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

COMMENTARY NUMBER 689
December Housing Starts, Special Comments on the Economy

January 21, 2015

Rising from Recession? Strongest Growth in Over a Decade? Not a Chance.

Continued Economic Woes Promise Difficult Times for the U.S. Dollar and the Fed

Unstable December Housing Starts Continued Stagnating

In Aggregate and by Component, Not One of the Monthly or Annual Rates of Change in the Starts Detail Was Statistically Significant

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PLEASE NOTE: The next Regular Commentary *is scheduled for Tuesday, January 27th, covering December 2014 new orders for durable goods and new- and existing-home sales, followed by one on Friday, January 30th, covering the "advance" estimate of fourth-quarter 2014 GDP. This issue is not the* Special Commentary; *publication of the* Special Commentary *will follow soon.*

Events sometimes can outrun a delayed report, and such has happened to a certain extent with the pending Special Commentary. *First, in response to President Barack Obama's pronouncing victory over the economic downturn, some of the economic detail from the* Special *is excerpted here, providing an indication that the U.S. economy never recovered, is not expanding and that no economic recovery is imminent. More-comprehensive text and detail follow in the full* Special Commentary.

Second, whatever quantitative action is or is not taken by euro-related central banks tomorrow, Thursday, January 22nd, the circumstance will be incorporated into the Special Commentary, *which will follow, in turn, in the days ahead. Aside from potential near-term financial-market and currency-rate gyrations from any central-bank actions or inactions, the longer-term prospects for the demise of the U.S. dollar will remain place.*

Best Wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Instabilities from the Panic of 2008 Still Haunt the Global Financial System. There is extraordinary speculation afoot of some form of quantitative-easing announcement pending for the euro zone tomorrow, Thursday (January 22nd). Irrespective of what transpires, the Federal Reserve, itself, likely will be headed back into that arena again soon, when headline domestic economic activity and/or equity markets take renewed hits. Quantitative easing of the Federal-Reserve form generally has been aimed at providing the banking system with liquidity, not at stimulating economic activity. In like manner, similar programs by other banking authorities would do little to stimulate their domestic economies, but it could be somewhat supportive of still-troubled, domestic banking systems.

U.S. central bank efforts at fighting deflation generally were aimed at keeping the banking system afloat. The current "deflation" scare is a "banking" scare. A 1930s-style deflationary collapse is not likely, shy of a banking-system collapse. Central banks (very specifically including the Federal Reserve) and central governments still will do everything within their powers—including printing money—to avoid such a circumstance, much as they did in 2008.

The actions in response to the Panic of 2008 were stop-gap only, aimed at pushing the confluence of economic, sovereign-solvency, liquidity and systemic crises into the future. Such was the best that the world's bankers and governments could come up with at the time. Yet, what was the future in 2008 now is at hand; those crises once again are and will be coming to a head. This time, however, effective stop-gap measures are going to be more difficult to put into place, and increasingly expensive from an inflation standpoint.

At the center of the storm remains the U.S. Federal Reserve, partially enabled and propped in the global markets by the illusion of a strong U.S. economic recovery and rebound. That illusion also is behind the strong showing of the U.S. Dollar, which has distorted other financial markets, massively. A key factor behind the plunge in oil prices and weakness in the prices for precious metals, the rallying dollar also has been a major prop for the domestic stock market. Again, the economy has not and is not recovering, it has not "risen from recession," and actual economic growth really is not the headlined "strongest growth in more than a decade," despite the happy pronouncements of the President.

As the underlying reality of no economic boom and no economic recovery gains broader market recognition, the U.S. dollar should come under heavy selling pressure, boosting prices for oil and precious metals and pummeling equity markets in the year ahead. This year also should be one of extraordinary and generally negative financial-market volatility, a year open to a variety of systemic shocks, ranging from economic and financial disasters to domestic and global political turmoil. Some of elements of economic reality are addressed in the next section. Full discussion follows in the *Special Commentary*.

Some Measures of Economic Reality. Separate from the government's official reporting, ShadowStats has covered some independent indicators of the economy that suggest not all is booming along as advertised. Discussed in *Commentary No. 668*, for example, actual business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis (BEA) in putting together the overstated, headline third-quarter GDP growth estimate of 5.0%—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 and no current economic boom (see *Commentary No. 672*).

Happy claims of jobs creation in the payroll employment survey have various twists and turns, well beyond the excessive upside biases that get added into the monthly reporting. For example, much of the headline growth in payroll employment, which has regained its pre-recession levels, has been in people taking on multiple jobs, usually at least one part-time, in order to try to make ends meet. From the household survey side, full-time employment is significantly shy of recovering its pre-2007 recession high, while the number of those working part-time for economic reasons, unable to find a job, has increased sharply during the ongoing recession, as discussed in *Commentary No. 674* and *Commentary No. 686*. Unemployment issues are addressed in the upcoming graphs

ShadowStats contends that the U.S. economy never recovered from it plunge into 2009 and that current activity is flat or in renewed downturn, as demonstrated in the accompanying series of graphs (*Graph 1* to *8*), as discussed in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, and as covered in *Commentary No. 684*. A primary, underlying fundamental reason for the lack of economic recovery is covered in the *Consumer Conditions and Liquidity* section, including *Graphs 9* to *11*.

The full economic recovery indicated by the headline real GDP numbers remains an illusion. It is a statistical illusion created by using too-low a rate of inflation in deflating (removing inflation effects) from the GDP series. The first two graphs tell that story, reflecting headline third-quarter 2014 GDP.

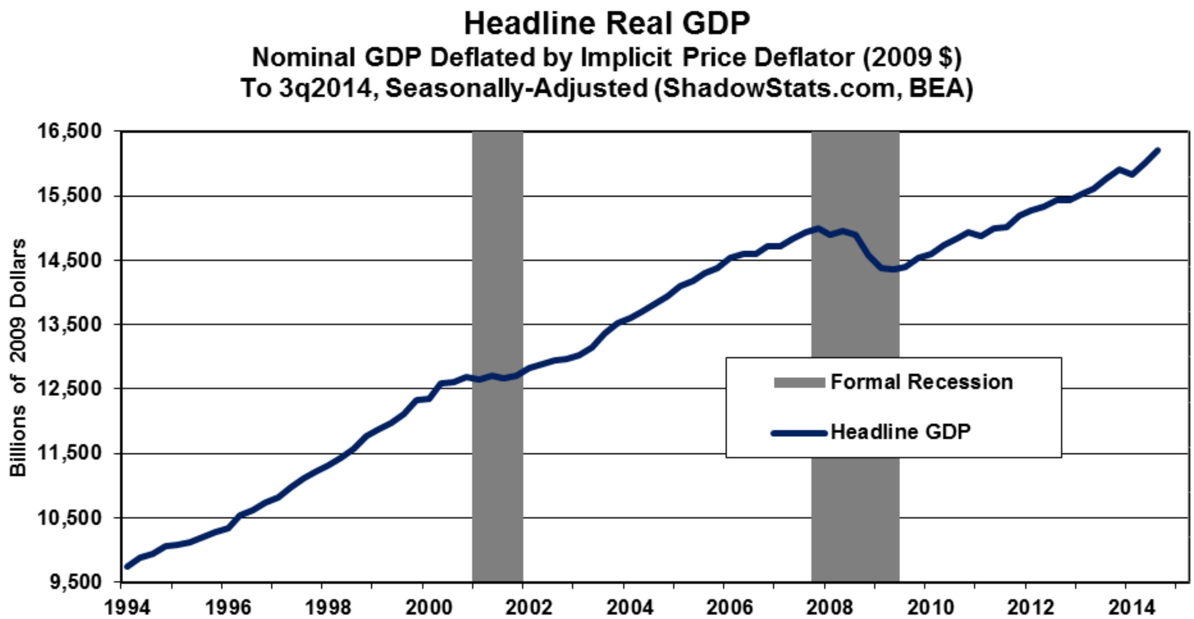
Graph 1 shows the level of headline real (inflation-adjusted) GDP activity as reported by the BEA, where the shaded areas reflect formally-recognized periods of recession. Headline GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011, and headline GDP has shown sustained growth ever since (with the exception of a growth interruption in first-quarter 2014). Adjusted for official GDP inflation (the implicit price deflator), the level of third-quarter 2014 GDP currently now stands at 8.1% above the pre-recession peak-GDP estimate of fourth-quarter 2007.

In contrast to the headline economic plunge-and-recovery of *Graph 1*, the “corrected” GDP version in *Graph 2* shows the ShadowStats contention of plunge-and-stagnation in the economy, with third-quarter 2014 GDP activity down by 6.2% (-6.2%) from its pre-recession peak of first-quarter 2006.

