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

COMMENTARY NUMBER 754
August Durable Goods Orders, New- and Existing-Home Sales, Post-FOMC

September 24, 2015

Market and Investor Uncertainties Have Followed FOMC Inaction;
Rate Hike on Hold Until After the Election?

Ten-Years into the Collapse, Housing-Industry Depression Continues

Though off Bottom, New- and Existing-Homes Sales Respectively
Are Down by 60% (-60%) and 27% (-27%) from Peak Activity; a
Peak-to-Trough Economic Decline in Excess of 25% (-25%) Defines Great Depression

August Durable Goods Orders Fell Year-to-Year for Seventh Straight Month

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

PLEASE NOTE: The next regular Commentary, *tomorrow, Friday, September 25th will cover the third estimate of, second revision to second-quarter 2015 GDP and a review of broad economic conditions.*

Best wishes to all! — John Williams

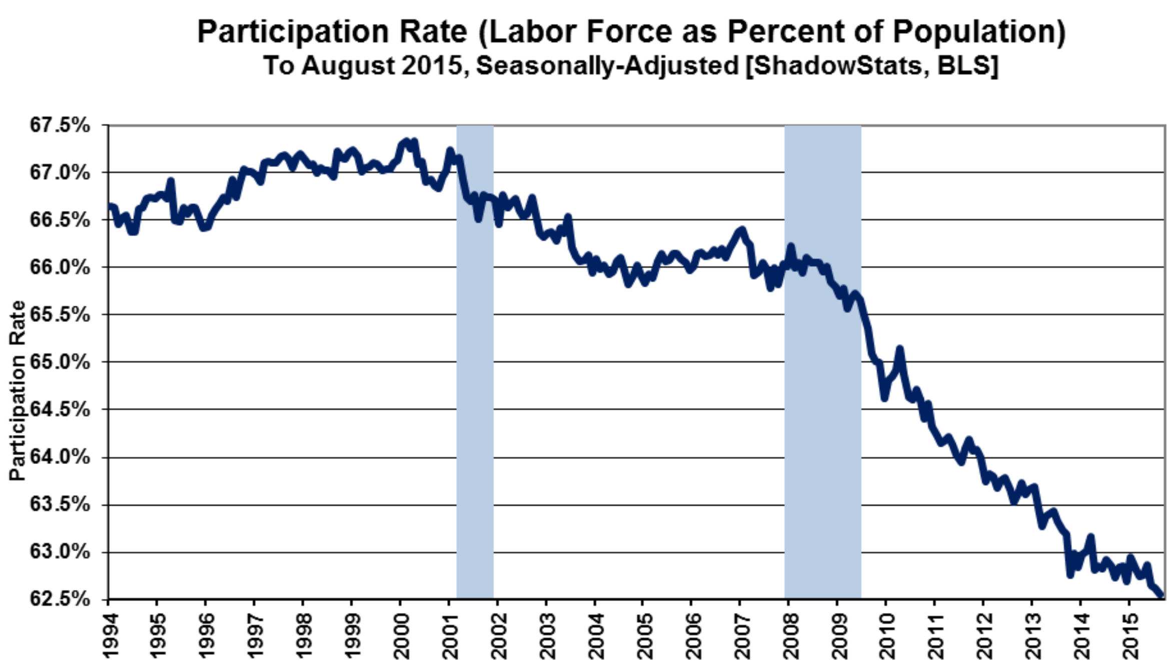
OPENING COMMENTS AND EXECUTIVE SUMMARY

Reflecting Issues Other than the Economy, FOMC Rate Hike Likely Is on Indefinite Hold. The Federal Open Market Committee (FOMC) did not raise interest rates on September 17th, despite compelling reasons to do so from the standpoint of moving the financial system towards some form of monetary normalcy and economic stability. Hints of global issues and clear signs of continuing economic weakness were blamed for the rate inaction. Yet those alibis already were in play long before a rate-hike purportedly had been "solidly set" a couple of months ago for the September FOMC. More is at play here than has surfaced, and the eventual bad news—probably U.S.-centric—likely will not be good for domestic and global financial-market stability or for the U.S. dollar. The FOMC does not lack courage; it more likely faces a significant and currently intractable systemic problem.

The September FOMC was the next best-chance at raising rates since the lost opportunity in June. Accordingly, a rate increase before year-end 2015 now is unlikely. Separately, with a presidential-election year unfolding, a rate hike well could be held off until after the election in November 2016.

Consider the following from employment/unemployment *Commentary No. 749* of September 4th: *If the Federal Reserve is going to wait for a solid signal of healthy, domestic economic activity, before raising interest rates, nothing is going to happen for a long time... At one time, Fed Chair Janet Yellen mentioned a needed improvement in labor-market health as a precondition to raising interest rates... It is interesting how issues remain of ongoing economic strength, in debate by the Fed and others, while headline GDP reporting has been booming in recovery for the last six years. Could there be a doubt somewhere as to the legitimacy or significance of the government's reporting of broad economic activity? Might there be lingering doubts as to the health and stability of the domestic banking system?*

Graph A: Participation Rate



Chair Yellen has indicated that she views the participation rate (labor force as a percent of population) as a meaningful indicator of the health of the labor market, and it is such a measure. Shown in Graph A, *the August 2015 participation rate notched minimally lower to a new historic low. Such means, in theory, that the Fed still is not about to tighten monetary conditions, despite other occasionally "happy" headline economic data, if the Fed Chair still is to be believed* [again, this was from *No. 749* of September 4th].

Though discussed further as an issue on September 17th, no one at the Fed—even months in advance—reasonably could have expected the participation rate to have shown meaningful improvement before the September FOMC. The issues scaring the Fed are beyond headline labor statistics (see *No. 742 Special Commentary: A World Increasingly Out of Balance*).

Discussed in *Commentary No. 750* of September 11th: *The Fed's quantitative easing always was about supporting the banking system, not the economy, and therein lies the quandary for the Fed on its pending interest rate decision... If, however, the Fed does not move, such will not be due to economic weakness. It will be because the Fed still deems the post-2008 financial system to be too fragile and vulnerable, unstable...*

Symptomatic of a financial system in serious distress, the FOMC remains unable or unwilling to move decisively on raising interest rates, to move the financial system towards monetary normalcy. The continued inaction and waffling by the Fed has begun to shift the focus and concerns of domestic and global investors away from what appears increasingly to be perpetual moribund economic activity into the areas of systemic instabilities, prospective or otherwise, that are so troubling to the U.S. central bank.

Frequently discussed here, the problems that triggered the Panic of 2008 only were papered over, never resolved. With the financial system then at the brink of collapse, everything possible was done by the Fed and the U.S. Treasury to prevent that ultimate systemic catastrophe. Problems as to the economy, and long-term sovereign solvency issues for the United States were not resolved, and banking system solvency has continued as problem. These are the issues the government and the Fed fear, but near-term financial-system solvency issues likely are the primary near-term concern.

A general economic review will follow in tomorrow's *Commentary No. 755* of September 25th, covering the second revision to second-quarter GDP (see the *Week Ahead* section).

Today's *Commentary* (September 24th). The balance of these *Opening Comments* provides a summary of reporting for August New Orders for Durable Goods and for New- and Existing-Home Sales, with more-complete coverage in the *Reporting Detail*. The *Hyperinflation Watch* includes a *Hyperinflation Outlook Summary* updated for the post-FOMC meeting environment.

The *Week Ahead* updates the preview of reporting for the second revision to second-quarter 2015 GDP.

New Orders for Durable Housing Starts—August 2015—Developing Recession Seen in Continued Annual Contractions. The small headline contraction in August 2015 new orders for durable goods primarily reflected a drop in transportation orders, other than commercial aircraft, although there also was a minimal decline in aircraft orders. Separately, the August detail was in the context of minimal prior-period revisions. The headline decline in August 2015 orders remained within the normal volatility of this highly irregular series, despite potential seasonal-factor distortions from the extreme variability seen in year-ago numbers tied to then-surging commercial aircraft orders. 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 commercial-aircraft orders and inflation, and with one month's exception tied to inflation adjustment, new orders contracted year-to-year for the seventh-straight month. The exception was a year-to-year "unchanged" (up by 0.02%) in the real ex-commercial aircraft series for July 2015. Nonetheless, such a protracted pattern of annual contraction has not been 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 7.73% (-7.73%). Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted (see *Commentary No. 751*).

Annualized change for second-quarter 2015 orders was a revised positive 2.18%, while the pace of annualized growth for third-quarter activity, based solely on the initial estimate for July and August was 11.82%. The quarterly gains here were due partially to highly-suspect, negative durable goods inflation in the PPI reporting. Again, however, following with a quarter's lag, industrial production (based on just July and August) appears to have turned positive for third-quarter 2015, but also continued negative year-to-year.

On a nominal basis (before inflation adjustment), second-quarter 2015 quarterly growth basically was flat, up by a revised annualized 0.57%, versus unrevised annualized contractions of 7.29% (-7.29%) in first-quarter 2015, and a decline of 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 and August was 10.23%.

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

The headline monthly drop of 2.0% (-2.0%) in August 2015 total orders also was at the level of late-consensus estimates published by Bloomberg and MarketWatch, and it remained well within normal reporting volatility for this series.

