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

COMMENTARY NUMBER 667
September Housing Starts, Prospective Third-Quarter GDP

October 17, 2014

Third-Quarter 2014 Economic Growth Slowed Sharply

Long-Term Stagnation in Housing Starts Continued at Low Level of Activity

Social Security COLA Should Notch Slightly Higher from Last Year's Adjustment, Remaining Far Shy of Common Experience

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PLEASE NOTE: The next regular Commentary *is planned for Wednesday, October 22nd, covering the September CPI, real retail sales and earnings, existing home sales.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Third-Quarter Growth Slowed Sharply versus Second-Quarter Activity, But It Is Not Showing A Contraction, Yet. Discussed in yesterday's (October 16th) *Commentary No. 666*, the image of an economic boom—suggested by headline second-quarter real GDP growth of 4.6%—increasingly has faltered, proving to be an illusion created by overly-optimistic assumptions in an environment of extremely limited reporting quality.

The underlying second-quarter economic detail never supported the "boom" in the numbers, and the rapidly-developing, underlying third-quarter reporting detail, so far, has shown sharply-slowing growth relative to the second-quarter. Economic fundamentals are not coming close to supporting market expectations of headline 3.0%-plus third-quarter 2014 GDP growth, in the "advance" GDP estimate scheduled for October 30th. Headline third-quarter GDP growth should come in well below consensus in initial reporting, but a quarterly contraction still is not in the numbers, so far. An initial contraction remains unlikely, with the first GDP guesstimate from the Bureau of Economic Analysis (BEA) coming just five days before the November 4th election. Again, the initial estimate of such a heavily-politicized series more likely than not will be politically-correct, not functionally-correct.

A more-comprehensive review of September and third-quarter 2014 data, including a hard estimate of initial third-quarter GDP reporting will follow with next week's October 22nd *Commentary No. 668,* which also will cover headline CPI inflation and real retail sales and earnings for September.

Some Background Economic-Reporting Specifics. Again, initial third-quarter headline reporting of various economic indicators suggests sharply slowing, but still-positive, third-quarter activity. More advanced detail will be provided in *No. 668.*

Trade Deficit. With two of the three months of third-quarter 2014 trade data in place (the first two months only are used in the initial GDP estimate), the tentative third-quarter trade deficit should make a positive contribution to the BEA's first guess at third-quarter GDP (see *Commentary No. 663*). Look for a sharp reversal here, though, in the GDP revision that will be generated by the September trade deficit reporting scheduled for release on November 4th (Election Day).

Retail Sales. Nominal retail sales (*Commentary No. 665*) slowed sharply from an annualized pace of 9.7% in second-quarter 2014 to 3.9% in third-quarter 2014. That is before inflation adjustment, where the inflation adjustment will take the annualized "real" growth even lower. Details will be discussed in the October 22nd *Commentary No. 668.* Annualized growth rates are used here, because that is how the GDP is reported. The headline GDP, however, also uses inflation-adjusted data.

Industrial Production. As noted in yesterday's *Commentary No. 666*, "At an annualized quarterly pace, third-quarter [production] growth slowed to 3.2%, from 5.5% in the second-quarter, a pattern more significant in terms of relative shift and leveraged-inventory implications, than in magnitude, for this series that is tied to less than 45% of current GDP reporting." Shifting inventory changes before and after the initial GDP estimate likely will heavily support the initial GDP growth estimate, with subsequent revisions knocking GDP growth lower.

Housing Starts. Detail on the housing starts series (today's October 17th *Commentary*) shows that annualized quarterly growth slowed from 28.8% in second-quarter 2014 to 16.6% in third-quarter 2014. Again, watch out for downside revisions to the unstable reporting of third-quarter-activity.

COLA Adjustment for Social Security Likely Will Notch Higher from Last Year's Adjustment. The October 22nd reporting of the September 2014 consumer price index and the 2015 COLA adjustment for Social Security is previewed in the *Week Ahead* section. Where the 2014 COLA was 1.5%, the 2015 measure should be around 1.6% or 1.7%. The 1.7% number should hold if market expectations are met for a 0.1% headline increase in the CPI-U. Real-world common experience and non-gimmicked inflation reporting, however, would favor an upside cost-of-living adjustment in excess of nine-percent.

Increasing Market Instabilities. Noted yesterday, day-to-day financial news remains dominated by financial-market and political-system turmoil and instabilities. The outlooks for the political, financial and economic systems, and for the financial markets have not changed from the discussion in the October 10th *Commentary No. 664*, which reviewed domestic and global financial, economic and systemic circumstances, and updated the *Hyperinflation Outlook Summary*. It remains the suggested reading for the current circumstance.

ShadowStats will address breaking news and developing issues as appropriate.

The balance of today's (October 17th) missive focuses on the September 2014 housing starts activity, where the headline numbers generally were in line with market expectations.

Housing Starts—September 2014—Aggregate Activity Remained Stagnant, Despite Ongoing, Extreme Reporting Volatility. The monthly roller-coaster ride in the reporting of housing starts activity continued. A headline 6.3% statistically-insignificant increase in September 2014 housing starts activity, followed a revised 12.8% (-12.8%) plunge in August activity, and a revised 20.8% jump in July reporting.

These headline changes in activity continue to be nonsense. The monthly data are unstable and unreliable, best viewed minimally in the context of an extended period, as shown in the graphs of aggregate activity in the *Reporting Detail* section, and in the context of activity smoothed by a six-month moving average, as shown in the accompanying graphs at the end of this section.

Stagnation and Broad Non-Recovery. The aggregate housing-starts series continued in broad stagnation, in September, dominated by the personal housing sector. Although there has been a minor aggregate upside trend, total activity remains well below any recovery level. The bulk of the extreme reporting volatility and the minimal aggregate uptrend largely have been generated by the multiple-unit housing-starts category (apartments, etc.). Where recent activity in multiple-unit housing starts actually has recovered into the general range of pre-recession activity, that impact largely is lost in the aggregated housing starts detail.

On a per structure basis, activity in multiple-units starts is dwarfed by the flat-to-minus activity in the dominant, single-unit housing starts category, which has remained stagnant—at a low level of activity—since hitting bottom in early-2009. The private housing sector never recovered from the housing collapse of 2006 into 2009, as seen in the accompanying graphs.

