

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

**COMMENTARY NUMBER 466**  
**July Durable Goods Orders and Home Sales**

**August 24, 2012**

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**Real Durable Goods Orders and New- and Existing-Home Sales Stagnate  
Below Pre-2001 Recession Levels**

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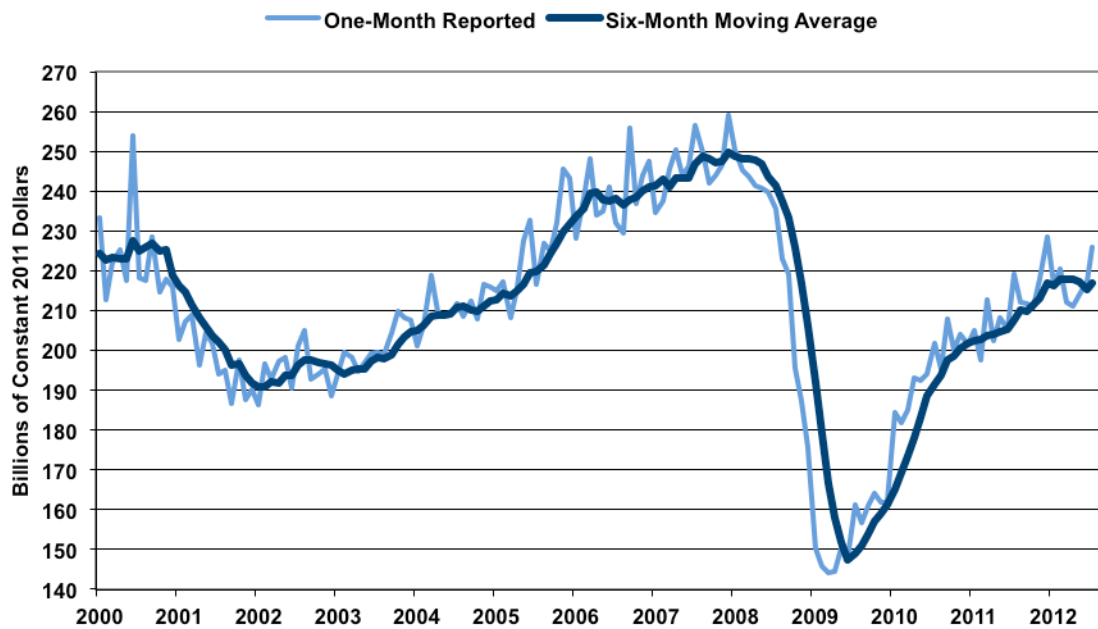
*PLEASE NOTE: Due to my being significantly under the weather, today's comments (August 24th) are brief and limited to this week's reporting. Expanded comments with discussions on new household income surveying and the potential of a return to the gold standard will be discussed in the next regular Commentary, which is scheduled for Wednesday, August 29th, otherwise covering the first-revision to second-quarter 2012 GDP.*

*Best wishes to all — John Williams*

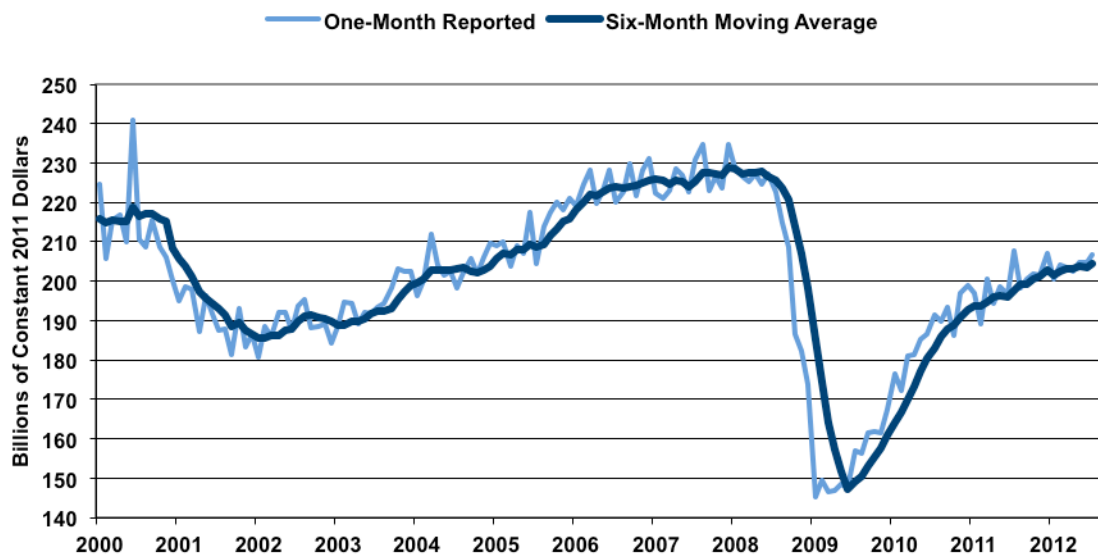
**Opening Comments and Executive Summary.** There was nothing surprising in the reporting of July durable goods, or in July new or existing home sales. The monthly gains in the various series generally were within regular monthly volatility and were suggestive of continued stagnation. For the home sales series, the patterns since the housing crash have been of protracted bottom-bouncing at a low-level of activity. That pattern is obvious in the new homes graph in the *Reporting Detail*, and it becomes evident in existing home sales smoothed for gyrations around short-lived stimulus programs.

