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

**COMMENTARY NUMBER 425**
**February Housing Starts, New and Existing Home Sales**

**March 23, 2012**

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**Activity in Housing and Construction Remains Stagnant Near Historic Lows**

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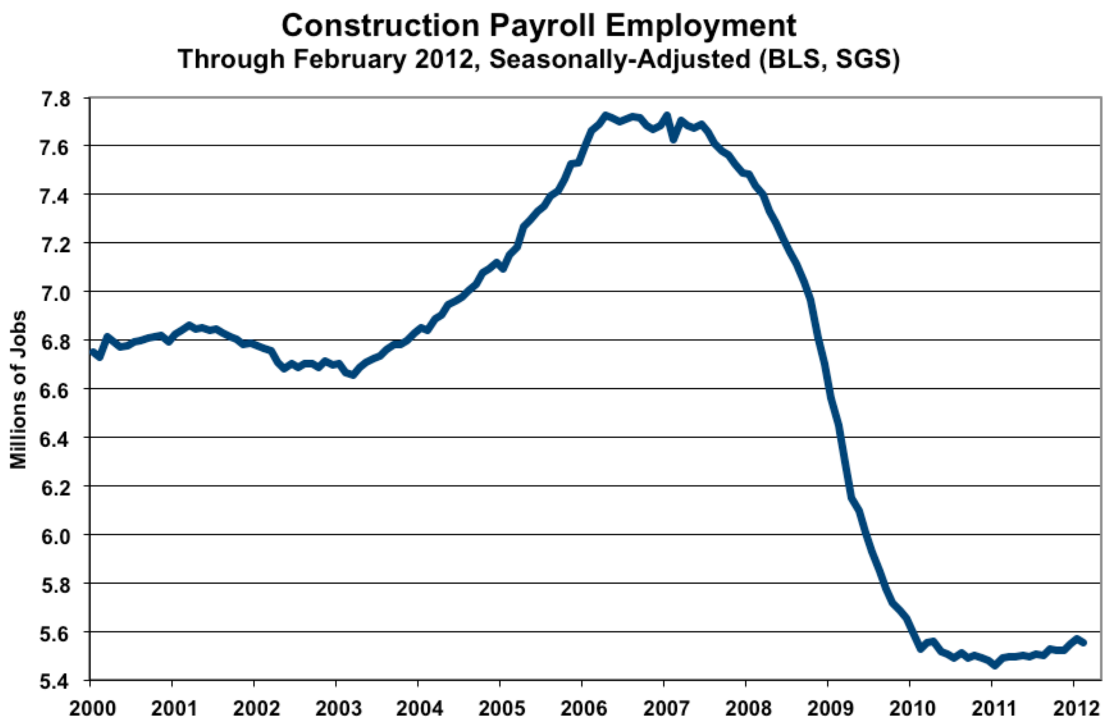
*PLEASE NOTE: The next regular* Commentary *is scheduled for Friday, March 30th, covering the third estimate of fourth-quarter 2011 GDP, February new orders for durable goods and PCE deflator, and the annual benchmark revision to industrial production.*

*Best wishes to all — John Williams*

**Opening Comments and Executive Summary.** The construction industry remains distressed in the extreme, clobbered by collapsing broad economic activity from 2006 into 2009 and by three subsequent years (and counting) of no recovery—just economic stagnation (see *Hyperinflation 2012*). Housing activity has been the hardest hit of the construction industry's sectors, and, in a week dominated by housing statistics, today's (March 23rd) *Commentary* will concentrate on the housing and construction numbers. Per subscriber request, we are pleased to add monthly analysis of construction spending, as reported by the Census Bureau, to the regular *Commentaries*. Keep in mind that the reported spending here reflects construction costs, not market value, and that the numbers are not adjusted for inflation.

The following graph of construction employment shows the pattern of severe economic plunge, followed by the protracted and ongoing bottom-bouncing along a plateau of low-level activity. That pattern is repeated in many of the graphs that follow. As currently reported by the Bureau of Labor Statistics (BLS), the seasonally-adjusted level of February construction payrolls of 5.554 million is 28.1% off the peak level of 7.725 million construction jobs in April 2006, and—outside of the current downturn—remains at the lowest level since June of 1996, almost 16 years ago.