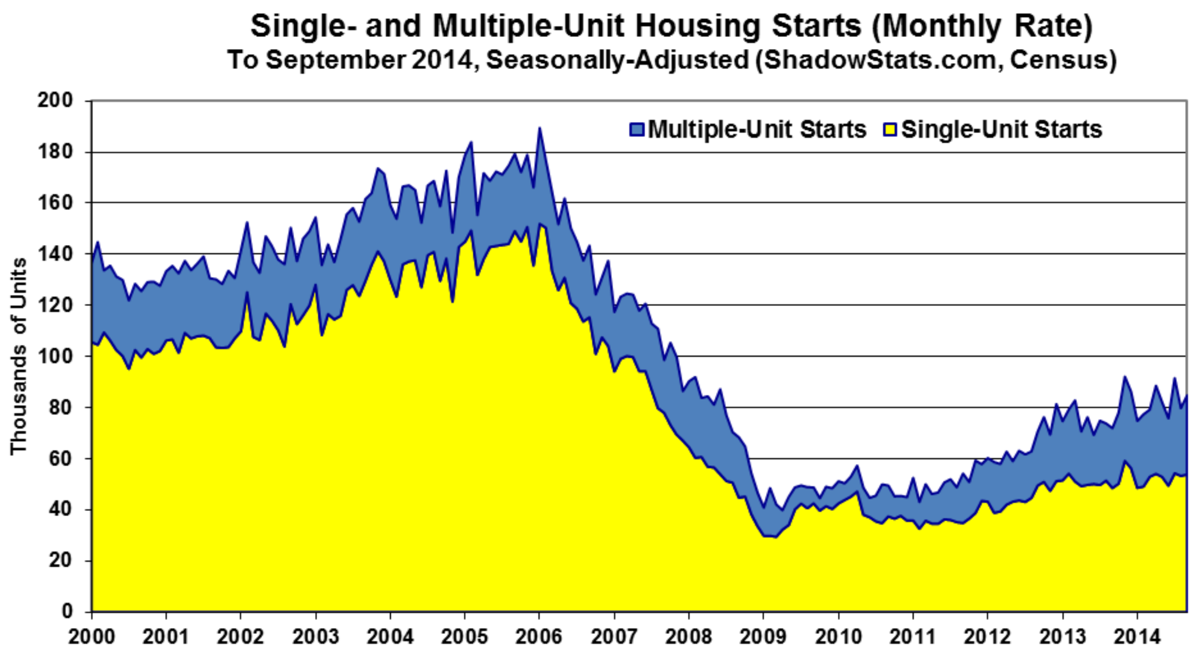
The last eight-plus years of housing-market collapse and stagnation have been dominated by impaired consumer activity. Without real (inflation-adjusted) growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel real growth in private housing. Underlying economic fundamentals have not supported, and do not support a sustainable turnaround in the housing industry, let alone a turnaround in broader economic activity (see the discussion on consumer conditions in the October 15th *Commentary No. 665*).

September 2014 Housing-Starts Headline Reporting. The headline 6.3% seasonally-adjusted gain in September 2014 housing starts was not statistically-significant. That monthly increase of 60,000 annualized starts also was after significant shifting around of headline activity in the July and August period, the earlier months of third-quarter 2014. July activity was reduced by 19,000 annualized starts, while August increased by 1,000 annualized starts. Again, the patterns of headline monthly reporting, and revisions to same, are without any meaning or substance.

With the September housing starts headline gain of 6.3%, August starts fell by a revised 12.8% (-12.8%). Net of prior-period revisions, September housing starts rose by a still-statistically-insignificant 6.4%.

Year-to-year change in the seasonally-adjusted, aggregate September 2014 housing-starts measure was a statistically-significant gain of 17.8%, versus a revised 8.1% annual gain in August 2014.

The headline September monthly increase was dominated by a monthly 18.5% surge in the "five units or more" structure category and a 1.1% gain in the "one unit" category, but neither gain was statistically-significant.



By-Unit Category. Where the irregular housing starts series can show varying patterns, that partially is due to reporting that covers a mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in September rose month-to-month by a statistically-insignificant 1.1%, following a revised 2.0% (-2.0%) decline in August. The statistically-insignificant September year-to-year gain of 11.0% followed a revised 3.6% year-to-year gain in August.

Reporting of housing starts for apartment buildings (generally 5-units-or-more) in September 2014 jumped month-to-month by a statistically-insignificant 18.5%, following a revised monthly plunge of

30.7% (-30.7%) in August. September's year-to-year gain of 30.3% also was statistically-insignificant, following a revised 16.9% gain August.

Expanding the multi-unit structure housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

Accordingly, the statistically-insignificant aggregate September 2014 monthly gain of 6.3% was composed of a statistically-insignificant gain of 1.1% in one-unit structures housing starts, combined with a statistically-insignificant monthly gain of 16.7% in multiple-unit structures (2-units-or-more, including the 5-units-or-more category).

Graphs of Housing-Starts Activity. The following six graphs of monthly detail for the housing-starts series, show starts activity for the aggregate series, for single-unit structures and for multiple unit structures, both in terms of monthly detail and in terms of six-month moving averages of that detail.

