

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

COMMENTARY NUMBER 702

Trade, Labor, Construction-Spending, Household Income, M3, U.S. GAAP-Accounting

March 6, 2015

**Sharply Widening Real Trade Deficit
Should Pummel First-Quarter GDP Growth**

**Nominal January Trade Deficit Narrowed with Collapsing Oil Prices, but
Exploded versus Fourth-Quarter Numbers, after Inflation Adjustment**

Add-Factor Biases Boosting Payroll Growth

**Drop in Unemployment Rate Was Due to Unemployed Giving Up Looking for Work,
Instead of Finding Work in Surging Employment**

February 2015 Unemployment: 5.5% (U.3), 11.0% (U.6), 23.1% (ShadowStats)

**Real Construction Spending Remained in Low-Level, Fluctuating Stagnation;
Monthly and Annual Changes Holding Flat**

**Annual Money Supply M3 Growth Jumped to 5.7% in February,
Highest Since June 2009**

2014 Federal Obligations Approached \$100 Trillion at Year-End 2014

PLEASE NOTE: The next regular Commentary, scheduled for Thursday, March 12th, will cover February nominal retail sales. A Special Commentary covering extensive detail from, and a summary of, the U.S. government's 2014 financial statements should follow within the next week or so.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

The "Good" Economic News Was Absolutely Horrible. The January trade deficit shrank, while February employment soared and the unemployment rate declined. Today's (March 6th) headline economic news sounded good, but it could not have been much worse. First-quarter 2015 GDP increasingly appears headed for a quarterly contraction.

Trade. The sharp narrowing in the headline trade deficit was due almost entirely to the plunging prices of imported oil in January 2015. Net of inflation—the way the GDP is reported—the real January deficit widened so sharply versus fourth-quarter activity that it would be very difficult for February trade reporting to push the net-export account into becoming a net positive contributor to real growth in the April 29th "advance" estimate of first-quarter 2015 GDP.

Unemployment. The February headline (U.3) unemployment rate declined from 5.7% to 5.5%, with the number of unemployed declining by 274,000. Employment gained by 96,000, but the labor force declined by 178,000, reflecting longer-term unemployed giving up looking for work and being reclassified as "discouraged" workers by the Bureau of Labor Statistics (BLS). In addition, an increasing number of already-counted "discouraged" workers fell completely off the government's unemployment rolls, no longer being counted as "discouraged," because they had been discouraged for more than a year. Those individuals still are included in the ShadowStats Alternate Unemployment Measure.

The difference is that if only the headline number of a 96,000-employment gain (assuming all had been unemployed) were counted, the unemployment rate still would have held at 5.7%. It is the dropping of the remaining 176,000 unemployed from the unemployment rolls and the offsetting reduction in the labor force that accounted for the bulk of the drop in headline unemployment from 5.7% to 5.5%.

Employment. With its monthly growth rate recently infused by increased upside reporting biases—biases well in excess of reality—February 2015 payroll employment jumped by an above-consensus 295,000. That took payroll jobs to a new post-recession high, some 3.7 million jobs higher than before the recession. Payroll employment counts the number of jobs, not the number of people who are employed.

As shown in later graphs, though, much of that payroll gain has been due to growth in part-time jobs for economic reasons, where those seeking full-time employment cannot find it. As of February, the level of full-time employment still was 1.0 million shy of its precession peak. As an aside, that shortfall would be even greater, except for the regular annual games the BLS plays with its "population adjustments."

Construction Spending. Construction spending, net of inflation adjustment, continued in low-level stagnation as of January 2015, although the January number itself could be foreshadowing a first-quarter 2015 contraction in real spending. There was nothing in the reporting of this series, or in recent reporting of related series such as housing starts, to support the booming jobs growth reported in headline, construction employment shown later.

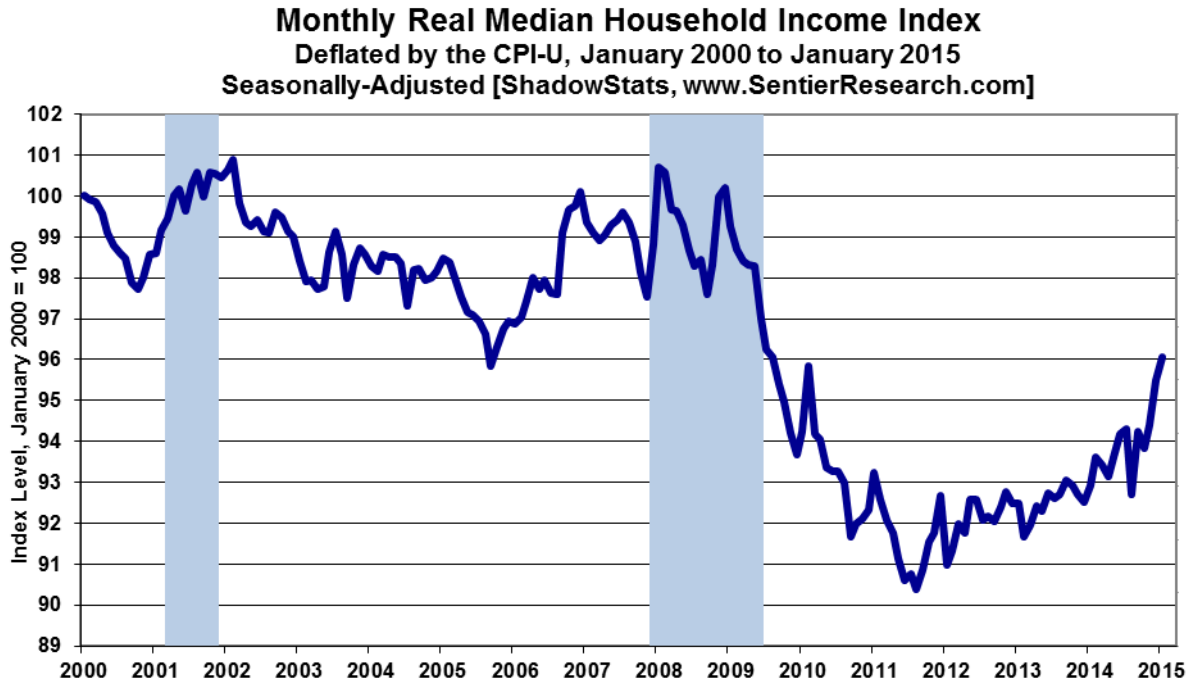
GAAP-Accounting of the U.S. Government, Fiscal-Year 2014—Preliminary Comments. The U.S. Treasury did issue its [2014 Financial Report of the U.S. Government](#) on February 26th, but it still has not posted the report or detail on its regular website (link above goes to the report on the *ShadowStats* site, per [Special Note No. 701](#)). Based on those GAAP (generally accepted accounting principles)-Based historical financial statements, ShadowStats prepares an annual summary of the federal government's annual operating deficit and total liabilities and obligations, including the net-present-value of unfunded liabilities for programs such as Social Security and Medicare (and related Affordable Care Act complications). That full summary for 2014 should follow in the next week or so; there significant detail is reviewed and assessed in putting that material together, including changes in reporting methodologies of key components.

Complicating this year's GAAP assessment is that last year's ShadowStats summary was adjusted to reflect fiscal year-end 2013 (September 30th) debt and operations for the effects of the federal government closing out that year under the constraints of a debt ceiling, which had been dodged by the Treasury through the use of accounting and bookkeeping gimmicks. Fiscal-year 2014 needs to be viewed on a basis consistent with that, and likely will be shown with two versions, one before and one after accounting for the 2013 year-end distortions.

What had been a headline cash-based federal deficit of \$483.4 billion for fiscal-year 2014, was reported as a headline operating shortfall of \$791.3 billion in the GAAP statements, before any accounting for unfunded liabilities in any government programs. Comments addressing the headline reporting of the cash-based deficit for fiscal 2014, in [Commentary No. 672](#), indicated that the total GAAP-based deficit for 2014 likely would be in the \$6 trillion range, as seen in recent years. Instead, the aggregate number for the 2014 shortfall will be below \$5 trillion, with aggregate federal government liabilities and obligations below \$100 trillion, but closer to \$100 than \$90 trillion.

Consumer Liquidity Update—January 2015 Real Median Household Income. Discussed regularly in these *Commentaries*, and most recently detailed with varied graphics in [Commentary No. 699](#), and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), without real (inflation-adjusted) growth in income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. Impaired consumer liquidity and its direct restraints on consumption have dominated the last eight-plus years of economic turmoil, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity (see the *Construction Spending* section), as well as constraining retail sales activity (see the *Week Ahead* section).

Updated here is the plot of monthly real median household income, reflecting the latest monthly detail from www.SentierResearch.com for January 2015, as shown in the context of revisions to the seasonal adjustments of the survey data. The 0.7% headline gain in the January 2015 reading basically was set by the 0.7% decline in the headline January CPI-U, used to deflate the income series, as anticipated in [Commentary No. 699](#). The pattern in recent months of falling inflation, boosting real (inflation-adjusted) income, should reverse in the months ahead.



Today's Missive (March 6th). The balance of today's *Commentary* concentrates on the detail from the February labor data, the January trade-deficit and construction-spending numbers.

The *Hyperinflation Watch* includes initial reporting on February monetary conditions and money supply M3, and an updated *Hyperinflation Outlook Summary*. The *Week Ahead* section previews the reporting of the February retail sales and the producer price index (PPI).

Employment and Unemployment—February 2015—Headline Payroll and Unemployment Reporting Remain Nonsense. In the context of last month's revisions to the payroll employment data by the Bureau of Labor Statistics (BLS), detailed in [Commentary No. 694](#) and [Commentary No. 695](#), and of issues with the household survey numbers, detailed in the opening paragraphs, current headline labor reporting supports little of the happy jobs picture being painted in the headline stories of the popular financial media.

Headline Payroll Data. The seasonally-adjusted, month-to-month headline payroll-employment gain for February 2015 was 295,000 jobs, well above market expectations. Such was in the context of the recent upside annual benchmark revisions, which flowed increased upside monthly biases, or add-factors, into headline monthly reporting at an accelerating pace (see the *Birth-Death Model* section). A realistic 95% confidence interval around those numbers might be plus-or-minus 300,000 jobs, at the moment.

The February gain followed a revised 238,000 (previously 257,000) increase in January 2015, and a nonsense, unrevised benchmarked 329,000 gain in December, with the nonsense, benchmarked 423,000 headline monthly November gain still in place.

Frequently discussed here are the implications of the BLS's use of concurrent-seasonal-adjustment factors, which restates seasonally-adjusted historical monthly payroll levels each-and-every month, as the new headline number is created in its own, unique seasonally-adjusted environment. The reporting fraud comes not from the adjustment process, itself, but rather from the BLS not publishing the newly revised history each month, and by not allowing for honest comparisons of the numbers.

Using consistent seasonal adjustment, the 329,000 gain in December really was 317,000, and the 423,000 gain in November really was 345,000 (340,000 last month, consistent with the January seasonal adjustments of the time). The consistent series is explored fully in [Commentary No. 695](#), and all the latest detail is available through that link on a complimentary basis to ShadowStats subscribers.

With the benchmarked surges in seen in last month's headline payroll activity, year-to-year growth on unadjusted payrolls also moved higher with the benchmarking, hitting a new post-recession high in January and again in February. Although not credible, the annual growth in February 2015 was the strongest since June 2000 (another recession).

For February 2015, year-to-year or annual nonfarm payroll growth was 2.42%, up from a revised 2.32% in January 2015 and an unrevised 2.28% gain in December 2014.

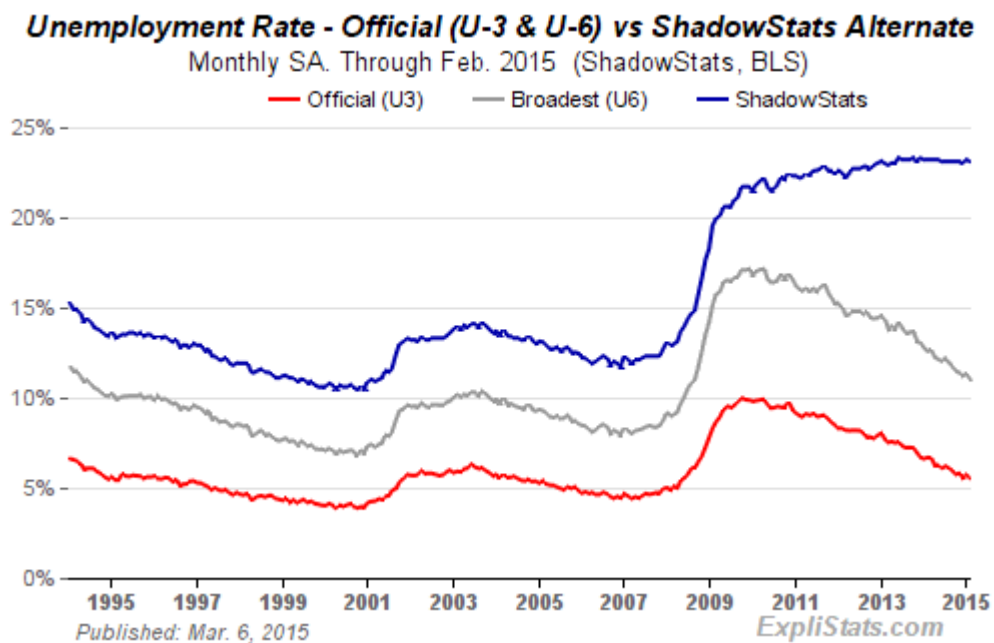
Graphs of the payroll levels (and comparative full-time employment numbers), as well as plots of the year-to-year change in payrolls, are found in the *Reporting Detail* section.

