

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

COMMENTARY NUMBER 346
December Housing Starts

January 19, 2011

Housing Starts Collapse Accelerates Anew
Down an Annualized 30% in 4th- versus 3rd-Quarter

PLEASE NOTE: The next regular Commentary is planned for Friday, January 28th, following release of the "advance" fourth-quarter 2010 GDP estimate, with analyses also of December Home Sales and New Orders for Durable Goods scheduled for released earlier in the week.

-- Best wishes to all, John Williams

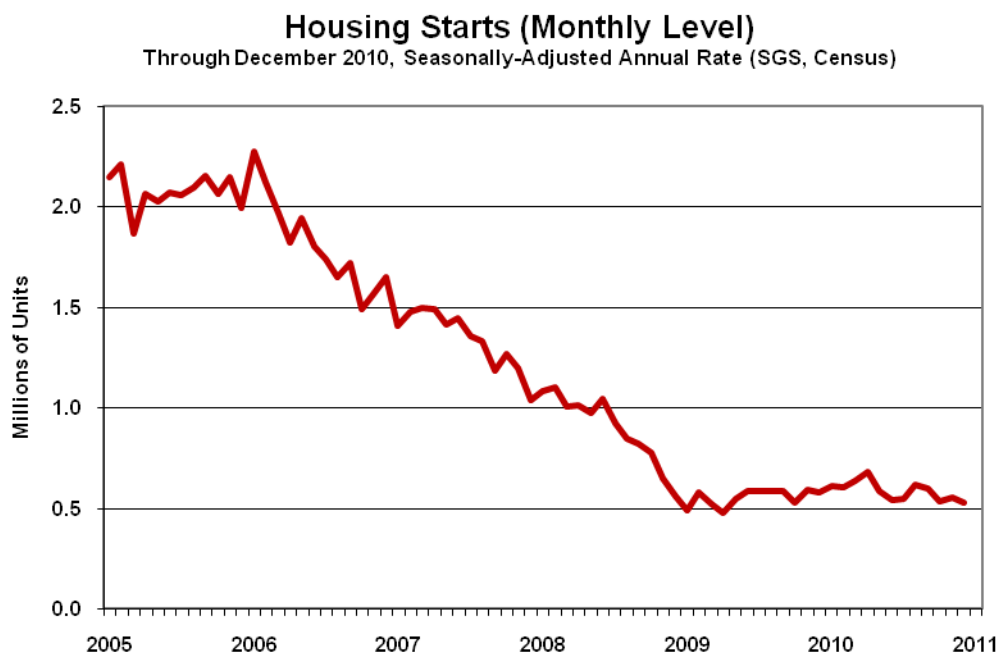
Quarterly Housing Starts Should Be a GDP Negative. The housing market is taking a renewed hit. After housing starts took an historic plunge of 79% from January 2006 through January 2009, the series effectively bottom-bounced at an historically low-level plateau for two years. A renewed downturn, however, now appears to have taken hold, with fourth-quarter 2010 housing starts falling at an annualized pace of 29.9% versus an 8.8% annualized decline in the second quarter. This is bad news for broad economic activity, for the banking industry and for the systemic solvency crisis. It also should take a small notch out of the positive economic growth anticipated by the markets for the fourth-quarter GDP (see *Week Ahead* below). This week's *Commentary* is brief, due to the limited amount of new economic information. Next week's *Commentary*, with the "advance" fourth-quarter GDP, will review the broad economic outlook, which remains unchanged from that described in [*Special Commentary No. 342*](#).

