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

COMMENTARY NUMBER 842
September Residential Construction, Housing Starts

October 19, 2016

Housing Starts Turned Negative in Third-Quarter 2016, Quarter-to-Quarter and Year-to-Year, Amidst Collapsing Multiple-Unit Activity

Both Starts and Permits Held in Smoothed, Non-Recovering, Low-Level Stagnation, Still Shy of Respective Pre-Recession Highs by 54% and 46%

Recent Headline Monthly Economic Reporting Has Pressured Third-Quarter GDP Growth Expectations to the Downside

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PLEASE NOTE: The next regular Commentary*, scheduled for Thursday, October 27th, will cover September New Orders for Durable Goods and New- and Existing Home Sales, followed by a* Commentary *on Friday, October 28th, covering the first or "advance" estimate of third-*quarter GDP*.*

Please call at (707) 763-5786 if you have questions or would like to discuss current issues or otherwise. Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Broad Economic Downturn Continues to Unfold. Supplemental to the negative and weakening economic circumstance discussed in yesterday's *Commentary No. 841*, today's (October 19th) headline September Housing Starts turned sharply negative month-to-month and year-to-year, taking third-quarter 2016 activity also negative quarter-to-quarter and year-to-year. Consensus expectations had been for a solid monthly gain and for quarterly growth, but multi-unit starts collapsed at a monthly pace not seen since the worst of the economic collapse into 2009.

The unfolding circumstances remain consistent with an ongoing and deepening recession, not the "fully-recovered" GDP that purportedly stands more than 10% above its pre-recession high, and that likely will show increasingly positive pre-election activity in next Friday's initial reporting of third-quarter growth. Main Street U.S.A. knows the truth, and the election results and related polling should confirm that.

Today's *Commentary* (October 19th). The balance of these *Opening Comments* provides a summary of the September 2016 Housing Starts and Building Permits reporting detail.

The *Week and Month Ahead* previews the September New- and Existing-Home Sales, New Orders for Durable Goods and the "advance" estimate of third-quarter 2016 GDP, all of which due for release through the end of next week.

Residential Construction—September 2016—Starts Tumbled Sharply, Permits Rallied Strongly, with Both Smoothed Series Continuing in Non-Recovering, Down-Trending Stagnation. In the context of minimal upside revisions to prior months, a monthly gain in single-unit activity and a monthly collapse in multiple-unit activity, September housing starts fell by 9.0% (-9.0%) in the month, down by 11.9% (-11.9%) year-to-year. As a result, third-quarter activity turned negative on both an annual and annualized-quarterly basis, down by 1.6% (-1.6%) year-to-year, and down at an annualized pace of 7.1% (-7.1%) quarter-to-quarter.

In the context of upside, prior-month revisions, September building permits, which theoretically lead housing starts activity by three-to-six months, gained both month-to-month and year-to-year, up by 6.3% in September 2016, up by 8.5% year to year. That was against a revised monthly gain in August of 0.7% and a revised annual decline of 1.2% (-1.2%) in July. The plotting of this series remains experimental here; it appears to have minimal, near-term predictive value versus the starts, where it also has significant and ongoing issues with the consistency of internal data.

Smoothed with a six-month moving average, the aggregate housing-starts and building-permits series remained in extremely-flat, low-level stagnation (see *Graph 4,* and *Graphs 11* and *12* at the end of the *Reporting Detail* section). Neither the headline permits nor starts has recovered from the economic collapse into 2009, with current activity down from pre-recession peaks by 46% (-46%) for permits, and down by 54% (-54%) for starts.

Third-Quarter 2016 Housing Starts Turned Negative, Quarter-to-Quarter and Year-to-Year. In terms of quarter-to-quarter change, the unstable aggregate housing-starts count fell at annualized pace of 24.1% (-24.1%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, flattened out to 0.0% in third-quarter 2015, and then contracted at an annualized 7.2% (-7.2%) in fourth-quarter 2015.

First-quarter 2016 activity grew at an annualized pace of 6.0%, with second-quarter 2016 showing an annualized quarterly gain of 2.8%. Initial full reporting for third-quarter 2016, however, reflected an annualized quarterly contraction of 7.1% (-7.1%). Based just on the headline July and August details, third-quarter housing starts had been on early track for annualized 6.2% growth. That previously had been an early estimate of an annualized 20.3% gain, based solely on the initial headline reporting for July.

On year-to-year basis, third-quarter 2016 starts contracted by 1.5% (-1.5%), the first annual decline since first-quarter 2014.

Smoothed Numbers. Despite the regular volatility and instabilities in the Housing Starts series, the general pattern of low-level stagnation continued. The six-month moving-average pattern for the aggregate series remained about as flat as one ever sees, in low-level stagnation, reflecting the most-recent headline detail (*Graphs 4* and *12*), with the same pattern of stability also seen broadly in raw monthly data (*Graphs 3* and *10*). That general pattern also can be viewed in terms of the longer-range historical graph of aggregate activity (*Graph 13*) at the end of the *Reporting Detail*.

Parallel graphs of monthly and six-month moving average building permits detail are compared in *Graphs 9* and *11* of the *Reporting Detail*. Given the broad pattern of stagnation in both the aggregate starts and permits series, headline total September 2016 activity remained well below any recovery level, with starts down from their January 2006 pre-recession high by 54% (-54%), and with permits down by 46% (-46%) from their September 2005 pre-recession peak activity.

Returning fully to the September 2016 housing starts detail, the dominant, single-unit housing starts component of that series (accompanying *Graphs 5* and *6*) remained down by 57% (-57%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs of this *Opening Comments* section, the various housing-starts series generally were flat, at a low level of stagnation (*Graph 4* for the aggregate), with low-level stagnation in the six-month-smoothed single-unit activity (*Graph 6*) turning lower again August, minimally higher in September. That was offset by a suddenly down-trending, smoothed multiple-unit starts (*Graph 8*), which had continued to fall back from pre-recession levels, turned higher in the last several months but plummeted anew in the September detail.

September 2016 Housing Starts, Headline Reporting. The broadly unstable and highly volatile aggregate Housing Starts series fell month-to-month, in the context of small upside revisions to levels of the two prior months. The September 2016 detail showed a statistically-insignificant, seasonally-adjusted, headline monthly decline of 9.0% (-9.0%). Such followed a revised monthly decline in August of 5.6% (-5.6%) and a revised gain of 1.9% in July. Net of prior-period revisions, September 2016 housing starts still declined by 8.3% (-8.3%) for the month, instead of the headline 9.0% (-9.0%). Level-of-activity aggregate detail is plotted in *Graphs 3* to *6*, and in *Graphs 12*, *14* and *15* at the end of the *Reporting Detail*.

Year-to-year change in the seasonally-adjusted, September 2016 aggregate housing-starts measure was a statistically-insignificant decline of 11.9% (-11.9%), versus an upwardly-revised gain of 1.6% in August 2016 and an upwardly-revised gain of 6.2% in July 2016.

The September 2016 headline decline of 9.0% (-9.0%) in total housing starts encompassed a headline gain of 8.1% in in the "one unit" category and a collapse of 38.9% (-38.9%) in the "five units or more" category; with a missing balance in the "two to four units" category discussed later in the broader, aggregate "multiple unit" category. Where most commonly, not one of the monthly or annual headline changes by category is statistically meaningful, the month-to-month and year-to-year plunges in the "five units or more" category were meaningful.

Housing Starts By-Unit Category. Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in September 2016 rose month-to-month by a statistically-insignificant 8.1%, following a minimally-revised monthly decline of 5.9% (-5.9%) in August, versus a minimally-revised monthly gain of 0.8% in July. Net of prior-period revisions, September 2016 single-unit starts rose by 8.4%, instead of the headline 8.1%. September 2016 single-unit starts showed a statistically-insignificant annual gain of 5.4%, versus a revised decline in August 2016 of 1.0% (-1.0%) and a minimally-revised annual gain of 1.2% in July 2016 (see accompanying *Graphs 3, 4, 7* and *8*).

