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

COMMENTARY NUMBER 834
August 2016 Housing Starts, Freight Index

September 20, 2016

Monthly Drops in August Housing Starts and Building Permits More than Offset Prior-Period Gains

Both Starts and Permits Held in Smoothed, Non-Recovering, Low-Level Stagnation; Still Shy of Pre-Recession Highs by 50%

August Freight Index Indicated a Deepening Recession

PLEASE NOTE: The next regular Commentary, *scheduled for Thursday, September 28th, will cover August New Orders for Durable Goods and New- and Existing-Home Sales. A Commentary on Friday, September 29th, will cover the third estimate, second revision to second-quarter 2016 GDP.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

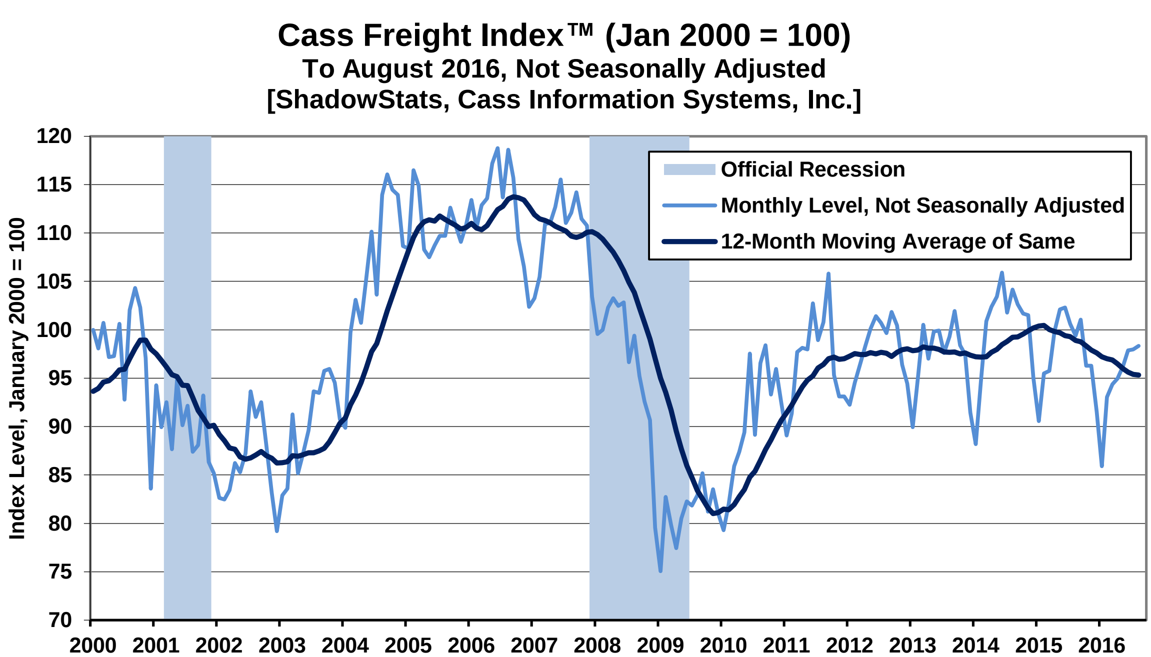
Stocks versus the U.S. Dollar—Faltering Economic Activity Continues Not to Favor A Rate Hike. Headline detail in the reporting of August nonresidential construction turned back to the downside, while the August Cass Freight Index™ continued in annual contraction and otherwise reflected deteriorating

North American freight activity. Those numbers followed on top of increasingly-negative headline industrial production and real retail sales published on September 15th (*Commentary No. 832*). If tomorrow's (September 21st) announcement from the Federal Open Market Committee (FOMC) is for a rate hike, it will not be due to any legitimate fear of an overheating U.S. economy (see the *Hyperinflation Watch* discussion in *Commentary No. 833*).

If rates are hiked, that effectively would be on the 29th anniversay of novice Federal Reserve Chairman Alan Greenspan hiking interest rates in September 1987, in an effort to prop the U.S. dollar. When the stock market crashed the next month, in October 1987, the Fed abandoned the dollar in a concerted effort to prop the stock market. Circumstances shift over time, but the guiding principles appear to remain very much in play. Given a choice between maintaining a stronger dollar, propped by higher rates, or attempting to salvage collapsing equity prices, the U.S. financial system will opt for propping the stock market every time. Such helps to doom the system eventually to expanded-quantitative easing after the election, irrespective of any near-term rate hikes, and irrespective of any fears as to the horrendous inflation problems suggested by that circumstance. The ultimate hedge and asset/wealth protection remains to buy and to hold physical gold and silver.

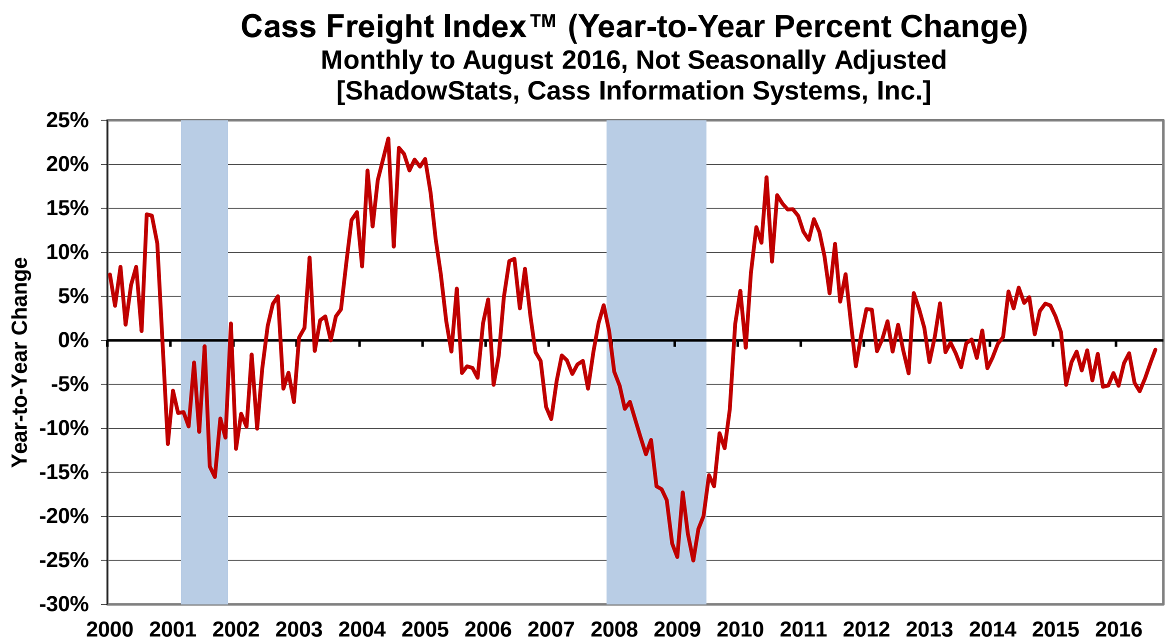
August 2016 Freight Index Again Confirmed Deepening Economic Contraction and Non-Recovery. Patterns of non-recovery in the general economy and renewed downturn in business activity were reconfirmed in the headline detail of the August 2016 Cass Freight Index™, published this afternoon, September 20th.

Graph 1: CASS Freight Index, Unadjusted Monthly and Trailing 12-Month Average, through August 2016



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, freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States.

Graph 2: CASS Freight Index, Year-to-Year Percent Change, Monthly through August 2016



The plot in *Graph 1* reflects the monthly numbers updated through August 2016. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality 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. ShadowStats also has re-indexed the series to January 2000 = 100, so as to be consistent with other graphs used. The headline index published by Cass is based at January 1990 = 100. The patterns here somewhat resemble those in *Graph 2* of the "corrected" industrial production series in [Commentary No. 832](#), and as seen in the smoothed, corrected real new orders for durable goods, ex-commercial aircraft in [Commentary No. 827](#) (*Graph 4*).

In [Commentary No. 829](#) (see pages 4 to 11 there), a variation on *Graph 1* was compared with various U.S. unemployment and economic measures. Shown in *Graph 1*, the trailing twelve-month average peaked in February 2015 and has been slowing since, with the twelve-month average to through August 2016 down 5.1% (-5.1%) from that peak, and currently down 3.6% (-3.6%) from the year-ago August 2015 average.

Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph 2*. The unadjusted monthly detail has been in continual year-to-year decline since March of 2015, down by 1.1% (-1.1%) year-to-year as of August 2016, versus an annual drop of 2.6% (-2.6%) in July 2016.

In combination, *Graphs 1* and *2* 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 still will be timed from December 2014.

Other Private Indicators Show an Unfolding Downturn. There is no evidence of an economic rebound or recovery in the works, quite to the contrary, based on this independent freight index (as in non-government) and broadly-based indicator of business activity, or on other independent indicators such as S&P 500 revenues (again, see *No. 829*).

Noted in *Commentary No. 820,* The Conference Board Help Wanted OnLine® Advertising through June was generating a signal for an economic downturn. That general pattern of annual growth can be seen continuing in the data available for August 2016 at The Conference Board Help Wanted OnLine®.

Today's *Commentary* (September 20th). These *Opening Comments* cover the regular monthly summary of August Housing Starts, with extended information in the *Reporting Detail*.

The *Week and Month Ahead* reviews the pending releases on new- and existing home sales, new orders for durable goods and the GDP revision.

This month, ShadowStats begins coverage of housing building permits along with the headline detail of August 2016 residential construction (see related graphs in the *Reporting Detail*). If readers are interested in ShadowStats expanding coverage of the building permits series, broken out by similar components as seen in the housing starts series, or otherwise, please send an email advising of same to johnwilliams@shadowstats.com or call me at (707) 763-5786.

Residential Construction—August 2016—Activity Tumbled Anew in Both Housing Starts and Building Permits, with Smoothed Activity Continuing in Non-Recovering Stagnation. ShadowStats is pleased to introduce regular graphics and some limited coverage of the building permits series, which is published as part of the residential construction detail. The permits series suffers from definitional issues, historical inconsistencies and extraordinarily-large and irregular monthly movements and revisions, but it does lead the starts series.

In the context of downside, prior-month revisions, August building permits declined both month-to-month and year-to-year, down month-to-month by 0.4% (-0.4%) in August 2016, versus a less-severe, revised decline of 0.8% (-0.8%) in July, and down year-to year by 2.3% (-2.3%) in August 2016, versus a downwardly-revised annual gain of 0.2% in July 2016.

Where building permits tend to lead activity in the more-unstable housing starts series by three-to-six months, starts also turned negative month-to-month, but they turned minimally-positive year-to-year. As usual, though, none of the monthly or annual changes in the housing starts series and its subsidiary unit categories was statistically significant. The annual downturn in permits, however, was meaningful.

Smoothed with a six-month moving average, the aggregate building-permits and housing-starts series remained in extremely-flat, low-level stagnation (see accompanying *Graph 6*, and *Graphs 13* and *14* in the *Reporting Detail*). Neither the headline permits nor starts has recovered from the economic collapse into 2009, with current headline activity down by 50% from pre-recession peaks for both series.

Early Third-Quarter 2016 Housing Starts Growth Trend Slowed Markedly. In terms of quarter-to-quarter change, the unstable aggregate housing-starts count fell at annualized 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 then contracted at an annualized 7.2% (-7.2%) in fourth-quarter 2015.

First-quarter 2016 activity, which had turned down in pre-benchmark (April) reporting, had revised into positive territory, thanks largely to upside benchmark revisions to multiple-structure starts in the May 2016 detail, but it did not revise with headline August 2016 reporting, holding at 6.0%.

Second-quarter 2016 activity revised higher, to an annualized pace of 2.8% growth. Based solely on the headline July and August details, third-quarter housing starts were on early track for annualized 6.2% growth. That had been an annualized 20.3% gain based just on the initial headline reporting for July.

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—as flat as one ever sees in such a series—in low-level stagnation, reflecting the most-recent headline detail (see *Graphs 6* and *14*), with the same pattern of stability also seen broadly in raw monthly data (*Graphs 5* and *12*). That general pattern also can be viewed in terms of the longer-range historical graph of aggregate activity (*Graph 15*) in the *Reporting Detail*. Parallel graphs of monthly and six-month moving average building permits detail also are compared there in *Graphs 11* and *13*). Given the broad pattern of stagnation in both the aggregate starts and permits series, headline August 2016 activity remained well below any recovery level, with starts down from their January 2006 pre-recession high by 50% (-50%) and with permits also down by 50% from their September 2005 pre-recession high.

Returning fully to the August 2016 housing starts detail, the dominant, single-unit housing starts component of that series (see *Graphs 7* and *8*) remained down by 60% (-60%) from its January 2006 pre-recession peak.

Reflected in the accompanying smoothed graphs, the various housing-starts series generally were flat, at a low level of stagnation (*Graph 6* for the aggregate), with low-level stagnation in the six-month-smoothed single-unit activity (*Graph 8*) turning lower again August. That was offset partially by up-trending, smoothed multiple-unit starts (*Graph 10*), which had continued to fall back from pre-recession levels, until it turned higher in the last several months.

August 2016 Housing Starts, Headline Detail. The broadly unstable and highly volatile aggregate Housing Starts series fell month-to-month, in the context of minimal revisions to levels of the two prior months. The statistically-insignificant, seasonally-adjusted, headline August 2016 numbers declined 5.8% (-5.8%) month-to-month. That followed a downwardly-revised 1.4% gain in July, an upwardly-revised 5.9% monthly gain in June and an unrevised monthly decline of 2.3% (-2.3%) in May. Net of prior-period revisions, August 2016 housing starts still declined by 5.8% (-5.8%) for the month. Level-of-activity aggregate detail is plotted in accompanying *Graphs 3* to *6*, and in *Graphs 12*, *14* and *15* in the *Reporting Detail*.

Year-to-year change in the seasonally-adjusted, August 2016 aggregate housing-starts measure was a statistically-insignificant gain of 0.9%, versus a minimally-revised gain of 5.7% in July 2016, a narrowed, revised decline in June 2016 of 1.5% (-1.5%) and an unrevised gain of 6.1% in May 2016.

The August 2016 headline decline of 5.8% (-5.8%) in total housing starts encompassed headline monthly contractions of 6.0% (-6.0%) in the “one unit” category and 6.9% (-6.9%) in the “five units or more” category; with a missing balance in the “two to four units” category discussed later in the broader, aggregate “multiple unit” category. As most commonly is the case with this extraordinarily volatile series, not one of the monthly or annual headline changes was statistically meaningful.

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

Housing starts for single-unit structures in August 2016 declined month-to-month by a statistically-insignificant 6.0% (-6.0%), following an upwardly-revised monthly gain of 0.7% in July, a downwardly-revised 3.5% gain in June, and an unrevised decline of 3.5% (-3.5%) in May. Net of prior-period revisions, August 2016 single-unit starts declined by 6.2% (-6.2%), instead of the headline 6.0% (-6.0%). August 2016 single-unit starts showed a statistically-insignificant annual decline of 1.2% (-1.2%), versus a downwardly-revised annual gain of 1.1% in August 2016, a downwardly-revised 11.2% in June 2016, and an unrevised 6.2% gain in May (see *Graphs 3*, *4*, *7* and *8*).

Housing starts for apartment buildings (generally 5-units-or-more) in August 2016 declined month-to-month by a statistically-insignificant 6.9% (-6.9%), versus a downwardly-revised gain of 4.6% in July 2015, an upwardly-revised 7.3% gain in June, and an unrevised 2.1% gain in May. Net of prior-period revisions, August 2016 starts declined by 6.9% (-6.9%), the same as the headline gain.

The statistically-insignificant year-to-year gain of 2.3% in August 2016, followed an unrevised annual gain of 15.2% in July, a less-negative annual decline of 19.3% (-19.3%) in June 2016, and an unrevised 7.2% annual gain in May 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 (*Graphs 3*, *4*, *9* and *10*).

Accordingly, the statistically-insignificant August 2016 monthly decline of 5.8% (-5.8%) in aggregate starts was composed of a statistically-insignificant decline of 6.0% (-6.0%) in one-unit structures and a statistically-insignificant decline of 5.4% (-5.4%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). Again, these series all are reflected in accompanying graphs.

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 1,142,000 in August 2016, versus an upwardly-revised 1,212,000 (previously 1,211,000) in July 2016. The scaling detail used in the aggregate housing starts and building permits *Graphs 11* to *15* in the *Reporting Detail* reflects those annualized numbers.

