

**COMMENTARY NUMBER 722**  
**GDP Reporting Issues, April Durable Goods, New-Home Sales**  
**May 26, 2015**

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**The Fed, White House and Wall Street versus the  
Bureau of Economic Analysis**

**While Assessing Seasonality Factors, the  
BEA Will Not Double-Adjust the GDP**

**Headline First- and Second-Quarter GDP Contractions Remain Likely**

**Durable Goods Orders Continued Pattern of Down-Trending Activity, with  
Annual Growth Turning Increasingly Negative**

**New- and Existing-Home Sales Continued in Broad Stagnation**

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*PLEASE NOTE: The next regular Commentary, scheduled for Friday, May 29th, will cover the first revision to first-quarter 2015 GDP.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Contractions in Both First- and Second-Quarter 2015 GDP Likely Will Survive the Headline and Benchmark Reporting of July 30th.** Prior [\*Commentary No. 721\*](#) briefly covered the orchestrated public outcries as to the understated nature of 0.2% headline real growth in first-quarter 2015 GDP (likely an

actual contraction as of the pending Friday revision). The chorus of excuses for the weak economic showing generally came from those with stakes in having the headline economic-growth rate as strong as possible. Critics of the low-growth number included individuals representing the White House (Council of Economic Advisers) and the financial community (private banks, regional Federal Reserve banks, Wall Street and related cheerleaders in the popular financial media).

One of the wilder suggestions was that the GDP suffered severe, residual seasonality in its reporting—seasonal distortions—that could and should be addressed by further seasonally-adjusting the aggregate headline GDP series. Where the GDP already is seasonally-adjusted, this was being touted effectively as a second seasonal adjustment of the GDP. Then on the Friday before a holiday weekend (May 22nd), the Bureau of Economic Analysis (BEA) posted a blog indicating that it was reviewing residual seasonality in the GDP, and the press picked up on how the weak GDP was wrong and was under review.

***A Canard Aimed at Helping the Fed, Mitigating Negative Pressures on the Dollar and Muting Other Market Reactions to a GDP Contraction?*** The effect of the carefully-orchestrated game with the media has been to mute normal market reaction to what in reality is unfolding, negative economic news. Helped along by rapid market acceptance of the weak first-quarter GDP being an error—an aberration—the Fed suddenly appears increasingly free to spike interest rates at will. With those expectations shifting in the last several business days, the U.S. dollar has rallied, while gold, silver and oil prices have fallen.

***The BEA Is Not Going to Seasonally Adjust the GDP a Second Time.*** Consider that the BEA discussed its approach to the seasonality issues in a preview of the upcoming July 30th benchmark revision, well in advance of last Friday's blog, and prior to the April 30th "advance" estimate of 0.2% real growth for first-quarter GDP. Per the [BEA Comment](#) of April 23rd: "BEA and its source data agencies regularly review and update their seasonal adjustment procedures to account for changes in seasonal patterns that emerge over time. Despite regular reviews and updates, changes in seasonal patterns can sometimes lead to 'residual seasonality'—that is, the manifestation of seasonal patterns in data that have already been seasonally adjusted."

The GDP is a seasonally-adjusted series, because it is a compilation of seasonally-adjusted series. The aggregate GDP numbers are not seasonally adjusted as a unit. Such would distort the numbers meaningfully, and the BEA knows that. The BEA did discuss in its earlier announcement how certain series might be changed in the upcoming benchmark revision, such as seasonally-adjusting defense spending. Those changes should not be that large, in aggregate, and a sharp quarterly contraction in first-quarter 2015 GDP likely would survive as a contraction throughout the 2015 benchmarking process.

As an aside, the growth pattern of the quarter prior to the actual benchmarking (first-quarter 2015 in this case) usually is held intact after the benchmarking, as a signal of stability in the revised numbers.

***The Economy Really Is in Trouble and Gimmicking the First-Quarter Would Make the Second-Quarter GDP Look Even Worse.*** The first-quarter economy contracted, as indicated by series including retail sales, industrial production, housing starts and durable goods orders, and the second quarter already is moving rapidly in that direction. That unfolding circumstance had been causing increased market skepticism as to an imminent rate hike by the Fed, weakening the exchange-rate value of U.S. dollar, and providing some upside pressure on prices for oil and precious metals. Such appears to have helped trigger the orchestrated media squawking.

Any significant, nonsensical recasting of the unfolding first-quarter GDP contraction should arouse significant criticism among independent economists, who do not have to sell a story for Wall Street. Nonetheless, the circumstance here will be followed closely, and ShadowStats updates will be posted as appropriate.

Reviewing the recent headline history of the GDP, post-official recession, there is no meaningful basis for revamping the seasonal adjustments and too limited a history to work something, even if there were legitimate patterns that should be addressed. The existing GDP reporting patterns will be reviewed in the next *Commentary* (May 29th), also covering the first-revision to first-quarter 2015 GDP.

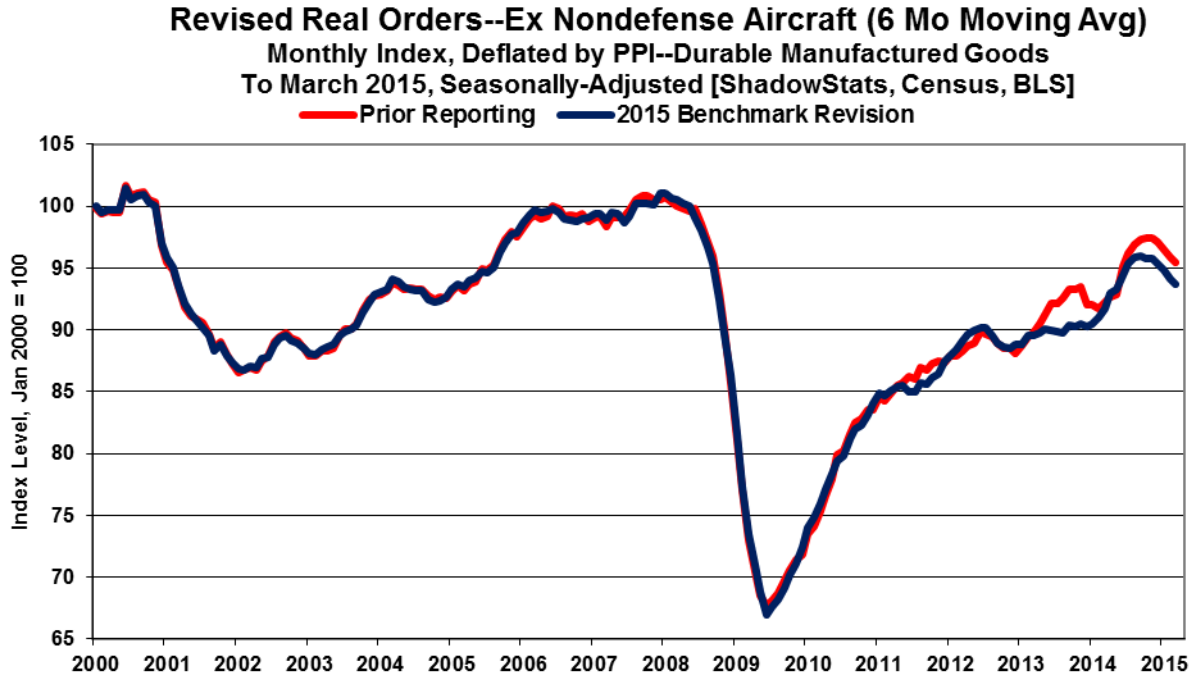
Finally, to the extent that seasonal factors are shifted, in order to boost first-quarter 2015 growth, such action would have to be offset by reducing the adjusted growth in other quarters, at least partially in second-quarter 2015. With second-quarter growth already tilting towards contraction, shifting those seasonal factors just might exacerbate an even more-negative circumstance for the markets, come the July 30th benchmarking and the first estimate of second-quarter GDP.

