

COMMENTARY NUMBER 596
Fourth-Quarter 2013 GDP

January 30, 2014

Particularly Unreliable Economic Data

2013 Annual GDP Growth Slowed to 1.9% from 2.8% in 2012

Growth Bloated by Continuing Excess-Inventory Build-Up

PLEASE NOTE: The next regular Commentary is scheduled for Thursday, February 6th, covering the December trade deficit and construction spending, followed by one on February 7th, covering January employment and unemployment, as well as the annual benchmark revision to the payroll survey.

A catastrophic computer failure this morning, and some resulting file losses, which are being reconstructed, delayed the release of and minimally altered the appearance of today's Commentary. Your patience and understanding are appreciated.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

GDP Was Near Consensus, But Quality Issues Are Extraordinary. Both third- and fourth-quarter 2013 GDP estimates encompassed data that were impacted by the government shutdown, in terms of surveying, number gathering and reporting. Where the third-quarter GDP will not be revised again until the July 2014 annual revisions, this morning's (January 30th) first-estimate of fourth-quarter GDP faces

revisions in the next two months. Such revisions would reflect relative economic performance of the fourth- versus third-quarter GDP, but the bulk of “shutdown” revisions likely will surface in July. That said, the headline estimates of fourth-quarter economic activity are particularly untrustworthy.

Money supply velocity numbers for M2 and M3 are updated in the *Hyperinflation Watch* section, reflecting both the initial estimate of fourth-quarter 2013 GDP and the Federal Reserve’s revisions to the money supply details, as discussed in yesterday’s [Commentary No. 595](#).

Separately, the Federal Open Market Committee (FOMC) announced continued minimal “tapering” in QE3, yesterday, January 29th, in line with market expectations. There likely was a political element in the announcement that also was tied to the transition in the Fed Chairmanship from Ben Bernanke, to Janet Yellen.

As also touched upon in yesterday’s [Commentary No. 595](#), the “tapering” phase is not likely to last and actually could turn to greater accommodation in the near future. Not only are the headline economic numbers likely to show much weaker growth in the month or so ahead, but mounting financial stresses in the banking system also should begin to float closer to the surface. These issues will be discussed as details begin to unfold.

Fourth-Quarter 2013 GDP. The “advance” or first estimate of fourth-quarter 2013 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly gain of 3.23%. That was against a 4.13% headline gain in the third-quarter 2013, a 2.48% increase in the second-quarter 2013 and a 1.15% gain in the first-quarter. Again, reporting detail at both the aggregate and component levels are particularly unreliable for the third- and fourth-quarter GDP, due to the still evolving workout of data distortions generated by the government shutdown. Meaningful revisions to these headline data by the Bureau of Economic Analysis (BEA) are likely in the months ahead.

In terms of year-to-year or annual real rates of change for the GDP series, fourth-quarter 2013 headline annual growth was 2.74%, versus 1.97% in the third-quarter, 1.63% in the second-quarter and 1.32% in the first-quarter 2013. On the basis of the average level of GDP for the year, the average annual real growth rate, slowed to 1.92% in 2013, from 2.78% in 2012. These details are graphed in the *Reporting Detail* section.

Implicit Price Deflator (IPD). The initial estimate of fourth-quarter 2013 GDP inflation, or the implicit price deflator (IPD), was at an annualized quarterly pace of 1.29%, versus 1.97% in the third-quarter, 0.58% in the second-quarter and 1.67% in the first-quarter. Year-to-year, the initial fourth-quarter 2013 IPD inflation was 1.38%, versus 1.41% in the third-quarter, 1.44% in the second-quarter and 1.74% in the first-quarter. In terms of average annual inflation, the 2013 IPD was 1.49%, versus 1.75% in 2012.

For comparison purposes, on a seasonally-adjusted, annualized quarter-to-quarter basis, CPI-U inflation was 0.85% in fourth-quarter 2013, versus 2.63% in the third-quarter, a contraction of 0.03% in the second-quarter, and a 1.44% gain in the first-quarter (see [Commentary No. 592](#)). On a year-to-year basis, fourth-quarter 2013 CPI-U (unadjusted) was 1.23%, versus 1.55% in the third-quarter, 1.39% in the second-quarter, and 1.68% in the first-quarter. The average-annual CPI-U inflation was 1.46% in 2013, versus 2.07% in 2012.

The weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

Gross National Product (GNP) and Gross Domestic Income (GDI). The initial estimates of the fourth-quarter 2013 and annual GNP and GDI will not be published for another two months (instead of the one-month delay common with other quarters), given the unreliable nature of the available detail. The BEA would do well to delay the GDP, as well, since the current reporting generally is without any statistical significance or relationship to underlying economic activity. The GNP here is the broadest measure of U.S. economic activity, and GDP is GNP net of trade flows in factor income (interest and dividend payments). The GDI is the theoretical income-side equivalent of the consumption-side GDP estimate.

