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

**COMMENTARY NUMBER 737**
**Industrial Production Benchmark Revision, Pending GDP Revisions, Gold**

**July 23, 2015**

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**Gold-Price Manipulations Likely Were Central-Bank Orchestrated; Underlying Reasons for Holding Gold Remain Basic and Strong**

**Revamped Production Fell by 1.0% (-1.0%) in First-Half 2015, Now Down by 0.2% (-0.2%) and 1.7% (-1.7%) Respectively in First-Quarter and Second-Quarter 2015**

**Downwardly-Revised Manufacturing Activity No Longer Has Recovered Its Pre-Recession High**

**Downside Benchmark Revisions to Industrial Production Locked-In General Downside Revisions to GDP Benchmarking**

**New-Home Sales Hit a Post-Recession High but Remained Down by 24% (-24%) from Pre-Recession Peak**

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*PLEASE NOTE: The next regular* Commentary*, scheduled for Monday, July 27th, will cover June New Orders for Durable Goods and New-Home Sales, followed on Thursday, July 30th, by a missive covering the initial estimate of second-quarter GDP, the accompanying GDP benchmark revision and "advance" estimate of the June 2015 trade deficit.*

*Best wishes to all — John Williams*

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## OPENING COMMENTS: GOLD AND MAJOR ECONOMIC REVISIONS

**Underlying Fundamentals for Holding Gold Remain Solid.** In recent years, prudent individuals increasingly have hedged the long-term purchasing power, stability and liquidity of their assets with holdings of physical gold, against the ongoing likelihood of massive debasement of the U.S. dollar and other financial-system disruptions, both domestic and global. Central banks balk at that concept. If the price of gold rallies, with a flight-to-safety into the precious metal, such usually reflects negatively on central-bank policies when financial-system stability is the issue.

Noted in prior *Commentary No. 736*, "Whether hit by Chinese investors selling gold to meet liquidity needs tied to tumultuous domestic equity markets, or hit by central bank selling aimed at discouraging flight-to-quality in the still unfolding crisis tied to the default by Greece, the prices of gold and silver have been hit recently. Perversely, this is the time when private investors generally would be looking to move into precious metals for safety." Central bank intervention indeed appears to be a major ongoing factor.

Direct market intervention and manipulation have been the preferred methods for those looking to pummel gold prices and to discourage private investment in precious metals. Such trading patterns and activity have pushed gold prices sharply lower in recent years, and that happened again over this last weekend. Discussed in a widely covered article by Ambrose Evans-Pierce of *The Telegraph* on July 20th: "Speculators smash gold as dollar squeeze tightens," manipulators dumped a large number of gold contracts into a very thin market for the clear purpose of hammering the price of gold.

The mysterious market manipulators here almost certainly are the U.S. Federal Reserve and/or other major central banks, operating through their agents in the investment and banking community. If it were otherwise, "concerned" regulatory authorities certainly would be investigating such blatant and damaging market manipulation. If central banks indeed are pushing this action, the circumstance also could signal developing new issues or intensifying, existing systemic difficulties.

The underlying fundamentals for private investors to hold the physical precious metals have strengthened not weakened, since the financial Panic of 2008, and since the near-term peak in gold and silver prices in 2011. The issues that drove the Panic of 2008 remain largely unaddressed. Long-range solvency issues and fiscal instabilities continue for the U.S. government. Discussed in these *Opening Comments*, new detail confirms that the U.S. economy has not recovered quite as advertised and is faltering anew. With business conditions weakening and the banking system still far from normal stability and solvency, the Federal Reserve and the federal government still have no way out.

Irrespective of whether the Fed raises interest rates soon—the intensity of the Fed Chair's waffling on the issue suggests not—significant banking-system and other systemic (including U.S. Treasury) liquidity needs still will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy. The Fed has little choice.

Systemic collapse never has been an option for the Board of Governors. This circumstance simply does not have a happy solution, ending eventually in hyperinflation and full debasement of the U.S. dollar. In the shorter term, when U.S. dollar selling gains broad-based momentum, offsetting sharp rallies should occur, on a coincident basis, for gold and silver prices, as well as for oil prices.

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In the circumstance of continuing deterioration of conditions in the domestic and global financial, economic and political arenas, holding gold to preserve the purchasing power of one's wealth and assets is not an issue of near-term profit or loss, but rather of financial and potentially even physical survival. Irrespective of short-term price volatility in precious metals, held through the unfolding crises, physical gold and silver remain primary hedges—core protection—against the instabilities ahead. Underlying fundamentals eventually will overwhelm and overcome the interventions and manipulations.

Held through the crises, for example, physical gold will preserve the purchasing power of the funds put into it, while retaining liquidity and portability. Further, with core assets so protected and liquid, other options open up in terms of handling less-liquid hard assets such as real estate. A more-extensive discussion on this will follow in *Commentary No. 738* of July 27th.

**Today's Missive (July 23rd).** Today's *Opening Comments* are dedicated to the gold situation and to the various benchmark revisions, past (such as Retail Sales), present (Industrial Production) and pending (GDP). The June Existing-Home Sales reporting is covered today only in the *Reporting Detail* section, with that content largely to be repeated along with the *July 27th* analysis of June New Home Sales.

In the context of the opening discussion on the gold circumstance, and given the amount of detail involved in the included benchmarking materials, the updated *Hyperinflation Outlook and Summary* also will follow in the next *Commentary No. 738* of July 27th, instead of today's *Commentary*.

The *Week Ahead* section previews reporting for June 2015 New Orders for Durable Goods and New-Home Sales, as well as the "advance" reporting of second-quarter 2015 GDP and the accompanying benchmark revision to the GDP series.

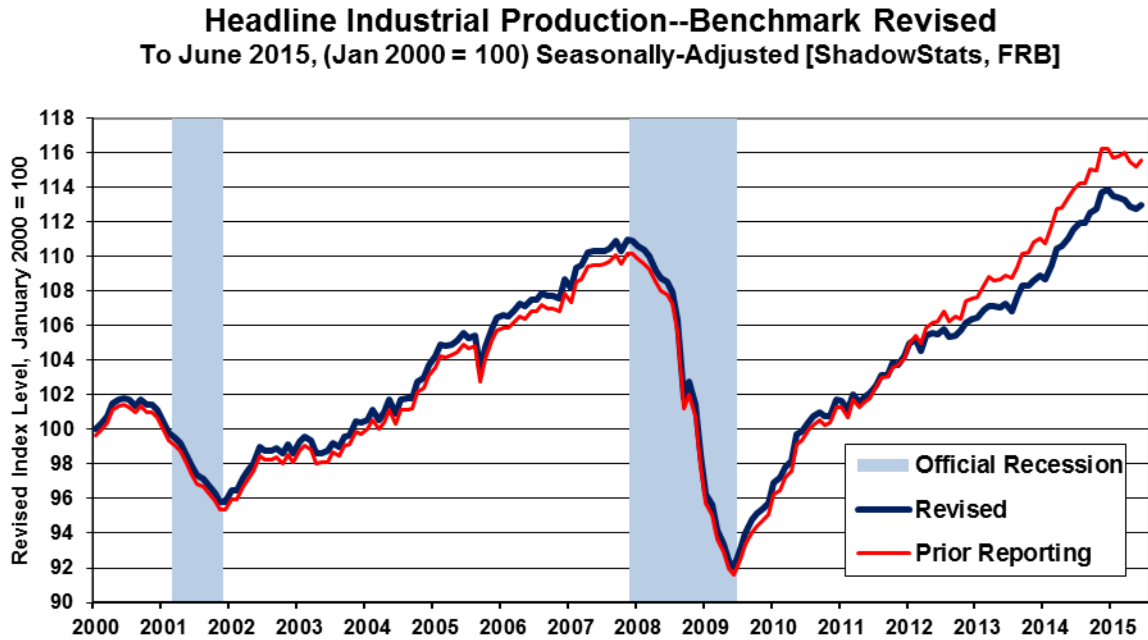
**Industrial Production Benchmarking Revised Growth Meaningfully Lower Since 2011.** Published on July 21st, just five days following the reporting of the initial headline June 2015 industrial production, and nine days ahead of the annual GDP benchmark revision, the Federal Reserve Board's (FRB) benchmark revision of industrial production showed a much weaker economic recovery in recent years and even weaker current activity up through June 2015 reporting. The new data have downside implications for the historical GDP growth revisions, as well as the "advance" estimate of second-quarter 2015 GDP, both due for release on July 30th (see the *GDP Benchmarking* section).

