

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

COMMENTARY NUMBER 768
October Housing Starts, Economic Review

November 18, 2015

**Downwardly-Revised Housing Starts at Seven-Month Low,
Declined Monthly, Quarterly and Annually**

Contraction Indicated for Fourth-Quarter Housing Starts

**Third-Quarter 2015 GDP Growth Generally Should Revise Lower,
Fourth-Quarter 2015 GDP Increasingly Faces a Quarterly Downturn**

**Total Housing Starts Down 53% (-53%), Single-Unit Starts Down 60% (-60%)
From Pre-Recession Highs**

**Intensifying U.S. Economic Weakness
Should Become Dominant Concern of U.S. Financial Markets**

PLEASE NOTE: The next regular Commentary, scheduled for Tuesday, November 24th, will cover the second estimate of, first revision to third-quarter 2015 GDP and October Existing-Home Sales. A subsequent missive on Wednesday, November 25th, will cover October New Orders for Durable Goods and New-Home Sales.

Best wishes to all! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Recent Reporting Has Pummeled Near-Term Prospects for Headline Economic Growth. There has been a significant, adverse shift in current headline economic reporting, and increasing recognition of that phenomenon should begin having negative impact in the financial markets, as expectations rapidly shift towards a “new” recession at hand.

Looming in the next week could be a downside surprise with the November 24th GDP revision (see the *Week Ahead* section). Despite mixed pressures from economic reporting and revisions of the last month, subsequent to the “advance” third-quarter GDP growth rate of 1.5%, a downside revision remains a fair shot. Still, some expect an upside revision to what initially had been disappointing third-quarter activity.

Separately, recent initial October reporting of key series has generated early signals of a pending fourth-quarter 2015 GDP contraction. Market expectations for the fourth-quarter GDP likely will weaken rapidly in response, hitting domestic markets and the U.S. dollar hard, as discussed in the *Hyperinflation Watch* of yesterday’s [Commentary No. 767](#).

Negative Economic Signals Today and Yesterday. Today’s (November 18th) headline detail for October 2015 housing starts showed third-quarter 2015 growth for the series revising from a quarterly gain to a quarterly contraction, with downside implications for the GDP revision.

Separately, headline October 2015 housing starts provided an early indication of a sharp contraction in fourth-quarter activity, with negative implications for fourth-quarter 2015 GDP growth.

Revision and reporting patterns similar to the Housing Starts were seen in October Real Retail Sales. Noted in yesterday’s [Commentary No. 767](#), headline real activity in retail sales also was suggestive of downside revision to third-quarter activity and a fourth-quarter contraction. Further, while October Industrial Production also gave an early indication of a fourth-quarter contraction, it reflected an upside revision to third-quarter activity.

The advance estimate of fourth-quarter 2015 GDP is due for release at the end of January 2016, but market perceptions should move rapidly in the direction of a fourth-quarter GDP contraction and an unfolding “new” recession within the next month or so.

Third-Quarter GDP Revision Likely Will Take the Growth Rate Lower, But Not Negative, Yet. Getting back to the pending first revision to third-quarter GDP, consider also that against the trade detail used in the first or “advance” estimate of third-quarter GDP, subsequent trade-deficit reporting indicated likely negative impact on the GDP revision (see [Commentary No. 764](#)). Such is in line with the negative-revision pressures from Real Retail Sales and Housing Starts.

Pressures from the headline October employment reporting generally would support an upside revision to third-quarter GDP, but the reporting quality there is so poor that its impact probably best would be

described as mixed (see [Commentary No. 765](#)). Such would be more in line with the third-quarter indications from the Industrial Production series.

Also pending with the GDP revision will be the first estimates of the third-quarter GDP alternatives, Gross Domestic Income (GDI) and Gross National Product (GNP). As of the final second-quarter reporting, the GDI, which is a GDP equivalent, was showing broadly flat activity in first-half 2015, much closer to actual production and retail sales reporting than was the headline GDP detail.

Unfolding U.S. Economic Downturn Should Begin to Take an Increasing Toll on the U.S. Dollar and the Financial Markets. Again, as noted in yesterday's [Commentary No. 767](#), increasingly coming into focus is one of the stronger, negative fundamental factors that can hit the U.S. dollar and financial markets: a recession. Seen in the most-recent headline economic reporting, the U.S. economy continues to slow down, with the unfolding of a new and current recession at the brink of gaining rapid and broad recognition in the markets. This recession also should gain recognition rapidly as one that will not be remedied easily by the Federal Reserve or the U.S. federal government.

Exacerbated by whatever other concerns or shocks that could hit the markets, including what likely will be continued inaction, befuddlement and/or obvious impotency of the Federal Reserve Board and its Federal Open Market Committee (FOMC), global markets increasingly should shift away from the U.S. dollar in favor of other major currencies and precious metals. Nonetheless, a severe and intractable recession should dominate the impact of most other factors.

The dynamics of intensifying, negative shifts in global perceptions of U.S. economic activity and U.S. systemic stability rapidly should gain dominance in driving the U.S. currency and equity markets, irrespective of any U.S. Treasury or Federal Reserve activity, or lack of same. Continuing strength in the exchange-rate value of the U.S. dollar against other major Western currencies has been the primary distorting element in various financial markets and global circumstances. Global financial markets have become increasingly vulnerable to shocks, along with mounting domestic and global economic and political instabilities. ShadowStats continues to look for a massive flight from the U.S. dollar in the year ahead, to the stronger Western currencies and precious metals, likely much sooner than later, and quite possibly with little advance warning.

Today's Commentary (November 18th). The balance of these *Opening Comments* provides summary coverage of October Housing Starts. The *Hyperinflation Outlook Summary* has not changed since its November 4th revisions.

The *Week Ahead* previews the October Existing- and New-Home Sales and New Orders for Durable Goods releases as well as the second estimate of, first revision to third-quarter 2015 GDP. The GDP outlook also is discussed in the opening paragraphs of these *Opening Comments*.

Housing Starts—October 2015—Amidst Monthly, Quarterly and Annual Headline Contractions, and Downside Revisions, Broad Activity Continued a Smoothed Pattern of Stagnation. Other than taking a major shift to the downside, the headline reporting detail of the aggregate housing-starts series continued to be of little meaning, unless viewed in the context of a six-month moving average. The

monthly contraction of 11.0% (-11.0%) in October 2015 housing starts was muted by a downside revision to September 2015 activity, yet it came in well below already-negative market expectations. As usual, though, not one aggregate headline contraction—month-to-month, year-to-year, before-or-after revisions or consensus expectations—was close to being meaningful, as measured by statistical significance. That said, in terms of both the level of and a renewed annual contraction October's headline activity, the headline October 2015 housing-starts report was the weakest in seven months, since March 2015.

