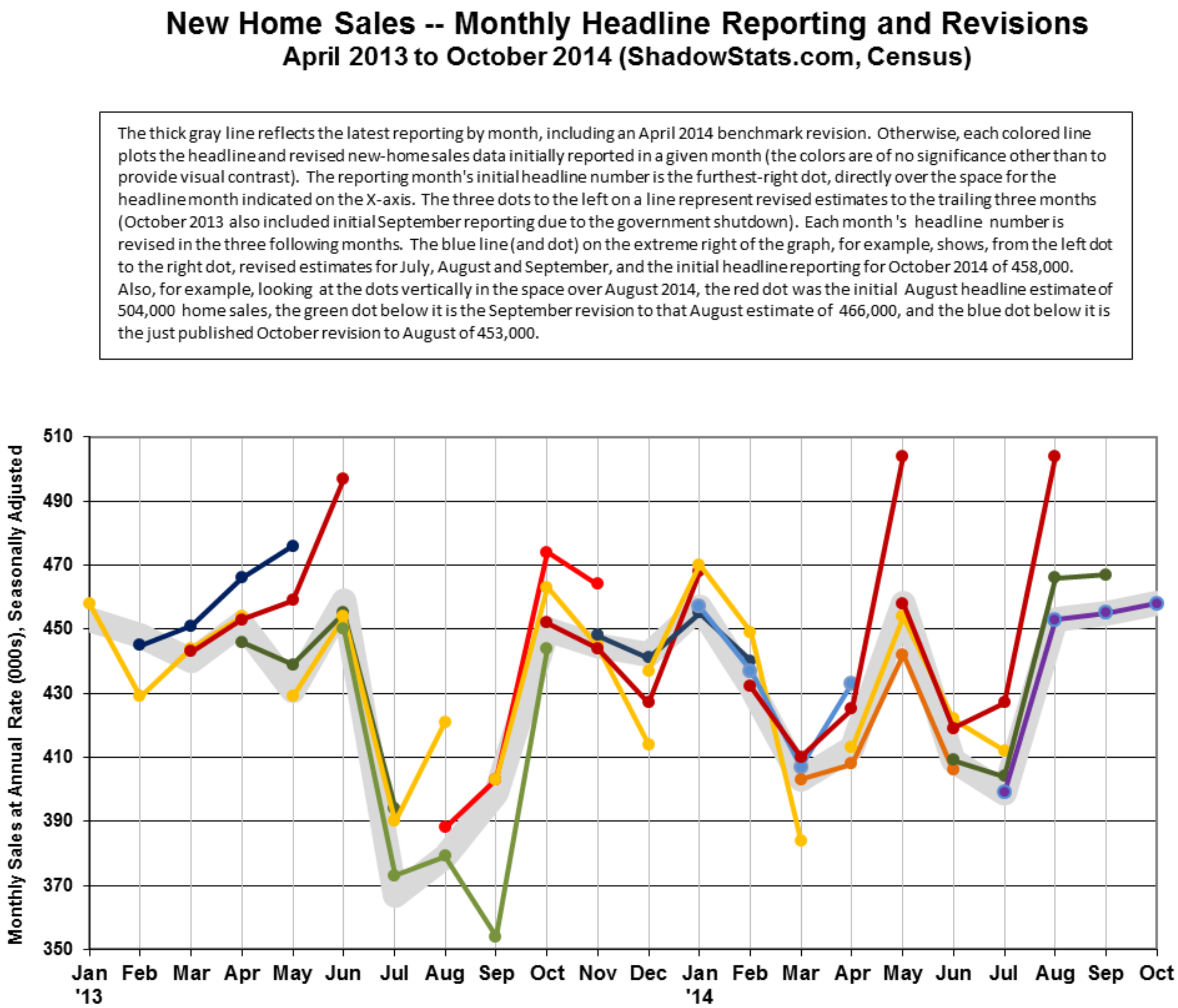
The following two graphs are of the ex-commercial aircraft series. The first plot is the six-month moving average shown in the earlier set of graphs. The second plot is the same series as re-deflated to correct for the estimated understatement of the PPI-related inflation measure used in the headline-deflation 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. 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.





New-Home Sales—October 2014—Third-Quarter Sales Revised Lower; Broad Pattern of Ongoing Stagnation Continued. A lack of stability continued with the Census Bureau's headline monthly reporting of new-home sales in October. As seen in the accompanying, revised graph of *New-Home Sales*

Reporting and Revisions, headline reporting remained extremely unstable. 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. As seen with October 2014's plotted blue line of activity (extreme right-hand side of the graph), meaningful revisions continued month-after-month, where all months in third-quarter 2014 just were revised lower.

