

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

COMMENTARY NUMBER 491
2012 and Early-2013 Conditions, November New Home Sales

December 27, 2012

**2012 Saw Meaningful Degradation of Fiscal and Monetary Policies
and of Economic, Systemic and Political Stability**

2013 Should Encompass a “New” Recession, Dollar Turmoil, Rising Inflation

**A Tumble Off the Cliff Would Trigger Confidence Problems
That Never Could Be Recovered Fully**

Revisions Due for Seasonally-Adjusted Unemployment Data

PLEASE NOTE: The next regular Commentary is scheduled for Friday, January 4th, covering December employment and unemployment and November construction spending.

Best wishes to all for a happy, healthy and prosperous New Year! — John Williams

Opening Comments and Executive Summary. Cartoon characters such as Wile E. Coyote, Elmer Fudd and Yosemite Sam fall off cliffs on a regular basis, but they usually remain suspended in thin air until the realization hits them that they no longer have solid earth beneath their feet. Occasionally scrambling back to safety on the cliff, cartoon cliff divers nonetheless usually take a big tumble, generally surviving without serious injury. There are those now in the nation’s capital who appear to believe that nothing bad will happen if they go over the “fiscal cliff,” taking a couple of unwanted boulders with them. They view trying to scramble back to a less-complex cliff as the easiest way to resolve outstanding issues.

Putting the political games aside, going off the fiscal-cliff is a bad idea. The damage done to global confidence as well as to domestic public confidence in the U.S. political system, and in the U.S. dollar, from collapsed negotiations, generally would be severe and largely irreversible. Given cliff jumping, in conjunction with the Fed's recent apparent panicked [expansion](#) of QE3 into the realm of monetization of U.S. Treasury debt, the onset of accelerated selling of the U.S. dollar would be a natural outcome. In response, domestic inflationary pressures would be seen quickly, in rising oil and gasoline prices.

The year-end 2012 political malfeasance merely is a continuance of the generally unsuccessful fiscal and debt-ceiling negotiations in July 2011, which kicked the proverbial can down the road to this calendar-specific post-election crisis, roiled the global markets in late-summer of 2011, and helped to trigger the first-ever credit-rating downgrade of U.S. Treasury securities.

In like manner, all the federal and Federal-Reserve efforts—surrounding the panic of 2008—to avoid systemic collapse and to boost economic growth merely did nothing more than similar can-kicking. As evidenced by the expanding quantitative easing by the Fed (efforts at systemic liquefaction), the continued relatively weak growth in broad money supply (not responsive to the Fed's extreme systemic liquefaction), and continued impaired lending by the banking system, the systemic-liquidity crisis continues and appears to be intensifying anew, and it is likely to come to a head in 2013.

As discussed in [Special Commentary \(No. 485\)](#), the economic recovery has been nothing but a statistical illusion created by the use of a too-low rate of inflation in deflating economic data such as the GDP. After a plunge and ensuing protracted period of stagnation, the broad economy is turning down anew. Key series such as retail sales and industrial production were turning down before Hurricane Sandy struck, a pattern that likely will intensify as the temporary effects from the storm subside.

The biggest problem with the economy remains structural, tied to the lack of real (inflation-adjusted) household income growth and to lack of consumer-credit availability. The problems from these consumer liquidity constraints are intensified by still-recession-level consumer confidence numbers discussed in the next section.

2012. The year that is about to close saw the continued deterioration of U.S. fiscal conditions and federal political stability, with those controlling the U.S. government unable and unwilling to address looming U.S. sovereign solvency issues; a monetary-policy cave-in by the Fed aimed at providing whatever liquidity would be needed to keep the system from collapsing; deteriorating solvency conditions in the U.S. financial system; and a re-intensifying U.S. domestic economic downturn, where the economy never recovered following its plunging activity into 2009.

2013. The early part of the year ahead should see the domestic fiscal crisis come to a head, whether in direct response to a jump off the fiscal-cliff, or a more-gradual realization that any relatively meaningless compromise has done little to alter the solvency issues ahead for the U.S. government. Also early in the year, market recognition of a formal double-dip recession should solidify, with implications from a much-weaker-than-anticipated economy further impairing the outlook for fiscal conditions and Treasury fundings. In this mix of turmoil, renewed problems for the banking system likely will surface anew.

