

COMMENTARY NUMBER 449
May Housing Starts

June 19, 2012

Housing Starts Bouncing at Slightly Higher Plateau

PLEASE NOTE: The next regular Commentary is scheduled for Wednesday, June 27th, covering May existing and new home sales, and May new orders for durable goods. That will be followed on Thursday, June 28th, by a Commentary on the third estimate of first-quarter 2012 GDP.

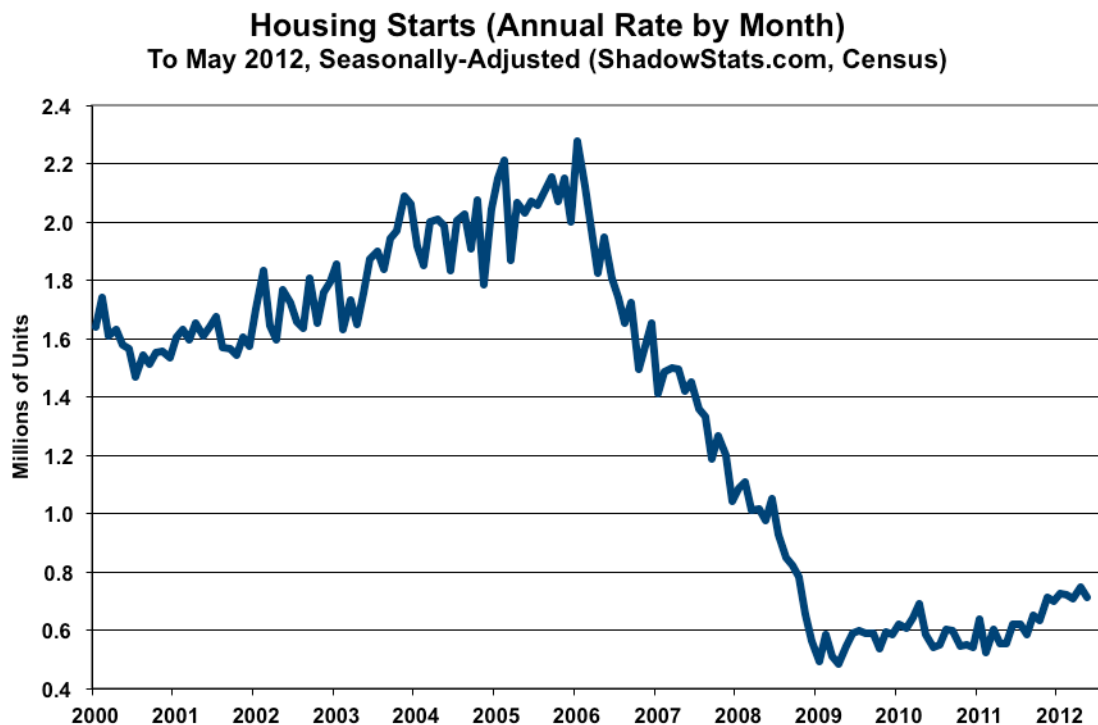
Best wishes to all — John Williams

Opening Comments and Executive Summary. Consistent with other major economic reporting in May, the headline May housing starts number was weaker than market expectations (see [Commentary No. 448](#)). At such point as the Federal Reserve moves to put forth its next effort at a bank-propping easing (domestic or global liquidity issues could trigger action at any time), the economic data are in place to provide the political cover of an “action to prop the economy.”

Public pressure for some action to support the economy likely will follow the July 27th annual revisions to the GDP, where there is a fair chance that the economy suddenly will appear to have been weaker than previously reported. There is nothing meaningful the Fed can do to help the economy, other than what likely is unthinkable to Mr. Bernanke, at the moment: raising interest rates. Higher interest rates actually tend to encourage bank lending, but the banks still appear to be impaired financially and on the Fed’s life support system.

The federal government has the physical ability to offer new stimulus packages, and some talk will be likely as the numbers get worse and the election nears, but nothing of long-lived substance should result.