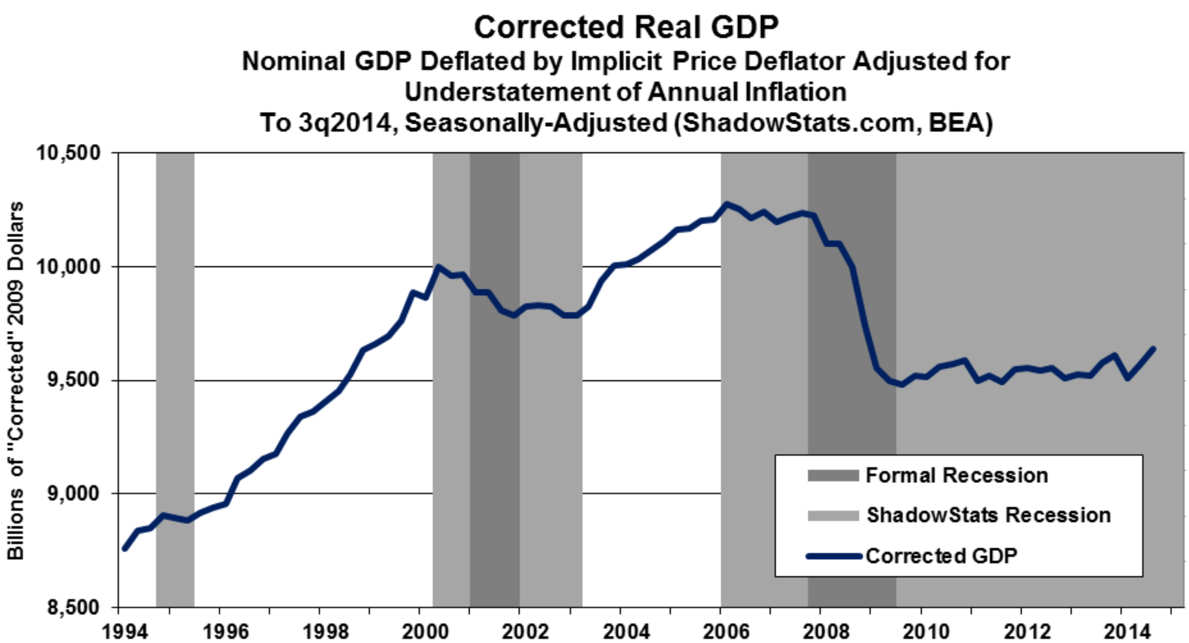
The second graph plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates (see *Public Commentary on Inflation Measurement*), with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation. The inflation understatement has resulted from hedonic-quality adjustments, as discussed in the *Hyperinflation Reports*. The shaded areas in the “corrected” graph reflect official as well as ShadowStats-defined recessions, again as discussed in detail in the second installment of the *Hyperinflation Report.*

Graphs 3 to *8* cover various indicators that tend to support the ShadowStats version of the "corrected" GDP, versus the headline GDP, with high visual correlations in some instances, or otherwise reflecting major negative contributors specific to the current economic down-cycle, such as housing starts, which hit the economy hard as early as 2006.

Graph 1: Headline Real GDP (1994 - 2014)

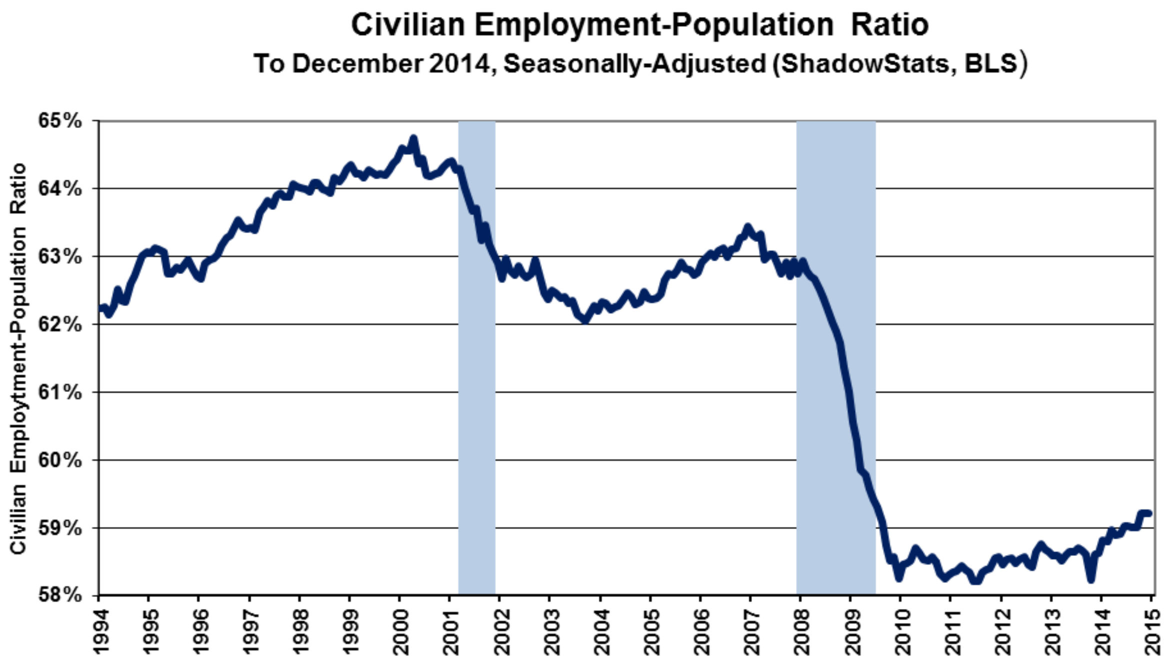


Graph 2: Real GDP Corrected for Inflation-Understatement in Official Real GDP (1994 - 2014)

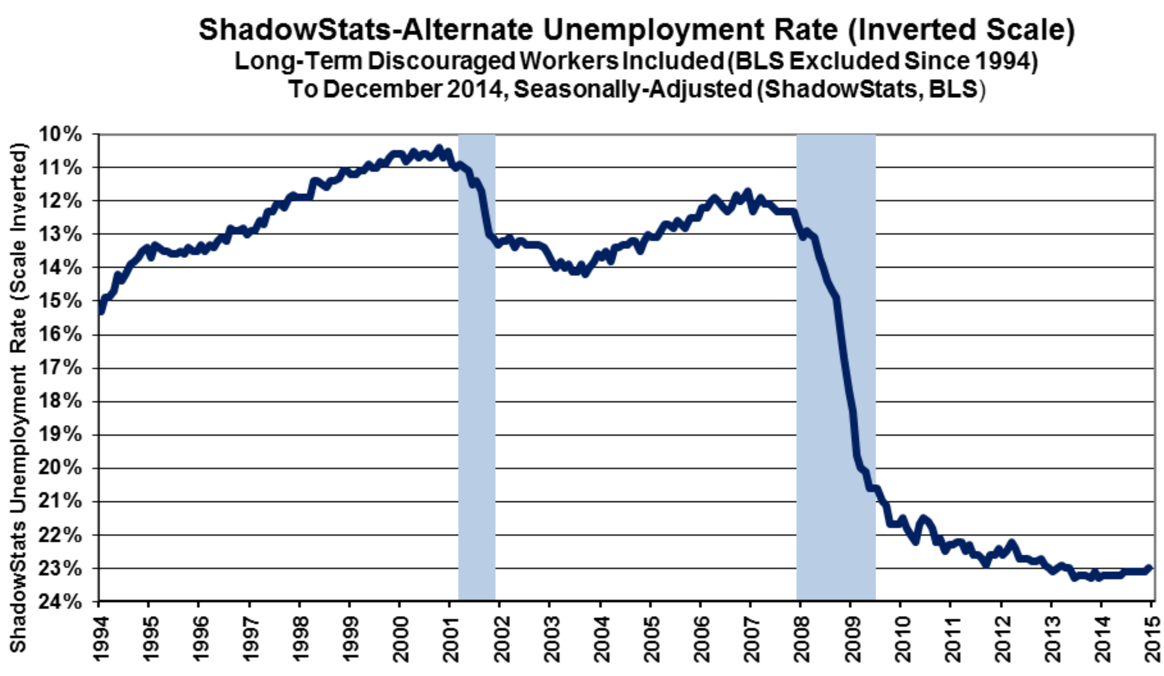


Graphs 3, *4* and *5* reflect indications of broad unemployment activity, as discussed in *Commentary No. 686*. *Graph 4* is an inverted plot of the ShadowStats Alternate Unemployment Measure, which encompasses long-term discouraged workers not counted by the Bureau of Labor Statistics (BLS) in U.3 or U.6. The rising count of those discouraged workers is highly correlated with both the employment-to-population ratio (*Graph 3*) and the labor force (U.3) participation rate (*Graph 5*).

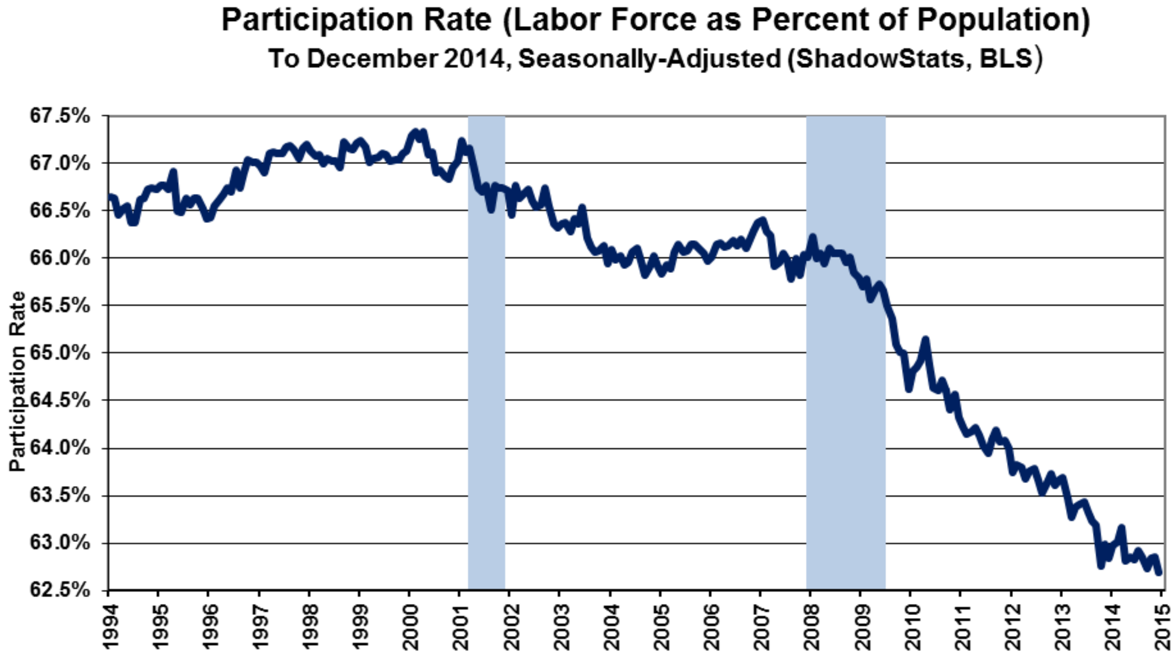
Graph 3: Civilian Employment-Population Ratio (1994 - 2014)



