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

COMMENTARY NUMBER 804
Trade Deficit, Construction Spending, Retail Sales and Other Revisions

May 4, 2016

First-Quarter 2016 Real Merchandise Trade Shortfall Was Deepest Since Third-Quarter 2007

Narrowing of March 2016 Monthly Trade Deficit Reflected Weakening Demand for Consumer Goods

First-Quarter Construction Spending Revised Sharply Lower

Volatile Real Spending Remained in Non-Recovery, Ongoing Low-Level Stagnation

Annual Retail Sales Revisions Were Relatively Small, but with Unusual Twists; Weaker Sales Seen with Better-Quality Data

Downside Revisions Loom for GDP Detail

PLEASE NOTE: The next regular Commentary, *scheduled for Friday, May 6th will cover April labor conditions.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Revisions Loom for GDP Reporting. The headline reporting of March 2016 and respective full first-quarter 2016 detail for the U.S. Trade Deficit and Construction Spending series both had implications for downside revisions to the "advance" first-quarter 2016 GDP, reported on April 28th *Commentary No. 803* with headline annualized real quarterly growth of 0.54%.

Other Benchmark Revisions Will Lead the GDP Benchmarking. As seen with the recent Industrial Production benchmarking (*Commentary No. 796-A*) and as is likely to be seen particularly with the June 3rd revisions to the Trade Deficit data, significant downside revisions loom for the July 29th GDP benchmarking. The post-July 29th environment should be one where a "new" recession is evident even in the headline GDP numbers. Pending series benchmark revisions include Housing Starts (May 17th, the regular monthly release) and New Orders for Durable Goods (May 18th). Both should provide downside changes to the aggregate, historical GDP series.

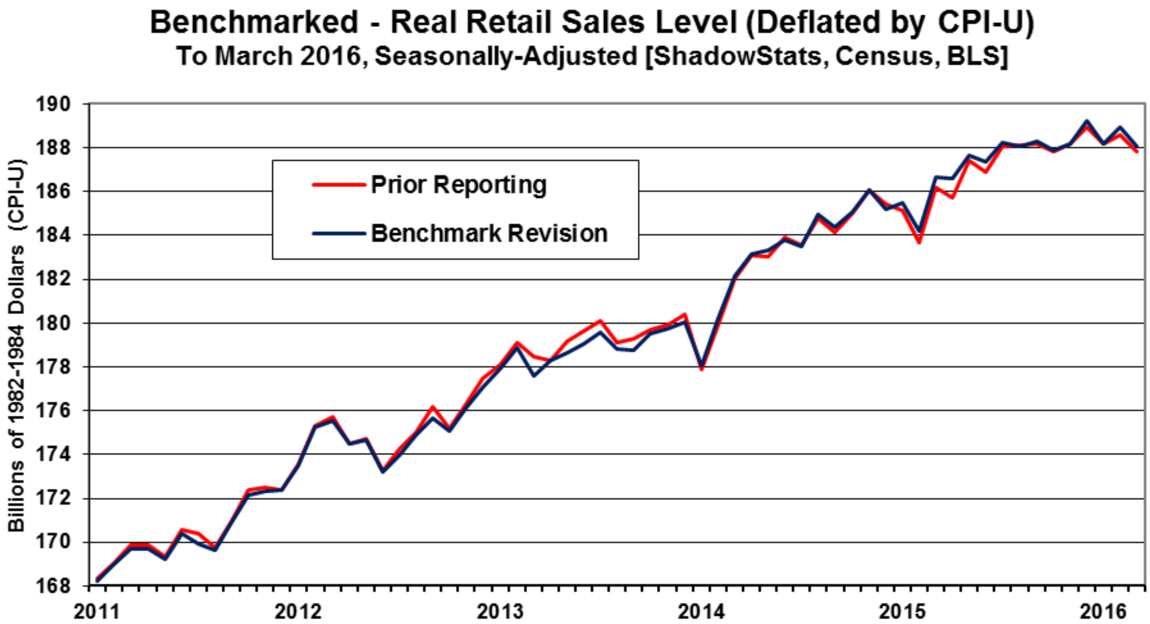
The indication of imminent residential construction revisions (usually in May) was tied to Building Permits, which incorporated an increase in the size of the reporting universe. The only point of interest was a downside revision to first-quarter 2016 building permits, which took the headline first-quarter 2016 annualized quarterly contraction in permits from 18.3% (-18.3%), to 19.3% (-19.3%), suggestive of added, minimal further downside-revision pressures on first-quarter 2016 GDP. The Trade, Housing Starts and Durable Goods revisions will be covered in *Commentaries* as they are released.

Retail Sales Benchmark Revisions Were Relatively Small, But Targeted. The Census Bureau released its annual benchmark revisions to the Retail Sales series, back to January 2005, on April 29th. In general, the revisions were minimal, to the downside through 2013, where more complete and accurate information was available. The revisions were minimally to the upside, thereafter, working with existing upside biases and assumptions, 2014 to date. Unlike the benchmark production revisions (*Commentary No. 796-A*), or last year's retail sales benchmarking (*Commentary No. 716*), the current retail sales revisions should have minimal impact on the pending GDP benchmarking

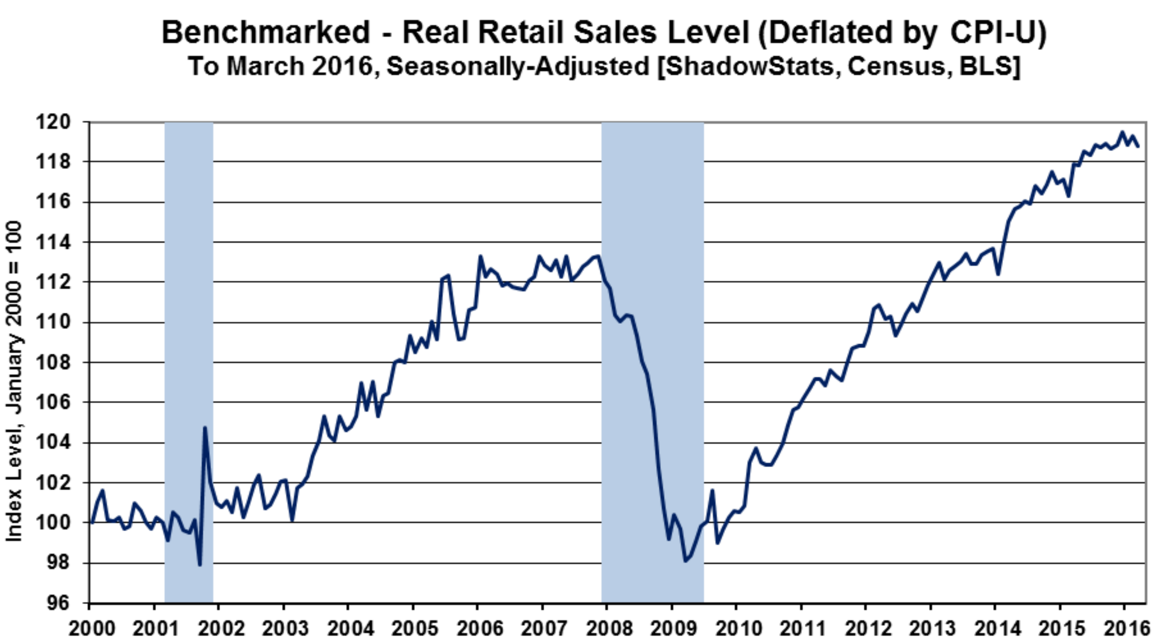
Accompanying *Graphs 1* to *5* reflect the headline retail sales revisions, with *Graphs 1* and *4* showing visible detail of the differences in level and year-to-year change, before and after the revisions. The other graphs are as published in the regular monthly *Commentaries*, updated for the latest detail (see *Commentary No. 799* for other background).

First-Quarter 2016 Quarter-to-Quarter Contraction in Real Retail Sales Survived the Revision, but Not All Contractions Did. The most unusual feature with the revisions is that recent, real quarter-to-quarter contractions or zero growth in real retail sales from 2014 on disappeared, except for first-quarter 2016, which was narrowed in revision. It appears as though a decision was made to "adjust" quarterly seasonal factors in concert with popular requests from Wall Street. The annualized 1q2014 initial real change of 0.0% now is up by 0.8%, 1q2015 was down by 1.1% (-1.1%) now is 0.0%, 1q2016 initially was down by 0.2% (-0.2%), now is down by 0.1% (-0.1%). As can be seen in *Graph 4*, the 1q2014, post-"recovery" annual contraction was rejiggered to the plus-side in a related manner.

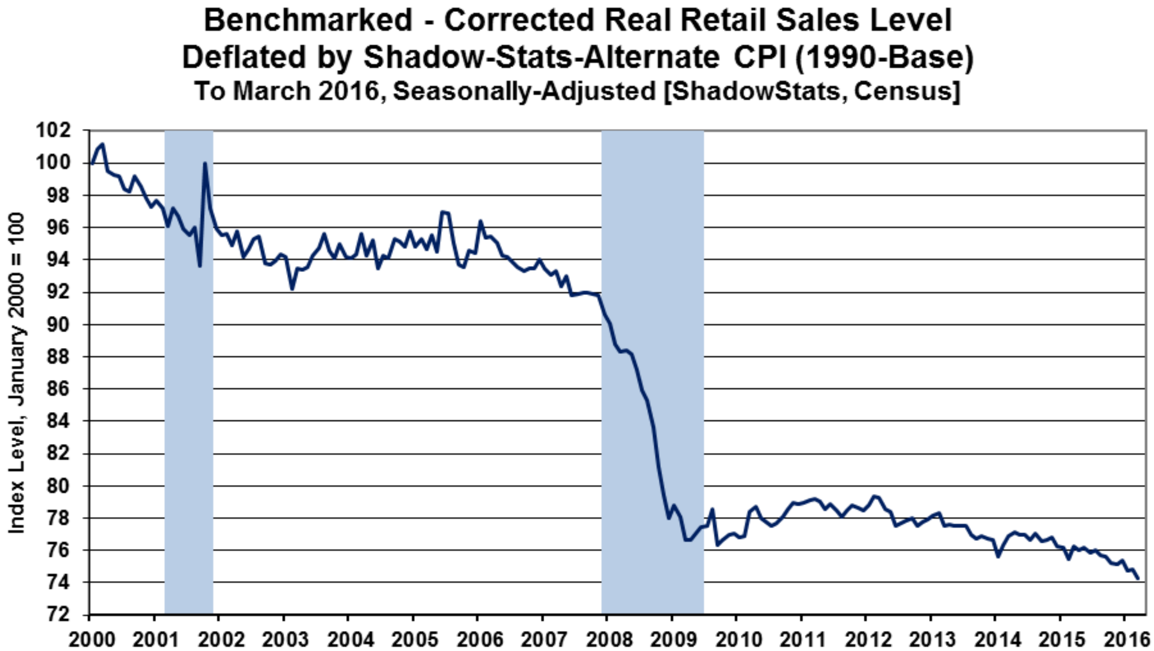
Graph 1: Benchmark-Revised Real Retail Sales, Level