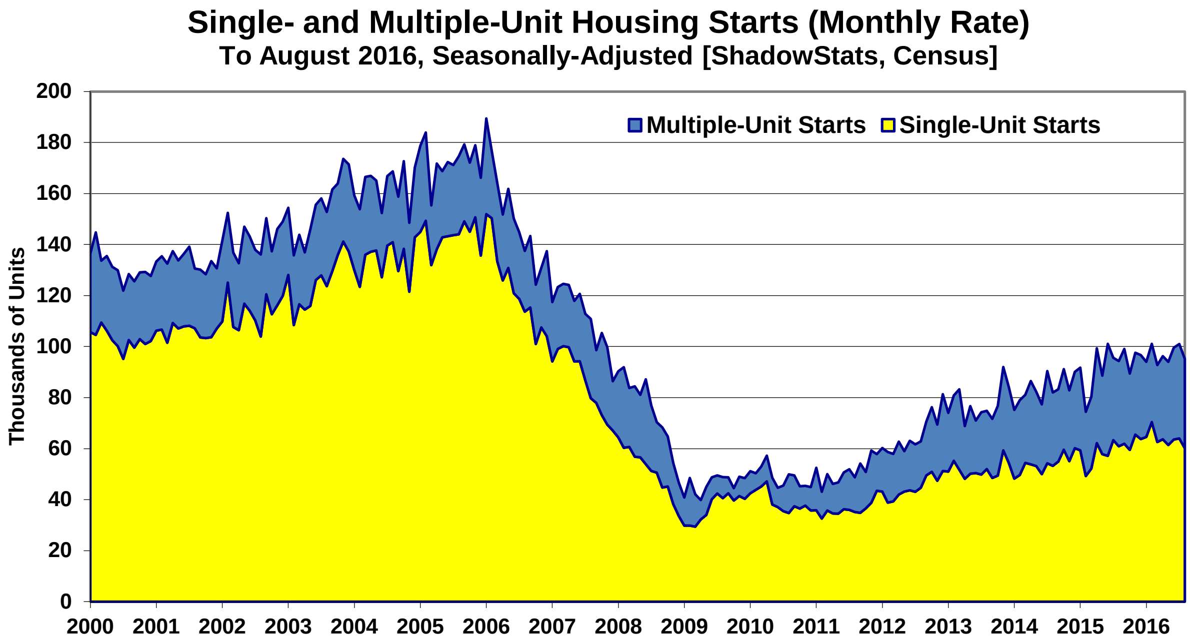
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 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 95,167 units in August 2016, instead of the annualized 1,142,000-headline number, is used in the scaling of the *Graphs 3* to *10* 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 5* versus *Graph 12* in the *Reporting Detail*.

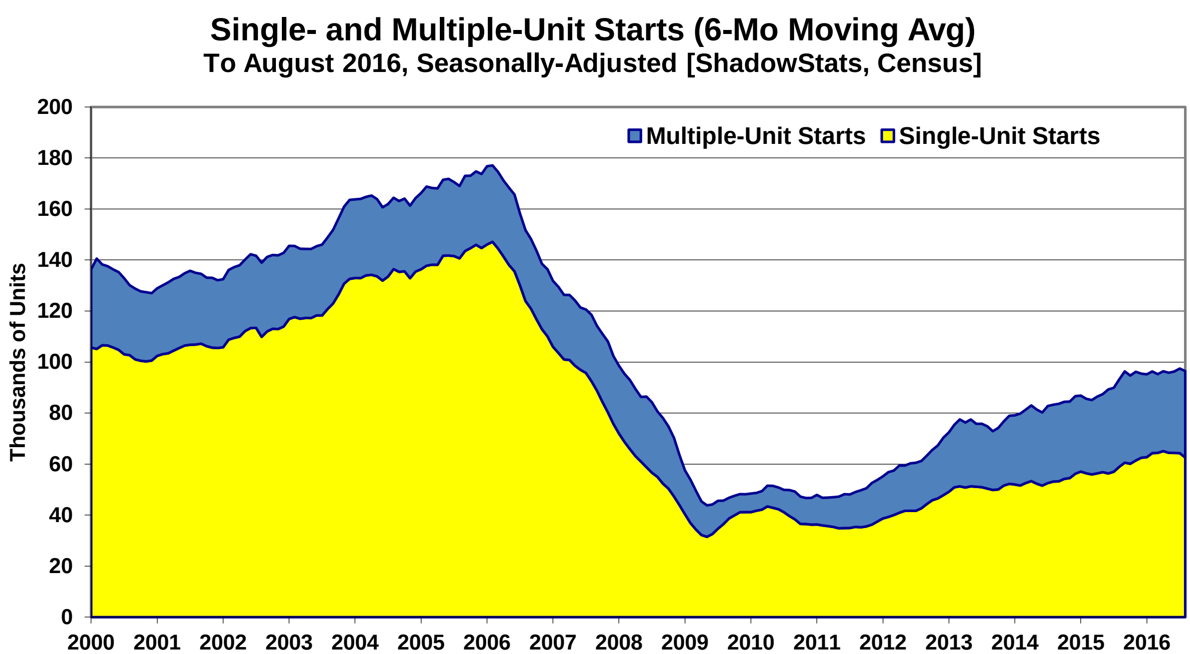
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the August 2016 headline number was up by 139%, but it still was down by 50% (-50%) 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 15* of the *Reporting Detail*.

[Graphs 3 to 10 begin on the next page.]

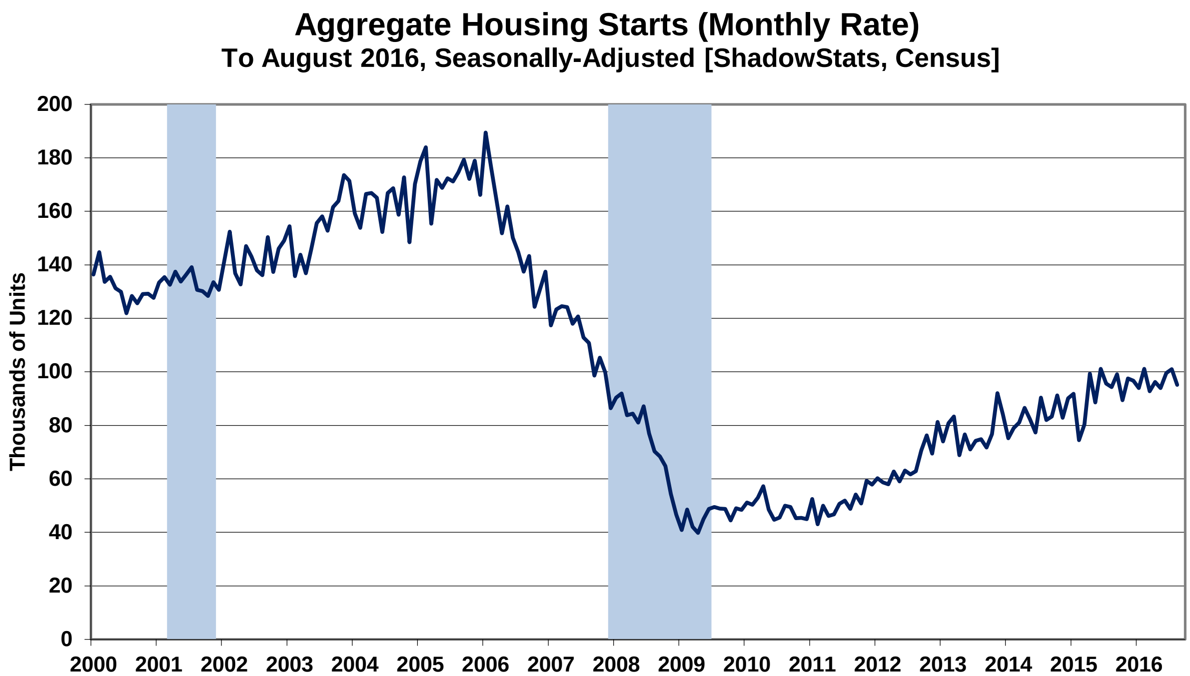
Graph 3: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