Distribution of Headline GDP Growth. Despite the severely-limited significance of the following detail, it is included for those interested in the reported internal patterns of GDP growth, as guessed at by the BEA. The statistically-insignificant, first estimate of 3.23% headline growth for fourth-quarter 2013 GDP reflected the following aggregation of contributed growth. Please note that the annualized growth number in each sub-category is the additive contribution to the aggregate, headline change in GDP, where $2.26\% + 0.56\% + 1.33\% - 0.93\% = 3.22\%$ (a rounding difference versus 3.23%). Previously, the third-quarter 2013 aggregate headline growth rate was 4.13%:

- **Consumer Spending Contributed 2.26% to Fourth-Quarter Growth (1.36% in Third-Quarter).** Personal consumption now accounts for 68% of the recently redefined GDP—it used to be 71% of GDP (see benchmark revision detail in [Commentary No. 546](#)). The rising pace of annualized real growth in consumer spending was due largely to higher utility bills from unseasonably cold weather, and to higher consumption of food services.
- **Business/Residential Investment Contributed 0.56% to Fourth-Quarter Growth (2.56% in Third-Quarter).** Slower growth in the business investment sector was dominated by downturns in business and residential construction and slower growth in unwanted inventories. Net of excess inventory build-up, third-quarter GDP growth of 4.13% was 2.47% as “final sales.” For fourth-quarter GDP, 3.23% growth was 2.81% as “final sales.”
- **Net Exports Contributed 1.33% to Fourth-Quarter Growth (0.14% in Third-Quarter).** Consistent with questionable indications of the trade deficit narrowing, based on the limited two-month reporting of likely shutdown-distorted October and November numbers (see *Week Ahead* section), the guesstimate of fourth-quarter net-export improvement accounted for more than half the headline GDP growth.
- **Government Spending Subtracted 0.93% from Fourth-Quarter Growth (Contributed 0.08% in Third-Quarter).** The sharp pullback in government spending reflected cutbacks in federal government spending, more heavily in the defense than nondefense areas, with a small positive contribution to GDP growth at the state- and local-government levels.

Economic Reality. With the advance estimate of fourth-quarter 2013 GDP growth at the level of statistical-noise, the general outlook is unchanged. The gist of much of the following text is along the lines of other recent GDP commentaries, but the details and numbers have been updated for today’s initial reporting on aggregate fourth-quarter economic activity.

The GDP remains the most-worthless and the most-heavily modeled, massaged and politically-manipulated of government economic series. It does not reflect properly or accurately the changes to the

underlying fundamentals that drive the economy. Underlying real-world economic activity suggests that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in second- and third-quarter 2012 (see [Special Commentary \(No. 485\)](#), [Hyperinflation 2012](#) and pending detail in the *Second Installment of [Hyperinflation 2014—The End Game Begins](#)*).

Most-recent reporting of underlying fundamentals, through fourth-quarter 2013, still suggests ongoing quarterly contractions. Irrespective of the reporting gimmicks introduced in the July 2013 GDP benchmark revision, the consistent, fundamental pattern of historical activity is shown in the accompanying “corrected” GDP graph.

Please note that the pattern of activity shown for the “corrected” GDP series is much closer to the patterns shown in the graphs of monthly real median household income, other liquidity measures and economic series not otherwise reliant on understated inflation for their reported growth, as shown in [Commentary No. 595](#). A sustainable business recovery could not have taken place since 2009, and a recovery will not be forthcoming until the consumer’s structural income and liquidity problems are resolved.

Official and Corrected GDP. As usually discussed in the *Commentaries* covering the quarterly GDP reporting and monthly revisions, the full economic recovery indicated by the official, real GDP numbers remains an illusion. It is a statistical illusion created by using too-low a rate of inflation in deflating (removing inflation effects) from the GDP series. The accompanying two graphs tell that story, updated for the first estimate of fourth-quarter 2013 GDP.