Counting All Discouraged Workers, February 2015 Unemployment Was 23.1%. The headline household survey reporting also remains virtually worthless on a month-to-month basis. Previously discussed, aside from sampling-quality issues, the numbers are highly volatile and unstable, inadequately defined—not reflecting common experience—and simply are not comparable on a month-to-month basis. The single exception is in December reporting, which, with its seasonal adjustment revisions, brings the last five years of household reporting into a comparable and consistent form, for only one month. Beginning again, with last month's January 2015 reporting, the BLS revised all historical data, and will do so again each month, resetting the headline month's seasonal factors. Yet, the BLS will not publish the new, revised and comparable historical data. Instead, the Bureau leaves the old, non-comparable data, in place, without comment, as it has done for years.

More than anything else, though, what removes headline-unemployment reporting from broad underlying economic reality and common experience simply is definitional. To be counted among the headline unemployed (U.3), an individual has to have looked for work actively within the four weeks prior to the unemployment survey. If the active search for work was in the last year, but not in the last four weeks, the individual is considered a "discouraged worker" by the BLS, and not counted in the headline labor force. ShadowStats defines that group as "short-term discouraged workers," as opposed to those who become "long-term discouraged workers" after one year.

Moving on top of U.3, the broader U.6 unemployment measure includes only the short-term discouraged workers. The still-broader ShadowStats-Alternate Unemployment Measure includes an estimate of all discouraged workers, including those discouraged for one year or more, as the BLS used to measure the series, before 1994, and as Statistics Canada still does.

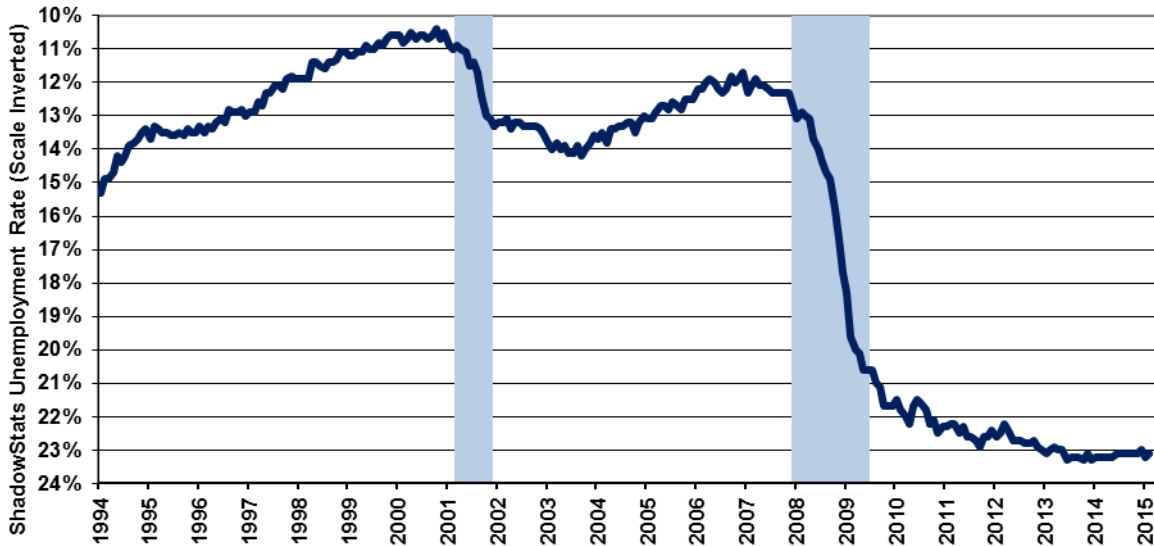
When the headline unemployed become "discouraged," they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. Further detail is discussed in the *Reporting Detail* section. The resulting difference here is between headline February 2015 unemployment rates of 5.5% (U.3) and 23.1% (ShadowStats).



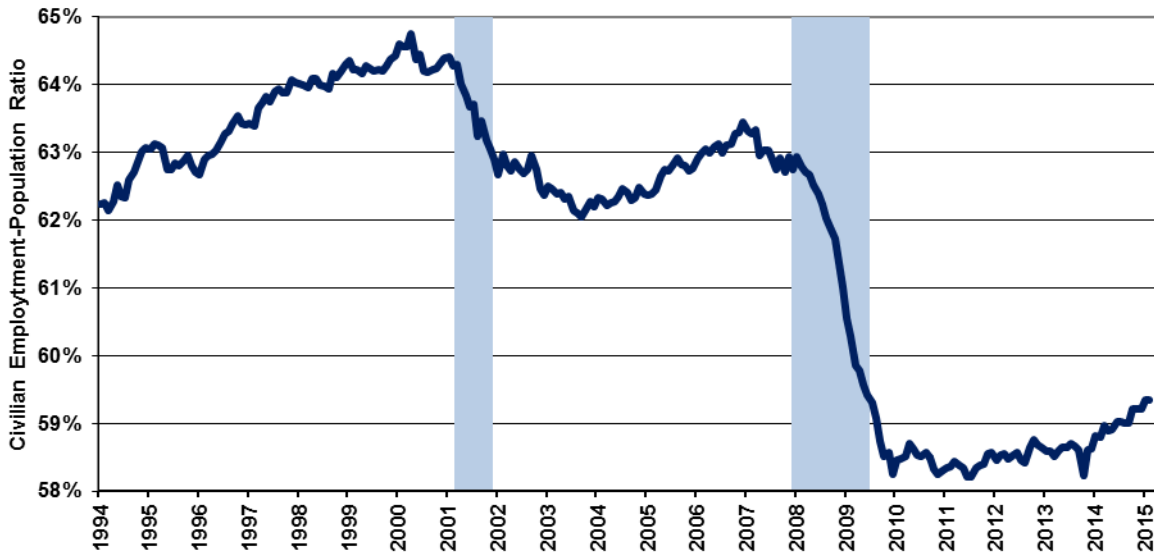
The graph immediately preceding reflects headline February 2015 U.3 unemployment at 5.5%, down from 5.7% in January; headline February U.6 unemployment at 11.0%, down from 11.3% in January; and the headline February ShadowStats unemployment measure at 23.1%, versus 23.2% in January. The ShadowStats series high (since 1994) was seen variously in June, October and December 2013 at 23.3%. The ShadowStats-Alternate Unemployment Measure series is built upon the BLS reporting of seasonally-adjusted U.3 and U.6 series, and correspondingly, it is affected by the reporting and annual seasonal adjustments to those underlying series.

The three graphs that follow reflect longer-term unemployment and discouraged-worker conditions. The first graph is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic statistics, where a lower number means a weaker economy.

ShadowStats-Alternate Unemployment Rate (Inverted Scale)
 Long-Term Discouraged Workers Included (BLS Excluded Since 1994)
 To February 2015, Seasonally-Adjusted [ShadowStats, BLS]

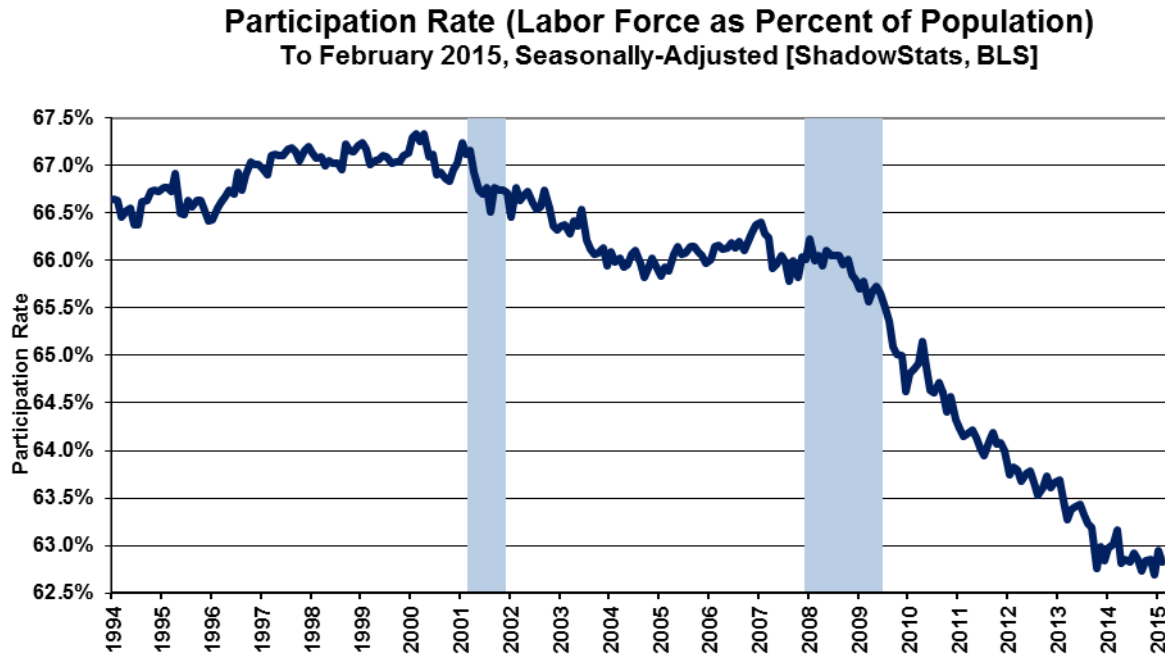


Civilian Employment-Population Ratio
 To February 2015, Seasonally-Adjusted [ShadowStats, BLS]



The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which is plotted in the second graph. Discouraged workers are not counted in the headline labor force, which generally continues to shrink, as seen again in February 2015 reporting. The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment-to-population ratio tends to be something

of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.



The third graph (above) plots the labor-force participation rate (headline labor force as a percent of population), a series frequently touted by Federal Reserve Chair Janet Yellen. The labor force here is the headline employment plus U.3 unemployment. So, as with the prior graph of employment-to-population, its holding near a record low in the current reporting is another indication of problems with long-term discouraged workers, the loss of whom continues to shrink the headline (U.3) labor force, and the plotted ratio.

These three graphs reflect detail back to the 1994 redefinitions of the household survey. Before 1994, data consistent with January's reporting simply are not available.

Headline Unemployment Rates. The headline February 2015 unemployment (U.3) rate decreased by 0.17-percentage point to 5.54%, from 5.71% in January 2015. On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. February's unadjusted U.3 unemployment rate was 5.8%, versus 6.1% in January.

U.6 Unemployment Rate. The broadest unemployment rate published by the BLS, U.6 includes accounting for those marginally attached to the labor force (including short-term discouraged workers) and those who are employed part-time for economic reasons (*i.e.*, they cannot find a full-time job).

With a decline in the seasonally-adjusted number of people working part-time for economic reasons and an increase in discouraged workers, but a decline in the total of those marginally attached to the workforce (unadjusted), headline February 2015 U.6 unemployment fell to 10.99%, from 11.31% in January. The unadjusted U.6 declined to 11.4% in February, from 12.0% in January.

ShadowStats Measure. Adding back into the total unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers—more in line with common experience—broad unemployment, the February 2015 ShadowStats-Alternate Unemployment Measure, notched lower to 23.1%, from 23.2% in January. That was down from the 23.3% series high in 2013 (back to 1994). The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force. It also tends to revise with U.3 and U.6 benchmarks.

Trade Deficit—January 2015—Real Trade Deficit Widened Sharply in First-Quarter 2015, Should Sink First-Quarter GDP Growth. The headline trade deficit for January 2015 narrowed by \$3.8 billion to \$41.8 billion. That improvement was more than accounted for by plunging prices of imported oil in January, and such was in line with consensus expectations (\$41.8 billion per Bloomberg).

Net of inflation—the way the GDP is reported—the real January deficit widened sharply, however, versus the average real deficit in fourth-quarter 2014, suggesting a relative quarterly trade deterioration that would hammer the initial growth estimate of first-quarter 2014 GDP.

Nominal (Not-Adjusted-for-Inflation) January 2015 Trade Deficit. The headline nominal, seasonally-adjusted monthly trade deficit in goods and services for January 2015, on a balance-of-payments basis, narrowed by \$3.849 billion to \$41.752 billion in January, versus a revised \$45.601 billion in December, and widened versus a revised \$38.841 billion in January 2014.

Such was in the context of revised monthly and annual deficit detail for all of 2014. The total annual deficit for 2014 now stands at \$504.711 billion, having widened from \$476.392 billion in 2014.

As to month-to-month trade patterns, the headline \$3.849 billion narrowing of January 2015 deficit reflected a \$5.592 billion decline in monthly exports, with an even greater decline of \$9.441 billion in monthly imports. Both the declines in exports and imports were impacted heavily by plunging prices for crude oil and petroleum-related products.

Aside from temporarily declining oil prices, the ongoing trend should continue to be for significant monthly, quarterly and annual deterioration in the U.S. trade deficit, both before and particularly after adjustment for inflation. Look for a sharp widening of the headline real deficit in February 2015, along with a widening of the January shortfall in the accompanying revision.

