John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 928

November Durable Goods Orders, Home Sales and Revised GDP

December 22, 2017

New-Home Sales Reporting-Illusion Reflected Absurd Volatility:
Multi-Decade-High Surge of 17.5% in November 2017 Sales Was a Gimmick;
Considering Massive Downside Revisions, Recast Sales Boom Contracted by 1.9% (-1.9%);
Headline Detail Still Shy by 47.2% (-47.2%) of Recovering Pre-Recession Peak

Boosted Heavily by Unstable Seasonal Adjustments,
November Existing-Home Sales Jumped 5.6% Month-to-Month,
Still Holding Shy by 20.0% (-20.0%) of Recovering Its Pre-Recession Peak

As Hurricane-Disruptions Work Out of the New Orders System,
Real Annual Durable Goods Growth Slowed Sharply, Ex-Volatile Commercial Aircraft

Real New Orders for Durable Goods Remained
Down by 9.7% (-9.7%) from Recovering Its Pre-Recession Peak

Third Estimate of Real Third-Quarter 2017 GDP
Revised to 3.16% (Previously 3.30%), versus 3.06% in Second-Quarter 2017

Second Estimate of Third-Quarter Gross National Product (GNP)
Revised to 3.65% (was 3.47%); Gross Domestic Income (GDI) Revised to 2.03% (was 2.53%)

Better-Quality Economic Measures Still Show
No Full Recovery from the Collapse into 2009 and No Economic Expansion

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PLEASE NOTE: With no major economic releases scheduled in the week ahead, the next missive will be a General Commentary, planned for Thursday, December 28th.

Merry Christmas! Best Wishes to All for a Most Joyous Holiday Season! — John Williams

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Today's (December 22nd) *Opening Comments and Executive Summary.* The *Opening Comments* discusses the latest signals on the broad economy, and the *Executive Summary* (page 3) reviews highlights of the durable goods orders and home sales, along with headline GDP details and an updated background piece on the GDP reporting versus more-reliable economic indicators.

The ***Reporting Detail*** (page 27) expands the discussion on the November New Orders for Durable Goods, New- and Existing-Home Sales and the third estimate of Third-Quarter 2017 GDP.

The ***Consumer Liquidity Watch*** (page 43) has not been revised.

The ***Week, Month and Year Ahead*** (page 54) provides background on recent *Commentaries*. There are no economic releases scheduled in the week ahead.

OPENING COMMENTS

Increasingly-Unstable Economic Reporting Is Likely in Early-January, and That Should Not Be Good News for the Financial Markets. Today's economic releases were the last major economic reports due for release this year. Other than for the still-pending Construction Spending and Trade Deficit details for November 2017, headline December 2017 reporting opens the January 2018 statistical releases with the Employment and Unemployment Report on January 5th. Negative economic surprises are likely there, with the annual benchmark revisions to unemployment likely to show some corrective catch up, as discussed in *Commentary No. 924*.

In today's (December 22nd) *Commentary*, the headline third-estimate of third-quarter 2017 GDP held few surprises. Discussed in the *Executive Summary* note on the GDP versus underlying economic reality, however, subsequent to what likely will be a still-hurricane distorted boost to fourth-quarter 2017 GDP, headline economic reporting should turn sharply lower/negative for first-quarter 2018 GDP and related economic activity. Supportive of that still-unfolding circumstance, today's release of November 2017 New Orders for Durable Goods showed a slowing, reduced impact from hurricane-related distortions.

Headline November home sales details were extraordinarily strong, month-to-month, but heavily distorted for both new and existing sales. Discussed in the *Reporting Detail*, the much-better-quality Existing-Home Sales detail out of the National Association of Realtors (NAR) appeared to have been boosted by unstable seasonal-factor adjustments, which were tied to industry-data disruptions at the end of 2015. Such is a legitimate reporting problem.

The New-Home Sales out of the Census Bureau, however, was of such poor reporting quality that one might wonder whether someone is just gaming the data to generate successive, happy headlines in the press, each month, where the new month's data commonly are boosted artificially against downwardly revised data of the month before. The headline numbers here are worthless, simply meaningless month-to-month in terms of providing a reliable indication of current economic activity.

EXECUTIVE SUMMARY: New Orders for Durable Goods—Ex-Commercial Aircraft, Real Annual Growth Is Slowing; Hurricane Distortions Have Begun to Work Out of the System. Net of somewhat softer PPI-related inflation, and a monthly jump in the highly-irregular commercial aircraft orders, real new orders for durable goods rose month-to-month, continuing to hold in fluctuating, non-recovering, low-level stagnation (see *Graph 2*). Yet, real annual growth has begun to slow anew in recent months, intensifying in November 2017, as seen in *Graphs 3*. The headline November 2017 details all are in the context of small upside revisions to aggregate new orders activity in September and October.

Hurricane-related boosts to durable goods orders surfaced in the September 2017 headline reporting detail, including related upside revisions to August new orders for motor vehicles (likely replacement vehicles for Houston-area flood losses) and a continued high level of same in September. October 2017 motor vehicle orders continued to rise, with minimal prior-period revisions, but the November 2017 detail showed slower, related monthly growth.

Nominal New Orders for Durable Goods rose month-to-month by 1.30% in November 2017, having declined by a revised 0.4% (-0.4%) in October and gained by a revised 2.4% in September. Beyond near-term hurricane-related disruptions to the monthly data, the monthly changes have been dominated by large swings in the irregularly-volatile, commercial-aircraft orders, with a gain of 14.5% in November 2017, a revised decline of 15.9% (-15.9%) in October 2017 and an unrevised 33.9% gain in September. Ex-commercial aircraft, new orders rose 0.7% in November 2017, having gained 0.4% in October and 1.0% in September. Inflation-adjusted real monthly changes, ex-commercial aircraft, reflected a gain November 2017 gain of 0.5%, versus an "unchanged" reading at 0.0% in October and a gain of 1.0% in September.

More-extensive coverage of these monthly numbers and related revisions follow in the *Reporting Detail*, while the related graphs follow here.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. Updated for the headline November 2017 numbers, *Graphs 1* and *2* show the monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the same series net of the irregularly-volatile commercial-aircraft orders. The broad pattern of smoothed, real activity generally remains one of low-level, non-recovered stagnation, albeit minimally uptrending.

The moving-average levels in *Graphs 1* and *2* 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 early-2017. That all was much reduced by the annual benchmarking of May 18, 2017. With subsequent softening headline monthly detail into May 2017 new orders, orders then were boosted by irregularly-surging commercial aircraft orders in June 2017, with reverse impact from a sharp decline in similar orders in July and a renewed surge in aircraft orders in August and a continued gain in September. The small pullback in October 2017 aircraft orders was offset by a rebound in November.

Graph 3 shows the annual year-to-year percent change in the real new orders series, net of commercial aircraft orders (a comparative plot of parallel year-to-year headline changes in the manufacturing sector of industrial production is shown in *Graph 4*).

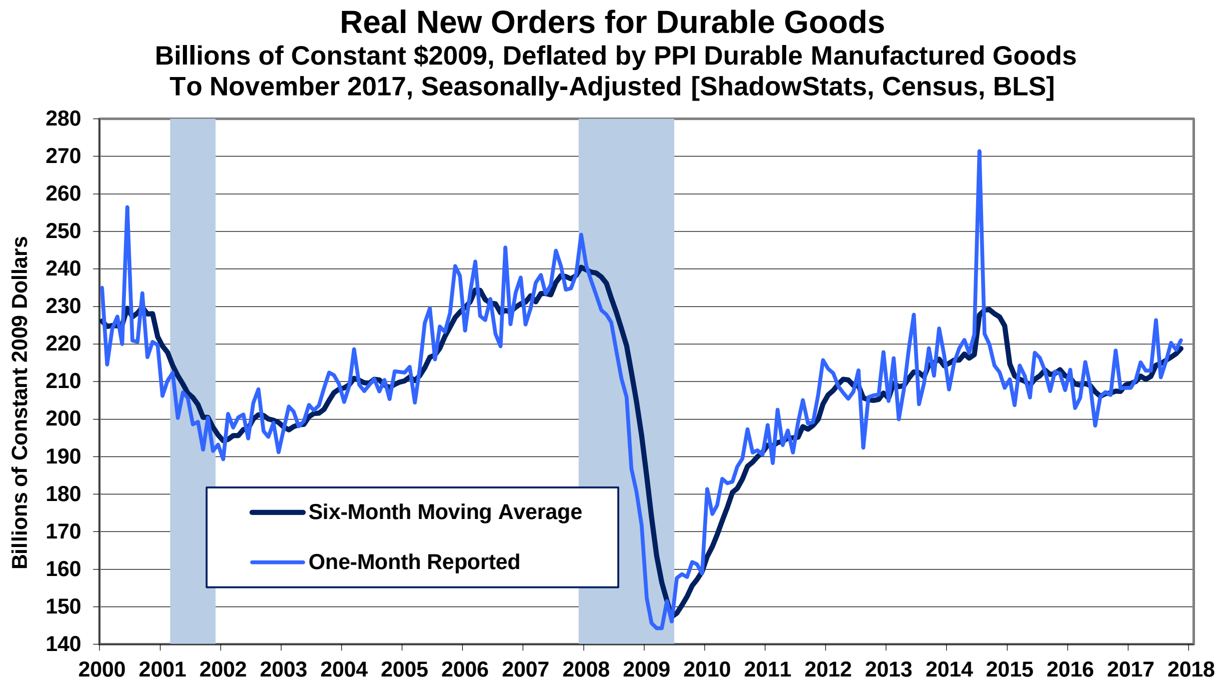
Annual growth slowed for the inflation-adjusted October 2017 new orders for durable goods, ex-commercial aircraft and softened even further in November 2017. Despite the hurricane-distorted jump in October 2017 annual growth in the manufacturing series, the orders series continues to suggest that those distortions increasingly will slow in the months ahead.

Where the low-level of positive annual growth 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, an issue addressed later with *Graphs 5* to *8*. Again, shown in *Graphs 3* and *4*, the year-to-year change in the ex-commercial aircraft durable goods orders series 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.

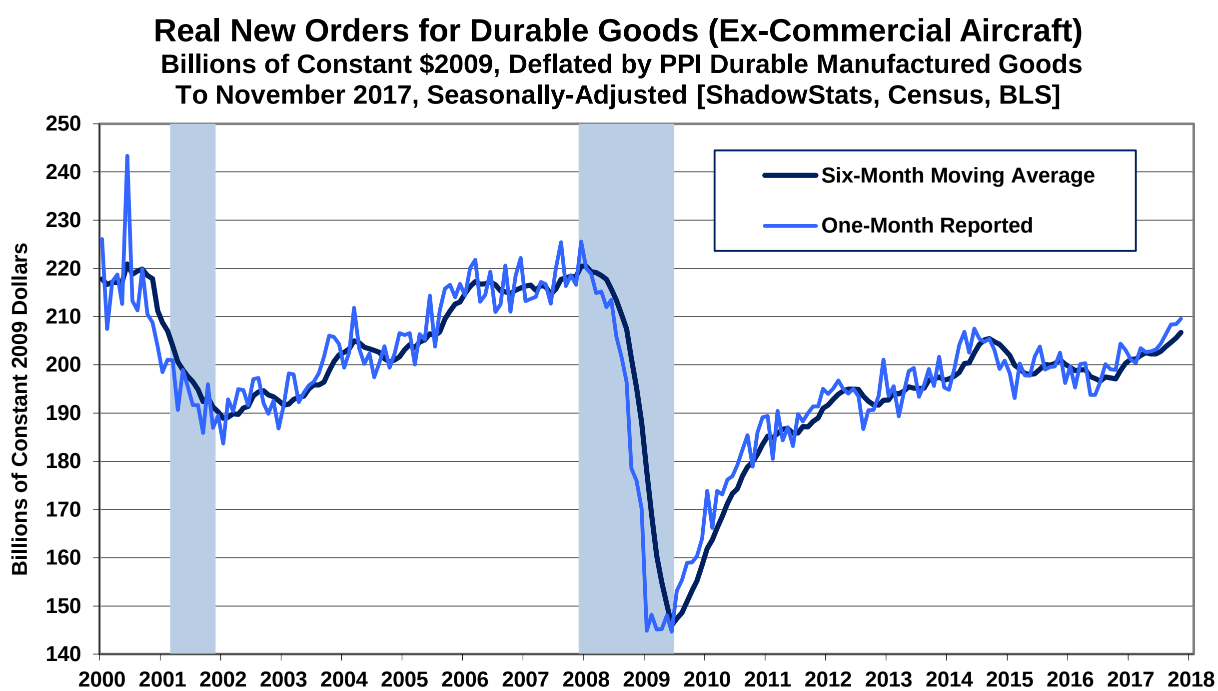
Broadly, there has been a general pattern of stagnation or bottom-bouncing evident in the orders of recent years —clearly not the booming recovery seen in official GDP reporting. The real monthly and six-month moving-average levels of new orders in October 2017 remained below both the pre-2007 recession 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. Again, the series remains in non-recovered, non-expanding, low-level stagnation.

[Graphs 1 to 4 begin on the next page.]

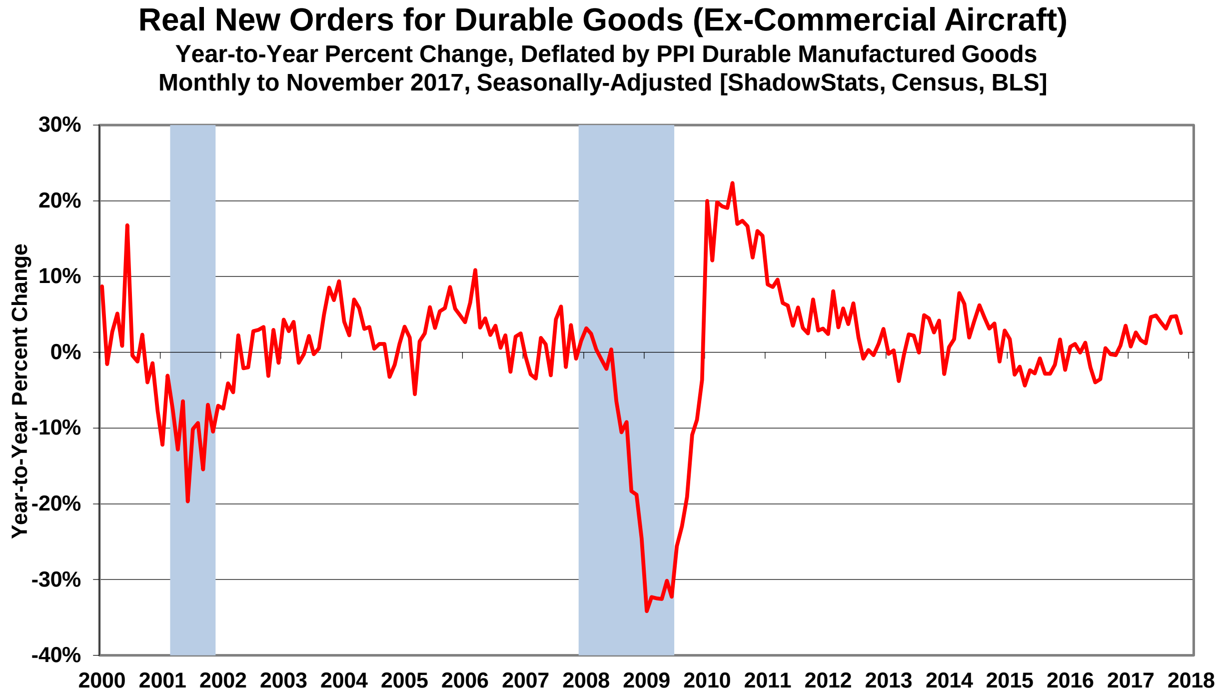
Graph 1: Real Total New Orders for Durable Goods to Date



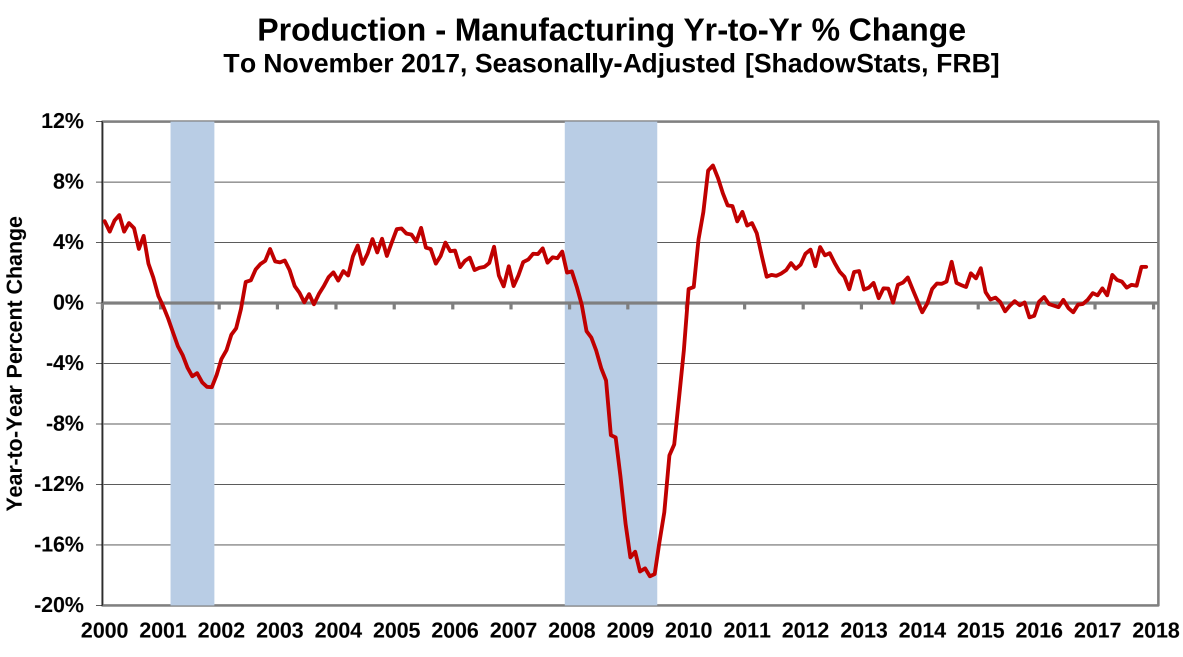
Graph 2: Real New Orders for Durable Goods – Ex-Commercial-Aircraft Orders to Date



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
(Same as Graph 13 in [Commentary No. 926](#))



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*).

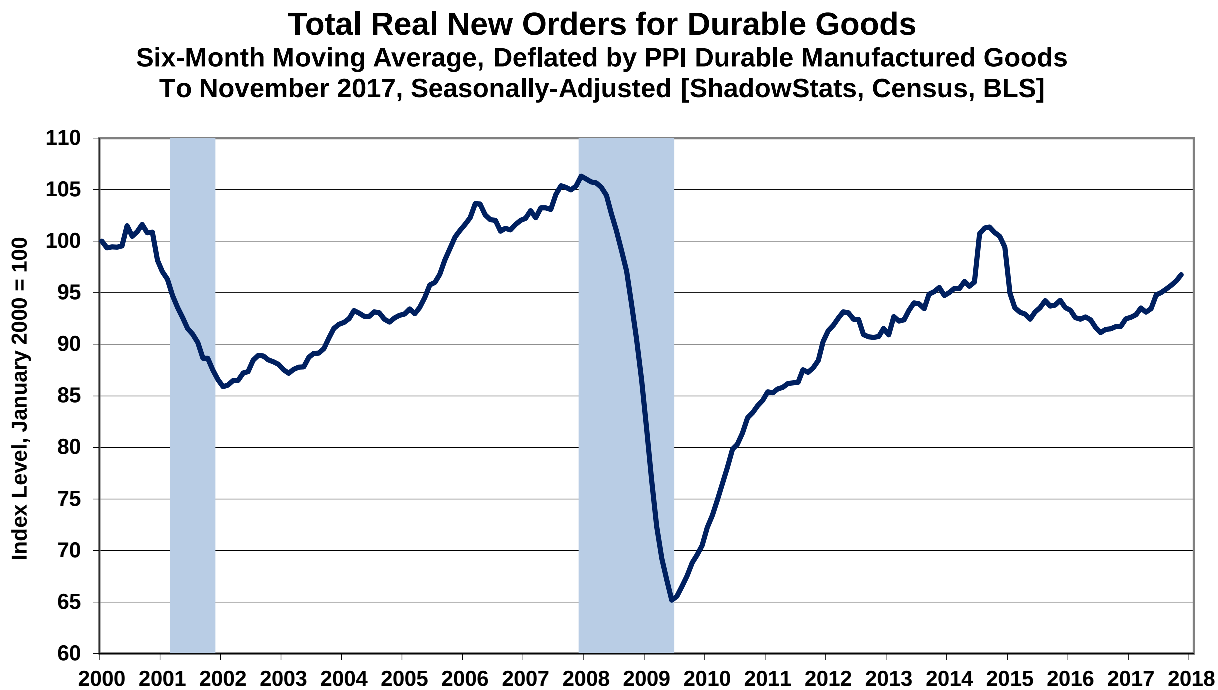
As done for other series such as Industrial Production and Real Retail Sales (see *Commentary No. 926*), and the GDP (see *Graphs 10* and *12* in the next section), ShadowStats publishes an experimental, corrected-inflation version of the graph of real New Orders for Durable Goods. Real activity, in 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*).

Two 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.

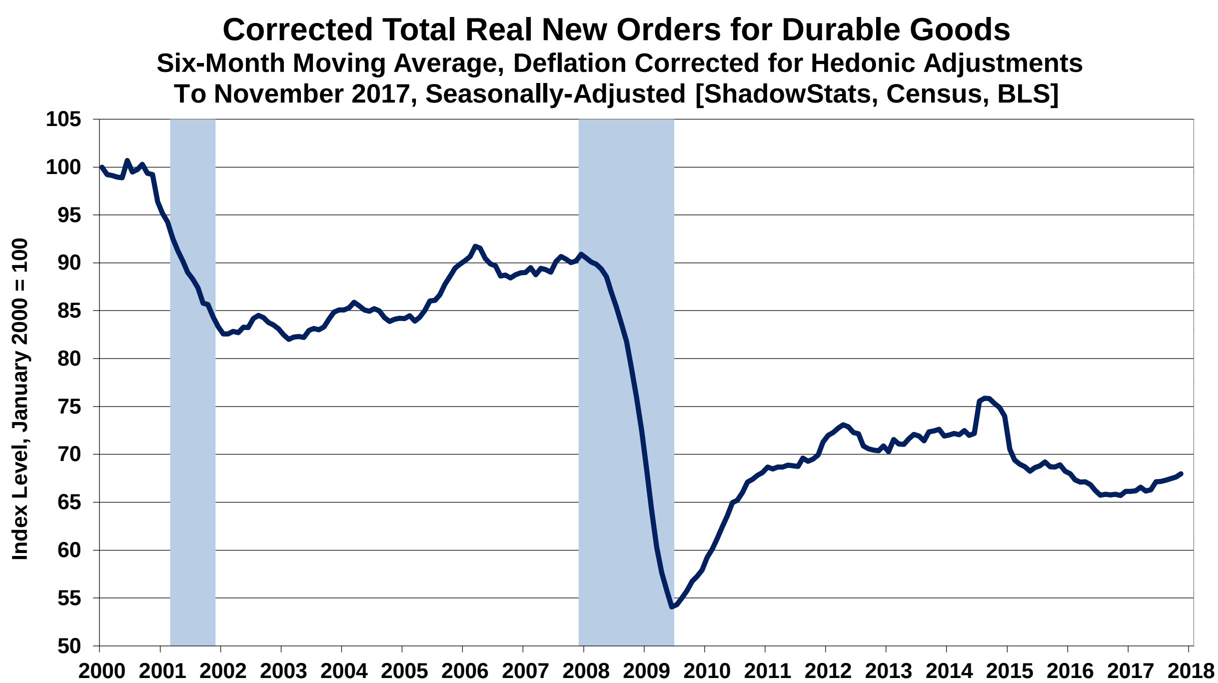
The first graph in each of the two sets shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph, 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.

