

**COMMENTARY NUMBER 457**  
**June Housing Starts, Economic Review**

**July 18, 2012**

---

**Housing Growth Slowed in Second Quarter**  
**Headline Housing Starts Gain Not Statistically Significant**  
**Annual GDP Revisions Loom**

---

*PLEASE NOTE: The next regular Commentary is scheduled for Thursday, July 26th, covering June new and existing home sales, and new orders for durable goods. A subsequent Commentary on Friday, July 27th, will review the first-estimate of second-quarter GDP and the annual revisions to GDP.*

*Best wishes to all — John Williams*

**Opening Comments and Executive Summary.** July 27th could be something of turning point in market expectations, with the concept of a looming double-dip recession gaining broader acceptance. Slowing or contracting economic activity—reflected in second-quarter 2012 reporting for various economic series—suggests a parallel, sharp slowing in the pace of second-quarter GDP growth, versus the current 1.9% headline estimate for the first-quarter. Further, this year's downside benchmark revisions to most major economic series suggest that net downside revisions to the historical GDP are likely with pending annual revisions. Both the initial second-quarter estimate of, and benchmark revisions to, the GDP are scheduled for July 27th.

**Benchmark Revisions.** The official full recover, reflected in GDP reporting, could disappear in the pending revisions. Since third-quarter 2011, the level of real (inflation-adjusted) GDP has exceeded the level of activity estimated for fourth-quarter 2007, the cycle peak that marked the onset of official recession. Throwing the legitimacy of the GDP estimates into doubt, however, is that no other major economic series mirrors the GDP's pattern of recovery. A downside revision of 1.3% or more—to current estimates of the GDP level—would revise way that full recovery. Last year's revision lowered the then-current estimates by 1.6%.

Most current benchmark revisions to key economic series suggest net downside revisions are pending for the GDP. On the plus-side was the small upside benchmark revision to payroll employment, which was concentrated in 2011. Mixed was the benchmark revision to new orders for durable goods, which showed a much weaker 2009 than previously reported, but with 2010 revised to the upside. Generally to the downside were retail sales, the trade deficit, construction spending and industrial production (minor downside revisions).

The likely result of this mixture is an overall downside revision to GDP levels, concentrated in downside revisions to activity in 2009 and 2010, where harder data are available. Growth patterns in 2011—where overly optimistic assumptions will stay in place—should remain roughly intact, although at lower levels of activity than before.

**Second-Quarter GDP.** With initial second-quarter 2012 reporting in place for most key series related to GDP activity, quarter-to-quarter growth either has turned to contraction in the second-quarter, from growth in the first-quarter, or growth has slowed markedly in the second-quarter, versus the first-quarter.

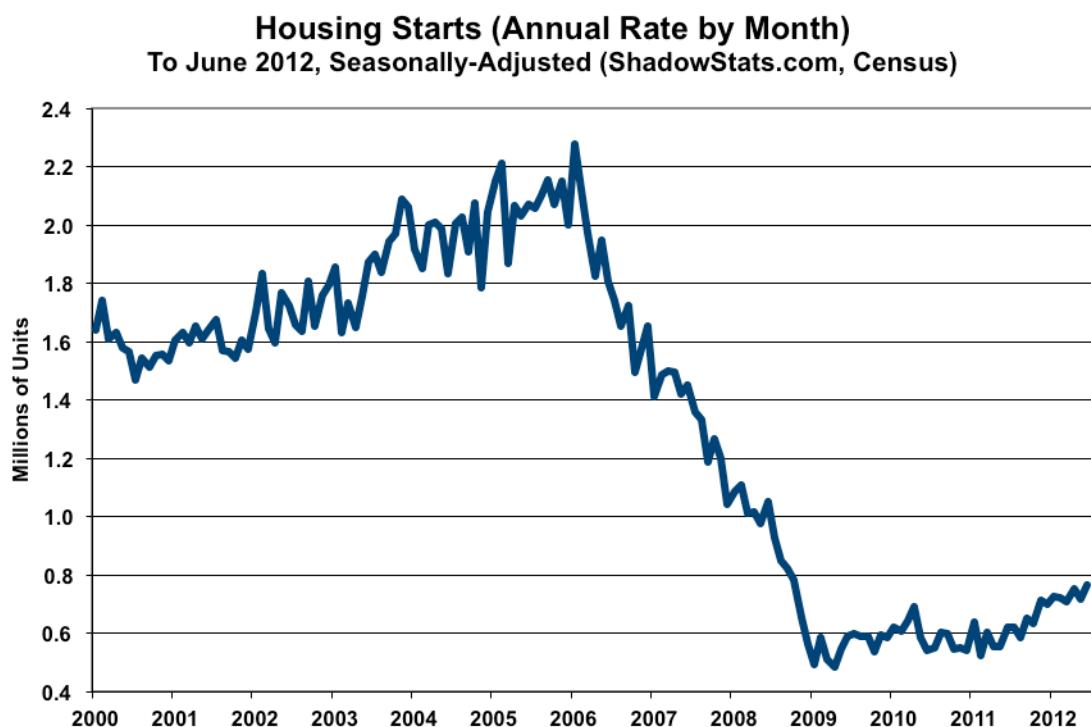
Falling into second-quarter contraction were retail sales and the trade deficit (the two months that will be used in the initial GDP estimate), where they had made positive contributions to first-quarter GDP growth. Showing a sharp decline in quarter-to-quarter growth are nonfarm payrolls, industrial production and housing starts (discussed separately below). Shy of any excessive involuntary build-up in inventories, initial second-quarter GDP headline growth could fall below 1.0%, versus the latest 1.9% estimated for the first-quarter.

