

COMMENTARY NUMBER 895
May 2017 New Orders for Durable Goods

June 26, 2017

**May 2017 New Orders for Durable Goods Continued the General Pattern of
Weaker-than-Expected Headline Economic Reporting**

**Despite Downside Revisions to April, May Orders Declined for the Second Month,
Both Before and After Inflation and/or Commercial Aircraft Orders**

**As Consensus and the Fed Forecasts Shift Towards a Contracting U.S. Economy,
Financial Markets Should Face Increasing Instabilities and Turmoil**

PLEASE NOTE: The next regular Commentary, scheduled for Thursday, June 29th, will cover the third estimate of, second revision to first-quarter 2017 GDP.

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

Today's Opening Comments and Executive Summary (June 26th) focuses on May 2017 New Orders for Durable Goods in the context of an evolving pattern of a broad slowing/downturn in U.S. economic activity.

The **Reporting Detail** (beginning page 10) provides a more-comprehensive analysis of the new orders detail.

The **Week, Month and Year Ahead** (beginning page 14) reviews recent *Commentaries* and updates the preview of Thursday's (June 29th) third estimate of first-quarter 2017 GDP.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economic Activity Continues to Slow Versus Expectations. Given the quirks in the current calendar of economic releases, today's relatively brief June 26th missive reflects new detail only from this morning's headline reporting of May 2017 New Orders for Durable Goods. In like manner, Thursday's (June 29th) *Commentary* primarily will detail the third-estimate of first-quarter Gross Domestic Product (GDP), as discussed in the *Week, Month and Year Ahead* section, along with any newly available survey releases out of the private sector. The next round of likely market-rattling economic releases will begin following the extended July 4th holiday weekend, with the full-estimate of the May 2017 trade deficit on July 6th and particularly with June 2017 labor conditions on July 7th (respectively *Commentaries No. 897* and *898*).

In the context of the recent discussions in [Commentary No. 892](#) and prior [General Commentary No. 894](#), downshifts in headline economic reporting and related market expectations for same appear to be underway. As that circumstance intensifies, market sentiment also should begin to shift sharply on likely policy out of the Federal Reserve Board's Federal Open Market Committee (FOMC). Instead of anticipated further rate hikes in the year ahead, sentiment should begin to move back towards some form of renewed and/or expanded quantitative easing, in defense of intensifying liquidity/solvency stresses on the banking system from a renewed tumbling in economic activity (again, see [No. 894](#) for a discussion on potential market impact). With that as general background, this morning's release of New Orders for Durable Goods continued the recent string of weaker-than-consensus headline business indications from major economic series.

Executive Summary: New Orders for Durable Goods—May 2017—Down for a Second Month, Both Before and After Inflation and/or Commercial Aircraft Orders. New Orders for Durable Goods declined month-to-month for the second straight month, both before and after consideration of inflation and/or order contributions from commercial aircraft. As a result, stagnant, real quarter-to-quarter activity in aggregate new orders, as well as for orders ex-commercial aircraft, was indicated for the second consecutive quarter. Accordingly, with the new-orders series a leading indicator to manufacturing activity, continued stagnation is suggested into third-quarter 2017 activity for that dominant component of

the industrial production series. Such is in the context of current economic reporting continuing to disappoint consensus economic expectations for signals of expanding economic activity.

Adjusted for inflation, total new orders for durable goods declined month-to-month by 1.08% (-1.08%) in May 2017, following a monthly decline of 1.15% (-1.15%) in April and a gain of 2.11% in March. Net of the impact of the highly unstable monthly commercial aircraft orders, real monthly activity declined by 0.55% (-0.55%) in May 2017 and by 0.51% (-0.51%) in April and having gained 1.45% in March.

Year-to-year real growth patterns, however, turned increasingly positive, with aggregate orders up by 0.95% in May 2017, versus a decline of 1.13% (-1.13%) in April 2017 and a gain of 4.65% in March 2017. Ex-commercial aircraft, annual real growth was 3.93% in May 2017, versus 1.11% in April 2017 and 1.69% in March 2017. More-extensive coverage of these monthly numbers and revisions to same are found in the *Reporting Detail*, while the related graphs follow here.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. Following *Graphs 1* and *2* show the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the irregularly-volatile commercial-aircraft orders.

The moving-average levels in both series turned lower into year-end 2014, and after an uptick in mid-2015—some smoothed bounce-back—the trend turned down anew into late fourth-quarter 2015, with continued minor fluttering into third-quarter 2016, and initially a small uptick in fourth-quarter 2016 activity continuing on the upside into 2017, which was much reduced in the benchmarking of May 18th, and in the subsequent headline April 2017 reporting of May 26th and this morning's (June 26th) downside revisions to April and softening headline detail for May 2017 new orders.

Graphs 3 and *4* show the annual year-to-year percent change in the real new orders series, net of commercial aircraft orders, on both monthly and six-month-smoothed moving-average bases, along with a comparative plot of parallel year-to-year headline changes in the manufacturing sector of industrial production.

