

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

**COMMENTARY NUMBER 654**

**July Median Household Income, Trade Deficit, Construction Spending**

**September 4, 2014**

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**Neither Economic Boom nor Recovery Is Underway;  
Fundamentals Are Not in Place to Fuel or to Support Such a Circumstance**

**Latest Median Household Income Reading Confirmed  
Severely Impaired Consumer and Economy**

**Trade Deficit Continued to Widen Year-to-Year  
Despite Prior-Period Revisions and Unusual Seasonal Factors**

**Net of Inflation, Construction Spending Surge Was Stagnation**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Friday, September 5th, covering August employment and unemployment.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**What Fuels Economic Growth?** In the United States, the base of the domestic economy remains the individual consumer and personal consumption. Healthy consumption largely depends on stable, happy and confident consumers, along with strong employment, wages and salaries, and with income growth. Easy credit also can enhance near-term consumption activity. Those circumstances, however, are not in play, at the moment, and have not been in play for some time.

A major factor behind the consumer's income and employment woes has been the extraordinarily excessive and deteriorating U.S. trade deficit of the last four decades. The detail for the July 2014 trade balance faced mounting reporting-quality issues in today's (September 4th) reporting, although the deficit continued to widen year-to-year. Further, the headline monthly gain in July 2014 construction spending reflected a serious problem beyond the usual lack-of-statistical-significance issues: rising inflation. Activity in construction activity appears to be stagnant in real terms. These areas are discussed, as they standardly would be, in today's missive.

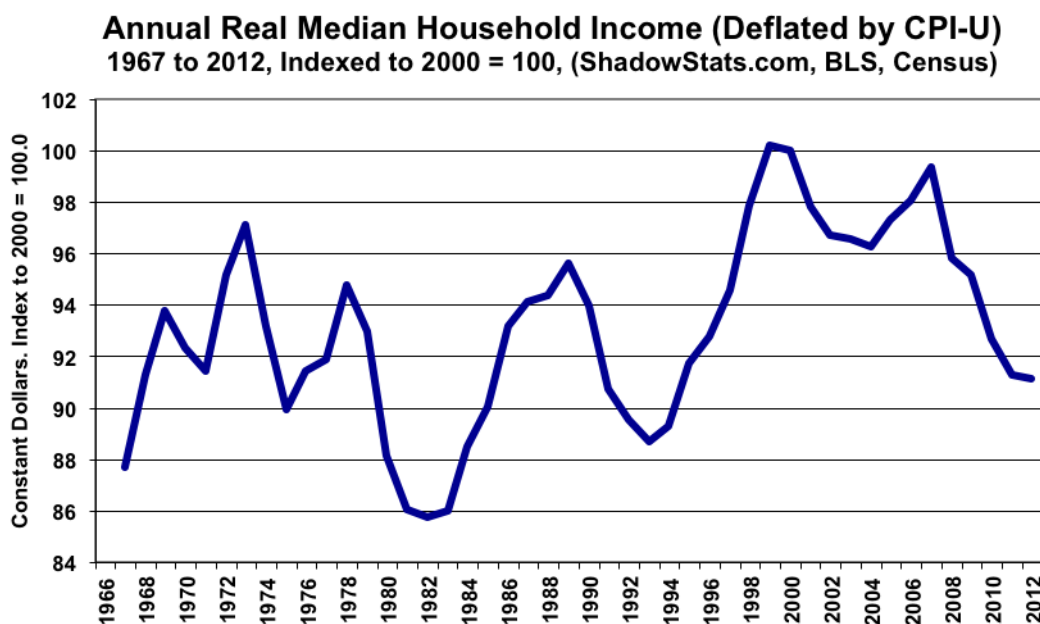
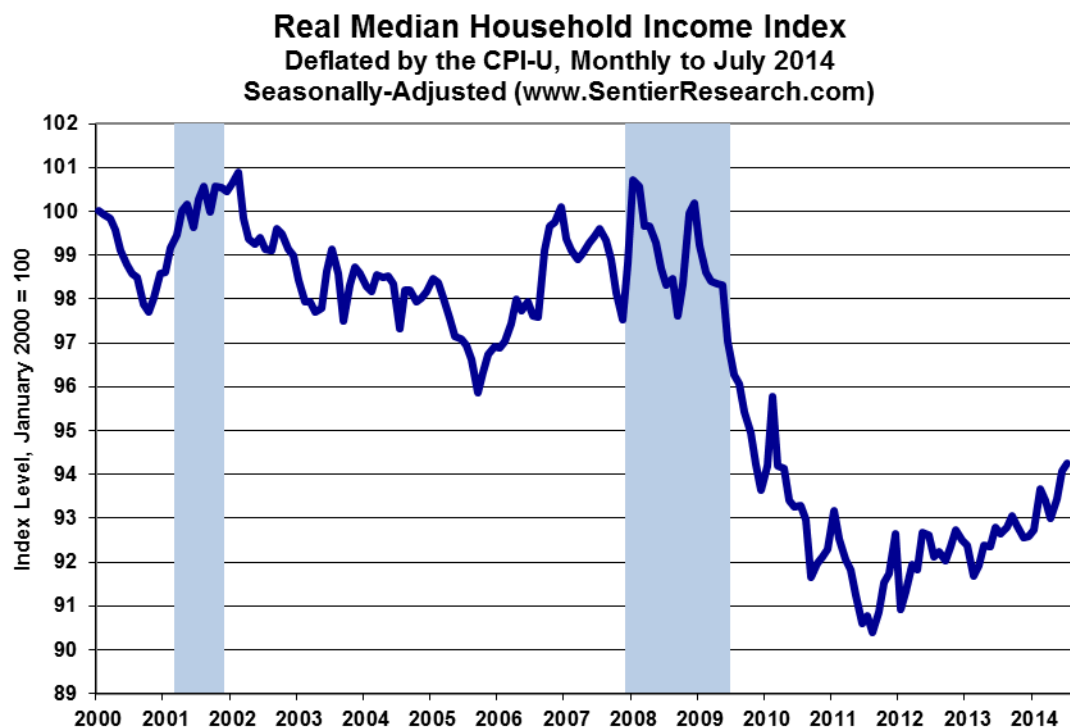
Yet, as proclaimed by some on Wall Street and in Washington, the economy is booming. With headline real GDP growth topping 4%, the question remains, who or what is fueling this strong economy, or is the "boom" just another economic illusion?

