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

COMMENTARY NUMBER 746
July Durable Goods Orders, New- and Existing-Home Sales, Market Turmoil

August 26, 2015

Financial-Market Turmoil Heralds Likely Systemic Instabilities

July Durable Goods Orders Fell Year-to-Year for Sixth Straight Month, Irrespective of Considerations for Commercial Aircraft Orders or Inflation

Flat-to-Minus Real Orders Continued Below the Peak Activity Seen before Both the 2001 and 2007 Formal Recessions

A Decade of Collapsed Housing Activity: New- and Existing-Homes Sales Still Down Respectively by 63% (-63%) and 23% (-23%) from Pre-Recession Peaks in June/July 2005

PLEASE NOTE: The next regular Commentary*, tomorrow, Thursday, August 27th will cover the July 2015 Household Income Index and review the first revision to second-quarter 2015 GDP.*

With today's Commentary*, all of the regular ShadowStats graphs have been revamped to show periods of formal "recession," as defined by the National Bureau of Economic Research (NBER). Unless otherwise specified, shaded vertical bars on a graph indicate those formal recessionary periods.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Still No Recovery and Likely No Near-Term Rate Hike. A consistent and common pattern is evident in the various, accompanying July graphs of New Orders for Durable Goods and New- and Existing Home Sales, the series updated in today's *Commentary*. Despite any relatively happy—and likely fleeting—good news out of the heavily gimmicked GDP numbers, the U.S. economy never recovered from its collapse into the 2008-to-2009 period. Consistent with underlying reality of the ongoing low-level economic stagnation seen in these series, the Federal Reserve appears to have had related issues within the domestic banking and financial systems. That likely is why the Fed has left basic QE3 in place, and why it has yet to raise interest rates, despite all the excessive jawboning for same.

Looking to raise rates, the Fed has had ongoing problems with the purported economic recovery showing enough actual substance to negate the central bank's political cover of a "weak economy." Where QE3 was designed primarily to support the banking system—not to stimulate the domestic economy—the weak economy has been used consistently as political cover for the easings. The now hoped-for, positive-economic support, however, remains unlikely for the foreseeable future.

Circumstances have been complicated by recent, global financial-market turmoil. Without the hyped economic support, the Fed still might have boosted rates in the month ahead, but mounting instabilities in the global financial markets and system most likely have put the U.S. rate hike off indefinitely.

Market turmoil and instabilities likely are far from over, and central banks need to be prepared to address surprises or shocks to the financial system and financial-services industry from unexpected or expected major dislocations that could surface in the days and weeks ahead.

Separately, aside from selling pressures on the gold price from those liquidating assets to raise cash, central banks increasingly will want to discourage flight to the precious metal. Yet, physical gold remains the primary hedge against all the systemic problems unfolding here. Flight to safety in the U.S. dollar already has started to fade. The broad outlook remains in play, as outlined recently in *No. 742 Special Commentary: A World Increasingly Out of Balance* and *Commentary No. 743*, and earlier in *No. 692 Special Commentary: 2015 - A World Out of Balance*, and the *Hyperinflation* reports *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, and *2014 Hyperinflation Report—Great Economic Tumble*.

Today's *Commentary* (August 26th). The balance of today's *Opening Comments* concentrates on the reporting of July 2015 New Orders for Durable Goods and New- and Existing-Home Sales, along with a brief update of consumer conditions as related to Consumer Confidence.

The *Hyperinflation Outlook Summary* will return shortly, updated from those missives just mentioned, and reflective of the still-evolving financial-market instabilities discussed in opening paragraphs.

The *Week Ahead* section provides an updated preview of the second estimate of, first revision to of second-quarter GDP, due for release tomorrow, August 27th.

New Orders for Durable Goods—July 2015—Ongoing Recession Seen in Annual Contractions. The reporting of a small headline gain in July new orders for durable goods reflected primarily a jump in motor vehicle orders and was despite a small contraction in commercial aircraft orders. It also was in the context of an upside revision to headline June activity and a downside revision to the May numbers. The headline increase in July orders, however, remained within the normal volatility of this highly irregular series, despite potential seasonal-factor distortions from the extreme variability in the year-ago numbers. All factors considered, the broad signal for unfolding U.S. economic activity remained sharply negative, with the summary statistics indicative of a deepening, ongoing recession.

Irrespective of adjustments for inflation, or for commercial-aircraft orders, new orders contracted year-to-year for the six-straight month, a pattern not seen since the formal economic collapse into 2008 and 2009.

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 7.73% (-7.73%). Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted quarter-to-quarter (see *Commentary No. 743*).

Annualized change for second-quarter 2015 orders was a revised positive 2.11%, while the pace of annualized growth for third-quarter activity, based solely on the initial estimate for July, was 14.25%. The quarterly gains here, again, were due partially to suspect, negative durable goods inflation in the PPI reporting. On a nominal basis (before inflation adjustment), second-quarter 2015 quarterly growth basically was flat, up by an annualized 0.50%. That followed unrevised annualized contractions of 7.29% (-7.29%) in first-quarter 2015, and 4.36% (-4.36%) in fourth-quarter 2014. Also in nominal terms, the early pace of annualized growth for third-quarter activity, based solely on the initial estimate for July activity, was 13.16%.

More ominously, though, year-to-year annual change in both the aggregate and the ex-commercial aircraft orders has been negative for six consecutive months, a pattern rarely, if ever, seen outside of recessions, and last seen in the economic collapse into 2008 and 2009.

The greater-than-consensus headline monthly gain of 2.0% in July 2015 total orders [MarketWatch indicated expectations for a decline 0.6% (-0.6%), Bloomberg was showing a decline of 0.4% (-0.4%)] again reflected strong orders for motor vehicles, but remained well within normal reporting volatility for this series. Commercial aircraft orders, which frequently distort the headline reporting, fell by a reasonably tame 5.98% (-5.98%) in July, having gained 69.74% in June. There could be seasonal-factor distortions in today's headline reporting, with the year-ago commercial aircraft orders having jumped by 340.37%, and with year-to-year July 2015 commercial-aircraft orders down by 77.81% (-77.81%), and with the annual decline in aggregate durable goods orders at 19.60% (-19.60%), as a result.

Ex-commercial aircraft, July durable goods orders rose by 2.59% month-to-month and fell year-to-year by 0.39% (-0.39%). The ex-commercial aircraft series remains 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 July 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 the understatement of the official inflation, are plotted in *Graphs 3* to *6*. 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) July 2015 Reporting. The regularly-volatile, seasonally-adjusted, nominal level of July 2015 new orders for durable goods rose month-to-month by a headline 1.95%, following an upwardly-revised gain of 4.05% in June, and a revised, deeper monthly decline of 2.27% (-2.27%) in May. Net of the revisions to June, aggregate new orders for July rose by 2.45%, instead of the headline 1.95%.

The seasonally-adjusted, year-to-year change in July 2015 durable goods orders was a contraction of 19.60% (-19.60%), versus a revised decline of 2.33% (-2.33%) in June 2015, and a revised drop of 3.22% (-3.22%) in May 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 decline of 5.98% (-5.98%) in July 2015 commercial aircraft orders, aggregate new orders rose by 2.59%. Net of a revised monthly jump of 69.74% in June 2015 commercial-aircraft orders, aggregate new orders rose by a revised 0.92%. Net of a revised decline of 31.72% (-31.72%) in May 2015 commercial-aircraft orders, aggregate new orders fell by a revised 0.22% (-0.22%).

