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

COMMENTARY NUMBER 835
August 2016 New Orders for Durable Goods, New- and Existing-Home Sales, FOMC

September 28, 2016

FOMC Rate-Hike Canard Remained Consistent with Dollar and Gold-Market Manipulations and a Post-Election Crisis that Could Revive Quantitative Easing

Economic Activity Remains far from Recovery

Third-Quarter Durable Goods Orders on Track for Year-to-Year Decline, Both Before and After Adjustment for Inflation and Commercial Aircraft

August Home Sales (New and Existing) Declined in the Month, Amidst Unstable Reporting, with Smoothed Activity Continuing in Broad, Non-Recovering Stagnation

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PLEASE NOTE: The next regular Commentary, *scheduled for tomorrow, Thursday, September 29th, will cover the third estimate, second revision to second-quarter 2016 GDP, along with an update to Consumer Conditions.*

Best wishes to all — John Williams

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OPENING COMMENTS AND EXECUTIVE SUMMARY

Despite All the Huffing and Puffing, the FOMC Did Not Come Close to Raising Rates. The announcement out of the Federal Reserve's September 2016 Federal Open Market Committee (FOMC) meeting was for no rate hike. The underlying story changed little from prior announcements, along with platitudes as to how the economy and inflation were moving, or expected to move, in the desired directions. That was despite the downgrading of the Fed's economic expectations, which consistently—but very slowly—have been moving in the direction of a non-recovered and increasingly-faltering economic reality.

What nonsense the U.S. central bank has been putting out to manipulate various markets! Consider the following from *Commentary No. 827* of August 25th:

> **Shame on You Fed Spokespeople for Mercilessly Playing with the Markets!** The Federal Reserve's Federal Open Market Committee (FOMC) can and will raise interest rates whenever it wishes to do so; it does not have to pre-announce any action or even hint at it. Accordingly, all the current prattle is just hype and deliberate jawboning aimed at influencing the financial markets.
>
> Will the FOMC raise rates in the future? Assuming the Federal Reserve Board survives likely near-term political, economic and systemic turmoil, most assuredly it will. My betting, though, is that in tomorrow's (August 26th) speech, Fed Chair Janet Yellen will not sign on to current market hype for an imminent rate increase [she did not], although anything is possible. Even with a shift in her language, no near-term rate hike would be assured. Again, what is afoot is another round of games-playing with the markets.
>
> Immediate rate action coming out of either of the FOMC-meetings ending on September 21st or November 2nd remains highly unlikely. It would be neither politic nor traditional to raise interest rates less than two months ahead of the November 8th presidential election. That leaves the December 14th FOMC press-release date for a more-likely near-term rate hike, if there were to be one. As usual, though, intervening economic data are highly likely to show deteriorating, not recovering conditions.
>
> Despite the rhetoric, faux claims of accelerating U.S. economic recovery have nothing to do with raising rates, other than providing some political cover. Driving the Fed's quantitative easing programs was not the downturn in U.S. economic activity. Yet, the Fed's "addressing" that collapsing economy became the primary political cover for the extraordinary liquidity provided to the banking system, the U.S. Treasury and to the financial markets (see basic background discussion in *No. 777 Year-End Special Commentary*).
>
> Having tied their monetary easings to the weak economy and lack of inflation, Fed officials mercilessly have jawboned faux "pending" rate hikes in recent years as a way of manipulating markets and propping the dollar. Promised rate hikes usually evaporated, as the still-faltering economy never recovered. The number of false official signals has become almost countless. In fairness to the peasants—in the *Little Boy Who Cried Wolf*—they did give the boy one more chance after his first false cry for help, but not another one, not once he cried "wolf" again. The markets have been suffering this nonsense from various Fed officials in regularly-repeating cycles.

So, the FOMC cried "wolf" once again. The big problem remains that the U.S. economy is not recovering and expanding as advertised. The nonsense being spewed out of the central bank likely is cover for an unfolding disaster that looms post-election. From *Commentary No. 834* of September 20th:

> **U.S. Dollar—Faltering Economic Activity Continues Not to Favor A Rate Hike.** Headline detail in the reporting of August nonresidential construction turned back to the downside, while the August Cass Freight Index™ continued in annual contraction and otherwise reflected deteriorating North American freight activity. Those numbers followed on top of increasingly-negative headline industrial production and real retail sales published on September 15th (*Commentary No. 832*). If tomorrow's (September 21st) announcement from the Federal Open Market Committee (FOMC) is for a rate hike, it will not be due to any legitimate fear of an overheating U.S. economy (see the *Hyperinflation Watch* discussion in *Commentary No. 833*).
>
> If rates are hiked, that effectively would be on the 29th anniversary of novice Federal Reserve Chairman Alan Greenspan hiking interest rates in September 1987, in an effort to prop the U.S. dollar. When the stock market crashed the next month, in October 1987, the Fed abandoned the dollar in a concerted effort to prop the stock market. Circumstances shift over time, but the guiding principles appear to remain very much in play. Given a choice between maintaining a stronger dollar, propped by higher rates, or attempting to salvage collapsing equity prices, the U.S. financial system will opt for propping the stock market every time. Such helps to doom the system eventually to expanded-quantitative easing after the election, irrespective of any near-term rate hikes, and irrespective of any fears as to the horrendous inflation problems suggested by that circumstance. The ultimate hedge and asset/wealth protection remains to buy and to hold physical gold and silver.

It is the banking system, sovereign solvency and propping the stock market that likely will drive post-election FOMC actions, and the needs there all favor, and increasingly will favor an expansion of quantitative easing, at cost of the purchasing power of the U.S. dollar at home and abroad.

As a separate matter, look at *Graphs 7* and *8*, later in these *Opening Comments* as indicators of underlying reality in the U.S. economy.

Today's *Commentary* (September 28th). These *Opening Comments* cover the regular monthly summary of August New Orders for Durable Goods and New- and Existing Home Sales, with extended information in the *Reporting Detail*.

The *Week and Month Ahead* updates the review of tomorrow's (September 29th) release on third estimate of third-quarter 2016 GDP.

New Orders for Durable Goods—August 2016—Third-Quarter on Track for Annual Contractions, Both Before and After Consideration of Inflation and Commercial Aircraft. In the context of a 21.90% (-21.90%) monthly plunge in August commercial aircraft orders and downside revisions to June and July aggregate orders, August new orders for durable goods declined by 0.04% (-0.04%) for the month and by 1.27% (-1.27%) year-to-year. Excluding commercial aircraft, new orders gained 1.12% for the month and 1.36% year-to-year. Net of "unchanged" headline monthly inflation, respective monthly real changes in August were the same as the nominal numbers. Smoothed with six-month moving averages, both of the highly volatile, inflation-adjusted real total and ex-commercial aircraft series remained in non-recovering, low-level, down-trending stagnation. Those patterns remained consistent in signaling an ongoing and deepening "new" recession (see *Graphs 3* to *6* and related discussion).

With two out of three months in place, third-quarter orders—both aggregate and net of commercial aircraft—were on track for year-to-year contractions, in nominal as well as in inflation-adjusted real terms. Annual activity in second-quarter 2016 orders also remained negative on all fronts, except for a revised 0.14% real annual gain in the ex-commercial aircraft category, with that gain due to highly-suspect, negative annual inflation in related PPI reporting (see *Real Durable Goods Orders* in the *Reporting Detail*). Activity here remained an increasingly meaningful, negative leading indicator for both the third- and fourth-quarters of industrial production, a series that otherwise has remained in definitive recession since December 2014 (see *Commentary No. 832*).

Headline Nominal Durable Goods Orders Detail. The regularly-volatile, seasonally-adjusted, nominal level of August 2016 new orders for durable goods declined by a headline 0.04% (-0.04%) month-to-month, versus a downwardly revised monthly gain of 3.64% in July, and a deeper, revised decline of 4.27% (-4.27%) in June. Net of prior-period revisions, August 2016 orders dropped by 0.86% (-0.86%) for the month, instead of the headline decline of 0.04% (-0.04%).

Year-to-year, August 2016 durable goods orders declined by 1.27% (-1.27%), having fallen by a revised, deeper 4.06% (-4.06%) in July 2016, and a revised, deeper annual decline of 6.67% (-6.67%) in June 2016. These headline details, again, were before consideration of volatility in commercial-aircraft orders.

Irrespective of commercial-aircraft volatility and monthly irregularities in the headline reporting of new orders, the smoothed trends of broad activity continued to be down-trending, consistent with a downturn in what has been a continuing pattern of broad stagnation, as reviewed shortly.

Detail Net of Volatility in Commercial-Aircraft Orders. The reporting of extreme contractions and surges in commercial-aircraft orders is seen in an irregularly-repeating process throughout the year, and that 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. In the current circumstance, a sharp monthly decline in August commercial aircraft orders depressed the aggregate orders into a monthly decline of 0.04% (-0.04%), from what otherwise was a gain of 1.12%.

Net of a headline monthly decline of 21.90% (-21.90%) in August 2016 commercial aircraft orders, a downwardly revised gain of 73.66% in July 2016 and a minimally-revised decline of 59.67% (-59.67%) in June 2016, new orders gained month-to-month by 1.12% in August 2016, 1.46% in July 2016 and declined by 0.01% (-0.01%) in June 2016. Year-to-year and seasonally-adjusted, August 2016 new orders (net of commercial aircraft) rose by 1.36%, having declined by a deeper 2.36% (-2.36%) in July 2016 and a deeper 2.34% (-2.34%) in June 2016.

Real Durable Goods Orders—August 2016. ShadowStats uses the PPI component inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Specific inflation data are reviewed in the *Reporting Detail*.

