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

COMMENTARY NUMBER 850
October Durable Goods Orders, New- and Existing-Home Sales

November 23, 2016

Gains in and Upside Revisions to October Durable Goods Data Reflected Surging, Irregular Commercial Aircraft Orders (up 94%) or Inflation (up 0.4%)

Going into Fourth-Quarter 2016, Downwardly-Revised Real Durable Goods Orders, Ex-Commercial Aircraft, Contracted Year-to-Year and Quarter-to-Quarter

That Signaled Continued, Broad Economic Downturn

October Automobile Orders and Shipments Turned Down and Revised Lower in September

Home-Sales Activity Continued in Broad, Non-Recovering Stagnation

Monthly Decline in October New-Home Sales Was Muted by Prior-Period Downside Revisions, Still Down by 59% (-59%) from Pre-Recession High

Strongest Since 2007, October Existing-Home Sales Still Were Down by 23% (-23%) from Pre-Recession Peak

Proportions of All-Cash Sales and Sales in Foreclosure Increased in the Month

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PLEASE NOTE: The next regular Commentary, *scheduled for Tuesday, November 29th, will cover the second estimate, first revision to third-quarter 2016 GDP, and initial estimates of GDI and GNP.*

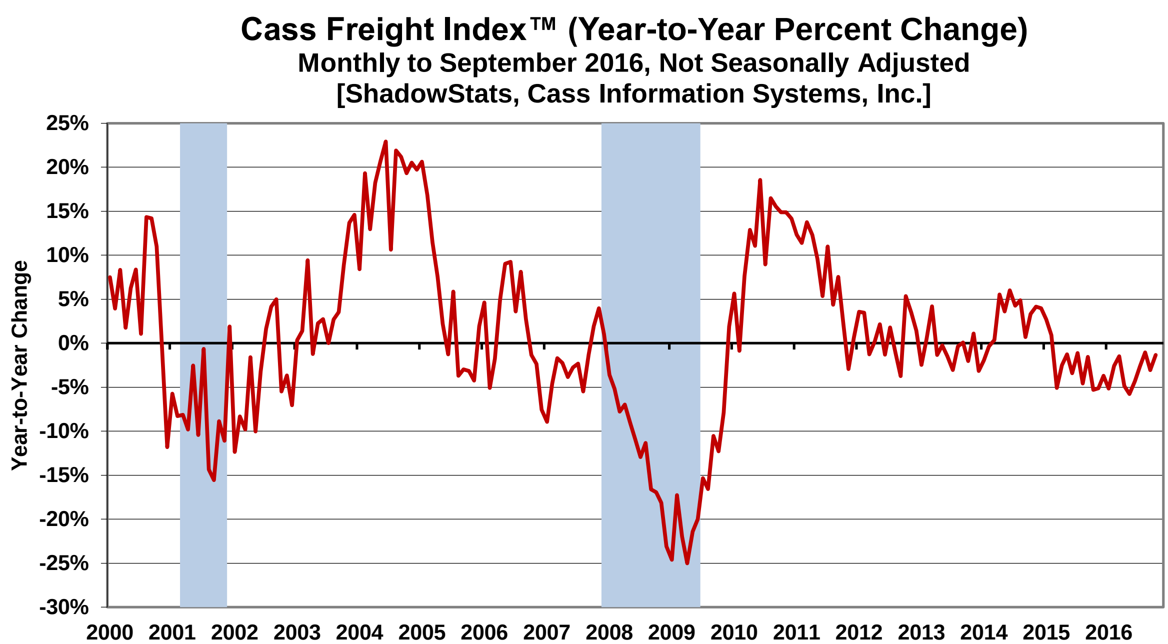
Please call at (707) 763-5786 if you have questions or would like to discuss current issues or otherwise.

Happy Thanksgiving! Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

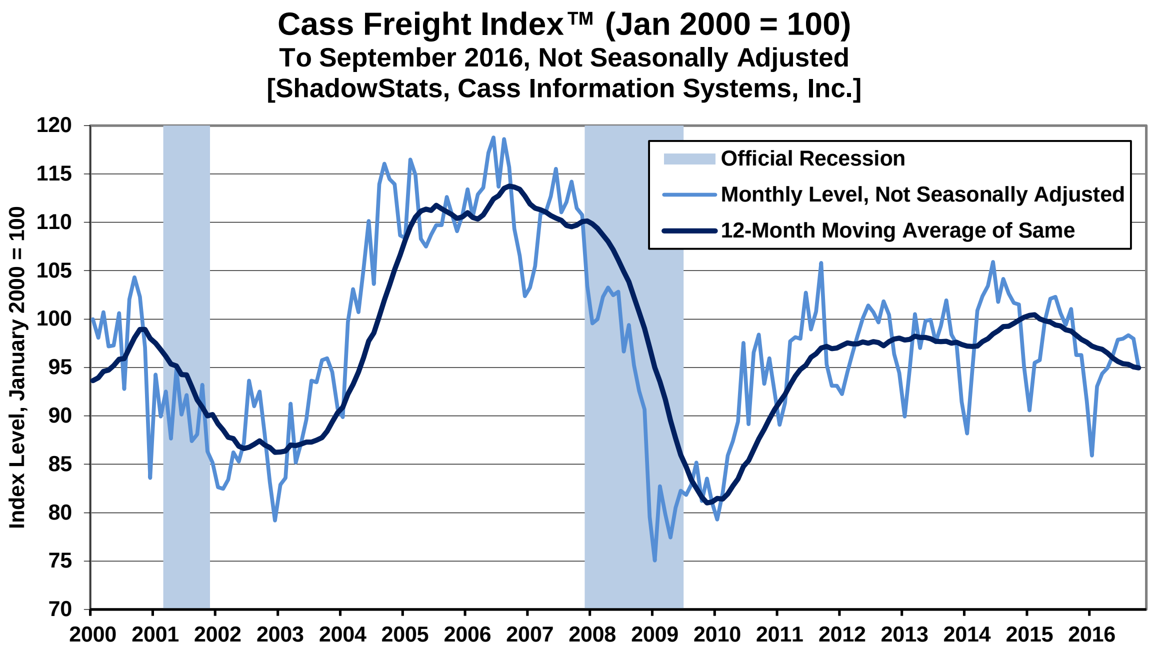
Signals of Continuing Economic Downturn. With the regular considerations of inflation and volatile non-commercial aircraft orders removed, October new orders for durable goods tentatively signaled a downturn in core orders for fourth-quarter 2016, and a negative indicator for first-quarter 2017 industrial production and GDP. The headline detail also did not provide a positive confirmation for the overly-robust headline retail sales activity reported for October 2016 (see *Commentary No. 847*). In particular, not only did automobile orders and shipments take a hit in October, but they also were revised meaningfully lower for September 2016. Separately, this link: *John Crudele on Retail Sales* provides a little more than the usual review of what goes into the compilation of headline retail sales detail.

Graph 1: CASS Freight Index, Year-to-Year Percent Change, Monthly through September 2016

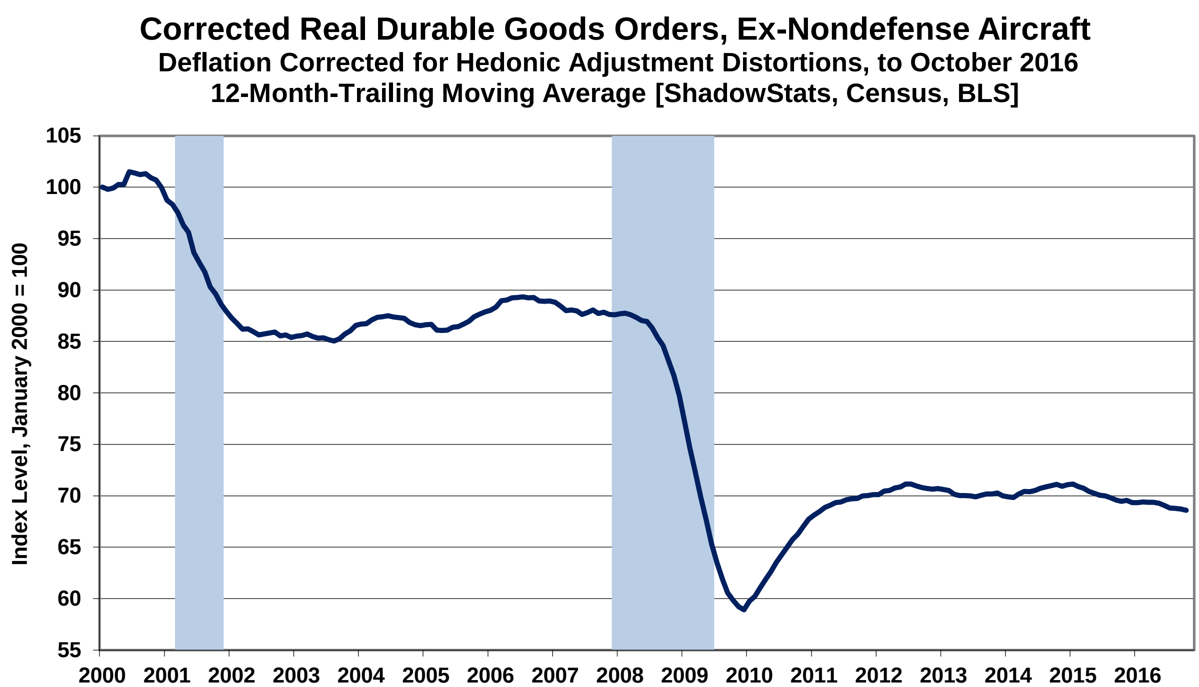


The CASS freight index for October was indicated as due for publication for today (November 23rd), but it is not available as we go to press. It will be updated in the next *Commentary*.

Graph 2: CASS Freight Index, Unadjusted Monthly and Trailing 12-Month Average, through September 2016



Graph 3: Corrected Index of Durable Goods Orders – Ex Commercial Aircraft, 12-Month Moving Average



September 2016 Freight Index Confirmed a Deepening Economic Contraction and Non-Recovery, in Parallel with Smoothed New Orders for Durable Goods. Patterns of non-recovery in the general economy and renewed downturn in business activity were confirmed and reflected in the headline detail of the September 2016 Cass Freight Index™.

Beginning with *Commentary No. 782* (further background available there), ShadowStats published the graphic detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. As background, freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States.

