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

COMMENTARY NUMBER 545
June Durable Goods Orders, Home Sales, Pending GDP Revisions

July 25, 2013

New- and Existing-Home Sales Were Exaggerated by Downside Revisions,
Changes Otherwise Were Statistically Insignificant

Irregular Surge in Commercial Aircraft Orders
Dominated Monthly Gain in Durable Goods Orders

GDP Reporting and Revisions Could Offer Some Downside Surprises

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PLEASE NOTE: The next regular Commentary *is scheduled for Wednesday, July 31st, covering the advance estimate of second-quarter 2013 GDP and the comprehensive GDP benchmark revision. A* Commentary *on Friday, August 2nd, will cover July employment and unemployment, and June construction spending.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

There is a good chance that market expectations of the economic activity could take a hit on Wednesday, July 31st. As discussed in these *Opening Comments* and the *Week Ahead* section, the initial reporting of second-quarter 2013 GDP growth likely will come in below weak consensus estimates. Separately, the pending comprehensive revision to historical GDP—back to 1929—likely will show that the recent, severe economic contraction was worse than currently believed, and that a possible "second dip" in domestic economic activity already could be underway.

While the headlines from this week's limited economic calendar were mixed (strong durable goods and new-home sales, weaker existing-home sales), reality remains that all three series were, at best, showing patterns of ongoing stagnation. Those numbers are discussed in the *Opening Comments* and *Reporting Detail* sections. The *Hyperinflation Outlook* section is as previously published.

Outlook for Second-Quarter 2013 GDP and the "Comprehensive" Benchmark Revisions. The economy has not been, and is not quite as strong as the markets believe or that the financial media have been reporting. The July 31st estimate of the gross domestic product (GDP) by the Bureau of Economic Analysis (BEA) should do much to confirm that. First will be the "advance" estimate of second-quarter 2013 GDP growth, which should be weaker than consensus expectations, and they appear already to have moved below 1.0%. Second will be the comprehensive benchmark revision to the GDP, which will redefine and recast the entire historical series back through 1929. *ShadowStats* will publish a *Commentary* on July 31st, assessing those reports.

Second-Quarter 2013 GDP. One month ago, market expectations for headline second-quarter GDP growth appeared to exceed 2.0%. Intervening weaker-than-expected retail sales, industrial production and trade data, in particular, helped to knock down the current consensus to less than 1.0%, versus a pre-benchmark headline 1.8% for first-quarter 2013. While the underlying data are weak enough to generate an outright quarterly contraction, the BEA likely will target its initial reporting at the consensus, which is not likely to turn negative by July 31st.

Pending GDP "Comprehensive Revision" and Redefinitions. As discussed in the prior *Commentaries* that have covered the GDP, the July 31st GDP overhaul will reflect much more than the revisions to existing GDP data, based on the availability of better-quality underlying data, and a restating of the real or inflation-adjusted numbers from a 2005- to a 2009-base.

As discussed in the next subsection, better-quality underlying data for the current GDP series should result in downside revisions to reported economic activity of recent years, showing the downturn since 2006 (not the official 2007) to have been deeper and more-protracted than previously estimated. There is a fair chance of those revisions showing that the economy started to turn down anew, officially, in 2012.

Beyond the standard data revisions, the BEA also is redefining and recalculating the GDP back to 1929, so as to include "capitalization of research and development expenditures," "capitalization of entertainment, literary and other artistic originals," and "capitalization of ownership transfer costs of residential fixed assets." Those three items previously were expensed. By themselves, they are estimated to add about $430 billion or 2.7% to the current nominal GDP level, per the BEA. That increment to the level of GDP activity will be spread over the period of 1929-to-date.

Where the impact of the definitional changes on estimated quarterly growth rates most likely will be positive, that effects of better-quality data revisions still should dominate the revamped historical reporting of recent years, showing weaker than previously estimated economic growth. The redefinition issues also were discussed in *Commentary No. 518*, where, for example it was noted that the resulting:

"...higher level of nominal (not-adjusted-for-inflation) GDP will reduce slightly the federal debt-to-GDP ratio. It also will increase estimates of the velocity of money (GDP/money supply), or how many times the money supply turns over in the economy in a given year. Separately, the changes will boost the reported size of the U.S. economy on a comparative basis versus the rest of the world, although the underlying economic reality will not have changed at all.

"These methodological shifts also should result in the reporting of a somewhat less-severe Great Depression, as a result of 'Pollyanna Creep' that is discussed in the *GDP Primer Series*."

The BEA description of the pending changes can be found here: *GDP Comprehensive Revision*, with extended detail here: *GDP Revision Preview*.

Even so, the GDP will remain the most-worthless and heavily-massaged major economic series put out by the federal government's statistical agencies.

Shifting Patterns in Ongoing Economic Crisis. Based on regular benchmark revisions to GDP-related economic series—as detailed various *ShadowStats Commentaries*—the timing of the formal recession from December 2007 to June 2009 likely will remain intact, starting with a slightly higher fourth-quarter 2007 peak and some suggestion of a somewhat higher second-quarter 2009 trough. In the "better information" area, though, new estimates of recognizing negative impact from larger-than-expected banking write-offs, on "banking output," should deepen the second-quarter 2009 trough, somewhat.

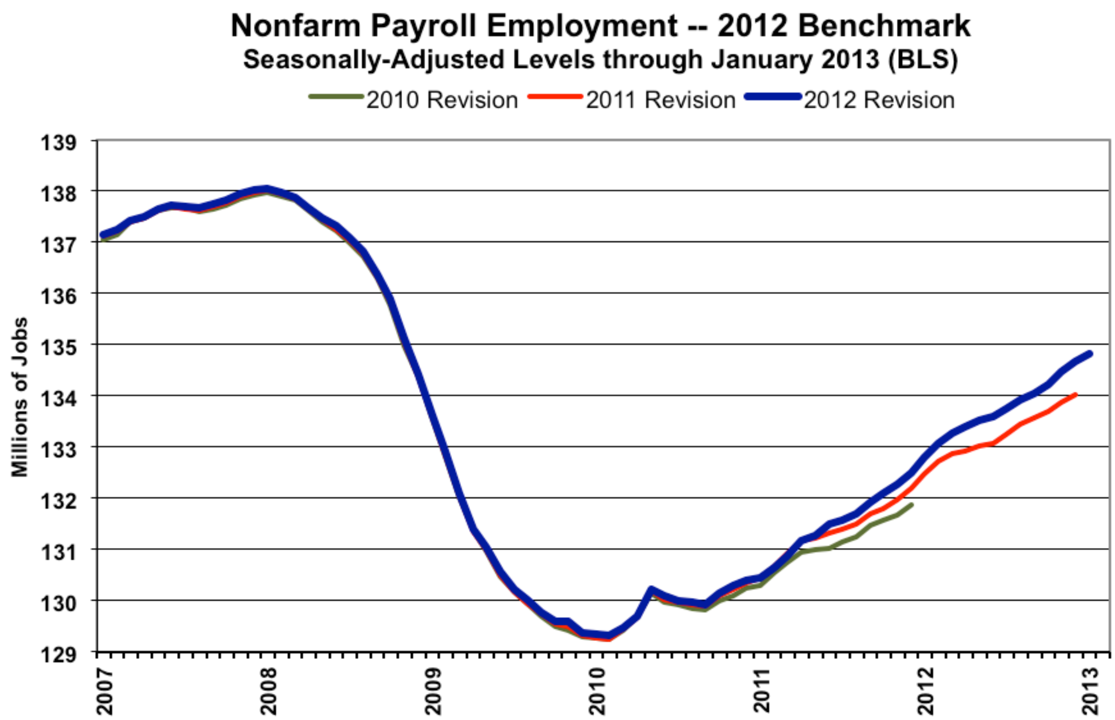
Based on the regular benchmarks, the "recovery" period should be less robust, with general downside revisions to 2010, 2011 and 2012 activity levels, possibly delaying the timing of the full economic recovery—the GDP regaining its pre-recession high—currently timed at fourth-quarter 2011.

