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

COMMENTARY NUMBER 762
September Durable Goods Orders, New-and Existing-Home Sales

October 27, 2015

September Durable Goods Orders Sank Year-to-Year for Eighth Straight Month, Both Before and After Any Consideration for Inflation or Aircraft Orders

Detail Remained Consistent with an Unfolding Recession

Some Tightening in Home-Buyer/Seller Liquidity Conditions?

Existing-Home Sales in Foreclosure Notched Higher as Did All-Cash Sales

Low-Level Stagnation in Smoothed New-Homes Sales Activity Shifted from Flat- to Down-Trending in September Detail

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PLEASE NOTE: The next regular Commentary*, scheduled for Thursday, October 29th, will review the first estimate of third-quarter 2015 GDP and detail from the "advance" report on the September merchandise trade numbers.*

Best wishes to all! — John Williams

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OPENING COMMENTS AND EXECUTIVE SUMMARY

Headline Activity in Home Sales and Durable Goods Orders Remained Consistent with a Renewed Economic Downturn. With an indication of some possible tightening of home-buyer and/or home-seller liquidity conditions in the existing-home sales reporting, with negatively-volatile reporting in new-home sales, with a renewed "collapse" in headline consumer confidence and with weaker-than-expected new orders for durable goods, headline economic reporting of the last several days has done little to alter the economic outlook in a positive manner.

Noted in *Commentary No. 761*, market expectations for Thursday's (October 29th) "advance" estimate of third-quarter 2015 GDP growth appeared to have settled in around two-percent, plus or minus. While such still is the case, news stories keep popping up of major financial institutions lowering their third-quarter GDP forecasts.

Consider that the often non-consensus *Atlanta Fed GDP Model* (also noted in *No. 761*) has had an extraordinarily-good track record in predicting recent "advance" GDP growth estimates from the Bureau of Economic Analysis (BEA). Indicating a likely headline third-quarter GDP real growth rate of 0.9% in its October 20th model run, the Atlanta Fed just revised that to 0.8%, reflecting detail from the durable goods reporting. The Atlanta Fed model forecast also will be revised tomorrow (October 28th), to reflect the "advance" trade-deficit reporting for September (see *Week Ahead*).

ShadowStats continues to look for initial third-quarter headline reporting below 1.0%—perhaps 0.5%—with downside revisions to follow in subsequent monthly reporting. The general economic outlook will be updated in the next *Commentary No. 763* of October 29th, which will cover the headline detail of the "advance" third-quarter GDP estimate.

Today's *Commentary* (October 27th). The balance of these *Opening Comments* provides summary coverage of September New Orders for Durable Goods, New- and Existing Home Sales and a brief update of consumer conditions, reflecting new detail on September Real Median Household Income and October Consumer Confidence. The *Hyperinflation Outlook Summary* has not been changed. The *Week Ahead* updates the outlook for Thursday's "advance" estimate of third-quarter 2015 (GDP).

New Orders for Durable Goods—September 2015—Eight Straight Months of Annual Decline in an Unfolding Recession. The headline decline of 1.2% (-1.2%) in September 2015 new orders for durable goods was more than accounted for by a 35.7% monthly drop in commercial aircraft orders, yet the aggregate headline decline for September also was muted by a downside revision to previously-reported August activity. Against the initial August reporting, the headline level of September orders was down by 2.2% (-2.2%) for the month. Ex-commercial aircraft orders, headline September orders rose by 1.0%, but orders ex-commercial aircraft were unchanged for the month, net of the prior-period revisions.

Nonetheless, the headline decline in September 2015 orders remained within the normal bounds of volatility in this highly-irregular series. All factors considered, the broad signal for unfolding U.S. economic activity remained sharply negative, with the summary statistics still signaling a deepening and ongoing recession. Irrespective of adjustments for commercial-aircraft orders and/or inflation, new orders for durable goods contracted year-to-year for the eighth-straight month. Such a protracted pattern of annual contraction has not been seen since the formal economic collapse into 2008 and 2009.

Real Quarterly Growth. Annualized quarterly declines in real new orders (ex-commercial aircraft) were 5.58% (-5.58%) in fourth-quarter 2014, and 7.73% (-7.73%) in first-quarter 2015. Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted (see Commentary No. 760).

Annualized real change for second-quarter 2015 orders was a revised gain of 2.10%, while the pace of annualized growth for third-quarter activity, based on initial full reporting was 10.24%. The recent quarterly real gains here were due partially to continued, highly-suspect, negative month-to-month durable goods inflation in the PPI reporting.

Following a quarter later than the second-quarter durable goods, initial third-quarter industrial production rose at an annualized quarterly pace of 1.85%, with year-to-year change falling to a post-economic-collapse low of 0.93%.

Headline Nominal (Not-Adjusted-for-Inflation) September 2015 Reporting. The seasonally-adjusted, nominal level of September 2015 new orders for durable goods fell month-to-month by a headline 1.22% (-1.22%), following a revised, deeper monthly August contraction of 2.95% (-2.95%) and a revised July gain of 1.87%. Net of the August revisions, aggregate new orders fell by 2.22% (-2.22%) in September.

The year-to-year decline in September 2015 durable goods orders was 2.99% (-2.99%), versus revised annual contractions of 3.25% (-3.25%) in August 2015 and 19.62% (-19.62%) in July 2015, all seasonally adjusted.

Both before and after consideration of volatility in commercial-aircraft orders, headline changes in September durable goods orders were minimal. Again, they remained well within the normal reporting variations of this highly unstable series and were consistent with a continuing pattern of broad stagnation.

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, as happened with the headline September 2015 detail. 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 35.66% (-35.66%) in September 2015 commercial aircraft orders, aggregate new orders rose by 1.02%. Net of a revised, deeper decline of 11.22% (-11.22%) in commercial aircraft orders, aggregate new orders fell by a revised 2.36% (-2.36%) in August. Net of a revised July decline of 8.64% (-8.64%) in commercial aircraft orders, aggregate new orders rose by a revised 2.72%.

Year-to-year and seasonally-adjusted, September 2015 new orders (net of commercial aircraft) were down by 0.75% (-0.75%), versus a revised decline of 1.64% (-1.64%) in August 2015 and a revised annual decline of 0.22% (-0.22%) in July 2015.

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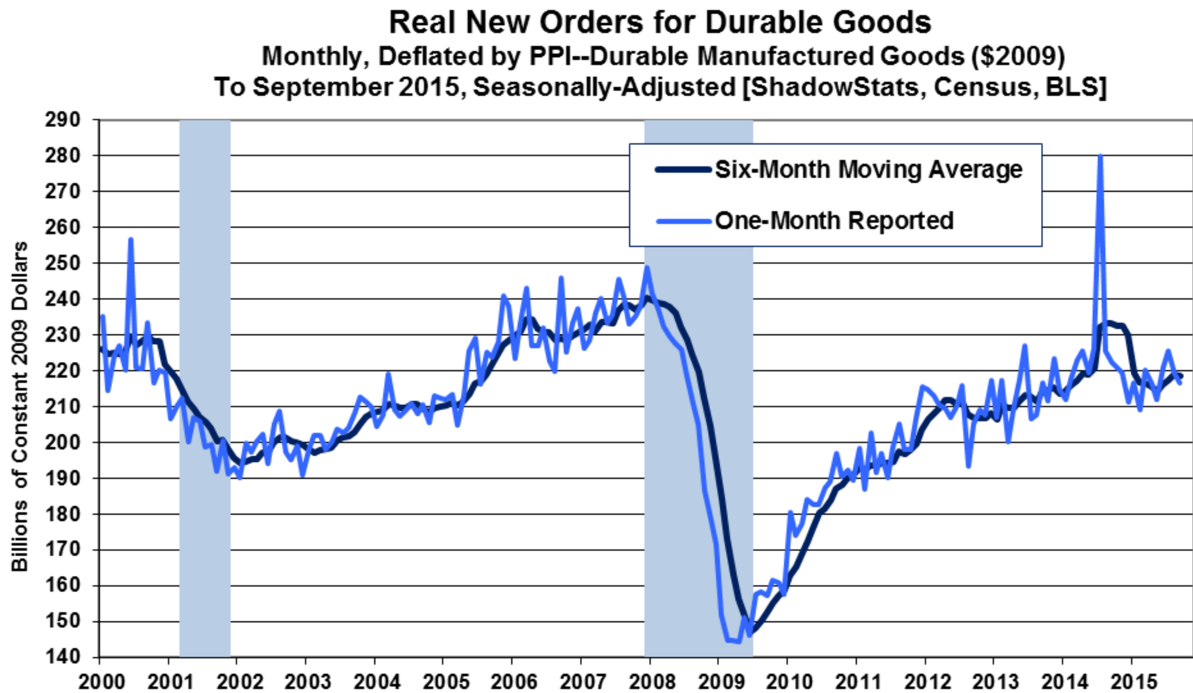
On a nominal basis (before inflation adjustment), third-quarter 2015 growth—again, ex-commercial aircraft—was up at an annualized pace of 8.32%, following unrevised second-quarter 2015 annualized quarterly growth of 0.57%, an annualized contraction of 7.29% (-7.29%) in first-quarter 2015, and a decline of 4.36% (-4.36%) in fourth-quarter 2014.

