

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

COMMENTARY NUMBER 550
July Housing Starts, U.S. Fiscal-Policy Issues, Updated Outlooks
August 16, 2013

Housing Starts Continued in Renewed Downturn
Outlook Is Increasingly Bleak for Second- and Third-Quarter Economic Growth,
Irrespective of GDP Reporting Nonsense
Fiscal-Policy Issues Come to the Fore in September

PLEASE NOTE: Due to a paucity of meaningful economic releases in, and a honeymoon during the week of August 19th, the next regular Commentary is scheduled for Monday, August 26th, covering July new orders for durable goods and new- and existing-home sales.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economy Is Turning Down as Fiscal and Debt Crises Are Set to Explode. With the bulk of July economic reporting in place, a renewed downturn in official economic reporting appears to be underway as of second- and the third-quarter 2013.

Such is unfortunate timing, given that the post-Labor Day environment will see the politicians returning to Washington. Fiscal issues and the debt ceiling offer the prospects of near-term political fireworks,

which, in turn, easily can escalate into financial turmoil, particularly with potential global flight from the U.S. dollar. A weaker-than-anticipated U.S. economy has significantly-negative implications for the budget deficit, Treasury funding needs and the global outlook for the U.S. dollar.

The looming fiscal and debt issues are discussed in the updated *Hyperinflation Outlook*, as are the ongoing mind-games being played by the Federal Reserve with the markets, as to the fate of QE3 (it likely is not going away). As an aside, the Federal Reserve's monetization of net Treasury debt issuance for calendar-year 2013 just hit 109.5% (August 15th).

Up front, an early-September issue will be the debt ceiling, which has prevented a badly needed net increase in borrowing by the U.S. Treasury. The cash and accounting gimmicks that have been used by the Treasury to avoid hitting the ceiling are about to run out. Budget deficit negotiations likely will be tied to the debt-ceiling talks.

As noted in the updated *Outlook*, recent purported reductions in the year-to-date, cash-based 2013 federal budget deficit have included gimmicks, such as the U.S. government declaring itself dividends out of Fannie Mae and Freddie Mac, which it owns and controls. Those "dividends" also have helped the Treasury operate around the limits of the current debt ceiling. If the government consolidated those entities into its financial statements, as would happen in the corporate world, the deficit position would be much bleaker, as it is otherwise with generally accepted accounting principles or GAAP-based accounting.

Efforts at delaying meaningful fiscal action, including briefly postponing conflict over the Treasury's debt ceiling, bought the politicians in Washington minimal time in the global financial markets, but that time has run out and patience in the global markets is near exhaustion. The global markets previously had expressed their extreme discomfort with the unresolved longer-range sovereign solvency issues of the United States, by dumping dollars at the time of the failed July/August 2011 fiscal negotiations. The continued unwillingness and political inability of the current government to address those issues, only pushes along the regular unfolding of events that will trigger a massive flight from the U.S. dollar and eventually a domestic hyperinflation, which still is envisioned for 2014. Chances of the government taking meaningful action to address the fiscal crisis remain nil.

The updated *Hyperinflation Outlook* is found in the *Hyperinflation Watch*.

Weakening Economy Along with Higher Inflation. Recent economic reporting was not good, with the exceptions of the enhanced fantasy world that came out of the comprehensive GDP revisions ([Commentary No. 546](#)), and collapsing imports that reflected a systemic trade-flow issue ([No. 548](#)) but nonetheless should boost growth in the first revision to second-quarter 2013 GDP on August 29th. The popular domestic economic series reported for July showed the U.S. economy to be in, or on the brink of a new, formal downturn, as of second- and third-quarter 2013.

July employment came in weaker than expected, while the lower headline unemployment rate actually has become a sign of deteriorating, not improving economic activity, with discouraged workers moving out of official government accounting. As circumstances slow anew, neither the payroll nor the household survey has shown an economic recovery ([No. 547](#)), unlike the GDP.

Reflecting intensifying structural constraints on consumer liquidity ([No. 549](#)) and rising consumer inflation, real (inflation-adjusted) retail sales effectively have been flat for two month, where virtually all the nominal headline growth was due to higher prices, not to rising real consumer demand. With traditional near-recession levels of real annual growth in hand, look for official real retail sales to contract in third-quarter 2013 ([No. 549](#)).

Industrial production effectively was unchanged in the second-quarter; it was unchanged in July; and year-to-year growth has fallen into traditional recession territory. Look for industrial production to turn negative in third-quarter GDP ([No. 549](#)).

The housing starts covered in these *Opening Comments* and in the *Reporting Detail* section, contracted sharply in second-quarter 2013 and are on track to remain at the reduced level of activity. Further quarterly contraction in the third-quarter is a fair bet, again, given the liquidity constraints on consumers.

With CPI-U inflation having regained the annual pace of 2.0%, further inflation from likely dollar weakness, which likely would be seen initial in rising oil and gasoline prices, would tend to exacerbate the nascent economic downturn ([No. 549](#)).

While the establishment is slow to recognize a “new” recession (the economy never recovered from the last one), the slowing here is in official reporting and should eventually gain formal recognition.

