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

COMMENTARY NUMBER 724
April Trade Deficit and Benchmark Revision, Construction Spending

June 3, 2015

Benchmark Trade Revisions Were Relatively Small;
Aggregate Nominal Deficit Deepened by 0.7% (-0.7%) in 2014

Trade Revisions Put the Lie to GDP-Seasonality Issues

April Real Deficit Effectively Was Unchanged versus First-Quarter

Despite Jump in April Construction Spending,
Inflation-Adjusted Series Continued Broad Pattern of Stagnation

---

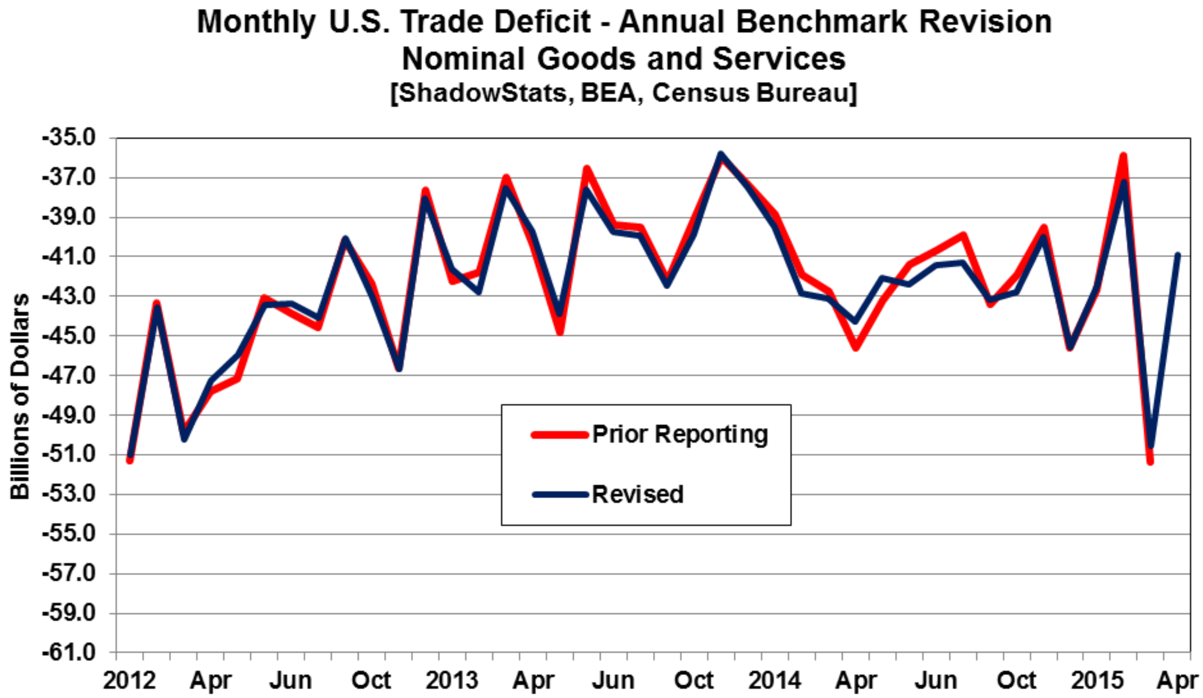
PLEASE NOTE: The next regular Commentary, *scheduled for Friday, June 5th, will review May 2015 employment and unemployment reporting, as well as the latest monetary conditions.*

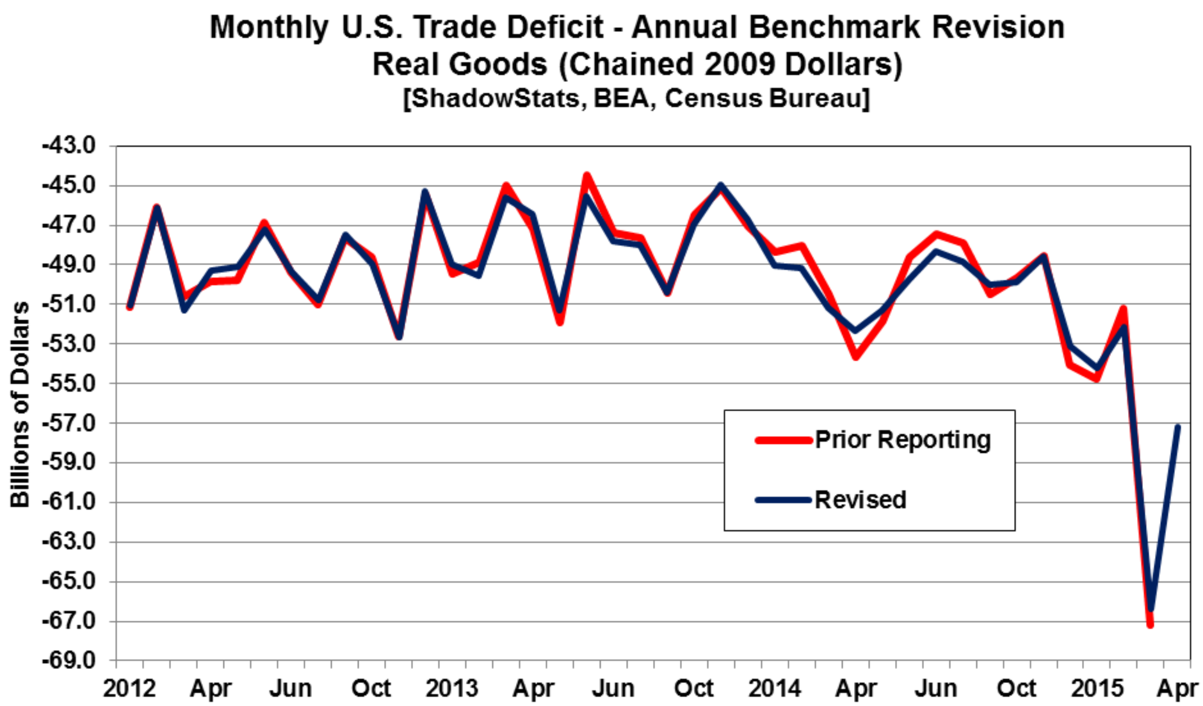
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

April Trade Deficit Was Neutral for Second-Quarter GDP. The sharp narrowing of the nominal April trade deficit was no more than the expected, corrective gyration from bloated-March and understated-February deficits, which reflected now-resolved labor disputes at major ports. In real terms, the April deficit narrowed minimally, but not meaningfully, versus the trade-deficit pace of first-quarter 2015. Accordingly, based solely on the April number, the developing second-quarter 2015 real trade deficit has neutral implications, so far, for second-quarter versus first-quarter GDP reporting.