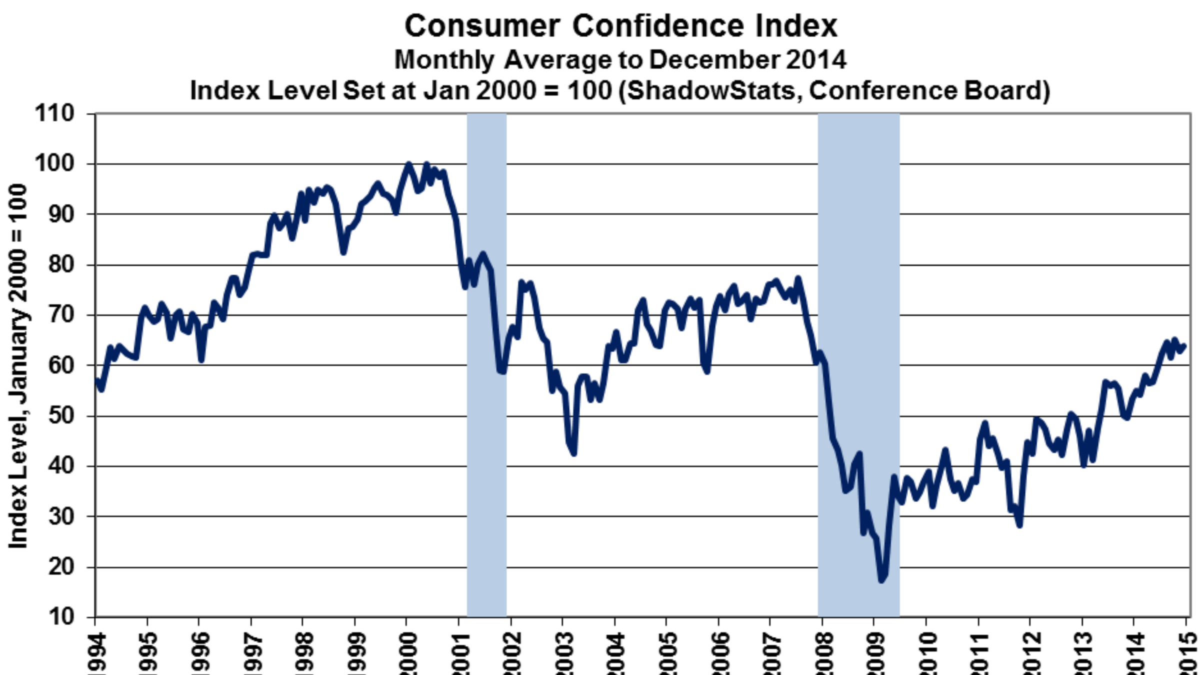
Graph 4: ShadowStats-Alternate Unemployment Rate—Inverted Scale (1994 - 2014)



Graph 5: Labor Force Participation Rate (1994 - 2014)

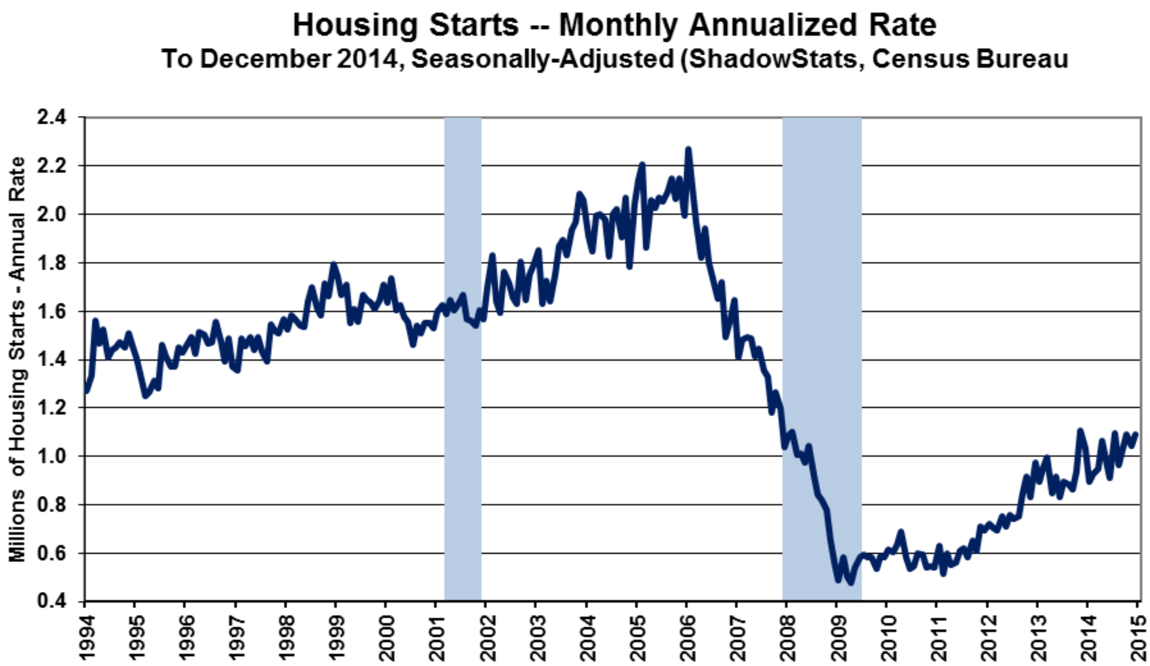


Graph 6: Consumer Confidence Index (1994 - 2014)

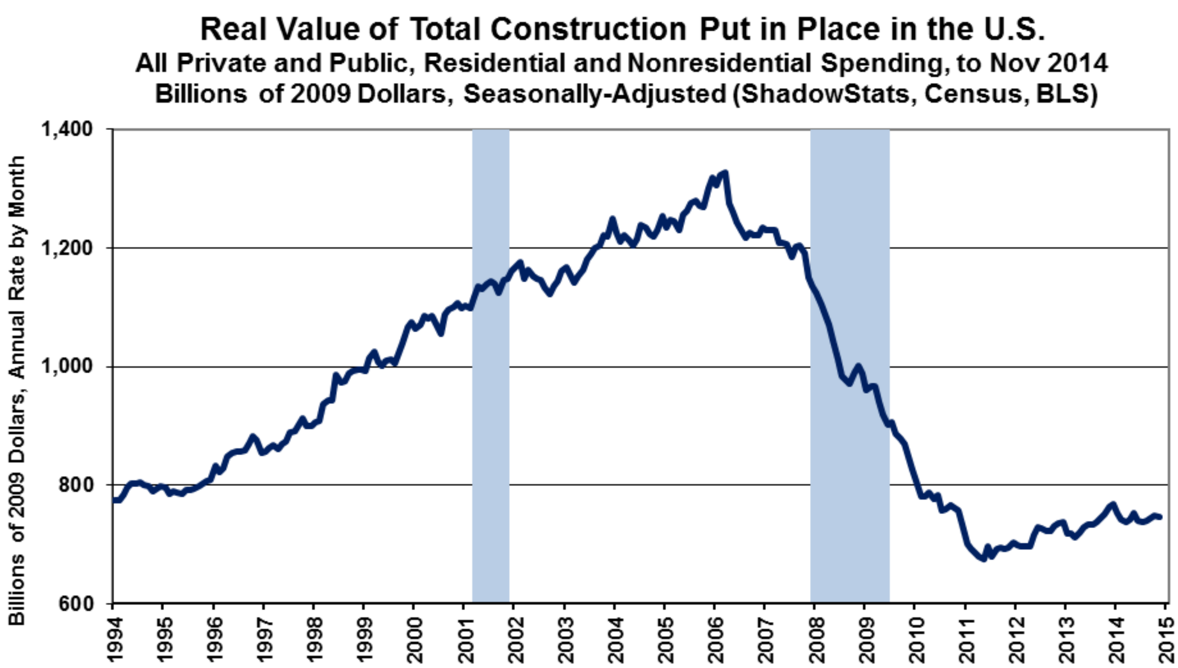


Discussed in the *Consumer Conditions and Liquidity* section, current consumer confidence levels (*Graph 6*) are not consistent with either an economic recovery or a current economic boom. A collapse in construction activity (*Graphs 7* and *8)* was a major contributing factor to the general economic collapse into 2008. These major contributors to and indicators of broad-based economic activity have not recovered. For factors such as retail sales and industrial production see *Commentary No. 688*.

Graph 7: Housing Starts (1994 - 2014)



Graph 8: Real Value of Construction Put in Place in U.S. (1994 - 2014)



Consumer Conditions and Liquidity Issues Are Preventing a Return to Normal Economic Activity. Impaired consumer liquidity, and its direct restraints on consumption, have dominated the last eight-plus years of economic turmoil, constraining retail sales activity and the related dominant personal-consumption-expenditures category of the GDP, as well as driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity. Those sectors alone account for more than 70% of GDP activity.

Discussed frequently in these *Commentaries*, 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 sustainable growth in inflation-adjusted personal consumption, let alone real growth in housing (the headline economic series in today's missive).

Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a fundamental upturn in consumer- and banking-liquidity conditions.

Consider the next three graphs. The first two plots of monthly real median household income through November 2014 (*Graph 9*), as reported by www.SentierResearch.com, and the Conference Board's monthly consumer confidence measure through December 2014 (*Graph 10*), are ones that have been shown regularly in the ShadowStats *Commentaries*. The third graph of household sector, real credit market debt outstanding through third-quarter 2014 (*Graph 11*) is a new chart, supplementing the usual monthly plot of consumer credit outstanding. This is adjusted for CPI-U inflation and includes consumer debt of all forms, including credit-card debt, mortgages, auto loans, and government held student loans among other categories. The detail comes from the Federal Reserve's quarterly flow-of-funds reporting.