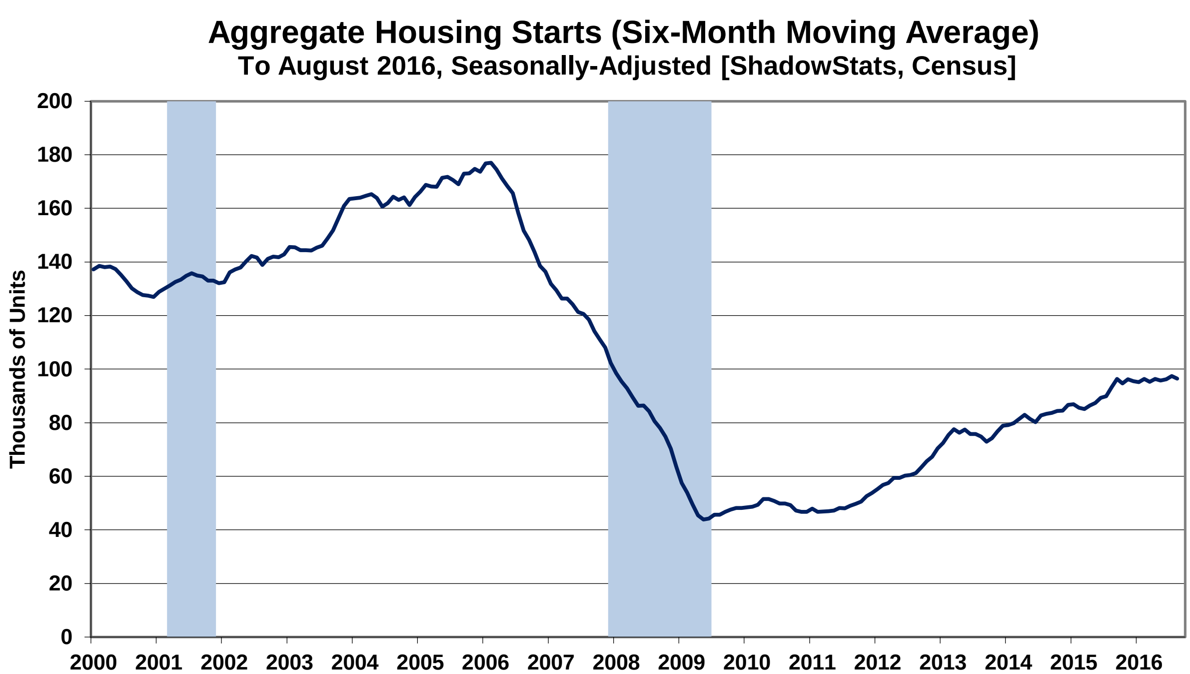
Graph 4: Single- and Multiple-Unit Starts (Six-Month Moving Average, Monthly Rate of Activity)



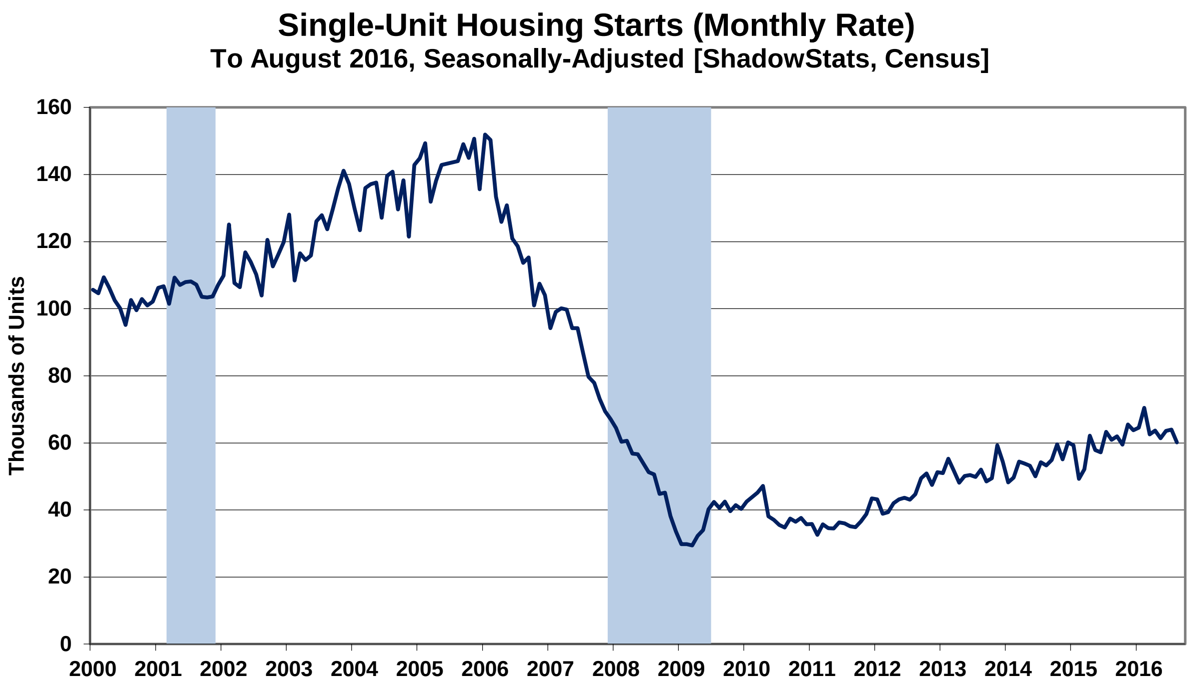
Graph 5: Aggregate Housing Starts (Monthly Rate of Activity)



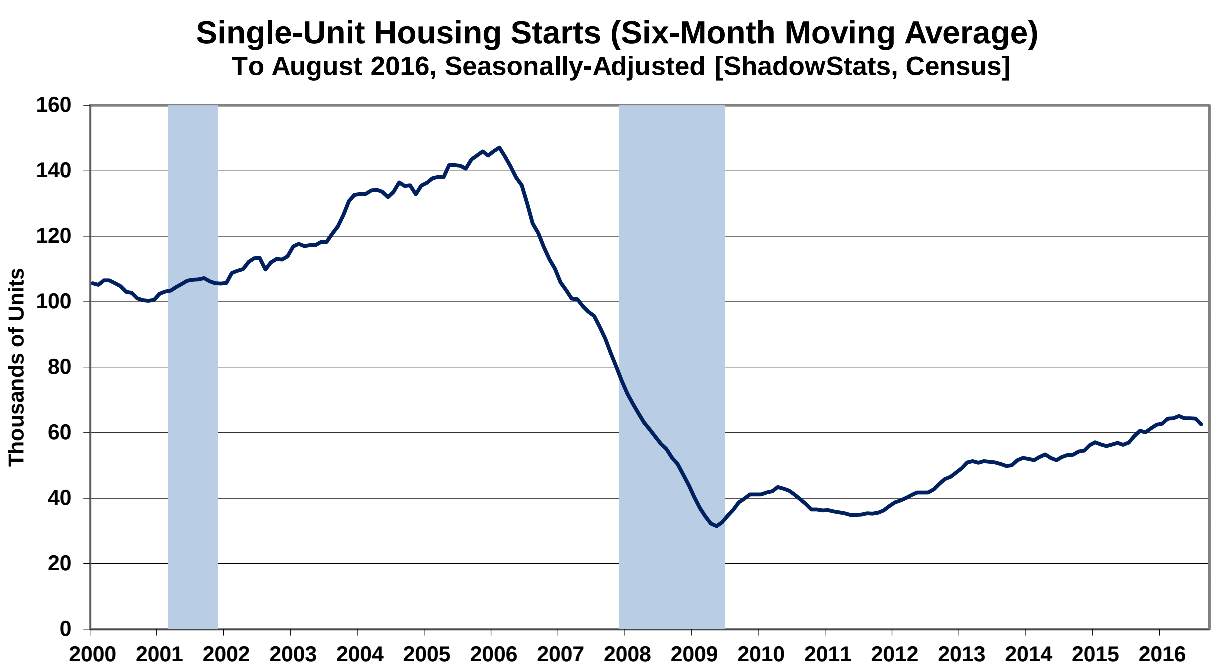
Graph 6: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