[Graphs 5 to 8 begin on the next page.]

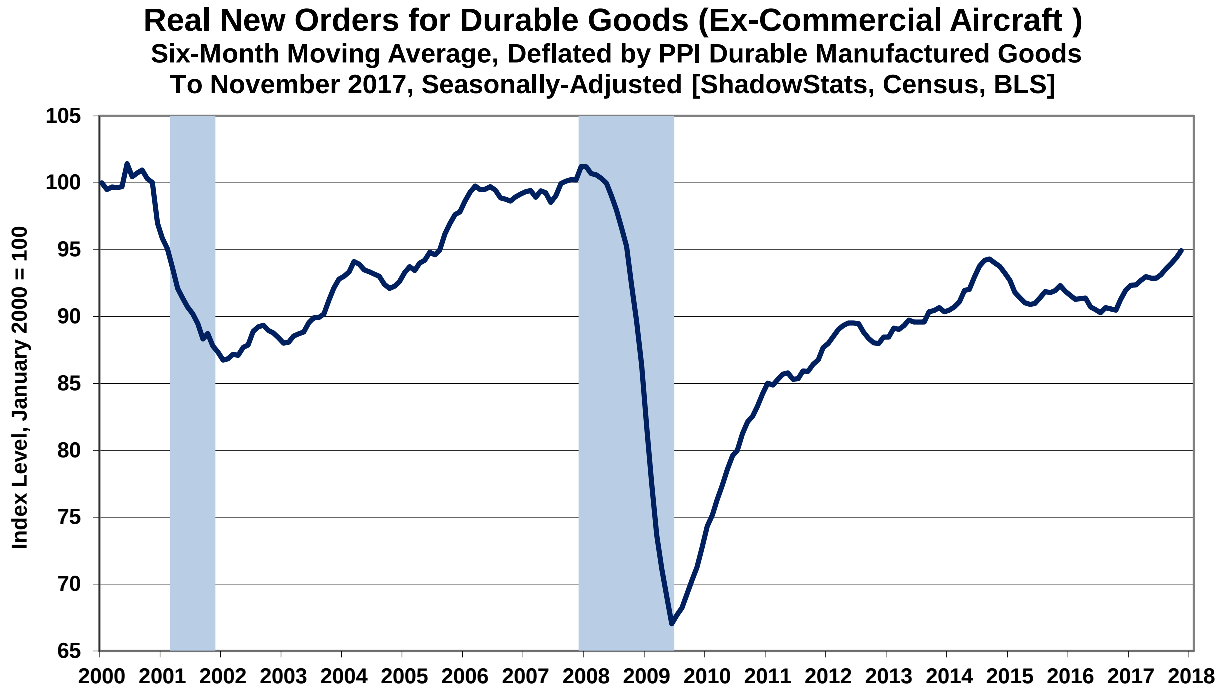
Graph 5: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



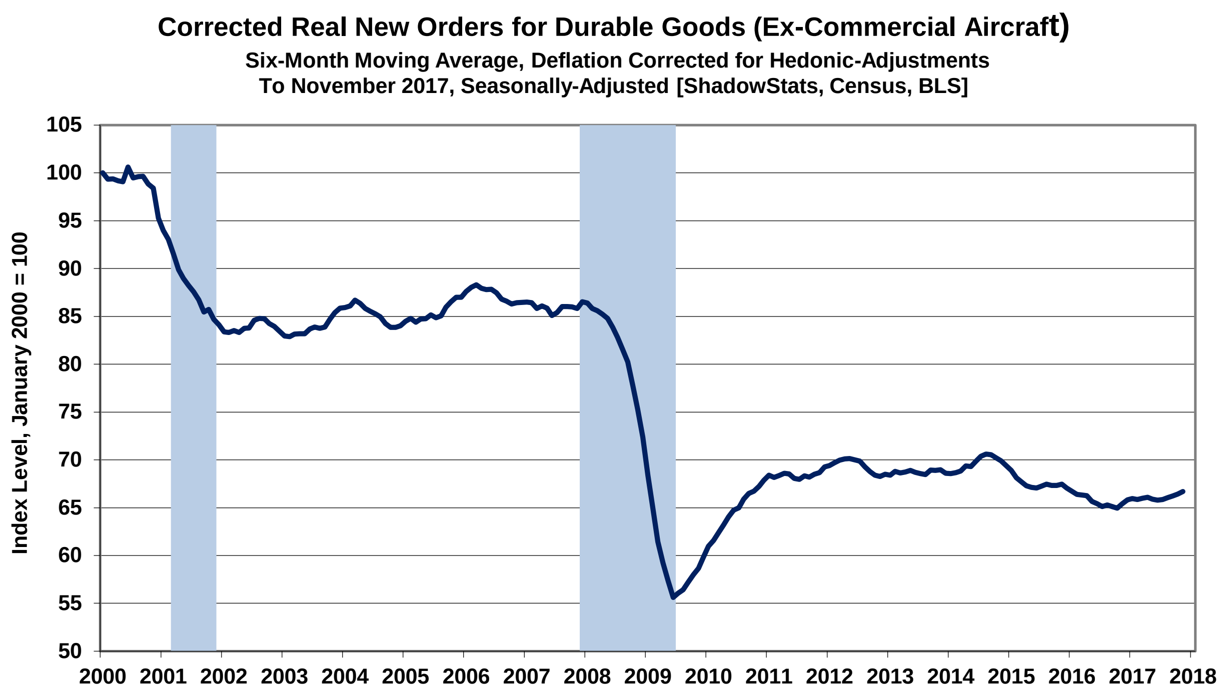
Graph 6: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average



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



Gross Domestic Product (Third-Quarter 2017, Third Estimate, Second Revision)—3.16% Annualized Growth Continued Counter to Anecdotal Evidence and Common Experience. Third-quarter 2017 GDP annualized, real growth revised lower to 3.2% from 3.3%, largely from weaker showings in the trade-deficit and services area, versus consensus expectations of "no revision" at the first decimal point for the quarterly growth rate. Such was against an unrevised gain of 3.1% in second-quarter 2017. Year-to-year, third-quarter annual real growth was unrevised at the first decimal point, holding at 2.3%, versus 2.2% in second-quarter 2017. The headline growth remained of little substance, heavily distorted by traditional inflation gimmicks and by hurricane-related surges to retail sales and production. Hurricane distortions also are boosting fourth-quarter 2017 GDP activity, before they wane going into in first-quarter 2018. As the distortions pass through the system, indications of underlying, lower growth should become increasingly obvious in the next several months, going into first-quarter 2018 activity.

Consider, too, that although the revised headline third-quarter GDP growth continued to boom along at 3.2%, versus 3.1% in the second quarter, "final sales," which is the GDP net of changes in inventories, slowed to a revised 2.4% [previously 2.5%] in third-quarter 2017, versus 2.9% in second-quarter 2017.

Revisions to the Implicit Price Deflator, Gross National Product and Gross Domestic Income. Discussed more fully in the *Reporting Detail*, the GDP inflation measure, the Implicit Price Deflator (IPD) still increased in third-quarter 2017 versus second-quarter 2017, albeit at a somewhat weaker pace. The IPD rose at an annualized quarterly pace of 2.09% [previously 2.12%] in third-quarter 2017, versus an unrevised 1.01% in second-quarter 2017.

Also discussed in the *Reporting Detail*, second estimates of third-quarter 2017 Gross National Product (GNP) and Gross Domestic Income (GDI) revised in opposite directions. GNP real quarterly growth revised higher, from 3.47% to 3.65%, reflecting a revised narrowing of the usual deficit in the trade flows of factor income (interest and dividend payments). Moving in the other direction, GDI real quarterly growth revised sharply lower to 2.03% from 2.53%, due largely to a narrowing in statistical discrepancy between the GDP and the GDI.

***Contracting Real Quarterly Per Capita Disposable Income*.** Despite the weaker GDI growth, the headline contraction seen in the prior reporting of third-quarter 2017 per capita, real disposable income—take-home pay net of inflation—declined at a revised, annualized quarterly rate of 0.20% (-0.20%) [previously 0.29% (-0.29%)], versus second-quarter 2017, with an annual growth rate of just 0.37% [previously 0.35%] versus third-quarter 2016. Such is a basic measure of consumer liquidity and driver of personal consumption. While tax-law changes can distort these after-tax data, and shall do so in 2018 reporting, those factors are not in play, at present.

Such income constraints are consistent with the consumer-liquidity stresses discussed in today's *Consumer Liquidity Watch*, and remain inconsistent with claims of booming consumer consumption, other than for recovery from hurricane damages and losses.

Third-Quarter 2017 GDP, Third Estimate – Growth Distribution. The third estimate of third-quarter 2017 annualized real GDP growth came in at 3.16% [previously 3.30%, initially 2.99%], versus 3.06% in second-quarter 2017. The annualized growth contribution from each sub-category of consumer spending, business/residential investment, trade deficit (net exports) and government spending is additive, summing in combination to the total headline change in GDP, where 1.49% + 1.19% + 0.36% + 0.12% = 3.16% (see *Table 1* for further break out).

On the downside, the purported surplus in the trade-balance (net exports) narrowed, and consumption of healthcare, transportation and recreation services revised lower, on the plus-side, consumption of goods and government spending showed small upside revisions.

Regrouped by the general nature of product sector activity, the revised headline third-quarter 2017 GDP gain of 3.16% encompassed a growth-rate contribution of 0.93% from the services sector, 2.74% from the goods sector and a negative contribution of 0.51% (-0.51%) from the structures sector (again, see *Table 1* for recent historical comparisons).

Table 1: Headline First Revision to Third-Quarter 2017 GDP Growth Distribution versus Recent Quarters

Annualized Quarterly Real Growth in Headline Gross Domestic Product Growth Contribution by Consumption and Product Sector							
	3rd-Q 2017 Third Estimate	3rd-Q 2017 Second Estimate	3rd-Q 2017 Advance Estimate	2nd-Q 2017	1st-Q 2017	4th-Q 2016	3rd-Q 2016
CONTRIBUTING ECONOMIC SECTOR							
Personal Consumption Expenditures							
- Goods	0.97%	0.89%	0.92%	1.16%	0.15%	1.03%	0.69%
- Services	0.52%	0.71%	0.70%	1.08%	1.17%	0.97%	1.23%
Gross Private Domestic Investment							
- Fixed Investment	0.40%	0.39%	0.25%	0.53%	1.27%	0.28%	0.23%
- Change in Private Inventories	0.79%	0.80%	0.73%	0.12%	-1.46%	1.06%	0.16%
Net Exports of Goods and Services	0.36%	0.43%	0.41%	0.21%	0.22%	-1.61%	0.36%
Government Consumption/Investment	0.12%	0.07%	-0.02%	-0.03%	-0.11%	0.03%	0.09%
GDP Annualized Real Growth	3.16%	3.30%	2.99%	3.06%	1.24%	1.76%	2.78%
Final Sales, GDP Less Inventories	2.37%	2.50%	2.26%	2.94%	2.70%	0.70%	2.62%
CONTRIBUTING PRODUCT SECTOR							
Goods	2.74%	2.72%	2.49%	2.10%	-0.47%	0.88%	1.39%
Services	0.93%	1.16%	1.15%	1.32%	0.91%	0.61%	1.39%
Structures	-0.51%	-0.58%	-0.64%	-0.36%	0.80%	0.27%	0.01%
GDP Annualized Real Growth	3.16%	3.30%	2.99%	3.06%	1.24%	1.76%	2.78%

Underlying Economic Reality. *[Note: In the context of the just-enacted tax reform and some continuing boosts to economic activity from hurricane disruptions, elements of the following section have been revised. With the headline GDP growth continuing at about three percent, much of the text, though, still is repeated from* Commentary No. 923*, which covered the second estimate of third-quarter details. All details and graphs have been updated to reflect the latest developments and numbers (also, for background, see the* Economy *section of* No. 859 Special Commentary*, and related headline issues raised in* Special Commentary No. 888, Commentary No. 887, Special Commentary No. 885, Commentary No. 877, Commentary No. 876 *and* Commentary No. 900*, all incorporated here by reference).*

Despite the continuing, above-average[1] headline, real annualized third-quarter 2017 GDP growth of 3.16%, versus 3.06% in second-quarter 2017 and 1.24% growth in first-quarter 2017, underlying U.S. economic activity has continued in a deepening-to-flattening and as-yet-unrecognized "new" recession, albeit with a temporary, one-time boost from systemic disruptions and distortions tied to a particularly violent and destructive, disruptive 2017 Atlantic Hurricane Season.

Distortions, aside, headline monthly reporting activity in better-quality subsidiary economic series continues to confirm a still unfolding, renewed contraction (the ShadowStats contention remains that the "new" downturn is in reality just a continuation of the economic crash into 2009, from which the aggregate real-world economy never fully recovered). While the July 2017 GDP benchmarking did show some slowing in previously-reported 2016 and 2017 growth, activity in 2014 and 2015—otherwise heavily revised to downside in series-specific benchmarkings (again, see *Commentary No. 900*)—revised higher with that GDP benchmarking.

This ongoing, low-level, non-recovering stagnation/new downturn remains in place despite some corrective regulatory actions and continuing efforts by the Trump Administration to enact new policies aimed at generating economic stimulus. That said, the just-enacted new tax law should generate some stimulus. Assuming eventual, coordinated and meaningful legislative movement in the Congress—despite continuing, significant political discord—and given basic economic lead times, the first major, positive impact on the economy, from any actions now, would be well after the mid-term 2018 Congressional election. Whatever economic impact follows from the tax overhaul likely should be seen in late-2018 or early-2019.

The continuing, nonsensically happy third-quarter 2017 GDP headline economic stories in the popular press largely have been generated as a result of hurricane distortions boosting recovery-related consumption and production. Beyond the one-shot, current hurricane-related boosts straddling third- and fourth-quarter 2017 GDP, underlying headline economic reporting and even headline GDP growth should turn lower/negative in the next several quarters, beginning with first-quarter 2018. Such had been signaled by a number of pre-hurricane indicators (see *Commentary No. 903*).

Benchmark Revisions and Perpetual GDP Overstatement. Formal recognition of a "new" recession likely will follow in 2018, even though its onset quarterly contraction—first-quarter 2018—likely will have been exacerbated by hurricane-distorted boosts to activity in the prior fourth-quarter 2017.

Headline GDP overstatement has been a common issue in recent years. Discussed back in *Commentary No. 823*, the 2016 GDP benchmark revisions effectively were neutral in aggregate, with the business-

[1] The 40-year average of real GDP growth, quarter-to-quarter and year-to-year, is 7.7% for both measures.

cycle reporting "smoothed" by the BEA. The revisions were not of a nature to trigger formal immediate recognition of a "new" or double-dip recession, which likely still will be recognized as having begun around December 2014, perhaps with the comprehensive 2018-benchmarking overhaul. *Commentary No. 902-B* offered similar comments on the 2017 benchmarking.

Beyond the smoothing gimmicks of the 2016 benchmarking, the prior year's 2015 GDP annual benchmark revisions coverage—in *Commentary No. 739*—noted that annual benchmarkings increasingly were reshaping the GDP-reporting history into a post-2007 collapse pattern of successive multiple dips.

By the "comprehensive" GDP benchmark revision pending on July 27, 2018 (a restatement of activity back to 1929), potentially honest, post-2007 historical GDP reporting could be confirming a non-recovering, multiple-dip economic collapse including a "new" or ongoing downturn post-fourth-quarter 2014.

That circumstance should encompass the evolving, current downturn in broad, domestic economic activity, discussed in *No. 859 Special Commentary*. Again, the present, unofficial "new" recession or multiple-dip downturn remains likely to be timed from December 2014, even without headline back-to-back contractions of quarterly GDP currently in place. Formal recognition of same remains pending, albeit not imminent, where consecutive quarterly GDP contractions no longer are necessary for formal recession recognition (see the opening paragraphs of *Commentary No. 823*).

Headline Aggregate GDP Remains Heavily Overstated versus Underlying Reality. Formal headline GDP activity continues to run well above economic reality as signaled by a number of better-quality business indicators, as reviewed here and in *No. 859 Special Commentary*. A sampling of those indicators—plotted in this section—includes such varied series as domestic freight activity (*Graph 13*), industrial production capacity utilization (*Graph 14*), U.S. petroleum consumption (*Graph 15*), total real U.S. construction spending (*Graph 16*) and the employment-population ratio (*Graph 17*). Either the GDP reporting is wrong, or most other major economic series are wrong (see *Commentary No. 876* and *Commentary No. 877*).

While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to measure real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the headline post-2009 faux ongoing economic recovery and expansion.

Accordingly, the broad ShadowStats economic outlook has not changed a bit, fundamentally, and, again, the gist of most of following text remains along the lines as expounded upon in *No. 859*. The details and numbers here, however, are updated for the latest headline information. In combination, these various collapsing, non-recovering and non-expanding economic indicators eventually should engender a formal recession call, irrespective of the timing of actual, if any, headline quarterly contractions in real GDP, or what may be political/financial-market gaming of the GDP data and other headline numbers, such as the unemployment rate.

Fundamental, real-world economic activity shows that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in late-2014, early-2015. Irrespective of the reporting gimmicks introduced in the July 2013, July 2014 and July 2016 GDP benchmark revisions—including a recent pattern of inclusion and estimation of highly-questionable data on the Affordable Care Act (ACA) and related healthcare spending—a consistent, fundamental pattern of faltering historical activity, again, is shown in the accompanying "corrected" GDP graphs (see *Graphs 10* and *12*).

Discussed in today's *Consumer Liquidity Watch*, with liquidity-strapped consumers unable to fuel sustainable growth in consumption, a full business recovery could not have taken place since 2009. A "Recovery" and renewed economic "Expansion" (see *Commentary No. 875* for definitions) will not be forthcoming until consumer structural income and liquidity problems are resolved, including more-normal credit functioning of the domestic banking system.

Official and Corrected GDP. Reviewed and graphed in the *Opening Comments* of *Commentary No. 876*, the full economic "Recovery" and post-third-quarter 2011 "Expansion" indicated by headline real GDP numbers, remains an illusion. In scope, it is not supported by other major economic series. It is a statistical mirage created at least partially by using a too-low rate of inflation in deflating (removing certain inflation effects) from the GDP series. Today's accompanying graphs tell that story, updated for the third estimate of third-quarter 2017 GDP, as well as reflecting a sampling of other elements of economic reality.

The first set of graphs (*Graphs 9* and *10*) updates the detail 1970-to-date, expressed in billions of 2009 dollars used with the headline GDP, for the new headline detail available for third-quarter 2017. Updated for the new numbers, the graphs show official periods of recession as shaded areas, with ShadowStats-defined recessions indicated by the lighter shading in *Graph 10*, the second graph of the first set, as published initially in *2014 Hyperinflation Report—Great Economic Tumble*.

The second set of graphs (2000-to-date) is the one that traditionally has been incorporated in the GDP *Commentaries*. *Graphs 12* and *13* show short-term detail, expressed on an index base where first-quarter 2000 = 100.0.

Shown in the first graph of each set (*Graphs 9* and *11*) of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—fully recovered and in economic expansion—since third-quarter 2011, and headline GDP has shown sustained growth since (growth pauses or interruptions for second-half 2012 and first-quarter 2014 excepted). Adjusted for GDP inflation (the implicit price deflator or IPD), the third estimate of third-quarter 2017 GDP currently stands 14.5% above its pre-recession peak estimate of fourth-quarter 2007. Again, no other major economic indicators show recovery or expansion close to the GDP's. None of the series covered in this section or in *No. 859* has shown a significant recovery to pre-recession highs, let alone formal economic expansion.

In contrast, the "corrected" GDP version, in the second graph of each set (*Graphs 10* and *12*), shows the third-estimate of third-quarter 2017 GDP activity still to be down by 6.6% (-6.6%) from its pre-recession peak of first-quarter 2006. Noted in *General Commentary No. 867*, *Commentary No. 869* and *Commentary No. 926*, headline Industrial Production and the related Manufacturing series have rivaled, and in the case of manufacturing, have exceeded the Great Depression in terms of the number of quarters or months of non-Expansion.

Again, the second graph in each series (*Graphs 10* and *12*) plots the *Corrected Real GDP*, adjusted for the understatement inherent in official inflation estimates (see *Public Commentary on Inflation Measurement*), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation in recent years. The inflation understatement has resulted from hedonic-quality adjustments, also as discussed in the *Hyperinflation Reports*.

The pattern of economic collapse into 2009, followed by some minimal recovery, low-level stagnation and renewed contraction is seen with many series. As shown in *Graphs 13* to *17* (again also see [*No. 859*] more-extensive background), better-quality independent numbers—including some U.S. government—put the lie to the gimmicked headline reporting that has been massaged for decades by government agencies and consulting academics.

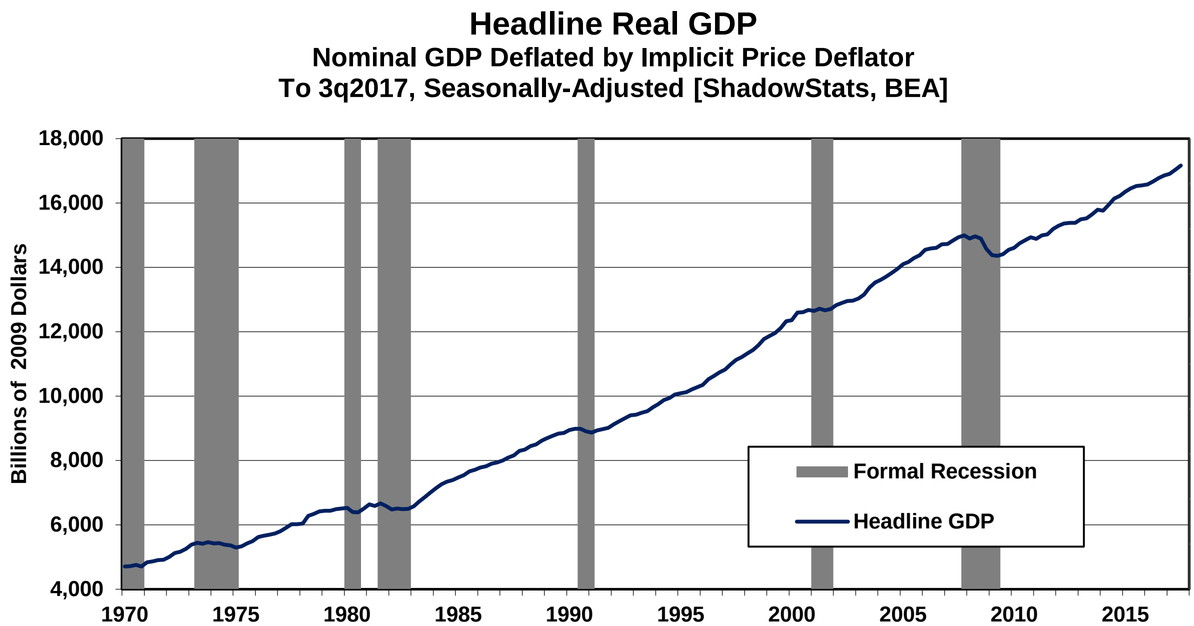
Headline GDP Reporting. The Bureau of Economic Analysis (BEA) reported December 21st, that the third estimate of, second revision to third-quarter 2017 showed a revised annualized 3.16% [previously 3.30%, initially 2.99%] pace of real growth, versus 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017. Year-to-year growth revised to 2.30% [previously 2.33%, initially 2.26%] in third-quarter 2017, versus 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017.

Those details are reflected in *Graphs 9* and *11.* With the revised headline detail, Third-Quarter 2017 GDP stood at 14.5% above the pre-2007-recession peak of the series, an incredible (as in not believable) pace of economic expansion not seen otherwise in other major economic reporting, as regularly discussed here.

