

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

**COMMENTARY NUMBER 716**  
**March Trade Deficit, Construction Spending, Retail Sales Benchmark Revision**  
**May 5, 2015**

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**Expectations Should Turn Negative for Revised First-Quarter GDP,  
Based on Quarterly Trade Deterioration**

**Real Construction Spending Contracted with  
Full First-Quarter Reporting**

**Retail Sales Benchmark Revision Showed Deeper Contraction and  
Slower "Recovery" in Sales Activity than Previously Indicated**

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*PLEASE NOTE: The next regular Commentary, scheduled for Friday, May 8th, will cover the April employment and unemployment numbers.*

*Best wishes to all — John Williams*

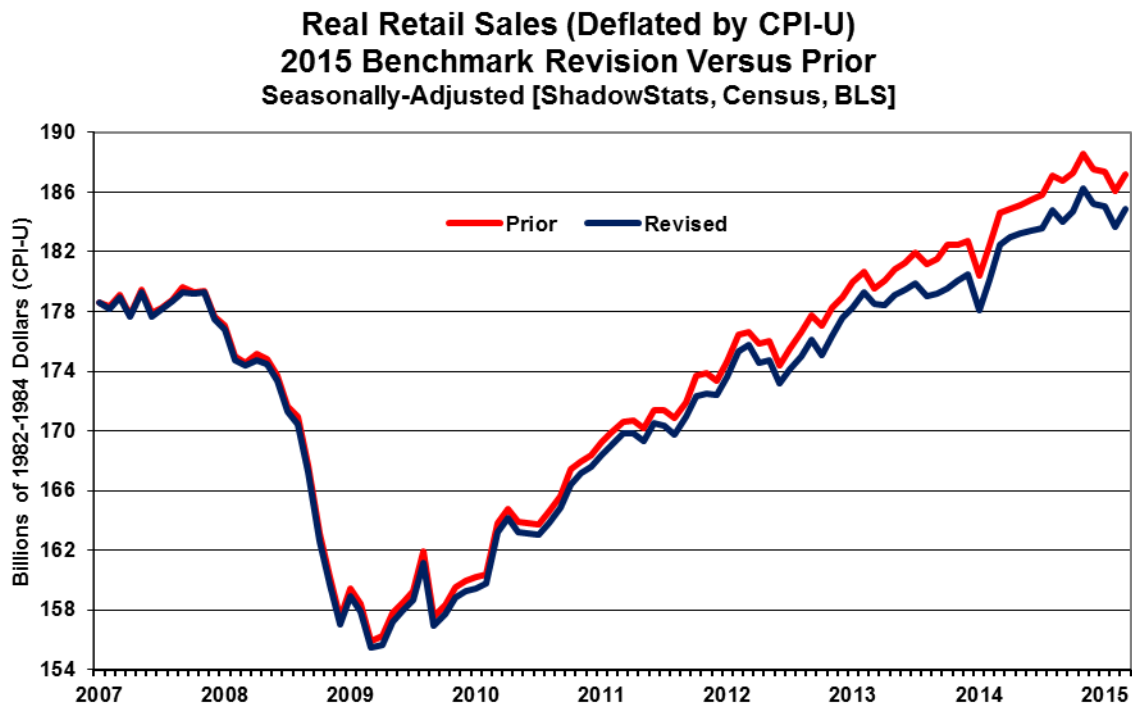
## **OPENING COMMENTS AND EXECUTIVE SUMMARY**

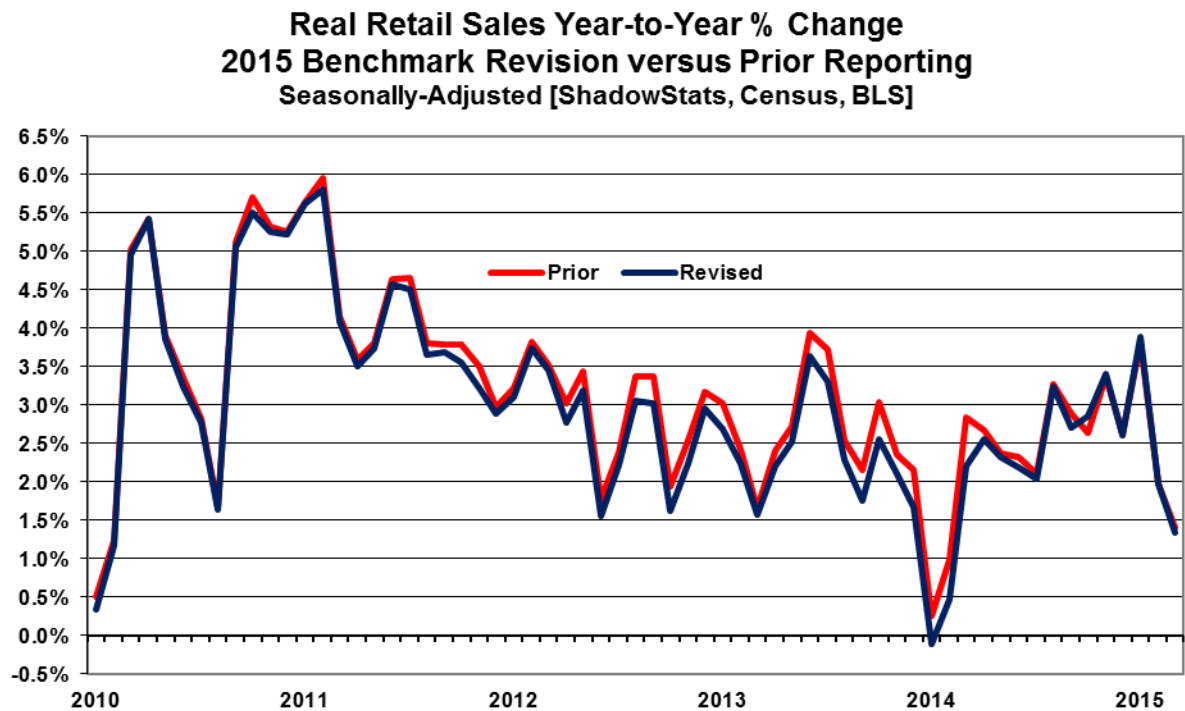
**The Numbers Keep Turning Down in All Directions.** Today's sharp deterioration in headline March and first-quarter 2015 trade deficits went well beyond consensus expectations, reflecting heavy catch-up reporting of trade flows distorted by recent labor disputes at West Coast ports and by impaired traffic

flows on ice-bound Great Lakes. The Bureau of Economic Analysis (BEA) likely had some foreknowledge or estimate of the trade disruption impact built into its initial headline estimate of 0.2% annualized real quarterly growth for first-quarter GDP. Nonetheless, the unusually sharp hit to the trade numbers still should result in a downside revision—into an outright quarterly contraction—for the second estimate of first-quarter GDP on May 29th. The evolving numbers here also should continue to soften expectations for second-quarter GDP growth.

Despite the sharp decline in March 2015 construction spending, upside revisions to January and February kept the estimated quarterly contraction in real spending growth largely intact, with negligible revision implications for first-quarter GDP. Still, full reporting of real first-quarter growth 2015 confirmed that the construction-spending series had moved from low-level stagnation into an unfolding downturn.

The other piece of not-so-happy economic news since the April 29th "advance" GDP release was the April 30th annual revision to the retail sales series, discussed in the next section. The revisions, which went back to January 2000, showed that the economic collapse from 2007 (or before) into 2009, was a little deeper than previously estimated, and that the purported recovery was not as strong as advertised. Some downside revisions are suggested for GDP growth from 2009 into 2013, which should surface in the GDP benchmark revisions of July 30th. Pending benchmarks to new orders for durable goods (May 14th), the trade deficit (June 3rd) and industrial production ("mid-year," presumably before the GDP revisions) soon should give meaningful shape to the recasting of recent, historical economic growth—likely meaningfully to the downside—in the GDP benchmarking.





