

COMMENTARY NUMBER 815
May 2016 Housing Starts, Economic Review

June 17, 2016

**Housing Starts Continued to Hold in Smoothed, Low-Level Stagnation,
Never Having Recovered Pre-Recession Highs**

May 2016 Economic Detail Generally Was Bleak

**Unfolding Recession Should Become Increasingly Obvious in the Month Ahead;
Recognition Should Follow the July 29th GDP Benchmark Revisions**

PLEASE NOTE: The next regular Commentary, scheduled for Friday, June 24th, will cover May New Orders for Durable Goods and New- and Existing-Home Sales, along updated private indicators of current domestic economic activity.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economic Review: May Economic Detail Was Bleak; Recession Recognition Looms Post-GDP Benchmarking. For those who regularly follow domestic U.S. economic statistics, there likely were two negative shocks in the reporting of May 2016 detail. First were the downside headline May payroll-

employment and unemployment details, and accompanying revisions (see [Commentary No. 810](#)). Second were the headline details and revisions to May industrial production (see [Commentary No. 813](#)). Between those two elements and generally-tepid, non-recovering activity in other key government economic indicators (see [Commentary No. 814](#) and today's Housing Starts), related broad implications for an increasingly-negative, underlying economic reality have hit hard. With likely mounting financial stresses on a troubled banking system, deteriorating Federal fiscal performance and Treasury funding needs, and increasing turmoil in the domestic equity markets, the Federal Reserve appears to have put its heretofore aggressive credit-tightening talk into hibernation (again, see [No. 814](#)).

As an unfolding, outright decline in broad, domestic economic activity becomes increasingly obvious, recognition of the “new” recession likely will gain popular and formal recognition subsequent to downside GDP benchmark revisions due on July 29th. Coincident with that circumstance, extreme pressure should develop for the Fed to re-expand its quantitative easing, in an effort to counter pressures that never were addressed properly post-Panic of 2008, or in the still-unfolding, multiple-dip economic contraction/collapse that hit so hard at the end of 2007.

Most of the major May 2016 economic releases are in hand. Still pending are details on the May trade deficit (June 27th, July 6th), new orders for durable goods (June 24th), existing- and new- home sales (June 22nd and 23rd) and construction spending (July 1st). So far, there generally has not been enough downside revision to first-quarter activity to take the second estimate of first-quarter 2016 GDP into quarterly contraction on June 28th. Accordingly, the July 29th GDP benchmarking should be the vehicle to do so. Coincident with that will be the “advance” release of second-quarter 2016 GDP, which also likely will contract, despite consensus forecasts currently in the two-percent-plus range. Intervening economic reporting in the month ahead should be increasingly negative.

More detail, including updates to a variety of non-government based data that show the unfolding, renewed business downturn, will follow in next week's *Commentary No. 816*, along with a formal forecast of the second revision to first-quarter 2016 GDP.

Today's Commentary (June 17th). The balance of these *Opening Comments* provides a summary of the May 2016 Housing Starts, with additional coverage and graphics found in the *Reporting Detail* section.

The most-recent *Hyperinflation Outlook Summary* is found in [Commentary No. 783](#), with [Commentary No. 814](#), [General Commentary No. 811](#), [Commentary No. 799](#) and [No. 777 Year-End Special Commentary](#) as background to the unfolding financial circumstances. These documents will be updated and consolidated shortly in a new *Special Report*, when first half-2016 economic detail is in place.

The *Week and Month Ahead* section previews *Pending Releases* for the week ahead, specifically May 2016 durable goods orders and May new- and existing-home sales.

Housing Starts—May 2016—Holding in Smoothed, Low-Level Stagnation and Non-Recovery, Monthly Detail Was Unusually Tepid. National activity in May 2016 total housing starts and the single- and multiple-unit subsidiary categories, fluttered around statistically-insignificant changes for the

month. That was in the context of minimal downside revisions to the total- and single-unit categories, and a minimal upside revision to the multiple-unit category.

First-Quarter 2016 Starts in Uptrend, versus a Slowing Second-Quarter Pace. In terms of annualized quarter-to-quarter change, the regularly-unstable aggregate housing-starts count fell at annualized-quarterly pace of 24.1% (-24.1%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, flattened out to 0.0% in third-quarter 2015, and contracted at an annualized 7.2% (-7.2%) in fourth-quarter 2015.

First-quarter 2016 activity, which had turned down in pre-benchmark reporting, had revised into positive territory, thanks largely to upside benchmark revisions to multiple-structure starts. In May 2016 reporting, annualized first-quarter growth revised higher to 6.0%.

Second-quarter 2016 activity was growing at an annualized pace of 5.0%, based just on April and May detail. With only the volatile headline April 2016 detail available, housing starts had been on an early track for an annualized 9.1% gain in second-quarter 2016.

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 flatten, in low-level stagnation, reflecting the most-recent headline detail. That pattern is viewed best in terms of the longer-range historical graph of aggregate activity (*Graph 10*) at the end of the *Reporting Detail* section, and particularly in the context of the headline activity—smoothed by a six-month moving average—shown in accompanying *Graph 4*. Given the broad pattern of stagnation in the aggregate series, total May 2016 housing-starts activity remained well below any recovery level, down from its pre-recession high by 49% (-49%).

Separately, in May, the dominant, single-unit housing starts component of the series (*Graphs 5 and 6*) remained down by 58% (-58%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs, the various housing-starts series generally were flat, at a low level of stagnation (*Graph 4* for the aggregate), with recent up-trending, low-level stagnation in the six-month-smoothed single-unit activity (*Graph 6*) turning lower in May, offset by down-trending, smoothed multiple-unit starts (*Graph 8*), which continued to fall back from recent pre-recession levels, although up-ticking in May.

