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

COMMENTARY NUMBER 652
July 2014 Durable Goods Orders, New- and Existing-Home Sales

August 26, 2014

22.6% Gain in July Durable Goods Orders Was Just 0.8%,
Net of an Irregular 318.0% Surge in Commercial-Aircraft Orders

Booked Years in Advance, Commercial-Aircraft Orders
Have Negligible Impact on Near-Term Economic Activity

July Existing-Home Sales in Ninth Month of Annual Decline

July New-Home Sales Held in Pattern of Stagnation,
Amidst Ongoing Reporting Instabilities

PLEASE NOTE: The next regular Commentary *is scheduled for Thursday, August 28th, covering the second estimate of, and first revision to, second-quarter GDP.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

No Economic Recovery Evident in Reporting of July Durable Goods Orders or Home Sales. How can July new orders for durable goods jump 22.6% in a month—to an all-time high—without an economic recovery in place? Simply put, 96% of the headline gain was seen in a one-time extreme burst of commercial-aircraft orders, where any resulting economic activity will be at least three years into the future, assuming there are no interim order cancellations. Separately, there appear to be developing distortions in the seasonal-adjustment factors surrounding the shift in the model-year for the automobile industry. Monthly changes there should be relatively smooth, when properly seasonally-adjusted, but unusually large monthly swings in July retail sales (negative), industrial production (positive) and new orders for durable goods (positive) suggest some further pending gyrations in those data as the details get worked through.

In any event, in the context of the surge in nondefense-aircraft orders, the monthly changes in new orders for durable goods remained consistent with ongoing stagnation. The same can be said for existing- and new-home sales activity, in the context of ongoing data instabilities and poor-quality monthly reporting.

The pending August 28th *Commentary No. 653*, covering the first-revision to second-quarter GDP (see the *Week Ahead* section), will discuss further key areas driving headline economic activity. Downside revisions to second-quarter GDP growth are likely in the two pending, near-term revisions, but the market consensus seems to expect the second-quarter report to remain as it is.

In this heavily-politicized environment leading into the November election, almost anything is possible, including upside GDP revisions. Yet, the fundamentals still support downside revisions to the second-quarter GDP and suggest a renewed contraction developing in third-quarter GDP reporting.

The balance of today's (August 26th) missive is dedicated to the estimates of July new orders for durable goods and new- and existing-home sales.

New Orders for Durable Goods—July 2014—Extreme Spike to Headline Growth from Irregular Surge in Commercial-Aircraft Orders. Activity in new orders for durable goods is irregularly volatile**,** usually due the extreme and unstable patterns in nondefense- or commercial-aircraft orders. Even so, the July 2014 reporting was the most-extreme event of recent years, as can be seen in the first of the six graphs for the new-orders series, which follows in this section. The last of those six graphs shows the plot of new orders that perhaps is the most relevant to looming production activity.

Net of the unusual aircraft-order distortions, the headline 22.6% gain in July 2014 new orders for durable goods rose by a more-modest 0.8%. In addition, poor-quality seasonal adjustments appear to account for an otherwise unlikely headline monthly gain of 10.2% in new orders for motor vehicles and parts. Net of these unusual factors in the transportation sector, headline durable goods orders fell by 1.6% (-1.6%) in July. Whether plus 0.8%, or down by 1.6% (-1.6%) for the month, net of unusual factors, headline July durable goods orders otherwise remained well within the normal reporting variations of this volatile series, consistent with a pattern of ongoing stagnation.

Nondefense Aircraft Orders Surged by 318%. In what appears to have been a good orders month for Boeing, industry orders for commercial aircraft surged by 317.97% from June. Those orders, however, usually are booked years in advance of delivery, so the implications for near-term, broad economic activity are nil. In that context, the headline 22.58% gain in total new orders for July was just 0.80%, net of the temporary, long-range boost to order activity.

Poor-Quality Seasonal Adjustments at Work? Part of the gain in July's durable goods orders was an apparent healthy jump of 10.2% in new orders for motor vehicles and parts for the month, following a 1.3% decline (-1.3%) in June motor-vehicle orders. Unlike the multi-year lead-time for aircraft, orders for automobile production have near-term impact on the broad economy. Given the time of year, however, with the introduction of new models, the headline gain in orders likely reflected poor-quality seasonal adjustments, more than any other factor. Properly adjusted for regular seasonal variations, the impact of the change in model-year on the broad economy should not be noticeable in the related, adjusted monthly headline trends in retail sales, wholesale orders or industrial production (see *Commentary No. 650*).

Nominal (Not-Adjusted-for-Inflation) July 2014 Reporting. The regularly-volatile, seasonally-adjusted, nominal level of July 2014 new orders for durable goods rose by a headline 22.58% for the month, following a revised gain of 2.73% in June, and a revised monthly contraction in May of 0.89% (-0.89%). On a year-to-year basis (seasonally-adjusted), July 2014 durable goods orders jumped by 33.79%, following a revised gain of 0.43% in June, and a revised gain of 2.89% in May.

Where nondefense- or commercial-aircraft orders often create unusual monthly volatility in the total orders series, those aircraft orders rose by an extreme 318.0% in July. As already mentioned, those aircraft orders accounted for vast the bulk of the headline monthly gain in aggregate orders.

In this traditionally-unstable durable-goods series, net of commercial-aircraft orders, the headline July 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. Plots of the inflation-adjusted real series, and the same series corrected for understatement of the official inflation series, follow at the end of this section.

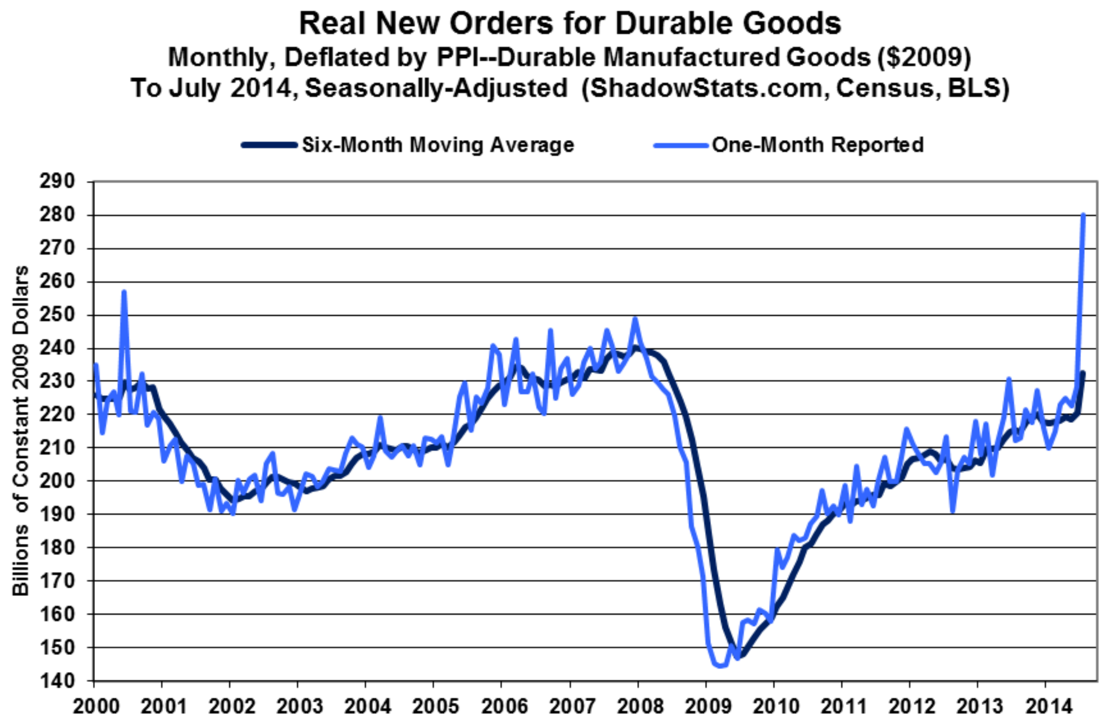
Detail Net of Volatility in Commercial Aircraft Orders. The reporting of extreme contractions and surges in commercial aircraft orders commonly is seen in an irregularly-repeating process throughout the year that often dominates the change in headline monthly durable goods orders. These extremely volatile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