Benchmark Trade Revisions Should Impact 2014 Quarterly-GDP Patterns. The following two graphs plot the benchmark revisions to both the nominal (not-inflation-adjusted) and real (inflation-adjusted) monthly trade deficits. Though relatively small, the changes in the trade patterns should alter 2014 quarterly GDP-growth patterns somewhat, in the GDP benchmark revisions of July 30th.





Trade Revisions Indicated No Seasonal-Adjustment Issues for Headline GDP. The Census Bureau and the Bureau of Economic Analysis (BEA) prepare the trade data, and the latter Bureau also compiles and reports the Gross Domestic Product (GDP) series. Given headline quarterly GDP contractions in both first-quarter 2014 and 2015, apologists for the currently-weakening economy have been squawking about bad seasonal adjustments, "residual seasonality" in the GDP series (see *Commentary No. 723*). The trade revisions, however, presumably included the latest and best seasonal adjustments that the BEA and Census could develop, and those results were counter to suggesting any actual "residual seasonality."

A widening trade deficit was the largest negative component of both quarters in question. Where first-quarter 2014 GDP contracted at an annualized real pace of 2.1% (-2.1%), a deteriorating trade deficit contributed 1.7% (-1.7%) of that downturn. Where first-quarter 2015 GDP contracted at an annualized real pace of 0.7% (-0.7%), a deteriorating trade deficit contributed 1.9% (-1.9%) of that downturn.

Based on the revised real trade data, first-quarter 2014 saw a widened deficit in the net-export account, with an implied, even-deeper GDP contraction, in revision. First-quarter 2015 saw a negligible, widening revision to the net-export account deficit, with no implied GDP revision.

As to the remainder of 2014, the second-quarter real deficit narrowed in revision, suggesting even stronger GDP growth than the current headline 4.6%. The third-quarter deficit widened in revision, suggesting weaker GDP growth than the current headline 5.0%. The fourth-quarter deficit narrowed in revision, suggesting stronger GDP growth than the current headline 2.2%. All the suggested revisions to real quarterly GDP growth—resulting just from the trade revisions—should be small, but noticeable.

Real versus Nominal Data. The monthly revisions in the nominal- versus the real-trade data had an 89% correlation. The difference was that the nominal reporting included both goods and services, where the services detail still is very much a guesstimate by the BEA. In aggregate, the level of the 2012 nominal deficit improved in revision by 0.2%, while the revised 2013 deficit deepened by 0.4% (-0.4%), and the 2014 deficit deteriorated by 0.7% (-0.7%).

The real reporting includes only the deficit in goods. In aggregate, the 2012 real deficit was unchanged in revision (at the first decimal point), while the 2013 deficit deteriorated by 0.2% (-0.2%), and the 2014 deficit deepened by 0.4% (-0.4%). Of interest, the pattern of real trade deterioration, which has been in place since late-2013, is visible in the graph of the inflation-adjusted numbers (as used in the GDP), while the deterioration in the nominal data over the same period has not been so obvious.

Benchmark Revisions Affected Aggregate Data Only Back to 2012. The benchmark revisions included corrections, new and better data, and revised seasonal adjustments back to 2012. The services sector of the nominal trade balance accounting was revised back to 1999, but those revisions were definitional in terms of sub-categories and did not impact the aggregate numbers.

Today's Missive (June 3rd). The balance of today's *Opening Comments* concentrates on the further detail from the headline April reporting of the trade deficit as well as April construction spending.

The *Hyperinflation Watch* section will return with Friday's *Commentary No. 723*, incorporating the latest monetary conditions detail. The updated *Hyperinflation Outlook Summary* has been shifted to the June 11th reporting of *Commentary No. 726*. Today's trade detail was not as definitive as I had expected, where the June 11th publication also will incorporate detail from the reporting of May labor conditions and nominal retail sales. The general outlook has not changed. The updated text will reflect the latest economic and financial-market conditions, a review of unfolding Federal Reserve machinations and related implications for systemic stability or lack of same (see *Commentary No. 722* for the most-recent *Summary* version).

Separately, the *Week Ahead* section provides a preview of Friday's release of May labor conditions, with updated, late consensus expectations.

U.S. Trade Deficit—April 2015—"Narrowing" of April Deficit Largely Offset Prior Trade-Flow Distortions. The nominal trade deficit narrowed to $40.9 billion in April 2015, from a revised $50.6 billion in March. The March deficit, in turn, had soared versus a revised $37.2 billion deficit in February. All those numbers reflected trade flows disrupted by labor disputes. Where backed-up imports flooded into the system in March 2015, there also may have been some resulting delay in regaining normal import flows—restocking—in April 2015.

A more-meaningful measure with which to compare the headline April deficit of $40.9 billion would be the first-quarter 2015 monthly average deficit of $43.4 billion or the fourth-quarter 2015 monthly average of $42.8 billion. Separately, late-consensus expectations had been for a deficit of $43.5 billion [MarketWatch], $44.0 billion [Bloomberg]. Where the April nominal measure narrowed here, in comparison, the relative trade improvement was was within regular series volatility.

Inflation-adjusted detail told a different story. The April 2015 real detail had neutral implications for second-quarter 2015 GDP reporting. As used with the GDP, the inflation-adjusted April trade deficit was $57.2 billion. That was changed minimally versus a real first-quarter 2015 average of $57.6 billion, and significantly wider than a fourth-quarter 2014 average of $50.5 billion.

The April trade numbers were reported in conjunction with, and in the context of annual benchmark revisions to the aggregate trade-balance series, back to 2012. The opening paragraphs of these *Opening Comments* detailed the revisions.

Nominal April 2015 Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for April 2015, on a balance-of-payments basis, narrowed by a heavily-distorted $9.687 billion to $40.879 billion, versus a revised $50.566 billion, and versus a revised $44.271 billion in April 2014.

In terms of month-to-month trade patterns, the headline $9.687 billion narrowing in the April deficit reflected a $1.904 billion increase in monthly exports on top of a decline of $7.783 (-$7.783) billion in monthly imports. The import decline excluded a gain in imported petroleum products (see *Reporting Detail* section).

Going forward, look for a sharp widening of the headline nominal and real shortfalls in May trade activity. Again, where backed-up imports flooded into the system in March, there may well have been some delay in regaining normal import flows in April. Regular trade flows should resume in the next month or so.

