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

COMMENTARY NUMBER 690
December Durable Goods Orders, New- and Existing-Home Sales, Consumer Liquidity

January 27, 2015

**Durable Goods Orders Contracted in Fourth-Quarter 2014,
Both Before and After Commercial-Aircraft and Inflation Considerations**

Existing-Home Sales Declined in Fourth-Quarter 2014

**Trend of Unstable New-Home Sales Reporting
Continued in Stagnation**

**Consumer Liquidity Stresses Still Pummeling
Residential Real-Estate Activity and Consumer Spending**

PLEASE NOTE: The next Regular Commentary *is scheduled for Friday, January 30th, covering the "advance" estimate of fourth-quarter 2014 GDP.*

SPECIAL COMMENTARY. I am doing now what should have been done a month ago, and that simply is to delay the publication of Special Commentary *to Monday, February 2nd, due to health issues. The publication schedule of the* Regular Commentaries *has been and will continue to be maintained as usual.*

Best Wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

December Durable Goods Orders and Home Sales Did Not Support Strong Growth in Fourth-Quarter GDP. With stagnation and downturn in fourth-quarter home sales, and downturn in fourth-quarter new orders for durable goods, as discussed today; with a sharp slowing in quarterly growth of real retail sales and industrial production; and with a shift in the initial estimation of trade impact on the GDP, from positive to neutral; there is little other than the usual gimmicks, such as inventory games and healthcare fluff, that would bring in Friday's (January 30th) headline fourth-quarter GDP growth at close to the consensus [Bloomberg] estimate of 3.2% annualized real growth. Nonetheless, political considerations support near-consensus reporting, as discussed in the *Week Ahead*.

Today's Missive (January 27th). Today's *Commentary* concentrates on the detail from the December 2014 reporting of new orders for durable goods, new- and existing-home sales and updated detail on related consumer-liquidity issues.

The *Week Ahead* section previews the reporting of the "advance" estimate of fourth-quarter 2014 GDP. Again, it remains unlikely that the initial fourth-quarter 2014 GDP estimate would contradict President Obamas indication—in last week's State of the Union Address—of ongoing strong growth in current economic activity.

Given the material pending in the *Special Commentary*, today's missive excludes the *Hyperinflation Summary* usually found in the *Hyperinflation Watch* section. The latest *Hyperinflation Summary* is found in *Commentary No. 684*; it will be updated post-*Special Commentary*.

New Orders for Durable Goods—December 2014—Monthly Decline Was on Top of Downside Revisions to November and October; Quarterly Orders Contracted. Despite a sharp decline in December nondefense (commercial) aircraft orders and downside revisions to same in November and October, new orders for durables declined month-to-month in December and contracted quarter-to-quarter in fourth-quarter 2014, when viewed before or after inflation adjustment, and before or after any consideration for aircraft-order distortions.

Annualized quarterly growth in inflation-adjusted (real) terms, new orders—ex-commercial aircraft—contracted in fourth-quarter 2014 at an annualized pace of 5.9% (-5.9%), and was down by 3.9% (-3.9%) in nominal terms. Real growth had slowed sharply in third-quarter 2014 to 4.3%, from a 14.9% gain in second-quarter 2014 (in nominal terms, those growth rates respectively were 5.1% and 19.4%). The ex-commercial aircraft number is the one to look at as an indicator of pending, broad economic activity, due to the extreme and irregular nature of the volume of aircraft orders, as well as to the limited impact of those orders on near-term economic activity. Consider that including the aircraft orders, nominal fourth-quarter total durable goods orders fell at an annualized quarterly pace of 34.0% (-34.0%), having risen at a 40.6% annualized pace in the third-quarter.

Activity in aggregate new orders for durable goods is irregularly volatile**,** usually due to the extreme and unstable patterns in nondefense- or commercial-aircraft orders. Even so, related commercial-aircraft order swings in July and August 2014 (third-quarter) 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%), a revised order gain of 0.8% in October, a revised decline of 11.0% (-11.0%) in November, and the headline decline of 55.5% (-55.5%) in December.

Both before and after consideration of volatility in commercial-aircraft orders, headline December durable goods orders remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of stagnation. The inflation-adjusted real series, and that same series corrected for understatement of the official inflation series, 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) December 2014 Reporting. The the regularly-volatile, seasonally-adjusted, nominal level of December 2014 new orders for durable goods fell by 3.41% (-3.41%) in the month, following a revised decline of 2.12% (-2.12%) in November and a revised 0.26% gain in October. Net of prior-period revisions, new orders for December declined in the month by 4.85% (-4.85%).

Year-to-year and seasonally-adjusted growth in December 2014 durable goods orders rose by 0.31%, versus a revised decline of 1.15% (-1.15%) in November, and a revised annual gain of 5.52% in October.

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 headline monthly decline of 55.51% (-55.51%) in December commercial aircraft orders, aggregate orders declined by 0.24% (-0.24%) for the month. Net of a revised November decline of 11.03% (-11.03%) in aircraft orders, November aggregate orders fell by 1.52% (-1.52%) in the month. Net of a revised 0.77% gain in October orders, aggregate orders rose by a revised 0.22% for the month.

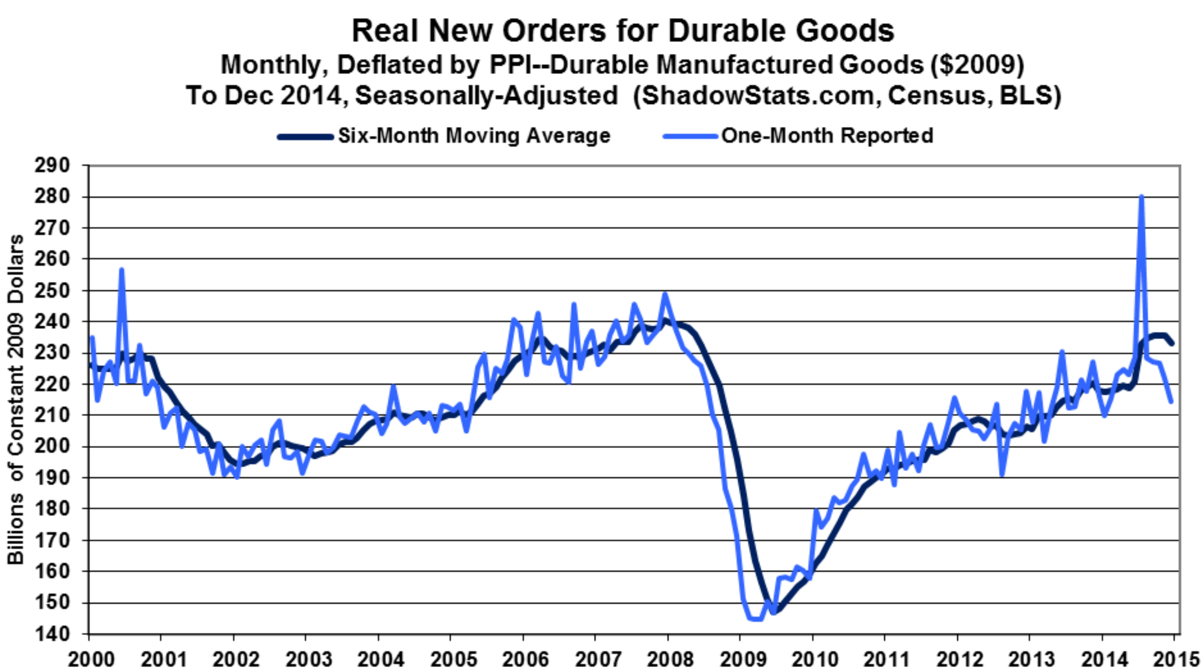
Real (Inflation-Adjusted) Durable Goods Orders—December 2014. ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline "unchanged" pace of monthly inflation in December 2014, following a negative 0.06% (-0.06%) pace of inflation in November, with headline annual inflation at 1.09% in December 2014, versus 1.15% in November.