Again, ShadowStats has chronicled a number of issues with the GDP and offers alternative versions to headline GDP reporting, as detailed in *Chapter 7 and Chapter 8* of the [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), as well as in [Special Commentary No. 692](#), and as most recently updated in [Commentary No. 715](#).

**Today's Missive (May 26th).** The balance of today's *Opening Comments* concentrates on detail from the April new orders for durable goods and new-home sales reporting. The *Hyperinflation Outlook Summary* is not revised from *No. 711*. Separately, the *Week Ahead* section previews an updated assessment of the first revision to first-quarter 2015 GDP.

**New Orders for Durable Goods—April 2015—Annual Growth Is Tumbling.** The Census Bureau published its annual benchmark revisions to new orders for durable goods on May 14th, as discussed in [Commentary No. 719](#). The benchmarking had reduced the previous level of headline reporting for total orders by 1.8% (-1.8%) in March, and by 1.5% (-1.5%) in first-quarter 2015.

The following graph is one of a number of charts in that *Commentary* and shows a smoothed pattern of the downside revisions in 2013 and 2014 and the upside revisions in 2012. Today's headline reporting of April 2015 durable goods orders was in the context of that benchmarking and today's subsequent revision to the March 2015 numbers. All the detail and graphs here incorporate those revisions, unless stated otherwise.



**Leading Indicator of the Broad Economy.** Activity in new orders for durable goods has a leading relationship to industrial production as well as to general economic activity. Headline reporting for April 2015 new orders showed negligible monthly movement, but increasingly negative year-to-year change, irrespective of considerations for inflation and/or aircraft orders. The annualized quarterly declines in real new orders (ex-commercial aircraft) for both fourth-quarter 2014 [down by 5.58% (-5.58%)] and first-quarter 2015 [down by 7.45% (-7.45%)] survived the benchmarking. The April 2015 detail provided no good news, other than it was not more negative.

The near-consensus headline decline of 0.5% (-0.5%) in total orders was accounted for largely by a small decline in the irregular orders for nondefense (commercial) aircraft. Net of those orders, April durable goods orders declined by 0.2% (-0.2%). The ex-commercial aircraft series 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 multi-year orders on near-term economic activity.

Both before and after consideration of volatility in commercial-aircraft orders, aggregate headline monthly changes in April durable goods orders were minimal. They remained well within the normal reporting variations of this highly unstable series and were consistent with a pattern of down-trending 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 that commonly precedes or coincides with a recession or a deepening business downturn.

**Headline Nominal (Not-Adjusted-for-Inflation) April 2015 Reporting.** In the context of the aforementioned revisions, the regularly-volatile, seasonally-adjusted, nominal level of April 2015 new orders for durable goods fell month-to-month by 0.50% (-0.50%), following a revised gain of 5.08% in March, and a revised February decline of 3.47% (-3.47%). Net of the revisions to the benchmark estimate

of March 2015 activity, aggregate new orders for April were down by 0.15% (-0.15%), instead of the headline decline of 0.50% (-0.50%).

The seasonally-adjusted, year-to-year change in April 2015 durable goods orders was a contraction of 2.33% (-2.33%), versus a revised March 2015 decline of 0.69% (-0.69%), and an unrevised annual decline of 3.24% (-3.24%) in February 2015. In pre-benchmark reporting, February and March 2015 had shown positive annual growth rates respectively of 0.46% and 0.74%.

***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 4.02% (-4.02%) in April 2015 commercial-aircraft orders, aggregate orders declined by 0.23% (-0.23%). Net of a 49.67% gain in March 2015 commercial-aircraft orders, aggregate orders rose by 3.06%. Net of a decline of 12.07% (-12.07%) in February 2015 commercial-aircraft orders, aggregate orders fell by 2.94% (-2.94%). Net of a gain of 146.95% in commercial aircraft orders, aggregate orders fell by 0.70% (-0.70%) in January 2015. Year-to-year and seasonally-adjusted, April 2015 orders (net of commercial aircraft) were down by 2.72% (-2.72%), versus a March 2015 annual decline of 0.77% (-0.77%), an annual decline of 1.23% (-1.23%) in February 2015, and an annual gain of 3.82% in January 2015.

*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 were brought into balance, temporarily, with the annual benchmark revision to durable goods orders on May 14, 2015, today's subsequent monthly reporting and revision just made all historical reporting prior to January 2015 inconsistent with the current headline numbers.*

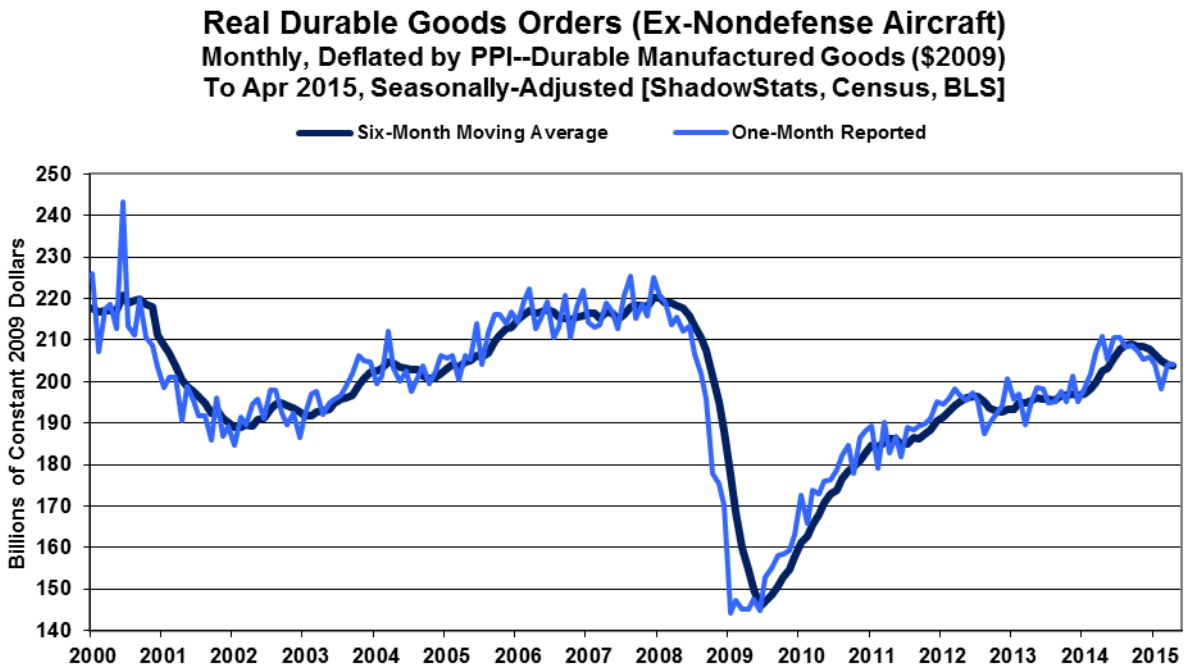
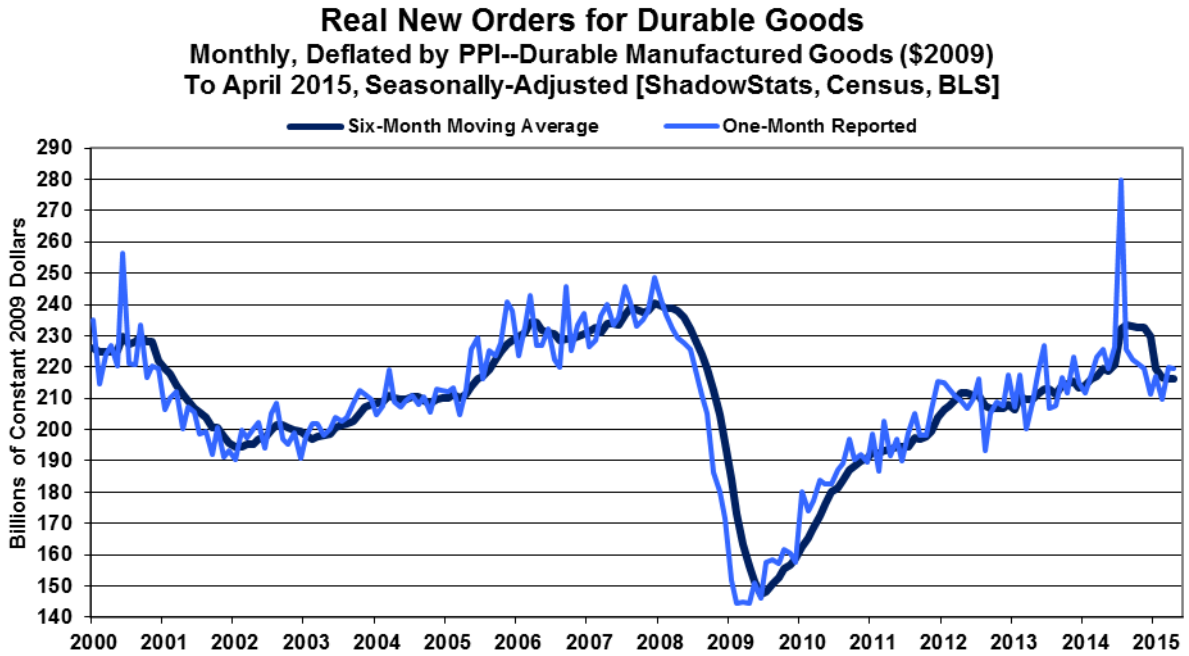
***Real (Inflation-Adjusted) Durable Goods Orders—April 2015.*** ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related April 2015 PPI series declined month-to-month by a headline 0.24% (-0.24%), following a monthly gain of 0.06% in March, an unchanged reading in February and a revised 0.12% gain in January. Headline annual inflation stood at 0.42% in April 2015, 0.72% in March 2015, 0.60% in February 2015 and 0.72% in January 2015.