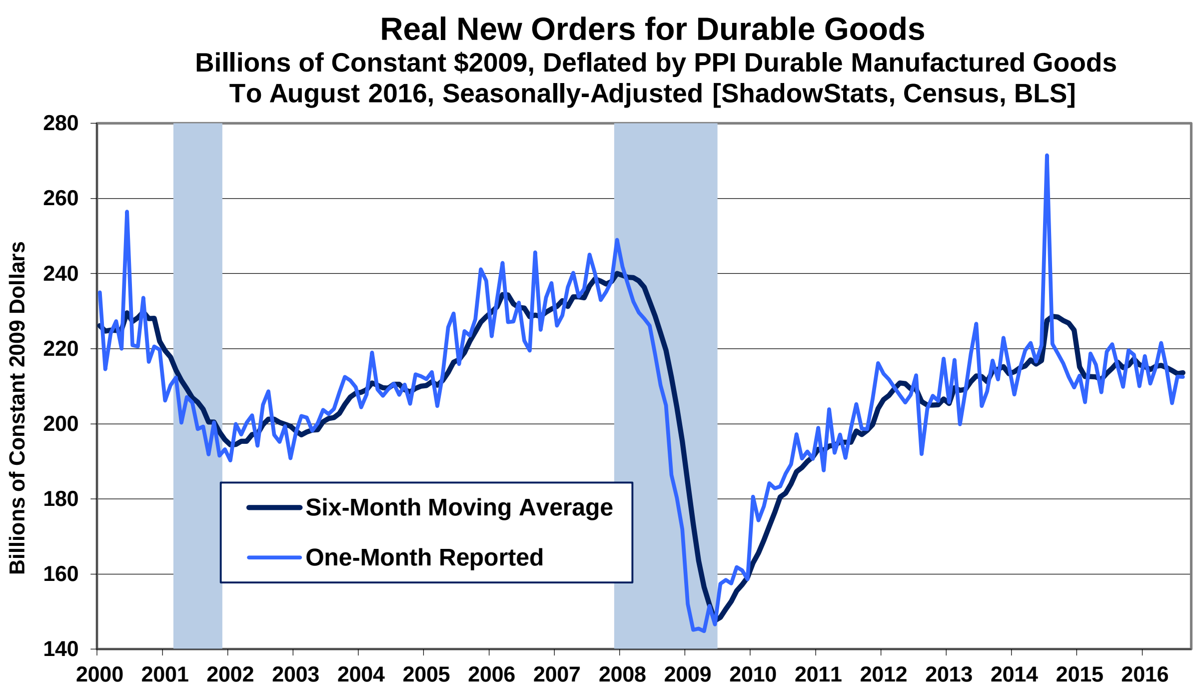
Adjusted for headline unchanged (0.00%) August 2016 inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders in August 2016 declined by 0.04% (-0.04%) and rose by 3.45% in July 2016, having declined by 4.27% (-4.27%) in June. Ex-commercial aircraft, real month-to-month orders rose by 1.12% in August, by 1.28% in July and declined by 0.01% (-0.01%) in June.

Real aggregate new orders fell year-to-year by 1.33% (-1.33%) in August 2016, by 3.89% (-3.89%) in July 2016 and by 6.27% (-6.27%) in June 2016. Ex-commercial aircraft, real orders in August 2016 showed an annual gain of 1.30%, versus annual declines in July 2016 of 2.18% (-2.18%) and in June 2016 of 1.93% (-1.93%). Annual real changes here were boosted by negative year-to-year headline inflation in June and July.

Real Quarterly Growth, Ex-Commercial Aircraft. Where the inflation-adjusted series, ex-commercial aircraft, is the best leading economic indicator out of these data, following are the annualized real quarterly changes in that series. Beginning at the onset of eventually what should become recognized as a formal recession, the real ex-commercial aircraft orders series showed annualized quarterly declines of 4.44% (-4.44%) in fourth-quarter 2014, and 5.54% (-5.54%) in first-quarter 2015. Annualized real change for second-quarter 2015 was a gain of 3.31%, a gain of 4.52% in third-quarter activity, a gain of 0.31% in fourth-quarter 2015 activity, and a 0.48% gain in first-quarter 2016.

In second-quarter 2016, the series showed a revised, deeper real contraction of 4.53% (-4.53%). Based just on the July and August 2016 detail, the third-quarter 2016 annualized change was in an early trend for a gain of 3.41%.

Graph 1: Real Total New Orders for Durable Goods to Date



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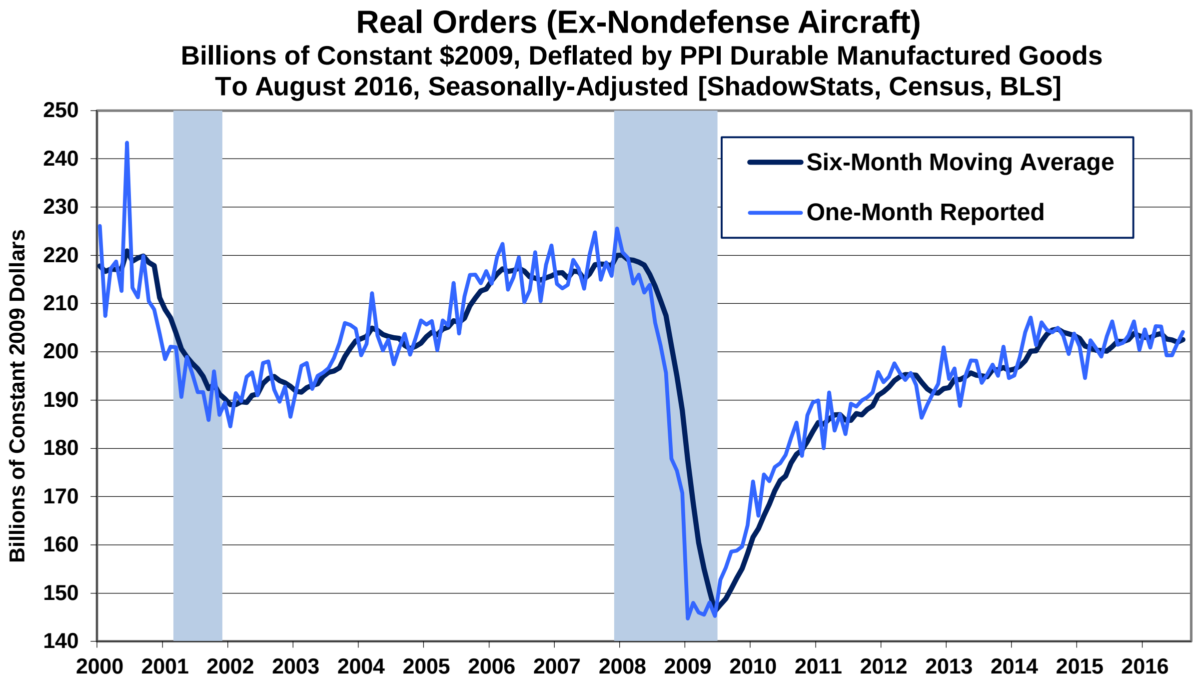
Graph 2: Real New Orders for Durable Goods – Ex Commercial-Aircraft Orders to Date



Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. The preceding *Graphs 1* and *2* show 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 after an uptick in mid-2015—some smoothed bounce-back—the smoothed trend turned down anew into late fourth-quarter 2015 and, with minor fluttering, into third-quarter 2016. With two months of hard detail, again, third-quarter orders are on track for annual declines in both series, both before and after adjustment for inflation.

Broadly, there has been a general pattern in recent years of stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery seen in official GDP reporting. The real (inflation-adjusted) monthly and six-month moving-average level of new orders in August 2016 remained below both the pre-2007 recession high, as well as the pre-2000 recession high for the series. The pattern of low-level stagnation and fluctuating trend in the annual inflation-adjusted series since mid-2014—net of the irregular aircraft-order effects—again is one that usually precedes and/or coincides with a recession, as is the current circumstance.

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

As done for other series such as the GDP, real retail sales and industrial production (see *Commentary No. 828*, *Commentary No. 832* and *Commentary No. 833*), 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.

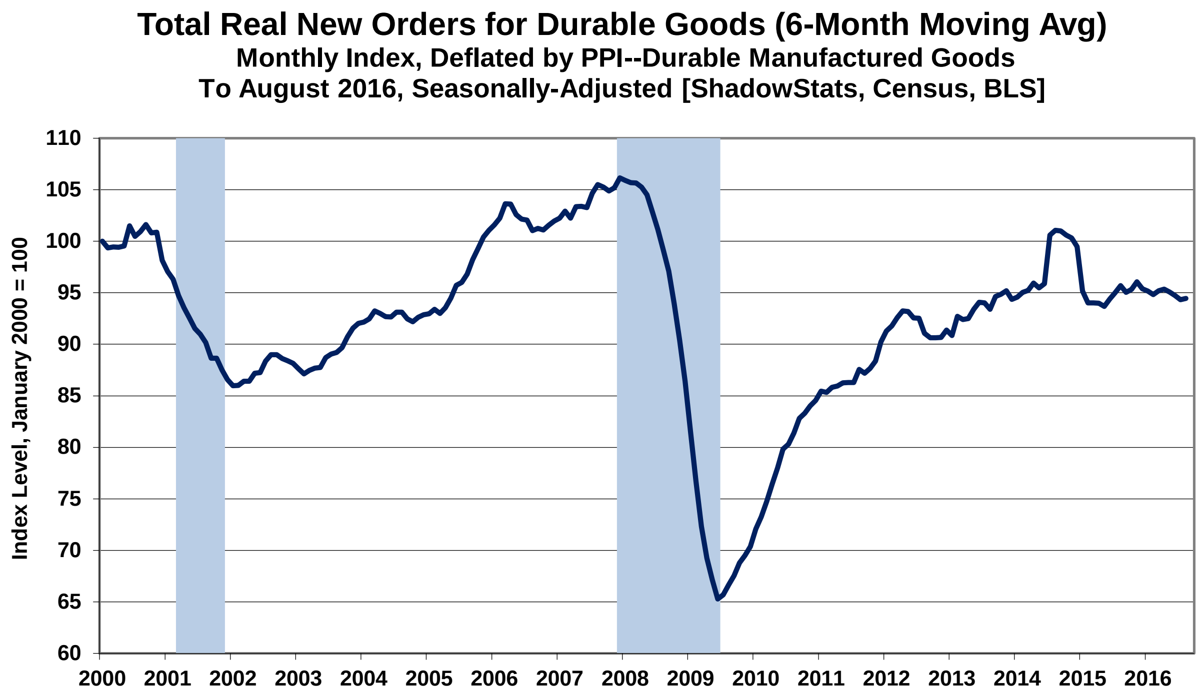
Three sets of graphs follow, including an independent graph that tends to confirm underlying economic reality. The first set (*Graph 3* and *Graph 4*) shows the aggregate series or total durable goods orders; the second set (*Graph 5* and *Graph 6*) shows the ex-commercial aircraft series. The third set (*Graph 7* and *Graph 8*) shows a twelve-month moving average of the ex-commercial aircraft series and the CASS Freight Index™ on something of a similar basis.

The aggregate orders series in *Graphs 3* and *4* includes the monthly 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. Again, *Graphs 5* and *6* are shown net of the volatile commercial aircraft orders.

