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

GENERAL COMMENTARY NUMBER 867
Economic Update, January Freight Index, New- and Existing-Home Sales

February 24, 2017

Mixed Signals on Economic Bottoming

Is a Second Bottom at Hand for the Economic Collapse into 2009?

Freight Index Annual Growth Moved Higher for Second Straight Month

Broad Economic Activity Remains in Low-Level Stagnation,
Never Having Recovered Its Pre-Collapse Peak

In Ongoing Double-Dip Downturn, Industrial Production Is Two Months Shy of
Matching the 113-Month Duration of the Double-Dip Great Depression

January New- and Existing-Home Sales Monthly and Annual Gains
Continued in the Context of Low-Level, Broad Stagnation

PLEASE NOTE: With the concentration of this February 24th Commentary *shifted to a potential bottoming in near-term economic activity, the analysis of the government's GAAP-based accounting has been shifted to the February 28th* Commentary. *The next regular* Commentary*, scheduled for Monday, February 27th will cover January 2017 New Orders for Durable Goods, followed by Tuesday's February 28th* Commentary *reviewing the second-estimate, first-revision to Fourth-Quarter 2016 GDP, along with the GAAP-accounting analysis. Please call at (707) 763-5786, if you have questions or would like to talk.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economic Collapses Eventually Bottom Out; Is a Second Bottom at Hand for the "Ongoing" Collapse into 2009? *ShadowStats* follows a number of economic indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. The Cass Freight Index™ is one such indicator. The headline detail for the January 2017 index, released on February 17th, was accompanied by the following comment from CASS:

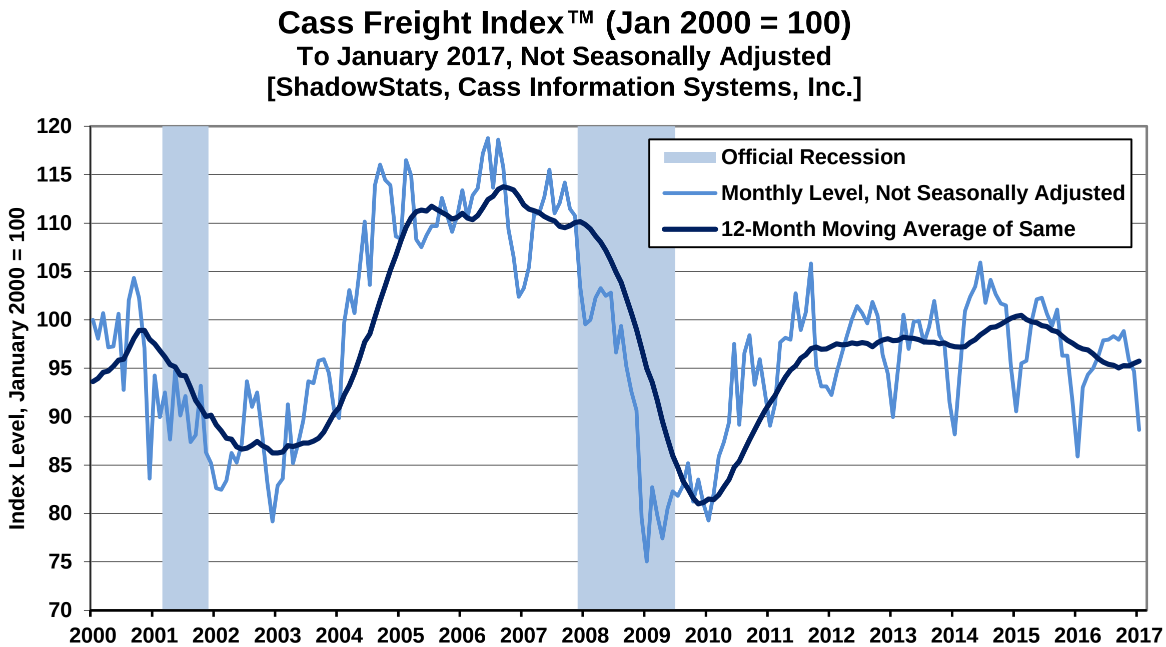
> The 3.2% [annual] increase in the January Cass Shipments Index is yet another data point which strongly suggests that the first positive indication in October may have indeed been a change in trend. In fact, it now looks as if the October index, which broke a string of 20 months in negative territory, was one of the first indications that a recovery in freight had begun in earnest.

Economic downturns eventually hit bottom, and the current circumstance likely will not be the exception. The economic collapse that formally has been recognized from peak activity in December 2007 to a trough in June 2009 is accurate in terms of timing the bottom. The headline contention remains, though, that the economy fully recovered thereafter, entering a period of new economic expansion in second- or third-quarter 2011, expanding ever after. ShadowStats contends that the economy never fully recovered, moving instead into a period of protracted stagnation, which began to turn down anew in December 2014. That still should gain recognition as a "new" recession, or otherwise as a second leg in a double-dip or multiple-dip recession. What the CASS numbers suggest is that the second downturn might have hit its bottom. For background on the ShadowStats general outlook, see *No. 859 Special Commentary* and *2014 Hyperinflation Report—Great Economic Tumble*.

The analysis here first looks at the latest Cass Freight Index, then reviews the Industrial Production series, in the context of what has become an extraordinarily-long period of contracting, or no economic growth, and also as a series that has seen some recent improvement in year-to-year change. Patterns of annual change in other series also are compared, including two reliable indicators that are signaling imminent downturns or intensifying downturns. While there may be a bottoming in the works, recovering pre-collapse levels of activity remains well into the future and is dependent on the Trump Administration being able to get some of its stimulus programs into place.

January 2017 CASS Freight Index Showed Second Consecutive Year-to-Year Gain, but Series Still Is in Low-Level Stagnation, Shy by 13.1% (-13.1%) of Its Pre-Recession Peak. Patterns of continued low-level stagnation in the general economy and business activity were reflected once again in the headline detail of the January 2017 Cass Freight Index™, although for the second consecutive month, the third month in the last four, monthly activity was higher on a year-to-year basis. A consecutive string of 19-months of annual contraction began in March 2015, consistent with a "new" recession signal following the industrial production peak in November 2014, a series that began a string of 15 month-to-month annual contractions in September 2015, a pattern never seen outside of formal economic recessions in the 99-year history of the industrial production series.

Graph 1: CASS Freight Index ™ (2000-January 2017)



Beginning with *Commentary No. 782* (further background available there), ShadowStats published the 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.

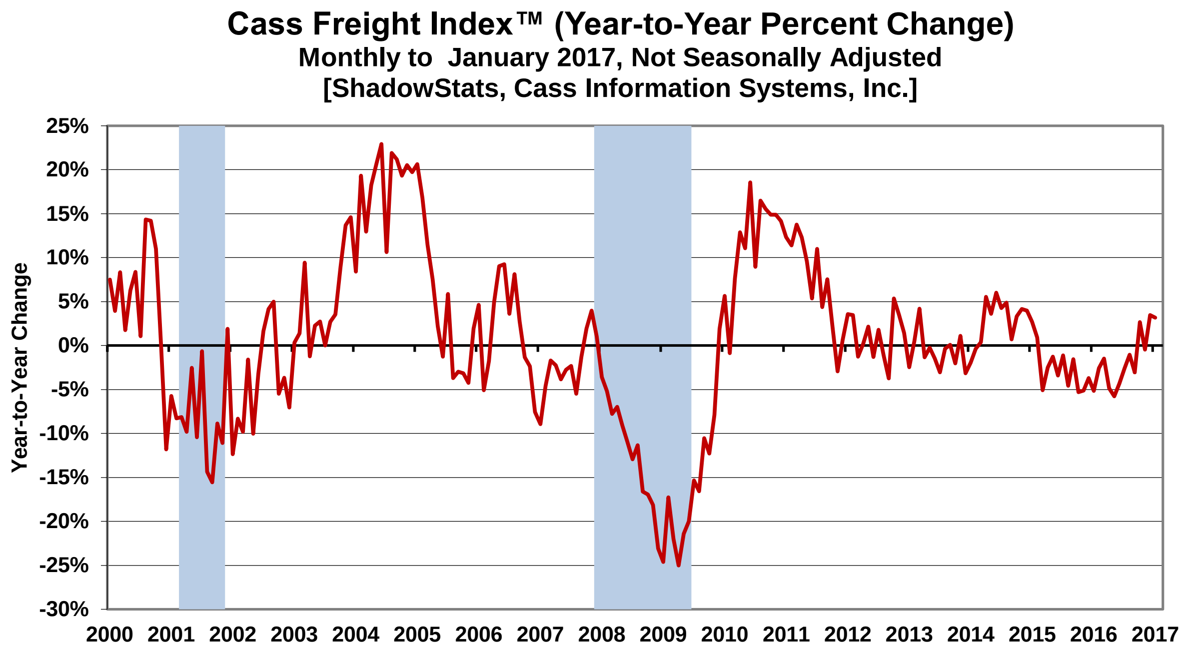
Graph 1 reflects the monthly numbers updated through January 2017. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using 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 here. The headline index published by Cass is based at January 1990 = 100.

The plot of the trailing twelve-month average of the freight index shows that it peaked in February 2015, consistent with onset of a "new recession" in December 2014, and had been slowing since, through September 2016. Other than minimal upticks in October and December 2016, and January 2017, the level of twelve-month moving average has been flat to minus, with the January 2016 twelve-month moving average showing a decline of 4.7% (-4.7%) from the February 2015 near-term peak average, and down by 13.1% (-13.1%) from its pre-economic collapse high in December 2007. The January 2017 12-month-average reading also was down by 1.5% (-1.5%) year-to-year in January 2017, versus 2.2% (-2.2%) in December 2016 and an annual decline of 2.7% (-2.7%) in November 2016.

Year-to-Year Annual Change by Individual Month Has Turned Positive. Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in

Graph 2. The unadjusted monthly detail had been in continual year-to-year decline since March of 2015, down at an intensified annual rate of 3.05% (-3.05%) in September 2016. It rallied to an annual gain of 2.66% in October 2016, but fell back into year-to-year contraction of 0.05% (-0.05%) in November 2016, coming back to the plus-side by 3.46% in December 2016 and easing slightly to 3.22% in January 2017. As a result, fourth-quarter 2016 showed an annual gain of 1.86%, the first such gain year-to-year since fourth-quarter 2014. Such a pattern will be seen when the annual declines in monthly growth bottom out and turn higher, but the regular volatility seen in this series leaves open the question as to whether a sustainable, near-term bottom has been reached.