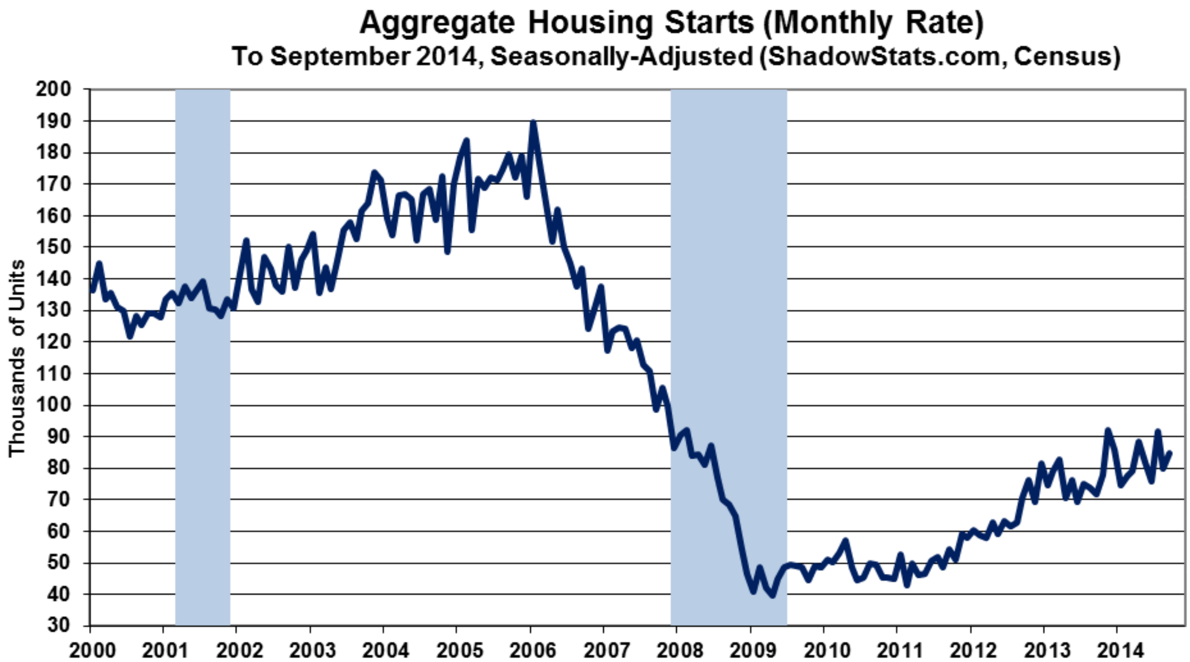
Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,017,000 in September, versus a revised 957,000 (previously 956,000) in August, and a revised 1,098,000 (previously 1,117,000, initially 1,093,000) in July. Those annualized details are reflected in the detail of the aggregate graphs in the *Reporting Detail Section*.

Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series—such as seen with the headline September 2014 reporting—the magnitude of monthly activity, and changes in same, more realistically is reflected at the non-annualized monthly rate. Accordingly, the monthly rate of 84,750 in September 2014, instead of the annualized 1,017,000 headline, is used in the scaling of the series of graphs that follow in this section.

Based on the annualized numbers, housing starts jumped by 60,000 units in September 2014. Yet, such a headline gain, by itself, represented more than 70% of the total non-annualized monthly activity in September, while the revised annualized headline decline of 141,000 (-141,000) starts in August—previously a decline of 161,000 (-161,000)—was greater than any single, seasonally-adjusted month's total, non-annualized level of activity since September 2006, before the formal onset of the recession.

With the use of either scale, however, the appearance of the graph and the relative monthly, quarterly and annual percentage changes are the same.

The record monthly low seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales then was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the September 2014 headline number was up by 113%, but it still was down by 55% (-55%) from the January 2006 series high.