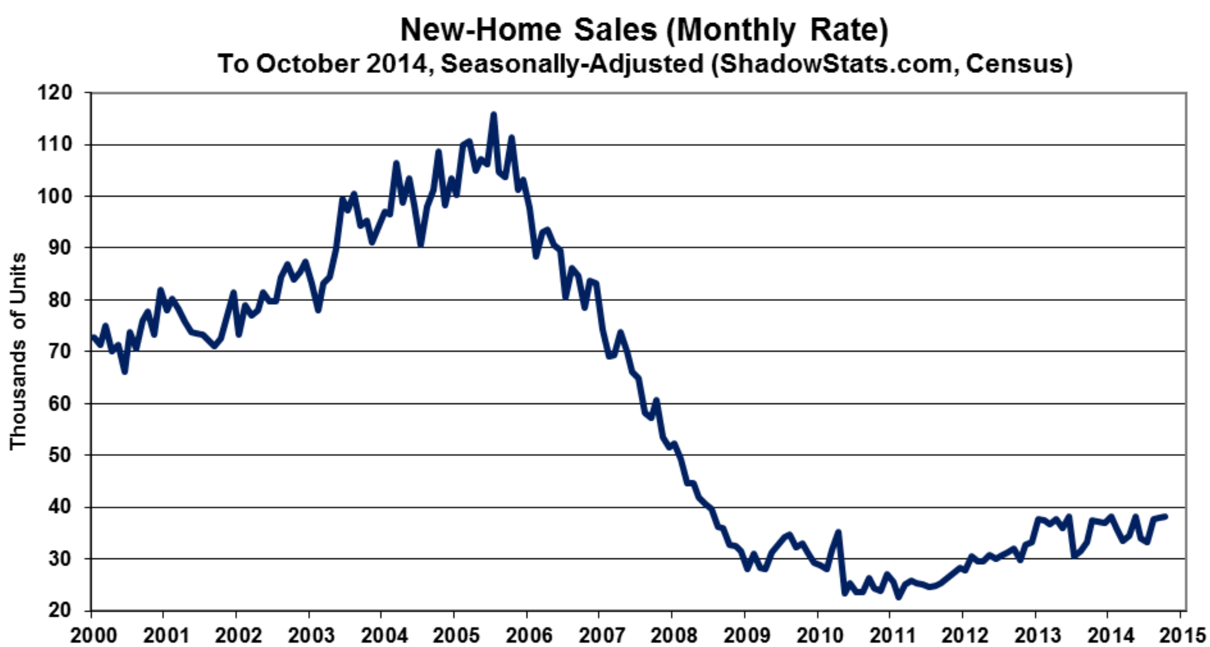


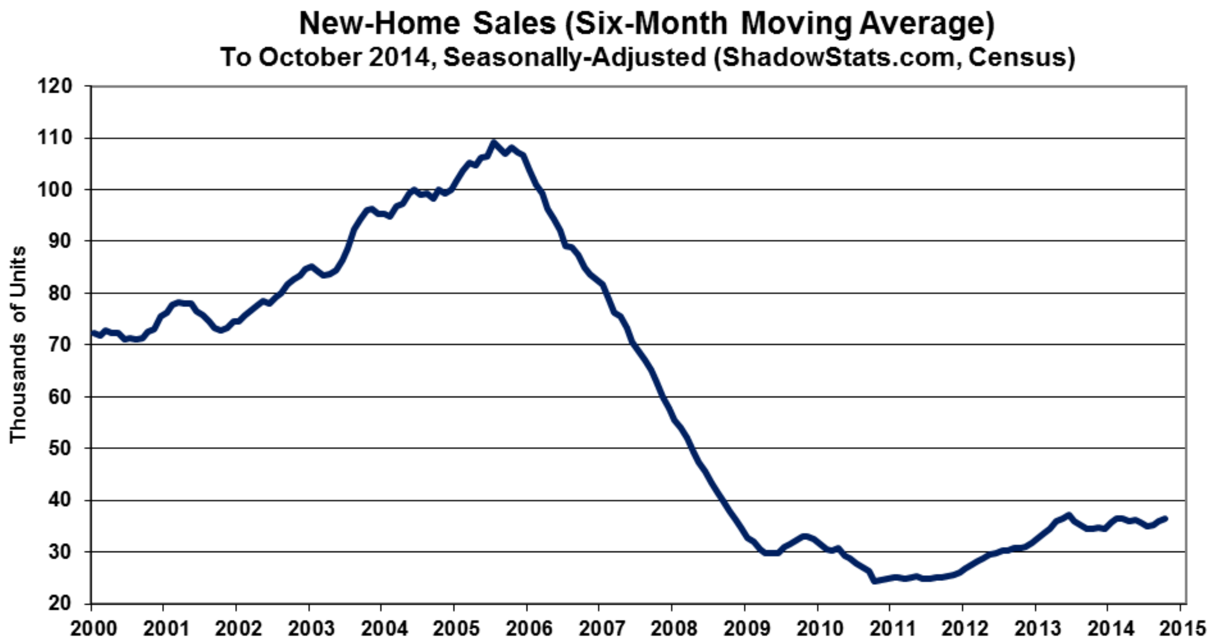
In such an environment, one approach to assessing these data on a somewhat-meaningful basis is to consider the wild monthly gyrations in the context of the six-month moving average of the headline sales. ShadowStats also has taken that approach with the extreme and unstable monthly reporting of the housing-starts series (see the comparative graphs later in this section).

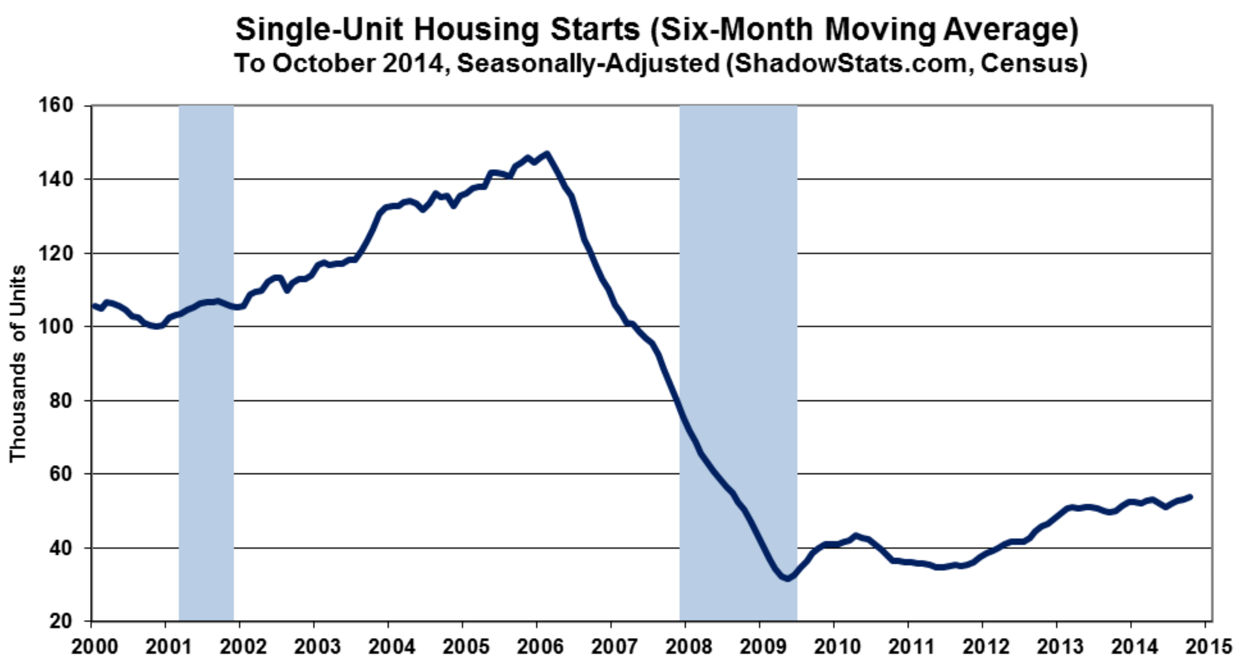
Plotted either way, the various housing series continue to show a pattern of economic plunge and then stagnation, with stagnation continuing at a low level of activity. Housing never recovered with the GDP reporting. Headline October 2014 new-home sales activity still was down by 67.0% (-67.0%) from the pre-recession peak of July 2005, while October single-unit housing starts were down by 61.7% (-61.7%) from the January 2006 high of that series. As discussed in the next section on *Consumer Conditions*, there has been no underlying improvement in fundamental consumer liquidity. Correspondingly, there has not been a basis here for a recovery, past, present or pending, in the housing market.