Real April 2015 Trade Deficit. Annual benchmark revisions to the real data were relatively mild, but they still altered quarterly-trade patterns for 2014, with implied revisions for quarterly 2014 GDP, as discussed earlier. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, also as used in GDP deflation), the April 2015 merchandise trade deficit (no services) narrowed to $57.180 billion, from a revised $66.405 (pre-benchmark $67.195) billion in March, versus a revised $52.149 (pre-benchmark $51.176) billion in February, and a revised $54.240 (pre-benchmark $54.755) billion in January. The April 2015 shortfall widened sharply versus a $52.318 (pre-benchmark $53.678) billion real deficit in April 2014. As the with the headline nominal data, trade disputes distorted recent, relative headline monthly activity.

As now reported, the benchmarked annualized quarterly real merchandise trade deficit stood at $554.8 (previously $554.7) billion for fourth-quarter 2013, $597.8 (previously $587.3) billion for first-quarter 2014, $613.4 (previously $616.5) billion for second-quarter 2014, $588.6 (previously $583.2) billion for third-quarter 2014, $605.5 (previously $608.9) billion for fourth-quarter 2014, and $691.2 (previously $692.5) billion for first-quarter 2015. Widening quarter-to-quarter real trade deficits subtract growth from the quarterly real GDP estimates, where the impact on GDP growth is determined by quarter-to-quarter change in quarterly real deficits.

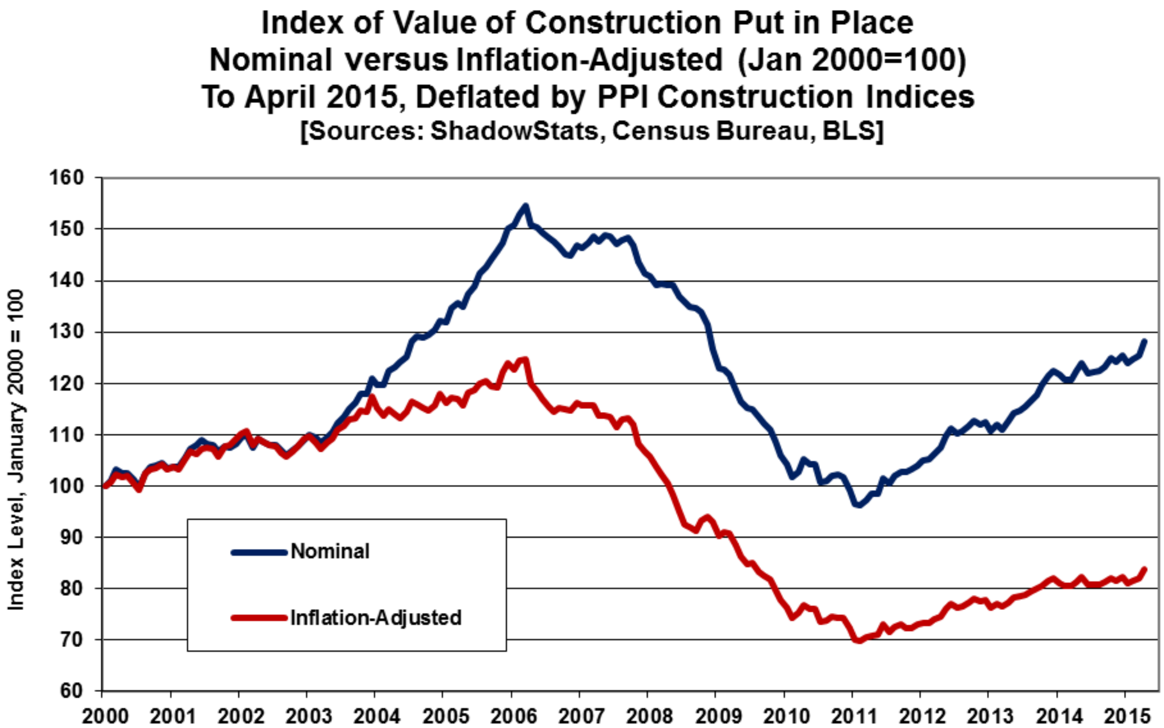
Based solely on the headline reporting of the real April 2015 deficit, that monthly number annualizes to a quarterly real trade shortfall of $686.2 billion for second-quarter 2015. The difference versus the current first-quarter estimate is not large enough to give a meaningful signal versus second-quarter real GDP growth. Accordingly, the headline April 2015 trade number is neutral, at present, versus implications for headline second-quarter 2015 GDP growth.

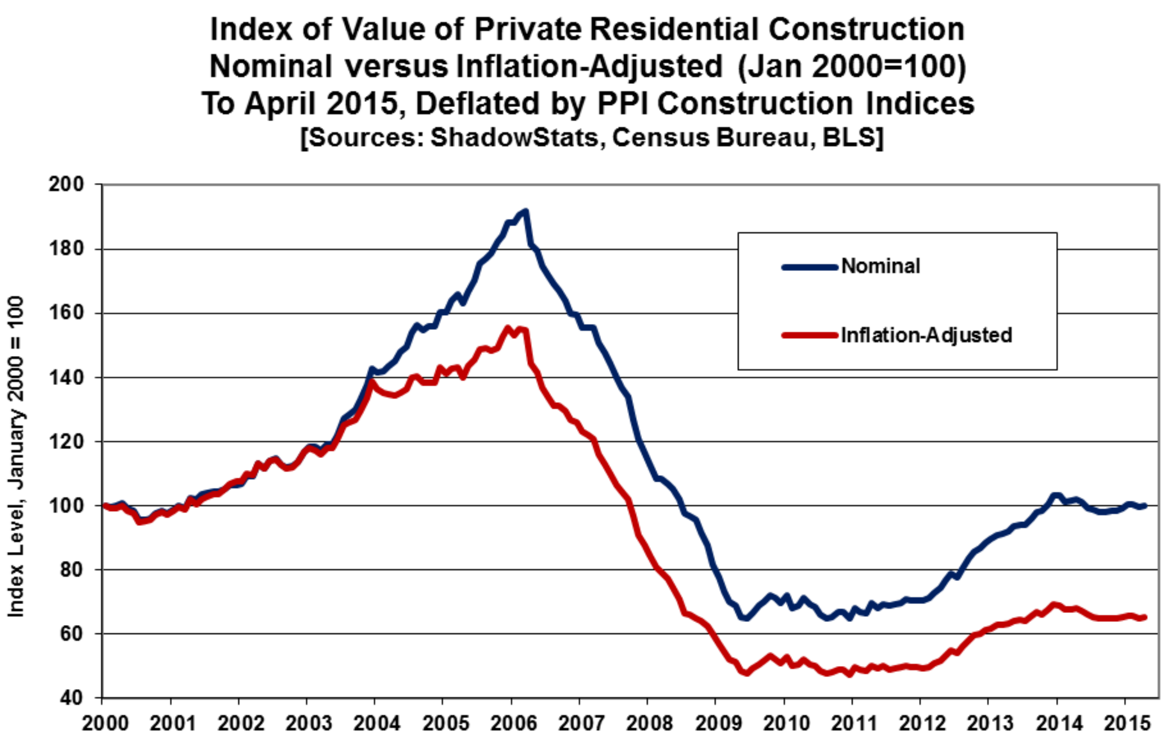
Construction Spending—April 2015—Construction Spending Jumped in April. The monthly construction-spending data usually are volatile and heavily revised, and such was the case with the headline April 2015 detail. Expressed in nominal terms, the series showed an unusual, statistically-significant headline gain of 2.2%, on top of an upside revision to the headline March detail. It was unusual in that the gain was significant.

