

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

**COMMENTARY NUMBER 642**

**June Housing Starts**

**July 17, 2014**

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**Second-Quarter 2014 Housing Starts Fell Below Fourth-Quarter Activity,  
With a June Contraction and Downside Revisions to April and May**

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*PLEASE NOTE: The next regular Commentary is scheduled for Tuesday, July 22nd, covering the June CPI, real retail sales and earnings, and existing home sales, with a subsequent Commentary on July 25th, covering June new orders for durable goods and new home sales.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Continued Indications of Second-Quarter GDP Contraction.** As with retail sales and industrial production, headline June growth in housing starts came in below market expectations. Against unrevised first-quarter activity, second-quarter housing starts activity was higher, but it also turned lower against fourth-quarter 2013 activity.

The latest headline housing starts detail showed quarterly growth in second-quarter 2014, but not at a pace of economic boom, nor at a pace adequate to turn second-quarter GDP to the plus-side, against negative factors such as a deteriorating trade deficit, likely negative inventory impact, and a reversal of the “boom” in first-quarter consumer utility usage. Induced by bad weather, the utility spike had helped to prop up first-quarter GDP growth, limiting the quarter’s headline economic decline to just 2.9%. For second-

quarter 2014 GDP, various economic components continue to suggest reporting of a second consecutive quarterly GDP contraction. That would constitute a formal new or renewed recession.

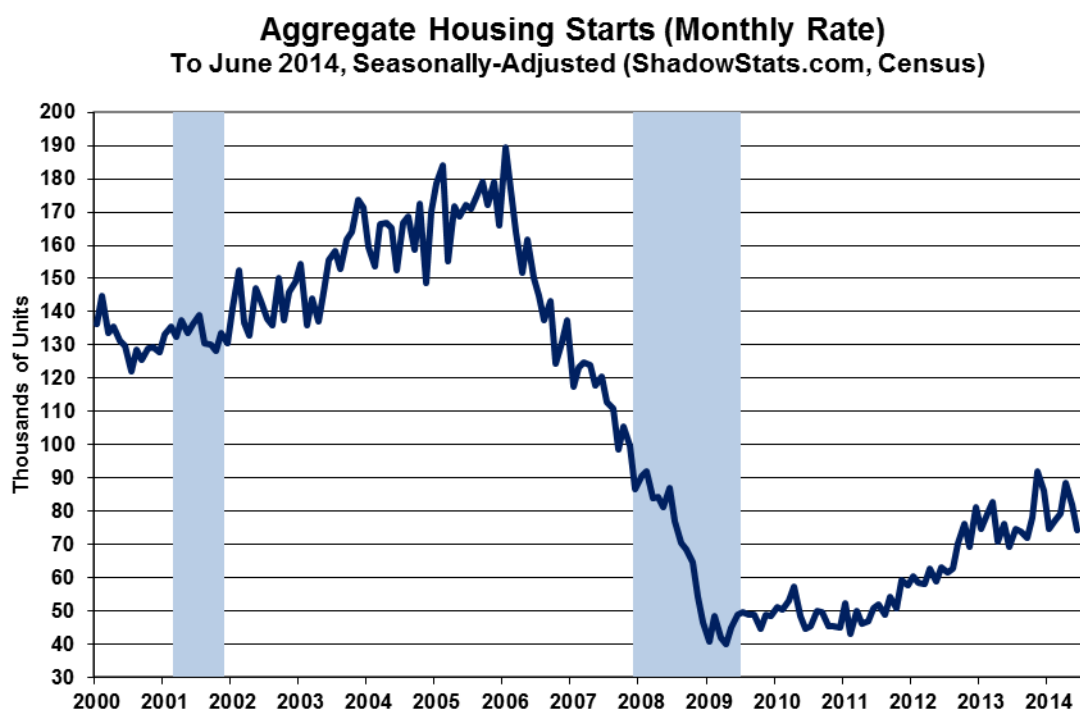
An assessment of June economic reporting will be published in the next *Commentary No. 643* of July 22nd (covering June CPI), along with an overview of the upcoming GDP benchmark revisions and the pending first estimate of second-quarter 2014 GDP on July 30th.

Today's (July 17th) brief missive concentrates on June housing starts.

