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

COMMENTARY NUMBER 697
January Industrial Production, Housing Starts, Producer Price Index

February 18, 2015

Both Production and Housing-Starts Activity
Revised Lower in the Fourth-Quarter, and
Flattened Out in Initial First-Quarter Estimations

January 2015 Annual PPI Inflation Fell to Zero,
Driven Lower by Falling Oil and Gasoline Prices,
Which Have Turned Higher in February

PLEASE NOTE: The next regular Commentary *is scheduled for Thursday, February 26th, covering the January consumer price index (CPI), new orders for durable goods and new- and existing-home sales, followed by one on Friday, February 27th, covering the first revision, second estimate of fourth-quarter 2014 GDP.*

The U.S. Treasury advises that its Financial Report of the United States Government, Fiscal Year 2014 *is set to be released on February 26th at 3 p.m., Washington, D.C. time. If publication follows as planned—prior history has shown some flexibility in the Treasury's hard deadlines—initial ShadowStats observations should follow in the February 27th* Commentary, *with a more-complete assessment of the 2014 GAAP accounting likely in the first week of March. Specifics will follow, once the statements have been released.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Outlook for Near-Term GDP Reporting Continued to Dim. Today's (February 18th) headline reporting of January 2015 industrial production and housing starts showed slower fourth-quarter 2014 growth than previously estimated, along with a relatively flat beginning to first-quarter 2015 activity. Such does not bode well for next week's first revision to fourth-quarter GDP (see *Week Ahead* section), and suggests ongoing deterioration in broad economic activity for first-quarter 2015.

Despite unseasonable weather reversing a December plunge and boosting January utility usage, and despite a weaker-than-consensus headline gain of 0.2%, prior-period revisions left headline January production down by 0.3% (-0.3%) versus the initial headline level of activity in December 2014. Annualized quarterly growth in fourth-quarter production slowed in revision to 4.3%, from initial reporting of 5.6%, with January 2015 setting the pace for 1.4% annualized growth in first-quarter production. With a sharp downside revision in December manufacturing to zero monthly growth, from an initial estimate of a 0.3% gain, inventories should revise lower in the upcoming GDP estimate.

As usual, monthly activity in housing starts was not statistically meaningful, a pattern of continuing stagnation. Reflecting the latest detail, revised, annualized fourth-quarter growth slowed to 14.3%, from initial reporting of 18.7%, with January 2015 setting the pace for 0.1% annualized growth in first-quarter housing starts.

The January PPI plunged by 0.8% for the month with annual inflation dropping to zero. The weakness in the PPI reflected the continued decline in oil and gasoline prices in January, exacerbated by annual revisions and re-weightings in the PPI series. Similar factors should trigger a sharp decline in next week's headline reporting of the January CPI (see *Week Ahead* section). Oil and gasoline prices, however, appear to have bottomed out, at least temporarily, with prices higher in February than they were in January.

The deteriorating outlook in near-term economic activity remains consistent with the likely conditions for the year ahead, as outlined in *No. 692 Special Commentary: 2015 - A World Out of Balance*, as well as in comments in the prior *Commentary No. 696*.

Today's Missive (February 18th). The balance of this *Commentary* concentrates on detail from today's reporting of January industrial production, housing starts and the producer price index (PPI).

No. 692 Special Commentary: 2015 - A World Out of Balance updated the *Hyperinflation 2014* reports and the broad economic outlook. There is no *Hyperinflation Watch* section today, but one will follow next week, with an updated *Hyperinflation Summary Outlook* based on *No. 692*. In the interim, anyone looking for such a *Summary* is referred to the *Opening Comments* of *No. 692*, or to *Commentary No. 684*, for the prior version.

The *Week Ahead* section previews next week's reporting of headline January CPI, new orders for durable goods, home sales and the first revision to fourth-quarter 2014 GDP.

Index of Industrial Production—January 2015— Recent Months Battered by Downside Revisions. Along with the release of the headline reporting for January 2015 industrial production, every month from September 2014 through December 2014 revised lower, in terms of the monthly level of production and in terms of the month-to-month change in production activity. The effect has been to soften the outlook for recent domestic production.

As a result, despite an unseasonable boost to utility usage, and a below-consensus headline January gain of 0.2% [consensus was 0.4% per Bloomberg], those prior-period revisions left headline January production down by 0.3% (-0.3%) versus the initial headline level of activity reported for December 2014.

Industrial Production—January 2015. Headline, seasonally-adjusted January 2015 industrial production rose by 0.15%, following a revised decline of 0.28% (-0.28%) in December, and a revised gain of 1.14% in November. Net of prior-period revisions, January 2015 production contracted month-to-month by 0.30% (-0.30%).

By major industry group, the headline January 2015 monthly gain of 0.2% [December contraction of 0.3% (-0.3%)] in aggregate production was composed of a January gain of 0.2% [unchanged December] in manufacturing; a January contraction of 1.0% (-1.0) [2.1% December gain] in mining (oil production); and a January gain of 2.3% [December contraction of 6.9% (-6.9%)] in utilities.

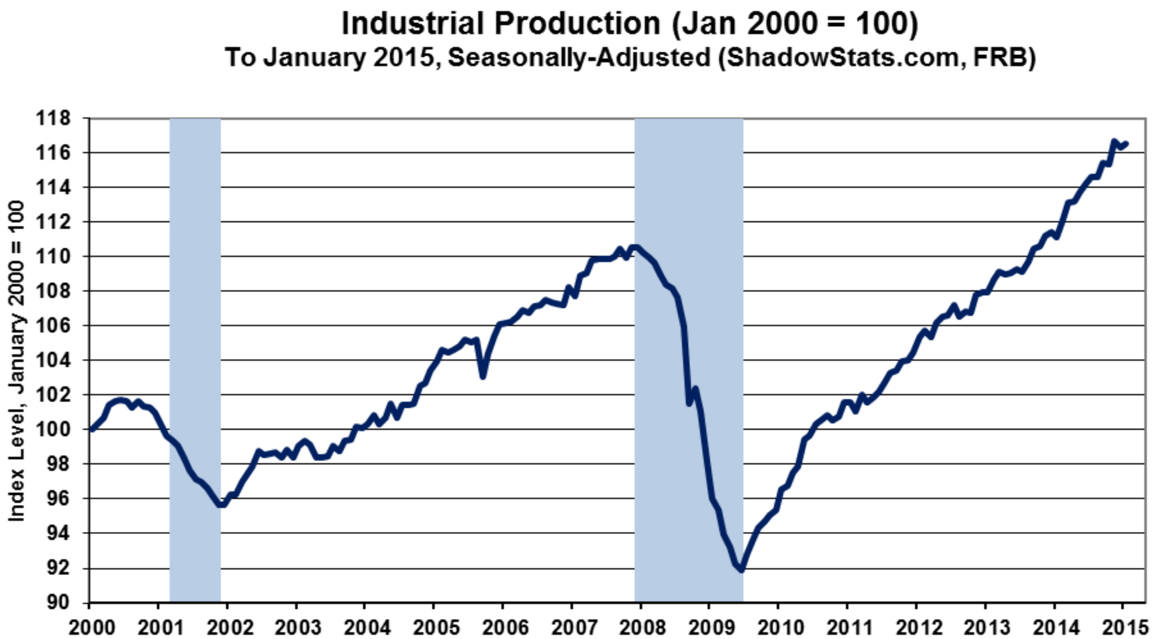
Year-to-year growth in January 2015 production was 4.81%, versus a downwardly revised annual gain of 4.40% in December 2014, and a downwardly revised 4.89% gain in November.

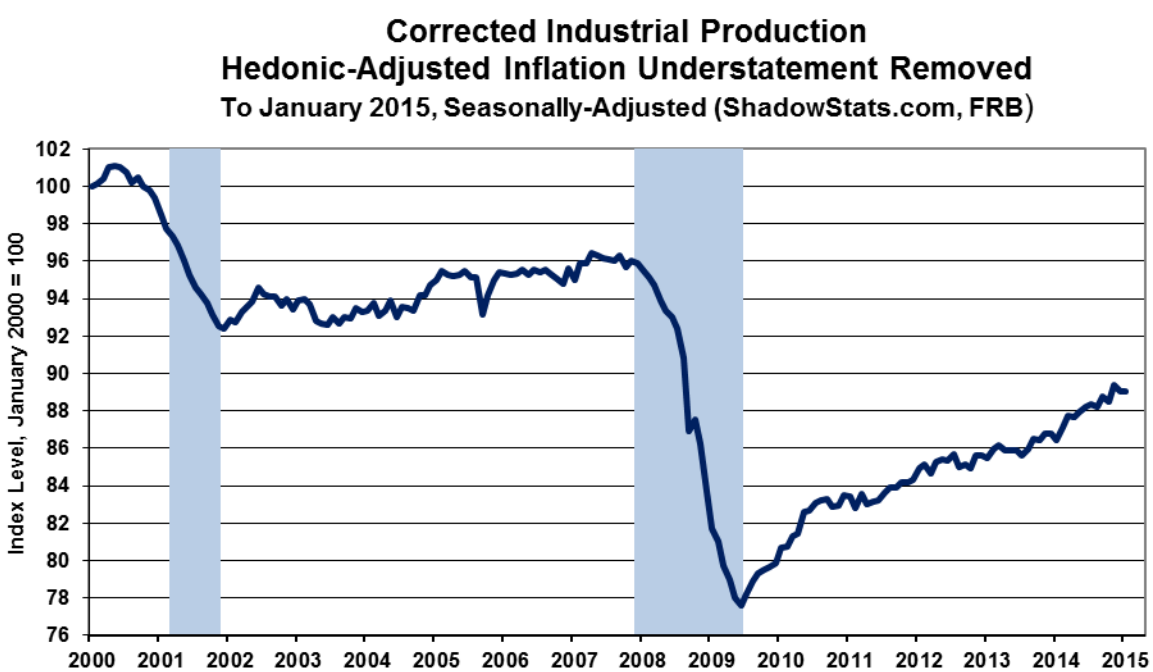
Production Graphs—Corrected and Otherwise. Graphs of the industrial production level and year-to-year change through December are found in the *Reporting Detail* section. The two graphs that follow here address reporting quality issues tied just to the overstatement of headline growth that directly results from using too-low an estimate of inflation in deflating an economic series.

Hedonic quality adjustments to inflation understate the inflation used in deflating some components of the index of industrial production. That has the effect of overstating the resulting inflation-adjusted growth in the headline industrial production series (see *Public Comment on Inflation* and the *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble*).