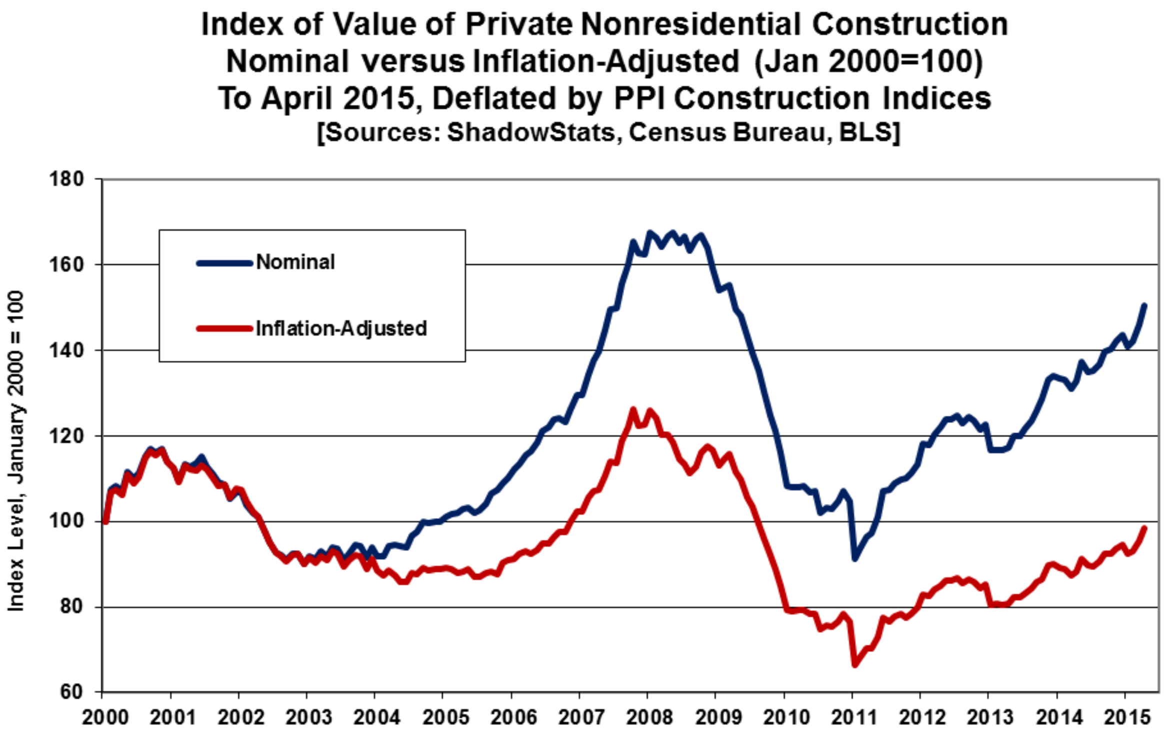
Those looking for recovery from weather-damaged, first-quarter construction activity, touted the increase in this highly-volatile series. Contrary to the "booming" headline April gain in the even-more-unstable housing-starts series, however, all the headline spending gain was in nonresidential and public construction, not in the private-residential numbers. A pattern of down-trending activity continued in private-residential construction, both before and after consideration for inflation.

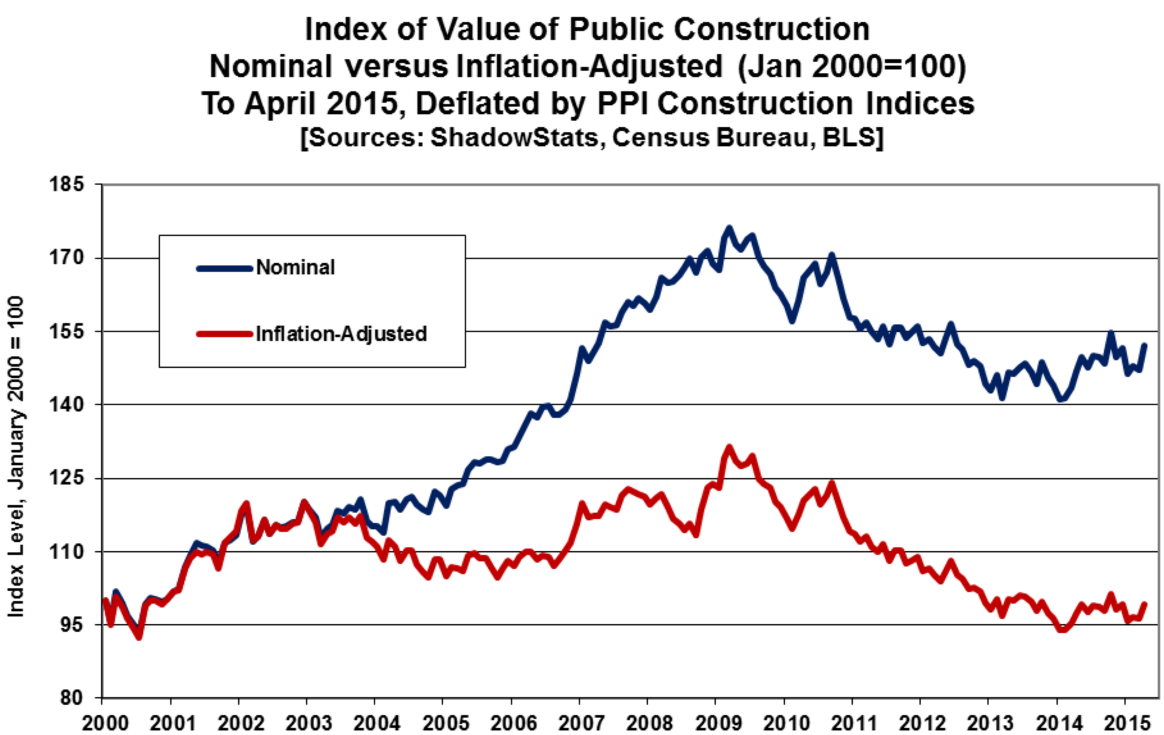
All the current monthly construction-spending data are in a holding pattern, subject to revision with the next release. Headline May 2015 detail will be published on July 1st, along with annual benchmark revisions to the series back to January 2013.

