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

COMMENTARY NUMBER 728
May Housing Starts

June 16, 2015

Greater-Than-Expected Decline in May Housing Starts, but the Highly-Unstable Series Continued Its Smoothed Pattern of Low-Level Stagnation

Surge in May Building Permits Was Due Entirely to Distortions from Annualized Multiple-Unit Data in the Northeast

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PLEASE NOTE: The next regular Commentary, *scheduled for Thursday, June 18th, will cover the May Consumer Price Index (CPI) along with related reporting of Real Retail Sales and Earnings. Separately, a* Public Comment *on unemployment measurement is pending.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Housing Starts Were Weaker Than Expected. Likely to soften the second-quarter GDP outlook slightly, May 2015 housing starts declined more than expected, despite an upside revision to the headline surge in April activity. Smoothed for unstable monthly volatility, the broad series continued a pattern of stagnation at a low level of activity. Such was particularly evident with the single-unit starts, reflective of slack homeowner demand. The multiple-unit sector, primarily apartment buildings, also continued in a broad pattern of stagnation, but at levels close to pre-recession highs.

Heavily Distorted Surge in Building Permits. Due to data and definitional inconsistencies in the historical time series for building permits, ShadowStats usually concentrates on the housing-starts numbers from the Census Bureau's monthly report on residential construction. Headline May 2015 permits, however, surged by an unusually large monthly gain of 11.8%, drawing heavy media attention. Where building-permits activity usually leads housing-starts activity, such should not be the case here, due to distortions from the annualized numbers of multiple-unit permits in the Northeast.

Indeed, the entire headline monthly gain in building permits was due to a 103.1% surge in multiple-unit permits in that region. Without that surge, total permits were unchanged for the month. The permits jump likely came from a skyscraper in New York City or other large structures, where such units require multiple permits, and the multiple counts are annualized by the Census Bureau. That will not translate into an equivalent number of starts. To the extent that the actual structures are pre-existing or already "started," there would be no gain at all in multiple-unit housing starts from that permits surge.

Extended detail and specifics on May building permits and related residential construction are available at ShadowStats affiliate www.ExpliStats.com, through these links to graphs and data.

Today's Missive (June 16th). This relatively brief *Commentary* will be followed by one on Thursday, which, aside from covering the May CPI and related series, will update the GDP outlook for next week's pending third-revision to first-quarter GDP (June 24th), and prospects for second-quarter GDP reporting and the accompanying benchmark revision scheduled for July 30th. The balance of today's *Opening Comments* concentrates on the detail from the headline reporting of May 2015 housing starts.

The *Hyperinflation Outlook Summary* in the *Hyperinflation Watch* section is unchanged from the previous *Commentary*. The *Week Ahead* section provides a preview of Thursday's release of the Consumer Price Index (CPI).

Housing Starts—May 2015— Down for the Month, Activity Continued a Pattern of Broad Stagnation. In the context of an upside revision to surging April 2015 activity, May 2015 housing starts fell for the month by a larger-than-expected 11.1% (-11.1%). In this highly-unstable series, the headline May decline of 129,000 annualized housing starts offset 61% of the revised upside headline monthly gain of 211,000 starts in April (an actual monthly-rate decline of 10,750 starts in May offsetting 61% of the 17,583 monthly-rate gain in April). The housing-starts series remained wildly unstable and generally meaningless, in terms of month-to-month activity. It did continue, however, in its pattern of long-term, low-level stagnation, when viewed on a smoothed, six-month moving-average basis.

Quarterly Growth Rates. Reflecting only the unstable monthly levels of April and May 2015 reporting (versus just the initial April reporting), annualized quarterly growth rates in second-quarter 2015 would be 60.3% (previously 83.9%) for total housing starts, 40.1% (previously 67.1%) for single-unit starts, and 105.3% (previously 120.2%) for multiple-unit (two-or-more units, primarily apartment buildings). Those quarterly rates still should turn close to flat in next month's aggregate headline reporting for June 2015.

Smoothed Numbers. A general pattern of weakening stagnation continued in the series, as best viewed in terms of the longer-range historical graph of aggregate activity, seen at the end of the *Reporting Detail* section, and in the context of flat-to-down trending activity, smoothed by six-month moving averages, as shown in the accompanying graphs of this section.

Reflected in those smoothed graphs, the aggregate housing-starts series ticked minimally higher in May, reflecting parallel movements in both the single-unit and multiple-unit starts categories. Although there had been a minor upside trend in the aggregate series into the latter part of 2014, total housing-starts activity remained well below any recovery level then, and is even somewhat lower now, despite the May uptick.

Over time, the bulk of the extreme, reporting instability and the minimal uptrend in the aggregate series has been due largely to 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 had topped out briefly in third-quarter 2014, with those smoothed starts now trending flat on a six-month moving-average basis, again, despite the minor headline uptick in May. Even so, the recent impact of the temporary recovery in multiple-unit activity largely has been lost in the detail of total housing starts.

***Consumer Liquidity Issues Still Impair Housing Activity*.** On a per-structure basis, activity in housing starts is dominated by the single-unit housing starts category, which has remained stagnant on a smoothed basis—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.

The underlying problem here remains intense, structural-liquidity woes besetting the consumer. That circumstance, during the last eight-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity, as discussed in *Commentary No. 723* and in the *Opening Comments* of *Commentary No. 726*, with further detail in *No. 692 Special Commentary: 2015 - A World Out of Balance*. There remains no chance of a near-term, sustainable turnaround in the housing market, until there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

