

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

COMMENTARY NUMBER 730
May Durable Goods Orders, New- and Existing-Home Sales
June 23, 2015

Year-to-Year Decline in New Orders Signals Recession
Second-Quarter Durable Goods on Track for Annual Contraction,
Before and after Inflation and/or Commercial-Aircraft Orders
New- and Existing-Home Sales Gained in May 2015,
But with no Substantive Shift in Activity versus Low-Level Stagnation

PLEASE NOTE: The next regular Commentary, scheduled for tomorrow, Wednesday, June 24th, will cover the third estimate of, second revision to first-quarter 2015 GDP. Separately, a Public Commentary on employment and unemployment measurement is pending.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Various Signals Indicate Recession. Irrespective of near-term GDP revisions and wild gyrations in the regularly-volatile construction data, headline reporting from such series as industrial production, new orders for durable goods and real retail sales have generated solid signals of an unfolding recession. New headline detail in monthly economic releases through the end of July increasingly should confirm that circumstance. Such will be explored with tomorrow's June 24th *Commentary* covering the revised GDP.

Today's Missive (June 23rd). The balance of today's *Opening Comments* concentrates on the detail from the headline May 2015 New Orders for Durable Goods and New- and Existing-Home Sales.

The *Hyperinflation Outlook Summary* is not revised. The *Week Ahead* section provides a preview of tomorrow's second revision to first-quarter GDP, where updated consensus expectations have narrowed further to a minimal, annualized contraction of 0.2% (-0.2%).

New Orders for Durable Goods—May 2015—Intensifying Recession Signal. The reporting of a relatively small, headline decline in May 2015 new orders for durable goods was in the context of a downside revision to April activity, and reflected a monthly drop in orders for commercial aircraft. The broad signal for pending U.S. economic activity, however, remained sharply negative, confirming and strengthening previous signals of an unfolding economic contraction, a "new" recession.

Activity in new orders for durable goods has a leading relationship to industrial production as well as to general economic activity. Headline reporting for May 2015 new orders showed negligible monthly movement, but increasingly negative year-to-year change, irrespective of considerations for inflation and/or aircraft orders.

Annualized quarterly declines in real new orders (ex-commercial aircraft) held for both fourth-quarter 2014 [down by 5.58% (-5.58%)] and first-quarter 2015 [down by a revised 7.66% (-7.66%)]. Following with an appropriate lag of one quarter, first-quarter 2015 industrial production contracted, and most certainly second-quarter 2015 industrial production has contracted as well (see [Commentary No. 727](#)).

Based solely on April and May ex-aircraft reporting, annualized change for second-quarter 2015 turned positive, up at an annualized pace of 3.18%, but year-to-year change in second-quarter 2015 also now has turned down by 2.48% (-2.48%), following a decline of 0.16% (-0.16%) in first-quarter 2015 and an annual gain of 4.57% in fourth-quarter 2014. Annual change in the ex-commercial aircraft orders has been negative for four consecutive months, a pattern rarely, if ever, seen outside of recessions.

The near-consensus headline monthly contraction of 1.8% (-1.8%) in May 2015 total orders [MarketWatch indicated an expected drop of 1.5% (-1.5%)] was more than accounted for by a decline in the irregular orders for nondefense (commercial) aircraft. Net of same, May durable goods orders rose by 0.6%. The ex-commercial aircraft series is the one to look at as an indicator of pending, broad economic activity, due to the distorting effects of the extreme and irregular nature of the volume of aircraft orders, as well as to the limited impact of those multi-year orders on near-term economic activity.

Both before and after consideration of volatility in commercial-aircraft orders, headline changes in May durable goods orders were minimal. They remained well within the normal reporting variations of this highly unstable series and were consistent with a pattern of down-trending stagnation. The inflation-adjusted real series, and that same series corrected for the understatement of official inflation, also are shown in the accompanying graphs. Those series remain broadly stagnant, with a developing downtrend of a nature that commonly precedes or coincides with a recession or a deepening business downturn.

Headline Nominal (Not-Adjusted-for-Inflation) May 2015 Reporting. The regularly-volatile, seasonally-adjusted, nominal level of May 2015 new orders for durable goods fell month-to-month by a headline 1.77% (-1.77%), following a revised decline of 1.54% (-1.54%) in April and a revised monthly gain of 5.06% in March. Net of the revisions to April, aggregate new orders for May were down by 2.81% (-2.81%), instead of the headline decline of 1.77% (-1.77%).

The seasonally-adjusted, year-to-year change in May 2015 durable goods orders was a contraction of 2.52% (-2.52%), versus a revised April drop of 3.36% (-3.36%) and a revised March 2015 decline of 0.70% (-0.70%).

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 and often dominates the changes in headline monthly durable goods orders. These extremely volatile aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

Net of a headline monthly decline of 35.32% (-35.32%) in May 2015 commercial-aircraft orders, aggregate new orders rose by 0.56%. Net of a revised decline in April 2015 commercial-aircraft orders of 10.19% (-10.19%), aggregate orders declined by 0.83% (-0.83%). Net of a revised 40.10% gain in March 2015 commercial-aircraft orders, aggregate orders rose by a revised 3.08%.

Year-to-year and seasonally-adjusted, May 2015 orders (net of commercial aircraft) were down by 0.24% (-0.24%), versus a revised decline of 3.30% (-3.30%) in April 2015, and a revised annual decline of 0.75% (-0.75%) in March 2015.

Real (Inflation-Adjusted) Durable Goods Orders—May 2015. 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 May 2015 PPI series declined month-to-month by a headline 0.12% (-0.12%), following a headline monthly contraction of 0.24% (-0.24%) in April. Headline annual inflation stood at 0.24% in May 2015, versus 0.42% in April 2015.