Graph 2: CASS Freight Index, Year-to-Year Percent Change, Monthly through January 2017



In combination, *Graphs 1* and *2* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level stagnation thereafter and a renewed downturn effectively coincident with a "new" recession, which, again, likely will be timed from December 2014, whether or not it has bottomed.

Industrial Production: Current Economic Difficulties Are Approaching Historical Limits. The Federal Reserve's Index of Industrial Production, which signaled and has shown a second downturn, also recently has seen a bottoming in declining annual growth. Although the periods of annual contraction were more severe in the 1930s, the current circumstance is proving to be of equal persistence. Industrial production is used here as a headline economic benchmark for historical comparisons with the Great Depression for several reasons.

First, it has a reasonably consistent history back to 1918, which no other major economic series has today. A major consistency exception was the introduction of hedonic-quality adjustments of recent decades in understating the inflation rate used to deflate certain components of the production series. The effect was to overstate series growth, as discussed in *Commentary No. 866*. Nonetheless, all the industrial production detail used here is as reported in the headline series.

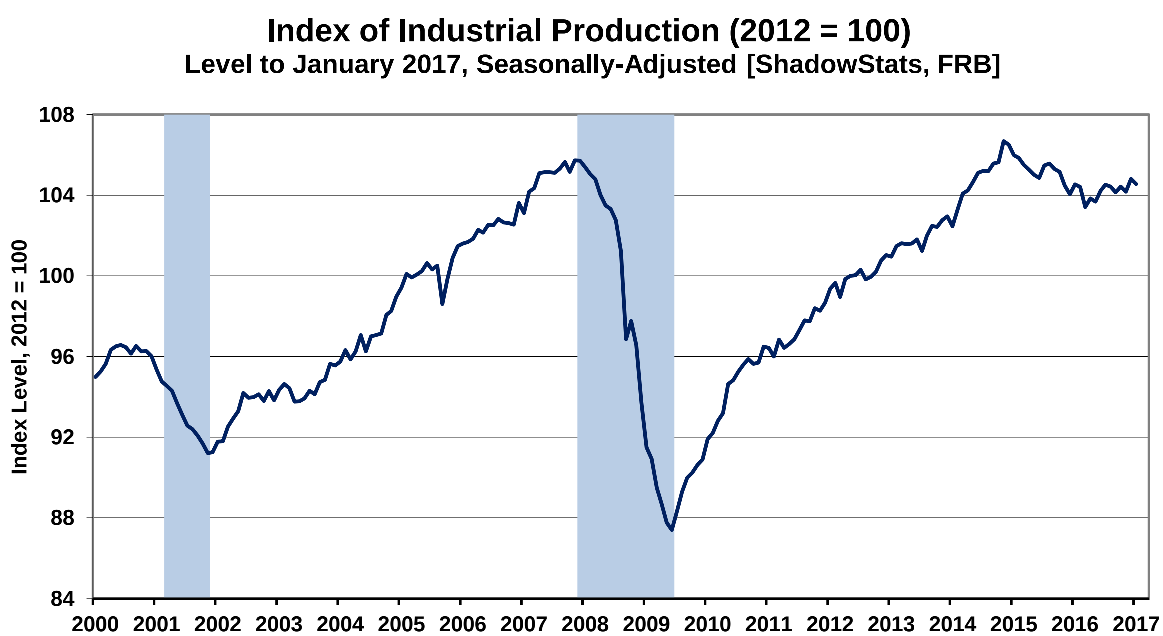
Second, Industrial Production standardly is one of the primary measures used in calling and timing formal recessions, as determined the National Bureau of Economic Research (NBER), including the two recession components of the Great Depression, and the formal recession/economic collapse into 2009.

Third, Industrial Production is the least gimmicked of the widely followed official monthly statistics. It is prepared under the auspices of the Federal Reserve Board, instead of the Executive Branch-controlled Bureaus of the Census, Labor Statistics, and Economic Analysis. The various Bureaus tend to be more sensitive to political considerations needed for the electorate. Various issues with reporting quality and built-in-biases for the popular headline data ranging from employment to retail sales and housing, and, again, even industrial production are discussed in *Commentary No. 866*, *Commentary No. 864*, *Commentary No. 863* and *No. 859 Special Commentary*.

The Great Depression. Measured against the August 1929 peak in both national economic activity and industrial production, production collapsed in the ensuing months and years, with production down at one point in 1932 by 53.56% (-53.56%) from its pre-Great Depression high. While the economic collapse formally hit bottom in March 1933, production activity did not recover its pre-recession high until December 1936, some 89 months after the downturn began.

The subsequent expansion in production lasted all of six months, with production crashing again in May 1937, down by 31.60% (-31.60%) from the new pre-second-dip high in May 1938, with the economy formally bottoming anew in June 1938. The subsequent recovery did not recover its pre-second-downturn peak level until October 1939, some 25 months after the second dip in the Great Depression began, a total of 113 months of non-recovered industrial production.

Graph 3: Index of Aggregate Industrial Production since 2000

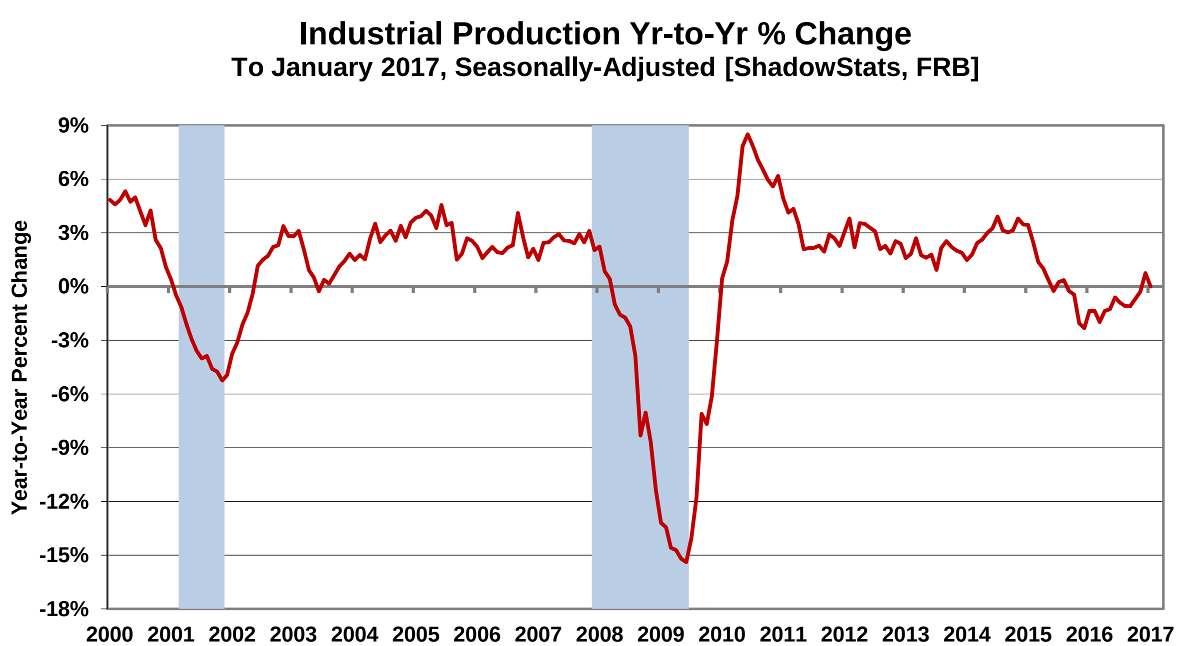


Economic Collapse into 2009**.** Measured against the December 2007 peak in national economic activity (production was minimally higher in November 2007), production collapsed in the ensuing months and years, with production down at one point in 2009 by 17.32% (-17.32%) from its pre-collapse high. While the economic collapse formally hit bottom in June 2009, production activity did not recover its pre-recession high until November 2014, some 84 months after the downturn began. The dominant manufacturing sector in industrial production never has recovered its pre-collapse high.

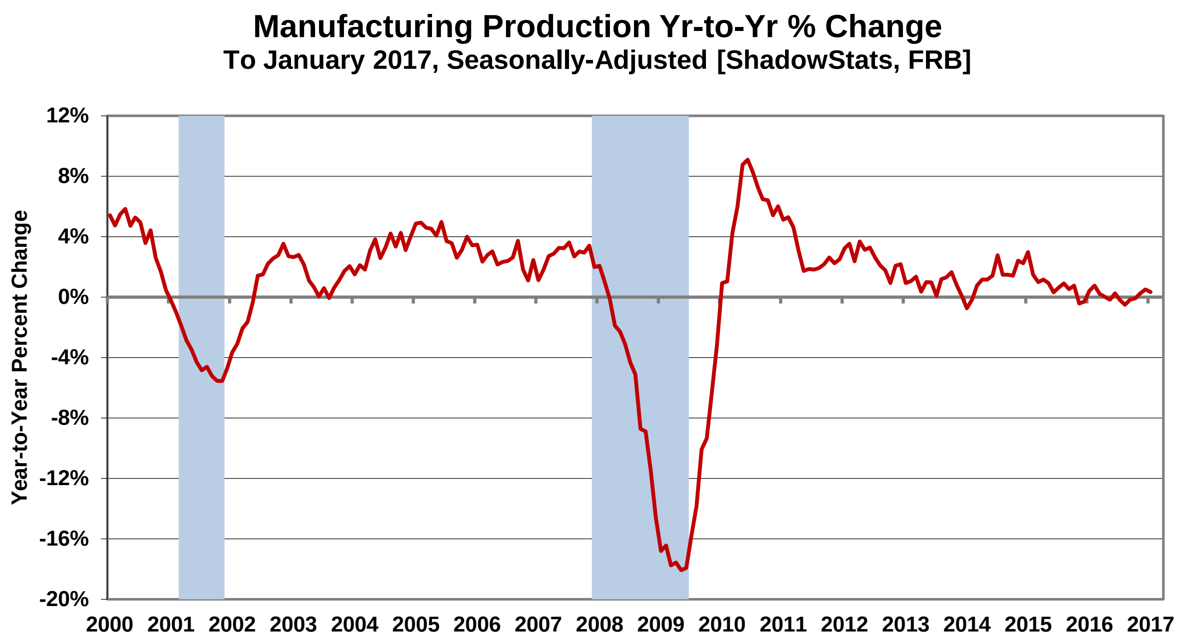
The subsequent expansion in production lasted all of one month, with production turning lower in December 2014, down by 3.06% (-3.06%) in March 2016 from the new pre-second-dip high, and down by 2.00% (-2.00%) as of last week's January 2017 reporting (see *Graph 3*). As of January 2017, the subsequent recovery has not recovered its pre-second-downturn peak level, some 26 months after the second dip began in December 2014, a total of 110 months of non-recovered industrial production, and still counting, versus 113 months in the Great Depression.

