John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 801
March Housing Starts, First-Quarter GDP Outlook

April 19, 2016

First-Quarter 2016 Housing Starts Turned Negative, for a Second Consecutive Quarterly Decline

Headline Quarterly Contractions Are in Place for First-Quarter Industrial Production, Real Retail Sales and Housing Starts

GDP Expectations Likely Will Shift to a Quarterly Downturn; Headline Reporting Likely Will Follow the Consensus

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PLEASE NOTE: The next regular Commentary, *scheduled for Tuesday, April 26th, will cover March New Orders for Durable Goods and New- and Existing-Home Sales. A subsequent missive on Thursday, April 28th will cover the first estimate of first-quarter 2016 GDP.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Contractions in Underlying First-Quarter Economic Fundamentals Foreshadow GDP Contractions and Consensus Expectations for Same. With headline March 2016 Housing Starts in place, headline first-quarter 2016 housing activity contracted quarter-to-quarter for the second consecutive three-month period. In conjunction with early, deteriorating trade data and indications of negative inventory contributions, first-quarter contractions in industrial production, real retail sales and housing starts are generating an extremely significant signal for a pending headline contraction in first-quarter 2016 GDP, as discussed in these opening paragraphs. Separately, the Cass Freight Index also has confirmed continuing economic deterioration in first-quarter 2016.

Noted in the *Week Ahead*, the Bureau of Economic Analysis (BEA) will publish its first or "advance" estimate of first-quarter 2016 Gross Domestic Product (GDP) on Thursday, April 28th. Despite the massive evidence of continued, outright contraction in the broad economy, the initial headline reporting of first-quarter GDP in contraction is dependent upon the economic consensus settling in very soon on a contracting GDP. Although general expectations appear to be well below—less than half—the annualized quarterly gain of 1.4% currently reported for fourth-quarter 2015 activity, the consensus does not appear, yet, to have moved into negative territory.

The BEA tends to hold back its initial reporting of a headline quarterly GDP contraction, when the consensus outlook still is positive, as was the case in the initial year-ago reporting of first-quarter 2015 GDP. Recognizing a quarterly contraction then, the BEA gave the consensus a heads up with an initial headline gain of just 0.2%. After that "advance" reporting, consensus forecasts revised sharply lower and turned negative. The BEA first revision was a contraction of 0.7% (-0.7%).

Discussed in this section, a quarterly GDP contraction is place. The question is when the headline number will take the hit. There still remains a good chance for the initial headline reporting of April 28th, with increasingly heavy odds for subsequent headline revisions on May 27th and June 28th. Outside timing would be in the broadly-negative benchmark revisions to the headline GDP on July 29th. The outlook for next week's headline reporting will be reviewed in *Commentary No. 802* of April 26th.

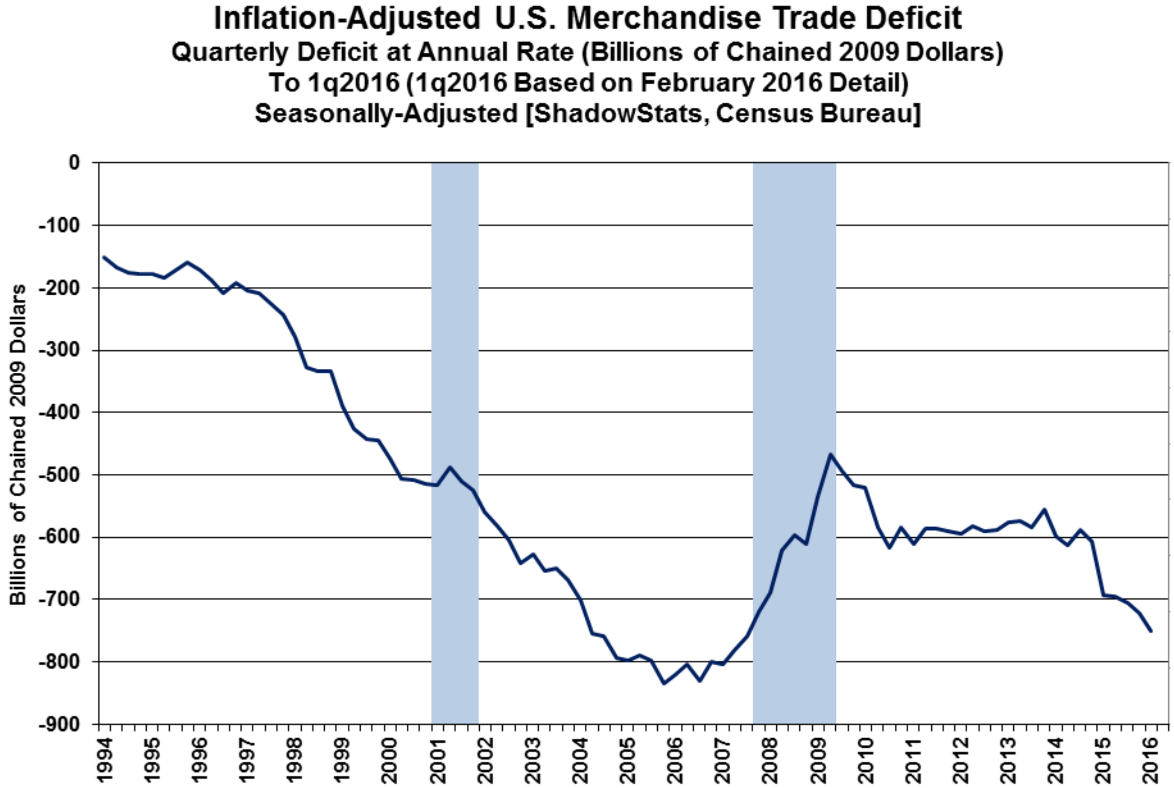
Formal recognition (timed from December 2014) of a "new" recession likely will follow in the wake of the eventual announcement of a headline contraction in recent GDP activity. Again, such a contraction should be no further out in timing than the annual GDP benchmarking and the coincident initial reporting of second-quarter 2016 GDP.

Contributing Factors to Contracting Gross Domestic Product (GDP). With two months of first-quarter 2016 reporting in hand, the merchandise trade deficit has widened enough to signal a meaningfully-negative growth contribution to first-quarter 2016 GDP, as reflected in *Graph 1* (see *Commentary No. 797*). While the BEA will use a highly unreliable "advance" March 2016 trade report of April 27th to balance out the initial quarterly trade element in the GDP estimate, hard data will not be in hand until the full-deficit reporting on May 4th (*Commentary No. 804*). Separately, due to reporting revisions of recent years, the pending annual benchmarking to the trade numbers on June 3rd should show significant deficit widening and resulting deteriorating revisions to historical GDP in the July 29th GDP benchmarking.

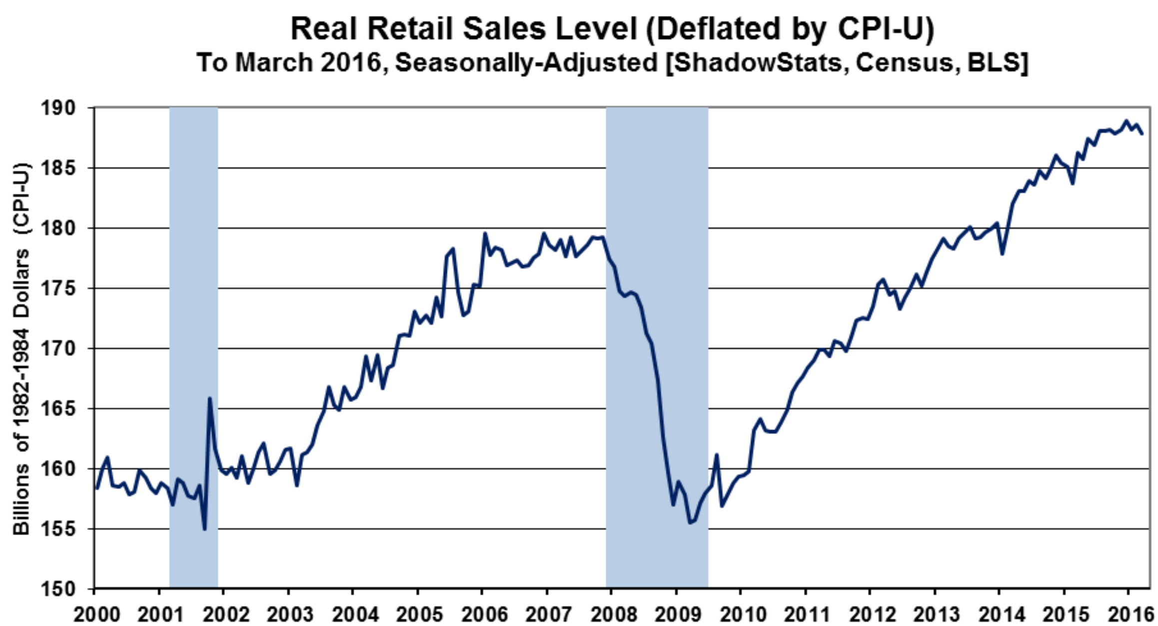
Pending annual benchmark revision to retail sales, on April 29th, also virtually are assured of meaningfully-negative revisions, due to the inclusion of previously- and artificially-excluded retail-sales census numbers. Given the day-later timing, first-quarter changes here likely will not be incorporated into the initial headline estimate of first-quarter GDP. The broad effects, however, should result in deteriorating revisions to the historical GDP in its July 29th benchmarking.

