

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

COMMENTARY NUMBER 611
February Median Household Income, Existing-Home Sales
March 20, 2014

It's the Lack of Liquidity, Not the Weather
Median Household Income Continued Its Low-Level Stagnation
For Second Consecutive Quarter,
Existing-Home Sales Are Plummeting at Nearly a 25% Annualized Pace

PLEASE NOTE: The next regular Commentary is scheduled for Thursday, March 27th, covering the third estimate of fourth-quarter 2013 GDP and February new orders for durable goods and new-home sales, followed by one on the 28th, covering the annual benchmark revisions to industrial production. The Special Commentaries on 2013 U.S. GAAP accounting and the second installment on the hyperinflation report are planned for publication by March 26th. Precise timing on the special reports will be posted in the schedule box on the home page of www.ShadowStats.com.

Today's Commentary covers new information on consumer-liquidity conditions. Where the first section includes all the new liquidity and housing detail, and where publication of the second hyperinflation installment, Hyperinflation 2014—Renewed Economic Tumble, is scheduled within the week ahead, today's brief missive excludes both the usual Hyperinflation Watch and the Reporting Detail sections.

Best wishes to all — John Williams

CONSUMER LIQUIDITY WOES DRIVE NEW ECONOMIC DOWNTURN

It's the Constrained Consumer Liquidity! Tuesday's [Commentary No. 610](#) noted that first-quarter 2014 GDP likely would suffer an outright headline quarterly contraction in its "advance" headline estimate (April 20th), based on recent reporting of economic series such as real retail sales. In yesterday's press conference, Fed Chair Janet Yellen noted the slack in the economy and that the economy was not close to full employment. She blamed the weather for the recent pullback in economic activity, which is close to the popular view and hype out of Wall Street. The dominant factor behind the "renewed" slowing in economic activity, however, remains increasing constraints on spending from the liquidity woes besetting the U.S. consumer.

The intensifying weakness in the broad economy was seen both before and after the worst of the weather. Certainly bad weather will impact factors like construction activity, but activity can be shifted around in a number of areas, and there are offsetting elements such as increased utility consumption and storm cleanup. One factor that should not have been affected heavily by weather is existing-home sales, which reflect closings on sales often made a month or two before. No construction is involved there, just people shuffling around paperwork.

Based on this morning's (March 20th) reporting, existing-home sales were declining at an annualized quarterly pace of 24.4%, based on two months of reporting for first-quarter 2014. That follows an annualized quarterly pace of decline of 25.6% in fourth-quarter 2013, and an annualized quarterly pace of gain of 18.7% in the third-quarter. Annualized rates of growth magnify quarterly rates of change, but that is the way the GDP is reported, and ShadowStats just is using a consistent method in reporting other comparable economic series. Of course the general direction and relative magnitudes of change are the same, but roughly at just one-fourth the pace of the other reporting, when the rate of change is not annualized.

Consumer Debt Issues Blamed for Reduced Activity in Home Sales. The National Association of Realtors (NAR), which issued the February new-home sales data, blamed lack of credit availability to new-home buyers as a primary problem behind weak existing-home sales.

In the NAR press release, NAR President Steve Brown, co-owner of Irongate, Inc., Realtors® in Dayton, Ohio, noted "... 20 percent of buyers under the age of 33, the prime group of first-time buyers, delayed their purchase because of outstanding debt. In our recent consumer survey, 56 percent of younger buyers who took longer to save for a downpayment identified student debt as the biggest obstacle." Credit issues and lack of bank lending spread well beyond recent college graduates.

