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

**GENERAL COMMENTARY NUMBER 894**
**Economic- and Financial-System Conditions, May Household Income and Home Sales**

**June 23, 2017**

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**U.S. Economy Is Turning Down Anew, Threatening Banking-System Stability, Likely to Roil FOMC Policy, with Sharply-Negative Impact on the U.S. Dollar and U.S. Equities, Spiking Inflation and Prices of Gold and Silver**

**Major Market Turmoil Increasingly Likely in the Near Future**

**Headline Economic Data in the Month Ahead Could Signal a Day-of-Reckoning at Hand**

**Despite a Monthly Boost from Falling Gasoline Prices, May 2017 Real Median Household Income Was Statistically Unchanged**

**Monthly New- and Existing-Home Sales Rose in May, Yet Both Series Were on Track for Second-Quarter Contractions**

**May Existing-Homes Sales Down by 22.7% (-22.7%) and New-Home Sales Down by 56.1% (-56.1%) from Pre-Recession Peaks**

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*PLEASE NOTE: The next regular* Commentary, *scheduled for Monday, June 26th, will review May 2017 New Orders for Durable Goods, with a subsequent missive on Thursday, June 29th, covering the third estimate of, second revision to first-quarter 2017 GDP.*

*Best wishes to all — John Williams (707) 763-5786*

 

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**Today's *General Commentary* (June 23rd).** The *General Commentary* reviews broad economic and financial- and political-system conditions in the context of rapidly deteriorating, headline economic activity. Given the light schedule of economic releases in this past week, the economic data are covered just in today's *Reporting Detail*, with no separate *Executive Summary*.

The ***Reporting Detail*** (beginning page 4) covers the current headline details of the May 2017 Sentier Research's Real Median Household Income and the May New- and Existing-Home Sales, along with related graphs.

The ***Week, Month and Year Ahead*** (beginning page 13) reviews recent *Commentaries* and previews next week's releases of May New Orders for Durable Goods and the third estimate of first-quarter 2017 GDP.

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## GENERAL COMMENTS ON THE ECONOMY AND THE FINANCIAL AND POLITICAL SYSTEMS

**Economy and Financial System Continue in Deepening Trouble with Pending Instabilities.** Amidst a sudden and "unexpected" slowing/downturn in broad, headline economic activity, continued political-system uncertainties (*Special Commentary No. 888*) and the Federal Reserve pushing interest rates higher in the purported context of ideal economic and inflation conditions (*Commentary No. 892*), circumstances are congealing rapidly for an extraordinary crisis in financial-system. The unfolding systemic turmoil likely will be reflected in a massive sell-off in, and flight from, the U.S. dollar, accompanied by parallel selling of U.S. equities and credit instruments, along with a flight to "store of wealth" assets such as physical gold and silver.

This great financial storm has been brewing since the Panic of 2008, or perhaps in a broader perspective, it could be viewed as an ongoing adjunct to those factors that led into that crisis, a circumstance that never has been resolved fully or meaningfully, as discussed frequently here (*No. 859 Special Commentary*).

***"Substantially Adverse Economic Circumstances."*** What has changed in the last several weeks is a sudden downshift in headline economic activity, which likely has set the stage for the *substantially adverse economic circumstances* put forth by the FOMC as a rationale for returning to expanded quantitative easing, discussed in the *Hyperinflation Watch* (page 14) of *Commentary No. 879*. Noted in the *Hyperinflation Watch* (page 6) of *Commentary No. 892*, subsequent to the June 14th rate hike:

> The U.S. central bank's primary concern remains the continuation and maintenance of a stable domestic banking system. Propping the domestic economy remains secondary to the Fed's consideration of banking-system stability, strength and solvency. The big problem for the Fed remains that a weakening economy stresses that banking-system solvency and liquidity, which the Fed then views as requiring expanded quantitative easing. Again, quantitative easing addresses banking-system solvency; it does nothing to address basic economic growth.
>
> What has started to unfold in headline reporting should qualify as the "substantially adverse economic circumstances" foreseen by the Federal Reserve Board's Federal Open Market Committee (FOMC), which would allow the central bank to trigger renewed and expanded quantitative easing, instead of reducing its

> balance sheet as was hyped otherwise along with ... [the] June 14th rate-hike. With the various recent rate hikes providing the Fed with a minimal policy cushion for the increasingly difficult times ahead, ... [the] June 14th rate hike likely will prove to be last one for some time.

Most major monthly economic releases in June disappointed consensus expectations in a manner rarely seen outside of an unfolding downshift in broad economic activity. Encompassed there were the headline April Trade Deficit detail and accompanying annual benchmark revisions (*Commentary No. 890*), May Payroll Employment (*Commentary No. 890*), Retail sales (*Commentary No. 891*), Industrial Production (*Commentary No. 892*) and Housing Starts (*Commentary No. 893*).

The big exception was the continued narrowing of the May 2017 headline U.3 employment rate to 4.3%, a low-level last seen going to the 2001 recession. Discussed in the related *Commentary No. 890*, that detail was due more to issues with meaningful measurement of the labor force than it was to economic activity booming to a 16-year high.

***Continued Shocks Likely in the Month Ahead.*** Of particularly high risk to the markets in the next several weeks, are near-term negative surprises in the economic data. In particular, if the May trade deficit, June labor data, retail sales and industrial production all come in at or worse than what should be increasingly-soft consensus expectations, market expectations will be at high risk of a meaningful turnabout. Those headline numbers indeed should be weak, and they should continue to deteriorate in the months ahead. Therein lies the trigger for a major shift in market sentiment and direction.

The potential for negative political developments in the current less-than-peaceful circumstances ups the risk for a major financial-market debacle.

***Federal Reserve Rate Increases, and Jawboning for Same, Have Boosted the U.S. Dollar.*** Prior to the presidential election, a rallying U.S. dollar was tied fundamentally to continual, ongoing hype out of the Federal Reserve and related officials as to pending U.S. rate hikes. Such was backed up recently with actual rate increases of increasing frequency, although the dollar has still moved off its recent peak. Post-election expectations for a shift to more-positive domestic economic conditions helped to feed the post-election dollar rally, although those circumstances have waned as well. Recent dollar strength has reflected an influx of foreign money into the U.S. currency, which also has been a major prop to the U.S. equity markets and demand for U.S. credit market instruments.

At such time as market expectations for future Federal Reserve activity shifts from continued rate hikes, to renewed and expanded quantitative easing, selling of the U.S. dollar should accelerate rapidly against most major currencies, with parallel selling movement in the domestic equity and credit markets.