Adjusted for that decline of 0.24% (-0.24%) in monthly April inflation, and again as reflected in the accompanying graphs, real month-to-month aggregate orders fell by 0.26% (-0.26%) in April 2015, with March real orders up by 5.02%, and February real orders down by 3.47% (-3.47%).

Ex-commercial aircraft, real orders effectively were unchanged, up month-to-month by just 0.01% in April 2015; they rose by 3.00% in March and fell by 2.94% (-2.94%) in February.

Real year-to-year aggregate orders fell by 2.74% (-2.74%) in April 2015, declined by 1.40% (-1.40%) in March 2015, and declined by 3.83% (-3.83%) in February 2015.

Ex-commercial aircraft, real orders fell year-to-year by 3.13% (-3.13%) in April 2015, declined by 1.48% (-1.48%) in March 2015, and fell by 1.82% (-1.82%) in February 2015.



*Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series.* The first two graphs, preceding, 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, updated for the 2015 benchmarking detail as well as this morning's headline reporting of April 2015 and post-benchmark revisions to the March 2015 numbers.

The first graph shows the aggregate new orders series, including the extreme swings in commercial-aircraft orders in July and August 2014, with a return to some stability in September 2014 through February 2015, an uptick in March and a minor decline in April. 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, looked like an anaconda swallowing a cow, but that passed from the moving average with January 2015 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 2014 surge. Orders have been in general decline since third-quarter 2014, with two consecutive quarterly contractions in place for fourth-quarter 2014 and first-quarter 2015, both before and after any consideration for aircraft orders and/or inflation.

Broadly, there has been a recent general pattern of down-trending 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) monthly and six-month moving-average level of new orders in April 2015 was below the pre-2007 recession high, as well as below the pre-2000 recession high. The pattern of recent stagnation now having turned to a downtrend in the inflation-adjusted series—net of the irregular aircraft-order effects—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 Commentary on Inflation Measurement](#)).

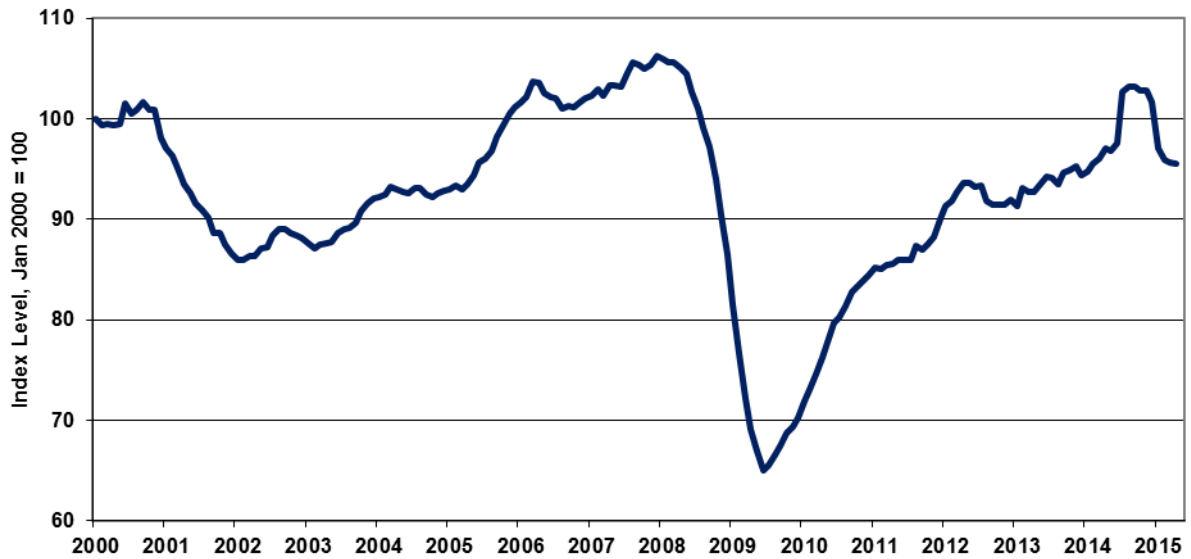
As has been done with other series such as the GDP, retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

The following two sets of graphs are first, for the aggregate series or total durable goods orders. The second set is for the ex-commercial aircraft series. The first plot in each series is the official six-month moving average, the same heavy dark-blue line shown in the earlier graphs along with the light-blue thin line of monthly detail. 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. Both sets of graphs are indexed to January 2000 = 100.0.

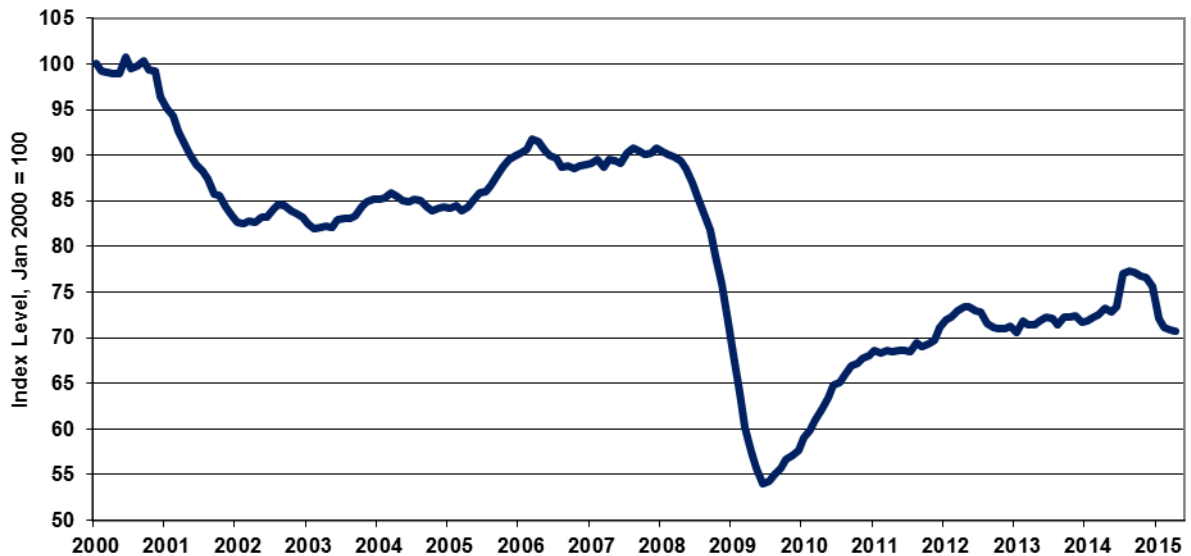
The second graph in the second set, entitled "Corrected Real Orders—Ex Nondefense Aircraft," is perhaps the best indicator of broad underlying order activity in the durable goods sector, in the context of signaling actual, near-term production and economic activity.

