

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

**COMMENTARY NUMBER 632**  
**April Trade Deficit and Benchmark, Construction Spending, Liquidity**  
**June 4, 2014**

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**New Trade Data Indicate Weaker Recent Economy**  
**April Trade Deficit Suggestive of Heavy Damage to Second-Quarter 2014 GDP**  
**Renewed Recession Remains on Track, with**  
**Consumer Liquidity Still Heavily Impaired**  
**Construction Spending Continued to Stagnate**

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*PLEASE NOTE: The next regular Commentary is scheduled for Friday June 6th, covering May employment and unemployment.*

*Best wishes to all! — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Prospects Dim for Second-Quarter 2014 GDP Growth.** Today's (June 4th) missive focuses on the April trade data and benchmark revision, and on April construction spending and consumer liquidity. The June 6th *Commentary* will detail employment and unemployment from the first major economic report for

May. The trade numbers were a near-term disaster for the economy, with implications for further downside revision to the first-quarter GDP, as well an early indication of serious trouble for the second-quarter GDP. The construction-spending data continued in stagnation, while consumer liquidity conditions remained bleak, constraining both personal consumption and housing activity.

***Economic Reality versus Headline Payroll Reporting and the Payroll Trend Model.*** Given queries by subscribers who viewed the available new detail on the payroll Trend Model—published by ShadowStats-affiliate ExpliStats.com—as offered in last night’s e-mail (see [Payroll Preview](#)), some clarification of what is involved in the different numbers might be helpful. Underlying economic conditions and jobs reality are not reflected in the headline reporting of payroll employment by the Bureau of Labor Statistics (BLS), or, for that matter, by the ExpliStats Trend Model.

As discussed in the regular ShadowStats *Commentaries* covering the monthly employment releases, headline BLS reporting overstates actual payroll employment growth by well in excess of 100,000 jobs per month. In the post-2014 benchmark revision era, that more realistically is in excess of 200,000 jobs, as will be discussed anew in the June 6th *Commentary*.

Irrespective of underlying reality, though, the headline BLS number often moves the financial markets, and therein lies a basic advantage provided by the Trend Model. It gives a better indication of what the BLS will report, on average, than do other indicators, including various consensus outlooks. This happens because the Trend Model captures all the formal biases built into the BLS system, including the birth-death model and unreported concurrent seasonal-factor adjustments that provide the regular distortions and overstatement in the headline jobs data. The needed detail is modeled by ExpliStats, using information available from the BLS, and that detail—updated every month—provides the reporting structure on which the headline data will be based and presented for the next month.

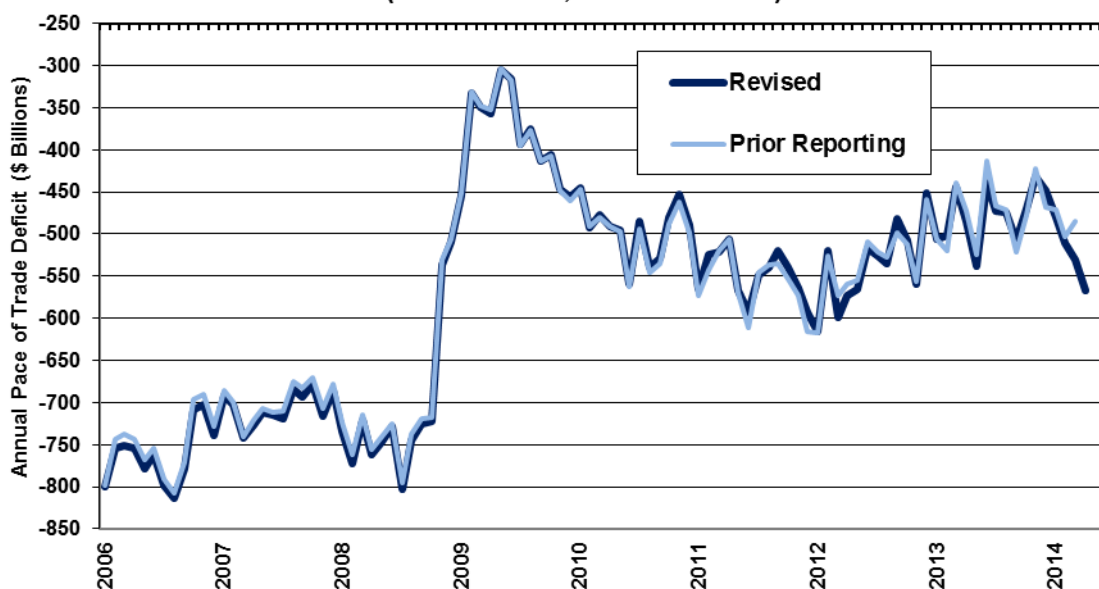
**Benchmark Trade Balance Revision Indicated Further Weakness for Both First- and Second-Quarter GDP Reporting.** The Bureau of Economic Analysis (BEA) and the Census Bureau released the annual benchmark revision to the U.S. trade balance today, June 4th, in conjunction with the regular release of the monthly trade data for April 2014.

The revisions to the monthly trade balance in goods and services, on a balance of payments basis, are reflected in the following two graphs. The first graph reflects detail since 2006, where some of the differences between the old and new series are visible. The heavy dark line is the new series, and where it runs below the old series, the affected periods likely will see some downside GDP revisions, and vice versa. In particular, some noticeable downside GDP growth revisions are likely in early-2012, with some growth shifting to later in that year. Increasing downside pressures are likely on first-quarter 2014 GDP, as well as on likely reporting for second-quarter 2014 GDP, as discussed in the next section.

The second graph shows the current series as fully revised. Specific, likely patterns of GDP revisions for the upcoming annual benchmark on July 30th, will be specified by ShadowStats in advance of the July 30th release.

***U.S. Trade Deficit—April 2014—Current Detail Worse Than Expected.*** Deterioration in the trade deficit—both before and after inflation adjustment—has been worse than previously reported, with negative implications both for further first-quarter 2014 GDP growth revision and for the initial reporting of second-quarter 2014 GDP growth (scheduled for July 30th).

**Revisions - U.S. Trade Deficit (Balance of Payments Basis)**  
Annual Rate, Billions of Dollars, Seasonally-Adjusted  
(ShadowStats, Census Bureau)



**Revised U.S. Trade Deficit (Balance of Payments Basis)**  
Annual Rate, Billions of Dollars, Seasonally-Adjusted  
(ShadowStats, Census Bureau)



In the nominal terms of the simple monthly reporting, and in the context of the annual benchmark revisions, the headline April 2014 deficit in goods and services widened by \$3.1 billion from March, reflecting a \$0.3 billion monthly decline in exports versus a \$2.7 billion increase in imports (with a rounding difference).