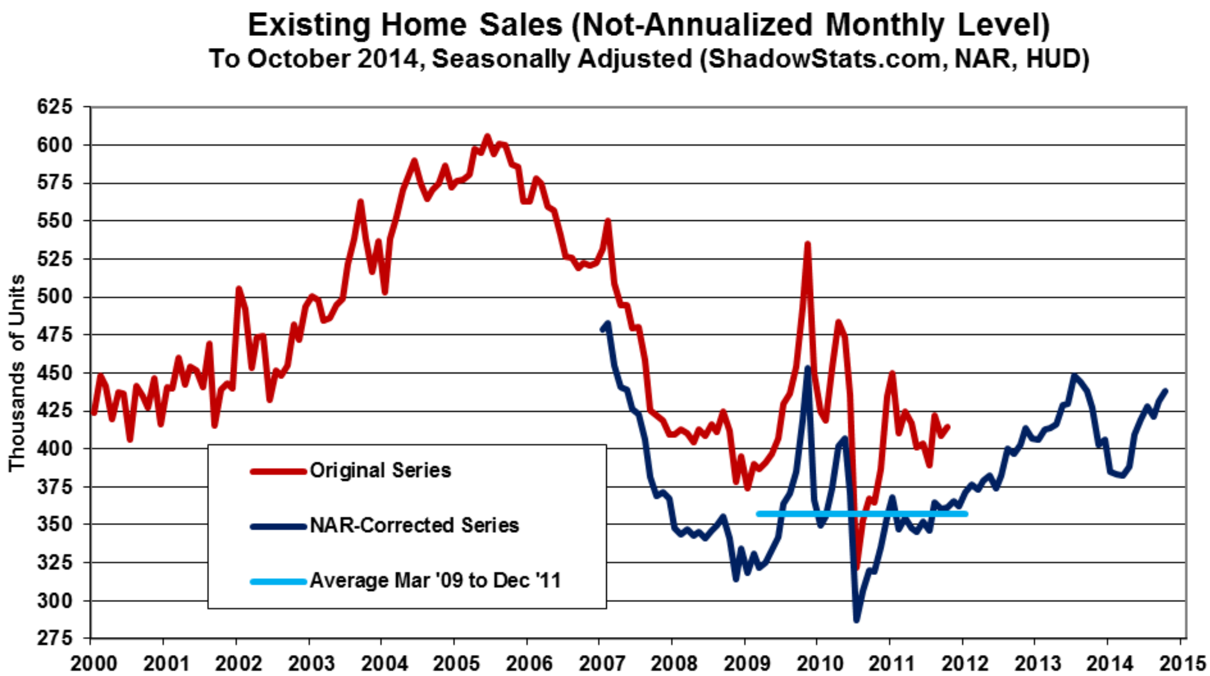
October 2014 New-Home Sales Consistent Within a Broad Pattern of Stagnation. In the context of downside revisions to the headline monthly sales of the prior three months, October headline new-home sales (counted based on contract signings, Census Bureau) gained a statistically-insignificant 0.7%. In turn, September sales revised to a 0.4% gain, but the September sales level was down 2.7% (-2.7%) from its initial headline reporting, due to even-earlier downside revisions in the data. Net of prior-period revisions, October's sales fell by 1.9% (-1.9%) for the month. Year-to-year, October 2014 sales rose by a statistically-insignificant 1.8%, which followed a revised statistically-insignificant annual gain of 13.5% in September.

Comparative 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) October housing starts for single-unit construction (see *Commentary No. 675*), and the fourth graph is the regular plot of existing home sales (see *Commentary No. 676*).




New-Home Sales (Six-Month Moving Average)
To October 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
120
110
100
90
80
70
60
50
40
30
20
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015