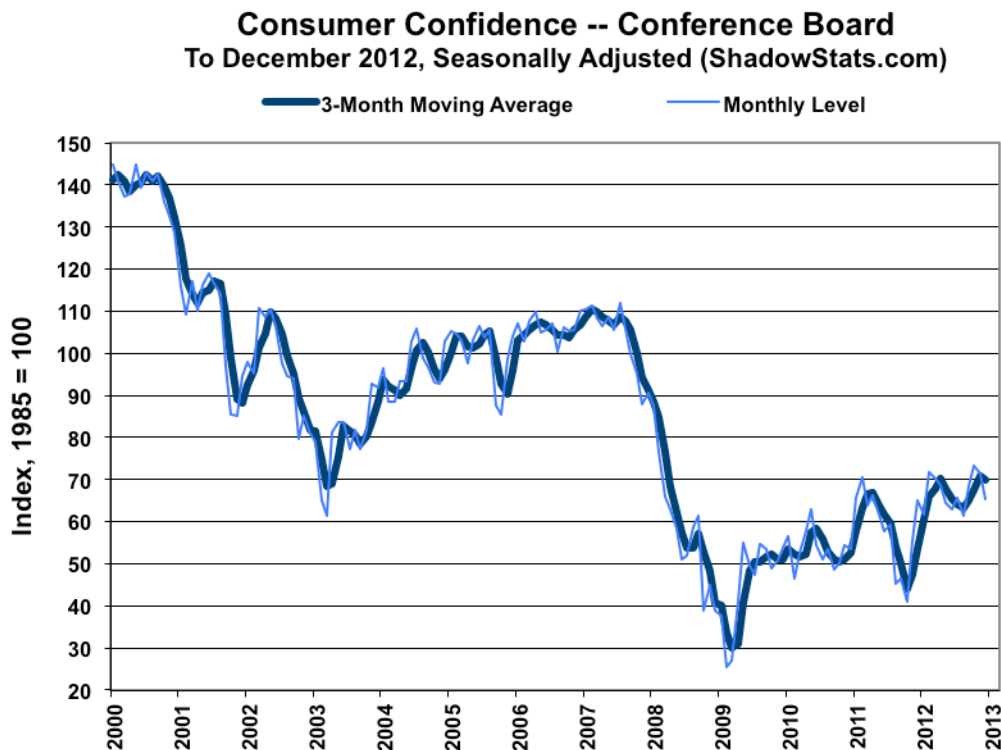
By mid-year, the global and domestic markets likely will have begun to dump the dollar in response to these various issues, irrespective of any overt or covert intervention efforts (as seen recently aimed at depressing the price of gold). The rapid decline in the dollar's exchange rate soon will be matched by

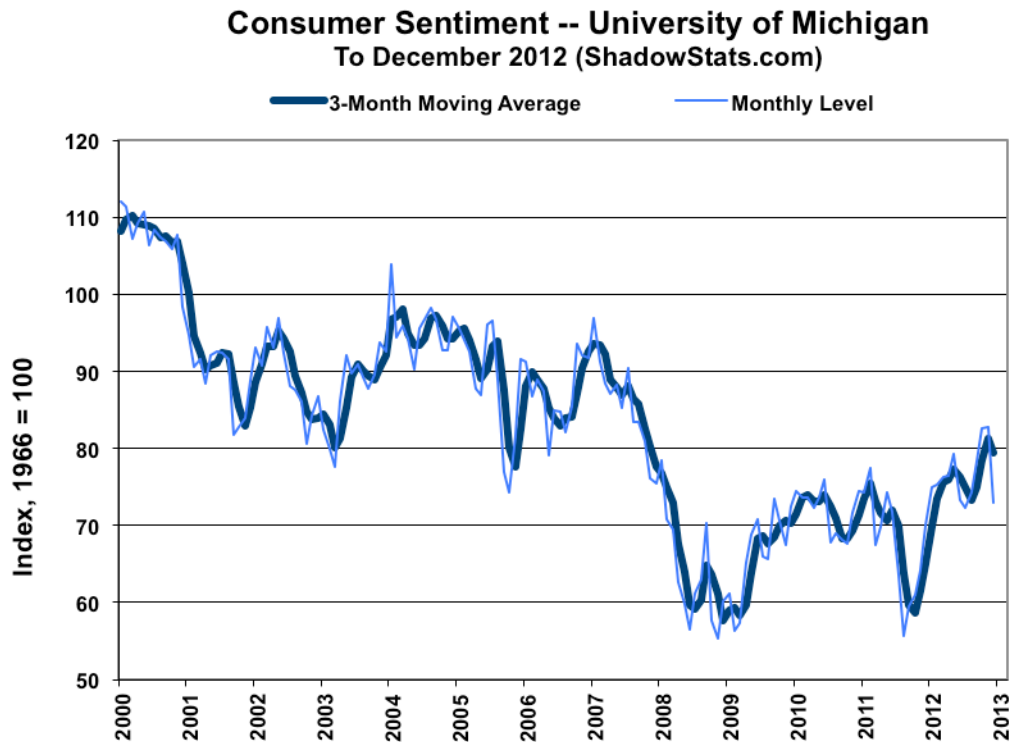
upside inflation pressures, and upside price pressures on gold and silver. The outlook has not changed; the system just keeps moving closer to seeing sequential events that eventually will push the United States into hyperinflation. The pace of moving towards and through these events appears to be accelerating.