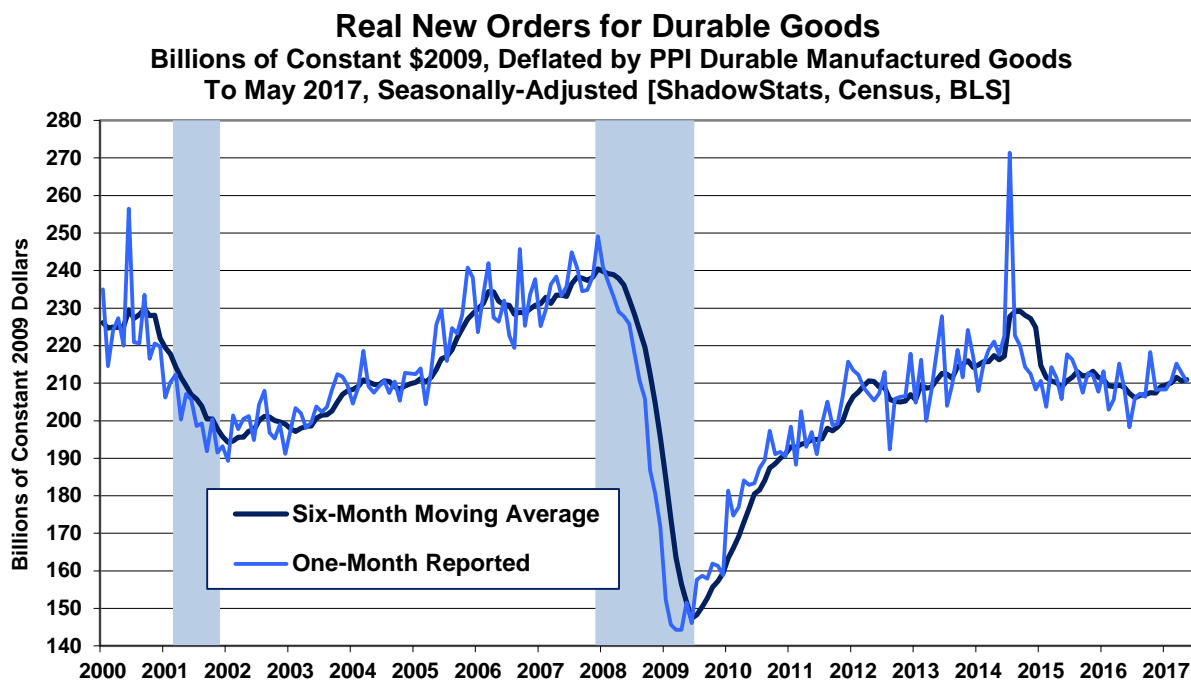
The annual growth for the inflation-adjusted May 2017 new orders for durable goods, ex-commercial aircraft, notched higher, with the six-month average holding minimally in positive territory. That broadly was consistent with the fluttering low level of uptrending, non-recovered stagnation seen in the manufacturing series.

While that might suggest a near-term bottoming in orders (discussed in [General Commentary No. 867](#)), such partially is an artefact of roughly two-percentage-points understatement of the inflation used in deflating the headline durable goods series. Nonetheless, as shown in the graphs, the year-to-year change in the series ex-aircraft orders generally has led the broad pattern of annual growth reflected in the headline level of annual change in the manufacturing sector of industrial production, a series that also suffers inflation-reporting distortions.

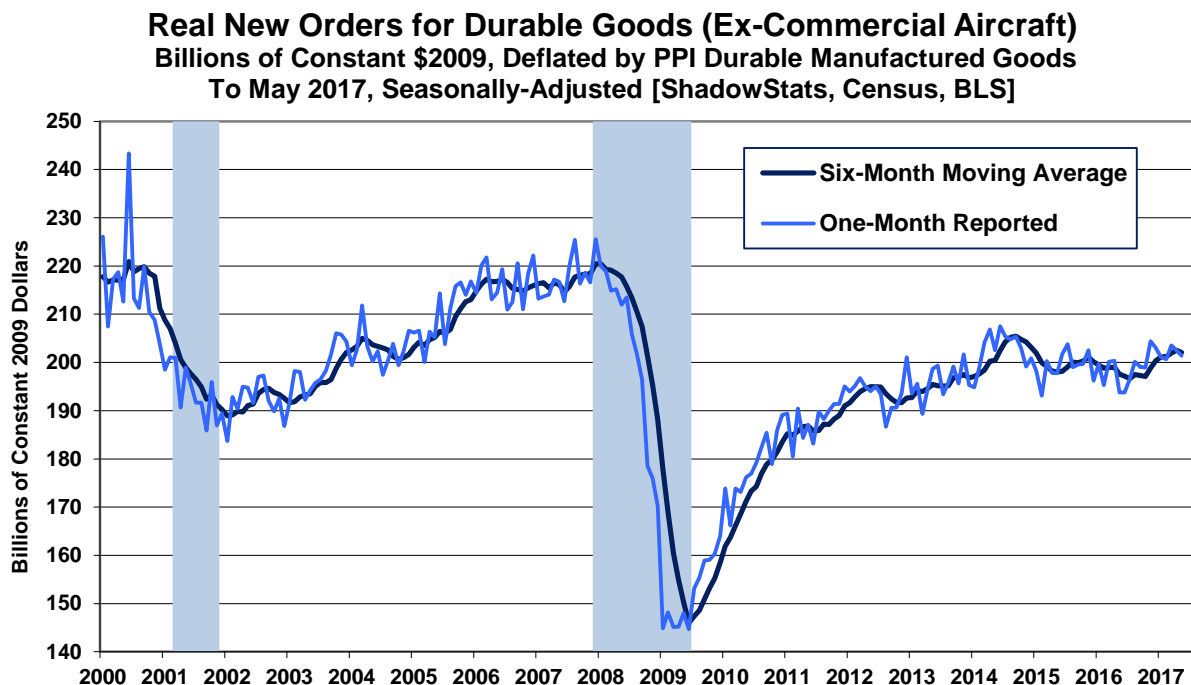
Broadly, there has been a general pattern of stagnation or bottom-bouncing evident in the orders of recent years—clearly not the booming recovery seen in official GDP reporting. The real monthly and six-month moving-average levels of new orders in May 2017 remained below both the pre-2007 recession high, as well as the pre-2000 recession high for the series. The pattern of low-level stagnation and fluctuating trend in the annual inflation-adjusted series since mid-2014—net of the irregular aircraft-order

effects—again is one that most commonly precedes and/or coincides with a recession, as is the current circumstance. The series remains in non-recovered, non-expanding, low-level stagnation.

