

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

**COMMENTARY NUMBER 645**  
**June Durable Goods Orders, New-Home Sales**  
**July 25, 2014**

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**Despite Durable Goods Orders Turning Lower Year-to-Year,  
General Pattern Showed Ongoing Stagnation**

**In Context of Sharp Downside Revisions to Prior Months,  
June 2014 New-Homes Sales Fell Month-to-Month,  
Quarter-to-Quarter and Year-to-Year**

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*PLEASE NOTE: The next regular Commentary is scheduled for Wednesday, July 30th, covering the initial reporting of second-quarter 2014 GDP and the annual GDP benchmark revisions, followed by a Commentary on Friday, August 1st, covering July employment and unemployment data and June construction spending.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Durable Goods Orders and New-Home Sales Indicated Flat-to-Minus Current Economic Activity.** New orders for durable goods and new-home sales were the last major data for June to be reported before the initial, July 30th estimate of second-quarter 2014 GDP. Reporting of the still-pending monthly June trade and construction-pending numbers will follow the GDP release. Neither the orders nor the home sales suggested the booming second-quarter economy that is expected by the financial markets.

Today's (July 25th) brief *Commentary* covers those reports of June new orders for durable goods and new-home sales. Please see the prior [Commentary No. 644](#) for a discussion on next week's second-quarter GDP reporting and revisions.

**New Orders for Durable Goods—June 2014—Continued Stagnation.** The headline 0.7% gain in June new orders for durable goods was in the context of minimal, prior-period revisions, and it remained well within the normal reporting variations of this highly unstable series. Despite annual growth turning to the downside by 1.6%, the headline changes remained consistent with a pattern of ongoing stagnation.

***Nominal (Not-Adjusted-for-Inflation) June 2014 Reporting.*** The seasonally-adjusted, nominal level of June 2014 new orders for durable goods rose by a headline 0.74% for the month, following a revised 0.97% contraction (-0.97%) in May. On a year-to-year basis (seasonally-adjusted), June 2014 durable goods orders fell by 1.58% (-1.58%), following a revised 2.78% annual gain in May.

In this traditionally-unstable series, the headline monthly and annual changes in June orders were within the scope of normal month-to-month volatility. A longer-term pattern of stagnation has remained in place for the durable goods series, particularly when viewed net of inflation. The patterns of activity in here remain of a nature that commonly precedes or coincides with a recession or deepening business downturn. The inflation-adjusted (real) series, and the same series corrected for understatement of official inflation are plotted in the accompanying graphs.

***Net of Volatility in Commercial Aircraft Orders.*** Nondefense or commercial aircraft orders often provide extreme monthly volatility to the total orders series, accounting for the bulk of the headline variability in aggregate orders. This reporting of contractions and surges in commercial aircraft orders is seen commonly in an irregularly-repeating process throughout the year. These extremely volatile aircraft orders are booked well into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

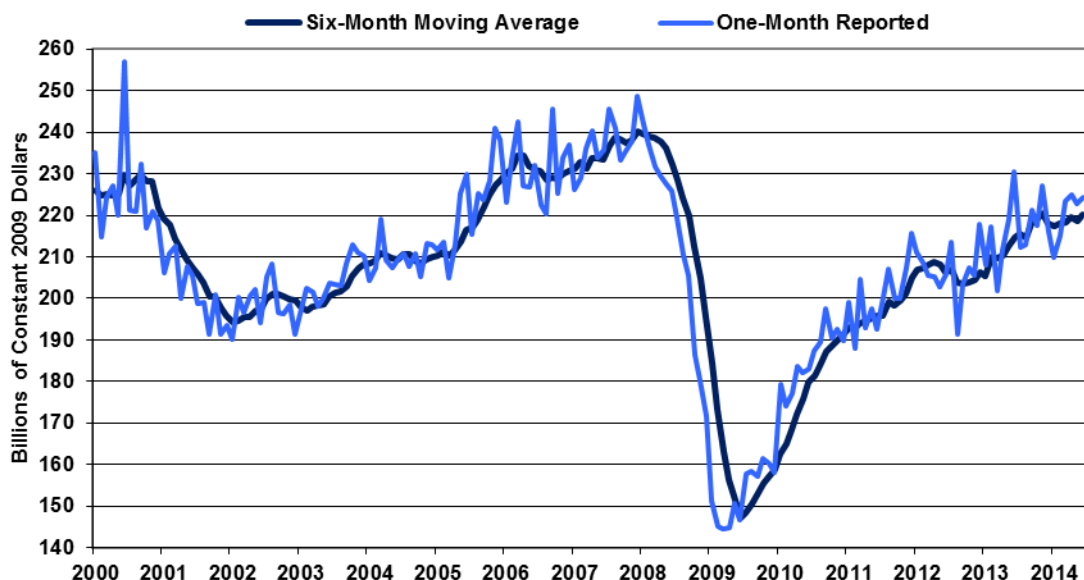
In June, nondefense (or commercial) aircraft orders rose by 8.24% for the month, following a revised contraction of 2.73% (-2.73%) in May. Net of the aircraft numbers, month-to-month orders rose by 0.23% in June, versus a revised annual decline of 0.84% (-0.84%) in May. Year-to-year orders, ex-commercial aircraft, were up by 4.02% in June, versus a revised 3.93% gain in May.

