

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

COMMENTARY NUMBER 544
June Housing Starts, Economy, Updated Summary Outlook
July 17, 2013

**Second-Quarter Housing Starts Plunged at Annualized Quarterly Rate of 31.2%,
Dimming the Outlook for Second-Quarter GDP**

Economic Growth Otherwise Has Slowed in Second-Quarter 2013

**Immigration Legislation Would Exacerbate Serious Economic and
Fiscal Issues Facing the United States**

PLEASE NOTE: The next regular Commentary is scheduled for Thursday July 25th, covering June new orders for durable goods, new- and existing-homes sales and assessment of pending GDP revisions.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

The most recent economic reporting has been suggestive of slowing or contracting activity, with housing starts showing a sharp quarterly contraction. At the same, headline inflation has been picking up somewhat faster than expected by consensus expectations. These issues, as well as the housing starts detail are discussed in the *Opening Comments* (also see *Reporting Detail* for housing starts).

Given ongoing U.S. economic issues, the uncontained GAAP-based federal deficit and a post-Great Depression high in broad unemployment, the immigration legislation passed by the Senate, and currently before Congress, only would exacerbate the extreme economic and fiscal imbalances facing the United States, if enacted. An opinion is offered on this poorly-timed and otherwise systemically-detrimental legislation, in the *Opening Comments*.

The *Hyperinflation Summary* has been updated minimally in the *Hyperinflation Watch*.

Pending Immigration Legislation Is on Track to Damage the U.S. Economy and to Increase Domestic Poverty, Unemployment and the GAAP-Based Federal Deficit. Given current U.S. economic and unemployment reality, and mounting global concerns as to the long-term solvency issues of the United States, enactment of the immigration legislation—currently passed by the U.S. Senate—would mean intensified domestic economic and solvency disasters.

A common phenomenon is that government programs tend not to work as expected or as promised, particularly when the issues involve economic activity or costs to the government or directly to the consuming public. The aggravating issues here often are tied to overly optimistic assumptions, economic and otherwise, along with overtly and politically manipulated background details that are designed to help the desired legislation get through Congress. Consider, for example, Obamacare and earlier immigration legislation.

In the current circumstance, the proposed immigration bill could not possibly perform as advertised, given the current state of the U.S. economy, U.S. unemployment and the uncontained U.S. GAAP (generally accepted accounting principles)-based federal deficit. The GAAP-based deficit hit \$6.6 trillion in 2012 (including the annual deterioration in the net present value of unfunded liabilities tied to programs such as Social Security and Medicare).

Contrary to the popular hype out of Wall Street and Washington, the U.S. economy remains in its deepest and most-protracted contraction since the Great Depression, with broad-based unemployment at a post-Great Depression high. Real (adjusted for inflation) median household income collapsed along with the economy in 2008, but as official economic recovery took hold in 2009, household income continued to tumble and now is bottoming-bouncing at a multi-decade low. These structural income problems impair personal consumption—broad-based economic activity—preventing a sustainable economic expansion.

One goal of the immigration-legislation backers is to keep downside pressure on domestic wages and salaries. While that may be fine from the standpoint of employers, continued household income constraint means ongoing stagnant-to-contracting business activity—a continued lack of economic recovery.

Considering the large number of long-term discouraged workers, who are not counted in the official government unemployment measures, broad unemployment is running about 23%. That compares with the government's headline unemployment rate of 7.6% and its broadest unemployment measure at 14.3%, including short-term discouraged workers. This is not a circumstance conducive to the system happily absorbing a large influx of immigrants, legal or otherwise.

Where economic forces could moderate some of the demand for skilled legal immigrants, a large influx of low-skilled legal immigrants (allowed by the legislation), as well forcing the illegal immigrants into the legal system, quickly would increase government spending on financial-support programs, and spike unfunded liabilities for programs such as Social Security and Medicare. Despite repeated promises to the contrary, the U.S. government has demonstrated an inability and unwillingness to control the influx of illegal workers and to enforce existing laws as to the behavior of employers. Despite new legislation, given the politically-powerful special interests pushing the new law, the chances of those issues actually being resolved remain nil.

Accordingly, some of the proposed influx of low-skilled legal immigrants, and accommodation of current illegal immigrants, would push the immigrants into the already bloated, broad-based unemployment universe, into official poverty and into government support programs, as the low-skilled workers are displaced by an influx of new, even lower-cost undocumented workers.

If the immigration package were not enacted, although domestic conditions still would be beset with horrendous difficulties—on which the Congress might consider working—the U.S. economy would be relatively stronger, the long-term fiscal condition of the United States would be relatively better and the long-term discouraged unemployed would have relatively better prospects for finding gainful employment.

