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

COMMENTARY NUMBER 856
November Housing Starts, Freight Index, Economic Outlook

December 16, 2016

November Freight Index Signaled Continued Weakening Economy and Non-Recovery

Nonsensical Month-to-Month Volatility in Housing Starts Continued:
September Fell 9.6% (-9.6%), October Gained 27.4%, November Fell 18.7% (-18.7%)

Most-Extreme Reporting Instability Since the Depths of the 1980 Recession

Smoothed Housing Starts and Permits Held in Non-Recovering, Low-Level Stagnation;
Activity Down Respectively by 52% (-52%) and 47% (-47%) from Pre-Recession Peaks

Broad U.S. Economic Activity Has Continued to Falter

PLEASE NOTE: The next regular Commentary*, scheduled for Thursday, December 22nd, will cover November New Orders for Durable Goods and the third estimate of Third-Quarter 2016 GDP, followed by a* Commentary *on Friday, December 23rd, covering New- and Existing-Home Sales.*

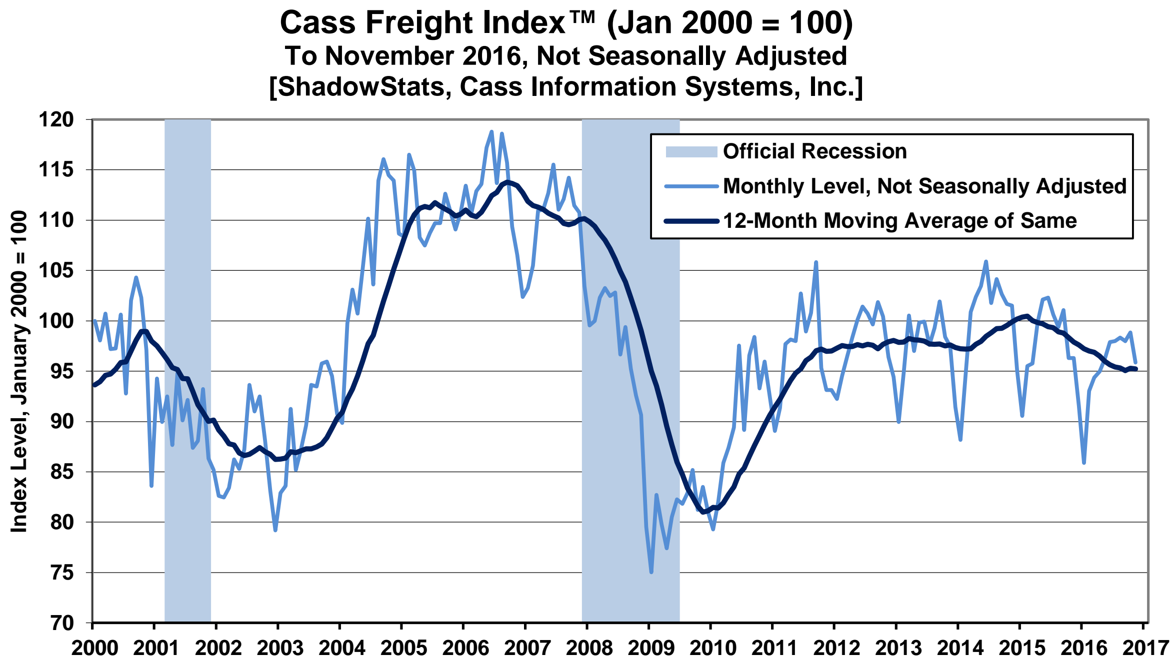
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

No Economic Recovery Here. Reporting this week of downwardly-revised and weaker-than-expected real retail sales, continued recession in industrial production (*Commentary No. 854*, *Commentary No. 855*) and some catch-up reporting in the otherwise heavily-bloated housing starts (today, December 16th) confirmed that U.S. economic activity is not rebounding, in the context of non-existent full recovery from the 2007 recession. Other indicators, such as a renewed deepening of the real trade deficit (*Commentary No. 853*) suggest that fourth-quarter GDP 2016 has a good chance of contracting against overstated third-quarter 2016 growth (see *Week Ahead*), which did not sway voters into thinking they were enjoying a strong pre-election economy (on average, they were not). Then there are the private indicators that are free of government massaging and gimmicking, such as the Cass Freight Index™.

November Freight Index Continued in Non-Recovering Economic Decline, Despite Minimal Upside October Blip. Patterns of continued deterioration and non-recovery in the general economy and business activity were reflected in the headline detail of the November 2016 Cass Freight Index™, turning down minimally relative to October 2016 and November 2015. October had shown a single month's, minimal upside gain.

Graph 1: Cass Freight Index ™ (2000-November 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,

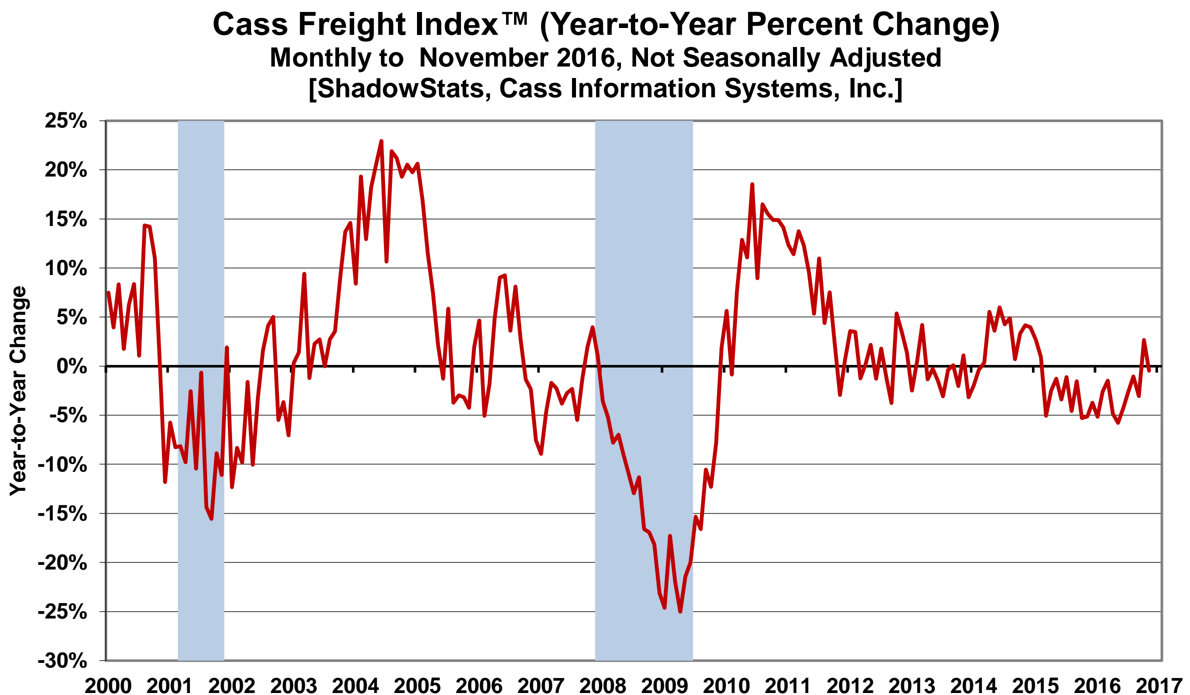
underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States.

The plot in *Graph 1* reflects the monthly numbers updated through November 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.

In *Graph 1*, the trailing twelve-month average of the freight index peaked in February 2015 and had been slowing since, through September 2016. Following a one-month uptick in October 2016, the twelve-month average to November 2016 deepened minimally, by 0.04%, from October 2016. The unadjusted single monthly reading for November 2016 also turned down by 0.5% (-0.5%) versus November 2015.

The November 2016 twelve-month moving average showed a decline of 5.2% (-5.2%), the same as October, from the February 2015 peak. The November 2016 average reading was down by 2.7% (-2.7%) year-to-year, where the October 2016 average had been down by 3.1% (-3.1%) on a year-to-year basis.

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



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 had been in continual year-to-year decline since March of 2015, down by an intensified 3.1% (-3.1%) year-to-year in September 2016. It rallied to an annual gain of 2.7% in October 2016, but fell back into year-to-year contraction in November 2016, again, down by 0.5%.

