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

COMMENTARY NUMBER 584
Residential Construction: Catch-Up Reporting on Housing Starts

December 18, 2013

**November Housing Starts Surge Was Nonsense—a Reporting Aberration—
As Indicated by Building Permits**

Stagnating/Declining Housing Activity Otherwise Remained Intact

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PLEASE NOTE: The next regular Commentary *is scheduled for Friday, December 20th, covering the second revision of third-quarter GDP, November existing home sales and any change in Fed policy.*

Best wishes to all — John Williams

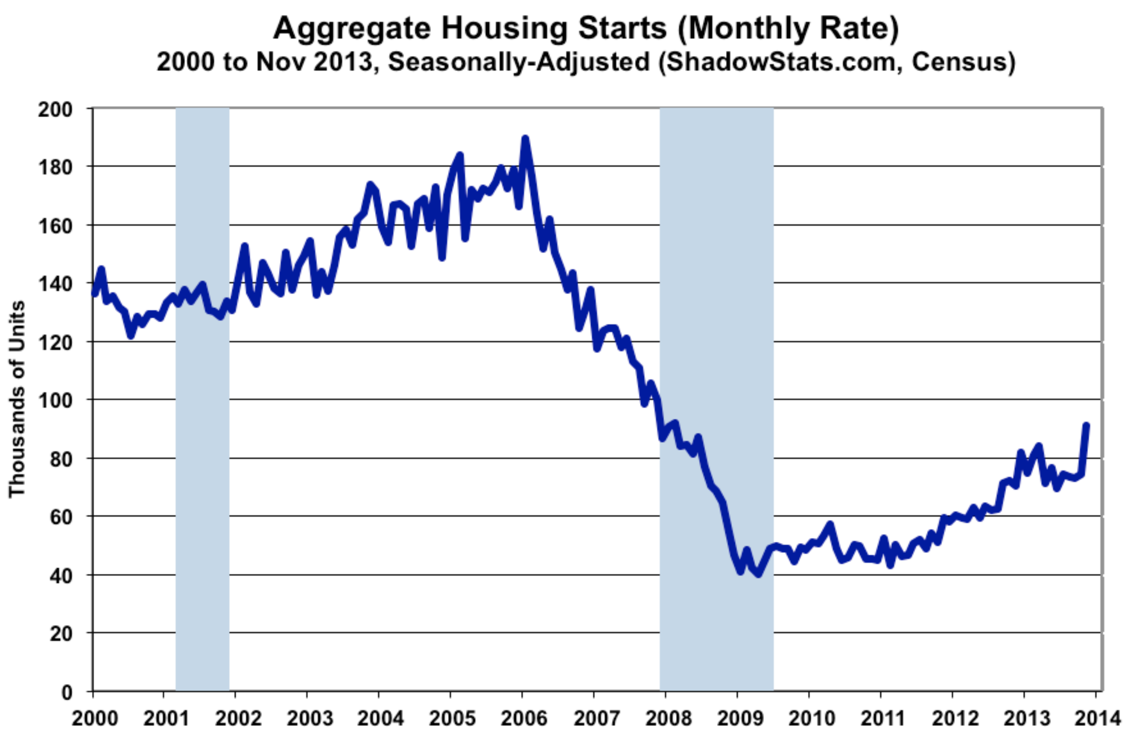
OPENING COMMENTS AND EXECUTIVE SUMMARY

In this week of frequent economic releases and *Commentaries*, today's (December 18th) missive covers the detail from the November 2013 Census Bureau survey of residential investment, including initial reporting on housing starts for September, October and November. A more-comprehensive economic summary and review of November economic data will follow in Friday's (December 20th) *Commentary No. 585*, which will cover the third estimate, second revision of third-quarter 2013 GDP.

