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

COMMENTARY NUMBER 594
December Existing-Home Sales

January 23, 2014

Not Quite as Rosy as the Headlines,
Fourth-Quarter Existing-Home Sales Crashed at an Annualized Quarterly Pace of 27.9%

December and November Existing-Home Sales Hit 14-Month Low

Home Sales Declined Year-to-Year for a Second Month

PLEASE NOTE: The next regular Commentary *is scheduled for Tuesday, January 28th, covering December new orders for durable goods and new home sales, followed by one on January 30th, covering the advance estimate of fourth-quarter 2013 GDP.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Existing-Home Sales Reflect Systemic Problems. While there have been a number of quality issues with the existing-home-sales series, distortions to data-gathering and reporting from the government shutdown are not among them. Where the December 2013 release of existing-home sales was the only major economic report of the week, the developing weakness shown in that series has a fair chance of showing up in pending monthly reporting and revisions to series such as new-home sales and housing starts. Systemic issues ranging from consumer liquidity to banking solvency continue to constrain housing activity. The January 30th release of the "advance" estimate of fourth-quarter 2013 GDP will provide an opportunity to put some hard numbers to the shutdown's data distortions. The details will be covered in *Commentary No. 596* of that date.

Clarification of Calendar- versus Fiscal-Year References. Here is a clarification, per subscriber request. Unless otherwise specified, all references to quarterly and annual numbers are on a calendar-year basis. For example, the year 2013 ended on December 31; fourth-quarter 2013 is the October-to-December period of 2013; and first-quarter 2014 is the January-to-March period of 2014. Most time-period references for economic data and all references in the current *Commentary* are on a calendar-year basis.

The primary circumstance where this would vary—again, always to be specified separately—is with numbers tied to the government's financial operations. The federal government uses a twelve-month fiscal year, ended September 30. Hence, the government's fiscal-year 2013 ended on September 30, 2013, and first-quarter 2014 of the federal fiscal year is the October-to-December period in the 2013 calendar year.

Hyperinflation—Second Installment. Discussed in the *Hyperinflation Watch*, release of the *Second Installment* of *Hyperinflation 2014—The End Game Begins* is targeted for the week of February 10th.

December 2013 Existing-Home Sales Showed Deteriorating Housing Market Conditions. Despite happy headlines on rising December and annual 2013 existing-home sales, the reporting details showed continuing, sharp deterioration in the series. Where reported December and November home sales activity was the weakest in over a year, the headline 1.0% month-to-month gain for December 2013 was due solely to a 1.6% downside revision in the level of November data. That had the effect of deepening November's headline monthly decline to 5.9%.

As a result, headline December activity was 0.6% below the initial headline reporting for November. Other than for that relative boost from November's revision, December would have been the fifth straight month of flat-to-minus monthly activity. Separately, headline monthly sales activity for both November and December was below the headline activity of all prior months since October 2012. Further, the 0.6% year-to-year decline in December 2013 sales followed a revised 2.8% annual decline in November. Those were the first annual contractions in monthly reporting for this series since June 2011.

Still Well Shy of Normal Times. The National Association of Realtors (NAR), which issues the existing-home-sales survey, headlined their release, "December Existing-Home Sales Rise, 2013 Strongest in Seven Years." The headline was accurate, but somewhat misleading. First, the "rise" in December 2013 sales, again, was in the context of revisions and a developing downhill slide.

Second, indeed the annual level of existing-home sales in 2013 was reported at 5,090,000, the strongest annual reading since 2006, which was the second-year of the housing downturn. Yet, the 2013 annual number still was 21.4% below the 2006 sales level of 6,477,000, and 28.1% below the 2005 annual peak in the series of 7,080,000. More narrowly, the December 2013 reading of an annualized 4,870,000 sales pace was 33.0% below the historic monthly peak annual sales pace of 7,270,000, in June of 2005.