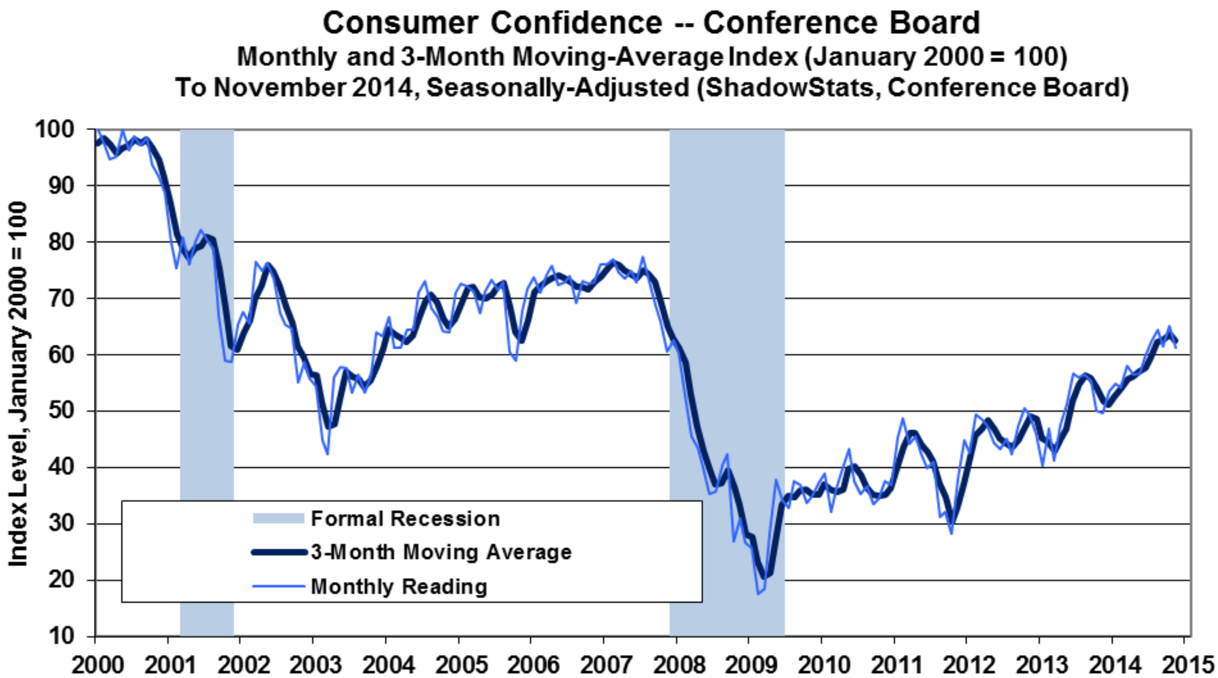

Single-Unit Housing Starts (Six-Month Moving Average)
To October 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
160
140
120
100
80
60
40
20
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015



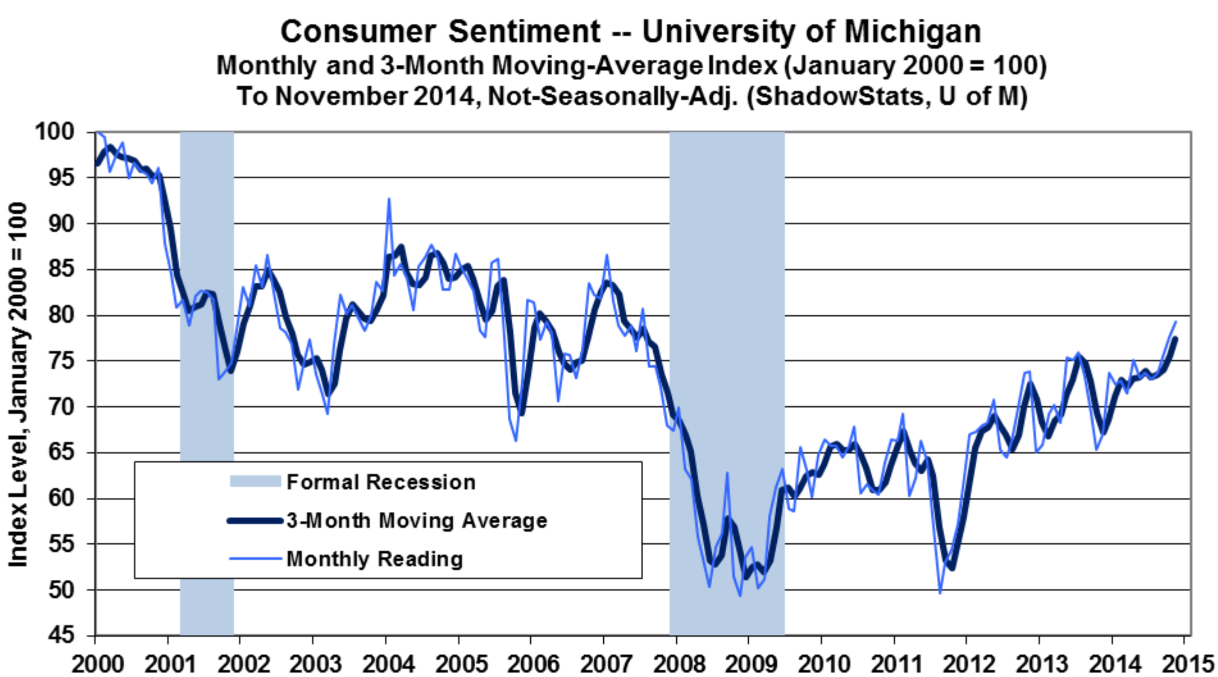
Consumer Conditions—November 2014—Liquidity Issues Restrict Personal Consumption and Housing Activity. Discussed often in these *Commentaries* and updated here, the primary structural issue preventing meaningful, domestic U.S. economic growth remains impaired consumer liquidity. Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including not only retail sales, but also residential investment and related construction spending.

The first two graphs following show detail through November 2014 for the Conference Board's Consumer seasonally-adjusted Confidence Index and the University of Michigan's not-seasonally-adjusted Consumer Sentiment Index, updated respectively yesterday and this morning (November 26th). Although confidence fell and sentiment rose in November, both series remain at levels typically seen in recessions. As shown in the third graph following, the latest readings of both confidence and sentiment still have not recovered levels that preceded any of the formal recessions of the last 40 years, and they generally remain well below, or inconsistent with, periods of historically-strong economic growth that would rival recent headline GDP gains.

