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

COMMENTARY NUMBER 738
June Durable Goods Orders, New-Home Sales, Household Income

July 27, 2015

Complacency on the U.S. Economy and the U.S. Dollar
Could Be Shaken in the Week and Month Ahead

Durable Goods Orders in a Pattern of Intensifying
Monthly and Quarterly Year-to-Year Contractions

Second-Quarter Durable Goods Orders (Ex-Commercial Aircraft) in
Steepest Annual Decline Since Economic Collapse

Second-Quarter New-Home Sales Fell 7.3% (-7.3%)

PLEASE NOTE: The next regular Commentary, *scheduled for Thursday, July 30th, will cover the initial estimate of second-quarter GDP, the accompanying GDP benchmark revision and first "advance" estimate of the June 2015 trade deficit.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Pending Data Have the Potential to Shock the Markets and Economic Complacency. With the "advance" estimate of second-quarter GDP due for release on Thursday (July 30th), along with benchmark revisions to the GDP series back to first-quarter 2012, the potential for significantly-negative reporting surprises is unusually high. Not only is the headline growth for second-quarter GDP likely to come in sufficiently below consensus so as to rattle the markets (specifically the U.S. dollar), but also prior-period revisions should show enough of a weaker-than-purported economic rebound to cause some honest reappraisals of the actual strength of post-collapse economic activity.

Separately, ongoing headline reporting for the regular monthly economic series, such as production and retail sales, generally should continue to come in on the downside of expectations, not only pummeling the near-term outlook, but also building expectations for downside revisions to the second-quarter GDP and for downside reporting in the near-term quarters ahead. The recession remains in play, it just likely is not going to gain immediate recognition on Thursday. There are enough potential surprises in the upcoming reporting, however, to mark a downside turning point in broad market expectations.

Headline Near-Term Activity. Bloomberg reports consensus expectations for headline second-quarter GDP growth of 2.9%. Such is near the average growth rate for the GDP—about 3.2% in the last 35 years—but there is nothing close to average or normal in what should be coming out in the new headline GDP detail. Not only are the markets at risk of disruption, but so too are the popular fables and hyped stories of stable, positive and ongoing growth and economic recovery.

Where the Bureau of Economic Analysis (BEA) has the ability to bring in these numbers wherever it pleases, including revising the current first-quarter 2015 GDP headline contraction from 0.2% (-0.2%) into positive territory and hitting the consensus outlook with its "advance" second-quarter headline growth number, enough detail already is in play to suggest otherwise.

Where an annualized contraction of 0.2% (-0.2%) is little more than statistical noise, such could disappear easily at the whim of the BEA, but it did not disappear with the "final" revision to the first-quarter number, although now it is subject to another revision. Subsequent to the "final" first-quarter revision, the first-quarter industrial production number (a Fed series) revised back into a shallow first-quarter contraction, from a small positive reading, a pattern that also should pressure the GDP.

More difficult for the BEA would be to justify bringing in close to three-percent headline growth for the second-quarter GDP. Supporting that type of growth might be the unstable housing statistics and regular fluff on inventory building, but the harder production and retail sales contractions are good bets to keep the aggregate growth rate at two-percent or below. The wild-card June trade-deficit number also is a good bet for a negative surprise on Thursday, adding to the downside pressure on likely BEA reporting.

In normal economic times, the BEA would tend to target its initial or "advance" estimate at consensus expectations. If the internal BEA numbers were meaningfully above or below the consensus outlook, the BEA would tend to signal same with an initial reading above or below the consensus. A below-consensus number is likely, here, given the economic issues already mentioned. That should be something of shock to the markets and to the economic complacency that dominates much of the media and market hype.

Benchmark GDP Revisions. The other big reporting issue on Thursday will be the benchmark revisions. Noted in *Commentary No. 737*, with the industrial production benchmark revisions in place, and in the context of this year's benchmark revisions to other key series, the pending GDP benchmark revisions should show that economic growth—the so-called continuing recovery—since January 2012 (the initial period open to benchmarking) has been meaningfully weaker than previously assumed. Again, that should cause some honest reappraisals of the actual strength of post-collapse economic activity.

Today's Missive (July 27th). The balance of today's *Opening Comments* addresses the headline reporting of June New Orders for Durable Goods, a brief update on consumer liquidity and the headline June New- and Existing-Home Sales activity

Incorporating the recent discussion on the gold circumstance, and an expanded discussion on the relative merits of holding other hard assets in difficult times; updating the evolving headline-economic outlook (including today's *Opening Comments*), in the context of weakening, benchmarked economic activity; the outlook for domestic hyperinflation will be updated in the *Hyperinflation Watch* section shortly. Portions of the update have been discussed piecemeal in recent *Opening Comments* (including today's), with a fully updated version most likely next week, subsequent to the release of all the new GDP detail. The basic outlook and underlying fundamentals have not changed. The most-recent version of the summary outlook remains available in *Commentary No. 735*.

The *Week Ahead* section provides an updated preview of the "advance" reporting of second-quarter 2015 GDP and the accompanying benchmark revisions to the GDP series.

New Orders for Durable Goods—June 2015—Ongoing Recession Seen Amidst Deepening Annual Contractions. The reporting of a moderate headline gain in June 2015 new orders for durable goods reflected primarily a jump in commercial aircraft orders, and it was in the context of downside revisions to April and May orders. The broad signal for pending U.S. economic activity remained sharply negative, with the summary statistics indicative of a deepening, ongoing recession.

Activity in new orders for durable goods has a leading relationship to industrial production as well as to general economic activity. Headline reporting for June 2015 new orders showed negligible monthly movement, but increasingly negative year-to-year change, irrespective of considerations for inflation and/or aircraft orders.

Annualized quarterly declines in real new orders (ex-commercial aircraft) held for both fourth-quarter 2014, down by 5.58% (-5.58%), and first-quarter 2015, down by a revised, even deeper 7.80% (-7.80%). Following with an appropriate lag, one quarter later, first-quarter 2015 industrial production contracted, as did industrial production in second-quarter 2015 (see *Commentary No. 737*).

Annualized change for second-quarter 2015 orders (ex-commercial aircraft) was 1.93%. The quarterly gain was due to suspect negative durable goods inflation in the PPI reporting. On a nominal basis, second-quarter 2015 quarterly growth basically was flat, up by an annualized 0.24%, versus annualized contractions of 7.29% (-7.29%) in first-quarter 2015, and 4.36% (-4.36%) in fourth-quarter 2014.

More ominously, though, was a deepening year-to-year contraction in real orders, net of commercial aircraft. Orders fell by 2.82% (-2.82%) year-to-year in second-quarter 2015, the worst annual plunge since coming out of the economic collapse. That followed a revised decline of 0.20% (-0.20), effectively unchanged, in first-quarter 2015, and an unrevised annual gain of 4.57% in fourth-quarter 2014. Annual change in the ex-commercial aircraft orders has been negative for five consecutive months, a pattern rarely, if ever, seen outside of recessions.

The near-consensus headline monthly gain of 3.4% in June 2015 total orders [MarketWatch indicated expectations of a 2.6% gain, Bloomberg was 3.4%] was accounted for by an increase in the irregular orders for nondefense (commercial) aircraft and a downside revision to May activity. Ex-commercial aircraft, June durable goods orders rose by 0.4%. The ex-commercial aircraft series is the one to look at as an indicator of pending, broad economic activity, due to the distorting effects of the extreme and irregular nature of the volume of aircraft orders, as well as to 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 June durable goods orders were minimal. They remained well within the normal reporting variations of this highly unstable series and were consistent with a continuing 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 at the end of this *New Orders for Durable Goods* section. They remain broadly stagnant with a developing downturn of a nature that usually precedes or coincides with a recession or a deepening business downturn.

Headline Nominal (Not-Adjusted-for-Inflation) June 2015 Reporting. The regularly-volatile, seasonally-adjusted, headline nominal level of June 2015 new orders for durable goods rose month-to-month by 3.36%, following a revised, deeper decline of 2.10% (-2.10%) in May, and revised deeper decline of 1.73% (-1.73%) in April. Net of the revisions to May, aggregate new orders for June rose by 2.81%, instead of the headline 3.36%.

The seasonally-adjusted, year-to-year change in June 2015 durable goods orders was a contraction of 2.80% (-2.80%), versus a revised drop of 3.05% (-3.05%) in May 2015, and a revised annual decline of 3.55% (-3.55%) in April 2015.

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 jump of 66.13% in June 2015 commercial-aircraft orders, aggregate new orders rose by 0.37%. Net of a revised decline of 31.60% (-31.60%) in May 2015 commercial-aircraft orders, aggregate new orders fell by a revised 0.05% (-0.05%). Net of a revised decline in April 2015 commercial-aircraft orders of 10.67% (-10.67%), aggregate orders declined by a revised 1.04% (-1.04%).

