

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

**COMMENTARY NUMBER 341**  
**November Durable Goods Orders, Housing, GDP Revision**

**December 23, 2010**

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**Automobile Orders Sink for Fourth Month**

**Annualized GDP Growth at 2.6%, GDI Growth at 1.1%**

**Housing Crisis Appears to Be Intensifying**

**Year-to-Year Decline in Home Sales Is Meaningful  
Even after Netting out Year-Ago Tax Credit Spikes**

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*PLEASE NOTE: The next regular Commentary is planned for Thursday, December 29th, with an updated general overview on the economy, systemic stability and the financial markets in 2011.*

*-- Merry Christmas! -- John Williams and the ShadowStats.com staff.*

**Little Holiday Cheer in This Week's Numbers.** The average consumer remains liquidity-impaired, and that means there is no hope for any significant economic rebound in the months ahead. New orders for automobiles (in durable goods) have fallen for four straight months. Housing starts have begun to turn down anew, and home sales are showing meaningful annual declines, even with last year's tax-credit-driven sales boosts backed out. The GDP should turn down again, shortly, as the double-dip recession takes clear hold. Payrolls and industrial production -- allowing for revisions coming early in 2011 --

appear already to have peaked or turned down anew as of the August to October 2010 period. Retail sales -- also subject to significant revisions -- should begin to show outright monthly declines, net of inflation, in the months ahead. This will be detailed in next week's *Commentary*, which will address the outlook for 2011, a year that should be one of the most treacherous and unstable ever seen for the U.S. economy, systemic solvency and financial markets. The general outlook as discussed in [\*Special Commentary No. 333\*](#), however, has not changed.

**Decline in November Durable Goods Orders Was Dominated by Continuing Declines in Automobile and Airplane Orders.** The Census Bureau reported today (December 23rd) that the regularly volatile, seasonally-adjusted new orders for durable goods declined by 1.3% (down by 1.2% before prior-period revisions) month-to-month in November 2010, after a revised 3.1% (previously 3.3%) decline in October orders. Unadjusted, year-to-year change in November new orders was a gain of 10.4%, versus the revised 8.8% (previously 9.5%) annual increase reported for October.

New orders for automobiles declined for the fourth consecutive month, while the highly volatile new orders for nondefense aircraft plunged by 53.1%, down for the second month.

Accordingly, the widely followed nondefense capital goods orders fell by 6.8% (down 6.6% before prior-period revisions) in November, versus a revised monthly decline of 4.2% (previously down by 4.5%) in October. For November, the unadjusted year-to-year growth in the series was 19.0%, versus a revised 24.9% (previously 24.5%) gain in October.

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### ***Notes on GDP-Related Nomenclature and Definitions***

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

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

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

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

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

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

**GDP Implicit Price Deflator (IPD)** is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on "Chained 2005 Dollars," at present, where the 2005 is the base year for inflation, and "chained" refers to the methodology which gimmicks the reported numbers so much that the total of the deflated GDP sub-series misses the total of the deflated total GDP series by nearly \$40 billion in "residual" as of second-quarter 2010.

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

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

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**Second Revision to Third-Quarter GDP Revision was Statistical Noise.** The second revision of third-quarter 2010 annualized real GDP growth, from 2.5% to 2.6%, was no more than statistical noise in an otherwise largely worthless series. The change was a matter of rounding, with growth revising from 2.53% to 2.56%. At the same time that the annualized, consumer-side GDP notched higher in its latest revision, its theoretically-equivalent, income-side twin, the GDI, revised lower from initial reporting last month of 1.6% to 1.1%.