With full first-quarter reporting in hand, first-quarter 2016 activity for real retail sales contracted versus fourth-quarter 2015, as reflected in *Graph 2* and as detailed in *Commentary No. 799*.

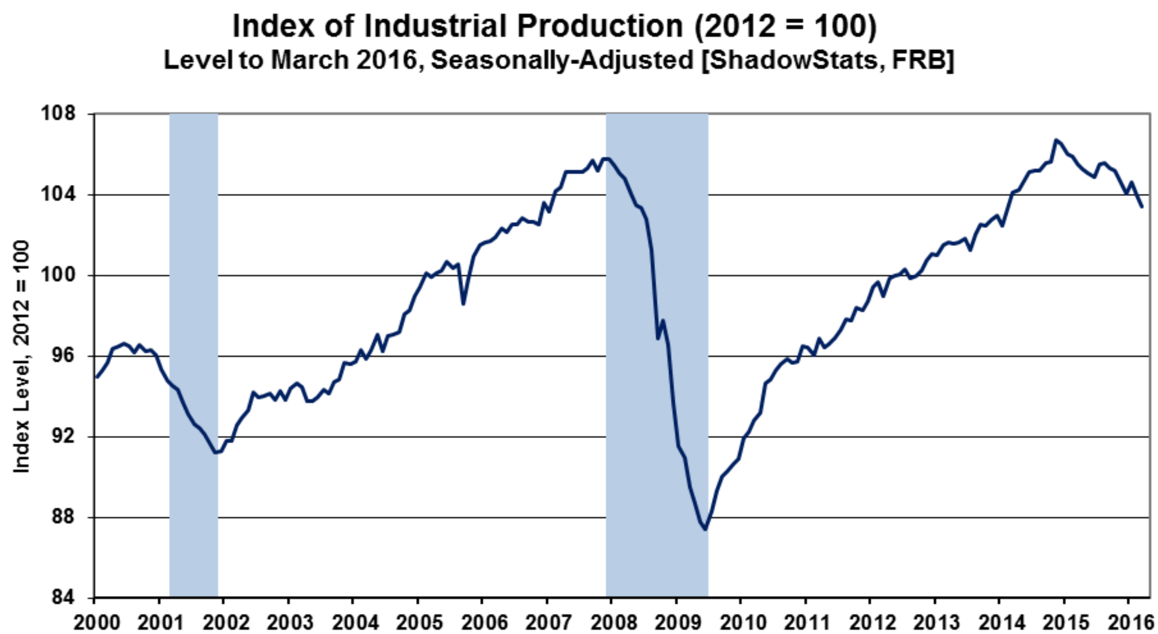
Graph 1: Inflation-Adjusted, Quarterly Merchandise Trade Deficit to 1q2016 (based on two months to February)



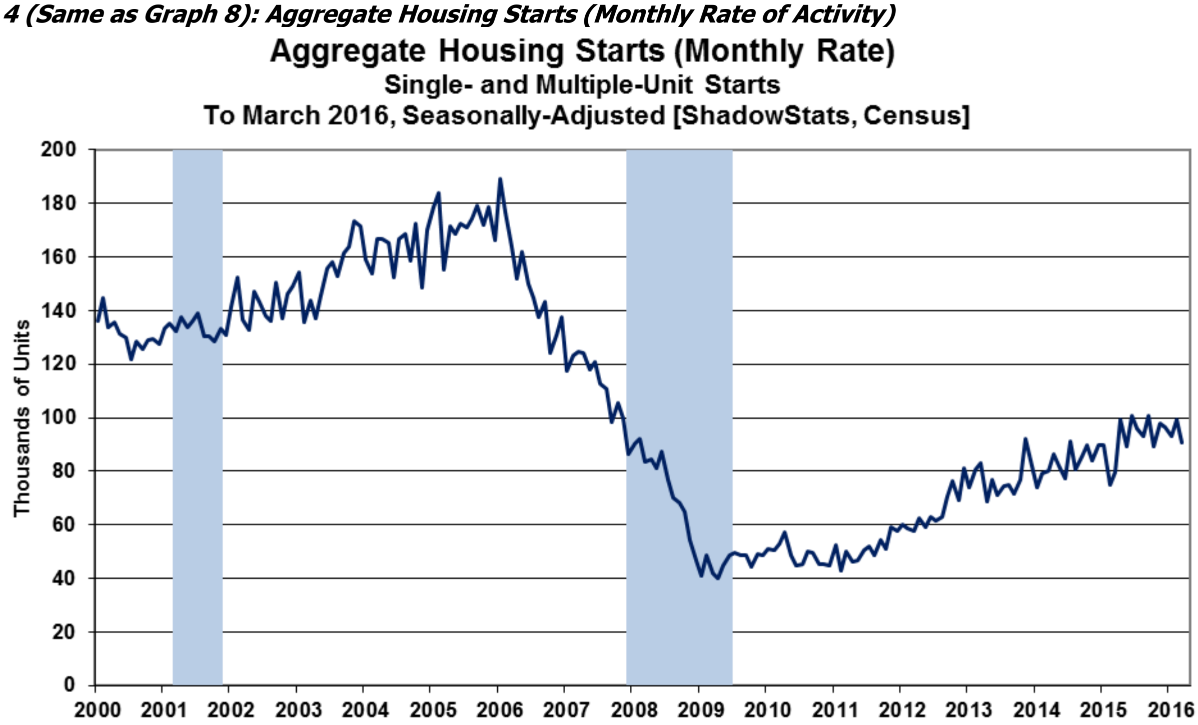
Graph 2: Real Retail Sales (2000 to 2016)



Graph 3: Index of Aggregate Industrial Production 2000 to 2016



Graph 4 (Same as Graph 8): Aggregate Housing Starts (Monthly Rate of Activity)



First-quarter 2016 industrial production contracted sharply versus fourth-quarter activity as plotted in *Graph 3* and in the context of the heavily-negative benchmark revisions published on April 1st (see *Commentary No. 796-A*). The quarterly contraction was the second consecutive quarterly downturn. As discussed in the prior (see *Commentary No. 800*), the pattern of two consecutive year-to-year contractions also seen the two latest quarters, never has been see outside of a formal recession. The effects here should result in significant downside revisions to the historical GDP in its July 29th benchmarking.

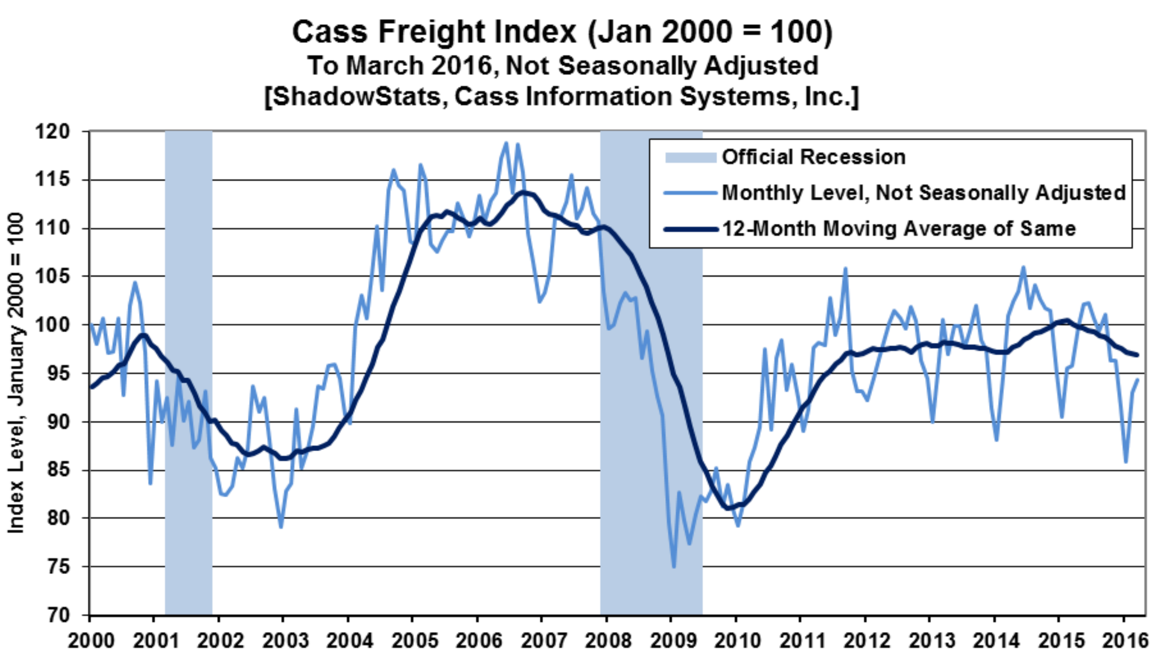
Graph 4 (the same as the later *Graph 8*), plots the headline detail of housing starts through today's (April 19th) reporting as detailed in this *Commentary*. With full first-quarter 2016 detail in hand, housing starts contracted quarter-to-quarter, also for the second consecutive quarter. This heavily volatile series is subject to annual benchmark revisions on May 2nd.

Continuing "Other" Confirmation of Non-Recovery and Renewed Downturn. Patterns of non-recovery in the general economy and renewed downturn in business activity were reconfirmed in the headline detail of the March 2016 Cass Freight Index™ (released April 15th).