***Real (Inflation-Adjusted) Durable Goods Orders—June 2014.*** ShadowStats uses the PPI aggregated inflation measure “durable manufactured goods” for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline 0.6% pace of monthly inflation in June, following unchanged monthly inflation in May, with headline annual inflation of 1.22% in June 2014, versus 1.09% in May.

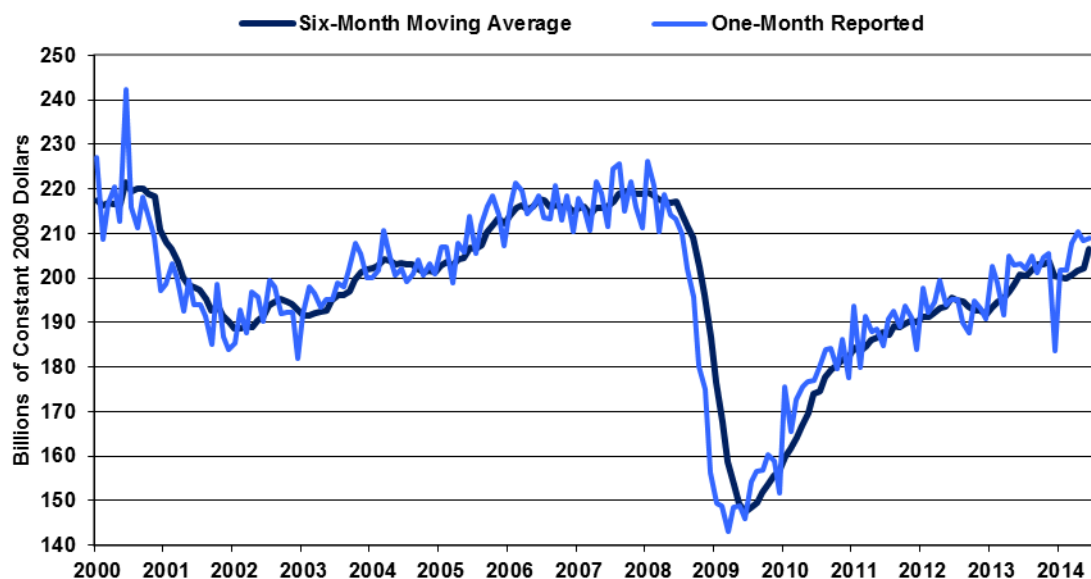
Adjusted for that inflation, and again as reflected in the accompanying graphs, real month-to-month aggregate orders rose by 0.68% in June, versus a revised decline of 0.97% (-0.97%) in May. Ex-commercial aircraft, real orders rose by 0.17% for the month in June, having declined by a revised 0.84% (-0.84%) in May.

Real year-to-year aggregate orders fell by 2.77% in June, versus a revised 1.67% gain in May, and, ex-commercial aircraft, they rose by 2.77% in June, versus a revised gain of 2.80% in May.

**Real New Orders for Durable Goods**  
Monthly, Deflated by PPI--Durable Manufactured Goods (\$2009)  
To June 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)



