

**COMMENTARY NUMBER 684**  
**GDP Revision, November Durable Goods, New- and Existing-Home Sales**  
**December 23, 2014**

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**Booming GDP – Strongest Growth in More than a Decade Is Nonsense**

**Magnitude of GDP Revisions Suggests Unstable Data and  
Unusual Internal-Reporting Issues at Bureau of Economic Analysis**

**Basic Durable Goods Orders Slowed Sharply in Third-Quarter 2014,  
On Track for Fourth-Quarter Contraction**

**Home Sales Also Showed Patterns of Stagnation and Renewed Downturn**

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*PLEASE NOTE: the year-end Special Commentary, scheduled for Monday, December 29th, will review developments of the year past and preview likely developments of the year ahead. Regular Commentaries will resume, on Wednesday, January 7th, covering the November trade deficit and construction spending, followed by one on Friday, January 9th, covering December employment and unemployment.*

*Merry Christmas and best wishes to all for a most-joyous holiday season! — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Headline GDP Reporting Simply Is Not Credible.** If the headline GDP numbers are to be believed, the current, fully-recovered U.S. economy is booming along in a manner not seen since 2003. Annualized 4.6% growth in second-quarter GDP accelerated to 5.0% growth in third-quarter activity, per today's

(December 23rd) revised reporting. Various indicators, however, including common experience, confirm that such a boom is not happening in the real world. Separately, the recent pattern of unusually-volatile GDP revisions suggests some internal difficulties with the gathering, compilation, guesstimation and/or reporting of the headline data at the issuing Bureau of Economic Analysis (BEA).

Contrary to the GDP reporting, real sales of companies in the S&P 500 (deflated by the CPI-U) never recovered pre-recession levels, have been stagnant in recent quarters, and turned down quarter-to-quarter in third-quarter 2014 (see [Commentary No. 677](#)). Further, economic issues surrounding the midterm election results and related exit polling also were consistent with a current economic contraction, not an expansion (see [Commentary No. 672](#)).

Separately, other headline reporting covered in today's *Commentary* showed the latest home sales numbers and basic (ex-commercial aircraft) durable goods orders slowing sharply in third-quarter growth, relative to second-quarter growth, along with indications of developing fourth-quarter contractions in those series. In addition, discussed most recently in [Commentary No. 680](#), structural liquidity issues continue to constrain consumer activity, not only limiting potential current economic growth, but also making the purported recovery in GDP activity a practical impossibility.

Aside from the robust headline GDP growth lacking confirmation in a number of areas, the patterns of regular revisions to the headline GDP data have been unusually volatile in the post-2014 GDP benchmark-revision period. Per the BEA, the average revision between the second and third estimates (first and second revisions) for real headline GDP growth, in the 27 years before the 2014 benchmark revision, was 0.0% (0.2% without regard to sign).

Where second revisions to headline GDP reporting normally are little more than statistical noise, the second revision to second-quarter GDP growth took the headline pace of gain in the first revision from 4.2% (initially 3.9%) to 4.6%, while the second revision to third-quarter GDP growth took the headline gain in the first revision from 3.9% (initially 3.5%) to 5.0%. With an average upside revision of 0.8% in the second-revisions for the last two-quarters, the magnitudes of those revisions are statistical outliers.

Beyond the reporting gimmicks normally discussed here (see the general GDP text following), something unusual is askew in the BEA's current sampling, assumptions or other aspects of the reporting process. One obvious element is in the "healthcare" category, and in the instabilities and inconsistencies of the headline data tied to the Affordable Care Act (Obamacare). An upside revision in the "healthcare" category was the largest single contributing factor to the latest upside revision in third-quarter 2014 GDP.

These issues will be covered more broadly in the pending *Special Commentary*.

**Today's Missive.** The *Commentary* concentrates on the headline reporting of the third estimate of third-quarter GDP, November 2014 new orders for durable goods and November existing- and new-home sales, both in these *Opening Comments* and in the *Reporting Detail* section.

The *Hyperinflation Summary* is unchanged, pending an update subsequent to the *Special Commentary*. With no major economic releases due until the New Year, the *Week Ahead* section is dormant in this *Commentary*.

The December 29th *Special Commentary* will review developments of the year past and preview likely developments of the year ahead.

**Gross Domestic Product (GDP)—Third-Quarter 2014, Second Revision—Indeed the Most**

**Distorted of Series.** The GDP remains the most-worthless and the most-heavily modeled, massaged and politically-manipulated of government economic series. At its core, the GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. It does not even come close to measuring what most people would consider to be actual economic activity, for that matter.

Beyond historical changes in reporting methodology that have structured long-range upside biases into headline GDP growth, a special-purpose political/financial-market manipulation maybe or may have been a factor in recent and current reporting. Discussed previously, such activity has historical precedent.

The financial markets, the popular press and politicians rely heavily on the headline GDP. The numbers are flawed and the markets are heavily out of balance, partially as a result. Current headline reporting simply is not credible, and, again, recent large headline revisions may be indications of reporting stresses within the Bureau of Economic Analysis (BEA) system, issues that will be explored further in the pending *Special Commentary*. The economic system and the related reporting usually become self-correcting, and such promises some unusual and likely unstable times ahead.

**Gross Domestic Product (GDP).** The third estimate of, second revision to, third-quarter 2014 GDP was a statistically-significant, real (inflation-adjusted), annualized, quarterly headline gain of 4.97%. Third-quarter growth previously had been estimated at 3.89%, initially estimated at 3.55%. While the annualized GDP revised higher by about 1.1%, the gross national product (GNP) revised higher by about 1.5%, but gross domestic income (GDI) only revised higher by about 0.2%. Such differences in revisions are unusual, reflect different factors, but also are suggestive of unstable and rapidly shifting circumstances. This will be discussed further in the *Special Commentary*.

The new headline third-quarter GDP growth of 4.97% now is stronger than the headline 4.59% growth of second-quarter 2014. First-quarter 2014 GDP reflected a benchmarked 2.11% contraction (-2.11%). Both the second- and third-quarter 2014 GDP estimates should face significant downside revisions in the annual benchmarking and revisions due on July 30, 2015.

As graphed in the *Reporting Detail*, headline year-to-year growth in real third-quarter 2014 GDP revised to 2.70% (previously 2.43%, initially 2.35%), versus 2.59% annual growth in the second-quarter and versus benchmarked growth of 1.89% (1.54% pre-benchmark) in the first-quarter.

**Implicit Price Deflator (IPD).** The third estimate of third-quarter 2014 GDP inflation, or the implicit price deflator (IPD), was 1.38%, versus 2.15% in second-quarter 2014, and a benchmarked 1.33% in first-quarter 2014. Year-to-year, third-quarter 2014 IPD inflation was an unrevised 1.57%, versus 1.64% in second-quarter 2014 and a benchmarked 1.37% in first-quarter 2014. The weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

For comparison, on a seasonally-adjusted, annualized quarter-to-quarter basis, CPI-U inflation published by the Bureau of Labor Statistics (BLS) was up by 1.10% for third-quarter 2014, versus 3.03% for second-quarter 2014 and 1.91% for first-quarter 2014. Unadjusted, year-to-year quarterly inflation was 1.78% for third-quarter 2014, versus 2.05% for second-quarter 2014 and 1.41% for first-quarter 2014.

**Gross National Product (GNP).** GNP is the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as Greece and the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of GNP.

The headline annualized quarterly-growth rate in the second estimate, first revision of real third-quarter 2014 GNP was 5.28% (previously 3.80%), up from 4.57% in the second-quarter, and a benchmarked 2.81% (-2.81%) contraction in first-quarter 2014. Year-to-year change revised to 2.64% (previously 2.28%) in third-quarter 2014, versus 2.53% in the second-quarter 2014 and a benchmarked annual gain of 1.86% in first-quarter 2014. The larger relative upside revision to GNP growth versus GDP growth was tied directly to an upwardly revised estimate of income receipts from the rest of the world.

**Gross Domestic Income (GDI).** GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a “statistical discrepancy” to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number.

The second estimate, first revision of the headline annualized quarterly-growth rate in real third-quarter 2014 GDI revised to 4.68% (previously 4.48%), well shy of the net upside 1.1% second revision to third-quarter GDP, versus unrevised headline growth of 3.95% in second-quarter 2014, and a 0.78% (-0.78%) contraction in first-quarter 2014. Year-to-year change was a revised 2.40% (previously 2.35%) in third-quarter 2014, versus 1.72% in second-quarter 2014 and 1.41% in first-quarter 2014.

The GNP is suffering distortions similar to the headline GDP, but the GDI still is on something of a separate course, as will be explored in a later *Commentary*.

**Distribution of Headline GDP Growth.** Despite the severely-limited significance of the following detail, it is included for those interested in the reported internal patterns of GDP growth, as guessed at by the BEA. The third guesstimate of, second revision to, the headline growth in third-quarter 2014 GDP, was 4.97% (previously 3.89%, initially 3.55%, which rounded to 3.5%, following 4.59% growth in second-quarter 2014, and a contraction of 2.11% (-2.11%) in first-quarter 2014 GDP.

The revised, annualized third-quarter growth rate is detailed in the following aggregation of contributed growth. Please note that the annualized growth number in each sub-category is the additive contribution to the aggregate, headline change in GDP, where  $2.21\% + 1.18\% + 0.78\% + 0.80\% = 4.97\%$ .

- **Consumer Spending Contributed 2.21% (Previously 1.51%, Initially 1.22%) to Third-Quarter Growth; Contributed 1.75% to Second-Quarter.** An upside revision to personal consumption dominated the upside revision to headline GDP growth (0.70% of 1.08%), where the dominant upside revision in consumer spending was in healthcare, which contributed 0.30% of the 0.70%. Otherwise, the remaining 0.40% new growth from consumer spending was broadly spread across the category.
- **Business/Residential Investment Contributed 1.18% (Previously 0.85%, Initially 0.17%) to Third-Quarter Growth; Contributed 2.87% to Second-Quarter.** The 0.33% contributed here to the 1.08% upside revision included primarily 0.11% from nonresidential construction, 0.10% from

the recently-invented GDP category of intellectual properties, and 0.09% from inventories. Net of inventories, final sales rose by 5.03%.

