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Analysis Behind and Beyond Government Economic Reporting

SPECIAL COMMENTARY NUMBER 426

Economic Update: Mired in A Protracted Downturn

Covered Series: GDP, Income, Confidence, Durables, PCE Deflator, Production Benchmark

March 30, 2012

GNP Growth at 1.8% versus 3.0% GDP

Real Durable Goods Orders 10% Below Levels Seen in 2000

**Shenanigans in Industrial Production Benchmark
Masked Small Downside Revisions to Recent Activity**

Recession Deeper than Previously Estimated

PLEASE NOTE: The next regular Commentary is scheduled for Friday, April 6th, covering the March 2012 employment and unemployment data, and February construction spending.

Best wishes to all — John Williams

ECONOMIC UPDATE: MIRED IN PROTRACTED DOWNTURN

Opening Comments. Broad U.S. business activity remains far from being recovered, despite the ongoing GDP-reporting nonsense that shows inflation-adjusted economic activity above the peak levels that preceded the 2007 recession. No other major economic series supports that GDP reporting (see Chapter 5 starting on Page 38 of [Hyperinflation 2012](http://www.shadowstats.com)). In an environment where politicians and Wall

Street increasingly are hyping an economic recovery, it seemed appropriate to update the U.S. business outlook—based on the latest economic reporting—versus the detail in just-referenced chapter of January’s hyperinflation report. Hence, today’s (March 30th) *Commentary* became a *Special Commentary*.

The analysis that follows assesses data releases of this week in the context of the broad economic environment, including the GDP revision, industrial production benchmark revision, durable goods orders, and household income and consumer confidence/sentiment, along with detail of the PCE deflator. In conjunction with the most-recent payroll, retail sales and housing activity releases (see *Commentaries No. 422*, *No. 424* and *No. 425*), the data here show no economic recovery to be in play.

Going into President Bush’s re-election bid in 1992, the political risk from a bad economy was “resolved” with reporting of a false recovery. Public reaction to the improved economic news was that Mr. Bush was out of touch with economic reality. If the Obama Administration’s statistical agencies are reporting a false economic recovery—due to structural reporting problems or other issues—and such is hyped to the public, a similar public skepticism likely will develop. That assumes, of course, that underlying reality is, as I suggest, that there is no recovery. Main Street U.S.A. usually has a pretty good sense of actual business activity, irrespective of the hype out of Wall Street or Pennsylvania Avenue.

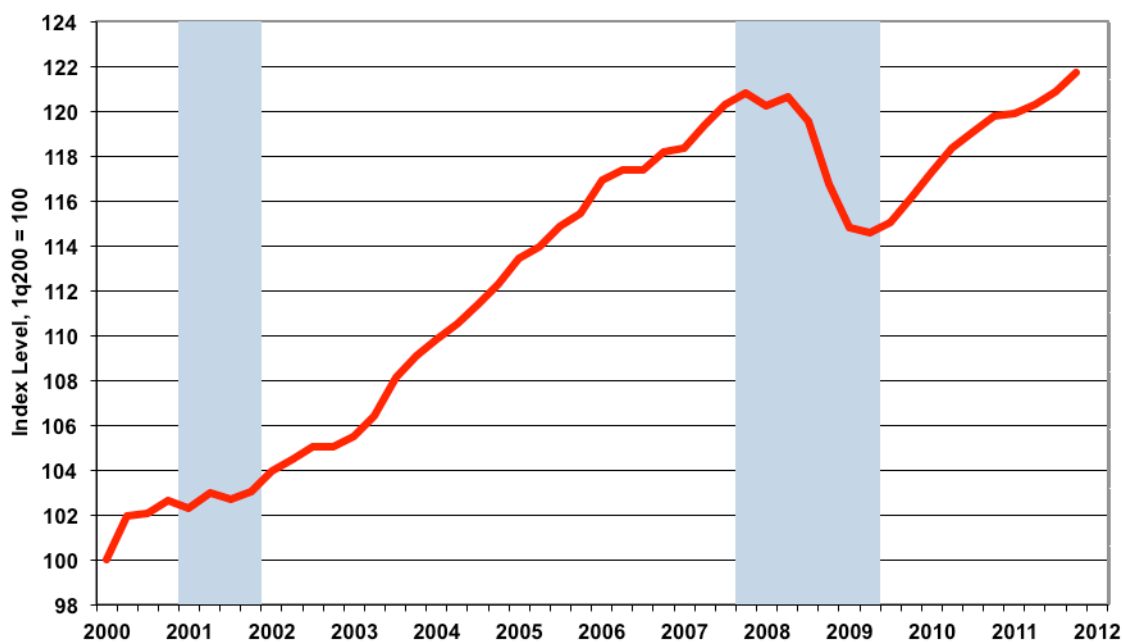
Purported GDP Recovery Remains Inconsistent with Other Major Economic Series. Based on the latest GDP reporting, the U.S. economy has been in full recovery since third-quarter 2011, with real (inflation-adjusted) GDP level now topping the pre-recession peak of fourth-quarter 2007. While some series—adjusted for inflation—have shown upturns in recent years, not one has shown a full recovery.

As discussed in the hyperinflation report, a major reporting problem in the system is the understatement of inflation used in deflating the economic series. The use of understated inflation in deflating data results in an overstatement of the inflation-adjusted numbers. Following are a series of graphs that represent official reporting or that have been corrected, at least partially, for inflation understatement. These graphs are updated from the referenced hyperinflation report.

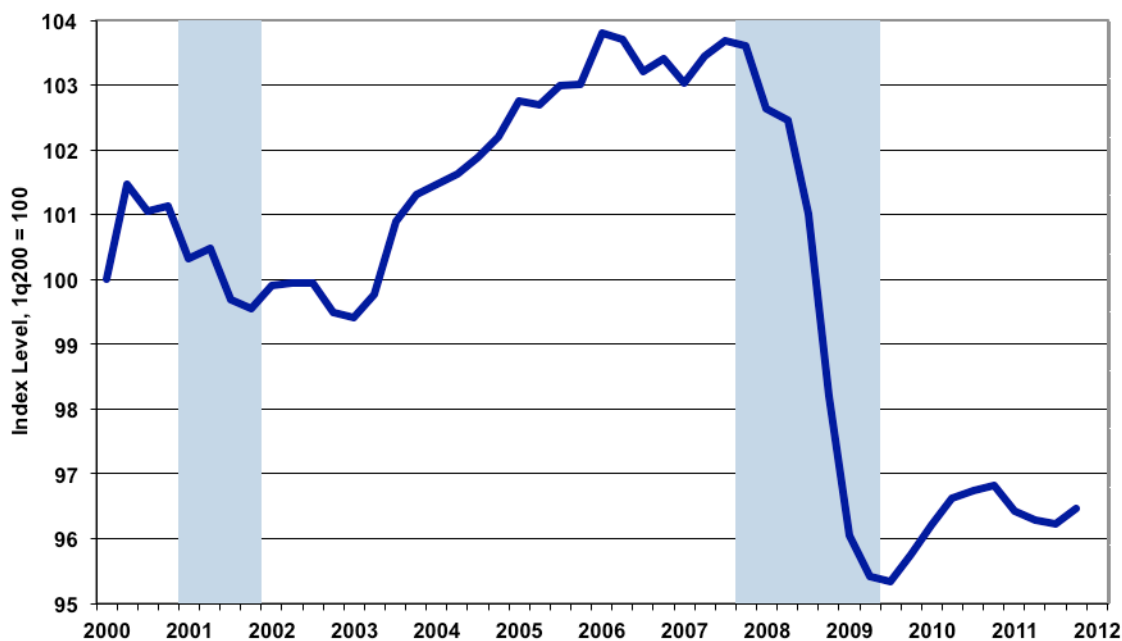
The first set of graphs shows the level of real GDP, as currently reported, and an inflation-corrected version that removes the effects of an estimated two-percentage points of annual growth spiked by hedonic adjustments to inflation. Computer models estimate lowered inflation numbers, adjusting for nebulous hedonic quality improvements. The estimation and graph here are simple approximations, but they show the significant impact of changes in assumed inflation. The inflation-adjusted estimate here is not the same as the SGS-Alternate GDP measure, which involves significantly greater and varied adjustments and is not estimated on a seasonally-adjusted quarterly basis.

