

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

COMMENTARY NUMBER 937

**January Durable Goods Orders, New- and Existing-Home Sales, Trade, Freight Index**

**February 27, 2018**

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**First-Quarter 2018 Real Merchandise Trade Deficit on Early Track for  
Worst Shortfall in Modern Reporting**

**January 2018 New Orders for Durable Goods Tumbled Month-to-Month,  
Both Before and After Considering Inflation and Commercial Aircraft Orders**

**New- and Existing-Home Sales Declined Month-to-Month and Year-to-Year,  
Holding Shy of Pre-Recession Peaks by 57.3% (-57.3%) and 26.0% (-26.0%)**

**Freight Index Jumped Sharply Year-to-Year But Continued in Non-Expansion,  
Still Shy by 12.0% (-12.0%) of Recovering Its Pre-Recession High**

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*PLEASE NOTE: The next regular Commentary on Thursday, March 1st, will cover January Construction Spending and the second estimate of Fourth-Quarter 2017 GDP.*

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

**Today's (February 27th) Opening Comments and Executive Summary.** The *Opening Comments* reviews the “advance” January 2018 trade deficit estimate and the January CASS Freight Index™, all in the context of broadly weakening headline activity. The *Executive Summary* (page 9) provides an overview of the January New Orders for Durable Goods and New- and Existing-Home Sales series.

The *Reporting Detail* (page 20) reviews in greater depth the reporting of the January 2018 New Orders for Durable Goods and New- and Existing-Home Sales.

The *Consumer Liquidity Watch* (page 28) has been updated for the February estimate of the Conference Board's Consumer Confidence.

The *Week, Month and Year Ahead* (page 42) provides background on recent *Commentaries* and some outlook for the first revision to Fourth-Quarter 2017 GDP and the initial estimate of January 2018 Construction Spending.

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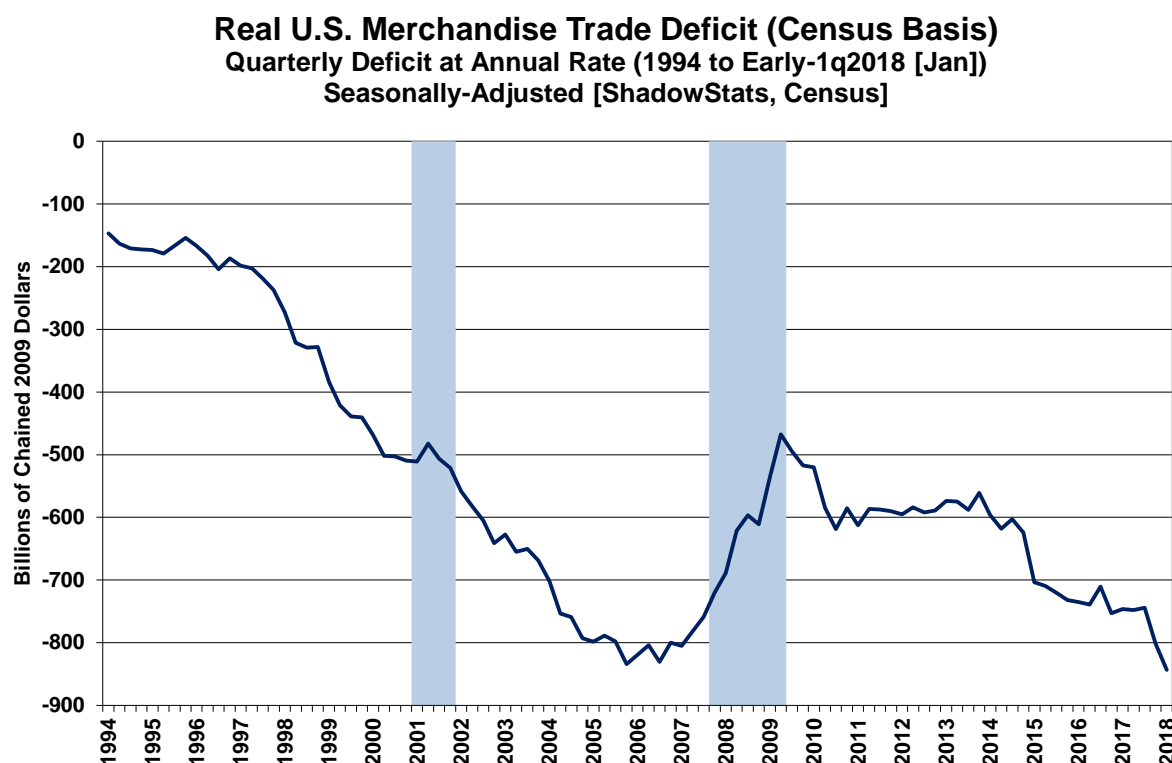
## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Market Economic Sentiment Should Continue to Falter: As Headline January Activity Provides Further Negative “Surprises,” First-Quarter GDP Contraction Becomes Increasingly Likely.** The financial-market expectations for U.S. economic activity appeared to soften last week, following weaker-than-expected headline retail sales and industrial production, and impaired housing starts. That pattern has continued this week, with both new- and existing-home sales and new orders for durable goods weaker than expected. At play is the continued unwinding of a string of disaster-induced economic distortions and boosts that began with late-August 2017 Hurricane Harvey hitting the Texas Gulf Coast. Discussed in [Commentary No. 936](#), those disaster-recovery economic boosts likely peaked in November 2017. Before the disaster disruptions, the general economy appeared to be stagnating or turning down anew. That pattern should resume. Exacerbating the increasingly negative headline trends was this morning's release of a worse-than expected “advance” estimate of the January 2018 trade deficit in goods.

**January 2018 “Advance” Goods Deficit Showed First-Quarter 2018 on Track for Worst Real Merchandise Trade Deficit Ever Reported.** Based on a worse-than-consensus “advance” estimate of the January 2018 Trade Balance (Deficit) in Goods, ShadowStats estimates that the real Merchandise-Trade Deficit is on early track to widen sharply for first-quarter 2018. Where the fourth-quarter 2017 deficit was the worst such showing since first-quarter 2007, as reflected in *Graph OC-1* (see [Commentary No. 933](#)), the early reporting trend now has the first-quarter 2018 real-Merchandise-Trade Deficit on track for its worst showing in the history of the series.

The “advance” January trade deficit in goods was released this morning, February 27th, by the Census Bureau and the Bureau of Economic Analysis, coming in at a nominal monthly deficit of \$74.395 billion, versus an unrevised \$72.258 billion in December 2017. Initial full detail on the January deficit will be published on March 7th and covered in *Commentary No. 938* on March 9th. The early reporting here also is a strongly-negative indication for first-quart 2018 GDP activity.

**Graph OC-1: Real U.S. Merchandise Trade Deficit (1994 to Early-1q2018, "Advance" Jan 2018)**



**January 2018 Freight Index Annual Growth Jumped Sharply; Still in Non-Expanding, Albeit Uptrending Activity, Shy by 12.0% (-12.0%) of Recovering Its Pre-Recession High.** The [Cass Freight Index](#)<sup>TM</sup> is an independent, reliable private indicator of real-world economic activity and shifting business patterns. January 2018 Index detail was posted February 22nd.

Continued low-level non-expansion in the broad economy and general business activity were reflected, once again, in the new headline numbers, although annual growth continued to rise and an increasing pace, reversing sharply recent patterns of slowing year-to-year gain.

Based on the twelve-month trailing average of the freight index, which is used to eliminate seasonality in the unadjusted series (see the *General Background to the Freight Index*), activity remained in low-level, albeit minimally-uptrending stagnation, down by 9.09% (-9.09%) from recovering its formal pre-recession high, down by 11.97% (-11.97%) from its precursor peak (see *Graph OC-2*).

For the fourteenth consecutive month, the fifteenth month in the last sixteen, year-over-year change in monthly index was positive, turning sharply higher in January 2018, having started to pick up in November 2017, after several months of slowing growth (see *Graph OC-5*). Annual growth had hit a near-term peak of 7.06% in May 2017, falling back to 4.77% in June 2017, slowing to 1.35% in July 2017, rebounding to 3.86% in August 2017, falling back anew to 3.24% in September 2017 and to 2.85% in October 2017, then it rebounded to 6.26% in November 2017, to 7.17% in December 2017 and now to 12.54% in January 2018.

A consecutive string of nineteen months of annual contraction in the Freight Index began in March 2015 and was consistent with the “new” recession signal following the Industrial Production peak in November 2014. Headline industrial production showed a string of twenty-one consecutive months of year-to-year contraction beginning April 2015, a pattern never seen outside of formal economic recession in the 100-year history of the Industrial Production series. Comparative growth patterns of the Freight Index versus New Orders for Durable Goods, and the related dominant Manufacturing Sector of Industrial Production are reflected in *Graphs OC-2 to OC-4* as to level and in *Graphs OC-5 to OC-7* as to year-to-year change.

The recent, repeating pattern of year-to-year monthly gains in the Cass Index has excited trucking industry speculation that the recession in freight activity had hit bottom, and increasingly that appears to be the case. Even with the increased annual gain in January 2018 activity, though, the current patterns of smoothed levels of activity and year-to-year gains have yet to break out of the non-recovery pattern of the last seven years and to enter a period of new expansion, once breaking above its pre-recession peak activity. Again, as shown in *Graphs OC-2 to OC-4* monthly activity, although not recovered is uptrending.

Discussed in [Commentary No. 875](#) and expanded upon in [Commentary No. 876](#) on the nature of the business cycle, when economic activity recovers, such happy growth is not clocked formally as new economic expansion, until the level of the series breaks above its pre-recession high.

Noted earlier, the ShadowStats smoothed headline reading on the Cass Freight Index, through January 2018 (*Graph OC-2*) remained down by 11.97% (-11.97%) from recovering its preliminary pre-recession peak of September 2006, down by 9.09% (-9.09%) from recovering its formal pre-recession peak of December 2007. While the “Recovery” receives the benefit of growth off low levels of activity, the deficit in activity versus the prior peak has to be overcome before formal, economic “Expansion” begins.

Economic downturns eventually hit bottom, and the current circumstance likely will not be an exception. The economic collapse that formally has been recognized from peak activity in December 2007 to a trough in June 2009 appears to be accurate in terms of timing the trough.

The official contention remains, though, that the headline economy (the real Gross Domestic Product or GDP) fully recovered thereafter, entering a period of new and ever-expanding economic growth in second- or third-quarter 2011. ShadowStats contends that the economy never recovered fully, moving instead into a period of protracted, low-level stagnation, which began to turn down anew in December 2014, as reflected in the reporting of recent years and the last benchmark revisions to production ([Commentary No. 877](#)) and durable goods ([Special Commentary No. 888](#)). This also is seen in *Graph OC-2* in comparison with *Graphs OC-3 and OC-4* of Real Durable Goods Orders (ex-Commercial Aircraft) and the dominant Manufacturing sector Industrial Production through January 2018.

General Background to the Freight Index. [This section largely is repeated from its prior version in [Commentary No. 933](#).] Beginning with [Commentary No. 782](#) (further information is available there), ShadowStats published the detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. Freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2017, roughly 92% was attributable to the United States.

*Graph OC-2* reflects the monthly freight numbers updated through January 2018. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail in the background. ShadowStats also re-indexed the series to January 2000 = 100, consistent with other graphs used here. The headline Cass Index plot is based on January 1990 = 100. The plot of the trailing twelve-month average of the freight index shows that it hit a near-term peak in February 2015, consistent with the onset of a “new recession” in December 2014, slowing since, through September 2016, then flattening out and turning back to the upside through January 2018, re-approaching that February 2015 interim peak (again, see *Graph OC-2*).

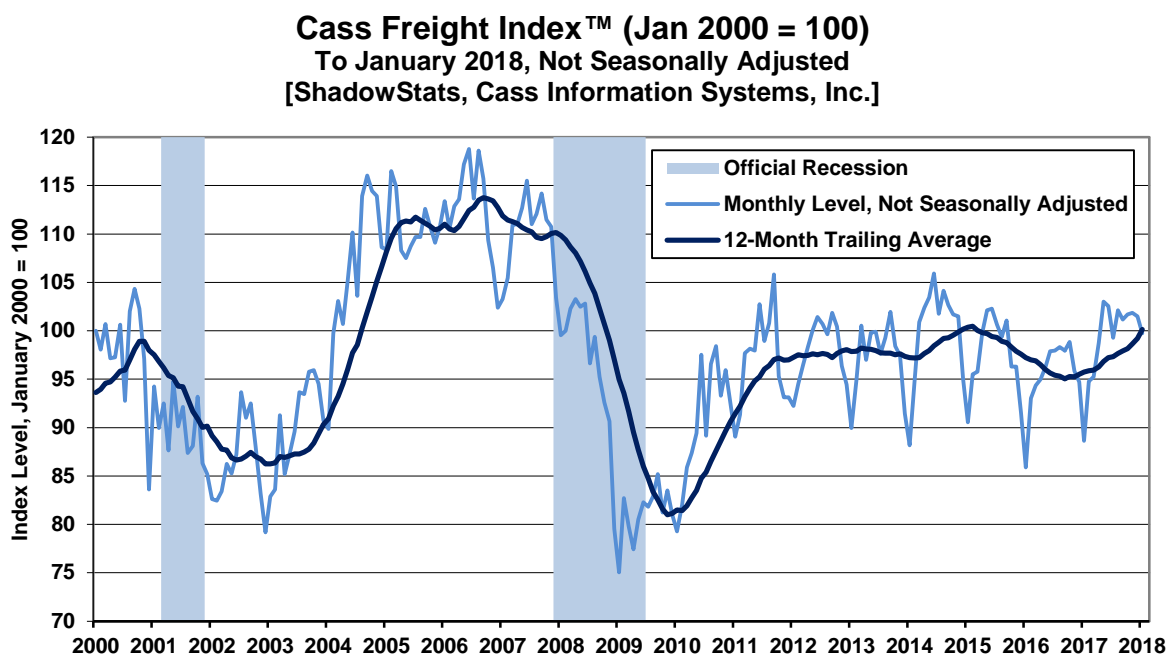
Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph OC-5*. The unadjusted monthly detail had been in continual year-to-year decline since March of 2015, down at an intensified annual rate of 3.05% (-3.05%) in September 2016. It rallied to an annual gain of 2.66% in October 2016, but fell back into year-to-year contraction of 0.05% (-0.05%) in November 2016, coming back to the plus-side by 3.46% in December 2016, but easing anew to 3.18% in January 2017, to 1.89% in February 2017 to 0.93% in March 2017, and then turned higher to 3.99% in April 2017 and 7.06% in May 2017, falling back to 4.77% in June 2017, slowing to 1.35% in July 2017, rebounding to 3.86% in August 2017 and, again, falling back to 3.24% in September 2017 and 2.85% in October 2017, then with rebounds to 6.26% in November 2017, 7.17% in December 2017 and now 12.54% in January 2018.

Again, consider for comparison purposes *Graphs OC-2* to *OC-4* of the various smoothed twelve-month moving averages and *Graphs OC-5* to *OC-7* of the various year-to-year changes in freight activity, new orders and manufacturing. Once again, with the headline, smoothed freight numbers through January 2018 down by 9.1% (-9.1%) versus its December 2007 pre-recession high, that is the growth deficit that has to be overcome before formal economic “Expansion” begins. In terms of the seasonally-adjusted January 2018 detail, real new orders (ex-commercial aircraft) was down by 7.2% (-7.2 %), with manufacturing activity down by 4.7% (-4.7%). In happy, incredulous conflict, the headline fourth-quarter 2017 real GDP detail was up by 15.2%, over the same period, against its fourth-quarter 2007 pre-recession peak.

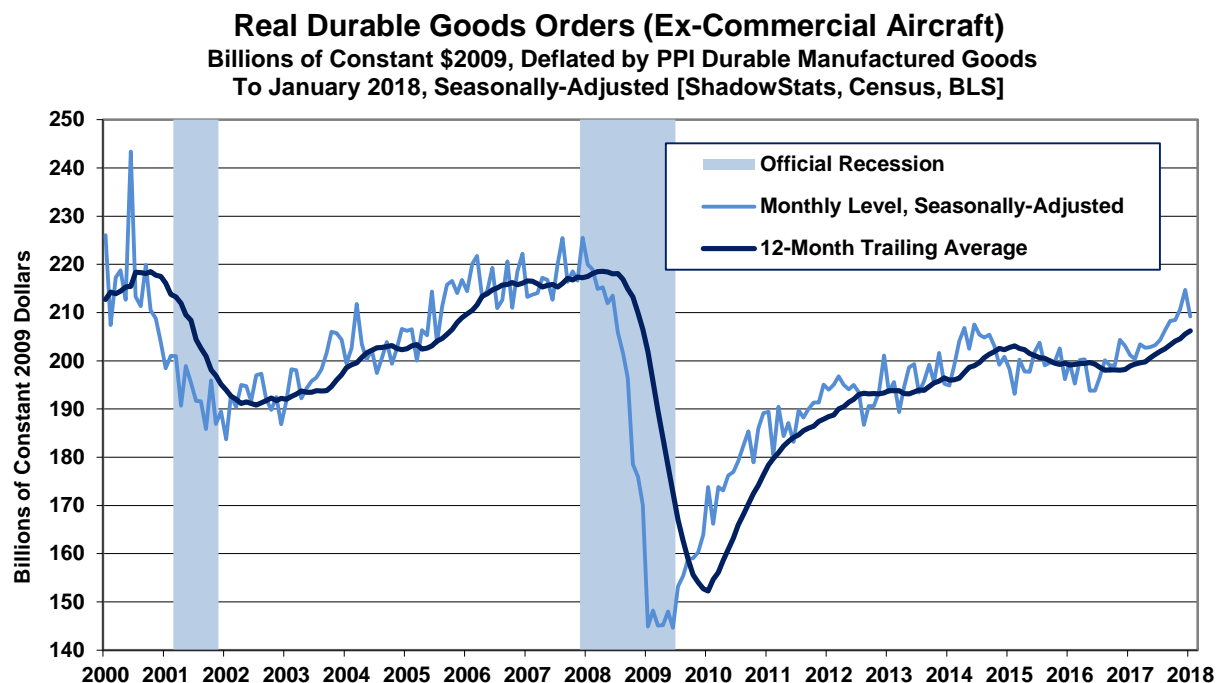
In combination, *Graphs OC-2* to *OC-4* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level, non-recovering stagnation thereafter and a renewed downturn effectively coincident with a “new” recession, which, again, likely will be timed from December 2014, whether or not it has bottomed.