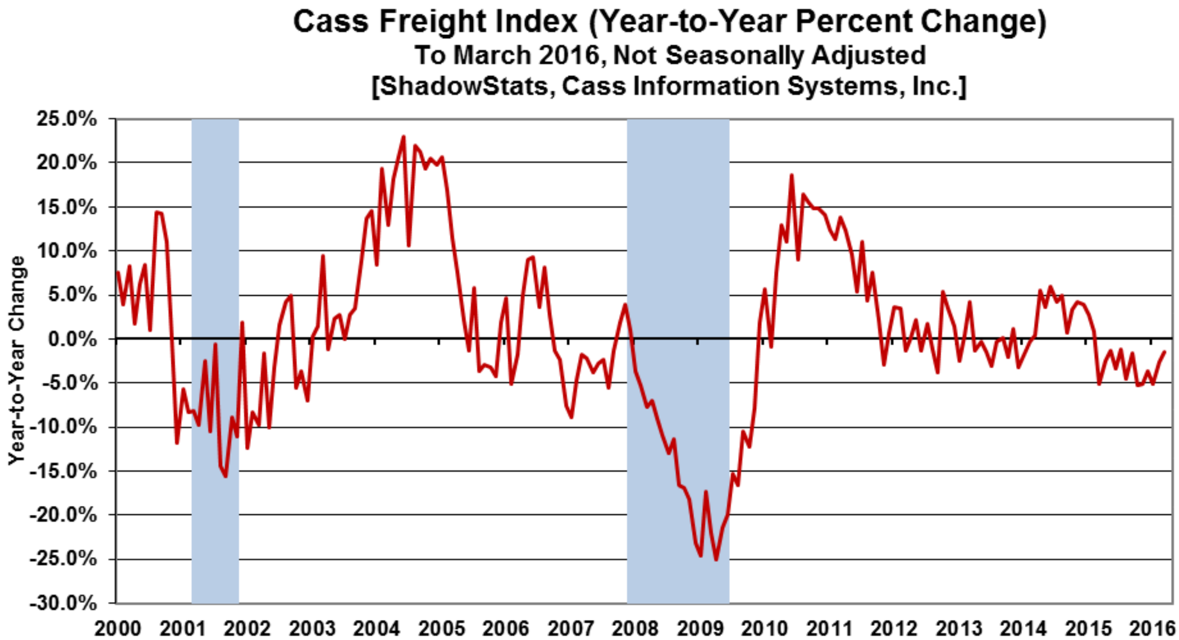
Beginning with *Commentary No. 782* (further background available there), ShadowStats published the graphic detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. As background, of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States.

The plot in *Graph 5* reflects the monthly numbers updated through March 2016. The headline monthly detail is not adjusted for broad seasonal patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail plotted in the background.

Graph 5: Cass Freight Index to (2000-2016), Trailing 12-Month Average vs. Unadjusted Monthly Index



Graph 5a: Cass Freight Index to (2000-2016), Unadjusted Year-to-Year Change in Monthly Index



In *Commentary No. 796* (see pages 5 to 10 there), a variation on *Graph 5* was compared with various U.S. unemployment and economic measures. As, shown in *Graph 5*, the trailing twelve-month average peaked in January 2015 and has been slowing since, with the twelve-month average level through March 2016 currently standing 3.1% (-3.1.%) below the average as of March 2015. Indeed, another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph 5a*. The unadjusted monthly detail has been in continual year-to-year decline also since March of 2015.

In combination, *Graphs 5* and *5a* are consistent with a pattern of economic collapse into 2009, low-level stagnation thereafter and renewed downturn effectively coincident with a "new" recession, which likely will be timed from December 2014. There is no evidence of an economic rebound or recovery in the works, based on this independent (as in non-government) and broadly-based indicator of business activity, or on other independent indicators such as S&P 500 revenues (again, see *Commentary No. 796*).

Today's *Commentary* (April 19th). The balance of these *Opening Comments* provides summary coverage of March 2016 Housing Starts and a brief update to Consumer Conditions, reflecting early-April reporting of the University of Michigan's Consumer Sentiment Index.

The most recent *Hyperinflation Outlook Summary* is found in *Commentary No. 783*, with *Commentary No. 799* and *No. 777 Year-End Special Commentary* as background to the currently unfolding financial circumstances.

The *Week Ahead* section previews next week's New Orders for Durable Goods, New- and Existing-Home Sales, and the initial estimate of first-quarter 2016 GDP (see also the opening paragraphs).

Housing Starts—March 2016—First-Quarter Activity Shifted to a Second Consecutive Quarterly Contraction. Showing a continued, smoothed pattern of faltering stagnation, headline March 2016 housing starts tumbled anew in unstable month-to-month reporting, more than offsetting the monthly surge reported in February 2016 activity. Still going against the bad-weather impact of the year before, monthly changes were without much statistical significance, but the heavily-weather-bloated annual gains still were statistically-significant for total and single-unit starts.

First-Quarter Housing Reverses Trend, Again, Contracting at an Annualized Pace of 0.7% (-0.7%). In terms of annualized quarter-to-quarter change, the regularly unstable aggregate housing-starts count fell at an annualized-quarterly pace of 26.2% (-26.2%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, flattened out to 0.2% annualized third-quarter 2015 pace of growth, and fell at a revised, annualized pace of 7.7% (-7.7%) in fourth-quarter 2015. Initial full reporting for first-quarter 2016 showed an annualized contraction of 0.7% (-0.7%).

Based solely on the volatile headline January and February 2016 detail, housing starts had been on track for an annualized first-quarter 2016 gain of 4.9%, while based just on the initial, headline reporting for January 2016, first-quarter 2016 had been on track for an annualized contraction of 10.5% (-10.5%).

Smoothed Numbers. Despite the regular volatility and instabilities in the housing starts series, the general pattern of low-level stagnation continued. The six-month moving-average pattern for the aggregate series continued to falter, flattening and trending lower in tandem with the most-recent headline detail. This pattern is viewed best in terms of the longer-range historical graph of aggregate activity (*Graph 18*) in the *Reporting Detail* section, and particularly in the context of the headline activity, smoothed by a six-month moving average, as shown accompanying *Graph 9*. Given the broad pattern of stagnation in the aggregate series, total March 2016 housing-starts activity remained well below any recovery level, down from its pre-recession high by 52% (-52%).

Separately, the dominant, single-unit housing starts component of the series (*Graphs 10* and *11*) remained down by 58% (-58%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs, the aggregate housing-starts series continued to falter from what had been an earlier, minimal uptrend (again *Graph 9*). Such encompassed a minor uptick in the six-month-smoothed single-unit activity (*Graph 11*), offset by a downtick in the smoothed multiple-unit starts (*Graph 13*).

Over time, the bulk of the extreme, reporting instability, and what had been the minimal uptrend in the aggregate series, were 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 has been fading, likely in response to the intensifying general economic slowdown. Otherwise, the multiple-unit series detail largely has been lost in the aggregate housing starts series.

March 2016 Housing-Starts, Headline Reporting. The broadly unstable and highly volatile Housing Starts series tumbled month-to-month, in the context of upside revisions to February and January 2016 reporting. March 2016 Housing Starts declined month-to-month by a statistically-insignificant, seasonally-adjusted headline decline of 8.8% (-8.8%).

That followed an upwardly-revised monthly gain of 6.9% in February and a revised monthly decline of 3.6% (-3.6%) in January. Net of prior-period revisions, March 2016 housing starts fell by 7.6% (-7.6%), instead of the headline drop of 8.8% (-8.8%). Level-of-activity aggregate detail is plotted in *Graphs 6* and *8* (also *Graph 4*), and in *Graphs 17* and *18* in the *Reporting Detail*.

Year-to-year change in the seasonally-adjusted, March 2016 aggregate housing-starts measure was a statistically-significant gain of 14.2%, versus an upwardly-revised annual gain of 32.7% in February 2016, and a downwardly-revised 3.4% gain in January 2016.

The March 2016 headline decline of 8.8% (-8.8%) in total housing starts encompassed headline monthly contractions of 9.2% (-9.2%) in the "one unit" category and 8.5% (-8.5%) in the "five units or more" category. As most commonly is the case, not one of the headline changes was statistically significant, on a month-to-month basis, although the total and single-unit year-to-year changes were significant, due to unusual constraints on year-ago activity from bad weather.

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 March 2016 fell month-to-month by a statistically-insignificant 9.2%, following an upwardly-revised February gain of 9.1%, and a revised gain of 0.2% in January. Single-unit starts for March 2016 showed a statistically-significant year-to-year annual gain of 22.6%, versus upwardly-revised annual gains of 40.2% in February 2016 and 9.2% in January 2016 (again see *Graphs 6*, *7*, *10* and *11*).

Housing starts for apartment buildings (generally 5-units-or-more) in March 2016 fell month-to-month by a statistically-insignificant 8.5% (-8.5%), versus an upwardly-revised gain of 4.0% in February, and a revised, deeper decline of in January of 12.1% (-12.1%). The statistically-insignificant March 2016 year-to-year gain of 0.3% followed an unrevised annual gain of 16.8% in February 2016 and a revised annual decline of 10.9% (-10.9%) in January 2016.

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 estimated by subtracting the single-unit category from the total category (see *Graphs 6*, *7*, *12* and *13*).

