

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

COMMENTARY NUMBER 682

November Housing Starts

December 16, 2014

**Headline November Housing Starts Fell Month-to-Month and Year-to-Year
Amidst Ongoing Unstable Revisions**

**Smoothed for Extreme Reporting Volatility, Aggregate Housing Starts
Show Pattern of Plunge and Low-Level Stagnation, No Economic Recovery**

PLEASE NOTE: The next Commentary is planned for tomorrow, Wednesday, December 17th, covering the November CPI and real retail sales and earnings. A Commentary on Tuesday, December 23rd, will cover the final revision to third-quarter GDP, November durable goods orders and new- and existing-home sales.

SPECIAL COMMENTARY RESCHEDULED: The year-end Special Commentary originally planned for Friday, December 19th, has been rescheduled for Monday, December 29th, reviewing developments of the year past and previewing likely developments of the year ahead.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Housing Industry Remains in State of Economic Collapse. Headline November 2014 housing starts fell both month-to-month and year-to-year, although the monthly changes would have been positive, net of the regular, extreme volatility seen in the monthly revisions to this series. Looking beyond the irregular headline variations, the smoothed series (using six-month moving averages) shows a broad

pattern of economic plunge into 2009, followed by stagnation at a low level of activity. It does not reflect the full and booming economic recovery reported in headline GDP activity. The pattern of non-recovery is seen in the aggregate housing starts series and in its dominant component of single-unit housing starts. The relatively-small multiple-unit housing starts component has recovered its pre-recession high, but it appears recently to have topped out recently and is turning down once again.

Today's Missive (December 16th). This relatively brief *Commentary* concentrates on the headline reporting of the November 2014 housing starts, both in these *Opening Comments* and in the *Reporting Detail* section.

The *Hyperinflation Summary* is unchanged. The *Week Ahead* section previews reporting for tomorrow's November CPI release. Updated reviews of current economic activity will be included in the December 23rd *Commentary* encompassing the second revision to third-quarter GDP and in the year-end *Special Commentary* (December 29th) reviewing developments of the year past and previewing likely developments of the year ahead.

Housing Starts—November 2014—Smoothed (and Headline) Detail Shows Still-Collapsed Activity. In the context of an upside revision to October housing starts, and a downside revision to September (and third-quarter) activity, the minimal 1.6% (-1.6%) headline monthly decline in November 2014 housing starts was statistically-insignificant, as was the headline 7.0% (-7.0%) year-to-year headline contraction. These headline changes in activity, however, 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 in the *Reporting Detail* section, and in the context of activity smoothed by a six-month moving average, as shown in the accompanying graphs in these *Opening Comments*.

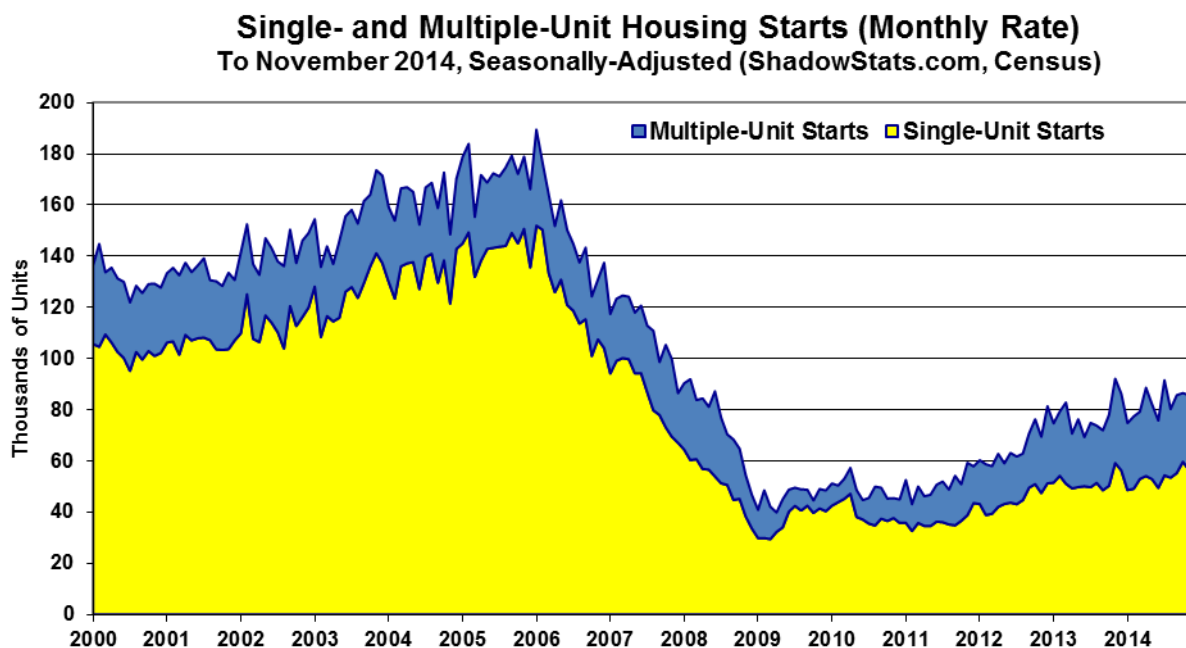
Continuing Stagnation and Broad Non-Recovery. Reflecting the patterns in those smoothed graphs, the aggregate housing-starts series continued in broad stagnation in November, dominated, as usual, by the personal housing sector (single-unit starts). Although there has been a minor aggregate upside trend, total housing-starts 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 starts actually had recovered into the general range of pre-recession activity, that process appears to have topped out, with the impact of the higher, multiple-unit activity still largely lost in the aggregated housing starts detail.