Nonetheless, after five quarters and 15 straight months of year-to-year contraction, through November 2016, a pattern never seen before outside of formally-recognized recessions, production turned higher year-to-year by 0.74% in December 2016, and flattened to an annual gain of 0.01% in January 2017. While the November spike was due to unusual weather heavily boosting utility usage, and where unusual factors can be tied to other gains in other series, the pattern of annual decline was flattening out, as seen in *Graph 4*. *Graph 5* of annual growth in the manufacturing sector, which never recovered its pre-recession high, has shown a period of flattened growth for some time. The same is seen with real annual growth in new orders for durable goods (*Graph 6*), and similar near term-activity in construction (*Graph 7*). Allowing for roughly a two-percentage point overstatement of annual growth in recent years in headline real retail sales (*Graph 8*), payrolls (*Graph 9*) and real GDP (*Graph 10*), as discussed in their recent headline *Commentaries*, similar patterns are evident.

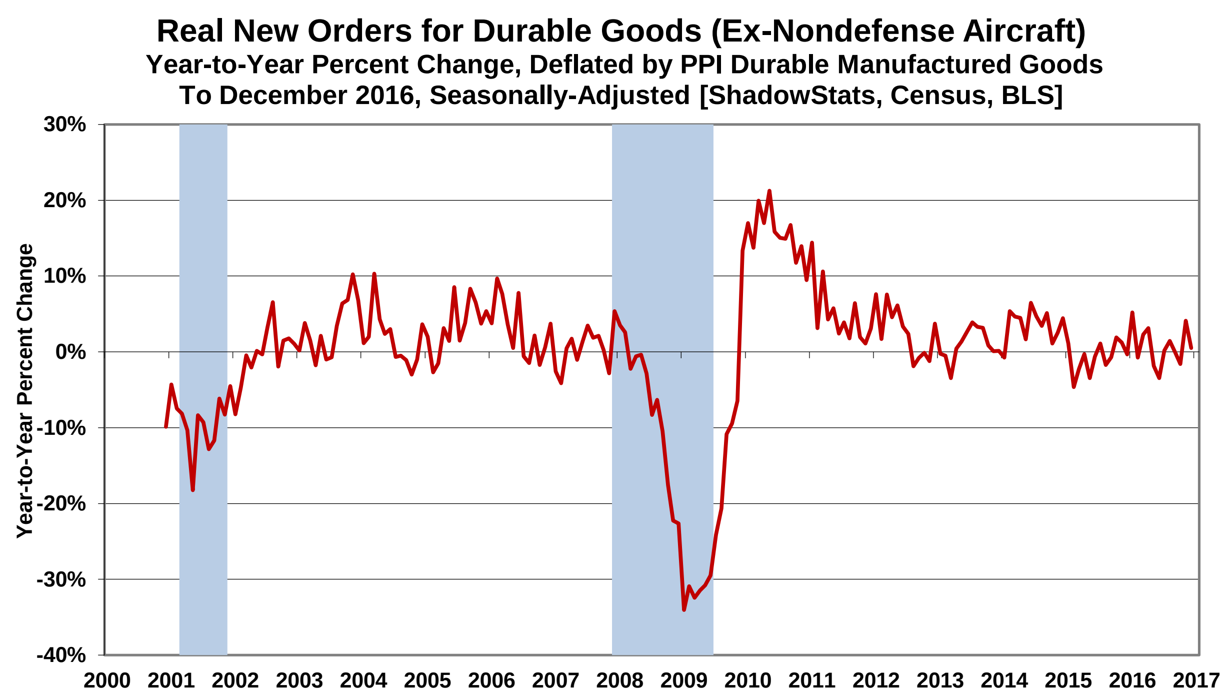
Graph 4: Aggregate Industrial Production, Year-to-Year Percent Change since 2000



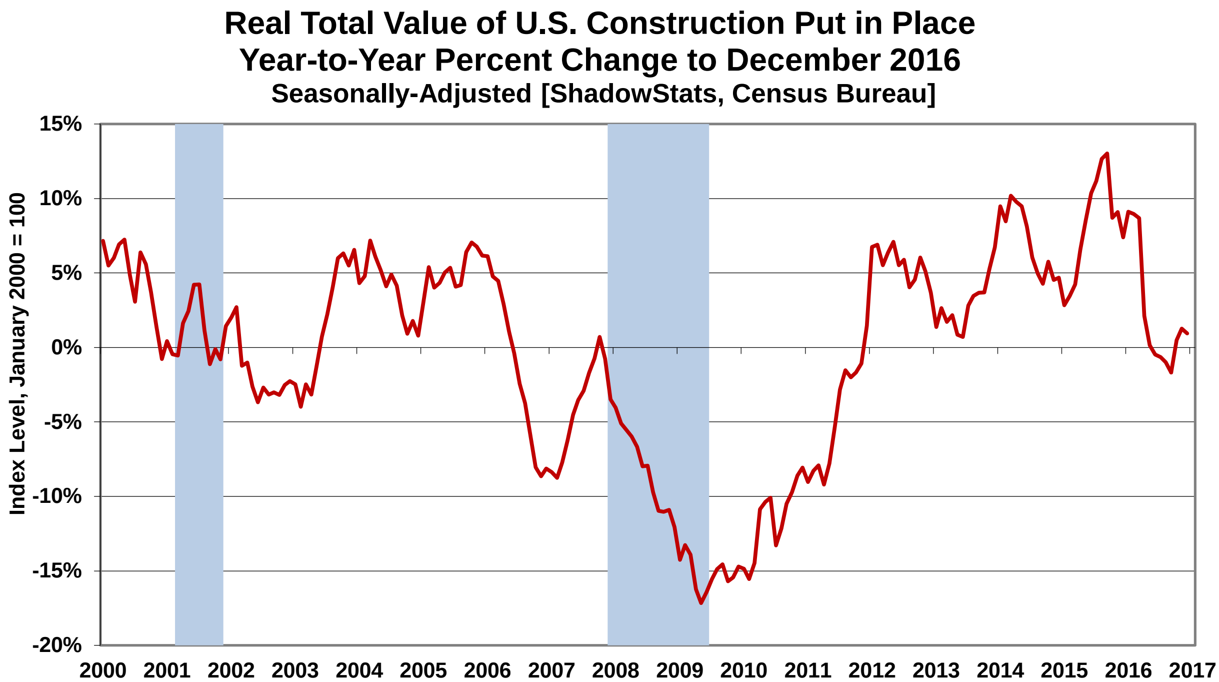
Graph 5: Industrial Production - Manufacturing, Year-to-Year Percent Change Since 2000



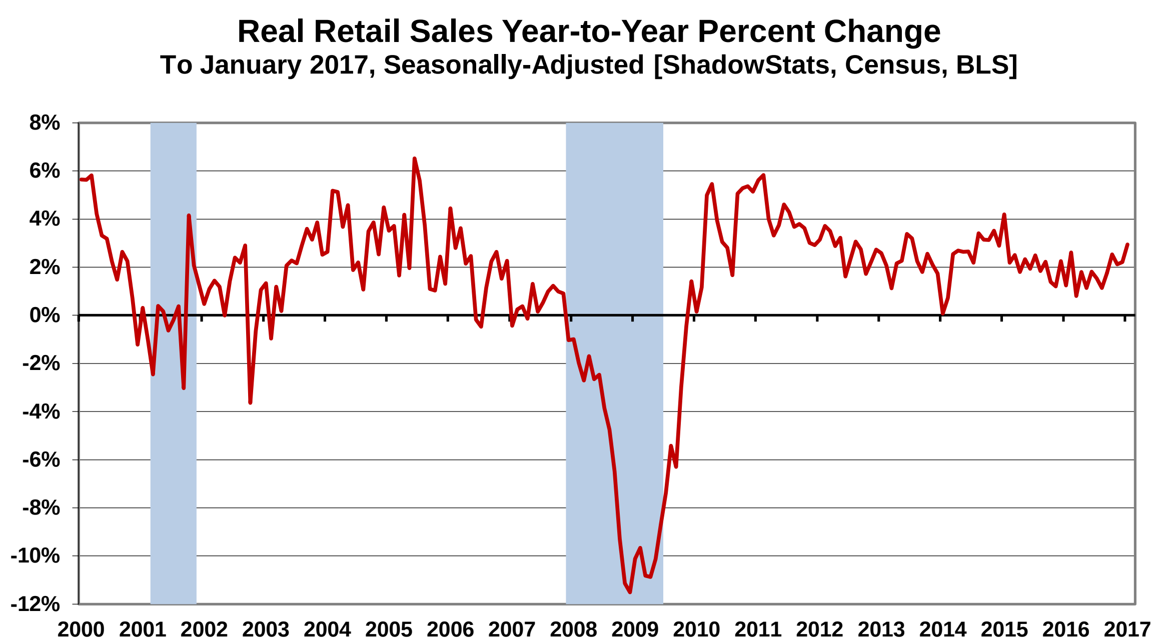
Graph 6: Real New Orders for Durable Goods, Year-to-Year Percent Change Since 2000



