

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

COMMENTARY NUMBER 408
November Housing Starts and Existing Home Sales

December 21, 2011

3.5 Million Home Sales Just Disappeared

Housing Starts Still Bottom Bouncing

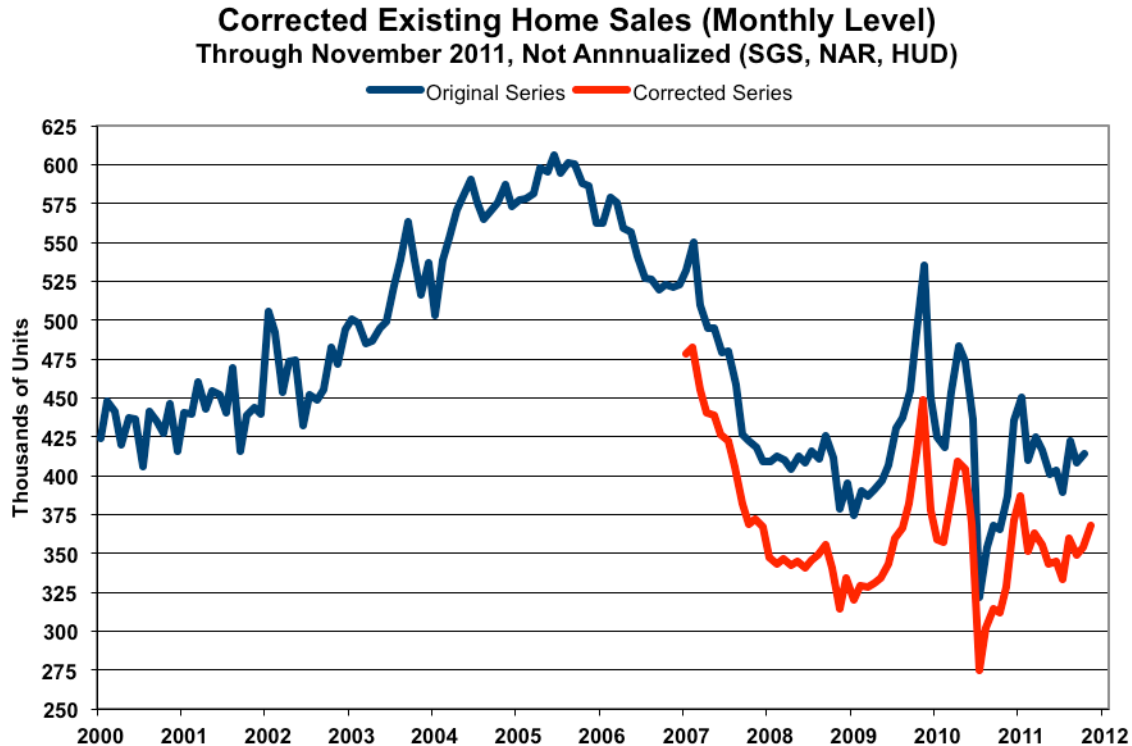
PLEASE NOTE: The next regular Commentary is scheduled for Friday, December 23rd, covering the third estimate (second revision) of third-quarter 2011 GDP, November new orders for durable goods and new home sales. No major economic releases are scheduled and no Commentaries currently are planned in the week between Christmas and New Year's Day.

Official release status of the 2011 Financial Report of the United States Government still is "to be determined." We shall keep you posted. See [Schedule](#) for month ahead.

Best wishes to all for a most joyous holiday season and for a happy, healthy and prosperous New Year!
— John Williams

Opening Comments and Executive Summary. The National Association of Realtors (NAR) corrected its estimates of existing home sales today (December 21st), and 3.54 million previously reported home sales vanished, in revision, since January 2007. Put in perspective, the amount of sales wiped out was the total amount of seasonally-adjusted existing home sales that previously had been reported in 2011, through October. Post-2006, 14.3% of existing home sales were eliminated, with sales in the Northeast

taking a 30.9% hit, followed by a 14.2% reduction in the Midwest, 12.3% loss in the South and 5.3% loss in the West.