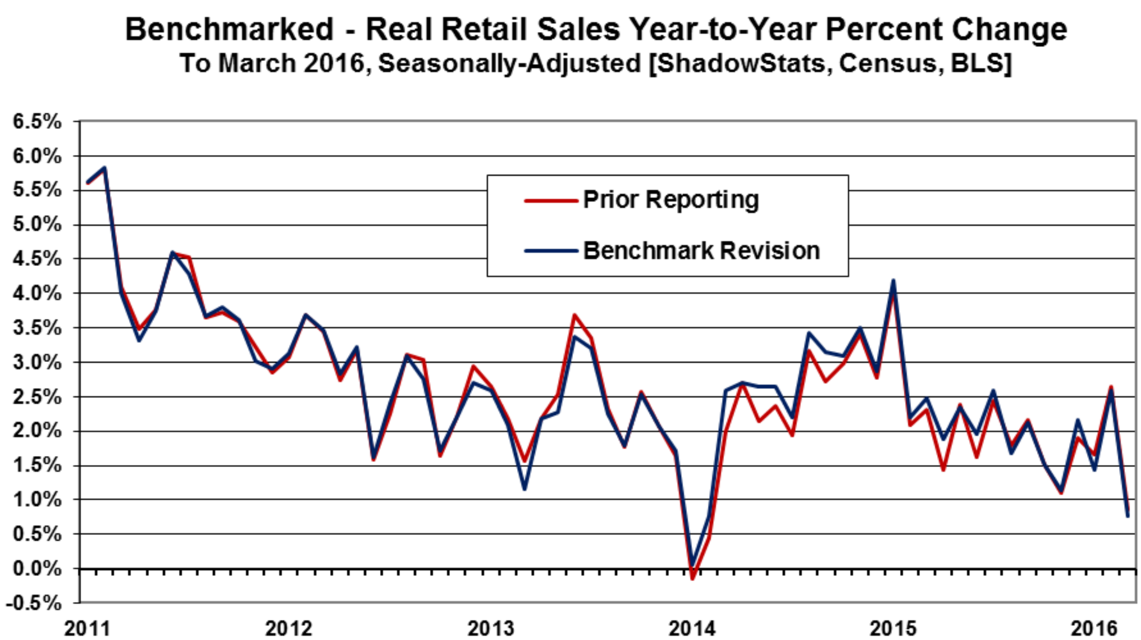
Graph 2: Benchmark-Revised Real Retail Sales, Level



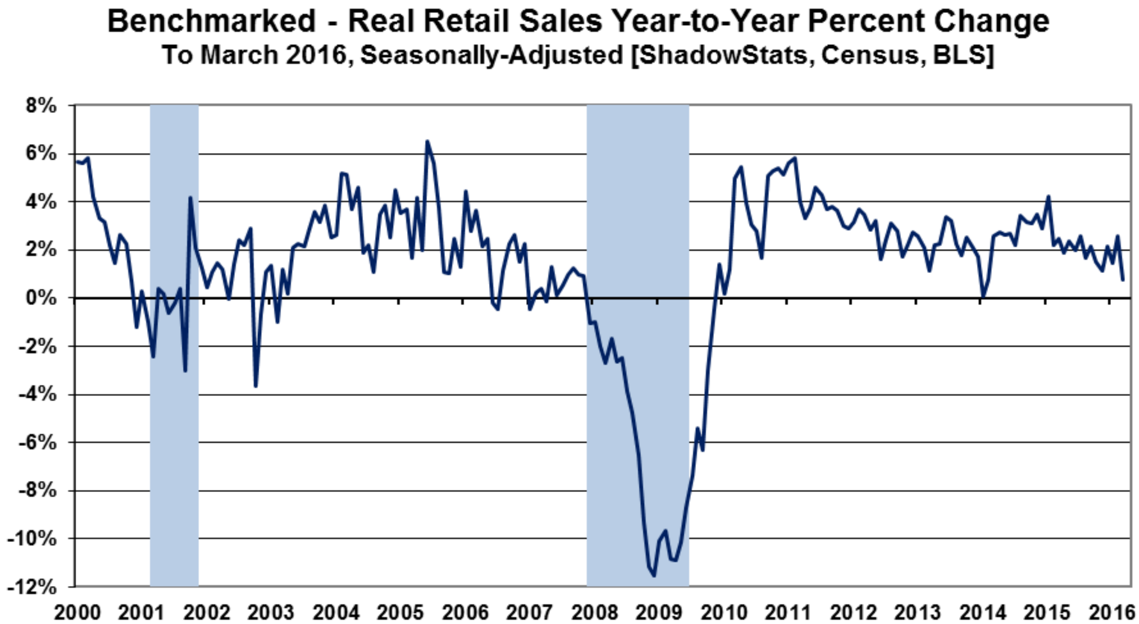
Graph 3: Corrected, Benchmark-Revised Real Retail Sales, Level



Graph 4: Benchmark-Revised Real Retail Sales, Year-to-Year Percent Change



Graph 5: Benchmark-Revised Real Retail Sales, Year-to-Year Percent Change



Today's *Commentary* (May 4th). The balance of these *Opening Comments* provides summary coverage of the full March 2016 Trade Deficit and March Construction Spending.

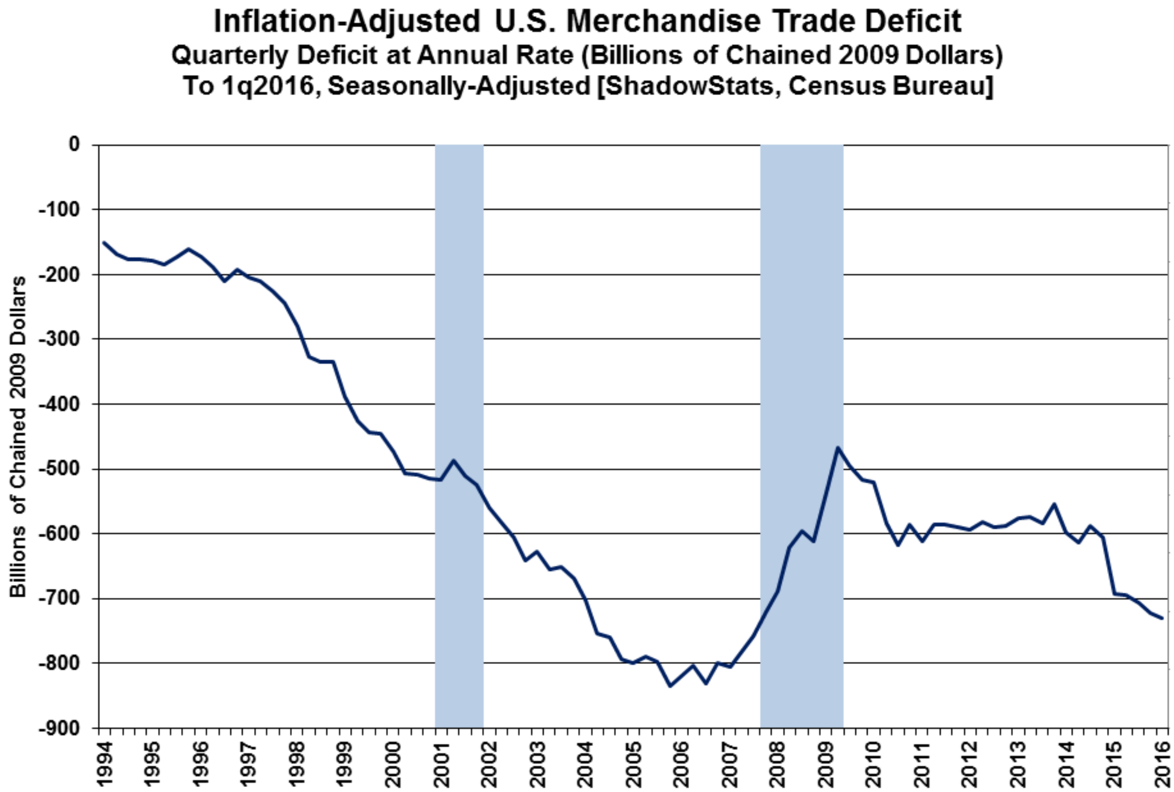
The most recent *Hyperinflation Outlook Summary* is found in *Commentary No. 783*, with *Commentary No. 799* and *No. 777 Year-End Special Commentary* as background to the currently unfolding financial circumstances. These documents will be updated shortly in a new *Special Report.*

The *Week Ahead* section updates prospective reporting for Friday's reporting of April Employment and Unemployment detail.

U.S. Trade Deficit—March 2016—Narrowed Monthly Deficit Indicated Declining Demand for Consumer Goods; First-Quarter 2016 Real Deficit Was the Worst Since Second-Quarter 2007. The headline decline in the March 2016 monthly-trade deficit held little good news for the broad U.S. economy. While the March deficit narrowed sharply on a month-to-month basis, such reflected a plunge in imports of consumer goods. Either the March deficit reflected collapsing consumer demand, or there should be a bounce-back in imports next month. Either way, recent economic activity likely will revise downwards, reflective of an even-worse trade deficit, or of declining consumer consumption. Most likely, some combination of those factors is in play.

The initial estimate of the inflation-adjusted real first-quarter 2016 merchandise trade deficit was the worst quarterly trade shortfall since third-quarter 2007, as shown in *Graph 6*. The detail is discussed in the *Real (Inflation-Adjusted) March 2016 Trade Deficit* section.

Graph 6: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit to 1q2016



The pending June 3, 2016 annual benchmark revision for the trade data—the next regular full-trade deficit release—is a virtual certainty to show even greater trade-deficit deterioration since 2013 (see *Ongoing Cautions...* section in the *Reporting Detail*). That will place further, significant downside-revision pressure on the July 29th GDP benchmarking.