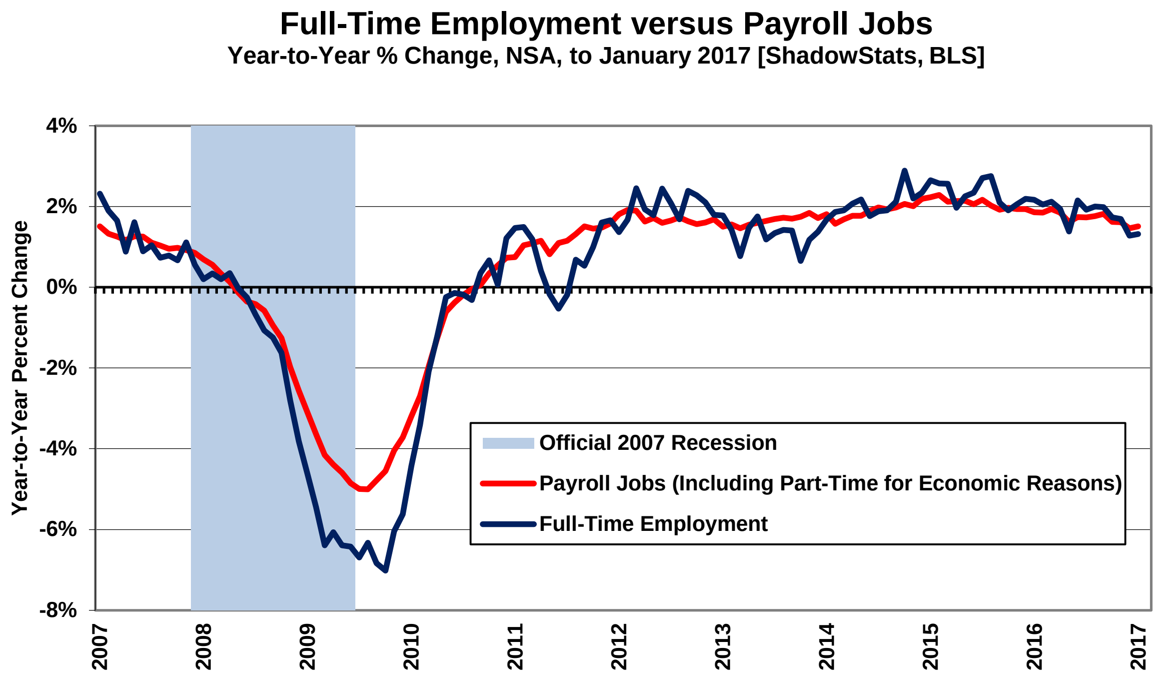
Graph 7: Year-to-Year Change in Real U.S. Construction Spending (2000-2016)



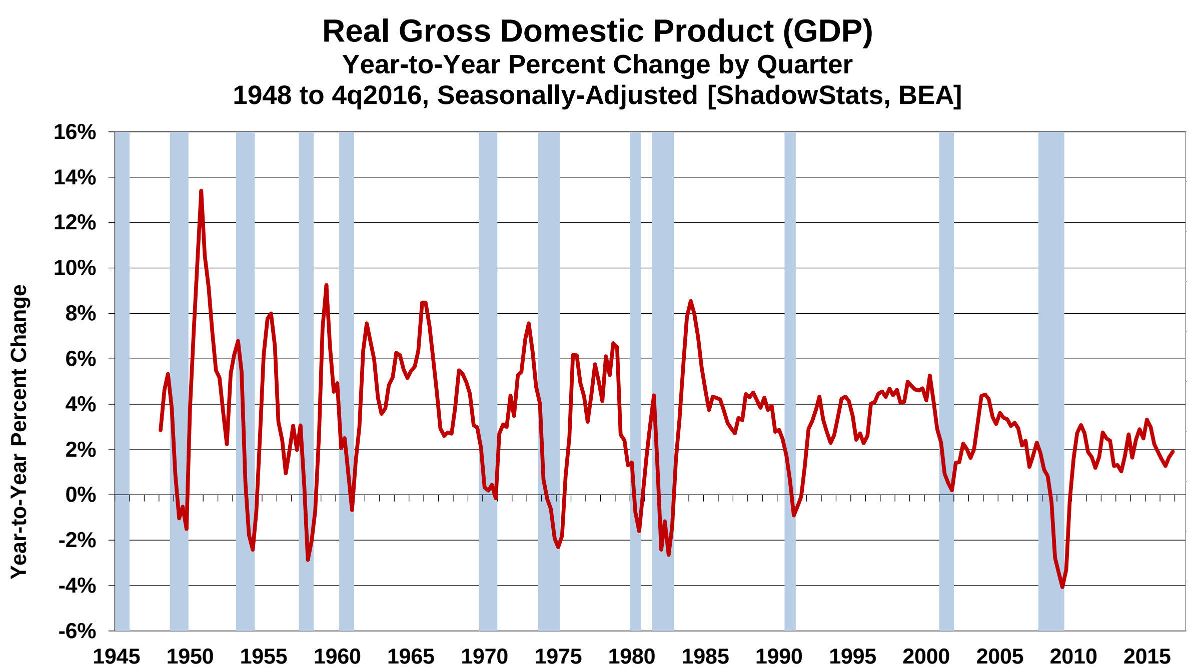
Graph 8: Real Retail Sales (2000 to Date), Year-to-Year Percent Change



Graph 9: Year-to-Year Change in Employment (Payrolls versus Full-Time)



Graph 10: Year-to-Year GDP Real Change (1948-2016), First Estimate of Fourth-Quarter 2016

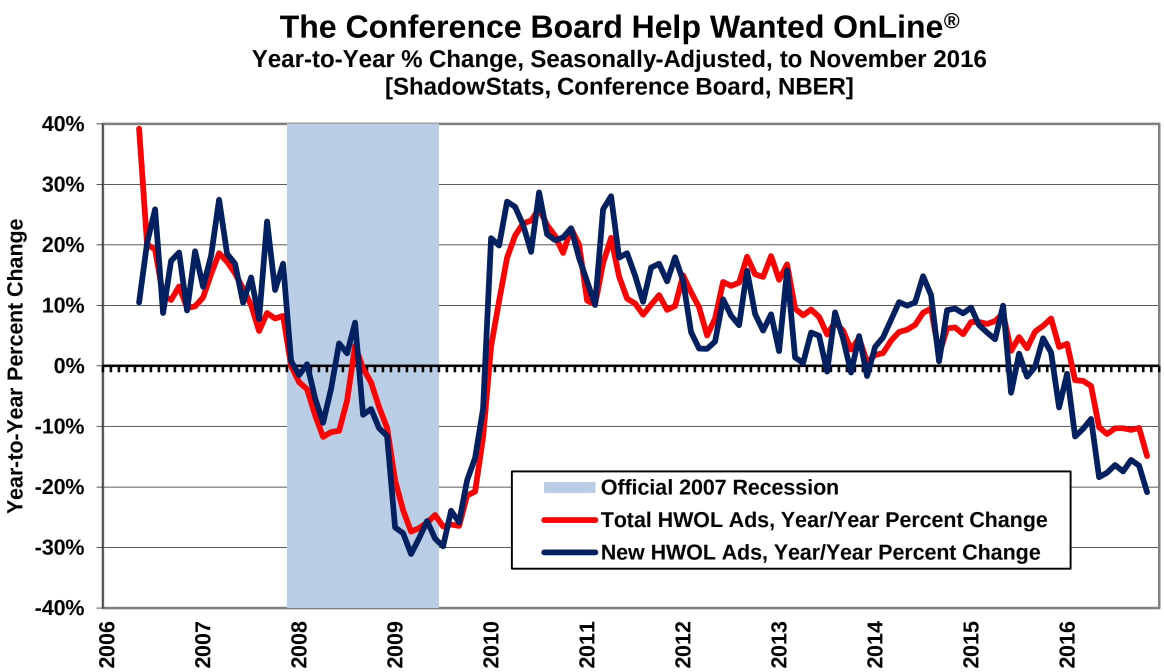


Harbingers of Downturn Still to Come. Reference is made here to *Commentary No. 852*, which had published *Graph 11* of year-to-year change of the *Help Wanted OnLine*® (HWOL) data, updated through

November 2016, with the permission of The Conference Board, first fully covered here in *Commentary No. 820* of July 16, 2016. Related background, complete details and reporting are found here: The Conference Board Help Wanted OnLine®.

Where tracking help-wanted advertising as a leading economic indicator had its roots as far back in time as the initial reporting of industrial production, post-World War I, The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day, always signaling advance warnings on recessions, when growth turned negative year-to-year (again, see *Commentary No. 820*). The current series continues to signal an imminent economic downturn, when the data are assessed in terms of annual, year-to-year change.

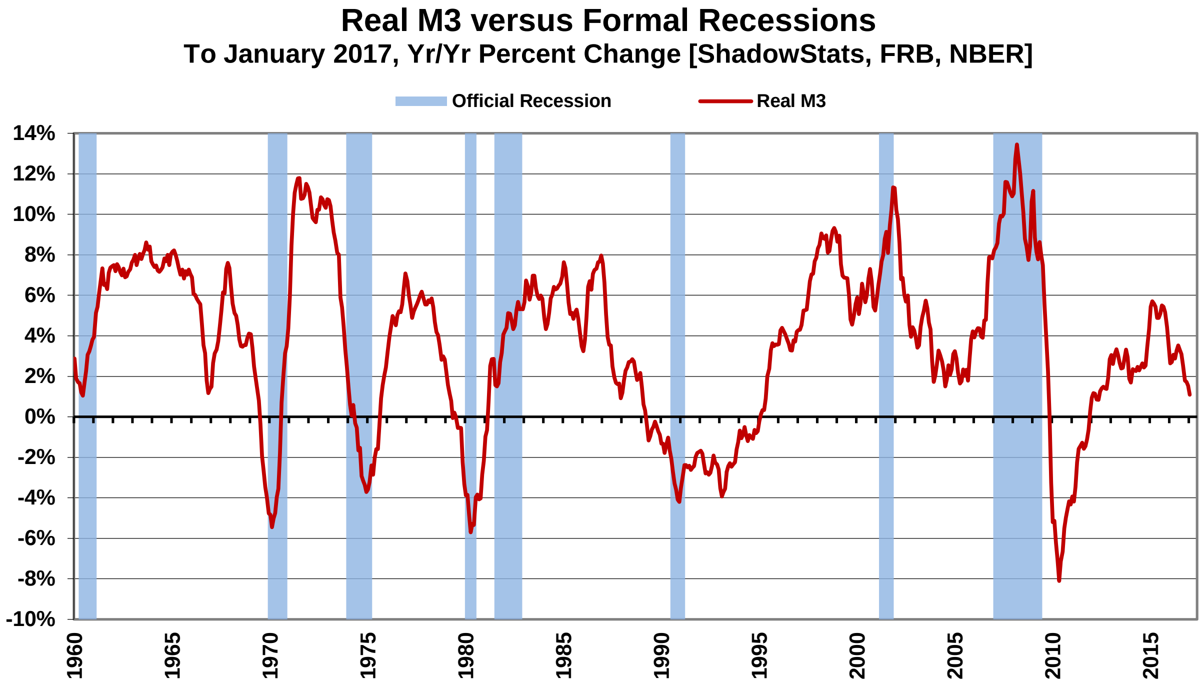
Graph 11: The Conference Board Help Wanted OnLine® to November 2016



Separately, as discussed in prior *Commentary No. 866*, annual real growth in M3 in January 2017 had declined to a level that normally would signal a pending sharp decline in annual economic activity. February 2017 real M3 growth appears likely to intensify that signal. As discussed in *No. 866*, the signal works consistently on the downside, particularly in context of recent economic activity actually having been weaker than advertised in headline reporting. Again, background details are discussed in *No. 866*.