Aggregate Housing Starts (Monthly Rate)
To September 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
200
190
180
170
160
150
140
130
120
110
100
90
80
70
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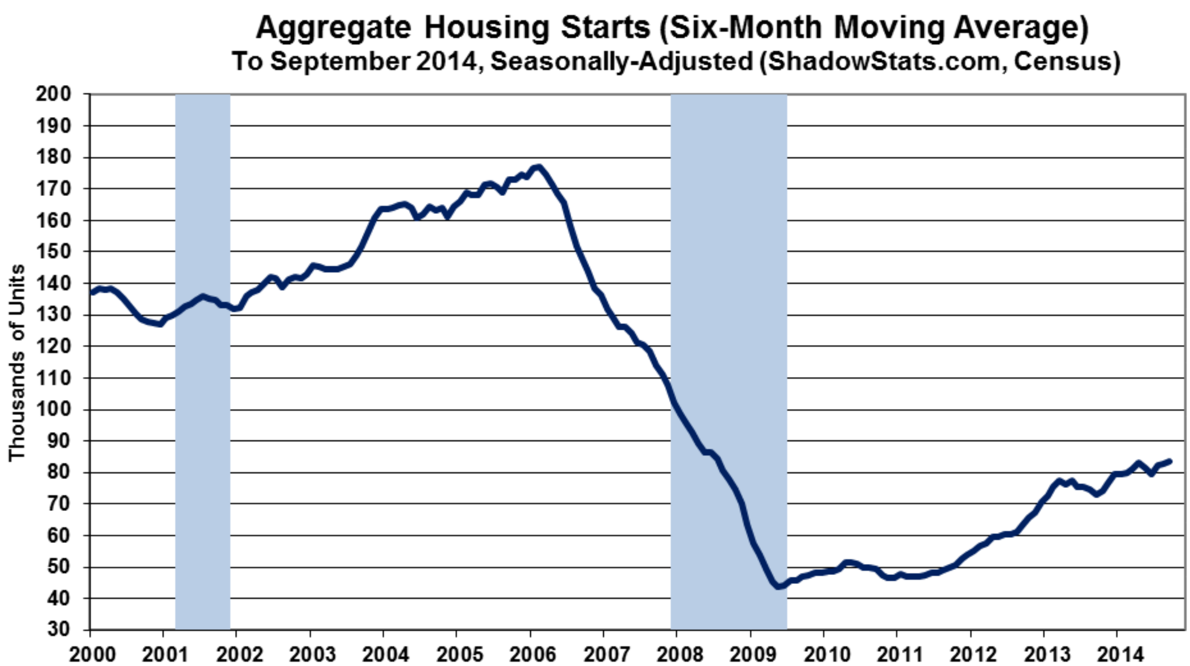
Aggregate Housing Starts (Six-Month Moving Average)
To September 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
200
190
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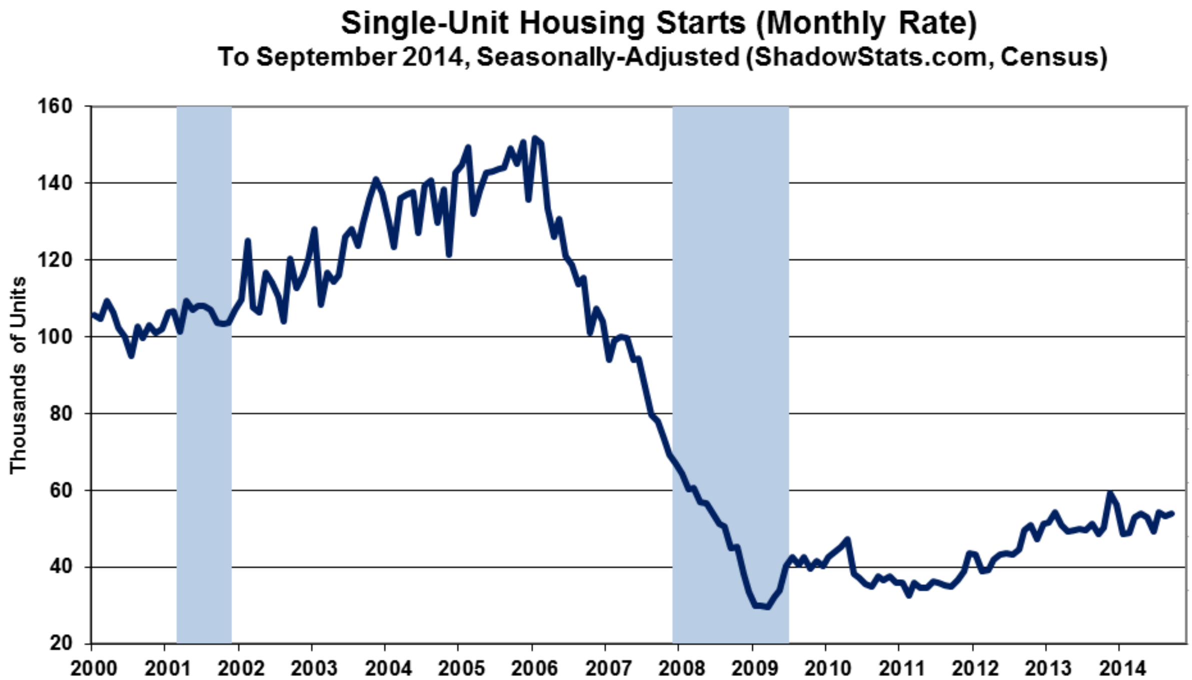
Single-Unit Housing Starts (Monthly Rate)
To September 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
160
140
120
100
80
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40
20
2000
2001
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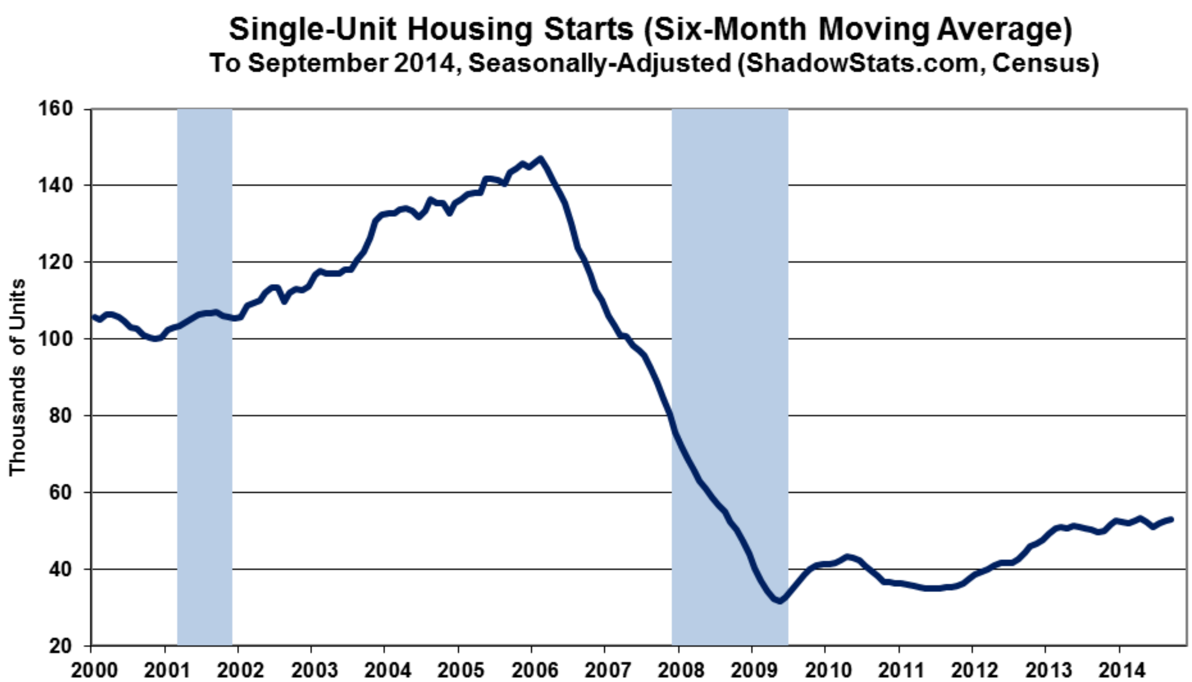
Single-Unit Housing Starts (Six-Month Moving Average)
To September 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
160
140
120
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80
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2000
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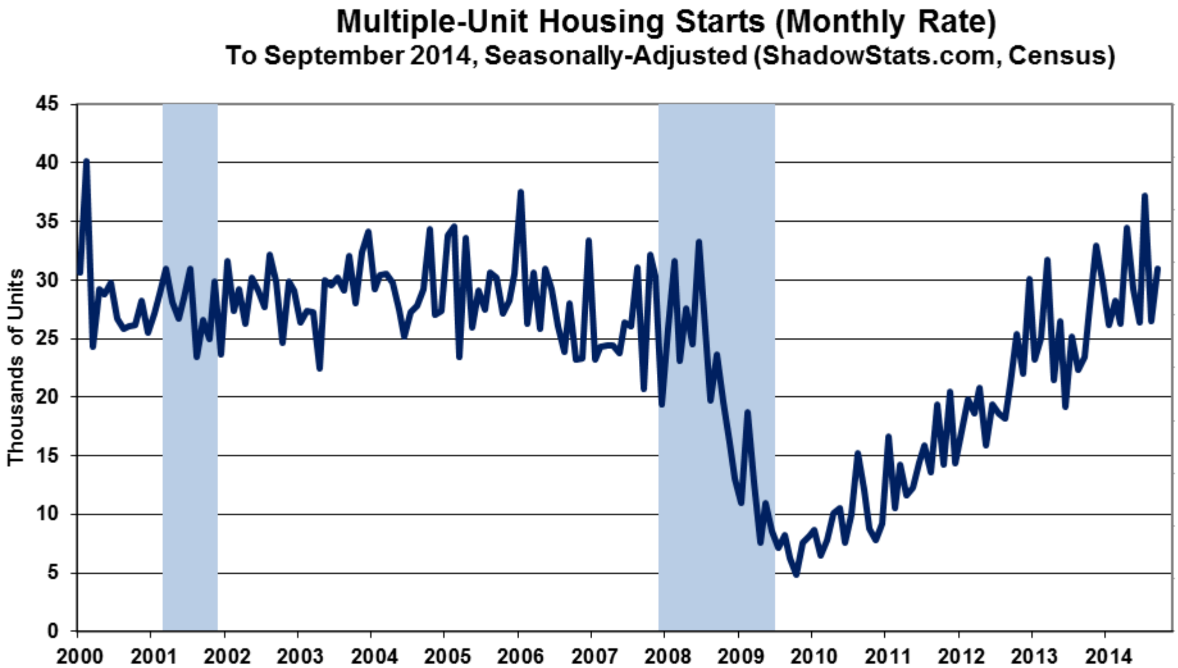