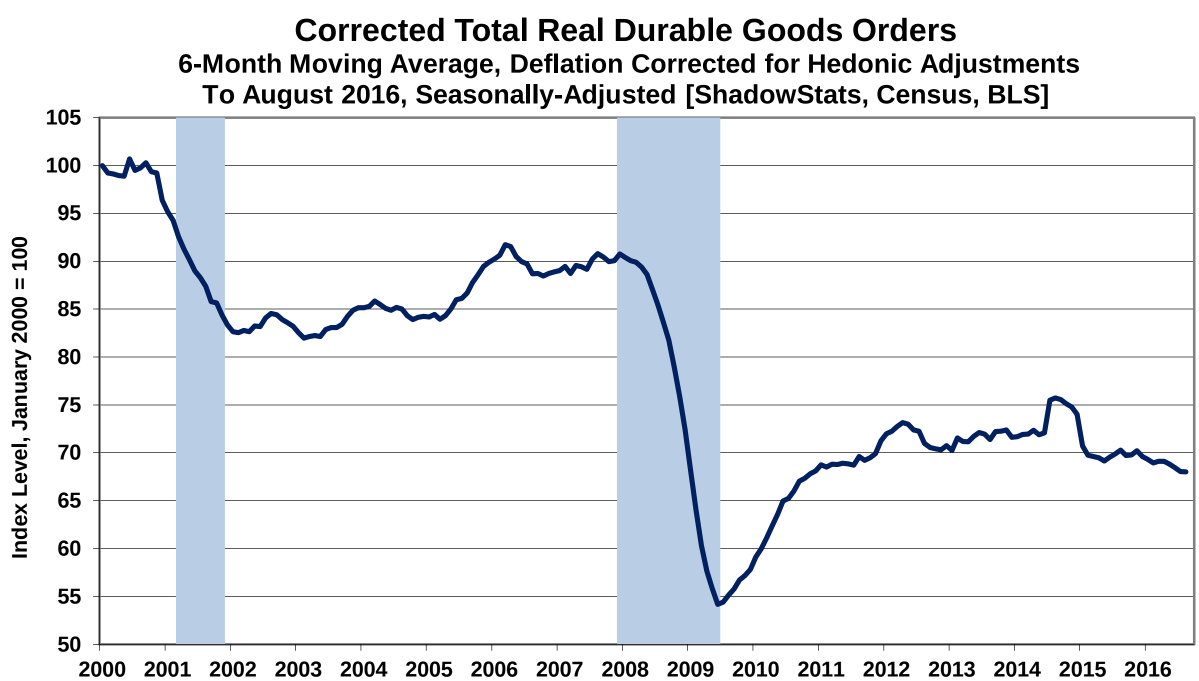
The first graph in each of the two series shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph, but it has been re-deflated to correct for ShadowStats estimate of the understatement of the PPI manufactured durable goods inflation measure used in the headline-deflation process. The "corrected" graphs all are indexed to January 2000 = 100.

[Graphs 3 to 8 begin on the following page.]

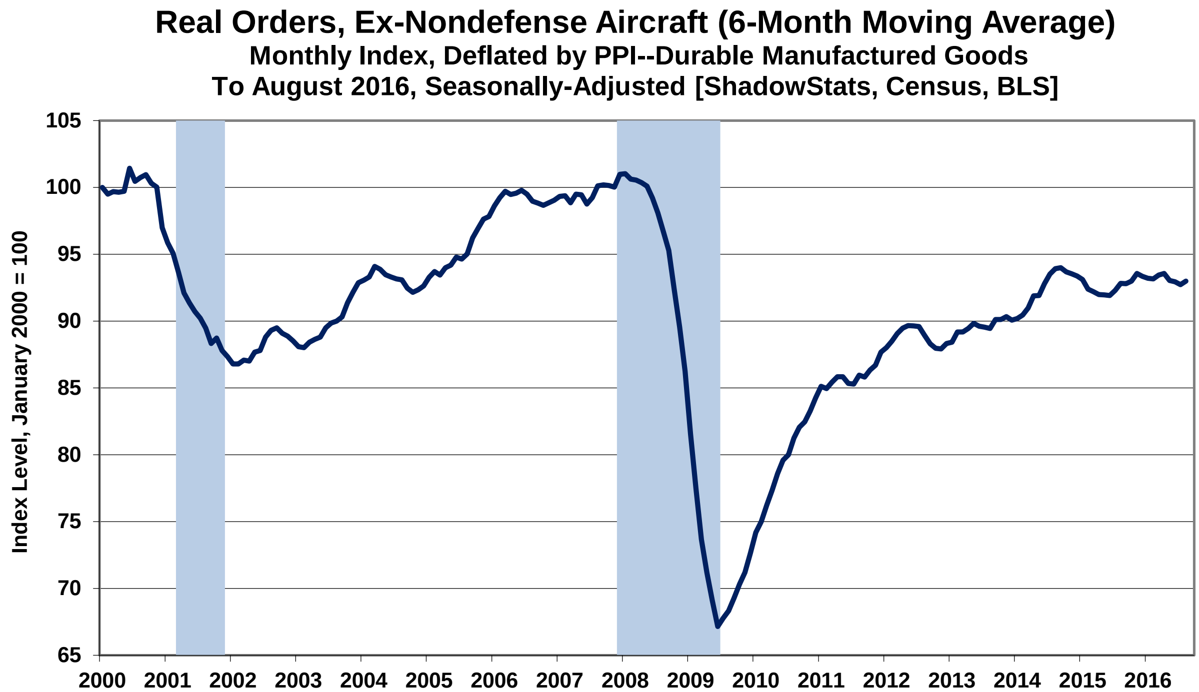
Graph 3: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



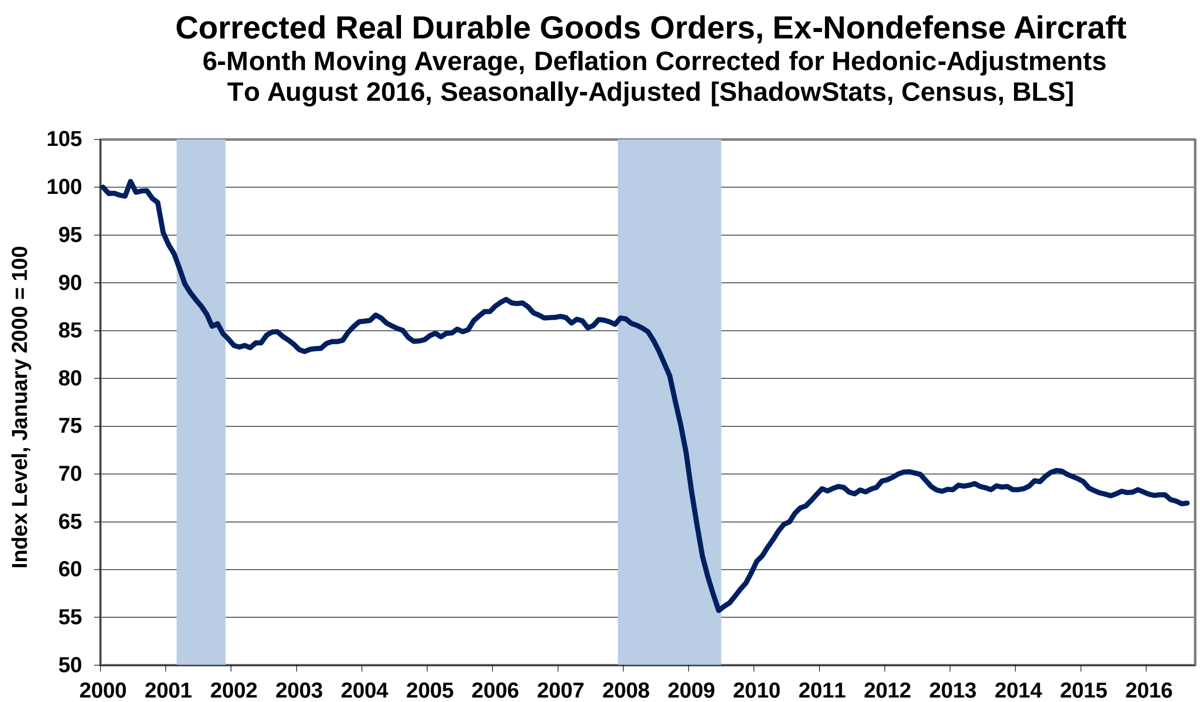
Graph 4: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



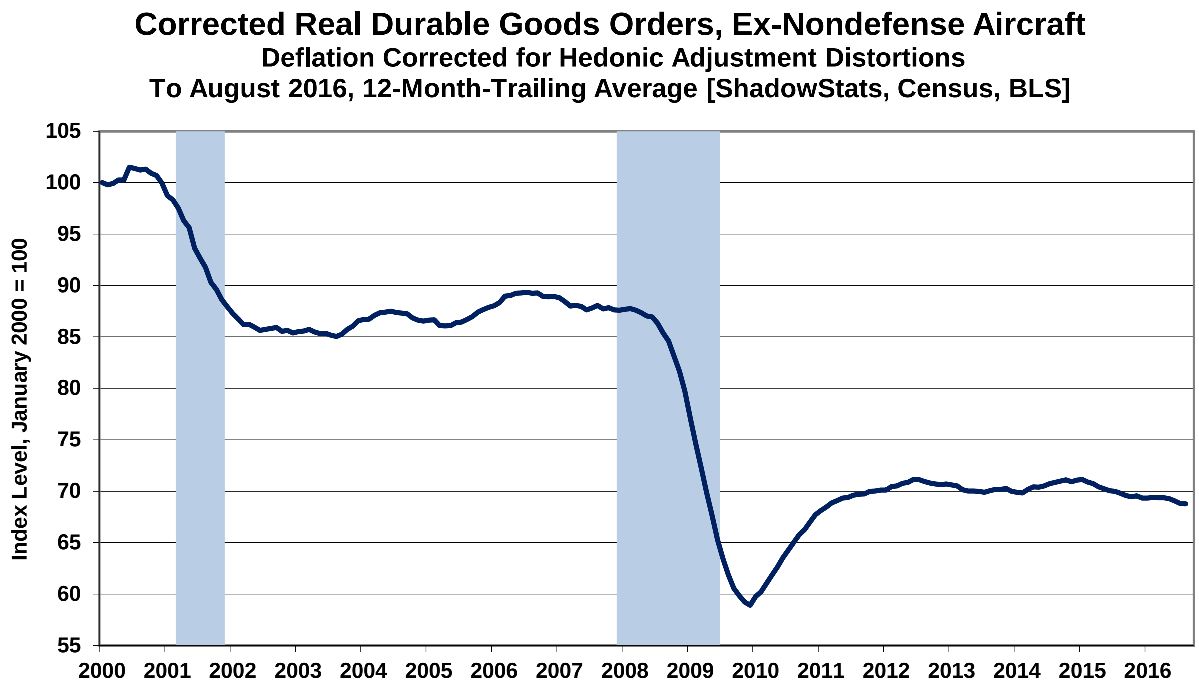
Graph 5: Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