**Nominal (Not-Adjusted-for-Inflation) April 2014 Trade Deficit.** The nominal, seasonally-adjusted monthly trade deficit in goods and services for April 2014, on a balance-of-payments basis, widened to \$47.236 billion from a benchmark-revised \$44.176 (previously \$40.378) billion in March 2014, and widened sharply from a revised \$40.417 (previously \$39.374) billion in April 2013. The import increase generally was in the consumer-goods area, but that was not a good sign for the economy. Import activity is a direct subtraction from the GDP, irrespective of the nature of the imports, which usually end up going to consumers in some form. The increase in imports did not reflect oil-related activity in April, despite a 7.9% increase in activity there, before seasonal adjustments. Seasonal adjustments turned the monthly petroleum-related import change into a 2.2% decline.

**Real (Inflation-Adjusted) April 2014 Trade Deficit.** Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, used for GDP deflation), the April 2014 merchandise trade deficit (no services) widened to \$53.849 billion, from a revised \$50.868 (previously \$49.444) billion in March, and widened versus a revised \$47.204 (previously \$47.043) billion in April 2013.

April is the first of the two months in second-quarter 2014 that will be used for the initial estimate of the net-export account for the “advance” second-quarter 2014 GDP, on July 30th. If the May trade deficit holds even with or deteriorates versus April’s reading, a net deterioration in the real second-quarter trade deficit would be generated, along with a significant subtraction from headline second-quarter GDP growth.

In the context of today’s revisions, the annualized quarterly real merchandise trade deficits now stand at \$554.7 (previously \$564.0) billion in fourth-quarter 2013, \$591.7 (previously \$590.9) billion in first-quarter 2014, and the April number annualizes to \$646.2 billion as a first estimate for second-quarter 2014. Where the relative difference between the fourth- and first-quarter estimates has widened, that suggests a further, but relatively small, downside revision to the already-negative first-quarter 2014 GDP growth, in the upcoming June 25th or July 30th revisions. At present, the first-quarter 2014 trade deficit has subtracted 1.0% from what GDP growth would have been otherwise (see [Commentary No. 631](#)).

The suggested, further quarterly deterioration in second-quarter 2014 trade is capable of inflicting even greater damage to the second-quarter 2014 GDP growth rate, assuming that the May 2014 trade deficit does not show significant monthly improvement. While the data here do not track perfectly with the numbers reported by the BEA in the GDP, they are the primary numbers used in generating the BEA’s guesstimates of the net-export account.

**Construction Spending—April 2014—Stagnation Continued.** The statistically-insignificant 0.2% headline monthly gain in April 2014 construction spending left the level of April activity 1.2% above the initial March reporting, with the larger net upside shift masked by prior-period revisions. Such is typical of the unstable reporting and volatile revisions in this series, where the regular monthly reporting rarely is statistically-significant. As shown in the graph that follows and in the graphs shown in the *Reporting Detail* section, the collapse in construction spending since early-2006 into a period of protracted stagnation has not been close to an economic recovery, particularly after adjustment for inflation.

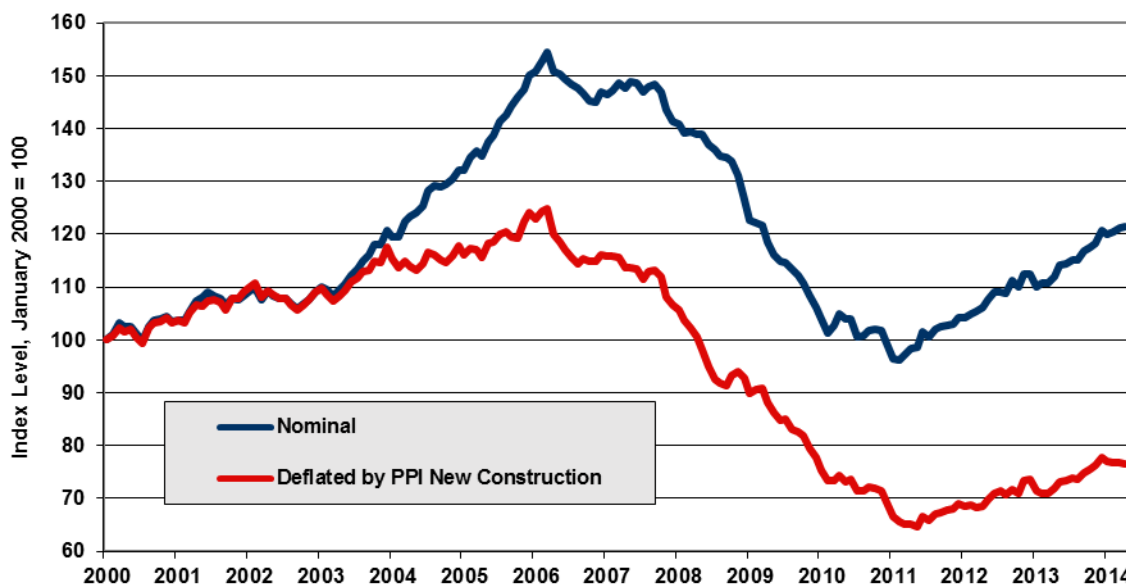
The pattern of plunge and stagnation in the post-recession period increasingly appears to be the common activity seen in the less-gimmicked economic series. That pattern likely will be reinforced by benchmark revisions here, scheduled for next month's May 2014 data, due for release on July 1st.

**Adjusting Construction Spending for Inflation.** There is no perfect inflation measure for deflating construction, but the PPI's "new construction index" (NCI) remains the closest found in publicly-available series. Private surveys tend to be more closely linked to real-world activity and usually show higher annual construction costs than seen in the government data.

**Official Reporting.** Headline, total value of construction put in place in the United States for April 2014 was \$953.5 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That was up month-to-month by a statistically-insignificant 0.2%, against a revised \$951.6 billion in March, which was up a revised 0.6% from \$946.1 billion in February. The headline construction spending amount in April 2014 also was up by a still statistically-insignificant 1.2% from the initial reporting for March 2014, before prior-period revisions.

Adjusted for the NCI inflation, aggregate real spending in April 2014 was down month-to-month by 0.2%, versus a revised monthly gain of 0.1% in March 2014.

**Index of Value of Construction Put in Place  
Nominal versus Inflation-Adjusted (Jan 2000=100)  
Deflated by the PPI New Construction Index  
(Sources: ShadowStats.com, Census Bureau, BLS)**



On a year-to-year or annual-growth basis, April 2014 construction spending was up by a statistically-significant 8.6%, versus a revised 9.5% gain in March. Net of construction costs indicated by the NCI, year-to-year growth in spending was 6.7% in April, versus a revised 8.1% in March. More-realistic private surveying suggests annual costs to be up by enough to come close to turning some of those annual construction-spending growth rates flat or into annual contractions.