The unhappy sales pattern for 2013 is that fourth-quarter activity closed out the year on the downside. In terms of annualized growth (consistent with the preparation of headline GDP growth estimates and the reporting of home sales activity), fourth-quarter 2013 existing-home sales fell at an annualized quarterly pace of 27.9%. That followed annualized 25.9% growth in third-quarter 2013, which left the level of fourth-quarter activity, in terms of straight percentage change, down 7.8% versus third-quarter 2013, down 2.4% versus second-quarter 2013, and up by 0.1% versus first-quarter 2013.

Underlying Fundamentals Show No Relief for the Housing Market. The problem for the housing market, along with much of the broad economy, ties directly to the severe, structural liquidity problems t impairing consumer spending and consumption (see *Commentary No. 590*). There have been no developments in underlying economic fundamentals, consumer conditions or otherwise, that would suggest a pending housing-industry turnaround or a rebound in broad business activity. Underlying reality favors a renewed downturn in general economic activity, as increasingly suggested by the existing-home-sales and other series.

Headline Reporting. Headline reporting of December 2013 existing-home sales showed a seasonally-adjusted 1.0% gain, versus a revised 5.9% headline monthly decline in November, an unrevised 3.2% decline in October, a 1.9% contraction in September and an "unchanged" reading in August. Net of prior period revisions, December 2013 activity was down by 0.6% for the month.

The December increase to a seasonally-adjusted, monthly-unit sales pace of 405,800 (4,870,000 annualized), versus 401,700 (4,820,000 annualized) in November was within the normal month-to-month volatility of this otherwise highly unstable series. More reflective of the actual level of home sales activity, the monthly-unit sales pace is used in the accompanying graphs of related activity.

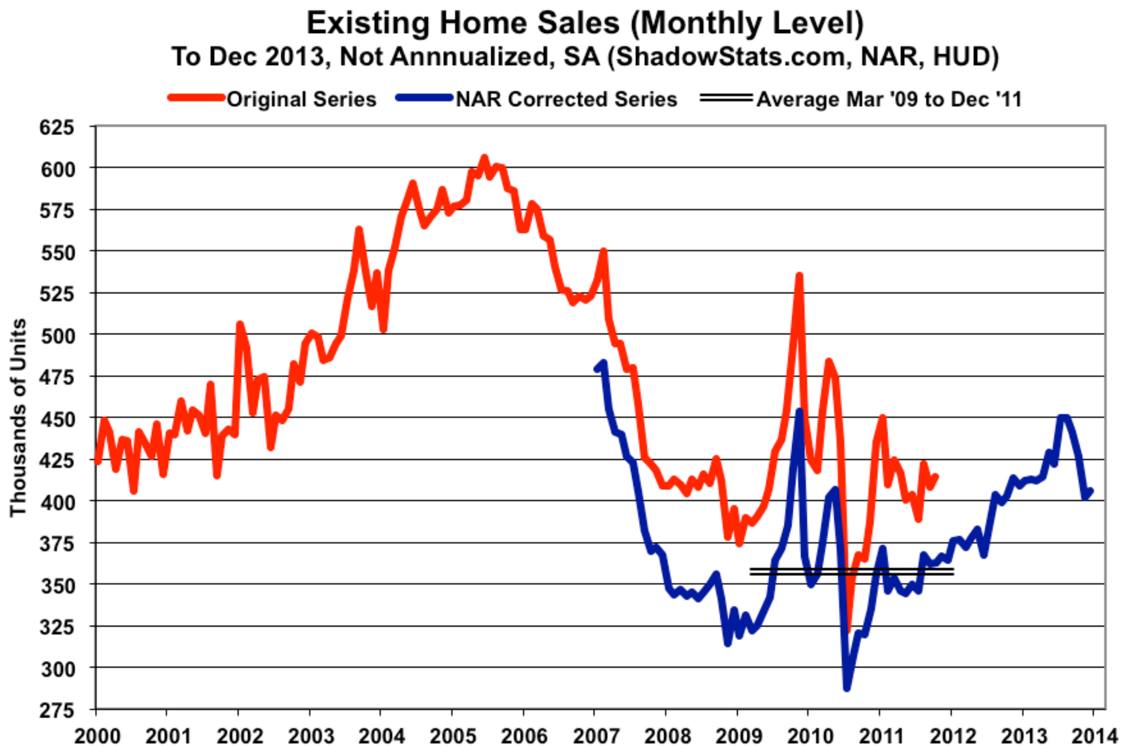
On a year-to-year basis, December 2013 annual sales declined by 0.6%, versus a revised 2.8% decline in November, with annual growth having slowed to 6.0% in October, from 10.7% in September, 11.4% in August and recent peak annual growth of 17.2% in July 2013.