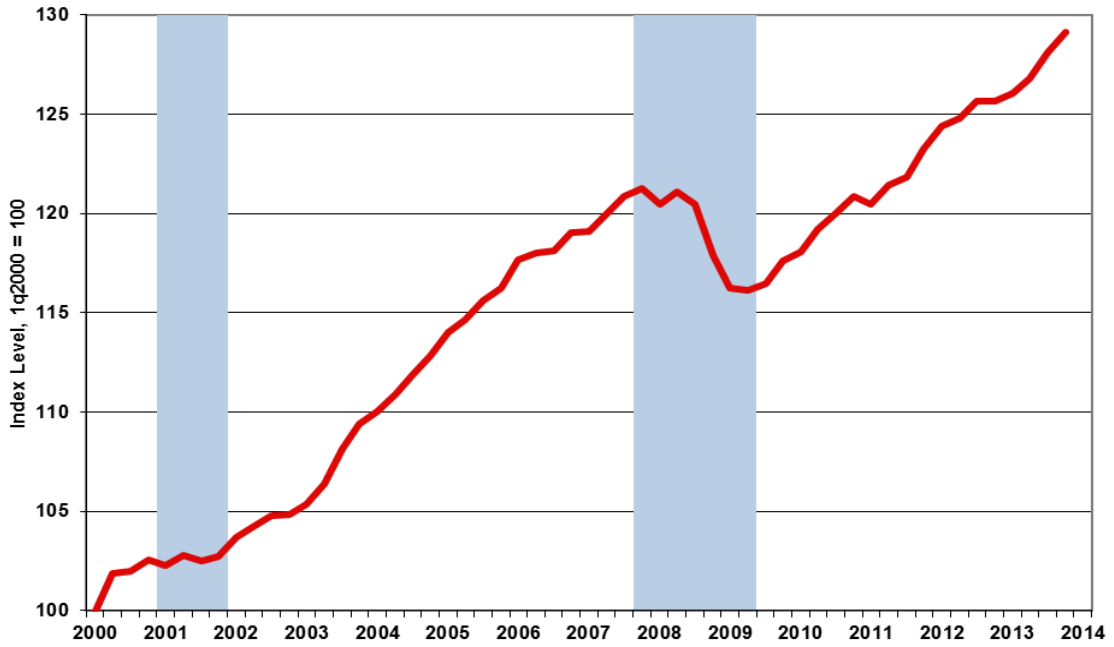
Shown in the first graph of official *Headline Real GDP*, GDP activity has been reported above pre-2007 recession levels—in full recovery—since second-quarter 2011 (it had been fourth-quarter 2011 before the most-recent benchmarking), and headline GDP has shown sustained growth since. Adjusted for official GDP inflation (the implicit price deflator), the level of fourth-quarter 2013 GDP now stands at 6.5% above the pre-recession peak-GDP estimate of fourth-quarter 2007. In contrast, the “corrected” GDP version, in the second graph, shows fourth-quarter activity at 5.9% below the pre-recession peak of first-quarter 2006.

No other major economic series has shown a parallel pattern of official full economic recovery and meaningful expansion beyond. Although uncorrected real retail sales—a leading indicator of GDP activity—recently moved minimally past that full-recovery point, such happened seven quarters after the GDP reached that point. In like manner, uncorrected industrial production—a coincident indicator of GDP activity—first moved beyond its pre-recession high in November 2013 reporting.

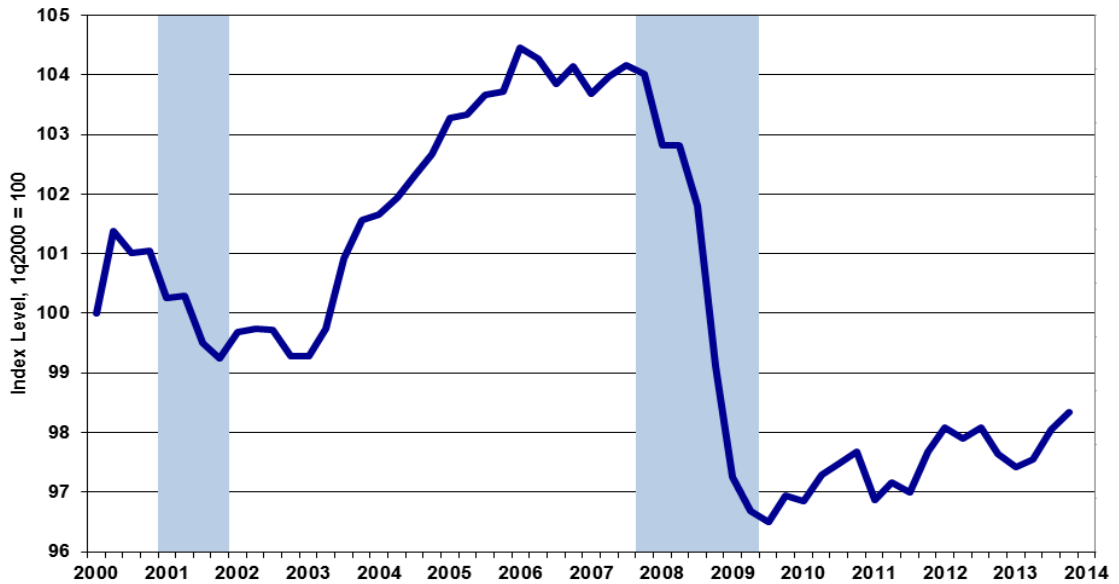
Either the GDP reporting is wrong, or all other major economic series are wrong. While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to survey real-world activity. Flaws in the GDP inflation methodologies and simplifying reporting assumptions have created the “recovery.”

The second graph plots the *Corrected Real GDP*, corrected for the understatement inherent in official inflation estimates, with the deflation by the implicit price deflator (IPD) adjusted for understatement of roughly two-percentage points of annual inflation. The inflation understatement has resulted from hedonic-quality adjustments, as discussed in [Hyperinflation 2012](#), [No. 485: Special Commentary](#) and [Public Comment on Inflation](#). Both graphs here are indexed to first-quarter 2000 = 100.