The graphs in the *Reporting Detail* section reflect the 0.2% monthly gain in April total construction, with private residential construction up by 0.1%, private nonresidential construction down by 0.1%, and public construction up by 0.8%. Also reflected is the 0.6% monthly gain in March total construction, with private residential construction up by 1.5%, private nonresidential construction down by 0.2% and public construction up by 0.3%.

As shown in the preceding graph, adjusted for inflation, real construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation and now showing some pullback, in the last several months of reporting.

**Structural Consumer Liquidity Issues Continue to Constrain Consumption.** As discussed regularly in these *Commentaries*, significant, structural liquidity problems continue, and they impair and constrain consumer activity. Except for the plot of consumer credit outstanding, as of March 2014, new details are published here for the accompanying liquidity-related graphs.

Without real, inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply cannot sustain positive real growth in retail sales, broad personal consumption or housing activity (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)).

The first graph following of real median household income by month, based on data published by [www.SentierResearch.com](http://www.SentierResearch.com), showed continued income stagnation in April 2014, with real median household income notching lower, remaining near the cycle-low for the series.

As the GDP purportedly started a solid recovery in mid-2009, household income plunged to new lows. Deflated by headline CPI-U, the annual series published by the Census Bureau showed further that annual real median household income in 2012 was at levels seen in the late-1960s and early-1970s (again, see the *Hyperinflation Report – Second Installment*).

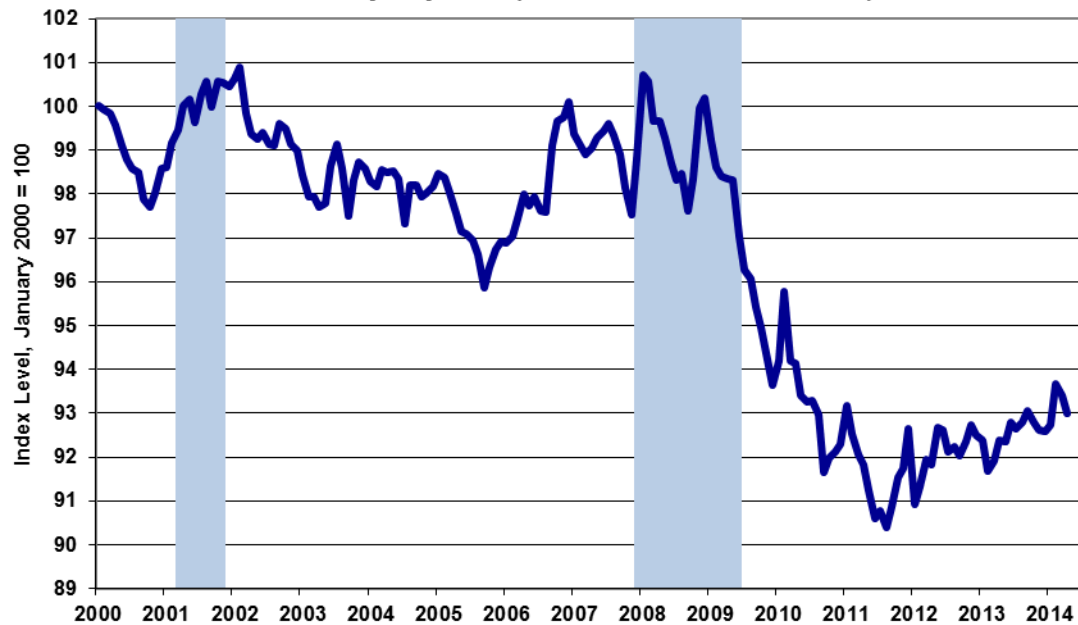
The second and third graphs following reflect the final May 2014 reporting of the ever-volatile consumer confidence (Conference Board) and consumer sentiment (University of Michigan) indices. Current levels for both series remain deep in traditional-recession territory. The patterns with these series, as with household income, have been of collapse and stagnation, as opposed to the pattern of economic collapse and recovery indicated by the faulty GDP series.

The final graph is of consumer credit outstanding, based on the detail published by the Federal Reserve Board, through March 2014. The unadjusted series continues to show that all the consumer credit growth of the last four years has been in federally-held student loans, not from bank lending that otherwise would tend to help fuel basic consumption.

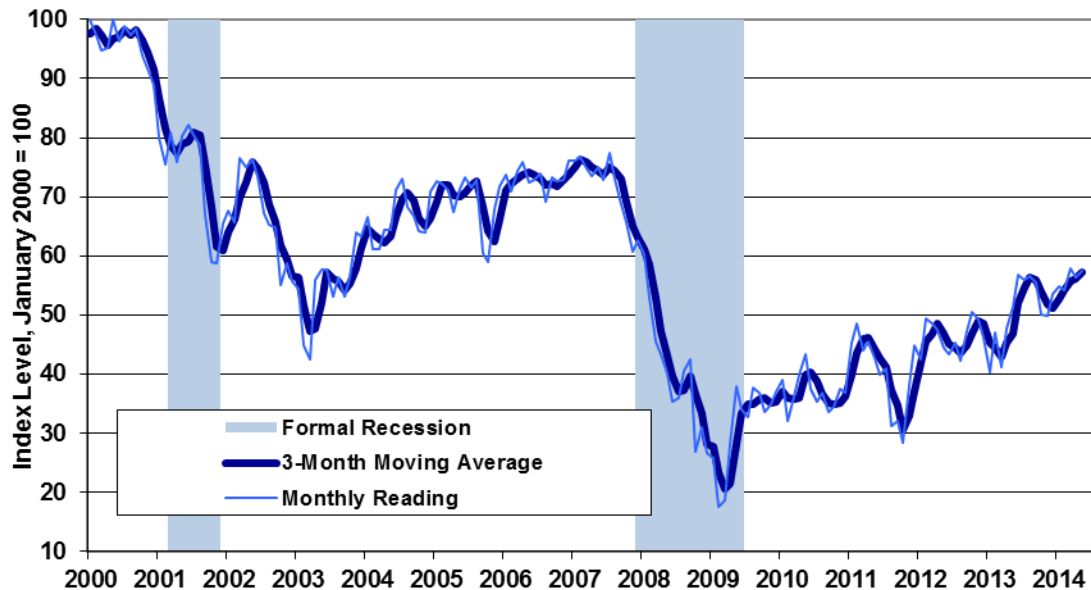
Again, without growth in real income; without the ability or the will to expand debt meaningfully; and without the confidence to take on new debt, where possible; the consumer simply cannot sustain real growth in retail sales, housing or in the dominant, personal-consumption component of the GDP. As redefined last year, personal consumption accounts for 68% of the GDP. There has been no broad economic recovery, and there is none that is underway or pending.