Commercial aircraft orders, which frequently distort the headline reporting, fell by a reasonably tame 5.90% (-5.90%) in August. Ex-commercial aircraft, August durable goods orders fell by 1.73% (-1.73%) month-to-month and fell year-to-year by 0.95% (-0.95%). 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 August 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 (see *Graphs 3 to 6*) 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) August 2015 Reporting. The regularly-volatile, seasonally-adjusted, nominal level of August 2015 new orders for durable goods fell month-to-month by a headline 2.01% (-2.01%), following revised gains in July of 1.92% and in June of 4.11%. Net of negligible revisions to July, aggregate new orders still fell by 2.01% (-2.01%) in August.

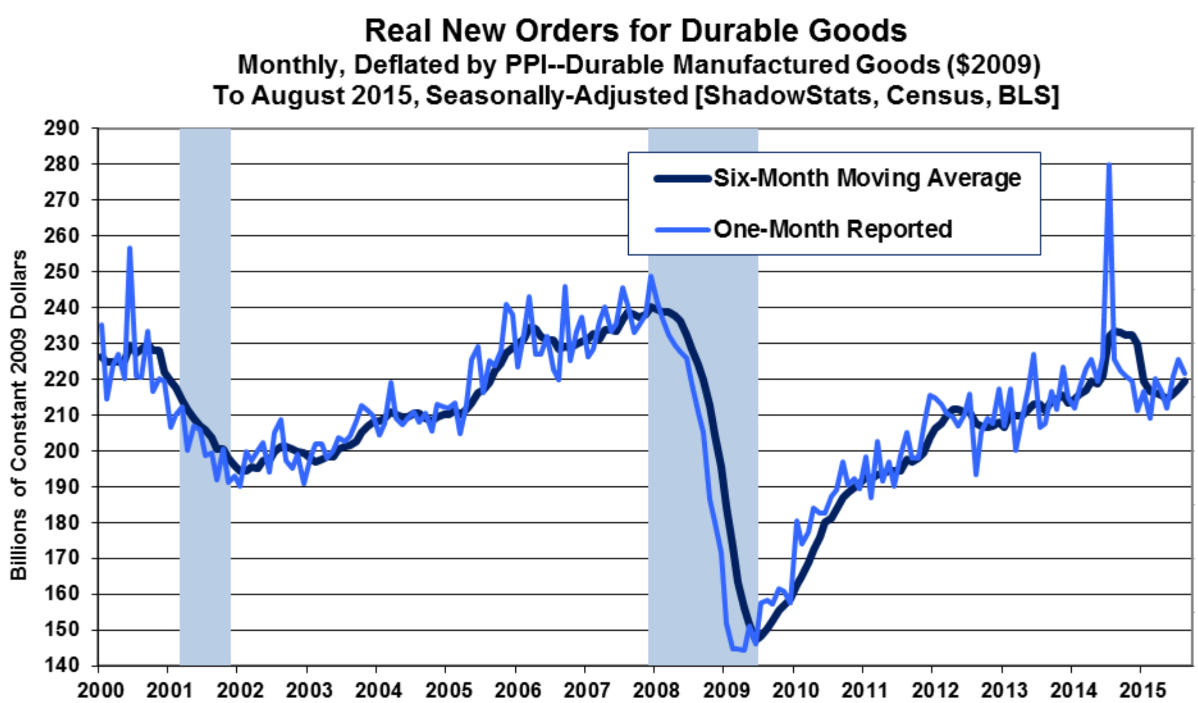
The seasonally-adjusted, year-to-year change in durable goods orders contracted by 2.26% (-2.26%) in August 2015, versus revised declines of 19.58% (-19.58%) in July 2015 and 2.28% (-2.28%) in June 2015.

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 5.90% (-5.90%) in July 2015 commercial aircraft orders, aggregate new orders fell by 1.73% (-1.73%). Net of a revised July decline of 8.65% (-8.65%) in commercial aircraft orders, aggregate new orders rose by a revised 2.77%. Net of a revised monthly increase of 69.85% in June 2015 commercial-aircraft orders, aggregate new orders rose by a revised 0.97%.

Year-to-year and seasonally-adjusted, August 2015 orders (net of commercial aircraft) were down by 0.95% (-0.95%), versus revised annual declines 0.16% (-0.16%) in July 2015 and 2.75% (-2.75%) in June 2015.

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

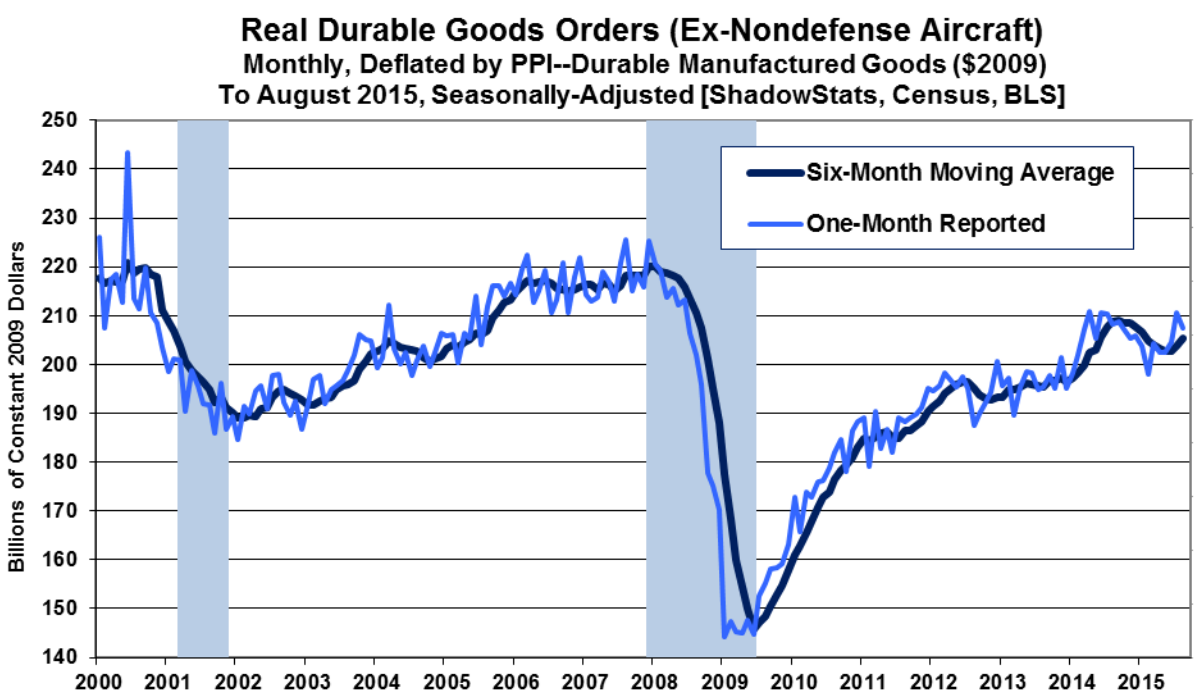


Real (Inflation-Adjusted) Durable Goods Orders—August 2015. ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related August 2015 PPI series contracted month-to-month by 0.24% (-0.24%) for the seventh consecutive month, following headline monthly declines in both July and June of 0.12% (-0.12%). Headline annual inflation contracted at a negative year-to-year pace of 0.48% (-0.48%) in August 2015, following a headline annual contraction of 0.18% (-0.18%) in July 2015 and a headline annual gain of 0.06% in June 2015.

Adjusted for that monthly decline of 0.24% (-0.24%) in headline August inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders fell by 1.77% (-1.77%) in August, following a revised monthly gains of 2.05% gain in July and 4.23% gain in June. Ex-commercial aircraft, monthly real orders were down by 1.49% (-1.49%) in August, but up by a revised 2.89% in July and a revised 1.09% in June.

Real year-to-year aggregate orders fell by 1.79% (-1.79%) in August 2015, versus a revised decline of 19.43% (-19.43%) in July 2015 and a revised decline in of 2.34% (-2.34%) in June 2015. Ex-commercial aircraft, real orders declined year-to-year in by 0.47% (-0.47%) in August 2015, versus a revised "unchanged" (up by 0.02%) in July 2015 and a revised annual decline of 2.81% (-2.81%) in June 2015.

Graph 2: August 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 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 August 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 minor declines in July and August. 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. While quarter-to-quarter activity appears to be picking up with two of three months in place for third-quarter 2015, for the last six months, for aggregate second-quarter 2015 reporting and partial third-quarter reporting, both series have turned negative year-to-year, again, as seen both before and after inflation adjustment.

