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

COMMENTARY NUMBER 675
October Housing Starts, PPI

November 19, 2014

October Housing Starts Indicated Fourth-Quarter Contraction

PPI Headline Inflation of 0.2% Reflected Peculiarities of New Reporting Approach

October PPI Will Dampen Real Growth in New Orders for Durable Goods and Construction Spending

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PLEASE NOTE: The next Commentary *is planned for tomorrow, Thursday, November 20th, covering the October CPI, related real retail sales and earnings, and existing-home sales.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Fourth-Quarter Economic Slowdown-Downturn Has Begun to Intensify. Beyond the headline reporting of October 2014 nominal retail sales (*Commentary No. 673*) and industrial production (*Commentary No. 674*), which suggested significant slowing in broad economic activity for the current quarter, today's (November 19th) headline reporting of October 2014 housing starts suggested an outright contraction for fourth-quarter 2014 housing activity.

A usually was the case for the highly irregular and unstable housing starts series, neither the headline monthly contraction of 2.8% (-2.8%), nor the 7.8% annual gain in the October housing starts data was statistically meaningful. Smoothed with a six-month moving average, however, housing starts continued in their post-recession pattern of low-level stagnation.

On the wholesale inflation front, the 0.18% headline monthly inflation rate for the October PPI reflected increasing margins in the trade sector, which is not exactly the same concept as rising prices. Beyond the recent theoretical "improvements" reorganized into the PPI reporting, the old-fashioned cost-of-goods concept showed wholesale inflation dropping by 0.44% (-0.44%) for the month of October, dominated by the effects of tumbling oil prices, declining "core" inflation and partially offset by spiking food prices. Core inflation was understated seriously by seasonal adjustments.

October wholesale inflation also offered some upside pressure on pending monthly reporting of nominal October new orders for durable goods (prices up by 0.42% for the month), and construction spending (prices up by 0.54%). ShadowStats will review those headline numbers both in terms of nominal growth (before adjustment for inflation) and real growth (adjust for inflation).

Today's Missive. Today's missive concentrates on the October producer price index (PPI) and housing starts (*Opening Comments* and *Reporting Detail*). The *Hyperinflation Summary Outlook* as updated in *Commentary No. 673* is repeated here in the *Hyperinflation Watch* section.

With tomorrow's *Commentary No. 676*, ShadowStats will continue to update broad assessments of market, economic and inflation conditions, as well as potential actions open (or not open) to the federal government and Federal Reserve in terms of addressing the U.S. fiscal and economic crises. *No. 676* will concentrate heavily on current economic activity.

Housing Starts—October 2014—Broadly Stagnant, October Detail Suggested an Unfolding Quarterly Contraction. In the context of an upside revisions to August and September (and third-quarter) activity, the minimal headline monthly decline in October 2014 housing starts was statistically-insignificant. The small year-to-year headline gain also lacked significance. The monthly data remain unstable and unreliable, best viewed minimally in the context of an extended period, as shown in the historical graphs of aggregate activity at the end of the respective *Reporting Detail* section, and in the context of activity smoothed by a six-month moving average, as shown in the graphs later in this section.

Stagnation and Broad Non-Recovery. Reflecting the patterns in those smoothed graphs, the aggregate housing-starts series continued in broad stagnation in October, dominated by the personal housing sector. Although there has been a minor aggregate upside trend, total activity has remained 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 had recovered into the general range of pre-recession activity, that impact largely was lost in the aggregated housing starts detail. The aggregate October detail, however, reflected a downside monthly swing in multiple-unit starts, which slightly more than offset the gain in single-unit activity.

On a per structure basis, activity in multiple-units starts remains 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, again, as seen in the accompanying graphs. Likely to be confirmed in ongoing reporting, aggregate housing starts activity broadly should continue to stagnate and turn lower, with demand in the personal or single-unit housing sector severely constrained by consumer liquidity issues.

Impaired consumer activity has dominated the last eight-plus years of housing-market collapse and stagnation. As updated in the *Opening Comments* of *Commentary No. 673*, 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. There remains no chance of a meaningful recovery without a fundamental upturn in consumer and banking-liquidity conditions.

Fourth-Quarter Contraction. Separately, based headline October 2014 activity, fourth-quarter 2014 housing starts have started at slower pace than was seen throughout third-quarter 2014. On an annualized quarter-to-quarter basis, if October activity were to hold for the quarter, fourth-quarter 2014 housing starts would contract at an annualized pace of 9.0% (-9.0%) versus third-quarter activity, which currently reflects a revised 20.8% (previously 16.6%) gain versus second-quarter activity, which was up by an unrevised 28.8% versus the first-quarter.

October 2014 Housing-Starts Headline Reporting. Headline October 2014 housing starts showed a statistically-insignificant, seasonally-adjusted headline monthly decline in of 2.8% (-2.8%). Such followed a revised 7.8% monthly gain in September starts, which followed a revised 12.3% (-12.3%) decline in August. Net of the prior-period revisions, the headline October housing starts showed a still-statistically-insignificant decline of 0.8% (-0.8%).

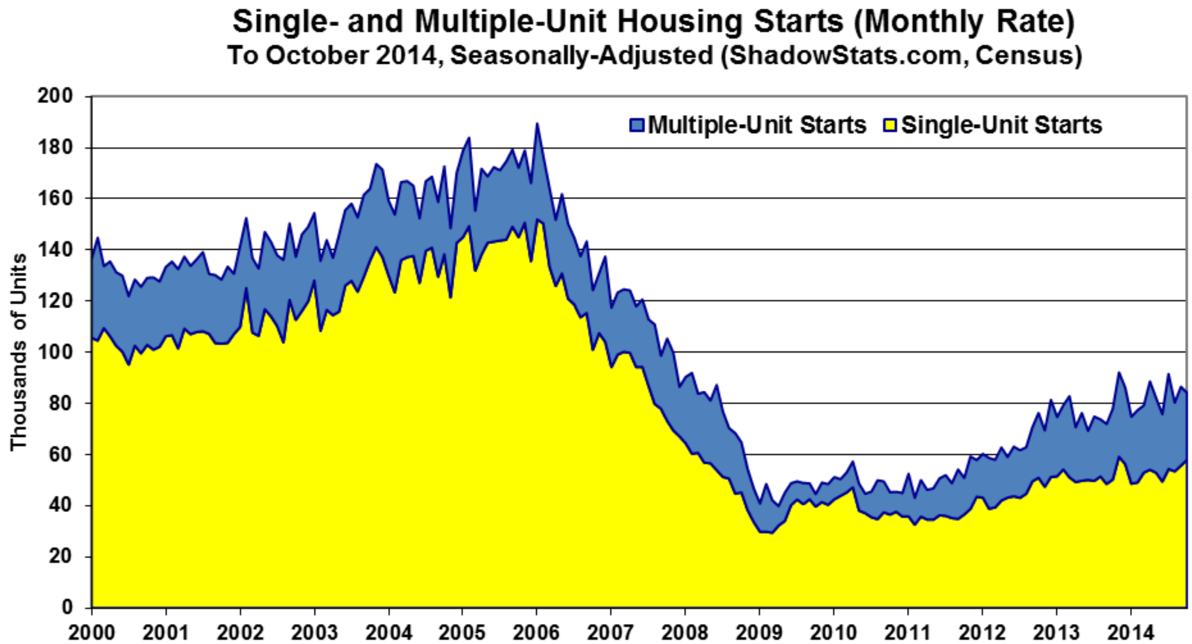
Year-to-year change in the seasonally-adjusted, aggregate October 2014 housing-starts measure was a statistically-insignificant gain of 7.8%, versus a revised 20.2% annual gain in September and a revised 8.8% annual gain in August.

