

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

**COMMENTARY NUMBER 450**  
**Durable Goods Orders, Home Sales, Consumer Confidence**

**June 27, 2012**

---

**Real Durable Goods Orders Topping Out Below Levels Seen in 1999**

**Home Sales Keep Bottom-Bouncing Along**

---

*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Thursday, June 28th, covering the third estimate of first-quarter 2012 GDP.*

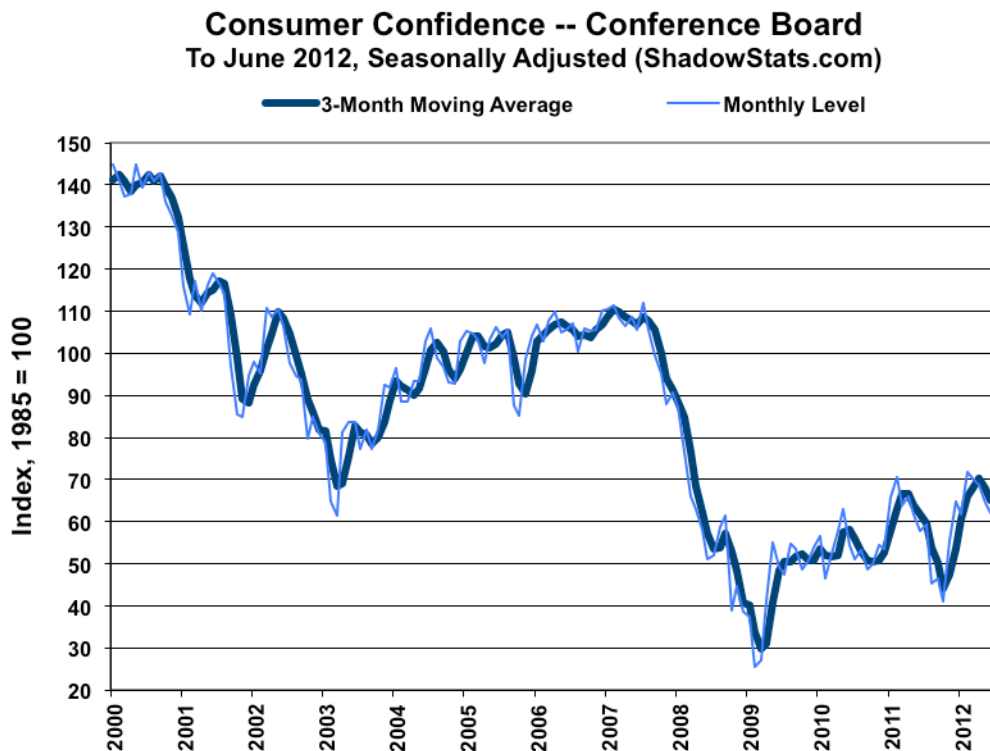
*Best wishes to all — John Williams*

**Opening Comments and Executive Summary.** Reporting of relatively minor economic series in the last week generally was within the bounds of market expectations, and was consistent with the broad economic outlook of stagnation and renewed decline, as most recently updated in *Special Report No. 445*. Today's (June 27th) covered series include new orders for durable goods and new and existing home sales for May, as well as a brief comment on June consumer confidence.