[Graphs OC-2 to OC-7 begin on the next page]

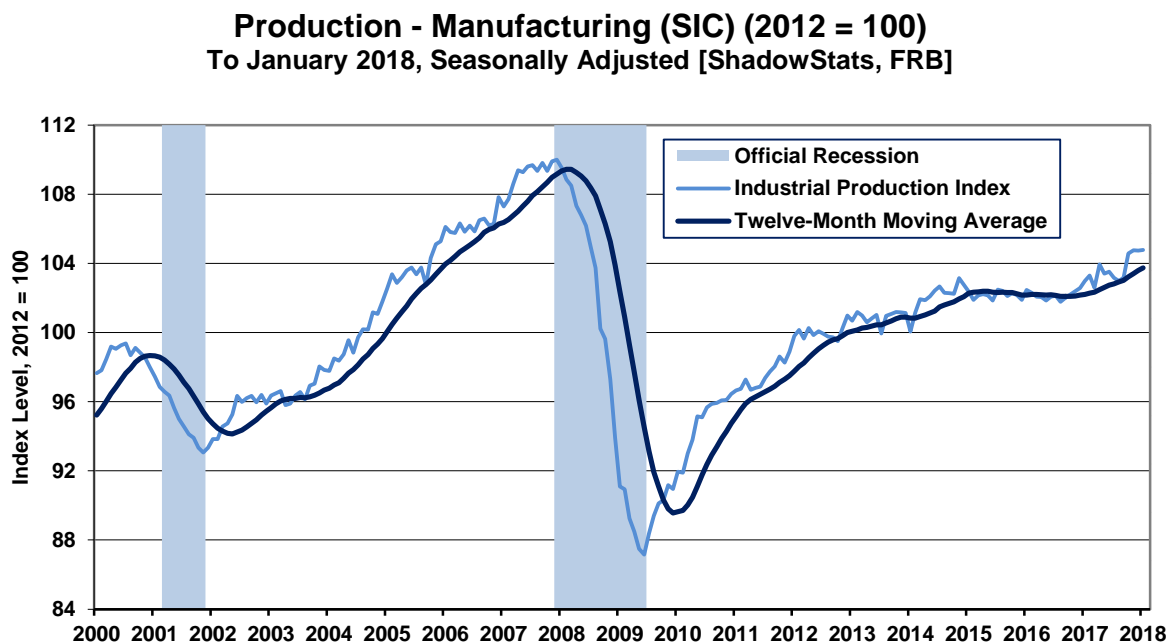
**Graph OC-2: CASS Freight Index™ Moving-Average Level (2000 to January 2018)**



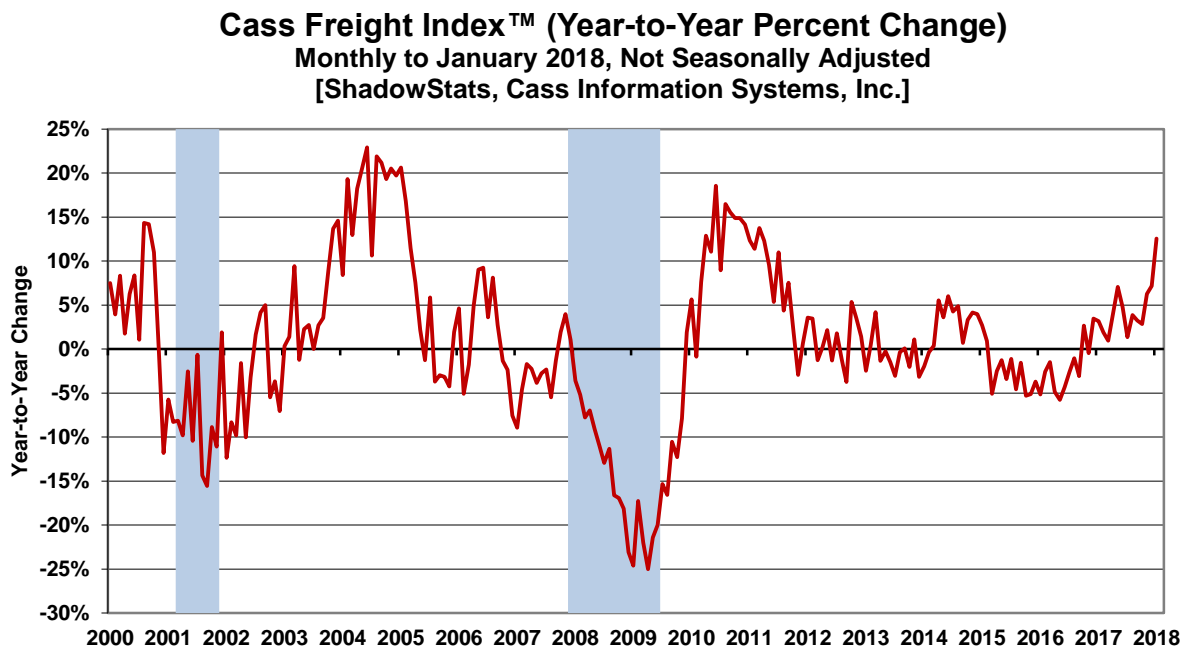
**Graph OC-3: Real Durable Goods Orders, 12-Month Moving-Average Level (2000 to January 2018)**



**Graph OC-4: Production - Manufacturing, Moving- Average Level (2000 to January 2018)**

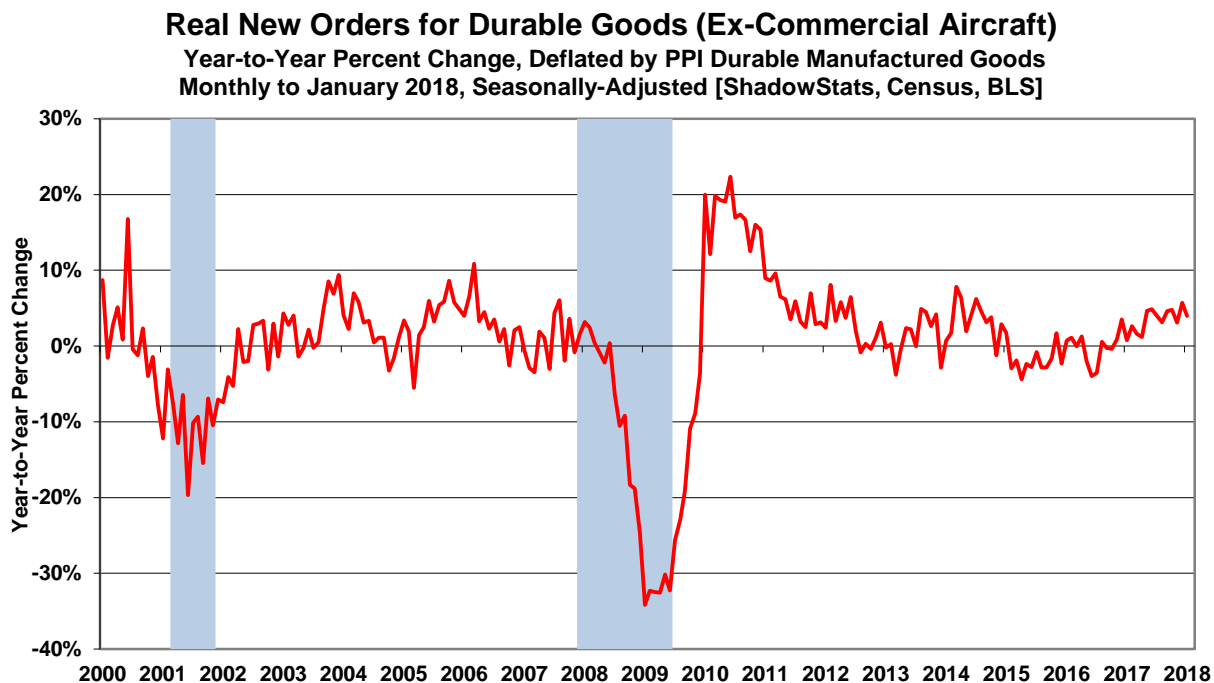


**Graph OC-5: CASS Freight Index, Monthly Year-to-Year Percent Change (2000 to January 2018)**

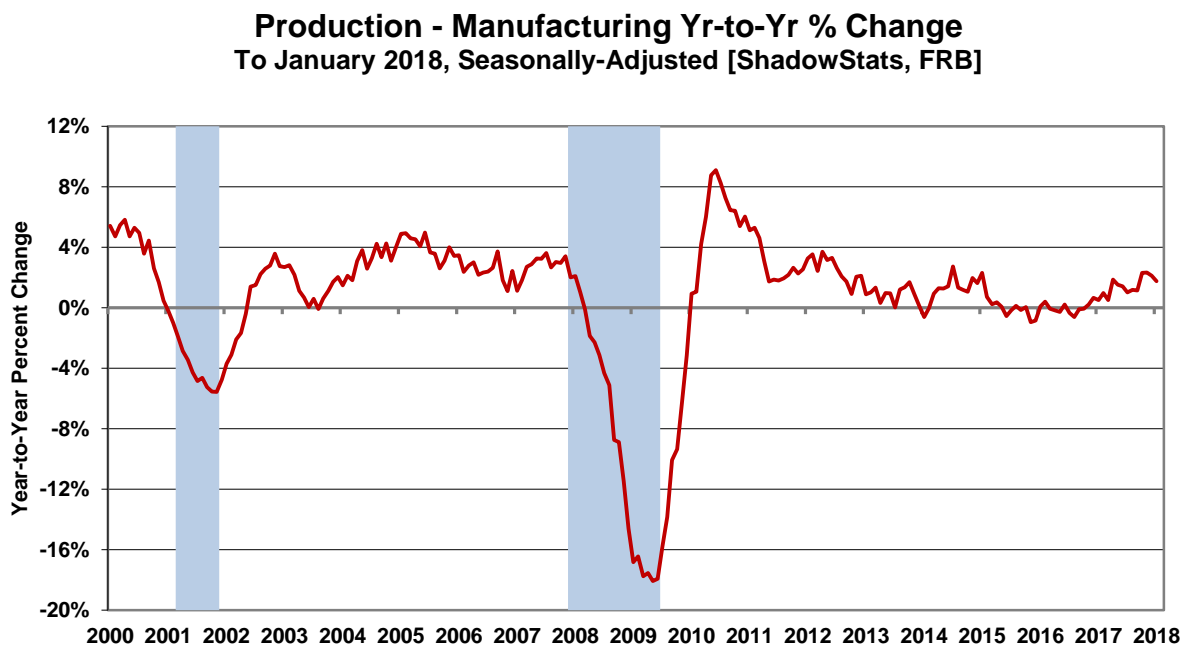




**Graph OC-6: Real Durable Goods Orders, Year-to-Year Percent Change (2000 to January 2018)**  
(Same as Graph 3 in the Executive Summary)



**Graph OC-7: Production - Manufacturing, Year-to-Year Percent Change (2000 to January 2018)**





**EXECUTIVE SUMMARY: New Orders for Durable Goods—January 2018—Orders Fell Month-to-Month, Both Before and After Consideration of Rising Inflation and Declining Aircraft Orders.**

Net of an increase of 0.4% month-to-month inflation and a monthly plunge of 28.4% (-28.4%) in the highly-irregular commercial aircraft orders, January 2018 real new orders for durable goods fell month-to-month by 2.6% (-2.6%), continuing a decade-long period of economic non-expansion. Despite a disaster-recovery induced, smoothed upside bias, the six-month moving average of that series just has begun to flatten out, along with an initial unwinding of the natural disaster impacts, as can be seen in *Graph 2*.

ShadowStats concentrates on the inflation-adjusted real New Orders for Durable Goods series, ex-commercial aircraft, as a leading indicator to the dominant Manufacturing sector of Industrial Production, and in the context of activity reflected in the Cass Freight Index<sup>TM</sup>, plotted and just discussed in the *Opening Comments*. None of those series has recovered its pre-recession high of 2007; all continue in non-recovered, non-expanding, low-level stagnation. See the comparative levels and annual growth patterns in *Graphs OC-2 to OC-7* in the *Opening Comments*.

In terms of headline detail, total nominal New Orders for Durable Goods declined month-to-month by 3.7% (-3.7%) in January 2018, having gained a downwardly revised 2.6% in December 2017 and an unrevised 1.7% in November. Nominal annual growth slowed to 6.8% in January 2018 from 11.3% in December 2017 and 8.7% in November.

Net of inflation and the volatile commercial aircraft orders, new orders declined month-to-month to month by 2.6% (-2.6%) in January 2018, having gained 1.9% in December and 1.0% in November. Year-to-year change was 4.0% in January 2018, down from 5.7% in December 2017, versus 3.1% in November 2017.

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 January 2018 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 remained at a low-level of non-recovered stagnation, albeit recently uptrending, given the now-passing natural-disaster distortions.

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 subsequent rebounds in November and December.

Starting with August and September of 2017, however, orders activity was spiked by the natural-disaster-recovery as previously discussed, a pattern that appears to have now to have passed its peak.

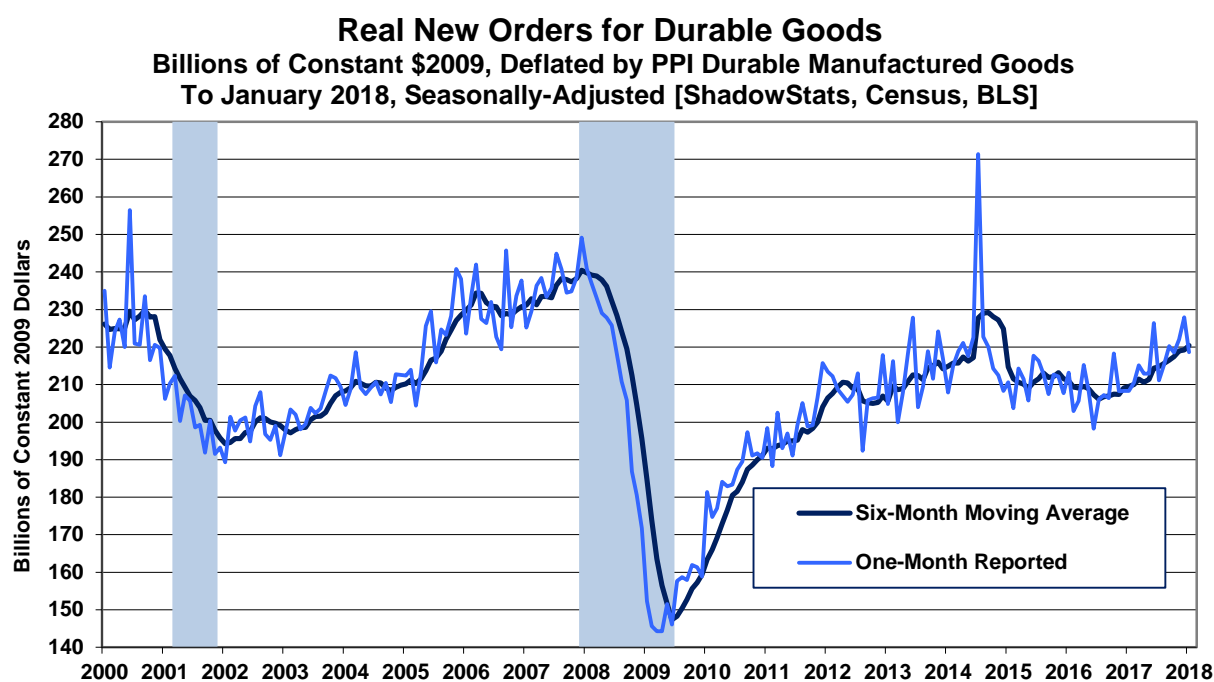
*Graph 3* shows the annual year-to-year percent change in the real new orders series, net of commercial aircraft orders. Annual growth slowed for the inflation-adjusted October 2017 new orders for durable goods, ex-commercial aircraft and softened even further in November 2017, with a government-spending boost for irregular defense-aircraft orders helping to boost December 2017 monthly and annual growth.

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 4 to 7*. Again, shown in *Graph OC-6* and comparative *Graphs OC-5* and *OC-7* in the *Opening Comments*, 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.

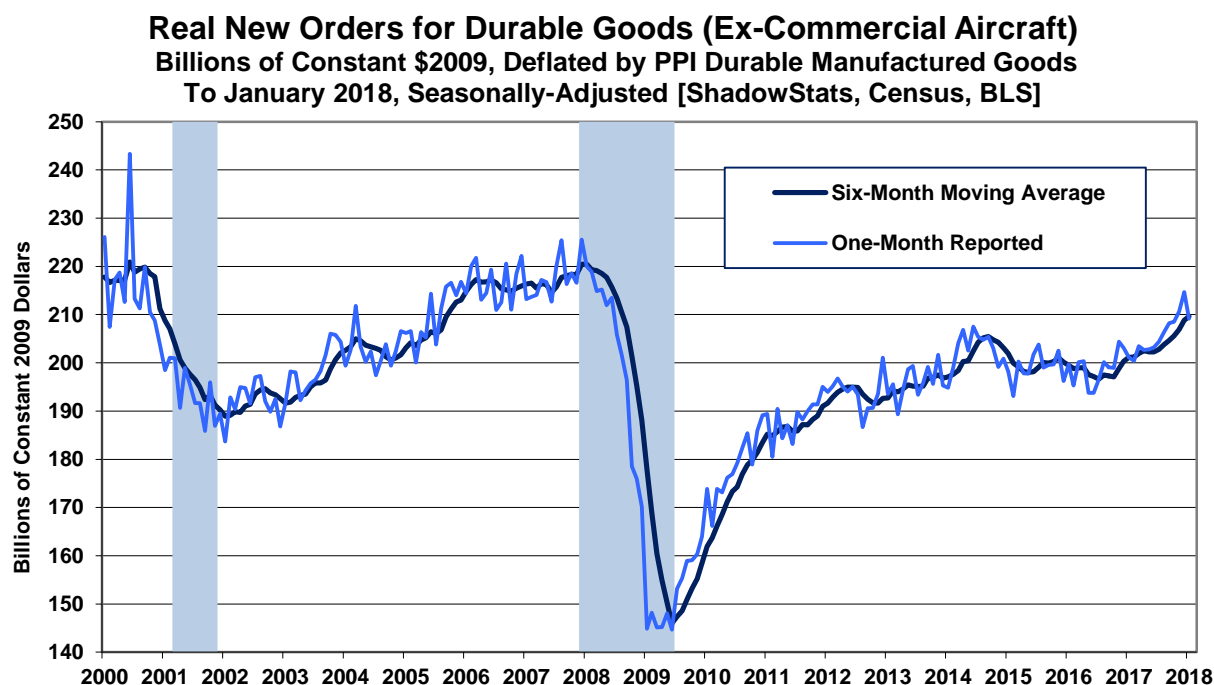
Broadly, there has been a general pattern of stagnation or bottom-bouncing evident in the orders of recent years —clearly not the booming recovery seen in official GDP reporting. The real monthly and six-month moving-average levels of new orders in January 2018 remained below both the pre-2007 recession 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 3 begin on the next page.]

