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

COMMENTARY NUMBER 621
March Housing Starts, Industrial Production

April 16, 2014

First-Quarter 2014 Housing Starts Contracted at Annualized Pace of 30%, Down by 4% Year-to-Year

February-March Production Jump Ran Counter to Weak Durable Goods Orders

Fair Shot at First-Quarter 2014 GDP Contraction

PLEASE NOTE: The next regular Commentary *is scheduled for Thursday, April 24th, covering March new- and existing-home sales and new orders for durable goods.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE COMMENTARY

Still Looks Like a First-Quarter GDP Contraction. Significant quarterly deterioration is in place for the trade deficit (see *Commentary No. 615*), for real (inflation-adjusted) retail sales (see *Commentary No. 620*), and for housing starts (today's April 16th *Commentary*). Accordingly, the economy is in trouble, and there is a strong chance for a headline contraction in the initial reporting of first-quarter 2014 GDP, on April 30th. The consensus outlook has not arrived there, yet, so a solid, downside surprise to current market expectations appears to be in place. Therein lies significant risk for financial-market and U.S.-dollar stability.

The reporting and initial estimation on the GDP is done by the Bureau of Economic Analysis (BEA). The BEA has considerable latitude in its reporting, where many components of the early-GDP estimate are guesstimates. Also, the BEA often tries to target the consensus expectations for the reported growth, but the consensus outlook should tend to revise lower in the week ahead.

In the cases of trade (net export account), real retail sales (personal consumption expenditure) and housing starts (residential investment), each category has shifted from boosting fourth-quarter GDP growth to depressing first-quarter GDP growth. There are enough other indications of faltering activity, such as in consumer liquidity measures (*Commentary No. 619*) and the durable goods orders reporting (*Commentary No. 612*), to support a quarterly contraction forecast.

The exception in reporting was industrial production, where growth in March, and for the first-quarter, was relatively strong. Headline quarterly production growth, however, slowed minimally in the first-quarter relative to the fourth-quarter, and the growth falloff was much more significant in the context of effects from weather distortions. There should be some effort to normalize those reporting pressures.

Where *2014 Hyperinflation Report—The End Game Begins* – *First Installment Revised* and *2014 Hyperinflation Report—Great Economic Tumble* – *Second Installment* present a broad picture of likely economic, systemic and financial conditions in the coming year, that outlook has not changed.

Consensus expectations for the headline first-quarter GDP estimate should weaken and could turn negative. Again, there remains real risk of the headline reporting showing an outright quarterly contraction, with related risk to the stability of the markets and the dollar.

The rest of this *Commentary* concentrates on the detail of March 2014 reporting for industrial production and housing starts.

Industrial Production—March 2014—Inconsistencies and Restricted Revisions. In the context of an eviscerated benchmark revision, which excluded an update from the 2012 Census of Manufactures (see *Commentary No. 613*), and running contrary to broad weakness reported in new orders for durables goods (see *Commentary No. 612*), March industrial production and an upside revision reported for February activity were boosted by higher durable goods production.

The usual pattern of annual benchmark revisions to industrial production is for downside adjustments to prior reporting. Better-quality numbers from the regular Census of Manufactures generally are weaker than those published in the production series, which—as with most government- or quasi-government related series—tends to be structured with overly-optimistic assumptions. The 2012 Census, however, was not available (no explanation given), so the annual benchmark revision to industrial production was minimal, largely reflecting shifted seasonal-adjustment patterns that helped to boost current reporting.

Although real (inflation-adjusted) new orders for durable goods have been reported only through February, they tend to lead industrial production activity, and they are on track for a 9.0% annualized quarterly contraction in first-quarter 2014, where industrial production rose at an annualized pace of 4.4% for the quarter .

Separately, headline utility usage remained unusually elevated, a factor that will reduce headline aggregate reporting when the weather-induced distortions work out of the data. The annualized quarterly 4.4% growth in first-quarter aggregate production encompassed weather-driven 17.9% annualized growth in utility usage for the quarter.

Industrial Production—March 2014. In the context of a large upside revision to reported February activity, headline monthly March production rose by 0.73% and was up by 1.24% for the month, net of prior-period revisions, where prior-period reporting was the benchmark revision. February showed a revised 1.17% (previously 0.62%) gain, versus a revised 0.21% (previously 0.15%) decline in January.

The headline 0.7% March (1.2% February) monthly gain was composed of a 0.5% (1.4% February) increase in manufacturing, a 1.5% (0.9% February) gain in mining, and a 1.0% gain (0.3% contraction February) in utilities. Where manufacturing revised to 1.4% in February, from the benchmark-revised 0.9% gain, such was attributed to “stronger gains for durable goods manufacturing.”

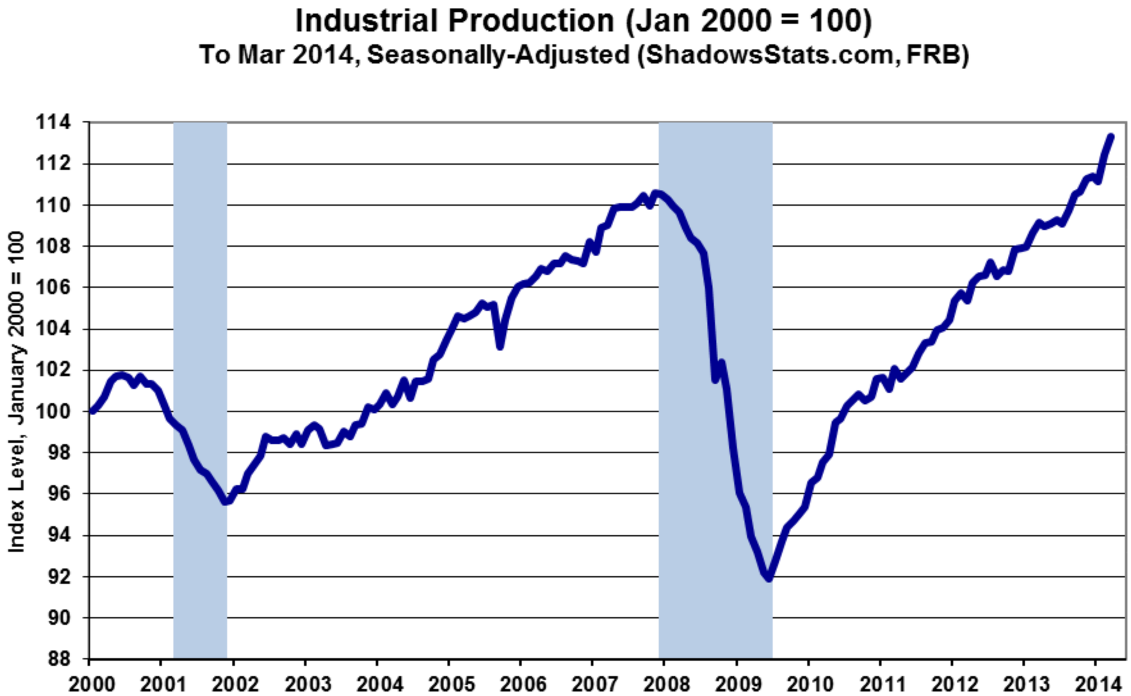
On a quarter-to-quarter basis, first-quarter 2014 industrial production rose at an annualized pace of 4.44%, somewhat slower than the annualized quarterly gain of 4.81% in the fourth-quarter. The relative first-quarter growth rate was boosted slightly by a post-benchmark downside revision to fourth-quarter activity and, again, significantly by weather-spiked utility usage.