Series not confirming the GDP recovery pattern include payroll employment, real retail sales and housing starts, with links to recent activity referenced above. Other series that tend to confirm the inflation-corrected GDP pattern—shown later in this section—include real median household income, consumer confidence, real new orders for durable goods and industrial production (and an inflation-corrected version). Instead of confirming the official GDP series, these series show patterns of activity much closer to the inflation-corrected GDP series, a pattern that shows an economic plunge from 2007 into 2009, followed by a protracted period of bottom-bouncing that has continued up through the latest reporting. Broad U.S. economic activity remains mired in a recession/depression.

Headline Real GDP (Quarterly Index Level)
Through 4q11, Seasonally-Adjusted (SGS, BEA)



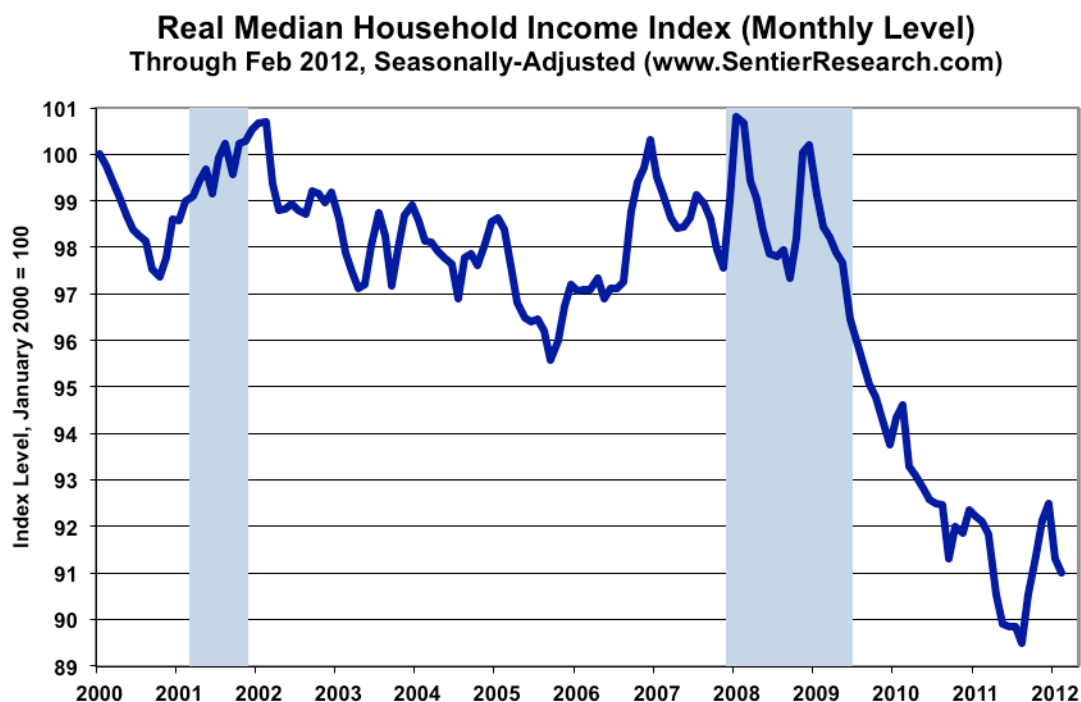
Inflation-Corrected Real GDP (Quarterly Index Level)
Through 4q11, Seasonally-Adjusted (SGS, BEA)

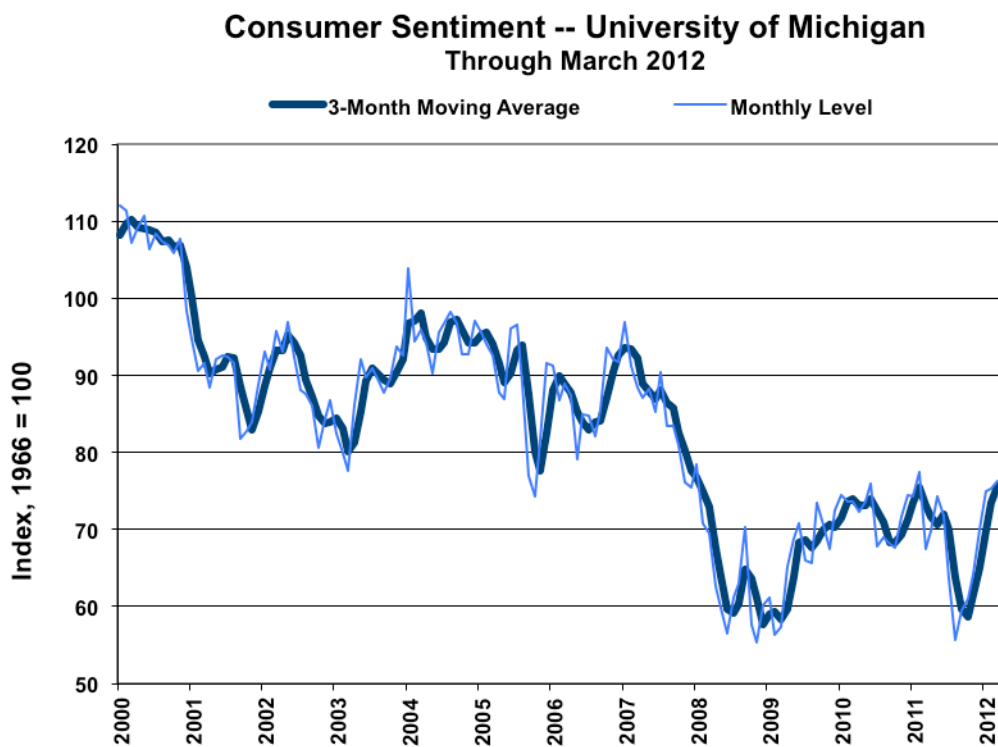
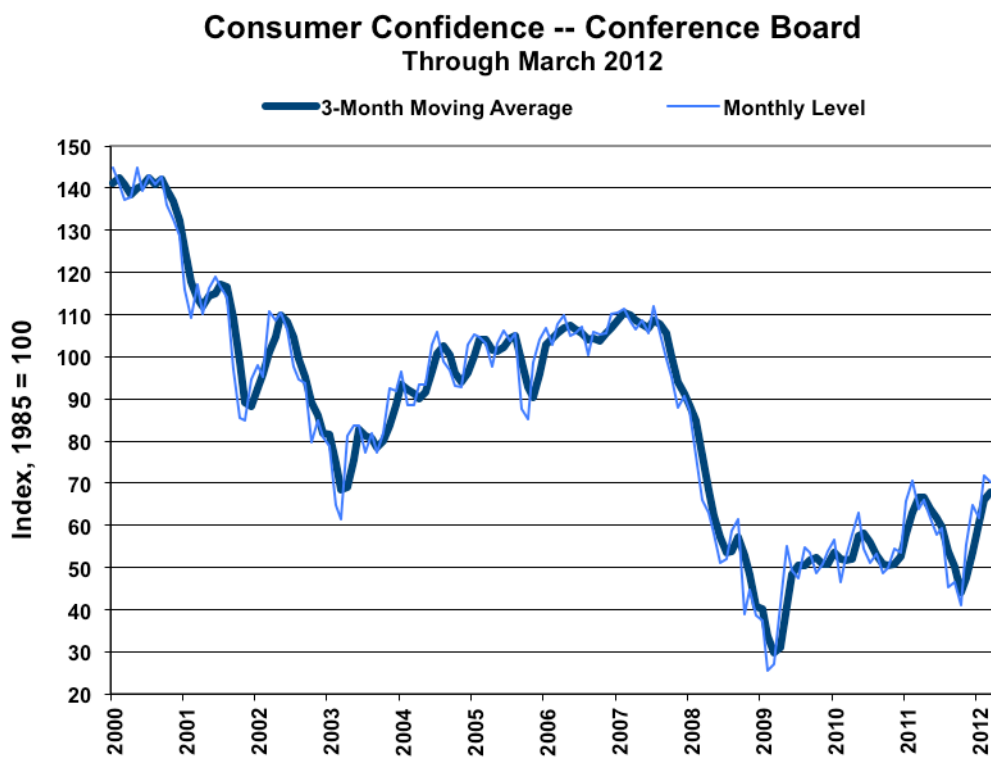


