

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

COMMENTARY NUMBER 873
February New Residential Construction, FOMC Policy
March 16, 2017

**FOMC Focus Remains Banking-System Solvency;
Economic Activity and Inflation Are Secondary Concerns,
Other than for Banking-System Impact**

Dollar Selling and Gold Buying Suggest Markets Are Sensing Trouble

**Housing Starts Hit a Post-World War II Low in 2009;
Yet, February 2017 Activity Still Has Not Recovered the
Pre-Recession Peak Level of Any Post-World War II Downturn**

**February Housing Starts Six-Month Moving Average Hit Its Highest Level
Since the 2009 Economic Trough, Activity Last Seen in 1995, but
It Still Is 44% (-44%) Shy of the Pre-2007 Recession Peak Level**

**Headline Monthly February Housing Starts and Building Permits
Held in Non-Recovering, Low-Level Stagnation, Down Respectively by
43% (-43%) and 46% (-46%) from Their Pre-Recession Highs**

PLEASE NOTE: The next regular Commentary, tomorrow Friday, March 17th, will cover February Industrial Production and an updated economic review. Please call me at (707) 763-5786, if you have questions or would like to talk.

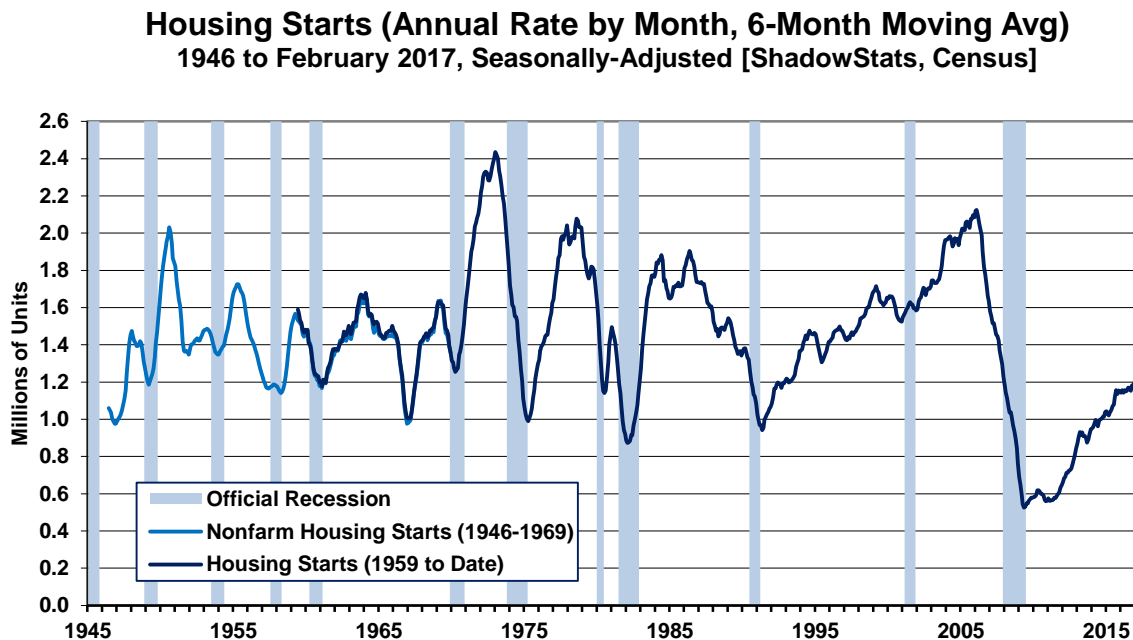
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Real-World Activity Continues to Falter, Irrespective of FOMC Hype. The Federal Reserve Board's Federal Open Market Committee (FOMC) boosted the targeted federal funds rate by a quarter-point, yesterday, March 15th, to a range of 0.75% to 1.00%. The background to the FOMC action is discussed in these *Opening Comments* and the *Hyperinflation Watch*, while the broad background to underlying economic activity will be reviewed in tomorrow's, March 17th *Commentary No. 874*.

Subsequent to the discussion in yesterday's [Commentary No. 872](#) of new economic-warning signals, tied to rapidly-collapsing, inflation-adjusted real annual growth in Money Supply M3 (the ShadowStats Ongoing Measure), and to pending, successive quarterly contractions and a quarterly year-to-year contraction in real average weekly earnings, today's missive reviews reporting of residential construction.

Opening Graph: Housing Starts (Annualized Monthly Rate of Activity, 6-Month Moving Avg), 1946 to Date
(Same as Graph 19 in the *Reporting Detail* section.)



Where the housing starts series remains extremely volatile and unstable in monthly reporting, smoothed with a six-month moving average it is a solid, leading indicator of housing-industry activity. Collapsing from 2006 into 2009—as reflected in the accompanying graph—the housing industry helped to lead the rest of the economy into the worst economic downturn since the Great Depression. Housing Starts activity collapsed to a post-World War II low in 2009, but despite the current smoothed level of activity being at its highest level since the 2009 trough, it has recovered only to the level of activity seen in 1995, still holding 44% (-44%) shy of recovering its pre-2007 recession peak. In historical perspective, the

current level of activity remains closer to post-World War II recession troughs than peaks. In fact, current housing-starts activity has yet to reach a level that would top any of the pre-recession peaks seen for the eleven post-War downturns.

As the housing industry led the rest of the economy into its collapse, from 2006 into 2009, related financial stresses triggered the Panic of 2008, the effective failure of the domestic- and global-banking and financial systems, and a so-far never-ending mission of the Federal Reserve to salvage those systems. With current systemic circumstances in a questionable state of stability, recent efforts by the Fed largely have been an attempt to escape the consequences of its various quantitative-easing programs.

The March 15th rate hike was such an effort, yet, underlying fundamental weakness and broadly-deteriorating conditions in the U.S. economy, such as seen in the residential-construction area, continue to threaten banking-system and financial-market stability. As domestic business conditions continue to deteriorate, intensifying banking-system stress, the Fed will have little choice but to shift monetary policy back towards quantitative easing.

The U.S. central bank already has committed to saving the domestic banking system, at any cost. As the markets increasingly recognize the Fed's dilemma, intense selling pressure should mount against the U.S. dollar, with an increasing flight of capital into wealth-preserving assets such as the precious metals, gold and silver (see the *Hyperinflation Watch* section). Current market activity in those directions already may reflect growing concerns over the nature of Federal Reserve policy.

Today's Commentary (March 16th). The balance of these *Opening Comments and Executive Summary* covers summary detail from February 2017 Residential Construction reporting, with the headline numbers expanded upon in the *Reporting Detail*.

The *Hyperinflation Watch* updates the U.S. dollar circumstance and related activity in gold, silver and oil prices, all in the context of the latest FOMC actions.

The *Week, Month and Year Ahead* updates the preview for tomorrow's (March 17th) reporting of February Industrial Production.

Executive Summary: New Residential Construction—February 2017—Continued Low-Level, Non-Recovering Stagnation. Smoothed and viewed in terms of its six-month moving average, housing starts activity still showed a plunge from its 2006 pre-recession peak to a trough in 2009, followed by a protracted period of up-trending but non-recovering low-level activity. That flattened out in the last year or two (see *Graph 4* and *Graphs 17* and *19* in the *Reporting Detail*). Plotted with just the raw, seasonally-adjusted monthly data, the pattern of low-level stagnation broadly is the same, with the headline February 2017 level of starts still shy by 43% (-43%) of recovering its pre-recession peak (see *Graphs 3* and the discussion in the *Opening Comments*).

Headline Reporting. February 2017 housing starts gained 3.0%, for the month following a revised monthly decline of 1.9% (-1.9%) in January 2017. Level-of-activity aggregate detail is plotted in *Graphs 2* to *5* here, and in *Graphs 15, 17, 18* and *19* in the *Reporting Detail*.

Year-to-year change in the seasonally-adjusted, February 2017 aggregate housing-starts measure was a statistically-insignificant 6.2%, versus a revised annual gain of 10.9% in January 2017. As usually is the case, none of the monthly or annual changes was statistically significant.

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 condominiums, rental and apartment units. In February, growth in single-unit starts outweighed a decline multi-unit starts for a net aggregate gain. Graphs of the different sectors follow in the accompanying *Graphs 1 to 8*.

A Note on the Regular Housing Starts Graphs. [This section largely is repeated from the Reporting Detail section.] Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,288,000 in February 2017, versus an upwardly-revised 1,251,000 [previously 1,246,000] in January 2017. The scaling used in the aggregate housing starts and building permits *Graphs 14 to 19* in the *Reporting Detail* section reflects those annualized numbers.