Quarterly Growth Turned Negative in Third-Quarter and Prospectively for Fourth-Quarter 2015. With headline negative detail in October, and downside revisions to August and September detail, the aggregate housing-starts count fell at a revised annualized-quarterly pace of 1.6% (-1.6%) [previously up by 2.0%]. Such slowed markedly from the unrevised annualized-quarterly growth pace of 96.3% in second-quarter 2015, versus the unrevised contraction of 26.2% (-26.2%) in first-quarter 2015.

Based on October's one-month reporting, the aggregate housing-starts count was on target to contract an annualized quarterly pace of 28.6% (-28.6%) in fourth-quarter 2015.

Smoothed Numbers. A general pattern of low-level stagnation continued, with its up-trending pattern faltering with the latest headline detail. This is viewed best in terms of the longer-range historical graph of aggregate activity (*Graph 10* in the *Reporting Detail*) and particularly in the context of the headline activity, smoothed by a six-month moving average, as shown in accompanying *Graphs 2* and *4*. Where a minor upside trend in the broad stagnation of the aggregate series may be stalling, total October housing-starts activity remained well below any recovery level, down 53% (-53%) from its pre-recession high.

Separately, the dominant, single-unit housing starts component of the series (*Graphs 5* and *6*) remained down by 60% (-60%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs, the aggregate housing-starts series ticked minimally lower in October, reflecting downside movement in both the six-month smoothed single-unit (*Graph 6*) and multiple-unit starts (*Graph 8*) categories, where monthly activity declined for the month in both series.

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 had recovered to above pre-recession levels, again, in the context of extreme month-to-month volatility. Even so, the recent impact of that recovery may be fading, and otherwise it largely has been lost in the detail of total housing starts.

Consumer Liquidity Problems Continue to Impair Housing Activity. On a per-structure basis, housing starts volume, again, 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, as updated and discussed more fully in [Commentary No. 766](#).

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, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

October 2015 Housing-Starts Headline Reporting. Headline October 2015 Housing Starts was at the lowest level in seven months, since March 2015, while year-to-year change in the series turned negative in October, also for the first time since March. Although all the national aggregates turned lower in October, not one of the monthly or annual declines was statistically-significant, but such is a common feature of the monthly headline housing-starts detail.

In the context of downside revisions to previous August and September reporting, the Census Bureau reported today, November 18th, a statistically-insignificant, seasonally-adjusted, headline monthly decline of 11.0% (-11.0%) in October 2015 housing starts. Such followed a revised monthly gain of 6.7% in September, and a revised monthly contraction in August of 3.1% (-3.1%). Net of prior-period revisions, October 2015 housing starts fell by a still-statistically-insignificant 12.1% (-12.1%) for the month, instead of the headline drop of 11.0% (-11.0%). The level-of- activity detail is plotted in *Graphs 1 to 4* and in *Graphs 9 to 10 (Reporting Detail)*.

Year-to-year change in the seasonally-adjusted, aggregate October 2015 housing-starts measure was a statistically-insignificant contraction of 1.8% (-1.8%), versus a revised annual gain of 16.1% in September 2015 and a revised annual gain of 15.5% in August 2015.

The October 2015 monthly contraction of 11.0% (-11.0%) in total housing starts reflected a headline monthly decline of 2.4% (-2.4%) in the “one unit” category, and a plunge of 25.5% (-25.5%) in the “five units or more” category. Again, none of those headline monthly declines was statistically-significant.

By-Unit Category. Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

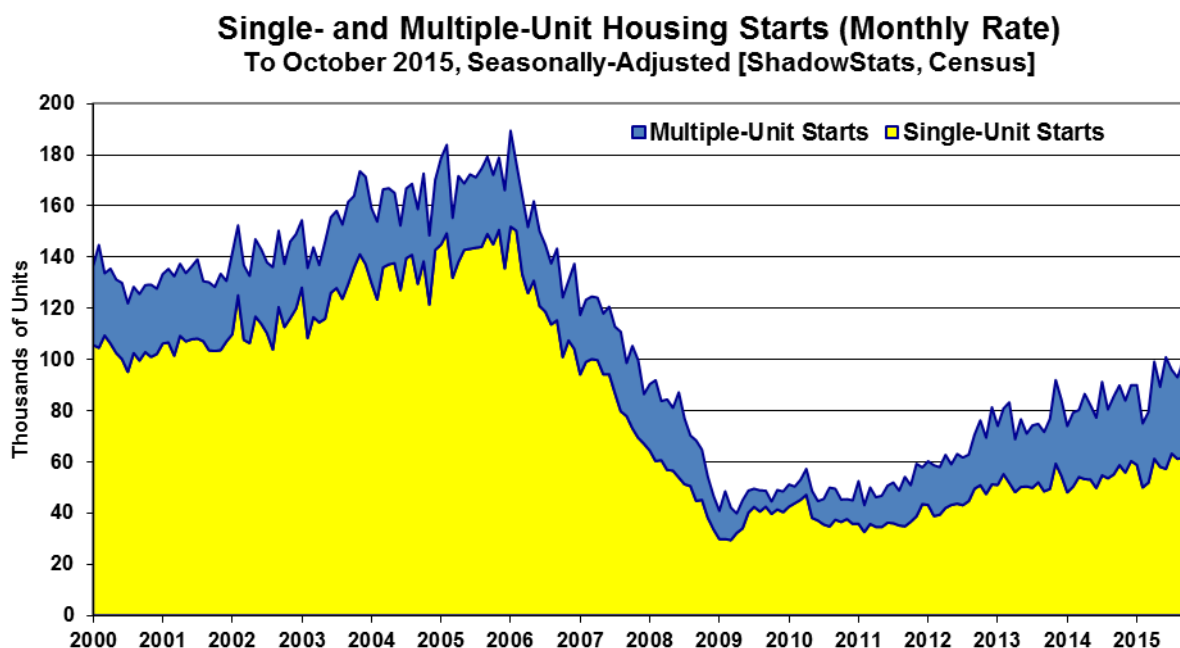
Housing starts for single-unit structures in October 2015 declined month-to-month by a statistically-insignificant 2.4% (-2.4%), following a revised monthly gain of 0.8% in September and a revised contraction of 3.3% (-3.3%) in August. Single-unit starts for October 2015 showed a statistically-insignificant year-to-year annual gain of 2.4%, versus an unrevised annual gain of 12.0% in September 2015 and a downwardly-revised 14.2% gain in August (see *Graphs 1, 2, 5* and 6).

Housing starts for apartment buildings (generally 5-units-or-more) in October 2015 fell month-to-month by a statistically-insignificant 25.5% (-25.5%), versus a revised monthly gain of 16.8% in September and a revised monthly decline of 1.6% (-1.6%) in August. The statistically-insignificant October 2015 year-to-year decline of 8.4% (-8.4%), followed a revised 24.4% year-to-year gain in September 2015 and a revised annual gain of 22.9% in August 2015.