Housing starts for apartment buildings (generally 5-units-or-more) in September 2016 declined month-to-month by a statistically-significant 38.9% (-38.9%), versus a revised, deeper decline of 7.5% (-7.5%) in August and an upwardly-revised gain of 6.8% in July. Net of prior-period revisions, September 2016 starts declined 38.0% (-38.0%) versus the headline 38.9% (-38.9%) contraction.

A statistically-significant year-to-year crash of 42.5% (-42.5%) in September 2016, followed a revised 3.8% gain in August 2016 and a revised annual gain of 17.6% in July 2016.

Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be estimated by subtracting the single-unit category from the total category (see *Graphs 1*, *2*, *7* and *8*).

Accordingly, the statistically-insignificant September 2016 monthly decline of 9.0% (-9.0%) in aggregate starts was composed of a statistically-insignificant gain of 8.1% in one-unit structures and a statistically-significant decline of 40.8% (-40.8%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category).

Regular Housing Starts Graphs. Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,047,000 in September 2016, versus an upwardly-revised 1,150,000 (previously 1,142,000) in August 2016. The scaling detail used in the aggregate housing starts and building permits *Graphs 9* to *13* in the *Reporting Detail* reflects those annualized numbers.

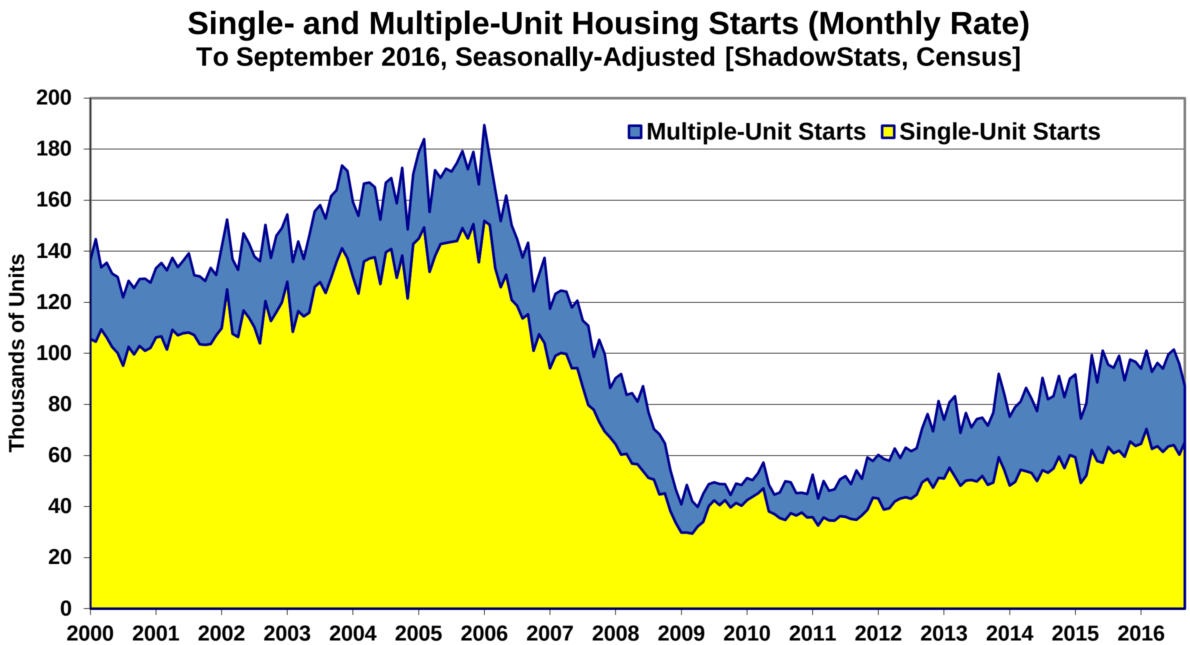
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 228,000 month-to-month gain reported in the annualized April 2015 housing starts was larger than any actual total (non-annualized) level of monthly starts ever, for a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 87,250 units in September 2016, instead of the annualized 1,047,000-headline number, is used in the scaling of the *Graphs 1* to *8* in these *Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical, as can be seen in a comparison of *Graph 3* versus *Graph 9* in the *Reporting Detail*.

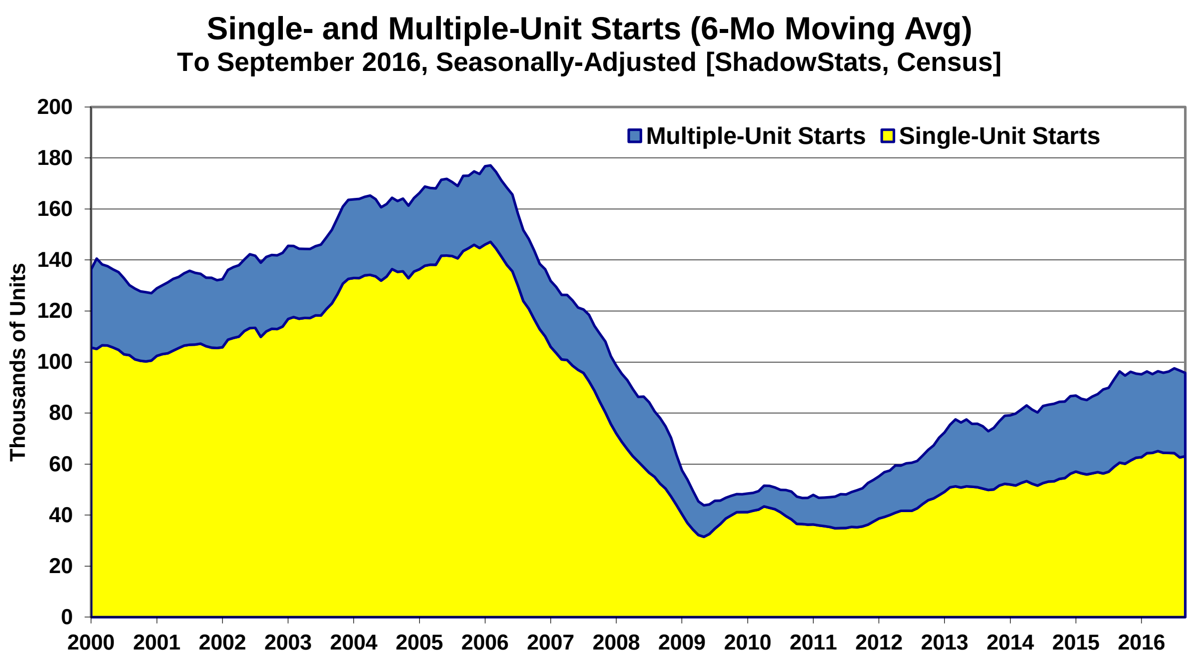
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the September 2016 headline number was up by 119%, but it still was down by 54% (-54%) from the January 2006 pre-recession high for the series. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in stagnation at low levels that otherwise have been at or near the historical troughs of other recession activity of the last 70 years, as reflected in *Graph 13* of the *Reporting Detail*.

[Graphs 1 to 8 begin on the next page.]