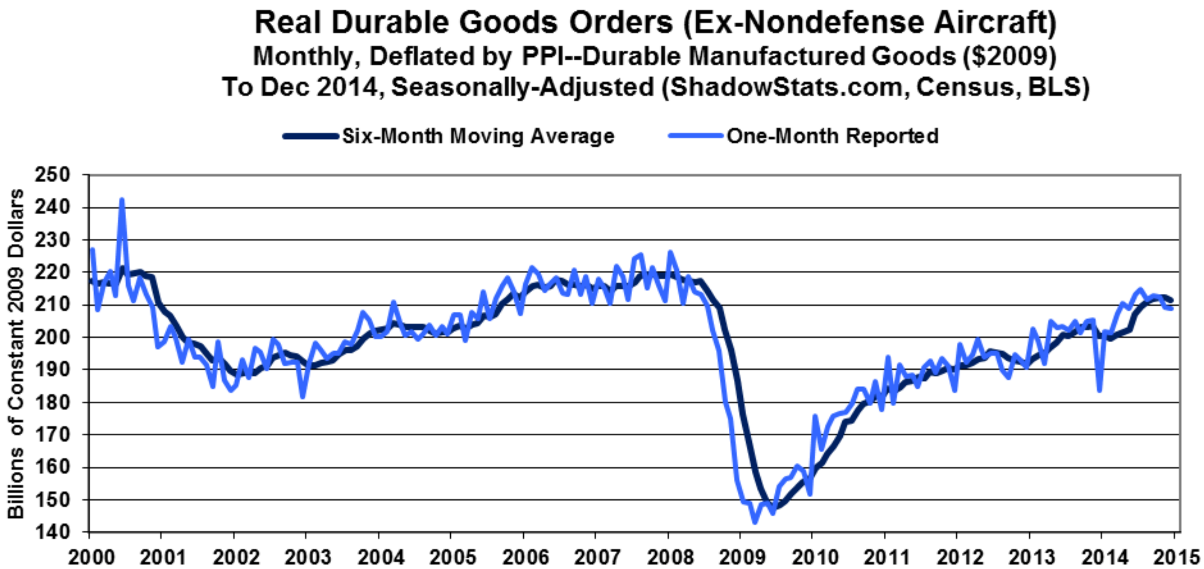
Adjusted for that inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders declined by 3.41% (-3.41%) in December 2014, following a revised contraction of 2.06% (-2.06%) in November, and a revised decline of 0.16% (-0.16%) in October. Ex-commercial aircraft, real orders fell by 0.24% (-0.24%) in December, following a revised decline of 1.46% (-1.46%) in November, and a revised decline of 0.20% (-0.20%) in October.

Real year-to-year aggregate orders fell by 0.77% (-0.77%) in December 2014, following revised annual decline of 2.27% (-2.27%) in November, a revised 4.13% annual gain in October. Ex-commercial aircraft, orders rose year-to-year by 13.65% in December 2014, versus a revised gain of 1.82% in November, and a revised gain of 3.68% in October. The surge in December year-to-year growth was against an unusually-sharp drop in defense orders in December 2013.

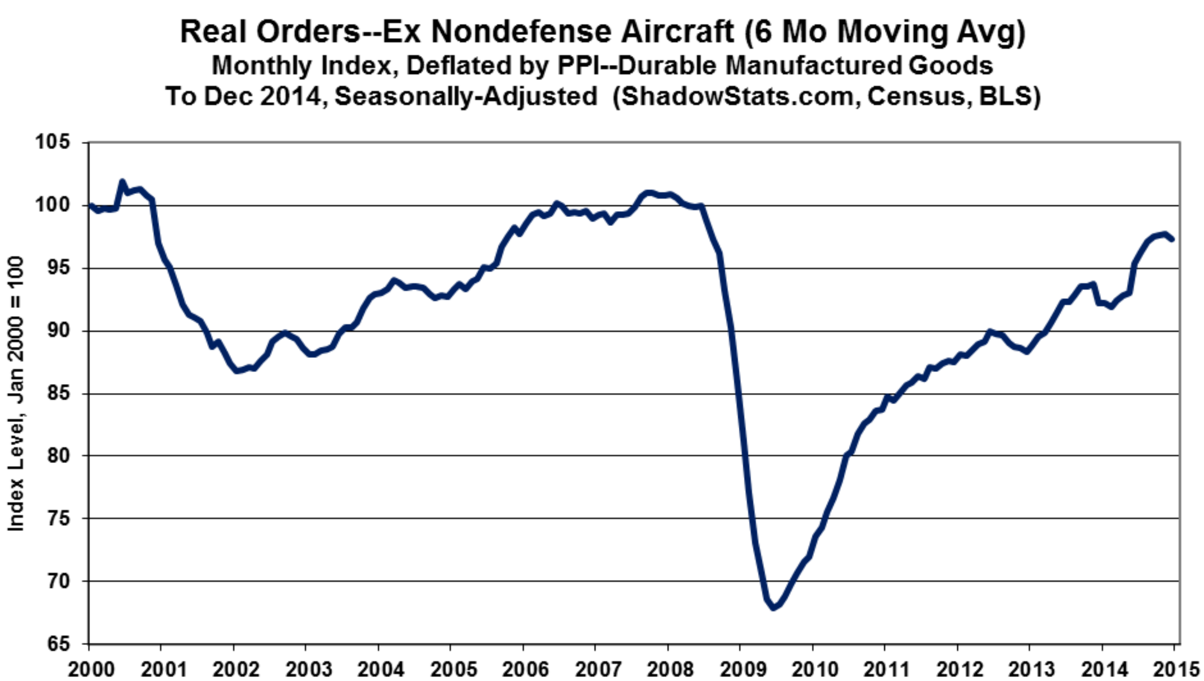
Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series. The first two graphs show new orders for durable goods, again, adjusted for inflation using the Producer Price Index (PPI) measure for "Durable Manufactured Goods." These graphs show monthly as well as a six-month 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 December 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, looks like an anaconda swallowing a cow, but that will have passed from the moving average in next month's reporting.

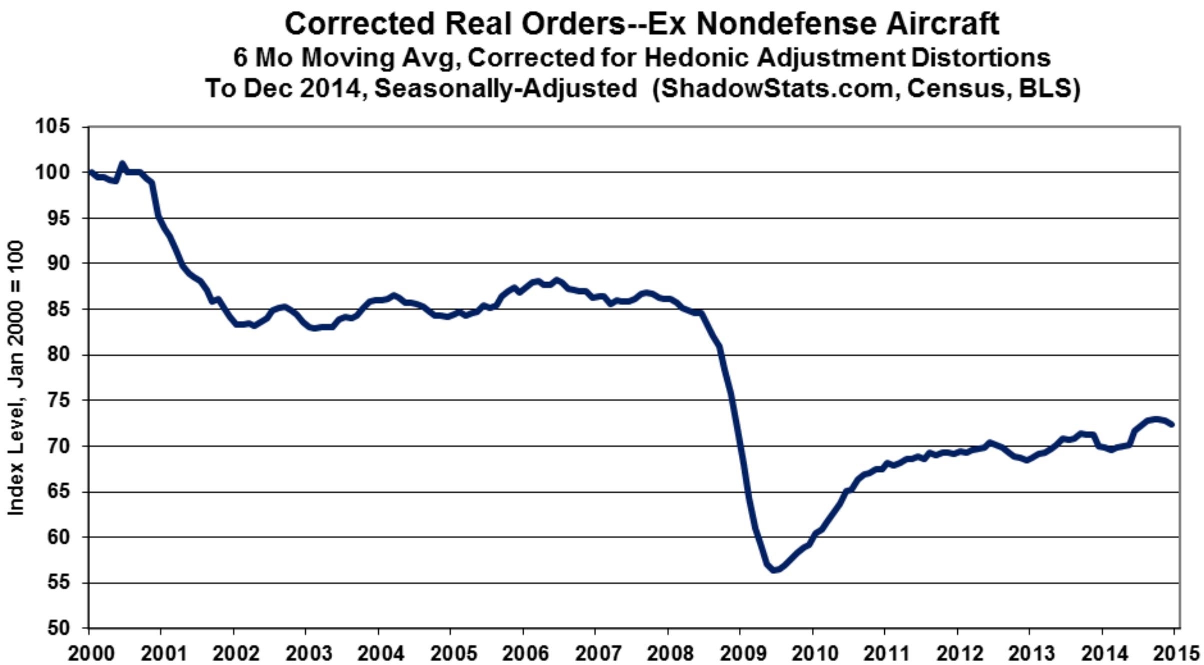
In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—with a dip and upside bouncing into 2013, and renewed stagnation, feeding into the temporary July surge. Broadly, there has been a recent general pattern of stagnation 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 December 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 now 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*).