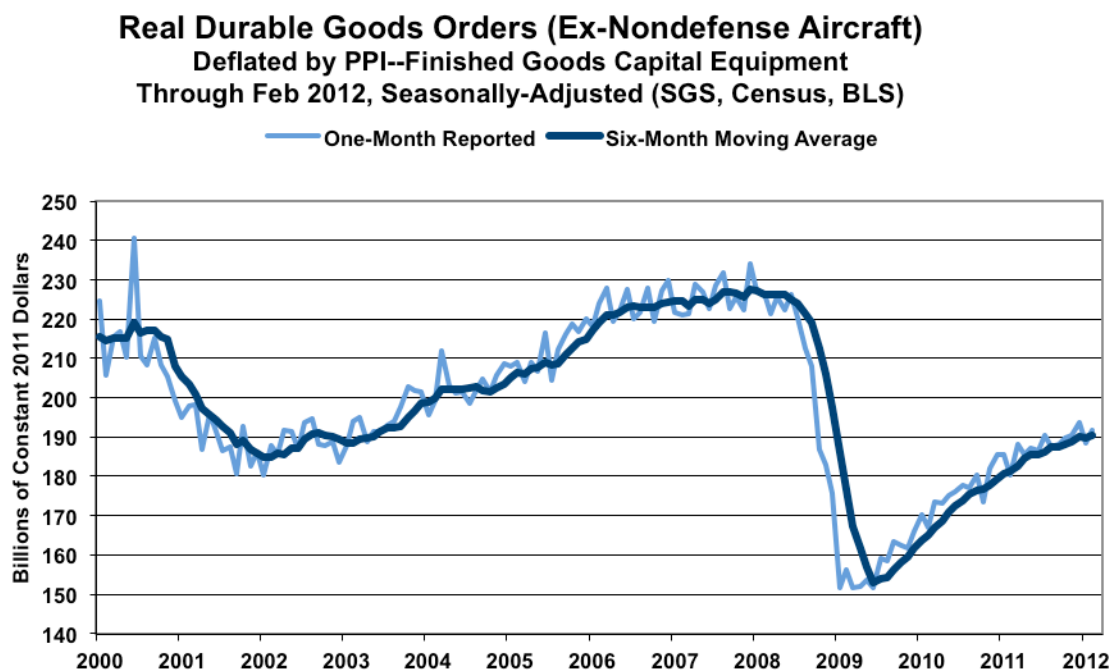
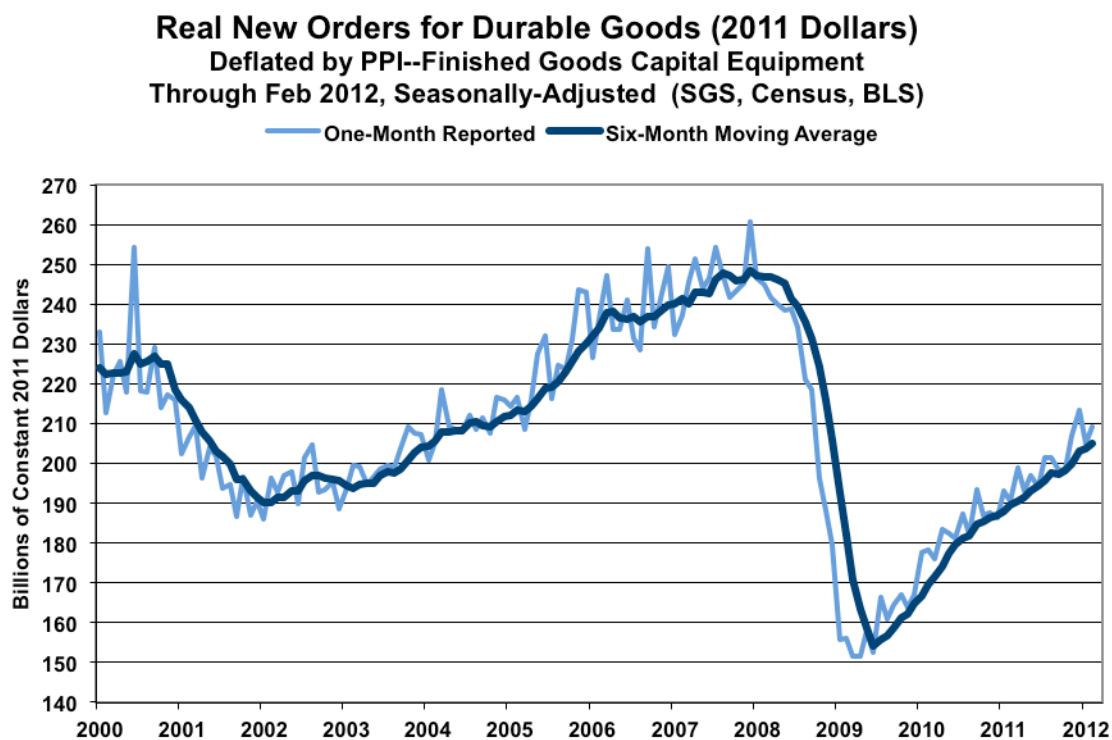
GDP Revisions and Initial GDP and GDI Estimates for Fourth-Quarter 2011. While the second revision to fourth-quarter 2011 GDP was minimal and no more than statistical noise, the initial reporting of fourth-quarter gross national product (GNP) and gross domestic income (GDI) offered sharply varying growth rates. Against 3.0% annualized real growth reported for the GDP, GNP growth was 1.8%, while the GDI surged by 4.4%. The GNP number may reflect a shift to a more-normal pattern for a net-debtor nation, that of a declining surplus or widening deficit in factor income (international flows in interest and dividend payments). The GDI growth, though, likely reflects underlying problems with wage and salary reporting and assumptions in third- and fourth-quarter 2011. Nonetheless, the GDP and related series remain the most-worthless and most-heavily-guessed-at of the government's major economic reports.