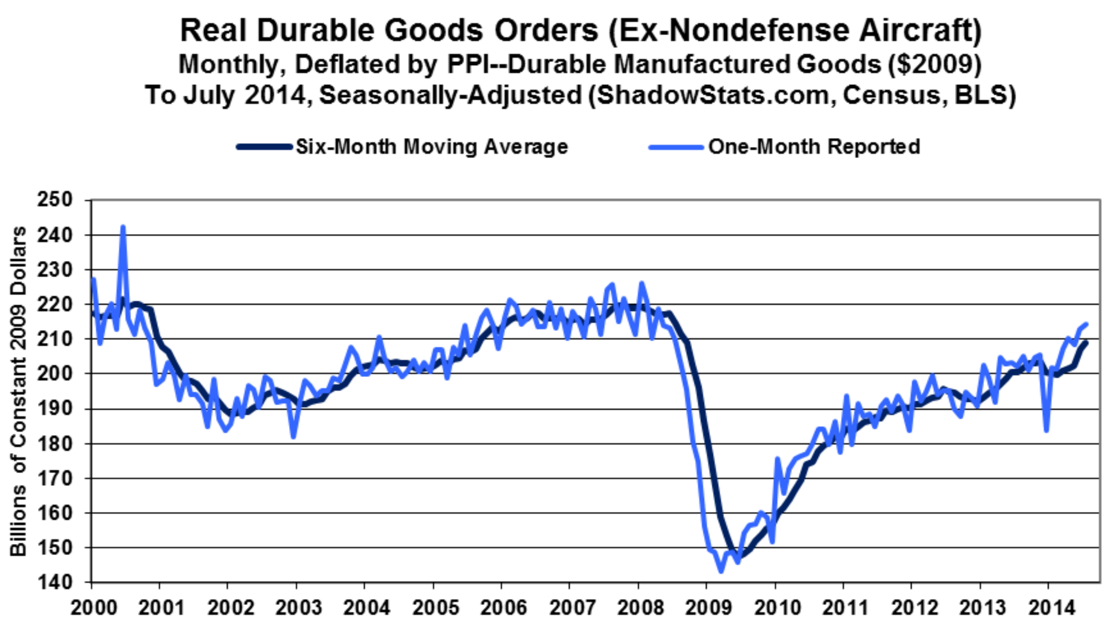
In July, nondefense (or commercial) aircraft orders rose by 317.97% for the month, following revised 11.06% gain in June, and a revised contraction of 2.90% (-2.90%) in May. Net of the aircraft numbers, month-to-month orders rose by 0.80%% in July, versus a revised 2.16% gain in June, and a revised decline of 0.75% (0.75%) in May. Year-to-year orders, ex-commercial aircraft, were up by 7.66% in July, versus a revised 6.12% gain in June, and a revised 4.02% gain in May.

Real (Inflation-Adjusted) Durable Goods Orders—July 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 0.06% pace of monthly inflation in July, following 0.06% in June, and 0.12% in May, with headline annual inflation of 1.46% in July, versus 1.34% in June 2014 and 1.21% in May.

Adjusted for that inflation, and again as reflected in the graphs that follow, real month-to-month aggregate orders rose by 22.51% in July, following a revised 2.67% gain in June, versus a revised decline of 1.01% (-1.01%) in May. Ex-commercial aircraft, real orders rose 0.74% for the month of July, versus a revised gain of 2.10% in June, and a revised 0.87% decline (-0.87%) in May.

Real year-to-year aggregate orders rose by 31.86%, versus a revised decline of 0.89% (-0.89%) in June, and a revised 1.62% gain in May. Ex-commercial aircraft, orders rose year-to-year by 6.11% in July, following a revised 4.72% gain in June and a revised gain of 2.77% in May.





Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series. The two preceding graphs show new orders for durable goods, adjusted for inflation, using the Producer Price Index (PPI) measure 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 unstable commercial-aircraft order sector, which dominated the headline reporting for July 2014. Accordingly, that plot is somewhat smoother than the first graph.

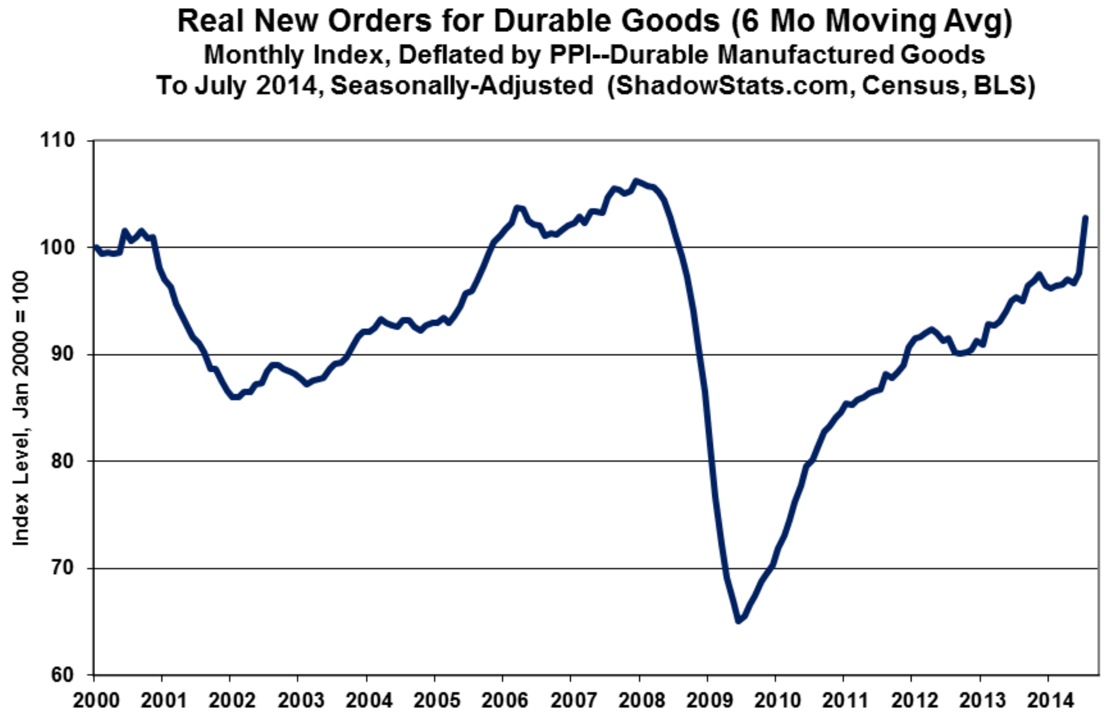
In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—with a dip and upside bouncing into 2013, and renewed stagnation in recent reporting, feeding into the temporary July surge. Broadly, there has been a recent general 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) six-month moving-average level of new orders in July 2014, even allowing for the extraordinary surge in aircraft orders, 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—net of the irregular aircraft-order effects, also is one that commonly precedes or is coincident with a recession.