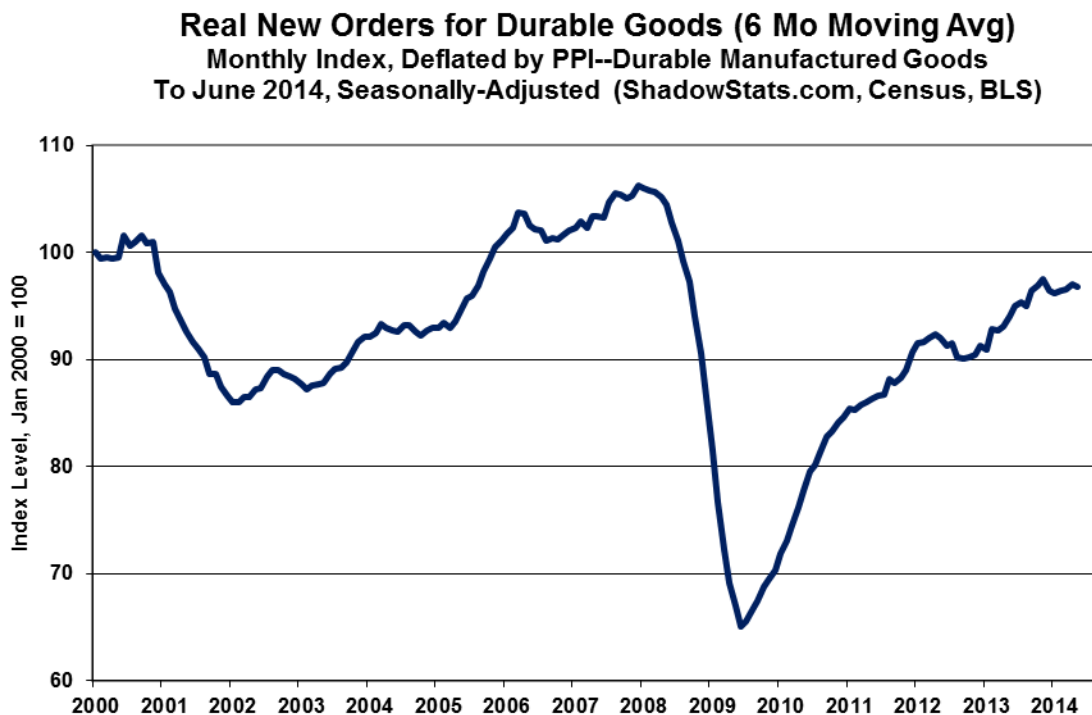
**Real Durable Goods Orders (Ex-Nondefense Aircraft)**  
Monthly, Deflated by PPI--Durable Manufactured Goods (\$2009)  
To June 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)



***Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series.*** The two preceding graphs plot new orders for durable goods, adjusted for inflation. Consistent with the recently revamped Producer Price Index (PPI) series, the inflation measure used here is an aggregation published in the PPI for “Durable Manufactured Goods.” These graphs show monthly as well as a six-month moving average of the activity level. The first graph shows the aggregate new orders series. The second graph is the headline series, net of the usually unstable commercial-aircraft order sector. Accordingly, that plot is somewhat smoother than the first graph.

In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—with a dip and upside bouncing into 2013, and renewed stagnation in recent reporting. Broadly, there has been a recent general pattern of stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery that has been seen in official GDP reporting. The real (inflation-adjusted) level of orders in June 2014 remained at or below both the pre-2001 and pre-2007 recession highs. The pattern of recent stagnation and/or downturn in the inflation-adjusted series also is one that commonly precedes or is coincident with a recession.

***Corrected Series.*** As with other economic series that are deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods are overstated, due to the understatement of the official inflation. That understatement here is through the use of hedonic-quality adjustments—usually not perceived by the consumer—used to reduce the pace of headline inflation (see [Public Comment on Inflation](#)). As has been done with other series such as the GDP, retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.



**Corrected Real Durable Goods Orders (6 Mo Moving Avg)**  
**Monthly Index, Corrected for Hedonic Adjustment Distortions**  
**To June 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)**



The two preceding graphs reflect a smoothed version of the real total durable goods orders series (using a six-month moving average). The first graph reflects the real series, as graphed previously, only indexed to January 2000 = 100. The second graph is a “corrected” version of the first, where the estimated, understated inflation effects (overstated inflation-adjusted growth effects) from hedonic adjustments have been reversed by ShadowStats. As shown in [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), the “corrected” real new orders for durable goods series shows a fair correlation to the “corrected” industrial production series (see [Commentary No. 641](#)).

**New-Home Sales—June 2014—A Sharp Shift to the Downside.** In the context of major downside revisions to recent, prior reporting, June new-home sales fell month-to-month. That took sales activity negative quarter-to-quarter and year-to-year. While the 8.1% headline drop in June new-home sales was not statistically-significant, the 19.4% collapse in monthly sales—net of prior-period revisions—would have been significant.

The latest reporting and accompanying revisions changed the tenor of recent headline reporting from one of tentative rising sales, to one of downturn. Second-quarter 2014 new-home sales were down at a simple (not annualized) quarter-to-quarter pace of 2.8% (-2.8%), with an annualized quarterly pace of decline of 10.7% (-10.7%) against the first-quarter; first-quarter sales were down at a simple 3.4% (-3.4%), or annualized 12.8% (-12.8%) rate, versus fourth-quarter 2013 activity.