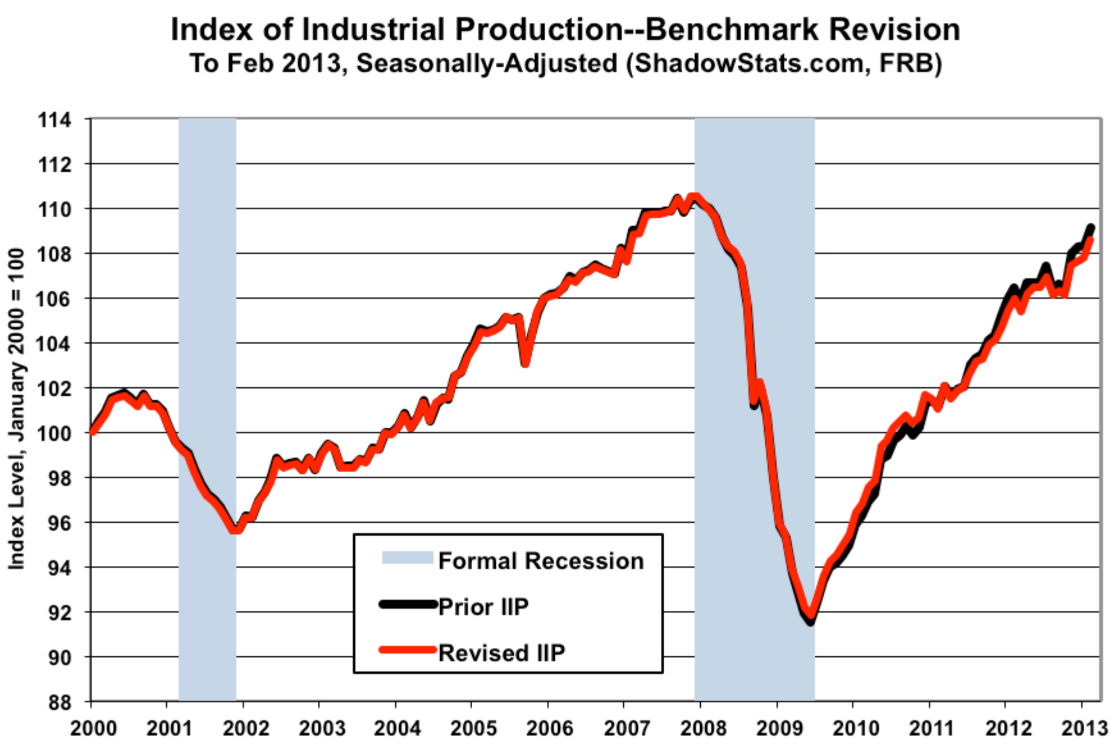
Relative quarterly growth rates will be shifted about, with a chance of revised second-quarter 2012 showing a quarter-to-quarter contraction.

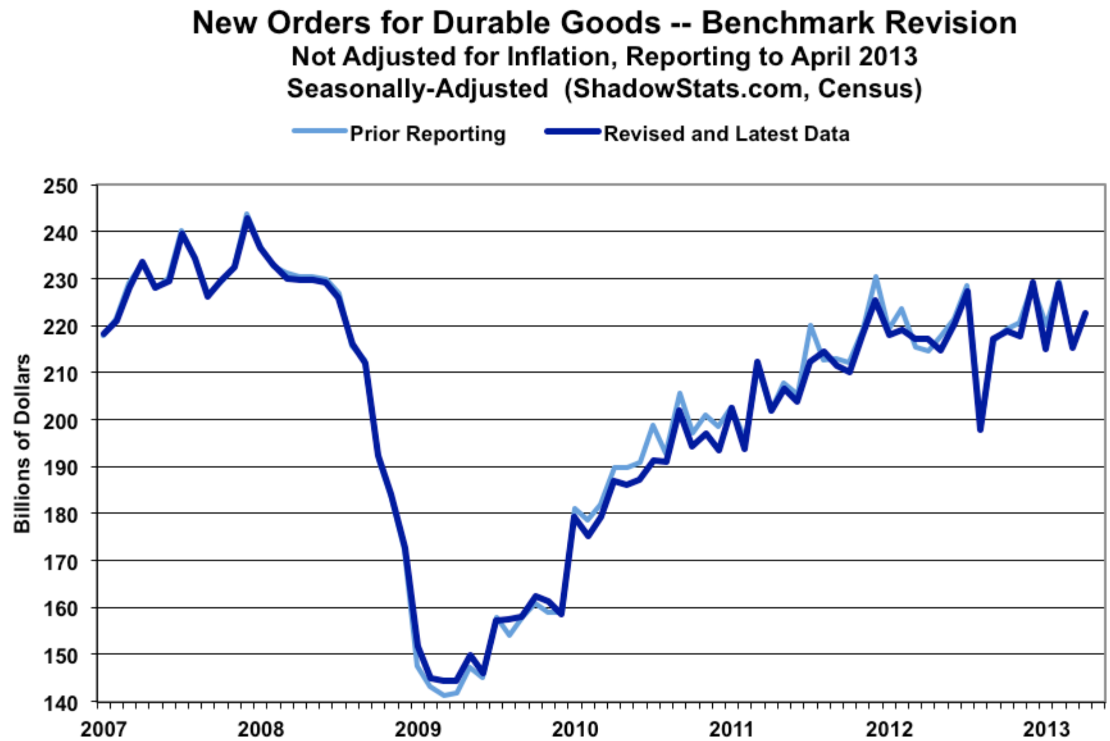
While the beginning of a second-dip, in what formally should become recognized as double- or multiple-dip recession, likely will be timed eventually from mid-2012, the BEA will be doing everything it can at present to balance out aggregate quarterly irregularities. While the onset of the double-dip recession, could come out of the comprehensive revision, other changes in methodology give the BEA flexibility to generate whatever economic current picture it would like to show.

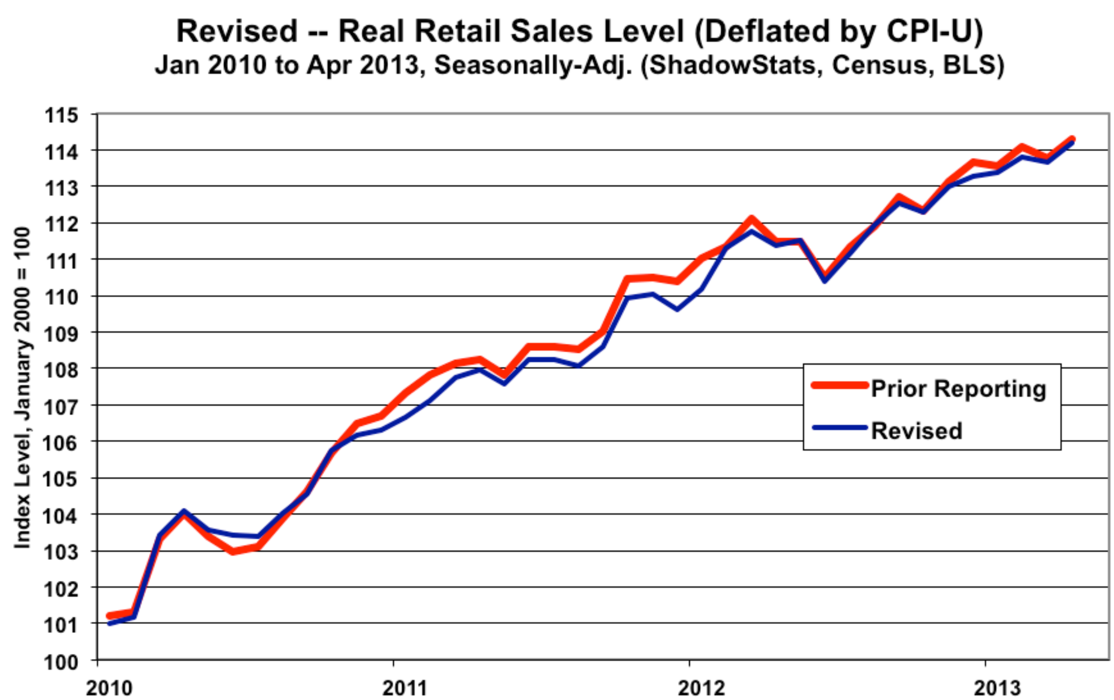
Underlying economic reality increasingly should surface in the GDP revisions. Eventually that would mean a deeper and more-protracted 2001 recession (it currently has disappeared from GDP reporting). The 2007-to-2009 recession eventually should reflect a 2006 onset, coincident with the housing downturn, a deeper trough, and no sustainable recovery in place, so far.