Headline Real GDP
Nominal GDP Deflated by Official Implicit Price Deflator
To 4q2013, Seasonally-Adjusted (ShadowStats.com, BEA)



Corrected Real GDP
Nominal GDP Deflated by Implicit Price Deflator Adjusted for
Two-Percentage Point Understatement of Annual Inflation
To 4q2013, Seasonally-Adjusted (ShadowStats.com, BEA)



[For greater detail on fourth-quarter 2013 GDP, see the Reporting Detail section.]

HYPERINFLATION WATCH

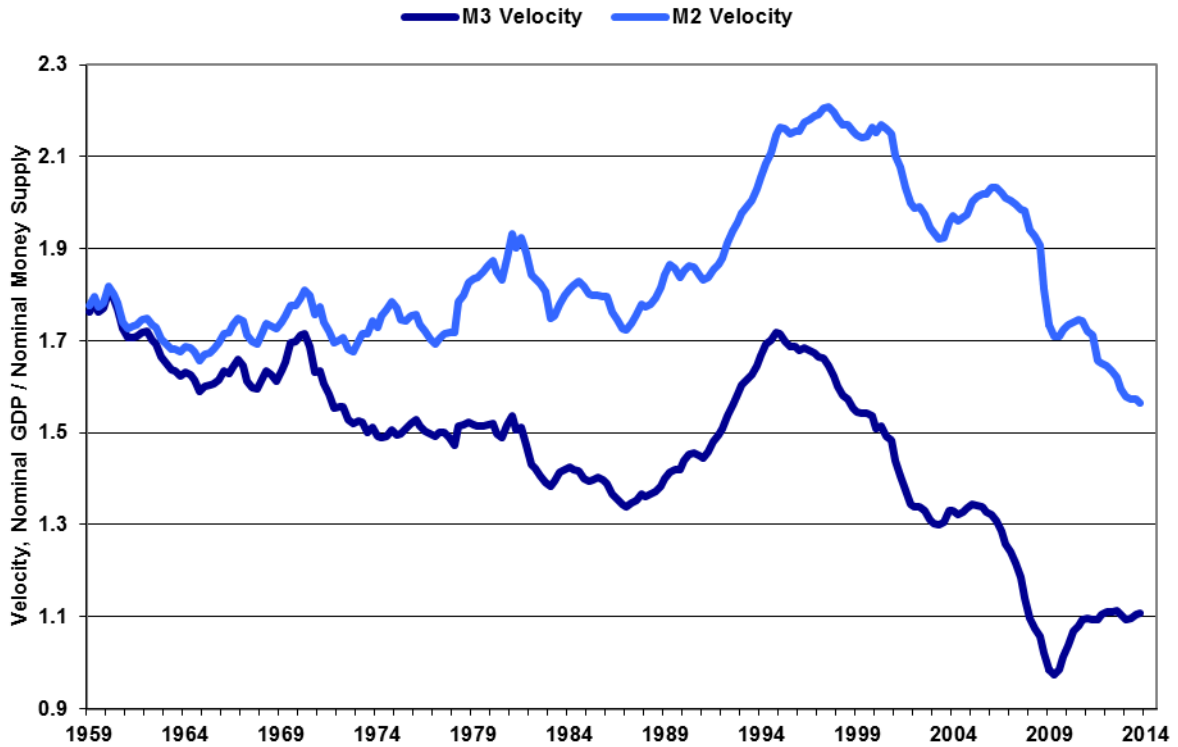
Money Supply Velocity. Incorporating the new nominal data on first-quarter 2013 GDP, as well as recent Federal Reserve benchmark revisions to money supply-related data ([Commentary No. 595](#)), updated estimates of money velocity for money supply M2 and M3 are graphed below. The decline seen in third-quarter 2013 velocity for M2 continued in fourth-quarter 2013, but flat third-quarter velocity for M3 (ShadowStats Ongoing-M3 Measure) turned higher in the fourth-quarter, as shown in the accompanying graph.

Subscribers often ask for specifics on the velocity of the money supply, with the result that this section has become a standard feature for *Commentaries* covering the first GDP reporting of a given quarter. The nature of velocity is discussed in some detail in the 2008 [Money Supply Special Report](#). Velocity simply is the number of times the money supply turns over in the economy in a given year, or the ratio in nominal terms (not adjusted for inflation) of GDP to the money supply. It is a residual number, not otherwise open to calculation.

Velocity has theoretical significance, where, in combination with money-supply growth, it should be a driving force behind inflation. Yet, since velocity is a ratio of two numbers that are not particularly well or realistically measured, its actual estimate is of limited value. As an inflation predictor, it has to be viewed in the context of accompanying money-supply growth.