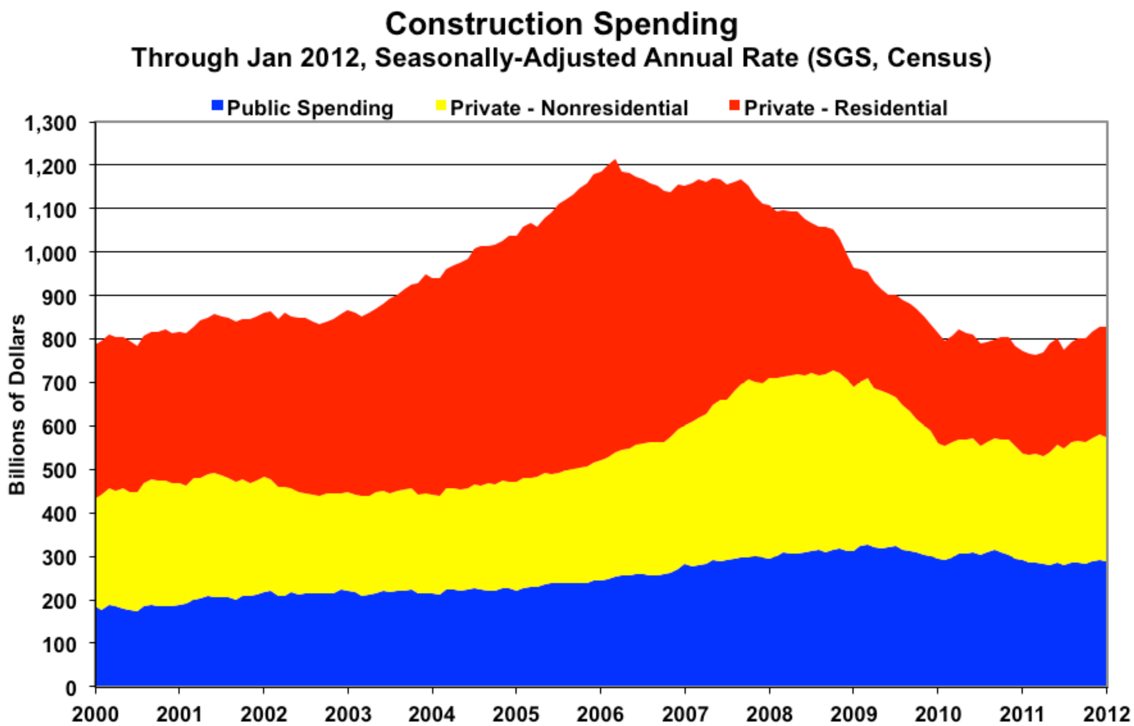


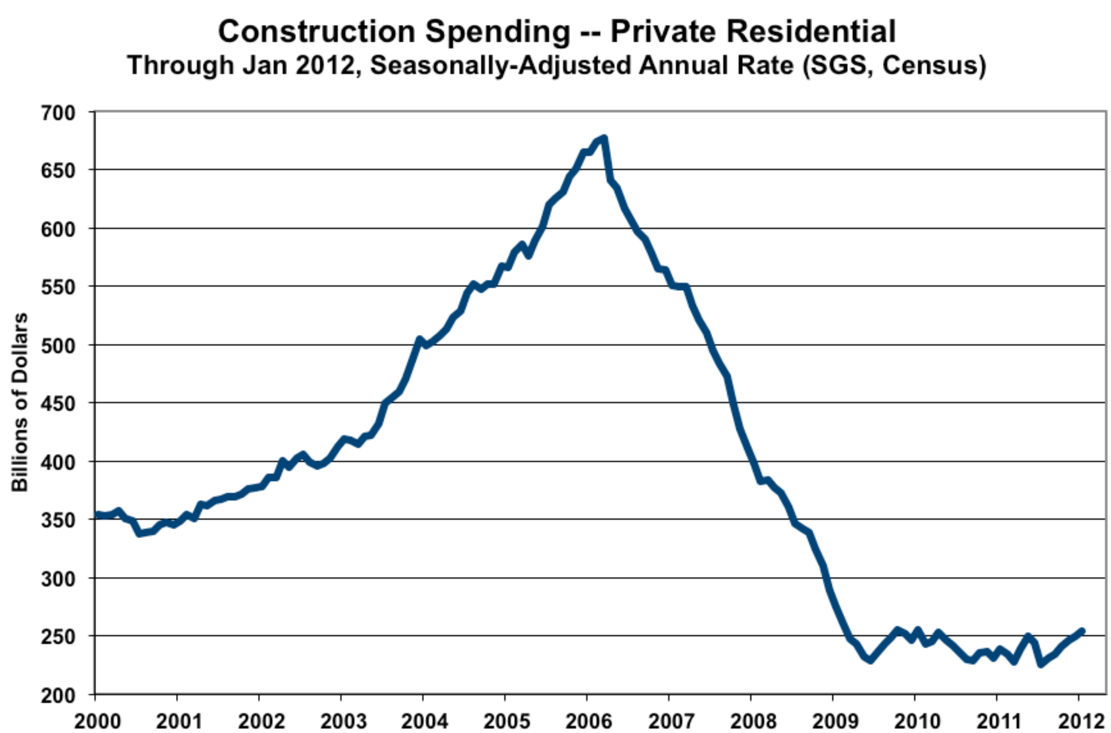

Construction spending, during same period as shown in the employment graph, suffered a roughly proportionate decline, with January 2012 spending at $827.0 billion, down 31.9% from a spending peak of $1,213.7 billion in March 2006. Again, keep in mind that the monthly data here are at annual rates and are not adjusted for inflation.