The plot in *Graph 2* reflects the monthly numbers updated through September 2016. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail plotted in the background. ShadowStats also has re-indexed the series to January 2000 = 100, so as to be consistent with other graphs used. The headline index published by Cass is based at January 1990 = 100. The patterns here resemble those in *Graph 3*, which is the corrected real new orders for durable goods, ex-commercial aircraft, smoothed with a trailing 12-month average, discussed in the later *Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders.*

Shown in *Graph 2*, the trailing twelve-month average of the freight index peaked in February 2015 and has been slowing since, with the twelve-month average to the September 2016 down by 5.4% (-5.4%) from that peak, and currently down 3.8% (-3.8%) from the year-ago September 2015 average,.

Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph 1*. The unadjusted monthly detail has been in continual year-to-year decline since March of 2015, down by an intensified 3.1% (-3.1%) year-to-year in September 2016.

In combination, *Graphs 1* and *2* are consistent with a pattern of economic collapse into 2009, low-level stagnation thereafter and renewed downturn effectively coincident with a "new" recession, which likely still will be timed from December 2014.

Preceding *Graph 3*, entitled "Corrected Real Orders—Ex-Commercial Aircraft" (a twelve-month trailing average) is close to what is seen in the six-month moving average in *Graph 8*, but *Graph 3* is on a parallel twelve-month average basis with the independent *Graph 2* of the CASS Freight Index™.

The patterns seen in *Graphs 2* and *3* also reflect activity in a number of economic series that will be highlighted with the November 29th coverage of the second estimate of third-quarter 2016 GDP. *Graph 2* shows headline detail of the September 2016 Cass Freight Index™, borrowed from and reviewed in detail in *Commentary No. 841*. The freight index 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 1*. 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.

Today's *Commentary* (November 23rd). The balance of these *Opening Comments* covers summary detail of the October 2016 new orders for durable goods, new-and existing-home sales and related special graphs. Those areas are expanded upon fully in the *Reporting Detail*.

The *Week and Month Ahead* previews next week's reporting of the first revision to third-quarter GDP, October construction spending and November labor conditions, along with an updated publishing schedule for the pending *Special Commentary*.

New Orders for Durable Goods—October 2016—Headline Gains Were from Inflation and Irregular, Surging Commercial Aircraft Orders; Orders Otherwise Contracted Month-to-Month and Year-to-Year. In the context of a 94.08% surge in October commercial aircraft orders, and an upwardly-revised jump of 30.33% in September commercial aircraft orders, and a sharp increase in related headline inflation, nominal October 2016 new orders for durable goods rose by 4.81% for the month and by 2.07% year-to-year. Excluding commercial aircraft, new orders gained 0.19% for the month and 0.15% year-to-year.

The best leading indicator to industrial production and to the broad, general economy, out of this series, is inflation-adjusted real new orders, ex-commercial aircraft, which declined by 0.23% (-0.23%) month-to-month, and by 0.21% (-0.21%) year-to-year, in October. The early-trend for fourth-quarter 2016 reporting for this series suggests an annualized, real quarterly contraction of 0.84% (-0.84%), along with an annual real quarterly contraction of 0.21% (-0.21%). Activity here is indicated as a tentative negative leading signal for first-quarter 2017 industrial production, a series that has remained in definitive recession since December 2014 (see *Commentary No. 848*).

Smoothed with six-month moving averages, both (total and ex-commercial aircraft) of these highly volatile numbers, the 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 6* to *9*).

Headline Nominal Detail. The regularly-volatile, seasonally-adjusted, nominal level of October 2016 aggregate new orders for durable goods rose by 4.81% month-to-month, versus an upwardly revised 0.40% month-to-month in September, and a downwardly-revised gain of 0.23% in August. Net of prior-period revisions, October 2016 orders rose by 5.32%, instead of the headline 4.81%. The gain in October and upside revisions to September, however, largely reflected new orders for nondefense or commercial aircraft.

Year-to-year, October 2016 durable goods orders rose by 2.07%, versus an upwardly-revised 2.10% in September 2016 and a revised, minimally widened annual decline of 1.03% (-1.03%) in August 2016. That headline detail, though, was before consideration of the irregular volatility in commercial-aircraft orders.

Before and after consideration of commercial-aircraft orders and other 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 shortly. 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 aggregate 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 monthly gain in October 2016 commercial aircraft orders boosted the aggregate orders into a monthly gain of 4.81%, from what otherwise was a gain of 0.19%.

Net of a headline monthly gain of 94.08% in October 2016 commercial aircraft orders, an upwardly revised gain of 30.33% in September 2016, and a negligibly deeper, revised decline of 24.29% (24.29%) in August 2016, new orders gained 0.18% in October 2016, showed a deepened monthly decline of 0.78% (-0.78%) in September 2016 and gained a downwardly-revised 1.53% in August.

Year-to-year and seasonally-adjusted, October 2016 new orders (net of commercial aircraft) rose by 0.15%, having gained a downwardly-revised 0.90% in September 2016 and having gained by a downwardly-revised 1.75% in August 2016.

Real Durable Goods Orders—October 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 October 2016 PPI series showed a strong headline monthly gain of 0.42%, following a decline of 0.06% (-0.06%) in September and an "unchanged" reading at 0.00% in August. Headline year-to-year annual inflation rose by 0.36% in October 2016, following annual gains of 0.12% in September 2016 and 0.06% in August 2016.

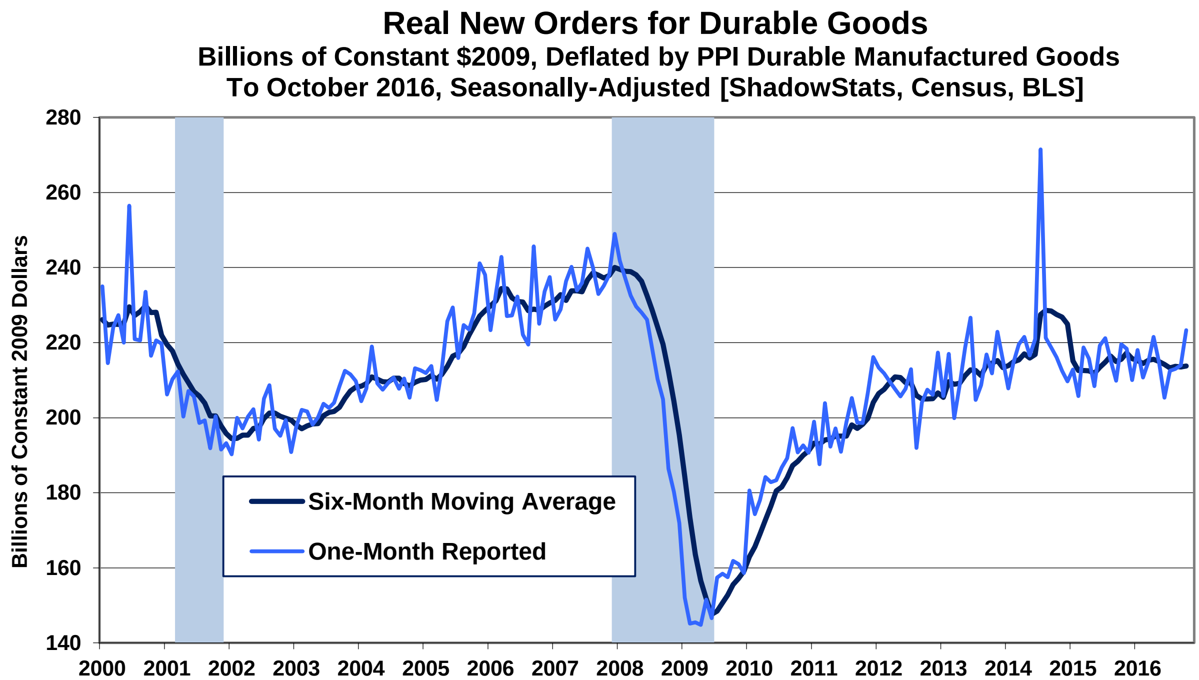
Adjusted for that 0.42% gain in October 2016 monthly inflation, and as reflected in the *Graphs 3* and *4*, real month-to-month aggregate orders in October 2016 rose by 4.37%, by 0.47% in September and by 0.23% in August. Ex-commercial aircraft, real month-to-month orders declined by 0.23% (-0.23%) in October 2016, fell by 0.72% (-0.72%) in September and gained 1.53% in August.

Real aggregate new orders rose year-to-year by 1.70% in October 2016, by 1.97% in September 2016 and declined by 1.09% (-1.09%) in August 2016. Ex-commercial aircraft, real orders in October 2016 showed an annual contraction of 0.21% (-0.21%), following a 0.78% annual gain in September 2016, and a gain of 1.69% in August 2016.

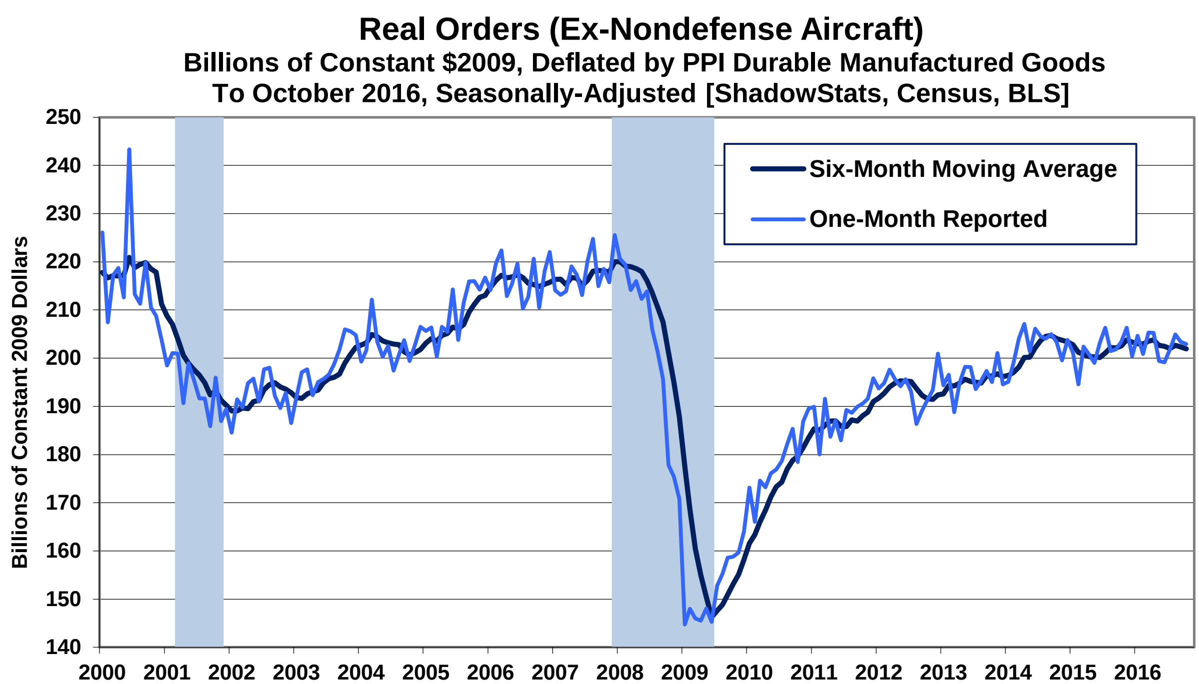
Real Quarterly Growth, Ex-Commercial Aircraft. Where the inflation-adjusted series, ex-commercial aircraft, is the best leading economic indicator out of these data, following are the annualized real quarterly changes in that series. Beginning at the onset of eventually what should become recognized 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 declined with a revised, deeper real contraction of 4.53% (-4.53%) due to PPI revisions. The revised third-quarter 2016 showed an annualized gain of 4.25%, reflecting both downside revisions to the nominal data and increasingly-negative headline month-to-month inflation. Based just on October 2016 reporting, the early-trend for real fourth-quarter 2016 is an annualized contraction of 0.84% (0.84%).