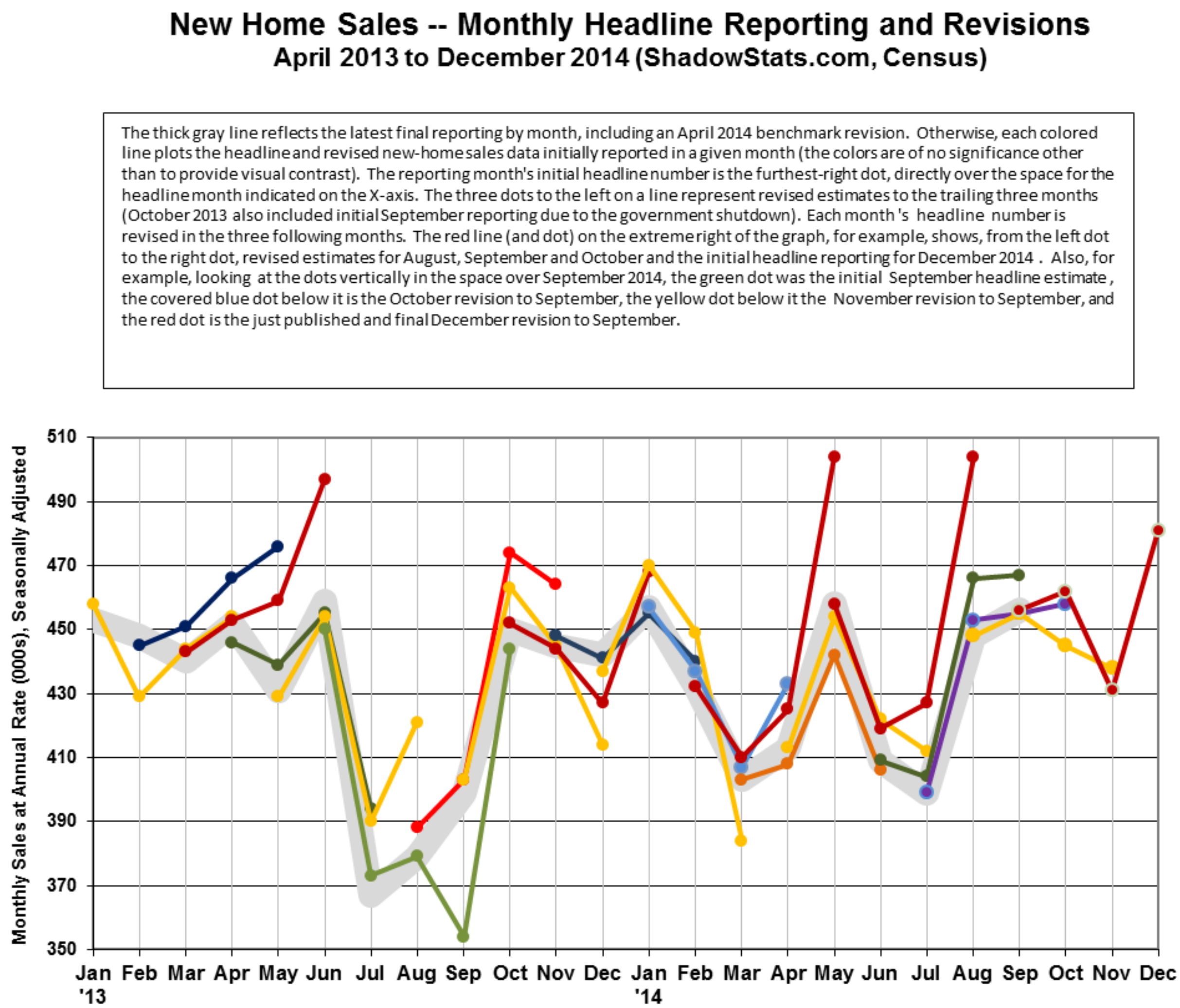


As has been done with other series such as the GDP, retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

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.

Home Sales in December 2014. Existing-home sales fell in fourth-quarter 2014 and were down for all of 2014. New-home sales reporting remained extremely unstable, with large monthly and annual swings in activity not even coming close to being statistically significant. The best that can be said for the new-home sales series is that it still is in a longer-term pattern of stagnation, and the Census Bureau might do well to report the series only on a quarterly basis, with perhaps a three-month lag in the reporting.

***New-Home Sales—December 2014*— Headline Reporting Was Nonsense; Stagnation Trend Continued.** Unstable and worthless headline reporting continued with the Census Bureau's estimate of December 2014 new-home sales. Shown in the revised graph of *New-Home Sales Reporting and Revision*, headline December reporting and earlier revisions gyrated as usual, with December showing a statistically-insignificant headline monthly spike in activity. That spike, though, followed a recent, regular pattern suggestive of an offsetting, downside revision for next month's reporting.



As examples of the latest reporting absurdities, consider that new-home sales in the Northeast rose by a headline 53.9% month-to-month in December, with a 95% confidence interval around that growth rate of plus-or-minus 112.2%. Even for the full year of new-home sales in 2014, versus 2013, sales growth was reported up by 1.2% +/- 3.4%. The Census Bureau cannot give a meaningful estimate as to whether or not aggregate new-home sales activity rose or fell in 2014. [All confidence estimates in this *Commentary* are at the 95% level. Such means that one time in twenty, the actual change is outside the stated confidence interval.]

The approach used in assessing these numbers—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, which also is plotted in the accompanying graphs.

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 December 2014 new-home sales activity still was down by 64.7% (-64.7%) from the pre-recession peak of July 2005, while December single-unit housing starts were down by 60.1% (-60.1%) from the January 2006 high of that series. As discussed further in the *Consumer Liquidity* section, there has been no underlying improvement in fundamental consumer conditions. Correspondingly, there has not been a basis here for a recovery in the housing market, past, present or pending.

Longer-Term Pattern of New-Home Sales Was Consistent With Ongoing Stagnation. In the context of an upside revision to October and a downside revision to November activity, December headline new-home sales (counted based on contract signings, Census Bureau) rose by a statistically-insignificant 11.6%, following a revised monthly decline of 6.7% (-6.7%) in November, and a revised 1.3% month gain in October. Net of prior-period revisions, December's sales rose by 9.8% for the month, instead of the headline 11.6% gain.

Year-to-year, December 2014 sales rose by a statistically-insignificant 8.8%, versus a revised annual contraction of 3.1% (-3.1%) in November, and a revised annual gain of 2.7% in October.

Existing-Home Sales—December 2014—Up for the Month, but Down for the Quarter and the Year. Despite a 2.4% monthly gain in December 2014 sales, on top of a revised, somewhat sharper decline of 6.3% (-6.3%) in November, and despite a headline 3.5% year-to-year gain in sales for December 2014, fourth-quarter 2014 sales activity declined at a 4.1% (-4.1%) annualized pace, versus the third-quarter, which, in turn had increased at an annualized pace of 22.8% versus the second-quarter. Existing-home sales for all of 2014 fell by 3.1% from 2013.