Nominal Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for March 2016, on a balance-of-payments basis, improved by $6.520 billion to $40.443 billion, versus a revised $46.963 billion in February. That March 2016 nominal deficit also narrowed versus a $52.176 billion trade shortfall in March 2015.

Allowing for monthly irregularities and regular volatility in the headline monthly reporting, unusually-large monthly swings in the headline deficit like this are seen once a year or so, with a reverse movement often following in the next month's reporting. The headline change here, however, also could be suggestive of rapidly-slowing domestic economic consumption.

In terms of month-to-month trade patterns, the headline $6.520 billion improvement in the March deficit reflected a decline of $1.544 (-$1.554) billion in exports, more than offset by a monthly decline of $8.064 (-$8.064) billion in imports. The declines in both imports and exports were seen primarily in the consumer goods sector.

Declining oil prices bottomed out in February 2016, inching higher by 0.7% in March, with a negligible distorting impact on oil imports, in inflation-adjusted real terms.

Energy-Related Petroleum Products. For the first time since July 2015, the not-seasonally-adjusted average price of imported oil increased month-to-month, rising to $27.68 per barrel in March 2016, from $27.48 per barrel in February 2016. That still was down from $46.47 per barrel in March 2015.

Where monthly-average spot oil prices had rallied sharply in March 2016, up by 19.1% from January 2016 the reflection of that in the headline nominal trade-reporting detail likely will begin to surface in the April and May 2016 data. As the higher prices are recognized, the headline, aggregate nominal monthly trade deficit should soar.

Separately, not-seasonally-adjusted physical oil-import volume in March 2016 averaged 7.819 million barrels per day, up from 7.404 million in February 2016 and 7.302 million in March 2015.

Real Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the March 2016 merchandise trade deficit (no services) narrowed to $57.430 billion, from a revised $63.210 billion in February 2016, and from a revised $61.891 billion in January 2016. The March 2016 shortfall also narrowed sharply versus a $66.492 billion real deficit in March 2015.

Pre-benchmarking, the annualized quarterly real merchandise trade deficit was $605.5 billion for fourth-quarter 2014, $692.4 billion for first-quarter 2015, $694.8 billion for second-quarter 2015, $706.1 billion for third-quarter 2015 and a revised $721.1 billion for fourth-quarter 2015. The initial reporting for first-quarter 2016 showed continued quarterly deficit deterioration to $730.1 billion, the worst reading since third-quarter 2007 (again see *Graph 6*). Such now is in line with the initial reporting of first-quarter 2016 GDP (see *Commentary No. 803*), but either the trade shortfall or consumption levels should deteriorate in pending revisions—separate from negative benchmarking—with a resulting negative growth-revision impact on subsequent first-quarter GDP estimates.

Headline deficits likely will get even deeper in the months and quarters ahead, intensifying the ongoing negative impact on headline GDP growth.

Construction Spending—March 2016—Continued Low-Level, Stagnating Non-Recovery. Still shy of its pre-recession peak in February 2006 by 25.0% (-25.0%), inflation-adjusted real construction spending fell in fourth-quarter 2015 and otherwise generally has continued to stagnate, at a low-level of activity. Where that activity, however, had been sharply up-trending in first-quarter 2016, per the initial headline February 2016 detail, January and February revised sharply lower, with the reporting of the headline March 2016 detail. Where the March 2006 headline spending rose by 0.3% for the month, that actually was down by 0.6% (-0.6%) versus February's initial headline detail.

With all revisions in place (including the PPI construction deflator), fourth-quarter 2015 real construction spending contracted at a deeper, annualized quarterly pace of 2.7% (-2.7%), following annualized quarterly real gains of 4.1% in third-quarter 2015, 25.0% in second-quarter 2015, and 6.0% in first-quarter 2015.

Based on the initial, unstable full first-quarter reporting for January, February and March 2016, and in the context of contracting headline quarterly inflation, which boosts inflation-adjusted real growth, first-quarter 2016 real construction spending rose at an annualized pace of 5.3%. That was against an initial annualized quarterly growth of 11.3% estimate, based on just January and February reporting, and 9.1%, based on just the initial January 2016 reporting. The hefty downside revision to the first-quarter trend should be enough to provide some downside-revision pressure to the “advance” estimate of 0.5% annualized first-quarter real GDP growth.

PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary series, again, all as shown in *Graphs 7* to *10.*

Seasonally-adjusted March 2016 FDCI month-to-month inflation rose by 0.09%, the first month-to-month increase in five months. That followed a headline monthly decline of 0.09% (-0.09%) in February. In terms of year-to-year inflation, the March 2016 FDCI was up by 1.07%, versus 0.98% annual inflation in February 2016, also on an adjusted basis. Further deflation details follow in the *Reporting Detail*.

Headline Reporting. In the context of sharp downside revisions to the levels of spending in January [lower by 2.4% (-2.4%)] and February [lower by 0.9% (-0.9%)], the headline, total value of construction put in place in the United States for March 2016 was $1,137.5 billion on a seasonally-adjusted, but not-inflation-adjusted, annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.3%, versus a downwardly revised level of $1,133.6 billion in February 2016. Net of prior-period revisions, the headline March change was a month-to-month decline of 0.6% (-0.6%).

February 2016 month-to-month spending was up by a revised 1.0%, versus a downwardly-revised $1,122.0 billion level in January 2016. In turn, January 2016 month-to-month spending was down by a revised 0.3% (-0.3%). versus an unrevised level of $1,125.9 billion in December 2015.

Adjusted for FDCI inflation (monthly inflation turned positive in March), total real monthly spending in March 2016 was up by 0.3%, versus a gain of 1.1% in February 2016 and unchanged at “0.0%” in January 2016.

On a year-to-year annual-growth basis, March 2016 nominal construction spending rose by a statistically-significant 8.0%, versus downwardly-revised annual gains in February 2016 of 9.3% and January 2016 of 8.6%. Net of construction costs indicated by the FDCI, the year-to-year gain in total real construction spending was 6.9% in March 2016, 8.2% in February 2016 and 7.3% in January 2016.

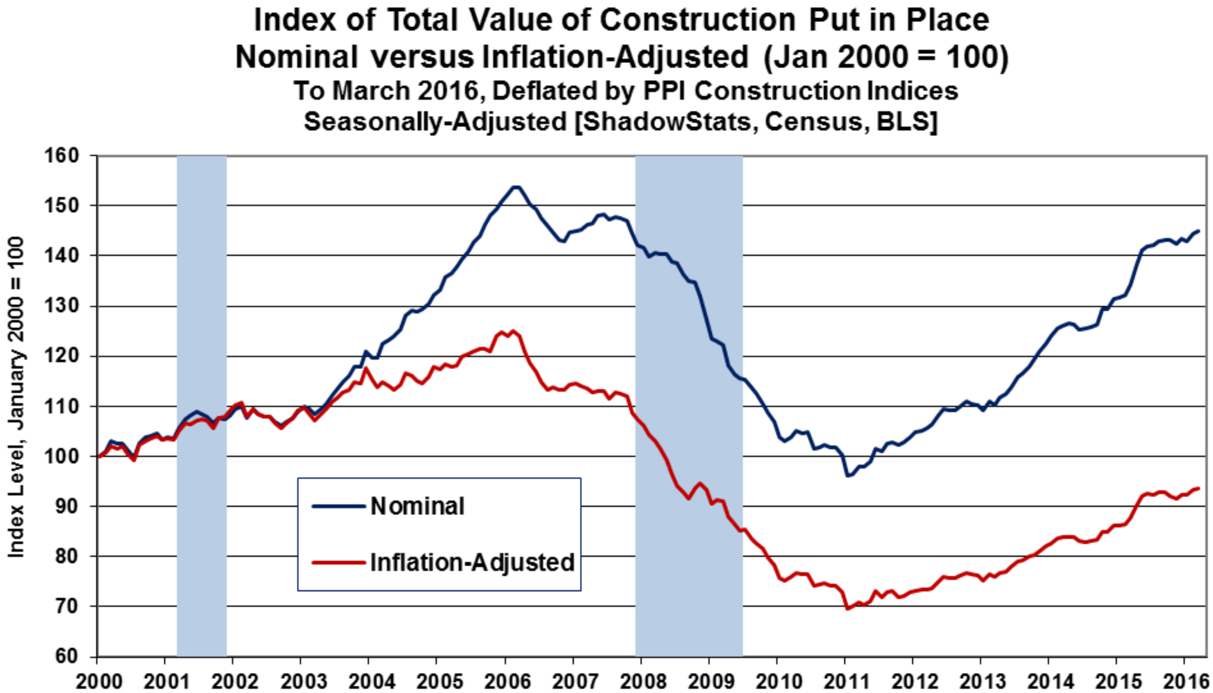
The statistically-insignificant, headline monthly nominal gain of 0.3% in aggregate March 2016 constriction spending, versus a gain of 1.0% in aggregate February 2016, included a headline monthly drop of 1.9% (-1.9%) in March public spending, versus a 0.4% gain February. Private spending rose by 1.1% month-to-month in March, following a 1.3% gain in February. Within total private construction spending, the residential sector gained 1.6% in March, following a gain of 1.7% in February, while the nonresidential sector rose by 0.7% in March, having gained by 0.8% in February.

Construction Graphs. Despite protracted and variable stagnation in broad activity, the pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see *Commentary No. 803*). To the contrary, the latest broad construction reporting in real terms generally has shown a pattern of low-level, albeit variably up-trending stagnation, where activity never recovered pre-recession highs, but now has continued to stagnate.