- ***Net Exports Contributed 0.78% (Previously 0.78%, Initially 1.32%) to Third-Quarter Growth; Subtracted 0.34% (-0.34%) from Second-Quarter.*** The net export account could have deteriorated slightly, given the October trade detail, but it did not. Generally in line with a softer narrowing of the trade deficit indicated in the September reporting, the initial estimate of growth contribution here was cut by 0.54%. Based on the October trade deficit, this account should swing sharply from contributing growth to the third-quarter 2014 GDP, to subtracting growth from the fourth-quarter 2014 GDP.
- ***Government Spending Contributed 0.80% (Previously 0.76%, Initially 0.83%) to Third-Quarter Growth; Contributed 0.31% to Second-Quarter.*** A surge in quarterly defense spending still contributed 0.66% to the aggregate GDP growth rate. The 0.04% upside revision to growth contribution from the category primarily was in spending by state and local governments, likely tied to Obamacare distortions.

***Economic Reality.*** Even with the headline third estimate of annualized third-quarter 2014 GDP growth at 4.97%, following 4.59% growth in second-quarter 2014 and a contraction of 2.11% (-2.11%) in first-quarter 2014, the general outlook as to underlying economic reality has not changed. The broad economy still is turning down anew, and a wide variety of monthly economic detail still should confirm that in reporting of the months ahead, including a sharp slowing of growth or outright contraction in the "advance" estimate of fourth-quarter GDP on January 30th. Serious downside revisions to recent GDP reporting also are likely come the annual benchmark revision in the GDP series scheduled for July 30, 2015. Accordingly, the gist of much of the following text remains along the lines of other recent GDP *Commentaries*, but the details and numbers have been updated for the latest third-quarter reporting.

Discussed frequently, the GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. Underlying real-world economic activity shows that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in recent quarters. Irrespective of the reporting gimmicks introduced in the July 2013 and July 2014 GDP benchmark revisions, a consistent, fundamental pattern of faltering historical activity is shown in the accompanying sets of “corrected” GDP graphs.

Please note that the pattern of activity shown for the “corrected” GDP series is much closer to the patterns shown in the graphs of monthly real median household income and other liquidity measures. Similar patterns are found in recent indications of annual consumer expenditures (see [Commentary No. 656](#) and [Commentary No. 673](#)) and economic series not otherwise reliant on understated inflation for their reported growth, such as housing starts (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) and the opening paragraphs of the *Opening Comments*). A sustainable business recovery could not have taken place since 2009, and a recovery will not be forthcoming until the consumer’s structural income and liquidity problems are resolved.

***Official and Corrected GDP.*** As usually discussed in the *Commentaries* covering the quarterly GDP reporting and monthly revisions, the full economic recovery indicated by the official, real GDP numbers remains an illusion. It is a statistical illusion created by using too-low a rate of inflation in deflating



(removing inflation effects) from the GDP series. The accompanying two sets of graphs tell that story, updated for the second estimate of third-quarter 2014 GDP.

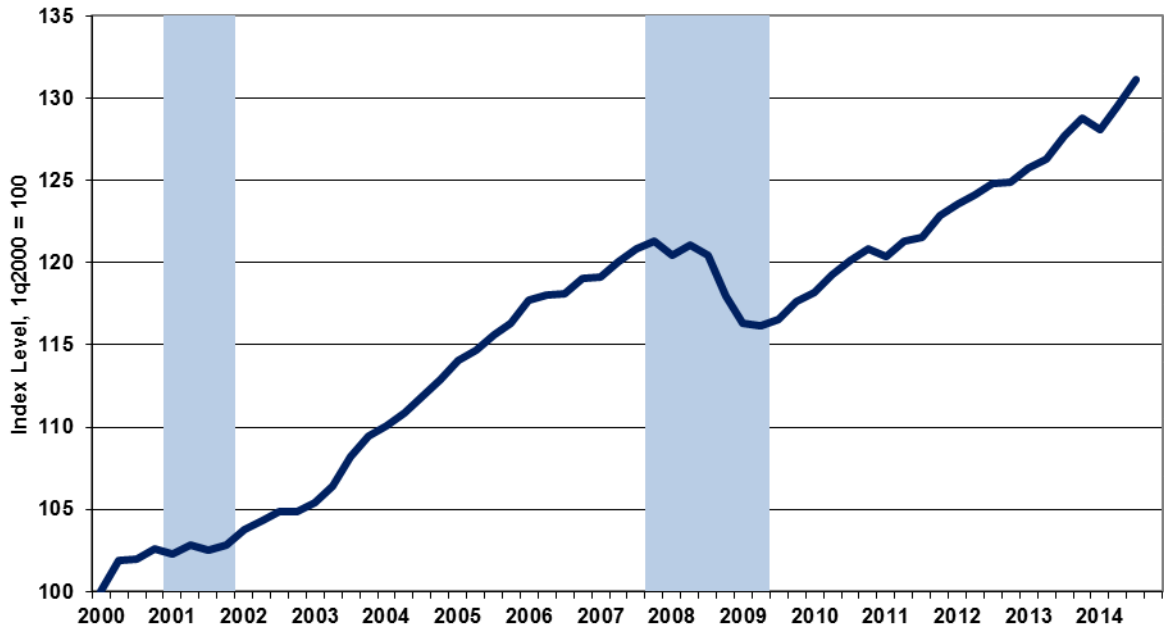
The first set of graphs (2000-to-date) is the one traditionally that has been incorporated in the *GDP Commentaries*, and is expressed on an index base where first-quarter 2000 = 100.0. The second set updates the longer-term graphs (1970-to-date), expressed in billions of 2009 dollars as used in headline GDP reporting, and as published initially in the second installment of the *Hyperinflation Report* (linked above).

Shown in the first graph of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011, and headline GDP has shown sustained growth since (with a growth interruption in first-quarter 2014). Adjusted for official GDP inflation (the implicit price deflator), the level of third-quarter 2014 GDP currently now stands at 8.1% above the pre-recession peak-GDP estimate of fourth-quarter 2007. In contrast, the “corrected” GDP version, in the second graph, shows third-quarter 2014 GDP activity at 6.2% (-6.2%) below the pre-recession peak of first-quarter 2006.

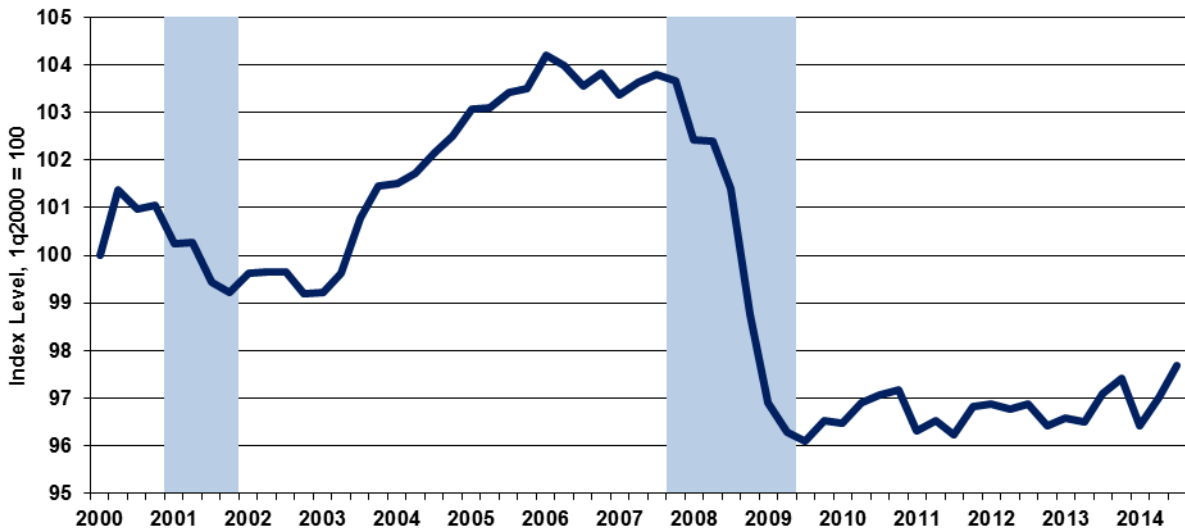
Further, as discussed in the second installment of the *Hyperinflation Report*, no other major economic series has shown a parallel pattern of official full economic recovery and meaningful expansion beyond, consistent with the GDP reporting (see discussions on the real retail sales series in [Commentary No. 683](#) and the industrial production series in [Commentary No. 681](#), as well as the real durable goods orders series discussed in this *Commentary*). Either the GDP reporting is wrong, or all other major economic series are wrong. While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to survey real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the “recovery.”

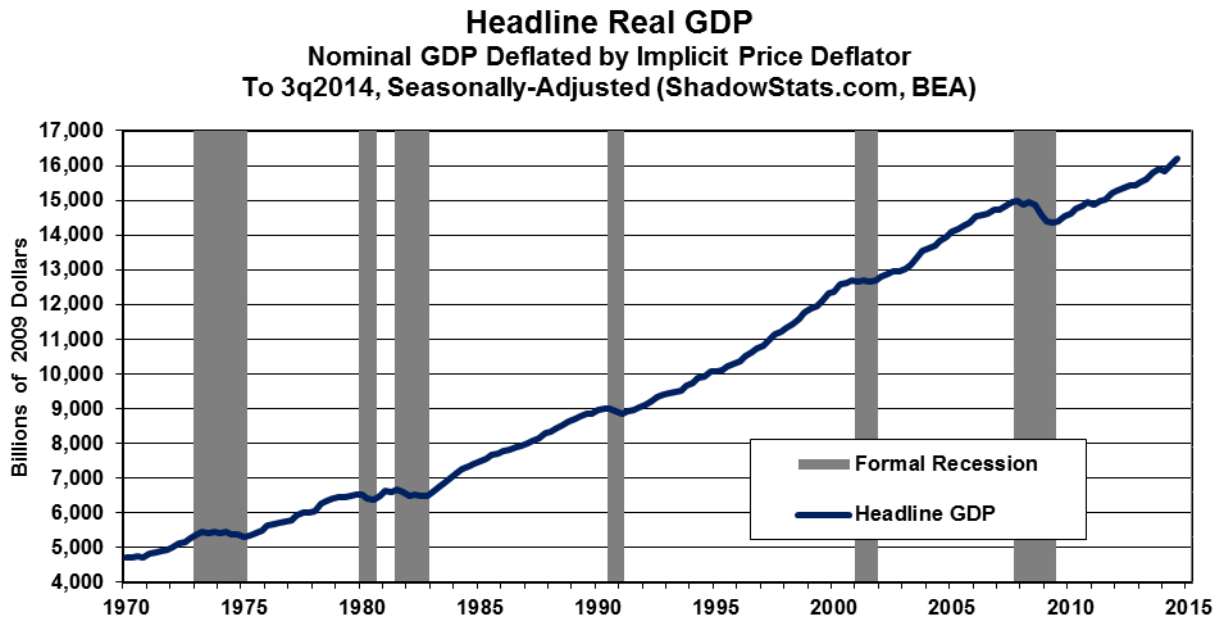
The second graph in each series plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see [Public Commentary on Inflation Measurement](#)), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation. The inflation understatement has resulted from hedonic-quality adjustments, as discussed in the *Hyperinflation Reports*. Both graphs in the first set are indexed to first-quarter 2000 = 100, and show official periods of recession as shaded areas.

