

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

COMMENTARY NUMBER 365
March Home Sales, Durable Goods Orders

April 27, 2011

**Pending Benchmarks to Retail Sales and Durable Goods Orders
Should Show Economy to Have Been Weaker**

Home Sales Remain Troubled

PLEASE NOTE: The next regularly scheduled Commentary is for Friday, April 29th. It will cover the April 28th release of the first-estimate of first-quarter 2011 GDP. Dependent on the timing of the release of full details of the retail sales benchmark revision, that revision will be covered in the GDP Commentary or shortly thereafter.

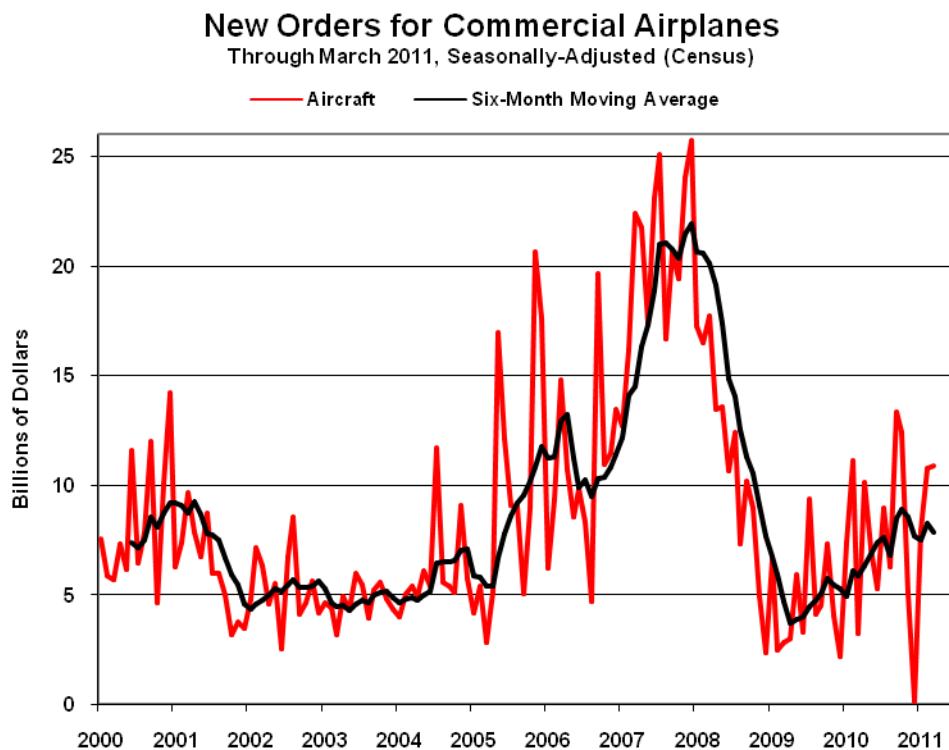
—Best wishes to all, John Williams

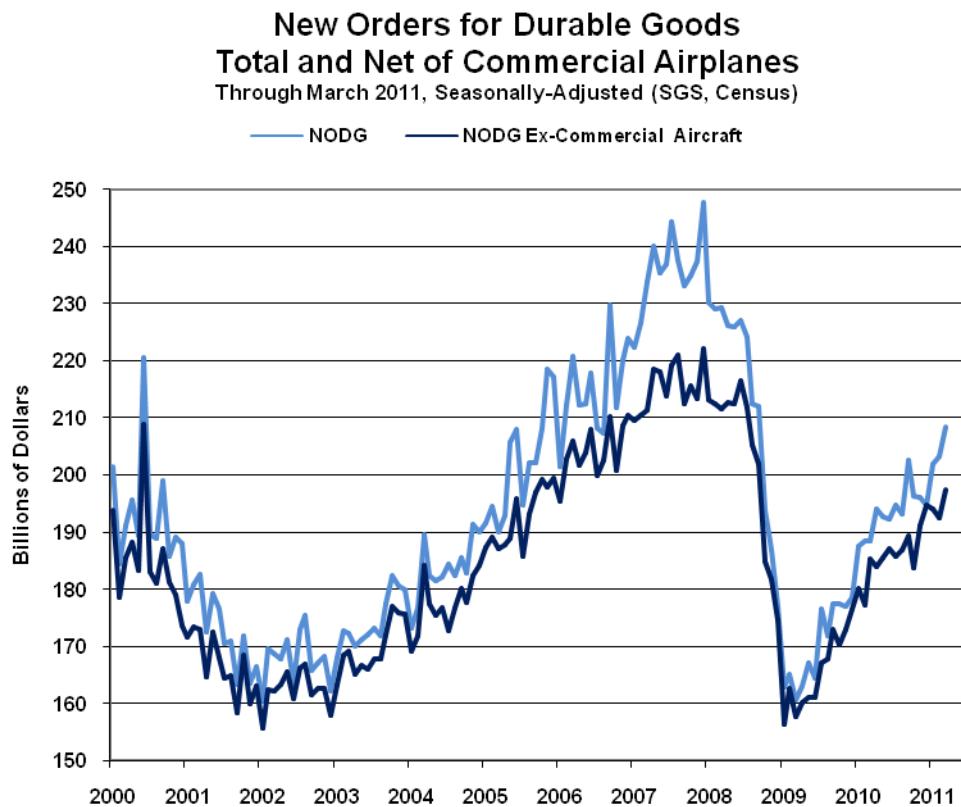
No Ongoing Recovery Evident in Latest Economic Data. The continued stagnant activity in home sales at historically low levels is not suggestive of ongoing economic “recovery.” Although this morning’s (April 27th) report on new orders for durable goods was positive and near or above consensus, it was within the normal range of high volatility for the series, including upside revisions to long-term commercial aircraft orders. The general economic outlook will be reviewed in the next *Commentary* along with the initial estimate of activity in first-quarter 2011 GDP. There has been no fundamental shift in underlying activity to suggest any change in the broad economic outlook and the evolving double-dip recession discussed in the [Hyperinflation Special Report \(2011\)](#).

Separately, with the markets expecting slower GDP growth in tomorrow's first-quarter GDP announcement, any suggestion today (April 27th) by the Fed of ending quantitative easing would be a surprise. The circumstance will be discussed in Friday's *Commentary*.