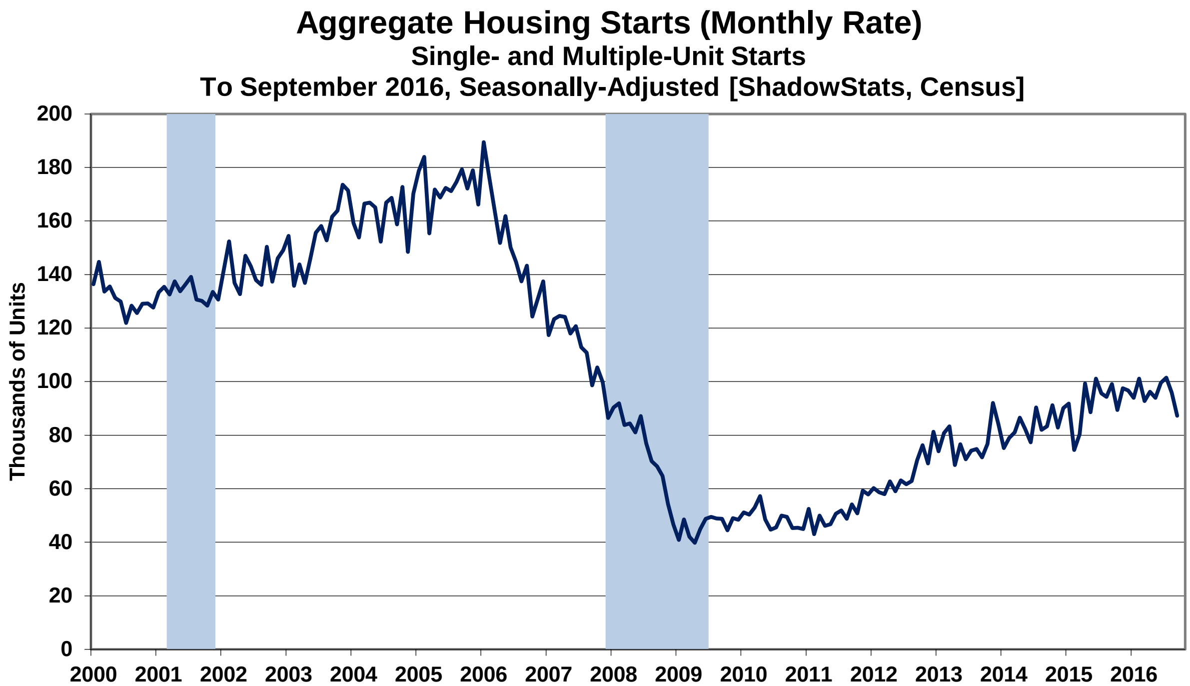
Graph 1: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



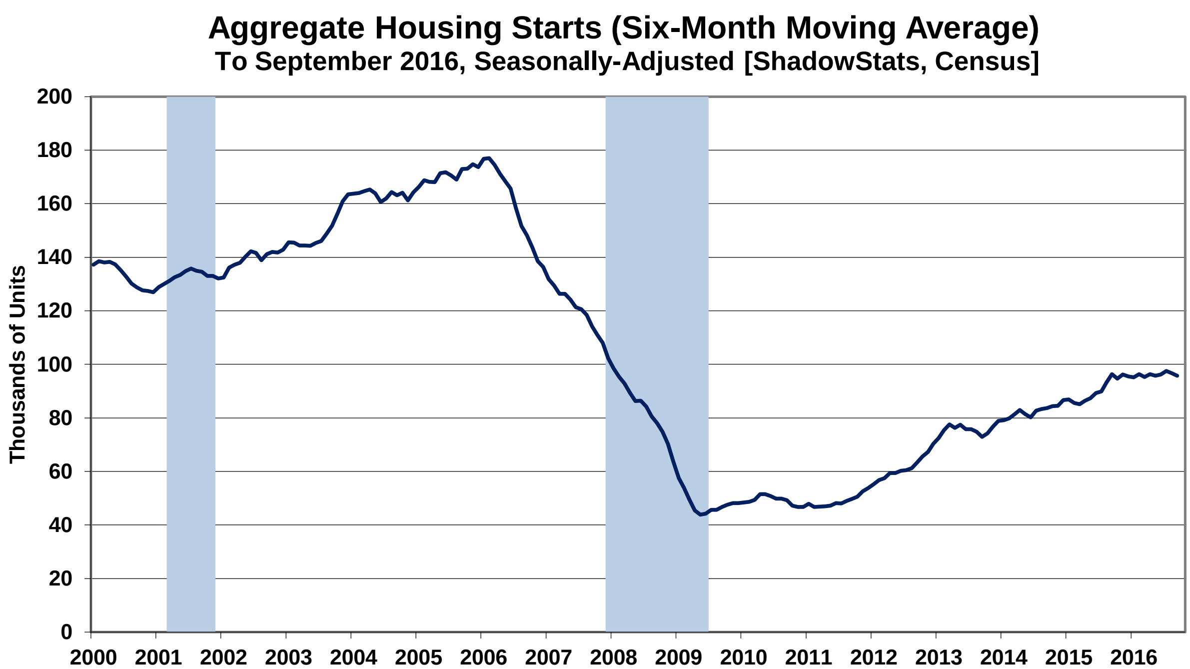
Graph 2: Single- and Multiple-Unit Starts (Six-Month Moving Average, Monthly Rate of Activity)



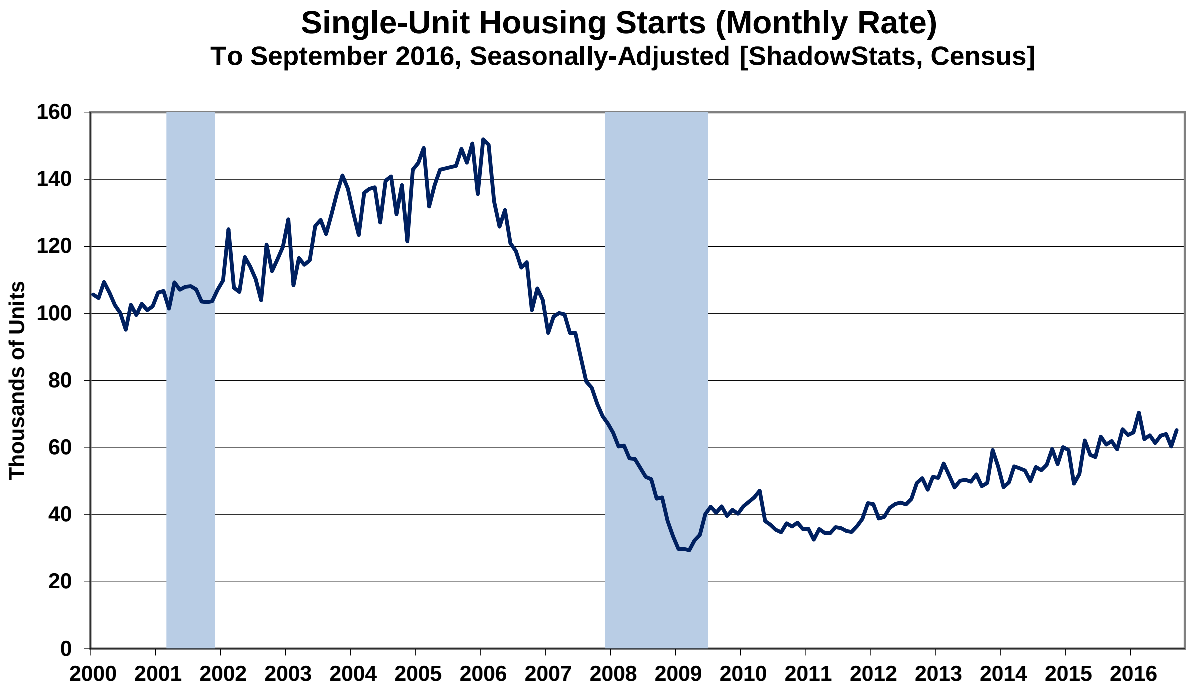
Graph 3: Aggregate Housing Starts (Monthly Rate of Activity)



