

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

COMMENTARY NUMBER 369
April Housing Starts, Industrial Production

May 17, 2011

Housing Starts Under Downside Pressure
April Production Stalled Amid Hefty Negative Revisions

PLEASE NOTE: The next regularly scheduled Commentary is for Thursday, May 26th. It will cover the first revision to first-quarter GDP, April new orders for durable goods and home sales.

—Best wishes to all, John Williams

Opening Comments and Executive Summary. The U.S. economy is not in recovery, and what ever upside bouncing there was in retail sales and industrial production increasingly appears to have been transient in nature. In this morning's (May 17th) reporting, April 2011 housing starts continued their broad downtrend, bouncing downhill in renewed deterioration. More important than the statistically-insignificant monthly decline of 10.6%, the annual decline of 23.9% was significant, and the six-month moving-average has declined for the last three months, pushing the historic low level seen in April 2009.

Along with meaningful downside revisions to prior reporting (all post-benchmark), the Fed reported April 2011 industrial production to have been flat for the month, with the manufacturing component down by 0.4%. Without economic weakness being shifted in revision to earlier periods, the aggregate production index would have fallen by 0.5% for the month in April, with manufacturing production down by 1.1%.

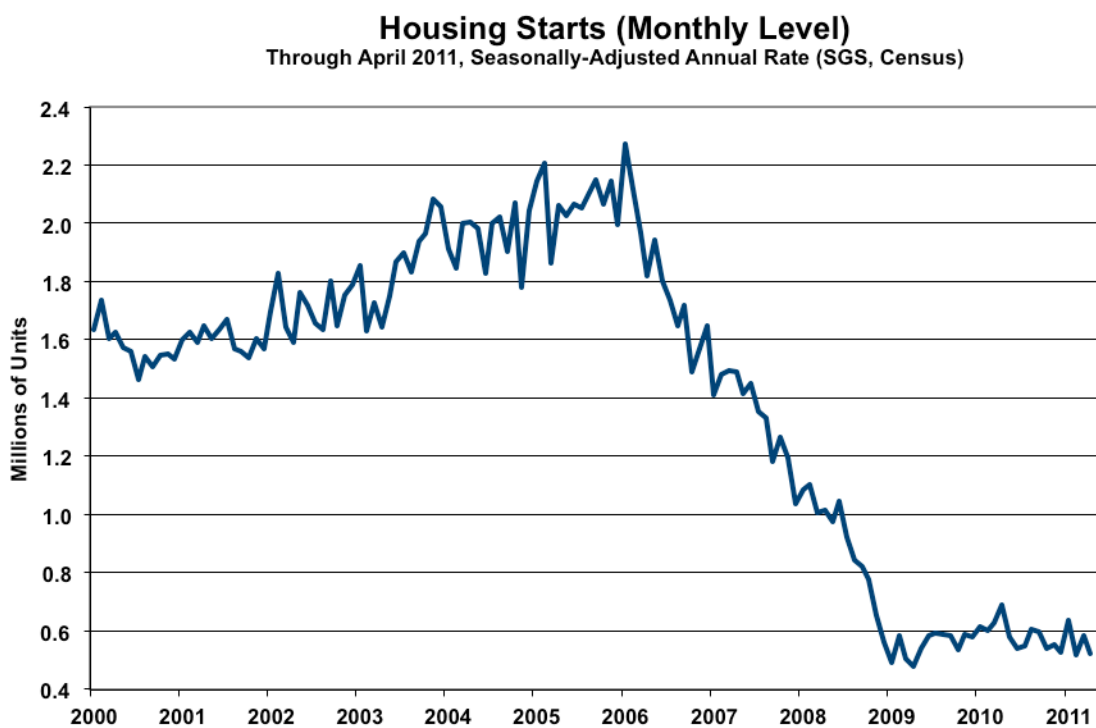
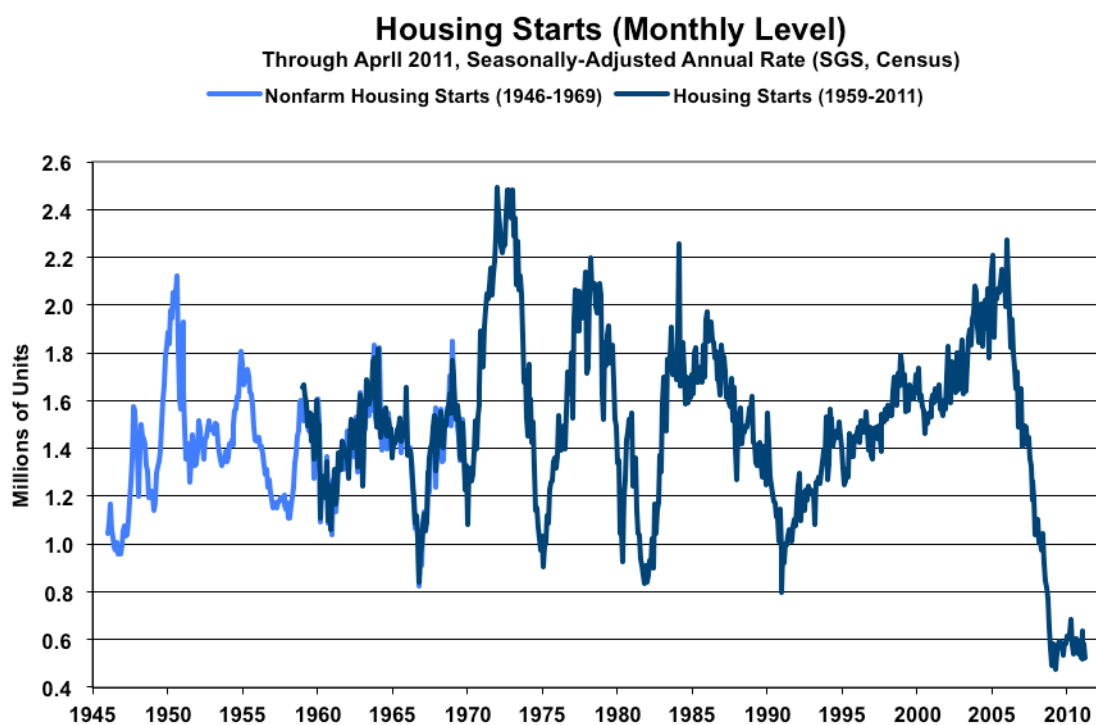
In tandem with last week's reporting of retail sales activity gaining less than 0.1%, net of higher prices (see [Commentary No. 368](#)), production activity appears to have stalled, with housing and consumer liquidity issues leading general economic activity into what eventually should be recognized as a double-dip recession. A note of caution continues as to the seasonal-factor distortions in, and the related reporting quality of retail sales. Nonetheless, the broad inflation and economic outlooks discussed in [Hyperinflation Special Report \(2011\)](#) continue unabated.

REPORTING DETAIL

April Housing Starts Were Consistent with a Deteriorating Economy. The regularly volatile housing starts series remained in a down-trending bottom-bounce, after minimal seasonal-factor revisions back through January 2009. The Census Bureau reported this morning, May 17th, a statistically-insignificant monthly decline of 10.6% +/- 15.2% (95% confidence interval) in seasonally-adjusted April 2011 housing starts; the decline was 5.7% before prior-period revisions. March starts were revised to a 12.9% (previously a 7.2%) monthly gain. Year-to-year change in April housing starts was a statistically-significant decline of 23.9% +/- 8.2% (95% confidence interval), following a revised annual 6.5% (previously 13.4%) decline in March.