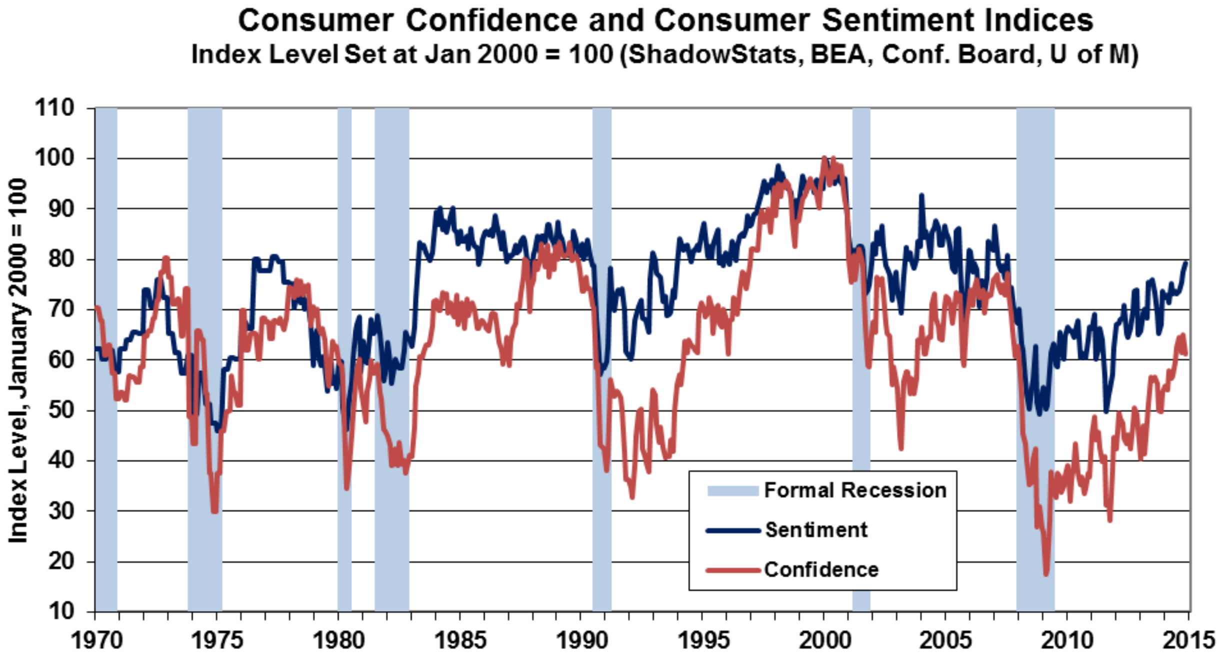
There has been no economic recovery here, contrary to the full recovery and new and continuing economic expansion in headline GDP activity that purportedly followed the plunge in economic activity into 2009. Instead, as indicated in these and other consumer-related measures, reality remains that the economic plunge into 2009, has been followed by a period of prolonged, low-level stagnation, albeit with some uptrend in activity, but no recovery. The economic data suggest a renewed downturn is underway (see comments in the prior *Commentary No. 677*).



Consumer Confidence -- Conference Board
Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To November 2014, Seasonally-Adjusted (ShadowStats, Conference Board)
Index Level, January 2000 = 100
100
90
80
70
60
50
40
30
20
10
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Formal Recession
3-Month Moving Average
Monthly Reading



Consumer Sentiment -- University of Michigan
Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To November 2014, Not-Seasonally-Adj. (ShadowStats, U of M)
Index Level, January 2000 = 100
100
95
90
85
80
75
70
65
60
55
50
45
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Formal Recession
3-Month Moving Average
Monthly Reading



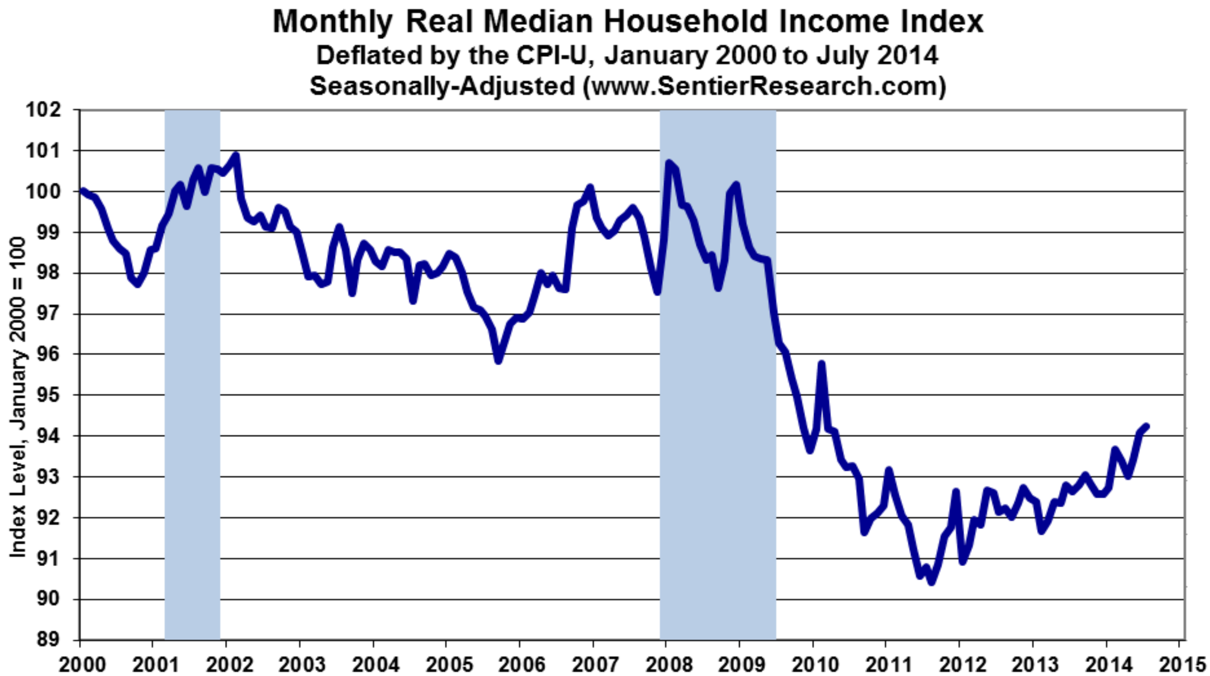
The next two graphs show monthly real median household income through July 2014, as reported by www.SentierResearch.com, and the September 2014 detail for the Federal Reserve's series on consumer credit outstanding. Neither graph there has been updated since their last posting in *Commentary No. 673*.