Year-to-year and seasonally-adjusted, June 2015 orders (net of commercial aircraft) were down by 3.16% (-3.16%), versus a revised decline of 1.06% (-1.06%) in May, versus a revised decline of 3.50% (-3.50%) in April 2015.

Real (Inflation-Adjusted) Durable Goods Orders—June 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 June 2015 PPI series contracted month-to-month for the fifth consecutive month, down by a headline 0.12% (-0.12%), following a similar headline 0.12% (-0.12%) monthly contraction in May. Headline annual inflation stood at 0.06% in June 2014, versus 0.24% in May 2015.

Adjusted for that monthly decline of 0.12% (-0.12%) in headline June inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders rose by 3.49%, following a monthly decline of 1.99% (-1.99%) in May 2015, and a decline in April real orders of 1.50% (-1.50%). Ex-commercial aircraft, real orders effectively were up by 0.49% in June, versus a 0.07% gain in May, and down by 0.81% (-0.81%) in April.

Real year-to-year aggregate orders fell by 2.86% (-2.86%) in June 2015, versus an annual decline of 3.28% (-3.28%) in May 2015, and a drop of 3.96% (-3.96%) in April 2015. Ex-commercial aircraft, real orders fell year-to-year by 3.21% (-3.21%) in June 2015, dropped by 1.29% (-1.29%) in May 2015, and by 3.91% (-3.91%) in April 2015.

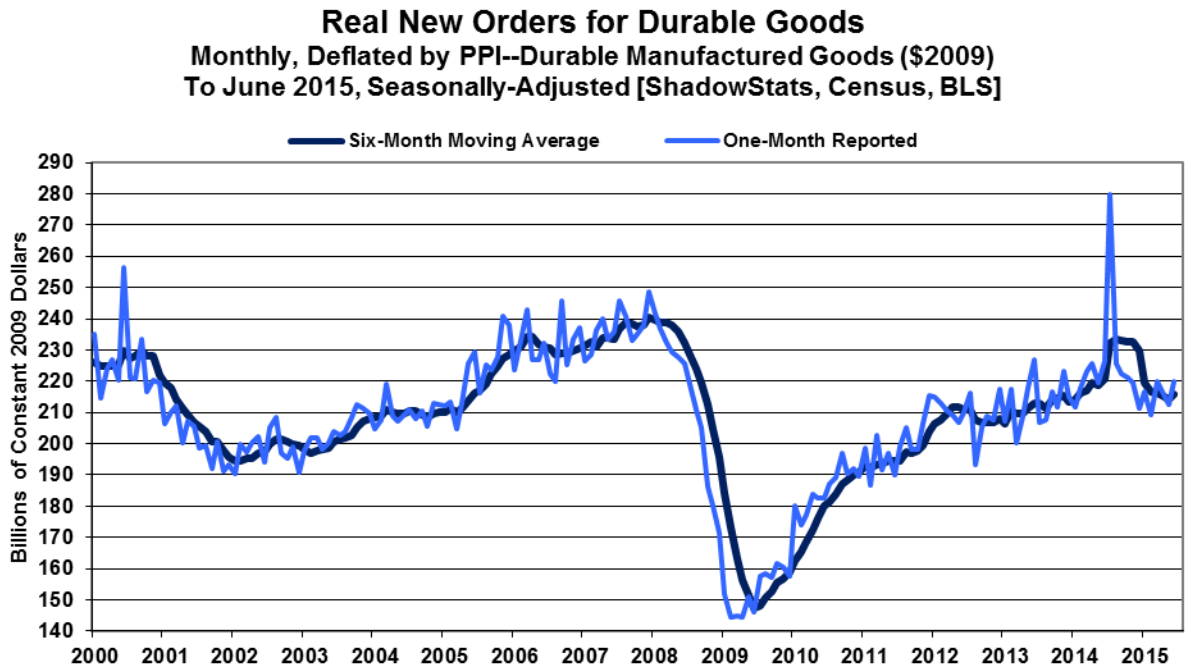
Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series. The first two graphs (*Graph 1* and *Graph 2*), show new orders for durable goods, again, adjusted for inflation using the Producer Price Index (PPI) measure for "Durable Manufactured Goods." These graphs show monthly and six-month moving-averages of the activity level, updated for this morning's headline reporting of June 2015 numbers. *Graph 3* shows the just-benchmarked manufacturing sector of industrial production, for comparison. Traditionally, durable goods orders serve as a leading indicator to that sector.

Graph 1 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, minor declines in April and May and a jump in June. 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, for a while, but that passed from the moving average with January 2015 reporting.

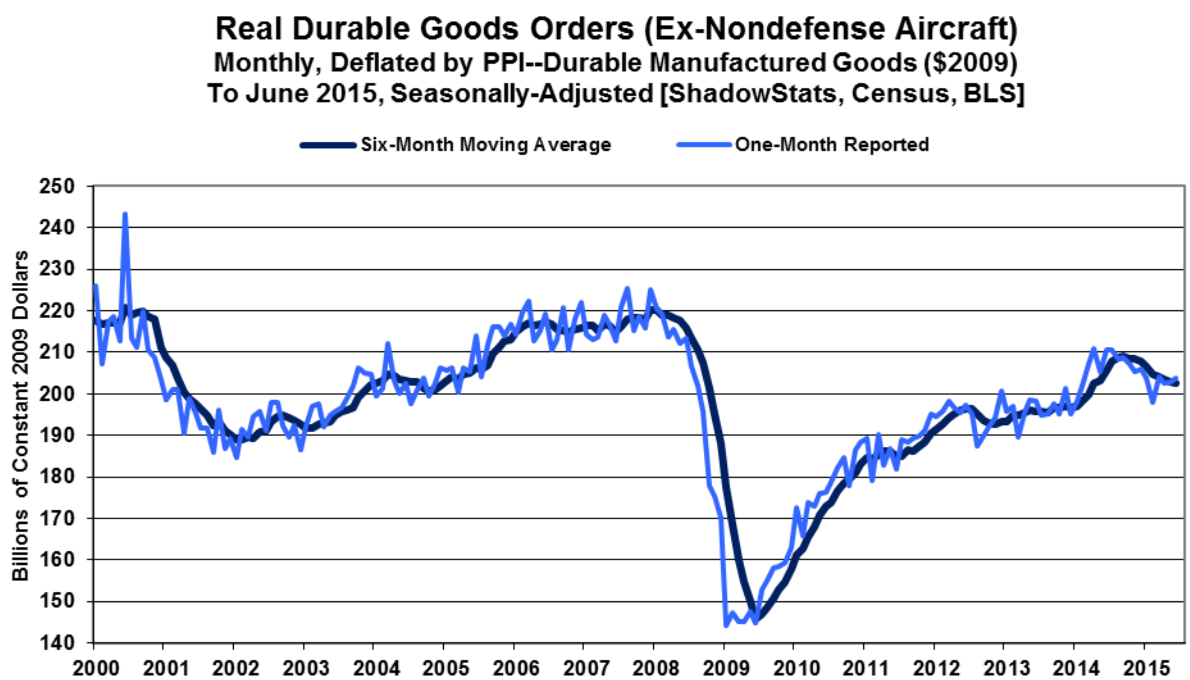
In terms of inflation-adjusted activity, both of the durable goods orders series have shown a slowing uptrend and flattening-out in the last two-to-three years—with a dip and upside bouncing into 2013, and renewed stagnation, feeding into the temporary July 2014 surge. Orders have been in general decline since third-quarter 2014, with two consecutive quarterly contractions in place for fourth-quarter 2014 and first-quarter 2015, and basically unchanged quarter-to-quarter activity in second-quarter 2015 both before and after any consideration for aircraft orders and/or inflation. For second-quarter 2015, both series turned sharply negative year-to-year, again, as seen both before and after inflation adjustment.

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 June 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 usually precedes or is coincident with a recession.