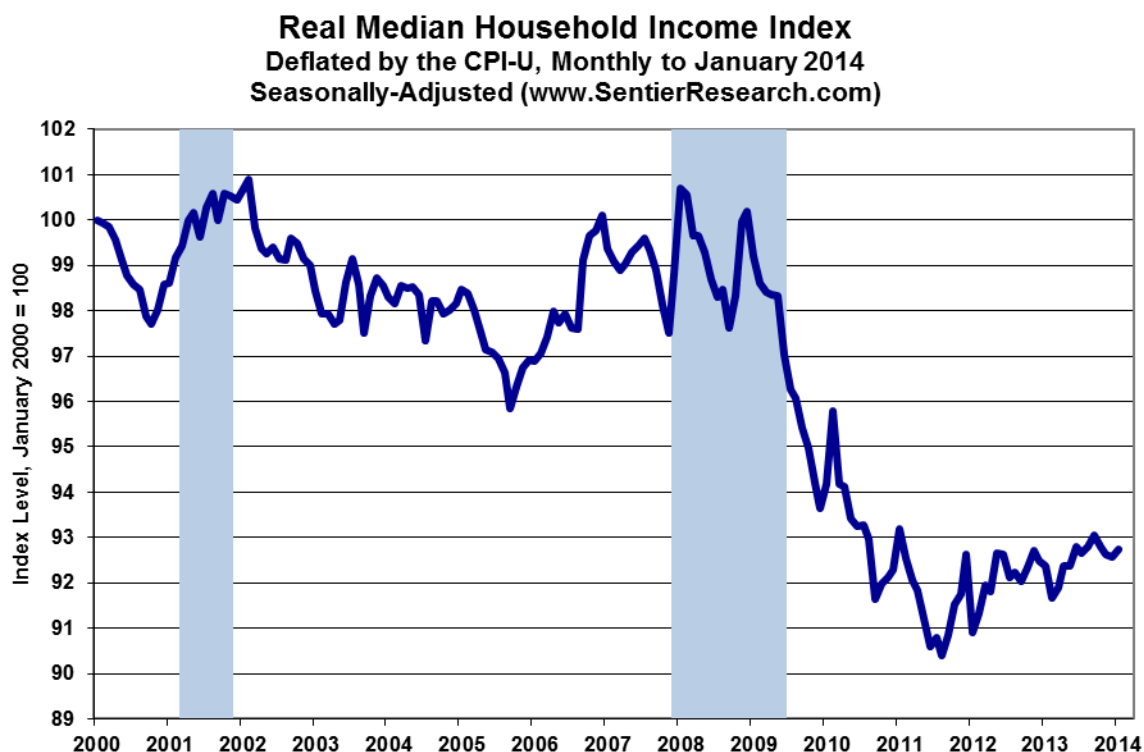
Health Care, Home Heating, Gasoline and Food Costs Also Cut into Regular Consumption. Broad U.S. economic activity is measured net of inflation. When the necessities of life rise in cost, inflation-adjusted consumption in aggregate and in other areas falls back for those with limited budgets, assuming the statistical agencies accurately reflect inflationary pressures in their reporting. The issue has been noted popularly with the impact of rising gasoline prices forcing cut backs in more-discretionary spending, but the same pressures will be seen in higher home-heating costs this last winter, due to both to higher prices and increased demand. Food prices also are on the rise.

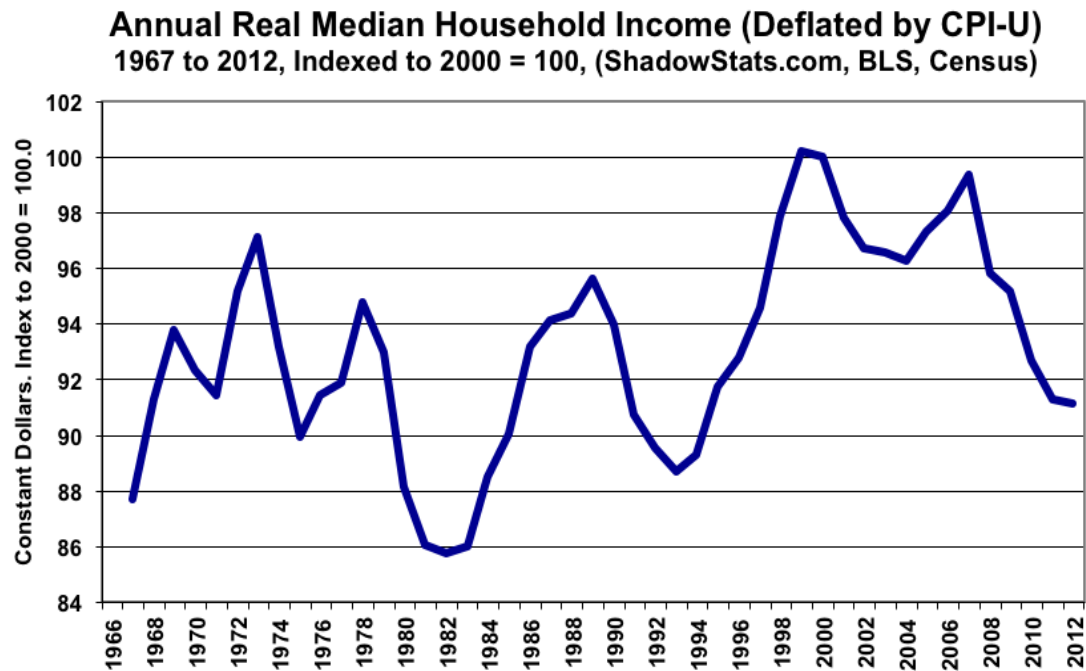
Not widely discussed, yet, in realistic terms, is the situation with health insurance. A recent article in the popular press touted the Affordable Care Act, a.k.a. Obamacare, as an economic stimulus, by forcing people to “consume,” by buying health insurance. Aside from massive increases in health insurance costs suffered by most of those who have had insurance, those forced to buy new policies likely will have to cut back in others areas that traditionally would be viewed as more economically productive consumption.