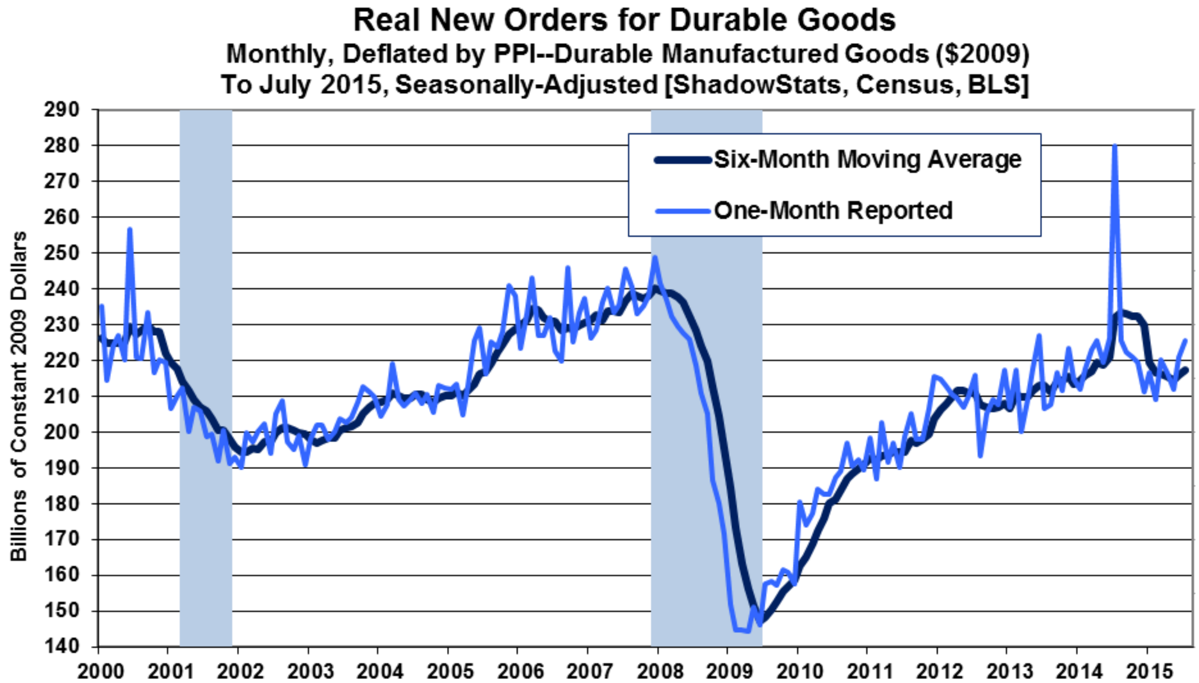
Year-to-year and seasonally-adjusted, July 2015 orders (net of commercial aircraft) were down by 0.39% (-0.39%), versus a revised annual decline of 2.80% (-2.80%) in June 2015, and a revised decline of 1.23% (-1.23%) in May 2015.

Real (Inflation-Adjusted) Durable Goods Orders—July 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 July 2015 PPI series contracted month-to-month for the sixth consecutive month, down by a headline 0.12% (-0.12%), following similar headline contractions in May and June. Headline annual inflation turned negative, down by 0.18% (-0.18%) in July, following a positive 0.06% year-to-year gain in June 2014, versus a 0.24% annual gain in May 2015.

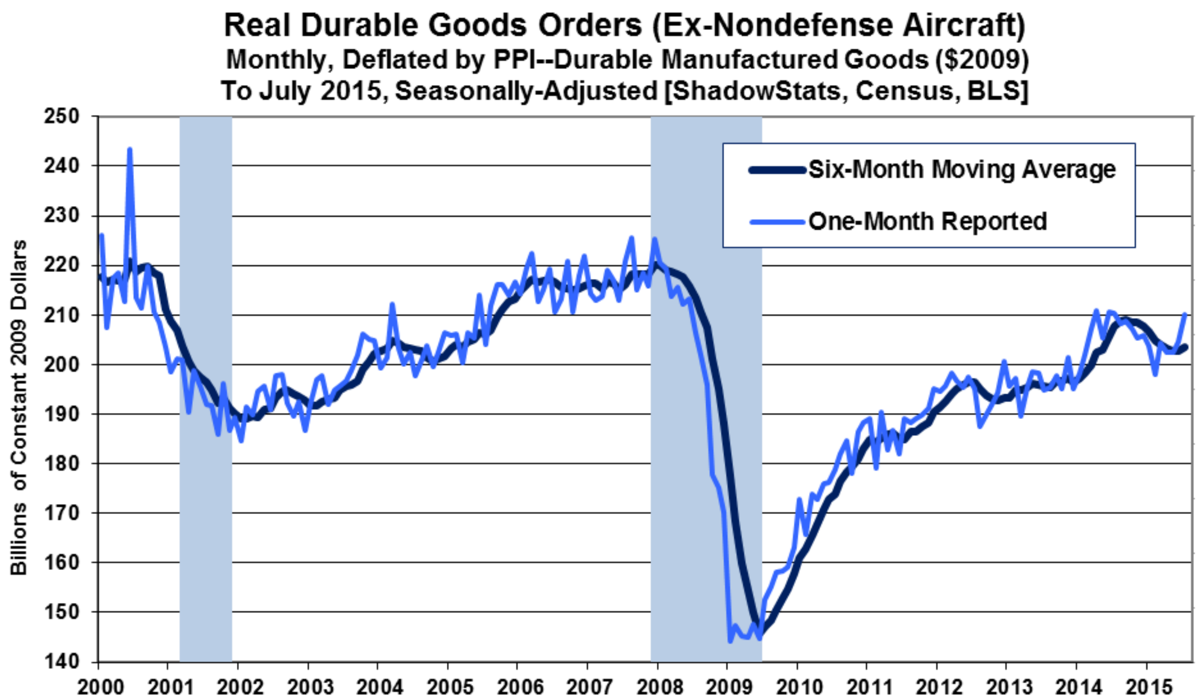
Adjusted for that monthly decline of 0.12% (-0.12%) in headline July inflation, and as reflected in the *Graphs 1* and *2*, real month-to-month aggregate orders rose by 2.08%, following a revised monthly gain of 4.18% in June, and a revised monthly decline of 2.39% (-2.39%) in May 2015. Ex-commercial aircraft, monthly real orders were up by 2.71% in July, versus a revised gain of 1.04% in June, and a decline of 0.10% (-0.10%) in May.

Real year-to-year aggregate orders fell by 19.45% (-19.45%) in July 2015, versus a revised decline in June 2015 of 2.39% (-2.39%), and a revised annual decline of 3.45% (-3.45%) in May 2015. Ex-commercial aircraft, real orders declined year-to-year in July 2015 by 0.21% (-0.21%), versus a revised annual drop of 2.86% (-2.86%) in June 2015, and a revised decline of 1.47% (1.47%) in May 2015.

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



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



Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Related Corrected Series. The first two graphs preceding (*Graph 1* and *Graph 2*), show new orders for durable goods, 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 July 2015 numbers.

Graph 1 shows the aggregate new orders series, including the extreme swings in commercial-aircraft orders. Extreme volatility was seen particularly one year ago, 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, a jump in June and a minor decline in July. 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 the last six months and for aggregate second-quarter 2015 reporting, both series turned sharply negative year-to-year, again, as seen both before and after inflation adjustment.

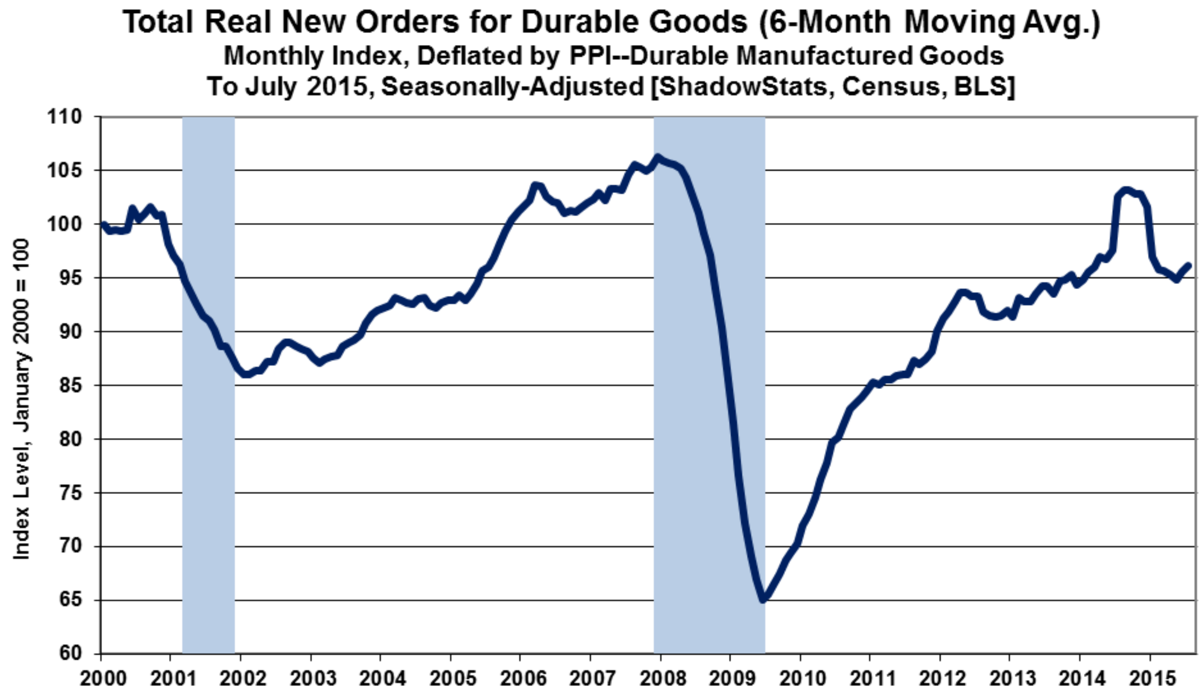
Broadly, there has been a recent general pattern of down-trending stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery that has been seen in official GDP reporting. The real (inflation-adjusted) monthly and six-month moving-average level of new orders in July 2015 remained below both the pre-2007 recession high, as well as 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.