**Housing Starts—June 2014—Weakest Activity since September 2013.** Counter to market expectations, a statistically-insignificant headline 9.3% decline in June 2014 housing starts, and downside revisions to May and April 2014, left second-quarter housing activity down by 4.4% (-4.4%) from the level of fourth-quarter 2013, with headline June 2014 activity at the weakest level since September of last year. Second-quarter activity had been on track, and was expected to top the fourth-quarter numbers.

Nonetheless, second-quarter activity did top first quarter activity by 6.0%, but it previously had been on track to top the prior quarter by 12.0%. In terms of the annualized quarter-to-quarter growth parlance of the GDP reporting, what had been expected for this extremely volatile series as annualized second-quarter growth of 57.4%, came in at 26.1%, instead.

In terms of monthly activity, the headline monthly declines in May and June housing starts were seen across all categories, showing headline drops not only in aggregate activity, but also in the single-unit and multiple-unit groupings.



***Consumer Liquidity Issues Restrain Housing Market Activity.*** As discussed in the [Commentary No. 639](#), along with updated graphs, the last six-plus years of economic collapse and stagnation have been dominated by a consumer beset with intense, structural-liquidity problems. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have, and has not had the ability to sustain real growth in housing, retail sales or in personal-consumption activity that dominates the headline change in GDP. 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.

***Headline June 2014 Housing-Starts.*** The headline monthly contraction of 9.3% (-9.3%) in seasonally-adjusted June 2014 housing starts was statistically insignificant. The month-to-month decline was on top of downside revisions to reported May and April activity. Net of prior-period revisions, June housing starts fell by a still statistically-insignificant 10.8%. May starts declined by a revised 7.3% (-7.3%), on top of a downwardly-revised 11.9% monthly gain in April.

Year-to-year change in the seasonally-adjusted, aggregate June 2014 housing-starts measure was a statistically-insignificant gain of 7.5%, versus a revised 7.7% annual gain in May, and a revised 25.4% annual gain in April.

Reporting in the housing starts series remained highly unstable and generally unreliable enough in recent years that headline month-to-month changes in activity rarely have been 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 the largest physical-count category of one-unit housing starts—generally 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 June fell month-to-month by a statistically-insignificant 9.0% (-9.0%), following a revised headline monthly contraction of 2.6% in May, and a revised 2.2% gain in April. June's year-to-year contraction of 4.3% also was statistically-insignificant, following a revised 5.9% annual gain in May, and a revised 9.8% annual gain in April.

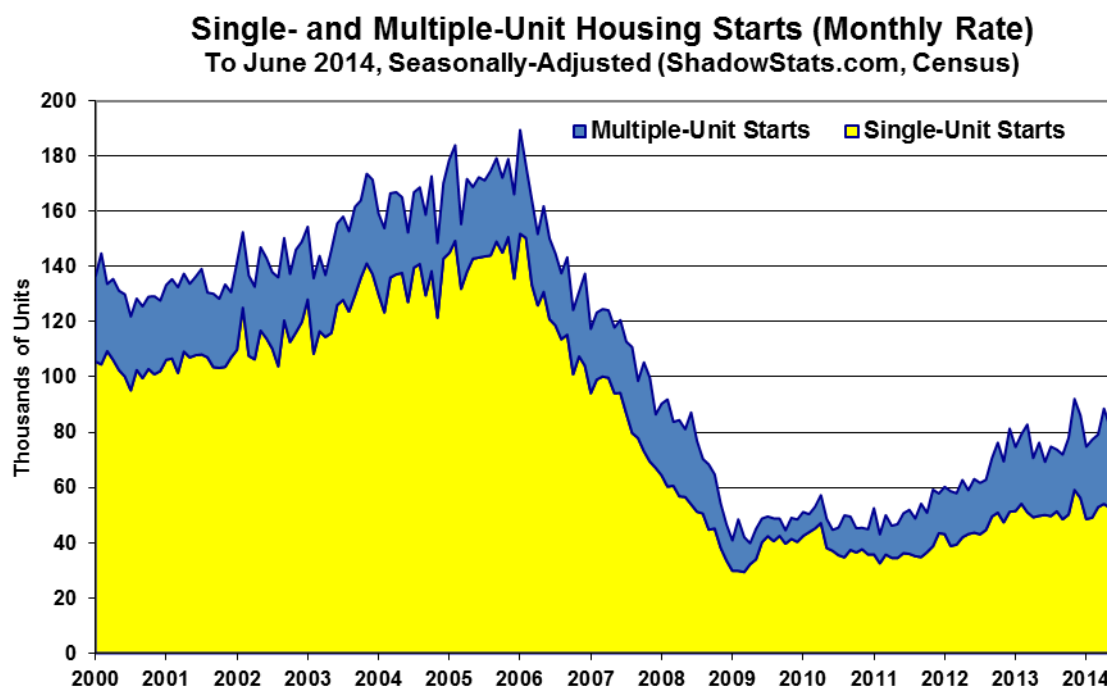
Reporting of housing starts for apartment buildings (generally 5-units-or-more) in June 2014 fell by a statistically-insignificant 11.3% (-11.3%), versus a revised decline of 15.1% (-15.1%) in May, and a revised 34.6% gain in April. On a year-to-year basis, June's gain of 39.3% was statistically-insignificant. May's year-to year gain revised to 12.1%, with April's year-to-year gain revising to 66.7%.

