

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

COMMENTARY NUMBER 776
November Durable Goods Orders, New-Home Sales
December 23, 2015

**Net of Inflation and Commercial Aircraft Orders,
November Durable Orders Were Stronger than the Headline “Unchanged”**

**Nonetheless, Smoothed Orders in This Volatile Series
Still Were Consistent with an Unfolding Recession**

**New-Home Sales Continued in a Smoothed Pattern of
Deepening Down-Trend, Low-Level Stagnation**

PLEASE NOTE: The Year-End General Commentary, planned for December 30th, will review a variety of issues for the year passed and the year ahead, specifically covering U.S. political and economic developments, along with implications for domestic fiscal and inflation conditions, Federal Reserve behavior and related global-market impact, including the U.S. dollar and the gold, silver and oil markets. In the event of intervening developments requiring a timely response, a Flash Commentary will follow.

Best Wishes to All for a Merry Christmas and a Most Joyous Holiday Season! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Mixed Signals from the Final Data Releases of 2015. November New Orders for Durable Goods reporting actually was stronger than the indicated “unchanged” month-to-month activity, particularly when the sharp drop in commercial aircraft orders and negative durable goods inflation are taken into

account. A one-time surge in defense aircraft orders helped to boost the aggregate series, but that likely will reverse next month. Nonetheless, the broad picture of smoothed activity in this regularly volatile reporting remained one consistent with an unfolding and deepening recession.

Both the New- and Existing Home Sales series showed extended weakness in their headline details, also broadly consistent with an unfolding and deepening “new” recession. This trend towards intensifying downturn should become increasingly obvious in next month’s reporting, as will be explored and discussed more fully in the December 30th *Year-End General Commentary*.

Today’s Commentary (December 23rd). The balance of these *Opening Comments* provides summary coverage of the November New Orders for Durable Goods and New-Home Sales.

A new *Hyperinflation Outlook Summary* will follow in next week’s, December 30th *Year-End General Commentary*. In the interim, the latest *Summary Outlook* (November 4, 2015-based) is available here: [Commentary No. 768](#).

There are no major economic releases in the week ahead, through year-end, and there is no *Week Ahead* section as a result.

New Orders for Durable Goods—November 2015—Ex-Commercial Aircraft and Net of Inflation, Orders Jumped for the Month and the Year, Suggestive of a Quarterly Gain. November 2015 durable goods orders were stronger than they appeared with a headline monthly growth pace of “unchanged” or 0.0%. A decrease in commercial aircraft orders depressed the aggregate series, while related, negative month-to-month and year-to-year inflation out of the Producer Price Index (PPI) had the effect of boosting the inflation-adjusted real growth on both a monthly and annual basis. Where the headline, nominal total orders were “unchanged” month-to-month and up by 1.2% year-to-year, net of commercial aircraft orders and official inflation, new orders rose month-to-month by 2.0% and year-to-year by 2.9%, still well within the normal reporting bounds of this highly-irregular and volatile series.

The headline “unchanged” November 2015 aggregate new orders for durable goods was in the context of a downside revision to October 2015 orders, along with a headline decline of 22.2% monthly drop in commercial aircraft orders, following a surge in same during October. The downside revision to October total orders largely was accounted for by a downside revision to October commercial aircraft orders. Ex-commercial aircraft orders, but in nominal terms, before inflation adjustment, headline November orders rose by 1.8% for the month, 2.0% for the year.

The bulk of that adjusted headline gain can be accounted for by a one-time jump in defense orders for aircraft, so there might be some related fall back in the December new-orders report. Nonetheless, the ever-creative Bureau of Economic Analysis (BEA) purportedly now is seasonally-adjusting defense orders so as to smooth out the impact of such irregular activity on headline GDP reporting.

Given the patterns of general decline in the monthly, quarterly and annual activity of the last year, the broad signal for unfolding U.S. economic activity remained sharply negative, with the summary statistics and smoothed six-month trends still signaling a deepening and ongoing recession.

Quarterly Growth. Annualized quarterly declines in real new orders (ex-commercial aircraft) were 5.58% (-5.58%) in fourth-quarter 2014, and 7.73% (-7.73%) in first-quarter 2015. Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted, with third-quarter production growth on the plus-side. Fourth-quarter 2015 industrial production now is a virtual certainty for a headline contraction (see [Commentary No. 774](#)).

Annualized real change for second-quarter 2015 orders was gain of 2.10%, while the pace of annualized growth for third-quarter activity, was a revised gain of 10.46%, with an initial signal for fourth-quarter 2015 growth falling back to a 2.32% annualized gain (based solely on October and November reporting). Based just on initial October reporting, the fourth-quarter 2015 trend was for an annualized quarterly contraction of 1.57% (-1.57%). The quarterly gains here are due partially to highly-suspect, increasingly-negative durable goods inflation in the PPI reporting, which has the effect of boosting the real monthly-, quarterly- and annual-growth detail.

On a nominal basis (before inflation adjustment), third-quarter 2015 orders growth—again, ex-commercial aircraft— was up at a revised annualized pace of 8.63%, following second-quarter 2015 quarterly growth of 0.57%, an annualized contraction of 7.29% (-7.29%) in first-quarter 2015, and a decline of 4.36% (-4.36%) in fourth-quarter 2014.

Based on just October and November 2015 reporting, nominal annualized growth rate for fourth-quarter 2015 is on trend for a gain of 1.86%. Based just on initial October reporting, the early indication had been for a nominal contraction of 1.57% (-1.57%), the same as the early real estimate.

Headline Nominal (Not-Adjusted-for-Inflation) November 2015 Reporting. The regularly-volatile, seasonally-adjusted, nominal level of November 2015 new orders for durable goods was “unchanged” at 0.0% growth month-to-month versus October. At the second decimal point, such was a monthly gain of 0.03%. That followed a downwardly-revised monthly gain of 2.88% in October, versus a minimally-revised monthly decline of 0.83% (-0.83%) in September. Net of the revisions to October, aggregate new orders in November fell by 0.08% (-0.08%).

The year-to-year gain in November 2015 durable goods orders was 1.20%, following a downwardly-revised annual gain of 0.40% in October 2015, and a minimally-revised annual decline of 2.59% (-2.59%) in September 2015, all seasonally adjusted.

The headline November detail, again, is before consideration of volatility in commercial-aircraft orders. With the aircraft orders considered, headline changes in November were positive, while October activity was negative. Still, the headline detail remained well within the normal reporting variations of this highly unstable series and was consistent with a continuing pattern of broad stagnation. The inflation-adjusted real series, and that same series corrected for the understatement of the official inflation, are seen in the accompanying graphs. The corrected series—net of commercial aircraft orders—has remained relatively flat, at a low level of stagnation, with the other plotted series still showing an unfolding downturn of a nature that usually precedes or coincides with a recession or a deepening business downturn.

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, as happened again with the headline November 2015 detail. 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 decline of 22.17% (-22.17%) in November 2015, and a revised headline gain of 78.74% in October 2015 commercial aircraft orders, aggregate new orders rose by 1.76% in November, following a revised monthly decline of 0.42% (-0.42%) in October.