As discussed in the above note, this *Commentary* is abbreviated.

**Real New Orders for Durable Goods**  
Deflated by PPI--Finished Goods Capital Equipment  
To July 2012, Seasonally-Adjusted (ShadowStats.com, Census, BLS)



**Real Durable Goods Orders (Ex-Nondefense Aircraft)**  
Deflated by PPI--Finished Goods Capital Equipment  
To July 2012, Seasonally-Adjusted (ShadowStats.com, Census, BLS)



The durable goods orders shown in the above graphs are smoothed and adjusted for inflation. In July, net of inflation adjustment (2011-dollars based on the PPI finished goods capital equipment index), both aggregate orders, and orders net of nondefense aircraft activity, remained well below levels that not only preceded the official 2007 recession, but also preceded the official 2001 recession.

**Hyperinflation Watch—Unchanged.** *General circumstances have not changed, and the text in this section is the same as the updated text in the August 15th Commentary. The detail in [Special Report No. 445](#) (June 12th) updated the hyperinflation outlook and the outlook for U.S. economic, U.S. dollar, and systemic-solvency conditions. That Special Report supplemented [Hyperinflation 2012](#) (January 25th), which remains the primary Commentary detailing the hyperinflation story. Those reports are suggested as background reading for new subscribers.*

Official GDP reporting shows plunging economic activity from fourth-quarter 2007 to second-quarter 2009, with an ensuing upturn in activity that led to a full recovery as of fourth-quarter 2011, and that “recovery” has continued through second-quarter 2012 GDP reporting.

In contrast to GDP reporting—and in line with patterns seen in better-quality economic series—I contend that the economy began turning down in 2006, plunging in 2008 into 2009 and subsequently stagnating—bottom-bouncing—at a low level of activity, ever since. There has been no recovery since mid-2009, and the economic downturn now is intensifying once again. The renewed slowdown is evident in the current reporting of nearly all major economic series. Not one of those series shows a pattern of activity that confirms the recovery evident in the GDP series.

Federal Reserve Chairman Ben Bernanke recently observed that broad aggregate measures of the U.S. economy, such as GDP, do not appear to be reflecting the common experience of the general public. General experience suggests that the economy has not recovered. As shown in [Commentary No. 459](#), the official recovery simply is a statistical illusion created by the government’s use of understated inflation in deflating the GDP, which overstates deflated economic growth (see also [Special Report No. 445](#)).

The long-term fiscal solvency issues of the United States—where GAAP-based accounting shows annual deficits running in the \$5 trillion range—are not being addressed, and the politicians currently running the government lack the political will to address those issues. That circumstance initially suggested a hyperinflation crisis by the end of this decade, but federal government and Federal Reserve actions—in response to the systemic-solvency crisis of 2008—accelerated the process, indicating a hyperinflation problem by no later than the end of 2014. The continuing economic downturn is intensifying the fiscal- and systemic-solvency problems, and public awareness of this should grow rapidly in the months ahead.

Neither economic nor systemic-solvency issues have been resolved by U.S. government or Federal Reserve actions. With the economy weak enough to provide cover for further Fed accommodation to the still-struggling banking system, the next easing by the Fed—and it should follow as needed to support the banking system—likely will lead to a massive dollar-selling crisis, and that will begin the process of a rapid upturn in domestic consumer inflation. A dollar-selling crisis, however, could begin at any time, triggered by any number of economic, sovereign-solvency or political issues.