Real (Inflation-Adjusted) January 2015 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, also used for GDP deflation), the January 2015 merchandise trade deficit (no services) narrowed minimally to \$53.616 billion, from a revised deficit in December 2014 of \$54.025 billion. It also widened sharply versus a revised \$48.356 billion in January 2014. Such was in the context of monthly and annual revisions to the real 2014 merchandise trade deficit. The annual real deficit revised to \$599.139 billion in 2014, versus an unrevised level of \$570.956 billion in 2013.

As of the latest reporting, the annualized quarterly real merchandise trade deficit stood at \$554.7 billion for fourth-quarter 2013, \$587.3 billion for first-quarter 2014, \$616.5 billion for second-quarter 2014, a revised \$583.2 (previously \$583.1) billion for third-quarter 2014, and a revised \$609.5 (previously \$612.1) billion for fourth-quarter 2014.

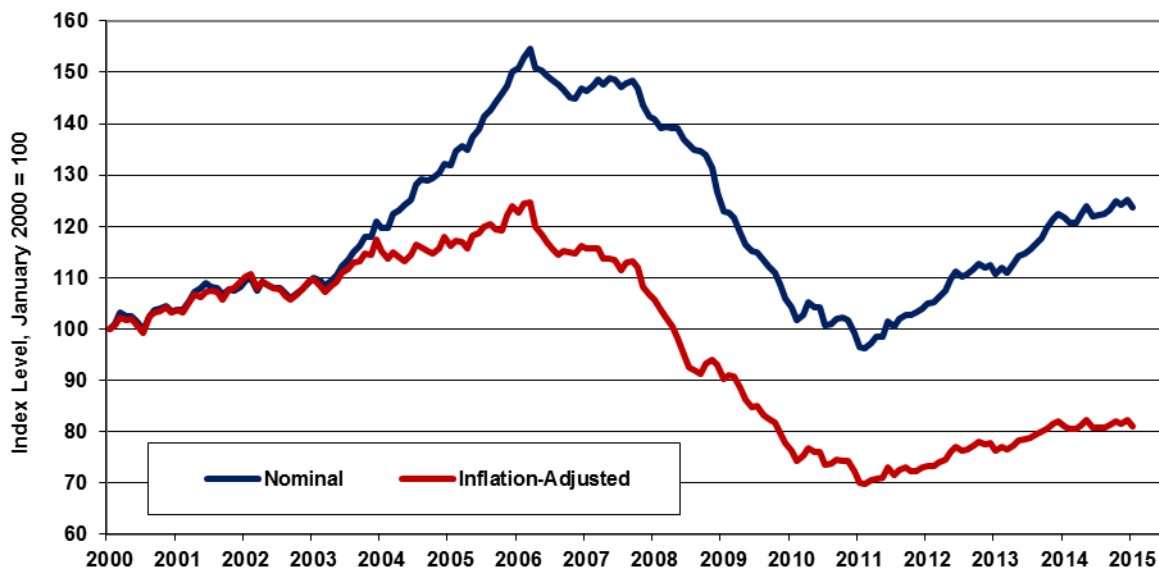
Given the small downside revision to the fourth-quarter trade deterioration, there could be a minimal narrowing of the fourth-quarter net-export deficit (minimal upside contribution to fourth-quarter GDP 2014) in revision.

Based on reporting for just January 2015, however, the annualized trade shortfall for first-quarter 2014 has started off at an annualized pace of \$643.392 billion, enough to subtract in excess of one-percentage point from the aggregate first-quarter headline GDP annualized growth rate, if the deficit held. The February data formally will complete the trade picture before the "advance" GDP estimate, and should not come in far removed from the initial headline reporting for the January.

Construction Spending—January 2015—In Terms of Statistical Significance, the Real Headline Monthly Numbers Continue Flat Month-to-Month and Year-to-Year. Moving well into its second year of fluctuating, low-level stagnation, real construction spending showed a headline monthly decline of 1.4% (-1.4%) for January 2015. The real series stood 35.0% below its pre-recession high of March 2006.

In nominal terms, before inflation adjustment, the headline decline was 1.1% (-1.1%) for the month. The drop in activity was not statistically meaningful, as is usual for headline monthly changes to this series. The pattern of ongoing, low-level stagnation remained intact, both before and after inflation adjustment, with the recent real (inflation-adjusted) series showing an ongoing irregular pattern of flat activity that began in late-2013. Also, headline nominal annual change in January was not statistically significant, while net of inflation, annual growth has been holding at zero, plus or minus a tenth of a percent or so.

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



Based on January 2015 reporting, the suggested headline first-quarter 2015 real change versus fourth-quarter 2014 would be for an annualized quarterly contraction of 4.4% (-4.4%), following a revised 4.6% (previously 5.2%) annualized quarterly gain in real fourth-quarter activity.

These patterns are reflected in the accompanying graph, which shows level of activity for both nominal and real construction spending. Before or after inflation adjustment, the historical pattern remains one that does not support the headline, real-GDP story of a full economic recovery and post-recession expansion since 2009.

PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the aggregate activity in the construction-spending series. For January 2015, the seasonally-adjusted FDCI month-to-month inflation was 0.36%, following an unchanged reading in December 2014. In terms of year-to-year change, January FDCI was 1.91%, versus 2.11% in December.

Headline Reporting for January 2015. The headline, total value of construction put in place in the United States for January 2015 was \$971.4 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was down month-to-month by a statistically-insignificant 1.1% (-1.1%).

Such followed a revised level of \$982.0 billion in December 2014, which was up by a 0.8% from a revised level of \$974.3 billion in November, which was down by 0.6% (-0.6%) from an unrevised level of \$980.4 billion in October.

Adjusted for the FDCI inflation measure in the PPI, aggregate real spending in January 2015 fell by 1.4% (-1.4%) month-to-month versus December 2014, and was up by a revised 0.8% month-to-month versus November.

On a year-to-year or annual-growth basis, January 2015 construction spending rose by a statistically-insignificant 1.8%, versus an unrevised 2.2% gain in December 2014. Net of construction costs indicated by the FDCI, however, year-to-year change in spending was an annual contraction in January 2015 of 0.2% (-0.2%), versus an unrevised annual gain of 0.1% in December 2014.

The statistically-insignificant, headline monthly contraction of 1.1% (-1.1%) in nominal January 2015 construction, versus a monthly gain of 0.8% in December 2014, included a monthly contraction in January public spending of 2.6% (-2.6%), versus a monthly gain of 1.7% in December. Private spending fell by 0.5% (-0.5%) in January, versus a gain of 0.4% in December. Within total private construction spending, the residential sector gained 0.6% in January, versus a 0.7% gain December, while the nonresidential sector contracted by 1.6% (-1.6%) in January, versus a gain of 0.1% in December. That detail is reflected in the graphs found in the *Reporting Detail* section.

[Further background material on the employment and unemployment, trade and construction spending details is included the Reporting Detail. Various drill-down and graphics options on the headline labor data and trade deficit are available to subscribers at our affiliate: www.ExpliStats.com.]

HYPERINFLATION WATCH

MONETARY CONDITIONS

February M3 Growth Hit a New Five-Year High. The Federal Reserve Board ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, late in 2014, but its holdings of Treasury securities have remained stable. Despite continuing high-level volatility in the monetary base during recent two-week periods, annual growth in February 2015 money supply M3 increased, tentatively, to 5.7%, the strongest showing in five years, since June of 2009. These circumstances also are discussed in [No. 692 Special Commentary: 2015 - A World Out of Balance](#).

Money Supply M3 Annual Growth Tentatively Rose to 5.7% in February 2015. Year-to-year change in February 2015 M3 (ShadowStats-Ongoing Measure) jumped to 5.7% from an upwardly-revised 5.4% (previously 5.3%) in January 2015.

Monthly year-to-year growth in M3 began to slow, after the series hit an interim a near-term peak of 4.6% in each of the months of January, February and March 2013, the onset of expanded QE3. Growth then fell to a near-term trough of 3.2% in January 2014, but that period of slowing growth had reversed fully as of May 2014, with annual growth recovering to 4.6%. Annual growth pulled back to a revised 4.4% in June 2014, but rose again to 4.6% in July, easing back to 4.2% in October. Growth then jumped to 4.8%, 5.0% and 5.4%, respectively, in November and December 2014, and January 2015, with February 2015 hitting a near-term high of 5.7%

Formal M3 estimates and the first readings of annual growth for M2 and M1 in February 2015 will be updated on the [Alternate Data](#) tab of www.ShadowStats.com by March 7th

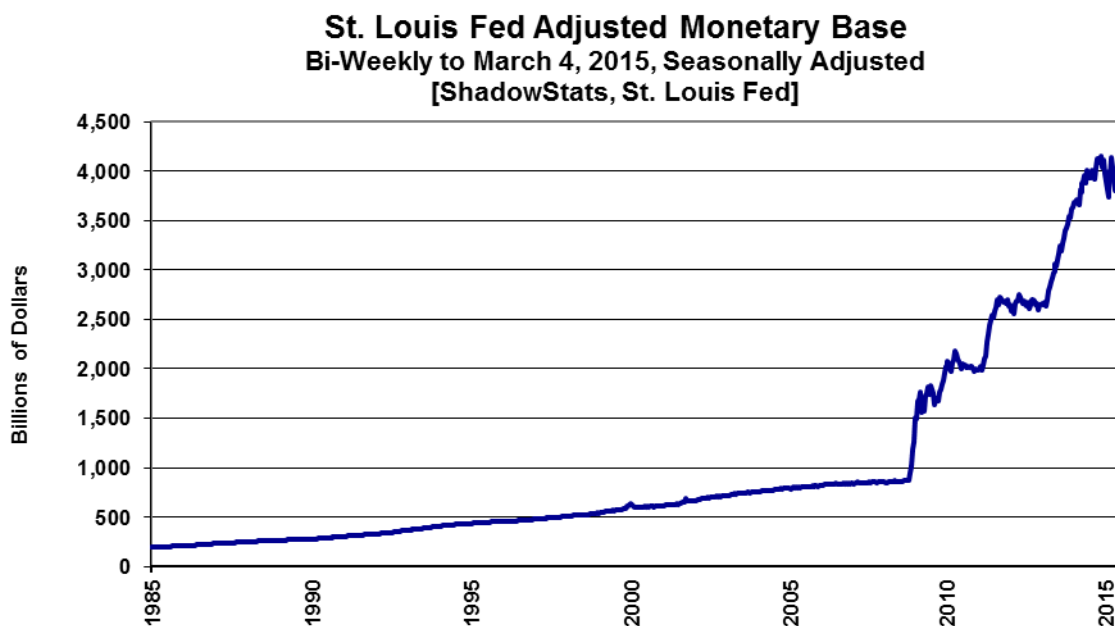
The seasonally-adjusted, preliminary estimate of month-to-month change for February 2015 money supply M3 was roughly a gain of 0.8% in February 2015, versus an unrevised monthly gain of 0.6% in January. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

Growth for February M1 and M2. For February 2015, year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1; M3 includes M2). See the [Money Supply Special Report](#) for full definitions of those measures. Annual M2 growth in February 2015 rose to roughly 6.3%, up from a revised 6.0% (previously 5.9%) year-to-year gain in January 2015, with a month-to-month gain of about 1.0% in February, versus a revised 0.7% (0.6%) in January. For M1 in February 2015, year-to-year growth rose to 9.8%, versus an upwardly revised 9.0% (previously 8.7%) in January 2015, with a month-to-month February gain of 2.1%, versus a revised gain of 0.6% (previously 0.4%) in January.

Fed's Extreme "Quantitative Easing" Still Not Helping the Economy. Discussed in [No. 692 Special Commentary: 2015 - A World Out of Balance](#), the Fed's primary mission is to keep the banking system solvent and afloat, but that was not working, coming into the Panic of 2008. Quantitative easing was introduced in 2008 and went through a number of phases, as reflected in the size of, and growth in the monetary base shown in the accompanying graphs. Where normally such growth would have translated into extraordinary growth in the money supply, it has not. Only as the Fed has pulled back from aggressive assets purchases has M3 begun to show a little movement.

The extraordinary level of asset purchases by the Fed did not flow through to the broad economy. Banks did not lend into the normal flow of commerce, and there was no resulting significant upside movement in money supply, as a result. Instead, banks turned the funds back to the Fed as excess reserves, earning interest, and providing support to the stock market. As part of this process, the Fed ended up monetizing the bulk of the U.S. Treasury's funding needs during the period of active buying, paying back interest earned on the securities to the Treasury.

With the Fed having ceased purchasing new Treasury securities late in 2014 (maturing issues still are rolled over), the monetary base currently is down from its all-time high in September 2014, although it rebounded again sharply in January 2015. The Fed's Treasury asset holdings, however, effectively continue to hold at an all-time high.



St. Louis Fed Adjusted Monetary Base, Yr/Yr %
Bi-Weekly to March 4, 2015, Seasonally Adjusted
[ShadowStats, St. Louis Fed]



HYPERINFLATION OUTLOOK SUMMARY

Economic and Inflation Outlooks Unchanged, Continuing to Unfold. [No. 692 Special Commentary: 2015 - A World Out of Balance](#) of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, 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 2, 2014, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The *Opening Comments* of [No. 692](#) should be considered in terms of recent circumstances and near-term, proximal triggers for massive dollar selling. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts.

Primary Summary. Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis at the end of this decade into the current period. The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic 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 earlier). The following summarizes the underlying current circumstance and recent developments.

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, despite sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014 and broadly related selling pressures in the gold and silver markets.