Of the monthly changes reported in today's (June 19th) housing starts report—including the headline 4.8% decline in the aggregate series—all were statistically insignificant. The pattern of protracted bottom-bouncing—in place for 42 months—continued. Yet, the low-level plateau of activity appears to have notched higher in the last seven months, as seen in the following graph. The average level since November 2011 is down 69% from the peak level of 2006; that has narrowed from the 74% decline seen for the 42-month average.



In this week of light economic reporting, the general outlook in the *Commentaries*, linked to in the *Hyperinflation Watch*, have not changed. Any unusual developments in the global liquidity crisis or the financial markets would be addressed in a supplementary *Commentary*.

Hyperinflation Watch. The [Special Report No. 445](#) (June 12th) updated the hyperinflation outlook and U.S. economic, U.S. dollar, and systemic-solvency conditions. The *Special Report* supplemented [Hyperinflation 2012](#) (January 25th), which remains the primary missive detailing the hyperinflation story.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (May 2012)

May Housing Starts Remain 69% Below Pre-Recession Peak. Bottom-bouncing continued with May housing starts showing a statistically-insignificant monthly decline in May, which reflected a sharp upside revision to the April estimate and a drop in apartment starts. Nonetheless, none of the changes were statistically significant.

Protracted stagnation—near historically-low levels of activity—continued for the regularly-volatile aggregate housing starts, well into its fourth year of activity averaging 74% below 2006’s record construction level. Although within the normal scope of volatility for the series, in the last four years, a slightly higher plateau of activity may have developed in the last seven months that is 69% below the 2006 high. There still remains no recovery or relief in sight, as discussed in [Special Report No. 445](#).

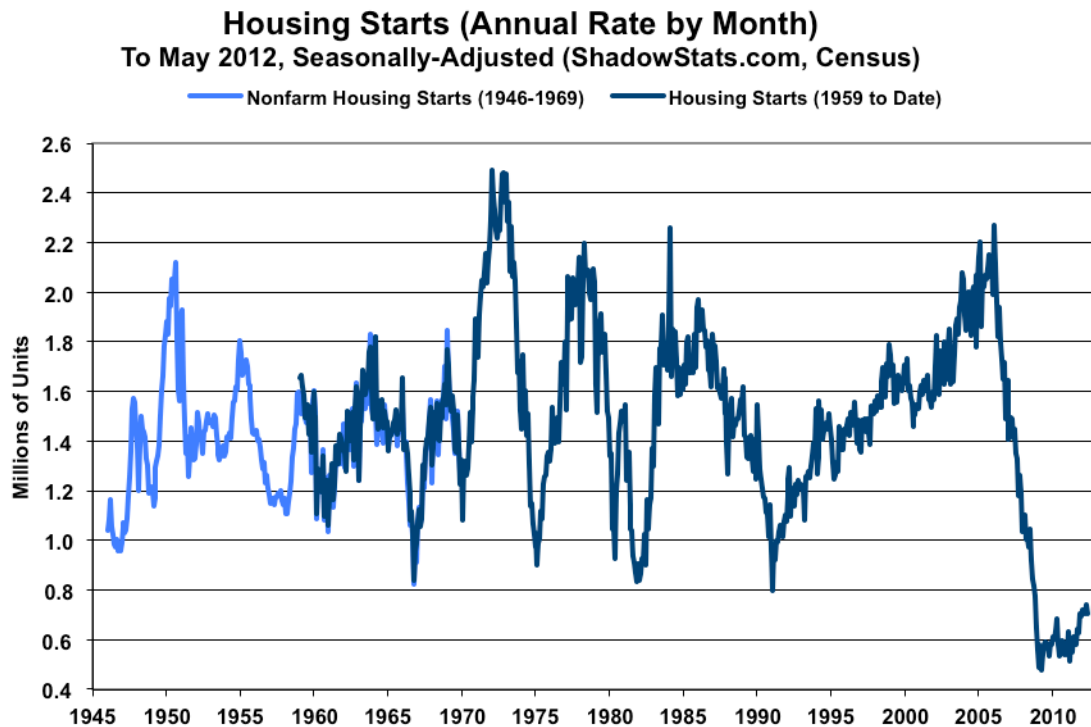
May 2012 Reporting. The Census Bureau reported today (June 19th) a statistically-insignificant month-to-month decline in seasonally-adjusted May 2012 housing starts of 4.8% (a decline of 1.3% before prior-period revisions) +/- 14.8% (all confidence intervals are at the 95% level). April starts were revised to a monthly gain of 5.4% (previously a gain of 2.6%).