The four graphs that follow show the total aggregate of construction spending and three components: private construction—residential, private construction—nonresidential, and public construction spending. The most severely hit sector, as will be discussed separately, is the private residential sector or housing activity. Current construction spending there appears to be flat, despite increased dollar volume from inflation.

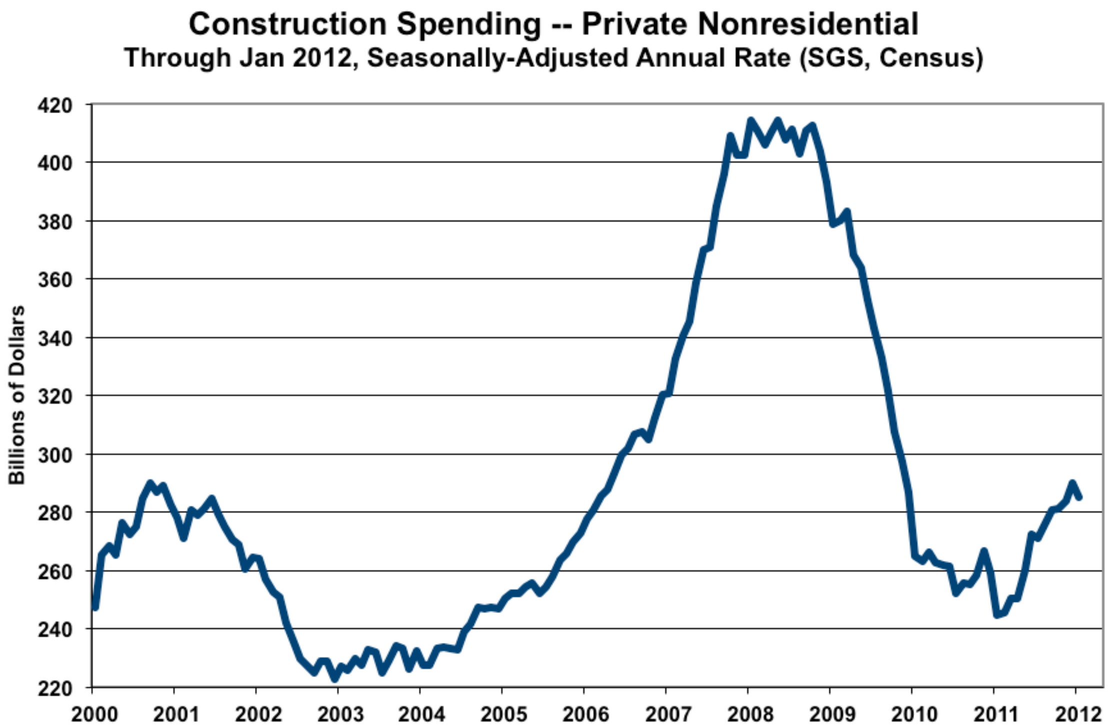
Spending in the private nonresidential sector also plunged, but now is turning higher. Public spending, which is 97.5% nonresidential, was not hit so severely, but it generally has trended lower, despite stimulus spending. The slight recent upturn in public spending, as well as in private nonresidential spending, at least partially reflects inflation, or higher costs. Measuring costs meaningfully in the construction sectors is difficult, at best. The Bureau of Economic Analysis (BEA) has estimated year-to-year inflation for fourth-quarter 2011 at 0.9% for residential investment and 5.3% for nonresidential investment.