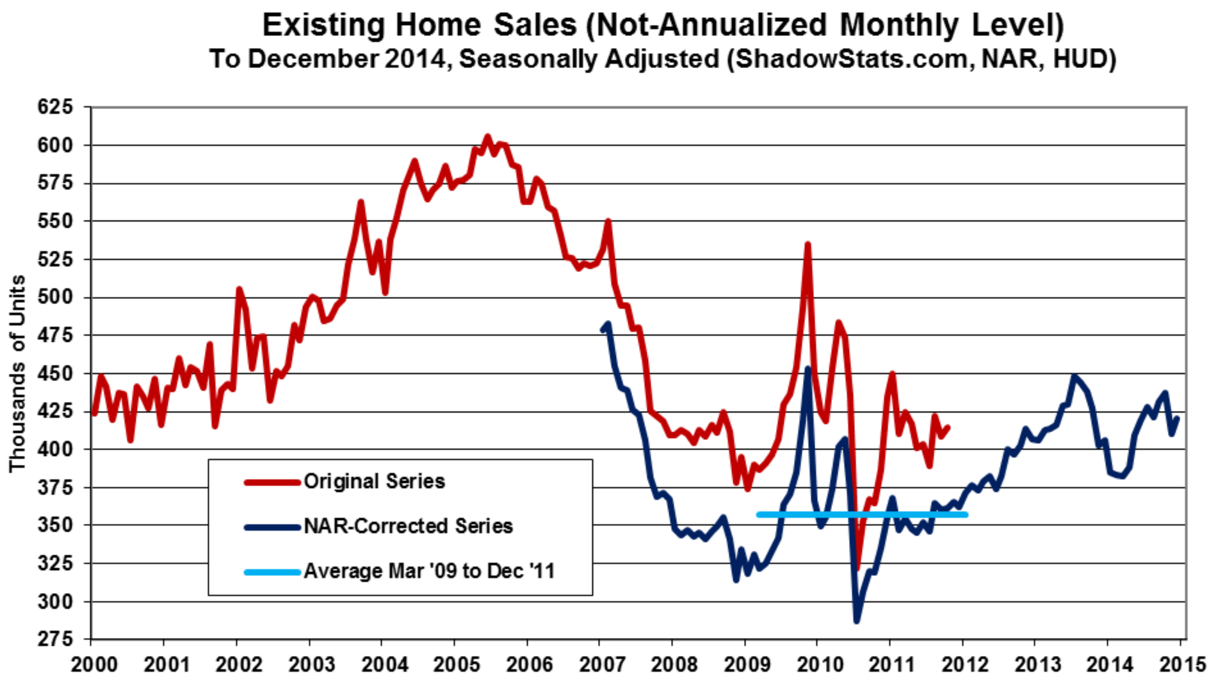
The December 2014 headline annual sales pace of 5,040,000 (an average monthly pace of 420,000) also remained down by 30.7% (-30.7%) from the June 2005 pre-recession peak in activity.

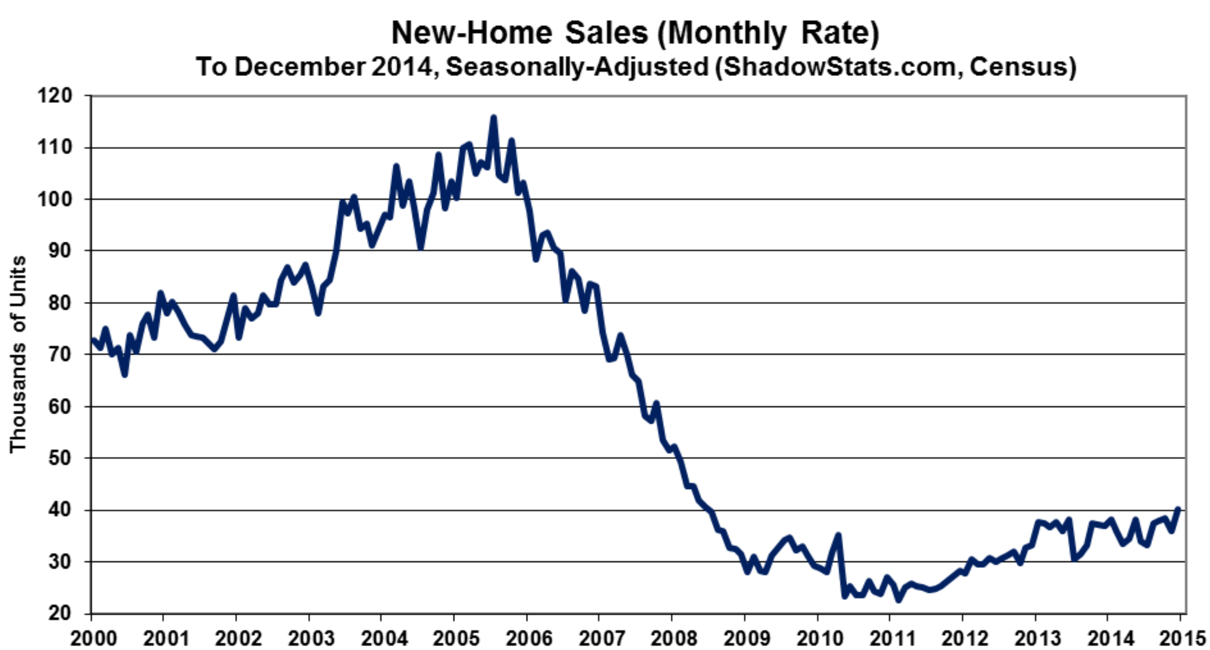
Headline Detail for December Existing-Home Sales. December 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted headline gain of 2.4%, following a revised November decline of 6.3% (-6.3%) and an unrevised monthly gain of 1.4% in October. Net of prior-period revisions, the headline December 2.4% gain was 2.2%.

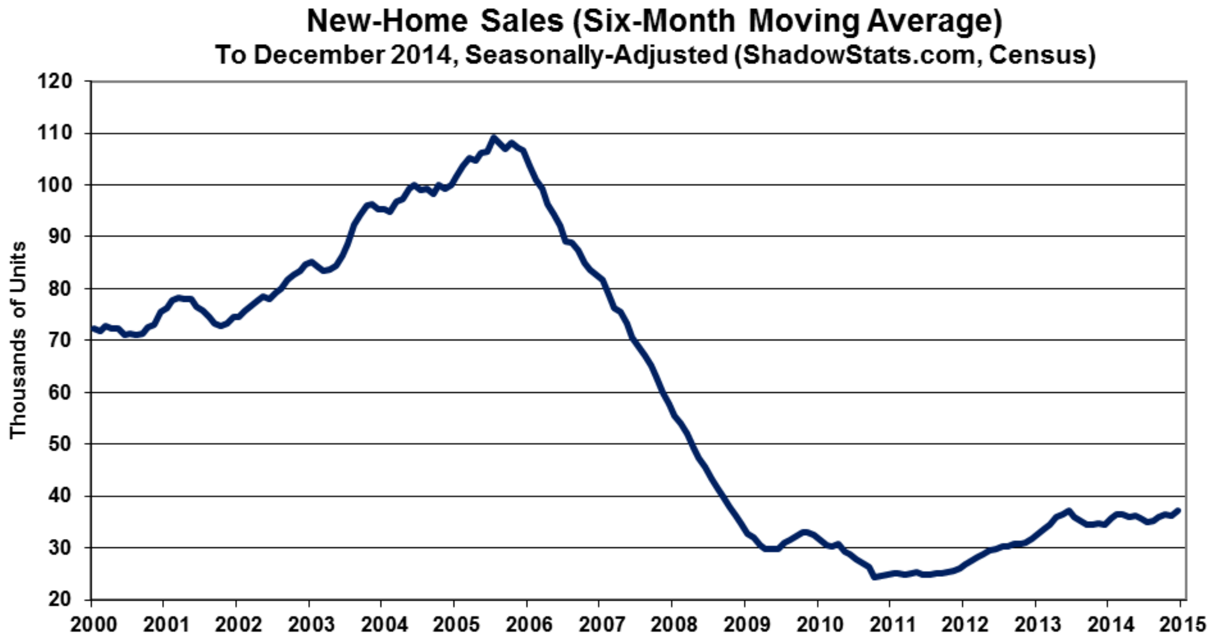
On a year-to-year basis, December 2014 annual sales increased by 3.5%, following a revised 1.9% increase in November, and an unrevised 2.3% gain in October.