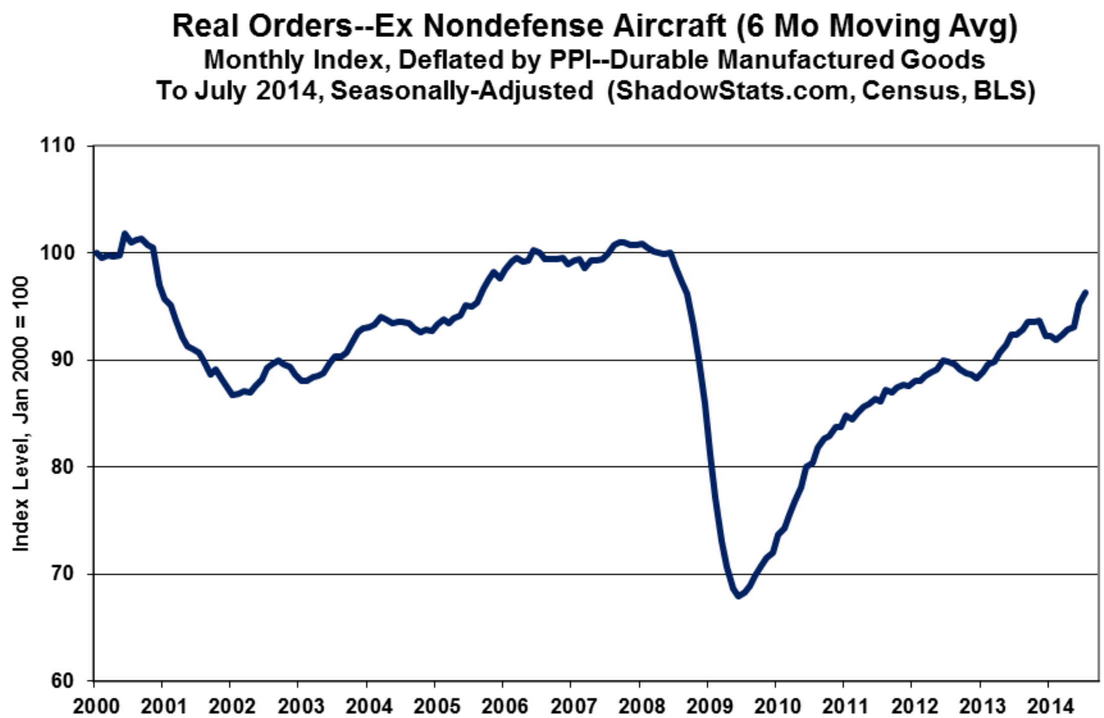
Corrected Series. As with other economic series that are deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods are overstated, due to the understatement of the official inflation. That understatement here is through the government's use of hedonic-quality adjustments—quality issues usually not perceived by the consumer—in justifying a reduced pace of headline inflation (see *Public Comment on Inflation*).

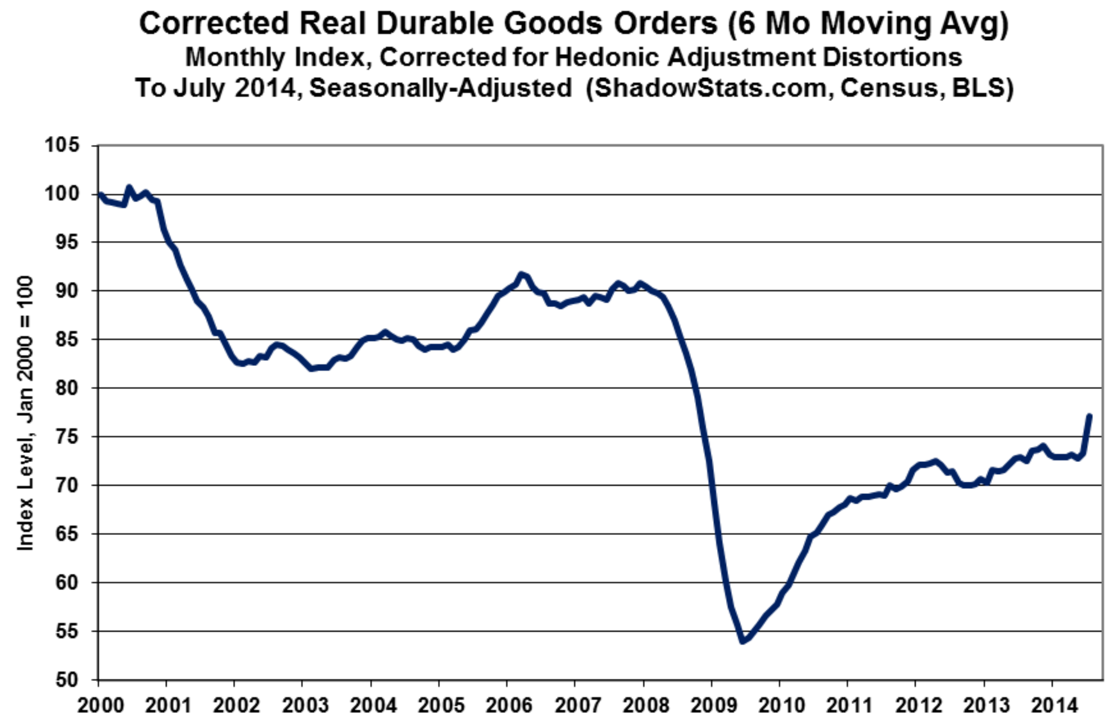
As has been done with other series such as the GDP, retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