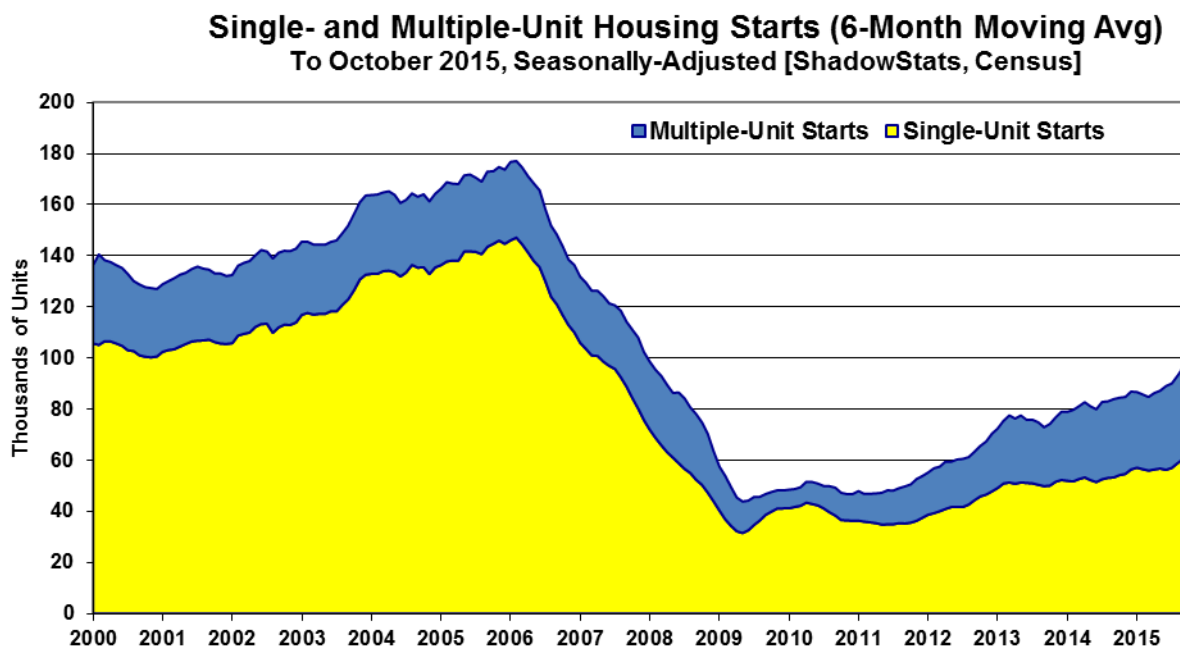
Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the 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 October 2015 monthly contraction of 11.0% (-11.0%) in aggregate starts was composed of parallel, statistically-insignificant declines of 2.4% (-2.4%) in one-unit structures and a monthly decline of 25.1% (-25.1%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). Again, these series all are graphed in this section.

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)



Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,060,000 in October 2015, versus a revised 1,191,000 in September 2015. The scaling detail in the aggregate *Graphs 9* and *10* at the end of the *Reporting Detail* section reflects those annualized numbers.

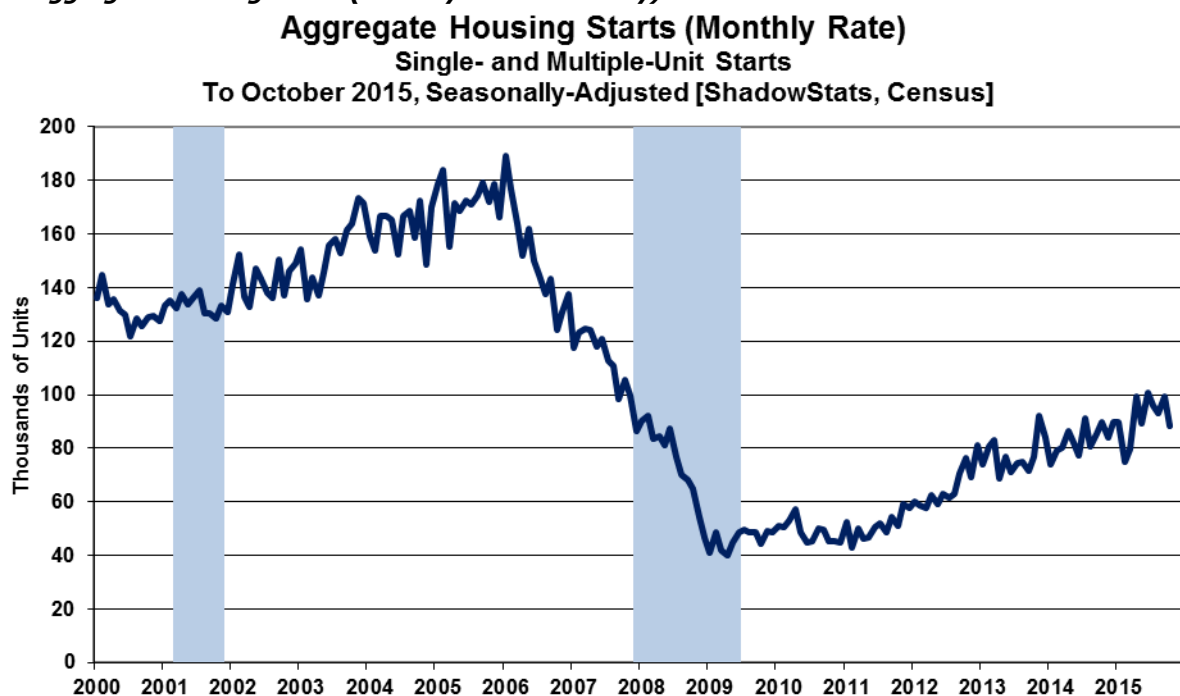
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 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 a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 88,333 units in October 2015, instead of the annualized 1,060,000-headline number, is used in the scaling of the accompanying *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, as can be seen in a comparison of *Graph 3* versus *Graph 9* in the *Reporting Detail*.

