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

COMMENTARY NUMBER 897
Trade Deficit, Construction Spending, Freight Index, Private Jobs Surveying

July 6, 2017

Second-Quarter 2017 Real Merchandise Trade Deficit Remained on Track for Worst Showing Since Second-Quarter 2007

June Real-World Employment Conditions Continued in Annual Decline, Albeit at a Narrowed Pace Still Not Seen Since the Depths of the 2009 Collapse

In Ongoing, Low-Level Stagnation, May Freight Index Gained Year-to-Year, Holding Shy of Recovering Its Pre-Recession Peak by 12.1% (-12.1%)

Construction Spending Benchmark Revisions Confirmed Likely Downside-Benchmark Revisions Pending for the GDP

Recent Patterns of Real Annual Growth in Construction Spending Revised from Uptrending to Sharply Downtrending, Consistent with a Recession

Real Construction Spending Remained 20.7% (-20.7%) Shy of Recovering Its Pre-Recession Peak, Still Holding in Low-Level Stagnation

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PLEASE NOTE: The next regular Commentary, *scheduled for tomorrow, July 7th, will cover June Employment and Unemployment, along with the June annual growth estimate for ShadowStats Ongoing Money Supply M3.*

Best wishes to all — John Williams (707) 763-5786

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Today's *Opening Comments and Executive Summary* (July 6th) focuses on two of the better-quality privately-published economic indicators, headline reporting for June help wanted online advertising (Conference Board) and the May Cass Freight Index, along with the annual benchmark revisions to the Census Bureau's Construction Spending series. The *Executive Summary* reviews the headline May 2017 monthly detail for Construction Spending and the Trade Deficit.

The ***Reporting Detail*** (beginning page 17) provides extended detail and graphs on the May 2017 Construction Spending and extended detail on the new trade data.

The ***Week, Month and Year Ahead*** (beginning page 29) reviews recent *Commentaries* and updates the preview of tomorrow's (July 7th) June 2017 Payroll and Unemployment numbers.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Headline Government and Real-World Business Indicators Continued Signaling Economic Downturn or Non-Recovery. ShadowStats follows a number of economic indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. In recent headline details and benchmark revisions, the latest trade deficit and construction spending have indicated ongoing non-recovery or renewed downturn in the post-economic collapse, broadly consistent with recent "unexpected" headline weakness in a number of other major economic series. In private-sector reporting, two of the better indicators—help-wanted advertising and domestic freight activity—also have continued to signal economic downturn or non-recovery.

Covered first in these *Opening Comments* are the privately-generated economic indicators, followed by a review of the annual revisions to headline Construction Spending. Beyond various private and public alternative measures to the federal government's headline employment, unemployment and GDP reporting, discussed in *No. 859 Special Commentary*, The Conference Board's Help Wanted OnLine® (HWOL) measure simply is one of the best leading indicators—private or public—of economic activity; another prime indicator is the Cass Freight Index™.

Headline, post-benchmarking May 2017 details on Construction Spending and the Trade Deficit follow in the *Executive Summary* and *Reporting Detail*. A brief reassessment of the broad pattern of unfolding headline activity in headline reporting will follow in tomorrow's Commentary No. 898, covering the June 2017 labor conditions.

The Conference Board Help Wanted OnLine® Advertising, June 2017. In my experience and view, the HWOL simply is one of the best leading indicators available. The concept certainly has proven itself over the last century. The current on-line series tracked the economic collapse into 2009, coincident with the last of the series based on newspaper advertising. The beauty and benefit of a good leading indicator is that it provides a meaningful "advance" signal of a shift in economic activity, before that shift may become obvious in other series. Such is a particularly valuable commodity, when headline data out of the federal government increasingly are politicized and unreliable (see *Special Commentary No. 885*, *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*).

With the preceding ShadowStats comments in mind, the following caution, posted recently on the Conference Board's web site, speaks for itself:

> NOTE: Recently, the HWOL Data Series has experienced a declining trend in the number of online job ads that may not reflect broader trends in the U.S. labor market. Based on changes in how job postings appear online, The Conference Board is reviewing its HWOL methodology to ensure accuracy and alignment with market trends.

First fully covered by ShadowStats in *Commentary No. 820* of July 16, 2016, the HWOL is updated here through June 2017 (published July 5th). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of industrial production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Many thanks to The Conference Board for permission to publish the following graph of year-to-year change in its *Help Wanted OnLine*® data. The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). Where, "Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads." While, "New ads are all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as 'New' only in the month it first appears." Related background details and reporting are found here: The Conference Board Help Wanted OnLine®.

The tracked seasonally-adjusted monthly measures have declined year-to-year in each of the last fifteen months for the total ads, and in each of the last seventeen months (eighteen of the last nineteen months) for the new ads, including June 2017. Although showing a narrowing annual decline in the last several months, annual change generally has continued to sink, as seen in *Graph 1*, with annual growth beginning to slow in 2010 and turning negative year-to-year in late-2015 and early-2016. The shaded area in the graph reflects the formal bounds of the 2007 to 2009 recession. While the HWOL held in negative annual growth territory into early-2010, beyond the formal economic trough in June 2009, keep in mind that payroll employment—traditionally a coincident economic indicator to the general economy—did not hit its cycle trough until February 2010.

With June 2017 "Total Ads" and "New Ads" counts down year-to-year respectively by 6.4% (-6.4%) and 10.0% (-10.0%), the annual contractions still have hit depths last seen going into the trough of the business collapse into 2009/2010. Month-to-month changes have been irregular, down in 12 of the last 18 months for the "Total" and down 10 out of the last 18 months for the "New." Both series showed month-to-month declines in the seasonally-adjusted June 2017 detail.

While much of this text is repetitive of prior discussions in *Commentary No. 890*, *No. 852* and *No. 820*, the detail is updated for the latest information. These comments and analysis remain mine alone, not those of The Conference Board.

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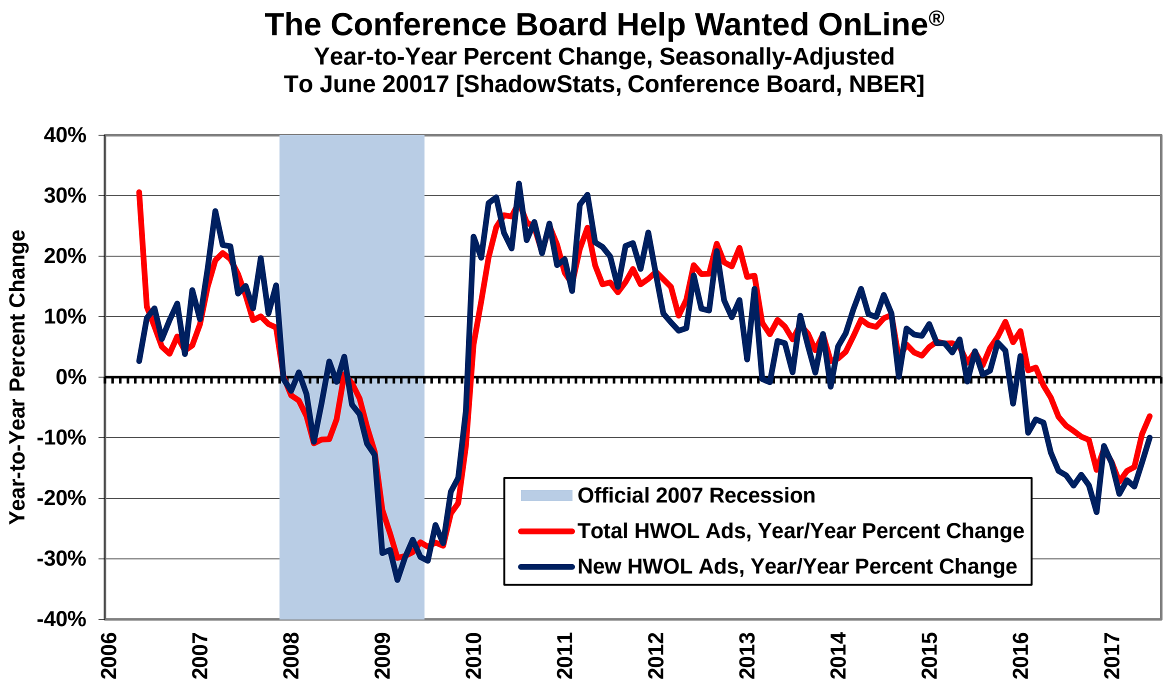
Graph 1: The Conference Board Help Wanted OnLine® to June 2017



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Historical Background. Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board's Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It was a component of the Commerce Department's Index of Leading Economic Indicators. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

The National Bureau of Economic Research (NBER) has published detail with the St. Louis Federal Reserve on help-wanted advertising indices constructed back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized as a formal recession, when the annual change in the index contracted by 15% (-15%) or more.

Since formal tracking switched to help-wanted advertising on the Internet, around 2005, as seen with The Conference Board Help Wanted OnLine®, that series has been through only one, formally-confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Even with a limited initial history, the new series tracked that headline downturn into 2009 (in tandem with the final surveys of newspaper help-wanted online advertising, which continued for a while), and it has tracked to the downside in the current environment of what appears to be a "new," still-unfolding recession (again, see *No. 859 Special Commentary*).

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be highly valuable. As for the BLS employment and unemployment series, which will be updated tomorrow (July 7th) for headline June 2017 detail, they should begin to catch up with the Conference Board's high-quality, independent leading indicator, despite the heavy upside reporting biases deliberately structured into the BLS series and expanded anew into the 2017 payroll-survey benchmarking. See the discussions in *Special Commentary No. 885*, *Commentary No. 864* and the *Birth-Death/Bias-Factor Adjustment (BDM)* section in *Commentary No. 890*.

May 2017 CASS Freight Index—Annual Growth Continued Picking Up, but the Series Remained in Low-Level Stagnation, Still Shy by 12.1% (-12.1%) of Its Pre-Recession Peak. The Cass Freight Index™ is another reliable private indicator of real-world economic activity and shifting business patterns. Continued low-level stagnation in the general economy and business activity were reflected once again in the headline detail of the May 2017 Cass Freight Index™, released June 29th.

For the sixth consecutive month, the seventh month in the last eight, year-over-year monthly growth in the index was positive and picking up (see *Graph 3*), although the broad pattern remained one of low-level stagnation, albeit somewhat uptrending. A consecutive string of nineteen months of annual contraction in the Freight Index began in March 2015, was consistent with a "new" recession signal following the Industrial Production peak in November 2014. The industrial production series showed a string of twenty-one consecutive monthly annual contractions beginning April 2015, a pattern never seen outside of formal economic recessions in the 99-year history of the Industrial Production series (see *Commentary No. 887*).

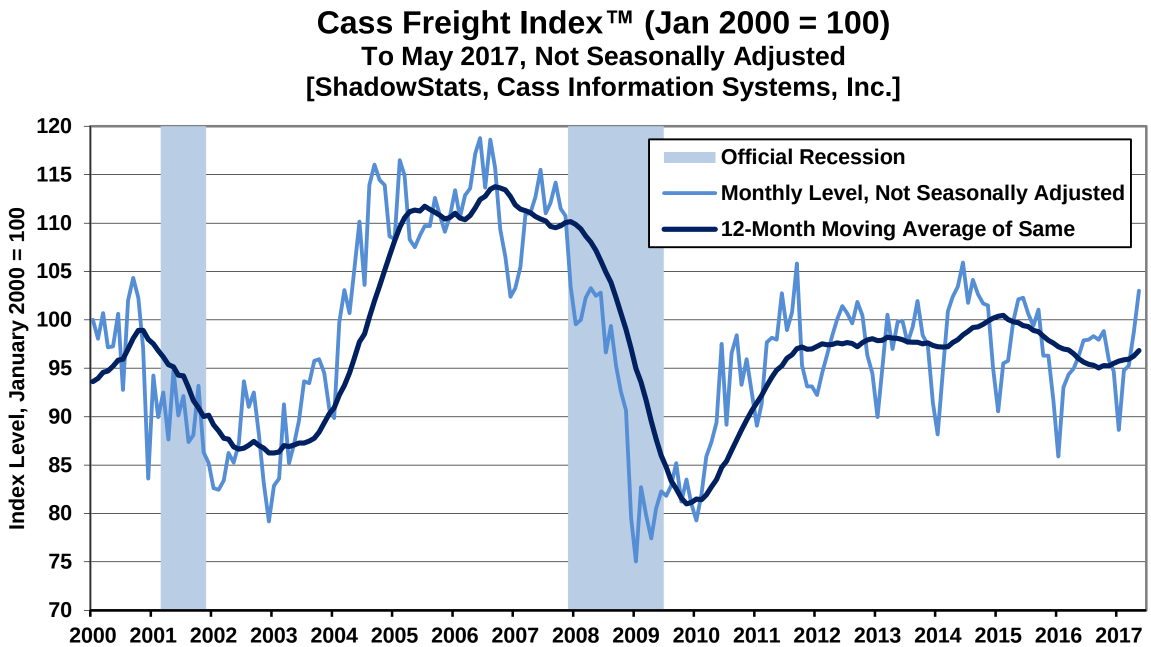
The recent repeating pattern of year-to-year monthly gains has excited industry speculation that the recession in freight activity has hit bottom. Nonetheless, the current pattern of year-to-year gains has yet to break out of the non-recovery pattern of the last six years, again, as shown in *Graph 3*. Discussed in *Commentary No. 875* and expanded upon in *Commentary No. 876* on the business cycle, when activity recovers, such happy growth is not clocked formally as a new economic expansion, until the series breaks above its pre-recession high.

Specifically, the ShadowStats smoothed headline reading on the Cass Freight Index, through May 2017 (see *Graph 2*), remained down by 12.1% (-12.1%) from recovering its pre-recession peak of December 2007. While the "Recovery" receives the benefit of growth off low levels of activity, the deficit in activity versus the prior-peak level has to be overcome before formal, economic "Expansion" begins to be tallied.