The first graph (following) shows official, headline industrial production reporting, but indexed to January 2000 = 100, instead of the Fed's formal index that is set at 2007 = 100. The 2000 indexing simply provides for some consistency in this series of revamped graphics; it does not affect the appearance of the graph or reported growth rates. The second graph is a version of the first, corrected for the understatement of the inflation used in deflating the production index. Estimated hedonic-inflation adjustments have been backed-out of the official industrial-production deflators used for headline reporting.

The "corrected" second graph (following) shows some growth in the period subsequent to the official June 2009 near-term trough in production activity. Yet, that upturn has been far shy of the full recovery and the renewed expansion reported in official GDP estimation (see *Commentary No. 684*). Unlike the headline industrial production data and the headline GDP numbers, corrected production levels have not recovered pre-recession highs. Instead, corrected production entered a period of protracted low-level stagnation in 2010, with irregular quarterly contractions seen through 2014, and an irregular uptrend in the stagnation into 2014, with a jump into year-end 2014 reporting and now some revised topping-out or pullback in January 2015. Again, the series remains well shy of a formal recovery.





Housing Starts—January 2015—Growth Patterns Slowed in an Otherwise Stagnant Series. In the context of downside revisions to December and November housing starts, the minimal headline decline of 2.0% (-2.0%) in monthly activity for January 2015 was statistically-insignificant, as usually is the case. A general pattern of stagnation continued in this series, as best viewed in terms of the long-range historical graph of aggregate activity at the end of the *Reporting Detail* section, and in the context of activity smoothed by six-month moving averages, as shown in the graphs later in this section.

Reflected in the patterns in those smoothed graphs, the aggregate housing-starts series continued in broad stagnation in January, dominated, as usual, by the personal housing sector (single-unit starts). Although there has been a minor upside trend in the aggregate series, total housing-starts activity has remained well below any recovery level. The bulk of the extreme reporting instability and the minimal uptrend in the aggregate series have been due largely to particularly-volatile reporting in the multiple-unit housing-starts category (apartments, etc.). Where recent activity in multiple-unit starts actually recovered into the general range of pre-recession activity, that process appears to have topped out, with those starts trending lower in monthly reporting, but topping out on a six-month moving-average basis. Still, the impact of the recovery in multiple-unit activity largely is lost in the detail of total housing starts.

***Structural Liquidity Issues Constrain Consumer Housing Activity*.** On a per structure basis, activity in multiple-units starts remains dwarfed by the flat-to-minus activity in the dominant, single-unit housing starts category, which has remained stagnant—at a low level of activity—since hitting bottom in early-2009. The private housing sector never recovered from the business collapse of 2006 into 2009.

The underlying problem here remains intense, structural-liquidity woes besetting the consumer. That circumstance, during the last seven-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity, as discussed and detailed in *No. 692 Special Commentary: 2015 - A World Out of Balance*.

Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including not only residential investment and related construction spending, but also retail sales and the still-dominant personal-consumption account of the GDP. The monthly graphs on consumer and liquidity conditions will be updated along with the detail on real retail sales and new- and existing- home sales scheduled for the *Commentary* (likely *No. 698*) of Thursday, February 26th. The latest graphs otherwise are found in *No. 692*.

Quarterly Growth Is Slowing Sharply. Based on the latest revisions and January headline reporting, annualized fourth-quarter 2014 growth (same way GDP growth is reported) slowed from initial headline reporting of 18.7% to 14.3%. Using January 2015 as a surrogate for first-quarter 2015 activity, annualized first-quarter 2015 growth is on track to slow to an annualized pace of 0.1%, effectively nil.

January 2015 Housing-Starts Headline Reporting. The seasonally-adjusted, headline monthly contraction of 2.0% (-2.0%) January 2015 housing starts was statistically-insignificant. That followed a revised gain of 7.1% in December. The upside revision to December's growth was due to a downside revision to November reporting. In turn, the December gain was against a revised decline in November of 7.1% (-7.1%). Net of prior-period revisions, the headline January 2015 change was a still-statistically-insignificant decline of 2.2% (-2.2%).

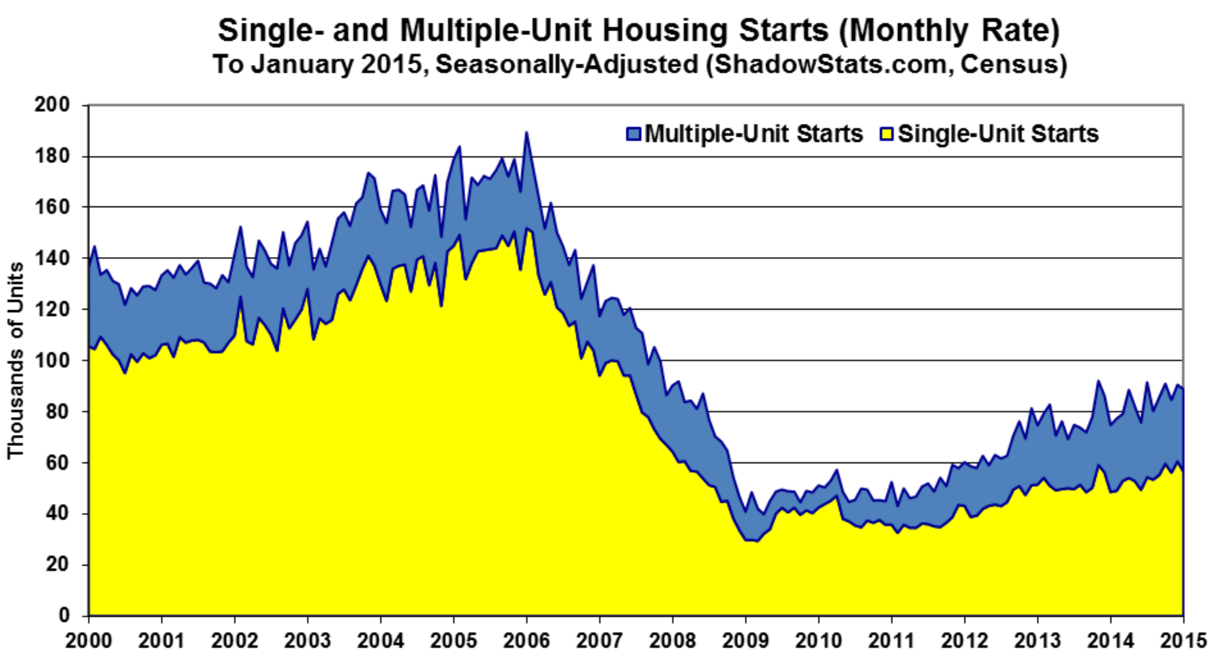
Year-to-year change in the seasonally-adjusted, aggregate January 2015 housing-starts measure was a statistically-significant gain of 18.7%, versus a revised 5.1% gain in November, and revised annual contraction of 8.1% (-8.1%) in November.

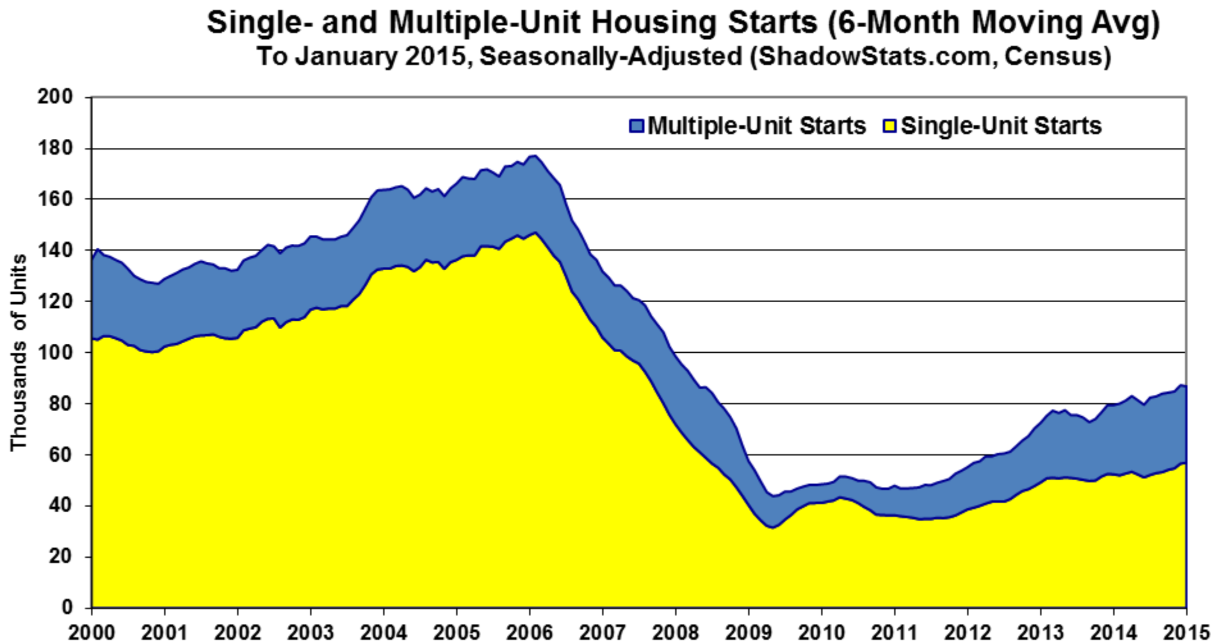
The headline January 2015 monthly decline of 2.0% (-2.0%) was dominated by a headline monthly drop of 6.7% (-6.7%) in the "one unit" category, with a gain of 12.1% in the "five units or more" category, but neither of the latter monthly changes was statistically-significant.

By-Unit Category. Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in January 2015 fell month-to-month by a statistically-insignificant 6.7% (-6.7%), following a revised December gain of 7.9%, and a revised monthly decline of 5.9% (-5.9%) in November. A statistically-significant January 2015 year-to-year gain of 16.3%, followed a revised 7.7% in December, and a contraction of 5.1% (-5.1%) in November.

Housing starts for apartment buildings (generally 5-units-or-more) in January 2015 rose by a statistically-insignificant 12.1% for the month, following a revised gain of 2.4% in December 2014, and a revised decline of 7.5% in November. The January 2015 year-to-year gain of 24.5% also was statistically-insignificant, following December's unrevised annual gain of 0.3%, and a revised November year-to-year decline of 13.7% (-13.7%).