Graph 4: Real Total New Orders for Durable Goods to Date



Graph 5: 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 4* and *5* 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, also turning lower into third-quarter and early fourth-quarter 2016.

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 October 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 most commonly 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, industrial production and real retail sales (see *Commentary No. 844*, *Commentary No. 848* and prior *Commentary No. 849*), ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the inflation measurement used in in deflating the series, headline PPI inflation for manufactured durable goods in this circumstance.

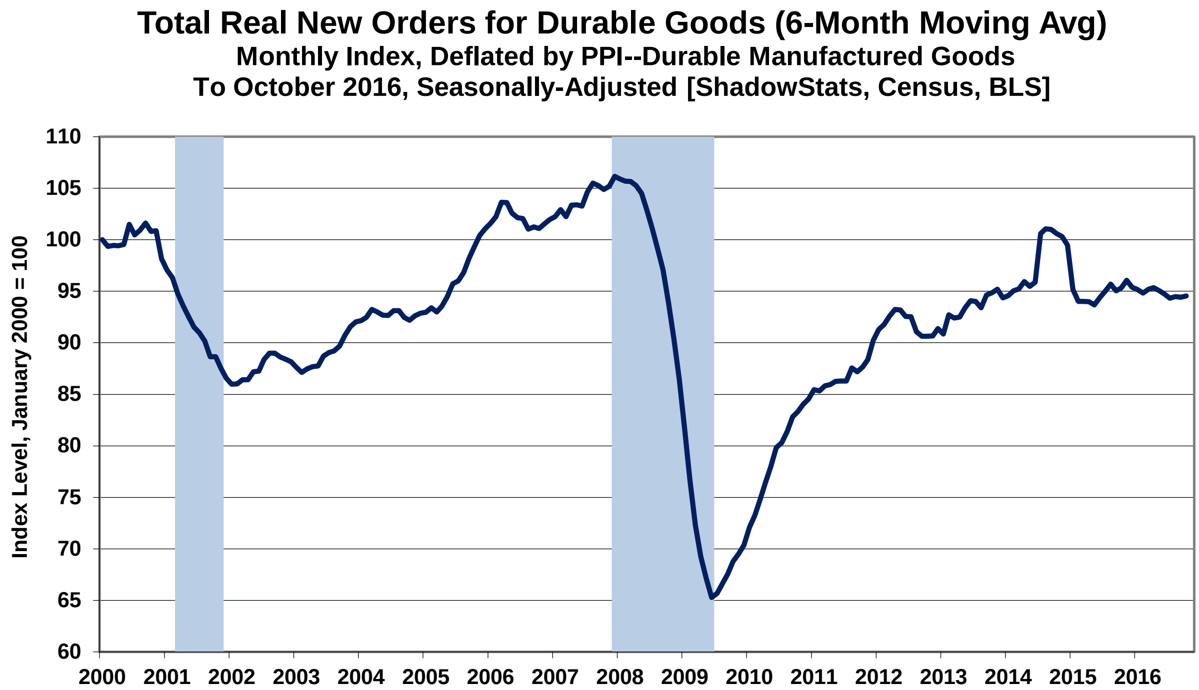
Two sets of graphs follow. The first set (*Graph 6* and *Graph 7*) shows the aggregate series or total durable goods orders; the second set (*Graph 8* and *Graph 9*) shows the ex-commercial aircraft series.

There is a third set, displayed previously as *Graph 3* and *Graph 2* in the opening sentences of these *Opening Comments*, showing a twelve-month moving average of the ex-commercial aircraft series and the CASS Freight Index™ on something of a similar basis.

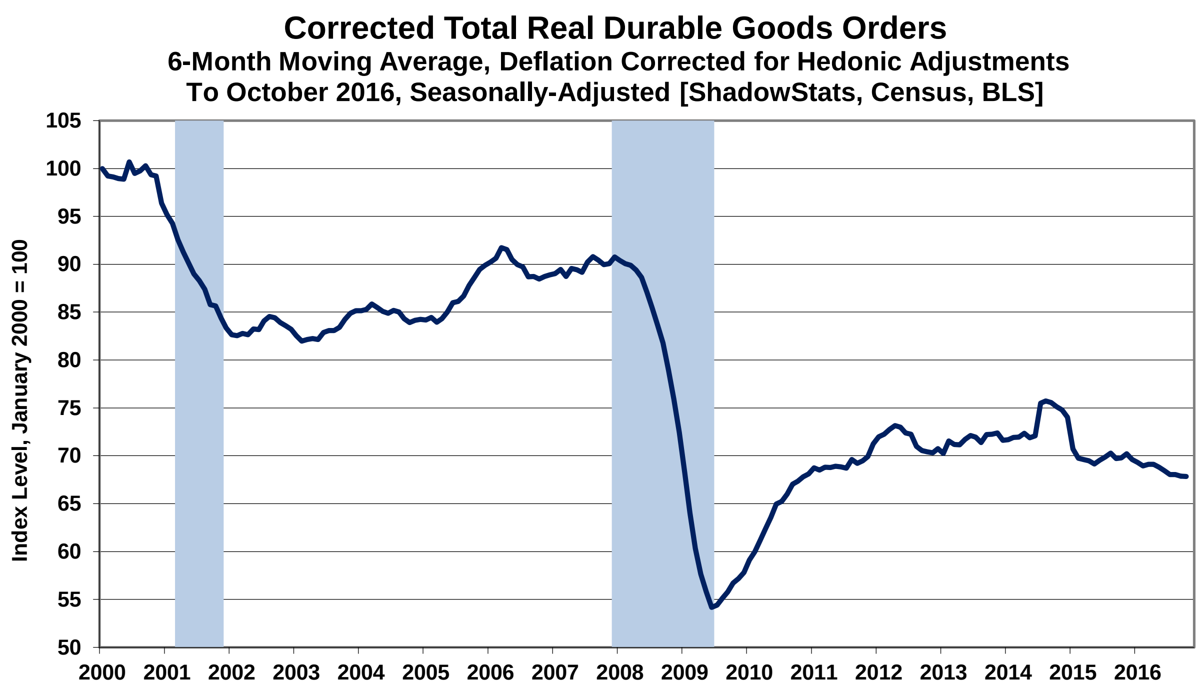
The aggregate orders series in *Graphs 6* and *7* includes the monthly commercial aircraft orders. Placed years in advance, aircraft orders are a better indicator of long-range production activity, than they are as a near-term leading indicator of production activity. Again, *Graphs 8* and *9* are shown net of those volatile commercial aircraft orders.

The first graph in each of the following two series following shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 4* and *Graph 5*, 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.

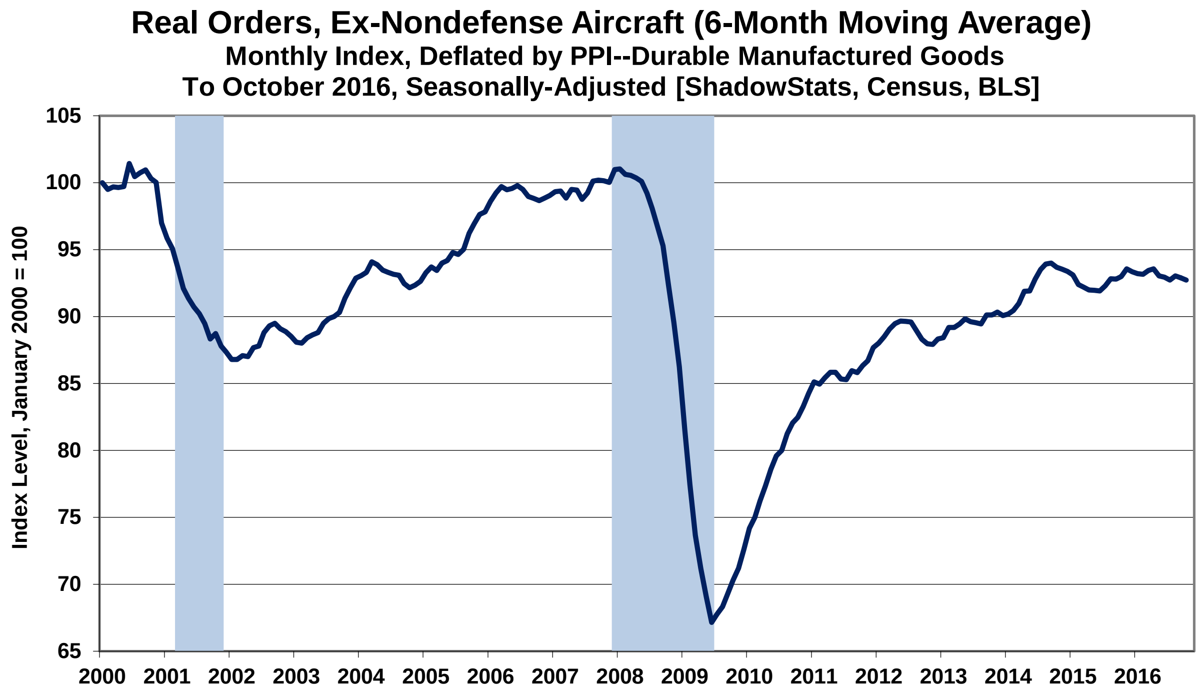
Graph 6: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