This Week's Economic Releases. In a week shy of major economic releases, November 2012 new-home sales was the big number. New-home sales rose by a statistically-insignificant 4.4%, with the series continuing to show a pattern of protracted stagnation. ***[More complete details on new homes sales are found in the Reporting Detail section.]***

Discussed in the *Week Ahead* section, the headline December payrolls and unemployment rate both are fair bets to be worse than market expectations. Of interest will be the upcoming multi-year revisions to the seasonally-adjusted unemployment numbers. Not only will the current- and prior-month unemployment rates be consistent and comparable for the first time in a year, but also the revised data may give some hint of more-accurate numbers from the politically-controversial pre-election period.

As shown in the accompanying graphs, the December 2012 consumer confidence (Conference Board) and consumer sentiment (University of Michigan) readings both took large month-to-month plunges, with the smoothed data (three-month moving averages) remaining deep within traditional recession readings. Beyond consumers lacking both the income and credit to generate sustained growth in personal consumption, which accounts for more than 70% of GDP, deteriorating confidence numbers usually are suggestive of an intensifying lack of willingness among consumers to take on new spending.





HYPERINFLATION WATCH

The November 27th [Special Commentary \(No. 485\)](#) updated [Hyperinflation 2012](#) and the broad outlooks for the economy and inflation, as well as for systemic stability and the U.S. dollar. These remain the two primary articles outlining current conditions and the background to the hyperinflation forecast. For new subscribers, as well as for those who otherwise are not familiar with the hyperinflation report or the recent special commentary, linked above, those documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two.

Subsequent to the *Special Commentary*, no new economic data, or openly discussed negotiating activity by Washington politicians on the “fiscal cliff” or debt-ceiling expansion, have altered the outlooks. Further, the expansion of QE3 by the Fed, on December 12th, continued the regular unfolding of events that eventually will trigger a hyperinflation, as discussed in [Commentary No. 488](#).

The Fed’s activity can be viewed as a signal of deepening problems in the banking system. As discussed by Mr. Bernanke, the Fed can do little to stimulate the economy, but it can create inflation. Nonetheless, the Fed’s move here was to prop-up the banking system and to provide back-up liquidity to the U.S. Treasury in the months ahead. Direct monetization of Treasury debt will tend to savage the U.S. dollar’s exchange rate, boost oil and gasoline prices, boost money supply growth and domestic U.S. inflation.

As discussed in the *Opening Comments*, those issues could be exacerbated rapidly by failure of the government to handle the “fiscal cliff” and debt ceiling on a timely basis. Timely actions in those areas, however, still would not be of long-term substance, and negative global currency market reaction to that circumstance still should follow in the not-to-distant future.