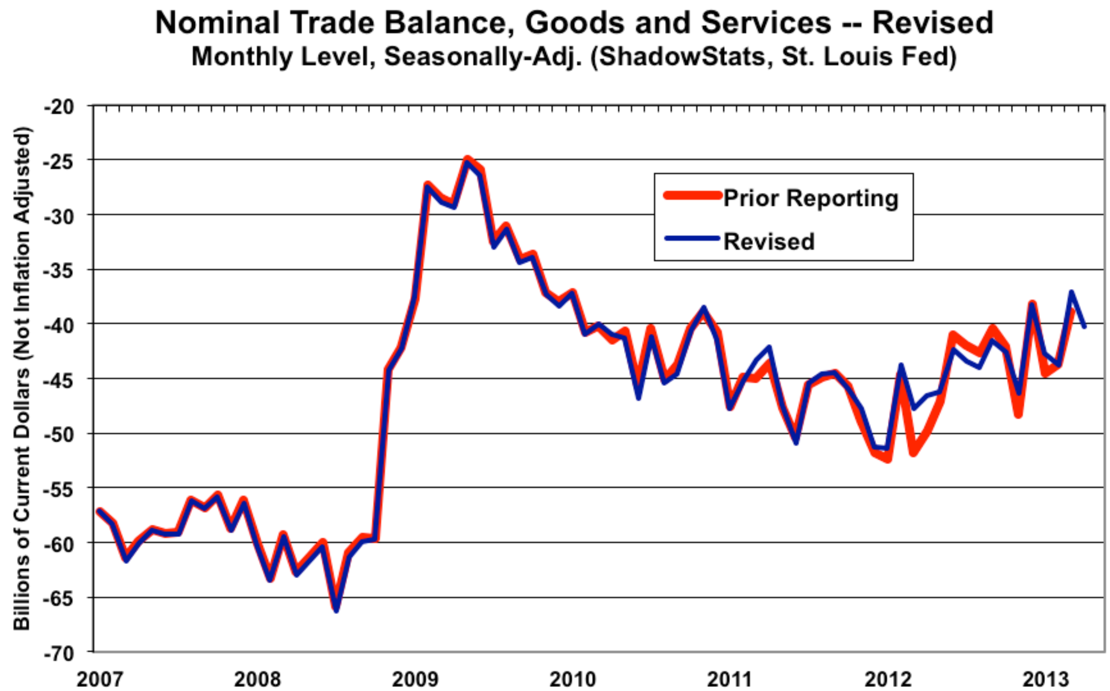
Details in the preceding text partially are based on information in the following *Commentaries*: *Commentary No. 499* (payroll benchmark), *Commentary No. 512* (industrial production benchmark), *Commentary No. 526* (new orders for durable goods benchmark), *Commentary No. 529* (retail sales benchmark), *Commentary No. 530* (trade benchmark) and *Commentary No. 538* (construction spending benchmark). Related graphs from each of those *Commentaries* follow here:

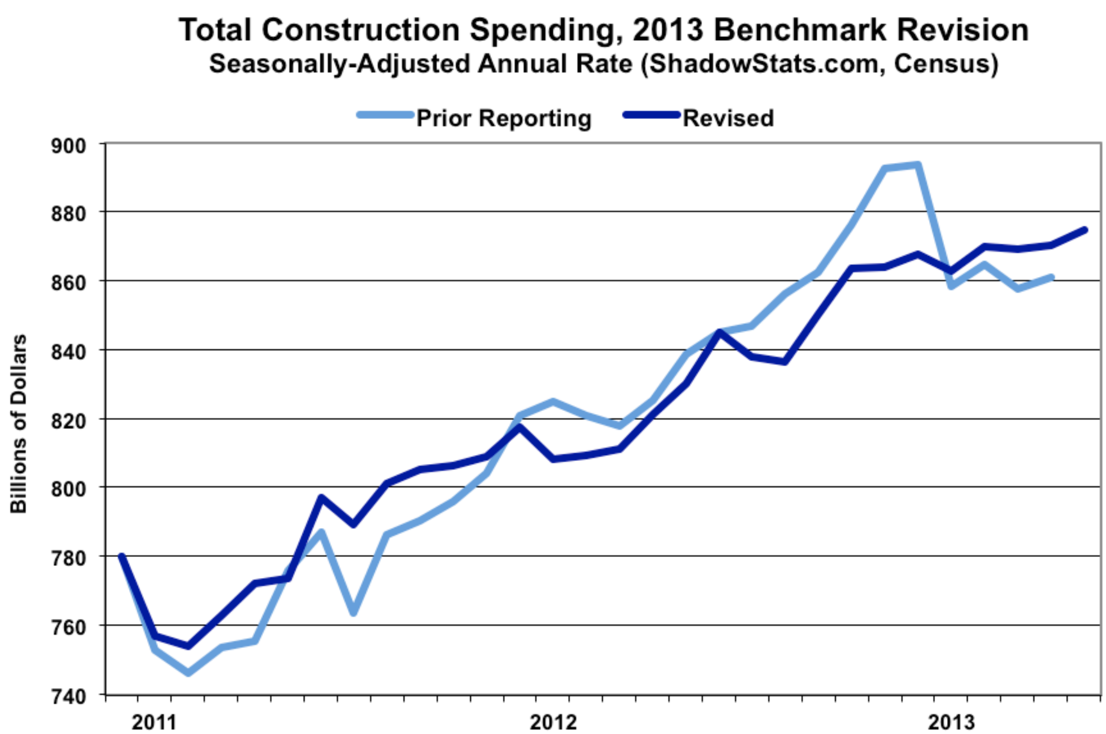

Nonfarm Payroll Employment -- 2012 Benchmark
Seasonally-Adjusted Levels through January 2013 (BLS)
2010 Revision
2011 Revision
2012 Revision
Millions of Jobs
139
138
137
136
135
134
133
132
131
130
129
2007
2008
2009
2010
2011
2012
2013


Index of Industrial Production--Benchmark Revision
To Feb 2013, Seasonally-Adjusted (ShadowStats.com, FRB)
Index Level, January 2000 = 100
114
112
110
108
106
104
102
100
98
96
94
92
90
88
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Formal Recession
Prior IIP
Revised IIP


New Orders for Durable Goods -- Benchmark Revision
Not Adjusted for Inflation, Reporting to April 2013
Seasonally-Adjusted (ShadowStats.com, Census)
Prior Reporting
Revised and Latest Data
Billions of Dollars
250
240
230
220
210
200
190
180
170
160
150
140
2007
2008
2009
2010
2011
2012
2013


Revised -- Real Retail Sales Level (Deflated by CPI-U)
Jan 2010 to Apr 2013, Seasonally-Adj. (ShadowStats, Census, BLS)
Index Level, January 2000 = 100
115
114
113
112
111
110
109
108
107
106
105
104
103
102
101
100
Prior Reporting
Revised
2010
2011
2012
2013


Nominal Trade Balance, Goods and Services -- Revised
Monthly Level, Seasonally-Adj. (ShadowStats, St. Louis Fed)
Billions of Current Dollars (Not Inflation Adjusted)
-20
-25
-30
-35
-40
-45
-50
-55
-60
-65
-70
2007
2008
2009
2010
2011
2012
2013
Prior Reporting
Revised


Total Construction Spending, 2013 Benchmark Revision
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Prior Reporting
Revised
Billions of Dollars
900
880
860
840
820
800
780
760
740
2011
2012
2013

Latest Numbers on the Economy. There were few surprises in that latest economic reporting. New orders for durable goods orders were somewhat above expectations, but any surprises were no more than the usual extreme volatility in monthly orders for commercial aircraft. The monthly changes in existing- and new-home sales were not meaningful and were in the contexts of downside revisions to prior-period estimates. Nothing has changed in the general economic outlook.

June 2013 New Orders for Durable Goods. Activity in monthly durable goods orders again was dominated by extreme volatility in orders for nondefense aircraft. With a 4.2% headline monthly gain in aggregate June orders, on top of a revised 5.2% headline gain in May, total new orders showed a two-month cumulative increase of 9.6%. That positive orders spike, however, was due largely to sharp increases in commercial aircraft orders, which, by their nature are long-term and tend to have limited impact on near-term economic activity.

Net of the those airplane orders, the two-month increase in orders is reduced from the aggregate 9.6% to 3.1%, well within the normal volatility of the series for one month, let alone two. Accordingly, the ongoing long-term patterns of stagnation remain in place, despite any short-term bumps, upside or otherwise. The growth patterns in this series remain of a nature that usually precedes or coincides with a recession or deepening downturn.

At the second decimal point, the regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of June 2013 new orders for durable goods rose by 4.23% for the month, following a revised 5.19% (previously 3.61%) monthly gain in May.