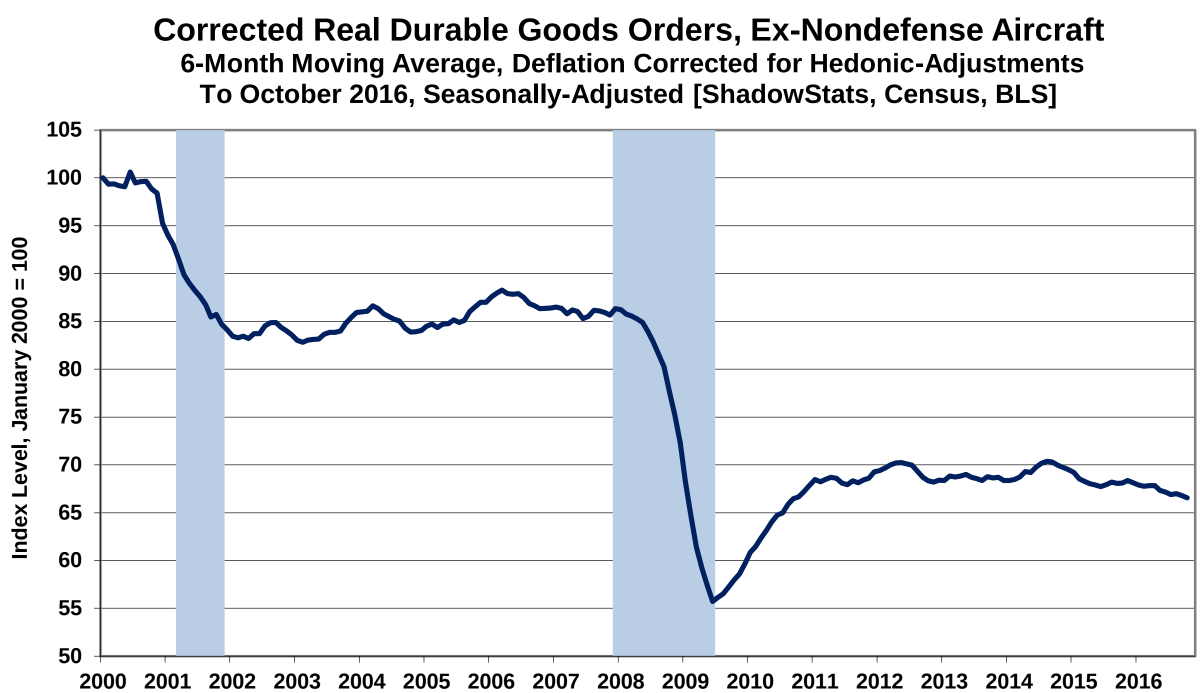
Graph 7: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



|Graph 8: Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



Graph 9: Corrected Index of Durable Goods Orders – Ex Commercial Aircraft, 6-Month Moving Average



New- and Existing-Home Sales—October 2016—Unstable Reporting Continued, with Continued Low-Level Stagnation and No Recovery. The October 2016 New- and Existing-Home Sales series both remained in depression territory (see *Commentary No. 754*), down respectively by 59% (-59%) and 23% (-23%) from their pre-recession peaks.

Usual instabilities and reporting distortions, involving high volatility and irregular seasonality, continued to warp the New-Home Sales series, specifically with another round of heavy downside revisions to the prior three months of reporting. What was headlined as a monthly decline of 1.9% (-1.9%) in October 2016 sales, actually was a decline of 5.1% (-5.1%) from the previously-reported level of September 2016 activity. Despite continuing extreme, near-term volatility, albeit statistically-insignificant, the series remained in low-level, non-recovering stagnation. As shown in *Graph 10*, that stagnation had had a recent, minor uptrend over time, albeit turning negative in recent months, flattening out as seen in the smoothed *Graph 12*.

The headline monthly gain in Existing-Home Sales, however, reflected, at least partially, stronger activity in September than previously had been reported, along with a headline level of activity that had not been seen since 2007. In the context of shifting patterns in smoothed, low-level stagnation, Existing-Home Sales activity has turned to a shallow up trend as seen in *Graphs 15* and *17*. October 2016 monthly detail, however, remained 23% (-23%) below recovering its pre-recession high.

These series never have 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 52% (-52%) and 42% (-42%).

Consumer Liquidity Problems Continue to Impair Housing Activity**.** An extreme consumer-liquidity bind continues to constrain residential real estate sales and related construction activity, as updated in *Commentary No. 846* and *Commentary No. 833*.

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 domestic personal consumption, including aggregate real estate activity. That circumstance—in the last nine-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity, 70% of which is dependent on personal spending, including real estate.

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—October 2016—Amidst Highly Unstable Reporting, October's Headline Monthly Sales Decline of 1.9% (-1.9%) Was a Contraction of 5.1% (-5.1%), Net of Prior-Period Revisions. 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. At present the reporting trend and revisions are to the downside.

The October 2016 headline reporting of 563,000 units in annualized sales (a 46,917 monthly rate as used in the accompanying graphs) fell by 1.9% (-1.9%), following a revised, shallower gain of 1.2% in September, a deeper monthly decline of 8.8% (-8.8%) in August, and a downwardly revised gain of 11.5% in July. As usual, the headline monthly change was not statistically meaningful. That short-term monthly volatility continued in the context of headline October activity still holding below its never-recovered 2005 pre-recession peak by 59% (-59%).

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 some up-trending stagnation that just flattened out with the headline revisions back to July (see *Graph 12*).

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, with some bounce off the bottom and then stagnation, with the stagnation continuing at a low level of activity to date. Including and beyond new-home sales, related housing activity never has recovered along with the purported rebound in real GDP, which now stands 11.4% above its pre-recession high. For example, from the series' pre-recession peak of July 2005, headline October 2016 New-Home Sales still were down by 59.5% (-59.5%), while October 2016 Single-Unit Housing Starts were down by 52.3% (-52.3%) from the January 2006 pre-recession high of that series (see prior *Commentary No. 849*).

Headline New-Home Sales Reporting. In the context of meaningful downside monthly revisions back to July 2016, October 2016 New-Home Sales (Census Bureau, counted based on contract signings) declined month-to-month by a headline, seasonally-adjusted and statistically-insignificant 1.9% (-1.9%).

That was against a downwardly-revised gain monthly of 1.2% in September, a deeper, revised monthly decline of 8.8% (-8.8%) in August, and a downwardly-revised monthly gain of 11.5% in July. Net of prior-period revisions, the month-to-month change in October 2016 was a decline of 5.1% (-5.1%), instead of the headline 1.9% (-1.9%), still well shy of being statistically significant.

Year-to-year, October 2016 sales rose by a statistically-significant 17.8%, following a downwardly-revised gain of 25.6% in September 2016, a downwardly-revised 12.5% gain in August 2016 and a downwardly-revised annual gain of 24.9% in July 2016. 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 annualized gain of 17.9%, with second-quarter 2016 up at an annualized quarterly gain of 29.5%, and with third-quarter activity at a sharply-lower, revised annualized pace of 17.3%. Based solely on the initial headline October 2016 detail, fourth-quarter 2016 is on early track for an annualized quarterly contraction of 15.8% (-15.8%).

Existing-Home Sales—October 2016—Despite Monthly Jump, the Series Remains in Non-Recovery; Still Down by 23% (-23%) from Pre-Recession Peak. Existing-Home Sales rose in October 2016, gaining 2.00% for the month, on top of an upwardly revised 3.58% in September and following an unrevised monthly drop of 1.49% (-1.49%) in August. Year-to-year growth rose by 5.86% in October 2016, having gained an upwardly revised 0.92% in September 2016 and a shallower, unrevised 0.19% in August 2016.

The series remained in depression (see *Commentary No. 754*). Hitting its highest monthly sales level since February 2007, yet headline October 2016 sales still were down by 23% (-23%) from their 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.

Along with other broad 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 continued broadly with minimal variation around flat-to-rising trends, well below any formal recovery in general economic activity.

Specifically, Existing-Home Sales activity in October 2016 was down by a headline 23.0% (-23.0%) 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 41.8% (-41.8%) from their January 2006 pre-recession high (see prior *Commentary No. 849*).

Headline October 2016 Existing-Home Sales. The headline monthly gain of 2.00% in October 2016 Existing Home Sales [actual closings of home sales, the National Association of Realtors® (NAR)], was against an upwardly revised monthly gain of 3.58% in September an unrevised monthly contraction of 1.49% (-1.49%) in August. Net of prior-period revisions, the October gain was 3.90%, instead of the headline 2.00%. On a year-to-year basis, October 2016 sales jumped by 5.86%, versus an upwardly revised 0.92% in September 2016, and an unrevised annual gain of 0.19% in August 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 sales expanded at an annualized pace of 7.9%, followed by 16.3% in second-quarter 2016, with a revised annualized contraction of 8.0% (-8.0%) in third-quarter 2016 activity. With just one month of reporting in place for fourth-quarter 2016 activity, the early-trend is for an annualized fourth-quarter gain of 16.5%.

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 up-trending, as can be seen in *Graph 15*.

Proportion of Distressed Sales Rose to 5% in October, with All Cash Sales Notching Higher for Second Month. The NAR estimated the portion of October 2016 sales in "distress" notched higher to 5% (4% foreclosures, 1% short sales), versus 4% (3% foreclosures, 1% short sales) in September and down from 6% (5% foreclosures, 1% short sales) in October 2015.

The September 2016 percent of existing-home sales in distress had been the lowest level 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.