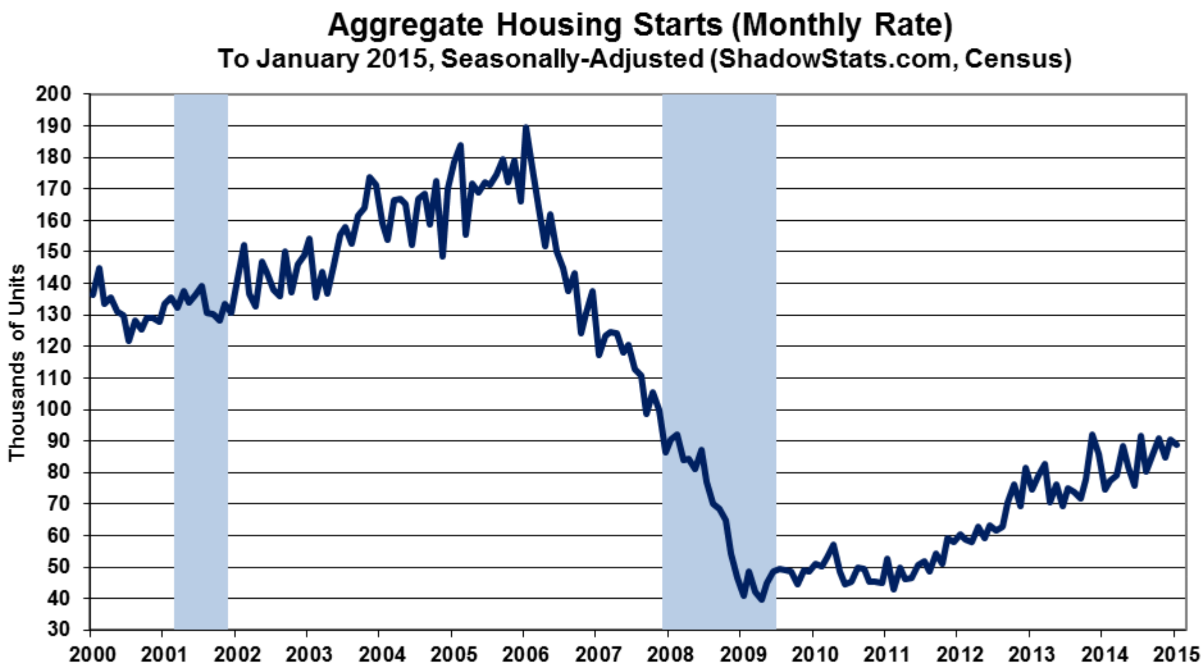


Expanding the multi-unit structure housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

Accordingly, the statistically-insignificant January 2015 monthly decline of 2.0% (-2.0%) in aggregate housing starts was composed of a statistically-insignificant decline of 6.7% (-6.7%) in one-unit structures housing starts, combined with a statistically-insignificant monthly gain 7.5% in the multiple-unit structures category (2-units-or-more, including the 5-units-or-more category). Again, these are shown in the accompanying graphs.

Graphs of Housing-Starts Activity. The following six graphs of monthly detail for the housing-starts series show starts activity for the aggregate series, for single-unit structures and for multiple-unit structures, both in terms of monthly detail and in terms of six-month moving averages of that detail.

Looking beyond the irregular and large month-to-month headline variations, the smoothed graphs (using six-month moving averages) generally show a broad pattern of economic plunge into 2009 followed by stagnation, not the purported economic recovery as shown with the GDP (see *No. 692 Special Commentary: 2015 - A World Out of Balance*). This is true of the aggregate housing starts series and its dominant component of single-unit housing starts. The more volatile multiple-unit housing starts series has recovered its pre-recession high, but it appears to have topped out. Further description follows the graphs.


Aggregate Housing Starts (Monthly Rate)
To January 2015, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
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2000
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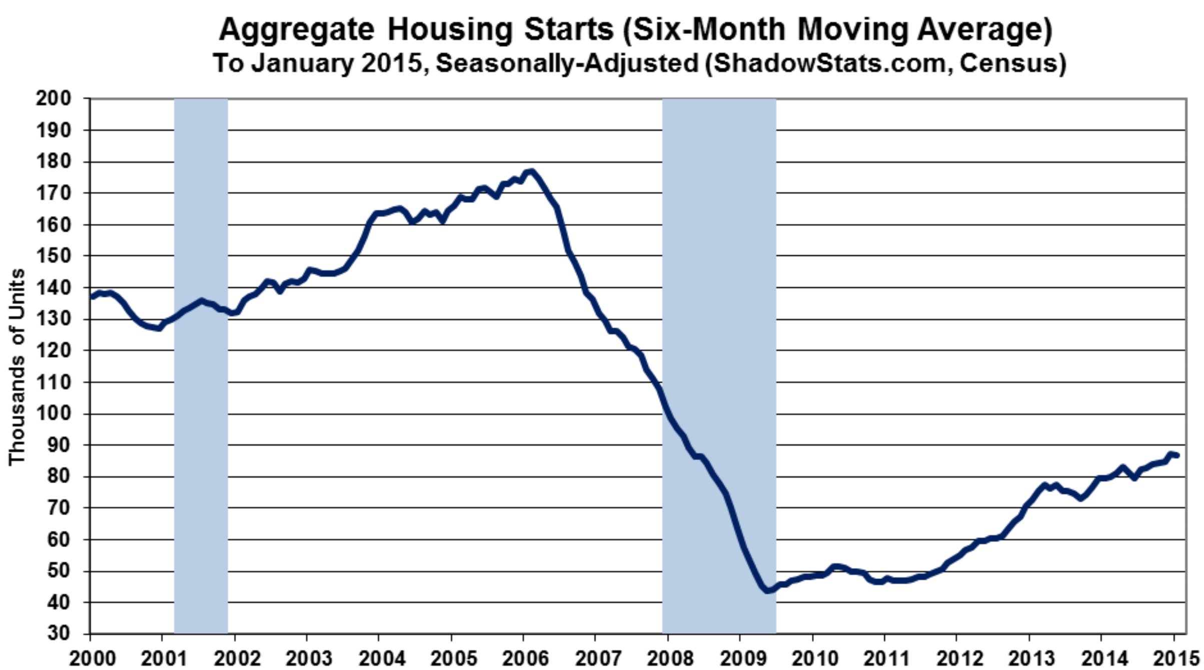
Aggregate Housing Starts (Six-Month Moving Average)
To January 2015, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
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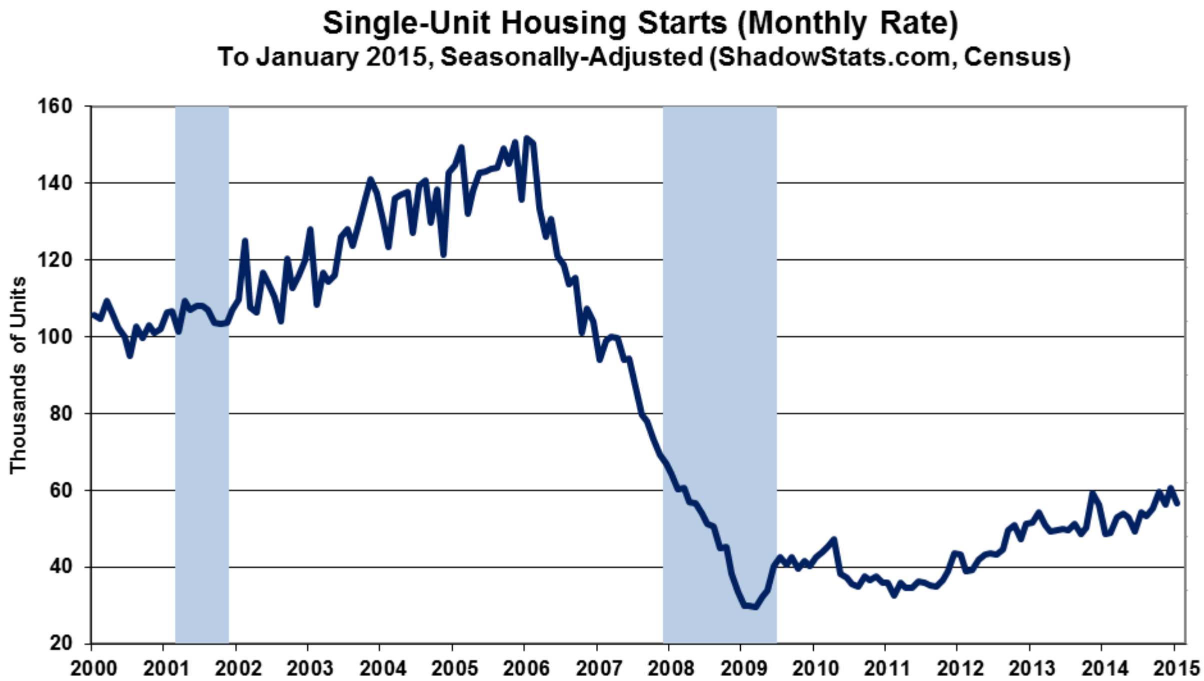
Single-Unit Housing Starts (Monthly Rate)
To January 2015, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
160
140
120
100
80
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40
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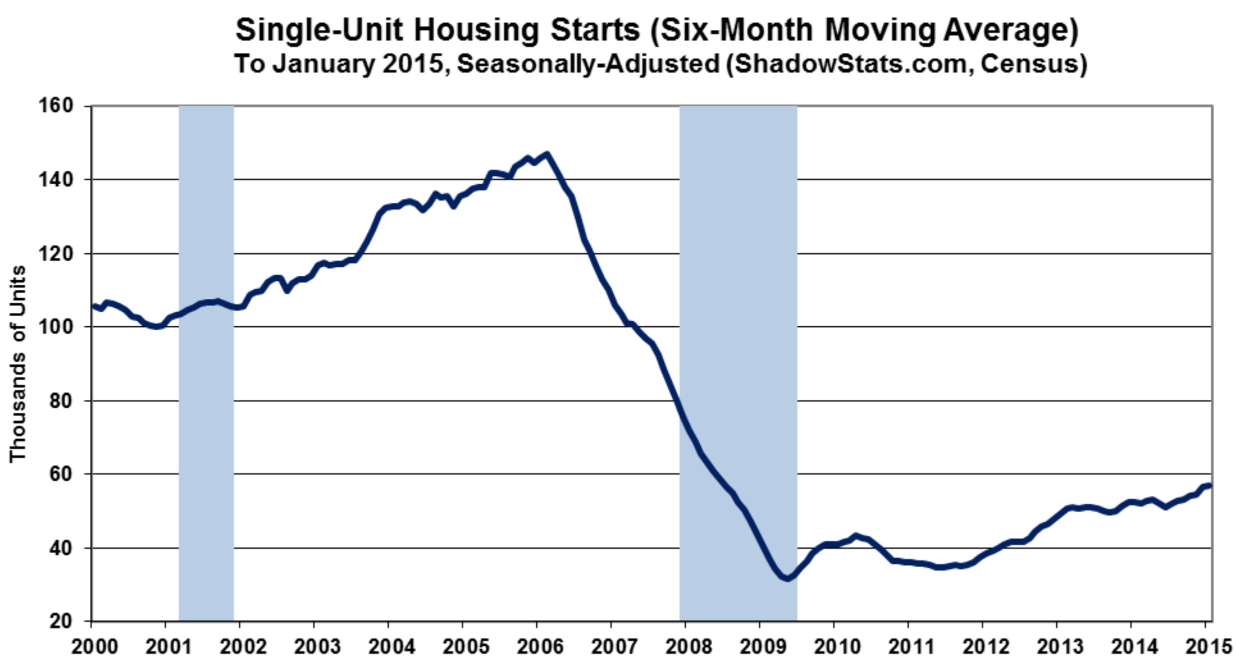
Single-Unit Housing Starts (Six-Month Moving Average)
To January 2015, Seasonally-Adjusted (ShadowStats.com, Census)
Thousands of Units
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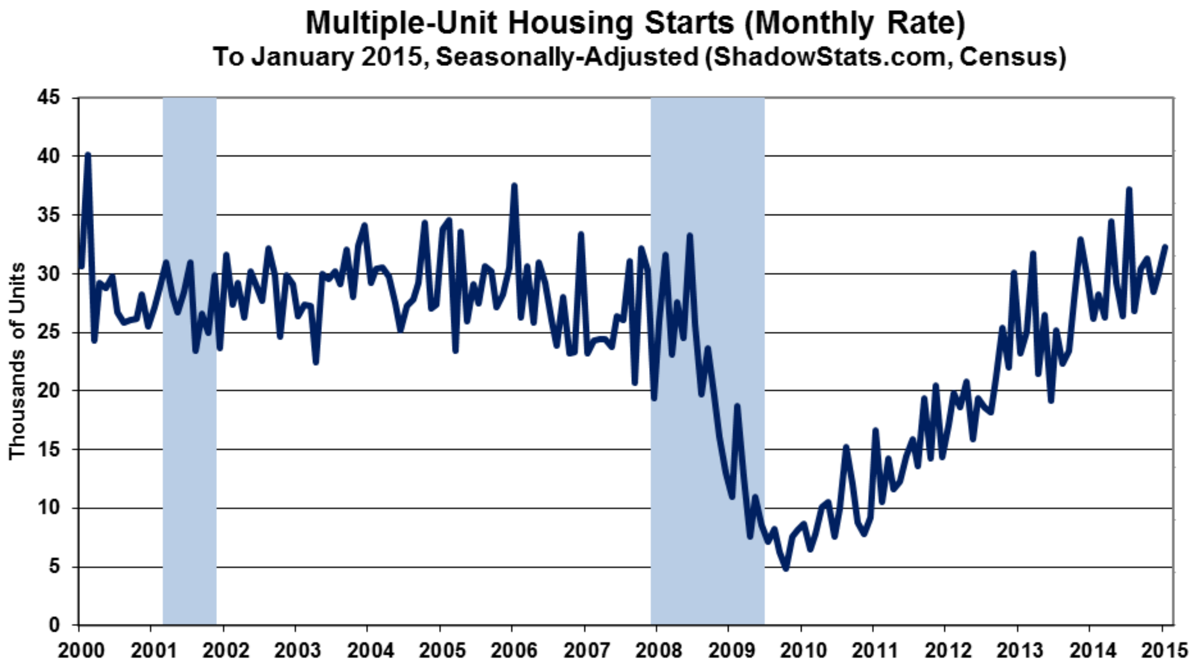
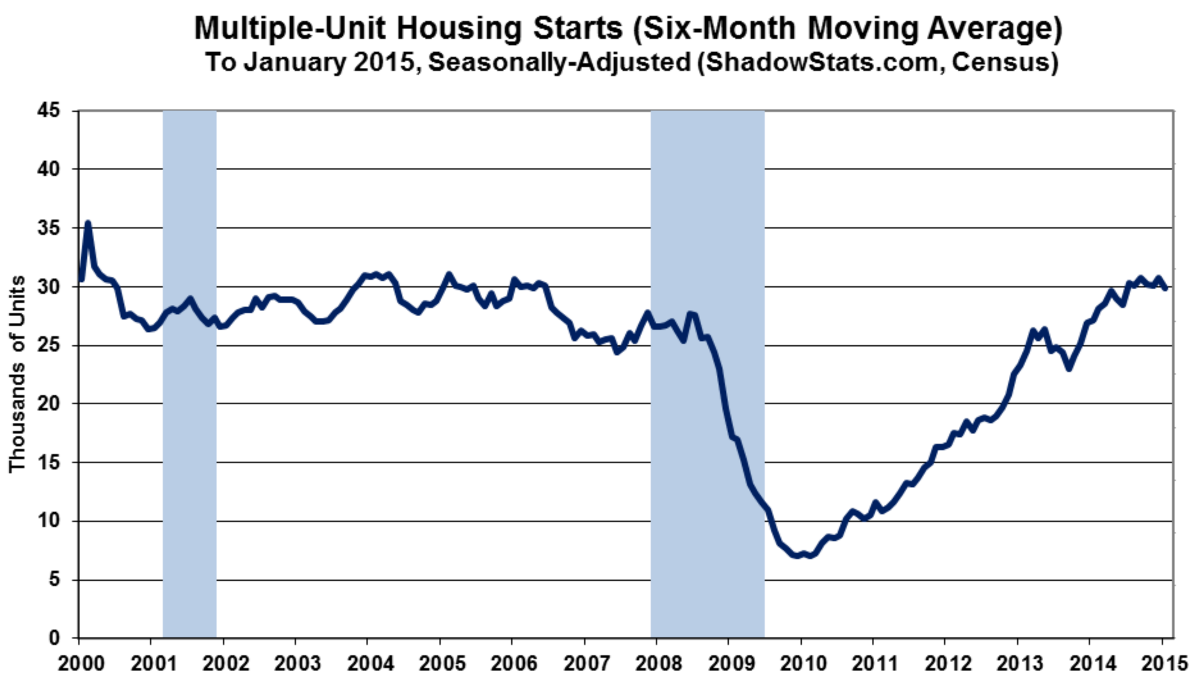




Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,065,000 in January 2015, versus a revised 1,087,000 (previously 1,089,000) in December 2014, and a revised 1,015,000 (previously 1,043,000, initially 1,028,000) in November 2014.

Those annualized numbers are reflected in the detail of the scales in the aggregate graphs at the end of the *Reporting Detail Section*.

Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series—such as seen, for example, with the annualized headline level of 963,000 units in August 2014, versus the 1,098,000 units in July—the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the 135,000 month-to-month decline from July 2014 to August 2014 in the annualized data was larger than actual total (non-annualized) monthly starts in any single month since before the recession.

Accordingly, the monthly rate of 88,750 in January 2015, instead of the annualized 1,085,000 headline number, is used in the scaling of the series of graphs in these *Opening Comments*. With the use of either scale of units, however, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical.

The record monthly low seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales then was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the January 2015 headline number was up by 121%, but it still was down by 53% (-53%) from the January 2006 series high. Shown in the historical perspective of the post-World War II era, current activity is trending stagnant at levels that otherwise have been at the historical troughs of recession activity of the last 70 years, see seen the last graph of the *Reporting Detail* section.

Produce Price Index (PPI)—January 2015—Lower Oil Prices Drove PPI Down by 0.8% (-0.8%) for the Month, and Pushed Year-to-Year Inflation Down to 0.0%. In the context of re-weightings of the various indices and benchmarked seasonal adjustments, the headline PPI likely took its climactic hit in January 2015 from the recent period of declining oil and gasoline prices. Gasoline and oil prices have moved higher, so far, in February, versus January, likely beginning a bottoming-out process. The headline 0.8% (-0.8%) decline in monthly Final Demand Producer Price Index (PPI), was dominated by an oil-price-plunge-driven 10.3% (-10.3%) drop in Final Demand Goods – Energy inflation. Still, all major categories experienced headline monthly declines, except for Final Demand Construction, and Final Demand Services - Trade.

As in recent months, the inflation gain in Final Demand Services - Trade perversely was tied to falling oil prices. The difference is that the services inflation reflects changes in margin instead of in costs, where costs are the basis for goods inflation. Discussed in earlier PPI *Commentaries*, margins are not the same thing as the level of prices realized in sales; they are a function of prices received versus cost or prices paid for the product or service. Where rising margins can reflect lower costs-paid-out, as well as higher prices-received, the current stronger margins are due largely to a decline in oil-related prices, at cost, with a corresponding, related cut in prices-received not being passed along either immediately or fully to the next level of consumption.

January 2015 Headline PPI Detail. The seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for January 2015 declined by 0.81% (-0.81%), versus a revised decline of 0.18% (-0.18%) in December 2014. The December revision reflected annual revisions to seasonal-adjustments for the PPI series.

The impact of seasonal adjustments on the headline monthly January aggregate number was negative, with the unadjusted monthly PPI change in January a contraction of 0.72% (-0.72%), versus a drop of 0.36% (-0.36%) in December. Also on a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year headline PPI inflation dropped to 0.00% in January 2015, versus 1.10% in December 2014.

In terms of the three major subcategories for January 2015 Final Demand PPI, headline monthly Final Demand Goods inflation contracted by 2.15% (-2.15%), Final Demand Services inflation declined by 0.18% (-0.18%), and Final Demand Construction inflation rose by 0.36%.

Final Demand Goods (Weighted at a Revised 34.69% of the Aggregate). Running somewhat in parallel with the old Finished Goods PPI series, headline monthly Final Demand Goods inflation in January 2015 was down by 2.15% (-2.15%) versus a revised decline of 1.15% (-1.15%) in December 2014. There was an aggregate negative impact on the January 2015 reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, headline January final demand goods inflation contracted by 1.98% (-1.98%) for the month.

Unadjusted, year-to-year goods inflation was down by 3.71% (-3.71%) in January 2015, versus a drop of 0.98% (-0.98%) in December 2014.

Headline seasonally-adjusted monthly changes by major components for January 2015 Final Demand Goods:

- "Foods" inflation dropped by 1.06% (-1.06%) in January 2015, versus a revised decline of 0.08% (-0.08%) in December 2014, with January's headline monthly decline in inflation made less negative by seasonal adjustments. Unadjusted, January food inflation fell by 1.31% (-1.31%) for the month.
- "Energy" inflation tanked by 10.30% (-10.30%) in January 2015, having plunged by a revised 6.24% (-6.24%), in December, with the January negative reading intensified by seasonal adjustments. Unadjusted January declined by 9.62% (-9.62%) month-to-month.
- "Less foods and energy" ("core" goods) inflation fell by 0.18% (-0.18%) in January 2015, having gained a revised 0.27% in December 2014. Seasonal adjustments were a negative for core inflation, with an unadjusted January monthly change of 0.00%, or "unchanged."