The "boom" is not coming from the liquidity-strapped U.S. consumer, who usually drives the bulk of domestic GDP activity. With the consumer unable to support positive real growth in consumption, the possibility of near-term economic pickup, recovery or boom remains nil. Current, overly optimistic economic assumptions in the markets should crash back to reality as headline reporting, once again, swings back towards reality. Nonetheless, strong efforts among some public-opinion manipulators likely are underway to keep the happy news flowing through the November 4th election.

**Real Median Household Income—July 2014—No Recovery.** Discussed in [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) and in frequent *Commentaries* on consumer liquidity (see [Commentary No. 652](#), for example), domestic economic activity remains impaired by a severe, structural liquidity crisis centered on the U.S. consumer. Facing a lack of inflation-adjusted, or real, growth in income and limited credit availability, and with a lack of willingness to take on new debt, the consumer simply does not have the wherewithal to drive positive real growth in broad domestic consumption. Personal consumption expenditure and residential investment accounted for 72% of the domestic GDP in the latest reckoning.

The accompanying graphs show weakness in inflation-adjusted income. The first graph reflects the monthly series of real median (the middle measure, instead of average) household income, as calculated and published by [www.SentierResearch.com](http://www.SentierResearch.com), using monthly detail from surveying conducted by the U.S. Census Bureau. The seasonally-adjusted monthly index is set with January 2000 = 100, with income deflated by the headline CPI-U. The income index plunged through 2008 into 2011, and it has been bottom-bouncing near its cycle low ever since.

Sentier Research recently published a report noting that monthly real median household income hit a bottom in 2011, but that the higher reading in June 2014 still was well below the level of June 2009, when the U.S. economy purportedly hit bottom and began its recovery. There is no recovery evident in the plot of this series through the July detail. Published on September 2nd, July 2014 real median household income notched higher for the month by an amount that was not statistically significant.



The second graph reflects real median U.S. household income over the years, on an annual basis. Again, the series is deflated by the official CPI-U number, and indexed to 2000 = 100. The numbers are based

on the reporting of the Census Bureau in its annual *Poverty Report*. Those inflation-adjusted numbers show that median household income never recovered its pre-2001 recession peak and stood below its levels of 1969 and early-1970s, as of the latest reporting for 2012.

The Census Bureau release of the 2013 *Poverty Report* is scheduled for Tuesday, September 16th. Real median household income for 2013 likely will be little changed from the estimate for 2012. It should remain well below the levels of the late-1990s, and below levels seen in the late-1960s, early-1970s, when deflated by the official CPI-U.

**U.S. Trade Deficit—July 2014—Year-to-Year Trade Deterioration Continued Despite Minimal Narrowing in, and Unstable Headline Reporting of the July Deficit.** In the context of revisions narrowing the nominal monthly trade deficits reported since January 2014, and in the context of the most-extreme seasonal adjustments for any given month in the year (in an otherwise horrendously-skewed seasonal-adjustment system) the monthly trade deficit narrowed minimally in July, by \$0.264 billion. The limited headline improvement reflected both stronger exports and imports, with the export gain just edging out imports. Activity centered on increased trade in automotive vehicles, parts and engines, and in increased petroleum-related imports and exports.

As discussed in the section on the real (inflation-adjusted) deficit, the widening of the trade shortfall in second-quarter 2014, which deteriorated minimally further in today's (September 4th) reporting, still has not been reflected adequately in terms of its negative impact on second-quarter GDP reporting. Look for ongoing fundamental deterioration in the trade deficit in the months and quarters ahead, and for post-election, trade-related negative hits on GDP reporting and revisions.

**Nominal (Not-Adjusted-for-Inflation) July 2014 Trade Deficit.** The nominal, seasonally-adjusted monthly trade deficit in goods and services for July 2014, on a balance-of-payments basis, narrowed to \$40.546 billion, versus a revised \$40.810 (previously \$41.538) billion in June. That reporting was in the context of major revisions narrowing the January 2014 to June 2014 monthly deficits. That also was in the context of the most-extreme monthly seasonal adjustments seen in the series. Despite these factors, the July 2014 trade deficit widened versus an unrevised July 2013 deficit of \$39.419 billion.

The respective monthly increases in imports and exports of \$1.820 billion and \$1.555 billion resulted in a (rounding difference) \$0.264 billion monthly narrowing of the headline deficit. Seasonally-adjusted petroleum-related imports and exports both increased, with the exports increase slightly greater, although aggregate export activity remained at about half of the import level. The increase in unadjusted oil imports rose for the second month, again reflecting both higher prices and increased physical volume.

**Real (Inflation-Adjusted) July 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 July 2014 merchandise trade deficit (no services) narrowed to \$48.177 billion, from a revised \$48.927 (previously \$48.757 billion) in June 2014, but widened versus \$47.357 billion in July 2013. The headline monthly revision to June minimally altered the relative real (inflation-adjusted) quarterly deficits as they affect the net-export account in the GDP.