The Consumer Remains Crushed. As shown in the following series of graphs, the consumer's ability to sustain positive, real economic consumption and growth remains constrained by a structural lack of liquidity, reflected in low or declining levels of real median household income (detail is courtesy of SentierResearch.com) and shrinking consumer credit, excluding federal lending on student loans (see [Commentary No. 422](#)). On top of the lack of ability to spend, consumers are indicating a lack of willingness to spend, as indicated in the March consumer confidence and consumer sentiment numbers. Although the confidence measures are off their historic lows, at least temporarily, those measures still are at levels never have seen outside of severe recessions.

There simply can be no sustainable recovery in broad economic activity until the structural problems in consumer income and liquidity are resolved.







Real Durable Goods Orders Activity Is Below 2000's Levels. As discussed in the *Reporting Detail* section on durable goods orders, but graphed here, in the two graphs preceding, we are pleased to offer variations on the new orders for durable goods series that adjust for inflation and that mute month-to-month volatility. Both series show that current order levels are well below the level of activity seen in 2000, before the 2001 recession.

The inflation-adjustment used here is finished goods capital equipment inflation from the producer price index (PPI). Reducing the monthly reporting volatility involves using a six-month moving average (the standalone monthly data also are plotted), along with a separate accounting ex-nondefense aircraft orders.

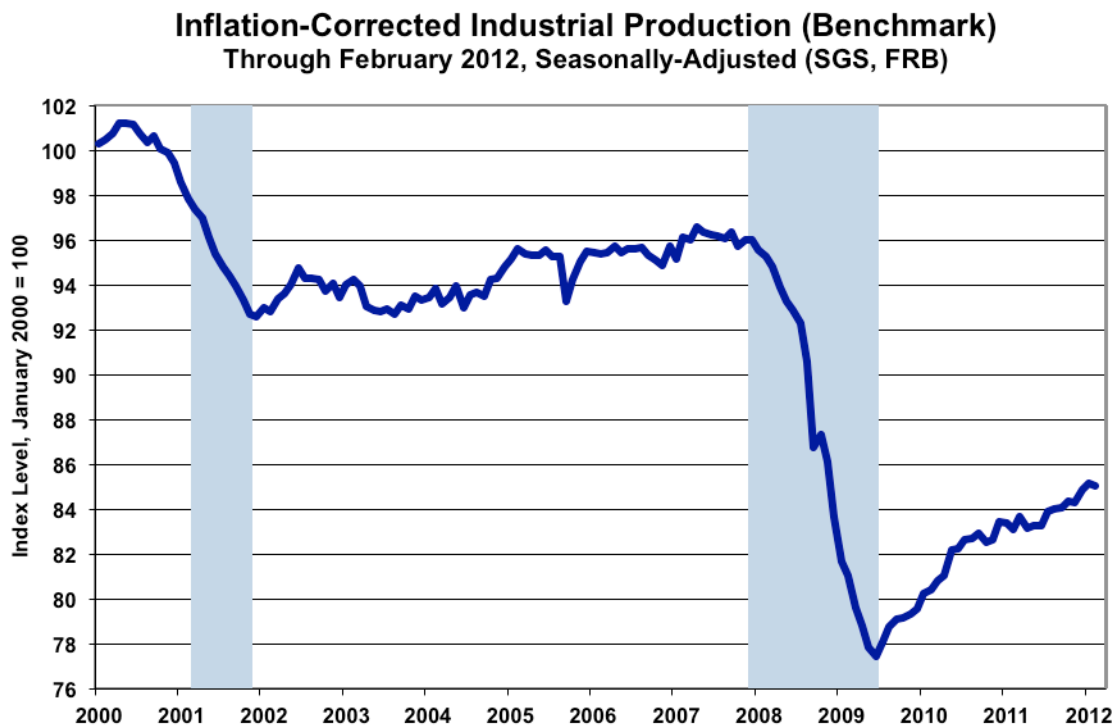
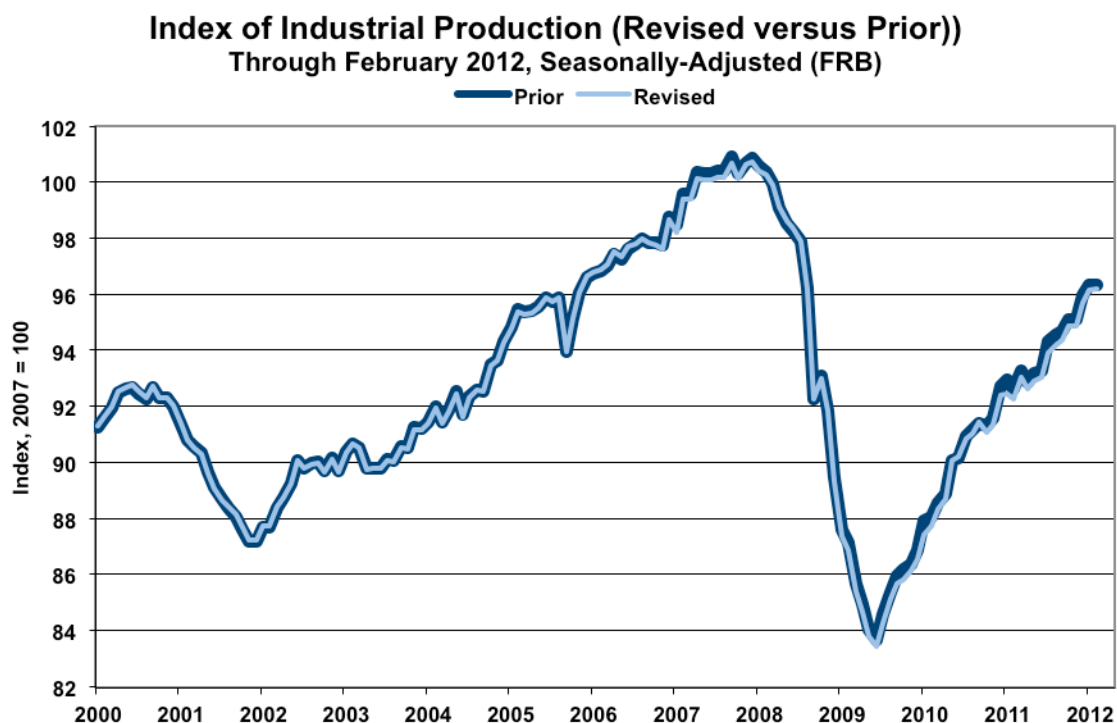
The second graph—same scale as the first—reflects real new orders for durable goods, with the volatile nondefense aircraft orders series removed. Aircraft orders have tended to cause monthly gyrations in aggregate new orders growth. Those orders often are booked years in advance of delivery, with negligible impact on near-term economic activity. Those orders remain a positive indicator for future activity, so long as they are not canceled. Without the upturn in aircraft orders, the post-2009 rebound in orders is much flatter than the aggregate.