Latest Reporting: Residential Investment/Housing Starts—July 2013. July housing starts reporting remained consistent with a renewed business downturn starting in second-quarter 2013. Despite the usual lack of statistical-significance in the month-to-month changes in the housing starts activity, aggregate patterns of monthly reporting suggest that the slight uptrend seen in the stagnation and bottom-bouncing of the last four years (total housing starts and single-unit starts) hit a relative near-term peak in first-quarter 2013. Activity then turned to contraction, as of second-quarter 2013. Revised detail published with July’s data showed second-quarter 2013 housing starts declined at an annualized pace of 31.1%, versus first-quarter 2013. The difference between average second-quarter 2013 starts and July 2013 activity was statistically-insignificant.

By category, the revised annualized quarterly contractions in second-quarter 2013 housing starts activity were 31.1% (all categories), 18.6% (one-unit), 50.3% (5 units or more) and 50.9% (all multiple units, 2 units or more). Again, the difference in July 2013 activity by sector, versus average second-quarter activity, was statistically-insignificant for each category.

Indeed, as has been the common circumstance in recent years, the headline month-to-month change in July 2013 housing starts was not significant. As explained by the issuing Census Bureau in its monthly press release, “The Census Bureau does not have sufficient statistical evidence to conclude that the actual change is different from zero.”

The 5.9% headline monthly gain in July 2013 housing starts was statistically-insignificant, as were the headline 2.2% decline in one-unit housing starts and the headline 25.5% increase in the five-units-or-more category. Those changes followed equally-insignificant, revised monthly changes of a 7.9% decline (total), 1.2% gain (one-unit) and a 25.7% decline (five-units-or-more) in June.

Severe structural liquidity problems are constraining activity in the housing market, as well as in the broad area of personal consumption, which accounts for more than 70% of GDP activity. Without real (inflation-adjusted) income growth, availability of new credit or the willingness to take on new obligations, the consumer cannot fuel sustainable growth in the housing or consumption sectors. See the discussion on consumer liquidity constraints in the *Opening Comments* of the prior [Commentary No. 549](#).

July 2013 Housing Starts Reporting. The Census Bureau reported a statistically-insignificant, month-to-month headline gain in seasonally-adjusted July 2013 housing starts of 5.9% (a gain of 7.2% before period-period revisions). June housing starts revised to a contraction of 7.9%. Year-to-year growth in the seasonally-adjusted, aggregate July 2013 housing starts measure was a statistically-significant increase of 20.9%, following a revised, statistically-insignificant gain of 11.8% in June.

By Unit Category. Housing starts for single-unit structures in July declined by a statistically-insignificant 2.2% for the month, following a revised 1.2% gain in June. July's annual gain of 15.4% also was not statistically significant.

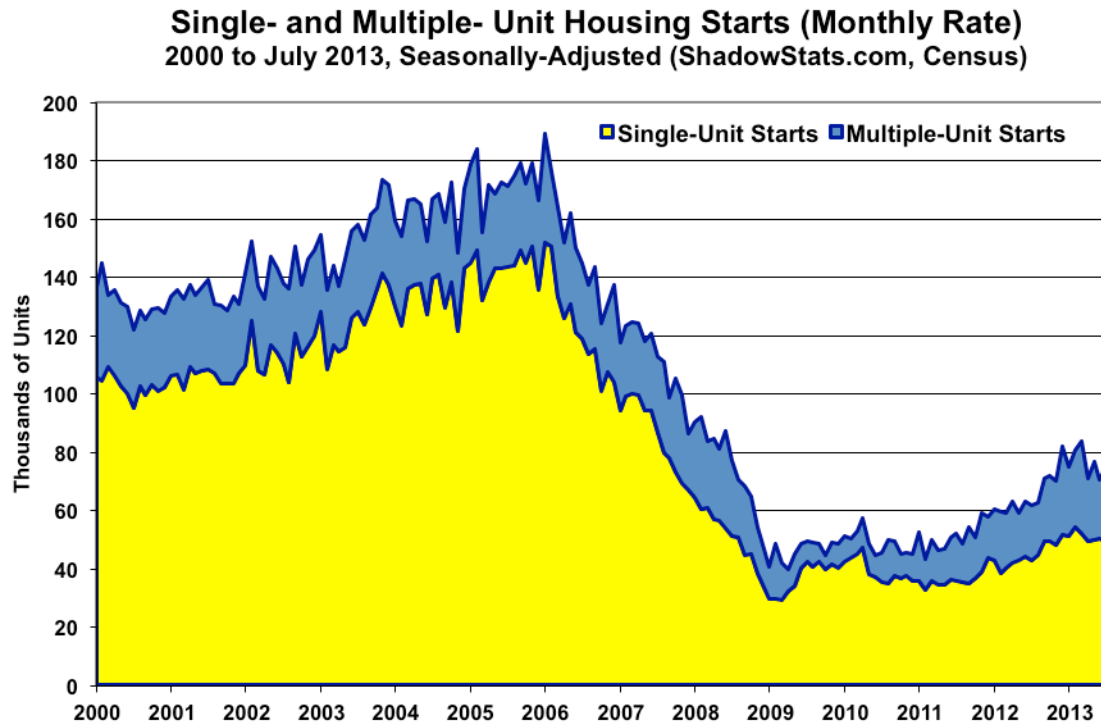
Reporting of starts activity for apartment buildings (generally 5 units or more) remained highly unstable, and the monthly jump was not meaningful. Month-to-month, apartment building starts rose in July by a statistically-insignificant 25.5%, following a revised 25.7% decline in June. July's annual gain of 33.6% also lacked statistically significance.