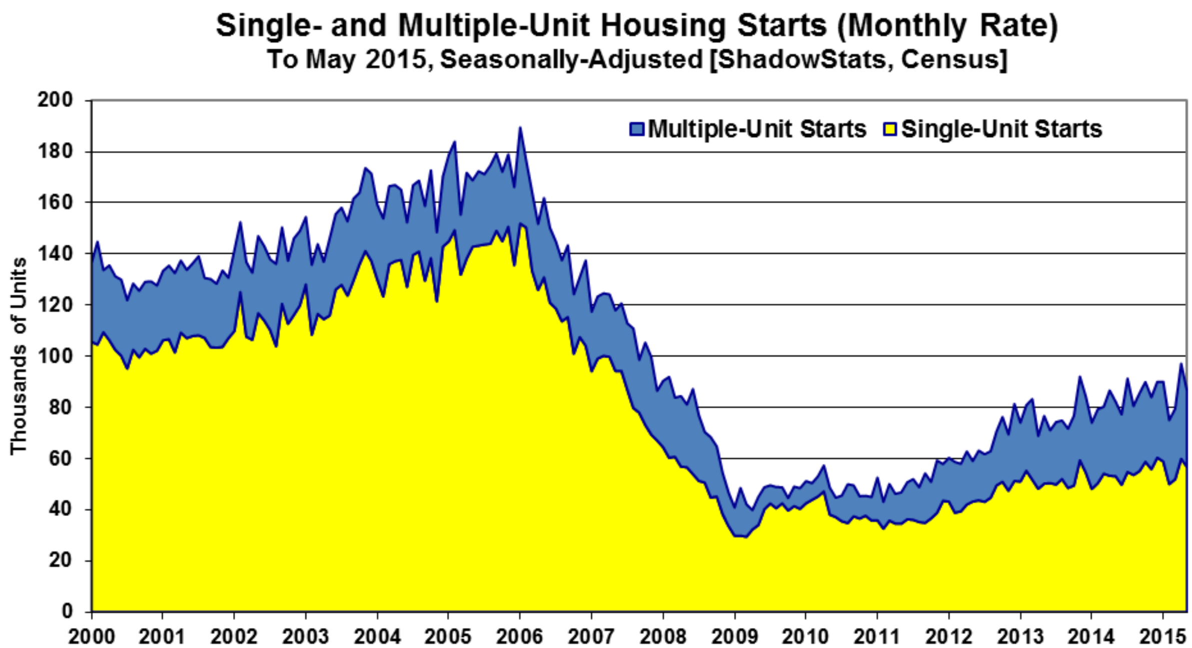
Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the wherewithal to fuel sustainable, consumption-based growth or recovery in U.S. economic activity. That includes not only residential investment and related construction, but also retail sales and the still-dominant personal-consumption account of the GDP.

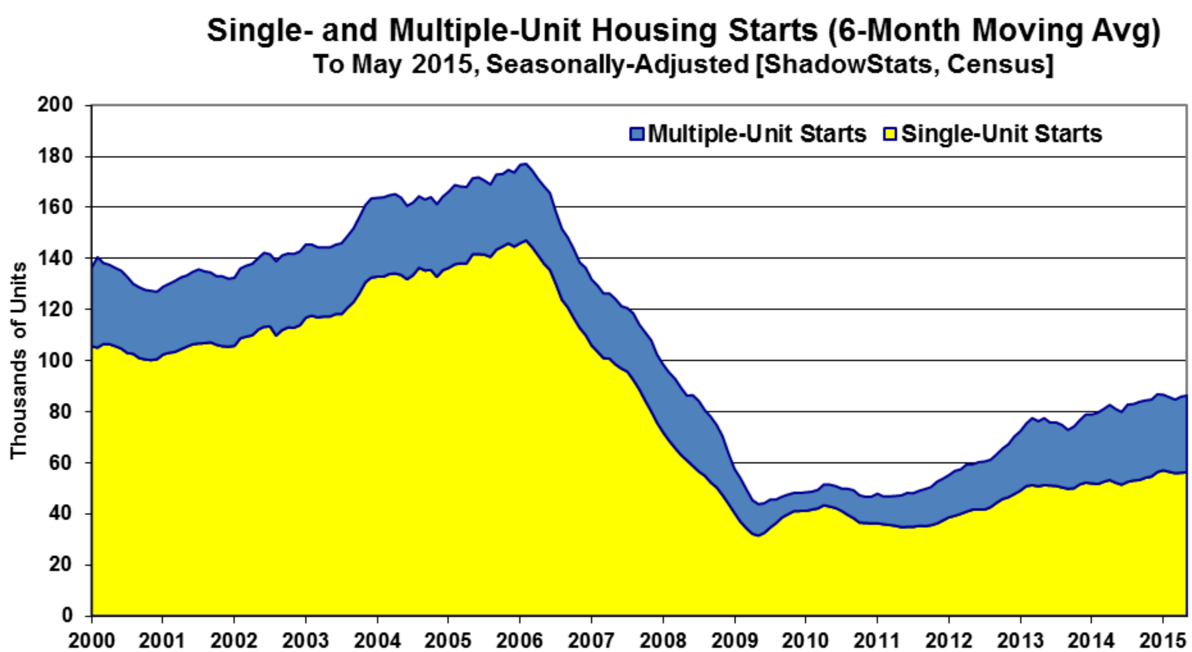
May 2015 Housing-Starts Headline Reporting. The seasonally-adjusted headline monthly decline of 11.1% (-11.1%) in May 2015 housing starts was not statistically significant. That followed a revised gain of 22.1% in April, and a revised gain of 6.0% in March. Net of prior-period revisions, May 2015 fell by 8.7% (-8.7%) for the month.

Year-to-year change in the seasonally-adjusted, aggregate May 2015 housing-starts measure was a statistically-insignificant gain of 5.1%, versus a revised annual gain of 12.1% in April 2015, and a revised annual contraction of 0.9% (-0.9%) in March 2015.

The headline May 2015 monthly contraction of 11.1% (-11.1%) for total housing starts reflected a headline monthly decline of 5.4% (-5.4%) in the "one unit" category, and a drop of 18.5% (-18.5%) in the "five units or more" category. Not one of those headline 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 multiple-unit structure starts that generally reflect the building of rental and apartment units.





Housing starts for single-unit structures in May 2015 fell month-to-month by a statistically-insignificant 5.4% (-5.4%), following a revised 15.4% gain in April, and a revised 3.8% monthly gain in March. Single-unit starts for May 2015 showed a statistically-insignificant year-to-year annual gain of 6.8%, versus a revised annual gain of 12.5% in April 2015, and a revised annual decline of 4.0% (-4.0%) in March 2015.

Housing starts for apartment buildings (generally 5-units-or-more) in May 2015 fell month-to-month by a statistically-insignificant 18.5% (-18.5%), following a revised gain of 37.6% in April, and a revised 6.5% gain in March. The statistically-insignificant May 2015 year-to-year gain of 2.6%, followed a revised annual gain of 9.5% in April, and a revised annual gain of 3.7% in March 2015.

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.