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In combination, *Graphs 1* and *2* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level stagnation thereafter and a renewed downturn effectively coincident with a "new" recession, which likely still will be timed from December 2014. These circumstances will be reviewed further, with next week's *Commentary No. 857*, covering the second revision to Third-Quarter 2016 GDP (again, see the *Week Ahead*.)

Today's *Commentary* (December 16th). These *Opening Comments and Executive Summary* cover summary detail of today's reporting of November 2016 Residential Construction, including Building Permits and Housing Starts.

As usual, expanded full coverage and additional graphs of Residential Construction are found in the *Reporting Detail* section.

The *Week, Month and Year Ahead* reviews recent *Commentaries* and previews next week's reporting of November New- and Existing-Home Sales, New Orders for Durable Goods and the third-estimate of Third-Quarter 2016 GDP.

Executive Summary: Housing Starts—November 2016—Extreme Volatility Not Seen Since Depths of the 1980 Recession. November 2015 housing starts collapsed month-to-month by 18.7% (-18.7%), having exploded by an upwardly-revised 27.4% in October, and having collapsed by a revised, deeper 9.6% (-9.6%) in September. The revised October jump still was the largest headline monthly surge in housing starts since a 29.0% gain in June 1980, at the depths of the 1980 recession. Such volatility indeed is unusual, even for this most-notoriously-unstable and heavily-revised series.

Putting the instability of the series in perspective, consider that the three-month average of Housing Starts through November 2016 (an off-calendar quarter) was down at an annualized pace of 10.2% (-10.2%) versus the three-month average through August 2016 (the prior off-calendar quarter). Just shifted ahead by one month, using two months of unstable October and November 2016 reporting to impute fourth-quarter activity, calendar fourth-quarter 2016 is on track for an annualized quarterly gain of 26.9%.

Still, smoothed and viewed in terms of its six-month moving average, aggregate housing starts activity showed a plunge from its 2006 pre-recession peak to a trough in 2009. That has been followed by a protracted period of up-trending but non-recovering low-level activity, which flattened out in the last year or two (*Graph 6*). That current low-level of non-recovering stagnation is about as flat as one sees. The same pattern generally is seen plotted with just the raw, seasonally-adjusted monthly data (*Graph 5*).

Similar patterns also are seen with the dominant single-unit starts component of the aggregate housing starts (*Graphs 7* and *8*), and with the building permits series, which in theory leads the housing starts series (see the *Reporting Detail* and *Graphs 11* and *13*). Neither headline permits nor starts has recovered from the collapse into 2009, with current activity down from pre-recession peaks by 47% (-47%) for permits, by 52% (-52%) for aggregate housing starts and by 55% (-55%) for single-unit housing starts.

Monthly Plunge Was Across-the-Board, With Multiple-Unit Starts Nearly Reversing the Prior Month's Extreme Increase. In context of upside revisions to the already overly-bloated, massive surge in headline October 2016 activity, monthly November 2016 contractions were unusually steep, particularly in multiple-unit activity, with aggregate November housing starts down by 18.7% (-18.7%) month-to-month

and by 6.9% (-6.9%) year-to-year, against an upwardly-revised, October aggregate monthly gain of 27.4%, and annual gain of 24.9%. Headline single-unit starts fell by 4.1% (-4.1%) in November, having gained a revised 10.5% for the month in October. Headline multiple-unit starts declined for the month of November by 43.9% (-43.9%), following revised October monthly gain of 79.8%. Full coverage of these numbers is provided in the *Reporting Detail*.

A Note on the Regular Housing Starts Graphs. *[This section largely is repeated in the* Reporting Detail.*]* Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,090,000 in November 2016, versus an upwardly-revised 1,340,000 [previously 1,323,000] in October 2016. The scaling used in the aggregate housing starts and building permits *Graphs 11* to *15* 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 upwardly-revised 288,000 [previously 269,000] month-to-month gain just updated for the headline annualized October 2016 housing starts was larger than any actual level of (not change in) monthly starts, ever (in units per month, not annualized), for a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 90,833 units in November 2016, instead of the annualized 1,090,000-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 November 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 relative stagnation still at low levels that otherwise have been seen 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.]

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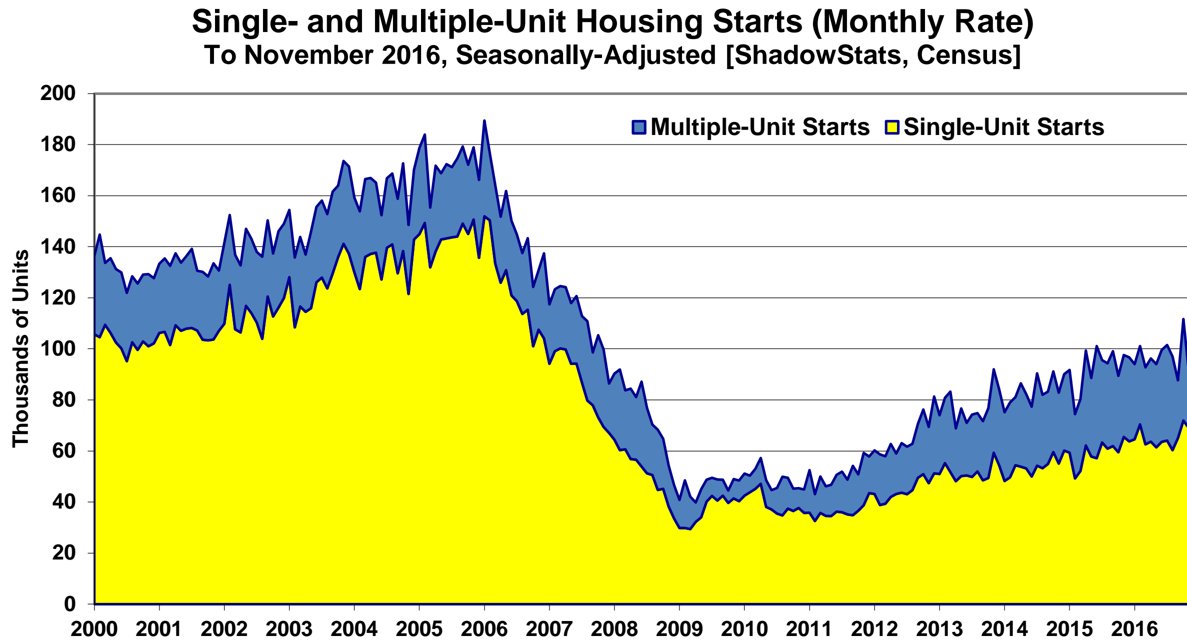
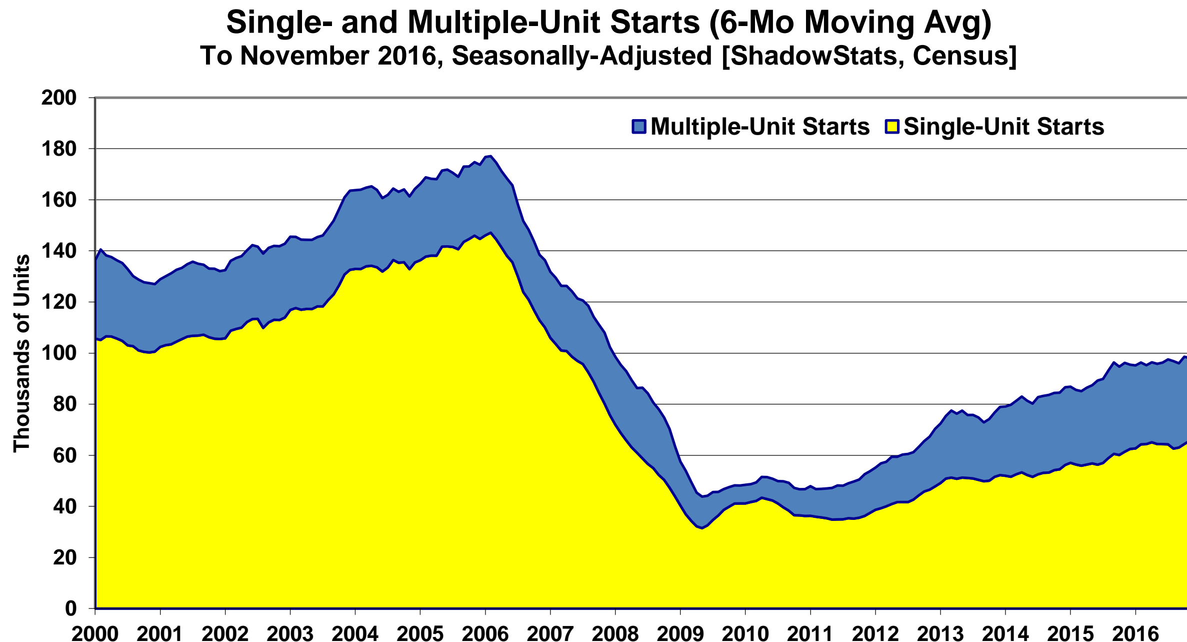
Graph 3: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