Graphs of Housing Starts Activity. The record monthly low seen for the present aggregate series was in April 2009, which was down 79% from the January 2006 peak. Against the downside-spiked low in April 2009, the July 2013 headline number was up by 83%, but it still was down by 61% from the January 2006 series high. That detail is reflected in the graphs of this section, as well as in those of the *Reporting Detail*.

Where the official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 896,000 in July 2013, following 846,000 in June, the graphs on that basis are plotted in the *Reporting Detail*.

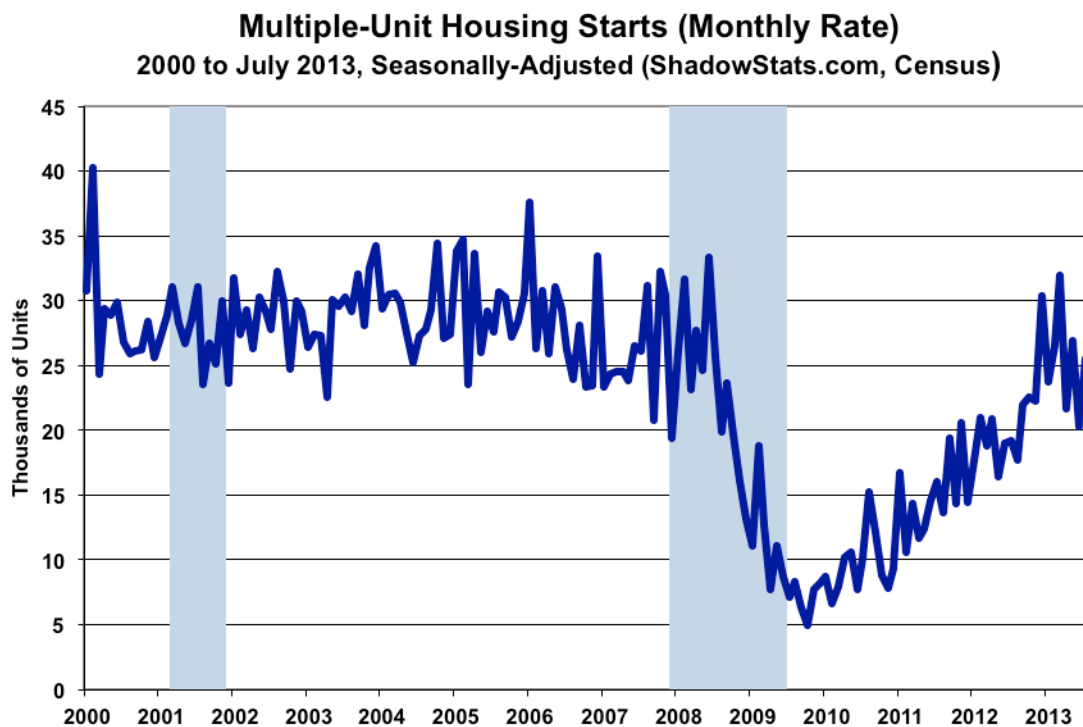
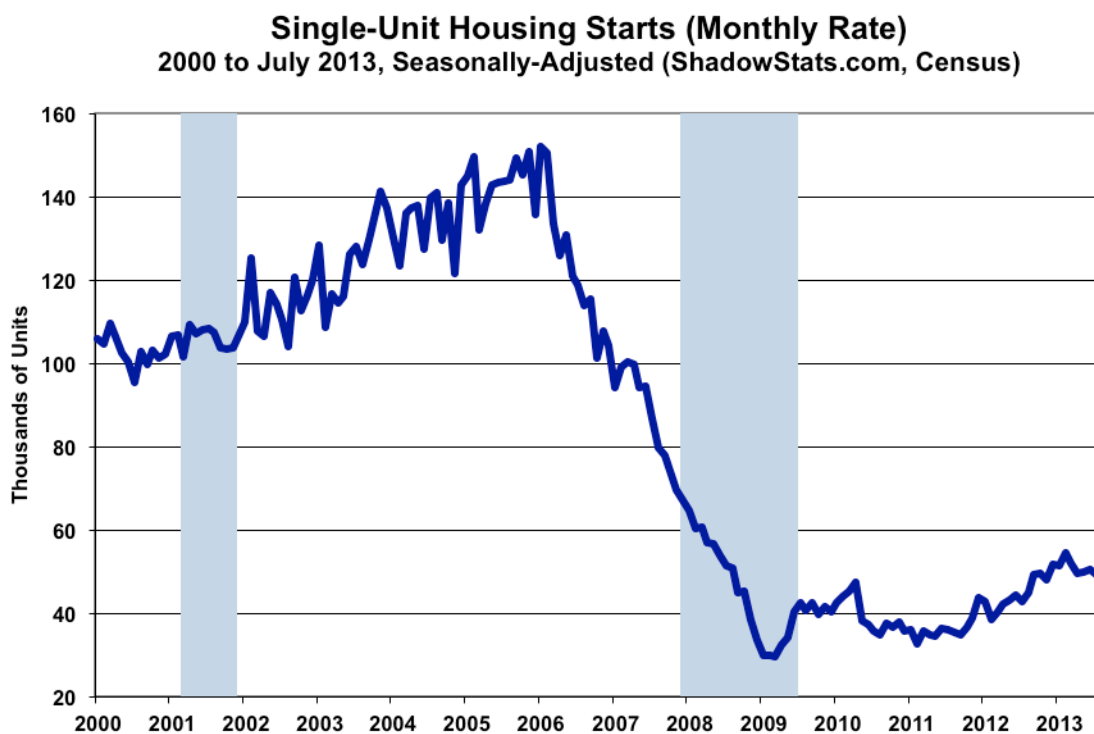
Due to the regular, extreme volatility in the monthly series, however, it is more meaningful to look at the non-annualized monthly number. In terms of estimated, actual seasonally-adjusted monthly activity, housing starts were 74.7 thousand in July, versus 70.5 thousand in June. The graphed and quarterly patterns of growth at an annual or monthly pace are exactly the same; it is just that the monthly levels tend to be a little more realistic as to actual activity level. Accordingly, the following graphs reflect the seasonally adjusted monthly rates of activity, not the annualized numbers.

