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

COMMENTARY NUMBER 870
January Trade Deficit, Construction Spending, Household Income, Pending FOMC

March 7, 2017

Beware the Ides of March!

FOMC Targeting Growth-Killing Rate Hikes in an Economy that Is Foundering, Not Overheating?

January Real Median Household Income Continued to Falter, Down Year-to-Year for the Second Straight Month

First-Quarter 2017 Real Merchandise-Trade Deficit Is on Track for Worst Showing Since First-Quarter 2007, An Early Negative for the GDP

If the Current Trend in Trade Is Not Altered, Third-Quarter 2017 Real Deficit Would Be Worst Ever

Real Construction Spending Remained in Stagnant Non-Recovery, Down for the Month and Year, Amidst Upside Revisions and Rising Inflation, Still Shy of Its Pre-Recession High by 22% (-22%)

PLEASE NOTE: The next regular Commentary*, scheduled for Friday, March 10th, will cover February labor conditions, the February ShadowStats Ongoing M3 Estimate and an update to Consumer Liquidity. Please call me at (707) 763-5786, if you have questions or would like to talk.*

Best wishes to all — John Williams

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

OPENING COMMENTS AND EXECUTIVE SUMMARY

The Fed Chair Has Prepared the Markets for ...? The policy announcement out of the Federal Reserve Board's Federal Open Market Committee (FOMC) on the afternoon of March 15th will be interesting and possibly quite a market mover. Rarely has the Fed Chair given such a solid signal of a pending rate hike, and accordingly, markets broadly are anticipating such action. Ms. Yellen, however, did qualify the move with "if the economic data continue to come in about as we expect." At the time of her speech, she likely had a good idea as to how the February labor data looked (broad details largely are in place a week before the release, scheduled here for March 10th). She either is looking confidently at a rate hike on the 15th, or, in the event of much weaker-than-expected pending labor data, she could be playing a "Lady or the Tiger?" game, where she can claim that the Fed really was looking to raise rates, but they had to back off at the last moment, given the "unexpected" softening in economic data.

In her March 3rd address to The Executives' Club of Chicago, Fed Chair Janet Yellen specifically announced:

> In short, we currently judge that it will be appropriate to gradually increase the federal funds rate if the economic data continue to come in about as we expect. Indeed, at our meeting later this month [March 14 to 15], the Committee will evaluate whether employment and inflation are continuing to evolve in line with our expectations, in which case a further adjustment of the federal funds rate would likely be appropriate.

A major problem with Fed policy relative to the economy remains that it is dedicated to the support of the banking system at any cost, including the best interests of the general economy, whenever there is a conflict. Circumstances have gotten so bad in the last several years that the Fed has moved to redefine normal and acceptable domestic economic activity. Ms. Yellen's speech was suggestive of five percent unemployment being full employment, and of an acceptable monthly payroll jobs growth of 75,000 to 125,000 per month. In current circumstances, those standards are consistent with ongoing recession, not with economic expansion (see the expanded discussion in *Fed Speak Downgrades Definitions of "Healthy" Labor Conditions and Misdirects the Public as to Central-Bank Motivations* on page 67 of *No. 859 Special Commentary*).

The Economy Is Not Thriving, Key Headline Activity Continues in Downturn. Prior *Commentary No. 869* reviewed and assessed underlying economic reality and a broad variety of indicators in the context of the second-estimate of fourth-quarter 2016 GDP. The better-quality numbers from private sources, and traditionally from the Fed, show an economy that collapsed into 2009, bounced off its trough but never fully recovered, that never moved into a period of new economic expansion, unlike the ever-booming GDP and a number of related series published by various Bureaus of the Executive Branch of the federal government.

Discussed in the *Opening Comments* of *Commentary No. 866*, the theory behind the Federal Reserve raising interest rates to fight inflation is that such action will cool an overheating economy. When the inflation-fighting constraints are put in place, though, and the economy has not been overheating—such as was seen in the early-1980s—the result is severe economic pain.

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Yet, the recent rise in headline inflation has been due to dollar-support games played by the Federal Reserve in its ongoing effort to salvage a collapsing system in 2008. Those efforts first killed and now, with coordinated supply actions by OPEC and others, are driving oil prices and related headline inflation higher. The rising inflation is not due to an overheating economy, just to Federal Reserve incompetence, having lost control of the banking system during the last decade.

No one at the Fed can claim an overheating economy with a straight face, and the Fed Chair knows better, having often expressed her own concern over the still-not-recovered labor-force participation rate (see *Commentary No. 864*), where the low headline jobless rate commonly has reflected people being dropped from the labor-force count by the Bureau of Labor Statistics (BLS), rather than regaining employment.

As discussed in the *Opening Comments* of *Commentary No. 869*, the federal government needs to come clean on its economic reporting, but so, too, does the Fed on its policies. The Central Bank needs to be forthright on its circumstance, where it has lost control of the system and still is trying to piece it back together. It has no real concern of an overheating economy, such is just a façade—an effort to maintain some semblance of credibility—while holding the banking system together.

FOMC Meeting Results. Nonetheless, odds favor market expectations for a rate hike on March 15th. If the Fed funds rate is boosted, that should be the last hike for a while. The economy has not recovered and is turning down anew, at least as discussed for headline data reviewed later in this *Commentary*. The latest Real Median Household Income has turned negative year-to-year. The January 2017 trade deficit had sharply-negative implications for the GDP. Real monthly construction spending also turned negative year-to-year in January 2017, never having recovered its pre-recession high.

Accordingly, I would argue there still is substantial risk of a shockingly-weak employment report on Friday, March 10th, which would give the Fed some public leeway for backing off imminent rate hikes. If so, watch out for massive dollar selling and related actions in other markets, including increased flight to precious metals (again, see *No. 859 Special Commentary*).

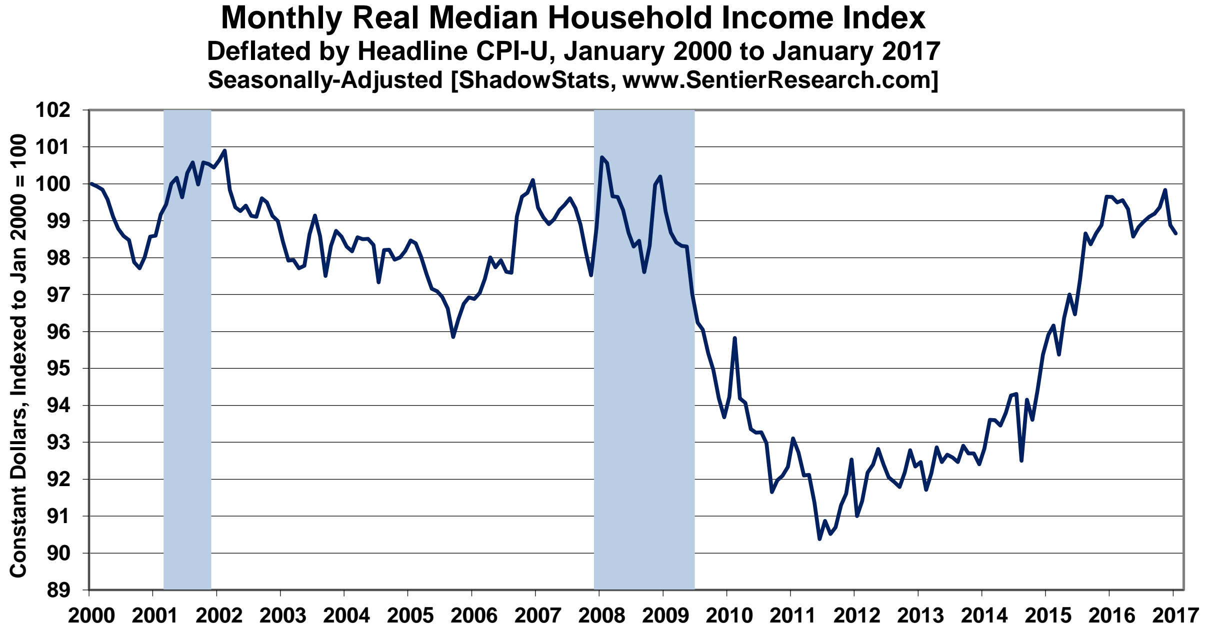
Real Median Household Income Notched Lower in December, Hitting an Eight-Month Low. Despite a continuing monthly surge in the Conference Board's Consumer Confidence Survey, and a minimal pullback in the University of Michigan's Consumer Sentiment Survey, monthly Real Median Monthly Housed Income has continued to falter. The household income measure, as surveyed by www.SentierResearch.com, was updated on March 2nd and is plotted in the accompanying *Opening Graphs*, both in terms of level and year-to-year change, which has turned negative.

At an eight-month low, the series turned negative year-to-year in December 2016 by 0.8% (-0.8%) for the first time since 2014, followed by an annual decline of 1.0% (-1.0%) in January 2017. Where low headline CPI-U inflation and related spikes in inflation-adjusted real income had resulted from collapsing gasoline prices, that process has begun to reverse.