Nondefense (or commercial) aircraft orders rose by 31.41% in June, following a revised 68.07% (previously 50.98%) month-to-month gain in May. Usually with an extremely long lead-time, aircraft orders rarely impact near-term economic activity. Net of these orders, aggregate new orders still rose by 1.59% in June and by a revised 1.51% (previously 0.83%) in May.

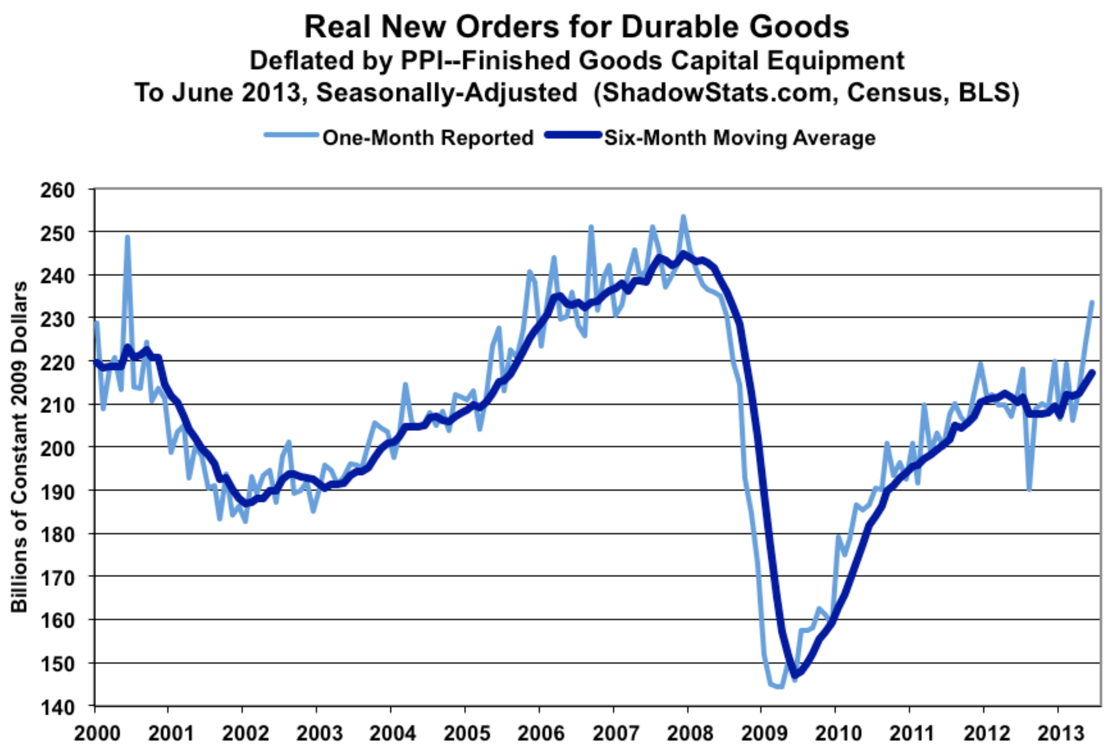
In like manner, aircraft orders spiked year-to-year change in the seasonally-adjusted, aggregate nominal new orders, which rose by 10.93% (4.32% ex-commercial aircraft) in June 2013, versus a revised 9.25% (previously 7.59%) in May. The latest May 2013 annual growth in total durable goods orders, ex-commercial aircraft, was 4.46%.

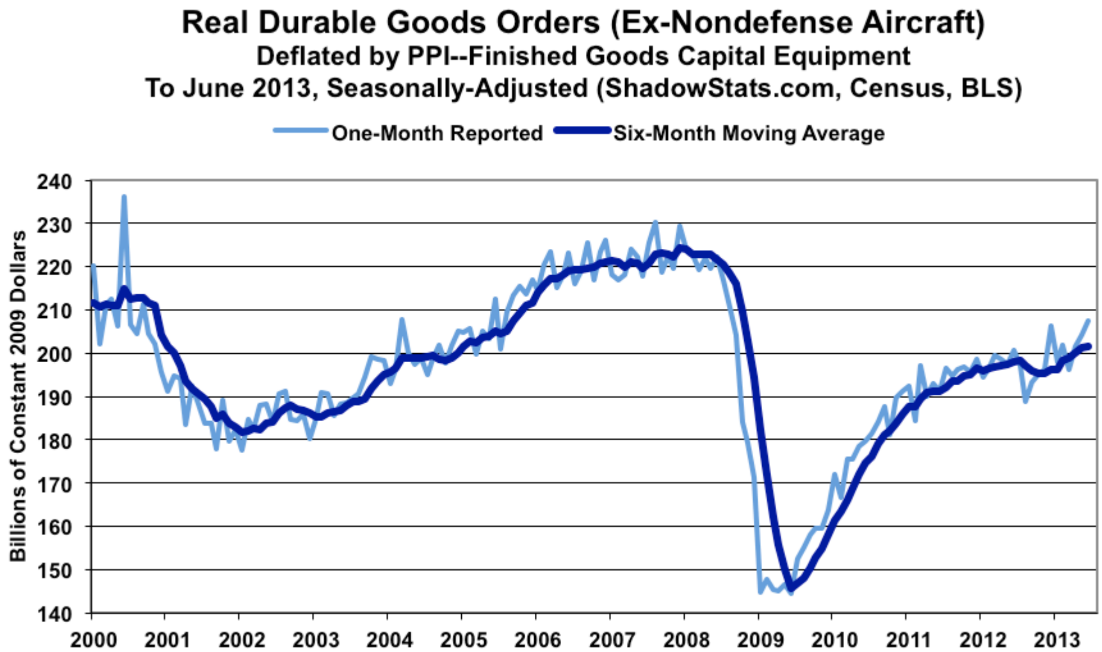
Inflation-Adjusted and Smoothed. The nominal 4.23% gain in aggregate monthly June 2013 orders was a real (inflation-adjusted) gain of 4.16%, after adjusting for a 0.06% (rounding difference) monthly gain in the PPI finished goods capital equipment deflator. The revised nominal 5.19%% monthly gain in May was 5.13% in real terms. On a year-to-year basis, the inflation- and seasonally-adjusted year-to-year change was a gain of 9.99% in June, versus a revised 8.25% in May. Ex-commercial aircraft the respective real monthly increases were 1.53% and 1.44%, with the respective annual increases at 3.44% versus 3.51%.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders. As shown and discussed in the regular *Commentaries* that cover reporting of new orders for durable goods, the following two graphs plot the new orders, adjusted for inflation. These graphs show the monthly as well as a six-month moving average of activity levels. The first graph shows the aggregate new orders series. The second series is net of the unstable commercial-aircraft order sector, and, accordingly, it is somewhat smoother than the first graph. As reflected in these graphs of still-irregular activity, the moving-average levels in both series appear to be holding in a pattern of near-stagnation.

In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—most recently with dip and now small bounce to the upside, a general pattern of stagnation or bottom-bouncing—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in June 2013 remained below both the pre-2001 and pre-2007 recession highs. The pattern of recent stagnation in the inflation-adjusted series also is one that commonly precedes or is coincident with a recession.

If the deflation measure here were corrected meaningfully for the hedonic-adjusted understatement of inflation, the post-2009 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, with a pattern of renewed downturn now well entrenched.





No Indication of Relief from Structural Liquidity Problems Constraining the Consumer. Nothing has changed in the reporting of the consumer-liquidity indicators. The structural income and credit problems continue, where real median household income remains near its cycle low, and where the only growth in consumer credit continues to be in federally-owned student loans. New data will be available in these areas in the next week or two, and the comments here will be updated, accordingly

Increasingly, the structurally-impaired consumer liquidity has been a constraint on consumption, whether in retail sales or housing. There have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery. To the contrary, as discussed recently and frequently (see *Commentary No. 532*, *Commentary No. 534* and *No. 485: Special Commentary*), factors affecting the consumer's ability and willingness to consume, generally have been deteriorating anew. Nonetheless, some boost to housing sales has been evident from increased, speculative private investment.

June 2013 Existing- and New-Home Sales. In the wake of the housing crash, which began in 2006 for the construction industry (sales actually began slowing 2005), activity in both existing- and new-home sales still has been relatively stagnant, although an uncertain uptrend has developed in the unstable existing-home sales reporting. New-home sales have shown a minor uptrend, but the ongoing monthly changes generally remain well within the limits of being statistically-insignificant or within the limits of normal instabilities within the series.