The PPI component used here is heavily understated as an inflation measure, due to significant hedonic adjustments. Adjusted for the hedonics, the deflated series likely would be flat, subsequent to 2007 to 2009 economic plunge.

Industrial Production Benchmark Revisions Were to the Downside. Today's annual benchmark revisions to industrial production, although small, were to the downside and were more significant than indicated by the Fed. The index of industrial production is set with the index equal to 100 as of 2007. The the data were revised back to 1972, however, and 2007 revised lower by 0.2%. The Fed compared the old series with the new series, but with their respective 2007 production levels both set at 100. The effect was to eliminate 0.2% of relative downside revisions from the activity level following 2007. Although the revisions were small in aggregate, they are evident in the first graph following, which plots the old series rebased to a 2007 level that is consistent with the new benchmark-revised series. On a consistent basis, the level of production in 2011 was revised lower by 0.3% from previous reporting.

The year-to-year contraction in June 2009, at the end of second-quarter 2009, revised to a drop of 15.15% (previously down by 14.83%). It remains the steepest annual decline in production growth since the shutdown of war-time production following World War II. Year-to-year growth in February 2012 production revised to 4.24% (previously 4.03%), well off the series' recent relative peak annual growth of 8.13% (previously 7.75%) in June 2010.

The revised, inflation-corrected series, in the second graph following, largely is indistinguishable from the one published in the hyperinflation report, other than for the added data points for January and February 2012. Please note that the inflation-corrected graph has an index level at 100 for January 2000 (again, the regular series is published based on 2007 = 100). The January 2000 index base is used for all the inflation-corrected graphs, including the GDP and the other series shown in the hyperinflation report.



Hyperinflation Watch. The economic background has been updated, but with full consideration to intervening economic, inflation and financial-market developments, the broad economic, inflation and hyperinflation outlooks discussed in [Hyperinflation 2012](#) of January 25th have not changed.

REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (Fourth-Quarter 2011, Third Estimate, Second Revision)

GDP Revision Was Statistical Noise; GNP and GDI Offered Some Surprises. The second revision to fourth-quarter 2011 GDP was no more than statistical noise, but the initial reporting of fourth-quarter GNP and GDI varied sharply. Against 3.0% annualized real growth reported for the GDP, GNP growth was 1.8%, while the GDI surged by 4.4%. The GNP number may reflect a shift to a more-normal pattern of declining surplus in factor income, while the GDI growth likely reflects a problem with wage and salary assumptions in last two quarters.

Consistent with the regular overstatement of broad economic activity by the Bureau of Economic Analysis (BEA), the GDP series still remains the most worthless and the most heavily politicized of the government's popularly followed economic reports, as discussed in the *Economic Update* section and in [Hyperinflation 2012](#).

Notes on GDP-Related Nomenclature and Definitions

For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:

Gross Domestic Product (GDP) is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.

Gross Domestic Income (GDI) is the theoretical equivalent to the GDP, but it generally is not followed by the popular press. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a "statistical discrepancy." Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.

Gross National Product (GNP) is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.

Real (or Constant Dollars) means the data have been adjusted, or deflated, to reflect the effects of inflation.

Nominal (or **Current Dollars**) means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.

GDP Implicit Price Deflator (IPD) is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on “Chained 2005 Dollars,” at present, where the 2005 is the base year for inflation, and “chained” refers to the methodology which gimmicks the reported numbers so much that the total of the deflated GDP sub-series misses the total of the deflated total GDP series by nearly \$107 billion in “residual” as of fourth-quarter 2011.

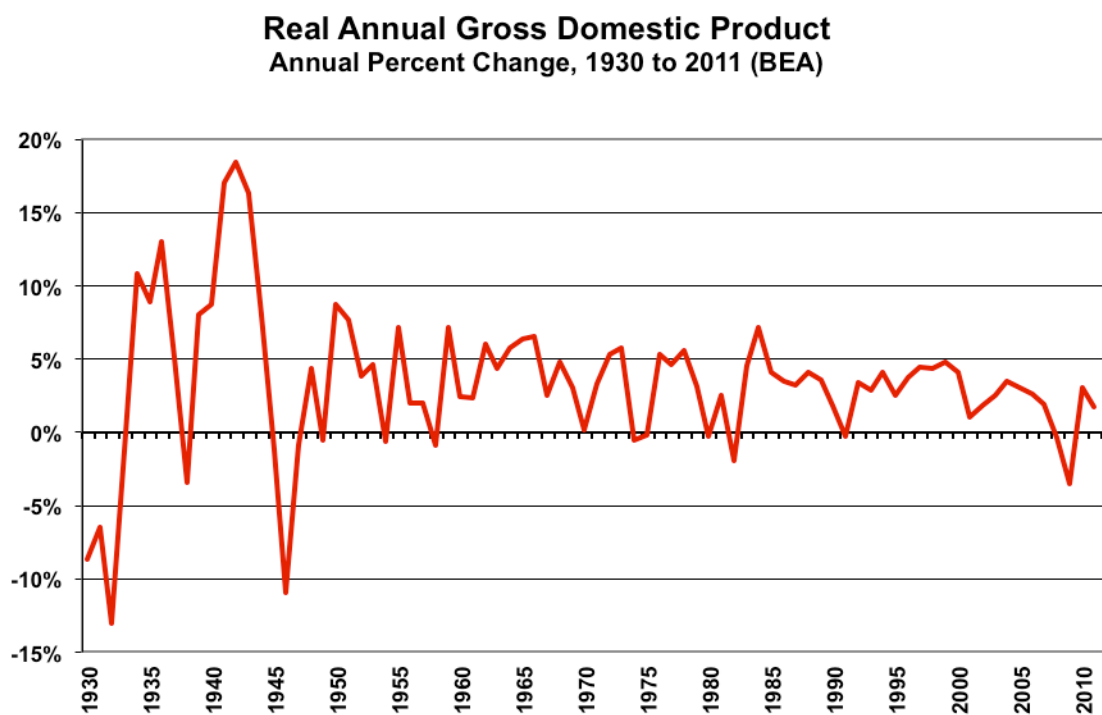
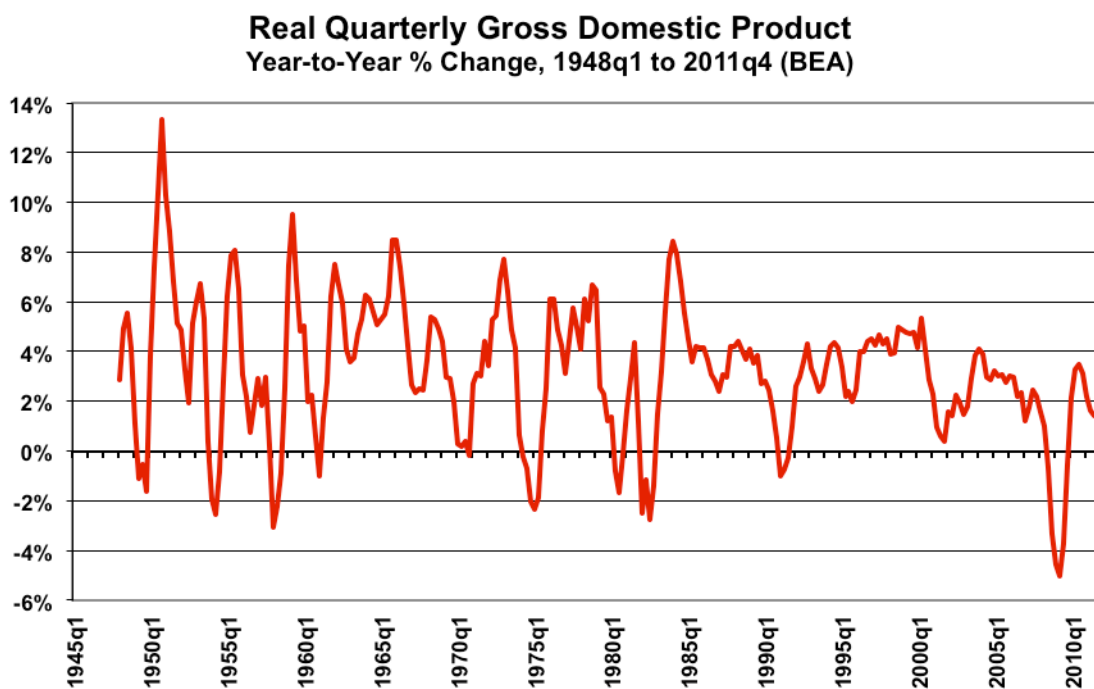
Quarterly growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to $1.01 \times 1.01 \times 1.01 \times 1.01 = 1.0406$ or 4.1%, instead of $4 \times 1\% = 4\%$.