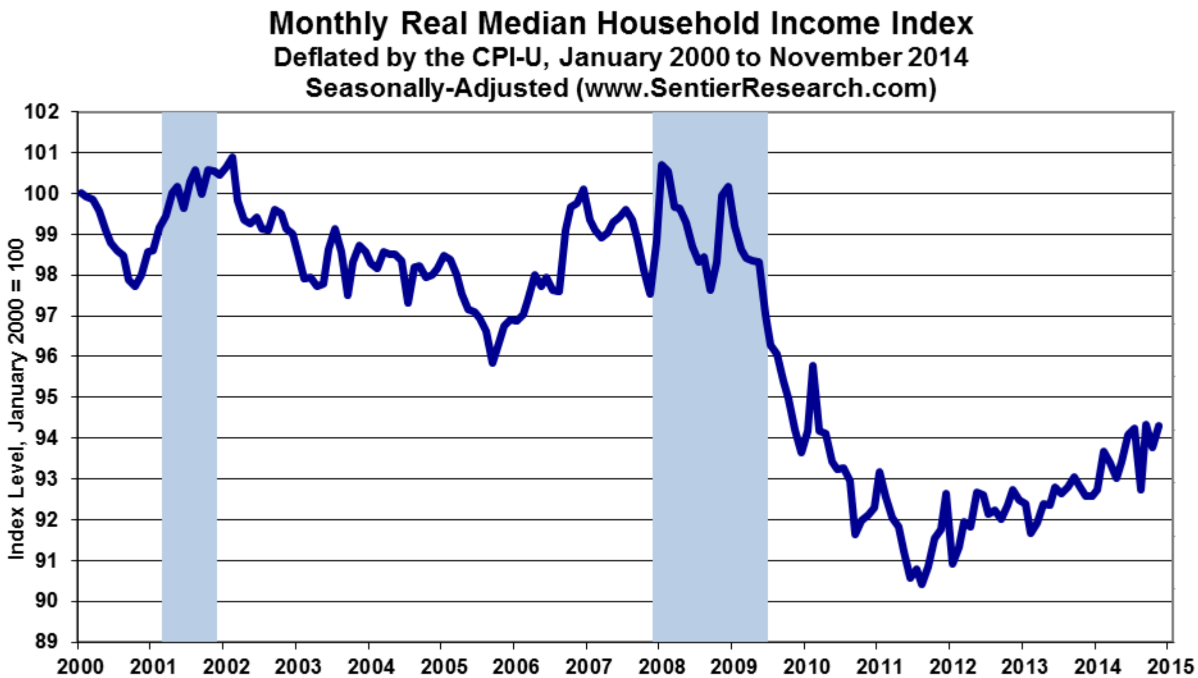
Real Median Household Income (*Graph 9*) showed continued, low-level stagnation through November 2014, still remaining near its cycle low, despite some recent up-trending in month-to-month volatility. When headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows.

Deflated by headline CPI-U, the same series published by the Census Bureau on an annual basis confirmed that 2013 annual real median household income continued to hold at a low level of activity. In historical perspective, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy. Further discussion of these issues is found in the two installments of the *2014 Hyperinflation Report*, linked earlier and in *Commentary No. 658*. The issues also will be further explored in the *Special Commentary*.

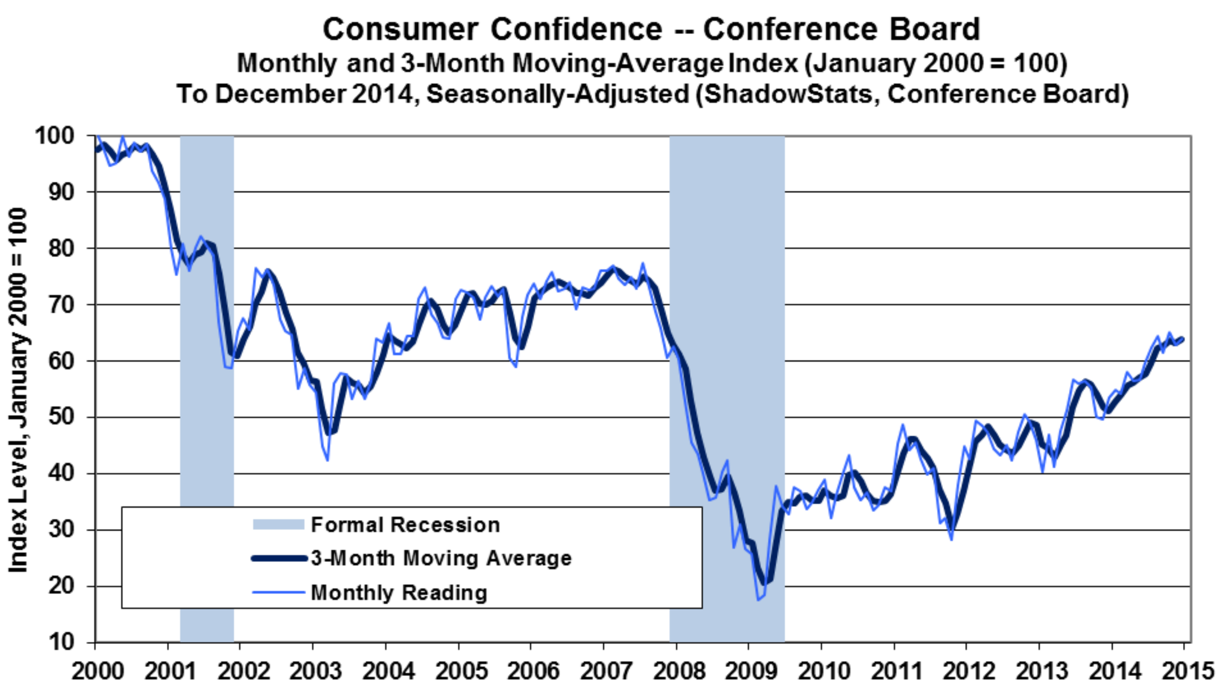
The Consumer Confidence Index (*Graph 10*) has trended higher recently, but it remains at a level still seen typically in recessions. As suggested in *Graph 6*, and as plotted for the last 40 years in *Commentary No. 680*, the latest reading of consumer confidence has not recovered levels that preceded any of the formal recessions of the last 40 years, and generally remains well below, or is inconsistent with, periods of historically-strong economic growth that would rival recent headline GDP gains.

Household Sector, Real Credit Market Debt Outstanding (*Graph 11*) declined in the period following the Panic of 2008, and it has not recovered. The level of debt outstanding has remained stagnant for several years, reflecting among other issues, lack of normal lending by the banking system into the regular flow of commerce.

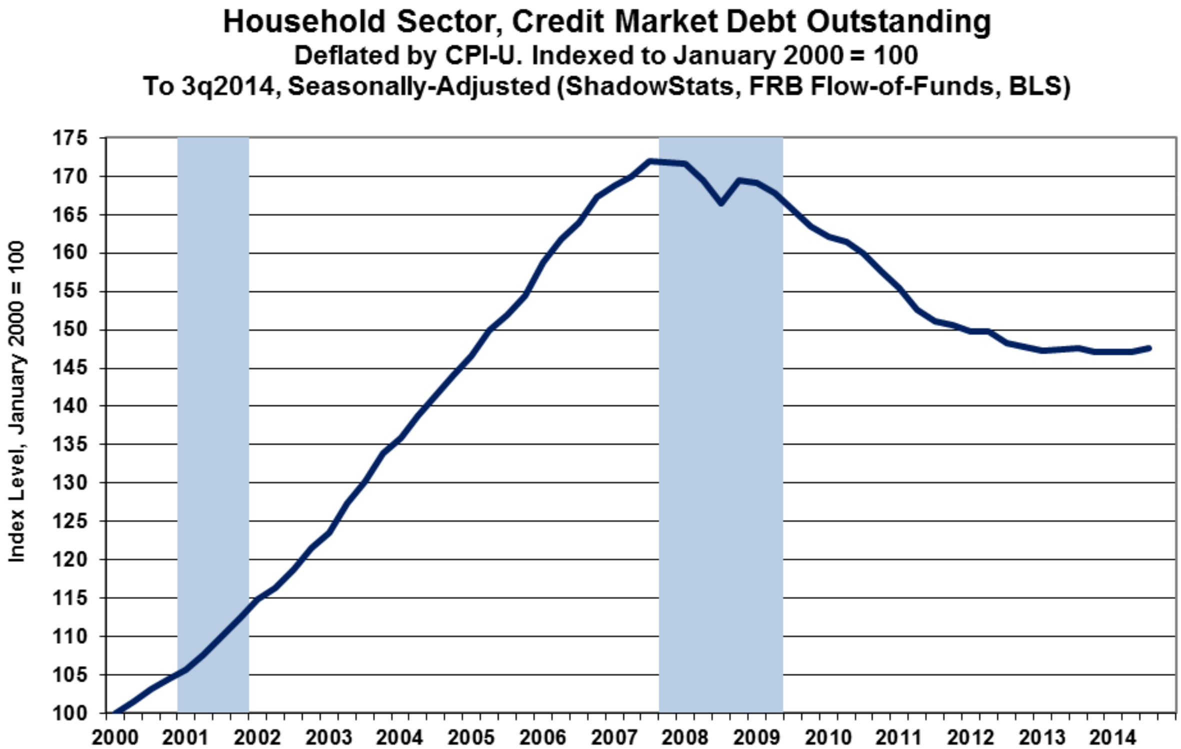
Graph 9: Monthly Real Median Household Income (2000 - 2014)



Graph 10: Consumer Confidence (2000 - 2014)



Graph 11: Household Sector, Real Credit Market Debt Outstanding (2000 - 2014)



Again, without real growth in income and/or debt expansion, and with consumer confidence still at a level consistent with a significant portion of consumers signaling financial stress, there has been no basis for a sustainable economic expansion since the Panic of 2008, and there are no prospects for a recovery in the near future.

Today's Missive (January 21st). Beyond the *Opening Comments* on economic reality, today's (January 21st) *Commentary* concentrates on the detail from the December 2014 reporting of residential construction – housing starts. The *Week Ahead* section previews the reporting of December new orders for durable goods, new- and existing-home sales and the "advance" estimate of fourth-quarter 2014 GDP. It is not likely that the initial fourth-quarter 2014 GDP estimate would contradict the President's claim, last night, of strong growth in current economic activity.