**Headline Real GDP**  
Nominal GDP Deflated by Official Implicit Price Deflator  
To 3q2014, Seasonally-Adjusted (ShadowStats.com, BEA)

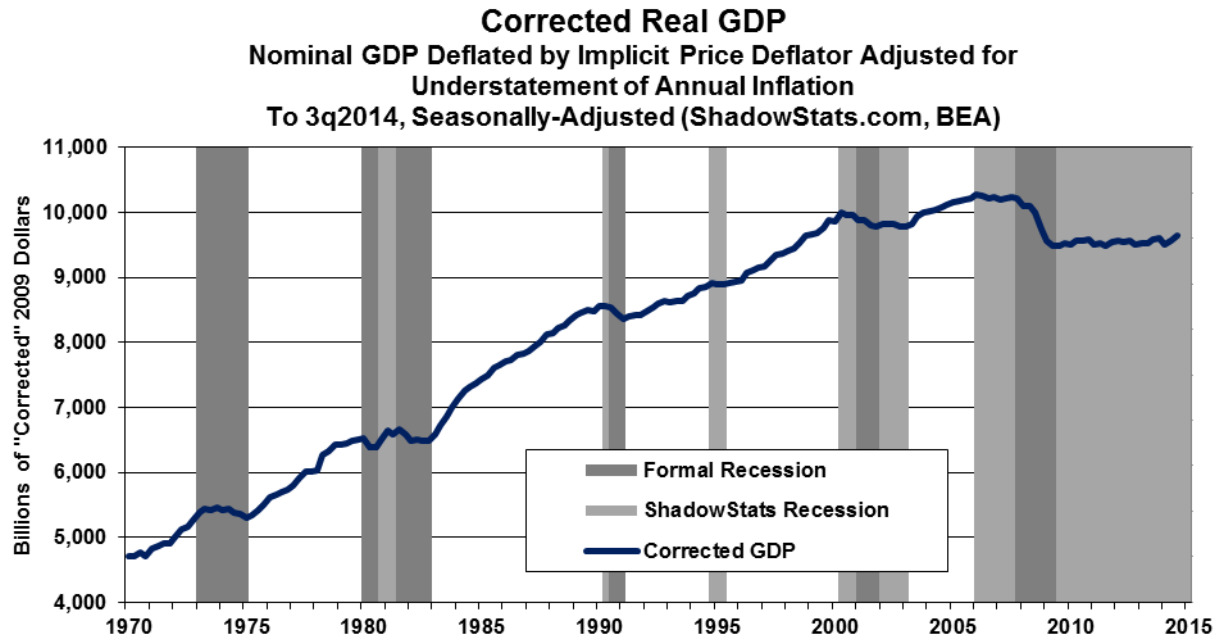


**Corrected Real GDP**  
Nominal GDP Deflated by Implicit Price Deflator Corrected for  
Roughly Two-Percentage Point Understatement of Annual Inflation  
To 3q2014, Seasonally-Adjusted (ShadowStats.com, BEA)





The shaded areas in the “corrected” graph that follows reflect official as well as ShadowStats-defined recessions, again as discussed in detail in the second installment of the *Hyperinflation Report*.





**New Orders for Durable Goods—November 2014—Basic Orders Slowed Sharply in the Third-Quarter and Have Contracted, So Far, in the Fourth-Quarter.** The massive order for commercial aircraft received by Boeing from the Emirates largely was booked in the July 2014 surge in new orders for durable goods, and not in November as reported in some press. Accordingly, the headline monthly change in the highly volatile category of new orders for nondefense aircraft and parts was a minimal 0.6% gain for November, leaving the activity for basic durable goods orders (net of commercial aircraft) down by a headline 0.8% (-0.8%), about even with the monthly 0.7% (-0.7%) decline in the aggregate series.

Annualized quarterly growth in inflation-adjusted (real) basic new orders—ex-commercial aircraft—appears headed for a contraction in fourth-quarter 2014, having slowed sharply in the third-quarter to revised 4.3% growth, down from an unrevised 14.9% gain in second-quarter 2014. If real fourth-quarter orders held at the average level of October and November headline reporting, annualized quarterly change in real fourth-quarter 2014 activity would be a decline of 2.4% (-2.4%).

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% (again included the Emirates), 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%), a revised, negligible order gain of 0.8% in October, and a headline 0.6% gain in November, all before inflation adjustment.

Current order activity and the recent extreme volatility are seen in the first of the four accompanying graphs of the new-orders series. The basic series (net of commercial aircraft) is second. All the graphs are adjusted for inflation. Both before and after consideration of the minimal gain in commercial-aircraft orders, headline November durable goods orders remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of ongoing stagnation.

The smoothed inflation-adjusted real series, ex-commercial aircraft, and that same series corrected for understatement of the official inflation series the third and fourth graphs. That fourth graph shows the plot of new orders that perhaps is the most relevant to looming production activity. The series remain broadly stagnant with a developing downtrend that commonly precedes or coincides with a recession or deepening business downturn.

**Nominal (Not-Adjusted-for-Inflation) November 2014 Reporting.** The regularly-volatile, seasonally-adjusted, November 2014 new orders for durable goods fell by a headline nominal 0.68% (-0.68%), following a revised 0.30% gain in October, and a revised 0.74% (-0.74%) decline in September. Net of prior-period revisions, November aggregate new orders declined for the month by 0.63% (-0.63%).

Year-to-year and seasonally-adjusted growth in November 2014 durable goods orders rose by 0.35%, versus a revised annual gain of 5.56% in October, and a revised 3.94% gain in September.

**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 years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

Net of a minimal monthly headline gain of 0.58% gain in commercial aircraft orders, November aggregate orders fell by 0.76% (-0.76%) for the month. Net of a revised 0.30% gain in October, aggregate orders rose by a revised 0.27% for the month. With an unrevised decline of 16.00% (-16.00%) in September in commercial aircraft orders, aggregate orders net of aircraft, rose by a revised 0.49%.

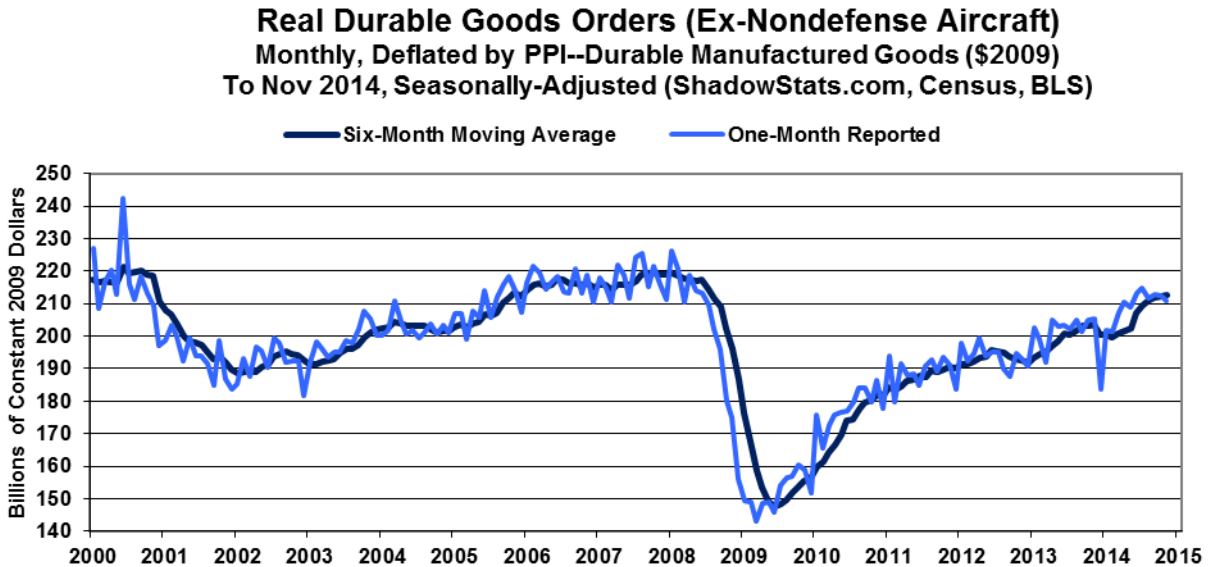
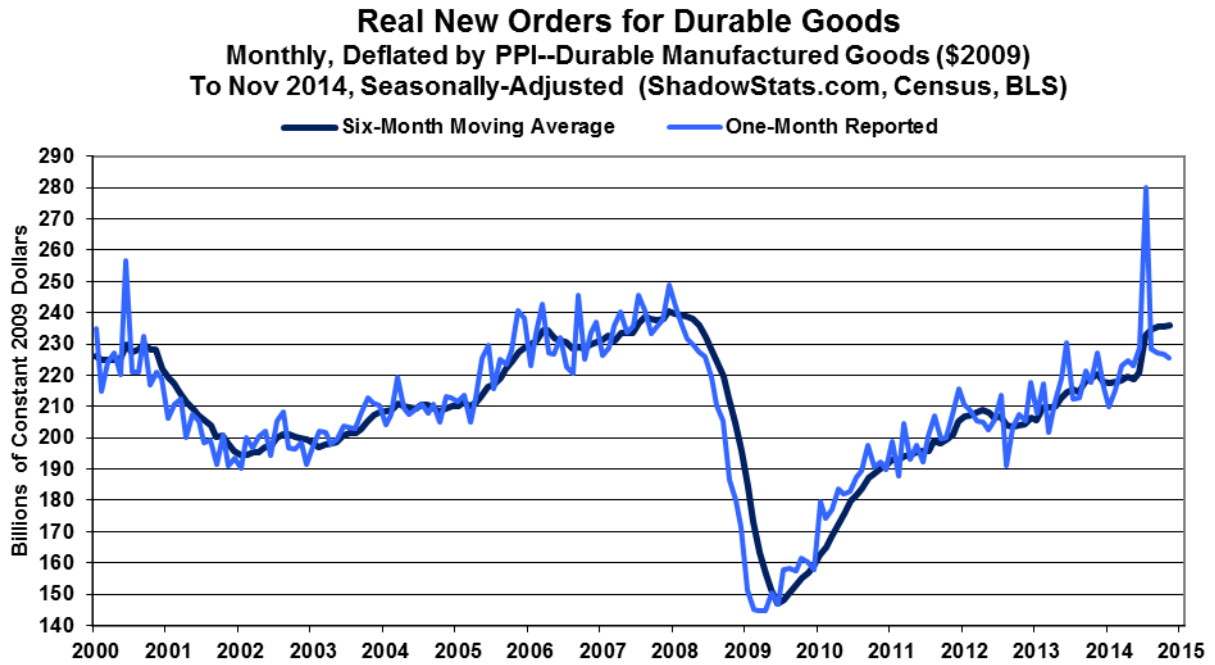
***Real (Inflation-Adjusted) Durable Goods Orders—November 2014.*** ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline negative 0.06% (-0.06%) pace of inflation in November, following a positive 0.42% monthly pace of inflation in October, with headline annual inflation at 1.15% in November 2014, versus 1.33% in October.