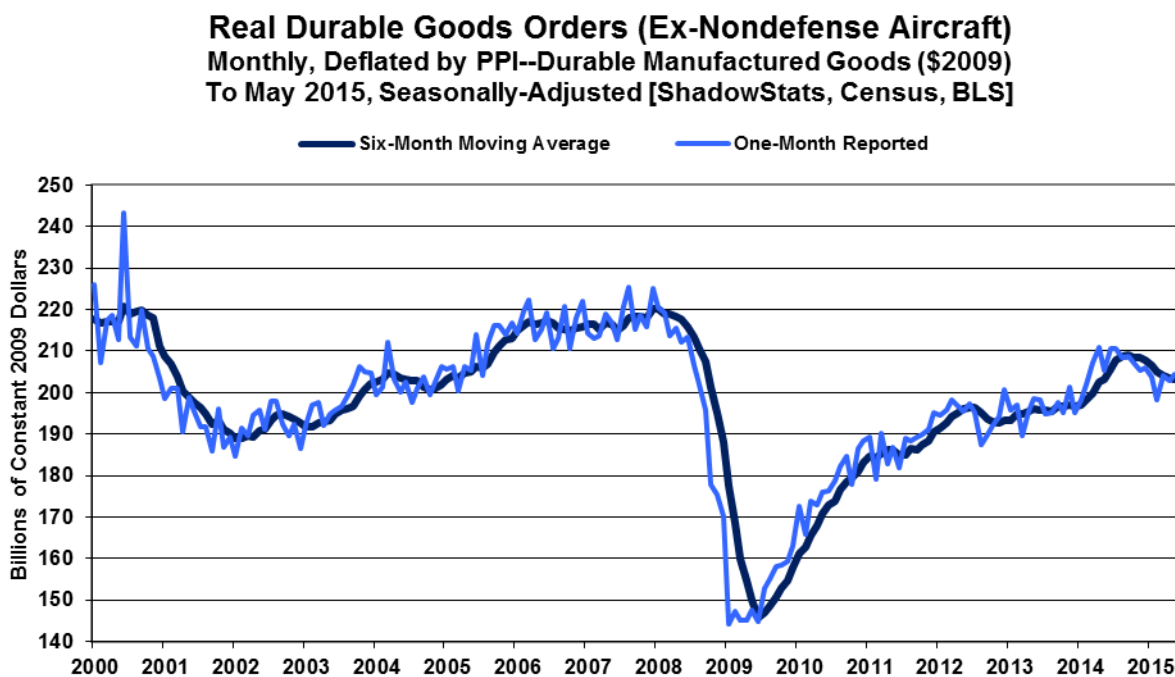
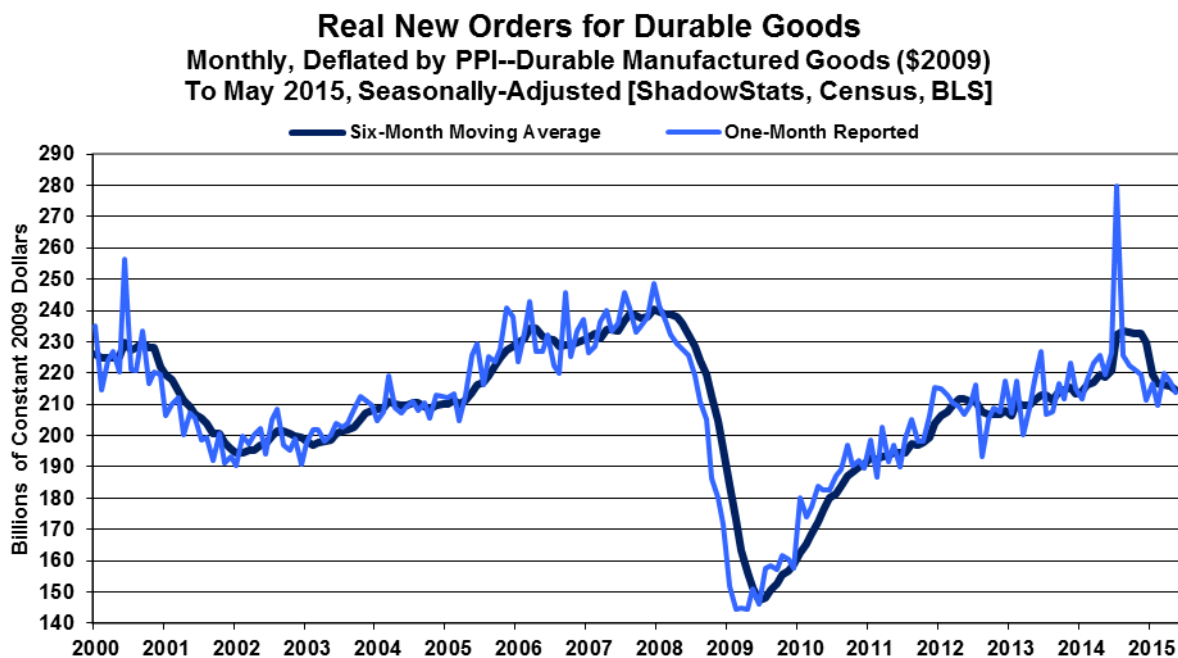
Adjusted for that monthly decline of 0.12% (-0.12%) in headline May inflation, and as reflected in the following graphs, real month-to-month aggregate orders fell by 1.65% (-1.65%) in May 2015, with April real orders down by 1.30% (-1.30%) and March real orders up by 5.00%. Ex-commercial aircraft, real orders effectively were up by 0.69% in May 2015, down by 0.59% (-0.59%) in April and rose by 3.01% in March.

Real year-to-year aggregate orders fell by 2.76% (-2.76%) in May 2015, dropped by 3.77% (-3.77%) in April 2015 and declined by 1.41% (-1.41%) in March 2015. Ex-commercial aircraft, real orders fell year-to-year by 0.47% (-0.47%) in May 2015, dropped by 3.70% (-3.70%) in April 2015 and declined by 1.46% (-1.46%) in March 2015.

Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series. The first two graphs, following, show new orders for durable goods, again, adjusted for inflation using the Producer Price Index (PPI) measure for "Durable Manufactured Goods." These graphs show monthly and six-month moving-averages of the activity level, updated for last month's 2015 benchmarking detail, as well as this morning's headline reporting of May 2015 numbers.

The first graph shows the aggregate new orders series, including the extreme swings in commercial-aircraft orders in July and August 2014, with a return to some stability in September 2014 through February 2015, an uptick in March and minor declines in April and May. The second graph is the headline series, net of the unstable commercial-aircraft order sector. Accordingly, the ex-commercial aircraft plot is somewhat smoother than the first graph. Given the extreme surge in July 2014 aircraft orders, the six-month moving average in the aggregate series, or first graph, looked like an anaconda

swallowing a cow, for a while, but that passed from the moving average with January 2015 reporting.



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, feeding into the temporary July 2014 surge. Orders have been in general decline since third-quarter 2014, with two consecutive quarterly contractions in place for fourth-quarter 2014 and first-quarter 2015, both before and after any consideration for aircraft orders and/or inflation. Based solely on April and May reporting, the aggregate series is on track for an annual contraction in second-quarter activity, both before and after inflation adjustment. Ex-commercial aircraft, the series is on track for a quarter-to-quarter increase, although second-quarter 2015 activity has turned lower, year-to-year, again, these patterns are seen both before and after inflation adjustment.

Broadly, there has been a recent general pattern of down-trending 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) monthly and six-month moving-average level of new orders in May 2015 was below the pre-2007 recession high, as well as below the pre-2000 recession high. The pattern of recent stagnation now having turned to a downtrend in the inflation-adjusted series—net of the irregular aircraft-order effects—is one that commonly precedes or is coincident with a recession.

