

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

**COMMENTARY NUMBER 585**  
**Fed Policy, Gold, Economic Review, Existing-Home Sales, GDP Revision**  
**December 20, 2013**

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**Fantasy Third-Quarter GDP Boom—  
Likely a Function of Impaired Data Gathering and Compilation**  
**Aberrant Spate of “Strong” Government Numbers in November—  
Similarly Impacted by the Government Shutdown**  
**November Existing Home Sales Fell Below Year-Ago Level**  
**Minimal “Tapering” Sets Stage for New Fed Chairman, Does Not Alter General Outlook**  
**Gold Remains Primary Hedge in the Year Ahead**

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*PLEASE NOTE: The next regular Commentary is scheduled for Tuesday, December 24th, covering November new orders for durable goods and new-home sales.*

*Merry Christmas and best wishes to all for a joyous holiday season! — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Broad Outlook is Not Changed, Despite Some Shift in Fed Policy and Some Stronger Headline Economic Activity.** Unusual times continue. The Fed has been doing a little tap-dancing with its

quantitative easing, while the latest headline government economic numbers appear to have been bloated by disruptions to regular economic surveying and the related compilation, analysis and reporting of official data. In turn, the operational turmoil in government's statistical bureaus resulted from the October shutdown of the federal government. Neither the Fed's small "tapering" nor the inflated economic data should be lasting, and neither circumstance has altered the broad economic and financial-market outlook. Nonetheless, those conditions have affected the near-term markets and market perceptions.

***Reporting Distortions Face Catch-Up Numbers in the Months Ahead.*** Data distortions have been seen in the unusually strong headline numbers for October new home sales, for November payrolls and unemployment, retail sales, industrial production and housing starts, and for the first and second revisions to third-quarter GDP.

What these exaggerated-activity numbers do not have in common is timing of the covered reporting periods. The unusual data spikes are not consistent as to timeframe, particularly when leading or lagging relationships are considered. The two large upside revisions to expansive third-quarter GDP growth were not supported by third-quarter data. The recent spate of strong headline November numbers, of course, reflected fourth-quarter, not third-quarter activity. What these bloated reportings of the last month have in common is that all of them were the latest renditions of their respective series, generated within the data gathering- and reporting-process that was disrupted by the cessation of government operations in October.

Surveying distortions tied to the impact of the government shutdown were demonstrable for the employment and unemployment numbers (see [Commentary No. 580](#)), and appear obvious in other reporting. Those issues were noted in the discussions of retail sales (see [Commentary No. 581](#) and [Commentary No. 583](#)), industrial production (see [Commentary No. 582](#)) and housing starts and new home sales (see [Commentary No. 584](#) and [Commentary No. 578](#)). In the case of the housing data, releases were delayed beyond what the government initially had announced. In the case of the GDP, the first and second revisions were separated by fifteen-days, instead of the usual one-month and are discussed in this *Commentary* as well as in [Commentary No. 579](#).

Then there are private surveys, generally free from shutdown-triggered, data-gathering distortions, such as the just-published November existing home-sales, which declined by 4.3% for month, having been down or flat since August, and which turned negative year-to-year for the first time in more than two years. Existing home sales detail also is covered in this *Commentary*.

***If the Economy is Soaring, What Is Fueling It?*** Economic growth usually is fueled by domestic or foreign demand for goods and services, but there have been no obvious shifts in leading conditions that would signal a rebound in activity. In particular, the U.S. consumer—who accounts for roughly 71% of GDP consumption, between personal consumption and residential investment—remains heavily constrained by structural liquidity problems. As discussed frequently (see [Commentary No. 575](#), for example), the consumer does not have the ability to support or sustain growth in consumption or the broad economy, without growth in real (inflation-adjusted) income and/or the ability and willingness to take on new debt. The economy never recovered from the official 2007 recession, and no recovery is in the offing, at present.

***Fed "Tapering" Does Not Alter General Outlook.*** As was noted in [Commentary No. 581](#), "... market expectations are being built-up, once again, for the Federal Reserve's Federal Open Market Committee

(FOMC) to announce some ‘tapering’ or pullback on quantitative easing QE3 on Wednesday, December 18th, following its upcoming meeting. With a new Fed Chairman coming into power, there always is the possibility of a gesture being made to the Fed’s critics, but no serious tapering is likely. Instead, continuing systemic stress (see [Commentary No. 580](#)) suggests increased, not reduced accommodation to the banking system. Separately, deepening economic troubles—irrespective of some false-positive indications in series such as unemployment and retail sales—promise significant political cover for any actions the Fed wants to take (see [Commentary No. 575](#)).”

On December 18th, the Fed announced a reduction in its monthly asset purchases, starting in January 2014, but the pullback was minimal. The small shift in policy likely was more politics in advance of the change in Fed chairmanship than anything else. As cited in the previous paragraph, the banking system remains in deep trouble, which favors ongoing QE3, while the economy remains weak enough to continue providing the political cover needed for QE3 that is desired by the central bank. Going forward, the FOMC allowed for expansion as well as further pull back in QE3, dependent on underlying conditions. Again, those conditions still favor expanded easing.

Nonetheless, the price of gold declined in response to the Fed action, and the dollar regained a little against its recent weakness. The broad outlook for a hyperinflationary great depression unfolding before the end of 2014 remains in place, and gold and silver, held in physical form, remain the primary hedges against the looming currency turmoil and debasement. The *Summary Hyperinflation Outlook* has been updated with this *Commentary*. The publication of the first installment of *Hyperinflation 2014—The End Game*, which will be a fully-updated and expanded version of [Hyperinflation 2012](#), remains targeted for the week after Christmas.

**Unusual Third-Quarter 2013 GDP Revisions Have Not Been Credible.** Following an unusually-large upside first revision, which took headline third-quarter real (inflation-adjusted) growth from 2.85% to 3.61%, a further incredible (as in unbelievable) upside revision in headline quarterly growth to 4.13% was published with today’s (December 20th) second revision. This revision followed the first revision by 15 days (a month is normal). Where the second revision to a quarterly GDP estimate usually is no more than statistical noise, the revamped data and disrupted schedules here likely reflect significant data gathering, compilation and analysis problems for the Bureau of Economic Analysis (BEA) that were created by the October shutdown of the federal government.

Particular issues with the second revision to third-quarter GDP included an upwardly revised surge in healthcare consumption, a heavily guessed at series that could have been affected by a build up to the Obamacare introduction. In addition, there was an upwardly revised surge in gasoline consumption, which suggested the BEA had some troubles accounting for shifting gasoline prices. Further, the revision included an improved trade picture, where the latest trade data had indicated a revised deterioration in the third-quarter trade deficit.

Where the purported third-quarter GDP surge likely will not be recurring soon, it is worth considering here that these quarterly growth rates are annualized (raised to the fourth power). In terms of simple quarter-to-quarter growth, second-quarter 2013 GDP gained 0.61%, while third-quarter GDP was up by 0.70% in the first estimate, 0.89% in the second estimate, and 1.02% in the third estimate.

As a separate issue, the bulk of the increase in the now-headline 4.13% third-quarter growth, versus second-quarter growth of 2.48%, still came from a large, involuntary inventory build-up. The third-quarter inventory build-up was revised minimally in the third reporting. Accordingly, headline third-quarter “final sales,” which is GDP less the change in inventories, revised to 2.46% (previous 1.93%, initially 2.02%), versus second-quarter final sales of 2.07%. The problem with an excessive inventory build-up is that companies usually cut back on production to bring inventories into line, and that often results in an economic contraction.