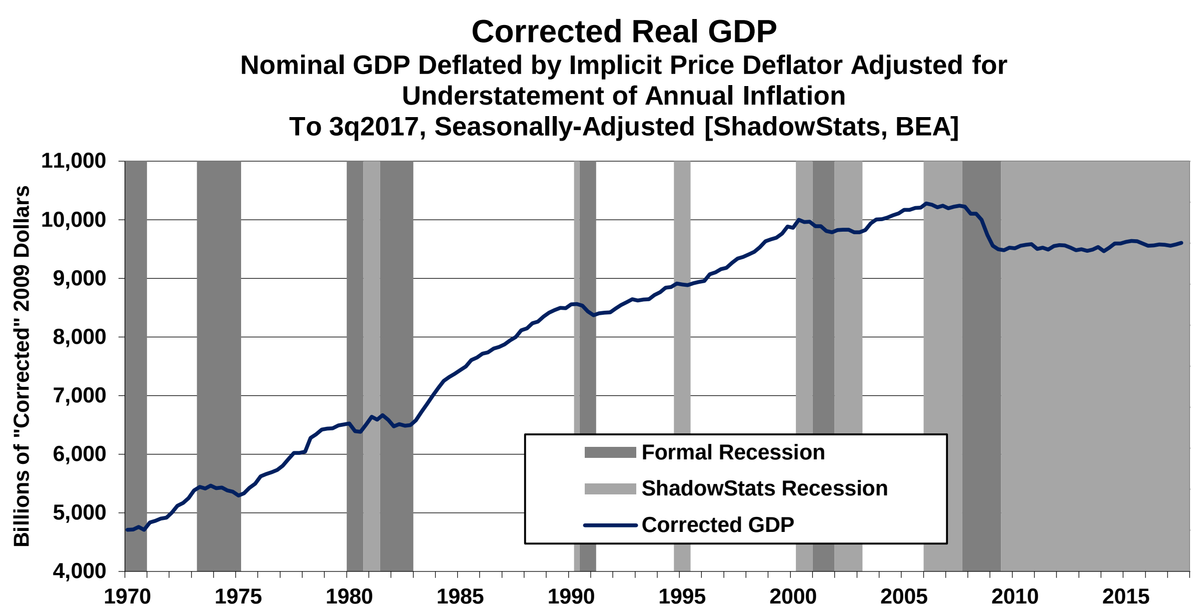
Graphs 10 and *12*, reflect the ShadowStats alternative estimates of GDP growth, corrected for the understatement of annual inflation used in deflating real GDP growth.

[Graphs 9 and 10 follow on the next page.]

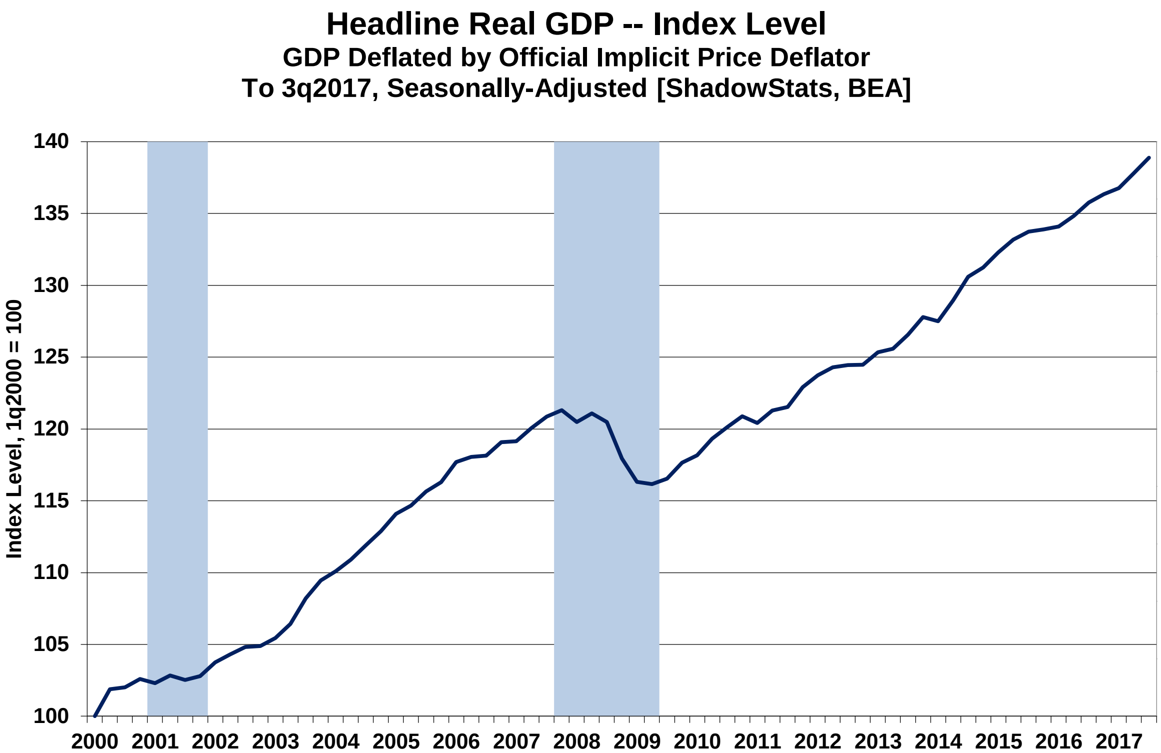
Graph 9: Real GDP (1970 -2017), Third-Estimate of Third-Quarter 2017



Graph 10: "Corrected" Real GDP (1970 -2017), Third-Estimate of Third-Quarter 2017



Graph 11: Real GDP Index – Headline Real GDP through Third-Estimate of Third-Quarter 2017



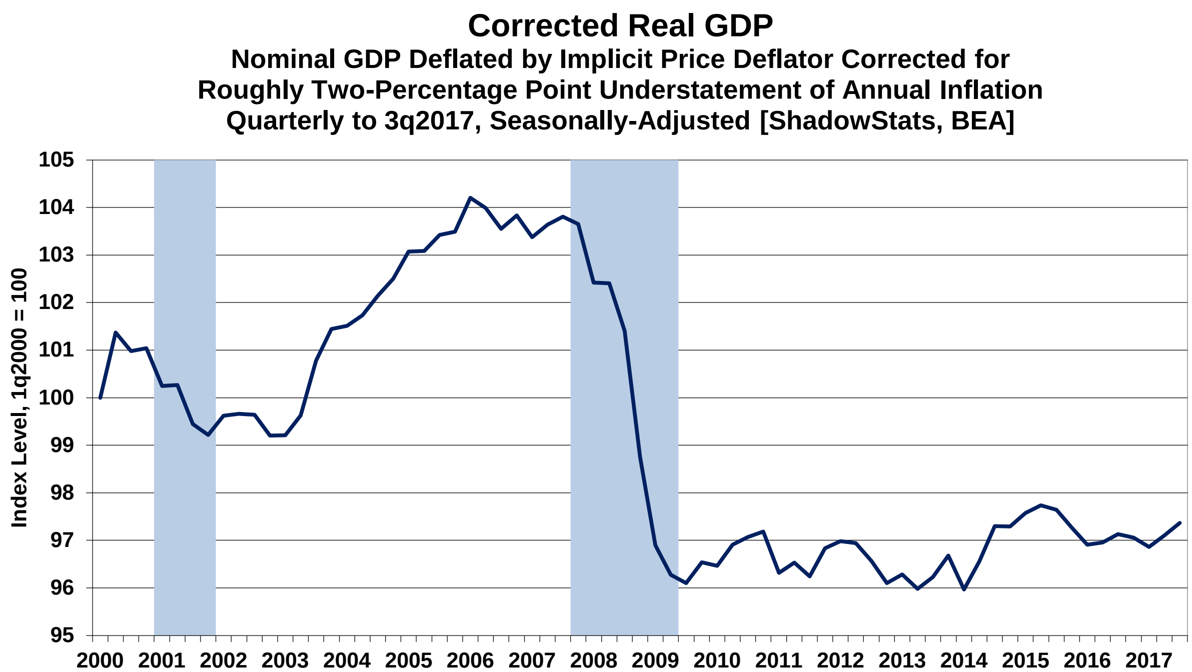
Comparative Indicators. The following *Graph 12* of the "corrected" GDP series is shown along with an example of the regular, comparative economic indicators (see *Special Commentary No. 918-B* and the expanded coverage in *No. 859*), which generally confirm the broad story from the "corrected" GDP graph that the economy never recovered from its collapse into 2009 and is either in renewed downturn or in continuing low-level stagnation, albeit some of the latter may be slightly up-trending.

The comparative *Graph 13* shows the Cass Freight Index™ measure of North American freight volume through November 2017, used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity. As a broad measure of basic domestic economic activity, the index has much more in common with the "corrected" GDP in *Graph 12*, than with the headline GDP of *Graph 11*.

Graph 14 plots November 2017 Industrial Capacity Utilization, from *Commentary No. 927*. The latest headline level of activity for industrial production of consumer goods, which usually holds this graph's position is found in *Commentary No. 926*, *Graph 14*, page 22. *Graph 15* of U.S. Petroleum Consumption, and *Graph 16* of inflation-adjusted total U.S. Construction Spending, which includes everything from roads and office buildings to residential construction, are among the variety of indicators that show patterns of economic collapse into 2009/2011, followed by some minimal (not full) recovery and ongoing stagnation/downturn.

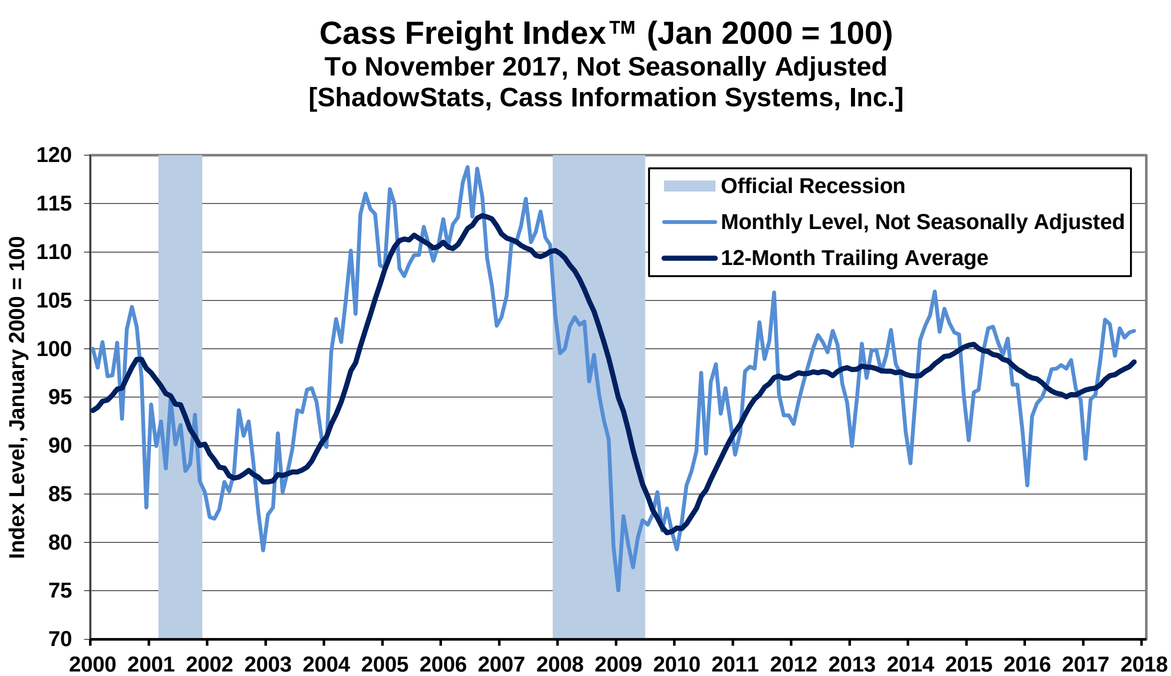
Graph 17 of the employment-to-population ratio also remains a solid indicator of underlying labor conditions in the context of the broad population and long-term discouraged and displaced workers, reflected there through December 2017.

Graph 12: "Corrected" Real GDP Index (2000 - 2017), Third-Estimate of Third-Quarter 2017



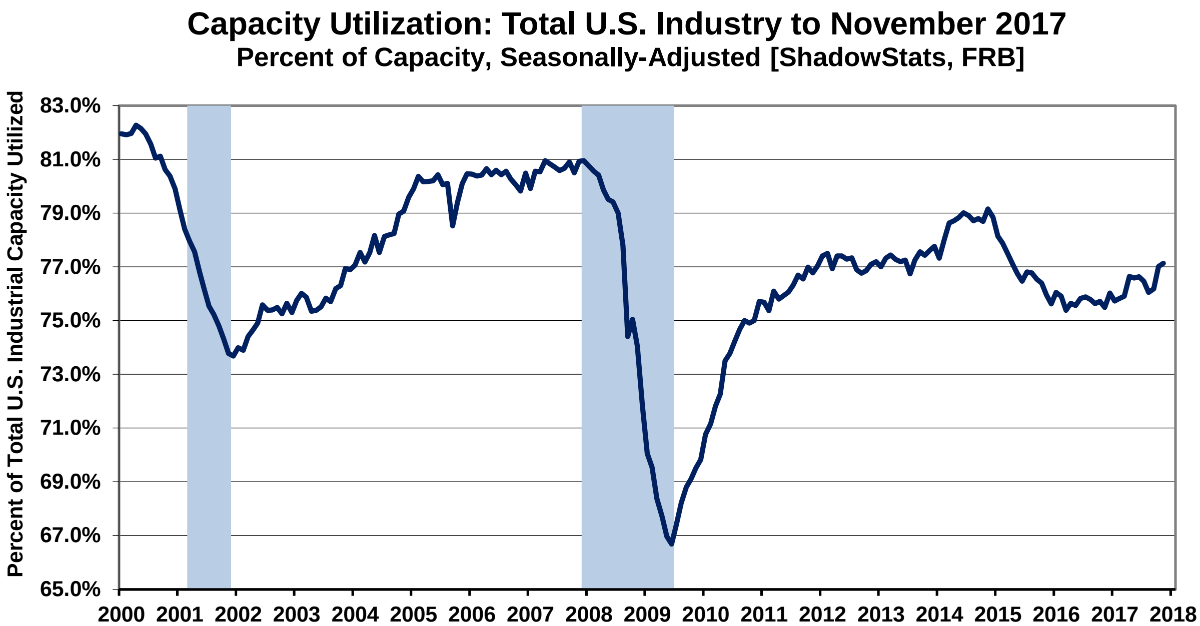
Graph 13: Cass Freight Index ™ (2000 - November 2017)

(Same as Graph OC-2 as discussed in Commentary No. 927)

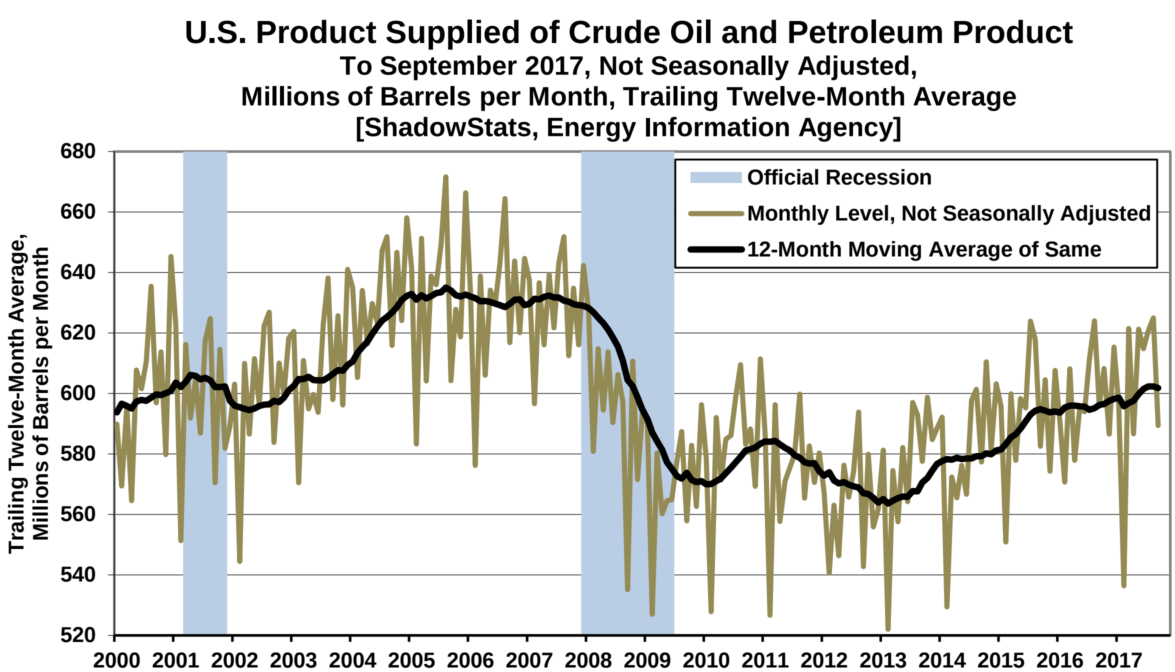


Graph 14: Utilization of Total U.S. Industrial Production Capacity (2000 to November 2017)

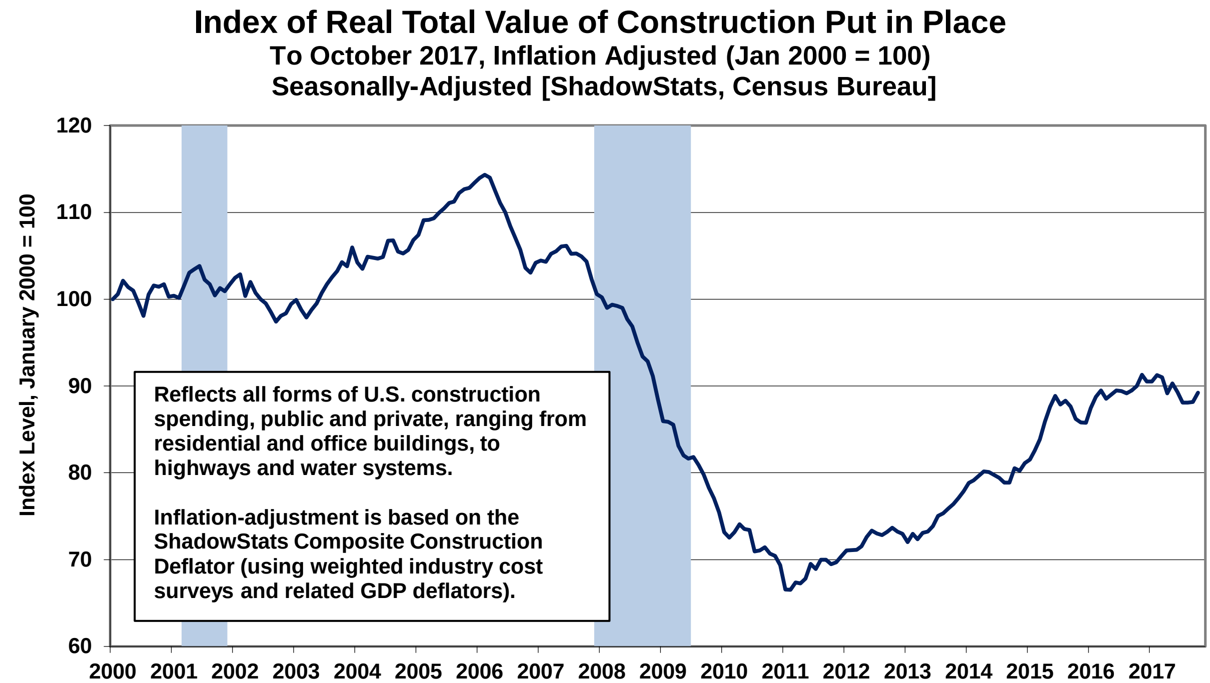
(Graph OC-1, as discussed in Commentary No. 927)



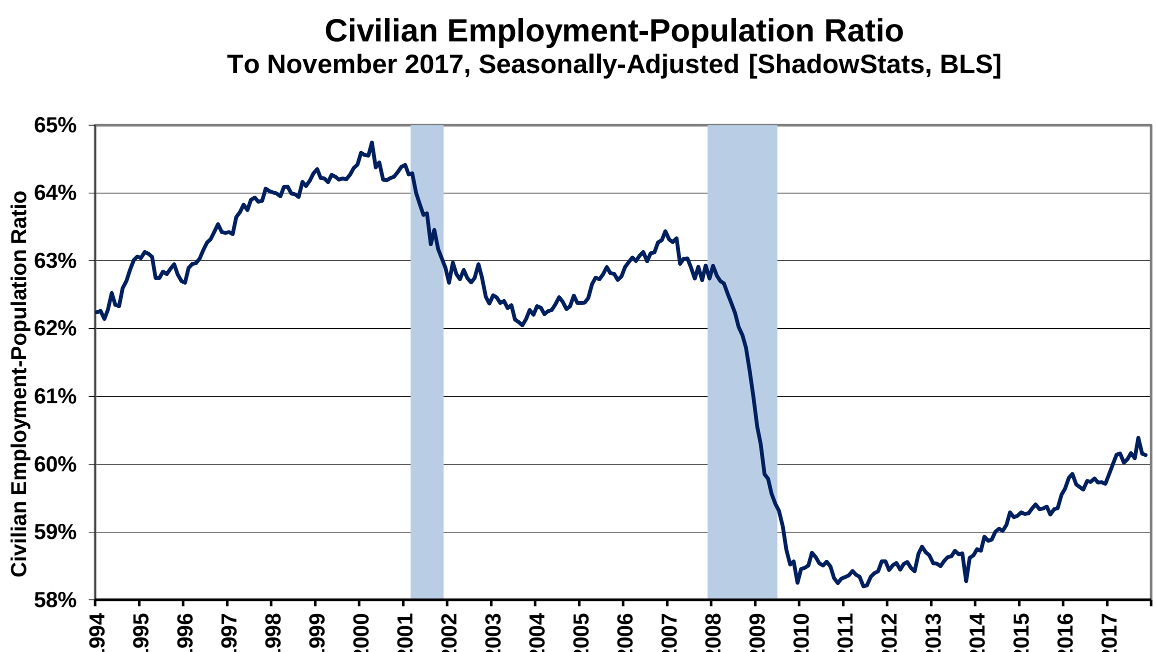
Graph 15: U.S. Petroleum Consumption (2000 – September 2017)



Graph 16: Real Total U.S. Construction Spending (2000 – October 2017)
(Graph 29, page 43 of Commentary No. 924)



Graph 17: Civilian Employment-Population Ratio (2000-October 2017)
(Graph 12, page 18 of Commentary No. 924)



New- and Existing-Home Sales (November 2017)—Despite Absurd Volatility and Unstable Seasonals, Sales Are Shy of Respective Pre-Recession Peaks by 47.2% (-47.2%) and 20.1% (-20.1%) Both the New- and Existing-Home Sales series were unstable in their November 2017 reporting. The New-Home Sales disruptions were tied to extreme volatility, with massive revisions, as reviewed in the *Reporting Detail*. The Existing-Home Sales volatility was tied to unstable seasonal-adjustments, also reviewed in the *Reporting Detail*. Both series likely are not enjoying their purported headline November growth. Headline detail is touched upon here, along with the regular graphs for these series. Both series remain well shy of recovering their pre-recession peaks.

Despite the unstable and month-to-month volatility, the headline November New-Home Sales series remained shy of recovering its pre-recession high by 47.2% (-47.2%). In like manner, November Existing-Home Sales remained 20.1% (-20.1%) shy of recovering its pre-recession peak activity. Smoothed over six months, both series remained in low-level, non-recovered stagnation.

New-Home Sales Boosted by Prior-Period Revisions, Again. The highly volatile and unstable New-Home Sales series, which counts new-home sales contracts signed, jumped sharply, month-to-month in November 2017 by 17.5%, up by 7.0%, net of revisions. That followed a revised drop of 1.7% (-1.7%) in October, a revised surge of 13.6% in September 2017 and a revised decline of 0.9% (-0.9%) in August.