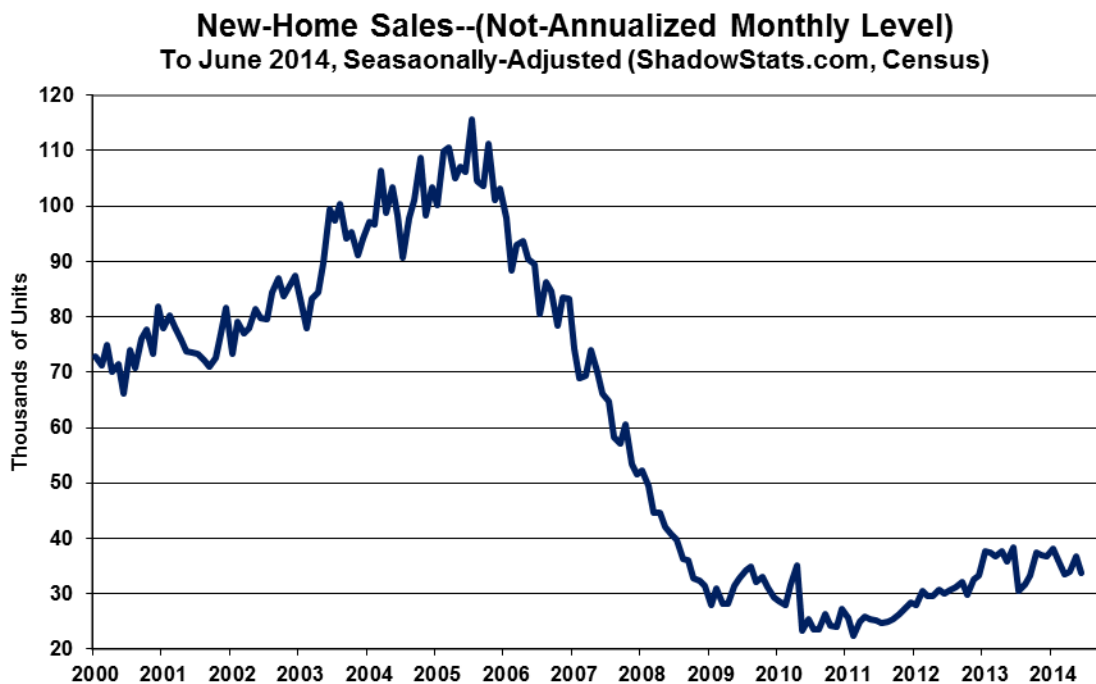
As discussed with the June existing-home sales results (see [Commentary No. 643](#)), and as detailed most recently in [Commentary No. 639](#), the last six-plus years of economic collapse and stagnation have been

perpetuated by a consumer beset with intense, structural-liquidity problems. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have, and has not had the ability to sustain real growth in housing, retail sales or in personal-consumption activity that dominates the headline change in GDP. There is nothing that would support a sustainable turnaround in the housing industry or general economic activity. There never was an economic recovery, and there is no recovery underway, just general bottom-bouncing that broadly is turning down anew. Accordingly, headline June 2014 new-home sales activity still was down by 70.8% from the pre-recession peak, seen in July 2005.