M3 and M2 had been showing opposite patterns since 2011, because growth in M3 has been weaker than growth in M2. The reason behind that difference was that much of the relatively stronger M2 growth reflected cash moving out of M3 categories—such as large time deposits and institutional money funds—into M2 or M1 accounts. The clarity of what happened there is why ShadowStats still tracks what had been the broadest money measure (M3) available. Again, full definitions can be found in the [Money Supply Special Report](#).

Velocities of M3 and M2 (1q1959 to 4q2013)
Nominal GDP/Nominal Money Supply
ShadowStats.com, FRB, BEA



Hyperinflation Outlook. With the *First Installment* of [Hyperinflation 2014—The End Game Begins](#) published on January 7th, a new *Hyperinflation Summary* for this section will be added shortly. The publication of the *Second Installment*, which covers historical and prospective economic activity, as well as possible protective and preventative actions and reactions at both a personal and federal level, versus the unfolding circumstance, should be published in the week following the February 7th release of the 2013 benchmark revision to payroll employment. The new material in the *Second Installment* will supplement and update the basic material already available to ShadowStats readers in Chapters 4, 5 and 9 of [Hyperinflation 2012](#).

REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (Fourth-Quarter 2013, “Advance” or First Estimate)

Particularly Unreliable Numbers. As discussed in the *Opening Comments*, both the third- and fourth-quarter 2013 GDP estimates encompassed data that were impaired—distorted heavily—by the government shutdown, in terms of surveying, number gathering and reporting. Where the third-quarter GDP will not be revised again until the July 2014 annual revisions, this morning’s (January 30th) first-estimate of fourth-quarter GDP faces two revisions in as many months. Such revisions would reflect just the relative economic performance of the fourth- versus third-quarter GDP, so the bulk of “shutdown” revisions likely will be seen in July. That said, the headline estimates of fourth-quarter economic activity, which follow, are particularly untrustworthy.

For example, despite declining retail and durable goods orders for automobiles, production has continued to increase, per the Fed. Eventually excessive, unwanted inventories are reduced by production cutbacks and related, reduced aggregate economic activity. The inventory numbers are guessed at heavily and likely will face some downside revisions in near-term reporting. Headline GDP growth in the third-quarter 2013 was 4.13% (2.47% net of unwanted inventory building), while fourth-quarter growth of 3.23% was 2.81% net of a continued inventory building.

Aside from near-term distorted reporting, the GDP remains the only major economic series to show a full economic recovery and meaningful new expansion, since the onset of official recession in December 2007. Based on the initial estimate of fourth-quarter GDP, real GDP is 6.5% (was 5.6% in the third-quarter) above the pre-recession peak-GDP activity of fourth-quarter 2007. With common experience and the vast bulk of other economic data showing no recovery, though, the headline upswing in GDP activity, since mid-2009, has been no more than a statistical illusion created by the use of bad-quality inflation data. Understated inflation has resulted in overstated real growth (see the updated discussion and graph of the ShadowStats estimate of “corrected” GDP in the *Opening Comments*).

Underlying real-world economic activity still indicates that the broad economy began to turn down in 2006 and 2007, plunged into 2009, entered a protracted period of stagnation thereafter—never recovering—and then began to turn down anew in second- and third-quarter 2012 (see [No. 527: Special Commentary](#), [No. 485: Special Commentary](#), [Commentary No. 575](#) and [Hyperinflation 2012](#)).

The GDP continues to be the most worthless, and the most-heavily modeled, massaged and politically-manipulated of the major economic series published by the U.S. government. Again, temporarily, data appear to have been skewed by the effects of the government shutdown.

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 2009 Dollars,” as introduced with the 2013 comprehensive revisions, where 2009 is the base year for inflation. “Chained” refers to the substitution methodology which gimmicks the reported numbers so much that the aggregate of the deflated GDP sub-series missed adding to the theoretically-equivalent deflated total GDP series by \$41.8 billion in “residual,” as of the initial estimate of second-quarter 2013.

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.