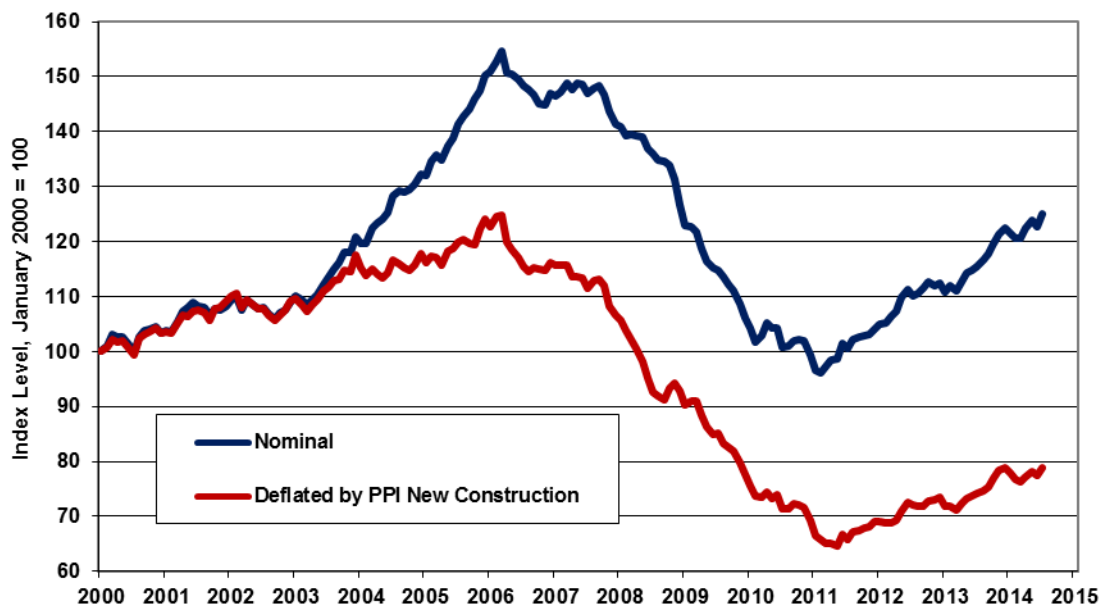
Consistent with today's headline July reporting, the annualized quarterly real merchandise trade deficit stood at an unrevised \$554.7 billion as of fourth-quarter 2013, at an unrevised \$591.0 billion as of first-

quarter 2014, and at a revised \$619.3 (previously \$618.6 billion) for second-quarter 2014. This revision did not reflect the downside revisions made to the first six months of the nominal trade deficit, as released today. The minimal widening in the revised real second-quarter trade deficit was not enough to offer meaningful downside revision to the second-quarter net-export account or to second-quarter GDP growth, although the second-quarter GDP accounting still does not appear to have reflected adequately the quarterly widening of the real second-quarter trade deficit (see [Commentary No. 653](#)).

By itself, the July real deficit number annualizes to \$578.1 billion, which, in the unlikely event that August and September reporting came in at the same level, would mean a narrowed, annualized third-quarter trade deficit and positive contribution to third-quarter real GDP growth. Instead, look for significant monthly and quarterly trade deterioration in the reporting and revisions of the months ahead.

**Construction Spending—July 2014—Activity Remained Stagnant Net of Inflation.** Using just the minimal inflation reported in construction costs in the Producer Price Index (PPI), rising inflation for construction has accounted for the bulk of any recent upturn in reported aggregate construction spending. That, in turn, has tended to confirm the relatively flat or stagnant patterns seen in indicators of activity in physical construction volume, such as housing starts and construction payrolls, as opposed to nominal construction spending.

**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)**



The recent pattern of inflation-adjusted stagnation in the aggregate series is evident in the accompanying graph, and in the graphs of the *Reporting Detail* section. Not only is the stagnation particularly evident net of inflation in the aggregate-series, but also even before inflation adjustment, where stagnation in nominal private residential construction spending has started to trend lower. Although still well below pre-recession activity, relatively-positive nominal monthly spending has been the pattern recently in nonresidential spending, in both the private and public sectors.

***PPI New Construction Index (NCI)—Well Shy of Reality.*** 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. The NCI's only benefit over the "final demand construction" inflation number in the PPI is that it has a lengthy history, which enables placing the adjusted data in historical perspective. Both the final-demand and private-survey measures, however, tend to be more closely linked to real-world activity and have been showing higher annual construction costs than seen in the government's NCI data.

Even so, using the PPI's NCI as the deflator still shows real construction spending to have been in ongoing stagnation in recent reporting, from 2013 into 2014, in contrast to a strong uptrend suggested in real second-quarter 2014 GDP growth.

***PPI Final Demand Construction Inflation (FDC)—More Realistic, Inadequate History, Still Shy of Reality.*** In contrast to the NCI's headline construction inflation for July, unchanged month-to-month, and up by 2.0% year-to-year, the headline Final Demand Construction (FDC) inflation for July was up by 0.5% month-to-month, and up by 3.3% year-to-year. The FDC, however, along with the recently redefined PPI series has a history that has been estimated/constructed by the Bureau of Labor Statistics (BLS) going back less than five years. The historical data all are post-2008 financial panic and after the economic collapse, which makes the series of limited value for purposes of historical analysis.

***Headline Reporting for July 2014.*** In the context of hefty upside revisions to May and June reporting, and in the context of rising construction costs, the headline, total value of construction put in place in the United States for July 2014 was \$981.3 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 1.8%. That followed a revised \$963.7 billion level in June spending, which fell by a revised 0.9% (-0.9%) versus May. In turn, the revised May spending level of \$972.8 billion was up by a revised 1.3% versus an unrevised \$960.3 billion level of spending in April.

Adjusted for the NCI inflation measure in the PPI (see the PPI comments), aggregate real spending in July 2014 was up month-to-month by 1.8%, versus a monthly contraction of 1.1% (-1.1%) in June.

On a year-to-year or annual-growth basis, July 2014 construction spending rose by a statistically-significant 8.2%, versus a revised 7.0% gain June. Net of construction costs indicated by the NCI, year-to-year growth in spending was 6.1% in July, versus a revised 5.0% gain in June. Again, 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 latest detail, including the headline 1.8% gain in July 2014 total construction, which encompassed private residential construction up by 0.7%, private nonresidential construction up by 2.1%, and public construction up by 3.0%.



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

*[Also, various drill-down detail and graphics options on the headline trade numbers are available to ShadowStats subscribers at our affiliate: [www.ExpliStats.com](http://www.ExpliStats.com)]*

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## HYPERINFLATION WATCH

**Hyperinflation Outlook Summary.** This *Summary* has not been revised since prior *Commentary No. 654* of August 28th. The next revision is planned to follow the heavy calendar of economic releases from September 12th through the 18th. The long-standing 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, along with ongoing updates in the regular *Commentaries*, including a review in [Commentary No. 639](#).

**Primary Summary.** The primary and basic summary of the broad outlook and the story of how and why this crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of that *First Installment Revised* (linked above). The following section summarizes the underlying current circumstance.

Consistent with the above *Special Commentaries*, the unfolding economic circumstance, 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. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending total loss of U.S. dollar purchasing power.