Adjusted for that inflation, and again as reflected in the accompanying graphs, real month-to-month aggregate orders declined by 0.62% (-0.62%) in November, versus a revised decline of 0.12% (-0.12%) in October, and a revised September monthly decline of 0.68% (-0.68%). Ex-commercial aircraft, real orders rose fell by 0.70% (-0.70%) in November, versus a revised decline of 0.15% (-0.15%) in October, and a revised September gain of 0.55%.

Real year-to-year aggregate orders fell by 0.79% (-0.79%) in November 2014, following a revised 4.18% annual gain in October, and a revised 2.57% gain in September. Ex-commercial aircraft, orders rose year-to-year by 2.64% in November 2014, versus an unrevised 3.73% in October, and a revised 5.73% gain in September.

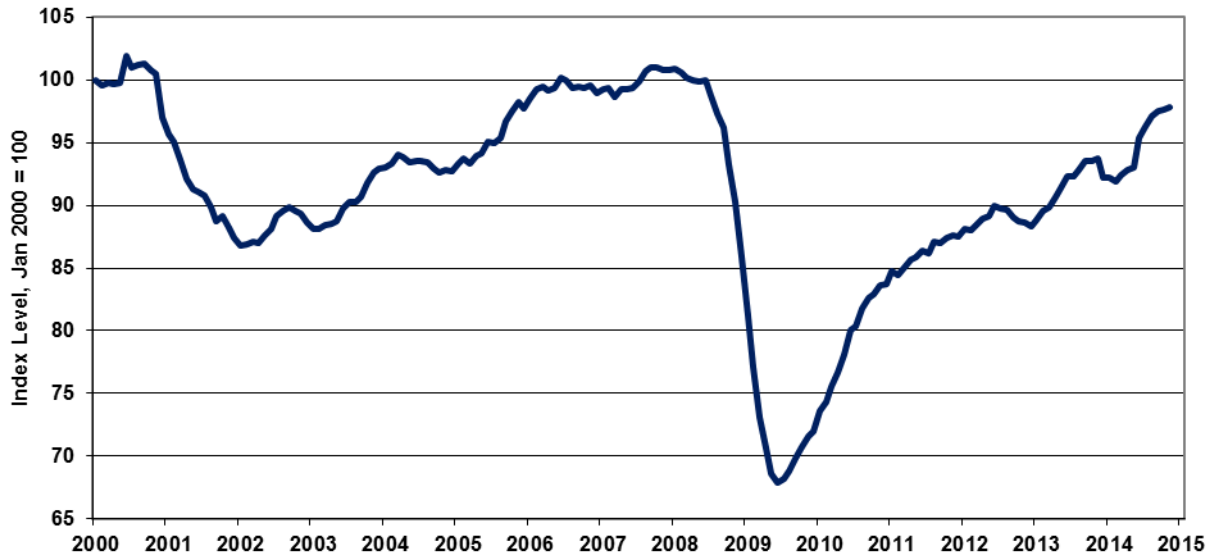
***Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series.*** The first two graphs show new orders for durable goods, again, adjusted for inflation using the Producer Price Index (PPI) measure for "Durable Manufactured Goods." These graphs show monthly as well as a six-month 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 through November 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 month, 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 November 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 turning to a downtrend in the inflation-adjusted series—net of the irregular aircraft-order effects, also is one that commonly precedes or is coincident with a recession.

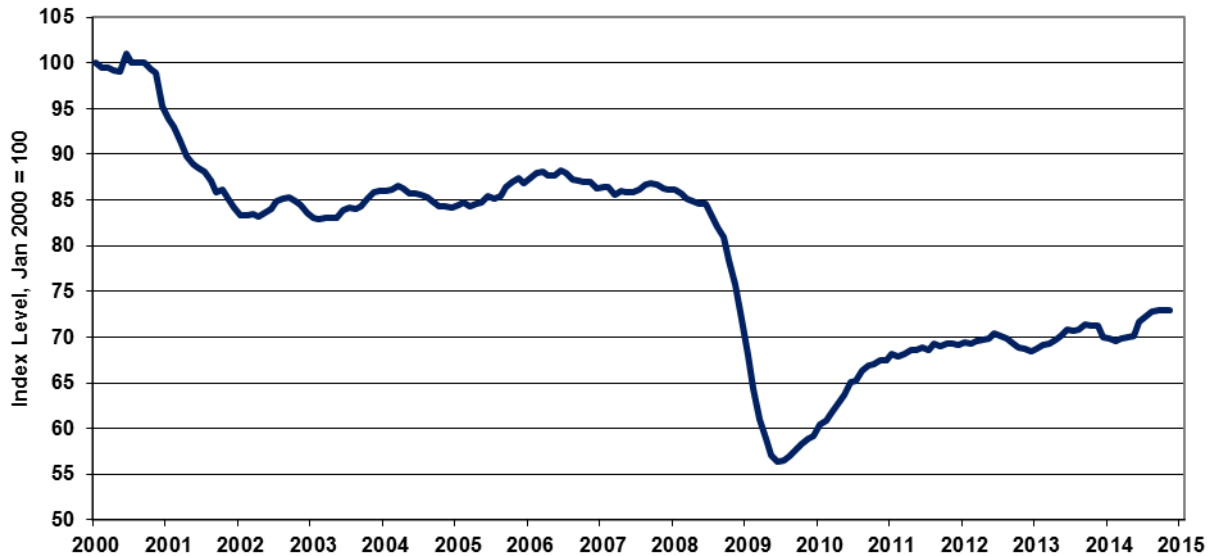


***The Real Orders Series Corrected for Inflation Understatement.*** As with other economic series deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods are overstated, due to the understatement of the official inflation. That understatement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

**Real Orders--Ex Nondefense Aircraft (6 Mo Moving Avg)**  
Monthly Index, Deflated by PPI--Durable Manufactured Goods  
To Nov 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)



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



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 preceding 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.

**Existing- and New-Home Sales—November 2014—No Housing Recovery in Play.** Both the existing-home sales and the new-home sales series reflected monthly declines in November, with annual and/or quarterly weaknesses. There was no indication of a positive turnaround for the housing market.

***Existing-Home Sales—Down for the Month and Likely Down for the Quarter.*** With a 6.1% (-6.1%) decline in November 2014 monthly existing-home sales, on a top of a downwardly revised 1.4% October sales gain, year-to-year sales still were up by 2.1% in November, the second consecutive annual increase, with the October annual gain now at a downwardly revised 2.3%. Nonetheless, the trailing twelve months of activity through November 2014 still was down by 3.4% (-3.4%) from the year-ago trailing-twelve-month activity, where trailing October activity was down by 3.8% (-3.8%).

The November 2014 headline annual sales pace of 4,930,000 (an average monthly pace of 410,833) also remained down by 32.2% (-32.2%) from the June 2005 pre-recession peak in activity.

In terms of annualized quarter-to-quarter percent change, existing-home sales were on track to decline by 2.6% (-2.6%) in fourth-quarter 2014, based on October and November reporting, versus a 22.8% gain in the third-quarter, 24.9% in the second-quarter and a 24.8% (-24.8%) contraction in the first-quarter of 2014.

***November Existing-Home Sales Fell by 6.1% (-6.1%) for the Month, Rose 2.1% Year-to-Year.*** Headline November 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted headline decline of 6.1% (-6.1%), following a revised monthly 1.4% gain in October, and a 2.6% gain in September.

On a year-to-year basis, November 2014 annual sales increased by 2.1%, increased by 2.3% in October, but declined at an annual of 1.5% (-1.5%) in September.