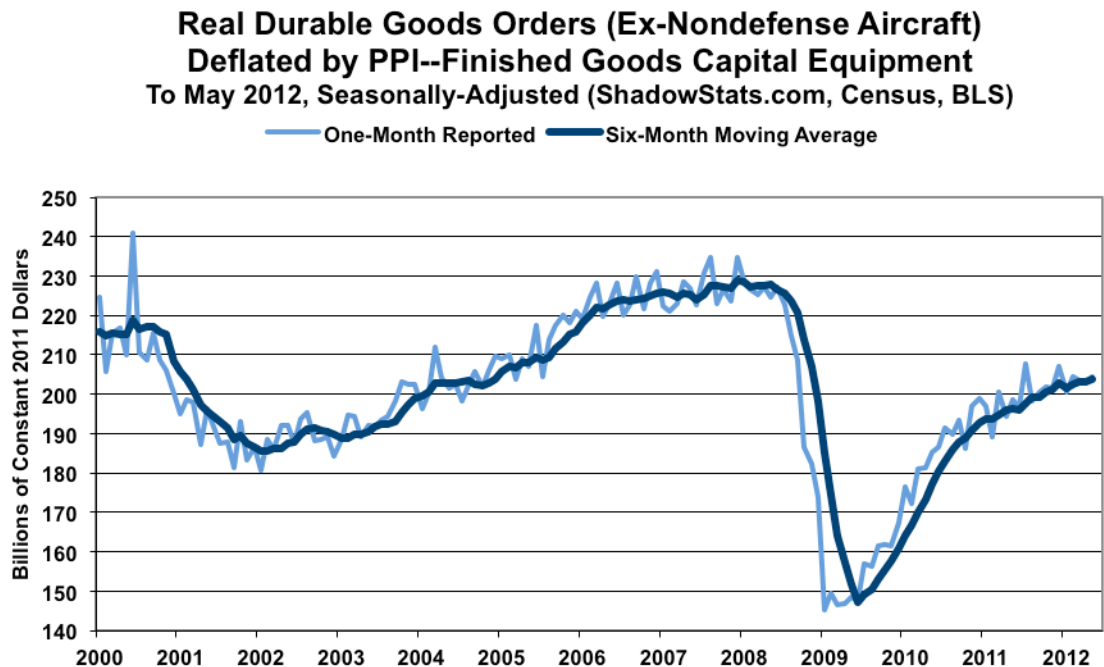
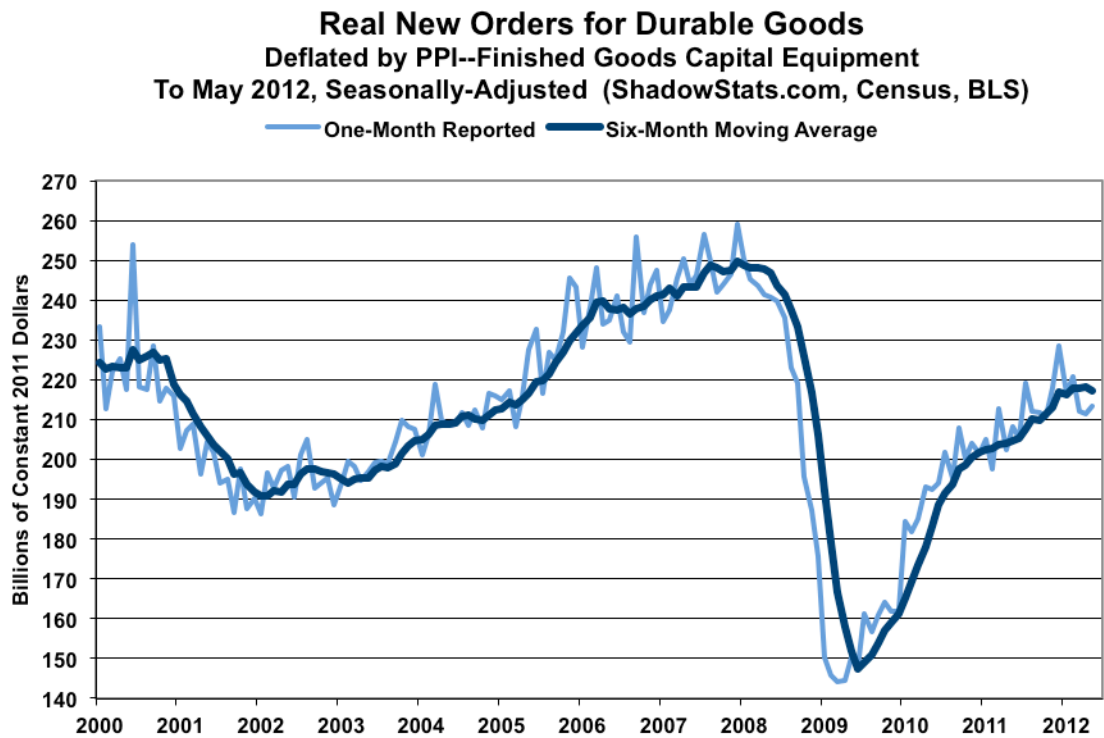
Tomorrow's June 28th *Commentary*—beyond covering the third revision to first-quarter 2012 GDP—will explore June employment and unemployment circumstances and the implications for the official reporting of same on July 6th. That report on labor conditions will be the first major release of June economic data and should set the tone for the other major June series that will follow. A new twist to the issues surrounding official unemployment reporting will be explored in tomorrow's *Commentary*.

**Consumer Confidence.** The consumer confidence and sentiment series are coincident-to-lagging indicators of economic activity. They often reflect the tone in the popular media towards the economy, and indicate an element of consumer willingness to spend and/or to borrow money. The confidence series published by the Conference Board is graphed below. The numbers are seasonally-adjusted, which is a potential weakness in the series, where seasonality likely is not strong (the University of Michigan Survey sentiment survey always is published unadjusted), and where the unadjusted Conference Board series never is published.

