

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

COMMENTARY NUMBER 511
February 2013 Housing Starts

March 19, 2013

Housing Starts Appear to Be Stagnating Anew

PLEASE NOTE: The next regular Commentary tentatively is scheduled for Friday, March 22nd, covering the annual benchmark revision to industrial production, and the monthly reporting of February existing-home sales. Due to the relatively late (noon-time ET) release of the data, the publication of the Commentary will be late in the day on March 22nd or on March 23rd.

The brevity of today's (March 19th) Commentary reflects this week's limited calendar of economic releases.

Best wishes to all — John Williams

Opening Comments and Executive Summary. Headline month-to-month activity in February housing starts effectively was unchanged, since the 0.8% (+/- 12.4%) headline gain was statistically indistinguishable from a contraction. Although housing-starts are well off their trough level of April 2009, the series has shown no meaningful recovery and appears to stagnating anew at 60% below its 2006 high. With structural liquidity issues besetting the consumer, and with ongoing instabilities in the banking system, the chances of any sustainable, near-term rebound in housing activity remain remote.

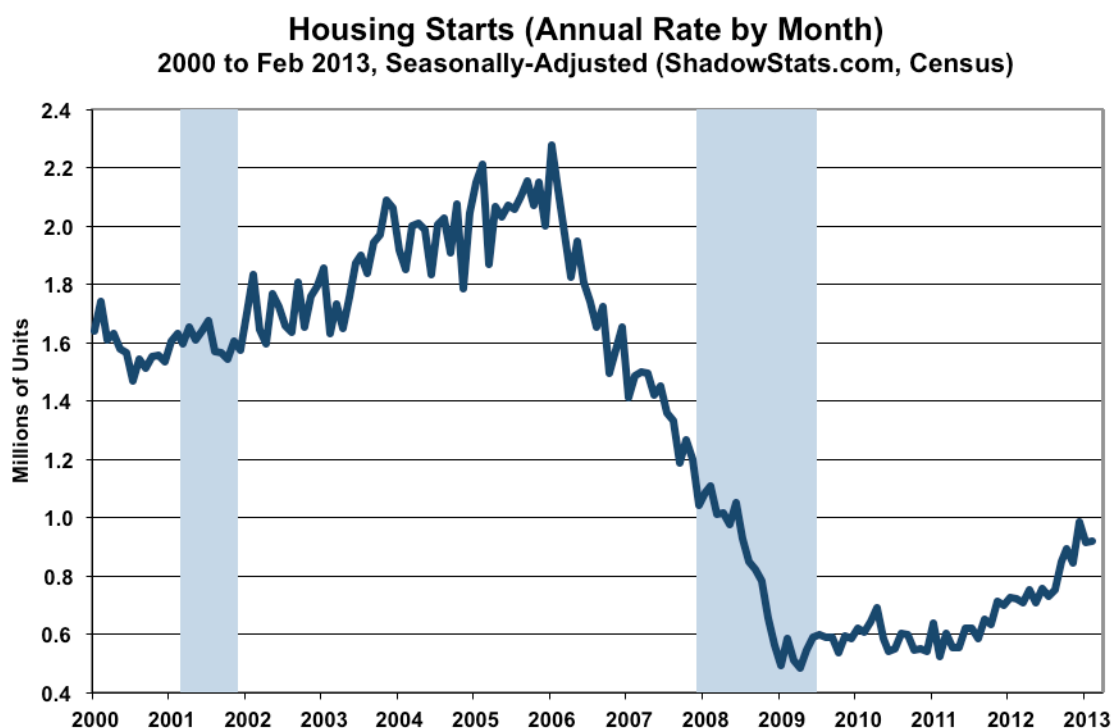
The unfolding circumstance in the Cyprus banking crisis—where a portion of depositors' money may be seized as part of a banking-system bailout—indeed has the potential for unraveling the stability of the U.S.- and global-financial systems. There is little behind the carefully-crafted, post-2008 facade of