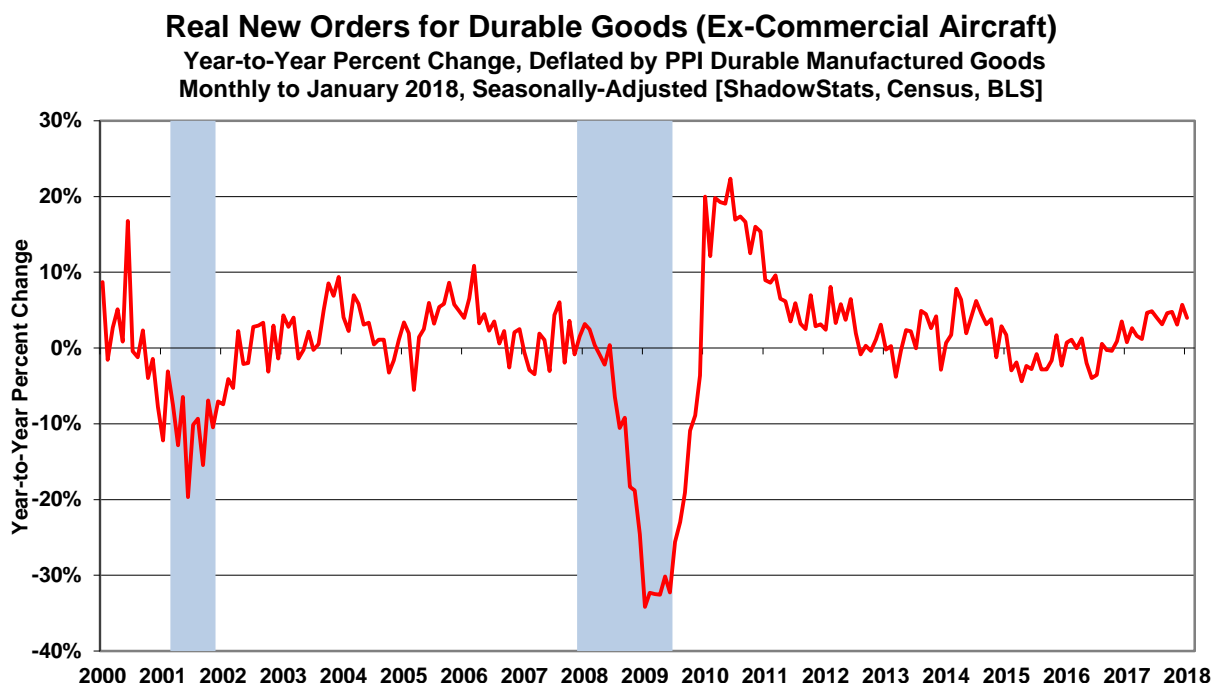
**Graph 1: Real Total New Orders for Durable Goods to Date**



**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**  
(Same as Graph OC-6 in the Executive Summary)



***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](#)).

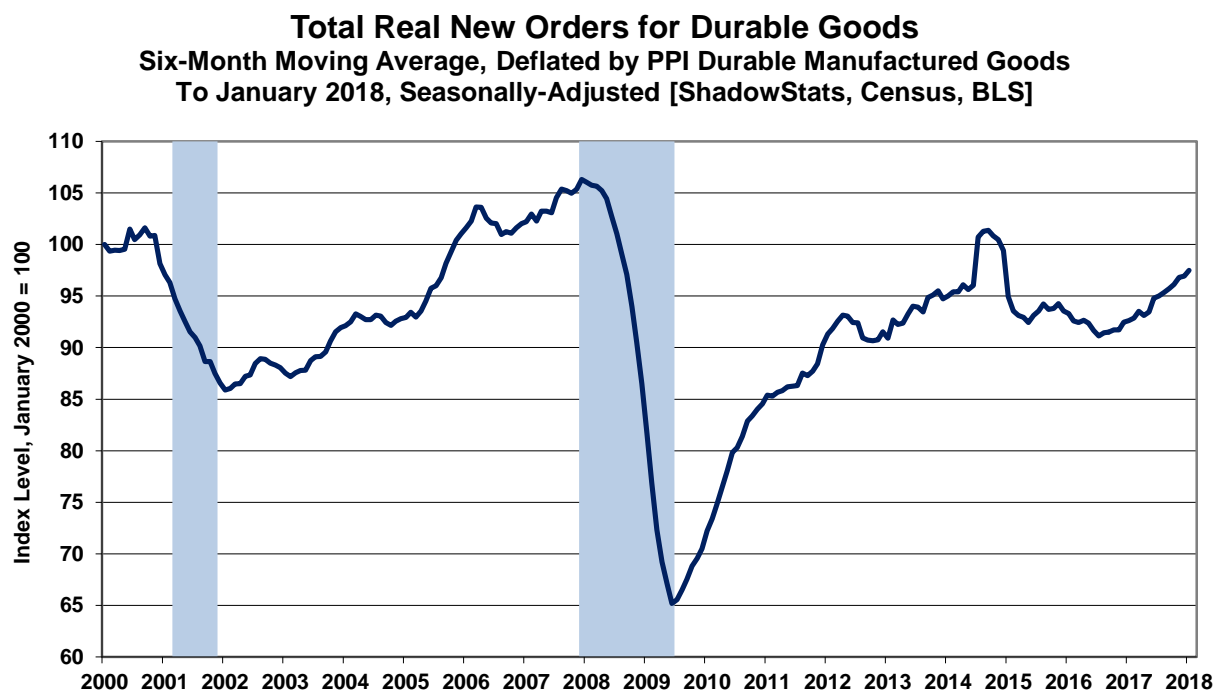
As done for other series such as Industrial Production and Real Retail Sales (see [Commentary No. 936](#)), and the GDP ([Commentary No. 933](#)), ShadowStats publishes an experimental, corrected-inflation version of the graph of real New Orders for Durable Goods. Real activity, in this case, is corrected 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 4* and *Graph 5*) shows the aggregate series or total durable goods orders; the second set (*Graph 6* and *Graph 7*) shows the ex-commercial aircraft series. The aggregate orders series in *Graphs 4* and *5* 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 6* and *7* are shown net of those volatile commercial aircraft orders.

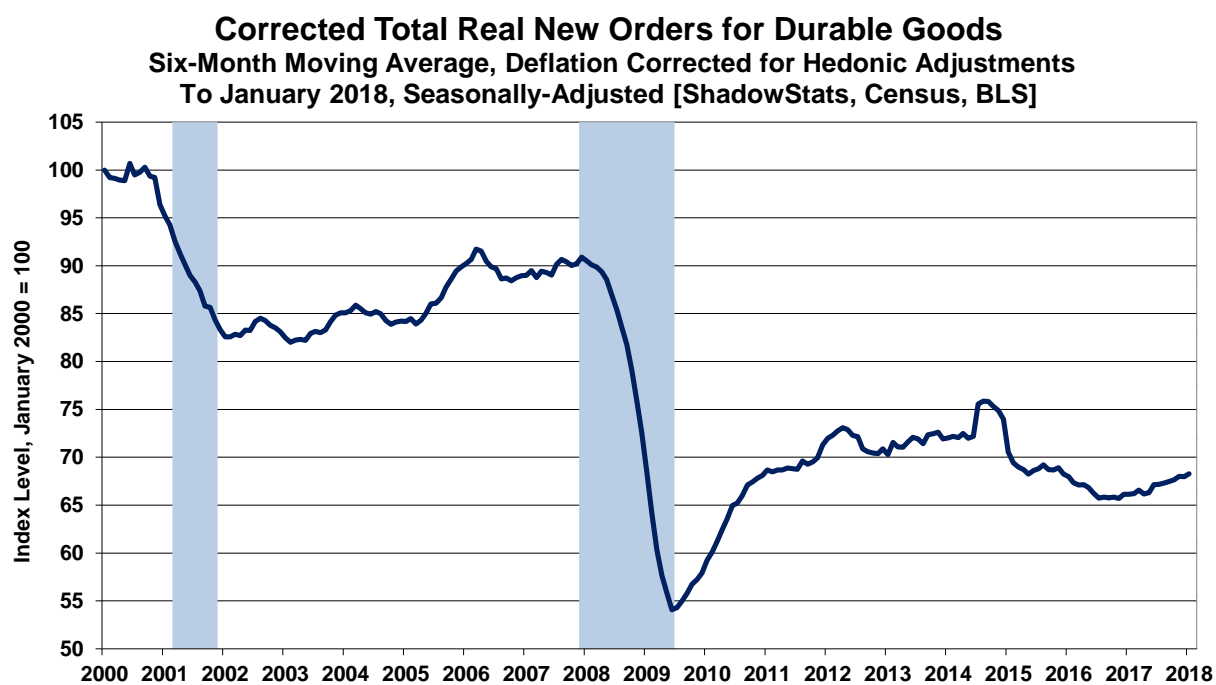
The first graph in each of the two sets shows the official six-month moving average, the same heavy dark-blue line shown in *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second graph in each set is the same six-month, moving-average series shown in the first graph,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

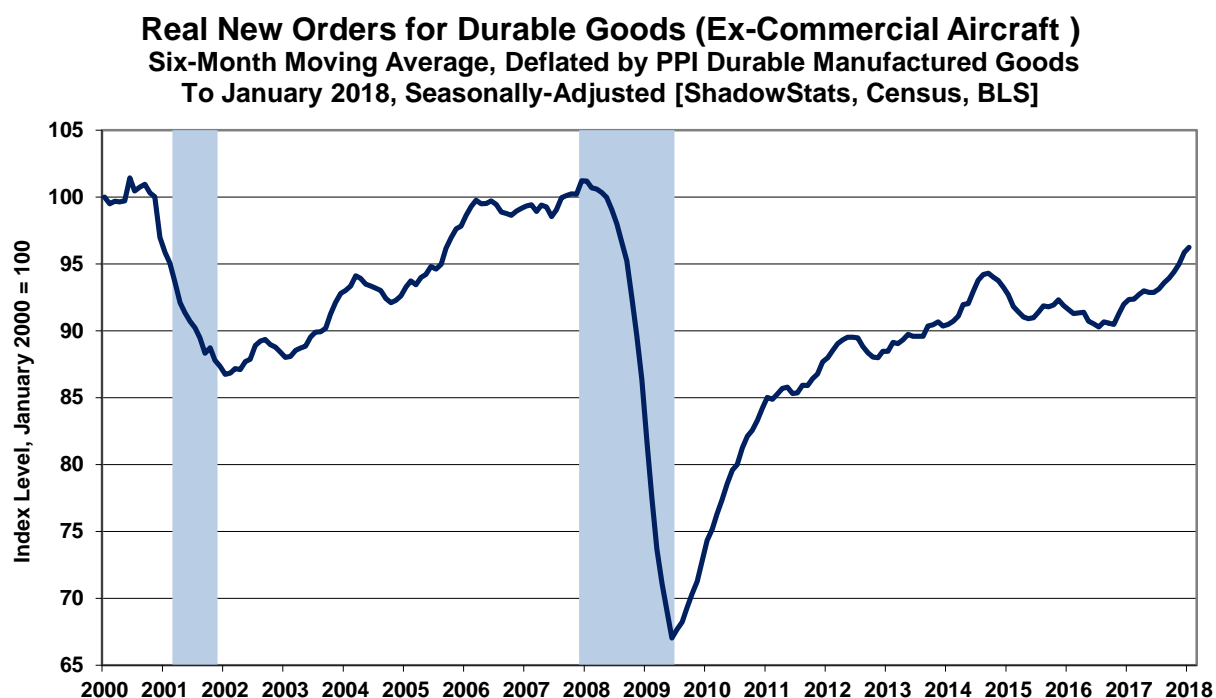
**Graph 4: Index of Real Total New Orders for Durable Goods, 6-Month Moving Average**



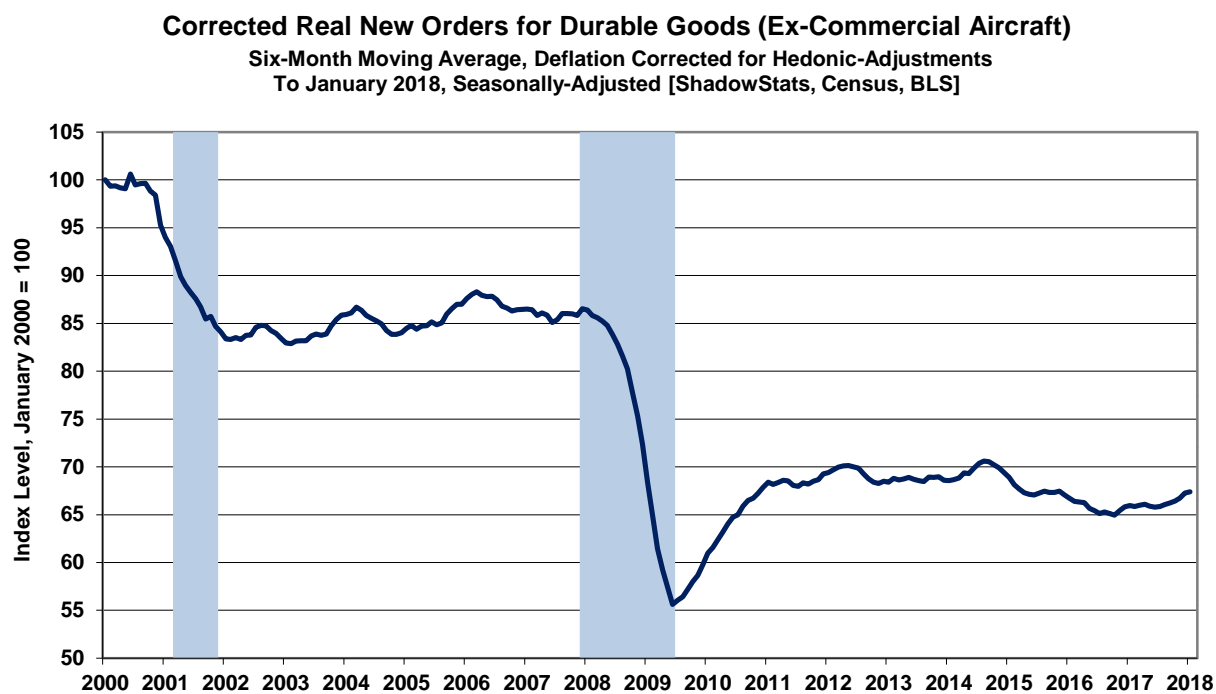
**Graph 5: Corrected Index of Real Total New Orders for Durable Goods, 6-Month Moving Average**



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



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



**New- and Existing Home Sales—January 2018—Monthly New Sales Plunged 7.8% (-7.8%), While Existing Sales Dropped 3.2% (-3.2%).** In the context of highly volatile and irregular revisions to the New-Home Sales series and annual revisions to the Existing-Home Sales series, January 2018 headline reporting saw monthly and annual contractions in both series..

***Amidst the Latest Revisions and Reporting Volatility, New- and Existing-Home Sales Remained Shy of Recovering Their Respective Pre-Recession Peaks by 57.3% (-57.3%) and 26.0% (-26.0%).*** Despite ongoing volatility and unstable revisions, neither of the home-sales series is close to recovering its pre-recession high. Headline January New-Home Sales activity remained shy of recovering its pre-recession high by 57.3% (-57.3%), with December Existing-Home Sales activity still shy by 26.0% (-26.0%) of recovering its pre-recession peak activity. Smoothed over six months, both series remained in low-level, non-recovered stagnation, as seen in the accompanying graphs.

***New-Home Sales January 2018 Monthly Decline Was On Top of an Upside Revision to December.*** Published by the Census Bureau and the Department of Housing and Urban Development, the New-Home Sales series, which counts new-home sales contracts signed, fell sharply, month-to-month in January 2018, by a statistically-insignificant 7.8% (-7.8%), following a revised monthly decline of 7.6% (-7.6%) in December. Allowing for an upside revision to the level of December activity, January sales still were down by 5.1% (-5.1%) in the month. Annual change turned negative by 1.0% (-1.0%) in January 2018, versus an upwardly revised annual gain of 17.3% in December 2017.

***Existing-Home Sales, Monthly and Annual Headline Changes.*** Published by the National Association of Realtors (NAR), in the context of annual revisions, Existing-Home Sales (closings of home sales) declined monthly by 3.24% (-3.24%) in January 2018, following a revised monthly decline of 2.80% in December 2017. January 2018 year-to-year change dropped by 4.78% (-4.78%), the steepest annual decline since August 2014. That followed a revised annual gain of 0.91% in December 2017.