Consumer Liquidity Problems Continue to Impair Housing Activity. Continuing to constrain spending, the circumstances surrounding the ongoing the extreme liquidity bind impairing consumer activity were updated fully in [General Commentary No. 811](#). Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including residential real estate sales and related construction. The private-housing sector never recovered from the business collapse of 2006 into 2009.

Headline May 2016 Housing Starts. The broadly unstable and highly volatile aggregate Housing Starts series declined month-to-month in May 2016 by a statistically-insignificant, seasonally-adjusted, headline 0.3% (-0.3%).

Such followed a downwardly-revised 4.9% monthly gain in April 2016, and a shallower monthly decline of 8.2% (-8.2%) in March 2016. Net of prior-period revisions, May 2016 housing starts fell by a still statistically-insignificant 0.7% (-0.7%), instead of the headline decline of 0.3% (-0.3%). Level-of-activity aggregate detail is plotted in accompanying *Graphs 1* to *4* and in *Graphs 9* and *10* of the *Reporting Detail*.

Year-to-year change in the seasonally-adjusted, May 2016 aggregate housing-starts measure was a statistically-insignificant gain of 9.5%, versus a deeper annual decline of 2.1% (-2.1%) in April 2016, and an upwardly-revised annual gain of 15.5% in March 2016.

The May 2016 headline decline of 0.3% (-0.3%) in total housing starts encompassed headline monthly gains of 0.3% in the “one unit” category and 1.3% in the “five units or more” category, with the negative balance in the nebulous “two to four units” category discussed later in broader, aggregate “multiple unit” category. As most commonly is the case with this extraordinarily volatile series, not one of the headline changes was statistically significant, on a month-to-month or year-to-year basis.

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

Housing starts for single-unit structures in May 2016 rose month-to-month by a statistically-insignificant 0.3%, following a downwardly-revised 1.5% monthly gain in April, and a deeper monthly contraction of 11.1% (-11.1%) in March. Net of prior-period revisions, single-unit starts fell by 1.80% (-1.80%) in May 2016, instead of the headline 0.3% monthly gain.

Single-unit starts for May 2016 also showed a statistically-insignificant annual gain of 10.1%, versus a downwardly-revised annual gain of 2.1% in April 2016, and a minimally-revised gain of 20.0% in March 2016 (see *Graphs 1*, *2*, *5* and *6*).

Housing starts for apartment buildings (generally 5-units-or-more) in May 2016 rose month-to-month by a statistically-insignificant 1.3%, versus a minimally-revised 10.8% gain in April, and a narrowed monthly decline of 0.8% (-0.8%) in March. Net of prior-period revisions, May 2016 starts rose here by 6.2%, instead of by the headline 1.3%. The statistically-insignificant year-to-year gain of 10.0% in May 2016, followed a revised, narrowed annual decline of 8.6% (-8.6%) in April 2016, and an upwardly revised annual gain of 11.0% in March 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 1*, *2*, *7* and *8*).

Accordingly, the statistically-insignificant May 2016 monthly decline of 0.3% (-0.3%) in aggregate starts was composed of a statistically-insignificant gain of 0.3% in one-unit structures and a statistically-insignificant decline of 1.2% (-1.2%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category).

Regular Housing Starts Graphs. Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,164,000 in May 2016, versus a downwardly-revised 1,167,000 in April 2016. The scaling detail in the aggregate *Graphs 9 and 10* at the end of the *Reporting Detail* reflects those annualized numbers.

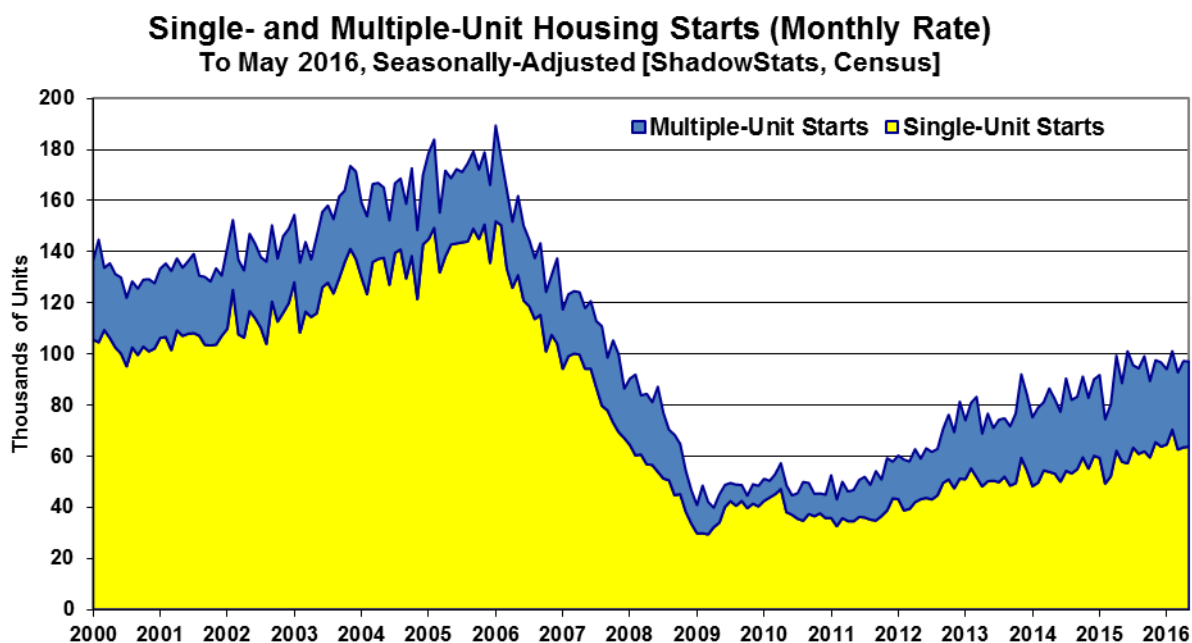
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 228,000 month-to-month gain reported 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 97,000 units in May 2016, instead of the annualized 1,164,000-headline number, is used in the scaling of the *Graphs 1 to 8* 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*.