The aggregate orders series—in the first set—includes commercial aircraft orders. 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.

**Total Real New Orders for Durable Goods (6 Mo Moving Avg)**  
Monthly Index, Deflated by PPI--Durable Manufactured Goods  
To April 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]

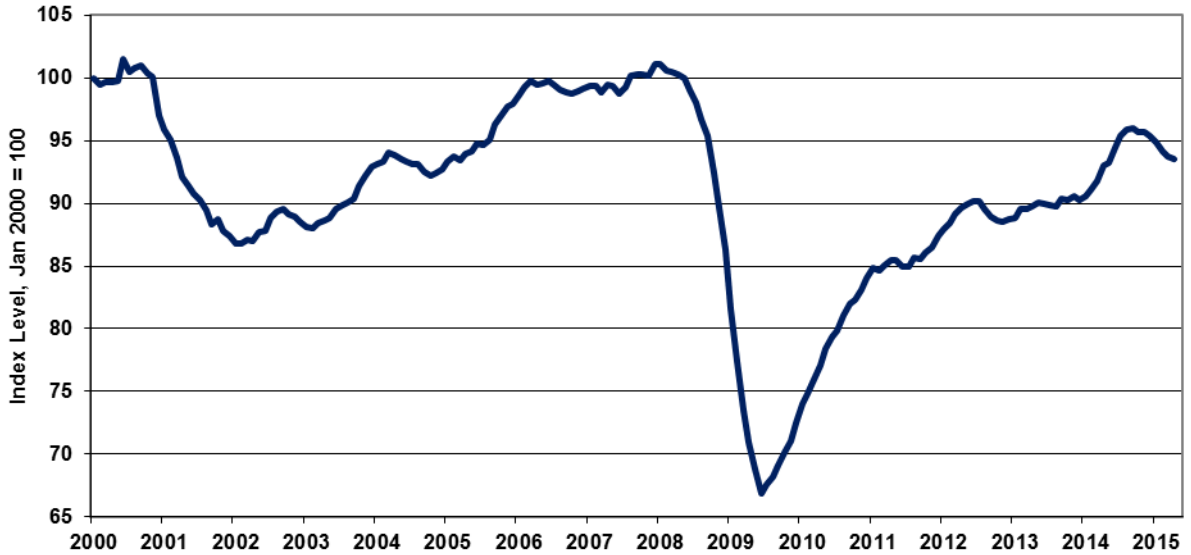


**Corrected Total Real Durable Goods Orders**  
6 Mo MA, Corrected for Hedonic Adjustment Distortions  
To April 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]

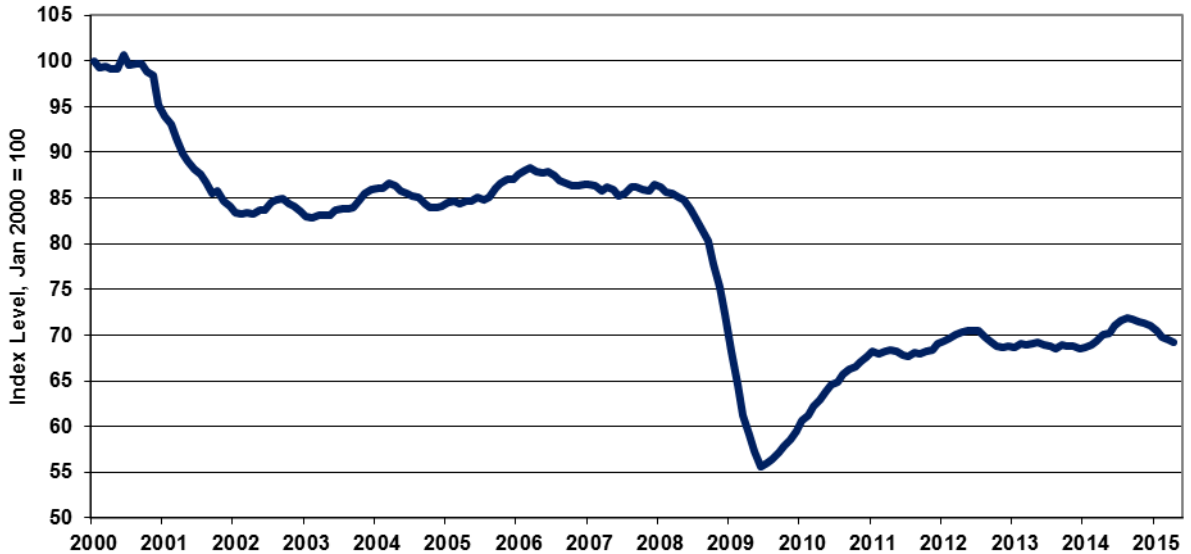




**Real Orders--Ex-Nondefense Aircraft (6 Mo Moving Avg)**  
Monthly Index, Deflated by PPI--Durable Manufactured Goods  
To April 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]



**Corrected Real Orders--Ex-Nondefense Aircraft**  
6 Mo Moving Avg, Corrected for Hedonic Adjustment Distortions  
To April 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]

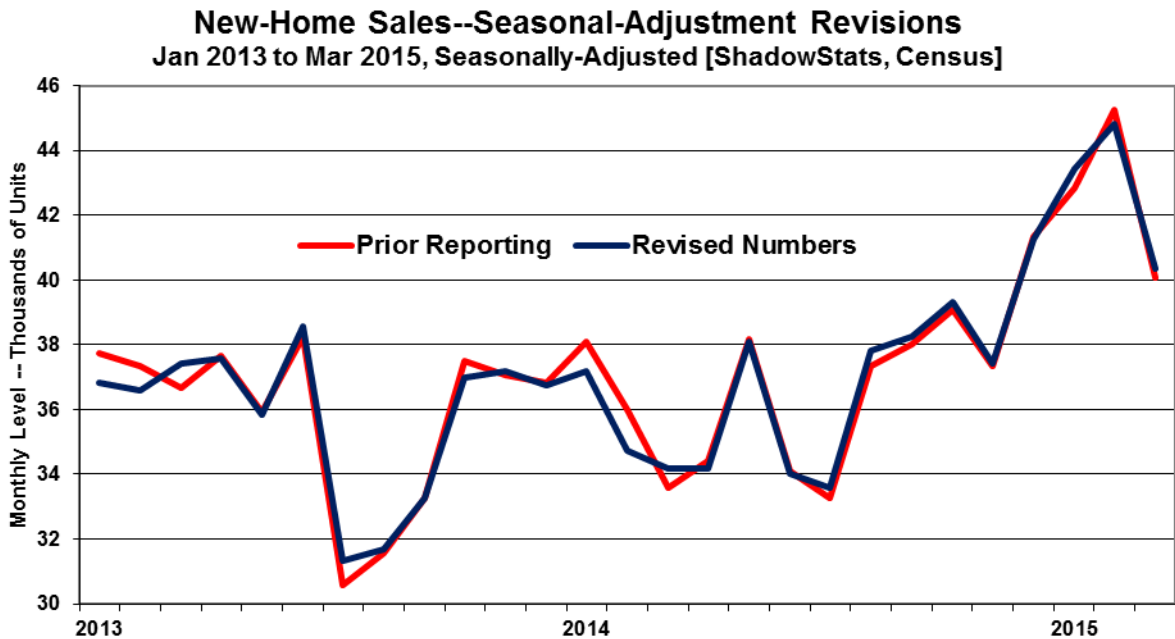


**Home Sales—April 2015—Residential Real Estate Activity Continued in Unstable but Generally Stagnant Patterns of Low-Level Activity.** Noted in [Commentary No. 721](#), headline existing-home sales fell by 3.3% (-3.3%) in April, with annual growth slowing to 6.1% from 10.9%. The monthly contraction disappointed market expectations, which had been for a headline monthly gain of 0.6% [Bloomberg]. In a broad pattern of stagnation, existing-home sales are trending flat-to-slightly minus.