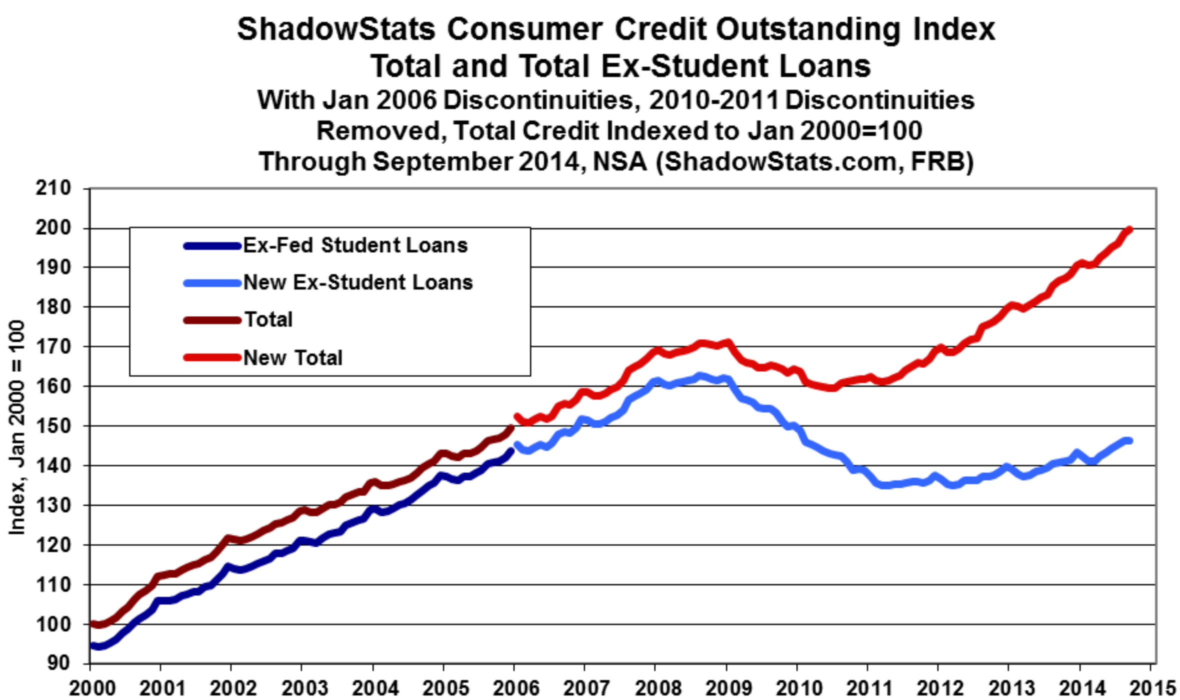
Real median household income showed continued income stagnation through July 2014. When headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows. Deflated by headline CPI-U, the same series, published by the Census Bureau on an annual basis (*Commentary No. 658*), showed further that 2013 annual real median household income held at a low level of activity, at levels that also had been seen in the late-1960s and early-1970s.

Sentier Research prepares its data from what otherwise is unpublished monthly detail available from the Census Bureau. A change in Census Bureau sampling has affected the current reporting of that detail, creating issues for Sentier, as indicated by this note that remains on the Sentier site:

"Future releases of monthly income trends reports are pending our analysis of the effects of changes in the Current Population Survey sample design that result from the introduction of information derived from the 2010 Decennial Census." Further detail is provided here, and ShadowStats will keep you posted as to developments.

Growth in consumer credit, post-2008 Panic, has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption growth. The upside notch in September 2014 student-loan activity reflected the regular seasonal jump at the beginning of the school year, while the subsequent October activity flattened out. These disaggregated data are available only on a not-seasonally-adjusted basis and are so plotted.





[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 *Summary* has not been changed from the updated version in yesterday's *Commentary No. 677*, which adjusted for details tied to the second estimate of third-quarter 2014 GDP.

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. The outlooks also are updated in regular *Commentaries*, such as *Commentary No. 661*, *Commentary No. 664*, and *Commentary No. 672*, and the *Opening Comments* of *Commentary No. 673* should be considered in terms of near-term, proximal triggers for massive dollar selling. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts.

Hyperinflation Timing Shifted to 2015. Discussed in the *Opening Comments* of *Commentary No. 673*, as 2014 draws to a close, the U.S. dollar has strengthened significantly in recent months, instead of being dumped in a panicked sell-off as predicted for 2014. Nonetheless, the outlook for the dollar panic remains in place. It could be triggered or otherwise just start at any time, with little or no warning, and still before year-end.

From a practical standpoint, though, where a dollar-selling panic will be the likely immediate precursor to and trigger of the early stages of a hyperinflation, the outlook for the timing of the hyperinflation as detailed in the *Hyperinflation Reports* has been shifted to 2015, from 2014. I had put 80% odds in favor of the hyperinflation breaking this year, in 2014. Other than for the calendar shift, the general outlook was not changed, with the ultimate currency panic and financial crises still highly likely in the very near-term (80%), virtual certainties (95% in the not-so-distant future, *i.e.*, the year ahead).

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 (see *Commentary No. 672*). 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 2014-2015 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 earlier). The following sections summarize 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. Further, a sharp deterioration in near-term domestic U.S. political stability appears to be developing and is of meaningful near-term risk for triggering heavy selling of the dollar.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals*.** U.S. economic activity is turning down anew, despite overstated growth in recent GDP reporting. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom and continued strong headline GDP growth in third-quarter 2014 were not. The more-recent data appear to have been spiked, at best, by overly-optimistic assumptions on the part of the Bureau of Economic Analysis (BEA). At worst, the bloated growth estimates reflect heavy political massaging. Where third-quarter GDP still may see some near-term downside revision, both second- and third-quarter 2014 GDP growth patterns should suffer heavy downside revisions in the July 30, 2015 benchmark revision. The weak, underlying economic reality should become increasingly and painfully obvious to the financial markets in the domestic economic reporting and accompanying data revisions of the weeks and months ahead, including early indications for an outright contraction in fourth-quarter 2014 GDP.