As shown in the following graph, the June 2012 reporting showed a 3.7% monthly drop in the confidence index, along with a continuing downturn in the three-month moving average. Despite the short-term volatility, the series remains at a low level that historically never has been seen outside of deep recession. There has been no recovery here. There is nothing in the confidence data, or, for that matter, in any other economic reporting that confirms the full recovery officially being reported in the GDP.



**New Orders for Durable Goods.** The 1.1% monthly growth reported for durables orders in May followed a revised 0.2% contraction (had been a 0.2% gain) in April. The monthly reporting was well within the regular volatility of the series, which, net of inflation, appears to be flattening out, as shown in the accompanying graphs. Indeed, net of inflation, neither the full orders series, nor the series with nondefense aircraft orders removed, has recovered pre-recession highs, with current levels of activity below those seen in 1999. Real year-to-year growth in the aggregate series slowed to 2.5% in May, down from 4.5% in April.



***New and Existing Home Sales.*** Both home-sales series continued their patterns of protracted bottom-bouncing in May, a pattern that now is into its fourth year, following the plunge of activity from 2006 into 2008. Those patterns are obvious in the new home sales and housing starts plots in the *Reporting Detail* section. The variability seen the related existing home sales graph is tied to boosts in periods where there were various government incentive programs for homebuyers, and to declines in the periods from which those programs had borrowed activity. Smoothing out those variances would leave the same bottom-bouncing pattern that is so obvious in new home sales.

In the monthly detail, as usual, the 7.6% month-to-month gain in May new home sales was not statistically significant. The May gain followed a revised April contraction of 1.2% that previously had been reported as a 3.3% gain. Also not meaningful was the 1.5% contraction estimated for May existing home sales, which followed an unrevised 3.4% monthly gain for April.

**Hyperinflation Watch.** *Note: [Special Report No. 445](#) (June 12th) updated the hyperinflation outlook and the outlook for U.S. economic, U.S. dollar, and systemic-solvency conditions. The Special Report supplemented [Hyperinflation 2012](#) (January 25th), which remains the primary missive detailing the hyperinflation story. This circumstance will be updated further as new developments unfold.*

---

## REPORTING DETAIL

### NEW ORDERS FOR DURABLE GOODS (May 2012)

**Real Durable Goods Orders Are Flattening Out Below 1999 Levels.** The small increase reported in May new orders for durable goods was well within the scope of regular monthly volatility and revisions, and was boosted by a modest increase in nondefense aircraft orders. On a real (inflation-adjusted) basis, the unfolding pattern of activity is one of a flattening level of new orders that remains below the levels seen in 1999 and 2000.

Historical graphs of the real 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. Net of inflation adjustment (2011-dollars based on the PPI finished goods capital equipment index), the seasonally-adjusted level of May 2012 new orders stood at \$213.4 billion, versus an annual-average level of new orders in 1999 of \$218.3 billion. The latest level of orders not only remained well below the peak seen before the 2001 recession, but also was 17.6% below the peak of activity preceding the 2007 downturn.

*Note: 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.*

**Official, Nominal May Reporting.** The Census Bureau reported today, June 27th, that the regularly-volatile, seasonally-adjusted nominal (not adjusted for inflation) new orders for durable goods in May 2012 rose by 1.1% (up by 0.8% net of prior-period revisions), following a revised 0.2% decline (previously a 0.2% gain) in April. Adjusting for the impact of a relatively small increase in nondefense aircraft orders, aggregate orders were up by 0.9% for the month.

The irregular and highly volatile long-term nondefense aircraft orders rose by 4.9% in May, following a revised notch higher of 0.1% (previously a gain of 7.2% in April). Airplane orders usually are placed years in advance of delivery and rarely impact near-term economic activity.

Unadjusted, year-to-year growth in total May 2012 new orders was 5.9% versus a revised 6.4% (previously 6.9%) in April.

Seasonally-adjusted, nondefense capital goods new orders rose by 1.3% in May, following a revised 0.8% (previously a 0.2%) decline in April. For May 2012, the unadjusted year-to-year change in the series declined by 0.2%, following a revised April 3.6% (previously 3.5%) annual gain.

*Note: 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.*

**Inflation-Adjusted and Smoothed.** The official 1.1% monthly gain in May orders effectively was a gain of 1.0% after inflation adjustment, and the official 0.2% monthly decline in April was a decline of 0.4% on the same basis. Seasonally adjusted, year-to-year real growth slowed to 2.5% in May, down from 4.5% in April.