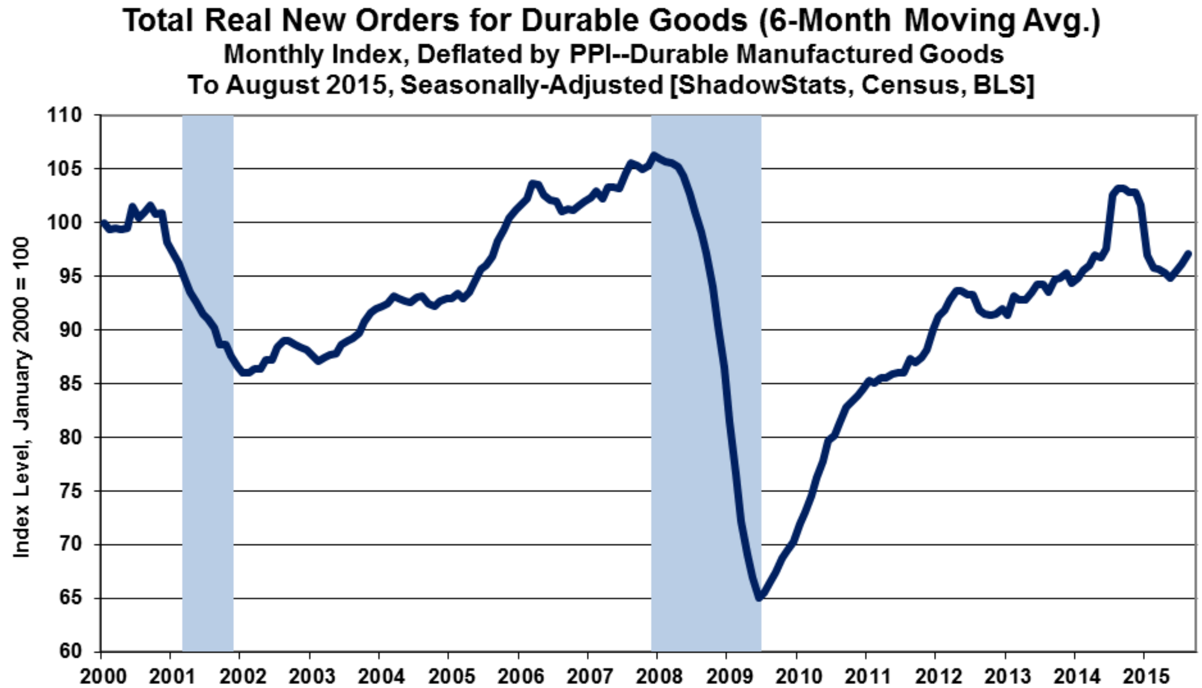
Broadly, there has been a recent general pattern of down-trending stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery that has been seen in official GDP reporting. The real (inflation-adjusted) monthly and six-month moving-average level of new orders in August 2015 remained 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 annual 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*). Indeed, related headline PPI inflation for manufactured durable goods has been negative month-to-month for the last seven consecutive months.

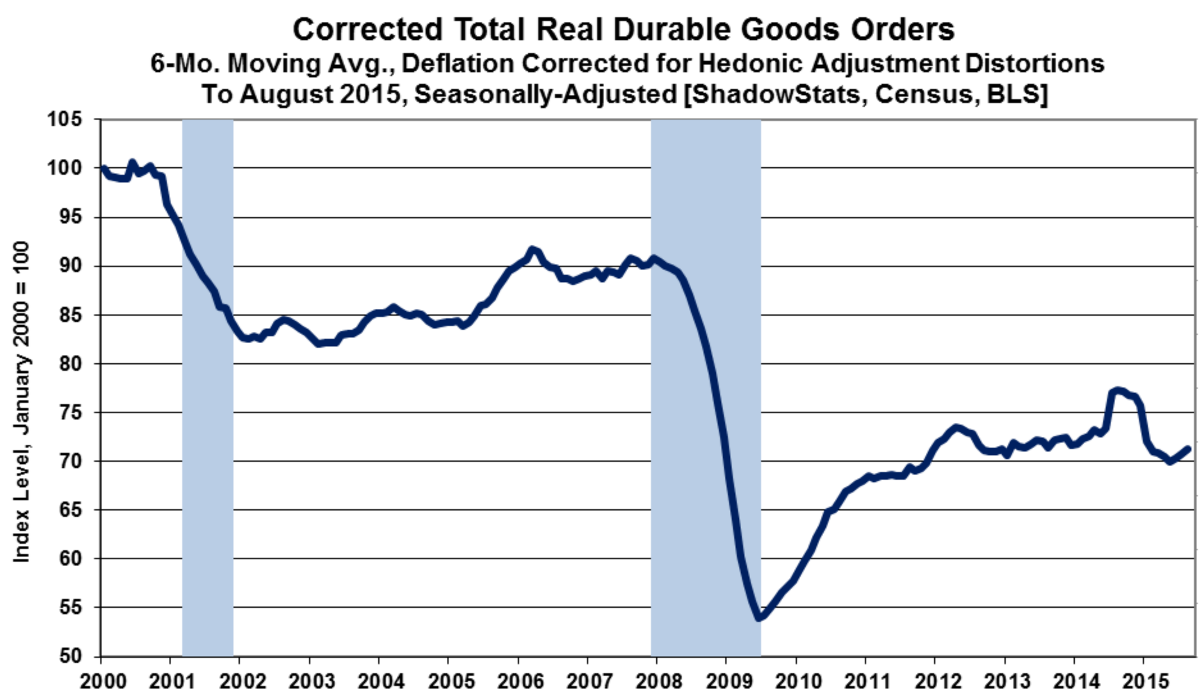
As done for other series such as the GDP, real retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

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 understatement of the PPI durable goods inflation measure used in the headline-deflation process. ShadowStats estimates that inflation understatement. Both sets of graphs are indexed to January 2000 = 100.

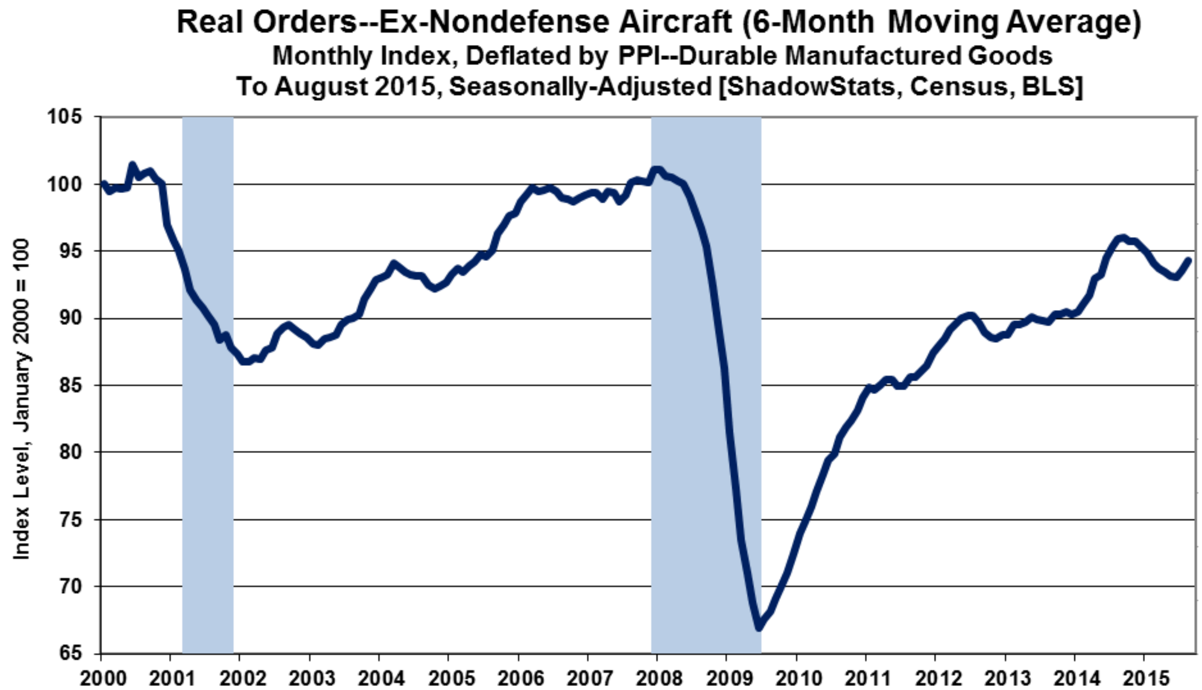
Graph 3: July 2015 Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