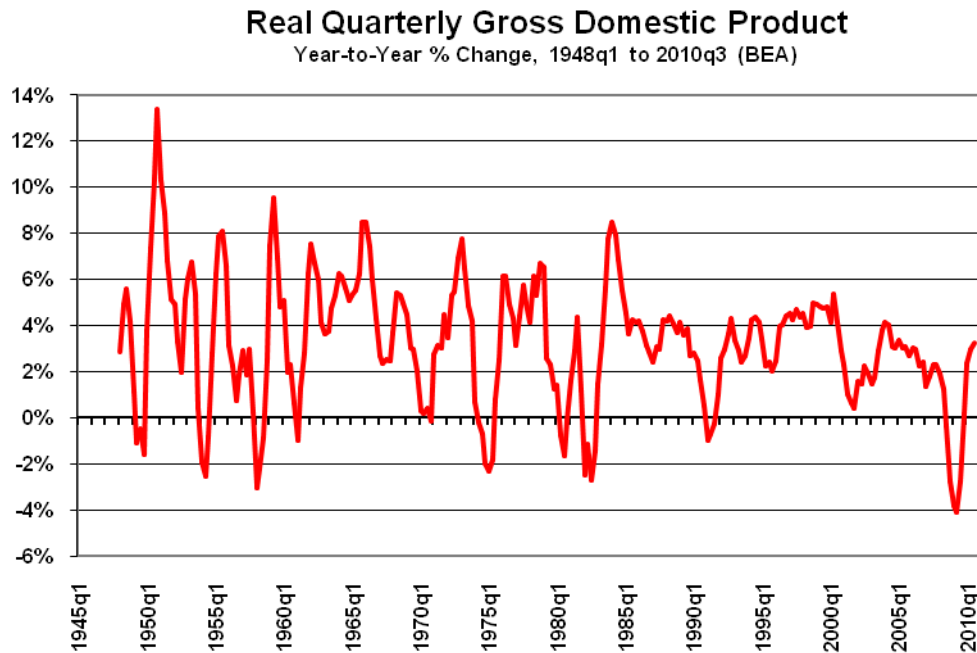
**GDP -- The Detail.** Published yesterday, December 22nd, by the Bureau of Economic Analysis (BEA), the "third" estimate or second revision of third-quarter 2010 Gross Domestic Product (GDP) showed a revised but still statistically-insignificant annualized real growth rate of 2.56% (previously 2.53%, initially 2.01%) +/- 3% (95% confidence interval), up from an estimated 1.72% in the second-quarter. The year-to-year change in real third-quarter GDP revised to 3.25% (previously 3.24%, initially 3.11%), up from 3.00% in the second quarter.

The GDP implicit price deflator was estimated at an annualized pace of 2.03% (revised from 2.21%, 2.17% in initial reporting) inflation for third-quarter 2010, up from 1.96% in the second-quarter. In contrast, annualized seasonally-adjusted quarterly inflation for the CPI-U in the third-quarter spiked to 1.47%, following a 0.72% contraction in the second-quarter. The lower the inflation rate used in deflating the GDP, the stronger will be the inflation-adjusted number and vice versa.

The SGS Alternate-GDP estimate for third-quarter 2010 remains an approximate annual contraction of 1.4% versus the official estimate of a 3.2% gain, more-negative than the alternate 1.3% annual contraction (3.0% official gain) estimated in the second-quarter (see the [Alternate Data](#) tab). While annualized real quarterly growth is not estimated formally on an alternative basis, a flat-to-minus quarter-to-quarter change still appears to have been realistic for the third-quarter. The recent relative upturn in annual change reflects the bottom-bouncing at low levels of activity seen for much of the last year in key underlying economic series, not an economic recovery. As discussed in [Special Commentary No. 333](#) and

as will be updated in next week's *Commentary*, an intensified downturn, now in the form of a double-dip recession, continues to unfold.

The following graph shows the annual percent change in the official inflation-adjusted quarterly GDP for the history of the series. The record annual contraction for the series was 4.11%, seen in second-quarter 2009.



**GNP.** The first revision of the third-quarter GNP (Gross National Product) also was just statistical noise, showing real annualized quarterly growth of 2.31% versus the initial estimate of 2.33%, and versus 1.81% in the second-quarter. Year-to-year change in the third-quarter was an unrevised 3.35% versus 3.43% in the second-quarter.