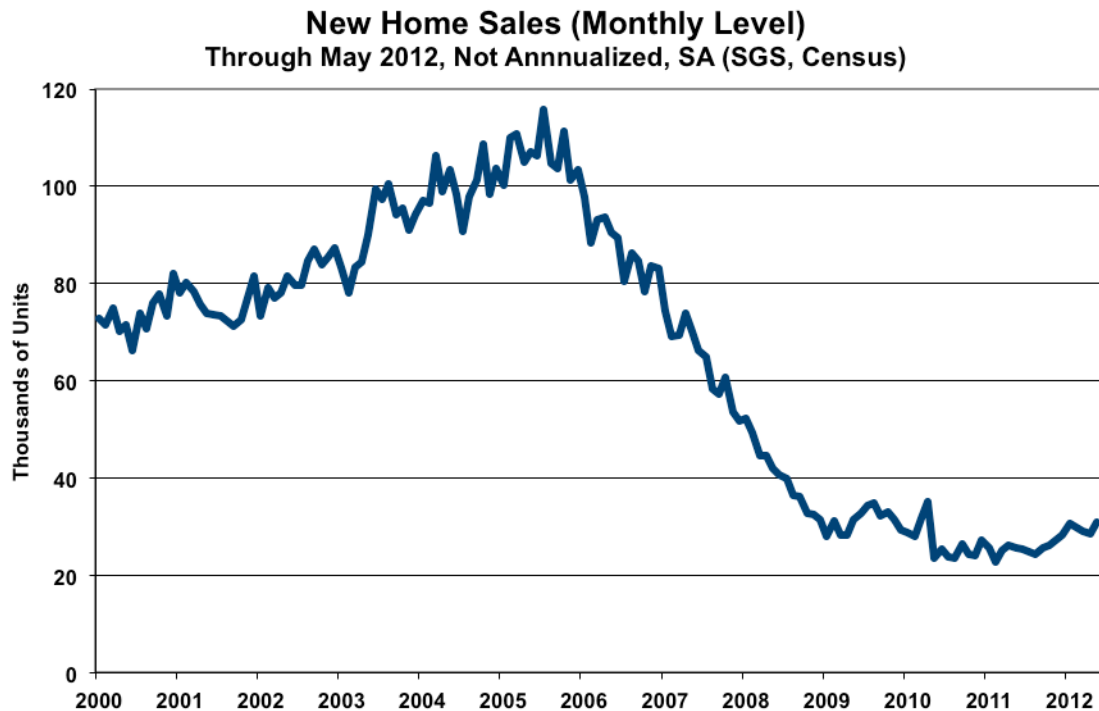
As indicated in the graphs in the *Opening Comments and Executive Summary*, these series have shown a slowing uptrend in the last two-to-three years—now a flattening pattern—clearly not the recovery that is seen in official GDP reporting. As discussed above, the real (inflation-adjusted) level of orders in May 2012 remained below the pre-2001 recession high and was 17.6% 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 Report No. 445](#)).

## NEW AND EXISTING HOME SALES (May 2012)

**May New Home Sales Showed Ongoing, Low-Level Stagnation.** In the wake of the great housing-market crash of 2006 to 2008, May 2012 new home sales continued in a state of depressed bottom-bouncing, generally moving in tandem with May housing starts, as shown in the following two graphs (see [Commentary No. 449](#) 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.

**May Reporting.** Yesterday's (June 26th) release of May 2012 new-home sales (counted based on contract signings, Census Bureau) showed an ongoing pattern of volatile stagnation and bottom-bouncing, with the headline growth far from being statistically significant, as generally has been the case on a monthly basis for more than three years. The headline monthly gain for May was 7.6% +/- 14.2% (all confidence intervals are at the 95% level). In turn, the April monthly change revised to a monthly contraction of 1.2%, from initial reporting of a 3.3% gain. The year-to-year gain of 19.8% +/- 17.7% in May new-home sales, though, was statistically-significant. The April annual gain was unrevised at 9.9%. Recent volatility in annual change reflects partially the effects of lapsing stimulus efforts a year ago.





**May Existing-Home Sales Also Continued Their Low-Level Stagnation.** 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. With the sales swings generated by the stimulus packages, and lapsing of same, averaged out, the pattern in the graph would resemble the bottom-bouncing seen otherwise in the new home-sales and housing-starts graphs.