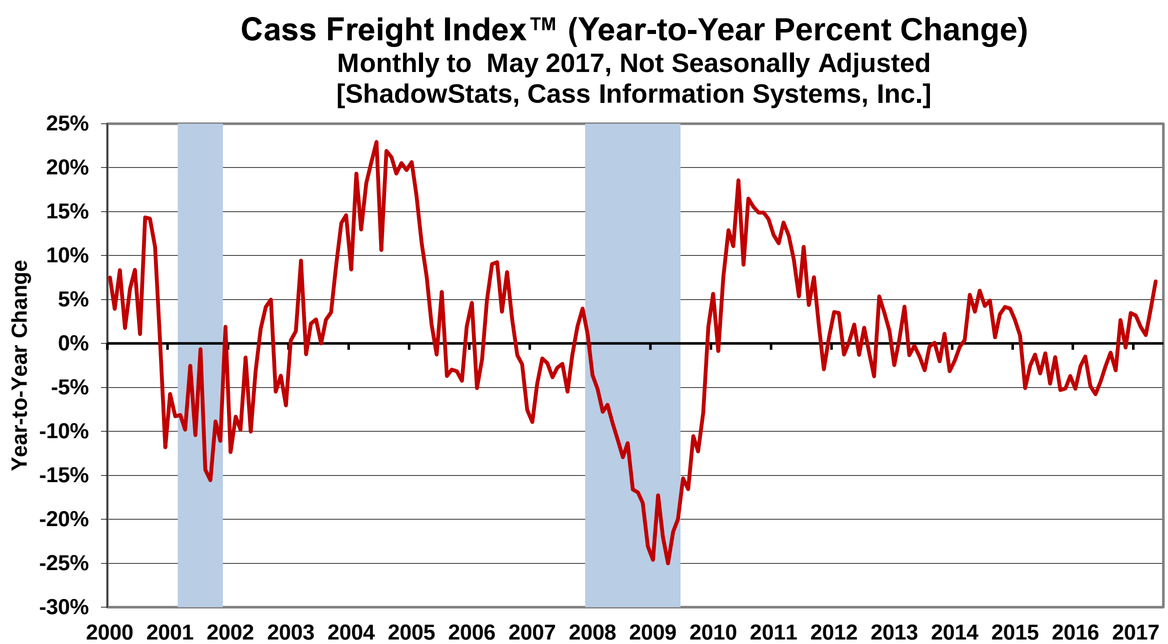
Economic downturns eventually hit bottom, and the current circumstance likely will not be an exception. The economic collapse that formally has been recognized from peak activity in December 2007 to a trough in June 2009 appears to be accurate in terms of timing a bottom.

The official contention remains, though, that the headline economy (the real Gross Domestic Product) fully recovered thereafter, entering a period of new and ever-expanding economic growth in second- or third-quarter 2011. ShadowStats contends that the economy never fully recovered, moving instead into a period of protracted, low-level stagnation, which began to turn down anew in December 2014, as reflected in the recent reporting and benchmark revisions to production and durable goods (see *Special Commentary No. 888*, *Commentary No. 887* and *Commentary No. 877*).

Graph 2: CASS Freight Index ™ Moving-Average Level (2000-May 2017)



Graph 3: CASS Freight Index, Monthly Year-to-Year Percent Change, through May 2017



General Background to the Freight Index. Beginning with *Commentary No. 782* (further detail available there), ShadowStats published the detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. Freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States. *Graph 2* reflects the monthly numbers updated through May 2017. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail plotted in the background. ShadowStats also has re-indexed the series to January 2000 = 100, to be consistent with other graphs used here. The headline index published by Cass is based at January 1990 = 100. The plot of the trailing twelve-month average of the freight index shows that it hit a near-term peak in February 2015, consistent with onset of a "new recession" in December 2014, and had been slowing since, through September 2016, then flattening out and turning minimally to the upside (see *Graph 2*).

Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph 3*. The unadjusted monthly detail had been in continual year-to-year decline since March of 2015, down at an intensified annual rate of 3.05% (-3.05%) in September 2016. It rallied to an annual gain of 2.66% in October 2016, but fell back into year-to-year contraction of 0.05% (-0.05%) in November 2016, coming back to the plus-side by 3.46% in December 2016, but easing to 3.18% in January 2017, to 1.89% in February 2017 to 0.93% in March 2017, and now turning higher to 3.99% in April 2017 and 7.06% in May 2017.

Once again, with the headline smoothed reading through May 2017 down by 12.1% (-12.1%) versus its pre-recession high, that is the growth deficit that has to be overcome before formal economic expansion begins.

In combination, *Graphs 2* and *3* remain consistent with a pattern of collapsing economic and business activity into 2009, low-level stagnation thereafter and a renewed downturn effectively coincident with a "new" recession, which, again, likely will be timed from December 2014, whether or not it has bottomed.

Latest in Consumer Liquidity Outlook. Updating the latest review of real median household income in *Commentary No. 889* and *Consumer Liquidity Conditions* in *Special Commentary No. 888*, full June reporting is in place for the Consumer Sentiment and Consumer Confidence numbers. The Conference Board's seasonally-adjusted Consumer-Confidence Index® and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index both had soared earlier in the year, likely reflecting post-election euphoria. While the headline confidence number ticked higher in June 2017, it remained down by 4.5% (-4.5%) from its March 2017 post-election peak. The headline sentiment number declined in June 2017, now standing 3.5% (-3.5%) below its January 2017 post-election high.

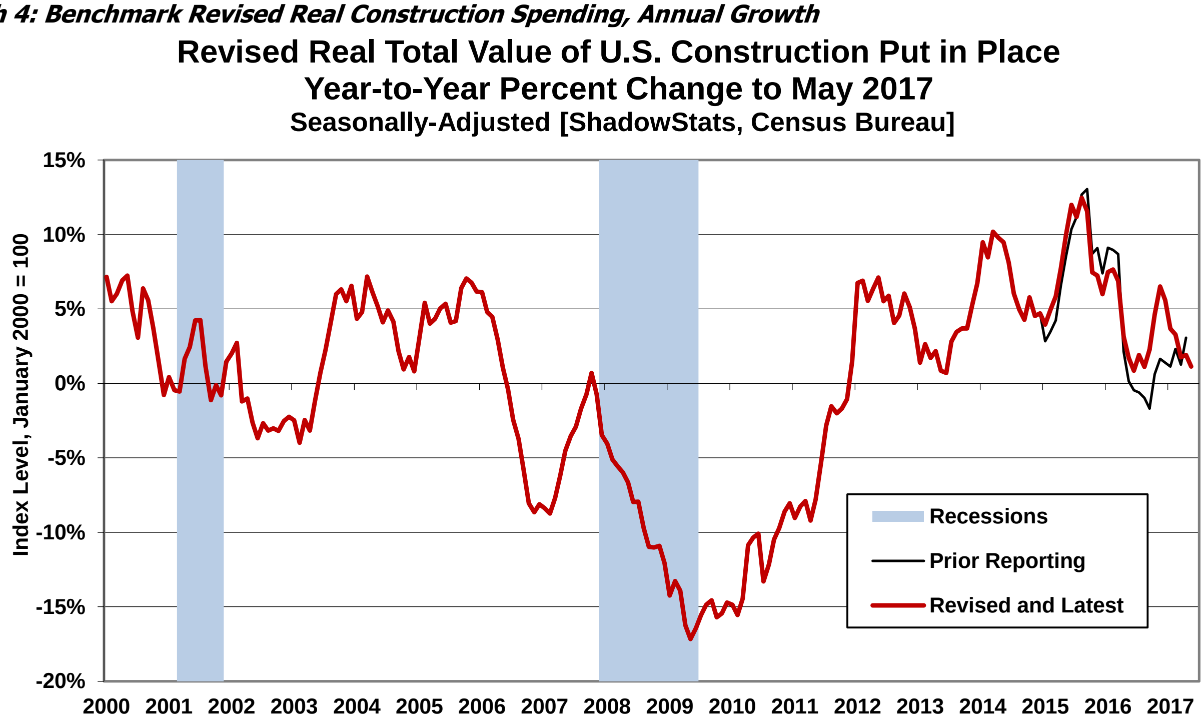
A full update to *Consumer Liquidity Conditions* will follow in *Commentary No. 899* of June 19th, encompassing the above referenced data and later detail available on May 2017 Consumer Credit and the advance reading on July Consumer Sentiment.

Construction Spending Benchmark Revisions Showed Weaker Activity in 2015, Stronger Activity in 2016, with Annual-Change Patterns Shifting Sharply from the Upside to the Downside in 2017. The U.S. Census Bureau published its annual benchmark revisions to Construction Spending back to 2014, coincident the release of headline activity for May 2017, on July 3rd. On a monthly basis, the nominal change for May 2017 was "unchanged" versus the benchmarked April 2017 level. The April 2017 level was revised higher by a net 1.0% in the benchmarking, which was smaller than most regular monthly revisions. Neither of those monthly changes was statistically significant.

Indeed, in aggregate, the level of near-term recent activity was affected minimally by the revisions, yet annual growth shifted sharply to the downside, now in a downtrend, along with sharply slowing quarterly growth. Net of inflation, annualized first-quarter 2017 growth slowed to a revised 1.9% [previously 8.8%], versus a revised 5.7% [previously 3.8%] gain in fourth-quarter 2016. Separately, based on just two months of reporting, second-quarter 2017 annualized change is trending for an outright annualized real contraction of 4.4% (-4.4%).

The pattern of real year-to-year change in the series reversed from uptrending to sharply downtrending in 2017, as seen in accompanying *Graph 4*. That shift broadly reflected the headline aggregate construction spending series revising lower in 2015 and higher in 2016, with 2017 detail minimally changed (see accompanying *Graphs 5* and *6*). Those patterns of revision also were seen particularly in the dominant private-sector residential-construction spending component (*Graphs 7* and *8*). The private-sector nonresidential-construction spending revised higher in 2015 and lower in 2016 (*Graphs 9* and *10*), while weaker-growth patterns seen in public-sector construction spending tended to revise higher over time (*Graphs 11* and *12*).

Graph 4: Benchmark Revised Real Construction Spending, Annual Growth

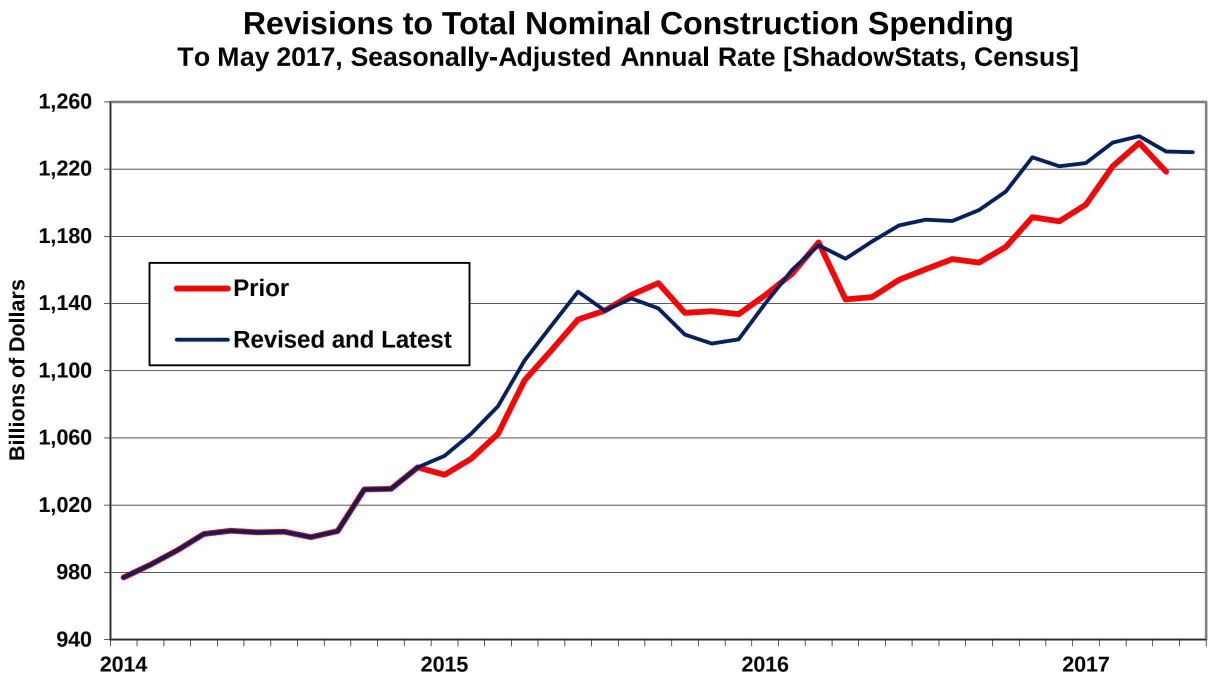


As suggested in the *Pending Economic Releases* section of prior *Commentary No. 896*:

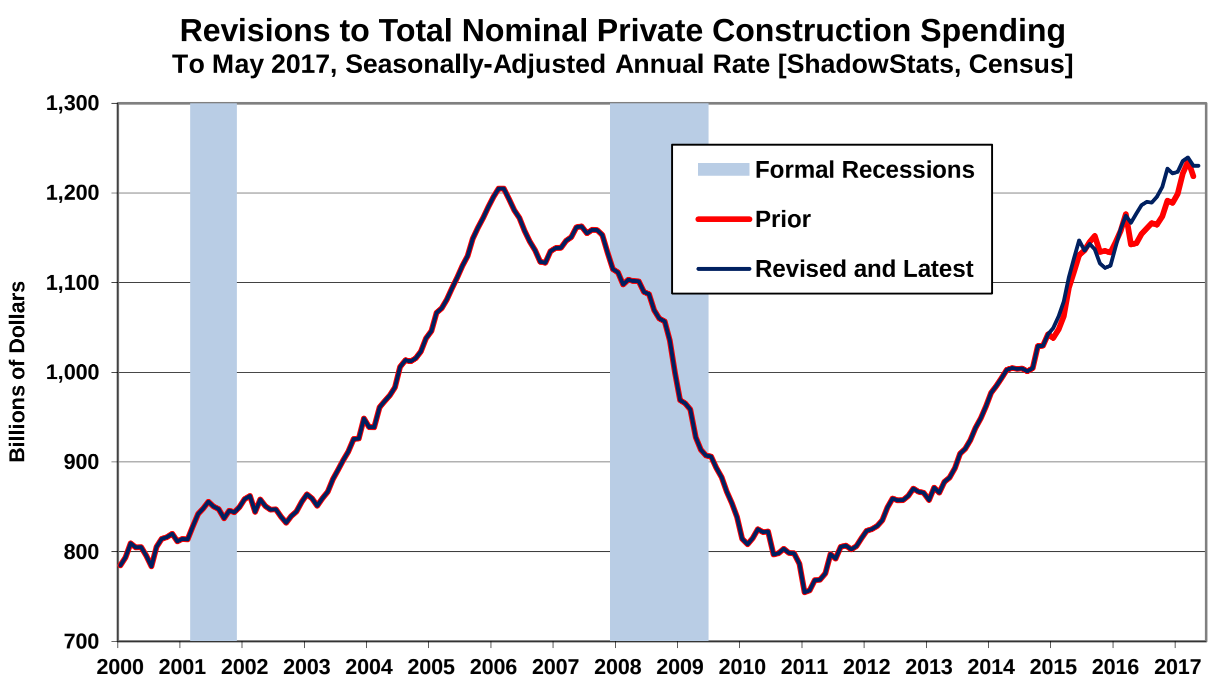
> Irrespective of almost perpetually-positive market expectations for this series, the benchmark-revised detail generally should continue in flat-to-downtrending stagnation, particularly in real terms, net of inflation. The net annual revisions could up prior-year reporting, but should lower current real annual growth rates, with more than theoretically-negative implications for the July 28th GDP benchmark revisions.