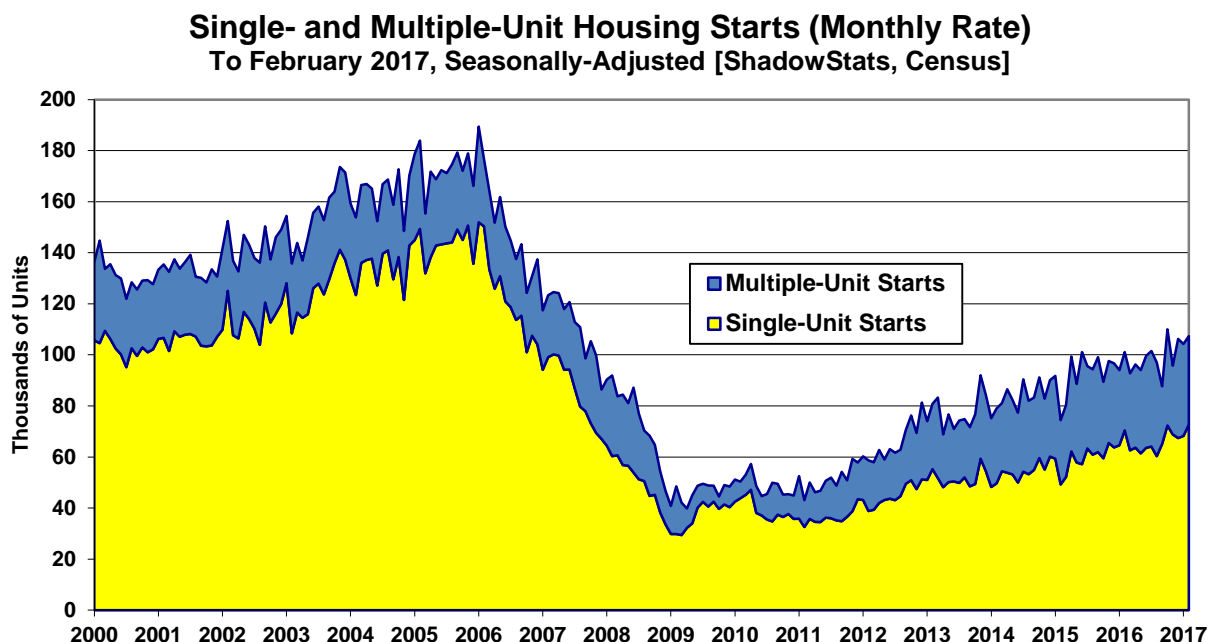
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the unrevised headline, month-to-month gain of 268,000 in October 2016 was larger than any actual level of (not change in) monthly starts, ever (in units per month, not annualized), for a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 107,333 units in February 2017, instead of the annualized headline level of 1,288,000 units, is used in the scaling of the accompanying *Graphs 1 to 8*. 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 seen in a comparison of *Graph 3* versus *Graph 15*.

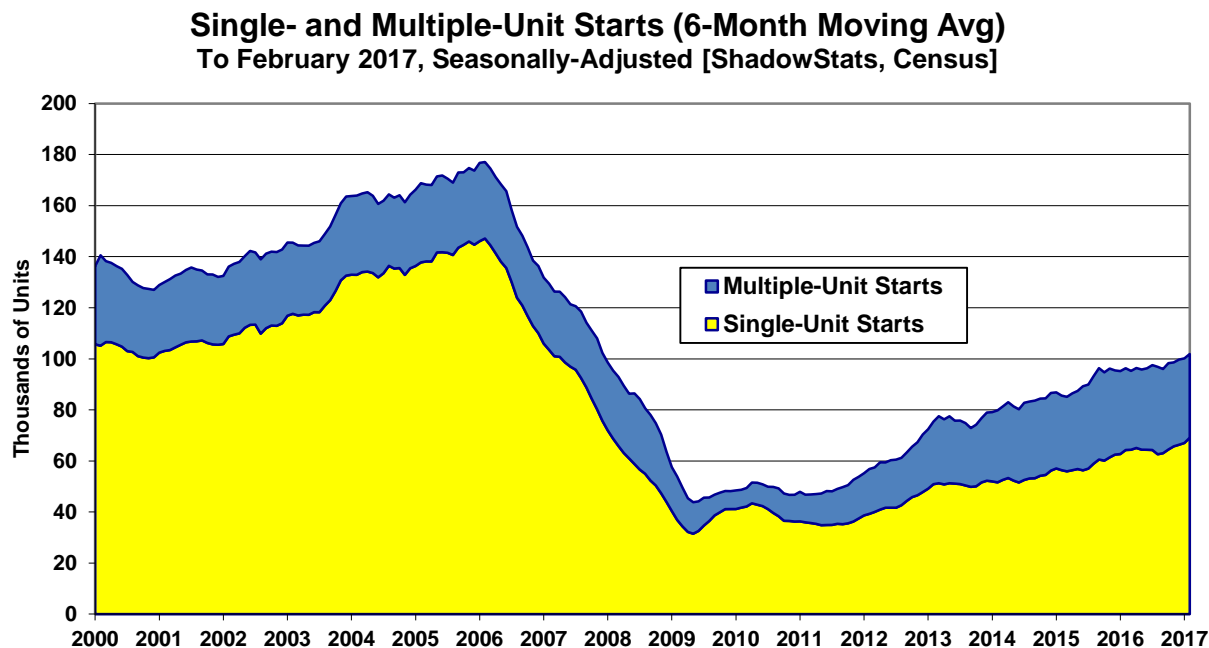
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak for the series. Against that downside-spiked low in April 2009, the February 2017 headline monthly number was up by 169%, but it still was down by 43% (-43%) from the January 2006 pre-recession high. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in relative stagnation still at low levels that otherwise have been seen at or near the historical troughs of other recession activity of the last 70 years, as reflected in *Graphs 18 and 19* and the *Opening Graph* in the *Opening Comments*. In fact, as headlined earlier, current housing starts activity not only has failed to recover the current pre-recession (pre-collapse into 2009), but also has yet to recover to the level of any pre-recession peak activity seen in the entire post-World War II era.

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

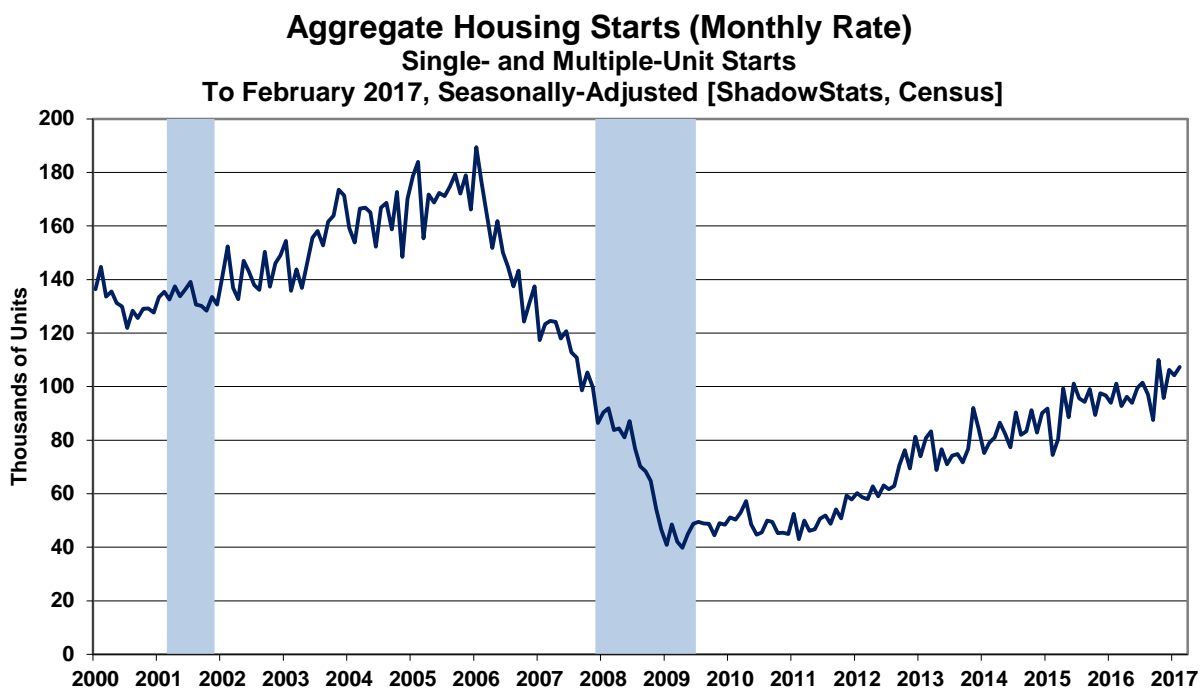
Graph 1: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