Graph 1: June 2015 Real Total New Orders for Durable Goods

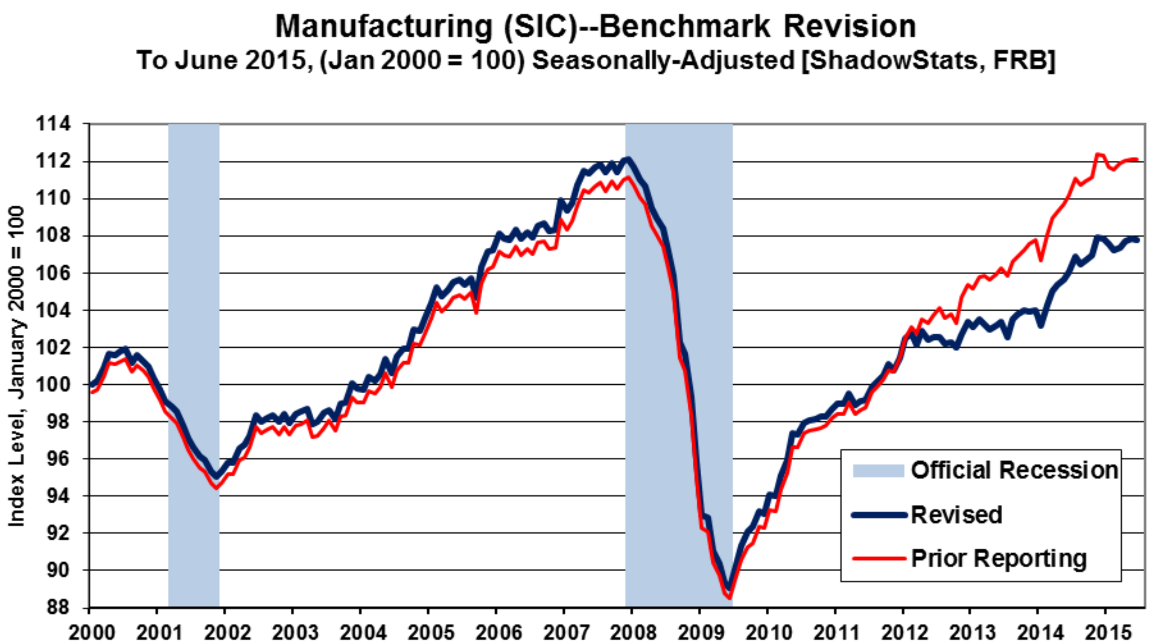


Graph 2: June 2015 Real New Orders for Durable Goods – Ex Commercial-Aircraft Orders



Moving More in Tandem with Durable Goods Orders Benchmark-Revised Manufacturing No Longer Has Recovered Its Pre-Recession High. Detailed in the industrial production benchmark-revision coverage of *Commentary No. 737*, while the general shape and timing of the collapse of industrial production into 2009 remained intact, the purported rebound in economic activity did not. Where total industrial production had hit its pre-recession high in October 2013, post-revision that recovery had shifted to May 2014. The same pattern slammed the dominant manufacturing sector (weighted at 72.7% of industrial production). Having previously "recovered" as of November 2014, manufacturing no longer had regained in its pre-recession peak, post-benchmark reporting. Revised manufacturing-sector activity now is down by 3.9% (-3.9%) from its pre-recession high, never having fully recovered, as shown in *Graph 3.* As a result, historical activity in the manufacturing sector of production has taken on a pattern that now is more consistent with the non-recovered headline activity in real new orders for durable goods, ex-commercial aircraft volatility.

Graph 3: Benchmark Revised Pattern of Industrial Production Manufacturing

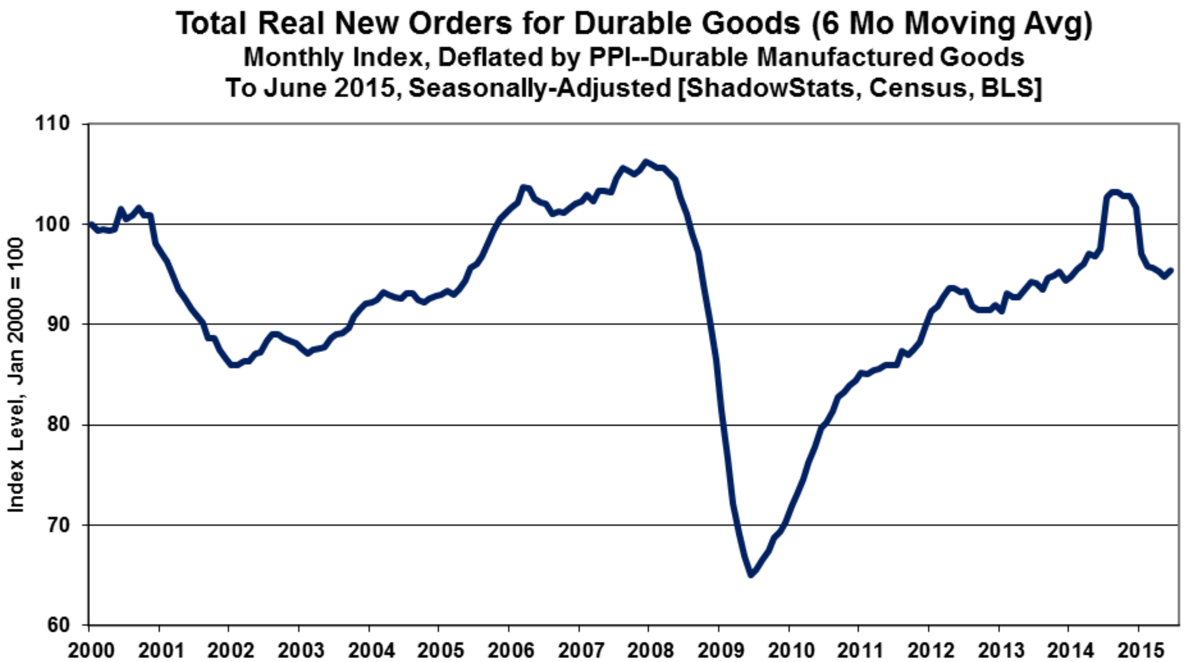


The Real New Orders Series Corrected for Inflation Understatement. As with other economic series deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods generally are overstated, due to the understatement of official inflation. That understatement here comes from the government's use of hedonic-quality adjustments—quality issues usually not perceived by users or consumers of the involved products—in justifying a reduced pace of headline inflation (see *Public Commentary on Inflation Measurement*).

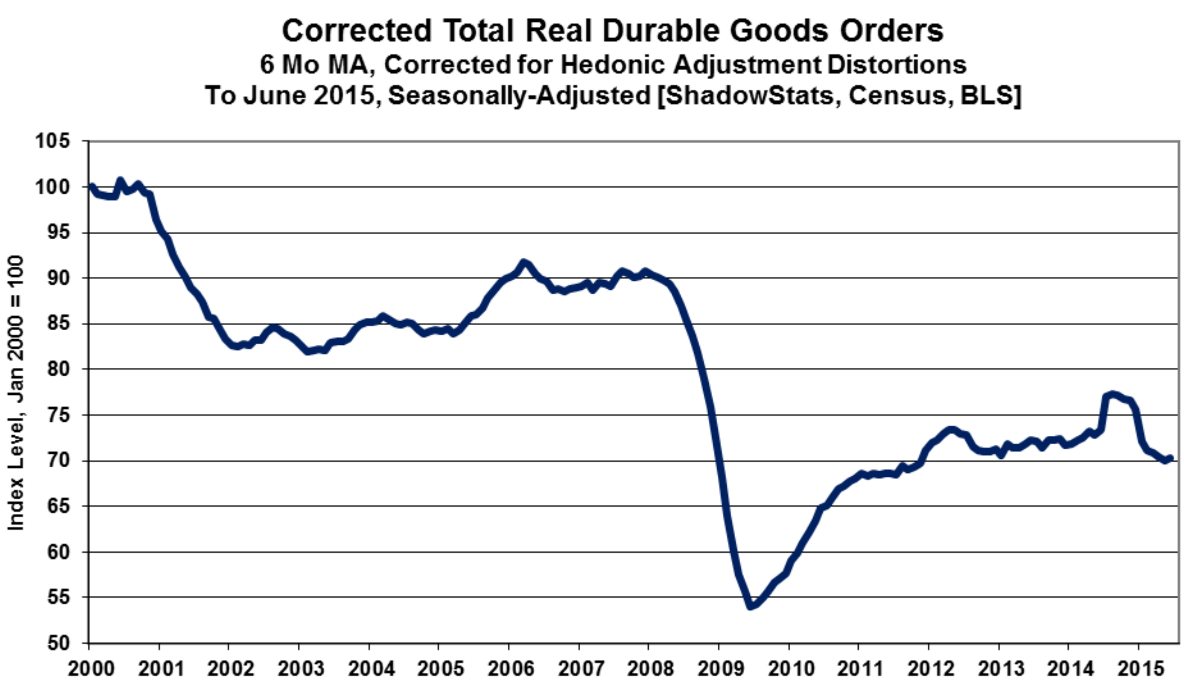
As done for other series such as the GDP, real retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

Two sets of graphs follow. The first set (*Graph 4* and *Graph 5*) shows the aggregate series or total durable goods orders; the second set (*Graph 6* and *Graph 7*) shows 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 *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second plot is the same six-month, moving-average series as re-deflated to correct for the estimated understatement of the PPI durable goods inflation measure as used in the headline-deflation process. Both sets of graphs are indexed to January 2000 = 100.