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.

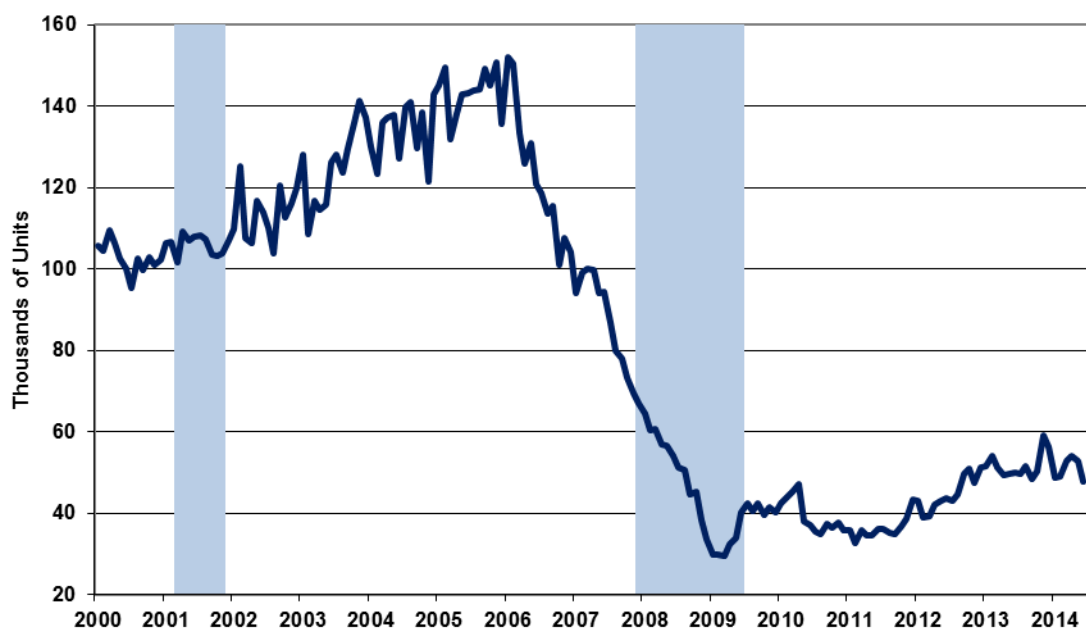
Accordingly, the statistically-insignificant aggregate June monthly contraction of 9.3% (-9.3%) was composed of a decline of 9.0% (-9.0%) in one-unit housing starts, combined with a monthly contraction of 9.9% (-9.9%) in multiple-unit structures (2-units-or-more, including the 5-units-or-more category). The breakout of these series is shown in the accompanying graphs.

**Graphs of Housing Starts Activity.** Headline reporting of housing starts is expressed at an annualized monthly pace, which was 893,000 in June 2014, versus a revised 985,000 (previously 1,001,000 in May). Those details are shown in aggregate graphs in the *Reporting Detail* section. Where the magnitude of monthly activity more realistically is reflected at the actual monthly rate of 74,417 in June, versus the annualized headline 893,000, the monthly rate scale is used in the accompanying graphs in this section. With either scale, the appearance of the graph and the monthly, quarterly and annual percent changes are all the same.

