

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

COMMENTARY NUMBER 441

April Durable Goods Orders, New and Existing Home Sales, U.S. Dollar

May 24, 2012

Activity in Real Durable Goods Orders Is Below 1999 Level

Low-Level Stagnation in Home Sales Activity Continued into April

Update on U.S. Dollar Fundamentals

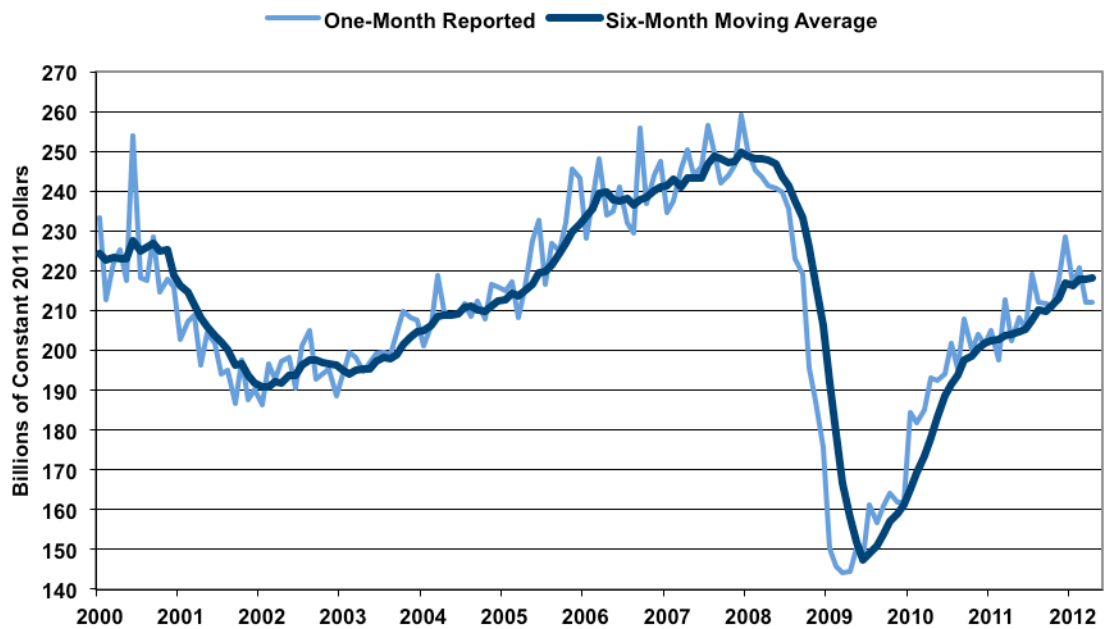
PLEASE NOTE: The next regular Commentary is scheduled for Friday, June 1st, covering May 2012 employment and unemployment, the first revision to first-quarter GDP, the April PCE deflator and April construction spending.

Best wishes to all — John Williams

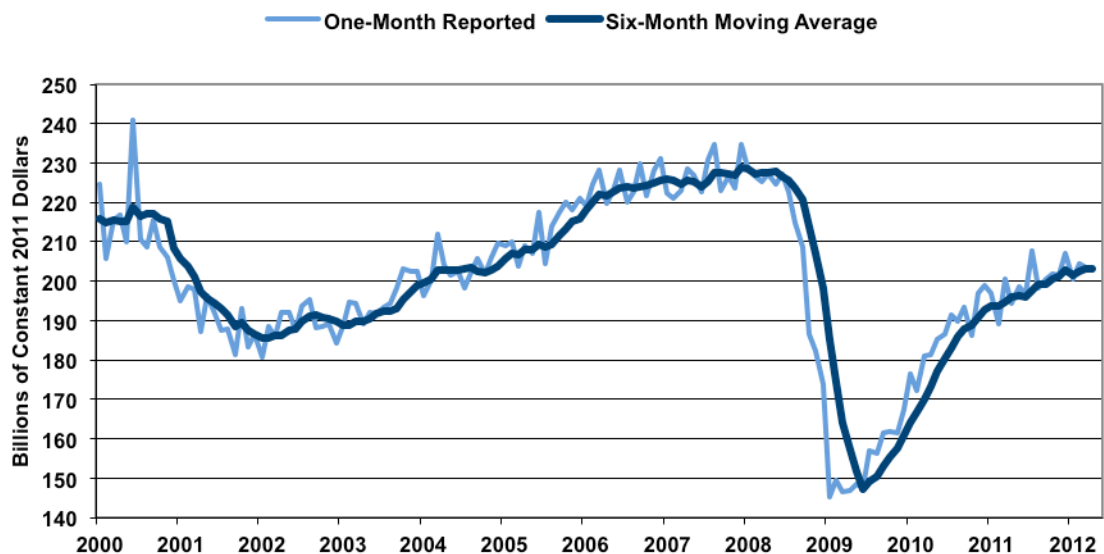
Opening Comments and Executive Summary. There was nothing in the April home sales or durable goods orders data that altered the broad outlook for domestic business conditions. U.S. economic activity entered a downturn in 2006/2007, plunged well into 2009 and has stagnated or bottom-bounced at a low level of activity ever since. Due to structural income and credit issues for consumers, there remains no prospect of sustainable, positive economic growth or economic recovery in the near-future.