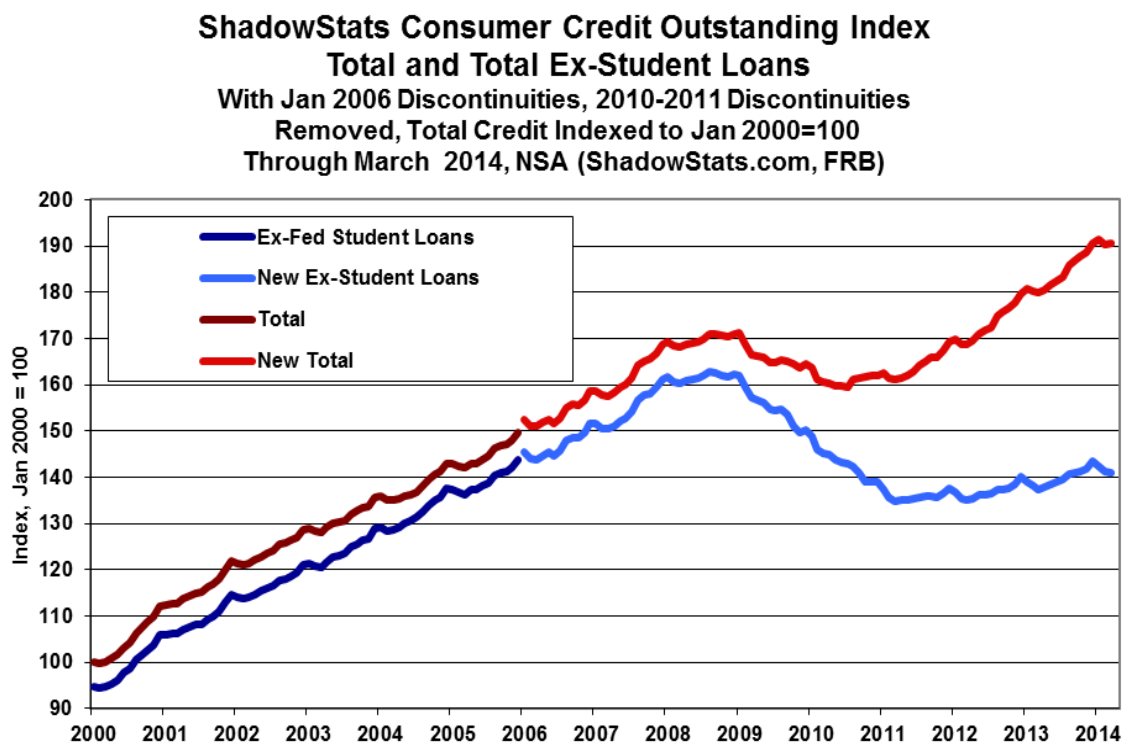
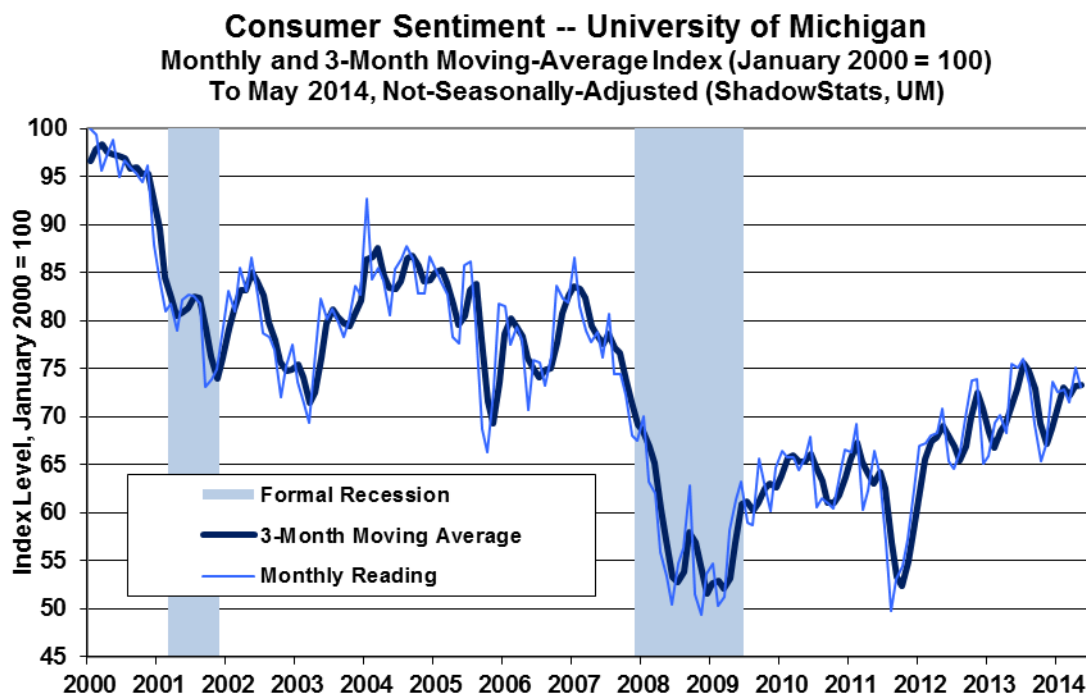


**Real Median Household Income Index**  
Deflated by the CPI-U, Monthly to April 2014  
Seasonally-Adjusted (www.SentierResearch.com)



**Consumer Confidence -- Conference Board**  
Monthly and 3-Month Moving-Average Index (January 2000 = 100)  
To May 2014, Seasonally-Adjusted (ShadowStats, Conference Board)





*[For further details on the trade deficit and construction, see the Reporting Detail section.]*



## HYPERINFLATION WATCH

**Hyperinflation Summary Outlook.** The hyperinflation and economic outlooks were updated with the publication of [2014 Hyperinflation Report—The End Game Begins](#) – *First Installment Revised*, on April 2nd, and publication of [2014 Hyperinflation Report—Great Economic Tumble](#) – *Second Installment*, on April 8th. A basic summary of the broad outlook is found in the *Opening Comments* and *Overview and Executive Summary* in the *First Installment Revised*. The broad outlook for a hyperinflationary great depression beginning this year has not changed—only evolved—with various details continuing to fall into place. A formal and more-condensed summary of the extraordinarily-difficult times ahead will take over this section, soon. What follows here is detail on the evolving economic disaster, all to be incorporated into that summary.

**Economy Turns Down Anew.** Consistent with the above *Special Commentaries*, a renewed U.S. business slowdown/downturn was evident in the revised headline contraction of 1.0% in first-quarter 2014 GDP, versus 2.6% growth in fourth-quarter 2013. As the patterns of headline growth in economic reporting continue to slow and to turn down, such as seen in the significant widening of the April trade deficit today (June 4th), financial-market expectations increasingly should shift towards renewed or deepening recession. That circumstance, in turn, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Intensifying weakness in the U.S. dollar will place upside pressure on oil prices and other commodities, boosting inflation and inflation fears. Both the dollar weakness and resulting higher inflation should boost the prices of gold and silver, where physical holding of those key precious metals remains the primary hedge against the pending inflation and financial crises.