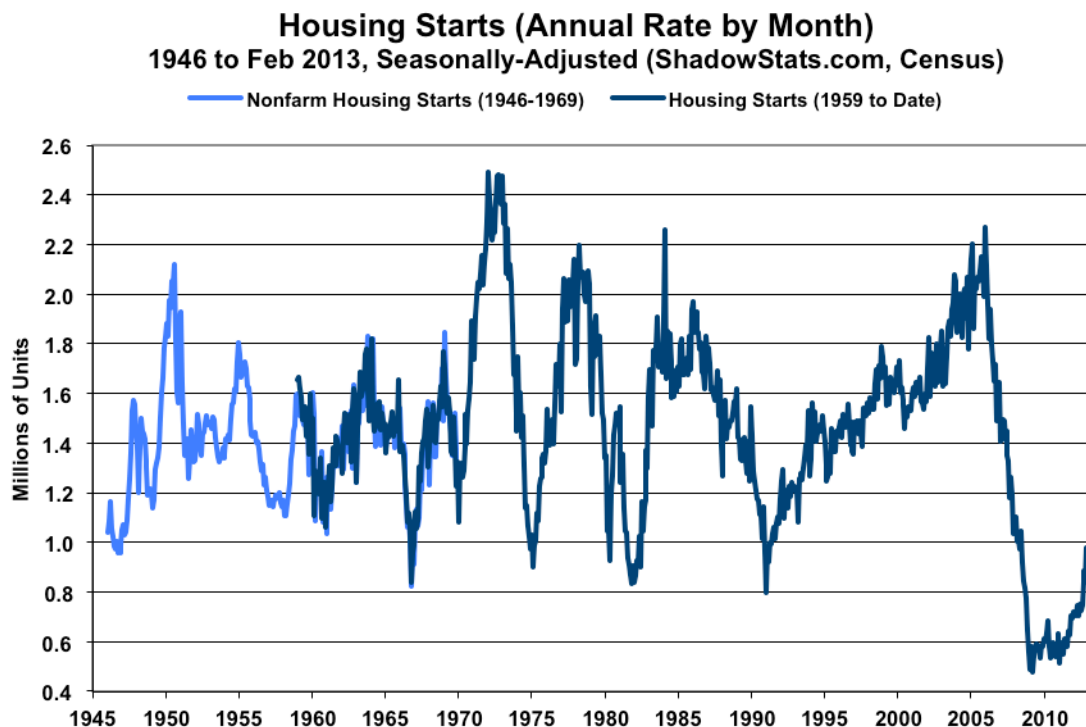
systemic normalcy and stability, and it can shatter easily. Facade-shattering contenders always have included unanticipated circumstances, such as the Cyprus crisis, as well as more-widely-anticipated issues such as the U.S. government's inability and lack of willingness to address its sovereign-solvency issues. ShadowStats will address these issues as they unfold.

February 2013 Housing Starts. The 0.8% headline monthly gain in February housing starts was statistically insignificant, as almost always has been the case in terms of headline change for this series in recent years. The estimated February activity improved minimally from a revised 7.3% (previously 8.5%) monthly decline in January.

Reflected in the accompanying graphs, the current-cycle low in monthly housing-starts activity was in April 2009, followed by a pattern of protracted bottom-bouncing. The April 2009 activity was extreme—an historic low—down by 79% from the cycle- and series-high in January 2006. Although the February 2013 housing starts level was up by 92% from the April 2009 low, it still was down 60% from the high of January 2006. The series appears to be stagnating again, albeit at levels above those seen in 2011 and in the first three-quarters of 2012.

As highlighted and summarized in [Commentary No. 509](#), underlying structural liquidity issues continue to impair the consumer's ability to fuel a boom in housing.





The first graph shows shorter-term detail, from 2000 to date, while second reflects longer-range historic detail since the end of World War II. Seen in the first graph, February 2013 monthly housing starts held about even with January's activity, having backed off December's four-year high. Ongoing activity here likely will reflect a period of renewed stagnation. Noticeable in the second graph since September 2012, recent monthly levels of activity have been above the levels of activity seen at the troughs of the most-severe post-World War II declines in housing starts, as shown in the current series or in the predecessor nonfarm housing starts series.

[More-complete details on the February housing starts are found in the Reporting Detail section.]

HYPERINFLATION WATCH

Hyperinflation Outlook. This updated summary has not changed from March 15th's *Commentary No. 510*. It is intended for new subscribers and for readers looking for a condensed version of the broad outlook or who otherwise are not familiar with the hyperinflation report or recent special commentaries, linked below. Those documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two.