Given the usual lack of statistical-significance and instabilities in the new-home sales series, the headline 6.8% monthly gain was unusually close to consensus, slightly above the expected 5.8% growth [Bloomberg], with annual growth increasing to 26.1% from 18.0%. The series also went through its annual seasonal-adjustment revisions. In a broad pattern of stagnation, new-home sales are trending flat-to-slightly positive, as reflected in the accompanying longer-range graphs.

**Home-Sales Activity Remains Muted by Constrained Consumer Liquidity.** Discussed in [Commentary No. 721](#) (for greater detail, see [Commentary No. 718](#) and [Commentary No. 719](#)), there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there has not been a basis here for a recovery in the housing market, past or present, and there is no basis for expecting a recovery in the housing market or general economy in the near future.

Without real growth in household 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 housing-market collapse and ongoing stagnation in consumer-related real estate sales and construction activity.



***New-Home Sales—April 2015—Short-Term Instability, Longer-Range Stagnation.*** The headline monthly change in new-home sales was not statistically significant, as usual. After a revised monthly decline of 10.0% (-10.0%) in March, April sales rose by 6.8%, yet they remained down by 63% (-63%) from the pre-recession peak in new-home sales activity. With the otherwise meaningless monthly swings in this series smoothed out, sales activity continued in a broad pattern of low-level stagnation, albeit minimally up-trending.

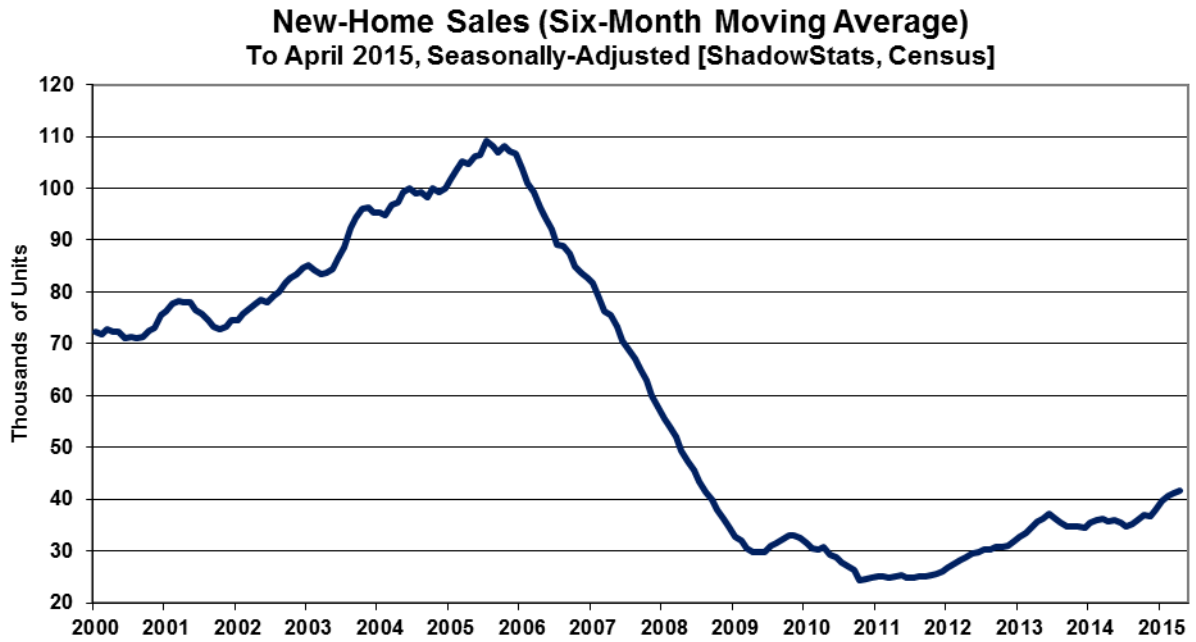
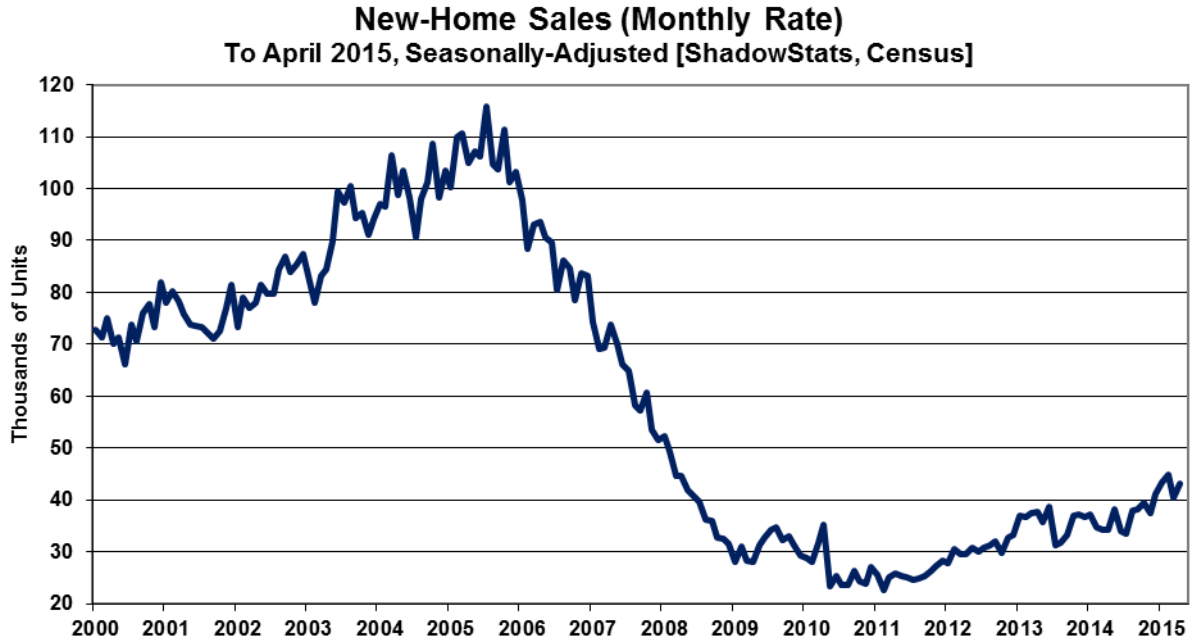
Today's reporting also included negligible annual revisions to the monthly seasonal adjustments, going back to January 2013, as shown in the accompanying graph (preceding). The relative upturn seen in the plot of the near-term revisions is up-trending stagnation when viewed in the context of the pre-recession history plotted in the next two graphs at the end of this section.

ShadowStats assesses this unstable series by considering monthly sales gyrations smoothed by a six-month moving average of headline activity. Graphed either way, smoothed or not, the various housing series generally have continued 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 purported GDP boom. Again, headline April 2015 new-home sales activity was down by 62.8% (-62.8%) from the pre-recession peak of July 2005 for the series, while the comparative April 2015 single-unit housing starts were down by 59.8% (-59.8%) from the January 2006 high of that series.