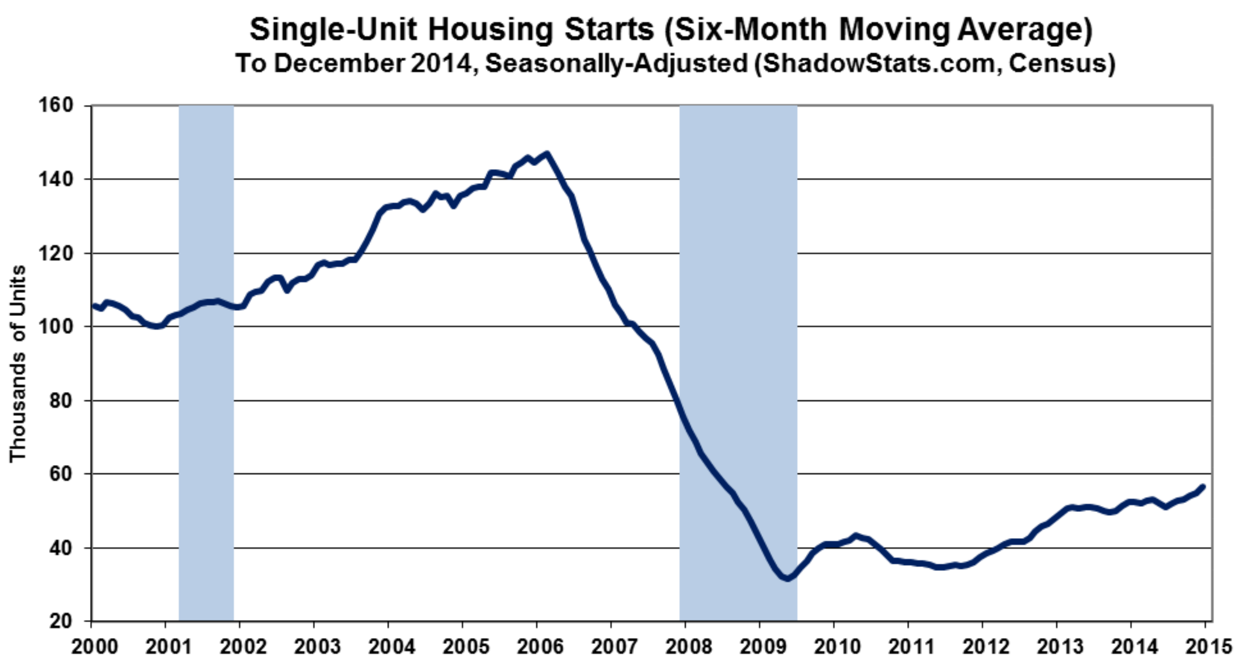
The headline December sales data remained well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the accompanying graph. The quality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

Increased Portion of Sales in Foreclosure. The NAR estimated that the portion of total December 2014 sales in "distress" were 11% (8% foreclosures, 3% short sales), up from 9% (6% foreclosures, 3% short sales) in November 2014, but down from 14% (10% foreclosures, 4% short sales) in December 2013. Reflecting continued lending problems, related banking-industry and consumer-solvency issues (see the following section on consumer liquidity and conditions), and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales activity in December 2014 was 26% of the total, up from 27% in November, but down from 32% in December 2013.







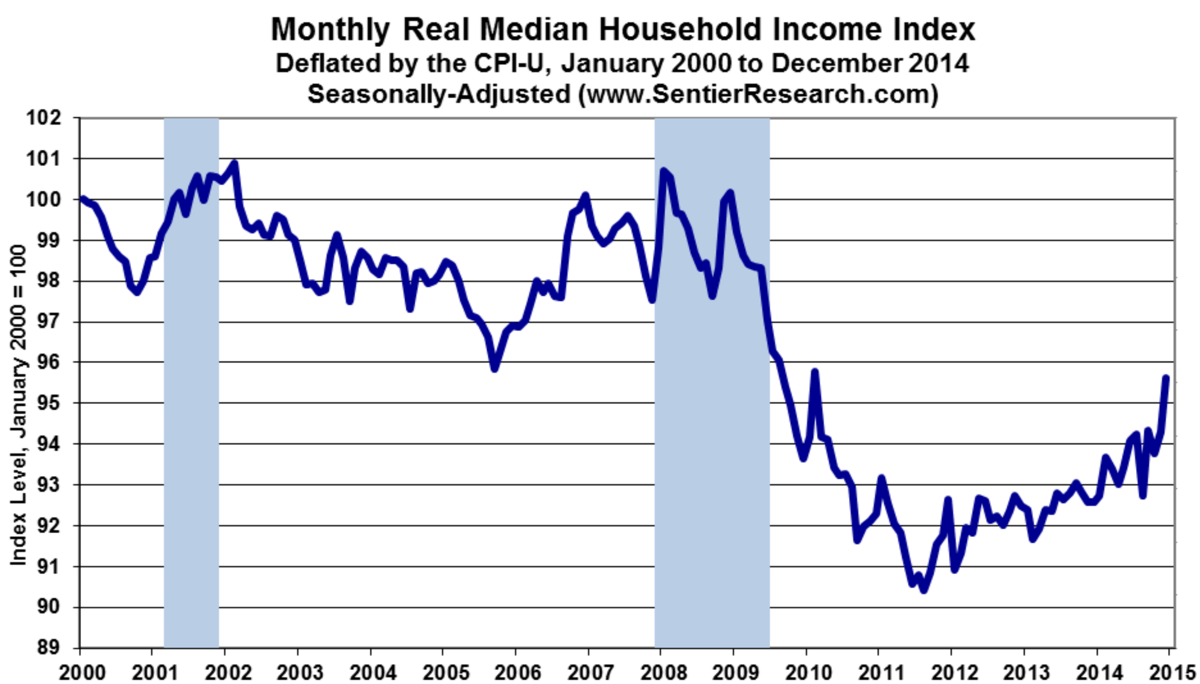


Comparative Graphs of New- and Existing-Home Sales and Single-Unit Housing Starts. Preceding are the regular monthly graphs of existing- and new-home sales activity. New-home sales are shown both on a monthly rate (not annualized) basis, and on a six-month moving average of same. Further, the final graph in the section, for purposes of comparison, is the smoothed (six-month moving average of the non-annualized monthly rate) for December single-unit housing starts (see *Commentary No. 689*).

Consumer Conditions Are Preventing a Return to Normal Residential Real Estate Activity. Discussed frequently in these *Commentaries*, without real (inflation-adjusted) growth in income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. Impaired consumer liquidity and its direct restraints on consumption have dominated the last eight-plus years of economic turmoil, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining retail sales activity and the related dominant personal-consumption-expenditures category of the GDP. Those sectors account for more than 70% of GDP activity.

Today's liquidity section updates graphs of the median household income and the consumer confidence and sentiment series. Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a fundamental upturn in consumer- and banking-liquidity conditions.