Complementing the usual first graph of real, aggregate U.S. construction spending, ShadowStats is pleased to introduce the additional graphs of real private residential- and nonresidential-construction and public-construction spending.


Index of Value of Construction Put in Place
Nominal versus Inflation-Adjusted (Jan 2000=100)
To April 2015, Deflated by PPI Construction Indices
[Sources: ShadowStats, Census Bureau, BLS]
Index Level, January 2000 = 100
160
150
140
130
120
110
100
90
80
70
60
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Nominal
Inflation-Adjusted


Index of Value of Private Residential Construction
Nominal versus Inflation-Adjusted (Jan 2000=100)
To April 2015, Deflated by PPI Construction Indices
[Sources: ShadowStats, Census Bureau, BLS]
Index Level, January 2000 = 100
200
180
160
140
120
100
80
60
40
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Nominal
Inflation-Adjusted





Seen both before and after adjustment for inflation, the aggregate construction series remained near the recent low of a down-trending pattern of stagnation, with the real series holding at 32.9% below its pre-recession peak of March 2006. The private-residential series remained down-trending both before and after adjustment for inflation.

In nominal terms and in the context of upside revisions to the March and February headline data, the headline monthly April 2015 gain of 2.2% topped the consensus outlook for a monthly gain of 0.7% [Bloomberg]. That activity, though, still was in the normal scope and monthly volatility of the series. The nominal year-to-year gain of 4.8% in April 2015 spending also was statistically meaningful, but 1.7%, more than one-third of that gain, was due to headline PPI construction 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 current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary 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 and subsidiary numbers have two problems. First, the historical data only go back to November 2009. Second, they still understate actual construction inflation. There is no perfect, publicly-available inflation measure for deflating construction. For the historical series in the accompanying graphs, the numbers are deflated by the NCI through November 2009, and by the FDCI and subsidiaries thereafter.

For April 2015, the seasonally-adjusted FDCI month-to-month inflation was a positive 0.09%, for the third consecutive month. In terms of year-to-year inflation, the April 2015 FDCI eased to 1.72%, from 2.00% in both March 2015 and February 2015. Where the subsidiary series tend to track the aggregate inflation detail over time, April headline privately-fund construction inflation gained 0.27% for the month, 1.72% year-to-year, with publicly-funded construction inflation unchanged for the month, up by 1.73% year-to-year.

Headline Reporting for April 2015. The headline, total value of construction put in place in the United States for April 2015 was $1,006.1 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-significant 2.2%, versus an upwardly revised $984.0 billion in March 2015, which in turn was up by a revised 0.5% versus a revised $979.0 billion in February 2015. Against an unrevised $972.8 billion in January 2015, February increased by a revised 0.6%.

Adjusted for FDCI inflation, aggregate real spending in April 2015 rose by 2.2%, following a revised gain of 0.4% in March, a revised monthly gain of 0.5% in February, and an unrevised decline of 1.5% (-1.5%) in January 2015.

On a year-to-year or annual-growth basis, April 2015 nominal construction spending rose by a statistically-significant 4.8%, versus a revised 3.9% gain in March, a revised 3.3% in February and an unrevised revised 1.9% annual gain in January.

Net of construction costs indicated by the FDCI, year-to-year change in spending was at 3.0% in April 2015, versus a revised 1.8% March 2015, a revised gain of 1.3% in February 2015, and an unrevised 0.0% or unchanged annual rate in January 2015.

The statistically-significant, headline monthly increase of 2.2% in nominal April 2015 construction spending, versus the 0.5% gain March 2015 spending, included a monthly increase of 3.3% in April public spending, versus a 0.4% (-0.4%) drop in March spending. Private spending increased by 1.8% in April, following a monthly gain of 0.8% in March. Within total private construction spending, the residential sector rose by 0.6% in April, not pulling even with a decline of 1.1% (-1.1%) in March, while the nonresidential sector rose by 3.1% in April, versus a gain of 2.7% in March. The latest and revised extended detail is plotted in the graphs at the end of the *Reporting Detail* section.

[The* Reporting Detail *section includes further information on the trade-deficit and construction-spending numbers.]

____

REPORTING DETAIL

U.S. TRADE BALANCE (April 2015 and Benchmark Revision)

Relative "Narrowing" of the April Trade Deficit Largely Offset Trade-Flow Distortions from Labor Disputes. The nominal (not-adjusted for-inflation) trade deficit narrowed to $40.9 billion in April 2015, from a revised $50.6 billion in March. The March deficit, in turn, had soared versus a revised $37.2 billion deficit in February. All those numbers reflected trade flows that were disrupted by labor disputes. Where backed-up imports flooded into the system in March 2015, there also may have been some resulting delay in regaining normal import flows in April 2015.

A more-meaningful measure with which to compare the headline April 2015 deficit of $40.9 billion would be the first-quarter 2015 monthly average deficit of $43.4 billion, or the fourth-quarter 2015 monthly average of $42.8 billion. Also, the late-consensus had been for a deficit of $43.5 billion [MarketWatch], $44.0 billion [Bloomberg]. Where the April nominal measure narrowed here, in comparison, the relative trade improvement was no more than that seen within the regular series volatility.

In real (inflation-adjusted) terms, as used with the GDP, the April trade deficit was $57.2 billion. That was little changed against a real first-quarter 2015 average of $57.6 billion, but significantly wider than a fourth-quarter 2014 average of $50.5 billion. The headline real April 2015 detail had neutral implications for second-quarter 2015 GDP reporting.

The April trade numbers were reported in conjunction with, and in the context of annual benchmark revisions to the aggregate trade-balance series, back to 2012. Those revisions are detailed separately in the part of the *Opening Comments* section.