Noted in the Fed's *Benchmark Revision Press Release*, "The rates of increase in manufacturing from 2011 through the first half of 2015 are now lower than reported earlier, particularly for 2012 and 2013, the years for which the majority of benchmark data became available."

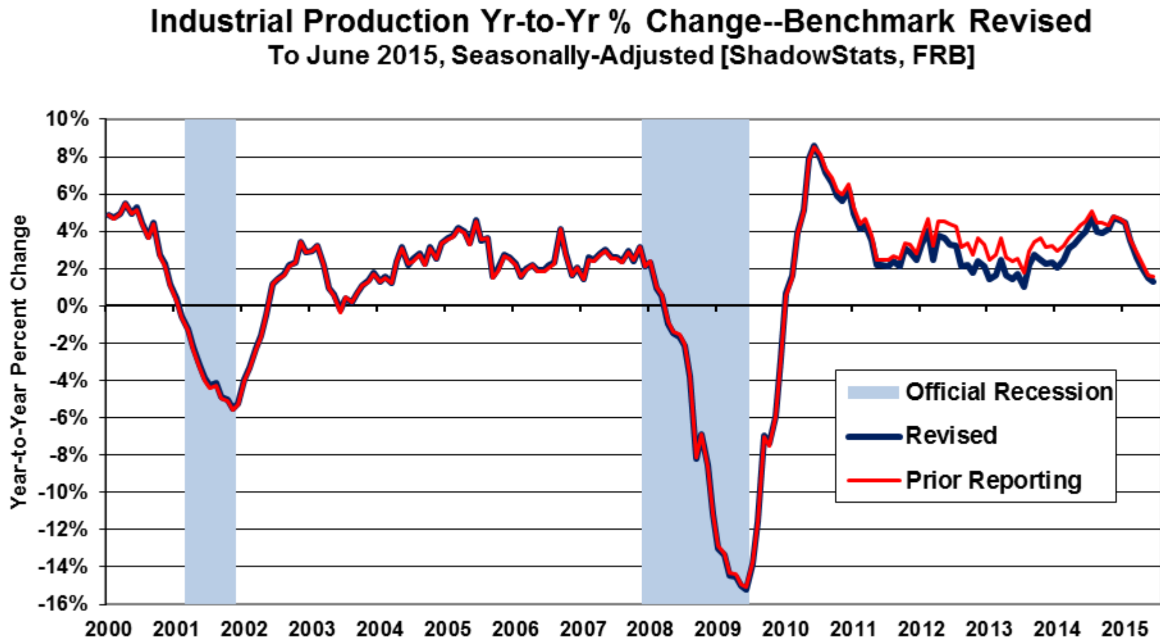
That pattern is typical of benchmark revisions to government-economic series, as will be seen in the summary of the retail sales benchmarking in the next section. When better-quality, hard-survey data become available from earlier periods, the related historical detail usually revises lower, while the more-recent numbers tend to continue in their pre-existing patterns, including built-in, standardly-overly-optimistic assumptions, which will not revise lower until the next benchmark. The current revisions for aggregate production are shown in *Graph 1* and *Graph 2*. Revised back to 1972, the formal index was rebased from 2006, to 2012 = 100. *Graph 1* from 2000-to-date (revisions before 2000 were negligible),

however, is indexed to 2000 = 100, for the new series (heavy blue line), and it plots the old series (thin red line) on a basis that properly reflects the relative cumulative revisions to the series from 1972-to-date. Both graphs show sharp downside revisions to production levels and annual growth in 2012 and later.

***Graph 1: Revised Total Production Levels***




***Graph 2: Revised Annual Growth***

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***Weaker Near-Term Production Detail—Activity Last Seen Going into the Economic Collapse.*** Based on the Federal Reserve Board's July 21st benchmarking through June 2015, versus the July15th initial headline reporting for June 2015 industrial production (*Commentary No. 735*), here is how the near-term growth patterns have changed in five days. Such remains an unfolding economic disaster.

Down for First-Half 2015. Measured by half-year (the FRB uses an annualized comparison of the second-quarter in each half-year), the first-half of 2015 contracted at a revised annualized pace of 0.96% (-0.96%) [previously down by 0.66% (-0.66%)], versus a revised gain of 4.41% [previously up by 4.38%] in second-half 2015.

Down for First- and Second-Quarter 2015. On a quarterly basis, second-quarter 2015 production contracted at a revised annualized pace of 1.75% (-1.75%) [previously down by 1.44% (-1.44%)], while first-quarter 2015 contracted at a revised annualized pace of 0.16% (-0.16%) [previously up by 0.13%].

Down for Five Months through May. On a month-to-month basis, June 2015 production rose by a revised 0.23% [previously up by 0.33%], versus a decline in May of 0.16% (-0.16%) [previously down by 0.22% (-0.22%)], a decline of 0.29% (-0.29%) [previously down by 0.46% (-0.46%)] in April, a decline of 0.11% (-0.11%) [previously up by 0.18%] in March, a decline of 0.12% (-0.12%) [previously up by 0.05%] in February, and a decline of 0.29% (-0.29%) [previously down by 0.46% (-0.46%) in January].

Year-to-year growth in production slowed in revision, for each of the same six months in 2015, with June 2015 annual growth up by 1.32% [previously 1.54%], May up by 1.54% [previously 1.62%], April up by 2.08% [previously 2.33%], March up by 2.57% [previously 2.89%], February up by 3.53% [previously 3.55%], and January up by 4.46% [previously 4.48%].

The revised patterns of contractions in production for one-half, two consecutive quarters and a rapid slowing of annual growth to 1.5% or below, all are common symptoms of formal recessions.

Last year's (March 2014) benchmark revision to industrial production largely was incomplete, lacking detail from the regular Census of Manufactures (2012), which had been delayed in its release by the government shutdown of October 2013. As a result, what could have been major downside revisions to 2011 and 2012 industrial production activity (and broader GDP activity) never took place (see *Commentary No. 613*). This benchmarking at least partially corrected that, although 2011 will not face needed revisions in this year's GDP benchmarking, because of that delayed detail.

***Manufacturing No Longer Has Recovered Its Pre-Recession High—Not So Fast There in Terms of Economic Recovery—Shifting Patterns of Economic Growth.*** While the general shape and timing of the collapse of industrial production into 2009 remained intact, the purported rebound in economic activity did not. Seen in *Graph 1*, the full recovery in industrial production to its pre-recession high had been in October 2013; post-revision that recovery now is in May 2014. That same issue hit the dominant manufacturing sector of the industrial production index like a sledgehammer. Having once "recovered," manufacturing no longer has regained in its pre-recession peak.

Using the weightings of the full-year 2014 (pre-benchmarking), aggregate industrial production standardly is broken down into three major areas, manufacturing (72.70%), mining (17.76%) and utilities (9.54%). Mining includes oil and gas production. Where manufacturing revised sharply lower, mining revised sharply higher. Utilities were little changed. Revisions to the manufacturing and mining sectors are plotted in the next two graphs, *Graph 3* and *Graph 4*.