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

Adjusted for that monthly decline of 0.06% (-0.06%) in headline September 2015 inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders fell by 1.16% (-1.16%) in September, following a revised contraction of 2.72% (-2.72%) in August, and a revised 2.00% gain in July. Ex-commercial aircraft, monthly real orders were up by 1.08% in September 2015, versus a revised decline of 2.36% (-2.36%) in August and a revised 2.72% gain in July.

Real year-to-year aggregate orders fell by 2.58% (-2.58%) in September 2015, following revised declines of 2.78% (-2.78%) in August 2015 and 19.47% (-19.47%) in July 2015. Ex-commercial aircraft, real orders declined year-to-year by 0.27% (-0.27%) in September 2015, following a revised decline of 1.16% (-1.16%) in August 2015, and an "unchanged" reading, revised to down by 0.04% (-0.04%) in July 2015.

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



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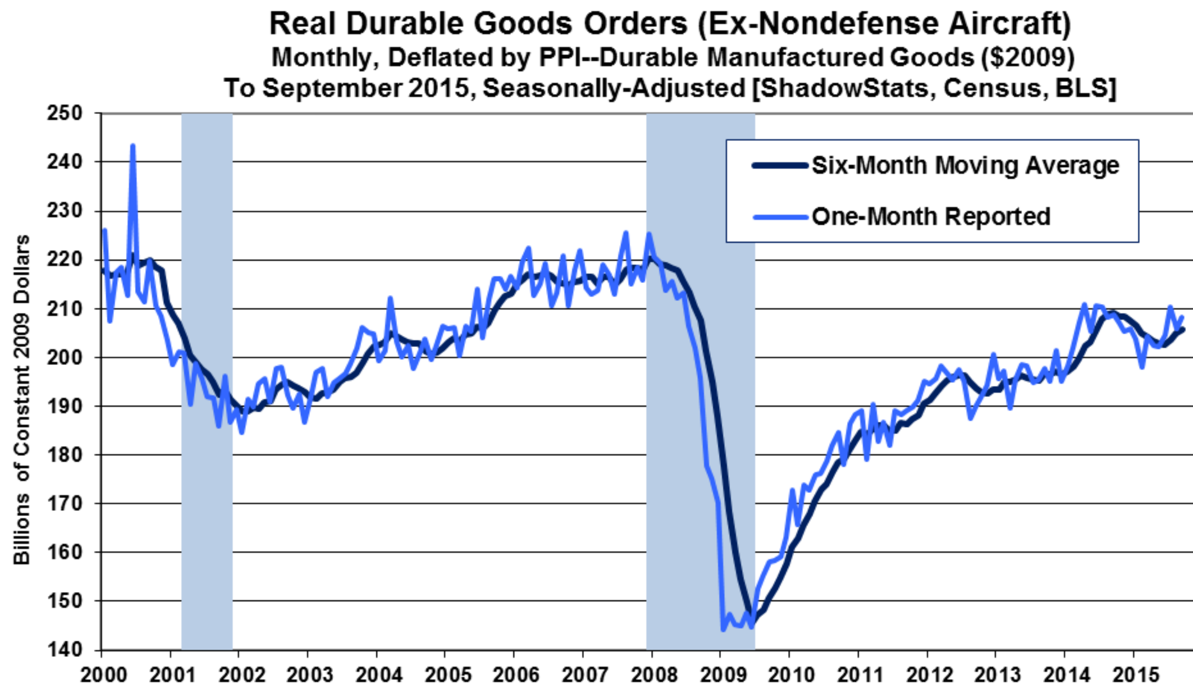
Graph 2: September 2015 Real New Orders for Durable Goods – Ex Commercial-Aircraft Orders



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 September 2015 numbers.

Graph 1 shows the aggregate new orders series, including the extreme swings in commercial-aircraft orders. Extreme monthly volatility was seen particularly about 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 the third-quarter 2015. 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. Again, 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 picked up in third-quarter 2015, for the last eight months straight and, for aggregate second- and third-quarter 2015 reporting (mixed first-quarter 2015 year-to-year reporting), both series had turned negative year-to-year, again, as seen both before and after inflation adjustment. That generally is not seen outside of recessions.

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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 September 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—again 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 eight 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 in each set is the same six-month, moving-average series shown in the first plot, but re-deflated so as to correct for the understatement of the PPI durable goods inflation measure used in the headline-deflation process. ShadowStats estimates that inflation understatement, with the graphs indexed to January 2000 = 100.

Graph 6, entitled "Corrected Real Orders—Ex-Commercial 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.

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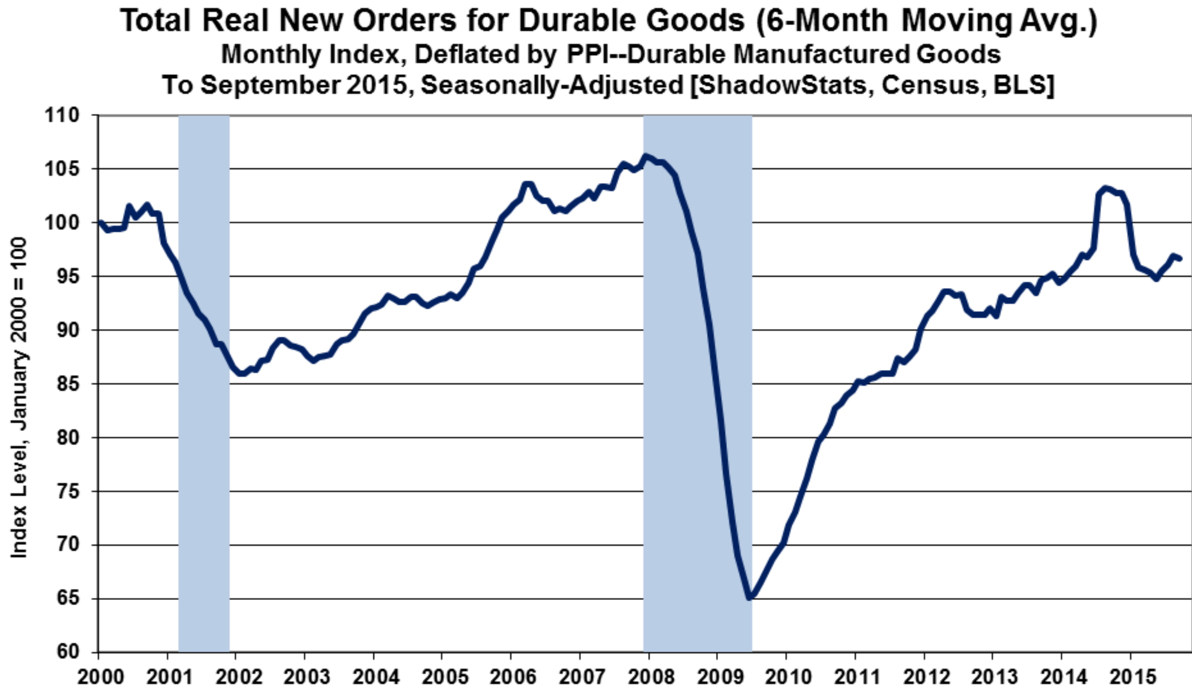
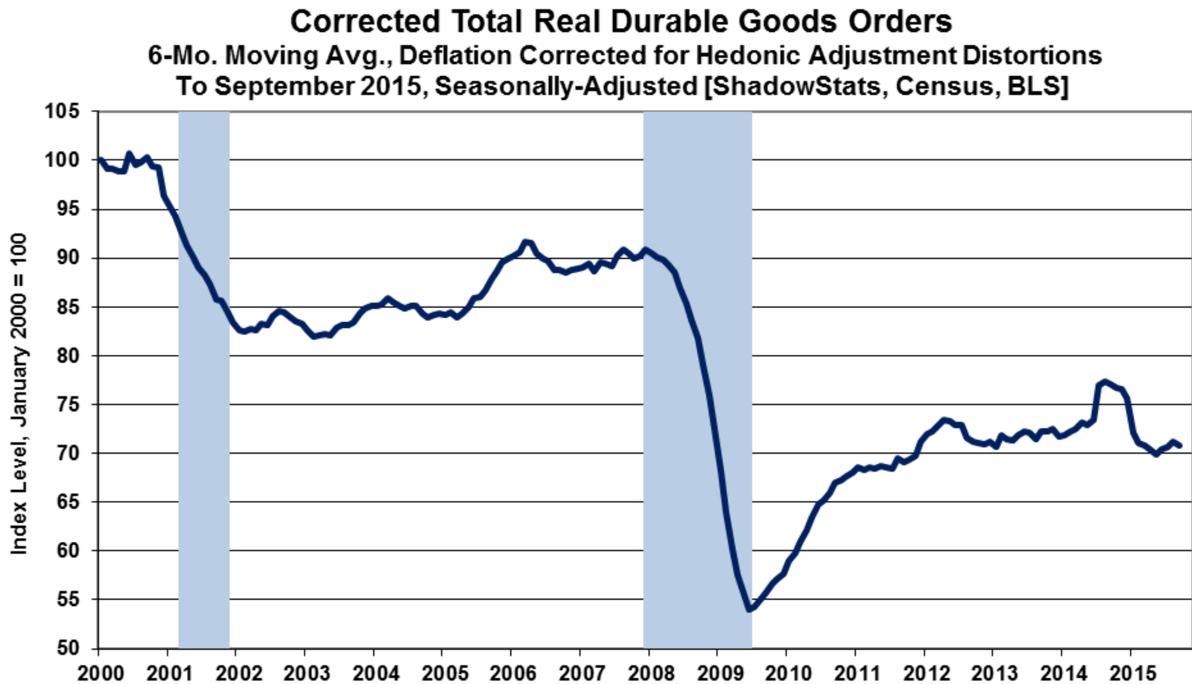
Graph 3: September 2015 Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