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 business collapse of 2006 into 2009, again, as seen in the accompanying graphs. Likely to be confirmed in future reporting, total 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. Updated most recently in the *Opening Comments* of [Commentary No. 680](#), 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 Stagnation. Separately, based on headline October and November 2014 activity, fourth-quarter 2014 housing starts growth has started at a much-slower pace than was seen in third-quarter 2014. On an annualized quarter-to-quarter basis, if October and November activity were to hold for the quarter, fourth-quarter 2014 housing starts would stagnate at an annualized pace of 1.3% growth, versus third-quarter activity, which currently reflects a revised 19.3% annualized gain versus second-quarter activity, which was up by 28.8% versus the first-quarter.



November 2014 Housing-Starts Headline Reporting. Seasonally-adjusted, headline November 2014 housing starts fell by a statistically-insignificant, monthly decline of 1.6% (-1.6%). That followed a revised monthly gain of 1.7% in October, and a revised 6.5% gain in September. Net of prior-period revisions, the headline November change was a still-statistically-insignificant increase of 1.9%.

Year-to-year change in the seasonally-adjusted, aggregate November 2014 housing-starts measure was a statistically-insignificant contraction of 7.0% (-7.0%), versus a revised gain of 10.9% in October, and a revised 19.1% annual gain in September.

The headline November monthly 1.6% (-1.6%) decline was dominated by a headline monthly contraction of 5.4% (-5.4%) in the “one unit” category, with a 7.6% headline gain in the “five units or more” category, but neither monthly change there 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 November fell month-to-month by a statistically-insignificant 5.4% (-5.4%), following a revised 8.0% gain in October, and a revised 3.4% gain in September. A statistically-insignificant November 2014 year-to-year decline of 4.6% (-4.6%), followed a revised 18.7% annual gain in October, and a revised annual gain of 13.8% in September.

Housing starts for apartment buildings (generally 5-units-or-more) in November 2014 rose month-to-month by a statistically-insignificant 7.6%, following a revised October contraction of 10.5% (-10.5%) for the month, and a revised 15.7% gain in September. November's year-to-year decline of 11.9% (-11.9%) also was statistically insignificant, following a revised October decline of 1.9% (-1.9%), and a revised 30.3% gain in September.