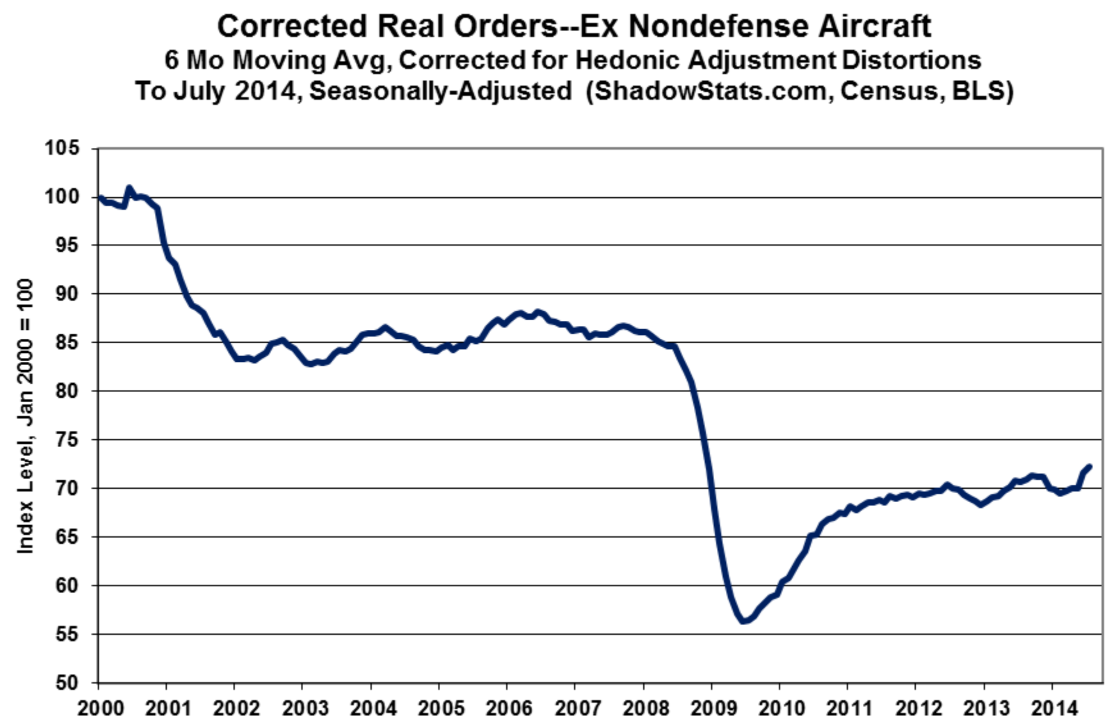
The first set of two graphs following shows the regular inflation-adjusted series, both aggregate new orders and the aggregate orders net of commercial-aircraft orders, indexed to January 2000 = 100.0.

The second set of two graphs following shows the same two series in the first set, but re-deflated to correct for the understatement of the PPI-related inflation measure used in the headline-deflation process. The second set of graphs also is indexed to January 2000 = 100.0. The last of these graphs, the second graph of the second set, entitled "Corrected Real Orders--Ex Nondefense Aircraft," is perhaps the best indicator of broad underlying order activity in the durable goods sector, in the context of signaling actual, near-term production and economic activity.


Real New Orders for Durable Goods (6 Mo Moving Avg)
Monthly Index, Deflated by PPI--Durable Manufactured Goods
To July 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)
Index Level, Jan 2000 = 100
110
100
90
80
70
60
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Real Orders--Ex Nondefense Aircraft (6 Mo Moving Avg)
Monthly Index, Deflated by PPI--Durable Manufactured Goods
To July 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)
Index Level, Jan 2000 = 100
110
100
90
80
70
60
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Corrected Real Durable Goods Orders (6 Mo Moving Avg)
Monthly Index, Corrected for Hedonic Adjustment Distortions
To July 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)
Index Level, Jan 2000 = 100
105
100
95
90
85
80
75
70
65
60
55
50
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Corrected Real Orders--Ex Nondefense Aircraft
6 Mo Moving Avg, Corrected for Hedonic Adjustment Distortions
To July 2014, Seasonally-Adjusted (ShadowStats.com, Census, BLS)
Index Level, Jan 2000 = 100
105
100
95
90
85
80
75
70
65
60
55
50
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014

New-Home Sales—July 2014—Poor-Quality and Unstable Reporting Left Sales-Stagnation Trend Intact. Gyrating in sympathy with the extreme and unstable reporting seen in the July 2014 housing-starts series (see *Commentary No. 651*), July new-home sales fell for the second month, in the context of upside revisions to the last three months of activity. As traditionally is the case, neither the monthly nor the annual gains were statistically-significant.

As will be discussed shortly, there has been no improvement in underlying, fundamental consumer liquidity conditions. There is no basis here for an imminent recovery in the housing market. Accordingly, headline July 2014 new-home sales activity still was down by 70.3% from the pre-recession peak seen in July 2005.

July 2014 New-Home Sales Showed. In the context of an upside revision to the estimate of June activity, Headline July 2014 new-home sales (Census Bureau—counted based on contract signings) fell by a statistically-insignificant 2.4%. In turn, June showed a revised, more-narrow headline monthly contraction of 7.0% (-7.0%). Net of prior-period revisions, July sales rose by 1.5% in the month.

Year-to-year, July 2014 sales rose by a statistically-insignificant 12.3%. That followed a revised, narrower annual pace of contraction of 8.1% (-8.1%) in June 2014.

New-Home Sales Graph. The regular monthly graph of new-home sales activity is included in the graphs following the *Existing-Home Sales* section, along with the graphs of July existing-home sales and July housing starts for single-unit construction, shown together for ease of comparison.

Existing-Home Sales—July 2014—Despite Fourth Monthly Increase, Sales Fell Year-to-Year for the Ninth Month. The headline 2.4% month-to-month gain in July existing home sales was in the context of a small downside revision to June's estimated level of activity. Net of the prior-period revision, July sales were up by 2.2% for the month, reflecting the fourth straight increase in seasonally-adjusted monthly sales. Nonetheless, July activity declined by 4.3% year-to-year—the ninth straight annual decline—and was down by 4.3% from the near-term peak of activity, which also was July 2013. July 2014 sales activity, at the headline annual sales pace of 5,150,000 (an average monthly pace of 429,200), was down by 29.2% from the June 2005 pre-recession peak in activity.