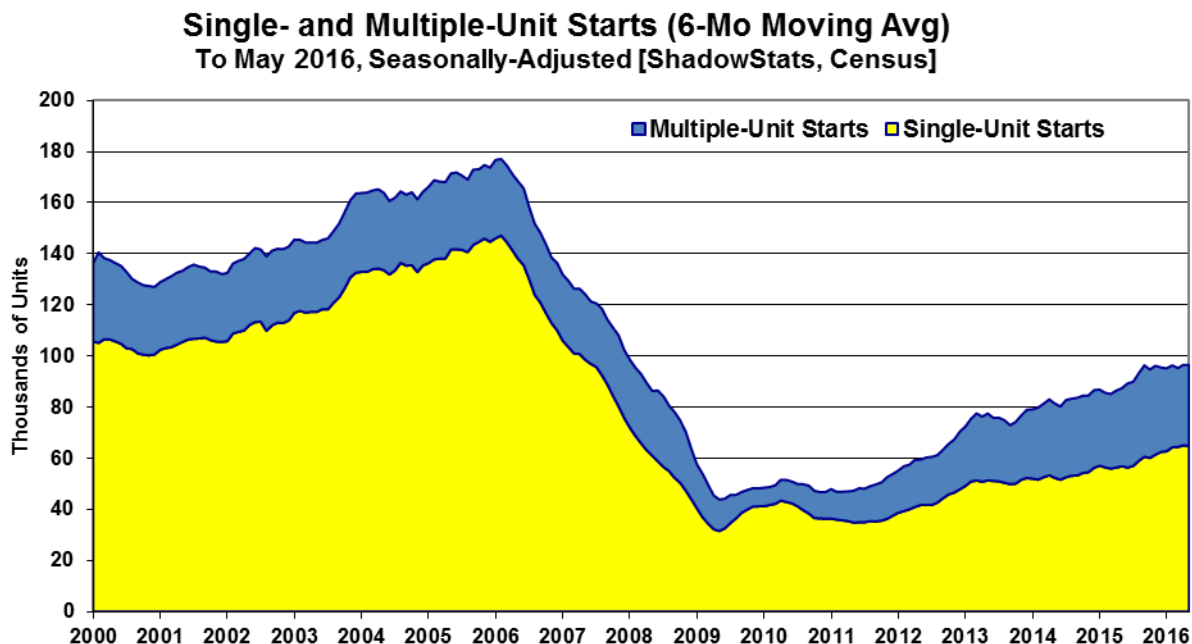
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the May 2016 headline number was up by 144%, but it still was down by 49% (-49%) 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 other recession activity of the last 70 years, as reflected in *Graph 10* of the *Reporting Detail*.

[Graphs 1 to 8 begin on the following page.]

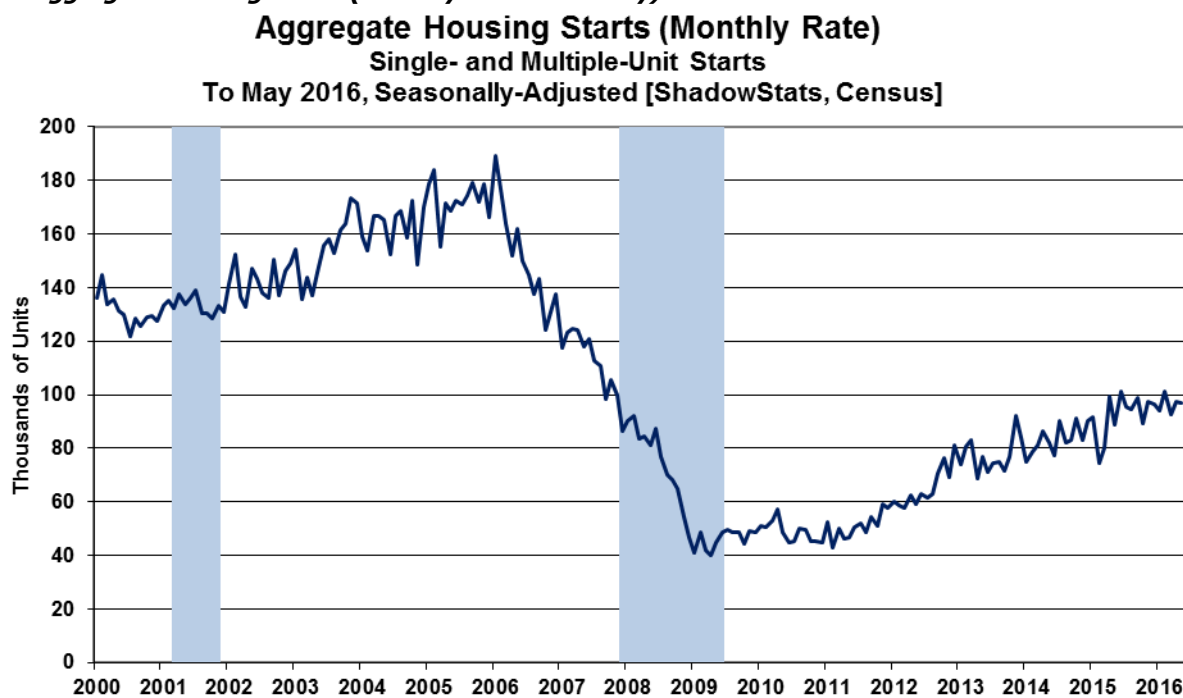
Graph 1: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