The 2.8% (-2.8%) October decline was dominated by a monthly 15.5% (-15.5%) drop in the “five units or more” category and a 4.2% gain in the “one unit” category, but neither monthly change was statistically-significant.

By-Unit Category. 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 October rose month-to-month by a statistically-insignificant gain of 4.2%, following a similar revised gain of 4.2% in September, and versus a revised decline of 1.7% (-1.7%) in August. A statistically-significant October 2014 year-to-year gain of 15.4% followed a revised September year-to-year gain of 14.8% and a revised annual gain of 3.9% in August.

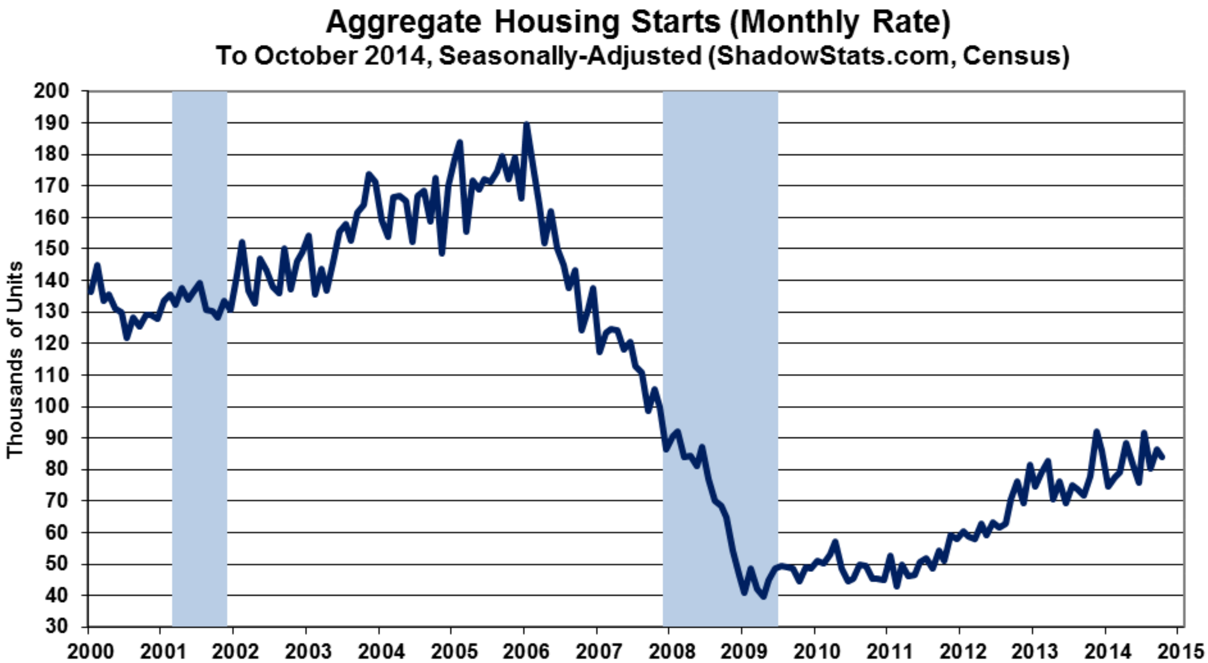
Housing starts for apartment buildings (generally 5-units-or-more) in October 2014 fell month-to-month by a statistically-insignificant 15.5% (-15.5%), following a revised 16.4% gain in September and a revised drop of 29.1% (-29.1%) in August. October's year-to-year decline of 6.8% (-6.8%) also was statistically-insignificant, following a revised 31.0% annual gain in September and a revised 19.6% annual gain in 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 October 2014 monthly contraction of 2.8% (-2.8%) was composed of a statistically-insignificant gain of 4.2% in one-unit structures housing starts, combined with a statistically-insignificant monthly decline of 15.4% (-15.4%) in multiple-unit structures (2-units-or-more, including the 5-units-or-more category). Again, see the accompanying graphs.

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. Further description follows the graphs.