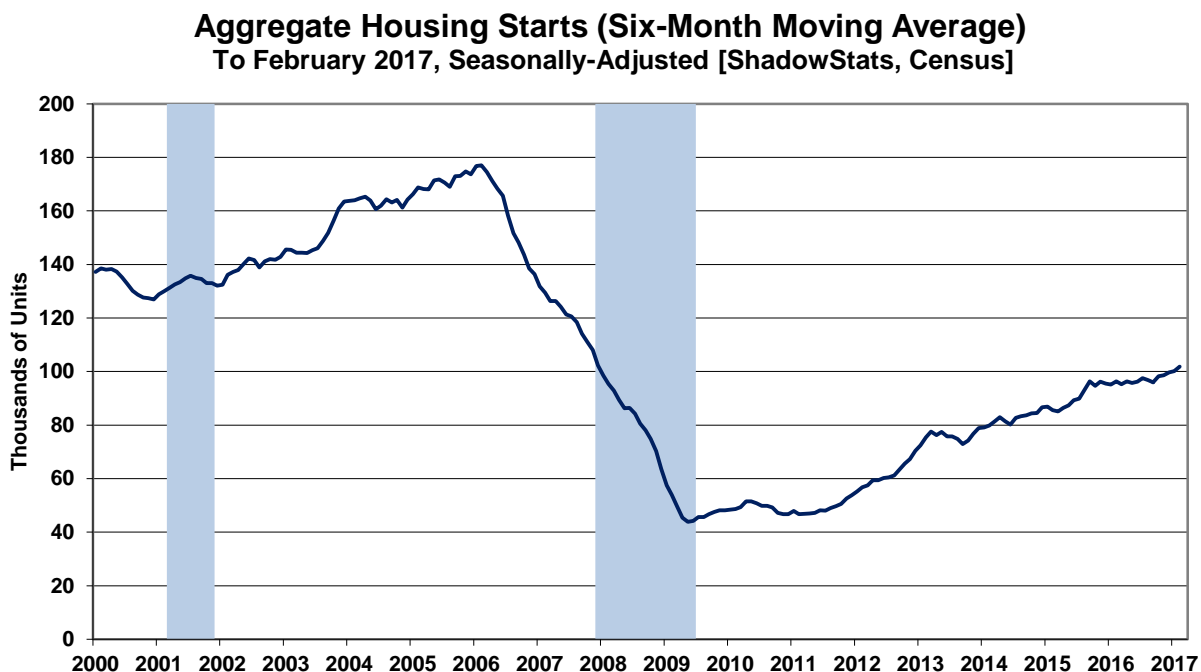
Graph 2: Single- and Multiple-Unit Starts (Six-Month Moving Average, Monthly Rate of Activity)



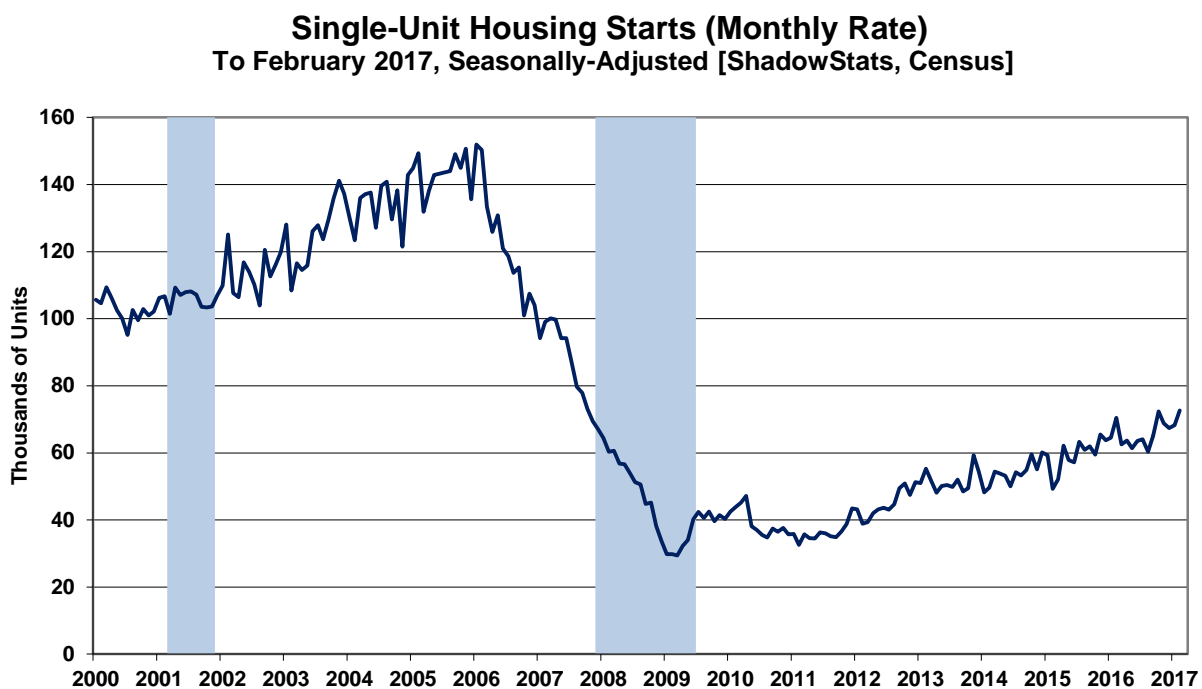
Graph 3: Aggregate Housing Starts (Monthly Rate of Activity)



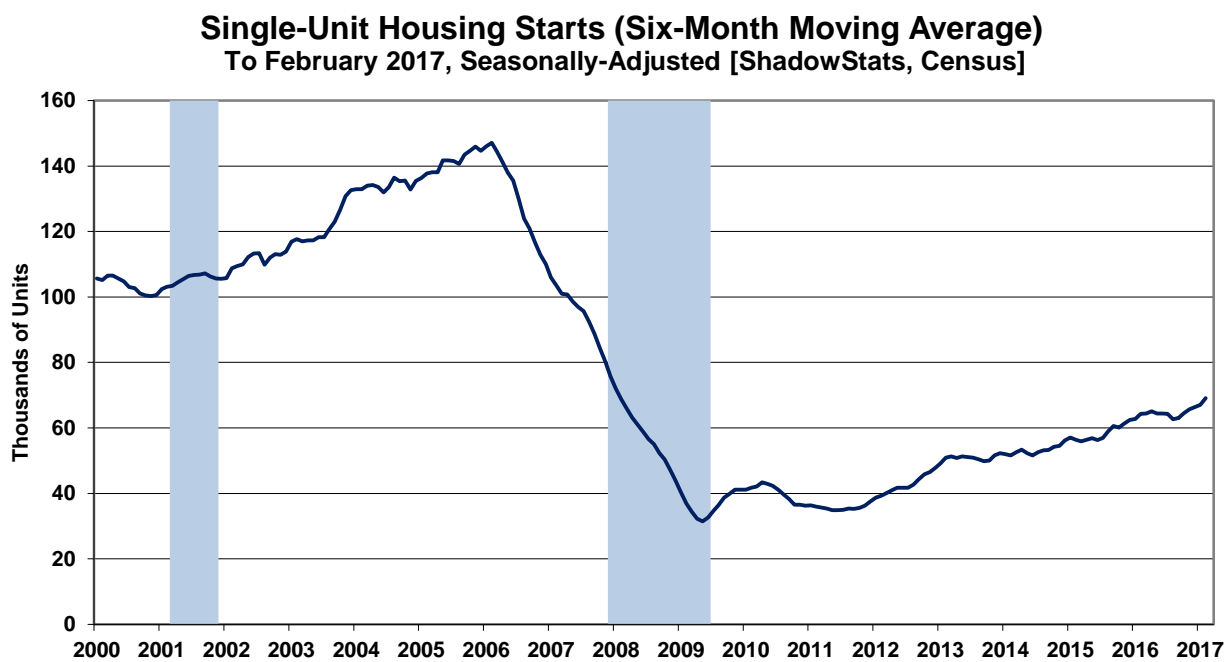
Graph 4: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



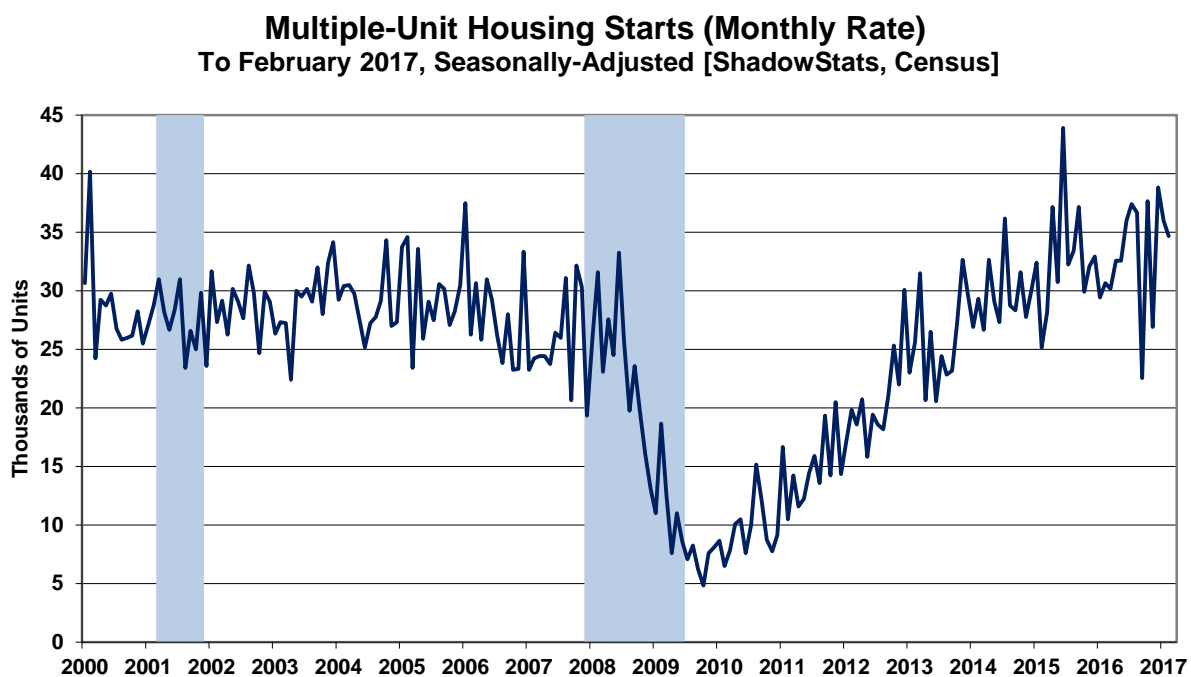
Graph 5: Single-Unit Housing Starts (Monthly Rate of Activity)