The fundamental issues threatening the dollar, again, include, but are not limited to: the U.S. government not addressing its long-term solvency issues; monetary malfeasance by the Federal Reserve seeking to provide liquidity to a troubled banking system, and to the U.S. Treasury, with a current pace of 80% monetization of effective net issuance of public federal debt; a mounting domestic and global crisis of confidence in a dysfunctional U.S. government; mounting global political pressures contrary to U.S. interests; and a severely damaged U.S. economy, which never recovered post-2008 and is turning down anew (including the widening trade deficit).

**Pending GDP Contractions.** Generally reflecting weaker data in revisions to underlying data, downside revisions to recent GDP reporting are increasingly likely in the July 30th annual benchmark revisions. Specifically, underlying current economic activity actually is deteriorating and weak enough that the benchmark GDP revision should be accompanied by an initial headline contraction in second-quarter 2014 GDP, on top of a deepening first-quarter 2014 GDP contraction, which faces two further near-term revisions (including the benchmark).

Despite the unstable, questionable and otherwise horrendous unemployment reporting for April 2014 (see [Commentary No. 624](#)), the subsequent headline downturns in April industrial production and real retail sales, and the headline upturns in the CPI and PPI, even weaker economic data and stronger inflation are likely in the weeks and months ahead. If those patterns continue, market expectations—and related financial-market reactions—should move into the “renewed recession” camp, before or coincident with the July 30th annual revisions to GDP.

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## REPORTING DETAIL

### U.S. TRADE BALANCE (April 2014)

**Benchmark Trade Balance Revision Indicated Further Weakness in Both First- and Second-Quarter GDP Reporting.** The annual benchmark revision to the monthly U.S. trade balance detail is discussed and graphed in the *Opening Comment*, with the new inflation-adjusted numbers also discussed in the real trade deficit detail following. Deterioration in the trade deficit—both before and after inflation adjustment—has been worse than previously reported, with negative implications both for further first-quarter 2014 GDP growth revision and for the initial reporting of second-quarter 2014 GDP growth (scheduled for July 30th).

In the nominal terms of the simple monthly reporting, and in the context of the annual benchmark revisions, the headline April 2014 deficit in goods and services widened by \$3.1 billion from March, reflecting a \$0.3 billion monthly decline in exports versus a \$2.7 billion increase in imports (with a rounding difference).

**Nominal (Not-Adjusted-for-Inflation) April 2014 Trade Deficit.** The BEA and the Census Bureau reported today, June 4, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for April 2014, on a balance-of-payments basis, widened to \$47.236 billion from a benchmark-revised \$44.176 (previously \$40.378) billion in March 2014, and widened sharply from a revised \$40.417 (previously \$39.374) billion in April 2013. The import increase generally was in the consumer-goods area, but that was not a good sign for the economy. Import activity is a direct subtraction from the GDP, irrespective of how the imports are distributed. The increase in imports did not reflect oil-related activity in April, despite a 7.9% increase in activity there, before seasonal adjustments. Those adjustments turned the monthly petroleum-related import change into a 2.2% decline.

**Energy-Related Petroleum Products.** For April 2014, the not-seasonally-adjusted average price of imported oil rose to \$95.48 per barrel, from \$93.91 in March 2014, but was down from \$97.94 per barrel in April 2013.

Also not-seasonally-adjusted, physical oil import volume in April 2014 averaged 7.960 million barrels per day, up from 7.259 million in March 2014, and up from 7.822 million in April 2013.

*Ongoing Cautions on Data Quality.* As previously discussed, potentially heavy distortions in headline data continue from seasonal adjustments, much as has been seen in other economic releases, such as retail sales and payrolls, where the headline number reflects month-to-month change. As has been discussed frequently (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) for example), the extraordinary length and depth of the current business downturn have disrupted regular seasonality patterns. Accordingly, the markets should not rely heavily on the accuracy of the monthly headline data.

***Real (Inflation-Adjusted) April 2014 Trade Deficit.*** Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, used for GDP deflation), the April 2014 merchandise trade deficit (no services) widened to \$53.849 billion, from a revised \$50.868 (previously \$49.444) billion in March, and widened versus a revised \$47.204 (previously \$47.043) billion in April 2013.

April is the first of the two months in second-quarter 2014 that will be used for the initial estimate of the net-export account for the “advance” second-quarter 2014 GDP, on July 30th. If the May trade deficit holds even with or deteriorates versus April’s reading, a net deterioration in the real second-quarter trade deficit would be generated, along with a significant subtraction from headline second-quarter GDP growth.

In the context of today’s revisions, the annualized quarterly real merchandise trade deficits now stand at \$554.7 (previously \$564.0) billion in fourth-quarter 2013, \$591.7 (previously \$590.9) billion in first-quarter 2014, and the April number annualizes to \$646.2 billion as a first estimate for second-quarter 2014. Where the relative difference between the fourth- and first-quarter estimates has widened, that suggests a further, but relatively small, downside revision to the already-negative first-quarter 2014 GDP growth, in the upcoming June 25th or July 30th revisions. At present, the first-quarter 2014 trade deficit has subtracted 1.0% from what GDP growth would have been otherwise (see [Commentary No. 631](#)).

The suggested, further quarterly deterioration in second-quarter 2014 trade is capable of inflicting even greater damage to the second-quarter 2014 GDP growth rate, assuming that the May 2014 trade deficit does not show significant monthly improvement.

While the data here do not track perfectly with the numbers reported by the BEA in the GDP, they are the primary numbers used in generating the BEA’s guesstimates of the net-export account.

## **CONSTRUCTION SPENDING (April 2014)**

**Minimal Growth in Headline Construction Spending Was in the Context of Upside Prior-Period Revisions.** The statistically-insignificant 0.2% headline monthly gain in April 2014 construction spending left the level of April activity 1.2% above the initial March reporting, with the larger net upside shift masked by prior-period revisions. Such is typical of the unstable reporting and volatile revisions in this series, where the regular monthly reporting rarely is statistically-significant. As shown in the graphs that follow, the collapse in construction spending since early-2006 into a period of protracted stagnation has not been close to an economic recovery, particularly after adjustment for inflation.

The pattern of plunge and stagnation in the post-recession period increasingly appears to be the common activity seen in the less-gimmicked economic series. That pattern likely will be reinforced by benchmark revisions here, scheduled for next month's May 2014 data, due for release on July 1st.

**Adjusting Construction Spending for Inflation.** There is no perfect inflation measure for deflating construction, but the PPI's "new construction index" (NCI) remains the closest found in publicly-available series. ShadowStats continues to use it while looking for a more-comprehensive index for construction that also is available to the public or for public release. Private surveys tend to be more closely linked to real-world activity and usually show higher annual construction costs than seen in the government data.

