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

COMMENTARY NUMBER 753
August Housing Starts, Employment Benchmark, FOMC

September 17, 2015

BLS Indicated Overstatement of 2015 Employment Growth, per Benchmarking Detail for March 2015

Total Nonfarm Payrolls Overstated by 208,000 in March, Private Payrolls Overstated by 255,000

Corrections to Current and Recent Jobs Reporting to Follow in February 2016

Housing Starts Activity Now Down by 50% (-50%) from Pre-Recession Peak

August Starts Continued in a Smoothed Pattern of Low-Level Stagnation

FOMC Still Cited a Weak Economy in Not Raising Rates, but Real Risks Remain More in the Realm of Systemic Stability

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PLEASE NOTE: The next regular Commentary, *Thursday, September 24th, will cover August New Orders for Durable Goods and New- and Existing-Home Sales. A* Commentary *on Friday, September 25th will cover the third estimate of, second revision to second-quarter 2015 GDP.*

Best wishes to all! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

FOMC Rate Decision. As this *Commentary* goes to press, the Federal Open Market Committee (FOMC) has announced that it has not changed interest rate policy, contrary to my expectation. That said, as discussed in *Commentary No. 750*, market concerns should shift now to looking at what circumstances really are scaring the Fed. The dynamics of intensifying shifts in global perceptions of U.S. economic activity and U.S. systemic stability rapidly should gain dominance over Fed policy in driving the U.S. currency and equity markets, irrespective of future Fed actions or lack of same. Outside of responding to extraordinary financial-market reactions or other developments, ShadowStats will discuss the post-FOMC meeting circumstance in the next regular *Commentary*, scheduled for Thursday, September 24th.

Jobs Growth Has Been Overstated in 2015. Announced this morning (September 17th) by the Bureau of Labor Statistics, the initial estimate of the *2015 Payroll Employment Benchmark Revision* is for a downside revision of 208,000 jobs to March 2015 total nonfarm payroll employment, with a downside revision of 255,000 to March 2015 private payroll employment. Those changes will be modeled back in time, reducing headline monthly payroll growth since March 2014, and carried forward with reduced headline monthly employment through the publication date of the final benchmarking in February 2016. Payroll-employment growth history should be adjusted lower, up to the headline reporting for January 2016, with an aggregate payroll downside revision at that time of roughly 400,000 jobs.

At least, that would be the regular course of business. Initial headline benchmarking estimates also were negative for March 2013 and March 2014, but intervening reporting gimmicks turned that detail into upside revisions, instead of downside revisions, as discussed in the *Birth-Death Model* section in *Commentary No. 749*, and *Commentary No. 598*, *Commentary No. 694* and *Commentary No. 695*.

The aggregate reduction of 208,000 (-208,000) in March 2015 payrolls by major industry group included downside revisions to Professional and Business Services (-101,000), Leisure and Hospitality (-54,000), Information (-46,000), Education and Health Services (-40,000), Mining and Logging (-17,000), Manufacturing (-10,000), Financial Activities (-3,000) and Other (-21,000), offset by upside revisions to Government (+47,000), Construction (+33,000) and Trade Transportation and Utilities (+4,000).

Current Economic Outlook Continues for a Deepening Economic Downturn. Reporting of the last week or so has seen collapsing consumer sentiment, downside revisions to industrial production, soft growth in real retail sales and earnings, weaker than expected summary income statistics in 2014, and an initial estimate of a downside benchmark revision to the current payroll employment series. Further, the FOMC just held back on raising interest rates at its September meeting, frustrating previous plans in place to raise rates. Discussed in the opening paragraphs, though, systemic problems—not so much the economic concerns cited by the Fed—likely are holding the U.S. central bank in check.

A broad economic review will follow in *Commentary No. 755* of September 25th, covering the second revision to second-quarter GDP (see the *Week Ahead* section).

Today's *Commentary* (September 17th). The balance of these *Opening Comments* provides a summary of August Housing Starts reporting, with more-complete coverage in the *Reporting Detail*. The *Hyperinflation Watch* includes an unrevised *Hyperinflation Outlook Summary*.

The *Week Ahead* previews reporting of August New Orders for Durable Goods, New- and Existing-Home Sales and the second revision to second-quarter 2015 GDP.

Housing Starts—August 2015—Broad Activity Continued in a Smoothed Pattern of Stagnation. The monthly detail of the aggregate housing-starts series continues to be of little meaning, other than as viewed in the context of a six-month moving average. The headline monthly decline of 3.0% (-3.0%) in August 2015 housing starts was subdued by downside revisions to July activity. The August contraction was 6.6% (-6.6%) versus the initial reporting of July 2015 activity, where consensus expectations [Bloomberg and Market Watch] had been for a headline monthly decline in August housing starts of 3.2% to 3.3% (-3.2% to -3.3%) against the initial July detail. None of those changes was or would have been statistically significant.

Nonetheless, with the current downside July revision and a minor upside revision to June in place, the aggregate housing-starts count rose at a revised, annualized-quarterly pace of 96.3% in second-quarter 2015. Based only on July and August reporting, however, third-quarter activity was trending towards an annualized contraction of 4.8% (-4.8%). Previously estimated based only on initial July reporting, third-quarter activity had been trending towards an annualized 18.7% gain.

Smoothed Numbers. A general pattern of low-level stagnation continued in the broad series, as best viewed in terms of the longer-range historical graph of aggregate activity (*Graph 10*), at the end of the *Reporting Detail* section, and in the context of flat- trending activity, smoothed by six-month moving averages, as shown in *Graphs 2*, *4* and *6*.

Reflected in the smoothed graphs, the aggregate housing-starts series ticked minimally higher in August, reflecting an upside movement in both the smoothed single-unit and multiple-unit starts categories. Although there has been a minor upside trend in the broad stagnation of the aggregate series, total housing-starts activity has remained well below any recovery level, holding at 50% (-50%) below its pre-recession peak.

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.). Recent activity in multiple-unit starts actually has recovered to above pre-recession activity, again, in the context of extreme month-to-month volatility. Even so, the recent impact of that recovery largely has been lost in the detail of total housing starts.

Consumer Liquidity Problems Continues to Impair Housing Activity. On a per-structure basis, activity in housing starts is dominated by the single-unit housing starts category, which has remained broadly stagnant on a smoothed basis—at a low level of activity—since hitting bottom in early-2009 (see *Graph 6*). The private housing sector never recovered from the business collapse of 2006 into 2009.