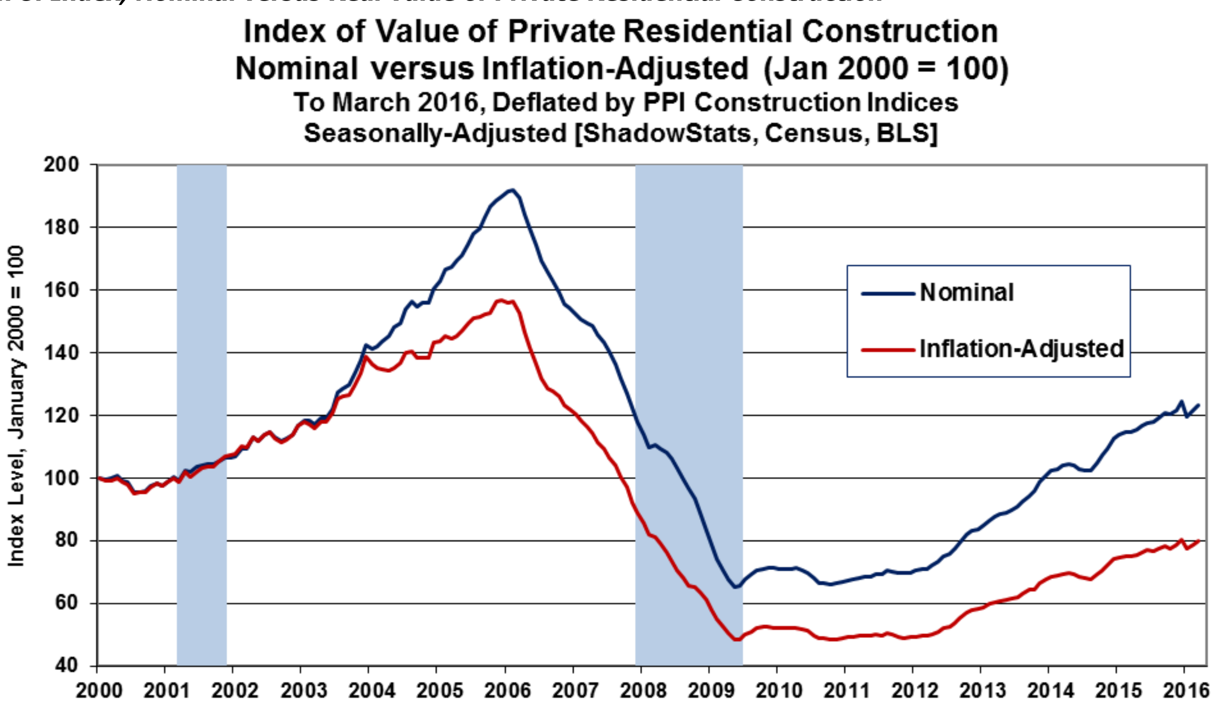
A variety of construction spending and related, comparative graphs (*Graphs 11* to *19*) are found in the *Reporting Detail* section. *Graphs 7* to *10*, which follow here, show plots of the comparative construction series both before and after adjustment for headline inflation.

[Graphs 7 to 10 begin on the next page]

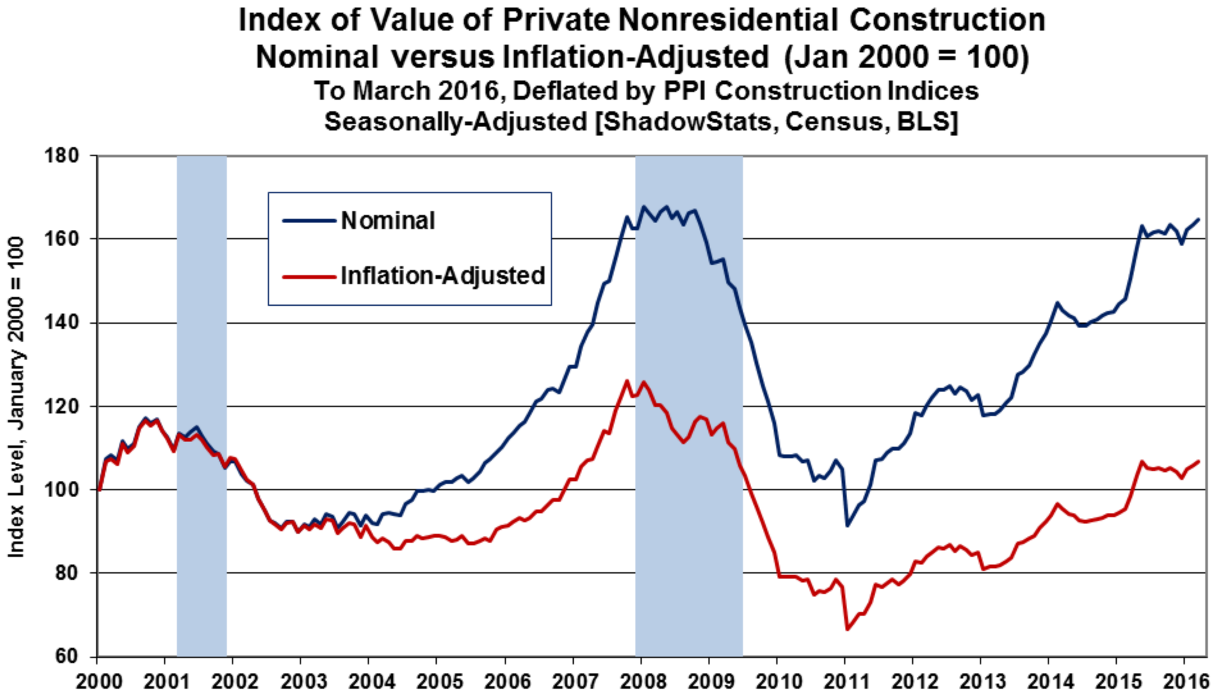
Graph 7: Index, Nominal versus Real Value of Total Construction



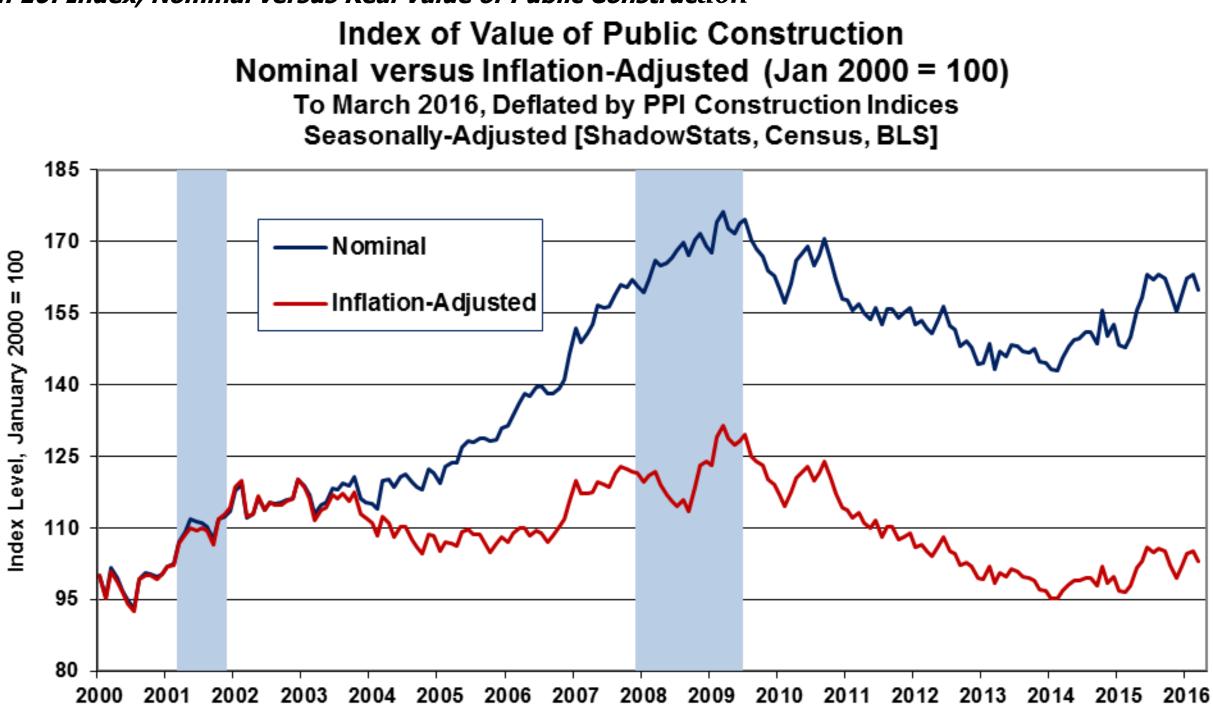
Graph 8: Index, Nominal versus Real Value of Private Residential Construction



Graph 9: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 10: Index, Nominal versus Real Value of Public Construction



[The *Reporting Detail* section includes significant additional graphs related to construction spending with added detail on both the construction and trade data.]

REPORTING DETAIL

U.S. TRADE BALANCE (March 2016)

While the Real First-Quarter 2016 Deficit Was the Worst Since Second-Quarter 2007, the Narrowed, March 2016 Deficit Reflected a Sharp Downturn in Imported Consumer Goods. The headline decline in the March 2016 monthly-trade deficit held little good news for the broad U.S. economy. While the March deficit narrowed sharply on a month-to-month basis, such reflected a plunge in imports of consumer goods. Either the March deficit reflected collapsing consumer demand, or there should be a bounce-back in imports next month. Either way, recent economic activity likely will revise downwards, reflective of an even-worse trade deficit, or of declining consumer consumption. Most likely, some combination of those factors is in play.

The initial estimate of the inflation-adjusted real first-quarter 2016 merchandise trade deficit was the worst quarterly trade shortfall since third-quarter 2007 (see *Graph 6* in the *Opening Comments*). The detail is discussed in the *Real (Inflation-Adjusted) March 2016 Trade Deficit* section.

The pending June 3, 2016 annual benchmark revision for the trade data is a virtual certainty to show even greater trade-deficit deterioration since 2013 (see *Ongoing Cautions...* section). That will place further downside-revision pressure on the July 29th GDP benchmarking, as seen with the recent Industrial Production benchmarking (*Commentary No. 796-A*) and as is likely to be seen with other pending revisions to durable goods orders and housing starts.

Nominal (Not-Adjusted-for-Inflation) March 2016 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, May 4th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for March 2016, on a balance-of-payments basis, improved by $6.520 billion to $40.443 billion, versus a revised $46.963 [previously $47.060] billion in February. That March 2016 nominal deficit also narrowed versus a $52.176 billion trade shortfall in March 2015.

Allowing for monthly irregularities and regular volatility in the headline monthly reporting, unusually-large monthly swings in the headline deficit like this are seen once a year or so, with a reverse movement often following in the next month's reporting. The headline change here, however, also could be suggestive of rapidly-slowing domestic economic consumption.