Final Demand Services (Weighted at a Revised 63.29% of the Aggregate). Headline monthly Final Demand Services inflation fell by 0.18% (-0.18%) in January 2015, versus a revised 0.27% gain in December 2014. The overall impact on the January monthly services inflation reading from underlying seasonal-factor adjustments was negative, with an unadjusted contraction of 0.09% (-0.09%) in the current month.

Year-to-year unadjusted services inflation was 2.04% in January 2015, versus 2.23% in December 2014.

The headline monthly changes by major component for January 2015 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation fell by 0.37% (-0.37%) in January 2015, versus a revised gain of 0.09% in December 2014. Seasonal-adjustment impact on the January detail was negative. Unadjusted monthly change in January 2015 was a decline of 0.09% (-0.09%).
- "Transportation and warehousing" inflation declined by 0.76% (-0.76%) in January 2015, versus a revised decline of 0.17% (-0.17%) in December. Seasonal adjustments had negative impact, with an unadjusted monthly contraction of 0.34% (-0.34%) in January.
- "Trade" inflation rose by 0.53% in January 2015, following a revised gain of 0.54% in December 2014. Seasonal adjustments had a positive impact here, where the unadjusted monthly inflation change in January was 0.00%, or "unchanged."

Final Demand Construction (Weighted at a Revised 2.02% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published. Headline monthly construction inflation rose by 0.36% in January 2015, versus an unrevised "unchanged" in December 2014. The impact of seasonal factors on the January reading was neutral.

On an unadjusted basis, year-to-year construction inflation was 1.91% in January 2015, versus 2.11% in December 2014.

[Further background material on January Industrial Production and Housing Starts activity and on the PPI is included the* Reporting Detail*, with various drill-down and graphics options on the headline Production and Residential Construction data available to subscribers at our affiliate:* www.ExpliStats.com*].

REPORTING DETAIL

INDEX OF INDUSTRIAL PRODUCTION (January 2015)

Recent Months Battered by Downside Revisions. Along with the headline reporting for January 2015 industrial production, every month from September 2014 through December 2014 revised lower, in terms of the monthly level of production and in terms of the month-to-month change in production activity. The effect has been to soften the outlook for recent domestic production.

As a result, despite an unseasonable weather boost to January utility usage, and despite a weaker-than-consensus headline January gain of 0.2% [Bloomberg showed a consensus gain of 0.4%], those prior-period revisions left headline January production down by 0.3% (-0.3%) versus the initial headline level of activity reported for December 2014.

Also, recent year-to-year growth rates revised lower, and annualized quarterly growth in fourth-quarter production slowed, in revision, to 4.3%, from initial reporting of 5.6%, with the headline January 2015 production level setting in at an early pace of 1.4% annualized quarterly growth for first-quarter 2014.

With a sharp downside revision in December manufacturing to zero monthly growth, from an initial estimate of a 0.3% gain, inventories also should revise lower in the upcoming GDP estimate.

Industrial Production—January 2015. The Federal Reserve Board released its first estimate of seasonally-adjusted, January 2015 industrial production this morning (February 18th). Headline monthly production rose by 0.15% in January, following a revised decline of 0.28% (-0.28%) [previously down by 0.11% (-0.11%)] in December, and a revised gain of 1.14% [previously up by 1.30%, initially up by 1.26%] in November. Net of prior-period revisions, January 2015 production contracted month-to-month by 0.30% (-0.30%).

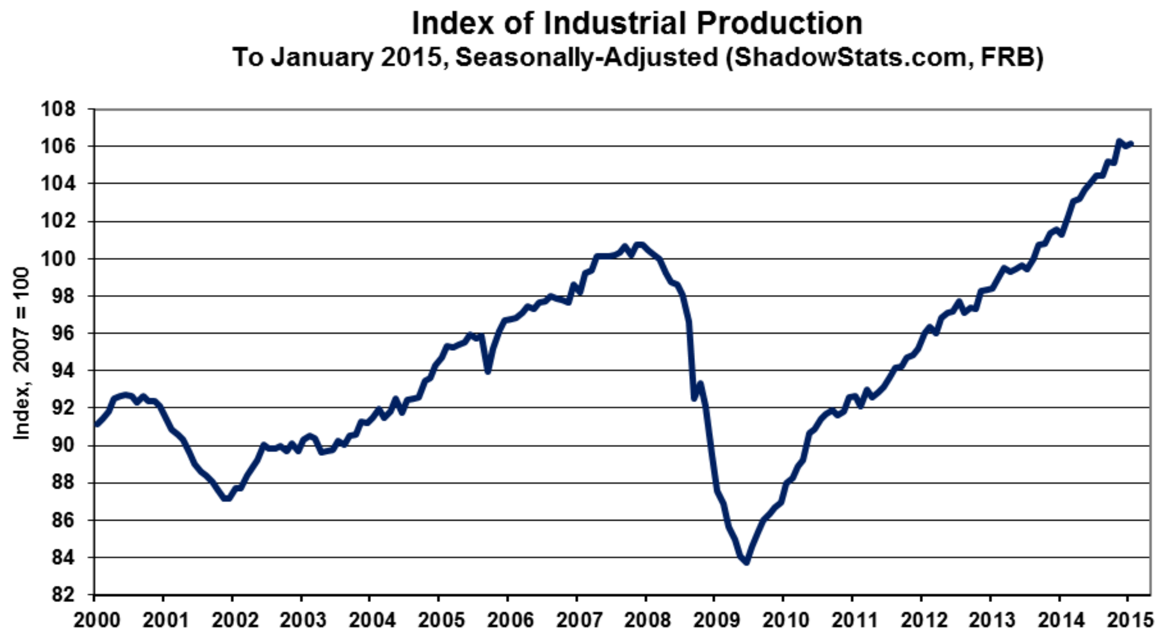
By major industry group, the headline January 2015 monthly gain of 0.2% [December contraction of 0.3% (-0.3%)] in aggregate production was composed of a January gain of 0.2% [unchanged December] in manufacturing; a January contraction of 1.0% (-1.0) [2.1% December gain] in mining (oil production); and a January gain of 2.3% [December contraction of 6.9% (-6.9%)] in utilities.

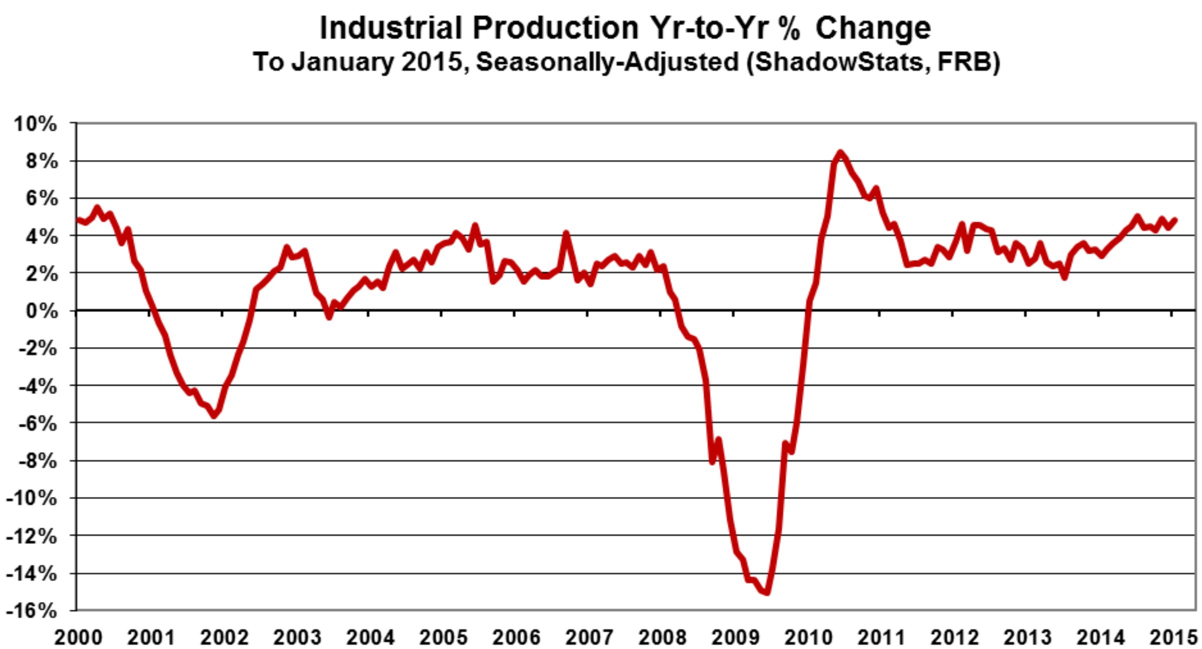
Year-to-year growth in January 2015 production was 4.81%, versus a revised annual gain of 4.40% [previously up by 4.97%] in December 2014, and a revised 4.89% gain [previously up by 5.18%, initially up by 5.22%] in November.