**Headline Gross Domestic Product (GDP) Reporting.** The third estimate, second revision of third-quarter 2013 GDP showed a statistically-significant, real (inflation-adjusted), annualized, quarterly gain of 4.31% (previously 3.61%, initially 2.85% [rounds to 2.8%]). That was against a 2.48% headline gain in second-quarter 2013 and a 1.15% increase in the first-quarter.

**Annual Growth Still at Pre-Recession Levels.** For third-quarter 2013 GDP, the third estimate of year-to-year growth was a revised 1.97% (previously 1.83%, initially 1.65%), versus 1.63% in the second-quarter and 1.32% in the first-quarter 2013.

Historical annual growth rates have fallen below the 2.0% level only when the economy was headed into a recession. Patterns of historical year-to-year growth are graphed in the *Reporting Detail* section.

**Implicit Price Deflator (IPD).** The third estimate of third-quarter 2013 GDP inflation, or the implicit price deflator (IPD), was at a revised annualized quarterly pace of 1.97% (previously 1.96%, initially 1.90%), versus 0.58% in the second-quarter and against 1.67% in the first-quarter. Year-to-year, third-quarter 2013 IPD inflation was unrevised at 1.41% (initially 1.40%), versus 1.44% in the second-quarter and 1.74% in the first-quarter.

For comparison purposes, the annualized seasonally-adjusted quarterly inflation for the CPI-U in third-quarter 2013 was 2.63%, versus a second-quarter contraction of 0.03%, and a 1.44% quarterly gain in the first-quarter. On a year-to-year basis, third-quarter 2013 CPI-U (unadjusted) was 1.55%, versus 1.39% in the second-quarter, and 1.68% in the first-quarter (see [Commentary No. 570](#)).

The weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

**Gross National Product (GNP).** The second estimate, first revision of third-quarter 2013 GNP was published today, where GNP is the broadest measure of U.S. economic activity, and GDP is GNP net of trade flows in factor income (interest and dividend payments).

The headline third-quarter GNP real growth rate revised to 4.44% (previously 3.94%), up from 2.67% in the second-quarter. Year-to-year GNP growth was a revised 2.01% (previously 1.89%) in the third-quarter 2013, versus 1.52% in the second-quarter. The still relatively stronger headline GNP growth continued to reflect a recent string of quarterly declines in U.S. payments of factor income to the rest of the world, which has been in place since the beginning of 2013. Again, it may be reflective of the Federal Reserve’s monetizing Treasury debt under QE3, with a coincident reduction in foreign holdings of Treasury debt and continued low interest rates

**Gross Domestic Income (GDI).** The second estimate of third-quarter 2013 GDI also was published today, where the GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. Any difference between the GDP and GDI is accounted for by adding a “statistical discrepancy” into the GDI account. The revised headline third-quarter GDI real growth rate was 1.80% (previously 1.39%), down from 3.21% in the second-quarter. Year-to-year GDI growth revised to 3.07% (previously 2.97%) in third-quarter 2013, versus 2.84% in the second-quarter.

**Distribution of Headline GDP Growth.** Despite the limited significance of the following detail, it is included for those interested in the reported internal patterns of GDP growth, as guessed at by the BEA. The statistically-significant, third estimate of 4.13% headline growth for third-quarter 2013 GDP reflected the following aggregation of contributed growth. Please note that the annualized growth number in each sub-category is the additive contribution to the aggregate, headline change in GDP, where  $1.36\% + 2.56\% + 0.14\% + 0.08\% = 4.14\%$  (a rounding difference versus 4.13%). Previously, third-quarter aggregate growth was 3.61% (initially 2.85%), versus an aggregate second-quarter growth rate of 2.48%:

- **Consumer Spending Contributed 1.36% (previously 0.96%, initially 1.04%) to Third-Quarter Growth (1.24% in Second-Quarter).** Personal consumption now accounts for 68% of the recently redefined GDP—it used to be 71% of GDP (see benchmark revision detail in [Commentary No. 546](#)). The revisions in the rising pace of annualized real growth reflected higher spending on healthcare (contributed an additional 0.21%) and gasoline (added 0.10%), suggestive of issues tied to the lead-in to Obamacare and problems accounting for gasoline price swings, which otherwise should have been neutralized by proper price deflation.
- **Business/Residential Investment Contributed 2.56% (previously 2.49%, initially 1.45%) to Third-Quarter Growth (1.38% in Second-Quarter).** The revised upside growth in the business investment sector was dominated by an upside revision to the capitalization of software purchases (revised contribution increased by 0.15%) a feature added to GDP reporting in recent years. Software at one time was fully expensed, not capitalized. The contribution from the build-up in unwanted inventories backed-off minimally to 1.67%, from 1.68%, in revision.
- **Net Exports Contributed 0.14% (previously 0.07%, initially 0.31%) to Third-Quarter Growth (a 0.07% Subtraction in Second-Quarter).** The revision here showed a narrowing in the trade deficit, while the last reporting indicated the revision should have been a net widening.
- **Government Spending Contributed 0.08% (previously 0.09%, initially 0.04%) to Third-Quarter Growth (a 0.07% Subtraction in Second-Quarter).** With minimal revision, the small gain in government spending still reflected a small increase in state and local spending more than offsetting the decline in federal spending.

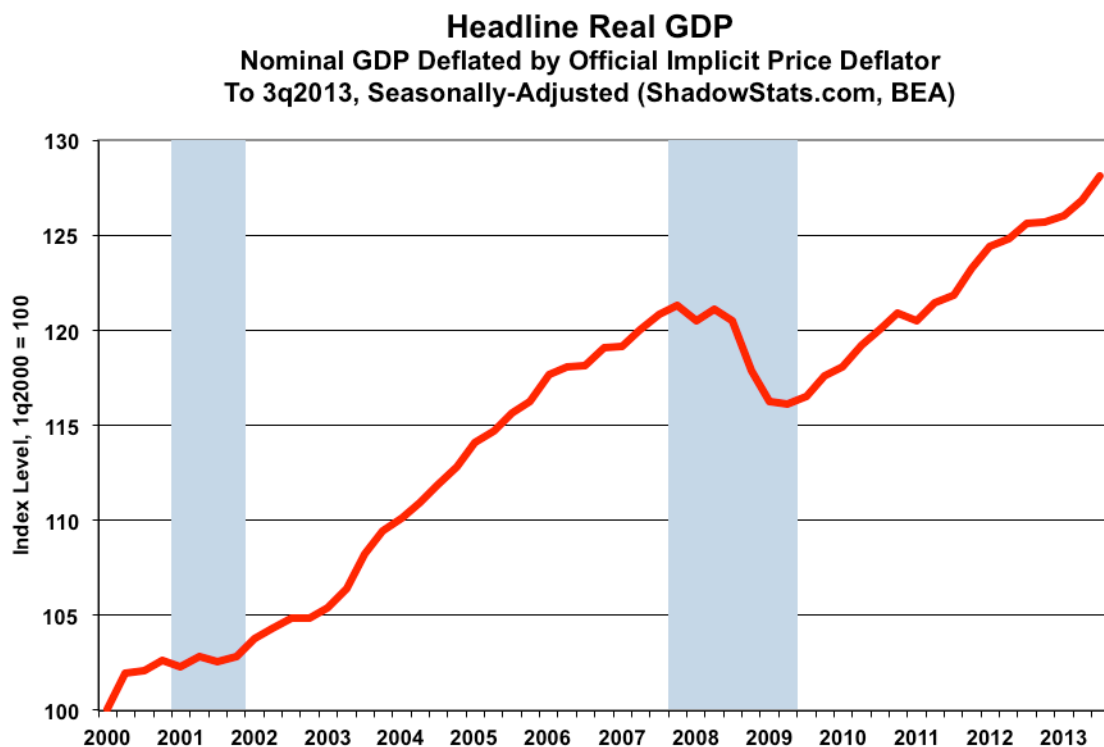
**Economic Reality.** Although the third estimate of third-quarter 2013 GDP growth moved above the level of statistical-noise status, the general outlook is unchanged. The gist of much of the following text is along the lines of other recent GDP commentaries, but the details and numbers have been updated for today’s third reporting on the aggregate third-quarter economic activity.