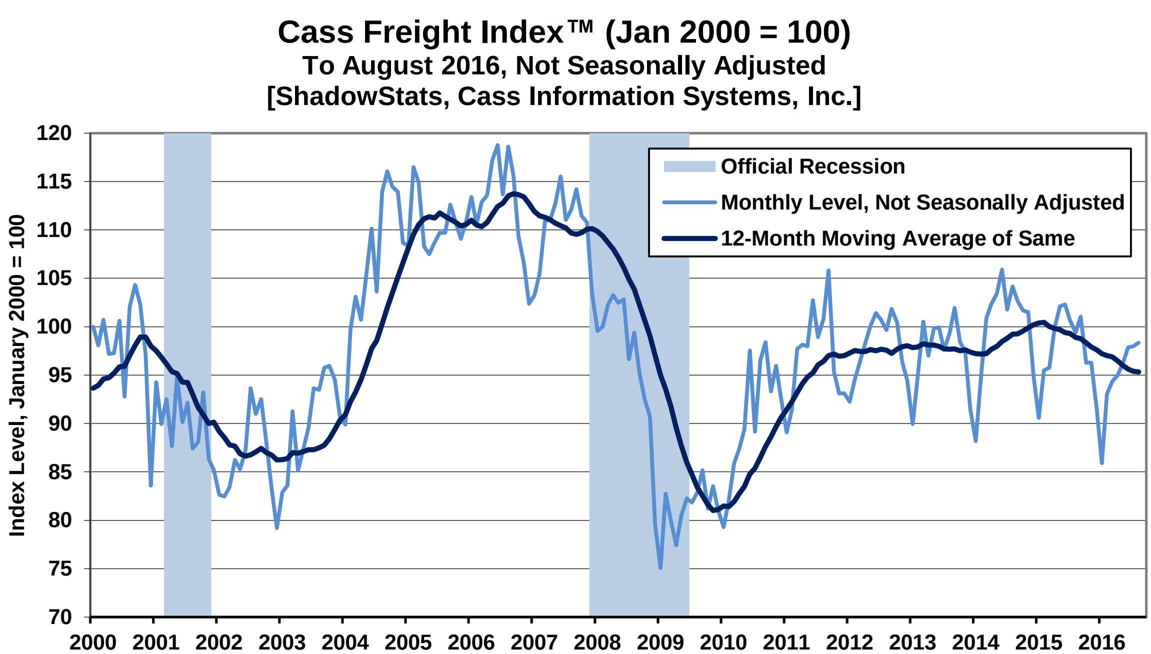
Graph 6: Corrected Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



Graph 7: Corrected Index of Durable Goods Orders – Ex Commercial Aircraft, 12-Month Moving Average



Graph 8: CASS Freight Index, Unadjusted Monthly and Trailing 12-Month Average, through August 2016



Preceding *Graph 7*, entitled "Corrected Real Orders—Ex-Commercial Aircraft" (a twelve-month trailing average) is very close to what is seen in the six-month moving average in *Graph 6*, but *Graph 7* is on a parallel twelve-month average basis with independent *Graph 8* of the CASS Freight Index™.

The patterns seen in *Graphs 7* and *8* also reflect activity in a number of economic series that will be highlighted with tomorrow's (September 29th) coverage of the third-estimate of second-quarter 2016 GDP. *Graph 8*, borrowed from and discussed in prior *Commentary No. 834*, tends to confirm the patterns of broad non-recovery, as well as the renewed downturn in U.S. business activity, also as seen in *Graph 7*. *Graph 8* shows headline detail of the August 2016 Cass Freight Index™, published September 20th. Both the freight index and the twelve-month moving average of real new orders for durable goods are high-quality reflections of underlying reality in broad, general U.S. economic activity.

New- and Existing-Home Sales—August 2016—Unstable and Sputtering Activity Continued, with Ongoing, Low-Level Stagnation and No Recovery. August 2016 New- and Existing-Home Sales series both remained in depression territory (see *Commentary No. 754*), down respectively by 56% (-56%) and by 27% (-27%) from their pre-recession peaks.

The usual instabilities and reporting distortions, involving high volatility and irregular seasonality, warped the New-Home Sales series. Despite extreme, near-term volatility, albeit statistically-insignificant, the series continued in low-level, non-recovering stagnation. As shown in *Graph 11*, that stagnation has had a recent, minor uptrend over time.

Despite continued instabilities in Existing-Home Sales, and in the context of shifting patterns in smoothed, low-level stagnation, Existing-Home Sales activity turned to the downside (*Graph 15*) in the latter part of 2015, with an interim uptrend, now faltering anew with monthly declines in July and August 2016 headline detail.

These series never recovered from the economic collapse into 2009. General housing construction and sales activity broadly have shown patterns of protracted, low-level, non-recovering stagnation, with related single-unit housing starts and aggregate housing down respectively from their pre-recession highs by 60% (-60%) and 50% (-50%).

Ongoing Liquidity Constraints on the Consumer. Consumer liquidity conditions were updated fully in the *Opening Comments* section of *Commentary No. 833*, which will be supplemented in tomorrow's *Commentary No. 836* for the monthly increase reported on September 27th for the Conference Board's September 2016 Consumer Confidence Index® and tomorrow's scheduled release of August 2016 monthly real median household income by www.SentierResearch.com.

The extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential-real-estate sales activity. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer remains unable to sustain positive growth in broad domestic economic activity.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in home-sales activity, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

New-Home Sales—August 2016—Unstable Monthly Decline in the Context of Continuing, Non-Recovering, Low-Level Stagnation, Still Down 56.2% (-56.2%) from its Pre-Recession Peak. The monthly reporting of a sharp headline decline in new-home sales remained of no substance, as seen most frequently here amidst often massive, unstable and continuously shifting reporting and revisions to recent history.

The August 2016 headline reporting of 609,000 units in annualized new sales (a 50,750 monthly rate as used in the graphs) fell by 7.6% (-7.6%), following a 13.8% surge in July that previously had been a gain of 12.4%. As usual, the headline monthly change was not statistically meaningful—a meaningful monthly change here could be either a loss or a gain—yet that short-term monthly volatility continued in the context of headline August activity still holding below its never-recovered 2005 pre-recession peak by 56% (-56%).

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. With the otherwise meaningless monthly swings in these numbers smoothed out, new-home sales activity continued in a broad pattern of low-level, albeit with up-trending stagnation (see *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. Beyond new-home sales, related housing activity never has recovered with the purported GDP rebound. For example, from the series' pre-recession peak of July 2005, headline August 2016 New-Home Sales still were down by 56.2% (-56.2%), while August 2016 Single-Unit Housing Starts were down by 60.4% (-60.4%) from the January 2006 pre-recession high of that series (see *Commentary No. 834*).

Headline August 2016 New Sales Reporting. In the context of minimal downside revisions to May and June, and to the upside in July activity, August 2016 New-Home Sales (Census Bureau, counted based on contract signings) fell month-to-month by a headline, seasonally-adjusted and statistically-insignificant 7.6% (-7.6%).

That was against an upwardly-revised monthly gain of 13.8% in July, an upwardly revised gain of 2.3% in June, and a downwardly-revised contraction of 0.7% (-0.7%) in May. Net of prior-period revisions, the month-to-month decline in August was 6.9% (-6.9%), instead of the headline drop of 7.6% (-7.6%), still shy of being statistically significant.

Year-to-year, August 2016 sales rose by a statistically-significant 20.6%. That followed an upwardly revised annual gain of 32.3% in July 2016, a downwardly-revised gain of 22.7% in June 2016, and a downwardly-revised gain of 11.6% in May 2016. Again, this series remains extraordinarily unstable and consistently unreliable on a near-term, month-to-month basis and often on a long-term basis, as to whether headline sales actually increased or decreased.

In the arena of continued extreme volatility, consider that the annualized quarterly pace of sales change gyrated from a sales gain in first-quarter 2015 of 50.1%, to a second-quarter 2015 annualized quarterly sales decline of 19.8% (-19.8%). Third-quarter 2015 new-home sales declined by 5.0% (-5.0%), with the fourth-quarter sales gain estimated at 18.7%.

First-quarter 2016 activity showed an unrevised annualized gain of 17.9%. With headline August reporting, second-quarter 2016 showed a downwardly-revised, annualized quarterly gain of 36.0%. Based just on the headline July and August 2016 detail, third-quarter annualized new-home sales were on early track for an annualized gain of 51.3%.

Existing-Home Sales—August—Sputtering Sales Declined for Second Month; Non-Recovering Activity Still Down by 26.7% (-26.7%) from Pre-Recession High. Existing-Home Sales faltered for a second month in August 2016, declining month-to-month by 0.9% (-0.9%), versus a more-negative monthly drop of 3.4% (-3.4%) in July 2016. Year-to-year to sales were up by 0.8% in August 2016, having declined by a revised, steeper decline of 1.8% (-1.8%) in in July 2016.

Such was in the context of the broad the series holding in low-level stagnation—never having recovered from the economic collapse—still down by 27% (-27%) from its pre-recession peak. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, albeit currently in a sputtering uptrend that was advanced minimally by the dropping of the headline monthly plunge in February 2016 activity from the six-month average.

Along with the broader real estate and construction measures and new-home sales—existing-home sales never recovered from the economic collapse into 2009, a common issue in the residential real estate industry. After going through a period of protracted, low-level stagnation and non-recovery, general housing construction and related smoothed sales activity continue broadly with minimal variation around flat trends, again, well below any formal recovery in economic activity.

Specifically, Existing-Home Sales activity in August 2016 was down by a headline 26.7% (-26.7%) from its June 2005 pre-recession peak, a high that has not been matched since the ensuing economic collapse into 2009. In like manner, the headline monthly Housing Starts series remained down by 49.8% (-49.8%) from its January 2006 pre-recession high (see prior *Commentary No. 826*).

Headline August 2016 Detail for Existing Sales. The seasonally-adjusted, August 2016 monthly Existing-Home Sales [National Association of Realtors® (NAR), actual closings of home sales] declined by a headline 0.93% (-0.93%) in August 2016, against an deeper, revised month-to-month contraction of 3.41% (-3.41%) in July. On a year-to-year basis, August 2016 sales gained 0.76%, having declined by a revised, deeper 1.82% (-1.82%), which had been the first annual decline in eight months, in July 2016.

Going back a year, first-quarter 2015 Existing-Home Sales showed an annualized quarterly sales decline of 2.6% (-2.6%), with the second-quarter 2015 pace of annualized growth at 19.5%. Third-quarter 2015 growth slowed to an annualized pace of 9.7%, with fourth-quarter 2015 activity contracting at an annualized pace of 14.2% (-14.2%).

First-quarter 2016 expanding at an annualized pace of 7.9%, followed by 16.3% for second-quarter 2016. Based solely on July and August 2016 detail, third-quarter activity is on an early track for and annualized quarterly contraction of 10.4% (-10.4%).

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years. All that said, smoothed for irregular distortions, the reporting remained statistically consistent with a period of low-level broad stagnation, albeit now up-trending, as can be seen in *Graph 15*.

Proportion of Distressed Sales Held at 5% in August, with All Cash Sales Notching Higher to 22%. The NAR estimated the portion of August 2016 sales in "distress" held at 5% (4% foreclosures, 1% short sales) with the same breakout as in July 2016, but down from 7% (5% foreclosures, 2% short sales) in August 2015.

The August 2016 percent of existing-home sales in distress was tied with the lowest level (July 2016) since the NAR began such surveying in October 2008. Consider, though, that October 2008 already was more than three years into the housing-market collapse.