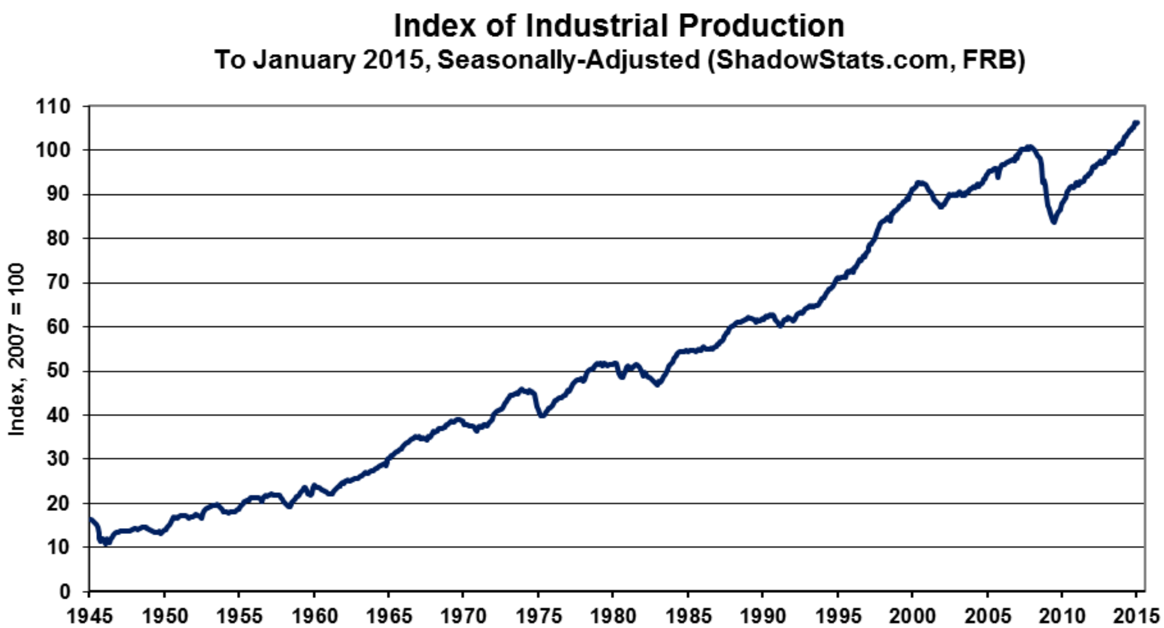
Massive Benchmark Revisions Should Show Much-Weaker Production in Recent Years. Discussed in the last several production *Commentaries*, the Federal Reserve publishes an annual benchmark revision to the industrial production series, correcting historical detail for more complete information as it becomes available. The March 2014 benchmark revision, however, largely was incomplete, lacking detail from the regular Census of Manufactures (2012), which apparently had been delayed in its release by the government shutdown of October 2013. As a result, what should have been massive downside revisions to 2012 and 2013 industrial production activity (and broader GDP activity) never took place (see *Commentary No. 613*).

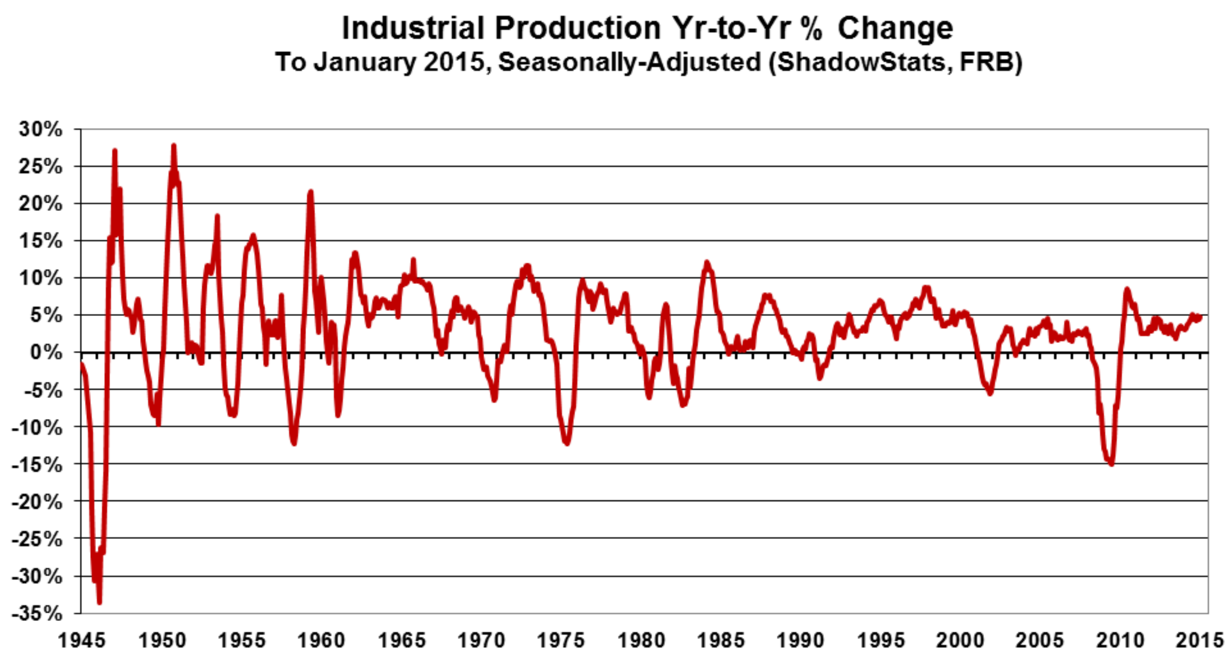
That should be corrected sometime in second-quarter 2015. Unusual at this point in time for the Fed, the timing for this year's benchmarking still is not specific. Along with the recent press releases of industrial production (including today's), the Federal Reserve has announced that rough second-quarter timing for its 2015 annual benchmarking, including "new annual benchmark data for 2012 [previously missing] and 2013 manufacturing ..."

Production Graphs. The following two sets of graphs reflect headline industrial production activity to date. The first graph in the first set shows the monthly level of the production index, with perhaps something of a topping-out process in the last several months of reporting. The second graph shows the year-to-year percentage change in the same series for recent historical detail, beginning January 2000. The second set of graphs shows the same data in historical context since World War II.


Index of Industrial Production
To January 2015, Seasonally-Adjusted (ShadowStats.com, FRB)
108
106
104
102
100
98
96
94
92
90
88
86
84
82
Index, 2007 = 100
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015


Industrial Production Yr-to-Yr % Change
To January 2015, Seasonally-Adjusted (ShadowStats, FRB)
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
-16%
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015





Shown more clearly in the first set of graphs, the pattern of year-to-year activity dipped anew in late-2013 to levels usually seen only at the onset of recessions, bounced higher into mid-2014, headed lower again through October, and moved slightly higher and has fluctuated in recent months. Even so, annual growth remains well off the recent relative peak for the series, which was 8.49% in June 2010, going against the official June 2009 trough of the economic collapse. Indeed, as shown in the second set of graphs, the year-to-year contraction of 15.06% in June 2009, at the end of second-quarter 2009, was the steepest annual decline in production since the shutdown of war-time production following World War II.

Although official production levels have moved higher since the June 2009 trough, corrected for the understatement of inflation used in deflating portions of the industrial production index (see the *Opening Comments* section) the series has shown more of a pattern of stagnation with a slow upside trend, since 2009, with irregular quarterly contractions since. The slow uptrend continued into 2014, with some topping out possibly in place. The "corrected" series remains well shy of a formal recovery.

RESIDENTIAL CONSTRUCTION—HOUSING STARTS (January 2015)

Growth Patterns Slowed in an Otherwise Stagnant Series. In the context of downside revisions to December and November housing starts, the minimal headline decline of 2.0% (-2.0%) in monthly activity for January 2015 was statistically-insignificant, as usually is the case. A general pattern of stagnation continued in this series, as best viewed in terms of the long-range historical graph of aggregate activity at the end of this section, and in the context of activity smoothed by six-month moving averages, as shown in the *Opening Comments* section.

Reflected in the patterns in those smoothed graphs in the *Opening Comments*, the aggregate housing-starts series continued in broad stagnation in January, dominated, as usual, by the personal housing sector (single-unit starts). Although there has been a minor upside trend in the aggregate series, total housing-starts activity has remained well below any recovery level. The bulk of the extreme reporting instability and the minimal uptrend in the aggregate series have been due largely to particularly-volatile reporting in the multiple-unit housing-starts category (apartments, etc.). Where recent activity in multiple-unit starts actually recovered into the general range of pre-recession activity, that process appears to have topped out, with those starts trending lower in monthly reporting, but topping out on a six-month moving-average basis. Still, the impact of the recovery in multiple-unit activity largely is lost in the detail of total housing starts.

***Structural Liquidity Issues Constrain Consumer Housing Activity*.** On a per structure basis, activity in multiple-units starts remains dwarfed by the flat-to-minus activity in the dominant, single-unit housing starts category, which has remained stagnant—at a low level of activity—since hitting bottom in early-2009. The private housing sector never recovered from the business collapse of 2006 into 2009.

The underlying problem here remains intense, structural-liquidity woes besetting the consumer. That circumstance, during the last seven-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity, as discussed and detailed in *No. 692 Special Commentary: 2015 - A World Out of Balance*.

Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including not only residential investment and related construction spending, but also retail sales and the still-dominant personal-consumption account of the GDP. The monthly graphs on consumer and liquidity conditions will be updated along with the detail on real retail sales and new- and existing- home sales scheduled for the *Commentary* (likely *No. 698*) of Thursday, February 26th. The latest graphs otherwise are found in *No. 692*.

Quarterly Growth Is Slowing Sharply. Based on the latest revisions and January headline reporting, annualized fourth-quarter 2014 growth (same way GDP growth is reported) slowed from initial headline reporting of 18.7% to 14.3%. Using January 2015 as a surrogate for first-quarter 2015 activity, annualized first-quarter 2015 growth is on track to slow to an annualized pace of 0.1%.

January 2015 Housing-Starts Headline Reporting. The Census Bureau reported today, February 18th, a statistically-insignificant, seasonally-adjusted headline monthly contraction of 2.0% (-2.0%) +/- 12.2% (all such confidence intervals are at the 95% level). That January 2015 contraction followed a revised gain of 7.1% [previously up by 4.4%] in December. The upside revision to December's growth was due to a downside revision to November reporting. In turn, the December gain was against a revised decline of 7.1% (-7.1%) [previously down by 4.5% (-4.5%), initially down by 1.6% (-1.6%)] in November. Net of prior-period revisions, the headline January 2015 change was a still-statistically-insignificant decline of 2.2% (-2.2%).

Year-to-year change in the seasonally-adjusted, aggregate January 2015 housing-starts measure was a statistically-significant gain of 18.7% +/- 17.0%, versus a revised 5.1% [previously 5.3%] gain in November, and revised annual contraction of 8.1% (-8.1%) [previously down by 5.6% (-5.6%), initially down by 7.0% (-7.0%)] in November.

The headline January 2015 monthly decline of 2.0% (-2.0%) was dominated by a headline monthly drop of 6.7% (-6.7%) in the "one unit" category, with a gain of 12.1% in the "five units or more" category, but neither of the latter monthly changes was statistically-significant.

***By-Unit Category (See Graphs in the* Opening Comments).** Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in January 2015 fell month-to-month by a statistically-insignificant 6.7% (-6.7%) +/- 12.4%, following a revised December gain of 7.9% [previously up by 7.2%], following a revised decline of 5.9% (-5.9%) [previously down by 5.2% (-5.2%), initially down by 5.4% (-5.4%)] in November. A statistically-significant January 2015 year-to-year gain of 16.3% +/- 14.0%, and a revised 7.7% [previously 7.9%] annual gain in December 2014, and a revised decline of 5.1% (-5.1%) [previously down by 4.4% (-4.4%), initially down by 4.6% (-4.6%)] in November.