Starts for apartment buildings remained highly irregular, month-to-month, falling by a statistically-insignificant 24.2% +/- 27.6%, after increasing by a revised 9.8% (previously 4.3%) in April. The “one-unit” category for May gained 3.2% +/- 14.6%, following a revised 4.0% monthly gain (previously a 2.3% increase) in April.

The year-to-year change in aggregate May 2012 housing starts was a statistically-significant increase of 28.5% +/- 12.5%, following a revised 34.8% (previously 29.9%) annual gain in April, but, again, that is in a protracted period of low-level bottom-bouncing.

For the last 42 months, the pattern of housing starts has remained one of stagnation at an historically low-level plateau of activity. Since December 2008, housing starts have averaged a seasonally-adjusted annual rate of 599,000. In that period, all monthly readings have been within the normal range of monthly variability for the aggregate series, around that average, with the 708,000 annual rate for May 2012 near the top of that range.

As shown in the graph in the *Opening Comments and Executive Summary*, current monthly housing starts activity remains off the record monthly low seen for the present series in April 2009. Recent series detail is seen more easily in that graph, which covers reporting since 2000. The following graph shows that current activity is well below any level reported prior to the 2006 peak in the current series, or in the predecessor nonfarm housing starts series, which was introduced in 1946.



Week Ahead. *Market recognition of an intensifying double-dip recession has started to take a stronger hold, at the moment, while recognition of a mounting inflation threat remains sparse. 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 or to put a happy spin on the numbers; 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.

Existing and New Home Sales (May 2012). The May 2012 existing home sales release is scheduled for Thursday, June 21st, from the National Association of Realtors. New home sales data are due for release from the Census Bureau on Monday, June 25th. As usually is the case for both series, entrenched patterns of bottom-bouncing likely will continue, and the new monthly results are not likely to be statistically significant.

New Orders for Durable Goods (May 2012). The initial estimate for May 2012 new orders for durable goods is scheduled for release on Wednesday, June 27th. As has been the case in recent months, whatever month-to-month change is reported for this regularly volatile series, it likely will not be meaningful, remaining well within the bounds of regular monthly swings, and subject to the irregular activity in nondefense aircraft orders.

In terms of the potential inflation contribution to new orders growth, the seasonally-adjusted, month-to-month change in the May PPI finished goods capital equipment index was an increase of 0.1%, with year-to-year inflation at 2.1%.

Gross Domestic Product—GDP (First-Quarter 2012, Third Estimate, Second Revision). Scheduled for release by the Bureau of Economic Analysis (BEA) on Thursday, June 28th, the second revision to the first-quarter 2012 GDP estimate could show a second downgrading of the headline growth rate that stands currently at 1.9% (second estimate), versus the initial estimate of 2.2%. This will not be the final revision to the first-quarter, as the entire series will be revised back for several years in the annual benchmark revision due out on July 27th.

The BEA usually attempts to put forth a third estimate on the first-quarter growth that does not revise along with the benchmark revision that accompanies the first estimate of second-quarter GDP. Such does not call as much attention to earlier revisions, which otherwise should show downside adjustments to recent history. Accordingly, downside revisions—due to the recent unusual real retail sales revisions (see [Commentary No. 447](#))—could have their impact on the third estimate of first-quarter GDP.