Current relative U.S. economic strength and the relative virtuousness of Fed monetary policy versus major U.S. trading partners are seriously over-estimated. A crash back to recognition of realistic domestic-economic circumstances likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil; and related sell-offs in the domestic stock and bond markets. Further, a sharp deterioration in near-term domestic U.S. political stability continues to develop and is of meaningful near-term risk for triggering heavy selling of the dollar.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity is turning down anew, despite overstated growth in recent GDP reporting. GDP and other major economic series face heavy downside-benchmark revisions through the end of July. Weak, underlying economic reality also should become increasingly and painfully obvious to the financial markets in the reporting and revisions of the weeks and months ahead for series such as retail sales, production, the trade deficit and payroll employment.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should reverse recent buying pressures, to mounting and massive selling pressures against the U.S. dollar, as well as potentially to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, constructive Fed behavior—purportedly moving towards normal monetary conditions in the currently unfolding, near-perfect economic environment—is pre-conditioned by a continued flow of "happy" economic news. Suggestions that all is right again with world are nonsense. The Panic of 2008 never has been resolved, and the Fed soon will find that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; QE4 will become the question.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, could become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it could, with continual, negative

impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

In the event of a QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would become a rapidly-increasing pace of domestic U.S. inflation.

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 and accounting projections.

All these crises should combine against the U.S. dollar, likely in the very-near future. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility have boosted the U.S. dollar's strength significantly in global trading and have contributed to savaging the prices of oil and in weakening the prices of precious metals.

The recent shift in the Swiss franc due to the elimination of the effective pegging of the Swiss franc to the euro and, by default to the U.S. dollar, also has had the effect of allowing some upside movement in the dollar prices of gold and silver.

Again, strength in the U.S. dollar should reverse, in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, against the U.S. currency. That process, again, started with the shift in Swiss National Bank policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew and shows no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit (see today's trade deficit analysis), 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 (see the *Opening Comments*). Sharply-negative economic reporting shocks, versus unrealistically-positive consensus forecasts, remain a heavily-favored, proximal trigger for the pending dollar debacle.
- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress does not appear to have altered the systemic unwillingness to address the underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around \$5 trillion for the annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details were discussed in [Commentary No. 672](#), and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see the *Opening Comments* section).

- ***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.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see [Commentary No. 672](#)). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States. Renewed expansion to quantitative easing remains likely, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for new or expanded systemic accommodation in any "renewed" economic distress.
- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress, in addressing fundamental issues appear to be nil. Issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues still could devolve rapidly into an extreme political crisis.
- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation in Ukraine versus Russia and extremely-volatile circumstances in the Middle East. U.S. response to the Ukrainian situation may be behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. The situation has yet to run its full course, and it has the potential to reverse rapidly.
- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, any short-term instability and a quick reversal in the dollar's strength could intensify the "dump-the-dollar" rhetoric rapidly.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the 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. These circumstances will trigger the early stages of a hyperinflation, likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike 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. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, [2014 Hyperinflation Report—Great Economic Tumble](#) for detailed discussion on approaches to handling the hyperinflation crisis.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (February 2015)

Headline Payroll and Unemployment Reporting Remain Nonsense. In the context of last month's revisions to the payroll employment data and issues with the household survey numbers (see [Commentary No. 694](#) and [Commentary No. 695](#)), current headline reporting supports little of the happy jobs picture being painted in the headline stories of the popular financial media.

Discussed in the *Opening Comments*, with monthly payroll growth rate recently infused by increased upside reporting biases—biases well in excess of reality—February 2015 payrolls jumped by an above-consensus 295,000. That took payroll jobs to a new post-recession high, some 3.7 million jobs higher than before the recession. Payroll employment, however, counts the number of jobs, not the number of people who are employed. Discussed later in this section, much of that payroll gain has been due to growth in part-time jobs for economic reasons, where those seeking full-time employment cannot find it. As of February, the level of full-time employment still was 1.0 million shy of its precession peak.

Then there is the happy news of the February headline (U.3) unemployment declining from 5.7% to 5.5%, with the number of unemployed declining by 274,000. Employment gained only 96,000, though, with the labor force declining by 178,000, reflecting the longer-term unemployed giving up looking for work, being reclassified as "discouraged" workers by the Bureau of Labor Statistics (BLS). Further, an increasing number of already-counted "discouraged" workers fell completely off the government's unemployment rolls, no longer being counted as "discouraged," because they had been discouraged for more than a year. Those individuals still are counted in the ShadowStats Alternate Unemployment Measure, which was at 23.1% in February.

The decline in the headline unemployment rate was due to the loss of labor force, not to the higher employment. If only the headline number of a 96,000-employment gain (assuming all had been

unemployed) were counted, the unemployment rate still would have been at 5.7%. It is the dropping of the remaining 176,000 unemployed from the unemployment rolls, and the offsetting reduction in the labor force, that accounted for the bulk of the drop in headline unemployment from 5.7% to 5.5%.

Separately, issues remains as to the falsification of the household survey by employees of the Census Bureau, who conduct the underlying Current Population Survey. Details on the related Congressional investigation were discussed in [Commentary No. 669](#).

PAYROLL SURVEY DETAIL. Published March 6th, by the Bureau of Labor Statistics (BLS), the seasonally-adjusted, month-to-month headline payroll-employment gain for February 2015 was 295,000 jobs +/- 129,000 (95% confidence interval) well above market expectations. Such was in the context of the recent upside annual benchmark revision, which flowed increased upside monthly biases into headline monthly reporting at an accelerating pace.

The February gain, followed a revised 238,000 (previously 257,000) increase in January 2015 and a nonsense, unrevised benchmarked 329,000 (initially 252,000) gain in December, with the absurd benchmarked 423,000 headline gain in November still in place.

Fraudulent November Gains. Frequently discussed here are the implications of the BLS's use of concurrent-seasonal-adjustment factors, which restates seasonally-adjusted historical monthly payroll levels each-and-every month, as the new headline number is created in its own, unique seasonally-adjusted environment. The reporting fraud comes not from the adjustment process, itself, but rather from the BLS not publishing the newly revised history each month, and by not allowing for honest comparisons of the numbers.

Using consistent seasonal adjustment, the 329,000 gain in December really was 317,000, and the 423,000 gain in November really was 345,000 (340,000 last month with the January seasonal adjustments). The consistent series is explored fully in [Commentary No. 695](#), and all the latest detail is available through that link on a complimentary basis to ShadowStats subscribers:

ShadowStats Subscriber Access to Consistent BLS Payroll Data. ShadowStats is pleased to provide complimentary access for its subscribers to the ExpliStats detail on the corrected and consistent, seasonally-adjusted payroll data, as of the March 6, 2015 publication of February 2015 payrolls. The consistent version of the seasonally-adjusted payroll-employment series back to January 2010—the beginning of the benchmark period—may be downloaded. Revised detail also is available for a large number of industries. Such will be posted as driven by subscriber interest (please advise interests).

The available, corrected information will be updated regularly, in conjunction with the headline monthly payroll releases from the Bureau of Labor Statistics.

Access to this material is complimentary for ShadowStats subscribers. ExpliStats soon will become a revenue-generating service, but it will maintain a continuing and evolving special relationship with our subscribers. Eventually, expanded ExpliStats services will be offered by subscription, with a special discount for ShadowStats subscribers.

As always, comments and suggestions are invited (including payroll-data interests). Let us know what you would like to see on the ExpliStats Web site. Contact: johnwilliams@shadowstats.com

Link to ExpliStats Detail: http://explistats.com/ces_data/

Password: comp

“Trend Model” for March 2015 Headline Payroll Employment Gain. Discussed in [Commentary No. 695](#) and as described generally in [Payroll Trends](#), the trend indication from the BLS’s concurrent-seasonal-adjustment model—prepared by our affiliate www.ExpliStats.com—was for a February 2015 monthly payroll gain of 253,000, based on the BLS trend model structured into the January 2015 actual reporting, which included all the revamped modeling and detail of the annual benchmark revision.

The late-consensus for February 2015 reporting was 230,000 (Bloomberg), where the headline gain came in at 295,000, above trend and well above consensus.

March 2015 Trend Estimate. Exclusive to ShadowStats subscribers, based on February 2015 reporting, the ExpliStats trend number calculations suggest a headline gain of 243,000 for March 2015.

Confidence Intervals. Where the current employment levels have been spiked by misleading and inconsistently-reported concurrent-seasonal-factor adjustments, the reporting issues suggest that a 95% confidence interval around the monthly headline payroll gain should be well beyond +/- 200,000 around the formal modeling of the headline gain, instead of the official +/- 129,000. Even if the data were reported on a comparable month-to-month basis, other reporting issues would prevent the indicated headline magnitudes of change from being significant. Encompassing Birth-Death Model biases, the confidence interval more appropriately should be in excess of +/- 300,000.

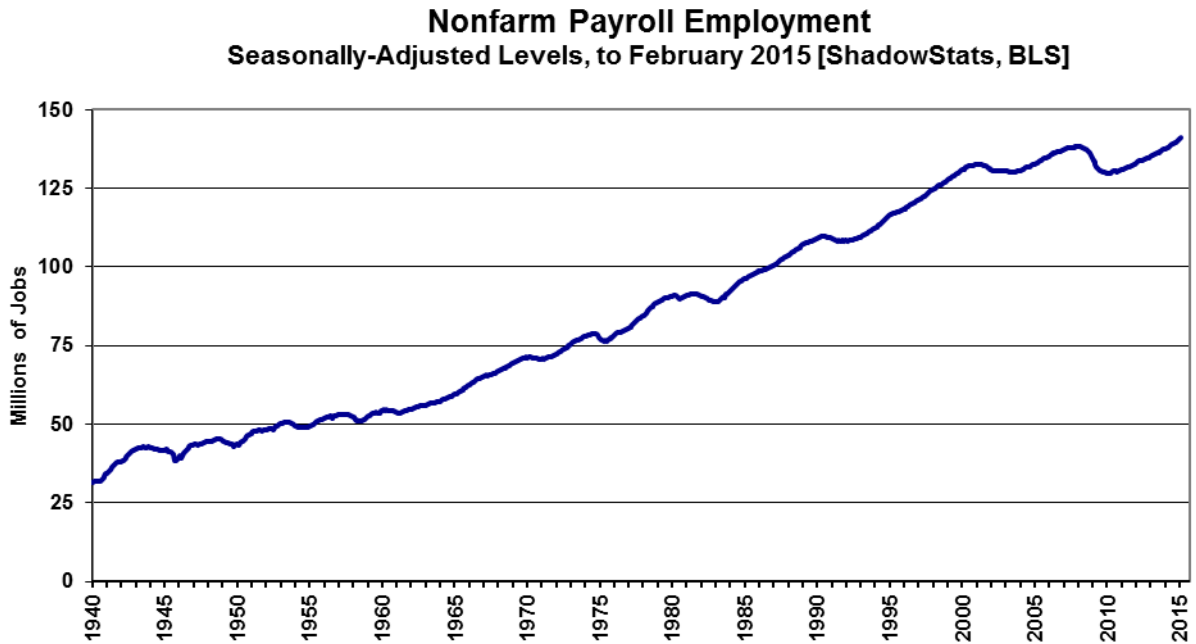
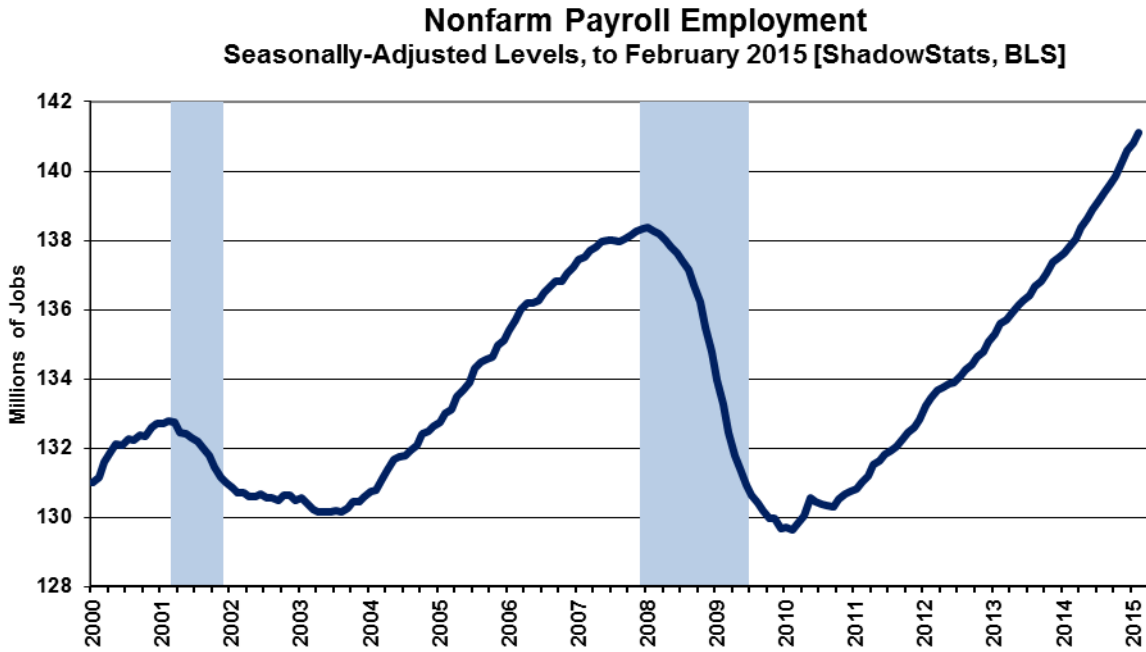
Construction Payrolls. The graph of current construction payrolls is found in the *Construction Spending* section. In the context of an upside revision to January activity, headline February 2015 production payrolls came in at 6.353 million jobs, up by 29,000 from January, which showed a revised monthly gain of 49,000 (previously a gain of 39,000) jobs.