***GDP Reporting and Revisions.*** Separately, in the context of recent, negative benchmark revisions to Industrial Production, New Orders for Durable Goods and the Trade Deficit, GDP benchmark revisions pending on July 28th likely will show weaker historical real GDP growth, particularly in 2014 and 2015, along with some downward adjustments to 2016 activity. A more specific assessment will follow in a mid-July *Commentary*. Also, see the *Week, Month and Year Ahead* section for discussion on the pending third estimate of first-quarter 2017 activity. The July 28th revisions will accompany the initial estimate of second-quarter 2017 GDP growth, which likely will be unusually weak, if not in contraction. The unfolding circumstances will be updated here as conditions warrant.

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## REPORTING DETAIL

### REAL MEDIAN HOUSEHOLD INCOME (May 2017)

**May 2017 Real Median Household Income Was Statistically Unchanged, Despite Boost from Falling Gasoline Prices.** In the context of recently faltering gains in consumer optimism and boosted by negative headline Consumer Price Index (CPI-U) inflation that was weakened by seasonally-adjusted gasoline price declines, May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%), per www.SentierResearch.com. That followed a statistically-significant monthly gain of 1.00% in April 2017. As shown in *Graph 1*, that enabled May 2017 real monthly median household income to hold a level regained last month and otherwise last seen fifteen years ago, in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since last June, following an annual gain of 1.57% in April 2017 (see *Graph 2*).

Where real median income plunged into the purported trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. It should resume turning down anew, as headline monthly consumer inflation once again picks up at an accelerating pace.

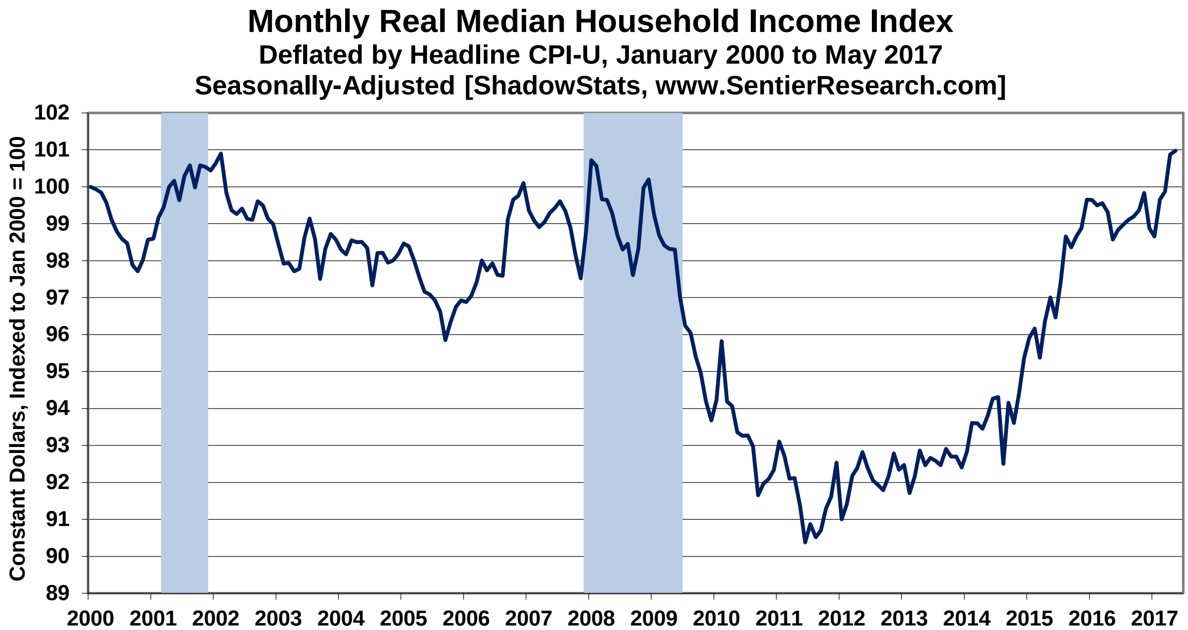
Nonetheless, the recent "rebound" in the series still has left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely has been used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for mixed gyrations in the last couple of months, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

The headline May 2017 detail discussed here updates *Special Commentary No. 888* (page 13), which goes into deeper and greater detail on the series. It also updates *Graphs 1* and *2* in *Commentary No. 889*.

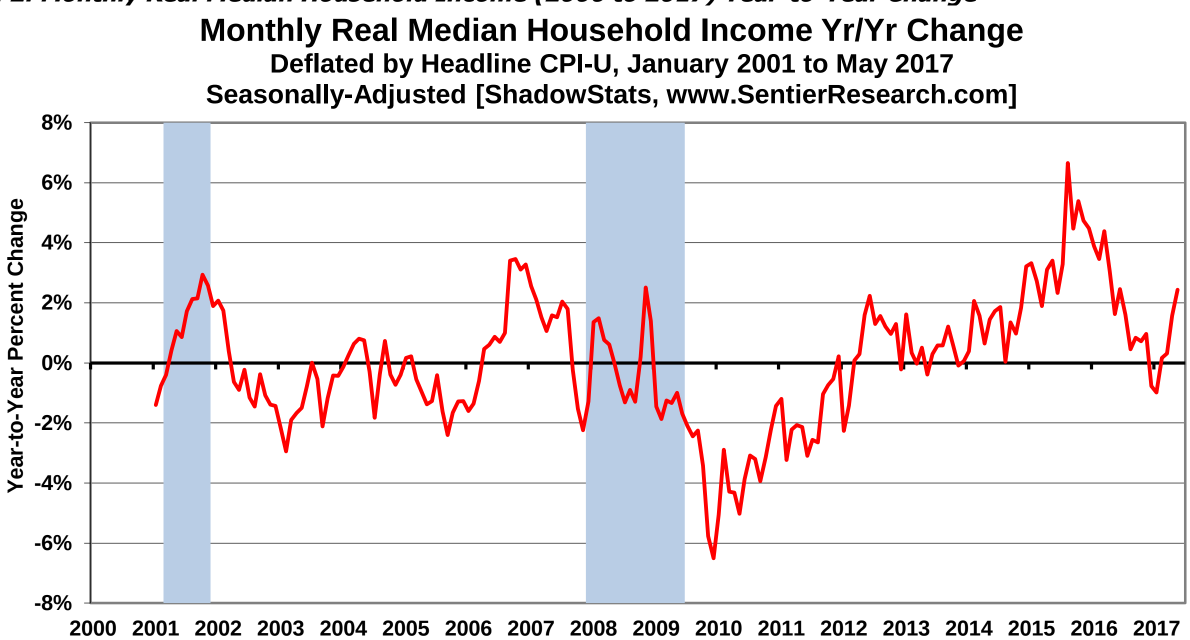
[Graphs 1 and 2 follow on the next page.]