Durable Goods Orders Subject to May 13th Benchmark Revision. The Census Bureau reported this morning (April 27th) that the regularly-volatile, seasonally-adjusted March 2011 new orders for durable goods increased by 2.5% (up by 4.2% before prior-period revisions) month-to-month, after a revised 0.7% gain (previously a 0.9% decline) in February. The monthly increase reflected a 0.9% increase in irregular, long-term aircraft orders, a category that showed a revised 35.1% (previously 26.7%) monthly surge in February. Unadjusted, year-to-year change in total March new orders was a gain of 12.2%, versus a revised annual gain in February of 7.3% (previously 6.5%). Subject to many of the same sampling and adjustment problems seen with retail sales and payroll reporting, the durable goods series will be subject to a benchmark revision on May 13, 2011. Major downside revisions to reported activity of recent years are likely.

The widely followed nondefense capital goods orders rose by 3.2% (up by 6.0% before prior-period revisions) in March, versus a revised month-to-month gain of 5.2% (previously up by 2.5%) in February. For March, the unadjusted year-to-year growth in the series was 20.7%, up from a revised 7.8% (previously 6.5%) gain in February.





The preceding graphs are not adjusted for inflation and show the monthly volatility in the seasonally-adjusted durable goods new orders series from airplane orders. Aircraft orders are irregular in timing and usually are booked years in advance, with resulting minimal impact on near-term economic activity. The first graph shows commercial aircraft orders on both a monthly and on a six-month moving-average basis, where the second graph shows seasonally-adjusted monthly total new orders for durable goods (NODG), as well as NODG net of aircraft orders.

The recent uptrend in the aggregate series has been influenced heavily by the positive news in aircraft sales, as well as from last year's benchmark revision that built an upside bias into the monthly data. Due to the latter, downside revisions are likely in the pending benchmark. The plotted data are not adjusted for inflation, because there is no particularly meaningful inflation index that makes sense as the deflator. Net of inflation, however, the pattern of monthly increases—seen on average since 2009—would be shallower, much shallower.