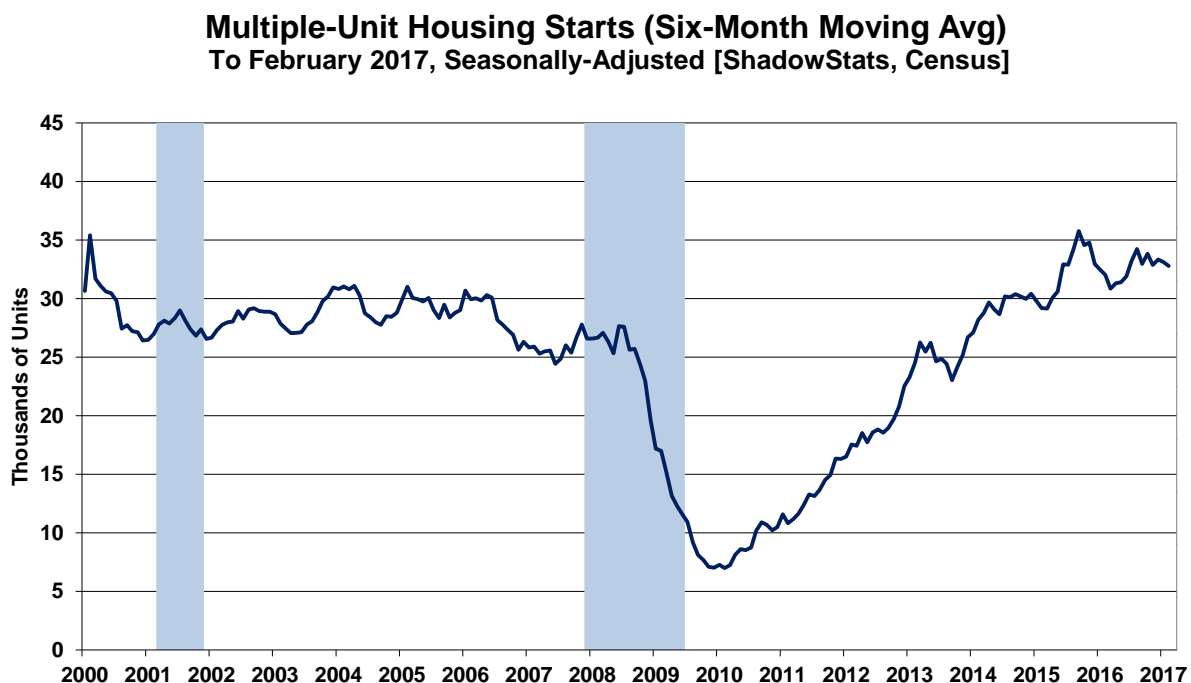
Graph 6: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



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 contains significant further analysis and graphs on Residential Investment.]

HYPERINFLATION WATCH

Dollar Selling and Gold Buying Suggest the Markets Are Beginning to Sense Trouble for the FOMC. In the wake of the yesterday's March 15th quarter-point boost in the federal funds rate by the Federal Reserve Board's Federal Open Market Committee (FOMC), the U.S. dollar has declined somewhat more than one-percent on a trade-weighted basis and gold and silver prices have rallied by somewhat over two-percent, as we go to press the afternoon of March 16th. While Fed rate hikes tend to help the dollar, some commentators have suggested that the markets found the [FOMC Statement](#) to be less-aggressive than anticipated. That well may be the case.

Nonetheless, as discussed briefly in today's *Opening Comments*, in yesterday's [Commentary No. 872](#) and as will be discussed in tomorrow's *Commentary No. 874*, underlying, weaker-economic reality and likely weakening-headline data loom in the next month or two. That circumstance should move the Fed from a less-aggressive tightening stance, to an aggressive accommodation mode. With an intensifying economic downturn in hand—irrespective of potential positive economic impact in 2018 from promised economic stimulus—the FOMC likely will move back towards quantitative easing, in an effort to soften what should be mounting, renewed solvency concerns in the banking and financial systems. It is the systemic-solvency issues, not the economy *per se*, driving the Fed's actions.

FOMC Focus Remains Banking-System Solvency; Economic Activity and Inflation Are Peripheral Concerns Other than for Banking-System Impact. The current ShadowStats assessment of faltering-economic activity pushing the FOMC back towards an expanded form of quantitative easing, and various, possible economic and financial scenarios facing the Trump Administration, were reviewed in [No. 859 Special Commentary](#) of January 8th, which is included here by reference. That broad outlook has not changed since that *Special Commentary*, particularly in the context of the most-recent rate hike.

Consider, as the banking system approached the brink of collapse in the Panic of 2008, the Fed and the U.S. Treasury opted to save the system at any and all costs, which involved creating, spending, buying, lending whatever money, and guaranteeing whatever obligations, liabilities or circumstances that had to be covered. The stopgap measures saved the system, temporarily buying time, but none of the major underlying issues—such as the collapsing domestic economy and long-term solvency issues facing the U.S. Treasury—were addressed.

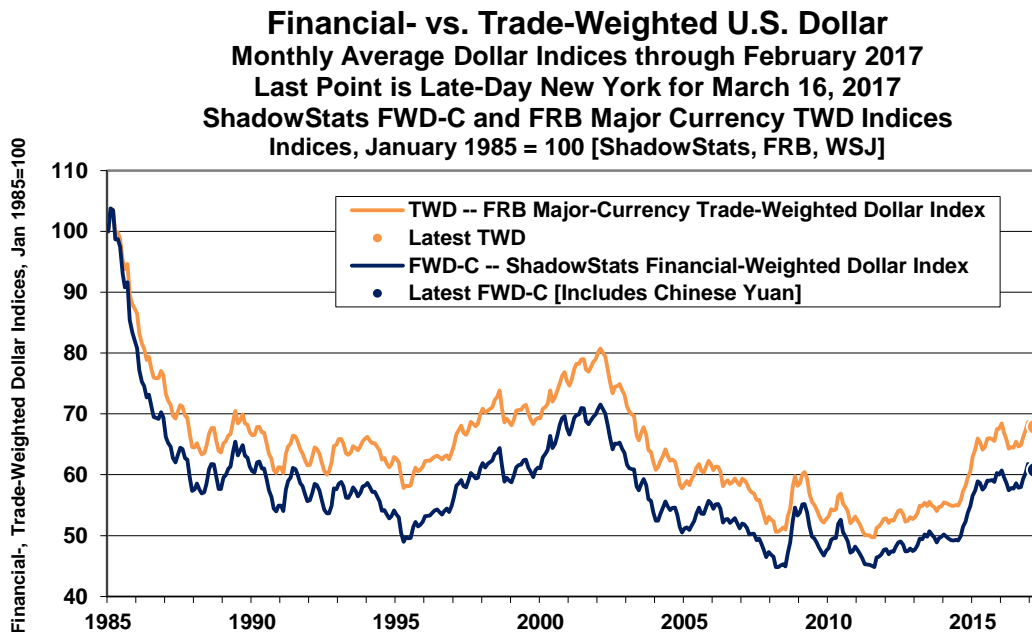
The Fed's primary job always has been to support the banking system. Purported economic stimulus from the various forms of quantitative easing was nonsense, it always was about providing liquidity to the banking system. Talk of economic justification for quantitative easing was the Fed's political cover for those banking-system bailout actions, and such remains the case. Again, see [No. 859](#) for expanded detail.