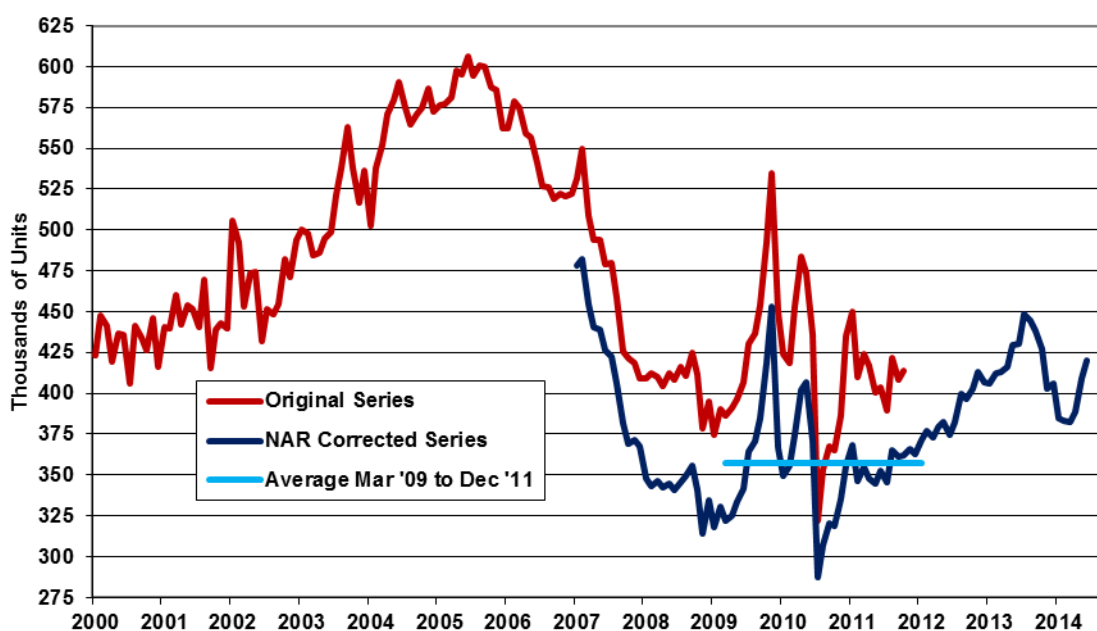
**June 2014 New-Home Sales Showed a Weakening Market.** In the context of a sharp downside revision to May data, headline June 2014 new-home sales (Census Bureau, counted based on contract signings), fell by a statistically-insignificant 8.1%. In turn, May showed a downwardly revised headline monthly gain of 8.3% (previously a gain of 18.6%). Net of prior period revisions, June sales fell by 19.4% for the month.

Year-to-year, June 2014 sales fell by a statistically-insignificant 11.5%. That followed a revised annual gain of 2.6% (previously up by 16.9%) in May.

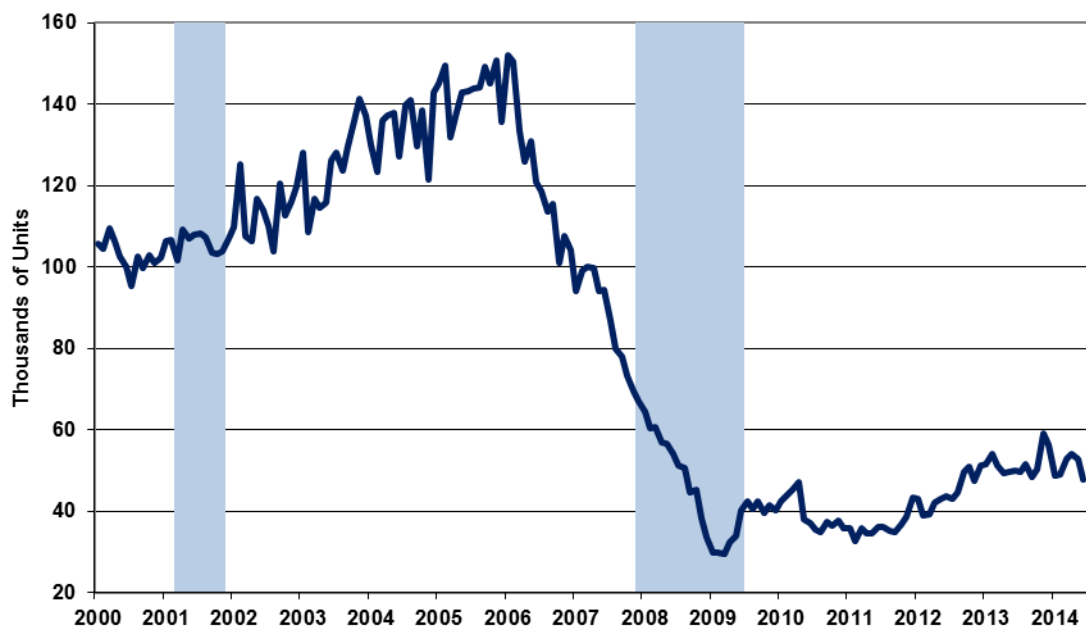
**New-Home Sales Graphs.** The regular monthly graph of new-home sales activity follows, along with graphs of the latest existing-home sales ([Commentary No. 643](#)) and related single-unit housing starts activity ([Commentary No. 642](#)).