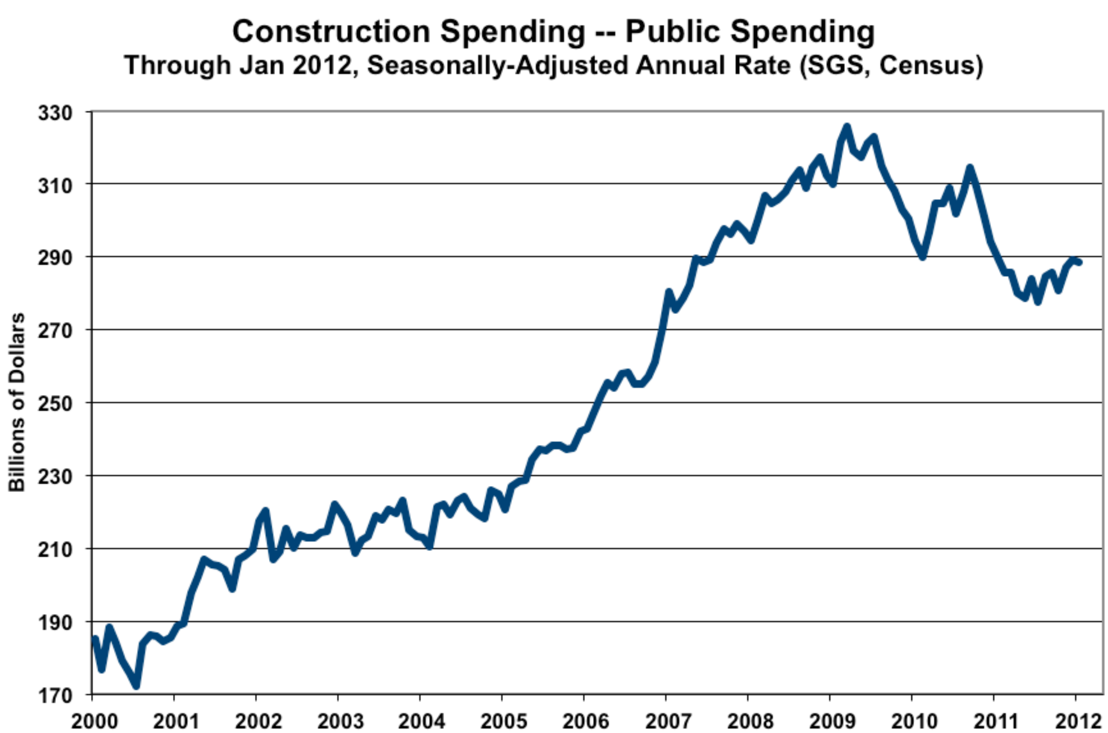
 


Construction Spending
Through Jan 2012, Seasonally-Adjusted Annual Rate (SGS, Census)
Public Spending
Private - Nonresidential
Private - Residential
Billions of Dollars
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


Construction Spending -- Private Residential
Through Jan 2012, Seasonally-Adjusted Annual Rate (SGS, Census)
Billions of Dollars
700
650
600
550
500
450
400
350
300
250
200
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

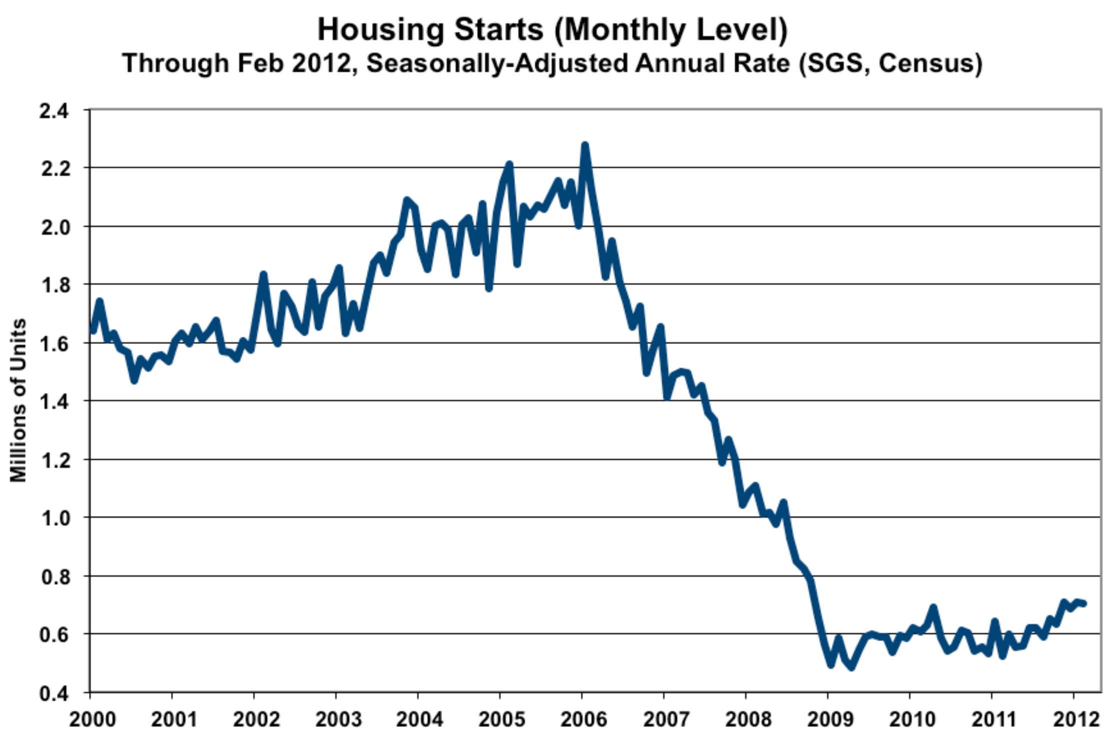

Construction Spending -- Private Nonresidential
Through Jan 2012, Seasonally-Adjusted Annual Rate (SGS, Census)
Billions of Dollars
420
400
380
360
340
320
300
280
260
240
220
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