## REPORTING DETAIL

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

**Headline Durable Goods Orders Gain Was Not Meaningful in Context of Regular Reporting Volatility and Prior-Period Downside Revisions.** The monthly increase reported in nominal (not-adjusted-for-inflation) July new orders for durable goods was well within the range of regular volatility and revisions, boosted heavily by an increase in nondefense aircraft orders. On a real (inflation-adjusted) basis, the unfolding pattern of activity continues to be 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.

*Note: As described in [Special Commentary No. 426](#), there is no fully appropriate inflation measure available for deflating durable goods. The one used the “real” graphs 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 in the Opening Comments and Executive Summary section 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 July Reporting.** The Census Bureau reported today, August 24th, that the regularly-volatile, seasonally-adjusted nominal (not adjusted for inflation) new orders for durable goods in July 2012 rose by 4.2% (up by 4.1% net of prior-period revisions), following an unrevised 1.6% monthly gain in June. The level of orders was revised lower, though, in both May and June, softening—in revision—the relative growth of quarterly orders in second-quarter 2012.

Adjusting for the impact of a relatively large increase in nondefense aircraft orders, July’s aggregate orders growth of 4.2% for the month was reduced to a 1.2% gain for the month.

The irregular and highly volatile long-term nondefense aircraft orders rose by 53.9% in July, following a revised 32.5% (previously 14.3%) monthly gain in June. Aircraft orders usually are placed years in advance of delivery and rarely impact near-term economic activity.

Unadjusted, year-to-year growth in total July 2012 new orders was 6.7% versus a revised 5.5% (previously 6.7%) in June.

Seasonally-adjusted nondefense capital goods new orders rose by 6.8% in July, following a revised monthly gain of 2.5% (previously 1.2%) in June. For July 2012, the unadjusted year-to-year change in the series was 8.8%, versus a revised 0.9% increase (previously a gain of 2.6%) in June.

*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 nominal 4.2% monthly gain in June orders effectively was a gain of 4.0% after inflation adjustment, where the nominal 1.6% gain in June was 1.4% on the same basis. Seasonally-adjusted, year-to-year real growth slowed to 3.0% in July versus 5.8% in June.

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-to-down pattern—clearly not the recovery that is seen in official GDP reporting. As discussed above, the real (inflation-adjusted) level of orders in June 2012 remained below both the pre-2001 and pre-2007 recession highs.