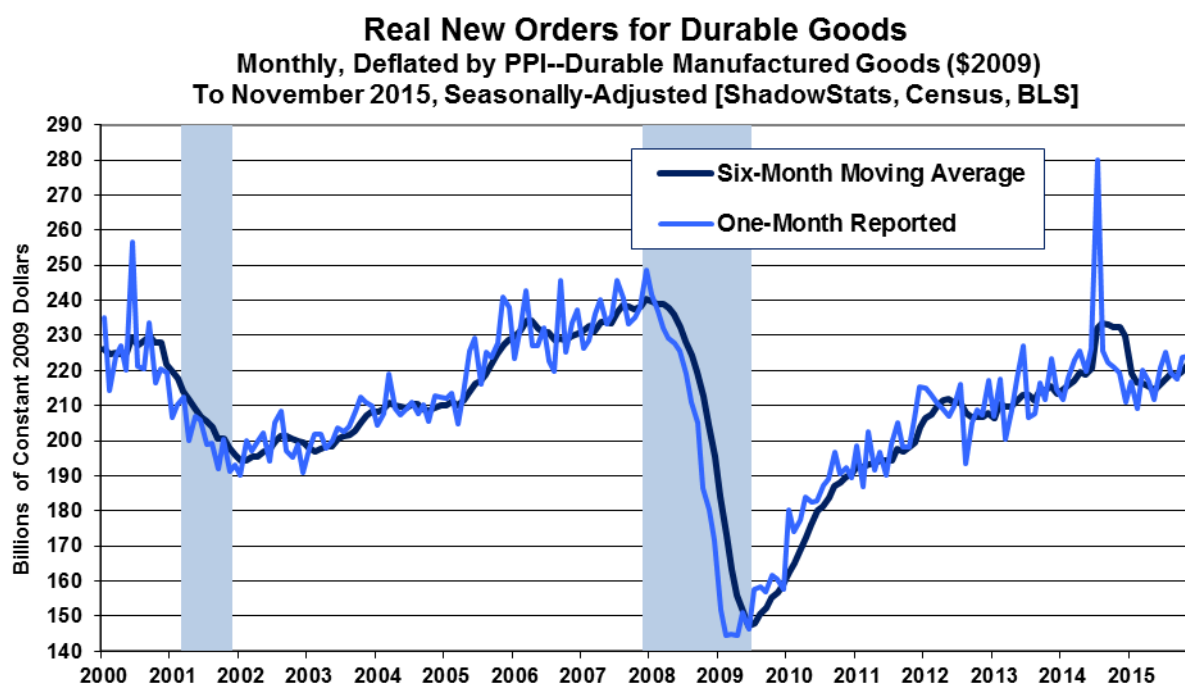
Rising for the first time in ten months, year-to-year and seasonally-adjusted, November 2015 new orders (net of commercial aircraft) gained 2.01%, following a revised decline of 0.65% (-0.65%) in October 2015.

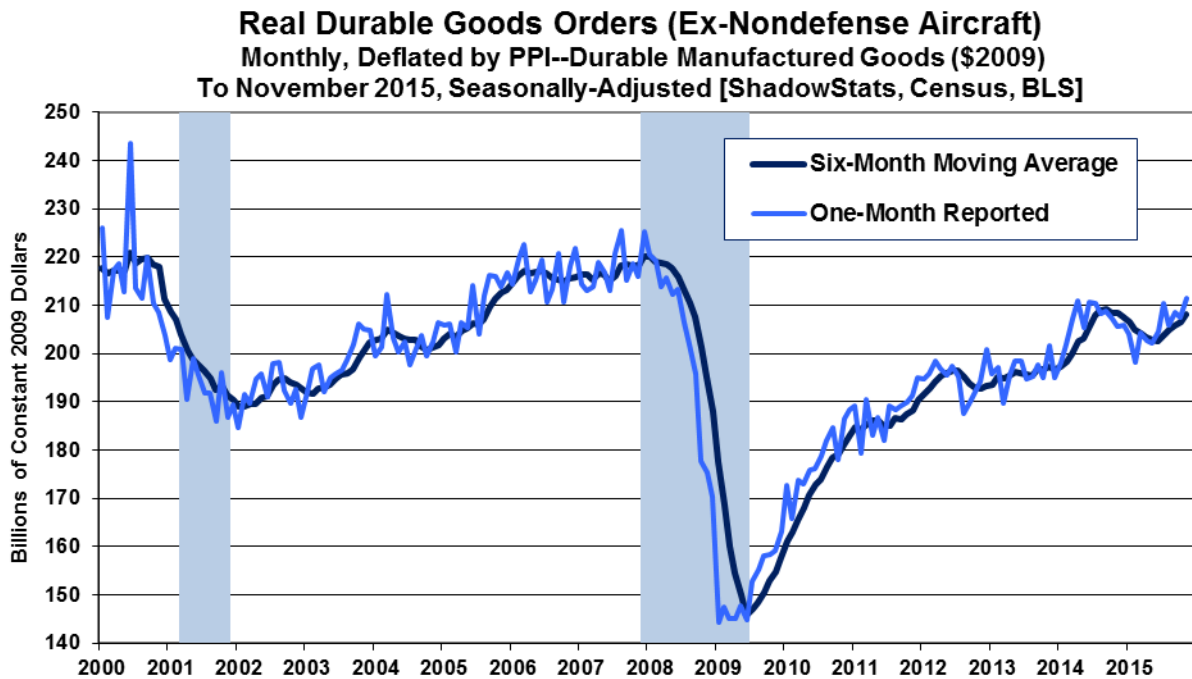
Real (Inflation-Adjusted) Durable Goods Orders—November 2015. ShadowStats uses the PPI component inflation measure “Durable Manufactured Goods” for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related November 2015 PPI series turned to the minus-side, month-to-month, again, having gained in October, following contractions in each of the preceding eight months. The related PPI series fell month-to-month by 0.18% (-0.18%) in November 2015, having gained 0.12% in October 2015 (see the *Reporting Detail*).

Adjusted for that monthly decline of 0.18% (-0.18%) in headline November 2015 inflation, and as reflected in the accompanying graphs, real month-to-month aggregate orders in November rose by 0.21%, following a revised monthly gain of 2.76% in October. Ex-commercial aircraft, monthly real orders were up by 1.95% in November 2015, versus an unrevised decline of 0.53% (-0.53%) in October.

Real year-to-year aggregate orders rose by 2.12% in November 2015, following a revised annual gain of 1.18% in October 2015. Ex-commercial aircraft, real orders gained year-to-year by 2.93% in November 2015 versus a revised year-to-year gain of 0.13% in October 2015.

Graph 1: September 2015 Real Total New Orders for Durable Goods



Graph 2: September 2015 Real New Orders for Durable Goods – Ex Commercial-Aircraft Orders

Graphs of Inflation-Adjusted and “Corrected” Smoothed Durable Goods Orders. The preceding *Graphs 1* and *2* show 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 turned lower into year-end 2014 and into the first two quarters of 2015, with some smoothed bounce-back, and uptrend in the most recent months.

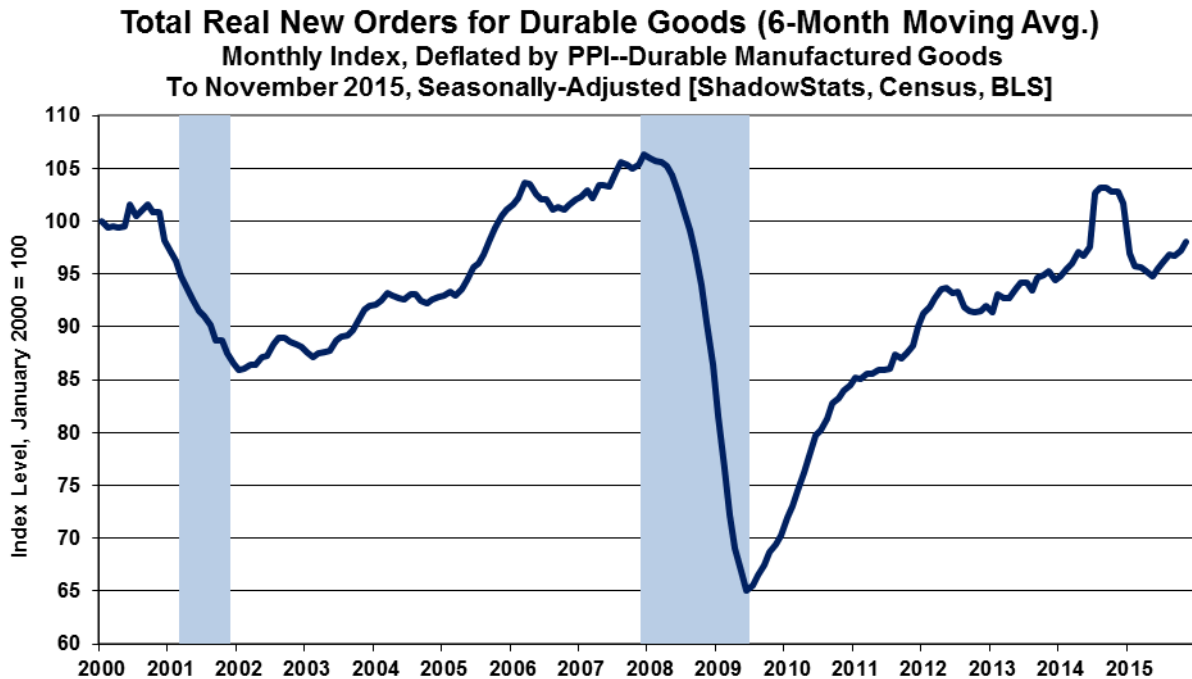
Broadly, there has been a general pattern in recent years of stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery that has been seen in official GDP reporting. The real (inflation-adjusted) monthly and six-month moving-average level of new orders in November 2015 remained below both the pre-2007 recession high, as well as the pre-2000 recession high. The pattern of low-level stagnation and fluctuating downtrend in the annual inflation-adjusted series since mid-2014—net of the irregular aircraft-order effects—again is one that usually precedes or is coincident with a recession.