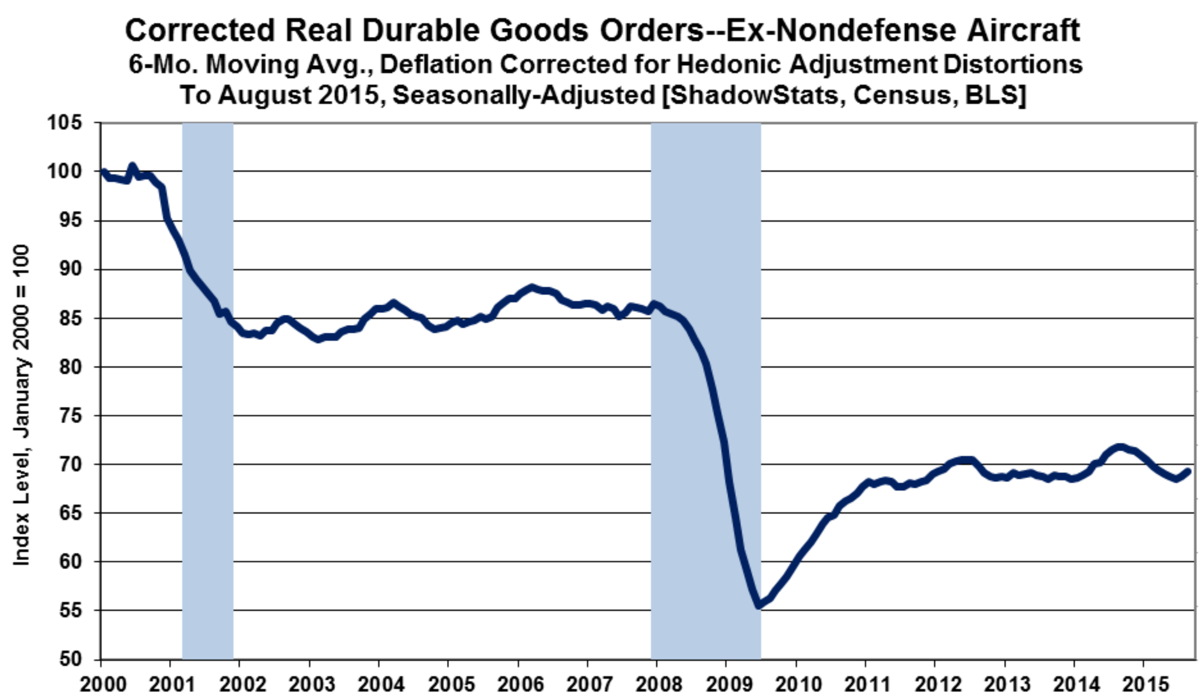
Graph 4: Corrected Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



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—August 2015—Ten-Years into the Housing Collapse, Sales Remain Deep in Great-Depression Territory. Counting an economic great depression as a peak-to-trough contraction in real activity in excess of 25% (see *2014 Hyperinflation Report—The End Game Begins*, page 9), the U.S. housing industry has been in, and remains in a great depression. As can be seen in the accompanying graphs (*Graphs 7* to *13*), ten years into the housing-market collapse, all the key series still are down by more than 25% (-25%) from their pre-recession peaks. Yet, each series has moved off its cycle low. New- and existing-home sales are down respectively by 60% (-60%) and 27% (-27%), from pre-recession highs, while total housing starts and single-unit housing starts are down respectively by 51% (-51%) and 60% (-60%).

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. 752*, the primary constraint on housing activity remains the continued impairment of consumer liquidity conditions. 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—August 2015—Low-Level Stagnation Continued, Despite Highly-Unstable Headline Reporting. As usual, the headline monthly and annual changes in new-home sales were not statistically significant. In the context of an upside revision to July 2015 sales, and downside revisions to activity in May and June, August 2015 sales rose by 5.7%, following a revised monthly gain of 12.0% in July, which previously had been up by 5.4%. Annual sales growth in August 2015 slowed to 21.6%, versus an upwardly revised 29.5% annual gain in July, which previously had been up by 25.8%. None of those monthly or annual changes, however, was statistically meaningful.

The otherwise-meaningless headline reporting came in well above consensus expectations for a headline gain of 0.2% versus initial July reporting (Bloomberg and MarketWatch). Versus initial July reporting, the August gain was 8.9%. As reported, as expected, versus prior reporting, month-to-month, and year-to-year, again, none of the headline or prospective changes in August new home sales was statistically significant.

While the unstable reporting of headline August 2015 sales at an annualized 552,000 units (46,000 monthly rate as used in the graphs) set a post-recession high, it still was down by 60% (-60%) 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 7* to *10* show the August 2015 headline-monthly and smoothed detail for new-home sales, as well as for comparative single-unit housing starts, and comparative existing-home sales (*Graph 11*).

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 August 2015 new-home sales activity still was down by 60.3% (-60.3%) from its pre-recession peak of July 2005, while August 2015 single-unit housing starts still were down by 59.5.% (-59.5%) from the January 2006 high of that series.

New-Home Sales August 2015 Headline Detail. Headline New-Home Sales (counted based on contract signings, Census Bureau) increased for the month of August 2015, in the context of varied prior-period revisions (including an upside revision to the prior month). Headline August sales rose by a statistically-insignificant 5.7%, following a revised monthly gain of 12.0% in July, a revised monthly decline of 9.2% (-9.2%) in June, and a revised 1.0% gain in May. Net of prior-period revisions, August 2015 monthly sales rose by a still-statistically-insignificant 8.9%, instead of the headline gain of 5.7%.

Year-to-year, August 2015 sales rose by a statistically-insignificant 21.6%, following revised annual gains of 29.5% in July 2015, 14.2% in June 2015 and 12.3% in May 2015.

In the arena of extreme volatility and unstable headline reporting, 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 15.5%. Based solely on initial combined headline July and August reporting, third-quarter new-home sales were increasing at an annualized pace of 37.8%, which had been at an annualized pace of just 3.0%, based just on the initial July reporting.

Existing-Home Sales—August 2015—Monthly Sales Tumble Anew. In the context of the third consecutive downside revision to the prior month's activity, August 2015 existing-home sales activity fell by 4.8% (-4.8%) in the month, to an annualized 5,310,000 million units, or 442,500 units at a monthly pace as reflected in the ShadowStats graph. That was the weakest reading since April, and it remained below its June 2005 pre-recession sales peak by 27.0% (-27.0%). In contrast, the August 2015 headline aggregate monthly housing starts series remained down by 50.5% (-50.5%) 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 of 28.7% also not revised. Based solely on the unstable, initial reporting for July and August 2015, third-quarter activity is rising at an annualized pace of 11.7%. That slowed from the initial pace of annualized quarterly growth of 24.1% that had been based solely on the initial reporting for July.

Existing-Home Sales August 2015 Headline Detail. Headline August 2015 Existing-Home Sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, monthly drop of 4.8% (-4.8%), following a downwardly-revised gain of 1.8% in July. The headline month-to-month contraction was 5.0% (-5.0%), in August, net of prior-period revisions. On a year-to-year basis, August 2015 sales growth slowed to 6.2%, from a downwardly-revised 10.1% annual gain in July 2015.

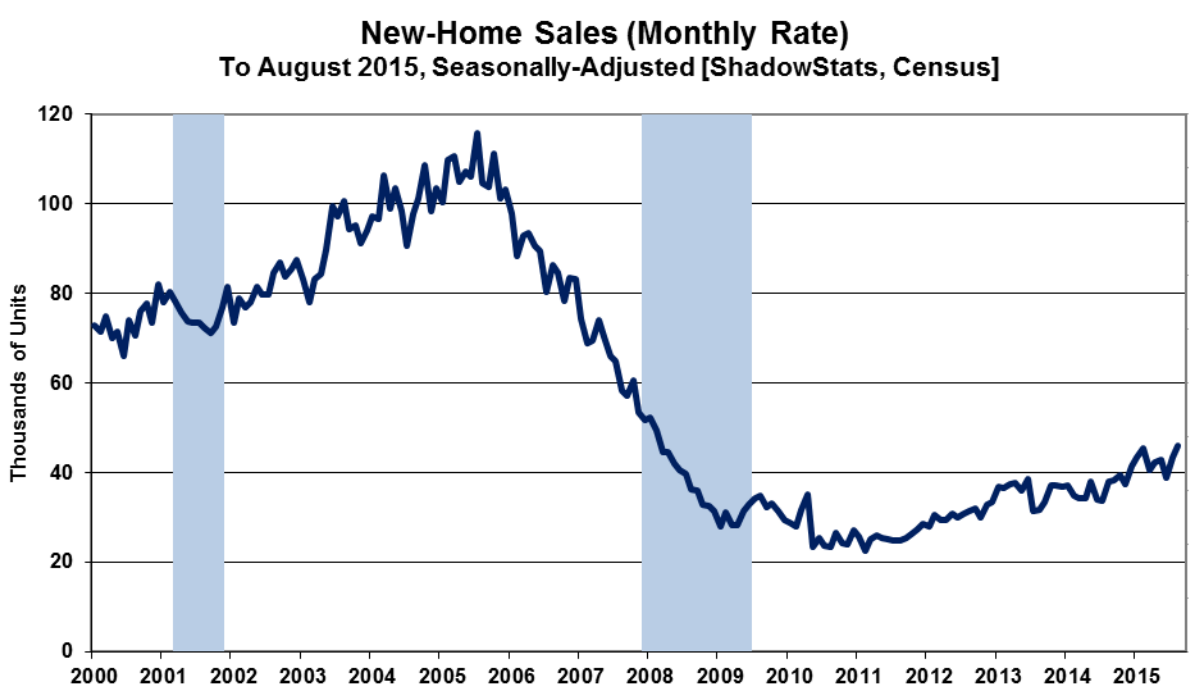
The headline August sales data were well within the normal scope of reporting volatility for this series. Smoothed for irregular distortions, the data remained statistically consistent with a period of broad stagnation, albeit still up-trending, as seen in *Graph 11*. The quality of data underlying this series, however, remains highly questionable.

Portion of Sales in Foreclosure Declined. The NAR estimated that the portion of August 2015 sales in "distress" held at 7% (5% foreclosures, 2% short sales), the same levels as seen July 2015, and down from distressed sales of 8% (6% foreclosures, 2% short sales) in August 2014. The portion of August 2015 sales in distress held for the second month at the lowest reading since the NAR began surveying such numbers in October 2008.