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



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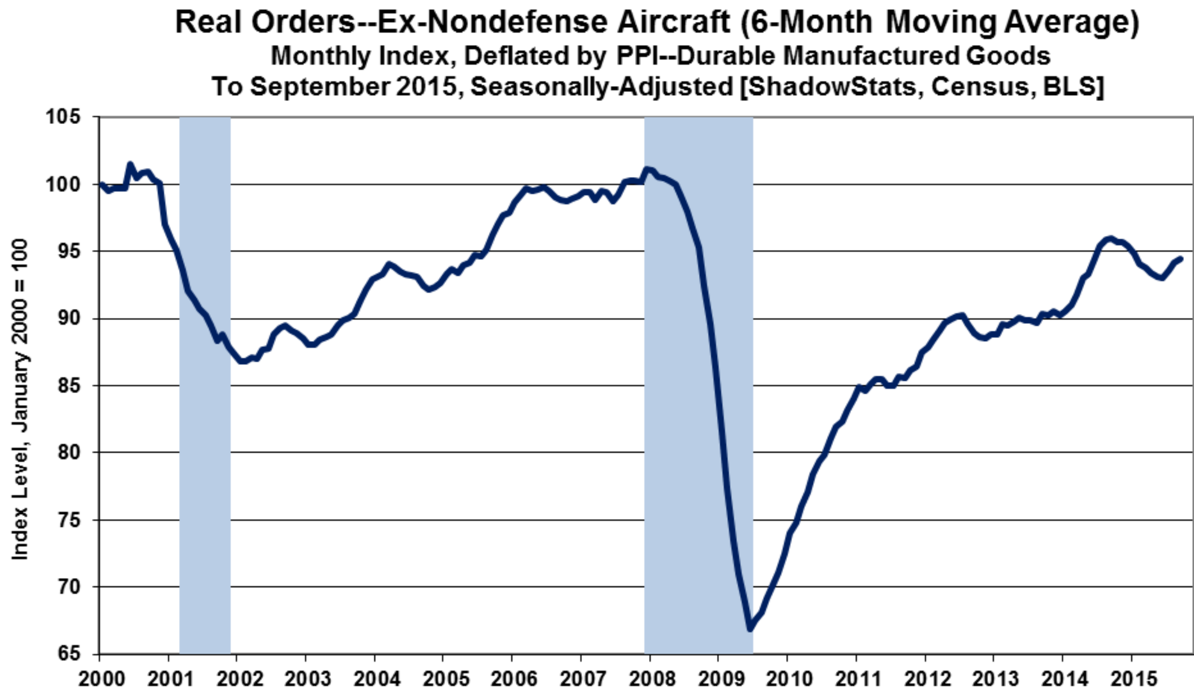
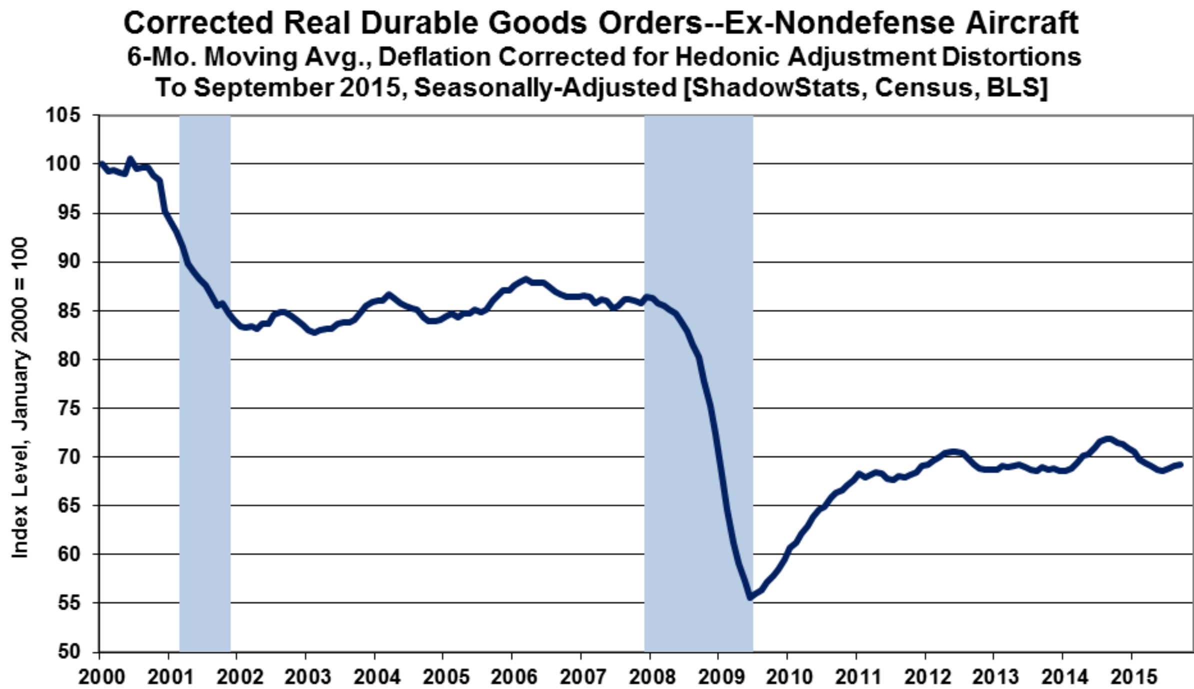
Graph 5: September 2015 Index of Durable Goods Orders – Ex Commercial Aircraft (Six-Month Moving Average)



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



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New- and Existing-Home Sales—September 2015—Ten-Plus Years into the Housing Industry's Great Depression. Discussed in *Commentary No. 754,* the U.S. housing industry has been in a great depression, with housing activity never having 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.

Ten years into the housing-market implosion, the major series related to housing activity generally are down by more than 25% (-25%) from their pre-recession peaks (see accompanying *Graphs 7* to *13*). Existing-Home Sales was the one exception in September moving to a 24% (-24%) contraction versus its pre-recession high. Although each series is off its cycle low, as of September 2015 new- and existing-home sales were down respectively by 66% (-66%) and 24% (-24%) from their pre-recession highs, with Total Housing Starts and Single-Unit Housing Starts down respectively by 47% (-47%) and 59% (-59%).

Updated in following *Consumer Conditions...* section, and discussed fully in *Commentary No. 758*, the primary constraint on housing activity has been impaired consumer liquidity. Without sustained growth in income and liquidity, there has been no basis for a sustainable recovery in the housing market.

New-Home Sales—September 2015—Down-Trending Low-Level Stagnation Amidst Unstable Headline Reporting and Revisions. The volatile reporting of monthly and annual changes in September 2015 new-home sales activity was not statistically significant, as usual. In the context of major downside revisions to previously-reported August and July sales, and a minor upside revision to June, headline September activity still fell by 11.5% (-11.5%), with year-to-year annual growth slowing to 2.0%, from a downwardly revised annual gain of 16.5% [previously 21.5%] in August 2015.

The otherwise meaningless headline reporting came in below generally flat-to-minus consensus expectations. Versus initial August reporting, the September decline would have been 15.2% (-15.2%), instead of the headline monthly drop of 11.5% (-11.5%). While against prior reporting, that monthly decline would have been statistically significant, again, though, none of the headline month-to-month or year-to-year was significant.

Where the unstable reporting of a headline annualized sales level of 468,000 units (39,000 monthly rate as used in the graphs) in September was the weakest since November 2014, it also was down by 66% (-66%) 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, albeit now down-trending stagnation, were the trend had been flat as of the August 2015 headline reporting.

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. Accompanying graphs of the September 2015 headline-monthly and smoothed detail for new-home sales, as well as comparative graphs of single-unit housing starts and existing-home sales follow at the end of this section.

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. Again, headline September 2015 new-home sales activity still was down by 66.3% (-66.3%) from its pre-recession peak of July 2005, while September 2015 single-unit housing starts were down by 59.4.% (-59.4%) from the January 2006 high of that series.