The primary, underlying difficulty for the housing market remains intense, structural-liquidity constraints on 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, and was discussed and fully updated in yesterday's *Opening Comments* of *Commentary No. 752*.

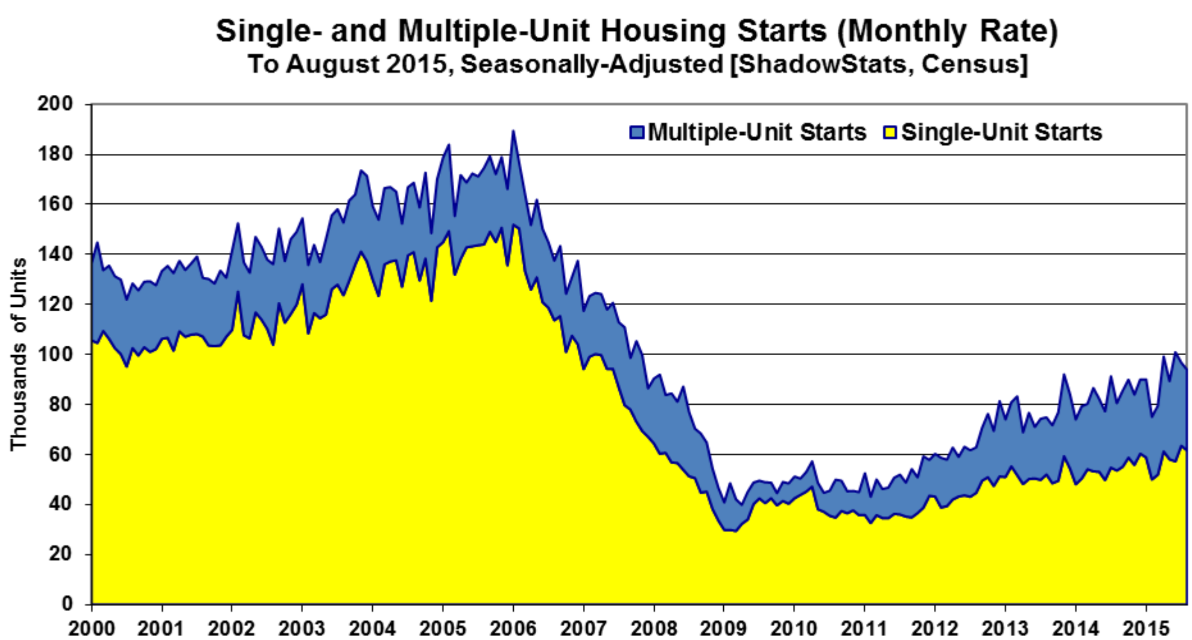
Without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. There remains no chance of a near-term, sustainable turnaround in the housing market, until there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and still does not appear to be in the offing.

August 2015 Housing-Starts Headline Reporting. The seasonally-adjusted headline monthly decline of 3.0% (-3.0%) in August 2015 housing starts was statistically-insignificant. Such followed a revised decline of 4.1% (-4.1%) in July, and a revised gain of 13.0% in June. Net of prior-period revisions, August 2015 housing starts fell by a still statistically-insignificant 6.6% (-6.6%) for the month, instead of the headline drop of 3.0% (-3.0%).

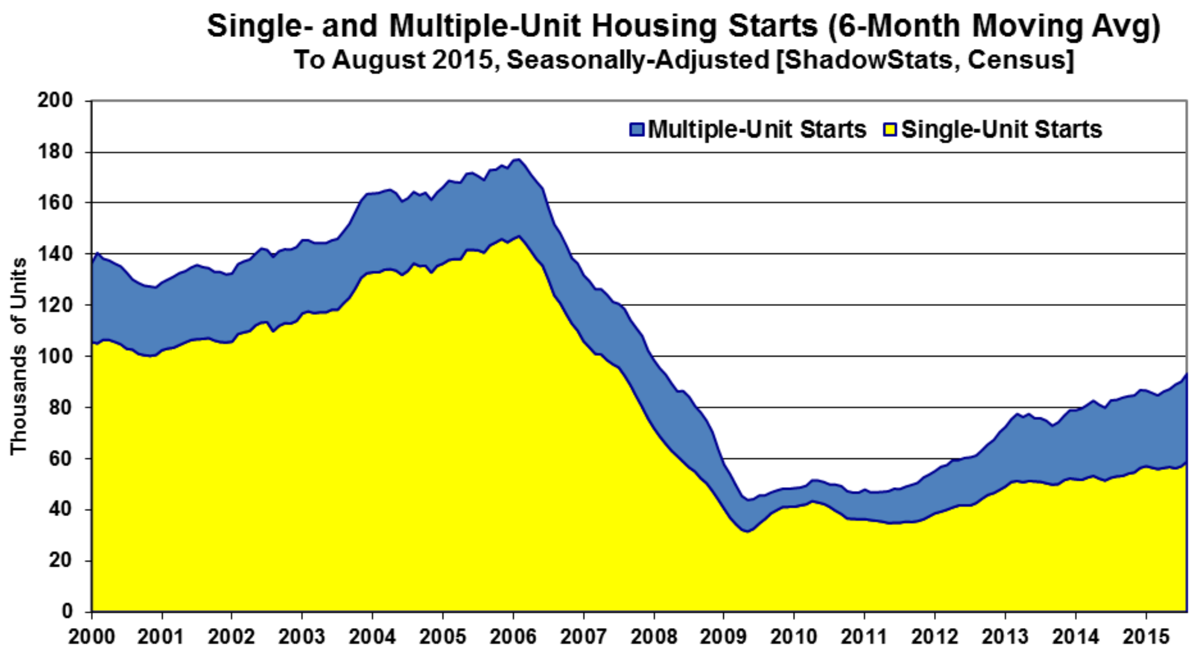
Year-to-year change in the seasonally-adjusted, aggregate August 2015 housing-starts measure was a statistically-significant gain of 16.6%, versus a revised annual gain of 6.0% in July 2015 and a revised gain of 30.6% in June 2015.

The headline August 2015 monthly contraction of 3.0% (-3.0%) in total housing starts reflected a headline monthly drop of 3.0% (-3.0%) in the "one unit" category, and a decline of 2.3% (-2.3%) in the "five units or more" category. None of the headline monthly growth was statistically-significant.