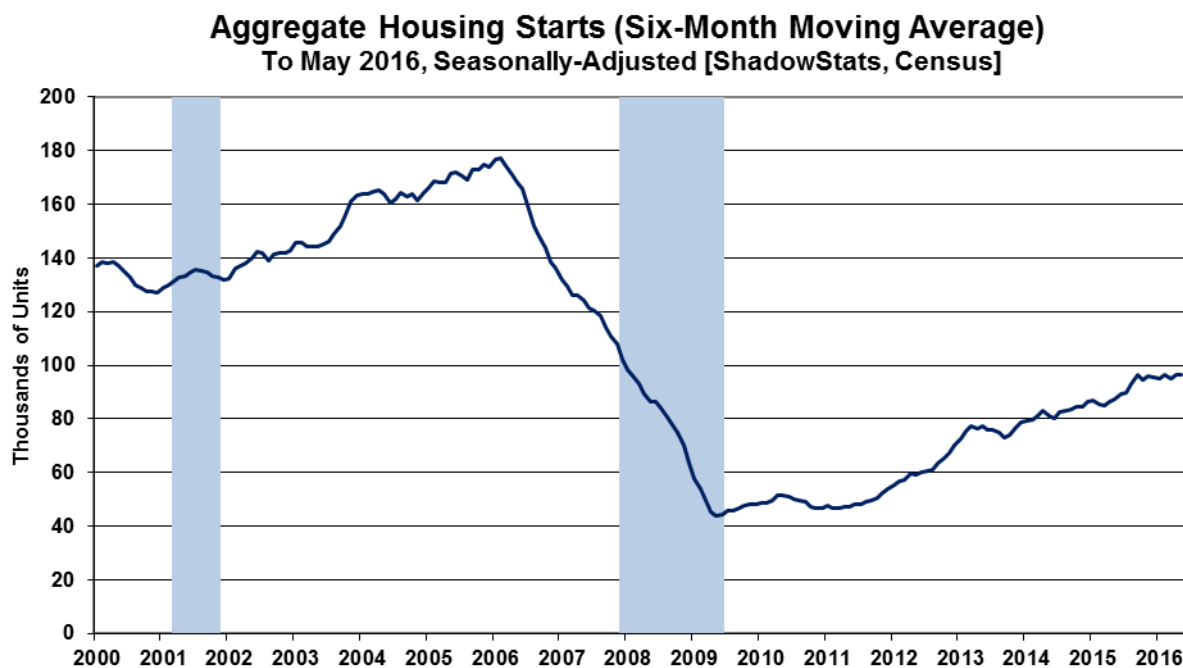
Graph 2: Single- and Multiple-Unit Starts (Six-Month Moving Average, Monthly Rate of Activity)



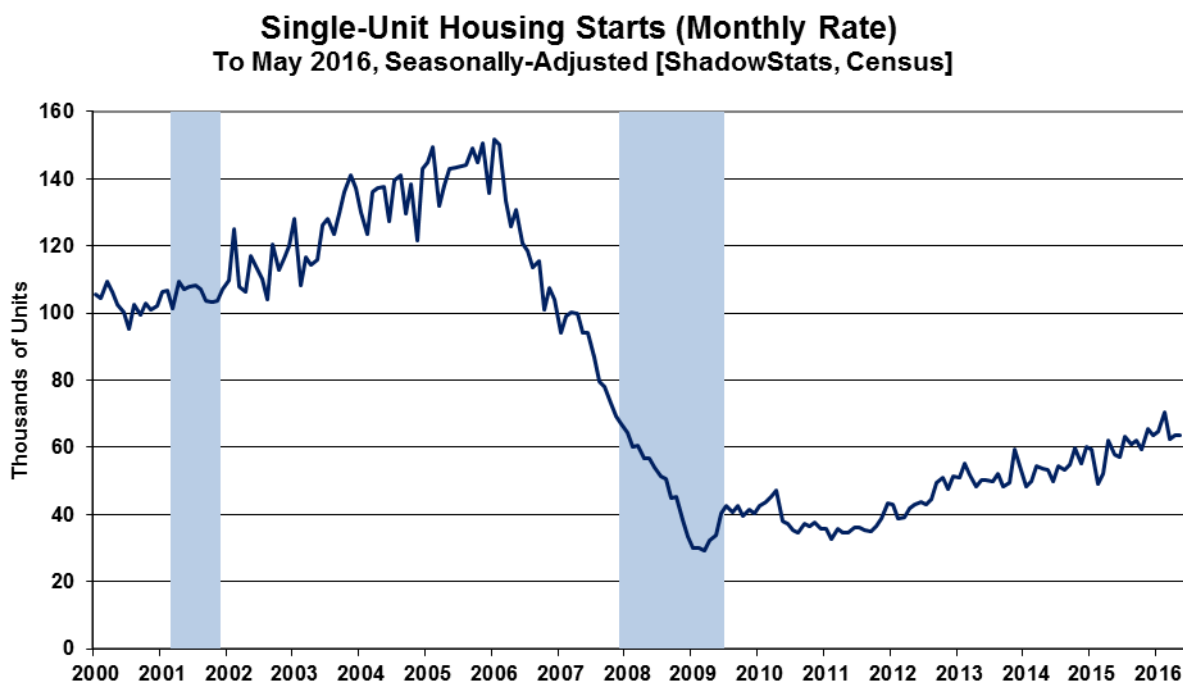
Graph 3: Aggregate Housing Starts (Monthly Rate of Activity)