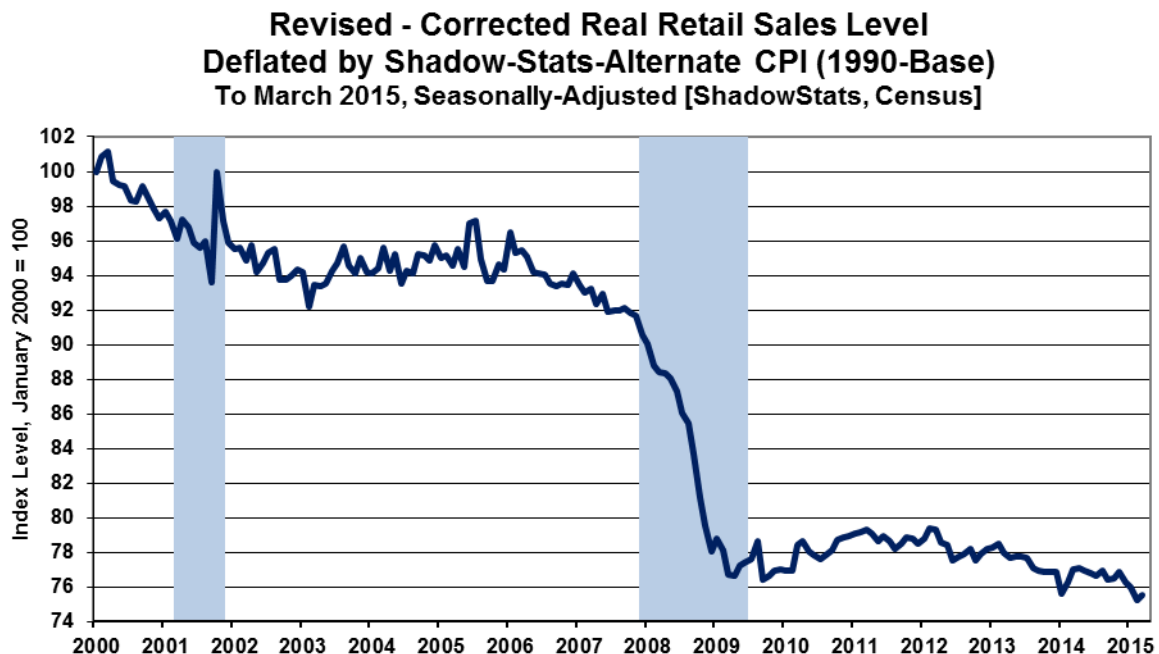
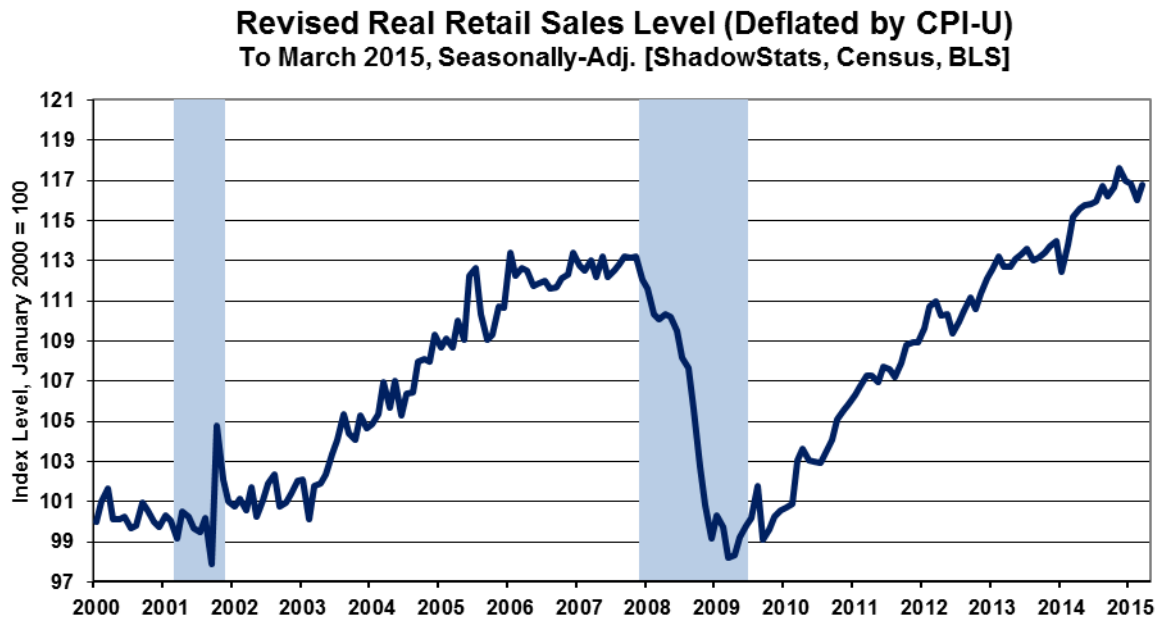
**Retail Sales Benchmark Revision Downgraded the Purported Recovery.** The Census Bureau published its annual benchmark revisions to the retail sales series on April 30th. The revisions went back to 2000, but the biggest changes were in the period following the trough shown for the series in 2009. Recent details, deflated by the CPI-U, are reflected in the two preceding graphs. The first graph shows the revised levels of activity; the second shows the revisions to year-to-year growth. The periods plotted are those where revision details were the largest and most visible.

Up through 2013, the revisions generally reflect new and better-quality information, such as more-comprehensive annual surveys and censuses. The detail in 2014 and later generally reflects the usual happy assumptions and guesstimates by the Census Bureau. The first graph shows a pattern of historically lower and decelerating growth. Activity as of the economic trough, in March 2009, revised lower by 0.3%, with October 2013 activity revised lower by 1.6%. Back in line with current assumptions, the level of March 2015 activity revised lower by 1.2%.

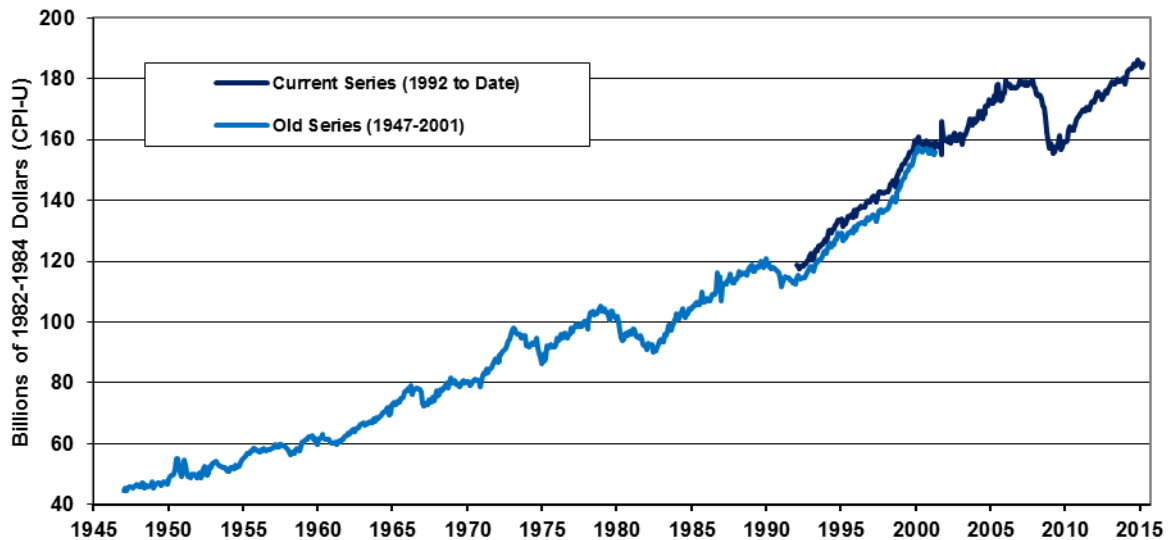
The second plot, of year-to-year growth, shows a general slowing of annual growth from 2011 into 2014. It is these patterns, in combination with the detail of pending revisions to durable goods orders, trade and industrial production, that will help to reshape the GDP in its pending benchmark revision.