REPORTING DETAIL

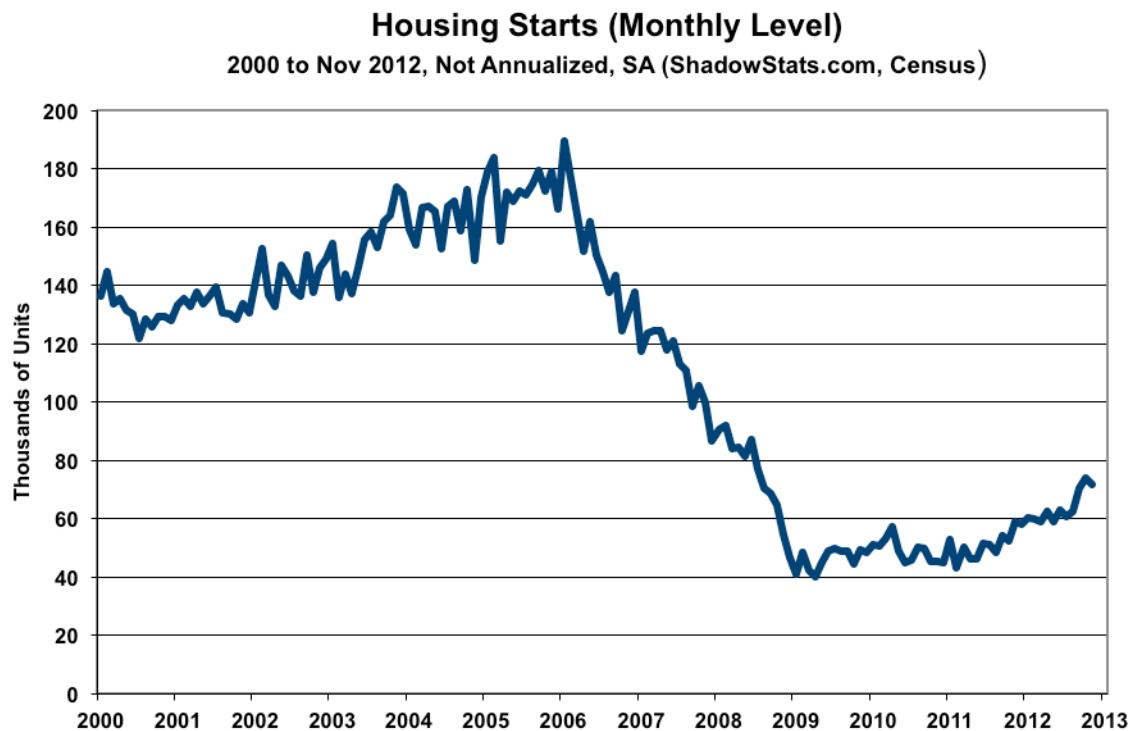
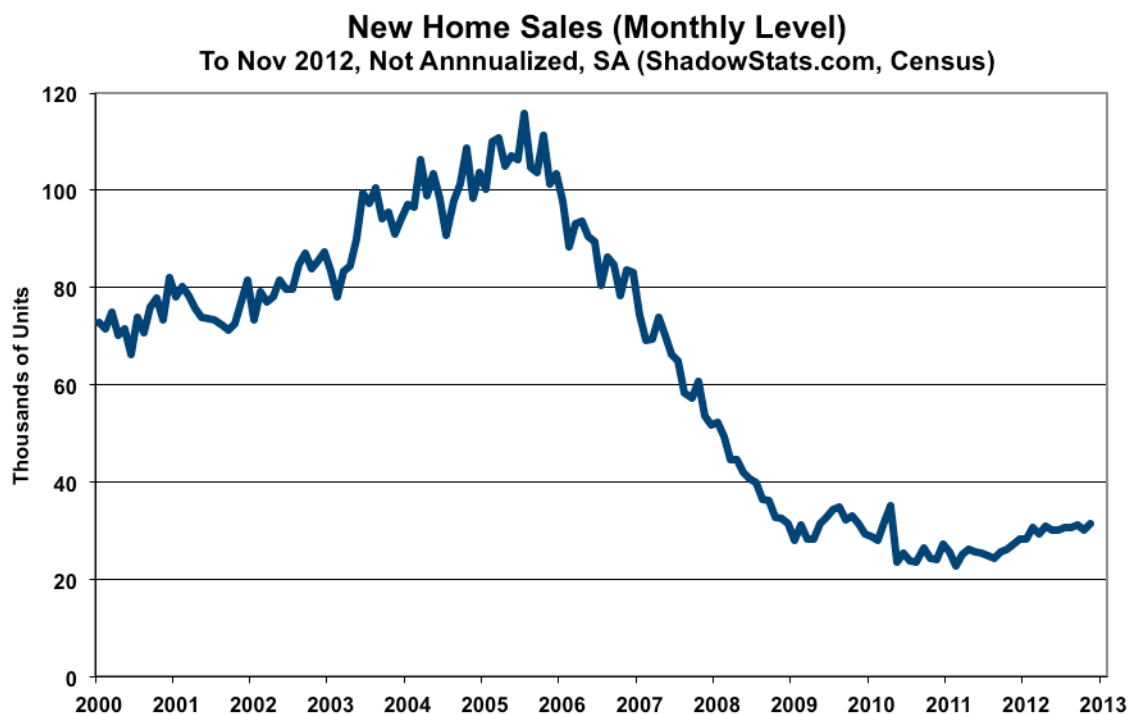
NEW-HOME SALES (November 2012)