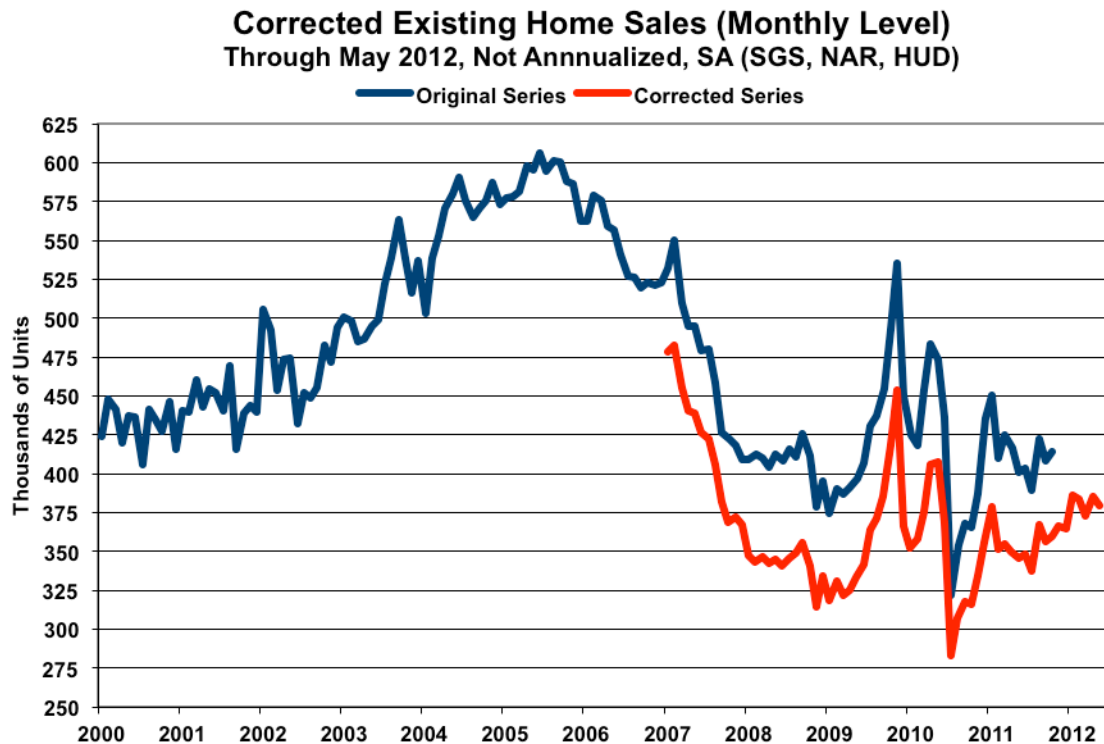
For those interested in the latest detail, however, we continue to look at the regular reporting of the new existing-home sales series, although a heavy caution is offered on the quality of what is being published.

**May Reporting.** The June 21st release of May 2012 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly decline of 1.5%, versus an unrevised monthly gain of 3.4% in April. The NAR does not publish estimates of statistical significance for changes in its series.



On a year-to-year basis, May 2012 sales rose by 9.6%, versus a 10.0% pace in April. 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 May at 25% (15% foreclosures, 10% short sales), down from distressed sales in April of 28% (17% foreclosures, 11% short sales). While foreclosures also remain a factor in new-home sales, the Census Bureau does not provide an estimate of foreclosure volume.



**Week Ahead.** *Market recognition of an intensifying double-dip recession has started to take a stronger hold, at the moment, while recognition of a mounting inflation threat remains sparse. 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 or to put a happy spin on the numbers; 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, Third Estimate, Second Revision)***. Scheduled for release by the Bureau of Economic Analysis (BEA) tomorrow, Thursday, June 28th, the second revision to the first-quarter 2012 GDP estimate could show some further downgrading of the headline growth rate that stands currently at 1.9% (second estimate), versus the initial estimate of 2.2%. The consensus, however, appears to be for no net revision to the headline growth rate.

This will not be the final revision to the first-quarter, as the entire GDP series will be revised back for several years in the annual benchmark revision due out on July 27th.

The BEA usually attempts to put forth a third estimate on the first-quarter growth that does not revise along with the benchmark revision that accompanies the first estimate of second-quarter GDP. Keeping the first-quarter unrevised, at that time, does not call as much attention to earlier revisions, which otherwise should show downside adjustments to recent history. Accordingly, downside revisions to the GDP—due to the recent unusual real retail sales revisions (see [Commentary No. 447](#))—could have their impact on the third estimate of first-quarter GDP.

---