In terms of month-to-month trade patterns, the headline $6.520 billion improvement in the March deficit reflected a decline of $1.544 (-$1.554) billion in exports, more than offset by a monthly decline of $8.064 (-$8.064) billion in imports. The declines in both imports and exports were seen primarily in the consumer goods sector.

Declining oil prices bottomed out in February 2016, inching higher by 0.7% in March, with a negligible distorting impact on oil imports, in inflation-adjusted real terms.

Energy-Related Petroleum Products. For the first time since July 2015, the not-seasonally-adjusted average price of imported oil increased month-to-month, rising to $27.68 per barrel in March 2016, from $27.48 per barrel in February 2016. That still was down from $46.47 per barrel in March 2015.

Where monthly-average spot oil prices had rallied sharply in March 2016, up by 19.1% from January 2016 the reflection of that in the trade-reporting detail likely will begin to surface in the April and May 2016 data. When the higher prices are recognized, the headline, aggregate nominal monthly trade deficit should soar.

Separately, not-seasonally-adjusted physical oil-import volume in March 2016 averaged 7.819 million barrels per day, up from 7.404 million in February 2016 and 7.302 million in March 2015.

Ongoing Cautions and Alerts on Data Quality. Potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues affect other economic releases, such as retail sales and payrolls, where the headline number reflects month-to-month change. Discussed frequently (see *2014 Hyperinflation Report—Great Economic Tumble* for example), the extraordinary length and depth of the current business downturn and disruptions have distorted regular seasonality patterns. Accordingly, the markets should not rely too heavily on the accuracy of the monthly headline data.

Today's (May 4th) monthly trade balance *Press Release* re-confirmed detail on the annual benchmark revision to the trade data, due on June 3, 2016. Revisions will go back to January 2013.

Noted in trade-related *Commentary No. 748*, at least a three-percent understatement of the historical U.S. trade deficit awaits correction in the June 3rd trade benchmark revision, along with implied, subsequent downside benchmark revisions to historical GDP growth pending for July 29, 2016.

Beginning with the headline reporting for July 2015, the Bureau of Economic Analysis (BEA) and the Census Bureau introduced a change in the trade-deficit calculation, now counting low-value imports, which previously neither were reported nor calculated in the monthly balance-of-payments estimates. To allow for near-term reporting consistency in recent headline data, trade detail back to January 2015 also was restated with July 2015 and subsequent reporting to incorporate a "temporary balance of payments adjustment for low-value imports," included in the trade calculations.

Where imports are counted on the negative side of the trade balance, the change in reporting methodology indicated that imports had been understated regularly, with the effect of underestimating the size of the U.S. trade deficit by at least three-percent. Such has negative implications for historical, broad economic growth and indeed for future GDP benchmark revisions.

Real (Inflation-Adjusted) March 2016 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the March 2016 merchandise trade deficit (no services) narrowed to $57.430 billion, from a revised $63.210 [previously $63.346] billion in February 2016, and from a revised $61.891 [previously $61.771, initially $61.973] billion in January 2016. The March 2016 shortfall also narrowed sharply versus a $66.492 billion real deficit in March 2015.

As currently reported, the annualized quarterly real merchandise trade deficit was $605.5 billion for fourth-quarter 2014, $692.4 billion for first-quarter 2015, $694.8 billion for second-quarter 2015, $706.1 billion for third-quarter 2015, and a revised $721.1 [previously $721.7] billion for fourth-quarter 2015.

The initial reporting for first-quarter 2016 showed continued quarterly deficit deterioration, to $730.1 billion, the worst reading since third-quarter 2007 (see *Graph 6* in the *Opening Comments*). Such now is in line with the initial reporting of first-quarter 2016 GDP (see *Commentary No. 803*), but either the trade shortfall or consumption levels should deteriorate in pending revisions—separate from benchmarking considerations—with a resulting negative growth-revision impact on subsequent first-quarter GDP estimates.

Headline deficits likely will get even deeper in the months and quarters ahead, intensifying the ongoing negative impact on headline GDP growth.

CONSTRUCTION SPENDING (March 2016)

Real Construction Spending Continued in Low-Level, Stagnating Non-Recovery. Still shy of its pre-recession peak in February 2006 by 25.0% (-25.0%), inflation-adjusted real construction spending fell in fourth-quarter 2015 and otherwise generally has continued to stagnate, at a low-level of activity. Where that activity, however, had been sharply up-trending in first-quarter 2016, as of the initial reporting of February 2016 detail, this particularly volatile series—virtually worthless in its initial guesstimate—revised sharply lower in January and February, with March's headline level of spending and monthly gain of 0.3%, actually down by 0.6% (-0.6%) versus February's initial headline detail.

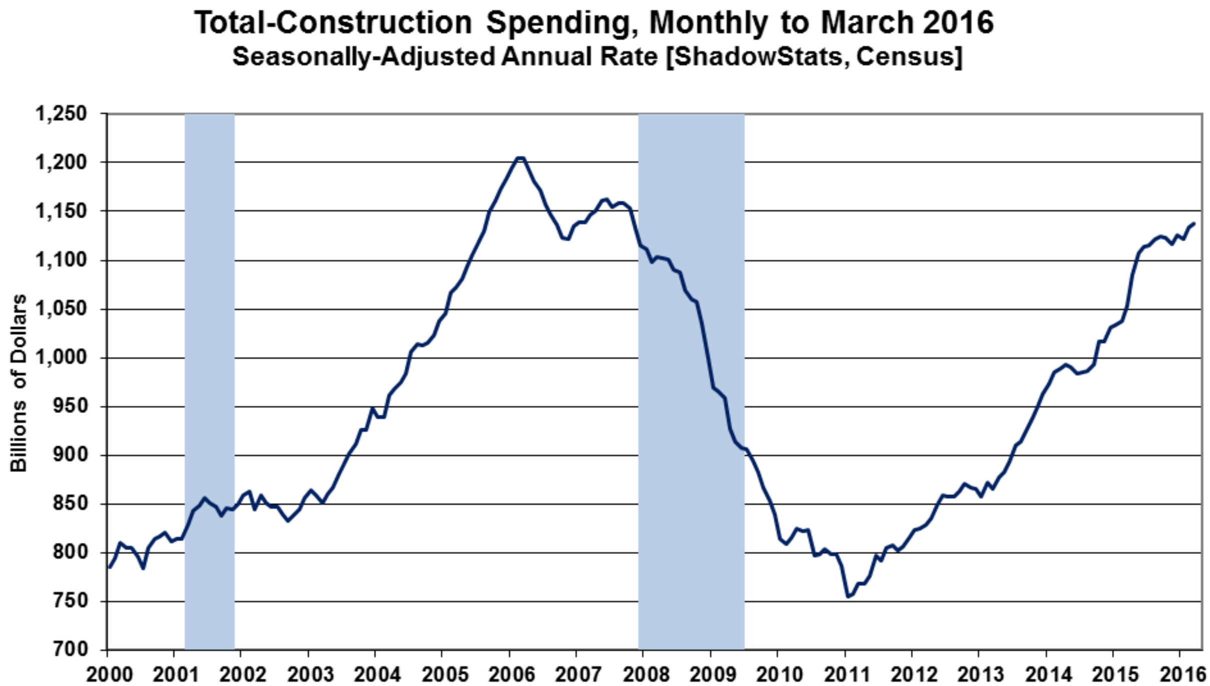
With all revisions in place (including the PPI construction deflator), fourth-quarter 2015 real construction spending contracted at a deeper, annualized quarterly pace of 2.7% (-2.7%) [down by 2.5% (-2.5%) previously, and by 2.9% (-2.9%), and initially down by 3.8% (-3.8%)], following annualized quarterly real gains of 4.1% in third-quarter 2015, 25.0% in second-quarter 2015, and 6.0% in first-quarter 2015.

Based on the initial, unstable reporting for January, February and March 2016, and in the context of contracting headline quarterly inflation, which boosts inflation-adjusted real growth, first-quarter 2016 real construction spending rose at an annualized pace of 5.3%. That was against an initial annualized quarterly growth of 11.3% estimate, based on just January and February reporting, and 9.1%, based on just the initial January 2016 reporting. The hefty downside revision to the first-quarter trend should be enough to provide some downside-revision pressure to the "advance" estimate of 0.5% annualized first-quarter real GDP growth.

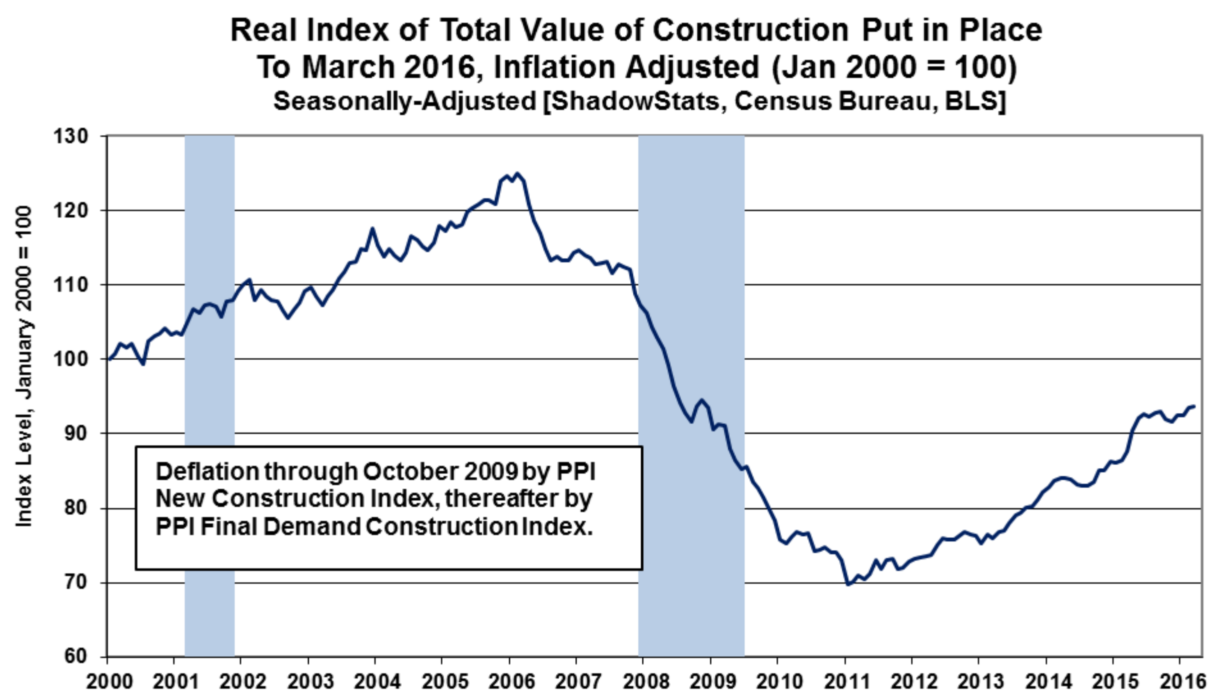
Graphs 7 to *10* in the *Opening Comments* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public-construction. Again, seen after adjustment for inflation, the real aggregate series had remained in low-level stagnation into first-quarter 2015, with some short-lived gains that turned down anew in fourth-quarter 2015, with some faltering rebound/stagnation in early-2016. Areas of recent relative real strength in all of the major subcomponents have flattened out, or turned down, both before and after inflation adjustment, reflecting the most recent revisions.