The GDP remains the most-worthless and the most-heavily modeled, massaged and politically-manipulated of government economic series. It does not reflect properly or accurately the changes to the underlying fundamentals that drive the economy. Underlying real-world economic activity suggests that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period

of stagnation thereafter—never recovering—and then began to turn down anew in second- and third-quarter 2012 (see [Special Commentary \(No. 485\)](#) and [Hyperinflation 2012](#)). Most-recent reporting of underlying fundamentals, through third-quarter 2013, suggests ongoing quarterly contractions. Irrespective of the reporting gimmicks introduced in the recent GDP benchmark revision, the consistent, fundamental pattern of historical activity is shown in the accompanying “corrected” GDP graph.

Please note that the pattern of activity shown for the “corrected” GDP series is much closer to the patterns shown in the graphs of monthly real median household income, other liquidity measures and economic series not otherwise reliant on understated inflation for their reported growth, as shown in [Commentary No. 575](#). A sustainable business recovery could not have taken place since 2009, and a recovery will not be forthcoming until the consumer’s structural income and liquidity problems are resolved.

**Official and Corrected GDP.** As usually discussed in the *Commentaries* covering the quarterly GDP reporting and monthly revisions, the full economic recovery indicated by the official, real GDP numbers remains an illusion. It is a statistical illusion created by using too-low a rate of inflation in deflating (removing inflation effects) from the GDP series. The accompanying two graphs tell that story, updated for the third estimate of third-quarter 2013 GDP.



Shown in the first graph, preceding, of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011 (it had been fourth-quarter 2011 before the most-recent benchmarking), and headline GDP has shown sustained growth since. Adjusted

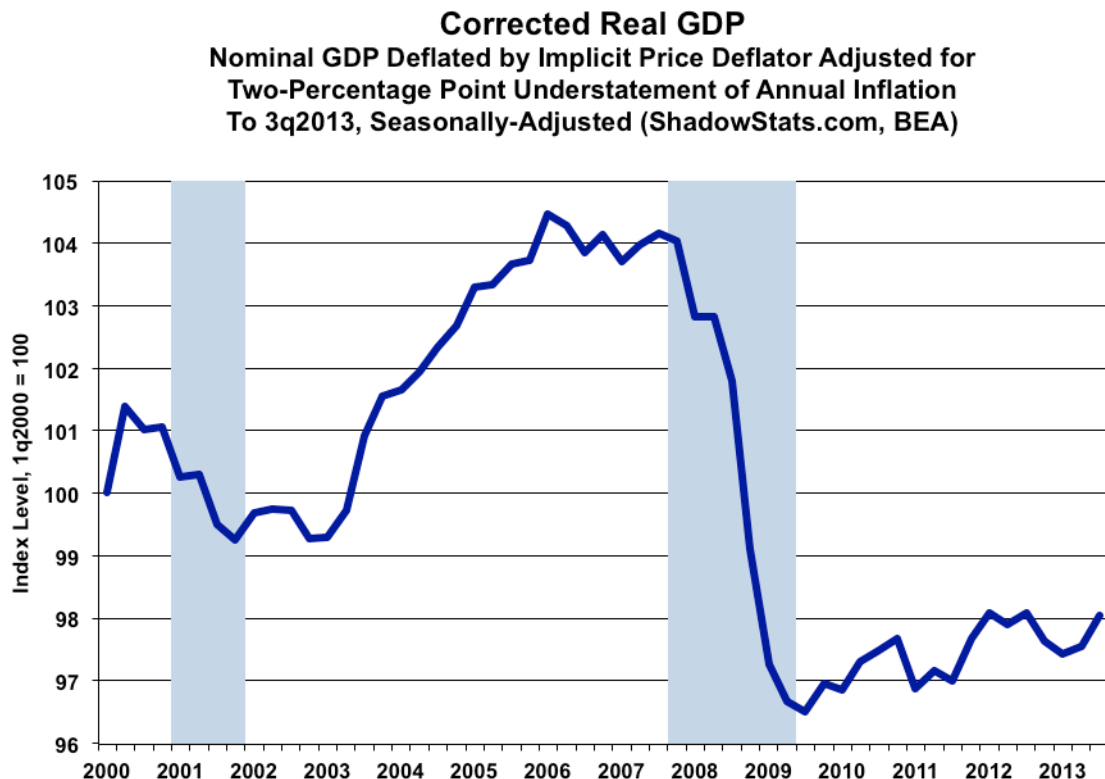


for official GDP inflation (the implicit price deflator), the level of third-quarter 2013 GDP now stands at a revised 5.6% (previously 5.5%, initially 5.3%) above the pre-recession peak-GDP estimate of fourth-quarter 2007. In contrast, the “corrected” GDP version, in the second graph, shows third-quarter activity at 6.1% below the pre-recession peak of first-quarter 2006.

No other major economic series has shown a parallel pattern of official full economic recovery and meaningful expansion beyond. Although uncorrected real retail sales—a leading indicator of GDP activity—recently moved minimally past that full-recovery point, such happened seven quarters after the GDP reached that point. In like manner, uncorrected industrial production—a coincident indicator of GDP activity—first moved beyond its pre-recession high in November 2013 reporting.

Either the GDP reporting is wrong, or all other major economic series are wrong. While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to survey real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the “recovery.”

The second graph plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates, with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation. The inflation understatement has resulted from hedonic-quality adjustments, as discussed in [Hyperinflation 2012, No. 485: Special Commentary](#) and [Public Comment on Inflation](#). Both graphs here are indexed to first-quarter 2000 = 100.



**Existing Home Sales—November 2013, Annual Home-Sales Growth Turned Negative.** Reflecting mounting liquidity stresses on the consumer, and other negative pressures on the broad economy, month-to-month activity fell sharply for November existing-home sales, which have been flat or negative for the fourth straight month. Annual growth turned negative for the first time since June 2011.

While these numbers have to be viewed in the context of the high volatility and the questionable quality of the existing-home sales series, the latest trend is consistent with consumer liquidity pressures. There have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery.

Still, this series is relatively free of any of the surveying issues surrounding the October government shutdown, and the likely related large month-to-month reporting distortions seen in the latest new-home-sales and housing-starts releases, discussed in a preceding section.

Based on actual closings of home sales, the National Association of Realtors (NAR) headline estimate of November 2013 existing-home sales showed a seasonally-adjusted monthly drop of 4.3%, versus an unrevised 3.2% headline decline in October, a 1.9% contraction in September and an “unchanged” reading in August.

The November decline, to a seasonally-adjusted, monthly-unit sales pace of 408,300 (4,900,000 annualized), from 426,700 (5,120,000 annualized) in October was within the normal month-to-month volatility for this otherwise highly unstable series.