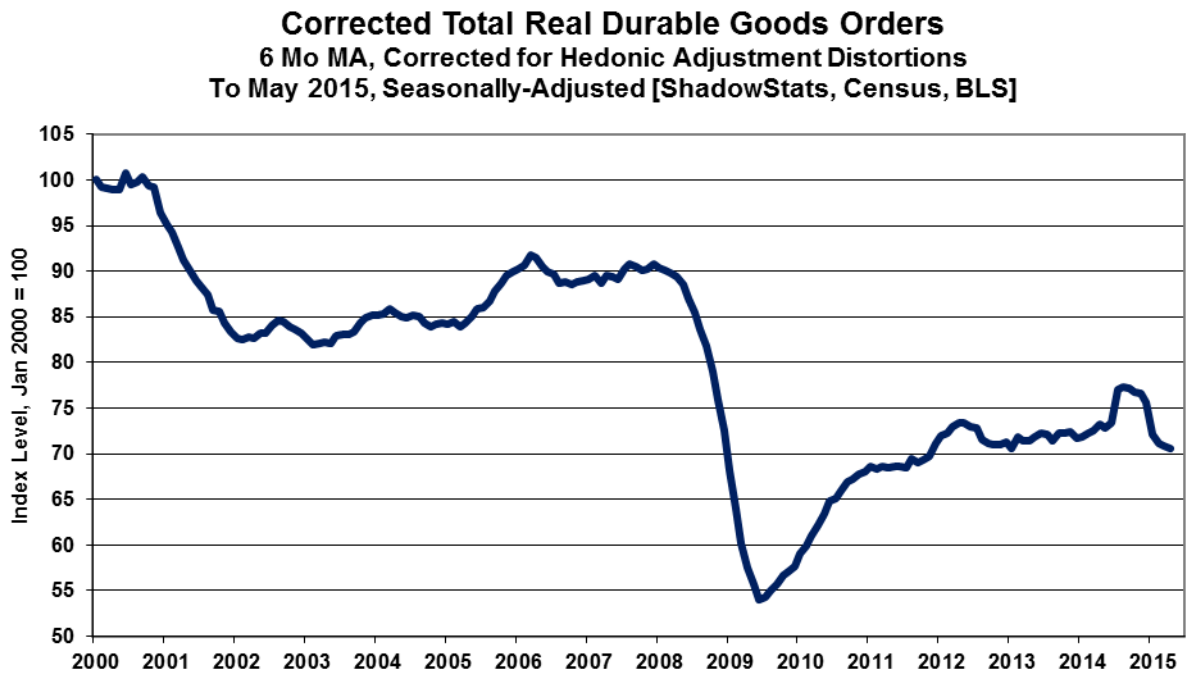
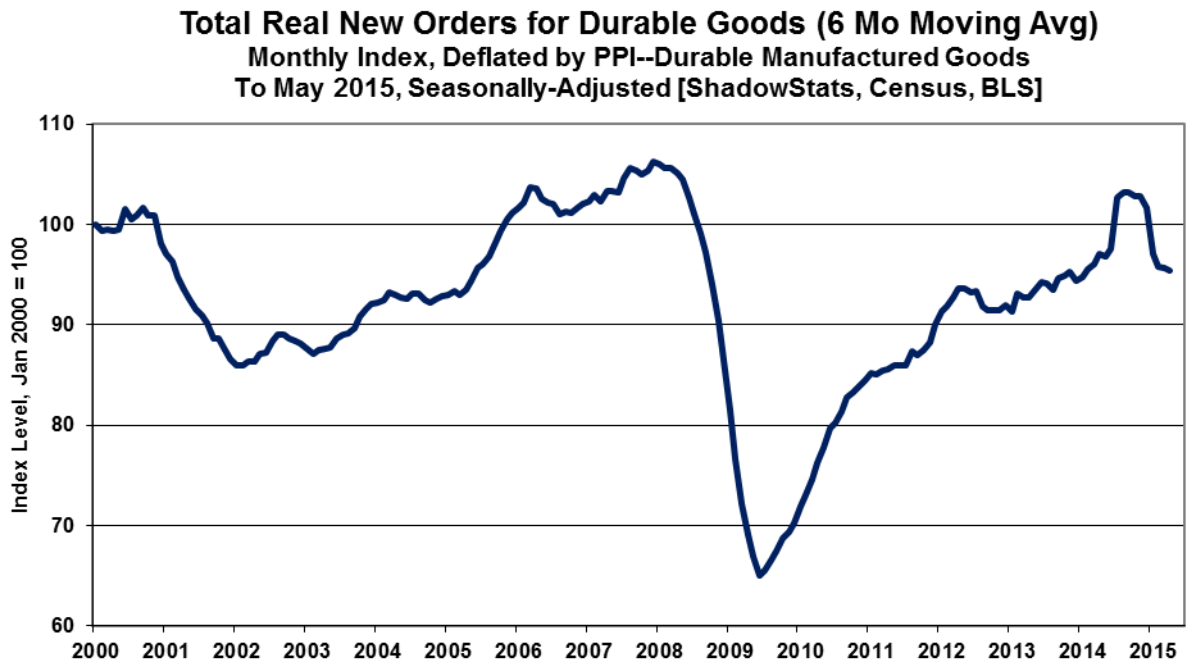
The Real Orders Series Corrected for Inflation Understatement. As with other economic series deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods are overstated, due to the understatement of the official inflation. That understatement 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 Commentary on Inflation Measurement](#)).

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.

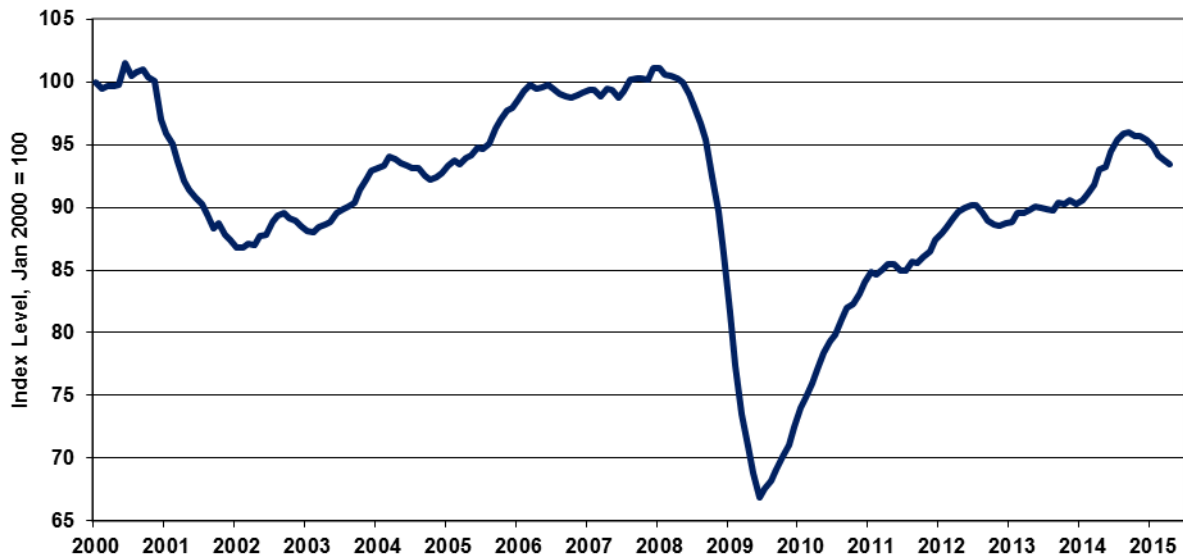
The following two sets of graphs are first, for the aggregate series or total durable goods orders. The second set is for the ex-commercial aircraft series. The first plot in each series is the official six-month moving average, the same heavy dark-blue line shown in the earlier graphs along with the light-blue thin line of monthly detail. The second plot is the same six-month, moving-average series as re-deflated to correct for the estimated understatement of the PPI-related inflation measure used in the headline-deflation process. Both sets of graphs are indexed to January 2000 = 100.0.

The second graph in 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 in advance actual, near-term production and economic activity.

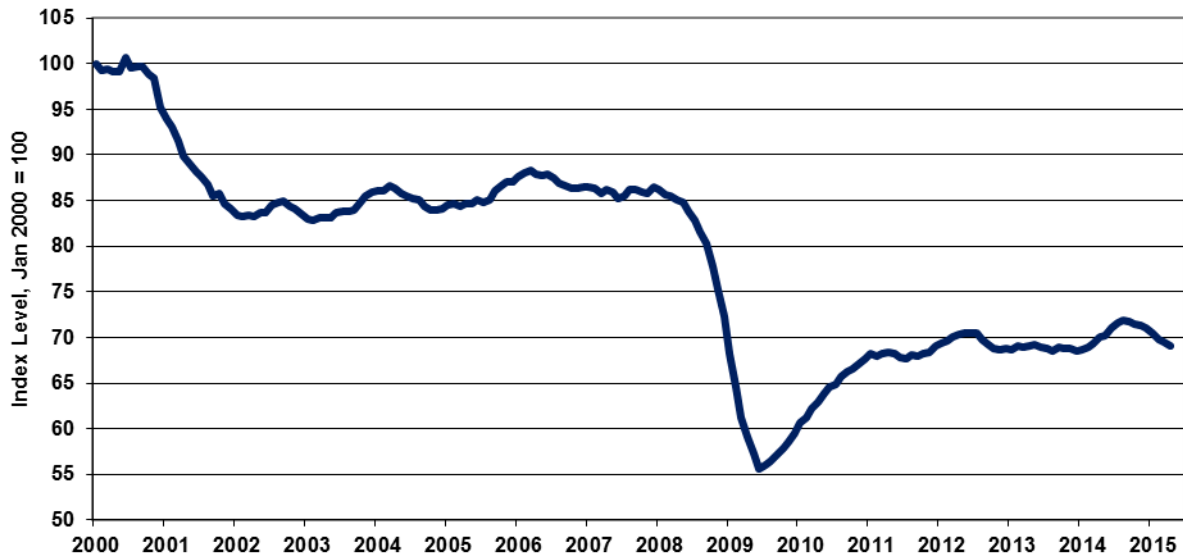
The aggregate orders series—in the first set—includes commercial aircraft orders. Placed years in advance, aircraft orders are a better indicator of long-range production activity, than they are as a near-term leading indicator of production activity.