The general pattern of real activity had been one of low-level, but up-trending stagnation. That uptrend, however, largely has flattened out. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 11* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 12*. *Graphs 14* and *15* show the relative patterns of nominal and real activity aggregated by sector.

Graph 11: Total Nominal Construction Spending



Graph 12: Index of Total Real Construction Spending



PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary series, again, all as shown in *Graphs 7* to *10* in the *Opening Comments* and in *Graph 15.*

The previously-used New Construction Index (NCI) in the PPI was so far shy of reflecting construction costs as to be virtually useless. Although closely designed to match this construction-spending series, the FDCI and subsidiary numbers have two problems. First, the historical data only go back to November 2009. Second, they generally still understate actual construction inflation. Private surveys tend to show higher construction-related inflation than is reported by the government. For example, year-to-year inflation reflected in the privately-published Building Cost Index and Construction Cost Index [Dodge Data and Analytics (McGraw Hill) *Engineering News-Record*] usually runs well above the headline pace of annual inflation in the PPI's Final Demand Construction Index. Where, the annual PPI construction-inflation measure briefly and recently had moved to about even with, if not somewhat higher than the private-sector measures, it has fallen significantly below them in the latest detail.

There is no perfect, publicly-available inflation measure for deflating construction. For the historical series in the accompanying graphs, the numbers are deflated by the NCI through November 2009, and by the FDCI and subsidiary series thereafter.

Seasonally-adjusted March 2016 FDCI month-to-month inflation rose by 0.09%, the first month-to-month increase in five months. That followed a headline monthly decline of 0.09% (-0.09%) in February. In terms of year-to-year inflation, the March 2016 FDCI was up by 1.07%, versus 0.98% annual inflation in February 2016, also on an adjusted basis.

March 2016 headline inflation for government-funded construction also rose by 0.09%, having been down by 0.09% (-0.09%) in February, while it rose by 1.34% year-to-year in March 2016, the same level as the 1.34% annual increase in February 2016. Separately, inflation for privately-funded construction was "unchanged" at 0.00% in March 2016, having declined month-to-month by 0.09% (-0.09%) in February, with year-to-year inflation at a positive 0.89% in March 2016, the same level as the 0.89% annual increase in February 2016.

Headline Reporting for March 2016. The Census Bureau reported May 2nd, in the context of sharp downside revisions to the levels of spending in January [lower by 2.4% (-2.4%)] and February [lower by 0.9% (-0.9%)], that the headline, total value of construction put in place in the United States for March 2016 was $1,137.5 billion on a seasonally-adjusted, but not-inflation-adjusted, annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.3% +/- 1.2% (all confidence intervals are at the 95% level), versus a downwardly revised level of $1,133.6 [previously $1,144.0] billion in February 2016. Net of prior-period revisions, the headline March change was a month-to-month decline of 0.6% (-0.6%).

February 2016 month-to-month spending was up by a revised 1.0% [previously down by 0.5% (-0.5%)] versus a downwardly-revised $1,122.0 [previously $1,150.1, initially $1,140.8] billion level in January 2016.

In turn, January 2016 month-to-month spending was down by a revised 0.3% (-0.3%) [previously up 2.1%, initially up by 1.5%] versus an unrevised level of $1,125.9 billion in December 2015.

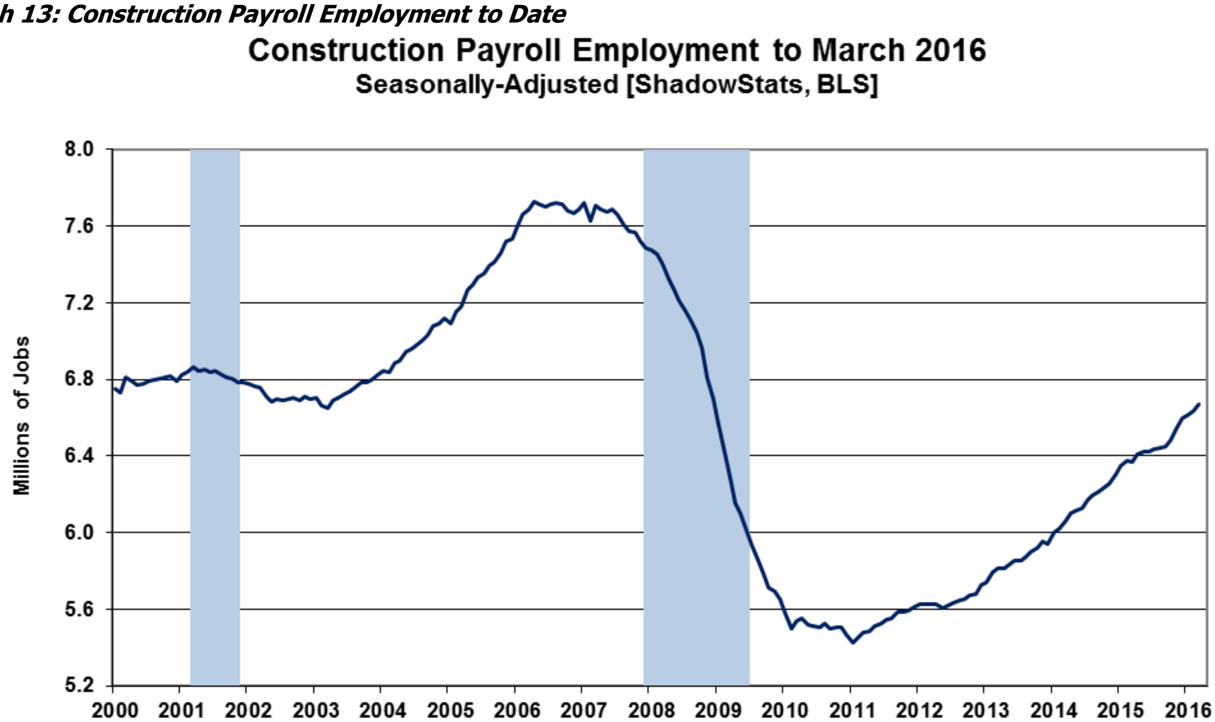
Adjusted for FDCI inflation (monthly inflation turned positive in March), total real monthly spending in March 2016 was up by 0.3%, versus a gain of 1.1% in February 2016 and unchanged at "0.0%" in January 2016.

On a year-to-year annual-growth basis, March 2016 nominal construction spending rose by a statistically-significant 8.0% +/- 1.9%, versus downwardly-revised annual gains in February 2016 of 9.3% [previously up by 10.3%] and January 2016 of 8.6% [previously up by 11.3%, initially up by 10.4%]. Net of construction costs indicated by the FDCI, the year-to-year gain in total real construction spending was 6.9% in March 2016, 8.2% in February 2016 and 7.3% in January 2016.

The statistically-insignificant, headline monthly nominal gain of 0.3% in aggregate March 2016 constriction spending, versus a gain of 1.0% in aggregate February 2016, included a headline monthly drop of 1.9% (-1.9%) in March public spending, versus a 0.4% gain February. Private spending rose by 1.1% month-to-month in March, following a 1.3% gain in February. Within total private construction spending, the residential sector gained 1.6% in March, following a gain of 1.7% in February, while the nonresidential sector rose by 0.7% in March, having gained by 0.8% in February.

Construction and Related Graphs. The earlier *Graphs 11* and *12*, and later *Graphs 14 and 15* reflect total construction spending through March 2016, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 12* is on an index basis, with January 2000 = 100.0. Adjusted for the PPI's NCI measure through October 2009 and the PPI's Final Demand Construction Index (FDCI) thereafter, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014 and some boost into early-2015. Activity declined in fourth-quarter 2015, with an early first-quarter 2016 trend on the plus-side.