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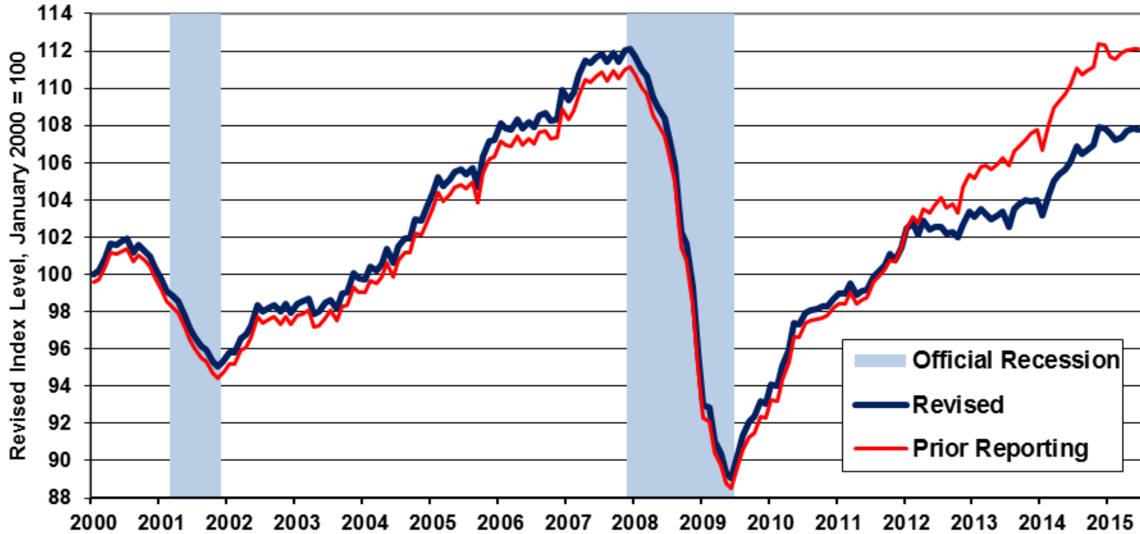
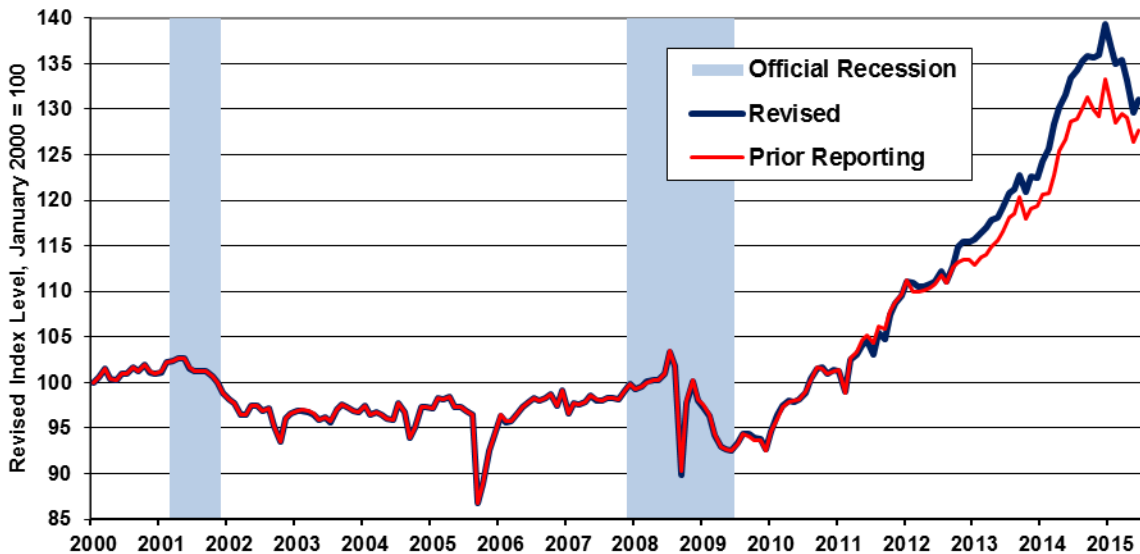
***Graph 3: Revised Manufacturing Levels***




***Graph 4: Revised Mining Levels***




Total manufacturing [expressed using Standard Industrial Classification (SIC) system categories for those elements of the Fed's series not coded otherwise in the North American Industry Classification System (NAICS) as manufacturing] had fully recovered its pre-recession high level as of November 2014, pre-

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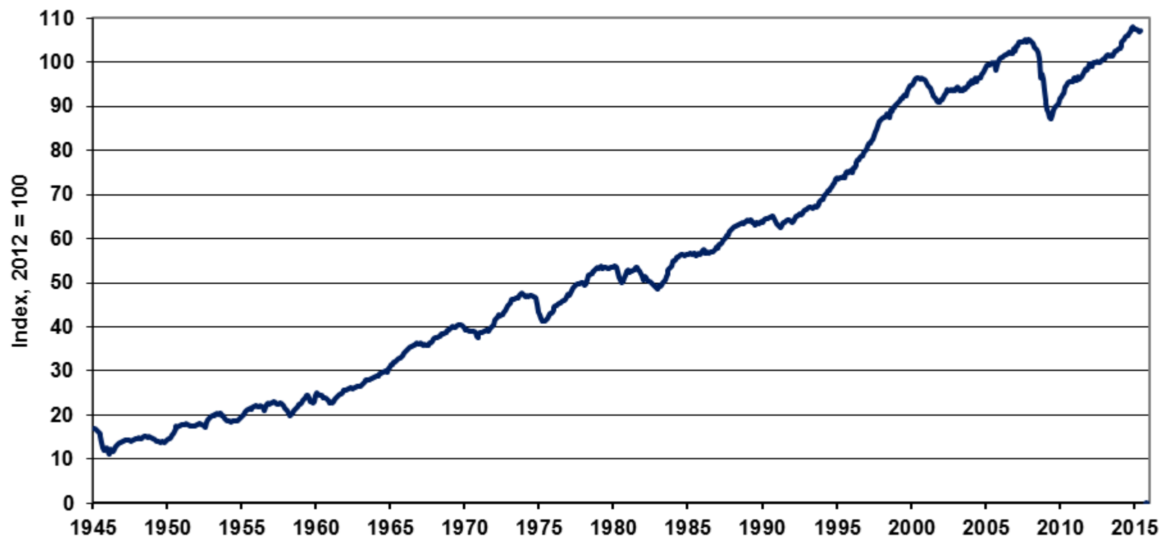
benchmarking. Shown in *Graph 3*, the new headline reporting—post-benchmarking—for June 2015 manufacturing was down by 3.9% (-3.9%) from its pre-recession high, never having fully recovered.

In contrast, the mining category (heavily affected by oil and gas production) was revised sharply higher, to a new all-time peak of activity in December 2014, some 3.9% above the equivalent prior December estimate (see *Graph 4*). Through June of 2015, however, the old series showed a subsequent net decline from the December peak of 4.2% (-4.2%), while the revised series showed a decline through June of 5.9% (-5.9%), a larger drop than in the pre-benchmarking pattern.

***Long-Term Graphs of Industrial Production.*** *Graph 5* and *Graph 6* reflect just the revised headline details of post-World War II activity. The first graph shows the monthly level of the production index, with a topping-out in December 2014 and renewed downturn into the first two quarters of 2015. That downturn already is of similar magnitude to that of the 1990 recession, as seen in the long-term plot.

The second graph shows the year-to-year percentage change in the same series. Annual growth has slowed sharply, to a level that almost always has preceded or accompanied the onset of formal recessions. Separately, at the end of second-quarter 2009, the revised June 2009 year-to-year annual contraction of 15.20% (-15.20%) [previously down by 15.06% (-15.06%)] remained the steepest annual decline in production since the shutdown of war-time production following World War II.