Real Orders--Ex-Nondefense Aircraft (6 Mo Moving Avg)
Monthly Index, Deflated by PPI--Durable Manufactured Goods
To May 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]



Corrected Real Orders--Ex-Nondefense Aircraft
6 Mo Moving Avg, Corrected for Hedonic Adjustment Distortions
To May 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]



Existing- and New-Home Sales—May 2015—Despite Headline Gains, Patterns of Low-Level Stagnation Continued. May 2015 existing- and new-home sales increased month-to-month, year-to-year and in the context of upside revisions to April reporting, but the headline changes were within the normal scope and volatility of these otherwise unstable and seriously-troubled, real-estate indicators.

Both series hit multi-year highs in May 2015. Yet, the general trend of low-level stagnation—albeit slightly up-trending since 2011—broadly continued for home sales, as it has for other measures of activity tied to residential real estate and related construction.

Impaired Consumer Liquidity Means Continued Bleak Outlook for Home-Sales Activity. Discussed in the prior [Commentary No. 729](#)—along with fully-updated graphs—underlying consumer liquidity conditions remain severely impaired. Correspondingly, with no fundamental growth in liquidity to fuel increased consumer activity, there has not been a basis for recovery in the housing market, past or present, and there is no basis for expecting a recovery in the immediate future.

Existing-Home Sales—May 2015—Sales Boomed, with Rising Annual Growth. Moving out of step, again, with the wildly-unstable housing starts series, which declined by 11.1% in May 2015, having gained 22.1% in April (see [Commentary No. 728](#)), headline existing-home sales jumped by 5.1% in May, having declined by 2.3% in April. Annual growth in existing sales rose to 9.2% in May 2015, from an upwardly-revised 7.2% in April, but that still was down from 10.9% in March. The headline monthly gain exceeded market expectations for an increase of 3.8% versus initial April reporting [MarketWatch].

The first-quarter 2015 annualized quarterly contraction of 6.7% (-6.7%) in existing sales was unrevised. Based solely on the volatile reporting for April and May, the second-quarter 2015 pace of annualized growth was 21.4%.

The May 2015 headline annualized sales pace of 5,350,000 (a monthly pace of 445,833) was the highest reading since November of 2009, but it remained below the June 2005 pre-recession peak in sales by a simple 26% (-26%). May 2015 headline aggregate monthly housing starts remained down by a simple 54% (-54%) versus its January 2006 pre-recession peak.

Headline Existing-Sales Growth. Headline May 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 5.1%, following a revised decline of 2.3% (-2.3%) in April. The May headline month-to-month gain was 6.2%, net of prior-period revisions. On a year-to-year basis, May 2015 sales growth increased to 9.2%, versus a revised 7.2% in April 2015. The headline May sales data were well within the normal scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, as seen in first graph following. The quality of data underlying this series, however, remains highly questionable.

Portion of Sales in Foreclosure Held Steady. The NAR estimated that the portion of May 2015 existing sales in "distress" held at 10% (7% foreclosures, 3% short sales), the same level and mix as seen in April and March 2015, but down from distressed sales of 11% (8% foreclosures, 3% short sales) in May 2014. Reflecting continued lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in May 2015 represented 24% of total activity, the same portion of sales as seen in April and March 2015, but down from 32% in May 2014.

New-Home Sales—May 2015—Low-Level Stagnation Continued. As usual, the headline monthly and annual changes in new-home sales were not statistically significant. After dropping month-to-month in March 2015 by a revised 9.4% (-9.4%), and increasing by a revised 8.1% in April, sales rose by 2.2% for

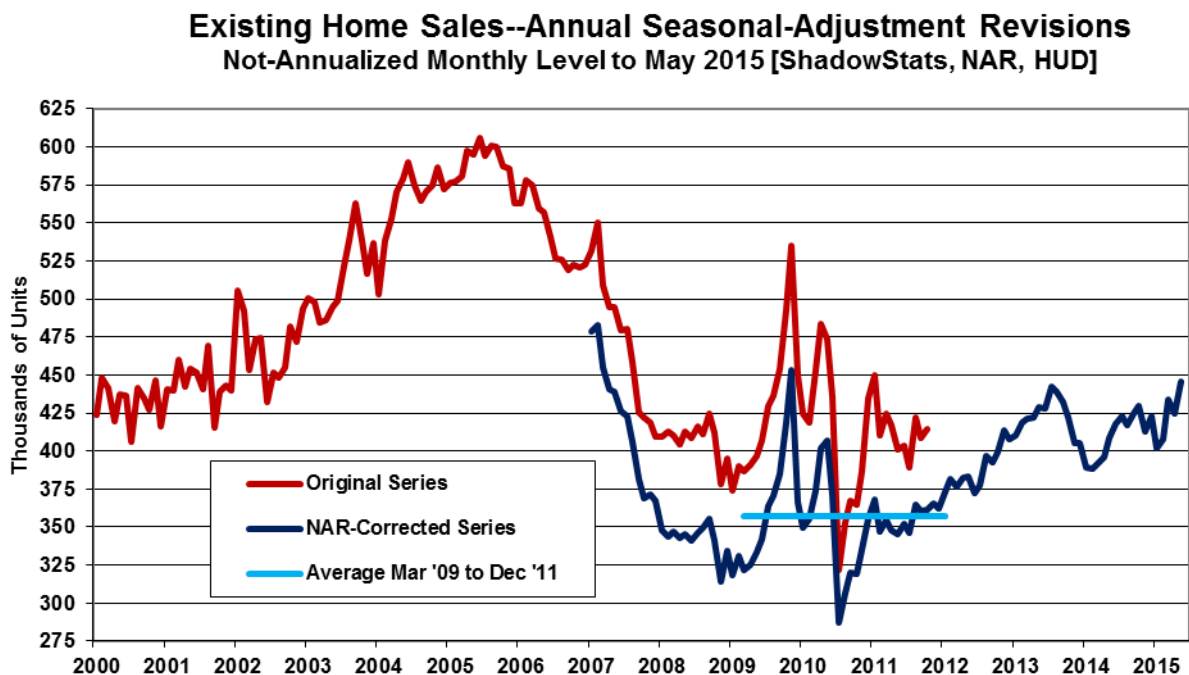
the month of May. The headline gain exceeded market expectations for a monthly increase of 1.5% versus initial April reporting [MarketWatch].

The May 2015 annualized new-sales rate of 546,000 units (45,500 monthly rate) was just 0.2% ahead of February 2015, marginally setting a new post-recession high, the highest level since February 2008. That headline level of activity, though, still was down by 61% (-61%) from the pre-recession peak. With the otherwise-meaningless monthly swings in this series smoothed out, sales activity continued in a broad pattern of low-level stagnation, albeit minimally up-trending.