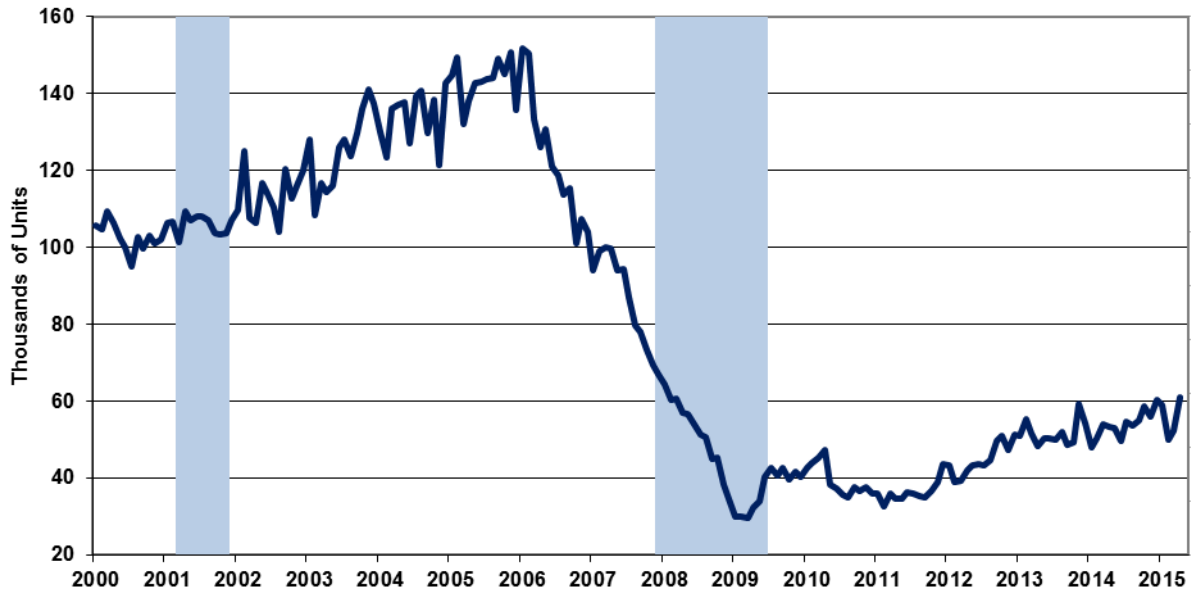
***Headline April 2015 Reporting.*** In the context of annual revisions, April 2015 headline new-home sales (Census Bureau, counted based on contract signings) rose by a statistically-insignificant 6.8%, following a revised decline of 10.0% (-10.0%) in March, and a revised 3.3% monthly gain in February. Net of prior-period revisions, April 2015 sales rose by 7.5%.

Year-to-year, April 2015 sales rose by a statistically-significant 26.1%, following a revised 18.0% annual gain in March 2015, and a revised 29.0% annual gain in February 2015.

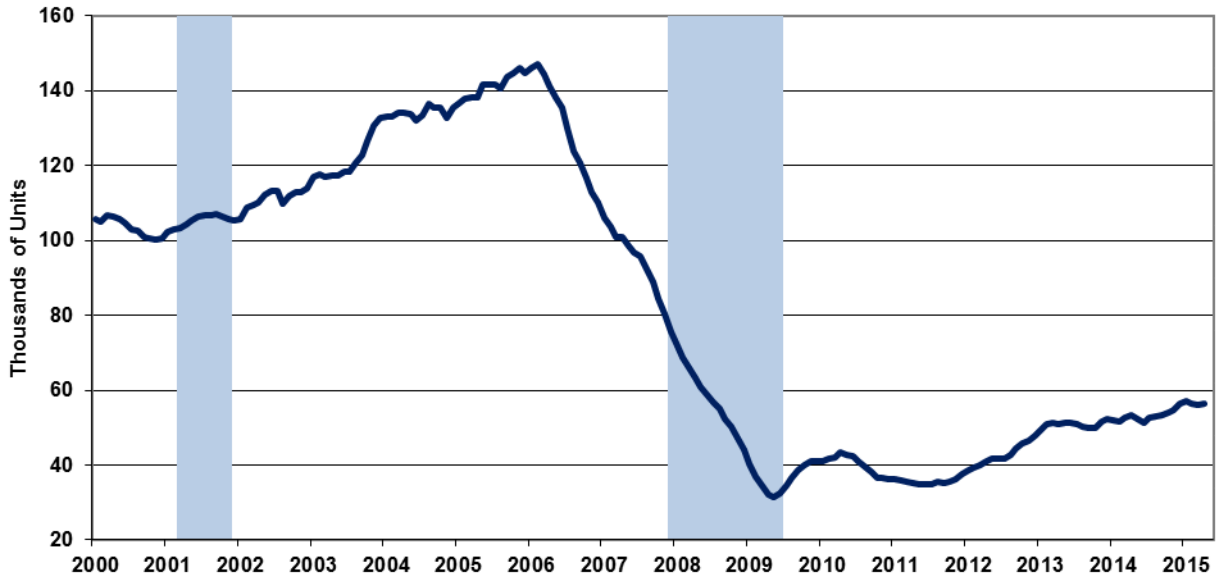
***New- and Existing-Home Sales Graphs.*** The regular graphs of new- and existing-home sales activity follow. The first graph is of April 2015 new-home sales. For comparison purposes, graphs on both raw- and smoothed-data bases are included for the new sales, as well as April 2015 housing starts for single-unit construction (from [Commentary No. 720](#)). Also for purposes of comparison, the final graph in this section is of April 2015 existing-home sales, from [Commentary No. 721](#).



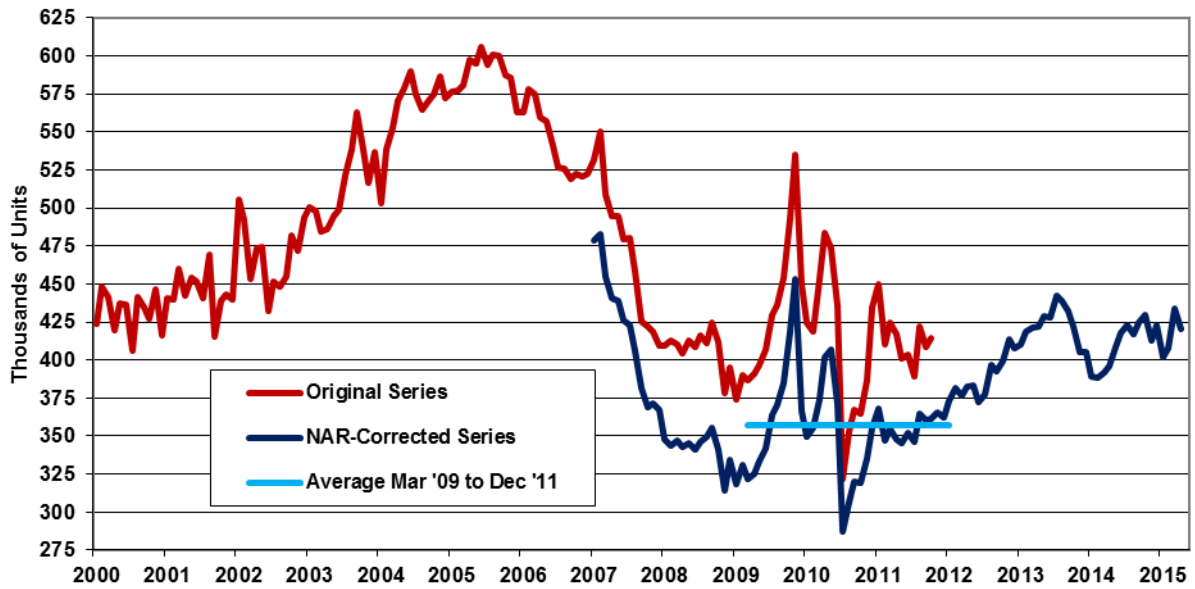
**Single-Unit Housing Starts (Monthly Rate)**  
To April 2015, Seasonally-Adjusted [ShadowStats, Census]



**Single-Unit Housing Starts (Six-Month Moving Average)**  
To April 2015, Seasonally-Adjusted [ShadowStats, Census]



**Existing Home Sales--Annual Seasonal-Adjustment Revisions**  
Not-Annualized Monthly Level to April 2015 [ShadowStats, NAR, HUD]



*[The Reporting Detail section includes further information on April new orders for durable goods and new-home sales.]*

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## HYPERINFLATION WATCH

### HYPERINFLATION OUTLOOK SUMMARY

**General Outlook Is Unchanged; Intensifying Economic Weakness Continues to Impact Market Perceptions of Fed Policy and U.S. Dollar Strength.** The *Hyperinflation Outlook Summary* has not been revised from [Commentary No. 711](#), other than for updated internal links or references.