Accordingly, the statistically-insignificant March 2016 monthly decline of 8.8% (-8.8%) in aggregate starts was composed of statistically-insignificant declines of 9.2% (-9.2%) in one-unit structures and 7.9% (-7.9%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category).

Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,089,000 in March 2016, versus a revised 1,194,000 [previously 1,178,000] in February 2016. The scaling detail in the aggregate *Graphs 17* and *18* at the end of the *Reporting Detail* section reflects those annualized numbers.

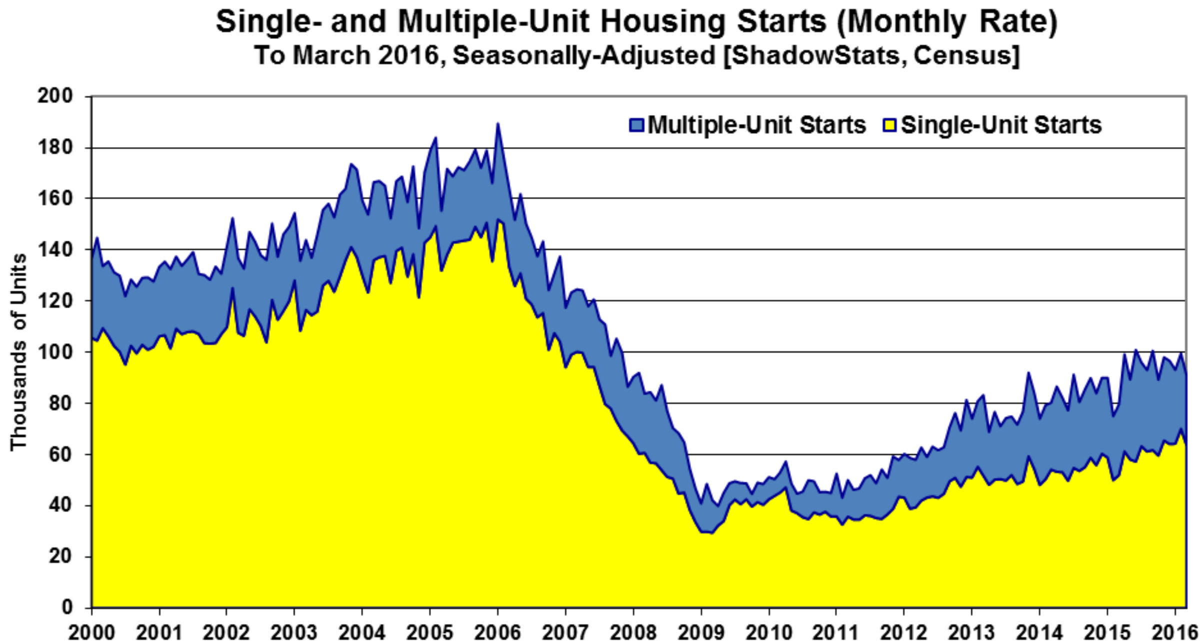
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 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 90,750 units in March 2016, instead of the annualized 1,089,000-headline number, is used in the scaling of the *Graphs 6* to *13* 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 8* versus *Graph 17* in the *Reporting Detail*.

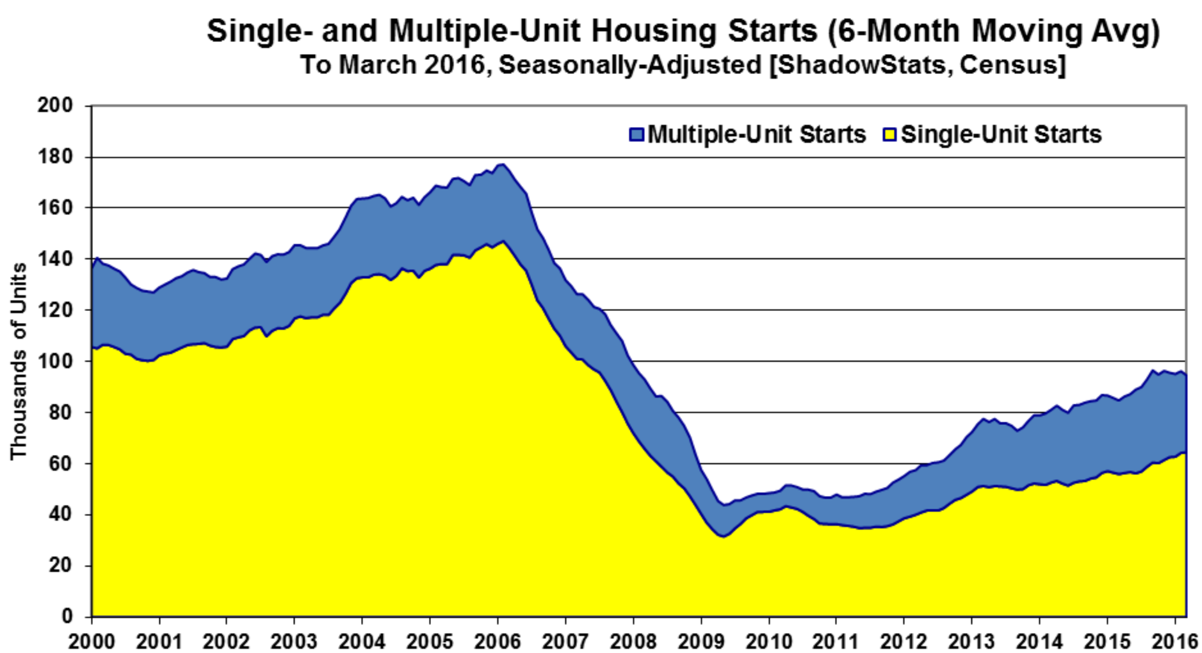
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the March 2016 headline number was up by 128%, but it still was down by 52% (-52%) from the January 2006 pre-recession high for the series. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in stagnation at low levels that otherwise have been at or near the historical troughs of recession activity of the last 70 years, as reflected in *Graph 18* at the end of the *Reporting Detail* section.

[Graphs 6 to 13 begin on the following page.]

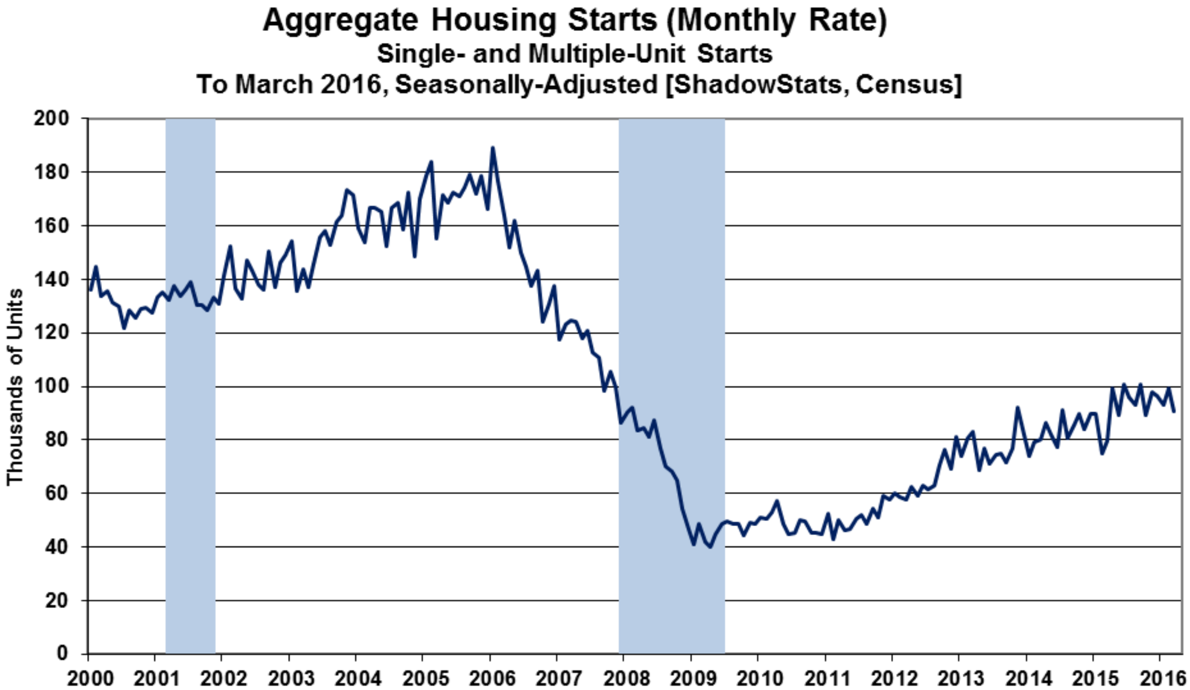
Graph 6: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