Headline July Existing-Home Sales Rose by 2.4% for the Month, Fell by 4.3% (-4.3%) Year-to-Year. Headline July 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 2.4% month-to-month gain, following a downwardly revised 2.4% gain in June. Net of prior-period revisions, July sales gained 2.2% for the month

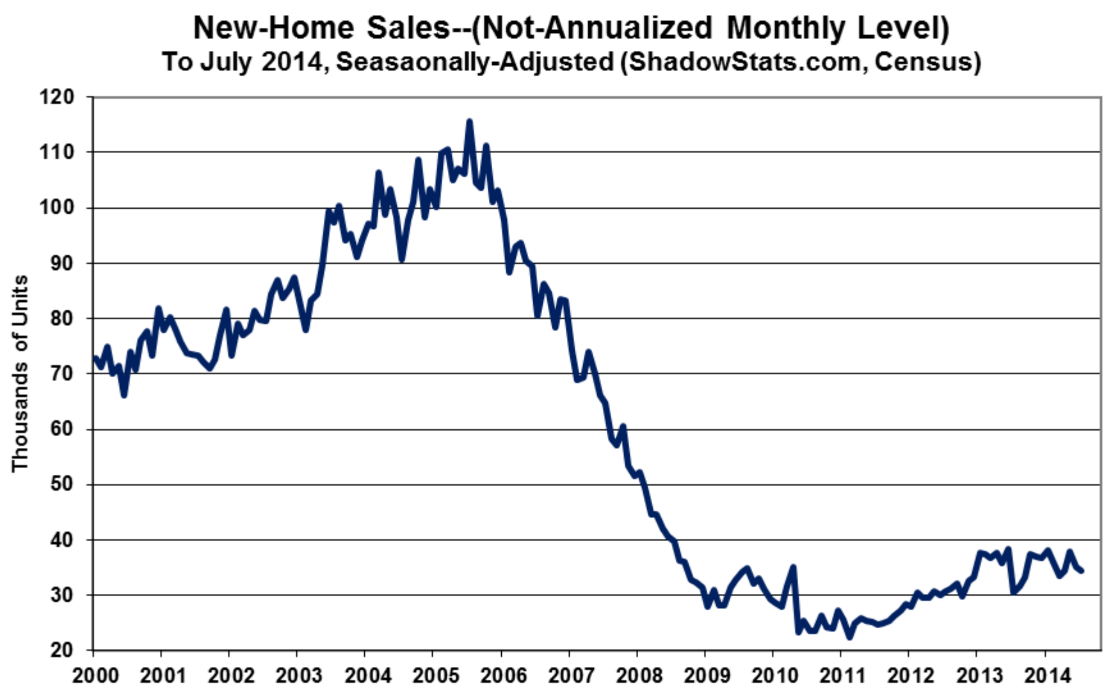
On a year-to-year basis, July 2014 annual sales contracted by a deeper 4.3% (-4.3%) than was seen in the slightly more negative, revised annual decline of 2.5% (-2.5%) in June. July's annual contraction was the ninth consecutive month where headline sales were below those of the year before, the longest period of annual decline in the series since before the official end of the recession in June 2009.

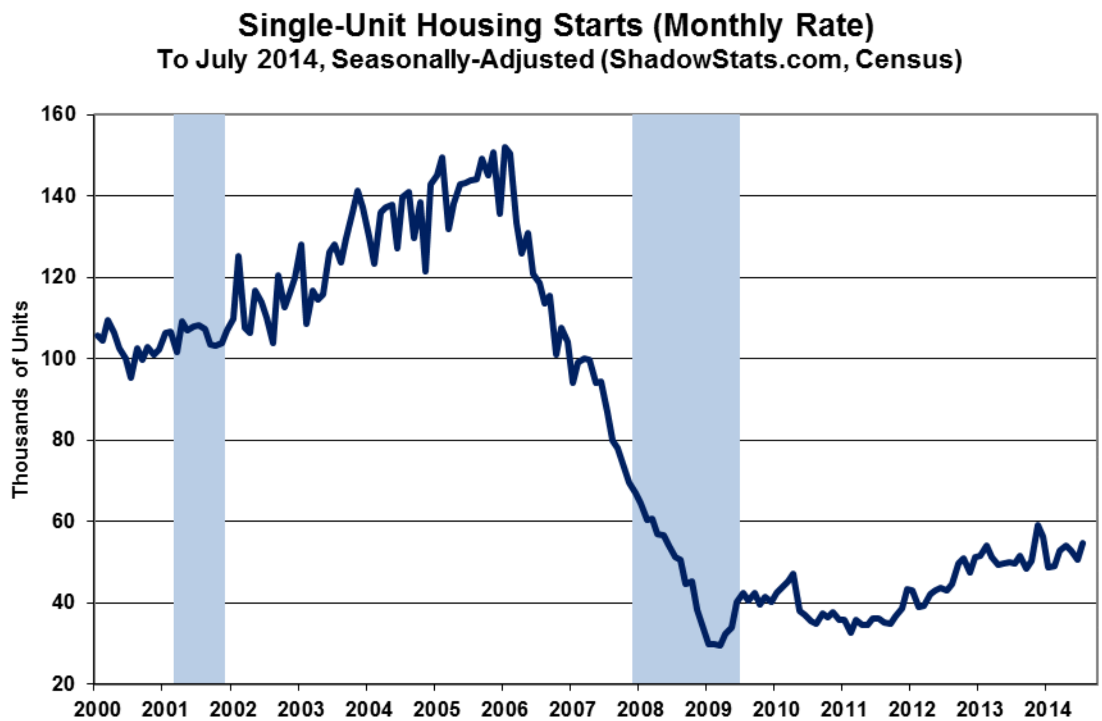
Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the accompanying graph. The quality of data remains questionable.

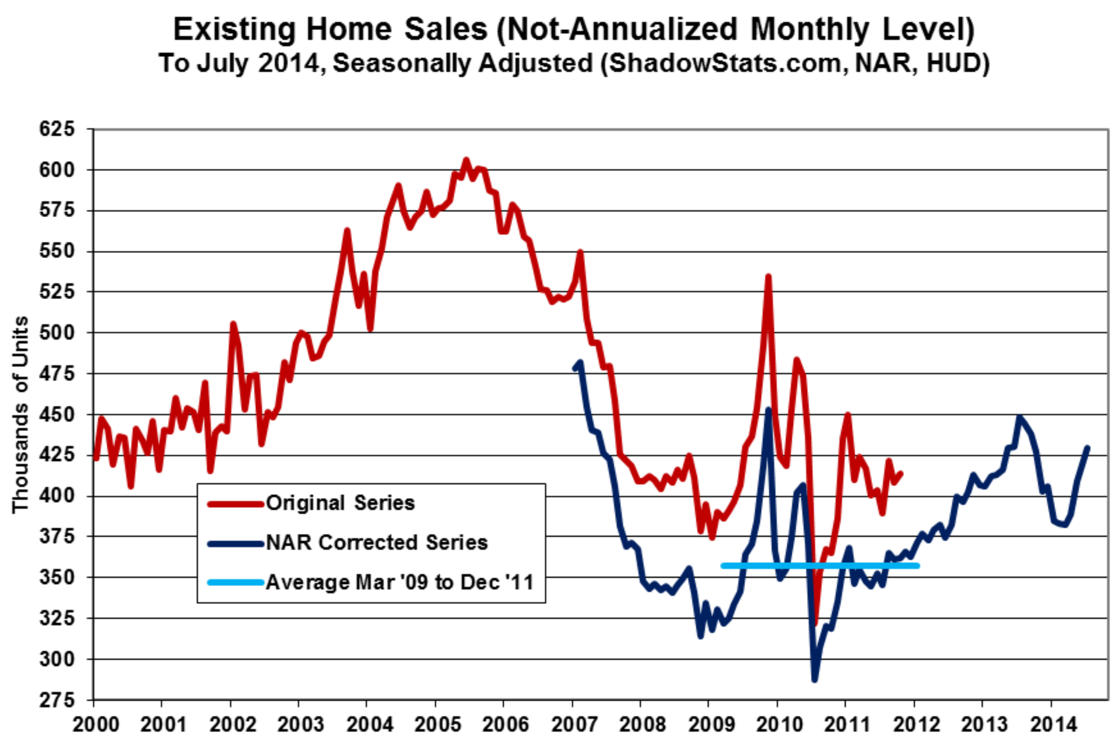
The NAR estimated that the portion of total sales in "distressed" properties fell to its lowest level in July 2014 since the NAR began tracking the issue in October 2008. For July, distressed sales were at 9% of the total (6% foreclosures, 3% short sales), versus the June 2014 reading of 11% (8% foreclosures, 3% short sales). Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in July 2014 were at 29% of the total, down from 32% in June.