June 2013 Inflation and Economic Activity: Weaker Economy, Stronger Inflation. In headline inflation reporting, monthly gains in both the June 2013 producer price index (PPI) and consumer price index (CPI) exceeded consensus inflations forecasts. As a result, an upturn in annual PPI and CPI inflation also was seen. While the headline 0.8% June PPI gain (see [Commentary No. 541](#)) and the headline 0.5% June CPI gain (see [Commentary No. 543](#)) both reflected some catch-up from earlier months, with energy-price-related seasonal factors reversed from depressing mode to boosting mode, similar factors and market fundamentals suggest even stronger headline inflation the next several months. Thereafter, there is fair shot that heavy selling of the U.S. dollar will be fueling a significant upturn in domestic inflation.

Indeed, the U.S. economy is slowing, and Mr. Bernanke knows it. Irrespective of whatever comments are being floated by Fed officials, on any given day, as part of the effort to prop up the stock market or appeasing critics, the Fed remains locked into its quantitative easing (QE3) by ongoing banking-system solvency problems, and by the political cover provided by a weakening economy. The Fed's primary, ongoing concern remains the solvency and survival of the banking system.

Beyond a headline-strong but otherwise overrated June payroll report, the June unemployment report showed weakening conditions (see [Commentary No. 540](#)). The bulk of subsequent June economic reporting has been weaker than expected or otherwise signaled an intensifying economic downturn. Headline June retail sales were weaker than anticipated, and real monthly change there turned negative, after the strong, headline CPI number (see [Commentary No. 542](#) and [Commentary No. 543](#)). Year-to-year change in real retail sales also continued to signal a pending intensification of the economic downturn, as did the slow pace of annual growth in June industrial production ([Commentary No. 543](#)). Second-quarter growth in production also slowed to a level suggestive of a stalling economy.

As discussed in the next section, the headline drop in June housing starts was part of a sharp decline in second-quarter activity for the series. These factors, in combination, suggest a downside surprise to the headline first estimate of second-quarter GDP, also considering the sharp deterioration in the May trade deficit, which will be used in the early GDP estimate (see [Commentary No. 538](#)).

Latest Reporting: Residential Investment/Housing Starts—June 2013. Neither the month-to-month decline nor year-to-year gain in June 2013 housing starts was statistically-significant, but the sharp contraction reported in second-quarter 2013 activity should dampen market expectations for second-quarter 2013 GDP growth. Separately, some analysts also have lowered second-quarter GDP expectations, recently, due to the weaker-than-expected retail sales.

Indeed, the three months of second-quarter 2013 data show an annualized quarterly decline (the way the GDP is reported) of 31.2% (down by 8.9% not annualized) versus the first-quarter. In this highly volatile series, annualized quarterly growth for first-quarter housing starts was up at an annualized quarterly pace of 30.1%. Put in perspective, the stronger first-quarter residential activity accounted for 0.34% of the headline 1.78% growth currently estimated for first-quarter GDP. The headline GDP estimate is real (net of inflation), while the headline housing starts numbers basically are consistent with real GDP, reflecting only physical volume, no pricing considerations.

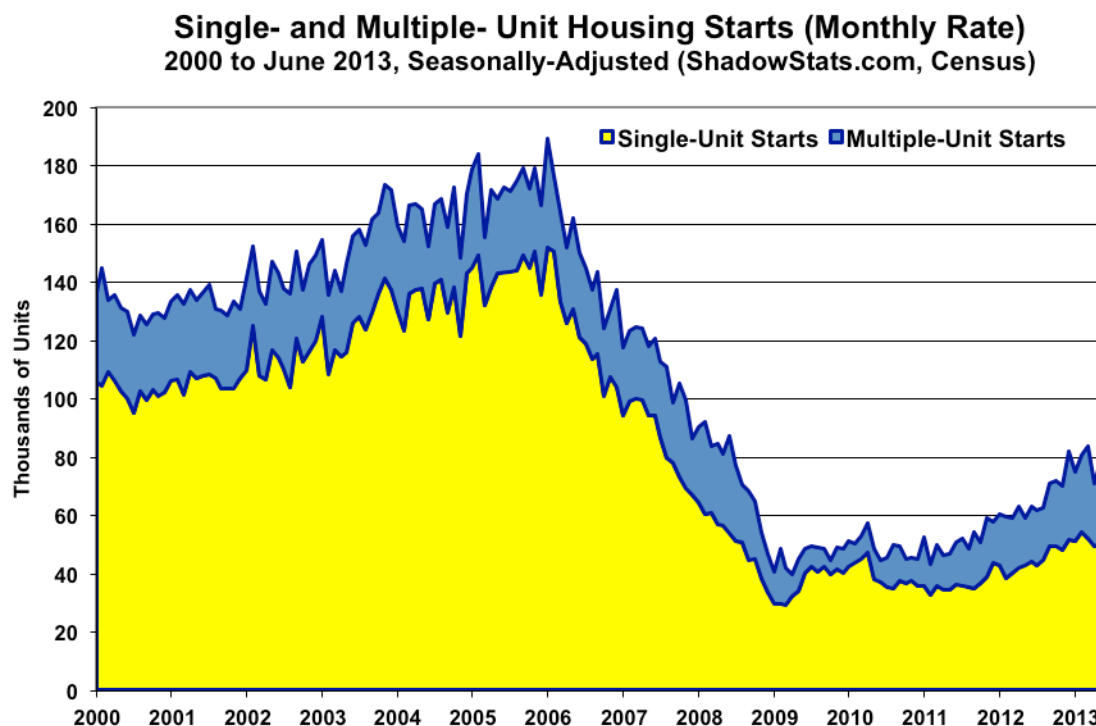
By category, the annualized paces of quarterly contraction in second-quarter 2013 housing starts activity were 31.2% (all categories), 21.2% (one-unit), 46.1% (5 units or more) and 47.7% (all multiple units, 2 units or more).