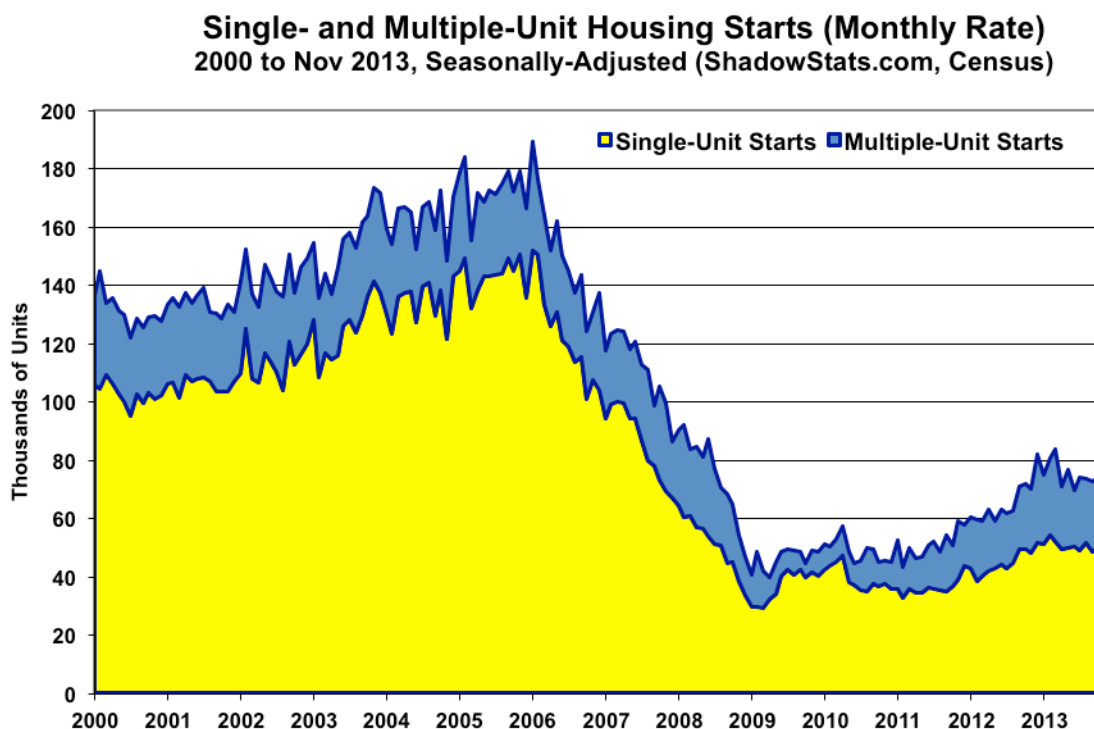
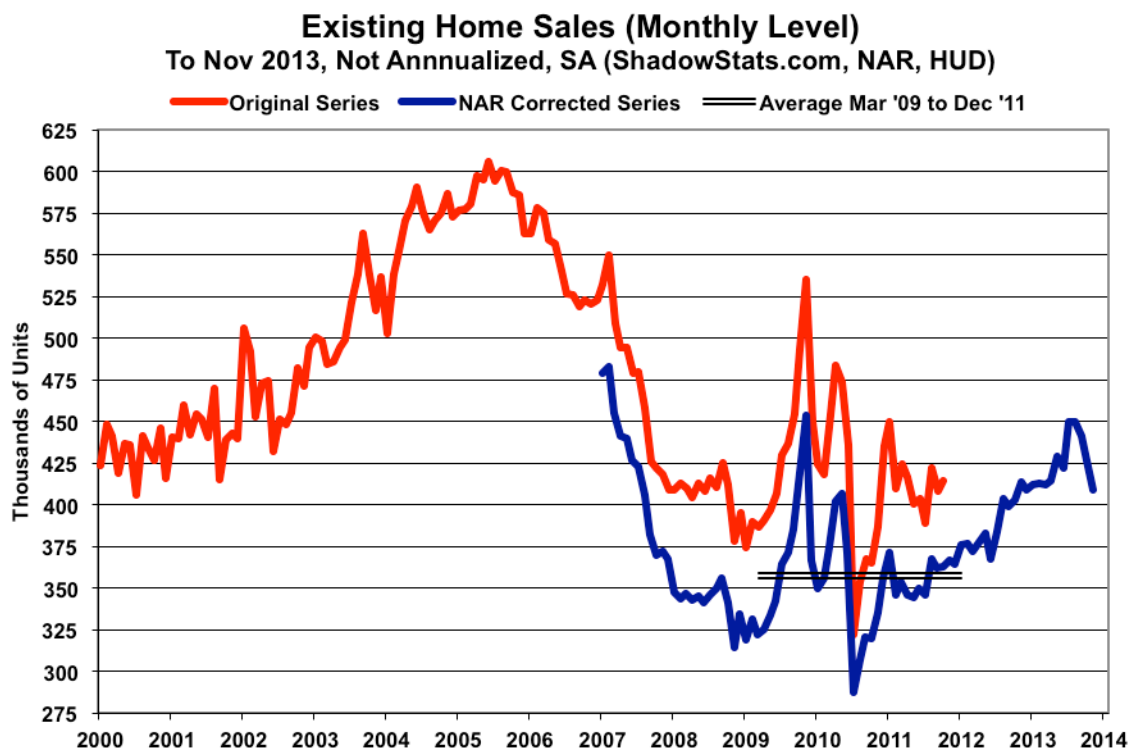
On a year-to-year basis, November 2013 annual sales declined by 1.2%, with annual growth having slowed to 6.0% in October—down from 10.7% in September, 11.4% in August and recent peak annual growth of 17.2% in July 2013. Annual change in the series for November was at its most negative reading in 30 months. The November 2013 level of sales was 32.6% below the June 2005 pre-recession high for the series.

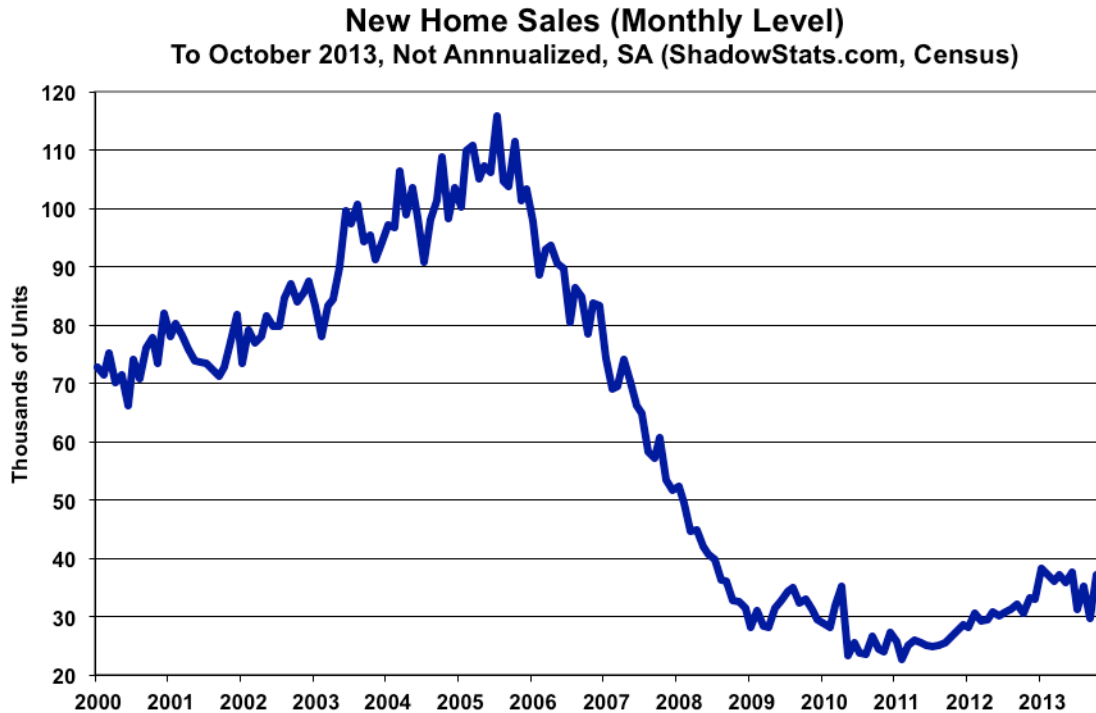
The NAR estimated the portion of total sales in “distressed” properties held at 14% in November 2013 (9% foreclosures, 5% short sales), with the component detail the same as in October. Reflecting ongoing lending problems, related banking-industry and consumer solvency issues, and the continuing influx of speculative investment money into the existing housing market, the NAR also estimated that all-cash sales in November were at 32% of the total, up from 31% in October, and up from 30% in November 2012.