New-Home Sales Headline Detail. New-home sales (counted based on contract signings, Census Bureau) plunged by a statistically-insignificant 11.5% (-11.5%) for the month of September 2015, in the context of heavy downside revisions to July and August activity. That followed a downwardly revised monthly gain of 5.2% in August, a downwardly devised monthly gain of 7.2% in July, and a revised, narrowed monthly decline of 8.6% (-8.6%) in June. Net of prior-period revisions, September 2015 monthly sales would have been down by a statistically-significant 15.2% (-15.2%).

Year-to-year, September 2015 sales increased by a statistically-insignificant 2.0%. That followed revised annual gains of 16.5% in August 2015, 24.8% in July 2015 and 15.0% in June 2015.

The annualized quarterly pace of sales gain in first-quarter 2015 held at an unrevised at 43.9%, with the second-quarter 2015 quarterly pace revising to an annualized decline of 14.8% (-14.8%). Based on initial, full-headline reporting for third-quarter 2015, activity rose at an annualized a pace of 2.7%.

Existing-Home Sales—September 2015—Foreclosures and All-Cash Sales Notched Higher in September. Headline existing-home sales rose by 4.7% in September, but such was in the context of some negative signals on systemic liquidity. Although just off the lows of the series first surveyed by the National Association of Realtors (NAR) in October 2008—at the peak of the housing collapse—the portion of September 2015 existing-home sales in foreclosure notched higher to 6% from 5% in August. In conjunction with the portion of all-cash sales rising to 24% in September, from 22% in August, shifts here possibly may be signaling a renewed tightening in consumer liquidity conditions.

The NAR estimated that the portion of September sales in "distress" were at the same aggregate percentage level as in August, but with homes in foreclosure notching higher, and with short sales notching lower. Still, September 2015 "distressed sales" held at 7% (6% foreclosures, 1% short sales) versus August 2015 at 7% (5% foreclosures, 2% short sales), and down from September 2014 levels of 10% (7% foreclosures, 3% short sales). The portion of September 2015 sales in both forms of distress held for the third month at the lowest reading since the NAR began surveying such numbers in 2008.

Likely, 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 also estimated that all-cash sales in September 2015 rose to 24% of total activity, versus 22% in August 2015 and 24% in September 2014.

Sales Rose by 4.7% in September, Still Down 23.7% (-23.7%) from Pre-Recession Peak. In the context of the fourth consecutive downside revision to the prior month's initial reporting of sales activity, September 2015 existing-home sales rose by 4.7% in the month, to an annualized 5,550,000 million units, or 462,500 units at a monthly pace as reflected in *Graph 11*. That still was off the July 2015 near-term peak for the series, and it remained down by 23.7% (-23.7%) from the June 2005 pre-recession sales peak. In contrast, the September 2015 headline total housing starts remained down by 46.9% (-46.9%) versus its January 2006 pre-recession peak.

First-quarter 2015 showed an annualized quarterly contraction of 6.7% (-6.7%) in existing sales, with the second-quarter 2015 pace of annualized growth at 28.7%. Based on the initial July-to-September detail, third-quarter activity rose at a somewhat slower annualized pace of 14.3%.

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Existing-Home Sales Headline Detail. September 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, headline monthly gain of 4.7%, following a negatively-revised, monthly drop of 5.0% (-5.0%) in August. The headline month-to-month gain was 4.5% in September, net of prior-period revisions. On a year-to-year basis, September sales growth picked up to 8.2%, from a downwardly revised pace of 6.0% annual growth in August 2015.

The headline September 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*. The quality of data underlying this series, however, remains highly questionable.

New- and Existing-Home Sales Graphs. Following are regular monthly graphs of August new-and existing-home sales activity. 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.

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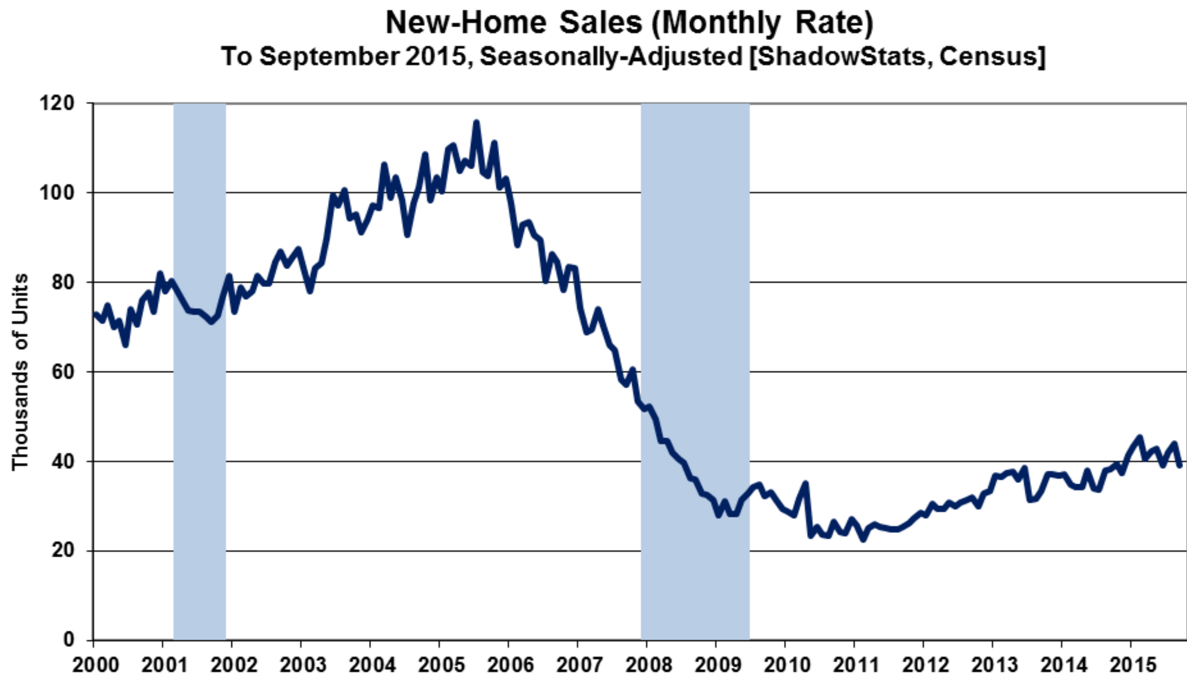
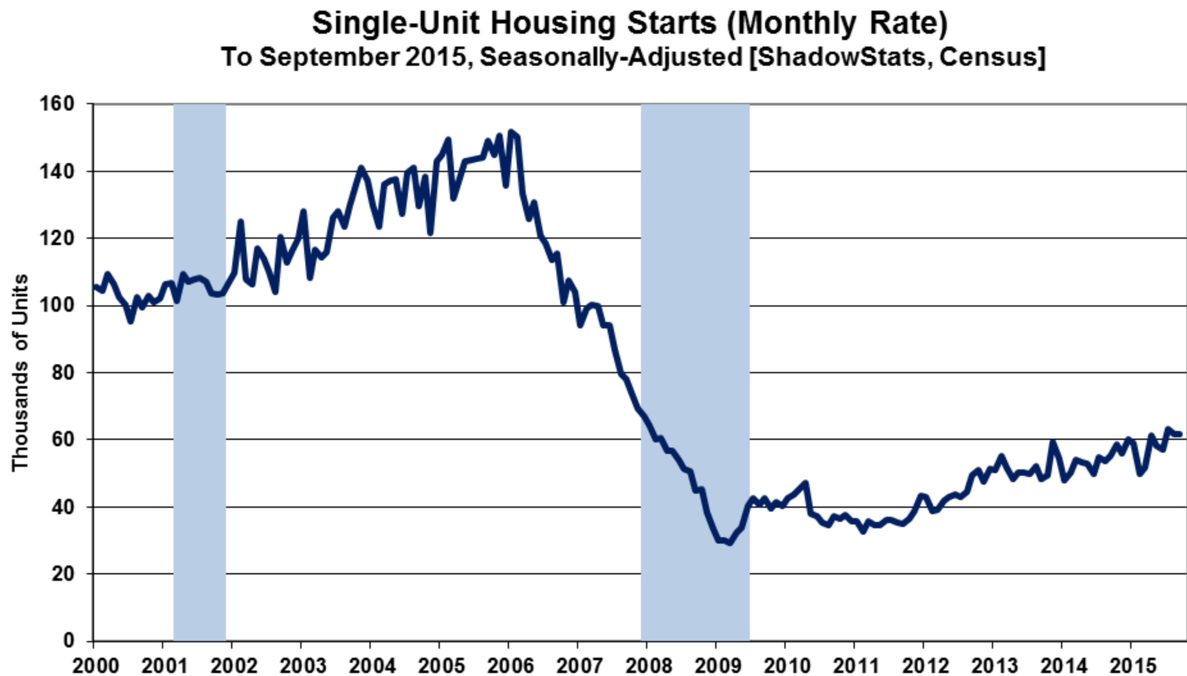
Graph 7: New-Homes Sales – Monthly Level