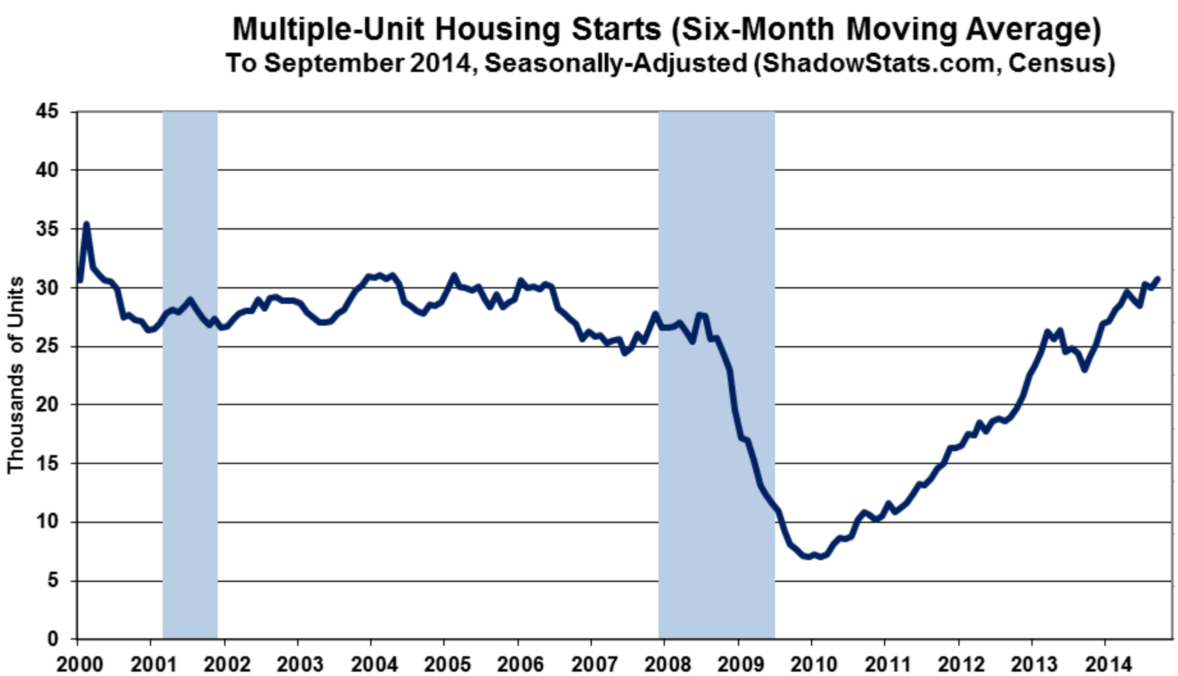

[For further details on September Housing Starts and headline Residential Construction, see the **Reporting Detail** *section. Various drill-down detail and graphics options on the headline data are available to ShadowStats subscribers at our affiliate:* **www.ExpliStats.com***]*

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HYPERINFLATION WATCH

Hyperinflation Outlook Summary. Except for minor language adjustments, the following *Summary* was updated most recently in *Commentary No. 664* of October 10th. If this section is being read for the first time, reading it in the context of the *Opening Comments* of *No. 664* (linked above), is suggested. The prior version of the *Summary* is found in *Commentary No. 661*.

The long-standing hyperinflation and economic outlooks were updated with the publication of *2014 Hyperinflation Report—The End Game Begins* – *First Installment Revised*, on April 2nd, and publication of *2014 Hyperinflation Report—Great Economic Tumble* – *Second Installment*, on April 8th, along with ongoing updates in the regular *Commentaries*, including *Commentary No. 661*. The two *2014 Hyperinflation Report* installments remain the primary background material for the hyperinflation and economic analyses and forecasts.

Primary Summary. Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis into the 2014 period. The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of that *First Installment Revised* (linked above). The following section summarizes the underlying current circumstance and recent developments.

Consistent with the above *Special Commentaries*, the unfolding economic circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending total loss of U.S. dollar purchasing power, despite sharp recent rallies in the U.S. dollar's exchange and related heavy selling in the gold and silver markets.

Current relative U.S. economic strength versus major U.S. trading partners is seriously over-estimated, with a crash back to recognition of realistic domestic-economic circumstances likely to be accompanied by a crash in the U.S. dollar versus major currencies, such as the euro, yen, pound, Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil; and related sell-offs in the domestic stock and bond markets.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals*.** U.S. economic activity is turning down anew. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom was the aberration. Such should become increasingly and painfully obvious to the financial markets in the domestic economic reporting of the weeks and months ahead.

New reporting of relatively hard annual numbers from 2013 showed ongoing economic contraction, with no trend towards sustainable economic growth (see *Commentary No. 656*). Also, as discussed in the *Opening Comments* section of *Commentary No. 664*, real business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis in putting the GDP growth estimates together—is flat-to-minus.