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*).

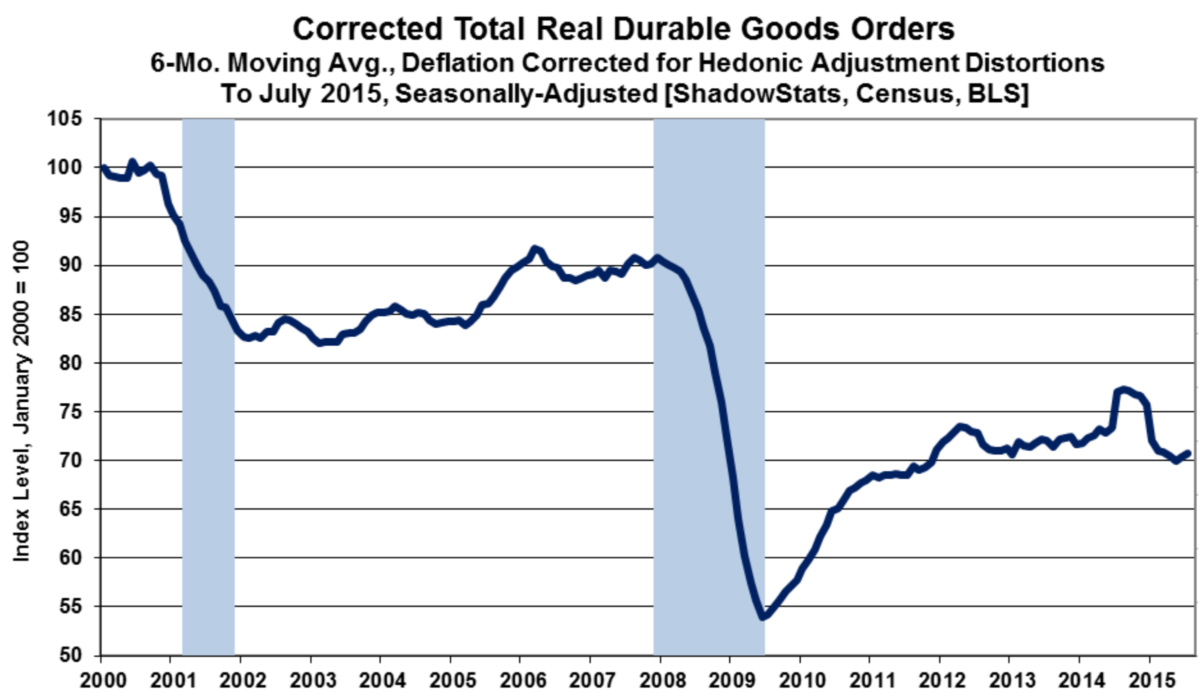
As done for other series such as the GDP, real retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

Two sets of graphs follow. The first set (*Graph 3* and *Graph 4*) shows the aggregate series or total durable goods orders; the second set (*Graph 5* and *Graph 6*) 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 ShadowStats-estimated understatement of the PPI durable goods inflation measure used in the headline-deflation process. Both sets of graphs are indexed to January 2000 = 100.

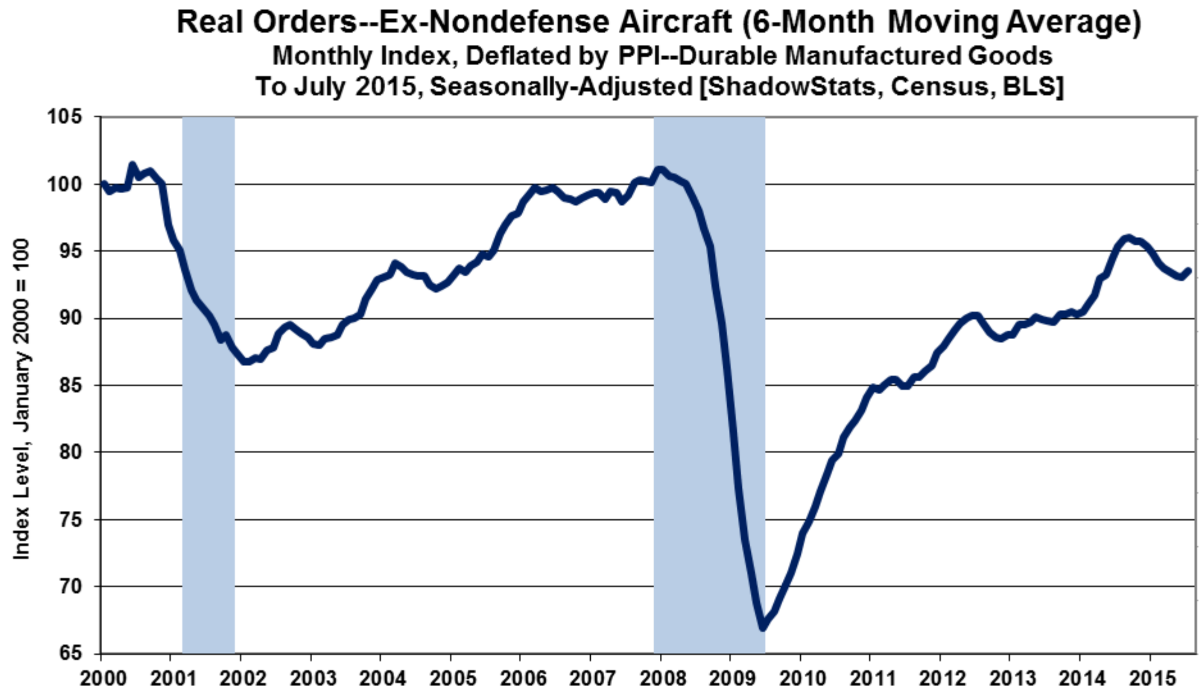
Graph 3: July 2015 Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