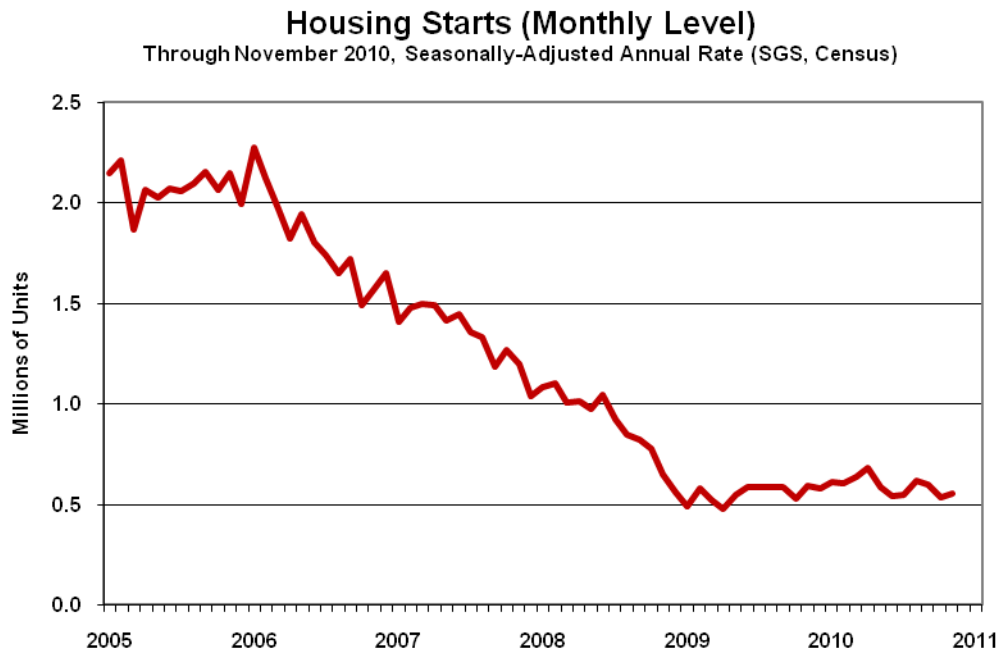
**GDI.** As discussed in the opening GDP comments, the first revision to third-quarter 2010 GDI -- the income-side equivalent to the consumption-side GDP -- showed an annualized real quarter-to-quarter growth rate of 1.12%, down from 1.61% in initial reporting. Such suggested weaker growth than the 2.56% reported for the latest GDP. This third-quarter GDI growth was down from the 2.70% annualized GDI growth reported in the second quarter. Year-to-year GDI change in the third-quarter was 3.64%, versus the initial estimate of 3.76%, and against 3.35% in the second-quarter.

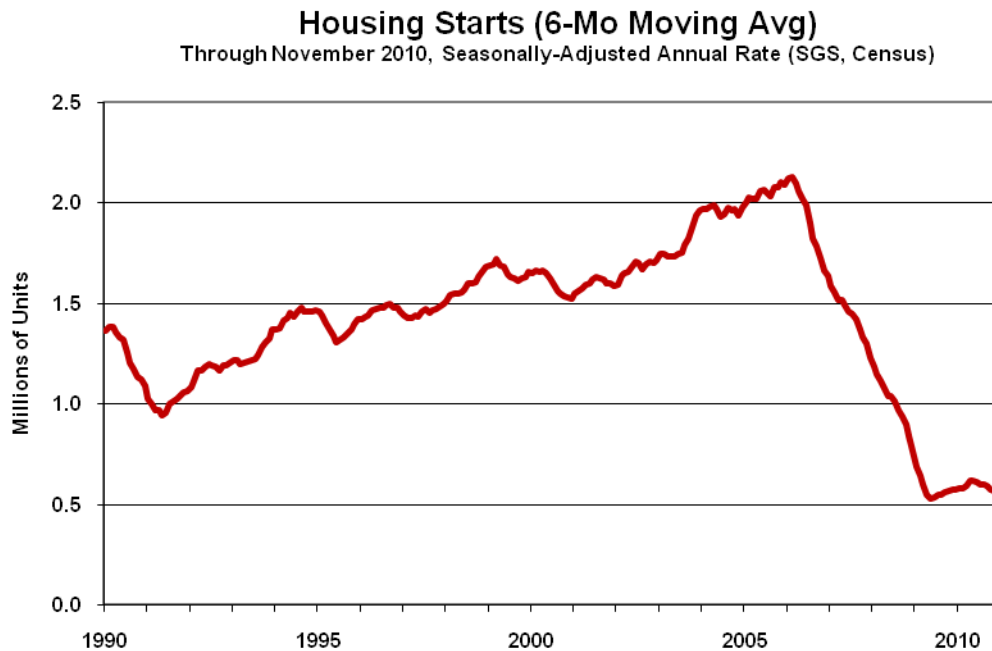
**November Housing Starts Change Was Statistically Insignificant.** The Census Bureau reported December 16th a statistically-insignificant increase for November 2010 housing starts, up by 3.9% (up by 6.9% before prior-period revisions) +/- 14.0% (95% confidence interval) on a seasonally-adjusted month-to-month basis. October's starts were revised to a 9.2% (previously 11.7%) decline.

Year-to-year change in November starts was a statistically-insignificant decline of 5.8% +/- 14.0% (95% confidence interval), following a revised annual gain of 0.9% gain (previously a 1.9% decline) in October.