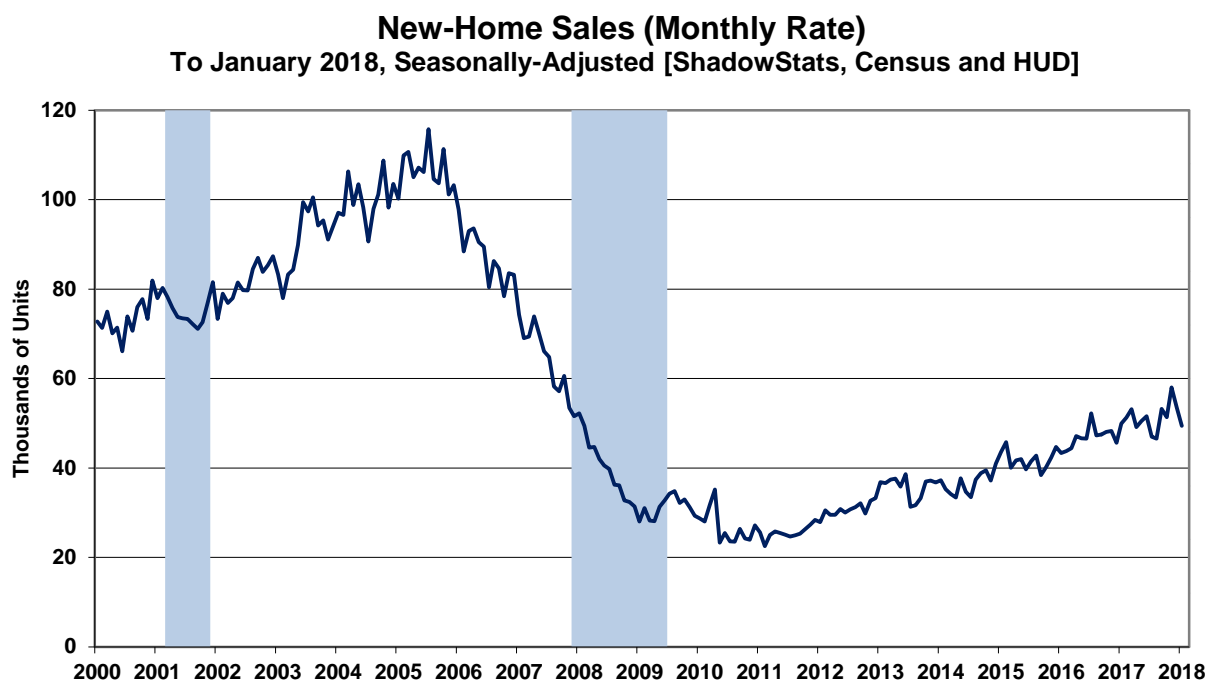
*See the Reporting Detail for expanded coverage on both the New-Home Sales and Existing Home Sales numbers and related survey details.*

Graphs 8 to 15, reflect the latest plots of New-Homes Sales and the related Single Unit Housing Starts series, as well as the latest plots of Existing-Home Sales and the related aggregate Housing Starts Series (both series include multiple-unit structures). See [Commentary No. 936](#) for the detail on the Housing Starts numbers and graphs.

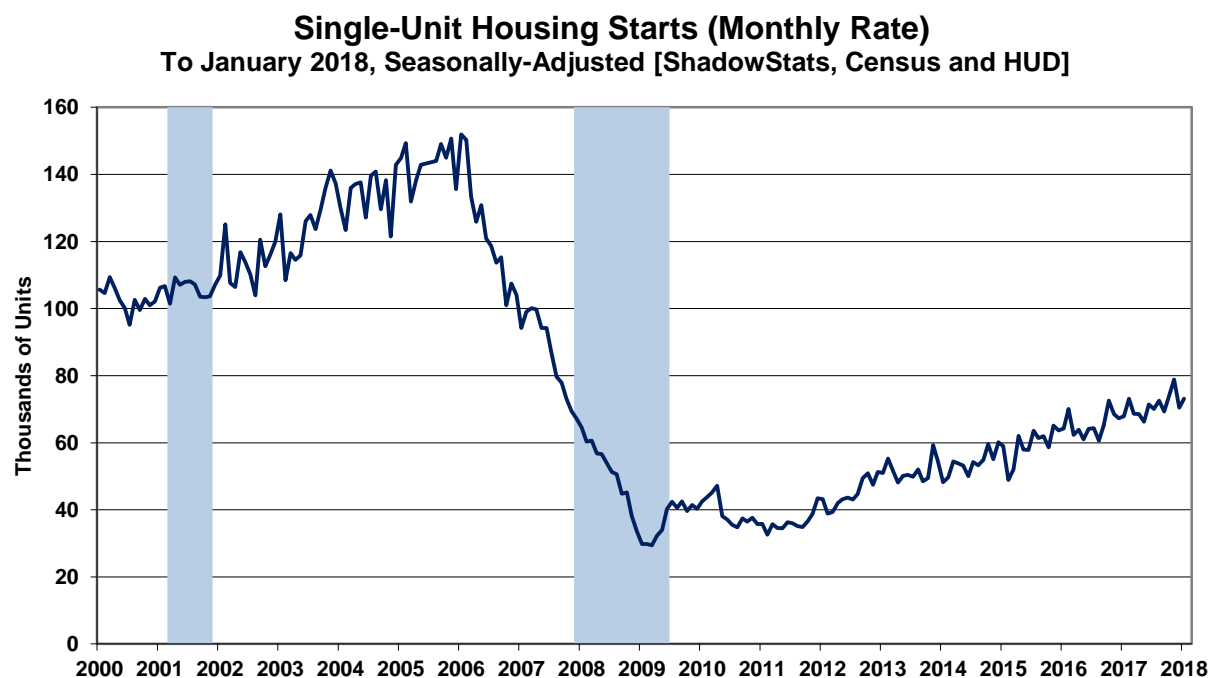
[Graphs 8 to 15 begin on the next page.]



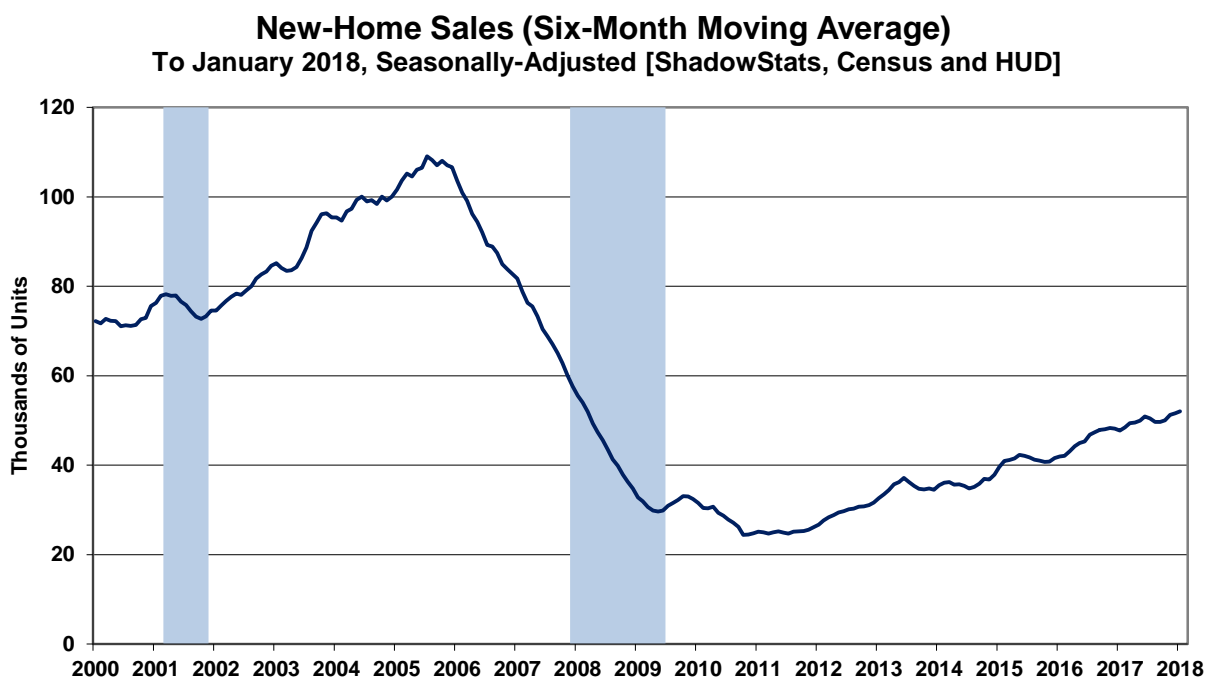
**Graph 8: New-Home Sales – Monthly Level**



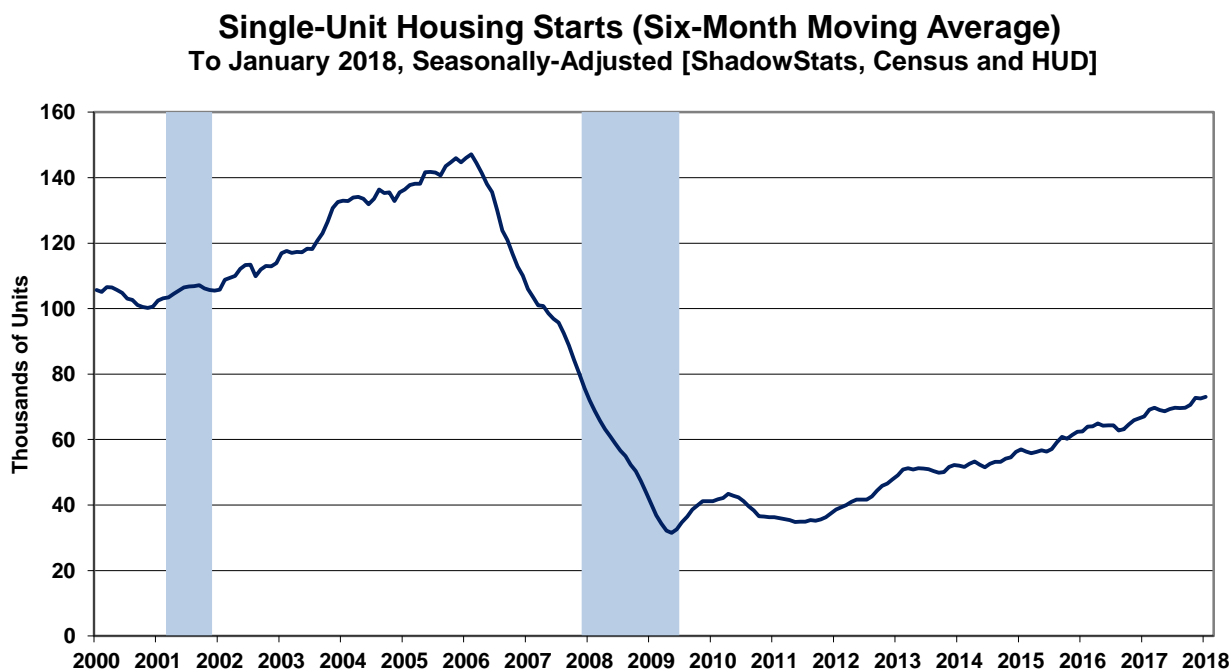
**Graph 9: Single-Unit Housing Starts (Monthly Rate of Activity)**



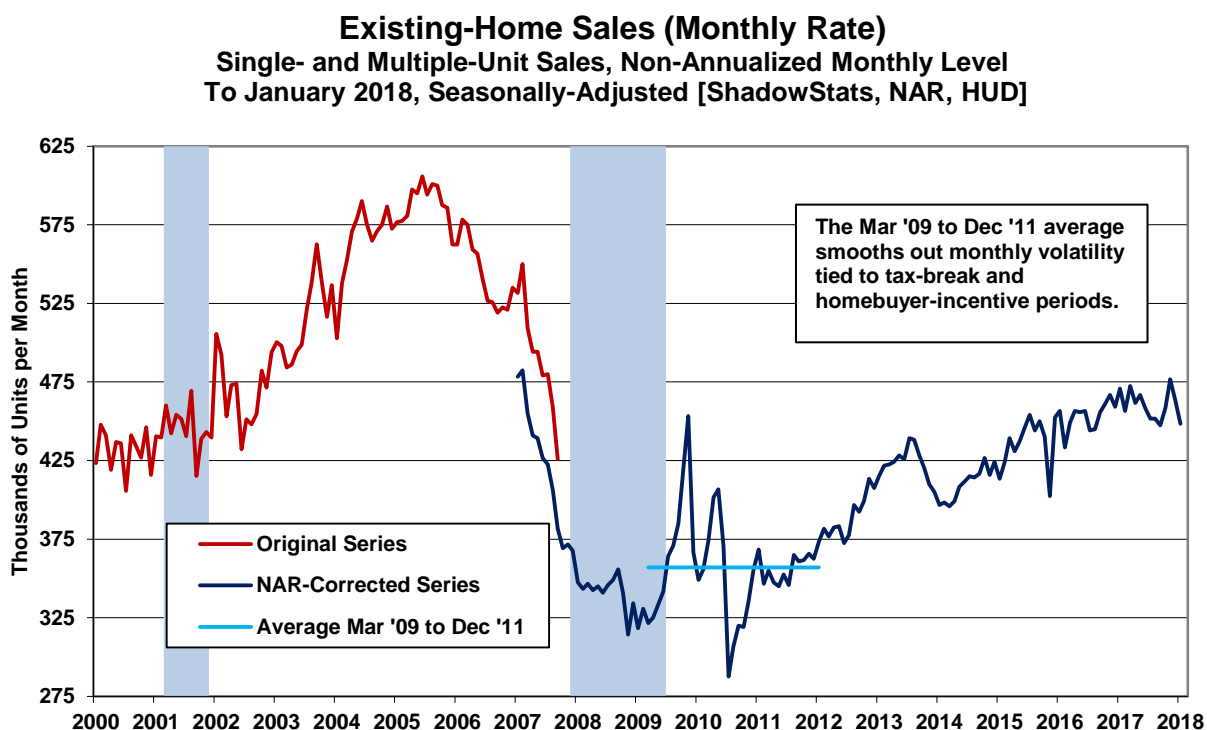
**Graph 10: New-Home Sales (Six-Month Moving Average)**



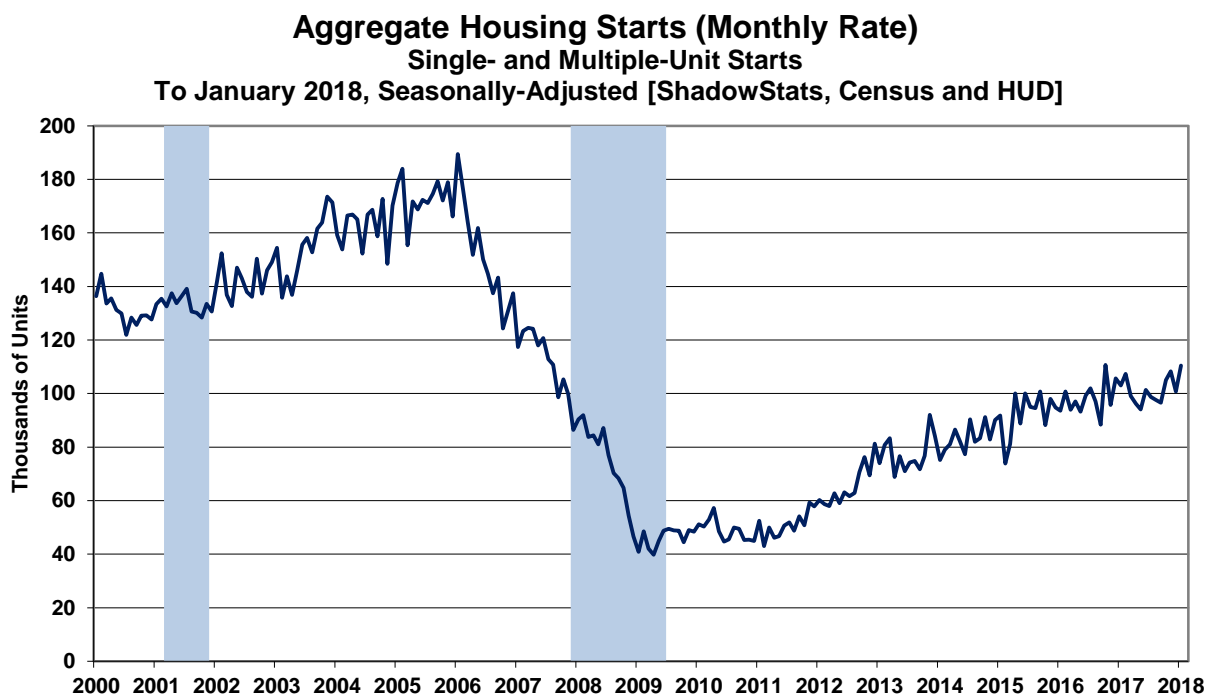
**Graph 11: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**



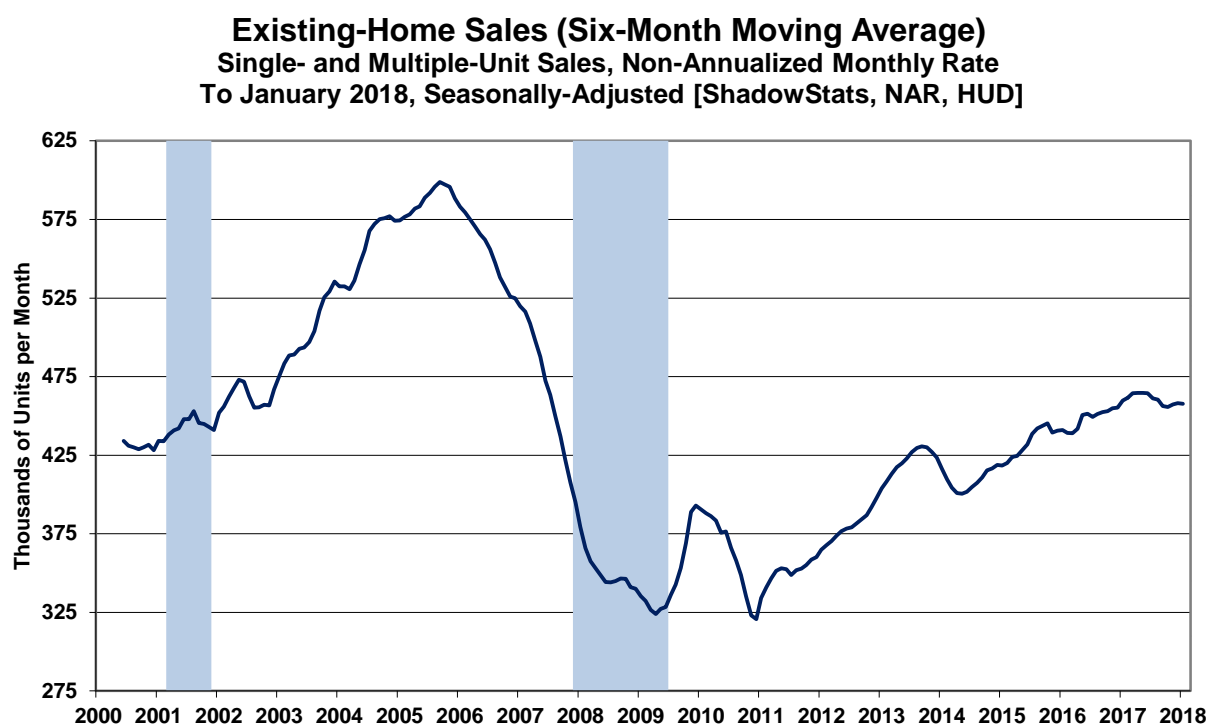
**Graph 12: Existing-Home Sales – Monthly Level**