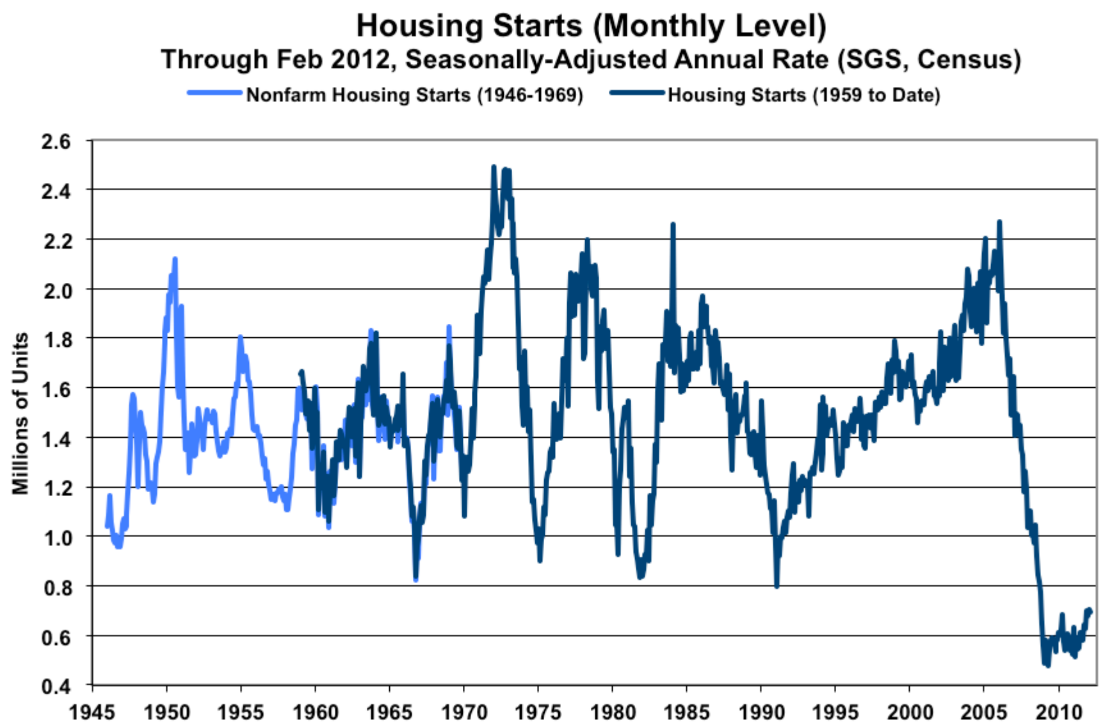

Construction Spending -- Public Spending
Through Jan 2012, Seasonally-Adjusted Annual Rate (SGS, Census)
Billions of Dollars
330
310
290
270
250
230
210
190
170
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

***Housing Starts and New and Existing Home Sales.*** There were no surprises in this week's reporting on housing construction and home sales. Patterns of ongoing bottom-bouncing at historically low levels of activity were seen in housing starts and new home sales. Of the monthly declines reported for February housing starts, new home sales or existing home sales (respectively down by 1.%, 1.6% and 0.9%) not one was statistically meaningful. Ongoing volatility in year-to-year change reflected lingering volatility in reporting of the year before from the expiration of homing-buying tax incentives.

As discused in *Hyperinflation 2012*, consumer liquidity remains structurally impaired, while bank lending is constrained by the banking industry's balance-sheet problems. Accordingly, there is no relief imminent for the housing industry.

Both the long-term and short-term historical graphs of housing starts follow. The pattern of plunging activity and ensuing stagnation at historically low levels of activity is evident in the short-term graph (2000 and after). The long-term graph—back to the immediate post-World War II era—shows the current level of housing construction to be the weakest since the war. As shown in the earlier graph on total construction spending, where residential construction accounted for a peak of 56.4% of total construction spending in November of 2005, that portion had dropped to 30.7% of spending as of January 2012, minimally off the historic low for the series of 29.1% in July 2011.






**Hyperinflation Watch.** Considering intervening economic, inflation and financial-market developments, the broad economic, inflation and hyperinflation outlooks discussed in *Hyperinflation 2012* of January 25th are not changed.

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## REPORTING DETAIL

### RESIDENTIAL CONSTRUCTION (February 2012)

**February Housing Starts Continued Bottom-Bouncing.** Housing starts showed a statistically-meaningless monthly downside bounce in February, despite a large upside bounce in the highly volatile activity in the apartment-starts component. Indeed, the regularly volatile aggregate housing starts series continued its protracted bottom-bouncing in February's reporting, with the series well into its fourth year of activity at 75% below 2006's record construction level. There remains no relief in sight.