Peak-to-Trough and Peak-to-Current. As of June 2013, and as reflected in the accompanying graphs, the related housing series—although off bottom—still remain well shy of their pre-recession highs. In terms of peak-to-trough decline, existing-home sales fared better that the construction-related series, down by

49.4% (June 2005 to August 2010). New-home sales (July 2005 to February 2011) were down, peak-to-trough by 80.6%, as were single-unit housing starts (January 2006 to March 2009).

Indeed, despite the ongoing positive press on the "housing recovery," the latest numbers remain far from showing a recovery. As of June 2013, existing-home sales activity still was down 30.1% from the June 2005 pre-recession peak. Given the volatility, instabilities and uncertainties in the compilation of the existing sales data, however, not too much can be read into the reported trends.

While monthly year-to-year growth in new-home sales, sporadically, has been statistically-significant as was the case for June 2013, the level of sales activity in June 2013 still remained 64.2% below the July 2005 pre-recession high. That is roughly consistent with the circumstance for single-unit housing starts in June 2013, which were 67.6% below the January 2006 pre-recession high.

Home Sales Prices. The published median and average sales price data for both the existing- and new-home sales series tend to be of limited usefulness, since they can reflect shifting patterns of home buying—between differently-priced segments—more than they do changes in truly comparative prices. That said, both median and mean existing-home sales prices in June 2013 (not seasonally-adjusted) were up month-to-month and year-to-year. For June new-home sales, median and mean prices were down month-to-month, for a second month, and up year-to-year.

Existing-Home Sales. The headline monthly decline in June 2013 existing-home sales was in the context of a downside revision to May's reporting. Such remained within the bounds of the general monthly volatility seen in this series. Given that volatility, and the instabilities and uncertainties in the reporting of existing-home sales, not too much can be read into the reported trends.

Headline June 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly contraction of 1.2%, versus a revised 3.4% (previously 4.2%) monthly gain in May. On a year-to-year basis, June 2013 sales rose by 15.2%, versus a revised 12.0% in May.

The portion of total sales in distressed properties declined in June 2013. The NAR estimated "distressed" sales were 15% of the total (8% foreclosures, 7% short sales), down from 18% in May 2013 (11% foreclosures, 7% short sales). Where the June "distressed" reading was the lowest reported by the NAR since it started tracking the series during the 2008 panic. The changes here most likely reflect timing distortions, rather than improvements in consumer finances.

Reflecting ongoing lending issues in the banking industry, and some continuing influx of investment money, the NAR also estimated that all-cash sales in June 2013 were at 31%, down versus 33% in May 2013, but up from 29% in June 2012.

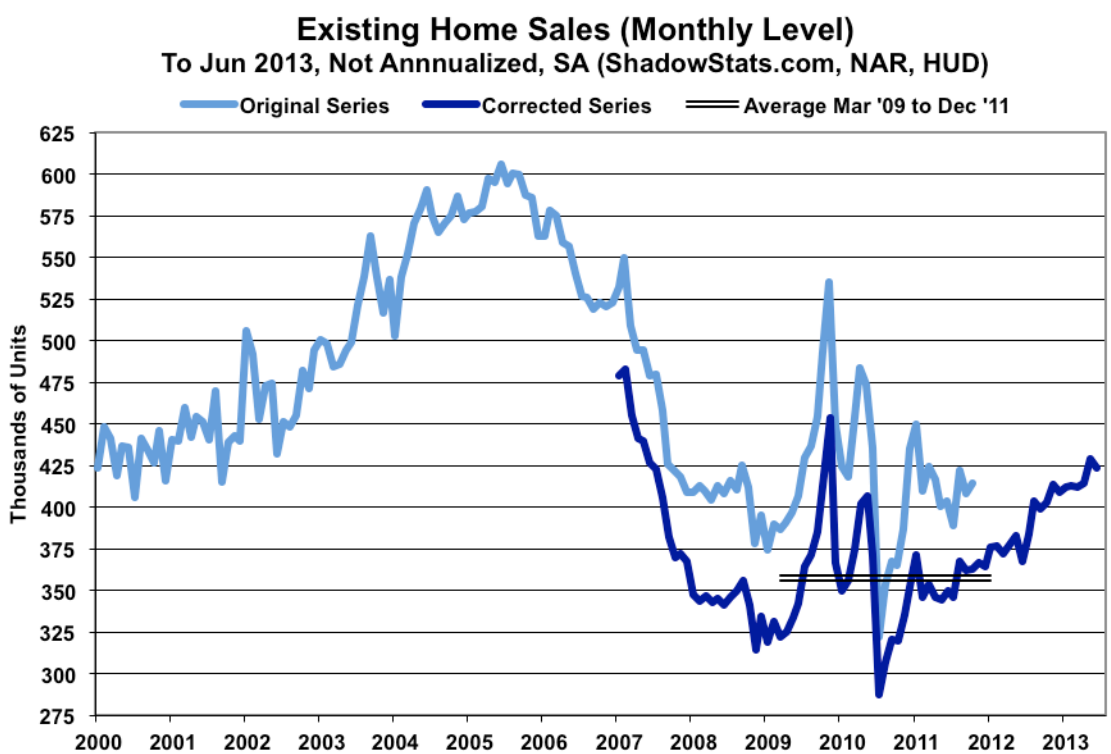
New-Home Sales. The pace of new-home sales for May was revised lower by 3.6%, from initial reporting. For the three months ended May, the previously estimated average pace of sales was revised lower by 2.7%. It is against this backdrop that the statistically-insignificant 8.3% monthly gain was reported and hyped for June 2013. The reporting here generally remains unstable and not meaningful month-to-month.

In the context of these revisions, headline June 2013 new-home sales (counted based on contract signings, Census Bureau) showed a statistically insignificant 8.3% month-to-month gain (up by 4.4% before prior-period revisions). That followed a revised 1.3% (previously 2.1%) monthly gain in May. Lack of statistical significance in month-to-month change for this series remains the common circumstance.

The June 2013 year-to-year gain of 38.1% in new-home sales, however, was statistically-significant, with annual growth in May revising to 24.4% (previously 29.0%). The volatility in annual change increasingly reflects the monthly volatility and instabilities in the series.

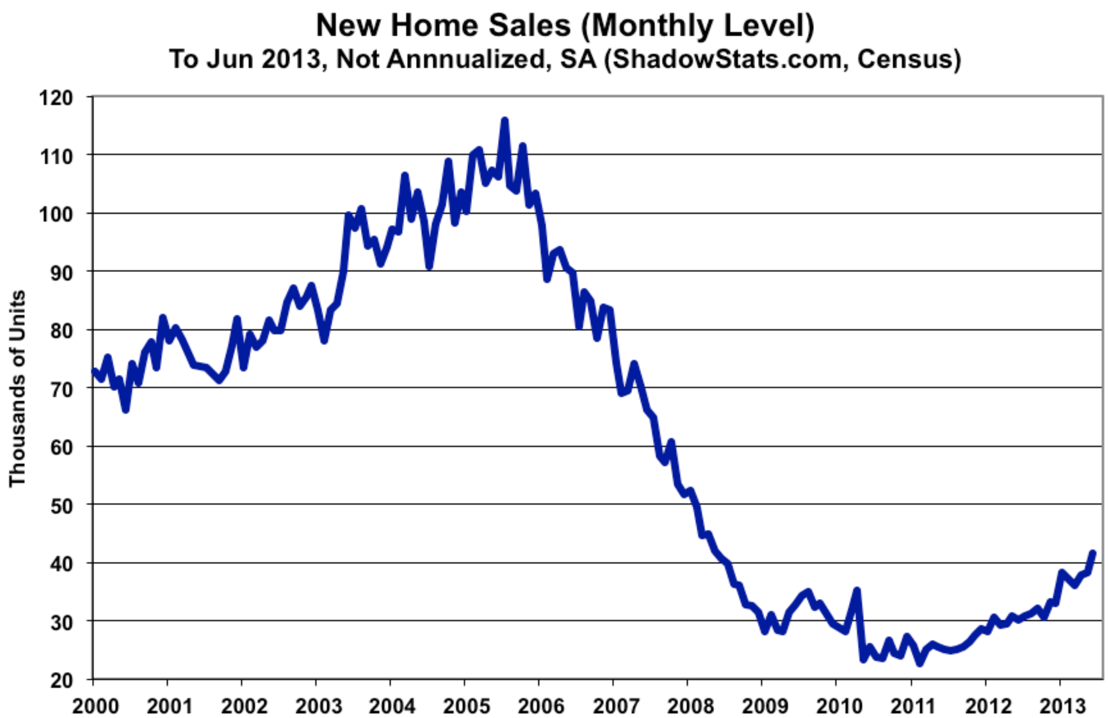
Parallel patterns of activity have been seen fairly consistently between the new-home sales and the single-unit housing starts data, again, as detailed in the second and third graphs following.