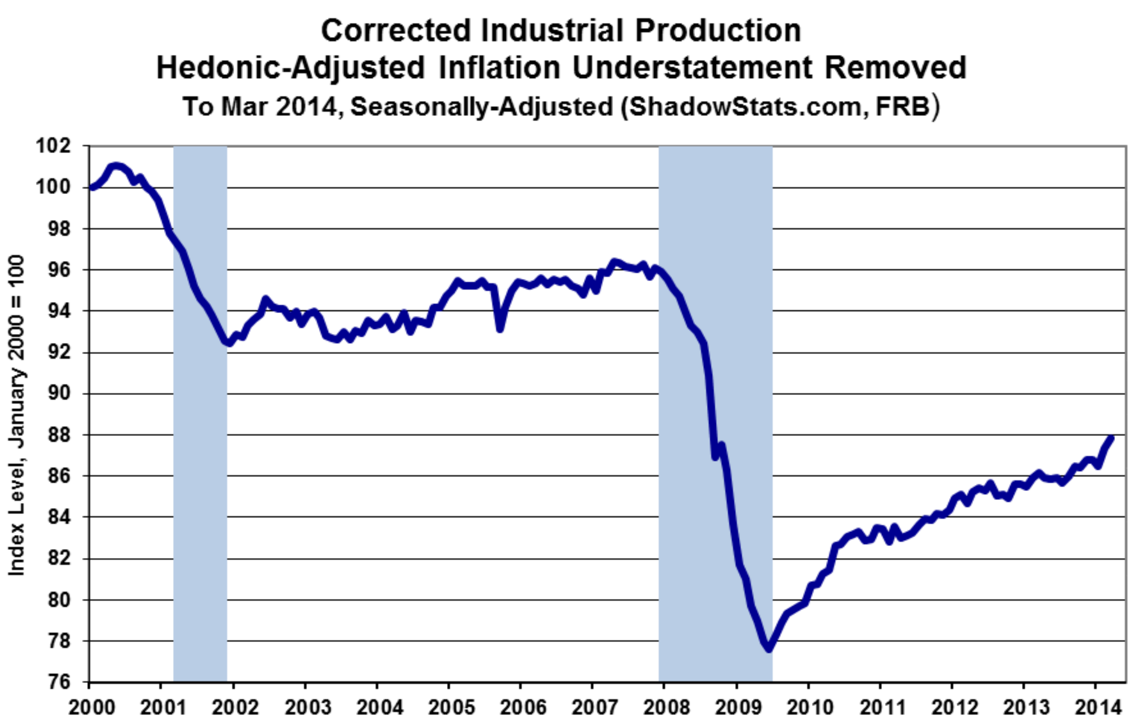
Year-to-year growth in March 2014 production rose to 3.77%, versus a revised 3.47% (previously 2.95%) in February, and a revised 2.94% (previously 2.95%) in January. Graphs of the level and year-to-year change in industrial production, both in the short-term and for the full post-World War II era, are found in the *Reporting Detail* section.

At Historic High Level: Production Recovery Has Been Overstated; Reporting Is Inconsistent With GDP. With headline industrial production at a post-recession high, the “recovery” in production still is not realistic. The use of understated inflation in deflating certain components compiled in the production index has resulted in overstated headline production growth. As shown in the following “corrected” graph, production remains well shy of an economic recovery.

Additionally, industrial production widely is recognized as a coincident indicator of GDP activity. It is used, for example, by the recession-defining authority—the National Bureau of Economic Research (NBER)—for timing the onsets of recessions. What is unusual here is that the headline GDP purportedly has been fully recovered (again a function of deflation by understated inflation), in economic expansion, since second-quarter 2011. If the GDP data and the production numbers were of consistent good quality, the two series would be moving together, rather than the production numbers lagging GDP reporting by eleven quarters. Production just recovered its pre-recession high in November 2013. There are serious reporting flaws with both series, particularly the GDP (see *Commentary No. 612*).

Corrected Industrial Production. Hedonic quality adjustments to inflation, understate the inflation used in calculating some components of industrial production. That has the effect of overstating the resulting inflation-adjusted growth in the headline industrial production series (see *Public Comment on Inflation* and the discussion in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble*).

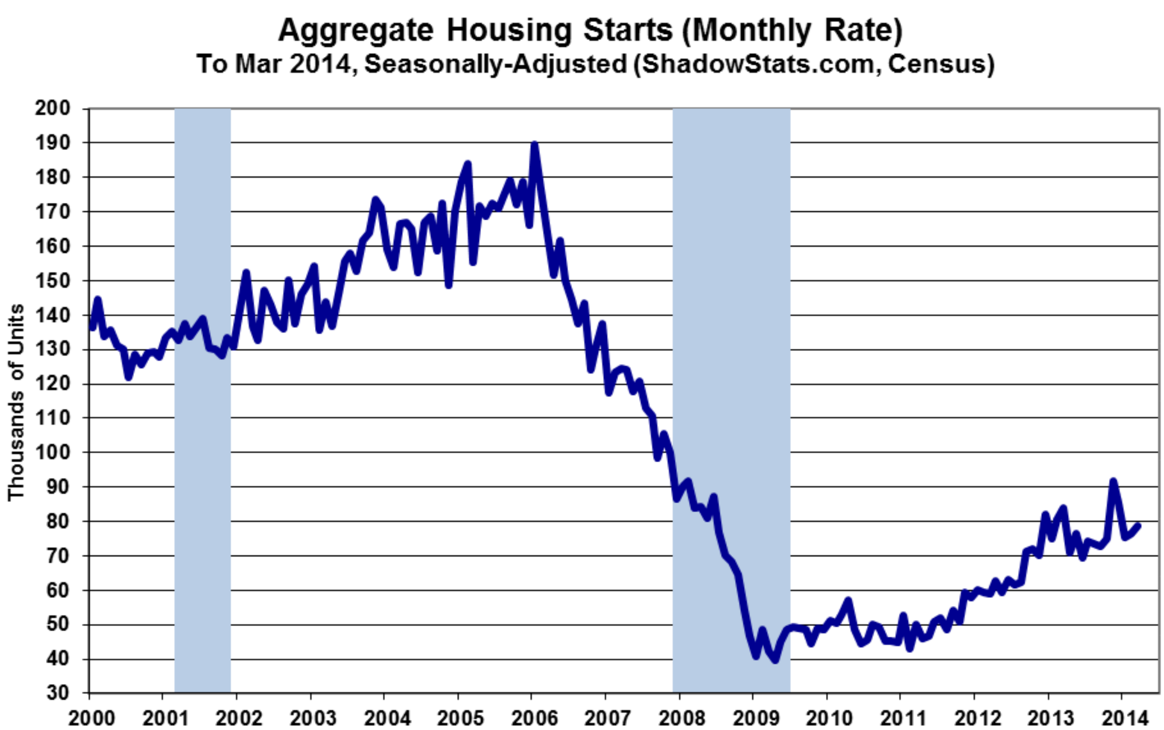

Industrial Production (Jan 2000 = 100)
To Mar 2014, Seasonally-Adjusted (ShadowsStats.com, FRB)
Index Level, January 2000 = 100
114
112
110
108
106
104
102
100
98
96
94
92
90
88
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Corrected Industrial Production
Hedonic-Adjusted Inflation Understatement Removed
To Mar 2014, Seasonally-Adjusted (ShadowStats.com, FRB)
Index Level, January 2000 = 100
102
100
98
96
94
92
90
88
86
84
82
80
78
76
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014