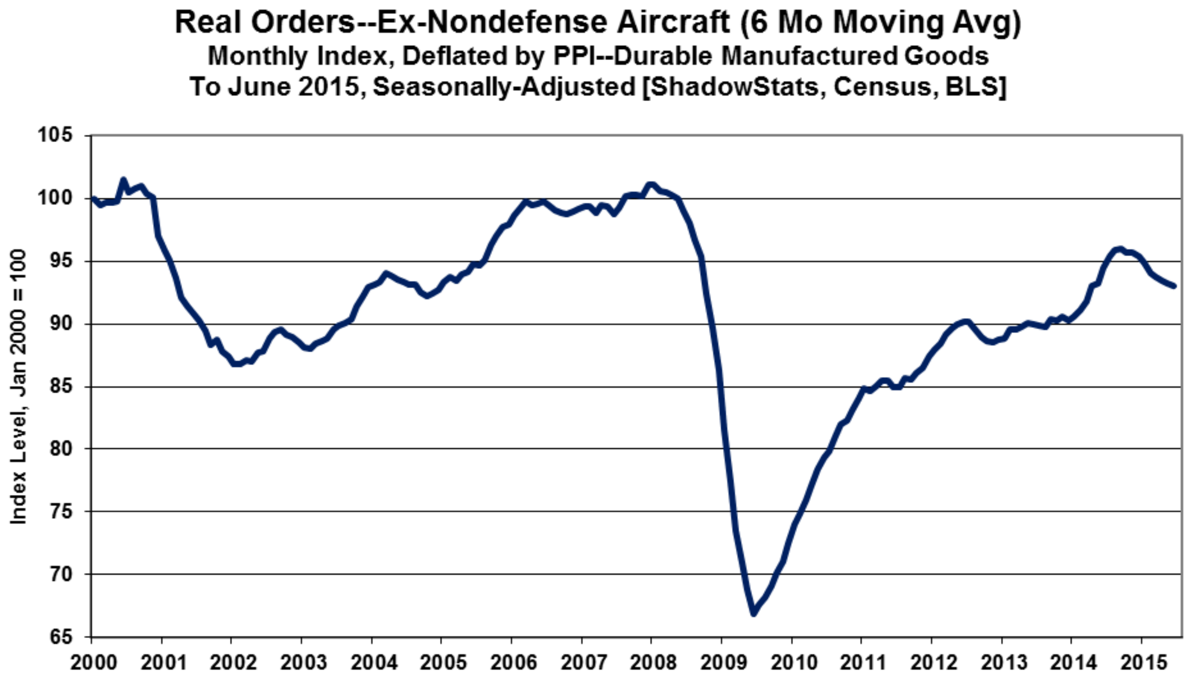
Graph 4: June 2015 Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



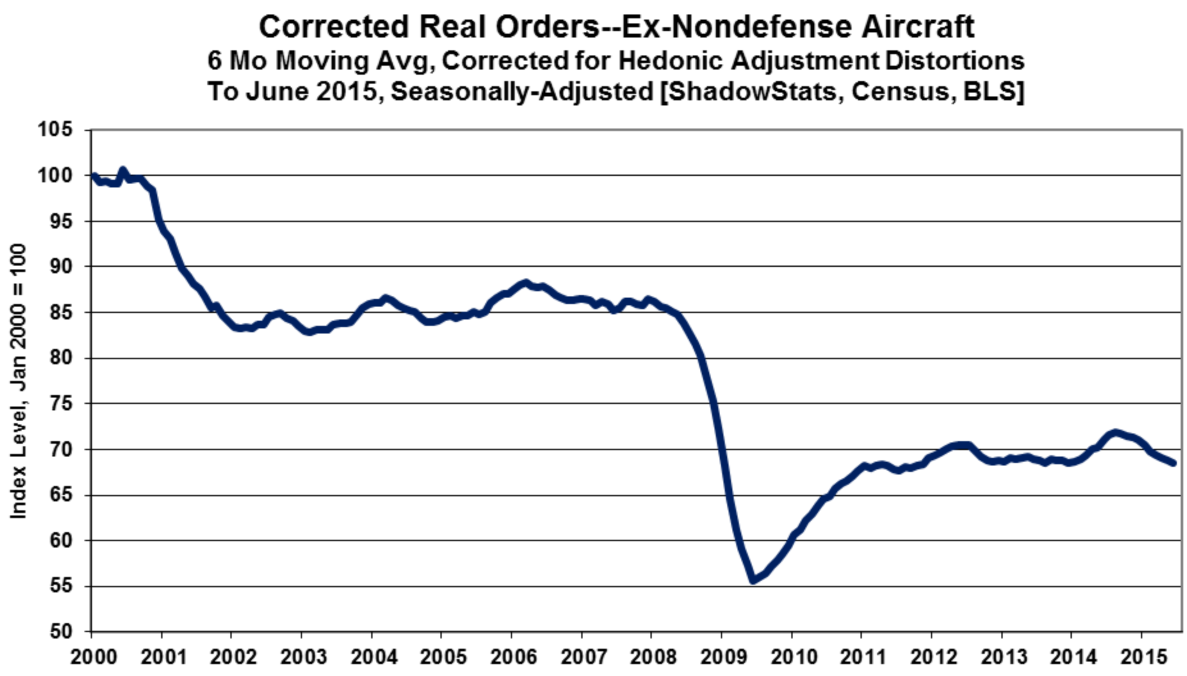
Graph 5: Corrected Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



Graph 6: June 2015 Index of Durable Gods Orders – Ex Commercial Aircraft (Six-Month Moving Average)



Graph 7: Corrected Index of Durable Gods Orders – Ex Commercial Aircraft (Six-Month Moving Average)

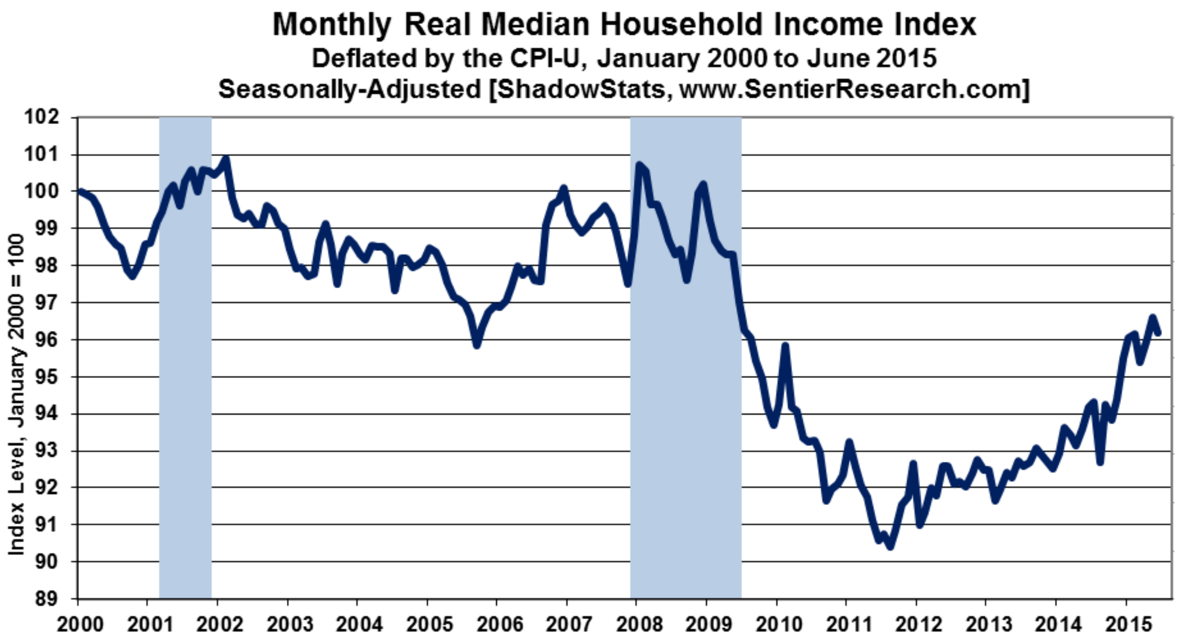


The second graph in the second set (*Graph 7*), entitled "Corrected Real Orders—Ex Nondefense Aircraft," is perhaps the best indicator of broad underlying order activity in the durable goods sector, in the context of signaling in advance actual, near-term production and economic activity.

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.

Household Median Income Declined in June, in Context of Tumbling Real Earnings for Second-Quarter 2015. Reflected in *Graph 8*, www.SentierResearch.com updated its June 2015 Household Income Index on Friday, June 24th. This measure of real (inflation-adjusted) monthly median household income turned lower in June, reflecting flat, month-to-month nominal median income hit by rising consumer inflation. A similar circumstance generated a headline plunge in second-quarter 2015 real average weekly earnings, discussed in *Commentary No. 736*. The new numbers update the detailed review of troubled consumer liquidity conditions found in *Commentary No. 734*.