The Real New 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 generally are overstated, due to the understatement of official inflation. That understatement here comes from the government’s use of hedonic-quality adjustments—quality issues usually not perceived by users or consumers of the involved products—in justifying a reduced pace of headline inflation (see [Public Commentary on Inflation Measurement](#)).

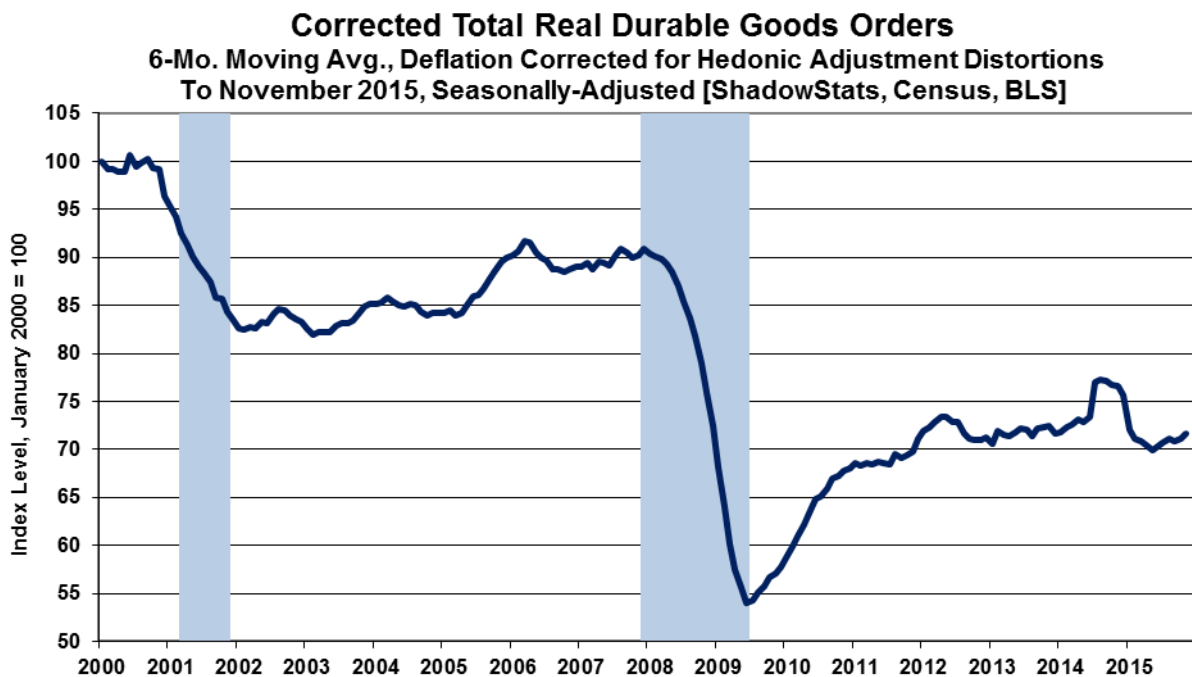
As done for other series such as the GDP, real retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

Two sets of graphs follow. The first set (*Graph 3* and *Graph 4*) shows the aggregate series or total durable goods orders; the second set (*Graph 5* and *Graph 6*) shows the ex-commercial aircraft series.

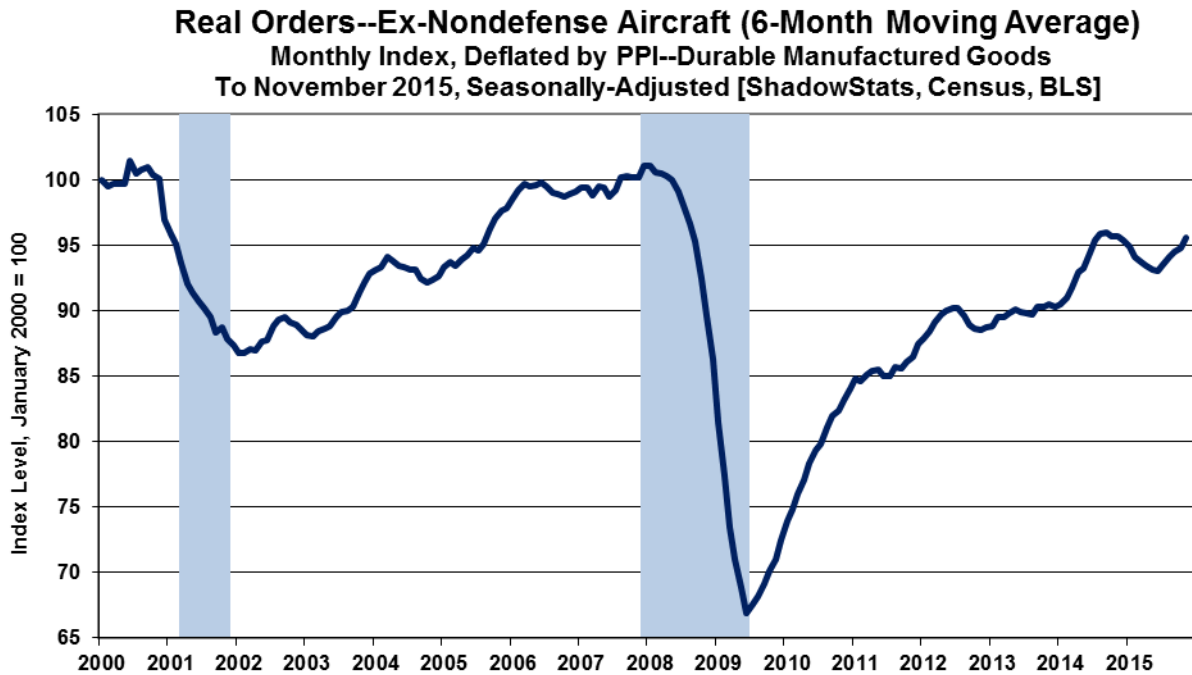
Graph 3: September 2015 Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



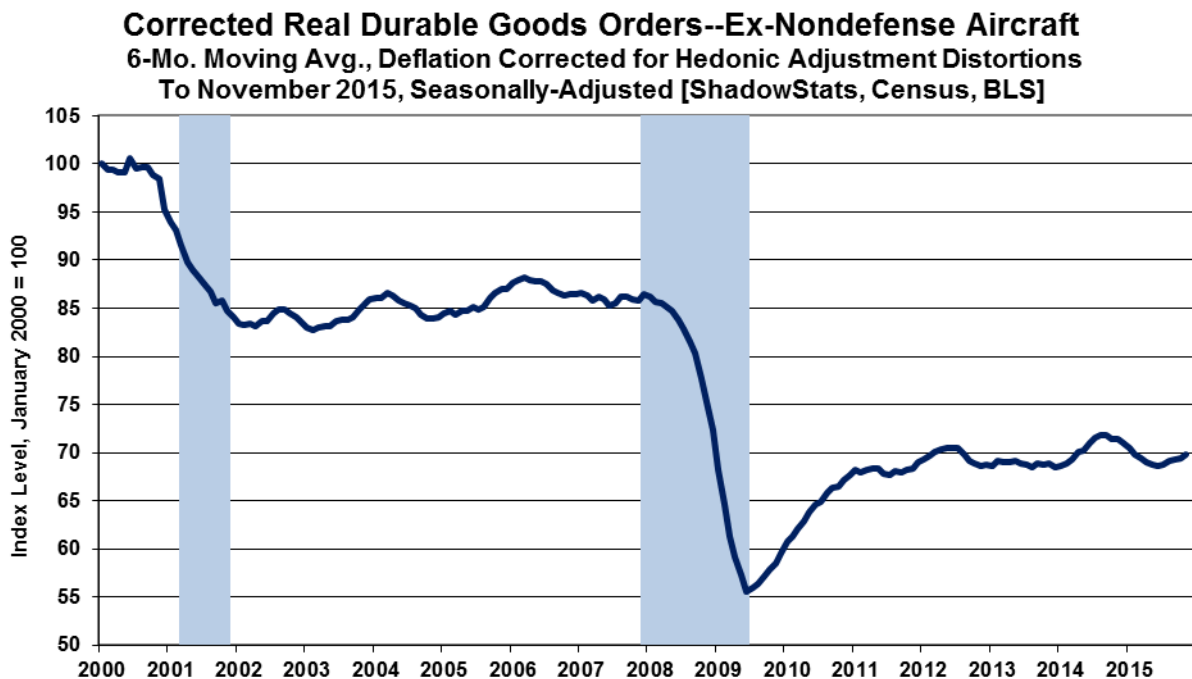
Graph 4: Corrected Index of Real Total New Orders for Durable Goods (Six-Month Moving Average)