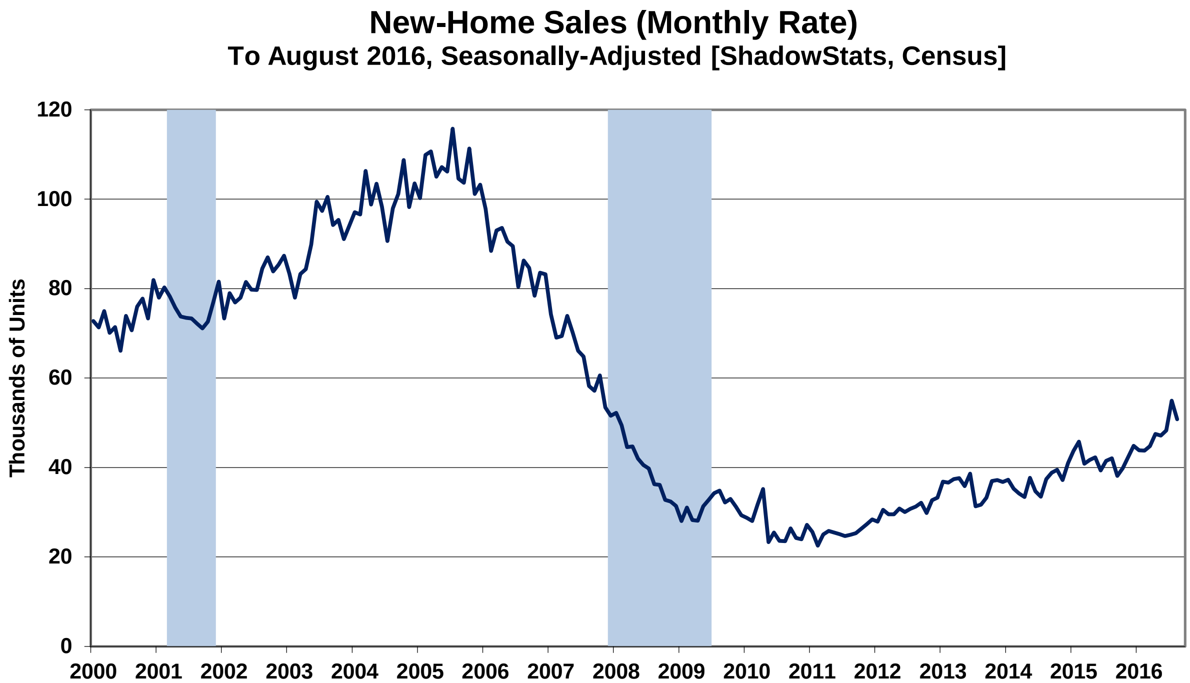
Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales were rose to 22% in August 2016, up from 21% in July 2016 activity, but unchanged from 22% in August 2015.

New-Home Sales Graphs. The regular monthly graph of August 2016 New-Home Sales follows, along with a six-month moving-average version of the series (see *Graphs 9* and *11*). Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of August 2016 Housing Starts for single-unit construction, from prior *Commentary No. 833* (see *Graphs 10* and *12*).

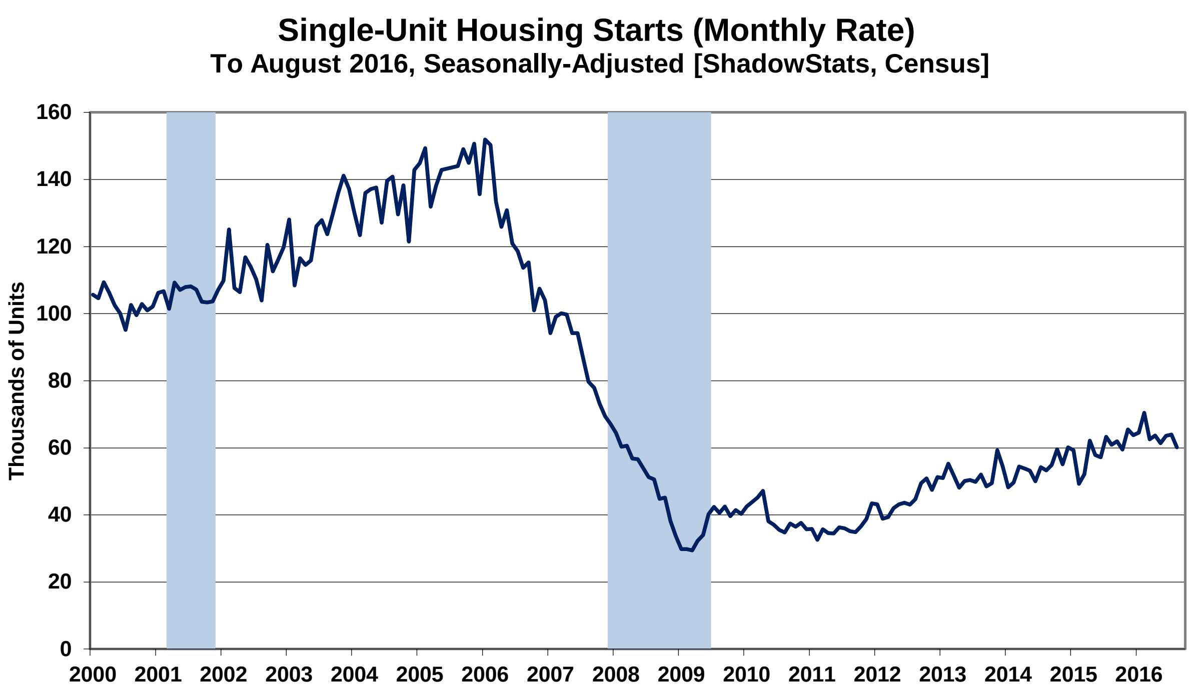
Existing-Home Sales Graphs. *Graph 13* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 15* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of August 2016 aggregate Housing Starts activity, from *Commentary No. 833*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 14* and *16*).

[Graphs 9 to 16 follow, beginning on the next page]

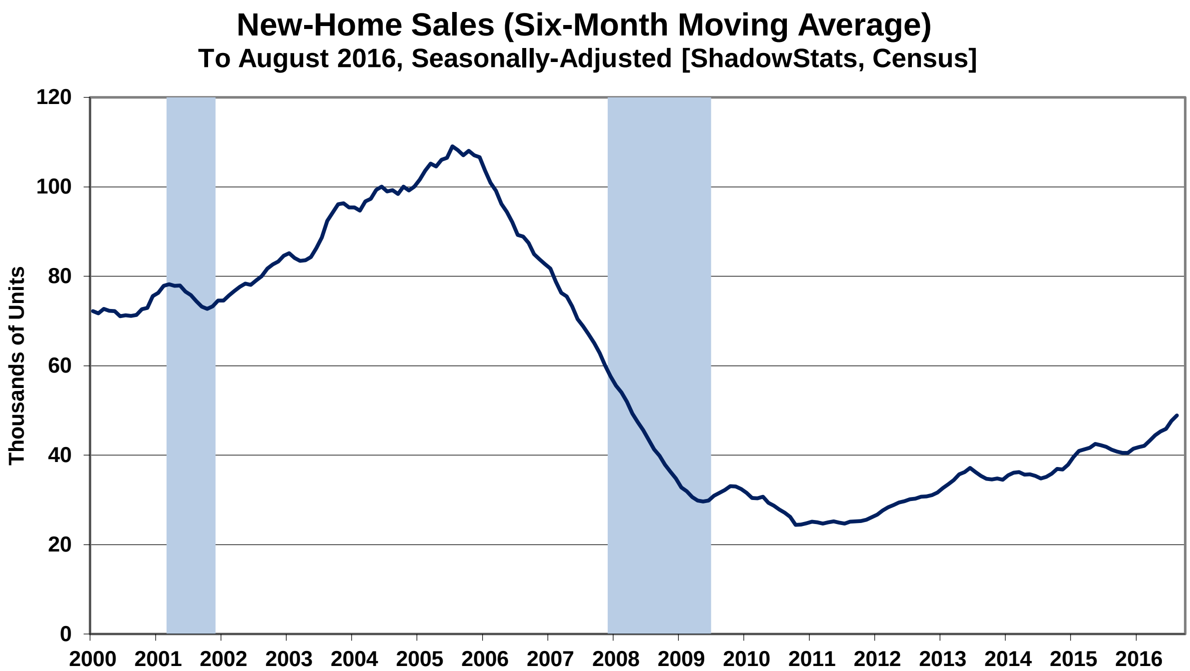
Graph 9: New-Homes Sales – Monthly Rate of Activity



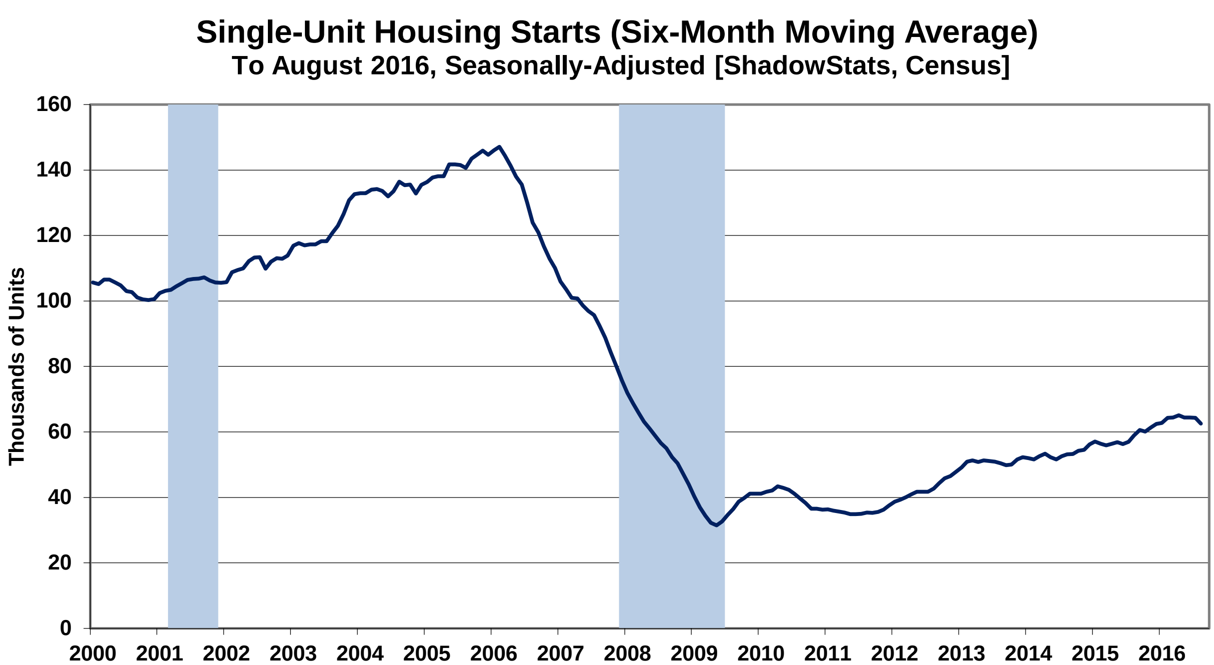
Graph 10: Single-Unit Housing Starts, Monthly Rate of Activity