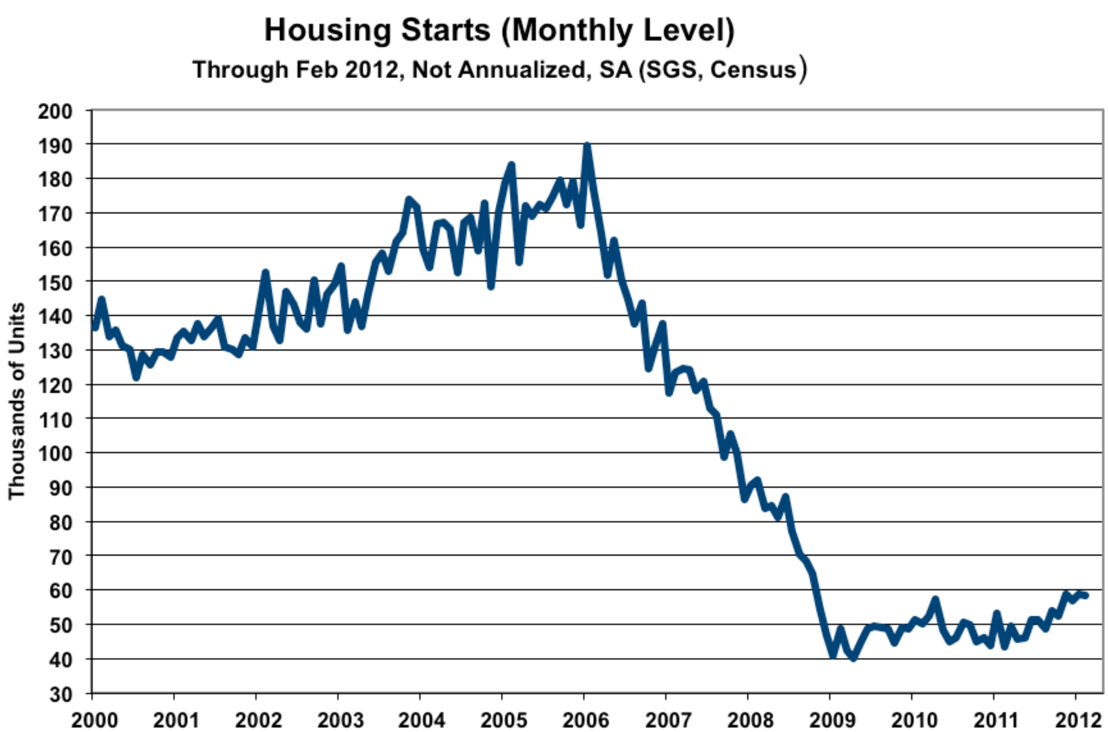
The Census Bureau reported Tuesday (March 20th) a statistically-insignificant month-to-month decline in seasonally-adjusted housing starts of 1.1% (down 0.1% before prior-period revisions) +/- 18.6% (all confidence intervals are at the 95% level) for February 2012. January starts were revised to a monthly increase of 3.7% (previously a gain of 1.5%).

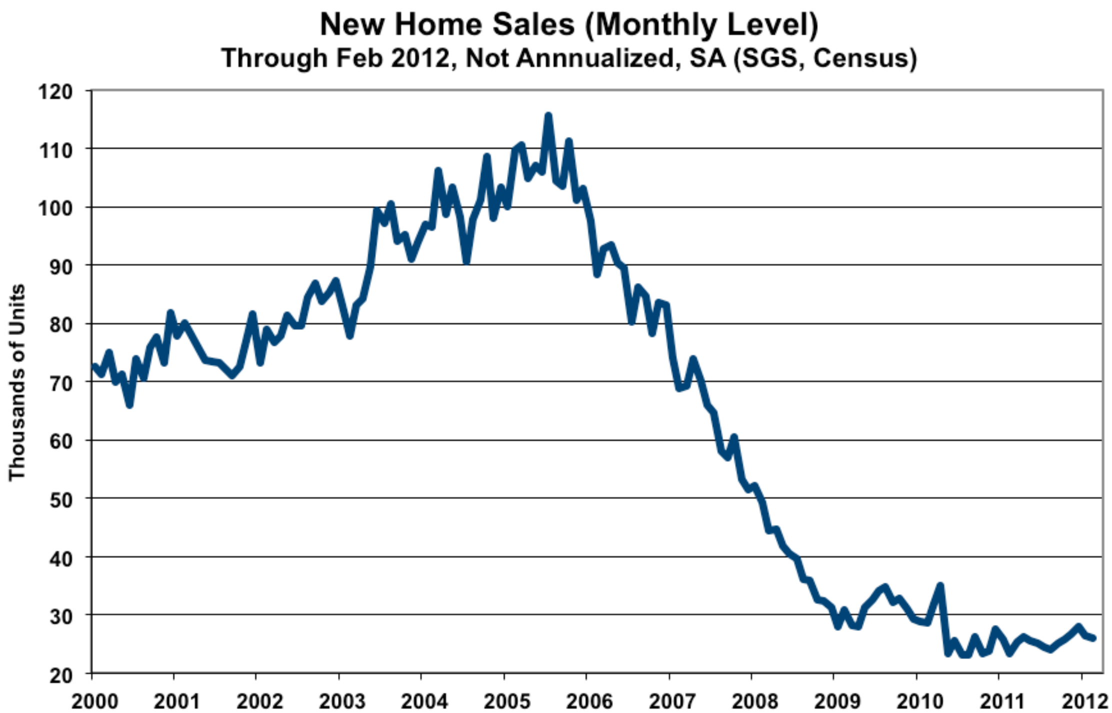
Starts for apartment buildings remained extremely volatile, month-to-month, jumping by a statistically meaningless 28.7% +/- 126.1%, after rising by a revised 19.1% (previously a 14.4%) in January. The "one-unit" category for February fell by 9.9% +/- 13.3%, following a revised 0.4% monthly gain (previously a 1.0% decline) in January.