The highly-volatile and irregular housing starts series tends to show mixed patterns, partially because it is reported as a mix of residential construction products, with one-unit housing starts that generally are tied to new home sales, versus multi-unit starts that often reflect rental- and apartment-unit activity. The aggregate, statistically-insignificant July gain of 5.9% was composed of an insignificant 2.2% decline in one-unit housing starts, combined with an insignificant 26.0% monthly gain in starts of multiple-unit (2 or more units) structures. The following graph reflects that detail.



The next two graphs break-up the component reporting between one-unit and multiple-unit housing starts. The Census Bureau breaks its headline data into three categories beyond “total.” Those structure definitions are “1 unit,” “2 to 4 units,” and “5 units or more.” Due to lack of “meeting reliability standards,” Census does not publish the actual numbers for the “2 to 4 units,” although the numbers can be imputed. Accordingly, ShadowStats breaks the data into two sub-categories: “single-unit” and “multiple-unit” starts, where the multiple-unit category simply is the total unit count, minus the single-unit count.

Activity in single-unit starts generally had remained stagnant in the post-housing-crash environment, and, after a slight uptrend has headed lower. Multiple-unit starts activity has remained highly unstable and irregular. Though trending higher into first-quarter 2013, activity in this series also appears to be shifting anew, to the downside. With the private-housing market difficulties, former homeowners or those not entering the home-owning market have pushed up demand for rental units. In the context of extreme volatility, multiple-unit starts have moved irregularly to pre-crash levels in recent reporting, although, again trending lower in the most-recent reporting.



[For further detail on the July housing starts, see the Reporting Detail section.]

HYPERINFLATION WATCH

Hyperinflation Outlook—Updated. This summary of the *Hyperinflation Outlook* has been updated from the previous version in *Commentary No. 546* of August 1st. For those familiar with the *Outlook*, changes in the text have been underlined. The comments here are intended as background material for new subscribers and for those looking for a brief summary of the broad outlook of the economic, systemic and inflation crises that face the United States in the year or so ahead.

Background Material. [No. 527: Special Commentary](#) (May 2013) supplemented [No. 485: Special Commentary](#) (November 2012), reviewing shifting market sentiment on a variety of issues affecting the U.S. dollar and prices of precious metals. *No. 485*, in turn, updated [Hyperinflation 2012](#) (January 2012)—the base document for the hyperinflation story—and the broad outlook for the economy and inflation, as well as for systemic-stability and the U.S. dollar. Of some use, here, also is the [Public Comment on Inflation](#).

These are the primary articles outlining current conditions and the background to the hyperinflation forecast, and they are suggested reading for subscribers who have not seen them and/or for those who otherwise are trying to understand the basics of the hyperinflation outlook. The fundamentals have not changed in recent years, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, a fully-updated hyperinflation report is planned in the near future.

Beginning to Approach the End Game. Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The financial system still remains in the throes and aftershocks of the 2008 panic and near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation remains inevitable.

Typical of an approaching, major turning point in the domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and Federal Reserve policy also have been in increasing flux. The FOMC and Federal Reserve Chairman Ben Bernanke have put forth a plan for reducing and eventually ending quantitative easing in the form of QE3. The tapering or cessation of QE3 is contingent upon the U.S. economy performing in line with overly-optimistic economic projections provided by the Fed. Initially, market reaction pummeled stocks, bonds and gold. Yet, the talk of ending (or extending/expanding) QE3

still appears to be little more than jawboning, aimed either at placating a growing chorus of Fed critics or at manipulating variously the gold, currency and domestic-stock markets. Indeed, as part of the ongoing mind-games with the public, various Fed officials regularly offer contradictory stories, when the stock market needs a boost or distraction from other concerns, such as pending discord over U.S. fiscal policy.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift increasingly towards no imminent end to QE3, and then to expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, eventually, they will have to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve—despite currency-market platitudes to the contrary—is locked into quantitative easing by persistent problems now well beyond its control. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, driving the quantitative easing. Economic issues are secondary concerns for the Fed; they are used as political cover for QE3. That cover will continue for as long as the Fed needs it.