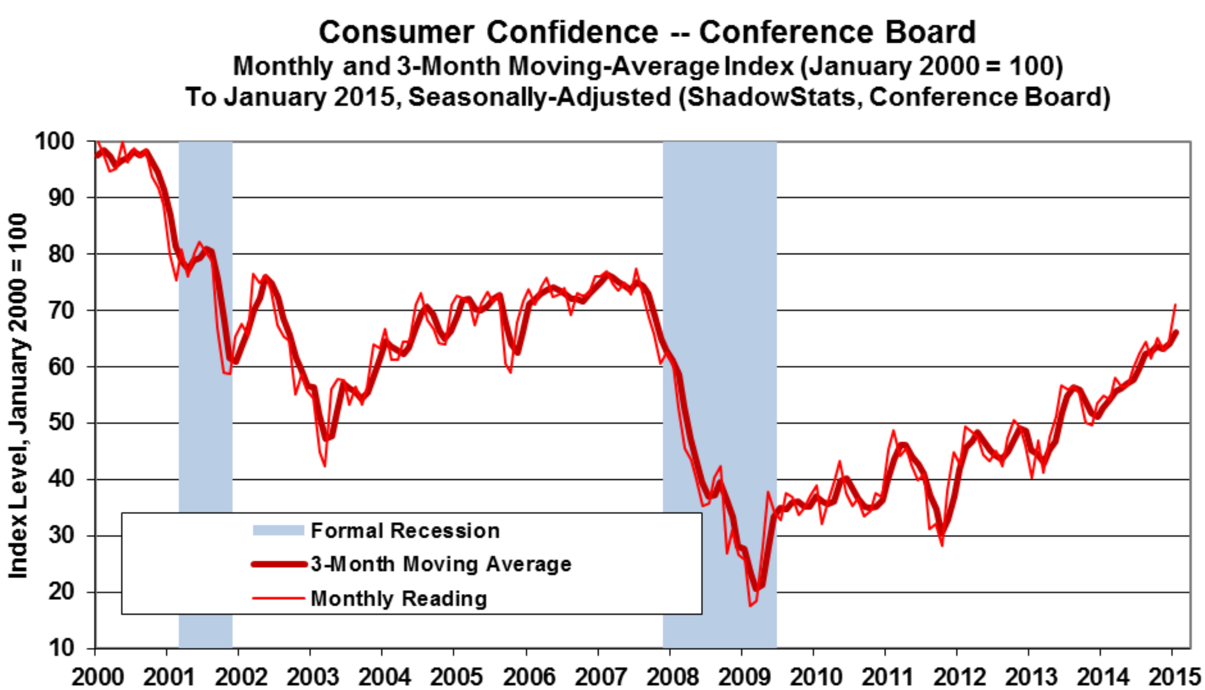
Consider the following charts. The first graph plots monthly real median household income through December 2014, as reported yesterday (January 26th) by www.SentierResearch.com. The series showed continued, low-level stagnation through December 2014, still remaining near its cycle low, despite some recent up-trending in month-to-month volatility exacerbated by headline month-to-month contractions of 0.3% (-0.3%) in November and 0.4% (-0.4%) in December 2014 headline CPI-U inflation used in deflating the series. On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows and has yet to recover its recession or pore-recession highs either for the 2007 recession or the 2001 recession.

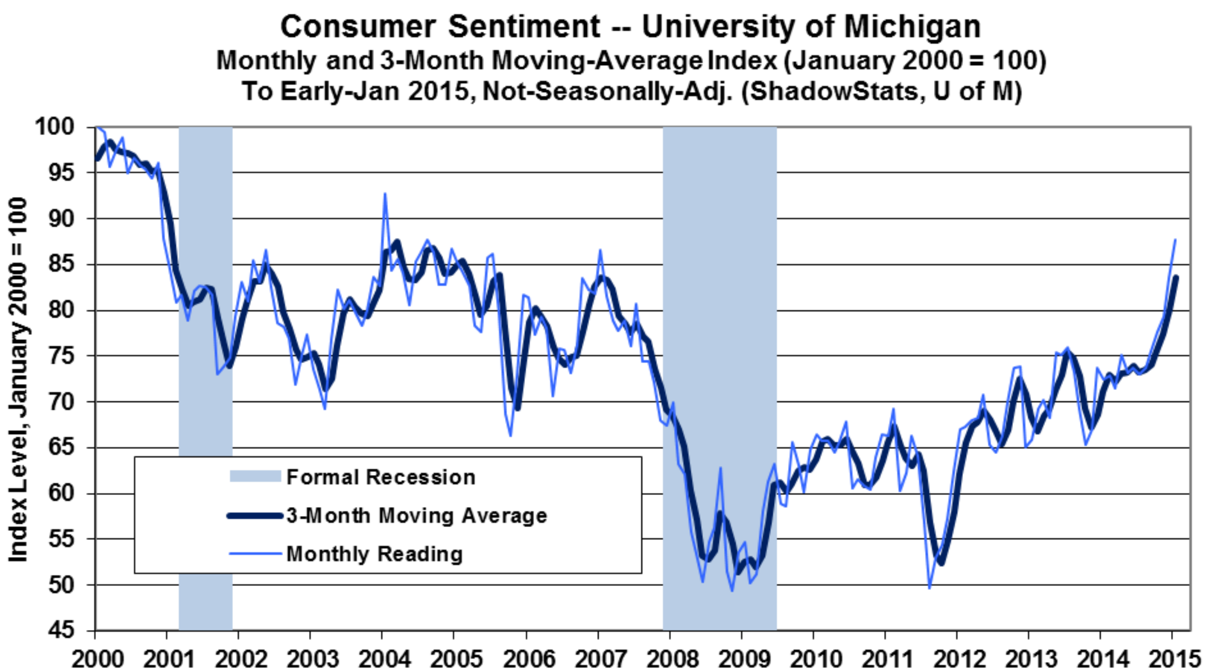


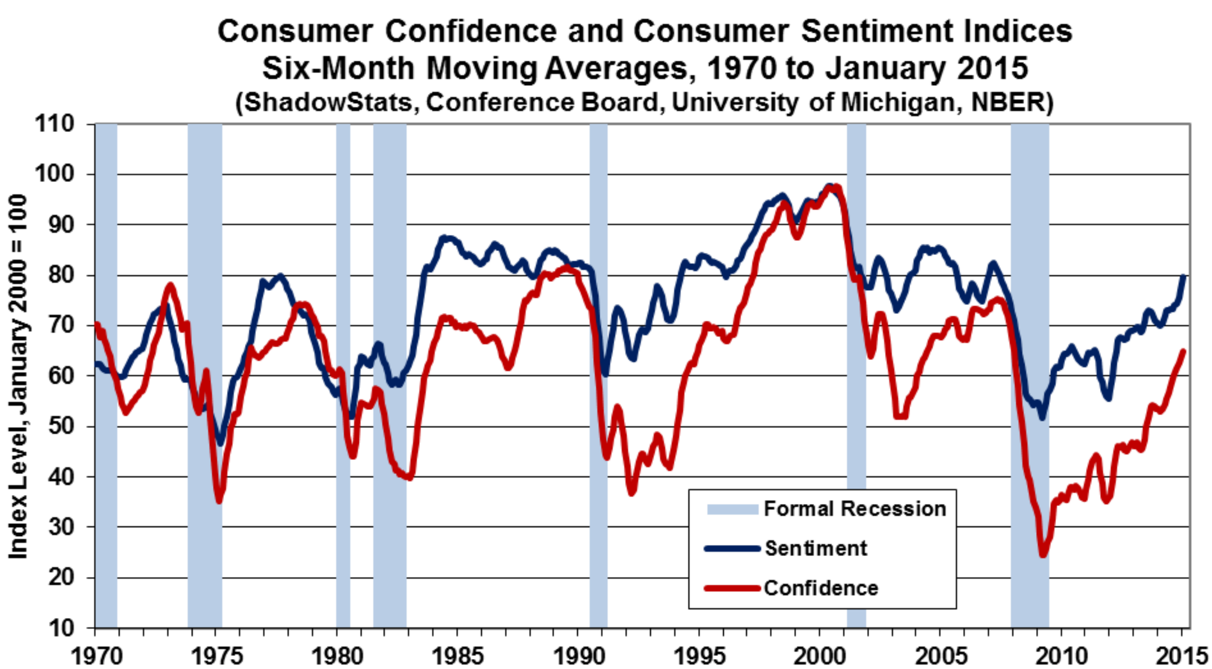
Also deflated by headline CPI-U, the same median household income series published by the Census Bureau on an annual basis confirmed that 2013 annual real median household income continued to hold at a low level of activity. In historical perspective, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy. Further discussion of these issues is found in *Commentary No. 658* and will be explored in the *Special Commentary*.

As shown in the next three graphs, both the Conference Board's Consumer Confidence Index, as updated through January 2015 this morning (January 27th), and the University of Michigan's Consumer Sentiment Index through early January (the early-month measure is of limited surveying scope), recently have trended higher. Both series jumped in early or initial reporting for January 2015, but both numbers in place now are subject to revision in the week and month ahead.

The confidence and sentiment series tend to mimic the tone of headline economic reporting in the press, and often are highly volatile month-to-month, as a result. Smoothed for irregular, short-term volatility, however, they remain at levels still seen typically in recessions. As suggested in the third graph following, as plotted for the last 40 years, the latest readings of confidence and sentiment have not recovered levels that preceded any of the formal recessions of the last 40 years, and generally remain well below, or are inconsistent with, periods of historically-strong economic growth that would rival recent booming, headline GDP gains.