[No. 692 Special Commentary: 2015 - A World Out of Balance](#) of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, 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 2, 2014, and publication of [2014](#)

[\*Hyperinflation Report—Great Economic Tumble – Second Installment\*](#), on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The *Opening Comments* of [No. 692](#) should be considered in terms of recent circumstances and 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. One other reference should be considered here, in terms of underlying economic reality, and that is the [Public Commentary on Inflation Measurement](#).

**Primary Summary.** Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis at the end of this decade into the current 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 summarizes the underlying current circumstance and recent developments.

Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners have been over-estimated heavily by the global markets, and structural faults have started to appear in the foundation underpinning recent U.S. dollar strength (see [Commentary No. 711](#)). Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance, in confluence with other fundamental issues, has begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As result, the U.S. dollar has backed off its recent highs, with some related upside pressure having been seen on oil prices.

Domestic economic data should continue to falter, increasingly moving market expectations towards an imminent new recession, not only further pummeling expectations for a significant tightening in Fed policy, but also renewing expectations for a more-accommodative Fed. While such may help to fuel further stock-market mania, any resulting rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on more-conservative Federal Reserve policies and on the direction of domestic economic activity, should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. Initially, these circumstances should unwind the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and broadly related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances appears to have begun, and it likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful near-term risk for providing further fuel to 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. GDP and other major economic series face heavy downside-benchmark revisions through the end of July. Weak, underlying economic reality has begun to surface in headline reporting and should become increasingly and painfully obvious to the financial markets in the headline detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit, payroll employment and increasingly the headline GDP.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, fully reversing the dollar's gains of the last nine months, pushing the dollar once again to historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—purportedly moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. The Panic of 2008 never was resolved, and the Fed increasingly is finding that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; QE4 will become the near-term question.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). It also throws off estimates of U.S. Treasury funding needs and estimates as to how long the Treasury effectively can dodge the limits of the recently re-imposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

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, any significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may become 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 thought it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

Again, in the event of a 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 become a rapidly-increasing pace of domestic U.S. inflation.



All these crises should combine against the U.S. dollar, likely in the very-near future, if they have not already begun to do so. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility had boosted the U.S. dollar's strength significantly in global trading and contributed to savaging the prices of oil and in weakening the prices of precious metals. That process appears to have begun to reverse.

Strength in the U.S. dollar should continue to reverse sharply, in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, against the U.S. currency. That process may have started with the shift in Swiss National Bank policy early in the year, but it has become dominated by increasingly-negative global perceptions of stability in U.S. economic activity and Federal Reserve monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see [Commentary No. 718](#) and [Commentary No. 719](#)). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for the intensifying the unfolding 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 willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address 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 around \$5 trillion for the annual shortfall, while many in Washington look to continue increasing 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 were discussed in [Commentary No. 672](#), and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see [Commentary No. 702](#)). This circumstance now is operating in the context of the formal constraint of a renewed debt ceiling.
- ***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 (see [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. Renewed expansion to quantitative easing remains likely, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been

commonplace, the Fed likely would seek political cover for new or expanded systemic accommodation in any "renewed" economic distress.

- ***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 off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress, in addressing fundamental issues are nil. Issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues should continue to devolve, into extreme political crisis.
- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.
- ***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, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term instabilities and a quick reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly.

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, likely in the year ahead.

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. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, [2014 Hyperinflation Report—Great Economic Tumble](#) for detailed discussion on approaches to handling the hyperinflation crisis and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), for other factors afoot in the current environment.

## REPORTING DETAIL

### NEW ORDERS FOR DURABLE GOODS (April 2015)

**Continued Pattern of Down-Trending Stagnation.** The reporting of relatively-tame April 2015 new orders for durable goods was in the context of the May 14th annual benchmark revision to the series and a small upside revision to the benchmarked detail for March 2015. The benchmarking had reduced the previous level of headline reporting for total orders by 1.8% (-1.8%) in March, and by 1.5% (-1.5%) in first-quarter 2015, as covered in [Commentary No. 719](#) and reflected in the graph in the *Opening Comments* section.

Activity in new orders for durable goods has a leading relationship to industrial production as well as to general economic activity. Headline reporting for April 2015 new orders showed negligible monthly movement, but increasingly negative year-to-year change, irrespective of considerations for inflation and/or aircraft orders. The annualized quarterly declines in real new orders (ex-commercial aircraft) for both fourth-quarter 2014 [down by 5.58% (-5.58%)] and first-quarter 2015 [down by 7.45% (-7.45%)] survived the benchmarking. The April 2015 detail provided no good news, other than it was not more negative.

The near-consensus headline decline of 0.5% (-0.5%) in total orders was accounted for largely by a small decline in the irregular orders for nondefense (commercial) aircraft. Net of those orders, April durable goods orders declined by 0.2% (-0.2%). The ex-commercial aircraft series 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 multi-year orders on near-term economic activity.

Both before and after consideration of volatility in commercial-aircraft orders, headline changes in April durable goods orders were minimal. They remained well within the normal reporting variations of this highly unstable series and were consistent with a pattern of down-trending 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 a deepening business downturn.

**Headline Nominal (Not-Adjusted-for-Inflation) April 2015 Reporting.** In the context of annual benchmark revisions published on May 14th, the Census Bureau reported today, May 26th, that the regularly-volatile, seasonally-adjusted, nominal level of April 2015 new orders for durable goods fell month-to-month by 0.50% (-0.50%), following a revised gain of 5.08% [previously benchmarked up by 4.71%] in March, and a revised February decline of 3.47% (-3.47%) [previously benchmarked as down by 3.24% (-3.24%)]. Net of the revisions to the benchmark reporting, aggregate new orders for April were down by 0.15% (-0.15%), instead of the headline decline of 0.50% (-0.50%).

The seasonally-adjusted, year-to-year change in April 2015 durable goods orders was a contraction of 2.33% (-2.33%), versus a revised March 2015 decline of 0.69% (-0.69%) [previously benchmarked as down by 1.04% (-1.04%)], and an unrevised annual decline of 3.24% (-3.24%) in February 2015. In pre-benchmark reporting, February and March 2015 had shown positive annual growth rates respectively of 0.46% and 0.74%.

***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 4.02% (-4.02%) in April 2015 commercial-aircraft orders, aggregate orders declined by 0.23% (-0.23%). Net of a 49.67% gain in March 2015 commercial-aircraft orders, aggregate orders rose by 3.06%. Net of a decline of 12.07% (-12.07%) in February 2015 commercial-aircraft orders, aggregate orders fell by 2.94% (-2.94%). Net of a gain of 146.95% in commercial aircraft orders, aggregate orders fell by a 0.70% (-0.70%) in January 2015. Year-to-year and seasonally-adjusted, April 2015 orders (net of commercial aircraft) were down by 2.72% (-2.72%), versus a March 2015 annual decline of 0.77% (-0.77%), an annual decline of 1.23% (-1.23%) in February 2015, and an annual gain of 3.82% in January 2015. The preceding numbers all reflect the benchmark revisions and subsequent April 2015 detail.