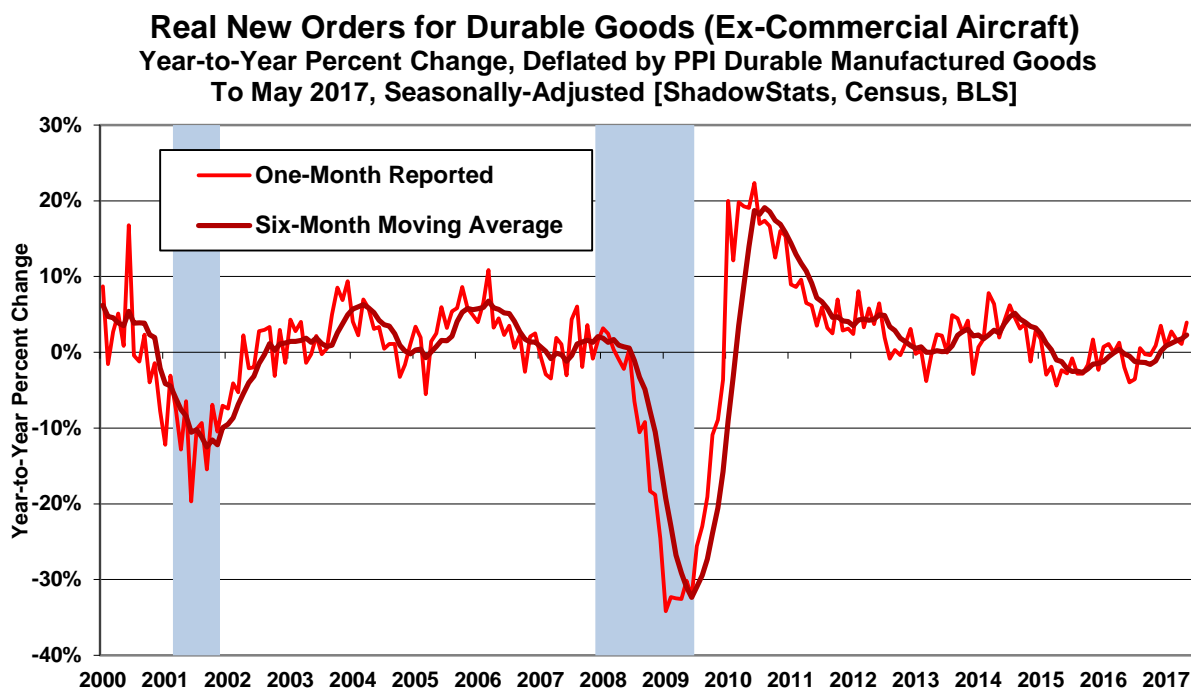
Graph 1: Real Total New Orders for Durable Goods to Date



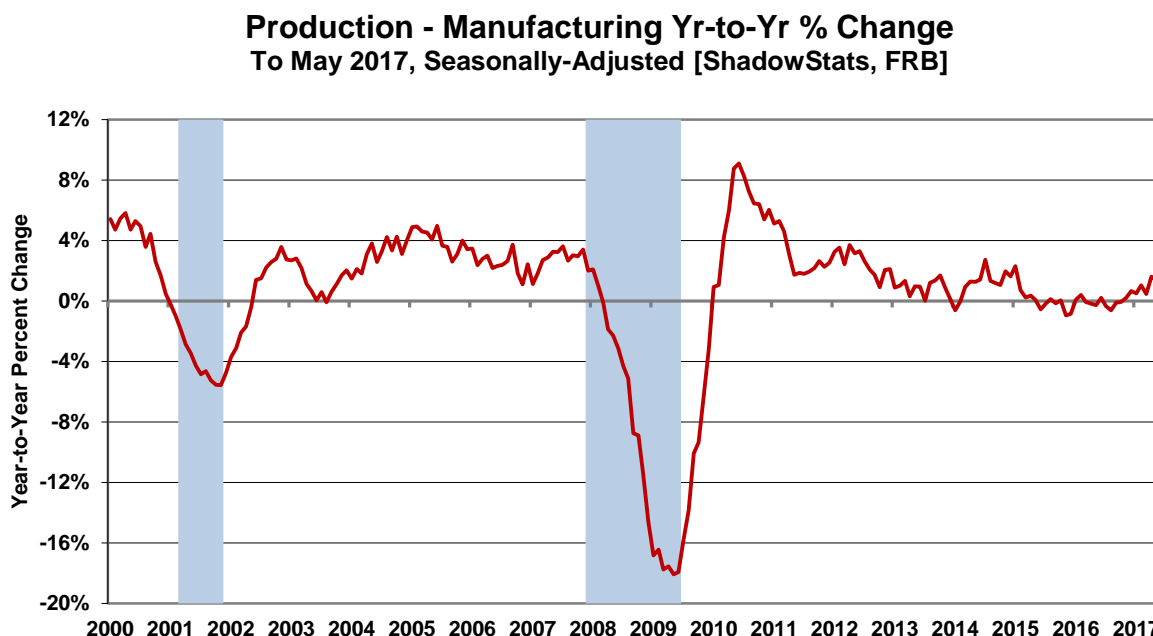
Graph 2: Real New Orders for Durable Goods – Ex-Commercial-Aircraft Orders to Date



Graph 3: Year-to-Year Percent Change, Real New Orders for Durable Goods – Ex-Commercial Aircraft to Date



Graph 4: Industrial Production - Manufacturing, Year-to-Year Percent Change Since 2000
(Graph 13 on page 15 of [Commentary No. 892](#))



The Real New Orders Series “Corrected” for Inflation Understatement. As with other economic series deflated by official government inflation measures, headline estimates of inflation-adjusted growth in new

orders for durable goods generally are overstated, due to the understatement of official inflation. That understatement comes from the government’s use of hedonic-quality adjustments—quality issues usually not perceived by the users or consumers of the involved products—in justifying a reduced pace of headline inflation used in deflating some series (see [Public Commentary on Inflation Measurement](#)).

As done for other series such as Real Retail Sales (see *Graph 2* on page 4 of [Commentary No. 891](#)), Industrial Production (see *Graph 2* on page 4 of [Commentary No. 892](#)) and the GDP (see *Graphs 4 and 6* in [Commentary No. 889](#)), ShadowStats publishes an experimental, corrected-inflation version of the graph of real New Orders for Durable Goods. Real activity, in this case, is corrected for the understatement of the inflation used in deflating the new orders series with the headline PPI inflation for manufactured durable goods (see the *Reporting Detail*).

Three sets of graphs follow. The first set (*Graph 5* and *Graph 6*) shows the aggregate series or total durable goods orders; the second set (*Graph 7* and *Graph 8*) shows the ex-commercial aircraft series. The aggregate orders series in *Graphs 5* and *6* includes the monthly commercial aircraft orders. Placed years in advance, aircraft orders are a better indicator of long-range production activity, than they are as a near-term leading indicator of production activity. Again, *Graphs 7* and *8* are shown net of those volatile commercial aircraft orders.