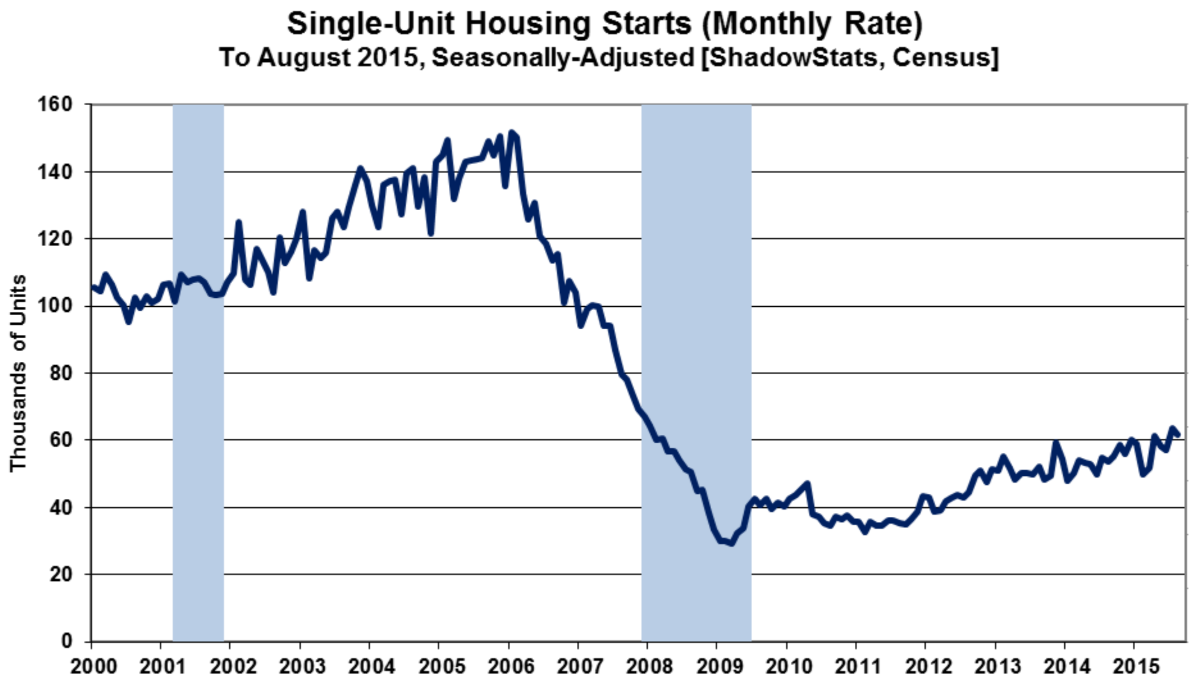
Reflecting the ongoing influx of speculative investment money into the existing-housing market, and continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, the NAR estimated that all-cash sales in August 2015 eased to 22% of total activity, versus 23% in July 2015 and 23% in August 2014.

New- and Existing-Home Sales Graphs. The regular monthly graphs of August 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 August 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 comparative plots of aggregate housing starts activity (*Graph 12* and *13*). Those measures include both single- and some multiple-unit activity. The housing starts graphs are repeated from [*Commentary No. 753*] of September 17th.

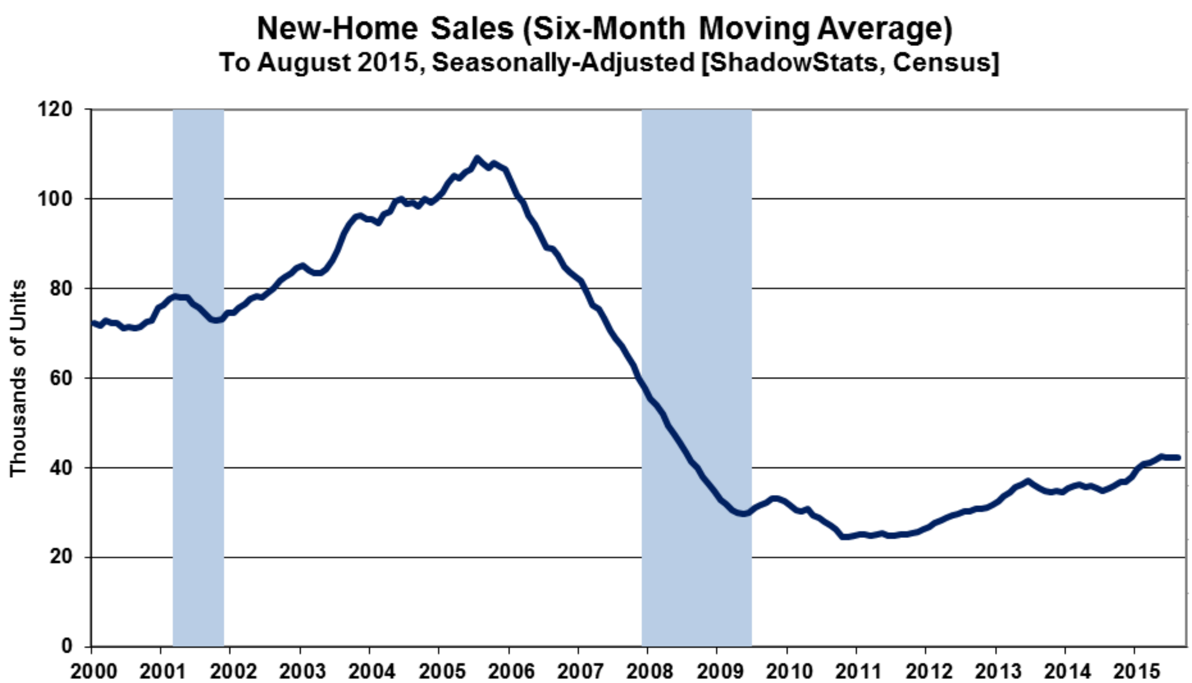
Graph 7: New-Homes Sales – Monthly Level



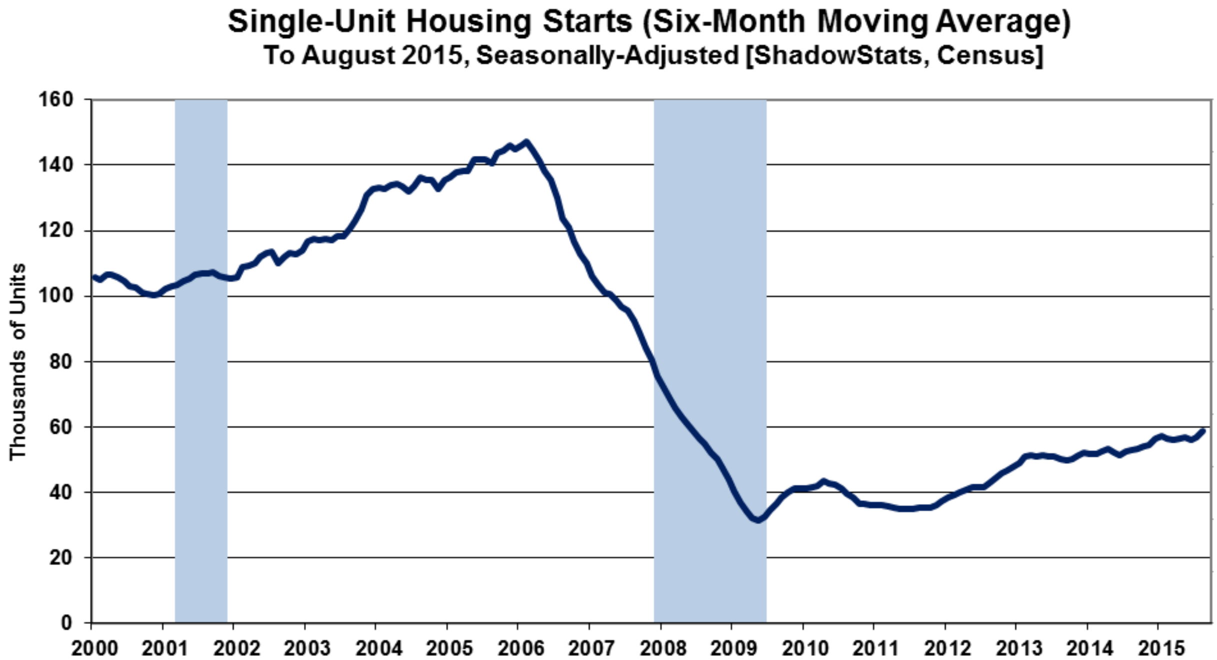
Graph 8: Single Unit Housing Starts – Monthly Level