**Updated Standard Graphs of Real Retail Sales.** The following series of real retail sales graphs is of those normally updated in the monthly *Commentary* covering the Consumer Price Index (CPI) release, as last seen in [Commentary No. 713](#). Each graph has been updated for the benchmark revision to the retail sales series.

The first three graphs are different versions of the monthly level of retail sales, where the first and third graphs show the series deflated by the CPI-U for varying historical timeframes. The second graph is the real retail sales series as corrected by ShadowStats for the understatement of the CPI series used in deflating the headline numbers. See [Commentary No. 713](#) for extend description and detail.

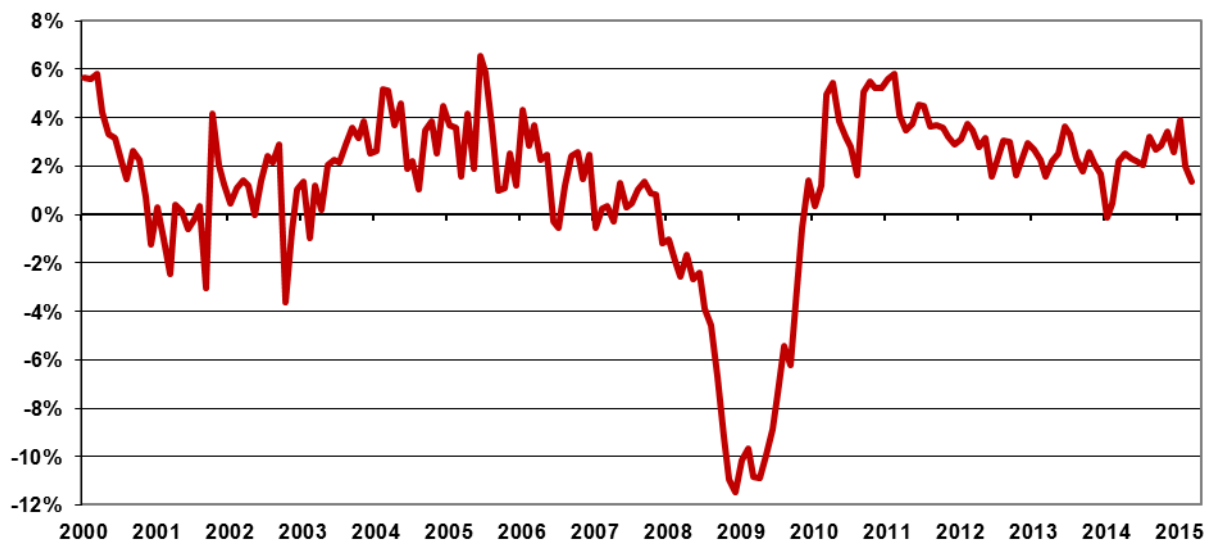


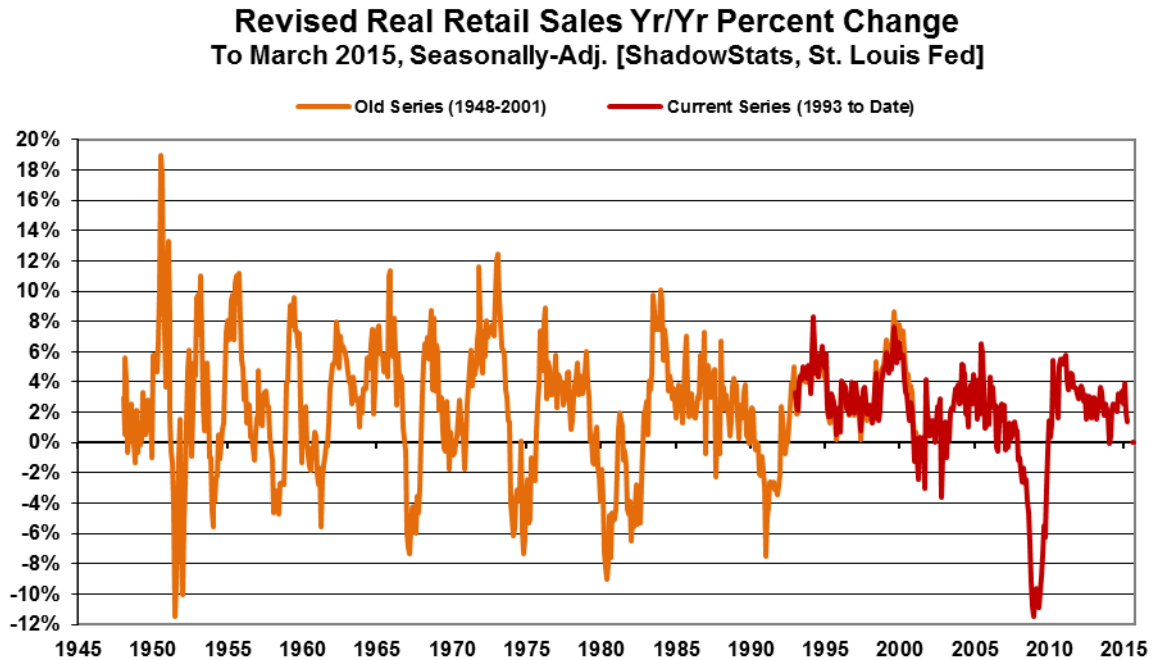
**Revised Real Retail Sales (Deflated by CPI-U)**  
To March 2015, Seasonally-Adj. [ShadowStats, St. Louis Fed]



The next two graphs plot real year-to-year change, again, with the revisions as deflated by the CPI-U. Current real growth remains at a level that usually seen only at the onset of economic recessions.

**Revised Real Retail Sales Year-to-Year % Change**  
To March 2015, Seasonally-Adj. [ShadowStats, Census, BLS]





**Today's Missive (May 5th).** The balance of today's *Commentary* concentrates on the reporting detail from the initial estimates of the March 2015 and first-quarter 2015 trade deficit and construction spending.

The *Hyperinflation Outlook Summary* is not revised from No. 711. Separately, the *Week Ahead* section previews Friday's April employment and unemployment reporting, updated for a softening consensus outlook.

**Trade Deficit—March 2015—Worst Monthly Deficit Since Depths of Collapse, Headline Detail Showed Some Catch-Up and Should Turn Revised First-Quarter GDP to Contraction.** Where West Coast port labor issues and weather-impaired shipping on the Great Lakes artificially narrowed the monthly U.S. trade deficit in recent months, that pattern began to reverse sharply with today's headline trade reporting for March 2015. Further catch-up reporting is likely for another month or so, with a downside revision to first-quarter GDP growth—an outright contraction—a good bet to become the market consensus, along with negative implications for second-quarter GDP expectations

The extreme widening of the March deficit to \$51.4 billion was on top of a revised widening to \$35.9 billion in February, well beyond consensus expectations for a \$42.0 billion March deficit [Bloomberg]. Still, the Bureau of Economic Analysis (BEA) likely already had a fair idea of the March trade detail, when it published its headline "advance" estimate for first-quarter 2015 annualized real GDP growth of 0.2%, last week (see prior [Commentary No. 715](#)). Further, today's headline trade-deficit widened by an even greater amount, in real terms, net of inflation adjustment, thanks to the still-declining reported price of imported oil. All factors considered, some revised, intensified trade deterioration in, and related

downside growth impact on, the first revision to first-quarter GDP remains likely, come the next release on May 29th.

In the context of a wider February 2015 nominal trade deficit (before inflation adjustment), in revision, the headline nominal March 2015 deficit deteriorated by \$15.5 billion, to the largest monthly trade shortfall in almost seven years. Again, that was accounted for primarily by a headline surge in reported goods imports, which had been delayed in the normal flow of trade, and reporting of same, as a result of labor disputes and bad-weather effects.

***Nominal (Not-Adjusted-for-Inflation) March 2015 Trade Deficit.*** The nominal, seasonally-adjusted monthly trade deficit in goods and services for March 2015, on a balance-of-payments basis, widened by \$15.475 billion to \$51.367 billion, versus a revised, wider \$35.892 billion shortfall in February 2015, and it widened versus a \$42.784 billion shortfall in March 2014.