The two preceding graphs address that issue. The first reflects official industrial production reporting, indexed to January 2000 = 100, instead of the Fed's formal index that is set at 2007 = 100. The 2000 indexing is used simply to provide for some consistency in this series of revamped graphics; it does not affect the appearance of the graph or reported growth rates. The second graph is a version of the first that has been corrected for the understatement of the inflation rate used in deflating the production index, with estimated hedonic-inflation adjustments backed-out of the official industrial-production deflator.

The "corrected" graph does show some growth in the period following the official June 2009 near-term trough in production activity. Yet, that upturn has been far shy of the full recovery and the renewed expansion reported in official GDP estimation; corrected production levels have not recovered pre-recession highs. Instead, corrected production entered a period of protracted low-level stagnation in 2012, with quarterly contractions in third-quarter 2012, second-quarter 2013, with stagnation in third-quarter 2013, and some upturn in the fourth-quarter 2013 and first-quarter 2014 (second graph).

First-Quarter 2014 Housing-Starts in Annual and Quarterly Downturns. Despite a statistically-insignificant gain in headline housing starts for March, and a minimal upside revision to February's headline detail, first-quarter housing starts still were in enough of a downturn to damage growth prospects for first-quarter GDP. Housing starts, which reflect a physical-unit count as opposed to dollar volume (same general concept as GDP measurement), fell at an annualized quarter-to-quarter pace of 29.7% in first-quarter 2014, following a 70.3% annualized gain in fourth-quarter 2013. Year-to-year change followed a similar pattern, with first-quarter 2014 starts down 3.6% from the year before, while fourth-quarter 2013 starts were 12.5% higher on a year-to-year basis.



Encompassed in these general patterns, and as discussed in *Commentary No. 619*, there has been no change in underlying consumer-liquidity fundamentals. There is nothing that would support a sustainable turnaround in the housing industry or general economic activity. There never was an economic recovery, and there is no recovery underway, just general bottom-bouncing that broadly is turning down anew.

March 2014 Housing-Starts Reporting. The month-to-month headline gain of 2.8% in seasonally-adjusted March 2014 was statistically-insignificant. The monthly gain was in the context of an upside revision to headline February activity, but net of the prior-period revisions, the 4.3% gain in March housing starts still was statistically-insignificant.

February starts were up a revised 1.9% for the month, following a revised 11.8% decline in January. For first-quarter 2014, starts declined at annualized quarterly pace of 29.7%, versus a 70.3% gain in fourth-quarter 2013.

Year-to-year change in the seasonally-adjusted, aggregate March 2014 housing-starts measure was a contraction, down by a statistically-insignificant 5.9%, versus a revised 5.1% decline in February, and a revised 0.6% annual gain in January. For the first-quarter, year-to-year change was a 3.6% contraction, versus a 12.5% gain in the fourth-quarter.

Reporting in the housing starts series remains highly unstable, where headline month-to-month changes in activity rarely are statistically-significant.

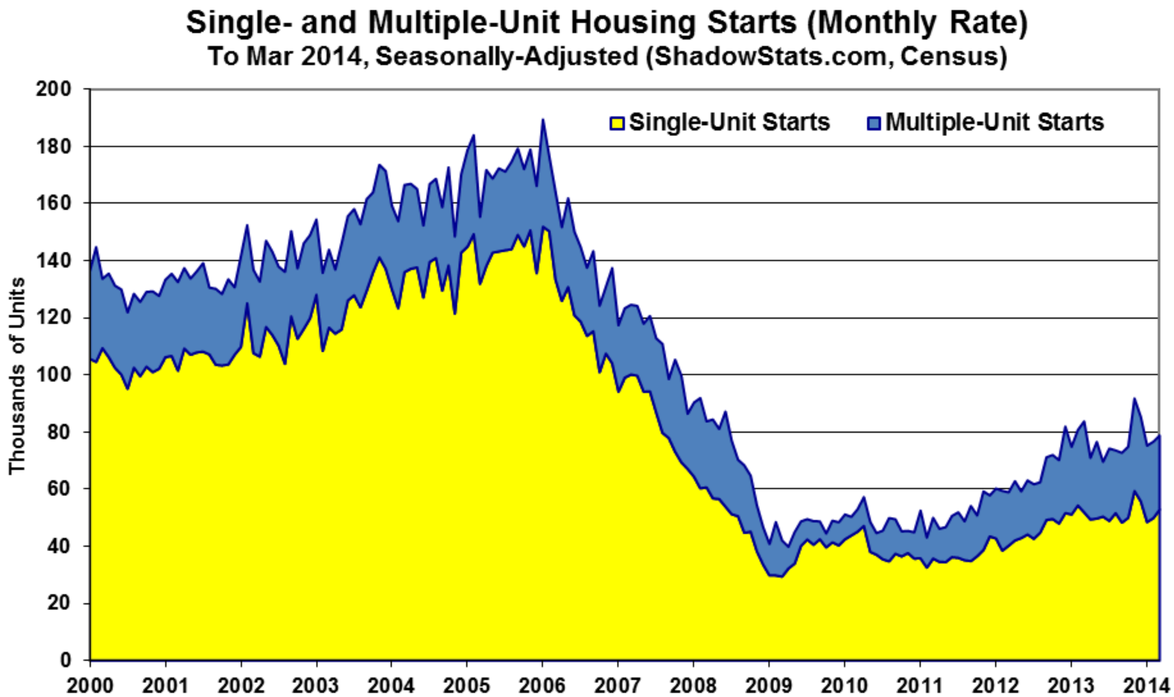
By-Unit Category. Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with one-unit housing starts that generally are for individual consumption, resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units.