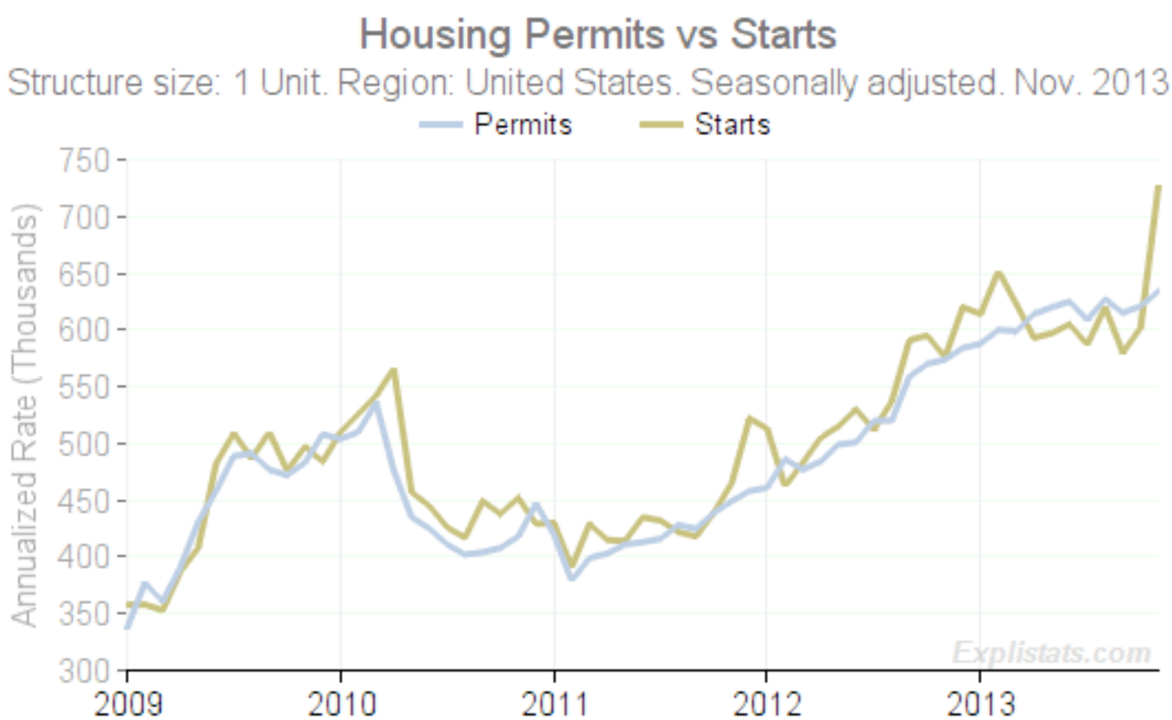
November 2013 Housing Starts: Severe Reporting Problems. Disruptions to the surveying and reporting of economic series—from the October shutdown of the federal government—reached a climax today (December 18th) in the catch-up reporting of September, October and November housing starts, out of the Census Bureau. No series was more-heavily disrupted, although a close second likely was new home sales, as reported for September and October (see *Commentary No. 578*). Discussed in *Commentary No. 576*, which covered the November 26th reporting catch-up through October for the residential construction sector, including building permits, the Census bureau advised that it could not update the housing starts series at that time, as previously had been scheduled.

Shown in the first graph, a downside revision to the initial estimate of August housing starts, and the initial estimates for September and October activity, reflected ongoing stagnation and decline. November reporting, alone, showed an unusually-large, and statistically-significant, headline monthly jump of 22.7%, which was not confirmed by or consistent with building-permits reporting (see the second graph following). As with the new-home sales series, the headline November housing-starts reporting likely picked-up some activity from the earlier, catch-up surveyed months, due simply to problems of gathering consistent data-by-month, after the fact, compounded by seasonal-factor distortions. Those seasonal issues included the year-ago impact of Hurricane Sandy on the Northeast, exacerbated this year by unusually frigid conditions.

Separately, as discussed in yesterday's *Commentary No. 583*, the consumer—constrained by intense, structural-liquidity woes, without real growth in income, and without the ability or willingness to take on meaningful new debt—simply cannot support a sustainable turnaround in housing activity.



Build Permits Suggest that the November Housing-Starts Surge Was an Aberration. A particularly meaningful indicator of a serious problem in the quality of the November housing-starts reporting was the lack of confirmation of the unusually-large starts gain, in building-permits activity, as shown in the following graph (available at ShadowStats-affiliate www.ExpliStats.com). As explained in *Commentary No. 576*, ShadowStats generally follows the housing starts, as opposed to the building permits data, due to historical inconsistencies in the permits series. Nonetheless, in the recent past, the building-permits data have been consistent and are based on an underlying paper trail at the local-government level. Permits also tend to move slightly in advance of housing starts and otherwise have a high correlation with starts. The shown plot of the housing starts versus building permits for single-unit structures (the dominant component of the starts series) strongly suggests an aberration in November housing-starts reporting.



Reporting in the months ahead will tend to tell the story of what really happened with the November data.

Official Reporting of September, October and November Housing Starts. November 2013 housing starts showed a statistically-significant, seasonally-adjusted, headline monthly gain of 22.7%. Initial reporting also showed statistically-insignificant monthly headline changes of a 1.8% gain in October and a 1.1% decline in September, following a revised monthly contraction of 0.9% (previously a gain of 0.09%) for August.

Year-to-year growth in the seasonally-adjusted, aggregate November 2013 housing starts measure was a statistically-significant increase of 29.6%. That followed initial annual gains of 28.9% in October, 22.2% in September, and a revised 17.8% (previously 19.0%) increase in August.

By Unit Category. Housing starts for single-unit structures in November rose by a statistically-significant 20.8% for the month, following statistically-insignificant initial gains of 3.8% in October and a 6.5% decline in September. August showed a revised 5.6% (previously 7.0%) monthly gain. November's annual gain of 26.2% also was statistically significant. Initial reporting showed an annual gain of 11.8% for October and a contraction of 1.9% in September. August's revised annual gain was 15.5% (previously up by 16.9%).