***Graph 5: Revised Long-Term Total Production Levels***

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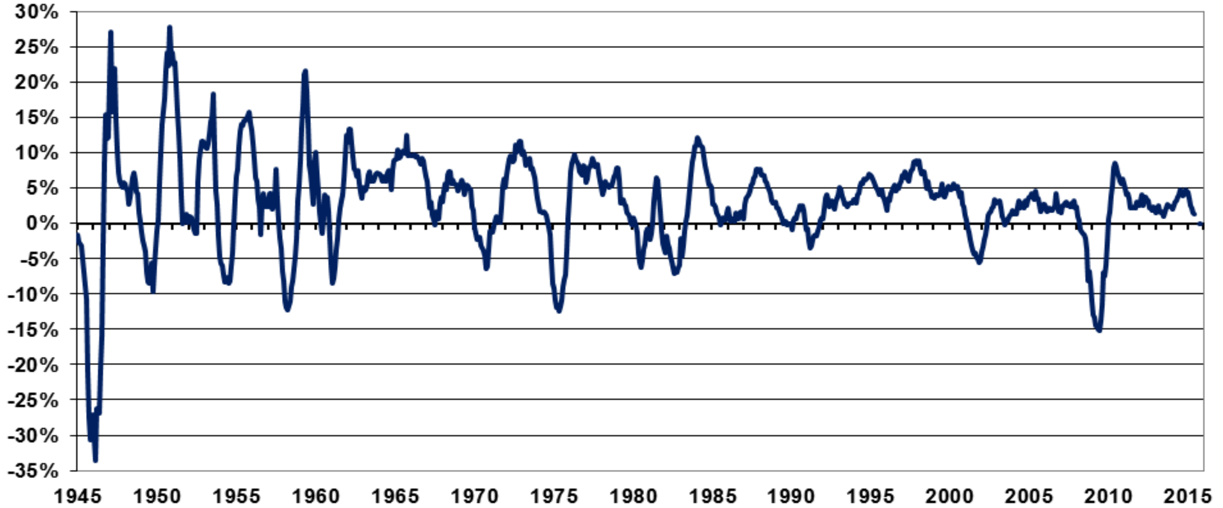
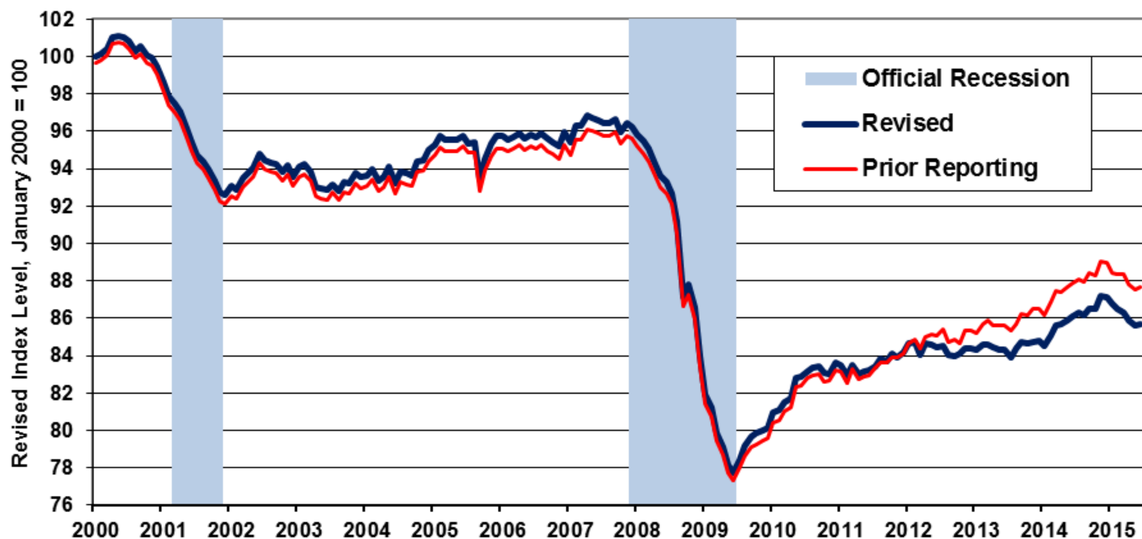
***Graph 6: Revised Annual Production Growth***




***ShadowStats "Corrected" Industrial Production Flattened Out at a Low-Level of Activity.*** Standardly discussed in the regular industrial production *Commentaries*, *Graph 7* is a recast version of *Graph 1* of the revised the aggregate industrial production series, as corrected by ShadowStats for the estimated understatement of the inflation used in deflating components of the production index.

***Graph 7: Revised "Corrected" Production***

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The pre-existing, slowing uptrend weakened sharply in the benchmarking, but it continued into a topping-out pattern in late-2014, with headline growth contracting in both the first- and second-quarter 2015.

The "corrected" graph shows some growth in the period subsequent to the official June 2009 trough in production activity, but that uptrend has revised lower with the benchmarking. Even so, the minor upturn has been far shy of the full recovery and the renewed expansion reported in the official pre-benchmark GDP estimation (see *Commentary No. 731*). Unlike the headline industrial production data and the headline GDP numbers, corrected aggregate production levels have not recovered pre-recession highs.

Instead, corrected production entered a period of protracted low-level, but minimally up-trending stagnation in 2010, with irregular quarterly contractions seen through 2014, and an irregular uptrend into 2014, topping-out in late-2014 and turning down into the first two quarters of 2015. Where the corrected series has remained well shy of a formal recovery, both the official and corrected series now have suffered outright contractions in both first- and second-quarter 2015, a pattern of severe economic weakness last seen during the economic collapse and usually seen in formal recessions.

Note: The lower the rate of inflation used in deflating the industrial production index, the higher will be the resulting, inflation-adjusted growth rate. For purposes of "correcting" headline production activity, estimated hedonic-inflation adjustments—used in deflators for some components of headline industrial production reporting—have been backed out (see *Commentary No. 735* for further detail).

**GDP Benchmarking Should Show Weaker Post-Collapse Activity 2012-to-2014—A Likely 2011 Mini-Recession Will Be Skipped Over for Now.** The just-published industrial production benchmark revision confirmed the general patterns of revised growth rates seen with other key series, such as retail sales. Graphs of the relevant, recent benchmark revisions follow, and they will be referenced in the ongoing text in terms of the pending overhaul of headline GDP reporting since 2012.

Where detail for production and retail sales revisions in 2011 and 2012 long were delayed by the government shutdown of 2013, they have surfaced this year. With the pending GDP benchmarking only for the year 2012 on, for most reporting, what looks like a revised, formal shallow recession in 2011 will not be reported. Instead, it will await a later, more-comprehensive annual revision to the GDP series.

As for detailed background on the revision, the Bureau of Economic Analysis (BEA) has published a *Preview of the 2015 Annual Revision of the National Income and Product Accounts*. The benchmarking is scheduled for release on Thursday, July 30th, coincident with the first or "advance" estimate of second-quarter 2015 GDP and the first reporting of an "advance" monthly trade deficit, in this case for June 2015.

***Second-Quarter "Advance" GDP Estimate.*** An updated outlook for the "advance" second-quarter GDP, currently estimated at the likely low-side of consensus estimates, perhaps around two-percent (see the *Week Ahead* and *Commentary No. 736*), will follow in July 27th *Commentary*.

Noted in *No. 736,* reporting of a sharp deterioration in the second-quarter 2015 trade deficit—presently viewed as unchanged or neutral for implied second-quarter GDP growth—still is possible. That would not be hinted at publicly until July 30th, with the first release of the new economic series known as the "advance" trade deficit (June 2015 in this case), an early estimate of data previously missing from initial GDP calculations. The new trade release will coincide with the "advance" estimate of second-quarter

GDP growth. With no early warning of its impact on GDP reporting, that trade-deficit number is a wild card for the markets, one that could widen the quarterly trade shortfall meaningfully and bring in headline GDP growth well below still-evolving market expectations.

***New Headline-Reporting Gimmicks from the BEA—Gimmicked Jobs Numbers Give Artificial Boost to the GDI?*** Noted in Commentary No. 721 and Commentary No. 722 as to recent market and political pressures on the BEA relative to GDP reporting, some gimmicked, less-negative summary numbers of GDP-related activity have been planned for publication, as discussed in the official *Preview*, linked earlier.

The BEA will release new headline measures on the GDP reporting, along with the July 30th revisions. One new statistic will average the Gross Domestic Product (GDP) and Gross Domestic Income (GDI), two theoretically equivalent measures that rarely are equal, where GDP is the consumption side of the economy and GDI is the offsetting income equivalent. While the new measure would smooth some of the peaks and valleys in headline quarterly growth (always exaggerated in either direction by having the quarterly change being raised to the fourth power, in order to "annualize" it), the new series should not eliminate recessions.

The issue likely to arise here, however, is that headline GDI growth recently has been running much higher than the GDP growth, with the differences increasing between the two series over time, not narrowing, as should happen in theory. Touched upon in the accompanying benchmarking detail, where the GDI is income-based (partially Bureau of Labor Statistics [BLS] data), the last two gimmicked benchmark revisions to the related payroll series have boosted payroll (income) biases. Those changed numbers ran contrary both to the initial payroll benchmarking indications of the last two years, and the weakening economic conditions seen in the harder numbers of the production and retail sales series. The GDP-GDI averaging gimmick very easily could prove to be a canard.

Separately, the BEA also will report the GDP net of inventory volatility (already reported as "final sales") and net of the troublesome trade deficit, which acts as a continual reduction to the GDP. Final sales is a legitimate measure, indicating where activity stands net of unstable inventory changes. One cannot ignore the trade deficit in terms of broad U.S. economic activity.