Despite any short-term pre-election fluff, those basic underlying, increasingly negative economic conditions will show up in various series, such as the trade deficit, retail sales, industrial production and payroll employment, providing consensus expectations with downside shocks. In turn, that should shift the popular outlook quite rapidly towards a "new recession," with negative shifts in the economic consensus increasingly disrupting the already-disintegrating stability in the financial markets.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, specifically should place mounting and massive selling pressures on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, hence a perceived need for expanded, not reduced, quantitative easing. The highly touted and ongoing "tapering" by the FOMC is pre-conditioned by a continued flow of "happy" economic news. Banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs likely still will be provided, as needed, by the Fed, under the ongoing political covering of a weakening economy—a renewed, deepening contraction in business activity.

Accordingly, some speculation already has begun to circulate as to an added round of Federal Reserve quantitative easing, QE4. That would be a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it could, with continual, negative impact on the U.S. economy. The easing to date, however, appears to have been a prop to the equity markets (see *Commentary No. 663*). In the event of QE4, any resulting renewed boost to U.S. equities likely would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, with the stocks valued in terms of Swiss francs, for example, or valued against what would be a rapidly-increasing pace of domestic U.S. inflation.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal "good news" is from cash-based, not GAAP-based accounting projections, and comparative year-ago cash numbers are distorted against U.S. Treasury and government activity operating *sub rosa*, in order to avoid the limits of a constraining debt ceiling.

All these crises should combine against the U.S. dollar, likely in the very-near future. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility have boosted the U.S. dollar's strength significantly in global trading and have contributed to savaging the prices of precious metals. Again, such should not prevail in the context of underlying reality. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed. The key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008 and is turning down anew.*** The circumstance includes a sharply widening trade deficit, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy.

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of will to address long-term U.S. solvency issues, but also the current political impossibility of doing so. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version has continued to run in the $6-trillion-plus range for annual shortfall—and should have done so again in the just-completed fiscal-2014—while those in Washington continue to increase spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked.

- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the "tapering" of the Fed's asset purchases, the current pace of the Fed's monetization is at 58.9% of effective net issuance of the federal debt to be held by the public in calendar-year 2014 (through October 8th). The pace of effective monetization has been 66.0% since the January 2013 expansion of QE3.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The relative positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. Positive ratings for both the President and Congress are at historic lows and still are sinking.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the situation in Ukraine versus Russia and the extremely-volatile circumstances in the Middle East.

- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar have been seen with Russia, China, France and India, along with some rumblings in OPEC and elsewhere.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (September 2014)

Housing-Starts Activity Remained Stagnant in Aggregate, Despite Ongoing, Extreme Reporting Volatility. The month-to-month roller-coaster ride in the reporting of housing starts activity continued, with a headline 6.3% statistically-insignificant increase in September 2014 housing starts activity, following a revised 12.8% (-12.8%) plunge in August activity, and a revised 20.8% jump in July reporting.

These headline changes in activity continue to be nonsense. The monthly data are unstable and unreliable, best viewed minimally in the context of an extended period, as shown in the graphs of aggregate activity at the end of this section, and in the context of activity smoothed by a six-month moving average, as shown in the *Opening Comments* section.

Stagnation and Broad Non-Recovery. The aggregate housing-starts series continued in broad stagnation, in September, dominated by the personal housing sector. Although there has been a minor aggregate upside trend, total activity remains well below any recovery level. The bulk of the extreme reporting volatility and the minimal aggregate uptrend largely have been generated by the multiple-unit housing-starts category (apartments, etc.). Where recent activity in multiple-unit housing starts actually has recovered into the general range of pre-recession activity, that impact largely is lost in the aggregated housing starts detail.

On a per structure basis, activity in multiple-units starts is dwarfed by the flat-to-minus activity in the dominant, single-unit housing starts category, which has remained stagnant—at a low level of activity—since hitting bottom in early-2009. The private housing sector never recovered from the housing collapse of 2006 into 2009, as seen in the graphs of the *Opening Comments* section. As should be confirmed in ongoing reporting, aggregate housing starts activity broadly will continue to stagnate, with demand in the personal or single-unit housing sector severely constrained by consumer liquidity issues, as discussed most recently in the October 15th *Commentary No. 665*.

The last eight-plus years of housing-market collapse and stagnation have been dominated by impaired consumer activity. Without real (inflation-adjusted) growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel real growth in private housing. Underlying economic fundamentals have not supported, and do not support a sustainable turnaround in the housing industry, let alone a turnaround in broader economic activity.

September 2014 Housing-Starts Headline Reporting. The Census Bureau reported today, October 17th, a statistically-insignificant, seasonally-adjusted headline monthly jump in September 2014 housing starts of 6.3% +/- 10.9% (all such confidence intervals are at the 95% level). That monthly gain of 60,000 annualized starts, however, was after significant shifting around of headline activity in the July and August period, the earlier months of third-quarter 2014. July activity was reduced by 19,000 annualized starts, with August increased by 1,000 annualized starts. Again, the patterns of headline monthly reporting, and revisions to same, are without any meaning or substance.

With September housing starts at a headline gain of 6.3%, headline August starts fell by a revised 12.8% (-12.8%), previously down by 14.4% (-14.4%), while July starts rose by a revised 20.8% (previously up by 22.9%, initially up by 15.7%). Net of prior-period revisions, September housing starts rose by a still-statistically-insignificant 6.4%.

Year-to-year change in the seasonally-adjusted, aggregate September 2014 housing-starts measure was a statistically-significant gain of 17.8% +/- 16.8%, versus a revised 8.1% (initially 8.0%) annual gain in August 2014.

The headline September monthly increase was dominated by a monthly 18.5% surge in the "five units or more" category and a 1.1% gain in the "one unit" category, but neither gain was statistically-significant.

***By-Unit Category (See Graphs in the* Opening Comments).** Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in September rose month-to-month by a statistically-insignificant 1.1% +/- 9.7%, following a revised 2.0% (-2.0%) decline in August, which previously had been down by 2.4% (-2.4%). The statistically-insignificant September year-to-year gain of 11.0% +/- 11.9% followed a revised 3.6% (previously 4.2%) year-to-year gain in August.