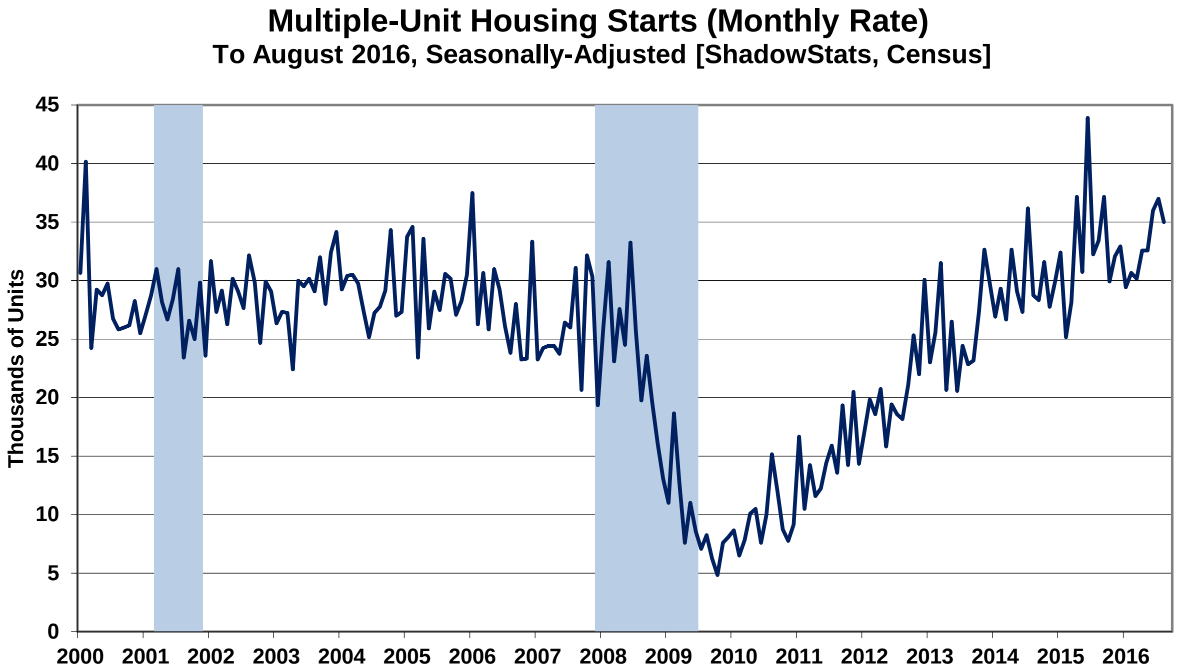
Graph 7: Single-Unit Housing Starts (Monthly Rate of Activity)



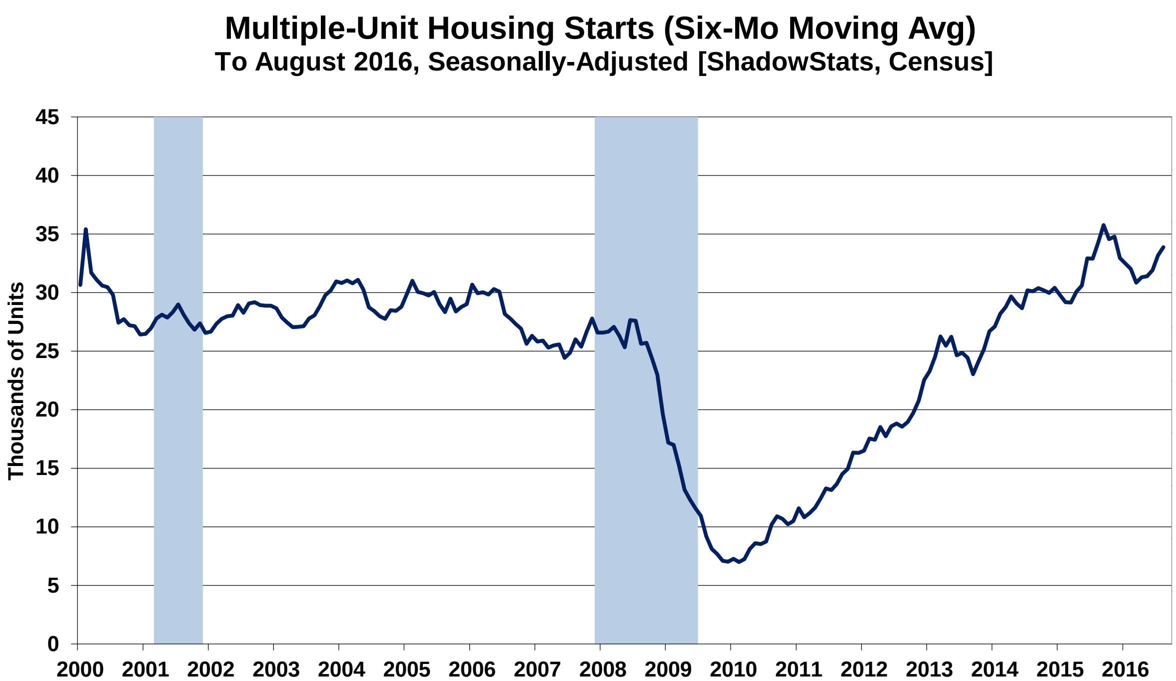
Graph 8: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



Graph 9: Multiple-Unit Housing Starts (Monthly Rate of Activity)



Graph 10: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



[The* Reporting Detail *contains additional graphs and content related to August Residential Construction.]

REPORTING DETAIL

NEW RESIDENTIAL CONSTRUCTION (August 2016)

Residential Construction Activity Tumbled Anew, with the Smoothed Starts and Permits Series Continuing in Non-Recovering Stagnation. ShadowStats is pleased to introduce regular graphics and some limited coverage of the building permits series, which is published as part of the residential construction detail. The permits series suffers from definitional issues, historical inconsistencies and extraordinarily-large and irregular monthly movements and revisions, but it does lead the starts series.

In the context of downside, prior-month revisions, August building permits declined both month-to-month and year-to-year, down month-to-month by 0.4% (-0.4%) in August 2016, versus a revised decline of 0.8% (-0.8%) [previously down by 0.1% (-0.1%)] in July, and down year-to year by 2.3% (-2.3%) in August 2016, versus a revised 0.2% [previously 0.9%] annual gain in July 2016.

Where building permits tend to lead activity in the more-unstable housing starts series by three-to-six months, starts also turned negative month-to-month, but they turned minimally-positive year-to-year. As usual, though, none of the monthly or annual changes in the housing starts series and its subsidiary unit categories was statistically significant. The annual downturn in permits, however, was meaningful.

If readers are interested in ShadowStats reporting coverage of the building permits series, as broken out by similar components as covered with the housing starts series, or otherwise, please send an email advising of same to johnwilliams@shadowstats.com or call me at (707) 763-5786.

Smoothed with a six-month moving average, the aggregate building-permits and housing-starts series remained in extremely-flat, low-level stagnation (see *Graph 6* in the *Opening Comments* section, and *Graphs 13* and *14* at the end of this section). Neither the headline permits nor starts has recovered from the economic collapse into 2009, with current headline activity down by 50%, for both series, from their pre-recession peaks.

Early Third-Quarter 2016 Housing Starts Growth Trend Slowed Markedly. In terms of quarter-to-quarter change, the unstable aggregate housing-starts count fell at annualized 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 then contracted at an annualized 7.2% (-7.2%) in fourth-quarter 2015.

First-quarter 2016 activity, which had turned down in pre-benchmark (April) reporting, had revised into positive territory, thanks largely to upside benchmark revisions to multiple-structure starts in the May 2016 detail, but it did not revise with headline August 2016 reporting, holding at 6.0%.

Second-quarter 2016 activity revised higher, to an annualized pace of 2.8% [previously 1.7%, initially 2.9%] growth. Based solely on the headline July and August details, third-quarter housing starts were on early track for annualized 6.2% growth. That had been an early, annualized 20.3% gain based just on the initial headline reporting for July.

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—as flat as one ever sees in such a series—in low-level stagnation, reflecting the most-recent headline detail (*Graphs 6* and *14*), with the same pattern of stability also seen broadly in raw monthly data (*Graphs 5* and *12*). That general pattern also can be viewed in terms of the longer-range historical graph of aggregate activity (*Graph 15*) at the end of this section. Parallel graphs of monthly and six-month moving average building permits detail are compared in *Graphs 11* and *13*). Given the broad pattern of stagnation in both the aggregate starts and permits series, headline total August 2016 activity remained well below any recovery level, with starts down from their January 2006 pre-recession high by 50% (-50%) and with permits also down by 50% from their September 2005 pre-recession high.

Returning fully to the August 2016 housing starts detail, the dominant, single-unit housing starts component of that series (*Graphs 7* and *8* 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 various housing-starts series generally were flat, at a low level of stagnation (*Graph 6* for the aggregate), with low-level stagnation in the six-month-smoothed single-unit activity (*Graph 8*) turning lower again August. That was offset partially by up-trending, smoothed multiple-unit starts (*Graph 10*), which had continued to fall back from pre-recession levels, until it turned higher in the last several months.