***Recent Benchmark Revisions to Key Underlying Economic Series.*** The following series of charts, from *Graph 8* to *Graph 14*, show the results of various benchmark revisions to economic series, as published in 2015, along with links to the related *Commentaries.* Industrial Production revisions were covered in the preceding section. Next in importance are the revisions to Retail Sales (*Graph 8* and *Graph 9*), New Orders for Durable Goods (*Graph 10*), Trade Deficit (*Graph 11*), the highly-questionable Nonfarm Payroll series (*Graph 12* and *Graph 13*) and annual benchmarking of the CPI-U seasonal adjustments (*Graph 14*).

***Implications for the GDP Benchmarking.*** Generally, the benchmark revisions to key series underlying GDP reporting indicate that headline GDP growth patterns generally slowed sharply from previous reporting, for the period of 2011 into 2014. For example, sharp downside revisions to quarterly production and retail sales suggest that 3q2011 GDP now may have contracted, following a deeper contraction in 1q2011. While that normally would be viewed as a shallow recession, 2011 is outside the scope of the pending GDP benchmark, as discussed earlier.

With 4q2012 currently showing headline annualized growth of just 0.06%, heavy downside revisions to quarterly growth in production and retail sales numbers for 2q2012 to 4q2012 open the possibility of at least one quarterly GDP contraction in that timeframe. Similarly, downside revisions to quarterly GDP growth are likely for all of 2013, leading into the existing contraction in 1q2014 GDP, which remains likely to survive, barring unusual BEA reporting or seasonal-adjustment shenanigans.

As to the impact of the benchmarking beyond production and retail sales, the revamped durable-goods orders basically confirmed the production changes, and the trade revisions were relatively minor.

Nonfarm payrolls are well removed from rest-of-the world economic reporting, as discussed in the linked *Commentaries*, which discuss the related reporting and benchmarking issues. Improbable, upside biases built into the two most-recent payroll benchmarks may be responsible for the increasingly-positive divergence between GDI and GDP reporting, and could be behind the introduction of the new reporting gimmick of a combined or averaged GDP-GDI reading, as discussed earlier.

The CPI revisions affect only the seasonally-adjusted inflation rates, with some implications for the GDP implicit price deflator. Reflected in *Graph 14*, the seasonally-adjusted, annualized-quarterly pace of fourth-quarter 2014 CPI-U inflation was a relatively stronger (less negative) headline inflation number, in revision. What had been an annualized contraction of 1.20% (-1.20%), revised to a contraction of 0.85% (-0.85%). Relatively stronger CPI-U inflation yields relatively weaker real (inflation-adjusted) growth in those economic series deflated by the CPI-U.

For example, what had been a headline annualized gain of 3.12% in fourth-quarter real-retail sales, slowed in revision to 2.76%, due to the CPI revision, which was incorporated fully into the real retail sales benchmarking. In contrast, headline, annualized second-quarter 2014 inflation revised lower, from 3.03% to 2.44%, with the effect of boosting growth in revision in that quarter, for related deflated economic series.

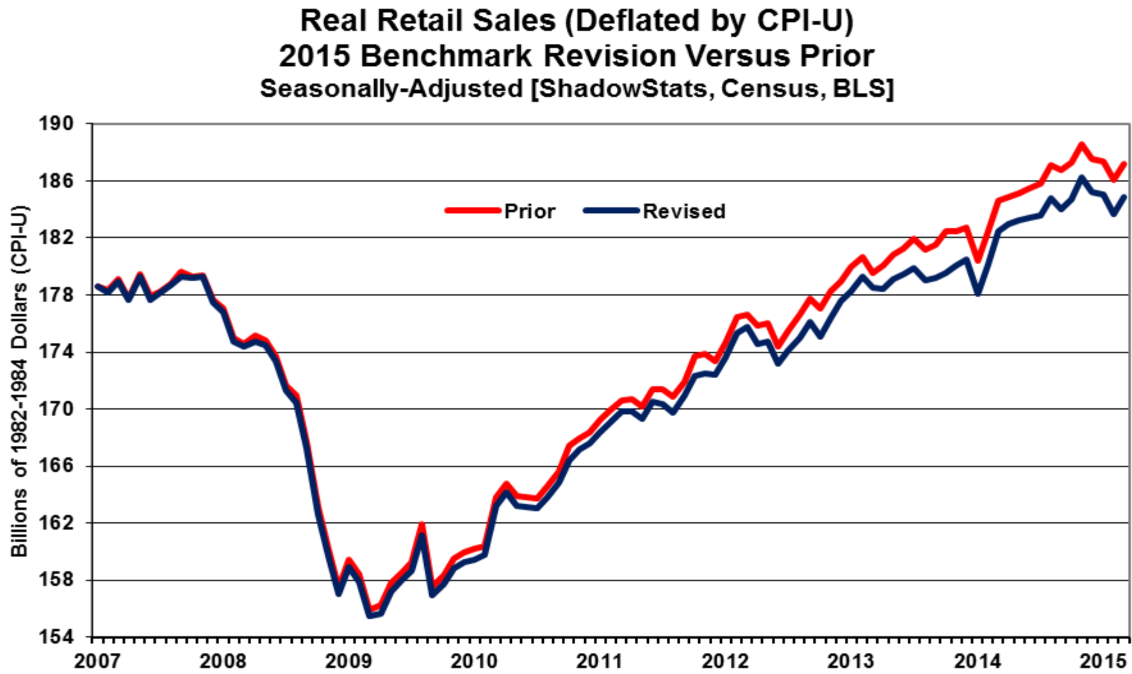
The revised relative increase in fourth-quarter 2014 CPI should find some correlation with the implicit price deflator (IPD) used in deflating the GDP. This has implications for a downside revision to headline fourth-quarter GDP growth, coming into the current, minimal contraction in 1q2015 GDP. Where the CPI revisions affected more than one quarter, implications for the IPD most likely will surface in the July 30th GDP benchmark revision.

***Alternatives***. Separately, 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. 731*.

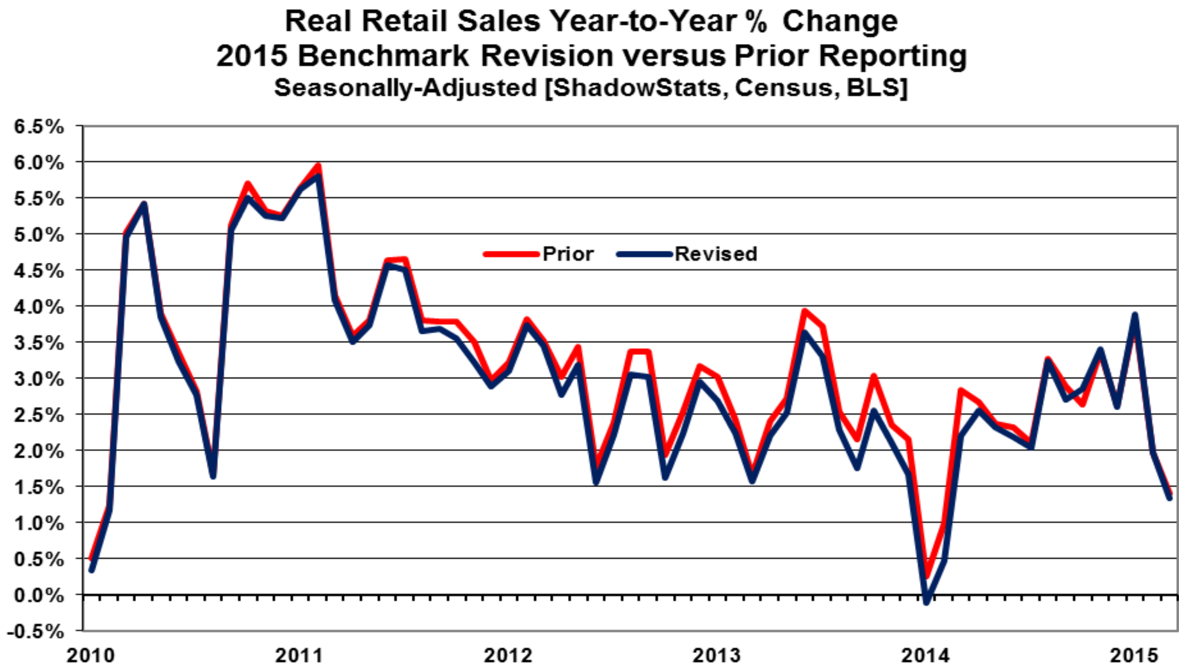
***Bottom Line: Barring reporting shenanigans by the Bureau of Economic Analysis, GDP growth since 2012 should revise lower, with patterns of more-stagnant, real quarterly growth seen in the latter-part of 2012 and for much of 2013, leading into the existing GDP contraction for 1q2014.***

From the Retail Sales benchmark, *Commentary No. 716* of May 5th.