Although the pattern of housing starts generally remains one of bottom-bouncing at an historically low-level plateau of activity, as seen over the last 23 months, the recent activity has started to slow anew, meaningfully. Even-weaker monthly numbers remain likely in the months ahead. Since December 2008, housing starts have been bottom-bouncing, averaging a seasonally-adjusted annual rate of 571,800. In those 23 months, all monthly readings have been within the normal range of monthly volatility for the series around that average, with the November 2010 reading of 555,000 below average. More significantly, the six-month moving-average for the series, as of November, stood at 565,500, below the average level of the 23-month period of bottom-bouncing. Housing starts have begun rolling down hill, once again.

The "recovery" in housing is shown in these graphs. The first graph reflects the level of monthly activity in terms of the annualized monthly rate of housing starts, which is randomly volatile and subject to large revisions on a monthly basis. The second graph shows the six-month moving average, which tends to smooth out that monthly volatility.





**November Homes Sales Continue Bottom Bouncing Near Historic Low Levels of Activity.** Both existing and new November home sales were reported with insignificant monthly gains, continuing a pattern of bottom-bouncing near historic lows hit earlier in 2010, along with continuing deep annual contractions in sales activity. Although part of the current year-to-year decline can be accounted for by a sales spike last year driven by expiring tax credits, net of the that effect, year-to-year sales still are down sharply, as can be eyeballed in the graphs at the end of this section. The lack of a home sales pick-up is consistent with a re-intensifying downturn in the already-crippled residential construction industry.

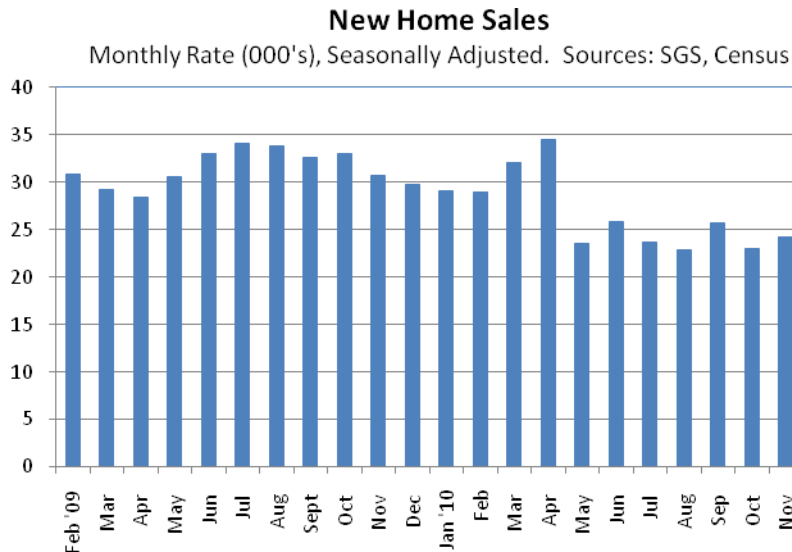
Today's (December 23rd) reporting of November new-home sales (counted based on contract signings, Census Bureau) showed a statistically-insignificant monthly gain of 5.5% (up 2.5% before prior period revisions) +/- 18.9% (95% confidence interval) from October. October showed a revised 10.7% (previously 8.1%) monthly decline. The year-to-year decline in the new home sales series in November 2010 was a statistically-significant 21.2% +/- 15.5% (95% confidence interval), versus a revised 30.6% (previously 28.5%) decline in October.

Yesterday's (December 22nd) release of November existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a 5.6% increase in monthly activity versus October's unrevised 2.2% decline. On a year-to-year basis, November sales fell by 27.9% against November 2009, with October sales down by 25.9% from the year before.

Foreclosure activity remained a major distorting factor for home sales, with "distressed" activity accounting for an estimated 33% of existing sales in the NAR's November reporting, down from an estimated 34% in October. Short-lived foreclosure moratoriums likely are having some impact here.

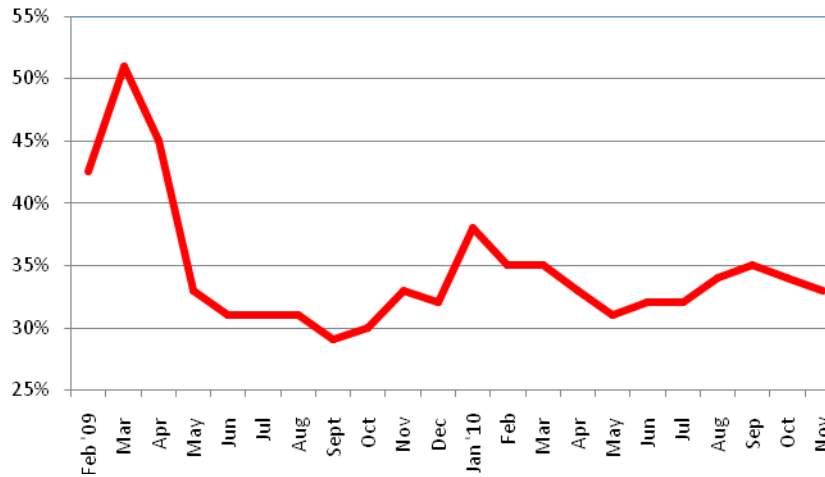
Separately, the Census Bureau acknowledges that a portion of new home sales also is from foreclosure activity but offers no estimates as to the scope of the issue. Some in the construction trade have difficulty competing with the pricing of foreclosed properties. Until the foreclosure problems get worked 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.