The ongoing strength in headline construction jobs growth runs counter to all other indications of flat-to-down construction activity. The construction payroll numbers are heavily biased to the upside (officially bloated by 6,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total February 2015 construction jobs still were down by 17.8% (-17.8%) from the pre-recession peak for the series in April 2006.

Historical Payroll Levels. Payroll employment is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same back in 2011. Reflected in the next two graphs, headline payroll employment moved to above its pre-recession high in April 2014 (it had happened in May 2014 pre-benchmarking), and it has continued to rise, now about 3.7 million jobs above the pre-recession peak.

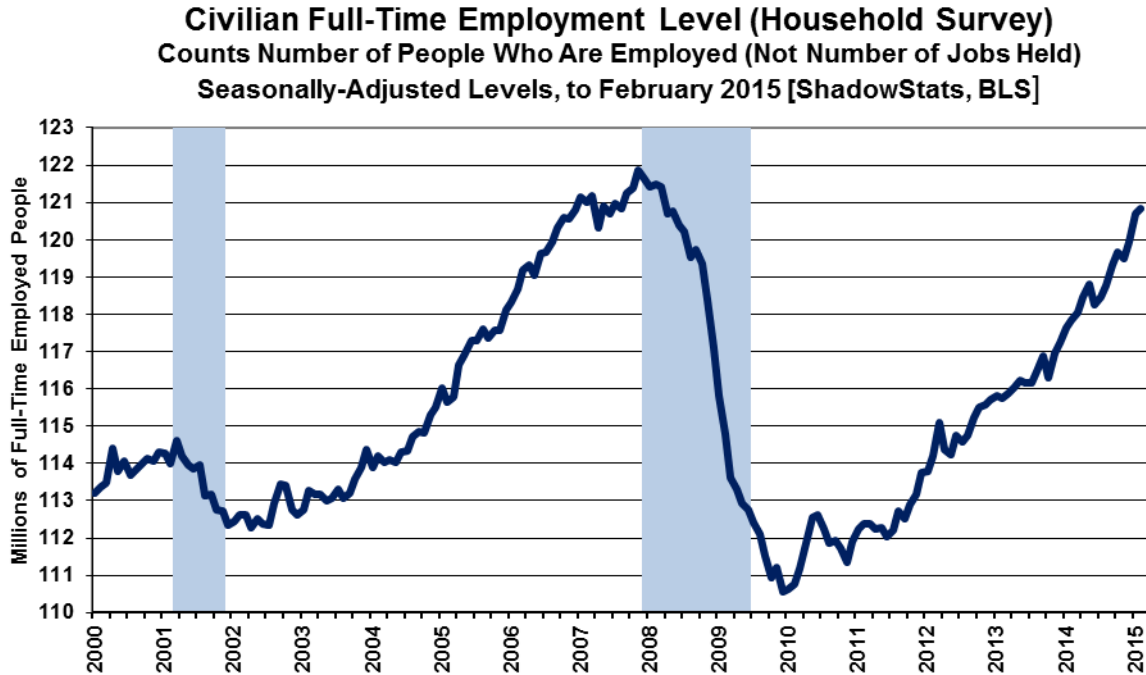
The first two graphs show the headline payroll series, both on shorter-term basis since 2000, and on a longer-term historical basis from 1940. In perspective, the longer-term graph of the headline payroll-

employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.



Beyond excessive upside, add-factor biases built into the monthly calculations (see the *Birth-Death Model* section), the problem is that payroll employment counts the number of jobs, not the number of people

who are employed. Much of that payroll "jobs" growth is in multiple part-time jobs, many taken on for economic reasons, where full-time employment was desired but could not be found.



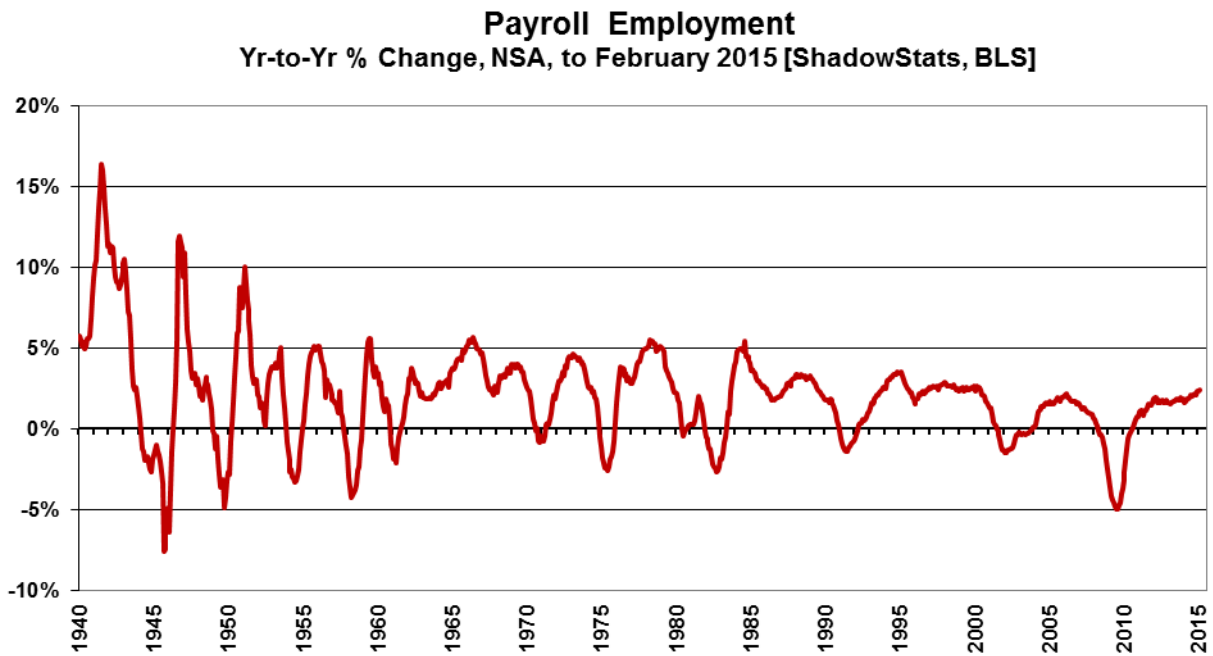
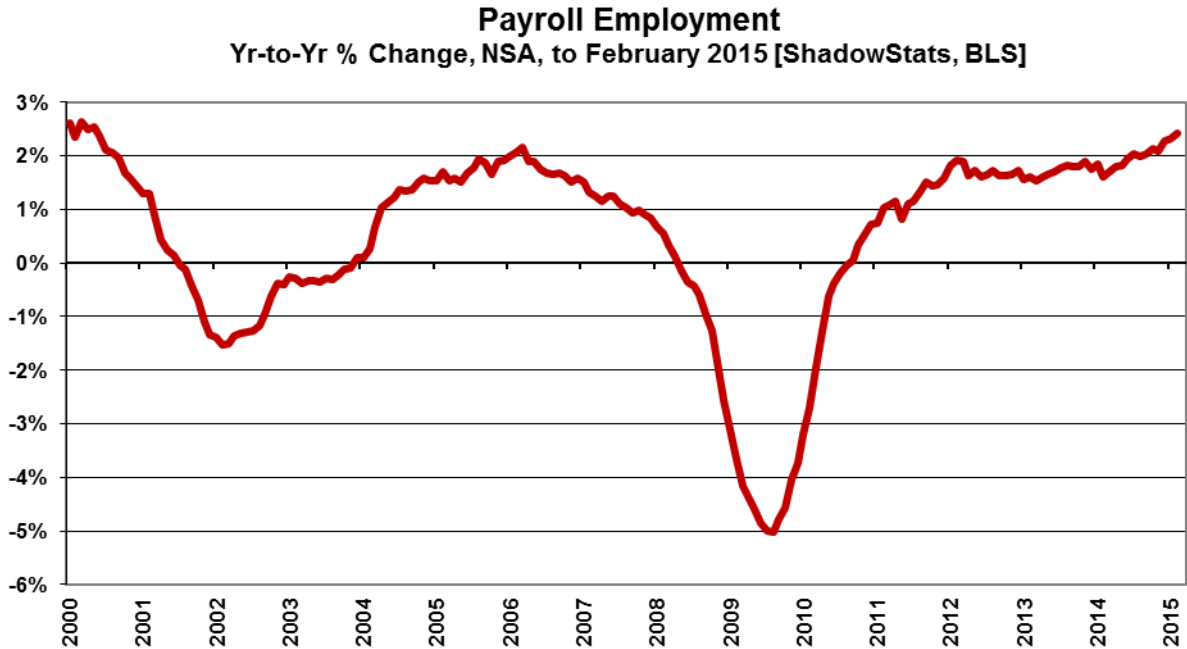
Full-Time Employment versus Part-Time Payroll Jobs. As shown in the next graph, as of February 2015, the level of full-time employment—from the household survey—still was 1.0 million shy of its precession high. As an aside, that shortfall would be even greater, except for the regular annual games the BLS plays with its "population adjustments." Those adjustments will be included in a "corrected" graph that should be in the next employment-related *Commentary*.

This graph of full-time employment excludes the count of those employed with one-or-more part-time jobs, total employment, including those employed with part-time work, also has recovered its pre-recession high, but not close to the payroll reporting. Again, the household survey numbers count the number of people who have at least one job. The payroll survey simply counts the number of jobs (see [Commentary No. 686](#) for further detail).

Annual Change in Payrolls—Strongest Growth Since 2000. With the benchmarked surges in seen in last month's headline payroll activity, year-to-year growth on unadjusted payrolls also moved higher with the benchmarking, hitting a new post-recession high in January and again in February. Although not credible, the annual growth in February 2015 was the strongest since June 2000 (another recession).

Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change are reported on a consistent basis, although a possible new redefinition of the series—not the standard benchmarking

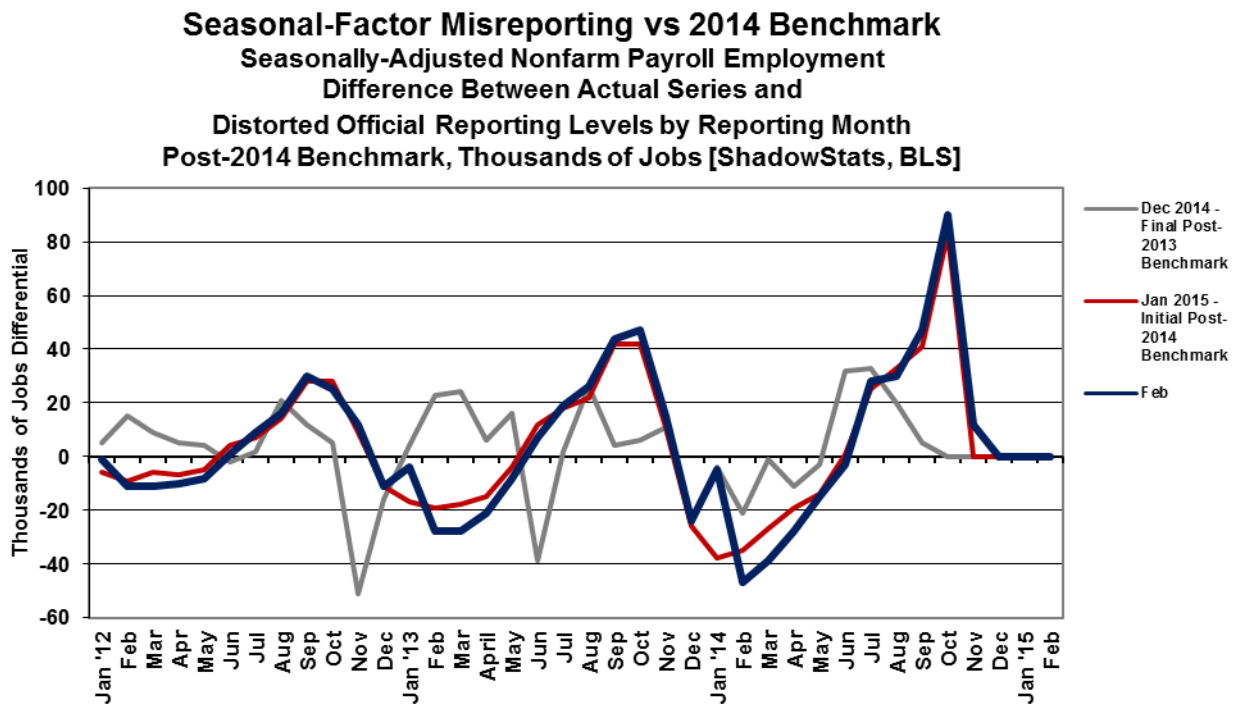
process in 2014—appears to be in play, on top of the prior distortions from the 2013 benchmarking (see [Commentary No. 598](#)).



For February 2015, year-to-year or annual nonfarm payroll growth was 2.42%, up from a revised 2.32% (previously 2.37%) in January and an unrevised 2.28% (initially 2.16%) in December.