These issues will be addressed in the June 1st regular *Commentary*, based on new information available from the pending May labor data release and the first revision to first-quarter 2012 GDP, and will be fully reviewed in a *Special Commentary*, scheduled for June 8th (see *Hyperinflation Watch*).

Real New Orders for Durable Goods
Deflated by PPI--Finished Goods Capital Equipment
Through April 2012, Seasonally-Adjusted (SGS, Census, BLS)



Real Durable Goods Orders (Ex-Nondefense Aircraft)
Deflated by PPI--Finished Goods Capital Equipment
Through April 2012, Seasonally-Adjusted (SGS, Census, BLS)



New Orders for Durable Goods. April new orders for durable goods rose by a minimal and statistically-insignificant 0.2% for the month, a gain that was offset by inflation. March orders contracted by 3.7% (3.9% after inflation). The data, however, were the first released subsequent to the May 18th benchmark revision to the series (see [Commentary No. 440](#) for benchmark detail).

As shown in the preceding graphs, the latest levels of real (inflation-adjusted) orders remained well below the peak levels seen before the 2001 and 2007 downturns. Moreover, net of inflation adjustment (2011-dollars based on the PPI finished goods capital equipment index [PPI-FGCE]), the seasonally-adjusted level of April 2012 aggregate new orders stood at \$212.1 billion, 2.8% below the annual-average \$218.3 billion of new orders seen in 1999. The new orders for durable goods series is not in recovery.

The data in the graphs show the level of new orders for durable goods—smoothed and adjusted for inflation—and incorporate the annual benchmark revision. In terms of smoothing, the graphs reflect a six-month moving average, as well as the seasonally-adjusted individual monthly data. The detail shown in the second graph also is net of nondefense aircraft orders, a category that is a significant cause of month-to-month volatility in the series. The two series are plotted to the same scale.

The PPI-FGCE inflation index used in deflation here, as seen with the inflation rates used to adjust other series, such as GDP and industrial production, tends to understate inflation, due to the use of hedonic quality adjustments. If the deflation measure here could be corrected meaningfully for its hedonic-adjusted understatement, the uptrend seen currently in real (inflation-adjusted) new orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity (see [Special Commentary No. 426](#)).

New and Existing Home Sales. Neither the 3.3% monthly gain in April 2012 new home sales (March was down by 7.3%), nor the 3.4% monthly gain in April 2012 existing home sales (March was down 2.8%), was statistically significant. Graphs of both of those series in the *Reporting Detail* show the pattern of plunging activity into 2008/2009 with low-level stagnation in place ever since.

While that pattern may not be apparent at first glance for the existing home sales, keep in mind that the post-2008 upside bumps and downside crashes reflect the offsetting effects of stimulus/incentive packages that borrowed sales from the future, along with the catch-up that indeed was seen in the future months. Smoothing out that volatility leaves a pattern of ongoing stagnation.

Hyperinflation Watch—Dollar Fundamentals. A *Special Commentary* is planned for Friday, June 8th, to review the broad economic outlook and implications for systemic stability, inflation and hyperinflation. The outlooks for those various areas have not changed from what was discussed in the January 25th [Hyperinflation 2012](#), but conditions continue to evolve and regular review and updating is needed. The reviews and updates are covered in regular *Commentaries* and in *Special Commentaries*. The June 8th missive will supplant [Special Commentary No. 426](#) and [Special Commentary No. 429](#).