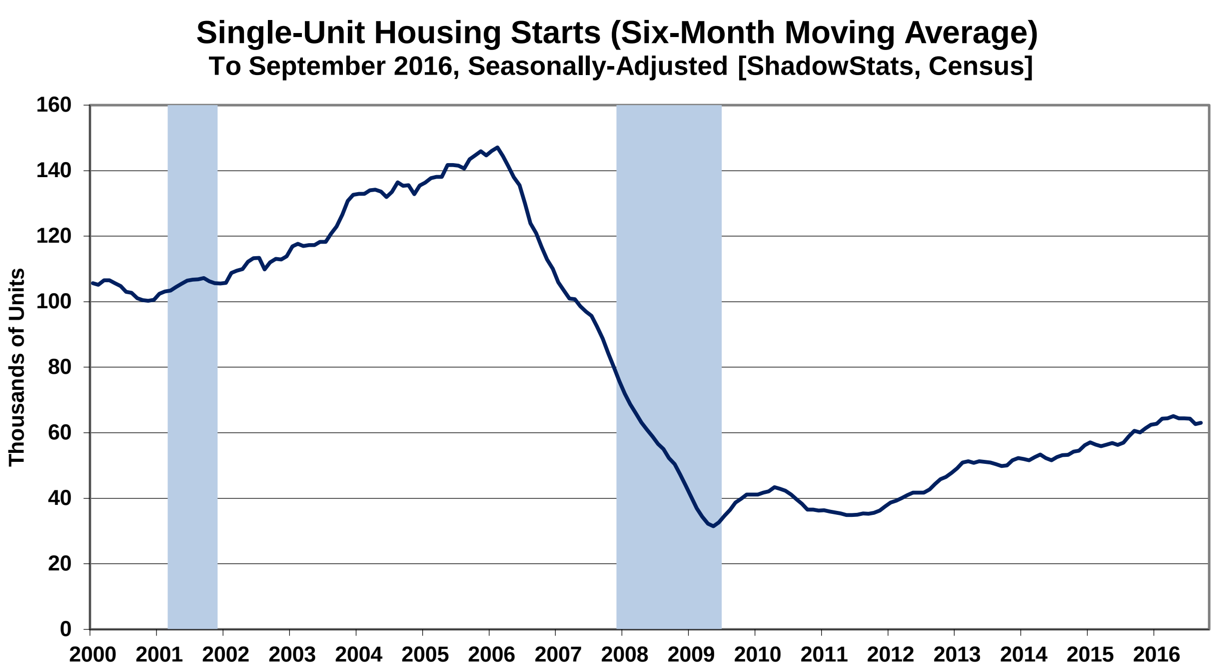
Graph 4: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



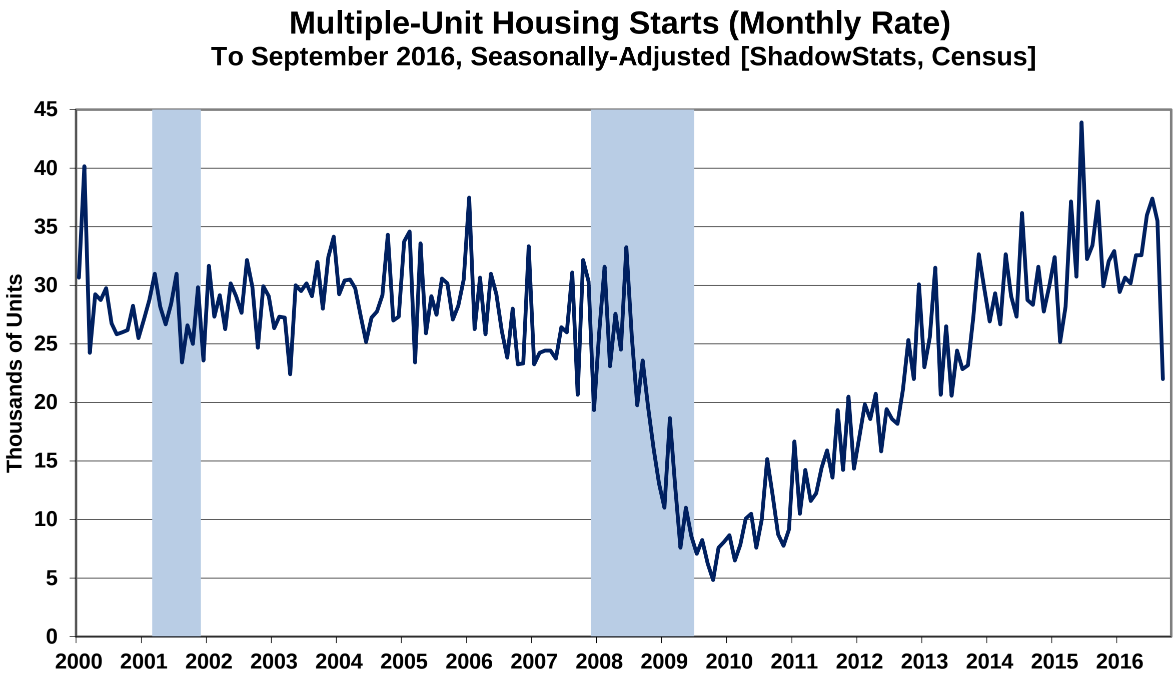
Graph 5: Single-Unit Housing Starts (Monthly Rate of Activity)



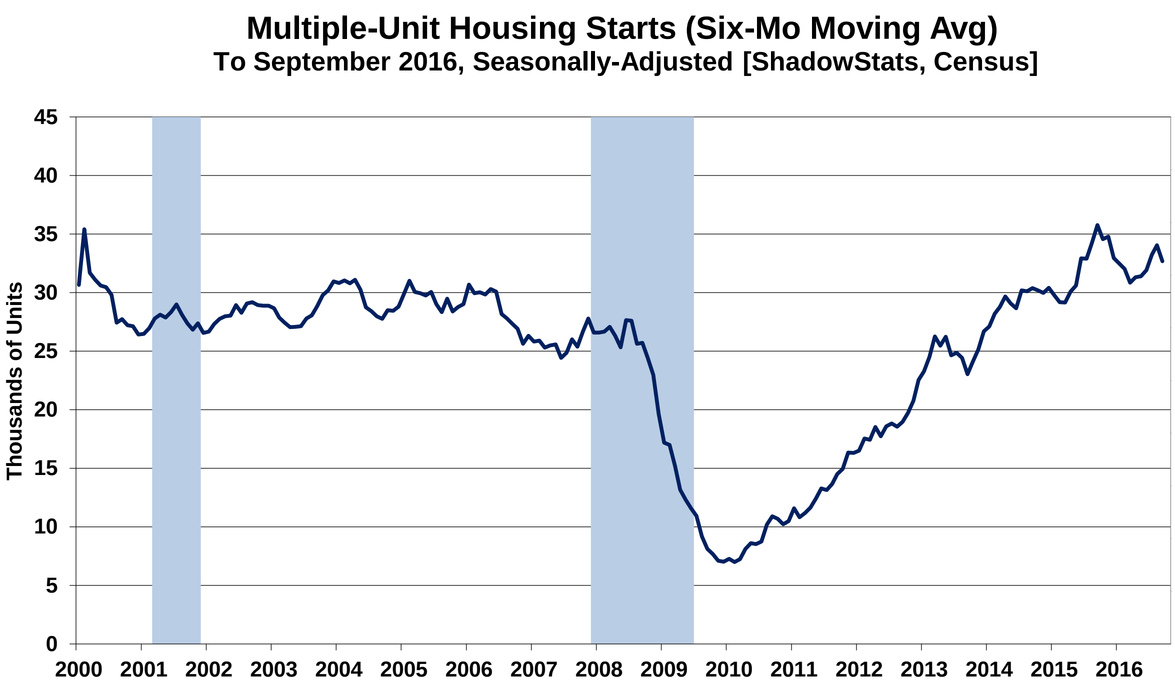
Graph 6: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



Graph 7: Multiple-Unit Housing Starts (Monthly Rate of Activity)



Graph 8: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



[The **Reporting Detail** *section contains additional analysis and graphs.]*

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REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (September 2016)

Headline Housing Starts Tumbled Sharply, Permits Rallied Strongly, with Both Smoothed Series Continuing in Non-Recovering, Down-Trending Stagnation. In the context of minimal upside revisions to prior months, a monthly gain in single-unit activity and a monthly collapse in multiple-unit activity, September housing starts fell by 9.0% (-9.0%) in the month, down by 11.9% (-11.9%) year-to-year. Third -quarter activity turned negative on both an annual and annualized-quarterly basis, down by 1.6% (-1.6%) year-to-year, and down at an annualized pace of 7.1% (-7.1%) quarter-to-quarter.