Year-to-year change in November 2017 sales jumped by a statistically-significant 26.5%, with the annual gains in October 2017 revising down to 8.1%, in September 2017 to 11.4% and in August 2017 to a revised decline of 1.4% (-1.4%).

November 2017 Existing-Home Sales. Reported by the National Association of Realtors, reflecting the count of existing-home sales closings, as opposed to the count of new-home sales contract signings, reported by the Census Bureau for New Home Sales, the sharp headline monthly gain in November existing sales was on top of a small upside revision to the prior October 2017 reporting. More significantly, the headline detail appears to have been skewed heavily by unstable seasonal adjustments, as reviewed in the *Reporting Detail*. Smoothed over six months, the series remained downtrending, never having recovered its pre-recession high, never entering a post-recession period of expansion.

An Unstable Eleven-Year High Still Was 20.1% (-20.1%) Shy of Recovering Its 2005 Pre-Recession Peak. The seasonally-adjusted 5.6% monthly gain in November 2017 Existing-Home Sales, was on top of an upside of 0.4% revision to the previously-reported level of October 2017 activity, a gain of 6.0%, net of revisions. Where the headline November Existing-Home Sales series was touted as being at its highest level since December 2006 of 6.42 million, the November 2017 reading still was 9.5% (-9.5%) below that December 2006 reading. which at the time was in the midst of collapsing monthly sales activity. November 2017 activity remained shy by 20.1% (-20.1%) of its pre-recession peak of June 2005, as seen in accompanying *Graph 22*.

Shown there, November 2017 Existing Home Sales were at the highest level of the revamped series (blue line), but still well below the pre-recession peak in seen in the original series (red line). That said, smoothed for six-month moving averages, the existing-sales series had been in uptrending stagnation into 2017, which recently shifted to downtrending stagnation, as reflected in *Graph 23* (see also *Graphs 15* and *17* of the Housing Starts, where both series reflect activity in terms of single- and multiple-housing units). The trend remains down trending, albeit with a small uptick in November.

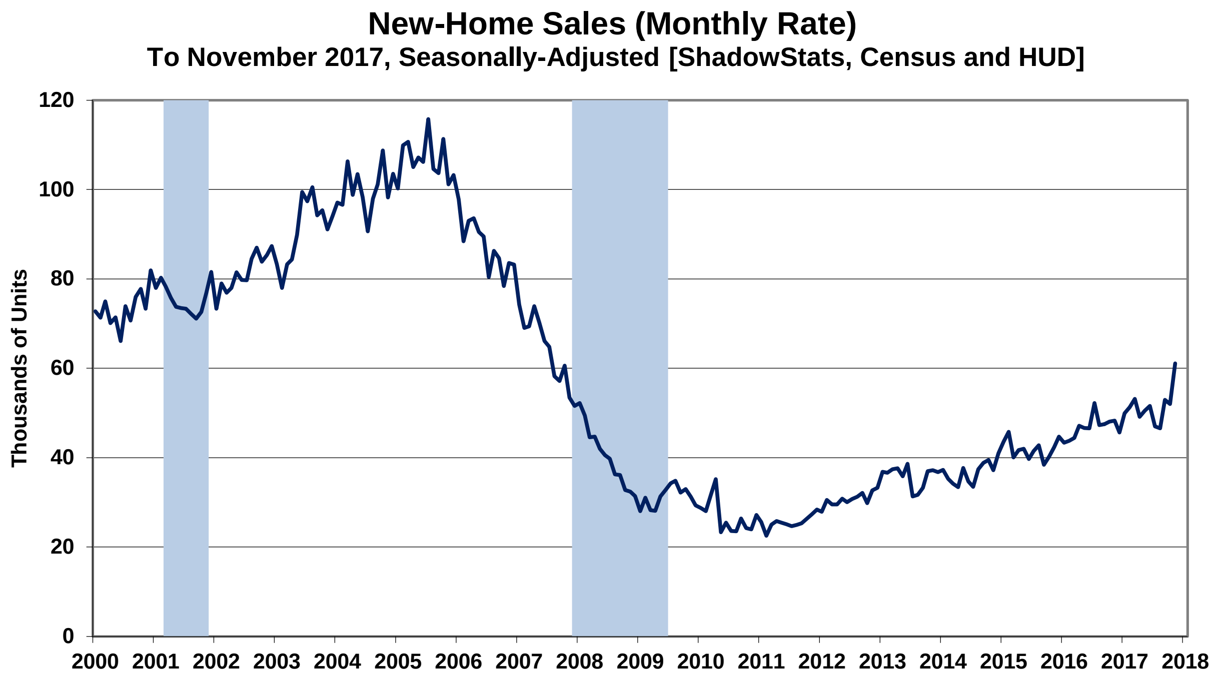
Existing-Home Sales, Monthly and Annual Headline Changes. Existing-Home Sales (closings of home sales) rose month-to-month by 5.64% in November, following an upwardly-revised monthly gain of 2.42% in October, an unrevised gain of 0.37% in September, and unrevised declines of 1.65% (-1.65%) in August and 1.27% (-1.27%) in July.

November 2017 year-to-year growth jumped to the plus-side (see the comments on seasonal-adjustment distortions in the *Reporting Detail*) to 3.75%, versus a narrowed, revised decline of 0.54% (-0.54%) in October 2017, an unrevised annual decline of 1.83% (-1.83%) in September 2017 and unrevised annual gains of 0.19% in August 2017 and 2.06% in July 2017.

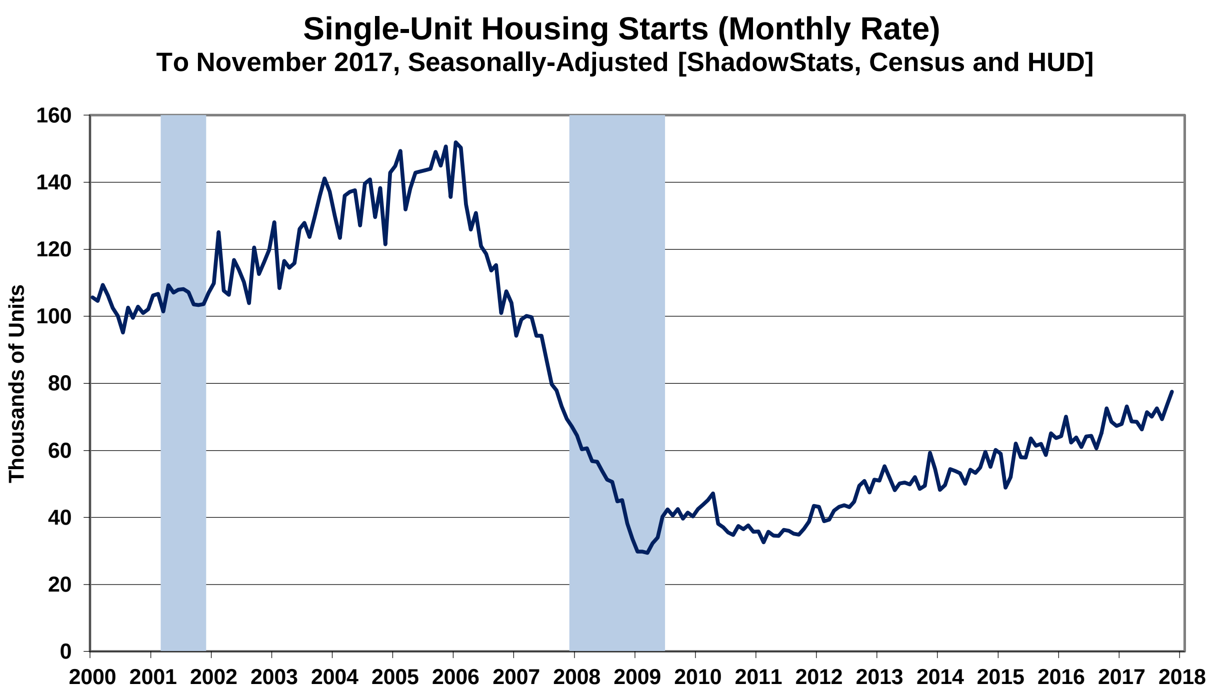
Again, see the *Reporting Detail* for expanded coverage.

[Graphs 18 to 25 begin on the next page.]

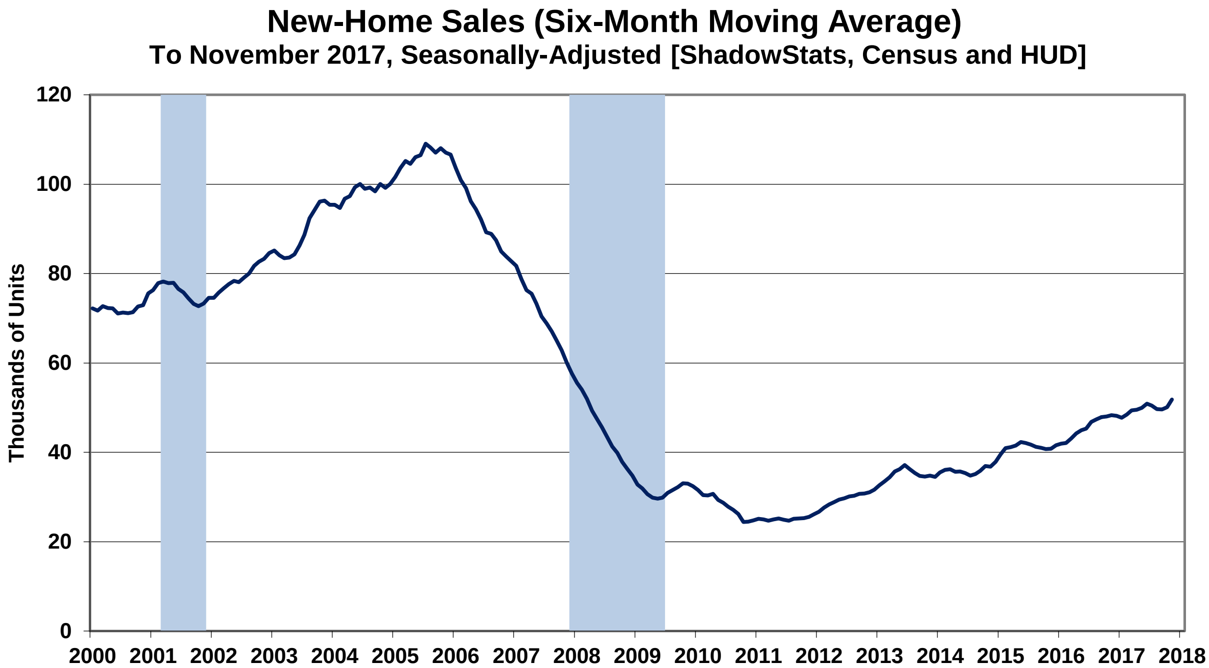
Graph 18: New-Home Sales – Monthly Level



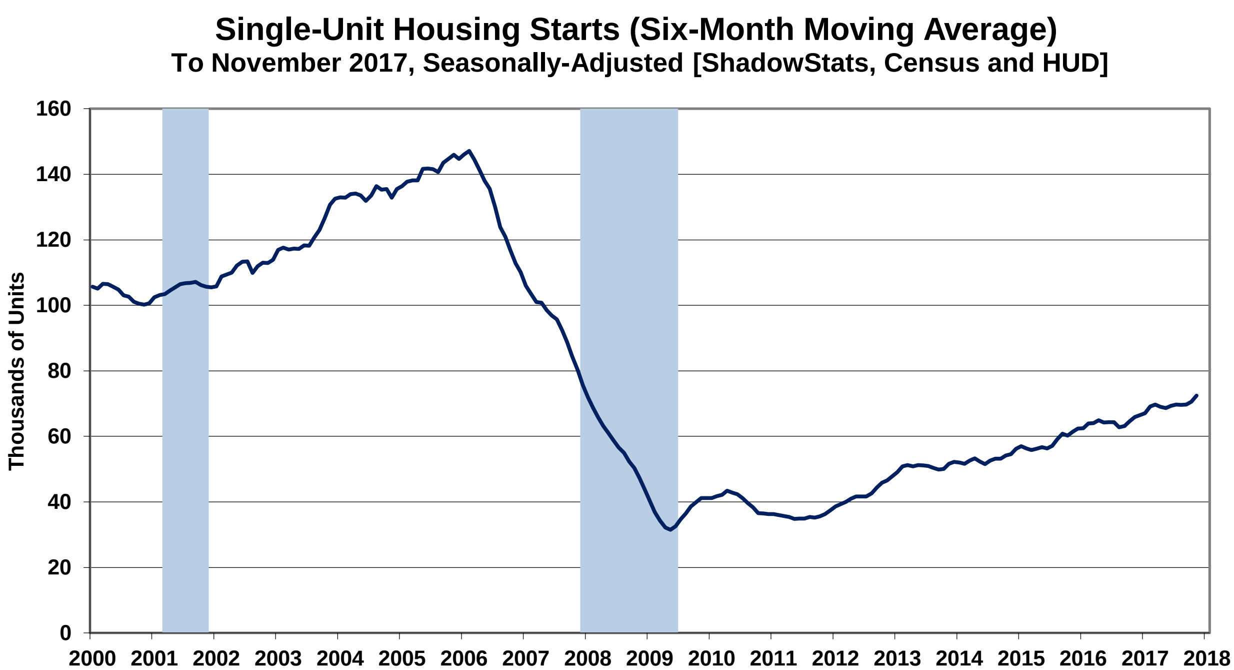
Graph 19: Single Unit Housing Starts (Monthly Rate of Activity)



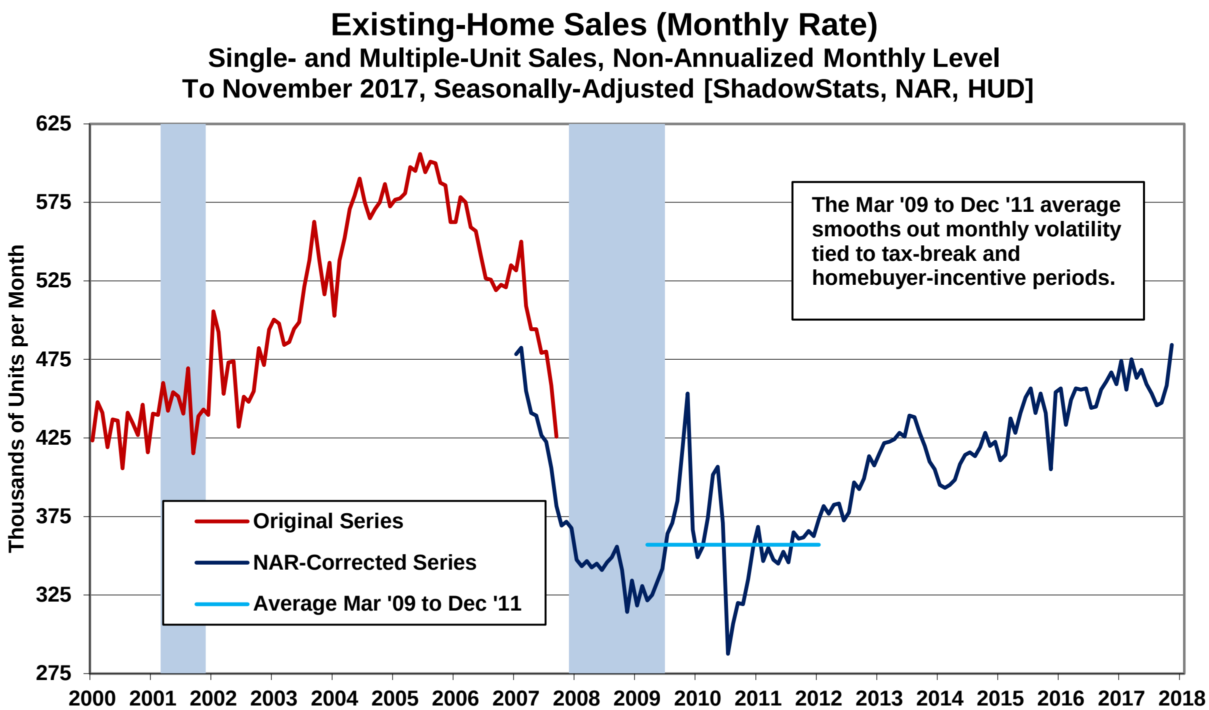
Graph 20: New-Home Sales (Six-Month Moving Average)



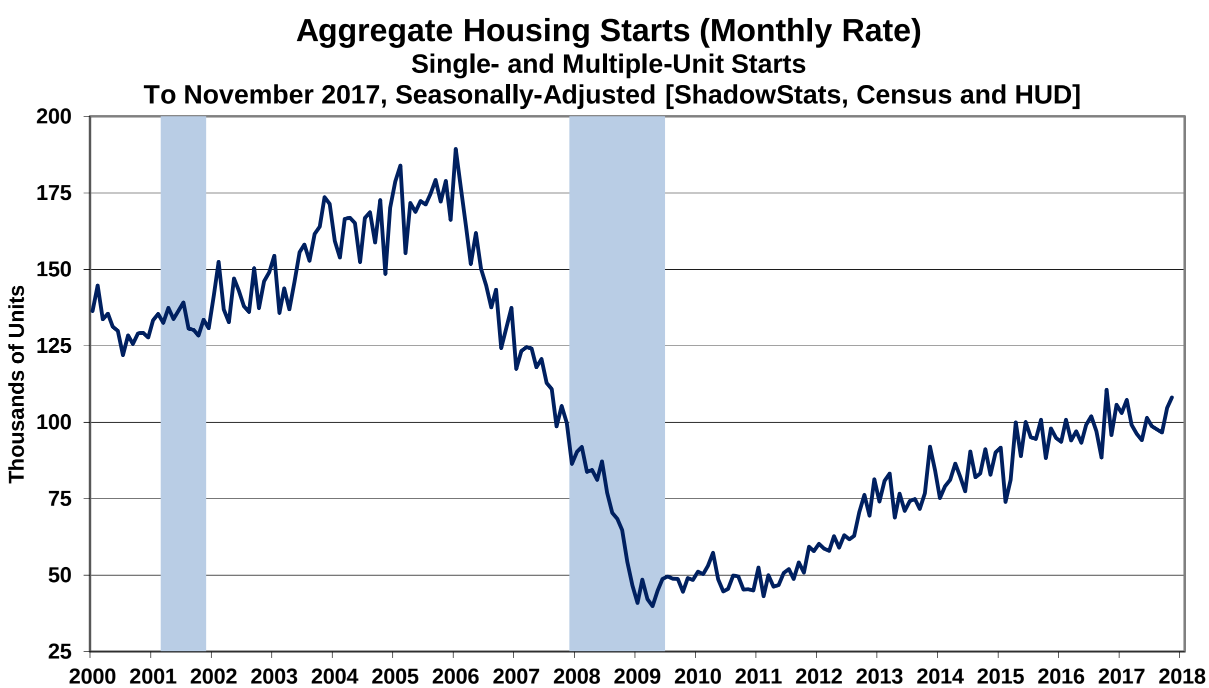
Graph 21: Single-Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



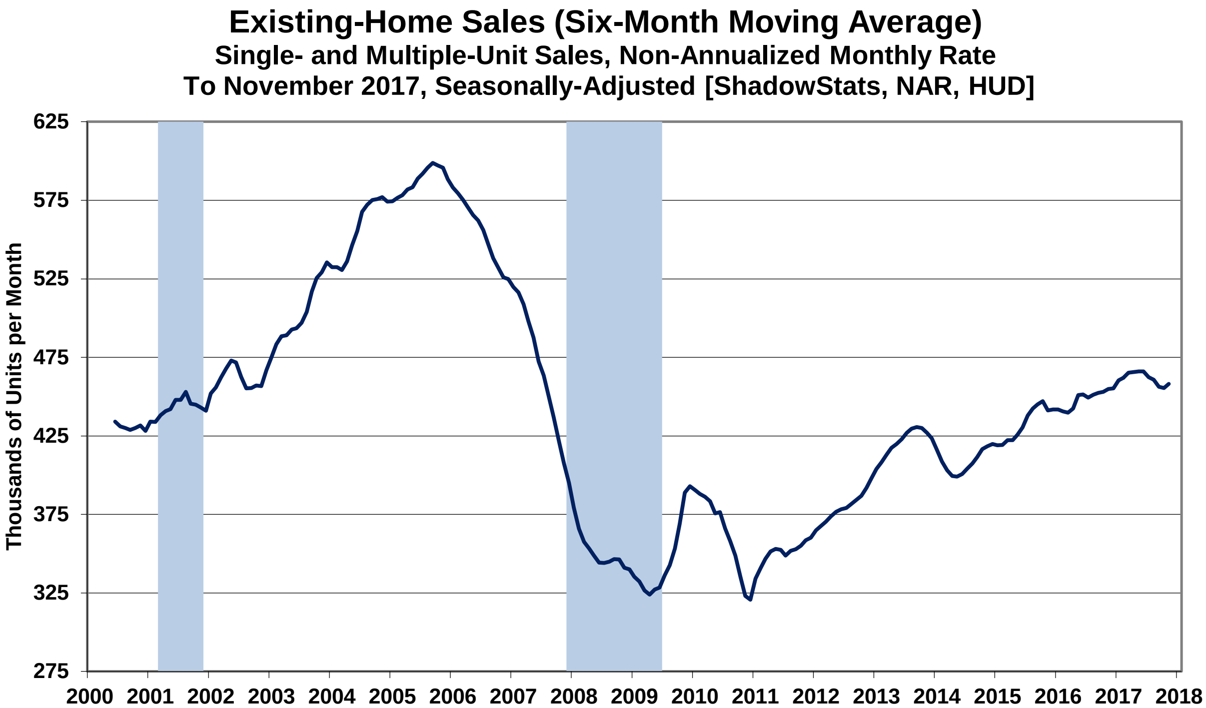
Graph 22: Existing-Home Sales – Monthly Level



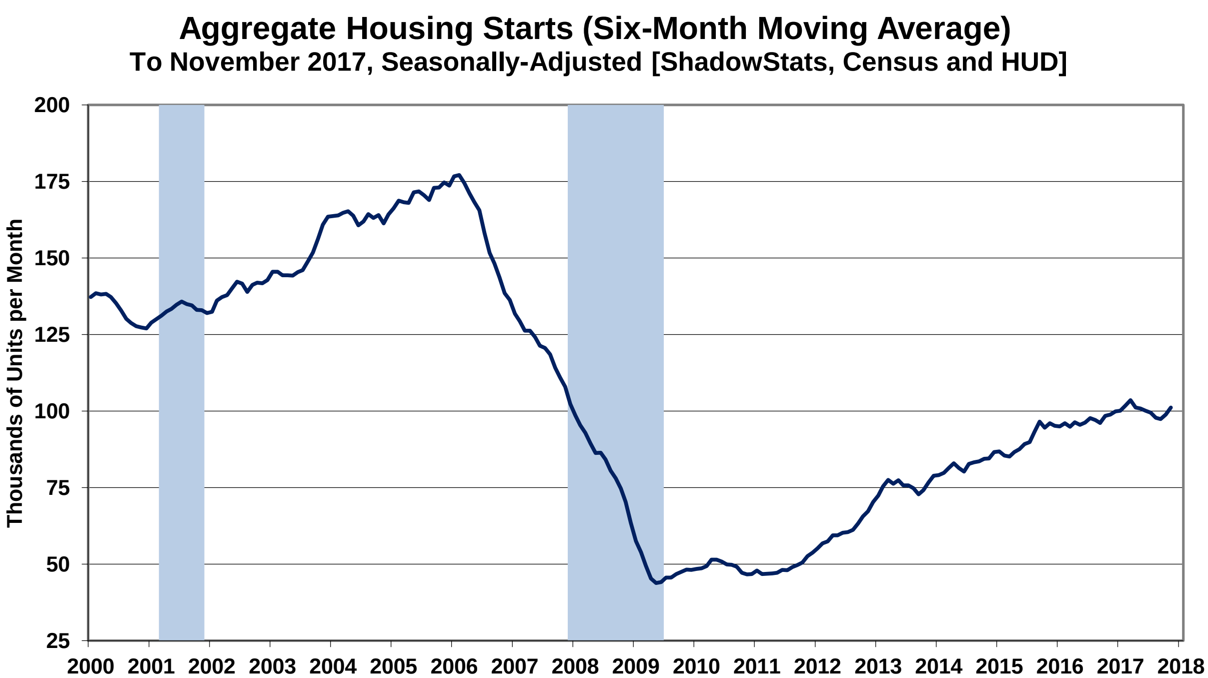
Graph 23: Aggregate Housing Starts (Monthly Rate of Activity)



Graph 24: Existing-Home Sales (Six-Month Moving Average)



Graph 25: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



[Extended analysis and graphics follow in the* Reporting Detail.*]

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (November 2017)

Sharp Slowing in Real Annual Growth, Ex-Commercial Aircraft, as Hurricane Distortions Begin to Work Out of the System. Net of somewhat softer inflation and a monthly gain in the highly-irregular commercial aircraft orders, real new orders for durable goods rose month-to-month, continuing to hold in fluctuating, non-recovering, low-level stagnation into fourth-quarter 2017, albeit with a smoothed upside bias. Nonetheless, real annual growth has begun to slow markedly, dropping from 4.8% in October 2017 to 2.6% in November 2017 (see *Graphs 2* and *3* in the *Executive Summary*). Such was in the context of small upside revisions to aggregate new orders activity in September and October.