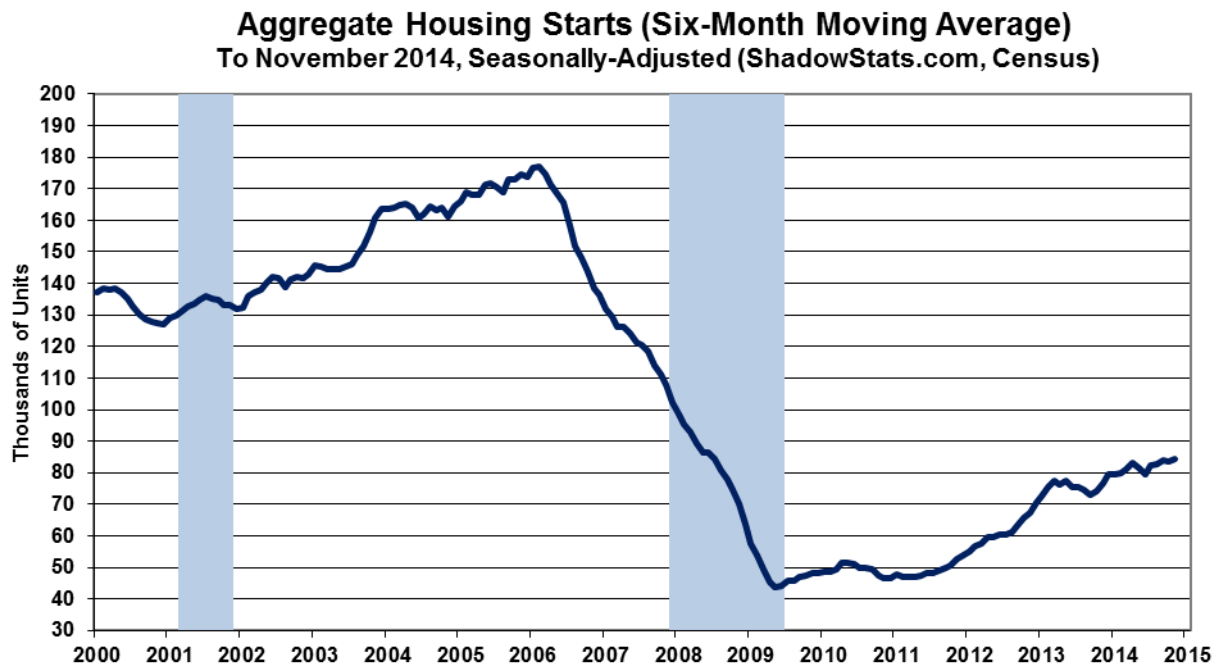
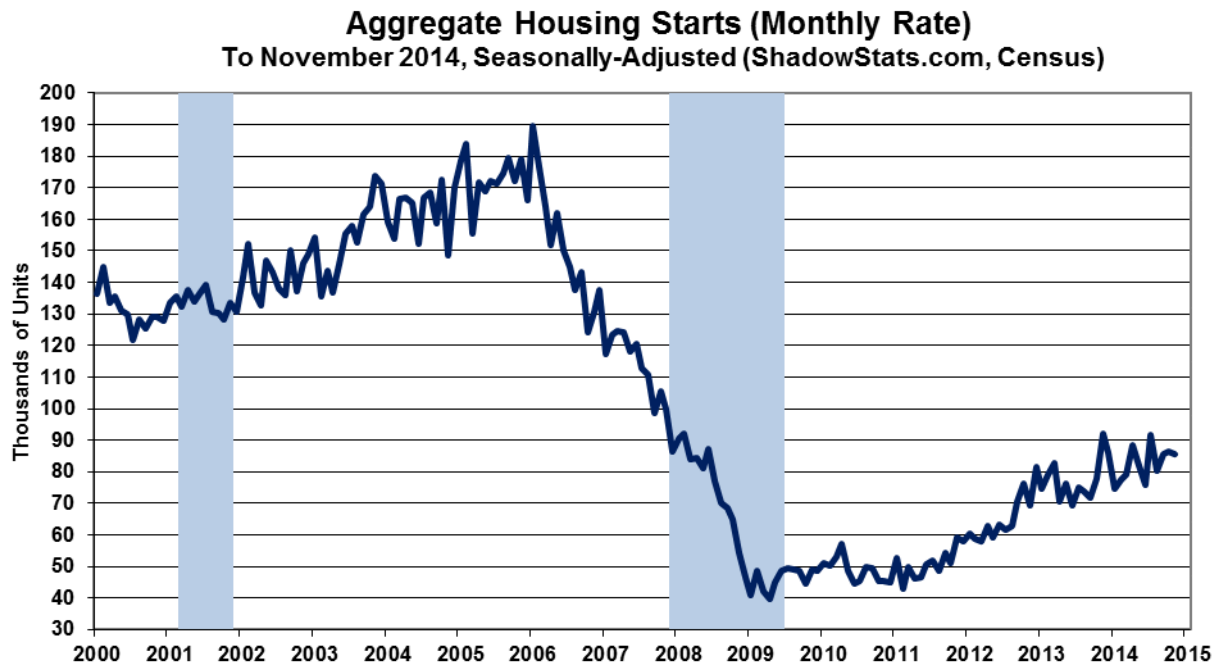
Expanding the multi-unit structure housing-starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish seasonally-adjusted estimates of the 2-to-4-units category, due to statistical significance problems (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 November 2014 monthly contraction of 1.6% (-1.6%) in aggregate housing starts was composed of a statistically-insignificant drop of 5.4% (-5.4%) in one-unit structures housing starts, combined with a statistically-insignificant monthly gain of 9.0% in multiple-unit structures (2-units-or-more, including the 5-units-or-more category). Again, these series are found in the accompanying graphs.