Nominal (Not-Adjusted-for-Inflation) April 2015 Trade Deficit. The BEA and the Census Bureau reported this morning, June 3rd, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for April 2015, on a balance-of-payments basis, narrowed by a heavily-distorted $9.687 billion to $40.879 billion, versus a revised $50.566 (pre-benchmark $51.367) billion, and versus a revised $44.271 (pre-benchmark $45.583) billion in April 2014.

In terms of month-to-month trade patterns, the headline $9.687 billion narrowing in the April 2015 deficit reflected a $1.904 billion increase in monthly exports on top of a decline of $7.783 (-$7.783) billion in monthly imports. The import decline excluded a gain in imported petroleum products. Again, the big swings in the data reflected corrective catch-up in the headline trade flows.

Going forward, look for a sharp widening of the headline nominal and real shortfalls in May trade activity. Noted earlier, where backed-up imports flooded into the system in March, there may well have been some delay in regaining normal import flows in April. Regular trade flows should resume in the next month or so.

Energy-Related Petroleum Products. For April 2015, the not-seasonally-adjusted average price of imported oil held at $46.52 per barrel, versus $46.47 per barrel in March 2015, and down from $95.47 per barrel in April 2014. Also not-seasonally-adjusted, physical oil-import volume in April 2015 averaged 7.864 million barrels per day, up from 7.302 million in March, and down from 7.966 million in April 2014.

Ongoing Cautions on Data Quality. Still obvious in today's reporting, labor disruptions at U.S. ports have had near-term impact on headline imports and exports, but these unusual trade-flow effects should be out of the system in the next month or so. Separately, potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues affect 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) April 2015 Trade Deficit. Though the annual benchmark revisions to the real data were relatively mild, they still altered quarterly-trade patterns for 2014, with implied revisions for quarterly 2014 GDP (see the *Opening Comments*). Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, also as used in GDP deflation), the April 2015 merchandise trade deficit (no services) narrowed to $57.180 billion, from a revised $66.405 (pre-benchmark $67.195) billion in March, versus a revised $52.149 (pre-benchmark $51.176) billion in February, and a revised $54.240 (pre-benchmark $54.755) billion in January. The April 2015 shortfall widened sharply versus a $52.318 (pre-benchmark $53.678) billion real deficit in April 2014. As the with headline nominal data, trade disputes distorted recent, relative headline monthly activity.

As now reported, the benchmarked annualized quarterly real merchandise trade deficit stood at $554.8 (previously $554.7) billion for fourth-quarter 2013, $597.8 (previously $587.3) billion for first-quarter

2014, $613.4 (previously $616.5) billion for second-quarter 2014, $588.6 (previously $583.2) billion for third-quarter 2014, $605.5 (previously $608.9) billion for fourth-quarter 2014, and $691.2 (previously $692.5) billion for first-quarter 2015. Widening quarter-to-quarter real trade deficits subtract growth from the quarterly real GDP estimates.

Based solely on the headline reporting of the real April 2015 deficit, that monthly number annualizes to a quarterly real trade shortfall of $686.2 billion for second-quarter 2015. The difference versus the current first-quarter estimate is not large enough to give a meaningful signal versus second-quarter real GDP growth. Accordingly, the headline April 2015 trade number is neutral, at present, versus implications for headline second-quarter 2015 GDP growth.

CONSTRUCTION SPENDING (April 2015)

Real Construction Spending Jumped in April. The monthly construction-spending data usually are volatile and heavily revised, and such was the case with the headline April 2015 detail. The series, expressed in nominal terms (not-inflation-adjusted), showed an unusual, statistically-significant headline gain of 2.2%, on top of an upside revision to the headline March detail. It was unusual in that the gain was significant.

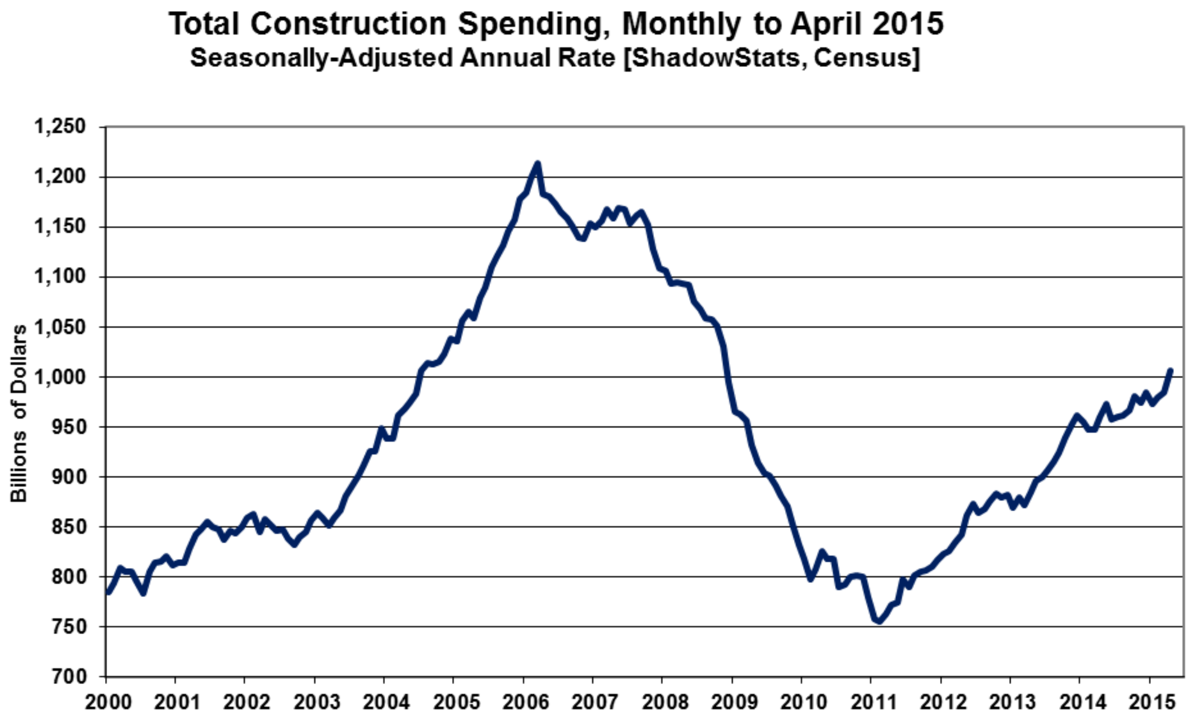
Those looking for recovery from weather-damaged, first-quarter construction activity, touted the increase in this highly-volatile series. Contrary to the "booming" headline April gain in the even-more-unstable housing-starts series, however, all the headline spending gain was in nonresidential and public construction, not in the private-residential numbers. A pattern of down-trending activity continued in private-residential construction, both before and after consideration for inflation.