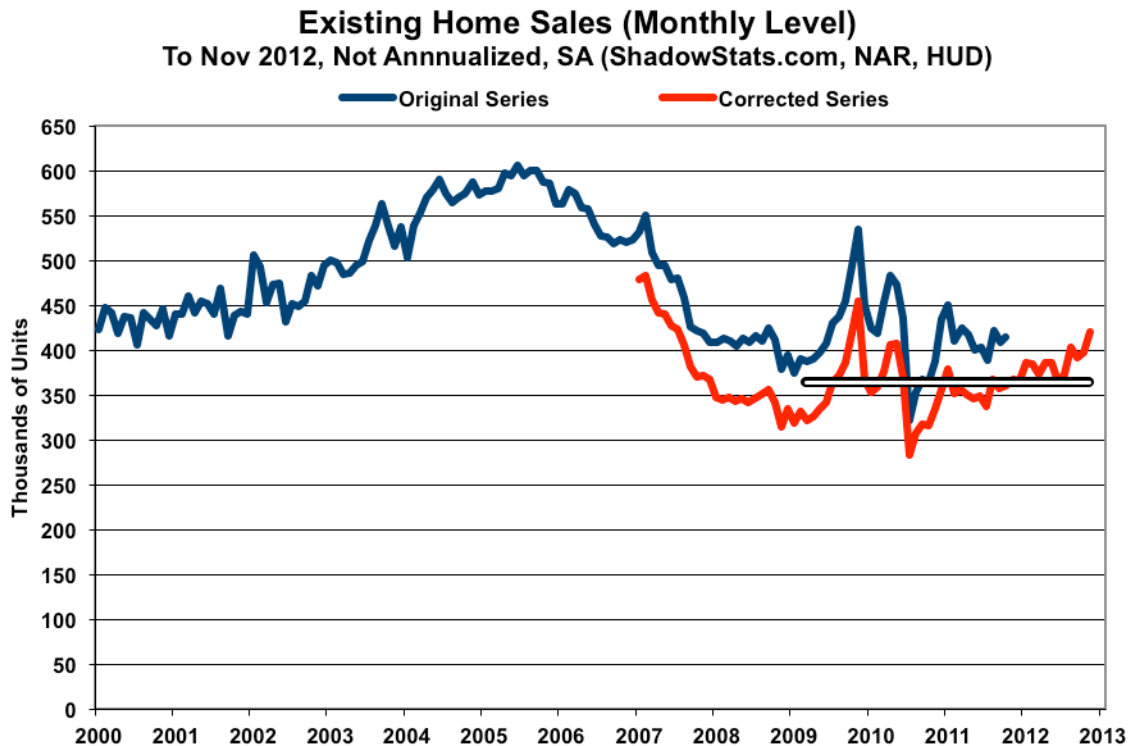
New-Home Sales Activity Remained Stagnant in November. November 2012 new home sales remained in a state of depressed stagnation or bottom-bouncing, following the collapse of housing-industry activity from 2006 into 2009. The same pattern has been seen consistently with the housing starts data. The three graphs following show the pattern of new-home sales activity versus housing starts, as well as the latest reporting on existing home sales (see [Commentary No. 490](#) for reporting detail on November housing starts and existing-home sales). Note that all three graphs are expressed in monthly sales of thousands of units, rather than annualized rates of millions of units.

