

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

COMMENTARY NUMBER 465
July Housing Starts, Economic Review

August 16, 2012

Housing Starts Activity Continued in Stagnation
Broad Economy Is Not Recovering

PLEASE NOTE: The next regular Commentary is scheduled for Friday, August 24th, covering July new orders for durable good and July existing- and new-home sales.

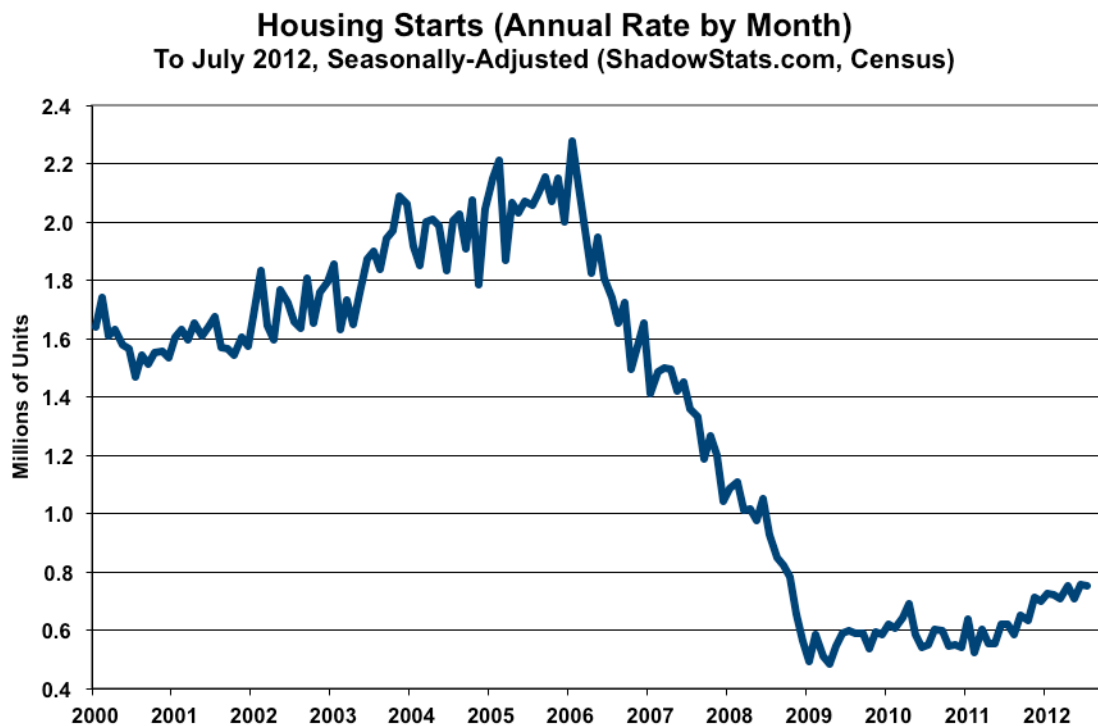
Best wishes to all — John Williams

Opening Comments and Executive Summary. July reporting for the major, government-compiled economic series has been mixed versus market expectations, but the general outlook remains for renewed downturn continuing to evolve, out of the protracted period of stagnation in the post-economic-collapse environment (see *Special Report No. 445*). Reversing the general patterns of May and June reporting, payroll employment, retail sales and the trade deficit were better than expected against consensus expectations, production was about as expected, while unemployment and housing starts were worse than consensus. Still, as discussed in each related *Commentary*, none of those reported monthly changes were meaningful, in the context of prior-period revisions and/or serious seasonal-adjustment problems.

Broadly, underlying income and credit problems continue to impair the consumer's ability to expand consumption. Accordingly, real-world U.S. economic activity has not recovered since the collapse, and no near-term economic recovery appears to be in the offing.

GDP Revision on August 29th. Covered in the housing starts section in the *Reporting Detail*, downside revisions to May and June 2012 housing construction activity should add some small downside pressure to the pending August 29th first-revision to second-quarter 2012 GDP. As discussed in [Commentary No. 464](#), irrespective of the monthly gain reported for July retail sales, inflation-adjusted sales activity was revised lower in the second-quarter by enough to place downside pressure on personal construction expenditures in the GDP revision. Offsetting upside pressure on the GDP revision, however, should be seen in the net export account, thanks to the narrowing of the June trade deficit, as discussed in [Commentary No. 462](#).