Graph 1: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



Graph 2: Single- and Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



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.

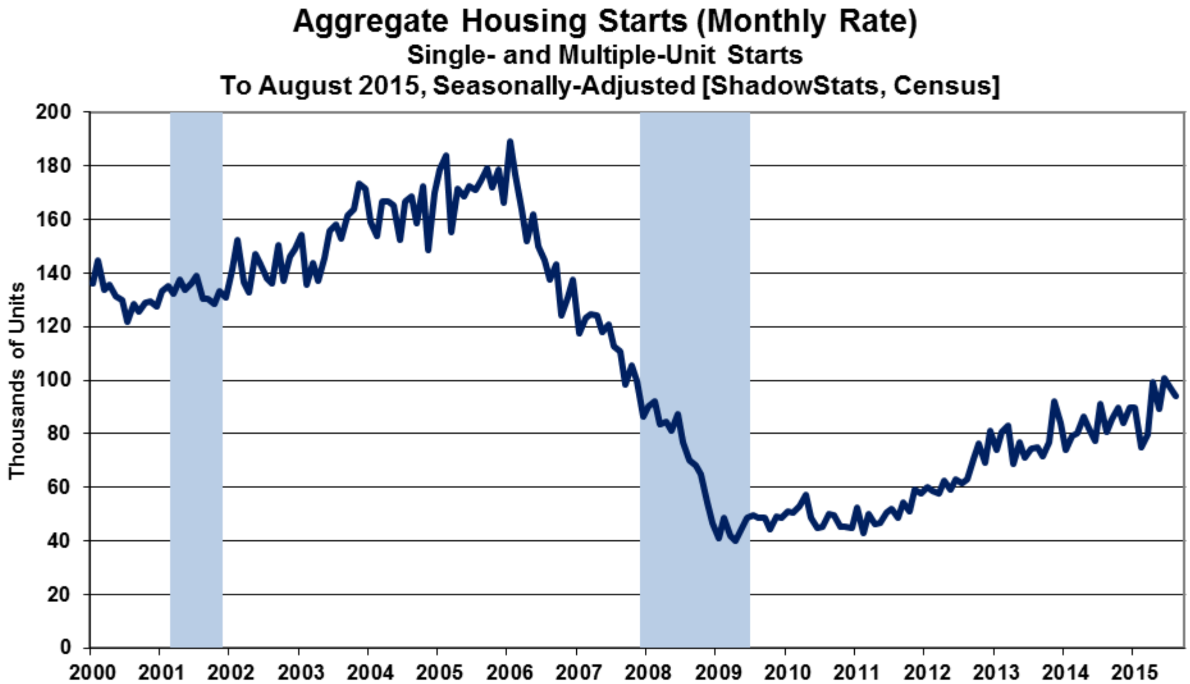
Housing starts for single-unit structures in August 2015 fell month-to-month by a statistically-insignificant 3.0% (-3.0%), following a revised monthly gain of 10.9% in July and a revised decline of 1.4% (-1.4%) in June. Single-unit starts for August 2015 showed a statistically-significant year-to-year annual gain of 14.9%, versus a revised annual gain of 16.0% in July 2015 and revised gain of 15.1% in June 2015 (see *Graphs 5* and 6).

Housing starts for apartment buildings (generally 5-units-or-more) in August 2015 fell month-to-month by a statistically-insignificant 2.3% (-2.3%), versus a revised monthly decline in July of 23.5% (-23.5%) and a revised gain of 39.3% in June. The August 2015 year-to-year contraction of 24.5%, which was statistically insignificant, followed a revised annual contraction of 7.5% (-7.5%) in July 2015 and a revised annual gain of 70.2% in June 2015.

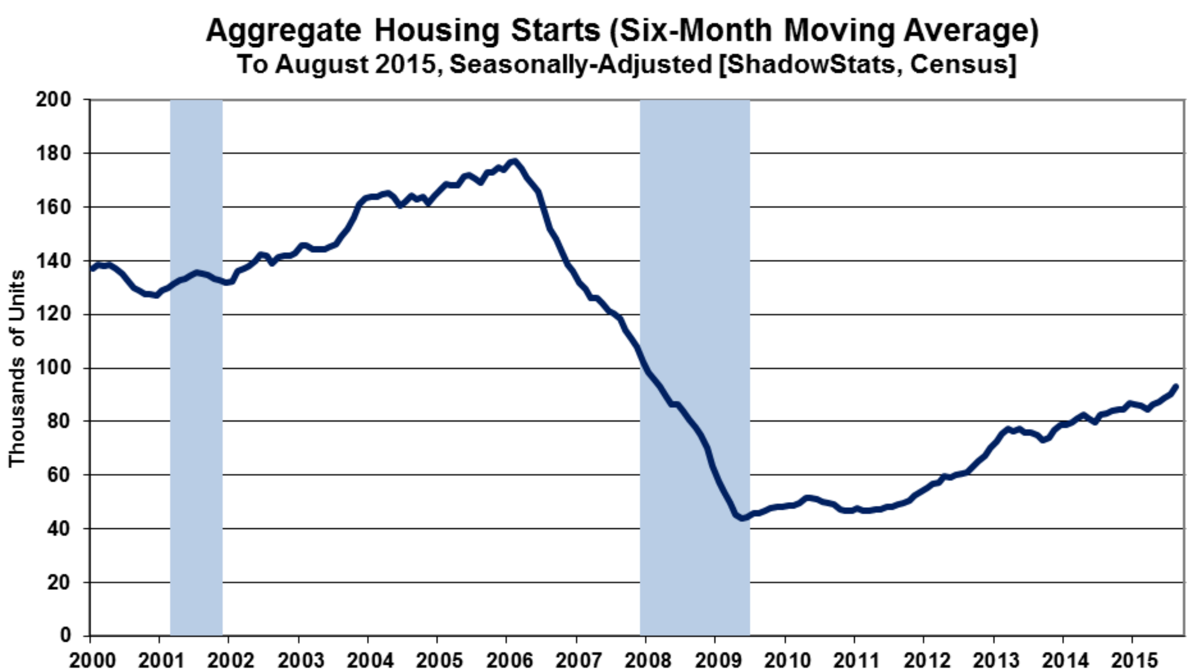
Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category (see *Graphs 1*, *2*, *7* and *8*).