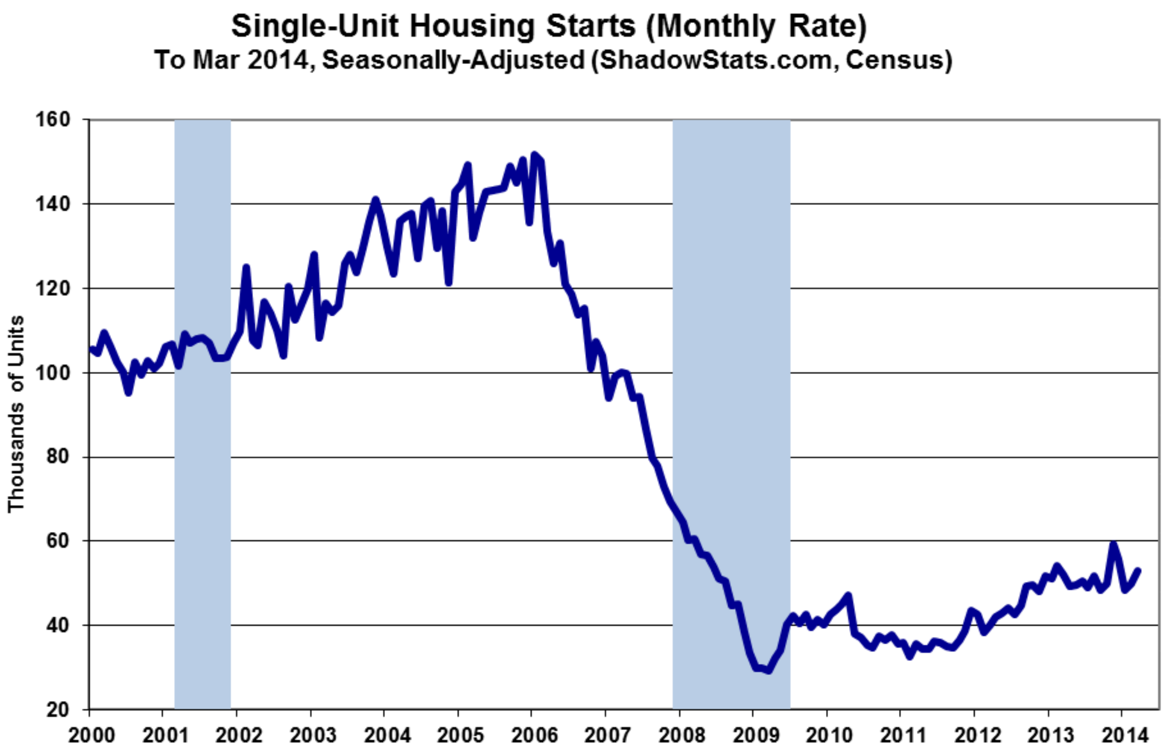
Housing starts for single-unit structures in March rose by a statistically-insignificant 6.0%, following a revised 2.9% gain in February, and a revised 13.0% decline in January. March's year-to-year gain of 1.9% also was statistically-insignificant, following a revised 8.1% decline in February, and a revised 4.8% annual decline in January.

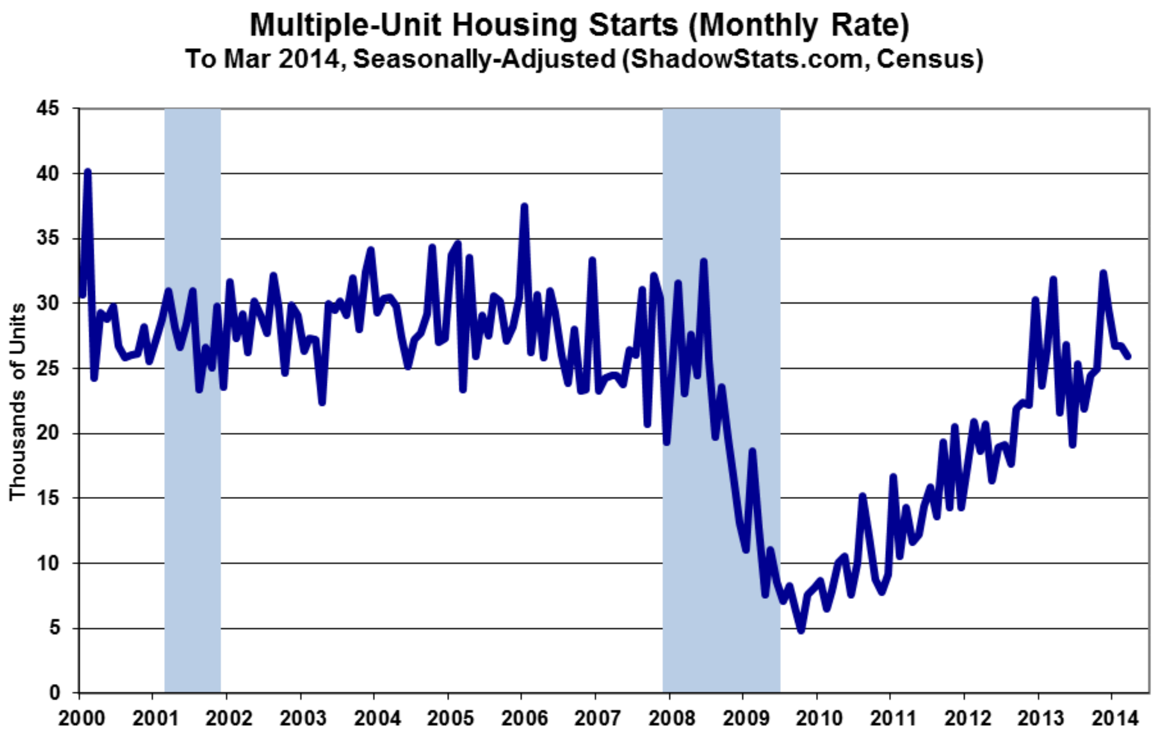
Reporting of housing starts for apartment buildings (generally 5 units or more) showed declining activity for the fourth month, down by a statistically-insignificant 6.1% in March 2014, versus a revised 0.6% decline in February, and a revised 6.3% decline in January. On a year-to-year basis, March's year-to-year contraction of 18.0% also was not statistically-significant. February's year-to-year gain revised to 1.3%, while January's year-to-year activity revised to a 14.6% gain.

Expanding the multi-unit housing starts category to include "2 to 4 units" plus "5 units or more," usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the "2 to 4 units" category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

Accordingly, the aggregate, statistically-insignificant monthly gain of 2.8% for March 2014 was composed of a 6.0% gain in one-unit housing starts, combined with a 3.1% monthly decline in starts of multiple-unit structures (2 units or more, including the "5 units or more" category). This series is graphed in the first and third graphs following.


Single- and Multiple-Unit Housing Starts (Monthly Rate)
To Mar 2014, 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
2014


Single-Unit Housing Starts (Monthly Rate)
To Mar 2014, 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



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 pre-recession peak. Against the downside-spiked low in April 2009, the March 2014 headline number was up by 98%, but it still was down by 58% 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.

The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 946,000 in March 2014, versus a revised 920,000 in February 2014. Those details are shown in the graphs in the *Reporting Detail* section. Where the magnitude of monthly activity more realistically is reflected at the actual monthly rate of 78.3 thousand in March, versus the annualized headline 946 thousand, the monthly rate is used in the scales of the preceding graphs in this section. With either scale, the appearance of the graph and the monthly and annual percent changes are the same.

[For further detail on March industrial production and housing starts,
see the* Reporting Detail *section, and ShadowStats-affiliate www.ExpliStats.com]

HYPERINFLATION WATCH

Hyperinflation Summary Outlook. The hyperinflation and economic outlook were updated fully in the last two weeks, with the publication of *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, on April 2nd, and publication of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, on April 8th. Consistent with those *Special Commentaries* and today's interim economic reporting, a revised summary outlook is planned shortly for this section.