In revealing recognized reporting problems, the NAR has addressed issues not commonly taken on by trade groups that report industry data, or by the federal government. Where the nature of some of the problems (overly optimistic underlying assumptions) are common with many government series, including payroll employment and retail sales, the government would do well to overhaul much of its reporting.

Reflecting adjustments for some double-counting, mis-estimates of homes for sale by owner, and some improper inclusion of new home sales, the revisions were structured in such a way as to preserve as much as possible of the previously reported month-to-month and year-to-year patterns. Sales levels were reduced by 10% to 11% starting in 2007, hitting a peak reduction of 17% in late-2008, and averaging around 14.5% in the most-recent reporting.

As the dust settles around the massive revisions, issues such as an historic break in the series likely will be addressed. Where NAR suggests that the annual revision for 2007 leaves the data there consistent with the unrevised number for 2006, the above graph—showing the monthly number—is not reflective of a smooth transition from the old series (blue line), to the first point (January 2007) on the red line. Also the pattern of post-2008 narrowing of the level of downside revision still may reflect some relatively positive (but unrealistic) underlying economic assumptions based on the official end of the 2007 recession.

While the new numbers reflect a weaker housing industry than previously had been reported, the picture in terms of November housing starts remains one of a full-fledged disaster, with activity in the residential construction industry now having completed three years of bottom-bouncing at historically low levels of activity, subsequent to a three-year collapse in industry activity.

The reported 9.3% monthly gain in November housing starts was not statistically meaningful, and it was dominated by an irregular surge in apartments starts. Net of apartments, monthly single-unit housing starts were up a statistically-insignificant 2.3%.

The broader economic picture will be discussed in the December 23rd *Commentary*.

Hyperinflation Watch—No Change. The various economic and financial outlooks remain as discussed in [Hyperinflation Special Report \(2011\)](#); they will be reviewed in the pending *Hyperinflation 2012*. Refer to the *Hyperinflation Watch* in [Commentary No. 407](#) for details. Some observations likely will be added here in Friday's (December 23rd) *Commentary*.

REPORTING DETAIL

RESIDENTIAL CONTRUCTION (November 2011)

Housing Starts Continued Bottom-Bouncing in November. Housing starts showed a statistically-meaningless monthly bounce in November, spiked by irregular activity in apartment starts. Indeed, the regularly volatile housing starts series continued its protracted bottom-bouncing in the latest reporting, completing three years of activity at 75% below 2006's record construction level. There remains no relief in sight.

The Census Bureau reported yesterday (December 20th) a statistically-insignificant monthly gain in seasonally-adjusted November 2011 housing starts of 9.3% (an increase of 9.1% before prior-period revisions) +/- 15.6% (all confidence intervals are at the 95% level). October starts were revised to a monthly decline of 2.9% (previously a drop of 0.3%).

Starts for apartment buildings remained extremely volatile, month-to-month, up 42.5% in September, down 20.2% in October, and up 32.2% in November. At the level of single-unit housing starts, November activity was up by 2.3%, instead of the aggregate 9.3%