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



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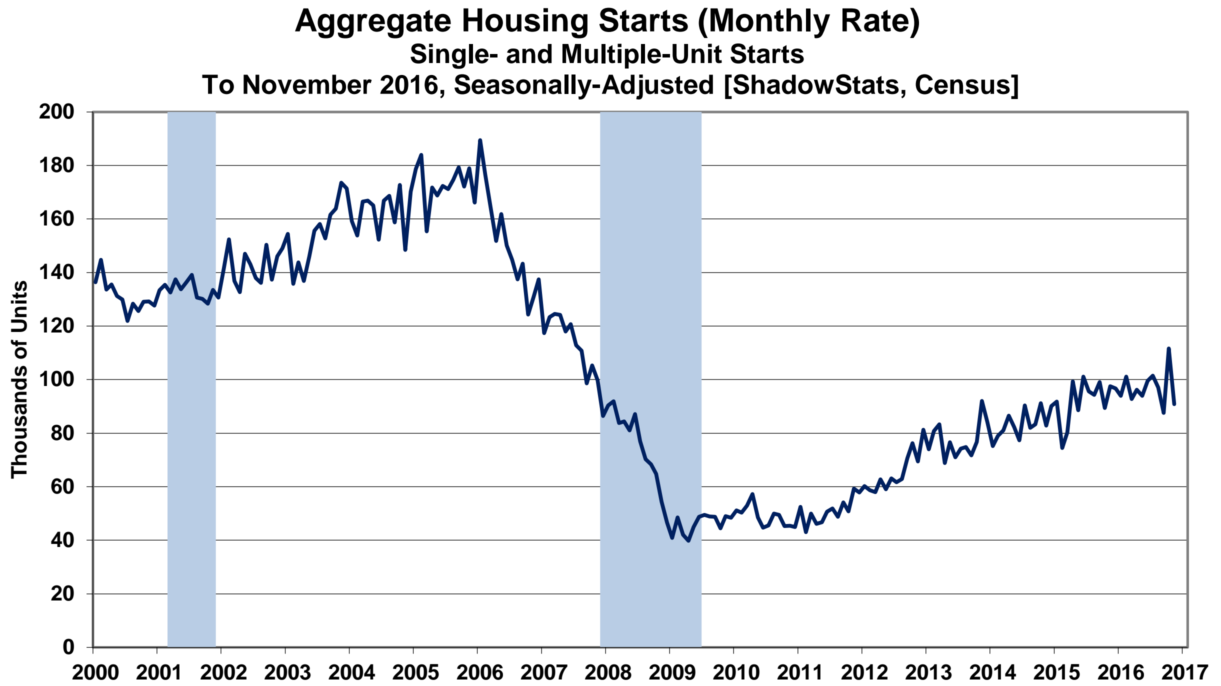
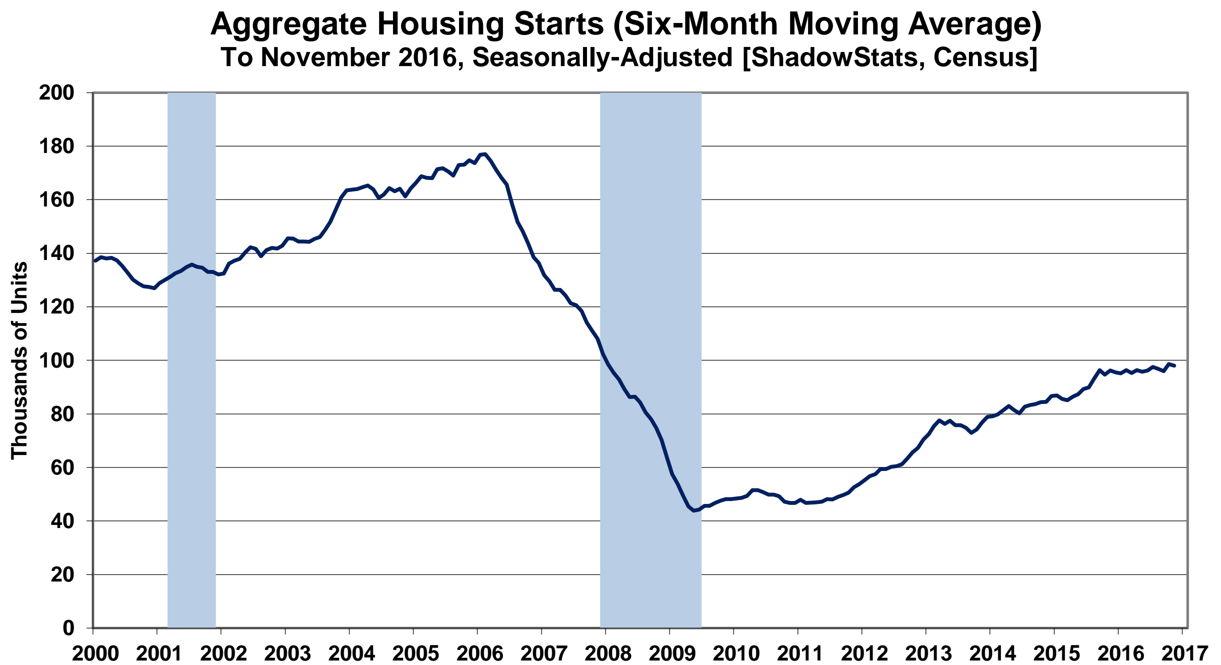
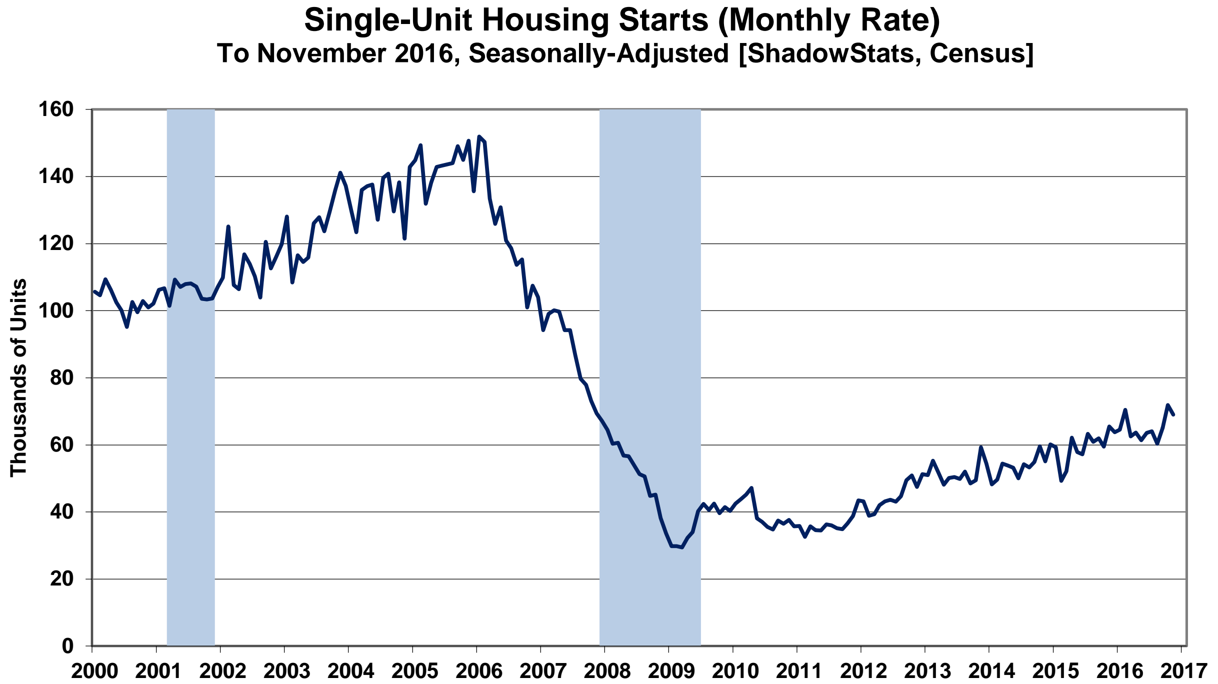
Graph 5: Aggregate Housing Starts (Monthly Rate of Activity)