Aggregate Housing Starts (Monthly Rate)
To October 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
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2000
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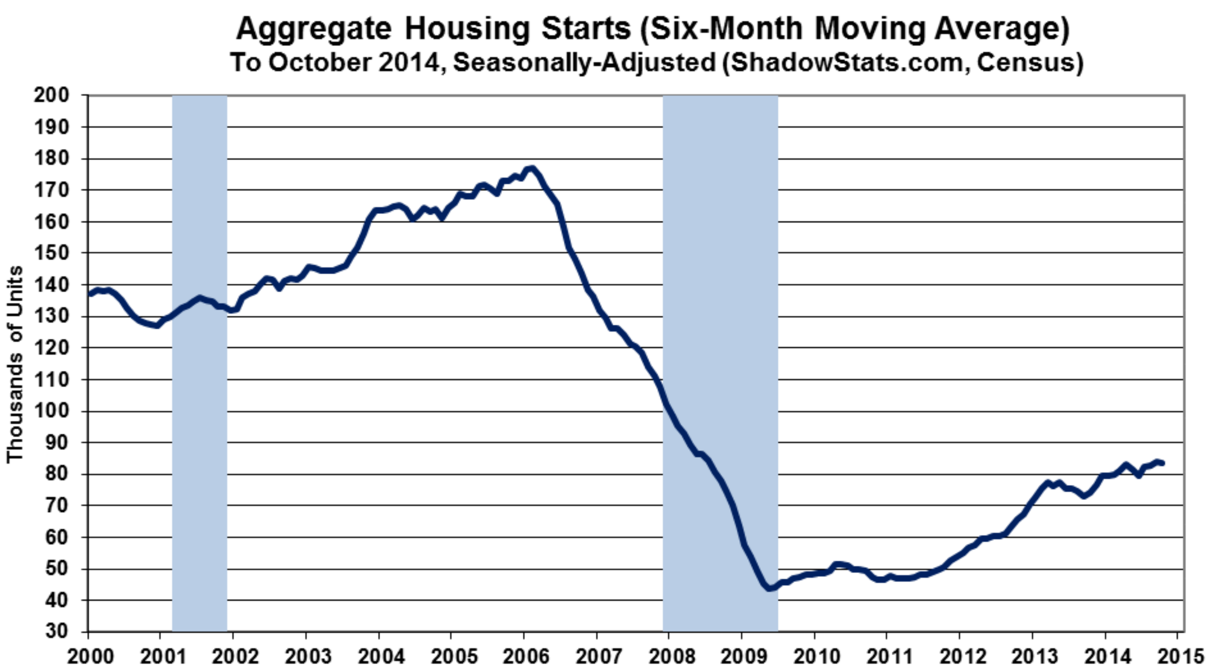
Aggregate Housing Starts (Six-Month Moving Average)
To October 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
200
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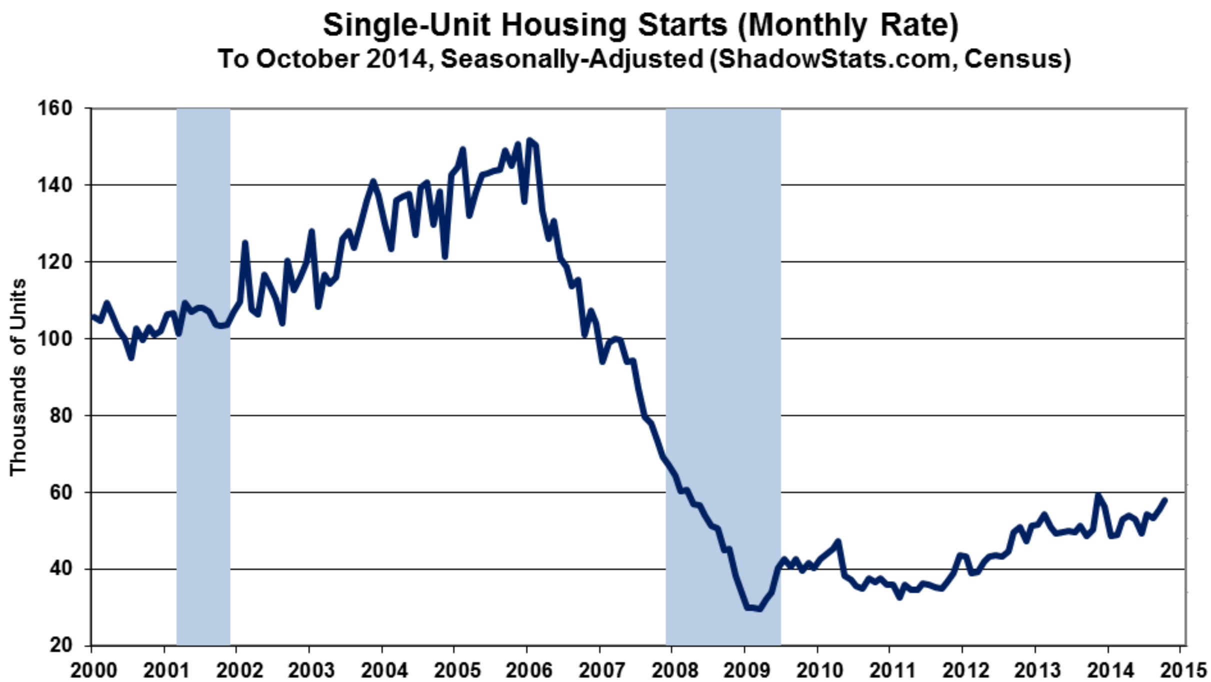
Single-Unit Housing Starts (Monthly Rate)
To October 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
160
140
120
100
80
60
40
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2000
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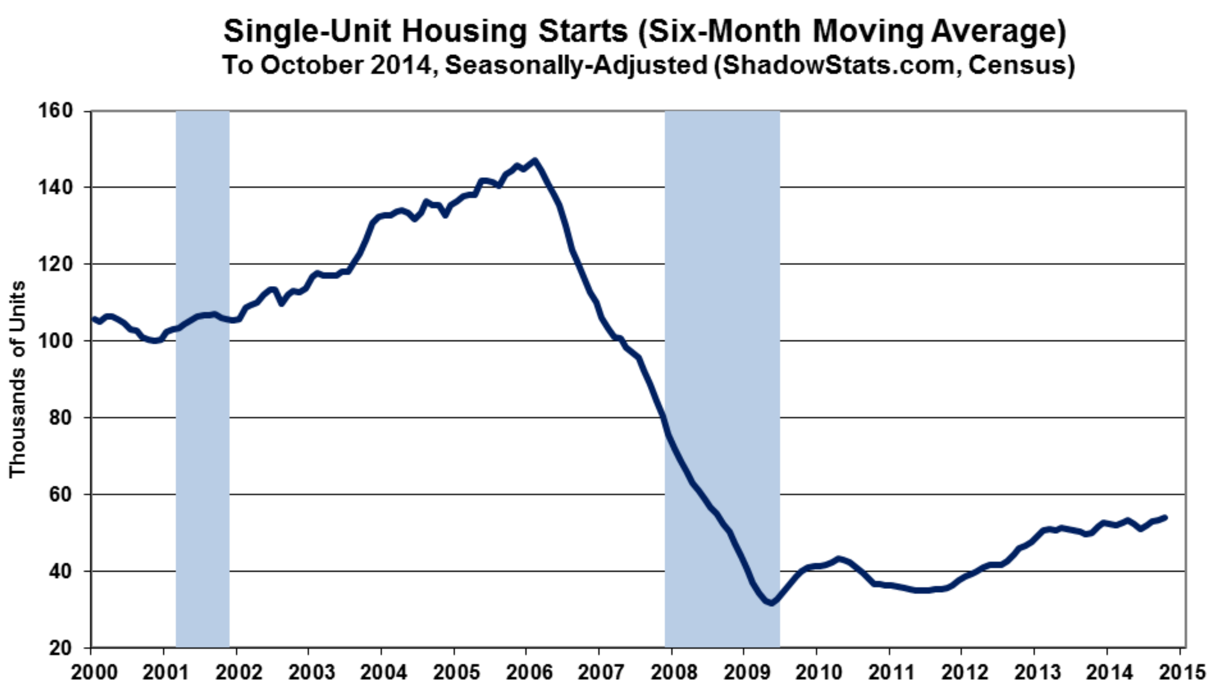
Single-Unit Housing Starts (Six-Month Moving Average)
To October 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
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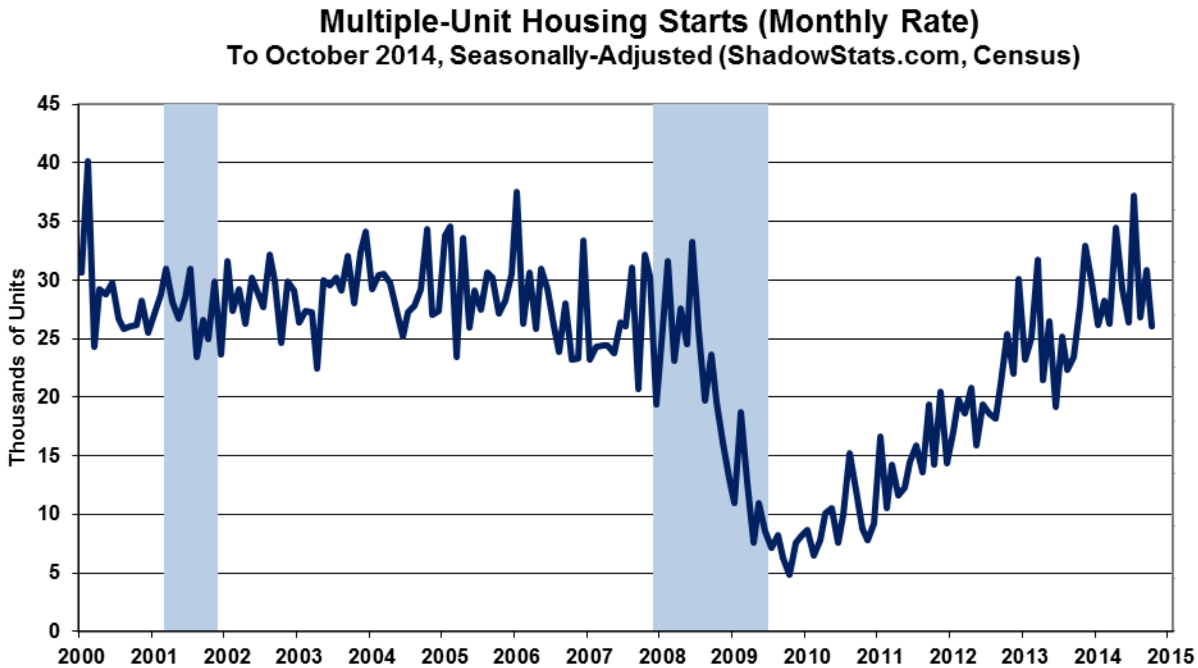