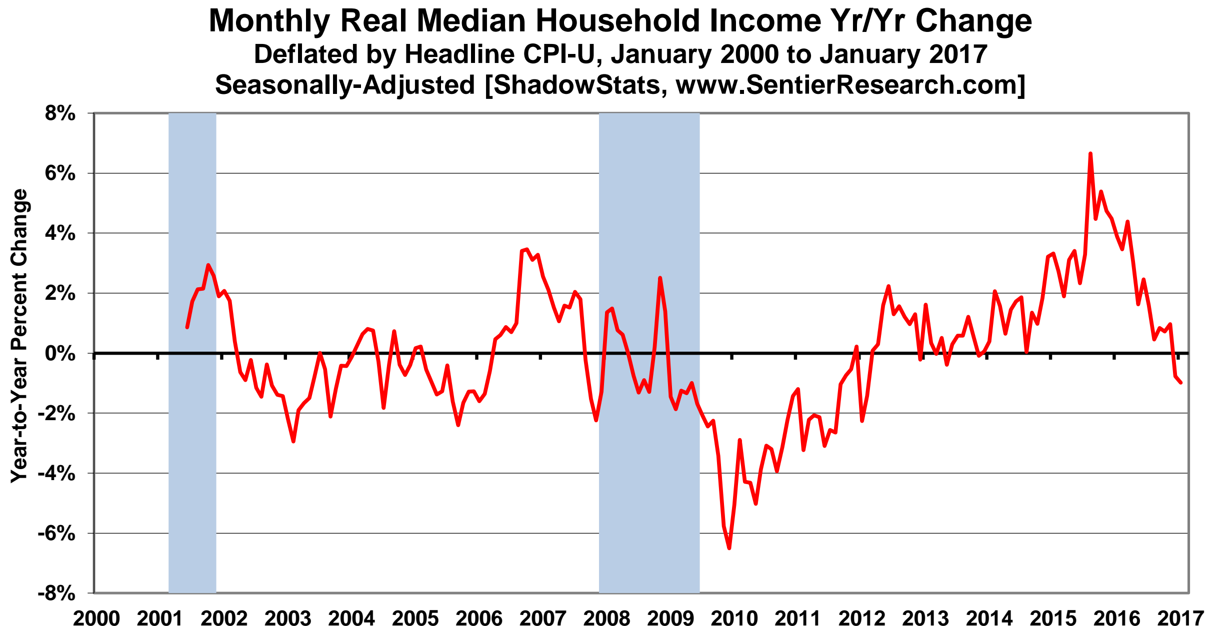
Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing economic expansion since. The limited level of, and growth in, sustainable real income, and the ability and willingness of the consumer to take on new debt have remained at the root of a consumer liquidity crisis and ongoing, broad economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. Where the post-election environment showed a near-term surge in consumer optimism, again, sentiment has flattened out at relatively high levels, with confidence bounding in February detail, yet underlying liquidity conditions and reality—particularly income and credit—still remain well shy of consumer hopes and needs.

Opening Graphs: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



Opening Graphs: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

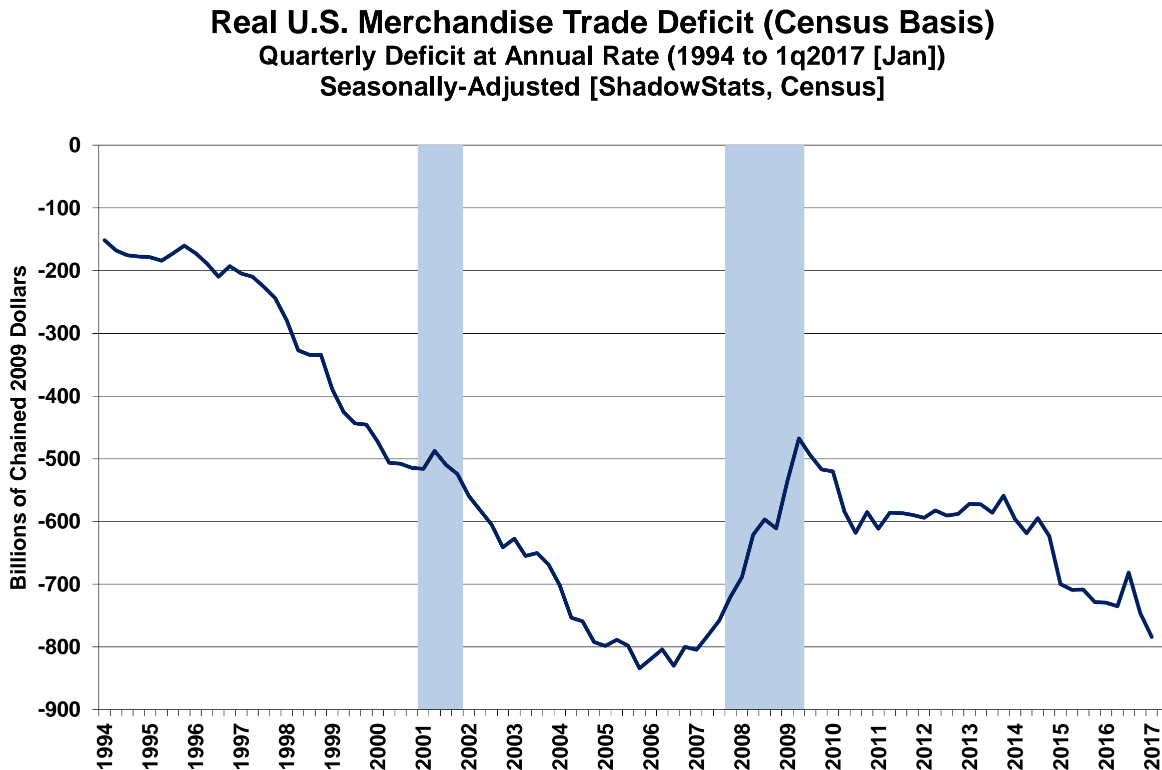
Consumer Liquidity Conditions, last covered in *Commentary No. 864* and last fully reviewed in the *No. 859 Special Commentary*, will be updated in the March 10th *Commentary No. 871*, along with the latest monthly and quarterly releases from the Fed on consumer credit and outstanding obligations.

Today's *Commentary* (March 7th). These *Opening Comments* and *Executive Summary* review prospects for the FOMC to boost the Fed funds rate on March 15th, and the headline releases of the January 2017 Trade Deficit and Construction Spending. Extended coverage of the trade and construction numbers follows in the *Reporting Detail*.

The *Week, Month and Year Ahead* section previews reporting of Friday's (March 10th) release of February Employment and Unemployment.

Executive Summary: U.S. Trade Deficit—January 2017—Deepening Deficit Signaled Quarterly Real Deterioration, to Levels Not Seen Since Early-2007. *Graph 1* shows continuing, sharp-quarterly trade deterioration, as suggested for the first-quarter 2017 inflation-adjusted (real) merchandise trade deficit, based just on initial January 2017 reporting. The early trend indicates the worst quarterly trade shortfall since first-quarter 2007. If the current trend is not altered, the third-quarter 2017 real U.S. trade deficit would be the worst ever seen in U.S. or global history.

Graph 1: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit through Early 1q2017



Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Nominal (Not-Adjusted-for-Inflation) Trade Deficit. The headline nominal, seasonally-adjusted monthly trade deficit in goods and services for January 2017 widened on a balance-of-payments basis. That was in the context of a negligible downside revision to December 2016 activity, although both the October and November 2016 deficits also were revised lower in conjunction with a realignment of monthly data in, and a minimal downside revision to, aggregate nominal detail for 2016.

The headline January 2017 deficit of $48.492 billion widened by $4.233 billion versus a revised deficit of $44.259 billion in December 2016, dominated by surging relative imports of oil and automobiles more than offsetting an increase in exports. The January 2017 deficit also widened by $5.136 billion versus the year-ago $43.356 billion trade shortfall of January 2016. Surging oil prices and physical oil-import volume contributed meaningfully to the current monthly shortfall.

Real (Inflation-Adjusted) Trade Deficit. Seasonally-adjusted, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), and in the context of revised narrower deficits for December 2016 and fourth-quarter 2016, which dominated a small downside revision to the annual 2016 deficit, the January 2017 merchandise trade deficit (no services) widened to $65.346 billion, from a revised $62.025 billion in December 2016. The January 2017 shortfall also deteriorated versus a revised $62.028 billion deficit in January 2016.

Shown in *Graph 1*, the annualized quarterly real merchandise trade deficit was unrevised at $729.6 billion for first-quarter 2016, a revised $735.2 billion in second-quarter 2016, an unrevised $681.4 billion in third-quarter 2016 and a revised $746.1 billion for fourth-quarter 2016. That fourth-quarter 2016 deficit was the worst quarterly showing since third-quarter 2007. The annual real merchandise trade deficit widened for the year, to a revised $723.1 billion in 2016, versus $711.5 billion in 2015. The 2016 annual trade shortfall was the worst since 2008.

Based just on January 2017 detail, the early trend for the first-quarter 2017 is $784.2 billion, which would be the worst showing since first-quarter 2007. If the current trend continued unaltered, the third-quarter 2017 shortfall would top the worst-ever quarterly deficit of $834.0 billion, seen in fourth-quarter 2005.

Headline deficits likely will continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP. See the *Reporting Detail* section for expanded analysis.

Construction Spending—January 2017—Down for the Month, Bloated by Inflation and Upside Revisions, Activity Still Held 22% (-22%) Below Its 2006 High. This highly volatile series—subject to large monthly revisions—declined month-to-month by 1.0% (-1.0%) in nominal January 2017 spending, once again following upside revisions to activity in the two prior months. In addition, once again, the headline weaker nominal activity was primarily in the public-construction spending sector.

Deflation used here for the nominal Construction Spending series reflects the ShadowStats Composite Construction Deflator (CCD), as discussed in *Commentary No. 829* and as detailed in the *Construction Inflation* section of the *Reporting Detail*.

Headline Reporting. In the context of upside revisions to the levels of December and November 2016 spending, total value of construction put in place in the United States for January 2017 was $1,180.3

billion on a seasonally-adjusted but not-inflation-adjusted, annual-rate basis. That was down month-to-month by a statistically-insignificant 1.0% (-1.0%), against an upwardly-revised $1,192.2 billion in December 2016. Net of prior-period revisions, January activity would have declined month-to-month by 0.1% (-0.1%).

December 2016 showed an unrevised monthly gain of 0.1%, versus an upwardly revised $1,191.5 billion in November 2016, which was up by a revised 1.5% against an unrevised $1,173.7 billion in October 2016.

Adjusted for CCD inflation, total real month-to-month spending in January 2017 fell by 1.1% (-1.1%), versus a revised December 2016 decline of 0.4% (-0.4%) and a revised monthly gain of 1.3% in November 2016.