Graph 8: June 2015 Real Median Household Income



New- and Existing-Home Sales—June 2015—Activity Continued in a Broad, Smoothed Pattern of Low-Level Stagnation. Despite existing-home sales hitting a new post-recession high in June, what had been a post-recession high for new-home sales in May disappeared along with the latest unstable downside reporting and revisions to that series. Both these series remain unstable in their reporting. With high levels of monthly volatility smoothed for the various housing numbers—both sales and construction—activity generally continued in low-level stagnation, albeit slightly up-trending.

Impaired Consumer Liquidity Continues to Restrain Home-Sales Activity. In the context of the just published June 2015 real median household income and the updated *Graph 8* earlier in the prior section, and otherwise as detailed in the review of consumer liquidity conditions in *Commentary No. 734* (see also *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 remains no basis for expecting a recovery in the housing market in the near future.

New-Home Sales—Second-Quarter Contraction of 7.3% (-7.3%); May's Post-Recession Peak Evaporated in Revision. As usual, the headline monthly and annual changes in new-home sales were not statistically significant. In the context of downside revisions to recent monthly activity, June sales dropped by 6.8% (-6.8%) after a 1.1% (-1.1%) decline in May, which previously had seen a monthly gain of 2.2%. Annual sales in June 2015 were up by 18.1%, versus a downwardly-revised 13.1% year-to-year gain in May 2015, which previously had been up by 19.5%. None of those monthly or annual changes was statistically meaningful. The headline monthly contraction ran counter to consensus expectations of a 0.7% gain versus the initial May reporting, per MarketWatch and Bloomberg. Against initial May reporting, June 2015 new-home sales actually fell by 11.7% (-11.7%).

Last month's reporting of May 2015 new-home sales had come in at an annualized pace of 546,000 units—a new post-recession high at the time—the strongest showing since February 2008. That happy image just evaporated, however, with a downside revision of 5.3% (-5.3%) to May headline sales level (now 517,000 units). The headline June 2015 sales level of an annualized 482,000 units (a 40,167 monthly rate as used in the graphs) was the weakest since November 2014, and it still was down by 65% (-65%) from the pre-recession peak for the series. With the otherwise meaningless monthly swings in these numbers smoothed out, new-home sales activity continued in a broad pattern of low-level stagnation.

ShadowStats assesses such unstable series by considering the gyrations in monthly activity in the context of a six-month moving average of the headline numbers. Graphs of June 2015 headline-monthly and smoothed detail for new-home sales, as well as for comparative single-unit housing starts, and comparative existing-home sales follow.

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 June 2015 new-home sales activity still was down by 65.3% (-65.3%) from the pre-recession peak of July 2005 for the series, while June 2015 single-unit housing starts still were down by 62.4% (-62.4%) from the January 2006 high of that series (see *Graphs 9* to *12*).

Headline June 2015 Reporting. Headline June 2015 new-home sales (counted based on contract signings, Census Bureau), declined for the month, in the context of multiple, sharp-downside revisions to prior months' reporting. June sales fell by a statistically-insignificant 6.8% (-6.8%). That followed a revised monthly decline of 1.1% (-1.1%) in May, a revised 7.8% gain in April, and a revised decline of 11.0% (-11.0%) in March. Net of prior-period revisions, June 2015 monthly sales fell by a still-statistically-insignificant 11.7% (-11.7%), instead of the headline drop of 6.8% (-6.8%).

Year-to-year, June 2015 sales rose by a statistically-insignificant 18.1%. That followed downwardly-revised annual gains of 13.1% in May, 27.6% in April 2015, and an 18.3% increase in March 2015.

In the arena of nonsensical volatility, consider that the annualized quarterly pace of sales gain in first-quarter 2015 revised lower to 43.9%, with the second-quarter 2015 pace turning to an annualized quarterly contraction of 7.3% (-7.3%). The second-quarter number flipped to the downside from what had been a developing positive trend of 16.3% annualized growth, based solely on initial headline April and May reporting.

Existing New-Home Sales—At Post-Recession High but Down 24% (-24%) from Pre-Recession Peak. *[The text here largely is repeated from the* Reporting Detail *section of prior* Commentary No. 737, *and accordingly is not repeated in today's* Reporting Detail.*]* 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.

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. 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% in May. The June headline month-to-month gain was 2.6%, net of prior-period revisions.

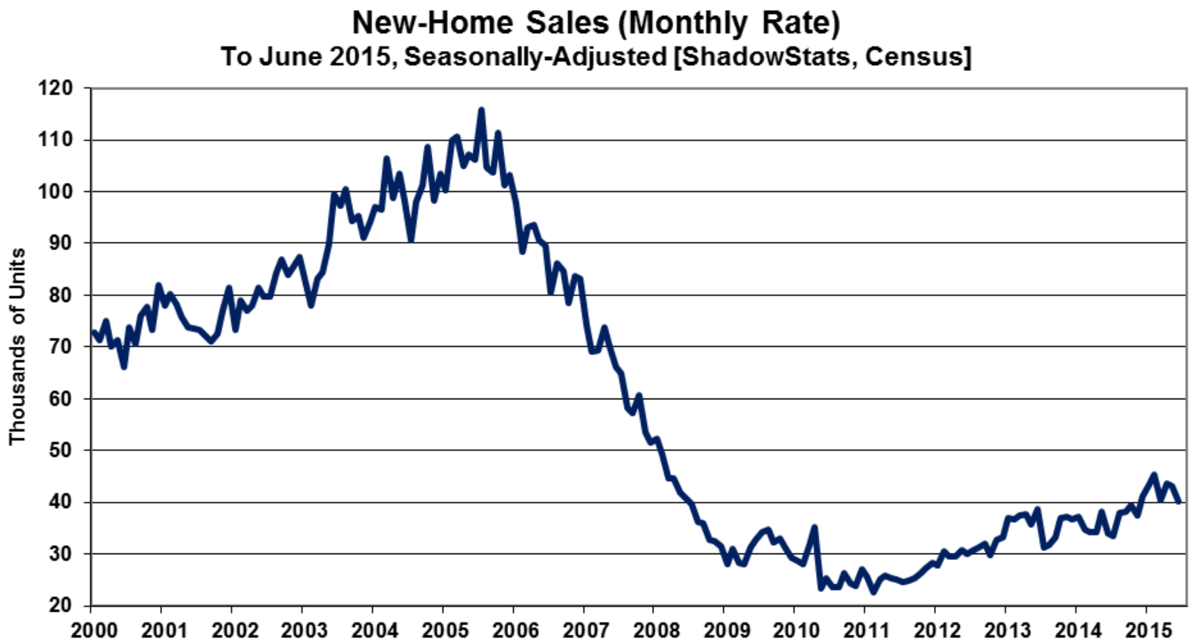
On a year-to-year basis, June 2015 sales growth increased to 9.6% versus a revised 8.6% in May 2015.

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 *Graph 13*. The quality of data underlying this series, however, remains highly questionable.

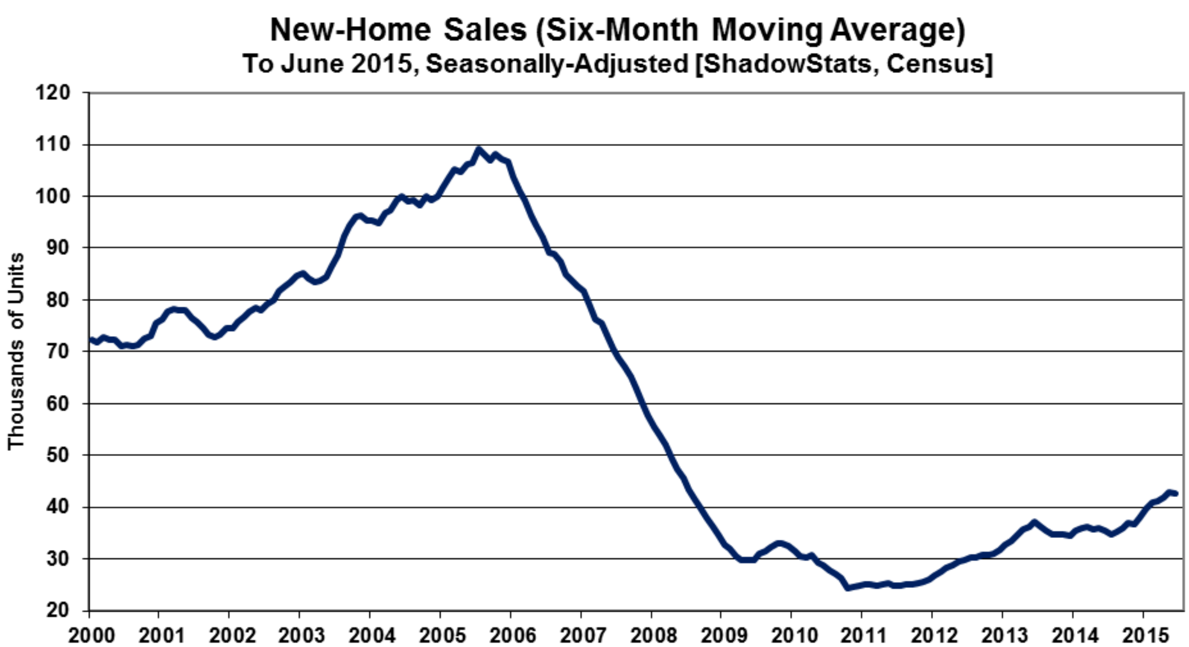
Portion of Sales in Foreclosure Declined. The NAR estimated that the portion of June 2015 sales in "distress" declined to 8% (6% foreclosures, 2% short sales), versus 10% (7% foreclosures, 3% short sales) in May 2015, and was down from distressed sales of 11% (8% foreclosures, 3% short sales) in June 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.