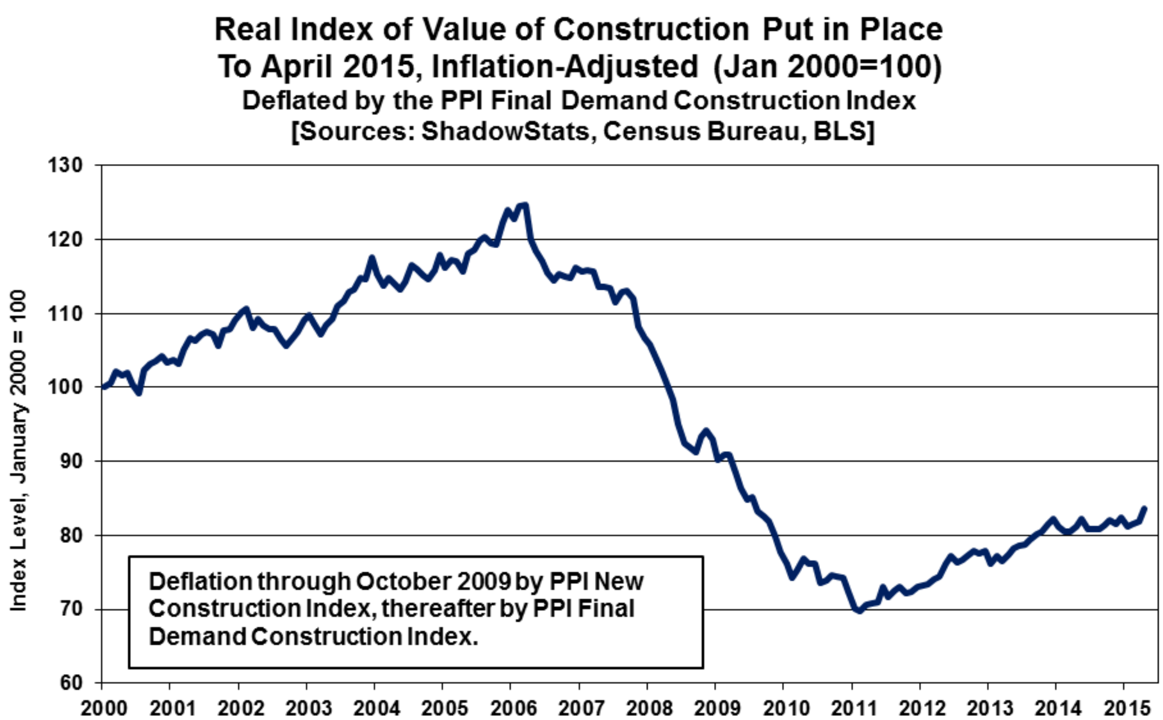
All the current monthly construction-spending data, however, remain in a holding pattern, subject to revision with the next release. Headline May 2015 detail will be published on July 1st, along with annual benchmark revisions to the series back to January 2013.

Complementing the usual graph of real (inflation-adjusted) aggregate U.S. construction spending, ShadowStats introduces graphs of real private residential- and nonresidential-construction and public-construction spending. Those graphs are published in the *Opening Comments*. Seen both before and after adjustment for inflation, the aggregate series remained near the recent low of a down-trending pattern of stagnation, with the real series holding at 32.9% below its pre-recession peak of March 2006.

The second graph following reflects the aggregate real detail, with the nominal detail shown in the first graph. The historical pattern here 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 and in the context of upside revisions to the March and February headline data, the headline monthly April 2015 gain of 2.2% topped the consensus outlook for a monthly gain of 0.7% [Bloomberg]. That activity, though, still was in the normal scope and monthly volatility of the series. The nominal year-to-year gain of 4.8% in April 2015 spending also was statistically meaningful, but 1.7%, more than one-third of that gain, was due to headline PPI construction 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 current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary series graphed in the *Opening Comments.*

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 and subsidiary numbers have two problems. First, the historical data only go back to November 2009. Second, they still understate actual construction inflation. There is no perfect, publicly-available inflation measure for deflating construction. For the historical series in the accompanying graphs, the numbers are deflated by the NCI through November 2009, and by the FDCI and subsidiaries thereafter.

For April 2015, the seasonally-adjusted FDCI month-to-month inflation was a positive 0.09%, for the third consecutive month. In terms of year-to-year inflation, the April 2015 FDCI eased to 1.72%, from 2.00% in both March 2015 and February 2015. Where the subsidiary series tend to track the aggregate inflation detail over time, April headline privately-fund construction inflation gained 0.27% for the month, 1.72% year-to-year, with publicly-funded construction inflation unchanged for the month, up by 1.73% year-to-year.

Headline Reporting for April 2015. The Census Bureau reported June 1st that the headline, total value of construction put in place in the United States for April 2015 was $1,006.1 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-significant 2.2% +/- 1.8% (all confidence intervals are at the 95% level), versus an upwardly revised $984.0 [previously $966.6] billion in March 2015, which in turn was up by a revised 0.5% [previously down by 0.6% (-0.6%)] versus a revised $979.0 [previously $972.9, initially $967.2] billion in February 2015. Against an unrevised $972.8 billion in January 2015, February increased by a revised 0.6% [previously "unchanged," initially down by 0.1% (-0.1%)].

Adjusted for FDCI inflation, aggregate real spending in April 2015 rose by 2.2%, following a revised gain of 0.4% [previously down by 0.7% (-0.7%)] in March, a revised monthly gain of 0.5% [previously down by 0.1% (-0.1%), initially down by 0.2% (-0.2%)] in February, and an unrevised decline of 1.5% (-1.5%) in January 2015.