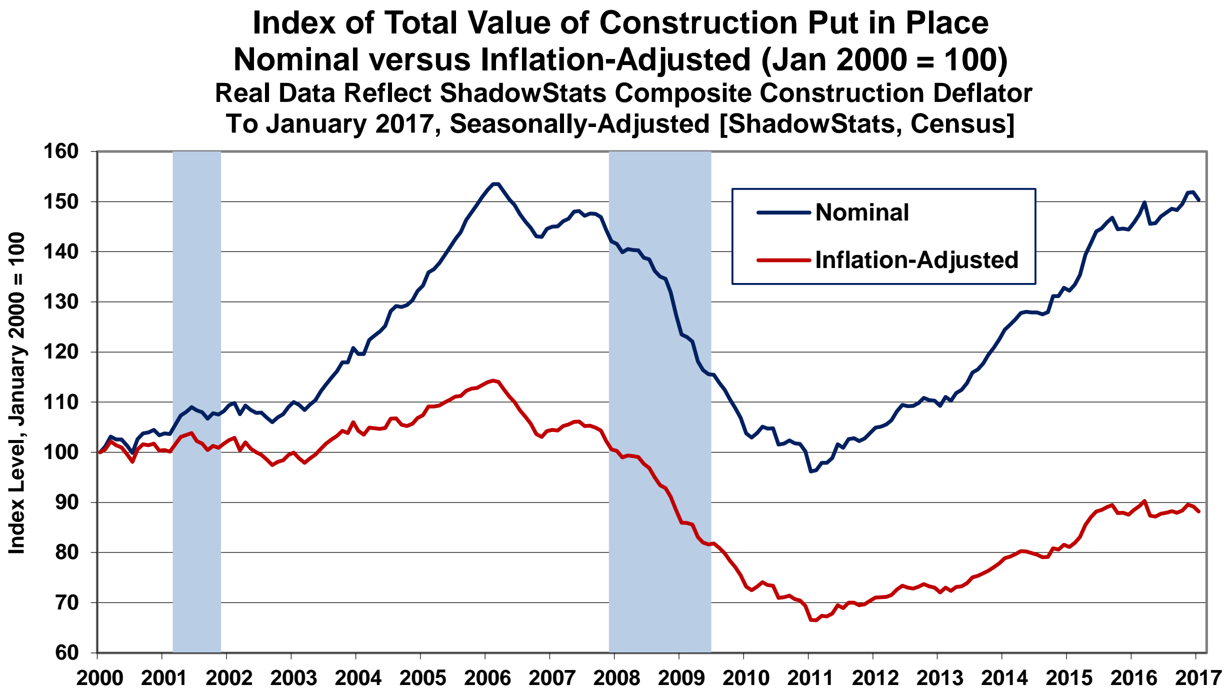
On a year-to-year basis, January 2017 nominal construction spending rose by a statistically-significant 3.1%, following revised gains in December 2016 of 5.2% and 4.9% in November 2016. Net of construction costs, annual growth in total real construction declined by 0.3% (-0.3%) in January 2017, turning negative year-to-year, once again, versus upwardly revised annual gains of 1.9% in December 2016 and 1.9% in November 2016.

See the *Reporting Detail* for the full analysis, including expanded graphs.

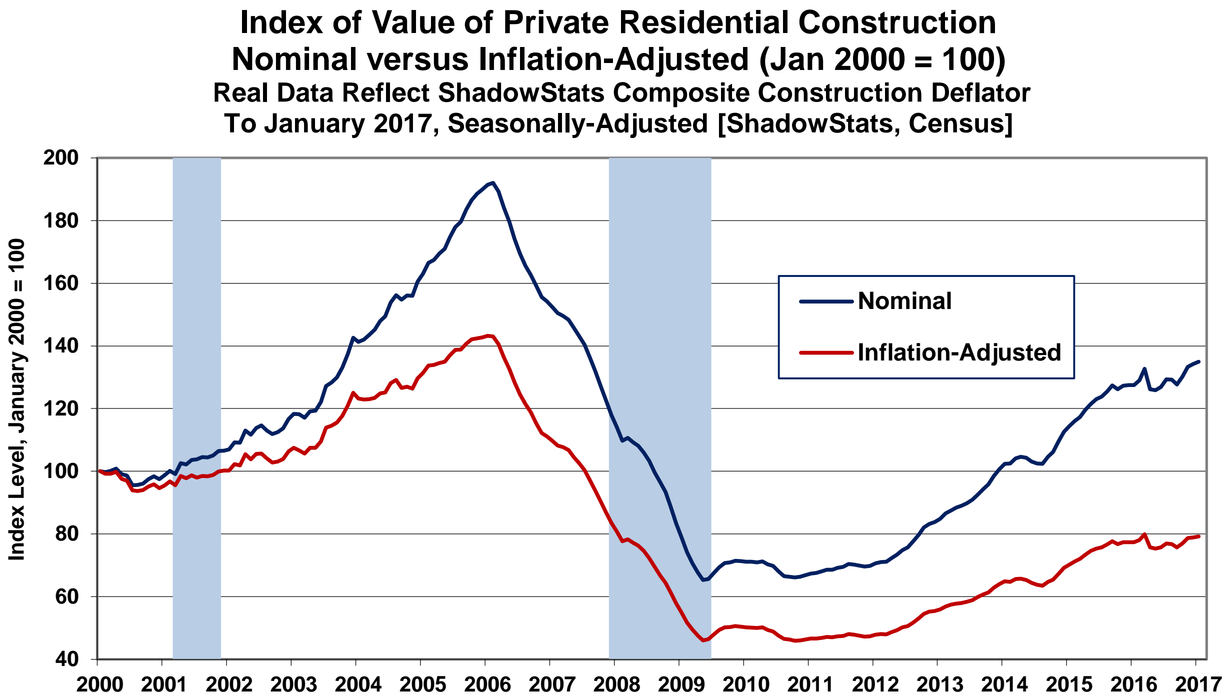
[Graphs 2 to 5 begin on the next page.]

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Graph 2: Index, Nominal versus Real Value of Total Construction