New- and Existing-Home Sales Graph. The regular monthly graphs of June new-and existing-home sales activity follow. The new-home sales plots (*Graph 9* and *Graph 10*) reflect activity based both on headline monthly reporting, as well as using a smoothed, six-month moving average of the series. Those graphs are accompanied by comparative graphs of June 2015 single-units housing starts activity (*Graph 11* and *Graph 12*), measures which are limited to single-unit activity. The existing-home sales graph (*Graph 13* repeated from *Commentary No. 737*) is accompanied by a comparative plot of aggregate housing starts activity (*Graph 14*). These measures include both single- and multiple-unit activity. The housing starts graphs are repeated from *Commentary No. 736*.

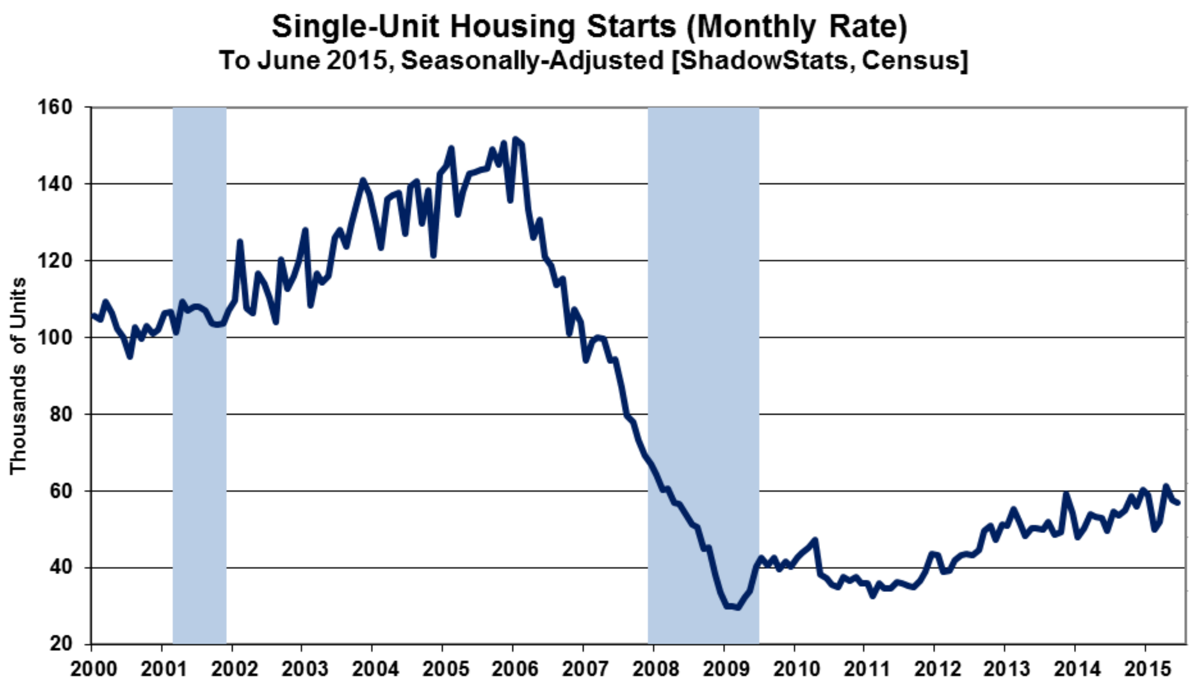
Graph 9: New-Homes Sales – Monthly Level



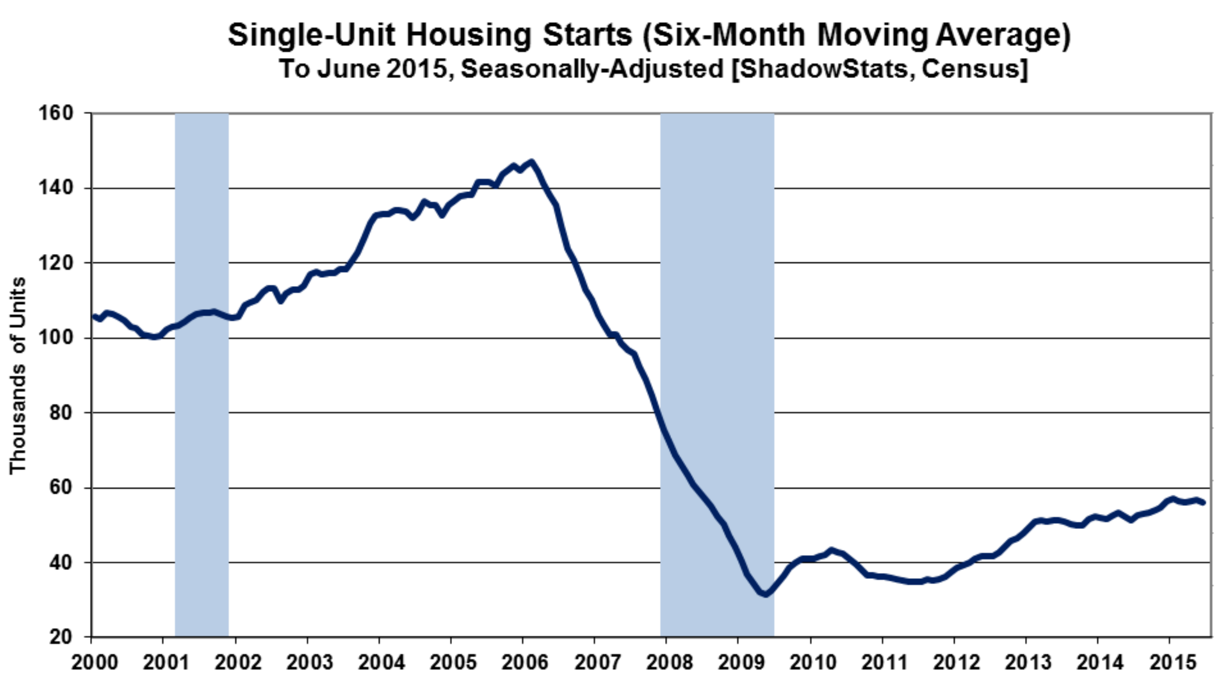
Graph 10: New-Homes Sales – Six-Month Moving Average



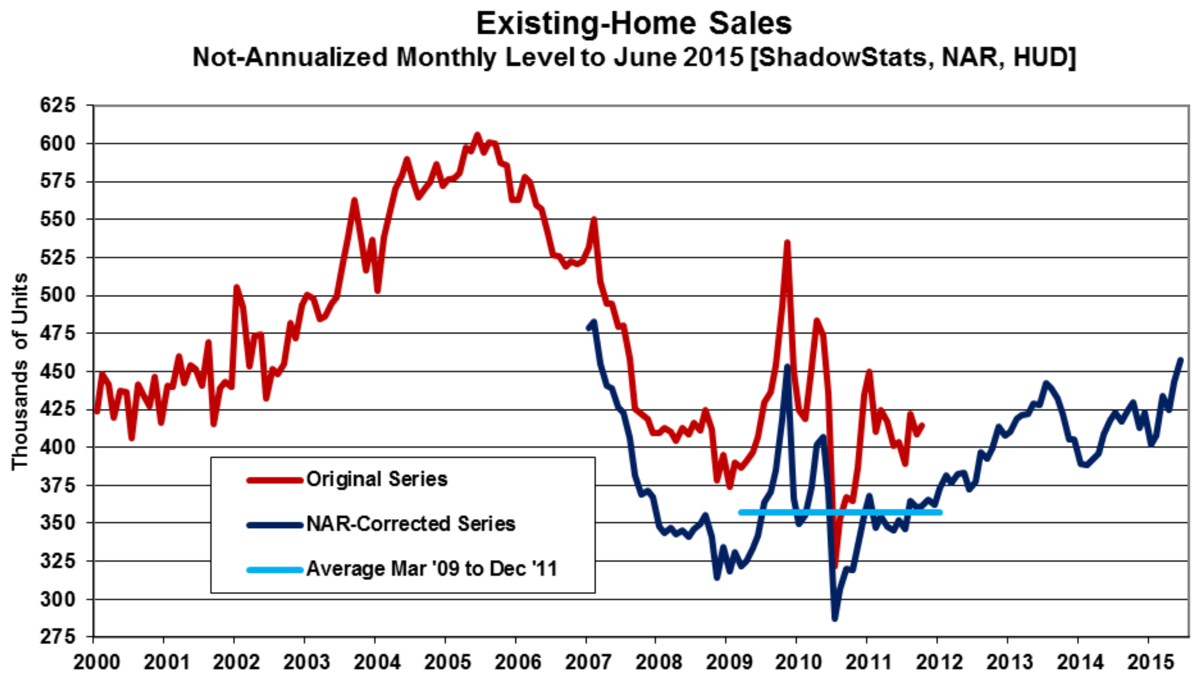
Graph 11: Single Unit Housing Starts – Monthly Level