What has changed since the first of the year is some subsequent weakening in headline economic detail, with the value of the U.S. dollar moving off its recent highs, and with gold and silver prices moving off

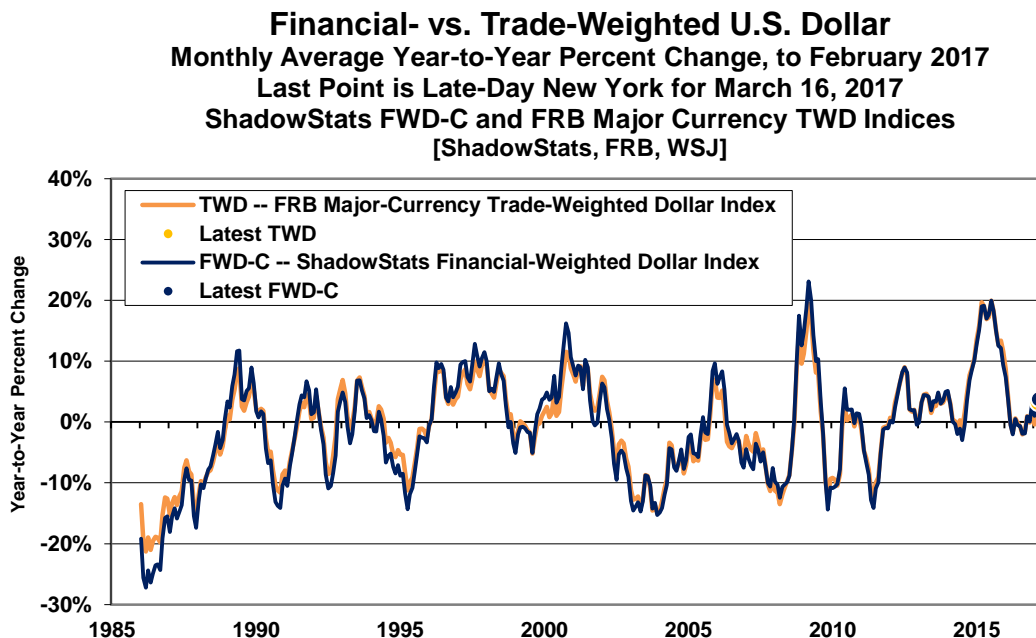
recent bottoms. Those trends generally should continue, despite further Federal Reserve jawboning for more interest-rate hikes. An intensified economic downturn increasingly will damage Fed credibility on further rate hikes.

The updated U.S. dollar and gold graphs that usually would have accompanied yesterday's monthly CPI [Commentary No. 872](#) follow: showing post-FOMC monthly-average plots of February prices covering the U.S. Dollar (*Graphs 9 and 10*), along with gold (*Graphs 11, 12 and 12*), where the March points on the graphs reflect late-day New York prices for Thursday, March 16th.

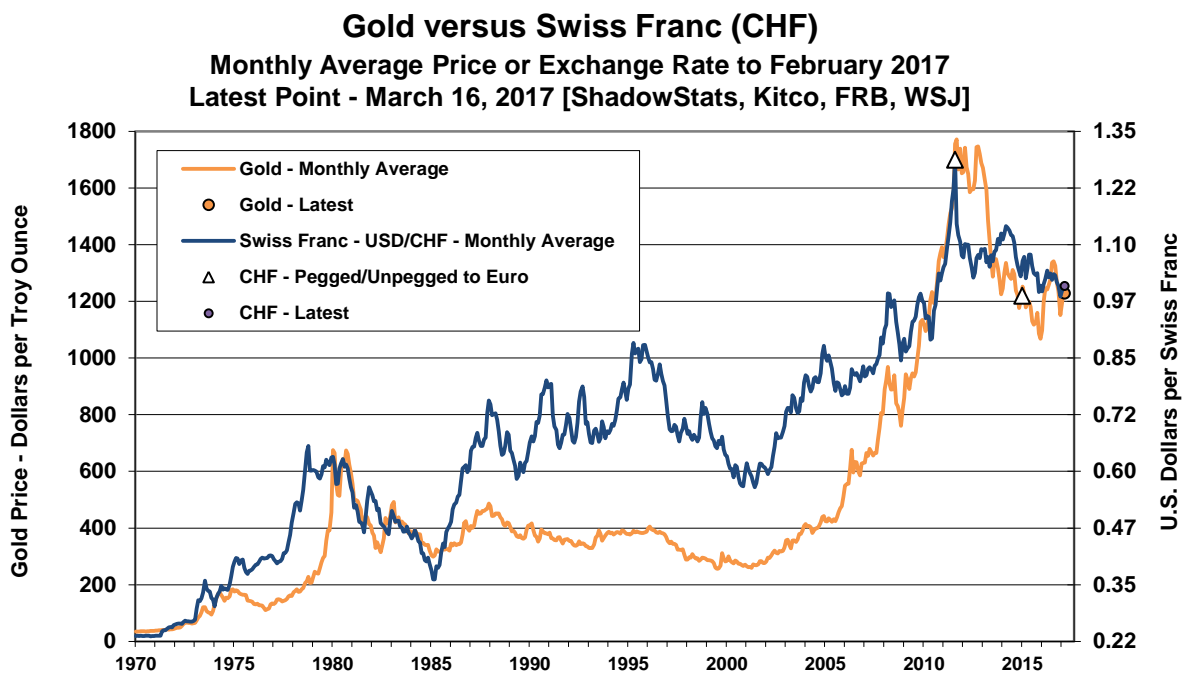
Graph 9: Financial- versus Trade-Weighted U.S. Dollar



Graph 10: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar

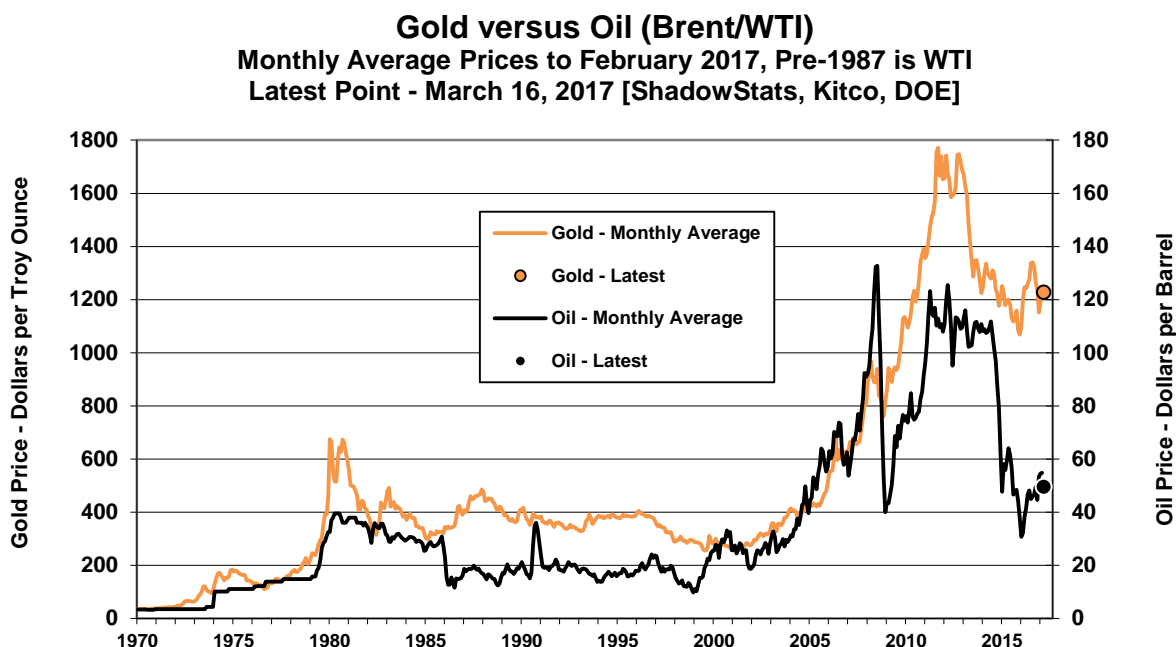


Graph 11: Gold versus the Swiss Franc



Graph 12: Gold versus Silver



Graph 13: Gold versus Oil

REPORTING DETAIL

NEW RESIDENTIAL CONSTRUCTION (February 2017)

Stagnant, Statistically-Insignificant Changes in, and Revisions to, Housing Starts Activity. After months of recent, extreme reporting volatility, where, for example, October 2016 showed a 37-year high monthly gain of 25.5%, February 2017 aggregate housing starts gained month-to-month by a relatively quiet 3.0%, and 6.2% year-to-year. That was in the context of mixed and minimal prior-period revisions back to December 2016. None of the related monthly or annual changes were close to being statistically significant, where statistical insignificance has become the common background to nearly all the regular reporting of these monthly and annual data.

Smoothed and viewed in terms of its six-month moving average, housing starts activity still showed a plunge from its 2006 pre-recession peak to a trough in 2009, followed by a protracted period of up-

trending but non-recovering low-level activity. That flattened out in the last year or two (see *Graphs 17* and *19* in this *Reporting Detail* and *Graph 4* in the *Executive Summary*). Plotted with just the raw, seasonally-adjusted monthly data, the pattern of low-level stagnation broadly is the same, with the headline February 2017 level of starts still shy by 43% (-43%) of recovering its pre-recession peak (see *Graphs 15* and *3*, respectively in this *Reporting Detail* and in the *Executive Summary*).

February 2017 Monthly Gain Reflected Declining Multiple-Unit Starts More than Offset by Increasing Single-Unit Starts. In the context of roughly parallel upside revisions to December and January activity, aggregate February housing starts gained 3.0% month-to-month. Again, these monthly numbers remain highly unstable and are of extremely limited short-term significance, with negligible leading indications of monthly change or relative volatility provided by the related building permits series.