Graphs of the November housing starts detail (see [Commentary No. 584](#)) and October new-home sales (see [Commentary No. 578](#)) are included as the second and third graphs following, along with the existing-home sales graph, for purposes of comparison, again, despite the likely government-shutdown distortions in the latest reported months for both the housing-starts and new-home-sales series. Reporting on November new-home sales is scheduled for December 24th (see the *Week Ahead* section).

Smoothed for irregular distortions, existing-home sales remained statistically consistent with a post-crash period of broad stagnation that had turned into a faltering uptrend and now what could be the beginning of renewed decline, as suggested in the first graph following.







*[For further details on the third estimate, second revision of third-quarter GDP and on November existing-home sales, see the Reporting Detail Section.]*

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## HYPERINFLATION WATCH

**Summary Hyperinflation Outlook.** This summary is intended as guidance for both new and existing subscribers looking for a brief version of the broad outlook on the economic, systemic and inflation crises that face the United States in the year or so ahead.

**Updated for Change in Fed Policy.** Today's *Summary Hyperinflation Outlook* is updated for the change in Federal Reserve policy, with the new or changed text underlined. The summary otherwise is as it was last updated in *Commentary No. 582*. Publication plans for *Hyperinflation 2014—The End Game*, which

will be a fully-updated and expanded version of [Hyperinflation 2012](#), were discussed in the *Opening Comments* of [Commentary No. 581](#), with the first installment scheduled to be released in the week between Christmas and New Year's Day.

***Recommended Background Material.*** [Commentary No. 559](#) (September 2013) and [No. 527: Special Commentary](#) (May 2013) supplemented [No. 485: Special Commentary](#) (November 2012), which reviewed 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 use here also are [No. 500: Special Commentary](#) on GAAP-based federal deficit reality and 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 or recent months, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014.

***Hyperinflation Timing, Set for 2019 Back in 2004, Advanced to 2014 in Aftermath of 2008 Panic.*** While the U.S. government has lived excessively beyond its means for decades, it was not until the December 2003 (federal government's 2004 fiscal year) enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 that the United States was set solidly on a course for eventual hyperinflation. Back in 2004, ShadowStats began forecasting a hyperinflation by 2019; that forecast was advanced to an outside timing of 2014 as a result of the nature of, and the official handling of the 2008 panic and near-collapse of the domestic financial system. The hyperinflation forecast for 2014 remains in place, with 90% odds estimated in favor of its occurrence.

The initial unfunded liabilities for the Medicare overhaul, alone, added nearly \$8 trillion in net-present-value unfunded liabilities to the fiscal-2004 federal deficit, based on generally accepted accounting principles (GAAP accounting), exceeding the total \$7.4 trillion gross federal debt of the time. When approached by ShadowStats as to how this circumstance likely would lead to an eventual domestic hyperinflation, the response from a member of the Bush Administration was “that is too far into the future to worry about.”

That future has come too quickly. Adjusted for one-time events, GAAP-based federal deficits have averaged \$5 trillion per year for the last seven years, with government spending and financial commitments exploding out of control. As of fiscal-2012 the GAAP-based annual federal deficit was an uncontainable and uncontrollable \$6.6 trillion, with gross federal debt at \$16.1 trillion and total federal obligations (net present value) in excess of \$85 trillion, more than five-times the level of annual GDP and deteriorating at an annual pace in excess of \$6 trillion per year. Indeed, for fiscal 2013, the GAAP-based annual deficit likely remained well in excess of \$6 trillion, with gross federal debt (adjusted for year-end debt-ceiling accounting gimmicks) about \$17.1 trillion and total federal obligations in excess of \$90 trillion. Details and discussion can be found in [No. 500: Special Commentary](#) and [Commentary No. 577](#).

On a GAAP-basis, the United States faces long-range insolvency. The global financial markets know it, and so do the miscreants currently controlling the U.S. government. Yet, as was demonstrated in the October 2013 crisis negotiations (and in negotiations of recent years) surrounding the debt ceiling, and as

openly confirmed in the two-year “budget deal” just passed by Congress, there will be no action taken in the foreseeable future to address the long-term solvency issues facing the United States. There simply is no controlling, political will in Washington to do so.

Recent budget negotiations have reflected no more than the formal, continued posturing and political delay of the same issues and crisis that nearly collapsed the U.S. dollar in August and September of 2011, that then were pushed beyond the 2012 election, and now, after further multiple delays, have been pushed until after the 2014 midterm election. Chances that the global financial markets will give the gutless politicians in Washington a pass on this are nil, and renewed selling pressure on the U.S. dollar in the global currency markets has begun to pick up.

The odds of the United States actually not paying its obligations or interest over the long-term are negligible. Instead, typically a country, which issues its debt in the currency it prints, simply prints the cash it needs when it no longer can raise adequate funds through what usually become confiscatory tax rates, and when it can no longer sucker the financial markets and its trading partners into funding its spending. That results in inflation, eventual full debasement of the currency, otherwise known as hyperinflation. The purchasing power of the current U.S. dollar effectively will drop to zero.

Therein lies the root of a brewing crisis for the U.S. dollar (all “dollar” references here are to the U.S. dollar unless otherwise specified). Global financial markets have wearied in the extreme of the political nonsense going on in Washington. No one really wants to hold dollars to or hold investments in dollar-denominated assets, such as U.S. Treasury securities.

Due to ongoing solvency issues within the U.S. banking system, that Federal Reserve is locked into a liquidity trap of flooding the system with liquidity, with no resulting surge in the money supply (see [Commentary No. 580](#)). Yet, the Fed’s quantitative easings have damaged the dollar, which in turn has triggered sporadic inflation from the related boosting of oil prices. The overhang of dollars in the global markets—outside the formal U.S. money supply estimates—is well in excess of \$10 trillion. As those funds are dumped in the global markets, the weakening dollar will trigger dumping of U.S. Treasury securities and general flight from the U.S. currency. As the Fed moves to stabilize the domestic financial system, the early stages of a currency-driven inflation will be overwhelmed by general flight from the dollar, and a resulting surge the domestic money supply. Intensifying the crisis, and likely coincident with heavy flight from the dollar, odds also are high of the loss of the dollar’s global-reserve-currency status.

These circumstances can unfold at anytime, with little or no warning. Irrespective of short-lived gyrations, the dollar should face net, heavy selling pressure in the months ahead from a variety of factors, including, but certainly not limited to: (1) inability/refusal of those controlling the government to address the long-range sovereign-solvency issues of the United States; (2) lack of meaningful Fed reversal on QE3; (3) concerns of increased quantitative easing by the Fed; (4) lack of economic recovery and renewed downturn; (5) declining confidence in, and mounting scandals involving the U.S. government.

It is the global flight from the dollar—which increasingly should become a domestic flight from the dollar—that should set the early stages of the domestic hyperinflation.