***Graph 1: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100***




***Graph 2: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change***




## NEW- AND EXISTING-HOME SALES (May 2017)

**Monthly Sales Gained, but Quarterly Activity Headed Lower, in the Context of Continuing Low-Level, Non-Recovering Stagnation.** The May 2017 New- and Existing-Home Sales series both remained in "great depression" or "depression" territory (see *Commentary No. 754*), down respectively by 56.1% (-56.1%) and 22.7% (-22.7%) from their pre-recession peak levels of activity. Although both series showed monthly sales gains in May, second-quarter 2017 activity continued in a downtrend, indicating quarter-to-quarter contractions.

These series never have recovered fully from the economic collapse into 2009. Contrary to headline GDP reporting, which currently stands at 12.5% above its pre-recession high, general housing construction and related residential-real-estate sales broadly have shown patterns of protracted, low-level, non-recovering stagnation, to date. Separate from the declines in new- and existing-home sales, consider that related single-unit housing starts and aggregate housing starts in May 2017 also were down from their pre-recession highs, respectively by 56.4% (-56.4%) and by 52.0% (-52.0%), discussed in prior *Commentary No. 893*, along with aggregate April 2017 real construction spending in the United States down by 21.3% (-21.3%) from its pre-recession peak (see *Commentary No. 890*).

***Consumer Liquidity Constraints.*** The extreme liquidity bind besetting consumers continues to constrain residential real estate activity, as discussed in *Special Commentary No. 888* and updated in prior *Commentary No. 893*, with Sentier Research's May 2017 Median Household Income updated in the prior section of this *Commentary* (see also 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 income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including real estate activity. That circumstance—in the last ten-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. 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 does not appear to be in the offing.

***New-Home Sales—Continued Unstable Reporting, with the Smoothed Series 56.1% (-56.1%) 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 annual changes that just as easily could be gains or losses. In the latest reporting, the monthly reporting was to the upside, on top of the prior-month's reporting revising higher.

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 minimally up-trending—stagnation (*Graph 5*), never having recovered its pre-recession high. The ongoing, short-term extreme monthly volatility in the headline monthly detail (see *Graph 3*), reflected May 2017 activity, again, holding below its never-recovered 2005 pre-recession peak by 56.1% (-56.1%), still deep in "great-depression" territory (see *Commentary No. 754*).

***Headline May 2017 New-Home Sales Reporting.*** Reported by the Census Bureau, this morning, June 23rd, in the context of last-month's annual seasonal-factor benchmark revisions (see *Commentary No. 889*), the May 2017 headline reporting of 610,000 units in annualized sales (a 50.833 monthly rate as used in the accompanying graphs) was up month-to-month by a headline, seasonally-adjusted and statistically-insignificant 2.9% +/- 15.2% (all confidence intervals are at the 95% level).

That followed a revised monthly decline of 7.9% (-7.9%) [previously down by 11.4% (-11.4%)] in April and revised monthly gains of 4.7% [previously 5.8%] in March and 2.7% [previously 1.3%] in February. Net of prior-period revisions, the month-to-month gain in May 2017 was 7.2%, instead of the headline drop 2.9%, also well shy of being statistically significant.

Year-to-year, May 2017 sales rose by a statistically-insignificant 8.9% +/- 25.6%. That followed revised annual gains of 4.8% [previously 0.5%] in April 2017, 20.8% [previously 20.5%] in March 2017 and 17.1% [previously 15.6%] in February 2017. This series is extraordinarily unstable and consistently unreliable on a near-term, month-to-month basis and usually on a long-term basis, as to whether headline sales actually increased or decreased.

In the arena of continued extreme volatility, the quarterly changes remain meaningless as indicators of stable trends in activity. Consider that second-quarter 2017 is on early track for an annualized quarterly contraction of 11.0% (-11.0%), based on just April and May estimates, following a revised annualized boom of 41.4% [previously 38.3%] in first-quarter 2017, an annualized decline of 12.9% (-12.9%) in fourth-quarter 2016, and an annualized gain of 20.1% in third-quarter 2016.

***New-Home Sales Graphs.*** Accompanying *Graph 3* plots the headline New-Home Sales monthly detail through May 2017, supplemented by *Graph 5* of the six-month moving average. Added for comparison purposes are parallel graphs of the headline and six-month moving-average versions of May 2017 Housing Starts for single-unit construction, from prior *Commentary No. 893* (*Graphs 4* and *6*), along with comparative graphs of the Existing-Home Sales and related series (see *Graphs 7* to *20*).

***Existing-Home Sales—May 2017—Monthly Gain, Boosted by a Downside Revision to April, Still Held in Non-Recovering Stagnation, 22.7% (-22.7%) Shy of Recovering Its Pre-Recession Peak.*** In the context of a continuing pattern of prior-month downside revisions, Existing-Home Sales rose by 1.1% month-to-month in May 2017. That was against a revised, deeper decline of 2.5% (-2.5%) in April. May 2017 year-to-year growth rose to 2.7%, versus a downwardly revised 1.5% in April 2017.

Again, the series remained in "depression" (see *Commentary No. 754*). Although the recent March 2017 activity had been the highest monthly sales level since February 2007, headline May 2017 activity was down by 22.7% (-22.7%),where March 2017 activity had been down by 21.6% (-21.6%) from the pre-recession peak of the series. Smoothed with a six-month moving average, Existing-Home Sales activity held in low-level stagnation, fluctuating at present around a flat trend. All that said, the National Association of Realtors (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.

***Headline May 2017 Detail for Existing-Home Sales.*** Based on actual closings of home sales, the National Association of Realtors® reported June 21st a seasonally-adjusted, headline monthly gain of 1.08% in May 2017 Existing Home Sales, following a revised decline of 2.46% (-2.46%) [previously down by 2.28% (-2.28%)] in April and an unrevised monthly gain of 4.20% in March. Net of prior-period revisions, the headline monthly gain in May was 0.90%, instead of the headline 1.08%.

Year-to-year growth in May 2017 existing sales rose to 2.74%, versus a downwardly-revised 1.46% [previously 1.64%] in April 2017 and an unrevised 5.75% in March 2017.