Consumer Liquidity Problems Continue to Impair Housing Activity. An extreme consumer-liquidity bind continues to constrain the residential real estate sales and related construction activity, as updated extensively in the *Opening Comments* of prior-*Commentary No. 833*. 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 the income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including aggregate real estate activity. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity, 70% of which is dependent on personal spending, including real estate.

August 2016 Housing Starts, Headline Reporting. The broadly unstable and highly volatile aggregate Housing Starts series fell month-to-month, in the context of minimal revisions to levels of the two prior months. The Census Bureau reported this morning, September 20th, a statistically-insignificant, seasonally-adjusted, headline monthly decline of 5.8% (-5.8%) +/- 11.3% (all confidence intervals are expressed at the 95% level) in August 2016 housing starts. Such followed a revised 1.4% [previously 2.1%] gain in July, a revised 5.9% [previously 5.1%, initially 4.8%] monthly gain in June and an unrevised monthly decline of 2.3% (-2.3%) in May. Net of prior-period revisions, August 2016 housing starts still declined by 5.8% (-5.8%) for the month. Level-of-activity aggregate detail is plotted in *Graphs 3* to *6* of the *Opening Comments*, and in *Graphs 12*, *14* and *15* at the end of this section.

Year-to-year change in the seasonally-adjusted, August 2016 aggregate housing-starts measure was a statistically-insignificant gain of 0.9% +/- 14.6%, versus a minimally-revised gain of 5.7% [previous up by 5.6%] in July 2016, a narrowed, revised decline in June 2016 of 1.5% (-1.5%) [previously down by 2.2% (-2.2%), initially down by 2.0% (-2.0%)], and an unrevised gain of 6.1% in May 2016.

The August 2016 headline decline of 5.8% (-5.8%) in total housing starts encompassed headline monthly contractions of 6.0% (-6.0%) in the “one unit” category and 6.9% (-6.9%) in the “five units or more” category; with a missing balance in the “two to four units” category discussed later in the broader, aggregate “multiple unit” category. As most commonly is the case with this extraordinarily volatile series, not one of the monthly or annual headline changes was statistically meaningful.

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

Housing starts for single-unit structures in August 2016 declined month-to-month by a statistically-insignificant 6.0% (-6.0%) +/- 9.6%, following an upwardly-revised monthly gain of 0.7% [previously up by 0.5%] in July, a downwardly-revised 3.5% gain [previously up by 3.9%, initially up by 4.4%] in June, and an unrevised decline of 3.5% (-3.5%) in May. Net of prior-period revisions, August 2016 single-unit starts declined by 6.2% (-6.2%), instead of the 6.0% (-6.0%). August 2016 single-unit starts showed a statistically-insignificant annual decline of 1.2% (-1.2%) +/- 9.9%, versus a downwardly-revised annual gain of 1.1% [previously up by 1.3%] in August 2016, a downwardly-revised 11.2% [previously up by 11.7%, initially up by 13.4%] in June 2016, and an unrevised 6.2% gain in May, (see *Graphs 3, 4*, *7* and *8* in the *Opening Comments*).

Housing starts for apartment buildings (generally 5-units-or-more) in August 2016 declined month-to-month by a statistically-insignificant 6.9% (-6.9%) +/- 29.5%, versus a downwardly-revised gain of 4.6% [previously up by 8.3%] in July 2015, an upwardly-revised 7.3% gain [previously up by 3.6%, initially up by 1.6%] in June, and an unrevised 2.1% gain in May. Net of prior-period revisions, August 2016 starts declined by 6.9% (-6.9%), the same as the headline gain.

The statistically-insignificant year-to-year gain of 2.3% +/- 36.5% in August 2016, followed an unrevised annual gain of 15.2% in July, a less-negative annual decline of 19.3% (-19.3%) [previously down by 22.0% (-22.0%), initially down by 23.6% (-23.6%)] in June 2016, and an unrevised 7.2% annual gain in May 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 3, 4, 9* and *10* in the *Opening Comments*).

Accordingly, the statistically-insignificant August 2016 monthly decline of 5.8% (-5.8%) in aggregate starts was composed of a statistically-insignificant decline of 6.0% (-6.0%) in one-unit structures and a statistically-insignificant decline of 5.4% (-5.4%) 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*.

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 1,142,000 in August 2016, versus an upwardly-revised 1,212,000 (previously 1,211,000) in July 2016. The scaling detail used in housing starts and building permits aggregate *Graphs 11* to *15* at the end of this section reflects those annualized numbers.

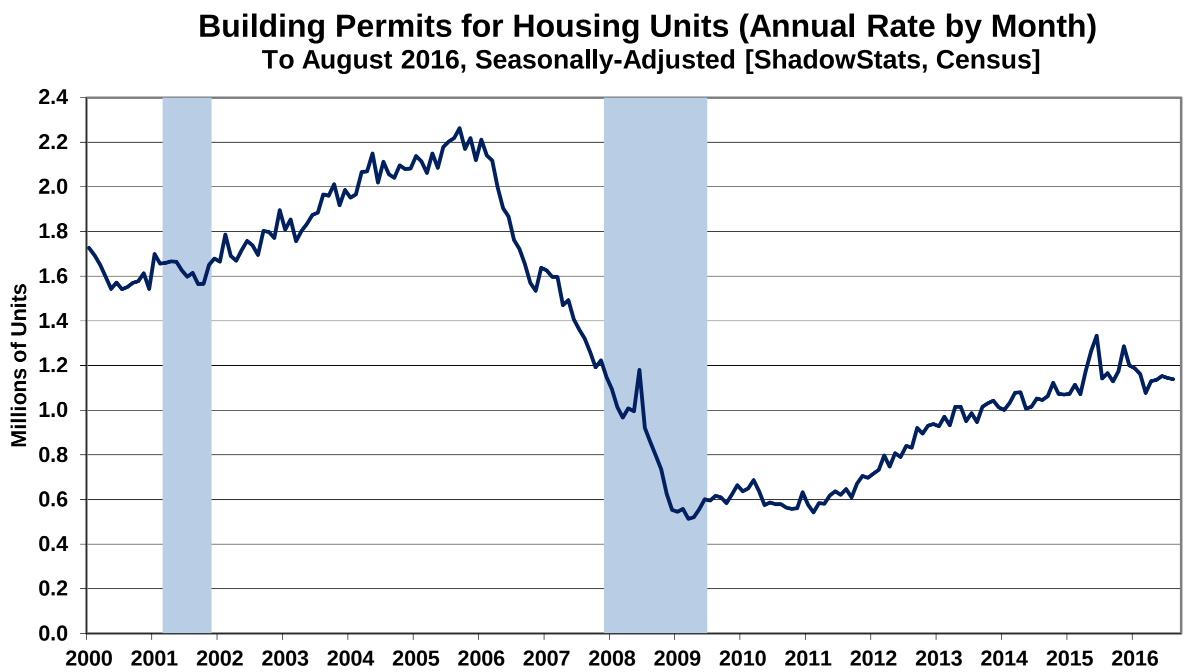
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 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 95,167 units in August 2016, instead of the annualized 1,142,000-headline number, is used in the scaling of the *Graphs 3* to *10* 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 12* versus *Graph 5* in the *Reporting Detail*.