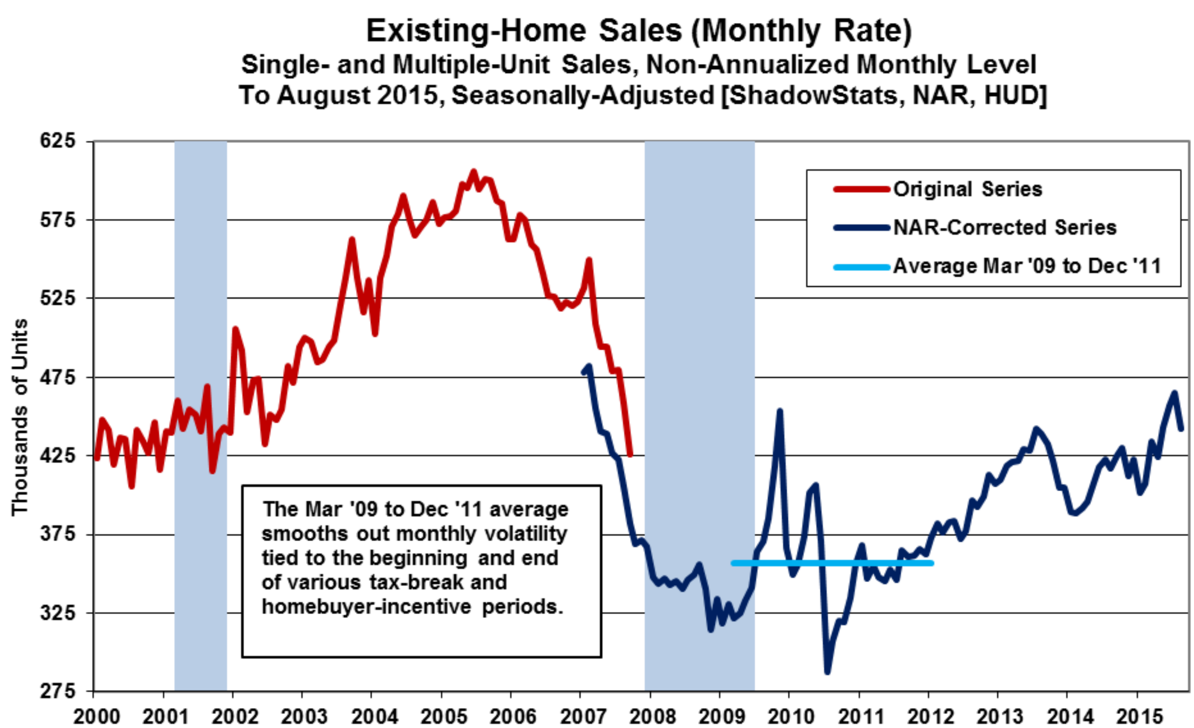
Graph 9: New-Homes Sales – Six-Month Moving Average



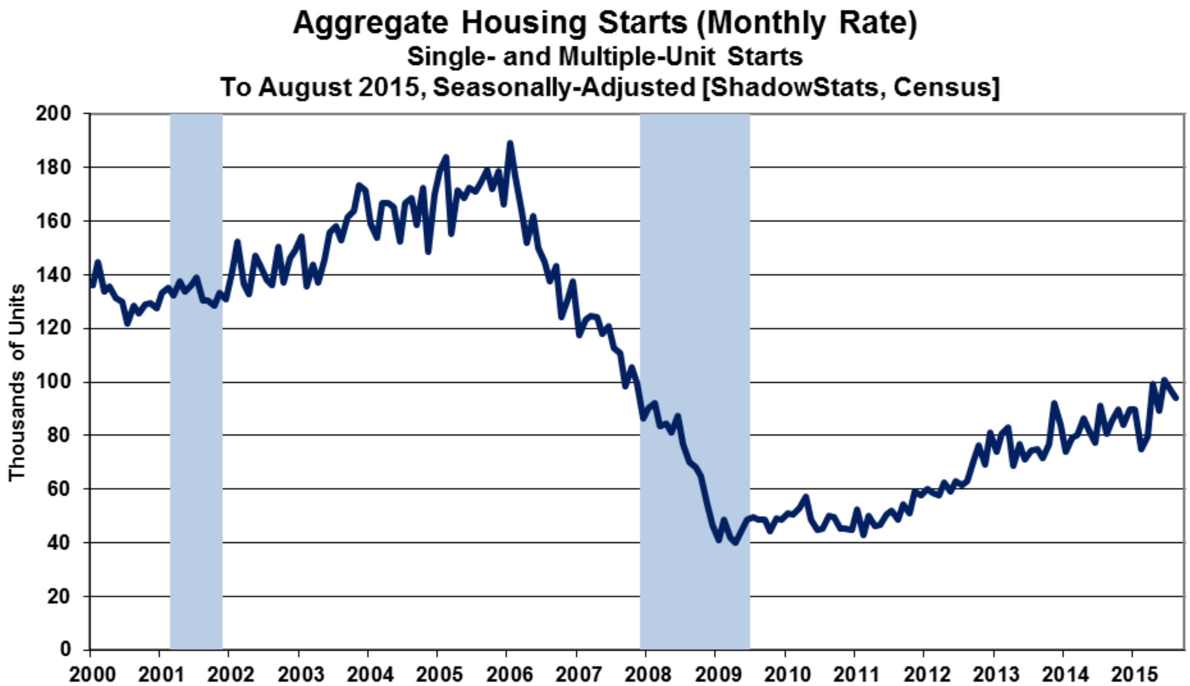
Graph 10: Single Unit Housing Starts – Six-Month Moving Average



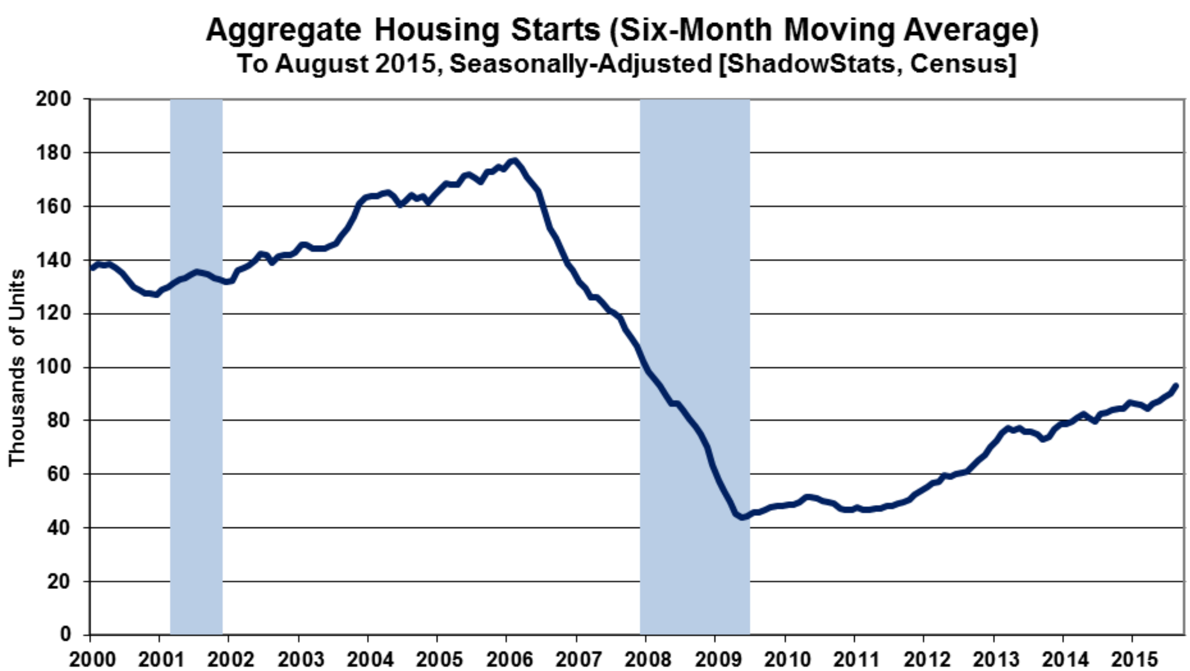
Graph 11: Existing-Home Sales – Monthly Level



Graph 12: Total Housing Starts – Monthly Level



Graph 13: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



Consumer Conditions Updated for Real Household-Sector Debt Outstanding. Fully discussed and detailed in *Commentary No. 752* of September 16th, the primary, underlying difficulty for the housing market remains intense, structural-liquidity constraints on the consumer. That circumstance, during the last eight-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity. Updating *No. 752*, *Graph 14* shows real credit market debt outstanding in the household sector, which just was brought current through second-quarter 2015 in the flow-of-funds accounting of the Federal Reserve Board. What had been a minor pickup in real first-quarter debt, due to negative headline inflation from declining gasoline prices, appeared to flatten out in second-quarter 2015.

Graph 14: Household Sector, Real Credit Market Debt Outstanding

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 is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and still does not appear to be in the offing. Again, see *Commentary No. 752* for more complete detail.

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

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Questions Mount on Systemic Stability; Dollar Faces Massive Decline with Ongoing Implications for Hyperinflation. The *Summary* is updated to reflect circumstances following the September 2015 FOMC meeting. Changes to the text are underlined.

Background Documents to this Summary. Underlying this *Summary* are *No. 742 Special Commentary: A World Increasingly Out of Balance* of August 10th, and *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 two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. In terms of underlying economic reality, one other reference is the *Public Commentary on Inflation Measurement*. The regular *Commentaries* also update elements of the general outlook, as circumstances develop.