***Approaching the End Game.*** As previously summarized, 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 flux. On December 18, 2013, the FOMC pulled back minimally on QE3, but allowed for re-expansion, depending on underlying conditions. Ongoing systemic-solvency issues favor expanded, not reduced QE3, and continuing weakness in the economy provides ongoing political cover for whatever the Fed would like to do. The current “tapering” most likely was political posturing by the Fed, versus its critics, in advance of Janet Yellin becoming the new Fed Chairman.

In a related area, manipulated market reactions and verbal and physical interventions, tied to tapering or not tapering, have been used to prop stocks and the dollar, and to pummel gold.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment could shift from what now is initial acceptance of the first tapering put into place, to a re-expansion of QE3. The markets and the Fed are stuck with the underlying economic reality, and increasingly, they are beginning to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve is locked into fundamental quantitative easing by persistent problems now well beyond its control. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, which have been 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.

These systemic problems face incoming Fed Chairman Janet Yellin, along with the same quandaries and issues addressed by current Chairman Ben Bernanke. Where she also has been involved actively in formulating current Fed policies, no significant shifts in Fed policy are likely. QE3 should continue for the foreseeable future. Even as QE3 has been modified minimally in the near-term, in order to placate the Fed’s critics, ongoing economic weakness and systemic instabilities favor increased, not reduced, Federal Reserve quantitative easing during the months ahead.

At the same time, deteriorating expectations for, and an increasing lack of confidence in domestic political stability reflect government scandals and conflicting policy actions, 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. These factors, in combination, show the end game to be at hand.

This still-forming great financial tempest has cleared the horizon; its early ill winds are being felt with increasing force; and 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 precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises, hoping to push the problems even further into the future. Such attempts to save the system, however, all have exceptional inflationary implications.

The global financial markets appear to have begun to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Again, the dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of 2014.

***Still Living with the 2008 Crisis.*** Despite the happy news from headline GDP reporting that the recession ended in 2009, that the economy fully recovered by second-quarter 2011, and that it has been in ongoing expansion ever since (first-quarter 2011 excepted), there never was an actual recovery following the economic crash that began in 2006, and collapsed into 2008 and 2009. No other major economic series has confirmed the pattern of activity now being reported in the GDP. Although uncorrected headline series for inflation-adjusted retail sales and industrial production have recovered their pre-recession highs (lagging the GDP by roughly two years), both series continue to falter and are not showing meaningful, ongoing expansion, yet.

Where income fundamentally drives economic activity, 2012 household income data from the Census Bureau and related subsequent private data have shown no recovery there whatsoever. Corrected for the use of understated inflation used in deflating real retail sales, industrial production and the GDP, those series do not show a post-2009 recovery in the economy.

What followed the economic crash was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012 (see the corrected GDP graph in the *Opening Comments* section). Indeed, 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](#) and [Public Comment on Inflation](#)). Nonetheless, given the nature of official reporting, the renewed downturn still should gain eventual recognition as the second-dip in a double- or multiple-dip recession.

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. Through the government shutdown in October, the Fed had monetized in excess of 100% of the net issuance of U.S. Treasury debt, since the beginning of calendar-year 2013. That has dropped back, though, to 65.5% of net issuance of publicly-held debt (to 60.7% of net issuance of gross federal debt), as of Dec 11th, due to a catch-up surge of \$480 billion in net government borrowing following President Obama's waiving the debt ceiling. Nonetheless, the Fed's purchases of U.S. Treasury securities have continued at a steady pace of about \$10 billion per week (easing to \$9 billion per week in January 2014).

The Fed's unconscionable market manipulations and games playing of the last year in fueling speculation over the future of quantitative easing clearly were used to move the U.S. dollar (the purpose of initial quantitative easing was U.S. dollar debasement). QE3 and continuing efforts at dollar-debasement are not about to go away. 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. The loss of some reserve status for the U.S. dollar is likely, as the crises break, and that would intensify both the dollar-selling and domestic U.S. inflationary pressures.



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 appears 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 mounting global banking-system stress.

***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 extreme 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 move sustainably against the U.S. dollar, a movement that may have begun. As discussed earlier, a dollar-selling panic is likely in the next several months, 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.

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## REPORTING DETAIL

### **GROSS DOMESTIC PRODUCT—GDP (Third-Quarter 2013, Third Estimate, Second Revision)**

**Unusual GDP Revisions Were Not Credible, Likely a Function of Impaired Data Gathering and Compilation.** Following an unusually-large upside first revision, which took headline third-quarter real

(inflation-adjusted) growth from 2.85% to 3.61%, an unbelievable, further upside revision in headline quarterly growth to 4.13% was published in today's (December 20th) second revision. This revision followed the first revision by 15 days (a month is normal). Where the second revision to a quarterly GDP estimate usually is no more than statistical noise, the revamped data and disrupted schedules here likely reflect significant data gathering and analysis problems for the Bureau of Economic of Economic Analysis (BEA) that were created by the October shutdown of the federal government (see the *Opening Comments* section).

Where the purported third-quarter economic surge likely will not be recurring—at least immediately—it is worth considering that these quarterly growth rates are annualized (raised to the fourth power). On the basis of simple quarter-to-quarter growth, second-quarter 2013 GDP gained 0.61%, while third-quarter GDP was up by 0.70% in the first estimate, 0.89% in the second estimate, and 1.02% in the third estimate.

As a separate issue, the bulk of the increase in the now-headline 4.13% third-quarter growth, versus second-quarter growth of 2.48%, still came from a large, involuntary inventory build-up. The inventory build-up was little changed in the third reporting. Accordingly, headline third-quarter “final sales,” which is GDP less the change in inventories, revised to 2.46% (previous 1.93%, initially 2.02%), versus second-quarter final sales of 2.07%. The problem with an excessive inventory build-up is that companies usually cut back on production to bring inventories into line, and that often results in an economic contraction.

***Annual Growth Still at Pre-Recession Levels.*** The year-to-year growth in third-quarter GDP revised higher to 1.97% (previously 1.83%, initially 1.65%), up from 1.63% in the second-quarter. Historical growth rates have fallen below the 2.0% level only when the economy was headed into a recession (see the graphs in this section). A similar pattern has been seen in real retail sales, with suggestions of the same in industrial production. The key movement here is where annual growth slows to below supportable levels of economic growth and momentum.

Nonetheless, as reported, the GDP remains the only major economic series to show a full economic recovery and meaningful new expansion, since the onset of official recession in December 2007. Based on the third estimate of the level of third-quarter GDP, real GDP is a revised 5.6% (previously 5.5%, initially 5.3%) above the pre-recession peak in GDP activity of fourth-quarter 2007. With common experience and the vast bulk of other economic data showing no recovery, though, the headline upswing in GDP activity, since mid-2009, has been no more than a statistical illusion created by the use of bad-quality inflation data. Understated inflation has resulted in overstated real growth (see the updated discussion and graph of the ShadowStats estimate of “corrected” GDP in the *Opening Comments*).

Underlying real-world economic activity still indicates that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in second- and third-quarter 2012 (see [No. 527: Special Commentary](#), [No. 485: Special Commentary](#), [Commentary No. 575](#) and [Hyperinflation 2012](#)).

The GDP continues to be the most worthless, and the most-heavily modeled, massaged and politically-manipulated of the major economic series published by the U.S. government. Temporarily, data appear to have been skewed by the effects of the government shutdown.

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

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

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

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

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

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

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

**GDP Implicit Price Deflator (IPD)** is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on “Chained 2009 Dollars,” as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. “Chained” refers to the substitution methodology which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by \$41.8 billion in “residual,” as of the initial estimate of second-quarter 2013.