The November 27, 2012 [Special Commentary \(No. 485\)](#) updated [Hyperinflation 2012](#) and the broad outlook 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. The basics have not changed here, other than events keep moving towards the circumstance of a domestic hyperinflation by the end of 2014. Nonetheless, a fully updated hyperinflation report is targeted for publication in April.

Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The system remains still in the throes and aftershocks of the 2008 panic and the near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation is inevitable.

The economic and systemic solvency crises of the last eight years continue. There never was an actual recovery following the economic downturn that began in 2006 and collapsed into 2008 and 2009. What followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012. The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series. Nonetheless, given the nature of official reporting, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

Indeed, what continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 turmoil. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That the crises continue can be seen in deteriorating economic activity and in the panicked actions by the Federal Reserve, where it proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise. As discussed in the *Opening Comments* section [of [Commentary No. 505](#)], hoopla to the contrary in the popular press, that the Fed might pull-back on its “easing,” most likely was designed to help jawbone and firm-up the U.S. dollar and to soften gold in the immediate period running up to the imminent crises in the federal-budget and debt-ceiling negotiations.

The Fed’s recent and ongoing liquidity actions also can be viewed as a signal of deepening problems in the system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Nonetheless, the Fed’s easing moves appear to have been an ongoing effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury.

Despite the near-term political hype that Congress will come up with a plan to balance the budget, perhaps in a ten-year time frame, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of the negotiations. If the best the negotiators can agree on is monkeying with CPI inflation reporting (see the *Opening Comments*) there is no chance of a pending substantive agreement.

Further, ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Chances also remain nil for the government addressing the GAAP-based deficit that hit \$6.6 trillion in 2012, instead of the popularly followed, official cash-based accounting deficit in 2012 of \$1.1 trillion, as discussed in [No. 500: Special Commentary](#).

Efforts at delaying meaningful fiscal action, and at briefly postponing conflict over the Treasury’s debt ceiling, have bought the politicians in Washington minimal time in the global financial markets, but the time largely has run out and patience in the global markets is near exhaustion. The continuing unwillingness and political inability of the current government to address seriously the longer-range U.S.

sovereign-solvency issues, only pushes along the regular unfolding of events that eventually will trigger a domestic hyperinflation, as discussed in [Commentary No. 491](#).

The unfolding fiscal catastrophe, in combination with the Fed's direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility likely will not last much longer, despite the tactics of delay by the politicians and obfuscation by the Federal Reserve. This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar, despite any near-term gyrations. A dollar-selling panic is likely this year, with its effects and aftershocks setting hyperinflation into action in 2014.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (February 2013)

Minimal Monthly Gain in February Housing Starts Was Statistically Insignificant. Although still holding well off the historic low levels of activity in the current cycle, February 2013 housing starts were 60% below the historic high level of activity seen in January 2006. The headline February monthly gain of 0.8% was statistically insignificant, as commonly has been the case in post-collapse reporting of monthly data. Possibly reflecting some further seasonal-factor catch up from reporting distortions in December 2012, the series appears to be stagnating again, albeit at levels above those seen 2011 and the first three-quarters of 2012.

The housing-starts series remains particularly volatile, usually suffering large monthly revisions, as well as irregular monthly distortions from a host of other factors, as discussed in [Hyperinflation 2012](#) and [No. 485: Special Commentary](#). As highlighted and summarized in [Commentary No. 509](#), underlying structural liquidity issues continue to impair the consumer's ability to fuel a boom in housing, let alone a boom in real retail sales and personal consumption.

Housing Starts February 2013 Reporting. The Census Bureau reported today, March 19th, a statistically-insignificant, month-to-month headline increase in seasonally-adjusted February 2013 housing starts of 0.8% (a 3.0% gain before prior-period revisions) +/- 12.4% (all confidence intervals are at the 95% level). January housing starts activity revised to a 7.3% monthly contraction (initially estimated as a decline of 8.5%).

