

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

COMMENTARY NUMBER 391

August Housing Starts

September 20, 2011

**Following a 75% Crash in Housing Industry,
Housing Starts Near Three-Years of Bottom-Bouncing**

PLEASE NOTE: The next regular Commentary is scheduled for Thursday, September 29th. It will cover August home sales, new orders for durable goods and the second revision to second-quarter GDP. A Special Commentary would be published, as appropriate, in response to any unusual market or economic developments.

—Best wishes to all, John Williams

Opening Comments and Executive Summary. The U.S. economy remains in its deepest and most-protracted downturn since the Great Depression, and chances for any meaningful improvement in broad economic activity remain nil for the foreseeable future. Constraining activity are the systemic solvency crisis and, most fundamentally, the structural problems with consumer income, where household income cannot keep up with inflation (see the [Hyperinflation Special Report \(2011\)](#) and [Commentary No. 389](#)).

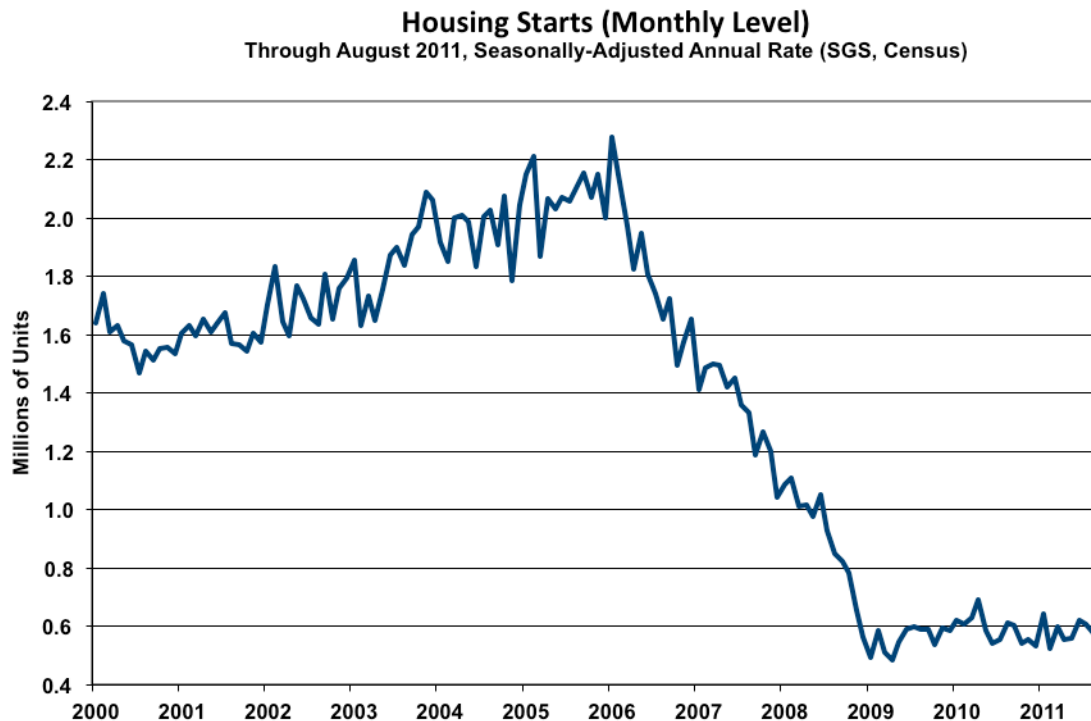
One of the more heavily hit industries has been housing, where residential activity is a major driver behind such economic and financial elements as consumer and banking-system liquidity; retail sales ranging from home-decorating and yard-work needs to durable goods production and sales (washers, dryers, dishwashers, furniture, etc.); sales of lumber, wiring, concrete, construction equipment, etc.; and