REPORTING DETAIL

INDEX OF INDUSTRIAL PRODUCTION (March 2014)

Inconsistencies with Durable Goods Orders, and a Benchmark Revision that Was Not. In the context of an eviscerated benchmark revision, which excluded an update from the 2012 Census of Manufactures (see *Commentary No. 613*), and running contrary to broad weakness reported in new orders for durables goods (see *Commentary No. 612*), March industrial production and an upside revision to reported February activity were boosted by higher durable goods production.

Separately, headline utility usage remained unusually elevated, a factor that will reduce headline aggregate reporting when the weather-induced distortion works out of the data. Annualized quarterly growth in first-quarter 2014 aggregate production of 4.4% encompassed a weather-induced 17.9% annualized growth in utility usage for the quarter.

The usual pattern of annual benchmark revisions to industrial production is for a downside revision to prior history. Better quality numbers from the regular Census of Manufactures generally are weaker than those published in the industrial production series, which, as with most government-related series, tends to be structured with overly-optimistic assumptions. The 2012 Census was not available, however, so the annual benchmark revision to industrial production was minimal, largely reflecting shifted seasonal-adjustment patterns.

Although real (inflation-adjusted) new orders for durable goods have been reported only through February, they tend to lead industrial production activity, and were on track for a 9.0% annualized quarterly contraction in the first-quarter 2014, where, again, industrial production rose at an annualized pace of 4.4% for the quarter.

Production Series at Historic High, Still Inconsistent With the GDP. The headline production series had moved above its pre-recession high, for the first time, in November 2013. With the headline March 2014 production index level at 103.24 (Index = 100 in 2007), it remains marginally higher than the December 2007 pre-recession peak of 100.76.

This "recovery" is not realistic, as discussed in *Corrected Industrial Production* in the *Opening Comments* section. The use of understated inflation in deflating certain components compiled in the production index has resulted in overstated headline production growth. As shown in the "corrected" graph there, production remains well shy of an economic recovery.

Additionally, industrial production widely is recognized as a coincident indicator of GDP activity. It is used, for example, by the recession-defining authority—the National Bureau of Economic Research (NBER)—for timing the onsets of recessions. Unusual here is that the GDP purportedly has fully recovered, in economic expansion since second-quarter 2011. If the GDP and production numbers were of consistent good quality, the two series would be moving together, rather than the production numbers lagging GDP reporting by eleven quarters. As discussed frequently, and as covered in *Commentary No. 585* and in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble*), there are serious reporting flaws with both series, particularly the GDP (also with understated-inflation issues).

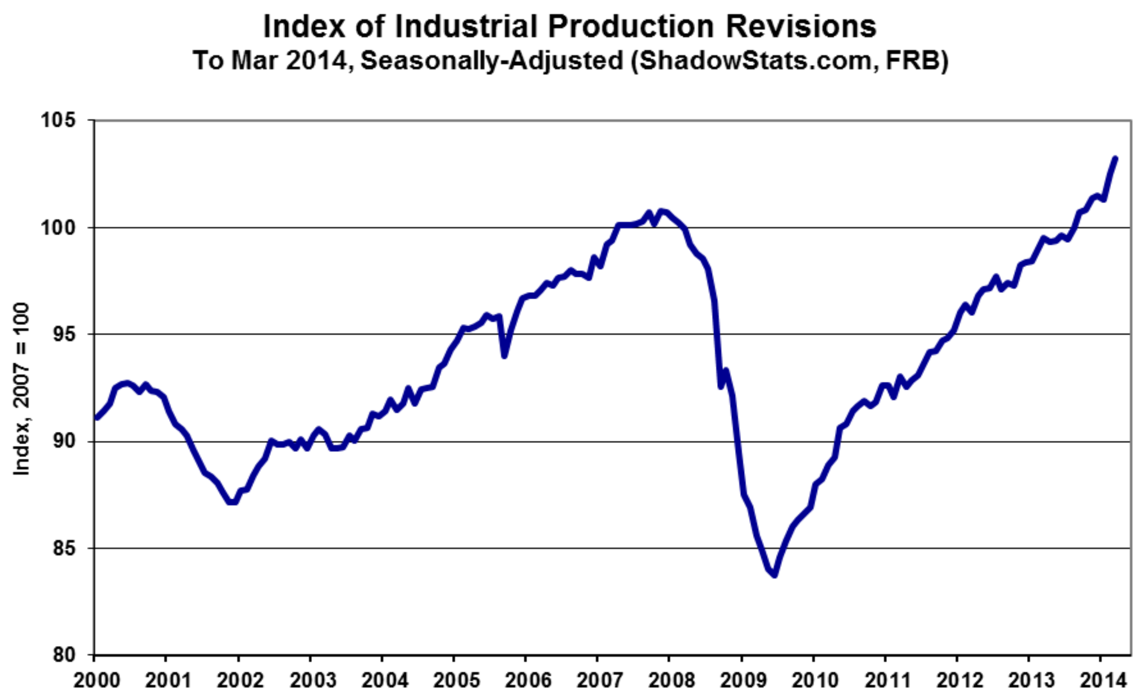
Industrial Production—March 2014. The Federal Reserve Board released its estimate of seasonally-adjusted, March 2014 industrial production this morning, April 16th. In the context of a large upside revision to reported February activity, headline monthly March production rose by 0.7% (0.73% at the second decimal point) and was up by 1.24% for the month, net of prior-period revisions. All prior-period numbers here reflect only the benchmark-revision reporting. February showed a revised 1.17% (previously 0.62%) gain, versus a revised 0.21% (previously 0.15%) decline in January.