At present, the balance of revision pressure appears to be to the upside for the GDP. That said, I view the series as the most worthless of official government reports, in terms of providing a meaningful indication of actual business activity. One almost has to be in a real-world depression these days in order to see a downside blip in the reporting. While there are a number of issues with the largely theoretical structure of the GDP, the most egregious problem is the use of too-low inflation in deflating the series. Such overstates inflation-adjusted GDP growth and has created the illusion of an economic recovery, a full recovery that curiously has not been seen in any other major economic series.



Housing Starts. As shown in the preceding graph, the pattern of ongoing stagnation in housing construction activity continued in July 2012, with a statistically-insignificant 1.1% headline monthly decline in starts (the decline was 1.8% before prior-period revisions). That followed a revised and still statistically-insignificant 6.8% (previously 6.9%) gain in June. For the last 44 months, the pattern of housing starts generally has remained one of stagnation at an historically low-level plateau of activity,

averaging a seasonally-adjusted annual rate of 606,000 since December 2008, some 73% below the 2006 pre-crash high. Nonetheless activity appears to have moved to a somewhat higher plateau since November 2011, with the average of the annualized monthly housing starts at 722,000 (68% below the 2006 peak) for the nine months through July 2012, with July at 746,000.

Hyperinflation Watch—General Outlook Unchanged. *General circumstances have not changed, and the text in this section is the same as the updated text in the August 15th Commentary. The detail in [Special Report No. 445](#) (June 12th) 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 plunging economic activity from fourth-quarter 2007 to second-quarter 2009, with an ensuing upturn in activity that led to a full recovery as of fourth-quarter 2011, and that “recovery” has continued through second-quarter 2012 GDP reporting.

In contrast to GDP reporting—and in line with patterns seen in better-quality economic series—I contend that 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 since mid-2009, and the economic downturn now is intensifying once again. The renewed slowdown is evident in the current reporting of nearly all major economic series. Not one of those series shows a pattern of activity that confirms the recovery evident in the GDP series.

Federal Reserve Chairman Ben Bernanke recently observed that broad aggregate measures of the U.S. economy, such as GDP, do not appear to be reflecting the common experience of the general public. General experience suggests that the economy has not recovered. As shown in [Commentary No. 459](#), the official recovery simply is a statistical illusion created by the government’s use of understated inflation in deflating the GDP, which overstates deflated economic growth (see also [Special Report No. 445](#)).

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 federal government and Federal Reserve actions—in response to the systemic-solvency crisis of 2008—accelerated the process, indicating a hyperinflation problem by no later than the end of 2014. The continuing economic downturn is intensifying the fiscal- and systemic-solvency problems, and public awareness of this should grow rapidly in the months ahead.

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—and it should follow as needed to support the banking system—likely will lead to a massive dollar-selling crisis, and that will begin the process of a rapid upturn in domestic consumer inflation. A dollar-selling crisis, however, could begin at any time, triggered by any number of economic, sovereign-solvency or political issues.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (July 2012)

Housing Starts Continue in Low-Level Stagnation. Some downside bottom-bouncing was seen with July 2012 housing starts, with the July level 67% below the January 2006 series high. The headline month-to-month decline of 1.1% was in the context of downside revisions to prior reporting for May and June 2012. 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 73% below 2006's record-high construction level. Still 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 nine months through July that is 68% below the 2006 high. Given the underlying economic fundamentals, there is no recovery or relief in sight (see [Special Report No. 445](#)).

The revised numbers published today suggest somewhat slower quarterly growth for second-quarter 2012 residential investment than previously reported. For the second-quarter, the annualized pace of growth in aggregate quarterly housing starts slowed to 12.3% (previously 14.5%), from 23.2% in the first-quarter. The revised growth suggests some minor downside revision pressure to the pending, August 29th, first revision to second-quarter GDP, as discussed in the *Opening Comments and Executive Summary*.