Given the material pending in the *Special Commentary*, today's missive excludes the *Hyperinflation Summary* usually found in the *Hyperinflation Watch* section. The latest *Hyperinflation Summary* is found in *Commentary No. 684*; it will be updated post-*Special Commentary*.

Housing Starts—December 2014—Stagnation Continued: No Statistically-Significant Changes in Monthly or Annual Activity. In the context of upside revisions to November and October housing starts, the minimal 4.4% headline monthly gain in December 2014 was statistically-insignificant, as was the 5.3% year-to-year gain. These headline changes in activity continue to be nonsense. The monthly data are unstable and unreliable, best viewed minimally in the context of an extended period, as shown in the long-range historical graph of aggregate activity at the end of the *Reporting Detail* section (*Graph 20*), and in the context of activity smoothed by six-month moving averages, as shown here in accompanying *Graphs 14*, *16* and *18*.

No Economic Rebound. Reflecting the patterns in the smoothed graphs, the aggregate housing-starts series continued in broad stagnation in December (see *Graph 14*, also *Graph 7*), dominated, as usual, by the personal housing sector, single-unit starts (*Graph 16*). Although there has been a minor upside trend in the aggregate series, total housing-starts activity has remained well below any recovery level. The bulk of the extreme reporting instability and the minimal uptrend in the aggregate series have been due largely to the particularly-volatile reporting in the multiple-unit housing-starts category (apartments, etc.). Where recent activity in multiple-unit starts actually recovered into the general range of pre-recession activity, that process appears to have topped out, with those starts heading lower in monthly reporting, but holding steady on a six-month moving-average basis (see *Graphs 17* and *18*). Still, the impact of the recovery in multiple-unit activity largely is lost in the detail of total housing starts.

On a per structure basis, activity in multiple-units starts remained 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 (see *Graph 12*). The private housing sector never recovered from the business collapse of 2006 into 2009, again, as seen in *Graph 16*. 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 the consumer liquidity issues discussed and graphed in the prior section on *Consumer Conditions and Liquidity Issues*.

December 2014 Housing-Starts Headline Reporting. Headline December housing starts showed a statistically-insignificant, seasonally-adjusted monthly gain of 4.4%. That followed a revised decline of 4.5% (-4.5%) in November, and a revised 6.2% gain in October. Net of prior-period revisions, the headline December change was a still-statistically-insignificant 5.9% monthly gain.

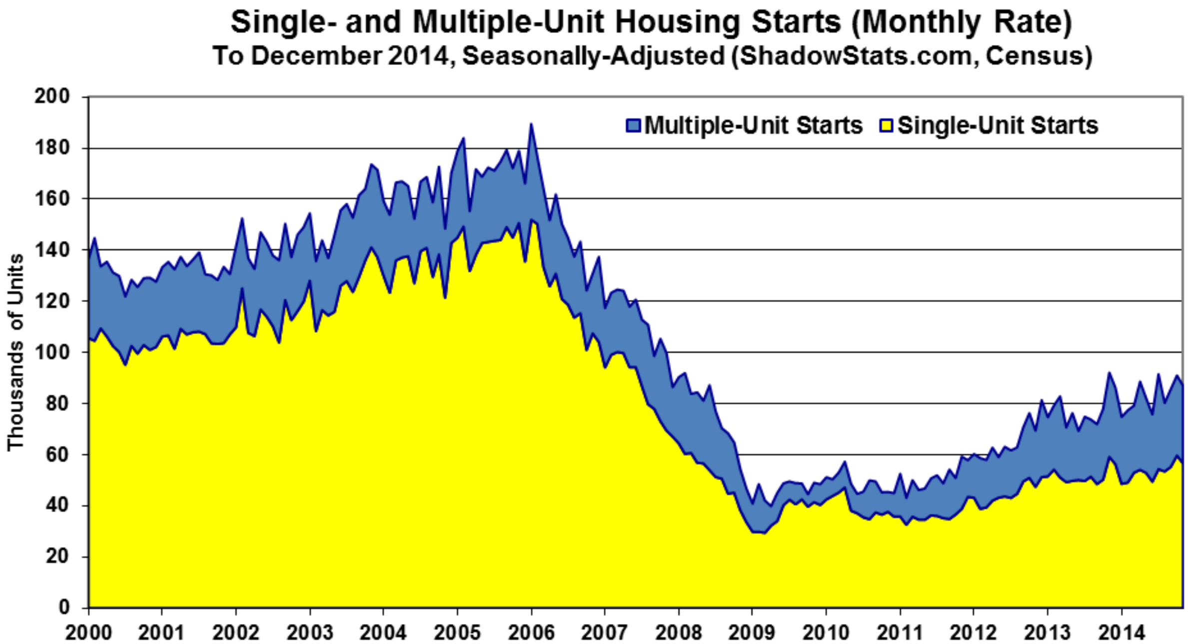
Year-to-year change in the seasonally-adjusted, aggregate December 2014 housing-starts measure was a statistically-insignificant gain of 5.3%, versus a revised November contraction of 5.6% (-5.6%), and a revised gain of 16.7% in October.

The headline December monthly gain of 4.4% was dominated by a headline monthly gain of 7.2% in the "one unit" category, with a decline of 4.2% (-4.2%) in the "five units or more" category, but neither of the latter monthly changes 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 December rose month-to-month by a statistically-insignificant 7.2%, following a revised decline of 5.2% (-5.2%) in November and an unrevised 8.0% gain in October. A statistically-insignificant December 2014 year-to-year gain of 7.9%, followed a revised decline of 4.4% (-4.4%) in November and an unrevised 18.7% gain in October.

Graph 12: Single- and Multiple-Unit Housing Starts (2000-2014)



Housing starts for apartment buildings (generally 5-units-or-more) in December fell month-to-month by a statistically-insignificant 4.2% (-4.2%), following revised decline of 1.4% (-1.4%) in November, and a 1.7% gain in October. December's year-to-year gain of 0.3% also was statistically insignificant, following a revised November decline of 8.3% (-8.3%), and a revised gain of 11.4% in October.

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.

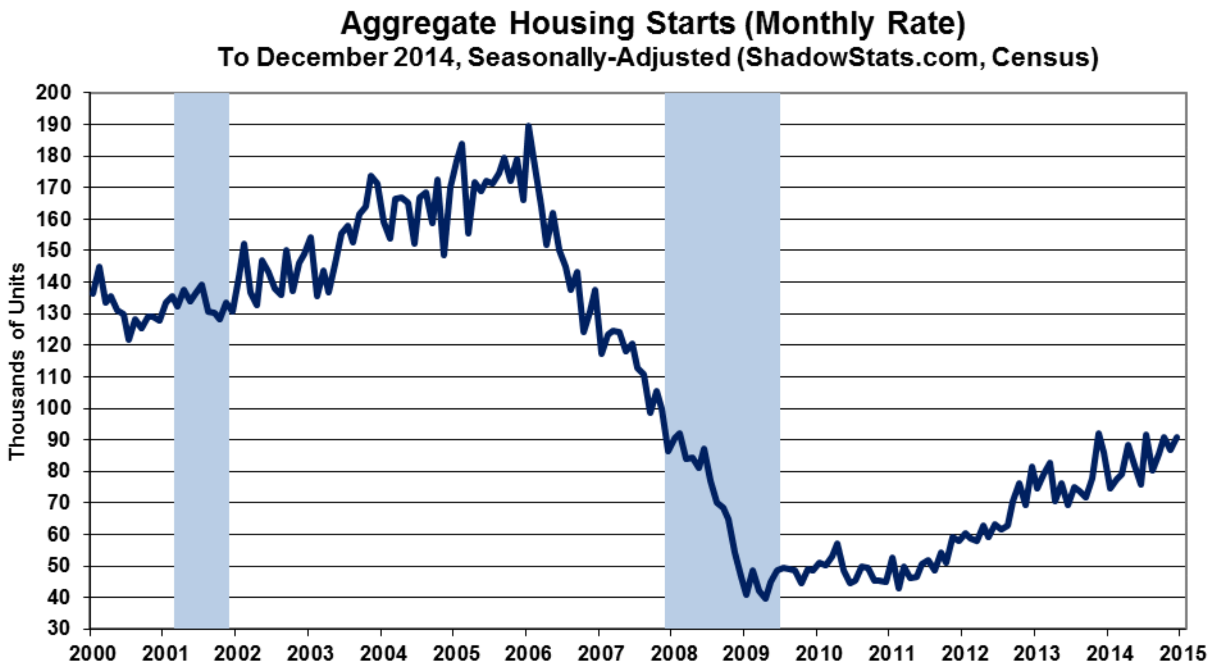
Accordingly, the statistically-insignificant December 2014 monthly gain of 4.4% in aggregate housing starts was composed of a statistically-insignificant gain of 7.2% in one-unit structures category, combined with a statistically-insignificant monthly decline of 0.8% (-0.8%) in the multiple-unit structures category (2-units-or-more, including the 5-units-or-more category).