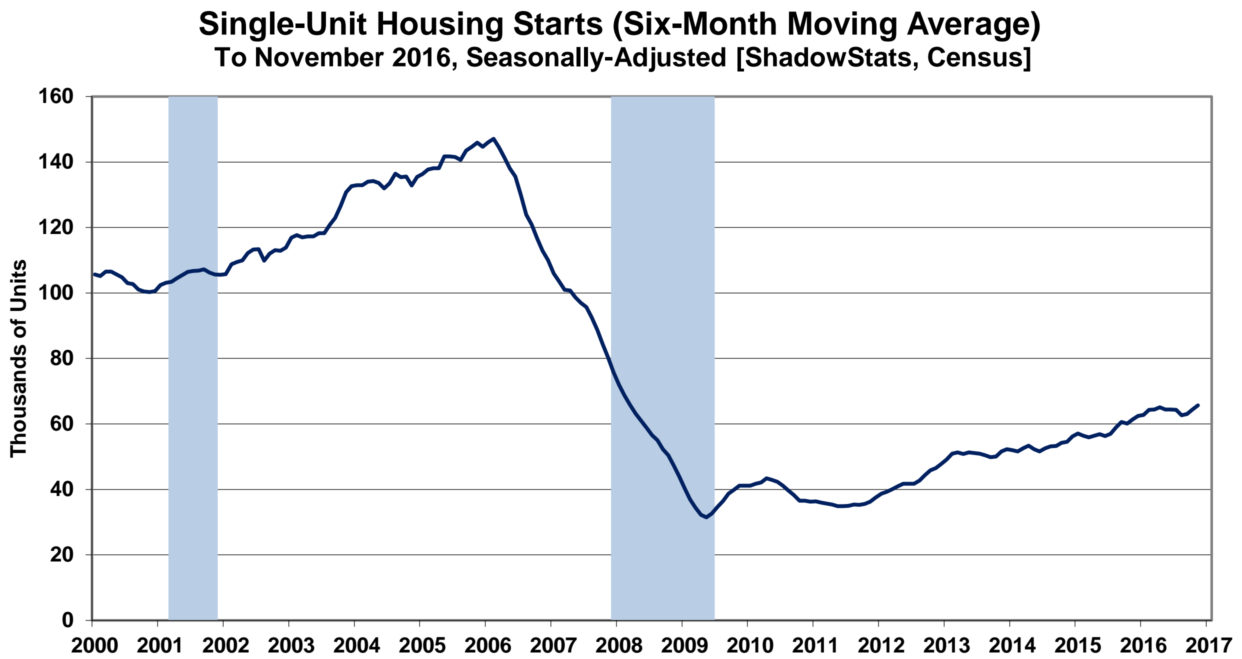
Graph 6: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



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



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



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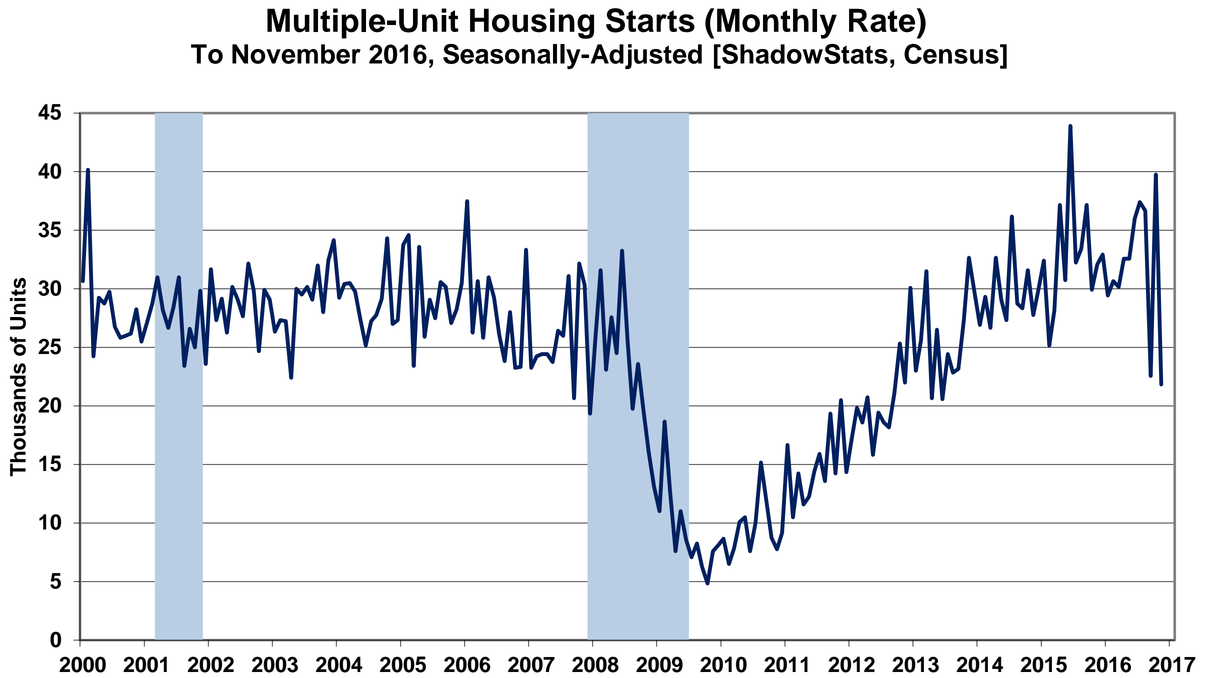
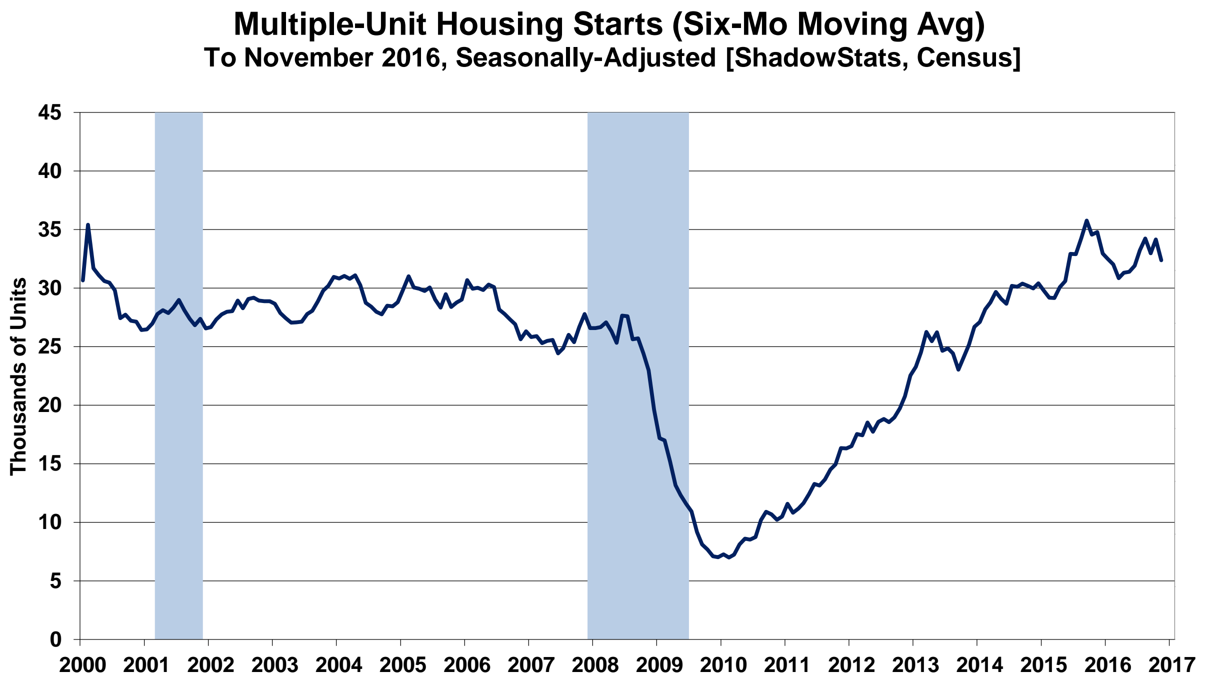
Graph 9: Multiple-Unit Housing Starts (Monthly Rate of Activity)



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



[The* Reporting Detail *section contains significant additional analysis and graphs.]