Reporting of housing starts for apartment buildings (generally 5-units-or-more) in September 2014 surged month-to-month by a statistically-insignificant 18.5% +/- 36.3%, following a revised monthly plunge of 30.7% (-30.7%), previously down by 31.5% (-31.5%), in August. September's year-to-year gain of 30.3% +/- 44.7% also was statistically-insignificant, following a revised 16.9% (previously 19.2%) gain August.

Expanding the multi-unit structure housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

Accordingly, the statistically-insignificant aggregate September 2014 monthly gain of 6.3% was composed of a statistically-insignificant gain of 1.1% in one-unit structures housing starts, combined with a statistically-insignificant monthly gain of 16.7% in multiple-unit structures (2-units-or-more, including the 5-units-or-more category). Again, these series are graphed in the *Opening Comments* section.

***Graphs of Aggregate Housing Starts Activity*.** Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,017,000 in September, versus a revised 957,000 (previously 956,000) in August, and a revised 1,098,000 (previously 1,117,000, initially

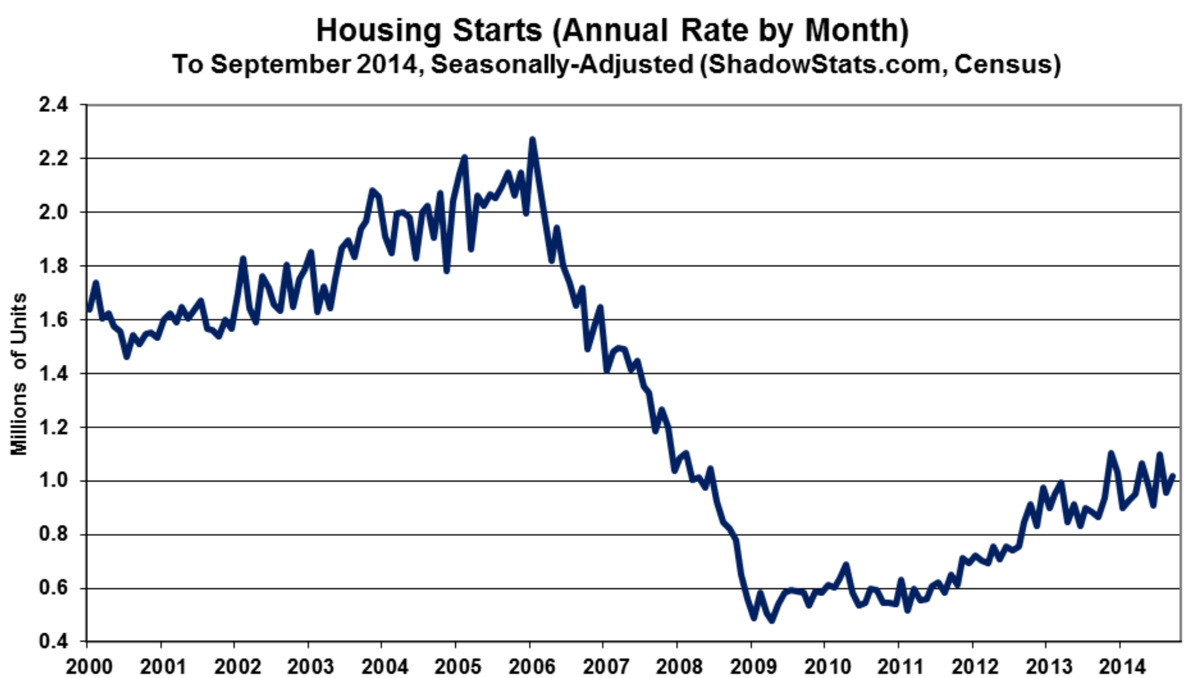
1,093,000) in July. Those annualized details are reflected in the accompanying, aggregate graphs in this section.

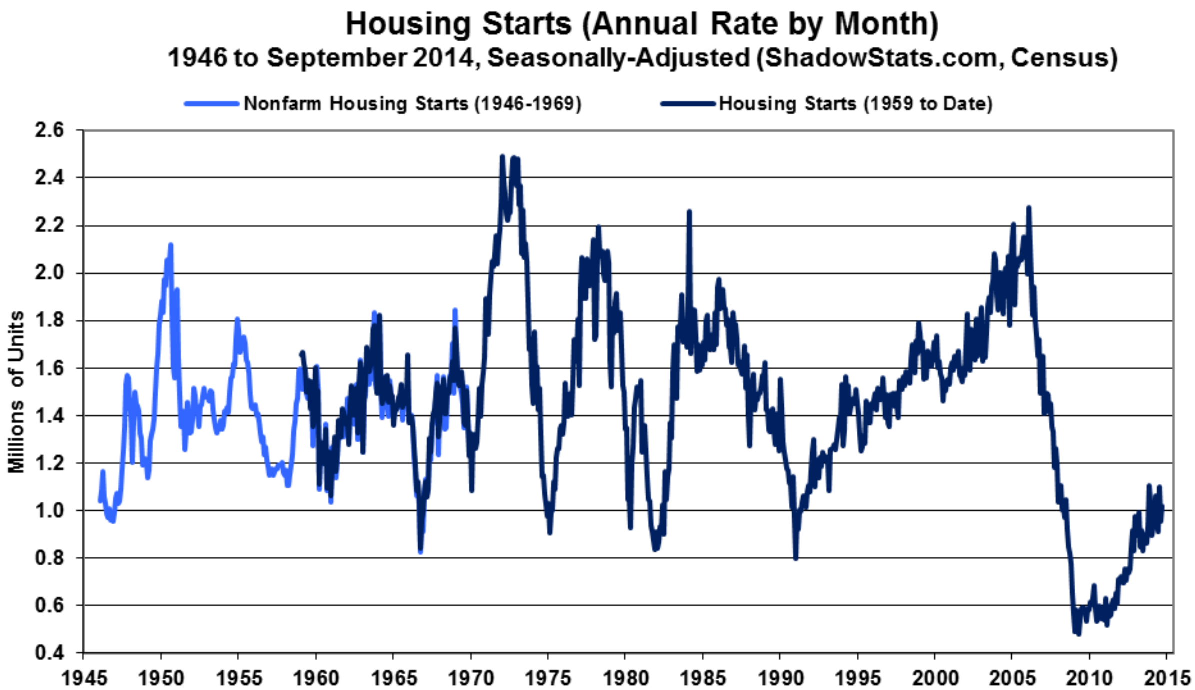
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series—such as seen with the headline September 2014 reporting—the magnitude of monthly activity, and changes in same, more realistically is reflected at the non-annualized monthly rate. For example, the monthly rate of 84,750 in September 2014, instead of the annualized 1,017,000 headline, is used in the scaling of the graphs in the *Opening Comments* section.