As previously indicated, the currency with the biggest problems remains the U.S. dollar, and that should be reflected in the global markets in the not-too-distant future, likely in response to new Fed accommodation/banking-system problems, and/or concerns involving the White House and Congress not addressing the long-term solvency issues facing the United States. Other potential triggers for the market

shift against the dollar include, but are not limited to, a particularly nasty presidential campaign, or a shock economic statistic that hits the financial markets the wrong way.

Near-term selling pressure against the euro has helped to boost the dollar, which in turn has hit precious metals and oil. I still expect the euro weakness versus the U.S. currency to be relatively short-lived, eventually reversing as dollar selling kicks in. The timing remains open, but the underlying fundamentals remain in place against the dollar—they do not get much worse—and strongly favor the precious metals and the healthier Western currencies.

Fundamentals impacting a currency (U.S. dollar here) are viewed in terms of conditions relative to major trading partners. The circumstances will be examined item-by-item in the upcoming *Special Report*:

Underlying Fundamentals	Relative Condition	Impact on USD	
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Trade Balance	Severe Deficit	Negative	
Interest Rates	Extreme Low	Negative	
Economic Growth	No Recovery / Low	Negative	*
Inflation	High	Negative	*
Political Stability	Low	Negative	**
Fiscal Condition	Worst of Developed World	Negative	

* Not fully recognized in the markets

** Euro area concerns temporarily taking global attention.

REPORTING DETAIL

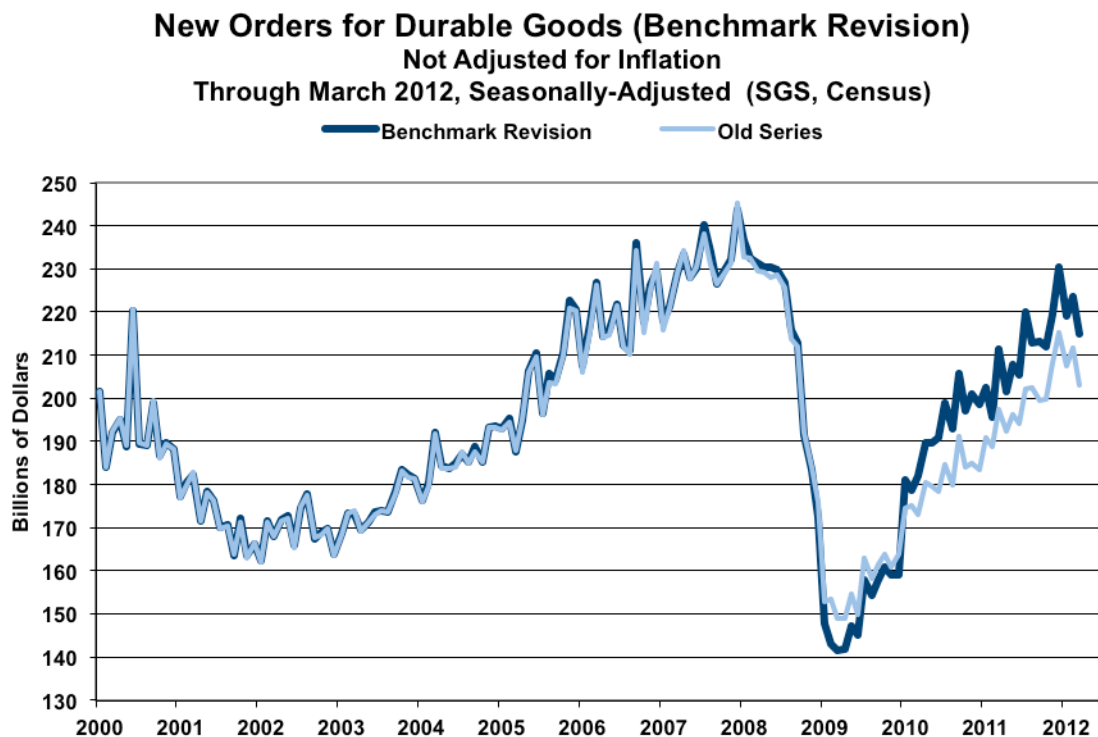
NEW ORDERS FOR DURABLE GOODS (April 2012)