In the context of upside, prior-month revisions, September building permits, which theoretically lead housing starts activity by three-to-six months, gained both month-to-month and year-to-year, up by 6.3% in September 2016, up by 8.5% year to year. That was against a revised monthly gain in August of 0.7% [previously a decline of 0.4% (-0.4%)], and a revised annual decline of 1.2% (-1.2%) [previously down by 2.3% (-2.3%)] in July. The plotting of this series remains experimental here; it appears to have minimal, near-term predictive value versus the starts, aside from ongoing issues with internal data inconsistencies.

Smoothed with a six-month moving average, the aggregate housing-starts and building-permits series remained in extremely-flat, low-level stagnation (see *Graph 4* in the *Opening Comments* section, and *Graphs 11* and *12* at the end of this section). Neither the headline permits nor starts has recovered from the economic collapse into 2009, with current activity down from pre-recession peaks by 46% (-46%) for permits, and by 54% (-54%) for starts.

Third-Quarter 2016 Housing Starts Turned Negative, Quarter-to-Quarter and Year-to-Year. In terms of quarter-to-quarter change, the unstable aggregate housing-starts count fell at annualized pace of 24.1% (-24.1%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, flattened out to 0.0% in third-quarter 2015, and then contracted at an annualized 7.2% (-7.2%) in fourth-quarter 2015.

First-quarter 2016 activity, which had turned down in pre-benchmark (April) reporting, had revised into positive territory, thanks largely to upside benchmark revisions to multiple-structure starts in the May 2016 detail. It did not revise with the headline September 2016 reporting, holding at 6.0%.

Second-quarter 2016 also was unrevised, holding at an annualized quarterly gain of 2.8%. Initial full reporting for third-quarter 2016 showed an annualized quarterly contraction of 7.1% (-7.1%). Based just on the headline July and August details, third-quarter housing starts had been on early track for annualized 6.2% growth. That previously had been an early estimate of an annualized 20.3% gain, based solely on the initial headline reporting for July.

On year-to-year basis, third-quarter 2016 starts contracted by 1.5% (-1.5%), the first annual decline since first-quarter 2014.

Smoothed Numbers. Despite the regular volatility and instabilities in the Housing Starts series, the general pattern of low-level stagnation continued. The six-month moving-average pattern for the aggregate series remained about as flat as one ever sees, in low-level stagnation, reflecting the most-recent headline detail (*Graphs 4* and *12*), with the same pattern of stability also seen broadly in raw monthly data (*Graphs 3* and *10*). That general pattern also can be viewed in terms of the longer-range historical graph of aggregate activity (*Graph 13*) at the end of this section. Parallel graphs of monthly and six-month moving average building permits detail are compared in *Graphs 9* and *11*. Given the broad pattern of stagnation in both the aggregate starts and permits series, headline total September 2016 activity remained well below any recovery level, with starts down from their January 2006 pre-recession high by 54% (-54%), and with permits down by 46% (-46%) from their September 2005 pre-recession peak activity.

Returning fully to the September 2016 housing starts detail, the dominant, single-unit housing starts component of that series (*Graphs 5* and *6* in the *Opening Comments*) remained down by 57% (-57%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs in the *Opening Comments*, the various housing-starts series generally were flat, at a low level of stagnation (*Graph 4* for the aggregate), with low-level stagnation in the six-month-smoothed single-unit activity (*Graph 6*) turning lower again August, minimally higher in September. That was offset by a suddenly down-trending, smoothed multiple-unit starts (*Graph 8*), which had continued to fall back from pre-recession levels, turned higher in the last several months but plummeted anew in the September detail.

Consumer Liquidity Problems Continue to Impair Housing Activity. An extreme consumer-liquidity bind continues to constrain residential real estate sales and related construction activity, as updated in *Commentary No. 839* and *Commentary No. 833*. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including aggregate real estate activity. That circumstance—in the last nine-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity, 70% of which is dependent on personal spending, including real estate.

September 2016 Housing Starts, Headline Reporting. The broadly unstable and highly volatile aggregate Housing Starts series fell month-to-month, in the context of small upside revisions to levels of the two prior months. The Census Bureau reported this morning, October 19th, a statistically-insignificant, seasonally-adjusted, headline monthly decline of 9.0% (-9.0%) +/- 10.8% (all confidence intervals are expressed at the 95% level) in September 2016 housing starts. Such followed a revised decline 5.6% (-5.6%) [previously down by 5.8% (-5.8%)] in August, and a revised gain of 1.9% [previously up by 1.4%, initially up by 2.1%] in July. Net of prior-period revisions, September 2016 housing starts still declined by 8.3% (-8.3%) for the month, instead of the headline 9.0% (-9.0%). Level-of-activity aggregate detail is plotted in *Graphs 3* to *6* of the *Opening Comments*, and in *Graphs 12, 14* and *15* at the end of this section.

Year-to-year change in the seasonally-adjusted, September 2016 aggregate housing-starts measure was a statistically-insignificant decline of 11.9% (-11.9%) +/- 13.9%, versus an upwardly-revised gain of 1.6% [previously up by 0.9%] in August 2016, and an upwardly-revised gain of 6.2% [previously up by 5.7%, initially up by 5.6%] in July 2016.

The September 2016 headline decline of 9.0% (-9.0%) in total housing starts encompassed a headline gain of 8.1% in in the "one unit" category and a collapse of 38.9% (-38.9%) in the "five units or more" category; with a missing balance in the "two to four units" category discussed later in the broader, aggregate "multiple unit" category. Where most commonly, not one of the monthly or annual headline changes by category is statistically meaningful, the month-to-month and year-to-year plunges in the "five units or more" category were meaningful.

***Housing Starts By-Unit Category (See Graphs in the* Opening Comments).** Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in September 2016 rose month-to-month by a statistically-insignificant 8.1% +/- 8.7%, following a minimally-revised monthly decline of 5.9% (-5.9%) [previously down by 6.0% (-6.0%)] in August, versus a minimally-revised monthly gain of 0.8% [previously up by 0.7%, initially up 0.5%] in July. Net of prior-period revisions, September 2016 single-unit starts rose by 8.4%, instead of the headline 8.1%. September 2016 single-unit starts showed a statistically-insignificant annual gain of 5.4% +/- 9.5%, versus a revised decline in August 2016 of 1.0% (-1.0%) [previously down by 1.2% (-1.2%)], and a minimally-revised annual gain of 1.2% [previously up by 1.1%, initially up by 1.3%] in July 2016 (see *Graphs 3*, *4*, *7* and *8* in the *Opening Comments*).

Housing starts for apartment buildings (generally 5-units-or-more) in September 2016 declined month-to-month by a statistically-significant 38.9% (-38.9%) +/- 22.7%, versus a revised, deeper decline in August of 7.5% (-7.5%) [previously down by 6.9% (-6.9%)] and an upwardly-revised gain of 6.8% [previously up by 4.6%, initially up by 8.3%] in July. Net of prior-period revisions, September 2016 starts declined 38.0% (-38.0%) versus the headline 38.9% (-38.9%) contraction.

A statistically-significant year-to-year crash of 42.5% (-42.5%) +/- 22.2% in September 2016, followed a revised 3.8% gain [previously up by 2.3%] in August 2016 and revised annual gain of 17.6% [previously and initially up by 15.2%] in July 2016.

Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be estimated by subtracting the single-unit category from the total category (see *Graphs 1*, *2*, *7* and *8* in the *Opening Comments*).

Accordingly, the statistically-insignificant September 2016 monthly decline of 9.0% (-9.0%) in aggregate starts was composed of a statistically-insignificant gain of 8.1% in one-unit structures and a statistically-significant decline of 40.8% (-40.8%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). Again, these series all are graphed in the *Opening Comments*.

Regular Housing Starts Graphs. Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,047,000 in September 2016, versus an upwardly-revised 1,150,000 (previously 1,142,000) in August 2016. The scaling detail used in the accompanying aggregate housing starts and building permits *Graphs 9* to *13* in this section reflects those annualized numbers.

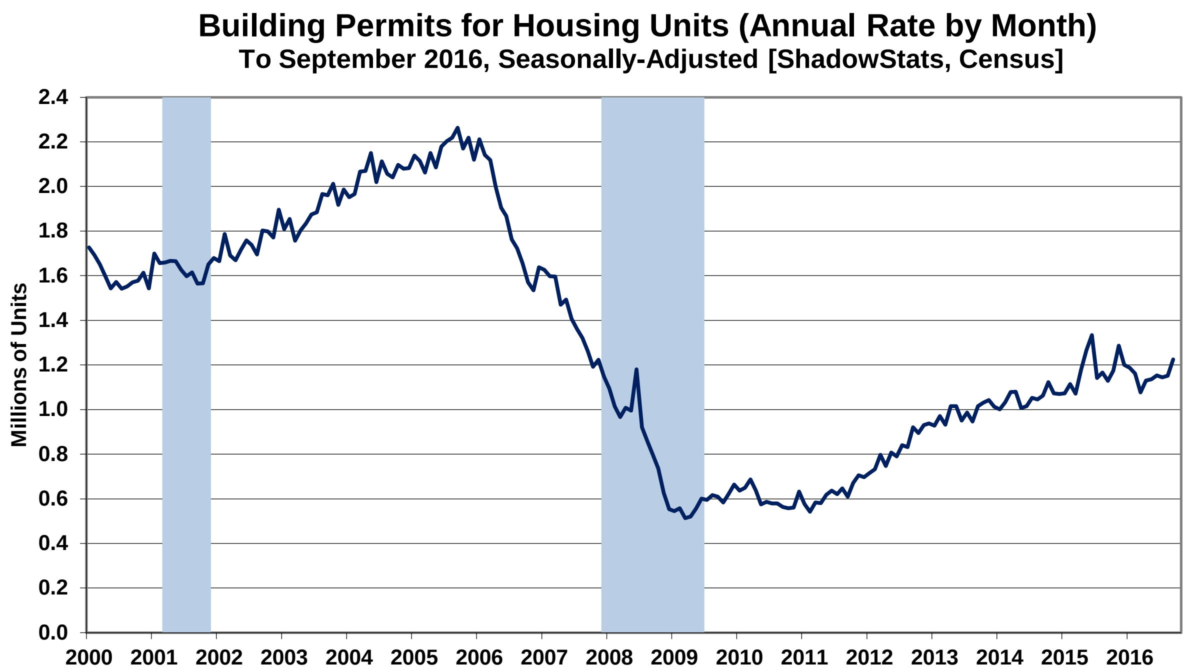
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 228,000 month-to-month gain reported in the annualized April 2015 housing starts was larger than any actual total (non-annualized) level of monthly starts ever, for a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 87,250 units in September 2016, instead of the annualized 1,047,000-headline number, is used in the scaling of *Graphs 1* to *8* in the *Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical, as can be seen in a comparison of *Graph 9* versus *Graph 3* in the *Opening Comments*.

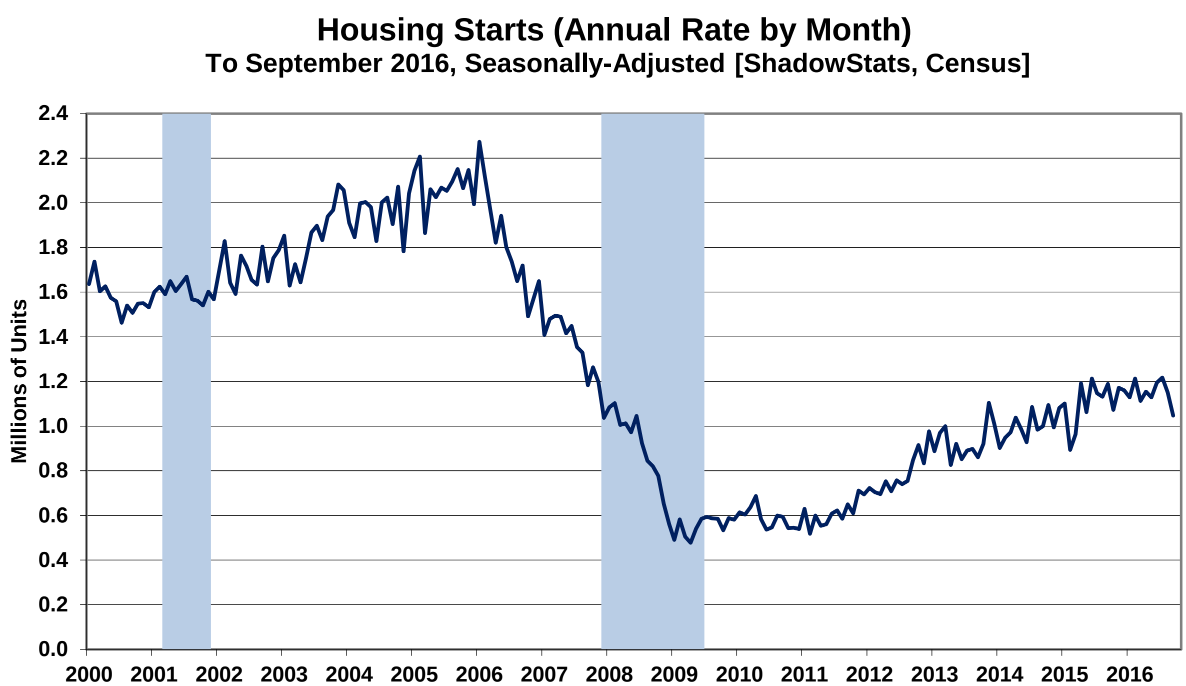
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the September 2016 headline number was up by 119%, but it still was down by 54% (-54%) from the January 2006 pre-recession high for the series. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in stagnation at low levels that otherwise have been at or near the historical troughs of other recession activity of the last 70 years, as reflected in the accompanying *Graph 13*.

[Graphs 9 to 13 begin on the next page.]