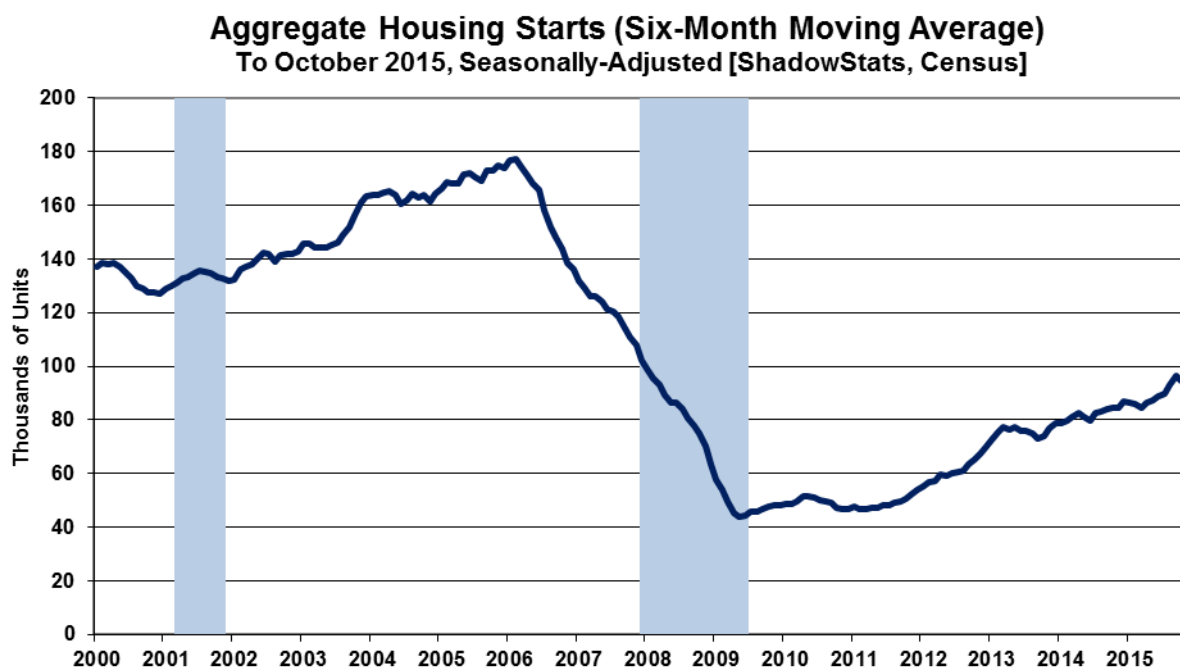
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the October 2015 headline number was up by 121%, but it still was down by 53% (-53%) from the January 2006 pre-recession high. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in up-trending stagnation at low levels that otherwise have been at or near the historical troughs of recession activity of the last 70 years, as seen in *Graph 10* at the end of the *Reporting Detail* section.

(Graphs 3 to 8 follow on next page)

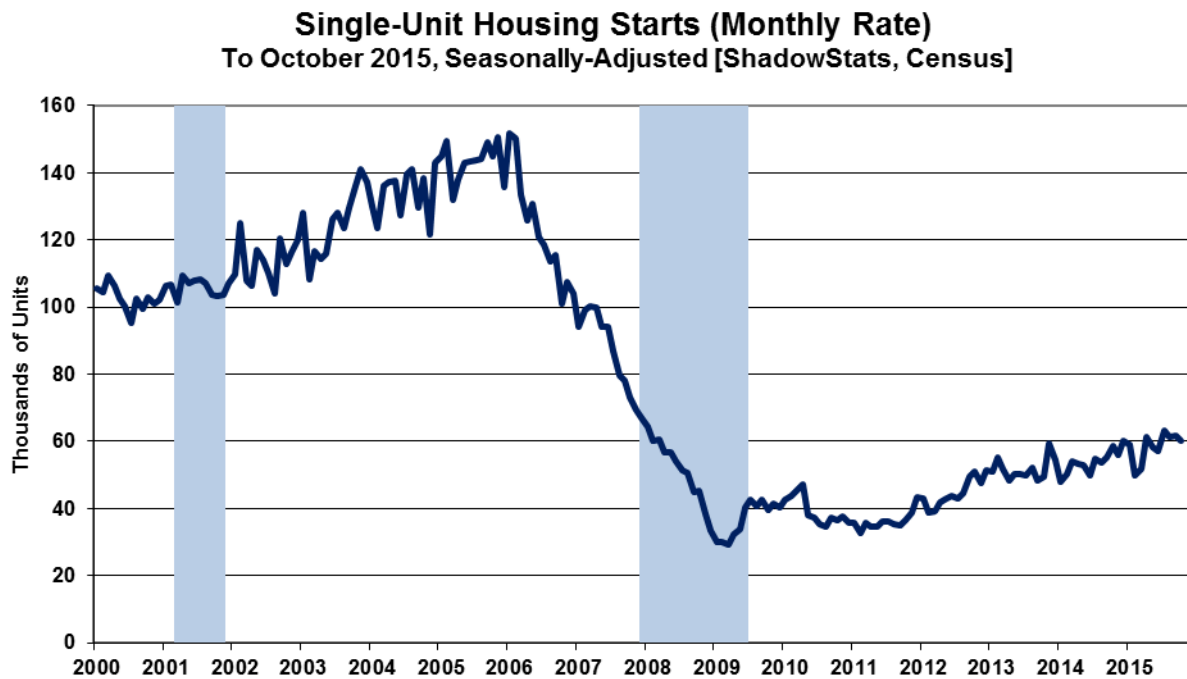
Graph 3: Aggregate Housing Starts (Monthly Rate of Activity)



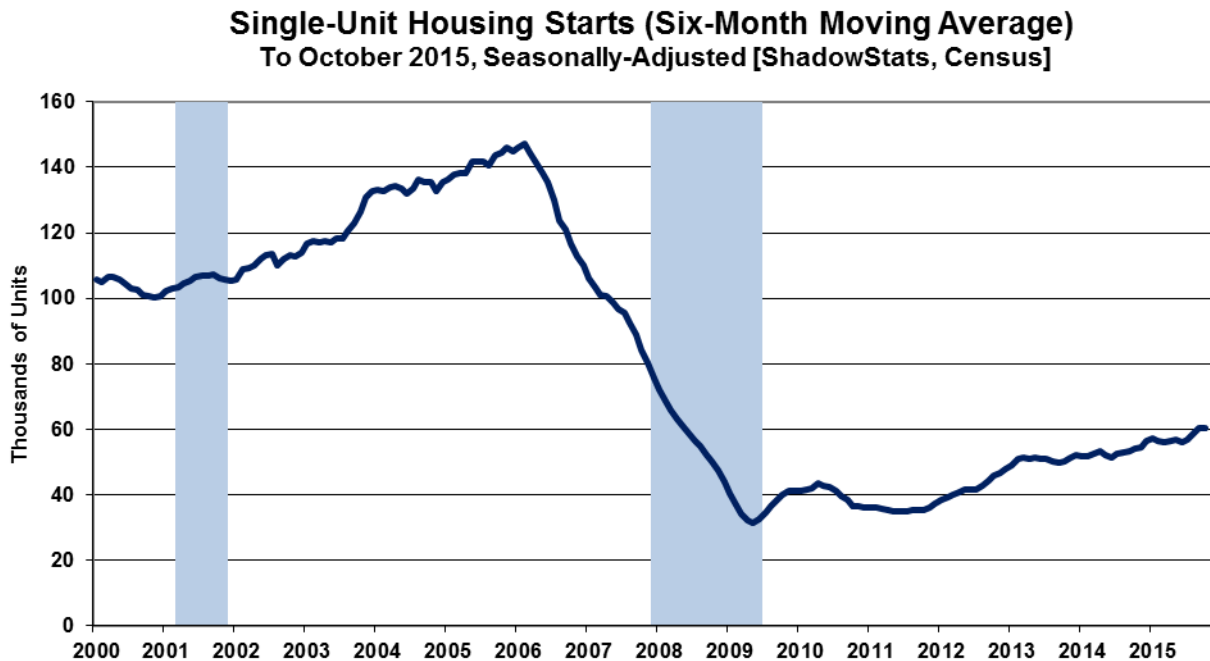
Graph 4: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