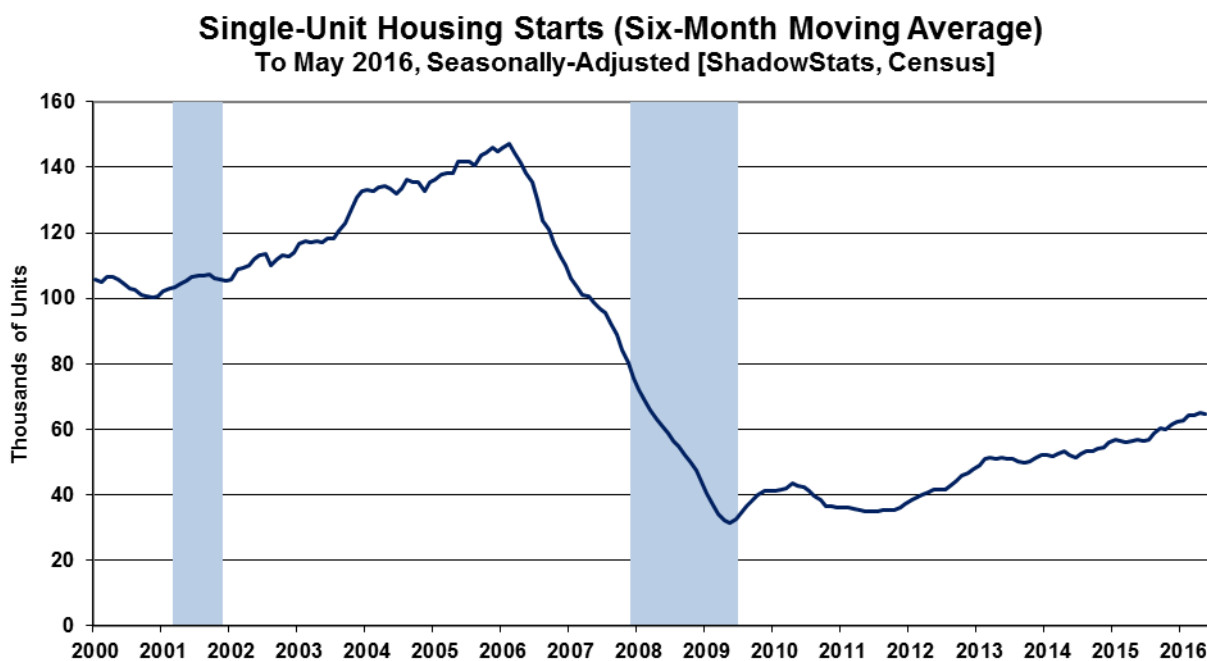
Graph 4: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



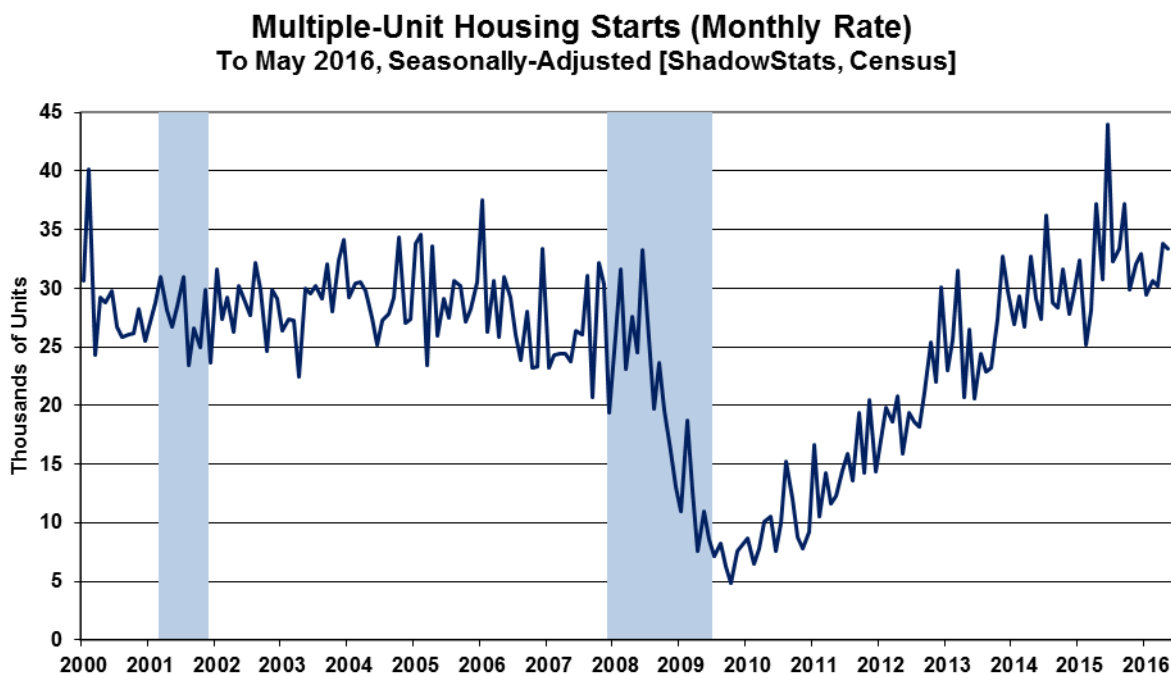
Graph 5: Single-Unit Housing Starts (Monthly Rate of Activity)