The various quarterly data can be found in *Commentaries* of the last several weeks, while the detail of benchmark revisions can be found in the archives section, all available at our home page of [www.shadowstats.com](http://www.shadowstats.com), left-hand column.

**June Housing Starts.** Some upside bottom-bouncing was seen with June 2012 housing starts, with the level of activity 67% below the 2006 series high. Although the headline month-to-month gain of 6.9% was not statistically-significant, the level of reported activity was at its the highest since October 2008, in the midst of the ongoing economic crash. This series remains particularly volatile and tends to suffer large monthly revisions.

Protracted stagnation in housing starts at historically-low levels of activity has continued well into its fourth year of activity, averaging 74% below 2006's record-high construction level. Within the normal scope of volatility for the series in the last four years, a slightly higher plateau of activity appears to have developed in the eight months through June that is 68% below the 2006 high. Given the underlying economic fundamentals, there still is no recovery or relief in sight.

The following graph plots the level of monthly activity (annual rates) as reported by the Census Bureau. There is a recent slight uptrend in the numbers since late 2011.



Quarterly Slowing in Housing Starts, Contraction in Apartment Starts. For second-quarter 2012, growth off historic lows slowed for residential construction. The annualized pace of growth in aggregate quarterly housing starts slowed to 14.5% in the second-quarter, from 23.2% in the first-quarter. The annualized pace of change in quarterly apartment starts was a contraction of 11.2% in the second-quarter, versus annualized growth of 70.6% in the first-quarter. That tended to offset the annualized quarterly growth in single-unit structures of 29.0% in the second-quarter, versus annualized growth of 12.7% in the first-quarter.

**Hyperinflation Watch.** *Note: The key text in this section is repeated from the prior two Commentaries. General circumstances have not changed, with the broad outlook discussed in detail in [Special Report No. 445](#) (June 12th), which updated the hyperinflation outlook and the outlook for U.S. economic, U.S. dollar, and systemic-solvency conditions. That Special Report supplemented [Hyperinflation 2012](#) (January 25th), which remains the primary Commentary detailing the hyperinflation story.*

Official GDP reporting shows a plunge in economic activity from fourth-quarter 2007 to second-quarter 2009, with an ensuing upturn in activity that led to a full recovery as of third-quarter 2011. In contrast, I contend the economy began turning down in 2006, plunging in 2008 into 2009 and subsequently stagnating—bottom-bouncing—at a low level of activity ever since. There has been no recovery, and the economic downturn is intensifying anew.

The official recovery simply is a statistical illusion created by the government's use of understated inflation in deflating the GDP. Use of understated inflation in such a manner results in overstated economic growth.

The long-term fiscal solvency issues of the United States—where GAAP-based accounting shows annual deficits running in the \$5 trillion range—are not being addressed, and the politicians currently running the government lack the political will to address those issues. That circumstance initially suggested a hyperinflation crisis by the end of this decade, but the systemic-solvency crisis of 2008 accelerated the process, indicating a hyperinflation problem by no later than the end of 2014.