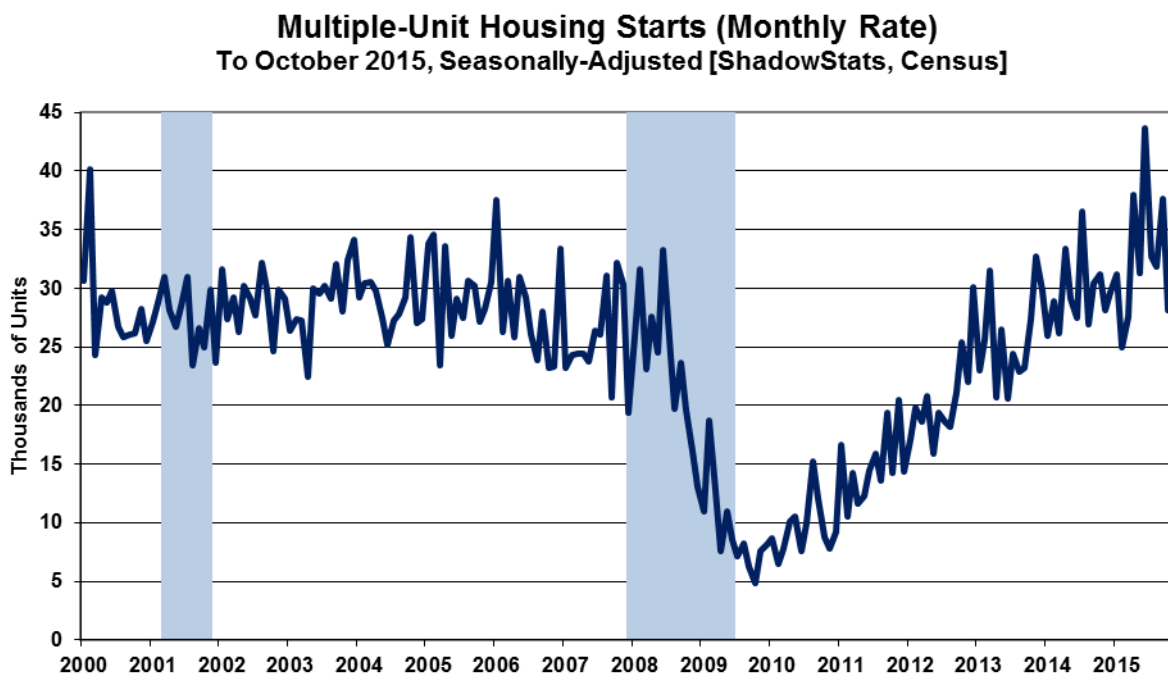
Graph 5: Single-Unit Housing Starts (Monthly Rate of Activity)



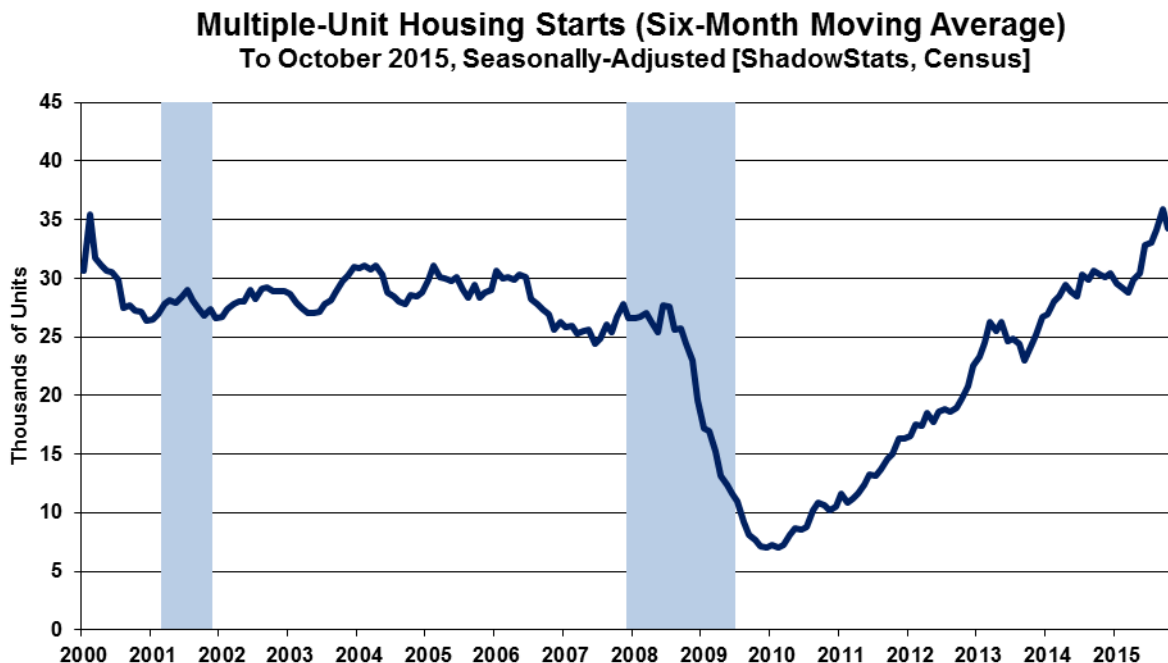
Graph 6: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



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



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



[The Reporting Detail section includes further graphs and added information on Housing Starts.]

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY (of November 4, 2015)

U.S. Dollar Is Living on Borrowed Time. Other than for internal links and minor language corrections, this *Summary* last was updated on November 4th, covering recent developments with the Federal Reserve, with domestic political and fiscal conditions and with evolving economic conditions. There has been no fundamental shift in the broad outlook, just some general movement forward in variety of related areas. With future updates, new comments will be concentrated in the *Recent Developments* section. The prior *Hyperinflation Outlook Summary* is available in [Commentary No. 762](#).