The following updated graphs reflect different measures of home sales activity since February 2009. The numbers, through November 2010, reflect the seasonally-adjusted level of monthly sales, rather than the annual rates usually published by the industry.



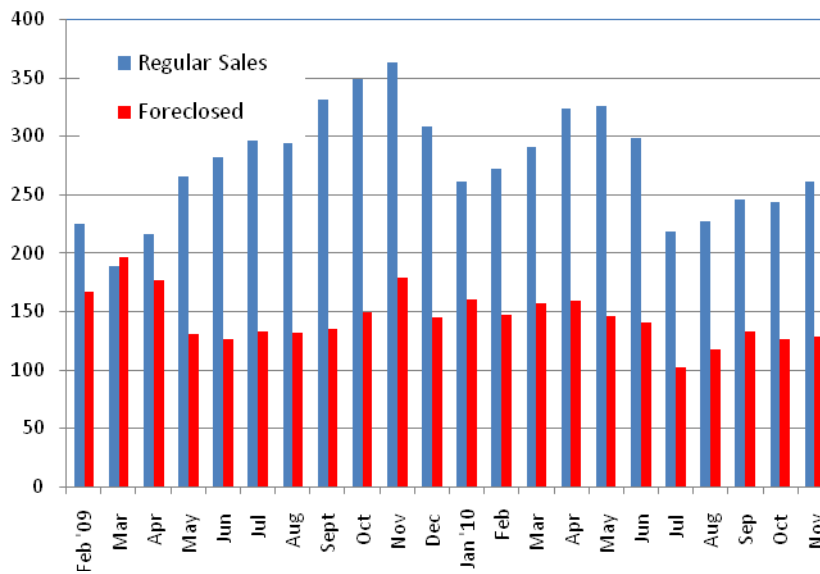
### Foreclosures as % of Existing Home Sales

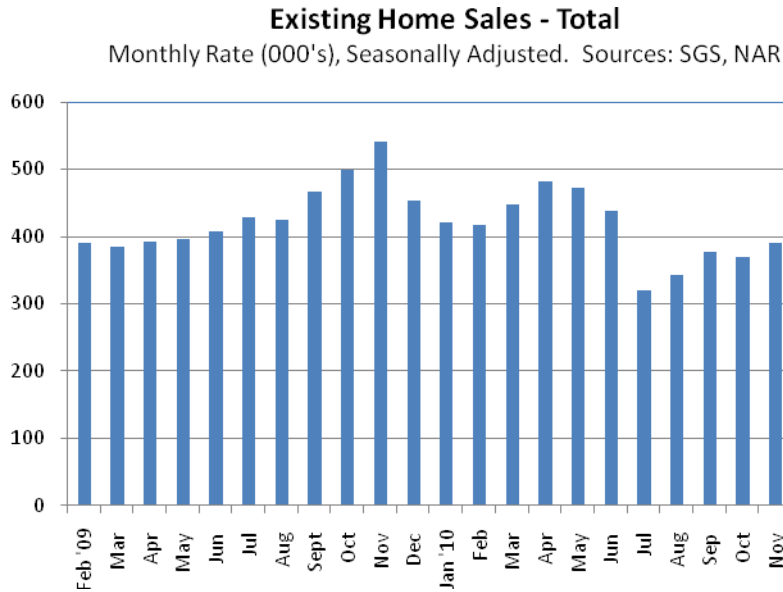
Sources: SGS, NAR



### Existing Home Sales - Foreclosed and Not

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





**Week Ahead.** Given the unfolding reality of an intensifying double-dip recession and more-serious inflation problems than generally are anticipated by the financial markets, risks to reporting will tend towards higher-than-expected inflation and weaker-than-expected economic reporting in the months ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions. That said, there are no major economic releases in the week ahead.