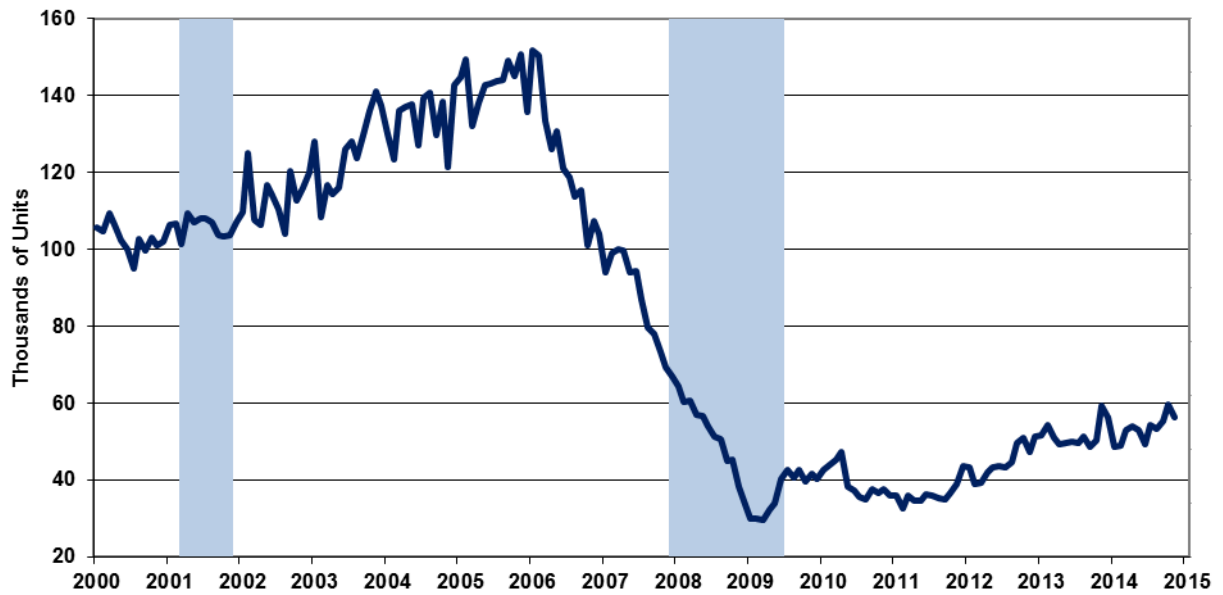
Graphs of Housing-Starts Activity. The following six graphs of monthly detail for the housing-starts series show starts activity for the aggregate series, for single-unit structures and for multiple-unit structures, both in terms of monthly detail and in terms of six-month moving averages of that detail.

Looking beyond the irregular and large month-to-month headline variations, the smoothed graphs (using six-month moving averages) generally show a broad pattern of economic plunge into 2009 followed by stagnation, not the economic recovery as reported with the GDP (see [Commentary No. 677](#)). This is true of the aggregate housing starts series and its dominant component of single-unit housing starts. The multiple-unit housing starts series has recovered its pre-recession high, but it appears to have topped out, turning down once again.

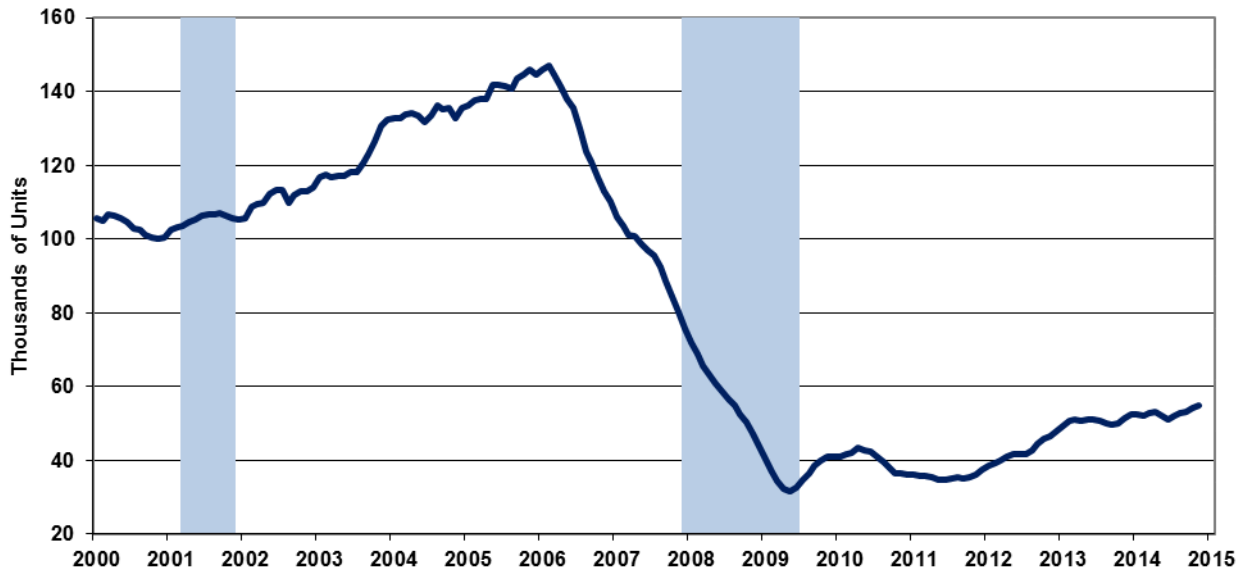
Further description follows the graphs.