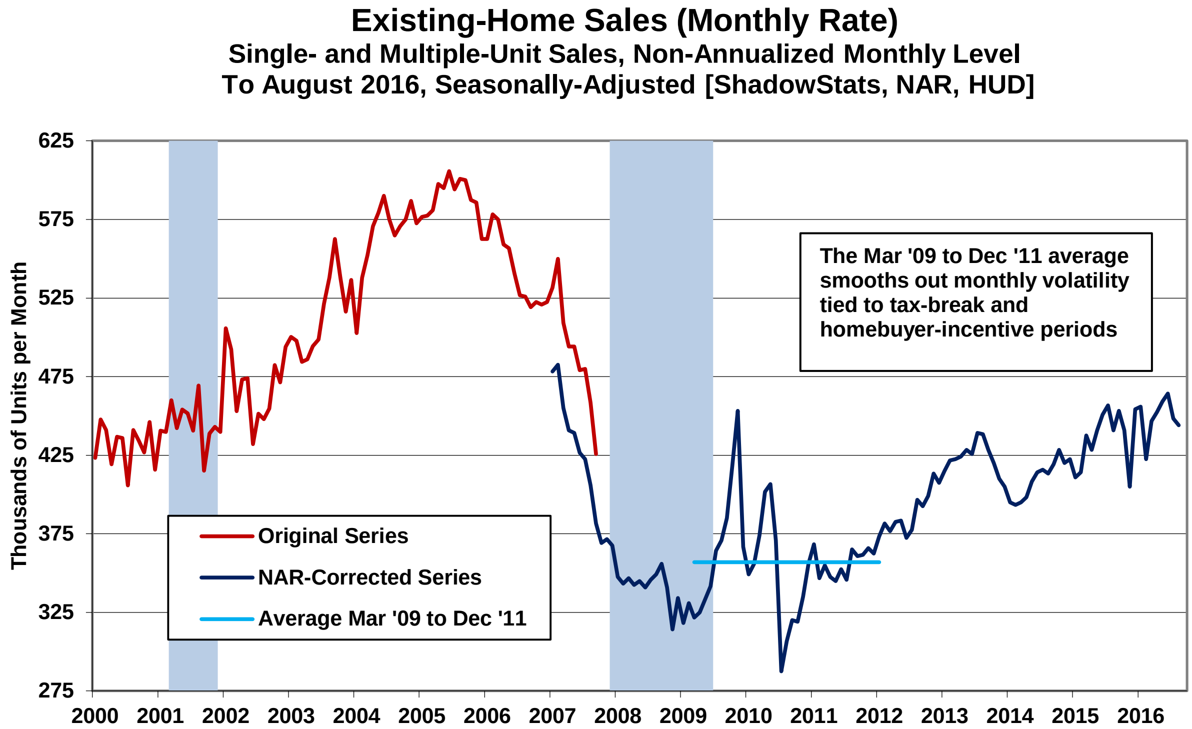
Graph 11: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



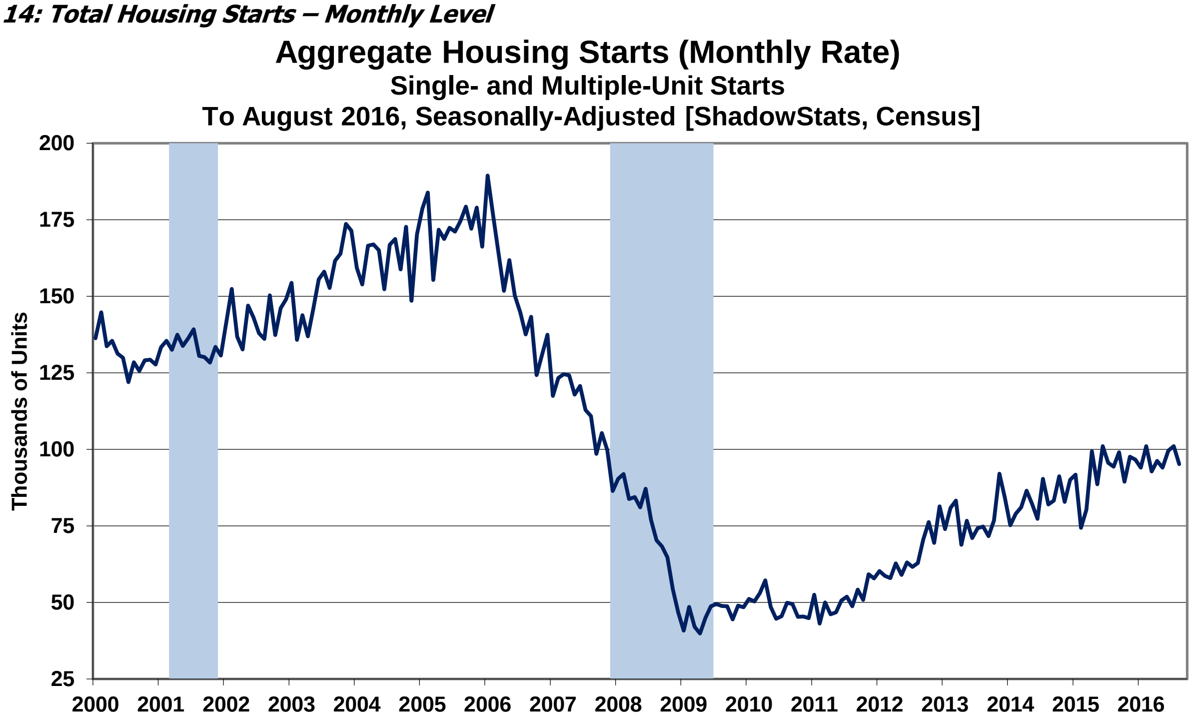
Graph 12: Single-Unit Housing Starts, Six-Month Moving Average, Monthly Rate of Activity



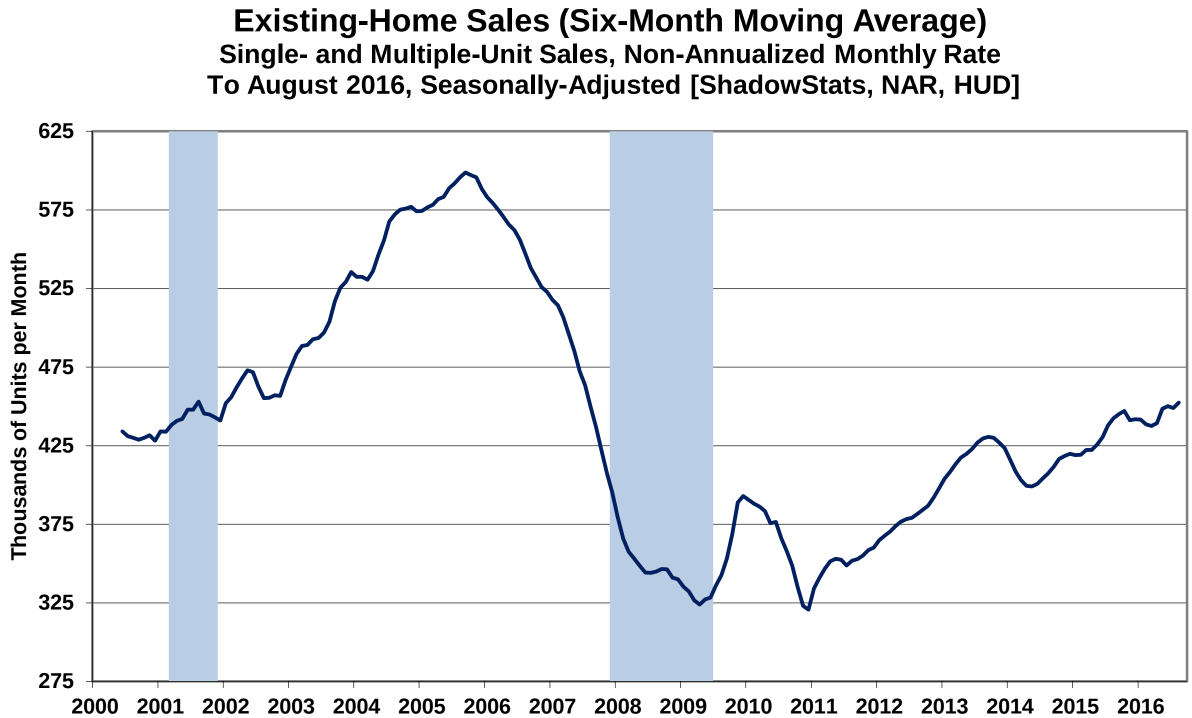
Graph 13: Existing-Home Sales – Monthly Level



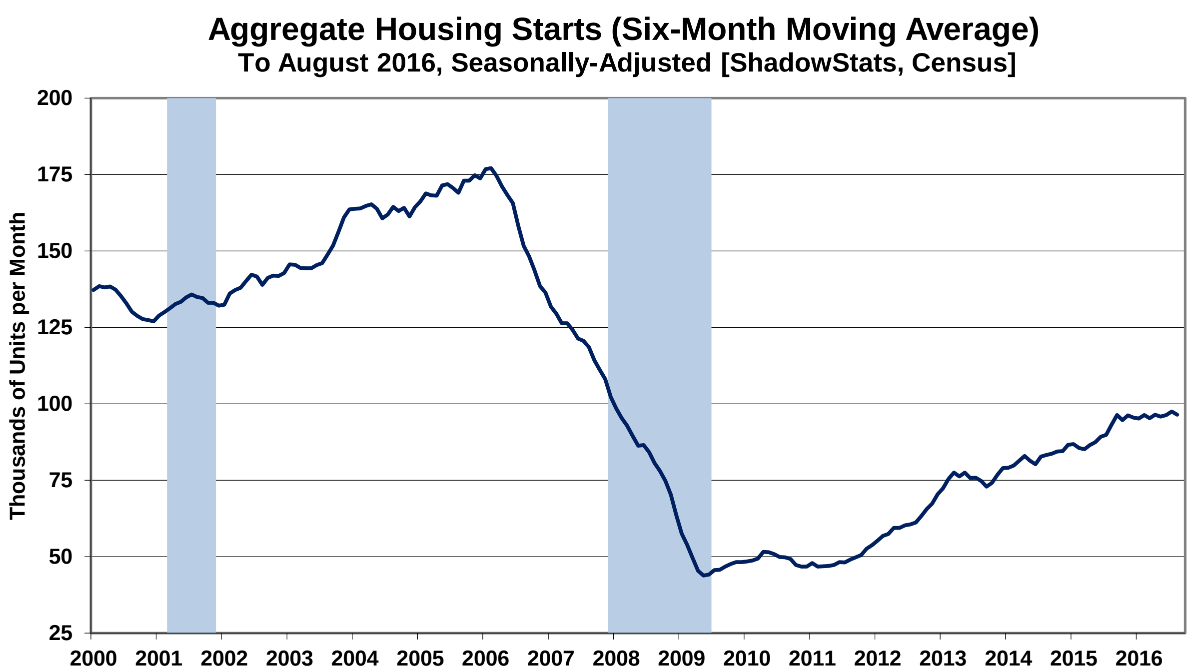
Graph 14: Total Housing Starts – Monthly Level



Graph 15: Existing-Home Sales (Six-Month Moving Average)



Graph 16: Total Housing Starts (Six-Month Moving Average)



[The* Reporting Detail *section contains additional detail.]