Annual growth refers to the year-to-year change of the referenced period versus the same period the year before.

GDP. Published yesterday, March 29th, by the BEA, the third estimate, second revision, of fourth-quarter 2011 gross domestic product (GDP) indicated real (inflation-adjusted) quarterly growth at a statistically-insignificant 2.95% (previously estimated at 2.98%, initially estimated at 2.75%) +/- 3% (95% confidence interval), versus an estimated annualized gain of 1.81% for third-quarter 2011. For each of the four quarters in 2011, purported growth rates have been little more than statistical noise around the unchanged level, and they possibly have been massaged to keep the quarterly growth rates in minimally-positive, as opposed to minimally-negative territory. The second-revision here, also, was little more than statistical noise not only versus the prior estimate of fourth-quarter growth, but also on a standalone basis as an annualized quarterly growth rate. The fourth quarter estimate now is “final” until the regular annual benchmark revisions are published on July 27, 2012.

The relative gain in the fourth-quarter versus the third-quarter GDP still was attributable largely to an involuntary surge in inventories. Net of inventory changes, the final sales category showed revised annualized real growth of 1.14%, versus prior reporting of 1.08% and an initial estimate of 0.81%. An involuntary build-up of inventories usually is followed by a corrective pullback in production.

As shown in the following graphs, the revised year-to-year real change in fourth-quarter 2011 GDP of 1.61% was little changed versus the prior estimate of 1.62% (the initial estimate was 1.56%). Third-quarter year-to-year change was 1.46% annual growth. Current annual growth continued well off the near-term peak in reported growth of 3.51% during third-quarter 2010. For the year, real GDP slowed sharply to an unrevised 1.74% (initially estimated at 1.72%) in 2011, from 3.03% in 2010.



Implicit Price Deflator (IPD). The estimate of the fourth-quarter GDP implicit price deflator (IPD) revised negligibly to 0.85%, from 0.86% (initially 0.39%), still well below the 2.56% of the third-quarter. As noted last month in [Commentary No. 421](#), however, the prior revision reflected the seasonal-adjustment revisions to the Bureau of Labor Statistics' (BLS) CPI-U, which made the fourth-quarter IPD incompatible with prior-period reporting. While the seasonally-adjusted annualized fourth-quarter CPI-U inflation revised to 1.30% from 0.94%, prior and related quarterly CPI revisions were not reflected in the GDP reporting, because earlier quarters of GDP reporting are not revised except in annual benchmarks. Accordingly, these types of revisions usually are not made at this point of the GDP-reporting cycle. With the revisions having been made only partially, now, the fourth-quarter numbers no longer are comparable to earlier quarters.

For comparison purposes, annualized seasonally-adjusted quarterly inflation for the CPI-U in the fourth-quarter now is 1.30%, versus 3.09% in the third-quarter. On a year-to-year basis, the fourth-quarter IPD showed unrevised inflation of 2.18% (initially 2.00%), down from 2.41% in the third-quarter. Year-to-year inflation in fourth-quarter 2011 was unrevised for the unadjusted CPI-U, which eased to 3.29% (3.34% adjusted), versus 3.76% (3.76% adjusted) in the third-quarter. The lower the inflation rate used in deflating the GDP, the stronger is the resulting inflation-adjusted number and vice versa.

SGS-Alternate GDP. The SGS-Alternate GDP estimate for fourth-quarter 2011 is an approximate annual contraction of 2.7% versus the official estimate of a 1.6% gain. Such is slightly less-negative than the alternate 2.9% annual contraction (1.5% official gain) estimate for the third-quarter (see the [Alternate Data](#) tab). While annualized real quarterly growth is not estimated formally on an alternative basis, a quarter-to-quarter contraction once again appears to have been a realistic possibility for the fourth-quarter, as it was in the earlier quarters of 2011, in what generally has been a protracted period of business bottom-bouncing.

Adjusted for gimmicked inflation and other methodological changes, the business downturn that began in 2006/2007 is ongoing; there has been no meaningful economic rebound (see the *Economic Update* section and the discussion in [Hyperinflation 2012](#)).

Gross National Product—GNP. Due to the poor quality and incompleteness of earlier survey data and the inaccuracy of the guesstimation process, the BEA just published its initial guesses for fourth-quarter GNP and GDI, along with its third estimate of fourth-quarter GDP. GNP is the broadest measure of U.S. economic activity, where GDP is GNP net of trade in factor income, or interest and dividend payments.

For net debtor nations such as the United States, there usually is a declining net surplus or increasing net deficit in factor income, which results in GNP growth being weaker than GDP growth. Accordingly, the use of the usually-stronger GDP for the headline economic growth statistic has become the preferred approach for net-debtor states. In the turmoil surrounding the systemic-financial disaster of the last five years or so, however, efforts by the Federal Reserve and U.S. Treasury to prevent a U.S. and global systemic collapse warped those flows, with GNP growth more commonly beating GDP growth. For the first time in a year, though, the GNP versus GDP reporting reverted to a more-normal, weaker pattern in fourth-quarter 2011 growth.