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REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (November 2016)

Extreme Housing-Starts Volatility Not Seen Since the Depths of 1980 Recession. November 2015 housing starts collapsed by 18.7% (-18.7%) in the month, having exploded by an upwardly-revised 27.4% in October and having collapsed by a deeper, revised 9.6% (-9.6%) in September. The October jump was the largest headline monthly surge in housing starts since a 29.0% gain in June 1980, at the depths of the 1980 recession. Such volatility is unusual, even for this notoriously-unstable and heavily-revised series.

Putting such volatility in perspective, the three-month average of Housing Starts through November 2016 (an off-calendar quarter) was down at an annualized pace of 10.2% (-10.2%) versus the three-month average through August 2016 (the prior off-calendar quarter). Based on just the two months of unstable October and November 2016 reporting, the calendar fourth-quarter 2016 is on track for an annualized quarter-to-quarter gain of 26.9%.

Nonetheless, smoothed and viewed in terms of its six-month moving average, housing starts activity still showed a plunge from its 2006 pre-recession peak to a trough in 2009, followed by a protracted period of up-trending but non-recovering low-level activity, which flattened out in the last year or two (see *Graphs 14* and *6*, respectively in this *Reporting Detail* and the *Opening Comments*). Plotted with just the raw, seasonally-adjusted monthly data, the pattern broadly is the same, with the headline November 2016 level of starts still shy by 52% (-52%) of recovering its pre-recession peak (see *Graphs 12* and *5*, respectively in this *Reporting Detail* and in the *Opening Comments*).

November Plunge Was Seen Across-the-Board, With Multiple-Unit Starts Nearly Reversing the Prior Month's Extreme Increase. In the context of upside revisions to the already overly-bloated, massive surge in headline October 2016 activity, monthly November 2016 contractions were unusually steep, particularly in multiple-unit activity, with aggregate November housing starts down by 18.7% (-18.7%) month-to-month and by 6.9% (-6.9%) year-to-year, against an upwardly-revised, October aggregate monthly gain of 27.4%, and annual gain of 24.9%. These monthly numbers remain highly unstable and are of extremely limited short-term significance, with negligible leading indications of such volatility provided by the related building permits series.

Smoothed with six-month moving averages, both the housing-starts and building-permits series remained in extremely-flat, low-level stagnation (see *Graph 6* in the *Executive Summary* section, and *Graphs 13* and *14* here). Neither headline permits nor starts has recovered from the collapse into 2009, with current activity down from pre-recession peaks by 47% (-47%) for permits, and by 52% (-52%) for starts.

Third-Quarter 2016 Housing Starts Remained Negative, Quarter-to-Quarter and Year-to-Year. The unstable total 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 then contracted at an annualized 7.2% (-7.2%) in fourth-quarter 2015.

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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. It holds at 6.0%. Second-quarter 2016 also held, at an annualized quarterly gain of 2.8%. Third-quarter activity revised with the latest detail, but held negative on both an annual and annualized-quarterly basis, down on an annual basis by 1.0% (-1.0%) [previously down by 0.9% (-0.9%), initially down by 1.6% (-1.6%)], the first year-to-year decline since first-quarter 2014, and down at a revised annualized pace of 5.0% (-5.0%) [previously down by 4.7% (-4.7%), initially down by 7.1% (-7.1%)] quarter-to-quarter.

Based just on the October and November details, fourth-quarter 2016 housing starts were on an early track for a still-unsustainable, annualized 26.9% gain and year-to-year surge of 7.1%. Based just on initial October reporting, the trend had been for an annualized 78.0% gain and year-to-year surge of 16.6%

Smoothed Numbers. Despite the extreme volatility and instabilities in the Housing Starts series, the general pattern of low-level stagnation continued. Again, the six-month moving-average pattern for the aggregate series remained about as flat as one ever sees, 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 can be compared with *Graphs 11* and *13*. Given the broad pattern of stagnation in both the aggregate starts and permits series, headline total November 2016 activity, again, remained well below any recovery level, with starts down from their January 2006 pre-recession high by 52% (-52%), and with permits down by 47% (-47%) from their September 2005 pre-recession peak activity.

Returning fully to the November 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 55% (-55%) 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), reflecting a blend of the low-level stagnation in the six-month-smoothed single-unit activity (*Graph 8*) with the more-volatile, smoothed multiple-unit starts (*Graph 10*), which had rebounded and held near pre-recession levels.

Consumer Liquidity Problems Continue to Impair Residential Construction Activity. An extreme consumer-liquidity bind continues to constrain residential real estate sales and related construction activity, as updated in *Commentary No. 854* and *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 nine-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 residential construction.

November 2016 Housing Starts, Headline Reporting. The continued, broadly unstable and highly volatile aggregate Housing Starts series collapsed month-to-month in November, in the context of a large upside revision to the already, not-credible explosive growth previously reported in October. The Census

Bureau reported this morning, December 16th, a statistically-significant, seasonally-adjusted, headline monthly contraction of 18.7% (-18.7%) +/- 7.8% (all confidence intervals are expressed at the 95% level) in November 2016 housing starts. That followed an upwardly revised monthly gain in October of 27.3% [previous up by 25.5%, which had been the highest-percent monthly growth rate in 36 years]. In turn, Such followed a revised, deepened September monthly decline of 9.6% (-9.6%) [previously down by 9.0% (-9.0%)]. Net of prior-period revisions, November 2016 housing starts fell by 17.6% (-17.6%) for the month, instead of the headline 18.7% (-18.7%). Level-of-activity aggregate detail is plotted in *Graphs 4* to *7* 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, November 2016 aggregate housing-starts measure was a statistically-insignificant decline of 6.9% (-6.9%) +/- 8.5%, versus an upwardly-revised annual gain of 24.9% [previously up by 23.3%] in October 2016 and a minimally revised annual decline in September 2016 of 11.5% (-11.5%) [previously down by 11.4% (-11.4%), initially down by 11.9% (-11.9%)].

The November 2016 headline monthly decline of 18.7% (-18.7%) in total housing starts encompassed a headline drop of 4.1% (-4.1%) in the “one unit” category and a plunge of 43.9% (-43.9%) in the “five units or more” category. There is a missing balance in the “two to four units” category, which collapsed by 80.0% (-80.0%) month-to-month in November, but where that category is consider to be too small to be meaningful, it did affect the aggregates, as discussed later in the broader, aggregate “multiple unit” category.

Where most commonly, not one of the monthly or annual headline changes by category is statistically meaningful, the month-to-month and year-to-year crashes in two of the three categories were meaningful, but varied in nature by category.

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 condominiums, rental and apartment units.

Housing starts for single-unit structures in November 2016 declined month-to-month by a statistically-insignificant 4.1% (-4.1%) +/- 8.8%, following a downwardly-revised gain of 10.5% [previously 10.7%] in October and a downwardly-revised gain of 7.9% [previously up by 8.4%, initially up 8.1%] in September. Net of prior-period revisions, November 2016 single-unit starts declined by 4.7% (-4.7%), instead of the headline 4.1% (-4.1%). November 2016 single-unit starts showed a statistically-insignificant annual gain of 5.3% +/- 9.2%, versus a downwardly-revised annual gain of 20.9% [previously up by 21.7%] in October 2016 and a downwardly-revised annual gain of 5.1% [previously up by 5.7%, initially up 5.4%] in September 2016 (see *Graphs 5, 6*, *9* and *10* in the *Opening Comments*).

Housing starts for apartment buildings, condominiums, etc. (generally 5-units-or-more) in November 2016 fell month-to-month by a statistically-significant 43.9% (-43.9%) +/- 14.1%, versus an upwardly-revised gain of 79.8% [previously 74.5%] in October, and a revised decline of 39.1% (-39.1%) [previously down by 39.6% (-39.6%), initially by 38.9% (-38.9%)] in September. Net of prior-period revisions, November 2016 declined by 41.8% (-41.8%), instead of the headline 43.9% (-43.9%).