Graph 5: September 2015 Index of Durable Goods Orders – Ex Commercial Aircraft (Six-Month Moving Average)



Graph 6: Corrected Index of Durable Goods Orders – Ex Commercial Aircraft (Six-Month Moving Average)



The first plot in each series is the official six-month moving average, the same heavy dark-blue line shown in *Graph 1* and *Graph 2*, along with the light-blue thin line of monthly detail. The second plot in each set is the same six-month, moving-average series shown in the first plot, but re-deflated so as to

correct for the understatement of the PPI durable goods inflation measure used in the headline-deflation process. ShadowStats estimates that inflation understatement, with the graphs indexed to January 2000 = 100.

Graph 6, entitled “Corrected Real Orders—Ex-Commercial 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.

New- and Existing-Home Sales—November 2015—Never Recovered, Slowing Growth, Downside Revisions, Quarterly Contractions. November New- and Existing-Home Sales series both remained deep in depression (see [Commentary No. 754](#)), down respectively by 64.7% (-64.7%) and 34.5% (-34.5%) from their pre-recession peaks. Holding in low-level stagnation, with slowing or negative monthly and annual growth, and unfolding fourth-quarter 2015 contractions, these series not only never recovered from the economic collapse into 2009, but also now have begun to turn down anew.

The primary, underlying difficulty for the housing market remains intense, structural-liquidity constraints on the consumer. That circumstance, during the last eight-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity, as recently updated and discussed in [Commentary No. 772](#). 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.

New-Home Sales—November 2015—Deepening Downtrend in Low-Level Stagnation Amidst Continual Downside Revisions to Prior Reporting. As usual, the volatile reporting of monthly and annual changes in November 2015 New-Home Sales was not statistically significant. In the context of continuing, regular and meaningful downside revisions to previously-reported activity, headline November sales rose by 4.3% for the month, but they fell by 1.0% (-1.0%) net of prior-period revisions. Year-to-year annual growth was 9.1% in November 2015, yet, where October 2015 activity previously had shown an annual gain of 4.9%, that shifted to a revised annual contraction of 0.4% (-0.4%).

Where the unstable reporting of a headline November 2015 annualized sales level of 490,000 units (40,833 monthly rate as used in the graphs) remained below July 2015 reporting, it also was down by 65% (-65%) from the pre-recession peak for the series. With the otherwise meaningless monthly swings in these numbers smoothed out, new-home sales activity continued in a broad pattern of low-level, down-trending stagnation, as seen in *Graph 9*.

ShadowStats regularly assesses such unstable series by considering the gyrations in monthly activity in the context of a six-month moving average of the headline numbers, seen in accompanying *Graphs 9, 10* and *13*.

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 activity never recovered with the purported GDP recovery. Again, headline November 2015 New-Home Sales activity still was down by 64.7% (-64.7%) from its pre-recession peak of July 2005, while November 2015 single-unit Housing Starts were down by 57.9% (-57.9%) from the January 2006 high of that series.

Headline New-Home Sales November 2015 Reporting. November 2015 New-Home sales (counted based on contract signings, Census Bureau) increased only in the context of heavy downside revisions to activity in August through October. Headline November sales rose by a statistically-insignificant 4.3%. That followed a downwardly-revised gain of 6.3% in October, a minimally-revised September decline of 12.8% (-12.8%), and a downwardly revised monthly gain of 1.4% in August. Again, net of prior-period revisions, November 2015 monthly sales fell by a still statistically-insignificant 1.0% (-1.0%), instead of the headline gain of 4.7%.

Year-to-year, November 2015 sales increased by a statistically-insignificant 9.1%. That followed a revised annual contraction of 0.4% (-0.4%) in October 2015, a revised annual contraction of 3.7% (-3.7%) in September 2015, and a downwardly revised annual gain of 11.7% in August 2015.

In the arena of continued extreme volatility and unstable, nonsensical headline reporting, consider that the annualized quarterly pace of sales gain in first-quarter 2015 was 43.9%, with the second-quarter 2015 sales activity in an annualized quarterly decline of 14.8% (-14.8%). Third-quarter 2015 sales showed a deepened annualized contraction of 10.6% (-10.6%), while based solely on October and November reporting, fourth-quarter New-Home Sales were declining at an annualized pace of 2.5% (-2.5%). Based just on initial October reporting, the trend in fourth-quarter New-Home Sales growth was at a positive annualized pace of 7.0%.

Existing-Home Sales—November 2015—Monthly Sales Plunged 10.5% (-10.5%), While Foreclosed Properties Rose from 5% to 7% of Sales Activity. [The following text and related graphs generally are repeated from prior [Commentary No. 775](#).] In the context of a sharp downside revision to the prior month's initial sales reporting, monthly November existing-home sales collapsed by 10.5% (-10.5%) to 4,760,000 million annualized units, or to 396.7 thousand units at a monthly pace as reflected in accompanying *Graph 11*. Headline sales dropped by 3.8% (-3.8%) year-to-year, hitting the lowest level of activity since April 2014.

Any Regulatory Distortions Were in Effect in October, in an Environment of Already-Faltering Sales. The National Association of Realtors® [NAR] noted in its press release that “some of the [November monthly] decrease was likely because of an apparent rise in closing timeframes.” The cautioned circumstance involved the effects of implementing the “Know Before You Owe” rule.

According the Consumer Financial Protection Bureau, the implementing regulatory authority, “The Know Before You Owe mortgage disclosure rule replaces four disclosure forms with two new ones, the Loan Estimate and the Closing Disclosure. The new forms are easier to understand and easier to use. The rule also requires that you get three business days to review your Closing Disclosure and ask questions before you close on a mortgage.”

Given the creativity of most realtors and mortgage lenders, any issues with closing delays likely will be minimal. That said, the law went into effect at the beginning of October 2015 and should have had some impact on October activity, if it was a factor in November. To the extent the closing process has slowed

down, the month-to-month sales impact should be one-time, with closings lost in one month consistently being pushed into the next one. Again, to the extent this was a factor in November, October also should have been affected, with some mollifying, offsetting effects pushed into November.

To the extent that monthly sales activity has seen unusual shifts, recently, buyers trying to game the Fed's rate hike was a more-likely distortion. Those issues aside, headline sales activity had been slowing and had been signaling a fourth-quarter contraction in activity, in advance of the November details. In any event, headline December 2015 activity could reflect a one-time, partial bounce-back, to the extent there was a meaningful delay in the regular pattern of just November (not October) closings.

Deepening Pace of Quarterly Contraction, Ongoing Lack of Recovery from Collapse into 2009.

Existing-Home Sales in November 2015 were down by 34.5% (-34.5%) from the June 2005 pre-recession peak, a high that has not been matched since the collapse. In contrast, the November 2015 headline monthly Housing Starts remained down by 57.9% (-57.9%) versus its January 2006 pre-recession high.

First-quarter 2015 showed an annualized quarterly sales contraction of 6.7% (-6.7%) in existing sales, with the second-quarter 2015 pace of annualized growth at 28.7%. Third-quarter 2015 growth slowed to an annualized pace of 14.3%, with an early indication of relative fourth-quarter 2015 activity—based just on October and November reporting—contracting at an annualized quarterly pace of 28.3% (-28.3%). The first fourth-quarter estimate, based solely on the initial headline October activity, was for a quarterly contraction of 8.3% (-8.3%).