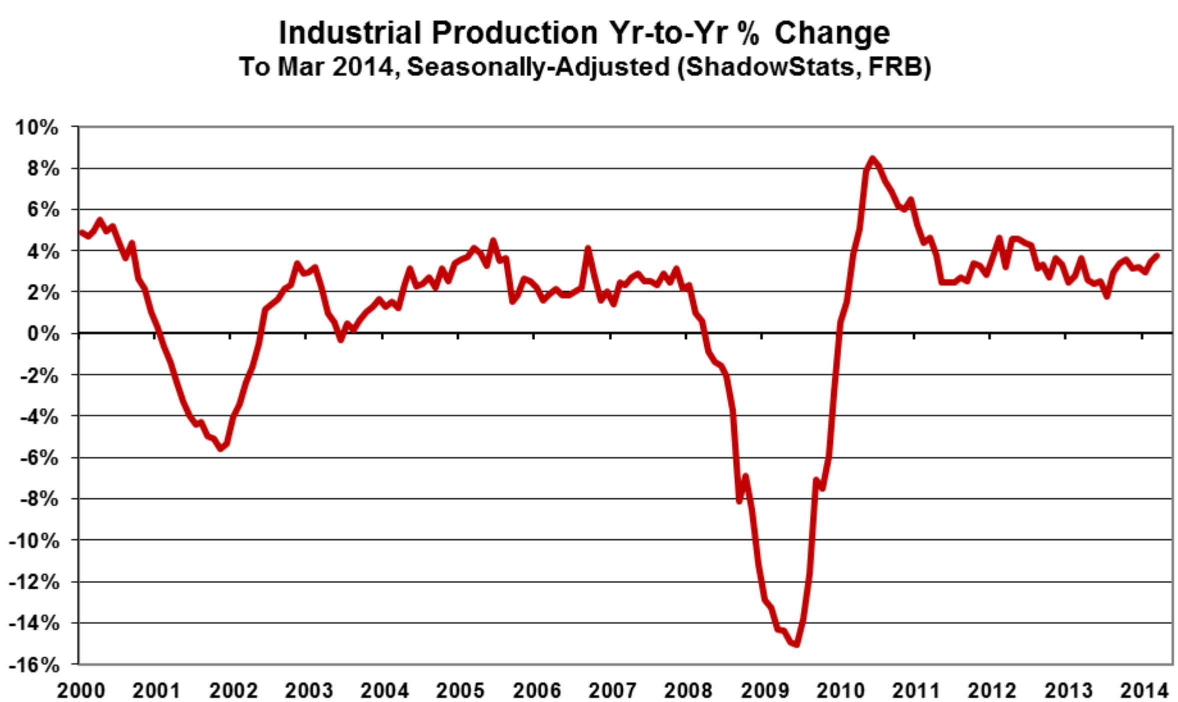
The headline 0.7% March (1.2% February) monthly gain was composed of a 0.5% (1.4% February) increase in manufacturing, a 1.5% (0.9% February) gain in mining, and a 1.0% gain (0.3% contraction February) in utilities. Where manufacturing revised to 1.4% in February, from the benchmark-revised 0.9% gain, such was attributed to "stronger gains for durable goods manufacturing."

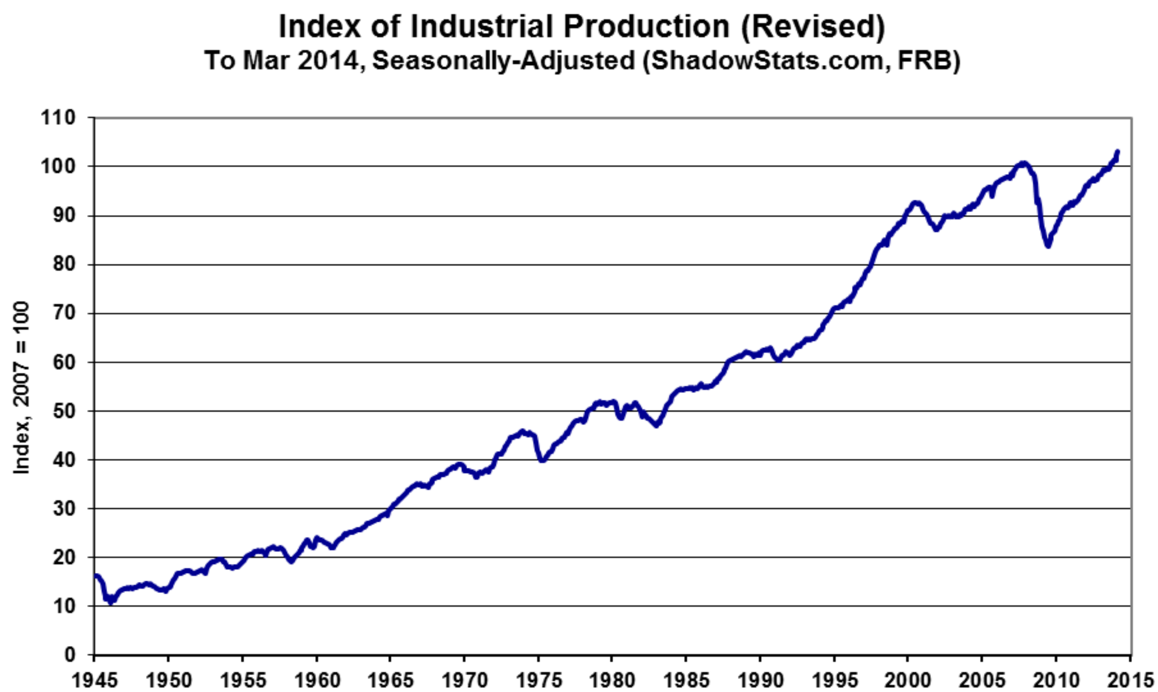
On a quarter-to-quarter basis, first-quarter 2014 industrial production rose at an annualized pace of 4.44%, slower than the annualized quarterly gain of 4.81% in the fourth-quarter. The relative first-quarter growth rate was boosted slightly by a post-benchmark downside revision to fourth-quarter activity, and heavily by 17.9% annualized quarterly growth in utility usage induced by unseasonable weather.

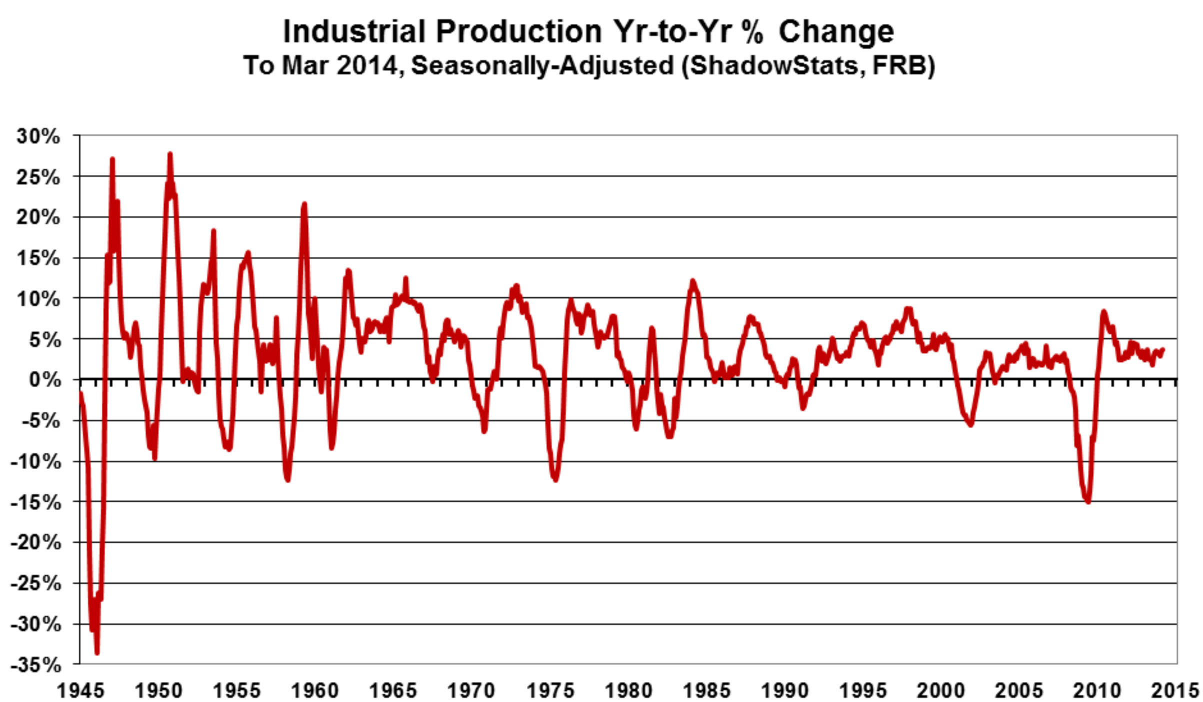
Year-to-year growth in March 2014 production rose to 3.77%, versus a revised 3.47% (previously 2.95%) in February, and a revised 2.94% (previously 2.95%) in January.