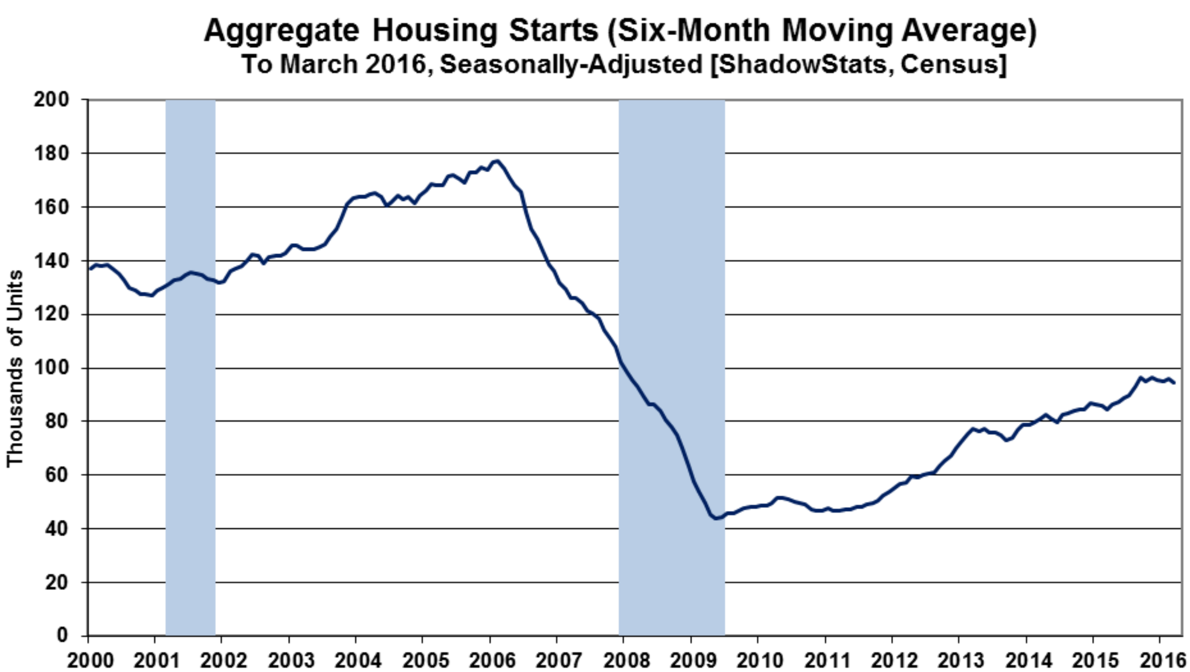
Graph 7: Single- and Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



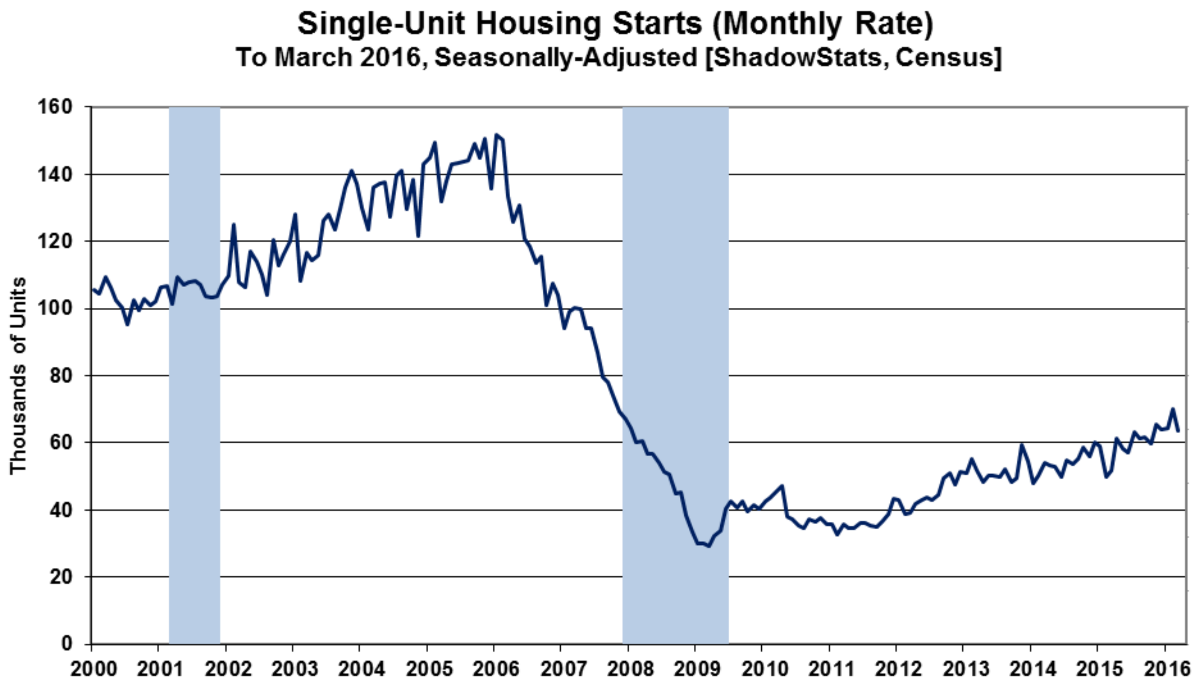
Graph 8 (Same as Graph 4): Aggregate Housing Starts (Monthly Rate of Activity)



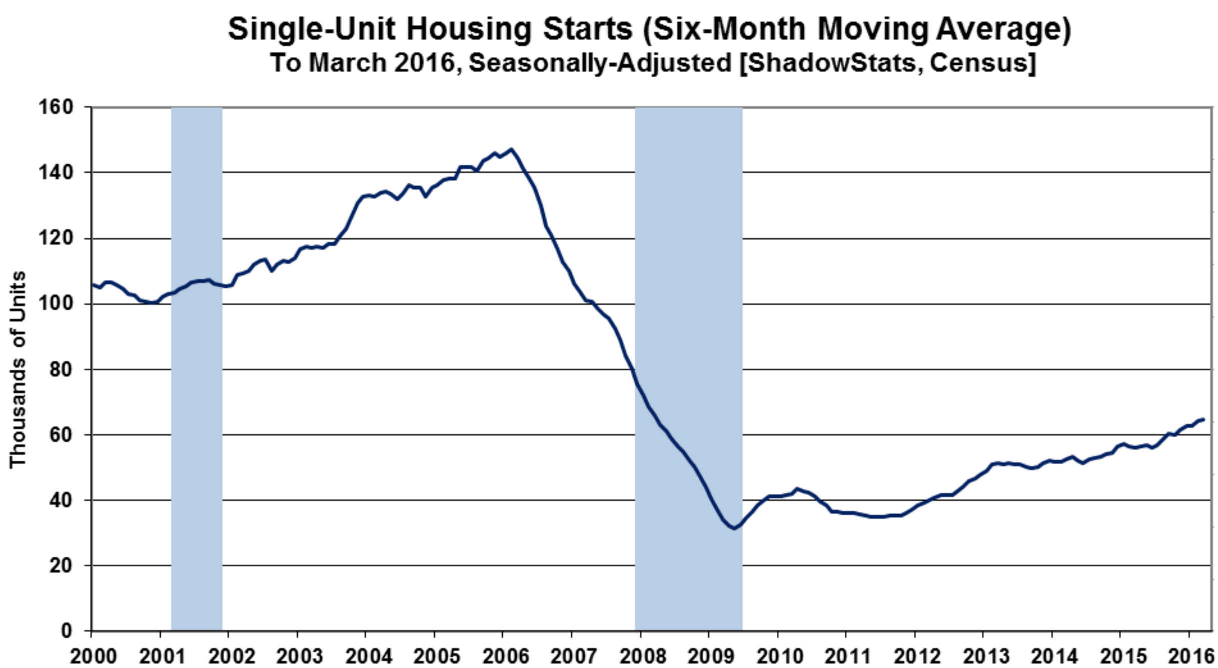
Graph 9: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



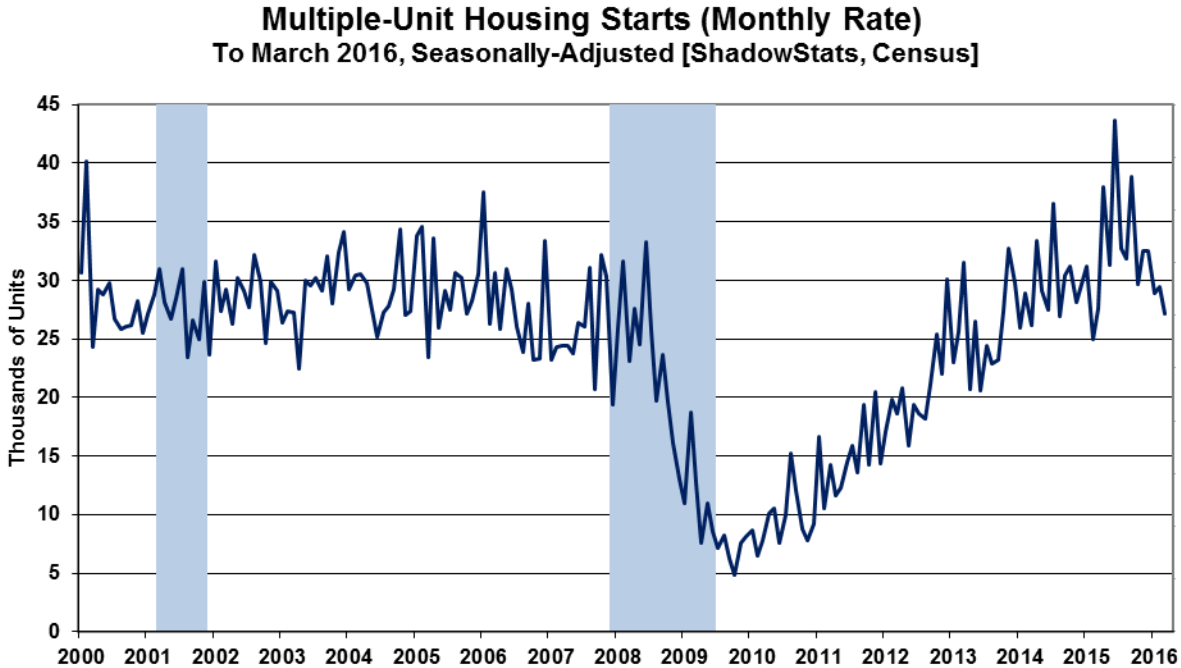
Graph 10: Single-Unit Housing Starts (Monthly Rate of Activity)