Real Durable Goods Orders Remain Below 1999 Levels. The minimal increase reported in April new orders for durable goods was well within the scope of regular monthly volatility and was more than accounted for by a small increase in nondefense aircraft orders. Historical graphs of the series, both aggregate and net of nondefense aircraft, are shown in the *Opening Comments and Executive Summary*. The data there are smoothed and adjusted for inflation and incorporate the annual benchmark revision. Net of inflation adjustment (2011-dollars based on the PPI finished goods capital equipment index), the seasonally-adjusted level of April 2012 of orders stood at \$212.1 billion, versus an annual-average level of new orders in 1999 of \$218.3 billion. The latest level of orders also remains well below the peak levels seen before the 2001 and 2007 downturns.

As described in [Special Commentary No. 426](#), there is no fully appropriate inflation measure available for deflating durable goods. The one used here is the PPI's inflation measure for finished goods capital equipment (PPI-FGCE), an official inflation measure. The problem with that measure is in the hedonic quality adjustments to prices, where nebulous "quality improvements," which cannot be measured directly and are not consistently applied to all products, are modeled in incredibly imprecise efforts by the government to reduce reported inflation versus real-world experience. The same issues are part of the methodological problems that significantly understate the CPI and the GDP implicit price deflator inflation measures.

In terms of smoothing, the graphs reflect a six-month moving average, as well as the raw monthly data. The detail also is graphed net of nondefense aircraft orders, a significant cause of month-to-month volatility in the series.

Benchmark Revision. The reporting of April 2012 new orders for durable goods was in the context of the annual benchmark revision published on May 18th (see [Commentary No. 440](#) for full detail). Copied from that *Commentary*—but not updated for the April 2012—is the following graph of the prior durable goods series versus the benchmark revision, where the aggregate revised series is shown as the thicker, dark line. As noted in the *Commentary*, net of the downside changes to 2009 and the upside changes in 2010, the 2011 pattern remained pretty much as it was before, just at a higher level. Current upside biases and assumptions built into the series remain in place.



Official Reporting. The Census Bureau reported today, May 24th, that the regularly-volatile, seasonally-adjusted nominal (not adjusted for inflation) new orders for durable goods in April 2012 rose by 0.2% (up by 0.3% versus benchmark reporting), after a post-benchmark revision of a 3.7% decline in March orders (indicated as a 3.9% decline the benchmark revision). Net of the effects of a relatively small increase nondefense aircraft orders, aggregate orders were down by 0.1% for the month.

The irregular and highly volatile long-term nondefense aircraft orders rose by 7.2% in April 2012, following a 48.6% monthly plunge in March. Airplane orders usually are placed years in advance of delivery and rarely impact near-term economic activity.

Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems that are seen with retail sales and payroll reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly changes.

Unadjusted, year-to-year growth in total April 2012 new orders was 6.9%, versus 1.2% in March.