Headline Existing-Home Sales Detail for November 2015. November 2015 Existing-Home Sales (counted based on actual closings, NAR) showed a seasonally-adjusted, headline monthly drop of 10.5% (-10.5%), following a revised, deepened month-to-month contraction in revision of 4.1% (-4.1%) in October. On a year-to-year basis, November 2015 annual sales turned negative, down by 3.8% (-3.8%), versus a downwardly-revised gain of 3.1% in October 2015.

The November sales data still remained within the normal scope of reporting volatility for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation, albeit now flat-to-down-trending, again, as seen in *Graph 11*. The quality of data underlying this series, however, remains highly questionable.

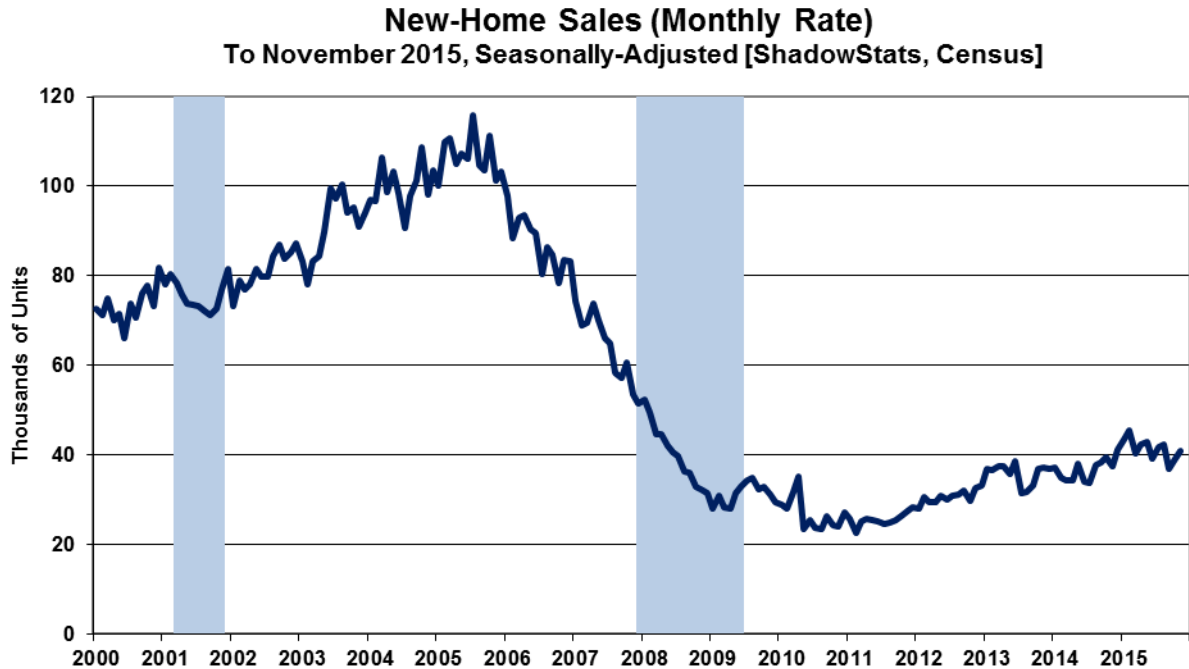
Proportion of Distressed Sales Jumped, Along with All-Cash Sales in November. The NAR estimated the portion of November 2015 sales in “distress” rose for the month to 9% (7% foreclosures, 2% short sales), from 6% (5% foreclosures, 1% short sales) in October 2015, and versus November 2014 distressed sales of 9% (6% foreclosures, 3% short sales).

Reflecting continued lending problems and stresses within the financial system, including related banking-industry and consumer-solvency issues, as well as the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in November 2015 rose to 27% of total sales, versus 24% in October 2015 and 25% in November 2014.

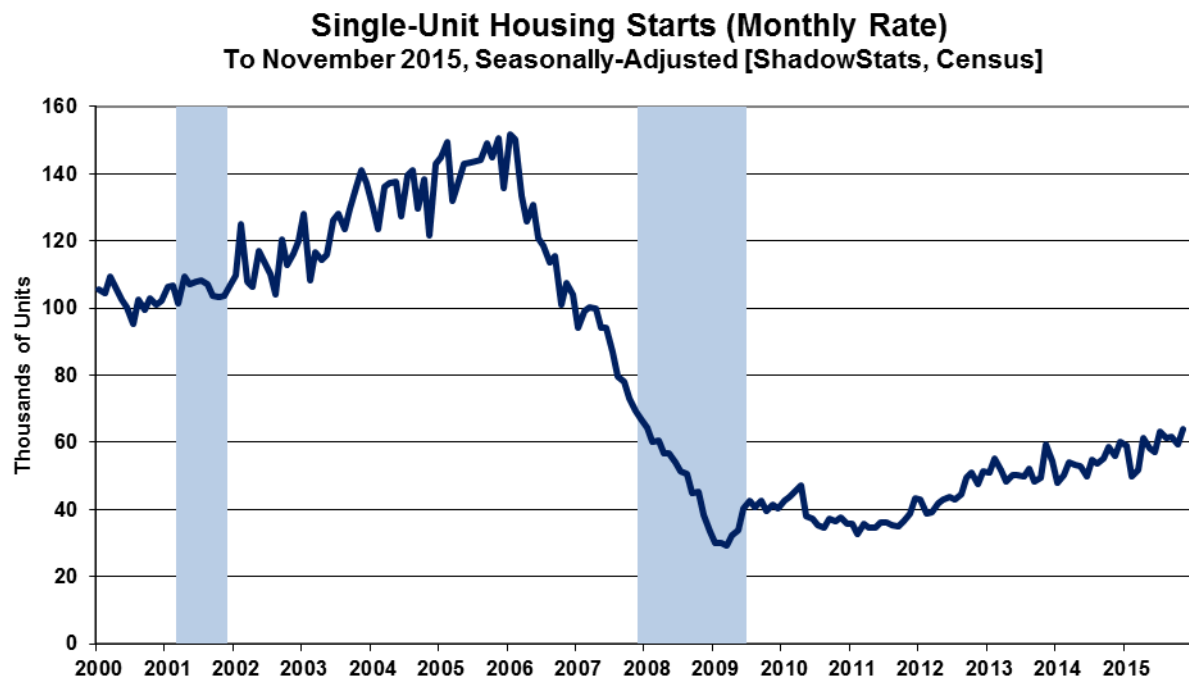
New- and Existing-Home Sales Graphs. Following are the regular monthly graphs of November 2015 New- and Existing-Home sales activity. The New-Home Sales plots (*Graph 7* and *Graph 9*) reflect activity based both on headline monthly reporting as well as using a smoothed, six-month moving average of the series. Those graphs are accompanied by comparative graphs of November 2015 single-unit Housing Starts activity (*Graph 8* and *Graph 10*), measures which are limited to single-unit activity.

The Existing-Home Sales graph (*Graph 11*) is accompanied by comparative plots of aggregate Housing Starts activity (*Graph 12* and *13*). Those measures include both single- and some multiple-unit activity. The various comparative Housing Starts graphs are repeated from [Commentary No. 774](#).