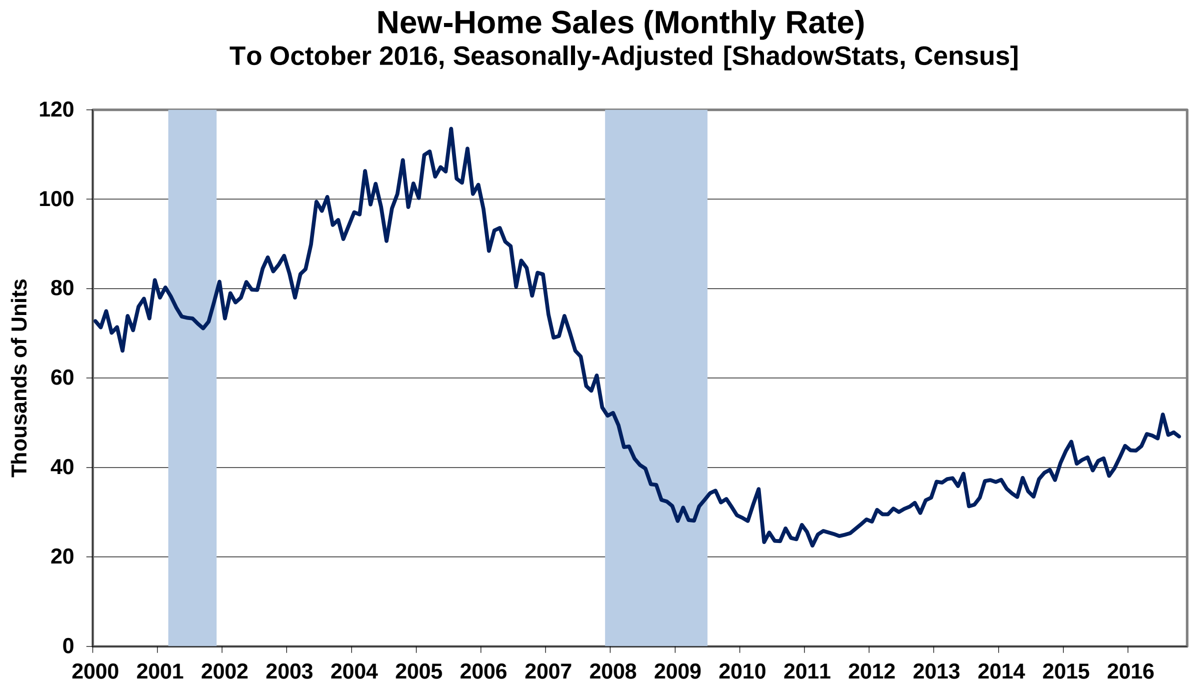
Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales rose to 22% in October 2016, from 21% in September 2016, but they were down from 24% in October 2015.

New-Home Sales Graphs. The regular monthly graph of October 2016 New-Home Sales follows, along with a six-month moving-average version of the series (see *Graphs 10* and *12*). Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of October 2016 Housing Starts for single-unit construction, from prior *Commentary No. 849* (see *Graphs 11* and *13*).

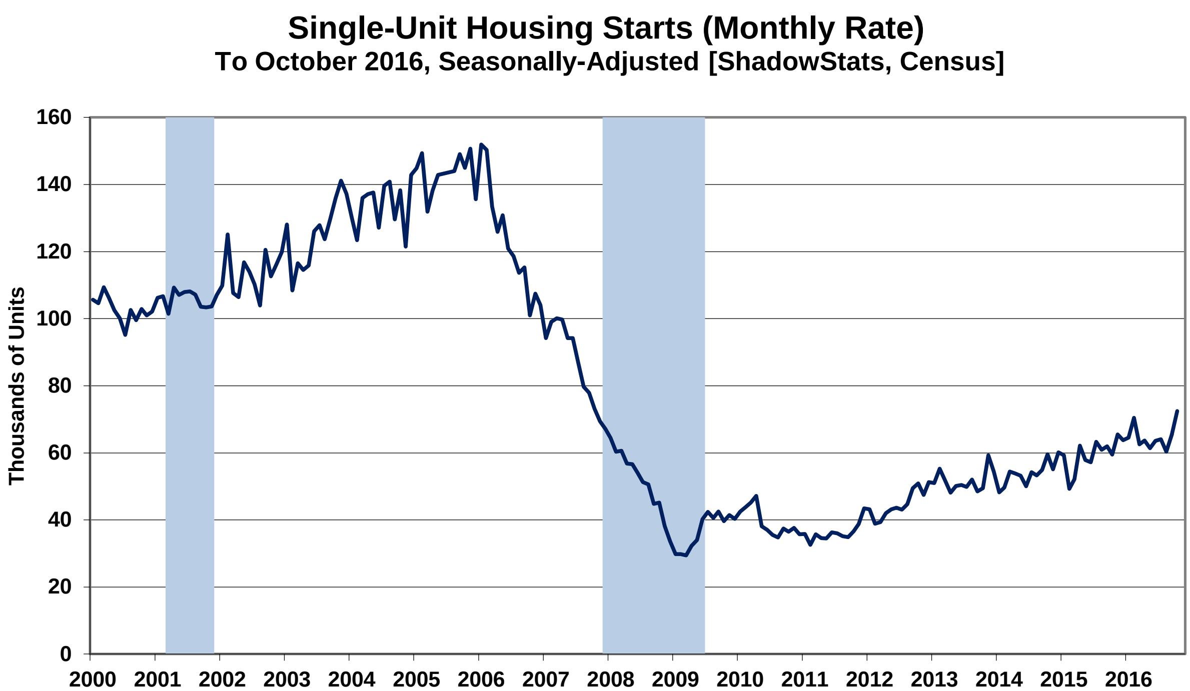
Existing-Home Sales Graphs. *Graph 14* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 16* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of October 2016 aggregate Housing Starts activity, from *Commentary No. 849*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 15* and *17*).

[Graphs 10 to 17 begin on the following page.]

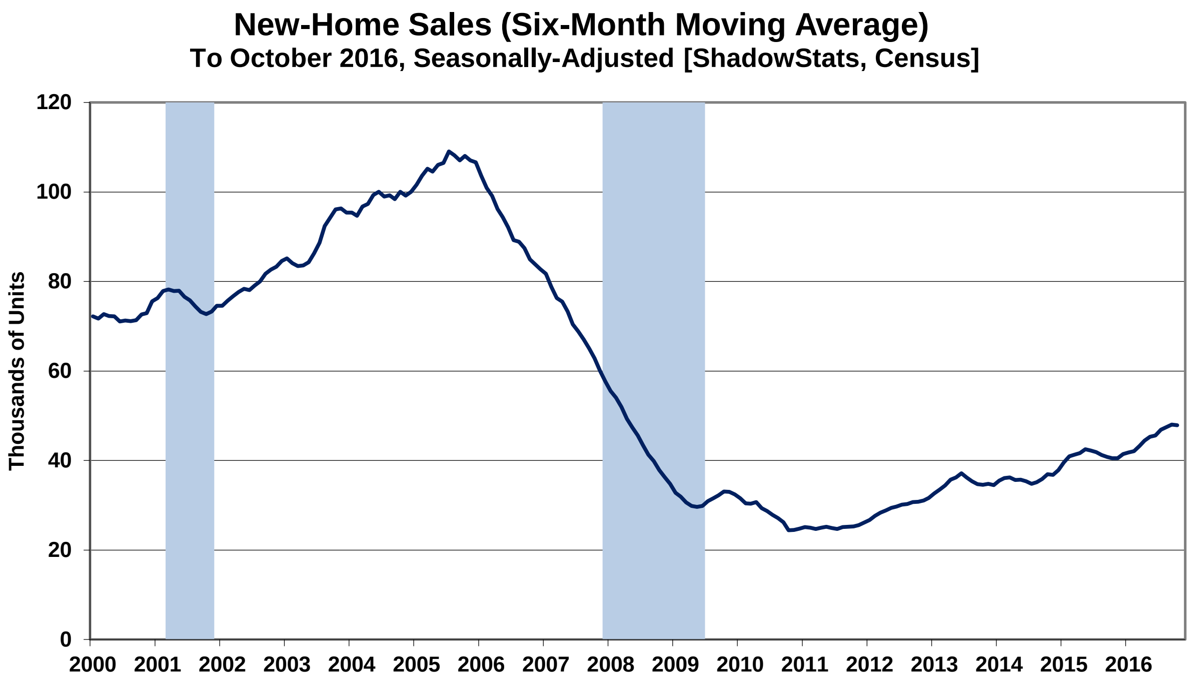
Graph 10: New-Homes Sales – Monthly Rate of Activity



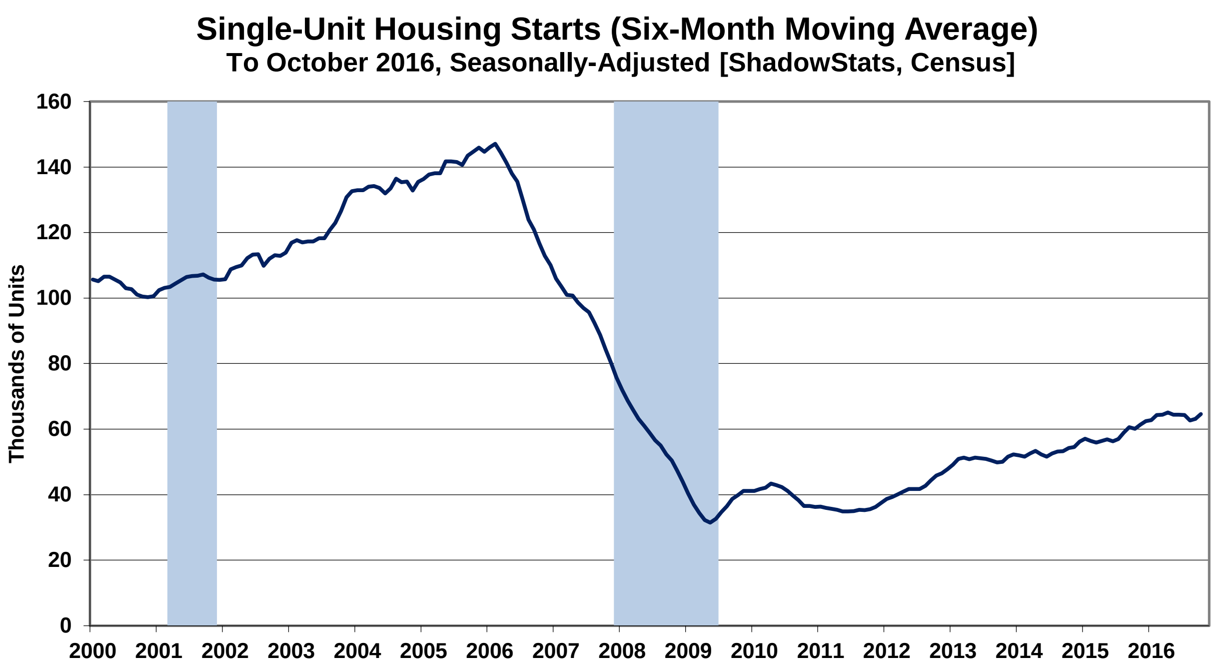
Graph 11: Single-Unit Housing Starts, Monthly Rate of Activity