Smoothed with six-month moving averages, both the housing-starts and building-permits series remained in flat-to-up-trending, low-level stagnation (see *Graph 4* in the *Executive Summary* section, and *Graphs 16* and *17* here). Neither headline permits nor starts has recovered from the collapse into 2009, with current activity down from pre-recession peaks by 46% (-46%) for permits, and, again, by 43% (-43%) for starts.

Fourth-Quarter 2016 Housing Starts Gained Quarter-to-Quarter and Year-to-Year, Following Third-Quarter Contractions, First-Quarter 2017 Trending Towards Weaker Growth. The unstable total housing-starts count fell at annualized quarter-to-quarter 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 holds at 6.0%. Second-quarter 2016 also held, at an annualized quarterly gain of 2.8%. Third-quarter 2016 activity was unrevised with the latest detail, holding negative on both an annual and annualized-quarterly basis, down on an annual basis by 1.0% (-1.0%), the first year-to-year decline since first-quarter 2014, and down at an annualized quarterly pace of 5.0% (-5.0%).

Fourth-quarter 2016 housing starts showed annualized revised quarterly growth of 41.3% [previously 41.9%], up by a revised 10.0% [previously 10.1%] year-to-year. With two months in place, annualized first-quarter 2017 housing starts are on track for an annualized quarterly gain of 7.1% [previously a contraction of 1.1% (-1.1%) based just on January], and an annual gain of 10.3% [previously 8.2% based just on January].

Smoothed Numbers. Despite the extreme volatility and instabilities in the Housing Starts series, the general pattern of low-level stagnation continued. Again, the six-month moving-average pattern for the aggregate series remained about as flat as one ever sees, albeit now somewhat up-trending, still in low-level stagnation, reflecting the most-recent headline detail (*Graphs 4* and *17*), with the same pattern of stability also seen broadly in raw monthly data (*Graphs 3* and *15*). That general pattern also can be viewed in terms of the longer-range historical graphs of aggregate activity (*Graphs 18* and *19*) at the end of this section. Parallel graphs of monthly and six-month moving average Building Permits detail are found in *Graphs 14* and *16*. Given the broad pattern of stagnation in both the aggregate starts and permits series, headline total February 2017 activity, again, remained well below any recovery level, with starts

down from their January 2006 pre-recession high by 43% (-43%), and with permits down by 46% (-46%) from their September 2005 pre-recession peak activity.

Returning fully to the February 2017 housing starts monthly detail, the dominant (65.5% of total starts) single-unit housing starts sector of that series (*Graphs 5 and 6 in the Opening Comments*) was down by 52% (-52%) from its January 2006 pre-recession peak.

In contrast the smaller count in the multiple-unit category (two units or more), 34.5% of the total, hit its recent high in June 2015, topping its pre-recession January 2006 peak by 11.9%. It dropped below that 2006 high by 7.6% (-7.6%) as of February 2017.

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). That reflected a blend of the low-level stagnation (albeit up-trending) in the six-month-smoothed single-unit activity (*Graph 6*), with the more-volatile, smoothed multiple-unit starts (*Graph 8*), which had rebounded and held at pre-recession levels (albeit currently down-trending).

Consumer Liquidity Problems Continue to Impair Residential Construction Activity. As with retail sales, an extreme consumer-liquidity bind continues to constrain residential real estate activity, as updated in [Commentary No. 871](#) and as fully reviewed in the *CONSUMER LIQUIDITY* section of [No. 859 Special Commentary](#). 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 residential construction.

February 2017 Housing Starts, Headline Reporting. The continued, always unstable and highly volatile aggregate Housing Starts series increased month-to-month in February 2017, in the context of an upside revision to the level of January 2017 activity, on top of a slightly smaller upside shift to December 2016. The Census Bureau reported this morning, March 16th, a statistically-insignificant, seasonally-adjusted, headline monthly gain in February 2017 housing starts of 3.0% +/- 15.2% (all confidence intervals are expressed at the 95% level).

That followed a revised monthly decline of 1.9% (-1.9%) [previously down by 2.6% (-2.6%)] in January 2017 and a revised 11.0% [previously and initially 11.3%] gain in December 2016. Net of prior-period revisions, February 2017 rose by 3.4% for the month, instead of the headline 3.0% gain. Level-of-activity aggregate detail is plotted in *Graphs 2 to 5* of the *Executive Summary*, and in *Graphs 15, 17, 18 and 19* at the end of this section.

Year-to-year change in the seasonally-adjusted, February 2017 aggregate housing-starts measure was a statistically-insignificant gain of 6.2% +/- 12.2%, versus a revised annual gain of 10.9% [previously 10.5%] in January 2017 and a revised gain of 9.9% [previously 10.3%, initially up by 5.7%] in December 2016.

The February 2017 headline gain of 3.0% in total housing starts encompassed a headline gain of 6.5% in the “one unit” category and a drop of 7.7% (-7.7%) in the “five units or more” category. There is a missing balance in the “two to four units” category, which jumped by 566.7% month-to-month in

February. Where that category is considered to be too small to be meaningful, it did affect the aggregates, as discussed later in the broader, aggregate “multiple unit” category. Most commonly, not one of the monthly or annual headline changes by category is statistically meaningful, which again was the case in February 2017.

Housing Starts By-Unit Category. [See Graphs 1 to 8 in the Executive Summary.] 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 condominiums, rental and apartment units.

Housing starts for single-unit structures in February 2017 rose month-to-month by a statistically-insignificant 6.5% +/- 12.8%, following a revised monthly gain of 1.2% [previously 1.9%] in January 2017 and a revised decline of 2.1% (-2.1%) [previously down by 2.2% (-2.2%), initially 4.0% (-4.0%)] in December 2016. Net of prior-period revisions, February 2017 single-unit starts gained 6.0% month-to-month, instead of the headline 6.5%. February 2017 single-unit starts showed a statistically-insignificant annual gain of 3.2% +/- 10.1%, versus a revised 5.7% [previously 6.2%] annual gain in January 2017 and a revised 5.7% [previously 5.6%, initially 3.9%] annual gain in December 2016 (see *Graphs 3, 4, 7 and 8* in the *Executive Summary*).

Housing starts for apartment buildings, condominiums, etc. (generally 5-units-or-more) in January 2017 declined month-to-month by a statistically-insignificant 7.7% (-7.7%) +/- 35.3%, versus a revised decline of 6.1% (-6.1%) [previously 7.9% (-7.9%)] in January 2017 and a revised 41.9% [previously 42.8%, initially 53.9%] gain in December 2016. Net of prior-period revisions, February 2017 declined by 5.9% (-5.9%), instead of the headline 7.7% (-7.7%) decline. A statistically-insignificant year-to-year gain of 11.2% +/- 38.4% in January 2017 followed a revised gain of 28.1% [previously 25.7%] in January and a revised annual gain of 20.1% [previously 20.9%, initially 10.3%] in December 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 *Executive Summary*).

Accordingly, the statistically-insignificant February monthly gain of 3.0% in aggregate starts was composed of a statistically-insignificant gain of 6.5% in one-unit structures and a statistically-insignificant decline of 3.7% (-3.7%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). In contrast, again, ex-2-units-or-more, the multiple-unit category declined by 7.7% (-7.7%). These series all are graphed in the *Executive Summary*.

A Note on the Regular Housing Starts Graphs. [This section largely is repeated in the Executive Summary.] Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,288,000 in February 2017, versus an upwardly-revised 1,251,000 [previously 1,246,000] in January 2017. The scaling used in the accompanying aggregate housing starts and building permits *Graphs 14 to 19* reflects those annualized numbers.