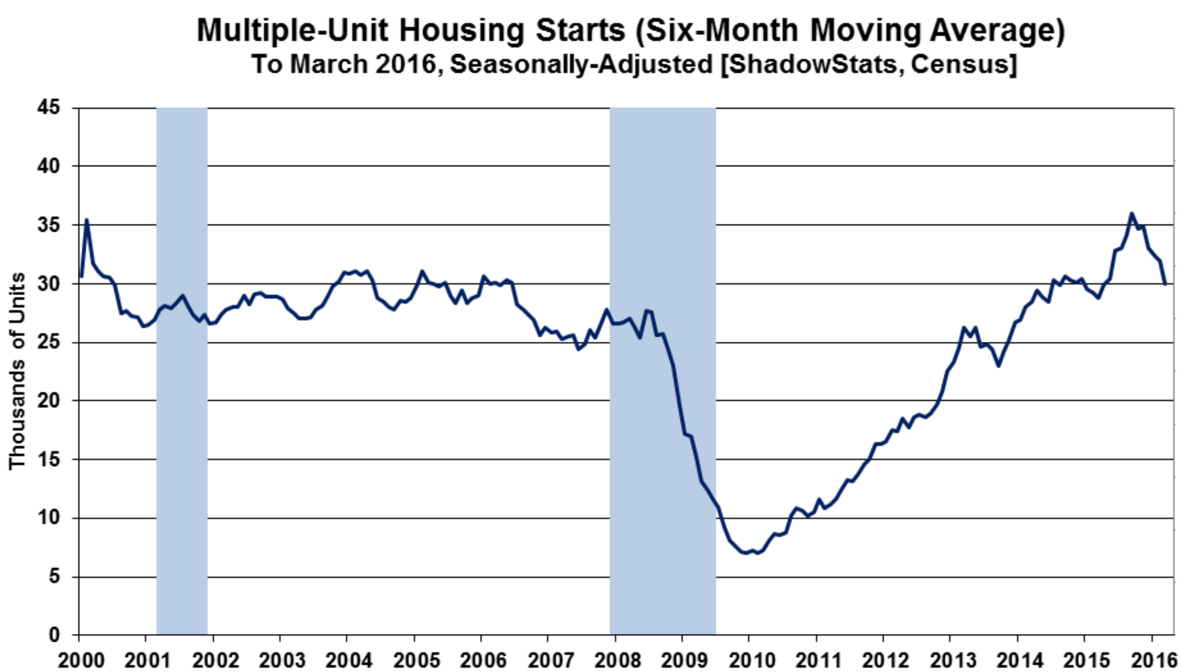
Graph 11: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



Graph 12: Multiple-Unit Housing Starts (Monthly Rate of Activity)



Graph 13: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



Consumer Conditions Updated for Early-April Consumer Sentiment. Continuing to constrain housing activity, the consumer remains in an extreme liquidity bind, briefly updated here for early-April Consumer Sentiment from the University of Michigan, and as previously updated for February Consumer Credit Outstanding in *Commentary No. 798* and reviewed fully in *Commentary No. 796* and *No. 777 Year-End Special Commentary*. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise, and including demand for residential real estate,

Underlying fundamentals to consumer economic activity, such as liquidity, have been severely impaired in the last decade or so, having driven economic activity into collapse and prevented meaningful or sustainable economic rebound, recovery or ongoing growth. The level of and growth in sustainable real income, and the ability and willingness of the consumer to take on new debt, remain at the root of the liquidity issues.

Consumer Confidence and Updated Sentiment. The March 2016 reading for the Conference Board's Consumer-Confidence measure and for the early-April 2016 reading (published April 15th) for the University of Michigan's Consumer-Sentiment measure are plotted in *Graphs 14* to *16.*

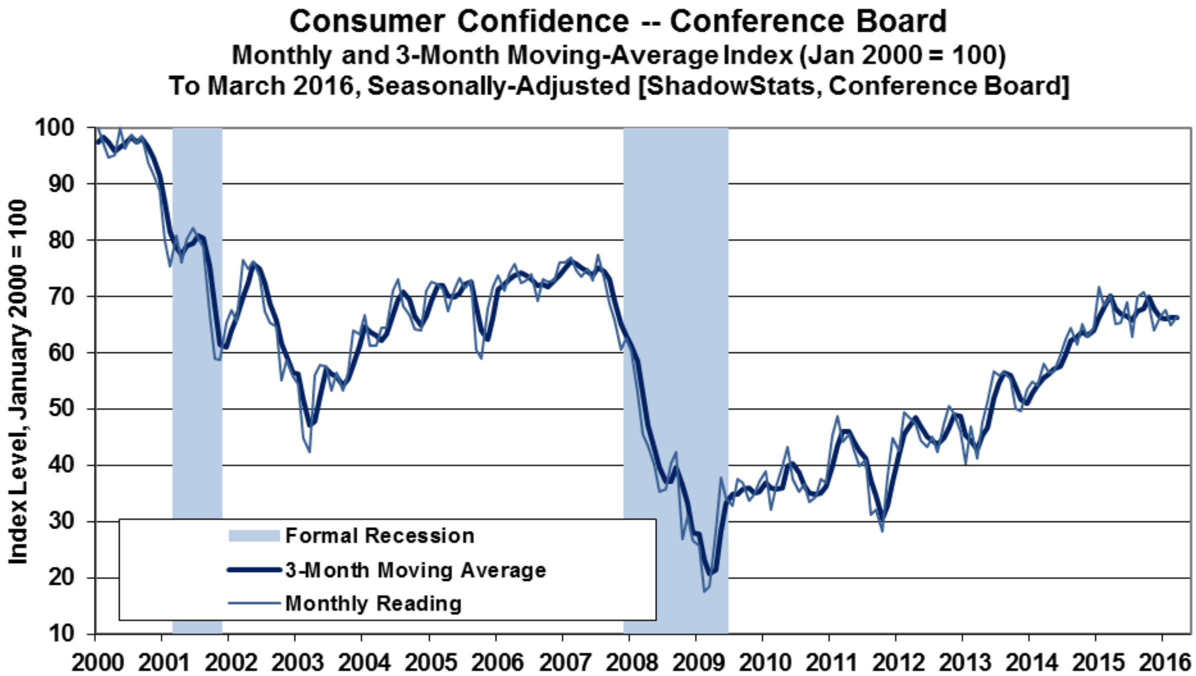
For purposes of showing the Consumer Confidence and Consumer Sentiment measures on a comparable basis, those graphs reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 14*) rose in March after a February contraction, with March still below the December and January levels. The University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 15*) declined for both February and March 2016, and was down again for the early estimate of April sentiment.

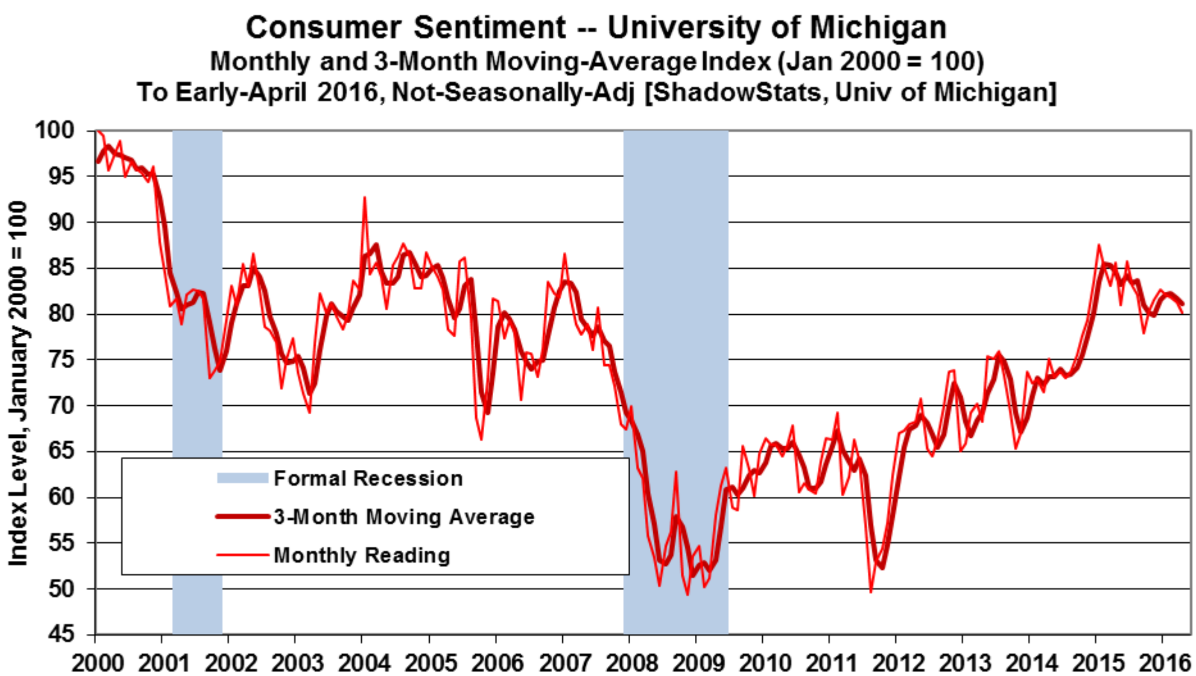
Both series continued to move lower, smoothed for their three-month and six-month moving-average readings. The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With increasingly-negative, headline financial and economic reporting and developments at hand and ahead, successive negative hits to both the confidence and sentiment readings remain likely to continue in the months ahead.

Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 16*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth seen in 2014 and as indicated for second-and third-quarter 2015 GDP growth.

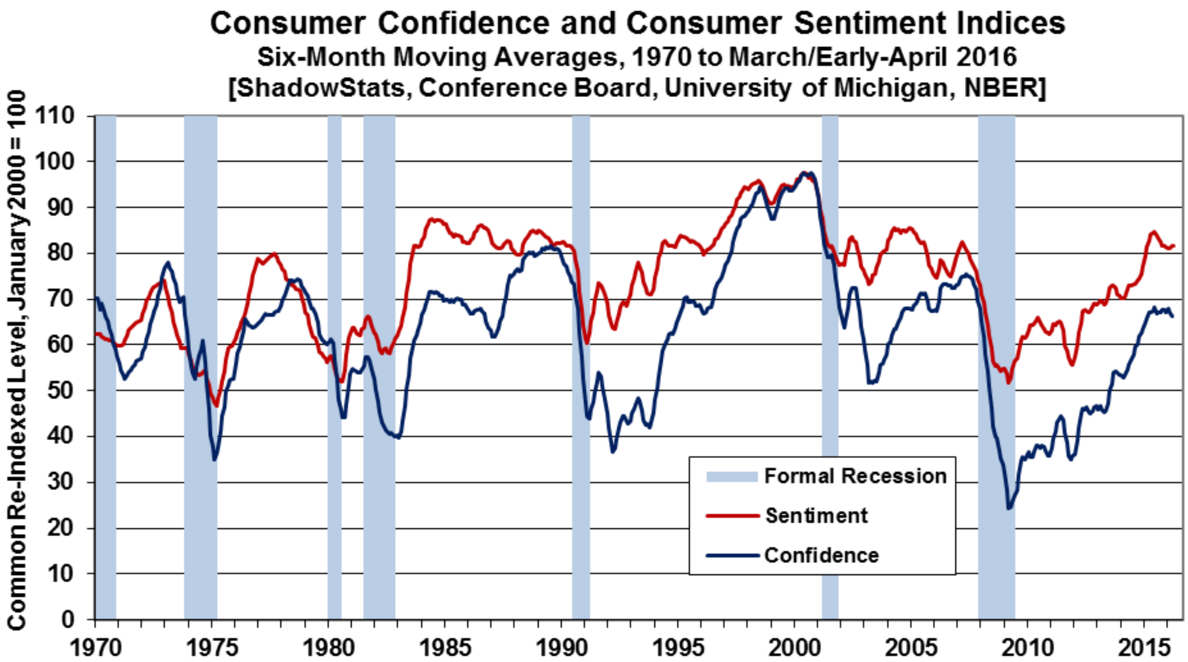
Graph 14: Consumer Confidence to March 2016



Graph 15: Consumer Sentiment to Early-April 2016



Graph 16: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970



[The *Reporting Detail* section includes additional Housing Starts information and graphs.]

REPORTING DETAIL

RESIDENTIAL INVESTMENT (March 2016)

Shifting to a First-Quarter Contraction, Housing Starts Activity Remained in Smoothed, Low-Level and Down-Trending Stagnation. Showing a continued, smoothed pattern of faltering stagnation, headline March 2016 housing starts tumbled anew in unstable month-to-month reporting, more than offsetting the monthly surge reported in February 2016 activity. Still going against bad-weather impact of the year before, monthly changes were without much statistical significance, but the heavily-weather-bloated annual gains still were significant for total and single-unit starts.

First-Quarter Housing Reverses Trend, Again, Contracting at an Annualized Pace of 0.7% (-0.7%). In terms of annualized quarter-to-quarter change, the regularly unstable aggregate housing-starts count fell at an annualized-quarterly pace of 26.2% (-26.2%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, flattened out to 0.2% annualized third-quarter 2015 pace of growth, and fell at a revised, annualized pace of 7.7% (-7.7%) in fourth-quarter 2015. Initial full reporting for first-quarter 2016 showed an annualized contraction of 0.7% (-0.7%).

Based solely on the volatile headline January and February 2016 detail, housing starts had been on track for an annualized first-quarter 2016 gain of 4.9%, while based just on the, initial headline reporting for January 2016, first quarter 2016 had been on track for an annualized contraction of 10.5% (-10.5%).

Smoothed Numbers. Despite the regular volatility and instabilities in the housing starts series, the general pattern of low-level stagnation continued. The six-month moving-average pattern for the aggregate series faltered, flattening and trending lower in tandem with the most-recent headline detail. This pattern is viewed best in terms of the longer-range historical graph of aggregate activity (*Graph 18*), 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 *Graph 9* in the *Opening Comments*. Given the broad pattern of stagnation in the aggregate series, total March 2016 housing-starts activity remained well below any recovery level, down from its pre-recession high by 52% (-52%).

Separately, the dominant, single-unit housing starts component of the series (*Graphs 10* and *11* in the *Opening Comments*) remained down by 58% (-58%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs in the *Opening Comments*, the aggregate housing-starts series continued to falter from what had been an earlier, minimal uptrend (*Graph 9*). Such encompasses a minor uptick the six-month-smoothed single-unit activity (*Graph 11*), offset by a downtick in the smoothed multiple-unit starts (*Graph 13*).

Over time, the bulk of the extreme, reporting instability and what had been the minimal uptrend in the aggregate series was 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 has been fading, likely in response to the intensifying general economic slowdown. Otherwise, the multiple-unit series detail largely has been lost in the aggregate housing starts series.

Consumer Liquidity Problems Continue to Impair Housing Activity. Constraining residential real estate activity and personal consumption, the consumer remains in an extreme liquidity bind, as updated briefly in today's *Opening Comments.* Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer has been unable to sustain positive growth in broad U.S. economic activity, particularly as tied to residential real estate. The private-housing sector never has recovered from the business collapse of 2006 into 2009.

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.

Annual Revisions due on May 2nd. The Census Bureau advises that its annual revisions to the residential construction series**,** including Housing Starts, are scheduled for May 2nd.

March 2016 Housing-Starts, Headline Reporting. The broadly unstable and highly volatile Housing Starts series tumbled month-to-month, in the context of upside revisions to February and January 2016 reporting. The Census Bureau reported this morning, April 19th, a statistically-insignificant, seasonally-adjusted, headline monthly decline of 8.8% (-8.8%) +/- 13.0% (all confidence intervals are expressed at the 95% level) in March 2016 housing starts.

Such followed a revised monthly gain of 6.9% [previously up by 5.2%] in February and a revised monthly decline of 3.6% (-3.6%) [previously down by 3.4% (-3.4%), initially down by 3.8% (-3.8%)] in January. Net of prior-period revisions, March 2016 housing starts fell by 7.6% (-7.6%), instead of the headline drop of 8.8% (-8.8%). Level-of-activity aggregate detail is plotted in *Graphs 6* and *8* (also *Graph 4*) of the *Opening Comments*, and in *Graphs 17* and *18* at the end of this section.

Year-to-year change in the seasonally-adjusted, March 2016 aggregate housing-starts measure was a statistically-significant gain of 14.2% +/- 13.7%, versus an upwardly-revised annual gain of 32.7% [previously up by 30.9%] in February 2016, and by a downwardly-revised 3.4% [previously up by 3.7%, initially up by 1.8%] gain in January 2016.

The March 2016 headline decline of 8.8% (-8.8%) in total housing starts encompassed headline monthly contractions of 9.2% (-9.2%) in the "one unit" category and 8.5% (-8.5%) in the "five units or more" category. As most commonly is the case, not one of the headline changes was statistically significant, on a month-to-month basis, although the total and single-unit year-to-year changes were significant, due to unusual constraints on year-ago activity from bad weather.