Negative implications for the pending GDP revisions indeed were intensified and that shall be expanded upon, in the context of other benchmark revisions to major series, in *Commentary No. 900* of July 19th.

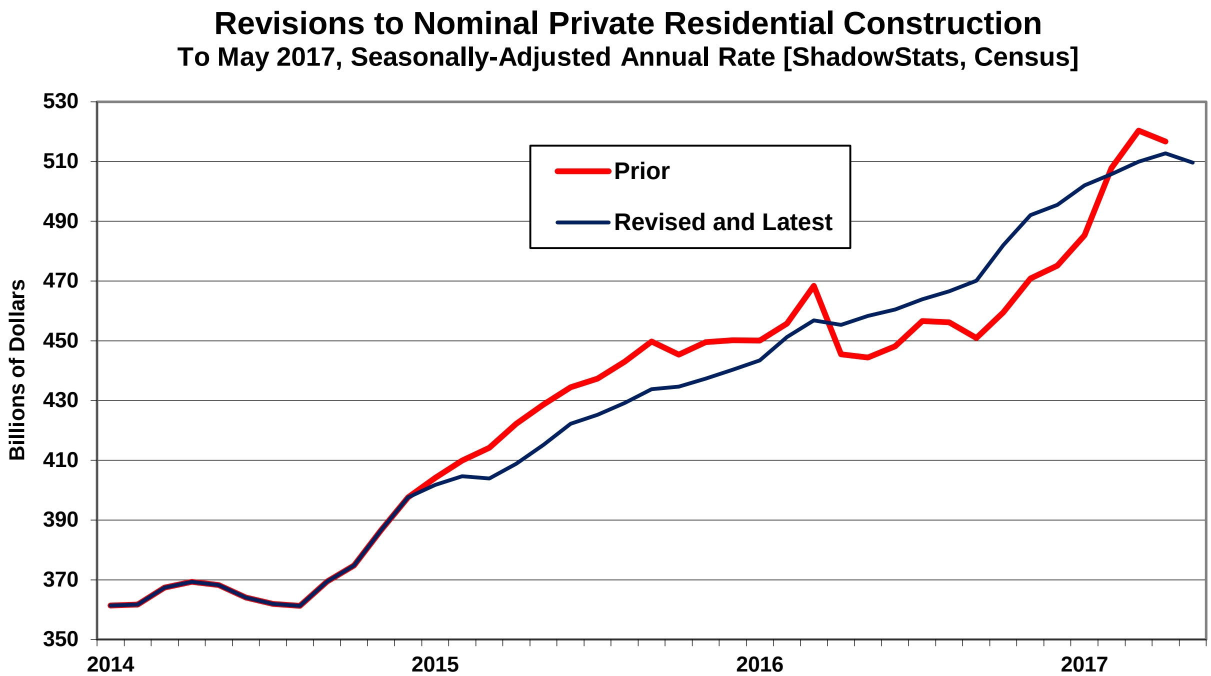
Graph 5: Benchmark Revised Nominal Construction Spending, Aggregate



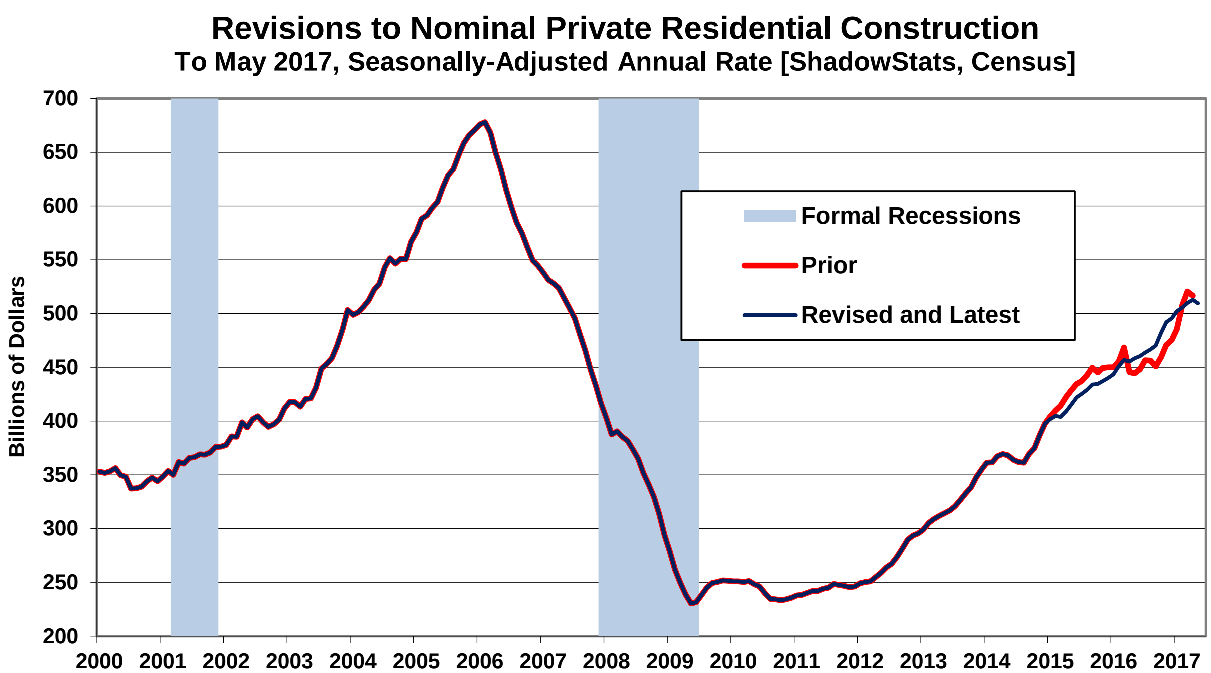
Graph 6: Benchmark Revised Nominal Construction Spending, Aggregate (2000 to Date)



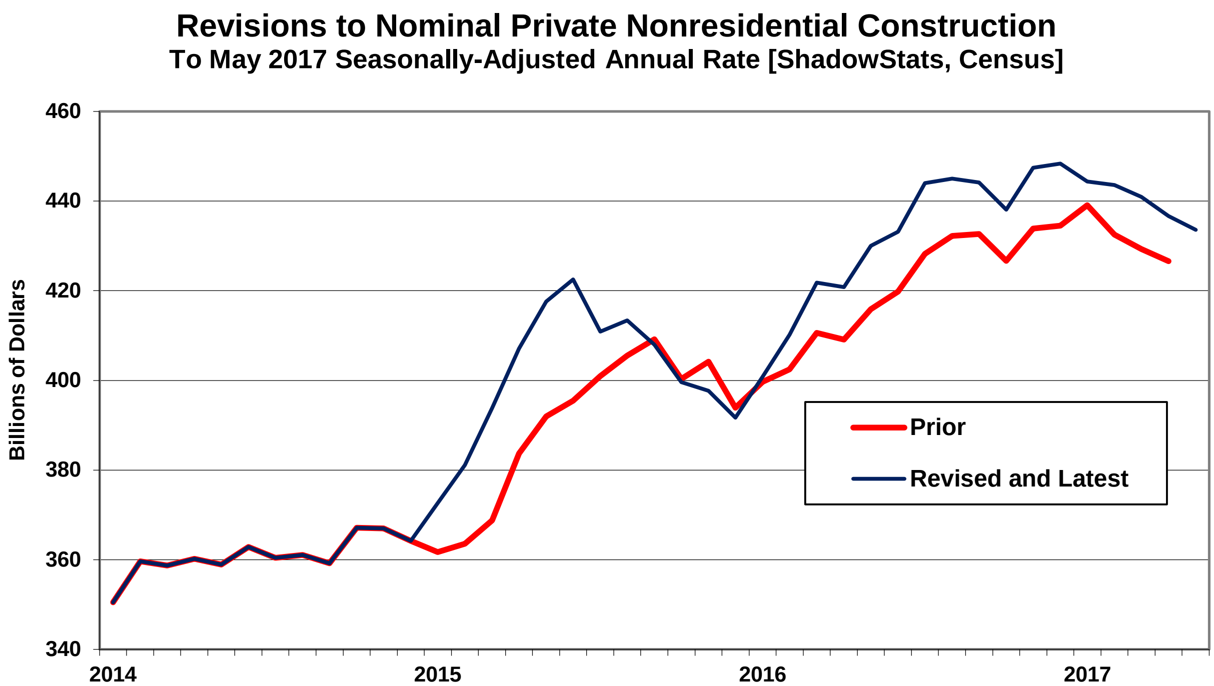
Graph 7: Benchmark Revised Nominal Construction Spending, Private Residential



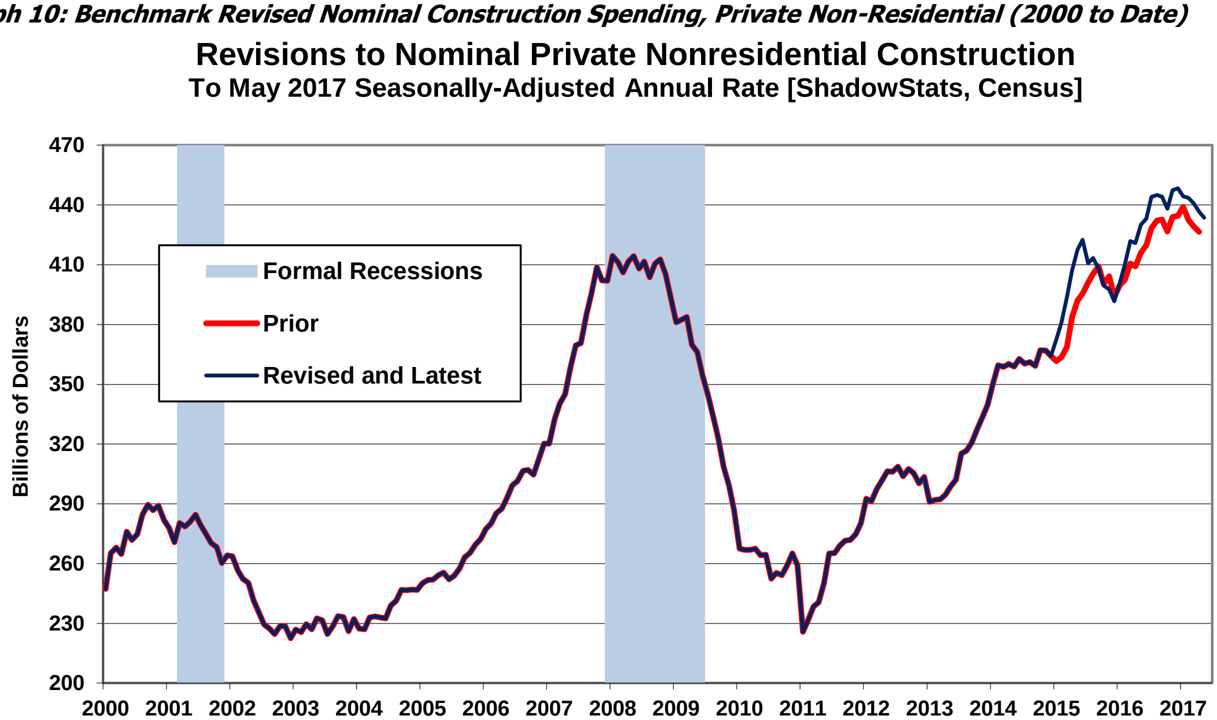
Graph 8: Benchmark Revised Nominal Construction Spending, Private Residential (2000 to Date)



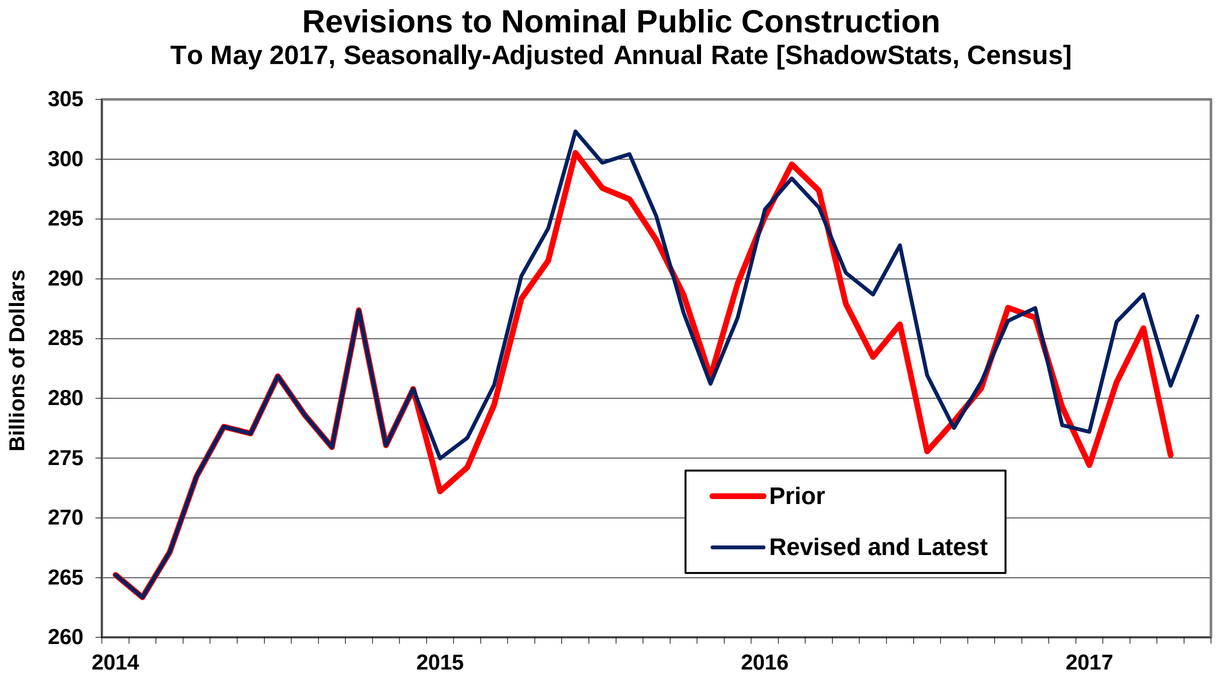
Graph 9: Benchmark Revised Nominal Construction Spending, Private Non-Residential