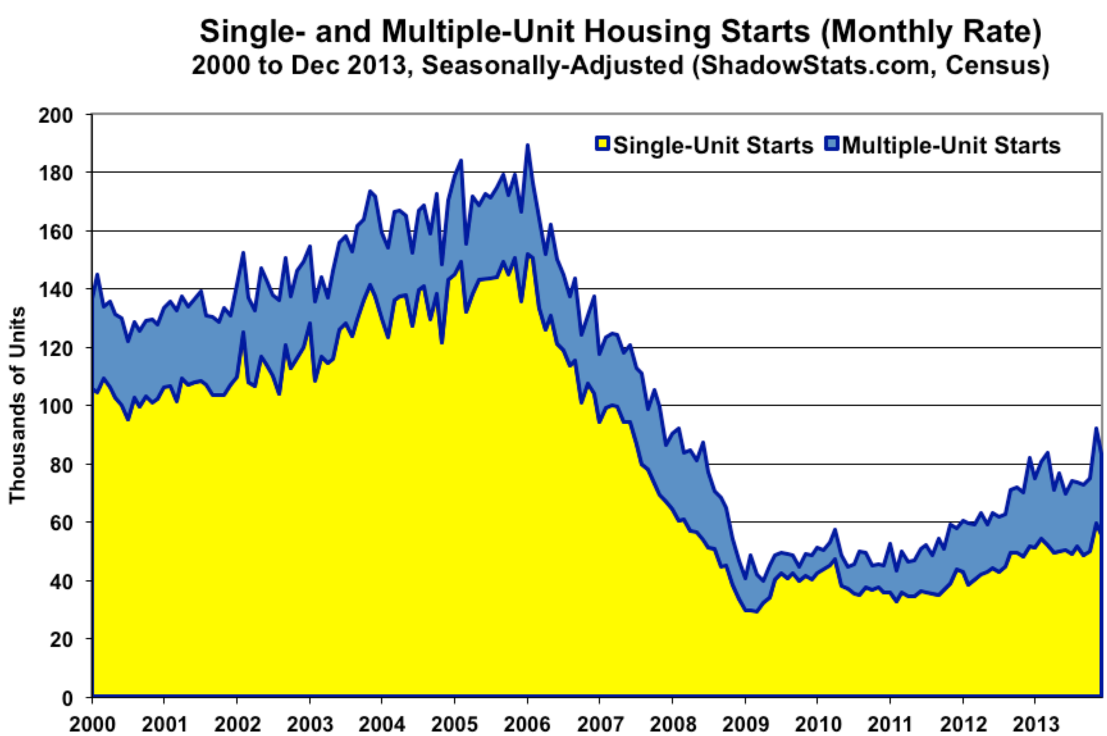
The NAR estimated the portion of total sales in "distressed" properties held at 14% (10% foreclosures, 4% short sales) in December 2013, versus 14% (9% foreclosures, 5% short sales) in November.