**Official Reporting.** The Census Bureau reported June 2nd that the headline, total value of construction put in place in the United States for April 2014 was \$953.5 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.2% +/- 1.8% (all confidence intervals are at the 95% level), against a revised \$951.6 (previously \$942.5) billion in March, which was up a revised 0.6% from \$946.1 (previously \$940.8, initially \$945.7) billion in February.

The headline construction spending amount in April 2014 was up by a still statistically-insignificant 1.2% from the initial reporting for March 2014, before prior-period revisions.

Adjusted for the NCI inflation in the PPI (see the preceding section), aggregate real spending in April 2014 was down month-to-month by 0.2%, versus a revised monthly gain of 0.1% (previously a 0.6% decline) in March 2014.

On a year-to-year or annual-growth basis, April 2014 construction spending was up by a statistically-significant 8.6% +/- 2.3%, versus a revised 9.5% (previously 8.4%) gain in March. Net of construction costs indicated by the NCI, year-to-year growth in spending was 6.7% in April, versus a revised 8.1% (previously 7.1%) in March. More-realistic private surveying suggests annual costs to be up by enough to come close to turning some of those annual construction-spending growth rates flat or into annual contractions.

The statistically-insignificant 0.2% monthly gain in April 2014 construction spending, versus the 0.6% gain in March, included a 0.8% gain in April public spending, versus a revised gain of 0.3% in March. April private construction was unchanged for the month, versus a revised 0.7% monthly gain in March.

The following graphs reflect the 0.2% monthly gain in April total construction, with private residential construction up by 0.1%, private nonresidential construction down by 0.1%, and public construction up by 0.8%. Also reflected is the 0.6% monthly gain in March total construction, with private residential construction up by 1.5%, private nonresidential construction down by 0.2% and public construction up by 0.3%.

**Construction and Related Graphs.** The two graphs following reflect total construction spending through April 2014, before and after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0. Adjusted for the PPI's NCI measure, real construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation and now showing some pullback, in the last several months of reporting.

**Total Construction Spending, Monthly to April 2014**  
**Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)**

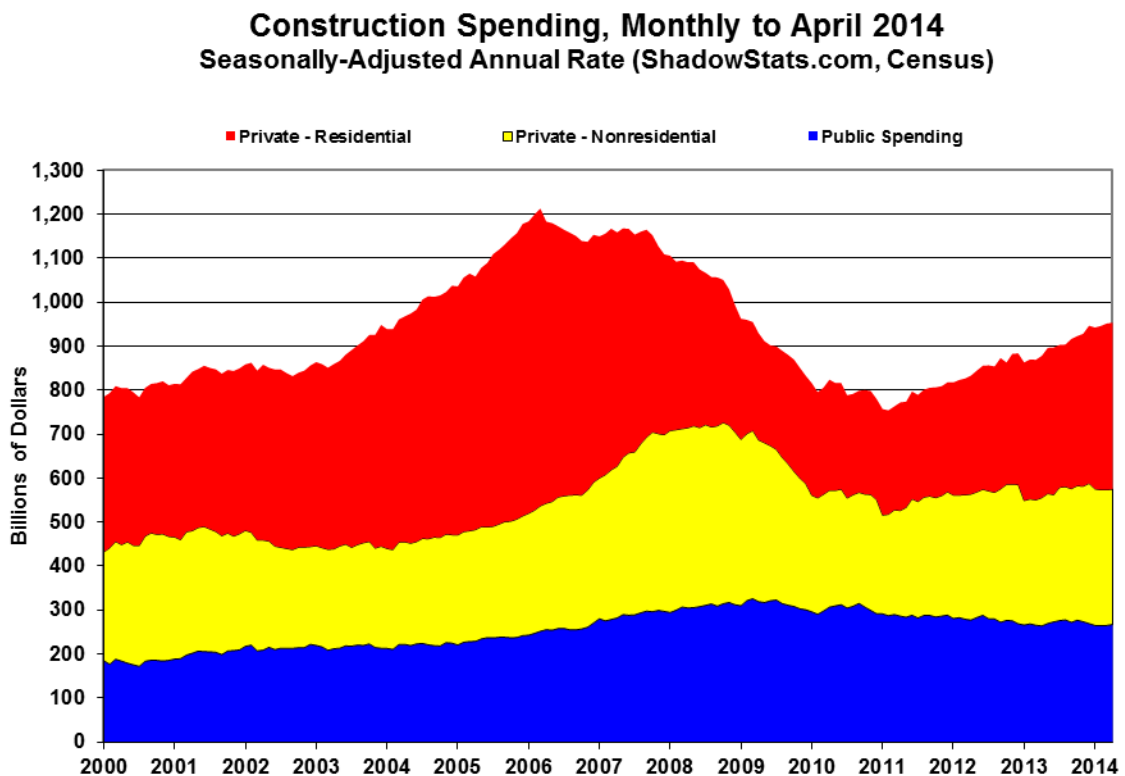
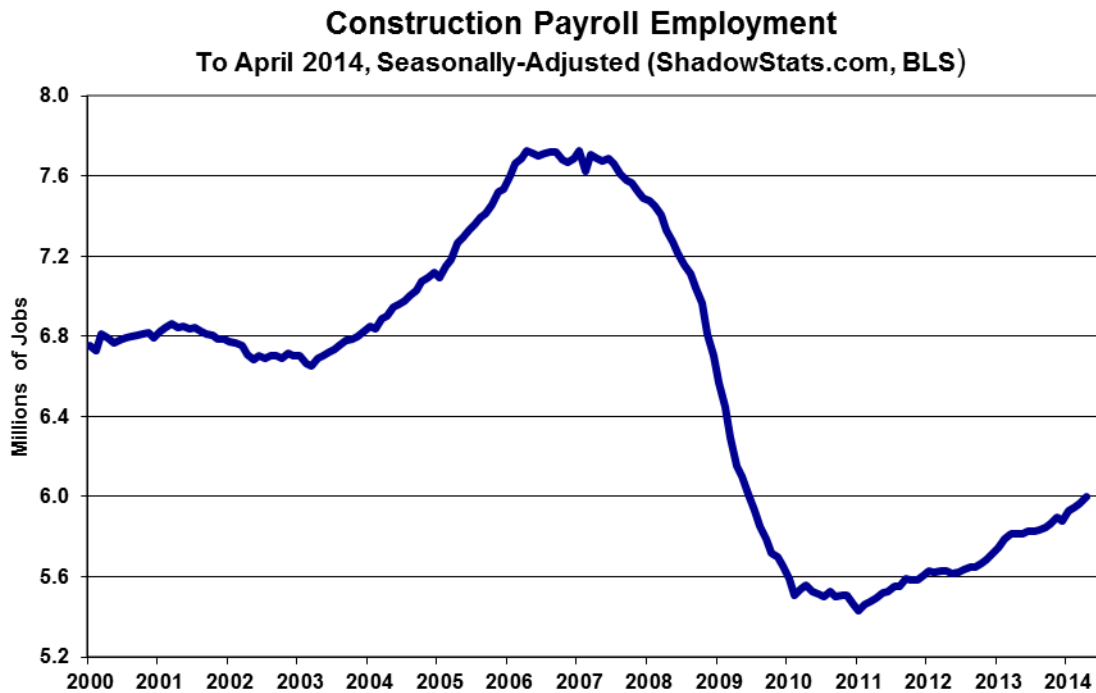