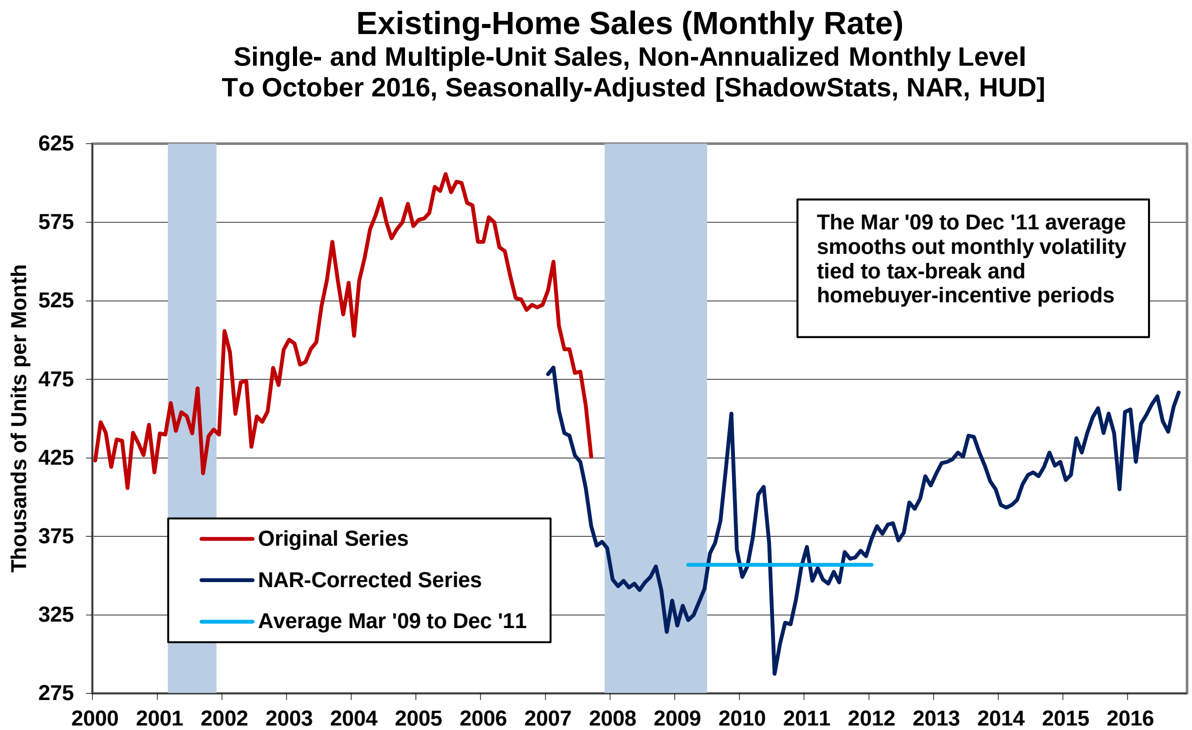
Graph 12: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



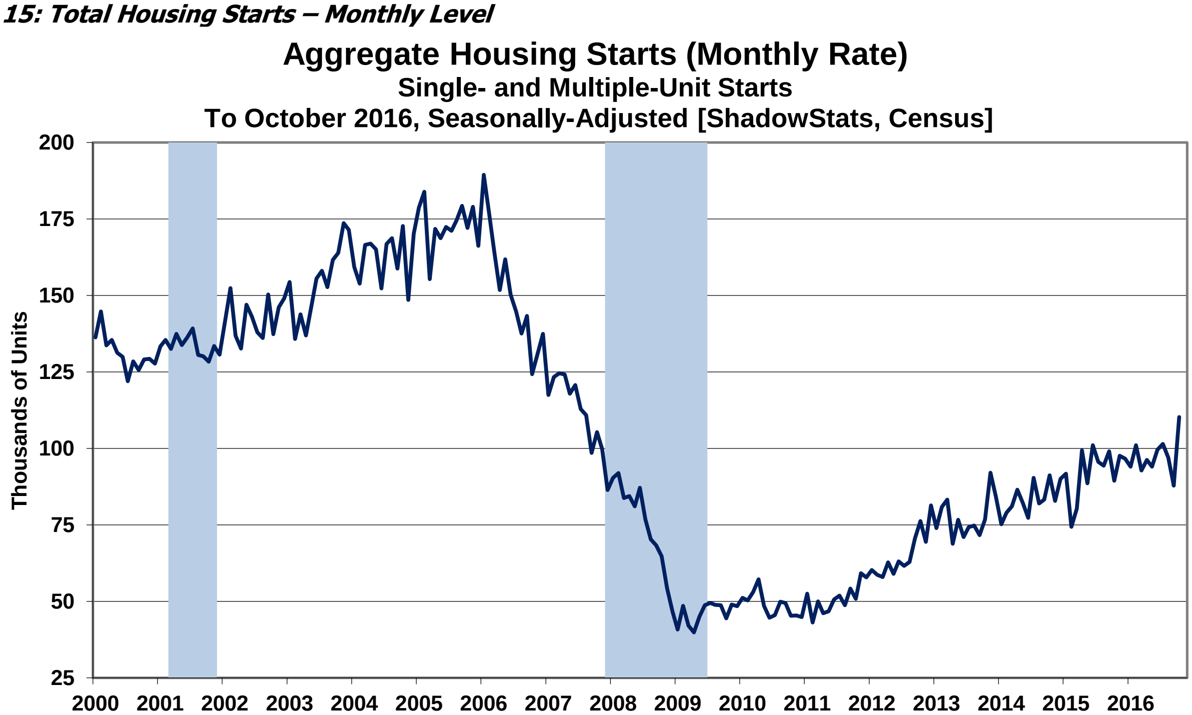
Graph 13: Single-Unit Housing Starts, Six-Month Moving Average, Monthly Rate of Activity



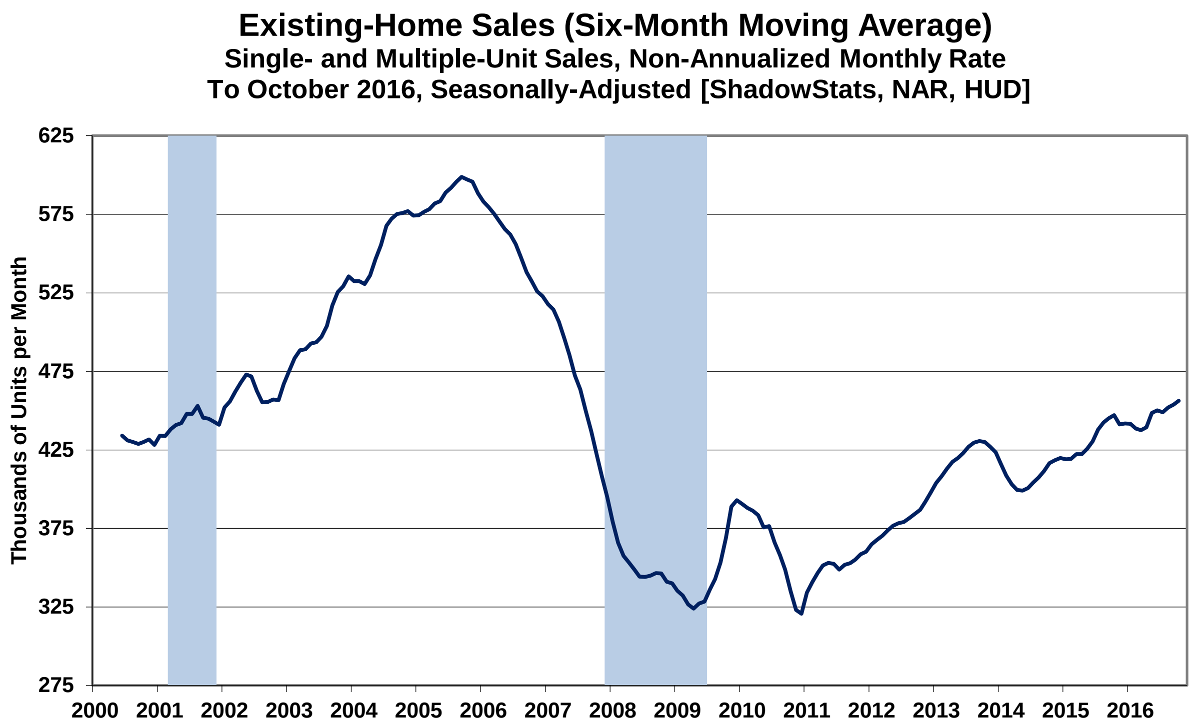
Graph 14: Existing-Home Sales – Monthly Level



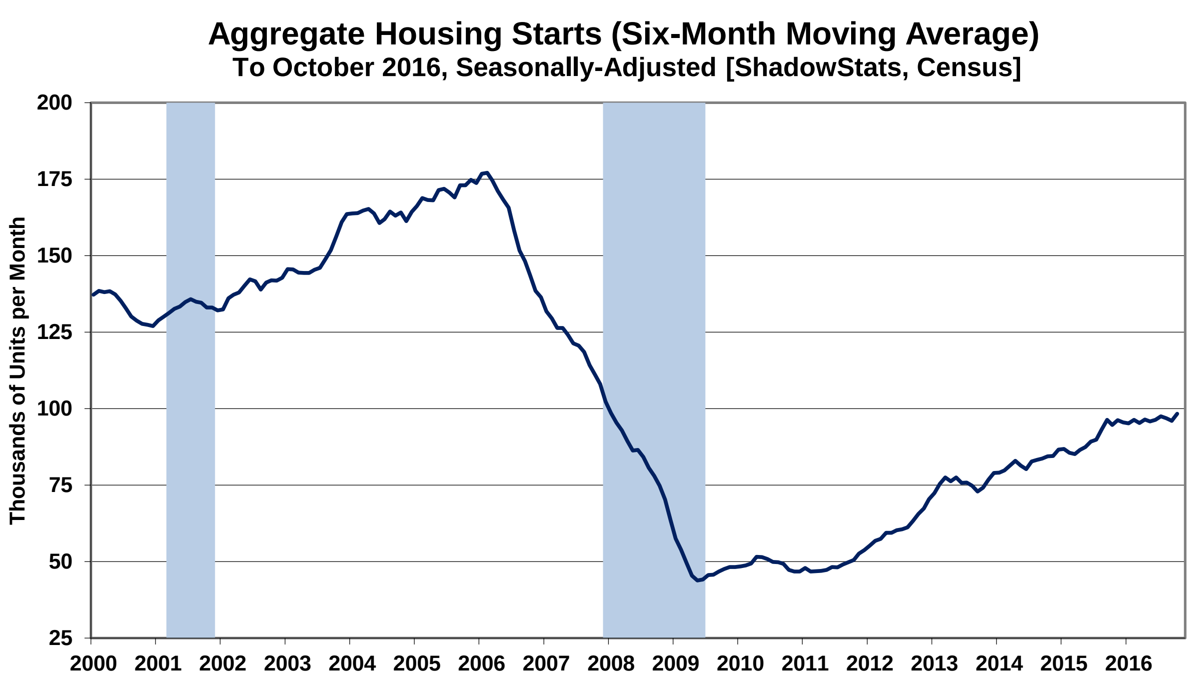
Graph 15: Total Housing Starts – Monthly Level



Graph 16: Existing-Home Sales (Six-Month Moving Average)



Graph 17: Total Housing Starts (Six-Month Moving Average)



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

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (October 2016)

Headline October Gains Were from Inflation and Irregular, Surging Commercial Aircraft Orders; Orders Otherwise Contracted Month-to-Month and Year-to-Year. In the context of a 94.08% surge in October commercial aircraft orders, and an upwardly-revised jump of 30.33% [previously up by 12.49%] in September commercial aircraft orders, and a sharp increase in related headline inflation, nominal October 2016 new orders for durable goods rose by 4.81% for the month and by 2.07% year-to-year. Excluding commercial aircraft, new orders gained 0.19% for the month and 0.15% year-to-year.