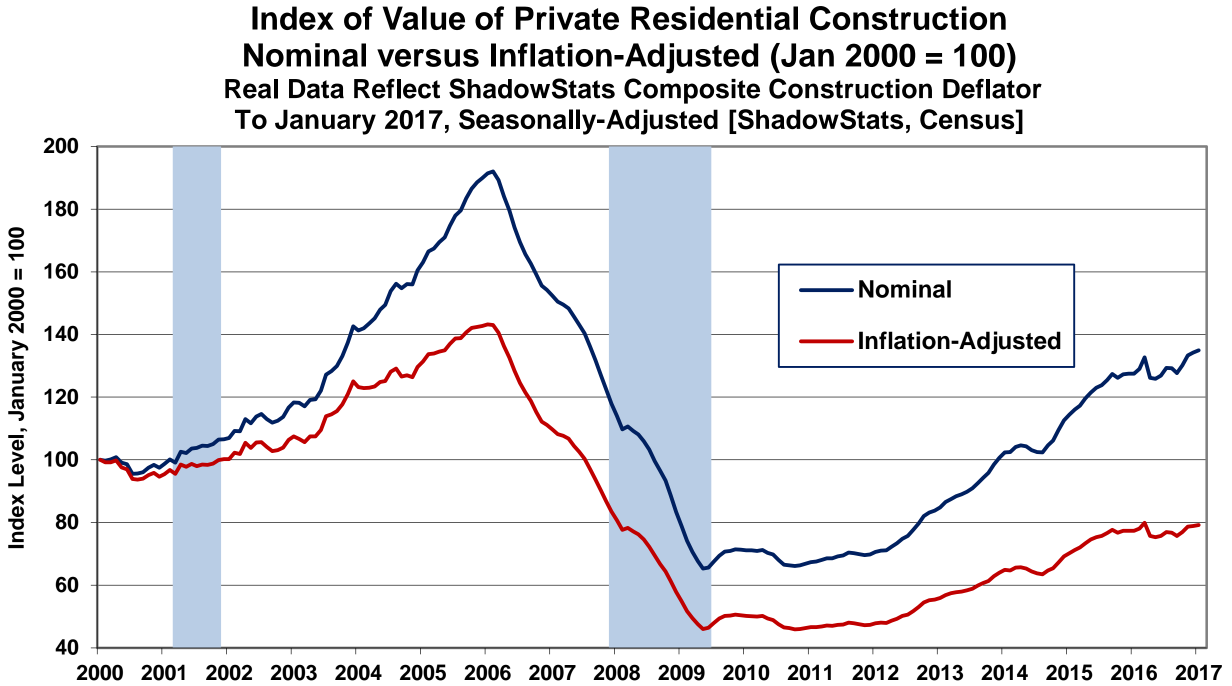


Graph 3: Index, Nominal versus Real Value of Private Residential Construction

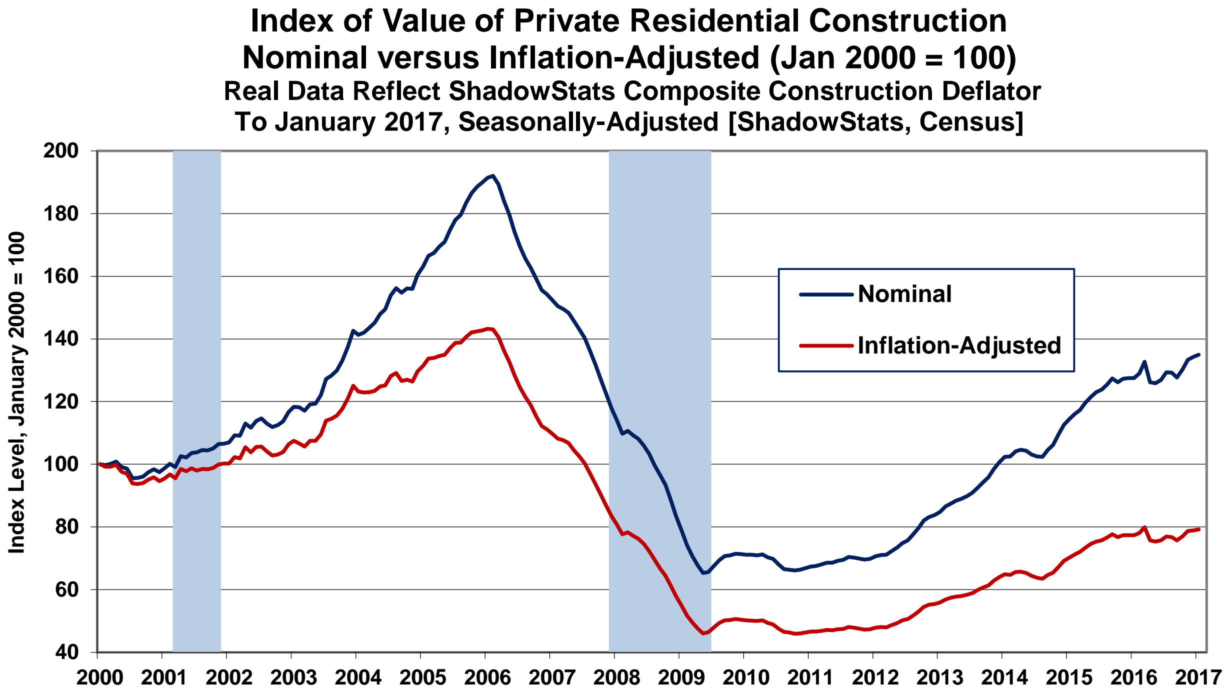


Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Graph 4: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 5: Index, Nominal versus Real Value of Public Construction



[The **Reporting Detail** *contains extended analysis of the Trade Detail and further analysis graphs of Construction Spending.]*

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

REPORTING DETAIL

U.S. TRADE DEFICIT (January 2017)

Trade Deficit—January 2017—Deepening Deficit Signaled Quarterly Deterioration to Real Levels Not Seen Since Early-2007. *Graph 1* in the *Executive Summary* shows continuing, sharp-quarterly trade deterioration, as suggested for the first-quarter 2017 inflation-adjusted (real) merchandise deficit, based on initial January 2017 reporting. The early trend indicates the worst quarterly trade shortfall since first-quarter 2007. If the current trend is not altered, the third-quarter 2017 real U.S. trade deficit would be the worst ever seen in U.S. or global history.

Mixed Signals for the Headline Gross Domestic Product. Today's data were in the context of another round of monthly revisions to the 2016 annual trade detail. A slight narrowing of the previously reported 2016 deficit—concentrated in fourth-quarter activity—suggested a related, minor upside revision from net exports to the third estimate of fourth-quarter 2016 GDP growth, on March 30th. The headline January detail, however, suggested a likely, continuing negative-growth contribution from the net-exports account to the initial first-quarter 2017 GDP estimate on April 28th.

Nominal (Not-Adjusted-for-Inflation) January 2017 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, March 7th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for January 2017 widened on a balance-of-payments basis. Such was in the context of a negligible downside revision to previously-reported December 2016 activity, although both the October and November 2016 deficits also were revised lower in conjunction with a realignment of monthly data in, and a minimal downside revision to, aggregate nominal detail for 2016.

The full-year 2016 deficit revised to $500.560 [previously $502.252] billion, versus an unrevised $500.361 billion in 2015.

The headline January 2017 deficit of $48.492 billion widened by $4.233 billion versus a revised deficit of $44.259 [previously $44.262] billion in December 2016. The official headline deterioration in the monthly deficit reflected an increase of $1.080 billion in monthly exports, more than offset by a $5.313 billion rise in imports. The headline January 2017 deficit also widened by $5.136 billion versus the minimally-revised, year-ago $43.356 billion trade shortfall of January 2016.

The dominant factors in the net monthly deterioration of the headline January 2017 deficit were increased imports of oil, cell phones and automobiles, versus increases in exports of oil and automobiles with some offset from a decline in civilian aircraft. Activity in energy-related products had renewed, meaningful impact on the change in the monthly trade-balance.

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Energy-Related Petroleum Products. From an import standpoint, January 2017 oil prices jumped by 6.0%, to $43.94 per barrel versus December 2016. Declining oil prices into 2016 bottomed out in February 2016 at $27.48, inched higher by 0.7% in March, gained 6.5% in April, 16.0% in May, 15.2% in June and 4.2% in July, but fell by 4.0% (-4.0%) in August and 0.9% (-0.9%) in September, only to bounce anew by 2.5% in October, 2.0% in November and 1.5% in December 2016. The impact of the January 2017 price spike in oil imports was exacerbated by a jump in physical oil-import volume for the month.

The not-seasonally-adjusted average price of imported oil rose to $43.94 per barrel in January 2017, up from $41.45 per barrel in December 2016 and from $32.06 per barrel in January 2016. Separately, not-seasonally-adjusted physical oil-import volume in January 2017 averaged 8.353 million barrels per day, up from 7.688 million in December 2016 and from 7.312 million in January 2016.

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 labor conditions and retail sales, where the headline number reflects seasonally-adjusted 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 patterns of seasonality.

Real January 2017 Trade Deficit. Seasonally-adjusted, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), and in the context of revised narrower deficits for December 2016 and fourth-quarter 2016, which dominated a small downside revision to the annual 2016 deficit, the January 2017 merchandise trade deficit (no services) widened to $65.346 billion, from a revised $62.025 [previously $62.308] billion in December 2016, and against monthly revisions back to the beginning of the year. The January 2017 shortfall also deteriorated versus a revised $62.028 [previously $62.027] billion deficit in January 2016.

Reflected in *Graph 1* (see the *Executive Summary*), the annualized quarterly real merchandise trade deficit was $623.1 billion for fourth-quarter 2014, $700.0 billion for first-quarter 2015, $709.1 billion for second-quarter 2015, $708.4 billion for third-quarter 2015, $728.6 billion for fourth-quarter 2015.

For last year, the annualized deficit was unrevised at $729.6 billion for first-quarter 2016, a revised $735.2 [previously $735.1] billion for second-quarter 2016, an unrevised $681.4 billion for third-quarter 2016, and a revised $746.1 [previously $747.2] billion for fourth-quarter 2016. The fourth-quarter 2016 deficit was the worst quarterly showing since third-quarter 2007.

Based on just the January 2017 detail, the early trend for the first-quarter 2017 detail is $784.2 billion, which would be the worst showing since first-quarter 2007. If the current trend continued unaltered, third-quarter 2017 would top the worst-ever quarterly deficit of $834.0 billion, seen in fourth-quarter 2005.

The annual real merchandise trade deficit widened for the year, to a revised $723.1 [previously $723.3] billion in 2016, versus $711.5 billion in 2015. The 2016 annual trade shortfall was the worst since 2008.

Headline deficits likely will continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP.

CONSTRUCTION SPENDING (January 2017)

Reflecting a Nominal Monthly Decline, Bloated Again by Inflation and Revisions, January Real Construction Spending Still Was Shy by 22% (-22%) of Recovering Its Pre-Recession Peak. Where this series remains highly volatile—subject to large monthly revisions—nominal January 2017 spending declined by 1.0% (-1.0%) in the month, in the context of upside revisions to activity in November and December, and rising inflation. Once again, the headline weaker nominal activity was seen primarily in the public-construction sector.

Despite upwardly revised real gains in December and November 2016, the series broadly has been flat in its recent history. Real construction spending has remained in low-level, stagnating non-recovery, with January 2017 real activity still shy of its June 2006 pre-recession peak by 22.0% (-22.0%). As shown in accompanying *Graph 7a*, annual real change went negative again in the headline detail, in a pattern seen earlier in 2016 and otherwise not outside of the economic collapse into 2009.

Ongoing Consumer Liquidity Issues Constrain Residential Construction Spending. Updated in the *Opening Comments*, in *Commentary No. 864* and last fully reviewed in the *No. 859 Special Commentary*, the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential real-estate activity, including related construction. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt to make up for the income shortfall, the U.S. consumer remains unable to support positive growth in broad domestic economic activity.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in dominant residential-construction category—irrespective of stronger, recent upside revisions to construction spending—without a fundamental upturn in consumer and banking-liquidity conditions.