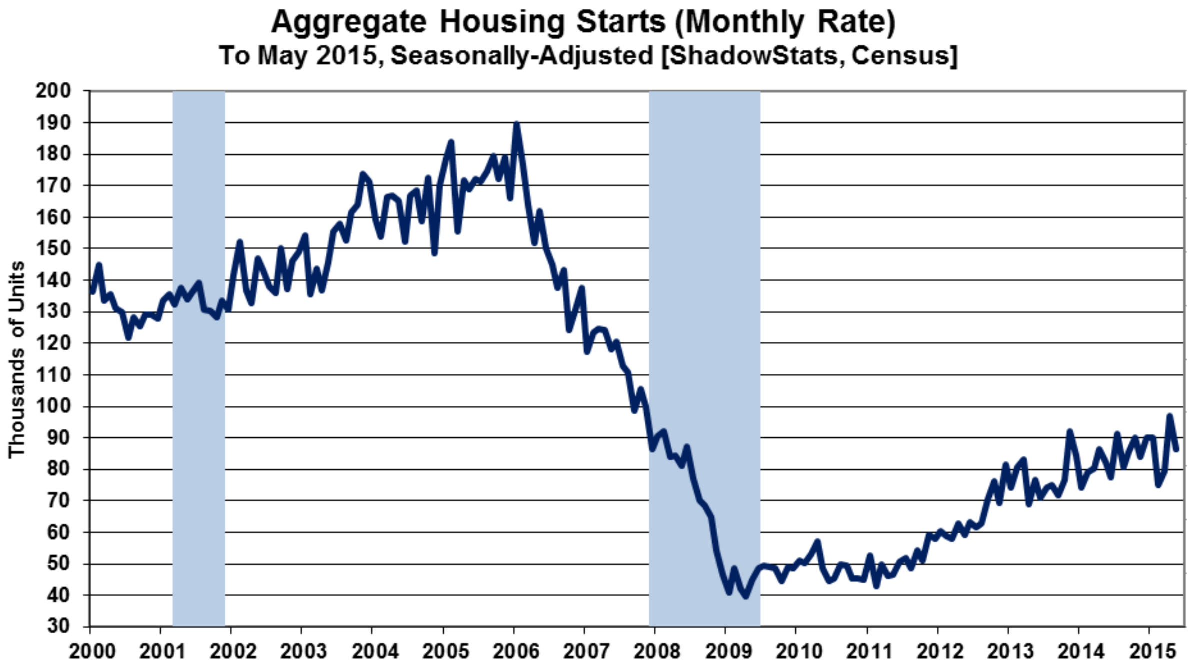
Accordingly, the statistically-insignificant May 2015 monthly decline of 11.1% (-11.1%) in aggregate housing starts was composed of a statistically-insignificant decline of 5.4% (-5.4%) in one-unit structures, combined with a statistically-insignificant monthly decline of 20.2% (-20.2%) in the multiple-unit structures category (2-units-or-more, including the 5-units-or-more category). These series are reflected in the graphs of this 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 1,036,000 in May 2015, versus a revised 1,165,000 (previously 1,135,000) in April 2015. The scaling detail in the aggregate graphs at the end of the *Reporting Detail* section reflects those annualized numbers.

Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the revised headline 211,000 (previously 191,000) month-to-month gain in the annualized April 2015 numbers was larger than any actual total (non-annualized) monthly starts level for a single month, since the 1970s, four decades before the recession.

Accordingly, the monthly rate of 86,333 units in May 2015, instead of the annualized 1,036,000-headline number, is used in the scaling of the series of graphs shown in these *Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical.

The record monthly low level of activity 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 May 2015 headline number was up by 117%, but it still was down by 54% (-54%) from the January 2006 series high. Shown in the historical perspective of the post-World War II era, current activity is trending stagnant-to-lower at levels that otherwise have been at the historical troughs of recession activity of the last 70 years, as seen in the final graph of the *Reporting Detail* section.