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

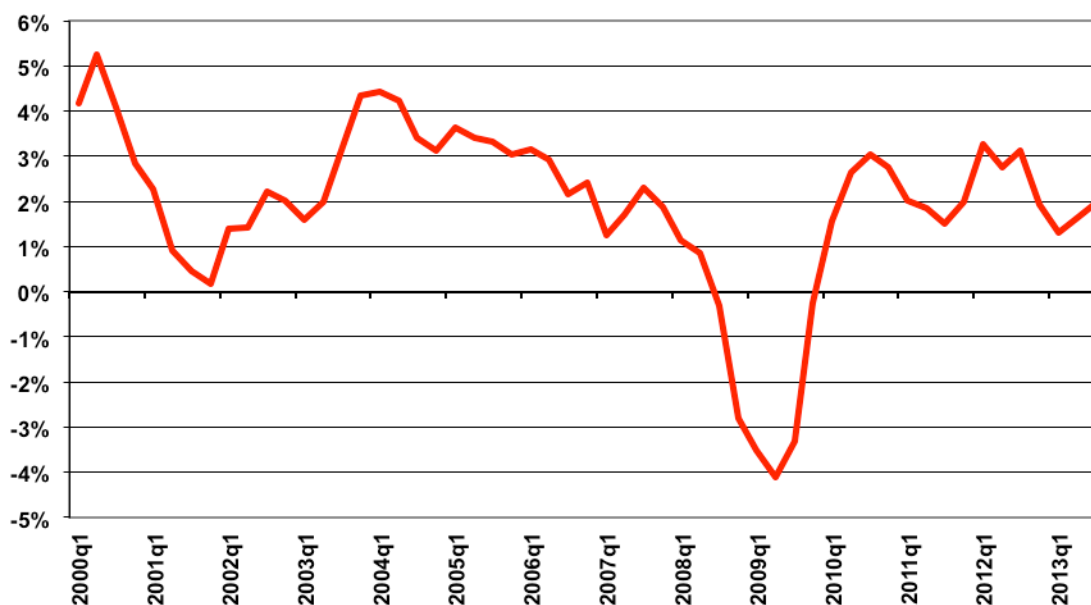
**Annual** growth refers to the year-to-year change of the referenced period versus the same period the year before.

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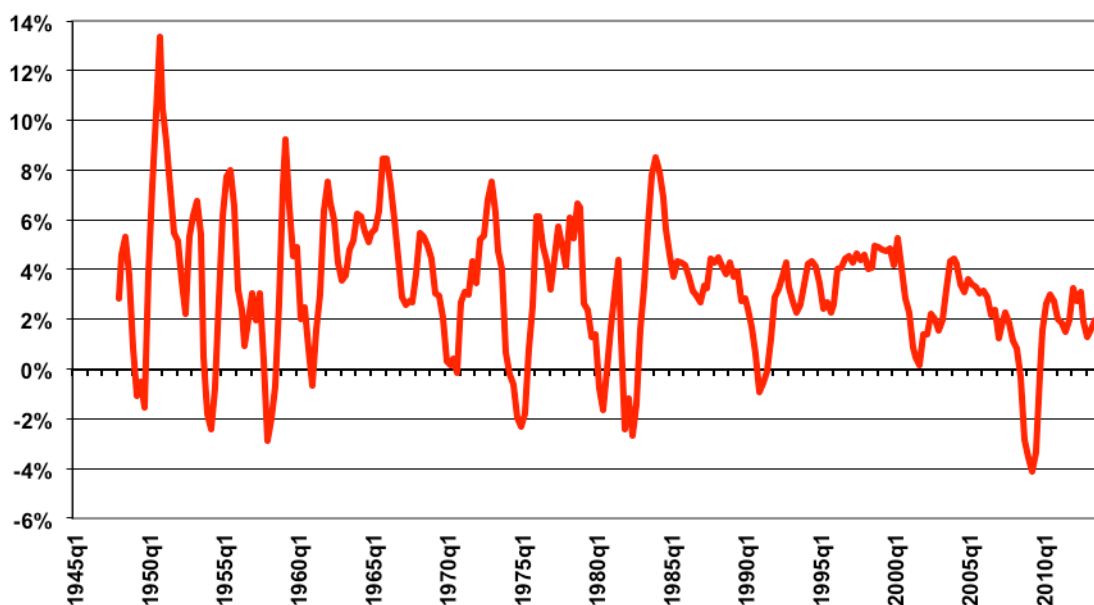
**Gross Domestic Product (GDP).** Published this morning, December 20th, by the Bureau of Economic Analysis (BEA), the third estimate, second revision of third-quarter 2013 GDP showed a statistically-significant, real (inflation-adjusted), annualized, quarterly gain of 4.31% (previously 3.61%, initially 2.85% [rounds to 2.8%]) +/- 3.5% (95% confidence interval). That was against a 2.48% headline gain in second-quarter 2013 and a 1.15% increase in the first-quarter.

Distribution of the headline quarterly GDP growth rate, by major component, is detailed in the *Opening Comments* section. The issues with current economic reporting and the unusually-large second-revision to the GDP (the market outlook had been for no net revision) also are discussed in the *Opening Comments* section.

**Real Quarterly Gross Domestic Product (GDP)**  
Year-to-Year % Change, 2000q1 to 2013q3 (ShadowStats, BEA)



**Real Quarterly Gross Domestic Product**  
Year-to-Year % Change, 1948q1 to 2013q3 (ShadowStats.com, BEA)



Shown in the preceding two graphs are the year-to-year real rates of change for the GDP series. For third-quarter 2013 GDP, the third estimate was a revised 1.97% (previously 1.83%, initially 1.65%), versus 1.63% in the second-quarter and 1.32% in the first-quarter 2013. The latest year-to-year growth remains well off the near-term peak of 3.13% growth reported for third-quarter 2012. The current-cycle trough was in second-quarter 2009 at a 4.09% year-to-year decline. That was the deepest annual contraction seen for any quarterly GDP in the history of the series, which began with first-quarter 1947.

The first graph shows near-term historical detail. The second graph shows the full history of the series. Please note in the history of the series—going back sixty-six years—whenever year-to-year change has fallen below 2.0%, a recession always has followed. Again, today’s revised year-to-year growth rate was 1.97%.

***Implicit Price Deflator (IPD).*** The third estimate of third-quarter 2013 GDP inflation, or the implicit price deflator (IPD), was at a revised annualized quarterly pace of 1.97% (previously 1.96%, initially 1.90%), versus 0.58% in the second-quarter and against 1.67% in the first-quarter. Year-to-year, third-quarter 2013 IPD inflation was unrevised at 1.41% (initially 1.40%), versus 1.44% in the second-quarter and 1.74% in the first-quarter.

For comparison purposes, the annualized seasonally-adjusted quarterly inflation for the CPI-U in third-quarter 2013 was 2.63%, versus a second-quarter contraction of 0.03%, and a 1.44% quarterly gain in the first-quarter. On a year-to-year basis, third-quarter 2013 CPI-U (unadjusted) was 1.55%, versus 1.39% in the second-quarter, and 1.68% in the first-quarter (see [Commentary No. 570](#)).

The weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

***ShadowStats-Alternate GDP.*** The ShadowStats-Alternate GDP estimate for third-quarter 2013 remains a 1.7% year-to-year contraction, versus a revised headline year-to-year gain of 2.0%. The alternate second-quarter estimate was a 1.8% year-to-year contraction, versus a headline gain of 1.6% (see the [Alternate Data](#) tab).

While annualized real quarterly growth is not estimated formally on an alternate basis, a quarter-to-quarter contraction remains a possibility for actual headline growth in the third-quarter, but that would not be evident until after the annual revisions to the GDP are published in July 2014. An actual quarterly contraction appears to have been a realistic possibility for the real GDP in most quarters since the official second-quarter 2009 end to the recession.