Home-Sales Graphs. Following are the regular monthly graphs of existing- and new-home sales, plus a comparative graph of single-unit housing starts. Each series reflects a seasonally-adjusted activity level, as measured in thousands of housing units per month. The series usually are expressed at an annualized monthly rate, by the issuing authority, but that is not too meaningful with series as volatile as these.



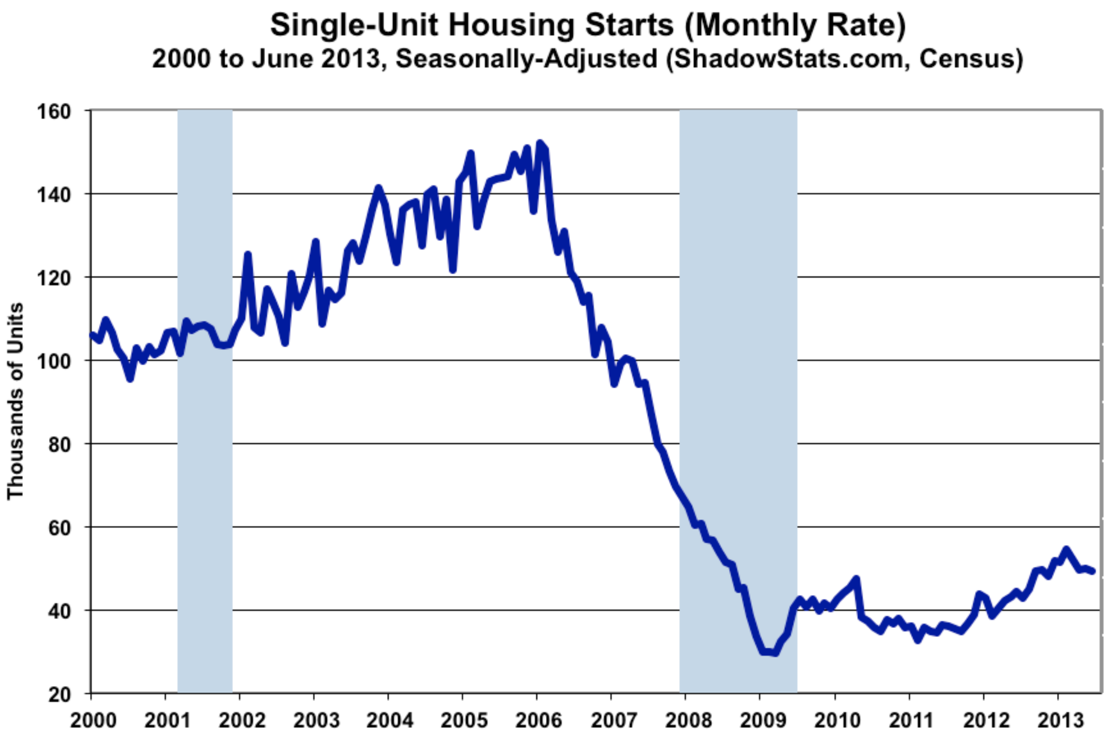
In the first graph (above), beyond the massive downside corrections to the existing-home sales series—published with November 2011 data—reporting for the existing-home sales series has remained subject to a high level of irregular volatility and significant, seasonal-factor instabilities, as also has been seen in a number of government series, particularly the residential sales and construction 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.

The monthly variability for existing-home sales also has been exacerbated by the introduction of various government tax-incentive programs and expiration of same. The horizontal line in that graph is the average monthly level for the period of extreme sales volatility, though December 2011. With those sales swings averaged out, the pattern of activity more-closely resembles the bottom-bouncing seen in the graphs of new-home sales and in single-unit housing-starts activity, although the existing-home sales peak-to-trough contraction never was as severe as that seen in the sales tied to new construction.



The second graph (above) shows the level of new-home sales in a pattern that is typical of economic series that have not been biased with bad-quality inflation-adjustment. The pattern seen here, as well as in the third graph showing single-unit housing starts, is one of downturn beginning in 2005 or 2006, into 2007, plunging into 2009 and then followed by a protracted period of volatile bottom-bouncing or stagnation at a low-level of activity. There has been no recovery. Although the existing home sales series shows some uptrend, the new homes activity statistically remains in stagnation, despite a minor uptrend in the monthly levels of activity. As discussed earlier, these series are not particularly reliable, and, as reported, remain well off their pre-recession highs.

The single-unit housing starts graph is the closest construction-related series to the home-sales market, as discussed and shown previously in *Commentary No. 544*. Activity here generally has remained stagnant in the post-housing-crash environment, and, after a slight uptrend has headed lower, recently.



[For further detail on the June new orders for durable goods and for new- and existing-home sales, see the* Reporting Detail *section.]

HYPERINFLATION WATCH

Hyperinflation Outlook—Unchanged Summary. *[This* Outlook *summary is unchanged from prior* Commentary No. 544 *of July 17th]*. The comments here are intended as background material for new subscribers and for those looking for a brief summary of the broad outlook of the economic, systemic and inflation crises that face the United States in the year or so ahead.

Background Material. *No. 527: Special Commentary* (May 2013) supplemented *No. 485: Special Commentary* (November 2012), reviewing shifting market sentiment on a variety of issues affecting the U.S. dollar and prices of precious metals. *No. 485*, in turn, updated *Hyperinflation 2012* (January

2012)—the base document for the hyperinflation story—and the broad outlook for the economy and inflation, as well as for systemic-stability and the U.S. dollar. Of some use, here, also is the *Public Comment on Inflation*.

These are the primary articles outlining current conditions and the background to the hyperinflation forecast, and they are suggested reading for subscribers who have not seen them and/or for those who otherwise are trying to understand the basics of the hyperinflation outlook. The fundamentals have not changed in recent years, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, a fully-updated hyperinflation report is planned for the near future.

Beginning to Approach the End Game. Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The financial system still remains in the throes and aftershocks of the 2008 panic and near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation remains inevitable.

Typical of an approaching, major turning point in the domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and Federal Reserve policy also have been in increasing flux. The FOMC and Federal Reserve Chairman Ben Bernanke have put forth a plan for reducing and eventually ending quantitative easing in the form of QE3. The tapering or cessation of QE3 is contingent upon the U.S. economy performing in line with overly-optimistic economic projections provided by the Fed. Initially, market reaction pummeled stocks, bonds and gold. The talk of ending QE3 still appears to be little more than jawboning, aimed a placating Fed critics. As part of the mind-game with the public, various Fed officials regularly offer contradictory stories, when the stock market needs a boost or distraction.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift increasingly towards no imminent end to QE3, and then to expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, eventually, they will have to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve—despite currency-market platitudes to the contrary—is locked into quantitative easing by persistent problems now well beyond its control. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, driving the quantitative easing. Economic issues are secondary concerns for the Fed; they are used as political cover for QE3. That cover will continue for as long as the Fed needs it.

At the same time, deteriorating expectations for domestic political stability reflect widening government scandals, in addition to the dominant global-financial-market concern of there being no viable prospect of those controlling the U.S. government addressing the long-range sovereign-solvency issues of the United States government. All these factors, in combination, show the end game to be nearing.

The most visible and vulnerable financial element to suffer early in this crisis likely will be the U.S. dollar in the currency markets (all dollar references here are to the U.S. dollar, unless otherwise stated). Heavy dollar selling should evolve into massive dumping of the dollar and dollar-denominated paper assets. Dollar-based commodity prices, such as oil, should soar, accelerating the pace of domestic inflation. In turn, that circumstance likely will trigger some removal of the U.S. dollar from its present global-reserve-currency status, which would further exacerbate the currency and inflation problems tied to the dollar.

This still-forming great financial tempest has cleared the horizon; its impact on the United States and those living in a dollar-based world will dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on the precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises. Attempts to save the system all have inflationary implications. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of next year (2014). The shifting underlying fundamentals are discussed in *No. 527: Special Commentary*; some of potential breaking crises will be expanded upon in the next revision to the hyperinflation report.