Headline June 2013 housing starts showed a statistically-insignificant, seasonally-adjusted, month-to-month decline of 9.9%. May housing starts revised to a gain of 8.9% (previously 6.8%). Well above the record monthly low seen for the present series in April 2009, the June headline number was still 63% below the January 2006 series high. Year-to-year growth in seasonally-adjusted June 2013 housing starts also was statistically-insignificant, following a revised 30.5% (previously 28.6%) gain in May.

Housing starts for single-unit structures in June fell by a statistically-insignificant 0.8%, for the month, following a revised 0.5% (previously 0.3%) gain in May. Reporting of activity in starts for apartment buildings (generally 5 units or more) remained highly unstable, down for the month by a statistically-insignificant 26.7% +/- 28.5%, following a revised 32.0% (previously 24.9%) gain in May.

The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 836,000 in June 2013, following 928,000 in May. Graphs on that basis are plotted in the *Reporting Detail* section.

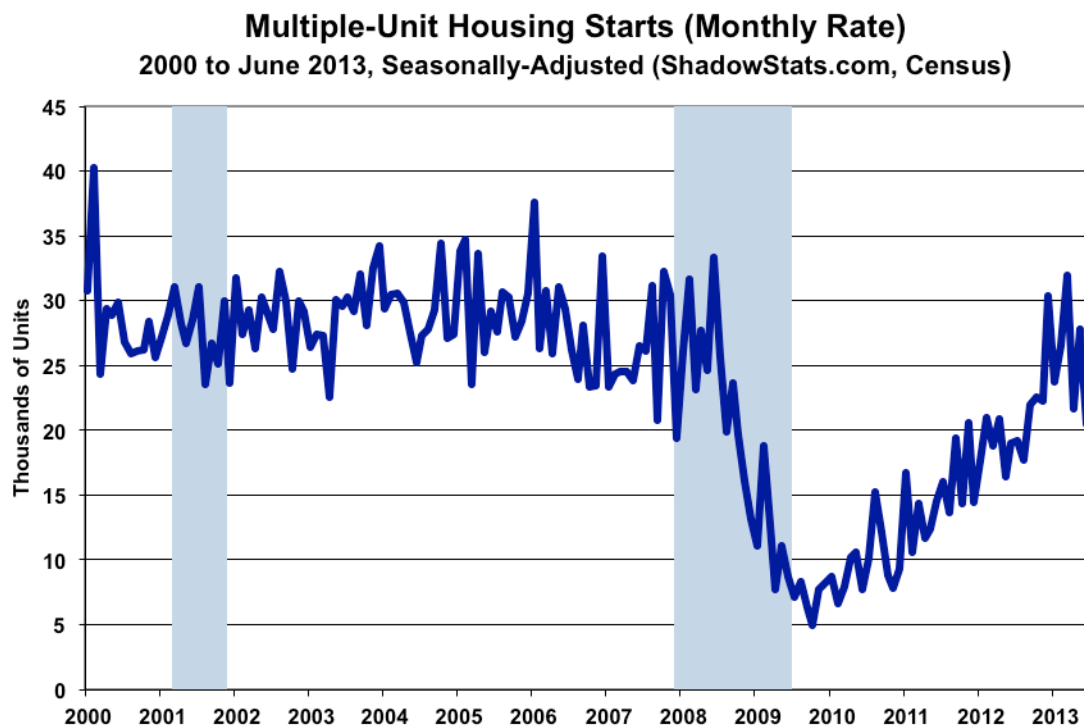
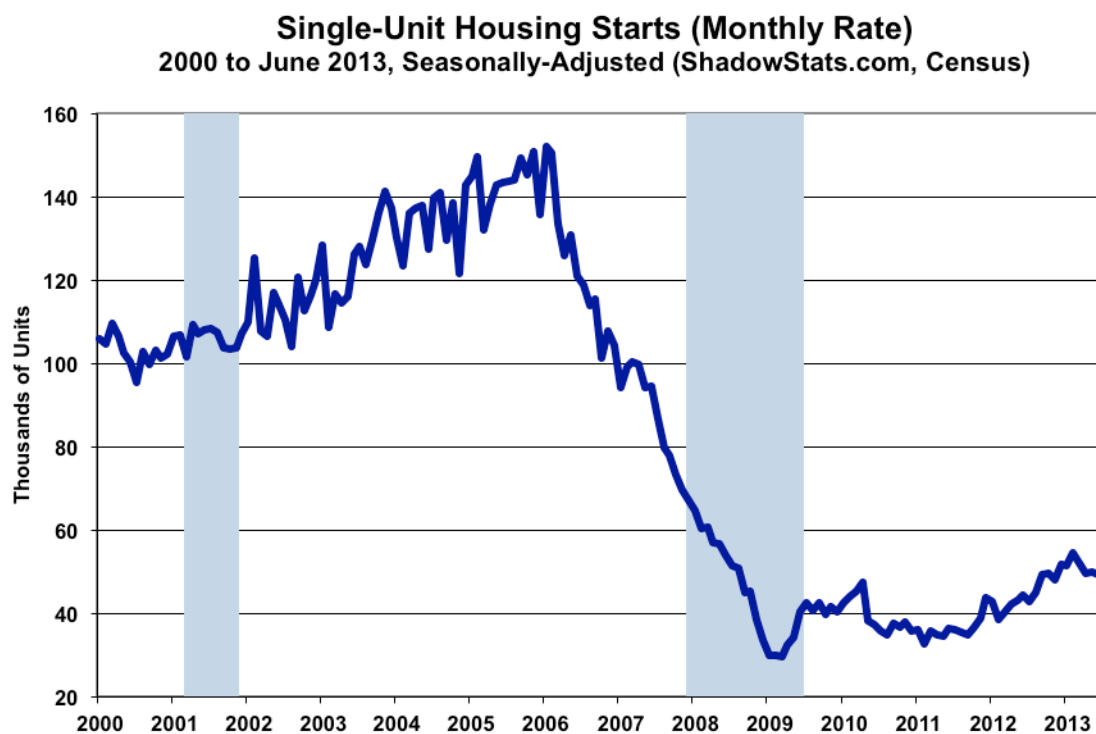
Due to the regular, extreme volatility in the monthly series, it is more meaningful to look at the actual, non-annualized monthly number. The graphed and quarterly patterns of growth are identical; it is just that the monthly levels tend to be a little more realistic as to the level of actual activity. Accordingly, the following graphs reflect the seasonally adjusted monthly rates, not the annualized numbers.