With payments to the rest of the world jumping by an annualized 13.7% in the fourth-quarter, and with income from the rest of the world declining at an annualized pace of 12.0%, real GNP growth slowed to an annualized 1.80% pace in the fourth quarter from 1.90% in the third (the respective GDP numbers,

again, were 2.95% in the fourth-quarter versus 1.81% in the third). Real year-to-year growth in fourth-quarter GNP was 1.83% versus 1.79% in the third-quarter.

Gross Domestic Income—GDI. As noted last month, third-quarter GDI was revised to reflect an indefinable surge in third-quarter wages and salaries. The fluke in the third-quarter numbers, accordingly, was used by the BEA to impute accelerating wage and salary growth in its fourth-quarter guessing. Where GDI is the income-side reporting equivalent of the consumption-side GDP, fourth-quarter GDI growth surged accordingly.

The BEA based its revamped estimates on previously unpublished BLS surveying, where the related raw third-quarter BLS data just were made available to the public on March 28th. A quick perusal of the new BLS numbers shows no obvious support the BEA income revisions and imputations. The U.S. Treasury's receipts of payroll withholding taxes also do not support the changes. The matter is being closely examined and should be reported on further in the weeks ahead.

Qualified by the preceding comments, real fourth-quarter 2011 GDI was reported showing annualized quarterly growth of 4.35%, versus 2.59% in the third-quarter. Year-to-year growth rose to 2.38% in the fourth-quarter from 1.67% in the third-quarter.

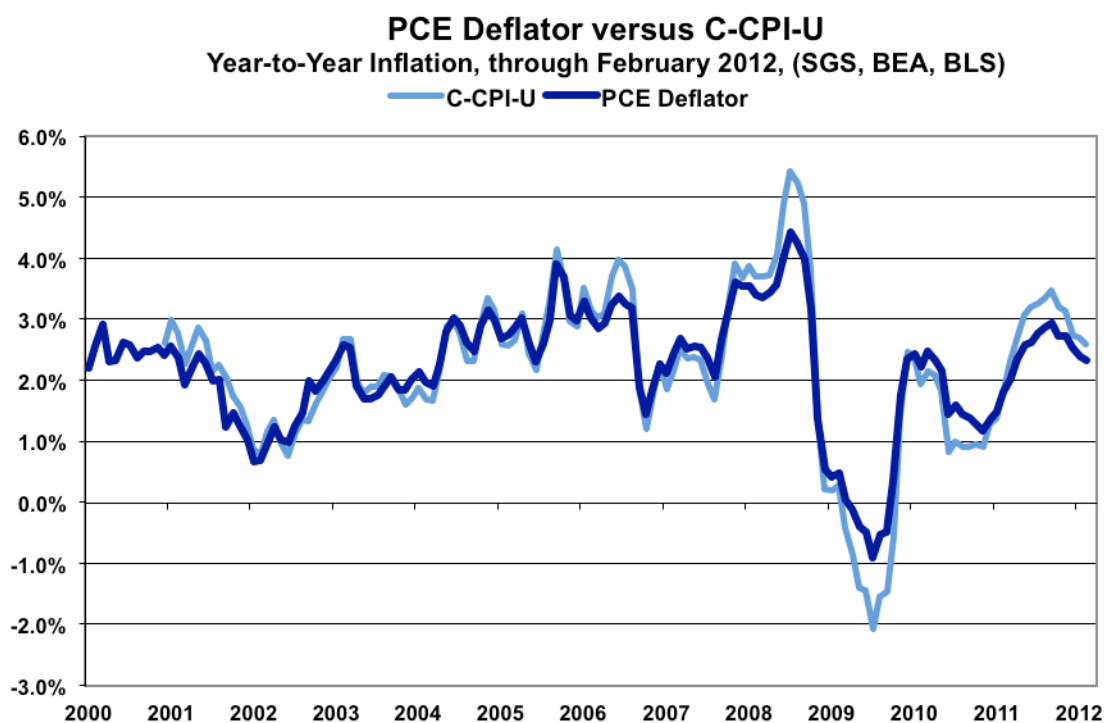
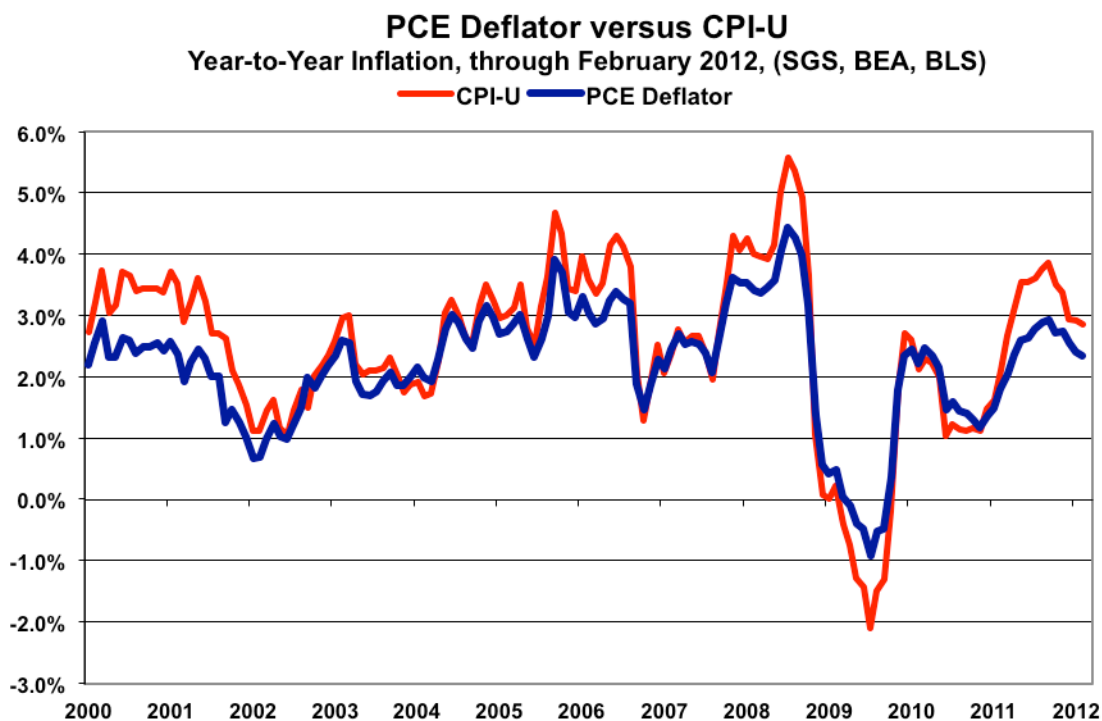
PERSONAL CONSUMPTION EXPENDITURE (PCE) DEFLATOR (February 2012)

February PCE Deflator Jumped by 0.3% in the Month, Averaging 2.6% Annual Inflation in Last 12 Months. As reported today, March 30th, by the Bureau of Economic Analysis (BEA), the month-to-month change in the seasonally-adjusted February 2012 PCE deflator was a gain of 0.34% (up 0.38% net of prior period revisions), versus a revised gain of 0.23% (previously 0.18%) in January. Year-to-year inflation was 2.34% in February, versus an upwardly revised 2.41% (previously 2.36%) in January.