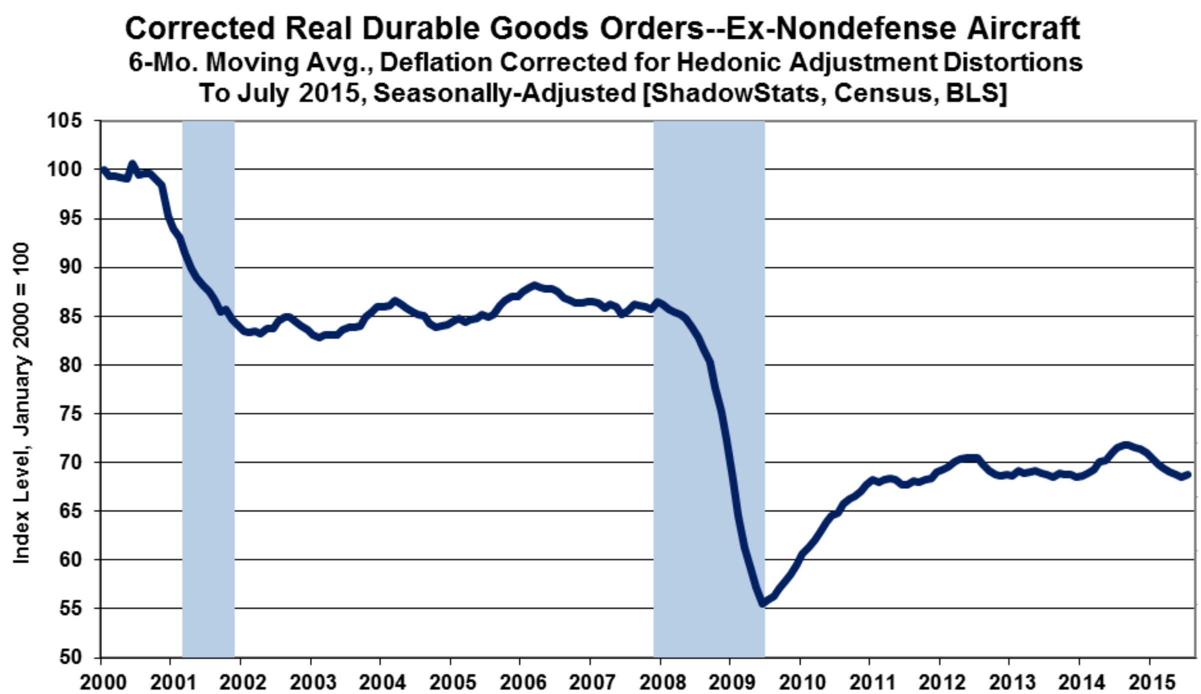
Graph 4: Corrected Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



Graph 5: July 2015 Index of Durable Gods Orders – Ex Commercial Aircraft (Six-Month Moving Average)



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



The preceding *Graph 6*, 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.

New- and Existing-Home Sales—July 2015—10th Anniversary of Unrecovered Pre-Recession Peak Activity. Despite headline monthly gains in both new- and existing-home sales for July 2015, growth for both series remained in a pattern of low-level stagnation, with current activity well below the pre-recession highs of 2005. Shown in the accompanying graphs, housing activity never recovered from the economic collapse, despite the purported full recovery of headline Gross Domestic Product (GDP) in 2011, and the purported, continued expansion of the GDP ever since.

Updated in the next section, and as discussed fully in *Commentary No. 743*, the primary constraint on housing activity remains the continued impairment of consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there remains no basis for a current or imminent recovery in the housing market.

New-Home Sales—July 2015—Continued Low-Level Stagnation Continued; Activity Still Down 63% from Pre-Recession High. As usual, the headline monthly and annual changes in new-home sales were not statistically significant. In the context of minimal revisions to recent monthly activity, July 2015 sales rose by 5.4%, after a revised monthly decline of 7.7% (-7.7%) in June, which previously had declined by 6.8% (-6.8%). Annual sales in July 2015 were up by 25.8%, versus a downwardly-revised 17.9% year-to-year gain in June, which previously had been up by 18.1%. None of those monthly or annual changes, however, was statistically meaningful.

While the headline July 2015 sales level of an annualized 507,000 units (42,250 monthly rate as used in the graphs) was up versus June, it was below the levels of activity in April and May 2015, and it still was down by 63% (-63%) 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. The regular graphs of the July 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 (see *Graphs 7* to *10*).

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 July 2015 new-home sales activity still was down by 63.5% (-63.5%) from the pre-recession peak of July 2005 for the series, while July 2015 single-unit housing starts still were down by 57.1.% (-57.1%) from the January 2006 high of that series.

Headline New-Home Sales Reporting. Headline July 2015, new-home sales (counted based on contract signings, Census Bureau) increased for the month, in the context of minimal prior-period revisions. Headline July sales rose by a statistically-insignificant 5.4%, following a revised, deeper monthly decline of 7.7% (-7.7%) in June, a revised, stronger 2.6% gain in May, and a revised, softer 4.7% gain in April.

Net of prior-period revisions, July 2015 monthly sales rose by a still-statistically-insignificant 5.8%, instead of the headline gain of 5.4%. Year-to-year, July 2015 sales rose by a statistically-insignificant 25.8%, following a revised 17.9% annual gain in June 2015, a revised gain of 14.0% in May 2015, and a revised annual gain of 23.9% in April 2015.

In the arena of nonsensical volatility, consider that the annualized quarterly pace of sales gain in first-quarter 2015 held unrevised at 43.9%, with the second-quarter 2015 pace revising to an annualized quarterly contraction of 10.2% (-10.2%). Based solely on initial headline July reporting, third-quarter new-home sales were increasing at an annualized pace of 3.0%.

Existing-Home Sales—July 2015—Although Sales Continued to Rise, Activity Still Was Down 23% from Pre-Recession High. In the context of another downside revision to the previous month's activity, July 2015 existing-home sales activity rose by 2.0% in the month, to a new post-recession high of an annualized 5,590,000 million units, or 465,833 units at a monthly pace as reflected in the ShadowStats *Graph 11*. That was the strongest reading since February of 2007, but it remained below its June 2005 pre-recession sales peak by 23.1% (-23.1%). In contrast, the July 2015 headline aggregate monthly housing starts remained down by 46.9% (-46.9%) versus its January 2006 pre-recession peak.

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 at a revised annualized gain of 28.7% (previously 28.0%). Based solely on the unstable, initial reporting for July 2015, third-quarter activity is rising at an annualized pace of 24.1%.

Headline Detail for Existing-Home Sales. July 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, headline monthly gain of 2.0%, following a downwardly-revised gain of 3.0% in June. The July headline month-to-month gain was 1.8%, net of prior-period revisions. On a year-to-year basis, July 2015 sales growth increased to 10.6%, versus a revised 9.4% annual gain in June 2015.

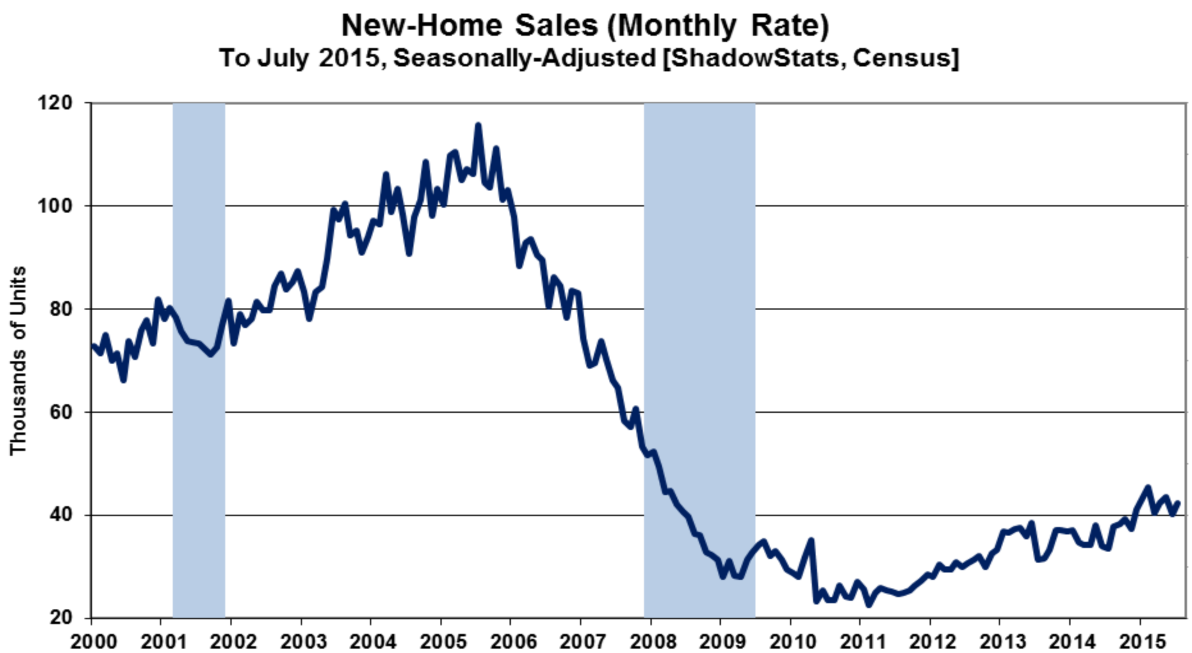
The headline July sales data remained well within the normal scope of reporting volatility for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, albeit recently up-trending (again, see *Graph 11*). The quality of data underlying this series, however, remains highly questionable.