Aggregate Housing Starts (Monthly Rate)
To May 2015, Seasonally-Adjusted [ShadowStats, Census]
Thousands of Units
200
190
180
170
160
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130
120
110
100
90
80
70
60
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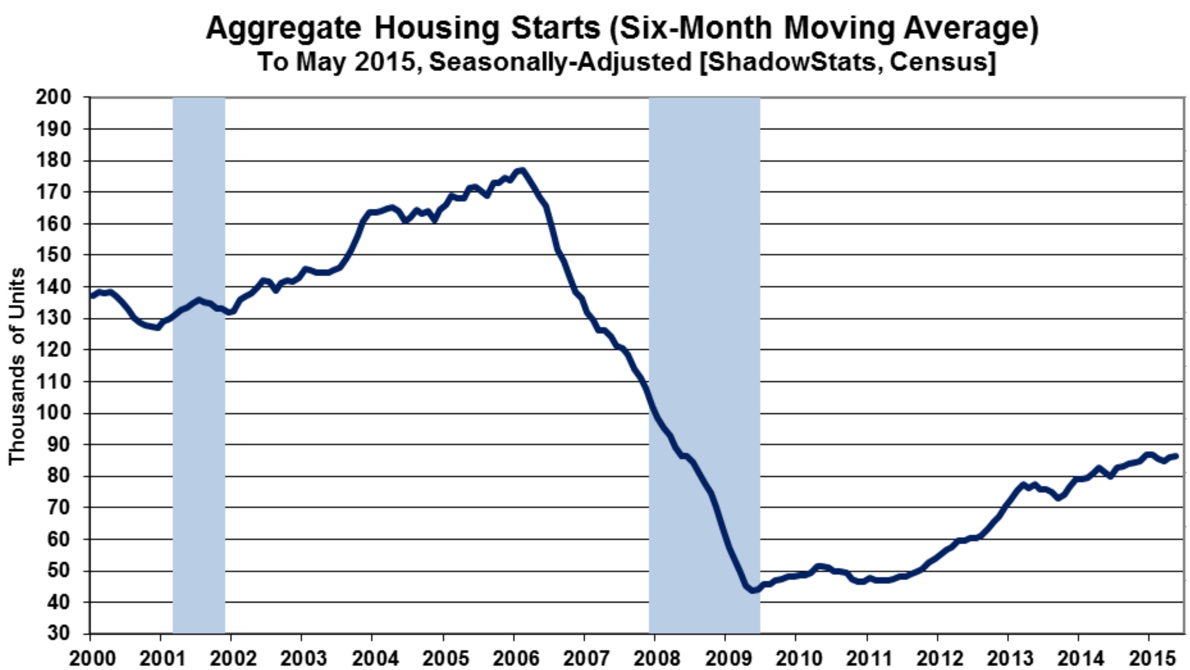
Aggregate Housing Starts (Six-Month Moving Average)
To May 2015, Seasonally-Adjusted [ShadowStats, Census]
Thousands of Units
200
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110
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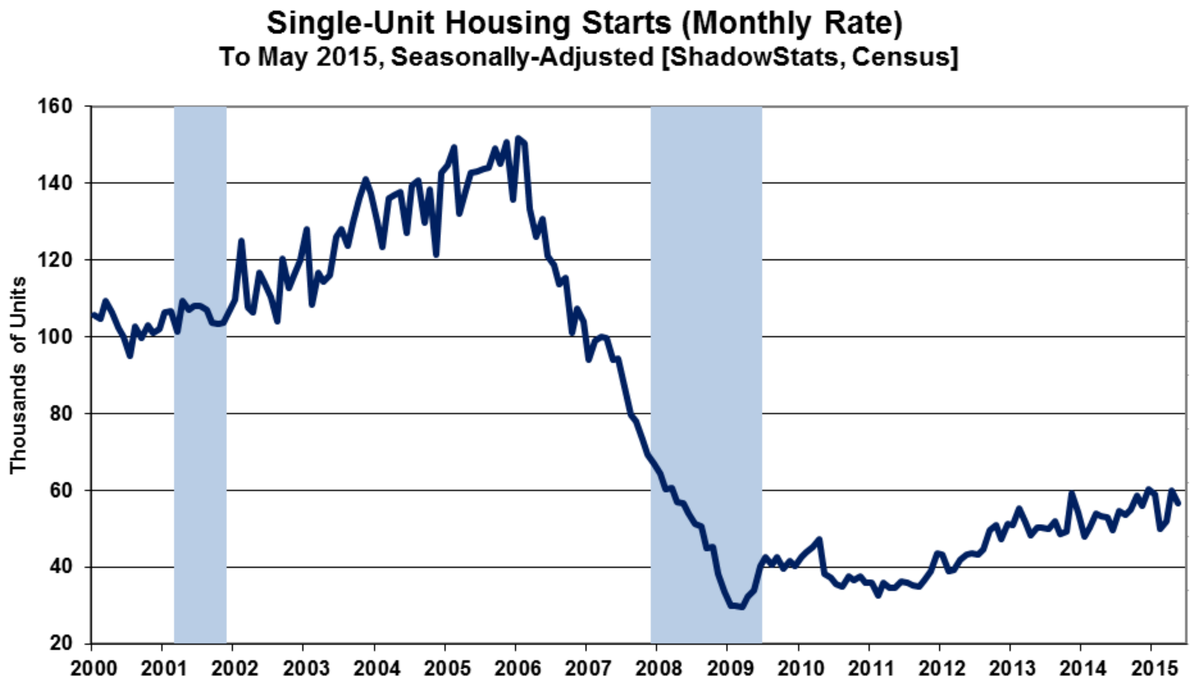
Single-Unit Housing Starts (Monthly Rate)
To May 2015, Seasonally-Adjusted [ShadowStats, Census]
Thousands of Units
160
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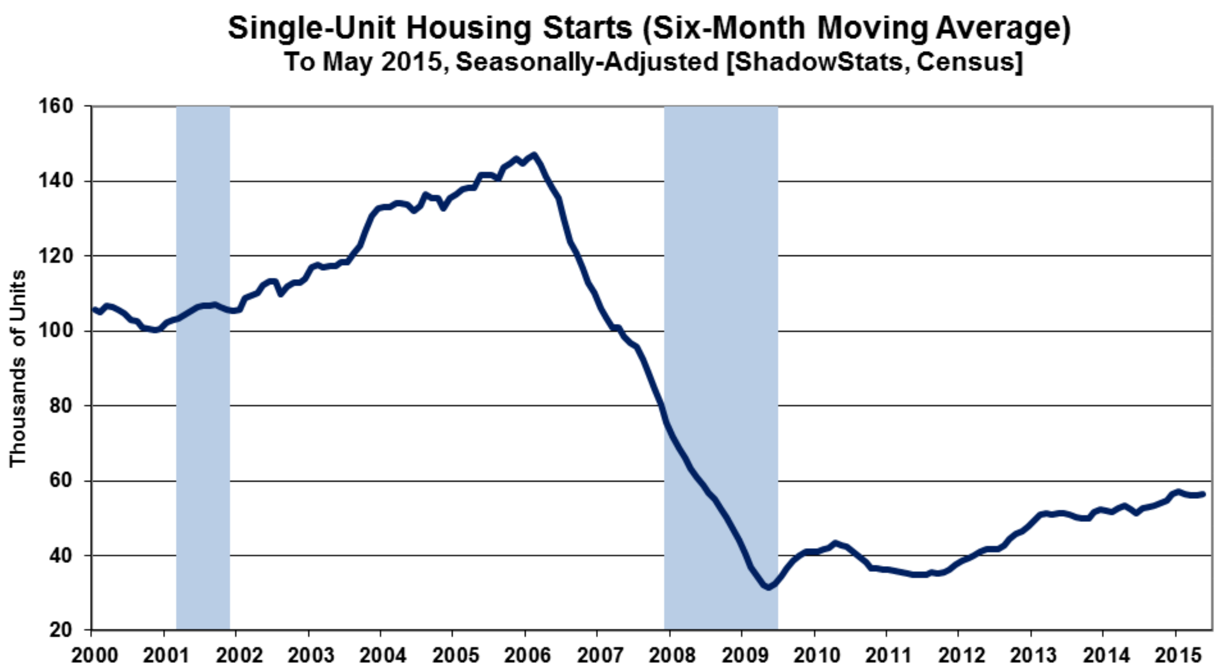
Single-Unit Housing Starts (Six-Month Moving Average)
To May 2015, Seasonally-Adjusted [ShadowStats, Census]
Thousands of Units
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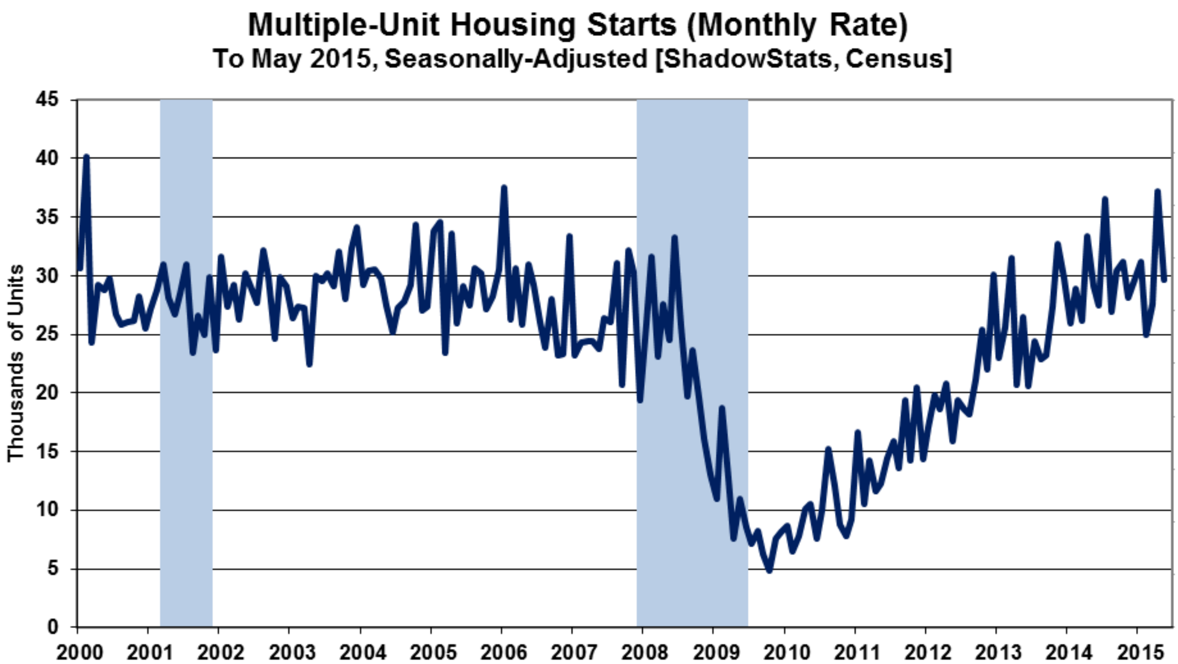