Although the pattern of housing starts remains one of bottom-bouncing at an historically low-level plateau of activity, as seen over the last 29 months, recent activity has started to turn down anew, meaningfully. The six-month moving-average of seasonally-adjusted housing starts has declined for the last three months; it is at its lowest level since August 2009, and it is closing in on the historic low average seen in April 2009. Significantly weaker monthly numbers remain likely in the months ahead. Since December 2008, housing starts have averaged a seasonally-adjusted annual rate of 569,000. In that period, all monthly readings have been within the normal range of monthly volatility for the series around that average, with the 523,000 April 2011 monthly reading at 8.1% below average.

As shown in the following graphs, current monthly housing starts activity remains near the record low for the present series seen in April 2009. The current number also is well below any level reported in the predecessor nonfarm housing starts series, which was introduced in 1946. Housing starts appear to be rolling downhill, anew, and that should be reflected with increasing clarity in the next several months of reporting. The first graph shows current housing starts activity within the historical context of the post-World War II period. The second graph shows recent detail for the same data.

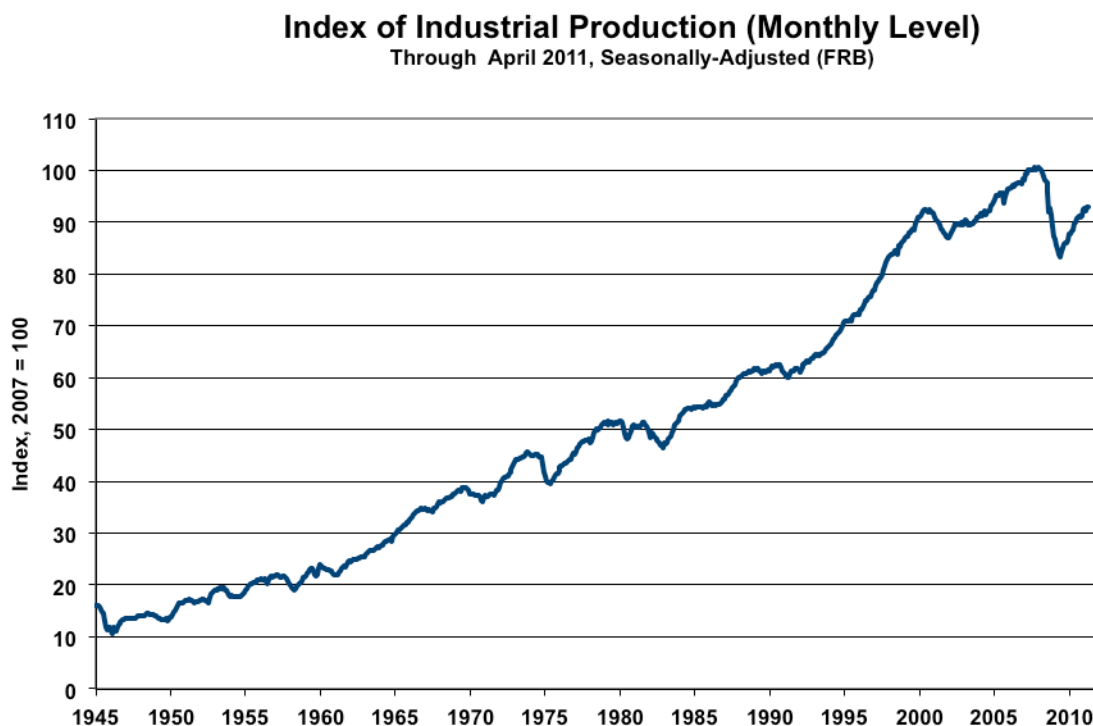


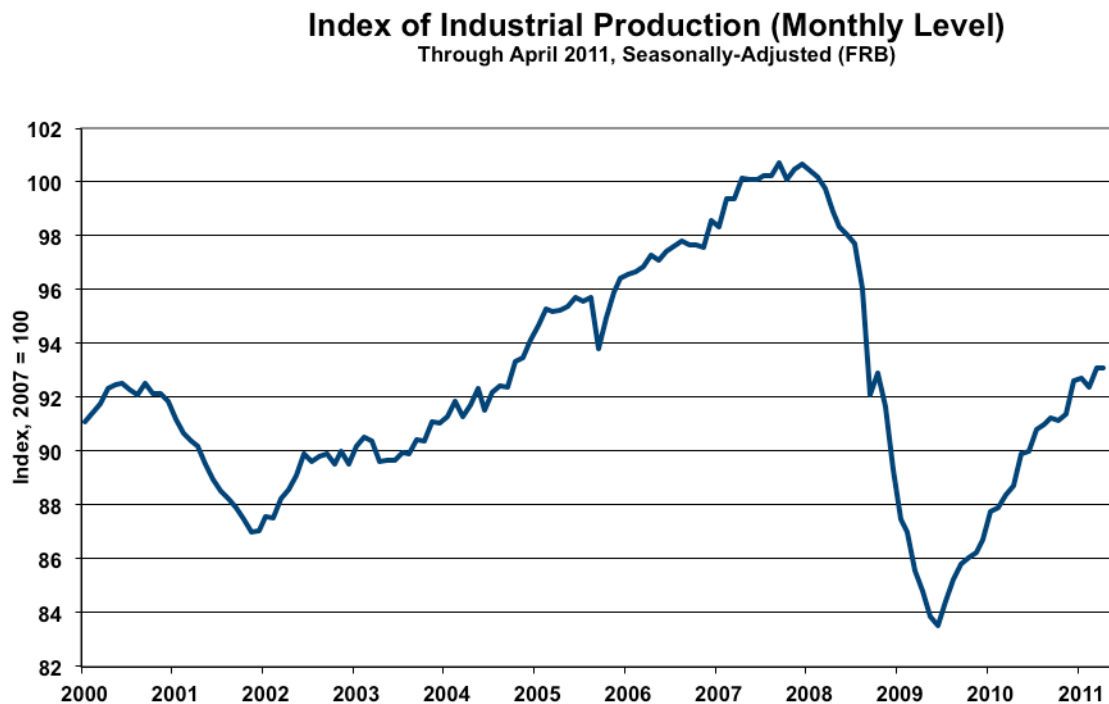
April Industrial Production Stalled As Prior Months Were Revised Lower. This morning's (May 17th) Federal Reserve Board release of seasonally-adjusted April 2011 industrial production showed aggregate production to be unchanged (down 0.5% net of prior-period revisions) versus March, with manufacturing tumbling by 0.4% in April. In turn the aggregate March index was revised to a 0.7% (previously 0.8%) monthly gain. The revisions the April report all were post-benchmark revisions, with the largest change showing the previously reported 0.1% monthly gain in February 2011 now being a 0.3% contraction.