Accordingly, the statistically-insignificant August 2015 monthly contraction of 3.0% (-3.0%) in aggregate housing starts was composed of parallel, statistically-insignificant declines of 3.0% (3.0%) in both one-unit structure and in the multiple-unit structure categories (2-units-or-more, including the 5-units-or-more category), as reflected in *Graphs1* and *2*.

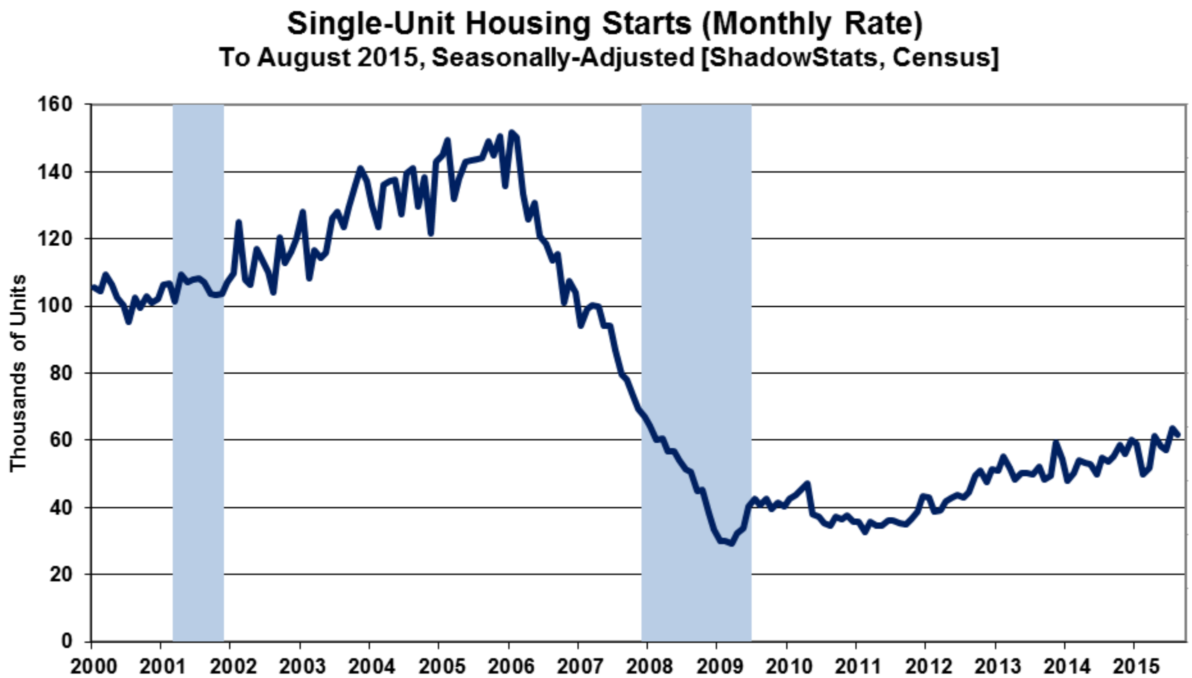
Graph 3: Aggregate Housing Starts (Monthly Rate of Activity)



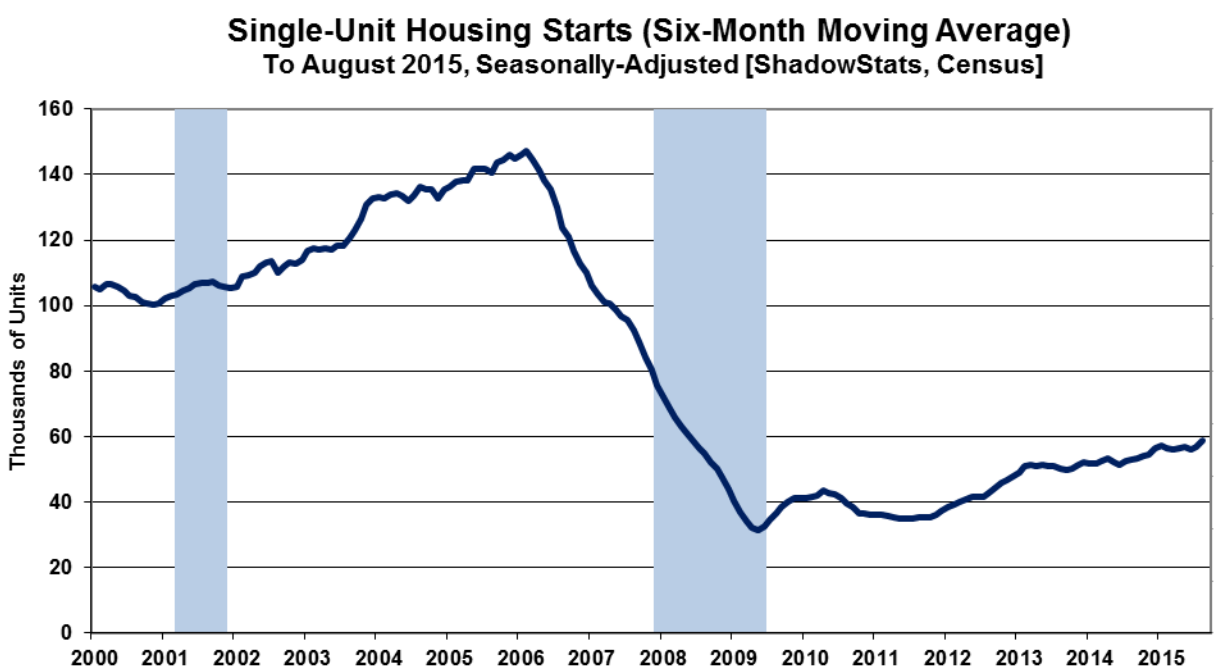
Graph 4: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