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 12.6% pace of growth, followed by 9.3% in second-quarter 2016, with an annualized contraction of 6.9% (-6.9%) in third-quarter 2016 activity and a 13.0% gain in fourth-quarter 2016 activity.

First-quarter 2017 annualized growth slowed to a unrevised gain of 5.4%, with second-quarter 2017 on early track (based on just April and May headline detail) for an annualized contraction of 2.1% (-2.1%) [previously 3.5% (-3.5%) based just on initial April detail].

The quality of data underlying this series remains questionable, as seen in erratic reporting over the years (*Graph 7*). All that said, smoothed for irregular distortions, the reporting remained statistically consistent with a period of low-level, broad stagnation, moving from slightly up-trending to flat, as indicated in *Graph 9*.

***Proportion of Distressed Sales Held at 5% in May, While All-Cash Sales Rose to 22%.*** The NAR estimated the portion of May 2017 sales in "distress" at 5% (4% foreclosure, 1% short sales), versus 5% (3% foreclosure, 2% short sales) in April 2017, and versus from 6% (5% foreclosures, 1% short sales) in May 2016.

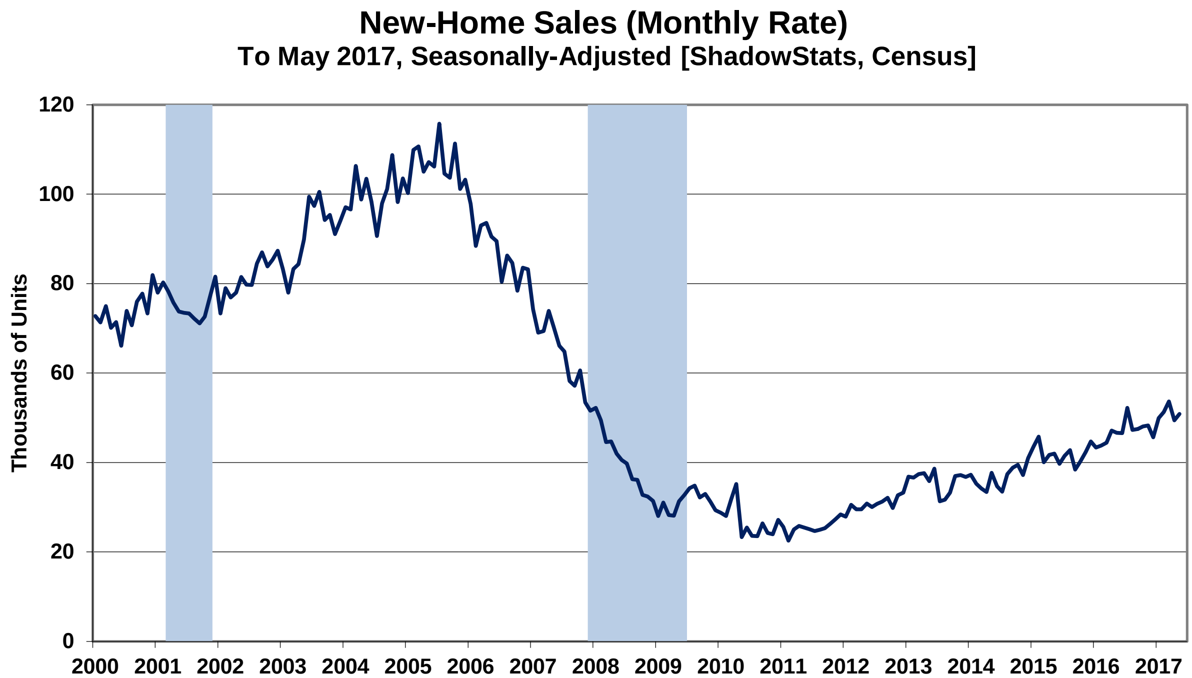
The September 2016 reading of existing-home sales in distress at 4% (3% in foreclosure, 1% short sales) had been the lowest level since the NAR began such surveying such numbers in October 2008. Consider, though, that October 2008 already was more than three years into the housing-market collapse.

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 May 2017, versus 21% in April 2017, and unchanged versus 22% in May 2016.

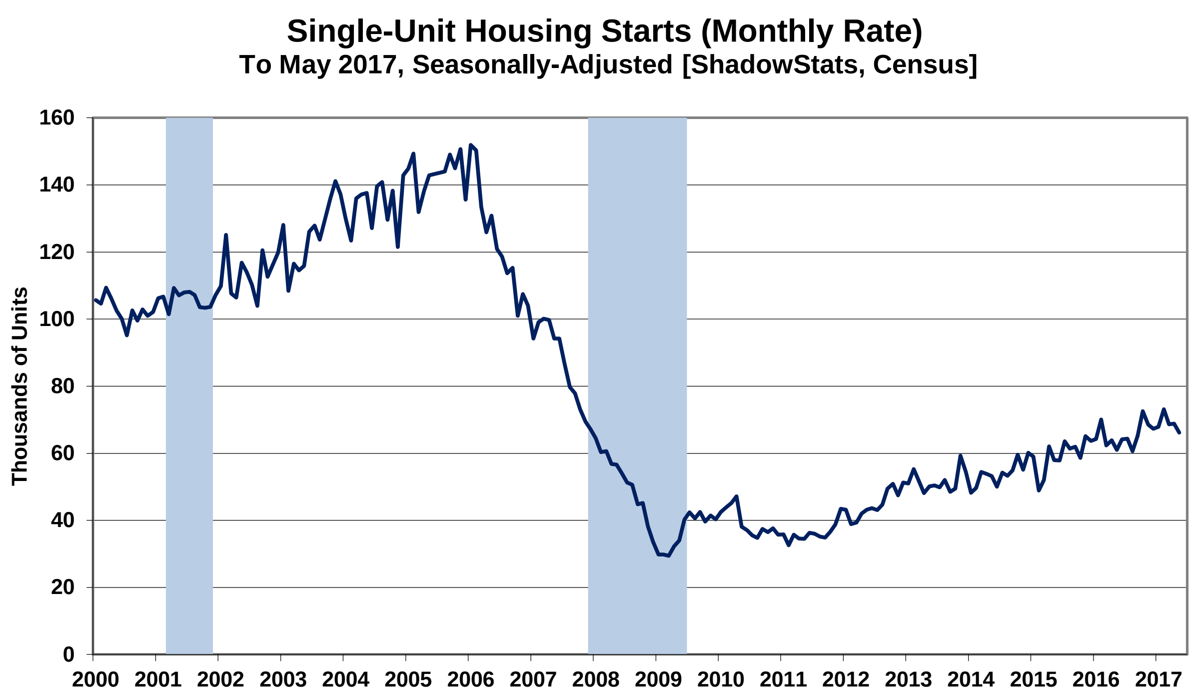
***Existing-Home Sales Graphs.*** The accompanying *Graph 7* plots the traditional headline Existing-Home Sales monthly detail, supplemented by *Graph 9* of the six-month moving average of Existing-Home Sales. Accompanying the Existing-Home Sales plots are comparative graphs of May 2017 aggregate Housing Starts activity, from prior *Commentary No. 893*, where both series reflect activity in terms of single- and multiple-housing units (see *Graphs 8* and *10*). *Graphs 3* to *6* show comparative graphs of New-Home Sales and related series.