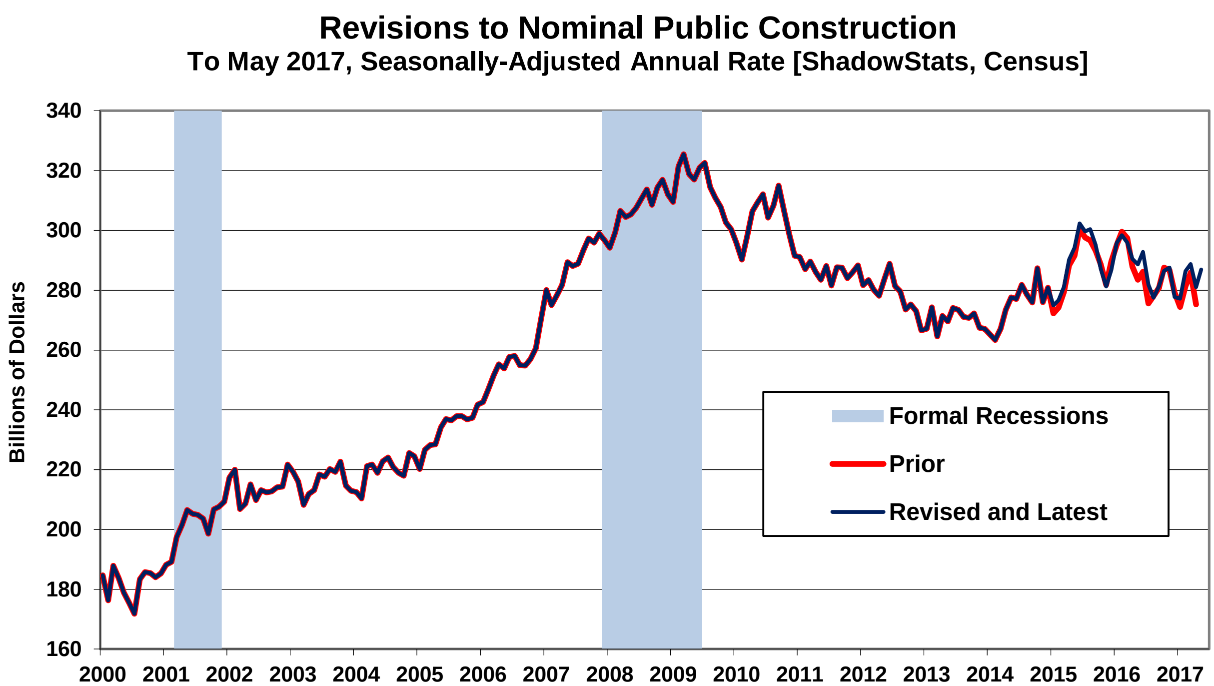
Graph 10: Benchmark Revised Nominal Construction Spending, Private Non-Residential (2000 to Date)



Graph 11: Benchmark Revised Nominal Construction Spending, Public



Graph 12: Benchmark Revised Nominal Construction Spending, Public (2000 to Date)



Executive Summary: Construction Spending—May 2017—Real Annual and Quarterly Growth Patterns Weakened Sharply, with Real Spending Still 20.7% (-20.7%) Shy of Recovering Its Pre-Recession Peak. In the context of the annual benchmark revisions to Construction Spending discussed in the *Opening Comments*, the current level of activity in this highly volatile series was revised only minimally, but shifting growth patterns pushed the series into faltering, near-term downtrends, with sharply slowing annual real growth and an intensifying downturn in quarterly real activity.

Real construction spending has been broadly flat for the last year or so, holding in low-level, stagnating non-recovery. Pre-benchmarking, April 2017 activity remained shy of recovering its June 2006 pre-recession peak by 21.3% (-21.3%); post-benchmarking May 2017 activity was 20.7% (-20.7%) shy of recovering the pre-recession high. Inflation adjustment here 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*. Accompanying *Graphs 13* to *16* plot the levels of the aggregate Construction Spending series and major its major subcomponents, in both nominal (before inflation adjustment) and real (after inflation adjustment) terms.

Headline Reporting for May 2017. Headline, total value of construction put in place in the United States for May 2017 was $1,230.1 billion on a seasonally-adjusted but not-inflation-adjusted, annual-rate basis. That was unchanged month-to-month at a statistically-insignificant 0.0%, versus $1,230.4 billion in April 2017, which in turn was down by 0.7% (-0.7%) from $1,239.6 billion of March 2017. Adjusted for CCD inflation, total real spending in May 2017 declined by 0.2% (-0.2%), where April 2017 declined by 0.9% (-0.9%) versus March 2017.

May 2017 nominal construction spending rose year-to-year by a statistically-significant 4.5%, following annual gains of 5.5% in April 2017 and 5.5% in March 2017. Net of construction costs indicated by the CCD, the annual growth in total real construction rose by 1.1% in May 2017, 1.9% in April 2017 and 1.7% in March 2017.

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

[Graphs 13 to 16 begin on the next page.]

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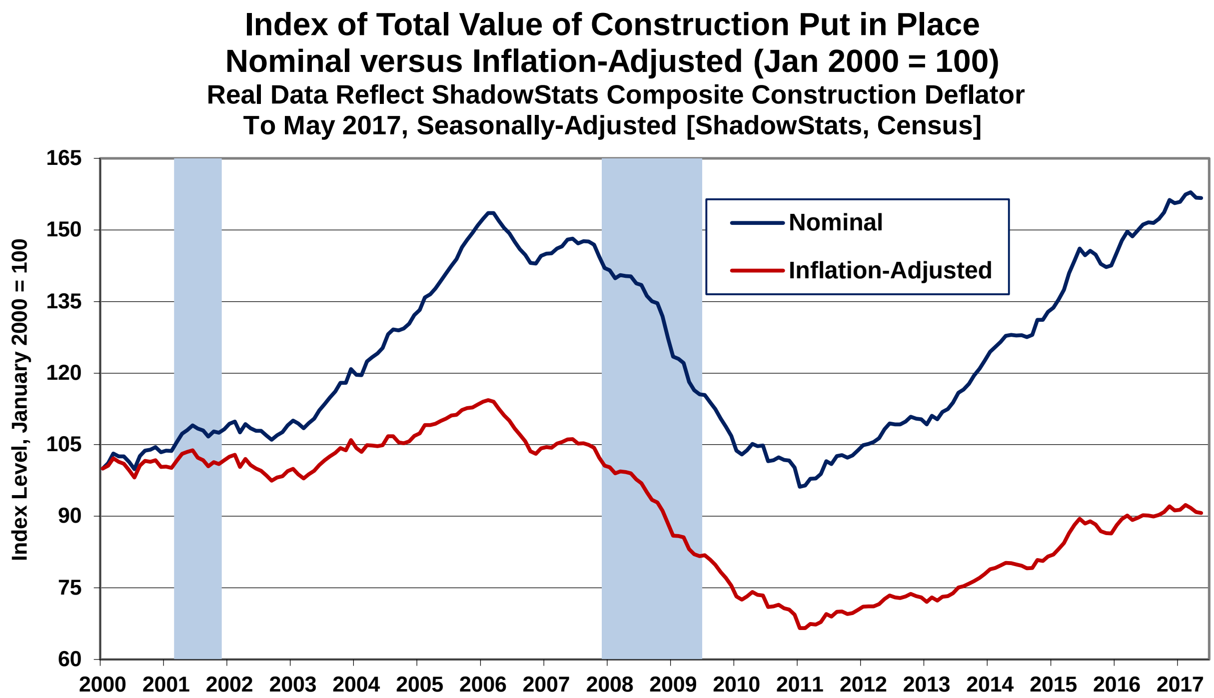
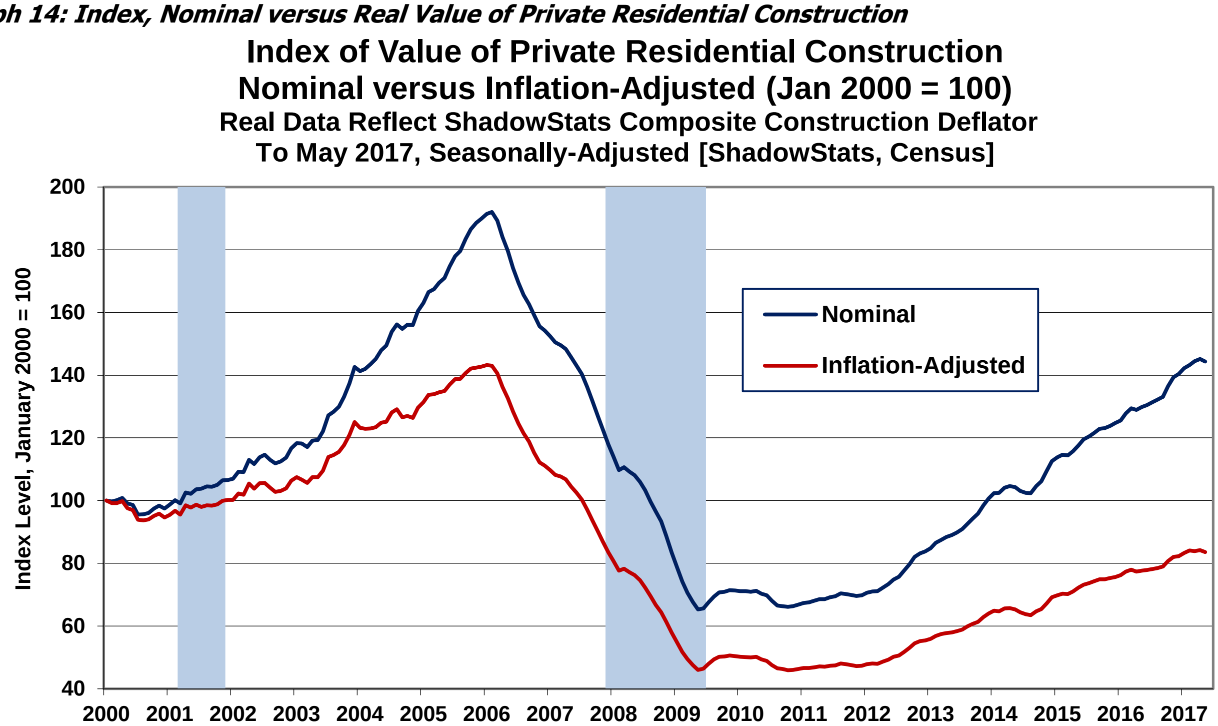
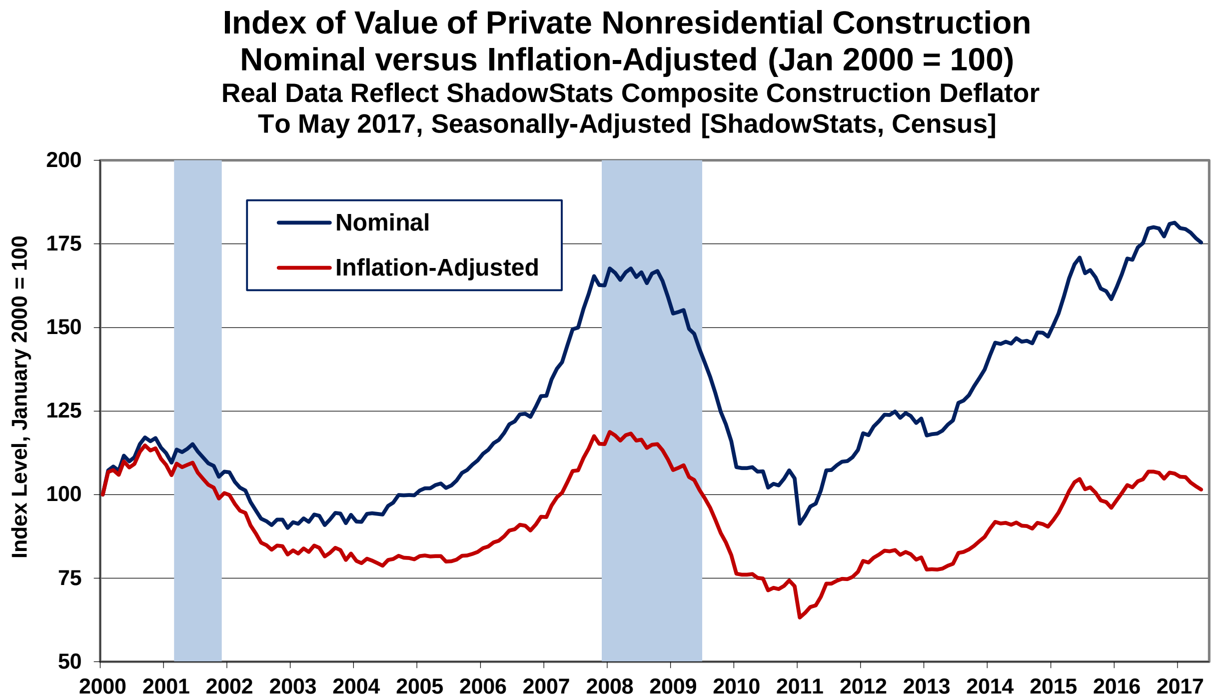
Graph 13: Index, Nominal versus Real Value of Total Construction