Graph 8: Single Unit Housing Starts – Monthly Level



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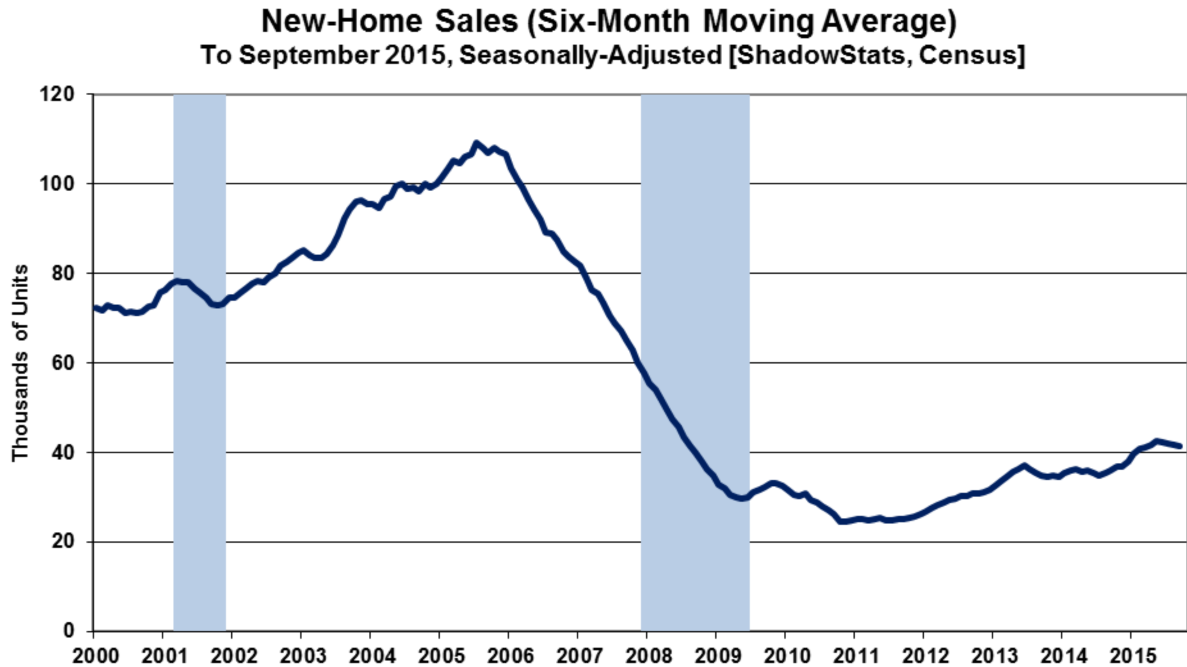
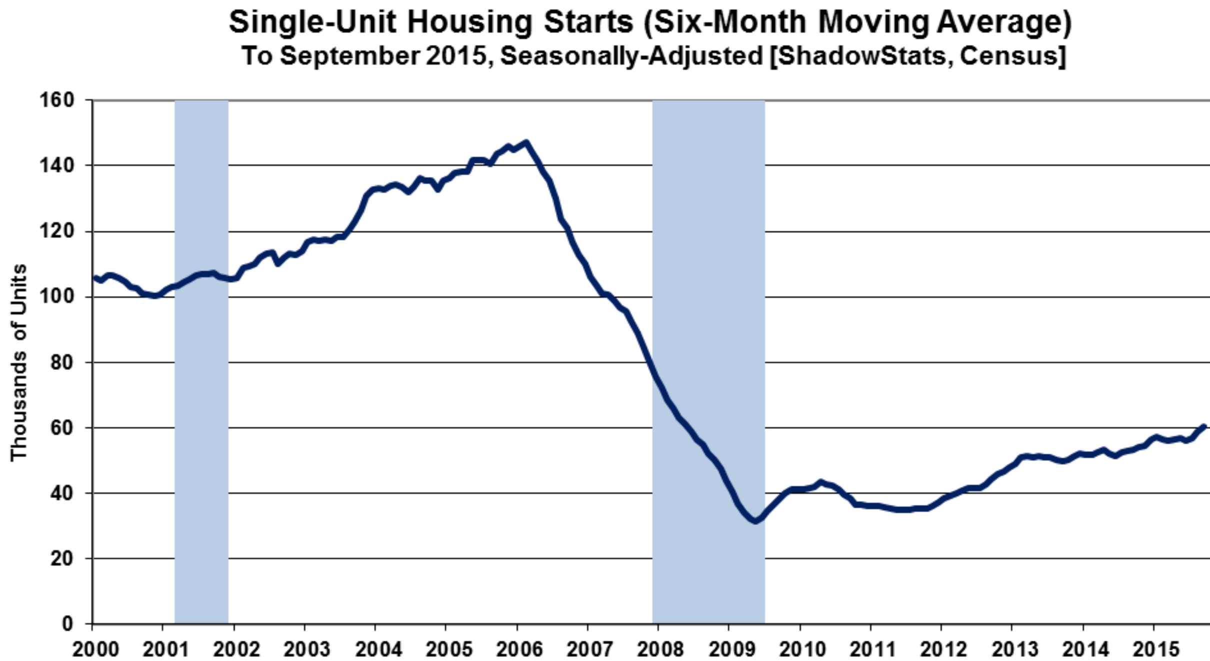
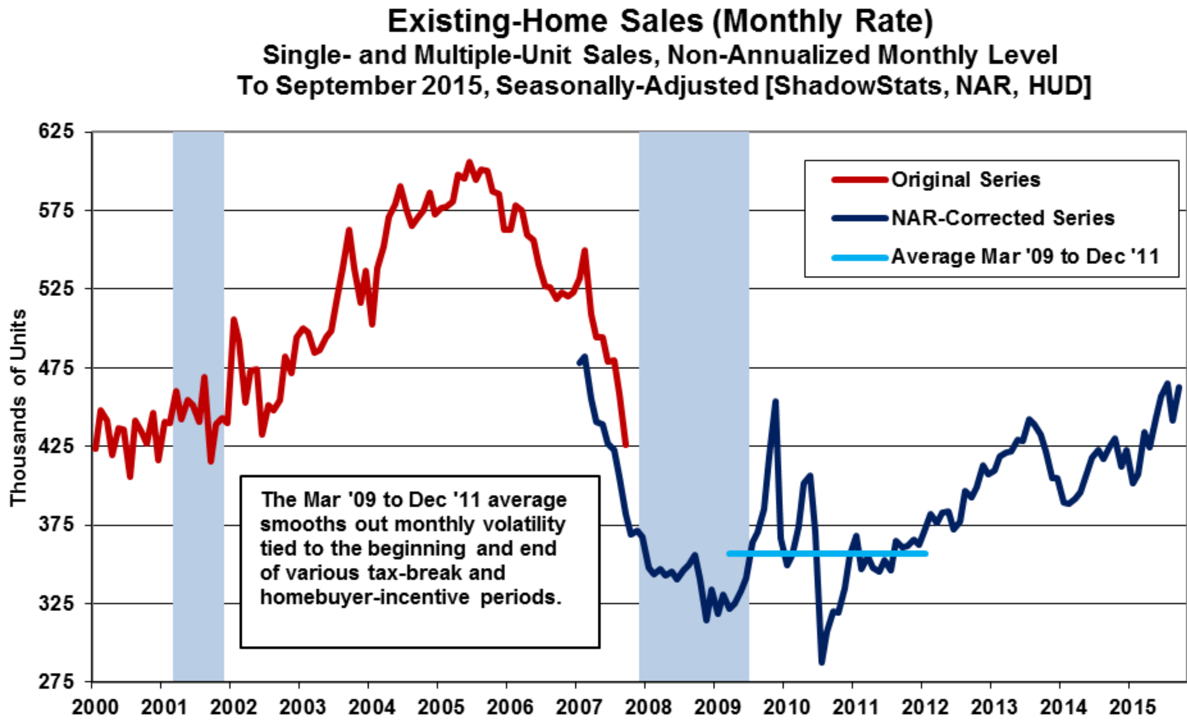
Graph 9: New-Homes Sales – Six-Month Moving Average