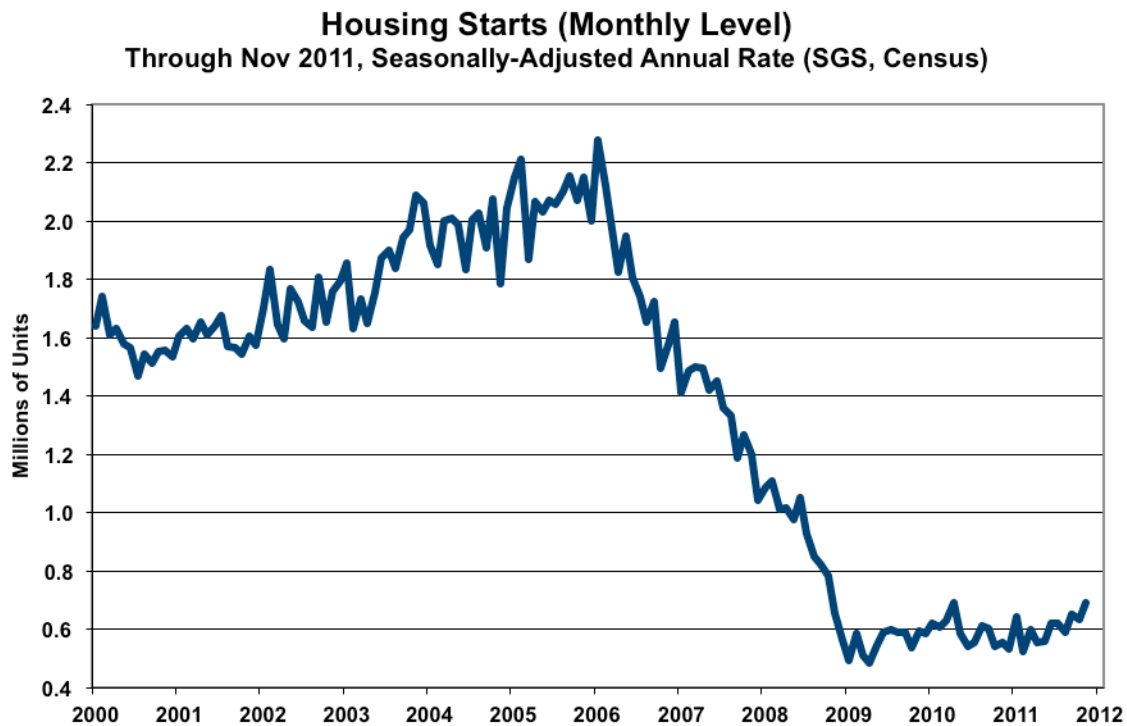
The year-to-year change in aggregate November starts was a marginally, statistically-significant increase of 24.3% +/- 23.5%, following a revised 16.3% (previously 16.5%) annual gain in October. At the single-

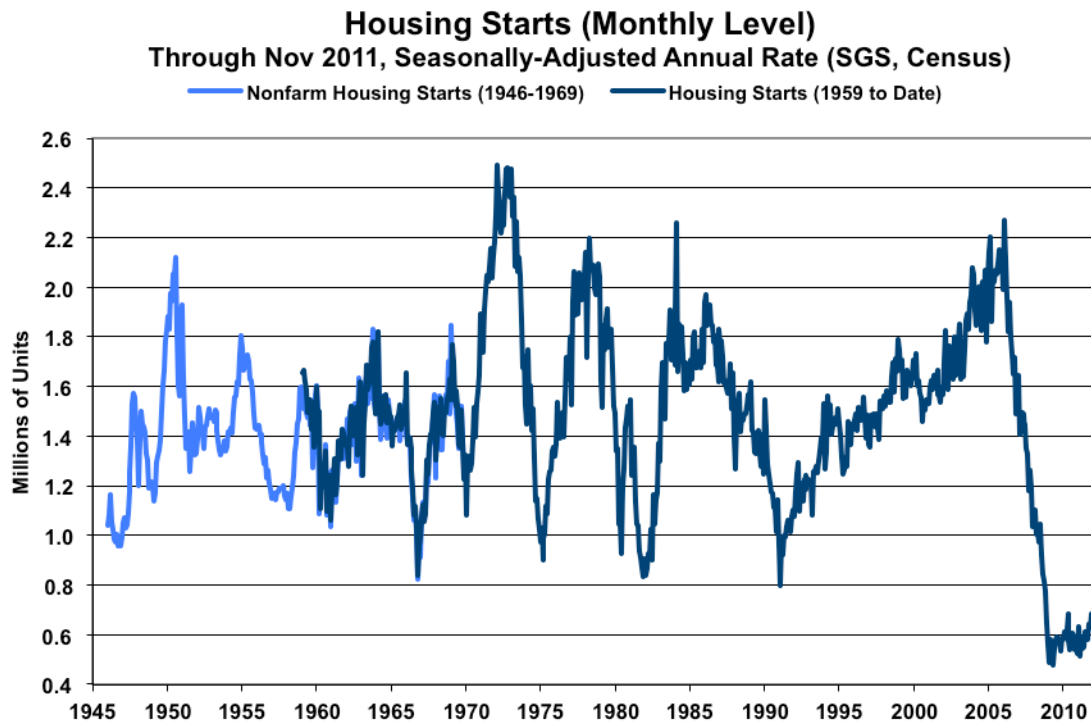
unit level, starts were down by a statistically insignificant 1.5% year-to-year in November; apartments were up by 180.5% year-to-year.