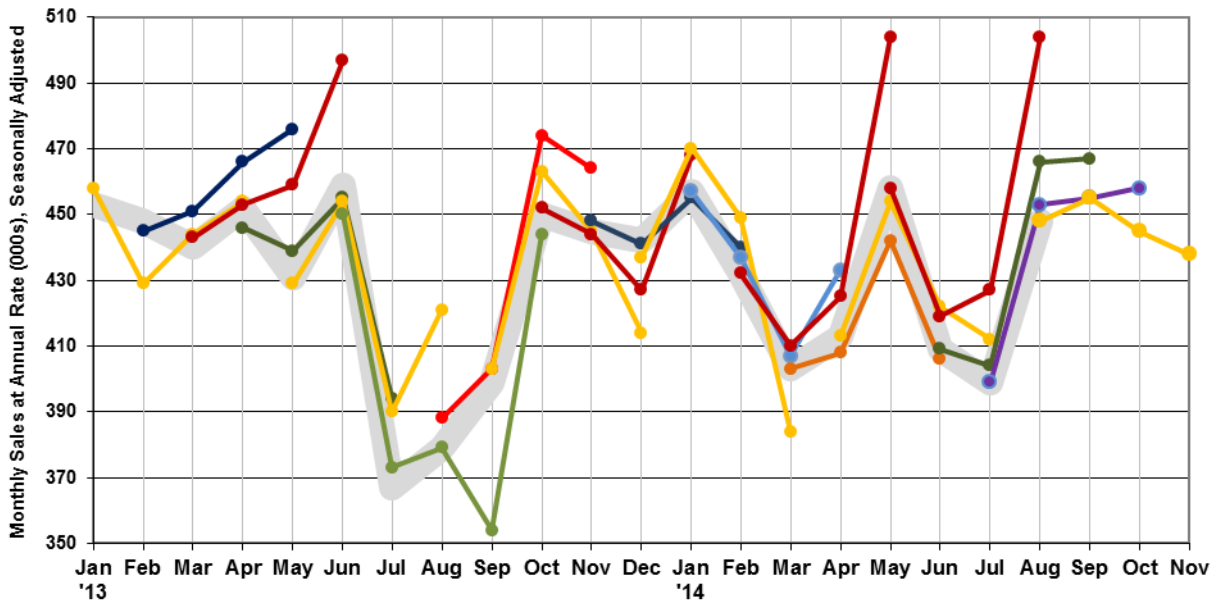
The headline November sales data were well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the accompanying graph. The quality of data for this series also remains highly questionable.

***Distressed Sales.*** The NAR estimated that the portion of total November 2014 sales in "distress" were 9% (6% foreclosures, 3% short sales), versus October at 9% (7% foreclosures, 2% short sales). Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in November 2014 was 25% of the total, down from 27% in October, and down from 32% in November 2013.

**New-Home Sales—November Sales Declined Month-to-Month and Year-to-Year, on Top of Prior-Period Downside Revisions.** A lack of reporting stability continued with the Census Bureau's headline, reporting of November 2014 new-home sales. As shown in the accompanying revised graph of *New-Home Sales Reporting and Revisions*, headline reporting remained unstable, with the latest headline reporting taking a series of softening uptrends into a downtrend. The headline 1.6% (-1.6%) monthly decline in November sales would have been a drop of 6.6% (-6.6%), but for the downside revision to October's headline data.

**New Home Sales -- Monthly Headline Reporting and Revisions  
April 2013 to November 2014 (ShadowStats.com, Census)**

The thick gray line reflects the latest final reporting by month, including an April 2014 benchmark revision. Otherwise, each colored line plots the headline and revised new-home sales data initially reported in a given month (the colors are of no significance other than to provide visual contrast). The reporting month's initial headline number is the furthest-right dot, directly over the space for the headline month indicated on the X-axis. The three dots to the left on a line represent revised estimates to the trailing three months (October 2013 also included initial September reporting due to the government shutdown). Each month's headline number is revised in the three following months. The red line (and dot) on the extreme right of the graph, for example, shows, from the left dot to the right dot, revised estimates for August, September and October and the initial headline reporting for November 2014 of 438,000. Also, for example, looking at the dots vertically in the space over August 2014, the red dot was the initial August headline estimate of 504,000 home sales, the green dot below it is the September revision to that August estimate of 466,000, and the blue dot below it was the October revision to August of 453,000, and the orange dot below that is the just published November estimate of 448,000 for August.



Once again, an approach to assessing these, as well as the related housing-starts data on a somewhat-meaningful basis is to consider the monthly gyrations in the context of a six-month moving average of headline activity as plotted at the end of this section.

Graphed either way, the various housing series continue to show economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing never recovered with the GDP reporting. Headline November 2014 new-home sales activity still



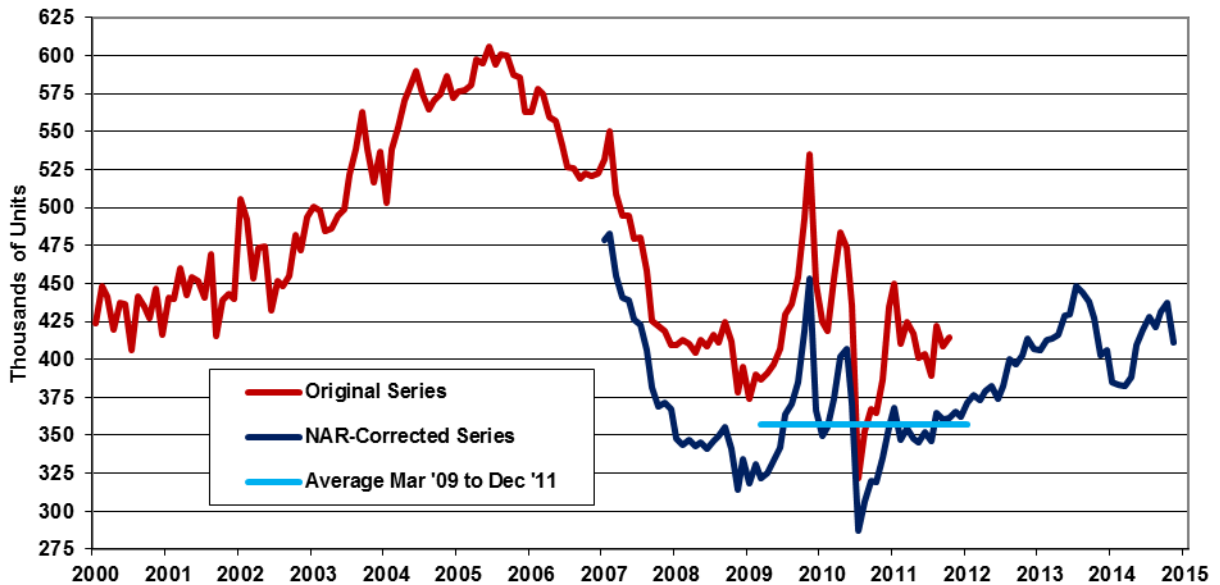
was down by 68.5% (-68.5%) from the pre-recession peak of July 2005, while November single-unit housing starts were down by 62.9% (-62.9%) from the January 2006 high of that series.

***Though Trending Lower, November New-Home Sales Were Consistent Within a Broad Pattern of Stagnation.*** In the context of downside revisions to two of the prior three months (including October), November headline new-home sales (counted based on contract signings, Census Bureau) fell by a statistically-insignificant 1.6% (-1.6%). October sales revised to show a decline of 2.2% (-2.2%), while revised September sales showed a gain of 1.6%. Net of prior-period revisions, November's sales fell by 6.6% (-6.6%) for the month.

Year-to-year, November 2014 sales fell by statistically-insignificant 1.6%. That followed a revised annual decline of 1.1% (-1.1%) in October and a revised annual gain of 14.0% in September.

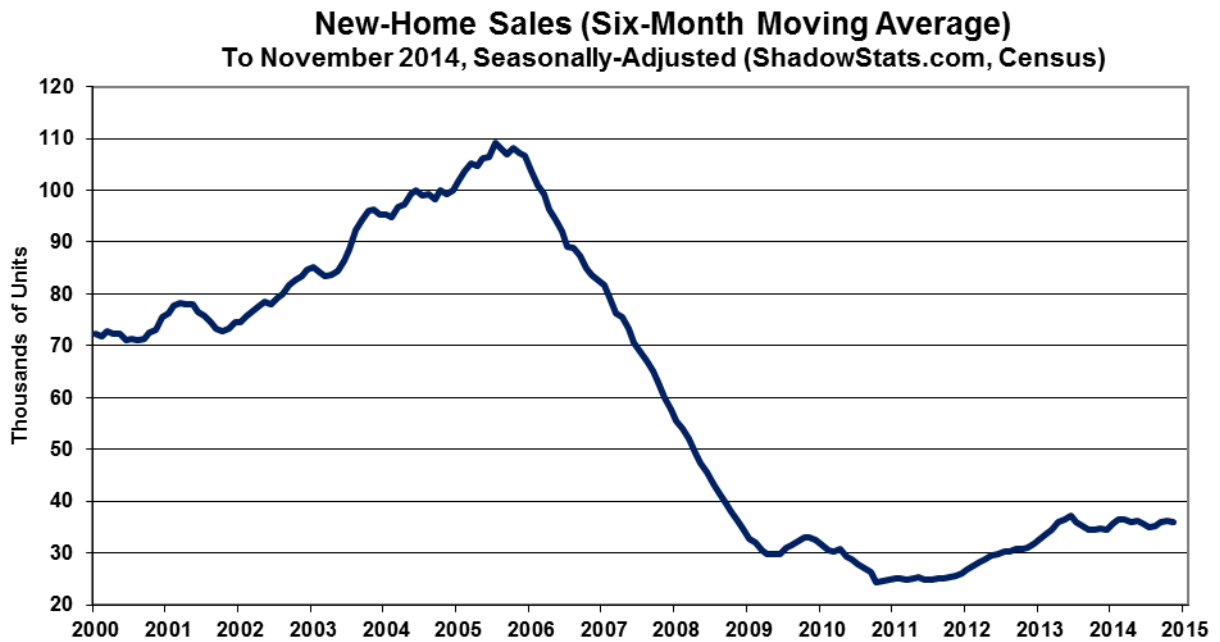
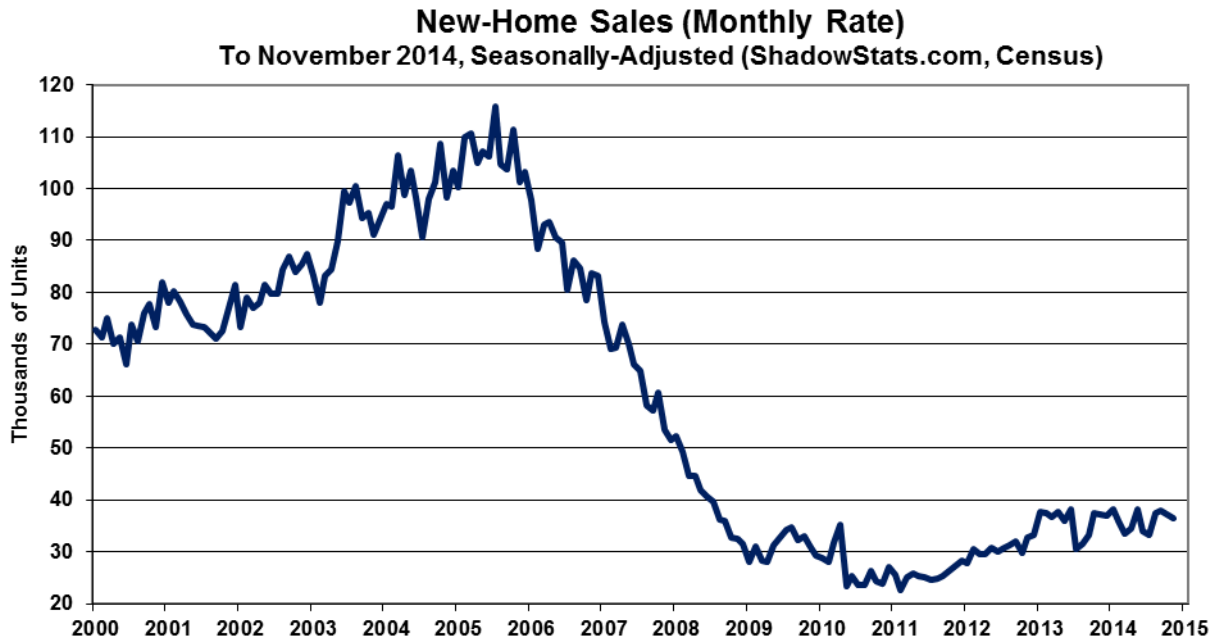
***Bleak Housing Outlook Continues, Based on Underlying Consumer Liquidity Constraints.*** Most-recently discussed in [Commentary No. 680](#), and as will be explored further in the pending *Special Commentary* of December 29th, the primary structural issue preventing meaningful, domestic U.S. economic 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 residential investment and related construction spending, but also retail sales and the still-dominant personal-consumption account of the GDP.