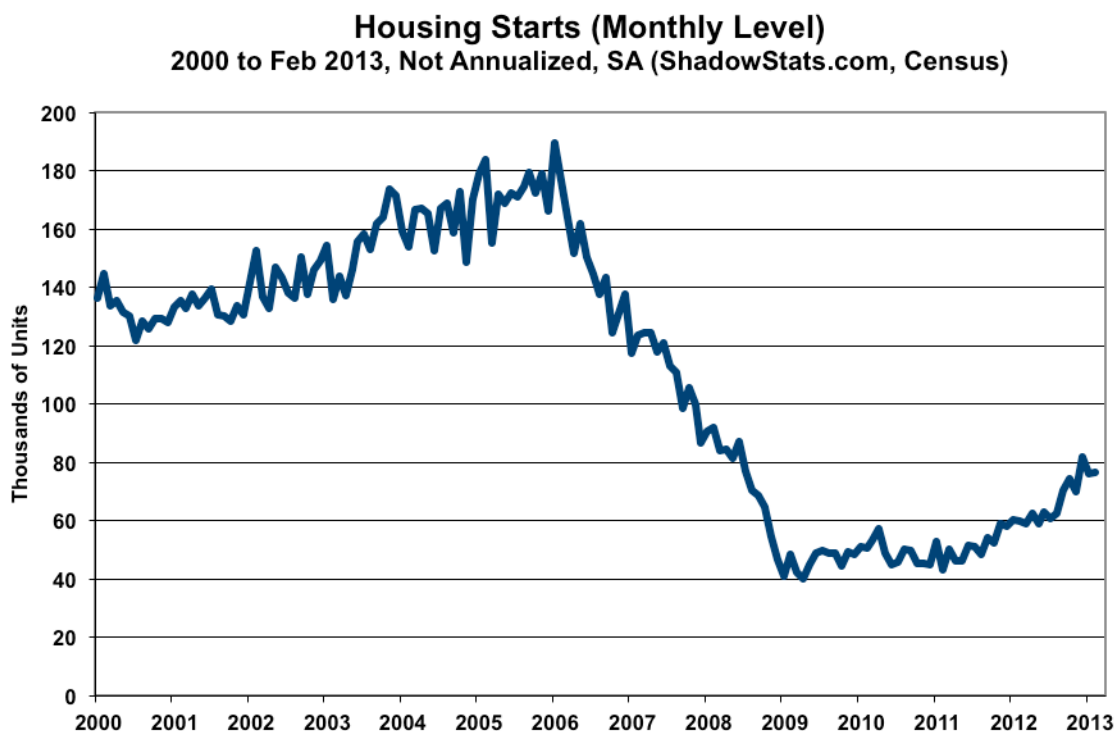
Starts for single-unit structures in February rose by a statistically-insignificant 0.5% +/- 14.2% for the month, following a rounded, revised “unchanged” level in activity (down by 0.03% at the second-decimal point). The initial January estimate had been for a 0.8% monthly gain.