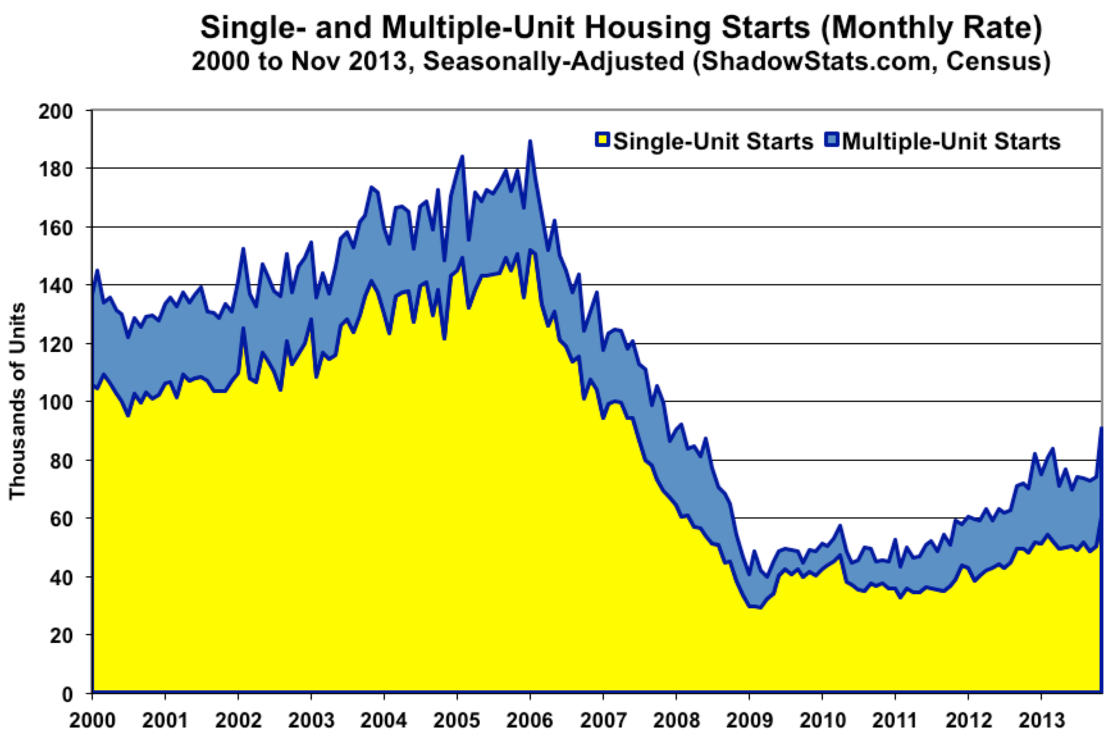
Reporting of starts activity for apartment buildings (generally 5 units or more) remained highly unstable, with November's gain statistically-insignificant. Month-to-month, apartment building starts rose in November by 26.0%, following initial reporting of a 0.7% decline in October and a 12.7% gain in September. August fell by 11.9% for the month, previously down by 9.4%. November's annual gain of 38.3% also was not statistically significant. The initial reporting of year-to-year gains was 11.5% in October and 11.4% in September. The revised annual gain in August was 22.4% (previously 22.9%).

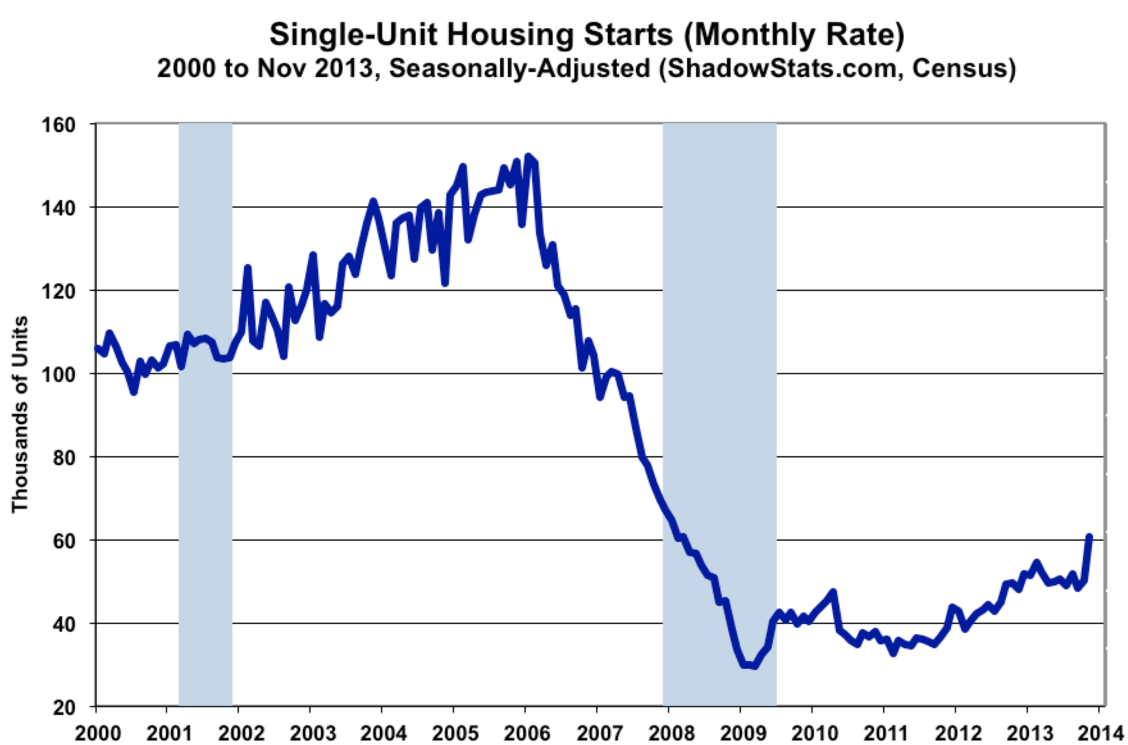
The highly-volatile and irregular housing starts series tends to show mixed patterns, partially because it is reported as a mix of residential construction products, with one-unit housing starts that generally are tied to new home sales, versus multi-unit starts that often reflect rental- and apartment-unit activity. The aggregate, statistically-significant November monthly gain of 22.7% was composed of a significant 20.8% monthly gain in one-unit housing starts, combined with an insignificant 26.8% monthly gain in starts of multiple-unit structures (2 units or more, including the 5 units or more category). The graphs that follow reflect that detail.