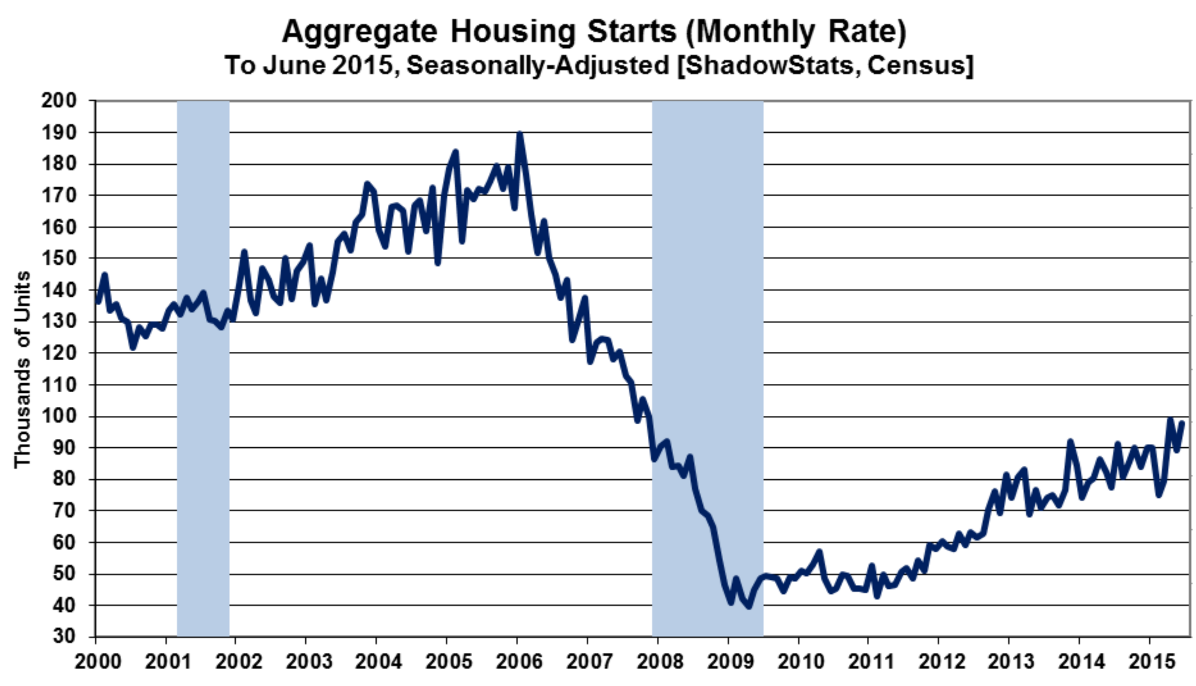
Graph 12: Single Unit Housing Starts – Six-Month Moving Average



Graph 13: Existing-Home Sales – Monthly Level



Graph 14: Total Housing Starts – Monthly Level



[The* Reporting Detail *section includes further coverage of Durable Goods Orders and New-Home Sales activity.]

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Generally Is Unchanged: Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for a Hyperinflation Crisis. The *Hyperinflation Outlook Summary* will be revised shortly (most likely next week), following the July 30th GDP reporting and revisions. Although not fundamentally altered from its most-recent incarnation found in *Commentary No. 735*, the pending version will be updated to incorporate the most-recent writings on the economy, global systemic instabilities, the gold circumstance and today's *Opening Comments* on likely shifts in sentiment and the pending GDP detail.

The U.S. economy remains in ongoing downturn, while the U.S. dollar still faces a massive decline, with implications for a meaningful upturn in inflation evolving into a great hyperinflationary crisis. Signs of systemic instability continue to mount.

Beyond the last version available at *Commentary No. 735*, the supporting documents for the general outlook remain *No. 692 Special Commentary: 2015 - A World Out of Balance* of February 2, 2015, which 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 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*.

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (June 2015)

Ongoing Recession Seen Amidst Deepening Annual Contractions. The reporting of a moderate headline gain in June 2015 new orders for durable goods reflected primarily a jump in commercial aircraft orders, and it was in the context of downside revisions to April and May orders. The broad signal for pending U.S. economic activity remained sharply negative, with the summary statistics indicative of a deepening, ongoing recession.

Activity in new orders for durable goods has a leading relationship to industrial production as well as to general economic activity. Headline reporting for June 2015 new orders showed negligible monthly movement, but increasingly negative year-to-year change, irrespective of considerations for inflation and/or aircraft orders.

Annualized quarterly declines in real new orders (ex-commercial aircraft) held for both fourth-quarter 2014, down by 5.58% (-5.58%), and first-quarter 2015, down by a revised 7.80% (-7.80%) [previously down by 7.66% (-7.66%), initially down by 7.45% (-7.45%)]. Following with an appropriate lag, one quarter later, first-quarter 2015 industrial production contracted, as did production in second-quarter 2015 (see *Commentary No. 737*).

Annualized change for second-quarter 2015 orders was a positive 1.93% (previously up at an annualized pace of 3.18%, based on initial reporting for April and May. The quarterly gain was due to suspect negative durable goods inflation in the PPI reporting. On a nominal basis, second-quarter 2015 quarterly growth basically was flat, up by an annualized 0.24%, versus annualized contractions of 7.29% (-7.29%) in first-quarter 2015, and 4.36% (-4.36%) in fourth-quarter 2014.

More ominously, though, was a deepening year-to-year contraction in real orders, net of commercial aircraft. Real orders fell by 2.82% (-2.82%) [previously down by 2.48% (-2.48%) based just on April and May], the worst annual plunge since coming out of the economic collapse. That followed a revised decline of 0.20% (-0.20) [previously down by 0.16% (-0.16%)], effectively unchanged, in first-quarter 2015, and an unrevised annual gain of 4.57% in fourth-quarter 2014. Annual change in the ex-commercial aircraft orders has been negative for five consecutive months, a pattern rarely, if ever, seen outside of recessions.

The near-consensus headline monthly gain of 3.4% in June 2015 total orders [MarketWatch indicated expectations of a 2.6% gain, Bloomberg was 3.4%] was accounted for by an increase in the irregular orders for nondefense (commercial) aircraft and a downside revision to May activity. Ex-commercial aircraft, June durable goods orders rose by 0.4%. The ex-commercial aircraft series is the one to look at as an indicator of pending, broad economic activity, due to the distorting effects of the extreme and irregular nature of the volume of aircraft orders, as well as to 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 June durable goods orders were minimal. They remained well within the normal reporting variations of this highly unstable series and were consistent with a continuing 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 downturn of a nature that usually precedes or coincides with a recession or a deepening business downturn.

Headline Nominal (Not-Adjusted-for-Inflation) June 2015 Reporting. The Census Bureau reported today, July 27th, that the regularly-volatile, seasonally-adjusted, nominal level of June 2015 new orders for durable goods rose month-to-month by 3.36%, following a revised, deeper decline of 2.10% (-2.10%) [previously down by 1.77% (-1.77%)] in May, and revised deeper decline of 1.73% (-1.73%) [previously down by 1.54% (-1.54%), initially down by 0.50% (-0.50%)] in April. Net of the revisions to May, aggregate new orders for June rose by 2.81%, instead of the headline 3.36%.

The seasonally-adjusted, year-to-year change in June 2015 durable goods orders was a contraction of 2.80% (-2.80%), versus a revised drop of 3.05% (-3.05%) [previously down by 2.52% (-2.52%)] in May 2015, and a revised annual decline of 3.55% (-3.55%) [previously down by 3.36% (-3.36%), initially down by 2.33% (-2.33%)] in April 2015.

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 jump of 66.13% in June 2015 commercial-aircraft orders, aggregate new orders rose by 0.37%. Net of a revised decline of 31.60% (-31.60%) [previously down by 35.32% (-35.32%)] in May 2015 commercial-aircraft orders, aggregate new orders fell by a revised 0.05% (-0.05%) [previously up by 0.56%]. Net of a revised decline in April 2015 commercial-aircraft orders of 10.67% (-10.67%) [previously down by 10.19% (-10.19%), initially down by 4.02% (-4.02%)], aggregate orders declined by a revised 1.04% (-1.04%) [previously down by 0.83% (-0.83%), initially down by 0.23% (-0.23%)].