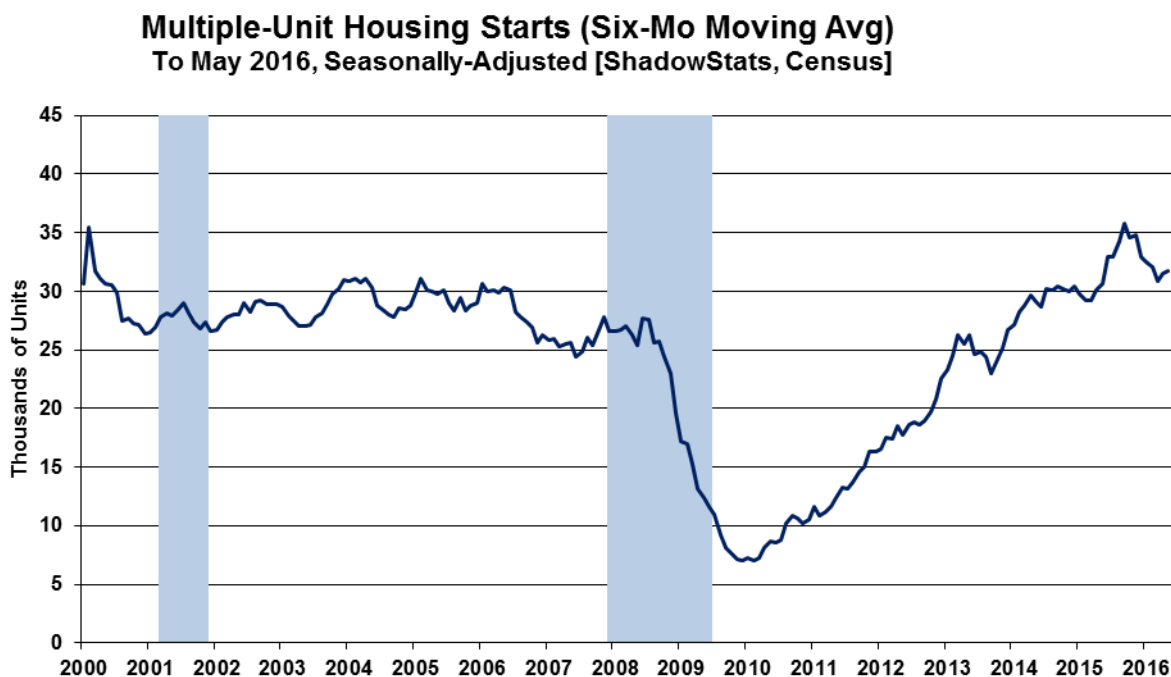
Graph 6: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



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 contains significant additional graphs and statistical analysis.]

REPORTING DETAIL

RESIDENTIAL INVESTMENT (May 2016)

Holding in Smoothed, Low-Level Stagnation and Non-Recovery, Headline May 2016 Housing Starts Detail Was Unusually Tepid. National activity in May 2016 total housing starts, and the single- and multiple-unit subsidiary categories, fluttered around statistically-insignificant changes for the month. That was in the context of minimal downside revisions to the total- and single-unit categories, and a minimal upside revision to the multiple-unit category.

First-Quarter 2016 Starts in Uptrend, versus a Slowing Second-Quarter Pace. In terms of annualized quarter-to-quarter change, the regularly-unstable aggregate housing-starts count fell at annualized-quarterly pace of 24.1% (-24.1%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, flattened out to 0.0% in third-quarter 2015, and contracted at an annualized 7.2% (-7.2%) in fourth-quarter 2015.

First-quarter 2016 activity, which had turned down in pre-benchmark reporting, had revised into positive territory, thanks largely to upside benchmark revisions to multiple-structure starts. In May 2016 reporting, annualized first-quarter growth revised higher, to 6.0%, [previously up by 4.3%, initially down by 0.7% (-0.7%) pre-benchmarking].

Second-quarter 2016 activity was growing at an annualized pace of 5.0%, based just on April and May detail. Based solely on the volatile headline April 2016 detail, housing starts had been on an early track for an annualized 9.1% gain in second-quarter 2016.

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 flatten, in low-level stagnation, reflecting the most-recent headline detail. That pattern 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 *Graph 4* in the *Opening Comments*. Given the broad pattern of stagnation in the aggregate series, total May 2016 housing-starts activity remained well below any recovery level, down from its pre-recession high by 49% (-49%).

Separately, in May 2016, the dominant, single-unit housing starts component of the series (*Graphs 5 and 6* 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 various housing-starts series generally were flat, at a low level of stagnation (*Graph 4* for the aggregate), with recent up-trending, low-level stagnation in the six-month-smoothed single-unit activity (*Graph 6*), turning lower in May. These were

offset by down-trending, smoothed multiple-unit starts (*Graph 8*), which continued to fall back from recent pre-recession levels, although they up-ticked in May.

Consumer Liquidity Problems Continue to Impair Housing Activity. Continuing to constrain spending, the circumstances surrounding the ongoing the extreme liquidity bind impairing consumer activity were updated fully in [General Commentary No. 811](#). Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including residential real estate sales and related construction. 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 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.

May 2016 Housing Starts, Headline Reporting. The broadly unstable and highly volatile aggregate Housing Starts series declined month-to-month, in the context of minimal downside revisions and the annual revisions published last month. The Census Bureau reported June 17th, a statistically-insignificant, seasonally-adjusted, headline monthly decline of 0.3% (-0.3%) +/- 16.4% (all confidence intervals are expressed at the 95% level) in May 2016 housing starts.

Such followed a downwardly-revised 4.9% [previously 6.6%] monthly gain in April 2016, and a shallower monthly decline of 8.2% (-8.2%) [previously down by 9.4% (-9.4%)] in March 2016. Net of prior-period revisions, May 2016 housing starts fell by a still statistically-insignificant 0.7% (-0.7%), instead of the headline decline of 0.3% (-0.3%). Level-of-activity aggregate detail is plotted in *Graphs 1 to 4* of the *Opening Comments*, and in *Graphs 9 and 10* at the end of this section.

Year-to-year change in the seasonally-adjusted, May 2016 aggregate housing-starts measure was a statistically-insignificant gain of 9.5% +/- 18.7%, versus a deeper annual decline of 2.1% (-2.1%) [previously down by 1.7% (-1.7%)] in April 2016, and an upwardly-revised annual gain of 15.5% [previously up by 14.0%] in March 2016.

The May 2016 headline decline of 0.3% (-0.3%) in total housing starts encompassed headline monthly gains of 0.3% in the “one unit” category and 1.3% in the “five units or more” category; the negative balance was in the nebulous “two to four units” category discussed later in broader, aggregate “multiple unit” category. As most commonly is the case with this extraordinarily volatile series, not one of the headline changes was statistically significant, on a month-to-month or year-to-year basis.