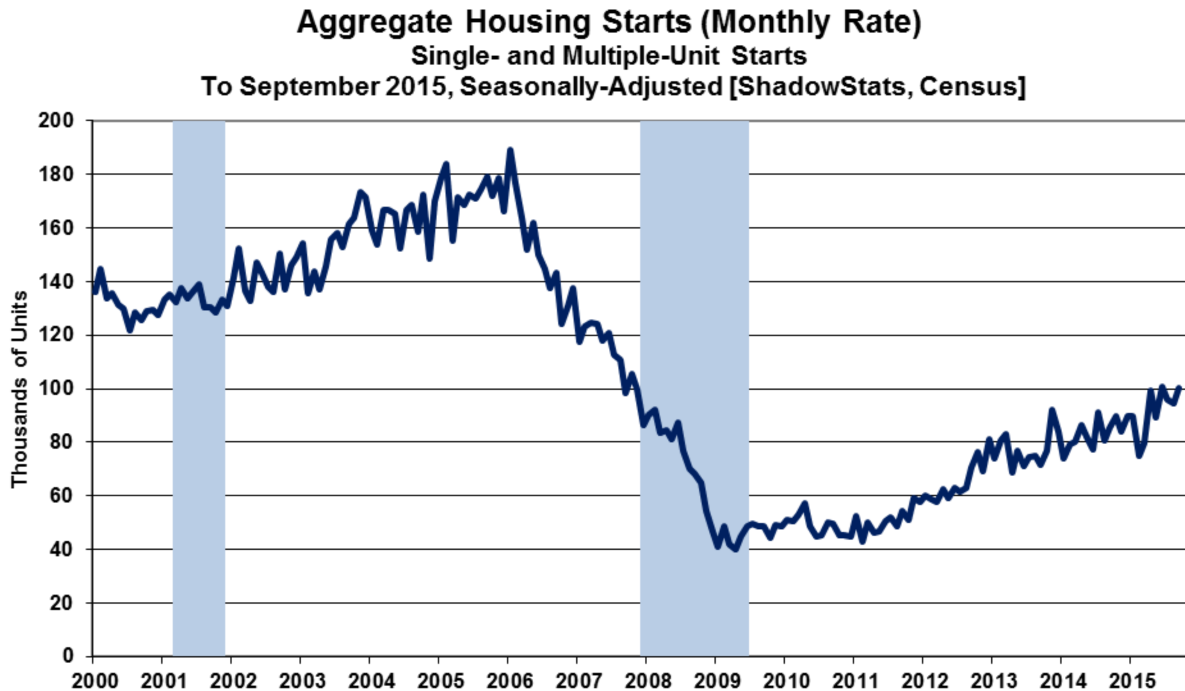
Graph 10: Single Unit Housing Starts – Six-Month Moving Average



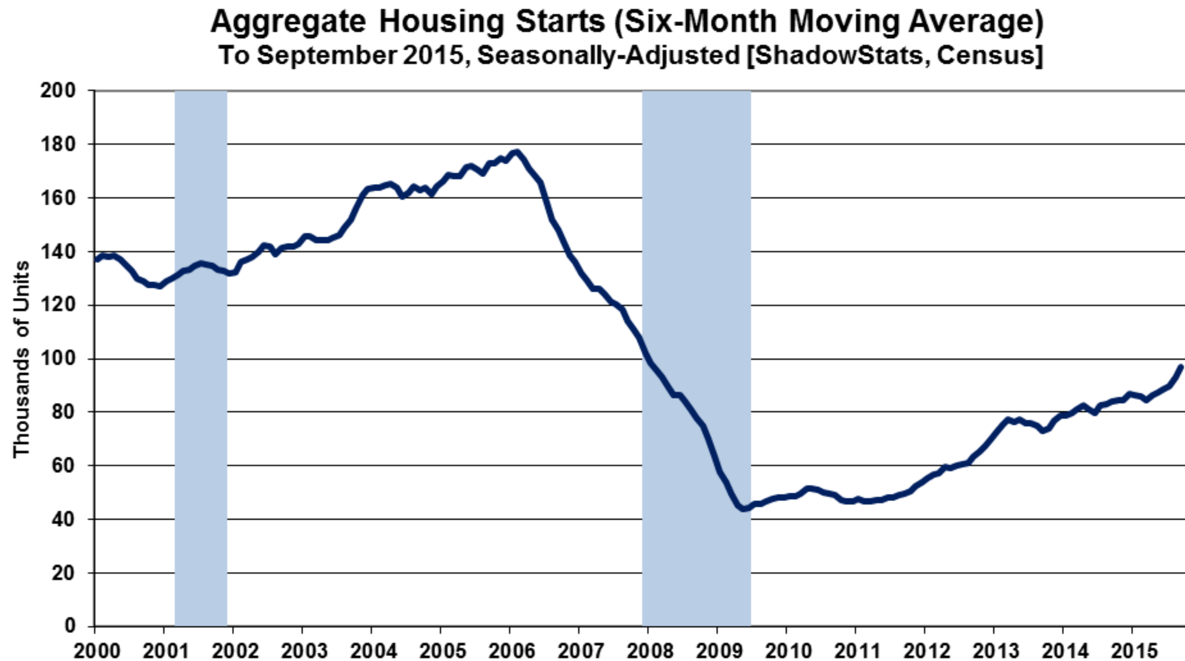
Graph 11: Existing-Home Sales – Monthly Level



Graph 12: Total Housing Starts – Monthly Level



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



Consumer Conditions Updated for September Median Household Income and October Confidence. The primary, underlying difficulty for new-and existing home sales 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.

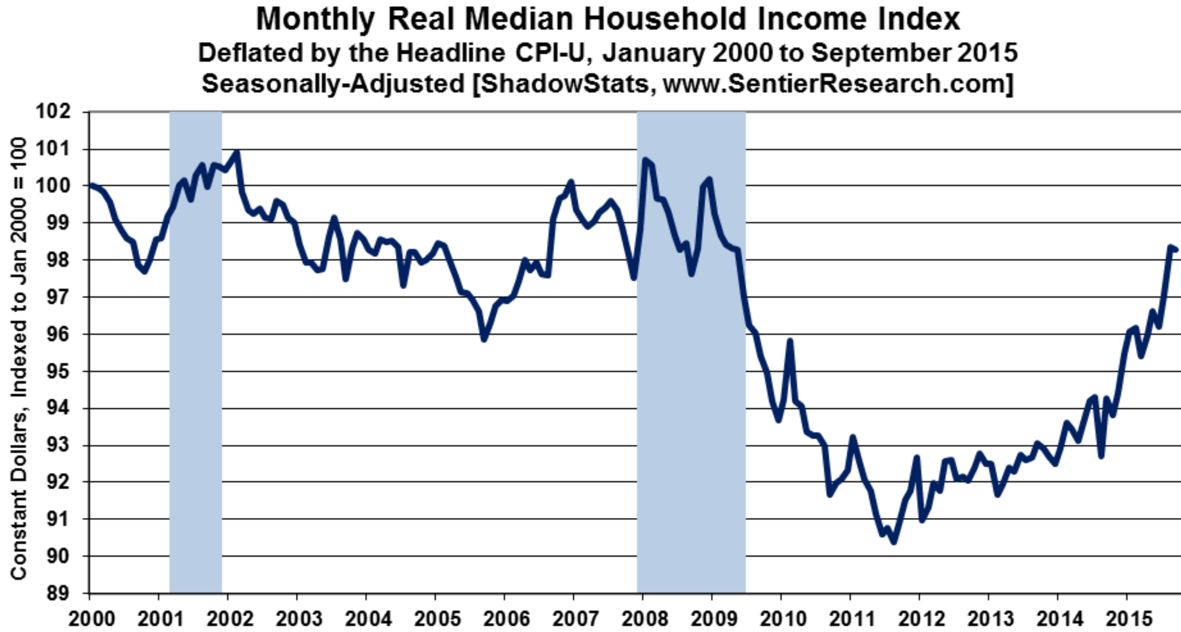
Consumer conditions and liquidity issues, discussed fully in *Commentary No. 758*, with brief updates in *Commentary No. 759* (real earnings) and *Commentary No. 760*, are updated further here for the September 2015 detail on monthly real median household income this morning's (October 27th) reporting of October Consumer Confidence by the Conference Board.

Graph 14 of Monthly Real Median Household Income has been updated through September 2015 from detail provided by www.SentierResearch.com. The September index reading showed something of a topping pattern—minor decline—in the context of upside revisions to the July and August readings, which had been understated due to a keying error. That said, the income series had been in low-level stagnation, with the recent uptrend boosted by dropping gasoline prices. Where negative inflation boosts the level of real growth relative to nominal growth, much of the recent relative "strength" in the series largely reflected temporary, gasoline-price-driven headline month-to-month contractions in CPI-U reporting, and flat-to-minus annual inflation. Where lower gasoline prices have provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally has been used to pay down unsustainable debt, not to fuel new consumption.

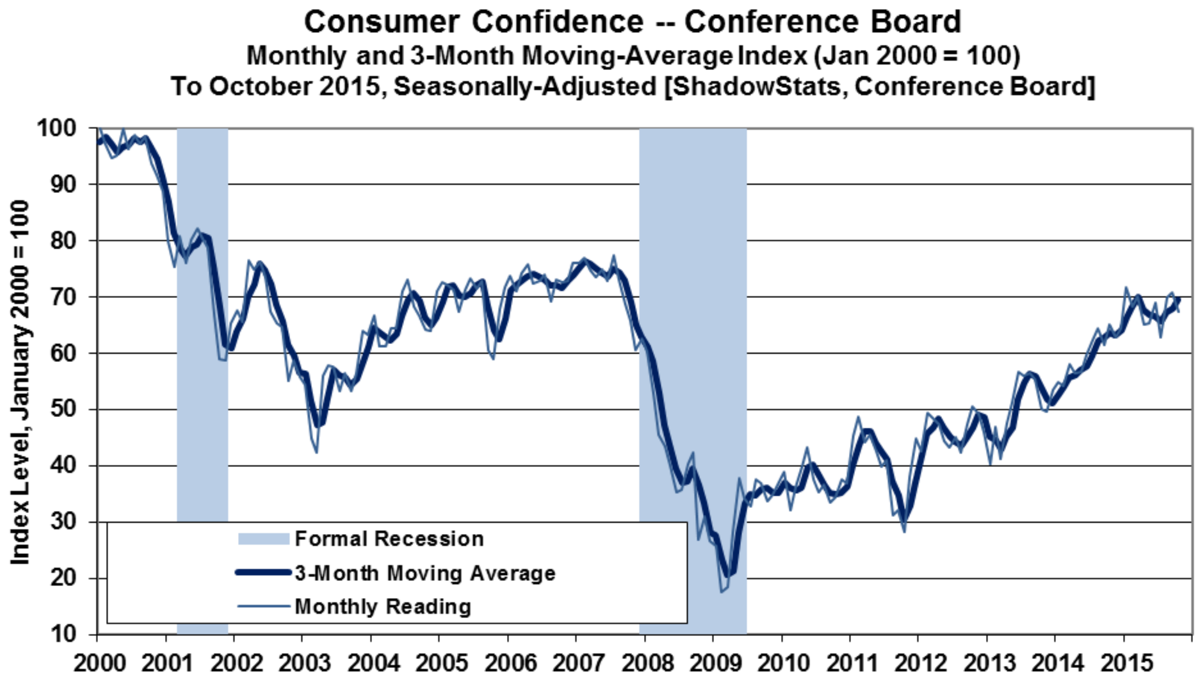
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. The August 2015 reading had