Graph 13: Construction Payroll Employment to Date



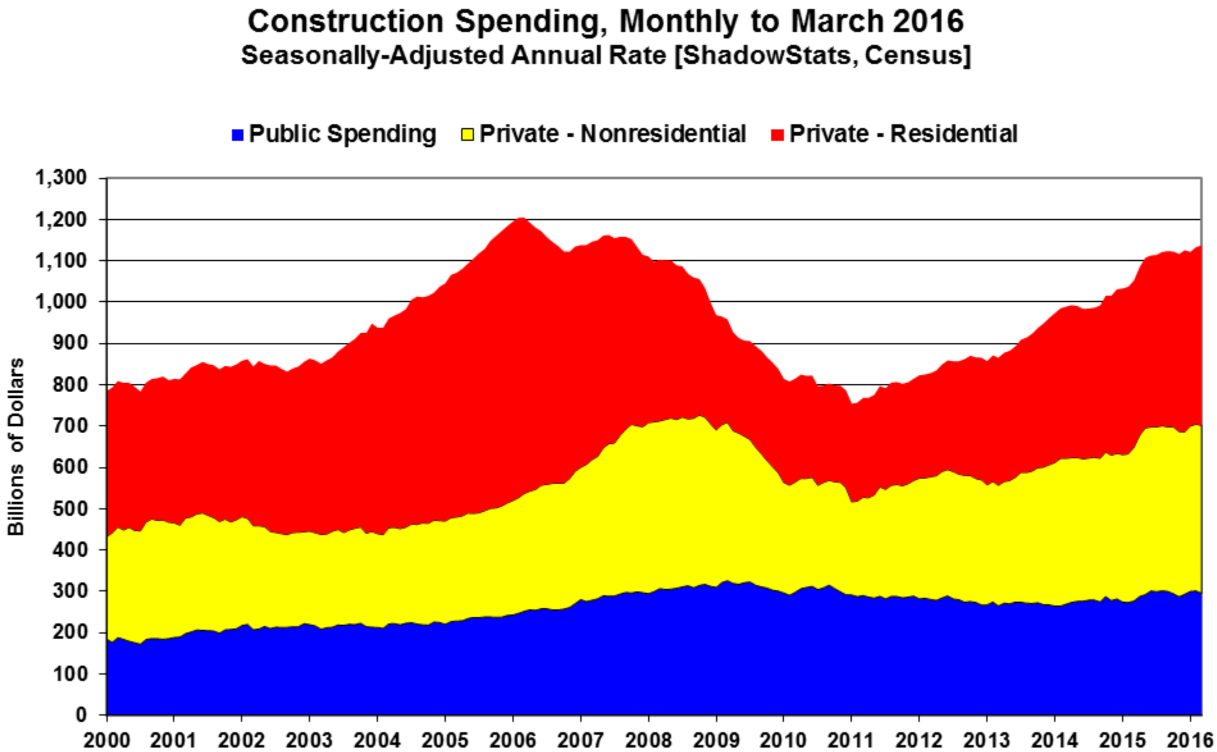
The pattern of non-recovered, inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see prior *Commentary No. 803* and *No. 777 Year-End Special Commentary*). To the contrary, the latest broad construction reporting, both before (nominal) and after (real) inflation adjustment, generally still shows a pattern of low-level activity, where aggregate activity never recovered pre-recession highs and has flattened-out anew, turning lower in fourth-quarter 2015, but trending minimally to the upside in first-quarter 2016.

Graph 13 shows March 2016 construction employment, as discussed and detailed in the last payroll *Commentary No. 796*. The April numbers and graph will be updated in *Commentary No. 805* of May 6th. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity. Ironically, construction payrolls have shown increasing strength at the same time that broad construction activity—measured in terms of units or in real, inflation-adjusted dollars—generally has begun to slow, flatten-out or turn down anew.

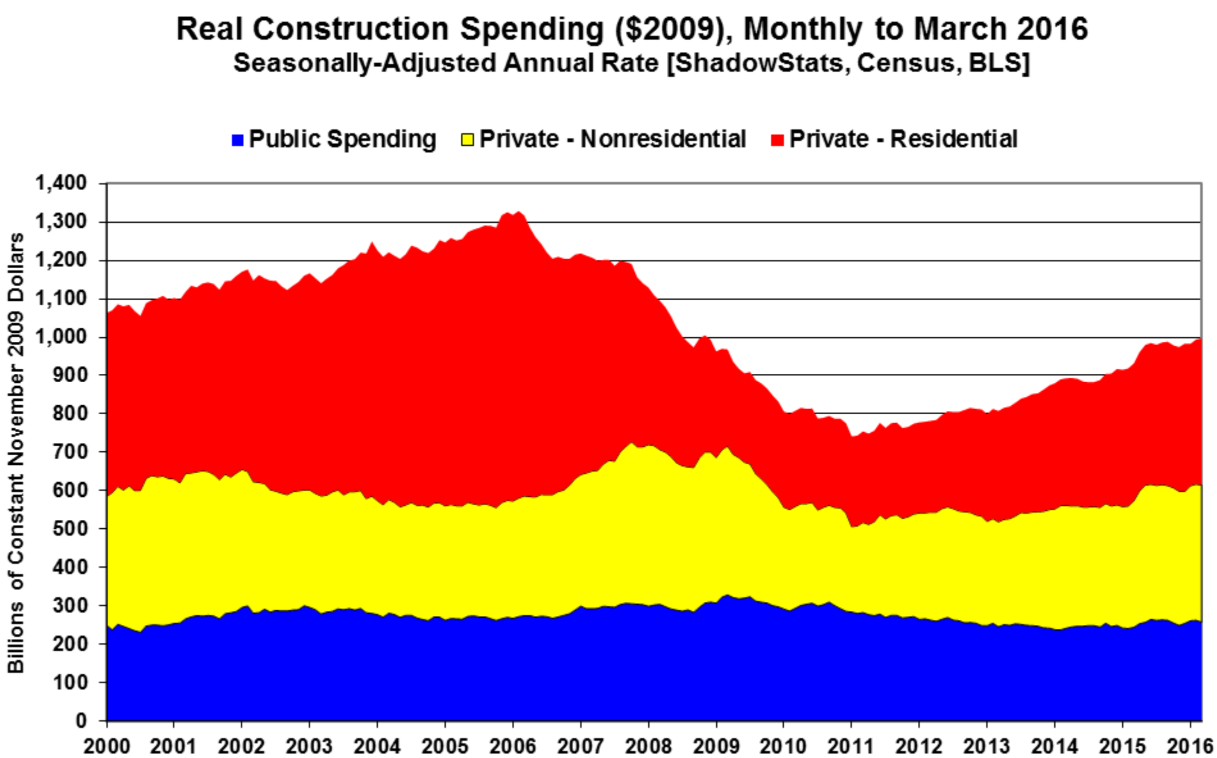
Graph 14 shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 15* shows the same breakout by sector as in *Graph 14*, but the detail is in real, inflation-adjusted terms, reflected in constant November 2009 dollars, deflated by the final-demand PPI inflation measure for construction, as discussed otherwise in the earlier *PPI Final Demand Construction Index* section.

[Graphs 14 and 15 follow on the next page]

Graph 14: Aggregate Nominal Construction Spending by Major Category to Date

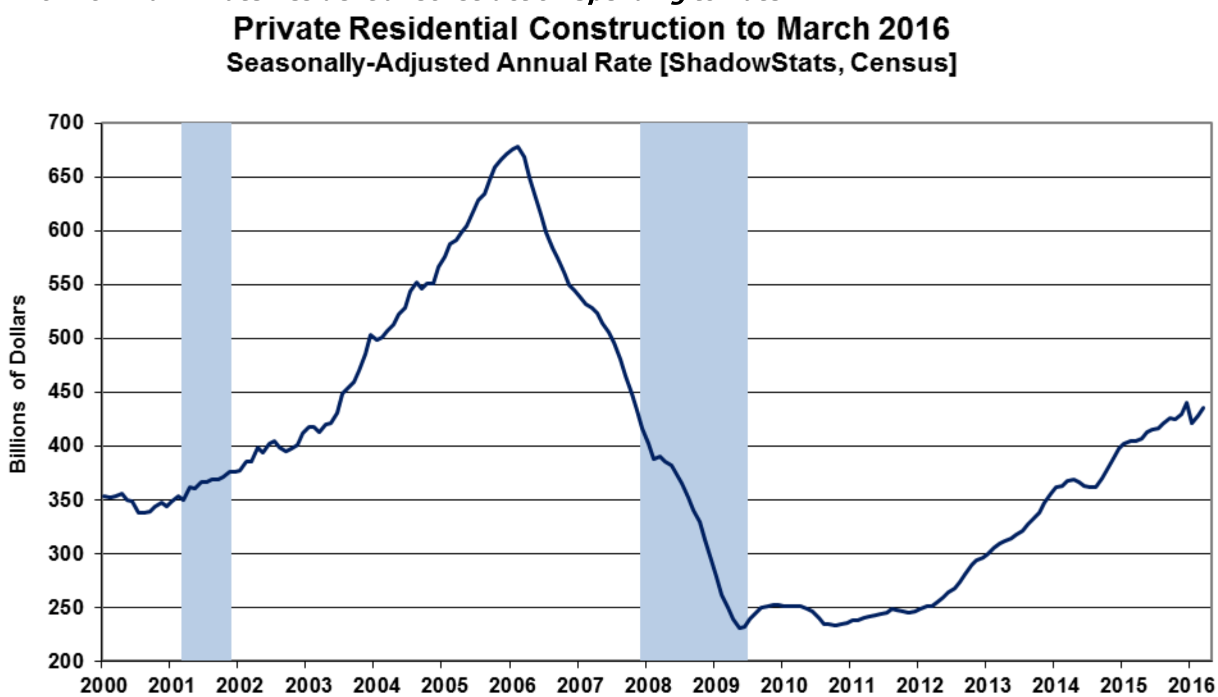


Graph 15: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)

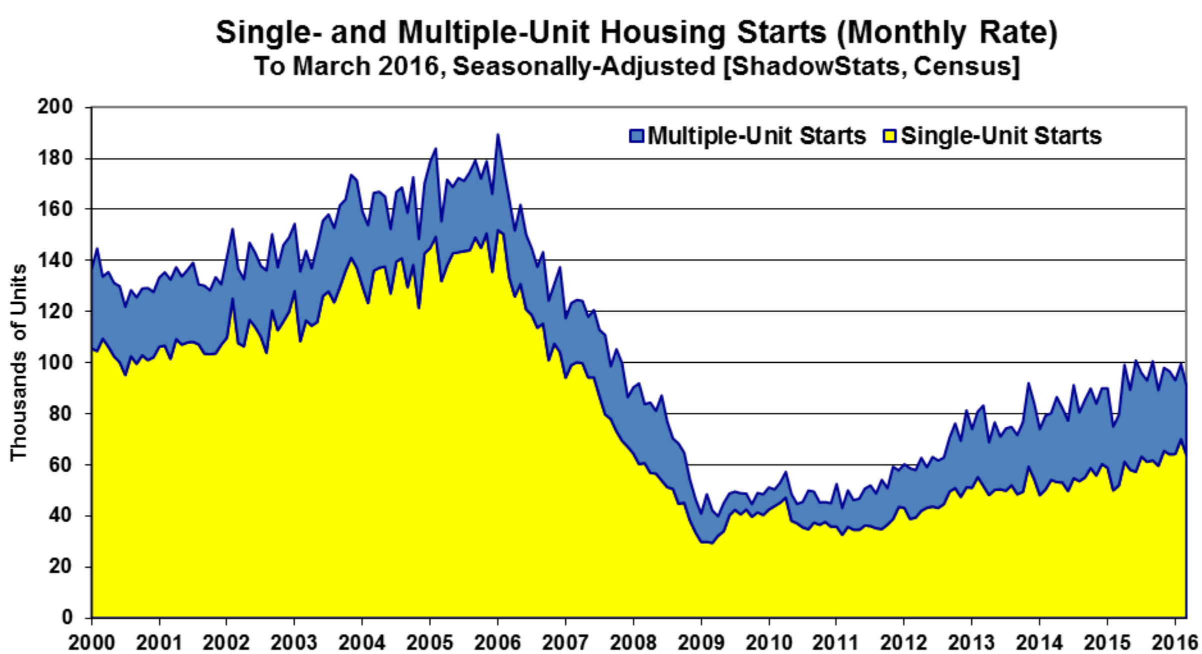


The next two graphs (*Graph 16* and *17*) cover private residential construction along with housing starts (combined single- and multiple-unit starts) for March 2016 (see Commentary No. 801).