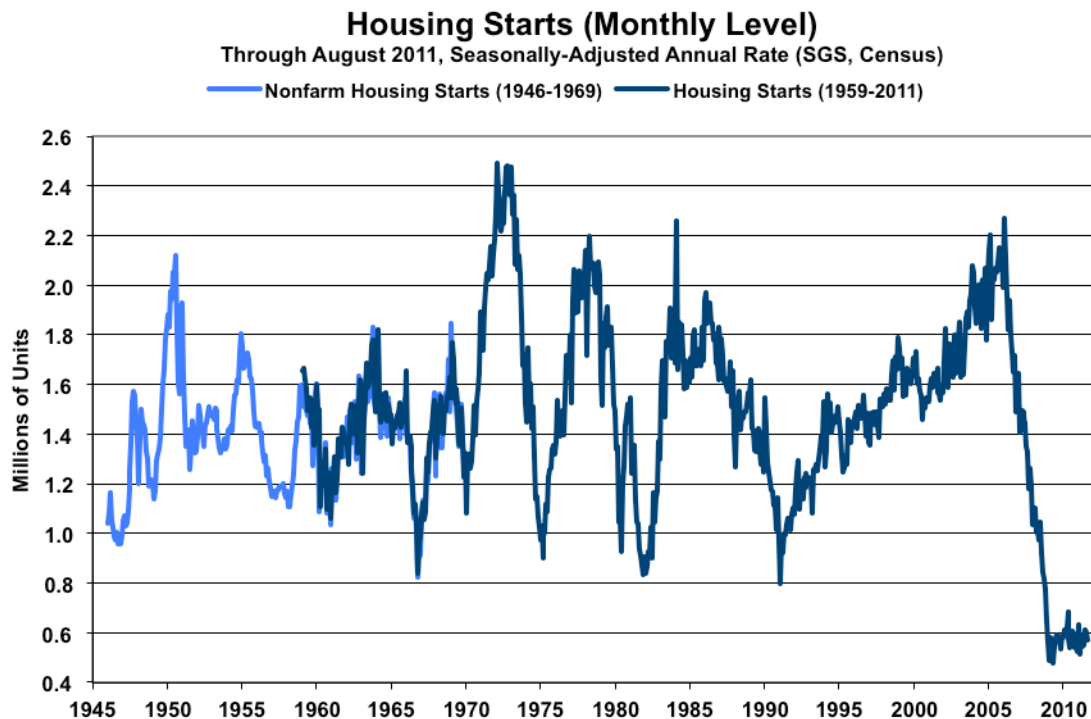
the full range of employment tied to those industries and of course to construction, real estate, banking, etc. The economy, in turn, has taken secondary and tertiary hits on consumption and production from reduced spending by those whose financial circumstances have been impaired by housing industry woes.

As reflected by housing starts, industry activity peaked in 2005/early-2006 and then crashed by 75% through the end of 2008. For nearly three years since December 2008—thirty-three months—industry activity has been bottom-bouncing, and the recent trend has been towards a renewed period of decline.

In a week light in major economic releases, this morning's publication of the August 2011 housing starts data showed a statistically-insignificant, seasonally-adjusted monthly decline of 5.0% (down 5.8% year-to-year), to an annualized level of 571,000 starts. The monthly average around which activity has been fluctuating since December 2008 is 572,000. The monthly historical high for the series was 2,273,000 starts in January 2006, with the levels of the industry average since December 2008 and in August 2011 both down by 75% from that peak activity.

As shown in the following graphs, current monthly housing starts activity remains near the record monthly low seen for the present series in April 2009. The current number also is well below any level reported in the predecessor nonfarm housing starts series, which was introduced in 1946. The first graph shows recent detail for current housing starts activity, the second graph shows the same data within the historical context of the post-World War II period.





Hyperinflation Watch—No Way Out. In efforts to forestall systemic collapse, central bankers, finance ministers and the U.S. Treasury Secretary openly have been discussing, proposing and announcing emergency funding/liquidity measures. The U.S. Federal Reserve will make some form of policy-change announcement tomorrow, if market expectations are to be met, and Mr. Bernanke does his best not to disappoint the markets. As discussed in the [Hyperinflation Special Report \(2011\)](#), there are no happy solutions available here, only tools—devil’s choices—for buying a little extra time. From the Fed’s standpoint, keeping the banking system afloat remains its primary concern, although needs for economic growth and contained inflation will be given as the rationale behind any change in policy. The ultimate cost in propping the system, however, remains inflation.

The root source of current global systemic instabilities largely has been the financially-dominant United States, and it is against the U.S. dollar that the global markets ultimately should turn, massively. The Fed and the U.S. Treasury likely will do whatever has to be done to prevent a euro-area crisis from triggering a systemic collapse in the United States. Accordingly, it is not from a euro-related crisis, but rather from within the U.S. financial system and financial-authority actions that an eventual U.S. systemic failure likely will be triggered, seen initially in a rapidly accelerating pace of domestic inflation—ultimately hyperinflation.