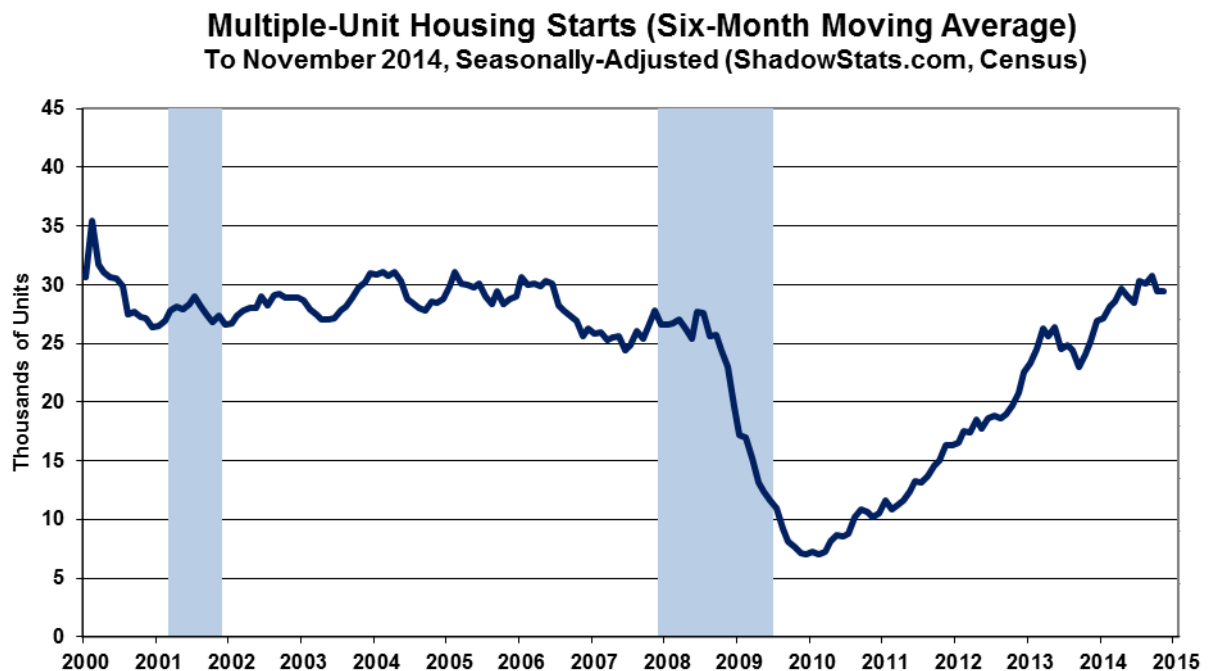
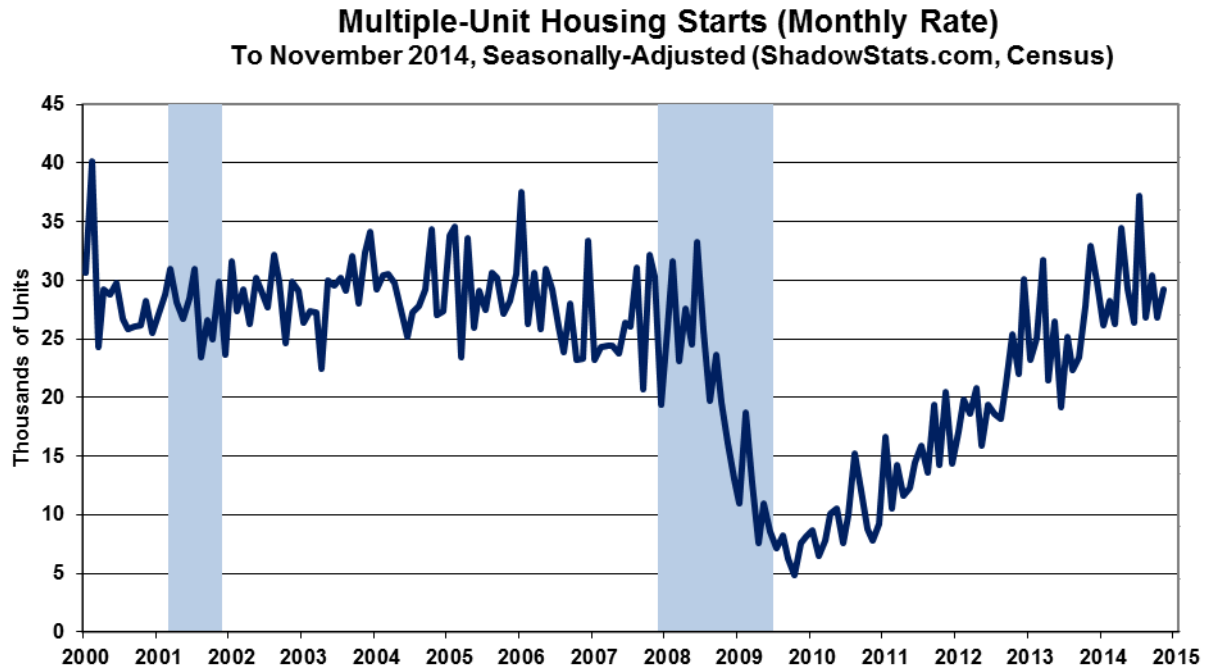