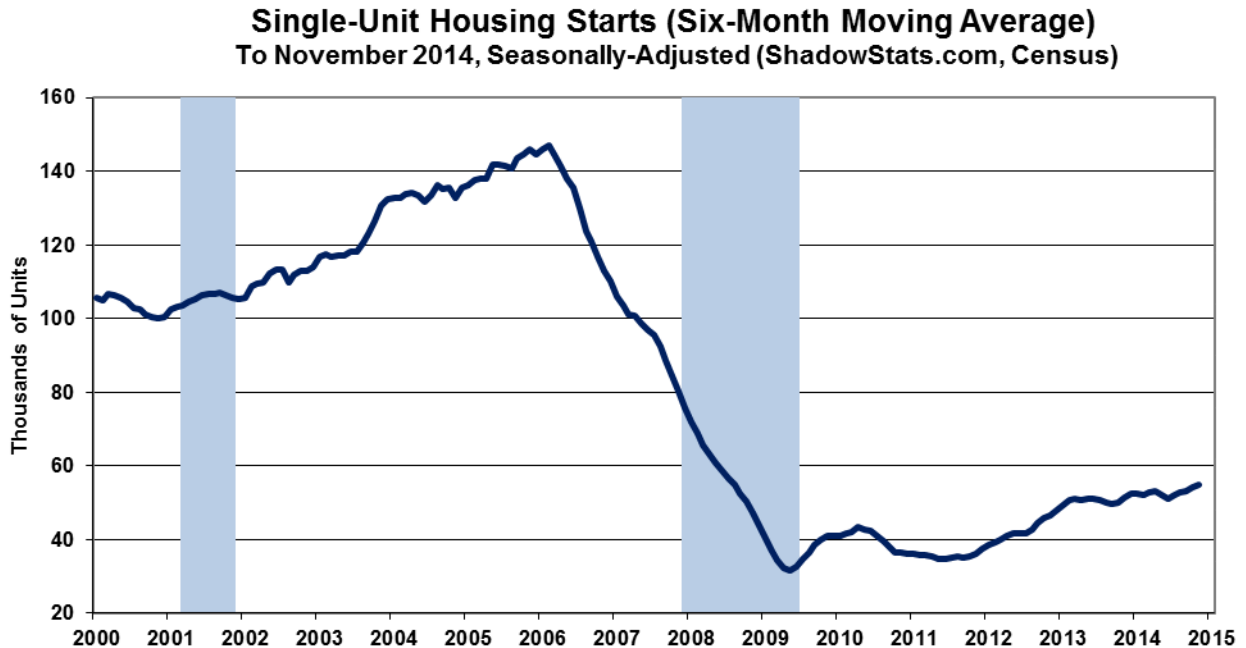
**Existing Home Sales (Not-Annualized Monthly Level)**  
**To November 2014, Seasonally Adjusted (ShadowStats.com, NAR, HUD)**



***Comparative Graphs of New- and Existing-Home Sales and Single-Unit Housing Starts.*** Preceding is the regular monthly graph of existing-homes sales. The regular graphs of new-home sales activity follow, based on both the monthly rate (not annualized) and of a six-month moving average of same for new-

home sales. Also, for purposes of comparison, the third graph following is the smoothed (six-month moving average of the non-annualized monthly rate) for November housing starts for single-unit construction (see [Commentary No. 682](#)).





*[Further detail on the GDP Revision, New Durable Goods Orders and New- and Existing-Home Sales, are found in the Reporting Detail. Various drill-down and graphics options on headline GDP and Durable Goods data also are available to subscribers at our affiliate: [www.ExpliStats.com](http://www.ExpliStats.com)].*

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## HYPERINFLATION WATCH

**Hyperinflation Outlook Summary.** Except for minor language changes tied to updating reference links, this *Summary* has not been changed from the version updated in the November 25th [Commentary No. 677](#), which incorporated details from the second estimate of third-quarter 2014 GDP. Nonetheless, the *Summary* should be considered in the context of the *Opening Comments* on the U.S. dollar found in [Commentary No. 680](#). This *Summary* will be updated subsequent to the December 29th *Special Commentary*.

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 [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 (see trade deficit analysis in [Commentary No. 679](#)), 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 the *Opening Comments* of [Commentary No. 678](#)). 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.

## REPORTING DETAIL

### GROSS DOMESTIC PRODUCT—GDP (Third-Quarter 2014, Third Estimate, Second Revision)

**Headline GDP Reporting Simply Is Not Credible.** Noted in the *Opening Comments*, if the headline GDP numbers are to be believed, the current fully-recovered U.S. economy is booming along in a manner not seen since 2003. Annualized 4.6% growth in second-quarter GDP accelerated to 5.0% in third-quarter activity per revised third-quarter reporting. Various indicators, however, including common experience, confirm that such a boom is not happening in the real world.

Something is askew with the GDP reporting. Separate from the unbelievable headline growth rates, the recent pattern of unusually-volatile GDP revisions suggests some internal difficulties with the gathering, compilation, guesstimation and/or reporting of the headline data at the issuing Bureau of Economic Analysis (BEA).

Contrary to the GDP reporting, real sales of companies in the S&P 500 (deflated by the CPI-U) never recovered pre-recession levels, have been stagnant in recent quarters, and turned down in third-quarter 2014 (see [Commentary No. 677](#)). Further, economic issues surrounding the midterm election results and related exit polling also were consistent with a current economic contraction, not growth (see [Commentary No. 672](#)). Per the BEA, the average revision between the second and third estimates (first and second revisions) for real headline GDP growth, in the 27 years before the 2014 benchmark revision, was 0.0% (0.2% without regard to sign).

Where second revisions to headline GDP reporting normally are little more than statistical noise, the second revision to second-quarter GDP growth took the headline pace of gain in the first revision from 4.2% (initially 3.9%) to 4.6%, while the second revision to third-quarter GDP growth took the headline gain in the first revision from 3.9% (initially 3.5%) to 5.0%. With an average upside revision of 0.8% in the second-revisions for the last two-quarters, the magnitudes of those revisions are statistical outliers.

The GDP remains the most-worthless and the most-heavily modeled, massaged and politically-manipulated of government economic series. Beyond historical changes in reporting methodology that have built upside biases into headline GDP growth, a special-purpose political manipulation appears to be or have been a likely factor in recent and current reporting. While it may take some time for the full story to surface, key underlying data of the next several months likely will see significant downside reporting and revisions.

Otherwise, the headline GDP does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. Independent data generally support ShadowStats contentions that the U.S. economy never recovered from the recession, and that current business activity is stagnant and trending to the downside. Broad economy began to turn down in 2006 and 2007, plunged into 2009,

entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in recent quarters (see [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)).

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### **Notes on GDP-Related Nomenclature and Definitions**

*For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:*

**Gross Domestic Product (GDP)** is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.

**Gross Domestic Income (GDI)** is the theoretical equivalent to the GDP, but it generally is not followed by the popular press. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a “statistical discrepancy.” Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.

**Gross National Product (GNP)** is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.

**Real (or Constant Dollars)** means the data have been adjusted, or deflated, to reflect the effects of inflation.

**Nominal (or Current Dollars)** means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.

**GDP Implicit Price Deflator (IPD)** is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on “Chained 2009 Dollars,” as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. “Chained” refers to the substitution methodology which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by \$41.8 billion in “residual,” as of the initial estimate of second-quarter 2013.

**Quarterly** growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to  $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$  or 4.1%, instead of  $4 \times 1\% = 4\%$ .