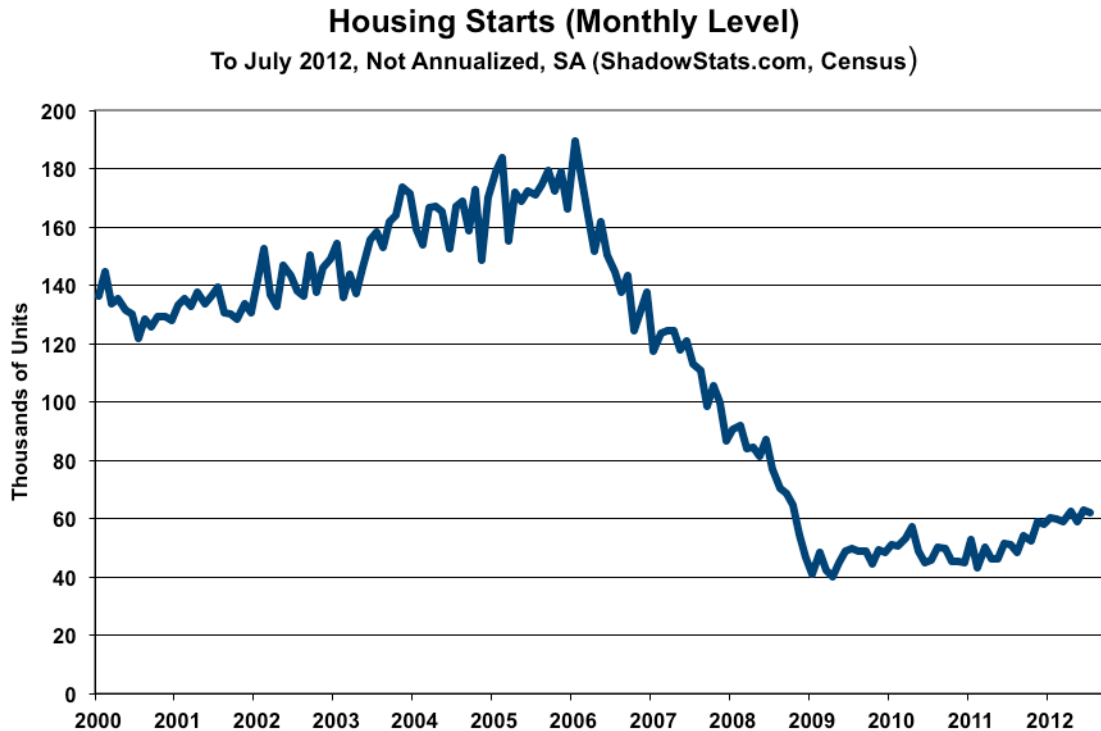
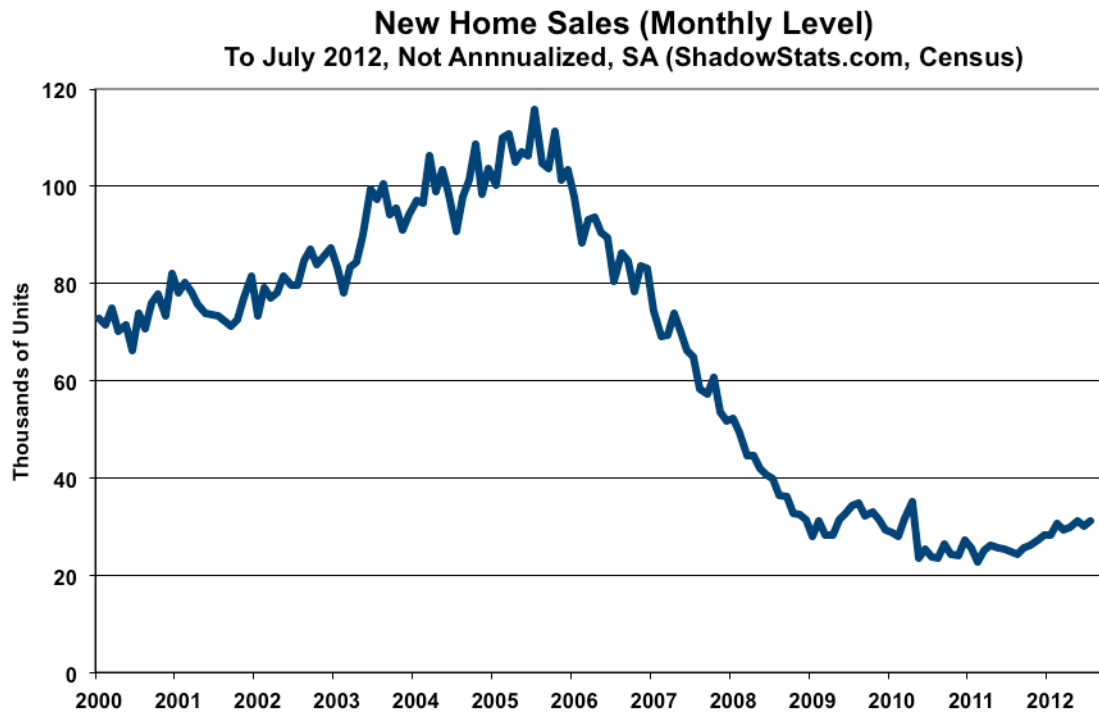
If the deflation measure here could be corrected meaningfully for its hedonic-adjusted understatement, the uptrend in real orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity (see [Special Report No. 445](#)).

## NEW AND EXISTING HOME SALES (July 2012)

**Headline Monthly Gains in July Home Sales Were Not Meaningful.** Both the new- and existing-home sales series showed small gains in July, but the monthly changes, as usual, were not statistically meaningful.

***July New Home Sales Activity Continued in Low-Level Stagnation.*** In the wake of the great housing-market crash of 2006 to 2008, July 2012 new home sales continued in a state of depressed bottom-bouncing, generally moving in tandem with July housing starts, as shown in the following two graphs (see [Commentary No. 465](#) 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.

**July Reporting.** Yesterday's (August 23rd) release of July 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 being statistically-insignificant, as generally has been the case on a monthly basis for more than three years. The July headline monthly gain was 3.6% +/- 16.5% (all confidence intervals are at the 95% level). In turn, June's monthly decline revised to 3.5% (previously an 8.4% drop). The year-to-year gain of 25.3% +/- 21.6% in July new-home sales was statistically-significant, but not by much. The June annual gain was revised to 18.1% (previously 16.7%). Recent volatility in annual change reflects partially the effects of lapsing stimulus efforts a year ago.