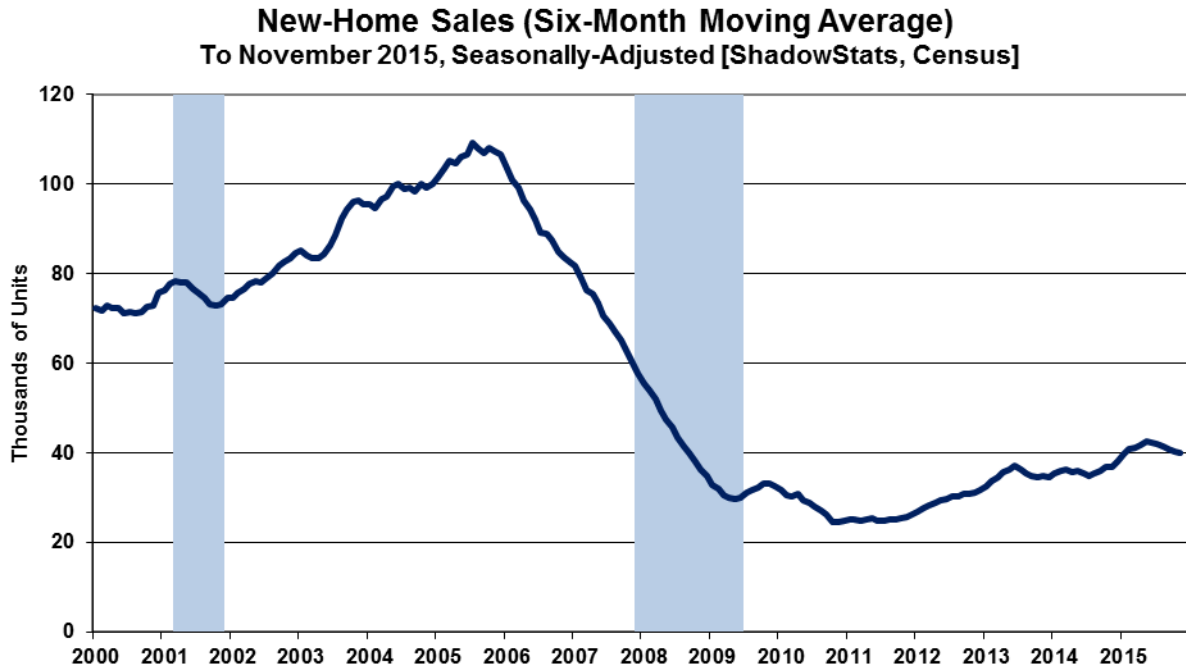
Graph 7: New-Homes Sales – Monthly Level



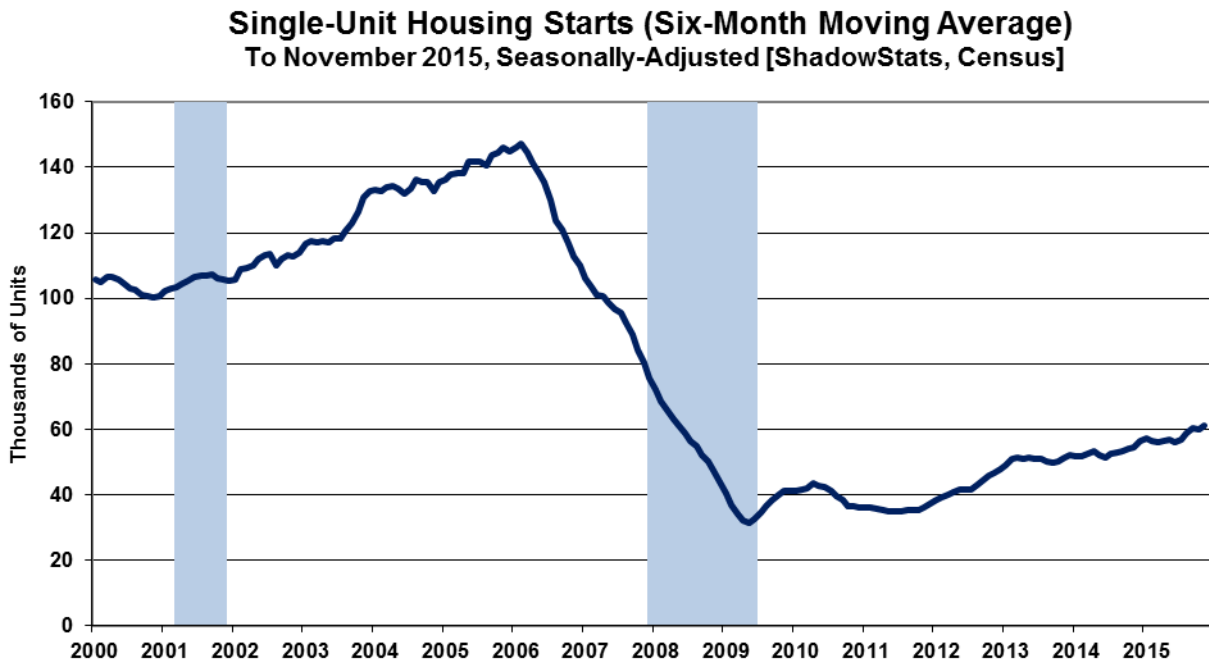
Graph 8: Single Unit Housing Starts – Monthly Level



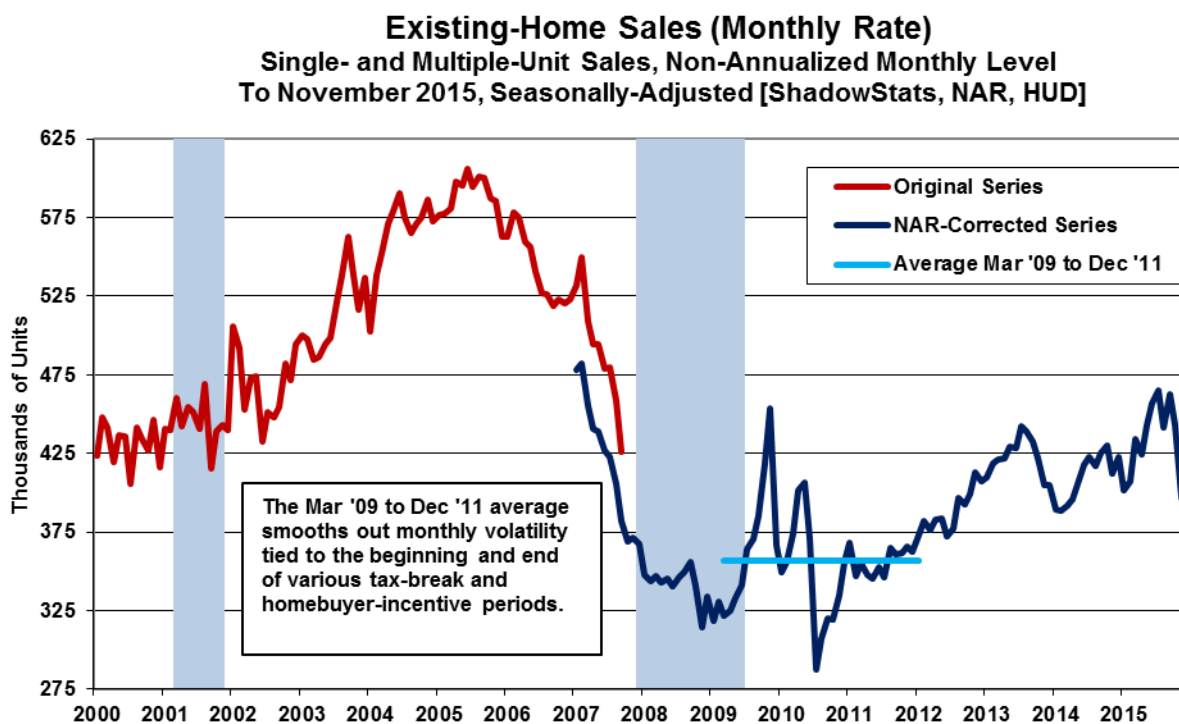
Graph 9: New-Homes Sales – Six-Month Moving Average