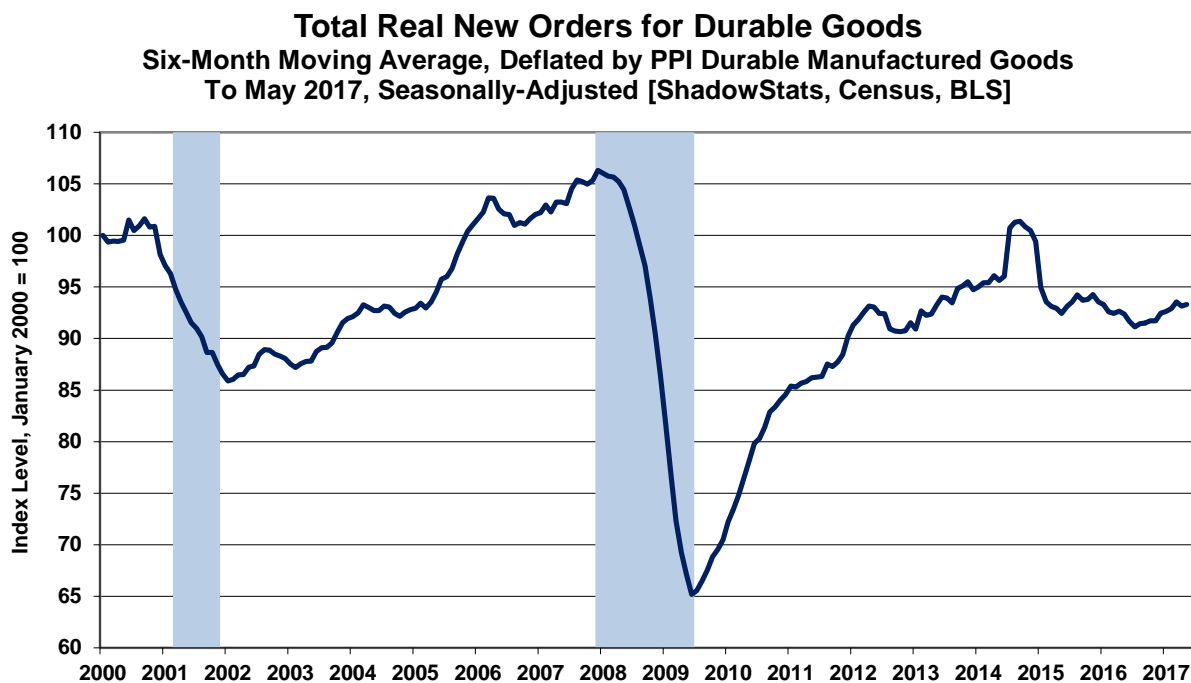
The first graph in each of the first two sets shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first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

A third set (*Graphs 9* and *10*) allows for the comparison of the trailing twelve-month moving-average of the real durable goods series, ex-commercial aircraft, corrected for the understatement of inflation used in the deflation process, with the twelve-month moving-average of the Cass Freight Index™.

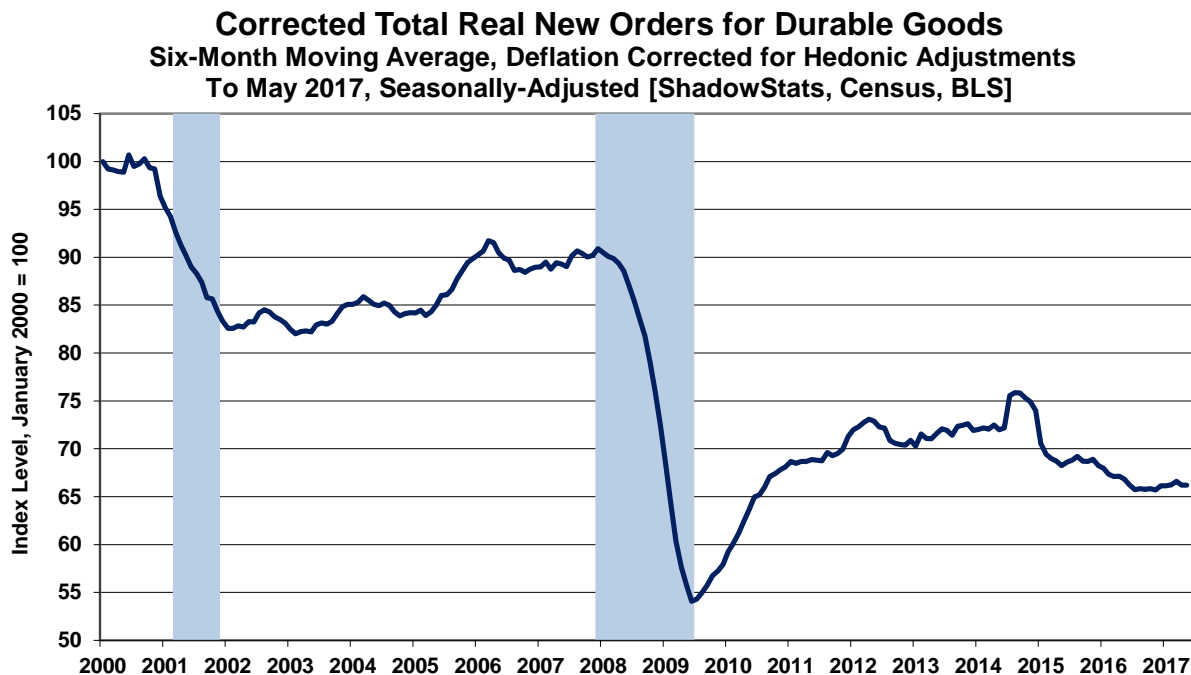
Graphs 9 and *10* look at the latest parallel reporting in the trailing twelve-month moving averages of the “corrected” New Orders for Durable Goods the Cass Freight Index. While there certainly may be a bottoming of broad activity in the works (see discussion in [Commentary No. 890](#) on the Cass Index detail), recovering pre-collapse levels of activity remains well into the future, dependent heavily on the Administration and Congress putting some economic stimulus in place.

[Graphs 5 to 10 begin on the next page.]