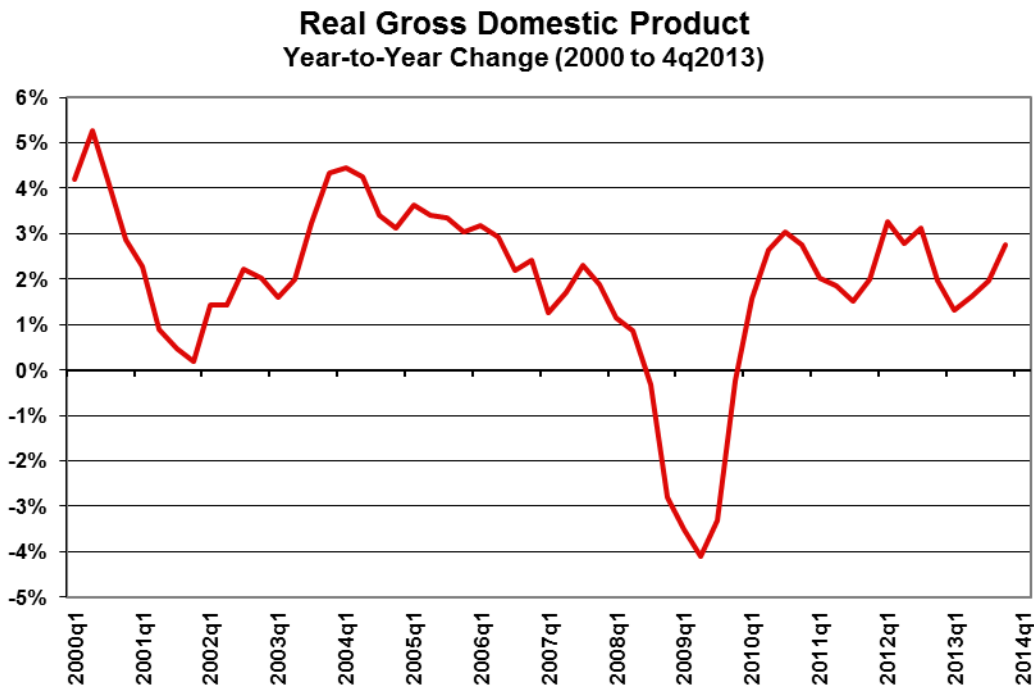
Gross Domestic Product (GDP). Published this morning, January 30th, by the Bureau of Economic Analysis (BEA), the “advance” or first estimate of fourth-quarter 2013 GDP showed a statistically-insignificant, real (inflation-adjusted), annualized, quarterly gain of 3.23% +/- 3.5% (95% confidence interval). That was against a 4.13% headline gain in the third-quarter 2013, a 2.48% increase in the second-quarter 2013 and a 1.15% gain in the first-quarter.

Distribution of the headline quarterly GDP growth rate, by major component, is detailed in the *Opening Comments* section.

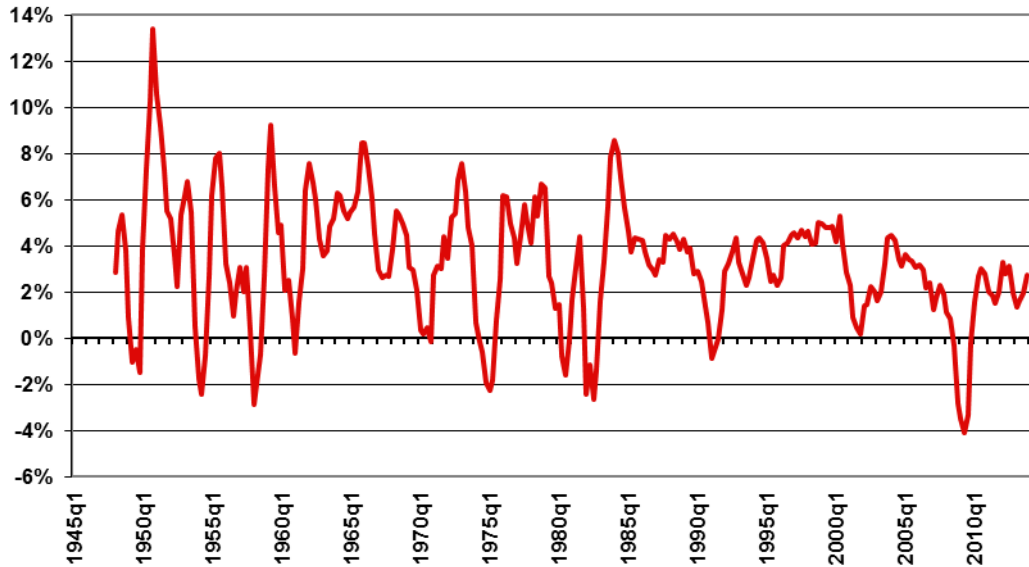
Shown in the following three graphs are the year-to-year or annual real rates of change for the GDP series. For the first two graphs, fourth-quarter 2013 GDP headline growth was 2.74%, versus 1.97% in the third-quarter, 1.63% in the second-quarter and 1.32% in the first-quarter 2013.

The first graph shows near-term historical detail. The second graph shows the full history of the series. The latest quarterly year-to-year growth remains below the near-term peak of 3.13% growth reported for third-quarter 2012. The current cycle-trough was in second-quarter 2009 at a 4.09% year-to-year decline. That was the deepest annual contraction seen for any quarterly GDP in the history of the series, which began with first-quarter 1947.