Still Living with the 2008 Crisis. There never was an actual recovery following the economic downturn that began in 2006 and collapsed into 2008 and 2009. What followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012 (see new detail in *Commentary No. 530*). The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see *No. 527: Special Commentary*, *Commentary No. 528* and *Public Comment on Inflation*). Nonetheless, given the nature of official reporting, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession. Where chances are increasing of a sharp slowing in headline second-quarter 2013 GDP, possibly an outright contraction, downside revisions to GDP in recent years also loom in the July 31st comprehensive benchmark revision to the GDP series.

What continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 turmoil. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That the crises continue can be seen in deteriorating economic activity and in the ongoing panicked actions by the Federal Reserve, where it still proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before and since the mid-April rout in gold prices, there had and has been mounting hype about the Fed potentially pulling back on its "easing" and a coincident Wall Street push to talk-down gold prices. Again, as discussed in *No. 527: Special Commentary*, those factors appeared to be little more than platitudes to the Fed's critics and intensified jawboning to support the U.S. dollar and to soften gold, in advance of the still-festering crises in the federal-budget and debt-ceiling negotiations. Despite orchestrated public calls for "prudence" by the Fed, and Mr. Bernanke's press conference following the June 19th FOMC meeting, the underlying and deteriorating financial-system and economic instabilities have self-trapped the Fed into an expanding-liquidity or easing role that likely will not be escaped until the ultimate demise of the U.S. dollar.

Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the dollar in international trade, such as seen most recently in the developing relationship between France and China (see *No. 527: Special Commentary*).

The Fed's recent and ongoing liquidity actions themselves suggest a signal of deepening problems in the financial system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed's continuing easing moves appear to have been primarily an effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury, under the political cover of a "weakening economy." Mounting signs of intensifying domestic banking-system stress are seen in soft annual growth in the broad money supply, despite a soaring pace of annual growth in the monetary base, and in global banking-system stress that followed the crisis in Cyprus and continuing, related aftershocks.

Still Living with the U.S. Government's Fiscal Crisis. Again, as covered in *No. 527: Special Commentary*, the U.S. Treasury still is in the process of going through extraordinary accounting gimmicks, at present, in order to avoid exceeding the federal-debt ceiling. Early-September appears to be the deadline for resolving the issues tied to the debt ceiling, including—in theory—significant budget-deficit cuts.

Both Houses of Congress have put forth outlines of ten-year budget proposals that still are shy on detail. The ten-year plan by the Republican-controlled House proposes to balance the cash-based deficit as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate does not look to balance the cash-based deficit. Given continued political contentiousness and the use of unrealistically positive economic assumptions to help the budget projections along, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of upcoming negotiations. There still appears to be no chance of a forthcoming, substantive agreement on balancing the federal deficit.

Indeed, ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Chances also remain nil for the government fully addressing the GAAP-based deficit that hit $6.6 trillion in 2012, let alone balancing the popularly-followed, official cash-based accounting deficit that was $1.1 trillion in 2012 (see *No. 500: Special Commentary*).

Efforts at delaying meaningful fiscal action, including briefly postponing conflict over the Treasury's debt ceiling, bought the politicians in Washington minimal time in the global financial markets, but the time has run out and patience in the global markets is near exhaustion. The continuing unwillingness and political inability of the current government to address seriously the longer-range U.S. sovereign-solvency issues, only pushes along the regular unfolding of events that eventually will trigger a domestic hyperinflation, as discussed in *Commentary No. 491*.

U.S. Dollar Remains Proximal Hyperinflation Trigger. The unfolding fiscal catastrophe, in combination with the Fed's direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility has given way to mounting instabilities, and severe market turmoil likely looms, despite the tactics of delay by the politicians and ongoing obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. As discussed earlier, a dollar-selling panic is likely this year—still of reasonably high risk in the next month or so—with its effects and aftershocks setting hyperinflation into action in 2014. Gold remains the primary and long-range hedge against the upcoming debasement of the U.S. dollar, irrespective of any near-term price gyrations in the gold market.

The rise in the price of gold in recent years was fundamental. The intermittent panicked selling of gold has not been. With the underlying fundamentals of ongoing dollar-debasement in place, the upside potential for gold, in dollar terms, is limited only by its inverse relationship to the purchasing power of the U.S. dollar (eventually headed effectively to zero). Again, physical gold—held for the longer term—remains as a store of wealth, the primary hedge against the loss of U.S. dollar purchasing power.

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (June 2013)

June 2013 Durable Goods Activity and Revisions Again Were Dominated by Irregularly-Timed Orders for Commercial Aircraft. With a 4.2% headline monthly gain in June, on top of a revised 5.2% headline gain in May, new orders for durable goods showed a two-month cumulative increase of 9.6%. A spike in long-term and highly irregular commercial aircraft orders, however, primarily accounted for that positive jump in orders. Net of the those airplanes the two-month aggregate increase in new orders was 3.1%, well within the normal volatility of the series for one month, let alone two. Accordingly, the ongoing long-term patterns of stagnation remain in place, despite any short-term upside blips. The growth patterns in this series remain of a nature that usually precedes or coincides with a recession or deepening downturn.

Official, Nominal June 2013 Reporting. The Census Bureau reported today, July 25th, that the regularly-volatile, seasonally-adjusted nominal (not-adjusted-for-inflation) level of June 2013 new orders for durable goods rose by 4.23% for the month, following a revised 5.19% (previously 3.61%) monthly gain in May. Once again, the bulk of the headline June gain and upside revision to May activity was due to increases in the long-term and highly-volatile commercial aircraft orders.

Nondefense (or commercial) aircraft orders rose by 31.41% in June, following a revised 68.07% (previously 50.98%) month-to-month gain in May. Usually with an extremely long lead-time, aircraft orders rarely impact near-term economic activity. Net of these orders, aggregate new orders still rose by 1.59% in June and by a revised 1.51% (previously 0.83%) in May.

In like manner, aircraft orders spiked year-to-year change in the seasonally-adjusted total nominal new orders, which rose by 10.93% (4.32% ex-commercial aircraft) in June 2013, versus a revised 9.25% (previously 7.59%) in May. The latest May 2013 annual growth in total durable goods orders, ex-commercial aircraft, was 4.46%.

Also dominated by aircraft-order activity, seasonally-adjusted new orders for nondefense capital goods rose by 6.28% (up by 0.75% ex-commercial aircraft) versus a revised 12.85% (previously 9.32%) gain in May, which was up by 2.19%, ex-nondefense aircraft, in its latest reporting. All of the preceding is before consideration for inflation.

Caution: 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. While those issues were brought into balance, temporarily, with the recent annual benchmark revision, subsequent reporting has made all historical reporting prior to April 2013 inconsistent with the current headline numbers.

Inflation-Adjusted and Smoothed. The nominal 4.23% gain in aggregate monthly June 2013 orders was a real (inflation-adjusted) gain of 4.16%, after adjusting for a 0.06% (rounding difference) monthly gain in the PPI finished goods capital equipment deflator. The revised nominal 5.19%% monthly gain in May was 5.13% in real terms. On a year-to-year basis, the inflation- and seasonally-adjusted year-to-year change was a gain of 9.99% in June, versus a revised 8.25% in May. Ex-commercial aircraft the respective real monthly increases were 1.53% and 1.44%, with the respective annual increases at 3.44% versus 3.51%.

In terms of inflation-adjusted levels, as indicated in the two graphs in the *Opening Comments* section, both the smoothed aggregate new orders and aggregate orders net of commercial aircraft series have shown a slowing uptrend and flattening-out in the last two-to-three years—most recently with dip and now small bounce to the upside, a general pattern of stagnation or bottom-bouncing—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in June 2013 remained below both the pre-2001 and pre-2007 recession highs.

If the deflation measure here were corrected meaningfully for its hedonic-adjusted understatement, the post-2009 uptrend seen in the graphs of real orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity, with the recent pattern of downturn now well entrenched.

Note on Deflating and Smoothing New Orders for Durable Goods: As described in Special Commentary No. 426*, there is no fully appropriate inflation measure available for deflating durable goods. The one used in 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, which tend to understate inflation and to overstate inflation-adjusted growth (see* Public Comment on Inflation*).*

EXISTING-HOME SALES (June 2013)

June Existing-Home Sales Declined on Top of a Downside Revision to May. The headline 1.2% monthly decline in June 2013 existing-home sales was in the context of a downside revision to May's reporting. Such remained within the bounds of the general monthly volatility seen in this series, as graphed in the *Opening Comments* section. Despite the ongoing positive press on the housing "recovery," headline June 2013 activity still remained 30.1% below the June 2005 pre-recession high for the series. Given the volatility, instabilities and uncertainties in the reporting of existing-home sales, not too much can be read into the reported trends.