The highly-volatile and irregular housing starts series tends to show mixed patterns, partially because it is reported as a mix of residential construction products, with one-unit housing starts that generally are tied to new home sales, versus multi-unit starts that often reflect rental- and apartment-unit activity. The aggregate, statistically-insignificant June contraction of 9.9% was composed of an insignificant 0.8% decline in one-unit housing starts, combined with an insignificant 26.2% monthly drop in starts of multiple-unit (2 or more units) structures. The preceding graph reflects that detail

The next two graphs break-up the component reporting between one-unit and multiple-unit housing starts. The Census Bureau breaks its headline data into three categories beyond “total.” Those structure definitions are “1 unit,” “2 to 4 units,” and “5 units or more.” Due to lack of “meeting reliability standards,” Census does not publish the actual numbers for the “2 to 4 units,” although the numbers can be imputed. Accordingly, ShadowStats breaks the data into two sub-categories: “single-unit” and “multiple-unit” starts, where the multiple-unit category simply is the total unit count, minus the single-unit count.

Activity in single-unit starts generally has remained stagnant in the post-housing-crash environment, and, after a slight uptrend has headed lower, recently. Multiple-unit starts activity has remained highly unstable and irregular, though trending higher recently. Activity in this series also may be shifting anew to the downside. With the private-housing market difficulties, former homeowners or those not entering the home-owning market have pushed up demand for rental units. In the context of extreme volatility, multiple-unit starts have moved irregularly to pre-crash levels in recent reporting, although lower in the most-recent reporting.



[For further detail on the June housing starts, see the Reporting Detail section.]

HYPERINFLATION WATCH

Hyperinflation Outlook—Updated Summary. *[The Outlook summary has been revised, minimally, with the changes highlighted by underlining].* The comments here are intended as background material for new subscribers and for those looking for a brief summary of the broad outlook of the economic, systemic and inflation crises that face the United States in the year or so ahead.

Background Material. [*No. 527: Special Commentary*](#) (May 2013) supplemented [*No. 485: Special Commentary*](#) (November 2012), reviewing shifting market sentiment on a variety of issues affecting the U.S. dollar and prices of precious metals. *No. 485*, in turn, updated [*Hyperinflation 2012*](#) (January 2012)—the base document for the hyperinflation story—and the broad outlook for the economy and inflation, as well as for systemic-stability and the U.S. dollar. Of some use, here, also is the [*Public Comment on Inflation*](#).