**Annual** growth refers to the year-to-year change of the referenced period versus the same period the year before.

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**Gross Domestic Product (GDP).** Published this morning, December 23rd, by the Bureau of Economic Analysis (BEA), the third estimate of, second revision to, third-quarter 2014 GDP was a statistically-significant, real (inflation-adjusted), annualized, quarterly headline gain of 5.0% (4.97% at the second decimal point) +/- 3.5% (95% confidence interval). Third-quarter growth previously had been estimated

at 3.9% (3.89% at the second decimal point), initially estimated at 3.5% (3.55% at the second decimal point).

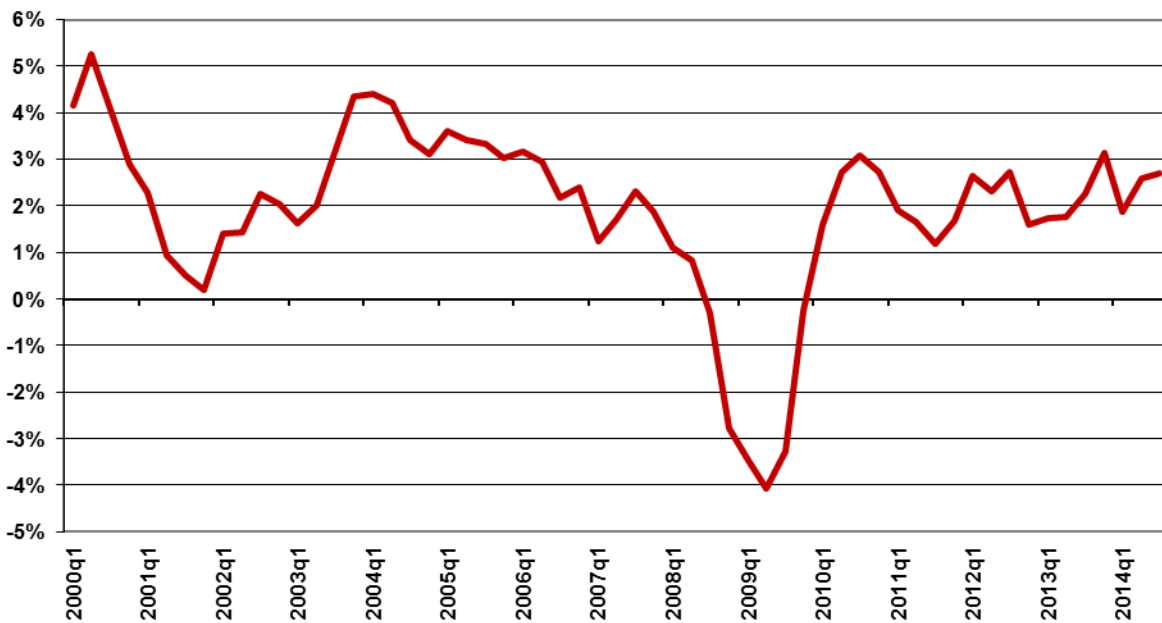
The new headline third-quarter GDP growth of 4.97% now is stronger than the headline 4.59% growth in second-quarter 2014. First-quarter 2014 GDP reflected a benchmarked 2.11% contraction (-2.11%), which had been a pre-benchmark 2.93% drop (-2.93%) per [Commentary No. 646](#). Both the second- and third-quarter 2014 GDP estimates should face significant downside revisions in the annual benchmarking and revisions due on July 30, 2015.

Distribution of the headline quarterly GDP growth rate by major components is detailed in the *Opening Comments*.

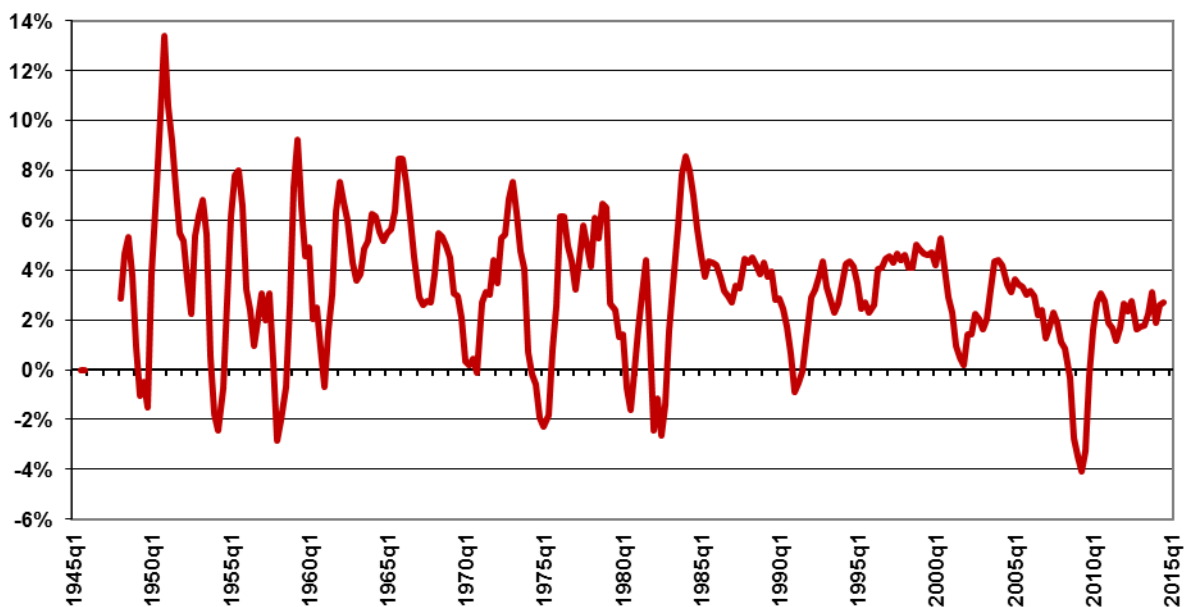
Shown in the two following graphs, headline year-to-year growth in real third-quarter 2014 GDP revised to 2.70% (previously 2.43%, initially 2.35%), versus 2.59% annual growth in the second-quarter and versus benchmarked growth of 1.89% (1.54% pre-benchmark) in the first-quarter. The first graph shows current detail, from 2000-to-date, where the second graph shows the series in terms of its full quarterly history.

The latest quarterly year-to-year growth remained below the near-term peak of 3.13% seen in fourth-quarter 2013. The current-cycle trough in annual change was in second-quarter 2009, at a 4.09% pace of decline (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947.

**Quarterly Real Gross Domestic Product**  
Year-to-Year Change 2000-to-Date (ShadowStats, BEA)



**Quarterly Real Gross Domestic Product**  
**Year-to-Year Change 1947-to-Date (ShadowStats, BEA)**



**Implicit Price Deflator (IPD).** The third estimate of third-quarter 2014 GDP inflation, or the implicit price deflator (IPD), was 1.38% (previously 1.39%, initially 1.28%), versus 2.15% in second-quarter 2014, and a benchmarked 1.33% in first-quarter 2014. Year-to-year, third-quarter 2014 IPD inflation was an unrevised 1.57% (initially 1.54%), versus 1.64% in second-quarter 2014 and a benchmarked 1.37% in first-quarter 2014.

For comparison, on a seasonally-adjusted, annualized quarter-to-quarter basis, CPI-U inflation published by the Bureau of Labor Statistics (BLS) was up by 1.10% for third-quarter 2014, versus 3.03% for second-quarter 2014 and 1.91% for first-quarter 2014. Unadjusted, year-to-year quarterly inflation was 1.78% for third-quarter 2014, versus 2.05% for second-quarter 2014 and 1.41% for first-quarter 2014.

The weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

**Gross National Product (GNP).** The second estimate, first revision of third-quarter 2014 real GNP growth was published today (December 23rd) along with the third estimate, second revision of third-quarter GDP growth. The same nonsense underlying the GDP is at work here.

GNP is the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as Greece and the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of GNP.

The headline annualized quarterly-growth rate in real third-quarter 2014 GNP was 5.28% (previously 3.80%), up from 4.57% in the second-quarter, and a benchmarked 2.81% (-2.81%) contraction in first-

quarter 2014. Pre-benchmark, headline first-quarter growth had shown a contraction of 3.61% (-3.61%). Year-to-year change revised to 2.64% (previously 2.28%) in third-quarter 2014, versus 2.53% in the second-quarter 2014 and a benchmarked annual gain of 1.86% in first-quarter 2014. The larger relative upside revision to GNP growth versus GDP growth was tied directly to an upwardly revised estimate of income receipts from the rest of the world.

**Gross Domestic Income (GDI).** The second estimate, first revision of third-quarter 2014 real GDI growth was published today (December 23rd) along with the third estimate, second revision, of third-quarter GDP growth.

GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a “statistical discrepancy” to the GDI-side of the equation, but the discrepancy just as easily could be added to the GDP number.

The headline annualized quarterly-growth rate in real third-quarter 2014 GDI was 4.68% (previously 4.48%), well shy of the net upside second revision to third-quarter GDP, versus unrevised headline growth of 3.95% in second-quarter 2014, and a revised 0.78% (-0.78%) contraction in first-quarter 2014. Pre-benchmark, headline first-quarter growth GDI had shown a 2.61% (-2.61%) contraction. Year-to-year change was a revised 2.40% (previously 2.35%) in third-quarter 2014, versus 1.72% in second-quarter 2014 and 1.41% in first-quarter 2014.

The statistical discrepancy has been unstable, as usual, in recent reporting. In nominal terms (all negative), the third-quarter discrepancy was a revised \$142.7 billion (previously \$180.4 billion), versus \$153.5 billion as of second-quarter 2014 and \$177.5 billion as of a benchmarked first-quarter 2014, which had been \$105.3 billion pre-benchmark.

**ShadowStats-Alternate GDP.** The ShadowStats-Alternate GDP estimate for third-quarter 2014 GDP remained a 1.7% year-to-year contraction (-1.7%) versus the revised headline third-quarter GDP gain of 2.7% (previously 2.4%, initially 2.3%). Those third-quarter 2014 estimates were against a similar ShadowStats estimated 1.7% (-1.7%) year-to-year contraction but a headline year-to-year gain of 2.6% in second-quarter GDP (see the [Alternate Data](#) tab).