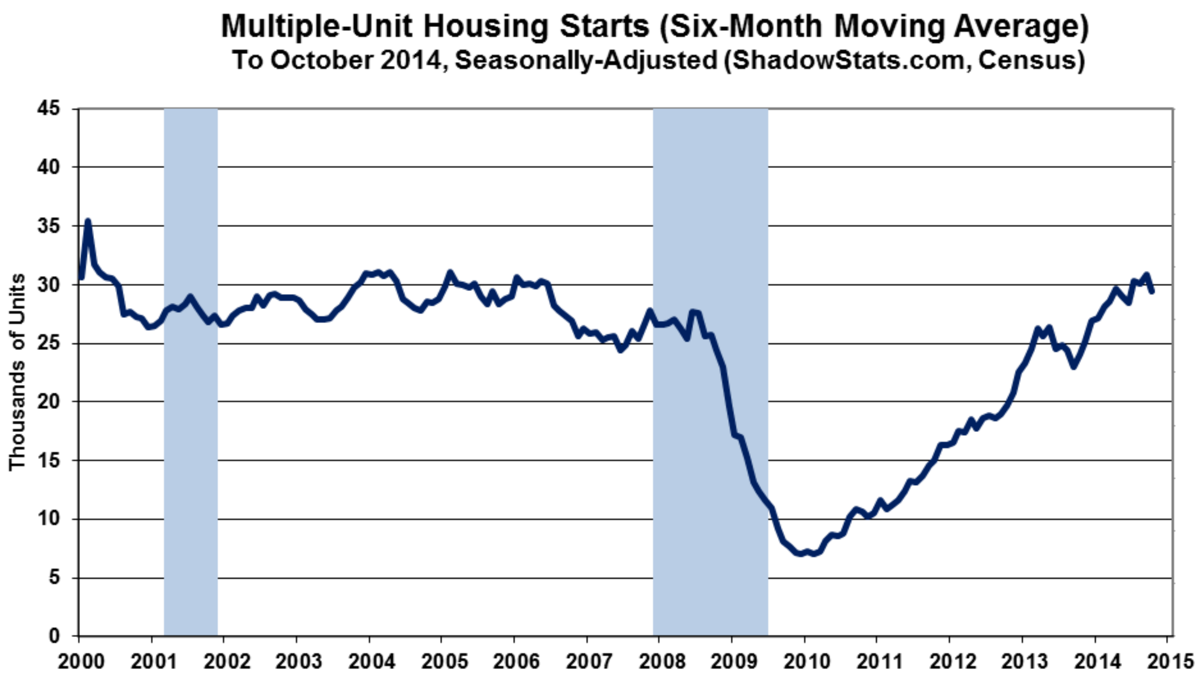

Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,009,000 in October, versus a revised 1,038,000 (previously 1,017, 000) in September, and a revised 963,000 (previously 957,000, initially 956,000) in August. Those annualized numbers are reflected in the detail of the scales in 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 revised annualized headline August level of 963,000 units versus the unrevised 1,098,000 in July—the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the 135,000 month-to-month decline from July 2014 to August 2014 in the annualized data was larger than actual total (non-annualized) monthly starts in any single month since before the recession.

Accordingly, the monthly rate of 84,083 in October 2014, instead of the annualized 1,009,000 headline number, is used in the scaling of the series of graphs in these *Opening Comments*. With the use of either scale of units, however, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical.

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 October 2014 headline number was up by 111%, but it still was down by 59% (-56%) from the January 2006 series high. Shown in historical perspective of the post-World War II era, current activity is trending stagnant at levels that otherwise have been at the historical troughs of recession activity of the last 70 years (see graph in *Reporting Detail* section).

Producer Price Index (PPI)—October 2014—Nontraditional Inflation Accounting Boosted Headline October Wholesale Inflation. The differences between wholesale inflation measured by what producers reflect as their costs, and as measured by what some in the services-trade area experience with their margins, became more of a public issue, yesterday, when the headline October 2014 PPI inflation showed a headline monthly gain of 0.2%, versus a market consensus (Bloomberg) headline decline of 0.1% (-0.1%).

Rising Margins Can Reflect Falling Cost as Well as Rising Prices. As reported, the aggregate monthly 0.18% gain in October's final demand inflation, encompassed a decline of 0.44% (-0.44%) in headline monthly goods inflation, which was dominated by falling energy prices and "core" inflation, versus rising food prices. The negative inflation in the goods sector was more than offset by a headline gain of 0.46% in the more-heavily-weighted services-sector inflation, and with a 0.54% jump in the minimally-weighted construction inflation.

As noted by the Bureau of Labor Statistics (BLS) in its press release, "In October, a 26.1-percent jump in margins for fuels and lubricants retailing accounted for nearly 40 percent of the increase in the index for final demand services." Margins are not the same thing as the level of costs of goods or prices realized in sales; they are a function of prices received versus cost or prices paid for the product or service. Where rising margins can reflect lower costs paid out as well as higher prices received, is it conceivable that the jump in retail margins was due at least partially to a decline in oil-related prices, at cost, not being passed along immediately or fully to next-level customers?

Inflation that Is More Theoretical than Real World? Effective with January 2014 reporting, a new producer price index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in "finished goods" (see *Commentary No. 591*). The new headline monthly measure of wholesale "total final demand" was composed of "final demand goods" (basically the old "finished goods" series, albeit expanded), "final demand services" which tends to cap the goods inflation when oil prices are an issue, and "final demand construction."

In the revamped structure of the PPI series, the dominant "final demand services" sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the October 2014 circumstance of "increased" margins—most likely due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually in reduced retail prices (CPI).

The new PPI series remains an interesting concept, but it appears muted as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just six years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic of financial series, while the old goods-sector relationships had been established for many years.

October 2014 Headline PPI Detail. The seasonally-adjusted, month-to-month, headline producer price index (PPI) for October 2014 "total final demand" increased by 0.18%, surprising market expectations and traditional assessments of inflation on the upside. That followed a headline monthly decline of 0.09% (-0.09%) in September, and an unchanged (0.00%) reading in August. The aggregate impact of the various seasonal adjustments on the headline monthly October number was neutral, with the unadjusted monthly inflation rate also a gain of 0.18%. On a not-seasonally-adjusted basis—all annual growth rates are unadjusted—year-to-year headline PPI inflation eased to 1.55% in October 2014, versus 1.65% in September and 1.83% in August, but it was up from 1.29% in October 2013.

In terms of the three major subcategories for October 2014 "final demand" PPI, headline monthly "final demand goods" inflation contracted by 0.44% (-0.44%), "final demand services" inflation rose by 0.46%, and "final demand construction" inflation rose by 0.54%.

Final Demand Goods (Weighted at 34.40% of the Aggregate). Running somewhat in parallel with the old "finished goods" PPI series, headline monthly "final demand goods" inflation in October 2014 was down by 0.44% (-0.44%), having been down by 0.17% (-0.17%) in September and by 0.35% (-0.35%) in August, with an aggregate positive impact on the October reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, headline October final demand goods inflation contracted by 0.79% (-0.79%) for the month. Year-to-year goods inflation was up by 1.07% in October 2014, versus 1.51% in September and 1.68% in August 2014, and versus an annual decline of 0.18% (-0.18%) in October 2013. Headline monthly changes by major components for September 2014 final demand goods:

- "Foods" inflation rose sharply in October, up by 0.99% for the month, having been down by 0.74% (-0.74%) in September and by 0.49% (-0.49%) in August, with October's gain in inflation intensified by seasonal adjustments. Unadjusted October food inflation rose by 0.49% for the month.