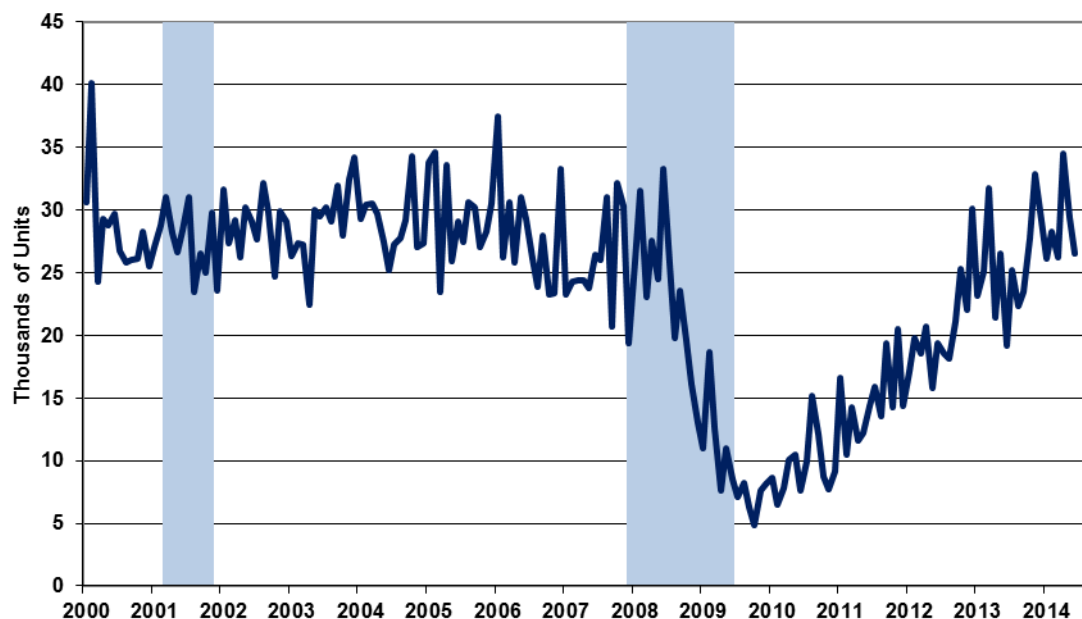
The record monthly low seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the June 2014 headline number was up by 87%, but it still was down by 61% (-61%) from the January 2006 series high.



**Single-Unit Housing Starts (Monthly Rate)**  
To June 2014, Seasonally-Adjusted (ShadowStats.com, Census)



**Multiple-Unit Housing Starts (Monthly Rate)**  
To June 2014, Seasonally-Adjusted (ShadowStats.com, Census)



*[For further details on June housing starts, see the **Reporting Detail** section. Drill-down and various graphics options for the headline residential construction data are available at ShadowStats-affiliate [www.ExpliStats.com](http://www.ExpliStats.com).]*

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## HYPERINFLATION WATCH

**The Pending U.S. Dollar and Hyperinflation Crises Were Reviewed in [Commentary No. 639](#).** This section will be updated fully with the July 22nd *Commentary No. 643*. See [Commentary No. 639](#) for the recent review of key elements of the outlook and [Commentary No. 637](#) for the prior summary. Nothing of substance has changed.

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## REPORTING DETAIL

### RESIDENTIAL CONSTRUCTION (June 2014)

**Housing-Starts Activity Was Shifted Lower, with Down-Trending but Still Volatile Stagnation.**

Counter to market expectations, a statistically-insignificant headline 9.3% decline in June 2014 housing starts and downside revisions to May and April 2014, left second-quarter housing activity down by 4.4% (-4.4%) from the level of fourth-quarter 2013, with the headline June 2014 activity at the weakest level since September of last year. Previously, second-quarter activity had been on track to top the fourth-quarter numbers by 1.1%.