These are the primary articles outlining current conditions and the background to the hyperinflation forecast, and they are suggested reading for subscribers who have not seen them and/or for those who otherwise are trying to understand the basics of the hyperinflation outlook. The fundamentals have not changed in recent years, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, a fully-updated hyperinflation report is planned for the near future.

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

Typical of an approaching, major turning point in the domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and Federal Reserve policy also have been in increasing flux. The FOMC and Federal Reserve Chairman Ben Bernanke have put forth a plan for reducing and eventually ending quantitative easing in the form of QE3. The tapering or cessation of QE3 is contingent upon the U.S. economy performing in line with overly-optimistic economic projections provided by the Fed. Initially, market reaction pummeled stocks, bonds and gold. The talk of ending QE3 still appears to be little more than jawboning, aimed a placating Fed critics. As part of the mind-game with the public, various Fed officials regularly offer contradictory stories, when the stock market needs a boost or distraction.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift increasingly towards no imminent end to QE3, and then to expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, eventually, they will have to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve—despite currency-market platitudes to the contrary—is locked into quantitative easing by persistent problems now well beyond its control. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, driving the quantitative easing. Economic issues are secondary concerns for the Fed; they are used as political cover for QE3. That cover will continue for as long as the Fed needs it.

At the same time, deteriorating expectations for domestic political stability reflect widening government scandals, in addition to the dominant global-financial-market concern of there being no viable prospect of those controlling the U.S. government addressing the long-range sovereign-solvency issues of the United States government. All these factors, in combination, show the end game to be nearing.

The most visible and vulnerable financial element to suffer early in this crisis likely will be the U.S. dollar in the currency markets (all dollar references here are to the U.S. dollar, unless otherwise stated). Heavy dollar selling should evolve into massive dumping of the dollar and dollar-denominated paper assets. Dollar-based commodity prices, such as oil, should soar, accelerating the pace of domestic inflation. In turn, that circumstance likely will trigger some removal of the U.S. dollar from its present global-reserve-currency status, which would further exacerbate the currency and inflation problems tied to the dollar.

This still-forming great financial tempest has cleared the horizon; its impact on the United States and those living in a dollar-based world will dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on the precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises. Attempts to save the system all have inflationary implications. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of next year (2014). The shifting underlying fundamentals are discussed in [No. 527: Special Commentary](#); some of potential breaking crises will be expanded upon in the next revision to the hyperinflation report.

Still Living with the 2008 Crisis. 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 (see new detail in [Commentary No. 530](#)). The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see [No. 527: Special Commentary](#), [Commentary No. 528](#) and [Public Comment on Inflation](#)). 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. Where chances are increasing of a sharp slowing in headline second-quarter 2013 GDP, possibly an outright contraction, downside revisions to GDP in recent years also loom in the July 31st comprehensive benchmark revision to the GDP series.

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 ongoing

panicked actions by the Federal Reserve, where it still proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before and since the mid-April rout in gold prices, there had and has been mounting hype about the Fed potentially pulling back on its “easing” and a coincident Wall Street push to talk-down gold prices. Again, as discussed in [No. 527: Special Commentary](#), those factors appeared to be little more than platitudes to the Fed’s critics and intensified jawboning to support the U.S. dollar and to soften gold, in advance of the still-festering crises in the federal-budget and debt-ceiling negotiations. Despite orchestrated public calls for “prudence” by the Fed, and Mr. Bernanke’s press conference following the June 19th FOMC meeting, the underlying and deteriorating financial-system and economic instabilities have self-trapped the Fed into an expanding-liquidity or easing role that likely will not be escaped until the ultimate demise of the U.S. dollar.

Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the dollar in international trade, such as seen most recently in the developing relationship between France and China (see [No. 527: Special Commentary](#)).

The Fed’s recent and ongoing liquidity actions themselves suggest a signal of deepening problems in the financial system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed’s continuing easing moves appear to have been primarily an effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury, under the political cover of a “weakening economy.” Mounting signs of intensifying domestic banking-system stress are seen in soft annual growth in the broad money supply, despite a soaring pace of annual growth in the monetary base, and in global banking-system stress that followed the crisis in Cyprus and continuing, related aftershocks.

Still Living with the U.S. Government’s Fiscal Crisis. Again, as covered in [No. 527: Special Commentary](#), the U.S. Treasury still is in the process of going through extraordinary accounting gimmicks, at present, in order to avoid exceeding the federal-debt ceiling. Early-September appears to be the deadline for resolving the issues tied to the debt ceiling, including—in theory—significant budget-deficit cuts.