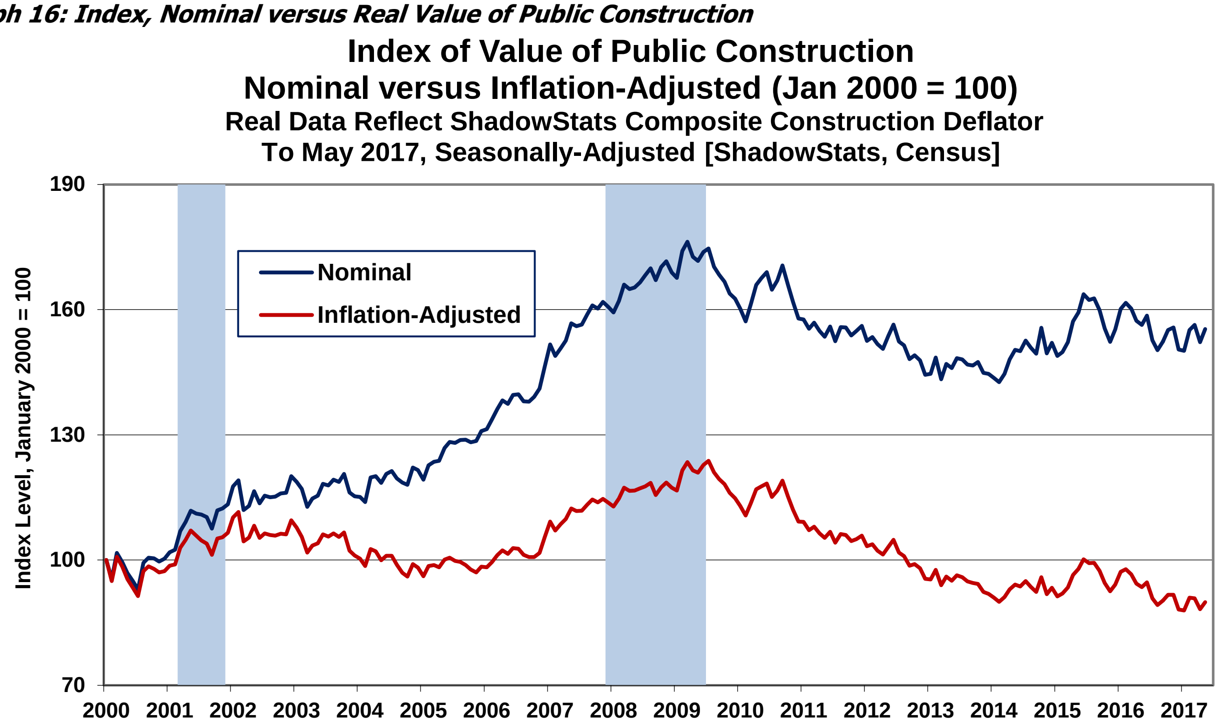
Graph 14: Index, Nominal versus Real Value of Private Residential Construction



Graph 15: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 16: Index, Nominal versus Real Value of Public Construction

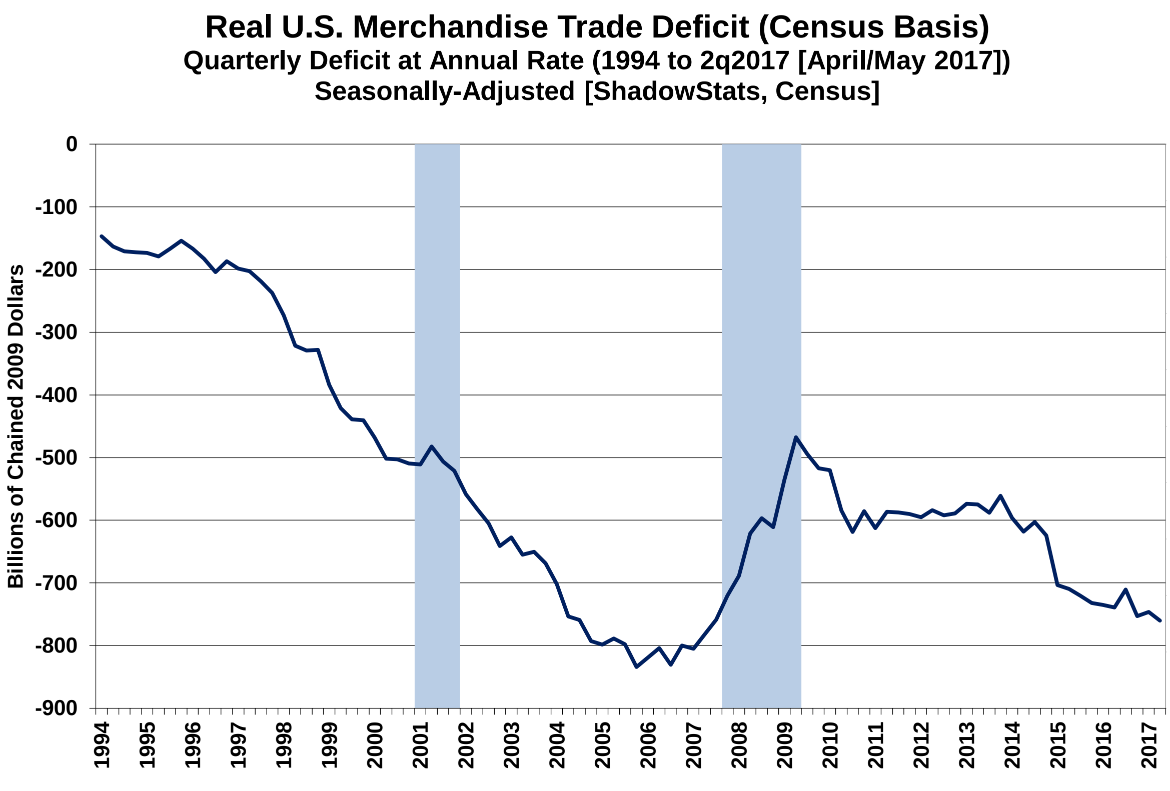


U.S. Trade Deficit—May 2017—Real Second-Quarter Merchandise Deficit Continued on Track for the Worst Showing Since Second-Quarter 2007. In the context of the heavily-negative June 2nd annual benchmark revisions to the monthly trade deficit (*Commentary No. 890*), and in the context of minimal revisions published with the May 2017 monthly detail, the trend for the second-quarter real merchandise trade deficit continued on track for its worst showing in ten years (see *Graph 17*). That should have negative impact on the July 28th headline reporting of second-quarter GDP.

Nominal May 2017 Trade Deficit. The nominal (not adjusted for inflation), seasonally-adjusted monthly trade deficit in goods and services for May 2017 narrowed on a balance-of-payments basis by $1.078 billion, to $46.507 billion, versus a revised deficit of $47.585 in April. The improvement in the monthly deficit reflected an increase of $0.855 in monthly exports, helped by a minimal decline in imports by $0.223 (-$0.223) billion. Nonetheless, the headline May 2017 deficit widened sharply, by $4.987 billion, versus the year-ago $41.520 billion trade shortfall for May 2016.

See the *Reporting Detail* for more-comprehensive background.

Graph 17: Real Merchandise Trade Deficit (1994-2017)



[The* Reporting Detail *contains extended analysis and graphs.]

REPORTING DETAIL

CONSTRUCTION SPENDING (May 2017)

Despite Shifting Benchmark Revisions, Real Spending Still Was 20.7% (-20.7%) Shy of Recovering Its Pre-Recession Peak. The construction spending series remains highly volatile and subject to unstable and extraordinarily-large monthly revisions, compounded once per year with annual benchmarking, as with the current headline detail, discussed in the *Opening Comments.* While the benchmarking did little to alter the current level of activity, shifting growth patterns did push the series into a faltering downtrend, with sharply slowing annual real growth and an intensifying downturn in quarterly real activity.

Nonetheless, real construction spending still has been broadly flat (albeit somewhat uptrending) for the last year or two, holding in low-level, stagnating non-recovery. May 2017 activity remained shy of recovering its June 2006 pre-recession peak by 20.7% (-20.7%); that shortfall had been 21.3% (-21.3%) pre-benchmarking. As shown in *Graph 4* of the *Opening Comments* and accompanying *Graph 20*, annual real change in spending shifted from what had been a brief uptrend to renewed downtrend, again pushing low levels of annual real growth otherwise not seen since the economic collapse into 2009.

Ongoing Consumer Liquidity Issues Constrain Residential Construction Spending. Discussed in the *Opening Comments*, updated in *Special Commentary No. 888* and fully reviewed in *No. 859 Special Commentary*, the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential real-estate activity, including construction. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt, in order to make up for the income shortfall, the U.S. consumer remains unable to support regularly-positive growth in broad economic activity.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, and in the context of mixed benchmark revisions discussed in the *Opening Comments*, there remains no chance of a near-term, sustainable turnaround in the dominant residential-construction category of 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.

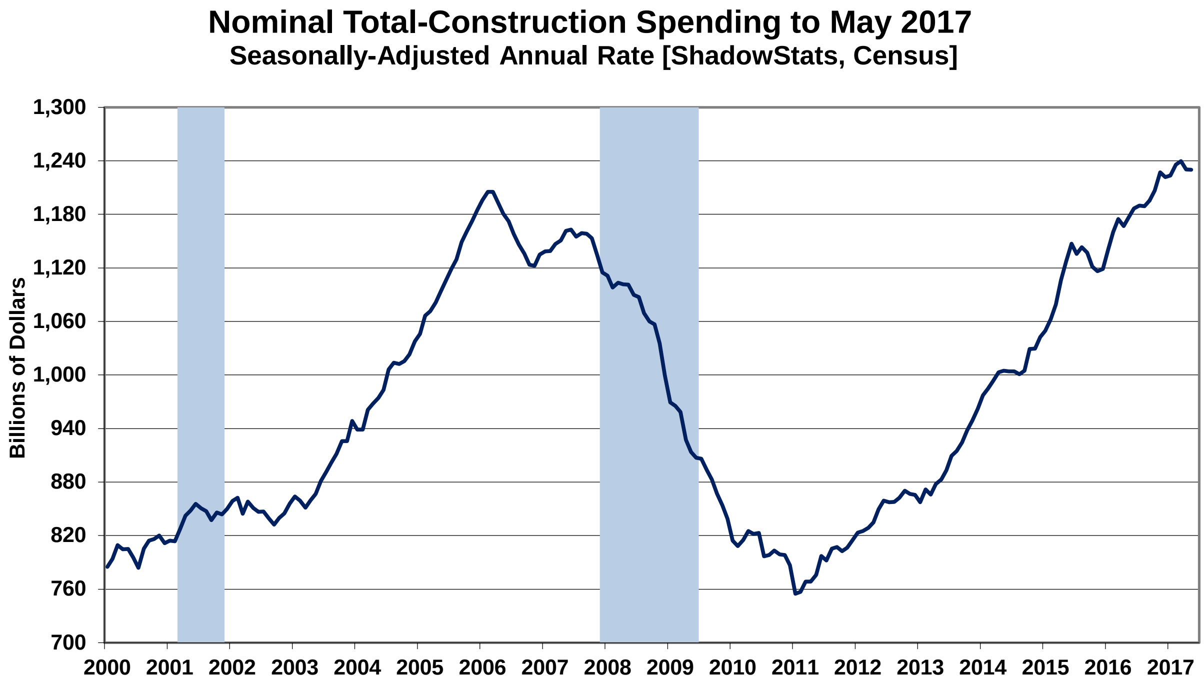
Accordingly, ShadowStats constructed the CCD specifically for deflating construction spending. The CCD is a composite of pricing series, weighted by broad industry segment as compiled in the headline construction spending, with consistent historical tabulation back to before 2000. The combined indices reflect price deflators out of National Income (GDP) reporting, with quarterly numbers there interpolated into a 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 13* to *16* in the *Executive Summary*, and in the accompanying *Graphs 19* and *25* in this section, the inflation-adjusted numbers are deflated by the CCD.

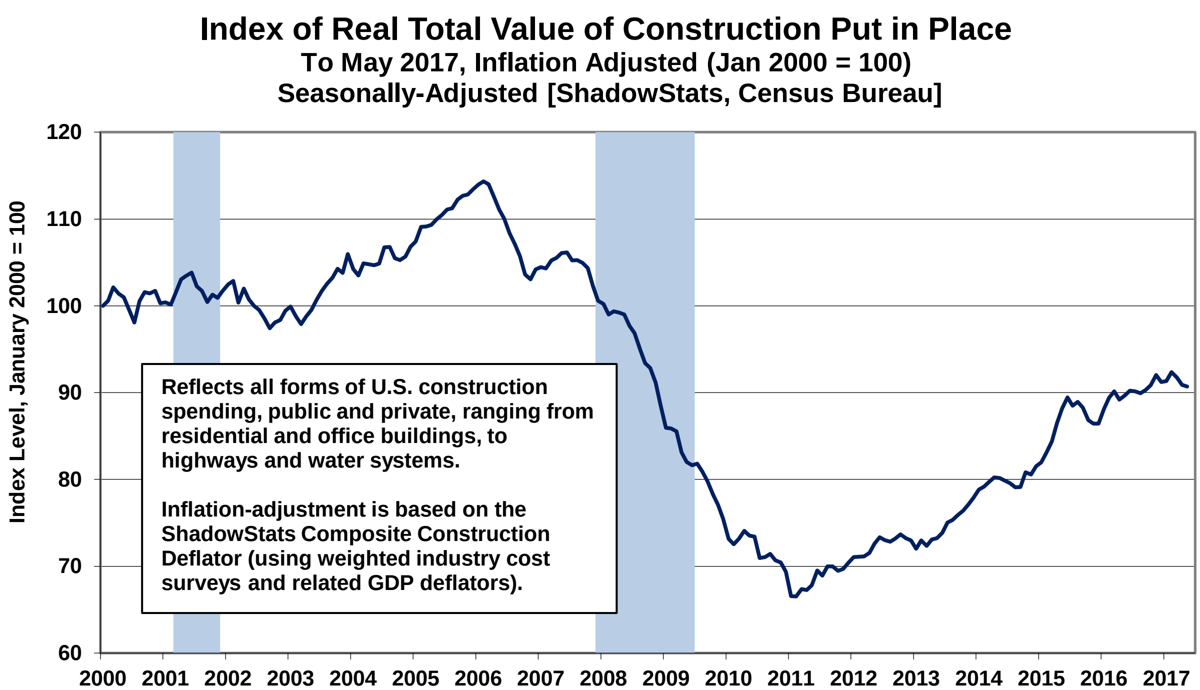
Seasonally-adjusted May 2017 CCD month-to-month inflation rose by 0.19%, having gained 0.18% in April and 1.00% in March. In terms of year-to-year inflation, the May 2017 CCD gained 3.34%, following gains of 3.48% in April 2017 and 3.17% in March 2017.