June 2013 Existing-Home Sales Reporting. The July 22nd release of June 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly contraction of 1.2%, in the context of a downside revision to May sales. The revised monthly gain in May was 3.4% (previously 4.2%). Net of prior-period revisions, the monthly decline in June was 1.9%.

The June decline to a seasonally-adjusted, monthly-unit sales pace of 423,000 (an annualized pace of 5,080,000), from a revised 428,000 (5,140,000 annualized), which previously was 432,000 monthly and 5,180,000 annualized, still was within the normal month-to-month volatility for this unstable series. On a year-to-year basis, June 2013 sales rose by 15.2%, versus a revised 12.0% (previously 12.9%) in May.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into an uptrend, as suggested by the graph in the *Opening Comments* section. The data, however, remain of questionable enough quality to leave the indicated trend uncertain.

The portion of total sales in distressed properties declined in the latest reporting. The NAR estimated "distressed" sales in June 2013 were 15% of the total (8% foreclosures, 7% short sales), down from 18% in May 2013 (11% foreclosures, 7% short sales). Where the June "distressed" reading was the lowest reported by the NAR since it started tracking the series during the 2008 panic. The changes here most likely reflected timing distortions, rather than improvements in consumer finances, as discussed in the *Opening Comments.*

Reflecting ongoing lending problems within the banking industry and some continuing influx of investment money, the NAR also estimated that all-cash sales in June 2013 were at 31%, down versus 33% in May 2013, but up from 29% in June 2012.

There have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery. To the contrary, as discussed recently and frequently (again, see the *Opening Comments* and *No. 485: Special Commentary*), liquidity constraints on the consumer have been deteriorating anew.

NEW-HOME SALES (June 2013)

June New-Home Sales Showed a Statistically-Insignificant Gain, Even Though Boosted by Prior-Period Downside Revisions. The annualized pace of new-home sales for May was revised lower by 3.6% to 459,000 units, from initial reporting of 476,000. For the three months ended May, the average annualized pace was reduced by 2.7%, from 464.3-thousand to 451.7-thousand units. It is against this backdrop that the statistically-insignificant 8.3% monthly gain (497,000 versus 459,000) was reported and hyped for June 2013. The reporting here generally remains unstable and not meaningful month-to-month.

Despite all the positive spin given by the financial media to the slow uptrend in the housing market, the consumer remains severely constrained by structural liquidity issues, as discussed in the *Opening Comments*. The level of activity in June 2013 remained 64.2% below the July 2005 pre-recession high. That is reasonably consistent with starts for single-unit houses in June 2013, which held at 67.6% below the January 2006 pre-recession high, as reflected in the graphs, also in the *Opening Comments.*

June 2013 New-Home Sales Reporting. In the context of heavy downside revisions to the prior three months of reporting, the July 24th release of June 2013 new-home sales (counted based on contract signings, Census Bureau) showed a statistically insignificant 8.3% month-to-month gain (up by 4.4% before prior-period revisions) +/- 24.0% (all confidence intervals are at the 95% level). That followed a revised 1.3% (previously 2.1%) monthly gain in May. Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years.

The June 2013 year-to-year gain of 38.1% +/- 26.0% in new-home sales, however, was statistically-significant. Annual growth in May revised to 24.4% (previously 29.0%). The volatility in annual change increasingly reflects the monthly volatility and instabilities in the series.

As previously noted, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery. To the contrary, as discussed recently and frequently (see the *Opening Comments* and *No. 485: Special Commentary*), liquidity constraints on the consumer have been deteriorating anew.

Parallel patterns of activity have been seen fairly consistently between the new-home sales and the single-unit housing starts data, again, as detailed in the graphs in the *Opening Comments* section.

The published median and average sales price data for both existing- and new-home sales series tend to be of limited usefulness, here, since they can reflect shifting patterns of home buying—between differently-priced segments—more than they do changes in truly comparative prices. That said, where both median and mean existing-home sales prices in June 2013 (not seasonally-adjusted) were up month-to-month as well as year-to-year, the pattern varied for new-home sales. June median and mean prices were down month-to-month for a second month, while the year-to-year numbers continued to reflect an increase in for the new-home series.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Data Are Likely in the Months Ahead. Given underlying economic activity that continues to appear weaker than overly-optimistic market expectations, given underlying fundamentals that are suggestive of deteriorating business activity, weaker-than-consensus economic reporting should be the continuing trend.

Separately, given that energy-inflation-related seasonal-adjustment factors now are on the plus-side for a couple of months, combined with stable or higher oil and gasoline prices, higher headline CPI and PPI reporting is likely in the months ahead.

Reflecting the still-likely negative impact on the U.S. dollar in the currency markets from continuing QE3 and the still-festering fiscal crisis/debt-ceiling debacle (see *Hyperinflation Outlook* section), reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see *No. 527: Special Commentary*).

Where market expectations for economic data in the months and year ahead should begin to soften, weaker-than-expected economic results still remain likely, given the still-intensifying structural liquidity constraints on the consumer.

[Except for the detail on the pending reporting of second-quarter GDP, the comprehensive GDP revision, June construction spending and July labor data, the remaining Week Ahead *section is unchanged from the prior* Commentary.*]*

Reporting Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

With an increasing trend towards downside surprises in near-term economic reporting, recognition of an intensifying double-dip recession should continue to gain. Nascent concerns of a mounting inflation threat, though muted, increasingly have been rekindled by the Fed's monetary policies. Again, though, significant inflation shocks are looming in response to the fiscal crisis and a likely, severely-negative response in the global currency markets against the U.S. dollar.

The political system and Wall Street would like to see the issues disappear, and the popular media do their best to avoid publicizing unhappy economic news, putting out happy analyses on otherwise negative numbers. Pushing the politicians and media, the financial markets and their related spinmeisters do their best to hype anything that can be given a positive spin, to avoid recognition of serious problems for as long as possible. Those imbedded, structural problems, though, have horrendous implications for the markets and for systemic stability, as discussed in *Hyperinflation 2012*, *No. 485: Special Commentary* and *No. 527: Special Commentary*.

Gross Domestic Product—GDP (Second-Quarter 2013, First Estimate, Comprehensive Benchmark Revision). The Bureau of Economic Analysis (BEA) will release on Wednesday, July 31st, both the first or "advance" estimate of second-quarter 2013 GDP, and the "comprehensive" GDP benchmark revision that will redefine and revise the GDP series back to its initial reporting of 1929.

Specifics are discussed in the *Opening Comments* section. Look for the first estimate of second-quarter 2013 to come in below already-faltering market expectations.

Although much will change with the comprehensive benchmark revision, watch for downside revisions to recent history, where the formal recession of recent years likely will appear to have been more-severe than previously indicated, with a less-robust recovery than previously reported in the post-second-quarter 2009 era.

Construction Spending (June 2013). On Thursday, August 1st, the Commerce Department will release its estimate of June 2013 construction. Although expectations appear to favor a small monthly gain in spending, the monthly change should, as usual, not be statistically significant. The series likely will continue its recent trend of month-to-month stagnation, particularly after adjustment for inflation.

Employment and Unemployment (July 2013). The July labor data are due for release on Friday, August 2nd, from the Bureau of Labor Statistics (BLS). Most commonly, the consensus jobs estimate settles around the trend estimate from the BLS seasonal-adjustment models. The July 2013 payroll trend number is for a 175,000 jobs gain, versus June reporting of 195,000 (see *Commentary No. 540*). The early consensus for July appears to be settling somewhere between the trend number and the June headline gain. Separately, the markets appear to be looking for the headline July unemployment rate to notch lower to 7.5%, from the headline 7.6% U.3 level estimate for June.

Reflecting underlying fundamental economic activity that is weaker than consensus expectations, reporting risks continue to the downside of expectations for payrolls and to the upside for the unemployment rate.

Although the unemployment rate should move higher—at least in its broader measures that include discouraged workers—there is a persistent reporting problem that has been discussed frequently with this series (see *Commentary No. 451* and *Commentary No. 487*, for example). Month-to-month comparisons of the headline unemployment data cannot be made legitimately. The headline change in the unemployment rate is of no meaning, other than in misguided-media and market reactions. Specifically, all the recent historical unemployment rates are re-calculated each month as part of the concurrent-seasonal-adjustment process, but where the BLS publishes the new headline unemployment rate, it does not publish, and it does not make available, the revised number from the month before, which would be consistent with the new number.