Portion of Sales in Foreclosure Declined. The NAR estimated that the portion of July 2015 sales in "distress" declined to 7% (5% foreclosures, 2% short sales), versus 8% (6% foreclosures, 2% short sales) in June 2015, and was down from distressed sales of 9% (6% foreclosures, 3% short sales) in July 2014. The portion of July 2015 sales in distress was the lowest reading since the NAR began surveying such in October 2008. Separately, 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 July 2015 rose to 23% of total activity, up from 22% in June 2015, but down from 29% in July 2014.

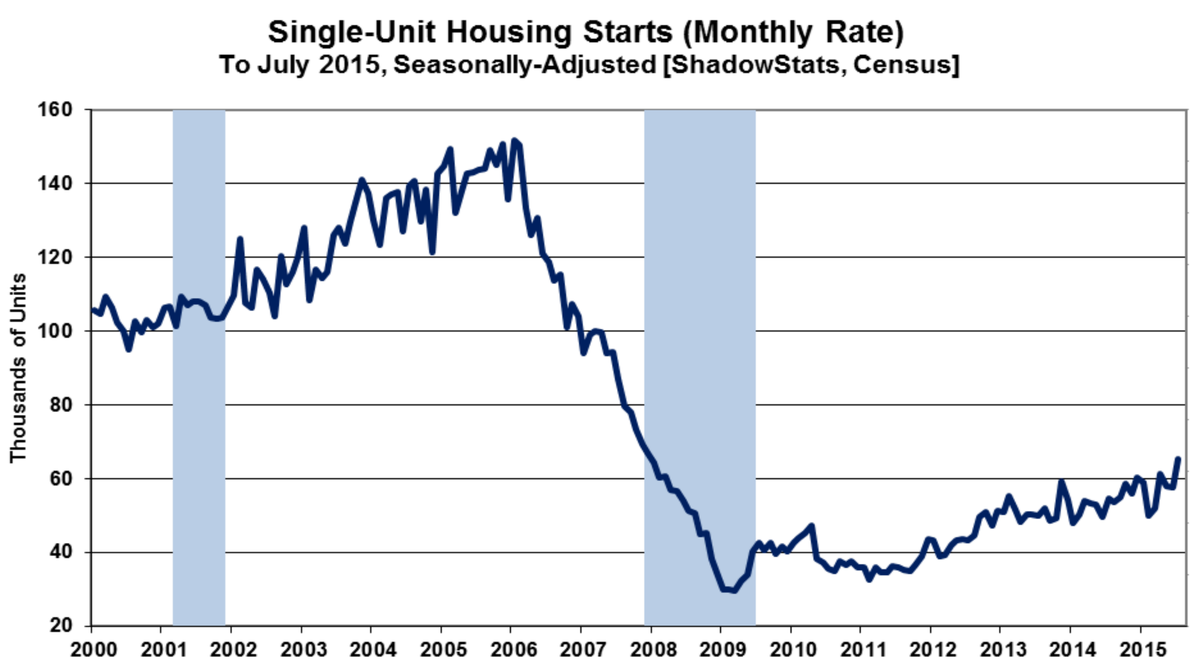
New- and Existing-Home Sales Graph. The regular monthly graphs of July new-and existing-home sales activity follow. The new-home sales plots (*Graph 7* and *Graph 9*) reflect activity based both on headline monthly reporting, as well as using a smoothed, six-month moving average of the series. Those graphs are accompanied by comparative graphs of July 2015 single-unit housing starts activity (*Graph 8* and

Graph 10), measures which are limited to single-unit activity. The existing-home sales graph (*Graph 11*) is accompanied by a comparative plot of aggregate housing starts activity (*Graph 12*). Those measures include both single- and some multiple-unit activity. The housing starts graphs are repeated from [*Commentary No. 744*](#).

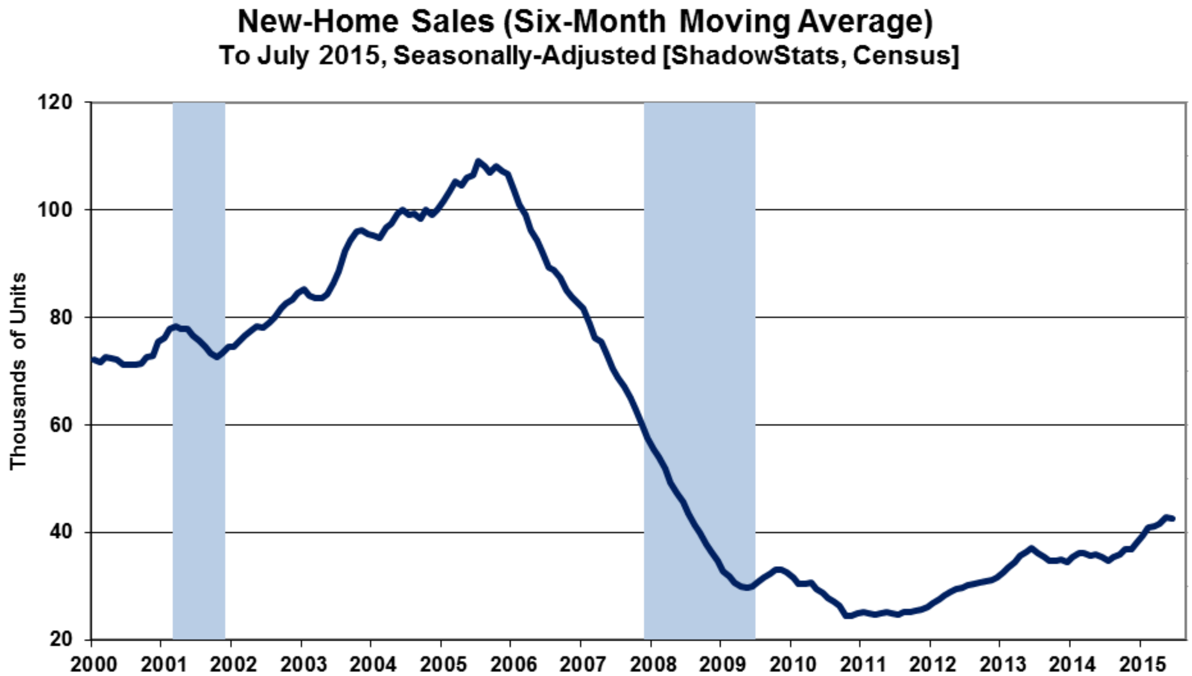
Graph 7: New-Homes Sales – Monthly Level



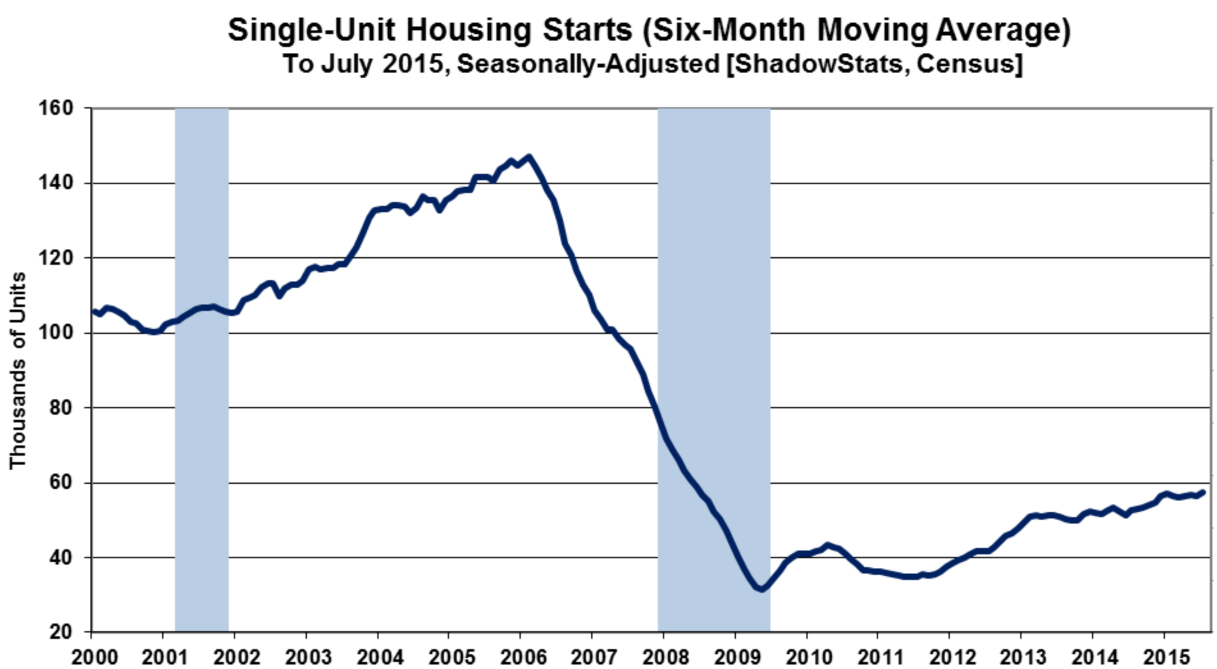
Graph 8: Single Unit Housing Starts – Monthly Level