As discussed in the following section on consumer liquidity, there has been no underlying improvement in fundamental consumer liquidity conditions. There is no basis here for an imminent recovery in the housing market.

Existing-Home Sales Graph. The regular monthly graph of existing-home sales activity follows the graphs covering July new-home sales and July housing starts for single-unit construction. The three graphs are shown together for ease of comparison.




Single-Unit Housing Starts (Monthly Rate)
To July 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
160
140
120
100
80
60
40
20
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014

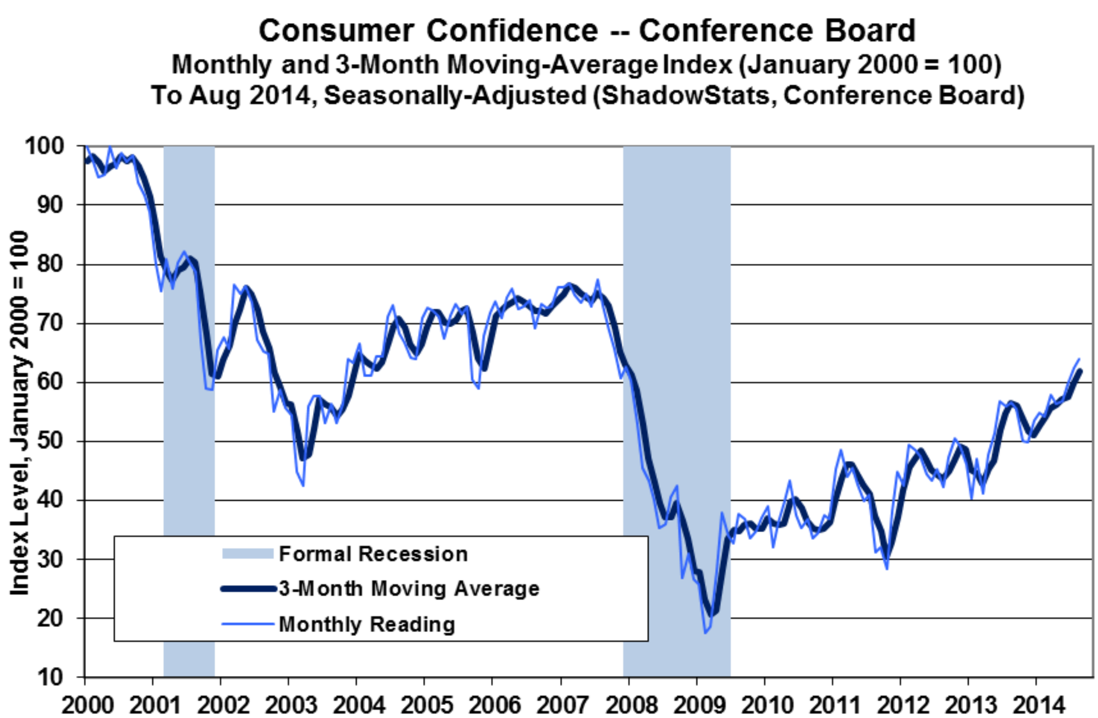

Existing Home Sales (Not-Annualized Monthly Level)
To July 2014, Seasonally Adjusted (ShadowStats.com, NAR, HUD)
Thousands of Units
625
600
575
550
525
500
475
450
425
400
375
350
325
300
275
Original Series
NAR Corrected Series
Average Mar '09 to Dec '11
2000
2001
2002
2003
2004
2005
2006
2007
2008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

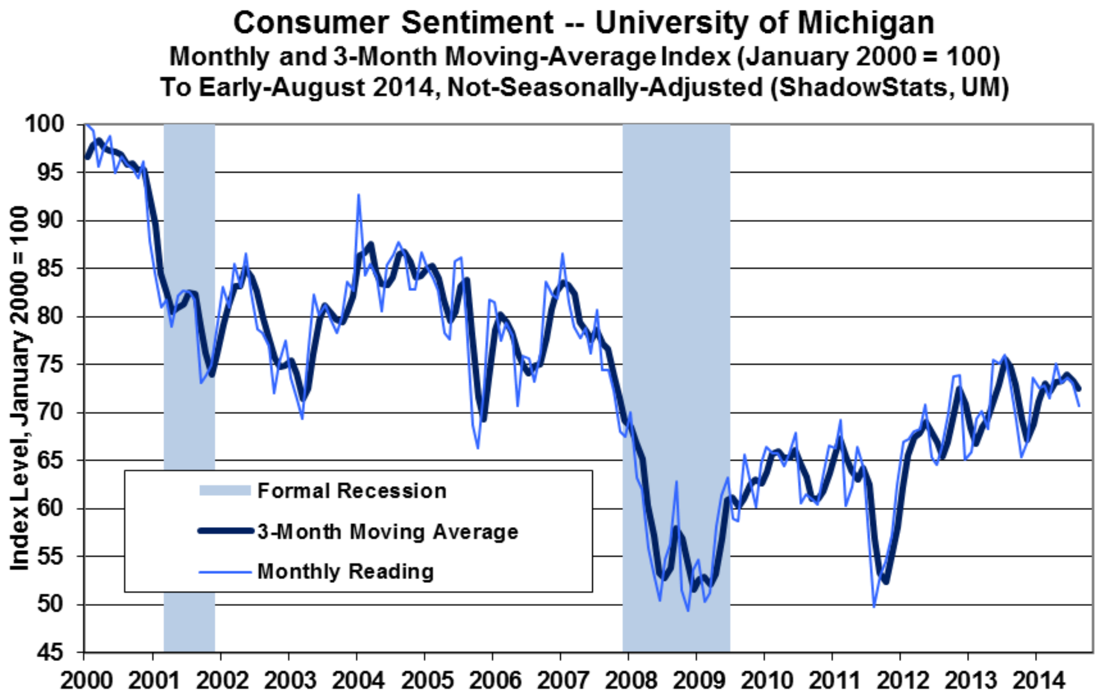
Consumer Liquidity Issues Continue to Dampen Home-Sales Activity. As discussed in *Commentary No. 651* and *Commentary No. 649*, ongoing structural and fundamental consumer liquidity problems impair and severely constrain real, or inflation-adjusted, expansion of retail sales, personal consumption and housing activity, including unit sales volume of new and existing homes. Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity. The consumer directly drives 72% of estimated GDP activity. As discussed frequently and as will be detailed anew in *Commentary No. 653,* covering the August 28th first-revision to second-quarter GDP, there has not been a post-2007 economic recovery. There is no recovery underway, just general bottom-bouncing that broadly has turned down anew.