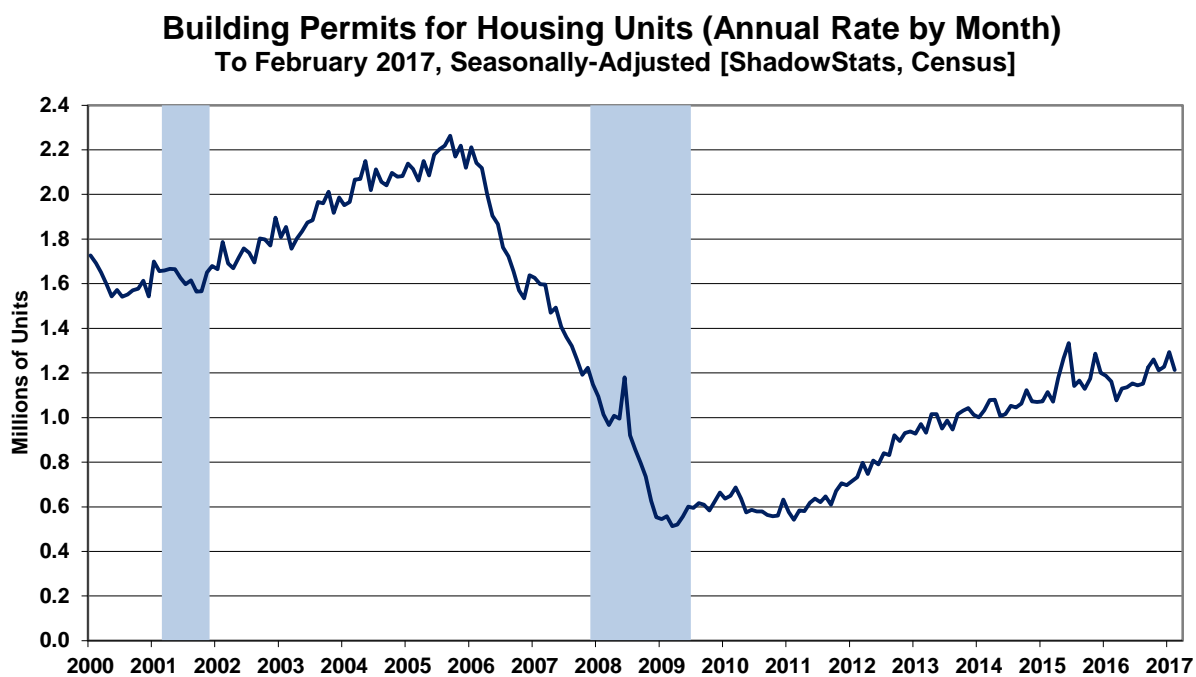
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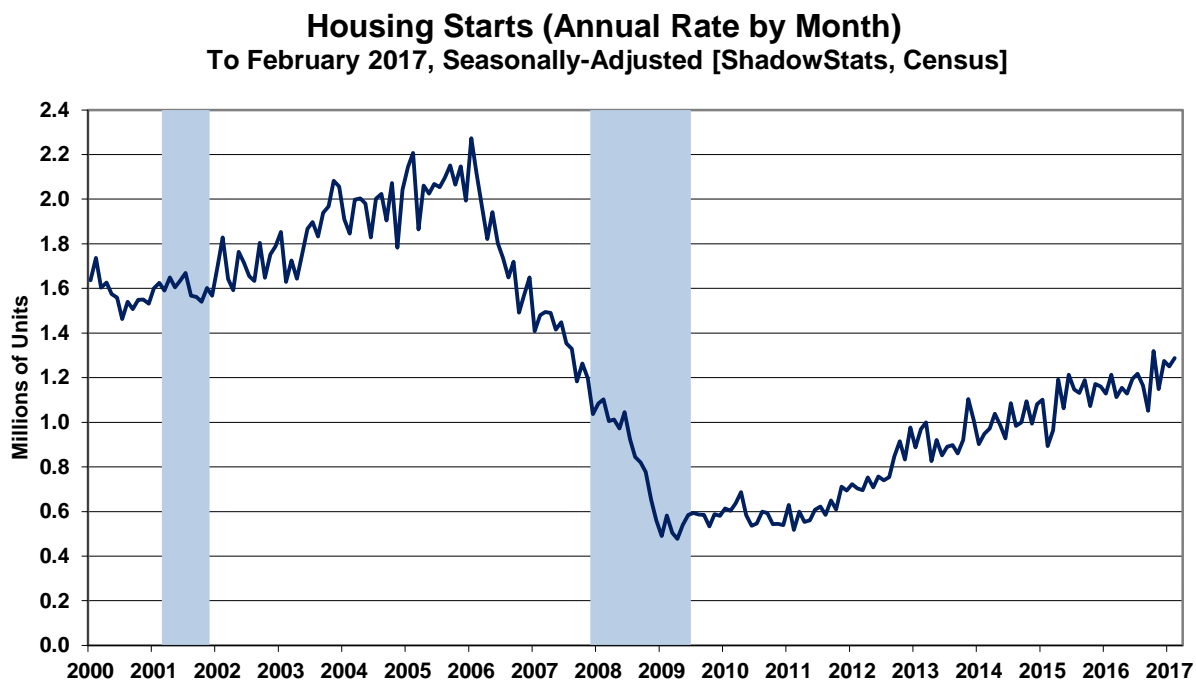
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[Graphs 14 to 19 begin on the next page.]

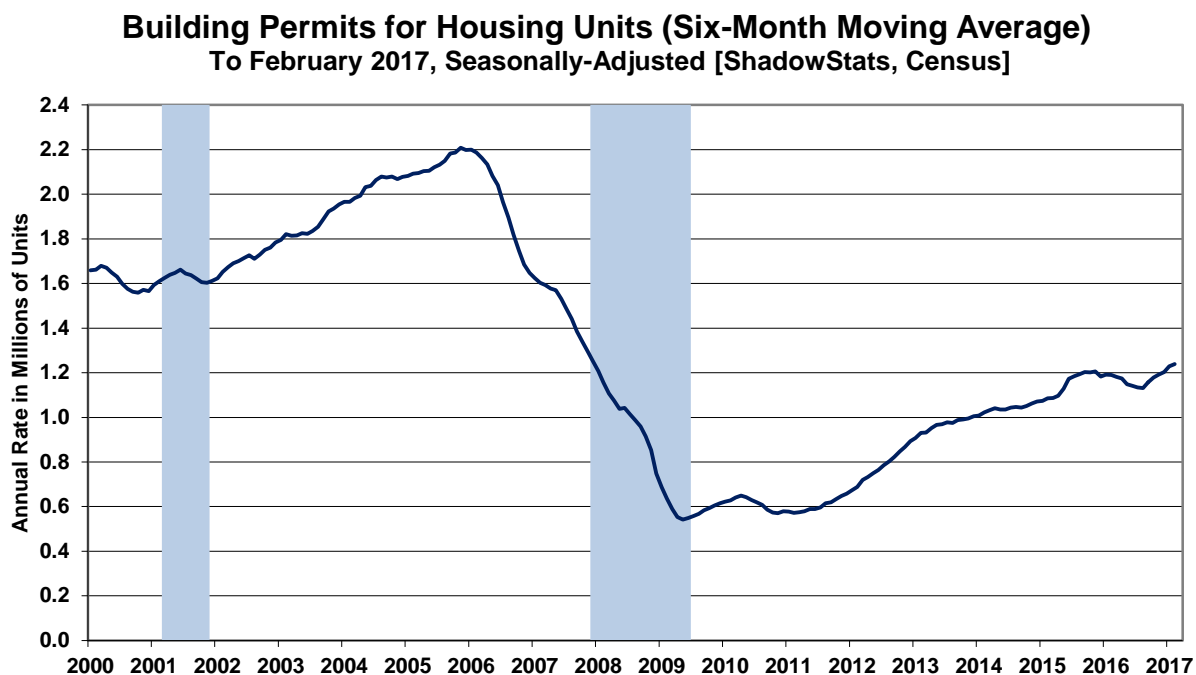
Graph 14: Building Permits (Annualized Monthly Rate of Activity), 2000 to Date



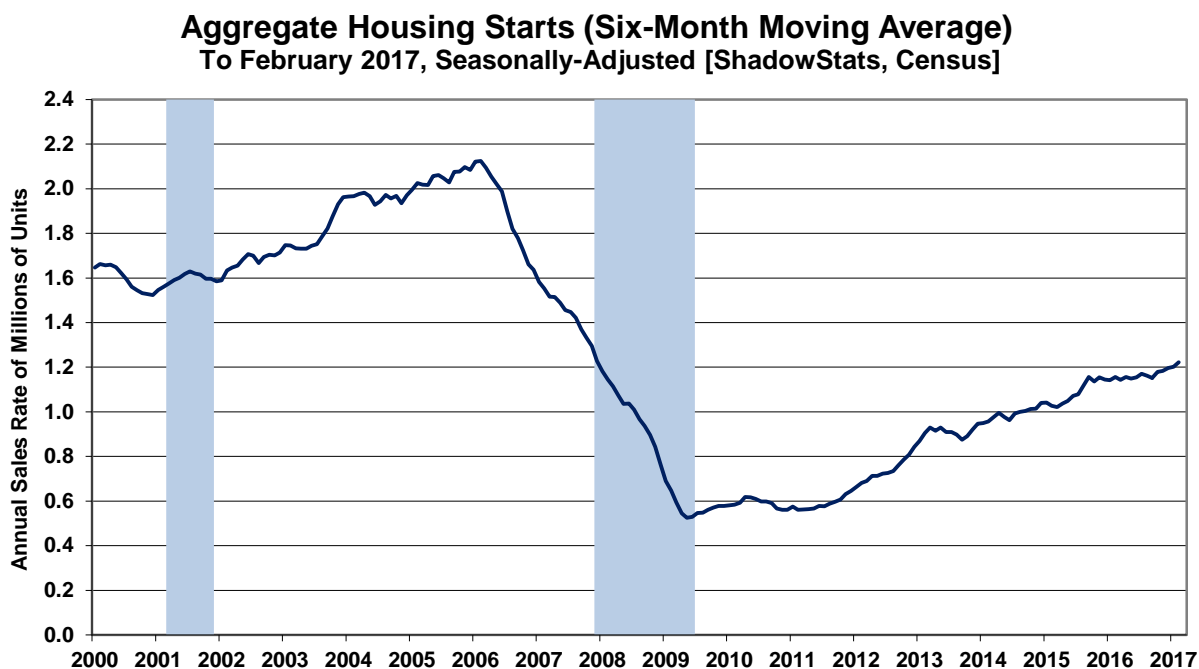
Graph 15: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date