In the initial reporting of August 2017 new orders for durable goods, meaningful impact from late-August Hurricane Harvey was not obvious, but that changed with the headline September 2017 detail. September new orders included not only impact from mid-September's Hurricane Irene, but also late changes to August detail, which included upside revisions to new orders for motor vehicles (likely Houston-area flood losses), with those orders holding at a continued high level in September. October 2017 motor vehicle orders continued to rise, with minimal prior-period revisions and the November 2017 detail showed a further uptick with some slowing of related monthly growth.

That said, total nominal New Orders for Durable Goods rose month-to-month by 1.30% in November 2017, having declined by a revised 0.4% (-0.4%) [previously 1.2% (-1.2%)] in October and having gained a revised 2.4% [previously and initially 2.2%] in September. Other than for hurricane-related disruptions to the monthly data, the month-to-month changes have been dominated by large swings in the irregularly-volatile, commercial-aircraft orders, with a gain of 14.5% in November 2017, a revised decline of 15.9% (-15.9%) in October 2017 and an unrevised 33.9% gain in September. Ex-commercial aircraft, new orders rose by 0.7% in November 2017, having gained by an upwardly-revised 0.4% in October and an upwardly revised 1.0% in September. With highly-suspect, related negligible month-to-month inflation, a component of the Producer Price Index (PPI), the inflation-adjusted real monthly changes, ex-commercial aircraft, reflected a gain of 0.5% in November 2017, versus an "unchanged" reading at 0.0% in October and a gain of 1.0% in September.

Discussed later, the extremely volatile, commercial aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity. Accordingly, ShadowStats concentrates on the inflation-adjusted real New Orders for Durable Goods series, ex-commercial aircraft (see *Graph 2* in the *Executive Summary*), as a leading indicator to broad economic activity reflected in the dominant Manufacturing sector of Industrial Production. Neither of those series has recovered its pre-recession high of 2007; both continue in non-recovered, non-expanding, low-level stagnation. Annual growth patterns in those two series are compared in *Graphs 3* and *4*.

There is no economic expansion underway, as heavily touted to the contrary in the popular media. Expansion reflects growth beyond the pre-recession peak of an economic series. The happy hype in the media primarily reflects a purported expansion in headline Gross Domestic Product (GDP) currently (third-quarter 2017) at 14.5% above its precession high (see the *GDP* coverage in the *Executive Summary*. That said, underlying fundamental economic activity, such as seen in November 2017 real new orders for durable goods series, was down by 9.7% (-9.7%) from recovering its pre-recession high, while real new orders for durable goods, ex-commercial aircraft, was down by 7.1% (-7.1%) from recovering its pre-recession peak.

In the context of the May 18, 2017 annual benchmark revisions to the new orders series, which lowered the general level of headline activity in recent years (see *Special Commentary No. 888* and the accompanying *Graph 20* there), November 2017 headline detail, again, showed the broad economy in ongoing non-expansion. That also as has been the case for the manufacturing sector in industrial production (see *Commentary No. 926*). Real new orders, ex-commercial aircraft, again, remains the best coincident/ leading indicator to industrial production (*i.e.*, manufacturing) and to the general economy.

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, then downtrend—some fluttering—flattening-out, particularly when viewed with the alternate-inflation detail. Those patterns have remained consistent in signaling an ongoing or non-recovering recession (see *Graphs 5* to *8* in the *Executive Summary*).

Headline Nominal Detail—November 2017. The Census Bureau reported this morning, December 22nd, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate new orders for durable goods increased by 1.30% in November 2017, having declined by a revised 0.44% (-0.44%) [previously 1.18% (-1.18%)] in October. Orders gained by a revised 2.40% [previously 2.18%, initially 2.16%] in September and an unrevised 2.06% in August, having declined by an unrevised 6.81% (-6.81%) in July and having gained 6.38% in June, versus an "unchanged" 0.00% in May.

Year-to-year, November 2017 nominal durable goods rose by 8.19%, following revised gains of 1.93% [previously 0.97%] in October 2017 and 8.61% [previously 8.39%, initially 8.33%] in September 2017, versus unrevised gains of 5.55% in August 2017, 4.06% in July 2017, 16.20% in June 2017 and 3.97% in May 2017. That headline detail, though, was before consideration of the irregular volatility in commercial-aircraft orders, let alone inflation.

Before and after consideration of irregular and unstable month-to-month commercial-aircraft orders 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, again, are discussed and graphed in the *Executive Summary*.

The corrected series—net of commercial aircraft orders—has remained relatively flat, in a pattern of low-level stagnation, albeit somewhat uptrending. 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 November 2017, a monthly gain of 14.49% in aircraft orders contributed to pushing headline aggregate orders to a gain of 1.30%, from what otherwise would have been a monthly gain of 0.67%. That followed a revised monthly contraction of 15.85% (-15.85%) [previously 18.58% (-18.58%)] in October aircraft orders, versus a revised monthly gain of 33.90% [previously 33.91%, initially 31.45%] in September, an unrevised monthly gain of 33.47% in August, a July monthly decline of 71.07% (-71.07%), a monthly aircraft-order surge of 129.20% in June and a monthly decline in May of 1.37% (-1.37%).

Net of commercial-aircraft orders, month-to-month and seasonally-adjusted, November 2017 new orders gained 0.67%, versus a gains of 0.44% in October 2017, 1.03% in September, 1.04% in August, 0.51% in July, 0.26% in June and 0.65% in May. Year-to-year and seasonally-adjusted, November 2017 new orders ex-aircraft rose by 4.53%, having gained by a revised 6.71% in October 2017, by a revised 6.51% in September 2017, and by an unrevised 4.74% in August 2017, 5.59% in July 2017, 6.70% in June 2017 and 6.55% in May 2017.

Real Durable Goods Orders—November 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 November 2017 PPI series showed headline month-to-month inflation of 0.12%, versus 0.41% in October and 0.06% in September. Related year-to-year annual inflation was 1.92% in November 2017, versus 1.86% in October 2017 and 1.74% in September 2107 (see *Commentary No. 925*).

Adjusted for that 0.12% month-to-month inflation reading in November 2017 and respective inflation rates in earlier months, and as reflected in the graphs in the *Executive Summary* section, real aggregate orders in November 2017 rose by 1.18%, having declined by 0.85% (-0.85%) in October, having gained by 2.34% in September, by 2.00% in August and having declined by 6.75% (-6.75%) in July. Ex-commercial aircraft, real month-to-month orders rose by 0.55% in November 2017, having gained 0.03% in October, 0.97% in September, 0.98% in August 2017 and 0.57% in July.

Real total new orders year-to-year by 6.16% in November 2017, virus annual gains of 0.07% in October 2017, 6.53% in September 2017, 3.92% in August 2017 and 2.46% in July 2017. Ex-commercial aircraft, November 2017 real orders rose year-to-year by 2.56%, having gained 4.76% in October 2017, 4.68% in September 2017, 3.12% in August 2017 and 3.97% in July 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 still 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-commercial aircraft) showed an annualized quarterly gain of 5.46%, fourth-quarter 2016 activity showed an annualized quarterly gain of 7.35%.

First-quarter 2017 showed an annualized contraction of 0.94% (-0.94%). Year-to-year, first-quarter 2017 orders rose by 1.67%. Second-quarter 2017 activity rose at a revised annualized quarterly pace of 2.49% [previously 2.57%, initially 2.65%], up by a revised 3.54% [previously 3.56%, initially 3.58%] year-to-year. Third-quarter 2017 annualized quarterly growth was a revised 7.03% [previously 6.71%, initially 6.66%], with year-to-year growth at a revised 3.92% [previously and initially 3.85%].

Based solely on October and November 2017 reporting, the early-trend for fourth-quarter 2017 was for annualized quarterly growth slowing to 5.21%, with year-to-year growth easing to 3.40%. Based solely on the initial October 2017 reporting, the early-trend for fourth-quarter 2017 had been for annualized quarterly growth slowing to 0.93%, with year-to-year growth easing to 2.26%.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 1* to *8*) 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. They also show annual growth for the real series (net of commercial aircraft) as well as a comparative plot of year-to-year change in the manufacturing sector, which new orders tend to lead. The moving-average levels in both the durable goods series (*Graphs 1* and *2*) 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 was revised away with the May benchmarking and now shows an uptrending level of stagnation.

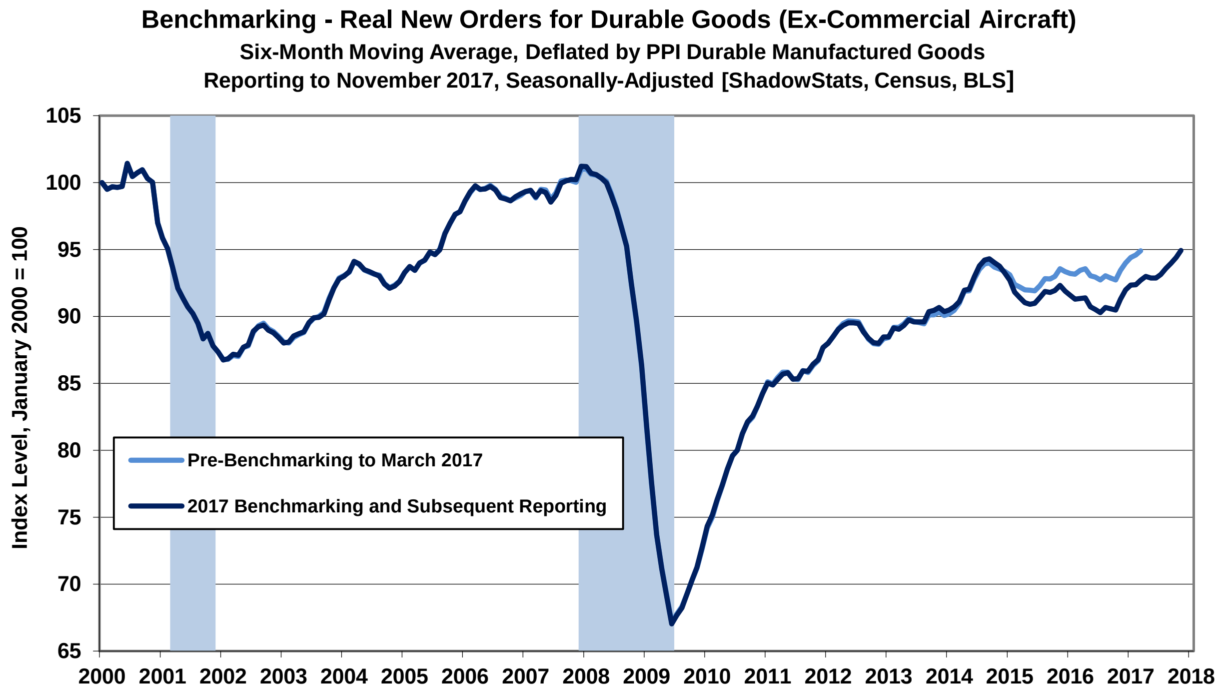
The second set of graphs (*Graphs 5* and *6*) shows the patterns of six-month moving averages of historical, headline real new orders for durable goods (net of official inflation), as well as that pattern "corrected" for understatement of that inflation (and for the corresponding overstatement of official, 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.

Caution: Non-Comparability of the Regular Headline Month-to-Month Data. As an example of the regular, annual downside restatement of recent activity, consider accompanying *Graph 26*. It shows the net revisions to the six-month moving average of real New Orders for Durable Goods (ex-commercial aircraft) from the May 18, 2017 benchmark revisions and subsequent reporting through the November 2017 headline detail, versus the pre-benchmarking detail. For a more-substantive review of the last two years of benchmark revisions to New Orders for Durable Goods, and the parent Manufacturers' Shipments series, see *Special Commentary No. 888*.

Current durable goods reporting remains subject to many of the same upwardly-biased sampling assumptions and concurrent-seasonal-adjustment problems commonly 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 2017 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 (November 2017) inconsistent with the currently published headline historical numbers.

Graph 26: Benchmark Revisions to Real Total New Orders for Durable Goods, Ex-Commercial Aircraft.



GROSS DOMESTIC PRODUCT (GDP)—Third-Quarter 2017, Second Revision, Third Estimate

Third Estimate of Third-Quarter GDP Came in at 3.16%, Minimally Weaker than Expected, Still Heavily Bloated. Third-Quarter 2017 GDP activity remained overstated. Beyond the usual upside biases from understated inflation, used in deflating the series, and upside gimmicked reporting bias, hurricane-distorted surges to retail sales and production have added one-time upside pressures to third-quarter activity, which should flow even more strongly into fourth-quarter GDP reporting, before pulling back in first-quarter 2018. Indications of that slowing increasingly should surface in the underlying monthly series details from December 2017 through February 2018.

Heavily Followed but of Extremely Poor Quality. In this most-politically-sensitive of popularly-followed economic series, the GDP usually does not reflect properly or accurately the changes to the underlying economic fundamentals and the measures that drive the broad economy. Again, as discussed and reflected in the graphs of the *Executive Summary*, various separately-reported measures of real-world economic activity show that the general economy began to turn down in 2006 and 2007, plunged into 2009. That plunging economy entered a protracted period of stagnation thereafter—never recovering fully, never entering a phase of formal economic "Expansion"—and then began to turn down anew in late-2014, still in ongoing stagnation/downturn irrespective of any near-term hurricane distortions (see *Commentary No. 902-B* and *Commentary No. 900*).

On occasion, special factors such as natural disasters will distort the regular patterns of quarterly economic activity, as is the current circumstance, tied to Hurricanes Harvey, Irene and Nate. Those circumstances aside, the GDP (or the broader GNP detail headlined in earlier decades) simply remains the most worthless of the popular government economic series, in terms of determining what really is happening to U.S. business activity. The series is the most-heavily-modeled, politically-massaged and gimmicked government indicator of the economy. It has been so since at least the 1960s, and that reporting quality deteriorated anew, sharply in both the 2016 and 2017 benchmarkings (see the *Opening Comments* of Commentary No. 902-B, those of Commentary No. 823, and Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play.*

Notes on GDP-Related Nomenclature and Definitions

For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:

Gross Domestic Product (GDP) *is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.*

Gross Domestic Income (GDI) *is the theoretical equivalent to the GDP, but the popular press generally does not follow it. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a "statistical discrepancy." Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.*

Gross National Product (GNP) *is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.*

Real *(or* ***Constant Dollars****) means the data have been adjusted, or deflated, to reflect the effects of inflation.*

Nominal *(or* ***Current Dollars****) means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.*

GDP Implicit Price Deflator (IPD) *is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on "Chained 2009 Dollars," as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. "Chained" refers to the substitution methodology, which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by $105.5 billion in "residual," as of the second estimate of second-quarter 2016.*

Quarterly *growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to 1.01 x 1.01 x 1.01 x 1.01 = 1.0406 or 4.1%, instead of 4 x 1% = 4%.*

Annual *growth refers to the year-to-year change of the referenced period versus the same period the year before.*

Gross Domestic Product (GDP). Published yesterday, Thursday, December 21st by the Bureau of Economic Analysis (BEA), the second-revision, third estimate of third-quarter 2017 showed a revised statistically-insignificant, real (inflation-adjusted), annualized, quarterly headline gain of 3.16% +/- 3.5% (95% confidence interval) [previously 3.30%, initially 2.99%], slightly weaker than market expectations for an "unchanged" 3.3% reading. That was against 3.06% in second-quarter 2017 and 1.24% in first-quarter 2017.

Year-to-year growth rose by a revised 2.30% [previously 2.33%, initially 2.26%], although unrevised at the first decimal point in third-quarter 2017, versus 2.21% in second-quarter 2017 and 2.00% in first-quarter 2017.

Distribution of the third-estimate of third-quarter 2017 GDP growth by major category is detailed in the *Executive Summary* (see *Table 1*).

Graphs 27 and *29* plot headline levels of real quarterly GDP activity, respectively showing short-term (since 2000) and long-term (since the historical onset of the quarterly GDP series in 1947) perspectives. Shown in *Graphs 28* and *30*, headline year-to-year real GDP growth in the third estimate of third-quarter GDP, again was 2.30% [previously 2.33%, initially 2.26%], versus 2.21% in second-quarter 2017, 2.00% in first-quarter-2017, 1.84% in fourth-quarter 2016, 1.52% in third-quarter 2016, 1.23% in second-quarter 2016, 1.36% in first-quarter 2016, 2.02% in fourth-quarter 2015 and 2.40% in third-quarter 2015.

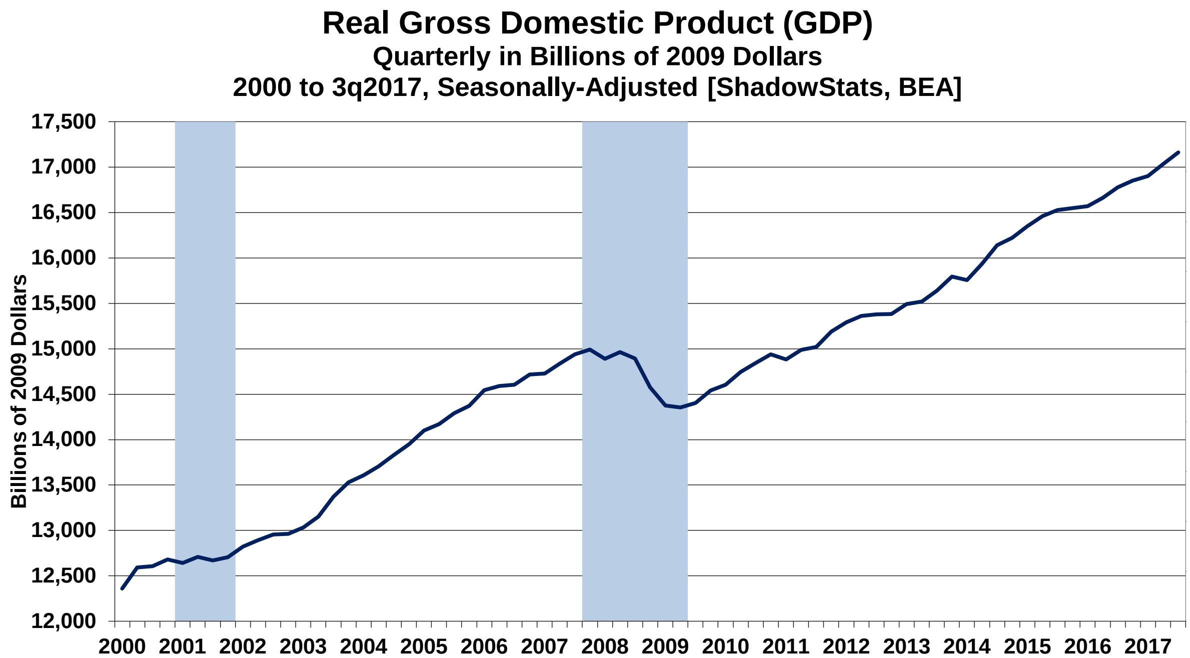
Graphs 31 and *32* respectively show the levels of annual real GDP activity, as well as annual percent change, as estimated beginning in 1929.

A sharp downtrend in annual growth is common at the onset of formal recessions. Reflected in *Graph 32*, annual-average real GDP growth in 2016 slowed to 1.49%, versus 2.86% in 2015 and versus 2.57% in 2014. The annual growth rate of 1.49% in 2016 was the slowest pace of annual growth in the post-2009 "recovery."

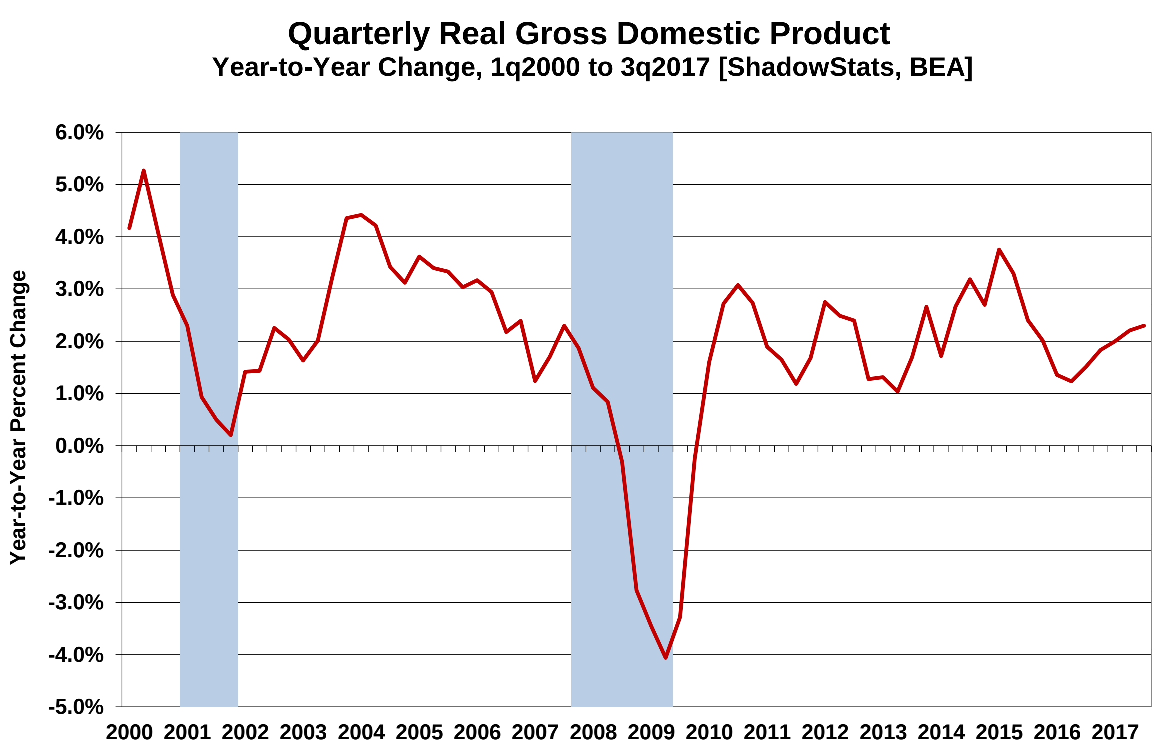
The current-cycle trough in quarterly annual change was in second-quarter 2009 (see *Graphs 28* and *30*), reflecting a year-to-year decline of 4.09% (-4.09%). That was the deepest year-to-year contraction for any quarterly GDP in the history of the series, which began with first-quarter 1947 (1948 in terms of available year-to-year detail). *Graph 28* shows the revised current year-to-year quarterly detail, from 2000-to-date, where *Graph 30* shows the same series in terms of its full quarterly, year-to-year history back to 1948. Shown in *Graph 32*, the annual decline of 2.78% (-2.78%) in 2009 was the steepest regular annual drop in economic activity since the Great Depression. The 1946 production shutdown and economic reorganization following World War II, however, resulted in an annual GDP decline of 11.58% (-11.58%), minimally narrower than the 1932 annual economic crash of 12.89% (-12.89%).