*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 were brought into balance, temporarily, with the annual benchmark revision to durable goods orders on May 14, 2015, today's subsequent monthly reporting and revision just made all historical reporting prior to January 2015 inconsistent with the current headline numbers.*

***Real (Inflation-Adjusted) Durable Goods Orders—April 2015.*** 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 April 2015 PPI series declined month-to-month by a headline 0.24% (-0.24%), following a monthly gain of 0.06% in March, an unchanged reading in February and a revised 0.12% gain in January. Headline annual inflation stood at 0.42% in April 2015, 0.72% in March 2015, 0.60% in February 2015 and 0.72% in January 2015.

Adjusted for that decline of 0.24% (-0.24%) monthly inflation in April, and again as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders fell by 0.26% (-0.26%) in April 2015, with March real orders up by 5.02%, and February real orders down by 3.47% (-3.47%). Ex-commercial aircraft, real orders effectively were unchanged, up month-to-month by just 0.01% in April 2015; they rose by 3.00% in March and fell by 2.94% (-2.94%) in February.

Real year-to-year aggregate orders fell by 2.74% (-2.74%) in April 2015, declined by 1.40% (-1.40%) in March 2015, and declined by 3.83% (-3.83%) in February 2015. Ex-commercial aircraft, real orders fell year-to-year by 3.13% (-3.13%) in April 2015, declined by 1.48% (-1.48%) in March 2015, and fell by 1.82% (-1.82%) in February 2015.

**Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders.** Three sets of inflation-adjusted graphs are displayed in the *Opening Comments* section. The first set shows the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft orders. 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 2014 number, the six-month moving average for the aggregate series had been showing a large upside bump, which recently worked its way out of the system. Orders generally have been in decline in recent months

The second and third sets of graphs in the *Opening Comments* section show the patterns of historical real new durable goods orders net of official inflation, as well as those patterns "corrected" for the understatement of that inflation (overstatement of official, inflation-adjusted growth), for the aggregate series and net of commercial aircraft orders.

### **NEW-HOME SALES (April 2015)**

**Low-Level Sales Stagnation Continued.** The headline monthly change in new-home sales was not statistically significant, as usual. After falling by a revised 10.0% (-10.0%) in March, April sales rose by 6.8% for the month, yet they remained down by 63% (-63%) from the pre-recession peak in new-home sales activity. With the otherwise meaningless monthly swings in this series smoothed out, sales activity continued in a broad pattern of low-level stagnation, albeit minimally up-trending. Today's reporting included negligible annual revisions to the monthly seasonal adjustments, beginning with January 2013 (see the graph in the *Opening Comments*).

ShadowStats assesses this unstable series by considering the monthly sales gyrations in the context of a six-month moving average of headline activity. Today's *Opening Comments* section also includes the regular graphs of the April 2015 headline-monthly and smoothed detail for new-home sales and comparative single-unit housing starts.

Graphed either way, smoothed or not, the various housing series generally have continued 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 purported GDP recovery. Again, headline April 2015 new-home sales activity still was down by 62.8% (-62.8%) from the pre-recession peak of July 2005 for the series, while April 2015 single-unit housing starts were down by 59.8% (-59.8%) from the January 2006 high of that series.

Discussed along with the home-sales graphs in the *Opening Comments*, and as last detailed in [Commentary No. 718](#), 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 for a current or imminent recovery in the housing market.

**Headline April 2015 Reporting.** As reported by the Census Bureau this morning, May 26th, and in the context of annual revisions, April 2015 headline new-home sales (counted based on contract signings) rose by a statistically-insignificant 6.8% +/- 18.5% (all confidence intervals are at the 95% confidence level). That followed a revised decline of 10.0% (-10.0%) [previously down by 11.4% (-11.4%)] in

March, and a revised 3.3% monthly gain [previously up by 5.6%, initially by 7.8%] in February. Net of prior-period revisions, April 2015 sales rose by a still statistically-insignificant 7.5%, instead of the headline gain of 6.8%.

Year-to-year, April 2015 sales rose by a statistically-significant 26.1% +/- 17.7%. That followed a revised 18.0% [previously 19.4%] annual gain in March 2015, and a revised 29.0% [previously 25.7%, initially 24.8%] annual gain in February 2015.

***New-Home Sales Graphs.*** 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 headline and six-month moving-average versions of April 2015 housing starts for single-unit construction (from [Commentary No. 720](#)) and the headline April 2015 existing-home sales (from [Commentary No. 721](#)) also are included for comparison.

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## WEEK AHEAD

**Headline Economic Reporting and Revisions Should Trend Much Weaker versus Overly-Optimistic Expectations; Inflation Will Rise Anew, Following Higher Oil Prices.** Although shifting increasingly to the downside, amidst largely-negative reporting and surprises in headline numbers, market expectations for business activity have been, and still remain, overly optimistic. They exceed any potential, underlying economic reality, even though downside corrective revisions and an accelerating pace of downturn in broad-based, monthly headline economic reporting already have begun to hammer the consensus outlook. GDP excesses from 2014 will not face downside revisions until the July 30, 2015 GDP benchmark revision, but expectations for headline growth estimates (or revisions to) of first- and second-quarter 2015 generally should shift to the downside, increasingly into negative territory, shy of upside-jawboning of the data in the press, as discussed in the *Opening Comments*.

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely is close to its near-term, year-to-year low, having shown monthly declines in annual inflation of less than a full 0.1% (-0.1%) in the three months through March 2015, but dropping by 0.2% (-0.2%) in April 2015. A large jump in gasoline prices for May 2015 and a softening of negative seasonal-adjustments for gasoline promise a headline jump in May 2015 monthly CPI-U inflation, with annual inflation likely pulling at least even with zero.

Significant upside inflation pressures are building, as oil prices rebound, a process that should accelerate rapidly with the 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 [No. 692 Special Commentary: 2015 - A World Out of Balance](#).

***A Note on Reporting-Quality Issues and Systemic-Reporting Biases.*** Significant reporting-quality problems remain with most major economic series. See the the *Opening Comments* as to market and political pressures on the Bureau of Economic Analysis (BEA) relative to pending, headline GDP reporting. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned with the July 30, 2015 benchmark revision, would be extraordinary in terms of BEA behavior and are not likely, although some gimmicked, less-negative summary numbers already have been planned for publication.

Beyond the pre-announced 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, explored in the labor-data related [Commentary No. 695](#)).

Combined with recent allegations 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 (see [Commentary No. 669](#)).

#### ***PENDING RELEASE:***

**Gross Domestic Product—GDP (First-Quarter 2015, Second Estimate, First Revision).** The Bureau of Economic Analysis (BEA) will publish its second estimate of first-quarter 2015 GDP on Friday, May 29th. Discussed in the *Opening Comments* (also see [Commentary No. 721](#) and [Commentary No. 719](#)), the initial headline first-quarter 2015 GDP real growth of 0.2% (nominal growth of 0.1%) most likely will revise to a sharp, quarter-to-quarter contraction, both in nominal terms (before inflation adjustment), and in real terms (after inflation adjustment).

Early-consensus expectations turned negative for the real GDP revision, and remain there, down by an annualized contraction of 1.0% (-1.0%) per MarketWatch. The late-consensus from Bloomberg is for a real contraction of 0.8% (-0.8%), with the implicit price deflator expected to be down by an unrevised 0.1% (-0.1%). The Bloomberg numbers would imply an annualized nominal decline of 0.9% (-0.9%) in first-quarter GDP. With positive biases generally built into the economic consensus, odds favor a worse-than-expected showing.

Along with the second reporting of the GDP in a given quarter, the BEA usually releases its initial estimates of the broader GNP measure, and of the income-side GDI equivalent of the GDP, for first-quarter 2015. GDP is a component of the broader Gross National Product (GNP) measure, which includes the trade balance in factor income (interest and dividend payments). GDP also is the consumption-side theoretical equivalent of the income-side estimate of economic activity, Gross Domestic Income (GDI). Headline surprises in either direction always are possible for the GNP and GDI, versus what the markets consider as the primary economic reading, the GDP.