- "Energy" inflation fell by 3.04% (-3.04%) in October, having dropped by 0.71% (-0.71%) in September and by 1.49% (-1.49%) in August, with the October negative reading being narrowed by seasonal adjustments. Unadjusted October energy inflation dropped month-to-month by 5.60% (-5.60%).
- "Less foods and energy" ("core" goods) inflation fell by 0.09% (-0.09%) in October, having increased by 0.18% in September and having been unchanged at 0.00% in August. Seasonal adjustments pummeled "core" inflation from an unadjusted October monthly gain of 0.36%. This unusual understatement of adjusted "core" inflation was a factor in the excessive headline decline in the goods-sector inflation.

Final Demand Services (Weighted at 63.52% of the Aggregate). Headline monthly "final demand services" inflation rose by 0.46% in October 2014, having declined by 0.09% (-0.09%) in September and having gained 0.27% in August. The overall impact on the October services inflation reading from underlying seasonal-factor adjustments was negative, with an unadjusted monthly gain of 0.73% for the current month. Year-to-year unadjusted inflation was 1.76% in October, up from 1.58% in September and versus 1.86% in August. The annual inflation rate for the year-ago October 2013 was 1.98%. The headline monthly changes by major component for September 2014 final demand services inflation:

- "Services less trade, transportation and warehousing" inflation increased by 0.9% in October, having been down by 0.09% (-0.09%) in September, and following a gain of 0.28% for the month of August. Seasonal-adjustment impact was neutral.
- "Transportation and warehousing" inflation declined by 0.08% (-0.08%) in October, following a decline of 0.17% (-0.17%) in September and a monthly gain of 0.34% in August. Seasonal adjustments pummeled an unadjusted October monthly gain here of 0.42%.
- "Trade" inflation jumped by 1.45% in October, pulling the aggregate PPI into positive territory for the month, as discussed earlier. That followed unchanged readings in both September and August, with the headline monthly October number hit hard by seasonal adjustments, where the unadjusted monthly gain was 2.09%

Final Demand Construction (Weighted at 2.08% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, "final demand construction" inflation receives no formal headline coverage. Nonetheless, headline numbers are published. Headline monthly construction inflation jumped by 0.54% for the month of October 2014, having been unchanged in both September and August. The impact of seasonal factors on the headline number was slightly positive, with the unadjusted monthly gain at 0.45%. On an unadjusted basis, year-to-year inflation was 2.20% in October 2014, versus 2.97% in September and 3.16% in August. In October 2013, annual inflation here was 3.02%.

PPI-Inflation Impact on Pending Reports of Economic Activity. Not headlined, but of ongoing potential use in adjusting construction-spending numbers for changing costs, seasonally-adjusted “final demand construction” inflation gained 0.54% month-to-month in October, having been unchanged in September, with unadjusted annual inflation for October at 2.97%, versus 3.0% in September.

As to the upcoming October 2014 new orders for durable goods, unadjusted monthly inflation for new orders for manufactured durable goods in October was 0.42%, versus a decline in September inflation of 0.06% (-0.06%), with annual inflation at 1.33% in October, versus 1.34% in September.

[For further details on the October PPI and housing starts, see the* Reporting Detail *section. Also, various drill-down detail and graphics options on the headline residential construction reporting are available to ShadowStats subscribers at our affiliate:* www.ExpliStats.com*].

HYPERINFLATION WATCH

Hyperinflation Outlook Summary. This *Summary* is unrevised from the recently-updated version in *Commentary No. 673*, other than for minor language changes referring back to that *Commentary*.

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. The outlooks also are updated in regular *Commentaries*, such as *Commentary No. 661*, *Commentary No. 664*, and *Commentary No. 672*, and the *Opening Comments* of *Commentary No. 673* should be considered in terms of near-term, proximal triggers for massive dollar selling. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts.

Hyperinflation Timing Shifted to 2015. Discussed in the *Opening Comments* of *Commentary No. 673*, as 2014 draws to a close, the U.S. dollar has strengthened significantly in recent months, instead of being dumped in a panicked sell-off as had been predicted for 2014. Nonetheless, the outlook for the dollar panic remains in place. It could be triggered or otherwise just start, at any time, with little or no warning, and still before year-end.

From a practical standpoint, though, where a dollar-selling panic will be the likely immediate precursor to and trigger of the early stages of a hyperinflation, the outlook for the timing of the hyperinflation as detailed in the *Hyperinflation Reports* has been shifted to 2015, from 2014. I had put 80% odds in favor of the hyperinflation breaking this year, in 2014. Other than for the calendar shift, the general outlook was not changed, with the ultimate currency panic and financial crises still highly likely in the very near-term (80%), virtual certainties (95% in the not-so-distant future, *i.e.*, the year ahead).

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 (see *Commentary No. 672*). 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 2014-2015 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 sections summarize 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 rate 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. Further, a sharp deterioration in near-term domestic U.S. political stability appears to be developing and is of meaningful near-term risk for triggering heavy selling of the dollar.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals*.** U.S. economic activity is turning down anew, despite gimmicked GDP reporting. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom was the aberration. The headline third-quarter growth of 3.5% appears to have been spiked by overly-optimistic trade-deficit and inventory numbers, which already face downside revisions. Such should become increasingly and painfully obvious to the financial markets in the domestic economic reporting and accompanying revisions of the weeks and months ahead, as well as early indications for an outright contraction in fourth-quarter 2014 GDP.

Recent 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 *Commentary No. 668*, real business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis in putting together the overstated third-quarter GDP growth estimate—has been flat-to-minus, with real sales of the S&P 500 showing a decline in third-quarter 2014 activity. Further, Main Street U.S.A. remains the ultimate judge of actual economic activity, and the 2014 election results and related exit polling confirmed no post-Panic economic recovery (see *Commentary No. 672*).

Despite short-term pre-election fluff, those basic underlying and increasingly-negative economic conditions should show with mounting frequency in various series, such as the trade deficit, retail sales, industrial production, payroll employment and inventories, 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 negatively roiling the extraordinarily unstable financial markets.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, 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 "tapering" by the FOMC finally has run its course. Future, constructive Federal Reserve behavior—purportedly moving towards normal monetary conditions in the currently unfolding, perfect economic environment—is pre-conditioned by a continued flow of "happy" economic news. Suggestions that all is right again with world are nonsense. The 2008 Panic never has been resolved, and the Fed soon will find that it has no easy escape from its quantitative easing.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

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 only a prop to the increasingly unstable equity markets (see *Commentary No. 663*).

In the event of QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, 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 and accounting projections, where comparative year-ago, cash numbers recently were distorted against U.S. Treasury and government activity operating *sub rosa*, in order to avoid the limits of a constraining debt ceiling (see *Commentary No. 672*).

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 widening trade deficit (an initial improvement reported for the third-quarter 2014 trade balance should prove to be transitory, with a negative first revision already in place), 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 (see *Opening Comments* of *Commentary No. 673*). Sharply-negative economic reporting shocks, versus unrealistically-positive consensus forecasts, remain a heavily-favored, proximal trigger for the pending dollar debacle.