At the same time, deteriorating expectations for domestic political stability reflect widening government scandals, in addition to the dominant global-financial-market concern of there being no viable prospect of those controlling the U.S. government addressing the long-range sovereign-solvency issues of the United States government. These factors, in combination, show the end game to be nearing, and while they may have been in recent summer-holiday hibernation, post-Labor Day political turmoil is imminent.

The most visible and vulnerable financial element to suffer early in this crisis likely will be the U.S. dollar in the currency markets (all dollar references here are to the U.S. dollar, unless otherwise stated). Heavy dollar selling should evolve into massive dumping of the dollar and dollar-denominated paper assets, at any time, with little or no warning. Dollar-based commodity prices, such as oil, should soar, accelerating the pace of domestic inflation. In turn, that circumstance likely will trigger some removal of the U.S. dollar from its present global-reserve-currency status, which would further exacerbate the currency and inflation problems tied to the dollar.

This still-forming great financial tempest has cleared the horizon; its impact on the United States and those living in a dollar-based world will dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises, hoping to push the problems even further into the future. Such attempts to save the system, however, all have exceptional inflationary implications.

The global financial markets appear ready to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Accordingly, the U.S. dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment still should evolve from something akin to these crises before the end of next year (2014). The shifting underlying fundamentals are discussed in [No. 527: Special Commentary](#); some of potential breaking crises will be expanded upon in the next revision to the hyperinflation report.

Still Living with the 2008 Crisis. Despite the happy news from the redefined GDP series that the recession was shallower, and the recovery more rapid, than previously estimated, there still never has been an actual recovery following the economic downturn that began in 2006, and collapsed into 2008

and 2009. No other major economic series has confirmed the pattern of activity now being reported in the GDP.

Instead, what followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012 (see the corrected GDP graph in the *Opening Comments* section of [Commentary No. 546](#)). The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see [No. 527: Special Commentary](#), [Commentary No. 528](#) and [Public Comment on Inflation](#)). Nonetheless, given the nature of official reporting, the renewed downturn still should gain eventual recognition as the second-dip in a double- or multiple-dip recession, with current reporting in basic economic series coming into synchronization with a renewed downturn in broad economic activity starting in second- and third-quarter 2013.

What continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 turmoil. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That the crises continue can be seen in deteriorating economic activity and in the ongoing panicked actions by the Federal Reserve, where it still proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise. As of August 15, 2013, the Fed had monetized 110% of the net issuance of U.S. Treasury debt, since the beginning of the calendar year.

The Fed's unconscionable market manipulations and games playing in fueling speculation over the future of quantitative easing clearly have been used to move the U.S. dollar (the purpose of initial quantitative easing was U.S. dollar debasement). QE3 and continuing efforts at dollar-debasement are not about to go away. Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the dollar in international trade. The loss of some reserve status for the U.S. dollar is likely, as the crises break, and that would intensify both the dollar-selling and domestic U.S. inflationary pressures.

The Fed's recent and ongoing liquidity actions themselves suggest a signal of deepening problems in the financial system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed's continuing easing moves appear to have been primarily an effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury, under the political cover of a "weakening economy." Mounting signs of intensifying domestic banking-system stress are seen in soft annual growth in the broad money supply, despite a soaring pace of annual growth in the monetary base, and in global banking-system stress that followed the crisis in Cyprus and continuing, related aftershocks.

Still Living with the U.S. Government's Fiscal Crisis. Again, as covered in [No. 527: Special Commentary](#), the U.S. Treasury still is in the process of going through extraordinary accounting gimmicks, at present, in order to avoid exceeding the federal-debt ceiling. Early-September appears to be the deadline for resolving the issues tied to the debt ceiling, including—in theory—significant budget-deficit cuts.

Both Houses of Congress have put forth outlines of ten-year budget proposals that remain shy on detail. The ten-year plan by the Republican-controlled House proposes to balance the cash-based deficit as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate does not look to balance the cash-based deficit. Given continued political contentiousness and the use of unrealistically positive economic assumptions to help the budget projections along, little but gimmicked

numbers and further smoke-and-mirrors are likely to come out of upcoming negotiations. There still appears to be no chance of a forthcoming, substantive agreement on balancing the federal deficit.

Indeed, ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Chances also remain nil for the government fully addressing the GAAP-based deficit that hit \$6.6 trillion in 2012, let alone balancing the popularly-followed, official cash-based accounting deficit that was \$1.1 trillion in 2012 (see [No. 500: Special Commentary](#)). Recent reductions reported in the year-to-date cash-based 2013 deficit reflect gimmicks such as the U.S. government declaring itself dividends out of government-backed and controlled Fannie Mae and Freddie Mac. Those dividends also have helped the Treasury operate around the limits of the current debt ceiling. If the government consolidated those entities into its financial statements, as would happen in the corporate world, the deficit position would be much bleaker, as it is otherwise with generally accepted accounting principles or GAAP-based accounting.