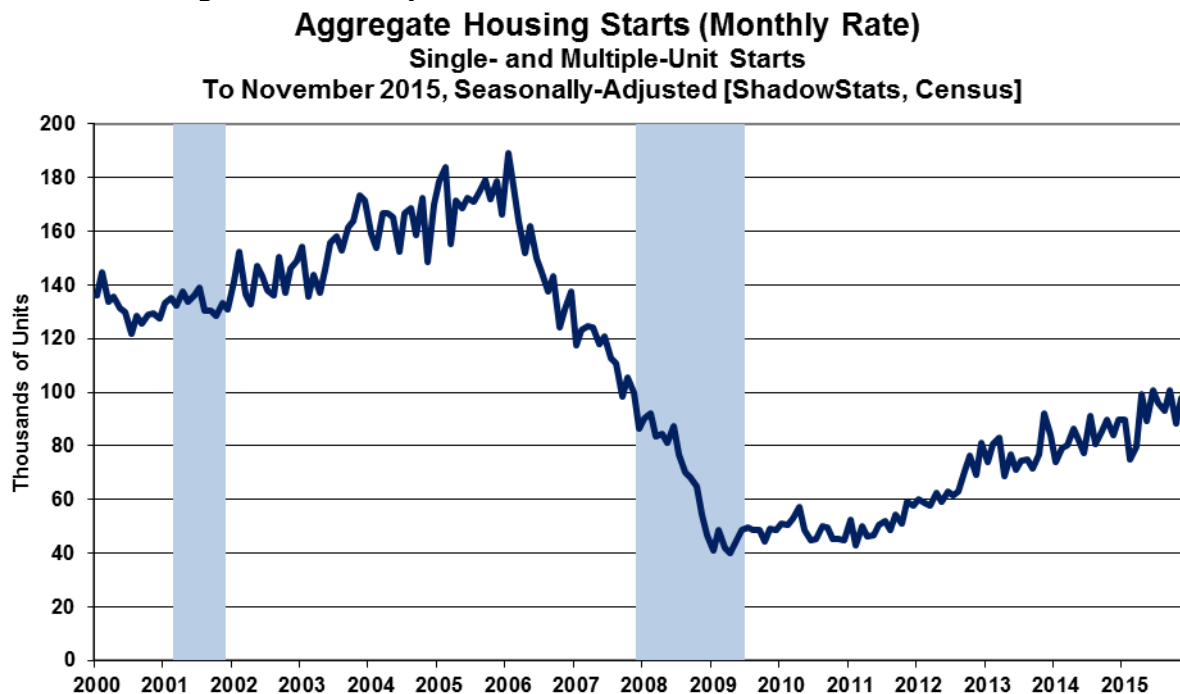
Graph 10: Single Unit Housing Starts – Six-Month Moving Average



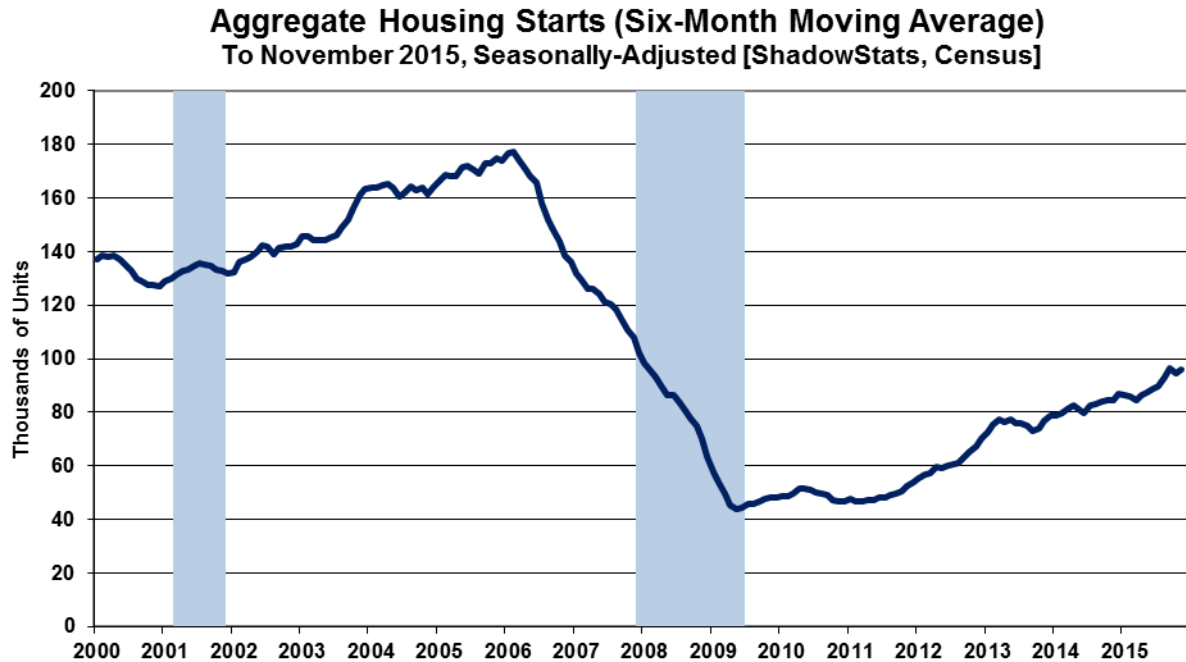
Graph 11: Existing-Home Sales – Monthly Level



Graph 12: Total Housing Starts – Monthly Level



Graph 13: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



[The Reporting Detail section includes further material on the Durable Goods Orders and New-Home Sales.]

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY. Discussed in the *Opening Comments*, the *Hyperinflation Outlook Summary* revisions will follow in next week's, December 30th *Year-End General Commentary*, which has evolved into a broad review of political economic and financial conditions of the year passed and some outlook for likely related developments in the year ahead. The broad outlook, however, has not changed. Any unusual developments requiring timely comment between regular *Commentaries* will be covered in a *Flash Commentary*, as needed. In the interim, the latest *Summary Outlook* (November 4, 2015-based) is available here: [Commentary No. 768](#).

REPORTING DETAIL

NEW ORDERS FOR DURABLE GOODS (November 2015)

Ex-Commercial Aircraft and Net of Inflation, November Durable Goods Orders Jumped for the Month and the Year, Suggesting a Quarterly Gain. November 2015 durable goods orders were stronger than they appeared with a headline monthly growth pace of “unchanged” or 0.0%. A decrease in commercial aircraft orders depressed the aggregate series, while related, negative month-to-month and year-to-year inflation out of the Producer Price Index (PPI) had the effect of boosting the inflation-adjusted real growth on both a monthly and annual basis. Where the headline, nominal total orders were “unchanged” month-to-month and up by 1.2% year-to-year, net of commercial aircraft orders and official inflation, new orders rose month-to-month by 2.0% and year-to-year by 2.9%, still well within the normal reporting bounds of this highly-irregular and volatile series.

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The bulk of that adjusted headline gain can be accounted for by a one-time jump in defense orders for aircraft, so there might be some related fall back in the December new orders report. Nonetheless, the ever-creative Bureau of Economic Analysis (BEA) purportedly now is seasonally-adjusting defense orders so as to smooth out the impact of such irregular-order activity on headline GDP reporting.

Given the patterns of general decline in the monthly, quarterly and annual activity of the last year, the broad signal for unfolding U.S. economic activity remained sharply negative, with the summary statistics and smoothed six-month trends still signaling a deepening and ongoing recession.

Quarterly Growth. Annualized quarterly declines in real new orders (ex-commercial aircraft) were 5.58% (-5.58%) in fourth-quarter 2014, and 7.73% (-7.73%) in first-quarter 2015. Following with appropriate one-quarter lags, both first- and second-quarter 2015 industrial production contracted, with third-quarter production growth on the plus-side. Fourth-quarter 2015 industrial production now is a virtual certainty for a headline contraction (see [Commentary No. 774](#)).

Annualized real change for second-quarter 2015 orders was gain of 2.10%, while the pace of annualized growth for third-quarter activity, was a revised gain of 10.46% [previously up by 10.57%, initially up by

10.24%], with an initial signal for fourth-quarter 2015 growth falling back to a 2.32% annualized gain (based solely on October and November reporting). Based just on initial October reporting, the fourth-quarter 2015 trend was for an annualized quarterly contraction of 1.57% (-1.57%). The quarterly gains here are due partially to highly-suspect, increasingly-negative durable goods inflation in the PPI reporting, which has the effect of boosting the real monthly-, quarterly- and annual-growth detail.

On a nominal basis (before inflation adjustment), third-quarter 2015 orders growth—again, ex-commercial aircraft— was up at a revised annualized pace of 8.63% [previously 8.65%, initially 8.32%], following second-quarter 2015 quarterly growth of 0.57%, an annualized contraction of 7.29% (-7.29%) in first-quarter 2015, and a decline of 4.36% (-4.36%) in fourth-quarter 2014.

Based on just October and November 2015 reporting, nominal annualized growth rate for fourth-quarter 2015 is on trend for a gain of 1.86%. Based just on initial October reporting, the early indication had been for a nominal contraction of 1.57% (-1.57%), the same as the early real estimate.