With housing starts entering their fourth year of post-housing-market-crash bottom-bouncing, there remain no indications of a reprieve for the industry or the otherwise deteriorating broader economy. Indeed, the pattern of housing starts has remained one of stagnation at an historically low-level plateau of activity, over the last 36 months. Since December 2008, housing starts have averaged a seasonally-adjusted annual rate of 579,000. In that period, all monthly readings have been within the normal range of monthly variability for the aggregate series around that average, with the 685,000 November 2011 monthly reading at 18.3% above average.

As shown in the following graphs, current monthly housing starts activity remains off the record monthly low seen for the present series 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.

The first graph shows recent detail for current housing starts activity, the second graph shows the same data within the historical context of the post-World War II period.





EXISTING HOME SALES (November 2011, Benchmark Revisions)

Significant Downside Revisions Leave Historical Existing Home Sales In Question. The National Association of Realtors (NAR) published massive downside revisions to monthly existing home sales since January 2007, this morning (December 21st). The downside revisions ranged from 10% to 17%, with the initial January 2007 downside revision clearly suggesting that pre-2007 data are no longer consistent with the current reporting. Yet, the NAR indicates the annual 2007 data are consistent in reporting with the pre-existing 2006 data. The patterns of revision also raise some question as to the reliability of current reporting.

In terms of month-to-month change, as opposed to reported level of activity, though, the NAR appears to have attempted to maintain the pattern of previously reported monthly change, as much as possible. A graph and an analysis of the revisions are included in the *Opening Comments and Executive Summary*.

We are considering how best to handle regular coverage of this series in the future. The details that usually are covered each month follow, but not the regular graphics, which appear at present to be largely meaningless.

The December 21st release of November 2011 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 4.0% (down 11.1% net of prior period revisions), versus an unrevised 1.4% gain in October.

On a year-to-year basis, November 2011 sales rose by 12.2%, versus a revised 13.6% (previously 13.5%) annual gain in October. Foreclosures remain a factor in both new and existing home sales. The NAR reported “distressed” sales in November at 29% (19% foreclosures, 10% short sales), up from 28% (17% foreclosures, 11% short sales) in October.

Week Ahead. Although receiving sporadic bursts of attention, an intensifying double-dip recession (it will be classified as a double-dip, because the first dip already has been called), as well as an escalating inflation problem still are not widely recognized. The political system would like to see the issues disappear until after the 2012 election, and the financial markets will do their best to avoid recognition of the problems that have horrendous implications for the markets and for systemic stability. Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

Gross Domestic Product—GDP (Third-Quarter 2011, Third Estimate, Second Revision). Due for release tomorrow, Thursday, December 22nd, the third estimate, second revision of third-quarter 2011 GDP should be little more than statistical noise around the previously reported headline growth estimate of 2.0% (inflation-adjusted, annualized quarterly growth rate).

New Orders for Durable Goods (November 2011). November new orders for durable goods are due for release on Friday, December 23rd. While there appears to be some expectation of a monthly increase in orders, any gains are not likely to be outside the bounds of regular volatility for this series and its major components, such as commercial aircraft orders.

New Home Sales (November 2011). November new home sales are due for release on Friday, December 23rd, and that series likely will continue its downside bottom-bouncing trend. As with almost all monthly reporting for this series, the monthly change—particularly any gain—should not be statistically meaningful.

2011 Financial Report of the United States Government. Release of the government’s GAAP-based accounting tentatively had been (and still may be) re-scheduled for release sometime on Friday, December 23rd, but, as we go to press, the scheduled release date shown on the [Treasury’s Web site](#) remains “TO BE DETERMINED.” Rescheduling from the regular December 15th release date in earlier years sometimes has involved months of delay. Whenever it is released, the annual GAAP accounting on the financial operations of the U.S. government is likely to show a 2011 federal operating deficit in excess \$5 trillion, based on consistent reporting and accounting, including changes in unfunded liabilities (for Social Security, etc.) on a net present value (NPV) basis.