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

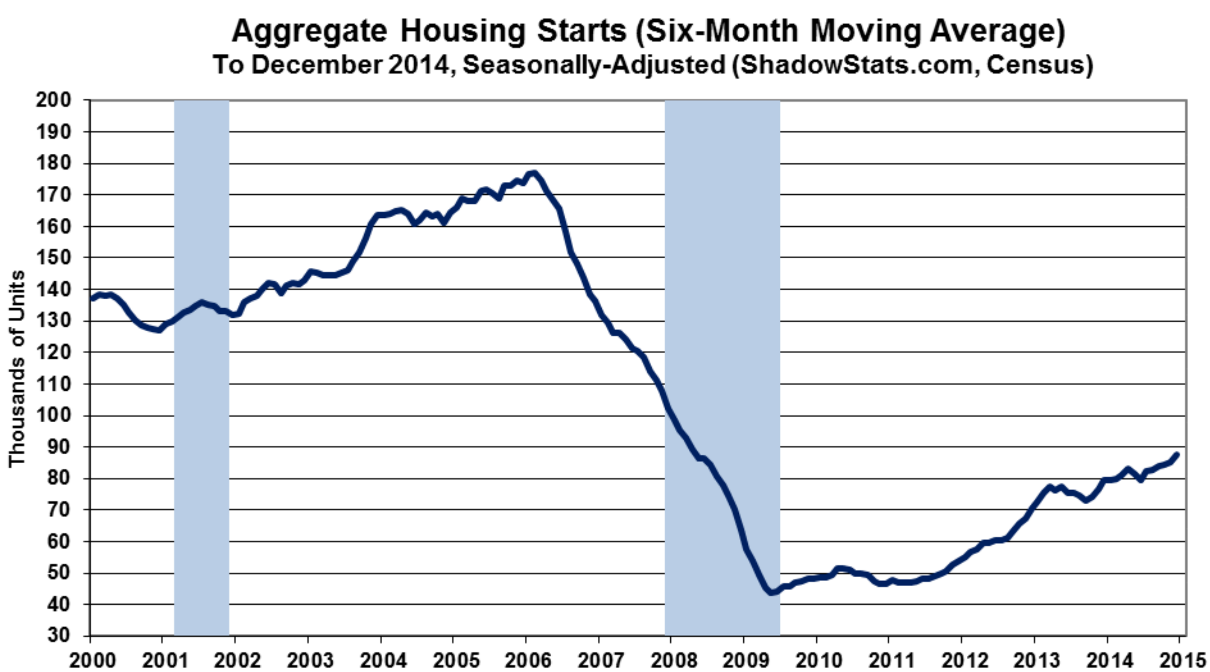
Looking beyond the irregular and large month-to-month headline variations, the smoothed graphs (using six-month moving averages) generally show a broad pattern of economic plunge into 2009 followed by stagnation, not the purported economic recovery as shown with the GDP (see *Commentary No. 684*). This is true of the aggregate housing starts series (*Graphs 13* and *14)* and its dominant component of single-unit housing starts (*Graphs 15* and *16)*. The more volatile multiple-unit housing starts series

(*Graphs 17* and *18)* has recovered its pre-recession high, but it appears to have topped out, turning down once again. Further description follows the graphs.

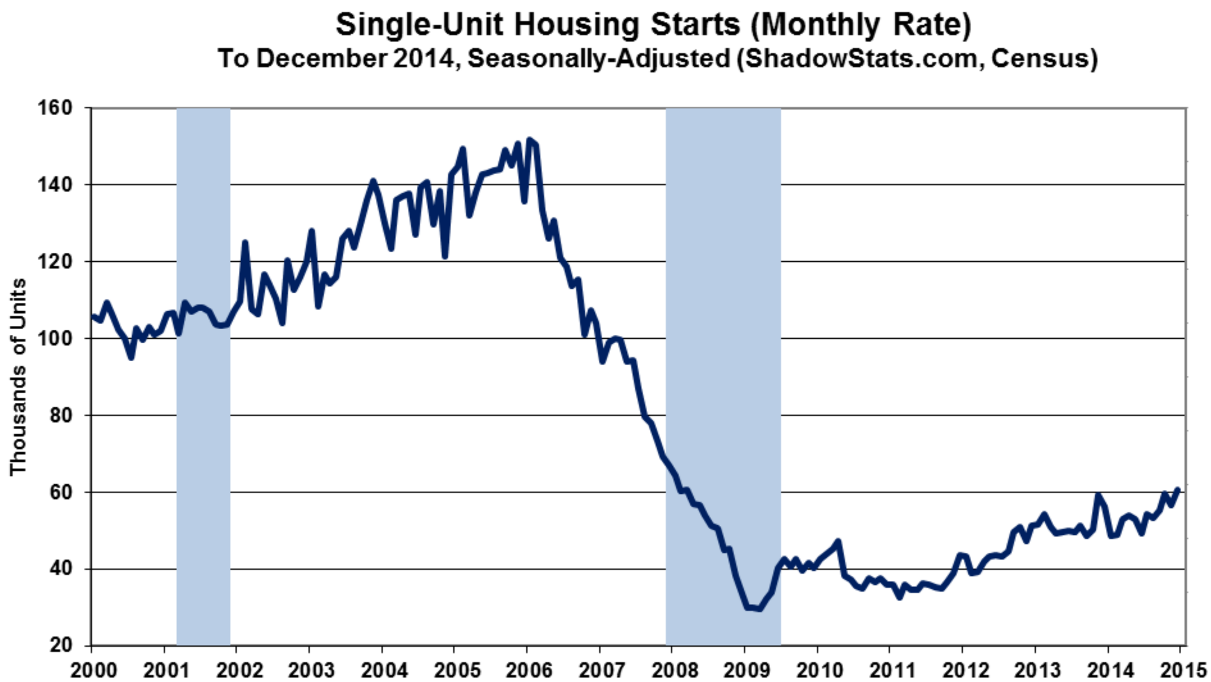
Graph 13: Aggregate Housing Starts (2000-2014)



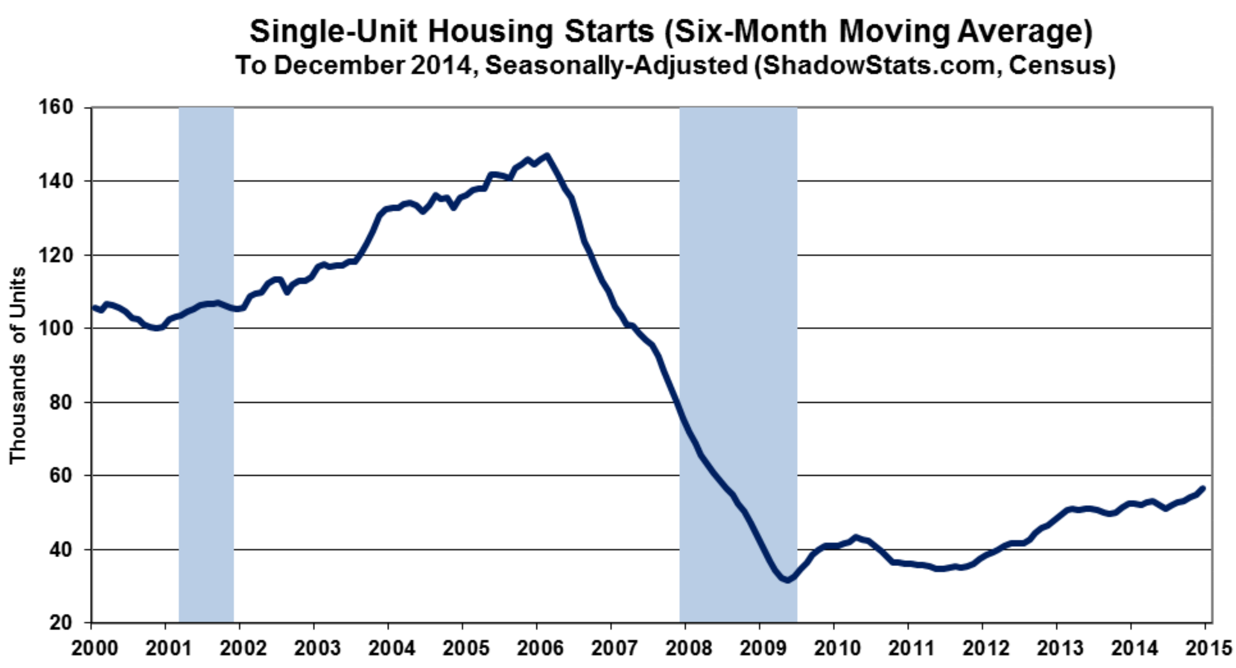
Graph 14: Aggregate Housing Starts, Six-Month Moving Average



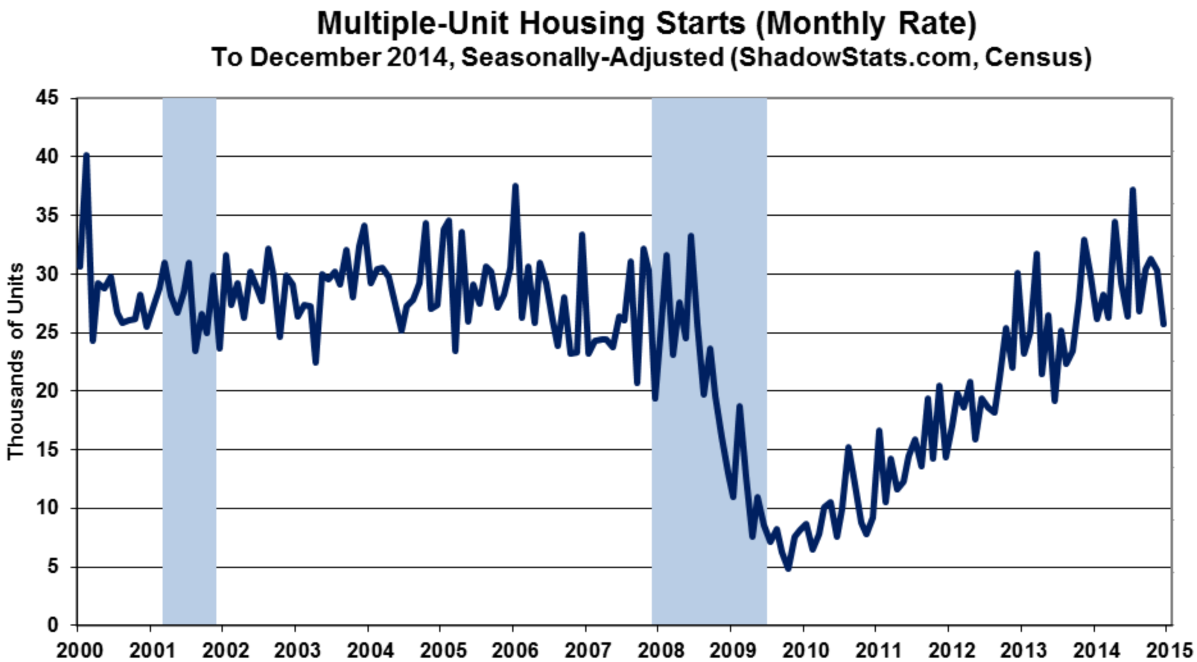
Graph 15: Single-Unit Housing Starts (2000-2014)