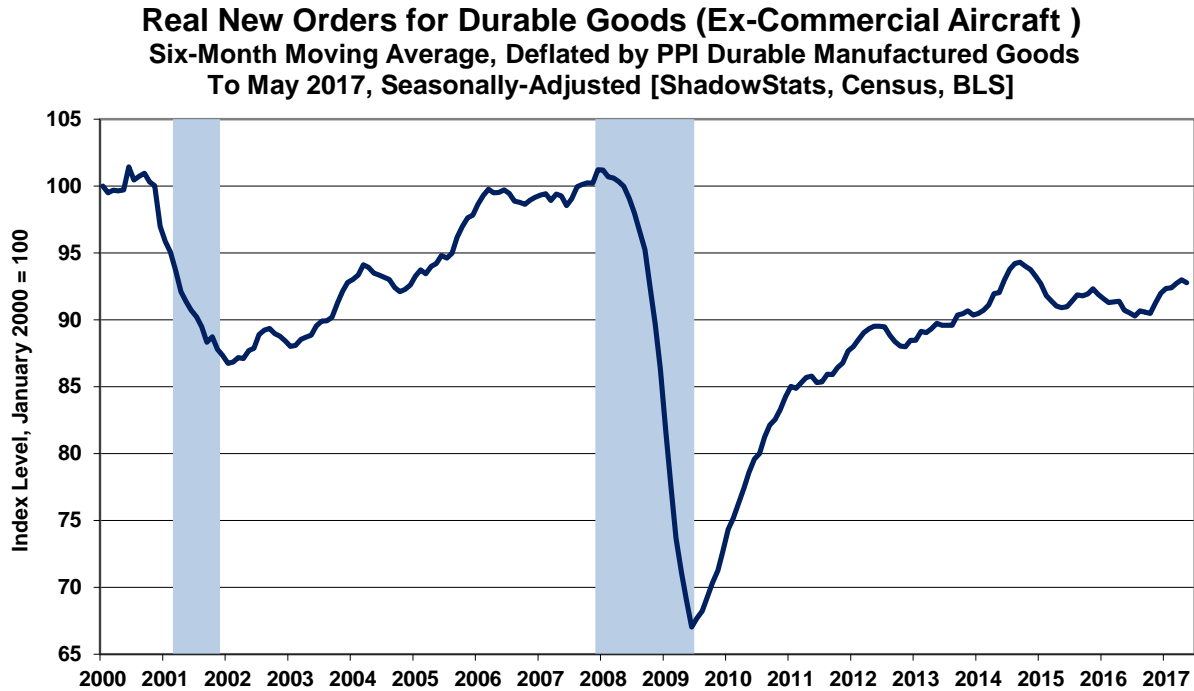
Graph 5: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



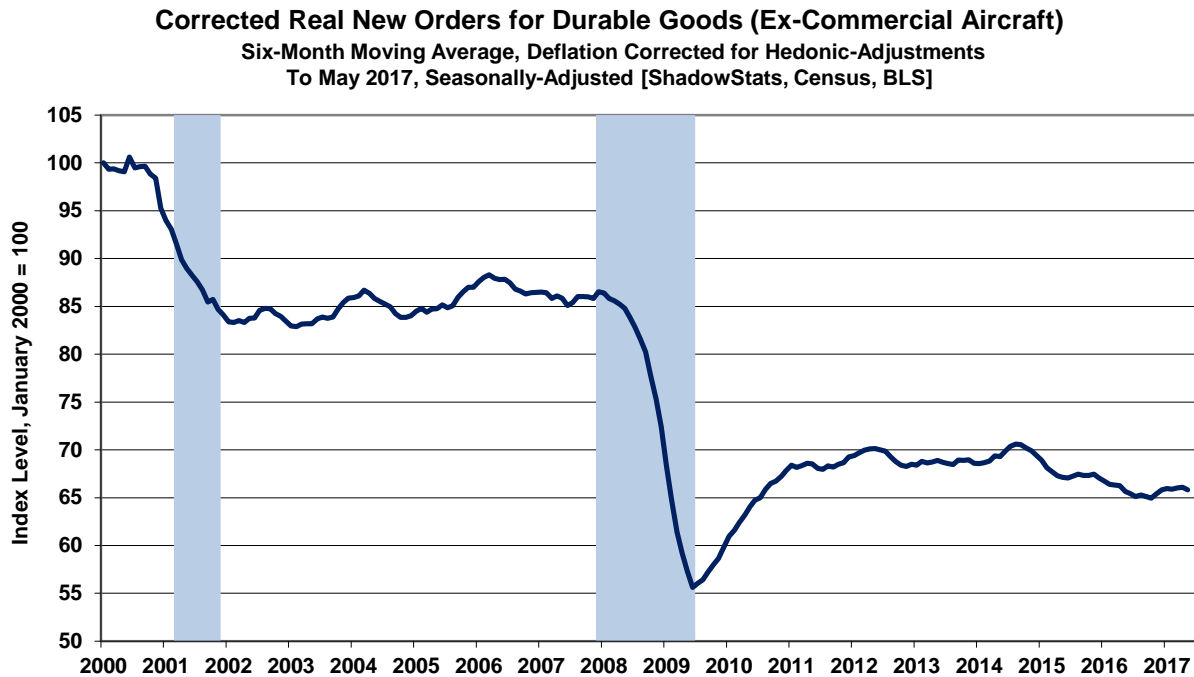
Graph 6: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



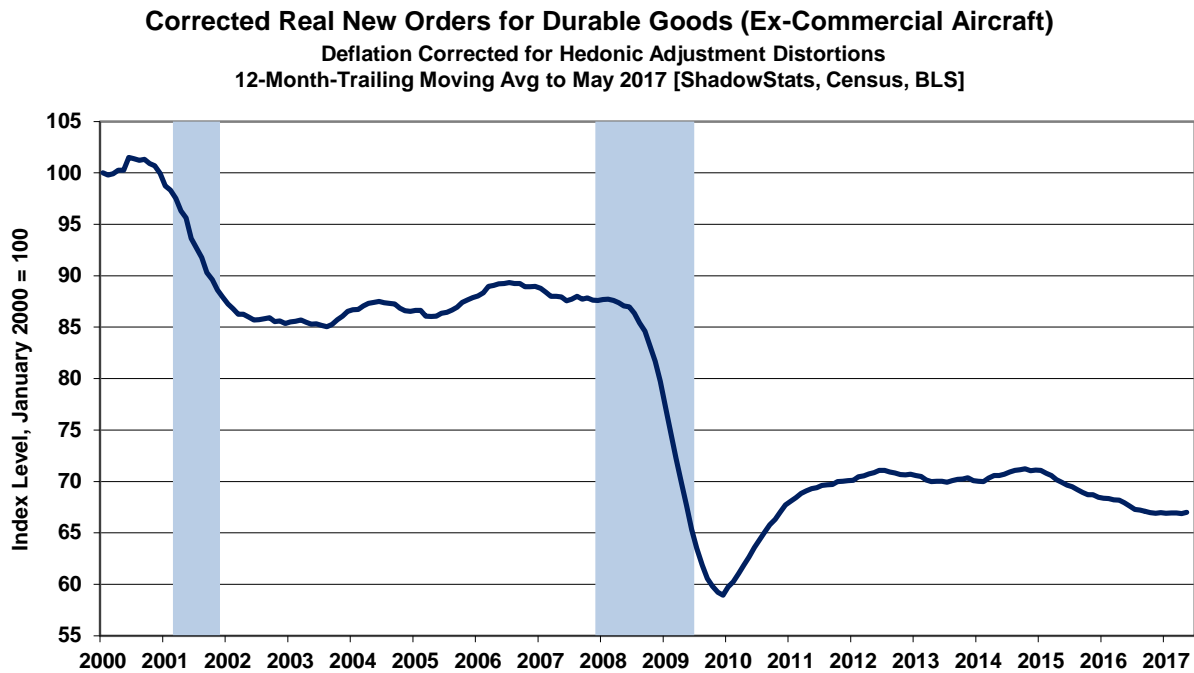
Graph 7: Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