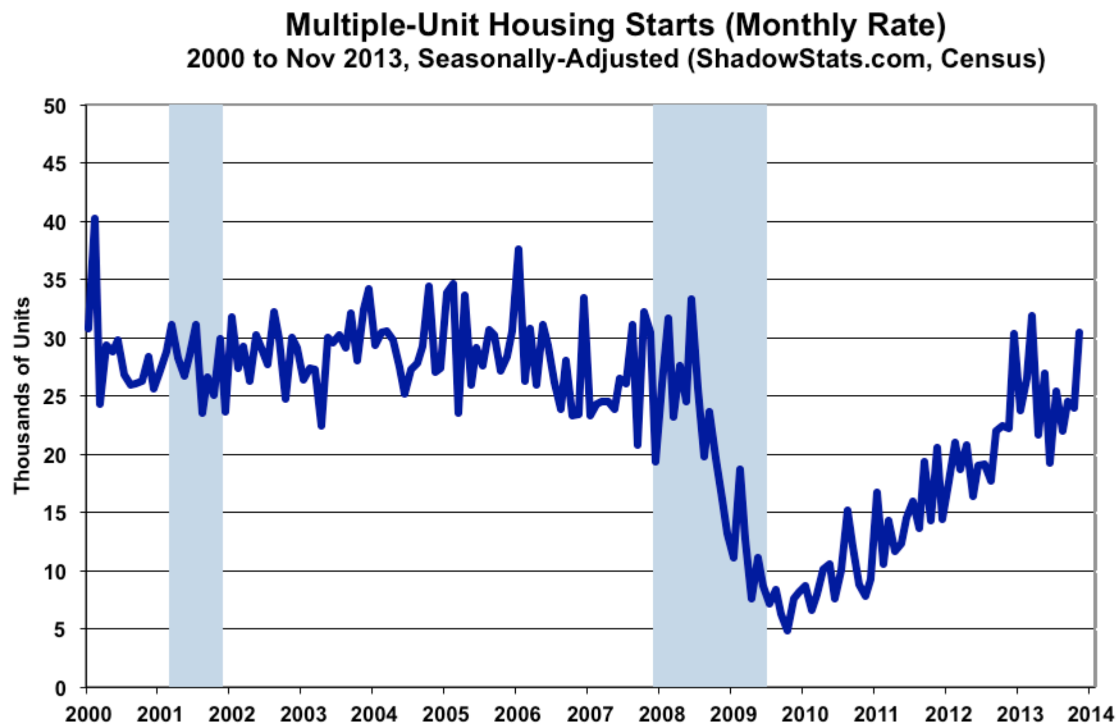
Graphs of Housing Starts Activity. The record monthly low seen for the present aggregate series was in April 2009, which was down 79% from the January 2006 peak. Against the downside-spiked low in April 2009, the November 2013 headline number was up by 128%, but it still was down by 52% from the January 2006 series high. That detail is reflected in the graphs of this section, as well as in those of the *Reporting Detail* section

Where the official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 1,091,000 in November, 889,000 in October, 873,000 in September and a revised 883,000 in August 2013, following a revised 891,000 in July, the graphs on that basis are plotted in the *Reporting Detail* section.

Due to the regular, extreme volatility in the monthly series, though, it is more meaningful to look at the non-annualized monthly number by month. In terms of estimated, actual seasonally-adjusted monthly activity, housing starts were 90.9 thousand in November, 74.1 thousand in October, 72.8 thousand in September, 73.6 thousand in August, and 74.3 thousand in July. The graphed patterns of relative activity are exactly the same; it is just that the monthly levels tend to be a little more representative of actual activity level. Accordingly, the accompanying graphs in this section reflect the seasonally-adjusted monthly rates of activity, not the annualized numbers, which, again, are reflected in the graphs of the *Reporting Detail* section.


