

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

COMMENTARY NUMBER 364
Housing Starts, Hyperinflation Watch

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Housing Starts Keep Bouncing Down Hill

Upcoming Numbers Should Show a Stalling and Much Weaker Economy

PLEASE NOTE: The next regularly scheduled Commentary is for Wednesday, April 27th. It will cover March home sales and new orders for durable goods. The release of the first-estimate of first-quarter 2011 GDP on April 28th will be covered in a Commentary on Friday, April 29th, due to travel.

—Best wishes to all, John Williams

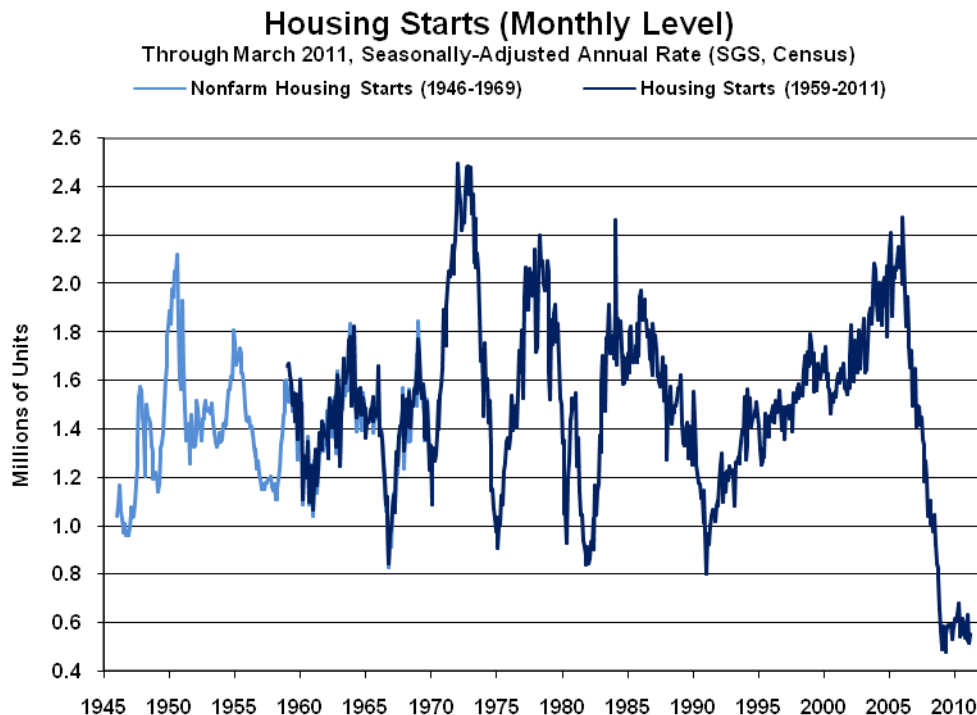
Mounting Fears of U.S. Insolvency as “Recovery” Dissipates. As discussed in the *Week Ahead*, reporting in the next week or so should show softening GDP growth (expectations are for annualized real growth to slow to 1.7% for first-quarter 2011, from 3.1% in fourth-quarter 2010). While that likely will make headlines, the pending downside revisions to historical retail sales of recent years probably will go unreported by the financial media, even though the new data will show the recession to have been longer and deeper than popularly assumed, and correspondingly that the “recovery” will appear to have been increasingly ephemeral. Today’s housing starts report was consistent with such developments.

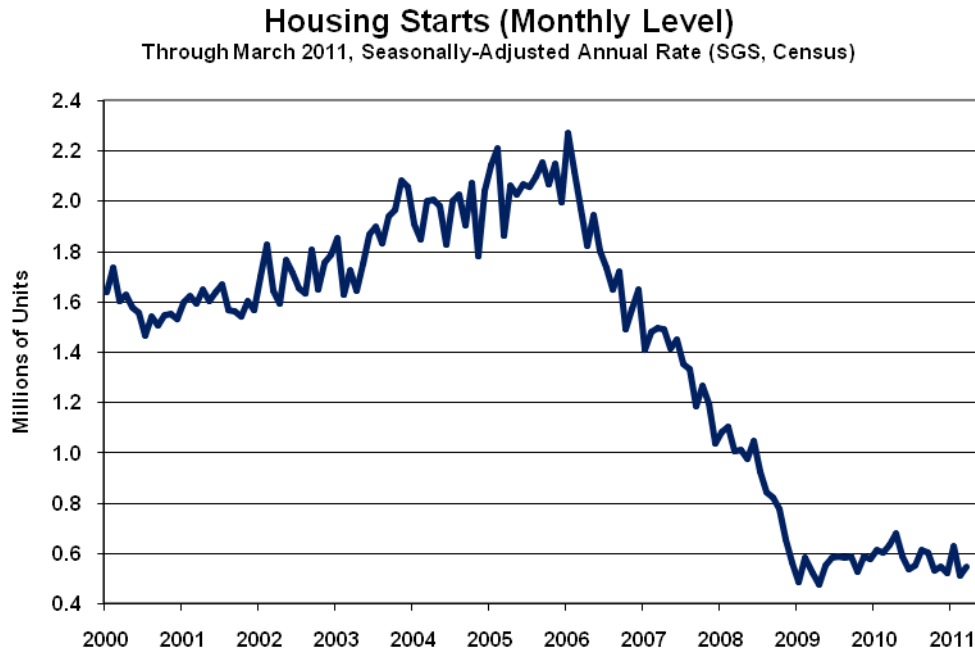
At the same time, Standard & Poor’s (S&P) placing a negative outlook on the sovereign debt rating of the United States has helped to move financial-market concerns for U.S. solvency towards center stage. This

circumstance should tend to exacerbate U.S. Treasury funding problems and to push the Federal Reserve more towards expanded QE2 or QE3, while at the same time encouraging accelerating flight from the U.S. dollar (see *Hyperinflation Watch*).