Headline Nominal (Not-Adjusted-for-Inflation) November 2015 Reporting. The Census Bureau reported today, December 23rd, that the regularly-volatile, seasonally-adjusted, nominal level of November 2015 new orders for durable goods was “unchanged” at 0.0% growth month-to-month versus October. At the second decimal point, such was a monthly gain of 0.03%. That followed a downwardly-revised monthly gain of 2.88% [previously up by 2.99%] in October, versus a minimally-revised monthly decline of 0.83% (-0.83%) [previously down by 0.82% (-0.82%), initially down by 1.22% (-1.22%)] in September. Net of the revisions to October, aggregate new orders in November fell by 0.08% (-0.08%).

The year-to-year gain in November 2015 durable goods orders was 1.20%, following a downwardly-revised annual gain of 0.40% [previously up by 0.51%] in October 2015, and a minimally-revised annual decline of 2.59% (-2.59%) [previously down by 2.58% (-2.58%), initially down by 2.99% (-2.99%)] in September 2015, all seasonally adjusted.

The headline November detail, again, is before consideration of volatility in commercial-aircraft orders. With the aircraft orders considered, headline changes in November were positive, while October activity was negative. Still, the headline detail remained well within the normal reporting variations of this highly unstable series and was consistent with a continuing pattern of broad stagnation. The inflation-adjusted real series, and that same series corrected for the understatement of the official inflation, also are discussed and graphed in the *Opening Comments* section. The corrected series—net of commercial aircraft orders—has remained relatively flat, at a low level of stagnation, with the other plotted series still showing an unfolding downturn of a nature that usually precedes or coincides with a recession or a deepening business downturn.

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, as happened again with the headline November 2015 detail. 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 decline of 22.17% (-22.17%) in November 2015, and a revised headline gain of 78.74% [previously up by 81.02%] in October 2015 commercial aircraft orders, aggregate new orders rose by

1.76% in November, following a revised monthly decline of 0.42% (-0.42%) [previously down by 0.41% (-0.41%)] in October.

Rising for the first time in ten months, year-to-year and seasonally-adjusted, November 2015 new orders (net of commercial aircraft) gained 2.01%, following a revised decline of 0.65% (-0.65%) [previously down by 0.62% (-0.62%)] in October 2015.

Real (Inflation-Adjusted) Durable Goods Orders—November 2015. ShadowStats uses the PPI component inflation measure “Durable Manufactured Goods” for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related November 2015 PPI series turned to the minus-side, month-to-month, again, having gained in October, following contractions in each of the preceding eight months. The related PPI series fell month-to-month by 0.18% (-0.18%) in November 2015, having gained 0.12% in October 2015, and having been down 0.06% (-0.06%) in September, and by a revised 0.30% (-0.30%) [previously down by 0.24% (-0.24%)] in August. Headline annual inflation contracted at a negative year-to-year pace of 0.90% (-0.90%) in November 2015, having been down by 0.78% (-0.78%) in October 2015 and down by 0.48% (-0.48%) in both September and August 2015.

Adjusted for that monthly decline of 0.18% (-0.18%) in headline November 2015 inflation, and as reflected in the graphs in the *Opening Comments* section, real month-to-month aggregate orders in November rose by 0.21%, following a revised monthly gain of 2.76% in October. Ex-commercial aircraft, monthly real orders were up by 1.95% in November 2015, versus an unrevised decline of 0.53% (-0.53%) in October.

Real year-to-year aggregate orders rose by 2.12% in November 2015, following a revised annual gain of 1.18% in October 2015. Ex-commercial aircraft, real orders gained year-to-year by 2.93% in November 2015 versus a revised year-to-year gain of 0.13% in October 2015.

Graphs of Inflation-Adjusted and “Corrected” Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs (*Graphs 1* to *6*) are displayed in the *Opening Comments* section. The first set (*Graphs 1* and *2*) 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 turned lower into year-end 2014 and into the first two quarters of 2015, with some smoothed bounce-back, uptrend in the most recent months.

The second set of graphs (*Graphs 3* to *4*) shows the patterns of six-month moving averages of historical, headline real new orders for durable goods, net of official inflation, as well as that pattern “corrected” for the understatement of that inflation (and for the related overstatement of official, inflation-adjusted growth). The third set of graphs (*Graphs 5* to *6*) shows the same patterns, but for the aggregate durable goods series, net of commercial aircraft orders.

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 have made all historical reporting prior to September 2015 inconsistent with the current headline numbers.

NEW-HOME SALES (November 2015)

Deepening Downtrend in Low-Level, New-Home-Sales Stagnation Amidst Continual Downside Revisions to Prior Reporting. *[A review of yesterday's headline November Existing-Home Sales is found in the Opening Comments section.]* As usual, the volatile reporting of monthly and annual changes in November 2015 New-Home Sales was not statistically significant. In the context of continuing, regular and meaningful downside revisions to previously-reported activity, headline November sales rose by 4.3% for the month, but they fell by 1.0% (-1.0%) net of prior-period revisions. Year-to-year annual growth was 9.1% in November 2015, yet, previously showing an annual gain of 4.9%, October 2015 activity shifted to a revised annual contraction of 0.4% (-0.4%).

Where the unstable reporting of a headline November 2015 annualized sales level of 490,000 units (40,833 monthly rate as used in the graphs) remained below July 2015 reporting, it also was down by 65% (-65%) from the pre-recession peak for the series. With the otherwise meaningless monthly swings in these numbers smoothed out, new-home sales activity continued in a broad pattern of low-level, down-trending stagnation (see *Graph 9* in the *Opening Comments*).

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

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 activity never recovered with the purported GDP recovery. Again, headline November 2015 New-Home Sales activity still was down by 64.7% (-64.7%) from its pre-recession peak of July 2005, while November 2015 single-unit Housing Starts were down by 57.9% (-57.9%) from the January 2006 high of that series.

Discussed in the *Opening Comments* section, 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 November 2015 Reporting. Reported by the Census Bureau this morning, December 23rd, November 2015 New-Home sales (counted based on contract signings) increased only in the context of heavy downside revisions to activity in August through October. Headline November sales rose by a statistically-insignificant 4.3% +/- 13.9% (all confidence intervals are at the 95% level). That followed a downwardly-revised gain of 6.3% [previously up by 10.7%] in October, a minimally-revised decline of 12.8% (-12.8%) [previously down by 12.9% (-12.9%), initially down by 11.5% (-11.5%)] in September, and a downwardly revised monthly gain of 1.4% [previously up by 2.6%, up by 5.2%, and initially up by 5.7%] in August. Again, net of prior-period revisions, November 2015 monthly sales fell by a still statistically-insignificant 1.0% (-1.0%), instead of the headline gain of 4.7%.

Year-to-year, November 2015 sales increased by a statistically-insignificant 9.1% +/- 24.5%. That followed a revised annual contraction of 0.4% (-0.4%) [previously an annual gain of 4.9%] in October 2015, a revised annual contraction of 3.7% (-3.7%) [previously down by 2.6% (-2.6%), initially a gain of

2.0%] in September 2015, and a downwardly revised annual gain of 11.7% [previously up by 13.0%, up by 16.5% and initially up by 21.6%] in August 2015.

In the arena of continued extreme volatility and unstable, nonsensical headline reporting, consider that the annualized quarterly pace of sales gain in first-quarter 2015 was 43.9%, with the second-quarter 2015 sales activity in an annualized quarterly decline of 14.8% (-14.8%). Third-quarter 2015 sales now show a deepened annualized contraction of 10.6% (-10.6%) [previously down by 7.8% (-7.8%), initially up by 2.7%], while based solely on October and November reporting, fourth-quarter New-Home Sales were declining at an annualized pace of 2.5% (-2.5%). Based just on October reporting, the initial trend in fourth-quarter New-Home Sales reporting was at a positive annualized pace of 7.0%.

New-Home Sales Graphs. The regular monthly graph of New-Home Sales is included in the *Opening Comments* section, along with a six-month moving-average version of the series. Added for comparison are parallel graphs of the headline and six-month moving-average versions of November 2015 Housing Starts for single-unit construction, from [Commentary No. 774](#), along with comparative graphs of Existing-Home Sales from [Commentary No. 775](#) (see *Graphs 7 to 13*).

WEEK AHEAD

[Note: There are no major economic releases scheduled until the first week of January 2016.]