***Graph 8: Revised Real Retail Sales Level***

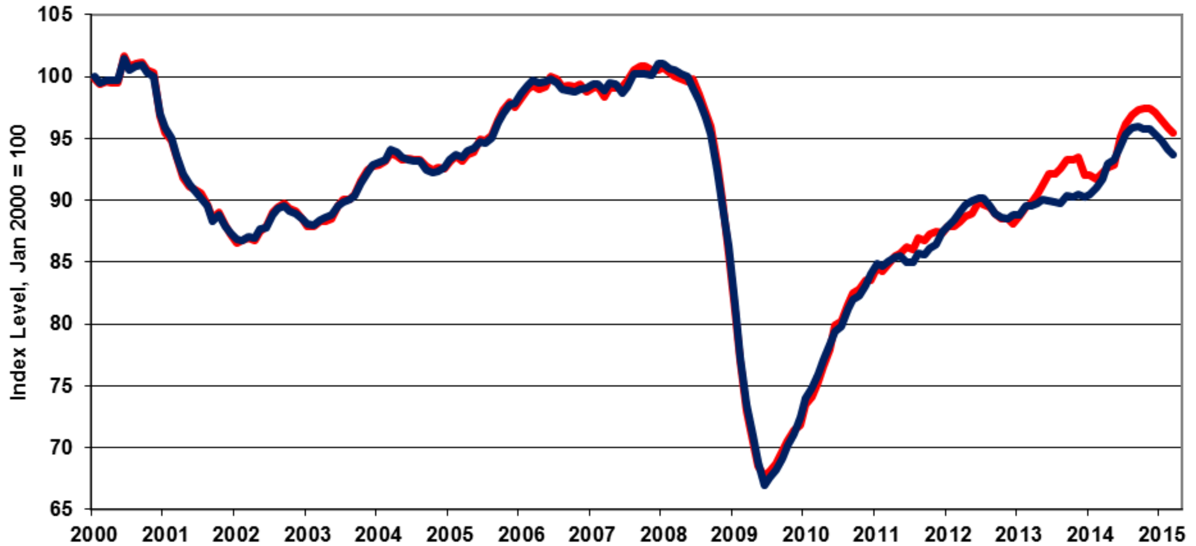



***Graph 9: Revised Real Retail Annual Growth***



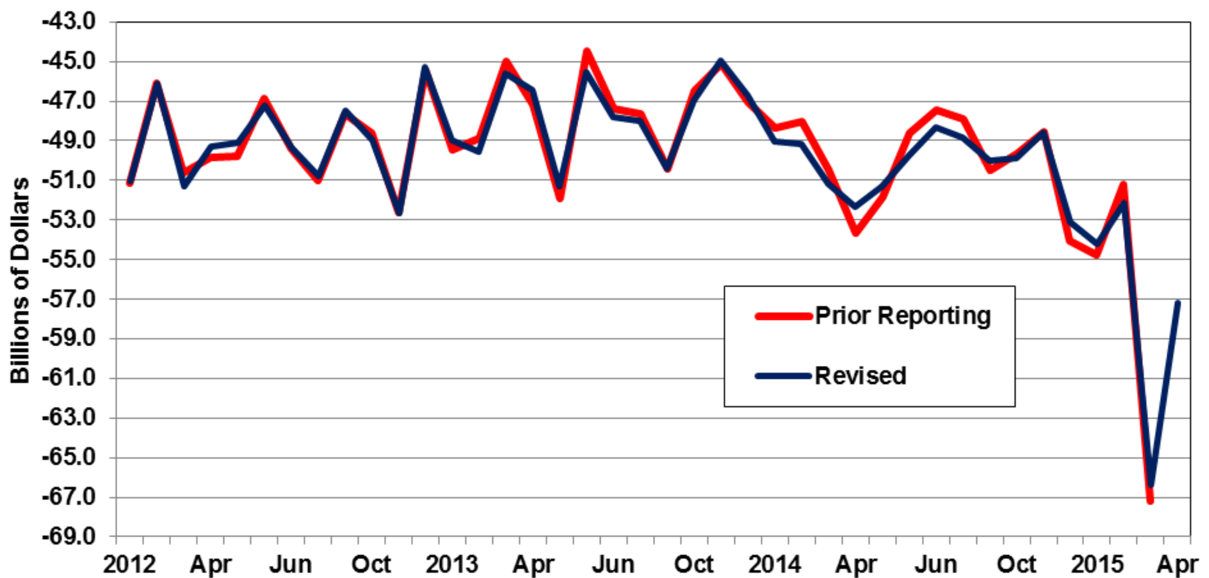
From the New Orders for Durable Goods benchmark, *Commentary No. 719* of May 15th.

***Graph 10: Revised Real Orders Ex-Commercial Aircraft***




From the Trade Deficit benchmark, *Commentary No. 724* of June 3rd.

***Graph 11: Revised Monthly U.S. Trade Deficit***

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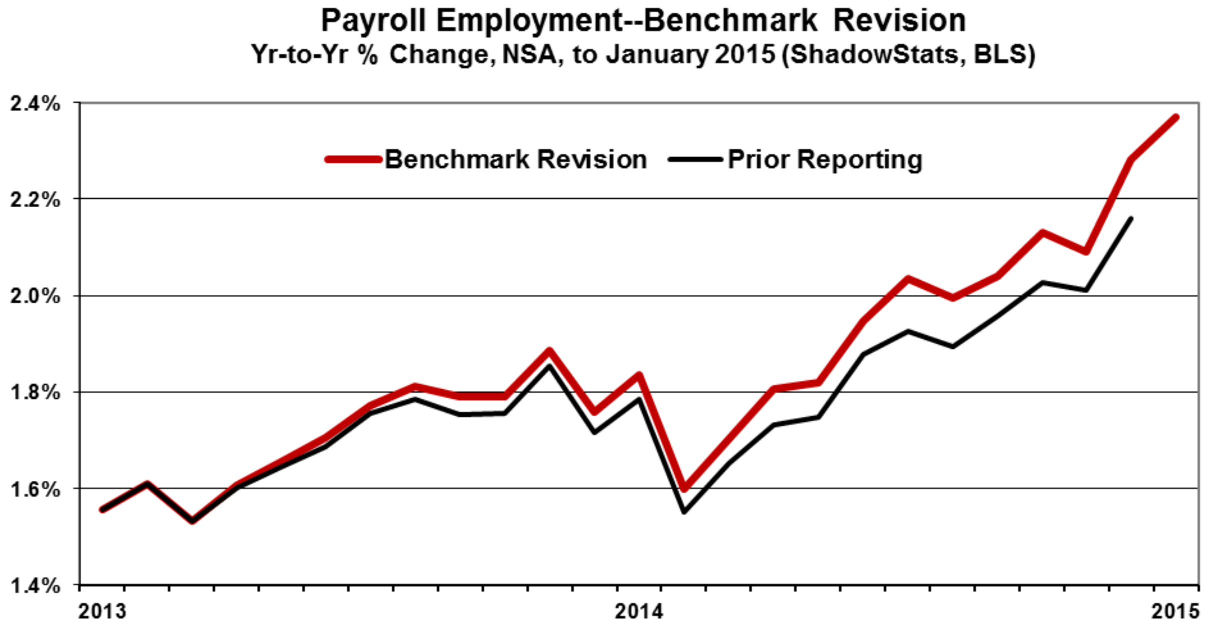
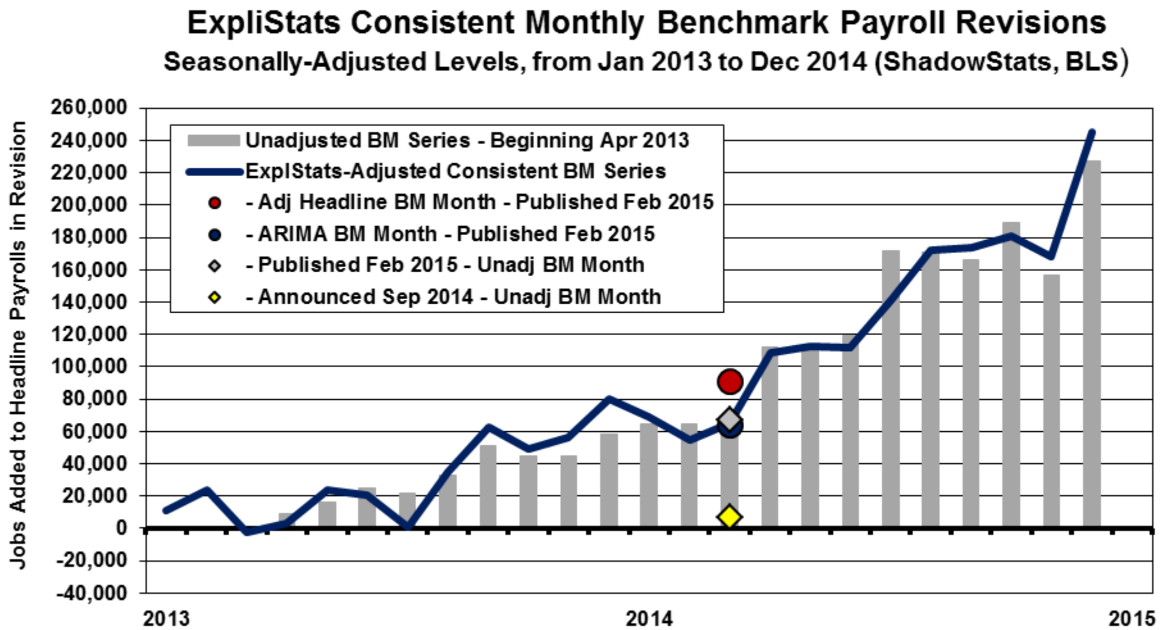
From the Payroll Employment benchmark *Commentary No. 694* and *No. 695* of February 6th and 10th.