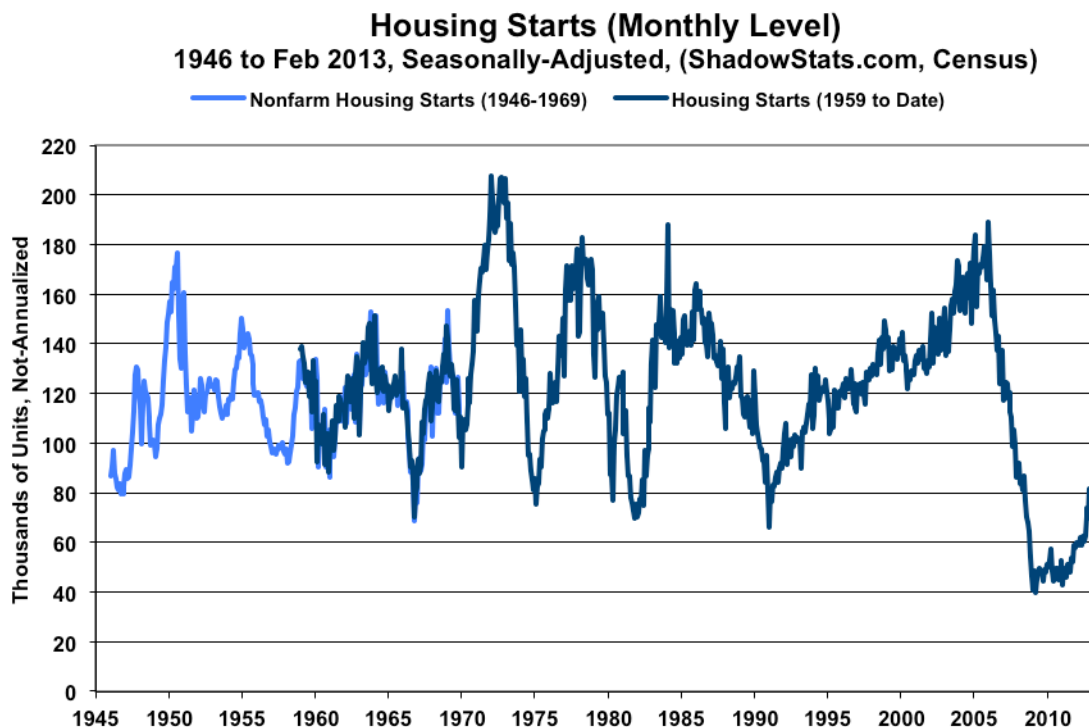
Reporting of activity in starts for apartment buildings (5 units or more) remained unstable and statistically meaningless. Month-to-month, February’s apartment building starts rose by a statistically-insignificant 0.7% +/- 29.6%, versus a revised 18.4% (previously a 26.1%) decline in January.

The year-to-year growth in aggregate February 2013 housing starts was a statistically-significant increase of 27.7% +/- 16.0%, following a revised 26.4% (previously 23.6%) annual gain in January, but, again, that remains in the continued context of what has been a protracted period of low-level bottom-bouncing in a highly unstable series.

The official reporting of monthly housing starts is expressed at an annualized monthly pace, which was 917,000 for February 2013. Due to the regular, extreme volatility in this monthly series, however, it is more meaningful to look at actual, non-annualized monthly number. The graphed patterns are the same; it is just that the monthly levels tend to be a little more realistic.

The regular graphs (in annualized millions) for this series are shown in the *Opening Comments and Executive Summary* section. The same graphs in thousands of actual starts per month are shown in the accompanying two graphs.





Current monthly housing starts activity has backed off December's four-year high level, but remains well above the record monthly low seen for the present series in April 2009. Since September 2012, monthly levels of activity have notched above the levels of activity seen at the troughs of the most-severe post-World War II declines in housing starts shown in the current series, or in the predecessor nonfarm housing starts series.

WEEK AHEAD

Weaker Economic and Stronger Inflation Data Should Surface in the Near-Term. Reflecting structural liquidity constraints on the consumer, and in anticipation of the likely negative impact, of expanded QE3 and the still-ongoing fiscal crisis/debt-ceiling negotiations, on the U.S. dollar in the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and weaker-than-expected economic results. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions for industrial production (March 22nd—back to 1972), retail sales (May 31st) and GDP (July 31st—comprehensive overhaul back to 1929).

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 reported 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 it still appears to be trying to work numerical slight-of-hand with series such as the GDP and related projections of the federal budget deficit. The media do their best to avoid publicizing unhappy economic news or, otherwise, they put a happy spin on the numbers. Pushing the politicians and media, the financial markets and related spinmeisters 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](#).

Existing- and New-Home Sales (February 2013). February existing-home sales are due for release on Thursday, March 21st, from the National Association of Realtors, while the February new-home sales report from the Census Bureau is not due out until Tuesday, March 26th. As is the usual circumstance with these highly volatile and unstable series, whether existing or new sales, an entrenched pattern of stagnation likely has continued for both, with the pending reports of monthly change in sales activity not likely to be statistically-significant, particularly in the context of prior-month revisions.

Index of Industrial Production (Annual Benchmark Revision). The annual benchmark revision to industrial production is due for release on Friday, March 22nd. Where the new estimates will go back to 1972, a revised pattern of weaker historical economic activity is likely. Do not be misled by the revisions being re-adjusted automatically higher, where the index is set equal to 100 as of 2007. That will be corrected for in the ShadowStats analysis following the release. The most meaningful revisions should be in the post-2007 period.