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

Housing starts for single-unit structures in May 2016 rose month-to-month by a statistically-insignificant 0.3% +/- 16.1%, following a downwardly-revised 1.5% [previously 3.3%] monthly gain in April, and a deeper monthly contraction of 11.1% (-11.1%) [previously down by 10.9% (-10.9%)] in March. Net of prior-period revisions, single-unit starts fell by 1.80% (-1.80%) in May 2016, instead of the headline 0.3% monthly gain.

May 2016 single-unit starts showed a statistically-insignificant annual gain of 10.1% +/- 16.7%, versus a downwardly-revised annual gain of 2.1% [previously 4.3%] in April 2016, and a minimally-revised gain of 20.0% [previously 20.3%] in March 2016 (see *Graphs 1, 2, 5 and 6* in the *Opening Comments*).

Housing starts for apartment buildings (generally 5-units-or-more) in May 2016 rose month-to-month by a statistically-insignificant 1.3% +/- 35.0%, versus a minimally-revised 10.8% [previously 10.7%] gain in April, and a narrowed monthly decline of 0.8% (-0.8%) [previously down by 5.3% (-5.3%)] in March. Net of prior-period revisions, May 2016 starts here rose by 6.2%, instead of by the headline 1.3%

The statistically-insignificant year-to-year gain of 10.0% +/- 40.8% in May 2016, followed a revised, narrowed annual decline of 8.6% (-8.6%) [previously down by 12.9% (-12.9%)] in April 2016, and an upwardly revised annual gain of 11.0% [previously up by 6.0%] in March 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 1, 2, 7 and 8* in the *Opening Comments*).

Accordingly, the statistically-insignificant May 2016 monthly decline of 0.3% (-0.3%) in aggregate starts was composed of a statistically-insignificant gain of 0.3% in one-unit structures and a statistically-insignificant decline of 1.2% (-1.2%) 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*.

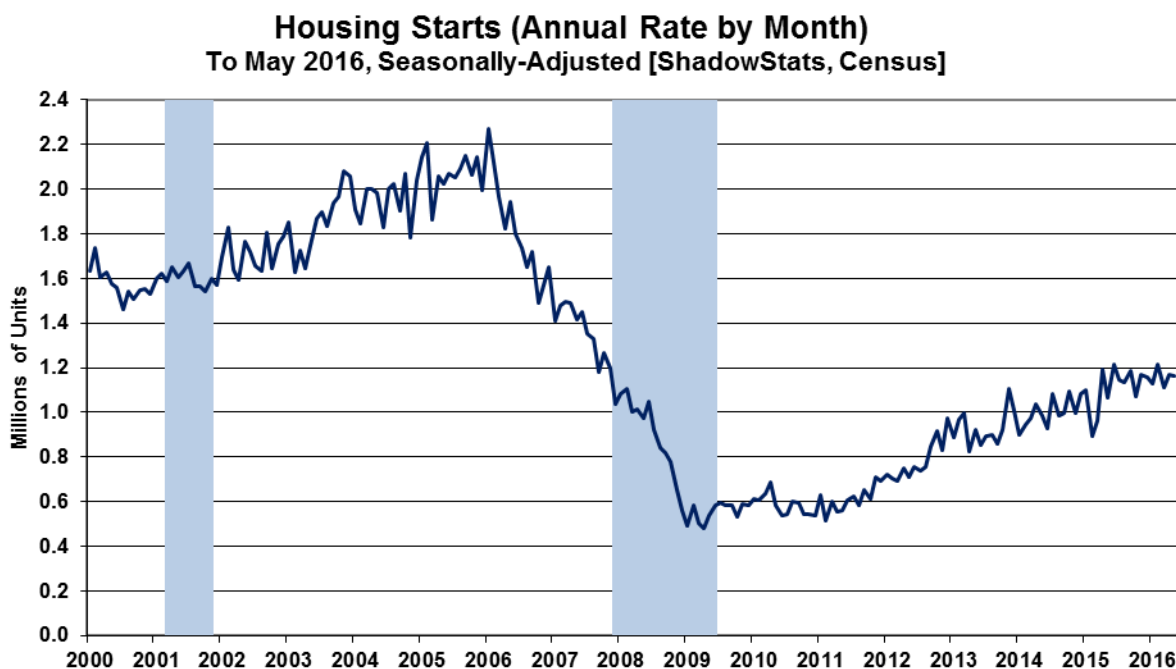
Housing Starts Graphs. Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,164,000 in May 2016, versus a downwardly-revised 1,167,000 [previously 1,172,000] in April 2016. The scaling detail in the aggregate *Graphs 9 and 10* 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 228,000 month-to-month gain reported 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.