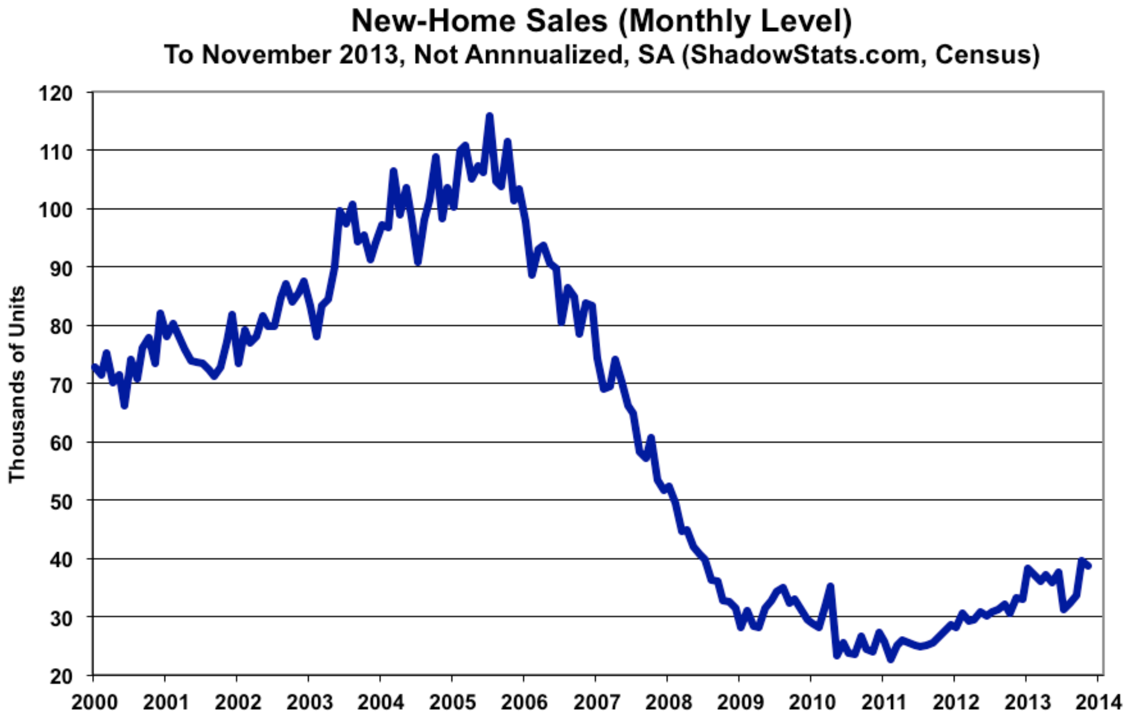
Reflecting ongoing lending problems, related banking-industry and consumer solvency issues, and the continuing influx of speculative investment money into the existing housing market, the NAR also estimated that all-cash sales in December 2013 held at 32%, the same as in November 2013, but up from 29% in December 2012.

Graphs. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, turning into a faltering downtrend, as suggested by the first graph following.

Included for purposes of comparison, as the second graph following, is the December 2013 single-unit and multiple-unit housing starts (see *Commentary No. 593*). It likely still includes significant data distortions from the surveying, data gathering and reporting disrupted by the October shutdown of the federal government. The third graph shows new-home sales through November. As discussed in *Commentary No. 586*, shutdown issues also have plagued new-home sales reporting. The December new-home-sales release is scheduled for January 27th (see the *Week Ahead* section).