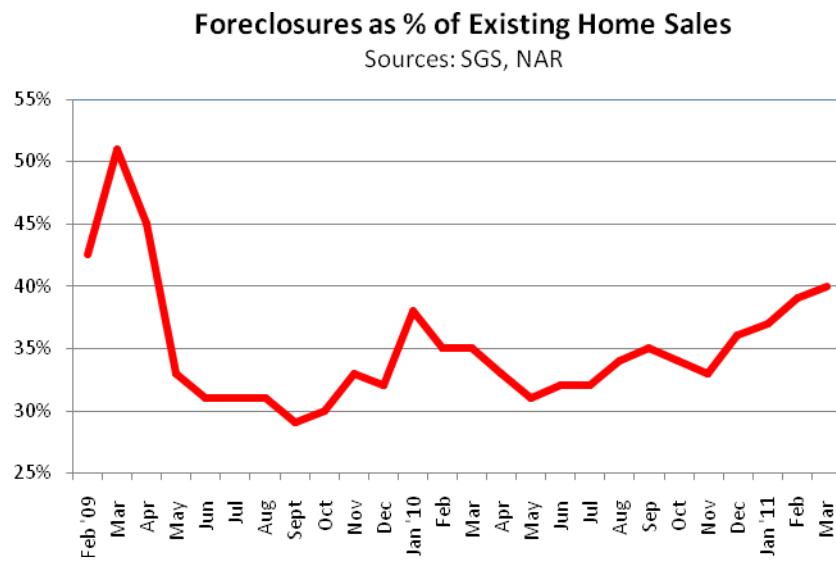
Home Sales Problems Are Ongoing. Both existing and new home sales moved somewhat higher on a monthly basis in March 2011, but not meaningfully. With the same pattern seen in March housing starts (see [Commentary No. 364](#)), the reported monthly gain was not statistically significant, although the reported year-to-year decline continued to be meaningful. The pattern of bottom-bouncing in industry sales continues, with the distressed or foreclosed portion of home sales on the rise, while new

construction (as eventually reflected in the GDP) broadly has turned to a pattern of renewed aggregate decline.

Tuesday's (April 25th) reporting of March new-home sales (counted based on contract signings, Census Bureau) showed a statistically-insignificant monthly gain of 11.1% (up 20.0% before prior-period revisions) +/- 25.3% (95% confidence interval) from February. February's revised level was down by 13.5% (previously down by 16.9%) from January. The year-to-year decline in March 2011 new-home sales was a statistically-significant 21.9% +/- 12.0% (95% confidence interval), versus a revised 22.2% (previously 28.0%) decline in February.

The April 20th release of March 2011 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a 3.7% monthly increase (up by 4.5% net of prior-period revisions), versus February's revised 8.9% (previously 9.6%) monthly decline. On a year-to-year basis, March sales were down by 5.9% from March 2010.

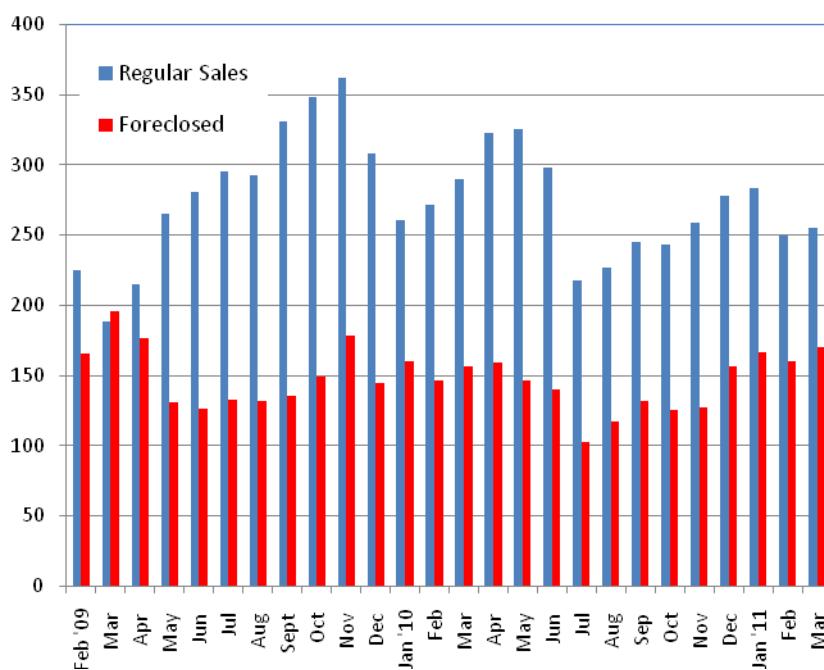
Foreclosure activity remained an intensifying distorting factor for home sales, with "distressed" activity accounting for an estimated 40% of existing sales in the NAR's March reporting, the highest portion seen since Spring 2009, and up from 39% in February.



Separately, the Census Bureau acknowledges that a portion of new home sales also is from foreclosure activity but offers no estimate as to the scope of the issue. Some in the construction trade have difficulty competing with the pricing of foreclosed properties. Until the foreclosure problems get worked out in the system, monthly changes in these home sales numbers cannot be taken as meaningful positive indicators (when the numbers are positive) of underlying activity in homeowner real estate, as it relates to general economic activity.