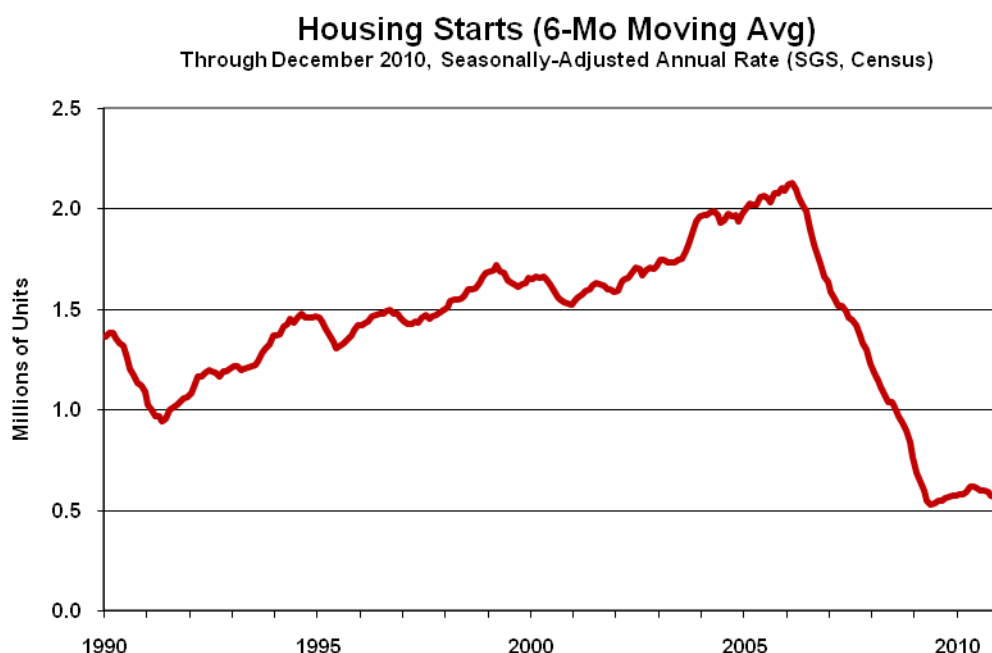
December Housing Starts Level Hits 14-Month Low. The Census Bureau reported today, January 19th, a statistically-insignificant decline for December 2010 housing starts, down by 4.3% (down by 4.7% before prior-period revisions) +/- 16.5% (95% confidence interval) on a seasonally-adjusted month-to-month basis. November's starts were revised to a 3.8% (previously a 3.9%) increase.

Year-to-year change in December starts was a statistically-insignificant decline of 8.2% +/- 16.8% (95% confidence interval), following a revised annual decline of 6.1% (previously 5.8%) in November.

Although the pattern of housing starts generally remains one of bottom-bouncing at an historically low-level plateau of activity, as seen over the last 24 months, the recent activity has started to slow anew, meaningfully. Even-weaker monthly numbers remain likely in the months ahead. Since December 2008, housing starts have been bottom-bouncing, averaging a seasonally-adjusted annual rate of 569,900. In those 24 months, all monthly readings have been within the normal range of monthly volatility for the series around that average, with the November 2010 monthly reading of 529,000 below average. More significantly, the six-month moving-average for the series, as of December, stood at 563,300, also below the average level of the 24-month period of bottom-bouncing. Housing starts have begun rolling down hill, once again.

The "recovery" in housing is shown in these graphs. The first graph reflects the level of monthly activity in terms of the annualized monthly rate of housing starts, which is randomly volatile and subject to large revisions on a monthly basis. The second graph shows the six-month moving average, which tends to smooth out that monthly volatility.





Week Ahead. Given the unfolding reality of an intensifying double-dip recession and more-serious inflation problems than generally are anticipated by the financial markets, risks to reporting will tend towards higher-than-expected inflation and weaker-than-expected economic reporting in the months ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

New and Existing Homes Sales (December 2010). December existing home sales (National Association of Realtors) are due for release on Thursday, January 20th, followed by new home sales (Census Bureau) on Wednesday, January 26th. As with the weakness seen in housing starts, these volatile series should remain extremely weak, with any monthly change (new homes) again lacking statistical significance. As usual, given the extreme volatility, reporting error and revisions in these series, given the poor-quality seasonal adjustments, given continuing negative anecdotal evidence, and given ongoing massive distortions from increasingly volatile foreclosure activity, the monthly movements in these numbers remain particularly meaningless.

New Orders for Durable Goods (December 2010). Due for release on Thursday, January 27th, December new orders for durable goods likely will not show meaningful monthly change, again, even with the upside biases built into these numbers in the last benchmark revision. This series remains irregularly volatile.

Gross Domestic Product -- GDP ("Advance Estimate" Fourth-Quarter 2010). The Bureau of Economic Analysis' "advance" guesstimate of fourth-quarter 2010 GDP is due for release on Friday, January 28th. Per Briefing.com, the early consensus estimate for annualized real (inflation-adjusted) quarterly growth is at 3.8%, up from the 2.6% reported for the third-quarter. While reporting in a number of series (see

[*Commentary No. 345*](#)) are running on the plus-side for the GDP, industrial production is slowing and housing is down. Where the consensus 3.8% growth is stronger than average historical growth, I would look for something much weaker. On the other hand, the BEA does tend to target the consensus outlook for its "advance" estimate.