Production Graphs. The industrial production activity is reflected in the following two sets of graphs. The first graph in the first set shows the monthly level of the production index, while the second graph shows the year-to-year percentage change in the same series for recent historical detail, beginning January 2000. The second set of graphs shows the same data in historical context since World War II.


Index of Industrial Production Revisions
To Mar 2014, Seasonally-Adjusted (ShadowStats.com, FRB)
105
100
95
90
85
80
Index, 2007 = 100
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Industrial Production Yr-to-Yr % Change
To Mar 2014, Seasonally-Adjusted (ShadowStats, FRB)
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
-16%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Index of Industrial Production (Revised)
To Mar 2014, Seasonally-Adjusted (ShadowStats.com, FRB)
Index, 2007 = 100
0
10
20
30
40
50
60
70
80
90
100
110
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015


Industrial Production Yr-to-Yr % Change
To Mar 2014, Seasonally-Adjusted (ShadowStats, FRB)
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015

As shown more clearly in the first set of graphs, current year-to-year activity recently dipped lower, with annual growth close to levels last seen in a slowing-growth pattern in the first two quarters of the formal 2007 recession. The higher annual growth rates, initially seen in the last half of 2013, have fallen back in revision and should revert back to the earlier patterns as excess inventories are worked off. Annual growth remains well off the recent relative peak for the series, which was 8.49% in June 2010, going against the official June 2009 trough of the economic collapse. Indeed, as shown in the second set of graphs, the year-to-year contraction of 15.06% in June 2009, at the end of second-quarter 2009, was the steepest annual decline in production since the shutdown of war-time production following World War II.

Official production levels have moved higher since the June 2009 trough, and the headline series is at an all-time high, above peak pre-recession activity, as of March 2014 reporting. Corrected for the understatement of inflation used in deflating portions of the industrial production index, however, the series has shown more of a pattern of stagnation with a slow upside trend, since 2009, topping out into 2012, with a renewed upside trend into a recent, protracted period of inventory build-up. The corrected production series is discussed and graphed in the *Opening Comments*.

RESIDENTIAL CONSTRUCTION (March 2014)

Housing-Starts in a Downturn. Despite a statistically-insignificant gain in headline housing starts for March and a minimal upside revision to February's headline detail, first-quarter housing starts still were in enough of a downturn to damage growth prospects for first-quarter GDP. Housing starts, which reflect a physical-unit count as opposed to dollar volume, fell at an annualized quarter-to-quarter pace of 29.7% in first-quarter 2014, following a 70.3% annualized gain in fourth-quarter 2013. Year-to-year change followed a similar pattern, with first-quarter 2014 starts down 3.6% from the year before, while fourth-quarter 2013 starts were 12.5% higher on a year-to-year basis.

Encompassed in this general pattern, and as discussed in *Commentary No. 619*, there has been no change in underlying consumer-liquidity fundamentals. There is nothing that would support a sustainable turnaround in the housing industry or general economic activity. There never was an economic recovery, and there is no recovery underway, just general bottom-bouncing that broadly is turning down anew.

March 2014 Housing-Starts Reporting. The Census Bureau reported today, April 16th, a statistically-insignificant, monthly headline gain in seasonally-adjusted March 2014 housing starts of 2.8% +/- 17.2% (all confidence intervals are at the 95% level). The month-to-month gain was in the context of an upside revision to headline February activity. Net of prior-period revisions, March housing starts rose by a still-statistically-insignificant 4.3%.

February starts were up a revised 1.9% (previously a decline of 0.2%) for the month, following a revised 11.8% (previously 11.2%, initially 16.0%) monthly decline in January. For first-quarter 2014, starts declined at annualized quarterly pace of 29.7%, versus a 70.3% gain in fourth-quarter 2013.

Year-to-year change in the seasonally-adjusted, aggregate March 2014 housing-starts measure was a contraction, down by a statistically-insignificant 5.9% +/- 9.8%, versus a revised 5.1% (previously 11.6%) decline in February, and a revised 0.6% annual gain (previously a 1.2% gain, initially a 2.0% decline) in January. For first-quarter 2014, year-to-year change was a 3.6% contraction, versus a 12.5% gain in the fourth-quarter 2013.

Reporting in the housing starts series remains highly unstable, and it generally has been unstable enough in recent years that headline month-to-month changes in activity rarely have been statistically significant.

***By-Unit Category (See Graphs in* Opening Comments).** Where the irregular housing starts series can 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.

Housing starts for single-unit structures in March rose by a statistically-insignificant 6.0% +/- 18.1%, following a revised 2.9% (previously 0.3%) gain in February, and a revised 13.0% (previously 13.2%, initially 15.9%) decline in January. March's year-to-year gain of 1.9% +/- 10.9% also was statistically-insignificant, following a revised 8.1% (previously 10.6%) decline in February, and a revised 4.8% (previously 5.0%, initially 6.7%) annual decline in January.