Single-Unit Housing Starts (Monthly Rate)
To November 2014, Seasonally-Adjusted (ShadowStats.com, Census)



Single-Unit Housing Starts (Six-Month Moving Average)
To November 2014, Seasonally-Adjusted (ShadowStats.com, Census)





Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,028,000 in November 2014, versus a revised 1,045,000 (previously 1,009,000) in October, and a revised 1,028,000 (previously 1,038,000, initially 1,017, 000) in September. Those

annualized numbers are reflected in the detail of the scales in the aggregate graphs at the end of 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 annualized headline level of 963,000 units in August 2014, versus the 1,098,000 units 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 85,667 in November 2014, instead of the annualized 1,045,000 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 November 2014 headline number was up by 115%, but it still was down by 58% (-58%) from the January 2006 series high. Shown in the 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).

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

HYPERINFLATION WATCH

Hyperinflation Outlook Summary. Except for minor language changes tied to updating reference links, this *Summary* has not been changed from the version updated in the November 25th [Commentary No. 677](#), which incorporated details from the second estimate of third-quarter 2014 GDP. Nonetheless, the *Summary* should be considered in the context of the *Opening Comments* on the U.S. dollar found in [Commentary No. 680](#). The *Summary* will be updated subsequent to the December 29th *Special 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 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 earlier). 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 overstated growth in recent GDP reporting. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom and continued strong headline GDP growth in third-quarter 2014 were not. The more-recent data appear to have been spiked, at best, by overly-optimistic assumptions on the part of the Bureau of Economic Analysis (BEA). At worst, the bloated growth estimates reflect heavy political massaging. Where third-quarter GDP still may see some near-term downside revision, both second- and third-quarter 2014 GDP growth patterns should suffer heavy downside revisions in the July 30, 2015 benchmark revision. The weak, underlying economic reality should become increasingly and painfully obvious to the financial markets in the domestic economic reporting and accompanying data revisions of the weeks and months ahead, including early indications for an outright contraction in fourth-quarter 2014 GDP.

As expanded upon in the *Opening Comments* of [Commentary No. 677](#), 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, discussed in [Commentary No. 668](#), actual 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 (see trade deficit analysis in [Commentary No. 679](#)), 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 the *Opening Comments* of [Commentary No. 678](#)). 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 continues to show disintegrating chances of a 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 the contentious immigration circumstance. Conditions here still 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.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (November 2014)

Smoothed (and Headline) Detail Shows Still-Collapsed Housing-Construction Activity. In the context of an upside revision to October housing starts, and a downside revision to September (and third-quarter) activity, the minimal 1.6% (-1.6%) headline monthly decline in November 2014 housing starts was statistically-insignificant, as was the headline 7.0% (-7.0%) year-to-year headline contraction. 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.

Continuing 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 November, dominated, as usual, by the personal housing sector (single-unit starts). Although there has been a minor aggregate upside trend, total housing-starts 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 starts actually had recovered into the general range of pre-recession activity, that process appears to have topped out, with the impact of the higher multiple-unit activity still largely lost in the aggregated housing starts detail.

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 business 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 most recently in the *Opening Comments* of [Commentary No. 680](#), 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 Stagnation. Separately, based on headline October and November 2014 activity, fourth-quarter 2014 housing starts growth has started at a much-slower pace than was seen in third-quarter 2014. On an annualized quarter-to-quarter basis, if October and November activity were to hold for the quarter, fourth-quarter 2014 housing starts would stagnate at an annualized pace of 1.3% growth [previously estimated, based solely on the initial October reporting, as an annualized contraction of 9.0% (-9.0%)], versus third-quarter activity, which currently reflects a revised 19.3% [previously 20.8%, initially 16.6%] annualized gain versus second-quarter activity, which was up by an unrevised 28.8% versus the first-quarter.

November 2014 Housing-Starts Headline Reporting. The Census Bureau reported today, December 16th, a statistically-insignificant, seasonally-adjusted headline monthly decline in November housing starts of 1.6% (-1.6%) +/- 9.5% (all such confidence intervals are at the 95% level). Such followed a revised gain of 1.7% [previously a decline of 2.8% (-2.8%)] in October, which followed a revised 6.5% [previously a 7.8%, initially a 6.3%] monthly gain in September. Net of prior-period revisions, the headline November change was a still-statistically-insignificant 1.9% gain.