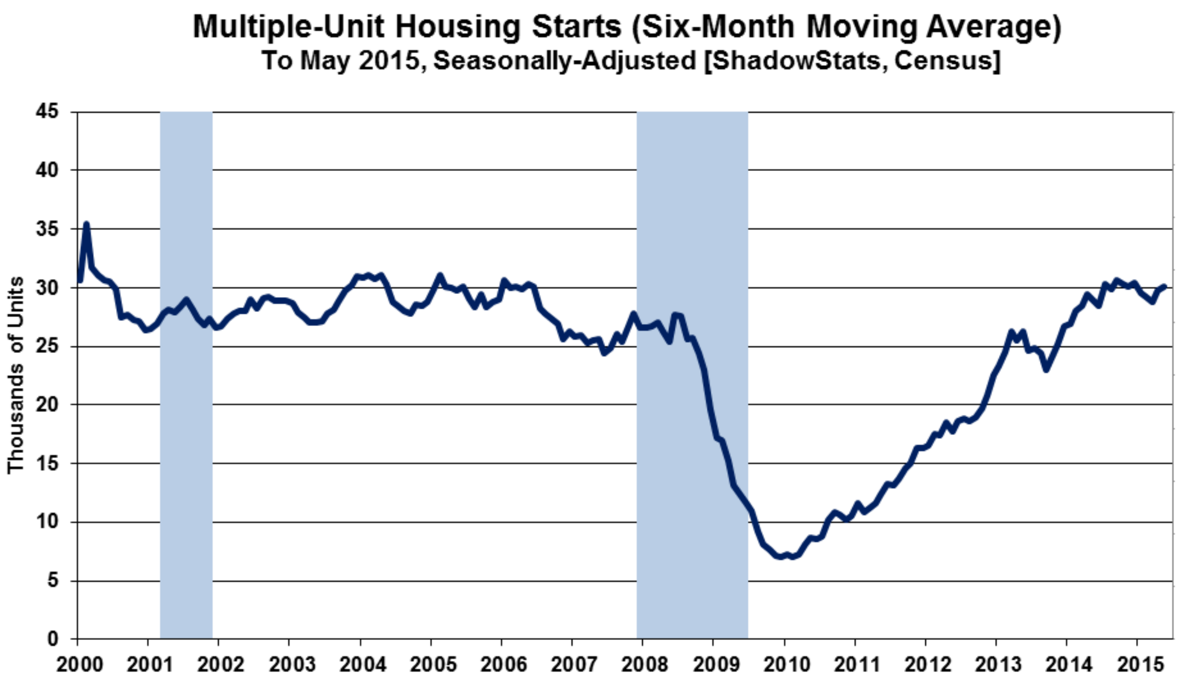

[The* Reporting Detail *section includes extended detail on the May Housing Starts.]

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HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for a Hyperinflation Crisis. Updated in prior *Commentary No. 726*, this *Hyperinflation Outlook Summary* has not been revised further, other than for updated internal links, minor language corrections and corrected typographical errors. The U.S. economy remains in ongoing downturn, while the U.S. dollar faces a massive decline, with implications for a meaningful upturn in inflation evolving into a great hyperinflationary crisis. Signs of systemic instability are increasing anew.

Background. Underlying this missive, *No. 692 Special Commentary: 2015 - A World Out of Balance* of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, 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 2, 2014, and publication of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. One other reference should be considered here, in terms of underlying economic reality, and that is the *Public Commentary on Inflation Measurement*.

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, likely by 2020. 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 at the end of this decade into the current 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 the *Hyperinflation Report—First Installment Revised* (linked earlier). The following summarizes the underlying current circumstance and recent developments.

The U.S. dollar rallied sharply from mid-2014 into early-2015, initially reflecting likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and heavily over-estimated by the global markets looking to support the dollar. Yet structural faults started to appear in the foundation underpinning U.S. dollar strength (see *Commentary No. 711*).

Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As a result, the U.S. dollar backed off its recent highs, with some related upside pressure having been seen on oil prices, but those changes have been relatively small, so far.

First-quarter 2015 U.S. GDP contracted by 0.7% (-0.7%) in its first revision. Although early reporting on the second-quarter economy indicated the likelihood of a second, consecutive quarterly GDP downturn, which would constitute a new recession, reporting of the last several weeks has been relatively strong, as discussed in the *Opening Comments* of *Commentary No. 726*. Such strong numbers should prove fleeting, and a second-quarter GDP contraction remains likely.

Nonetheless, the Fed could raise interest rates at any time, irrespective of economic activity. Where the stock and currency markets pretty much already have anticipated such action in their pricing, the big market moves ahead should come from areas such as downside surprises in U.S. economic reporting, which increasingly will show an ongoing contraction in activity.

Domestic economic data should continue to falter, increasingly moving market expectations towards an imminent new recession, not only further pummeling expectations for a significant tightening in Fed policy, if the Fed has not already tightened, but also renewing expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on the direction of domestic economic activity, should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. These circumstances should continue to unwind what had been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances began, then faltered recently, but should resume shortly, possibly a matter of weeks. It likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; and related rallies in precious metals and oil. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful near-term risk for providing further fuel for heavy selling of the dollar.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity is turning down anew, despite brief fluttering in unstable series. GDP and industrial production face heavy downside-benchmark revisions through the end of July. Other key series all have benchmarked to the downside. Weak, underlying economic reality generally has surfaced in headline reporting and should become increasingly and painfully obvious to the financial markets in the detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit, payroll employment and increasingly the headline GDP.

As financial-market expectations resume shifting towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, more than fully reversing the dollar's gains since June 2014, and pushing the dollar once again to historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. Nonetheless, the Fed still likely will move to normalize interest rates (again, see *Opening Comments* of *Commentary No. 726*), if it can get away with it.

The Panic of 2008 never was resolved, and the Fed increasingly is finding that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; if the Fed does not act quickly to extricate itself from prior actions, QE4 will become the near-term question.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). Such throws off estimates of U.S. Treasury funding needs and estimates as to how long the Treasury effectively can dodge the limits of the recently re-imposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

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, any significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may become 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 thought it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

Again, in the event of a 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 become a rapidly-increasing pace of domestic U.S. inflation.

Strength in the U.S. dollar should continue to reverse sharply, in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, increasingly against the U.S. currency. That process may have started with the shift in Swiss National

Bank policy early in the year, but it has become dominated by increasingly-negative global perceptions of stability in U.S. economic activity and the ability of the Federal Reserve to control its monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see the *Opening Comments* and *Commentary No. 723*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for the intensifying the unfolding 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 willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address 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 around $5 trillion for the annual shortfall, while many in Washington look to continue increasing 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 were discussed in *Commentary No. 672*, and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see *Commentary No. 702*). This circumstance now operates in the context of the formal constraint of a renewed debt ceiling.

- ***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 (see *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. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion to quantitative easing, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for any new or expanded systemic accommodation in any "renewed" economic distress.

- ***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 off its historic low, but still at levels that traditionally are traumatic for the dollar.

Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress in addressing fundamental fiscal and economic issues are nil, except possibly for new trade legislation, which would compound domestic economic problems. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis, and addressing the nation's long-range solvency issues should continue to devolve, into extreme political crises.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.

- ***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, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly.

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, likely in the year ahead.

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. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 692 Special Commentary: 2015 - A World Out of Balance*, for other factors afoot in the current environment.

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REPORTING DETAIL

RESIDENTIAL CONSTRUCTION—HOUSING STARTS (May 2015)

Down for the Month, Housing Starts Activity Continued a Pattern of Broad Stagnation. In the context of an upside revision to surging April 2015 activity, May 2015 housing starts fell for the month by a larger-than-expected 11.1% (-11.1%), where consensus expectations had been for a headline decline of roughly 3.1% (-3.1%) [MarketWatch] and 4.0% (-4.0%) [Bloomberg]. In this highly-unstable series, the headline May decline of 129,000 annualized housing starts offset 61% of the revised upside headline monthly gain of 211,000 starts in April (an actual decline of 10,750 starts offsetting 61% of the 17,583 monthly-rate gain in April). The housing-starts series remained wildly unstable and generally meaningless, in terms of month-to-month activity. It did continue, however, in its pattern of long-term, low-level stagnation, when viewed on a smoothed, six-month moving-average basis.

Separately, the headline monthly surge in related May 2015 building permits was distorted heavily—fully accounted for—by multiple-unit permits issued in the Northeast (see *Opening Comments* discussion).

Quarterly Growth Rates. Reflecting only the unstable monthly levels of April and May 2015 reporting (versus just the initial April reporting), annualized quarterly growth rates in second-quarter 2015 would be 60.3% (previously 83.9%) for total housing starts, 40.1% (previously 67.1%) for single-unit starts, and 105.3% (previously 120.2%) for multiple-unit (two-or-more units, primarily apartment buildings). Those rates still should turn close to flat in the aggregate headline reporting for June 2015.

Smoothed Numbers. A general pattern of weakening stagnation continued in the series, as best viewed in terms of the longer-range historical graph of aggregate activity, seen at the end of this section, and in the context of flat-to-down trending activity, smoothed by six-month moving averages, as shown in graphs in the *Opening Comments* section.

Reflected in those smoothed graphs, the aggregate housing-starts series ticked minimally higher in May, reflecting parallel movements in both the single-unit and multiple-unit starts categories. Although there had been a minor upside trend in the aggregate series into the latter part of 2014, total housing-starts activity remained well below any recovery level then, and is even somewhat lower now, despite the May uptick.

Over time, the bulk of the extreme, reporting instability and the minimal uptrend in the aggregate series has been due largely to 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 had topped out briefly in third-quarter 2014, with those smoothed starts now trending flat on a six-month moving-average basis, again, despite the minor headline uptick in May. Even so, the recent impact of the temporary recovery in multiple-unit activity largely has been lost in the detail of total housing starts.

***Consumer Liquidity Issues Still Impair Housing Activity*.** On a per-structure basis, activity in housing starts is dominated by the single-unit housing starts category, which has remained stagnant on a smoothed basis—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.