[Graph 12 follows on the next page.]

Graph 12: Real M3 Annual Growth versus Formal Recessions



If annual growth patterns are flattening out, and the second leg of the "Collapse into 2009" is bottoming, activity still has some ways to go before pre-recession highs are reclaimed, before a post-recession expansion would begin. Such could be helped along by fiscal stimulus from the new Administration. Nonetheless, near-term economic activity in the year ahead should continue to be unusually weak, well below consensus, well below FOMC hype. Therein lie significant problems for the Fed, the new Administration, the U.S. dollar and the financial markets, again as discussed in *No. 859 Special Commentary*.

Today's *Commentary* (February 24th). These *Opening Comments* and *Executive Summary* review recent indicators of economic activity for signals as to a possible bottoming or other shifts in the current downturn, including detail on the January 2017 CASS Freight Index, and a variety of other recently-covered series. Also reviewed are summary details of the January 2017 New- and Existing-Home Sales.

The *Week, Month and Year Ahead* section previews next week's reporting of January 2017 New Orders for Durable Goods and the second estimate of fourth-quarter 2016 GDP.

Executive Summary: New- and Existing-Home Sales—January 2017—Monthly Activity Rose, with Both Series Continuing in Low-Level, Non-Recovered Stagnation. The January 2017 New- and Existing-Home Sales series both remained in depression territory (see *Commentary No. 754*), down respectively by 60.0% (-60.0%) and 21.7% (-21.7%) from their pre-recession peaks.

Usual reporting instabilities and distortions, involving high volatility, irregular seasonality and lack of statistical significance, continued to warp the New-Home Sales series, which gained month-to-month, in the context of downside revisions to fourth-quarter activity, and quarter-to-quarter contractions. Despite continuing extreme, near-term volatility, albeit statistically-insignificant, the series remained in low-level, non-recovering stagnation. As shown in *Graph 13*, that stagnation had had a recent, minor flattening uptrend over time, which now has turned negative, flattening out as seen in the smoothed *Graph 15*.

Headline January Existing-Home Sales gained month-to-month, with a small pick-up, albeit still distorted, in year-to-year change. 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 17* and *19*. January 2017 monthly detail held at 21.7% (-21.7%) 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 starts in January 2017, also down from their pre-recession highs, respectively by 54.9% (-54.9%) and by 45.2% (-45.2%).

***Consumer Liquidity Problems Continue to Impair Home Sales Activity*.** The extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures, and residential real estate sales, as updated in *Commentary No. 864* and as fully reviewed in the *CONSUMER LIQUIDITY* section of *No. 859 Special Commentary*. 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 economic activity, including demand for residential 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 does not appear to be in the offing.

New-Home Sales—Monthly Gained with Quarterly Sales Declining in Unstable Reporting, with the Smoothed Series 60.0% (-60.0%) Below Its Pre-Recession Peak. Headline monthly reporting of New-Home Sales remained of no substance, short term, as seen most frequently here with massive, unstable and continuously shifting revisions to recent history, along with statistically-insignificant monthly and changes that just as easily could be a gain or a loss. In the latest reporting, the latest monthly reporting was to the upside, with revisions to the downside.

January New-Home Sales (Census Bureau, counted based on contract signings) rose by 3.7% month-to-month, following a narrowed monthly decline of 7.0% (-7.0%) in December 2016, with monthly November activity revised to a smaller gain of 1.2% and a downwardly-revised monthly "unchanged" reading of 0.0% for October.

Year-to-year, January 2017 sales rose by a statistically-insignificant 5.5%, following a revised annual decline of 0.6% (-0.6%) in December 2016, a revised annual gain of 13.2% in November 2016 and a revised gain of 18.8% in October 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.

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, which recently flattened out (see *Graph 15*).

Existing-Home Sales—Non-Recovering Stagnation, Monthly Sales Gained, Activity Remained Down from Pre-Recession Peak by 21.2% (-21.2%). In the context of the portion of foreclosed or distressed properties in Existing-Home Sales holding at a three-month high, January 2017 activity gained month-to-month and year-to-year, with the portion of all-cash sales on the upswing, suggesting mounting consumer liquidity issues.

Based on actual closings of home sales, the National Association of Realtors® (NAR) reported a seasonally-adjusted monthly headline gain of 3.27% in January 2017 Existing Home Sales, following a revised, narrower decline of 2.48% (-2.48%) in December 2015 and an unrevised 1.44% gain in November.

Against year-ago volatility in home-sales closings, resulting from changes to federal regulation of mortgages, year-to-year growth in January 2017 existing sales was 4.02%, versus upwardly-revised 1.10% annual growth in December 2016 and an unrevised gain of 16.26% in November 2016.

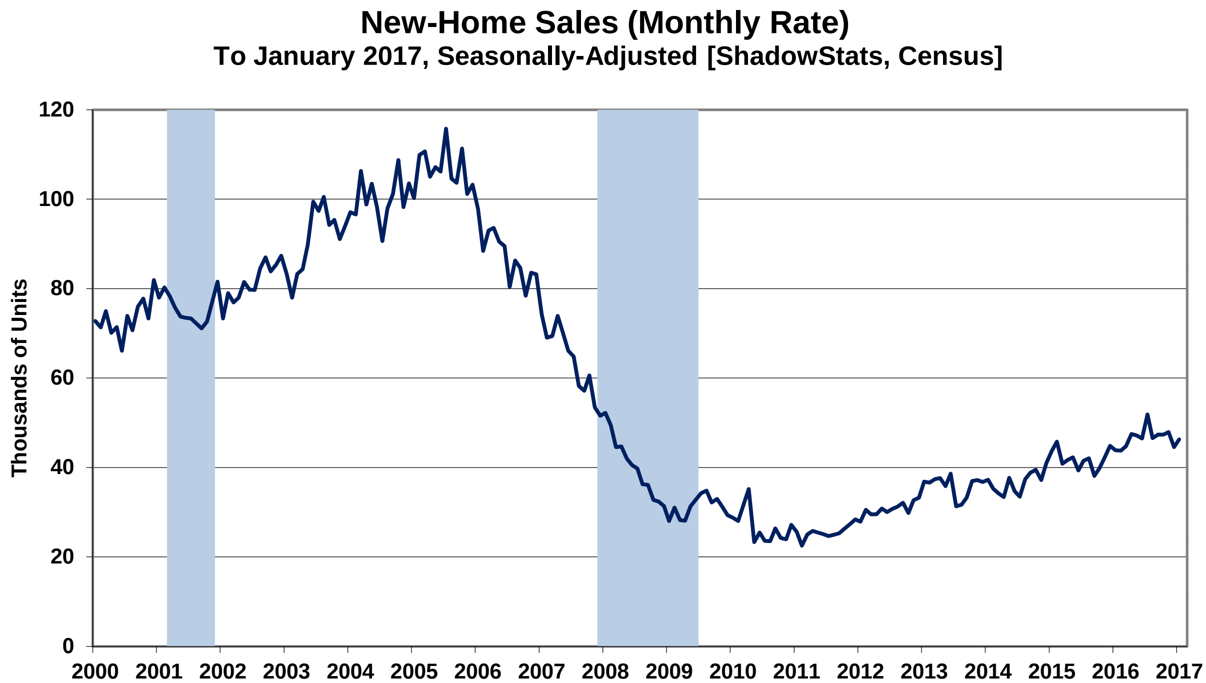
With the January 2017 sales level at the highest monthly pace since February 2007—headline activity still was down by 21.2% (-21.2%) from the pre-recession peak of the series. Smoothed with a six-month moving average, Existing-Home Sales activity has held in low-level stagnation, albeit currently in a fluttering uptrend. The NAR has touted the aggregate 2016 sales level as the strongest since 2006. Yet the 2016 annual sales rate still was down by 15.9% (-15.9%) from 2006, and by 22.8% (-22.8%) from the pre-recession peak annual-average sales rate of 2005.

New-Home Sales Graphs. The regular monthly graph of January 2017 New-Home Sales follows, along with a six-month moving-average version of the series (see *Graphs 13* and *15*). Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of January 2017 Housing Starts for single-unit construction, from prior *Commentary No. 866*, (see *Graphs 14* and *16*).

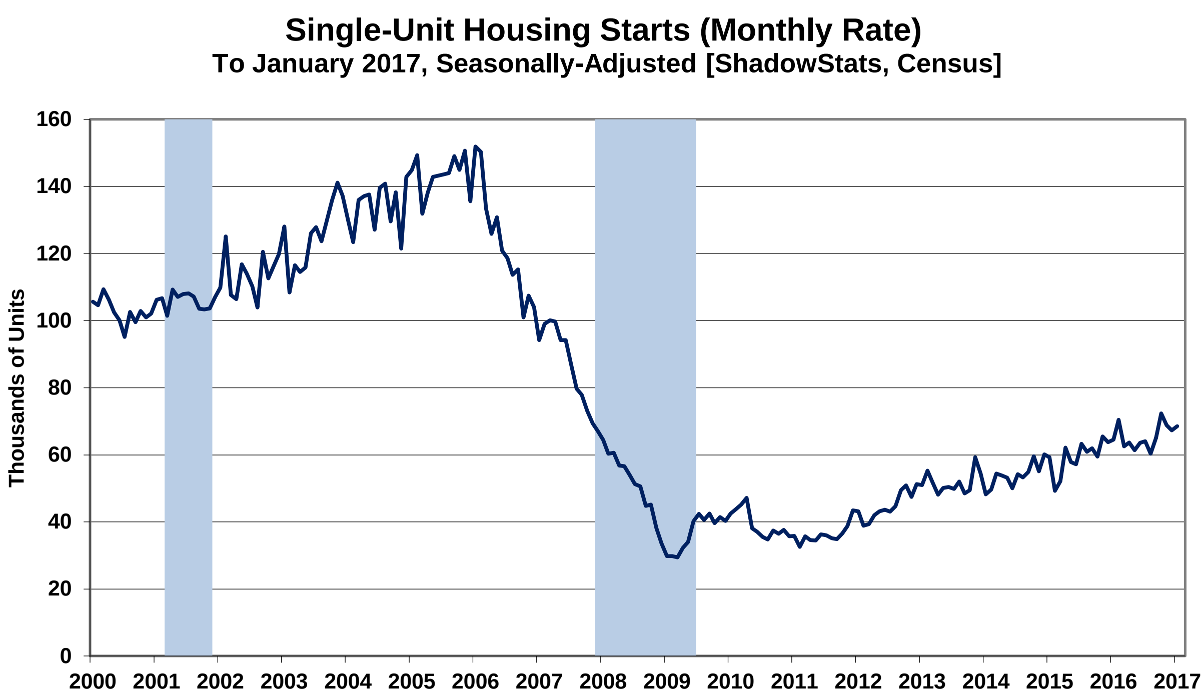
Existing-Home Sales Graphs. *Graph 17* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 19* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of January 2017 aggregate Housing Starts activity, again, from prior *Commentary No. 866*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 18* and *20*).