The best leading indicator to industrial production and to the broad, general economy, out of this series, is inflation-adjusted real new orders, ex-commercial aircraft, which declined by 0.23% (-0.23%) month-to-month, and by 0.21% (-0.21%) year-to-year, in October. The early-trend for fourth-quarter 2016 reporting for this series suggests an annualized, real quarterly contraction of 0.84% (-0.84%), along with an annual real quarterly contraction of 0.21% (-0.21%). Activity here generally is a tentative negative leading indicator for first-quarter 2017 industrial production, a series that has remained in definitive recession since December 2014 (see *Commentary No. 848*).

Smoothed with six-month moving averages, both (total and ex-commercial aircraft) of these highly volatile numbers, the 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 6* to *9* in the *Opening Comments*).

Headline Nominal Detail. The Census Bureau reported this morning, November 23rd, that the regularly-volatile, seasonally-adjusted, nominal level of October 2016 aggregate new orders for durable goods rose by 4.81% month-to-month, versus an upwardly revised 0.40% [previously a decline of 0.12% (-0.12%)] month-to-month in September, and a downwardly-revised gain of 0.23% [previously up by 0.27%, initially a decline of 0.04% (-0.04%)] in August. Net of prior-period revisions, October 2016 orders rose by 5.32%, instead of the headline 4.81%. The gain in October and upside revisions to September largely reflected new orders for nondefense or commercial aircraft.

Year-to-year, October 2016 durable goods orders rose by 2.07%, versus an upwardly-revised 2.10% [previously up by 1.60%] in September 2016 and a revised, minimally widened annual decline of 1.03% (-1.03%) [previously down by 1.00% (-1.00%), initially down by 1.27% (-1.27%)] in August 2016. That headline detail, though, was before consideration of the irregular volatility in commercial-aircraft orders.

Before and after consideration of commercial-aircraft orders and other 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 monthly gain in October 2016 commercial aircraft orders boosted the aggregate orders into a monthly gain of 4.81%, from what otherwise was a gain of 0.19%.

Net of a headline monthly gain of 94.08% in October 2016 commercial aircraft orders, an upwardly revised gain of 30.33% [previously up by 12.49%] in September 2016, and a negligibly deeper, revised decline of 24.29% (24.29%) [previously down by 24.24% (-24.24%), initially by 21.90% (-21.90%)] in August 2016, new orders gained 0.18% in October 2016, a deepened monthly decline of 0.78% (-0.78%) [previously down by 0.62% (-0.62%)] in September 2016, gained a downwardly-revised 1.53% [previously up by 1.56%, initially up by 1.12%] in August.

Year-to-year and seasonally-adjusted, October 2016 new orders (net of commercial aircraft) rose by 0.15%, having gained a downwardly-revised 0.90% [previously up by 1.10%] in September 2016 and having gained by a downwardly-revised 1.75% [previously up by 1.79%, initially up by 1.36%] in August 2016.

Real Durable Goods Orders—October 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 October 2016 PPI series showed a strong headline monthly gain of 0.42%, following a decline of 0.06% (-0.06%) in September and an "unchanged" reading at 0.00% in August. Headline year-to-year annual inflation rose by 0.36% in October 2016, following annual gains of 0.12% in September 2016 and 0.06% in August 2016.

Adjusted for that 0.42% gain in October 2016 monthly inflation, and as reflected in the graphs in the *Opening Comments* section, real month-to-month aggregate orders in October 2016 rose by 4.37%, by 0.47% in September and by 0.23% in August. Ex-commercial aircraft, real month-to-month orders declined by 0.23% (-0.23%) in October 2016, fell by 0.72% (-0.72%) in September and gained 1.53% in August.

Real aggregate new orders rose year-to-year by 1.70% in October 2016, by 1.97% in September 2016 and declined by 1.09% (-1.09%) in August 2016. Ex-commercial aircraft, real orders in October 2016 showed an annual contraction of 0.21% (-0.21%), following a 0.78% annual gain in September 2016, and a gain of 1.69% in August 2016.

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 declined with a revised, deeper real contraction of 4.53% (-4.53%) [previously down by 4.46% (-4.46%) and initially down by 4.53% (-4.53%)] due to PPI revisions. The revised third-quarter 2016 showed an annualized gain of 4.25% [previously 4.49%], reflecting both downside revisions to the nominal data and increasingly-negative headline month-to-month inflation. Based just on October 2016 reporting, the early-trend for real fourth-quarter 2016 is an annualized contraction of 0.84% (0.84%).

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 4* to *9*) are displayed in the *Opening Comments* section. The first set (*Graphs 4* and *5*) 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, ongoing downturn into fourth-quarter 2016.

The second set of graphs (*Graphs 6* and *7*) 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 8* and *9*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders. Separately, consider (*Graphs 1* and *2*) in the opening paragraphs of the *Opening Comments*, which show 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 October detail, unpublished historical revisions calculated along with the September seasonal adjustments, have made all historical reporting prior to August 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 (October 2016)

Amidst Highly Unstable Reporting, October's Headline Monthly Sales Decline of 1.9% (-1.9%) Was a Contraction of 5.1% (-5.1%), Net of Prior-Period Revisions. 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. At present the reporting trend and revisions are to the downside.

The October 2016 headline reporting of 563,000 units in annualized sales (a 46,917 monthly rate as used in the graphs in the *Opening Comments and Executive Summary*) fell by 1.9% (-1.9%), following a revised, shallower gain of 1.2% in September, a deeper monthly decline of 8.8% (-8.8%) in August, and a downwardly revised gain of 11.5% in July. As usual, the headline monthly change was not statistically meaningful. That short-term monthly volatility continued in the context of headline October activity still holding below its never-recovered 2005 pre-recession peak by 59% (-59%).

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 some up-trending stagnation that just flattened out with the headline revisions back to July (see *Graph 12* 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, with some bounce off the bottom and then stagnation, with the stagnation continuing at a low level of activity to date. Including and beyond new-home sales, related housing activity never has recovered along with the purported rebound in real GDP, which now stands 11.4% above its pre-recession high. For example, from the series' pre-recession peak of July 2005, headline October 2016 New-Home Sales still were down by 59.5% (-59.5%), while October 2016 Single-Unit Housing Starts were down by 52.3% (-52.3%) from the January 2006 pre-recession high of that series (see prior *Commentary No. 849*).

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 October 2016 New-Home Sales Reporting. Reported this morning, November 23rd, by the Census Bureau, in the context of meaningful downside monthly revisions back to July 2016, October 2016 New-Home Sales (counted based on contract signings) declined month-to-month by a headline, seasonally-adjusted and statistically-insignificant 1.9% (-1.9%) +/- 15.3% (all confidence intervals are at the 95% level).

That was against a downwardly-revised gain of 1.2% [previously up by 3.1%] in September, a deeper, revised monthly decline of 8.8% (-8.8%) in August [previously down by 8.6% (-8.6%), initially down by 7.6% (-7.6%)], and a downwardly-revised monthly gain of 11.5% [previously up by 12.7%, up by 13.8%, and initially up by 12.4%] in July. Net of prior-period revisions, the month-to-month change in October

2016 was a decline of 5.1% (-5.1%), instead of the headline 1.9% (-1.9%), still well shy of being statistically significant.

Year-to-year, October 2016 sales rose by a statistically-significant 17.8% +/- 19.8%. That followed a downwardly-revised gain of 25.6% [previously up by 29.8%] in September 2016, a downwardly-revised 12.5% gain [previously up by 13.9%, initially up by 20.6%] in August 2016, and a downwardly-revised annual gain of 24.9% [previously up by 26.3%, up by 32.3% and initially up by 31.3%] in July 2016. 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 annualized gain of 17.9%, with second-quarter 2016 up at an annualized quarterly gain of 29.5%, and with third-quarter activity at a sharply-lower, revised annualized pace of 17.3% [previously up by 26.6%]. Based solely on the initial headline October 2016 detail, fourth-quarter 2016 is on early track for an annualized quarterly contraction of 15.8% (-15.8%).

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 October 2016 Housing Starts for single-unit construction, from prior *Commentary No. 849*, along with comparative graphs of Existing-Home Sales and aggregate Housing Starts (see *Graphs 10* to *17*).

EXISTING-HOME SALES (October 2016)

October Existing-Home Sales Jumped in the Month; Still in Non-Recovery; Still Down by 23% (-23%) from Their Pre-Recession Peak. Existing-Home Sales rose in October 2016, gaining 2.00% for the month, on top of an upwardly revised 3.58% in September and following an unrevised monthly drop of 1.49% (-1.49%) in August. Year-to-year growth rose by 5.86% in October 2016, having gained an upwardly revised 0.92% in September 2016 and a shallower, unrevised 0.19% in August 2016.

The series remained in depression (see *Commentary No. 754*). Hitting its highest monthly sales level since February 2007, headline October 2016 sales still down by 23% (-23%) from their 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.

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 continued broadly with minimal variation around flat-to-rising trends, 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.

Specifically, Existing-Home Sales activity in October 2016 was down by a headline 23.0% (-23.0%) 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 41.8% (-41.8%) from their January 2006 pre-recession high (see prior *Commentary No. 849*).