[Graphs 27 to 33 begin on the following page.]

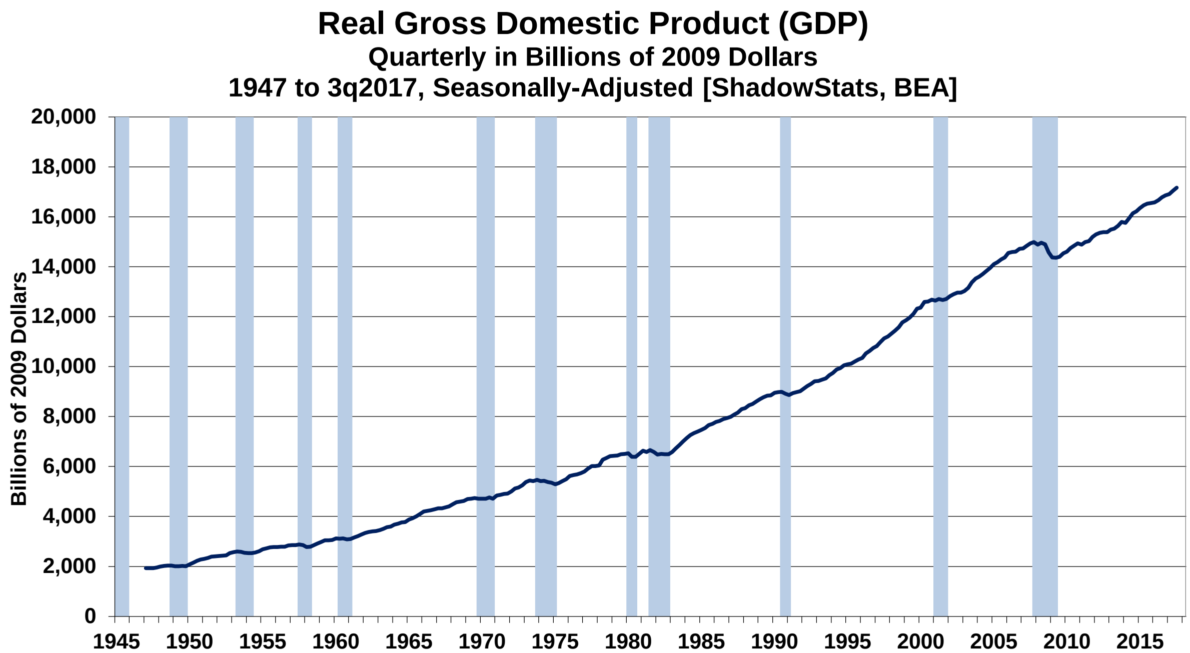
Graph 27: Quarterly GDP in Billions of 2009 Dollars (2000 to 2017), Third-Estimate of Third-Quarter 2017



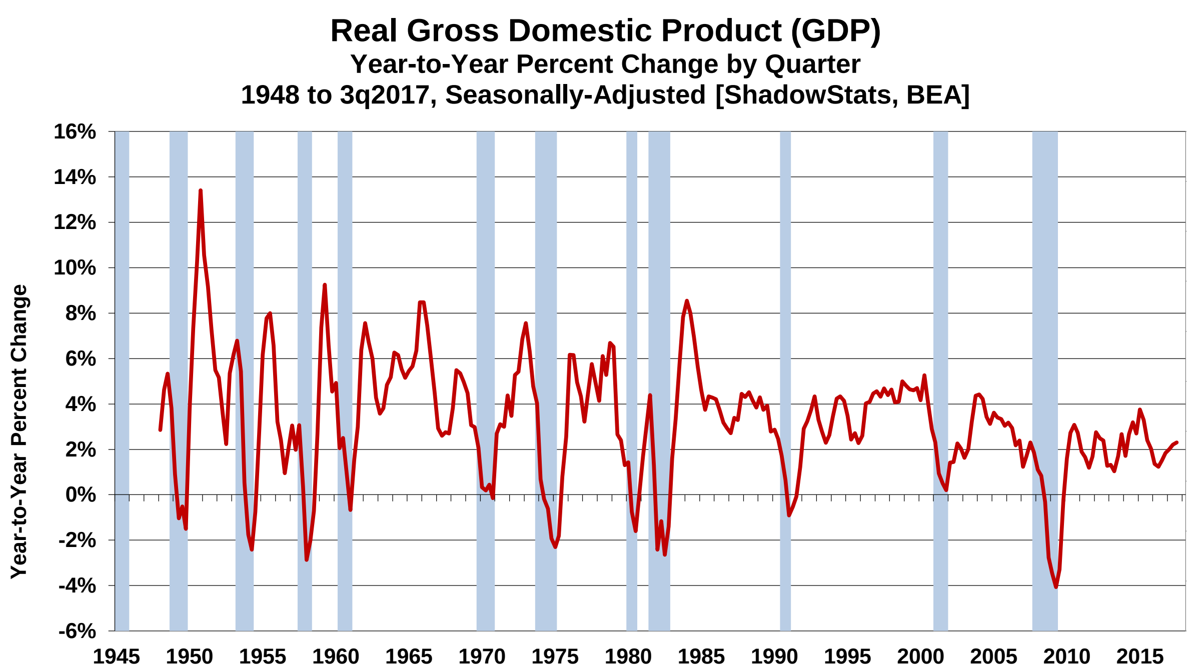
Graph 28: Quarterly GDP Real Year-to-Year Change (2000 to 2017), Third-Estimate of Third-Quarter 2017



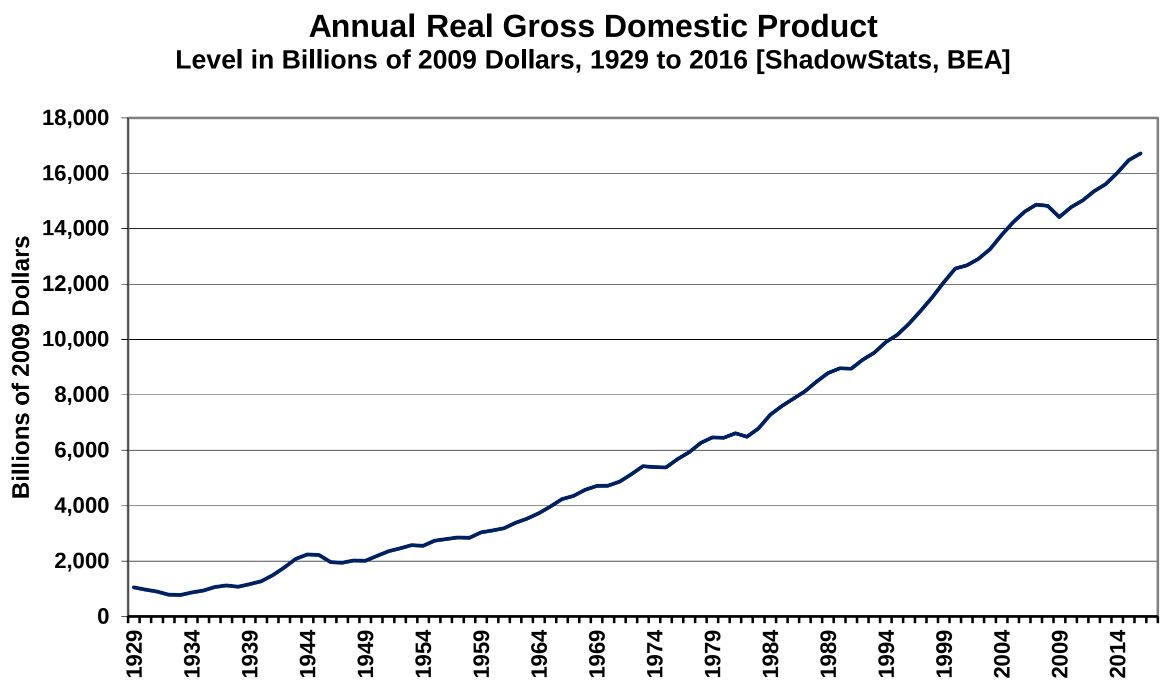
Graph 29: Quarterly GDP in Billions of 2009 Dollars (1947-2017), Third-Estimate of Third-Quarter 2017



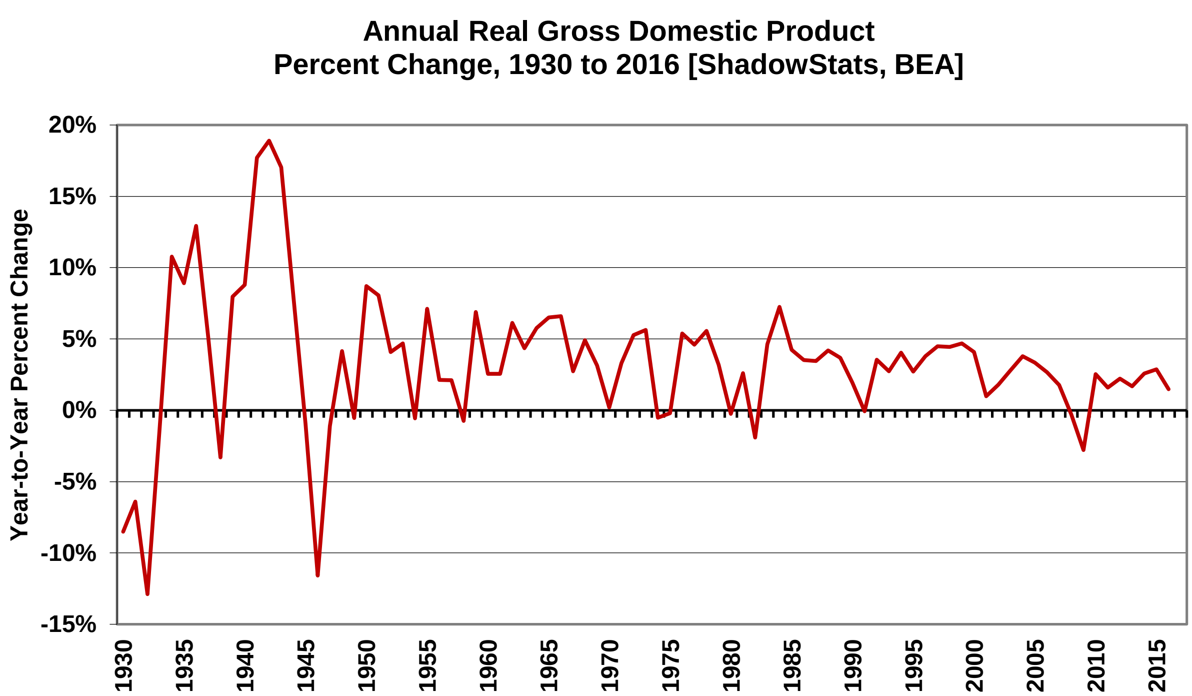
Graph 30: Year-to-Year GDP Real Change (1948-2017), Third-Estimate of Third-Quarter 2017



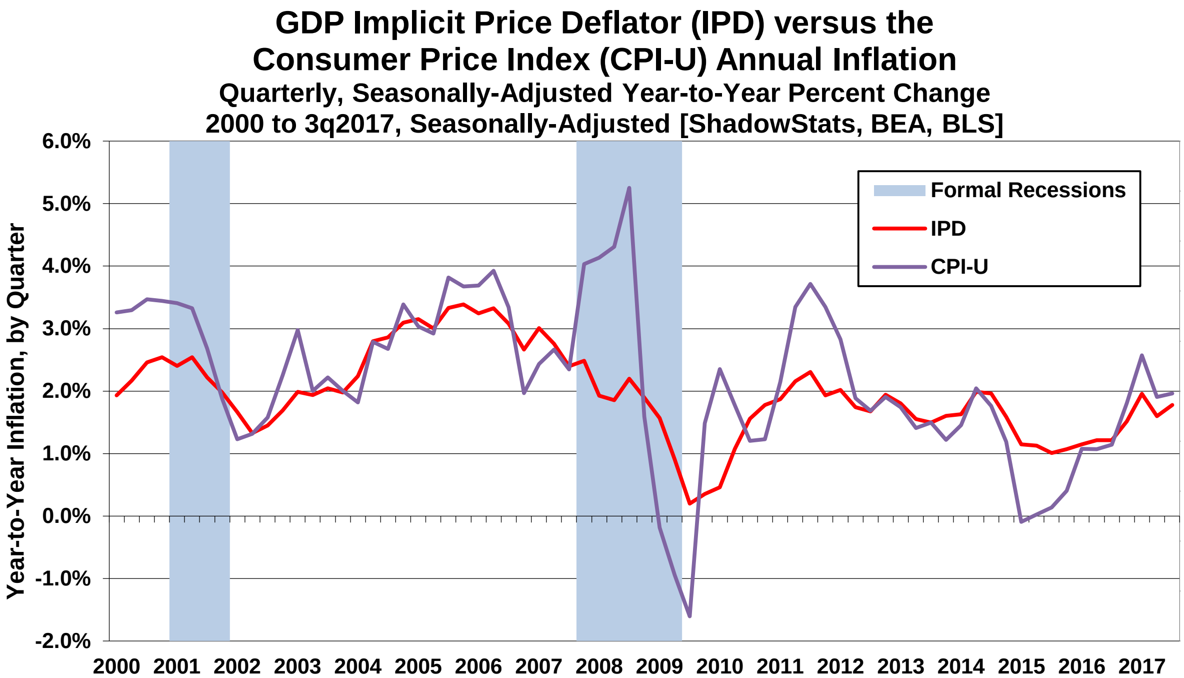
Graph 31: Annual GDP in Billions of 2009 Dollars (1929-2016)



Graph 32: GDP Real Annual Percent Change (1930-2016)



Graph 33: Yr-to-Yr Inflation, Third Estimate, Third-Quarter 2017 IPD versus CPI-U (2000-2017)



Implicit Price Deflator (IPD). The third estimate of quarter-to-quarter, third-quarter 2017 GDP inflation, or the implicit price deflator (IPD) was an annualized 2.09% [previously 2.12%, initially 2.15%], versus 1.01% in second-quarter 2017, 2.00% in first-quarter 2017, 2.03% in fourth-quarter 2016, 1.37% in third-quarter 2016, 2.43% in second-quarter 2016, 0.25% in first-quarter 2016, 0.82% in fourth-quarter 2015, 1.35% in third-quarter 2015, 2.18% in second-quarter 2015 and down by 0.06% (-0.06%) in first-quarter 2015. As general guidance, the weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth, and vice versa.

Year-to-year, the third estimate of third-quarter 2017 IPD inflation revised to 1.78% [previously and initially 1.79% at the second decimal point], versus annual gains of 1.60% in second-quarter 2017, 1.96% in first-quarter 2017, 1.52% in fourth-quarter 2016, 1.22% in third-quarter 2016, 1.21% in second-quarter 2016, 1.15% in first-quarter 2016, 1.07% in fourth-quarter 2015, 1.01% in third-quarter 2015, 1.13% in second-quarter 2015 and 1.05% in first-quarter 2015. In terms of year-over-year, average annual inflation, the 2016 IPD inflation was 1.11%, versus 1.10% in 2015 and 1.09% in 2014.

For purposes of comparison, the seasonally-adjusted Consumer Price Index CPI-U showed an annualized pace of inflation in third-quarter 2017 of 2.01%, having contracted by 0.31% (-0.31%) in second-quarter 2017, versus gains of 3.15% in first-quarter 2017, 3.04% in fourth-quarter 2016, 1.78% in third-quarter 2016, 2.33% in second-quarter 2016, 0.11% in first-quarter 2016, 0.35% in fourth-quarter 2015, 1.50% in the third-quarter 2015, 2.35% in second-quarter 2015 and a quarterly contraction of 2.52% (-2.52%) in first quarter of 2015.

Unadjusted, year-to-year quarterly CPI-U inflation showed annual gains of 1.96% in third-quarter 2017, versus 1.91% in second-quarter 2017, versus 2.54% in first-quarter 2017, 1.80% in fourth-quarter 2016, 1.12% in third-quarter 2016, 1.05% in second-quarter 2016, 1.08% in first-quarter 2016, 0.47% in fourth-quarter 2015, 0.11% in third-quarter 2015, and quarterly contractions of 0.04% (-0.04%) in second-quarter 2015 and 0.06% (-0.06%) in first-quarter 2015 (see *Graph 16*). In terms of year-over-year, average annual inflation, the 2016 CPI-U inflation was 1.26%, versus 0.12% in 2015 and 1.62% in 2014.

Gross National Product (GNP) and Gross Domestic Income (GDI). Second estimates of, and revisions to third-quarter 2017 GNP and GDI also were released on December 21st.

GNP remains the broadest measure of U.S. economic activity, where GDP is GNP net of trade flows in factor income (interest and dividend payments). As a reporting gimmick aimed at boosting the headline reporting of economic growth for net-debtor nations such as the United States, international reporting standards were shifted some decades back to reporting headline GDP instead of what had become a relatively weaker GNP.

Reflecting higher inflows and lower outflows of factor income than previously reported, annualized real third-quarter GNP growth revised to 3.65% [previously 3.47%], versus 2.77% in second-quarter 2017, 0.94% in first-quarter 2017, 2.58% in fourth-quarter 2016 and 2.59% in third-quarter 2016.

Real year-to-year growth was a revised 2.48% [previously 2.44%] in third-quarter 2017, versus 2.22% in second-quarter 2017, 2.18% in first-quarter 2017, 1.86% in fourth-quarter 2016 and 1.47% in third-quarter 2016.

GDI is the theoretical income-side equivalent to the consumption-side GDP estimate. The GDP and GDI are made to equal each other, every quarter, with the addition of a "statistical discrepancy" to the GDI-side of the equation.

Increasingly touted by the BEA as *the* GDP counterpart, the regularly-unstable GDI has been bloated heavily in recent years by effectively-worthless income reporting out of the Bureau of Labor Statistics (BLS). The purported income gains have reflected heavily-upside-biased income estimates out of the otherwise-rigged nonfarm payroll survey. As an indication of the extremely unstable reporting in this series, the nominal "statistical discrepancy" between the headline level of first-quarter 2017 GDP minus GDI deepened to -328.7 billion dollars versus a revised -205.7 (previously estimated -124.6) billion dollars in the July 2017 benchmark reporting. That became -102.4 billion dollars in revised first-quarter headline detail, coincident with the initial reporting of second-quarter 2017 detail, where it remains. Yet, those regular instabilities may be changing.

Noted in the prior GDI release (see *Commentary No. 923*), based largely on "newly available second-quarter tabulations from the BLS Quarterly Census of Employment and Wages program [BEA]," the annualized real growth in second-quarter GDI [pre-hurricanes] revised lower, from 2.89%, to 2.28%, with the initial third-quarter headline growth at 2.53%. In that context, the statistical discrepancy narrowed sharply to -67.0 [previously -95.4] billion dollars in second-quarter 2017, and to -31.6 billion dollars in the first-estimate of third-quarter 2017. The second estimate of the third-quarter statistical discrepancy narrowed further to -14.4 billion dollars in revision.

Accordingly, annualized real third-quarter GDI growth revised lower to 2.03% [previously 2.53%], versus 2.28% in second-quarter 2017, 2.68% in first-quarter 2017, a contraction of 1.66% (-1.66%) in fourth-quarter 2016 and 4.12% growth in third-quarter 2016.

Real year-to-year growth revised down to 1.32% [previously 1.44%] in third-quarter 2017, versus 1.83% in second-quarter 2017, 1.30% in first-quarter 2017, 0.55% in fourth-quarter 2016 and 1.35% in third-quarter 2016.

ShadowStats Alternate GDP. The ShadowStats-Alternate GDP third-quarter 2017 GDP, third estimate, was an unrevised year-to-year decline of 1.8% (-1.8%), versus an unrevised annual GDP headline gain of 2.3% at the first-decimal point, that was against a similar ShadowStats annual decline of 1.8% (-1.8%) in second-quarter 2017 and an annual real headline GDP gain then of 2.2%.

While the annualized, real quarterly growth rate is not estimated formally on an alternate basis, the statistically-insignificant, third-estimate of annualized, headline quarter-to-quarter gain of 3.2% in third-quarter 2017 likely was much weaker in reality, net of all the happy assumptions, regular reporting gimmicks and likely "unrecognized" data distortions from recent hurricane activity. Specifically, either it faces some downside revision in the next month, as the hurricane disruptions to the data increasingly resolve themselves, or the reporting catch-up in fourth-quarter activity could take a distortedly-heavy hit.

Actual quarterly contractions appear to have been a realistic possibility for bloated, headline inflation-adjusted GDP in most quarters since the official, second-quarter 2009 end to the 2007 recession.

Adjusted for understated inflation and other methodological changes—such as the inclusion of intellectual property, software and recent accounting for the largely not-measurable and questionable impact of the Affordable Care Act (ACA)—the business collapse that began in 2006/2007 is ongoing; there has been no meaningful economic rebound, as discussed in today's *Opening Comments and Executive Summary*. The "corrected" real GDP *Graphs 10* and *12* in the *Executive Summary* (see also the *Economy* section in *No. 859 Special Commentary* and *2014 Hyperinflation Report—Great Economic Tumble*), are based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, here, which reflects reversing additional methodological distortions ("Pollyanna Creep") of recent decades, highlighted in the Alternate Data tab on the GDP on the www.ShadowStats.com home page.

NEW HOME SALES—November 2017—Absurd Volatility: Massive Monthly Surge of 17.5% Was a Contraction of 1.9% (-1.9%) Recast for Massive Downside Revisions. In a frequently repeating pattern, unusually-large headline monthly boosts to monthly New-Home Sales out of the Census Bureau are nothing more than temporary gains created by downside revisions to prior months reporting. For example, the unusually-strong 6.2% surge in headline October 2017 New-Home Sales was up by just 2.7%, net of coincident downside revisions to September 2017.

Along with the headline release of November 2017 New-Home Sales, that booming level of October 2017 was revised lower by 8.9% (-8.9%), now reflecting a headline decline of 1.7% (-1.7%) against September 2017, but the September 2017 also was revised lower, by 1.6% (-1.6%), and the August 2017 level was revised lower by 1.1% (-1.1%). In aggregate, 77,000 previously-reported New-Home Sales (annual rate) were revised out of existence coincident with the November 2017 detail showing a headline level of 733,000. If someone just were shuffling these numbers around, that headline monthly gain of 17.5% would have been a contraction of 1.9% (-1.9%), assuming the November strength was stolen just from October. Simply net of just the downside monthly revision to October, the headline November gain would have been 7.0%, instead of 17.5%, slightly stronger than the previously, initially booming October gain, which now is in headline contraction.

Despite the Reporting Gimmicks, November 2017 New-Home-Sales Activity Still Was Shy of Recovering Its Pre-Recession Peak by 47.2% (-47.2%). Despite the regularly extreme, unstable and month-to-month volatility, which almost never is statistically significant at the 95% level (although it purportedly was with the current reporting), and which regularly sees massive prior-period revisions, the headline November 2017 New-Home Sales series remained shy of recovering its pre-recession high by 47.2% (-47.2%). Smoothed over six months, the series remains in low-level, non-recovered stagnation.

New-Home Sales Boosted in November by Prior-Period Revisions. Released this morning, December 22nd by the Census Bureau and the Department of Housing and Urban Development, the highly volatile and unstable New-Home Sales series, which counts new-home sales contracts signed, jumped sharply, month-to-month in November 2017, by a statistically-significant 17.5% (+/- 12.2% [previously +/- 21.1% in October] at the 95% confidence interval), up by 7.0%, net of revisions.

That followed a revised monthly contraction of 1.7% (-1.7%) [previously a surge of 6.2%] in October, a revised surge of 13.6% [previously 14.2%, initially up by 18.9%, and never statistically significant] in September 2017, a revised decline of 0.9% (-0.9%) in August [previously a gain of 0.2%, initially down by 3.6% (-3.6%)].