Neither economic nor systemic-solvency issues have been resolved by U.S. government or Federal Reserve actions. With the economy weak enough to provide cover for further Fed accommodation to the still-struggling banking system, the next easing by the Fed likely will trigger a massive dollar selling crisis and begin the process of a rapid upturn in domestic consumer inflation.

---

## REPORTING DETAIL

### RESIDENTIAL CONSTRUCTION (June 2012)

**Housing Starts Growth Slowed (Apartment Starts Contracted) in Second Quarter.** Some upside bottom-bouncing was seen with June 2012 housing starts, with the June level 67% below the 2006 series high. Although the headline month-to-month gain was not statistically-significant, the level of reported activity was the highest since October 2008, in the midst of the ongoing economic crash. This series remains particularly volatile and tends to suffer large monthly revisions.

Protracted stagnation in housing starts at historically-low levels of activity has continued well into its fourth year of activity, averaging 74% below 2006's record-high construction level. Within the normal scope of volatility for the series in the last four years, a slightly higher plateau of activity appears to have developed in the eight months through June that is 68% below the 2006 high. Given the underlying economic fundamentals, there still is no recovery or relief in sight (see [Special Report No. 445](#)).

For second-quarter 2012, growth off historic lows slowed for residential construction. The annualized pace of growth in aggregate quarterly housing starts slowed to 14.5% in the second-quarter, from 23.2% in the first-quarter. Implications for second-quarter GDP are discussed in the *Opening Comments and Executive Summary*. The annualized pace of change in quarterly apartment starts was a contraction of 11.2% in the second-quarter, versus annualized growth of 70.6% in the first-quarter. That tended to offset the annualized quarterly growth in single unit structures of 29.0% in the second-quarter, versus annualized growth of 12.7% in the first-quarter.

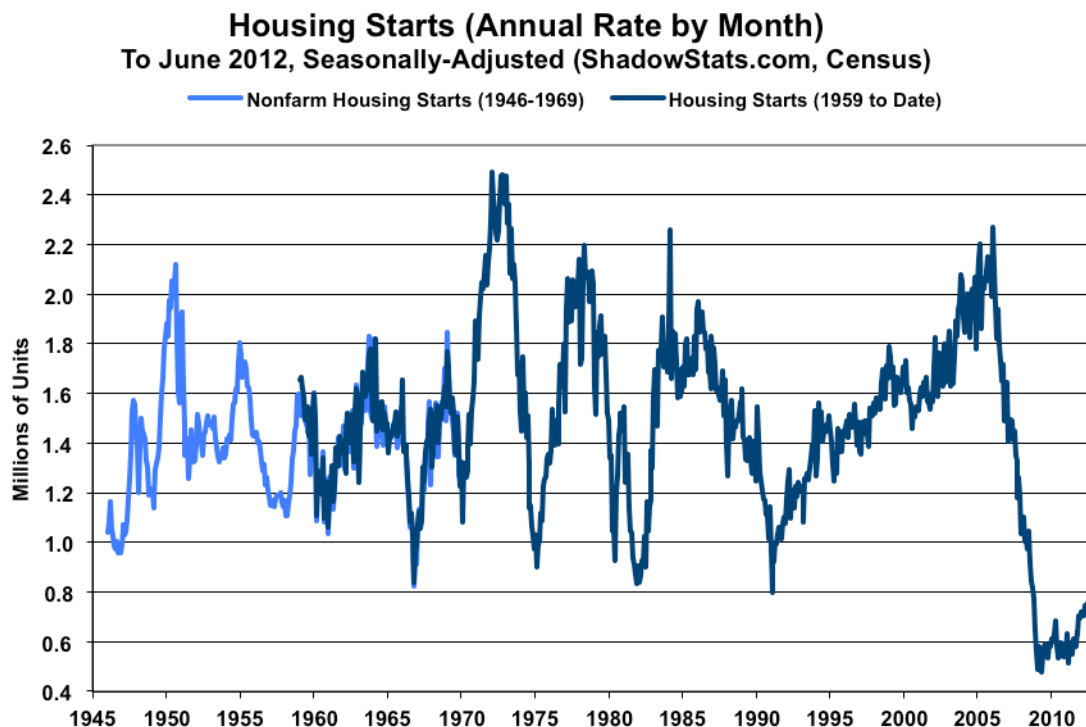
**June 2012 Reporting.** The Census Bureau reported today (July 18th) a statistically-insignificant month-to-month headline increase in seasonally-adjusted June 2012 housing starts of 6.9% (a gain of 8.5% before prior-period revisions) +/-15.9% (all confidence intervals are at the 95% level). The monthly change in May starts was unrevised at a 4.8% decline.