Nonetheless, second-quarter activity did top first quarter activity by 6.0%; it previously had been on track to top the prior quarter by 12.0%. In terms of the annualized quarter-to-quarter growth terminology of

GDP reporting, what had been expected for this extremely volatile series as annualized second-quarter growth of 57.4%, came in instead at 26.1%.

In terms of the monthly numbers, the headline monthly declines in May and June housing starts were across all sub-categories, showing headline drops not only in aggregate activity, but also in single-unit and multiple-unit activity.

***Structurally-Impaired Consumer Liquidity Restrains Housing Market Activity.*** As discussed and graphed in [Commentary No. 639](#), the last six-plus years of economic collapse and stagnation have been dominated by a consumer beset with intense, structural-liquidity woes. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have the ability to sustain real growth in housing, retail sales or in the personal-consumption activity that dominates the GDP. There is nothing that would support a sustainable turnaround in the housing industry or in 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.

***June 2014 Housing-Starts Reporting.*** The Census Bureau reported today, July 17th, a statistically-insignificant, monthly headline contraction in the seasonally-adjusted level of June 2014 housing starts of 9.3% (-9.3%) +/- 12.1% (all confidence intervals are at the 95% level). The month-to-month decline was in the context of downside revisions to reported May and April activity. Net of prior-period revisions, June housing starts fell by a still-statistically-insignificant 10.8% (-10.8%). May starts declined by a revised 7.3% (-7.3%) [previously down by 6.5% (-6.5%)], on top of a downwardly-revised 11.9% monthly gain in April (previously a 12.7%, initially a 13.6% gain).

Year-to-year change in the seasonally-adjusted, aggregate June 2014 housing-starts measure was a statistically-insignificant gain of 7.5% +/- 16.8%, versus a revised 7.7% (previously 9.4%) annual gain in May, and a revised 25.4% (previously a 26.3%, initially a 26.4%) annual gain in April.

Reporting in the housing starts series remained highly unstable, generally having 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 the 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 the largest physical-count category of one-unit housing starts—generally 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 June fell month-to-month by a statistically-insignificant 9.0% (-9.0%) +/- 11.8%, following a revised headline monthly contraction of 2.6% (previously 5.9%) in May, and a revised 2.2% (previously a 4.6%, initially a 0.8%) gain in April. June's year-to-year contraction of 4.3% (-4.3%) +/- 11.3% also was statistically-insignificant, following a revised 5.9% (previously 4.7%) annual gain in May, and a revised 9.8% (previously a 12.4%, initially a 9.8%) annual gain in April.

Reporting of housing starts for apartment buildings (generally 5-units-or-more) in June 2014 fell by a statistically-insignificant 11.3% (-11.3%) +/- 23.0%, versus a revised decline of 15.1% (-15.1%), previously down by 8.3% (-8.3%) in May, and a revised 34.6% (previously 32.6%, initially 42.9%) gain in April. June's year-to-year gain of 39.3% +/- 61.5% was statistically-insignificant. May's year-to year