[Graphs 3 to 10 begin on the following page.]

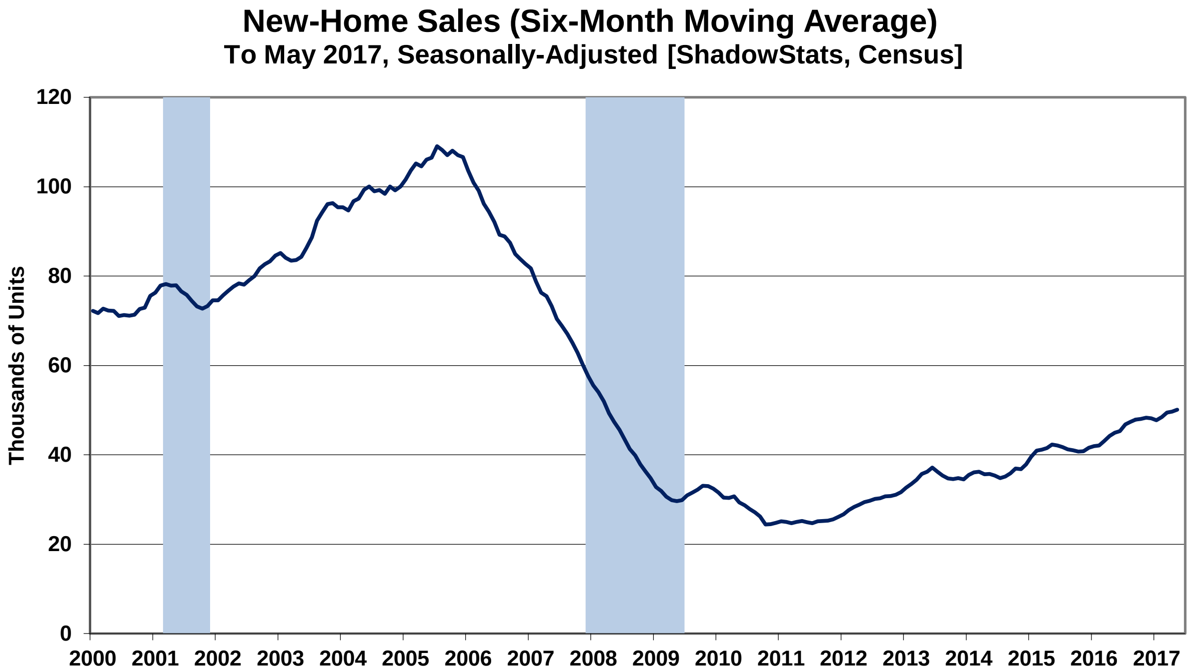
***Graph 3: New-Homes Sales – Monthly Rate of Activity***