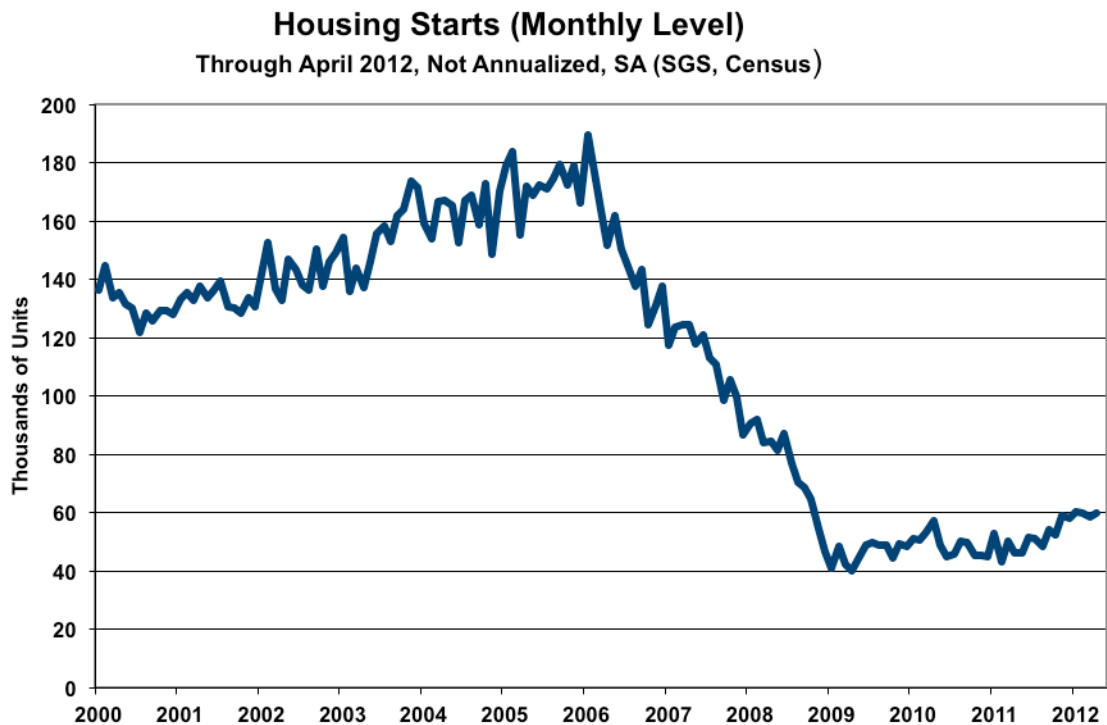
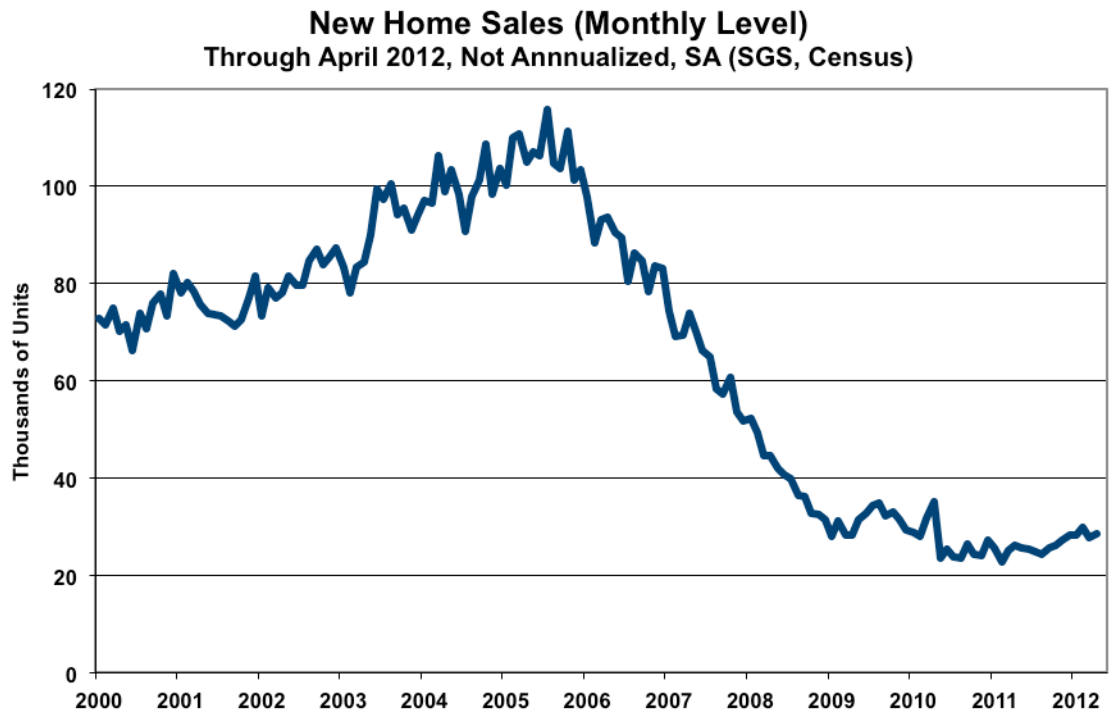
Seasonally-adjusted, nondefense capital goods new orders declined in April, down by 0.2% month-to-month, following a 12.1% decline in March. For April 2012, the unadjusted year-to-year change in the series showed a 3.5% gain.