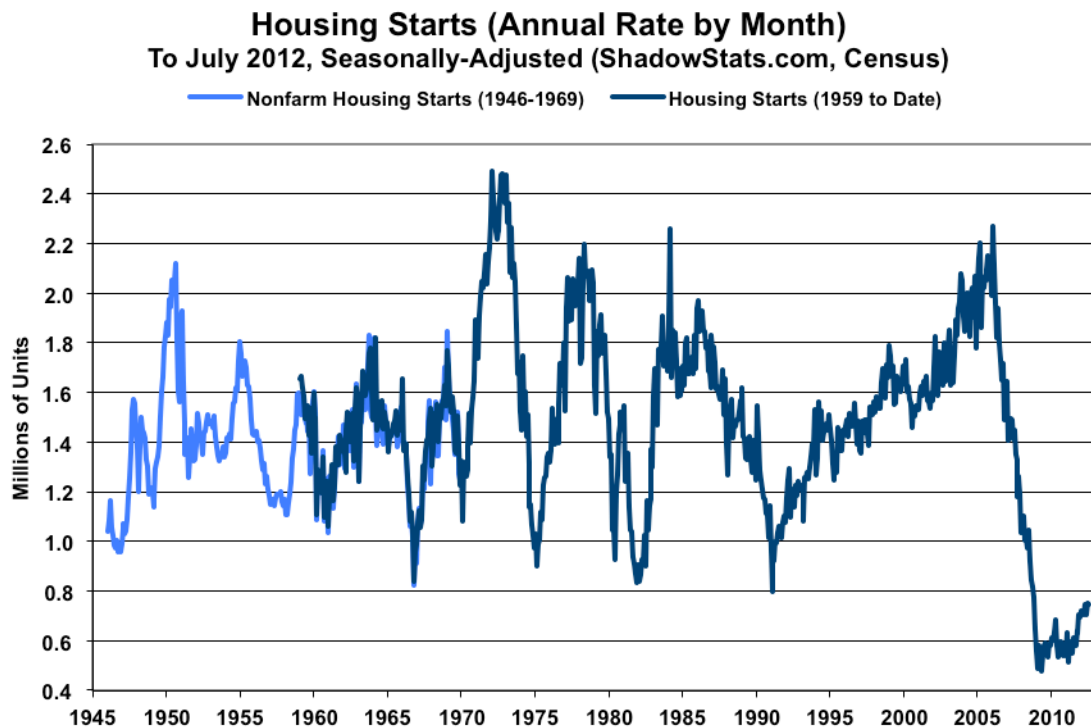
July 2012 Reporting. The Census Bureau reported today (August 16th) a statistically-insignificant month-to-month headline decline in seasonally-adjusted July 2012 housing starts of 1.1% (a drop of 1.8% before prior-period revisions) +/-11.4% (all confidence intervals are at the 95% level). The monthly change in June starts was revised to a 6.8% gain from initial reporting of 6.9%.

Starts for apartment buildings remained volatile, month-to-month, rising by a statistically-insignificant 9.6% +/- 37.2%, after a revised 17.4% (previously a 17.0%) gain in June. The "one-unit" category for July showed a 6.5% decline +/- 10.3%, after an unrevised 4.7% gain in June.

The year-to-year change in aggregate July 2012 housing starts was a statistically-significant increase of 21.5% +/- 16.9%, following a revised 22.6% (previously 23.6%) annual gain in June, but, again, that is in the continued context of a protracted period of low-level bottom-bouncing.

For the last 44 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 606,000. In that period, monthly readings have been within the normal range of monthly variability for the aggregate series, around that average, with the 746,000 annual starts rate for July 2012 at the upper end of that range. Nonetheless activity appears to have moved to a somewhat higher plateau since November 2011, with the average of the annualized monthly housing starts at 722,000 for the nine months through July 2012.

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 has taken 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 continue to show up in prior-period revisions.

New and Existing Home Sales (July 2012). The July existing home sales release is scheduled for Wednesday, August 22nd, from the National Association of Realtors, while the July new home sales release from the Census Bureau is scheduled for Thursday, August 23rd. As usually is the case for both

these series, entrenched patterns of stagnation likely continued, and the new monthly results are not likely to be statistically-significant.

New Orders for Durable Goods (July 2012). The initial estimate for July 2012 new orders for durable goods is scheduled for release on Friday, August 24th, by the Commerce Department. As has been the case for 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 volatility and subject to the irregular order 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 July PPI finished goods capital equipment index was an increase of 0.25%, with year-to-year inflation at 1.88%. Due to hedonic quality adjustments to this portion of the PPI series, however, those inflation data understate inflation reality.