Housing starts for apartment buildings (generally 5-units-or-more) in January 2015 rose by a statistically-insignificant 12.1% +/- 29.7% for the month, following a revised gain of 2.4% [previously down by 4.2% (-4.2%)] in December 2014, and a revised decline of 7.5% [previously down by 1.4% (-1.4%), initially up by 7.6%] in November. The January 2015 year-to-year gain of 24.5% +/- 39.4% also was statistically-insignificant, following December's unrevised annual gain of 0.3%, and a revised November year-to-year decline of 13.7% (-13.7%) [previously down by 8.3% (-8.3%), initially down by 11.9% (-11.9%)].

Expanding the multi-unit structure housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

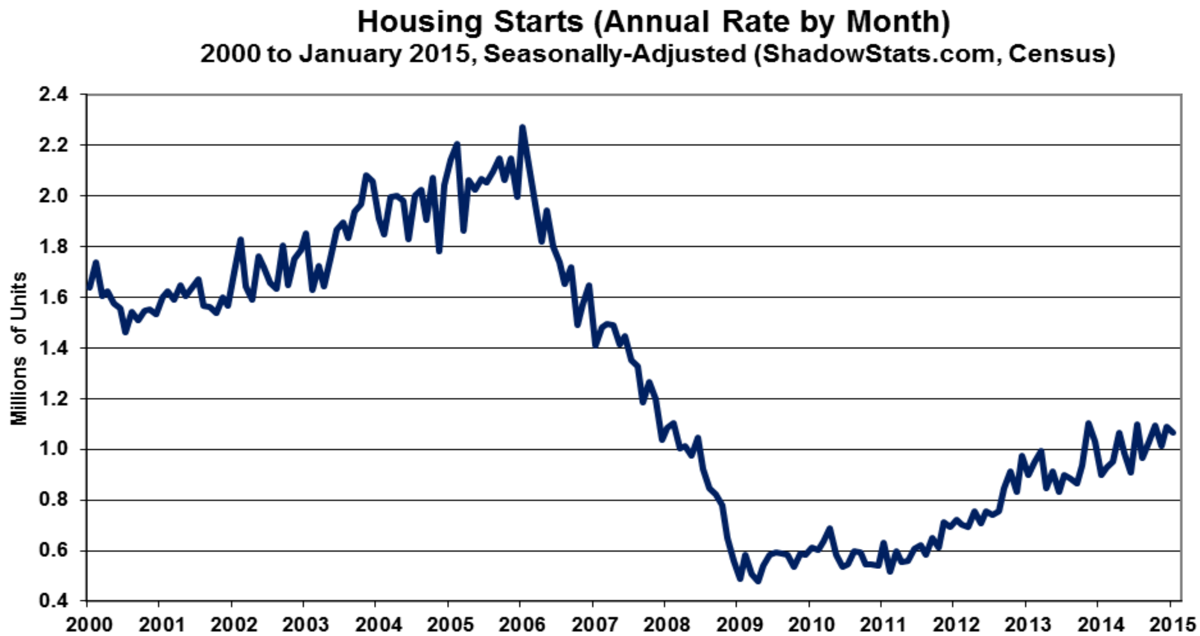
Accordingly, the statistically-insignificant January 2015 monthly decline of 2.0% (-2.0%) in aggregate housing starts was composed of a statistically-insignificant decline of 6.7% (-6.7%) in one-unit structures housing starts, combined with a statistically-insignificant monthly gain 7.5% in the multiple-unit structures category (2-units-or-more, including the 5-units-or-more category). Again, these series are graphed in the *Opening Comments* section.

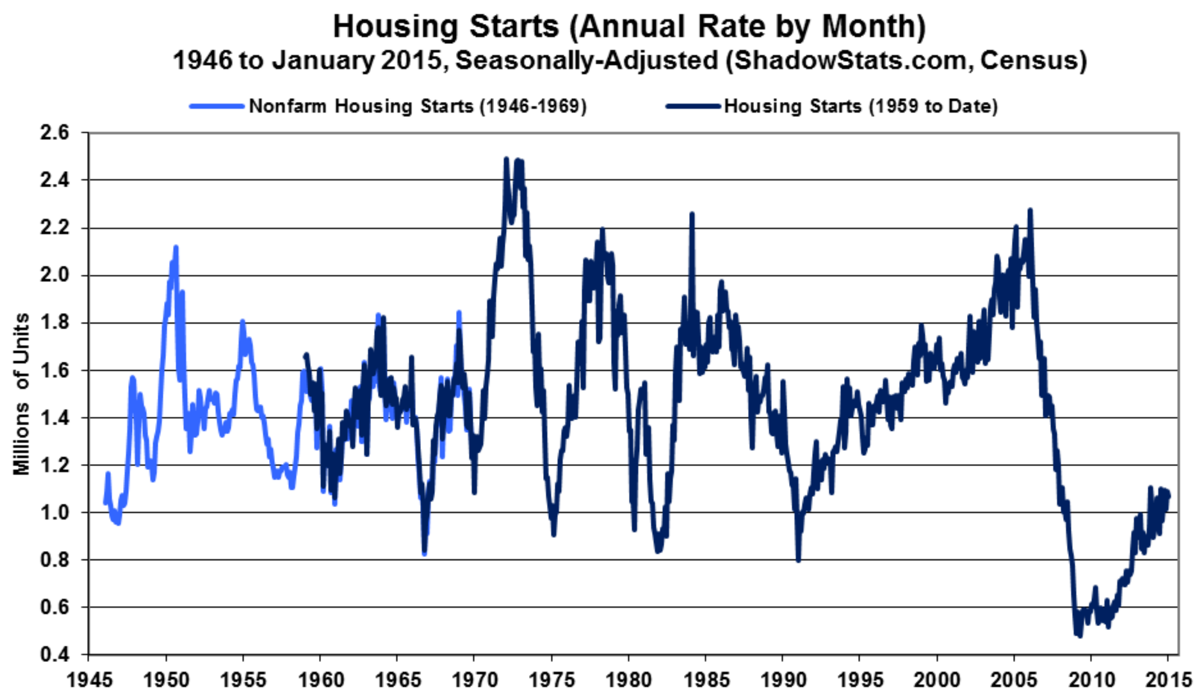
Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,065,000 in January 2015, versus a revised 1,087,000 (previously 1,089,000) in December 2014, and a revised 1,015,000 (previously 1,043,000, initially 1,028,000) in November 2014. Those annualized numbers are reflected the scales of the accompanying aggregate graphs.

Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series—such as seen, for example, with the annualized headline level of 963,000 units in August 2014, versus the 1,098,000 units in July—the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the 135,000 month-to-month decline from July 2014 to August 2014 in the annualized data was larger than actual total (non-annualized) monthly starts in any single month since before the recession.

Accordingly, the monthly rate of 88,750 in January 2015, instead of the annualized 1,085,000 headline number, is used in the scaling of the series of graphs in the *Opening Comments* section. With the use of either scale of units, however, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical.

The record monthly low seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales then was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the January 2015 headline number was up by 121%, but it still was down by 53% (-53%) from the January 2006 series high. Shown in the historical perspective of the post-World War II era, current activity is trending stagnant at levels that otherwise have been at the historical troughs of recession activity of the last 70 years, see seen the second graph following.





PRODUCER PRICE INDEX—PPI (January 2015)

Collapsing Oil Prices Drove January 2015 PPI Down by 0.8% (-0.8%) for the Month, and Pushed Year-to-Year Inflation Down to 0.0%. In the context of re-weightings of the various component indices and benchmarked seasonal adjustments, the headline PPI likely took its climactic hit in January 2015 from the recent period of declining oil and gasoline prices. Gasoline and oil prices have moved higher, so far, in February, versus January, likely beginning a bottoming-out process. The headline 0.8% (-0.8%) decline in monthly Final Demand Producer Price Index (PPI), was dominated by an oil-price-plunge-driven 10.3% (-10.3%) drop in Final Demand Goods – Energy inflation. Still, all major categories experienced headline monthly declines, except for Final Demand Construction, and Final Demand Services - Trade.

As in recent months, the inflation gain in Final Demand Services - Trade perversely was tied to falling oil prices. The difference is that the services inflation reflects changes in margin instead of in costs, where costs are the basis for goods inflation. Discussed in earlier PPI *Commentaries*, margins are not the same thing as the level of prices realized in sales; they are a function of prices received versus cost or prices paid for the product or service. Where rising margins can reflect lower costs-paid-out, as well as higher prices-received, the current stronger margins are due largely to a decline in oil-related prices, at cost, with a corresponding, related cut in prices-received not being passed along either immediately or fully to the next level of consumption.

Inflation that Is More Theoretical than Real World? *[The background text here is largely as published in the prior PPI* Commentary.*]* Effective with year-ago January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see *Commentary No. 591*). In the new headline monthly measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new and otherwise dominant Final Demand Services sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the recent circumstance of "increased" margins—most likely due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly decline oil prices; it tends to mute the decline in Final Demand inflation.

The new PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just six years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

January 2015 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported today, February 18th, that the seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for January 2015 declined by 0.81% (-0.81%), versus a revised decline of 0.18% (-0.18%) [previously down by 0.27% (-0.27%)] in December 2014. The December revision reflected the annual revisions to seasonal-adjustments.

The impact of seasonal adjustments on the headline monthly January aggregate number was negative, with the unadjusted monthly PPI change in January a contraction of 0.72% (-0.72%), versus a drop of 0.36% (-0.36%) in December. Also on a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year headline PPI inflation dropped to 0.00% in January 2015, versus 1.10% in December 2014.

In terms of the three major subcategories for January 2015 Final Demand PPI, headline monthly Final Demand Goods inflation contracted by 2.15% (-2.15%), Final Demand Services inflation declined by 0.18% (-0.18%), and Final Demand Construction inflation rose by 0.36%.

Final Demand Goods (Weighted at a revised 34.69% [Previously 34.40%] of the Aggregate). Running somewhat in parallel with the old Finished Goods PPI series, headline monthly Final Demand Goods inflation in January 2015 was down by 2.15% (-2.15%) versus a revised decline of 1.15% (-1.15%) [previously down by 1.24% (-1.24%)] in December 2014. There was an aggregate negative impact on the January 2015 reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, headline January final demand goods inflation contracted by 1.98% (-1.98%) for the month.

Unadjusted, year-to-year goods inflation was down by 3.71% (-3.71%) in January 2015, versus a drop of 0.98% (-0.98%) in December 2014.