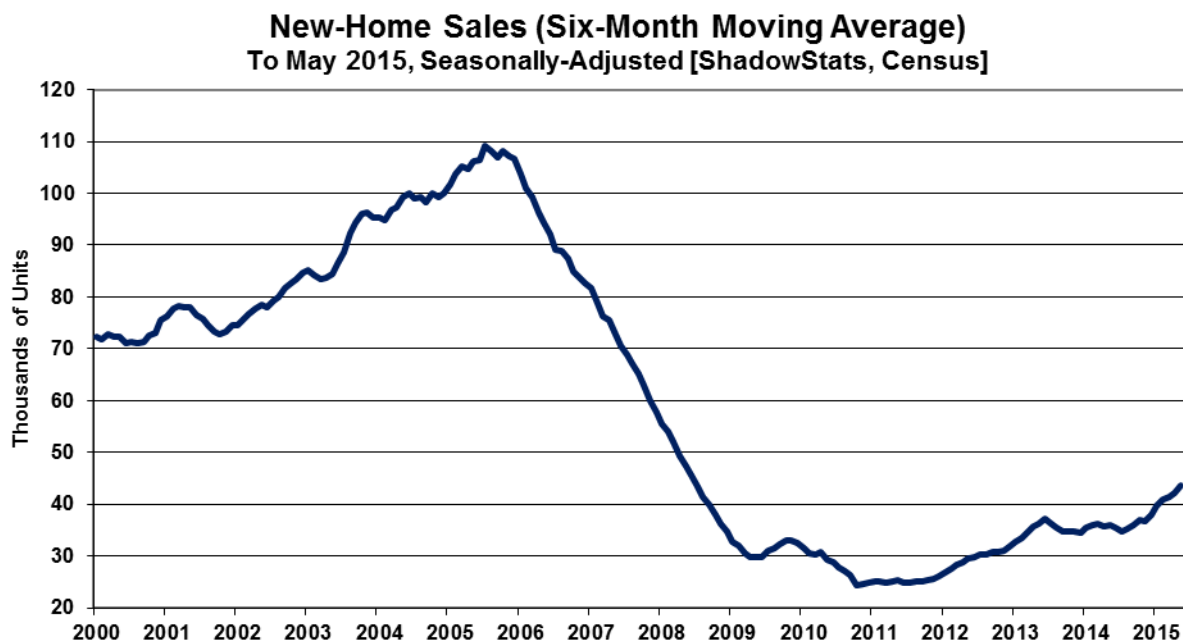
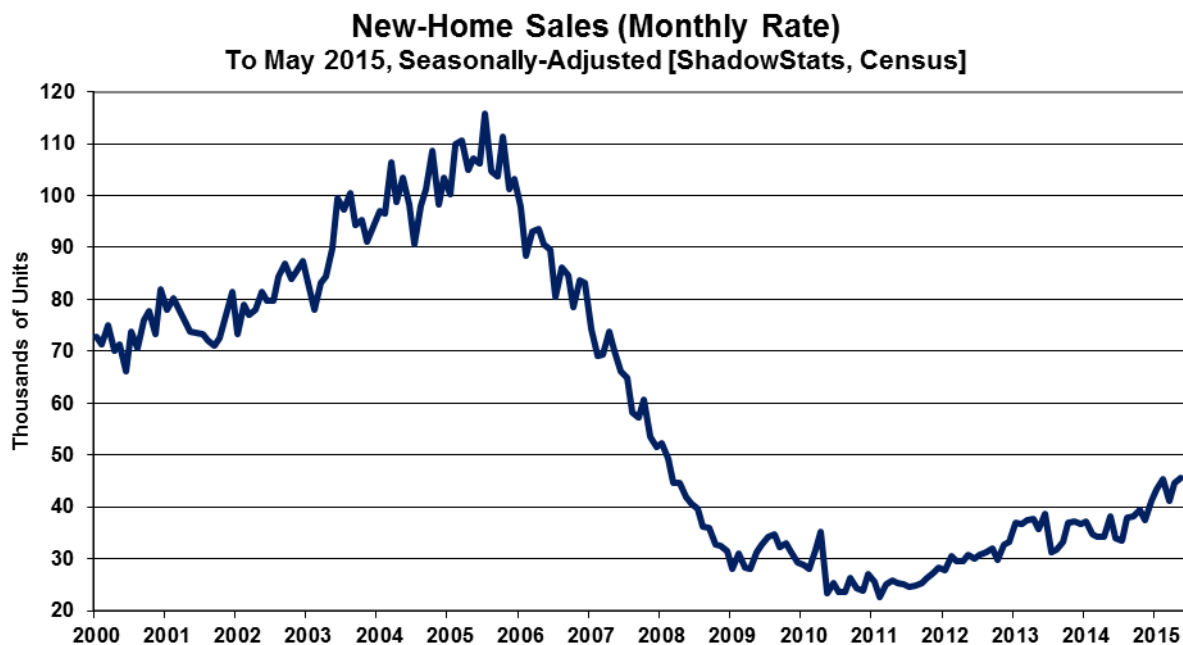
ShadowStats assesses this unstable series by considering the monthly sales gyrations in the context of a six-month moving average of headline activity, the same approach as used with the housing-starts series (see the accompanying graphs).

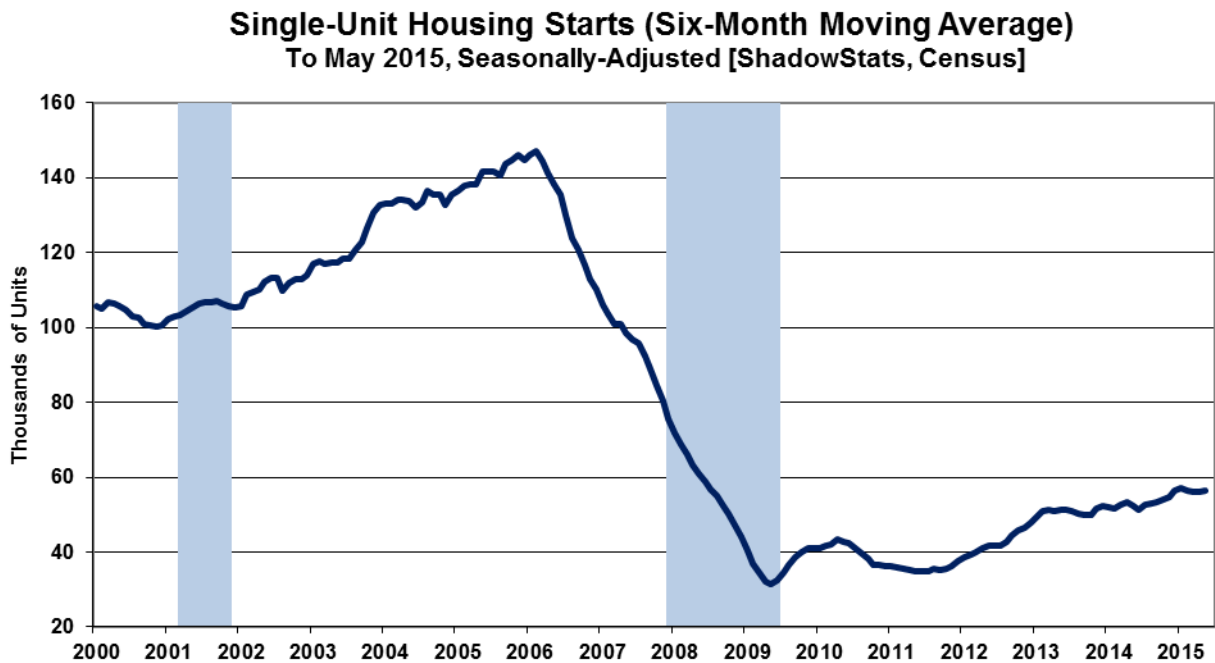
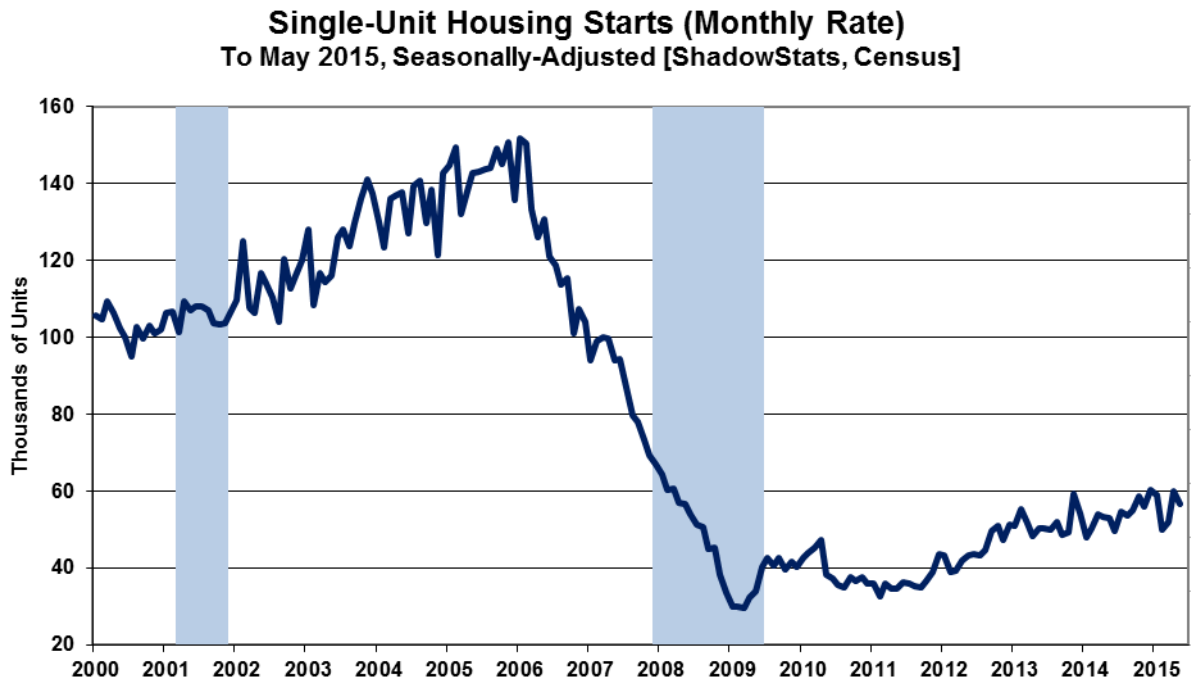
Graphed either way, smoothed or not, the various housing series generally have continued to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then slowly up-trending stagnation, post-2011, with the stagnation continuing at a low level of activity to date. Housing never recovered with the purported GDP recovery. Again, headline May 2015 new-home sales activity still was down by 60.7% (-60.7%) from the pre-recession peak of July 2005 for the series, May 2015 single-unit housing starts were down by 62.7% (-62.7%) from the January 2006 high of that series.