**Index of Value of Construction Put in Place**  
**To April 2014, Inflation-Adjusted (Jan 2000=100)**  
**Deflated by the PPI New Construction Index**  
**(Sources: ShadowStats.com, Census Bureau, BLS)**



The pattern of inflation-adjusted activity here does not confirm the economic recovery shown in the headline GDP series (see [Commentary No. 631](#)). To the contrary, the latest construction reporting, both

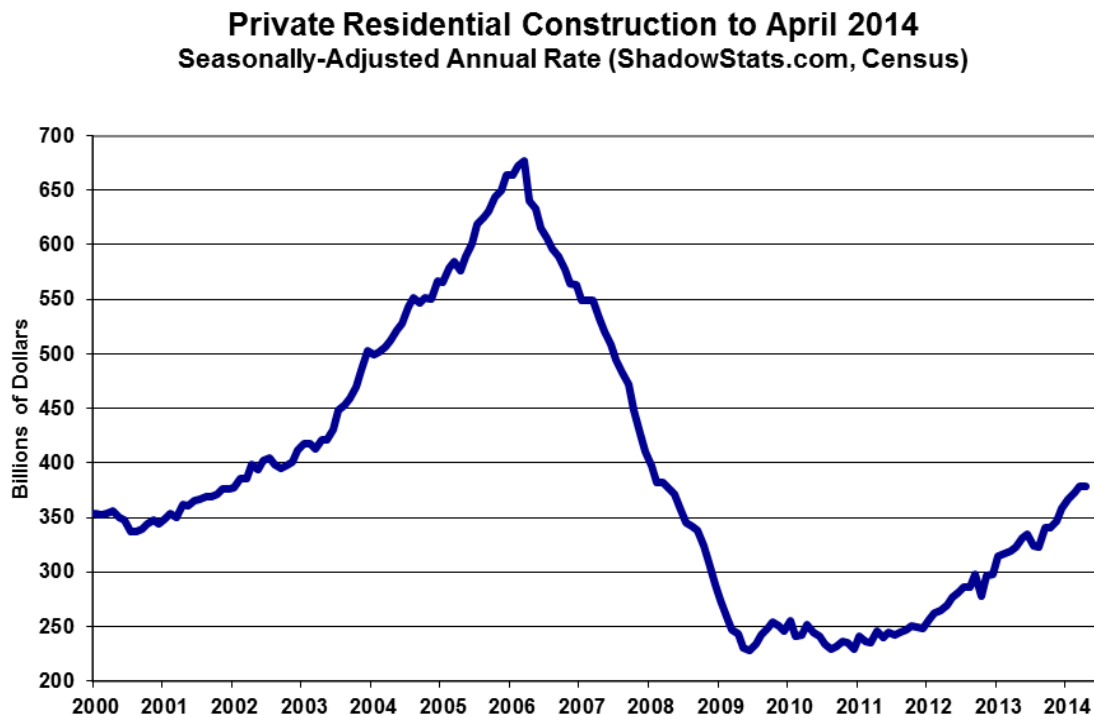
before (nominal) and after (real) inflation adjustment, shows a pattern of ongoing stagnation, as reflected, again, in the preceding two graphs.



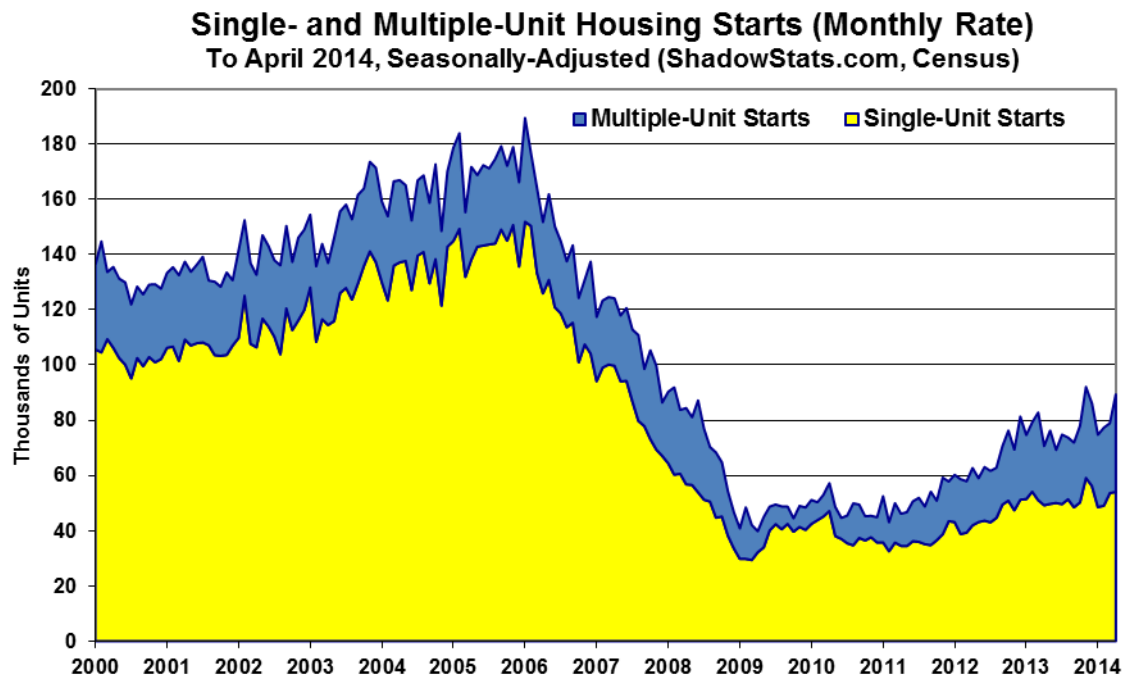
The the first of the two graphs immediately preceding reflects the reporting of April 2014 construction employment (it will be updated through May in the June 6th *Commentary No. 633*, covering May payroll activity). In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity.

The second of the two preceding graphs shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential spending (red).

The next two graphs cover private residential construction, including housing starts data for April (see [Commentary No. 628](#)). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing starts reflect unit volume, which should tend to be more parallel to the real (inflation-adjusted) series.