Consumer Liquidity Problems Continue to Restrain Consumption. Serious, structural liquidity problems continue to constrain consumer activity, meaningfully, as discussed frequently in these *Commentaries* and as indicated in the updated, accompanying graphs. Without real, inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply cannot sustain real growth in retail sales or in the personal-consumption activity that dominates the headline growth in GDP.

The following graph of January 2014 real median household income reflects new data published this morning (March 20th) by www.SentierResearch.com. Incorporating seasonal-adjustment revisions, the January 2014 number showed continued income stagnation, near the cycle-low for the series.

As the GDP purportedly was starting a solid recovery in mid-2009, household income plunged to new lows. As shown in the second graph, deflated by headline CPI-U, annual real median household income in 2012 was at levels seen in the late-1960s and early-1970s (see the description of the adjusted Census Bureau accounting in [Commentary No. 558](#)).





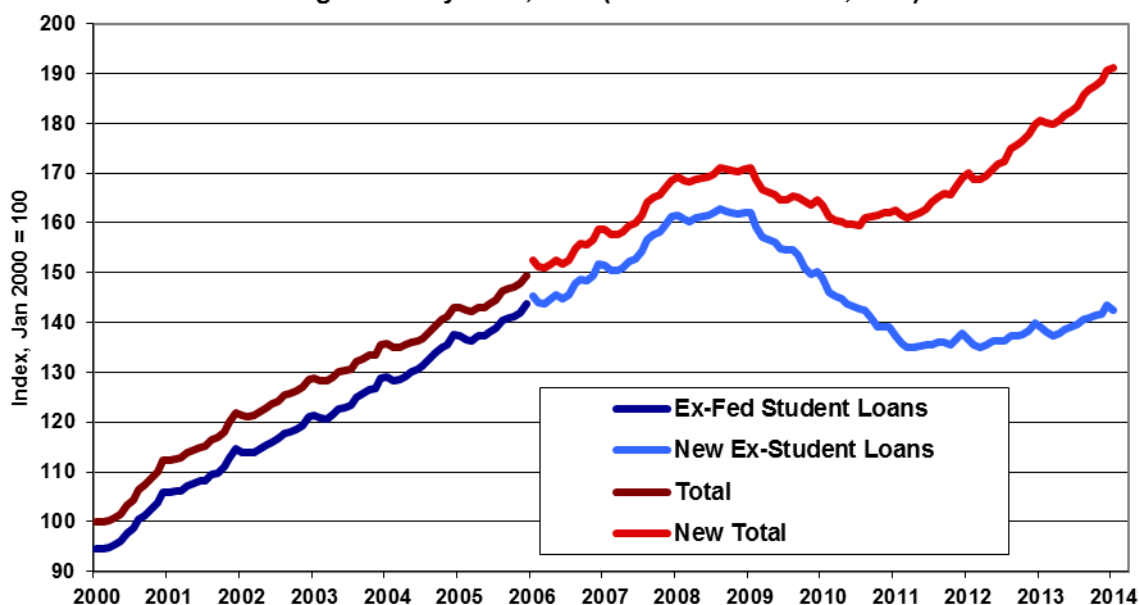
The next graph shows consumer credit outstanding (Federal Reserve Board), as previously updated through January 2014. Practically all the post-2008-Panic growth in consumer credit has been in federally-backed student loans, which increasingly have become a factor limiting mortgage credit. Consumer-credit growth broadly has not been in bank lending to the consumer that would tend to fuel consumption of washing machines, etc., potentially helping to offset lack of income growth.

The last graph of this liquidity series reflects the ever-volatile consumer sentiment series (University of Michigan) for early-March 2014 reporting. The current level remains deep in traditional recession territory. The pattern here, as with household income, has been one of collapse and stagnation, as opposed to the pattern of economic collapse and recovery indicated in the faulty, headline GDP series.

Again, without growth in real income; without the ability or the will to expand debt meaningfully; and without the confidence to take on new debt, where possible; the consumer simply cannot sustain real growth in retail sales, housing or in the dominant personal-consumption measure of the GDP. No broad economic activity has taken place, and none is underway. Again, as discussed in [Commentary No. 610](#), broad economic conditions are likely to gain headline recognition of “renewed” contraction in the month ahead.