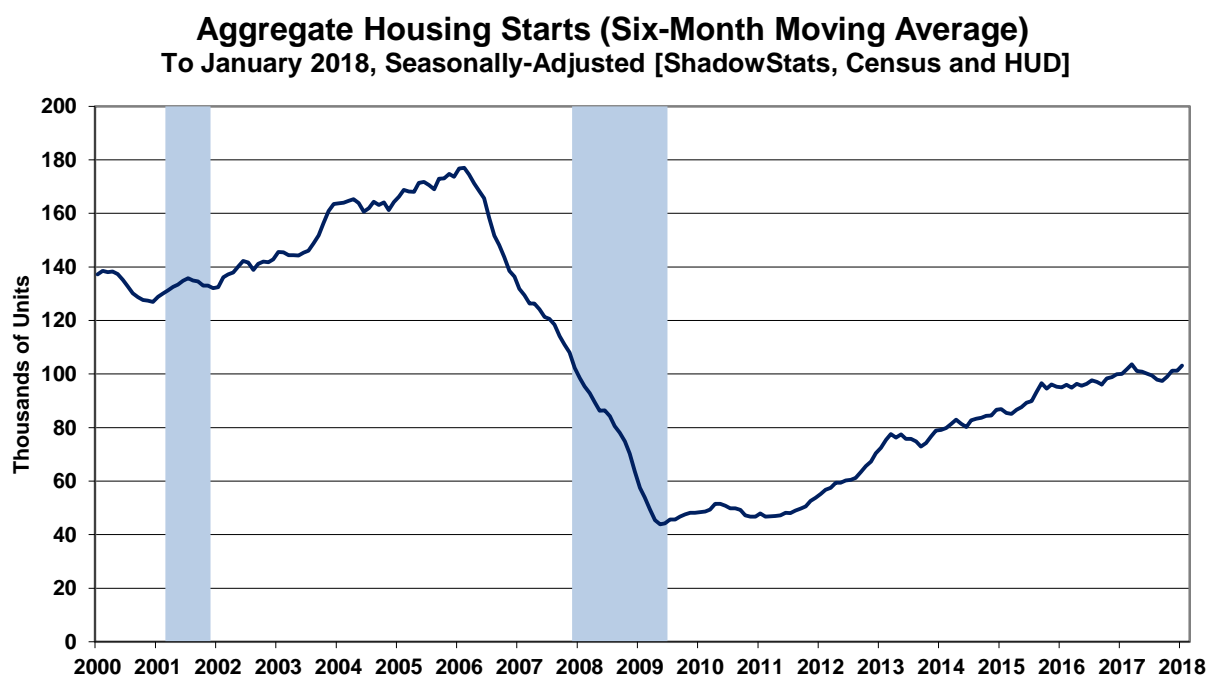
**Graph 13: Aggregate Housing Starts (Monthly Rate of Activity)**



**Graph 14: Existing-Home Sales (Six-Month Moving Average)**



**Graph 15: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**



*[Extended analysis of the New Orders and Home Sales follow in the Reporting Detail.]*

## REPORTING DETAIL

### NEW ORDERS FOR DURABLE GOODS (January 2018)

**New Orders Declined Month-to-Month, Both Before and After Consideration of Rising Inflation and Declining Commercial Aircraft Orders.** Net of an increase of 0.4% month-to-month inflation and a monthly plunge of 28.4% (-28.4%) in the highly-irregular commercial aircraft orders, real new orders for durable goods fell month-to-month by 2.6% (-2.6%), continuing to hold in fluctuating, non-recovering, low-level stagnation in January 2018. What had been a disaster-recovery induced, smoothed upside bias in the six-month moving average of that series began to flatten out. Where real annual growth had begun to slow markedly, dropping from 4.8% in October 2017 to 3.1% in November 2017, it rebounded to a downwardly-revised 5.7% in December 2017 and fell back to 4.0% in January 2018 (see *Graphs 2 and 3* in the *Executive Summary*).

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, and the November 2017 detail showed a further uptick, but orders flattened out thereafter into December and January.

That said, total nominal New Orders for Durable Goods declined month-to-month by 3.7% (-3.7%) in January 2018, having gained a downwardly revised 2.6% in December 2017 and an unrevised 1.7% in November. Other than for the recent, but now waning 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. Orders for commercial aircraft fell by 28.4% (-28.4%) in January 2018, having gained an upwardly revised 16.1% in December 2017 and an unrevised 14.1% in November. Ex-commercial aircraft, nominal new orders declined month-to-month by 2.2% (-2.2%) in January 2018, versus a downwardly-revised 1.9% gain in December 2017 and an unrevised gain of 1.1% gain in November. Again, with related month-to-month January inflation of 0.4%, a component of the Producer Price Index (PPI), the inflation-adjusted real monthly changes, ex-commercial aircraft, reflected a drop of 2.6% (-2.6%) in January 2018, versus real gains of 1.9% in December 2017 and 1.0% in November.

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, and in the context of activity reflected in the Cass Freight Index<sup>TM</sup>, plotted and discussed in the *Opening Comments*.

None of those series has recovered its pre-recession high of 2007; all continue in non-recovered, non-expanding, low-level stagnation. Again, see the comparative annual growth patterns in *Graphs OC-5 to OC-7* in the *Opening Comments*.

There is no economic expansion underway, despite heavy touting to the contrary in the popular media. Expansion reflects growth beyond the pre-recession peak of an economic series. The happy hype in the press and on Wall Street primarily reflects a purported expansion in headline Gross Domestic Product (GDP) currently (fourth-quarter 2017) at 15.2% above its precession high (see the *GDP* coverage in [Commentary No. 933 Executive Summary](#)). That said, underlying fundamental economic activity, such as seen in January 2018 real new orders for durable goods series, was down by 10.7% (-10.7%) from recovering its pre-recession high, while real new orders for durable goods, ex-commercial aircraft, was down by 7.2% (-7.2%) 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), January 2018 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. 936](#)). Real new orders, ex-commercial aircraft, generally 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. Even before allowing for the now-waning, near-term boosts from disaster recovery, those patterns have remained consistent in signaling an ongoing or non-recovering recession (see *Graphs 4 to 7* in the *Executive Summary*).

**Headline Nominal Detail—January 2018.** The Census Bureau reported this morning, February 27th, that the regularly-volatile, seasonally-adjusted, nominal level of aggregate New Orders for Durable Goods declined by 3.68% (-3.68%) in January 2018, having gained a revised 2.65% [previously 2.89%] in December 2017 and a revised 1.74% [previously 1.73%, initially 1.30%] in November. Unrevised nominal orders declined by 0.41% (-0.41%) in October, having gained 2.40% in September and 2.06% in August.

Year-to-year, January 2018 nominal durable goods rose by 6.83%, following revised gains of 11.27% [previously 11.52%] in December 2017, 8.70% [previously 8.68%, initially 8.19%] in November and unrevised gains of 1.96% in October 2017, 8.61% in September 2017 and 5.55% in August 2017. All those preceding headline details, however, were 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 real 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 with a somewhat fluttering uptrend, boosted recently by disaster-recovery effects. The headline-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-inflation-adjusted series—net of commercial aircraft orders—has remained relatively flat, in a pattern of low-level stagnation, albeit somewhat uptrending (again exacerbated by now-waning disaster-recovery effects). 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 January 2018, a monthly decline of 28.38% (-28.38%) in aircraft orders contributed to pushing headline aggregate orders to a decline of 3.68% (-3.68%), from what otherwise would have been a monthly decline of 2.16% (-2.16%). That followed a revised monthly gain of 16.13% [previously 15.88%] in December 2017, following a 14.07% gain in November, a contraction of 15.79% (-15.79%) in October, monthly gains of 33.90% in September and 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, January 2018 nominal new orders declined by 2.16% (-2.16%), versus gains of 1.91% in December 2017, 1.13% in November, 0.47% 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, January 2018 new orders ex-aircraft rose by 5.85%, having gained a revised 7.48% in December 2017, a revised 5.05% in November and unrevised annual gains of 6.74% in October 2017, 6.51% in September 2017, 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—January 2018.*** 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 January 2018 PPI series showed headline month-to-month inflation of 0.41%, having been “unchanged” at 0.00% in December 2017, versus 0.12% in November. Related year-to-year annual inflation was 1.79% in January 2018, versus 1.67% in December 2017 and 1.92% in November 2017 (see [Commentary No. 936](#)).

Adjusted for that 0.41% month-to-month inflation reading in January 2018 and the respective inflation rates in earlier months, and as reflected in the graphs in the *Executive Summary* section, real aggregate orders in January 2018 declined by 4.08% (-4.08%), December 2017 rose by 2.65%, having gained 1.62% in November. Ex-commercial aircraft, real month-to-month orders declined by 2.56% (-2.56%) in January 2018, having gained by 1.91% in December 2017 and by 1.03% in November.

Real total new orders gained by 4.95% year-to-year in January 2018, versus 9.44% in December 2017 and 6.65% in November 2017. Ex-commercial aircraft, January 2018 real orders rose year-to-year by 3.99%, versus 5.71% in December 2017 and 3.08% in November 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%, up by 3.54% year-to-year. Third-quarter 2017 annualized quarterly growth was a revised 6.94%, with year-to-year growth at a revised 3.90%.

Based on the second, full fourth-quarter 2017 reporting, annualized real quarterly growth was 9.92% [previously 10.18%], with year-to-year growth of 4.52% [previously 4.60%]. Activity was distorted by the hurricanes for both third- and fourth-quarter 2017.

Based solely on the initial reporting of January 2018, the early trend for first-quarter 2018 would be for an annualized real quarter-to-quarter contraction of 3.89% (-3.89%), with year-to-year growth of 3.73%

***Graphs of Inflation-Adjusted and “Corrected” Smoothed Durable Goods Orders.*** Three sets of inflation-adjusted graphs (*Graphs 1 to 7*) are displayed in the *Executive Summary*. The first set (*Graphs 1 to 3*) 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). 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 in uptrending stagnation, boosted by disaster recovery.

The second set of graphs (*Graphs 4 and 5*) 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 6 and 7*) shows largely the same patterns, although they are for the aggregate durable goods orders series, net of commercial aircraft orders.

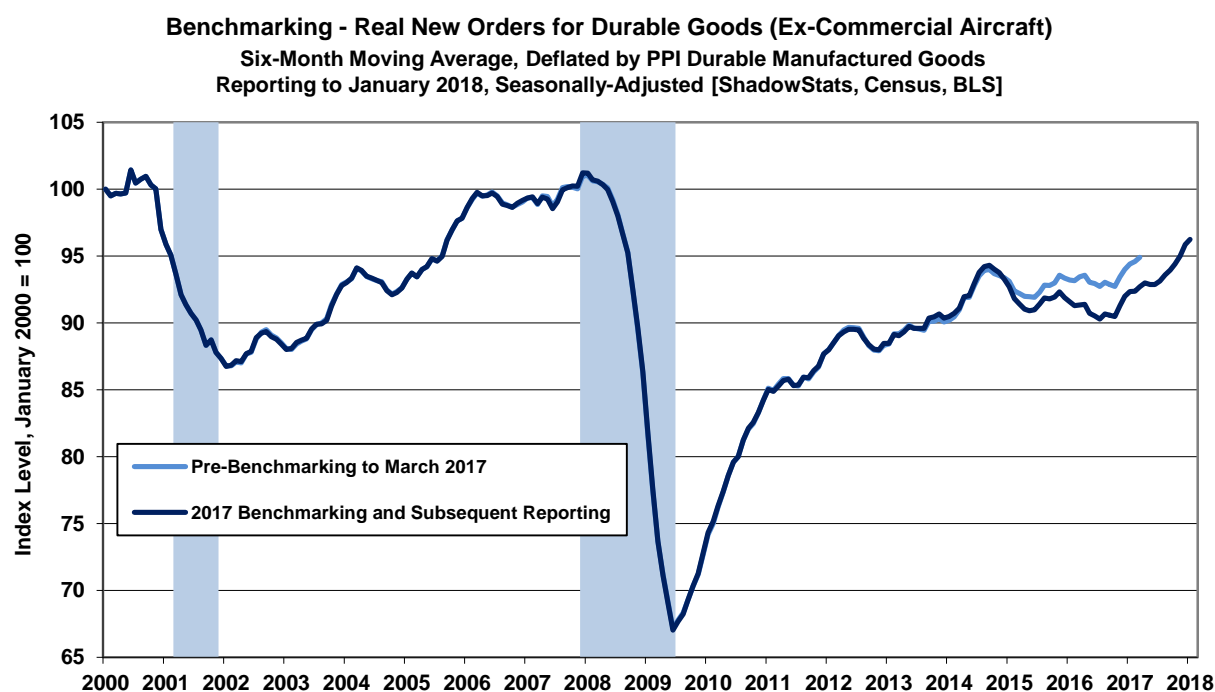
***Caution: Non-Comparability of the Regular Headline Month-to-Month Data.*** As an example of the regular, annual downside restatement of recent activity, consider accompanying *Graph 16*. It shows the net revisions to the six-month moving average of real New Orders for Durable Goods (ex-commercial aircraft) from the May 18, 2017 benchmark revisions and subsequent reporting through the January 2018 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 (January 2018) inconsistent with the currently published headline historical numbers.

**Graph 16: Benchmark Revisions to Real Total New Orders for Durable Goods, Ex-Commercial Aircraft.**



**NEW HOME SALES (January 2018)**

**New-Home Sales Plunged 7.8% (-7.8%) Month-to-Month, on Top of an Upside Revision to December's Reporting, Still Shy by 57.3% (-57.3%) of Recovering Its Pre-Recession Peak.** In the context of the regularly extreme, unstable month-to-month volatility, which almost never is statistically significant at the 95% level, and which regularly sees massive prior-period revisions, the headline January 2018 New-Home Sales series declined by 7.8% (-7.8%) in the month, with year-to-year sales down by

1.0% (-1.0%). The headline January 2018 activity remained shy of recovering its pre-recession high by 57.3% (-57.3%). Smoothed over six months, the series remained in low-level, non-recovered stagnation.

***Headline January Decline Minimally Impacted by December Upside Revision.*** Released February 26th 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, fell month-to-month in January 2018 by a statistically-insignificant 7.8% (-7.8%) +/- 22.2% at the 95% confidence interval [all confidence intervals used here are at the 95% confidence interval]. Net of the upside revision to December, that was a monthly decline of 5.1% (-5.1%).

The January decline followed a revised decline of 7.6% (-7.6%) [previously 9.3% (-9.3%)] in December 2017, a revised gain of 13.0% [previously 15.0%, initially 17.5%] in November, a revised decline of 3.6% (-3.6%) [previously down by 6.3% (-6.3%), 1.7% (-1.7%) and initially a surge of 6.2%] in October and an unrevised gain of 14.3% in September.

Year-to-year change in January 2018 sales was a statistically-insignificant decline of 1.0% (-1.0%) +/- 19.2%, which followed a revised annual gain of 17.3% [previously 14.1%] in December 2017, a revised 20.2% [previously 19.0%, initially 26.5%] in November 2017, a revised 6.8% [previously 3.8%, 8.1%, initially 18.7%] in October 2017 and an unrevised 12.1% in September 2017.

***First-Quarter 2016 Growth on an Early Trend for Quarterly Contraction.*** Reflecting unstable and broadly meaningless monthly swings, Third-Quarter 2017 annualized quarterly change declined by an unrevised 11.2% (-11.2%). The second estimate of Fourth-Quarter 2017 activity surged at an annualized pace of 51.6% [previously 38.9%], but the early trend for First-Quarter 2018, based on January was an annualized contraction of 31.4% (-31.4%). The usual extreme volatility in this series has been exacerbated by disaster-recovery effects.

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 have flattened out with the latest data machinations (see *Graph 10* 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 8 to 11* in the *Executive Summary* plot the New-Home Sales series along with comparative graphs of the related Single-Unit Housing Starts series (see [Commentary No. 936](#)). *Graphs 12 to 15* there also plot the Existing-Home Sales series, along with comparative graphs of the related Housing Starts series.

## **EXISTING HOME SALES (January 2018)**

**January Existing Sales Dropped 3.2% (-3.2%) Month-to-Month, Plunged 4.8% (-4.8%) Year-to-Year, with Activity Shy of Recovering Its Pre-Recession High by 26.0% (-26.0%).** In the context of annual revisions, recent activity was somewhat weaker than previously indicated, due largely to what appeared to be revised seasonal adjustments.

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 headline monthly drop of 3.24% (-3.24%) in Existing Homes Sales was in the context of a year-to-year contraction of 4.78% (-4.78%), the steepest such decline since August 2014.

Nonetheless, as shown in *Graph 12* in the *Executive Summary*, the revised November 2017 Existing Home Sales still were at the highest level of the post-2006 revamped series (blue line), but still well below the pre-recession peak 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-to-flat stagnation, as reflected in *Graph 14* (see also *Graphs 13* and *15* of the Housing Starts, where both series reflect activity in terms of single- and multiple-housing units).