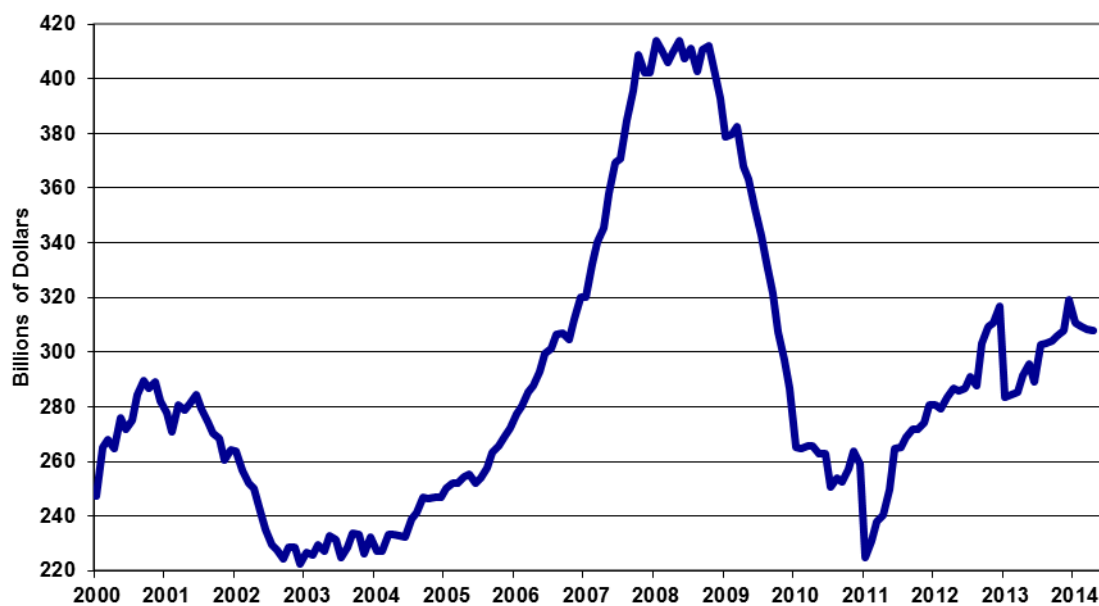




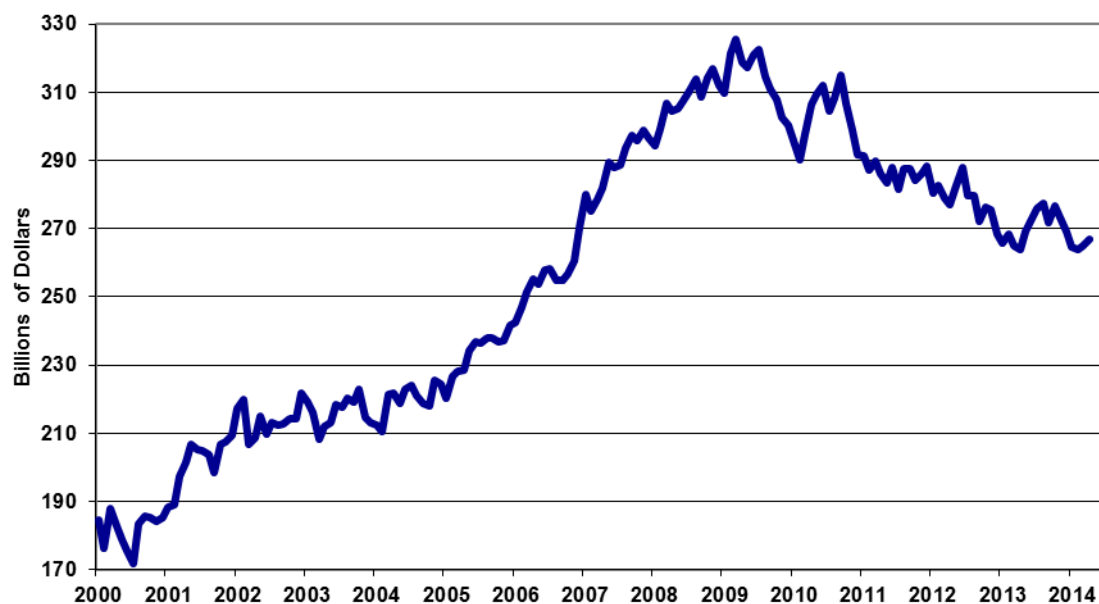


The last two graphs, following, show the patterns of the monthly level of activity in private nonresidential construction spending and in public construction spending. The spending in private nonresidential construction remains well off its historic peak, but has bounced higher recently off a secondary, near-term dip in late-2012, and is headed lower, once again. Public construction spending, which is 98% nonresidential, continues in a broad downtrend, with intermittent, short-lived bounces.

**Private Nonresidential Construction to April 2014**  
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



**Public Construction, Monthly to April 2014**  
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



## WEEK AHEAD

### **Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead.**

Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic series (see [\*2014 Hyperinflation Report—Great Economic Tumble – Second Installment\*](#)), including the second estimate of real first-quarter 2014 GDP, which was the first contemporary reporting of a quarterly contraction since the formal end of the 2007 recession in mid-2009.

Weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition.

Stronger inflation reporting also 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 global political instabilities. Food inflation has been picking up as well. The dollar faces pummeling from the weakening economy, continuing QE3, the ongoing U.S. fiscal-crisis debacle, and deteriorating U.S. and global political conditions (see [\*Hyperinflation 2014—The End Game Begins \(Updated\) – First Installment\*](#)). 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. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last 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:***

**Employment/Unemployment (May 2014).** The Bureau of Labor Statistics (BLS) will release its May 2014 labor data on Friday, June 6th. Following April’s stronger-than-consensus and artificially-bloated 288,000 gain in payroll employment, a weaker May number is a good bet. The headline reporting also

should be to the downside of expectations, an event that likely would temper still-strongly-positive consensus estimates for second-quarter GDP, on top of whatever the highly-negative trade data do to the consensus.

Based on the headline payroll employment reporting in April, the BLS trend model indicates a 235,000 headline jobs gain for May 2014, as indicated by ShadowStats affiliate [www.ExpliStats.com](http://www.ExpliStats.com). The consensus outlook tends to settle in near the trend number, and that appears to be the case for the current circumstance. Further to the discussion in the *Opening Comments*, more-detailed information is available here: [Payroll Preview](#).

Expectations also appear to be for the headline April U.3 unemployment rate to rise a notch from April's highly-troubled 6.3% reading (see the discussion in [Commentary No. 624](#)). Underlying fundamentals would suggest a generally upturn in U.3, but the BLS's continuing purge of discouraged workers from the unemployment rolls and headline labor force would argue in favor of a lower rate. Separately, as discussed regularly in the employment/unemployment-related *Commentaries*, month-to-month comparisons of U.3 are of no meaning, because of the standard, inconsistent reporting calculations that leave the monthly data not comparable.

If U.3 drops, further, there likely would be additional labor-force loss associated with those relative, but still-not-comparable numbers. The broader U.6 and ShadowStats unemployment measures would tend to hold, or increase anew, at their broader and higher respective levels. All these Labor Department numbers remain unsettled and could come in well outside general expectations.

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