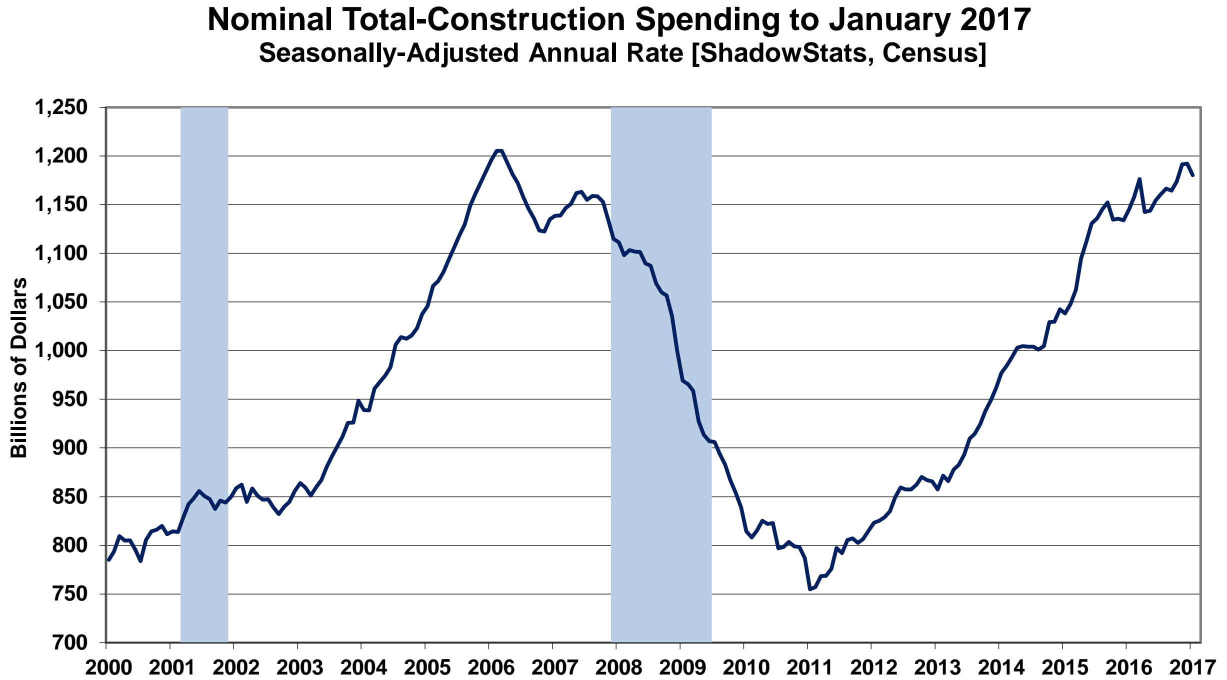
Construction Inflation—ShadowStats Composite Construction Deflator (CCD). ShadowStats produces a Composite Construction Deflator (CCD), for use in converting current-dollar or nominal (not-adjusted-for-inflation) headline construction spending into inflation-adjusted, real or constant-dollar terms. Detailed in *Commentary No. 829*, previously used measures from the Producer Price Index (PPI) lacked historical consistency and did not measure inflation appropriately for the construction-spending series.

Accordingly, ShadowStats constructed the CCD specifically for deflating construction spending. The CCD is a composite of pricing series, weighted by broad industry segment as compiled in the headline construction spending, with consistent historical tabulation back to before 2000. The combined indices reflect price deflators out of National Income (GDP) reporting, with quarterly numbers there interpolated into smoothed monthly series, in conjunction with privately surveyed monthly cost indicators.

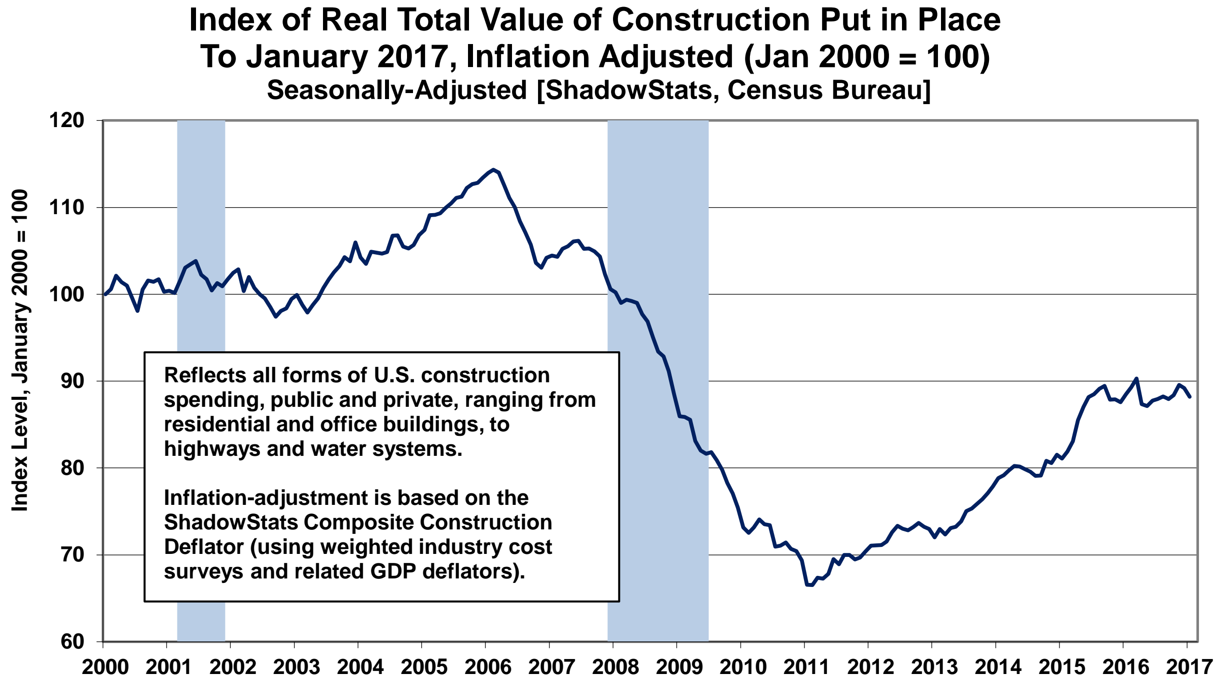
There is no perfect inflation measure, public or private, for deflating construction. For the historical series in the accompanying plots, as shown in *Graphs 2* to *5* in the *Executive Summary*, and in the accompanying *Graphs 7* and *10* in this section, the inflation-adjusted numbers are deflated by the CCD.

Seasonally-adjusted January 2017 CCD month-to-month inflation rose by 0.14%, following revised monthly gains of 0.46% [previously 0.49%] in December 2016 and 0.19% [previously 0.07%, initially 0.22%] in November. In terms of year-to-year inflation, the January 2016 CCD gained 3.44%, following annual gains of 3.24% in December 2016 and 3.01% in November 2016.

Graph 6: Total Nominal Construction Spending

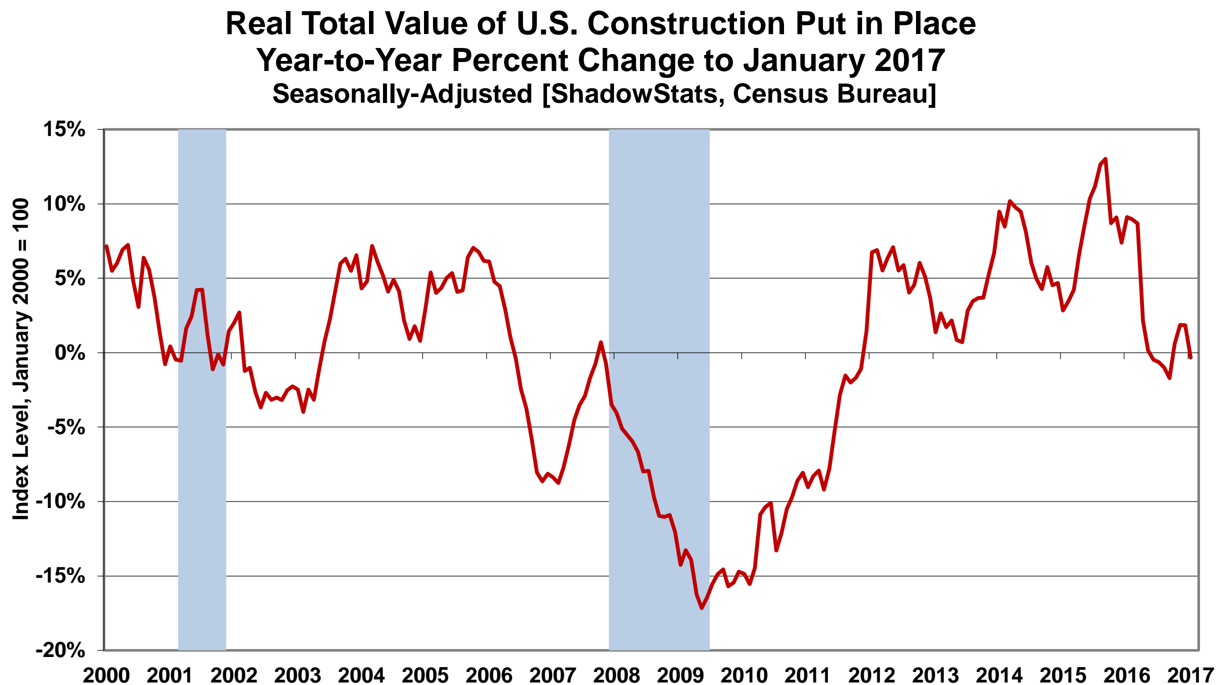


Graph 7: Index of Total Real Construction Spending



Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Graph 7a: Total Real Construction Spending, Year-to-Year Percent Change



The Data and Graphs Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to be reasonably smooth in the residual month-to-month change. Note the comparative monthly volatilities in the non-smoothed *Graphs 11* and *12*.

Headline Reporting for January 2017. In the context of upside revisions to the levels of December and November 2016 spending, the Census Bureau reported March 1st that the headline, total value of construction put in place in the United States for January 2017 was $1,180.3 billion on a seasonally-adjusted but not-inflation-adjusted, annual-rate basis.

That estimate was down month-to-month by a statistically-insignificant 1.0% (-1.0%) +/- 1.2% (all confidence intervals are at the 95% level), versus an upwardly-revised $1,192.2 [previously $1,181.5] billion in December 2016. Net of prior-period revisions, January activity would have declined month-to-month by 0.1% (-0.1%).

In turn, December 2016 showed an unrevised monthly gain of 0.1%, versus an upwardly revised $1,191.5 [previously $1,184.4, initially $1,182.1] billion in November 2016. November 2016 was up by a revised 1.5% [previously and initially up by 0.9%] versus an unrevised $1,173.7 billion in October 2016.

Adjusted for CCD inflation, total real month-to-month spending in January 2017 fell by 1.1% (-1.1%), versus a revised December 2016 decline of 0.4% (-0.4%) and a revised monthly gain of 1.3% in November 2016.

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

On a year-to-year annual-growth basis, January 2017 nominal construction spending rose by a statistically-significant 3.1% +/- 1.5%, following a revised December 2016 annual gain of 5.2% [previously 4.2%] and a revised November 2016 annual gain of 4.9% [previously 4.3%, initially 4.1%]. Net of construction costs indicated by the CCD, the annual growth in total real construction declined by 0.3% (-0.3%) in January 2017, versus upwardly revised annual gains of 1.9% in December 2016 and 1.9% in November 2016.