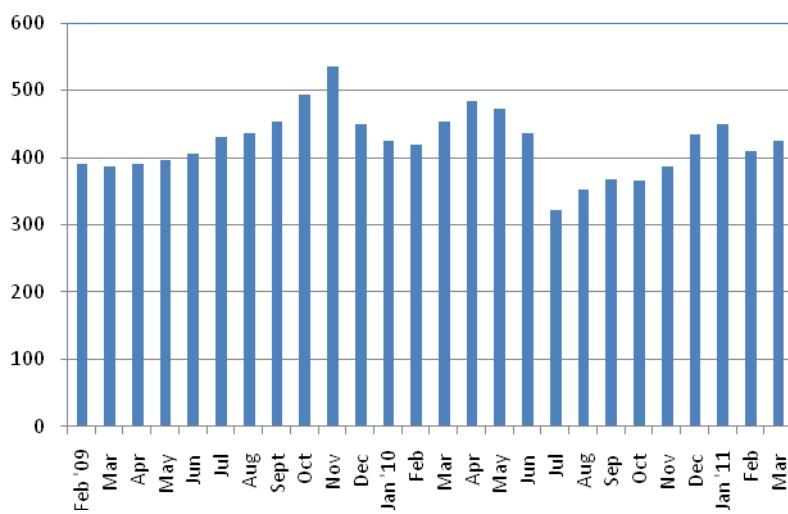
Existing Home Sales - Foreclosed and Not

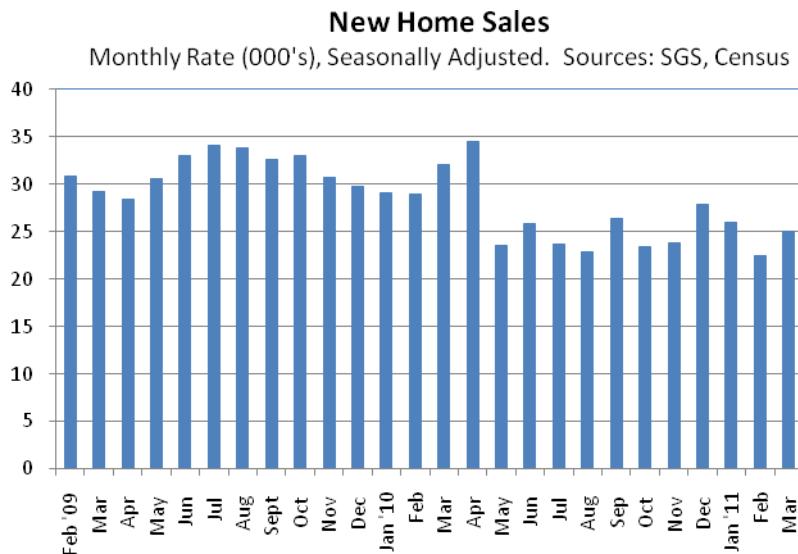
Monthly Rate (000's), Seasonally Adjusted. Sources: SGS, NAR



Existing Home Sales - Total

Monthly Rate (000's), Seasonally Adjusted. Sources: SGS, NAR





Week Ahead. Though not yet commonly recognized, there is both an intensifying double-dip recession and a rapidly escalating inflation problem. Until such time as financial-market expectations catch up with underlying reality, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the month and months ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions, benchmark or otherwise.

Gross Domestic Product—GDP (First-Quarter 2011 “Advance” or First Estimate). The “advance” estimate of first-quarter GDP is due for release tomorrow, Thursday, April 28th. Briefing.com indicates a consensus estimate for the headline annualized quarterly real (inflation-adjusted) growth rate of 1.7%, while online.wsj.com is showing 2.0%, both lower than the 3.1% last reported for fourth-quarter 2010. “Advance” estimates usually are targeted by the Bureau of Economic Analysis (BEA) to match the consensus forecast. Even with consensus consideration of the weakening trade picture, underlying reality is weaker than the consensus, and reporting risk accordingly should be to the downside of consensus. Due to travel, this release will be covered in a *Commentary* on Friday, April 29th.

Retail Sales (Annual Benchmark Revision). The annual benchmark revision to retail sales is due for release on Friday, April 29th. Look for major downside revisions to previously reported economic history of the last several years. A separate *Commentary* will be published at such time as the fully revised historical data become available.