***Existing-Home Sales Continued in Smoothed, Downtrending-to-Flat Stagnation.*** Released by the National Association of Realtors (NAR) on February 21st, Existing-Home Sales (closings of home sales) declined month-to-month by 3.24% (-3.24%) in January 2018, following a revised decline in December 2017 of 2.80% (-2.80%) [previously 3.63% (-3.63%)], and a revised monthly gain of 4.00% [previously 5.09%, initially 5.64%] in November and an unrevised monthly gains of 2.42% in October.

January 2018 year-to-year change was a contraction of 4.78% (-4.78%), following revised annual gains of 0.91% [previously 1.09%] in December 2017, 2.14% [previously 3.21%, initially 3.75%] in November 2017 and an unrevised annual decline of 0.54% (-0.54%) in October 2017.

Third-quarter 2017 activity contracted for the second straight quarter, at a deepening annualized pace, albeit a revised 9.94% (-9.94%) [previously 12.11% (-12.11%)], following an annualized decline of 3.97% (-3.97%) in second-quarter 2017.

Second reporting of fourth-quarter 2017 detail showed an annualized quarterly gain of 14.41% [previously 18.20%].

Based solely on initial January 2018 detail, first-quarter activity is in an early trend for an annualized quarterly contraction of 14.41% (-14.41%). As with other series tied to housing and construction, natural disasters and disaster-recovery since late-August 2017 have impacted these annualized changes heavily.

***Mounting Forecloses, as the Proportion of Distressed Sales Held at 5% in January, and All-Cash Sales Rose to 22%.*** In the context of consumer liquidity constraints discussed in the prior *New-Home Sales* section, the NAR estimated the portion of January 2018 sales in “distress” at 5% (4% in foreclosure, 1% short sales) the same levels as in December 2017, but down from 7% (5% in foreclosure, 2% short sales) in January 2017. 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.

Consistent with mounting consumer liquidity constraints and faltering optimism discussed in today’s *Consumer Liquidity Watch*, sales in foreclosure at 4% is double the pace of the recent survey low of 2%.

Industry numbers show foreclosure prospects still to be a meaningful problem, and ShadowStats is developing new material in that area, to be published shortly.

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 January 2018, versus 20% in December 2017 and against 23% in January 2017.

*Graphs 12 to 15* in the *Executive Summary* plot the Existing-Home Sales series, along with comparative graphs of the related Housing Starts series. *Graphs 8 to 11* 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, INCOME, CREDIT AND RELATIVE OPTIMISM.** *[Updated opening paragraphs and for the February 2018 estimate of the Conference Board's Consumer Confidence.]*

**Continuing Consumer Liquidity Stresses Constrain Broad Economic Activity.** The U.S. consumer faces ongoing financial stress, which recently had been mirrored in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales, Housing and Construction, and the Manufacturing/Production sector, all pre-hurricane activity. Net of what have been mixed, but significant, near-term hurricane distortions, initial hits to activity were followed by related and transient economic boosts from recovery, replacement and restoration activity. Funded by insurance payments and savings liquidation, those distortions broadly should pass from headline data by the February/ March reporting of January/February 2018-headline detail. Discussed in today's *Opening Comments*, hurricane-boosted activity appears to be passing as early first-quarter economic activity continues to turn down. Such effects have been, and will continue to be, discussed in the separate analyses of relevant series in covered in the regular *ShadowStats Commentaries*. While there have been recent signals of faltering consumer liquidity, with headline consumer optimism is strong, despite rapidly softening activity.

Monthly series that have faced the most severe, disaster-triggered reporting disruptions, where headline details have yet to stabilize or correct, still include in particular Household Survey Employment and Unemployment (see the *Opening Comments* of [Commentary No. 930-B](#)). Retail Sales and Industrial Production appear to have stabilized, and are beginning to turn down anew, but they still need to subside to levels stable with normal consumption activity and inventories. Despite the initial slowing in Fourth-Quarter 2017 GDP growth, the series remains heavily bloated from the disaster-distortions (see [Commentary No. 933](#)), downside revisions loom for the fourth-quarter detail, along with increasing odds for an outright quarterly contraction in real First-Quarter 2018 GDP (see today's *Opening Comments*).

**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 underlying pocketbook 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 2001, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, so far, all have continued to remain shy of consumer hopes, and those numbers have begun to stumble in recent detail.



A temporary liquidity boost fueled by recent disaster effects, such as insurance payments or savings drawdowns to fund replacement of storm-damaged assets, are of a one-time nature and short-lived in terms of ongoing economic impact. The underlying, fundamental longer-term liquidity issues remain in place. Nonetheless, mirroring the disaster-fueled economic hype in the popular press, consumer optimism had rallied strongly, albeit, again, now faltering or mixed, as discussed shortly.

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 fundamental 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 average consumer hopes and needs, irrespective of the new tax laws.

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 73.1% of the headline real, fourth-quarter 2017 U.S. GDP.

Net of short-lived disaster distortions (insurance payments, savings liquidations), 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 boosts from disasters or political gimmicks, discussed recently in [General Commentary No. 929](#) and the *Executive Summary* of [Commentary No. 928](#).

***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-world 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 as 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* section of the *Week, Month and Year Ahead*, along with links to background discussions on the quality of the more-politicized GDP ([Commentary No. 928](#)) and employment/unemployment details discussed in the *Supplemental Labor-Detail Background* of [Commentary No. 930-B](#).



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 was supplemented in late-2017 by near-term hurricane boosts to, and distortions of, some current economic activity, such as the 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, albeit reflecting some of the headline economic hype in the popular press, headline consumer optimism remains strong, albeit faltering most recently.

***Consumer Optimism: Consumer Sentiment and Confidence Boom.*** On top of the December 2017 readings pulling back sharply for both The Conference Board’s Consumer-Confidence Index<sup>®</sup> (Confidence), and the University of Michigan’s Consumer Sentiment Index (Sentiment), January 2018 Confidence and Sentiment (February 2nd) readings were minimally-positive and down, with the February numbers rising anew. Such is despite faltering home sales in January (see today’s *Reporting Detail*). The consumer numbers were just updated for Confidence (February 27th) and recently updated for the early estimate of February 2018 Sentiment (February 16th).

Reflected in *Graphs CLW-1* and *CLW-2*, Confidence and Sentiment monthly readings had jumped sharply, respectively to multi-year highs in November and October. Yet, the December Confidence reading plunged, more than offsetting the November gain and most of the October gain, in context of a downside revision to the November reading. Similarly, November and December Sentiment readings, and now January also pulled back sharply or only minimally recovered, largely offsetting the October surge there.

Nonetheless, both measures turned higher in February 2018, despite mounting economic and financial-market uncertainties. Following a downside revision to the January 2018 reading, Confidence jumped to its highest level since November 2000, when both series were then falling into the 2001 recession. The rising numbers here for both Confidence and Sentiment are at their highest levels since 2000, above their pre-2007 recession peaks. They remain down from their early-2000 peaks, however, by 9.6% (-9.6%) for Confidence and by 10.8% (-10.8%) for Sentiment.

For both the Conference Board’s seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index<sup>®</sup> (*Graph CLW-1*), and the University of Michigan’s not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), the three-month moving averages also were above pre-2007 recession highs, yet the still-high moving averages have flattened out, having begun to falter in September 2017, before the storm-distorted, unusual headline surges in October and November activity.

Smoothed for six-month moving averages (see *Graph CLW-3*), both series continued above their pre-2007 recession peaks, with the Confidence measure at its highest level since March 2001, as it had been plummeting into the onset 2001 recession. That said, on a monthly basis, the current January 2018 readings for both the Confidence and Sentiment measures were down respectively from their pre-2001 recession peaks of May and January 2000, by 15.7% (-15.7%) and 10.8% (-10.8%).

Pre-election, 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 a 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 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, again reversing largely with December's headline downturn.

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<sup>®</sup> is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

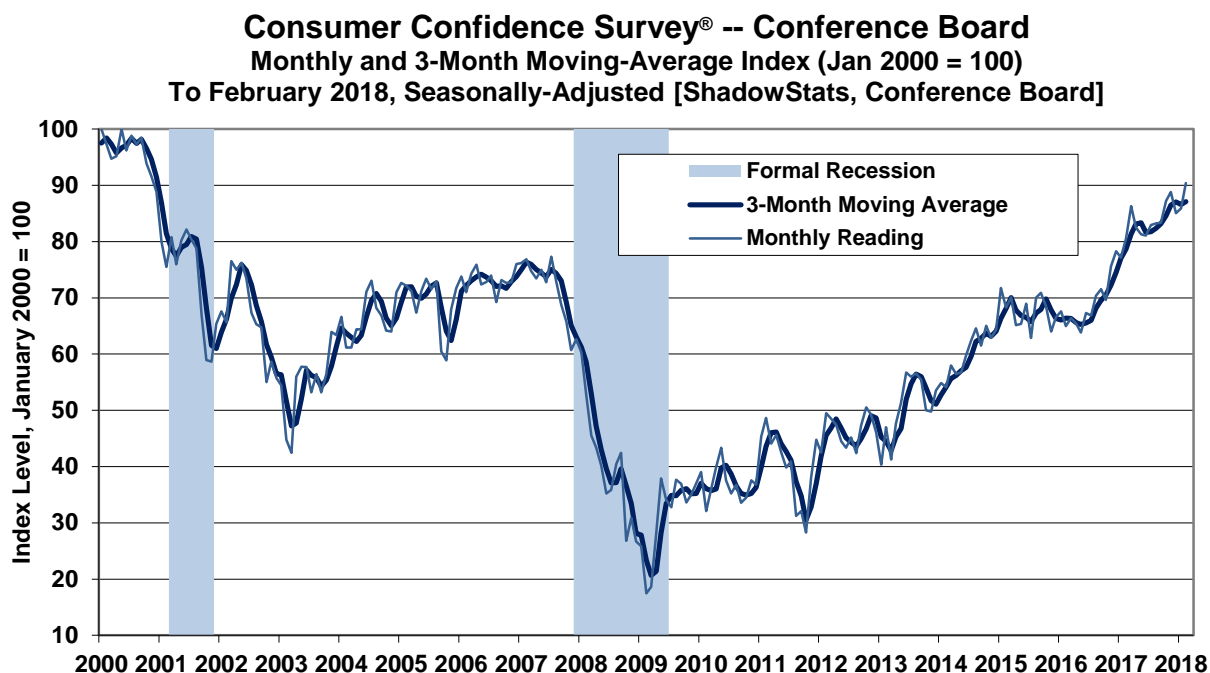
The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. Recent press has been highly positive on the headline economic and employment news, reflecting short-lived hurricane boosts to activity particularly on unemployment (not payroll employment), retail sales and industrial production. As headline financial and economic reporting in the next month or two turn increasingly-negative and unstable, so too should the surging "optimism." Increasingly, a downturn in consumer outlook should take hold, despite any euphoric headlines, reflecting some deep-seated consumer liquidity issues.

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. In current environment of surging optimism, beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

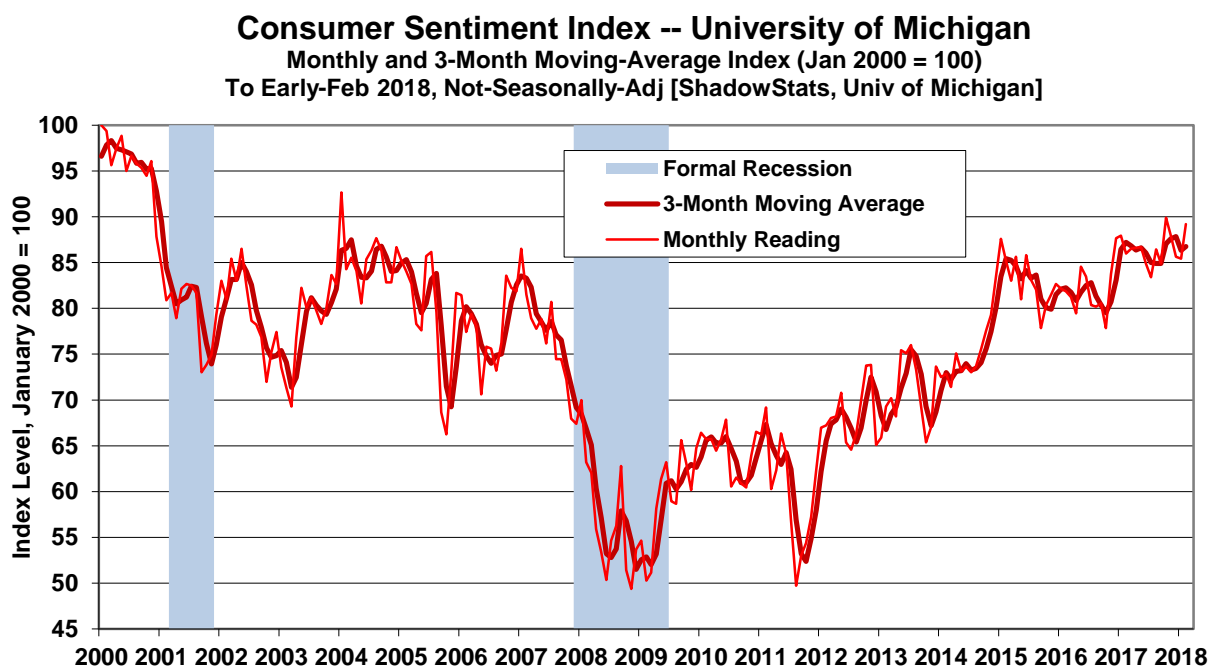
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 48 years—the latest readings of Confidence and Sentiment recently have recovered levels 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 increasingly, they appear to be topping out.

[Graphs CLW-1 to CLW-2 begin on the next page.]

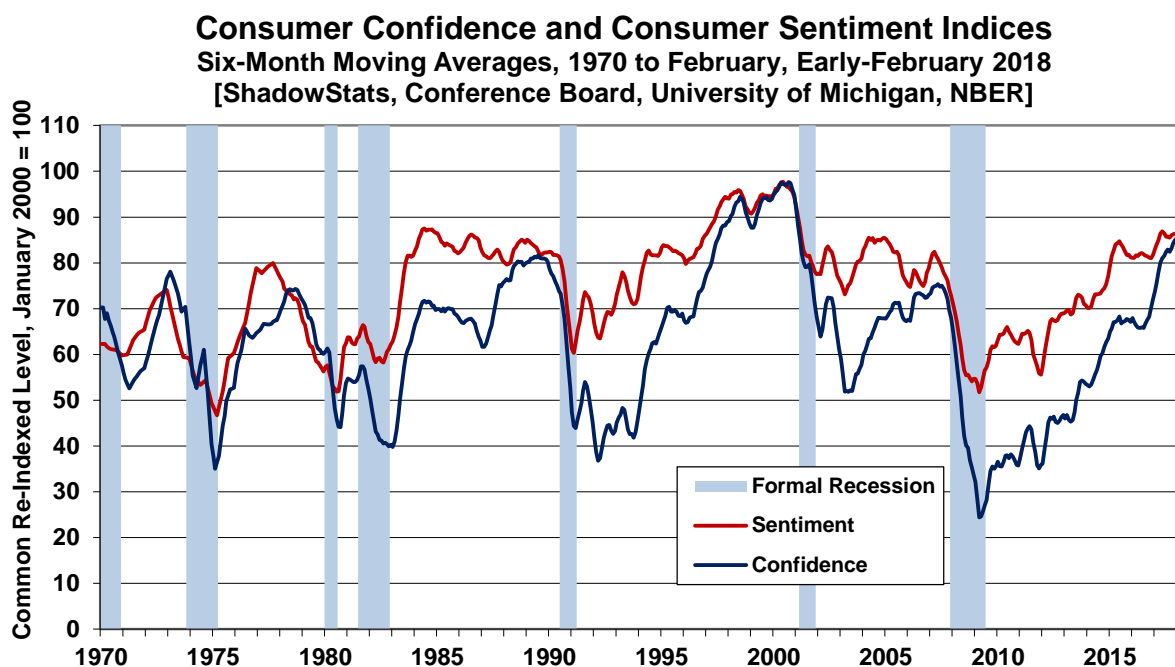
**Graph CLW-1: Consumer Confidence (2000 to 2018)**



**Graph CLW-2: Consumer Sentiment (2000 to 2018)**

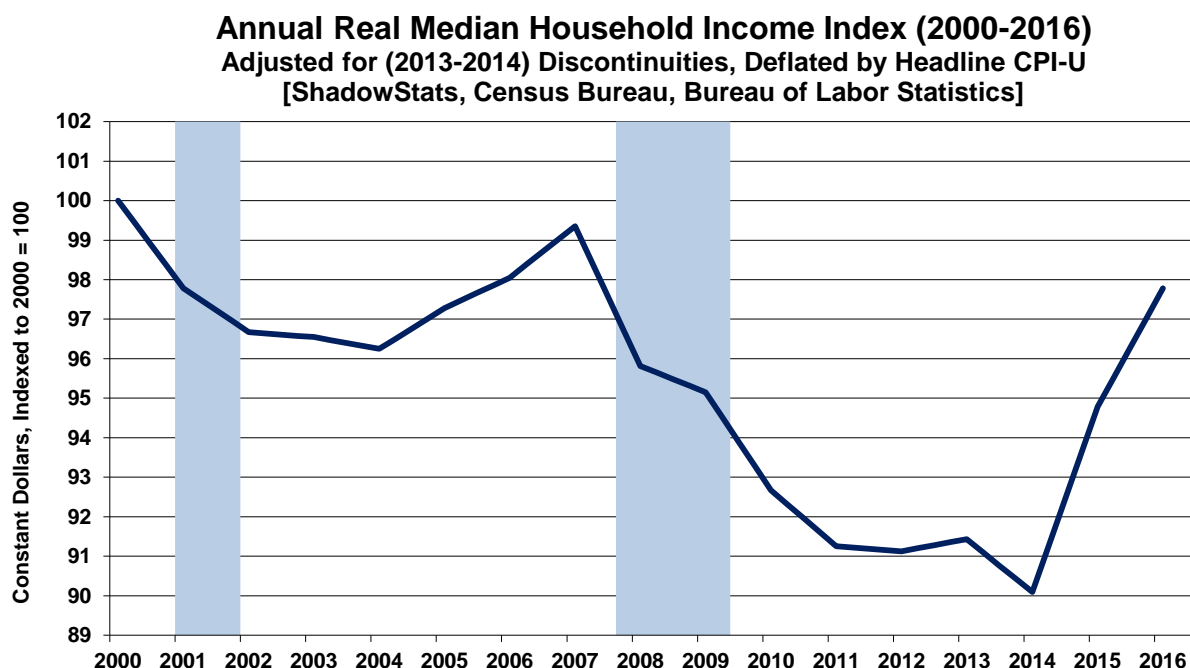


**Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)**



**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 was provided by [www.SentierResearch.com](http://www.SentierResearch.com), generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the most-recent annual detail 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)**



***Last Monthly Estimate Showed Stagnating Monthly Real Growth.*** Last reported by Sentier Research, in what appears to have been the final estimate for the series, 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*).