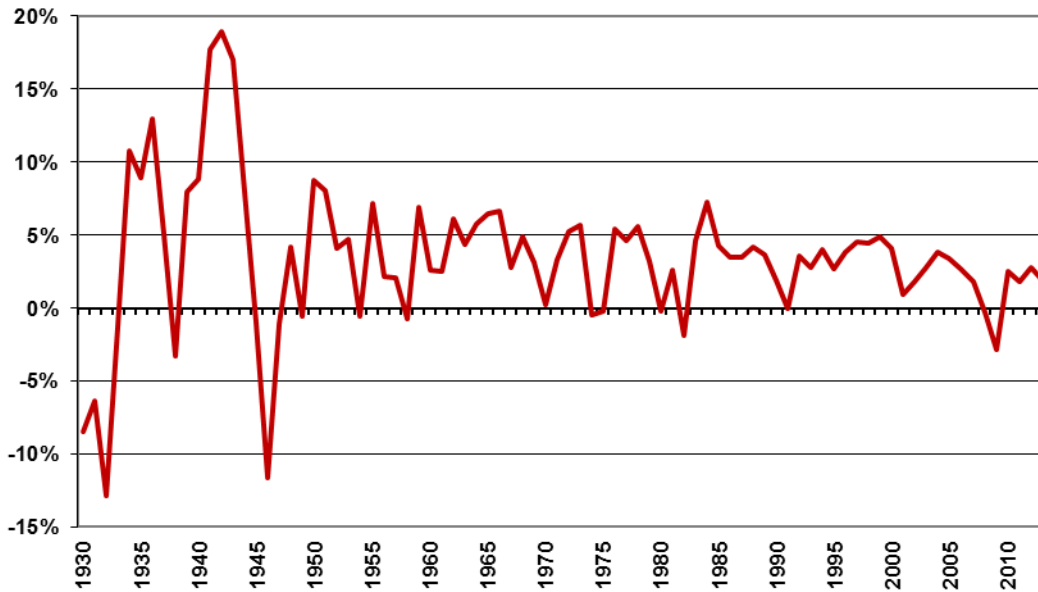
The third graph shows the average annual real growth rate, which slowed to 1.92% in 2013, from 2.78% in 2012.



Real Gross Domestic Product
Quarterly Year-to-Year Change (1945 to Date)



Real Gross Domestic Product (1930-2013)
Annual Average Percent Change (ShadowStats.com, BEA)



Implicit Price Deflator (IPD). The initial estimate of fourth-quarter 2013 GDP inflation, or the implicit price deflator (IPD), was at an annualized quarterly pace of 1.29%, versus 1.97% in the third-quarter, 0.58% in the second-quarter and against 1.67% in the first-quarter. Year-to-year, the initial fourth-quarter

2013 IPD inflation was 1.38%, versus 1.41% in the third-quarter, 1.44% in the second-quarter and 1.74% in the first-quarter. In terms of average annual inflation, the 2013 IPD was 1.49%, versus 1.75% in 2012.

For comparison purposes, on a seasonally-adjusted, annualized quarter-to-quarter basis, CPI-U inflation was 0.85% in fourth-quarter 2013, versus 2.63% in the third-quarter, a contraction of 0.03% in the second-quarter, and a 1.44% gain in the first-quarter (see [Commentary No. 592](#)). On a year-to-year basis, fourth-quarter 2013 CPI-U (unadjusted) was 1.23%, versus 1.55% in the third-quarter, 1.39% in the second-quarter, and 1.68% in the first-quarter. The average-annual CPI-U inflation was 1.46% in 2013, versus 2.07% in 2012.

The weaker the inflation rate used in deflating an economic series, the stronger will be the resulting inflation-adjusted growth.

ShadowStats-Alternate GDP. The ShadowStats-Alternate GDP estimate for fourth-quarter 2013 is a 1.4% year-to-year contraction, versus a headline year-to-year gain of 2.7%. The alternate third-quarter estimate was a 1.7% year-to-year contraction, versus a headline gain of 2.0% (see the [Alternate Data](#) tab).

While annualized real quarterly growth is not estimated formally on an alternate basis, a quarter-to-quarter contraction remains a possibility for actual headline growth in the fourth-quarter, but that would not be evident until after the annual revisions to the GDP are published in July 2014. An actual quarterly contraction appears to have been a realistic possibility for the real GDP in most quarters since the official second-quarter 2009 end to the recession.

Adjusted for gimmicked inflation and other methodological changes (such as the inclusion of intellectual property, including software), the business downturn that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The corrected real GDP graph (see the *Opening Comments* section and [Hyperinflation 2012](#) and [No. 485: Special Commentary](#)) is based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the ShadowStats-Alternate GDP, which reflects reversing additional methodological distortions (“Pollyanna Creep”) of recent decades.

Gross National Product (GNP) and Gross Domestic Income (GDI). The initial estimates of the fourth-quarter 2013 and annual GNP and GDI will not be published for another two months (instead of the one-month delay common with other quarters), given the unreliable nature of the available detail. The BEA would do well to delay the GDP, as well, since the current reporting generally is without any statistical significance or relationship to underlying economic activity.