recovered the lowest level seen during the formal recession, but it remains below the pre-recession highs for both the formal 2007 and 2001 recessions.

Graph 14: Monthly Real Median Household Income



Graph 15: Monthly Consumer Confidence



Shown in *Graph 15*, the Conference Board's Consumer Confidence measure for October plunged month-to-month versus a downwardly revised September reading. The three-month moving-average, however,

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notched higher. The Confidence series tends to mimic the tone of headline economic reporting in the press, and often is highly volatile month-to-month, as a result. With increasingly-negative, headline financial and economic reporting and circumstances ahead, successive negative hits to the Confidence and the somewhat parallel Consumer Sentiment readings remain highly likely in the months ahead.

Without meaningful 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 new- and existing home sales, 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.

See *Commentary No. 758* for more complete detail. A fully updated review of consumer conditions, including more-in-depth detail on the September Median Household Income and the October Consumer Confidence numbers and Consumer Sentiment numbers will follow in the employment *Commentary No. 765* of November 6th.

[The* Reporting Detail *section includes some expanded detail of September 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. This *Summary* has not been changed since *Commentary No. 754* of September 24th, other than for updated internal references or links and for minor language corrections.

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 *Commentary No. 754*). 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 of *Commentary No. 756*).

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 and September, there has been some easing of the dollar's strength in October (see *Commentary No. 759*). 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*, *Commentary No. 751* and *Commentary No. 755*), 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 *Commentary No. 758*, the reporting of September real earnings in *Commentary No. 759* today's *Opening Comments*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle (see *Opening Comments* of *No. 756*).

- ***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 (see *Opening Comments* of *No. 756*).

- ***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 for 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 (September 2015)

Amidst Continuing Annual Contractions, the Monthly Decline in September Orders Was Minimized by Revisions. The headline decline of 1.2% (-1.2%) in September 2015 new orders for durable goods was more than accounted for by a 35.7% drop in commercial aircraft orders, yet the aggregate headline decline for September orders also was muted by a downside revision to previously-reported August activity. Against the initial August reporting, the headline level of September orders was down by 2.2% (-2.2%) for the month. Ex-commercial aircraft orders, headline September orders rose by 1.0%, but orders ex-commercial aircraft were unchanged for the month, net of prior-period revisions.

Nonetheless, the headline decline in September 2015 orders remained within the normal bounds of volatility in this highly-irregular series. All factors considered, the broad signal for unfolding U.S.

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economic activity remained sharply negative, with the summary statistics still signaling a deepening and ongoing recession. Irrespective of adjustments for commercial-aircraft orders and/or inflation, new orders contracted year-to-year for the eighth-straight month. Such a protracted pattern of annual contraction has not been seen since the formal economic collapse into 2008 and 2009.

Quarterly Growth. Annualized quarterly declines in real new orders (ex-commercial aircraft) were 5.58% (-5.58%) in fourth-quarter 2014, and 7.73% (-7.73%) in first-quarter 2015. Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted (see *Commentary No. 760*).

Annualized real change for second-quarter 2015 orders was a revised gain of 2.10%, while the pace of annualized growth for third-quarter activity, based on initial full reporting was 10.24% [previously estimated based just on July and August was 11.82%, based just on the initial July reporting was 14.25%]. The quarterly gains here were due partially to continued, highly-suspect, negative durable goods inflation in the PPI reporting.

Following a quarter later than the second-quarter durable goods, initial third-quarter industrial production rose at an annualized quarterly pace of 1.85%, with year-to-year change falling to a post-economic collapse low level of 0.93%.

On a nominal basis (before inflation adjustment), third-quarter 2015 growth—again, ex-commercial aircraft— was up at an annualized pace of 8.32%, following second-quarter 2015 unrevised annualized quarterly growth of 0.57%, versus an unrevised annualized contraction of 7.29% (-7.29%) in first-quarter 2015, and a decline of 4.36% (-4.36%) in fourth-quarter 2014.

Headline Nominal (Not-Adjusted-for-Inflation) September 2015 Reporting. The Census Bureau reported today, October 27th, that the regularly-volatile, seasonally-adjusted, nominal level of September 2015 new orders for durable goods fell month-to-month by a headline 1.22% (-1.22%), following a revised, deeper monthly August contraction of 2.95% (-2.95%) [previously down by 2.01% (-2.01%)] and a revised July gain of 1.87% [previously up by 1.92%, initially up by 1.95%]. Net of the revisions to August, aggregate new orders fell by 2.22% (-2.22%) in September.

The year-to-year decline in September 2015 durable goods orders was 2.99% (-2.99%), versus revised annual contractions of 3.25% (-3.25%) [previously down by 2.26% (-2.26%)] in August 2015 and 19.62% (-19.62%) [previously down by 19.58% (-19.58%), initially down by 19.60% (-19.60%)] in July 2015, all seasonally adjusted.

Both before and after consideration of volatility in commercial-aircraft orders, headline changes in September durable goods orders were minimal. Again, they remained well within the normal reporting variations of this highly unstable series and were consistent with a continuing pattern of broad 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. The corrected series—net of commercial aircraft orders—has remained relatively flat, at a low level of stagnation, with the other plotted series showing an unfolding downturn of a nature that usually precedes or coincides with a recession or a deepening business downturn.

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, as happened with the headline September 2015 detail. 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 35.66% (-35.66%) in September 2015 commercial aircraft orders, aggregate new orders rose by 1.02%. Net of a deeper, revised decline of 11.22% (-11.22%) [previously down by 5.90% (-5.90%)] in commercial aircraft orders, aggregate new orders fell by a revised 2.36% (-2.36%) [previously down by 1.73% (-1.73%)] in August. Net of a revised July decline of 8.64% (-8.64%) [previously down by 8.65% (-8.65%), initially down by 5.98% (-5.98%)] in commercial aircraft orders, aggregate new orders rose by a revised 2.72% [previously up by 2.77%, initially up by 2.59%].

Year-to-year and seasonally-adjusted, September 2015 orders (net of commercial aircraft) were down by 0.75% (-0.75%), versus a revised decline of 1.64% (-1.64%) [previously down by 0.95% (-0.95%)] in August 2015 and a revised annual decline of 0.22% (-0.22%) [previously down by 0.16% (-0.16%), initially down by 0.39% (-0.39%)] in July 2015.

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

Adjusted for that monthly decline of 0.06% (-0.06%) in headline September 2015 inflation, and as reflected in the graphs in the *Opening Comments* section, real month-to-month aggregate orders fell by 1.16% (-1.16%) in September, following a revised contraction of 2.72% (-2.72%) in August, and a revised 2.00% gain in July. Ex-commercial aircraft, monthly real orders were up by 1.08% in September 2015, versus a revised decline of 2.36% (-2.36%) in August and a revised 2.72% gain in July.

Real year-to-year aggregate orders fell by 2.58% (-2.58%) in September 2015, following revised declines of 2.78% (-2.78%) in August 2015 and 19.47% (-19.47%) in July 2015. Ex-commercial aircraft, real orders declined year-to-year by 0.27% (-0.27%) in September 2015, following a revised decline of 1.16% (-1.16%) in August 2015, and an "unchanged" reading, revised to down by 0.04% (-0.04%) in July 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 smoothed bounce-back in the most recent months.

The second set of graphs (*Graphs 3* to *4*) shows the patterns of six-month moving averages of historical, headline real new orders for durable goods, net of official inflation, as well as that pattern "corrected" for the understatement of that inflation (and for the related overstatement of official, inflation-adjusted growth). The third set of graphs (*Graphs 5* to *6*) shows the same patterns, but for the aggregate durable goods series, net of commercial aircraft orders.

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 July 2015 inconsistent with the current headline numbers.