- ***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. The impact of the shift in control of Congress will be assessed in the weeks ahead, but the change does not appear likely to alter the systemic willingness to address the underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run in the $6-trillion-plus range for annual shortfall, 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; the initial fiscal-2014 details are discussed in *Commentary No. 672*.

- ***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 end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit, as discussed in *Commentary No. 672*. The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually 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. The positive rating for the President is at an historic low, post-election. Early post-election activity indicates rapidly disintegrating chances of any shift towards constructive cooperation between the White House and the new Congress in addressing fundamental issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues, let alone addressing contentious issues such as immigration. Conditions here could devolve rapidly into an extreme political crisis (see *Opening Comments* of *Commentary No. 673*)

- ***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 ongoing 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 continue to expand. In particular, anti-dollar rhetoric and actions 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.

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REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (October 2014)

Broadly Stagnant, October Housing Starts Suggested a Quarterly Contraction. In the context of an upside revision to September (and third-quarter) activity, the minimal headline monthly decline in October 2014 housing starts was statistically-insignificant. The small year-to-year headline gain also lacked significance. These headline changes in activity remain nonsense. The monthly data are unstable and unreliable, best viewed minimally in the context of an extended period, as shown in the historical 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. Reflecting the patterns in those smoothed graphs in the *Opening Comments*, the aggregate housing-starts series continued in broad stagnation in October, dominated by the personal housing sector. Although there has been a minor aggregate upside trend, total activity has remained 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 had recovered into the general range of pre-recession activity, that impact largely was lost in the aggregated housing starts detail. The aggregate October detail, however, reflected a downside monthly swing in multiple-unit starts, which slightly more than offset the gain in single-unit activity

On a per structure basis, activity in multiple-units starts remains 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, again, as seen in the graphs of the *Opening Comments* section.

Likely to be confirmed in ongoing reporting, aggregate housing starts activity broadly should continue to stagnate and turn lower, with demand in the personal or single-unit housing sector severely constrained by consumer liquidity issues.

Impaired consumer activity has dominated the last eight-plus years of housing-market collapse and stagnation. As updated in the *Opening Comments* of *Commentary No. 673*, 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. There remains no chance of a meaningful recovery, without a fundamental upturn in consumer and banking-liquidity conditions.

Fourth-Quarter Contraction. Separately, based the headline October 2014 activity, fourth-quarter 2014 housing starts have started at slower pace than was seen in third-quarter 2014. On an annualized quarter-to-quarter basis, if October activity were to hold for the quarter, fourth-quarter 2014 housing starts would contract at an annualized pace of 9.0% (-9.0%), versus third-quarter activity, which currently reflects a revised 20.8% (previously 16.6%) gain versus second-quarter activity, which was up by an unrevised 28.8% versus the first-quarter.

October 2014 Housing-Starts Headline Reporting. The Census Bureau reported today, November 19th, a statistically-insignificant, seasonally-adjusted headline monthly decline in October 2014 housing starts of 2.8% (-2.8%) +/- 11.7% (all such confidence intervals are at the 95% level). Such followed a revised 7.8% [previously 6.3%] monthly gain in September starts, which followed a revised 12.3% (-12.3%) decline in August [previously a drop of 12.8% (-12.8%), initially down by 14.4% (-14.4%)]. Net of the prior-period revisions, the headline October decline was a still statistically-insignificant 0.8% (-0.8%).

Year-to-year change in the seasonally-adjusted, aggregate October 2014 housing-starts measure was a statistically-insignificant gain of 7.8% +/- 10.2%, versus a revised 20.2% (previously 17.8%) annual gain in September, and a revised 8.8% (previously 8.1%, initially 8.0%) annual gain in August.

The headline October monthly 2.8% (-2.8%) decline was dominated by a monthly 15.5% (-15.5%) drop in the "five units or more" category and a 4.2% gain in the "one unit" category, but neither monthly change 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 October rose month-to-month by a statistically-insignificant gain of 4.2% +/- 10.3%, following a similar revised gain of 4.2% (previously up by 1.1%) in September, and versus a revised decline of 1.7% (-1.7%) [previously down by 2.0% (-2.0%), initially down by 2.4% (-2.4%)] in August. A statistically-significant October 2014 year-to-year gain of 15.4% +/- 11.8%, followed a revised September year-to-year gain of 14.8% [previously up by 11.9%], and a revised annual gain of 3.9% [previously up by 3.6%, initially up by 4.2%] in August.

Housing starts for apartment buildings (generally 5-units-or-more) in October 2014 fell month-to-month by a statistically-insignificant 15.5% (-15.5%) +/- 27.8%, following a revised 16.4% [previously 18.5%] gain in September, and a revised monthly drop of 29.1% (-29.1%) [previously down by 30.7% (-30.7%), initially down by 31.5% (-31.5%)] in August. October's year-to-year decline of 6.8% (-6.8%) +/- 23.5% also was statistically-insignificant, following a revised 31.0% [previously 30.3%] gain in September, and a revised 19.6% [previously 16.9%, initially 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.

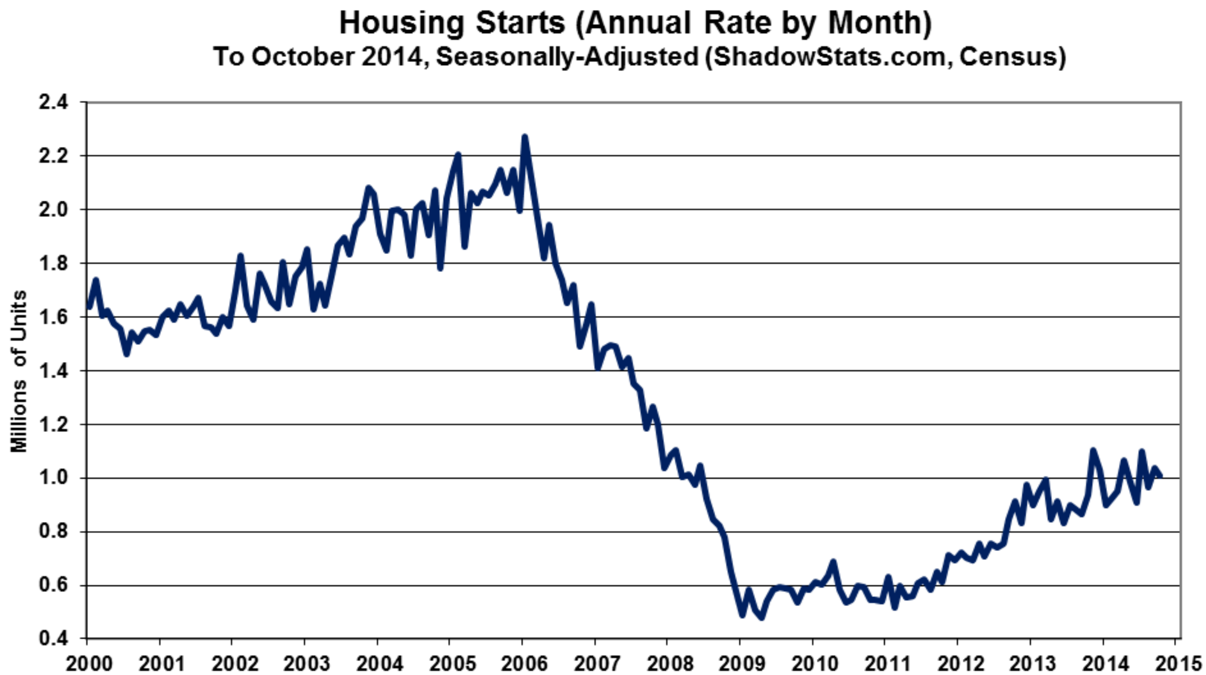
Accordingly, the statistically-insignificant aggregate October 2014 monthly contraction of 2.8% (-2.8%) was composed of a statistically-insignificant gain of 4.2% in one-unit structures housing starts, combined with a statistically-insignificant monthly decline of 15.4% (-15.4%) in multiple-unit structures (2-units-or-more, including the 5-units-or-more category). Again, these series are graphed in the *Opening Comments* section.