***Graph 12: Revised Payroll Employment***




***Graph 13: Payroll Employment Benchmarking Issues***

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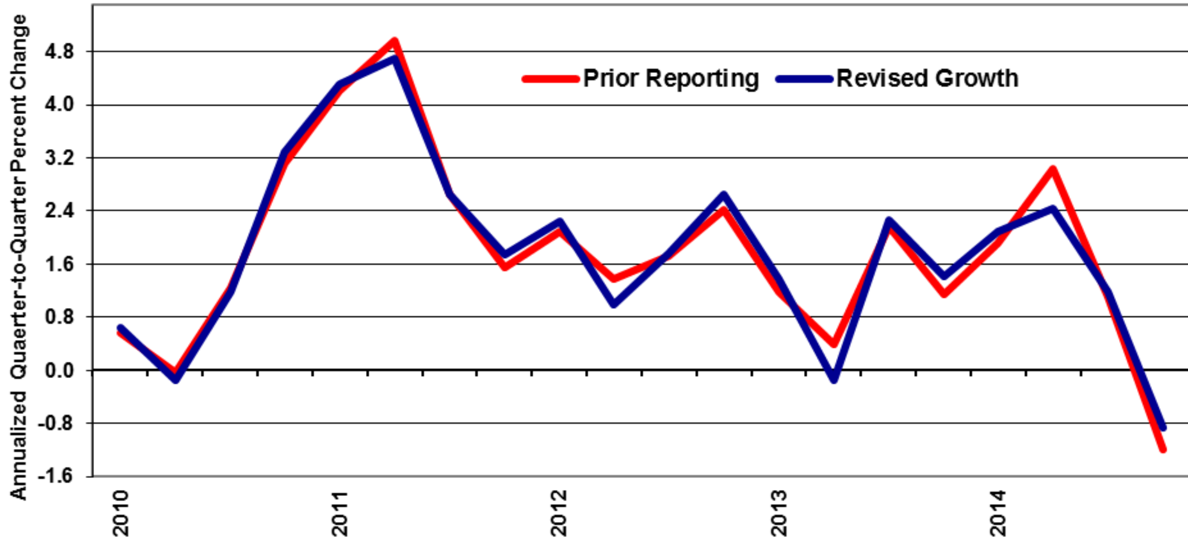
From the CPI benchmark revision, [Commentary No. 698](#) of February 20th

***Graph 14: CPI Benchmark Revisions***

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## REPORTING DETAIL

### EXISTING-HOME SALES (June 2015)

**Existing-Home Sales Continued to Rise in June.** In the context of a downside revision to May activity, June 2015 existing-home sales activity rose by 3.2% in the month, to a post-recession high of an annualized 5,490,000 million units, or 457,500 units at a monthly pace. That was the strongest reading since January of 2007, but it remained below its June 2005 pre-recession sales peak by 24% (-24%). In contrast, June 2015 headline aggregate monthly housing starts remained down by 48% (-48%) versus its January 2006 pre-recession peak. The monthly upside movement in sales remained well below the highly-unstable monthly jumps and revisions seen recently in headline housing starts, tied largely to multiple-unit starts.

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The first-quarter 2015 annualized quarterly contraction of 6.7% (-6.7%) in existing sales was unrevised, with the second-quarter 2015 pace of annualized growth settling in at a positive 28.0%. That was up from a developing trend of 21.4% based solely on headline April and May reporting.

***Headline Detail for June Existing-Home Sales.*** The July 22nd release of June 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, headline monthly gain of 3.2%, following a downwardly-revised gain of 4.5% [previously up by 5.1%] in May. The June headline month-to-month gain was 2.6%, net of prior-period revisions.

On a year-to-year basis, June 2015 sales growth increased to 9.6% versus a revised 8.6% [previously 9.2%] in May 2015.

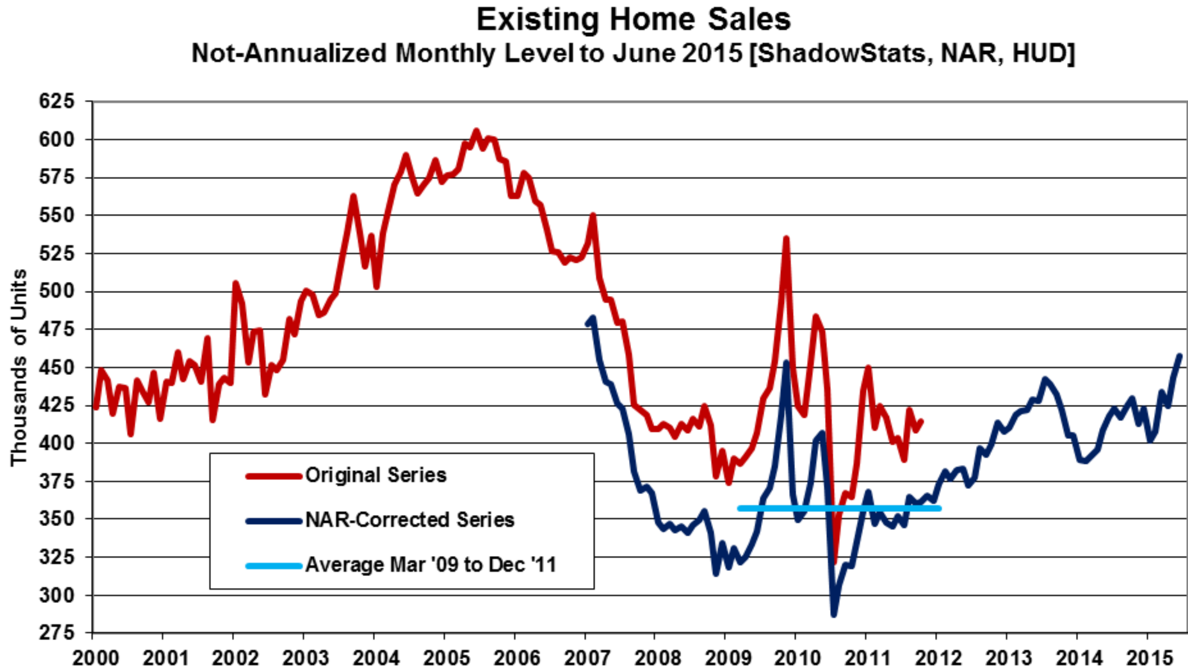
The headline June sales data were well within the normal scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, albeit recently up-trending, as seen in the accompanying graph. The quality of data underlying this series, however, remains highly questionable.