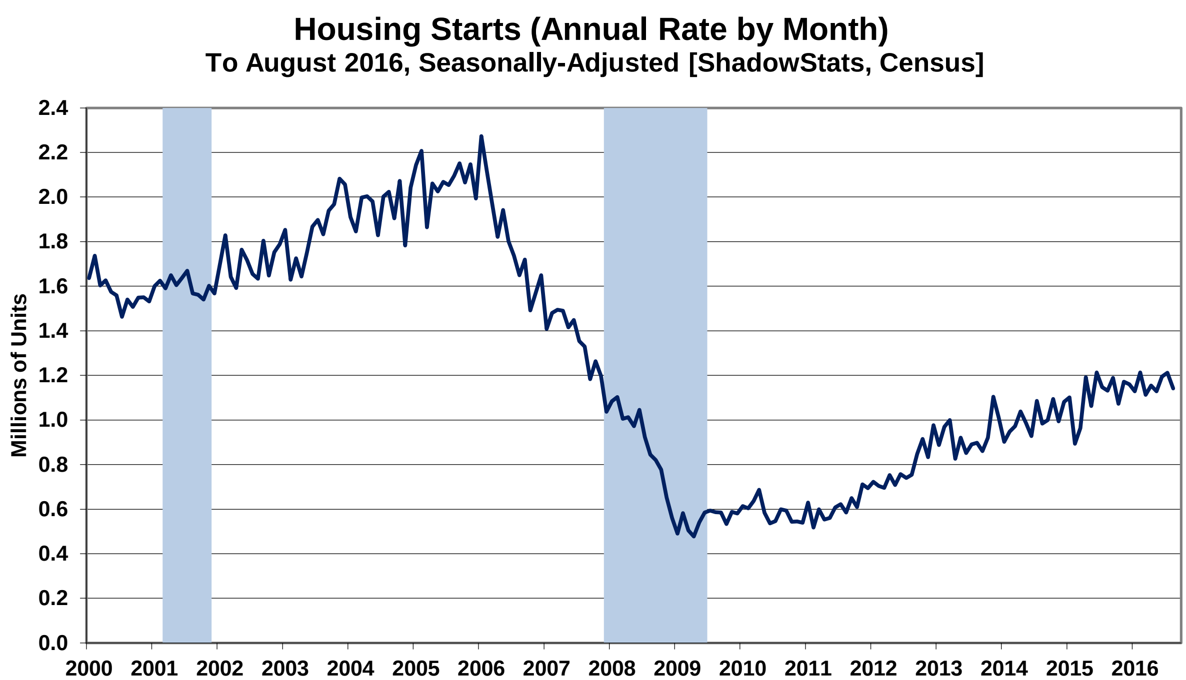
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the August 2016 headline number was up by 139%, but it still was down by 50% (-50%) 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 the accompanying *Graph 15*.

[Graphs 11 to 15 begin on the next page.]

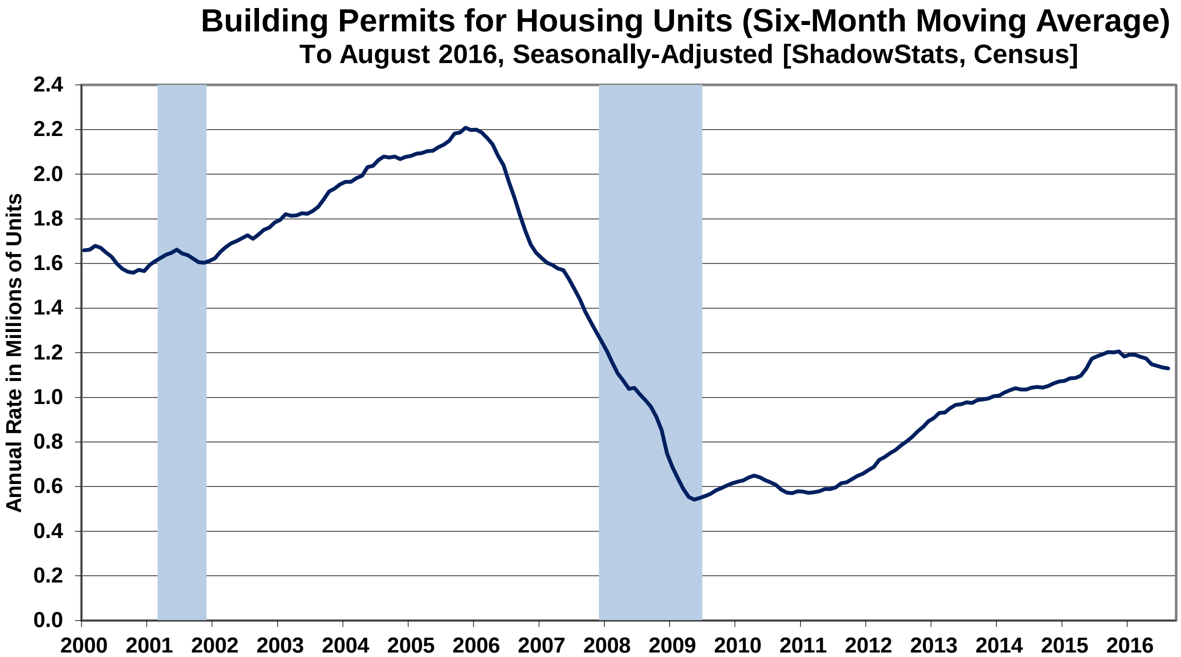
Graph 11:Building Permits (Annualized Monthly Rate of Activity), 2000 to Date



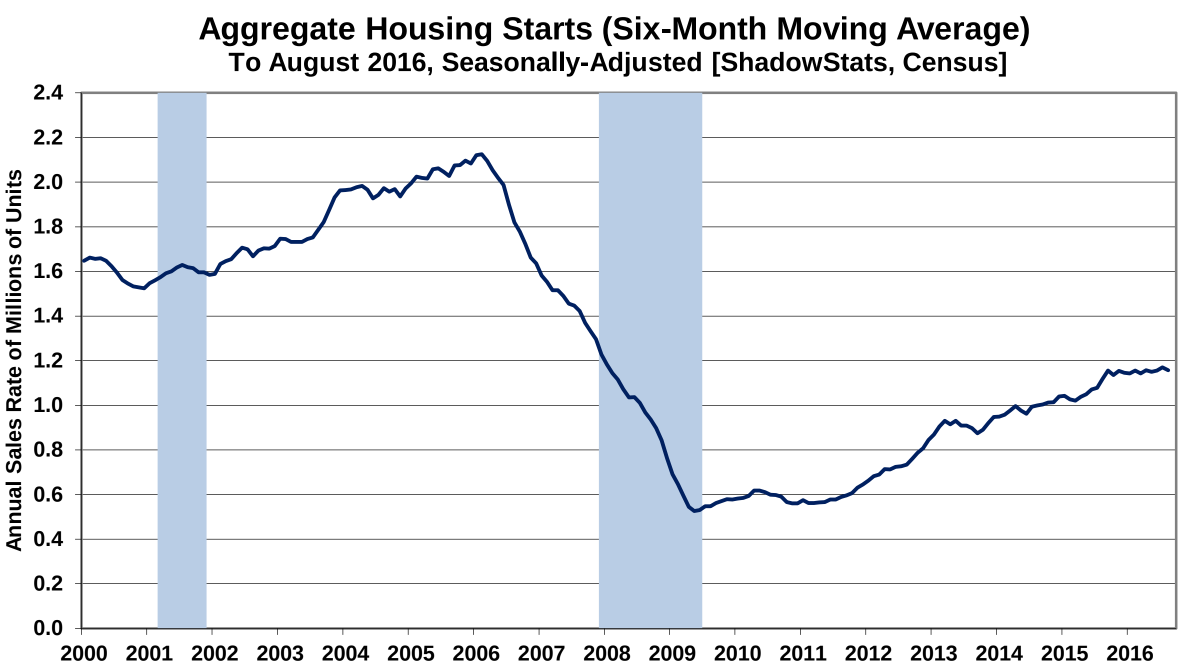
Graph 12: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date



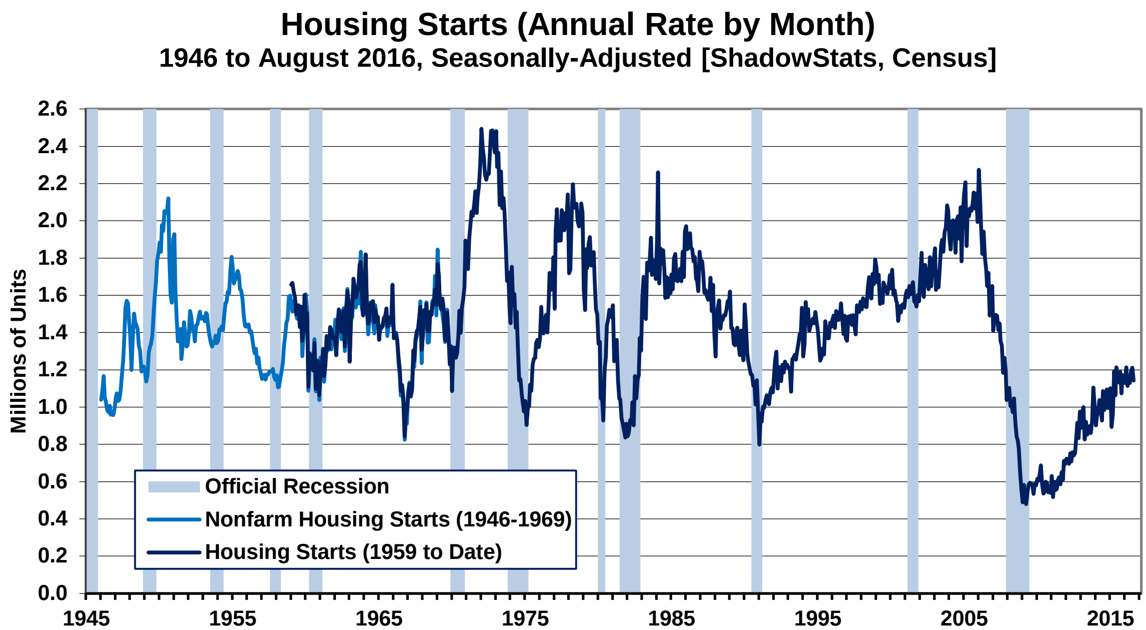
Graph 13: Building Permits (Six-Month Moving Average), 2000 to Date