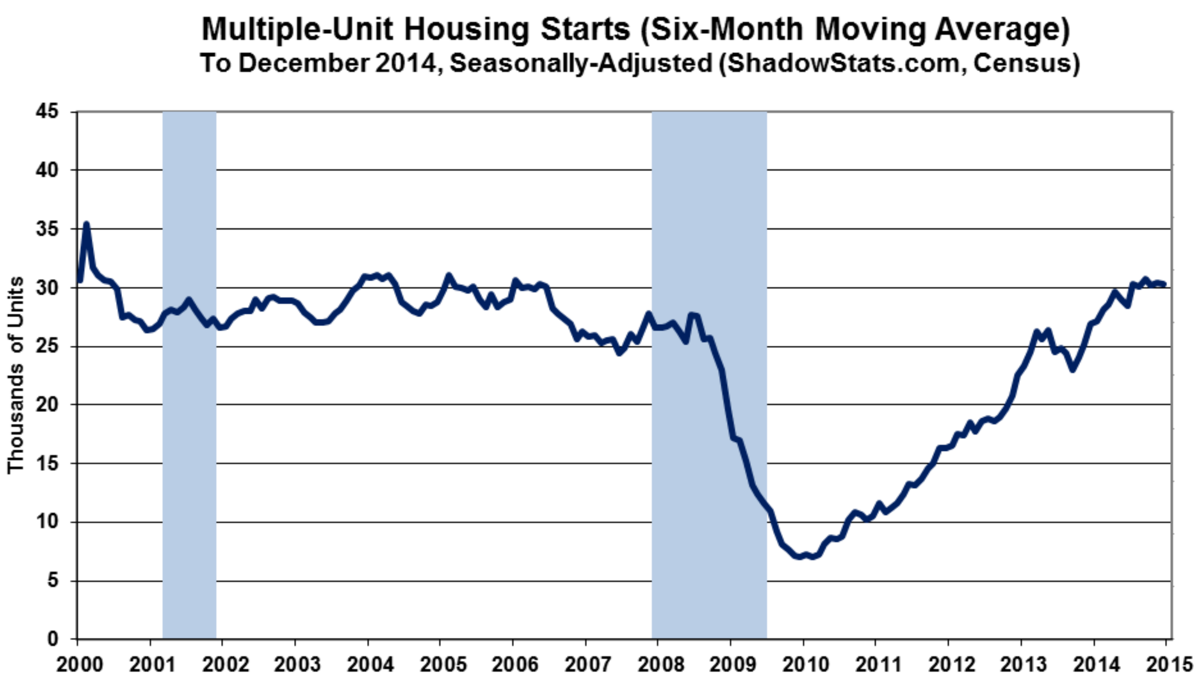
Graph 16: Single-Unit Housing Starts, Six-Month Moving Average



Graph 17: Multiple-Unit Housing Starts (2000-2014)



Graph 18: Multiple-Unit Housing Starts, Six-Month Moving Average



Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,089,000 in December 2014, versus a revised 1,043,000 (previously 1,028,000) in November 2014, and a revised 1,092,000 (previously 1,045,000, initially 1,009,000) in October. 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, for example, 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 90,750 in December 2014, instead of the annualized 1,089,000 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 December 2014 headline number was up by 128%, but it still was down by 52% (-52%) 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 20* in the *Reporting Detail* section).

[Further background material on December Housing Starts is included the* Reporting Detail. *Various drill-down and graphics options on the headline Residential Construction data also are available to subscribers at our affiliate:* www.ExpliStats.com*].

HYPERINFLATION WATCH

Hyperinflation Outlook Summary. This sub-section will be updated post-*Special Commentary*. See *Commentary No. 684* for the last version of the *Hyperinflation Summary*.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION—HOUSING STARTS (December 2014)

Nothing Here is Statistically Meaningful. In the context of upside revisions to November and October housing starts, the minimal 4.4% headline monthly gain in December 2014 was statistically-insignificant, as was the 5.3% year-to-year gain. These headline changes are worthless and nonsensical. Perhaps the Census Bureau could shift to quarterly releases and offer detail with some meaning in its reports. Given the headline numbers, as released, the monthly data are unstable and unreliable, best viewed minimally in the context of an extended period, such as shown in the long-range historical graph of aggregate activity at the end of this section (*Graph 20*), and in the context of activity smoothed by six-month moving averages, as shown in *Graphs 14, 16* and *18,* in the *Opening Comments* section.

Ongoing Stagnation and No Economic Rebound. Reflecting the patterns in those smoothed graphs in the *Opening Comments*, the aggregate housing-starts series continued in broad stagnation in December (see *Graph 14*, also *Graph 7*), dominated, as usual, by the personal housing sector, single-unit starts, in *Graph 16*. Although there has been a minor upside trend in the aggregate series, total housing-starts activity has remained well below any recovery level. The bulk of the extreme reporting instability and the minimal uptrend in the aggregate series have been due largely to the particularly-volatile reporting in the multiple-unit housing-starts category (apartments, etc.). Where recent activity in multiple-unit starts actually recovered into the general range of pre-recession activity, that process appears to have topped out, with those starts heading lower in monthly reporting, but holding steady on a six-month moving-average basis (see *Graphs 17* and *18*). Still, the impact of the recovery in multiple-unit activity largely is lost in the detail of total housing starts.

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 (see *Graph 12*). The private housing sector never recovered from the business collapse of 2006 into 2009, again, as seen in *Graph 16* 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 the consumer liquidity issues discussed and graphed in *Consumer Conditions and Liquidity Issues* in the *Opening Comments* section.

Fourth-Quarter Growth Slowed Minimally versus Third-Quarter. Separately, based on the upwardly revised October and November numbers, and headline December 2014 activity, fourth-quarter 2014 housing starts growth slowed minimally versus third-quarter growth. On an annualized quarter-to-quarter basis, initial fourth-quarter 2014 housing starts were up by 18.7%, versus 19.2% annualized quarterly growth in third-quarter activity, up by 28.8% in the second-quarter, and down at annualized pace of 33.7% (-33.7%) in first-quarter 2014.

December 2014 Housing-Starts Headline Reporting. The Census Bureau reported today, January 21st, a statistically-insignificant, seasonally-adjusted headline monthly gain of 4.4% +/- 13.7% (all such confidence intervals are at the 95% level). That followed a revised decline of 4.5% (-4.5%) [previously down by 1.6% (-1.6%)] in November, and a revised 6.2% gain [previously a gain of 1.7%, initially a decline of 2.8% (-2.8%)] in October. Net of prior-period revisions, the headline December change was a still-statistically-insignificant 5.9% monthly gain.

Year-to-year change in the seasonally-adjusted, aggregate December 2014 housing-starts measure was a statistically-insignificant gain of 5.3% +/- 14.9%, versus a revised November contraction of 5.6% (-5.6%) [previously down by 7.0% (-7.0%)], and a revised gain of 16.7% [previously up by 10.9%, initially up by 7.8%] in October.

The headline December monthly gain of 4.4% was dominated by a headline monthly gain of 7.2% in the "one unit" category, with a decline of 4.2% (-4.2%) in the "five units or more" category, but neither of the latter monthly changes 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 December rose month-to-month by a statistically-insignificant 7.2% +/- 12.4%, following a revised decline of 5.2% (-5.2%) [previously down by 5.4% (-5.4%)] in November, and an unrevised 8.0% [initially 4.2%] gain in October. A statistically-insignificant December 2014 year-to-year gain of 7.9% +/- 14.5%, followed a revised decline of 4.4% (-4.4%) [previously down by 4.6% (-4.6%)] in November, and an unrevised 18.7% [initially 15.4%] gain in October.

Housing starts for apartment buildings (generally 5-units-or-more) in December fell month-to-month by a statistically-insignificant 4.2% (-4.2%) +/- 26.3%, following revised decline of 1.4% (-1.4%) [previously up by 7.6%] in November, and a 1.7% gain [previously a monthly contraction of 10.5% (-10.5%), initially down by 15.5% (-15.5%)] in October. December's year-to-year gain of 0.3% +/- 32.6% also was statistically insignificant, following a revised November decline of 8.3% (-8.3%) [previously down by 11.9% (-11.9%)], and a revised gain of 11.4% [previously a decline of 1.9% (-1.9%), initially down by 6.8% (-6.8%)] in October.

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.