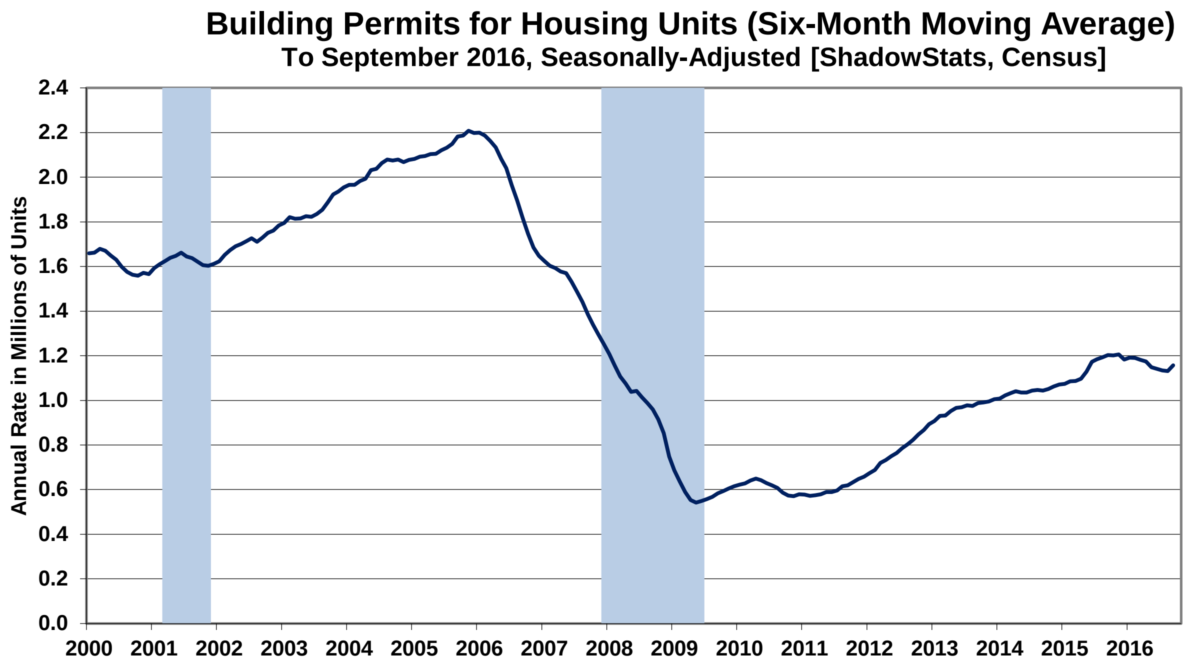
Graph 9: Building Permits (Annualized Monthly Rate of Activity), 2000 to Date



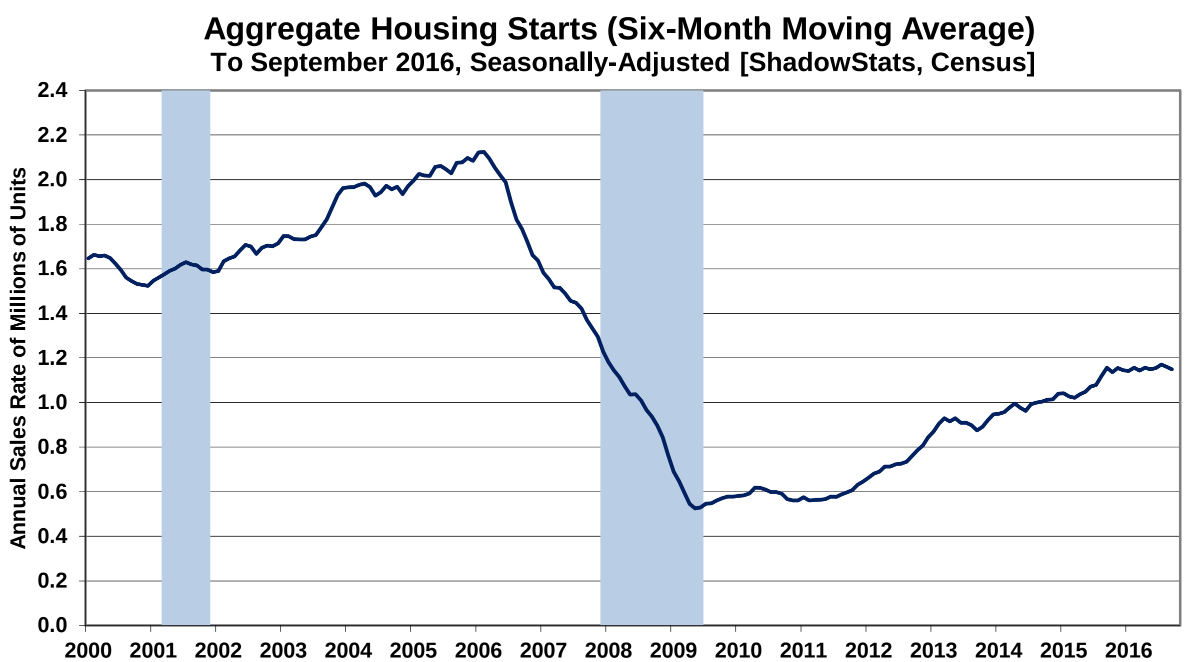
Graph 10: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date



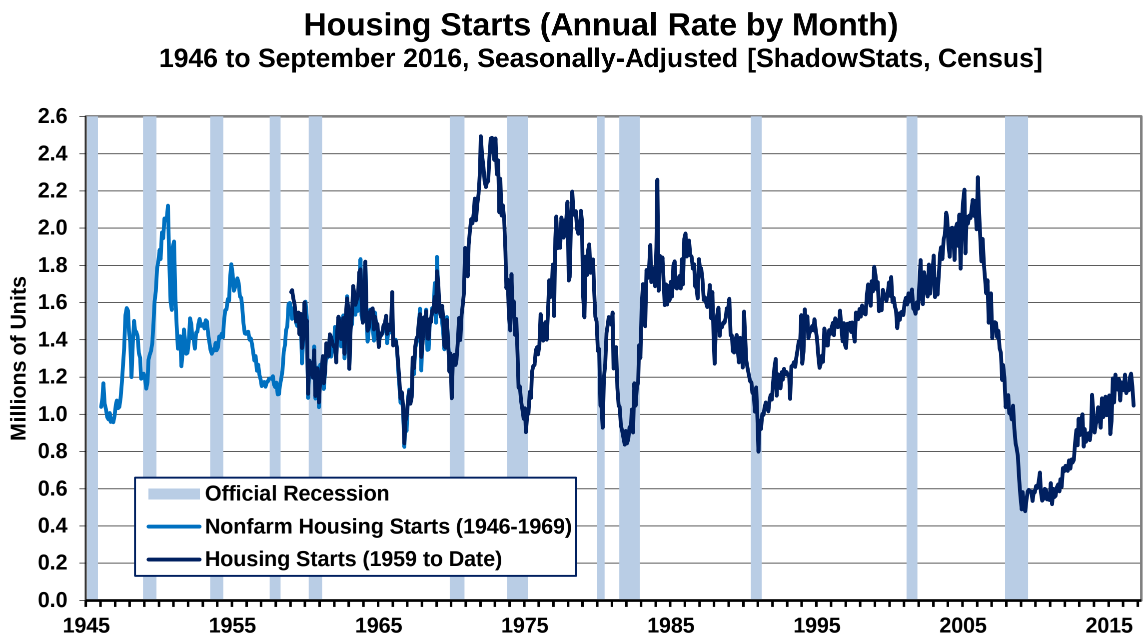
Graph 11: Building Permits (Six-Month Moving Average), 2000 to Date



Graph 12: Housing Starts (Six-Month Moving Average), 2000 to Date



Graph 13: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date



WEEK AND MONTH AHEAD

Near-Term Headline Economic Deterioration Should Intensify, Increasingly Frustrating Fed Provocateurs, Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should continue to deteriorate, amidst intensifying, negative headline economic reporting. Irrespective of continuing talk by some FOMC members of a near-term rate hike, an ongoing and deepening domestic economic downturn promises intensified stress on systemic liquidity. That circumstance ultimately dooms the U.S. central bank to an intensified quantitative easing.

Noted in *Commentary No. 841*, consumer inflation has started to rebound, along with higher gasoline prices, yet the economy continues to falter as indicated in September freight activity, and as seen in today's (October 19th) headline detail of September housing starts. *No. 841* also looked a little deeper into the likely impact of unusually protracted and negative economic conditions on the presidential election and on the post-election environment for the U.S. dollar and precious metals.

September industrial production detail also disappointed market expectations and deteriorated sharply in the context of downside, prior-period revisions. Such was reviewed in *Commentary No. 840*. *Commentary No. 839* provided the opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets. Consumer liquidity conditions also were updated, along with a review of September 2016 nominal Retail Sales and the PPI.