[Graphs 18 and 19 follow on the next page]

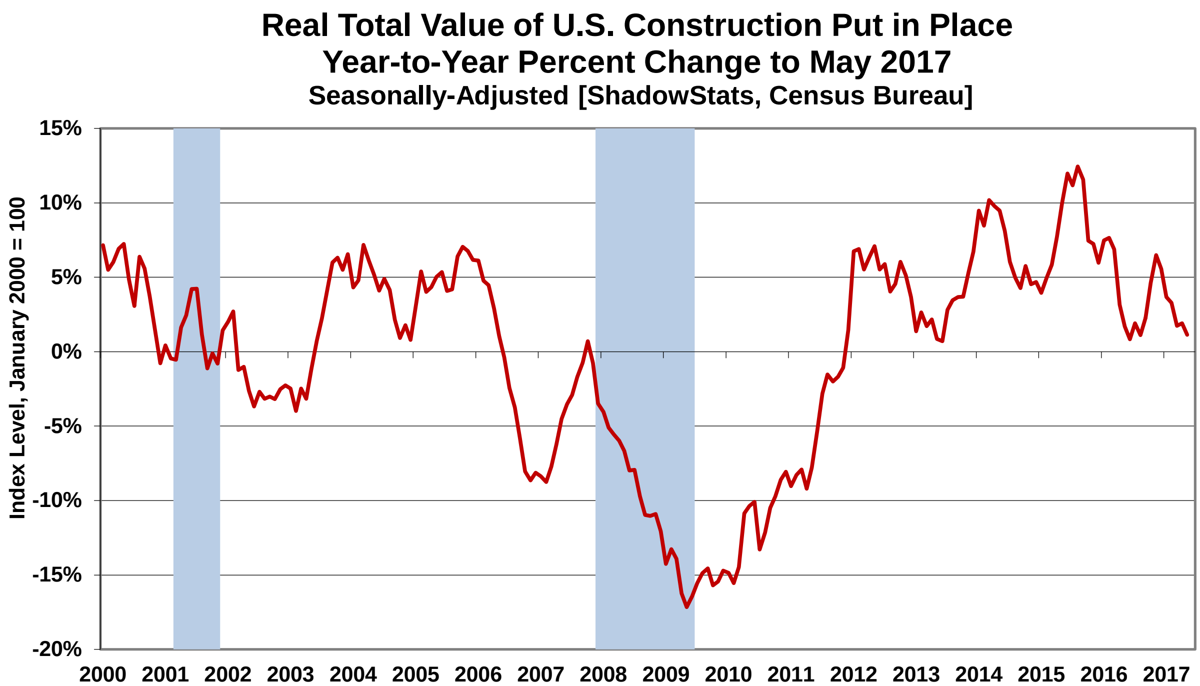
Graph 18: Total Nominal Construction Spending



Graph 19: Index of Total Real Construction Spending



Graph 20: Total Real Construction Spending, Year-to-Year Percent Change



Headline Reporting for May 2017. In the context of annual benchmark revisions back through 2014, as discussed in the *Opening Comments*, the Census Bureau reported July 3rd that the headline, total value of construction put in place in the United States for May 2017 was $1,230.1 billion on a seasonally-adjusted but not-inflation-adjusted, annual-rate basis.

That estimate effectively was unchanged month-to-month at a statistically-insignificant 0.0% [down by 0.02% (-0.02%) at the second decimal point] +/- 2.9% (all confidence intervals are at the 95% level), versus a benchmark revised $1,230.4 billion in April 2017, which in turn was down by 0.7% (-0.7%) from the benchmark revised $1,239.6 billion of March 2017.

Net of all the prior-period downside benchmark revisions to 2015 and upside revisions to 2016 and the revisions through April 2017 in this highly-unstable series, May 2017 activity still would have been statistically-insignificant with a month-to-month gain of 1.0% [0.95% at the second decimal point].

Adjusted for CCD inflation, total real spending in May 2017 declined by 0.2% (-0.2%), where April 2017 fell by 0.9% (-0.9%) versus March 2017.

On a year-to-year annual-growth basis, May 2017 nominal construction spending rose by a statistically-significant 4.5% +/- 2.9%, following benchmark-revised annual gains of 5.5% in April 2017 and 5.5% in March 2017. Net of construction costs indicated by the CCD, the annual growth in total real construction rose by 1.1% in May 2017, 1.9% in April 2017 and 1.7% in March 2017 (see *Graph 5* and related discussions in the *Opening Comments*, and accompanying *Graph 20*).

The statistically-insignificant, nominal monthly "unchanged" in aggregate May 2017 spending, versus a monthly decline of 0.7% (-0.7%) in April 2017 spending, included a headline monthly gain of 2.1% in

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May 2017 public spending, which followed a monthly contraction of 2.7% (-2.7%) in April 2017. Private construction spending was down by 0.6% (-0.6%) for the month of May 2017, versus a decline in April 2017 of 0.5% (-0.5%). Within total private construction spending, the residential-construction sector activity declined by 0.6% (-0.6%) in May 2017, having declined by 0.5% (-0.5%) in April 2017, while the nonresidential sector showed a monthly decline of 0.7% (-0.7%) in May 2017, having declined by a deeper 1.0% (-1.0%) in April 2017.

Quarterly Real Trends. In the context of the benchmark revisions, again, net of inflation, annualized first-quarter 2017 growth slowed to 1.9%, versus a 5.7% gain in fourth-quarter 2016. Separately, based on just two months of reporting, second-quarter 2017 annualized change is trending for an outright annualized contraction of 4.4% (-4.4%) versus first-quarter 2017.

Graphs 13 to *16* in the *Executive Summary* 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 from mid-2015 through first-quarter 2017. Areas of recent relative strength in the major subcomponents generally have flattened out or have begun to turn down anew, after inflation adjustment.

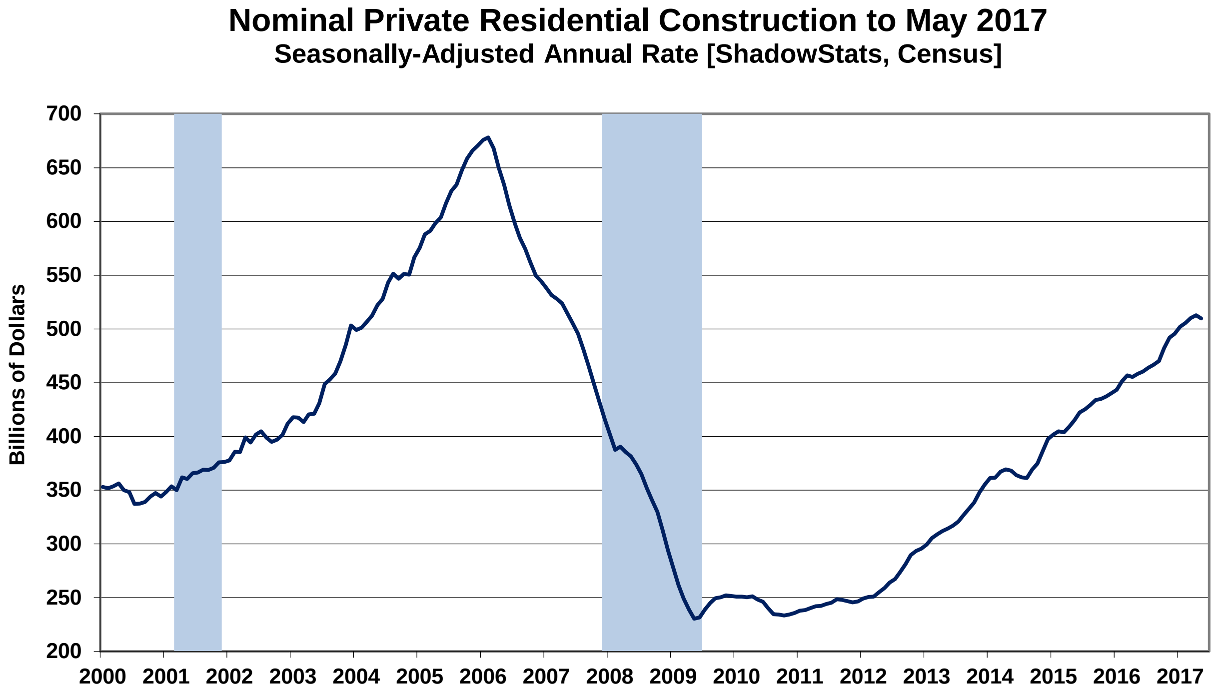
The general pattern of real activity had been one of low-level, up-trending stagnation that now has turned generally flat for a number of quarters. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 18* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 19*, while *Graphs 24* and *25* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs. Earlier *Graphs 18* and *19*, and later *Graphs 24* and *25* reflect total construction spending through May 2017, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 19* is on an index basis, with January 2000 = 100.0, where *Graph 20* 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, then with some boost into early-2015. Activity declined in fourth-quarter 2015, with a rebound in 2016, sinking anew into 2017, with annual growth holding now at low levels, as indicated in *Graph 20*.

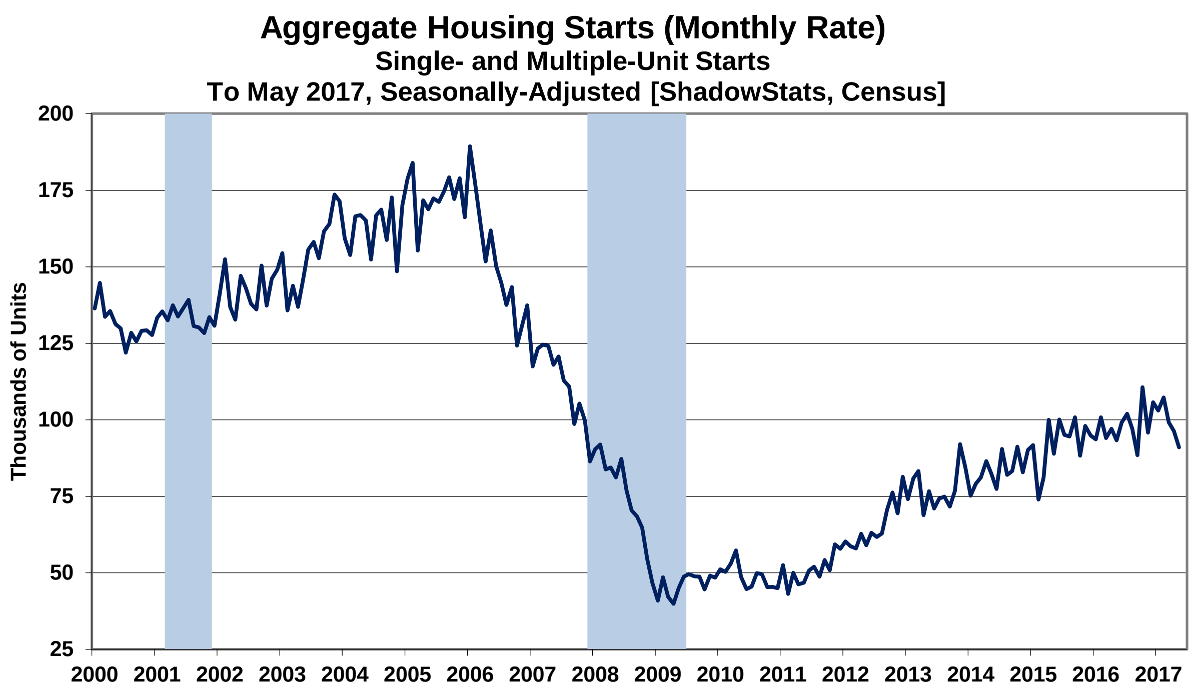
The pattern of non-recovered, inflation-adjusted activity here—net of the CCD inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see prior *Commentary No. 896* and the *ECONOMY* section of *No. 859 Special Commentary*). To the contrary, the broad construction reporting, both before (nominal) and after (real) inflation adjustment, generally still shows low-level activity, where aggregate activity never recovered pre-recession highs and, again, has flattened-out and is turning-down anew.

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 remain reasonably smooth in the residual month-to-month change. Note the comparative monthly volatilities in the non-smoothed *Graphs 21* and *22*.

Graph 21: Nominal Private Residential Construction Spending to Date



Graph 22: Combined Single- and Multiple-Unit Housing Starts to Date

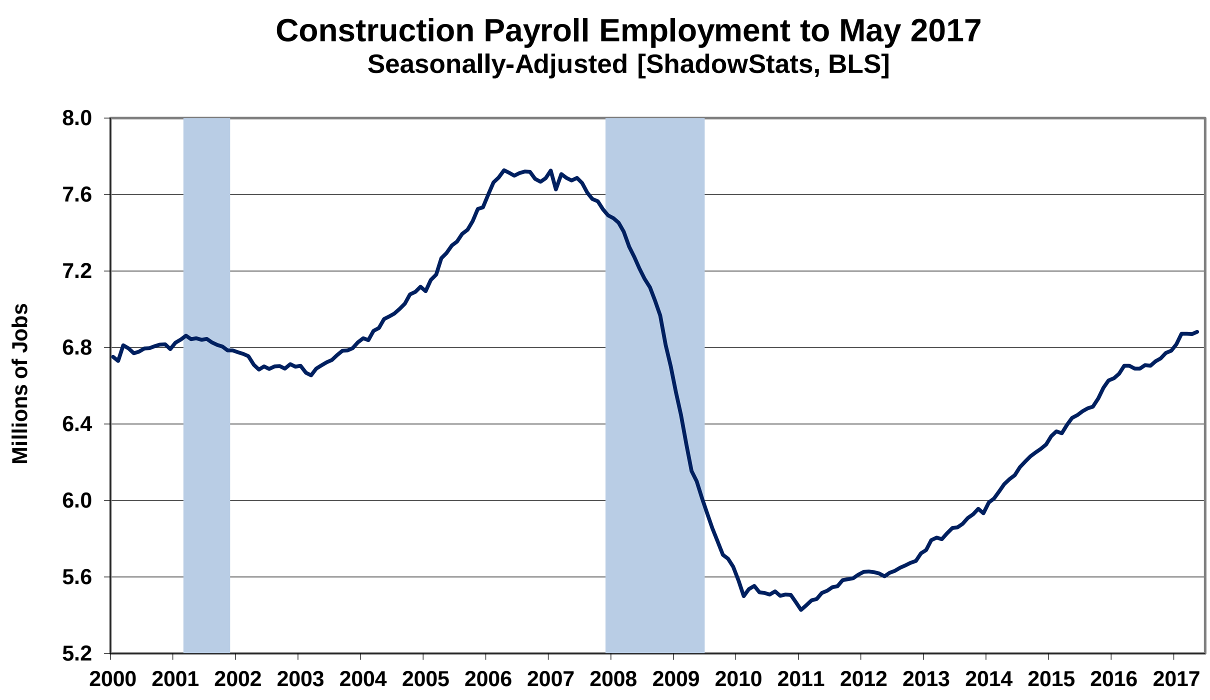


Construction-Payrolls Rose Minimally in May, Offset by Downside Revisions to March and April, Activity Still Down 10.9% (-10.9%) from Pre-Recession Peak. Discussed previously in *Commentary No. 890*, in the context of largely offsetting downside revisions to construction employment in March and April, May 2017 construction payroll employment rose by 11,000 to 6.881 million jobs. *Graph 23* reflects the headline May 2017 detail. April 2017 employment previously had been estimated at 6.877 million. Net of prior-period revisions, the headline May monthly gain would have been 4,000. The June 2017 detail will be updated in tomorrow's *Commentary No. 898*.