The underlying problem here remains intense, structural-liquidity woes besetting the consumer. That circumstance, during the last eight-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity, as discussed in *Commentary No. 723* and in the *Opening Comments* of *Commentary No. 726*, with further detail in *No. 692 Special Commentary: 2015 - A World Out of Balance*. There remains no chance of a near-term, sustainable turnaround in the housing market, until there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the wherewithal to fuel sustainable, consumption-based growth or recovery in U.S. economic activity. That includes not only residential investment and related construction activity, but also retail sales and the still-dominant personal-consumption account of the GDP.

May 2015 Housing-Starts Headline Reporting. The Census Bureau reported this morning, June 16th, a statistically-insignificant, seasonally-adjusted headline monthly decline of 11.1% (-11.1%) +/- 12.2% (all confidence intervals are expressed at the 95% level) in May 2015 housing starts. That followed a revised gain of 22.1% [previously up by 20.2%] in April, and a revised gain of 6.0% [previously up by a benchmarked 4.9%] in March. The series went through its annual benchmark revision with the release of the April 2015 data. Net of prior-period revisions, May 2015 fell by 8.7% (-8.7%) in the month.

Year-to-year change in the seasonally-adjusted, aggregate May 2015 housing-starts measure was a statistically-insignificant gain of 5.1% +/- 13.1%, versus a revised annual gain of 12.1% [previously up by 9.2%] in April 2015, and a revised annual contraction of 0.9% (-0.9%) [previously down by a benchmarked 2.0% (-2.0%)] in March 2015.

The headline May 2015 monthly contraction of 11.1% (-11.1%) for total housing starts reflected a headline monthly decline of 5.4% (-5.4%) in the "one unit" category, and a drop of 18.5% (-18.5%) in the "five units or more" category. Not one of those headline 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 May 2015 fell month-to-month by a statistically-insignificant 5.4% (-5.4%) +/- 8.2%, following a revised 15.4% [previously 16.7%] gain in April, and a revised 3.8% [previous 4.7% benchmarked] monthly gain in March. Single-unit starts for May 2015 showed a statistically-insignificant year-to-year annual gain of 6.8% +/- 11.1%, versus a revised annual gain of 12.5% [previously up by 14.7%] in April 2015, and a revised annual decline of 4.0% (-4.0%) [previously down by a benchmarked 3.2% (-3.2%)] in March 2015.

Housing starts for apartment buildings (generally 5-units-or-more) in May 2015 fell month-to-month by a statistically-insignificant 18.5% (-18.5%) +/- 30.9%, following a revised gain of 37.6% [previously up by 31.9%] in April, and a revised 6.5% [previously 1.0%] gain in March. The statistically-insignificant May 2015 year-to-year gain of 2.6% +/- 30.7%, followed a revised annual gain of 9.5% [previously a decline of 0.5% (-0.5%)] in April, and a revised annual gain of 3.7% [previously a benchmarked decline of 1.7% (-1.7%)] in March 2015.

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.

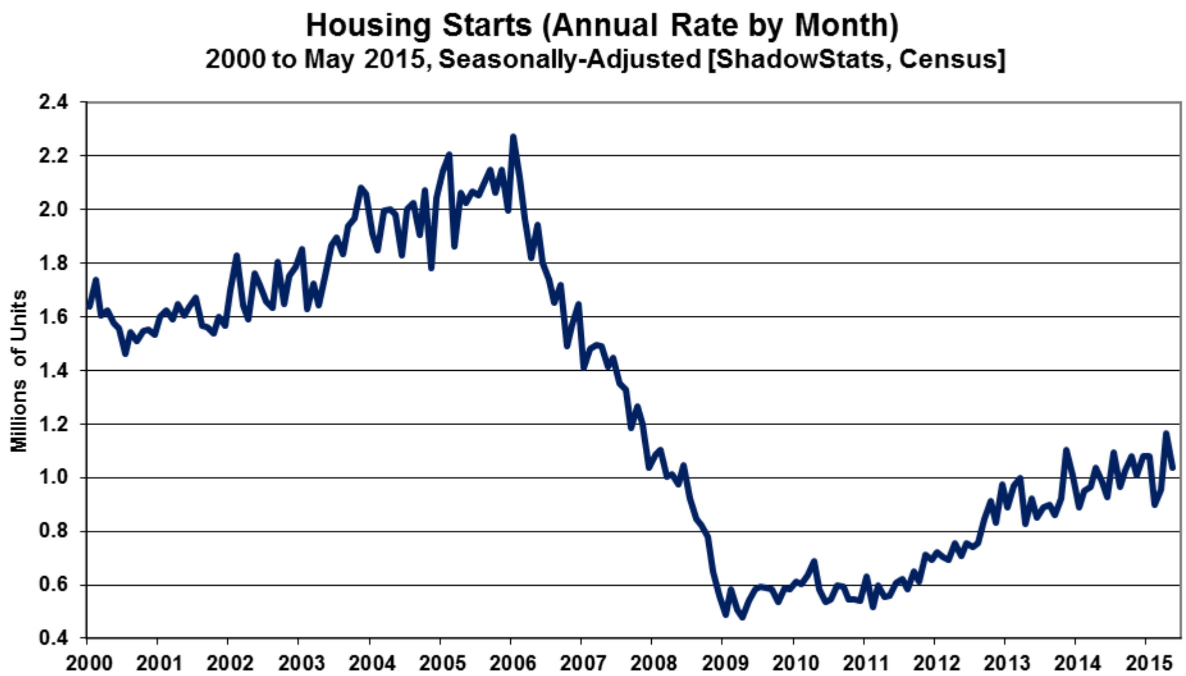
Accordingly, the statistically-insignificant May 2015 monthly decline of 11.1% (-11.1%) in aggregate housing starts was composed of a statistically-insignificant decline of 5.4% (-5.4%) in one-unit structures, combined with a statistically-insignificant monthly decline of 20.2% (-20.2%) in the multiple-unit structures category (2-units-or-more, including the 5-units-or-more category). Again, these series are graphed in the *Opening Comments* section.