The GNP here is the broadest measure of U.S. economic activity, and GDP is GNP net of trade flows in factor income (interest and dividend payments). The GDI is the theoretical income-side equivalent of the consumption-side GDP estimate.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. At the moment, markets generally appear to still be overly optimistic as to the economic outlook, based on data that likely were puffed-up in the process of going through the data-gathering and reporting distortions of the October shutdown to the federal government. Expectations should soften anew, quickly, with the increasing likelihood of corrective reporting and revisions in the months ahead. The early stages of that process were seen in elements of recent reporting of the December payroll data, retail sales, new home sales and new orders for durable goods.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend.

Stronger inflation reporting remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. political conditions (see [Hyperinflation 2014—The End Game Begins](#)). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last seven-to-eight years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Construction Spending (December 2013). The Commerce Department is scheduled to release its estimate of December 2013 construction spending on Monday, February 3rd. The headline monthly changes, as usual, should not be statistically significant, while previous data could be subject to unusually large revisions, while the shutdown-distorted data stabilize.

U.S. Trade Deficit (December 2013). The Commerce Department and Bureau of Economic Analysis (BEA) will release the December and annual trade-balance data on Thursday, February 6th. As noted in the *Opening Comments*, the “advance” estimate of fourth-quarter 2013 GDP was based on only two months of fourth-quarter trade data. A likely deterioration in the December trade shortfall and/or

significant revisions to the October and November data that would suggest a wider fourth-quarter trade deficit, could trigger a meaningful downside revision in the second estimate of fourth-quarter GDP.

Employment/Unemployment (January 2014). The Bureau of Labor Statistics (BLS) will release its January 2014 labor data on Friday, February 7th. Also pending release on that date are the annual benchmark revisions to the payroll employment data (March 2013 base), and a recasting of population details that affect the household survey and unemployment detail.

Following December's 74,000 consensus-shocking low gain in payroll employment, and with the BLS publishing its annual payroll revisions along with its January jobs estimate, the BLS pretty much can publish whatever number it chooses to publish.

From the payroll-employment perspective, the BLS trend model suggests a 145,000 jobs gain for January, and the consensus tends to close in around that trend. Underlying economic reality would suggest a downside surprise versus the trend.

Expectations likely will be for the headline January U.3 unemployment rate to hold near December's 6.7% reading. The changes to the population assumptions, however, will make the December and January numbers inconsistent and not comparable, with those data problems compounded by the return of the use of concurrent seasonal-factor adjustments, with without consistent historical reporting.

If U.3 drops, there likely would be some further labor-force loss associated with that. The broader U.6 and ShadowStats unemployment measures would tend to hold, or increase anew, at their higher respective levels.

Again, all these numbers are unsettled and could come in well outside general expectations.

2013 Benchmark Revision. As discussed in [Commentary No. 561](#), of September 26th, the announced benchmark revision to the 2013 payroll survey would be tantamount to fraud, if the entire historical series is not otherwise revamped for a major redefinition of nonfarm payrolls. As standardly reported, the March 2013 benchmarking lowered the payroll levels of that time by 124,000 jobs, instead of the 345,000 "increase" reported, which included 469,000 new workers who were classified and defined previously as not counted in nonfarm payrolls.

Indeed, as it has been configured, the payroll employment level in the benchmark month of March 2013 was found to have been overstated by 124,000 jobs, requiring a downside revision to the series in that month, with adjustments back to March 2012, and with adjustments forward in time through the reporting of January 2014 payrolls (to be released February 7th). In the later months of the revision cycle, the downside revisions to monthly levels likely would have topped 200,000.

In a turnaround, the announced benchmark revision was restated so as to be to the upside by 345,000, thanks to the inclusion of 469,000 in employment that previously had not been counted as part of the nonfarm payroll survey. Aside from excluding agricultural employment, the payroll survey had excluded those on household payrolls. Now 469,000 of the household payrolls have been moved into the payroll survey, into the education and healthcare industries, and there is no indication that the BLS plans to restate prior history so as to have a consistent historical series.

Further, this is an area that is not surveyed easily by the BLS on a monthly basis, so it becomes a new fudge-factor for re-jiggering the headline payroll numbers. As announced by the [BLS](#):

“Each year, [payroll] employment estimates from the Current Employment Statistics (CES) survey are benchmarked to comprehensive counts of employment for the month of March. These counts are derived from State Unemployment Insurance (UI) tax records that nearly all employers are required to file. For National CES employment series, the annual benchmark revisions over the last 10 years have averaged plus or minus three-tenths of one percent of Total nonfarm employment. The preliminary estimate of the benchmark revision indicates an upward adjustment to March 2013 Total nonfarm employment of 345,000 (0.3 percent). This revision is impacted by a large non-economic code change [made by the BLS] in the Quarterly Census of Employment and Wages (QCEW) that moves approximately 469,000 in employment from Private households, which is out-of-scope for CES, to the Education and health care services industry, which is in scope. After accounting for this movement, the estimate of the revision to the over-the-year change in CES from March 2012 to March 2013 is a downward revision of 124,000.”