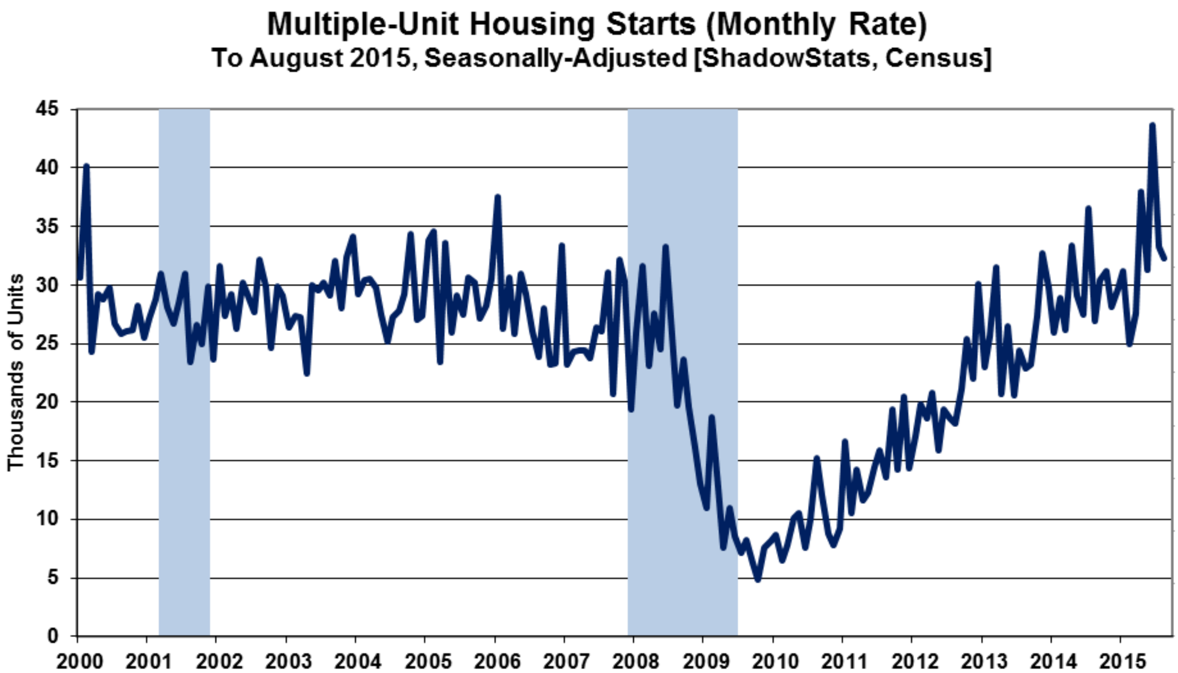
Graph 5: Single-Unit Housing Starts (Monthly Rate of Activity)



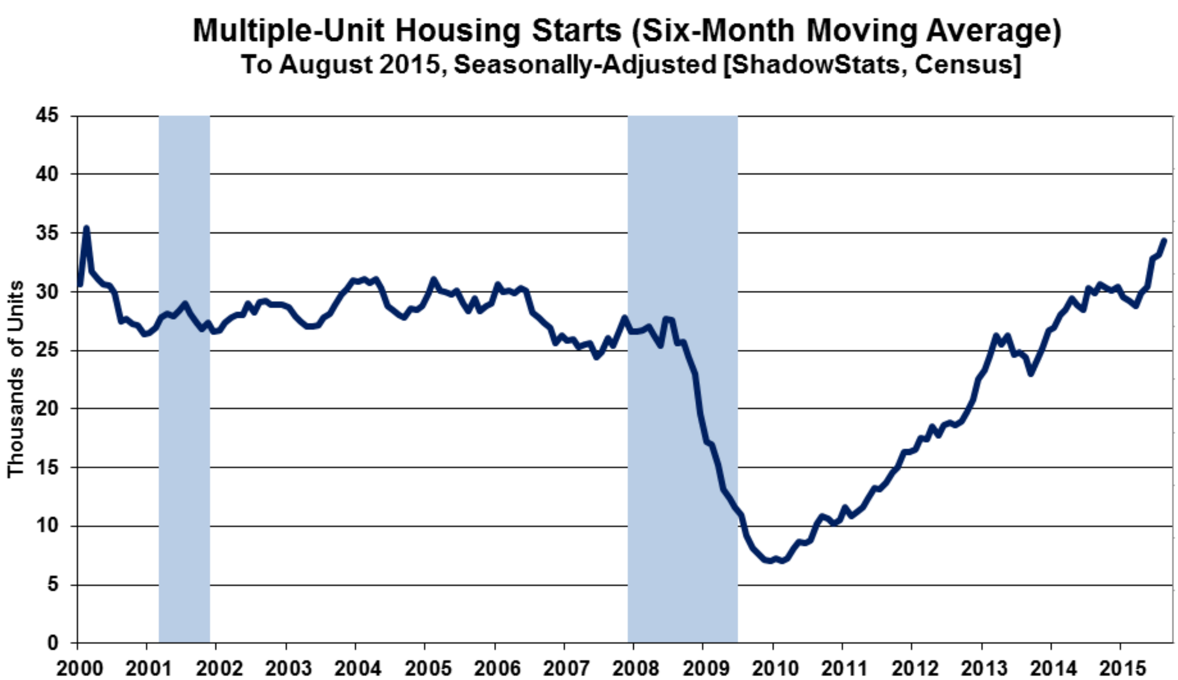
Graph 6: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



Graph 7: Multiple-Unit Housing Starts (Monthly Rate of Activity)



Graph 8: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,126,000 in August 2015, versus a revised 1,161,000 (previously 1,206,000) in July 2015. The scaling detail in the aggregate *Graphs 9* and *10* 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 headline 236,000 month-to-month gain in the annualized April 2015 housing starts was larger than any actual total (non-annualized) level of monthly starts ever, for single month. That is since related starts detail was first published after World War II.

Accordingly, the monthly rate of 93,833 units in August 2015, instead of the annualized 1,126,000-headline number, is used in the scaling of the preceding *Graphs 1* to *8* 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 August 2015 headline number was up by 136%, but it still was down by 50% (-50%) from the January 2006 pre-recession high. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is trending stagnant at low levels that otherwise have been at the historical troughs of recession activity of the last 70 years, as seen in *Graph 10* at the end of the *Reporting Detail* section.

[The* Reporting Detail *section includes some expanded detail of the August 2015 Residential Investment – Housing Starts numbers.]

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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 Hyperinflation. Other than for updated internal links and references, or minor language editing, the *Hyperinflation Outlook Summary* is unrevised.

Background Documents to this Summary. Underlying this *Summary* are *No. 742 Special Commentary: A World Increasingly Out of Balance* of August 10th, and *No. 692 Special Commentary: 2015 - A World Out of Balance* of February 2, 2015, which 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 two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. In terms of underlying economic reality, one other reference is the *Public Commentary on Inflation Measurement*. The regular *Commentaries* also update elements of the general outlook, as circumstances develop.