Both Houses of Congress have put forth outlines of ten-year budget proposals that still are shy on detail. The ten-year plan by the Republican-controlled House proposes to balance the cash-based deficit as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate does not look to balance the cash-based deficit. Given continued political contentiousness and the use of unrealistically positive economic assumptions to help the budget projections along, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of upcoming negotiations. There still appears to be no chance of a forthcoming, substantive agreement on balancing the federal deficit.

Indeed, 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 fully addressing the GAAP-based deficit that hit \$6.6 trillion in 2012, let alone balancing the popularly-followed, official cash-based accounting deficit that was \$1.1 trillion in 2012 (see [No. 500: Special Commentary](#)).

Efforts at delaying meaningful fiscal action, including briefly postponing conflict over the Treasury's debt ceiling, bought the politicians in Washington minimal time in the global financial markets, but the time 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](#).

U.S. Dollar Remains Proximal Hyperinflation Trigger. 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 has given way to mounting instabilities, and severe market turmoil likely looms, despite the tactics of delay by the politicians and ongoing obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. As discussed earlier, a dollar-selling panic is likely this year—still of reasonably high risk in the next month or so—with its effects and aftershocks setting hyperinflation into action in 2014. Gold remains the primary and long-range hedge against the upcoming debasement of the U.S. dollar, irrespective of any near-term price gyrations in the gold market.

The rise in the price of gold in recent years was fundamental. The intermittent panicked selling of gold has not been. With the underlying fundamentals of ongoing dollar-debasement in place, the upside potential for gold, in dollar terms, is limited only by its inverse relationship to the purchasing power of the U.S. dollar (eventually headed effectively to zero). Again, physical gold—held for the longer term—remains as a store of wealth, the primary hedge against the loss of U.S. dollar purchasing power.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (June 2013)

June Housing Starts Show Ongoing Downturn/Stagnation, Plunge in Quarterly Activity. Neither the month-to-month decline nor year-to-year gain in June 2013 housing starts was statistically-significant, but the sharp decline in reported in second-quarter activity should dampen market expectations in terms of the outlook for second-quarter 2013 GDP growth.

The 9.9% headline monthly contraction in June 2013 housing starts was statistically-insignificant, as were the headline 0.8% decline in one-unit housing starts and the headline 26.7% drop in the five-units-or-more category. Those declines followed revised respective monthly gains of 8.9% (total), 0.5% (one-unit) and 32.0% (five-units-or-more) in May, and revised monthly declines of 15.2% (total), 4.8% (one-unit) and 31.5% (five-units-or-more) in April.

In combination, though, the three months of second-quarter 2013 data show an annualized quarterly decline (the way the GDP is reported) of 31.2% (down by 8.9% not annualized) versus the first-quarter. In this volatile series, annualized quarterly growth for first-quarter housing starts was up at an annualized quarterly pace of 30.1%. Stronger first-quarter residential activity accounted for 0.34% of the headline 1.78% growth currently estimated for first-quarter GDP. The GDP estimate is real (net of inflation), consistent with the housing starts number, which reflects only physical volume, not pricing considerations.

This highly volatile and irregular housing starts series tends to show varying patterns, partially because it is reported as a mix of residential construction products, with one-unit housing starts that generally are for individual consumption resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units. By category, the annualized quarterly contractions in second-quarter 2013 housing starts activity were 31.2% (all categories), 21.2% (one-unit), 46.1% (5 units or more) and 47.7% (all multiple units, 2 units or more).

As graphed in the *Opening Comments* section, activity in single-unit starts generally has been relatively stagnant in the post-housing-crash environment, turning lower recently, while the multiple-unit starts activity has remained highly unstable and irregular, briefly hitting pre-crash levels, but pulling back some in recent reporting.