Headline seasonally-adjusted monthly changes by major components for January 2015 Final Demand Goods:

- "Foods" inflation dropped by 1.06% (-1.06%) in January 2015, versus a revised decline of 0.08% (-0.08%) [previously down by 0.41% (-0.41%)] in December 2014, with January's headline monthly decline in inflation made less negative by seasonal adjustments. Unadjusted, January food inflation fell by 1.31% (-1.31%) for the month.
- "Energy" inflation tanked by 10.30% (-10.30%), having plunged by a revised 6.24% (-6.24%), [previously down by 6.64% (-6.64%)] in December, with the January negative reading intensified by seasonal adjustments. Unadjusted January declined by 9.62% (-9.62%) month-to-month.
- "Less foods and energy" ("core" goods) inflation fell by 0.18% (-0.18%) in January 2015, having gained a revised 0.27% [previously up by 0.18%] in December 2014. Seasonal adjustments were a negative for core inflation, with an unadjusted January monthly change of 0.00%, or "unchanged."

Final Demand Services (Weighted at a Revised 63.29% [Previously 63.52%] of the Aggregate). Headline monthly Final Demand Services inflation fell by 0.18% (-0.18%) in January 2015, versus a revised 0.27% gain [previously by 0.18%] in December 2014. The overall impact on the January monthly services inflation reading from underlying seasonal-factor adjustments was negative, with an unadjusted contraction of 0.09% (-0.09%) in the current month.

Year-to-year unadjusted services inflation was 2.04% in January 2015, versus 2.23% in December 2014.

The headline monthly changes by major component for January 2015 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation fell by 0.37% (-0.37%) in January 2015, versus a revised gain of 0.09% [previously up by 0.19%] in December 2014. Seasonal-adjustment impact on the January detail was negative. Unadjusted monthly change in January 2015 was a decline of 0.09% (-0.09%).

- "Transportation and warehousing" inflation declined by 0.76% (-0.76%) in January 2015, versus a revised decline of 0.17% (-0.17%) [previously down by 0.08% (-0.08%)] in December. Seasonal adjustments had negative impact, with an unadjusted monthly contraction of 0.34% (-0.34%) in January.
- "Trade" inflation rose by 0.53% in January 2015, following a revised gain of 0.54% [previously up by 0.63%] in December 2014. Seasonal adjustments had a positive impact here, where the unadjusted monthly inflation change in January was 0.00%, or "unchanged."

Final Demand Construction (Weighted at a revised 2.02% [Previously 2.08%] of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published. Headline monthly construction inflation rose by 0.36% in January 2015, versus an unrevised "unchanged" in December 2014. The impact of seasonal factors on the January reading was neutral.

On an unadjusted basis, year-to-year construction inflation was 1.91% in January 2015, versus 2.11% in December 2014.

Discussed in *Commentary No. 693*, ShadowStats uses the "final demand construction" index for deflating headline activity in the monthly construction-spending series.

PPI-Inflation Impact on Pending Reporting of Durable Goods. As to the upcoming reporting of January 2015 new orders for durable goods, unadjusted monthly inflation for new orders for manufactured durable goods in January 2015 was "unchanged" for the second month, versus "unchanged" in December 2014, with annual inflation of 0.72% in January 2015, versus 1.09% in December. January durable goods orders will be published on February 26th, along with an estimate of real durable goods orders deflated by this inflation measure (see *Week Ahead* section).

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WEEK AHEAD

Headline Reporting and Revisions Should Trend Much Weaker versus an Overly-Optimistic Economic Consensus; Inflation Will Rise Anew, Following the Bottoming of Oil-Prices. Shifting some to the downside, again, amidst wide fluctuations in the numbers, market expectations for business activity remain overly optimistic in the extreme. They exceed any potential, underlying economic reality. Downside corrective revisions and an accelerating pace of downturn in broad-based, monthly headline economic reporting should hammer those expectations heavily through mid-year. Recent GDP excesses will not face downside revisions until the July 30, 2015 GDP benchmark revision, other than for the two monthly revisions still pending for fourth-quarter 2014 GDP.

Headline consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely hit a near-term low in what will be headline January 2015 reporting. Significant upside inflation pressures should resume as oil prices begin to rebound, a process that already appears to be underway, and one that would accelerate rapidly with an eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in *No. 692 Special Commentary: 2015 - A World Out of Balance*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. Data instabilities were induced partially 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. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment, and unemployment data, see *Commentary No. 695*). Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see *Commentary No. 669*).

PENDING RELEASES:

Existing- and New-Home Sales (January 2015). January 2015 existing-home sales are due for release on Monday, February 23rd, from the National Association of Realtors, with the January 2015 new-home sales report due from the Census Bureau on Wednesday, February 25th. ShadowStats will cover both series in the planned February 26th regular *Commentary*.

Still impaired by the negative, fundamental pressures similar to those seen pummeling housing construction (see the related *Housing Starts* and *Structural Liquidity Issues* sections in this *Commentary*), the outlook for home-sales activity remains bleak.

Recent negative trends in headline monthly reporting of existing-home sales likely persisted in January, despite a minimal gain in December, with flat-to-downside month-to-month activity likely in headline reporting.

Smoothed for extreme and nonsensical monthly gyrations, a pattern of stagnation or intensifying downturn also appears to be in play for January new-home sales, following a statistically-insignificant headline gain in December. While monthly changes in activity rarely are statistically-significant for this series, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for January sales. Both the new- and existing- home sales series increasingly should reflect downside instabilities in their respective headline activity.

Consumer Price Index—CPI (January 2015). The January 2015 CPI is scheduled for release on Thursday, February 26th, by the Bureau of Labor Statistics (BLS). The headline CPI-U should contract sharply month-to month, likely down by 0.6% (-0.6%) plus-or-minus, which would be enough to take annual CPI-U inflation into flat-to-minus territory. The downturn in inflation once again will reflect a heavy hit from dropping gasoline prices.

Early market expectations for the headline monthly contraction in the January 2015 CPI-U seem to range around minus 0.6% (-0.6%) to minus 0.8% (-0.8%), and such numbers easily could be seen. With oil and gasoline prices beginning to bottom out in February, however, so too should the heavily-negative impact of gasoline prices on the headline CPI-U begin to reverse in the month or two ahead.

Plunging again, average retail gasoline prices fell by 16.11% (-16.11%) month-to-month in January 2015, on a not-seasonally-adjusted basis, per the Department of Energy (DOE). While BLS seasonal adjustments to gasoline prices should be negative in January, there is fair chance of BLS "intervention analysis" mitigating the downside pressures. By itself, the adjusted decline in gasoline prices would leave headline CPI-U down by roughly 0.7% (-0.7%).

Higher food and “core” (net of food and energy) inflation, however, still should offset some of the negative energy number, again, leading to a headline monthly contraction of about 0.6% (-0. 6%) in the January 2015 CPI-U.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in January 2015 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.14% monthly inflation gain reported for January 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for January 2015, the difference in January’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the December 2014 annual inflation rate of 0.76%. For example, if headline monthly CPI-U declined by 0.6% (-0.6%) in January 2015, annual CPI-U inflation would be close to "unchanged."

Pending Revisions and Redefinitions to various CPI Series. The BLS will redefine the CPI-U and the Chained-CPI-U series, along with publishing revised seasonal adjustments to recent CPI-U history back five years (the historical, unadjusted CPI-U series does not get revised). The seasonal adjustment changes will be available on February 20th, but the revisions should not change the general picture, as they will have no impact on the unadjusted numbers.

Discussed in the *Opening Comments* of *Commentary No. 668*, pending BLS changes to the calculation of consumer inflation seem to be designed to help set-up the C-CPI-U as an intensified, reduced-inflation measure. The new C-CPI-U is intended as a practical inflation measure to meet the political demands of those in Congress and the White House looking to reduce the cost-of-living-adjustment (COLA) for Social Security, etc., simply by defining away inflation as the average person looks at it (see these BLS links: CPI Changes, C-CPI-U Changes).

Enhancing the substitution effects of price changes on consumption patterns, the new C-CPI-U should measure even-greater reduced headline inflation. Changes include replacing "geometric weightings" with a more-aggressive and adjustable "constant elasticity of substitution," along with more-frequent weightings, all aimed at making the C-CPI-U the new low-cost cost of living adjustment (COLA) for government programs.

Where the changes are expected per the BLS "not to have significant effect" or where "impact of these changes on the All Items U.S. City Average [CPI-U] level is expected to be minimal," the BLS usually is more specific. The effect on the C-CPI-U likely will be meaningful, or the changes being made would not be made. As more detail becomes available, such will be updated in the regular CPI-related *Commentaries* and in the *Public Commentary on Inflation Measurement*.

New Orders for Durable Goods (January 2015). Reporting of January 2015 new orders for durable goods also is scheduled for Thursday, February 26th, by the Census Bureau. Net of the irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of stagnation.

Aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. Accordingly, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity—is the activity in new orders, ex-commercial aircraft. Net of extreme volatility in commercial-aircraft orders of recent months, new orders have been reasonably stagnant and, again, should remain stagnant-to-down in headline January reporting.

Gross Domestic Product—GDP (Fourth-Quarter 2014, First Revision, Second Estimate). The Bureau of Economic Analysis (BEA) will publish its second estimate of fourth-quarter 2014 GDP on Friday, February 27th. Market expectations are for some downside revision to the headline initial growth estimate of 2.6%. Not only is a downside revision a good bet, but also reporting risks are to the downside of wherever the consensus will settle, this time around. Specific elements related to the GDP revisions are discussed in today's *Opening Comments* and in prior *Commentary No. 696*

Where underlying fundamentals suggest a fourth-quarter growth rate something on the plus-side of flat, revisions down to that level may not be seen until the July 30th benchmark revision.

In recent reporting, BEA revisions to initial GDP estimates have been unusually volatile, signaling instabilities in the reporting system likely tied to the impact of the Affordable Care Act. The ACA is an economic depressant, not a stimulus, and it is not easily quantifiable, given the extremely poor-quality of the data available. Discussed frequently by ShadowStats, the GDP remains the most-worthless, guessed-at, politically-manipulated and heavily-massaged of the major economic series put out by the various U.S. statistical bureaus.

Separately, given the poor-quality of the broad economic data available, the year-end reporting tradition has been to delay the initial fourth-quarter estimates of Gross National Product (GNP) and Gross Domestic Income (GDI) until the second revision of the fourth-quarter GDP (March 27th). Those revisions usually are published with the first-revisions to other quarters. GDP is a component of the broader GNP measure, which includes the trade balance in factor income (interest and dividend payments), while GDP is the consumption-side equivalent to the income-side GDI.