Recent Developments. Discussed in [Commentary No. 763](#) of October 29th and [Commentary No. 764](#) of November 4th, where initial third-quarter GDP growth came in at 1.5%, slowing sharply from second-quarter activity of 3.9%, downside revisions now loom for the third-quarter number. In the context of an ongoing contraction in underlying economic reality, as seen for example with corporate revenues and industrial production, headline third-quarter GDP reporting likely will slow much further in its pending monthly revisions, accelerating the pace of broad market recognition of a “new” recession.

A widening trade deficit and slowing economic activity have significant negative implications, ranging from selling pressure on the U.S. dollar, to unexpected and additional widening of the federal budget deficit and U.S. Treasury funding needs, to increased political volatility in what already is shaping up as an extraordinarily-significant presidential election year.

When Main Street U.S.A. suffers enough financial and other pain, the common reaction, historically, has been to dump those running the system. That pain threshold was crossed some time ago, and the year ahead assuredly will not be a happy one for many incumbents or for those who are counting on politics as usual.

That said, a heavily politics-as-usual new budget deal was just forced into place. With promised higher deficit spending, and with no debt limit to contain continuing excesses until after the election, who is going to fund the expanded spending ahead? Who is going to buy the proffered U.S. Treasury securities? Recent big buyers such as China, Japan and the Federal Reserve either are selling for a variety of reasons or otherwise are sitting on their hands.

The U.S. Dollar is living on borrowed time, and the confluence of the factors raised here remains likely to push the U.S. dollar into a heavy sell-off.

Discussed in [Commentary No. 763](#), [Commentary No. 765](#) and [Commentary No. 767](#), the weak economy continues as political cover for the Federal Reserve and for continued FOMC inaction, masking serious other problems in the domestic and global financial systems. One likely major concern has to be for continued stability and liquidity of the market for U.S. Treasury securities. Beyond domestic and global banks, the biggest beneficiary of QE3 was the U.S. Treasury.

As previously noted, if the FOMC were to keep holding back on its rate increase until after the economy improved, the wait for a rate hike would be quite protracted. From a practical standpoint, meaningful FOMC action still appears to be on hold until after the 2016 presidential election. In the event of any funding issues for the Treasury, however, flailing domestic economic activity still will be able to provide cover for expanded quantitative easing, and for the Fed resuming its role as buyer of last resort of an increasingly unwanted supply of U.S. Treasury securities.

Of such circumstances are currency crises created.

Nothing has changed here, including the ShadowStats broad outlook for ongoing economic stagnation and downturn, intensifying systemic instabilities and a looming massive decline in the U.S. dollar. Along with the pending dollar crisis are the ongoing implications ultimately for severe inflation, for a domestic hyperinflation.

Background Documents to this Summary. Underlying this *Summary* as general background 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 weekly *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 continues to face a massive decline in the wake of the extraordinary rally seen since June 2014, and in the context of a renewed economic downturn, ongoing domestic fiscal imbalances and ongoing financial-system instabilities. Financial-system concerns, including possible Treasury-funding issues, likely are behind the unwillingness of the Federal Reserve's Federal Open Market Committee (FOMC) to raise interest rates. Those factors have implications for a meaningful upturn in domestic inflation, eventually evolving into a great hyperinflationary crisis.

Fed policy inaction, if anything, has exacerbated the long-term economic stagnation and renewed business downturn, where the quantitative easings always were intended as covert bailouts for the banking system, not as stimuli for the economy. Instead, the weak economy regularly was used as political cover for the effective banking-system bailouts (see for example, the *Monetary Conditions* section in [Commentary No. 765](#)).

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 into 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, and despite some fluttering, into August and September, there was some temporary easing of the dollar's strength in October (see [Commentary No. 759](#) and [Commentary No. 767](#)). Initially, the rally reflected 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, and more recently to confirm fears 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 once again, 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 (such did not happen), or now by the end of the year. Coincident, with these events, ongoing and 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. 763](#)), with a variety of key indicators, such as industrial production, real retail sales and revenues of the S&P 500 companies continuing to show 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 recession likely will be December 2014.

As market expectations move towards an imminent, new recession, such not only should reduce expectations for a significant tightening in Fed policy, but also should 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 should 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. Again, Fed tightening likely is not now on the horizon until after the 2016 presidential election. Suggestions that all was right again with world were nonsense. The Fed's games likely now will be played out as far as possible, with hopes, once again, of avoiding a financial-system collapse.

Continued inaction by the FOMC is 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 now of higher rates before year-end or next year, banking-system or other systemic-liquidity issues (not the economy) may keep the "pending" interest rate hike in a continual state of suspension. The economy certainly will supply continuing political cover for the Fed's "inaction," with the U.S. central bank having lost control of the system.

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. 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 for, 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 political system, 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. 766](#)). Sharply-negative economic reporting shocks, versus softening consensus forecasts, 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, with the White House and Congress recently having placed any official solvency concerns on hold until after the November 2016 election. What remains to be seen is for how long the concerns of the global financial markets will remain on hold.
- ***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 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 remain nil. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and 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 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. Slack demand for U.S. Treasuries always can be taken up by the Federal Reserve's renewed monetization of the debt.

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 handling the hyperinflation crisis and [No. 742](#), for other factors afoot in the current environment.

REPORTING DETAIL

RESIDENTIAL INVESTMENT (October 2015)

Amidst Monthly, Quarterly and Annual Headline Contractions, and Downside Revisions, Broad Activity Continued a Smoothed Pattern of Stagnation. Other than taking a major shift to the downside, the headline reporting detail of the aggregate housing-starts series continued to be of little meaning, unless viewed in the context of a six-month moving average. The monthly contraction of 11.0% (-11.0%) in October 2015 housing starts was muted by a downside revision to September 2015 activity, yet it still came in well below already-negative market expectations. As usual, though, not one aggregate headline contraction—month-to-month, year-to-year, before-or-after revisions or consensus expectations—was close to being meaningful, as measured by statistical significance. That said, in terms of both the level of and a renewed annual contraction October's headline activity, the headline October housing-starts report was the weakest in seven months, since March 2015.

Quarterly Growth Turned Negative in Third-Quarter and Prospectively for Fourth-Quarter 2015. With headline negative detail in October, and downside revisions to August and September detail, the aggregate housing-starts count fell at a revised annualized-quarterly pace of 1.6% (-1.6%) [previously up by 2.0%]. Such slowed markedly from the unrevised annualized-quarterly growth pace of 96.3% in second-quarter 2015, versus the unrevised contraction of 26.2% (-26.2%) in first-quarter 2015.

Based on October's one-month reporting, the aggregate housing-starts count was on target to contract an annualized pace of 28.6% (-28.6%) in fourth-quarter 2015.