The year-to-year change in aggregate February 2012 housing starts was a statistically-significant increase of 34.7% +/- 19.5%, following a revised 11.0% (previously 9.9%) annual gain in January.

Indeed, the pattern of housing starts has remained one of stagnation at an historically low-level plateau of activity, over the last 39 months. Since December 2008, housing starts have averaged a seasonally-adjusted annual rate of 589,000 (an average monthly rate of 49.1 thousand). In that period, all monthly readings have been within the normal range of monthly variability for the aggregate series, around that average, with the 698,000 annual rate (58.2 thousand monthly rate) for February 2012 at 18.5% above average, at the upper end of that range.

As shown in the following graphs, current monthly housing starts activity remains off 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 usual graphs showing detail for the full historical data and for 2000 to date are included in the *Opening Comments and Executive Summary*. The graph following is identical in pattern to the short-term graph, but reflects levels of the seasonally-adjusted monthly activity, as opposed to the annualized rate (monthly rate times 12) hyped in the press. The ensuing graphs of new and existing home sales activity also reflect monthly as opposed to annualized rate, by month.






## NEW AND EXISTING HOME SALES (February 2012)

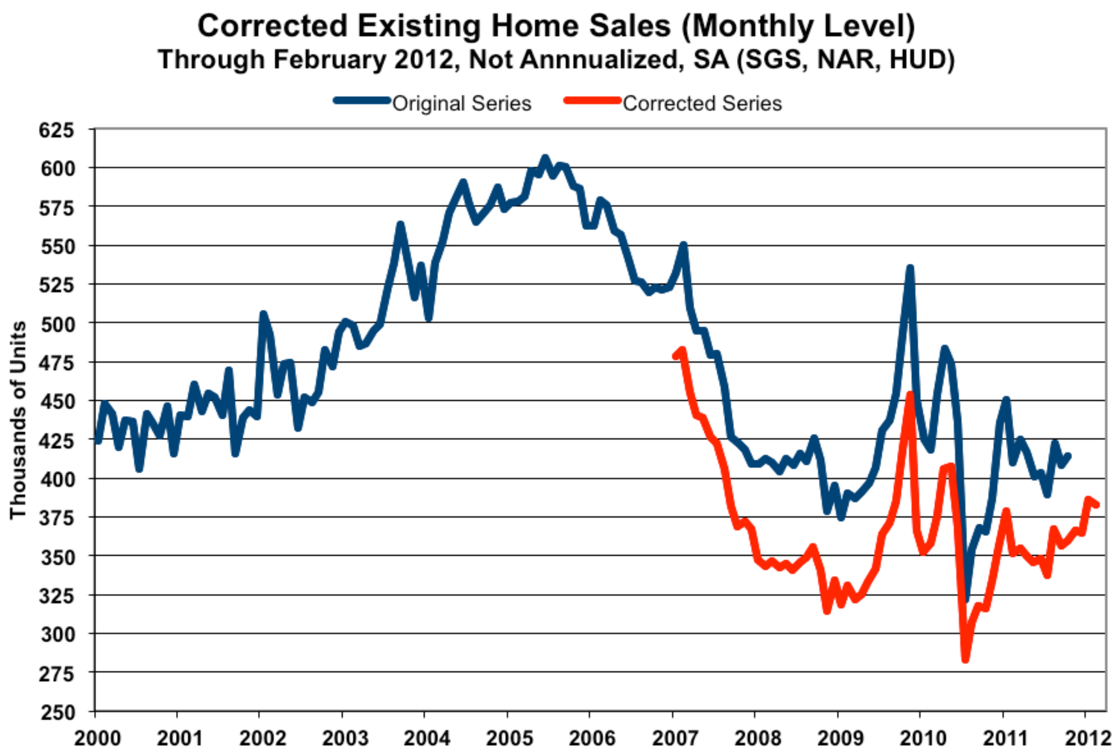
**Distressed Bottom-Bouncing is Ongoing.** February 2012 new home sales remained in a state of depressed stagnation, in line with February housing starts, as shown in the preceding new home sales graph. There remains no indication, in either new or existing home sales data, or in underlying fundamentals that drive the housing industry, of any pending industry turnaround or of a developing economic recovery.