Single- and Multiple-Unit Housing Starts (Monthly Rate)
2000 to Nov 2013, Seasonally-Adjusted (ShadowStats.com, Census)
Single-Unit Starts
Multiple-Unit Starts
Thousands of Units
0
20
40
60
80
100
120
140
160
180
200
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Single-Unit Housing Starts (Monthly Rate)
2000 to Nov 2013, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
20
40
60
80
100
120
140
160
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014



These graphs breakout 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.

Aside from the November 2013 surge, activity in single-unit starts generally had remained stagnant in the post-housing-crash environment, and, after a slight uptrend, had moved lower. Multiple-unit starts activity has remained highly unstable and irregular. Though trending higher into first-quarter 2013, activity in this series also appeared to have shifted anew, to the downside, except for the November surge. 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 had moved irregularly higher to pre-crash levels earlier this year, although, again, they were trending lower, prior to the November aberration.

[For further detail on September-to-November housing starts, see the* Reporting Detail *Section.]

HYPERINFLATION WATCH

Summary Hyperinflation Outlook. This summary is intended as guidance for both new and existing subscribers looking for a brief version of the broad outlook on the economic, systemic and inflation crises that face the United States in the year or so ahead.

No Change. The *Summary Hyperinflation Outlook* is as it was last updated in the *Commentary No. 582*. Publication plans for *Hyperinflation 2014—The End Game*, which will be a fully-updated and expanded version of *Hyperinflation 2012,* were discussed in the *Opening Comments* of *Commentary No. 581*.

Recommended Background Material. *Commentary No. 559* (September 2013) and *No. 527: Special Commentary* (May 2013) supplemented *No. 485: Special Commentary* (November 2012), which reviewed 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 use here also are *No. 500: Special Commentary* on GAAP-based federal deficit reality and 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 or recent months, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014.

Hyperinflation Timing, Set for 2019 Back in 2004, Advanced to 2014 in Aftermath of 2008 Panic. While the U.S. government has lived excessively beyond its means for decades, it was not until the December 2003 (federal government's 2004 fiscal year) enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 that the United States was set solidly on a course for eventual hyperinflation. Back in 2004, ShadowStats began forecasting a hyperinflation by 2019; that forecast was advanced to 2014 as a result of the nature of, and the official handling of the 2008 panic and near-collapse of the domestic financial system. The hyperinflation forecast for 2014 remains in place, with 90% odds estimated in favor of its occurrence.

The initial unfunded liabilities for the Medicare overhaul, alone, added nearly \$8 trillion in net-present-value unfunded liabilities to the fiscal-2004 federal deficit, based on generally accepted accounting principles (GAAP accounting), exceeding the total \$7.4 trillion gross federal debt of the time. When approached by ShadowStats as to how this circumstance likely would lead to an eventual domestic hyperinflation, the response from a member of the Bush Administration was "that is too far into the future to worry about."

That future has come too quickly. Adjusted for one-time events, GAAP-based federal deficits have averaged $5 trillion per year for the last seven years, with government spending and financial commitments exploding out of control. As of fiscal-2012 the GAAP-based annual federal deficit was an uncontainable and uncontrollable $6.6 trillion, with gross federal debt at $16.1 trillion and total federal obligations (net present value) in excess of $85 trillion, more than five-times the level of annual GDP and deteriorating at an annual pace in excess of $6 trillion per year. Indeed, for fiscal 2013, the GAAP-based annual deficit likely remained well in excess of $6 trillion, with gross federal debt (adjusted for year-end debt-ceiling accounting gimmicks) about $17.1 trillion and total federal obligations in excess of $90 trillion. Details and discussion can be found in *No. 500: Special Commentary* and *Commentary No. 577*.

On a GAAP-basis, the United States faces long-range insolvency. The global financial markets know it, and so do the miscreants currently controlling the U.S. government. Yet, as was demonstrated in the October 2013 crisis negotiations (and in negotiations of recent years) surrounding the debt ceiling, and as openly confirmed in the two-year "budget deal" announced on December 10, 2013, there will be no action taken in the foreseeable future to address the long-term solvency issues facing the United States. There simply is no controlling, political will in Washington to do so.

Recent budget negotiations have reflected no more than the formal, continued posturing and political delay of the same issues and crisis that nearly collapsed the U.S. dollar in August and September of 2011, that then were pushed beyond the 2012 election, and now, after further multiple delays, have been pushed until after the 2014 midterm election. Chances that the global financial markets will give the gutless politicians in Washington a pass on this are nil, and renewed selling pressure on the U.S. dollar in the global currency markets has begun to pick up.

The odds of the United States actually not paying its obligations or interest over the long-term are negligible. Instead, typically a country, which issues its debt in the currency it prints, simply prints the cash it needs when it no longer can raise adequate funds through what usually become confiscatory tax rates, and when it can no longer sucker the financial markets and its trading partners into funding its spending. That results in inflation, eventual full debasement of the currency, otherwise known as hyperinflation. The purchasing power of the current U.S. dollar effectively will drop to zero.