In the month-to-month trade patterns, the headline \$15.475 billion deterioration in the March 2015 deficit reflected a \$1.644 billion increase in monthly exports, with a much greater, more-than-offsetting gain of \$17.120 billion in monthly imports (there is a minor rounding difference).

As to activity for petroleum-related products in March 2015, the not-seasonally-adjusted average price of imported oil continued to plunge, down to \$46.47 per barrel, from \$49.53 per barrel in February 2015, and down from \$93.91 per barrel in March 2014. Also not-seasonally-adjusted, physical oil import volume in March 2015 averaged 7.302 million barrels per day, up from 6.659 million in February 2015, and up from 7.259 million in March 2014.

Aside from the reporting of temporarily declining oil prices, and net of further corrective catch-ups in the headline trade flows of the next several months, the ongoing trade-deficit trend should continue to be for significant monthly, quarterly and annual deterioration in the U.S. deficit, both before and particularly after adjustment for inflation. Look for a sharp widening of the headline real deficit in April 2015, against a normalized March number, along with a further widening of the March shortfall in the accompanying revision.

Annual revisions to the monthly trade data, affecting detail back to 1999, will be published along with the headline April 2015 data on June 3, 2015.

***Real (Inflation-Adjusted) March 2015 Trade Deficit.*** Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, also as used in GDP deflation), the March 2015 merchandise trade deficit (no services) widened to \$67.195 billion, from a revised, wider \$51.176 in February, versus a revised, wider \$54.755 billion in January. The March 2015 shortfall also deteriorated sharply versus a \$50.477 billion real deficit in March 2014.

As now 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, \$583.2 billion for third-quarter 2014, and a revised, slightly narrower \$608.9 billion for fourth-quarter 2014. Widening quarterly real trade deficits subtract growth from the headline quarterly real GDP estimates.

Based on the headline reporting for first-quarter 2015, the quarterly real trade shortfall widened to \$692.5 billion, from \$608.9 billion in fourth-quarter 2014. That was against an initial first-quarter estimate of \$632.1 billion, based on just the initial reporting for January and February 2015. Again, the BEA appears



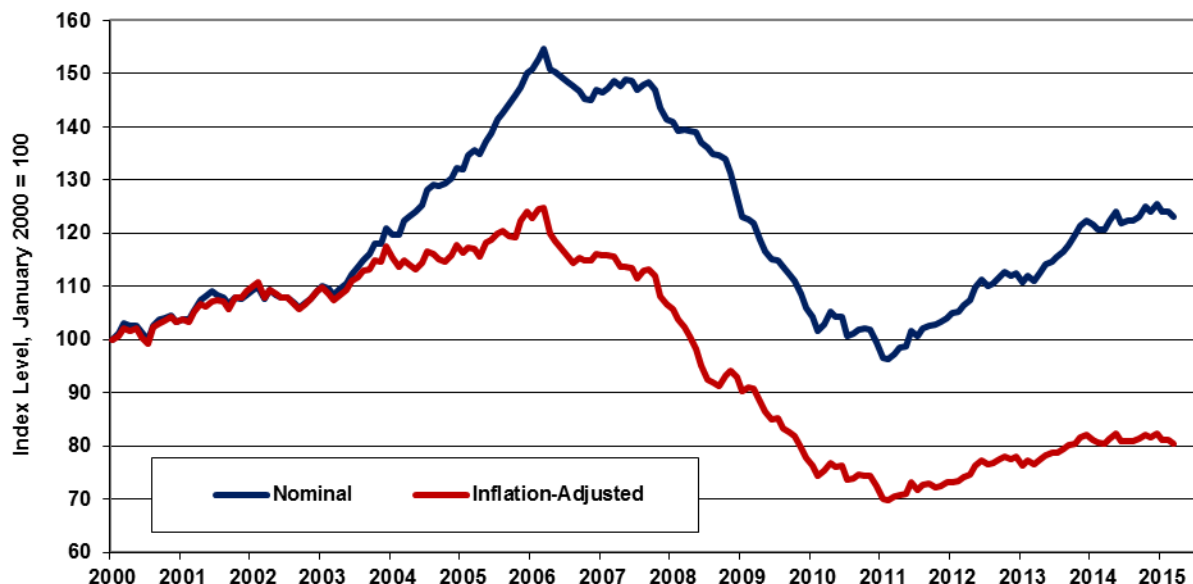
to have used some late trade data in preparing its initial estimate of real first-quarter GDP growth, but some negative revision in the second estimate, first revision to the first-quarter GDP number—into quarterly contraction for the series—still is likely, come the May 29th second GDP estimate.

In the context of the initial aggregate headline estimate of 0.25% (rounds to 0.2%) real GDP growth for the first-quarter 2015, the BEA's initial trade estimate subtracted 1.25% from total growth, where, net of trade impact, initial headline GDP growth otherwise would have been 1.50%.

**Construction Spending—March 2015—Formal Quarterly Contraction in Real Spending Remained Consistent with Earlier Indications.** Despite upside revisions to the previously-estimated levels of January and February 2015 construction spending, first-quarter spending showed outright first-quarter contractions, both before and after adjustment for inflation, and broadly consistent with earlier estimates based on just the initial January and February reporting.

Given full first-quarter 2015 reporting, real construction spending fell at an annualized quarterly pace of 5.3% (-5.3%), versus an annualized quarterly gain of 4.9% in fourth-quarter 2014. Presently at, or near, the recent low of the down-trending pattern of stagnation, the real construction spending series stood 35.5% below its pre-recession high of March 2006.

**Index of Value of Construction Put in Place  
Nominal versus Inflation-Adjusted (Jan 2000=100)  
To March 2015, Deflated by PPI Construction Indices  
[Sources: ShadowStats, Census Bureau, BLS]**



Those numbers are reflected in the accompanying graph, which shows both the nominal (not-inflation-adjusted) and real (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.



In nominal terms, before inflation adjustment, and in the context of upside revisions to the February and January headline data, the headline monthly decline in March 2015 was 0.6% (-0.6%), versus a consensus outlook for a monthly gain of 0.4% [Bloomberg]. That "unexpected" decline in activity was not statistically meaningful, as is usual for the headline monthly changes to this series. The nominal year-to-year gain of 2.0% in March 2015 spending was statistically meaningful, but that gain was due entirely to inflation.

***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. For the historical series in the accompanying graph and text, the numbers are deflated by the NCI through November 2009 and by the FDCI thereafter.

For March 2015, the seasonally-adjusted FDCI month-to-month inflation was a positive 0.09%, the same inflation increase as seen in February 2015. In terms of year-to-year inflation, the March 2015 FDCI held at 2.00%, versus 2.00% in February 2015.

***Headline Reporting for March 2015.*** The headline, total value of construction put in place in the United States for March 2015 was \$966.6 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was down month-to-month by a statistically-insignificant 0.6% (-0.6%), versus a revised \$972.9 billion in February 2015, which was a revised "unchanged" versus a revised \$972.8 billion in January 2015, which was down by a revised 1.2% (-1.2%) from an unrevised \$984.5 billion in December 2014.

All the monthly construction-spending data, back through January 2013, are subject to an annual benchmark revision, along with release of the May 2015 data, presumably in July.

Adjusted for the FDCI inflation, aggregate real spending in March 2015 fell by 0.7% (-0.7%) for the month, following revised monthly decline of 0.1% (-0.1%) in February, and a revised monthly decline of 1.5% (-1.5%) in January 2015.

On a year-to-year or annual-growth basis, March 2015 construction spending rose by a statistically-significant 2.0%, versus a revised 2.7% in February and a revised 1.9% annual gain in January. Net of construction costs indicated by the FDCI, however, year-to-year change in spending was at 0.0% or no annual gain in March 2015, versus a revised gain of 0.7% in February 2015, and a revised 0.0% or unchanged annual rate in January 2015.