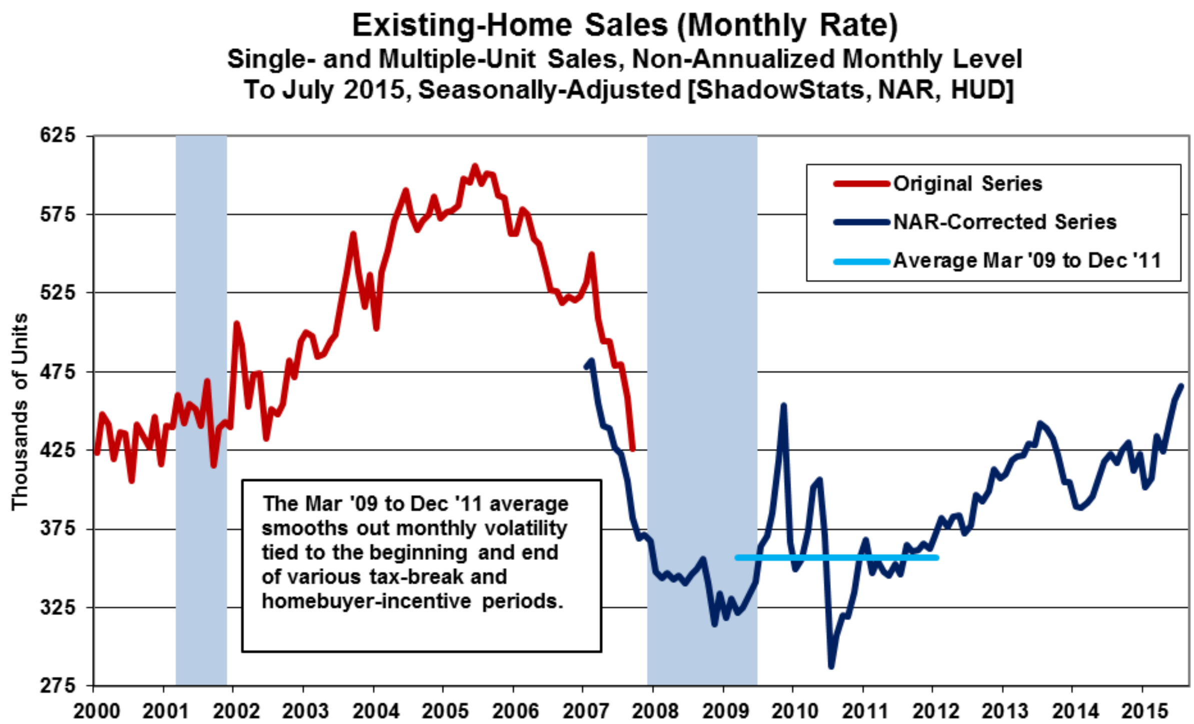
Graph 9: New-Homes Sales – Six-Month Moving Average



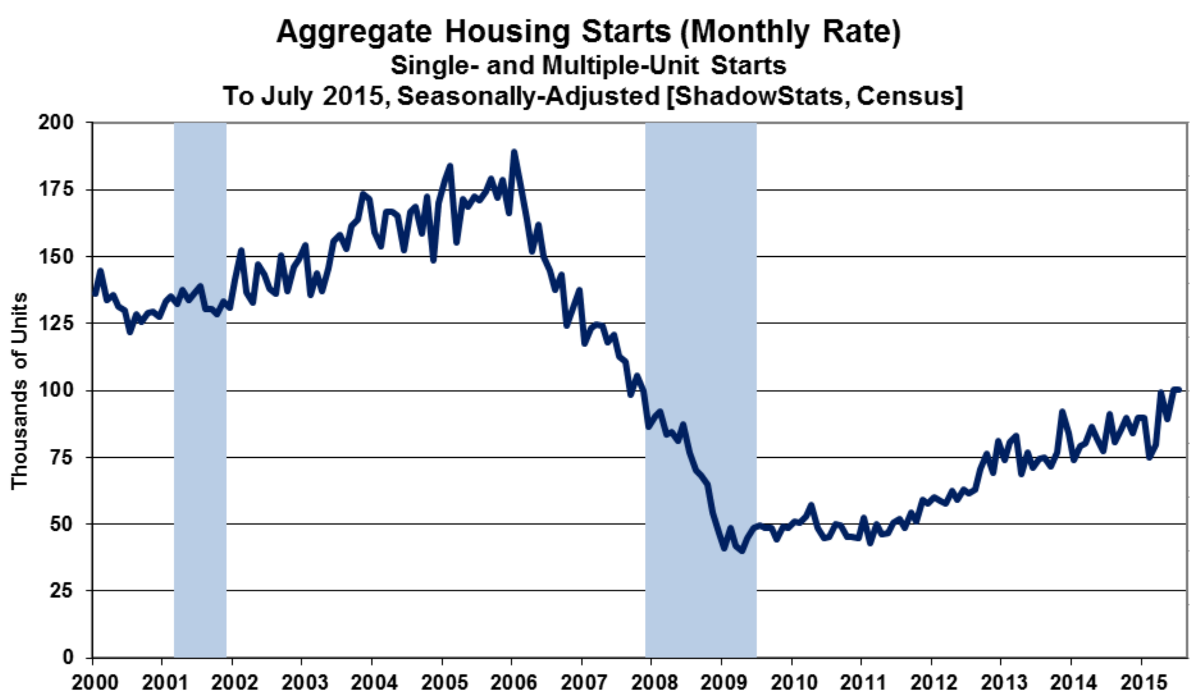
Graph 10: Single Unit Housing Starts – Six-Month Moving Average