Year-to-year change in November 2017 sales jumped by a statistically-significant 26.5% (+/- 19.4% [previously +/- 27.5%] at the 95% confidence interval), with the annual gain in October 2017 revising down to 8.1% [previously 18.7%], with September 2017 revising down to 11.4% [previously 13.2%, initially up by 17.0%], having declined by a revised 1.4% (-1.4%) [previously 0.4% (-0.4%), initially 1.1% (-1.1%)] in August 2017.

Despite the Extraordinary Surge in November, Fourth-Quarter 2017 Growth Is on a Somewhat Slower Trend Than Before. Reflecting the unstable and meaningless monthly swings, consider that annualized quarterly change declined by a revised annualized 12.0% (-12.0) [previously 8.7% (-8.7%), initially 1.1% (-1.1%)] in third-quarter 2017. Based just on the meaningless, unstable October and November headline detail, fourth-quarter 2017 activity was on track for an annualized quarterly gain of 79.7%, which had been 80.1% based just on the initial October detail. Smoothed with a six-month moving average, this series, again, remained in low-level, non-recovering stagnation, which recently had turned to a downtrend, but ticked to the upside with the latest data machinations (see *Graph 20* in the *Executive Summary*).

Consumer Liquidity Constraints. The extreme liquidity bind besetting consumers continues to constrain residential real estate activity (see the *Consumer Liquidity Watch*). 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 2005 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, despite any short-lived, near-term boosts to activity from disaster recovery.

Graphs 18 to *21* in the *Executive Summary* plot the New-Home Sales series along with comparative graphs of the related Single-Unit Housing Starts series. *Graphs 22* to *25* there plot the Existing-Home Sales series, along with comparative graphs of the related Housing Starts series.

EXISTING HOME SALES—November 2017

"Soaring" November Sales Largely Were an Artefact of Massive Seasonal-Adjustment Instabilities. Reported by the National Association of Realtors (NAR), reflecting the count of Existing-Home Sales closings (as opposed to the count of contract signings for New-Home Sales, reported by the Census Bureau) the sharp monthly gain in November 2017 existing sales was on top of a small upside revision to October 2017 and fully in the context of unstable seasonal adjustments.

Not-seasonally-adjusted November 2017 sales declined month-to-month by 6.77% (-6.77%), which turned to a monthly gain of 5.64% after seasonal adjustment. The year before, unadjusted November 2016 sales declined month-to-month by 6.07% (-6.07%), which turned to a much smaller monthly gain of 1.27% after seasonal adjustment. This appears to be an adjustment artefact of unstable reporting generated by unusually-large, month-to month swings in the November and December 2015 data. Those numbers were heavily skewed by new federal regulations of the time, which slowed the pace of closings (the unit of measure here). The effect then was that November 2015 seasonally-adjusted sales declined by 8.13% (-8.13%) and then rose by 12.14% in December 2015. The residual impact of those distortions on the current adjustment-factor calculations is not stable, and the November 2017 adjusted monthly headline change is highly suspect.

An Unstable Eleven-Year High Remained 20.1% (-20.1%) Shy of Recovering Its Pre-Recession Peak. The seasonally-adjusted 5.6% monthly gain in November 2017 Existing-Home Sales, was on top of an upside revision of 0.4% to the previously-reported level of October 2017 activity, a gain of 6.0%, net of revisions.

Where the resulting new level of aggregate Existing-Home Sales series was touted as being at its highest since a 6.42 million annualized monthly count in December 2006, the November 2017 reading still was 9.5% (-9.5%) shy of that December 2006 reading, and remained shy by 20.1% (-20.1%) of its June 2005 pre-recession peak.

Shown in *Graph 22* in the *Executive Summary*, November 2017 Existing Home Sales were at the highest level of the post-2006 revamped series (blue line), but still well below the pre-recession peak in seen in the original series (red line). That said, smoothed for six-month moving averages, the existing-sales series had been in uptrending stagnation into 2017, which recently shifted to downtrending stagnation, as reflected in *Graph 24* (see also *Graphs 23* and *25* of the Housing Starts, where both series reflect activity in terms of single- and multiple-housing units).

Existing-Home Sales Continued in Smoothed, Downtrending Stagnation, Despite the Monthly Jump. Released by the National Association of Realtors (NAR) on December 20th, Existing-Home Sales (closings of home sales) rose month-to-month by 5.64% in November, following a revised monthly gain of 2.42% [previously 2.04%] in October, an unrevised gain of 0.37% in September, and unrevised monthly declines of 1.65% (-1.65%) in August and 1.27% (-1.27%) in July.

November 2017 year-to-year growth jumped to the plus-side (see earlier comments on seasonal adjustment distortions) to 3.75%, versus a narrowed, revised annual decline of 0.54% (-0.54%) [previously down 0.90% (-0.90%)] in October 2017, an unrevised annual decline of 1.83% (-1.83%) in September 2017 and unrevised annual gains of 0.19% in August 2017 and 2.06% in July 2017.

Third-quarter 2017 activity contracted for the second straight quarter, at a deepening annualized pace, down by 12.11% (-12.11%), following an annualized decline of 3.97% (-3.97%) in second-quarter 2017. Based solely on headline October and November 2017 detail, fourth-quarter 2017 activity now is on an early-trend for annualized growth of 21.46% [that had been 7.11% based solely on initial October reporting].

Proportion of Distressed Sales Held at 4% in October, and All-Cash Sales Rose to 22%. In the context of consumer liquidity constraints discussed in the prior *New-Home Sales* section (see also today's *Consumer Liquidity Watch*) the NAR estimated the portion of November 2017 sales in "distress" at 4% (3% in foreclosure, 1% short sales), the same level and proportions seen in October 2017, but down from 6% (4% in foreclosure, 2% short sales) in November 2016. The NAR began surveying such detail in October 2008. Consider, though, that October 2008 already was more than three years into the housing-market collapse.

Reflecting ongoing lending problems and continuing 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 all-cash sales rose to 22% in November 2017, up from 20% October 2017 and 21% in November 2016.

Graphs 22 to *25* in the *Executive Summary* plot the Existing-Home Sales series, along with comparative graphs of the related Housing Starts series. *Graphs 18* to *21* plot the New-Home Sales series along with comparative graphs of the related Single-Unit Housing Starts series.

[The* Consumer Liquidity Watch *begins on the next page.]

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[The text has not been revised from prior Commentary No. 927.]

Consumer Liquidity Stresses Continue to Constrain Broad Economic Activity. The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales, Housing and the impacted Manufacturing/Production sector, net of what have been mixed, but significant, near-term hurricane distortions. Those distortions broadly should have passed from headline economic reporting by January 2018 headline detail. Those effects have been and will continue to be discussed in separate analyses of the relevant series.

Where those series have faced near-term, disaster-triggered reporting disruptions, liquidity stresses nonetheless intensified, at least temporarily, in hurricane-hit regions of the United States, where, for example, related September and October 2017 employment/ unemployment details were heavily disrupted/distorted (see *Commentary No. 919-B*).

Liquidity Issues Limit Economic Activity**.** Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the inability and/or unwillingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Mirroring the economic hype in the popular press, consumer optimism had rallied strongly in recent months, although monthly changes have begun to falter anew. The “strong” reading in November 2017 Consumer Confidence was the highest level seen since December 2000, when the confidence number was collapsing into the onset of the 2001 recession, still the early-December 2017 reading of Consumer Sentiment has continued to back off its recent multi-year peak.

Including the various consumer income stresses discussed in *Special Commentary No. 888*, broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a turnaround in general economic activity—a post “Great Recession” expansion—and broadly are consistent with a “renewed” downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73% of the headline real, third-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most in the *Executive Summary* of *Commentary No. 923*.

Anecdotal Evidence of Business and Consumer Uncertainty Continue to Indicate a Seriously-Troubled Economy and Very Dangerous Financial Markets. Against what appears to be a headline economic consensus that all is right again with the U.S. economy and financial markets, underlying real-word common experience suggests a much different outlook. Regularly discussed here, ongoing non-recovery, low-level stagnation and signs of renewed downturn remain patterns common to key elements of headline U.S. economic activity. Consider factors ranging from housing sales and broad construction activity, to headline reporting of domestic manufacturing, as well as those series that are heavily gimmicked, such as the Gross Domestic Product (GDP), also regularly discussed and dissected here.

Similar signals of such economic stress are seen in patterns of activity that move along with the real-world broad economy. They range from indicators such freight volume and domestic consumption of petroleum to factors such as levels of real consumer debt outstanding, real average weekly earnings and measures of employment stress in the broad economy. Those stresses are reflected in historically-low levels of the employment-population ratio and the labor-force participation rate. With the liquidity-starved U.S. consumer driving three-quarters of the GDP, there is no way for the broad economy to boom—happy Retail Sales headlines aside—without some meaningful shift in underlying consumer circumstances. Links to background discussions in these various areas are found in the *Recent Commentaries* of the *Week, Month and Year Ahead Section*, along with links to background discussions on the quality of the more-politicized GDP and employment/unemployment details.

Beyond assessing headline economic numbers, ShadowStats also looks at anecdotal evidence, including comments by subscribers and clients, who live in the real world. Two broad observations have come from a number of recent conversations. First, real estate activity appears to be slowing in recently strong areas. Second, a number of major companies are "sitting on their hands," holding back on issuing new contracts to third-party vendors in areas such as upgrading computer systems and other consulting. The companies cite the slowdown in contracts as "due to uncertainty," an issue, as well with the U.S. consumer, where that uncertainty encompasses:

- Unfolding circumstances in the Washington, D.C. political arena.
- Where the manic financial markets are headed.
- Ultimately what is, or will be, happening to near-term business activity?

Economic reporting, and business and financial-market stories sometimes receive happy year-end spikes in the press. That circumstance has been supplemented in late 2017 by near-term hurricane boosts to, and distortions of, some current economic activity, such as the recent November Retail Sales reporting. The latter circumstance should prove fleeting. The underlying, broadly-faltering U.S. economy should be dominating headline economic reporting, once again, and all too soon, most likely early in 2018. That said, reflecting the headline hype in the popular press, headline consumer optimism remains strong.

Consumer Optimism: November Consumer Confidence and Early-December Sentiment Continue Mixed in Direction; Confidence Is at Highest Level Since It Collapsed into the 2001 Recession but Sentiment Is Pulling Back. This detail reflects the November 2017 readings of The Conference Board's Consumer-Confidence Index® (Confidence) as of November 28th and the early-December reading of the University of Michigan's Consumer Sentiment Index (Sentiment) as of December 8th. Reflected in *Graphs CLW-1* and *CLW-2,* both Confidence and Sentiment jumped sharply to multi-year highs in October, but the November Sentiment reading pulled back sharply and continued to do so in early-December, retrenching from its October jump. November Confidence jumped to a new 17-year high, the strongest reading since December 2000 when that series was plummeting into the 2001 recession. That December 2000 reading still was down by 10.5% (-10.5%) from the series high in May of 2000.

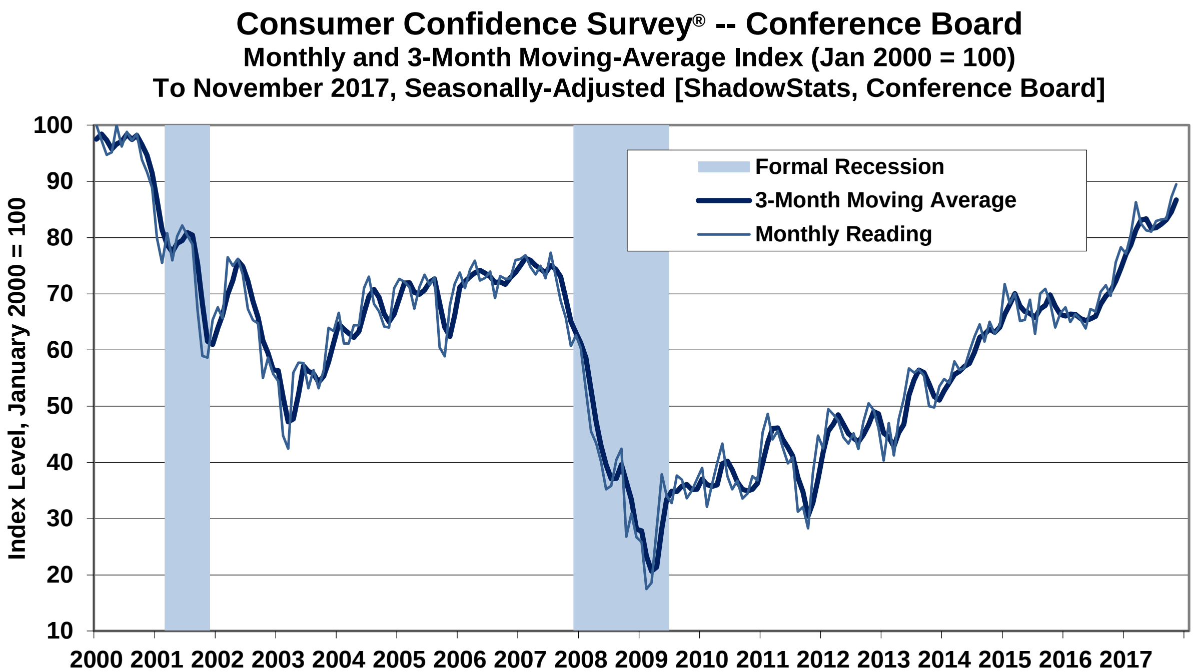
A year or so ago September 2016 Confidence and Sentiment jumped and then plunged in October 2016, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting surges in consumer optimism into early-2017. Both series then topped and pulled back, with mixed numbers into August and September 2017, but with the October 2017 Sentiment measure showing an large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*)? Nonetheless, the Sentiment measure retrenched in November and early-December. The Conference Board blamed hurricane impact in Texas and Florida for its downturn in September 2017 Confidence, but those numbers exploded into October and November 2017.

For both the Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), the three-month moving averages also are above pre-2007 recession highs, with Confidence hitting levels last seen falling into the 2001 recession, yet the still-high moving averages also had begun to falter in September 2017, before the unusual October and November surges.

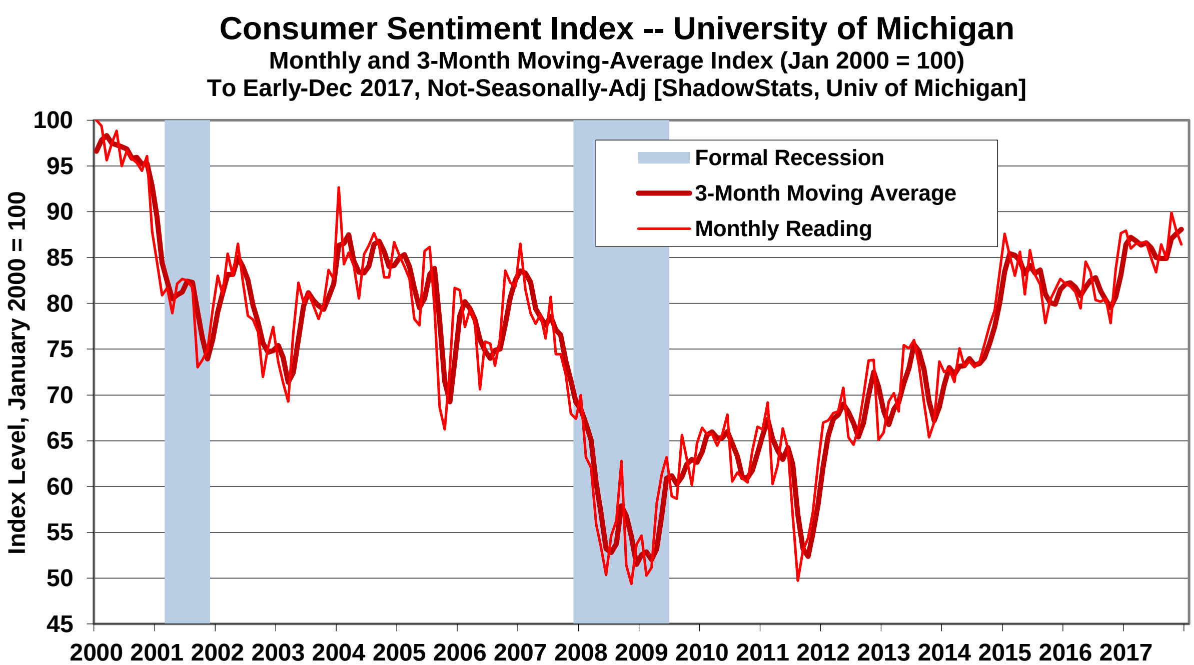
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. Recent headlines have been highly positive on the economy, reflecting short-lived hurricane distortions particularly on unemployment (not payroll employment), retail sales and industrial production. Headline financial and economic reporting in the next month or two should turn increasingly-negative and unstable.

Graph CLW-1: Consumer Confidence (2000 to 2017)



Graph CLW-2: Consumer Sentiment (2000 to 2017)

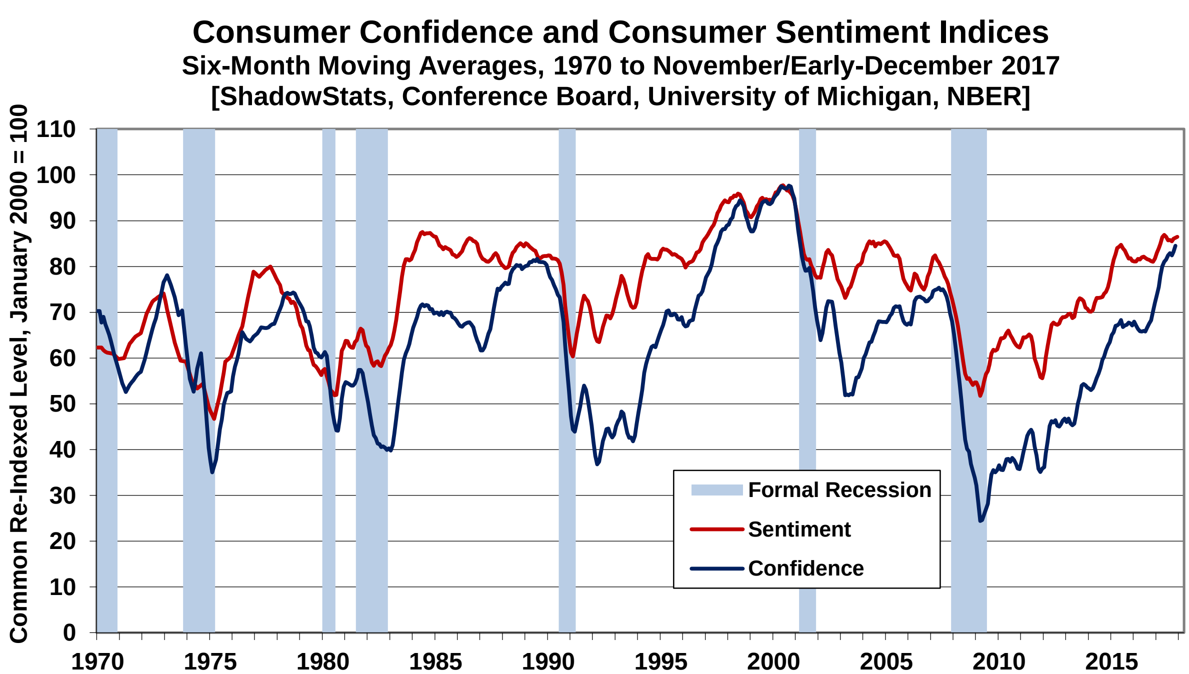


With near-term headline financial and economic reporting increasingly suggestive of a renewed and intensifying downturn likely in the next couple of months, successive negative hits to both the confidence and sentiment readings are increasingly likely in the near future, again, despite the artificial, headline-spiked October and November 2017 readings. Again, they likely were built upon some temporary or faux, hurricane-boosted data, which already have begun to unwind (see *Commentary No. 922* and *Commentary No. 923*).

Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

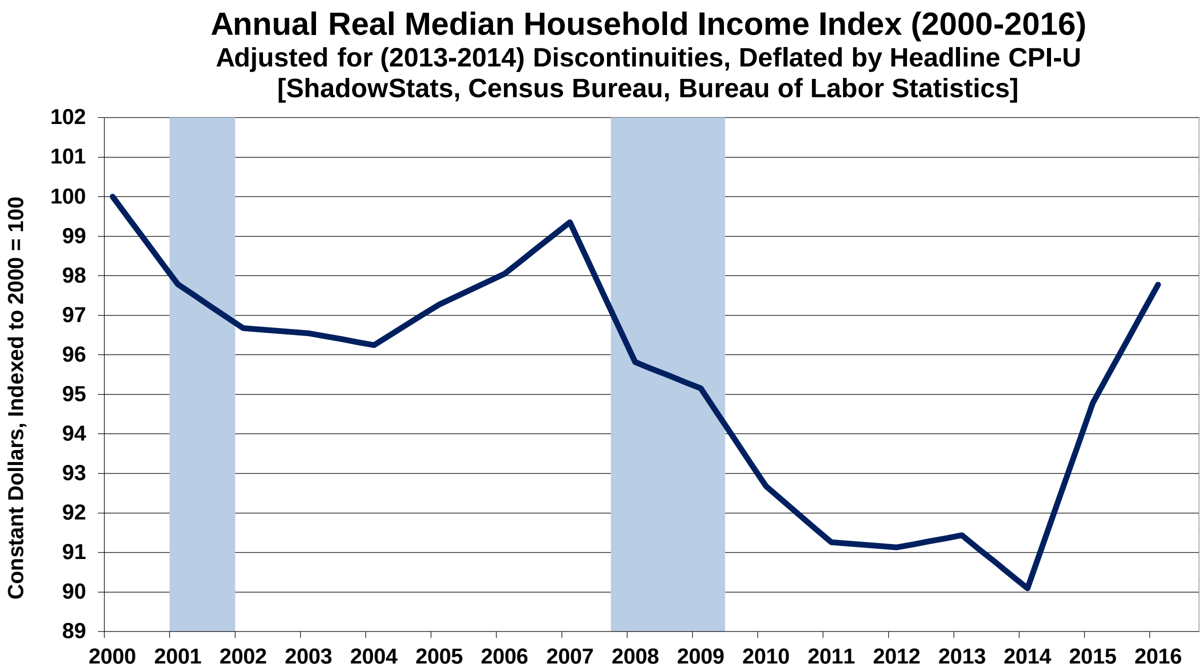
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)

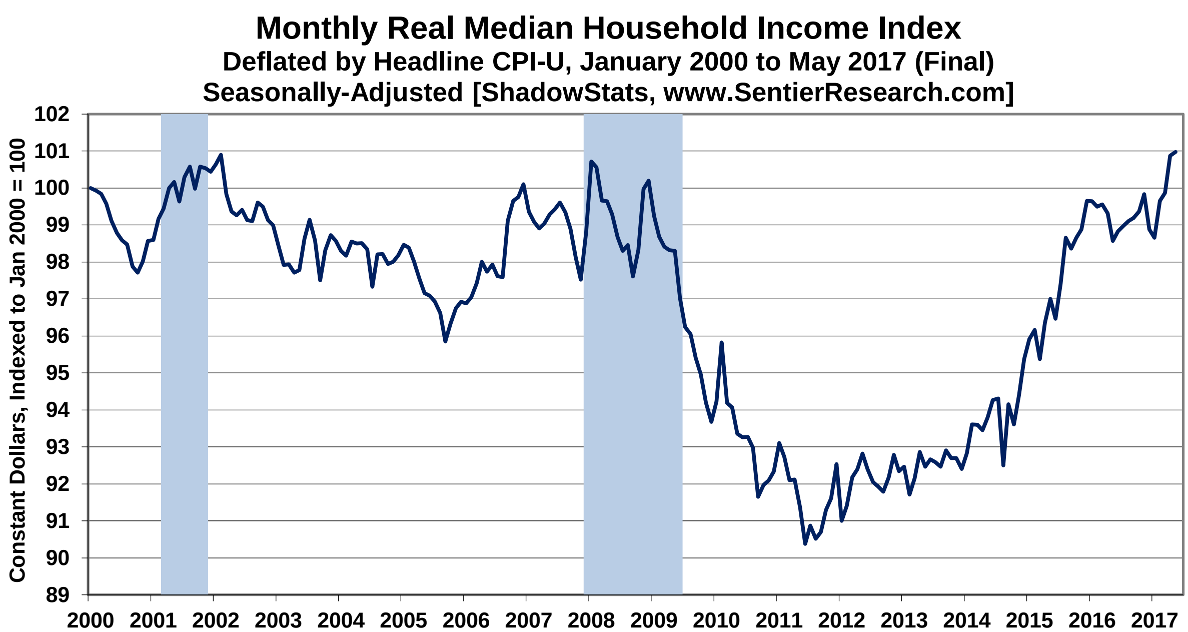


2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*.

Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)



Graph CLW-5: Monthly Real Median Household Income (2000 to May 2017) Index, January 2000 = 100

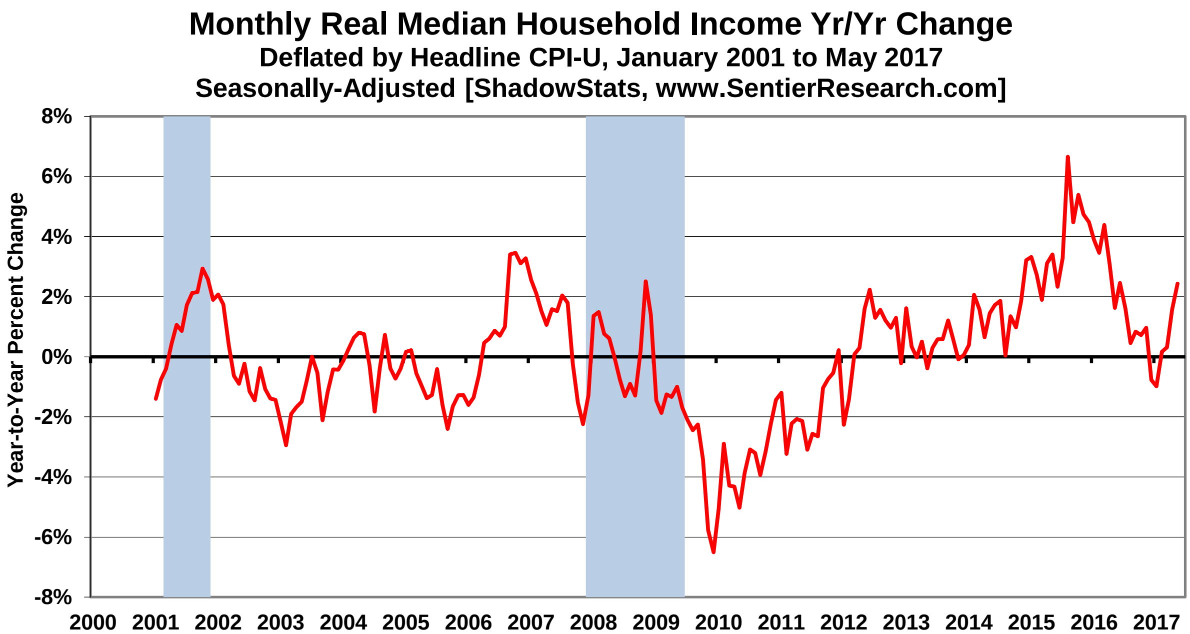


The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity see in the mid-1970s (see *Graph OC-1* in *No. 909*). The Sentier

details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in *General Commentary No. 894*, and in the contexts of then-faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (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%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-4*, such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CLW-5*). The May detail, however, may have been the final reporting of the monthly series (see the *Special Note* that follows).

Graph CLW-6: Monthly Real Median Household Income (2000 to May 2017) Year-to-Year Change



Where real monthly median income plunged into the headline 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. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

Nonetheless, the most-recent recent "rebound" reported in the series still 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 was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, 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.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of *Commentary No. 909*) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

***Special Note*:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

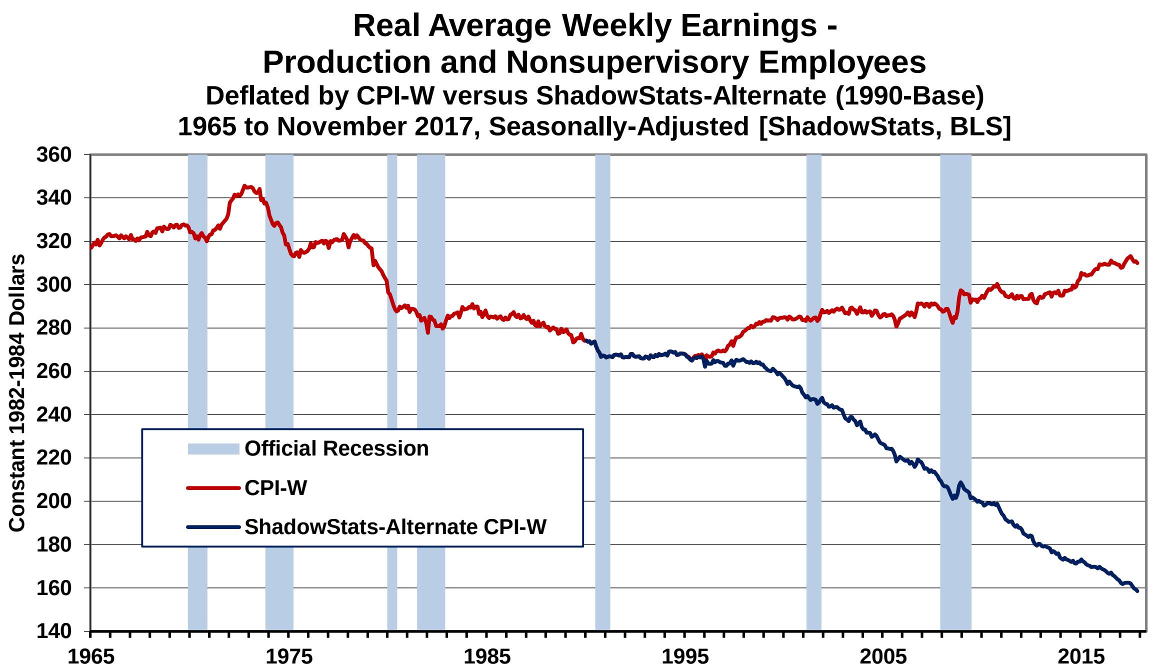
> Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see *Commentary No. 833* for the 2015 detail published in 2016.

Real Average Weekly Earnings—November 2007—Monthly Real Earnings Continued to Contract, Fourth-Quarter on Solid Track for Second Consecutive Quarterly Contraction. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on in today's *Reporting Detail*, the regularly-volatile, real average weekly earnings declined month-to-month in November 2017, the third month down in the last four. With a revised, deepened quarterly contraction for third-quarter 2017 activity, the quarterly contraction unfolding for fourth-quarter 2017 also deepened, with two out of three months in place.

Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

Graph CLW-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date

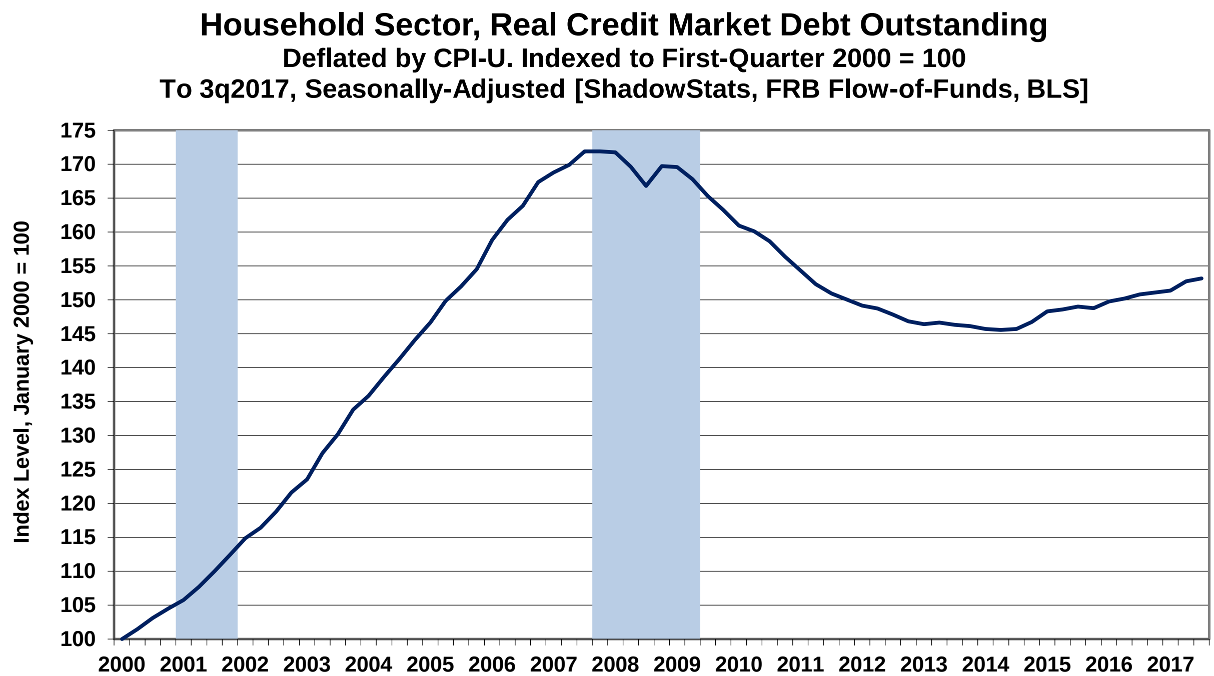


Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Quarterly Series. Consider *Graph CLW-8* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through third-quarter 2017, released on December 7th. Household Sector, Real Credit Market Debt Outstanding in third-quarter 2017 still was down by 10.9% (-10.9%) from its pre-recession peak of third-quarter 2007. That was against a second-quarter 2017 decline of 11.2% (-11.2%). The flattened visual uptick at the latest point in *Graph CLW-8* reflected a slowing in real year-to-year change from 1.70% in second-quarter 2017, to 1.55% in third-quarter 2017.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016 and intermittently into second-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-9* to *CLW-11*.

Graph CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Third-Quarter 2017)



Monthly Series. The ShadowStats analysis usually focuses on the particular current and continuing weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following three graphs are so plotted.

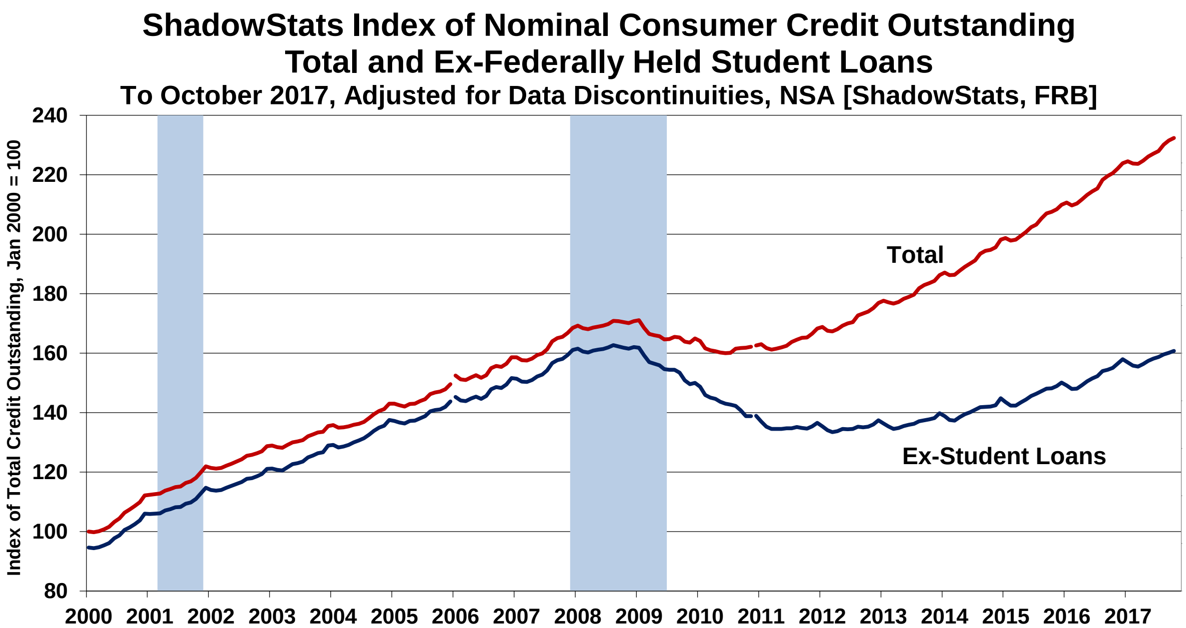
Shown through the October 2017 reading (released December 7th), *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of the preceding *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, real or inflation-adjusted activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CLW-10) and year-to-year change (*Graph CLW-11*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

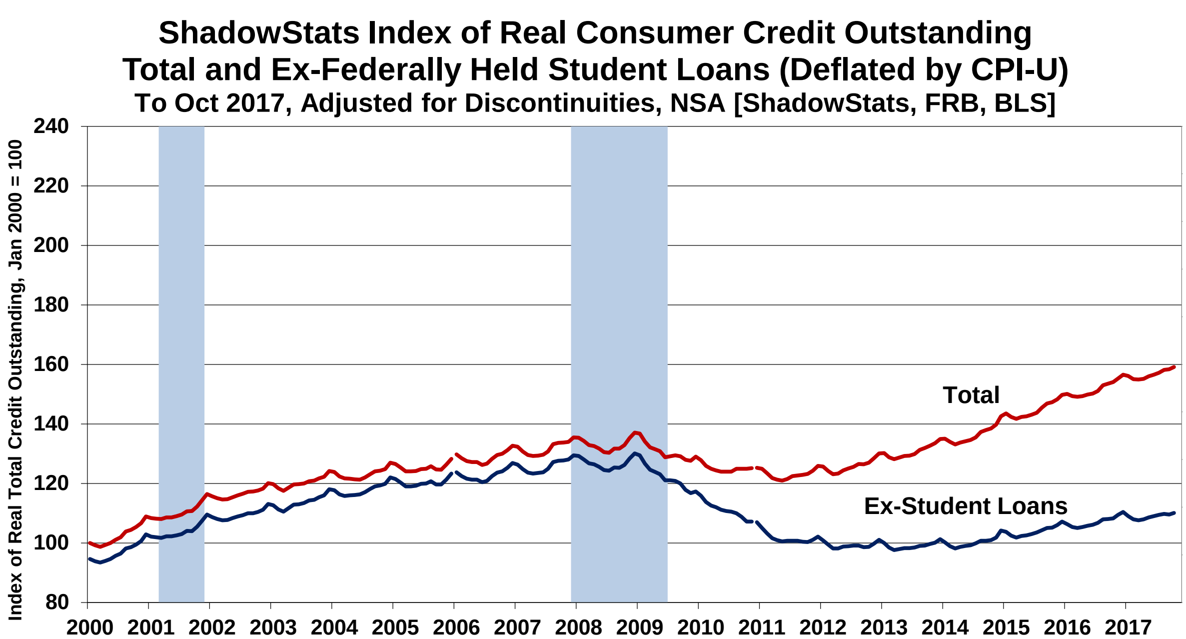
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in

October 2017 was down from its December 2007 pre-recession peak by 15.0% (-15.0%) [that previously had been down by 12.3% (-12.3%) in June 2017, before a recent downside revision to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

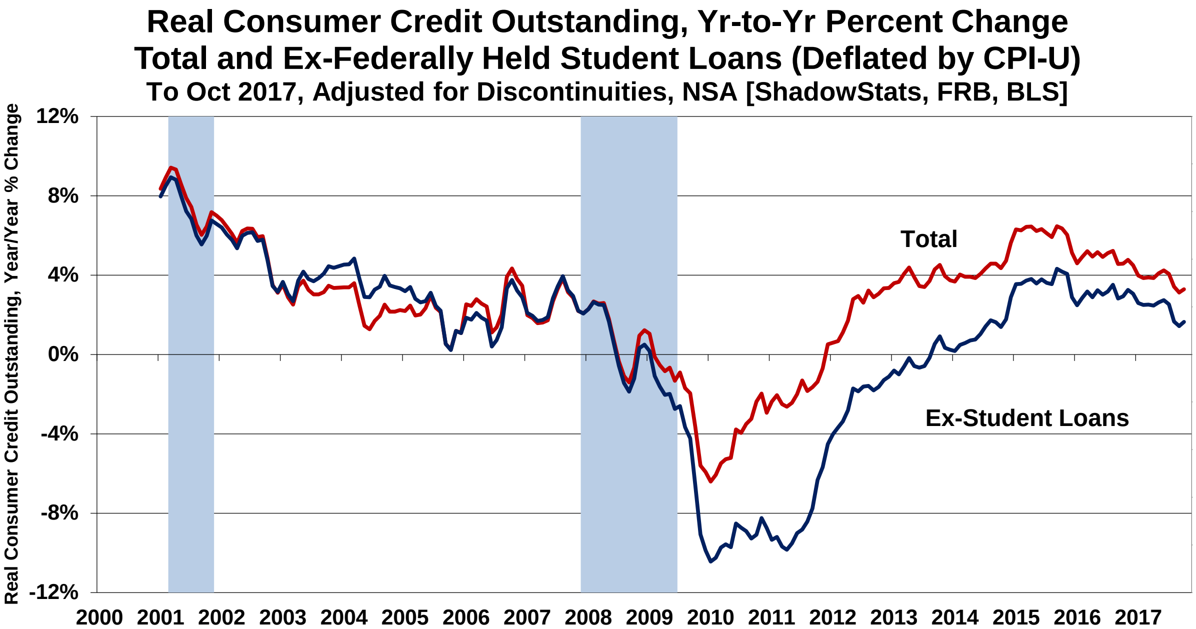
Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CLW-10: Real Consumer Credit Outstanding (2000 to 2017)



Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



WEEK, MONTH AND YEAR AHEAD

U.S. Dollar and Financial-Market Instabilities and Turmoil Remain at High Risk, Along with Continued Deterioration of Domestic and Global Economic and Political Circumstances. Irrespective of heavy press hype to the contrary, and in the context recent FOMC tightening, despite Federal Reserve Chair Yellen's perception of a "highly uncertain" economic outlook, the economy indeed is not recovering or booming. Allowing for hurricane disruptions and recovery from same, most series should be back to normal, reflecting "unexpected" downtrending economic activity, by the time of headline reporting for most of January and February 2018 economic activity.

Negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside. As the reported the economic downturn intensifies, the FOMC most likely will be forced into an "unexpected" policy retrenchment, moving back towards quantitative easing as outlined in Federal Reserve policy.

In such circumstances, the U.S. dollar and financial markets remain at extraordinarily-high risk of panicked declines, increasingly likely in the very near term. The *Opening Comments* and an expanded *Hyperinflation Watch* of Commentary No. 927 reviewed some background to real-world economic conditions, continuing from the *Opening Comments* and brief *Hyperinflation Watch* of *Commentary No. 925*. Those comments speak for themselves.

Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, in the context of liquidity and portability during times of high inflation and currency debasement, and/or political-system upheaval, discussed regularly here. See the comments linked to other recent *Hyperinflation Watches*, provided in the next section.

Following this note, other than for the *Pending Releases* (there are no major releases in the week ahead) and updated links, language changes in this section from the prior *Commentary No. 927* are minimal. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

***Recent* Hyperinflation Watch *and* Special Comments.** Previous background to the markets and potential near-term FOMC activity have been reviewed recently in the *Hyperinflation Watches* of *Commentary No. 920* and *Special Commentary No. 918-B* of October 30th, with the nomination for the new Fed Chairman, as touched upon in the *Hyperinflation Watch* *Commentary No. 919-A* of November 3rd, not likely to have immediate, near-term market impact.

Discussed in *Hyperinflation Watch* of *Commentary No. 909*, given the continuing and broadening weakness in the U.S. economy and shifting political instabilities/circumstances in Washington, mixed pronouncements of sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely to solidify as promised. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace.

In the context of the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904* and the *Opening Comments* of *Commentary No. 905*, underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters.

Unfolding circumstances still threaten the promised shift in FOMC policy, combined with the mounting political discord discussed in *Special Commentary No. 904* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never recovered fully from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of *Commentary No. 899* and *General Commentary No. 894*, and further to the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting during June, July and early August of 2017, had shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include 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. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued 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. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Generally, 2017 benchmark revisions to Construction Spending (see *Commentary No 897*), the Trade Deficit (*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*), and reporting subsequent to the benchmarks, confirmed that historical activity in recent years has been overstated and/or that it was turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite some recent near-term improvement in details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, 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 reporting shows an otherwise unconfirmed economic expansion of 14.4%.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but still 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. Increasing and continuing 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 they cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will intensify well before the 2018 Congressional Election will have any chance to stabilize the political outlook for economic policy.

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, have continued in play and, again, need to be addressed by the Trump Administration and Congress (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 not 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: *Commentary No. 902-B*, *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 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. *[Listed here are* Commentaries *of the last month or so, plus recent* Special Commentaries *and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 927 (December 19th) reviewed November 2017 New Residential Construction (Housing Starts and Building Permits), along with an expanded discussion on underlying economic reality and the financial markets.

Commentary No. 926 (December 15th) reviewed the headline November 2017 numbers for Retail Sales (both real and nominal), and Industrial Production, along a discussion on the dampening economic impact of business and consumer "uncertainty."

Commentary No. 925 (December 13th) reviewed November 2017 headline detail on the CPI and PPI, along with an update on the FOMC actions and the regular U.S. dollar, gold graphs.

Commentary No. 924 (December 8th) discussed the November 2017 Employment and Unemployment details and Conference Board Help Wanted OnLine® Advertising, the October Trade Deficit and Construction Spending and updated Monetary Conditions in November.

Commentary No. 923 (November 29th) covered the second estimate of Third-Quarter 2017 GDP, including initial estimates for Third-Quarter GNP, GDI and Per Capita Real Disposable Income, the October Trade Deficit, Cass Freight Index and New-Home Sales.

Commentary No. 922 (November 22nd) reviewed October 2017 New Orders for Durable Goods and Existing-Home Sales.

Commentary No. 921 (November 17th) reviewed October 2017 Industrial Production, Housing Starts and Building Permits.

Commentary No. 920 (November 15th) reviewed October 2017 Retail Sales along with the monthly Consumer and Producer Price Indices (CPI and PPI) and updated *Hyperinflation Watch*.

Commentary No. 919-B (November 6th) provided more in-depth detail on the October 2017 labor detail.

Commentary No. 919-A (November 3rd) provided initial detail and background on October labor data, and reviewed the October 2017 Conference Board Help Wanted OnLine® Advertising, the September Cass Freight Index™, Trade Deficit and Construction Spending, and updated Monetary Conditions.

Special Commentary No. 918-B (October 30th) provided a more comprehensive review of the initial third-quarter 2017 GDP detail, along with update versions of the *Hyperinflation Watch* and *Consumer Liquidity Watch*.

Advance Commentary No. 918-A (October 27th) provided a brief summary of the headline detail of the first or "advance" estimate of third-quarter 2017 GDP.

Commentary No. 917 (October 26th/27th) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

Commentary No. 916 (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

Commentary No. 915 (October 6th) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

Commentary No. 913 (September 28th) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

Commentary No. 910 (September 15th) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14th) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an updated *Alert* on the financial markets

Commentary No. 908-B (September 6th) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

Special Commentary No. 904 (August 14th) issued an "Alert" on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident "advance" estimate of second-quarter 2017 GDP.

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

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. 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.

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.

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. 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 New- and Existing-Home Sales.

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™.

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.

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 RELEASES: No Major Releases Are Scheduled for Next Week.