***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.

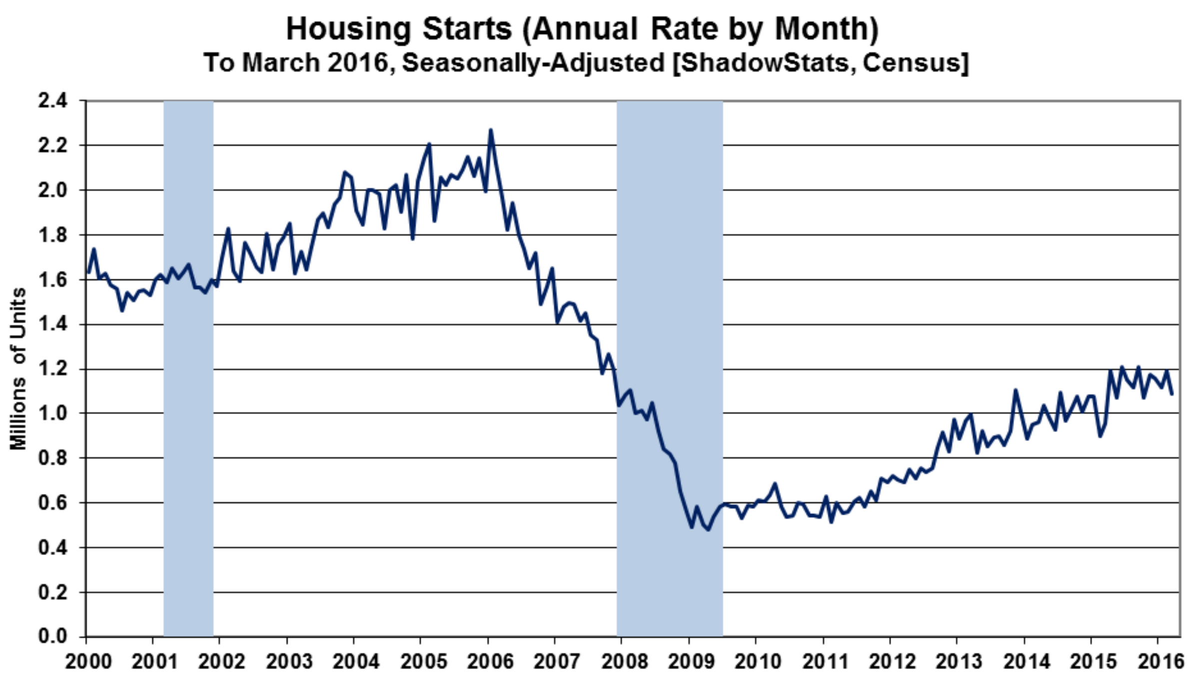
Housing starts for single-unit structures in March 2016 fell month-to-month by a statistically-insignificant 9.2% +/- 12.1%, following an upwardly-revised February gain of 9.1% [previously up by 7.2%], and a revised gain of 0.2% [previously down by 0.3% (-0.3%), initially down by 3.9% (-3.9%)] in January. Single-unit starts for March 2016 showed a statistically-significant year-to-year annual gain of 22.6% +/- 10.7%, versus upwardly-revised annual gains of 40.2% [previously up by 37.0%] in February 2016 and 9.2% [previously up by 8.6%, initially up by 3.5%] in January 2016 (again see *Graphs 6, 7*, *10* and *11* in the *Opening Comments*).

Housing starts for apartment buildings (generally 5-units-or-more) in March 2016 fell month-to-month by a statistically-insignificant 8.5% (-8.5%) +/- 34.4%, versus an upwardly-revised gain of 4.0% [previously up by 2.4%] in February, and a revised, deeper decline of in January of 12.1% (-12.1%) [previously down by 9.1% (-9.1%), initially down by 2.5% (-2.5%)]. The statistically-insignificant March 2016 year-to-year gain of 0.3% +/- 30.4% followed an unrevised annual gain of 16.8% in February 2016 and a revised annual decline of 10.9% (-10.9%) [previously down by 9.5% (-9.5%), initially down by 3.8% (-3.8%)] in January 2016.

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 estimated by subtracting the single-unit category from the total category (see *Graphs 6, 7, 12* and *13* in the *Opening Comments*).

Accordingly, the statistically-insignificant March 2016 monthly decline of 8.8% (-8.8%) in aggregate starts was composed of statistically-insignificant declines of 9.2% (-9.2%) in one-unit structures and 7.9% (-7.9%) 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*.

Graph 17: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date



Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,089,000 in March 2016, versus a revised 1,194,000 [previously 1,178,000] in February 2016. The scaling detail in the aggregate *Graphs 17* and *18* at the end of this 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 90,750 units in March 2016, instead of the annualized 1,089,000-headline number, is used in the scaling of the *Graphs 6* to *13* in the *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 17* versus *Graph 8* in the *Opening Comments*.

Graph 18: 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 housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the March 2016 headline number was up by 128%, but it still was down by 52% (-52%) from the January 2006 pre-recession high for the series. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in stagnation at low levels that otherwise have been at or near the historical troughs of recession activity of the last 70 years, as reflected in accompanying *Graph 18*.

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WEEK AHEAD

Economic Reporting Generally Should Continue in Deterioration, Increasingly Pummeling the Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should continue to deteriorate sharply, amidst intensifying, negative headline reporting in the weeks and months ahead. The broad trend in weakening expectations for business activity, and in movement towards looming recession recognition, continues, as discussed in today's *Opening Comments* and in *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796* and in *No. 777 Year-End Special Commentary*.

In response to perpetual non-recovery and a now intensifying downtrend in underlying economic activity, increasingly-negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside price movements in gold, silver and oil, discussed in *Commentary No. 799*. These reactions reflect, at least in part, a growing sense of Federal Reserve impotence. Any further tightening by the Fed before the election is unlikely, but renewed quantitative easing should become a target of intensified market speculation as the deepening recession unfolds.

Weaker headline reporting of the regular monthly economic numbers increasingly should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP). That includes a developing possible outright quarterly contraction for first-quarter 2016 GDP activity on April 28th, as well as pending downside revisions to GDP history (including first-quarter 2015 and fourth-quarter 2015) in the July 29th annual benchmark revisions.

In line with recent downside revisions to industrial production and pending negative benchmark revisions to retail sales, construction, durable goods orders and trade, expectations for the GDP benchmarking also should fall sharply. That GDP benchmarking now is the most-likely point at which the elements for a "formal" recession call will be in full play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline March 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. Inflation will rise more sharply, going forward, boosted by the weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Fundamental reporting issues with the headline CPI also are discussed here: *Public Commentary on Inflation Measurement*.

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 nine-to-eleven 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). That has been discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" has surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. At the same time, it indicates an openness of the involved statistical agencies in revealing the reporting-quality issues.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS 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 (March 2016). March 2016 Existing-Home Sales are due for release tomorrow, Wednesday, April 20th, from the National Association of Realtors (NAR), with the March 2016 New-Home Sales report due from the Census Bureau on Monday, April 25th. Both Existing- and New-Home Sales will be covered in the next *Commentary No. 802* of April 26th.

Discussed in today's *Housing Starts* detail and updated in the *Opening Comments*, the consumer remains in an extreme liquidity bind, constraining residential real estate activity. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer has been unable to sustain positive growth in broad U.S. economic activity, particularly as tied to residential real estate, as well as to retail sales and personal consumption

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in the home-sales activity, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Headline Existing-Home Sales data remain subject to unusual month-to-month volatility as the NAR continues to adjust and account for a de-stabilizing pattern of delayed headline monthly closings of home sales, in the context of regulatory-induced timing disruptions on mortgage closings. That circumstance led to a misleading collapse of headline sales in November a misleading sales explosion in December and questionable numbers in January and February. When those factors fully are resolved, Existing-Home Sales should continue their current pattern of down-trending, low-level stagnation.

Further, smoothed for regular extreme and nonsensical monthly gyrations, a continuing pattern of stagnation or downturn in New-Home Sales also is likely. Its pattern of low-level stagnation turned from up-trending to down-trending or flat in September 2015. Monthly changes in activity here rarely are statistically-significant, amidst the otherwise unstable headline monthly reporting and revisions.

New Orders for Durable Goods (March 2016). The Census Bureau will report March 2016 New Orders for Durable Goods on Tuesday, April 26th, which will be covered in *Commentary No. 802* of that date. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation.

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 the GDP—is the activity in new orders, ex-commercial aircraft (all subject to annual benchmark revisions on May 18th.

Gross Domestic Product (GDP)—First-Quarter 2016, "Advance" or First Estimate. The Bureau of Economic Analysis (BEA) will publish its first or "advance" estimate of first-quarter 2016 Gross Domestic Product (GDP) on Thursday, April 28th. Discussed in the opening section of today's *Opening Comments*, solid indications already are in place for an inflation-adjusted, real contraction in first-quarter 2016 GDP. Yet, the initial headline reporting of an outright contraction is heavily dependent on the economic consensus expectations moving to an expected GDP contraction, during the week ahead. All the fundamentals are in place for that to happen. Although general expectations appear to be well below—less than half—the annualized quarterly gain of 1.4% currently reported for fourth-quarter 2015 activity, the general consensus does not appear, yet, to have moved into negative territory. If that consensus turns negative this week—a fair possibility with the rapidly deteriorating underlying economic detail— the initial headline reporting should be a contraction.

History has shown, though, that the BEA will hold back in its initial reporting of a headline quarterly GDP contraction, when the consensus outlook still is positive. With the underlying numbers so weak, the BEA likely will publish headline growth that is positive, but well below consensus. Both the consensus numbers and the BEA reporting then likely would turn negative in the second estimate of first-quarter GDP, on May 27th. Such a pattern would be similar to that seen with first-quarter 2015 GDP. Initial reporting of the first-quarter GDP was a gain of 0.2%, then down by 0.7% (-0.7%) in the first revision. That quarterly change, however, was taken into positive territory with July 2015 benchmark revisions.

Formal recession recognition (timed from December 2014) likely will follow in the wake of the eventual announcement of a headline contraction in recent GDP activity. Such a contraction should be no further out in timing than the annual GDP benchmark revisions and the coincident initial reporting of second-quarter 2016 GDP.