Adjusted for gimmicked inflation and other methodological changes (such as the inclusion of intellectual property, including software), the business downturn that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The corrected real GDP graph (see the *Opening Comments* section and [Hyperinflation 2012](#) and [No. 485: Special Commentary](#)) is based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, which reflects reversing additional methodological distortions (“Pollyanna Creep”) of recent decades.

***Gross National Product (GNP).*** The second estimate, first revision of third-quarter 2013 GNP was published today, where GNP is the broadest measure of U.S. economic activity, and GDP is GNP net of trade flows in factor income (interest and dividend payments).

The headline third-quarter GNP real growth rate revised to 4.44% (previously 3.94%), up from 2.67% in the second-quarter. Year-to-year GNP growth was a revised 2.01% (previously 1.89%) in the third-quarter 2013, versus 1.52% in the second-quarter. The still relatively stronger headline GNP growth continued to reflect a recent string of quarterly declines in U.S. payments of factor income to the rest of the world, which has been in place since the beginning of 2013. Again, it may be reflective of the Federal Reserve's monetizing Treasury debt under QE3, with a coincident reduction in foreign holdings of Treasury debt and continued low interest rates

**Gross Domestic Income (GDI).** The second estimate of third-quarter 2013 GDI also was published today, where the GDI is the theoretical income-side equivalent of the consumption-side GDP estimate. Any difference between the GDP and GDI is accounted for by adding a "statistical discrepancy" into the GDI account. The revised headline third-quarter GDI real growth rate was 1.80% (previously 1.39%), down from 3.21% in the second-quarter. Year-to-year GDI growth revised to 3.07% (previously 2.97%) in third-quarter 2013, versus 2.84% in the second-quarter.

The difference between the headline third-quarter 4.13% GDP real growth and the headline 1.80% GDI growth still provides some indication of the scope of the problems involved in putting together meaningful numbers on the broad economy, where much of the data construction is theoretical and on a bookkeeping basis, with limited linkage to the real world, and with books that never balance.

In the third-quarter, the statistical discrepancy narrowed to a revised negative \$92.6 (previously \$97.5) billion, from a negative \$186.8 in the second-quarter (these numbers are nominal, before adjustment for inflation).

Separately, and as an aside, in the real GDP accounting, there is a "residual" line item that is added in the with GDP components, so that the components will add to the headline total GDP. Due to the manner of the chain-weighted deflation (inflation adjustment) of the GDP numbers, the components will not otherwise total the GDP. At the level broken out in Table 3 of the [GDP Press Release](#), the residual was a revised negative \$40.2 (previously \$41.2) billion in the third-quarter, versus a negative \$42.1 billion in the second-quarter.

## EXISTING-HOME SALES (November 2013)

**Annual Home-Sales Growth Turned Negative.** Reflecting mounting liquidity stresses on the consumer, and other negative pressures on the broad economy, month-to-month activity fell sharply for November existing-home sales, which have been flat or negative for the fourth straight month. Annual growth turned negative for the first time since June 2011.

While these numbers have to be viewed in the context of the high volatility and the questionable quality of the existing-home sales series, the latest trend is consistent with consumer liquidity pressures. Still, this series is relatively free of any of the surveying issues surrounding the October government shutdown, and the likely related large month-to-month reporting distortions seen in the latest new-home-sales and housing-starts releases (see *Commentaries* [No. 578](#) and [No. 584](#)). Reporting on November new-home sales is scheduled for December 24th (see the *Week Ahead* section).



Yesterday's (December 19th) release of November 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly drop of 4.3%, versus an unrevised 3.2% headline decline in October, a 1.9% contraction in September and an "unchanged" reading in August.

The November decline, to a seasonally-adjusted, monthly-unit sales pace of 408,300 (4,900,000 annualized), from 426,700 (5,120,000 annualized) in October was within the normal month-to-month volatility for this otherwise highly unstable series.

On a year-to-year basis, November 2013 annual sales declined by 1.2%, with annual growth having slowed to 6.0% in October—down from 10.7% in September, 11.4% in August and recent peak annual growth of 17.2% in July 2013. Annual change in the series for November was at its most negative reading in 30 months. The November 2013 level of sales was 32.6% below the June 2005 pre-recession high for the series.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, turned into a faltering uptrend, and perhaps a renewed downtrend, as suggested by the graph in the *Opening Comments* section. Again, the data remain of questionable-enough quality to leave the indicated trend uncertain.

The NAR estimated the portion of total sales in "distressed" properties held at 14% in November 2013 (9% foreclosures, 5% short sales), with the component detail the same as in October.

Reflecting ongoing lending problems, related banking-industry and consumer solvency issues, and the continuing influx of speculative investment money into the existing housing market, the NAR also estimated that all-cash sales in November were at 32% of the total, up from 31% in October, and up from 30% in November 2012.

As discussed in the *Opening Comments*, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery.

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## WEEK AHEAD

**Weaker-Economic and Stronger-Inflation Reporting Likely in the Months Ahead.** The markets generally remain overly optimistic as to the economic outlook, although expectations have softened

during the last year. That circumstance, and underlying fundamentals that remain highly suggestive of deteriorating business activity, mean that weaker-than-consensus economic reporting should remain the general trend. Inflation likely will be higher than market expectations. Data distortions resulting from the October government shutdown temporarily increase the risk for unusual reporting and revisions in most federal-government and related series.

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors will be turning negative in December. They were not positive enough in November to offset declines in unadjusted energy prices fully in the PPI and the CPI. That said, upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, and the ongoing U.S. fiscal-crisis debacle (see the *Summary Hyperinflation Outlook* section). Particularly in tandem with the likely weakened dollar, inflation reporting in the year ahead generally should reflect much higher-than-expected inflation (see also [No. 527: Special Commentary](#)).

***A Note on 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.

### ***PENDING RELEASES:***

**New Orders for Durable Goods (November 2013).** The Census Bureau has scheduled release of November 2013 new orders for durable goods for Tuesday, December 24th. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant. Once again, some intensification of recent, sporadic downside movement in non-commercial aircraft orders remains likely during the next several months, coincident with slowing activity evident in other economic indicators. Such reporting generally would tend to surprise market expectations on the downside.

As to the inflation contribution to the monthly and annual change in new orders, the seasonally-adjusted, November 2013 PPI finished goods capital equipment inflation index was up by 0.1%, month-to-month (unchanged month-to-month, not seasonally-adjusted), with year-to-year unadjusted (and adjusted) inflation at 1.0%. These inflation numbers increasingly are nonsensical. Due to hedonic-quality-adjustment distortions to this portion of the PPI series, as with the industrial production and GDP numbers, those inflation data understate inflation reality and, correspondingly, overstate inflation-adjusted growth, by perhaps three-percentage points per year. A revamped PPI series will be available along with the January 2014 data.

**New-Home Sales (November 2013).** November 2013 new-home sales are scheduled for release on Tuesday, December 24th, by the Census Bureau. After what appears to have been a heavily-distorted monthly surge in the October estimate—likely an artifact of survey problems surrounding the government shutdown (see the *Opening Comments* and [Commentary No. 578](#))—some downside catch-up in reporting is a fair bet, surprising the markets on the downside.

As had been the developing circumstance for this highly volatile and unstable series, an entrenched pattern of stagnation likely has continued, with the report of monthly change in new-home sales activity not likely to be meaningful—under normal conditions—in either direction, particularly in the context of the prior-month’s revision.

This series increasingly should continue to show a relationship with what had been the weakening trend in single-unit housing starts (as graphed in the *Opening Comments* and as discussed in Wednesday’s [Commentary No. 584](#)).

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