Headline October 2016 Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® (NAR) reported November 22nd a seasonally-adjusted, headline monthly gain of 2.00% in October 2016 Existing Home Sales, against an upwardly revised monthly gain of 3.58% [previously up by 3.21%] in September an unrevised monthly contraction of 1.49% (-1.49%) in August. Net of prior-period revisions, the October gain was 3.90%, instead of the headline 2.00%.

On a year-to-year basis, October 2016 sales jumped by 5.86%, versus an upwardly revised 0.92% [previously up by 0.55%] in September 2016, and an unrevised annual gain of 0.19% in August 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 sales expanded at an annualized pace of 7.9%, followed by 16.3% in second-quarter 2016, with a revised annualized contraction of 8.0% (-8.0%) [previously down by 8.4% (-8.4%)] in third-quarter 2016 activity. With just one month of reporting in place for fourth-quarter 2016 activity, the early-trend is for an annualized fourth-quarter gain of 16.5%.

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 up-trending, as can be seen in *Graph 15* of the *Opening Comments*.

Proportion of Distressed Sales Rose to 5% in October, with All Cash Sales Notching Higher for Second Month. The NAR estimated the portion of October 2016 sales in "distress" notched higher to 5% (4% foreclosures, 1% short sales), versus 4% (3% foreclosures, 1% short sales) in September and down from 6% (5% foreclosures, 1% short sales) in October 2015.

The September 2016 percent of existing-home sales in distress had been the lowest level 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 rose to 22% in October 2016, from 21% in September 2016, but they were down from 24% in October 2015.

Existing-Home Sales Graphs. Shown in the *Opening Comments*, *Graph 14* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 16* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of October 2016 aggregate Housing Starts activity, from *Commentary No. 849*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 15* and *17*).

WEEK AND MONTH AHEAD

New Fiscal Stimulus Looms, but Trump Administration Needs to Develop a Credible, Long-Range U.S. Solvency Plan to Forestall a Looming Dollar Disaster, Already in Play from Prior Administrations and a Befuddled Federal Reserve. Despite expectations of better business conditions under a Trump Administration, market expectations for near-term (not long-term) business activity should continue to falter, amidst the ongoing and intensifying, negative headline economic reporting that should continue to play out for the next twelve months or so. Where the apparent, "post-election euphoria" related to the U.S. dollar began before Mr. Trump was declared the "unexpected" victor, there are unusual crosscurrents in the markets. That said, an impotent Fed and re-intensifying banking and fiscal crises foreshadow U.S. dollar and systemic crises in 2017, as was discussed in the *Hyperinflation Watch* of *Commentary No. 849* and as will be expanded upon further in next week's *Commentary No. 851*.

New fiscal stimulus under consideration by the incoming Administration will have at least a nine-month lead-time before its impact will surface in headline economic activity, most likely not before early-2018. Accordingly, the new administration could face deteriorating funding needs for its own Treasury. In the near-term, the federal deficit should swell, reflecting revenue flows already impaired by the current economic downturn, as well as taking an initial hit from any new federal spending and or from new tax relief, before the hoped-for increased tax revenues begin to flow from a strengthened economy (see *Commentary No. 846*).

Separately, and most dangerously, the Trump Administration will have a difficult time working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-system illiquidity issues. Again, see the *Hyperinflation Watch* in of *Commentary No. 849*.

Irrespective of mounting talk of a December FOMC rate hike, the still-ongoing and deepening domestic economic downturn promises continuing and intensified stress on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an intensified quantitative easing, irrespective of any near-term rate hike.

Commentary No. 848 covered October industrial production and the PPI, where industrial production confirmed ongoing recession, and the PPI showed energy-related inflation turning positive year-to-year, for the first time since the 2014 collapse in oil prices. *Commentary No. 847* reviewed the highly-suspect headline surge in nominal October retail sales, discussed briefly in today's *Opening Comments*.

Covered in *Commentary No. 845*, October employment and unemployment and September construction spending did not offer a brightening economic outlook. The sharp narrowing in the September and third-quarter 2016 trade deficit generally reflected nonrecurring elements of highly-suspect quality.

Reviewed in *Commentary No. 844,* the above-consensus "advance" estimate of third-quarter 2016 GDP remained well above any realistic estimate of domestic U.S. economic activity. Separate from the strong headline detail in October retail sales, other headline detail from that just-closed month likely will surprise on the downside, as was seen with October labor conditions. Where the retail sales would suggest an upside revision, production and housing detail remain good bets to trigger downside revisions to third-quarter GDP growth estimates.

Commentary No. 843 offered a *Special Comment* on background economic circumstances and the then pending election, following up on *No. 841*. Headline related details from September new- and existing-home sales and from new orders for durable goods reporting also were reviewed. That followed *Commentary No. 842*, which assessed the negative shifts in monthly, quarterly and annual growth patterns of the housing-starts series.

Noted in *Commentary No. 841*, consumer inflation started to rebound, along with higher gasoline prices, yet the economy continued to falter as indicated in September freight activity, and as seen in the headline detail of September housing starts. The *Special Comments* in *No. 841* also looked a little deeper into the likely impact of unusually protracted and negative economic conditions on the presidential election and on the post-election environment for the U.S. dollar and precious metals.

September industrial production detail disappointed market expectations and deteriorated sharply in the context of downside, prior-period revisions. Such was reviewed in *Commentary No. 840*. *Commentary No. 839* provided the opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets. Consumer liquidity conditions also were updated, along with a review of September 2016 nominal Retail Sales and the PPI.

September employment and unemployment circumstances were covered in *Commentary No. 838*. Fed-policy retrenchment should remain very much alive, shifting towards that renewed quantitative easing, in the post-election environment, as discussed in the *Opening Comments* of *No. 839*, and those of *Commentary No. 837* and *Commentary No. 835*, which respectively also reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

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 in the industrial production detail (*No. 840*) and in *Commentary No. 832*. Earlier FOMC considerations also were covered in *Commentary No. 831*, while the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*.

Broad economic and systemic details otherwise have been reviewed regularly 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*.

Post-election market activity has seen positive boosts to the equity markets and the U.S. dollar, with sharply negative impact on prices of precious metals. Again, severe market concerns as to the Federal Reserve's quagmire should resurface fairly quickly, where 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 pre-election, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Then, Fed rate-hike jawboning put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Even 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, post-election.

Temporary jawboning aside, market reactions increasingly should reflect a renewed sense of Federal Reserve impotence in the wake of the last no rate hike, with bleak longer-term implications for the U.S. dollar. Irrespective of any near-term, one-shot rate hike, renewed quantitative easing increasingly should become the target of post-election speculation, as the deepening recession continues to unfold.

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). Although such was not in place with the headline, "advance" reporting of third-quarter 2016, with the exception of second-quarter 2016 GDI, downside revisions loom there in the next two months, with quarterly economic contractions fair bets in fourth-quarter 2016 and first-quarter 2017.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—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, while the September and October CPIs were spiked by gasoline prices and positive seasonal adjustments. 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,* and as updated on October 24th: *Crudele*. In Mr. Crudele's latest investigation, he has focused on retail sales reporting, as discussed in the *Opening Comments*: *John Crudele on Retail Sales*.

PENDING RELEASES:

Gross Domestic Product (GDP)—Third-Quarter 2016, First Revision, Second Estimate. The Bureau of Economic Analysis (BEA) will publish its second guesstimate of third-quarter 2016 Gross Domestic Product (GDP) on Tuesday, November 29th. Detail will be covered in *Commentary No. 851* of that date.

Nonsensical upside reporting and revisions to October retail sales and housing starts and serious flaws in recent trade-deficit detail, promise some upside revision to the not credible, headline third-quarter annualized real "advance" third-quarter GDP estimate of 2.90%. There still will be another round of post-election, third-quarter revisions on December 22nd, followed thereafter by the benchmark revisions of July 2017.

Initial reporting of third-quarter Gross Domestic Income (GDI), the purported income-side equivalent to the consumption-side GDP, and the Gross National Product (GNP), the broadest measure that includes GDP plus the trade flows in interest and dividend income, also will be released on the 29th. They occasionally offer unusual perspectives on the headline GDP detail.

Construction Spending (October 2016). The Commerce Department will release its estimate of October 2016 construction spending on Thursday, December 1st. Detail will be covered in ShadowStats *Commentary No. 852* of December 2nd. As usual, headline monthly changes should not be statistically-significant. Irrespective of almost perpetually-positive market expectations for this series, the detail generally should continue in down-trending stagnation, particularly in real terms, net of inflation.

Employment and Unemployment (November 2016). The Bureau of Labor Statistics (BLS) will publish its post-election November 2016 labor data on Friday, December 2nd. Headline detail will be covered in *Commentary No. 852* of that date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, are open for continuing negative headline surprises, given the ongoing, general weakening tone in a number of business indicators.

Otherwise, in the context of recent the extreme volatility and inconsistencies in the last several months of payroll and unemployment detail, almost anything is possible with the BLS. Underlying reality remains a much weaker-than-expected economy, which increases the odds of a hefty downside surprise to the headline payroll change in November.

Where the headline unemployment detail remains completely unstable and not comparable month-to-month, due to the inconsistent use of published seasonally-adjusted numbers, that detail is particularly vulnerable to near-term political massaging. The near-term instabilities have been demonstrated in recent reporting, as discussed fully in *Commentary No. 819*. That said, again, anything is possible in the next month, but the Household-Survey data increasingly should trend weaker than expected.

Better-quality, underlying economic fundamentals continue to weaken (such as the Conference Board's Help Wanted Online® survey through October 2016, suggesting continued slowing or negative month-to-month growth in headline payrolls, as well as stagnation or deterioration in the broader unemployment rates such as U.6 and particularly the ShadowStats Alternate Unemployment Measure.

PENDING SHADOWSTATS UPDATES: Comprehensive *Special Report* and ShadowStats Website. ShadowStats will update fully, into one, massive background piece—a comprehensive *Special Report (Commentary)*—encompassing the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). Where publication had just been targeted for November 30th, that has been pushed back by a week or so, given current problems with an intensifying, seasonal malady. Updated detail follows in the next *Commentary No. 851*, of November 29th.

The *Special Commentary* will include the latest outlook and will incorporate fully revised materials from 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*. It 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. Subsequently, various background articles available at the www.ShadowStats.com site also will be updated, staggered through year-end.

The *Special Commentary* also will include a section with links to books and articles that we and/or our readers have found of particular interest and substance. Many thanks to those who already have submitted recommendations of specific books and publications. 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.