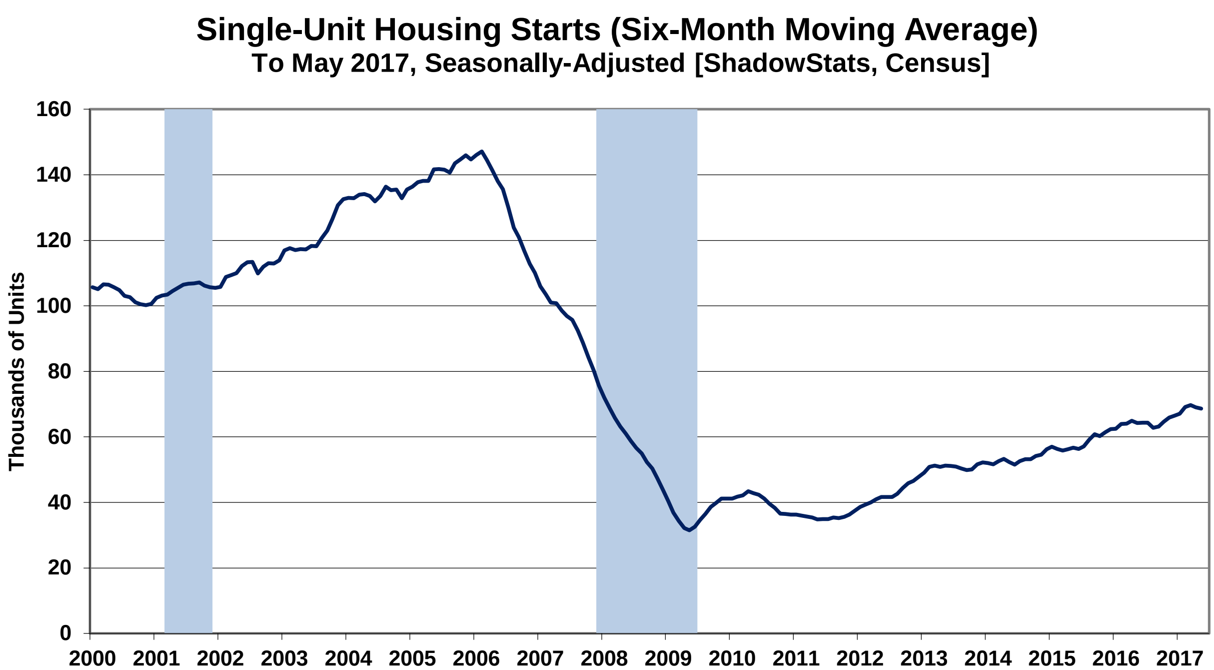

***Graph 4: Single-Unit Housing Starts, Monthly Rate of Activity***



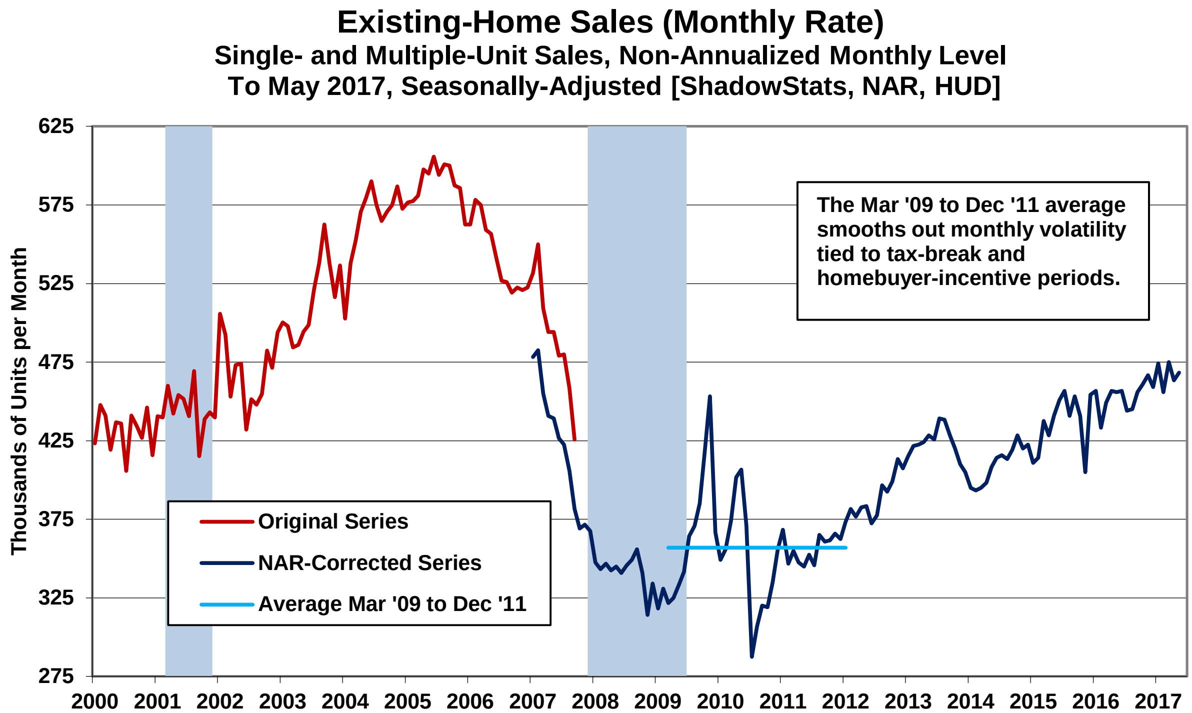
***Graph 5: New-Homes Sales – Six-Month Moving Average, Monthly Rate of Activity***