Year-to-year and seasonally-adjusted, June 2015 orders (net of commercial aircraft) were down by 3.16% (-3.16%), versus a revised decline of 1.06% (-1.06%) [previously down by 0.24% (-0.24%)] in May, versus a revised decline of 3.50% (-3.50%) [previously down by 3.30% (-3.30%), initially down by 2.72% (-2.72%)] in April 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, subsequent monthly reporting and revisions have made all historical reporting prior to April 2015 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—June 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 June 2015 PPI series contracted month-to-month for the fifth consecutive month, down by a headline 0.12% (-0.12%), following a similar headline 0.12% (-0.12%) monthly contraction in May. Headline annual inflation stood at 0.06% in June 2014, versus 0.24% in May 2015.

Adjusted for that monthly decline of 0.12% (-0.12%) in headline June inflation, and as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders rose by 3.49%, following a monthly decline of 1.99% (-1.99%) in May 2015, and a decline in April real orders of 1.50% (-1.50%). Ex-commercial aircraft, real orders effectively were up by 0.49% in June, versus a 0.07% gain in May, and down by a 0.81% (-0.81%) in April.

Real year-to-year aggregate orders fell by 2.86% (-2.86%) in June 2015, versus an annual decline of 3.28% (-3.28%) in May 2015, and a drop of 3.96% (-3.96%) in April 2015. Ex-commercial aircraft, real orders fell year-to-year by 3.21% (-3.21%) in June 2015, dropped by 1.29% (-1.29%) in May 2015, and by 3.91% (-3.91%) in April 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 turned lower into year-end 2014 and into the first two quarters of 2015. These regular graphs are supplemented today with a graph of the just-benchmarked manufacturing sector of industrial production, for purposes of comparison. Traditionally, durable goods orders serve as a leading indicator to that sector, and the newly revamped manufacturing—post-benchmark revision— no longer has regained its pre-cession high, taking on a pattern of activity that more closely follows the real durable goods (ex-commercial aircraft) orders series than it had before.

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 (June 2015)

Low-Level Stagnation Continued in New-Home Sales, Amidst Volatile Downside Revisions and Deteriorating Consumer Conditions. As usual, the headline monthly and annual changes in new-home sales were not statistically significant. In the context of downside revisions to recent monthly activity, June sales dropped by 6.8% (-6.8%) after a 1.1% (-1.1%) decline in May, which previously had seen a monthly gain of 2.2%. Annual sales in June 2015 were up by 18.1%, versus a downwardly-revised 13.1% year-to-year gain in May, which previously had been up by 19.5%. None of those monthly or annual changes was statistically meaningful. The headline monthly contraction ran counter to consensus expectations of a 0.7% gain versus the initial May reporting, per MarketWatch and Bloomberg. Against initial May reporting, June 2015 new-home sales fell by 11.7% (-11.7%).

Last month's reporting of May 2015 new-home sales came in at an annualized pace of 546,000 units—a new post-recession high at the time—the highest level since February 2008. That happy image just evaporated, however, with a downside revision of 5.3% (-5.3%) to the level of May headline sales (now 517,000). The headline June 2015 sales level of an annualized 482,000 units (40,167 monthly rate as used in the graphs) was the weakest since November 2014, and it still was down by 65% (-65%) from the pre-recession peak for the series. With the otherwise meaningless monthly swings in these numbers smoothed out, new-home sales activity continued in a broad pattern of low-level stagnation.

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

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 June 2015 new-home sales activity still was down by 65.3% (-65.3%) from the pre-recession peak of July 2005 for the series, while June 2015 single-unit housing starts still were down by 62.4% (-62.4%) from the January 2006 high of that series.

Updated in the *Opening Comments* section, and as discussed fully in *Commentary No. 734*, 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 June 2015 Reporting. Reported by the Census Bureau on Friday, July 24th, June 2015 new-home sales (counted based on contract signings), declined for the month, in the context of multiple, sharp-downside revisions to prior months' reporting. Headline June sales fell by a statistically-insignificant 6.8% (-6.8%) +/- 14.6% [all confidence intervals are at the 95% level]. That followed a revised monthly decline of 1.1% (-1.1%) [previously up by 2.2%] in May, a revised 7.8% gain [previously up by 8.1%, initially up by 6.8%] in April, and a revised decline of 11.0% (-11.0%) in March [previously down by 9.4% (-9.4%), by 10.0% (-10.0%), and initially down by 11.4% (-11.4%)] . Net of prior-period revisions, June 2015 monthly sales fell by a still-statistically-insignificant 11.7% (-11.7%), instead of the headline drop of 6.8% (-6.8%).

Year-to-year, June 2015 sales rose by a statistically-insignificant 18.1% +/- 21.2%. That followed downwardly-revised annual gains of 13.1% [previously up by 19.5%] in May, 27.6% [previously up by 30.2%, initially up by 26.1%] in April 2015, and an 18.3% increase [previously up by 20.5%, 18.0% and initially up by 19.4%] in March 2015.

In the arena of nonsensical volatility, consider that the annualized quarterly pace of sales gain in first-quarter 2015 revised lower to 43.9% [previously up by 47.3%], with the second-quarter 2015 pace turning to an annualized quarterly contraction of 7.3% (-7.3%). Such flipped to the downside from what had been a developing positive trend of 16.3% annualized growth, based solely on initial headline April and May reporting.

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 June 2015 housing starts for single-unit construction (from *Commentary No. 736*) and the headline June 2015 existing-home sales (from *Commentary No. 737*) also are included there for comparison.

WEEK AHEAD

Economic Reporting and Revisions Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Higher Oil Prices. In a fluctuating trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless tend to respond to the latest economic hype in the popular media. The general effect holds the market outlook at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality.

GDP excesses from 2012 into 2014 should face downside adjustments with Thursday's (July 30th) GDP benchmark revision (see the *Opening Comments* and *Commentary No. 737*). Following the currently minimal, headline contraction in first-quarter 2015 GDP of 0.2% (-0.2%), consensus expectations for relatively-normal headline growth in second-quarter 2015 GDP likely will be disappointed.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with significant downside revisions to and reporting in second-quarter 2015 GDP and at least the next several quarters that follow into 2016.

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.

Upside inflation pressures will continue to build, 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* and in the *Hyperinflation Watch* section.

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, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten years—have 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, discussed and 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*).

PENDING RELEASES:

***UPDATED* - Gross Domestic Product—GDP (Second-Quarter 2015, "Advance" First Estimate) (Annual Benchmark Revisions) and the "Advance" June 2015 Trade Deficit.** 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 and its first release of an "advance" trade-deficit report.

The BEA tends to target the consensus forecast with its "advance" GDP estimates, but it will bring in a lower number if the consensus outlook is deemed too high. Discussed in the *Opening Comments* and in *Commentary No. 736*, initial headline reporting for the second-quarter is a fair bet to come in near two-percent or below, on the downside of consensus expectations [currently expected at 2.5% per MarketWatch, 2.9% per Bloomberg]. Risk is reasonable for an even a greater downside surprise, given the industrial production benchmark revisions (*Commentary No. 737*) and a potential widening of the June trade deficit. The new, coincident trade report generally still appears to be off the radarscope for both the financial markets and the economic consensus forecasters.

Watch Out for a Trade-Deficit Surprise! Noted in *No. 736*, 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, based on just two months of reporting—remains a fair possibility. Indications of that would not happen publicly, however, 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 the headline GDP number. Accordingly, that trade-deficit reading 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 the still-evolving market expectations.

Benchmark Revision to Show Flatter and Weaker Historical Economic Activity; a Shallow 2011 Recession Skipped Over. Discussed in detail in prior *Commentary No. 737*, the GDP benchmark revision is a good bet to show flatter and weaker-than-previously reported GDP growth in the primary revision period of 2012-to-date. 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 headline growth of 0.06%, is a fair bet.

Unfortunately, from the standpoint of getting earlier, more-accurate detail on the broad economy, the government shutdown of 2013 delayed the availability of certain corrective reporting that would have revised 2011 GDP much lower than was seen in last year's benchmarking. Such will have to await a more-comprehensive revision. Although the better-quality, subsidiary historical numbers now are available, revisions to 2011 and earlier generally are outside the scope of the pending 2012-to-2015 benchmarking.

If 2011 GDP data were revised on July 30th, a likely shallow recession would have surfaced, and the headline, full recovery in GDP from the formal 2007 recession would not have held, as currently headlined, at third-quarter 2011. Rather the "full recovery" would have been shifted to some later date in 2012 or 2013. Similar patterns otherwise were seen in the production revisions (1972-to-2015), again, as discussed in *No. 737*.