Therein lies the root of a brewing crisis for the U.S. dollar (all "dollar" references here are to the U.S. dollar unless otherwise specified). Global financial markets have wearied in the extreme of the political nonsense going on in Washington. No one really wants to hold dollars to or hold investments in dollar-denominated assets, such as U.S. Treasury securities.

Due to ongoing solvency issues within the U.S. banking system, that Federal Reserve is locked into a liquidity trap of flooding the system with liquidity, with no resulting surge in the money supply (see *Commentary No. 580*). Yet, the Fed's quantitative easings have damaged the dollar, which in turn has triggered sporadic inflation from the related boosting of oil prices. The overhang of dollars in the global markets—outside the formal U.S. money supply estimates—is well in excess of $10 trillion. As those funds are dumped in the global markets, the weakening dollar will trigger dumping of U.S. Treasury securities and general flight from the U.S. currency. As the Fed moves to stabilize the domestic financial system, the early stages of a currency-driven inflation will be overwhelmed by general flight from the dollar, and a resulting surge the domestic money supply. Intensifying the crisis, and likely coincident with heavy flight from the dollar, odds also are high of the loss of the dollar's global-reserve-currency status.

These circumstances can unfold at anytime, with little or no warning. Irrespective of short-lived gyrations, the dollar should face net, heavy selling pressure in the months ahead from a variety of factors, including, but certainly not limited to: (1) a lack of Fed reversal on QE3; (2) a lack of economic recovery and renewed downturn; (3) concerns of increased quantitative easing by the Fed; (4) inability/refusal of those controlling the government to address the long-range sovereign-solvency issues of the United States; (5) declining confidence in, and mounting scandals involving the U.S. government.

It is the global flight from the dollar—which increasingly should become a domestic flight from the dollar—that should set the early stages of the domestic hyperinflation.

Approaching the End Game. As previously summarized, 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, but that appears to have been more of an intellectual exercise aimed at placating Fed critics, than it was an actual intent to “taper” QE3. The tapering or cessation of QE3 was contingent upon the U.S. economy performing in line with deliberately, overly-optimistic economic projections provided by the Fed.

Manipulated market reactions and verbal and physical interventions have been used to prop stocks and the dollar, and to pummel gold.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment even could shift from what now is no imminent end to QE3, to an expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, increasingly, they are beginning to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve 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.

The same systemic problems face incoming Fed Chairman Janet Yellin, along with the same quandaries and issues addressed by current Chairman Ben Bernanke. Where she also has been involved actively in formulating current Fed policies, no significant shifts in Fed policy are likely. QE3 should continue for the foreseeable future. Even if it were modified minimally in the near-term, in order to placate the Fed’s critics, ongoing economic weakness and systemic instabilities favor increased, not reduced, Federal Reserve quantitative easing during the months ahead.

At the same time, deteriorating expectations for domestic political stability reflect government scandals and conflicting policy actions, 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 at hand.

This still-forming great financial tempest has cleared the horizon; its early ill winds are being felt with increasing force; and 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 to have begun to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Again, the dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of 2014.

Still Living with the 2008 Crisis. Despite the happy news from headline GDP reporting that the recession ended in 2009 and the economy is full recovery, there never has been an actual recovery following the economic crash 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. Indeed, 2012 household income data from the Census Bureau showed no recovery whatsoever.

What followed the economic crash 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. 552*). 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* 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.

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. Through the government shutdown in October, the Fed had monetized in excess of 100% of the net issuance of U.S. Treasury debt, since the beginning of calendar-year 2013. That has dropped back, though, to 65.5% of net issuance of publicly-held debt (to 60.7% of net issuance of gross federal debt), as of Dec 11th, due to a catch-up surge of $480 billion in net government borrowing following President Obama's waiving the debt ceiling. Nonetheless, the Fed's purchases of U.S. Treasury securities have continued at a steady pace of about $10 billion per week.

The Fed's unconscionable market manipulations and games playing in fueling speculation over the future of quantitative easing clearly were 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 mounting global banking-system stress.

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 move sustainably against the U.S. dollar, a movement that may have begun. As discussed earlier, a dollar-selling panic is likely in the next several months, 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 (September, October and November 2013 Housing Starts)

Large Jump in Headline November Housing Starts Was Nonsense, Continued Stagnation and Downturn Remain Likely Ongoing Patterns. Reflecting the impact of the October shutdown of the federal government, housing-starts survey results likely were heavily distorted by the catch-up reporting of September, October and November. This is a series that otherwise is noted for its extreme volatility and unstable monthly reporting. Details of the reporting issues are covered in the *Opening Comments* section. Official reporting detail for the new data follows here.

Where the irregular housing starts series tends to show varying patterns, that partially is due to a reporting 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.

September through November 2013 Housing-Starts Reporting. The Census Bureau reported today, December 18th, a statistically-significant, month-to-month headline gain in seasonally-adjusted November 2013 housing starts of 22.7% +/- 15.4% (all confidence intervals are at the 95% level). Initial reporting showed statistically-insignificant monthly changes for October of a 1.8% gain and for September of a 1.1% decline, following a revised monthly contraction of 0.9% (previously a gain of 0.09%) for August.