[Graphs 13 to 20 begin on the following page.]

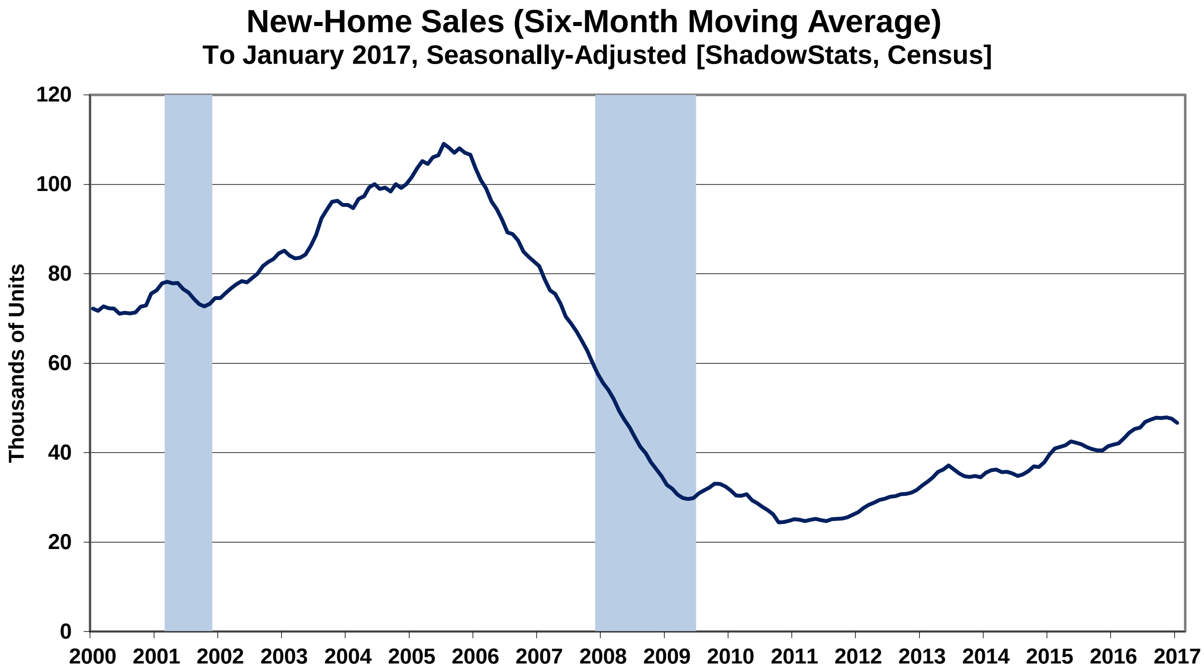
Graph 13: New-Homes Sales – Monthly Rate of Activity



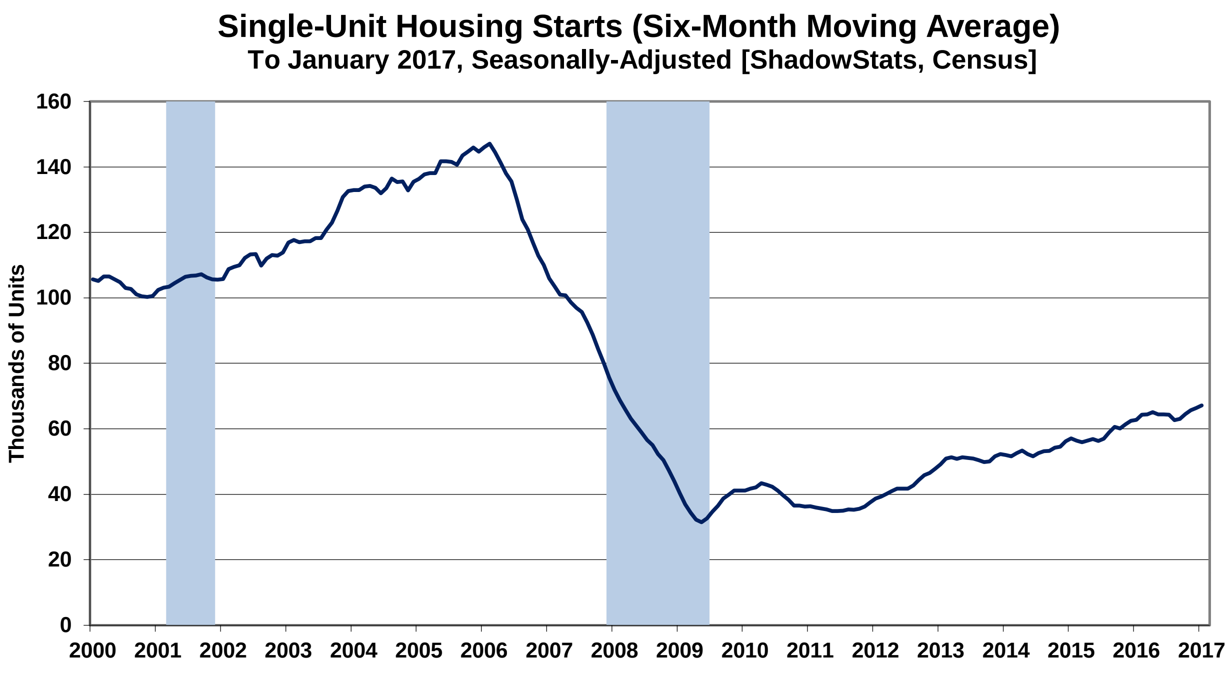
Graph 14: Single-Unit Housing Starts, Monthly Rate of Activity



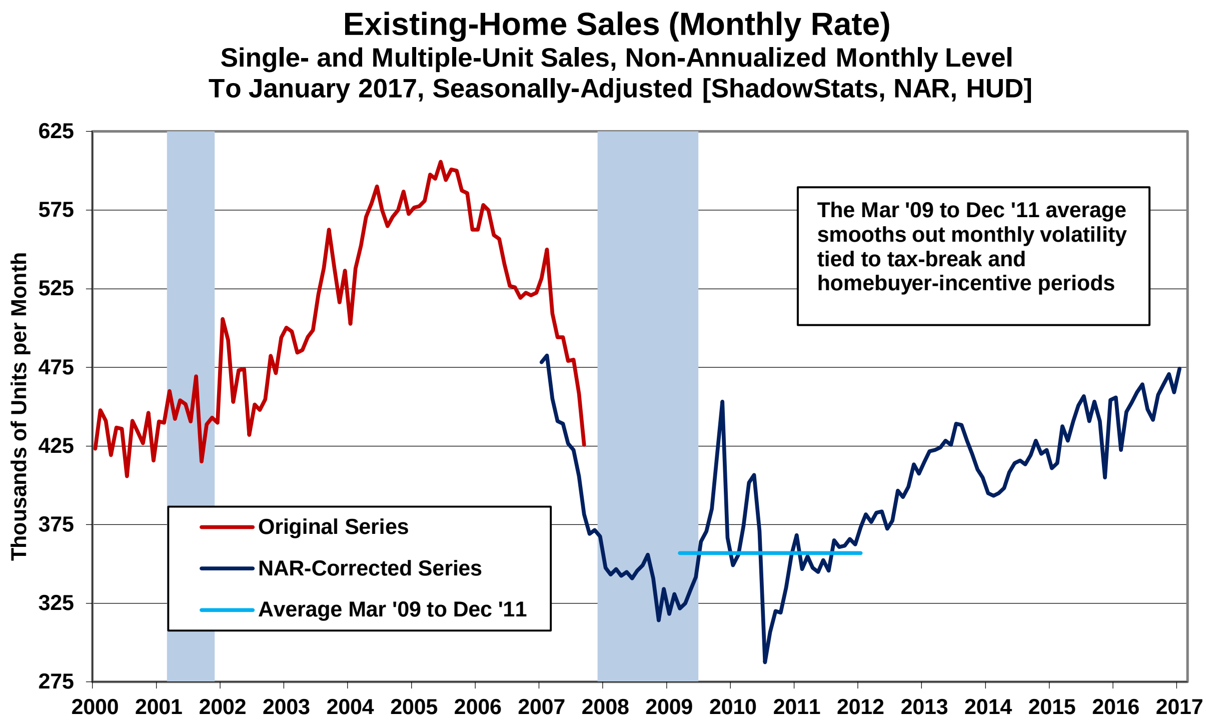
Graph 15: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity



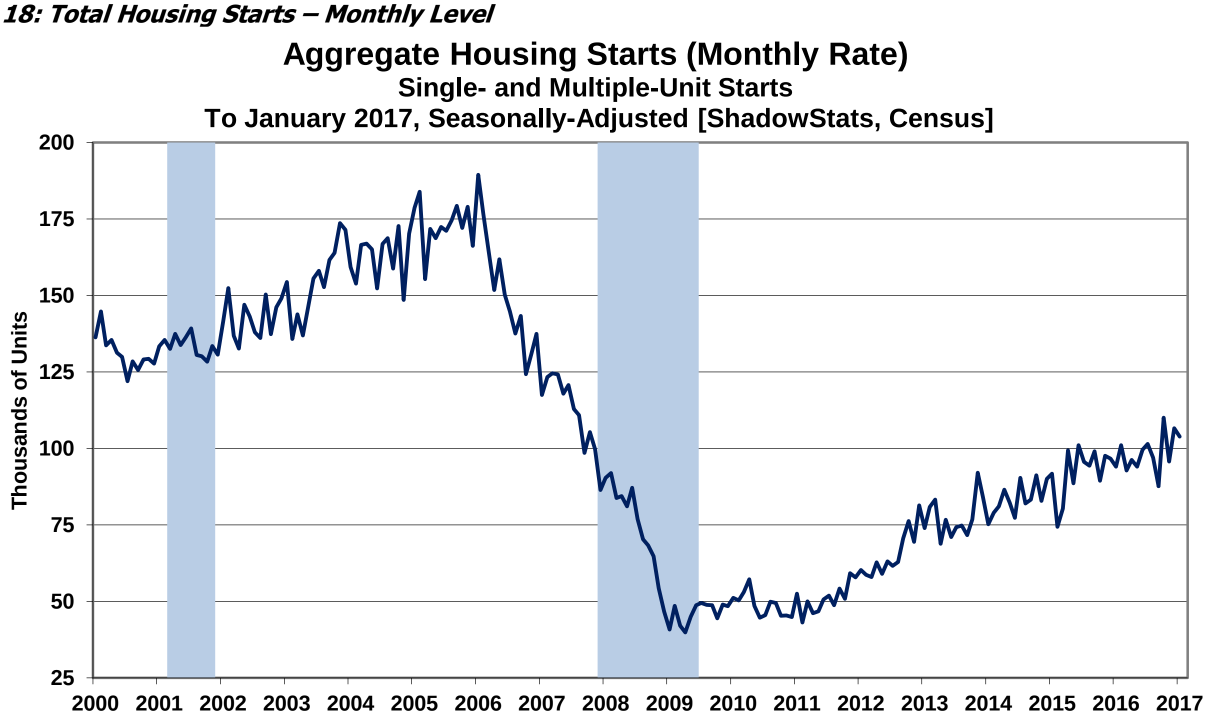
Graph 16: Single-Unit Housing Starts, Six-Month Moving Average, Monthly Rate of Activity



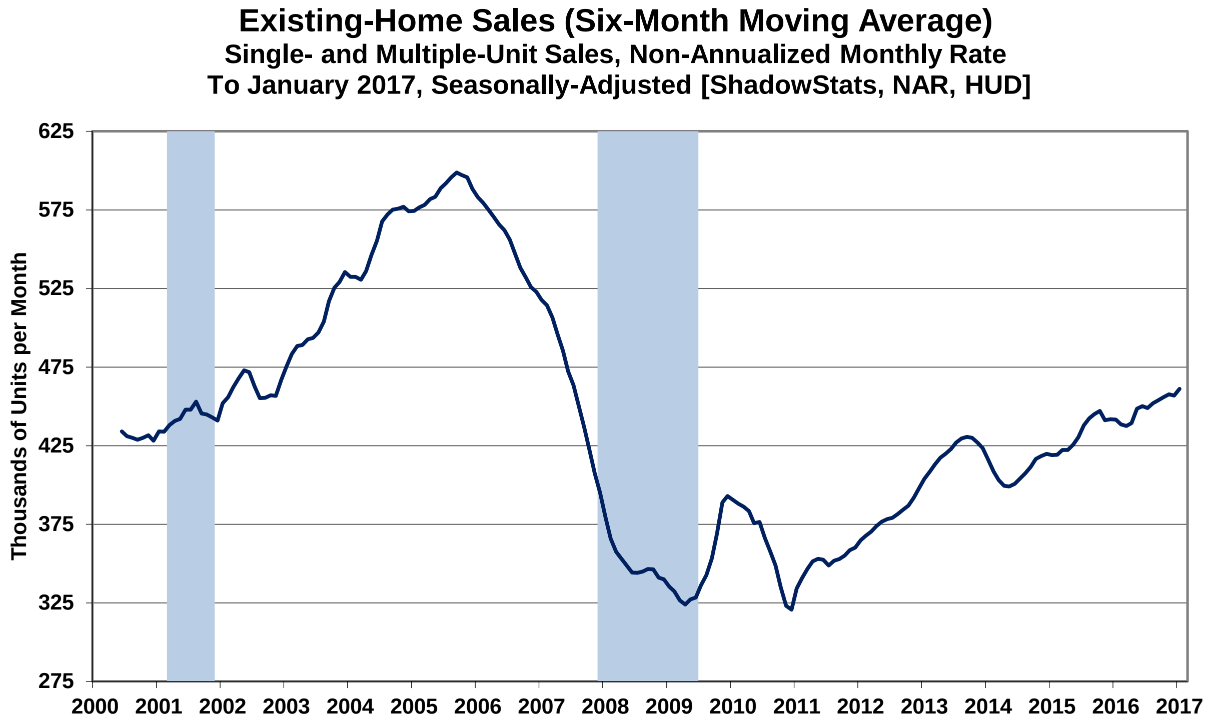
Graph 17: Existing-Home Sales – Monthly Level



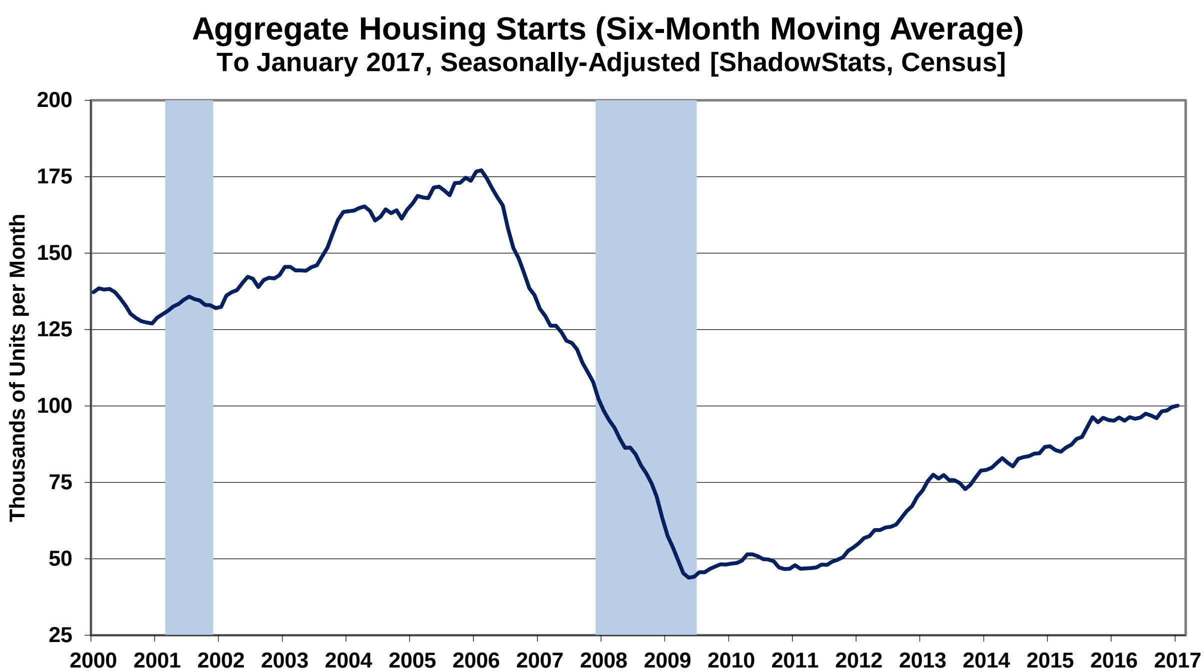
Graph 18: Total Housing Starts – Monthly Level



Graph 19: Existing-Home Sales (Six-Month Moving Average)



Graph 20: Total Housing Starts (Six-Month Moving Average)



[The* **Reporting Detail** *contains further analysis and of New-and Existing-Home Sales.]

REPORTING DETAIL

NEW-HOME SALES (January 2017)

Amidst Downside Revisions to Fourth-Quarter Activity, January Sales Gained 3.7%, with the Smoothed Series Still 60.0% (-60.0%) Below Its Pre-Recession Peak. Headline monthly reporting of New-Home Sales remained of no substance, short term, as seen most frequently here, with large, unstable and continuously shifting revisions to recent history, along with statistically-insignificant monthly and annual changes that just as easily could be a gain or a loss. At the moment, the reporting trend is up but the revisions are negative. Accordingly, the growth pattern of the smoothed six-month, moving-average series has rolled over to the downside, as seen in *Graph 15* in the *Executive Summary*.

The January 2017 headline reporting of 555,000 units in annualized sales (a 46,250 monthly rate as used in the graphs in the *Executive Summary*) rose by 3.7% month-to-month, following a narrowed monthly decline of 7.0% (-7.0%) in December 2016, with monthly November activity revised to a smaller gain of 1.2% and a downwardly-revised monthly "unchanged" reading of 0.0% for October. As usual, the headline monthly and annual changes were not statistically meaningful. The short-term monthly volatility continued in the context of headline January 2017 activity still holding below its never-recovered 2005 pre-recession peak by 60.0% (-60.0%).

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 stagnation, which turned down with today's headline reporting and revisions (again, see *Graph 15* in the *Executive Summary*).

Graphed either way, smoothed or not, the various housing series generally have continued to show patterns 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 New-Home Sales, related real-estate activity never has recovered along with the purported rebound in real GDP, which now stands 12.1% above its pre-recession high. For example, from the series' pre-recession peak of July 2005, headline January 2017 New-Home Sales still were down by 60.0% (-60.0%), while January 2017 Single-Unit Housing Starts were down by 54.9% (-54.9%) from the January 2006 pre-recession high of that series (see prior *Commentary No. 866*).

Discussed in the *Executive Summary* section, the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential-real-estate sales 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.

Headline January 2017 New-Home Sales Reporting. Reported this morning, February 24th, by the Census Bureau, in the context of downside monthly revisions back through October 2016, January 2017 New-Home Sales (counted based on contract signings) rose month-to-month by a headline, seasonally-adjusted and statistically-insignificant 3.7% +/- 21.6% (all confidence intervals are at the 95% level).

That followed a narrowed monthly decline of 7.0% (-7.0%) in December 2016, a downwardly-revised November month-to-month gain of 1.2% [previously 4.7%, initially up by 5.2%] and a downwardly revised monthly "unchanged" reading at 0.0% [previously a gain of 0.5%, a decline of 1.4% (-1.4%) and initially down by 1.9% (-1.9%)] in October. Net of prior-period revisions, the month-to-month change in January 2017 was a gain of 3.5%, instead of the headline 3.7%, still well shy of being statistically significant.