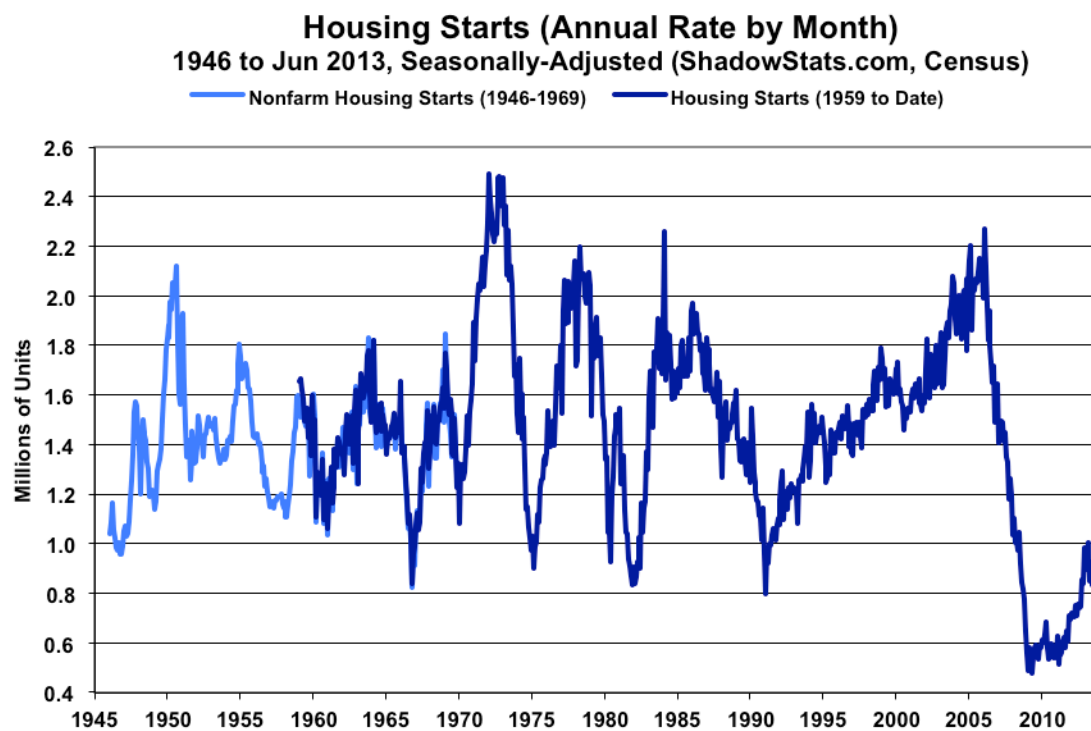
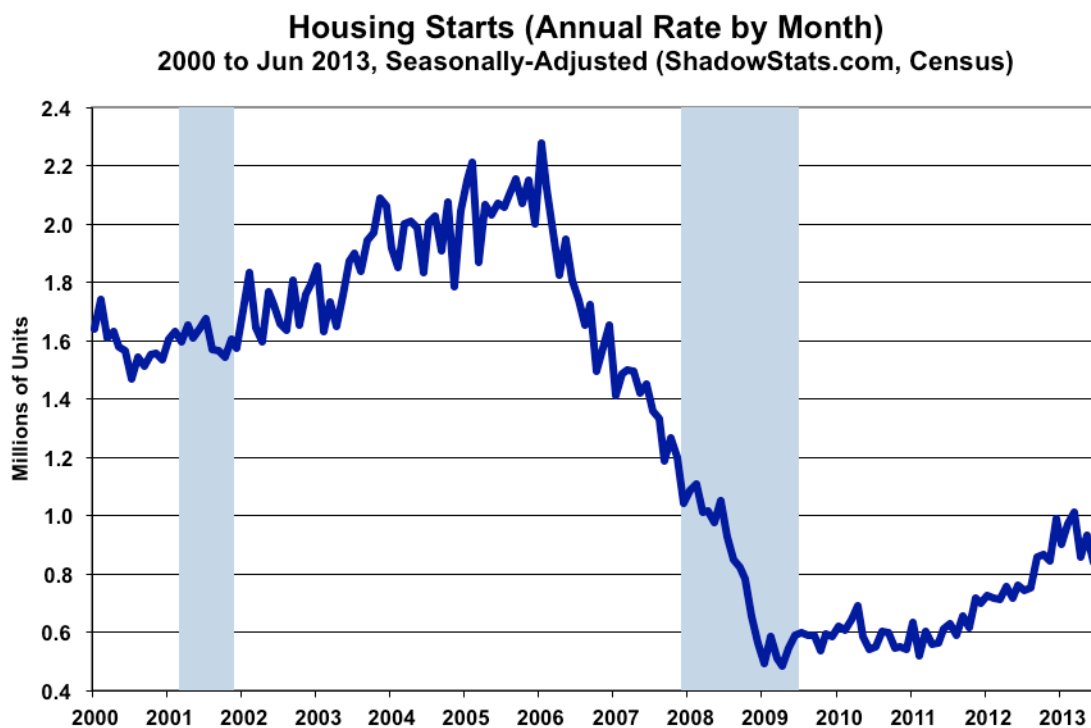
With the private-housing market difficulties, former homeowners or those not entering the home-owning market have pushed demand higher for rental units. Unfortunately, though, liquidity-impaired consumers can have difficulties with renting as well as with owning their residences.

June 2013 Housing Starts Reporting. The Census Bureau reported today, July 17th, a statistically-insignificant, month-to-month headline decline in seasonally-adjusted June 2013 housing starts of 9.9% (a decline of 8.5% before period-period revisions) +/- 12.2% (all confidence intervals are at the 95% level). May housing starts revised to a gain of 8.9% (previously 6.8%). Well above the record monthly low seen for the present series in April 2009, the June headline number is still 63% below the January 2006 series high.

Year-to-year growth in seasonally-adjusted, aggregate June 2013 housing starts also was statistically-insignificant, an increase of 10.4% +/- 17.4%, following a revised 30.5% (previously 28.6%) gain in May.

By Unit Category. Housing starts for single-unit structures in June fell by a statistically-insignificant 0.8% +/- 12.9% for the month, following a revised 0.5% (previously 0.3%) gain in May.