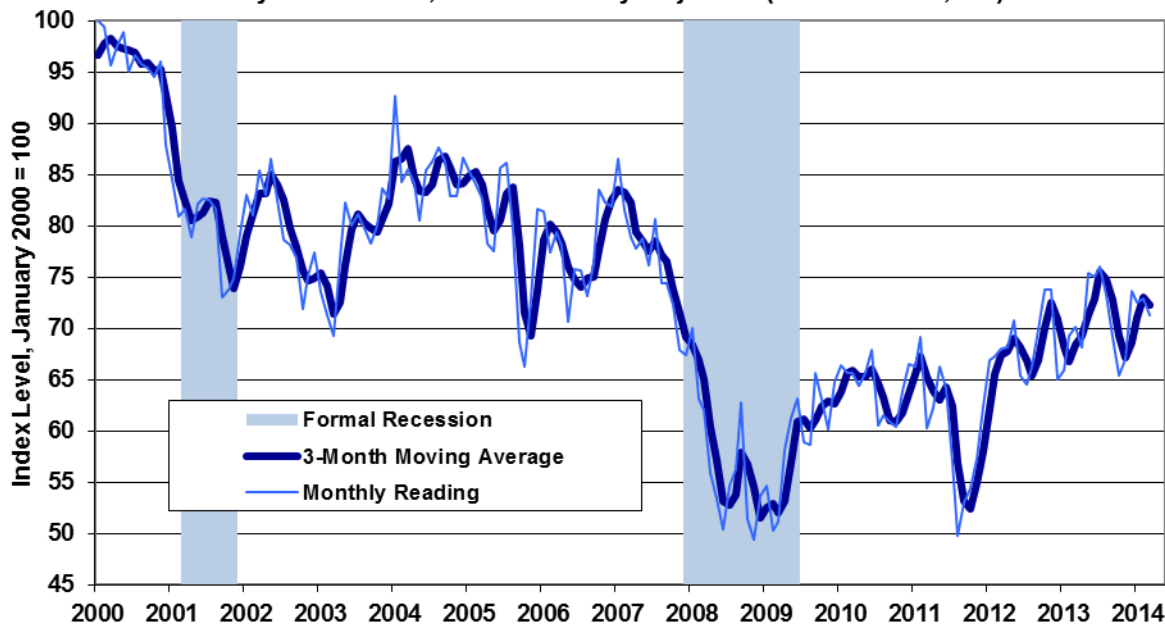
ShadowStats Consumer Credit Outstanding Index Total and Total Ex-Student Loans

With Jan 2006 Discontinuities, 2010-2011 Discontinuities
Removed, Total Credit Indexed to Jan 2000=100
Through January 2014, NSA (ShadowStats.com, FRB)