**Current Economic Issues versus Underlying U.S. Dollar Fundamentals.** U.S. economic activity has turned down anew, with headline first-quarter 2014 GDP having contracted at an annualized real pace of 2.11% (-2.11%), following 3.50% fourth-quarter 2013 growth, per the July 30th GDP benchmark revisions. Although the second estimate of second-quarter 2014 GDP growth came in at 4.17%, such still heavily overstated actual current economic activity and remained subject to some downside revisions. The “advance” estimate of third-quarter GDP on October 30th will be that last reporting before the midterm election. While third-quarter GDP should show a quarterly contraction within its standard revision cycle, one should not underestimate the ability of the Bureau of Economic Analysis to keep that final pre-election number in positive territory, in initial reporting.

Nonetheless, basic underlying economic series, such as the trade deficit, retail sales and industrial production, even payroll employment, should be showing enough of a downturn or weakness in headline activity during the same timeframe—the next several months—so as to provide consensus expectations with downside shocks. That increasingly should shift the popular outlook towards a “new recession,” with negative shifts in the economic consensus likely to disrupt stability in the financial markets.

As financial-market expectations increasingly shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressures on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, hence a perceived need for expanded, not reduced, quantitative easing. The highly touted “tapering” by the FOMC is pre-conditioned by a continued flow of “happy” economic news. Banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs likely still will be provided, as needed, by the Fed, under the ongoing political covering of a weakening economy—a renewed, deepening contraction in business activity.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal “good news” is from cash-based, not GAAP-based accounting projections, and comparative year-ago cash numbers are distorted against U.S. Treasury and government activity operating *sub rosa*, in order to avoid the limits of a constraining debt ceiling.

All these crises will combine against the U.S. dollar, likely in the very-near future.

In general, summary, the fundamental issues threatening the U.S. dollar could not be worse. They include, but are not limited to:

- A severely damaged U.S. economy, which never recovered post-2008 and is turning down anew. The circumstance includes a sharply widening trade deficit, as reflected in headline first- and second-quarter reporting, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy.
- U.S. government unwillingness to address its long-term solvency issues. Those controlling the U.S. government have demonstrated not only a lack of will to address long-term U.S. solvency issues, but also the current political impossibility of doing so. Any current fiscal “good news” comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run in the \$6-trillion-plus range for annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities.
- Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury. The current pace of the Fed’s monetization is at 71.4% of effective net issuance of the federal debt to be held by the public in calendar-year 2014 (through August 13th). The pace of effective monetization has been 70.2% since the January 2013 expansion of QE3.



- Mounting domestic and global crises of confidence in a dysfunctional U.S. government, where the relative positive rating by the public of the U.S. President tends to have a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. Positive ratings for both the President and Congress are pushing, if not at, historic lows.
- Mounting global political pressures contrary to U.S. interests. Downside pressures on the U.S. currency generally are increasing, in the context of global political and military developments that have been contrary to U.S. strategic, financial and economic interests.
- Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.

Renewed and intensifying weakness in the U.S. dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. Both dollar weakness and the resulting higher inflation should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises.

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## REPORTING DETAIL

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

**July Trade Deficit Narrowed Minimally in the Context of Prior-Period Revisions and Seasonal Factor Distortions.** In the context of revisions narrowing the nominal monthly trade deficits reported since January 2014, and in the context of the most-extreme seasonal adjustments for any given month in the year (in an otherwise horrendously-skewed seasonal-adjustment system), the July monthly trade deficit narrowed minimally for the month, by \$0.264 billion. The limited headline improvement reflected both stronger exports and imports, with the export gain just edging out imports. Activity centered on increased trade in automotive vehicles, parts and engines, and in increased petroleum-related imports and exports.

As discussed in the section on the real (inflation-adjusted) deficit, the widening of the trade shortfall in second-quarter 2014, which deteriorated minimally further in today's reporting, still has not been reflected adequately in terms of its negative impact on second-quarter GDP reporting. Look for ongoing fundamental deterioration in the trade deficit in the months and quarters ahead, and for post-election, trade-related negative hits on GDP reporting and revisions.

***Nominal (Not-Adjusted-for-Inflation) July 2014 Trade Deficit.*** The Bureau of Economic Analysis (BEA) and the Census Bureau reported today, September 4th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for July 2014, on a balance-of-payments basis, narrowed to \$40.546 billion, versus a revised \$40.810 (previously \$41.538) billion in June. That reporting was in the context of major revisions narrowing the January 2014 to June 2014 monthly deficits. That also was in the context of the most-extreme monthly seasonal adjustments seen in the series. Despite these factors, the July 2014 trade deficit widened versus an unrevised July 2013 deficit of \$39.419 billion.

The respective monthly increases in imports and exports of \$1.820 billion and \$1.555 billion resulted in a (rounding difference) \$0.264 billion monthly narrowing of the headline deficit. Seasonally-adjusted petroleum-related imports and exports both increased, with the exports increase slightly greater, although aggregate export activity remained at about half of the import level. The increase in unadjusted oil imports rose for the second month, again reflecting both higher prices and increased physical volume.

***Energy-Related Petroleum Products.*** For July 2014, the not-seasonally-adjusted average price of imported oil rose to \$97.81 per barrel, from \$96.41 in June, and was up from \$97.07 per barrel in July 2013. Also not-seasonally-adjusted, physical oil import volume in July 2014 averaged 7.701 million barrels per day, up from 7.131 million in June, but down from 8.490 million in July 2013.

***Ongoing Cautions on Data Quality.*** As seen particularly in today's headline reporting, and as previously discussed, potentially heavy distortions in headline data continue from seasonal adjustments. The same issues have been seen in other economic releases, such as retail sales and payrolls, where the headline number reflects month-to-month change. 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) July 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 July 2014 merchandise trade deficit (no services) narrowed to \$48.177 billion, from a revised \$48.927 (previously \$48.757 billion) in June 2014, but widened versus \$47.357 billion in July 2013. The headline monthly revision to June minimally altered the relative real (inflation-adjusted) quarterly deficits as they affect the net-export account in the GDP.