The economic and systemic-solvency crises and the broad inflation and economic issues detailed in the [Hyperinflation Special Report \(2011\)](#) and recent *Commentaries*, continue to unfold with outlooks that remain unchanged.

Repeated from the prior *Commentary*, the financial markets still are unstable and extremely volatile, roiled by deepening crises of confidence in the U.S. dollar and in the long-term outlook for U.S. financial, economic, systemic and political stability. For those living in a U.S. dollar-denominated world, regardless of further near-term extreme volatility in the U.S. dollar—in either direction—versus the stronger major currencies and gold, the stronger currencies and precious metals remain the fundamental hedges against what lies ahead.

Massive, fundamental dollar dumping and dumping of dollar-denominated assets could start at anytime, with little or no further warning. With a U.S. government unwilling to balance or even to address its uncontrollable fiscal condition; with the federal government and Federal Reserve standing ready to prevent a systemic collapse, so long as it is possible to print and spend whatever money is needed; and with the U.S. dollar at risk of losing its global reserve currency status; much higher inflation lies ahead, in a circumstance that rapidly could evolve into hyperinflation.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION—HOUSING STARTS (AUGUST 2011)

Housing Starts Well into Third Year of Bottom-Bouncing. The regularly volatile housing starts series continued its downside bottom-bouncing in August, having seen nearly three years of activity at 75% below 2006's record construction level, with no relief in sight. The Census Bureau reported this morning (September 20th) a statistically-insignificant monthly drop in seasonally-adjusted August 2011 housing starts of 5.0% (a decline of 5.5% before prior-period revisions) +/- 12.5% (all confidence intervals are at the 95% level). July starts were revised to a 2.3% (previously a 1.5%) monthly decline.

The year-to-year change in August starts was a statistically-insignificant decrease of 5.8% +/- 14.0%, following a revised annual 9.3% (previously 9.8%) increase in July. The recent swings in the direction of annual change reflect comparisons with volatile year-ago monthly activity that was exaggerated in both directions by stimulus and post-stimulus effects.

With housing starts well into their third year of post-housing-market-crash bottom-bouncing, there remain no indications of a reprieve for the industry or the otherwise deteriorating broader economy. Indeed, the pattern of housing starts has remained one of stagnation at an historically low-level plateau of activity, over the last 33 months. The six-month moving-average of seasonally-adjusted housing starts was 580,000 in July, 10.2% above the historic low six-month moving-average seen in May 2009. Significantly weaker monthly numbers remain likely in the months ahead. Since December 2008, housing starts have averaged a seasonally-adjusted annual rate of 572,000. In that period, all monthly readings have been within the normal range of monthly volatility for the aggregate series around that average, with the 571,000 August 2011 monthly reading at 0.2% below average. Again, such is within the normal volatility of the series.

The regular graphs for the housing starts survey are included in the *Opening Comments and Executive Summary* section.

Week Ahead. Though still not widely acknowledged, there is both an intensifying double-dip recession and a rapidly escalating inflation problem. Until such time as financial-market expectations fully catch up with underlying reality, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the month and months ahead. Generally, previously unreported economic weakness should show up in prior-period revisions.

Home Sales (August 2011). August existing home sales (National Association of Realtors) are due for release tomorrow, Wednesday, September 21st, while August new home sales (Census Bureau) are due for release on Monday September 26th. As with the ongoing historic weakness seen in today's housing starts release, both home sales series should remain extremely weak, with any positive monthly change lacking statistical significance (especially for the highly volatile new home sales series). Also, as usual, given the extreme volatility, reporting error and revisions in both these series, given the poor-quality seasonal adjustments, given continuing negative anecdotal evidence, and given ongoing massive distortions from irregularly volatile foreclosure activity, the reported monthly movements in these numbers (particularly to the upside) generally are meaningless.

New Orders for Durable Goods (August 2011). Due for release on Wednesday, September 28th, the highly volatile new orders for durable goods likely will not show a meaningful monthly change in August, with odds slightly favoring a renewed monthly decline in new orders.

Gross Domestic Product—GDP (Second-Quarter 2011—"Third" Estimate, Second Revision). The "third" estimate of second-quarter GDP is due for release from the Bureau of Economic Analysis (BEA) on Thursday, September 29th. Any revision at this point likely will be little more than statistical noise around the otherwise statistically-insignificant, previous headline estimate of 1.0% annualized real growth.