In theory, construction payroll levels should move closely with the inflation-adjusted aggregate construction spending series and the Housing Starts series (the latter measured in units rather than dollars). The recent general pattern in construction has become one of uptrending activity that still remains shy of recovering its pre-recession high, still broadly consistent with continuing weakness seen in real construction spending and other construction measures, again, albeit uptrending at the moment. While the headline May 2017 level of construction jobs was the highest seen since October 2008, it still remained down from its April 2006 pre-recession series peak by 10.94% (-10.94%).

Where construction payrolls generally had flattened out, albeit somewhat more up-trending post-payroll-benchmarking, such generally has been broadly consistent with patterns of stagnating non-recovery seen in various residential real estate sales and construction activity measures, and with faltering growth patterns seen here in headline real construction spending.

Graph 23: Construction Payroll Employment to Date



Graphs of Construction Activity. *Graph 24* shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 25* shows the same breakout as in *Graph 24,* but the detail is in real, inflation-adjusted terms, reflected in constant November 2009 dollars (base month for the PPI), deflated by the *ShadowStats Composite Construction Deflator (CCD)*, as discussed in the earlier *Construction Inflation* section.

Graphs 26 and *27* cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for May 2017 (see *Commentary No. 893*). 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 14* of the *Opening Comments* section, *Graph 25* and presumably with the headline construction-payroll data in *Graph 23*.

The final two graphs (*Graphs 28* and *29*) 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 surged beyond its pre-recession nominal peak in 2016, hitting a new high in December 2016 and backing off same ever 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 and into 2017, the nominal series still appeared to have fluttered into and out of a low-level top, now generally lower, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 15*, *16* and *25,* both series still appear stalled shy of their pre-recession peaks.

[Graphs 24 to 29 begin on the following page]

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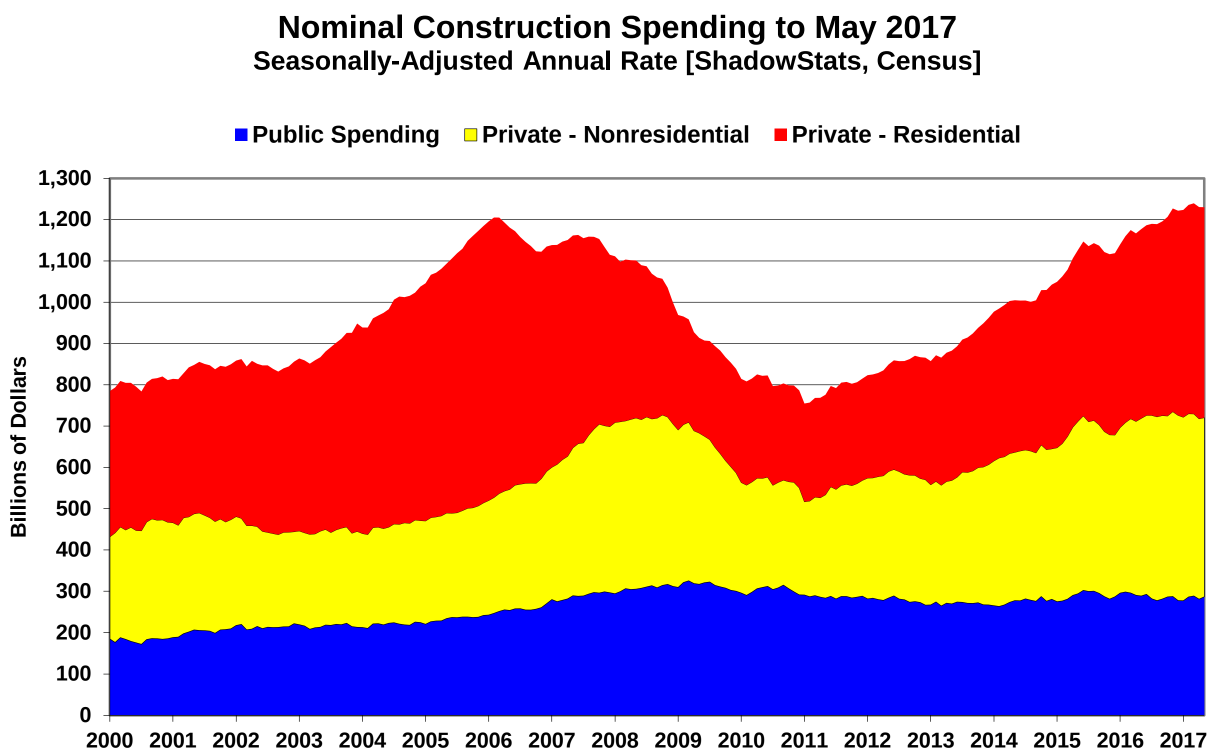
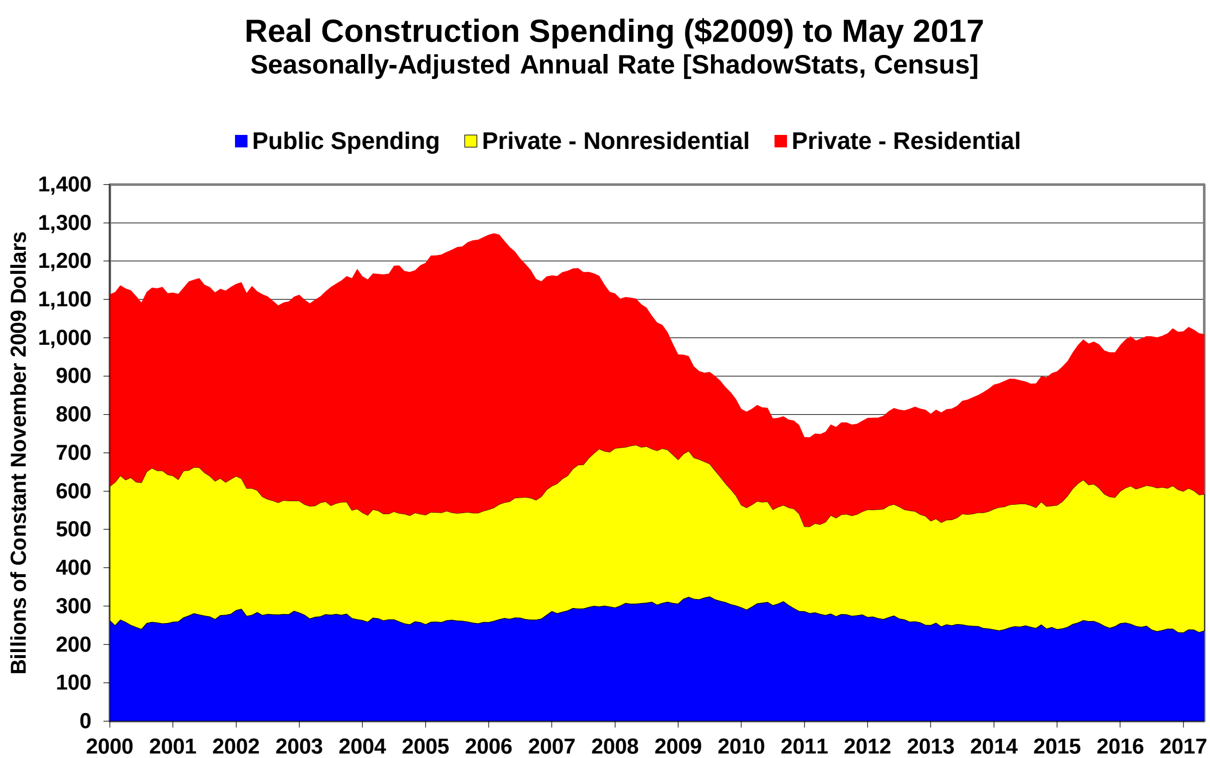
Graph 24: Aggregate Nominal Construction Spending by Major Category to Date



Graph 25: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



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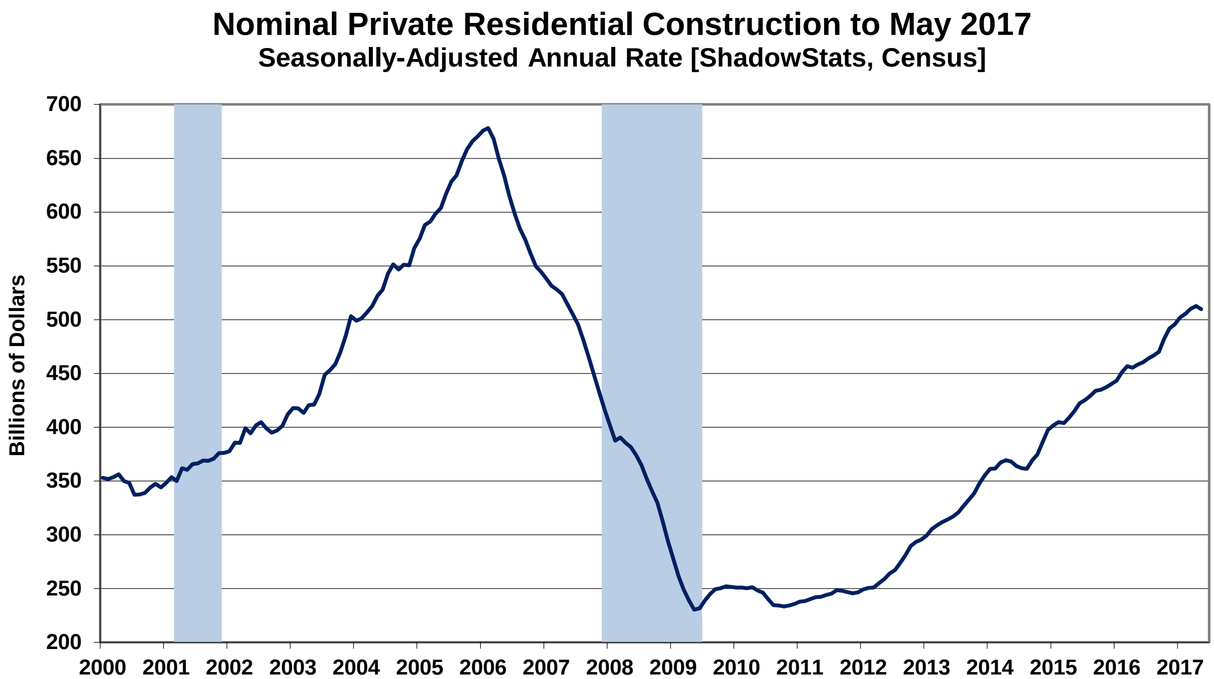
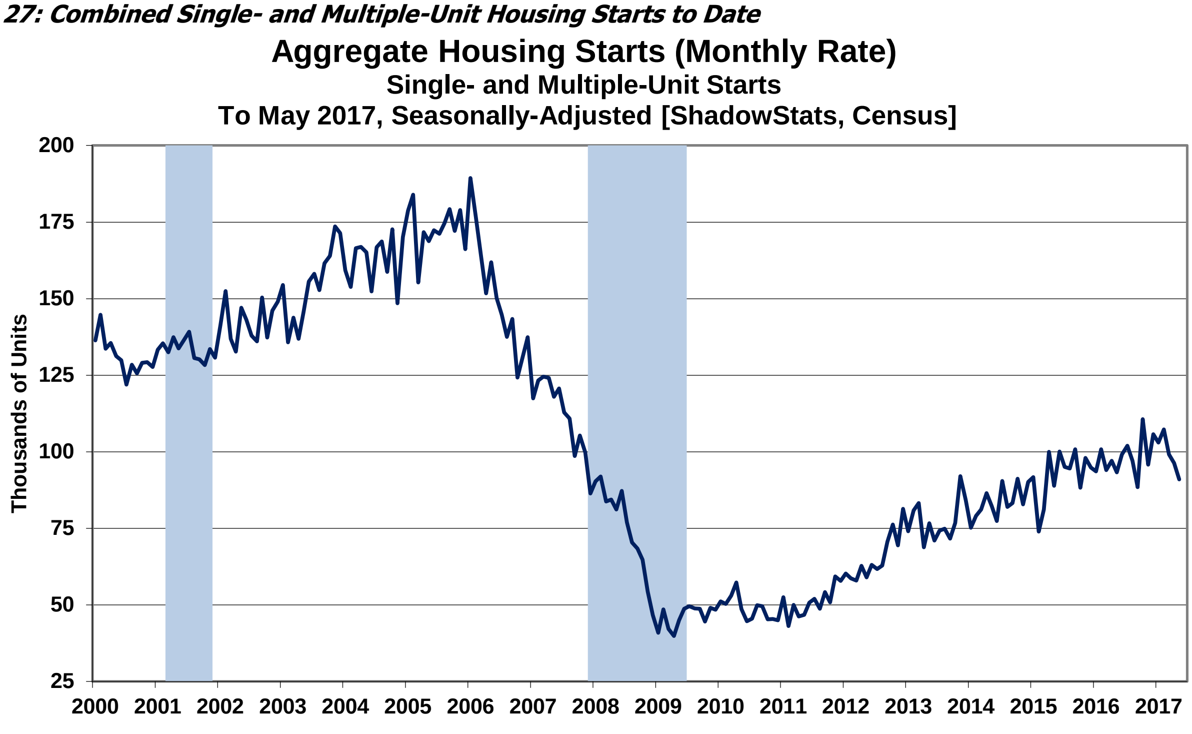
Graph 26: Nominal Private Residential Construction Spending to Date