The impact of Hurricane Sandy on new-home sales likely was minimal in November. Shy of any temporary boost to sales from storm-replacement activity, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or an unfolding, broad economic recovery, as discussed in [No. 485: Special Commentary](#).

November Reporting. Today’s December 27th release of November 2012 new-home sales (counted based on contract signings, Census Bureau) showed a statistically-insignificant 4.4% month-to-month gain (up by 2.4% before prior-period revisions) +/- 19.7% (all confidence intervals are at the 95% level). Lack of statistical significance in month-to-month change for this series has been a common circumstance for more than three years. In turn, October’s monthly decline was revised to 3.5% (previously a 0.3% contraction).

November’s year-to-year gain of 15.3% +/- 21.9% in new-home sales also was statistically-insignificant. The October annual gain was revised to 15.0% (previously 17.2%). Recent volatility in annual change reflects partially the effects of lapsing stimulus efforts last year.





Please note that the horizontal line in the graph of existing-home sales is the average monthly level for the covered period, smoothing the extreme monthly volatility due to the creation and lapsing of various tax stimulus packages for home buyers.

WEEK AHEAD

Beyond what will be the short-lived effects of Hurricane Sandy on certain economic data, and in anticipation of the likely negative impact of expanded QE3 and the “fiscal-cliff”/debt-ceiling negotiations on the currency markets, reporting in January and the year of 2013 generally should reflect higher-than-expected inflation and indicate weaker-than-expected economic results. Increasingly, previously unreported economic weakness should continue to show up in prior-period revisions.

Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain tied largely to systemic distortions of seasonal adjustments, distortions that have been induced by the still-ongoing economic turmoil of the last five years. The recent economic collapse has been without precedent in the post-World War II era of modern economic reporting. These distortions have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series. In any event, where numbers are too far removed from common experience, they tend to be viewed by the public with extreme skepticism.

Still, recognition of an intensifying double-dip recession continues to gain, while recognition of a mounting inflation threat has been rekindled by the Fed's monetary policies. The political system would like to see the issues disappear, and still appears to be trying to work numerical slight-of-hand with series such as the GDP; the media does its best to avoid publicizing unhappy economic news or, otherwise, it puts a happy spin on the numbers; and the financial markets 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, as discussed in [Hyperinflation 2012](#) and [No. 485: Special Commentary](#)).

Construction Spending (November 2012). Due for release on Wednesday, January 2nd, by the Census Bureau, November construction spending likely will show mixed impact from Hurricane Sandy, ranging from direct disruptions in activity to the early phases of some rebuilding. Net of what likely will be a short-term, storm-recovery impact, continued stagnation at low levels of activity—particularly after inflation-adjustment—should remain the underlying trend in this series. The November monthly changes are not likely to be statistically significant. Again, however, rebuilding from the storm destruction should generate some temporary, upside gains to activity during the next several quarters.

Employment and Unemployment (December 2012). December labor data are due for release by the Bureau of Labor Statistics (BLS) on Friday, January 4th. Most commonly, the consensus jobs estimate settles around the trend estimate that comes out of the BLS seasonal-adjustment models. The December payroll trend number is for a 140,000 jobs gain, as discussed in principle in [Commentary No. 479](#), and the early consensus seems to be centering on that trend number. The headline jobs gain in November was 146,000. Some increase in the headline unemployment rate versus November's 7.7% also seems to be expected by the markets.

With other general indicators of the economy already having turned lower, before the impact of the hurricane, December payroll growth should disappoint market expectations, in the context of some possible major revisions to October and November payrolls. The BLS's guesstimates for November are a fair bet to revise lower. With catch-up in other reporting, the net change in December payrolls could be an outright contraction. Reporting risk for headline unemployment is to the upside of market expectations, in the context of annual revisions.

Unemployment Rate Revisions. Multi-year revisions to the seasonally-adjusted unemployment data will be published along with the December unemployment reporting. For the first and only time this year, two consecutive monthly unemployment rates will be on a consistent and comparable basis, December 2012 versus November. The revisions also may give some sense of how far off the comparative monthly unemployment rates were in earlier reporting during 2012 (see the general unemployment concurrent-seasonal-factor discussion in the *Opening Comments* of [Commentary No. 461](#)).