Year-to-year, January 2017 sales rose by a statistically-insignificant 5.5% +/- 29.7%. That followed a revised annual decline of 0.6% (-0.6%) [previously 0.4% (-0.4%)] in December 2016, a revised gain of 13.2% [previously up by 17.7%, initially up by 16.5%] in November 2016 and a revised gain of 18.8% [previously up by 19.5%, initially up by 17.8%] in October 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 by 29.5%, and third-quarter activity at a lower, annualized pace of 13.6%. Fourth-quarter 2016 sales contracted at a revised annualized pace of 15.3% (-15.3%) [previously down by 9.7% (-9.7%)], with the initial first-quarter 2017 trend a contraction of 3.1% (-3.1%), based solely on headline January 2017 detail.

New-Home Sales Graphs. The regular monthly graph of New-Home Sales is included in the *Executive Summary* section, along with a six-month moving-average version of the series (*Graphs 13* and *15*). Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of January 2017 Housing Starts for single-unit construction, from prior *Commentary No. 866*, (*Graphs 14* and *16*) along with comparative graphs of the Existing-Home Sales and related series (see *Graphs 17* to *20*).

EXISTING-HOME SALES (January 2017)

Sales Activity Gained Month-to-Month and Year-to-Year, but Held Still in Non-Recovering Stagnation, Down by 21.7% (-21.7%) from Its Pre-Recession Peak. In the context of the proportion of monthly sales in distress (in foreclosure or short sales) holding at a three-month high, Existing-Home Sales rose month-to-month in January 2017 by 3.3%, having declined in December 2016 by a revised and narrowed 2.5% (-2.5%), following a gain of 1.4% in November. In the context of extreme year-ago reporting instabilities, January 2017 year-to-year growth was 4.0%, versus a revised 1.1% annual gain in December 2016 and a gain of 16.3% in November 2016.

The series remained in depression (see *Commentary No. 754*). Although it rose to the highest monthly sales level since February 2007, headline January 2017 activity still was down by 21.7% (-21.7%) from the pre-recession peak of the series. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, albeit currently in a fluctuating uptrend. All that said, the NAR has touted the aggregate 2016 sales level as the strongest since 2006. Yet the 2016 annual sales rate still was down by 15.9% (-15.9%) from 2006, and down by 22.8% (-22.8%) from the pre-recession peak annual-average sales rate of 2005.

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 for the 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 *Executive Summary*, the underlying problem remains that the U.S. consumer remains 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 properties.

Specifically, Existing-Home Sales activity in January 2017, again, was down by 21.7% (-21.7%) 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 45.2% (-45.2%) from their January 2006 pre-recession high (see prior *Commentary No. 866*).

Headline January Detail for Existing-Home Sales. Based on actual closings of home sales, the National Association of Realtors® (NAR) reported February 22nd a seasonally-adjusted, headline monthly gain of 3.27% in January 2017 Existing Home Sales, following a revised, narrower decline of 2.48% (-2.48%) [previously down by 2.83% (-2.83%)] in December and against an unrevised 1.44% gain in November.

Against year-ago volatility in home-sales closings, resulting from changes to federal regulation of mortgages, year-to-year growth in January 2017 existing sales was 4.02%, versus upwardly-revised 1.10% [previously 0.73%] annual growth in December 2016 sales and an unrevised gain of 16.26% in November 2016.

Going back a year on quarter-to-quarter activity, 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 7.9%, followed by 16.3% in second-quarter 2016, with an annualized contraction of 8.0% (-8.0%) in third-quarter 2016 activity and a revised 14.6% [previously 14.0%] gain in fourth-quarter 2016 activity. With just the initial January 2017 detail in place, first-quarter 2017 activity is on early track for a somewhat slower 8.4% pace of annualized growth.

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years (*Graph 17*). All that said, smoothed for irregular distortions, the reporting remained statistically consistent with a period of low-level, broad stagnation, moving from up-trending to down-trending and to up-trending, again, as indicated in *Graph 19* of the *Executive Summary*.

Proportion of Distressed Sales Held at 7% in January, with All-Cash Sales Jumping to 23%. The NAR estimated the portion of January 2017 sales in "distress" held even with December 2016, which had notched higher, for the third consecutive month, to 7% (5% foreclosures, 2% short sales). January 2017 distressed sales were down from 9% (7% foreclosures, 2% short sales) in January 2016.

The September 2016 reading of existing-home sales in distress at 4% 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. The October reading moved to 5%, with November to 6% and December 2016 to 7%, again, holding at 7% in January 2017.

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 jumped to 23% in January 2017 from 21% in December 2016, but they were down from 26% in January 2016.

Existing-Home Sales Graphs. Shown in the *Executive Summary*, *Graph 17* plots the traditional headline Existing-Home Sales monthly detail. Such is supplemented by *Graph 19* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of January 2017 aggregate Housing Starts activity, from prior *Commentary No. 866*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 18* and *20*). *Graphs 13* to *16* show comparative graphs of New-Home Sales and related series.

WEEK, MONTH AND YEAR AHEAD

Deepening Economic Downturn Promises a Frustrated Fed and Rapidly Deteriorating Support for the U.S. Dollar, Despite Market Optimism for the New Administration. Discussed in the *Opening Comments* section, despite recent, mixed headline economic signals, the broad outlook for a stagnant to down-trending economic activity has not changed. Separately, the problems with the Fed's loss of adequate systemic control and the long-term sovereign solvency issues of the United States government also continue. Accordingly, the following opening section here has not been revised meaningfully:

No. 859 Special Commentary updated near-term economic and inflation conditions, and the outlook for same, including the general economic, inflation and systemic distortions evolving out of the Panic of 2008 that have continued in play, and which need to be addressed by the new Administration in the near future (see also the *Hyperinflation Watch* of *Commentary No. 862*).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 and never fully recovered. While the economy bounced off its 2009 trough, it began to turn down anew in December 2014, a month that should mark the beginning of a "new" formal recession (see today's *Opening Comments*).

Coincident with and tied to the economic collapse and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central bank policies never have recovered. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

The current general mixed-trend in weakening data and what should be increasingly-negative expectations for near-term business activity, along with movement towards looming recession recognition, reflect an ongoing broad spectrum of likely market-disappointing headline data. That should pressure the FOMC back towards expanded quantitative easing, despite the Fed's December 2016 and rate hike and now-softening market hype as to multiple rate hikes looming in the year ahead.

In response to an intensifying downturn, financial market expectations should shift towards renewed Fed "easing," with the effect of triggering a massive U.S. dollar sell-off, accompanied by a sharp upturn in oil prices, domestic inflation and heavy flight to the safe-haven qualities of physical gold and silver, with a commensurate rally in the prices of those precious metals. Again, see *No. 859* for extended discussion.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *No. 777 Year-End Special Commentary* (December 2015*)*, *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). Those publications updated the long-standing hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Commentaries *of the last month or so:*

Commentary No. 866 reviewed headline January 2017 detail of the CPI (and related series), PPI, Industrial Production, Residential Construction and Retail Sales, both nominal and real.

Commentary No. 865 updated the outlook on the Trade Deficit for December 2016, Fourth-Quarter 2016 and for the initial 2016 annual detail.

Commentary No. 864 analyzed the January 2017 Employment and Unemployment detail, including benchmark and population revisions, December Construction Spending, Household Income, along with an update to Consumer Liquidity.

Commentary No. 863 assessed the "advance" estimate of fourth-quarter 2016 GDP and reviewed December 2016 New Orders for Durable Goods and the prior releases for New- and Existing-Home Sales.

Commentary No. 862 discussed the prior December 2016 Industrial Production, Housing Starts, Consumer Prices (including real Retail Sales and earnings), along with the prior December detail of the CASS Freight Index™.

Commentary No. 861 covered the prior December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations. The GAAP-detail was touched upon in the *Hyperinflation Watch* and will reviewed *Commentary No. 869* of February 28th.

No. 859 Special Commentary reviewed and previewed economic, financial and systemic developments of the year passed and the year or so ahead.

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 inflation and to overstate economic activity—as generally viewed in common experience by Main Street, U.S.A.—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 2016 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 July 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*. Mr. Crudele's latest investigation focuses on retail sales reporting: *John Crudele on Retail Sales.*

PENDING RELEASES:

New Orders for Durable Goods (January 2017). The Census Bureau will report January New Orders for Durable Goods on Monday, February 27th, which will be covered in *Commentary No. 868* of that date. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending real stagnation, despite likely positive consensus expectations.

Commercial aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. As a result, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of broad economic activity and the GDP—is the activity in new orders, ex-commercial aircraft, adjusted for inflation.

In inflation-adjusted real terms, reflecting PPI-related inflation for manufactured durable goods, nominal order weakness increasingly will be exacerbated by rising inflation, with monthly inflation of 0.30% in January 2017 versus 0.18% in December 2016 and an "unchanged" reading at 0.00% in November 2016. Year-to-year annual inflation continued to rise, hitting 1.33% in January 2017 versus 0.97% in December 2016 and 0.66% in November 2016. Those headline PPI data were not revised versus prior reporting (see *Commentary No. 866*).

Gross Domestic Product (GDP)—Fourth-Quarter 2016, Second Estimate, First Revision. The Bureau of Economic Analysis (BEA) will publish its second guesstimate of fourth-quarter 2016 Gross Domestic Product (GDP) on Tuesday, February 28th. Detail will be covered in *Commentary No. 869* of that date.

Despite a weakening trade outlook, and despite an initial below-consensus growth estimate of 1.88%, which usually would suggest a downside revisions, upside revisions to headline fourth-quarter detail of real retail sales, industrial production and housing (see prior *Commentary No. 866*) well could prove to be offsetting, triggering an upside revision to the second estimate of annualized fourth-quarter real growth. Nonetheless, it still should hold sharply below the headline 3.5% annualized real quarterly growth in third-quarter 2016.

GAAP-Based Accounting of the U.S. Government (Fiscal-Year 2016). Noted in today's *Please Note* in the *Opening Comments*, with some prior review in *Commentary No. 861* and *No. 859 Special Commentary*, full analysis will follow in *Commentary No. 869* of February 28th. That detail had been the original concentration for today's *Commentary*, but the coverage was refocused on a potential bottoming in the economic downturn, based on recent reporting detail.

Pending *SPECIAL COMMENTARY*. The long-planned and delayed consolidation of the major *ShadowStats* reporting into one volume, including the recommended reading list, should follow in March.

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