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (August 2016)

Third-Quarter Durables Goods Orders on Track for Annual Contractions, Both Before and After Consideration of Inflation and Commercial Aircraft. In the context of a 21.90% (-21.90%) monthly plunge in commercial aircraft orders and downside prior-period revisions to recent aggregate orders, August new orders for durable goods declined by 0.04% (-0.04%) for the month and by 1.27% (-1.27%) year-to-year. Excluding commercial aircraft, new orders gained 1.12% for the month and 1.36% year-to-year.

Nonetheless, with two out of three months in place, third-quarter orders—both aggregate and net of commercial aircraft—were on track for year-to-year contractions, in nominal as well as in inflation-adjusted real terms. Annual activity in second-quarter 2016 orders also remained negative on all fronts, except for a revised 0.14% real annual gain in the ex-commercial aircraft category, with that gain due to highly suspect, negative annual inflation in related PPI reporting (see *Real Durable Goods Orders*). Activity here remained an increasingly solid, negative leading indicator for both the third- and fourth-quarters 2016 of industrial production, a series that has remained in definitive recession since December 2014 (see *Commentary No. 832*).

Headline, aggregate August 2016 New Orders for Durable Goods declined month-to-month by a nominal 0.04% (-0.04%), up by 1.12% ex-commercial aircraft, in the context of negative prior-period revisions. Net of "unchanged" headline monthly inflation, respective monthly real changes in August were the same as the nominal numbers. Smoothed with six-month moving averages, both of these highly volatile, inflation-adjusted real series remained in non-recovering, low-level, down-trending stagnation. Those patterns remained consistent in signaling an ongoing and deepening "new" recession (see *Graphs 3* to *6* in the *Opening Comments*).

Headline Nominal Detail. The Census Bureau reported this morning, September 28th, that the regularly-volatile, seasonally-adjusted, nominal level of August 2016 new orders for durable goods declined by 0.04% (-0.04%) month-to-month, versus a downwardly revised monthly gain of 3.64% [previously up by 4.41%] in July, and a deeper, revised decline of 4.27% (-4.27%) [previously down by 4.19% (-4.19%), initially down by 4.04% (-4.04%)] in June. Net of prior-period revisions, August 2016 orders dropped by 0.86% (-0.86%) for the month, instead of the headline decline of 0.04% (-0.04%).

Year-to-year, August 2016 durable goods orders declined by 1.27% (-1.27%), having fallen by a revised, deeper 4.06% (-4.06%) [previously down by 3.27% (-3.27%)] in July 2016, and a revised, deeper annual decline of 6.67% (-6.67%) [previously down by 6.59% (-6.59%), initially down by 6.37% (-6.37%)] in June 2016. That headline August 2016 detail, again, was before consideration of volatility in commercial-aircraft orders.

Before and after consideration of commercial-aircraft volatility and monthly irregularities in the headline reporting of new orders, the smoothed trends of broad activity continued to be down-trending, consistent with a downturn in what had been a continuing pattern of broad stagnation. The inflation-adjusted real series, and that same series corrected for the understatement of official inflation, 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 and in a down-trending pattern of stagnation. In parallel with the other plotted series, the corrected series still shows an unfolding economic contraction of a nature that usually precedes or coincides with a recession or deepening business downturn.

Detail Net of Volatility in Commercial-Aircraft Orders. The reporting of extreme contractions and surges in commercial-aircraft orders is seen in an irregularly-repeating process throughout the year, and that 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. In the current circumstance, a sharp monthly decline in August commercial aircraft orders depressed the aggregate orders into a monthly decline of 0.04% (-0.04%), from what otherwise was a gain of 1.12%.

Net of a headline monthly decline of 21.90% (-21.90%) in August 2016 commercial aircraft orders, a downwardly revised gain of 73.66% [previously up by 89.85%] in July 2016 and a minimally-revised decline of 59.67% (-59.67%) [previously down by 59.71% (-59.71%), initially by 58.76% (-58.76%)] in June, new orders gained 1.12% in August 2016, 1.46% [previously 1.76%] in July 2016 and declined by 0.01% (-0.01%) [previously a gain of 0.08%, initially up by 0.16%] in June.

Year-to-year and seasonally-adjusted, August 2016 new orders (net of commercial aircraft) rose by 1.36%, having declined by a deeper 2.36% (-2.36%) [previously down by 1.98% (-1.98%)] in July 2016 and a deeper 2.34% (-2.34%) [previously down by 2.25% (-2.25%), initially down by 2.09% (-2.09%)] in June 2016.

Real Durable Goods Orders—August 2016. 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 August 2016 PPI series showed a headline monthly of "unchanged" at 0.00%, following a monthly gain of 0.18% in July and an "unchanged" June reading.

Headline annual inflation rose by a negligible 0.06%, although such was the first annual increase in over one year, since June 2015. That followed a year-to-year decline of 0.18% (-0.18%) in July 2016, against an annual decline of 0.42% (-0.42%) in June 2016.

Adjusted for that unchanged (0.00%) August 2016 inflation, and as reflected in the graphs in the *Opening Comments* section, real month-to-month aggregate orders in August 2016 declined by 0.04% (-0.04%) and rose by 3.45% in July 2016, having declined by 4.27% (-4.27%) in June. Ex-commercial aircraft, real month-to-month orders rose by 1.12% in August, by 1.28% in July and declined by 0.01% (-0.01%) in June.

Real aggregate new orders fell year-to-year by 1.33% (-1.33%) in August 2016, by 3.89% (-3.89%) in July 2016 and by 6.27% (-6.27%) in June 2016. Ex-commercial aircraft, real orders in August 2016 showed an annual gain of 1.30%, versus annual declines in July 2016 of 2.18% (-2.18%) and in June 2016 of 1.93% (-1.93%). Annual real changes here were boosted by negative year-to-year headline inflation in June and July.

Real Quarterly Growth, Ex-Commercial Aircraft. Where the inflation-adjusted series, ex-commercial aircraft, is the best leading economic indicator out of these data, following are the annualized real quarterly changes in that series. Beginning at the onset of eventually what should become recognized as a formal recession, the real ex-commercial aircraft orders series showed annualized quarterly declines of 4.44% (-4.44%) in fourth-quarter 2014, and 5.54% (-5.54%) in first-quarter 2015. Annualized real change for second-quarter 2015 was a gain of 3.31%, a gain of 4.52% in third-quarter activity, a gain of 0.31% in fourth-quarter 2015 activity, and a 0.48% gain in first-quarter 2016.

In second-quarter 2016, the series showed a revised, deeper real contraction of 4.53% (-4.53%) [previously down by 4.42% (-4.22%), initially down by 4.11% (-4.11%)]. Based just on the July and August 2016 detail, the third-quarter 2016 annualized change was in an early trend for a gain of 3.41%. Based solely on initial reporting for July 2016, that early trend had been for a gain of 2.56%.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Four sets of inflation-adjusted graphs (*Graphs 1* to *8*) 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 irregular 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 into third-quarter 2015, followed by renewed downturn and fluttering into August 2016.

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 orders series, net of commercial aircraft orders. The fourth set of graphs (*Graphs 7* to *8*) shows a twelve-month average of the "corrected" ex-commercial aircraft orders compared with a similar pattern found independently in the historical Cass Freight Index™.

*Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems seen with retail sales, and 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, for a period of ten days, with the annual benchmark revision to durable goods orders on May 18, 2016 (*Supplemental Commentary No. 807-A*), for subsequent months of reporting up through today's August detail, unpublished historical revisions calculated along with the August seasonal adjustments, have made all historical reporting prior to June 2016 inconsistent with the current headline numbers. All historical data will be briefly consistent, once again, come next year's May 2017 benchmark revisions.*

NEW-HOME SALES (August 2016)

Unstable Reporting Continued for August New-Home Sales, Plunging 7.6% (-7.6%) in the Month, with Smoothed Data Still Holding in Non-Recovering, Low-Level Stagnation. Headline monthly reporting of new-home sales remained of no substance, as seen most frequently here in the massive, unstable and continuously shifting revisions to recent history, along with statistically-insignificant monthly changes that just as easily could be a loss or a gain.

The August 2016 headline reporting of 609,000 units in annualized sales (a 50,750 monthly rate as used in the graphs) fell by 7.6% (-7.6%), following a 13.8% surge in July that previously had been a gain of 12.4%. As usual, the headline monthly change was not statistically meaningful. That short-term monthly volatility continued in the context of headline August activity still holding below its never-recovered 2005 pre-recession peak by 56% (-56%).

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. With the otherwise meaningless monthly swings in these numbers smoothed out, new-home sales activity continued in a broad pattern of low-level, albeit with up-trending stagnation (see *Graph 11* in the *Opening Comments*).

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. Beyond new-home sales, related housing activity never has recovered with the purported GDP rebound. For example, from the series' pre-recession peak of July 2005, headline August 2016 New-Home Sales still were down by 56.2% (-56.2%), while August 2016 Single-Unit Housing Starts were down by 60.4% (-60.4%) from the January 2006 pre-recession high of that series (see *Commentary No. 834*).

Discussed in the *Opening Comments* section, the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential-real-estate sales activity. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer remains unable to sustain positive growth in broad domestic economic activity.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in home-sales activity, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Headline August 2016 Reporting. Reported September 26th by the Census Bureau, in the context of minimal downside revision to May and June, and to the upside in July activity, August 2016 New-Home Sales (counted based on contract signings) fell month-to-month by a headline, seasonally-adjusted and statistically-insignificant 7.6% (-7.6%) +/- 12.5% (all confidence intervals are at the 95% level).

That was against an upwardly-revised monthly gain of 13.8% [previously up 12.4%] in July, an upwardly revised gain of 2.3% [previously up by 1.7%, initially up by 3.5%] in June, and a downwardly-revised contraction of 0.7% (-0.7%) [previously a gain of 0.4% gain, previously "unchanged" at 0.0%, initially down by 6.0% (-6.0%)] in May. Net of prior-period revisions, the month-to-month decline in August was 6.9% (-6.9%), instead of the headline drop of 7.6% (-7.6%), still shy of being statistically significant.

Year-to-year, August 2016 sales rose by a statistically-significant 20.6% +/- 17.3%. That followed an upwardly revised annual gain of 32.3% [previously 31.3%] in July 2016, a downwardly-revised gain of 22.7% [previously up by 23.3%, initially up by 25.4%] in June 2016, and a downwardly-revised gain of

11.6% in May 2016 [previously up by 12.8%, up by 12.8% and initially up by 8.7%]. This series remains extraordinarily unstable and consistently unreliable on a near-term, month-to-month basis and often on a long-term basis, as to whether headline sales actually increased or decreased.