Following in the gimmicked reporting of its quarterly GDP parent series, the inflation rate indicated by the monthly PCE deflator can vary widely month-to-month, thanks to prior-period revisions. Unlike the CPI-U series, which never is revised on a not-seasonally-adjusted basis—so that the reported year-to-year inflation always remains fixed—the PCE deflator always is seasonally adjusted (it isn't even estimated on an unadjusted basis).

In theory the PCE deflator measure should be virtually identical to the chain-weighted-CPI (C-CPI-U) (see [Commentary No. 424](#) for details of the latest C-CPI-U and other inflation measures). The February 2012 PCE deflator showed 2.3% inflation, versus a 2.4% year-to-year inflation rate in January; with the February C-CPI-U at 2.6%, versus a revised 2.7% (previously 2.6%) in January; the February CPI-U held at 2.9% for a second month; the February CPI-W held at 3.1% for a second month; and the February SGS-Alternate (1980-Base) held at 10.5% for a second month.

Instead of suggesting a boost in interest rates, which would be a normal response to inflation running above the 2.0% target, the Fed keeps promising low interest rates into the foreseeable future, along with repetitive suggestions of possible renewed purchases of U.S. Treasury debt, actions that run counter to containing inflation. This “inflation targeting” effort primarily is pabulum for those in the markets who think the Fed really would move to contain inflation at the cost of impairing already-fragile banking-system solvency. The Fed's primary function remains keeping the banking system afloat, at any cost.



NOTE: The PCE deflator is the heavily massaged and modeled inflation rate for personal consumption expenditure, published on a monthly basis by the Bureau of Economic Analysis (BEA), and quarterly as part of the GDP release. The monthly series, which is a surrogate measure of consumer inflation—fully substitution and hedonic-based—currently is yielding the lowest annual consumer inflation rate of the major series (see the preceding graphs of the PCE deflator versus the CPI-U and the C-CPI-U. Unlike the more widely followed CPI-U measure, which never is revised and is published on a seasonally unadjusted-basis, the PCE deflator is heavily revised for many years following initial reporting, and it is available only on a heavily-massaged, seasonally-adjusted basis.

NEW ORDERS FOR DURABLE GOODS (February 2012)

Real Durable Goods Orders Have Yet to Recover Pre-2001 Recession Highs. Adjustment for the impact of highly volatile aircraft orders and for the effects of higher prices on new orders for durable goods are addressed in today's (March 30th) *Commentary*. As graphed in the *Economic Update* section, we are pleased to introduce smoothed and inflation-adjusted graphs for the new orders for durable goods series.

There is no fully appropriate inflation measure available for deflation of the durable goods series. The one used here is the PPI's inflation measure for finished goods capital equipment. The problem with that measure is in the hedonic quality adjustments to prices, where nebulous "quality improvements," which cannot be measured directly and are not consistently applied to all products, are modeled in incredibly imprecise efforts by the government to reduce reported inflation versus real-world experience. The same issues are part of the methodological problems that significantly understate the CPI and GDP implicit price deflator inflation measures.

Nonetheless, the inflation measure used here is official reporting. Deflated accordingly, the real (inflation-adjusted) new orders for durable goods level in February 2012 was 9.8% below the pre-2001 recession peak, on a six-month moving-average basis. With no smoothing, the monthly level in February was 17.7% below the pre-2001 recession peak.

In terms of smoothing, the graphs reflect a six-month moving average, as well as the raw monthly data, and the detail also is graphed net of nondefense aircraft orders, a significant cause of month-to-month volatility in the series.

Official Reporting. The Census Bureau reported March 28th, that the regularly-volatile, seasonally-adjusted new orders for durable goods in February 2012 rose by 2.2% (up by 2.8% before prior-period revisions), after a revised 3.6% (previously 4.0%) decline in January. Net of the effects of rising nondefense aircraft orders, orders were up by 1.9% for the month.

The monthly change was affected by irregular and highly volatile long-term nondefense aircraft orders, as usual, but more modestly than has been the case recently. About 16% of the gain in orders was accounted for by a 6.0% gain in February's aircraft orders, following a revised 17.4% (previously 19.0%) decline in January orders. Airplane orders usually are placed years in advance of delivery and rarely impact near-term economic activity.

Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems that are seen with retail sales and payroll reporting. Unusual seasonal-factor volatility raises issues as to the significance of the latest adjusted monthly changes. The numbers here are not adjusted for inflation. The annual benchmark revision is scheduled for release on May 18th.

Unadjusted, year-to-year growth in total February 2012 new orders was 17.7%, up from a revised 9.3% (previously 8.8%) pace of annual growth in January.

The widely followed nondefense capital goods orders also increased in February, up by 1.5% (up by 2.8% before prior-period revisions) for the month, almost entirely accounted for by the stronger aircraft orders. January showed a revised monthly decline in orders of 5.2% (previously 6.3%). For February 2012, the unadjusted year-to-year growth in the series was 23.7%, against a revised 22.7% (previously 21.5%) gain in January.

Inflation-Adjusted and Smoothed. The 2.2% official February monthly gain was 2.1% after inflation, and was 0.6% after inflation for the six-month moving average. That was against the 3.6% official February monthly contraction, which was a decline of 4.0% after inflation, and was a gain of 0.3% after inflation for the six-month moving average. These series have shown a slow uptrend in the last two-to-three years, but clearly no recovery as indicated by the GDP series. If the deflation measure could be corrected meaningfully for its hedonic-adjusted understatement, the uptrend likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity.

Week Ahead. Recognition of an intensifying double-dip recession as well as an escalating inflation problem remains sporadic. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news; and the financial markets will do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.

Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

Construction Spending (February 2012). The February release on construction spending is scheduled for Monday, April 2nd. As introduced in *Commentary No. 425*, the series likely will continue to show ongoing patterns of bottom-bouncing at low levels of activity, particularly after inflation-adjustment. Monthly changes likely will not be statistically meaningful.

Employment and Unemployment (March 2012). The March 2012 release on labor market conditions is scheduled for Friday, April 6th. Consensus forecasts are less bullish than they were a week ago, with expectations now for a March payroll gain of 200,000, versus initial reporting of a 227,000 gain in February, and with expectations for the March unemployment rate to hold even at 8.3%, per MarketWatch.com.

With unusual seasonal factors at work in recent payroll-survey and household-survey estimates, along with Mr. Bernanke's repeated braying at the questionable sustainability of the decline in the headline

unemployment rate, odds favor a much weaker-than-expected payroll number, as well as an uptick in the headline unemployment rate.

Given the protracted nature of the economic downturn, the broader U.6 and SGS unemployment rate estimates likely will move higher, with increasing numbers of unemployed shifting out of headline unemployment the headline labor force, into short- and long-term discouraged worker status. Any negative surprises to the numbers likely will be attributed to the reversal of effects from an unseasonably mild winter. Some catch-up from systemic distortions in seasonal-adjustments of recent headline numbers is inevitable, in an event.