The accompanying graphs reflect the Conference Board's consumer confidence measure (updated through August per this morning's release, and the University of Michigan's previously-published consumer sentiment survey through the advance-August 2014 estimate.

Contrary to the direction of headline consumer sentiment, August confidence notched higher, but that was in the context of a downside revision in July confidence. Where the confidence series is seasonally-adjusted, the sentiment index is not. Looking at various measured of the consumer outlook, historically, seasonal adjustment never has appeared to make much sense for these series. Only the Conference Board seasonally adjusts the data, but the unadjusted detail is not made available.

In any event, the current levels of consumer confidence and sentiment remain deep in traditional-recession territory. The other liquidity measures remain as published in *No. 649.*





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

HYPERINFLATION WATCH

Hyperinflation Outlook Summary. *[UNREVISED from prior* Commentary No. 651.*]* 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*, including a review in *Commentary No. 639*.

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 in 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, 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 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 2.11% (-2.11%), following 3.50% fourth-quarter 2013 growth, per the July 30th GDP benchmark revisions. Although the initial headline second-quarter 2014 GDP growth came in at 3.95%, such was overstated heavily and subject to major downside revisions. By the time the now-unfolding headline third-quarter 2014 GDP growth is reported in contraction, the second-quarter GDP growth estimate should have revised to close to flat, if not worse. Consensus expectations still face downside shocks in the months ahead, moving the popular outlook towards a "new recession," with the shifts in the consensus likely to disrupt stability in the financial markets.

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 known 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 a continued flow of "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 covering of a weakening economy—a renewed, deepening contraction in business activity.

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 from cash-based, not GAAP-based accounting projections, and comparative year-ago cash numbers are distorted against U.S. 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 general, summary, the fundamental issues threatening the U.S. 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. The circumstance includes a sharply widening trade deficit, as reflected in headline first- and second-quarter reporting, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy.

- U.S. government unwillingness to address its long-term solvency issues. Those controlling the U.S. government have demonstrated not only a lack of will to address long-term U.S. solvency issues, but also the current political impossibility of doing so. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run in the $6-trillion-plus range for annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities.

- Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury. The current pace of the Fed’s monetization is at 71.4% of effective net issuance of the federal debt to be held by the public in calendar-year 2014 (through August 13th). The pace of effective monetization has been 70.2% 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. Positive ratings for both the President and Congress are pushing, if not at, historic lows.

- Mounting global political pressures contrary to U.S. interests. Downside pressures on the U.S. currency generally are increasing, in the context of global political and military developments that have been contrary to U.S. strategic, financial and economic interests.

- Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.

Renewed and 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, or lack of willingness, to do the same. Both dollar weakness and the 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.

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REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (July 2014)

Irregular Surge in Commercial Aircraft Orders Provided Extreme Spike to Headline July 2014 New Orders for Durable Goods. Activity in new orders for durable goods is irregularly volatile**,** usually due the extreme and irregular patterns in nondefense- or commercial-aircraft orders. Even so, the July 2014 reporting was the most-extreme event of recent years, as can be seen in the first of the six graphs for the new-orders series displayed in the *Opening Comments* section. The last of those six graphs shows the plot of new orders that perhaps is the most relevant to looming production activity.

Net of the unusual aircraft-order distortions, the headline 22.6% gain in July 2014 new orders for durable goods rose by just 0.8%. In addition, poor-quality seasonal adjustments apparently were responsible for an otherwise unlikely headline monthly gain of 10.2% in orders for automobiles. Net of these unusual factors in the transportation sector, headline durable goods orders fell by 1.6% (-1.6%) in July. Whether plus 0.8%, or down by 1.6% (-1.6%) for the month, net of the unusual factors, headline July durable goods orders otherwise remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of ongoing stagnation.

Nondefense Aircraft Orders Surged by 318%. In what appears to have been a good orders month for Boeing, industry orders for commercial aircraft surged by 317.97% from June. Those orders, however, usually are booked years in advance of delivery, so the implications for near-term, broad economic activity are nil. In that context, the headline 22.58% gain in total new orders for July was just 0.80%, net of the temporary boost in order activity.

Poor-Quality Seasonal Adjustments at Work? Part of the gain in July's durable goods orders was an apparent healthy jump of 10.2% in new orders for motor vehicles and parts for the month, following a 1.3% decline (-1.3%) in June motor-vehicle orders. Unlike the multi-year lead-time for aircraft, orders for automobile production have near-term impact on the broad economy. Given the time of year, however, with the introduction of new models, the headline gain in orders likely reflected poor-quality seasonal adjustments more than any other factor. Properly adjusted for regular seasonal variations, the impact of the change in model-year on the broad economy should not be noticeable in the related, adjusted monthly headline trends in retail sales, wholesale orders or industrial production (see *Commentary No. 650*).

Nominal (Not-Adjusted-for-Inflation) July 2014 Reporting. The Census Bureau reported today, August 26th, that the regularly-volatile, seasonally-adjusted, nominal level of July 2014 new orders for durable goods rose by a headline 22.58% for the month, following a revised gain of 2.73% (previously up by 0.74%) in June, and a revised monthly contraction in May of 0.89% (-0.89%) [previously down by 0.97% (-0.97%), initially down by 1.01% (-1.01%)]. On a year-to-year basis (seasonally-adjusted), July 2014 durable goods orders jumped by 33.79%, following a revised gain of 0.43% [previously a decline of 1.58% (-1.58%)] in June, and a revised 2.89% (previously 2.78%, initially 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 an extraordinary 317.97% in July. As already mentioned, those aircraft orders accounted for vast the bulk of the headline July monthly gain in aggregate orders.

In this traditionally-unstable durable-goods series, net of the commercial-aircraft orders, the headline July 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 at the end of the *Opening Comments* section.

Detail Net of Volatility in Commercial Aircraft Orders. The reporting of extreme 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 July, nondefense (or commercial) aircraft orders rose by 317.97% for the month, following revised 11.06% (previously 8.24%) gain in June, and a revised contraction of 2.90% (-2.90%) [previously a contraction of 2.73% (-2.73%), initially down by 3.98% (-3.98)] in May. Net of the aircraft numbers, month-to-month orders rose by 0.80%% in July, versus a revised 2.16% (previously a 0.23%) gain in June, and a revised decline of 0.75% (0.75%) [previously down by 0.84% (-0.84%), initially down by 0.81% (-0.81%)] in May. Year-to-year orders, ex-commercial aircraft, were up by 7.66% in July, versus a revised 6.12% (previously a 4.02%) gain in June, and a revised 4.02% (previously a 3.93%, initially a 3.94%) gain in May.

Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems 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 May 2014 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—July 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 0.06% pace of monthly inflation in July, following 0.06% inflation in June, and 0.12% in May, with headline annual inflation of 1.46% in July, versus 1.34% in June 2014 and 1.21% 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 22.51% in July, following a revised 2.67% (previously a 0.68%) gain in June, versus a revised decline of 1.01% (-1.01%), previously down by 0.97% (-0.97%), in May. Ex-commercial aircraft, real orders rose 0.74% for the month of July, versus a revised gain of 2.10% (previously up by 0.17%) in June, and a revised 0.87% decline (-0.87%), previously down by 0.84% (-0.84%) in May.

Real year-to-year aggregate orders rose by 31.86%, versus a revised decline of 0.89% (-0.89%), previously down by 2.77% (-2.77%), in June, and a revised 1.62% (previously 1.67%) gain in May. Ex-commercial aircraft. Ex-commercial aircraft, orders rose year-to-year by 6.11% in July, following a revised 4.72% (previously 2.77%) gain in June, versus a revised gain of 2.77% (previously 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, prior to the extreme movement in July.

On a six-month, moving-average basis, real levels of the July 2014 orders remained at or below both the pre-2001 and pre-2007 recession highs. The pattern of recent stagnation and downturn in the stabilized, 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), for both the aggregate series and the series net of commercial aircraft orders.

NEW-HOME SALES (June 2014)

Extremely Poor-Quality and Unstable Reporting in New-Home Sales Leaves Stagnation Trend Intact. Gyrating in sympathy with the extreme and unstable reporting seen in the July 2014 housing-starts series (see *Commentary No. 651*), July new-home sales fell for the second month, in the context of upside revisions to the last three months of activity. As traditionally is the case, neither the monthly nor the annual gains were statistically-significant.

As discussed in the *Opening Comments,* there has been no improvement in fundamental consumer liquidity conditions. There is no basis here for an imminent recovery in the housing market. Accordingly, headline July 2014 new-home sales activity still was down by 70.3% from the pre-recession peak, seen in July 2005.

July 2014 New-Home Sales Showed. As reported by the Census Bureau, yesterday, August 25th, in the context of an upside revision to the estimate of June activity, July 2014 headline new-home sales (counted based on contract signings) fell by a statistically-insignificant 2.4% +/- 13.9% (all confidence intervals are at the 95% level). In turn, June showed a revised headline monthly contraction of 7.0% (-7.0%), which previously had been down by 8.1% (-8.1%). Net of prior period revisions, July sales rose by 1.5% in the month.

Year-to-year, July 2014 sales rose by a statistically-insignificant 12.3% +/- 20.0%. That followed a revised annual contraction of 8.1% (-8.1%), previously down by 11.5% (-11.5%), in June.

New-Home Sales Graph. The regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with the graphs of July existing-home sales and July housing starts for single-unit construction, for comparison.

EXISTING-HOME SALES (July 2014)

Despite Fourth Monthly Increase, Existing-Home Sales Fell Year-to-Year for the Ninth Month. The headline 2.4% month-to-month gain in July existing home sales was in the context of a small downside revision to June's estimated level of activity. Net of the prior-period revision, July sales were up by 2.2% for the month, reflecting the fourth straight increase in seasonally-adjusted monthly sales. Nonetheless, July activity declined by 4.3% year-to-year—the ninth straight annual decline—and was down by 4.3% from the near-term peak of activity, which also was in July 2013. July 2014 sales activity, at the headline annual sales pace of 5,150,000 (an average monthly pace of 429,200), also was down by 29.2% from the June 2005 pre-recession peak in activity.

Headline July Existing-Home Sales Rose by 2.4% for the Month, Fell by 4.3% (-4.3%) Year-to-Year. Friday's (August 22nd) release of July 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 2.4% month-to-month gain, following a revised 2.4% (previously 2.6%) gain in June. Net of prior-period revisions, July sales gained 2.2% for the month

On a year-to-year basis, July 2014 annual sales contracted by a deeper 4.3% (-4.3%) than was seen in the revised annual decline of 2.5% (-2.5%) in June, which previously had been contracted by 2.3% (-2.3%) on an annual basis. July's annual contraction was the ninth consecutive month where headline sales were below those of the year before. That is the longest period of annual decline in the series since before the official end of the recession in June 2009.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the graph in the *Opening Comments*. The quality of data remains questionable.

The NAR estimated that the portion of total sales in "distressed" properties fell to its lowest level in July 2014 since the NAR began tracking the issue in October 2008. For July, distressed sales were at 9% of the total (6% foreclosures, 3% short sales), versus the June 2014 reading of 11% (8% foreclosures, 3% short sales). Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in July 2014 were at 29% of the total, down from 32% in June.

Bleak Outlook Based on Underlying Fundamentals. As discussed in the *Opening Comments*, there has been no underlying improvement in fundamental consumer liquidity conditions. Correspondingly, there is no basis here for an imminent recovery in the housing market.

Existing-Home Sales Graph. The regular monthly graph of existing-home sales activity is included in the *Opening Comments* section, along with the graphs of July new-home sales and July housing starts for single-unit construction, for comparison.

WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases Should Be Much Weaker; Inflation Releases Should Be Increasingly Stronger. Although shifting to the downside, again, amidst wide fluctuations, market expectations for business activity generally remain overly optimistic, well above any potential, underlying economic reality. Market outlooks should be hammered, though, by ongoing, downside corrective revisions and by an accelerating pace of downturn in headline economic activity.

Longer-Range Reporting Trends. The initial stages of the process shifting economic-growth expectations to the downside already 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 largely survived the GDP benchmark revisions. The initial strong bounce-back guessed at by the Bureau of Economic Analysis (BEA), for headline second-quarter GDP, should prove to be fleeting, both with looming downside revisions, and with a likely GDP contraction in third-quarter 2014.

Indeed, weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should remain the general trend until the unfolding "new" recession receives broad recognition, which likely would follow the next reporting of a headline contraction in real GDP growth.

A generally stronger inflation trend remains likely to continue, as seen in recent months. Beyond the spread of earlier oil-based inflation pressures into the broad economy, upside pressure on oil-related prices should continue and be rekindled from the intensifying impact of global political instabilities and a likely near-term weakening of the U.S. dollar in the currency markets. Again, food inflation also is picking up, partially due to supply issues. 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 U.S. inflation in a broad range of areas.

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, Second Estimate, First Revision). On Thursday, August 28th, the Bureau of Economic Analysis (BEA) will publish its second estimate of, and first revision to second-quarter 2014 GDP. The initial guesstimate of 4.0% annualized, quarterly real growth was overstated by a massive amount (see *Commentary No. 646*), and it should revise significantly lower in this revision and the next. Market expectations, however, appear to be for no revision. The BEA is not that good in its guessing—shy of the data being rigged—and the two pending rounds of revisions should offer consensus forecasters some downside surprises, as discussed further in the *Opening Comments* section here and in *Commentary No. 651*.