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.

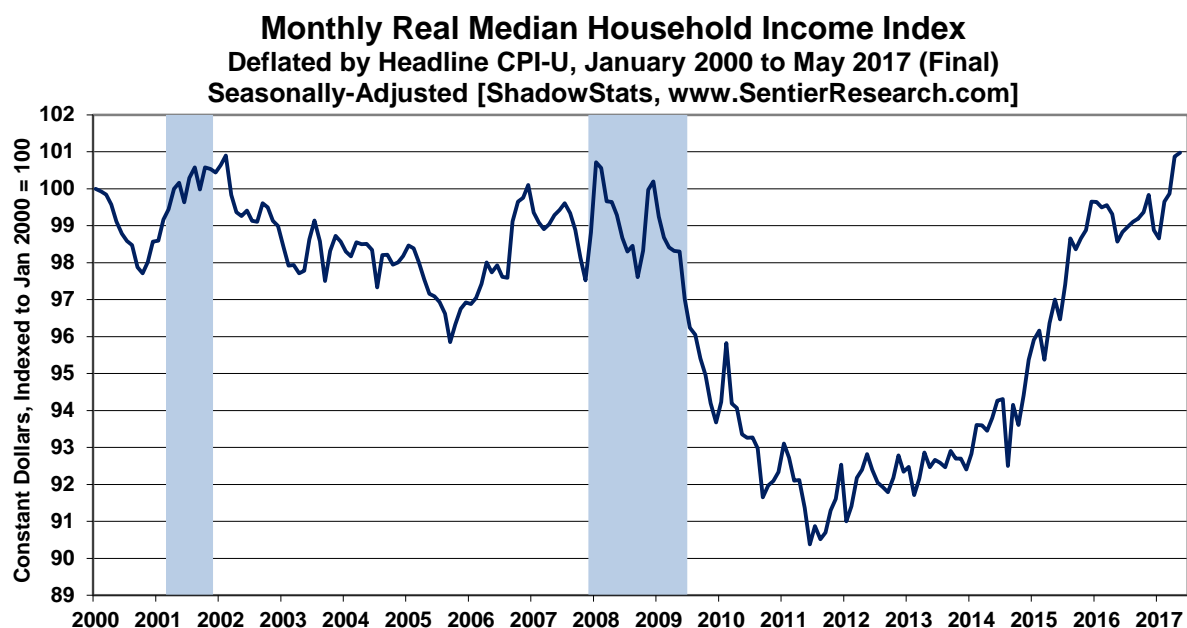
Nonetheless, the most-recent recent “rebound” reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or 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.

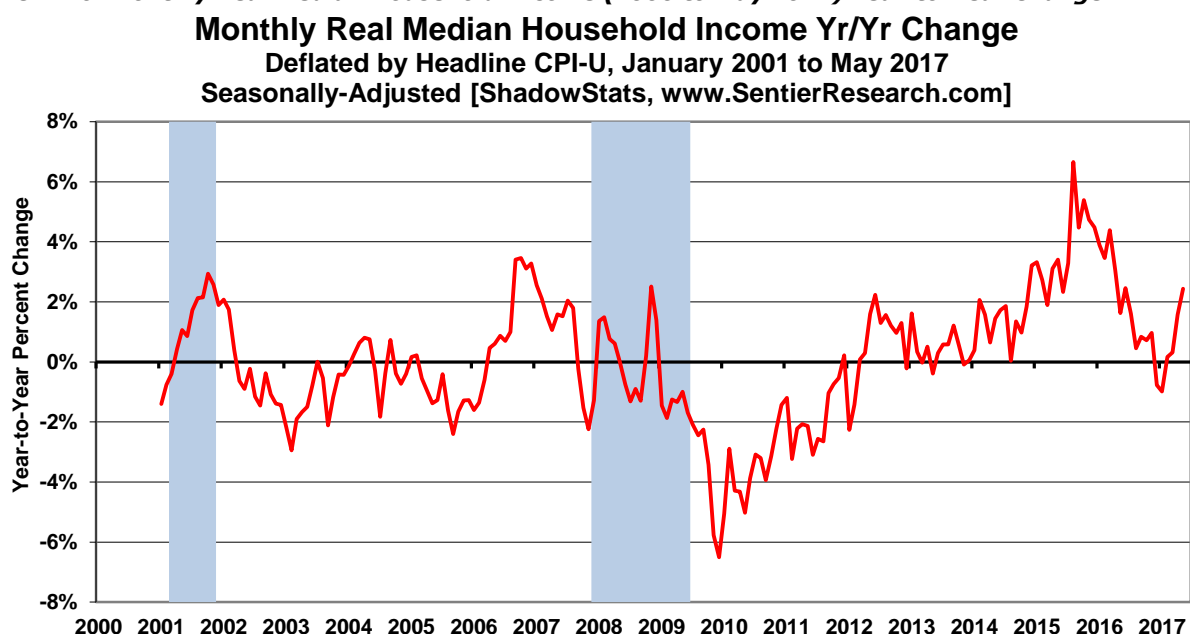
The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of [Commentary No. 909](#)) 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.

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



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

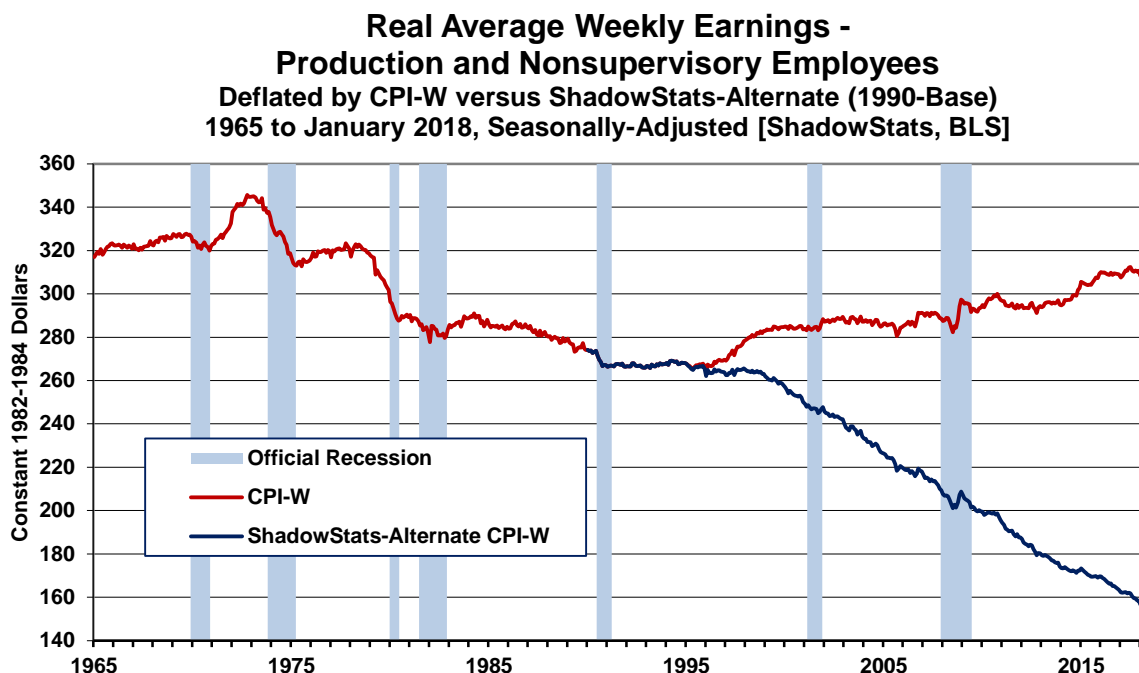


**Real Average Weekly Earnings—January 2018—Heading into a Third-Consecutive, Quarterly Contraction.** For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the discussion in today’s *Reporting Detail*, *Executive Comments* and *Graph 13* there), real average weekly earnings contracted monthly by 0.78% (-0.78%) in January 2018, setting up first-quarter 2018 as a likely, third-consecutive quarter of contraction in real earnings. Based on the January detail, the early trend for first-quarter 2018 is for an annualized contraction pace of 2.92%



(-2.92%). That also would be the fifth real quarterly contraction of the last six quarters. See the *Reporting Detail* for further information.

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

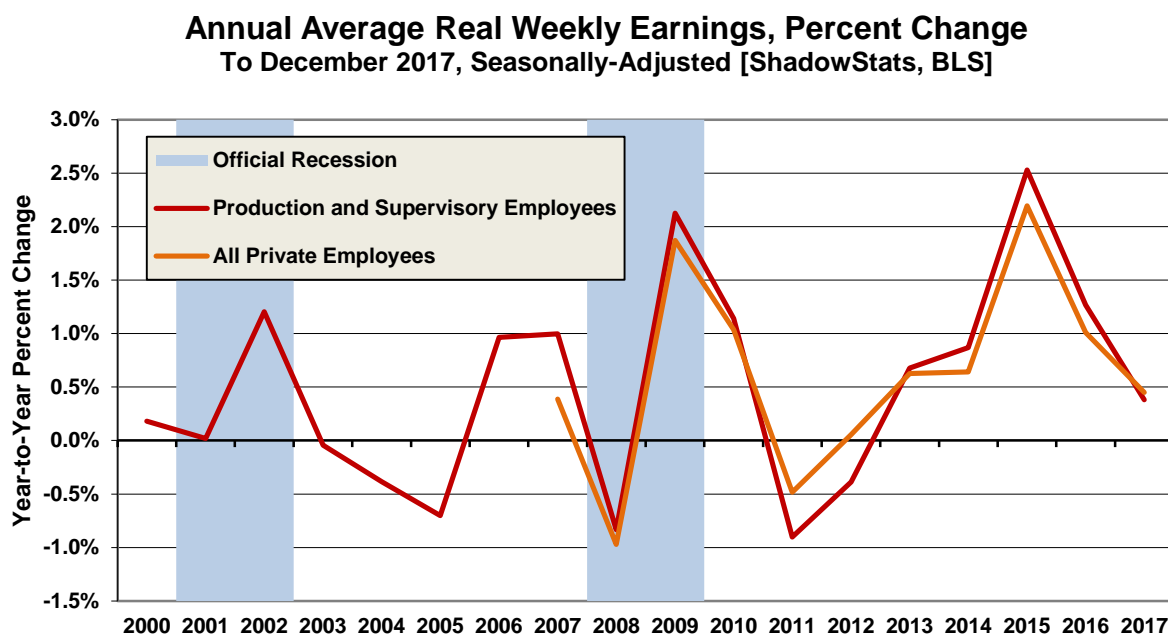


Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating 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.

Shown in Graph CLW-8, and as discussed in [Commentary No. 931](#), both the “all-employees” and “production and nonsupervisory employees” categories showed a sharply slowing pace in annual growth in 2017. Presumably coming off more-positive economic circumstances, the patterns there are consistent with a renewed economic downturn, not with a new economic boom, and the current pace of decline is greater than the average tax reduction to be seen by consumers in the year ahead.

Not all economic downturns are reflected in the headline economic data. For example, industrial production indicated the U.S. economic downturn intensified in fourth-quarter 2014, enough to qualify as a new recession, which is consistent with the plot in Graph CLW-8. See the related discussions in [Commentary No. 928](#) and today’s Industrial Production detail.



**Graph CLW-8: Annual Average of Weekly Earnings, Annual Percent Change (2000 to 2017)**

When income growth is inadequate to support consumption growth, consumers often make up the difference in debt expansion. Yet, real Consumer Credit Outstanding has shown a patterns of declining annual real growth for the last several quarters, irrespective of the specific series, as reflected in the plots of real monthly year-to-year change in *Graph CLW-13*.

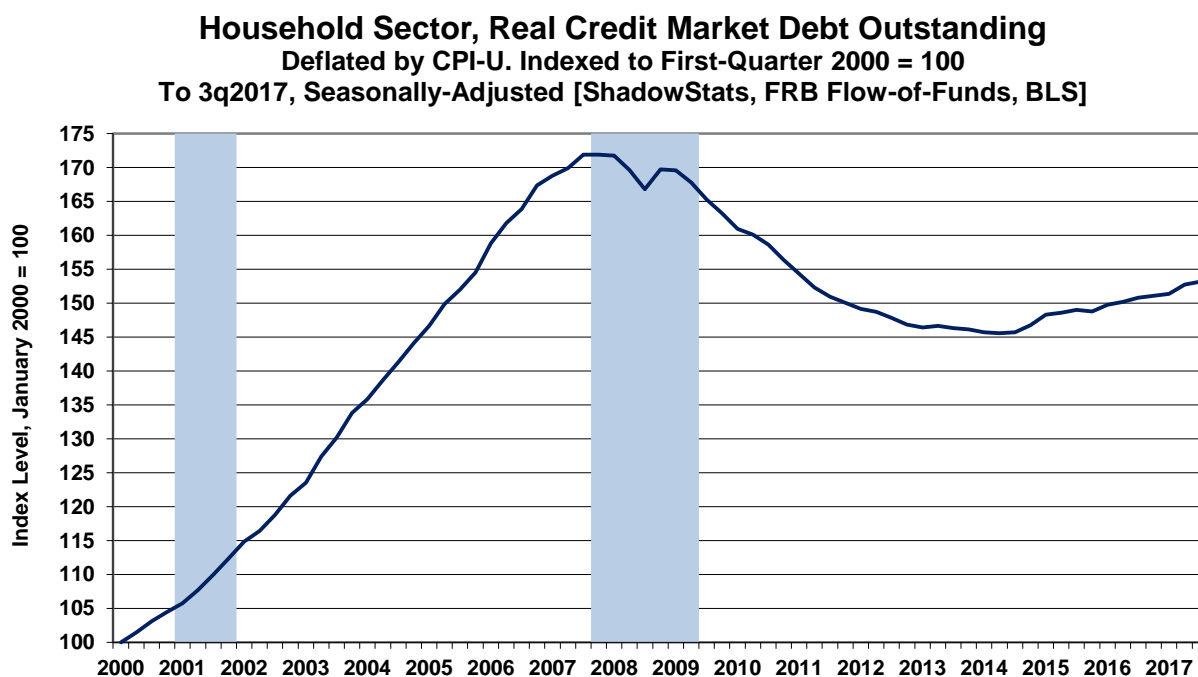
**Consumer Credit: Lack of Expansion in Real Consumer Credit Constrains Economic Growth.** The final five graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, expansion of consumer debt, which would help fuel expansion in personal consumption, has been nonexistent.

**Quarterly Series.** Consider *Graph CLW-9 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-9* reflected a slowing in real year-to-year change from 1.70% in second-quarter 2017, to 1.55% in third-quarter 2017. Such reflects 40 straight quarters—a full decade—of credit non-expansion, versus its pre-recession peak.

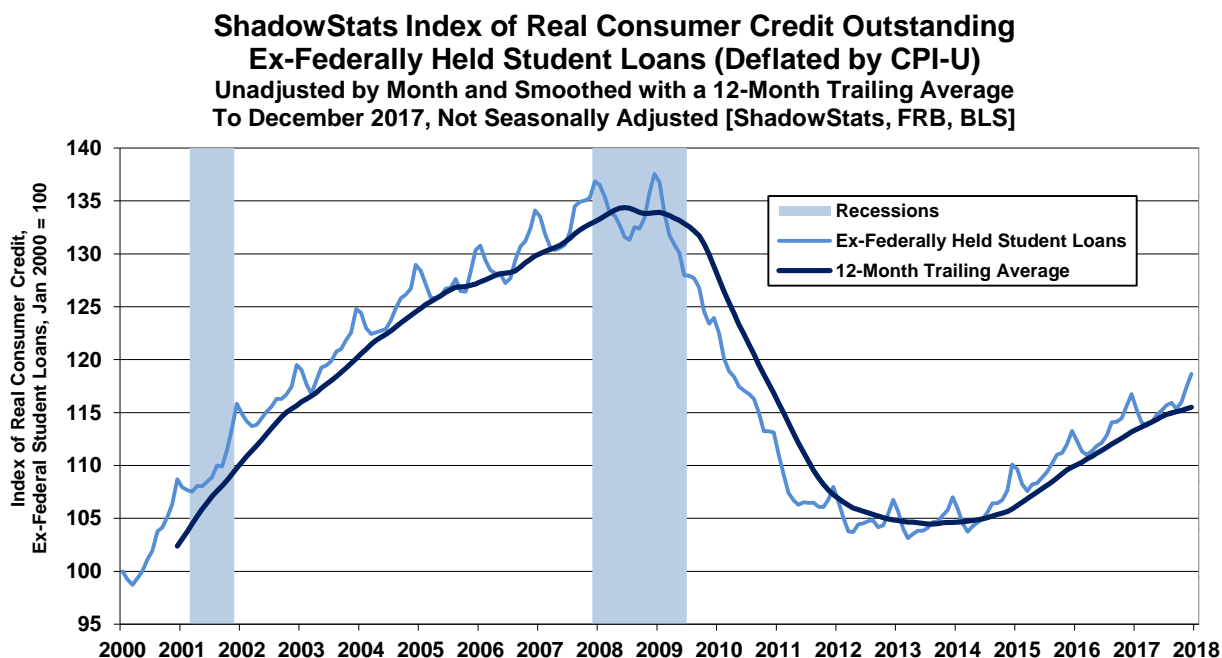
The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking 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 third-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-10 to CLW-13*.