Smoothed Numbers. A general pattern of low-level stagnation continued, with its up-trending pattern faltering with the latest headline detail. This is viewed best in terms of the longer-range historical graph of aggregate activity (*Graph 10*), at the end of this section, and particularly in the context of the headline activity, smoothed by a six-month moving average, as shown in *Graphs 2 and 4* in the *Opening Comments* section. Where a minor upside trend in the broad stagnation of the aggregate series may be stalling, total October housing-starts activity remained well below any recovery level, down 53% (-53%) from its pre-recession high.

Separately, the dominant, single-unit housing starts component of the series (*Graphs 5 and 6* in the *Opening Comments*) remained down by 60% (-60%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs in the *Opening Comments*, the aggregate housing-starts series ticked minimally lower in October, reflecting downside movement in both the six-month smoothed single-unit (*Graph 6*) and multiple-unit starts (*Graph 8*) categories, where monthly activity declined for the month in both series.

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 had recovered to above pre-recession levels, again, in the context of extreme month-to-month volatility. Even so, the recent impact of that recovery may be fading, and otherwise it largely has been lost in the detail of total housing starts.

Consumer Liquidity Problems Continue to Impair Housing Activity. On a per-structure basis, housing starts volume, again, 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, as updated and discussed more fully in [Commentary No. 766](#).

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, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

October 2015 Housing-Starts Headline Reporting. Headline October 2015 Housing Starts was at the lowest level in seven months, since March 2015, while year-to-year change in the series turned negative in October, also for the first time since March. Although all the national aggregates turned lower in October, not one of the monthly or annual declines was statistically significant, but such is a common feature of the monthly headline housing-starts detail.

In the context of downside revisions to previous August and September reporting, the Census Bureau reported today, November 18th, a statistically-insignificant, seasonally-adjusted, headline monthly decline of 11.0% (-11.0%) +/- 15.8% (all confidence intervals are expressed at the 95% level) in October 2015 housing starts. Such followed a revised monthly gain of 6.7% [previously up by 6.5%] in September, and a revised monthly contraction in August of 3.1% (-3.1%) [previously down by 1.7% (-1.7 %), initially down by 3.0% (-3.0%)]. Net of prior-period revisions, October 2015 housing starts fell by a still-statistically-insignificant 12.1% (-12.1%) for the month, instead of the headline drop of 11.0% (-11.0%). The level-of- activity detail is plotted in *Graphs 1 to 4* of the *Opening Comments*, and in *Graphs 9 to 10* at the end of this section.

Year-to-year change in the seasonally-adjusted, aggregate October 2015 housing-starts measure was a statistically-insignificant contraction of 1.8% (-1.8%) +/- 13.1%, versus a revised annual gain of 16.1% [previously up by 17.5%] in September 2015, and a revised annual gain of 15.5% [previously up by 17.2%, initially up by 16.6%] in August 2015.

The October 2015 monthly contraction of 11.0% (-11.0%) in total housing starts reflected a headline monthly decline of 2.4% (-2.4%) in the “one unit” category, and a plunge of 25.5% (-25.5%) in the “five units or more” category. Again, none of those headline monthly declines was statistically-significant.

By-Unit Category (See Graphs in the Opening Comments). Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in October 2015 declined month-to-month by a statistically-insignificant 2.4% (-2.4%) +/- 11.1%, following a revised monthly gain of 0.8% [previously up by 0.3%] in September, and a revised contraction of 3.3% (-3.3%) [previously down by 2.8% (-2.8%), initially down by 3.0% (-3.0%)] in August. Single-unit starts for October 2015 showed a statistically-insignificant year-to-year annual gain of 2.4% +/- 15.1%, versus an unrevised annual gain of 12.0% in September 2015, and a downwardly-revised 14.2% [previously up by 14.8%, initially up by 14.9%] gain in August (see *Graphs 1, 2, 5 and 6 in the Opening Comments*).

Housing starts for apartment buildings (generally 5-units-or-more) in October 2015 fell month-to-month by a statistically-insignificant 25.5% (-25.5%) +/- 30.9%, versus a revised monthly gain of 16.8% [previously up by 17.6%] in September, and a revised monthly decline of 1.6% (-1.6%) [previously up by 1.6%, initially down by 2.3% (-2.3%)] in August. The statistically-insignificant October 2015 year-to-year decline of 8.4% (-8.4%) +/- 30.3%, followed a revised 24.4% [previously 26.6%] year-to-year gain in September 2015, and a revised gain of 22.9% [previously up by 26.8%, initially up by 24.5%] in August 2015.

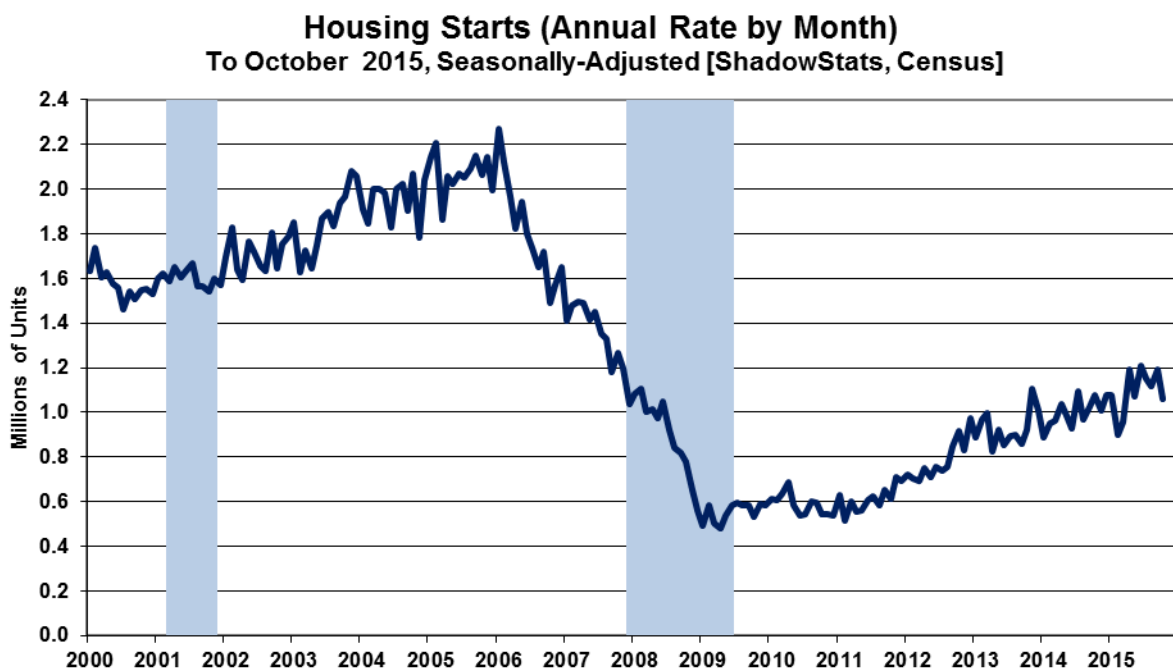
Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the 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 in the Opening Comments*).