**Existing Home Sales (Not-Annualized Monthly Level)**  
To June 2014, Seasonally Adjusted (ShadowStats.com, NAR, HUD)



**Single-Unit Housing Starts (Monthly Rate)**  
To June 2014, Seasonally-Adjusted (ShadowStats.com, Census)



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



## HYPERINFLATION WATCH

**Hyperinflation Outlook Summary.** *[PLEASE NOTE: The text here is unchanged from what was published in the prior [Commentary No. 644](#).]* The long-standing hyperinflation and economic outlooks were updated with the publication of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), on April 2nd, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8th, along with ongoing updates in the regular *Commentaries*. The pending crises also were reviewed in [Commentary No. 639](#). In the following summary, nothing of substance has changed from prior writings.

**Primary Summary.** The primary and basic summary of the broad outlook and the story of how and why this crisis has unfolded and developed over the years—particularly the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of that *First Installment Revised* (linked above). The following section summarizes the underlying current circumstance.

Consistent with the above *Special Commentaries*, the unfolding economic circumstance discussed in the opening *Economic Comment*, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending the total loss of U.S. dollar purchasing power.

**Current Economic Issues versus Underlying U.S. Dollar Fundamentals.** U.S. economic activity has turned down anew, with headline first-quarter 2014 GDP having contracted at an annualized real pace of 2.9% (-2.9%), following 2.6% fourth-quarter growth, and the second-quarter GDP is set for headline contraction minimally of 1% (-1%), by the September 26th revision to the series. With market expectations for initial second-quarter growth of about 3.0%, the Bureau of Economic Analysis likely will bring in its initial estimate at perhaps 1% to 2% positive growth. As discussed in the *Economic Comments* of [Commentary No. 644](#), without the expected quarterly economic recovery to fourth-quarter 2013 levels of economic activity, that could be enough below consensus expectations to shock the popular outlook towards a “new recession,” with attendant adjustments hitting the markets.

In turn, as financial-market expectations increasingly shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressures on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Unexpected economic weakness intensifies the stresses on an already-impaired banking system, hence a perceived need for expanded, not reduced, quantitative easing. The highly touted “tapering” by the FOMC is pre-conditioned by continued “happy” economic news. Banking-system and other systemic



(i.e. U.S. Treasury) liquidity needs likely still will be provided as needed by the Fed, under the ongoing political cover of a weakening economy.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal “good news” is based on cash-based, not GAAP-based accounting, and comparative year-ago cash numbers are against Treasury and government activity operating *sub rosa* in order to avoid the limits of a constraining debt ceiling.

All these crises will combine against the U.S. dollar, likely in the very-near future.

In summary, the fundamental issues threatening the dollar could not be worse. They include, but are not limited to:

- A severely damaged U.S. economy, which never recovered post-2008 and is turning down anew, including a sharply widening trade deficit.
- The U.S. government will not address its long-term solvency issues. Current fiscal “good news” is based on cash-based, not GAAP-based accounting. The GAAP-based version continues to run in the \$6-trillion-plus range.
- Monetary malfeasance by the Federal Reserve is seen in its process of seeking to provide liquidity to a troubled banking system, and also to the U.S. Treasury, with a current pace of monetization at 94.1% of effective net issuance of the federal debt to be held by the public, so far, in calendar-year 2014 (through July 16th), 75.3% since the January 2013 expansion of QE3.
- Mounting domestic and global crises of confidence in a dysfunctional U.S. government, where the relative positive rating by the public of the U.S. President tends to have a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar.
- Mounting global political pressures contrary to U.S. interests, political and military, as well as financial and economic.
- Mounting global efforts to dislodge the U.S. dollar from its primary reserve-currency status.

Intensifying weakness in the U.S. dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness to do the same. Both the dollar weakness and resulting higher inflation should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises.

## REPORTING DETAIL

### NEW ORDERS FOR DURABLE GOODS (June 2014)

**June 2014 New Orders for Durable Goods Continued a Pattern of Stagnation.** The headline 0.7% gain in June new orders for durable goods was in the context of minimal, prior-period revisions, and it remained well within the normal reporting variations of this highly unstable series. Despite annual growth turning to the downside by 1.6%, the headline changes remained consistent with a pattern of ongoing stagnation.

**Nominal (Not-Adjusted-for-Inflation) June 2014 Reporting.** The Census Bureau reported today, July 25th, that the regularly-volatile, seasonally-adjusted, nominal level of June 2014 new orders for durable goods rose by a headline 0.74% for the month, following a revised contraction of 0.97% (-0.97%)—previously down 1.01% (-1.01%)—in May. On a year-to-year basis (seasonally-adjusted), June 2014 durable goods orders fell by 1.58% (-1.58%), following a revised 2.78% (previously 2.72%) annual gain in May.