Graph 11: Existing-Home Sales – Monthly Level



Graph 12: Total Housing Starts – Monthly Level



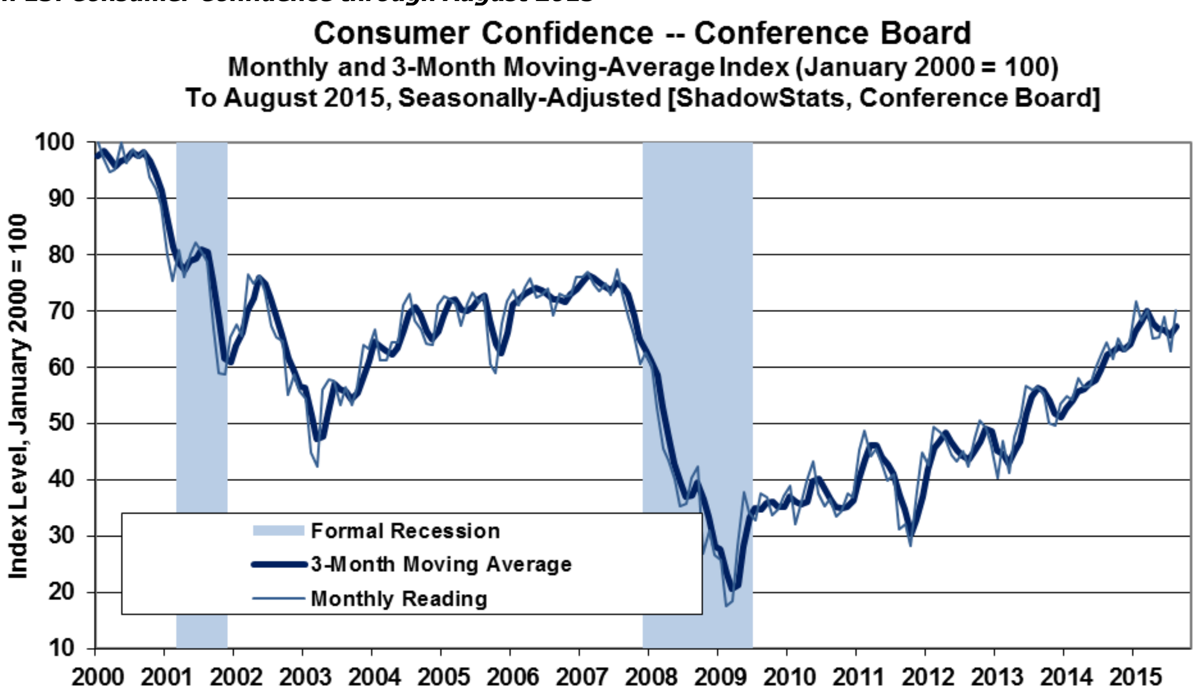
Updated Consumer Conditions—August Confidence Jumped in Pre-Market Upheaval Surveying, but Downtrend Remained Intact. The Conference Board released its August 2015 reading on Consumer Confidence, yesterday, August 25th. Although the series jumped sharply for the month, as seen in accompanying *Graph 13*, the recent, smoothed downtrend remained in place. The August survey generally pre-dated the financial-market turmoil of recent days. Where both the Consumer Confidence and Consumer Sentiment (University of Michigan) measures tend to mirror the tone of the popular press, surveying subsequent to the recent financial turmoil likely will show a heavy hit to the indices. The Confidence measure could face some downside revision to August in next month's reporting, due to weaker, late returns from the August post-card survey.

The graph shown here updates the detail in the August 17th *Commentary No. 743*, which provided the most-recent full review of the consumer-condition series regularly followed by ShadowStats. Separately, Sentier Research will release its estimate of July 2015 real median household income—the Household Income Index (HII)—tomorrow, August 27th. Accordingly, the Consumer Conditions section will be updated further in tomorrow's *Commentary*.

The primary issues constraining housing and residential real estate activity remain intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Noted in the August 18th *Commentary No. 744*, covering the July housing starts, without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. There remains no chance of a near-term, sustainable turnaround in the housing market, until there has been a fundamental upturn in consumer and banking-liquidity conditions. Accordingly, prospects for rising home-sales activity remain bleak.

Graph 13: Consumer Confidence through August 2015



[The* Reporting Detail *section includes expanded detail of the July 2015 Durable Goods Orders and New- and Existing Home Sales.]

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (July 2015)

Ongoing Recession Seen in Annual Contractions. The reporting of a small headline gain in July 2015 new orders for durable goods reflected primarily a jump in motor vehicle orders and was despite a small contraction in commercial aircraft orders. It also was in the context of an upside revision to headline June activity and a downside revision to the May numbers. The headline increase in July orders, however, remained within the normal volatility of this highly irregular series, despite potential seasonal-factor distortions from the extreme variability seen in year-ago numbers. All factors considered, the broad signal for unfolding U.S. economic activity remained sharply negative, with the summary statistics indicative of a deepening, ongoing recession.

Irrespective of adjustments for inflation, or for commercial-aircraft orders, new orders contracted year-to-year for the six-straight month, a pattern not seen since the formal economic collapse into 2008 and 2009.

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 7.73% (-7.73%) [previously down by 7.80% (-7.80%), by 7.66% (-7.66%), and initially down by 7.45% (-7.45%)]. Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted (see *Commentary No. 743*).

Annualized change for second-quarter 2015 orders was a revised positive 2.11% [previously up by 1.93%], while the pace of annualized growth for third-quarter activity, based solely on the initial estimate for July, was 14.25%. The quarterly gains here, again, were due partially to suspect, negative durable goods inflation in the PPI reporting. On a nominal basis (before inflation adjustment), second-quarter 2015 quarterly growth basically was flat, up by an annualized 0.50% [previously up by 0.24%], versus unrevised annualized contractions of 7.29% (-7.29%) in first-quarter 2015, and 4.36% (-4.36%) in fourth-quarter 2014. Also in nominal terms, the pace of annualized growth for third-quarter activity, based solely on the initial estimate for July, was 13.16%.

More ominously, though, the year-to-year annual change in both the aggregate and the ex-commercial aircraft orders has been negative for six consecutive months, a pattern rarely, if ever, seen outside of recessions, and last seen in the economic collapse into 2008 and 2009.

The greater-than-consensus headline monthly gain of 2.0% in July 2015 total orders [MarketWatch indicated expectations for a decline 0.6% (-0.6%), Bloomberg was showing a decline of 0.4% (-0.4%)] again reflected strong orders for motor vehicles, but well within normal reporting volatility for this series. Commercial aircraft orders, which frequently distort the headline reporting, fell by a reasonably tame 5.98% (-5.98%) in the July, having gained 69.74% in June. There could be seasonal-factor distortions in today's headline reporting, with the year-ago commercial aircraft orders having jumped by 340.37%, with the year-to-year decline in July 2015 commercial-aircraft orders at 77.81% (-77.81%), and with the annual decline in aggregate durable goods orders at 19.60% (-19.60%), as a result.

Ex-commercial aircraft, July durable goods orders rose by 2.59% month-to-month and fell year-to-year by 0.39% (-0.39%). The ex-commercial aircraft series remains 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 July 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 the understatement of the official inflation, 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) July 2015 Reporting. The Census Bureau reported today, August 26th, that the regularly-volatile, seasonally-adjusted, nominal level of July 2015 new orders for durable goods rose month-to-month by 1.95%, following a revised gain of 4.05% [previously 3.36%] in June, and a revised, deeper decline of 2.27% (-2.27%) [previously down by 2.10% (-2.10%), initially down by 1.77% (-1.77%)] in May. Net of the revisions to June, aggregate new orders for July rose by 2.45%, instead of the headline 1.95%.

The seasonally-adjusted, year-to-year change in July 2015 durable goods orders was a contraction of 19.60% (-19.60%), versus a revised decline of 2.33% (-2.33%) [previously down by 2.80% (-2.80%)] in June 2015, and a revised drop of 3.22% (-3.22%) [previously down by 3.05% (-3.05%), initially down by 2.52% (-2.52%)] in May 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 decline of 5.98% (-5.98%) in July 2015 commercial aircraft orders, aggregate new orders rose by 2.59%. Net of a revised monthly jump of 69.74% [previously up by 66.13%] in June 2015 commercial-aircraft orders, aggregate new orders rose by a revised 0.92% [previously up by 0.37%]. Net of a revised decline of 31.72% (-31.72%) [previously down by 31.60% (-31.60%), initially down by 35.32% (-35.32%)] in May 2015 commercial-aircraft orders, aggregate new orders fell by a revised 0.22% (-0.22%) [previously down by 0.05% (-0.05%), initially up by 0.56%].

Year-to-year and seasonally-adjusted, July 2015 orders (net of commercial aircraft) were down by 0.39% (-0.39%), versus a revised annual decline of 2.80% (-2.80%) [previously down by 3.16% (-3.16%)] in June 2015, and a revised decline of 1.23% (-1.23%) [previously down by 1.06% (-1.06%), initially down by 0.24% (-0.24%)] in May 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 May 2015 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—July 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 July 2015 PPI series contracted month-to-month for the sixth consecutive month, down by a headline 0.12% (-0.12%), following similar headline contractions in May and June. Headline annual inflation turned negative, down by 0.18% (-0.18%) in July, following a positive 0.06% year-to-year gain in June 2014, versus a 0.24% annual gain in May 2015.