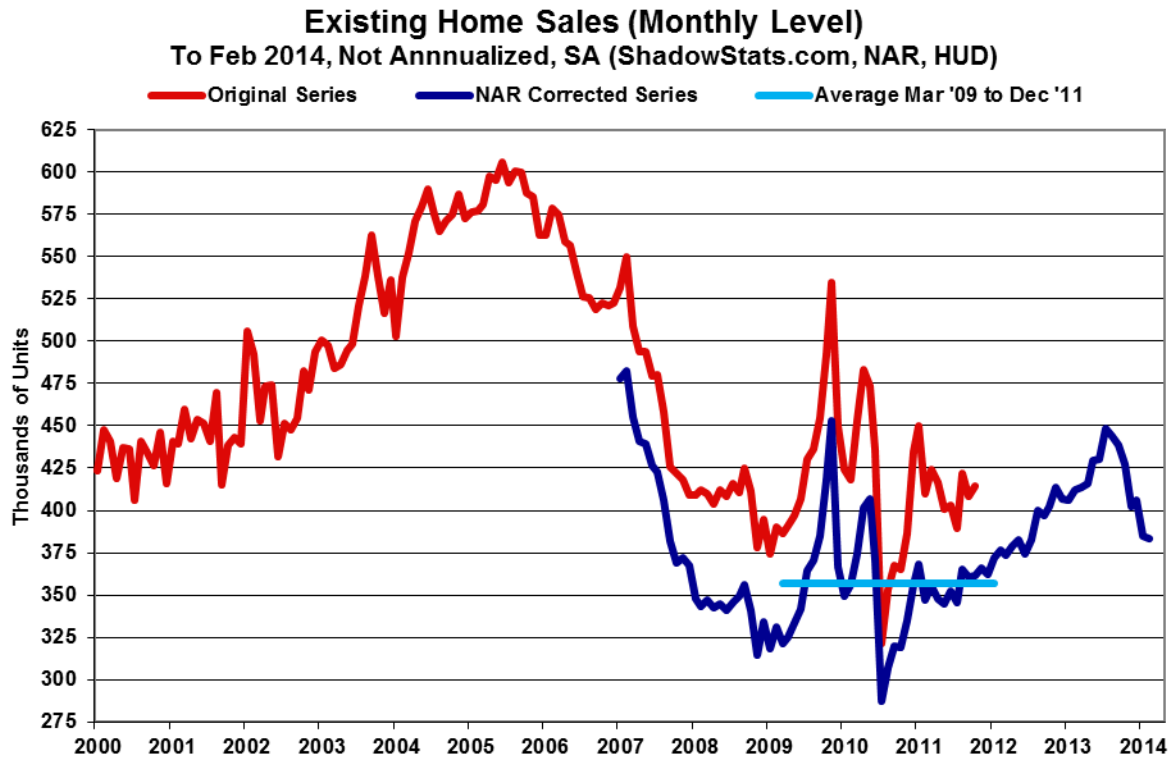


Consumer Sentiment -- University of Michigan

Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To Early-March 2014, Not-Seasonally-Adjusted (ShadowStats, UM)



Downtrend Continued in February 2014 Existing-Home Sales. Existing home sales activity has been sliding since July 2013, December 2013 excepted, with the February 2014 annualized sales pace of 4,600,000 at the lowest level seen since June 2012.



February Existing-Home Sales Declined by 0.4% for the Month, by 9.1% for the Year. Today's (March 20th) release of February 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 0.4% month-to-month decline, versus an unrevised 5.1% drop in January. The headline monthly sales decline reflected resurgent foreclosure sales and mounting issues as to credit availability.

On a year-to-year basis, February 2014 annual sales declined by 9.1%, versus an unrevised 5.1% in January. The February annual contraction was the fourth consecutive month, where headline sales were reported below those of the year before.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, turning into a faltering downtrend, as suggested by the accompanying graph, although data quality remains questionable.

The NAR estimated the portion of total sales in "distressed" properties continued notching higher, at 16% (11% foreclosures, 5% short sales) in February 2014, versus 15% (11% foreclosures, 4% short sales) in January.

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 February 2014 rose to 35%, up from 33% in January 2014, and from 32% in February 2013.

WEEK AHEAD

Much Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead.

Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by continuing, downside corrective revisions and continued, disappointing headline economic activity. The initial stages of that process have been seen in the recent headline reporting of most major economic series.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition.

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 global political instabilities. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. and global 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. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last 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 (February 2014). February new-home sales are scheduled for release by the Census Bureau on Tuesday, March 25th. With this highly volatile and unstable series, a pattern of stagnation appears to be in play. While monthly changes in new-home sales activity usually are not statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for this series, which was so heavily disrupted as a result of the October shutdown of the federal government.

New Orders for Durable Goods (February 2014). The reporting of February 2014 new orders for durable goods is scheduled for Wednesday, March 26th, by the Census Bureau. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant-to-down. Some intensification of the recent downside movement in orders is likely, at least in the next month or two, coincident with slowing activity currently seen in other major indicators, such as retail sales.

Gross Domestic Product—GDP (Fourth-Quarter 2013, Third Estimate, Second Revision). The Bureau of Economic Analysis (BEA) has scheduled release of the third estimate of fourth-quarter 2013 GDP for Thursday, March 27th. Aside from some downside pressure from lowered retail sales estimates, revisions to the previous 2.4% headline growth estimate should be minor, well within the scope of statistical noise.

Of some interest could be the initial estimates of fourth-quarter 2013 gross national product (GNP) and gross domestic income (GDI). Where GNP is the broadest economic measure, with GDP being GNP net of the trade flows in factor income (interest and dividend payments); and where GDI is the theoretical income-side equivalent to the GDP's consumption-side; growth rates should be similar. Nonetheless, unusual reporting patterns often have been generated by these series against their unstable and heavily-massaged GDP counterpart.

Industrial Production (Annual Benchmark Revision). The Federal Reserve has scheduled release of its annual benchmark revision to the index of industrial production for Friday, March 28th. The revision will restate the series back to 1972, including new information, new methodologies and revamped seasonal factors. New data likely will restate recent economic history to the downside. ShadowStats will publish an analysis of the revamped series.