With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record 5.02% (-5.02%) decline seen in August 2009, as shown in the accompanying graphs. That 5.02% (-5.02%) decline remains the most severe annual contraction since the production shutdown at the end of World War II [a trough of a 7.59% (-7.59%) annual contraction in September 1945]. Disallowing the post-war shutdown as a normal business cycle, the August 2009 annual decline was the worst since the Great Depression.

Shifting Concurrent-Seasonal-Factors—The Graph. Detailed in [Commentary No. 694](#) and [Commentary No. 695](#), there are serious and deliberate reporting flaws with the government’s seasonally-adjusted, monthly reporting of both employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll and unemployment data for the latest seasonal patterns. As new headline data are seasonally-adjusted for each series, the adjustment process also revises the monthly history of each series, recalculating prior, adjusted reporting for every month, going back five years, on a basis that is consistent with the new seasonal patterns of the headline number. The BLS provides modeling detail for the payroll survey, allowing for third-party calculations; no such accommodation has been made for the household survey.



The BLS uses and publishes the current headline estimate, but it does not publish the revised history, even though it calculates the consistent new data each month. As a result, headline reporting generally is neither consistent with, nor comparable to earlier reporting, and month-to-month comparisons of these popular numbers usually are of no substance, other than for market hyping or political propaganda.

No one seems to mind if the published earlier numbers are wrong, particularly if unstable seasonal-adjustment patterns have shifted prior jobs growth or reduced unemployment into current reporting, without any formal indication of the shift from the previously-published historical data.

The preceding graph shows how far the monthly payroll employment data have strayed from being consistent with the just-published benchmark revision. The gray line shows that December 2014 pattern versus the 2013-benchmark revision, and the respective red and blue line show the January and February 2015 patterns of distortion versus the 2014-benchmark. Due to several months of testing of the model, before the benchmark release, the historical data never are published on a consistent basis by the BLS.

If the reporting were comparable and stable, month-after-month, all the lines in the graphs would be flat and at zero. With the payroll series, only the headline month and the prior month are consistent in terms of month-to-month reporting detail (headline November 2014 detail no longer is consistent with October 2014), prior data are not comparable.

In terms of the household survey, none of the month-to-month reporting is consistent, except in the once-per-year reporting of December data, when the annual revisions to seasonal adjustments are published. All historical comparability evaporates with the ensuing headline January reporting.

Birth-Death/Bias-Factor Adjustment. Despite the ongoing, general overstatement of monthly payroll employment, the BLS adds in upside monthly biases to the payroll employment numbers. The continual overstatement is evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 2012 and 2014 excepted). As discussed in the benchmark detail of [Commentary No. 598](#), the regular benchmark revision to March 2013 payroll employment was to the downside by 119,000, where the BLS had overestimated standard payroll employment growth.

With the March 2013 revision, though, the BLS separately redefined the payroll survey so as to include 466,000 workers who had been in a category not previously counted in payroll employment. The latter event was little more than a gimmicked, upside fudge-factor, used to mask the effects of the regular downside revisions to employment surveying, and likely is the excuse behind the increase in the annual bias factor, where the new category cannot be surveyed easily or regularly by the BLS. Elements tied to this may have had impact on the unusual issues with the 2014 revisions (see *Opening Comments* and [Commentary No. 598](#)).

Abuses from the 2014 benchmarking are detailed in [Commentary No. 694](#) and [Commentary No. 695](#). With the headline benchmark revision for March 2014 showing a jobs understatement of 67,000, the BLS upped its annual add-factor bias by an even greater 161,000 for the year ahead, to 892,000. As has been standard BLS practice, there is no good political reason for risking a headline understatement of jobs growth.

Historically, the upside-bias process was created simply by adding in a monthly "bias factor," so as to prevent the otherwise potential political embarrassment to the BLS of understating monthly jobs growth. The "bias factor" process resulted from such an actual embarrassment, with the underestimation of jobs growth coming out of the 1983 recession. That process eventually was recast as the now infamous Birth-Death Model (BDM), which purportedly models the effects of new business creation versus existing business bankruptcies.

February 2015 Bias. The not-seasonally-adjusted February 2015 bias was a positive monthly add factor of 132,000, versus a negative monthly add-factor of 275,000 (-275,000) in January 2015, versus a pre-benchmark positive monthly add-factor of 124,000 in February 2014.

The revamped aggregate upside bias for the trailing twelve months through February 2015 was an even 900,000, from the pre-benchmarked 731,000 in December 2014, or a monthly average of 75,000 (61,000 pre-benchmark) jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS in the BDM, as discussed below.

Problems with the Model. The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net positive jobs creation by new companies versus those going out of business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. Where the BLS cannot measure meaningfully the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), or by changes in household employment that just have been incorporated into the redefined payroll series, such information is guesstimated by the BLS along with the addition of a bias-factor generated by the BDM.

Positive assumptions—commonly built into government statistical reporting and modeling—tend to result in overstated official estimates of general economic growth. Along with these happy guesstimates, there usually are underlying assumptions of perpetual economic growth in most models. Accordingly, the functioning and relevance of those models become impaired during periods of economic downturn, and the current, ongoing downturn has been the most severe—in depth as well as duration—since the Great Depression.

Indeed, historically, the BDM biases have tended to overstate payroll employment levels—to understate employment declines—during recessions. There is a faulty underlying premise here that jobs created by start-up companies in this downturn have more than offset jobs lost by companies going out of business. Recent studies have suggested that there is a net jobs loss, not gain, in this circumstance. So, if a company fails to report its payrolls because it has gone out of business (or has been devastated by a hurricane), the BLS assumes the firm still has its previously-reported employees and adjusts those numbers for the trend in the company's industry.

Further, the presumed net additional “surplus” jobs created by start-up firms are added on to the payroll estimates each month as a special add-factor. These add-factors are set now to add an average of 75,000 jobs per month in the current year. In current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month.

Household-Survey Data Remain of Questionable Significance. *Continued warning:* Detailed in [Commentary No. 669](#), significant issues as to falsification of the data gathered in the monthly Current Population Survey (CPS), conducted by the Census Bureau, have been raised in the press and have been under investigation by the House Committee on Oversight and Government Reform and the U.S. Congress Joint Economic Committee. The CPS is the source of the household survey used by the BLS in estimating monthly unemployment, employment, etc. Accordingly, the statistical significance of the headline reporting detail here is open to serious question.

Concurrent Seasonal Adjustments at the BLS. Beyond potential quality issues of the CPS surveying process for the household survey, the BLS already has had in place reporting practices to make the seasonally-adjusted household-survey data virtually meaningless in terms of month-to-month change or comparison. The monthly concurrent-seasonal-factor adjustment process used in generating the headline numbers regenerates all seasonal factors every month, unique to the most-recent month. Yet, the revamped and consistent, seasonally-adjusted, historical household survey detail is not published, except once per year, in December. All the historical data shifted anew with the headline January 2015 reporting, and again with February 2015, but what would be new historical detail, consistent with the current reporting never will be published.

Separately, the BLS revises its population estimates each January. That makes the January versus December household numbers not comparable, beyond the other issues. The BLS, however, does publish one-time estimates of what the January numbers would have been on a consistent December population-estimate basis.

Headline Unemployment Rates. The headline February 2015 unemployment (U.3) rate decreased by 0.17-percentage point to 5.54%, from 5.71% in January 2015. Technically that was a statistically-insignificant change, where the official 95% confidence interval around the monthly change in headline U.3 is +/- 0.23-percentage point. That is meaningless, though, in the context of the comparative month-to-month reporting-inconsistencies created by the concurrent-seasonal factors, let alone new questions as to general survey accuracy and significance.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. February's unadjusted U.3 unemployment rate was 5.8%, versus 6.1% in January.

U.6 Unemployment Rate. The broadest unemployment rate published by the BLS, U.6 includes accounting for those marginally attached to the labor force (including short-term discouraged workers) and those who are employed part-time for economic reasons (*i.e.*, they cannot find a full-time job).

With a decline in the seasonally-adjusted number of people working part-time for economic reasons and an increase in discouraged workers, but a decline in the total of those marginally attached to the workforce (unadjusted), headline February 2015 U.6 unemployment fell to 10.99%, from 11.31% in January. The unadjusted U.6 declined to 11.4% in February, from 12.0% in January 2015.

Discouraged Workers. The count of short-term discouraged workers in February 2015 (never seasonally-adjusted) increased to 732,000, from 682,000 in January, versus 740,000 in December 2014, 698,000 in November and 770,000 in October. The latest, official discouraged-worker number reflected the flow of the unemployed—increasingly giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term “discouraged workers,” net of the further increase in the number of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status.

It is the long-term discouraged-worker category that defines the ShadowStats-Alternate Unemployment Measure. There appears to be a relatively heavy, continuing rollover from the short-term to the long-term category, with the ShadowStats measure encompassing U.6 and the short-term discouraged workers, plus the long-term discouraged workers.

In 1994, “discouraged workers”—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been “discouraged” for less than a year. This time qualification defined away a large number of long-term discouraged workers. The remaining short-term discouraged workers (those discouraged less than a year) were included in U.6.

ShadowStats-Alternate Unemployment Rate. Adding back into the total unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers, broad unemployment—more in line with common experience, as estimated by the ShadowStats-Alternate Unemployment Measure—notched lower to 23.1% in February 2015, from 23.2% in January, down from the series high (back to 1994) of 23.3% seen variously in June, October and December 2013.

The ShadowStats estimate reflects the increasing toll of unemployed leaving the headline labor force. Where the ShadowStats-Alternate estimate generally is built on top of the official U.6 reporting, it tends to follow its relative monthly movements and particularly its annual revisions. Accordingly, the alternate measure often will suffer some of the same seasonal-adjustment woes that afflict the base series, again, including underlying annual revisions.

[The remaining text in this Household Survey section is unchanged from last month's Commentary covering the January 2015 labor data.] As seen in the usual graph of the various unemployment measures (in the *Opening Comments*), there continues to be a noticeable divergence in the ShadowStats series versus U.6, and the ShadowStats series and U.6 versus U.3. The reason for this is that U.6, again, only includes discouraged workers who have been discouraged for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as new workers enter “discouraged” status. A similar pattern of U.3 unemployed becoming “discouraged” and moving into the U.6 category also accounts for the early divergence between the U.6 and U.3 categories.

With the continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker status (a ShadowStats measure). There was a lag in this happening as those having difficulty during the early months of the economic collapse, first moved into short-term discouraged status, and then, a year later into long-term discouraged status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force has been accelerating. While there is attrition in long-term discouraged numbers, there is no set cut off where the long-term discouraged workers cease to exist. See the [Alternate Data](#) tab for historical detail.

Generally, where the U.6 largely encompasses U.3, the ShadowStats measure encompasses U.6. To the extent that a decline in U.3 reflects unemployed moving into U.6, or a decline in U.6 reflects short-term discouraged workers moving into the ShadowStats number, the ShadowStats number continues to encompass all the unemployed, irrespective of the series from which they otherwise may have been ejected.

Three further related graphs, also found in the *Opening Comments* section, are of the ShadowStats-Alternate Unemployment Measure, with an inverted scale, the employment-to-population ratio, which has a high correlation with the inverted ShadowStats measure, and participation rate, a measure commonly touted by Federal Reserve Chair Janet Yellen.

Great Depression Comparisons. As discussed in the regular *Commentaries* covering the monthly unemployment circumstance, an unemployment rate above 23% might raise questions in terms of a comparison with the purported peak unemployment in the Great Depression (1933) of 25%. Hard estimates of the ShadowStats series are difficult to generate on a regular monthly basis before 1994, given the reporting inconsistencies created by the BLS when it revamped unemployment reporting at that time. Nonetheless, as best estimated, the current ShadowStats level likely is about as bad as the peak actual unemployment seen in the 1973-to-1975 recession and in the double-dip recession of the early-1980s.

The Great Depression unemployment rate of 25% was estimated well after the fact, with 27% of those employed working on farms. Today, less than 2% of the employed work on farms. Accordingly, a better measure for comparison with the ShadowStats number would be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

U.S. TRADE BALANCE (January 2015)

Real Trade Deficit Widened Sharply in First-Quarter 2015, Should Sink First-Quarter GDP Growth. The headline trade deficit for January 2015 narrowed by \$3.8 billion to \$41.8 billion. That improvement was more than accounted for by plunging prices of imported oil in January, and such was in line with consensus expectations (\$41.8 billion per Bloomberg).

Net of inflation—the way the GDP is reported—the real January deficit widened sharply, however, against the average real deficit in fourth-quarter 2014, suggesting that the inflation-adjusted first-quarter 2015 trade deficit will deteriorate sharply against fourth-quarter 2014 trade activity, hammering the initial growth estimate of first-quarter 2014 GDP, due for release on April 29th.

Nominal (Not-Adjusted-for-Inflation) January 2015 Trade Deficit. The BEA and the Census Bureau reported this morning, March 6th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for January 2015, on a balance-of-payments basis, narrowed by \$3.849 billion to \$41.752 billion in January, versus a revised \$45.601 (previously \$46.557) billion in December, and widened versus a revised \$38.841 (previously \$38.821) billion in January 2014.

Such was in the context of revised monthly and annual deficit detail for all of 2014. The total annual deficit for 2014 now stands at \$504.711 (previously \$505.047) billion, having widened from \$476.392 billion in 2014.