The statistically-insignificant, nominal monthly decline of 1.0%% (-1.0%) in aggregate January 2017, versus the revised 0.1% gain in aggregate December 2016, included a headline monthly plunge in activity of 5.0% (-5.0%) in January 2017 public spending versus a narrowed monthly decline of 1.4% (-1.4%) in December 2016 public spending. Private construction spending rose by 0.2% in January, having gained an upwardly -revised 0.5% December. Within total private construction spending, residential-sector activity rose by 0.5% in January having gained an upwardly-revised 0.7% in December, while the nonresidential sector was unchanged at 0.0% in January having shown an upwardly-revised 0.3% gain in December.

Quarterly Trends. Based just on January reporting, this highly unstable series is on early track for an annualized contraction of 3.8% (-3.8%) in first-quarter 2017, following a revised 4.7% [previously 2.5%] gain in fourth-quarter 2016. Revised third-quarter 2016 reporting showed annualized growth of 2.9% (previously 2.8%). That followed an unrevised real second-quarter 2016 contraction of 8.4% (-8.4%), with first-quarter 2016 real construction spending rising at an unrevised pace of 7.3%.

Going back into 2015, fourth-quarter real construction spending contracted at an annualized pace of 5.4% (-5.4%), following annualized quarterly real gains of 10.1% in third-quarter 2015, 26.0% in second-quarter 2015 and 5.3% in first-quarter 2015.

Graphs 2 to *5* in the *Executive Summary* of 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. Seen after adjustment for inflation, the real aggregate series generally have remained in low-level stagnation, now effectively flat through 2016. Areas of recent relative strength in the major subcomponents generally have flattened out or have begun to turn down anew, after inflation adjustment.

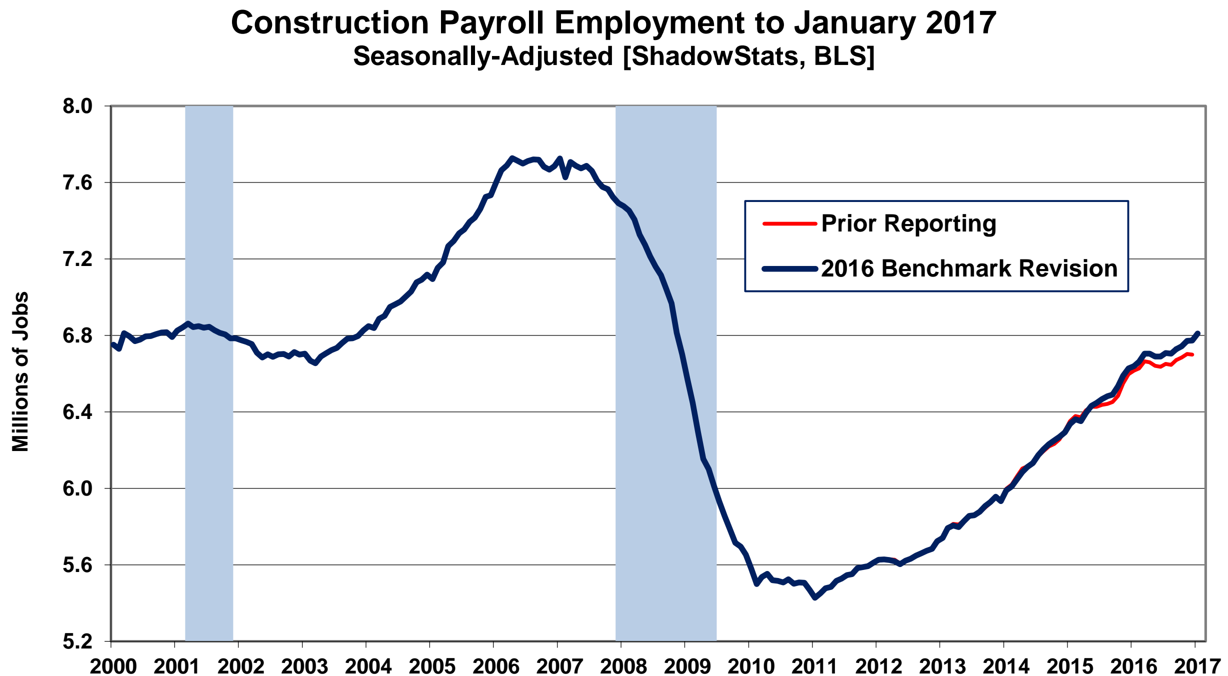
The general pattern of real activity had been one of low-level, up-trending stagnation that now has turned generally flat in recent quarters. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 6* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 7*. *Graphs 9* and *10* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs. Earlier *Graphs 6* and *7*, and later *Graphs 9* and *10* reflect total construction spending through January 2017, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 7* is on an index basis, with January 2000 = 100.0, where *Graph 7a* reflects the same detail in terms of annual change. Adjusted for the CCD, 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 then some boost into early-2015. Activity declined in fourth-quarter 2015, with a fluttering trend that generally flattened and turned down late in 2016, into 2017, with annual growth faltering into 2017 as indicated in *Graph 7a*.

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

The pattern of non-recovered, inflation-adjusted activity here—net of the CCD inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see *Commentary No. 869* and the *ECONOMY* section of *No. 859 Special Commentary*). To the contrary, the 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, again, has flattened-out anew.

Graph 8: Construction Payroll Employment to Date



Construction Employment Revised Higher but Still Is 12% Shy of Recovering. *Graph 8* shows upwardly revised activity through January 2017 construction employment, reflecting the annual benchmark revisions to payrolls as detailed in *Commentary No. 864*. 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 measures of the level of physical activity. Where construction payrolls generally have flattened out, albeit somewhat more up-trending post-benchmarking, such is broadly consistent with patterns of stagnating non-recovery seen in a various residential real estate sales and construction activity measures, and with faltering growth patterns seen here in headline real construction spending. This detail will be updated in *Commentary No. 871* of March 10th.

Graphs of Construction Activity. *Graph 9* shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 10* shows the same breakout as in *Graph 9,* but the detail is in real, inflation-adjusted terms, reflected in constant November 2009 dollars, deflated by the *ShadowStats Composite Construction Deflator (CCD)*, as discussed in the earlier *Construction Inflation* section.

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

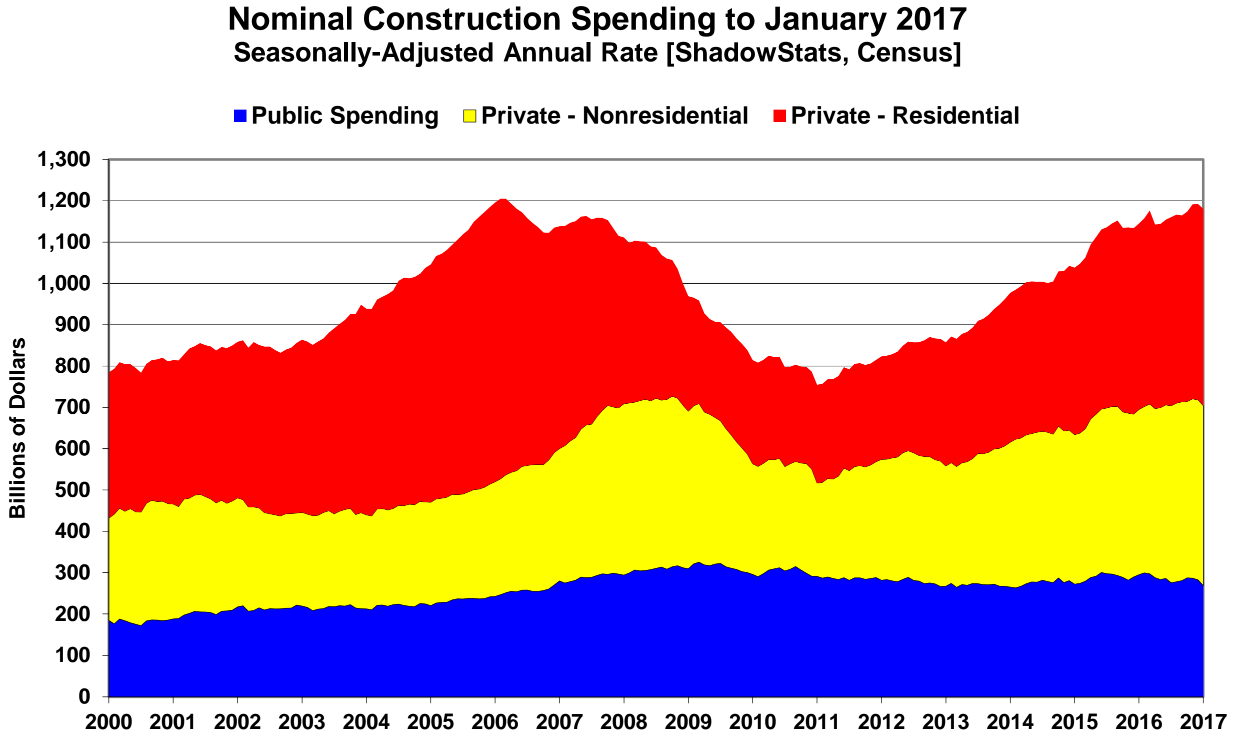
Graphs 11 and *12* cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for January 2017 (see *Commentary No. 866*). Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 3* of the *Opening Comments* section, *Graph 10* and presumably with the headline construction-payroll data in *Graph 8*.

The final two graphs (*Graphs 13* and *14*) show the patterns of the monthly level of activity in nominal private nonresidential-construction spending and in public-construction spending. Private Non-Residential Construction spending had surged to a pre-recession nominal peak in August 2016, but the series has fluttered minimally lower since.