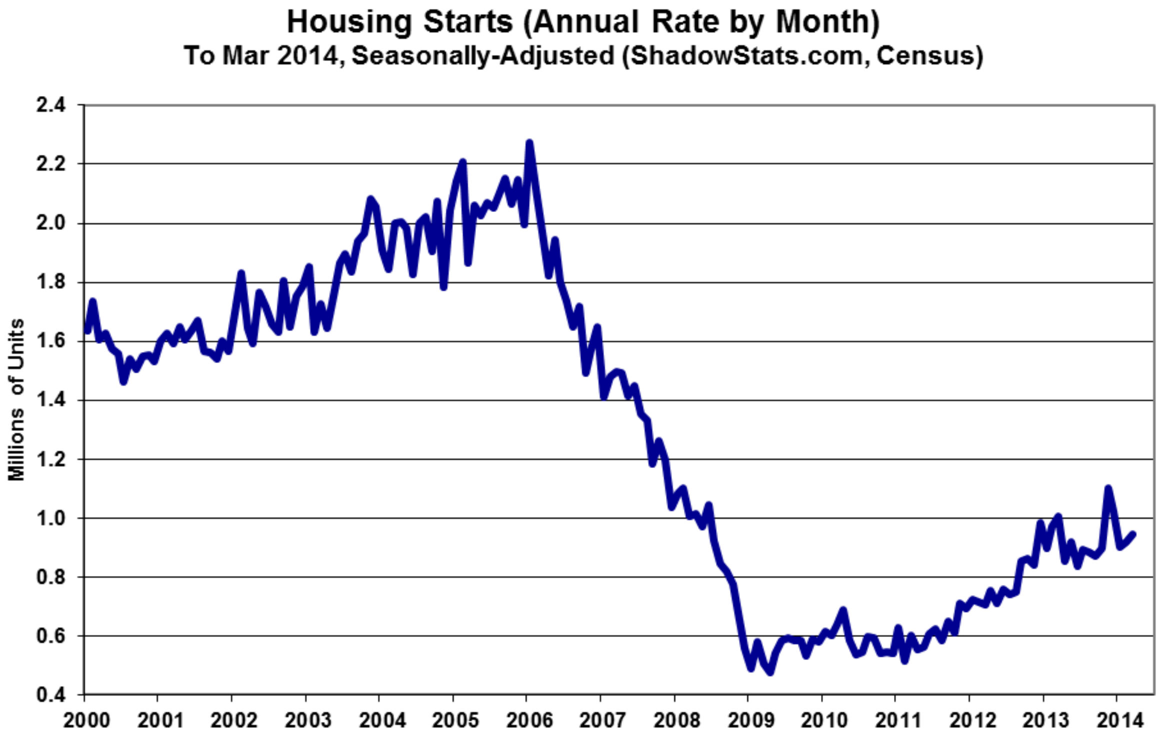
Reporting of housing starts for apartment buildings (generally 5 units or more) showed declining activity for the fourth month, down by a statistically-insignificant 6.1% +/- 32.9% in March 2014, versus a revised 0.6% (previously 2.5%) decline in February, versus a revised 6.3% (previously 4.2%, initially 12.8%) decline in January. On a year-to-year basis, March's year-to-year contraction of 18.0% +/- 21.1% was not statistically-significant. February's year-to-year gain revised to 1.3% (previously 1.6%). January's year-to-year activity revised to a 14.6% (previously 17.2%, initially 9.9%) gain.

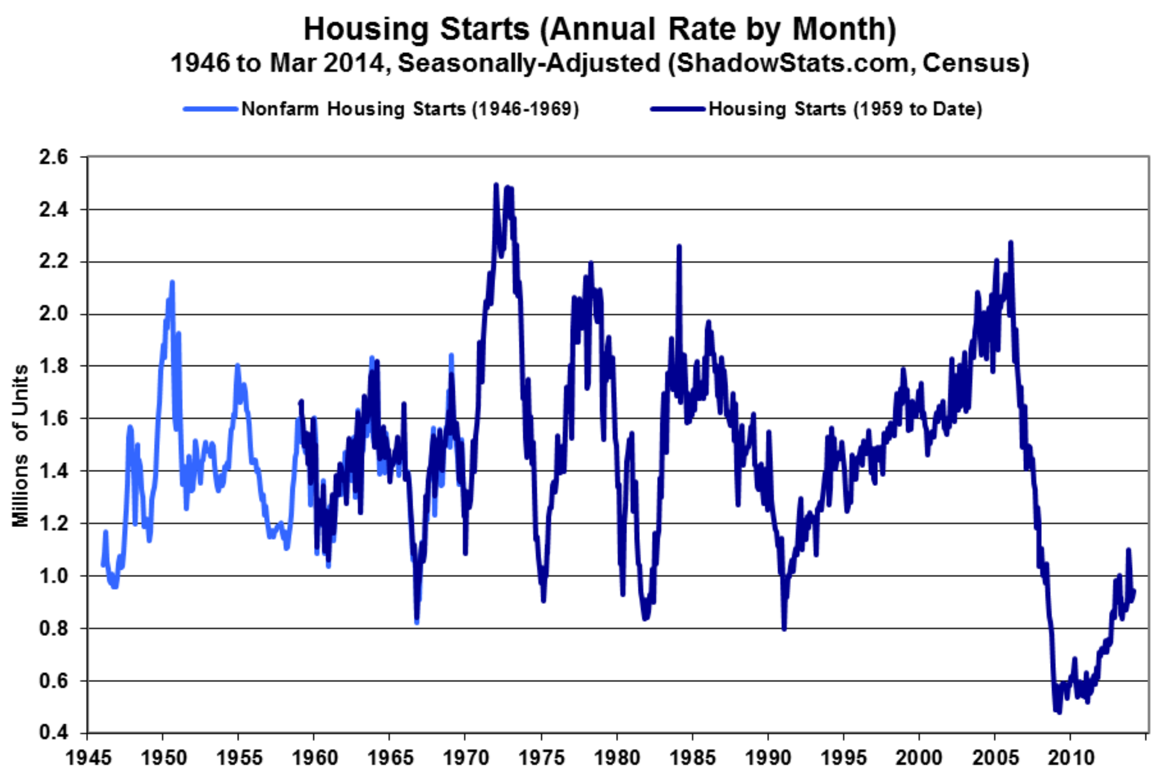
Expanding the multi-unit housing starts category to include "2 to 4 units" plus "5 units or more," usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the "2 to 4 units" category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

Accordingly, the aggregate, statistically-insignificant March monthly gain of 2.8% was composed of a 6.0% gain in one-unit housing starts, combined with a 3.1% monthly decline in starts of multiple-unit structures (2 units or more, including the "5 units or more" category). Again, this series is graphed in the *Opening Comments* section.

***Graphs of Aggregate Housing Starts Activity**.* The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 946,000 in March 2014, versus a revised 920,000 in February 2014. Those details are shown in the accompanying graphs. Where the magnitude of monthly activity more realistically is reflected at the actual monthly rate of 78,833 in March, versus the annualized headline 946,000, the monthly rate is used in the scales of the graphs in the *Opening Comments* section. With either scale, the appearance of the graph and the monthly and annual percent changes are the same.

The record monthly low seen for the present aggregate series was in April 2009, which was down 79% from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the March 2014 headline number was up by 98%, but it still was down by 58% from the January 2006 series high.


Housing Starts (Annual Rate by Month)
To Mar 2014, 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 Mar 2014, 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

WEEK AHEAD

Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by continuing, downside corrective revisions and continued, disappointing headline economic activity. The initial stages of that process have been seen in the recent headline reporting of most major economic series.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding "new" recession receives general recognition.

Stronger inflation reporting remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing global political instabilities. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. and global political conditions (see *Hyperinflation 2014—The End Game Begins (Updated)*). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last eight 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- and New-Home Sales (March 2014). March 2014 existing-home sales are due for release on Tuesday, April 22nd, from the National Association of Realtors, with the March new-home sales report from the Census Bureau due on Wednesday, April 23rd. With these highly volatile and unstable series, whether existing or new sales, a pattern of stagnation or intensifying downturn appears to be in play for both. In particular, a renewed downtrend appears to be unfolding in existing-home sales. While monthly changes in home-sales activity usually are not statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for the new-home sales series, which was so heavily disrupted as a result of the October shutdown of the federal government.

New Orders for Durable Goods (March 2014). The reporting of March 2014 new orders for durable goods is scheduled for Thursday, April 24th, by the Census Bureau. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant-to-down. Some intensification of the recent downside trend in orders is likely, at least in the next month or two, coincident with slowing activity currently seen in other major indicators.