In the arena of continued extreme volatility, consider that the annualized quarterly pace of sales change gyrated from a sales gain in first-quarter 2015 of 50.1%, to a second-quarter 2015 annualized quarterly sales decline of 19.8% (-19.8%). Third-quarter 2015 new-home sales declined by 5.0% (-5.0%), with the fourth-quarter sales gain estimated at 18.7%.

First-quarter 2016 activity showed an unrevised annualized gain of 17.9%. With headline August reporting, second-quarter 2016 showed a downwardly-revised, annualized quarterly gain of 36.0% [previously 38.9%, initially 42.8%]. Based just on the headline July and August 2016 detail, third-quarter annualized new-home sales were on early track for an annualized gain of 51.3%.

New-Home Sales Graphs. The regular monthly graph of New-Home Sales is included in the *Opening Comments* section, along with a six-month moving-average version of the series. Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of August 2016 Housing Starts for single-unit construction, from prior *Commentary No. 833*, along with comparative graphs of Existing-Home Sales and aggregate Housing Starts (see *Graphs 9* to *16*).

EXISTING-HOME SALES (August 2016)

August Existing-Home Sales Declined for a Second Month, Along with a Downside Revision to July Activity; Still in Non-Recovery; Down by 27% (-27%) from its Pre-Recession Peak. Existing-Home Sales faltered for a second month in August 2016, declining month-to-month by 0.93% (-0.93%), versus a more-negative monthly drop of 3.41% (-3.41%) in July 2016. Year-to-year to sales were up by 0.76% in August 2016, having declined by a revised, steeper decline of 1.82% (-1.82%) in in July 2016.

The broad the series remained in depression (see *Commentary No. 754*), still down by 26.7% (-26.7%) from its pre-recession peak. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, albeit currently in a sputtering uptrend that was minimally advanced by dropping the headline monthly plunge in February 2016 activity from the six-month average.

Along with the broader real estate and construction measures and new-home sales—existing-home sales never recovered from the economic collapse into 2009, a common issue in the residential real estate industry. After going through a period of protracted, low-level stagnation and non-recovery, general housing construction and related smoothed sales activity continue broadly with minimal variation around flat trends, again, well below any formal recovery in economic activity.

Discussed in the *Opening Comments*, the underlying problem remains that the U.S. consumer is in an extreme liquidity bind, which prevents a meaningful recovery in national home-sales growth. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the consumer has been unable to sustain positive growth in broad U.S. economic activity, particularly as tied to residential real estate and personal consumption.

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Specifically, Existing-Home Sales activity in August 2016 was down by a headline 26.7% (-26.7%) from its June 2005 pre-recession peak, a high that has not been matched since the ensuing economic collapse into 2009. In like manner, headline monthly Housing Starts remained down by 49.8% (-49.8) from their January 2006 pre-recession high (see prior *Commentary No. 826*).

Headline August 2016 Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® (NAR) reported September 22nd a seasonally-adjusted, headline monthly decline of 0.93% (-0.93%) in August 2016 Existing Home Sales, against an deeper, revised monthly contraction of 3.41% (-3.41%) [previously down by 3.23% (-3.23%)] in July. On a year-to-year basis, August 2016 sales gained 0.76%, having declined by a revised, deeper 1.82% (-1.82%) [previously down by 1.64% (-1.64%), which had been the first annual decline in eight months] in July 2016.

Going back a year, first-quarter 2015 Existing-Home Sales showed an annualized quarterly sales decline of 2.6% (-2.6%), with the second-quarter 2015 pace of annualized growth at 19.5%. Third-quarter 2015 growth slowed to an annualized pace of 9.7%, with fourth-quarter 2015 activity contracting at an annualized pace of 14.2% (-14.2%).

First-quarter 2016 expanding at an annualized pace of 7.9%, followed by 16.3% for second-quarter 2016. Based solely on July and August 2016 detail, third-quarter activity is on an early track for and annualized quarterly contraction of 10.4% (-10.4%).

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years. All that said, smoothed for irregular distortions, the reporting remained statistically consistent with a period of low-level broad stagnation, albeit now up-trending, as can be seen in *Graph 15* of the *Opening Comments*.

Proportion of Distressed Sales Held at 5% in August, with All Cash Sales Notching Higher to 22%. The NAR estimated the portion of August 2016 sales in "distress" held at 5% (4% foreclosures, 1% short sales) with the same breakout as July 2016, but down from 7% (5% foreclosures, 2% short sales) in August 2015.

The August 2016 percent of existing-home sales in distress was tied with the lowest level (July 2016) since the NAR began such surveying in October 2008. Consider, though, that October 2008 already was more than three years into the housing-market collapse.

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 were rose to 22% in August 2016, up from 21% in July 2016 activity, but unchanged from 22% in August 2015.

Existing-Home Sales Graphs. Shown in the *Opening Comments*, *Graph 13* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 15* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of August 2016 aggregate Housing Starts activity, from *Commentary No. 833*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 14* and *16*).

WEEK AND MONTH AHEAD

Near-Term Headline Economic Deterioration Should Intensify, Increasingly Frustrating Fed Provocateurs, Pummeling the U.S. Dollar and Boosting Gold, Silver and Eventually Oil Prices. Market expectations for business activity should continue to deteriorate, amidst intensifying, negative headline economic reporting. Irrespective of any talk of near-term rate hike by the FOMC, Fed-policy retrenchment likely should remain very much alive, shifting towards renewed quantitative easing in the months ahead (post-election), as discussed in today's (September 28th) *Opening Comments*.

Heavily referenced the coverage of August home-sales activity, *Commentary No. 834* detailed August activity in residential construction. Underlying consumer liquidity and household income conditions were updated fully in *Commentary No. 833*, along with continued discussion of FOMC options and the latest consumer inflation detail.

The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect an ongoing broad spectrum of market-disappointing headline data, such as seen recently (*Commentary No. 832*). FOMC considerations also were covered in *Commentary No. 831*; the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*, following the latest headline detail on payrolls, trade and construction spending in *Commentary No. 829*.

Headline Gross Domestic Product (GDP) and related series were discussed in *Commentary No. 828*, with broad detail otherwise reviewed in *Commentary No. 827*, *Commentary No. 826*, *Commentary No. 825*, *Commentary No. 824*, *Commentary No. 823*, *Commentary No. 822*, *Commentary No. 821*, *Commentary No. 820*, *Commentary No. 818*, *Commentary No. 817*, *General Commentary No. 811*, *Supplemental Commentary No. 807-A*, *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796-A*, *Commentary No. 796* and *No. 777 Year-End Special Commentary*.

Negative market reactions had surfaced in trading of the U.S. dollar and in related financial markets, with some upside pressure on gold, silver and oil prices, subsequent to recent, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Fed rate-hike jawboning, however, had put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency. The fundamental liquidity issues facing the Fed, however, remain dominated by the impact of perpetual U.S. economic non-recovery and a renewed, intensifying downturn. If the Fed should raise rates in the near future, ongoing negative economic pressures still will mount, forcing the U.S. central bank back into a position of having to support domestic financial- and banking-system liquidity needs. Effectively, the Fed will have no way out other than to return to some form of expanded quantitative easing.

Temporary jawboning aside, market reactions increasingly should reflect a renewed sense of Federal Reserve impotence in the wake of the latest no rate hike, with bleak longer-term implications for the U.S.

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dollar. While anything is possible, Fed tightening prior to the election appears now to be out of consideration, with renewed quantitative easing becoming the likely target of post-election speculation, as the deepening recession unfolds.

Rapidly weakening, regular monthly economic reporting should continue and result in much worse-than-expected—increasingly negative—reporting for at least the next several quarters of GDP (and GDI and GNP).

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline monthly March to June 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation was "unchanged"—minimally negative—with a switch to positive seasonal adjustments for gasoline prices only partially offsetting the unadjusted monthly drop in gasoline prices in July. August CPI was boosted by "core" inflation. Going forward, a weakening U.S. dollar increasingly should boost inflation, with a related upturn in oil prices, gasoline and other commodities. The *Public Commentary on Inflation Measurement* reviews fundamental reporting issues with the headline CPI.

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 nine-to-eleven 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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. That construction-spending issue now appears to have been structured as a gimmick to help boost the recently-published 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS 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*). John Crudele of the *New York Post* continues his investigations in reporting irregularities: *Crudele Investigation*. In the 1990s, the Census Bureau and BLS played political-reporting games with the nature of statistical sampling size in "inner cities" in the Census Bureau surveying tied to the monthly Household Surveys and the annual piggy-backed Poverty Survey. Such had major distorting impact on the headline data, and it may be in the works, again.

PENDING RELEASE:

***Updated:* Gross Domestic Product (GDP)—Second-Quarter 2016, Third Estimate, Second Revision.** The Bureau of Economic Analysis (BEA) will publish its second revision, third estimate of second-quarter 2016 Gross Domestic Product (GDP) tomorrow Thursday, September 29th. Detail will be covered in *Commentary No. 836* of that date.

A further, small downside revision is a reasonable expectation, although the consensus is for a small upside revision by 0.2% to 0.3% or so. Where the initial headline reporting was a 1.22% annualized real quarterly growth rate for the second-quarter, the first revision took it lower to 1.10%, and the second revision should take it lower again, to below 1.0%. Such would reflect overdue catch-up in trade-deficit and construction detail.

PLANNED UPDATES: Comprehensive *Special Report* and ShadowStats Website. The plan is to update fully, into one, massive background piece—a *Special Report (Commentary)*—the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). All of that will be in the context of incorporating and fully revising, wherever necessary, the materials in the *2014 Hyperinflation Report—The End Game Begins*, *2014 Hyperinflation Report—Great Economic Tumble*, *No. 777 Year-End Special Commentary* and other intervening missives, including the most-recent *Hyperinflation Outlook Summary* as found in *Commentary No. 783*.

The various background articles available at the www.ShadowStats.com site also will be updated in the process, including those first published in 2004 as introductory articles to the site. As usual, all original material will remain available to subscribers (all original public material also will remain available to anyone visiting the site).

As to timing, the *Special Report* already is in the works and should be published in the next several weeks. It will incorporate fully up-to-date economic detail, including the Census Bureau 2015 income survey (*Commentary No. 833*) and the Bureau of Labor Statistics' preliminary benchmark revisions to 2016 payroll employment (see *Commentary No. 830*). It also will include updated, consistent GAAP-based financial detail on the U.S. government's financial condition through September 30, 2015 and initial prospects for the fiscal year ended September 30, 2016.

Updates to the various public materials on the Web site will be staggered through year-end. The introduction of the *2004 Primer Series* will be first (the link is to the initial background article that addressed among other issues political manipulation of data).

We also will introduce, in conjunction with the *Special Report*, a section with links to books and articles that we have found of particular interest and substance. Anyone with materials they would like to have considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.