Graph 14: Housing Starts (Six-Month Moving Average), 2000 to Date



Graph 15: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date



WEEK AND MONTH AHEAD

Near-Term Headline Economic Deterioration Should Intensify, Increasingly Frustrating Fed Provocateurs, Pummeling the U.S. Dollar and Boosting Gold, Silver and Eventually Oil Prices. Market expectations for business activity should continue to deteriorate, amidst intensifying, negative headline economic reporting. Irrespective of any near-term rate hike or talk of same by the FOMC, Fed-policy retrenchment likely should remain very much alive, shifting towards renewed quantitative easing in the months ahead.

Consumer liquidity and household income conditions were updated fully in *Commentary No. 833*, along with continued discussion of FOMC options. The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect an ongoing broad spectrum of market-disappointing headline data, such as seen on September 15th (*Commentary No. 832*). FOMC considerations also were covered in *Commentary No. 831*; the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*, following the latest headline detail on payrolls, trade and construction spending in *Commentary No. 829*.

Headline Gross Domestic Product (GDP) and related series were discussed in *Commentary No. 828*, with broad detail otherwise reviewed in *Commentary No. 827*, *Commentary No. 826*, *Commentary No. 825*, *Commentary No. 824*, *Commentary No. 823*, *Commentary No. 822*, *Commentary No. 821*, *Commentary No. 820*, *Commentary No. 818*, *Commentary No. 817*, *General Commentary No. 811*, *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*.

Negative market reactions had surfaced in trading of the U.S. dollar and in related financial markets, with some upside pressure on gold, silver and oil prices, subsequent to recent, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Fed rate-hike jawboning, however, has put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency. The fundamental liquidity issues facing the Fed, however, remain dominated by the impact of perpetual U.S. economic non-recovery and a renewed, intensifying downturn. If the Fed should raise rates in the near future, ongoing negative economic pressures still will mount, forcing the U.S. central bank back into a position of having to support domestic financial- and banking-system liquidity needs. Effectively, the Fed will have no way out other than to return to some form of expanded quantitative easing (see today's *Opening Comments*).

Temporary jawboning aside, market reactions increasingly should reflect a renewed sense of Federal Reserve impotence, with bleak longer-term implications for the U.S. dollar. While anything is possible, Fed tightening prior to the election still remains unlikely, with renewed quantitative easing becoming the likely target of post-election speculation, as the deepening recession unfolds.

Rapidly weakening, regular monthly economic reporting should continue and result in much worse-than-expected—increasingly negative—reporting for at least the next several quarters of GDP (and GDI and GNP).

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 June 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation was "unchanged"—minimally negative—with a switch to positive seasonal adjustments for gasoline prices only partially offsetting the unadjusted monthly drop in gasoline prices in July. August CPI was boosted by "core" inflation. Going forward, a weakening U.S. dollar increasingly should boost inflation, with a related upturn in oil prices, gasoline and other commodities. The *Public Commentary on Inflation Measurement* reviews fundamental reporting issues with the headline CPI.

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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is 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. That construction-spending issue now appears to have been structured as a gimmick to help boost the recently-published 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

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*. In the 1990s, the Census Bureau and BLS played political-reporting games with the nature of statistical sampling size in "inner cities" in the Census Bureau surveying tied to the monthly Household Surveys and the annual piggy-backed Poverty Survey. Such had major distorting impact on the headline data, and it may be in the works, again.

PENDING RELEASES:

Existing- and New-Home Sales (August 2016). August 2016 Existing-Home Sales are due for release on Thursday, September 22nd, from the National Association of Realtors (NAR), with the August 2016 New-Home Sales report due from the Census Bureau on Monday, September 26th. Both Existing- and New-Home Sales will be covered in *Commentary No. 835* of September 28th.

The extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures, and residential real estate sales, as fully updated and expanded upon in prior-*Commentary No. 833*. 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 the income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic economic activity, including in residential real estate.

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 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 low-level stagnation, with a developing downtrend likely to intensify.

Smoothed for regular extreme and nonsensical monthly gyrations, a pattern of low-level stagnation in New-Home Sales also is likely to continue. Where the pattern of low-level stagnation in new sales has been up-trending in recent months, that should reverse. Monthly changes in activity here rarely are statistically-significant, amidst the otherwise unstable headline reporting and revisions; nonetheless, the series is due for some significant downside catch-up, possibly in the August 2016 detail.

New Orders for Durable Goods (August 2016). The Census Bureau will report August 2016 New Orders for Durable Goods on Wednesday, September 28th, which will be covered in *Commentary No. 835* of that date. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending real 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.

Noted in *Commentary No. 832*, unadjusted manufactured-durable goods inflation in the July 2016 Producer Price Index (PPI) was unchanged at "0.00%" in August 2016, having gained 0.18% in the July, versus "unchanged" at 0.00% in June 2016. The decline in annual inflation revered to an annual gain in August 2016, up by 0.06%, having declined year-to-year in July 2016 by 0.18% (-0.18%), and in June 2016 by 0.42% (-0.42%), with related minimal implications for inflation-adjusted real monthly and annual changes reported for August new orders.

Gross Domestic Product (GDP)—Second-Quarter 2016, Third Estimate, Second Revision. The Bureau of Economic Analysis (BEA) will publish its second revision, third estimate of second-quarter 2016 Gross Domestic Product (GDP) on Thursday, September 29th. Detail will be covered in *Commentary No. 836* of that date.

A further, small downside revision is a reasonable expectation. Where the initial headline reporting was a 1.22% annualized real quarterly growth rate for the second-quarter, the first revision took it lower to 1.10%, and the second revision should take it lower again, to below 1.0%. Such would reflect overdue catch-up in trade-deficit and construction detail.

PLANNED UPDATES: Comprehensive *Special Report* and ShadowStats Website. The plan is to update fully, into one, massive background piece—a *Special Report (Commentary)*—the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). All of that will be in the context of incorporating and fully revising, wherever necessary, the materials in the *2014 Hyperinflation Report—The End Game Begins*, *2014 Hyperinflation Report—Great Economic Tumble*, *No. 777 Year-End Special Commentary* and other intervening missives, including the most-recent *Hyperinflation Outlook Summary* as found in *Commentary No. 783*.

The various background articles available at the www.ShadowStats.com site also will be updated in the process, including those first published in 2004 as introductory articles to the site. As usual, all original material will remain available to subscribers (all original public material also will remain available to anyone visiting the site).

As to timing, the *Special Report* already is in the works and should be published in early-October. It will incorporate fully up-to-date economic detail, including the mid-September 2016 release by the Census Bureau of its 2015 income survey, the Bureau of Labor Statistics' just-released preliminary benchmark revisions to 2016 payroll employment (see *Commentary No. 830*). It also will include updated, consistent GAAP-based financial detail on the U.S. government's financial condition through September 30, 2015 and initial prospects for the fiscal year ended September 30, 2016.

Updates to the various public materials on the Web site will be staggered through year-end. The introduction of the *2004 Primer Series* will be first (the link is to the initial background article that addressed among other issues political manipulation of data).

We also will introduce, in conjunction with the *Special Report*, a section with links to books and articles that we have found of particular interest and substance. Anyone with materials they would like to have considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.

____