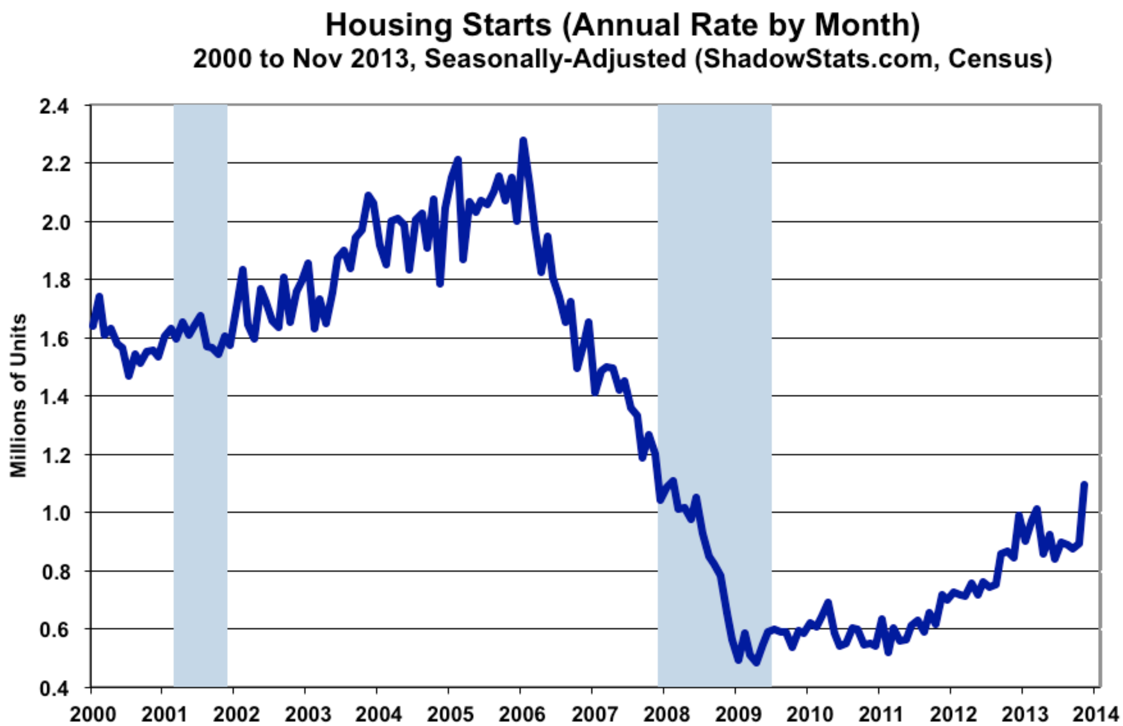
Year-to-year growth in the seasonally-adjusted, aggregate November 2013 housing-starts measure was a statistically-significant increase of 29.6% +/- 23.2%. That followed initial annual gains of 28.9% in October, 22.2% in September, and a revised 17.8% (previously 19.0%) in August.

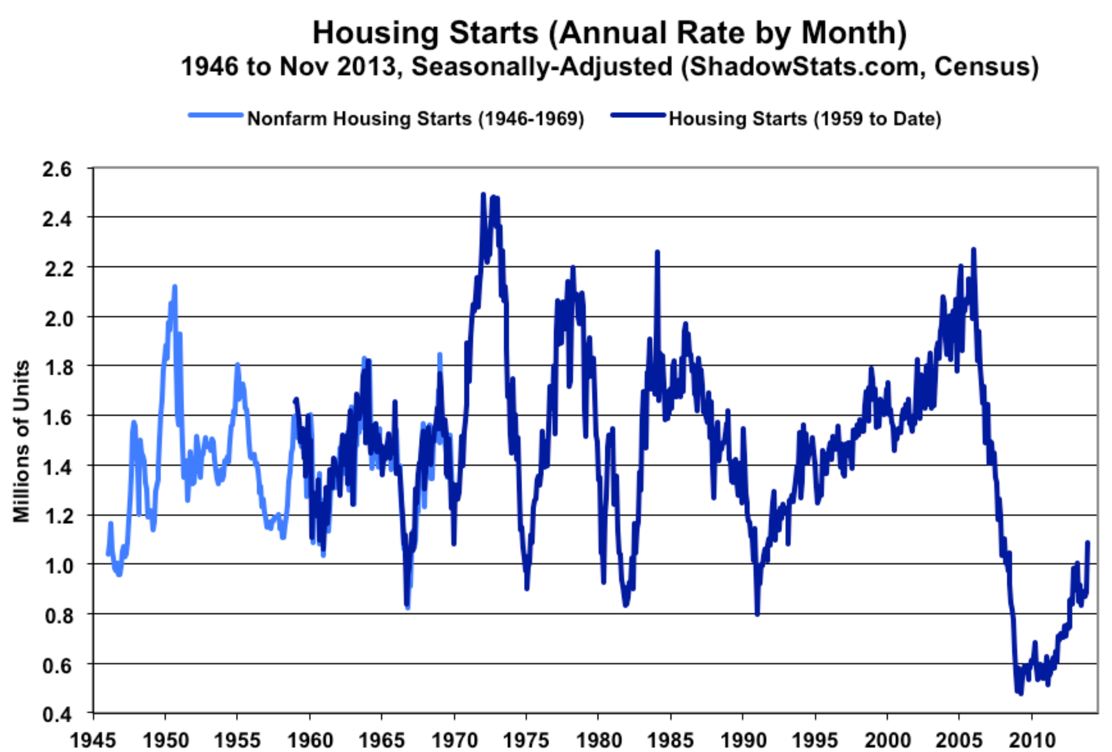
By Unit Category. Housing starts for single-unit structures in November rose by a statistically-significant 20.8% +/- 12.5% for the month, following statistically-insignificant initial gains of 3.8% in October and a 6.5% decline in September. August showed a revised 5.6% (previously 7.0%) monthly gain (see graphs in the *Opening Comments* section). November's annual gain of 26.2% +/- 15.2% was statistically significant. Initial reporting showed an annual gain of 11.8% for October and a contraction of 1.9% in September. August's revised annual gain was 15.5% (previously 16.9%).