As to month-to-month trade patterns, the headline \$3.849 billion narrowing of January 2015 deficit reflected a \$5.592 billion decline in monthly exports, with an even greater decline of \$9.441 billion in monthly imports. Both the declines in exports and imports were impacted heavily by plunging prices for crude oil and petroleum-related products.

Aside from temporarily declining oil prices, the ongoing trend should continue to be for significant monthly, quarterly and annual deterioration in the U.S. trade deficit, both before and particularly after adjustment for inflation. Look for a sharp widening of the headline real deficit in February 2015, along with a widening of the January shortfall in the accompanying revision.

Energy-Related Petroleum Products. For January 2015, the not-seasonally-adjusted average price of imported oil continued to plunge, down to \$58.96 per barrel, from \$73.64 per barrel in December 2014, and down from \$90.21 per barrel in January 2014. Also not-seasonally-adjusted, physical oil import volume in January 2015 averaged 7.186 million barrels per day, down from 7.980 million in December 2014, and 8.275 million in January 2014.

Ongoing Cautions on Data Quality. Although not obvious in today's headline reporting, labor disruptions at U.S. ports may impact headline imports and exports in the near term. Separately, potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues are seen with 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 too heavily on the accuracy of the monthly headline data.

Real (Inflation-Adjusted) January 2015 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, also used for GDP deflation), the January 2015 merchandise trade deficit (no services) narrowed minimally to \$53.616 billion, from a revised deficit in December 2014 of \$54.025 (previously \$54.679) billion. It also widened sharply versus a revised \$48.356 (previously \$48.353) billion in January 2014. Such was in the context of monthly and annual revisions to the real 2014 merchandise trade deficit. The annual real deficit revised to \$599.139 (previously \$599.764) billion in 2014, versus an unrevised level of \$570.956 billion in 2013.

As reported, the annualized quarterly real merchandise trade deficit stood at \$554.7 billion for fourth-quarter 2013, \$587.3 billion for first-quarter 2014, \$616.5 billion for second-quarter 2014, a revised \$583.2 (previously \$583.1) billion for third-quarter 2014, and a revised \$609.5 (previously \$612.1) billion for fourth-quarter 2014.

Given the small downside revision to the fourth-quarter trade deterioration, there could be a minimal narrowing of the fourth-quarter net-export deficit (minimal upside contribution to fourth-quarter GDP 2014) in revision.

Based on reporting for just January 2015, however, the annualized trade shortfall for first-quarter 2014 has started off at an annualized pace of \$643.392 billion, enough to subtract in excess of one-percentage point from the aggregate first-quarter headline GDP annualized growth rate, if the deficit holds. The February data formally will complete the trade picture before the "advance" GDP estimate, and should not come in far removed from the initial headline reporting for the January.

CONSTRUCTION SPENDING (January 2015)

Real Construction Spending Continued in Low-Level Fluctuating Stagnation. Moving well into its second year of fluctuating, low-level stagnation, real construction spending showed a headline monthly decline of 1.4% (-1.4%) for January 2015. The real series stood at 35.0% below its pre-recession high of March 2006.

In nominal terms, before inflation adjustment, the headline decline was 1.1% (-1.1%) for the month. The drop in activity was not statistically meaningful, as is usual for headline monthly changes to this series. The pattern of ongoing, low-level stagnation remained intact, both before and after inflation adjustment, with the recent real (inflation-adjusted) series in particular showing an ongoing irregular pattern of flat activity that began in late-2013. Also, headline nominal annual change in January was not statistically significant, while net of inflation, annual growth has been holding zero, plus or minus a tenth of a percent or so.

Based on January 2015 reporting, the suggested headline first-quarter 2015 real change versus fourth-quarter 2014 would be for an annualized quarterly contraction of 4.4% (-4.4%), following a revised 4.6% (previously 5.2%) annualized quarterly gain in real fourth-quarter activity.

Such is reflected in the second graph following of real or inflation-adjusted detail. The historical pattern remains one that does not support the headline, real-GDP story of a full economic recovery and post-recession expansion since 2009.

PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the aggregate activity in the construction-spending series. The previously-used New Construction Index (NCI), was so far shy of reflecting construction costs as to be virtually useless. Although closely designed to match this construction-spending series, the FDCI has two problems. First, its historical data only go back to November 2009. Second, it still understates actual construction inflation. There is no perfect, publicly-available inflation measure for deflating construction. For the historical series in the accompanying graph, the numbers are deflated by the NCI through November 2009, and by the FDCI thereafter.

For January 2015, the seasonally-adjusted FDCI month-to-month inflation was 0.36%, following an unchanged reading in December 2014. In terms of year-to-year change, January FDCI was 1.91%, versus 2.11% in December.

Headline Reporting for January 2015. The Census Bureau reported March 2nd that the headline, total value of construction put in place in the United States for January 2015 was \$971.4 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was down month-to-month by a statistically-insignificant 1.1% (-1.1%) +/- 1.4% (all confidence intervals are at the 95% level).

Such followed a revised level of \$982.0 [previously \$982.1] billion in December 2014, which was up by a revised 0.8% [previously up 0.4%] from a revised level of \$974.3 [previously \$978.6, initially \$975.0] billion in November, which was down by a revised 0.6% (-0.6%) [previously down by 0.2% (-0.2%), initially down by 0.3% (-0.3%)] from an unrevised level of \$980.4 billion in October.

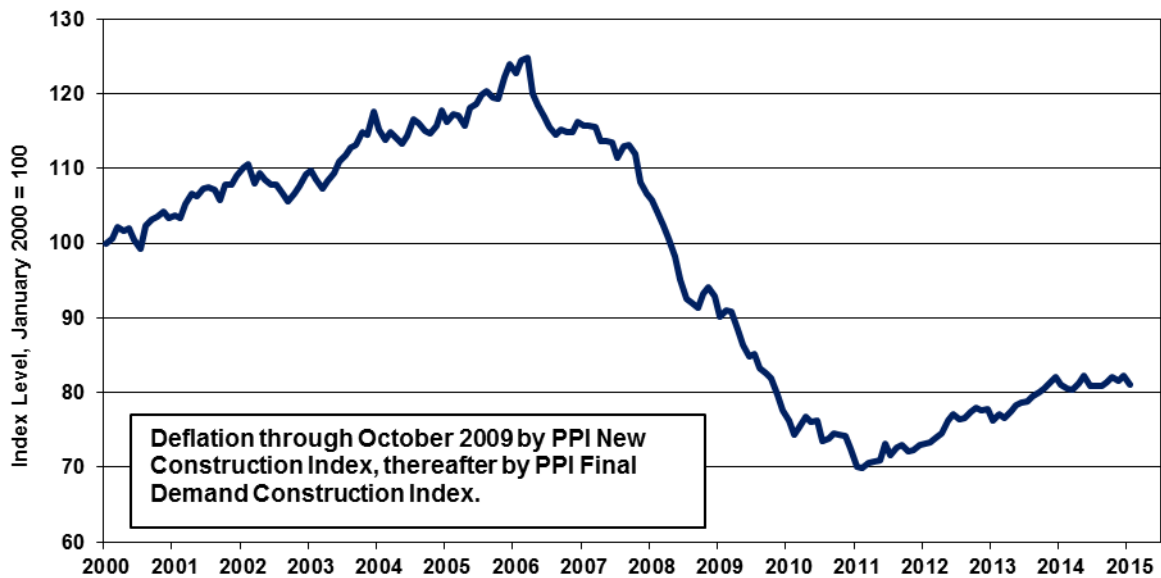
Adjusted for the FDCI inflation measure in the PPI, aggregate real spending in January 2015 fell by 1.4% (-1.4%) month-to-month versus December 2014, and was up by a revised 0.8% (previously up by 0.4%) month-to-month versus November.

On a year-to-year or annual-growth basis, January 2015 construction spending rose by a statistically-insignificant 1.8% (+/-1.9%), versus an unrevised 2.2% gain in December 2014. Net of construction costs indicated by the FDCI, however, year-to-year change in spending was an annual contraction in January 2015 of 0.2% (-0.2%), versus an unrevised annual gain of 0.1% in December 2014.

Total Construction Spending, Monthly to January 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Real Index of Value of Construction Put in Place
To January 2015, Inflation-Adjusted (Jan 2000=100)
Deflated by the PPI Final Demand Construction Index
[Sources: ShadowStats, Census Bureau, BLS]

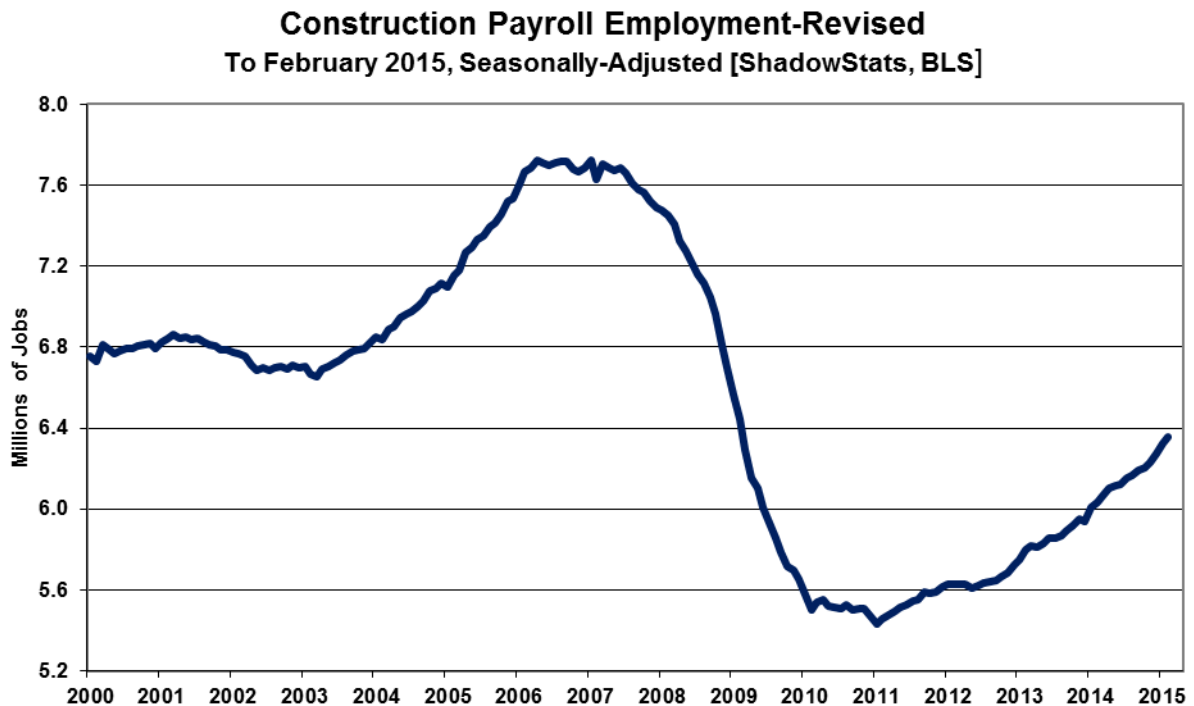


The statistically-insignificant, headline monthly contraction of 1.1% (-1.1%) in nominal January 2015 construction, versus a monthly gain of 0.8% in December 2014, included a monthly contraction in

January public spending of 2.6% (-2.6%), versus a monthly gain of 1.7% in December. Private spending fell by 0.5% (-0.5%) in January, versus a gain of 0.4% in December. Within total private construction spending, the residential sector gained 0.6% in January, versus a 0.7% gain December, while the nonresidential sector contracted by 1.6% (-1.6%) in January, versus a gain of 0.1% in December. The following graphs show the latest extended detail.

Construction and Related Graphs. The preceding two graphs reflect total construction spending through January 2015, 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 through October 2009 and the PPI's Final Demand Construction Index thereafter, 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 trending flat since late-2013, notching lower in the latest headline reporting

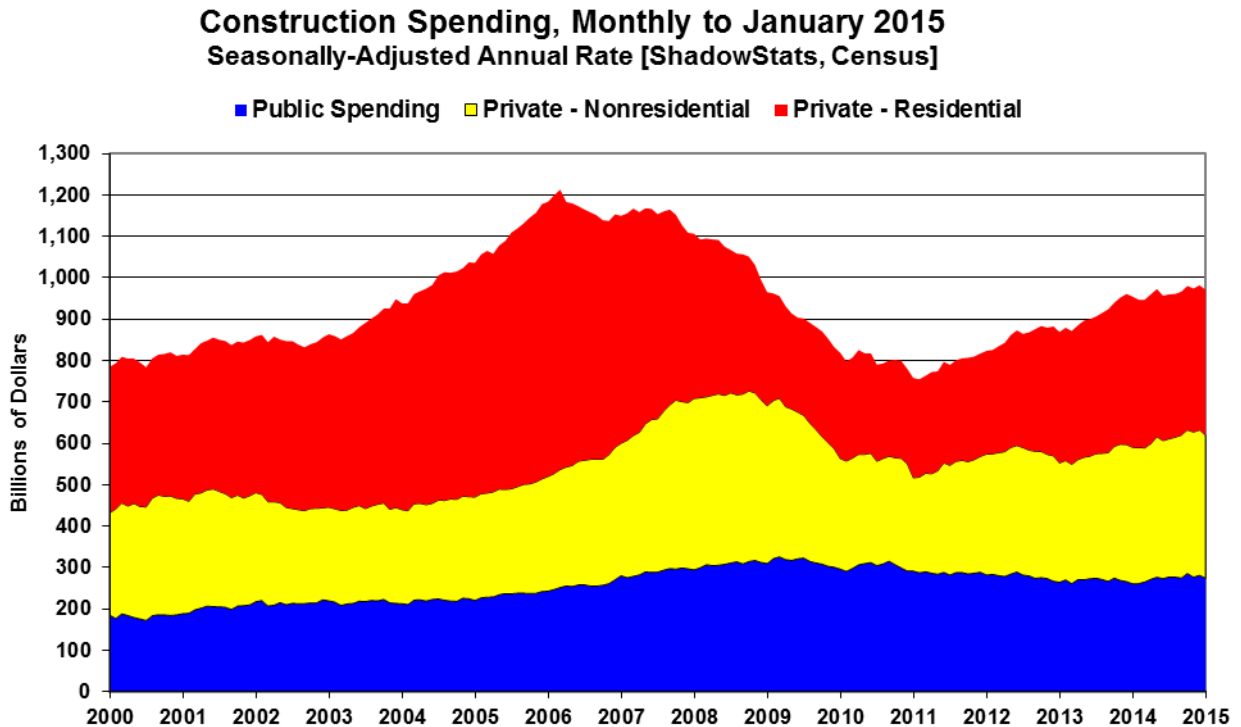
The pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see [Commentary No. 700](#) and [No. 692](#) [Special Commentary: 2015 - A World Out of Balance](#)). To the contrary, the latest construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, shows a pattern slightly variable stagnation, where activity never recovered pre-recession highs.