Consistent with today's headline July reporting, the annualized quarterly real merchandise trade deficit stood at an unrevised \$554.7 billion as of fourth-quarter 2013, at an unrevised \$591.0 billion as of first-quarter 2014, and at a revised \$619.3 (previously \$618.6 billion) for second-quarter 2014. This revision did not reflect the downside revisions made to the first six months of the nominal trade deficit, as released today. The minimal widening in the revised real second-quarter trade deficit was not enough to offer meaningful downside revision to the second-quarter, net-export account or to second-quarter GDP growth, although the second-quarter GDP accounting still does not appear to have reflected adequately the quarterly widening of the real second-quarter trade deficit (see [Commentary No. 653](#)).

By itself, the July real deficit number annualizes to \$578.1 billion, which, in the unlikely event that August and September reporting came in at the same level, would mean a narrowed, annualized third-quarter trade deficit and positive contribution to third-quarter real GDP growth. Instead, look for significant monthly and quarterly trade deterioration in the reporting and revisions of the months ahead.

## CONSTRUCTION SPENDING (July 2014)

**July Construction Spending Gain Was in Context of Rising Inflation and Upside Revisions to Earlier Activity.** Using just the minimal inflation reported in construction costs in the Producer Price Index (PPI), rising inflation for construction has accounted for the bulk of any recent upturn in reported aggregate construction spending. That, in turn, tends to confirm the relatively flat or stagnant patterns seen in indicators of activity in physical volume, such as housing starts and construction payrolls, as opposed to nominal construction spending. Such is reflected in the accompanying graphs, where stagnation particularly is evident net of inflation in the aggregate-series, or even before inflation in the nominal private residential construction. Relatively-positive nominal monthly activity has been seen recently in nonresidential spending, in both the private and public sectors.

**PPI New Construction Index (NCI)—Well Shy of Reality.** 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. The NCI's only benefit over the "final demand construction" inflation number in the PPI is that it has a lengthy history, which enables placing the adjusted data in historical perspective. Both the final-demand and private-survey measures, however, tend to be more closely linked to real-world activity and have been showing higher annual construction costs than seen in the government's NCI data.

Even so, using the PPI's NCI as the deflator still shows real construction spending to have been in ongoing stagnation in recent reporting, from 2013 into 2014, in contrast to a strong uptrend suggested in real second-quarter 2014 GDP growth.

**PPI Final Demand Construction Inflation (FDC)—More Realistic, Inadequate History, Still Shy of Reality.** In contrast to the NCI's headline construction inflation for July, unchanged month-to-month, and up by 2.0% year-to-year, the headline Final Demand Construction (FDC) inflation for July was up by 0.5% month-to-month, and up by 3.3% year-to-year. The FDC, however, along with the recently redefined PPI series has a history that has been estimated/constructed by the Bureau of Labor Statistics (BLS) going back less than five years. The historical data all are post-2008 financial panic and after the economic collapse, which makes the series of limited value for purposes of historical analysis.

**Headline Reporting for July 2014.** The Census Bureau reported September 2nd that the headline, total value of construction put in place in the United States for July 2014 was \$981.3 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 1.8% +/- 1.9% (all confidence intervals are at the 95% level). That followed a revised \$963.7 (previously \$950.2) billion level in June spending, which fell by a revised 0.9% (-0.9%), [previously reported as a decline of 1.8% (-1.8%)] versus May. In turn, the revised May spending level of \$972.8 (previously \$967.8, initially \$956.1) billion was up by a revised 1.3% (previously a 0.8%, initially a 0.1% gain) versus an unrevised \$960.3 billion level of spending in April.

Adjusted for the NCI inflation measure in the PPI (see the PPI comments), aggregate real spending in July 2014 was up month-to-month by 1.8%, versus a monthly contraction of 1.1% (-1.1%) in June.

On a year-to-year or annual-growth basis, July 2014 construction spending rose by a statistically-significant 8.2% +/- 2.7%, versus a revised 7.0% (previously 5.5%) gain June. Net of construction costs indicated by the NCI, year-to-year growth in spending was 6.1% in July, versus a revised 5.0%

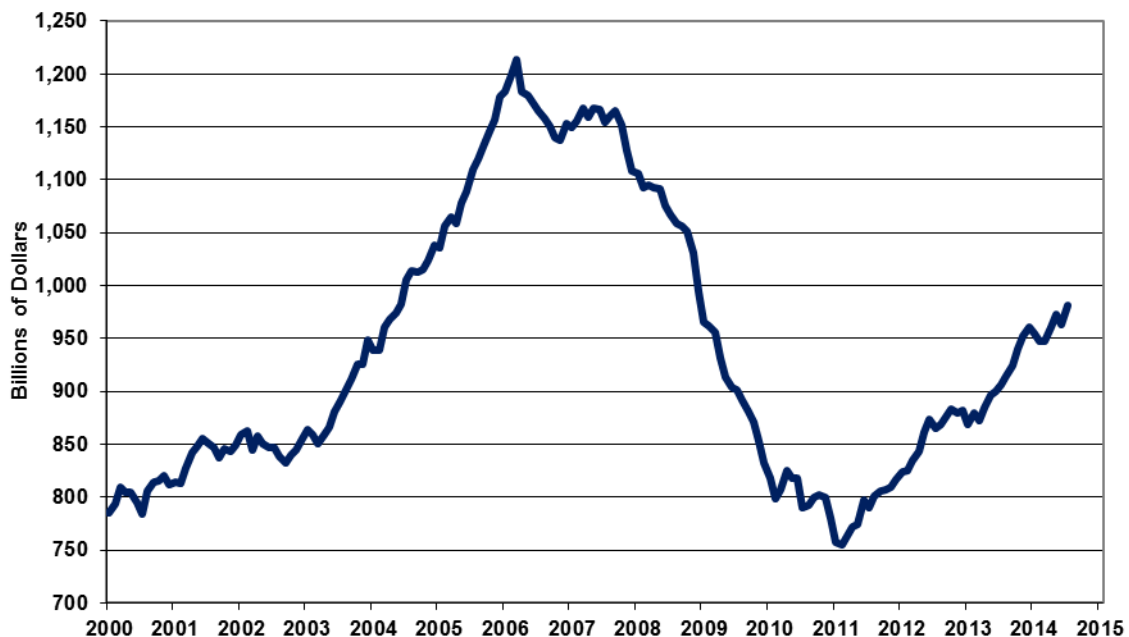
(previously 2.8%) gain in June. Again, more-realistic private surveying suggests annual costs to be up by enough to come close to turning some of those annual construction-spending growth rates flat or into annual contractions.