Primary Summary. The U.S. economy remains in ongoing downturn, while the U.S. dollar still faces a massive decline. Those factors, in confluence with extreme domestic fiscal imbalances, have implications for a meaningful upturn in domestic inflation evolving into a great hyperinflationary crisis.

Signs of systemic instability continue to mount, as the Fed faces the question of raising interest rates on Thursday, September 17th (see *Commentary No. 750*). The Fed's protracted unwillingness and/or inability to act decisively on increasing interest rates has been symptomatic of a financial system in serious distress. Continued inaction or waffling by the Fed is likely to trigger a shift in focus and concerns, of both the domestic and global financial markets, into the area of systemic instabilities, prospective or otherwise, that are so troubling to the U.S. central bank.

Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by eventual, unfettered monetization of the national debt and obligations, leading to a hyperinflation. As first estimated by ShadowStats in 2004, such hyperinflation appeared likely by 2020. That time horizon for the hyperinflation forecast was moved to 2014, because of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) responses to same. That hyperinflation forecast remains in place, but it has been adjusted to 2015 or 2016, as discussed in *No. 742* and *No. 692*.

The basic 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 *2014 Hyperinflation Report—The End Game Begins—First Installment Revised*.

Dollar Circumstance. Discussed in the background documents, 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 over-estimated by global markets looking to support the dollar.

The still 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 briefly backed off its highs, with some related upside pressure having been seen on oil prices. Pressures reversed recently, spiking the U.S. dollar—also hitting oil prices anew—with false domestic economic strength being touted by Wall Street, and with some in the Fed indicating that interest rates would be raised in September, irrespective of negative indications on the economy. Coincident, with these events, not-so-covert central-bank actions appear to have driven the price of gold lower, also in the context of mounting global financial-market instabilities.

The U.S. economy remains in contraction (see *Commentary No. 747* and the *Commentary No. 751*), with a variety of key indicators, such as industrial production, real retail sales and revenues of the S&P 500 companies showing recession. Although formal recognition could take months, consensus recognition of a "new" recession should gain relatively rapidly, in tandem with a variety of monthly, quarterly and annual data reflecting the downturn in business activity. When formal recognition comes, timing of the onset of the "new" recession likely will be December 2014.

As market expectations move towards an imminent, new recession, such should reduce not only expectations for a significant tightening in Fed policy—if the Fed has not tightened already—but also renew 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, also would 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 unwind what has 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. Further, oil prices should spike anew, along with a sharp reversal in the dollar's strength.

A crash back to recognition of more-realistic domestic-economic circumstances looms, possibly in the weeks and certainly in the months ahead. It should be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar (currencies with some perceived ties to gold); 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 risk for fueling further heavy selling of the dollar. Once in heavy downturn, the dollar's gains since June 2014 should reverse fully, pushing the exchange-rate value of the dollar to new historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies 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. The Fed's games now are on the brink of being played out or collapsing.

Indeed, the Fed still likely will move to normalize interest rates (see *Commentary No. 750* as well as those in *Commentary No. 726*), if it can get away with it. The FOMC meeting of June 17th apparently concluded that the Fed could not get away with it (see *Opening Comments* of *Commentary No. 729*). Actions by the FOMC on September 17th will be telling. The Panic of 2008 never was resolved, and the

Fed increasingly has found 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. Again, despite loud promises of higher rates next week, banking-system issues (not the economy) may keep the pending interest rate hike in a continual state of suspension.

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 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 in the near future, 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 banking system and to the increasingly unstable equity markets.

While higher domestic interest rates would tend to act as a dollar prop, a hike in rates also could crash the stock market, as some on Wall Street fear, triggering a round of other systemic problems. Again, there is no happy way out of this for the Fed.

The 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 likely will become dominated by deteriorating 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 and contracting production, 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 *Commentary No. 748*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle.

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of 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, with total net obligations of the U.S. government pushing $100 trillion, including the net present value of unfunded liabilities. Still, many in Washington look to continue increasing spending and to take on new, unfunded liabilities. 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 2014 monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury, but more of that lies ahead. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion of 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 the intensifying 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. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency 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 intensifying, 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 global financial instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly. Consider that China has been selling some of its U.S. Treasury debt holdings to raise cash in for its near-term financial needs. Again, much of the rest of the world also has been backing away from holding U.S. treasury securities.

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, still 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. See Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 742*, for other factors afoot in the current environment.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION—HOUSING STARTS (August 2015)

Broad Activity Continued in a Smoothed Pattern of Stagnation. The monthly detail of the aggregate housing-starts series continues to be of little meaning, other than as viewed in the context of a six-month moving average. The headline monthly decline of 3.0% (-3.0%) in August 2015 housing starts was subdued by downside revisions to July activity. The August contraction was 6.6% (-6.6%) versus the initial reporting of July 2015 activity, where consensus expectations [Bloomberg and Market Watch] had been for a headline monthly decline of 3.2% to 3.3% (-3.2% to -3.3%) against the initial July detail. None of those changes was or would have been statistically significant.

Nonetheless, with the current downside July revision, and a minor upside revision to June in place, the aggregate housing-starts count rose at a revised, annualized-quarterly pace of 96.3% [previously up by 94.8%, initially up by 87.4%] in second-quarter 2015. Based only on July and August reporting, however, third-quarter activity was trending towards an annualized contraction of 4.8% (-4.8%). Previously estimated based only on initial July reporting, third-quarter activity was trending towards an annualized 18.7% gain.

Smoothed Numbers. A general pattern of low-level stagnation continued in the broad series, as best viewed in terms of the longer-range historical graph of aggregate activity (*Graph 10*), at the end of this section, and in the context of flat- trending activity, smoothed by six-month moving averages, as shown in *Graphs 2*, *4* and *6* in the *Opening Comments* section.

Reflected in those smoothed graphs, the aggregate housing-starts series ticked minimally higher in August, reflecting an upside movement in both the smoothed single-unit and multiple-unit starts categories. Although there has been a minor upside trend in the broad stagnation of the aggregate series, total housing-starts activity has remained well below any recovery level, holding at 50% (-50%) below its pre-recession high.

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.). Recent activity in multiple-unit starts actually has recovered to above pre-recession activity, again, in the context of extreme month-to-month volatility. Even so, the recent impact of that recovery largely has been lost in the detail of total housing starts.