Efforts at delaying meaningful fiscal action, including briefly postponing conflict over the Treasury's debt ceiling, bought the politicians in Washington minimal time in the global financial markets, but the time has run out and patience in the global markets is near exhaustion. The global markets previously had expressed their extreme discomfort with the unresolved longer-range sovereign solvency issues of the United States, by dumping dollars at the time of the failed July/August 2011 fiscal negotiations. The continuing unwillingness and political inability of the current government to address those issues, only pushes along the regular unfolding of events that eventually will trigger a massive flight from the U.S. dollar and a domestic hyperinflation, as discussed in [Commentary No. 491](#).

U.S. Dollar Remains Proximal Hyperinflation Trigger. The unfolding fiscal catastrophe, in combination with the Fed's direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility has given way to mounting instabilities, and extreme market turmoil likely looms, despite the tactics of delay by the politicians and ongoing obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. As discussed earlier, a dollar-selling panic is likely this year—still of reasonably high risk in the near-term—with its effects and aftershocks setting hyperinflation into action in 2014. Gold remains the primary and long-range hedge against the upcoming debasement of the U.S. dollar, irrespective of any near-term price gyrations in the gold market.

The rise in the price of gold in recent years was fundamental. The intermittent panicked selling of gold has not been. With the underlying fundamentals of ongoing dollar-debasement in place, the upside potential for gold, in dollar terms, is limited only by its inverse relationship to the purchasing power of the U.S. dollar (eventually headed effectively to zero). Again, physical gold—held for the longer term—remains as a store of wealth, the primary hedge against the loss of U.S. dollar purchasing power.

REPORTING DETAIL

RESIDENTIAL CONSTRUCTION (July 2013)

July Housing Starts Show Ongoing Downturn in Activity. Despite the usual statistical-insignificance of the month-to-month changes in the housing starts series, the aggregate patterns of monthly reporting suggest that the slight uptrend seen in the stagnation and bottom-bouncing of the last four years (total housing starts and single-unit starts) hit a relative near-term peak in first-quarter 2013, and then turned to contraction in second-quarter 2013. Revised detail published with July's data show second-quarter 2013 housing starts declined at an annualized pace of 31.1% (previously 31.2%), versus first-quarter 2013. The difference between second-quarter 2013 and July 2013 activity was statistically-insignificant.

Indeed, as has been the common circumstance in recent years, the headline month-to-month change in July 2013 housing starts was not significant. As explained by the issuing Census Bureau (Department of Commerce) in its monthly press release, "The Census Bureau does not have sufficient statistical evidence to conclude that the actual change is different from zero."

This highly volatile and irregular housing starts series tends to show varying patterns, partially because it is reported as a mix of residential construction products, with one-unit housing starts that generally are for individual consumption resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units. The 5.9% headline monthly gain in July 2013 housing starts was statistically-insignificant, as were the headline 2.2% decline in one-unit housing starts and the headline 25.5% jump in the five-units-or-more category. Those changes followed equally-insignificant, revised monthly changes of a 7.9% decline (total), 1.2% gain (one-unit) and a 25.7% decline (five-units-or-more) in June.

By category, the revised annualized quarterly contractions in second-quarter 2013 housing starts activity were 31.1% (all categories), 18.6% (one-unit), 50.3% (5 units or more) and 50.9% (all multiple units, 2 units or more). Again, the difference in July 2013 activity by sector, versus average second-quarter activity, was statistically-insignificant for each category.

As graphed in the *Opening Comments* section, activity in single-unit starts generally had been relatively stagnant in the post-housing-crash environment, turning lower recently, while the multiple-unit starts activity has remained highly unstable and irregular, briefly hitting pre-crash levels, but pulling back some in highly volatile reporting.