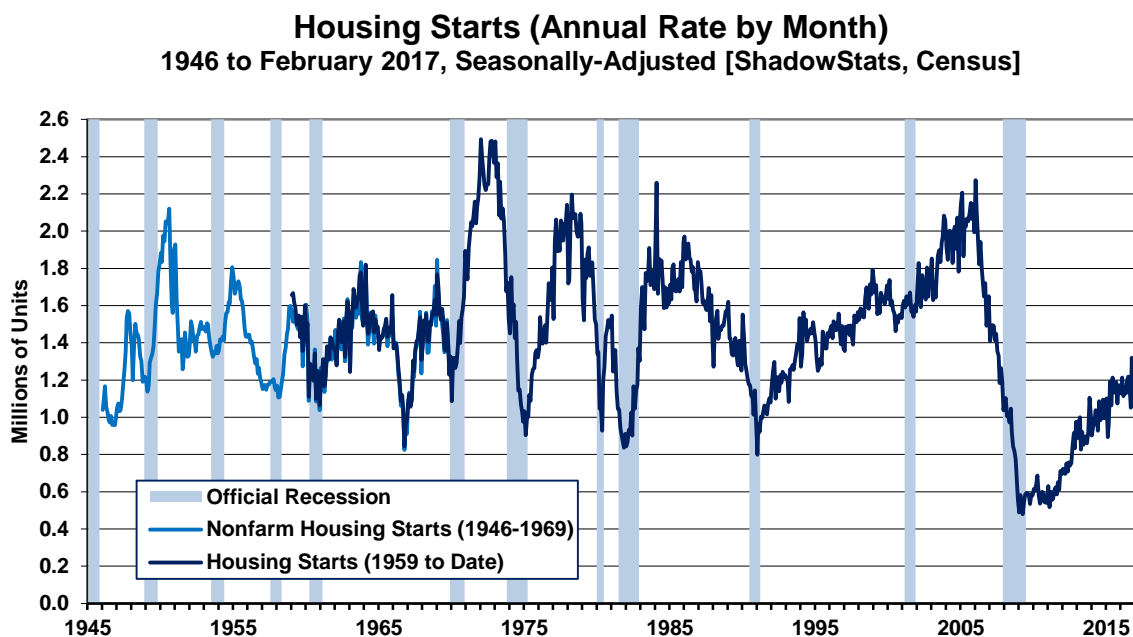
Graph 16: Building Permits (Six-Month Moving Average), 2000 to Date



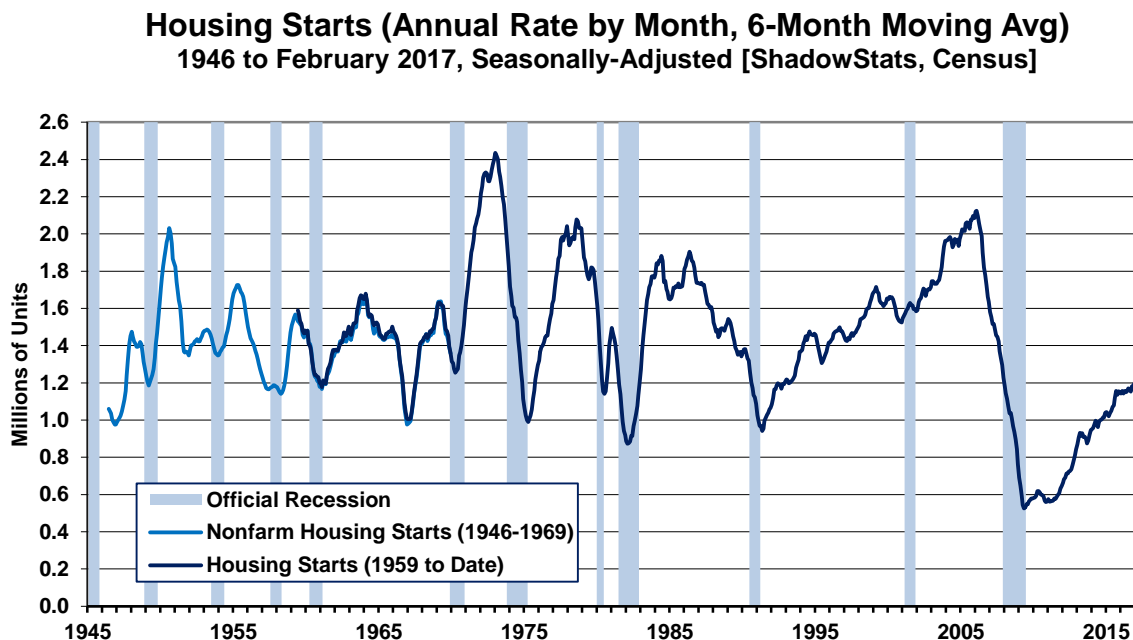
Graph 17: Housing Starts (Six-Month Moving Average), 2000 to Date



Graph 18: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date



Graph 19: Housing Starts (Annualized Monthly Rate of Activity, 6-Month Moving Avg), 1946 to Date



WEEK, MONTH AND YEAR AHEAD

Despite the March 15th Rate Hike, Continued Economic Woes Promise a Compromised, Frustrated Fed and Deteriorating U.S. Dollar Support. The outlook for future FOMC actions is reviewed in today's (March 16th) *Opening Comments*, while the assessment of current economic activity will be reviewed in the tomorrow's *Commentary No. 874*).

Accordingly, this opening section of the *Week, Month and Year Ahead* will not be separately updated, other than for links, until *Commentary No. 875*, planned for March 24th.

Prior General Background. Separately, [No. 859 Special Commentary](#) updated near-term economic and inflation conditions, and the outlook for same, including the general economic, inflation and systemic distortions evolving out of the Panic of 2008 that have continued in play, and which need to be addressed by the new Administration in the immediate future (see also the *Hyperinflation Watch* of [Commentary No. 862](#) and [Commentary No. 869](#)).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never fully recovered. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that should mark the beginning of a “new” formal recession (see [General Commentary No. 867](#)).

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has been making loud noises of raising interest rates, in order to contain an overheating economy. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: [No. 777 Year-End Special Commentary](#) (December 2015), [No. 742 Special Commentary: A World Increasingly Out of Balance](#) (August 2015) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#) (February 2015). Those publications updated the long-standing hyperinflation and economic outlooks published in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#) (April 2014) and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the [Public Commentary on Inflation Measurement](#) and the [Public Commentary on Unemployment Measurement](#).

Recent Commentaries:

[Commentary No. 872](#) offered some initial comment on the FOMC rate hike, in conjunction with the review of February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

[Commentary No. 871](#) covered February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

[Commentary No. 870](#) assessed the headline details for the January 2017 Trade Deficit and January Construction Spending, and reviewed prospects for an FOMC rate hike on March 15th.

[Commentary No. 869](#) reviewed and assessed underlying economic reality and a broad variety of indicators in the context of the second-estimate of fourth-quarter 2016 GDP.

[Commentary No. 868](#) covered the January 2017 reporting of New Orders for Durable Goods.

[General Commentary No. 867](#) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such is in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were January 2017 New- and Existing Home Sales.

[Commentary No. 866](#) reviewed the prior headline January 2017 detail of the CPI (and related series), PPI, Industrial Production, Residential Construction and Retail Sales, both nominal and real.

[Commentary No. 864](#) analyzed the prior January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

[Commentary No. 861](#) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations. The GAAP-detail will be reviewed this month in a *Special Commentary*.

[No. 859 Special Commentary](#) reviewed and previewed economic, financial and systemic developments of the year passed and the year or so ahead.

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 inflation and to overstate economic activity—as generally viewed in the common experience of Main Street, U.S.A.—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 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 2016 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 July 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](#), [Crudele on Census Bureau Fraud](#) and [John Crudele on Retail Sales](#).

PENDING RELEASE: Index of Industrial Production (February 2017). The Federal Reserve Board will publish its estimate of February 2017 Industrial Production tomorrow, Friday, March 17th, with coverage in *Commentary No. 874* of that date. As had most frequently been the case, recently, the headline monthly reporting should resume coming in on the downside of flat, and below consensus. While consensus expectations have settled in around a monthly gain of 0.2% to 0.3%, a headline monthly production drop remains likely, reflecting weaker manufacturing (disappointing robust automobile manufacturing expectations), offsetting any mining gains, combined with the recently gyrating utilities sector showing some relative stability. The headline detail also should be in the context of downside revisions within the last six months of data, with all current and recent production reporting also subject to an annual benchmark revision on March 31st.

PENDING SPECIAL COMMENTARIES: GAAP-Based Accounting of the U.S. Government (Fiscal-Year 2016). With some preview in [Commentary No. 861](#) and [No. 859 Special Commentary](#), full analysis is planned as a *Special Commentary* before the March 30th GDP revision and the March 31st annual benchmark revisions to Industrial Production.

The long-delayed consolidation of the major *ShadowStats* reporting into one volume, including the recommended reading list is targeted now for the third full week in April.