Existing Home Sales (Monthly Level)
To Dec 2013, Not Annnualized, SA (ShadowStats.com, NAR, HUD)
Original Series
NAR Corrected Series
Average Mar '09 to Dec '11
Thousands of Units
625
600
575
550
525
500
475
450
425
400
375
350
325
300
275
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Single- and Multiple-Unit Housing Starts (Monthly Rate)
2000 to Dec 2013, Seasonally-Adjusted (ShadowStats.com, Census)
Single-Unit Starts
Multiple-Unit Starts
Thousands of Units
200
180
160
140
120
100
80
60
40
20
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013



[For greater detail on December existing home sales, see the **Reporting Detail** ***section.]***

HYPERINFLATION WATCH

Hyperinflation Outlook. With the *First Installment* of *Hyperinflation 2014—The End Game Begins* published on January 7th, a new *Hyperinflation Summary* for this section will be added shortly. The publication of the *Second Installment*, which covers historical and prospective economic activity, as well as possible protective and preventative actions and reactions at both a personal and federal level, versus the unfolding circumstance, should be published in the week following the February 7th release of the 2013 benchmark revision to payroll employment. The new material will supplement the basic material already available to ShadowStats readers in Chapters 4, 5 and 9 of *Hyperinflation 2012*.

REPORTING DETAIL

EXISTING-HOME SALES (December 2013)

December and November Existing-Home Sales Were Weakest Since October 2012. Despite happy headlines on rising December and 2013 existing-home sales, the monthly details indicated continuing, sharp deterioration in the series. The headline 1.0% month-to-month gain for December 2013 was due solely to a 1.6% downside revision in the level of November data, which had the effect of deepening November's headline monthly decline to 5.9%.

As a result, headline December activity was 0.6% below the initial headline reporting for November. December was the fifth straight month of faltering activity, with the headline monthly sales activity of both November and December reported below the monthly headline activity of all prior months since October 2012. Further, the 0.6% year-to-year decline in December 2013 sales followed a revised 2.8% annual decline in November. Otherwise, the last annual contraction in monthly reporting for this series was seen in June 2011.

Still Well Shy of Normal Times. The National Association of Realtors (NAR), which issues the existing-home sales survey, headlined their release, "December Existing-Home Sales Rise, 2013 Strongest in Seven Years." The headline was accurate, but somewhat misleading. First, the "rise" in December 2013 sales was in the context of a developing downhill slide.

Second, where the annual level of existing-home sales in 2013 was reported at 5,090,000, the strongest annual reading since 2006—the second-year of the housing downturn—that 2013 number still was 21.4% below the 2006 sales level of 6,477,000, and 28.1% below the 2005 annual peak in the series of 7,080,000. More narrowly, the December 2013 reading of an annualized 4,870,000 sales pace was 33.0% below the historic monthly peak annual sale pace of 7,270,000, in June of 2005.

The ongoing, unhappy sales pattern for 2013 is that fourth-quarter activity closed out the year on the downside. In terms of annualized growth (consistent with the preparation of headline GDP growth estimates and the reporting of home sales activity), fourth-quarter 2013 existing-home sales fell at an annualized quarterly pace of 27.9%. That followed annualized 25.9% growth in third-quarter 2013, which left the level of fourth-quarter activity, in straight percentage change, down 7.8% versus the third-quarter 2013, down 2.4% versus the second-quarter 2013, up by 0.1% versus the first-quarter 2013.

No Fundamental Relief for the Housing Market. The problem for the housing market, along with much of the economy, ties directly to the severe, structural liquidity problems impairing consumer spending and consumption, as discussed in *Commentary No. 590*. There have been no developments in underlying economic fundamentals, consumer conditions or otherwise, that would suggest a pending housing-industry turnaround or an economic recovery. Underlying reality favors a renewed, broad downturn in the economy, as increasingly suggested by the existing-home sales, among other series.

While these home sales 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 remains consistent with the consumer liquidity pressures. Further, 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 still being worked out of the new-home-sales and housing-starts numbers. Reporting on December new-home sales is scheduled for January 27th (see the *Week Ahead* section).

The Formal Reporting. Today's (January 23rd) release of December 2013 existing-home sales (counted based on actual closings, NAR) showed a seasonally-adjusted 1.0% gain, versus a revised 5.9% (previously 4.3%) headline monthly decline in November, an unrevised 3.2% decline in October, a 1.9% contraction in September and an "unchanged" reading in August. Net of prior period revisions, December 2013 activity was down by 0.6% for the month.