Consumer Liquidity Problems Continues to Impair Housing Activity. On a per-structure basis, activity in housing starts is dominated by the single-unit housing starts category, which has remained broadly 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 primary, underlying difficulty for the housing market remains intense, structural-liquidity constraints on 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, and was discussed and fully updated in the *Opening Comments* of yesterday's September 16th *Commentary No. 752*.

Without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. 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 still does not appear to be in the offing.

August 2015 Housing-Starts Headline Reporting. The Census Bureau reported this morning, September 17th, a statistically-insignificant, seasonally-adjusted headline monthly decline of 3.0% (-3.0%) +/- 13.2% (all confidence intervals are expressed at the 95% level) in August 2015 housing starts (see *Graphs 3* and *4*). That followed a revised decline of 4.1% (-4.1%) [previously a gain of 0.2%] in July, and a revised gain of 13.0% [previously up by 12.3%, initially up by 9.8%] in June. Net of prior-period revisions, August 2015 housing starts fell by a still statistically-insignificant 6.6% (-6.6%) for the month, instead of the headline drop of 3.0% (-3.0%).

Year-to-year change in the seasonally-adjusted, aggregate August 2015 housing-starts measure was a statistically-significant gain of 16.6% +/- 12.2%, versus a revised annual gain of 6.0% [previously 10.1%] in July 2015 and a revised gain of 30.6% [previously up by 29.9%, initially up by 26.6%] in June 2015.

The headline August 2015 monthly contraction of 3.0% (-3.0%) in total housing starts reflected a headline monthly drop of 3.0% (-3.0%) in the "one unit" category, and a decline of 2.3% (-2.3%) in the "five units or more" category. None of the headlines 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 August 2015 fell month-to-month by a statistically-insignificant 3.0% (-3.0%) +/- 11.5%, following a revised monthly gain of 10.9% [previously up by 12.8%] in July and a revised decline of 1.4% (-1.4%) [previously down by 0.6% (-0.6%), initially down by 0.9% (-0.9%)] in June. Single-unit starts for August 2015 showed a statistically-significant year-to-year annual gain of 14.9% +/- 13.2%, versus a revised annual gain of 16.0% [previously up by 19.0%] in July 2015 and revised gain of 15.1% [previously up by 16.1%, initially up by 14.7%] in June 2015 (see *Graphs 5* and 6.

Housing starts for apartment buildings (generally 5-units-or-more) in August 2015 fell month-to-month by a statistically-insignificant 2.3% (-2.3%) +/- 33.1%, versus a revised monthly decline in July of 23.5% (-23.5%) [previously down by 17.1% (-17.1%)] and a revised gain of 39.3% [previously up by 36.1%, initially up by 28.6%] in June. The August 2015 year-to-year contraction of 24.5% +/- 28.7%, which was statistically insignificant, followed a revised annual contraction of 7.5% (-7.5%) [previously down by 2.1% (-2.1%)] in July 2015 and a revised annual gain of 70.2% [previously up by 62.2%, initially up by 55.0%] in June 2015.

Expanding the multi-unit 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 (see *Graphs 1, 2, 7* and *8*).

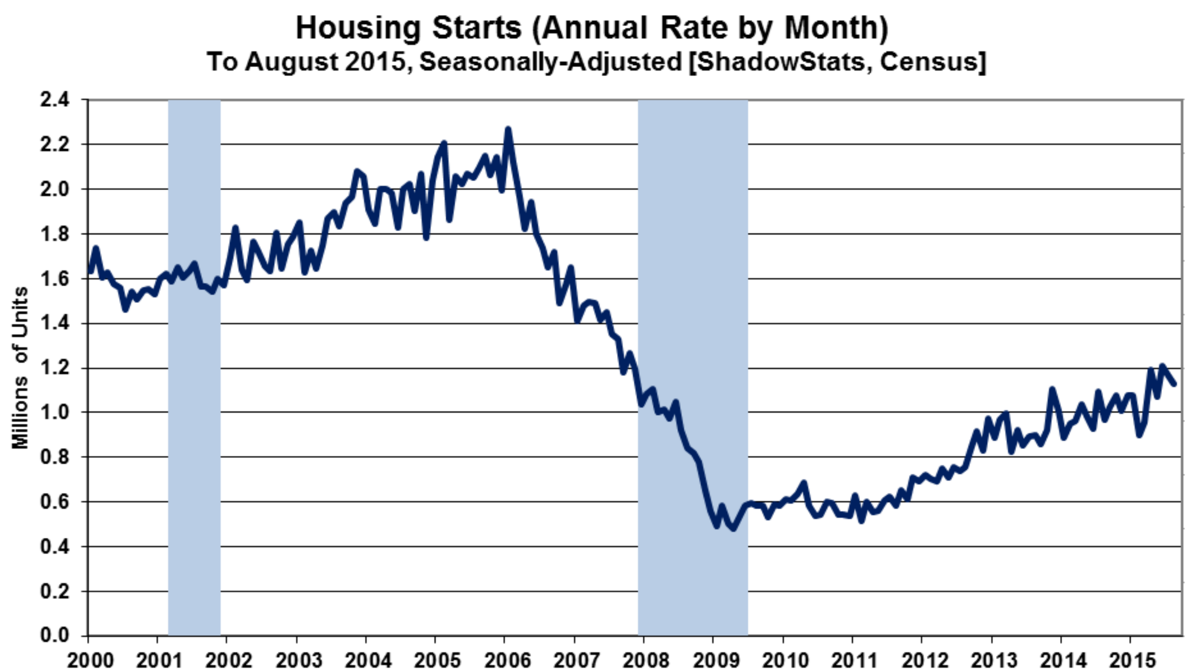
Accordingly, the statistically-insignificant August 2015 monthly contraction of 3.0% (-3.0%) in aggregate housing starts was composed of parallel, statistically-insignificant declines of 3.0% (3.0%) in both one-unit structures and in the multiple-unit structures categories (2-units-or-more, including 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 1,126,000 in August 2015, versus a revised 1,161,000 (previously 1,206,000) in July 2015. That scaling detail, in terms of an annualized monthly rate is used in the aggregate *Graphs 9* and *10* at the end of this section.