Headline New-Sales Growth. Headline new-home sales (counted based on contract signings, Census Bureau) rose by a statistically-insignificant 2.2%. That followed a revised monthly gain in April of 8.1% and a revised decline of 9.4% (-9.4%) in March. Net of prior-period revisions, May 2015 monthly sales rose by a still statistically-insignificant 5.6%, instead of the headline gain of 2.2%. Year-to-year, May 2015 sales rose by a statistically-insignificant 19.6%. That followed a revised annual gain of 30.2% in April and a revised 20.5% annual gain in March 2015.



Graphs of Existing- and New-Home Sales. The preceding graph of existing-home sales, and the following graphs of new-home sales (including a six-month, moving-average) are accompanied by the headline and six-month moving-average versions of May 2015 housing starts for single-unit construction (from [Commentary No. 728](#)), for comparison.





[The Reporting Detail section includes further detail on New Orders for Durable Goods and the New- and Existing-Home Sales series.]

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for a Hyperinflation Crisis. This *Hyperinflation Outlook Summary* has not been revised from the prior *Commentary*, other than for updated links. Some revision will accompany the next *Commentary* on June 24th, which will cover the GDP revision.

The U.S. economy remains in ongoing downturn, while the U.S. dollar faces a massive decline, with implications for a meaningful upturn in inflation evolving into a great hyperinflationary crisis. Signs of systemic instability are increasing anew.

Background. Underlying this missive, [No. 692 Special Commentary: 2015 - A World Out of Balance](#) of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, 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 2, 2014, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The two 2014 *Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. One other reference should be considered here, in terms of underlying economic reality, and that is the [Public Commentary on Inflation Measurement](#).

Primary Summary. Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation, likely by 2020. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis at the end of this decade into the current period.

The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic 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 the *Hyperinflation Report—First Installment Revised* (linked earlier). The following summarizes the underlying current circumstance and recent developments.

The U.S. dollar rallied sharply from mid-2014 into early-2015, initially reflecting likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of

Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and heavily over-estimated by the global markets looking to support the dollar. Yet structural faults started to appear in the foundation underpinning U.S. dollar strength (see [Commentary No. 711](#)).

Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As a result, the U.S. dollar backed off its recent highs, with some related upside pressure having been seen on oil prices, but those changes have been relatively small, so far.

First-quarter 2015 U.S. GDP contracted by 0.7% (-0.7%) in its first revision (see *Week Ahead*). Although early reporting on the second-quarter economy indicated the likelihood of a second, consecutive quarterly GDP downturn, which would constitute a new recession, reporting of the last several weeks has been relatively strong, as discussed in the *Opening Comments* of [Commentary No. 726](#). Such strong numbers should prove fleeting, and a second-quarter GDP contraction remains likely.

Nonetheless, the Fed could raise interest rates at any time, irrespective of economic activity. Where the stock and currency markets pretty much already have anticipated such action in their pricing, the big market moves ahead should come from areas such as downside surprises in U.S. economic reporting, which increasingly will show an ongoing contraction in activity.

Domestic economic data should continue to falter, increasingly moving market expectations towards an imminent new recession, not only further pummeling expectations for a significant tightening in Fed policy, if the Fed has not already tightened, but also renewing expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on the direction of domestic economic activity, should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. These circumstances should continue to unwind what had been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances began, then faltered recently, but should resume shortly, possibly a matter of weeks. It likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; and related rallies in precious metals and oil. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful near-term risk for providing further fuel for heavy selling of the dollar.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity is turning down anew, despite brief fluttering in unstable series. GDP and industrial production face heavy downside-benchmark revisions through the end of July. Other key series all have benchmarked to the

downside. Weak, underlying economic reality generally has surfaced in headline reporting and should become increasingly and painfully obvious to the financial markets in the detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit, payroll employment and increasingly the headline GDP.

As financial-market expectations resume shifting towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, more than fully reversing the dollar's gains since June 2014, and pushing the dollar once again to historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. Nonetheless, the Fed still likely would move to normalize interest rates (see *Opening Comments* of [Commentary No. 726](#)), if it could get away with it. The FOMC meeting of June 17th apparently concluded that the Fed could not get away with it (see *Opening Comments* of [Commentary No. 729](#)).

The Panic of 2008 never was resolved, and the Fed increasingly is finding that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; if the Fed does not act quickly to extricate itself from prior actions, QE4 will become the near-term question.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). Such throws off estimates of U.S. Treasury funding needs and estimates as to how long the Treasury effectively can dodge the limits of the recently re-imposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it thought it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

Again, in the event of a QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real

terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would become a rapidly-increasing pace of domestic U.S. inflation.

Strength in the U.S. dollar should continue to reverse sharply, in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, increasingly against the U.S. currency. That process may have started with the shift in Swiss National Bank policy early in the year, but it has become dominated by increasingly-negative global perceptions of stability in U.S. economic activity and the ability of the Federal Reserve to control its monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, 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 (see details in the *Opening Comments* of [Commentary No. 729](#)). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for the intensifying the unfolding dollar debacle.
- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around \$5 trillion for the annual shortfall, while many in Washington look to continue increasing spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details were discussed in [Commentary No. 672](#), and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see [Commentary No. 702](#)). This circumstance now operates in the context of the formal constraint of a renewed debt ceiling.
- ***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.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see [Commentary No. 672](#)). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion to quantitative easing, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would

seek political cover for any new or expanded systemic accommodation in any "renewed" economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress in addressing fundamental fiscal and economic issues are nil, except possibly for new trade legislation, which would compound domestic economic problems. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis, and the nation's long-range solvency should continue to devolve into extreme political crises.
- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.
- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the 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. These circumstances will trigger the early stages of a hyperinflation, likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike 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. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, [2014 Hyperinflation Report—Great Economic Tumble](#) for detailed discussion on approaches to handling the hyperinflation crisis and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), for other factors afoot in the current environment.