The statistically-insignificant, headline monthly contraction of 0.6% (-0.6%) in nominal March 2015 construction spending, versus the unchanged level in February 2015 spending, included a monthly decline of 1.5% (-1.5%) in March public spending, versus a 0.8% (-0.8%) drop in February public spending. Private spending fell by 0.3% (-0.3%), following a monthly gain of 0.3% in February. Within total private construction spending, the residential sector declined by 1.6% (-1.6%) in March, versus a 0.2% gain in February, while the nonresidential sector rose by 1.0% in March, having gained 0.5% in February. The graphs in the *Reporting Detail* section show the latest extended detail.

***[Further detail on the March trade deficit and construction spending is found in the Reporting Detail section.]***

## HYPERINFLATION WATCH

### HYPERINFLATION OUTLOOK SUMMARY

**General Outlook Is Unchanged; Intensifying Economic Weakness Has Begun to Impact Market Perceptions of Fed Policy and U.S. Dollar Strength.** The *Hyperinflation Outlook Summary* has not been revised from [Commentary No. 711](#), other than for updated internal links or references.

[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. One other reference should be considered here, in terms of underlying economic reality, and that is the [Public Commentary on Inflation Measurement](#).

**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.

Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners have been over-estimated heavily by the global markets, and structural faults have started to appear in the foundation underpinning recent U.S. dollar strength (see [Commentary No. 711](#)). Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance, in confluence with other fundamental issues, has begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As result, the U.S. dollar has backed off its recent highs, with some related upside pressure having been seen on oil prices.

Domestic economic data should continue to falter, increasingly moving market expectations towards an imminent new recession, not only further pummeling expectations for a significant tightening in Fed policy, but also renewing expectations for a more-accommodative Fed. While such may help to fuel further stock-market mania, any resulting rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on more-conservative Federal Reserve policies and on the direction of domestic economic activity, should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. Initially, these circumstances should unwind the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and broadly related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances appears to have begun, and it 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. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful near-term risk for providing further fuel to 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 has begun to surface in headline reporting and should become increasingly and painfully obvious to the financial markets in the headline detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit, payroll employment and increasingly the headline GDP.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, fully reversing the dollar's gains of the last nine months, pushing the dollar once again to historic lows. Again, the nascent currency crisis also has meaningful potential 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, more-constructive Fed behavior—purportedly moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. The Panic of 2008 never was resolved, and the Fed increasingly is finding that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; QE4 will become the near-term question.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). It also throws off estimates of U.S. Treasury funding needs and estimates as to how long the Treasury effectively can dodge the limits of the recently re-

imposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

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 significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may 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 thought 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.

Again, 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.

All these crises should combine against the U.S. dollar, likely in the very-near future, if they have not already begun to do so. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility had boosted the U.S. dollar's strength significantly in global trading and contributed to savaging the prices of oil and in weakening the prices of precious metals. That process appears to have begun to reverse.

Strength in the U.S. dollar should continue to reverse sharply, 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 may have started with the shift in Swiss National Bank policy early in the year, but it has become dominated by increasingly-negative global perceptions of stability in U.S. economic activity and Federal Reserve monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, 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 [Commentary No. 711](#)). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for the intensifying the unfolding 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 did not alter the systemic unwillingness to address 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 many in Washington look to continue increasing 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 [Commentary No. 702](#)). This circumstance now is operating in the context of the formal constraint of a renewed debt ceiling.

- ***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 are nil. Issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues should continue to devolve, into 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 versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was 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. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.
- ***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. Temporary, recent dollar strength may have bought



some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term instabilities and a quick reversal in the dollar's strength should 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 and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), for other factors afoot in the current environment.

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## REPORTING DETAIL

### U.S. TRADE BALANCE (March 2015)

**Real Trade Deficit Exploded in March, Catching Up on Interrupted Trade Flows.** Where the monthly U.S. trade deficit had been artificially narrowed in recent months, by West Coast port strikes and weather-impaired shipping on the Great Lakes, that pattern started to reverse sharply with the headline trade reporting for March 2015. Catch-up reporting likely still will be seen for another month or so in the headline numbers, with a downside revision in first-quarter GDP growth to an outright contraction likely to become the market consensus outlook, with negative implications as well for the second-quarter GDP expectations

The extreme widening of the March deficit to \$51.4 billion was on top of a revised widening to \$35.9 billion in February, well beyond consensus expectations for a \$42.0 billion March deficit [Bloomberg]. Still, the Bureau of Economic Analysis (BEA) likely already had a pretty good estimate of the March trade detail, when it published its headline "advance" estimate of first-quarter 2015 annualized real GDP growth of 0.2%, on April 29th, less than a week ago (see prior [Commentary No. 715](#)). Further, today's headline trade-deficit widened by an even greater amount, in real terms, net of inflation adjustment, thanks to the still-declining reported price of imported oil. All factors considered, some revised trade

deterioration in, and related downside growth impact on the first revision to first-quarter GDP remains likely, come the next release on May 29th.

In the context of a wider February 2015 nominal trade deficit (before inflation adjustment), in revision, the headline nominal March 2015 deficit deteriorated by \$15.5 billion, to the largest monthly trade shortfall in almost seven years. Again, that was accounted for primarily by a headline surge in reported goods imports, which had been delayed in the normal flow of trade, and reporting of same, by labor disputes or bad-weather effects.

***Nominal (Not-Adjusted-for-Inflation) March 2015 Trade Deficit.*** The BEA and the Census Bureau reported this morning, May 5th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for March 2015, on a balance-of-payments basis, widened by \$15.475 billion to \$51.367 billion, versus a revised \$35.892 (previously \$35.444) billion in February 2015, and widened versus a \$42.784 billion shortfall in March 2014.

As to month-to-month trade patterns, the headline \$15.475 billion deterioration in the March 2015 deficit reflected a \$1.644 billion increase in monthly exports, with a much greater, offsetting gain of \$17.120 billion in monthly imports (there is a minor rounding difference).

Aside from the reporting of temporarily declining oil prices, and net of further corrective catch-ups in the headline trade flows of the next several months, the ongoing trade-deficit trend should continue to be for significant monthly, quarterly and annual deterioration in the U.S. deficit, both before and particularly after adjustment for inflation. Look for a sharp widening of the headline real deficit in April 2015, against a normalized March, along with a further widening of the March shortfall in the accompanying revision.

Annual revisions to the monthly trade data, affecting detail back to 1999, will be published along with the headline April 2015 data on June 3, 2015.

***Energy-Related Petroleum Products.*** For March 2015, the not-seasonally-adjusted average price of imported oil continued to plunge, down to \$46.47 per barrel, from \$49.53 per barrel in February 2015, and down from \$93.91 per barrel in March 2014. Also not-seasonally-adjusted, physical oil import volume in March 2015 averaged 7.302 million barrels per day, up from 6.659 million in February 2015, and up from 7.259 million in March 2014.

***Ongoing Cautions on Data Quality.*** Obvious in today's headline reporting, labor disruptions at U.S. ports had near-term impact on headline imports and exports, along with some extreme-weather issues involving transportation on the Great Lakes. These unusual trade-flow effects likely will have some ongoing impact on the data for another month or two. Separately, potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues have been 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) March 2015 Trade Deficit.*** Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, also as used in GDP deflation), the March 2015 merchandise trade deficit (no services) widened to \$67.195 billion, from a revised \$51.176 (previously



\$50.764 billion) in February, versus a revised \$54.755 (previously \$54.582, initially \$53.616) billion in January 2015. The March 2015 shortfall widened sharply versus a \$50.477 billion real deficit in March 2014.

As now 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, \$583.2 billion for third-quarter 2014, and a revised \$608.9 (previously \$609.5) billion for fourth-quarter 2014. Widening quarter-to-quarter real trade deficits subtract growth from the quarterly real GDP estimates.

Based on the headline reporting for first-quarter 2015, the quarterly real trade shortfall widened to \$692.5 billion, from \$608.9 billion in fourth-quarter 2014. That was against an initial first-quarter estimate of \$632.1 billion, based on just initial reporting for January and February 2015. Again, the BEA appears to have used some late trade data in preparing its initial estimate of real first-quarter GDP growth, but some negative revision in the second estimate, first revision to the first-quarter GDP number—into quarterly contraction for the series—still is likely, come with the May 29th second estimate.