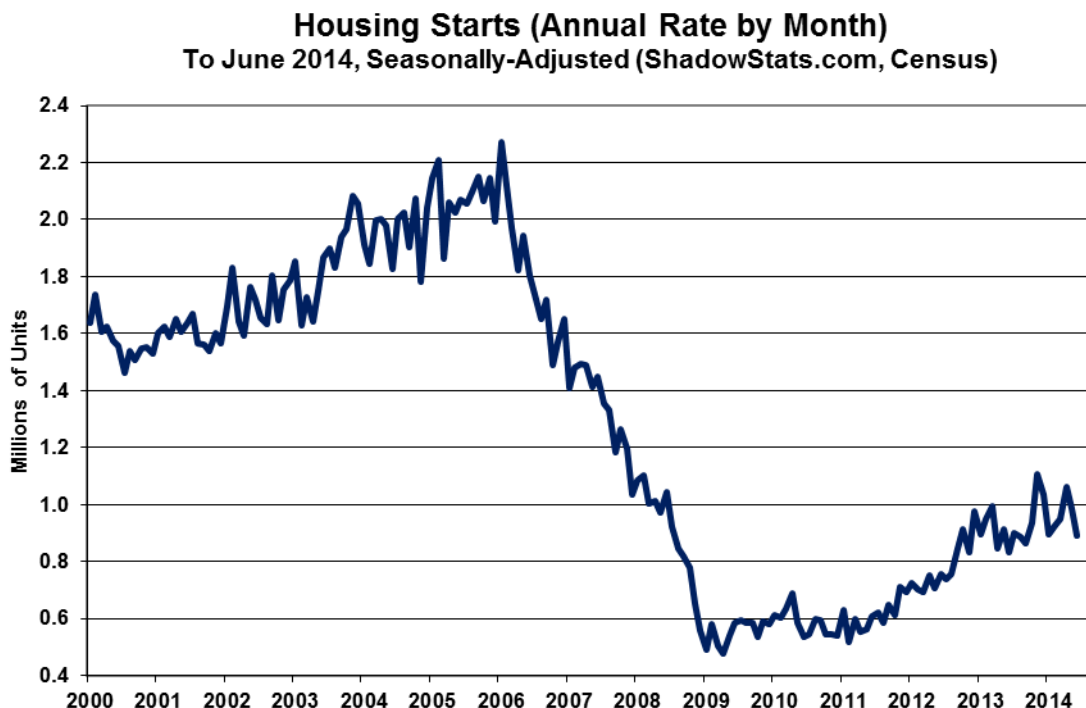


gain revised to 12.1% (previously up by 19.2%), with April's year-to-year gain revising to 66.7% (previously 64.2%, initially 70.0%).

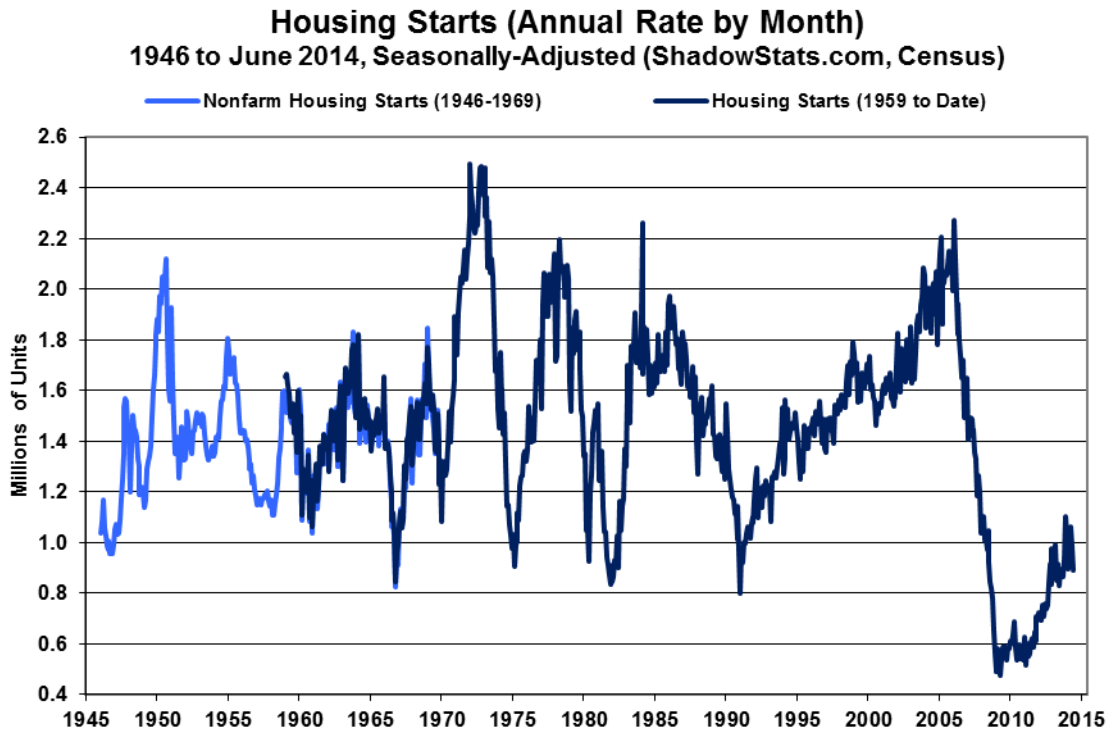
Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the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

Accordingly, the statistically-insignificant aggregate June monthly contraction of 9.3% (-9.3%) was composed of a decline of 9.0% (-9.0%) in one-unit housing starts, combined with a monthly contraction of 9.9% (-9.9%) in multiple-unit structures (2-units-or-more, including the 5-units-or-more category). The breakout of these series is graphed in the *Opening Comments* section.