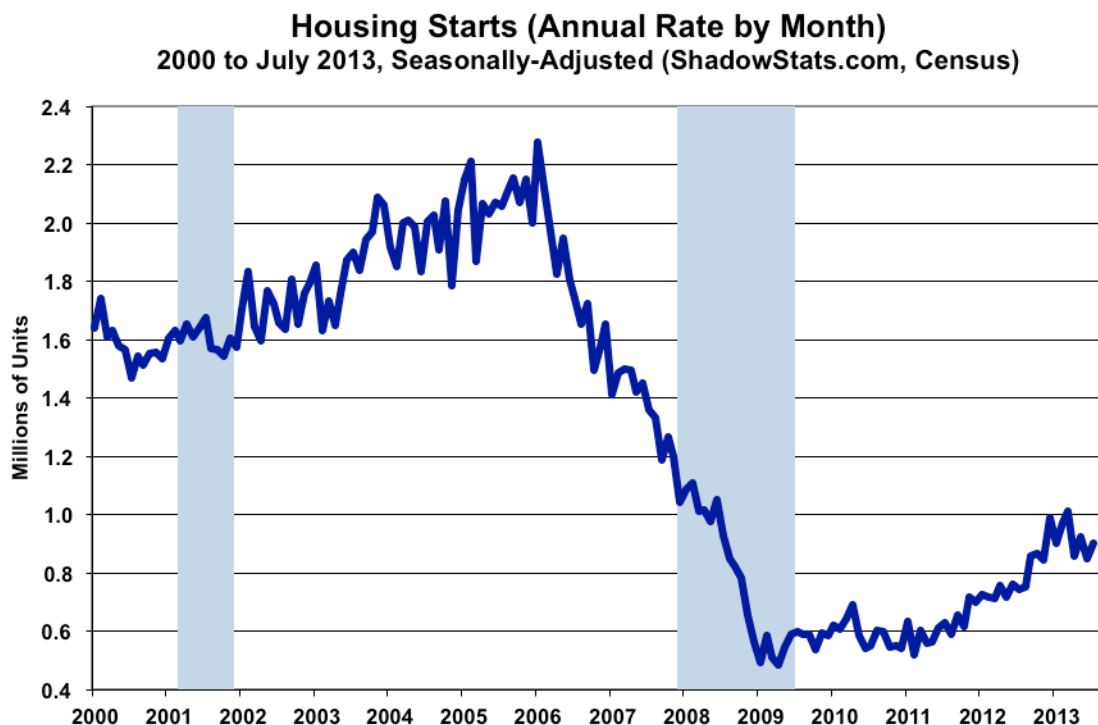
With the private-housing market difficulties, former homeowners or those not entering the home-owning market have pushed demand higher for rental units. Unfortunately, though, liquidity-impaired consumers can have difficulties with renting as well as with owning their residences (see the discussion on consumer liquidity constraints in the *Opening Comments* of the prior [Commentary No. 549](#)).

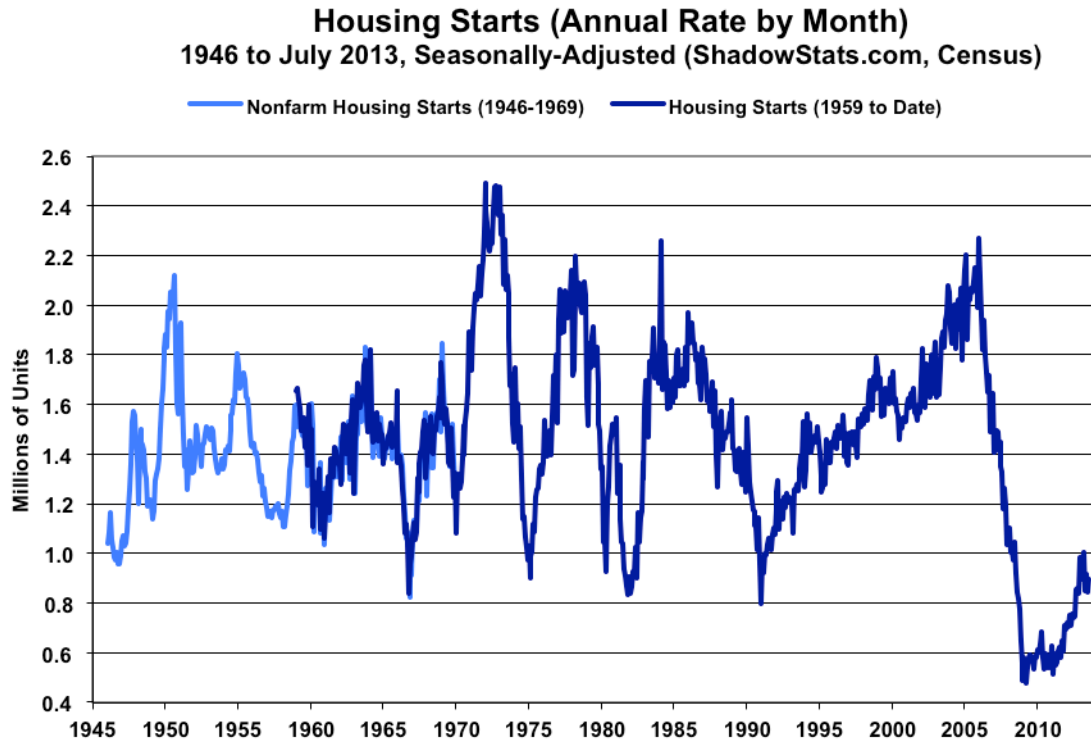
July 2013 Housing Starts Reporting. The Census Bureau reported today, August 16th, a statistically-insignificant, month-to-month headline gain in seasonally-adjusted July 2013 housing starts of 5.9% (a gain of 7.2% before period-period revisions) \pm 17.0% (all confidence intervals are at the 95% level). June housing starts revised to a contraction of 7.9% (previously a 9.9% drop).

Year-to-year growth in the seasonally-adjusted, aggregate July 2013 housing starts measure was statistically-significant, an increase of 20.9% \pm 15.1%, following a revised, statistically-insignificant gain of 11.8% (previously 10.4.%) in June.