In the context of the initial aggregate headline estimate of 0.25% (rounds to 0.2%) real GDP growth for the quarter, the BEA's initial trade estimate subtracted 1.25% from total growth, where, net of trade impact, initial headline GDP growth otherwise would have been 1.50%.

## CONSTRUCTION SPENDING (March 2015)

**Real Construction Spending Contracted in First-Quarter.** Despite upside revisions to the previously-estimated levels of January and February 2015 construction spending, first-quarter spending showed outright first-quarter contractions, both before and after adjustment for inflation.

Based on initial, full first-quarter 2015 reporting, real construction spending fell at an annualized quarterly pace of 5.3% (-5.3%) [previously estimated at 6.4% (-6.4%), based just on just the previous reporting for January and February], versus an annualized quarterly gain of 4.9% in fourth-quarter 2014. Presently at, or near, the recent low of the down-trending pattern of stagnation, the real construction spending series stood 35.5% below its pre-recession high of March 2006.

These numbers are reflected in the second graph following of real or inflation-adjusted detail, as well as in the nominal detail in the first graph. 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.

In nominal terms, before inflation adjustment, and in the context of upside revisions to the February and January headline data, the headline monthly March decline was 0.6% (-0.6%), versus a consensus outlook for a monthly gain of 0.4% [Bloomberg]. That "unexpected" decline in activity was not statistically meaningful, as is usual for the headline monthly changes to this series. The nominal year-to-year gain of 2.0% in March 2015 spending was statistically meaningful, but the gain was due entirely to inflation.

**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 March 2015, the seasonally-adjusted FDCI month-to-month inflation was a positive 0.09%, the same inflation increase as seen in February 2015. In terms of year-to-year inflation, the March 2015 FDCI held at 2.00%, versus 2.00% in February 2015.

***Headline Reporting for March 2015.*** The Census Bureau reported May 1st that the headline, total value of construction put in place in the United States for March 2015 was \$966.6 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was down month-to-month by a statistically-insignificant 0.6% (-0.6%) +/- 1.5% (all confidence intervals are at the 95% level), versus a revised \$972.9 [previously \$967.2] billion in February 2015, which, in turn, was a revised "unchanged" [previously down by 0.1% (-0.1%)] versus a revised \$972.8 [previously \$967.9, initially \$971.4] billion in January 2015, which, in turn, was down by a revised 1.2% (-1.2%) [previously down by 1.7% (-1.7%)] from an unrevised \$984.5 billion in December 2014.

All the monthly construction-spending data, back through January 2013, will be subject to an annual benchmark revision, along with release of the May 2015 data, presumably in July.

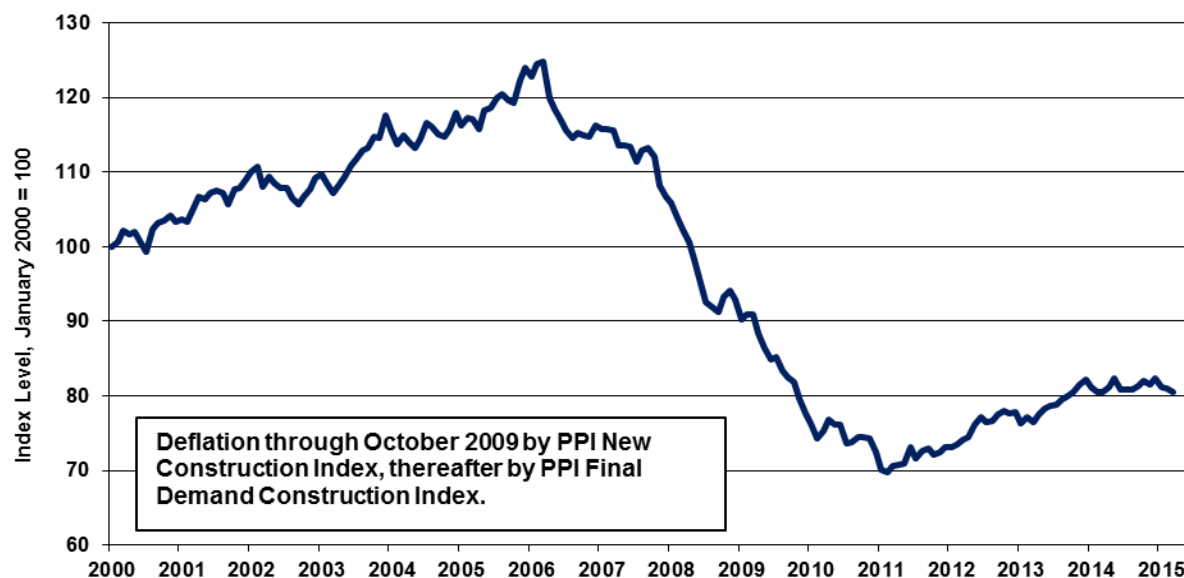
Adjusted for the FDCI inflation, aggregate real spending in March 2015 fell by 0.7% (-0.7%) for the month, following revised monthly decline of 0.1% (-0.1%) [previously down by 0.2% (-0.2%)] in February, and a revised monthly decline of 1.5% (-1.5%) [previously down by 2.0% (-2.0%), initially down by 1.4% (-1.4%)] in January 2015.

On a year-to-year or annual-growth basis, March 2015 construction spending rose by a statistically-significant 2.0% +/- 1.9%, versus a revised 2.7% [previously 2.1%] in February and a revised 1.9% [previously 1.4%, initially 1.8%] annual gain in January. Net of construction costs indicated by the FDCI, however, year-to-year change in spending was at 0.0% or no annual gain in March 2015, versus a revised gain of 0.7% [previously 0.1%] in February 2015, and a revised 0.0% or unchanged annual rate [previously a contraction of 0.5% (-0.5%), initially down by 0.2% (-0.2%)] in January 2015.

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



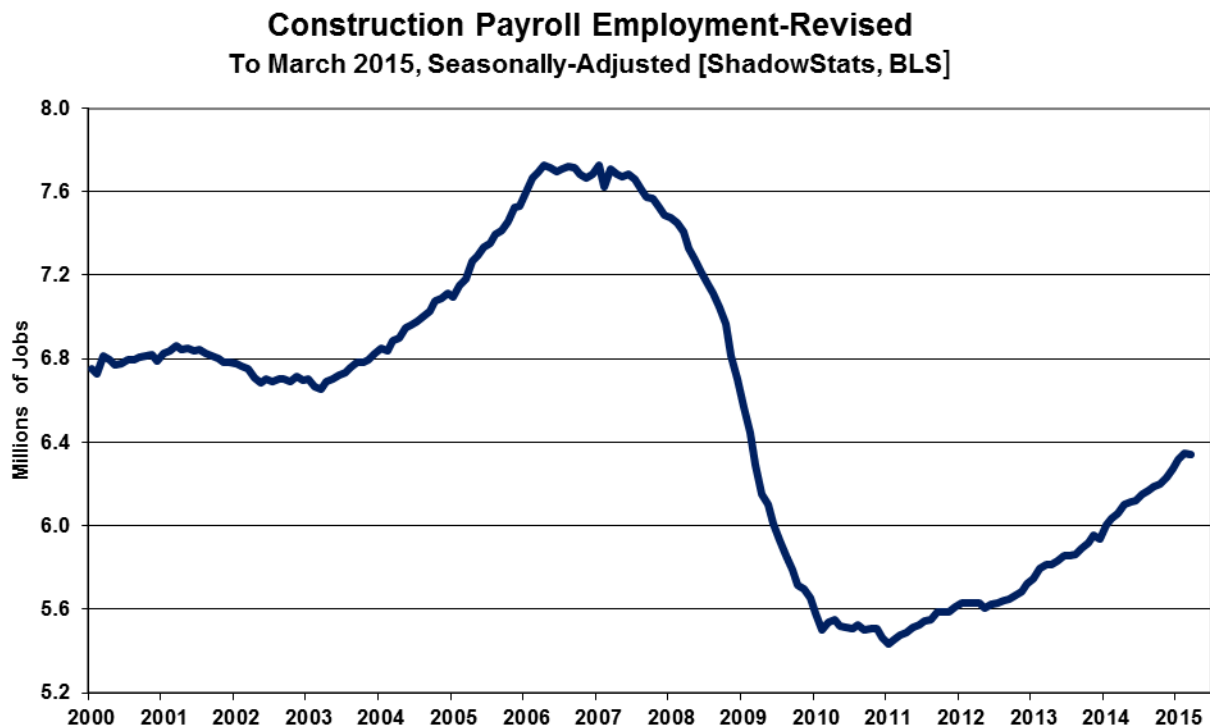
**Real Index of Value of Construction Put in Place  
To March 2015, Inflation-Adjusted (Jan 2000=100)**  
Deflated by the PPI Final Demand Construction Index  
[Sources: ShadowStats, Census Bureau, BLS]