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (May 2015)

Intensifying Recession Signals. The reporting of a relatively small headline decline in May 2015 new orders for durable goods was in the context of a downside revision to April activity, and reflected a monthly drop in orders for commercial aircraft. The broad signal for pending U.S. economic activity, however, remained sharply negative.

Activity in new orders for durable goods has a leading relationship to industrial production as well as to general economic activity. Headline reporting for May 2015 new orders showed negligible monthly movement, but increasingly negative year-to-year change, irrespective of considerations for inflation and/or aircraft orders.

Annualized quarterly declines in real new orders (ex-commercial aircraft) held for both fourth-quarter 2014 [down by 5.58% (-5.58%)] and first-quarter 2015 [down by a revised 7.66% (-7.66%), previously down by 7.45% (-7.45%)]. Following one quarter later, first-quarter 2015 industrial production contracted, as most certainly did second-quarter 2015 (see [Commentary No. 727](#)).

Based solely on April and May reporting, annualized change for second-quarter 2015 turned positive, up at an annualized pace of 3.18%, but year-to-year change in second-quarter 2015 now has turned down by 2.48% (-2.48%), following a decline of 0.16% (-0.16%) in first-quarter 2015 and an annual gain of 4.57% in fourth-quarter 2014. Annual change in the ex-commercial aircraft orders has been negative for four consecutive months, a pattern rarely, if ever, seen outside of recessions.

The near-consensus headline monthly contraction of 1.8% (-1.8%) in May 2015 total orders [MarketWatch indicated an expected drop of 1.5% (-1.5%)] was more than accounted for by a decline in the irregular orders for nondefense (commercial) aircraft. Net of same, May durable goods orders rose by 0.6%. The ex-commercial aircraft series is the one to look at as an indicator of pending, broad economic activity, due to the distorting effects of the extreme and irregular nature of the volume of aircraft orders, as well as to the limited impact of those multi-year orders on near-term economic activity.

Both before and after consideration of volatility in commercial-aircraft orders, headline changes in May durable goods orders were minimal. They remained well within the normal reporting variations of this highly unstable series and were consistent with a pattern of down-trending stagnation. The inflation-adjusted real series, and that same series corrected for understatement of the official inflation series, also are discussed and graphed in the *Opening Comments* section. They remain broadly stagnant with a

developing downtrend of a nature that commonly precedes or coincides with a recession or a deepening business downturn.

Headline Nominal (Not-Adjusted-for-Inflation) May 2015 Reporting. The Census Bureau reported today, June 23rd, that the regularly-volatile, seasonally-adjusted, nominal level of May 2015 new orders for durable goods fell month-to-month by 1.77% (-1.77%), following a revised decline of 1.54% (-1.54%) [previously down by 0.50% (-0.50%)] in April, and a revised monthly gain of 5.06% [previously up by 5.08%, initially up by 4.71%] in March. Net of the revisions to April, aggregate new orders for May were down by 2.81% (-2.81%), instead of the headline decline of 1.77% (-1.77%).

The seasonally-adjusted, year-to-year change in May 2015 durable goods orders was a contraction of 2.52% (-2.52%), versus a revised April drop of 3.36% (-3.36%) [previously down by 2.33% (-2.33%)], and a revised March 2015 decline of 0.70% (-0.7%) [previously down by 0.69% (-0.69%), initially benchmarked as down by 1.04% (-1.04%)].

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 and often dominates the changes in headline monthly durable goods orders. These extremely volatile aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

Net of a headline monthly decline of 35.32% (-35.32%) in May 2015 commercial-aircraft orders, aggregate new orders rose by 0.56%. Net of a revised decline in April 2015 commercial-aircraft orders of 10.19% (-10.19%) [previously down by 4.02% (-4.02%)], aggregate orders declined by 0.83% (-0.83%) [previously down by 0.23% (-0.23%)]. Net of a revised 40.10% gain [previously up by 49.67%] in March 2015 commercial-aircraft orders, aggregate orders rose by a revised 3.08% [previously up by 3.06%].

Year-to-year and seasonally-adjusted, May 2015 orders (net of commercial aircraft) were down by 0.24% (-0.24%), versus a revised decline of 3.30% (-3.30%) [previously down by 2.72% (-2.72%)] in April 2015, and a revised annual decline of 0.75% (-0.75%) [previously down by 0.77% (-0.77%)] in March 2015.

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 were brought into balance, temporarily, with the annual benchmark revision to durable goods orders on May 14, 2015, subsequent monthly reporting and revisions already have made all historical reporting prior to March 2015 inconsistent with the current headline numbers.

Real (Inflation-Adjusted) Durable Goods Orders—May 2015. 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 May 2015 PPI series declined month-to-month by a headline 0.12% (-0.12%), following a headline monthly contraction of 0.24% (-0.24%) in April. Headline annual inflation stood at 0.24% in May 2015, versus 0.42% in April 2015.

Adjusted for that monthly decline of 0.12% (-0.12%) in headline May inflation, and as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders fell by 1.65% (-1.65%) in May 2015, with April real orders down by 1.30% (-1.30%) and March real orders up by 5.00%. Ex-

commercial aircraft, real orders effectively were up by 0.69% in May 2015, down by 0.59% (-0.59%) in April and rose by 3.01% in March.

Real year-to-year aggregate orders fell by 2.76% (-2.76%) in May 2015, dropped by 3.77% (-3.77%) in April 2015, and declined by 1.41% (-1.41%) in March 2015. Ex-commercial aircraft, real orders fell year-to-year by 0.47% (-0.47%) in May 2015, dropped by 3.70% (-3.70%) in April 2015, declined by 1.46% (-1.46%) in March 2015.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs are displayed in the *Opening Comments* section. The first set shows the headline monthly detail, as well as the six-month moving-average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft orders. The moving-average levels in both series had been holding in a pattern of near-stagnation, with some recent downturn prior to the extreme movements in July and August of 2014. Please note that due to the extreme July 2014 number, the six-month moving average for the aggregate series had been showing a large upside bump, which recently worked its way out of the system. Orders generally have been in decline in recent months.

The second and third sets of graphs in the *Opening Comments* section show the patterns of historical real new durable goods orders net of official inflation, as well as those patterns "corrected" for the understatement of that inflation (overstatement of official, inflation-adjusted growth), for the aggregate series and net of commercial aircraft orders.

EXISTING-HOME SALES (May 2015)

Existing-Home Sales Boomed in May, with Rising Annual Growth. Moving out of step, again, with the wildly unstable housing starts series, which declined by 11.1% in May 2015 (see [Commentary No. 728](#)), headline existing-home sales jumped by 5.1% in May, on top of an upside revision to the April sales level. Annual sales growth rose to 9.2% in May 2015, from an upwardly-revised 7.2% in April, but that still was down from 10.9% in March. The monthly gain exceeded market expectations for a headline increase of 3.8%, versus initial April reporting [MarketWatch].

The first-quarter 2015 annualized quarterly contraction of 6.7% (-6.7%) in existing sales was unrevised. Based solely on the volatile reporting for April and May, the second-quarter 2015 pace of annualized growth was 21.4%.