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A statistically-significant year-to-year drop of 31.7% (-31.7%) +/- 18.7% in November 2016, followed a revised 33.1% gain [previously 28.2%] in October 2016, and a revised crash of 40.9% (-40.9%) [previously 41.4% (-41.4%), initially down by 42.5% (-42.5%)] in September 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-significant November 2016 monthly decline of 18.7% (-18.7%) in aggregate starts was composed of a statistically-insignificant decline of 4.1% (-4.1%) in one-unit structures and a statistically-significant decline of 45.1% (-45.1%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). In contrast, again, ex-2-units-or-more, the multiple-unit category declined by a headline 43.9% (-43.9%). These series all are graphed in the *Opening Comments*.

A Note on the Regular Housing Starts Graphs. *[This section largely is repeated in the* Executive Summary.*]* Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,090,000 in November 2016, versus an upwardly-revised 1,340,000 [previously 1,323,000] in October 2016. The scaling used in the accompanying aggregate housing starts and building permits *Graphs 11* to *15* 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 upwardly-revised 288,000 [previously 269,000] month-to-month gain just updated for the headline, annualized October 2016 housing starts was larger than any actual level of (not change in) monthly starts, ever (in units per month, not annualized), for a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 90,833 units in November 2016, instead of the annualized 1,090,000-headline number, is used in the scaling of the *Graphs 3* to *10* in the *Opening Comments*, *Executive Summary*. 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 *Executive Summary*.

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 November 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 relative stagnation still at low levels that otherwise have been seen at or near the historical troughs of other recession activity of the last 70 years, as reflected in accompanying *Graph 15*.

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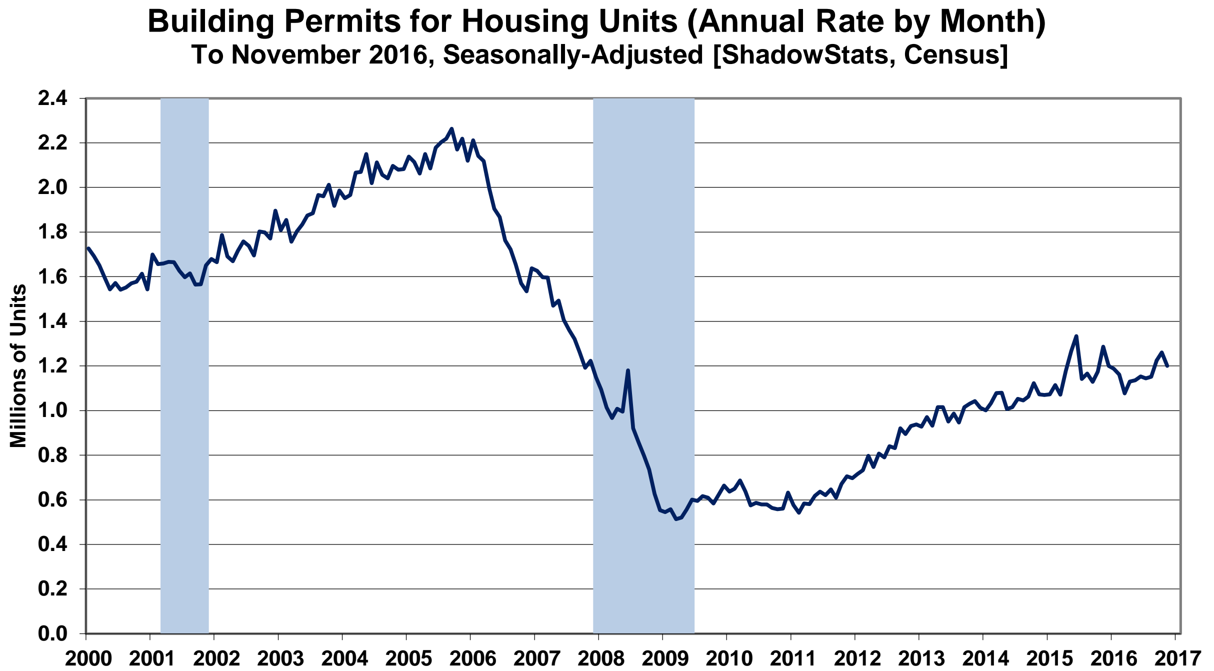
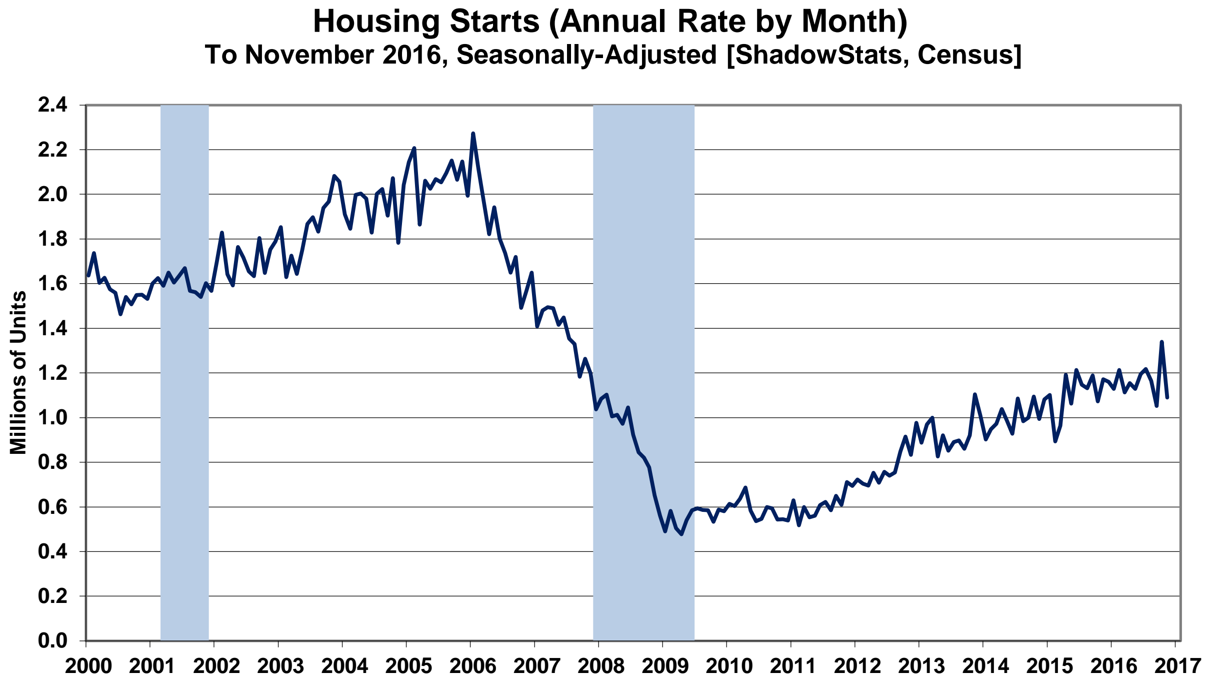
Graph 11: Building Permits (Annualized Monthly Rate of Activity), 2000 to Date