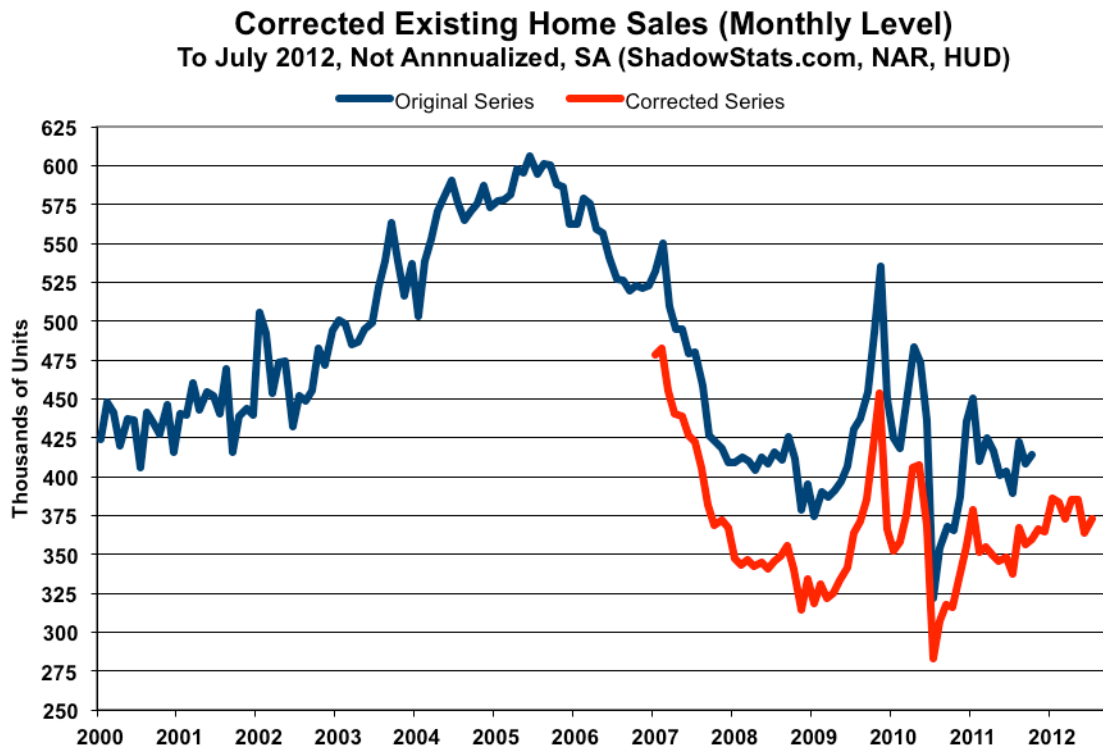
**July Existing-Home Sales Also Continued Low-Level Stagnation.** As has been noted regularly in the monthly *Commentaries* covering existing-home sales series—despite recent massive corrections and revisions to the series—reporting remains subject to significant seasonal-factor instabilities, as also 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.

July Reporting. The August 22nd release of July 2012 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 2.3%, regaining March 2012's level. That followed an unrevised monthly decline of 5.4% in June sales.

On a year-to-year basis, July 2012 sales rose by 10.4%, versus a 4.5% gain in June. 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 estimated July's "distressed" sales at 24% (12% foreclosures, 12% short sales), versus June at 25% (13% foreclosures, 12% short sales). While foreclosures also remain a meaningful factor in new-home sales, the Census Bureau does not provide an estimate of foreclosure volume.

The housing price data in these series (up for existing homes in July) tend to be of limited usefulness, since they usually reflect shifting patterns of home buying between differently-priced segments and not a truly comparative price index.

**Week Ahead.** *Market recognition of an intensifying double-dip recession has taken a somewhat 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 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 continue to show up in prior-period revisions.*

**Gross Domestic Product—GDP (Second-Quarter, Second Estimate, First Revision).** The first revision to second-quarter 2012 GDP is due for release on Wednesday, August 29th. Market expectations appear to be in the direction of an upside revision, which, as discussed in [Commentary No. 465](#) appears to be a fair bet. Upside pressure on the revision should come from recent trade data, while somewhat-offsetting downside pressures are likely from recently revised retail sales and residential construction data, and as suggested also by downside revisions to second-quarter new orders for durable goods.

Nonetheless, the revised numbers will remain statistically insignificant, and the series will remain the most worthless, the most heavily politicized and most misleading of any major government economic statistical release.

Of some interest, though, could be the initial estimates of second-quarter 2012 gross national product (GNP), which is the broadest measure of the U.S. economy (GDP is GNP net of trade flows in factor income such as interest and dividend payments), and gross domestic income (GDI), which is the separately surveyed income-side equivalent of the consumption-side GDP.