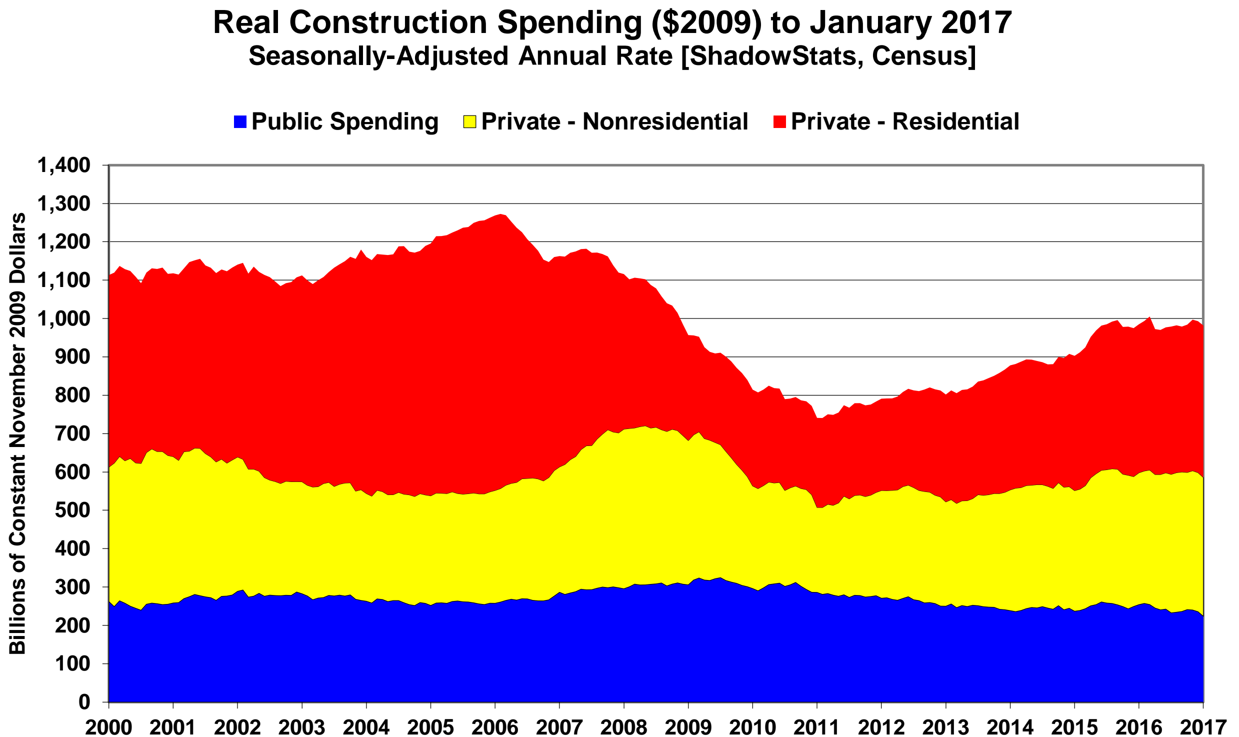
Public Construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016, the nominal series still appears to have fluttered in something of a volatile topping-out process, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 4*, *5* and *10,* both series appear stalled shy of their pre-recession peaks.

[Graphs 9 to 14 begin on the following page]

Graph 9: Aggregate Nominal Construction Spending by Major Category to Date

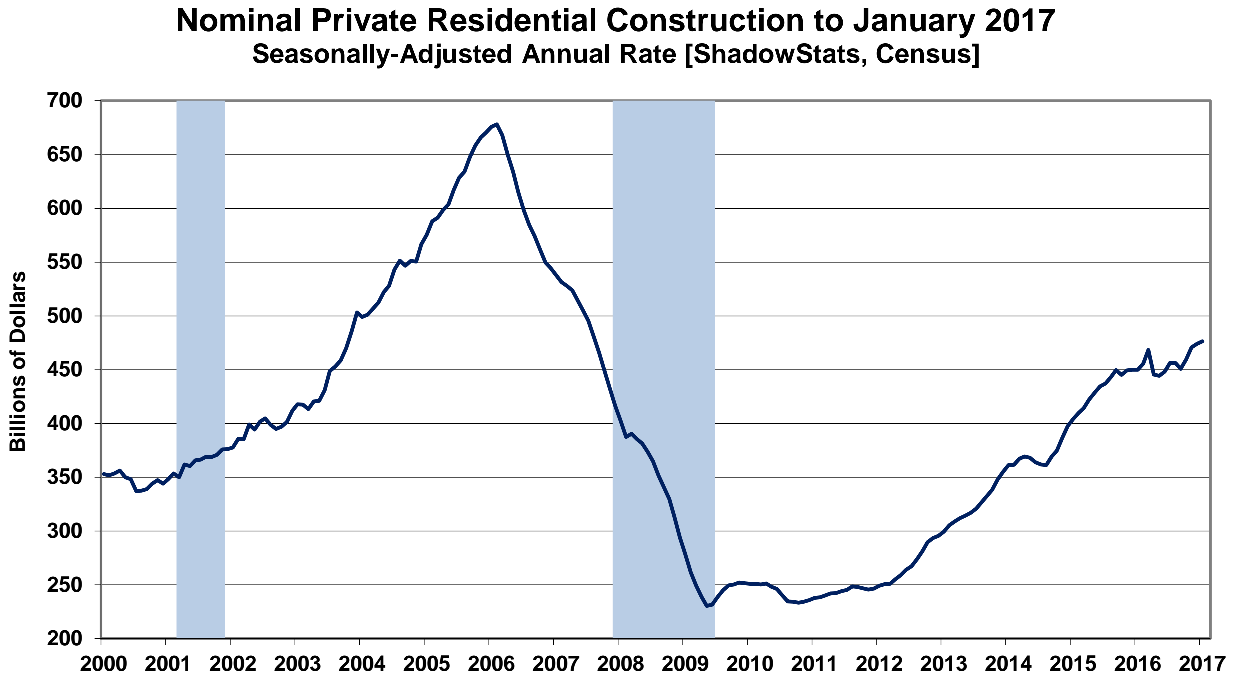


Graph 10: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)

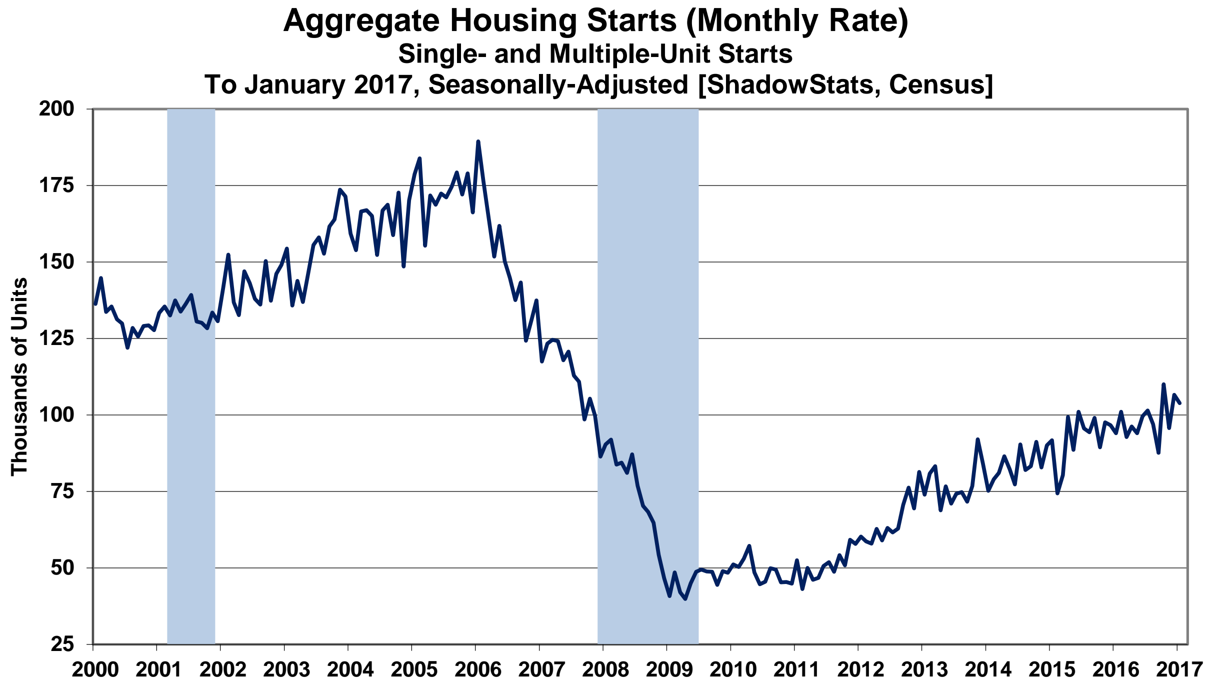


Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Graph 11: Nominal Private Residential Construction Spending to Date