The preceding graph shows February 2015 construction employment (see the *Employment and Unemployment* section for specific detail on the numbers).

In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity.

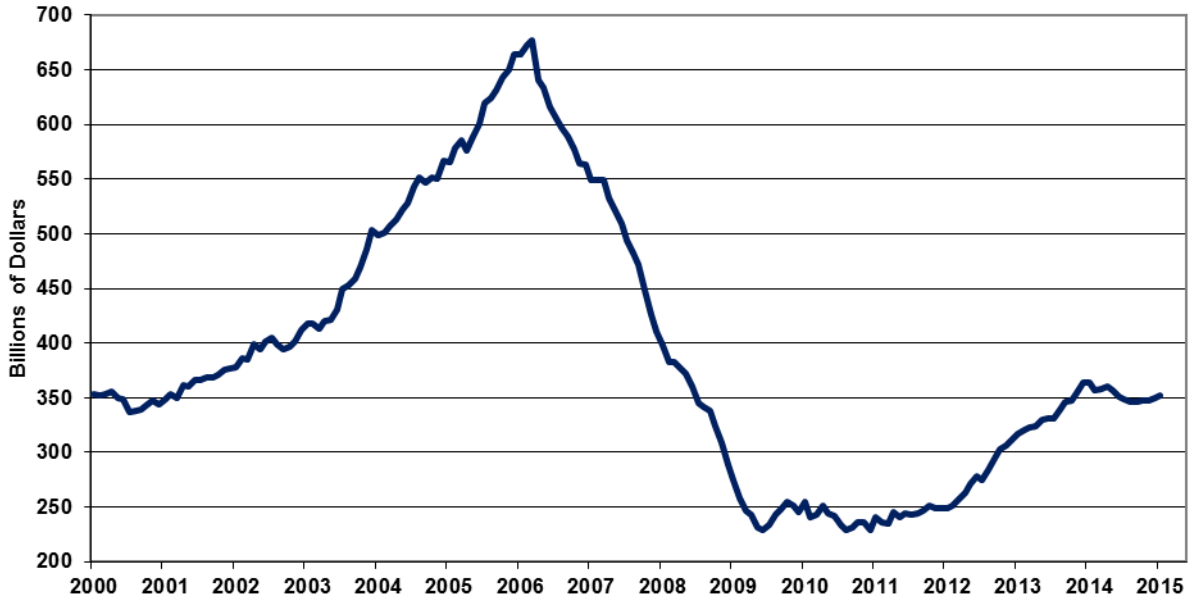
The following plot shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential spending (red).



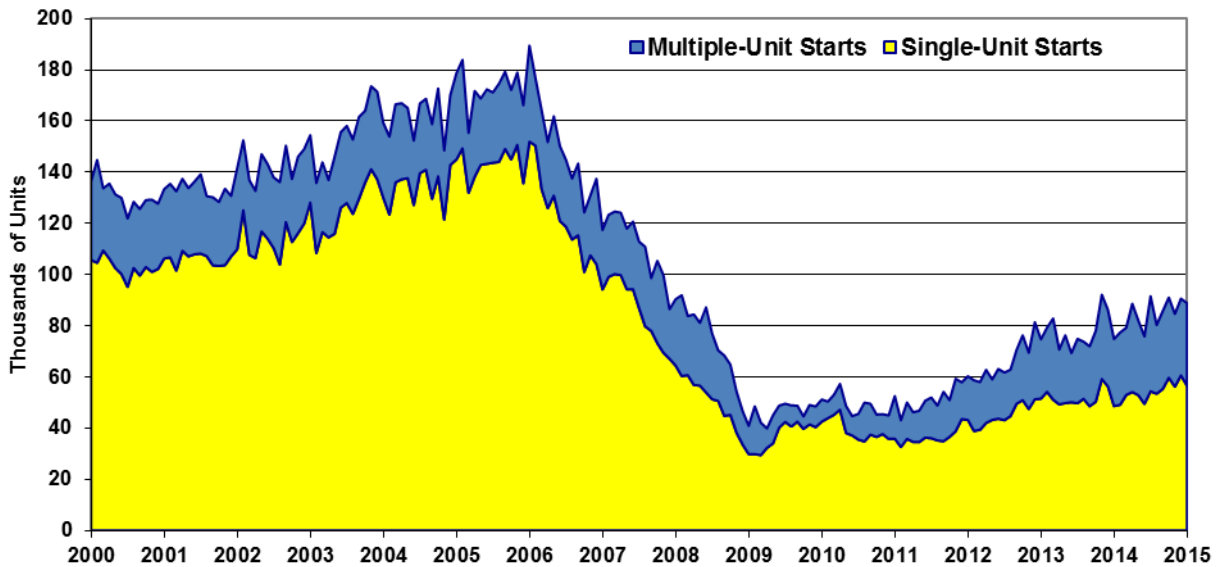
The next two graphs following cover private residential construction along with housing starts (combined single- and multiple-unit starts) for January 2015 (see [Commentary No. 697](#)). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing starts reflect unit volume, which should tend to be more parallel with the real (inflation-adjusted) series. Where the private residential construction spending had been in recent upturn through most of 2013, turned slightly lower in 2014, basically stagnant coming into 2015, even before adjustment for inflation.

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 had bounced higher off a secondary, near-term dip in late-2012, and then heading higher, again, with a topping pattern seen recently. Public construction spending, which is 98% nonresidential, had continued in a broad downtrend, with intermittent bouts of fluttering stagnation and some recent upturn.

Private Residential Construction to January 2015 Seasonally-Adjusted Annual Rate [ShadowStats, Census]



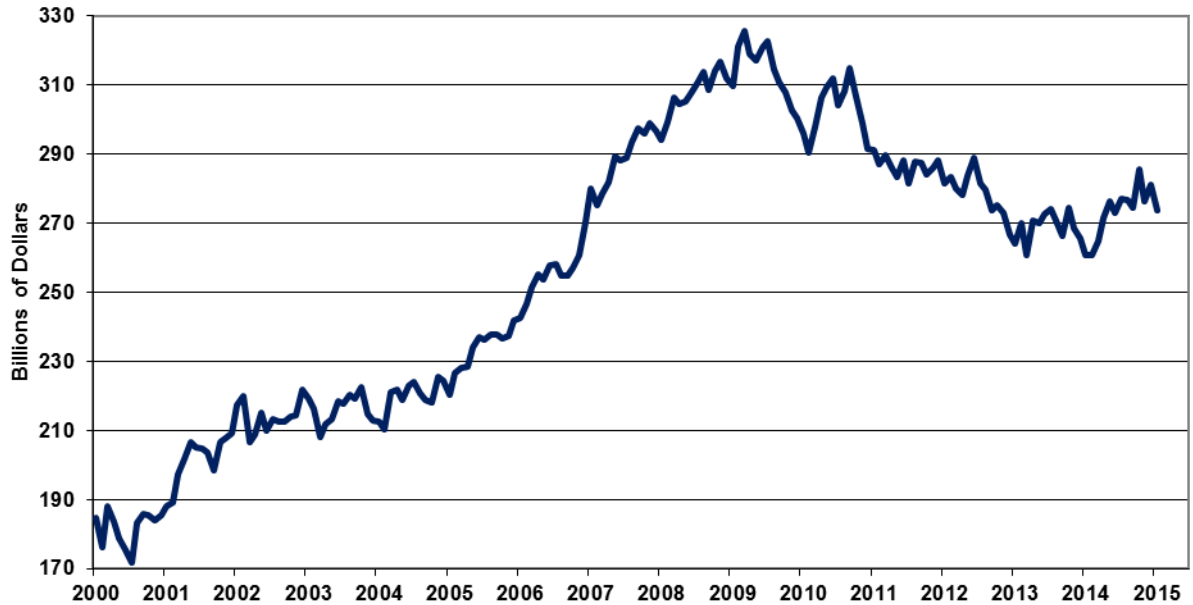
Single- and Multiple-Unit Housing Starts (Monthly Rate) To January 2015, Seasonally-Adjusted [ShadowStats, Census]



Nonresidential Construction, Monthly to January 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Public Construction, Monthly to January 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



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 one monthly revision 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 or was close to a near-term low in January 2015 reporting. Significant upside inflation pressures should resume as oil prices 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 the prior labor data related [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:

Retail Sales (February 2015). The Census Bureau has scheduled release of February 2015 retail sales for Thursday, March 12th. Early market expectations appear to be for some headline rebound in nominal (not-adjusted-for-inflation) February retail sales, following two months of sharp month-to-month declines. Wherever consensus expectations settle, a downside reporting surprise usually is a good bet with this series, and risks of a third straight nominal monthly contraction remain a fair bet, even though the headline monthly plunges in gasoline prices have abated.

Constraining sales activity, the consumer remains in an extreme liquidity bind, as detailed extensively in [Commentary No. 699](#), [No. 692 Special Commentary: 2015 - A World Out of Balance](#), and as updated in the *Opening Comments* with the January detail of real median household income. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt, making up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales. Accordingly, the headline January 2015 retail sales number is at high risk of showing another outright month-to-month contraction (in nominal terms, before inflation adjustment). At the same time, look for downside revisions to the previously-reported January and December detail.

For a second month, the Bureau of Labor Statistics has an unusually-late release of the CPI-U, with the February data due for publication on March 24th, likely in order to accommodate the shortened month of February in the general preparation of the inflation data for that month [March CPI reporting returns to the usual mid-month time slot in April]. Accordingly, the ShadowStats *Commentary* of March 24th will cover February 2015 real retail sales.

With both December 2014 and 2015 January CPI-U dropping sharply due to the plunge in gasoline prices, nominal retail sales dropped even faster in those months, with the real or inflation-adjusted monthly growth rates still negative, as a result. Headline February inflation likely also will top the headline nominal retail sales growth, leaving headline real retail sales activity negative month-to-month for the third month in a row, setting up first-quarter 2015 real retail sales for an increasingly likely headline quarter-to-quarter contraction.

Producer Price Index—PPI (February 2015). The February 2015 PPI is scheduled for release on Friday, February 13th, by the Bureau of Labor Statistics (BLS). The PPI-release detail will be covered in the ShadowStats *Commentary* of Monday, March 16th. With the collapse in oil and gasoline prices having bottomed out in February, at least temporarily, some rebound in the headline monthly PPI also is likely. With that turnaround in energy prices, early market expectations appear to be for a small headline gain in the February PPI, perhaps by 0.2% or more month-to-month. Such expectations are reasonable.

The energy sector, once again, should be the dominant component in the headline data, but on the upside in February 2015, for the first time since June 2014. Oil prices peaked in June and then turned down as the U.S. established overt and covert financial sanctions against Russia, related to the circumstance in Ukraine.

Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices rose by 7.1% and by 21.6% in the month of February, along with a 4.2% increase in unadjusted monthly-average, retail-gasoline prices (Department of Energy). PPI seasonal adjustments for energy costs in February usually are negative, but not enough to turn the Final Demand Energy component of the February Final Demand Goods inflation measure negative on a headline monthly basis.

Inflation in food, “core” goods (everything but food and energy), some still-spreading inflationary impact from hard-goods into the soft-services sector, all should help on the plus side. Perversely, though, rising energy costs should help to reduce services margins, which tends to be deflationary in the headline services reporting.

The wildcard in the PPI remains the services sector, which largely is unpredictable, volatile and of limited meaning, due to its inflation measurements having minimal if any relationship to real-world activity. Nonetheless, the services sector has a greater weighting in the PPI calculation than does the old goods sector.

The services series, in theory, is much-less dependent on the increasingly "antiquated" concepts of oil, food and "core" (ex-food and energy) inflation of the "hard" production-based economy. Services "inflation" recently has shown upside movement, due to rising profit margins. Perversely, the rising profit margins and "inflation" were due to energy costs falling faster than any related price decreases were being passed along to the next level of distribution or consumption. The process should see some reversal in February's reporting. Such is disconnected from the goods-related inflation and from common experience. The general approach here to "wholesale" inflation remains of highly-questionable merit.