Year-to-year change in April 2011 production was 5.0%, down from a revised 5.3% (previously 5.9%) gain in March. The year-to-year contraction of 14.9% seen in June 2009 was the steepest annual decline in production growth since the shutdown of war-time production following World War II.

The “recovery” in industrial production is reflected in the following graphs. Both graphs show the monthly level of the production index. The first graph shows the data in historical context since World War II. The second graph shows the same numbers in clearer detail for the current period beginning in 2000.

For the last 30 months, the production index has averaged 88.9, around which the series has fluctuated, although it generally has been moving higher in recent months. The April reading was at 93.1.





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 (April 2011). April existing home sales (National Association of Realtors) are due for release on Thursday, May 19th, followed by new home sales (Census Bureau) on Tuesday, May 24th. As with the continuing broad deterioration 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 (particularly to the upside) remain meaningless.

New Orders for Durable Goods (April 2011). Due for release on Wednesday, May 25th, April's new orders for durable goods likely will not show a meaningful monthly change, with odds slightly favoring a decline in this irregularly volatile series.

Gross Domestic Product—GDP (First-Quarter 2011—First Revision or Second Estimate). The first revised estimate of first-quarter GDP is due for release on Thursday, May 26th. A major revision is not

apparent from late reporting of underlying series, although a full accounting of first-quarter trade data should have had the prior “advance” estimate in contraction, rather than at the reported 1.8% annualized real growth rate.