Where nondefense or commercial aircraft orders often provide extreme monthly volatility to the total orders series, those aircraft orders rose by relatively-tame 8.24% in June. Nonetheless, they still accounted for the bulk of the monthly headline gain in aggregate orders.

In this traditionally-unstable, durable goods series, the headline June monthly and annual gains were within the scope of normal month-to-month volatility. A longer-term pattern of stagnation has remained in place for the durable goods series, particularly when viewed net of inflation. The patterns of activity in this series remain of a nature that commonly precedes or coincides with a recession or deepening business downturn. The inflation-adjusted real series, and the same series corrected for understatement of the official inflation series, are discussed and graphed in the *Opening Comments* section.

**Net of Volatility in Commercial Aircraft Orders.** The reporting of contractions and surges in commercial aircraft orders is seen commonly in an irregularly-repeating process throughout the year that often dominates the change in headline monthly durable goods orders. These extremely volatile aircraft orders are booked well into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

In June, nondefense (or commercial) aircraft orders rose by 8.24% for the month, following a revised contraction of 2.73% (-2.73%)—previously down by 3.98% (-3.98%)—in May. Net of the aircraft numbers, month-to-month orders rose by 0.23% in June, versus a revised decline of 0.84% (-0.84%)—previously down by 0.81% (-0.81%)—in May. Year-to-year orders, ex-commercial aircraft, were up by 4.02% in June, versus a revised 3.93% (previously 3.94%) gain in May.

*Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems that are seen with retail sales, payroll and unemployment reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly and annual changes. While those issues are brought into balance, temporarily, with an annual benchmark revision to durable goods orders—as was seen on May 15th this year—subsequent reporting already has made all historical reporting prior to March 2014 inconsistent with the current headline numbers.*

**Real (Inflation-Adjusted) Durable Goods Orders—June 2014.** ShadowStats uses the PPI aggregated inflation measure “durable manufactured goods” for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline 0.6% pace of monthly inflation in June, following unchanged monthly inflation in May, with headline annual inflation of 1.22% in June 2014, versus 1.09% in May.

Adjusted for that inflation, and again as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders rose by 0.68% in June, versus a revised decline of 0.97% (-0.97%) in May. Ex-commercial aircraft, real orders rose by 0.17% for the month in June, having declined by a revised 0.84% (-0.84%) in May.

Real year-to-year aggregate orders fell by 2.77% in June, versus a revised 1.67% gain in May, and, ex-commercial aircraft, they rose by 2.77% in June, versus a revised gain of 2.80% in May.

**Graphs of Inflation-Adjusted and “Corrected” Smoothed Durable Goods Orders.** Two sets of inflation-adjusted graphs are found in the *Opening Comments* section. The first set shows the monthly as well as a six-month moving-average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft order sector. The moving-average levels in both series have been holding in a pattern of near-stagnation, with some a recent turn to the downside, and a current upside blip.

Real levels of the June 2014 orders remained at or below both the pre-2001 and pre-2007 recession highs. The pattern of recent stagnation and downturn in the inflation-adjusted series also is one that commonly precedes or is coincident with a recession.

The second set of graphs in the *Opening Comments* section also shows the pattern of historical real new durable goods orders net of official inflation and “corrected” for the understatement of that inflation (overstatement of official, inflation-adjusted growth).

## **NEW-HOME SALES (June 2014)**

**In the Context of Major Downside Revisions to Recent Activity, June New-Home Sales Fell Month-to-Month, Taking Sales Negative Quarter-to-Quarter and Year-to-Year.** While the 8.1% headline drop in June new-home sales was not statistically-significant, the 19.4% collapse in monthly sales, net of prior-period revisions, would have been. The latest reporting and accompanying revisions changed the tenor of recent headline reporting from one of tentative rising sales, to one of downturn. Second-quarter 2014 new-home sales were down at a simple (not annualized) quarter-to-quarter pace of 2.8% (-2.8%), which was an annualized quarterly pace of decline of 10.7% (-10.7%) versus the first-quarter; first-quarter

sales were down at a simple 3.4% (-3.4%), or annualized 12.8% (-12.8%) pace, versus fourth-quarter 2013 activity.

As discussed with the June existing-home sales results (see [Commentary No. 643](#)), and as detailed most recently in [Commentary No. 639](#) and [Commentary No. 643](#), the last six-plus years of economic collapse and stagnation have been dominated by a consumer beset with intense, structural-liquidity problems. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have, and has not had the ability to sustain real growth in housing, retail sales or in personal-consumption activity that dominates the headline change in GDP. There is nothing that would support a sustainable turnaround in the housing industry or general economic activity. There never was an economic recovery, and there is no recovery underway, just general bottom-bouncing that broadly is turning down anew. Accordingly, headline June 2014 new-home sales activity still was down by 70.8% from the pre-recession peak, seen in July 2005.