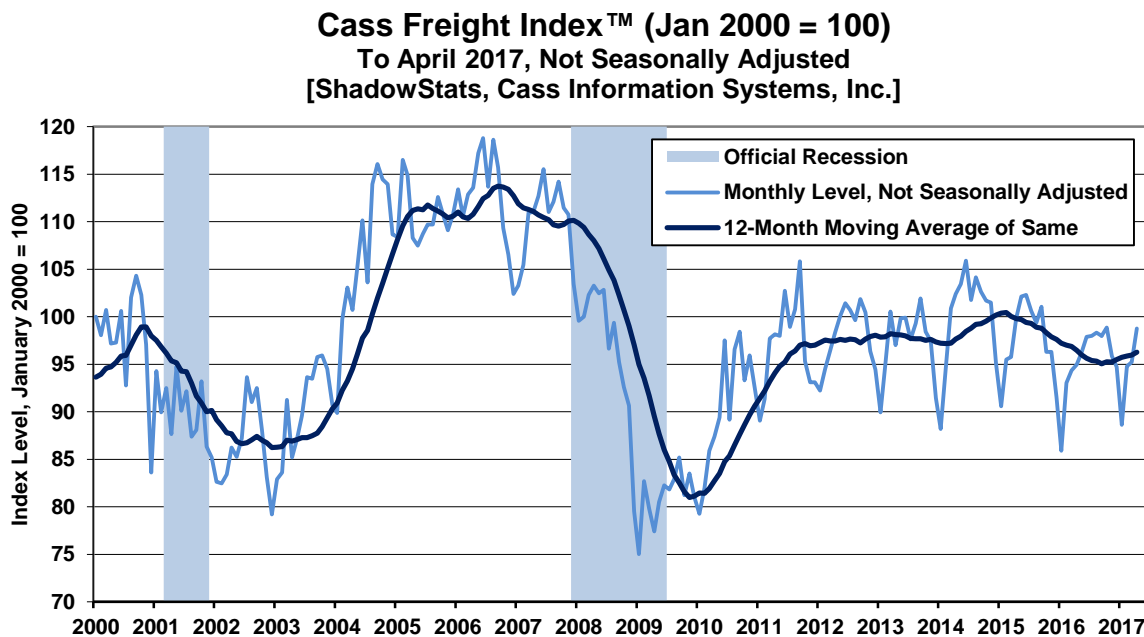
Graph 8: Corrected Index of Durable Goods Orders – Ex-Commercial Aircraft, 6-Month Moving Average



Graph 9: Corrected Durable Goods Orders Index – Ex-Commercial Aircraft, Twelve-Month Trailing Average



Graph 10: CASS Freight Index™ (2000-April 2017)



[The Reporting Detail contains extended analysis of the Durable Goods Orders.]

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (May 2017)

Headline New Orders Fell Month-to-Month by 1.08% (-1.08%), Down by 0.55% (-0.55%) Ex-Commercial Aircraft and Inflation. Headline New Orders for Durable Goods declined month-to-month for the second straight month, both before and after consideration of inflation and/or the impact from commercial aircraft orders. As a result, real quarter-to-quarter activity for second-quarter 2017 was suggestive of stagnation for the second straight quarter, with first-quarter 2017 showing minimally-negative activity and with second-quarter activity on track for minimally-positive activity.

Headline Activity Disappointed Consensus Expectations. Continuing the broad trend seen in recent headline economic activity, headline durable goods orders disappointed consensus expectations, which had been for an aggregate drop of 0.4% (-0.4%) in May 2017. Instead, the headline detail was down by 1.1% (-1.1%), on top of downside revisions to prior reporting. Net of the prior-period revisions, aggregate orders fell by 1.3% (-1.3%).

The consensus outlook, net of a much broader transportation number than the ex-commercial aircraft measure used here, was for a gain of 0.5%, where that headline detail gain was 0.1%, which also was on top of downside prior-month revisions. Discussed later, commercial-aircraft orders (not automobiles) are the primary source of irregular, non-seasonal variation in this series. Ex-commercial aircraft, headline new orders declined by 0.5% (-0.5%) month-to-month, down 0.6% (-0.6%) before prior-period revisions.

In the context of the May 18th annual benchmark revisions, which lowered the general level of headline activity in recent years (see [Special Commentary No. 888](#) and accompanying *Graph 11*), today's downside revisions to initial April 2017 reporting (May 26th) and a combination of declining commercial aircraft orders and neutral headline inflation in May, the nominal month-to-month decline in May 2017 aggregate new orders for durable goods of 1.08% (-1.08%) translated into a real decline in monthly new orders, ex-nondefense (or ex-commercial) aircraft orders of 0.55% (-0.55%). Indeed, the best leading indicator to industrial production (*i.e.*, manufacturing, see *Graph 3* in the *Executive Summary*) and to the general economy, is inflation-adjusted real new orders, ex-commercial aircraft.

Viewed smoothed on a quarterly basis, the third-quarter 2016 annualized real series, ex-aircraft, showed an annualized quarterly gain of 5.46% [down by 1.10% (-1.10%) year-to-year], fourth-quarter 2016 showed an annualized quarterly gain of 7.35% [up by 1.33% year-to-year], followed by a first-quarter 2017 annualized contraction of 0.70% (-0.70%) [up by 1.73% year-to-year] and with second-quarter activity on an early track for an annualized 0.38% quarterly pace [up by 3.07% year-to-year].

The series remained in low-level, non-recovering stagnation, and remained a tentative, leading indicator for softening activity in second-quarter 2017 industrial production, a series that has remained in definitive recession since December 2014 (see [Commentary No. 887](#)).