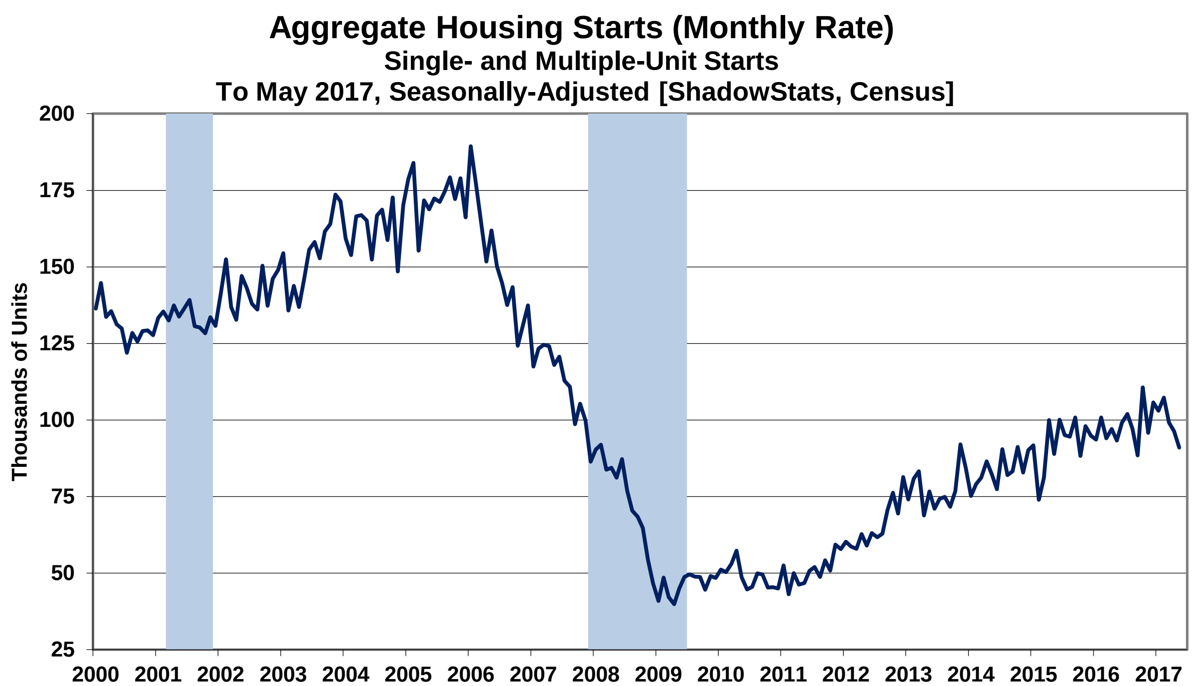

***Graph 6: Single-Unit Housing Starts, Six-Month Moving Average, Monthly Rate of Activity***



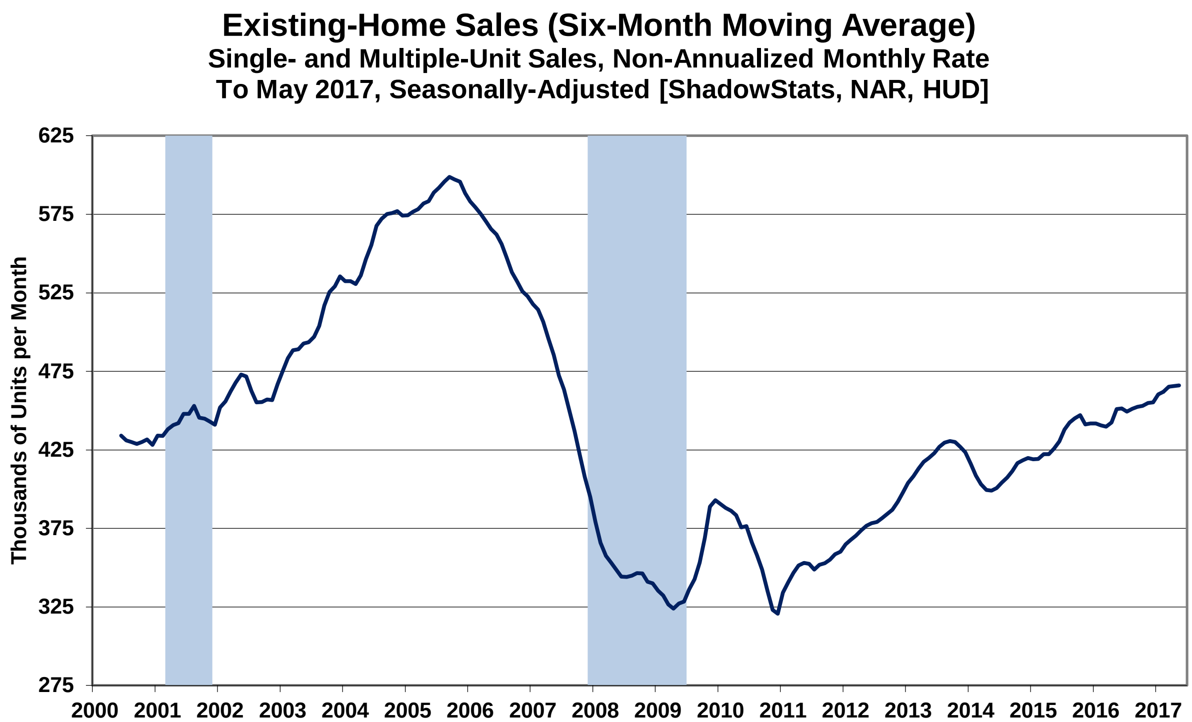
***Graph 7: Existing-Home Sales – Monthly Level***



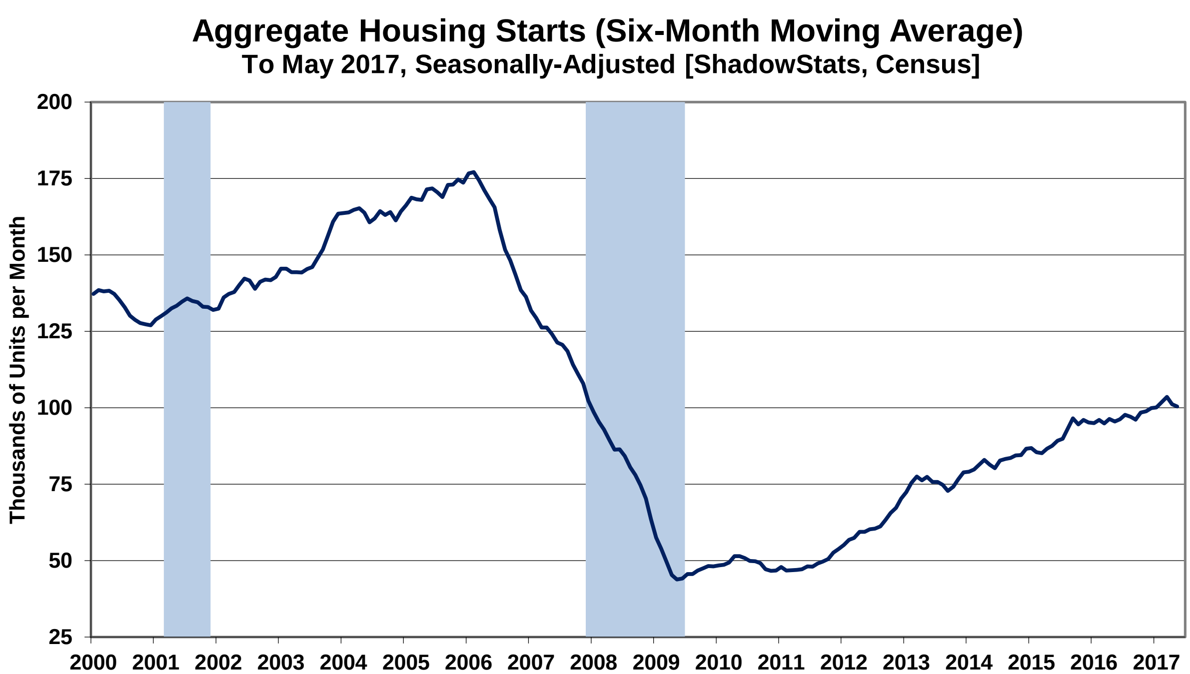

***Graph 8: Total Housing Starts – Monthly Level***



***Graph 9: Existing-Home Sales (Six-Month Moving Average)***




***Graph 10: Total Housing Starts (Six-Month Moving Average)***



## WEEK, MONTH AND YEAR AHEAD

**Rapidly Softening Economic Reporting Should Compromise Fed Policies, Pummel the U.S. Dollar, Boost the Price of Gold and Foster Other Financial-Market Tumult.** Discussed in today's *General Commentary No. 894*, and further to the discussions in the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting of the last month has shown a marked downturn versus consensus forecasts. While such a circumstance usually is a signal for a major downshift in underlying economic reality, it also serves as forewarning to a potential shift in FOMC activity. In the current circumstance, that would be a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

The effect of such a shift in Fed policy should be a massive sell-off in the U.S. dollar, which otherwise has been propped by FOMC rate hikes and jawboning for same. In parallel, related heavy selling in the U.S. equity and credit markets would follow. The circumstance here and outlook remain as broadly outlined in *No. 859 Special Commentary*; the update only reflects the movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the U.S. central bank remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function, in practice, always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it is one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning.

Separately, recent benchmark revisions to the Trade Deficit (see *Commentary No. 890*), Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*) broadly have confirmed that recent historical activity has been overstated and/or that it is turning down anew, despite near-term improvement in some headline details, such as the May unemployment rate. Again, reporting patterns likely will continue to weaken with increasing intensity in the next month or so. Adding a negative uncertainty to these risks is potential political surprise, as discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not shifted.

Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak). While the latest GDP shows economic expansion of 12.5% since that series purportedly recovered its 2007-pre-recession high in 2011, no other "recovered" economic series has come close to showing that expansion either in terms of magnitude or in the purported brevity of the depression. Most of the better-quality series have remained in continuing, not-recovered status, in a period of protracted downturn that now rivals that of the Great Depression (see *Commentary No. 887* and *Commentary No. 869*).

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control, and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see *No. 859*), but cannot happen without the cooperation of Congress.

***Prior General Background.*** *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, again, need to be addressed by the new Administration in the immediate future (see also the *Hyperinflation Watch* of *Commentary No. 862* and *Commentary No. 869*).