Graph 16: Nominal Private Residential Construction Spending to Date

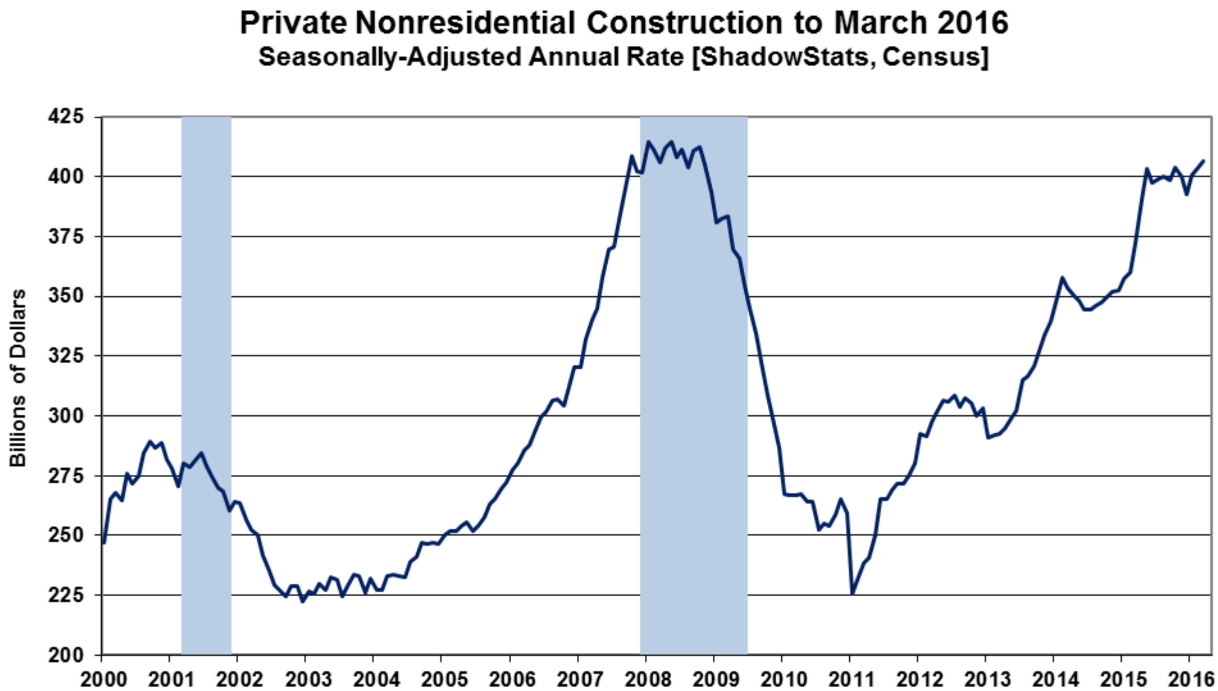


Graph 17: Single- and Multiple-Unit Housing Starts to Date

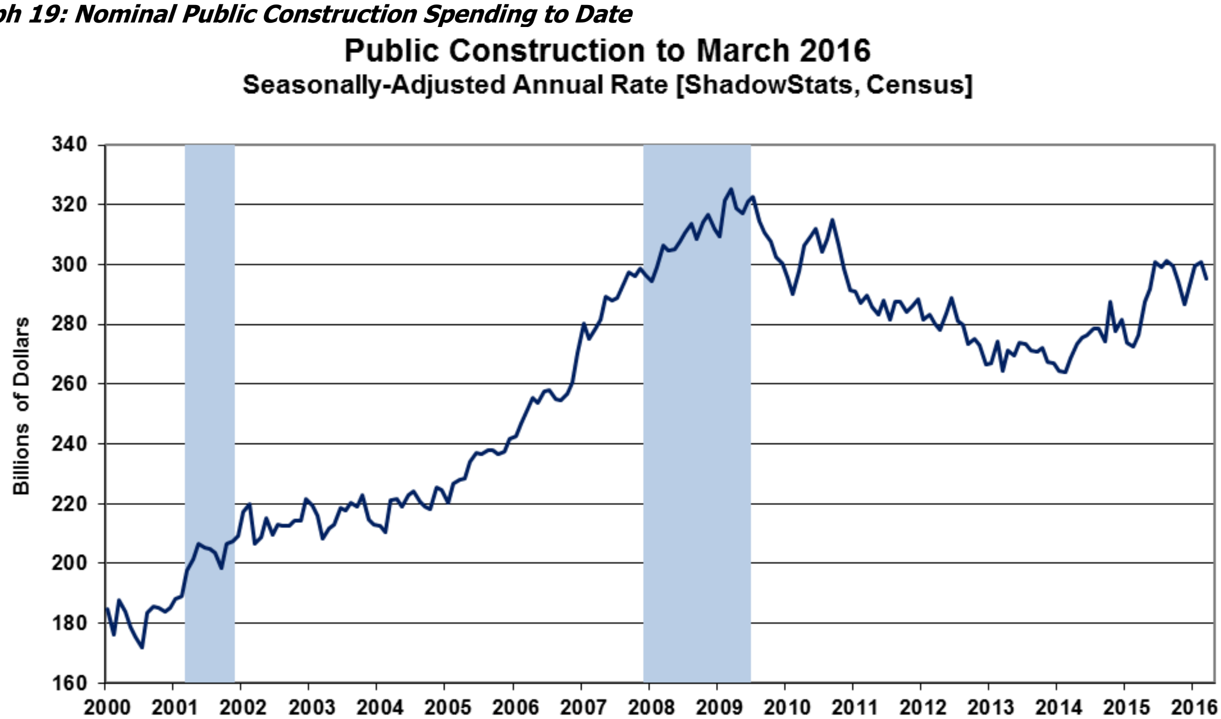


Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 8* of the *Opening Comments* section, *Graph 15* and presumably with the headline construction-payroll data in *Graph 13*.

Graph 18: Nominal Private Nonresidential Construction Spending to Date



Graph 19: Nominal Public Construction Spending to Date



The final two graphs (*Graphs 18* and *19*) show the patterns of the monthly level of activity in private nonresidential-construction spending and in public-construction spending. The spending in private-nonresidential construction showed some gain in March, having turned flat, recently, holding off its historic peak.

Public construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015, now fluttering in what appears to be something of a topping-out process, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 9*, *10* and *15*, indeed, both series appear stalled shy of their pre-recession peaks.

WEEK AHEAD

Economic Deterioration Should Intensify, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and Fed-policy waffling in the weeks and months ahead. The broad trend in weakening expectations for business activity, and in movement towards looming recession recognition, continues, as discussed in *Commentary No. 803*, *Commentary No. 802*, *Commentary No. 801*, *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796* and in *No. 777 Year-End Special Commentary*.

In response to perpetual non-recovery and an intensifying downtrend in underlying economic activity, negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices, as discussed in *Commentary No. 799*. These reactions reflect, at least in part, a solidifying sense of Federal Reserve impotence. Any further tightening by the Fed before the election is unlikely, and renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds.

Increasingly-weak headline reporting of the regular monthly economic numbers should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP). That includes high odds of an outright quarterly contraction for first-quarter 2016 GDP activity in the May 27th revision, as well as pending downside revisions to GDP history (including headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29th annual benchmark revisions.

Consistent with the relatively neutral benchmark revisions to retail sales (see *Opening Comments*), and in line with recent downside revisions to industrial production and likely pending negative benchmark revisions to construction, durable goods orders and trade, expectations for the GDP benchmarking also should fall sharply in the weeks ahead. That GDP benchmarking now is the most-likely point at which the elements for a "formal" recession call will be in full play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline March 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise more sharply in April and May, and likely going forward, boosted by the weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Fundamental reporting issues with the headline CPI also are discussed here: *Public Commentary on Inflation Measurement*.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last nine-to-eleven years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data). That has been discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" has surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. At the same time, it indicates an openness of the involved statistical agencies in revealing the reporting-quality issues.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see *Commentary No. 669*).

PENDING RELEASE:

***Updated* - Employment and Unemployment (April 2016).** The Bureau of Labor Statistics (BLS) will publish its April 2016 labor-conditions data on Friday, May 6th. Headline detail will be covered in *Commentary No. 805* of the same date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, remain open for negative, headline surprises, given the ongoing, general weakening tone in a number of business indicators, other than has been seen yet in the headline employment and unemployment detail.

Established monthly distortions to payroll employment (excessive upside biases, and publishing irregularities with the concurrent-seasonal-factor process) continue, as do the regular monthly distortions to headline unemployment (definitional issues with "discouraged workers," and publishing irregularities with the concurrent-seasonal-factor process).

Underlying economic fundamentals continue to deteriorate, suggesting slowing or negative month-to-month growth in headline payrolls, as well as stagnation or deterioration in the broader unemployment rates such as U.6 and particularly the ShadowStats Alternate Unemployment Measure.

As seen with reductions in the narrowly-defined, headline U.3 unemployment rate of recent months and years, any near-term reduction in the U.3 unemployment rate, from the up-ticked headline 5.0% of March 2016, likely would encompass more unemployed being redefined off the headline unemployment rolls and out of the headline labor force, than the number of unemployed gaining employment.

To the extent that underlying fundamentals continue to shine through all the regular monthly volatility and distortions, headline April 2016 activity should continue to favor much weaker-than-expected payroll gains. Where consensus forecasts were likely to come in below what was a still a heavily-overstated, headline payroll gain of 215,000 in March 2016, that has happened. Late-consensus estimates are within a general range of 200,000 to 205,000 for the headline April payroll gain, but that could weaken further, in the context of a weaker-than-expected ADP report this morning (March 4th). Expectations appear to be in place for the headline U.3 unemployment rate to notch lower to 4.9% in April, versus the headline 5.0% in March.