Primary Summary. The U.S. economy remains in ongoing downturn, while the U.S. dollar still faces a massive decline in the wake of an extraordinary rally seen since June 2014, and in the context of a renewed economic downturn, ongoing domestic fiscal imbalances and ongoing financial-system instabilities. Financial-system concerns likely are the primary reason behind the inability or unwillingness of the Federal Reserve's Federal Open Market Committee (FOMC) to raise interest rates. Those factors have implications for a meaningful upturn in domestic inflation, eventually evolving into a great hyperinflationary crisis.

Indeed, symptomatic of a financial system in serious distress, the FOMC remains unable or unwilling to move decisively on raising interest rates, to move the financial system towards monetary normalcy. Continued inaction or waffling by the Fed has begun to shift the focus and concerns of domestic and global investors away from what appears increasingly to be perpetual moribund economic activity into the areas of systemic instabilities, prospective or otherwise, that are so troubling to the U.S. central bank (see *Commentary No. 750*) and the *Opening Comments*. Fed policy inaction, if anything, has exacerbated the long-term economic stagnation and renewed business downturn, where the quantitative easings always were intended as covert bailouts for the banking system, under the political cover of a weak economy (see for example, the *Monetary Conditions* section in *Commentary No. 749*).

Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by eventual, unfettered monetization of the national debt and obligations, leading to a hyperinflation. As first estimated by ShadowStats in 2004, such hyperinflation appeared likely by 2020. That time horizon for the hyperinflation forecast was moved to 2014, because of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) responses to same. That hyperinflation forecast remains in place, but it has been adjusted into 2015 or 2016, as discussed in *No. 742* and *No. 692*.

The basic story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of the *2014 Hyperinflation Report—The End Game Begins—First Installment Revised*.

Dollar Circumstance. Discussed in the background documents, the U.S. dollar rallied sharply from mid-2014 into early-2015, and despite some fluttering, into August. Initially, the rally reflected likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and over-estimated by global markets looking to support the dollar.

The still unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had begun to raise doubts, and more recently to confirm fears in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As a result, the U.S. dollar briefly backed off its highs, with some related upside pressure having been seen on oil prices. Pressures reversed recently, spiking the U.S. dollar—also hitting oil prices anew—with false domestic economic strength being touted by Wall Street, and with some in the Fed indicating that interest rates would be raised in September, irrespective of negative indications on the economy (such did not happen). Coincident, with these events, not-so-covert central-bank actions appear to have driven the price of gold lower, also in the context of mounting global financial-market instabilities.

The U.S. economy remains in contraction (see *Commentary No. 747* and the *Commentary No. 751*), with a variety of key indicators, such as industrial production, real retail sales and revenues of the S&P 500 companies continuing to show recession. Although formal recognition could take months, consensus recognition of a "new" recession should gain relatively rapidly, in tandem with a variety of monthly, quarterly and annual data reflecting the downturn in business activity. When formal recognition comes, timing of the onset of the recession likely will be December 2014.

As market expectations move towards an imminent, new recession, such not only should reduce expectations for a significant tightening in Fed policy, but also should renew expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting rallies in equity prices should be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on the direction of domestic economic activity, also would place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. These circumstances should unwind what has been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets. Further, oil prices should spike anew, along with a sharp reversal in the dollar's strength.

A crash back to recognition of more-realistic domestic-economic circumstances looms, possibly in the weeks and certainly in the months ahead. It should be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar (currencies with some perceived ties to gold); and related rallies in precious metals and oil. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful risk for fueling further heavy selling of the dollar. Once in heavy downturn, the dollar's gains since June 2014 should reverse fully, pushing the exchange-rate value of the dollar to new historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Fed tightening likely is not now on the horizon until after the 2016 presidential election. Suggestions that all was right again with world were nonsense. The Fed's games likely now will be played out as far as possible, with hopes, once again, of avoiding a financial-system collapse.

Inaction by the FOMC on September 17th was telling. The Panic of 2008 never was resolved, and the Fed increasingly has found that it has no easy escape from its quantitative easing (QE3), which continues; only overt expansion of QE3 ceased. If the Fed does not act quickly to extricate itself from prior actions, QE4 will become the near-term question. Again, despite loud promises now of higher rates before year-end or next year, banking-system issues (not the economy) may keep the "pending" interest rate hike in a continual state of suspension. The economy certainly will supply continuing political cover for the Fed's "inaction," with the U.S. central bank having lost control of the system.

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

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any significant, renewed market speculation in the near future, as to an added round of Federal Reserve quantitative easing, QE4, may become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it thought it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to banking system and to the increasingly unstable equity markets. While higher domestic interest rates would tend to act as a dollar prop, a hike in rates also could crash the stock market, as some on Wall Street fear, triggering a round of other systemic problems. Again, there is no happy way out of this for the Fed.

The fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, increasingly against the U.S. currency. That process likely will become dominated by deteriorating global perceptions of stability in U.S. economic activity and political system, and the ability of the Federal Reserve to control its monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit and contracting production, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see the *Opening Comments* and *Commentary No. 752*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle.

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around $5 trillion for the annual shortfall, with total net obligations of the U.S. government pushing $100 trillion, including the net present value of unfunded liabilities. Still, many in Washington look to continue increasing spending and to take on new, unfunded liabilities. This circumstance now operates in the context of the formal constraint of a renewed debt ceiling that is within a month of being in crisis.

- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see *Commentary No. 672*). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The 2014 monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury, but more of that lies ahead. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion of quantitative easing, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for any new or expanded systemic accommodation in the intensifying economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress in addressing fundamental fiscal and economic issues remain nil. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency issues should continue to devolve into extreme political crises.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are intensifying, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.

- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term global financial instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly. Consider that China has been selling some of its U.S. Treasury debt holdings to raise cash in for its near-term financial needs. Again, much of the rest of the world also has been backing away from holding U.S. treasury securities. Slack demand in U.S. Treasuries always can be taken up by the Federal Reserve's renewed monetization of the debt.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation, still likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. See Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 742*, for other factors afoot in the current environment.

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (August 2015)

Developing "New" Recession Seen in Continued Annual Contractions. The small headline contraction in August 2015 new orders for durable goods primarily reflected a drop in transportation orders (net of commercial aircraft), as well as a minimal decline in commercial aircraft orders. Such also was in the context of minimal prior-period revisions. The headline drop in August 2015 orders remained within the normal volatility of this highly irregular series, despite potential seasonal-factor distortions from the extreme variability seen in year-ago numbers tied to surging commercial aircraft orders. 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 commercial-aircraft orders and inflation, and with one month's exception tied to inflation adjustment, new orders contracted year-to-year for the seventh-straight month. The exception was a year-to-year "unchanged" (up by 0.02%) in the real ex-commercial aircraft series for July 2015. Nonetheless, such a protracted pattern of annual contraction has not been 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 7.73% (-7.73%). Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted (see *Commentary No. 751*).

Annualized change for second-quarter 2015 orders was a revised positive 2.18% [previously up by 2.11%, initially up by 1.93%], while the pace of annualized growth for third-quarter activity, based solely on the initial estimate for July and August was 11.82% [based just on the initial July reporting, the estimate was 14.25%]. The quarterly gains here were due partially to highly-suspect, negative durable goods inflation in the PPI reporting. Again, however, following a quarter later, industrial production (based on just July and August) appears to have turned positive for third-quarter 2015, but also negative year-to-year.

On a nominal basis (before inflation adjustment), second-quarter 2015 quarterly growth basically was flat, up by a revised annualized 0.57% [previously up by 0.50%, initially by 0.24%], versus unrevised annualized contractions of 7.29% (-7.29%) in first-quarter 2015, and a decline of 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 and August was 10.23% [initially up 13.16% based on July alone].

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

The headline monthly drop of 2.0% (-2.0%) in August 2015 total orders also was the level of late-consensus estimates published by Bloomberg and MarketWatch, and it remained well within normal reporting volatility for this series.

Commercial aircraft orders, which frequently distort the headline reporting, fell by a reasonably tame 5.90% (-5.90%) in August. Ex-commercial aircraft, August durable goods orders fell by 1.73% (-1.73%) month-to-month and fell year-to-year by 0.95% (-0.95%). 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 August 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) August 2015 Reporting. The Census Bureau reported today, September 24th, that the regularly-volatile, seasonally-adjusted, nominal level of August 2015 new orders for durable goods fell month-to-month by a headline 2.01% [-2.01%], following a revised July gain of 1.92% [previously up by 1.95%], and a revised gain of 4.11% [previously up by 4.05%, initially up by 3.36%] in June. Net of the minimal revisions to July, aggregate new orders still fell by 2.01% (-2.01%) in August.

The seasonally-adjusted, year-to-year change in August 2015 durable goods orders was a contraction of 2.26% (-2.26%), versus revised declines of 19.58% (-19.58%) [previously down by 19.60% (-19.60%)] in July 2015 and 2.28% (-2.28%) [previously down by 2.33% (-2.33%), initially down by 2.80% (-2.80%)] in June 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 5.90% (-5.90%) in July 2015 commercial aircraft orders, aggregate new orders fell by 1.73% (-1.73%). Net of a revised July decline of 8.65% (-8.65%) [previously down by 5.98% (-5.98%)] in commercial aircraft orders, aggregate new orders rose by a revised 2.77% [previously up by 2.59%]. Net of a revised monthly increase of 69.85% [previously up by 69.74%, initially up by 66.13%] in June 2015 commercial-aircraft orders, aggregate new orders rose by a revised 0.97% [previously up by 0.92%, initially up by 0.37%].