As expanded upon in the *Opening Comments* of yesterday's *Commentary No. 677*, recent reporting of relatively hard annual numbers from 2013 showed ongoing economic contraction, with no trend towards sustainable economic growth (see *Commentary No. 656*). Also, discussed in *Commentary No. 668*, actual business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis in putting together the overstated third-quarter GDP growth estimate—has been flat-to-minus, with real sales of the S&P 500 showing a decline in third-quarter 2014 activity. Further, Main Street U.S.A. remains the ultimate judge of actual economic activity, and the 2014 election results and related exit polling confirmed no post-Panic economic recovery (see *Commentary No. 672*).

Despite short-term pre-election fluff, those basic underlying and increasingly-negative economic conditions should show with mounting frequency in various series, such as the trade deficit, retail sales, industrial production, payroll employment and inventories, 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 negatively roiling the extraordinarily unstable financial markets.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, 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 "tapering" by the FOMC finally has run its course. Future, constructive Federal Reserve behavior—purportedly moving towards normal monetary conditions in the currently unfolding, perfect economic environment—is pre-conditioned by a continued flow of "happy" economic news. Suggestions that all is right again with world are nonsense. The 2008 Panic never has been resolved, and the Fed soon will find that it has no easy escape from its quantitative easing.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

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 only a prop to the increasingly unstable equity markets (see *Commentary No. 663*).

In the event of QE4, any resulting renewed boost to U.S. equities 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 (see *Commentary No. 672*).

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 widening trade deficit (an initial improvement reported for the third-quarter 2014 trade balance should prove to be transitory, with a negative first revision already in place), 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 (see today's *Opening Comments*). Sharply-negative economic reporting shocks, versus unrealistically-positive consensus forecasts, remain a heavily-favored, proximal trigger for the pending dollar debacle.

- ***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. The impact of the shift in control of Congress will be assessed in the weeks ahead, but the change does not appear likely to alter the systemic willingness to address the underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. 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. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details are discussed in *Commentary No. 672*.

- ***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 end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit, as discussed in *Commentary No. 672*. The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually 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. The positive rating for the President is at an historic low, post-election. Early post-election activity continues to show disintegrating chances of a shift towards constructive cooperation between the White House and the new Congress in addressing fundamental issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues, let alone addressing the contentious immigration circumstance. Conditions here still could devolve rapidly into an extreme political crisis (see *Opening Comments* of *Commentary No. 673*)

- ***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 ongoing 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 continue to expand. In particular, anti-dollar rhetoric and actions 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.

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (October 2014)

October New Orders were Flat, Net of Inflation; Initial Fourth-Quarter Activity was Flat-to-Down. Annualized quarterly growth in inflation-adjusted (real) new orders—ex-commercial aircraft—slowed sharply in third-quarter 2014, to a revised 4.2% (previously 3.4%), down from an unrevised 14.9% in second-quarter 2014, and it turned negative for fourth-quarter activity, using headline-October reporting as a surrogate number for the quarter. If real fourth-quarter orders held at October's level, annualized quarterly change in fourth-quarter 2014 activity would be a decline of 0.9% (-0.9%).

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, up by 315.6%, and down by 74.0% (-74.0%) respectively. They were followed by a smaller commercial-aircraft order decline in September of 16.0% (-16.0%), and a negligible order decline of 0.1% (-0.1%) in October, all before inflation adjustment. Current order 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 the minimal decline in commercial-aircraft orders, headline October 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 in the *Opening Comments* section. They remain broadly stagnant and of a nature that commonly precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) October 2014 Reporting. The Census Bureau reported today, November 26th, that the regularly-volatile, seasonally-adjusted, nominal level of October 2014 new orders for durable goods rose by a headline 0.04% for the month, following a revised decline in September of 0.89% (-0.89%) [previously down by 1.32% (-1.32%)] and a revised August decline of 18.30% (-18.30%) [previously down by 18.34% (-18.34%), initially down by 17.99% (-17.99%)]. Net of prior-period revisions, October aggregate new orders rose by 0.09% for the month.

Year-to-year and seasonally-adjusted growth in October 2014 durable goods orders rose by 5.51%, versus a revised 3.78% [previously 3.37%] gain in September and a revised 8.75% [previously 8.69%, initially 8.94%] gain in August.

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 particularly-mild monthly headline decline of 0.08% (-0.08%) in October commercial aircraft orders, October aggregate orders rose by 0.44% for the month. Net of a revised headline decline in September commercial aircraft orders of 16.00% (-16.00%) [previously down by 16.09% (-16.09%)], aggregate orders rose by a revised 0.32% [previously a decline of 0.13% (-0.13%)]. Net of an unrevised 74.00% (-74.00%) plunge in August commercial-aircraft orders, aggregate orders for durable goods fell by a revised 1.34% (-1.34) [previously and initially down by 1.40% (-1.40%)].

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 August 2014 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—October 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 positive 0.42% monthly pace of inflation in October, following a negative 0.06% (-0.06%) pace of monthly inflation in September, with headline annual inflation at 1.33% in October 2014, versus 1.34% in September.

Adjusted for that inflation, and again as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders declined by 0.02% (-0.02%) in October, versus a revised September monthly decline of 0.83% (-0.83%) [previously down by 1.26% (-1.26%)], following a revised August decline of 18.30% (-18.30%) [previously down by 18.44% (-18.44%)]. Ex-commercial aircraft, real orders rose by 0.02% in October, following a revised September gain of 0.38% [previously a decline of 0.07% (-0.07%)] and a revised drop of 1.46% (-1.46%) [previously down by 1.52% (-1.52%)] in August.

Real year-to-year aggregate orders rose by 4.12% in October, versus a revised 2.41% [previously 1.91%] gain in September and a revised 7.31% [previously 7.25%] gain in August. Ex-commercial aircraft, orders rose year-to-year by 3.73% in October, versus a revised 5.55% [previously 5.01%] gain in September and a revised 3.20% [previously 3.15%] gain in August.

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 (October 2014)

Third-Quarter Sales Revised Lower; Broad Pattern of Ongoing Stagnation Continued. A lack of stability continued with the Census Bureau's headline monthly reporting of new-home sales in October. As seen in the revised *Opening Comments* graph of *New-Home Sales Reporting and Revisions*, headline reporting remained extremely unstable. 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. As seen with October 2014's plotted blue line of activity (extreme right hand side of the graph), meaningful revisions continued month-after-month, where all months in third-quarter 2014 just were revised lower.