Graph 27: Combined Single- and Multiple-Unit Housing Starts to Date



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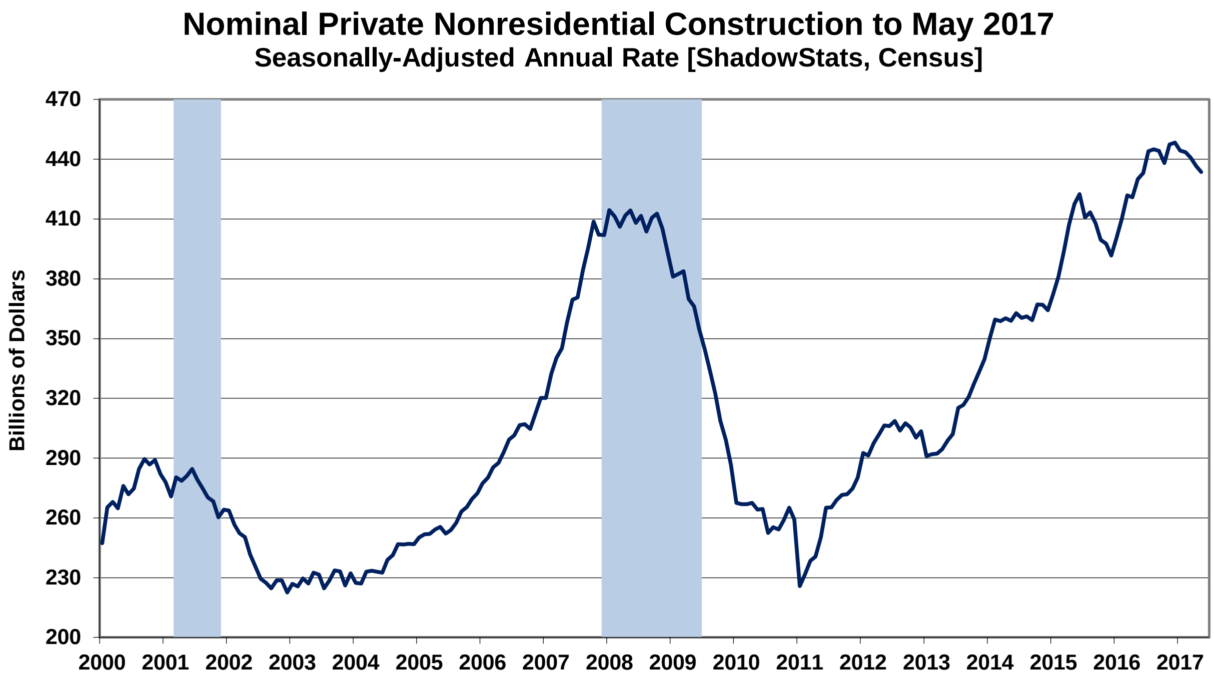
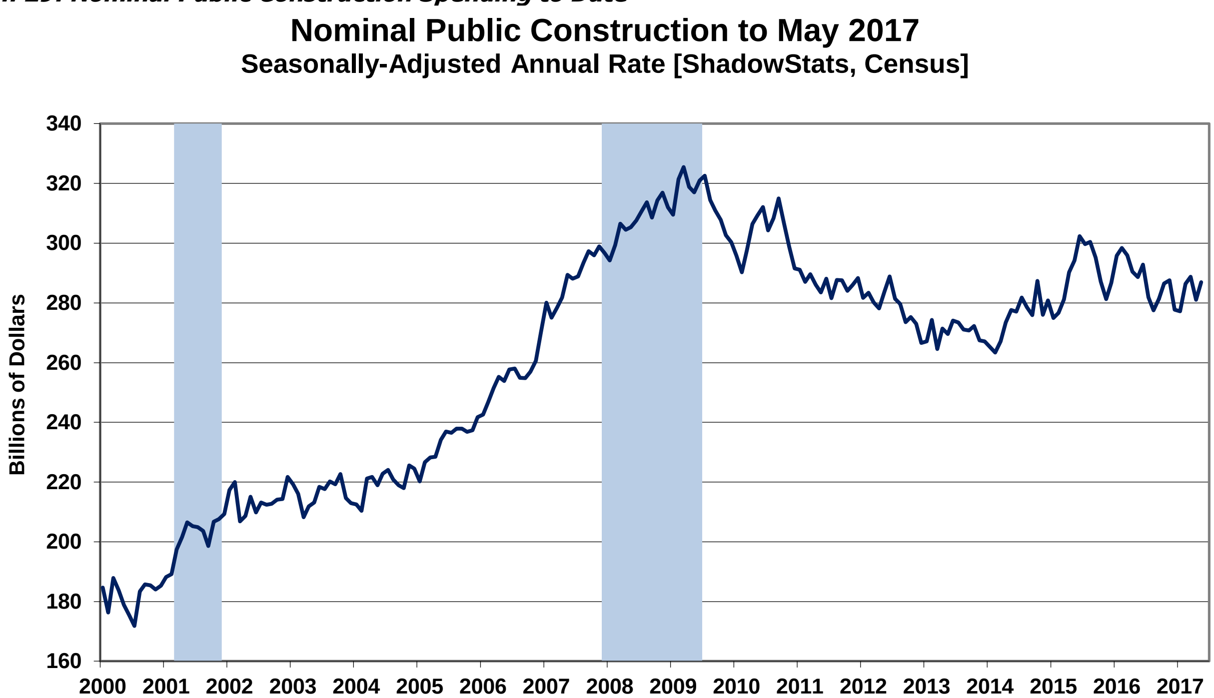
Graph 28: Nominal Private Nonresidential Construction Spending to Date



Graph 29: Nominal Public Construction Spending to Date



MERCHANDISE TRADE DEFICIT (May 2017)

With Minimal Narrowing of the May 2017 Trade Deficit, the Real Second-Quarter Merchandise Deficit Continued on Track for the Worst Showing in Ten Years. In the context of the heavily-negative June 2nd annual benchmark revisions to the monthly trade deficit (*Commentary No. 890*), and in the context of minimal revisions published with the May 2017 monthly detail, the trend for the second-quarter real merchandise trade deficit continued on track for its worst showing in ten years (see *Graph 17* in the *Opening Comments*). That inflation-adjusted quarterly measure should have negative impact on the July 28th headline reporting of second-quarter GDP.

Nominal May 2017 Trade Deficit. Again, in the context of last month's annual benchmark revisions, the Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, July 6th, that the nominal (not adjusted for inflation), seasonally-adjusted monthly trade deficit in goods and services for May 2017 narrowed on a balance-of-payments basis by $1.078 billion, to $46.507 billion, versus a revised deficit of $47.585 [previously $47.617] in April. The improvement in the monthly deficit reflected an increase of $0.855 in monthly exports, helped by a minimal decline in imports by $0.223 (-$0.223) billion. Nonetheless, the headline May 2017 deficit widened sharply, by $4.987 billion, versus the year-ago $41.520 billion trade shortfall for May 2016.

Factors in the small monthly changes to the May trade balance were increasing exports of cell phones and autos and declining food exports, versus declining imports of cellphones and autos and increasing imports of computers. Changes in energy sector activity were relatively neutral.

Energy-Related Petroleum Products. May 2017 imported oil prices declined by 0.8% (-0.8%) to $45.03 per barrel, versus $45.40 per barrel April 2017, but up by 31.7% versus $34.19 per barrel in May 2016. Separately, not-seasonally-adjusted physical oil-import volume in May 2017 averaged 8.548 million barrels per day, up from 7.641 million in April 2017 and up from 7.206 million in May 2016.

Ongoing Cautions and Alerts on Data Quality. Potentially heavy distortions in headline data continue from distorted and unstable 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 related, ongoing disruptions have distorted regular patterns of seasonality. Separately, the monthly trade data can be influenced by irregular shipping patterns, affected by factors ranging from labor disruptions to unusual weather conditions.

Real May 2017 Trade Deficit. Again, in the context of last month's annual revisions, and as discussed here and reflected in *Graph 17* in the *Executive Summary*, seasonally-adjusted and in real terms, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the May 2017 merchandise trade deficit (no services) narrowed to $62.836, versus a revised $63.820 [previously $63.549] billion April 2017, and widened against $61.563 billion in May 2016.

Last year, the annualized deficit was $735.3 billion for first-quarter 2016, $739.4 billion for second-quarter 2016, $710.4 billion for third-quarter 2016 and $753.1 billion for fourth-quarter 2016. The fourth-quarter 2016 deficit was the worst quarterly showing since third-quarter 2007.

The annual real merchandise trade deficit widened for the year of 2016 to $747.2 billion, versus $716.4 billion in 2015. The 2016 annual trade shortfall was the worst since 2008.

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The first-quarter 2017 deficit narrowed minimally to an annual rate of $746.4 billion. Based solely on initial April and May 2017 reporting, the second-quarter 2017 deficit was on an track for $759.4 billion [previously $762.6 billion based just on the initial April reporting], which would be the worst quarterly showing since second-quarter 2007.

Irrespective of occasional, quarterly aberrations and increasingly irregular, headline month-to-month activity, headline deficits broadly should continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP.

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WEEK, MONTH AND YEAR AHEAD

Rapidly Softening Economic Reporting Should Compromise Fed Policies, Pummel the Dollar, Boost the Price of Gold and Foster Other Financial-Market Tumult. Discussed in *General Commentary No. 894*, and further to the discussions in the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting of the last month has shown a marked downturn versus consensus forecasts. While such usually signals an unfolding, major downshift in underlying economic reality, in the current circumstance that also forewarns of a potential shift in FOMC activity, a circumstance well removed from consensus expectations, at this time. In terms of Fed policy, that would be a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

The immediate effect of such a policy change by the U.S. central bank likely would be a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function, in practice, always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the next major systemic financial crisis is likely to break in the next several months.

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Separately, recent benchmark revisions to Construction Spending (see today's *Opening Comments*), the Trade Deficit (see *Commentary No. 890*), Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*) broadly have confirmed that historical activity in recent years has been overstated and/or that it is turning down anew, particularly in 2015, with the availability of better-quality historical detail. Such is despite near-term improvement in some headline details, such as the May 2017 unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues. Again, reporting patterns likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not changed.

Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows economic expansion of 12.6% (see the *Executive Summary* of *Commentary No. 896* and *Commentary No. 869*).

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see *No. 859*), but cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will break well before the 2018 Congressional Election will have a chance to stabilize the outlook for economic policy objectives.

No. 859 Special Commentary updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (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 remained and remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. 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 eventually should mark the beginning of a "new" formal recession (see *General Commentary No. 867*). Formal economic expansion does begin until economic recovery breaks above its pre-recession high.

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 made loud noises in the last year or so of needing to raise interest rates, in order to contain an "overheating" economy, but that "overheating" activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *General Commentary No. 894*, *Special Commentary No. 885*, *Commentary No. 869*, *No. 859 Special Commentary*, *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 (Covering Headline Details and/or Special Features). *[Pease Note: The complete ShadowStats archives, from 2004 forward, are found at* www.ShadowStats.com *(left-hand column of home page).]*

Commentary No. 896 (June 29, 2017) reviewed the third estimate of first-quarter 2017 GDP.

Commentary No. 895 (June 26, 2017) covered May 2017 New Orders for Durable Goods.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an "unexpected" headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 893 (June 16, 2017) assessed May 2017 New Residential Construction (Housing Starts) and updated *Consumer Liquidity Conditions*.

Commentary No. 892 (June 15, 2017) reviewed May 2017 Industrial Production and assessed current circumstances and likely pending shifts in FOMC policy, in the context of rapidly-deteriorating, headline economic data.

Commentary No. 891 (June 14, 2017) covered the May 2017 CPI and PPI, along with real and nominal retail sales, along with a quick comment on the FOMC rate hike.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Commentary No. 889 (May 26, 2017) reviewed the second-estimate, first-revision to first-quarter 2017 GDP, and the April 2017 estimates of New Orders for Durable Goods and New- and Existing Home Sales and Sentier Research's April Real Median Household income.

Special Commentary No. 888 (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers' Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

Commentary No. 886 (May 16, 2017) reviewed the headline details of the April 2017 CPI and PPI detail, along with headline reporting of nominal and real Retail Sales, real Average Weekly Earnings and regular monthly review of U.S. dollar conditions and prospects.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 884 (May 4, 2017) reviewed the March 2017 details for the U.S. Trade Deficit and Construction Spending and the Conference Boards' reporting of April 2017 Help Wanted OnLine.

Commentary No. 883 (April 29, 2017) covered the headline detail for the "advance" or first-estimate of first-quarter GDP, along with an update to *Consumer Liquidity Conditions*.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and for New- and Existing-Home Sales.

Commentary No. 881 (April 19, 2017) reviewed the prior March 2017 Industrial Production, Housing Starts and the Cass Freight Index™, along with an economic update in advance of the initial first-quarter 2017 GDP estimate.

Commentary No. 880 (April 15, 2017) detailed the prior March 2017 headline reporting the of both Real and Nominal Retail Sales, Real Earnings, the CPI, the PPI and updated Consumer Liquidity, where mounting stresses on consumer income and credit are signaling major economic issues ahead.

Commentary No. 879 (April 7, 2017) covered March 2007 Employment and Unemployment, Help-Wanted Advertising and an update on monetary policy and Money Supply M3 (the ShadowStats Ongoing Measure).

Commentary No. 877 (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

Commentary No. 873 (March 16, 2017) discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with the prior review of the February 2017 Residential Construction reporting.

Commentary No. 872 (March 15, 2017) offered some initial comment on the FOMC rate hike, in conjunction with the review of last month's February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

Commentary No. 871 (March 10, 2017) covered reporting of February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

General Commentary No. 867 (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was 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 the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 (January 13, 2017) covered the 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 in a *Special Commentary*.

No. 859 Special Commentary (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, 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 both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect 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). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. 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 several years 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*). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING ECONOMIC RELEASE: Employment and Unemployment (June 2017). In the context of reporting issues discussed in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, the Bureau of Labor Statistics (BLS) will publish its headline June 2017 labor data tomorrow, Friday, July 7th, to be covered in ShadowStats *Commentary No. 898* of that date. Both the more-inclusive unemployment-rate numbers, as well as the headline payroll-employment details, remain open for negative headline surprises, given the increasingly stagnant-to-weakening tone in a number of the better business indicators.

Specifically, headline detail likely should turn weaker, not stronger, soon, despite the headline decline to 4.3% in the May 2017 U.6 unemployment rate. Month-to-month headline unemployment-rate details are not comparable, as discussed in the monthly *Commentaries* covering the series, and the 16-year low there in May 2017 stretched credulity—severely—irrespective of a variety of reporting gimmicks. Where headline payroll employment gains have disappointed expectations in recent months that likely will continue, with annual growth rates sinking further to levels usually seen only at the onset of formal recessions.

Underlying Reality Remains to the Downside of Expectations. In the context of recent the extreme volatility and inconsistencies in payroll and unemployment detail, almost anything remains possible within near-term BLS reporting. Where, underlying reality remains a much weaker-than-expected economy, such increases the odds of negative surprises to the headline reporting of both the payroll and household-survey detail, against what still are relatively strong consensus expectations, with monthly payroll growth anticipated in the range of 170,000 to 180,000 for June 2017, versus the initial headline gain of 138,000 in May 2017. Headline U.3 unemployment is expected to hold at its 16-year low of 4.3%.

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