Smoothed with six-month moving averages, and adjusted for inflation, both of the highly volatile new orders series (total and ex-commercial aircraft) generally have remained in long-term, non-recovering, low-level, downtrending stagnation, which recently had started to show some minimal uptrend but now has started to soften anew. Those patterns have remained consistent in signaling ongoing or non-recovering recession (see *Graphs 5 to 10* in the *Executive Summary*).

Headline Nominal Detail—May 2017. The Census Bureau reported this morning, June 26th, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate new orders for durable goods declined by 1.08% (-1.08%) in May 2017 having declined by a downwardly revised 0.92% (-0.92%) [previously down by 0.67% (-0.67%)] in April, and having gained month-to-month by a minimally revised 2.35% [previously up by 2.32%] in March.

Year-to-year, May 2017 nominal durable goods rose by 2.71%, having gained a downwardly-revised 0.72% [previously up by 0.94%] in April 2017 and a minimally-revised 6.49% [previously up by 6.45%] in March 2017. That headline detail, though, was before consideration of the irregular volatility in commercial-aircraft orders, let alone inflation.

Before and after consideration of commercial-aircraft orders and other monthly irregularities in the headline reporting of new orders, the smoothed trends of broad activity generally continued to be flat, consistent with a downturn that had been holding in a continuing pattern of broad stagnation, albeit somewhat fluttering. The inflation-adjusted real series, and that same series corrected for the understatement of official inflation, are discussed and graphed in the *Executive Summary* section in the *Opening Comments*.

The corrected series—net of commercial aircraft orders—has remained relatively flat, now somewhat downtrending, in a pattern of low-level stagnation. In parallel with the other plotted series, the corrected series still shows an unfolding economic contraction of a nature that usually precedes or coincides with a recession or deepening business downturn.

Detail Net of Volatility in Commercial-Aircraft Orders. The reporting of extreme contractions and surges in commercial-aircraft orders is seen in an irregularly-repeating process throughout the year, and that often dominates changes in headline monthly durable goods orders. These extremely volatile aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity. In May 2017, a monthly decline of 11.71% (-11.71%) in commercial aircraft orders depressed aggregate orders to a deeper headline monthly contraction of 1.08% (-1.08%), from what otherwise would have been a contraction of 0.55% (-0.55%). Net of a revised April 2017 decline of 12.21% (-12.21%) [previously 9.24% (-9.24%)] in commercial aircraft orders, a decline of 0.92% (-0.92%) in aggregate orders was narrowed to a decline of 0.27% (-0.27%). Net of a revised 15.37% [previously 15.36%] gain in March 2017 in commercial aircraft orders, a 2.35% headline gain in aggregate orders was reduced to a gain of 1.70%.

Year-to-year and seasonally-adjusted, May 2017 new orders (net of commercial aircraft) rose by 5.75%, having gained 3.00% [previously 3.05%] in April 2017 and 3.47% [previously 3.44%] in March 2017.

Real Durable Goods Orders—May 2017. ShadowStats uses the PPI component inflation measure “Durable Manufactured Goods” for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related May 2017 PPI series showed no [0.00%] headline monthly

inflation in May 2017, having gained 0.24% in both April and March. Related year-to-year annual inflation was 1.75% in May 2017, versus 1.87% in April 2017 and 1.75% in March 2017 (see [Commentary No. 891](#)).

Adjusted for that “unchanged” month-to-month inflation reading in May 2017, and as reflected in the graphs in the *Executive Summary* section, real aggregate orders in May 2017 declined by 1.08% (-1.08%), having declined by 1.15% (-1.15%) in April and having gained 2.11% in March. Ex-commercial aircraft, real month-to-month orders declined by 0.55% (-0.55%) in May 2017, having declined in April by 0.51% (-0.51%) and having gained 1.45% in March.

Real total new orders rose year-to-year by 0.95% in May 2017, having declined year-to-year in April 2017 by 1.13% (-1.13%) and having gained 4.65% in March 2017. Ex-commercial aircraft, May 2017 real orders rose year-to-year by 3.93%, having gained 1.11% in April 2017 and 1.69% in March 2017.

Real Quarterly Change, Ex-Commercial Aircraft. Where the inflation-adjusted series, ex-commercial aircraft, is the best leading economic indicator out of these data, following are the annualized real quarterly changes in that series. Beginning at the onset of eventually what should become recognized as a formal recession or renewed downturn, the real ex-commercial aircraft orders series showed annualized quarterly declines of 7.92% (-7.92%) in fourth-quarter 2014 and 7.36% (-7.36%) in first-quarter 2015. Annualized real change was a gain of 3.87% for second-quarter 2015, a gain of 3.46% in third-quarter 2015 and an annualized contraction of 2.59% (-2.59%) in fourth-quarter 2015 activity.

First-quarter 2016 orders showed an annualized real contraction of 2.22% (-2.22%), with the series declining at an annualized real pace of 4.74% (-4.74%) in second-quarter 2016. For third-quarter 2016, the annualized real series, ex-aircraft, showed an annualized quarterly gain of 5.46%, fourth-quarter 2016 activity showed an annualized quarterly gain of 7.35%, followed by a minimally revised first-quarter 2017 annualized contraction of 0.70% (-0.70%), with second-quarter activity on an early track (based on headline April and May reporting) for an annualized 0.38% quarterly pace. That revised from the early estimate based solely on initial April detail of a 1.74% quarterly pace of gain.