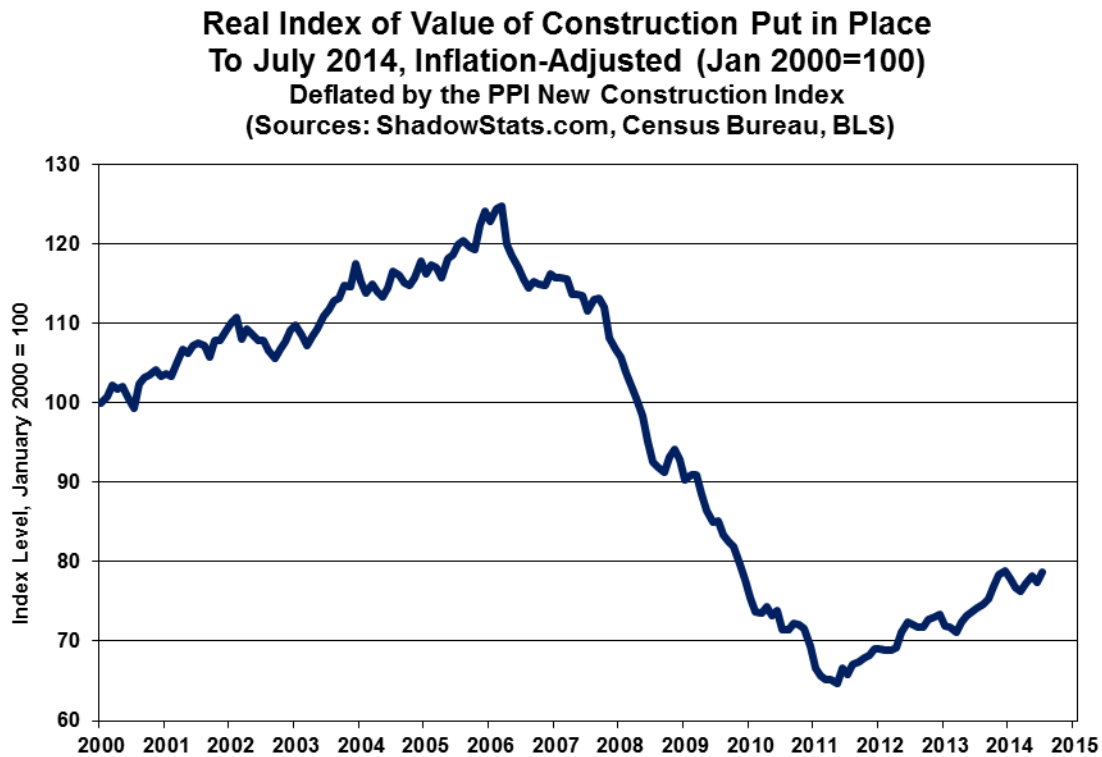
The statistically-insignificant 1.8% monthly gain in July 2014 construction spending, versus the 0.9% decline (-0.9%) in June, included a 3.0% gain in July public spending, versus a 1.8% decline (-1.8%) in June. July private construction was up by 1.4% for the month, versus a monthly decline of 0.4% (-0.4%) in June.

The following graphs reflect the latest detail. The headline 1.8% gain in July 2014 total construction, encompassed private residential construction up by 0.7%, private nonresidential construction up by 2.1%, and public construction up by 3.0%. Also reflected is the 0.9% monthly decline (-0.9%) gain in June total construction, with private residential construction down by 0.4% (-0.4%), private nonresidential construction down by 0.8% (-0.8%), and public construction down by 1.8% (-1.8%).

**Construction and Related Graphs.** The first two graphs following reflect total construction spending through July 2014, both in the headline nominal dollar terms, and in real terms, 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—flattening out—in the last several months of reporting.