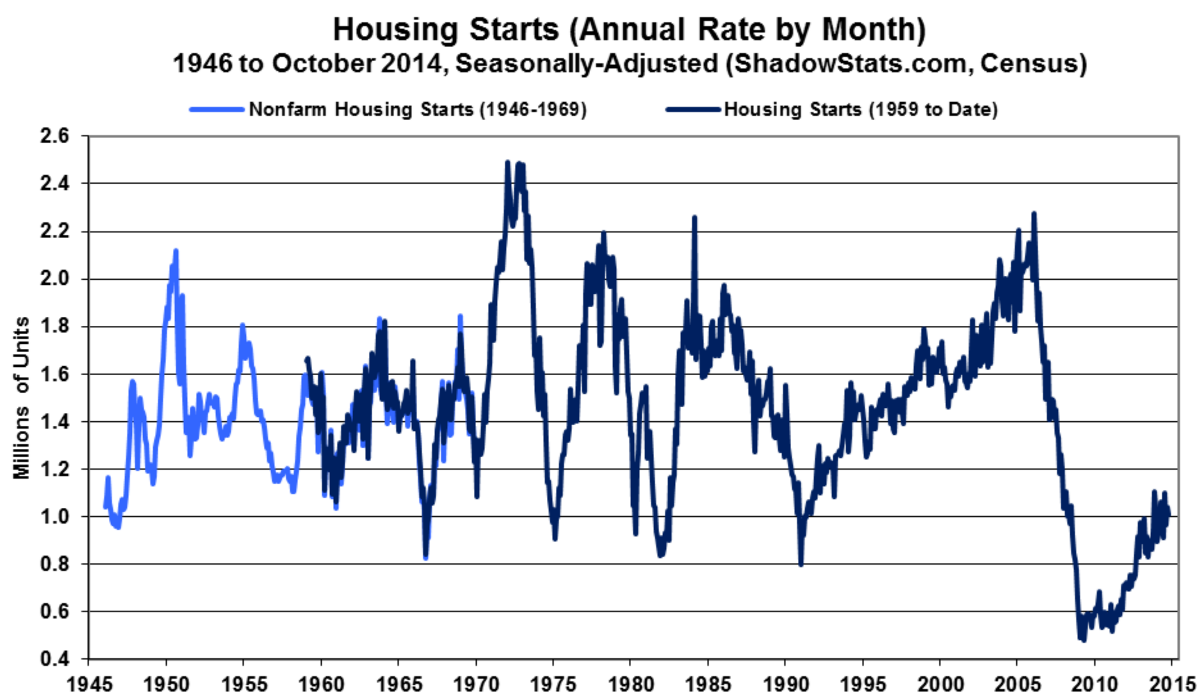
Graphs of Aggregate Housing Starts Activity. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,009,000 in October, versus a revised 1,038,000 (previously 1,017, 000) in September, and a revised 963,000 (previously 957,000, initially 956,000) in August. Those annualized numbers are reflected in the detail of the scales used in aggregate graphs that follow.

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 revised annualized headline August level of 963,000 units versus the unrevised 1,098,000 in July—the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the 135,000 month-to-month decline from July 2014 to August 2014 in the annualized data was larger than actual total (non-annualized) monthly starts in any single month since before the recession.

Accordingly, the monthly rate of 84,083 in October 2014, instead of the annualized 1,009,000 headline, is used in the scaling of the series of graphs shown in the *Opening Comments* section. With the use of either scale of units, however, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical.

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 October 2014 headline number was up by 111%, but it still was down by 59% (-56%) from the January 2006 series high. Shown in historical perspective of the post-World War II era, current activity is trending stagnant at levels that otherwise have been historical troughs of recession activity of the last 70 years, as shown in the second graph following.


Housing Starts (Annual Rate by Month)
To October 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Millions of Units
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015


Housing Starts (Annual Rate by Month)
1946 to October 2014, Seasonally-Adjusted (ShadowStats.com, Census)
Nonfarm Housing Starts (1946-1969)
Housing Starts (1959 to Date)
Millions of Units
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015

PRODUCER PRICE INDEX—PPI (October 2014)

Nontraditional Inflation Accounting Boosted Headline October Wholesale Inflation. *[Text here largely is unchanged from that in the* Opening Comments.*]* The differences between wholesale inflation measured by what producers reflect as their costs, and as measured by what some in the services-trade area experience with their margins, became more of a public issue, yesterday, when the headline October 2014 PPI inflation showed a headline monthly gain of 0.2%, versus a market consensus (Bloomberg) headline decline of 0.1% (-0.1%).

Rising Margins Can Reflect Falling Cost as Well as Rising Prices. As reported, the aggregate monthly 0.18% gain in October's final demand inflation, encompassed a decline of 0.44% (-0.44%) in headline monthly goods inflation, dominated by falling energy prices and "core" inflation, versus rising food prices. The negative inflation in the goods sector was more than offset by a headline gain of 0.46% in the more-heavily-weighted services-sector inflation, and with a 0.54% jump in the minimally-weighted construction inflation.

As noted by the Bureau of Labor Statistics (BLS) in its press release, "In October, a 26.1-percent jump in margins for fuels and lubricants retailing accounted for nearly 40 percent of the increase in the index for final demand services." Margins are not the same thing as the level of prices realized in sales; they are a function of prices received versus cost or prices paid for the product or service. Where rising margins can reflect lower costs paid out as well as higher prices received, is it conceivable that the jump in retail margins was due at least partially to a decline in oil-related prices, at cost, not being passed along immediately or fully to next-level customers?

Inflation that Is More Theoretical than Real World? Effective with January 2014 reporting, a new producer price index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in "finished goods" (see *Commentary No. 591*). The new headline monthly measure of wholesale "total final demand" was composed of "final demand goods" (basically the old "finished goods" series, albeit expanded), "final demand services" which tends to cap the goods inflation when oil prices are an issue, and "final demand construction."

In the revamped structure of the PPI series, the dominant "final demand services" sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the October 2014 circumstance of "increased" margins—most likely due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually in reduced retail prices (CPI).

The new PPI series remains an interesting concept, but it appears muted as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just six years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic of financial series, while old goods-sector relationships had been established for many years.

October 2014 Headline PPI Detail. The BLS reported, yesterday, November 18th, that the seasonally-adjusted, month-to-month, headline producer price index (PPI) for October 2014 "total final demand" increased by 0.18%, surprising market consensus and traditional assessments of inflation on the upside. That followed a monthly decline of 0.09% (-0.09%) in September, and unchanged (0.00%) reading in August. The aggregate impact of the various seasonal adjustments on the headline monthly October number was neutral, with the unadjusted monthly inflation rate also a gain of 0.18%. On a not-seasonally-adjusted basis—all annual growth rates are unadjusted—year-to-year headline PPI inflation eased to 1.55% in October 2014, versus 1.65% in September and 1.83% in August, but it was up from 1.29% in October 2013.