September employment and unemployment circumstances were covered in *Commentary No. 838*. Fed-policy retrenchment should remain very much alive, shifting towards that renewed quantitative easing, in the post-election environment, as discussed in the *Opening Comments* of *No. 839*, and those of *Commentary No. 837* and *Commentary No. 835*, which respectively also reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

Commentary No. 836 updated the latest GDP reporting (third-estimate of second-quarter 2016), as well as provided an economic reality check on some harder, less-theoretical and more-independent (non-government) economic numbers.

Underlying consumer liquidity and household income conditions were updated fully in *Commentary No. 833*, along with continuing discussion of FOMC options and the latest consumer inflation detail.

The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect an ongoing broad spectrum of market-disappointing headline data, such as seen in the industrial production detail (*No. 840*) and in *Commentary No. 832*. Earlier FOMC considerations also were covered in *Commentary No. 831*, while the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*.

Broad economic and systemic details detail otherwise have been reviewed recently in *Commentary No. 827*, *Commentary No. 826*, *Commentary No. 825*, *Commentary No. 824*, *Commentary No. 823*, *Commentary No. 822*, *Commentary No. 821*, *Commentary No. 820*, *Commentary No. 818*, *Commentary No. 817*, *General Commentary No. 811*, *Supplemental Commentary No. 807-A*, *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796-A*, *Commentary No. 796* and *No. 777 Year-End Special Commentary*.

Negative market reactions had surfaced in trading of the U.S. dollar and in related financial markets, with some upside pressure on gold, silver and oil prices, subsequent to recent, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Then, Fed rate-hike jawboning put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency. The downside spike to gold prices on October 4th was considered in *Commentary No. 837* and was discussed further in *No. 841*, in the context of the evolving domestic political conditions.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Even if the Fed should raise rates in the near future, ongoing negative economic pressures still will mount, forcing the U.S. central bank back into a position of having to support domestic financial- and banking-system liquidity needs. Effectively, the Fed will have no way out other than to return to some form of expanded quantitative easing, post-election.

Temporary jawboning aside, market reactions increasingly should reflect a renewed sense of Federal Reserve impotence in the wake of the latest no rate hike, with bleak longer-term implications for the U.S.

dollar. While anything is possible, Fed tightening on November 2nd—the last formal opportunity prior to the November 8th election—appears to be out of consideration, with market expectations for a rate hike now centering on December 2016. Nonetheless, renewed quantitative easing increasingly should become the target of post-election speculation, as the deepening recession continues to unfold.

Rapidly weakening, regular monthly economic reporting should continue and result in much worse-than-expected—increasingly negative—reporting for at least the next several quarters of GDP (and GDI and GNP).

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—has seen its near-term, year-to-year low. Headline monthly March to June 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation was "unchanged"—minimally negative—with a switch to positive seasonal adjustments for gasoline prices only partially offsetting the unadjusted monthly drop in gasoline prices in July. August CPI was boosted by "core" inflation, while the September CPI was spiked by gasoline prices and positive seasonal adjustments. The October CPI looks to be similarly destined. Going forward, a weakening U.S. dollar increasingly should boost inflation, with a related upturn in oil prices, gasoline and other commodities. The *Public Commentary on Inflation Measurement* reviews fundamental reporting issues with the headline CPI.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last nine-to-eleven years—have 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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. That construction-spending issue now appears to have been structured as a gimmick to help boost the recently-published 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS 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*). John Crudele of the *New York Post* continues his investigations in reporting irregularities: *Crudele Investigation*. In the 1990s, the Census Bureau and BLS played political-reporting games with the nature of statistical sampling size in "inner cities" in the

Census Bureau surveying tied to the monthly Household Surveys and the annual piggy-backed Poverty Survey. Such had major distorting impact on the headline data, and it may be in the works, again.

PENDING RELEASES:

Existing- and New-Home Sales (September 2016). September 2016 Existing-Home Sales are due for release tomorrow, Thursday, October 20th, from the National Association of Realtors (NAR), with the September 2016 New-Home Sales report due from the Census Bureau on Wednesday, October 26th. Both Existing- and New-Home Sales will be covered in *Commentary No. 843* of October 27th.

The extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures, and residential real estate sales, as fully updated in *Commentary No. 839* and *Commentary No. 833*. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic economic activity, including in residential real estate.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in home-sales activity, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Headline Existing-Home Sales should continue their current general pattern of low-level stagnation, with a flat-to-plus trend likely to turn lower.

Smoothed for regular extreme and nonsensical monthly gyrations, a pattern of low-level stagnation in New-Home Sales also is likely to continue. Where the pattern of low-level stagnation in new sales has been up-trending in recent months, that should reverse. Monthly changes in activity here rarely are statistically-significant, amidst the otherwise unstable headline reporting and revisions; nonetheless, the series is due for some significant downside catch-up, possibly in the September 2016 detail.

New Orders for Durable Goods (September 2016). The Census Bureau will report September 2016 New Orders for Durable Goods on Thursday, October 27th, which will be covered in *Commentary No. 843* of that date. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending real stagnation.

Commercial aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. As a result, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity and the GDP—is the activity in new orders, ex-commercial aircraft.

Noted in *Commentary No. 839*, unadjusted manufactured-durable goods inflation in the September 2016 Producer Price Index (PPI) declined by 0.06% (-0.06%), versus an "unchanged" 0.00% reading in August 2016 and a monthly gain of 0.18% in July 2016. Year-to-year annual inflation rose to 0.12% in September 2016, versus a 0.06% annual gain in August 2016 and an annual decline of 0.18% (-0.18%) in

July 2016, with related minimal implications for inflation-adjusted real monthly and annual changes to be indicated in September new-orders detail.

Gross Domestic Product (GDP)—Third-Quarter 2016, First or "Advance" Estimate. The Bureau of Economic Analysis (BEA) will publish its first or "advance" guesstimate of third-quarter 2016 Gross Domestic Product (GDP) on Friday, October 28th. Detail will be covered in *Commentary No. 844* of that date.

Given the political circumstance of the 2016 presidential election following eleven days later, on November 8th, almost anything is possible. That said, consensus indications are holding unrealistically high, above 2.0%. Where the BEA likes to target the consensus outlook in the initial GDP estimate, that would be up from the current headline, annualized quarterly real gain of 1.4% in second-quarter 2016 GDP, a politically-acceptable improvement. Underlying reality remains much weaker, likely in actual contraction. The first revision to third-quarter GDP on November 29th is a good bet to revise below 1.0%, perhaps to around 0.7% to 0.8%, heading lower thereafter.

PLANNED UPDATES: Comprehensive *Special Report* and ShadowStats Website. ShadowStats is updating fully, into one, massive background piece—a *Special Report (Commentary)*—the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). All of that will be in the context of incorporating and fully revising, wherever necessary, the materials in the *2014 Hyperinflation Report—The End Game Begins*, *2014 Hyperinflation Report—Great Economic Tumble*, *No. 777 Year-End Special Commentary* and other intervening missives, including the most-recent *Hyperinflation Outlook Summary* as found in *Commentary No. 783*.

The various background articles available at the www.ShadowStats.com site also will be updated in the process, including those first published in 2004 as introductory articles to the site. As usual, all original material will remain available to subscribers (all original public material also will remain available to anyone visiting the site).

As to timing, the *Special Report* will follow the November U.S. presidential election, as discussed in the *Special Note to Subscribers* at the beginning of *Commentary No. 839*. It will include updated, consistent GAAP-based financial detail on the U.S. government's financial condition through September 30, 2015 and initial prospects for the fiscal year ended September 30, 2016.

Updates to the various public materials on the Web site will be staggered through year-end. The introduction of the *2004 Primer Series* will be first (the link is to the initial background article that addressed among other issues political manipulation of data).

We also will introduce, in conjunction with the *Special Report*, a section with links to books and articles that we and/or our readers have found of particular interest and substance. Many thanks to those who already have submitted recommendations of specific books and publications. Anyone with materials they would like to have considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.

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