***Portion of Sales in Foreclosure Declined.*** The NAR estimated that the portion of June 2015 sales in "distress" declined to 8% (6% foreclosures, 2% short sales), versus 10% (7% foreclosures, 3% short sales) in May 2015, and was down from distressed sales of 11% (8% foreclosures, 3% short sales) in June 2014. Reflecting continued lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in June 2015 represented 22% of total activity, down from 24% in May 2015 and down from 32% in June 2014.

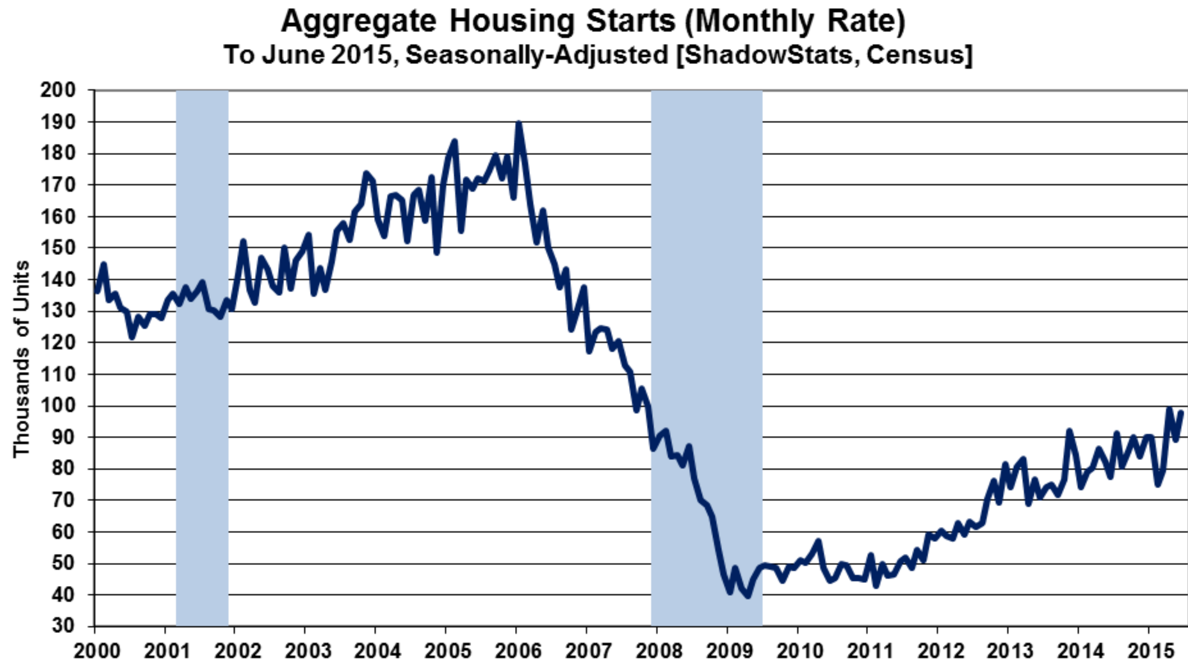
***Bleak Outlook Continues for Home-Sales Activity, Based on Impaired Consumer Liquidity Conditions.*** Detailed in the review of consumer liquidity conditions in *Commentary No. 734*, and as otherwise discussed regularly in these *Commentaries* (see *No. 692 Special Commentary: 2015 - A World Out of Balance*), there has been no meaningful improvement in underlying consumer circumstances. Accordingly, 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 in the near future.

***Existing-Home Sales Graph.*** The regular monthly graph of existing-home sales activity follows, accompanied by a comparative graph of June 2015 housing starts activity from *Commentary No. 736*.

***Graph 15: Existing Home Sales***




***Graph 16: Housing Starts***

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## WEEK AHEAD

**Headline Economic Reporting and Revisions Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Rising Oil Prices.** In a fluctuating trend to the downside, amidst mixed reporting in headline numbers, market expectations for business activity nonetheless respond primarily to the latest market hype. The general effect tends to hold the market outlook at overly-optimistic levels. Expectations exceed any potential, underlying economic reality.

GDP excesses from 2014 should face downside adjustments in next-week's July 30, 2015 GDP benchmark, and subsequent to the now-minimal current headline contraction in first-quarter 2015 GDP, expectations for relatively-positive headline growth in second-quarter 2015 likely will be surprised to the downside. Headline reporting of monthly economic numbers increasingly should turn lower, in the weeks and months ahead.

Headline CPI-U consumer inflation—driven lower earlier this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low, having turned positive in June 2015, for the first time in six months. Early July indicators are signaling higher inflation in the next monthly reporting. Separately, year-to-year CPI inflation for the balance of the year increasingly will be going against weak or negative year-ago numbers.

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. 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 monthly 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-numbers 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*).

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***PENDING RELEASES:***

**New-Home Sales (June 2015).** The Census Bureau will release June 2015 new-home sales on Friday, July 24th. The detail will be covered in ShadowStats *Commentary No. 738* of July 27th.

Still impaired by negative, underlying pressures from stressed consumer liquidity (see the detailed review of consumer conditions in *Commentary No. 734*), and as updated and discussed with the June 2015 Housing-Starts detail of *Commentary No. 736* and today's comments on the June Existing-Home Sales detail, prospects for rising home-sales activity remain bleak.

June Existing-Home Sales rallied strongly, again, with a longer-term flat-to-up trend. The trend in headline new-home numbers also has been flat-to-plus, but given ongoing liquidity constraints on the consumer and the regular, extreme volatility in the new-home sales series, some catch-up downside reporting is a good possibility for June 2015. That is despite minimal, positive consensus expectations (MarketWatch and Bloomberg both show expected gains of 0.7% versus the initial May reporting of new-home sales).

Smoothed for extreme and nonsensical monthly gyrations, an ongoing pattern of stagnation or downturn should continue in play for June 2015 New-Home Sales. While monthly changes in activity here rarely are statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for June, again, despite likely positive-consensus expectations. Again, reflecting deteriorating consumer issues, the New-Home Sales series increasingly should reflect downside volatility in its headline reporting.

**New Orders for Durable Goods (June 2015).** The Census Bureau will report June 2015 new orders for durable goods on Monday, July 27th. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation.

Real orders contracted quarterly in fourth-quarter 2014 and first-quarter 2015, and they may well do so again in second-quarter 2015—net of commercial aircraft—signaling broad, economic weakness continuing well into third-quarter 2015. Annual growth also has turned negative and should continue in such a pattern.

Commercial aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. Accordingly, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity and GDP—is the activity in new orders, ex-commercial aircraft.

**Gross Domestic Product—GDP (Second-Quarter 2015, First Estimate) (Annual Benchmark Revision).** The Bureau of Economic Analysis (BEA) will publish its first estimate of second-quarter 2015 GDP on Thursday, July 30th, along with its annual benchmarking of the GDP series.

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Discussed in *Commentary No. 736*, initial headline reporting for the second-quarter is a fair bet to come in on the downside of consensus, perhaps around two-percent (MarketWatch early-consensus growth estimate is for 2.5%). That outlook will be revised in the next *Commentary No. 738* of July 27th.

Also noted in *No 736,* however, the reporting of a sharp deterioration in the second-quarter 2015 trade deficit—presently viewed as unchanged or neutral for implied second-quarter GDP growth—remains possible. Indications of that would not happen publicly until July 30th, with the first release of the new economic series known as the "advance" trade deficit (June 2015 in this case), an early estimate of data previously missing from initial GDP calculations.

Indeed, where the new trade data release will coincide with the "advance" estimate of second-quarter GDP growth, there will be no early warning of its impact on GDP reporting. Accordingly, that trade-deficit number is a wild card for the markets, one that could widen the quarterly trade shortfall meaningfully and at the same time bring in headline GDP growth well below still-evolving market expectations.

Discussed in detail in today's *Opening Comments*, the GDP benchmark revision is a good bet to show flatter, weaker-than-previously reported GDP growth in the primary revision period of 2012 forward. Patterns of more-stagnant, real quarterly GDP growth should be seen in the latter-part of 2012 and for much of 2013, leading into the existing GDP contraction for first-quarter 2014. A quarterly contraction for fourth-quarter 2012, currently showing growth of 0.06%, is a fair bet.

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