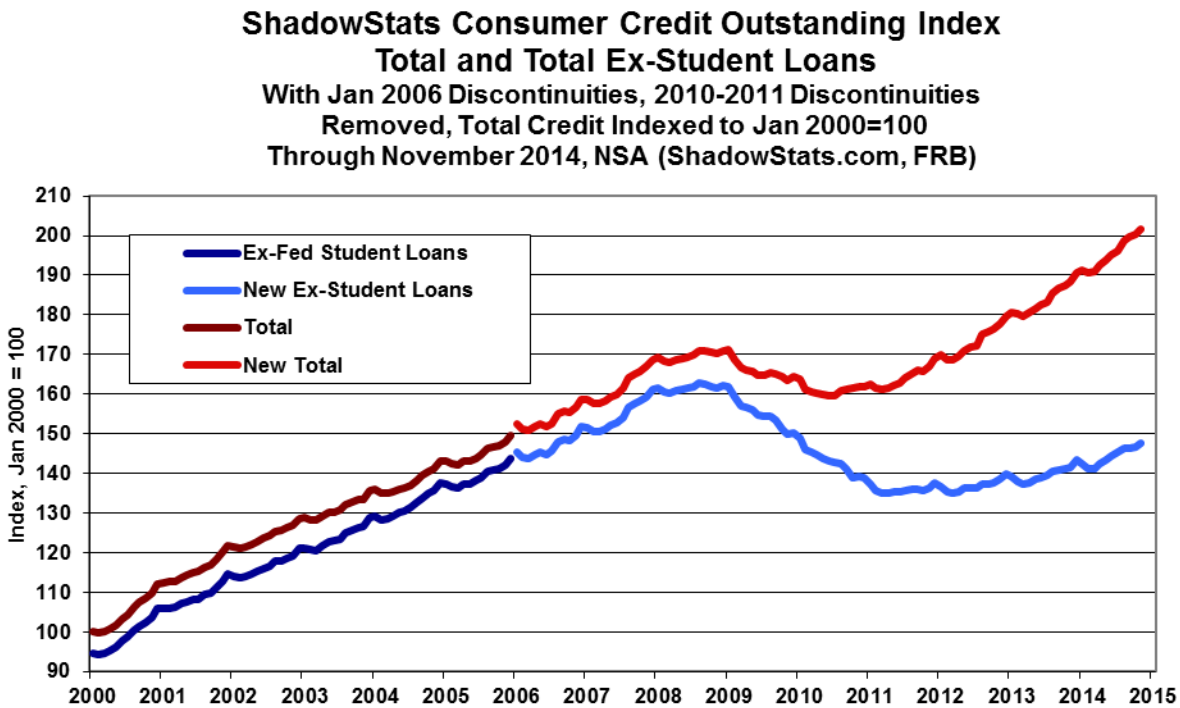




The next two graphs address consumer borrowing. Debt expansion can help to make up for a shortfall in income growth. Shown in the first graph of *Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered. The series here is deflated by the headline CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting among other issues, the lack of normal lending by the banking system into the regular flow of commerce. Such will be explored among the systemic-stress issues covered in the pending *Special Commentary*.

The second graph shows the regular plot of nominal consumer credit outstanding. Post-2008 Panic, it 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. Before any consideration for inflation, the nominal level of consumer credit outstanding (ex-student loans) has not rebounded or recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis.

Again, without real growth in income and/or debt expansion, and with consumer confidence and sentiment still at levels consistent with a significant portion of consumers signaling financial stress, there has been no basis for a sustainable economic expansion since the Panic of 2008, and there are no prospects for a recovery in the near future.



[Further background material on December New Orders for Durable Goods, and New- and Existing-Home Sales is included the **Reporting Detail*.* *Various drill-down and graphics options on the headline Durable Goods data also are available to subscribers at our affiliate: www.ExpliStats.com].***

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HYPERINFLATION WATCH

Hyperinflation Outlook Summary. This sub-section will be updated post-*Special Commentary*. See *Commentary No. 684* for the last version of the *Hyperinflation Summary*.

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (December 2014)

Drop in December Orders Was on Top of Downside Revisions to November and October; Fourth-Quarter Orders Contracted. Despite a sharp decline in December nondefense (commercial) aircraft orders and downside revisions to same in November and October, new orders for durables declined month-to-month in December and contracted quarter-to-quarter in fourth-quarter 2014, when viewed before or after inflation adjustment and before or after any consideration for aircraft-order distortions.

Annualized quarterly growth in inflation-adjusted (real) terms, new orders—ex-commercial aircraft—contracted in fourth-quarter 2014 at an annualized pace of 5.9% (-5.9%), and was down by 3.9% (-3.9%) in nominal terms. Real growth had slowed sharply in third-quarter 2014 to 4.3%, from a 14.9% gain in second-quarter 2014 (in nominal terms, those growth rates respectively were 5.1% and 19.4%). The ex-commercial aircraft number is the one to look at as an indicator of pending, broad economic activity, due to the extreme and irregular nature of the volume of aircraft orders, as well as the limited impact of those orders on near-term economic activity. Consider that including the aircraft orders, nominal fourth-quarter total durable goods orders fell at an annualized quarterly pace of 34.0% (-34.0%), having risen at a 40.6% annualized pace in the third-quarter.

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Both before and after consideration of volatility in commercial-aircraft orders, headline December durable goods orders remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of 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) December 2014 Reporting. The Census Bureau reported today, January 27th, that the regularly-volatile, seasonally-adjusted, nominal level of December 2014 new orders for durable goods fell by 3.41% (-3.41%), following a revised decline of 2.12% (-2.12%) [previously down by 0.68% (-0.68%)] in November, and a revised 0.26% [previously 0.30%, initially 0.04%] gain in October. Net of prior-period revisions, aggregate new orders for December declined in the month by 4.85% (-4.85%).

Year-to-year and seasonally-adjusted growth in December 2014 durable goods orders rose by 0.31%, versus a revised decline of 1.15% (-1.15%) [previously a gain of 0.35%] in November, and a revised annual gain of 5.52% [previously 5.56%, initially 5.51%] in October.

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 headline monthly decline of 55.51% (-55.51%) in December commercial aircraft orders, aggregate orders declined by 0.24% (-0.24%) for the month. Net of a revised November decline of 11.03% (-11.03%) [previously a gain of 0.58%] in aircraft orders, November aggregate orders fell by 1.52% (-1.52%) [previously down by 0.76% (-0.76%)] in the month. Net of a revised 0.77% gain [previously a 0.30% gain, initially a decline of 0.08% (-0.08%)] in October orders, aggregate orders rose by a revised 0.22% [previously up by 0.27%, initially up by 0.44%] for the month.

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 October 2014 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—December 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 "unchanged" pace of inflation in December 2014, following a negative 0.06% (-0.06%) pace of inflation in November, with headline annual inflation at 1.09% in December 2014, versus 1.15% in November 2014.

Adjusted for that inflation, and again as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders declined by 3.41% (-3.41%) in December 2014, following a revised contraction of 2.06% (-2.06%) [previously down by 0.62% (-0.62%)] in November, and a revised decline of 0.16% (-0.16%) [previously down by 0.12% (-0.12%), initially down by 0.02% (-0.02%)] in October. Ex-commercial aircraft, real orders fell by 0.24% (-0.24%) month-to-month in December, following a revised decline of 1.46% (-1.46%) [previously down by 0.70% (-0.70%)] in November, and a revised decline of 0.20% (-0.20%) [previously down by 0.15% (-0.15%), initially up by 0.02%] in October.

Real year-to-year aggregate orders fell by 0.77% (-0.77%) in December 2014, following revised annual decline of 2.27% (-2.27%) [previously down by 0.79% (-0.79%)] in November, a revised 4.13% [previously 4.18%, initially 4.12%] annual gain in October. Ex-commercial aircraft, orders rose year-to-year by 13.65% in December 2014, versus a revised gain of 1.82% [previously up by 2.64%] in November, and a revised gain of 3.68% [previously and initially up by 3.73%] in October. The surge in December year-to-year growth was against an unusually-sharp drop in defense orders in December 2013.