In terms of the three major subcategories for October 2014 "final demand" PPI, headline monthly "final demand goods" inflation contracted by 0.44% (-0.44%), "final demand services" inflation rose by 0.46%, and "final demand construction" inflation rose by 0.54%.

Final Demand Goods (Weighted at 34.40% of the Aggregate). Running somewhat in parallel with the old "finished goods" PPI series, headline monthly "final demand goods" inflation in October 2014 was down by 0.44% (-0.44%), having been down by 0.17% (-0.17%) in September and by 0.35% (-0.35%) in August, with an aggregate positive impact on the October reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, headline October final demand goods inflation contracted by 0.79% (-0.79%) for the month. Year-to-year goods inflation was up by 1.07% in October 2014, versus 1.51% in September and 1.68% in August 2014, and versus an annual decline of 0.18% (-0.18%) in October 2013. Headline monthly changes by major components for September 2014 final demand goods:

- "Foods" inflation rose sharply in October, up by 0.99% for the month, having been down by 0.74% (-0.74%) in September and by 0.49% (-0.49%) in August, with October's gain in inflation intensified by seasonal adjustments. Unadjusted October food inflation rose by 0.49% for the month.
- "Energy" inflation fell by 3.04% (-3.04%) in October, having dropped by 0.71% (-0.71%) in September and by 1.49% (-1.49%) in August, with the October negative reading being narrowed by seasonal adjustments. Unadjusted October energy inflation dropped month-to-month by 5.60% (-5.60%).
- "Less foods and energy" ("core" goods) inflation fell by 0.09% (-0.09%) in October, having increased by 0.18% in September and having been unchanged at 0.00% in August. Seasonal adjustments pummeled "core" inflation from an unadjusted October monthly gain of 0.36%.

Final Demand Services (Weighted at 63.52% of the Aggregate). Headline monthly "final demand services" inflation rose by 0.46% in October 2014, having declined by 0.09% (-0.09%) in September and having gained 0.27% in August. The overall impact on the October services inflation reading from underlying seasonal-factor adjustments was negative, with an unadjusted monthly gain of 0.73% for the current month. Year-to-year unadjusted inflation was 1.76% in October, up from 1.58% in September and versus 1.86% in August. The annual inflation rate for the year-ago October 2013 was 1.98%. The headline monthly changes by major component for September 2014 final demand services inflation:

- "Services less trade, transportation and warehousing" inflation increased by 0.9% in October, having been down by 0.09% (-0.09%) in September, and following a gain of 0.28% for the month of August. Seasonal-adjustment impact was neutral.

- "Transportation and warehousing" inflation declined by 0.08% (-0.08%) in October, following a decline of 0.17% (-0.17%) in September and a monthly gain of 0.34% in August. Seasonal adjustments pummeled an unadjusted October monthly gain here of 0.42%.
- "Trade" inflation jumped by 1.45% in October, pulling the aggregate PPI into positive territory for the month, as discussed earlier. That followed unchanged readings in both September and August, with the headline monthly October number hit hard by seasonal adjustments, where the unadjusted monthly gain was 2.09%

Final Demand Construction (Weighted at 2.08% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, "final demand construction" inflation receives no formal headline coverage. Nonetheless, headline numbers are published. Headline monthly construction inflation jumped by 0.54% for the month of October 2014, having been unchanged in both September and August. The impact of seasonal factors on the headline number was slightly positive, with the unadjusted monthly gain at 0.45%. On an unadjusted basis, year-to-year inflation was 2.20% in October 2014, versus 2.97% in September and 3.16% in August. In October 2013, annual inflation here was 3.02%.

PPI-Inflation Impact on Pending Reports of Economic Activity. Not headlined, but of ongoing potential use in adjusting construction-spending numbers for changing costs, seasonally-adjusted “final demand construction” inflation gained 0.54% month-to-month in October, having been unchanged in September, with unadjusted annual inflation for October at 2.97%, versus 3.0% in September.

As to the upcoming October 2014 new orders for durable goods, unadjusted monthly inflation for new orders for manufactured durable goods in October was 0.42%, versus a decline in September inflation of 0.06% (-0.06%), with annual inflation at 1.33% in October, versus 1.34% in September.

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WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases and Revisions Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger. Shifting some to the downside, again, from the upside, amidst wide fluctuations in the numbers, market expectations for business activity still are overly optimistic in the extreme. They exceed any potential, underlying economic reality. Continuing, downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting, increasingly should hammer those expectations.

Longer-Range Reporting Trends. While gradual process of downside shifting in economic-growth expectations has been sporadic, underlying fundamental activity has remained extraordinarily negative. Other than for nonsense-growth in the headline second-quarter GDP (see *Commentary No. 662*), and the overstated initial third-quarter GDP growth estimate, renewed weakness has been, and increasingly will be seen in the post-election headline reporting of other major economic series (see *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*). Indeed, weaker-than-consensus economic reporting should become the general trend until the unfolding "new" recession receives broad recognition, which minimally would follow the next reporting of a headline contraction in real GDP growth (very possibly a culmination of pending downside revisions to the headline third-quarter 2014 GDP estimate).

A generally stronger consumer inflation trend remains likely, as seen before August, although headline inflation is muted at present by a temporary decline in oil prices. 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, covert financial sanctions against Russia that are pushing oil prices lower.

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). Combined with recent allegations (see *Commentary No. 669*) of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Consumer Price Index—CPI (October 2014). The October 2014 CPI is scheduled for release tomorrow, Thursday, November 20th, by the Bureau of Labor Statistics (BLS). The headline CPI-U has a reasonable chance of showing flat-to-minimally-positive inflation, against a late-consensus expectation (Bloomberg) for a headline monthly inflation decline of 0.1% (-0.1%).

Average gasoline prices plunged month-to-month in October 2014 by 6.6% (-6.6%), on a not-seasonally-adjusted basis, per the Department of Energy (DOE). While BLS seasonal adjustments to gasoline prices will be positive in October, they still should leave adjusted monthly gasoline prices down by about 3.3%

(-3.3%) or so for the month. By itself, such an adjusted decline in gasoline prices would leave the headline CPI-U down by 0.1% (-0.1%) to 0.2% (-0.2%).

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

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in October 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted "unchanged" (up by 0.02% at the second decimal point) monthly inflation reported for October 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for October 2014, the difference in October's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the September 2014 annual inflation rate of 1.66%. If the headline monthly inflation came in at about 0.1%, the resulting annual inflation pace would be 1.7% or 1.8%, depending on rounding.

Existing- and New-Home Sales (October 2014). October 2014 existing-home sales also are due for release tomorrow, Thursday, November 20th, from the National Association of Realtors, with the October 2014 new-home sales report due from the Census Bureau the next week, on Wednesday, November 26th.

Despite a headline monthly gain in September, recent negative trends in headline monthly reporting likely continued in October existing-home sales, and such would be consistent with market expectations of a 0.4% (-0.4%) decline (Bloomberg). A headline monthly contraction in excess of 0.7% (-0.7%), would generate the twelfth straight month of year-to-year decline, with the trailing twelve-month average sales level down by more than 4.0% (-4.0%) from the year before. Continued faltering activity in both home-sales series remains closely tied to persistent consumer liquidity problems (again, see the *Opening Comment* section of *Commentary No. 673*).

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 here, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for October new-home sales, with both home-sales series increasingly reflecting downside instabilities in their respective headline activity.