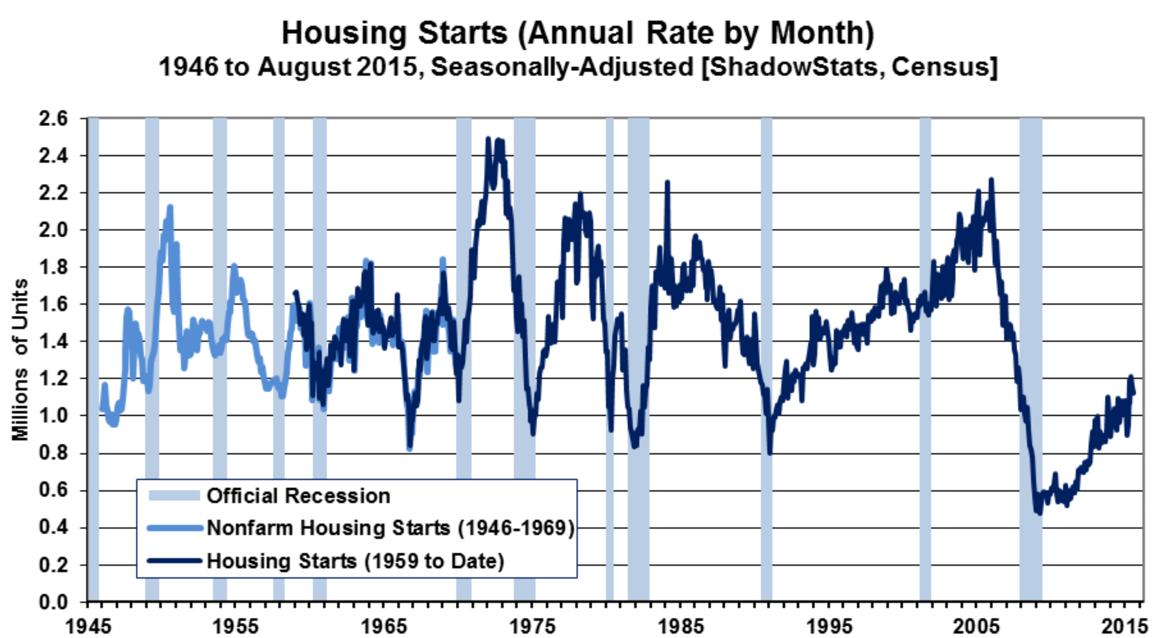
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 236,000 month-to-month gain in the annualized April 2015 housing starts was larger than any actual total (non-annualized) level of monthly starts ever, for single month. That is since related starts detail was first published after World War II.

Accordingly, the monthly rate of 93,833 units in August 2015, instead of the annualized 1,126,000-headline number, is used in the scaling of *Graphs 1* to *8* shown in the *Opening Comments* section. 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.

Graph 9: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date



Graph 10: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date



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 August 2015 headline number was up by 136%, but it still was down by 50% (-50%) from the January 2006 pre-recession high. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is trending stagnant at low levels that otherwise have been at the historical troughs of recession activity of the last 70 years, as seen in the accompanying *Graph 10*.

WEEK AHEAD

Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices. Still in a fluctuating trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless tend to move with the latest economic hype in the popular media. That general effect holds the consensus outlook at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Again, though, the expectations trend generally has continued to soften.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with an eventual downside revision to the recently, upwardly-revised second-quarter GDP estimate, and along with likely downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GDP) into 2016.

CPI-U consumer inflation—driven lower earlier this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. It turned positive in June 2015, for the first time in six months, notched somewhat higher in July and still somewhat higher in August, despite a headline monthly decline in gasoline prices and a minimal decline in the headline monthly CPI-U.

Upside inflation pressures should continue to build, particularly as oil prices begin to rebound, once again, a process that eventually should accelerate rapidly, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends were reviewed broadly, recently, in *No. 742 Special Commentary: A World Increasingly Out of Balance*, *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. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten years—have 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, discussed and 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 RELEASES:

Existing- and New-Home Sales (August 2015). August 2015 existing-home sales are due for release on Monday, September 21st, from the National Association of Realtors (NAR), with the August 2015 new-home sales report due from the Census Bureau on Thursday, September 24th. The detail from both series will be covered in the next ShadowStats regular *Commentary No. 754* of September 24th.

The primary, underlying difficulty for the housing market remains intense, structural-liquidity constraints on 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 and updated fully in *Commentary No. 752*. There remains no chance of a near-term, sustainable turnaround in the housing market, until there has been a fundamental upturn in consumer and banking-liquidity conditions. Accordingly, prospects for rising home-sales activity remain bleak.

With a longer-term flat trend in headline Existing-Home Sales, despite recent headline monthly gains, some downside catch-up in month-to-month activity is a fair possibility for August 2015 reporting. Smoothed for extreme and nonsensical monthly gyrations, an ongoing pattern of stagnation or downturn in New-Home Sales also should continue. Monthly changes in activity here rarely are statistically-significant, amidst otherwise unstable headline monthly reporting and revisions.

Again, reflecting deteriorating consumer issues, both New- and Existing-Home Sales increasingly should reflect downside volatility in headline reporting.

New Orders for Durable Goods (August 2015). The Census Bureau will report August 2015 new orders for durable goods on Thursday, September 24th. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation.

Net of commercial aircraft orders, real durable goods orders contracted quarterly in fourth-quarter 2014 and first-quarter 2015, but were to the upside in initial reporting of second-quarter 2015 and in early third-quarter 2015, despite an intensifying plunge in year-to-year activity. Increasingly-negative orders growth remains likely for the August 2015 detail.

Commercial 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. As a result, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity and GDP—is the activity in new orders, ex-commercial aircraft.

Gross Domestic Product—GDP (Second-Quarter 2015, Third Estimate, Second Revision). The Bureau of Economic Analysis (BEA) will publish its third estimate of, second revision to second-quarter 2015 GDP on Friday, September 25th. As discussed with the first revision to second-quarter GDP (see *Commentary No. 747*), the more relevant reporting appeared to be in the initial headline detail of second-quarter Gross Domestic Income (GDI). GDI basically was flat in first-half 2015, which was consistent with the headline reporting for industrial production and real retail sales in the same period, unlike the above-average economic growth indicated in the strong upside first revision to the initial second-quarter GDP estimate.

While there could be a small downside revision to in the third estimate of the headline GDP, the more-telling story well may be seen in the second estimate, first-revision to the GDI.