Reporting of starts activity for apartment buildings (generally 5 units or more) remained highly unstable, with November's gain statistically-insignificant. Month-to-month, apartment building starts rose in November by 26.0% +/- 38.7%, following initial reporting of a 0.7% decline in October and a 12.7% gain in September. August fell by 11.9%, previously down by 9.4% (see graphs in the *Opening Comments* section). November's annual gain of 38.3%% +/- 63.3% also was not statistically significant. The initial reporting of year-to-year gains was 11.5% in October and 11.4% in September. The revised annual gain in August was 22.4% (previously 22.9%).

Graphs of Aggregate Housing Starts Activity. The record monthly low level of activity seen for the present, aggregate series was in April 2009, which was down 79% from the January 2006 peak. Versus the downside-spiked low in April 2009, the November 2013 headline number was up by 128%, but it still was 52% below the January 2006 series high.

The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 1,091,000 in November, 889,000 in October, 873,000 in September and a revised 883,000 in August 2013, following a revised 891,000 in July. These details are reflected in the accompanying graphs.


Housing Starts (Annual Rate by Month)
2000 to Nov 2013, Seasonally-Adjusted (ShadowStats.com, Census)
Millions of Units
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Housing Starts (Annual Rate by Month)
1946 to Nov 2013, Seasonally-Adjusted (ShadowStats.com, Census)
Nonfarm Housing Starts (1946-1969)
Housing Starts (1959 to Date)
Millions of Units
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010

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 90.9 thousand in November, 74.1 thousand in October, instead of the headline 1,091,000, and 889,000. The seasonally-adjusted, non-annualized rates of monthly activity are graphed in the *Opening Comments* section. The graphed patterns of relative activity are exactly the same; it is just that the monthly levels tend to be a little more representative of actual activity level.

Again, the two preceding 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 Likely in the Months Ahead. The markets generally remain overly optimistic as to the economic outlook, although expectations have softened during the last year. That circumstance, and underlying fundamentals that remain highly suggestive of deteriorating business activity, mean that weaker-than-consensus economic reporting should remain the general trend. Inflation likely will be higher than market expectations. Data distortions resulting from the October government shutdown temporarily increase the risk for unusual reporting and revisions in most federal-government and related series.

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors will be turning negative in December. They were not positive enough in November to offset declines in unadjusted energy prices fully in the PPI and the CPI. That said, upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, and the ongoing U.S. fiscal-crisis debacle (see the *Summary Hyperinflation Outlook* section). Particularly in tandem with the likely weakened dollar, inflation reporting in the year ahead generally should reflect much higher-than-expected inflation (see also *No. 527: Special Commentary*).

A Note on 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.

PENDING RELEASES:

Existing-Home Sales (November 2013). November 2013 existing-home sales are scheduled for release on Thursday, December 19th, by the National Association of Realtors. As is the developing circumstance for this highly volatile and unstable series, an entrenched pattern of stagnation likely has continued, with the report of monthly change in existing-home sales activity not likely to be meaningful, in either direction, particularly in the context of the prior-month's revision.

This series increasingly should continue to show a relationship with the weakening trend in single-unit housing starts, as will be updated, and as discussed in the previous *Housing Starts* section. New home sales for November are due for release on December 24th, see *Commentaries No. 574* and *No. 578*.

Gross Domestic Product—GDP (Third-Quarter 2013, Third-Estimate, Second Revision). The Bureau of Economic Analysis has scheduled release of the third estimate of third-quarter 2013 GDP for Friday, December 20th. Market expectations appear to be for little more than statistical noise in this second revision, with the headline growth rate holding at 3.6%.

Odds favor a downside revision, though, based on data for trade, inventories and construction spending that were released subsequent to the information incorporated into the second estimate of the GDP. The new data had negative-revision implications for the third estimate, second revision to third-quarter GDP. See *Commentary No. 579* for further detail.