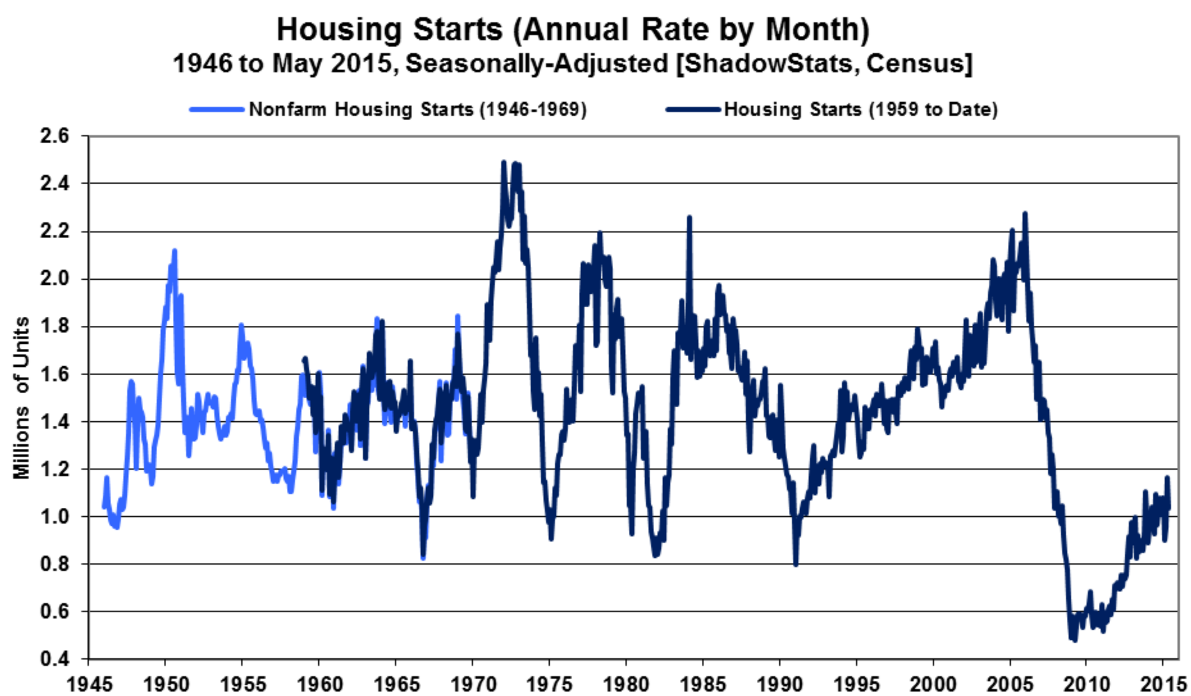
Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,036,000 in May 2015, versus a revised 1,165,000 (previously 1,135,000) in April 2015. The scales of the accompanying aggregate graphs in this section use those annualized numbers.

Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the revised headline 211,000 (previously 191,000) month-to-month gain in the annualized April 2015 numbers was larger than any actual total (non-annualized) monthly starts level for a single month, since the 1970s, four decades before the recession.

Accordingly, the monthly rate of 86,333 units in May 2015, instead of the annualized 1,036,000-headline number, 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 level of activity 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 May 2015 headline number was up by 117%, but it still was down by 54% (-54%) from the January 2006 series high. Shown in the historical perspective of the post-World War II era, current activity is trending stagnant-to-lower at levels that otherwise have been at the historical troughs of recession activity of the last 70 years, as evident in the accompanying second and final graph of this section.


Housing Starts (Annual Rate by Month)
2000 to May 2015, Seasonally-Adjusted [ShadowStats, 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 May 2015, Seasonally-Adjusted [ShadowStats, 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

WEEK AHEAD

Headline Economic Reporting and Revisions Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Rising Oil Prices. In a fluctuating trend to the downside, amidst still-predominantly-negative reporting and surprises in headline numbers, market expectations for business activity nonetheless respond to the latest market hype. The general effect tends to hold the market outlook at overly-optimistic levels. Expectations exceed any potential, underlying economic reality.

GDP excesses from 2014 should face downside adjustments in the July 30, 2015 GDP benchmark, and subsequent to the current headline contraction in first-quarter 2015 GDP, expectations for headline growth in second-quarter 2015 should resume shifting to the downside, increasingly towards (eventually into) negative territory, as headline economic reporting turns lower in the week and weeks ahead.

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low, having shown monthly declines in annual inflation of less than a full 0.1% (-0.1%) in the three months through March 2015, but dropping by 0.2% (-0.2%) in April 2015. A large jump in gasoline prices for May 2015 and a softening of negative seasonal-adjustments for gasoline promise a headline increase in May 2015 CPI-U inflation, with annual inflation likely pulling at least even with zero.

Significant upside inflation pressures are building, as oil prices rebound, a process that should accelerate rapidly with the 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 *No. 692 Special Commentary: 2015 - A World Out of Balance* and in the *Hyperinflation Outlook Summary*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Again, see *Commentary No. 722* as to recent market and political pressures on the Bureau of Economic Analysis (BEA) relative to GDP reporting. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned for the July 30, 2015 benchmarking, would be extraordinary in terms of BEA behavior and are not likely. Still, some gimmicked, less-negative summary numbers already have been planned for publication.

Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of monthly 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, explored in the labor-numbers related *Commentary No. 695*).

Combined with recent allegations 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 (see *Commentary No. 669*).

PENDING RELEASE:

Consumer Price Index—CPI (May 2015). The May 2015 CPI is scheduled for release on Thursday, June 18th, by the Bureau of Labor Statistics (BLS). The headline CPI-U should be on the plus-side for the third month, with late expectations holding for a headline monthly gain of 0.5% [MarketWatch, Bloomberg]. An inflation gain is likely, due to higher energy, food and "core" inflation (ex-food and energy), helped by a swing towards the plus-side in monthly seasonal adjustments to gasoline prices.

The average gasoline price moved higher in May 2015, up by 9.69% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). BLS seasonal adjustments to gasoline prices in May traditionally turn neutral-to-slightly-minus, leaving the headline, unadjusted gain in gasoline prices enough higher to contribute 0.3% to the headline CPI-U monthly inflation rate. With higher food and "core" (net of food and energy) inflation, the consensus expectations are not unreasonable.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in May 2015 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.30% monthly inflation gain reported for May 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for May 2015, the difference in May's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the April 2015 negative annual inflation rate of 0.20% (-0.20%). Headline monthly inflation approaching roughly 0.5% would be needed in May 2015, in order to push the headline annual CPI-U inflation rate into positive territory. That happens to be the consensus expectation.