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 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a "new" formal recession (see *General Commentary No. 867*).

Coincident with and tied to the economic crash 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. Unwilling to admit its loss of systemic control, the Federal Reserve had been making loud noises of continuing to raise interest rates, in order to contain an overheating economy, but that "overheating" activity has started to fade. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *Special Commentary No. 885*, *Commentary No. 869*, *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*.

**Recent Commentaries (Covering Headline Details and/or Special Features).** *[Pease Note: The complete ShadowStats archives, from 2004 forward, are found at www.ShadowStats.com (left-hand column of home page).]*

*Commentary No. 893* (June 16, 2017) assessed May 2017 New Residential Construction (Housing Starts) and updated *Consumer Liquidity Conditions*.

*Commentary No. 892* (June 15, 2017) reviewed May 2017 Industrial Production and assessed current circumstances and likely pending shifts in FOMC policy, in the context of rapidly-deteriorating, headline economic data.

*Commentary No. 891* (June 14, 2017) covered the May 2017 CPI and PPI, along with real and nominal retail sales, along with a quick comment on the FOMC rate hike.

*Commentary No. 890* (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

*Commentary No. 889* (May 26, 2017) reviewed the second-estimate, first-revision to first-quarter 2017 GDP, and the April 2017 estimates of New Orders for Durable Goods and New- and Existing Home Sales and Sentier Research's April Real Median Household income.

*Special Commentary No. 888* (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers' Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

*Commentary No. 887* (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

*Commentary No. 886* (May 16, 2017) reviewed the headline details of the April 2017 CPI and PPI detail, along with headline reporting of nominal and real Retail Sales, real Average Weekly Earnings and regular monthly review of U.S. dollar conditions and prospects.

*Special Commentary No. 885*, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

*Commentary No. 884* (May 4, 2017) reviewed the March 2017 details for the U.S. Trade Deficit and Construction Spending and the Conference Boards' reporting of April 2017 Help Wanted OnLine.

*Commentary No. 883* (April 29, 2017) covered the headline detail for the "advance" or first-estimate of first-quarter GDP, along with an update to *Consumer Liquidity Conditions*.

*Commentary No. 882* (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and for New- and Existing-Home Sales.

*Commentary No. 881* (April 19, 2017) reviewed the prior March 2017 Industrial Production, Housing Starts and the Cass Freight Index™, along with an economic update in advance of the initial first-quarter 2017 GDP estimate.

*Commentary No. 880* (April 15, 2017) detailed the prior March 2017 headline reporting the of both Real and Nominal Retail Sales, Real Earnings, the CPI, the PPI and updated Consumer Liquidity, where mounting stresses on consumer income and credit are signaling major economic issues ahead.

*Commentary No. 879* (April 7, 2017) covered March 2007 Employment and Unemployment, Help-Wanted Advertising and an update on monetary policy and Money Supply M3 (the ShadowStats Ongoing Measure).

*Commentary No. 877* (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

*Commentary No. 876* (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

*Commentary No. 875* (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

*Commentary No. 873* (March 16, 2017) discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with the prior review of the February 2017 Residential Construction reporting.

*Commentary No. 872* (March 15, 2017) offered some initial comment on the FOMC rate hike, in conjunction with the review of last month's February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

*Commentary No. 871* (March 10, 2017) covered reporting of February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

*General Commentary No. 867* (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

*Commentary No. 864* (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

*Commentary No. 861* (January 13, 2017) covered the 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 will be reviewed in a *Special Commentary*.

*No. 859 Special Commentary* (January 8, 2017) 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**. With some historical detail updated recently *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, 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 the common experience of 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 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* has continued his investigations in reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

**PENDING ECONOMIC RELEASES: New Orders for Durable Goods (May 2017).** In the context of downside, annual 2017 benchmark revisions released on May 18th (see *Special Commentary No. 888* and the subsequent April detail published on May 26th (*Commentary No. 889*), the Census Bureau will report May New Orders for Durable Goods on Monday, June 26th, to be covered in *Commentary No. 895* of that date. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending real stagnation.

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," relative order activity this month will not be affected heavily. Monthly inflation of 0.00% in May 2017, followed gains of 0.24% in both April 2017 and March 2017, while year-to-year annual inflation was 1.75% in May 2017, down minimally versus 1.87% in April 2017 and unchanged versus 1.75% in March 2017 (see *Commentary No. 891*).

**Gross Domestic Product (GDP)—First-Quarter 2017, Third-Estimate, Second-Revision.** The Bureau of Economic Analysis (BEA) will publish its third guesstimate of, second revision to first-quarter 2017 Gross Domestic Product (GDP) on Thursday, June 29th. Detail will be covered in *Commentary No.*

*896* of that date. Such will be the last quarterly GDP release of the current reporting cycle (see *Benchmark Revisions*). Given recent, unfolding headline weakness in a number of series and negative revisions to data ranging from payroll employment and the trade balance to housing starts, there is reasonable potential for a net downside revision to headline first-quarter GDP growth, in its third-estimate as well as in the pending benchmarking. Nonetheless, consensus expectations appear to be for no net revision to the prior reporting. The last headline reporting of first-quarter GDP growth was 1.15% in its second estimate, versus 0.69% in its "advance" estimate.

***GNP and GDI.*** Also pending release in the June 29th release are the second estimates of first-quarter 2017 Gross Domestic Income (GDI), which is the theoretical income-side equivalent to the GDP's consumption side, and Gross National Product (GNP), which encompasses the narrower GDP measure, adding in the effects of trade flows in factor income (interest and dividend payments).

As noted last month, the GDI and GNP often add unusual twists to the headline GDP estimate. For example the initial headline estimate of real GDI growth for first-quarter 2017 was 0.85%, versus a sharp downside revision to the fourth-quarter 2016 estimate, which took the series into a quarterly contraction of 1.38% (-1.38%), previously a gain of 1.00%. The level of headline real first-quarter 2017 GDI—despite the quarterly gain—still was below the headline level of third-quarter 2016. No further revisions to the pre-first-quarter 2017 numbers will be published, now, until next month's benchmarking.

***Pending Annual Benchmark Revisions.*** The headline release of the "advance" estimate of second-quarter 2017 on July 28th will be coincident with, and in the context of, annual benchmark revisions to the GDP series back to 2014. The likely negative benchmark revisions are discussed in briefly in today's opening *General Comments*, and will assessed in some detail in a mid-July *Commentary*. The next "comprehensive" revision to the GDP series, back to 1929, is planned for July 2018.