**Graph CLW-9: Household Sector, Real Credit Market Debt Outstanding (2000 through Third-Quarter 2017)**



**Graph CLW-10: Real Consumer Credit Outstanding, Ex-Federal Student Loans (2000 to 2017)**



Shown for comparative purposes in *Graph CLW-10*, real, not-seasonally-adjusted Consumer Credit Outstanding, Ex-Federally Held Student Loans, has not recovered on a monthly, let alone the 12-month trailing-average basis used as a surrogate for seasonal adjustment. Discussed in the next section, this measure of consumer credit now has been through 120 months of non-expansion. That is reflected on a parallel basis through the latest third-quarter reporting shown in *CLW-9*. Please note that the scale in *Graph 10* is indexed to Consumer Credit Outstanding Ex-Federal Student Loans equal to 100 in January 2000. In *Graphs 11 to 13*, that indexing is applied to the total Consumer Credit Outstanding number, which is greater in amount than its dominant Ex-Federal Student Loans subcomponent.

**Monthly Series.** Indeed, 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 only is available not-seasonally-adjusted, the following three related graphs and the preceding *Graph CLW-10* are so plotted.

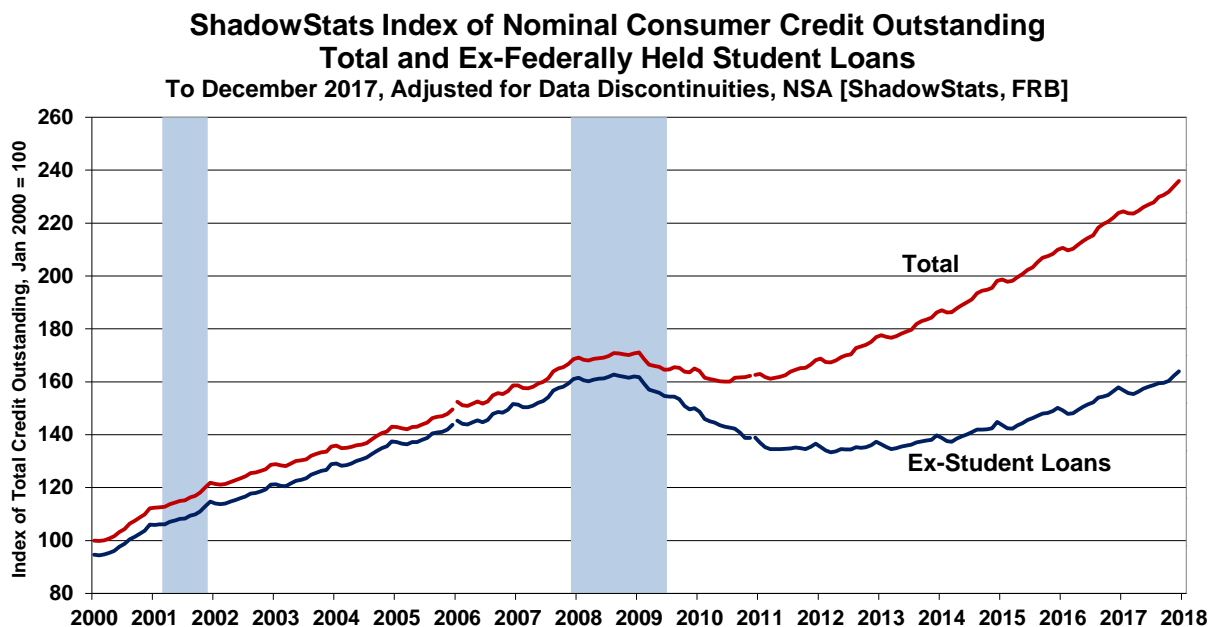
Shown through the December 2017 reading (released February 7th), the headline nominal monthly Consumer Credit Outstanding (*CLW-11*) is a subcomponent of the nominal Household Sector debt. Where *Graph CLW-12* reflects the real or inflation-adjusted activity for monthly Consumer Credit Outstanding terms of both level (*Graph CLW-12*) and year-to-year change (*Graph CLW-13*). *Graphs CLW-12* and *CLW-10* are comparable to the inflation-adjusted Household Sector plot in *Graph CLW-9*.

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.

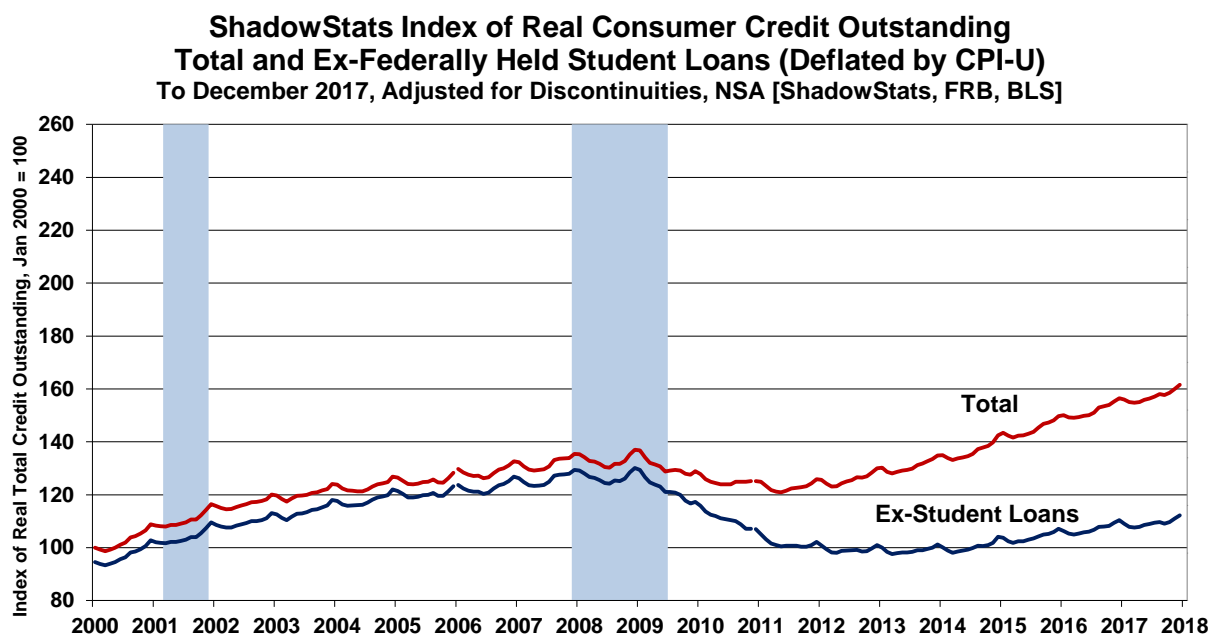
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in December 2017 was down from recovering its December 2007 pre-recession peak by 13.3% (-13.3%). That is 120 months or a full ten years of non-expansion of credit. Year-to-year real growth shown in *Graph CLW-13* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

[Graphs CLW-11 to CLW-13 begin on the next page.]

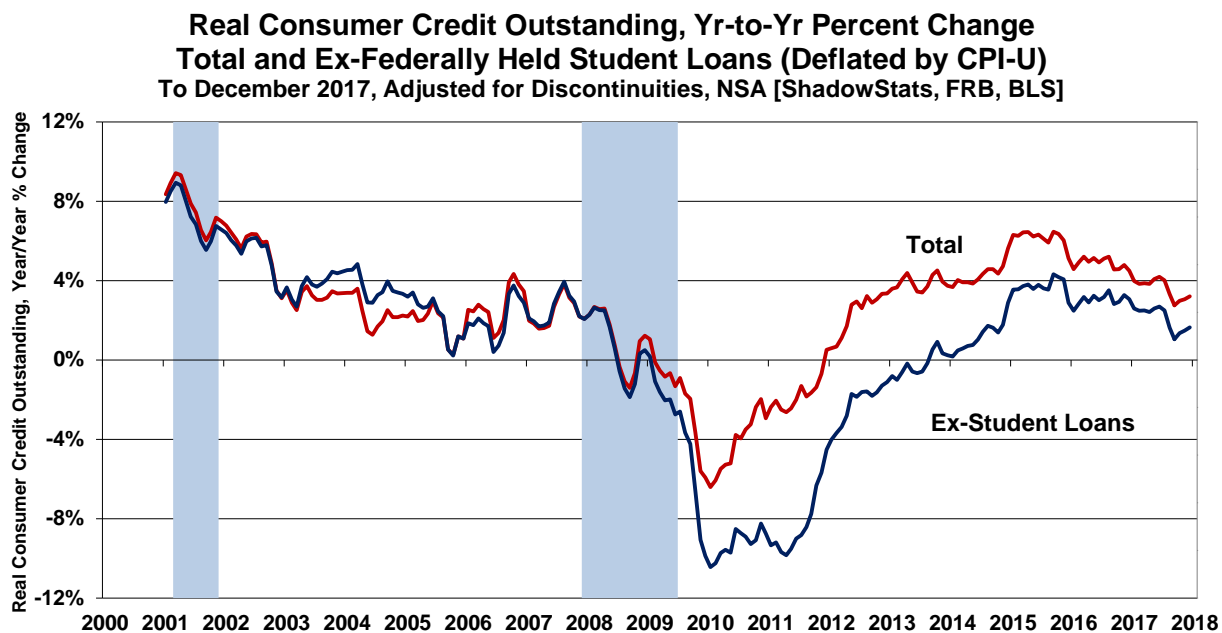
**Graph CLW-11: Nominal Consumer Credit Outstanding (2000 to 2017)**



**Graph CLW-12: Real Consumer Credit Outstanding (2000 to 2017)**



**Graph CLW-13: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)**



*[The Week, Month and Year Ahead begins on the next page.]*

## WEEK, MONTH AND YEAR AHEAD

**Instabilities and Turmoil in the U.S. Dollar and Financial-Markets Continue at High Risk, in the Context of a Faltering and Non-Expanding Real-World Broad Economy.** Updated outlooks for the U.S. economy, the U.S. dollar, gold, silver and the financial markets were reviewed in [Special Commentary No. 935](#), covered there in the opening *Executive Summary* beginning on page 2 of that report, with *Contents* and links to *Major Sections* and *Graphs* beginning on page 6. Renewed economic faltering was discussed in [Commentary No. 936](#) in today's *Opening Comments* and *Reporting Detail*.

**Conditions Take a Turn for the Worse.** Natural-disaster-impact from late 2017 continued to unwind in this week's releases of New Orders for Durable Goods, New- and Existing Home Sales, on top of last week's Retail Sales, Industrial Production and New Residential Construction (Housing Starts). These elements suggested not only some downside revision for the second estimate of Fourth-Quarter 2017 GDP, but also meaningful risk for an outright quarterly contraction in the initial estimate of First-Quarter 2018 GDP on April 27th, particularly with the deteriorating trade deficit discussed in today's *Opening Comments*. Increasingly, headline economic details are likely to disappoint consensus expectations.

The real-world economy is not recovering or booming as advertised, despite heavy hype in the press of a booming, full-employment economy, and in the context recent FOMC tightening actions.

If not already there, reporting in most series should be back to normal (allowing for hurricane disruptions and recovery) by the headline reporting of February 2018 economic activity, as discussed in [General Commentary No. 929](#). Most series increasingly should reflect "unexpected" downtrending economic activity. Where misleading, recent headline details have contributed to a manic stock market, the mania like it could be starting to unwind. The process should accelerate as market perceptions increasing shift towards renewed economic downturn.

An unhappy period of market readjustment to underlying real-world circumstances looms, where Wall Street's proponents of a never-ending stock-market rally have parlayed temporary, nonrecurring economic boosts from natural disasters into a year-end 2017 economic boom. Negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside, as was seen in last week's activity. As the reported economic downturn intensifies in the months ahead, the FOMC—under its new Chairman Jerome H. Powell—eventually should face an "unexpected" policy retrenchment, moving back towards quantitative easing.

In these circumstances, the U.S. dollar and financial markets remain at extraordinarily-high risk of intensified panicked declines, likely in the very near term. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets,

during times of high inflation and currency debasement, and/or political- and financial-system upheaval, Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise.

*Best wishes – John Williams*

**PENDING ECONOMIC RELEASES: Gross Domestic Product—GDP (Fourth-Quarter 2017, Second Estimate, First Revision).** The Bureau of Economic Analysis (BEA) will release its first-revision to, second estimate of Fourth-Quarter 2017 GDP, tomorrow, Wednesday, February 28th, which will be covered in *Commentary No. 938* of March 1st. Initial estimates of Fourth-Quarter 2017 Gross Domestic Income (GDI) and Gross National Product (GNP) also will be published.

Expectations are for a small downside revision in annualized real growth to 2.5%, from the initial 2.6% [2.55%] reporting, and versus an annualized real gain of 3.16% in third-quarter 2017. While that is the likely direction of the revision, it easily could be larger drop, given recent downside revisions to data ranging from retail sales and housing activity to the trade deficit. Discussed in today's *Opening Comments*, the outlook for First-Quarter 2018 GDP increasingly has shifted towards a quarterly contraction.

**Construction Spending (January 2018).** The Commerce Department will release its estimate of January 2018 Construction Spending on Thursday, March 1st. Detail will be covered in *Commentary No. 938* of that date. The December release continued to show year-to-year contraction in inflation-adjusted real activity. The onset of an annual downturn in inflation-adjusted activity last was seen in the housing collapse of 2006 and is indicative of the onset of a new recession. Where that should remain the ongoing trend, recovery and rebuilding efforts from hurricane damages still may offer some short-lived, near-term moderation to the increasingly negative activity.

**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 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 have provided 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](#).

## LINKS TO PRIOR COMMENTARIES AND SPECIAL REPORTS

**Prior Writings Underlying the Current *Special Commentaries* and a Sampling of Recent *Regular Commentaries*.** Underlying the recent [Special Commentary No. 935 \(Part One\)](#) and the pending *Special Commentaries (Part Two)* on Inflation, and *(Part III)* on the Federal Reserve and U.S. banking system, are [Commentary No. 899](#) and [General Commentary No. 894](#), along with general background from regular *Commentaries* throughout 2017.

These missive also are built upon writings of prior years, including [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). In turn, they updated the long-standing hyperinflation and economic outlooks published in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#) (April 2014) and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) (April 2014).

The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the [Public Commentary on Inflation Measurement](#) and the [Public Commentary on Unemployment Measurement](#).

**Recent Commentaries.** *[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](http://www.ShadowStats.com) (left-hand column of home page).]* These regular weekly *Commentaries* are published at least weekly and update the general outlook, as circumstances develop.

[Commentary No. 936](#) (February 19th) covered the January 2018 CPI and PPI, Retail Sales, Industrial Production and New Residential Construction (Housing Starts and Building Permits).

[Special Commentary No. 935](#) (February 12th) was the first part of a three part-series reviewing economic and financial conditions of 2017 and the year-ahead, inflation and the U.S. government's balance sheet and conditions in the U.S. banking system and Federal Reserve options.

[Commentary No. 934-B](#) (February 6, 2018) provided extended coverage on the January 2018 Employment and Unemployment details, the 2017 benchmark revisions to Payroll Employment and the January annual recasting of population, along with coverage of the December 2017 Trade Deficit.

[Commentary No. 934-A](#) (February 2, 2018) provided initial detail on the January 2018 Employment and Unemployment details and the 2017 benchmark revisions to Payroll Employment, along with coverage of January Conference Board Help Wanted OnLine<sup>®</sup> Advertising, January Monetary Conditions and December 2017 Construction Spending.

[Commentary No. 933](#) (January 26, 2018) covered December New Orders for Durable Goods, the Cass Freight Index<sup>™</sup> and the first estimate of Fourth-Quarter 2017 GDP.

[Commentary No. 932](#) (January 18, 2018) covered December Industrial Production and New Residential Construction (Housing Starts and Building Permits).

[Commentary No. 931](#) (January 15, 2018) reviewed December 2017 Retail Sales and the CPI and PPI, along with an update on the U.S. dollar, the financial markets and gold graphs.

[Commentary No. 930-B](#) (January 8th) expanded upon the December 2017 Employment and Unemployment numbers and Household Survey benchmarking, Conference Board Help Wanted OnLine<sup>®</sup> Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending, otherwise headlined in *No. 930-A*.

[Advance Commentary No. 930-A](#) (January 5, 2018) provided a brief summary and/or comments (all expanded in *Commentary No. 930-B*) on December 2017 Employment and Unemployment numbers, Household Survey benchmarking, Conference Board Help Wanted OnLine<sup>®</sup> Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending.

[General Commentary No. 929](#) (December 28, 2017) reviewed current economic and market conditions at year-end 2017.

[Commentary No. 928](#) (December 22, 2017) covered November 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the third estimate of Third-Quarter 2017 GDP.

[Commentary No. 927](#) (December 19, 2017) reviewed November 2017 New Residential Construction (Housing Starts and Building Permits) and Cass Freight Index<sup>™</sup>, along with an expanded discussion on underlying economic reality and the financial markets.

[Commentary No. 926](#) (December 15, 2017) 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 8, 2017) discussed the November 2017 Employment and Unemployment details and Conference Board Help Wanted OnLine<sup>®</sup> Advertising, the October Trade Deficit and Construction Spending and updated Monetary Conditions in November.

[Commentary No. 923](#) (November 29, 2017) 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. 919-B](#) (November 6, 2017) provided more in-depth detail on the October 2017 labor detail.

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

[Special Commentary No. 918-B](#) (October 30, 2017) 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*.

[Commentary No. 917](#) (October 26/27, 2017) 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 6, 2017) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

[Commentary No. 913](#) (September 28, 2017) 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 15, 2017) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

[Commentary No. 909](#) (September 14, 2017) 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 6, 2017) 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 14, 2017) 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<sup>®</sup>, 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<sup>®</sup> Advertising and the May Cass Freight Index<sup>™</sup>.

[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<sup>®</sup> Advertising and April 2017 estimates of the Cass Freight Index<sup>™</sup>, 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<sup>™</sup>.

[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.

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