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



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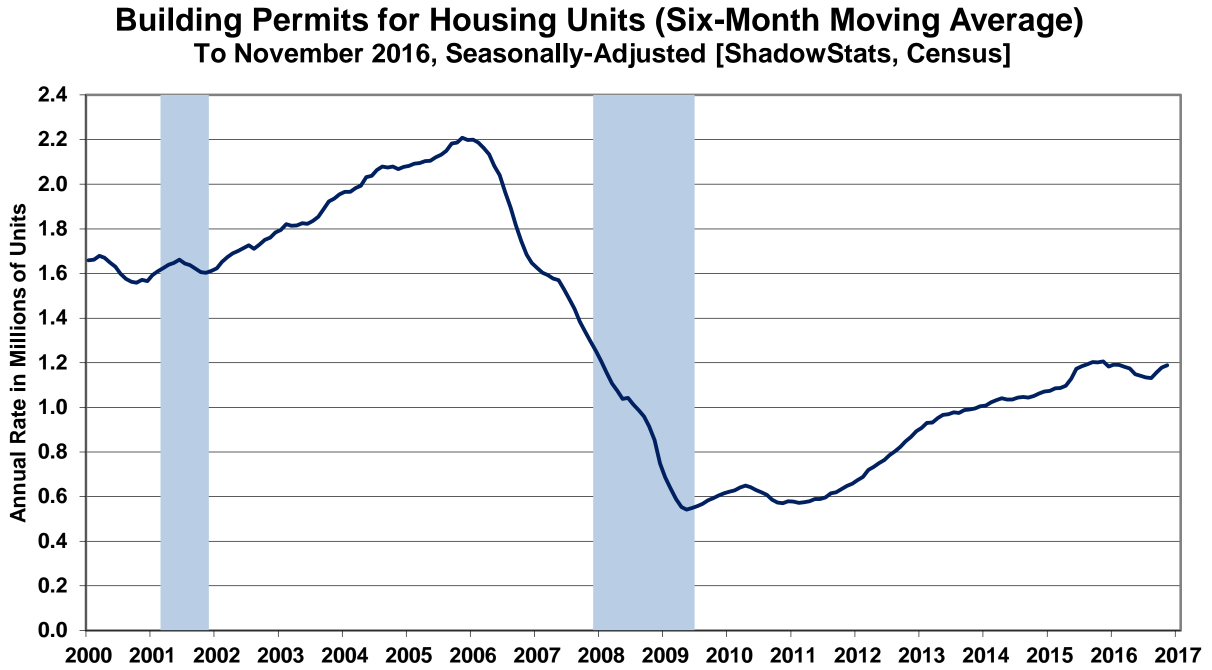
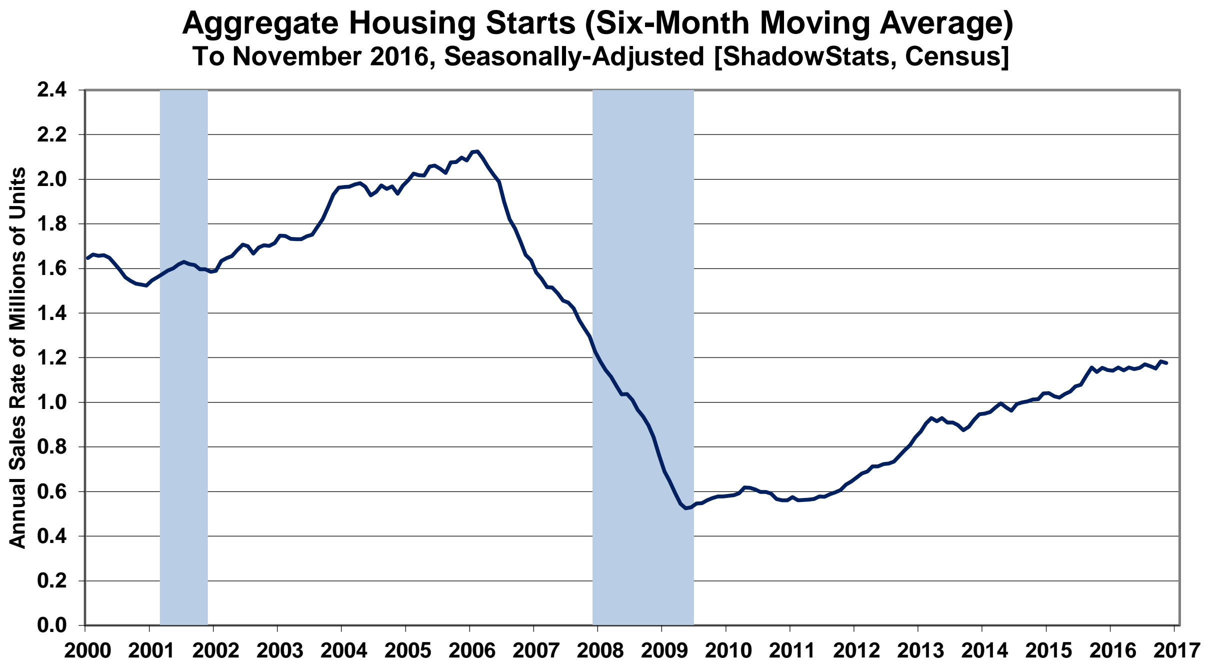
Graph 13: Building Permits (Six-Month Moving Average), 2000 to Date



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



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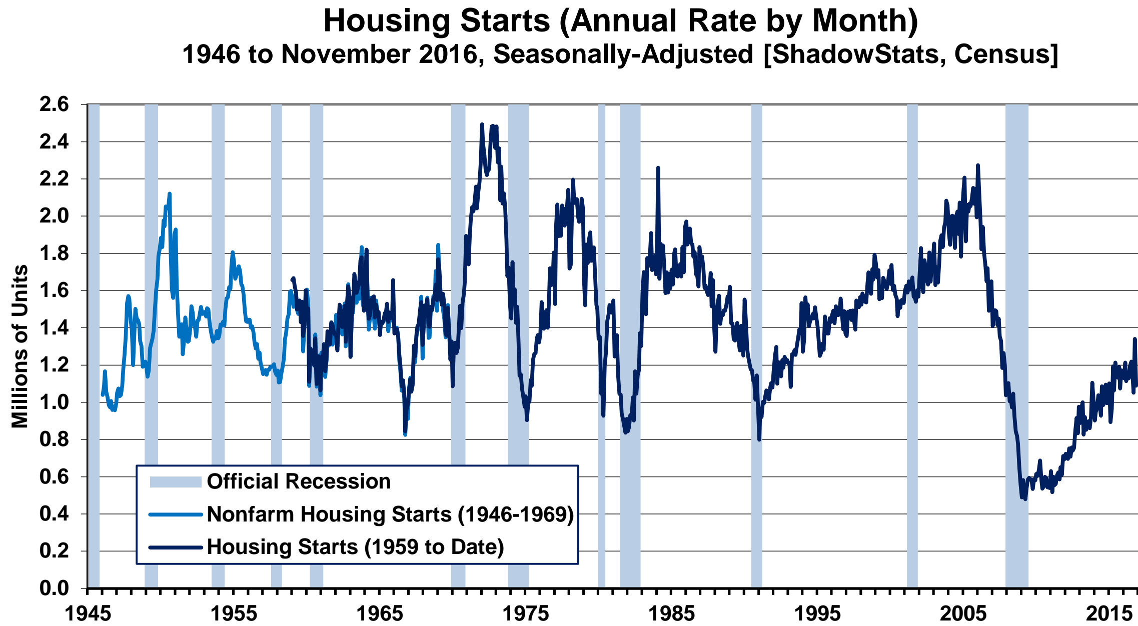
Graph 15: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date



WEEK, MONTH AND YEAR AHEAD

New Fiscal Stimulus Looms, but Trump Administration Needs to Develop a Credible, Long-Range U.S. Solvency Plan to Forestall the Ultimate Dollar Disaster. Discussed in the *Opening Comments* and *Hyperinflation Watch* of yesterday's *Commentary No. 855* (see also *Commentary No. 851* and *Commentary No. 854*), a looming U.S. dollar crisis already is in play for the Trump Administration, from the outgoing Administration and from a still-befuddled Federal Reserve. Chances of the FOMC following up with promised further rate hikes, subsequent to the December 14th tightening, are about as good as they were after last year's rate hike: nil.

Despite expectations for better business conditions under a Trump Administration, market expectations for near-term (not long-term) business activity should continue to falter, amidst ongoing and intensifying, negative near-term headline economic reporting, which should continue to play out at least into early

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2018. Such reporting was seen in headline November industrial production and retail sales (*Commentary No. 854*), as well as today's new headline detail on housing starts.

In the arena of the Federal Reserve, irrespective of the December 14th rate hike, the still-ongoing and deepening domestic economic downturn promises continued and intensifying stresses on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an intensified quantitative easing. That process would pummel the U.S. dollar, trigger much higher domestic inflation and fuel increased flight-to-safety in physical gold and silver, despite current euphoria in the dollar and stock markets.

On the side of the incoming Administration, new fiscal stimulus under consideration will have at least a nine-month lead-time before its impact will surface in headline economic activity, most likely not before early-2018. Accordingly, the new Administration could face deteriorating funding needs for its own Treasury. In the near-term, the federal deficit should swell, reflecting revenue flows already impaired by the current economic downturn, as well as taking an initial hit from any new federal spending and or new tax relief, before hoped-for increased tax revenues begin to flow from a strengthened economy (see *Commentary No. 846*). As the federal deficit expands, global financial market concerns should begin to refocus on the long-term sovereign-solvency risks of the United States.

Those combined circumstances reflect unusual crosscurrents in the markets, which, when combined with a still-impotent Fed and re-intensifying banking and fiscal crises, foreshadow severe U.S. dollar and systemic crises in 2017. Separately, and most dangerously, the Trump Administration will have a difficult time working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-system liquidity issues. See the *Opening Comments* of *No. 851* and the *Hyperinflation Watch* in *Commentary No. 849*.