**Graphs of Aggregate Housing Starts Activity.** Headline reporting of housing starts is expressed at an annualized monthly pace of starts, which was 893,000 in June 2014, versus a revised 985,000 (previously 1,001,000 in May). Those details are shown in the following, aggregate graphs. Where the magnitude of monthly activity more realistically is reflected at the actual monthly rate of 74,417 in June, versus the annualized headline 893,000, 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, quarterly and annual percent changes are the same.







The record monthly low seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the June 2014 headline number was up by 87%, but it still was down by 61% (-61%) from the January 2006 series high.

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## WEEK AHEAD

**Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead.** Although shifting to the downside, amidst fluctuations, market expectations generally still are overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic

series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)), including the sharp pace of economic decline seen in real first-quarter 2014 GDP, which is the first contemporary reporting of a quarterly GDP contraction since the formal end of the 2007 recession, in mid-2009.

Weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition, which likely would follow the reporting of a headline contraction in second-quarter 2014 GDP real growth.

Stronger inflation reporting also remains likely, as has been seen in recent reporting. Upside pressure on oil-related prices should reflect intensifying impact from global political instabilities and a weakening U.S. dollar in the currency markets. Food inflation has been picking up as well. The dollar faces pummeling from the weakening economy, continuing QE3, the ongoing U.S. fiscal-crisis debacle, and deteriorating U.S. and global political conditions (see [Hyperinflation 2014—The End Game Begins \(Updated\) – First Installment](#)). 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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data). These issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

### ***PENDING RELEASES:***

**Consumer Price Index—CPI (June 2014).** The release by the Bureau of Labor Statistics (BLS) of the June 2014 CPI is scheduled for Tuesday, July 22nd. The headline CPI-U is a fair bet to show an inflation gain that would top market expectations of about 0.3%

Average gasoline prices rose month-to-month in June 2014 by 0.4%, on a not-seasonally-adjusted basis, per the Department of Energy. BLS seasonal adjustments for gasoline turn sharply positive with the June CPI, where in June 2013, an unadjusted monthly gain of 0.6% in gasoline prices was turned into a 3.6% gain after the BLS seasonal adjustments. A similar treatment to the June 2014 would add in excess of 0.1 percentage point to the seasonally-adjusted headline monthly CPI-U.

Higher food and “core” (net of food and energy) inflation also should tend to boost a rather solid headline gain in the CPI.

Year-to-year, CPI-U inflation would increase or decrease in June 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.32% gain in the monthly inflation reported for June 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for June 2014, the difference in June’s headline monthly

change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the May 2014 annual inflation rate of 2.13%. For example, if the headline CPI-U for June 2014 came in near consensus, at 0.3%, then the annual inflation rate for June likely would hold near May's 2.1%.

**Existing- and New-Home Sales (June 2014).** June 2014 existing-home sales are due for release on Tuesday, July 22nd, from the National Association of Realtors, with the June 2014 new-home sales report from the Census Bureau due on Thursday, July 24th.

Despite recent upticks in these series, a pattern of stagnation or intensifying downturn appears to be in play for both the existing- and new-home sales. In particular, a renewed downtrend had been 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) also remain a fair bet for the new-home sales series. Both series remain highly volatile, but increasingly should move to the downside in activity.

**New Orders for Durable Goods (June 2014).** The reporting of June 2014 new orders for durable goods is scheduled for Friday, July 25th, by the Census Bureau.

Recently, new orders generally have been stagnant, plus or minus, particularly net of inflation. Sharp and irregular volatility in commercial aircraft orders should dominate the numbers anew in the next several months. Commercial aircraft orders usually are booked years in advance with relatively minimal impact on near-term production activity. Net of the unstable aircraft reporting, some intensification in downside activity is likely, coincident with slowing activity seen recently in the broad economy. Market expectations appear to be for flat-to-plus activity in orders, with headline reporting generally a fair bet to disappoint expectations on the downside.

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