NEW-HOME SALES (September 2015)

Down-Trending Low-Level Stagnation in New-Home Sales, Amidst Unstable Headline Reporting and Revisions. The volatile reporting of monthly and annual changes in September 2015 new-home sales activity was not statistically significant, as usual. In the context of major downside revisions to previously-reported August and July sales, and a minor upside revision to June, headline September activity still fell by 11.5% (-11.5%), with year-to-year annual growth slowing to 2.0%, from a downwardly revised annual gain of 16.5% [previously 21.5%] in August 2015.

The otherwise meaningless headline reporting came in below generally flat-to-minus consensus expectations. Versus initial August reporting, the monthly September decline was 15.2% (-15.2%), instead of the headline drop of 11.5% (-11.5%). While against prior reporting, the monthly decline would have been statistically significant, again, none of the headline month-to-month or year-to-year was significant.

Where the unstable reporting of a headline annualized sales level of 468,000 units (39,000 monthly rate as used in the graphs) in September was the weakest since November 2014, it also was down by 66% (-66%) 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, albeit now down-trending stagnation, were the trend had been flat as of the August 2015 headline reporting.

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 September 2015 headline-monthly and smoothed detail for new-home sales, as well as comparative graphs of single-unit housing starts and 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 September 2015 new-home sales activity still was down by 66.3% (-66.3%) from its pre-recession peak of July 2005, while September 2015 single-unit housing starts were down by 59.4.% (-59.4%) from the January 2006 high of that series.

Updated anew in the *Opening Comments* section, 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 September 2015 Reporting. Reported by the Census Bureau yesterday morning, October 26th, September 2015, new-home sales (counted based on contract signings) plunged for the month, in the

context of heavy downside revisions to July and August activity. Headline September sales fell by a statistically-insignificant 11.5% +/- 13.2% (all confidence intervals are at the 95% level). That followed a downwardly revised monthly gain of 5.2% [previously up by 5.7%] in August, a downwardly devised monthly gain of 7.2% [previously up by 12.0%, initially up by 5.4%] in July, and a revised, narrowed monthly decline of 8.6% (-8.6%) [previously down 9.2% (-9.2%), down by 7.7% (-7.7%) and initially down by 6.8% (-6.8%)] in June. Net of prior-period revisions, September 2015 monthly sales fell by a statistically-significant 15.2% (-15.2%), instead of by the headline 11.5% (-11.5%).

Year-to-year, September 2015 sales increased by a statistically-insignificant 2.0% +/- 20.9%. That followed a downwardly revised annual gain of 16.5% [previously up by 21.6%] in August 2015, a downwardly revised 24.8% [previously up by 29.5%, initially up by 25.8%] in July 2015, and an upwardly revised 15.0% [previously up by 14.2%, up by 17.9% and initially up by 18.1%] in June 2015.

In the arena of continued 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 decline of 14.8% (-14.8%) [previously down by 15.5% (-15.5%), down by 10.2% (-10.2%) and initially down by 7.3% (-7.3%)]. Based on initial full headline reporting for third-quarter 2015, activity rose at an annualized a pace of 2.7%. Based solely on initial 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. Also included for comparison are parallel graphs of the headline and six-month moving-average versions of September 2015 housing starts for single-unit construction, from *Commentary No. 761* (see *Graphs 7* to *10*).

EXISTING-HOME SALES (September 2015)

Existing-Home Sales Rose by 4.7% in September, Still Down 23.7% (-23.7%) from Pre-Recession Peak. In the context of the fourth consecutive downside revision to the prior month's initial reporting of sales activity, September 2015 existing-home sales rose by 4.7% in the month, to an annualized 5,550,000 million units, or 462,500 units at a monthly pace as reflected in the ShadowStats graph. That still was off the July 2015 near-term peak for the series, and it remained down by 23.7% (-23.7%) from the June 2005 pre-recession sales peak. In contrast, the September 2015 headline aggregate monthly housing starts remained down by 46.9% (-46.9%) versus its January 2006 pre-recession peak.

First-quarter 2015 showed an annualized quarterly contraction of 6.7% (-6.7%) in existing sales, with the second-quarter 2015 pace of annualized growth at 28.7%. Based on the initial July-to-September detail, third-quarter activity rose at a somewhat slower annualized pace of 14.3%. Based on just July and August reporting, annualized third-quarter growth had been on track for 11.7%, versus 24.1% based solely on the initial reporting for July.

Headline Detail for September 2015 Existing-Home Sales. The October 22nd release of September 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR])

showed a seasonally-adjusted, headline monthly gain of 4.7%, following a negatively-revised, monthly drop of 5.0% (-5.0%) [previously down by 4.8% (-4.8%)] in August. The headline month-to-month gain was 4.5% in September, net of prior-period revisions.

On a year-to-year basis, September sales growth picked up to 8.2%, from a downwardly revised pace of 6.0% [previously 6.2%] annual growth in August 2015.

The headline September 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.

Foreclosures and All-Cash Sales Notched Higher in September. Although just off the lows of the series first surveyed by the National Association of Realtors in October 2008—in the midst of the housing collapse—the portion of September 2015 existing-home sales in foreclosure notched higher to 6% from 5% in August. In conjunction with the portion of all-cash sales rising to 24% in September, from 22% in August the shifts here possibly may be signaling a renewed tightening in consumer liquidity conditions.

The NAR estimated that the portion of September sales in "distress" were at the same aggregate percentage level as in August, but with homes in foreclosure notching higher, as noted earlier, with short sales notching lower. September 2015 "distressed sales" held at 7% (6% foreclosures, 1% short sales) versus August 2015 distressed sales at 7% (5% foreclosures, 2% short sales), and down from September 2014 levels of 10% (7% foreclosures, 3% short sales). The portion of September 2015 sales in both forms of distress held for the third month at the lowest reading since the NAR began surveying such numbers in October 2008.

Again, 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 September 2015 rose to 24% of total activity, versus 22% in August 2015 and was unchanged from 24% in September 2014.

Updated anew the *Opening Comments* section, and as discussed fully in *Commentary No. 758*, with brief updates in *Commentary No. 759* (real earnings) and *Commentary No. 760*, 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 September 2015 aggregate housing starts activity from *Commentary No. 761*. 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, albeit at an accelerating pace.

Headline reporting of the regular monthly economic numbers increasingly should continue turning lower in the weeks and months ahead, along with likely downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GNP) into 2016, including Thursday's initial detail for third-quarter 2015 GDP.

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 August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. Gasoline prices appear to be bottoming out again, with a combination of temporarily-stable gasoline prices and related, positive seasonal adjustments likely to spike headline October 2015 CPI-U.

Meaningful upside inflation pressures should mount anew, once oil prices begin to rebound. Again, that process eventually should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those 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 are covered 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)—Third-Quarter 2015, First or "Advance" Estimate.** The Bureau of Economic Analysis (BEA) will publish its first estimate of third-quarter 2015 GDP on Thursday, October 29th. The pace of annualized quarterly real growth should drop sharply from the 3.9% headline gain currently estimated for second-quarter 2015 GDP. Consensus estimates for third-quarter activity appear to be settling in around pus-or-minus 2.0%, trending somewhat lower, at least as things stand before tomorrow's "advance" estimate of the September merchandise trade deficit. A much weaker-than-consensus headline GDP number is likely, below 1.0%, possibly closing in on zero—perhaps 0.5%—in this first third-quarter estimate.

Noted in the *Opening Comments*, stories continue to surface of downside revisions to various forecasts of third-quarter GDP growth. Well below consensus, for example, the Atlanta Fed model growth estimate just revised to 0.8% [previously 0.9%], reflecting detail from the durable goods orders report.

Discussed in the *Opening Comments* of *Commentary No. 761*, the BEA tends to target the consensus outlook with its "advance" GDP estimates, but it has brought in lower or higher numbers, respectively, if the consensus outlook was deemed to be markedly too high or too low.

That said, quite possibly showing a much-greater-than-anticipated tumble, again, the headline GDP number should come in below 1.0%—it could approach zero—limited only by the BEA's positioning versus consensus expectations. Near-zero growth could come from late-breaking September trade-deficit detail, which is a good bet to show an accelerated pace of deficit deterioration. From the BEA's standpoint, though, initial headline reporting of a quarterly GDP contraction is not likely, until after consensus expectations already have moved there.

The "advance" estimate of September merchandise-trade activity is scheduled for tomorrow, Wednesday, October 28th, the day before the GDP estimate. That trade detail will be incorporated into the GDP number, where this "advance" trade detail specifically was designed to improve the headline reporting quality of the BEA's initial guess at a given quarter's GDP activity. A shock in the headline trade numbers likely would move both the financial markets and late-expectations for the GDP reporting.

Where headline details and market impact will follow immediately upon the release of the "advance" trade report, any numbers of interest there will be covered by ShadowStats, along with the GDP release, in Thursday's October 29th *Commentary No.763*, and as related to the pending full September trade detail in *Commentary No. 764* of November 4th.

Separately, alternative details to the most-heavily gimmicked Gross Domestic Product (GDP), from third-quarter Gross Domestic Income (GDI) and Gross National Product (GNP), will not be published by the BEA until November 24th.

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