While annualized real quarterly growth is not estimated formally on an alternate basis, the headline 3.9% quarter-to-quarter gain for third-quarter 2014 likely was much weaker, flat-to-minus, net of all the regular reporting gimmicks. Some downside revision may follow in next month's GDP reporting, but the July 30, 2015 annual benchmark revision now is the most likely vehicle for moving recent, gimmicked headline growth to more-reasonable levels. An actual quarterly contraction appears to have been a realistic possibility for the real GDP in most quarters since the official, second-quarter 2009 end to the 2007 recession.

Adjusted for understated inflation and other methodological changes (such as the inclusion of intellectual property, including software), the business downturn that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The “corrected” real GDP graph, and the longer-term “corrected” graph updated from [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) (see the *Opening Comments* section) are based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not



the same measure as the ShadowStats-Alternate GDP, which reflects reversing additional methodological distortions (“Pollyanna Creep”) of recent decades.

## **NEW ORDERS FOR DURABLE GOODS (November 2014)**

**Basic Durable Goods Orders Slowed Sharply in the Third-Quarter and Have Contracted, So Far, in the Fourth-Quarter.** The massive order for commercial aircraft received by Boeing from the Emirates largely was booked in the July 2014 surge in new orders for durable goods, and not in November. As a result, the headline monthly change in the highly volatile category of new orders for nondefense aircraft and parts was a minimal 0.6% gain for November, leaving the activity for basic durable goods orders (net of commercial aircraft) at a 0.8% (-0.8%) headline decline, about even with the aggregate series, which declined by 0.7% (-0.7%) for the month.

Annualized quarterly growth in inflation-adjusted (real) basic new orders—ex-commercial aircraft—appears headed for a contraction in fourth-quarter 2014, having slowed sharply in third-quarter 2014 to revised 4.3% growth (previously 4.2%, initially 3.4%), down from an unrevised 14.9% gain in second-quarter 2014. If real fourth-quarter orders held at the average level of October and November headline reporting, annualized quarterly change in real fourth-quarter 2014 activity would be a 2.4% (-2.4%) decline [previously estimated as a decline of 0.9% (-0.9%) based solely the initial October reporting].

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% (again included the Emirates), 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%), a revised, negligible order gain of 0.8% [previously down by 0.1% (-0.1%)] in October, and a headline 0.6% gain in November, 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 gain in commercial-aircraft orders, headline November 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 with a developing downtrend of a nature that commonly precedes or coincides with a recession or deepening business downturn.

**Nominal (Not-Adjusted-for-Inflation) November 2014 Reporting.** The Census Bureau reported today, December 23rd, that the regularly-volatile, seasonally-adjusted, nominal level of November 2014 new orders for durable goods fell by 0.68% (-0.68%), following a revised 0.30% [previously 0.04%] gain in October, and a revised 0.74% (-0.74%) decline in September [previously down by 0.89% (-0.89%), initially down by 1.32% (-1.32%)]. Net of prior-period revisions, November aggregate new orders declined for the month by 0.63% (-0.63%).

Year-to-year and seasonally-adjusted growth in November 2014 durable goods orders rose by 0.35%, versus a revised annual gain of 5.56% (previously 5.51%) in October, and a revised 3.94% [previously 3.78%, initially 3.37%] gain in September.

***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 years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

Net of a minimal monthly headline gain of 0.58% gain in commercial aircraft orders, November aggregate orders fell by 0.76% (-0.76%) for the month. Net of a revised 0.30% gain [previously a decline of 0.08% (-0.08%)] in October, aggregate orders rose by a revised 0.27% [previously up by 0.44%] for the month. With an unrevised headline decline of 16.00% (-16.00%) in September [initially down by 16.09% (-16.09%)] in commercial aircraft orders, aggregate orders net of aircraft rose by a revised 0.49% [previously up by 0.32%, initially a decline of 0.13% (-0.13%)].

*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 15, 2014—subsequent reporting already has made all historical reporting prior to September 2014 inconsistent with the current headline numbers.*

***Real (Inflation-Adjusted) Durable Goods Orders—November 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 inflation in November, following a positive 0.42% monthly pace of inflation in October, with headline annual inflation at 1.15% in November 2014, versus 1.33% in October.

Adjusted for that inflation, and again as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders declined by 0.62% (-0.62%) in November, versus a revised decline of 0.12% (-0.12%) [previously down by 0.02% (-0.02%)] in October, versus a revised September monthly decline of 0.68% (-0.68%) [previously down by 0.83% (-0.83%), initially down by 1.26% (-1.26%)]. Ex-commercial aircraft, real orders rose fell by 0.70% (-0.70%) in November, versus a revised decline of 0.15% (-0.15%) [previously up by 0.02%] in October, following a revised September gain of 0.55% [previously up by 0.38%, initially down by 0.07% (-0.07%)].

Real year-to-year aggregate orders fell by 0.79% (-0.79%) in November 2014, following a revised 4.18% [previously 4.12%] annual gain in October, and a revised 2.57% [previously 2.41%, initially 1.91%] gain in September. Ex-commercial aircraft, orders rose year-to-year by 2.64% in November 2014, versus an unrevised 3.73% in October, and a revised 5.73% [previously 5.55%, initially 5.01%] gain in September.

***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.

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

**Down for the Month and Likely Down for the Quarter.** With a 6.1% (-6.1%) decline in November 2014 monthly existing-home sales, on top of a downside revision to the previous October monthly sales gain (now 1.4%, previously 1.5%), year-to-year sales were up by 2.1% in November, the second consecutive annual increase, with the October annual gain now at 2.3% (previously 2.5%).

Nonetheless, the trailing twelve months of activity through November 2014 was down by 3.4% (-3.4%) from the year-ago trailing-twelve-month activity, where trailing October 2014 activity was down by 3.8% (-3.8%) [previously down by 3.7% (-3.7%)].

The November 2014 headline annual sales pace of 4,930,000 (an average monthly pace of 410,833) also remained down by 32.2% (-32.2%) from the June 2005 pre-recession peak in activity.

In terms of annualized quarter-to-quarter percent change, existing-home sales were on track to decline by 2.6% (-2.6%) in fourth-quarter 2014, based on October and November reporting, versus a 22.8% gain in the third-quarter, 24.9% in the second-quarter and a 24.8% (-24.8%) contraction in the first-quarter of 2014.

**November Existing-Home Sales Fell by 6.1% (-6.1%) for the Month, Rose 2.1% Year-to-Year.** The December 22nd release of November 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted headline decline of 6.1% (-6.1%), following a revised monthly 1.4% (previously 1.5%) gain in October, and a 2.6% gain in September.

On a year-to-year basis, November 2014 annual sales increased by 2.1%, following a revised 2.3% (previously 2.5%) gain in October and an annual decline of 1.5% (-1.5%) in September.

The headline November sales data were well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the graph in the *Opening Comments*. The quality of data for this series also remains highly questionable.

**Distressed Sales.** The NAR estimated that the portion of total November 2014 sales in "distress" were 9% (6% foreclosures, 3% short sales), versus October at 9% (7% foreclosures, 2% short sales). Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also

estimated that all-cash sales in November 2014 was 25% of the total, down from 27% in October, and down from 32% in November 2013.

***Bleak Outlook Continues, Based on Underlying Consumer Liquidity Constraints.*** As most-recently discussed in [Commentary No. 680](#), and as will be explored further in the pending *Special Commentary* of December 29th, there has been no improvement in underlying consumer liquidity conditions. Correspondingly, 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.

***Existing-Home Sales Graph.*** The regular monthly graph of existing-home sales activity is included in the *Opening Comments* section. For comparison purposes, graphs also are included of November new-home sales (see next section) and of smoothed November housing starts for single-unit construction (from [Commentary No. 682](#)).

## **NEW-HOME SALES (November 2014)**

**November Sales Declined Month-to-Month and Year-to-Year, on Top of Prior-Period Downside Revisions.** A lack of reporting stability continued with the Census Bureau's headline, reporting of November 2014 new-home sales. As shown in the revised *Opening Comments* graph of *New-Home Sales Reporting and Revisions*, headline reporting remained unstable, with the latest headline reporting taking a series of softening uptrends into a downtrend. The headline 1.6% (-1.6%) monthly decline in November sales would have been down by 6.6% (-6.6%), but for the downside revision to October's headline data.

Once again, an approach to assessing these, as well as the related housing-starts data on a somewhat-meaningful basis is to consider the monthly gyrations in the context of a six-month moving average of headline activity as also plotted in the *Opening Comments*.

Graphed either way, the various housing series continue to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing never recovered with the GDP reporting. Headline November 2014 new-home sales activity still was down by 68.5% (-68.5%) from the pre-recession peak of July 2005, while November single-unit housing starts were down by 62.9% (-62.9%) from the January 2006 high of that series. As discussed further 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.

***Though Trending Lower, November 2014 New-Home Sales Were Consistent Within a Broad Pattern of Stagnation.*** As reported by the Census Bureau, today, December 23rd, in the context of downside revisions to two of the prior three months (including October), November headline new-home sales (counted based on contract signings) fell by a statistically-insignificant 1.6% (-1.6%) +/- 14.4% (all confidence intervals are at the 95% level). October sales revised to show a decline of 2.2% (-2.2%), which previously had been a monthly gain of 0.7%, versus September. In turn, September sales revised to a gain of 1.6% (previously 0.4%, initially 0.2%). Net of prior-period revisions, November's sales fell by 6.6% (-6.6%) for the month.

Year-to-year, November 2014 sales fell by statistically-insignificant 1.6% +/- 20.8%. That followed a revised annual decline of 1.1% (-1.1%) in October, which previously had been a gain of 1.8%, and a revised annual gain of 14.0% (previously up by 13.5%, initially up by 17.0%) in September.

***New-Home Sales Graphs.*** In addition to the plot of recent revisions to the series, the regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with a six-month moving average version of those sales, the six-month moving average version of November housing starts for single-unit construction, and November existing-home sales, all included for comparison.

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## WEEK AHEAD

**No Major Economic Releases Due in the Week Ahead.**

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