The statistically-insignificant, headline monthly contraction of 0.6% (-0.6%) in nominal March 2015 construction spending, versus the unchanged level in February 2015 spending, included a monthly decline of 1.5% (-1.5%) in March public spending, versus a 0.8% (-0.8%) drop in February spending. Private spending fell by 0.3% (-0.3%), following a monthly gain of 0.3% in February. Within total private construction spending, the residential sector declined by 1.6% (-1.6%) in March, versus a 0.2% gain in February, while the nonresidential sector rose by 1.0% in March, having gained 0.5% in February. The following graphs show the latest extended detail.

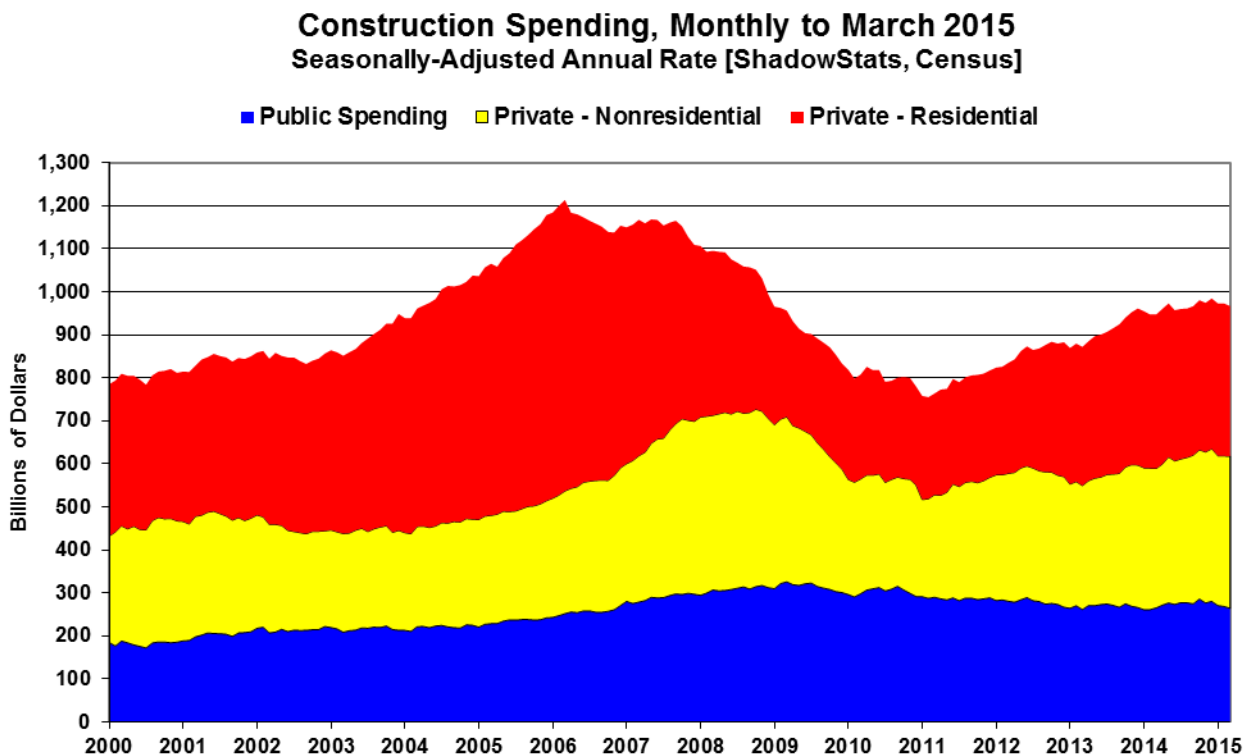
**Construction and Related Graphs.** The preceding two graphs reflect total construction spending through March 2015, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0. Adjusted for the 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, trending flat since late-2013, and notching lower in the most-recent 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. 715](#) 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, now declining, where activity never has recovered pre-recession highs.



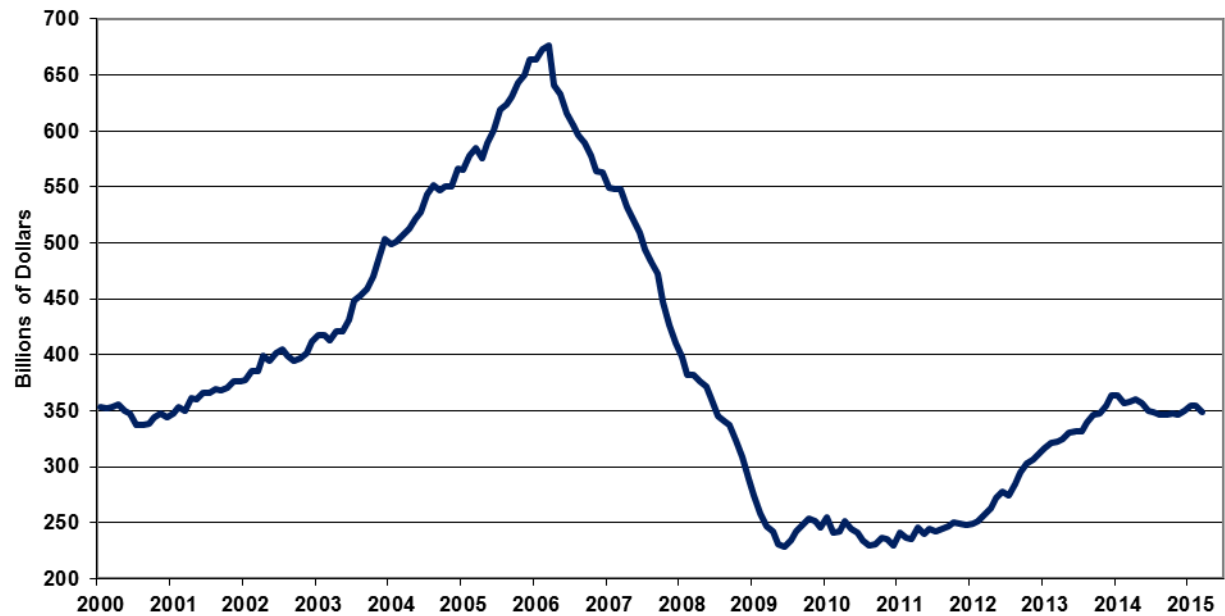
The preceding graph shows March 2015 construction employment (see [Commentary No. 710](#)). The construction employment numbers and the graph will be updated through April 2015 in Friday's May 8th *Commentary No. 717*. In theory, payroll levels should move more closely with the inflation-adjusted aggregate 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).