Based on the annualized numbers, housing starts jumped by 60,000 units in September 2014. Yet such a headline gain, by itself represented more than 70% of the total non-annualized monthly activity in September, while the revised annualized headline decline of 141,000 (-141,000) starts in August—previously a decline of 161,000 (-161,000)—was greater than any single, seasonally-adjusted month's total, non-annualized level of housing starts activity since September 2006, before the formal onset of the recession.

With the use of either scale, however, the appearance of the graph and the relative monthly, quarterly and annual percentage changes are the same.

The record monthly low seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales then was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the September 2014 headline number was up by 113%, but it still was down by 55% (-55%) from the January 2006 series high.





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WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases Should Be Much Weaker; Inflation Releases Should Be Increasingly Stronger. Although having shifted some to the downside, again, amidst wide fluctuations, market expectations for business activity generally remain overly optimistic, well above any potential, underlying economic reality. Market outlooks increasingly should be hammered, though, by ongoing, downside corrective revisions and by an accelerating pace of downturn in broad-based headline economic activity.

Longer-Range Reporting Trends. The process of downside shifting in economic-growth expectations has been sporadic, but the underlying fundamentals remain extraordinarily negative. Other than for nonsense-growth in the headline second-quarter GDP (see *Commentary No. 662*), renewed weakness has been, and increasingly will be seen in the headline reporting of other major economic series (see *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*), particularly subsequent to the November 4th election. Indeed, weaker-than-consensus economic reporting should remain the general trend until the unfolding "new" recession receives broad recognition, which likely would follow the next reporting of a headline contraction in real GDP growth.

A generally stronger consumer inflation trend remains likely to continue, as seen in recent months (August 2014 excepted). Beyond the spread of earlier oil-based inflation pressures into the broad economy, upside pressure on oil-related prices should continue and be rekindled from the intensifying impact of global political instabilities and a likely near-term weakening of the U.S. dollar in the currency markets. Such excludes any near-term efforts to push oil prices lower as an informal financial sanction against Russia.

The dollar faces eventual pummeling from the weakening economy, continuing perceptions of needed, ongoing quantitative easing, the ongoing U.S. fiscal-crisis debacle, and deteriorating U.S. and global political conditions (see *Hyperinflation 2014—The End Game Begins (Updated) – First Installment*). Particularly in tandem with a prospective, significantly-weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected U.S. inflation, across the board.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last eight 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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment, and unemployment data). These issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Existing- and New-Home Sales (September 2014). September 2014 existing-home sales are due for release on Tuesday, October 21st, from the National Association of Realtors, with the September 2014 new-home sales report from the Census Bureau due on Friday, October 24th.

A recent uptrend in headline monthly reporting of existing-home sales turned negative last month, with a deepening contraction in year-to-year activity. Faltering September activity is likely, as well, in conjunction with ongoing consumer liquidity problems (see *Commentary No. 665*).

Smoothed for extreme and nonsensical monthly gyrations, a pattern of stagnation or intensifying downturn also appears to be in play for new-home sales. While monthly changes in activity rarely are statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for September.

Both home sales series remain highly unstable, but increasingly they should move to the downside in activity, looking more and more like the graph of single-unit housing starts shown in the *Opening Comments* section.

Consumer Price Index—CPI (September 2014). The September 2014 CPI is scheduled for an unusually-late release this month, on Wednesday, October 22nd, by the Bureau of Labor Statistics (BLS). The headline CPI-U is a fair bet to show a minimal inflation gain, against early market expectations for same.

Average gasoline prices fell month-to-month in September 2014 by 2.3% (-2.3%), on a not-seasonally-adjusted basis, per the Department of Energy (DOE). While the BLS seasonal adjustments to gasoline prices should be positive for September, they likely will not push the adjusted change in gasoline prices into positive territory, barring significant catch-up from the BLS's overestimation of the monthly decline in August gasoline prices. Then, the BLS used a 4.1% decline (-4.1%) in not-seasonally-adjusted gasoline prices for August, where a 3.3% decline (-3.3%) was indicated by the more-comprehensive DOE industry-based surveying.

Higher food and "core" (net of food and energy) inflation, however, should more than offset the small, negative energy number, leading to a minimal headline gain in the CPI.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in September 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.13% gain in the monthly inflation reported for September 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for September 2014, the difference in September's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the August 2014 annual inflation rate of 1.70%. For example, if headline September CPI-U gained 0.1% month-to-month, annual inflation likely would hold around the 1.7% level.

Pending 2015 COLA Adjustment Calculation for Social Security. Along with the existing July and August 2014 numbers, the September 2014 CPI-W will determine the 2015 annual cost-of-living adjustment (COLA) for Social Security recipients, among others, likely around 1.7%, possibly 1.6%, versus the 2014 adjustment of 1.5%, which was based on the average year-to-year change for third-quarter 2013 unadjusted CPI-W.

With annual CPI-W July annual inflation at 1.9% and August at 1.6%, another 1.6% reading in September would the leave the average at 1.7% for the quarter. The breaks to the next higher or lower COLA level are as follows. If the headline September CPI-W is up by a rounded 0.3% or more, month-to-month, the COLA should be 1.8%, if the headline CPI-W is down by a rounded 0.1% or more, the COLA should be 1.6%. The most likely result is 1.7%, but with the 2.7% decline in unadjusted September gasoline prices not offset fully by seasonal adjustments, a 1.6% COLA increase remains a fair possibility.

Real-world common experience, however, would have the COLA up by somewhat over 9.0% (see the ShadowStats Alternate Consumer Inflation Measure in *Commentary No. 659* and *Public Comment on Inflation Measurement*).

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