***June 2014 New-Home Sales Showed a Weakening Market.*** As reported by the Census Bureau, yesterday, July 24th, in the context of a sharp downside revision to May data, June 2014 headline new-home sales (counted based on contract signings) fell by a statistically-insignificant 8.1% +/-14.4% (all confidence intervals are at the 95% level). In turn, May showed a downwardly revised headline monthly gain of 8.3% (previously a gain of 18.6%). Net of prior period revisions, June sales fell by 19.4% for the month.

Year-to-year, June 2014 sales fell by a statistically-insignificant 11.5% +/- 16.8%. That followed a revised annual gain of 2.6% (previously up by 16.9%) in May.

***New-Home Sales Graphs.*** The regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with graphs of the latest existing-home sales and housing starts (single-unit).

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## WEEK AHEAD

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

Although shifting to the downside, amidst fluctuations, market expectations generally still are overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)), including the

sharp pace of economic decline seen in real first-quarter 2014 GDP, which is the first contemporary reporting of a quarterly GDP contraction since the formal end of the 2007 recession, in mid-2009.

Weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition, which likely would follow the reporting of a headline contraction in second-quarter 2014 GDP real growth.

Stronger inflation reporting also remains likely, as has been seen in recent reporting. Upside pressure on oil-related prices should reflect intensifying impact from global political instabilities and a weakening U.S. dollar in the currency markets. Food inflation has been picking up as well. The dollar faces pummeling from the weakening economy, continuing QE3, the ongoing U.S. fiscal-crisis debacle, and deteriorating U.S. and global political conditions (see [Hyperinflation 2014—The End Game Begins \(Updated\)](#) – *First Installment*). 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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data). These issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

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

**Gross Domestic Product—GDP (Second-Quarter 2014, First or “Advance” Estimate) and the GDP Annual Benchmark Revision.** As discussed in the July 23rd [Commentary No. 644](#)—a *Commentary* dedicated to this pending round of GDP reporting—the Bureau of Economic Analysis (BEA) will release its first estimate of second-quarter 2014 GDP activity, in conjunction with the annual GDP benchmark revision, on Wednesday July 30th. The revisions generally should reflect weaker historical activity, while the headline second-quarter GDP growth likely will offer a sharply lower growth than the strong consensus outlook of about 3.0%. The second-quarter growth should turn to contraction in revision. For more-complete detail on the outlook, see [Commentary No. 644](#).

**Construction Spending (June 2014).** The Commerce Department has scheduled release of June 2014 construction spending for Friday, August 1st. The headline monthly changes, as usual, should not be statistically significant, while previous data will be subject to unusually large and unstable revisions.

**Employment/Unemployment (July 2014).** The Bureau of Labor Statistics (BLS) also will release its July 2014 labor data on Friday, August 1st. Given general indications of a weakening economy and the heavy, regular distortions in the headline reporting of monthly nonfarm payroll gains, almost anything is

possible in the headline reporting. Nonetheless, the system is due for some negative surprises against the usual, overly-optimistic market expectations.

Based on the headline payroll employment reporting in June, the BLS trend model indicates a 232,000 headline jobs gain for July 2014, as discussed by ShadowStats affiliate [www.ExpliStats.com](http://www.ExpliStats.com). The consensus outlook tends to settle in around the trend number, and the market outlook appears to be settling in somewhat above that, versus what had been a headline jobs gain of 288,000 in June. Again, underlying economic reality would indicate a pending downside surprise to those expectations.

Separately, expectations appear to be for the July U.3 unemployment rate to hold at the highly-troubled 6.1% level seen in June. Underlying economic reality and the fundamental drivers of economic activity would suggest a general increase in the U.3 rate, but the BLS's continuing purge of discouraged workers from the unemployment rolls and headline labor force could argue in favor of a lower rate. Separately, as discussed regularly in the employment/unemployment-related *Commentaries*, month-to-month comparisons of U.3 are of no meaning, because of the standard, inconsistent reporting calculations that leave the monthly data not comparable.

If U.3 drops anew, there likely would be additional labor-force loss associated with those relative, but still-not-comparable numbers. The broader U.6 and ShadowStats unemployment measures would tend to hold, or increase anew, at their broader and higher respective levels. All the Labor Department numbers remain unsettled and could come in well outside general expectations.

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