In such an environment, one approach to assessing these data on a 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 October 2014 new-home sales activity still was down by 67.0% (-67.0%) from the pre-recession peak of July 2005, while October single-unit housing starts were down by 61.7% (-61.7%) from the January 2006 high of that series. As discussed in the *Opening Comments*, 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.

October 2014 New-Home Sales Consistent Within a Broad Pattern of Stagnation. As reported by the Census Bureau, today, November 26th, in the context of downside revisions to the headline monthly sales of the prior three months, October headline new-home sales (counted based on contract signings) gained a statistically-insignificant 0.7% +/- 19.1% (all confidence intervals are at the 95% level). In turn, September sales revised to a 0.4% gain (previously up by 0.2%), but the September sales level was down

2.7% (-2.7%) from its initial headline reporting, due to earlier downside revisions in the data. Net of prior period revisions, October's sales fell by 1.9% (-1.9%) for the month.

Year-to-year, October 2014 sales rose by a statistically-insignificant 1.8% +/- 20.4%. That followed a revised annual gain of 13.5% (previously up by 17.0%) in September.

New-Home Sales Graphs. The regular comparative 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, the six-month moving average version of October housing starts for single-unit construction, plus October existing-home sales, all included for comparison.

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WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases and Revisions Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger. Shifting some to the downside, again, from the upside, amidst wide fluctuations in the numbers, market expectations for business activity still are overly optimistic in the extreme. They exceed any potential, underlying economic reality. Continuing, downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting, however, increasingly should hammer those expectations.

Longer-Range Reporting Trends. While gradual process of downside shifting in economic-growth expectations has been sporadic, underlying fundamental activity has remained extraordinarily negative. Allowing for the nonsense-growth in the headline second-quarter and third-quarter GDP (see *Opening Comments* of *Commentary No. 677*), renewed weakness has been, and increasingly will be seen in the post-election headline reporting of other major economic series (see *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*). Indeed, weaker-than-consensus economic reporting should become 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 (which most likely will involve reporting of fourth-quarter 2014 GDP).

A generally stronger consumer inflation trend remains likely, as seen before August, although headline inflation is muted at present by a temporary decline in oil prices. 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, covert financial sanctions against Russia that are pushing oil prices lower.

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). Combined with recent allegations (see *Commentary No. 669*) of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Construction Spending (October 2014). The Commerce Department has scheduled release of October 2014 construction spending for Tuesday, December 2nd. The headline monthly change, as usual, should not be statistically significant, while previous data will be subject to large and unstable revisions. Most frequently, revisions are to the downside, irrespective of the almost perpetually-positive market expectations (as is the case for the headline October number) for this series.

U.S. Trade Balance (October 2014). The Commerce Department and Bureau of Economic Analysis (BEA) will release their estimate of the October 2014 trade-balance on Friday, December 5th. The October trade deficit estimate and revisions to September should set a further negative net-export account related tone for the second revision (December 23rd) to third-quarter GDP growth, as well as to suggest a negative pace for the first-estimate of fourth-quarter 2014 GDP on January 30th.

The October deficit (and September in revision) likely will continue to widen sharply, month-to-month, versus market expectations that are for a small monthly deterioration, again with some downside revision pressure indicated for the "final" estimate of third-quarter GDP headline growth.

Employment and Unemployment (November 2014). The Bureau of Labor Statistics (BLS) will release its November 2014 labor data on Friday, December 5th. Given continuing indications of weakening broad economic activity, and the heavy, regular distortions in the headline reporting of monthly nonfarm payroll gains, almost anything is possible with the headline November reporting.

Payrolls. Nonetheless, the system remains due for continuing, negative surprises against persistently overly-optimistic market expectations for nonfarm payrolls. Below-consensus reporting in the November payroll numbers would intensify the unfolding negative tone for fourth-quarter GDP activity, and for the variety of monthly economic indicators due for release in the ensuing month.

As published previously by ShadowStats-affiliate www.ExpliStats.com, in its analysis of the biases built into the concurrent seasonal factor modeling of October 2014 payroll employment, the implied built-in bias trend is for a November 2014 headline jobs gain of 232,000, versus the below-consensus 214,000 headline payroll employment gain reported in October. Where consensus forecasts tend to settle in around the trend number, market expectations for November already seem to be running near trend, at 230,000 per an early estimate on MarketWatch. Even so, underlying economic reality would suggest a downside reporting surprise to trend and to the market expectations for payrolls.

Unemployment. A reversal is likely of last month's distorted seasonally-adjusted surge in the "employed" component of the labor force (see *Commentary No. 672*). Headline "employed" should contract in the November numbers, with the headline unemployment rate moving higher, in this statistically-flawed series.

Still, early expectations appear to be for the November U.3 unemployment rate to notch lower from the artificially-depressed 5.8% headline level of October. In the current circumstance, 5.7% or 5.8% is a seriously troubled level of unemployment, where many of those who have disappeared from the unemployment rolls have been unable to find work and have given up looking for a job, instead of the much happier circumstance of rejoining the ranks of the employed.

While underlying economic reality and the fundamental drivers of economic activity would suggest a general increase in the U.3 rate, the BLS's continuing purge of discouraged workers from the unemployment rolls and headline labor force could argue in favor of a lower rate. Nonetheless, last month's household-survey reporting distortions should be good for a headline jump in U.3.

Also discussed regularly in the employment/unemployment-related *Commentaries*, month-to-month comparisons of U.3 and related numbers are of no meaning, because of the standard, inconsistent reporting calculations tied to concurrent seasonal-factor adjustments, which leave the monthly data not comparable (see discussions in *Commentary No. 672*).

If U.3 does drop again, as expected, there should be additional labor-force loss associated with those relative, but still-not-comparable headline numbers. The broader U.6 and ShadowStats unemployment measures still would tend to hold, or increase anew, at their broader and higher respective levels. All the Labor Department numbers remain unsettled and could come in well outside general expectations.