Year-to-year and seasonally-adjusted, August 2015 orders (net of commercial aircraft) were down by 0.95% (-0.95%), versus a revised annual decline in July 2015 of 0.16% (-0.16%) [previously down by

0.39% (-0.39%)], and a revised annual decline of 2.75% (-2.75%) [previously down by 2.80% (-2.80%), initially down by 3.16% (-3.16%)] in June 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 June 2015 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—August 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 August 2015 PPI series contracted month-to-month by 0.24% (-0.24%) for the seventh consecutive month, following headline monthly declines in both July and June of 0.12% (-0.12%). Headline annual inflation contracted at a negative year-to-year pace of 0.48% (-0.48%) in August 2015, following a headline annual contraction of 0.18% (-0.18%) in July 2015 and a headline annual gain of 0.06% in June 2015.

Adjusted for that monthly decline of 0.24% (-0.24%) in headline August inflation, and as reflected in the graphs in the *Opening Comments* section, real month-to-month aggregate orders fell by 1.77% (-1.77%) in August, following a revised 2.05% gain in July and a revised 4.23% gain in June. Ex-commercial aircraft, monthly real orders were down by 1.49% (-1.49%) in August, up by a revised 2.89% in July and a revised 1.09% in June.

Real year-to-year aggregate orders fell by 1.79% (-1.79%) in August 2015, versus a revised decline of 19.43% (-19.43%) in July 2015 and a revised decline in of 2.34% (-2.34%) in June 2015. Ex-commercial aircraft, real orders declined year-to-year in by 0.47% (-0.47%) in August 2015, versus a revised "unchanged" (up by 0.02%) in July 2015 and a revised annual decline of 2.81% (-2.81%) in June 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 (*Graphs 1* and *2*) 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, with some bounce back in the most recent months.

The second and third sets of graphs (*Graphs 3* to *6*) in the *Opening Comments* section show the patterns of six-month moving averages of historical real new durable goods orders net of official inflation, as well as those patterns "corrected" for the understatement of that inflation (and for the related overstatement of official, inflation-adjusted growth), with the same for the aggregate series and net of commercial aircraft orders.

NEW-HOME SALES (August 2015)

Low-Level Stagnation Continued in New-Home Sales, Despite Highly-Unstable Headline Reporting. As usual, the headline monthly and annual changes in new-home sales were not statistically significant. In the context of an upside revision to July 2015 sales, and downside revisions to activity in May and June, August 2015 sales rose by 5.7%, following a revised monthly gain of 12.0% in July, which previously had been up by 5.4%. Annual sales growth in August 2015 slowed to 21.6%, versus an upwardly revised 29.5% annual gain in July, which previously had been up by 25.8%. None of those monthly or annual changes, however, was statistically meaningful.

The otherwise meaningless headline reporting came in well above consensus expectations for a headline gain of 0.2% versus initial July reporting (Bloomberg and MarketWatch). Versus initial July reporting, the August gain was 8.9%. As reported, as expected, versus prior reporting, month-to-month, year-to-year, none of the headline or prospective changes in August new home sales was statistically significant.

While the unstable reporting of a headline August 2015 sales level of an annualized 552,000 units (46,000 monthly rate as used in the graphs) set a post-recession high, at least temporarily, it still was down by 60% (-60%) 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 August 2015 headline-monthly and smoothed detail for new-home sales, as well as of 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 August 2015 new-home sales activity still was down by 60.3% (-60.3%) from its pre-recession peak of July 2005, while August 2015 single-unit housing starts still were down by 59.5.% (-59.5%) from the January 2006 high of that series.

Updated in the *Opening Comments* section, and as discussed fully in *Commentary No. 752*, 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 August 2015 Reporting. Reported by the Census Bureau this morning, September 24th, August 2015, new-home sales (counted based on contract signings) increased for the month, in the context of varied prior-period revisions (including an upside revision to the prior month). Headline August sales rose by a statistically-insignificant 5.7% +/- 19.0% (all confidence intervals are at the 95% level). That followed a revised monthly gain of 12.0% [previously up by 5.4%] in July, versus revised monthly decline of 9.2% (-9.2%) [previously down by 7.7% (-7.7%), initially down by 6.8% (-6.8%)] in June, and a revised 1.0% gain [previously up by 2.6%, down by 1.1% (-1.1%) and initially up by 2.2%] in May. Net of prior-period revisions, August 2015 monthly sales rose by a still-statistically-insignificant 8.9%, instead of the headline gain of 5.7%.

Year-to-year, August 2015 sales rose by a statistically-insignificant 21.6% +/- 21.9%. That followed a revised annual gain of 29.5% [previously up by 25.8%] in July 2015, a revised 14.2% annual gain [previously up by 17.9%, initially up by 18.1%] in June 2015, a revised gain of 12.3% [previously up by 14.0%, by 13.1% and initially up by 19.5%] in May 2015.

In the arena of extreme volatility and unstable headline reporting, 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 15.5% (-15.5%) [previously down by 10.2% (-10.2%), initially down by 7.3% (-7.3%)]. Based solely on initial headline July and August reporting, third-quarter new-home sales were increasing at an annualized pace of 37.8%, which had been at an annualized pace of just 3.0%, based solely on the initial July 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. Parallel graphs of the headline and six-month moving-average versions of August 2015 housing starts for single-unit construction (from *Commentary No. 753*) also are included for comparison (see *Graphs 7* to *10*).

EXISTING-HOME SALES (August 2015)

Existing-Home Sales Fell 5% (-5%) in August, Down 27% (-27%) from Pre-Recession Peak. In the context of the third consecutive downside revision to the prior month's activity, August 2015 existing-home sales activity fell by 4.8% (-4.8%) in the month, to an annualized 5,310,000 million units, or 442,500 units at a monthly pace as reflected in the ShadowStats graph. That was the weakest reading since April, and it remained below its June 2005 pre-recession sales peak by 27.0% (-27.0%). In contrast, the August 2015 headline aggregate monthly housing starts remained down by 50.5% (-50.5%) 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 of 28.7% also not revised. Based solely on the unstable, initial reporting for July and August 2015, third-quarter activity is rising at an annualized pace of 11.7%. That slowed from the initial pace of annualized quarterly growth of 24.1% based solely on the initial reporting for July.

Headline Detail for August 2015 Existing-Home Sales. The September 21st release of August 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, headline monthly drop of 4.8% (-4.8%), following a downwardly-revised gain of 1.8% [previously up by 2.0%] in July. The headline month-to-month contraction was 5.0% (-5.0%), in August, net of prior-period revisions.

On a year-to-year basis, August 2015 sales growth slowed to 6.2%, from a downwardly-revised 10.1% [previously 10.6%] annual gain in July 2015.

The headline August 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 still 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 August 2015 sales in "distress" held at 7% (5% foreclosures, 2% short sales), the same levels as seen July 2015, and down from distressed sales of 8% (6% foreclosures, 2% short sales) in August 2014. The portion of August 2015 sales in distress held for the second month at the lowest reading since the NAR began surveying such numbers in October 2008.

Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in August 2015 eased to 22% of total activity, versus 23% in July 2015 and 23% in August 2014.

Updated in the *Opening Comments* section, and as discussed fully in *Commentary No. 752*, 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 comparative graphs of August 2015 aggregate housing starts activity from *Commentary No. 753*. Both series reflect activity in terms of single and multiple housing units (see *Graphs 11*, *12* and *13*).

WEEK AHEAD

Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices. Still in a fluctuating trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless tend to move with the latest economic hype in the popular media. That general effect holds the consensus outlook at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Again, the expectations trend generally has continued to soften.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with an eventual downside revision to the recently, upwardly-revised second-quarter GDP estimate, and along with likely downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and 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. It turned positive in June 2015, for the first time in six months, notched somewhat higher in July and still somewhat higher in August, despite a headline monthly decline in gasoline prices and a minimal decline in the headline monthly CPI-U.

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 a 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*, *No. 692 Special Commentary: 2015 - A World Out of Balance* and in the *Hyperinflation Outlook Summary*.

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 RELEASE:

***UPDATED* - Gross Domestic Product—GDP (Second-Quarter 2015, Third Estimate, Second Revision).** The Bureau of Economic Analysis (BEA) will publish its third estimate of, second revision to second-quarter 2015 GDP tomorrow, Friday, September 25th. As discussed with the first revision to second-quarter GDP (see *Commentary No. 747*), the more relevant reporting appeared to be in the initial headline detail of second-quarter Gross Domestic Income (GDI). The theoretical equivalent of GDP, the GDI basically was flat in first-half 2015, which was consistent with the headline reporting for industrial production and real retail sales in the same period, unlike the above-average economic growth indicated in the strong upside first revision to the initial second-quarter GDP estimate, to 3.7% from an initial 2.3% annualized growth estimate.

Late-consensus expectations (Bloomberg and MarketWatch) are for an unrevised 3.7% headline annualized quarterly real growth rate in the second revision to second-quarter GDP. While there still could be a small downside revision to headline GDP growth, the more-telling story well may be seen in the second estimate, first revision to the GDI.