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 of 2014. Please note that due to the extreme July number, the six-month moving average for the aggregate series has been showing a large upside bump that will disappear in January 2015, when the July number will have 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 (December 2014)

Headline Monthly Reporting Remains Nonsense; Long-Term Stagnation Trend Continued. Unstable and worthless headline reporting continued with the Census Bureau's latest estimate of new-home sales, which was for December 2014 in the current circumstance. Shown in the revised graph of *New-Home Sales Reporting and Revisions* in the *Opening Comments* section, the headline December reporting and earlier revisions gyrated as usual, with December showing a statistically-insignificant headline monthly spike in activity. That spike, though, followed a recent, regular pattern that suggests an offsetting, downside revision for next month's reporting.

As an example of the reporting absurdities here, consider that new-home sales in the Northeast rose by a headline 53.9% month-to-month in December, with a 95% confidence interval around that growth rate of plus-or-minus 112.2%. Even for the full year of new-home sales in 2014, versus 2013, sales growth was reported up by 1.2% +/- 3.4%. The Census Bureau cannot give a meaningful estimate as to whether or not new-home sales rose or fell in aggregate, in 2014. [All confidence estimates here are at the 95% level. Such means that about one-in-twenty times, the actual change was outside the confidence interval.]

The approach used here in assessing these numbers, 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, which also is 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 December 2014 new-home sales activity still was down by 64.7% (-64.7%) from the pre-recession peak of July 2005, while December single-unit housing starts were down by 60.1% (-60.1%) 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 in the housing market, past, present or pending.

Longer-Term Pattern of New-Home Sales Was Consistent With Ongoing Stagnation. As reported by the Census Bureau, today, January 27th, in the context of an upside revision to October and a downside revision to November activity, December headline new-home sales (counted based on contract signings) rose by a statistically-insignificant 11.6% +/-19.1%, following a revised monthly decline of 6.7% (-6.7%) [previously down by 1.6% (-1.6%)] in November, and a revised 1.3% month gain [previously down by 2.2% (-2.2%), initially a 0.7% gain] in October. Net of prior-period revisions, December's sales rose by 9.8% for the month, instead of the headline 11.6% gain.

Year-to-year, December 2014 sales rose by a statistically-insignificant 8.8% +/- 20.9%, versus a revised annual contraction of 3.1% (-3.1%) [previously down by 1.6% (-1.6%)] in November, and a revised annual gain of 2.7% [previously a decline of 1.1% (-1.1%), initially a 1.8% gain] in October.

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 December housing starts for single-unit construction, and December existing-home sales, all are included for comparison.

EXISTING-HOME SALES (December 2014)

Up for the Month, but Down for the Quarter and the Year. Despite a 2.4% monthly gain in December sales, on top of a revised, somewhat sharper 6.3% (-6.3%) decline in November, and despite a headline 3.5% year-to-year gain in sales for December 2014, fourth-quarter 2014 sales activity declined at a 4.1% (-4.1%) annualized pace, versus the third-quarter, and sales for all of 2014 fell by 3.1% from 2013.

The December 2014 headline annual sales pace of 5,040,000 (an average monthly pace of 420,000) also remained down by 30.7% (-30.7%) from the June 2005 pre-recession peak in activity.

Headline Detail for December Existing-Home Sales. The January 23rd release of December 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted headline gain of 2.4%, following a revised decline of 6.3% (-6.3%), previously a decline of 6.1% (6.1%), in November, and an unrevised monthly 1.4% (initially 1.5%) gain in October. Net of prior-period revisions, the December 2.4% gain was 2.2%.

On a year-to-year basis, December 2014 annual sales increased by 3.5%, following a revised 1.9% (previously 2.1%) gain in November, and an unrevised 2.3% (initially 2.5%) gain in October.

The headline December sales data remained 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.

Increased Portion of Sales in Foreclosure. The NAR estimated that the portion of total December 2014 sales in "distress" were 11% (8% foreclosures, 3% short sales), up from 9% (6% foreclosures, 3% short sales) in November 2014, but down from 14% (10% foreclosures, 4% short sales)in December 2013. Reflecting continuing lending problems, related banking-industry and consumer-solvency issues (see *Opening Comments*), and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales activity in December 2014 was 26% of the total, up from 27% in November, but down from 32% in December 2013.

Bleak Outlook Continues for Home Sales, Based on Impaired Consumer Liquidity Conditions. Discussed, along with graphs, in the *Opening Comments*, and as will be explored further in the pending *Special Commentary*, 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 December new-home sales (see next section) and of smoothed December housing starts for single-unit construction (from *Commentary No. 689*).

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WEEK AHEAD

Against Overly-Optimistic Expectations, Economic Releases and Revisions in the Months Ahead Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger after the Impact of Temporary Oil-Price Declines. Shifting some to the upside, again, from the downside, amidst wide fluctuations in the numbers, market expectations for business activity remain overly optimistic in the extreme. They exceed any potential, underlying economic reality. Downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting should hammer those expectations in the next several months. Recent GDP excesses, however, will not face downside revisions until the July 30, 2015 benchmark revision to that series (see *Commentary No. 684*).

Headline consumer inflation—dominated by gasoline and other oil-price related commodities—should hit a near-term bottom in the next two months. Significant upside inflation pressures should resume when oil prices begin their rebound, a process that should be accelerated rapidly by an eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in the pending *Special Commentary*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. Data instabilities were induced partially 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. The severity and ongoing nature of the downturn 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. Again, new issues tied to GDP reporting are discussed in the pending *Special Commentary* and in *Commentary No. 684*.

PENDING RELEASES:

Gross Domestic Product—GDP (Fourth-Quarter 2014, "Advance" or First Estimate). The Bureau of Economic Analysis (BEA) will publish its first estimate of fourth-quarter 2014 GDP on Friday, January 30th. Following extremely-overstated, annualized quarterly real headline growth rates of 4.6% and 5.0%, respectively for second- and third-quarter GDP 2014, market expectations appear to have settled in around a somewhat slower pace of 3.2% [Bloomberg] plus-or-minus, for the initial estimate of annualized quarterly real growth in fourth-quarter GDP.

The BEA likely already had a fair sense of the pending, initial fourth-quarter GDP growth estimate, when President Obama touted that the nation had "risen from recession," in his January 20th State of the Union Address. Accordingly, the chances of a disappointing or bad GDP number being reported here are nil.

The numbers are rigged. The White House likely got some guidance of the reporting from the BEA, or gave some guidance to the BEA on the needed GDP reporting parameters.

Otherwise, reporting risks generally would be to the downside of expectations, where underlying fundamentals suggest an even greater slowing in fourth-quarter growth versus consensus, to something on the plus-side of flat, as discussed in today's *Opening Comments*.

If the numbers are straight forward, the BEA literally will be guessing the growth rate with its initial estimate, where the Bureau still lacks full quarterly information on factors such as the trade deficit, inventories and construction spending. Unless it sees evidence for sharply higher or lower growth than the consensus outlook, it would tend to target the consensus outlook for the "advance" reporting. Accordingly, an initial estimate sharply above or below the consensus would tend to indicate where the BLS sees the revised reporting going, and would tend to signal the likely direction of the first revision.

In recent reporting, BEA revisions to the initial GDP estimate have been unusually volatile, signaling instabilities in the reporting system likely tied to the impact of the Affordable Care Act. The ACA is an economic depressant, not a stimulus, and it is not easily quantifiable, given the extremely poor-quality of the data available (discussion pending in *Special Commentary*). Again, other than for the happy signal from the President, nothing would be particularly surprising with the initial estimate of fourth-quarter growth. Discussed frequently by ShadowStats, the GDP remains the most-worthless, guessed-at, politically-manipulated and heavily-massaged of the major economic series put out by the various U.S. statistical bureaus.

Given the poor-quality of the broad economic data available, the year-end reporting tradition has been to delay the initial fourth-quarter estimates of Gross National Product (GNP) and Gross Domestic Income (GDI), until the second revision of the fourth-quarter GDP (March 27th). GDP is a component of the broader GNP measure, which includes the trade balance in factor income (interest and dividend payments), while GDP is the consumption-side equivalent to the income-side GDI.