Coverage of Recent Economic Releases: *Commentary No. 853* reviewed the catch-up and meaningful deterioration in the October trade deficit and related negative implications for fourth-quarter 2016 GDP. Also discussed was the background going into to the December FOMC meeting, the results of which again were discussed in *No. 854* and *No. 855*.

Commentary No. 852 assessed the November employment and unemployment headline details, which continued to reflect a number of reporting issues, far from the happy story promulgated by the popular media. Despite upside revisions to headline October construction spending, net of inflation, the activity there remained in broad, non-recovering stagnation.

Separate from developing banking-system liquidity issues, *No. 851* covered the second revision to third-quarter 2016 GDP, along with updated consumer liquidity conditions. *Commentary No. 850* reviewed October new orders for durable goods and new- and existing-home sales, where the latest details showed continuing non-recovery in all the covered series. Unfolding annual and quarterly contractions in new orders signaled negative pressures for first-quarter 2017 industrial production. Separately, downside revisions to shipments and orders suggested that surging auto sales, which had been boosting headline GDP and retail sales reporting, might not have been quite as strong as advertised, as was confirmed in November Retail Sales reporting (again see *No. 854*).

Commentary No. 848 covered October industrial production and the PPI, where industrial production reconfirmed ongoing recession, and the PPI showed energy-related inflation turning positive year-to-year,

for the first time since the 2014 collapse in oil prices. *Commentary No. 847* reviewed the highly-suspect headline surge in nominal October retail sales.

Covered in *Commentary No. 845*, October employment and unemployment, and September construction spending, did not offer a brightening economic outlook. The sharp narrowing in the September and third-quarter 2016 trade deficit generally reflected nonrecurring elements of highly-suspect quality.

Reviewed in *Commentary No. 844* was the above-consensus "advance" estimate of third-quarter 2016 GDP.

Commentary No. 843 offered a *Special Comment* on background economic circumstances and the then pending election, following up on *No. 841*. Headline related details from September new- and existing-home sales and from new orders for durable goods reporting also were reviewed. That followed *Commentary No. 842*, which assessed the negative shifts in monthly, quarterly and annual growth patterns of the housing-starts series.

Noted in *Commentary No. 841*, consumer inflation started to rebound, along with higher gasoline prices, yet the economy continued to falter as indicated in September freight activity, and as seen in the headline detail of September housing starts. The *Special Comments* in *No. 841* also looked a little deeper into the likely impact of unusually protracted and negative economic conditions on the presidential election and on the post-election environment for the U.S. dollar and precious metals.

September industrial production detail disappointed market expectations and deteriorated sharply in the context of downside, prior-period revisions. Such was reviewed in *Commentary No. 840*. *Commentary No. 839* provided the opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets. Consumer liquidity conditions also were updated, along with a review of September 2016 nominal Retail Sales and the PPI.

September employment and unemployment circumstances were covered in *Commentary No. 838*. Fed-policy retrenchment should remain very much alive, shifting towards that renewed quantitative easing, in the post-election environment, as discussed in the *Opening Comments* of *No. 839*, and those of *Commentary No. 837* and *Commentary No. 835*, which respectively also reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflected an ongoing broad spectrum of market-disappointing headline data, such as seen in the industrial production detail (*No. 840*) and in *Commentary No. 832*. Earlier FOMC considerations also were covered in *Commentary No. 831*, while the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*.

Broad economic and systemic details otherwise have been reviewed regularly 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*.

Post-election market activity has seen positive boosts to the equity markets and the U.S. dollar, with sharply negative impact on prices of precious metals (see *No. 855*). Again, severe market concerns as to the Federal Reserve's quagmire should resurface fairly quickly, where 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 pre-election, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Then, Fed rate-hike jawboning put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency, later backed up with a hard rate hike on December 14th.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Again, even with the Fed raising rates, ongoing negative economic pressures still will mount, forcing the U.S. central bank shortly 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 eventually to return to some form of expanded quantitative easing.

Temporary jawboning aside, market reactions into 2017 increasingly should reflect a renewed sense of Federal Reserve impotence as intensifying economic weakness become increasingly obvious, with bleak longer-term implications for the U.S. dollar. Irrespective of the likely one-shot December 14th rate hike, renewed quantitative easing increasingly should become the target of post-election speculation, as the deepening recession continues to unfold.

Rapidly weakening, regular monthly economic reporting should continue and result in much worse-than-expected—increasingly negative—reporting, beginning with fourth-quarter 2016 and for at least the next several quarters of GDP (and GDI and GNP). Although such was far from being in place with the headline, second-estimate of third-quarter 2016, quarterly economic contractions remain fair bets in fourth-quarter 2016 and first-quarter 2017.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—has seen its near-term, year-to-year low and likely is pushing on to a two-year high. 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, September and October CPIs were spiked by gasoline prices and positive seasonal adjustments, while the November CPI was boosted by seasonal adjustments, despite a monthly decline in gasoline prices. Going forward, a weakening U.S. dollar (in a sharp downturn from current levels) increasingly should boost inflation, with a related and continued 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 inflation and to overstate economic activity—as generally viewed in common experience by Main Street, U.S.A.—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,* and as updated on October 24th: *Crudele*. Mr. Crudele's latest investigation focuses on retail sales reporting: *John Crudele on Retail Sales*.

PENDING RELEASES: Existing- and New-Home Sales (November 2016). November 2016 Existing-Home Sales are due for release Wednesday, December 21st, from the National Association of Realtors (NAR), with the November 2016 New-Home Sales report due from the Census Bureau on Friday, December 23rd. Both Existing- and New-Home Sales will be covered in *Commentary No. 858* of December 23rd.

The extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures, and residential real estate sales, as fully updated in *Commentary No. 854* and *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 demand for 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 the current flat-to-plus trend likely to turn lower versus recent gains.

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 continued to fluctuate in recent months, that should also begin to turn lower. Monthly changes in activity here rarely are statistically-significant, amidst otherwise unstable headline reporting and revisions; nonetheless, the series is due for continued downside catch-up.

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New Orders for Durable Goods (November 2016). The Census Bureau will report November 2016 New Orders for Durable Goods on Thursday, December 22nd, which will be covered in *Commentary No. 857* 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 broad economic activity and the GDP—is the activity in new orders, ex-commercial aircraft, adjusted for inflation.

In inflation-adjusted real terms, reflecting PPI-related inflation for manufactured durable goods, likely monthly weakness in will not be exacerbated by the purported neutral monthly inflation of 0.00% in November, having increased by 0.42% in October 2016 and declined by 0.06% (-0.06%) in September. Related year-to-year annual inflation, however, rose to 0.66%, versus 0.36% in October 2016 and 0.12% in September 2016 (see *Commentary No. 854*).

Gross Domestic Product (GDP)—Third-Quarter 2016, Second Revision, Third Estimate. The Bureau of Economic Analysis (BEA) will publish its third guesstimate of third-quarter 2016 Gross Domestic Product (GDP) on Thursday, December 22nd. Detail will be covered in *Commentary No. 857* of that date. Despite heavily bloated underlying detail, including seriously-flawed, quarterly trade-deficit detail, no large revision is likely to the current estimate for annualized quarterly real-growth rate of 3.2%. The pre-election boom seen in third-quarter GDP (see the *Opening Comments*), however, likely will disappear with much-weaker growth looming for the first reporting of fourth-quarter 2016 GDP in January, one week after Mr. Trump's inauguration.

PENDING SHADOWSTATS *SPECIAL REPORT*. ShadowStats will update fully, into one, background piece—a comprehensive *Special Report (Commentary)*—encompassing the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). Encompassing a review of 2016 and an outlook for 2017, this massive missive now is planned for the last week of December, a period in which no major economic releases are scheduled.

Subsequently, various background articles available on the www.ShadowStats.com site also will be updated, early in 2017.

Initially planned for November 30th this *Special Report* was delayed due to illness, a seasonal malady that finally appears about to have run its course. I apologize to subscribers for the unexpected delay.

The *Special Commentary* will include the latest outlook and will incorporate fully revised materials from 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*. It 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.

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The *Special Commentary* also will include a section with links to books and articles that we and/or our readers have found of particular interest and substance. Many thanks to those who already have submitted recommendations of specific books and publications. Anyone who would like to have materials considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.

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