On a year-to-year basis, December 2013 annual sales declined by 0.6%, versus a revised 2.8% (previously 1.2%) decline in November, 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.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, turning into a faltering downtrend, as suggested by the graph in the *Opening Comments* section. Again, the data quality remains questionable.

The NAR estimated the portion of total sales in "distressed" properties held at 14% (10% foreclosures, 4% short sales) in December 2013, versus 14% (9% foreclosures, 5% short sales) in November.

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 December held at 32%, the same as in November 2013, but up from 29% in December 2012.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. At the moment, markets generally appear to still be overly optimistic as to the economic outlook, based on data that likely were puffed-up in the process of going through the data-gathering and reporting distortions of the October shutdown to the federal government. Although expectations should soften anew, quickly, there remains the potential for unusual, irregular and eventually corrective reporting and revisions in the months ahead.

That circumstance, and underlying fundamentals that remain highly suggestive of deteriorating business activity, mean that weaker-than-consensus economic reporting should become the general trend.

Stronger inflation reporting remains likely. 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, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. political conditions (see *Hyperinflation 2014—The End Game Begins*). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

***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 seven-to-eight 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-Home Sales (December 2013). December 2013 new-home sales are scheduled for release on Monday, January 27th, by the Census Bureau. After what appeared to have been a heavily-distorted monthly surge in the October estimate—likely an artefact of surveying and reporting problems surrounding the government shutdown—related issues appeared to surface again, with a minimal correction to November reporting. Accordingly, some meaningful downside catch-up in reporting is a fair bet, in a direct decline of reported December sales and/or in downside revisions to earlier periods, surprising market expectations 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.

New Orders for Durable Goods (December 2013). The Census Bureau will release December 2013 new orders for durable goods on Tuesday, January 28th. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant. Sporadic downside movement in non-commercial aircraft orders remains likely during the next several months, coincident with a general slowing in broad economic activity. 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, December 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 inflation at 1.1% (1.0% adjusted). These inflation numbers remain increasingly 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 and new deflation for the durable goods orders will be available along with the January 2014 data.

Gross Domestic Product—GDP (Fourth-Quarter 2014, "Advance" or First-Estimate). The Bureau of Economic Analysis (BEA) has scheduled release of the "advance" estimate of fourth-quarter 2013 GDP for Thursday, January 30th. Market expectations appear to be for some slowing in the fourth-quarter versus the last headline estimate of 4.1% annualized, quarter-to-quarter, real (inflation-adjusted) growth in third-quarter 2013. These numbers are particularly unstable, given the impact of the government-shutdown on data gathering and reporting. Not only was the reporting of third-quarter growth bloated by the shutdown issues, the potential exists for some carry-through into the fourth-quarter report.

Net of an unusually-large inventory gain in the third-quarter, and subsequent upside revisions to same, the 4.1% third-quarter growth was about 2.5%. While problematic data suggest that fourth-quarter growth would exceed that, inventory swings and catch-up reporting could take the growth rate either way. Rather than making corrective adjustments in the fourth-quarter GDP, for third- and fourth-quarter reporting issues, however, the BEA most likely will hold off in adjusting for those problems until the annual GDP revisions in July. Under those circumstances, with the BEA targeting its advance estimate, as usual, against the consensus outlook, which appears to be around 3%, the consensus is as good a bet as anything for the initial reporting. Underlying economic reality suggests a much-weaker growth rate, if not an outright quarterly contraction.

Keep in mind, again, that there could be unusually wild reporting with this number. As the dust settles on the shutdown-related, reporting-quality issues for third- and fourth-quarter 2013 GDP, look for an outright quarterly contraction in first-quarter 2014 GDP, with downside revisions in July 2014 for the reporting of the earlier quarters.