March Housing Starts Consistent With Intensified Economic Deterioration. Like a ball bouncing down a hill, the regularly volatile housing starts series remained in downtrend despite a statistically meaningless one-month bounce. The Census Bureau reported this morning, April 19th, a statistically-insignificant monthly gain of 7.2% +/- 21.1% (95% confidence interval) in seasonally-adjusted March 2011 housing starts; the gain was 14.6% before prior-period revisions. February starts were revised to an 18.5% (previously a 22.5%) monthly decline. Year-to-year change in March housing starts was a statistically-significant decline of 13.4% +/- 10.6% (95% confidence interval), following a revised annual 15.4% (previously a 20.8%) decline in February.

Although the pattern of housing starts generally remains one of bottom-bouncing at an historically low-level plateau of activity, as seen over the last 28 months, recent activity has started to slow anew, meaningfully. The six-month moving average of the seasonally-adjusted housing starts has declined for two months and is closing in on the historic low seen in mid-2009. Significantly weaker monthly numbers remain likely in the months ahead. Since December 2008, housing starts have been bottom-bouncing, averaging a seasonally-adjusted annual rate of 569,000. In those 28 months, all monthly readings have been within the normal range of monthly volatility for the series around that average, with the March 2011 monthly reading of 549,000 3.5% below average.





As shown in the preceding graphs, current activity is near the record low for the present series seen in April 2009 and is well below any level reported in the predecessor nonfarm housing starts series, which was introduced in 1946. Housing starts appear to have begun rolling down hill, anew, and that should be reflected with increasing clarity in the next several months of reporting.

Hyperinflation Watch—U.S. Sovereign Debt Rating. Near-term inflation and monetary circumstances generally have continued to deteriorate in line with expectations detailed in the [Hyperinflation Special Report \(2011\)](#), with risks continuing to mount for the near-term development of the early stages of a hyperinflation. The process received a nudge forward yesterday (April 18th), when S&P placed a negative outlook on the sovereign debt rating of the United States. The warning has raised new caution in the financial markets and likely will add to heavy dollar selling pressure, as the outlook for U.S. fiscal conditions worsens rapidly in response to renewed economic decline and to deteriorating political conditions in the U.S. capital. Nonetheless, an actual downgrade of the U.S. debt rating is not likely, so long as the U.S. dollar remains the world's reserve currency, and so long as U.S. debt issuance remains denominated in U.S. dollars.

The comments on page 55 of the March 15th [Hyperinflation Special Report \(2011\)](#) remain in place: “If not for the special position the United States holds in the world, its debt—U.S. Treasuries—likely would be rated as below investment grade, instead of triple-A. Major rating agencies have hinted at possible longer-term rating downgrades on Treasury securities. A downgrade by U.S. rating agencies, though, is not likely, so long as U.S. Treasuries are denominated in U.S. dollars and as long as they are used as the

benchmark for the triple-A rating. Such ratings usually are an opinion as to the risk of default. Treasuries denominated in U.S. dollars are not likely to face actual default, so long as the Treasury and Fed can create dollars to pay off the face amounts of the obligations.”

Week Ahead. Though not yet commonly recognized, there is both an intensifying double-dip recession and a rapidly escalating inflation problem. Until such time as financial-market expectations catch up with underlying reality, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the month and months ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions, benchmark or otherwise.

Home Sales (March 2011). March existing home sales (National Association of Realtors) are due for release on Wednesday, April 20th, followed by new home sales (Census Bureau) on Monday, April 25th. As with the broad deterioration still seen in housing starts, these volatile series should remain extremely weak, with any positive monthly change (new homes) again lacking statistical significance. Also, as usual, given the extreme volatility, reporting error and revisions in these series, given the poor-quality seasonal adjustments, given continuing negative anecdotal evidence, and given ongoing massive distortions from increasingly volatile foreclosure activity, the monthly movements in these numbers remain particularly meaningless.

New Orders for Durable Goods (March 2011). Due for release on Wednesday, April 27th, March’s new orders for durable goods likely will not show a meaningful monthly change, with odds slightly favoring an increase in this irregularly volatile series, tied to irregular gains in long-range orders for commercial airplanes.

Gross Domestic Product—GDP (First-Quarter 2011—“Advance” or First Estimate). The “advance” estimate of first-quarter GDP is due for release on Thursday, April 28th. Briefing.com indicates an early consensus estimate for the headline annualized quarterly real (inflation-adjusted) growth rate of 1.7%, down from the 3.1% last reported for fourth-quarter 2010. “Advance” estimates usually are targeted by the Bureau of Economic Analysis (BEA) to match the consensus forecast. Even with consensus consideration of the weakening trade picture, underlying reality is weaker than the consensus, and reporting risk accordingly should be to the downside of consensus. Due to travel, this release will be covered in a *Commentary* on Friday, April 29th.

Retail Sales (Annual Benchmark Revision). The annual benchmark revision to retail sales is due for release on Friday, April 29th. Look for major downside revisions to previously reported economic history of the last several years. A separate *Commentary* will be published at such time as the fully revised historical data become available.