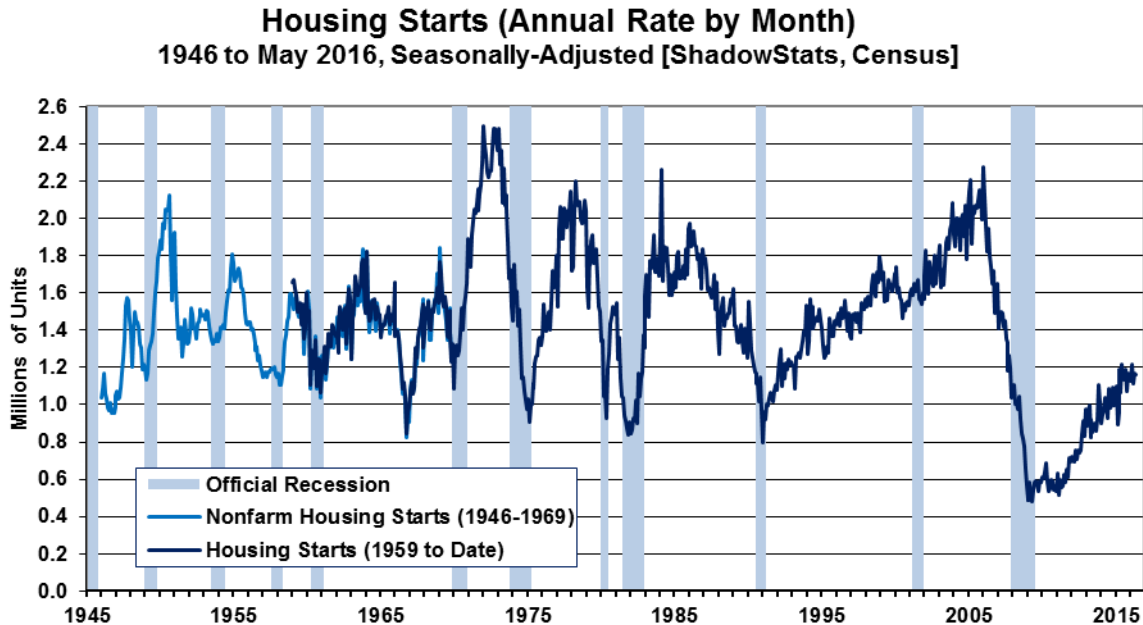
Accordingly, the monthly rate of 97,000 units in May 2016, instead of the annualized 1,164,000-headline number, is used for scaling *Graphs 1 to 8* in the *Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical, as can be seen in comparing *Graph 9* with *Opening Comments Graph 3*.

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 May 2016 headline number was up by 144%, but it still was down by 49% (-49%) 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 other recession activity of the last 70 years, as reflected in accompanying *Graph 10*.

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



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



WEEK AND MONTH AHEAD

Economic Deterioration Should Intensify in the Weeks and Month Ahead, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and continued Fed-policy retrenchment in the near term. The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect a broad spectrum of market-disappointing headline data (see the *Opening Comments*). That unfolding circumstance has been detailed in [Commentary No. 814](#), [Commentary No. 813](#), [Commentary No. 812](#), [General Commentary No. 811](#), [Commentary No. 810](#), [Commentary No. 809](#), [Commentary No. 808](#), [Supplemental Commentary No. 807-A](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796-A](#), [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

In response to perpetual economic non-recovery and a renewed, intensifying downtrend in underlying economic activity, negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices. Market activity has been mixed, somewhat on oil, at the moment, as discussed in [No. 814](#), [No. 811](#), [No. 807](#) and [No. 799](#). These market reactions reflect, at least in part, the intensifying sense of Federal Reserve impotence. Further tightening by the Fed prior to the election remains unlikely, instead, renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds and becomes increasingly obvious in the next several months.

Rapidly weakening, regular monthly economic reporting should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), as seen minimally with the initial reporting of a first-quarter 2016 contraction in the Gross National Product (GNP)—the broadest measure of U.S. economic activity—discussed in [No. 809](#).

Such includes a small chance of a reported outright quarterly contraction in first-quarter 2016 GDP in the June 28th second monthly revision. Pending are meaningful downside revisions to GDP history (including likely headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29, 2016 annual GDP benchmark revisions, again, as discussed in the *Opening Comments*.

Consistent with the relatively neutral benchmark revisions to retail sales and housing starts, and in line with recent sharp downside revisions to industrial production, durable goods orders, the annual revisions to the real merchandise-trade deficit and likely negative benchmark revisions to construction spending next month, expectations for the GDP benchmarking also should fall sharply. Discussed in the *Opening Comments* of [No. 810](#), upside redefinitions to the service-sector trade surplus could have some minimal upside revision impact pre-2015. Nonetheless, that GDP benchmarking now appears to be 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 monthly March to May 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise minimally in June and likely going forward, still boosted by a weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Gasoline price seasonal adjustments also shift to the plus-side in July. Fundamental reporting issues with the headline CPI 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 was 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” 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 increasing 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](#)). John Crudele of the *New York Post* continues his investigations in reporting irregularities: [Crudele Investigation](#).

UPDATED PENDING RELEASES:

Existing- and New-Home Sales (May 2016). May 2016 Existing-Home Sales are due for release on Wednesday, June 22nd, from the National Association of Realtors (NAR), with the May 2016 New-Home Sales report due from the Census Bureau on Thursday, June 23rd. Both Existing- and New-Home Sales will be covered in the *Commentary No. 816* of June 24th.

Circumstances surrounding the ongoing the extreme liquidity bind besetting consumers have continued to constrain sales activity in residential estate. Fully updated in [General Commentary No. 811](#), without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumers remain unable to sustain positive growth in domestic personal consumption, including residential real estate and real retail sales.

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 should continue their current general pattern of down-trending, low-level stagnation.

Smoothed for regular extreme and nonsensical monthly gyrations, a pattern of stagnation or downturn in New-Home Sales also is likely to continue, despite the statistically-insignificant headline 16.6% monthly sales surge purportedly seen in April. The pattern of low-level stagnation in new sales generally 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 reporting and revisions; nonetheless, some downside catch-up is likely in the May 2016 detail.

New Orders for Durable Goods (May 2016). The Census Bureau will report May 2016 New Orders for Durable Goods on Friday, June 24th, which will be covered in *Commentary No. 816* of that date. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending real stagnation. That reporting also will be in the context of the May 18th annual benchmark revisions, which were sharply to the downside, detailed in [Supplemental Commentary No. 807-A](#), and the regular supplemental reporting for April 2016, covered in [Commentary No. 808](#).

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.

As noted in [Commentary No. 813](#), related manufactured durable goods inflation in the Producer Price Index (PPI) turned higher month-to-month in May by 0.2%, which accordingly should dampen in parallel manner any inflation-adjusted real gains reported for the new orders.