Today's (March 23rd) release of February new-home sales (counted based on contract signings, Census Bureau) showed an ongoing pattern of no growth at an historically-low level of activity. As usual, February's 1.6% month-to-month contraction (a decline of 2.5% before prior-period revisions) +/- 27.9% (all confidence intervals are at the 95% level) was statistically meaningless. In turn, January's monthly change was revised to a decline of 5.4% from an initially-reported 0.9% monthly contraction. The year-to-year change in February 2012 new-home sales also was statistically-insignificant, a gain of 11.4% +/- 20.8%. January's annual gain was revised to a 2.6% (previously 3.5%) increase. Recent volatility in annual change reflects the effects of lapsing housing stimulus efforts a year ago.

**Existing-Home Sales Decline Also Was Within Normal Bounds of Volatility.** The recently corrected and revised existing-home sales series likely remains subject to significant seasonal-factor instabilities, as has been seen recently in a number of government series (see *Commentary No. 420*). Those seasonal-factor distortions are a result of the severe depth and length of the economic contraction, a circumstance that post-World War II, or modern economic reporting never was designed to handle. Further, as shown in the following graph, the old (pre-November 2011) and corrected series do not appear to be consistent or comparable. For those interested in the latest detail, however, we continue to look at the regular reporting of the new series, although a heavy caution is offered on the quality of what is being published.

The March 21st release of February 2012 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly decline of 0.9% (a gain of 0.4% before prior period revisions). The NAR does not publish estimates of statistical significance for changes in its series. As revised, January showed a 5.7% monthly gain, which initially had been reported at 4.3%.

On a year-to-year basis, February 2012 sales rose by 8.8%, versus a revised 2.0% (previously 0.7%) annual gain in January. Distressed properties remained a significant portion of existing home sales activity. The NAR reported "distressed" sales in February at 34% (20% foreclosures, 14% short sales), versus January distressed sales of 35% (22% foreclosures, 13% short sales). While foreclosures remain a factor in new-home sales, the Census Bureau does not provide an estimate of foreclosure volume.




As an indication of ongoing structural liquidity (income and credit) problems facing consumers, the NAR press release indicated that 31% of NAR members experienced contract failures, down from 33% in January, but up versus 9% cancellation rates in both February and January of 2011. The cancellations "... are caused largely by declined mortgage applications and failures in loan underwriting from appraisals coming in below the negotiated price."

**Week Ahead.** Recognition of an intensifying double-dip recession as well as an escalating inflation problem remains sporadic. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news; and the financial markets will do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.

Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

***New Orders for Durable Goods (February 2012).*** The February release on new orders for durable goods is scheduled for Wednesday, March 28th. As has been the case in recent months, whatever change is reported for this regularly volatile series, it likely will not be meaningful, remaining well within the bounds of regular month-to-month volatility.

***Gross Domestic Product--GDP (Fourth-Quarter 2011, Third Estimate, Second Revision).*** The second revision to the fourth-quarter 2011 GDP estimate, along with initial estimates of fourth-quarter 2011 and annual estimates of Gross Domestic Income (GDI) and Gross National Product (GNP), are due for release on Thursday, March 29th. GDI is the income-side equivalent to the consumption-side GDP, while GDP is GNP net of trade flows in factor income (interest and dividend payments). Any reporting surprises likely would be seen in the GDI or GNP.

The GDP revision itself should be little more than statistical noise around the last headline (inflation-adjusted, annualized quarterly) growth estimate of 3.0%. The GDP is so heavily assumption-based and so heavily modeled and gimmicked that it is virtually worthless as an indicator of real-world economic activity. No other major inflation-adjusted series comes close to showing the full recovery that is indicated by current GDP reporting.

***Personal Consumption Expenditure (PCE) Deflator (February 2012).*** The initial guesstimate for February's PCE deflator is scheduled for release on Friday, March 30th. Once again, the Federal Reserve's newly targeted inflation measure likely will exceed the 2.0% annual growth target. As discussed previously, the current concept of an inflation target serves only as pabulum for the financial markets, not as a defining priority that drives Fed policy.

***Index of Industrial Production (Annual Benchmark Revision).*** The annual benchmark revision to the industrial production series is due for release on Friday, March 30th. The revamped data likely will show weaker production activity in recent years than was reported previously by the Federal Reserve Board.

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