Inflation-Adjusted and Smoothed. The official 0.2% monthly gain in April orders effectively was unchanged (down by 0.03%) after inflation adjustment, and the official 3.7% monthly decline in March was 3.9% on the same basis. As shown in the graphs in the *Opening Comments and Executive Summary*, these series have shown a slowing uptrend in the last two-to-three years, but clearly not the recovery that is seen in official GDP reporting. As discussed above, the real (inflation-adjusted) level of orders in April 2012 remained below the pre-2001 recession high and was 18.1% below the pre-2007 recession high.

If the deflation measure here could be corrected meaningfully for its hedonic-adjusted understatement, the uptrend in real orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity (see [Special Commentary No. 426](#)).

NEW AND EXISTING HOME SALES (April 2012)

Multi-Year Crash and Ongoing Low-Level Stagnation in New Homes Sales Continued through April. April 2012 new home sales continued in a state of depressed bottom-bouncing, generally moving in tandem with April housing starts, as shown in the following two graphs (see [Commentary No. 439](#) for housing starts reporting details). There have been no developments in underlying economic fundamentals that would suggest a pending industry turnaround or an unfolding, broad economic recovery.



April Reporting. Yesterday's (May 23rd) release of April new-home sales (counted based on contract signings, Census Bureau) showed an ongoing pattern of volatile bottom-bouncing, with month-to-month change remaining far from being statistically significant, as been the case for more than three years. Indeed, the April 2012 monthly gain of 3.3% (a gain of 4.6% before prior-period revisions) +/- 14.6% (all confidence intervals are at the 95% level) was statistically insignificant. In turn, the March monthly change—in the context of the annual revisions to the seasonally-adjusted data back to January 2010—was revised to a 7.3% decline (previously a contraction of 7.1%). The year-to-year 9.9% +/- 17.2% gain in April 2012 new-home sales, also was statistically-insignificant. March's annual gain—again in the context of the annual seasonal-adjustment revisions—was revised to a 10.3% (previously 7.5%) gain. Recent volatility in annual change reflects partially the effects of lapsing stimulus efforts a year ago.

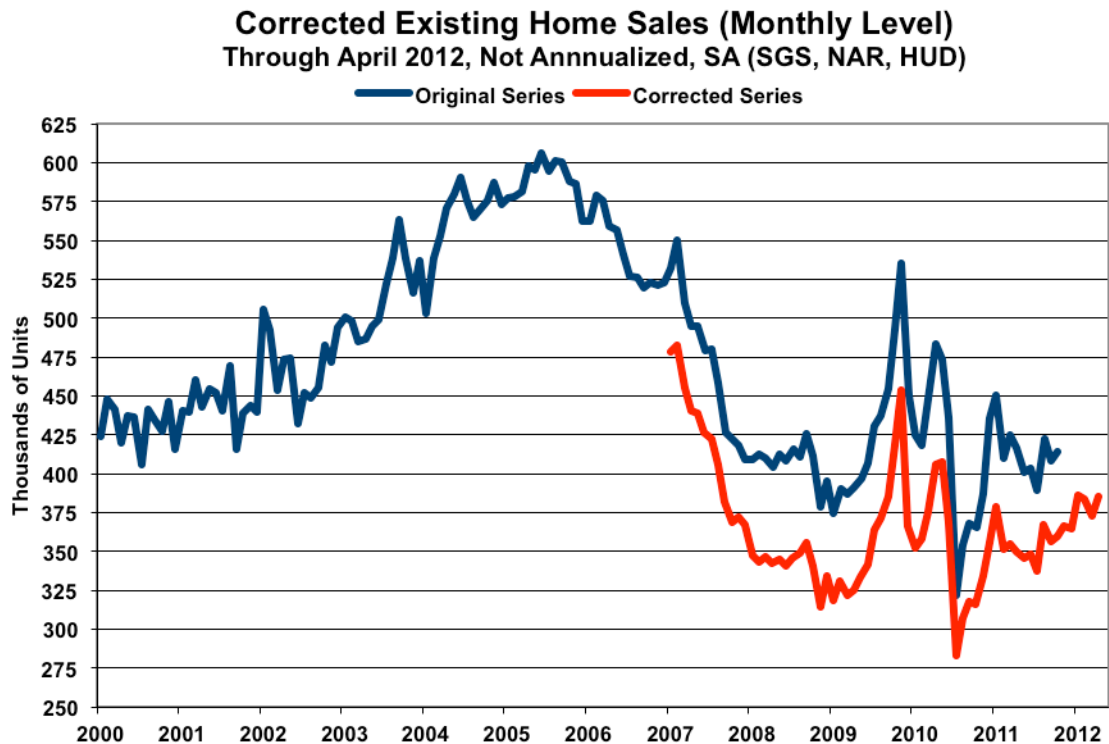
April's Existing-Home Sales Gain Also Was Within Normal Bounds of Volatility. As has been noted regularly in the monthly *Commentaries* covering existing-home sales series—despite recent massive corrections and revisions to the series—reporting remains subject to significant seasonal-factor instabilities, as also has been seen recently in a number of government series. Those seasonal-factor distortions are a result of the severe depth and length of the economic contraction, a circumstance that post-World War II (or modern) economic reporting never was designed to handle.