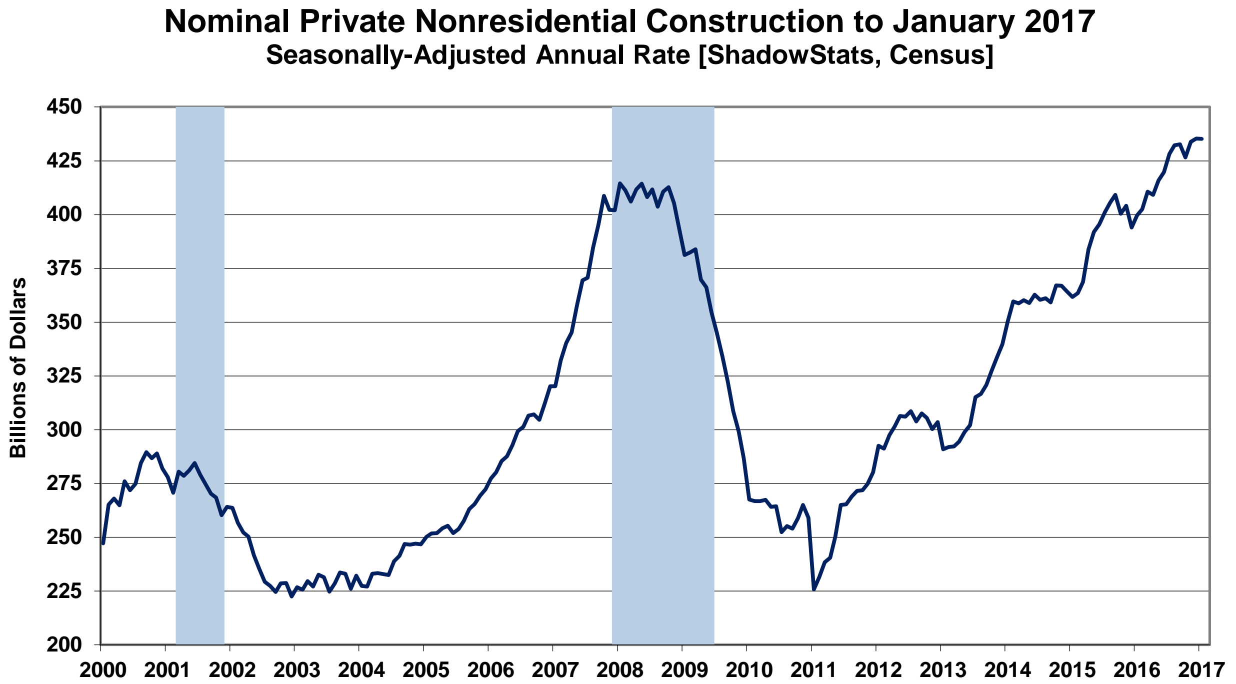


Graph 12: Combined Single- and Multiple-Unit Housing Starts to Date

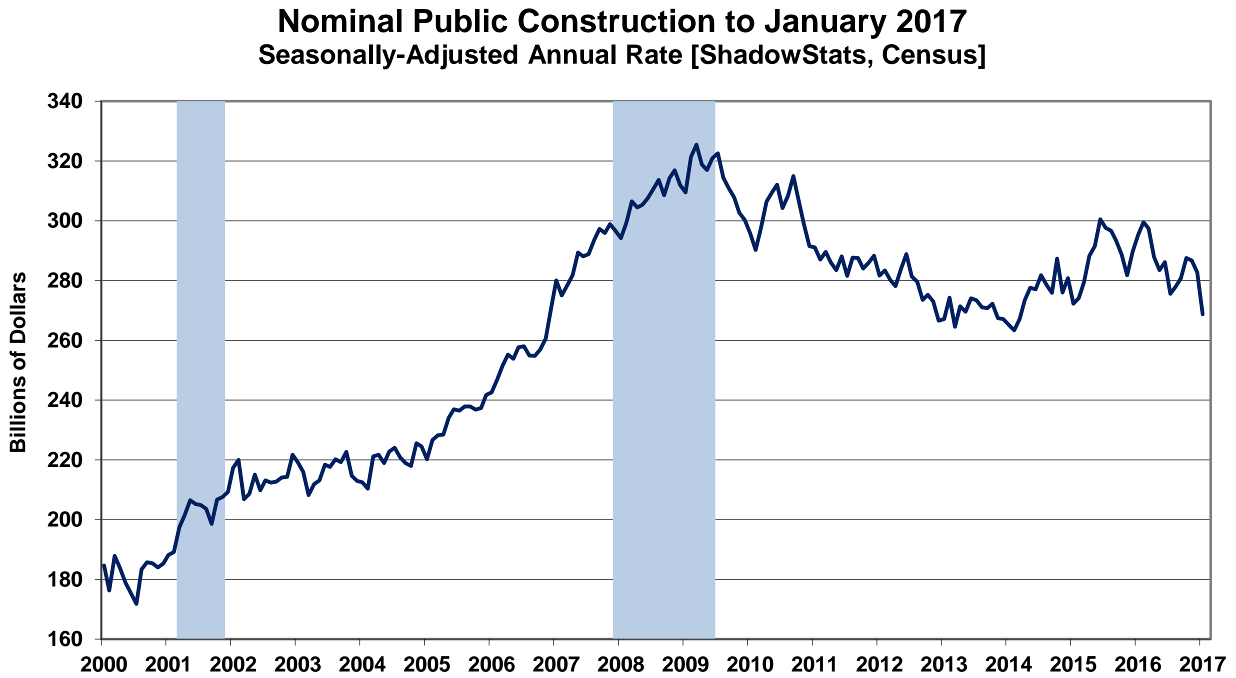


Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Graph 13: Nominal Private Nonresidential Construction Spending to Date



Graph 14: Nominal Public Construction Spending to Date



Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

WEEK, MONTH AND YEAR AHEAD

Non-Recovering Economic Stagnation and Continued Downturn Promise a Compromised and Frustrated Fed, with Rapidly Deteriorating Market Support for the U.S. Dollar. Despite recent, mixed headline economic signals, the broad outlook for stagnant to down-trending economic activity has not changed. Separately, the problems with the Fed's loss of meaningful systemic control, and the long-term sovereign solvency issues of the United States government, threaten destabilization of the U.S. dollar and the financial markets. Reference is made to today's *Opening Comments* and those of prior *Commentary No. 869*. The following opening thoughts have been revised towards higher risk of a near-term FOMC rate hike on March 15th, again, see the discussion the *Opening Comments*:

No. 859 Special Commentary updated near-term economic and inflation conditions, and the outlook for same, including the general economic, inflation and systemic distortions evolving out of the Panic of 2008 that have continued in play, and which need to be addressed by the new Administration in the immediate future (see also the *Hyperinflation Watch* of *Commentary No. 862* and *Commentary No. 869*).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never fully recovered. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that should mark the beginning of a "new" formal recession (see *General Commentary No. 867*).

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has been making loud noises of raising interest rates, in order to contain an overheating economy (see *Opening Comments*). As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

The current general mixed-trend in weakening data and what should become increasingly-negative expectations for near-term business activity, along with movement towards looming recession recognition, reflect an ongoing broad spectrum of likely market-disappointing headline data. That should pressure the FOMC back towards expanded quantitative easing, despite the Fed's December 2016 rate hike and the temporarily-reinvigorated market hype as to multiple rate hikes in the year ahead.

Irrespective of any near-term rate increase, in response to an intensifying downturn, financial market expectations should shift anew towards Fed "easing," with the effect of triggering a massive U.S. dollar sell-off, accompanied by a sharp upturn in oil prices, domestic inflation and heavy flight to the safe-haven qualities of physical gold and silver, with a commensurate rally in the prices of those precious metals.

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com

Watch what happens if the FOMC does not hike rates on March 15th, as hyped by the Fed Chair, due to weaker-than-expected February labor conditions. Again, see No. 859 for extended discussion.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *No. 777 Year-End Special Commentary* (December 2015*)*, *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). Those publications updated the long-standing hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Recent Commentaries:

Commentary No. 869 reviewed and assessed underlying economic reality and a broad variety of indicators in the context of the second-estimate of fourth-quarter 2016 GDP.

Commentary No. 868 covered the January 2017 reporting of New Orders for Durable Goods.

General Commentary No. 867 assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such is in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were January 2017 New- and Existing Home Sales.

Commentary No. 866 reviewed headline January 2017 detail of the CPI (and related series), PPI, Industrial Production, Residential Construction and Retail Sales, both nominal and real.

Commentary No. 865 updated the prior outlook on the Trade Deficit for December 2016, Fourth-Quarter 2016 and for the initial 2016 annual detail.

Commentary No. 864 analyzed the January 2017 Employment and Unemployment detail, including benchmark and population revisions, and prior estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 covered the prior December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations. The GAAP-detail will be reviewed shortly in a *Special Commentary*.

No. 859 Special Commentary reviewed and previewed economic, financial and systemic developments of the year passed and the year or so ahead.

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 inflation and to overstate economic activity—as generally viewed in the common experience of Main Street, U.S.A.—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 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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is 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" surfaced in 2016 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. That construction-spending issue now appears to have been structured as a gimmick to help boost the July 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

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*). John Crudele of the *New York Post* continues his investigations in reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales.*

PENDING RELEASE: Employment and Unemployment (February 2017). The Bureau of Labor Statistics (BLS) will publish its headline February 2017 labor numbers on Friday, March 10th, which will be covered in ShadowStats *Commentary 871* of that date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, are open for negative headline surprises, given the ongoing, general stagnant-to-weakening tone in a number of the better business indicators. The payroll detail will be published in the context of last month's heavily upside-biased annual benchmark revisions (see *Commentary No. 864*).

Nonetheless, in the context of rapidly-rising expectations for a March 15th hike in the Fed funds rate, consensus expectations are for a February payroll gain in the range of 195,000 to 200,000, with the headline unemployment rate dropping from 4.8% to 4.7% (see today's *Opening Comments*).

Underlying Reality Remains to the Downside of Expectations. In the context of recent, extreme volatility and inconsistencies in payroll and unemployment detail, almost anything is possible with the BLS reporting. Underlying reality remains a much weaker-than-expected economy, which increases the odds of negative surprises to the headline reporting of both the payroll and household-survey detail.

PENDING SPECIAL COMMENTARIES: *GAAP-Based Accounting of the U.S. Government (Fiscal-Year 2016).* With some prior review in *Commentary No. 861* and *No. 859 Special Commentary*, full analysis is planned in a *Special Commentary* shortly, followed soon thereafter by the long-planned and delayed consolidation of the major *ShadowStats* reporting into one volume, including the recommended reading list. Publication plans will be detailed in the March 10th *Commentary No. 871*.

____

Copyright 2017 American Business Analytics & Research, LLC, www.shadowstats.com