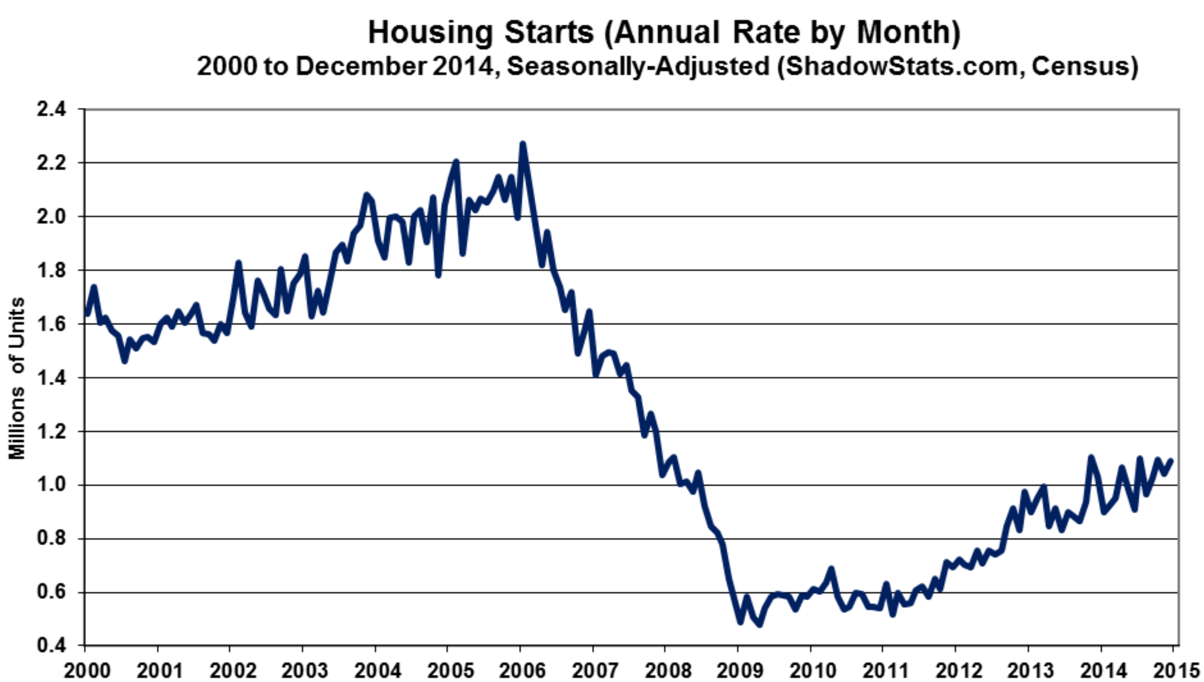
Accordingly, the statistically-insignificant December 2014 monthly gain of 4.4% in aggregate housing starts was composed of a statistically-insignificant gain of 7.2% in one-unit structures housing starts, combined with a statistically-insignificant monthly decline of 0.8% (-0.8%) in the multiple-unit structures category (2-units-or-more, including the 5-units-or-more category). Again, these series are graphed in the *Opening Comments* section.

Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,089,000 in December 2014, versus a revised 1,043,000 (previously 1,028,000) in November 2014, and a revised 1,092,000 (previously 1,045,000, initially 1,009,000) in October. Those annualized numbers are reflected in the detail of the scales in the accompanying *Graphs 19* and *20*.

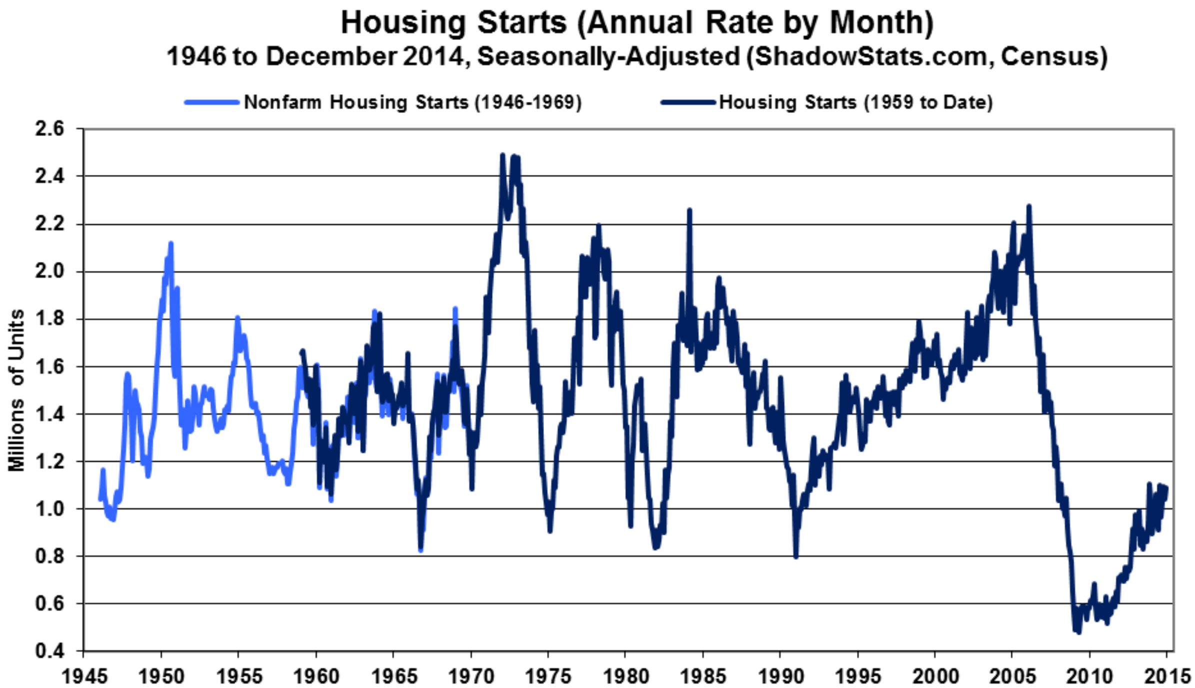
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series—such as seen, for example, with the annualized headline level of 963,000 units in August 2014, versus the 1,098,000 units in July—the magnitude of monthly 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 90,750 in December 2014, instead of the annualized 1,089,000 headline number, is used in the scaling of the series of graphs (*Graphs 12* to *18*) 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.

Graph 19: Aggregate Housing Starts (2000-2014)



Graph 20: Aggregate Housing Starts (1946-2014)



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 December 2014 headline number was up by 128%, but it still was down by 52% (-52%) from the January 2006 series high. Shown in the historical perspective of the post-World War II era (see the accompanying *Graph 20*), current activity is trending stagnant at levels that otherwise have been at the historical troughs of recession activity of the last 70 years.

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WEEK AHEAD

Against Overly-Optimistic Expectations, Economic Releases and Revisions in the Months Ahead Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger after the Impact of Temporary Oil-Price Declines. Shifting some to the upside, again, from the downside, amidst wide fluctuations in the numbers, market expectations for business activity remain overly optimistic in the extreme. They exceed any potential, underlying economic reality. Downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting should hammer those expectations in the next several months. Recent GDP excesses, however, will not face downside revisions until the July 30, 2015 benchmark revision to that series (see *Commentary No. 684*).

Headline consumer inflation—dominated by gasoline and other oil-price related commodities—should hit a near-term bottom in the next two months. Significant upside inflation pressures should resume when oil prices begin their rebound, a process that should be accelerated rapidly by an eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in the pending *Special Commentary*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. Data instabilities were induced partially 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. The severity and ongoing nature of the downturn 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. Again, new issues tied to GDP reporting are discussed in the pending *Special Commentary* and in *Commentary No. 684*.

PENDING RELEASES:

Existing- and New-Home Sales (December 2014). December 2014 existing-home sales are due for release on Friday, January 23rd, from the National Association of Realtors, with the December 2014 new-home sales report due from the Census Bureau on Tuesday, January 27th. ShadowStats will cover both series in the planned January 27th regular *Commentary*.

Still impaired by the negative, fundamental pressures similar to those seen pummeling housing construction (see the *Consumer Conditions and Liquidity Issues* section in the *Opening Comments*), the outlook for home-sales activity remains bleak.

Recent negative trends in headline monthly reporting of existing-home sales likely persisted in December, with flat-to-downside month-to-month activity.

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

Both the new- and existing- home sales series increasingly should reflect downside instabilities in their respective headline activity.

New Orders for Durable Goods (December 2014). Reporting of December 2014 new orders for durable goods also is scheduled for Tuesday, January 27th, by the Census Bureau. Net of the irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of stagnation.

Aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. Accordingly, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity—is the activity in new orders, ex-commercial aircraft. Net of extreme volatility in commercial-aircraft orders of recent months, new orders have been reasonably stagnant and, again, should remain stagnant-to-down in the headline December reporting.

Gross Domestic Product—GDP (Fourth-Quarter 2014, "Advance" or First Estimate). The Bureau of Economic Analysis (BEA) will publish its first estimate of fourth-quarter 2014 GDP on Friday, January 30th. Following extremely-overstated, annualized quarterly real headline growth rates of 4.6% and 5.0%, respectively for second- and third-quarter GDP 2014, market expectations appear to be settling around a somewhat slower pace of 3.2% [Bloomberg] plus-or-minus, for the initial estimate of annualized quarterly real growth in fourth-quarter GDP.

The BEA already should have a fair sense of the pending, initial fourth-quarter GDP growth estimate. With President Obama touting that the nation has "risen from recession," last night (January 20th) in the State of the Union Address, the chances of a disappointing or bad GDP number being reported next Friday are nil.

The numbers are rigged. The White House likely got some guidance of the reporting from the BEA, or gave some guidance to the BEA on the needed GDP reporting parameters.

Otherwise, reporting risks generally would be to the downside of expectations, where underlying fundamentals suggest an even greater slowing in fourth-quarter growth versus consensus, to something on the plus-side of flat.

If the numbers are straight forward, the BEA literally will be guessing the growth rate with its initial estimate, where the Bureau still lacks full quarterly information on factors such as the trade deficit, inventories and construction spending. Unless it sees evidence for sharply higher or lower growth than the consensus outlook, it would tend to target the consensus outlook for the "advance" reporting. Accordingly, an initial estimate sharply above or below the consensus would tend to indicate where the BLS sees the revised reporting going, and would tend to signal the likely direction of the first revision.

In recent reporting, BEA revisions to the initial GDP estimate have been unusually volatile, signaling instabilities in the reporting system likely tied to the impact of the Affordable Care Act. The ACA is an economic depressant, not a stimulus, and it is not easily quantifiable, given the extremely poor-quality of the data available (discussion pending in *Special Commentary*). Again, other than for the happy signal from the President, nothing would be particularly surprising with the initial estimate of fourth-quarter growth. Discussed frequently by ShadowStats, the GDP remains the most-worthless, guessed-at, politically-manipulated and heavily-massaged of the major economic series put out by the various U.S. statistical bureaus.

Given the poor-quality of the broad economic data available, the year-end reporting tradition has been to delay the initial fourth-quarter estimates of Gross National Product (GNP) and Gross Domestic Income (GDI) until the second revision of the fourth-quarter GDP (March 27th). GDP is a component of the broader GNP measure, which includes the trade balance in factor income (interest and dividend payments), while GDP is the consumption-side equivalent to the income-side GDI.