Accordingly, the statistically-insignificant October 2015 monthly contraction of 11.0% (-11.0%) in aggregate starts was composed of parallel, statistically-insignificant declines of 2.4% (-2.4%) in one-unit structures and a monthly decline of 25.1% (-25.1%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). Again, these series all are graphed in the *Opening Comments* section.

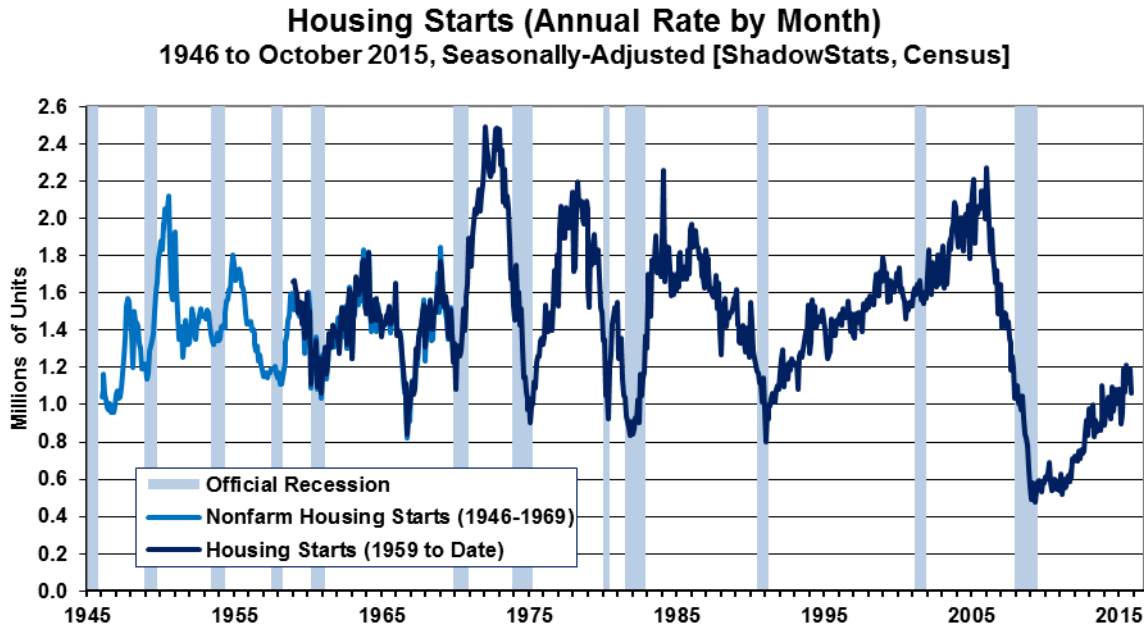
Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,060,000 in October 2015, versus a revised 1,191,000 [previously 1,206,000] in September 2015. That scaling detail, in terms of an annualized monthly 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 a single month. That is since related starts detail first was published after World War II.

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



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



Accordingly, the monthly rate of 88,333 units in October 2015, instead of the annualized 1,060,000-headline number, is used in the scaling of *Graphs 1 to 8* 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, as can be seen in a comparison of *Graph 9* versus *Graph 3* in the *Opening Comments*.

The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the October 2015 headline number was up by 121%, but it still was down by 53% (-53%) from the January 2006 pre-recession high. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in up-trending stagnation at low levels that otherwise have been at or near 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, general trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless can gyrate some with the latest economic hype in the popular media. That general effect holds the consensus outlook still at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Where the net trend still has been towards weakening expectations, movement towards recession recognition has been at something of an accelerating pace.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with likely downside revisions and otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GNP) into 2016, including the November 24th first revision to the third-quarter 2015 GDP estimate (see GDP comments).

CPI-U consumer inflation—intermittently driven lower this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Annual CPI-U turned minimally positive in June 2015, for the first time in six months, notched somewhat higher in July and August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. Gasoline prices appear to be bottoming out, again, with a combination of relatively stable gasoline prices and related, positive seasonal adjustments helping to boost headline October 2015 CPI-U annual inflation to 0.2%, and likely to hold gasoline-price impact at roughly neutral on headline annual inflation for the November CPI-U.

Significant upside inflation pressures should mount anew, once oil prices rebound meaningfully. Again, that process eventually should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those 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 (October 2015). October 2015 Existing-Home Sales are due for release on Monday, November 23rd, from the National Association of Realtors (NAR), with the October 2015 New-Home sales report due from the Census Bureau on Wednesday, November 25th. The detail from Existing-Home Sales will be covered in ShadowStats regular *Commentary No. 769* of November 24th, along with a brief review in *Commentary No. 770* of November 25th, in the conjunction with the New-Home Sales reporting of that date.

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 updated and discussed fully in [Commentary No. 766](#). 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 remain bleak for a sustainable increase in home-sales activity.

With longer-term, up-trending stagnation in headline Existing-Home Sales, some downside catch-up in month-to-month activity remains a fair possibility for October 2015 reporting, particularly if there are further signs of tightening liquidity conditions for either buyers or sellers. Smoothed for extreme and nonsensical monthly gyrations, a continuing pattern of stagnation or downturn in New-Home Sales also is likely. Its pattern of stagnation turned from up-trending to down-trending in September. 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 continue to see downside volatility in related headline reporting.

Gross Domestic Product (GDP)—Third-Quarter 2015, Second Estimate, First Revision. The Bureau of Economic Analysis (BEA) will publish its second estimate of third-quarter 2015 Gross Domestic Product (GDP), November 24th, along with its initial estimates of alternative detail to the heavily-gimmicked GDP series, from third-quarter Gross Domestic Income (GDI) and Gross National Product (GNP). While there are suggestions of market expectations favoring an upside revision to the initial headline growth, discussed in the *Opening Comments*, recent subsidiary economic detail has tended to favor a downside revision, including today's release of October Housing Starts. Further, the Wednesday before Thanksgiving generally is good day for putting out less-than -happy economic or financial news, with many investors on leave for an extended holiday.

The initial headline growth estimate for third-quarter 2015 GDP was an annualized pace of 1.5%, down from 3.9% headline growth in second-quarter 2015 GDP. Revision to a growth rate somewhat below the initial 1.5% headline reporting remains a fair possibility.

New Orders for Durable Goods (October 2015). The Census Bureau will report October 2015 new orders for durable goods on Wednesday, November 25th. 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 reporting for second- and third-quarter 2015, despite an intensifying plunge in year-to-year activity. Increasingly-negative annual growth in real orders, ex-commercial aircraft remains likely for the October 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.