Adjusted for that monthly decline of 0.12% (-0.12%) in headline July inflation, and as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders rose by 2.08%, following a revised monthly gain of 4.18% in June, and a revised monthly decline of 2.39% (-2.39%) in May 2015. Ex-commercial aircraft, monthly real orders were up by 2.71% in July, versus a revised gain of 1.04% in June, and a decline of 0.10% (-0.10%) in May.

Real year-to-year aggregate orders fell by 19.45% (-19.45%) in July 2015, versus a revised decline in June 2015 of 2.39% (-2.39%), and a revised annual decline of 3.45% (-3.45%) in May 2015. Ex-commercial aircraft, real orders declined year-to-year in July 2015 by 0.21% (-0.21%), versus a revised annual drop of 2.86% (-2.86%) in June 2015, and a revised decline of 1.47% (1.47%) in May 2015.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 1* to *6*) 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.

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 (July 2015)

Low-Level Stagnation Continued in New-Home Sales; Still Down 63% from Its Pre-Recession High. As usual, the headline monthly and annual changes in new-home sales were not statistically significant. In the context of minimal revisions to recent monthly activity, July 2015 sales rose by 5.4%, after a revised monthly decline of 7.7% (-7.7%) in June, which previously had declined by 6.8% (-6.8%). Annual sales in July 2015 were up by 25.8%, versus a downwardly-revised 17.9% year-to-year gain in June, which previously had been up by 18.1%. None of those monthly or annual changes, however, was statistically meaningful.

While the headline July 2015 sales level of an annualized 507,000 units (42,250 monthly rate as used in the graphs) was up versus June, it was below the levels of activity in April and May 2015, and it still was down by 63% (-63%) 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 July 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 July 2015 new-home sales activity still was down by 63.5% (-63.5%) from the pre-recession peak of July 2005 for the series, while July 2015 single-unit housing starts still were down by 57.1.% (-57.1%) from the January 2006 high of that series.

Updated in the *Opening Comments* section, and as discussed fully in *Commentary No. 743*, 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 July 2015 Reporting. Reported by the Census Bureau on Tuesday, August 25th, July 2015, new-home sales (counted based on contract signings) increased for the month, in the context of minimal prior-period revisions. Headline July sales rose by a statistically-insignificant 5.4% +/- 17.3% (all confidence intervals are at the 95% level). That followed a revised monthly decline of 7.7% (-7.7%) [previously down by 6.8% (-6.8%)] in June, a revised 2.6% gain [previously down by 1.1% (-1.1%), initially up by 2.2%] in May, and a revised 4.7% gain [previously up by 7.8%, 8.1%, and initially up by 6.8%] in April. Net of prior-period revisions, July 2015 monthly sales rose by a still-statistically-insignificant 5.8%, instead of the headline gain of 5.4%.

Year-to-year, July 2015 sales rose by a statistically-insignificant 25.8% +/- 26.4%. That followed a revised 17.9% annual gain [previously up by 18.1%] in June 2015, a revised gain of 14.0% [previously up by 13.1%, initially up by 19.5%] in May 2015, and a revised annual gain of 23.9% [previously up by 27.6%, by 30.2%, and initially up by 26.1%] in April 2015.

In the arena of nonsensical volatility, consider that the annualized quarterly pace of sales gain in first-quarter 2015 held unrevised at 43.9%, with the second-quarter 2015 pace revising to an annualized quarterly contraction of 10.2% (-10.2%) [previously down by 7.3% (-7.3%)]. Based solely on initial headline July reporting, third-quarter new-home sales were increasing at an annualized pace of 3.0%.

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. Parallel graphs of the headline and six-month moving-average versions of July 2015 housing starts for single-unit construction (from *Commentary No. 744*) are included there for comparison (see *Graphs 7* to *10*).

EXISTING-HOME SALES (July 2015)

Existing-Home Sales Continued to Rise in July, Still Down 23% from Its Pre-Recession High. In the context of another downside revision to the previous month's activity, July 2015 existing-home sales activity rose by 2.0% in the month, to a new post-recession high of an annualized 5,590,000 million units, or 465,833 units at a monthly pace as reflected in the ShadowStats graph. That was the strongest reading since February of 2007, but it remained below its June 2005 pre-recession sales peak by 23.1% (-23.1%). In contrast, the July 2015 headline aggregate monthly housing starts remained down by 46.9% (-46.9%) versus its January 2006 pre-recession peak.

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 at a revised annualized gain of 28.7% (previously 28.0%). Based solely on the unstable, initial reporting for July 2015, third-quarter activity is rising at an annualized pace of 24.1%.

Headline Detail for July 2015 Existing-Home Sales. The August 20th release of July 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, headline monthly gain of 2.0%, following a downwardly-revised gain of 3.0% [previously up by 3.2%] in June. The July headline month-to-month gain was 1.8%, net of prior-period revisions.

On a year-to-year basis, July 2015 sales growth increased to 10.6%, versus a revised 9.4% [previously 9.6%] annual gain in June 2015.

The headline July sales data were well within the normal scope of reporting volatility 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 11* in the *Opening Comments* section. The quality of data underlying this series, however, remains highly questionable.

Portion of Sales in Foreclosure Declined. The NAR estimated that the portion of July 2015 sales in "distress" declined to 7% (5% foreclosures, 2% short sales), versus 8% (6% foreclosures, 2% short sales) in June 2015, and was down from distressed sales of 9% (6% foreclosures, 3% short sales) in July 2014. The portion of July 2015 sales in distress was the lowest reading since the NAR began surveying such in October 2008.

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 July 2015 rose to 23% of total activity, up from 22% in June 2015, but down from 29% in July 2014.

Updated in the *Opening Comments* section, and as discussed fully in *Commentary No. 743*, 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.

Existing-Home Sales Graph. The regular monthly graph of existing-home sales is found in the *Opening Comments* section, accompanied by a comparative graph of July 2015 aggregate housing starts activity from *Commentary No. 744*. Both series reflect activity in terms of single and multiple housing units (see *Graphs 11* and *12*).

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WEEK AHEAD

Economic Reporting Generally 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. That general effect holds the market consensus outlook at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Still the expectations trend does continue to soften.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with downside revisions to second-quarter 2015 GDP and downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP 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, having notched somewhat higher in July.

Upside inflation pressures should continue to build, particularly as oil prices begin to rebound, once again, a process that eventually should accelerate rapidly, along with the pending sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends were reviewed broadly, recently, in *No. 742 Special Commentary: A World Increasingly Out of Balance* and *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, 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 for Consensus Outlook*—Gross Domestic Product—GDP (Second-Quarter 2015, Second Estimate, First Revision).** The Bureau of Economic Analysis (BEA) will publish its second estimate, first revision of second-quarter 2015 GDP tomorrow, Thursday, August 27th.

The initial second-quarter GDP estimate of annualized 2.32% real growth was published along with the downside, annual benchmark revisions to the series, as detailed in *Commentary No. 739*. At that time, first-quarter 2015 revised to a 0.64% gain from a previous decline of 0.17% (-0.17%).

Discussed in *Commentary No. 745*, reporting in underlying monthly economic detail, subsequent to the first GDP estimate has been mixed, with retail revised upwards in the quarter, but otherwise suggestive of some downside revision in the revised GDP estimate, tied particularly to the trade deficit and industrial production series. Nonetheless, consensus expectations are for an upside revision, reflecting higher inventories. Bloomberg's indication is a consensus for a revision to 3.2%, MarketWatch's is to 3.3%, again versus the initial headline reporting of 2.3%. Inventory changes often are a BEA fudge-factor, rarely meaningful at this point in the GDP reporting and subject to heavy revisions. Inventory gains usually are followed by inventory liquidations.

Of some interest will be the initial estimates of second-quarter 2015 Gross National Product (GNP) and Gross Domestic Income (GDI). GNP is the broadest measure of domestic economic activity, where GDP is GNP net of the trade flows in factor income (interest and dividend payments). GNP came out of the benchmark revisions with an annualized first-quarter 2015 contraction of 0.15% (-0.15%).

GDI, which is the theoretical income-side equivalent to the GDP's consumption side, came out of the benchmark revisions with annualized real growth of just 0.28%, subject to further possible downside revision.