Year-to-year change in the seasonally-adjusted, aggregate November 2014 housing-starts measure was a statistically-insignificant contraction of 7.0% (-7.0%) +/- 11.8%, versus a revised gain of 10.9% [previously up by 7.8%] in October, and a revised 19.1% [previously 20.2%, initially 17.8%] annual gain in September.

The headline November monthly 1.6% (-1.6%) decline was dominated by a headline monthly contraction of 5.4% (-5.4%) in the “one unit” category, with a 7.6% headline gain in the “five units or more” 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 November fell month-to-month by a statistically-insignificant 5.4% (-5.4%) +/- 9.5%, following a revised 8.0% [previously 4.2%] gain in October, and a revised 3.4% [previously 4.2%, initially 1.1%] gain in September. A statistically-insignificant November 2014 year-to-year decline of 4.6% (-4.6%) +/- 9.7%, followed a revised 18.7% [previously 15.4%] gain in October, and a revised annual gain of 13.8% [previously 14.8%, initially 11.9%] in September.

Housing starts for apartment buildings (generally 5-units-or-more) in November 2014 rose month-to-month by a statistically-insignificant 7.6% +/- 26.6%, following a revised October monthly contraction of 10.5% (-10.5%) [previously down by 15.5% (-15.5%)], and a revised 15.7% [previously 16.4%, initially 18.5%] gain in September. November's year-to-year decline of 11.9% (-11.9%) +/- 30.0% also was statistically insignificant, following a revised October decline of 1.9% (-1.9%) [previously down by 6.8% (-6.8%)], and a revised 30.3% [previously 31.0%, initially 30.3%] gain in September.

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

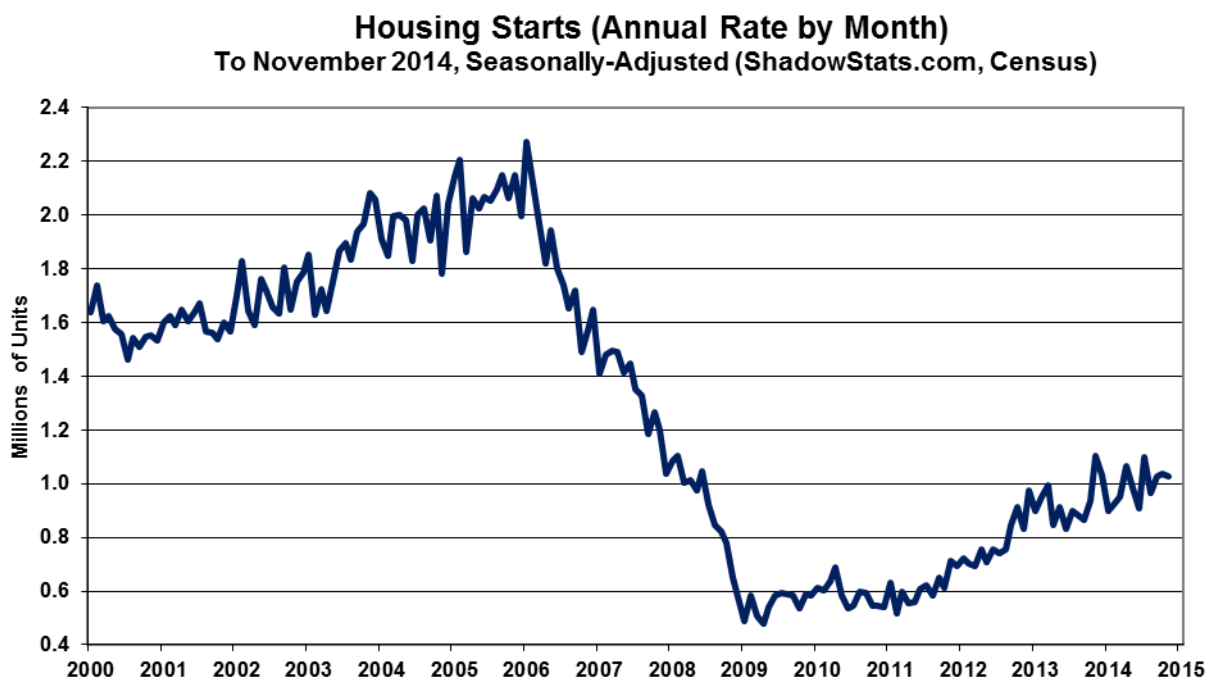
aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

Accordingly, the statistically-insignificant November 2014 monthly contraction of 1.6% (-1.6%) in aggregate housing starts was composed of a statistically-insignificant drop of 5.4% (-5.4%) in one-unit structures housing starts, combined with a statistically-insignificant monthly gain of 9.0% 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.