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

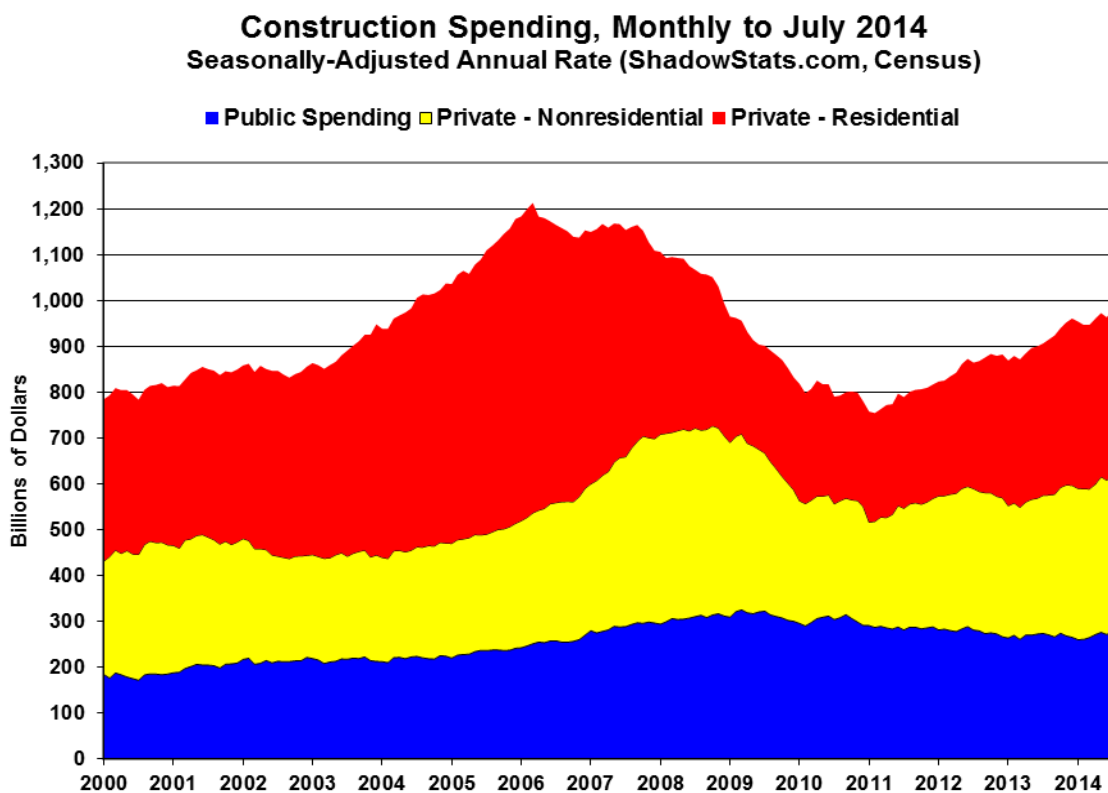
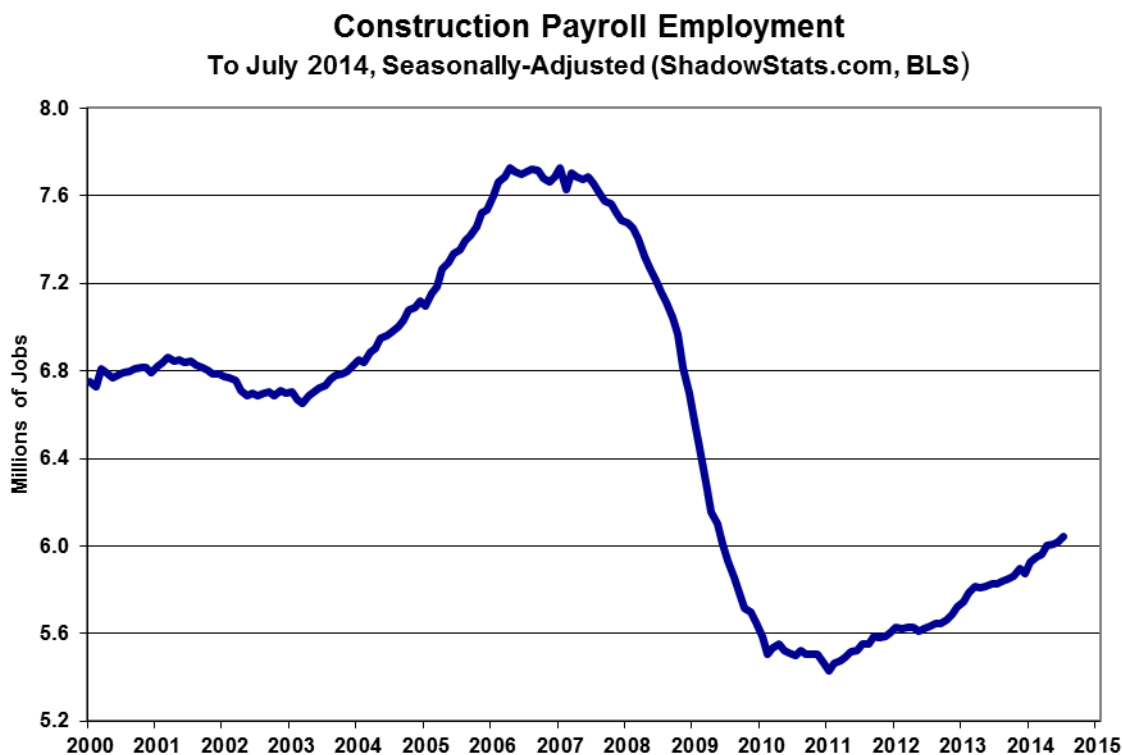




The pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see prior [Commentary No. 653](#)). To the contrary, the latest construction reporting, both before (nominal) and more prominently after (real) inflation adjustment, shows a pattern of ongoing stagnation, as reflected in the preceding two graphs.

The first of the two following graphs reflects the August 1st reporting of July 2014 construction employment (see [Commentary No. 647](#)). August construction payrolls will be updated in tomorrow's (September 5th) *Commentary No. 655*, covering August employment. 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. Nonetheless, the heavily-biased payroll numbers, as well as the heavily-guessed-at related construction activity in the GDP, have been running counter to the most-recent indications of construction activity.