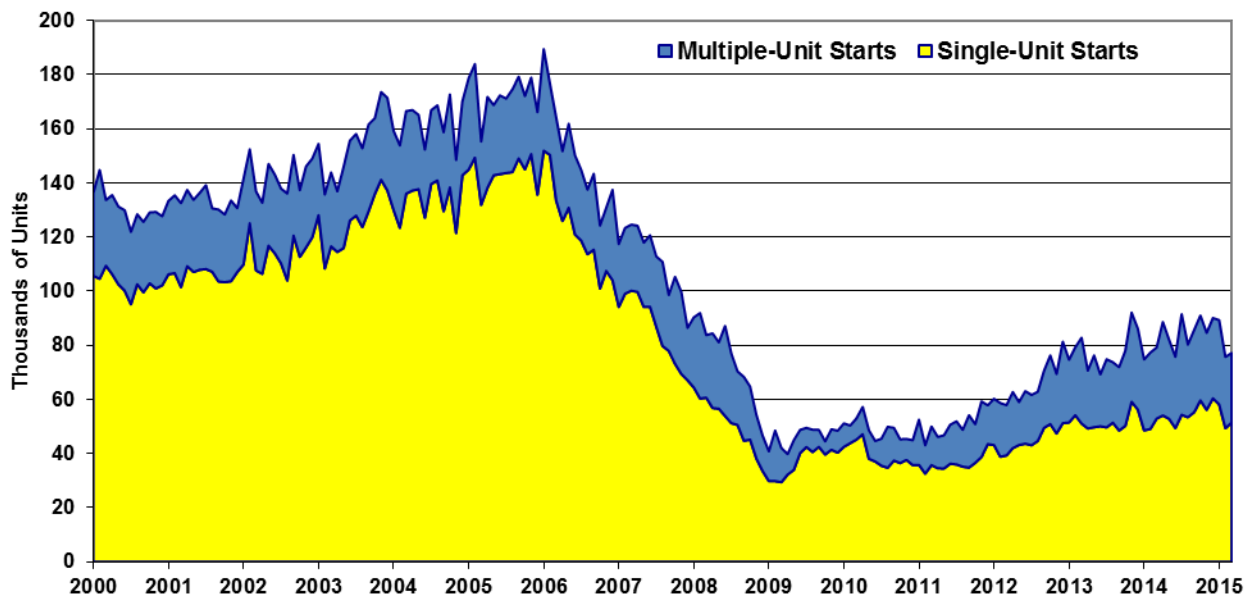


The next two graphs following cover private residential construction along with housing starts (combined single- and multiple-unit starts) for March 2015 (see [Commentary No. 713](#)). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing 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, it turned slightly lower in 2014, and has been basically stagnant and down-trending coming into 2015, with first-quarter 2015 activity in outright quarterly contraction, even before adjustment for inflation.

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



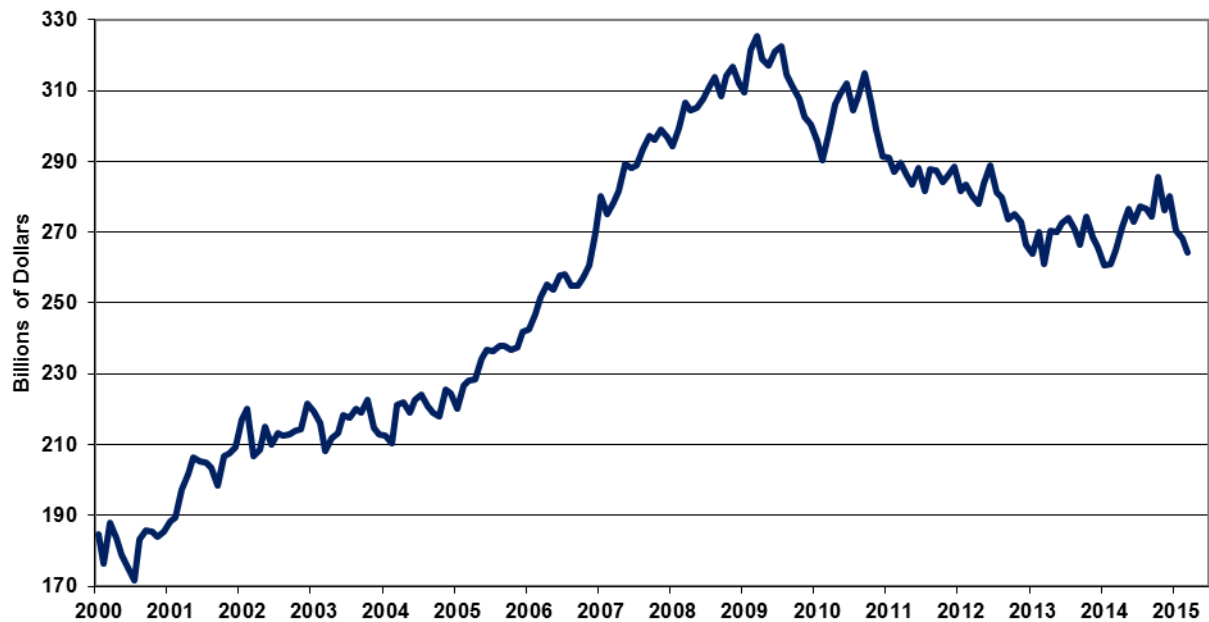
**Single- and Multiple-Unit Housing Starts (Monthly Rate)**  
To March 2015, Seasonally-Adjusted [ShadowStats, Census]



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



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





The final set of two graphs, preceding, shows 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, had 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 that also appears to have topped out.

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## WEEK AHEAD

**Headline Reporting and Revisions Should Trend Much Weaker versus a Still Overly-Optimistic Economic Consensus; Inflation Will Rise Anew, Following the Bottoming of Oil-Prices.** Shifting more to the downside, amidst increasingly-negative fluctuations in the numbers, market expectations for business activity have been, and still remain, overly optimistic. They still exceed any potential, underlying economic reality, even though downside corrective revisions and an accelerating pace of downturn in broad-based, monthly headline economic reporting already have begun to hammer those expectations. Recent GDP excesses will not face downside revisions until the July 30, 2015 GDP benchmark revision, but expectations for headline growth estimates (or revisions to) of first- and second-quarter 2015 should continue shifting to the downside, into increasingly negative territory (see *Opening Comments* and [Commentary No. 711](#)).

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely is close to its near-term, year-to-year low, having shown monthly declines in annual inflation of less than a full 0.1% (-0.1%) in the three months through March 2015. Significant upside inflation pressures should resume as oil prices rebound, a process that already may be underway, tentatively, and one that would accelerate rapidly with the 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 RELEASE:***

***[Updated for Shifting Consensus] Employment and Unemployment (April 2015).*** The Bureau of Labor Statistics (BLS) will release its April 2015 labor data on Friday, May 8th. Both employment and unemployment still are due for negative, headline surprises, given the ongoing, weak general tone of recent reporting of most other, regular economic series. Established monthly distortions to payroll employment (excessive upside biases, and publishing irregularities with the concurrent-seasonal-factor process) continue, however, as do the regular monthly distortions to headline unemployment (definitional issues with "discouraged workers," and publishing irregularities with the concurrent-seasonal-factor process).

Market expectations appear to be for a jump in monthly payroll growth from March's lower-than-expected initial headline jobs gain of 126,000, and for a minimal reduction in the headline U.3 from the March rate of 5.5%, which already was within a hair's breadth of rounding to 5.4% with that headline estimation.

As with the narrowing of the headline unemployment rate in recent months and years, any further narrowing of the headline April U.3 unemployment rate likely would encompass more employed being redefined off the unemployment rolls and out of the headline labor force, rather than reflecting the unemployed gaining net new employment.

Underlying economic fundamentals continue to suggest deterioration in the broader unemployment rates such as U.6 and the ShadowStats Alternate Unemployment measure, as well as slowing or negative month-to-month growth in headline payrolls.

***Monthly Payroll Bias Is Above Expectations.*** As published previously by ShadowStats-affiliate [www.ExpliStats.com](http://www.ExpliStats.com), in its analysis of the biases built into the concurrent-seasonal-factor modeling of the headline March 2015 payroll employment, the implied built-in bias trend for April 2015 is for a headline jobs gain of 237,000 (see [Commentary No. 710](#)). Late market expectations appear to have softened some, now running below trend at 220,000 [Bloomberg].

To the extent that underlying fundamentals will continue to shine through all the regular monthly volatility and distortions, headline activity should continue to favor much weaker-than-expected payroll activity, and higher-than-expected unemployment rates.