Starts for apartment buildings remained highly irregular, month-to-month, rising by a statistically-insignificant 17.0% +/- 53.9%, after falling by a revised 22.2% (previously down by 24.2%) in May. The “one-unit” category for June gained 4.7% +/- 11.8%, after a revised 2.2% (previously 3.2%) gain in May.

The year-to-year change in aggregate June 2012 housing starts was a statistically-significant increase of 23.6% +/- 19.6%, following a revised 29.0% (previously 28.5%) annual gain in May, but, again, that is in the continued context of a protracted period of low-level bottom-bouncing.

For the last 43 months, the pattern of housing starts generally has remained one of stagnation at an historically low-level plateau of activity. Since December 2008, housing starts have averaged a seasonally-adjusted annual rate of 603,000. In that period, monthly readings have been within the normal range of monthly variability for the aggregate series, around that average, with the 760,000 annual starts rate for June 2012 at the top-side of that range, the highest reading since October 2008.

As shown in the graph in the *Opening Comments and Executive Summary*, current monthly housing starts activity remains off the record monthly low seen for the present series in April 2009. Recent series detail is seen more easily in that graph, which covers reporting since 2000. The following graph shows that current activity remains below any level reported prior to the 2006 peak in the current series, or in the predecessor nonfarm housing starts series, which was introduced in 1946.



**Week Ahead.** *Market recognition of an intensifying double-dip recession is taking a somewhat stronger hold, at the moment, while recognition of a mounting inflation threat remains sparse. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news or to put a happy spin on the numbers; and the financial markets will do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.*

*Until such time as financial-market expectations 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.*

**New and Existing Home Sales (June 2012).** The June existing home sales release is scheduled for Thursday, July 19th, from the National Association of Realtors, while the June new home sales release from the Census Bureau is scheduled for Wednesday, July 25th. As usually is the case for both these series, entrenched patterns of bottom-bouncing likely continued, and the new monthly results are not likely to be statistically significant.

**New Orders for Durable Goods (June 2012).** The initial estimate for June 2012 new orders for durable goods is scheduled for release on Thursday, July 26th, by the Commerce Department. As has been the case for some months, whatever month-to-month change is reported for this regularly volatile series, it

likely will not be meaningful, remaining well within the bounds of regular monthly swings and subject to the irregular activity in nondefense aircraft orders.

In terms of the potential inflation contribution to new orders growth, the seasonally-adjusted, month-to-month change in the June PPI finished goods capital equipment index was an increase of 0.2%, with year-to-year inflation at 1.9%. Due to hedonic quality adjustments to this portion of the PPI series, however, those inflation data understate inflation reality.

***Gross Domestic Product—GDP (Second-Quarter 2012, First Estimate; Annual Revisions).*** The annual revisions to the GDP (first-quarter 2009-to-date) are scheduled for release, along with the first-estimate of second-quarter 2012 GDP, by the Bureau of Economic Analysis on Friday, July 27th.

Indications of rapidly slowing economic activity in the second-quarter have pummeled market expectations. With GDP growth estimates initially well over two-percent for headline growth, the markets now appear to be looking at a second-quarter number of somewhat over one-percent, versus the most-recent estimate of 1.9 percent headline growth for the first-quarter. Not widely recognized is the circumstance that first-quarter GDP is subject to the benchmark revision.

There is a fair shot at weaker-than-expected growth for the second-quarter, and a very good chance of some meaningful downside revisions to the historical GDP. The annual revisions rarely are speculated over by the markets or followed by the popular media. More-detailed outlooks for the second-quarter GDP and for the benchmark revisions are discussed in the *Opening Comments and Executive Summary*.

---