Reporting of starts activity for apartment buildings (generally 5 units or more) remained highly unstable, and the monthly decline was not meaningful. Month-to-month, June's apartment building starts fell by a statistically-insignificant 26.7% +/- 28.5%, following a revised 32.0% (previously 24.9%) gain in May.



Graphs of Aggregate Housing Starts Activity. The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 836,000 in June 2013, following 928,000 in May. With second-quarter 2013 averaging 872,000 units, versus 957,333 units in first-quarter 2013, second-quarter activity has shown a sharp, outright contraction (down at an annualized pace of 31.2%), versus the first-quarter.

Due to the regular, extreme volatility in the monthly series, it is more meaningful to look at the actual, non-annualized monthly number. The graphed and quarterly patterns of growth are the same; it is just that the monthly levels tend to be a little more realistic as to the level of actual activity. Accordingly, the graphs in the *Opening Comments* section reflect the seasonally-adjusted monthly rates, not the annualized numbers. The preceding two graphs are the regular plots of aggregate housing starts, in official, annualized millions of units per month.

WEEK AHEAD

Weaker Economic and Stronger Inflation Data Are Likely to Continue for June and Beyond.

Despite the stronger-than-expected headline payroll numbers for June, the balance of major June economic releases confirmed weaker-than-consensus detail and/or signaled a pending, intensifying economic downturn in retail sales, housing starts and industrial production (see *Opening Comments*). On the inflation front, headline June PPI and CPI topped consensus forecasts. Given the not-fully-recognized underlying fundamentals suggesting deteriorating business activity, weaker-than-consensus economic reporting should be the continuing trend.

Separately, with energy-inflation-related seasonal-adjustment factors now on the plus-side for a couple of months, combined with stable or higher oil and gasoline prices, higher headline CPI and PPI reporting is likely in the months ahead.

Reflecting the still-likely negative impact on the U.S. dollar in the currency markets from continuing QE3 and the still-festering fiscal crisis/debt-ceiling debacle (see *Hyperinflation Outlook* section), reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see [No. 527: Special Commentary](#)).

While expectations for economic data in the months and year ahead should begin to soften, weaker-than-expected economic results still remain likely, given the intensifying structural liquidity constraints on the consumer. Recent downside benchmark revisions to industrial production, new orders for durable goods, retail sales, the trade deficit and construction spending suggest downside revisions to GDP growth of recent years.

Indeed, the pending, big revision event remains the July 31st comprehensive overhaul, benchmark revision and redefinition of the GDP back to 1929. A ShadowStats estimate of the likely net shift in GDP reporting patterns (generally slower growth in recent years) will be published on July 25th. *[Except for the detail on the pending reporting of home sales and durable goods orders, the balance of the Week Ahead section is unchanged from the prior Commentary.]*

Reporting Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

With an increasing trend towards downside surprises in near-term economic reporting, recognition of an intensifying double-dip recession should continue to gain. Nascent concerns of a mounting inflation threat, though muted, increasingly have been rekindled by the Fed's monetary policies. Again, though, significant inflation shocks are looming in response to the fiscal crisis and a likely, severely-negative response in the global currency markets against the U.S. dollar.

The political system and Wall Street would like to see the issues disappear, and the popular media do their best to avoid publicizing unhappy economic news, putting out happy analyses on otherwise negative numbers. Pushing the politicians and media, the financial markets and their related spinmeisters do their best to hype anything that can be given a positive spin, to avoid recognition of serious problems for as long as possible. Those imbedded, structural problems, though, have horrendous implications for the markets and for systemic stability, as discussed in [Hyperinflation 2012, No. 485: Special Commentary](#) and [No. 527: Special Commentary](#).

Existing- and New-Home Sales (June 2013). June 2013 existing-home sales are due for release on Monday, July 22nd, from the National Association of Realtors, with the June new-home sales report from the Census Bureau due on Wednesday, July 24th. 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. These series should continue to show some ongoing relationship with the weakening trend in single-unit housing starts, as graphed in the *Opening Comments* section.

New Orders for Durable Goods (June 2013). The reporting of June 2013 new orders for durable goods is scheduled for Thursday, July 25th, by the Census Bureau. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant. Some intensification of recent, sporadic downside movement in orders is likely during the next several months,

coincident with slowing activity evident in other economic indicators. Such should tend to surprise market expectations on the downside.

As to the inflation contribution to the monthly and annual change in new orders, the seasonally-adjusted, month-to-month increase in the June 2013 PPI finished goods capital equipment index was 0.1%, with year-to-year unadjusted (and adjusted) inflation holding at 0.9%. Due to hedonic-quality adjustments to this portion of the PPI series, however, as with the industrial production and GDP numbers, those inflation data understate inflation reality and, correspondingly, overstate inflation-adjusted growth, by perhaps three-percentage points per year.