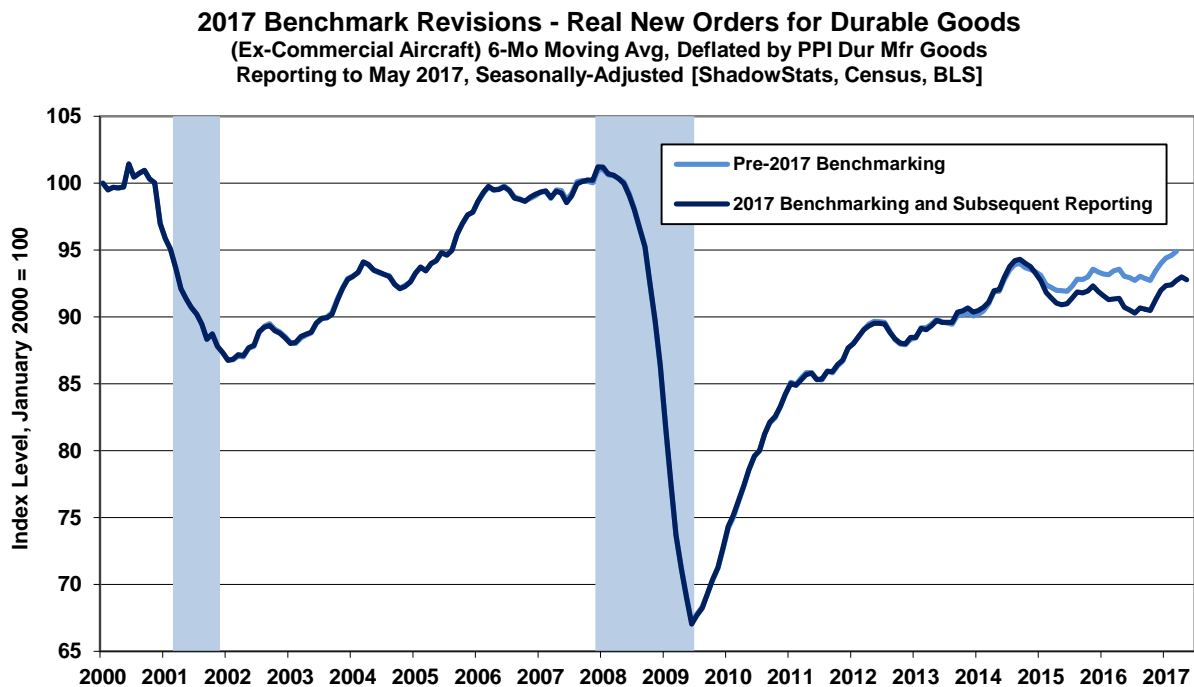
Graphs of Inflation-Adjusted and “Corrected” Smoothed Durable Goods Orders. Four sets of inflation-adjusted graphs (*Graphs 1 to 10*) are displayed in the *Executive Summary*. The first set (*Graphs 1 to 4*) shows the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the irregular commercial-aircraft orders, as well as annual growth for the real series net of commercial aircraft, plus a plot of annual growth in the manufacturing sector, for comparison. The moving-average levels in both series had turned lower into year-end 2014 and the first two quarters of 2015, with some smoothed bounce-back into third-quarter 2015, followed by renewed downturn into 2016 with a late-year uptick continuing into March 2017, which largely revised away with the benchmarking and now has started to notch lower.

The second set of graphs (*Graphs 5 and 6*) shows the patterns of six-month moving averages of historical, headline real new orders for durable goods, net of official inflation, as well as that pattern “corrected” for understatement of that inflation (and for the corresponding overstatement of official, inflation-adjusted growth). The third set of graphs (*Graphs 7 and 8*) shows the same patterns, but for the aggregate durable goods orders series, net of commercial aircraft orders. The fourth set of graphs (*Graphs 9 and 10*), shows the twelve-month moving average of the real series, ex-commercial aircraft side-by-side with parallel activity in the historical Cass Freight Index™. Those series show the general economy to be down-

trending in recent years, never having recovered fully from the economic collapse into 2009 (see also [No. 859 Special Commentary](#)), never entering a post-recession period of economic expansion.

Caution: Non-Comparability of the Regular Headline Month-to-Month Data. As an example of the downside restatement of recent activity, consider accompanying *Graph 11*. It shows the net revisions to the six-month moving average of real New Orders for Durable Goods, ex-commercial aircraft from the May 18th benchmarking and subsequent reporting, versus the pre-benchmarking detail (for a more substantive review of the recent revisions to historical New Orders for Durable Goods, and the parent Manufacturers' Shipments series, see [Special Commentary No. 888](#)).

Graph 11: Benchmark Revisions to Real Total New Orders for Durable Goods, Ex-Commercial Aircraft.



Current durable goods reporting remains subject to many of the same upwardly-biased sampling assumptions and concurrent-seasonal-adjustment problems seen in the pre-revision reporting as well as with retail sales, and payroll and unemployment reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly and annual changes. While those issues were brought into balance, for a period of eight days, with the annual benchmark revision to durable goods orders through March 2017 on May 18, 2017 (again see [No. 888](#)), that consistency ceased with the May 26th release of headline April 2107 detail.

For all monthly reporting from the April 2017 detail until the next benchmarking in May 2018, unpublished historical revisions calculated along with current headline month's seasonal adjustments, and with each month to follow, make all historical reporting prior to the current headline month (May 2017) inconsistent with the currently published headline historical numbers.

WEEK, MONTH AND YEAR AHEAD

Rapidly Softening Economic Reporting Should Compromise Fed Policies, Pummel the Dollar, Boost the Price of Gold and Foster Other Financial-Market Tumult. Discussed in [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 usually signals an unfolding, major downshift in underlying economic reality, in the current circumstance that also forewarns of a potential shift in FOMC activity. In terms of Fed policy, that would be a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

The effect of such a policy change by the U.S. central bank likely would be a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. The circumstances here and the outlook remain as broadly outlined in [No. 859 Special Commentary](#); the shift in current headlines only reflects the movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve 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 continues as 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 historical activity in recent years has been overstated and/or that it is turning down anew. Such is despite near-term improvement in some headline details, such as the May unemployment rate, which increasingly are suffering definitional or sampling issues. Again, reporting patterns likely will continue to weaken with increasing intensity in the next term. Adding a negative uncertainty to unfolding financial-market risks is potential political surprise, as discussed in [Special Commentary No. 888](#). Otherwise, the broad outlook has not changed.

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.

[No. 859 Special Commentary](#) updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, continued in play and, again, needed be addressed by the new Administration (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 remained and 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](#)). Formal economic expansion does begin until economic recovery breaks above its pre-recession high.

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 has made loud noises in the last year or so of needing to raise interest rates, in order to contain an “overheating” economy, but that “overheating” activity—never recognized by Main Street, U.S.A.—has been fading quickly. 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: [General Commentary No. 894](#), [Special Commentary No. 885](#), [Commentary No. 869](#), [No. 859 Special Commentary](#), [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). [*Please Note: The complete ShadowStats archives, from 2004 forward, are found at www.ShadowStats.com (left-hand column of home page).*]

[General Commentary No. 894](#) (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an “unexpected” headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

[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 post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in [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 both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect 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). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. 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 several years 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](#)). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: [Crudele Investigation](#), [Crudele on Census Bureau Fraud](#) and [John Crudele on Retail Sales](#).

PENDING ECONOMIC RELEASE: *Updated - 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 detail 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 the opening *General Comments* of prior [General Commentary No. 894](#), and will be 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.