The May 2015 headline annualized sales pace of 5,350,000 (a monthly pace of 445,833) was the highest reading since November of 2009, but it remained below the June 2005 pre-recession peak in sales by a simple 26% (-26%). May 2015 headline aggregate monthly housing starts remained down by a simple 54% (-54%) versus its January 2006 pre-recession peak.

Headline Detail for May Existing-Home Sales. The June 22nd release of May 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, headline monthly gain of 5.1%, following a revised decline of 2.3% (-2.3%) [previously down by 3.3% (-3.3%)] in April. The May headline month-to-month gain was 6.2%, net of prior-period revisions.

On a year-to-year basis, May 2015 sales growth increased to 9.2%, versus a revised 7.2% [previously 6.1%] in April 2015.

The headline May sales data were well within the normal scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, as seen in the graph displayed in the *Opening Comments*. The quality of data underlying this series, however, remains highly questionable.

Portion of Sales in Foreclosure Held Steady. The NAR estimated that the portion of May 2015 sales in "distress" held at 10% (7% foreclosures, 3% short sales), the same level and mix as seen in April and March 2015, but down from distressed sales of 11% (8% foreclosures, 3% short sales) in May 2014. Reflecting continued lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in May 2015 represented 24% of total activity, the same portion of sales as seen in April and March 2015, but down from 32% in May 2014.

Bleak Outlook Continues for Home-Sales Activity, Based on Impaired Consumer Liquidity Conditions. Discussed, along with fully updated graphs in the *Opening Comments* of [Commentary No. 729](#), there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there has not been a basis here for a recovery in the housing market, past or present, and there is no basis for expecting a recovery in the housing market in the near future.

Existing-Home Sales Graph. The *Opening Comments* section includes the regular monthly graph of existing-home sales activity. That plot is accompanied by the updated graphs on new-home sales, along with comparative housing starts data.

NEW-HOME SALES (May 2015)

Low-Level Sales Stagnation Continued. As usual, the headline monthly and annual changes in new-home sales were not statistically significant. After dropping by a revised 9.4% (-9.4%) month-to-month in March 2015, and increasing by a revised 8.1% in April, sales rose by 2.2% for the month in May. The headline gain exceeded market expectations for a monthly increase of 1.5%, versus initial April reporting [MarketWatch].

The May 2015 annualized new-sales rate of 546,000 units (45,500 monthly rate) was just 0.2% ahead of February 2015, marginally setting a new post-recession high, the highest level since February 2008. That headline level of activity, though, still was down by 61% (-61%) from the pre-recession peak. With the otherwise meaningless monthly swings in this series smoothed out, sales activity continued in a broad pattern of low-level stagnation, albeit minimally up-trending.

ShadowStats assesses this unstable series by considering the monthly sales gyrations in the context of a six-month moving average of headline activity. Today's *Opening Comments* section includes the regular graphs of the May 2015 headline-monthly and smoothed detail for new-home sales, as well as comparative single-unit housing starts.

Graphed either way, smoothed or not, the various housing series generally have continued to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing never recovered with the purported GDP recovery. Again, headline May 2015 new-home sales activity still was down by 60.7% (-60.7%) from the pre-recession peak of July 2005 for the series, May April 2015 single-unit housing starts were down by 62.7% (-62.7%) from the January 2006 high of that series.

Noted in the *Existing-Home Sales* section, and as discussed, along with fully-updated graphs in the *Opening Comments* of [Commentary No. 729](#), there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis for a current or imminent recovery in the housing market.

Headline May 2015 Reporting. As reported by the Census Bureau this morning, June 23rd, May 2015 headline new-home sales (counted based on contract signings) rose by a statistically-insignificant 2.2% +/- 19.5% (all confidence intervals are at the 95% confidence level). That followed a revised monthly gain in April of 8.1% (previously up by 6.8%), and a revised decline of 9.4% (-9.4%) [previously down by 10.0% (-10.0%), initially down by 11.4% (-11.4%)] in March. Net of prior-period revisions, May 2015 monthly sales rose by a still statistically-insignificant 5.6%, instead of the headline gain of 2.2%.

Year-to-year, May 2015 sales rose by a statistically-insignificant 19.6% +/- 23.0%. That followed a revised annual gain of 30.2% [previously up by 26.1%] in April, and a revised 20.5% [previously 18.0%, initially 19.4%] annual gain in March 2015.

New-Home Sales Graphs. The regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with a six-month moving-average version of those sales. The headline and six-month moving-average versions of May 2015 housing starts for single-unit construction (from [Commentary No. 728](#)) and the headline May 2015 existing-home sales are included for comparison.

WEEK AHEAD

Headline Economic Reporting and Revisions Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Rising Oil Prices. In a fluctuating trend to the downside, amidst still-predominantly-negative reporting and surprises in headline numbers, market expectations for business activity nonetheless respond to the latest market hype. The general effect tends to hold the market outlook at overly-optimistic levels. Expectations exceed any potential, underlying economic reality.

GDP excesses from 2014 should face downside adjustments in the July 30, 2015 GDP benchmark, and subsequent to the current headline contraction in first-quarter 2015 GDP, expectations for headline growth in second-quarter 2015 should resume shifting to the downside, increasingly towards (eventually into) negative territory, as headline economic reporting turns lower in the week and weeks ahead.

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low, having shown monthly declines in annual inflation of less than a full 0.1% (-0.1%) in the three months through March 2015, but dropping by 0.2% (-0.2%) in April 2015. A large jump in gasoline prices for May 2015 and a softening of negative seasonal-adjustments for gasoline promise generated a headline monthly increase in May 2015 CPI-U inflation of 0.4%, with annual inflation effectively pulling even with zero. Year-to-year CPI inflation increasingly will be going against negative year-ago numbers in the months ahead, and should move into relative positive territory with headline June 2015 reporting.

Significant upside inflation pressures are building, as oil prices rebound, a process that should accelerate rapidly with the eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in [No. 692 Special Commentary: 2015 - A World Out of Balance](#) and in the *Hyperinflation Outlook Summary*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Again, see [Commentary No. 722](#) as to recent market and political pressures on the Bureau of Economic Analysis (BEA) relative to GDP reporting. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned for the July 30, 2015 benchmarking, would be extraordinary in terms of BEA behavior and are not likely. Still, some gimmicked, less-negative summary numbers already have been planned for publication.

Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities were induced partially 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. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data, explored in the labor-numbers related [Commentary No. 695](#)).

Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see [Commentary No. 669](#)).

PENDING RELEASE:

Gross Domestic Product—GDP (First-Quarter 2015, Third Estimate, Second Revision). The Bureau of Economic Analysis (BEA) will publish its third estimate of first-quarter 2015 GDP tomorrow, Wednesday, June 24th. The initial headline first-quarter 2015 GDP growth estimate of 0.2%, revised to a

headline quarterly contraction of 0.7% (-0.7%) in last month's first revision. Late-consensus estimates for the second revision is for some narrowing of the contraction, to an annualized decline of 0.2% (-0.2%) [Bloomberg, MarketWatch], versus an early-consensus drop 0.4% (-0.4%) [MarketWatch]. Such reflects some upside revisions to March detail, in the headline reporting of series such as May retail sales and May payroll employment.

Indeed, recent headline reporting and revisions touching first-quarter activity generally have been minimally on the plus-side, so some narrowing of the first-quarter's contraction is a reasonable expectation. Given the highly-leveraged nature of annualized quarterly growth rates, there is some risk of first-quarter activity actually revising to flat or minimally-positive growth.

Whatever is reported will be subject to the benchmark revision of the series on July 30th, accompanying the initial estimate of second-quarter 2015 GDP growth. At that time, first- and second-quarter 2015 estimates of real GDP growth remain good bets to show back-to-back quarterly contractions, irrespective of the third estimate of first-quarter growth. See the discussion in the *Opening Comments* of prior [Commentary No. 729](#).