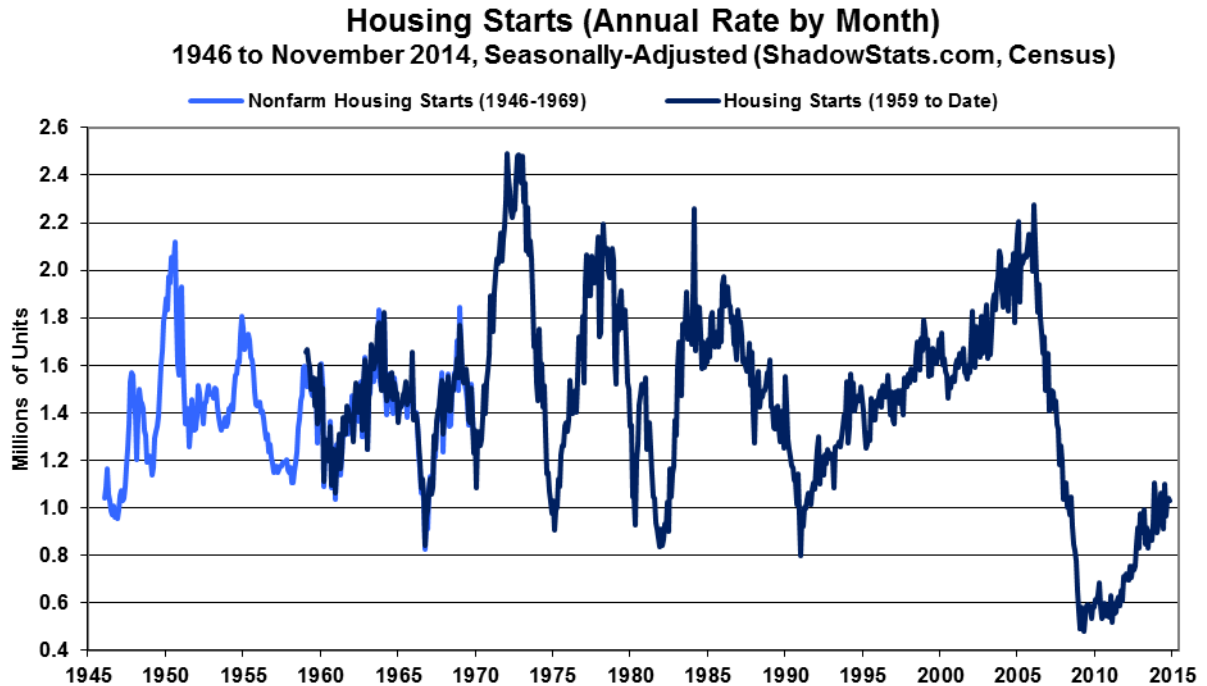
Graphs of Aggregate Housing Starts Activity. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,028,000 in November 2014, versus a revised 1,045,000 (previously 1,009,000) in October, and a revised 1,028,000 (previously 1,038,000, initially 1,017, 000) in September. Those annualized numbers are reflected in the detail of the scales in the 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 annualized headline level of 963,000 units in August 2014, versus the 1,098,000 units 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 85,667 in November 2014, instead of the annualized 1,045,000 headline number, is used in the scaling of the series of graphs displayed in the *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 November 2014 headline number was up by 115%, but it still was down by 58% (-58%) from the January 2006 series high. Shown in the 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, as shown in the following graph.



WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases and Revisions Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger after Temporary Oil-Price Declines. 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, however, 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. Allowing for the nonsense-growth in the headline second-quarter and third-quarter GDP (see *Opening Comments* of [Commentary No. 677](#)), 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 (which most likely will involve reporting of fourth-quarter 2014 GDP).

A generally stronger consumer inflation trend remains likely, as seen before August, although headline inflation is muted at present, for a couple of months, 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 currently 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 (November 2014). The November 2014 CPI is scheduled for release tomorrow, Wednesday, December 17th, by the Bureau of Labor Statistics (BLS). The headline CPI-U has a fair chance of being flat-to-minus, against late-market expectations of a 0.1% (-0.1%) month-to-month decline [Bloomberg].

Plunging again, average gasoline prices fell by 7.93% (-7.93%) month-to-month in November 2014, on a not-seasonally-adjusted basis, per the Department of Energy (DOE). While BLS seasonal adjustments to gasoline prices should be positive in November, they still should leave adjusted monthly gasoline prices down by roughly 5.5% (-5.5%) or so for the month. By itself, such an adjusted decline in gasoline prices would leave the headline CPI-U down by roughly 0.3% (-0.3%).

Higher food and “core” (net of food and energy) inflation, however, should offset much of the negative energy number, leading to a headline flat-to-minus headline monthly change in the November CPI.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in November 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted “unchanged” [down by 0.03% (-0.03%) at the second decimal point] monthly inflation reported for November 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for November 2014, the difference in November’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the October 2014 annual inflation rate of 1.66%. If the headline monthly inflation came in at about at unchanged, the resulting annual inflation pace would be around 1.7% (at the first decimal point), holding at that level again for the fourth month.