By Unit Category. Housing starts for single-unit structures in July declined by a statistically-insignificant 2.2% \pm 11.3% for the month, following a revised 1.2% gain (previously a 0.8% decline) in June (see graphs in the *Opening Comments* section). July's annual gain of 15.4% \pm 15.9% also was not statistically significant.

Reporting of starts activity for apartment buildings (generally 5 units or more) remained highly unstable, and the monthly jump was not meaningful. Month-to-month, apartment building starts rose in July by a statistically-insignificant 25.5% \pm 54.1%, following a revised 25.7% (previously 26.7%) decline in June (see graphs in the *Opening Comments* section). July's annual gain of 33.6% \pm 47.2% also was not statistically significant.





Graphs of Aggregate Housing Starts Activity. The record monthly low seen for the present series was in April 2009, which was down 79% from the January 2006 peak. Versus the downside-spiked low in April 2009, the July 2013 headline number was up by 83%, but it still was 61% below the January 2006 series high. These details are reflected in the accompanying graphs.

The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 896,000 in July 2013, following 846,000 in June. Due to the regular, extreme volatility in the monthly series, however, it is more meaningful to look at the actual, non-annualized monthly number. In terms of actual, seasonally-adjusted monthly activity, housing starts were 74.7 thousand in July, versus 70.5 thousand in June. The graphed and quarterly patterns of growth at annual or monthly pace are exactly the same; it is just that the monthly levels tend to be a little more realistic as to the level of activity. Accordingly, the graphs in the *Opening Comments* section reflect the seasonally-adjusted monthly rates, not the annualized numbers. The two graphs here are the regular plots of aggregate housing starts, in official, annualized millions of units per month.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Remain Likely in the Month and Months Ahead. Given underlying economic activity that continues to appear weaker than overly-optimistic market expectations, and given underlying fundamentals that are suggestive of deteriorating business activity, weaker-than-consensus economic reporting should be the ongoing trend.

Separately, given that energy-inflation-related seasonal-adjustment factors are on the plus-side for a couple of months, combined with stable or higher oil and gasoline prices, stronger-than-expected headline CPI and PPI also are likely for at least the next month or two.

Reflecting the still-likely negative impact on the U.S. dollar in the currency markets, pending from continuing QE3, and the still-festering fiscal crisis/debt-ceiling debacle (see *Hyperinflation Outlook* section), reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see [No. 527: Special Commentary](#)).

Where market expectations for economic data in the months and year ahead should begin to soften, weaker-than-expected economic results remain likely, given the still-intensifying structural liquidity constraints on the consumer, as discussed in the *Opening Comments* section of [Commentary No. 549](#).

[Except for the detail on pending existing- and new-home sales, and on new orders for durable goods, the balance of this Week Ahead section is unchanged from the prior Commentary.]

Reporting Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

With an increasing trend towards downside surprises in near-term economic reporting, recognition of an intensifying double-dip recession should continue to gain. Nascent concerns of a mounting inflation threat, though muted, increasingly have been rekindled by the Fed's monetary policies. Again, though, significant inflation shocks are looming in response to the fiscal crisis and a likely, severely-negative response in the global currency markets against the U.S. dollar.

The political system and Wall Street would like to see the issues disappear, and the popular media do their best to avoid publicizing unhappy economic news, putting out happy analyses on otherwise negative numbers. Pushing the politicians and media, the financial markets and their related spinmeisters do their best to hype anything that can be given a positive spin, to avoid recognition of serious problems for as

long as possible. Those imbedded, structural problems, though, have horrendous implications for the markets and for systemic stability, as discussed in [Hyperinflation 2012, No. 485: Special Commentary](#) and [No. 527: Special Commentary](#).

Existing- and New-Home Sales (July 2013). July 2013 existing-home sales are due for release on Wednesday, August 21st, from the National Association of Realtors, with the July new-home sales report from the Census Bureau due on Friday, August 23rd. As is the usual circumstance with these highly volatile and unstable series, whether existing or new sales, an entrenched pattern of stagnation likely has continued for both, with the pending reports of monthly change in sales activity not likely to be statistically-significant, particularly in the context of prior-month revisions. These series (especially the new-home sales) should continue to show an ongoing relationship with the weakening trend in single-unit housing starts, as reported for July 2013 and as graphed in the *Opening Comments* section.

New Orders for Durable Goods (July 2013). The reporting of July 2013 new orders for durable goods is scheduled for Monday, August 26th, by the Census Bureau. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant. Some intensification of recent, sporadic downside movement in orders still is likely during the next several months, coincident with slowing activity evident in other economic indicators. Such reporting would tend to surprise market expectations on the downside.

As to the inflation contribution to the monthly and annual change in new orders, the seasonally-adjusted, July 2013 PPI finished goods capital equipment index was unchanged, month-to-month, with year-to-year unadjusted (and adjusted) inflation at 0.6%. These inflation numbers increasingly appear to be nonsensical. Due to hedonic-quality-adjustment distortions to this portion of the PPI series, as with the industrial production and GDP numbers, those inflation data understate inflation reality and, correspondingly, overstate inflation-adjusted growth, by perhaps three-percentage points per year.