Further, as shown in the accompanying graph, the old (pre-November 2011) and corrected series do not appear to be consistent or comparable. Seasonal factor distortions have been skewed, not only by protracted, collapsing activity, but also by the impact of various stimulus/tax-incentive packages, which pulled some future sales activity into the periods of the incentives. For those interested in the latest detail, however, we continue to look at the regular reporting of the new series, although a heavy caution is offered on the quality of what is being published.

April Reporting. The May 22nd release of April 2012 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 3.4% (a gain of 3.1% before prior-period revisions). The NAR does not publish estimates of statistical significance for changes in its series. As revised, March showed a 2.8% monthly decline, which initially had been reported as a drop of 2.6%.

On a year-to-year basis, April 2012 sales rose by 10.0%, a stronger pace than the revised 5.0% (previously 5.2%) annual gain reported in March. Again, recent volatility in annual change reflects partially the effects of lapsing housing stimulus efforts a year ago.

Distressed properties remained a significant portion of existing home sales activity. The NAR reported “distressed” sales in April at 28% (17% foreclosures, 11% short sales), down from 29% (18% foreclosures, 11% short sales) in March. While foreclosures also remain a factor in new-home sales, the Census Bureau does not provide an estimate of foreclosure volume.



Week Ahead. *Recognition of an intensifying double-dip recession as well as an escalating inflation problem remains sporadic. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news; and the financial markets will do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.*

Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

Gross Domestic Product—GDP (First-Quarter 2012, Second Estimate, First Revision). Scheduled for release by the Bureau of Economic Analysis (BEA) on Thursday, May 31st, the first revision to the first-quarter 2012 GDP estimate is expected to show a downgraded headline growth rate of 1.9% (early consensus per MarketWatch.com) versus the “advance” estimate of 2.2%.

That is within reason. Certainly the widening of the March trade deficit versus the January and February data available at the time of the “advance” GDP estimate supports a negative revision. Any reporting surprises likely would be to the downside of expectations. Possible surprises also could be seen in the initial reporting of first-quarter 2012 gross national product (GNP) and gross domestic income (GDI).

Personal Consumption Expenditures (PCE) Deflator (April 2012). Subsequent to the GDP release, which will cover the revised first-quarter 2012 PCE Deflator, the BEA is scheduled to release the April

2012 PCE deflator guesstimate on Friday, June 1st. The Federal Reserve's newly targeted inflation measure could come in close to the 2.0% annual growth target. Nonetheless, as discussed previously, the current concept of an inflation target serves only as pabulum for the financial markets, not as a defining priority that drives Fed policy.

Employment and Unemployment (May 2012). May labor data are due for release on Friday, June 1st, from the Bureau of Labor Statistics (BLS). The early expectation for May payroll employment is a gain of 170,000, up from the initial reporting of a 115,000 gain in April, with the headline unemployment rate for May expected to hold at 8.1%, the same level as reported for April, per MarketWatch.com.

The consensus jobs estimate basically is the trend estimate that comes out of the BLS seasonal-adjustment models. The payroll trend number for May is 168,000 as discussed in [Commentary No. 435](#) and in [Unpublished Payroll Data](#).

Nonetheless, May data likely will disappoint expectations, given underlying weakness in related economic fundamentals, and likely reversals in systemic distortions inherent in the seasonal adjustments being made to both series.

Construction Spending (April 2012). Due for release on Friday, June 1st, by the Census Bureau, April construction spending likely will show ongoing patterns of bottom-bouncing at low levels of activity for the series, particularly after inflation-adjustment. Once again, monthly changes should not be statistically significant.