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

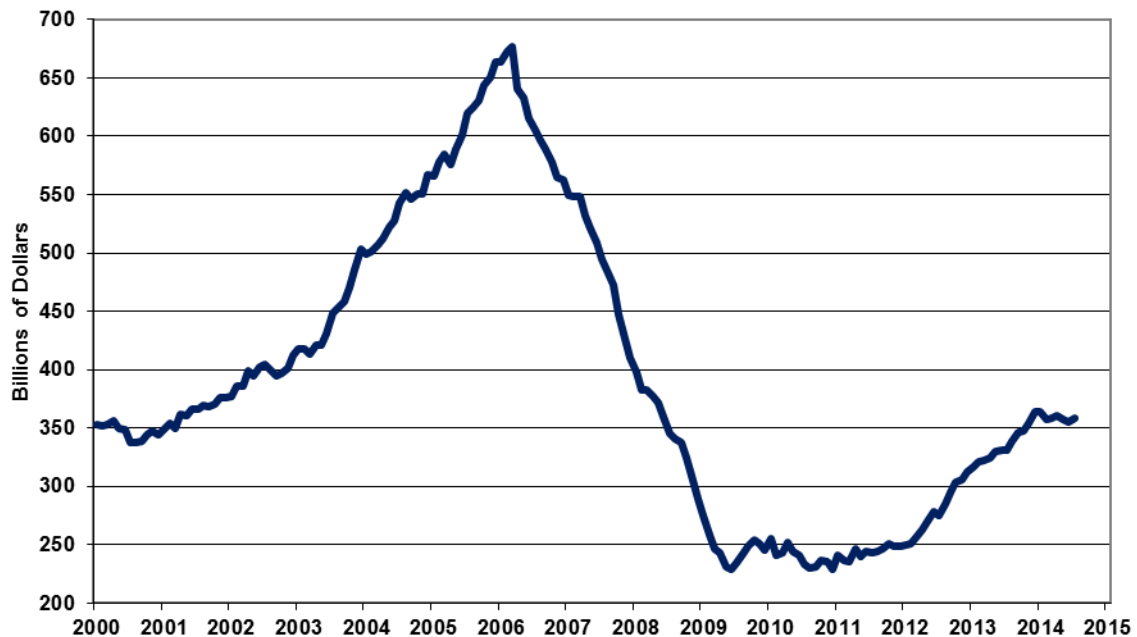




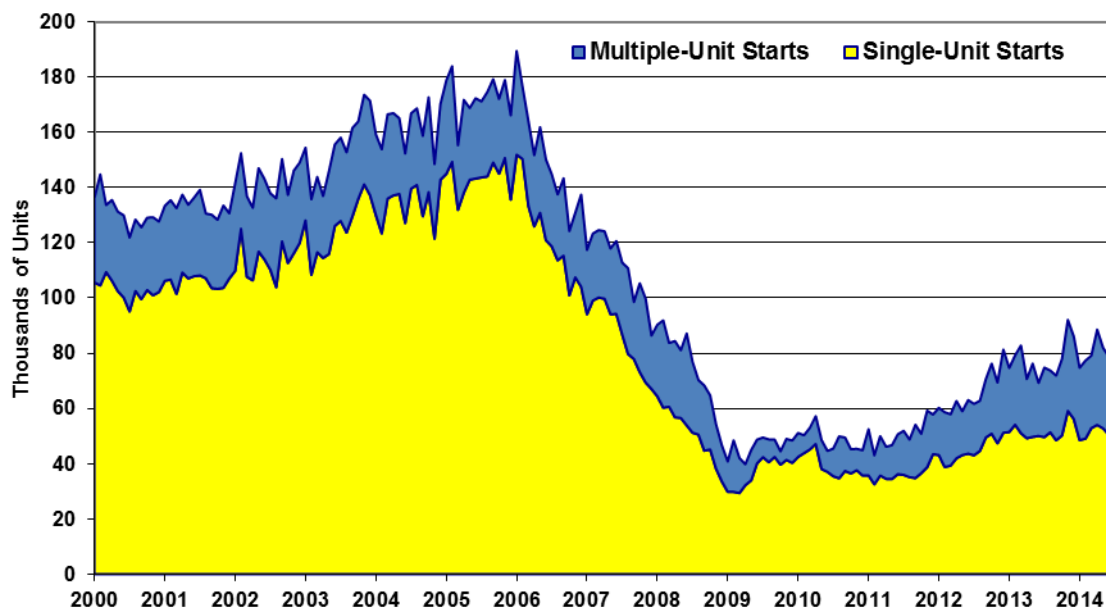
The next two graphs following cover private residential construction along with housing starts (single- and multiple-unit starts) for July (see [Commentary No. 651](#)). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing starts reflect unit volume, which should tend to be more parallel to the real (inflation-adjusted) series. Where the private residential construction spending had been in recent upturn through most of 2013, that now has turned lower, trending to the downside in 2014.

The final set of two graphs, the third and fourth, 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 has headed higher recently. Public construction spending, which is 98% nonresidential, has continued in a broad downtrend with intermittent bouts of fluttering stagnation and some upturn, most recently.

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



### Single- and Multiple-Unit Housing Starts (Monthly Rate) To July 2014, Seasonally-Adjusted (ShadowStats.com, Census)



### Nonresidential Construction, Monthly to July 2014 Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



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



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**WEEK AHEAD**

**Against Overly-Optimistic Expectations, Pending Economic Releases Should Be Much Weaker; Inflation Releases Should Be Increasingly Stronger.** Although shifting to the downside, again, amidst wide fluctuations, market expectations for business activity generally remain overly optimistic, well above any potential, underlying economic reality. Market outlooks should be hammered, though, by ongoing, downside corrective revisions and by an accelerating pace of downturn in headline economic activity.

**Longer-Range Reporting Trends.** The initial stages of the process shifting economic-growth expectations to the downside already have been seen in the recent headline reporting of many major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)),

including the sharp pace of economic decline seen in real first-quarter 2014 GDP, which largely survived the GDP benchmark revisions. The strong bounce-back estimated by the Bureau of Economic Analysis (BEA) for headline second-quarter GDP still should face some downside revision, with a likely GDP contraction eventually seen in third-quarter 2014.

Indeed, weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should remain the general trend until the unfolding “new” recession receives broad recognition, which likely would follow the next reporting of a headline contraction in real GDP growth.

A generally stronger inflation trend remains likely to continue, as seen in recent months. Beyond the spread of earlier oil-based inflation pressures into the broad economy, upside pressure on oil-related prices should continue and be rekindled from the intensifying impact of global political instabilities and a likely near-term weakening of the U.S. dollar in the currency markets. Again, food inflation also is picking up, partially due to supply issues. 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 U.S. inflation in a broad range of areas.

***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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment, and unemployment data). These issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

## ***PENDING RELEASES:***

**Employment/Unemployment (August 2014).** The Bureau of Labor Statistics (BLS) will release its August 2014 labor data tomorrow, Friday, September 5th. Given continuing indications of weakening broad economic activity, and the heavy, regular distortions in the headline reporting of monthly nonfarm payroll gains, almost anything is possible in the headline August reporting. Nonetheless, the system is due for some severely-negative surprises against the usual, overly-optimistic market expectations.

As published previously by ShadowStats-affiliate [www.ExpliStats.com](http://www.ExpliStats.com), in its extended analysis of the [trends and biases](#) built into the concurrent seasonal factor modeling of the July 2014 payroll employment, the implied built-in bias trend as of July, for August 2014, suggests a headline August jobs gain of 247,000 jobs. Where consensus forecasts tend to settle in around the trend number, market expectations currently still seem to be running about 20,000, or slightly more, jobs below trend. Again, underlying economic reality would indicate a pending downside surprise to those expectations.

Separately, expectations appear to be for the August U.3 unemployment rate to ease a notch from the 6.2% level seen in July. Underlying economic reality and the fundamental drivers of economic activity would suggest a general increase in the U.3 rate, but the BLS's continuing purge of discouraged workers from the unemployment rolls and headline labor force could argue in favor of a lower rate. Separately, as discussed regularly in the employment/unemployment-related *Commentaries*, month-to-month comparisons of U.3 and related numbers are of no meaning, because of the standard, inconsistent reporting calculations that leave the monthly data not comparable.

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

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