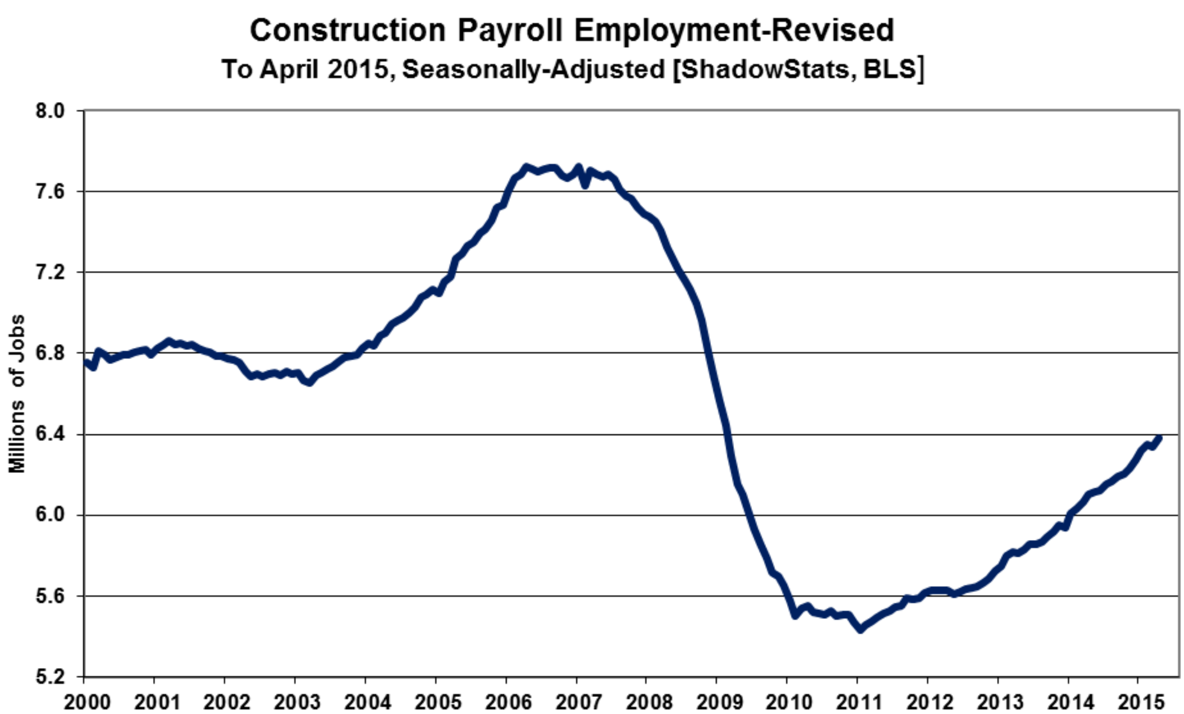
On a year-to-year or annual-growth basis, April 2015 nominal construction spending rose by a statistically-significant 4.8% +/- 2.3%, versus a revised 3.9% [previously 2.0%] gain in March, a revised 3.3% [previously 2.7%, initially 2.1%] in February and an unrevised revised 1.9% annual gain in January.

Net of construction costs indicated by the FDCI, year-to-year change in spending was at 3.0% in April 2015, versus a revised 1.8% [previously 0.0%] March 2015, a revised gain of 1.3% [previously up by 0.7%, initially up by 0.1%] in February 2015, and an unrevised 0.0% or unchanged annual rate in January 2015.

The statistically-significant, headline monthly increase of 2.2% in nominal April 2015 construction spending, versus the 0.5% gain March 2015 spending, included a monthly increase of 3.3% in April public spending, versus a 0.4% (-0.4%) drop in March spending. Private spending increased by 1.8% in April, following a monthly gain of 0.8% in March. Within total private construction spending, the residential sector rose by 0.6% in April, not pulling even with a decline of 1.1% (-1.1%) in March, while the nonresidential sector rose by 3.1% in April, versus a gain of 2.7% in March. The following graphs show the latest and revised extended detail.

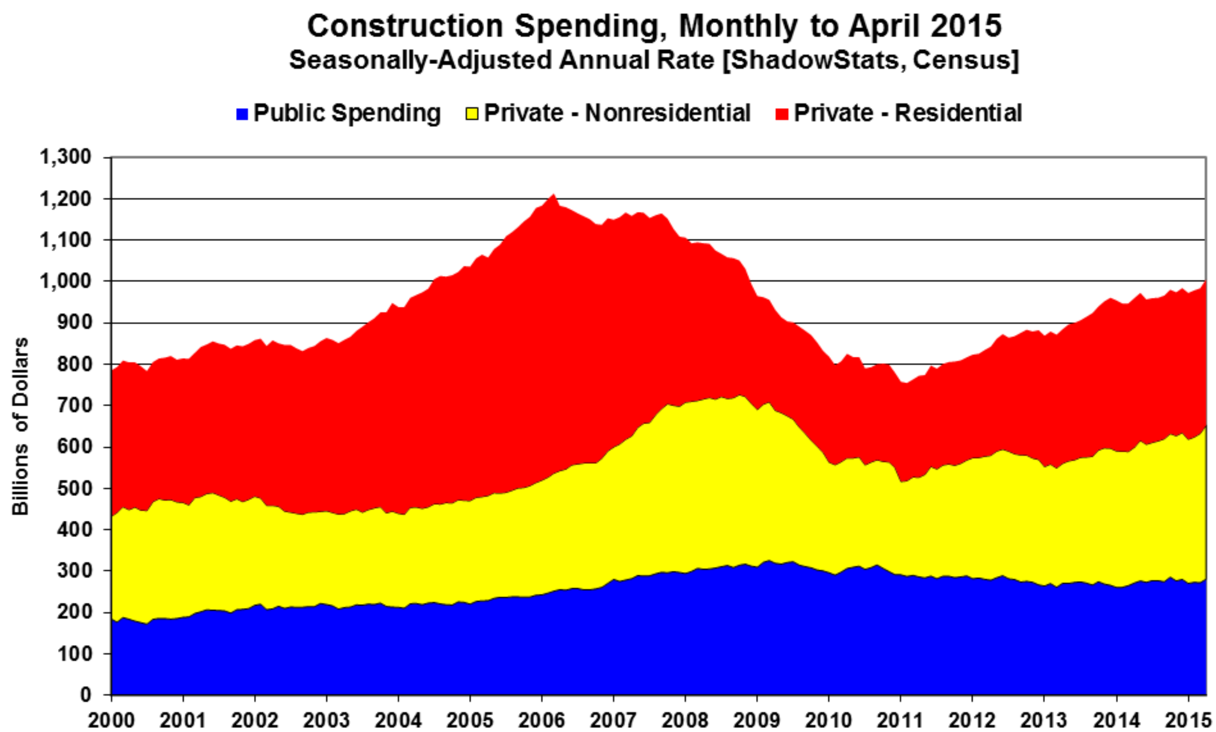
Construction and Related Graphs. The preceding two graphs reflect total construction spending through April 2015, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0. Adjusted for the PPI's NCI measure through October 2009 and the PPI's Final Demand Construction Index thereafter, real aggregate 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, notching lower in the recent headline reporting and notching higher in April.

Despite the uptick in April 2015, 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. 722* 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 of low-level, variable stagnation, where activity never recovered pre-recession highs.



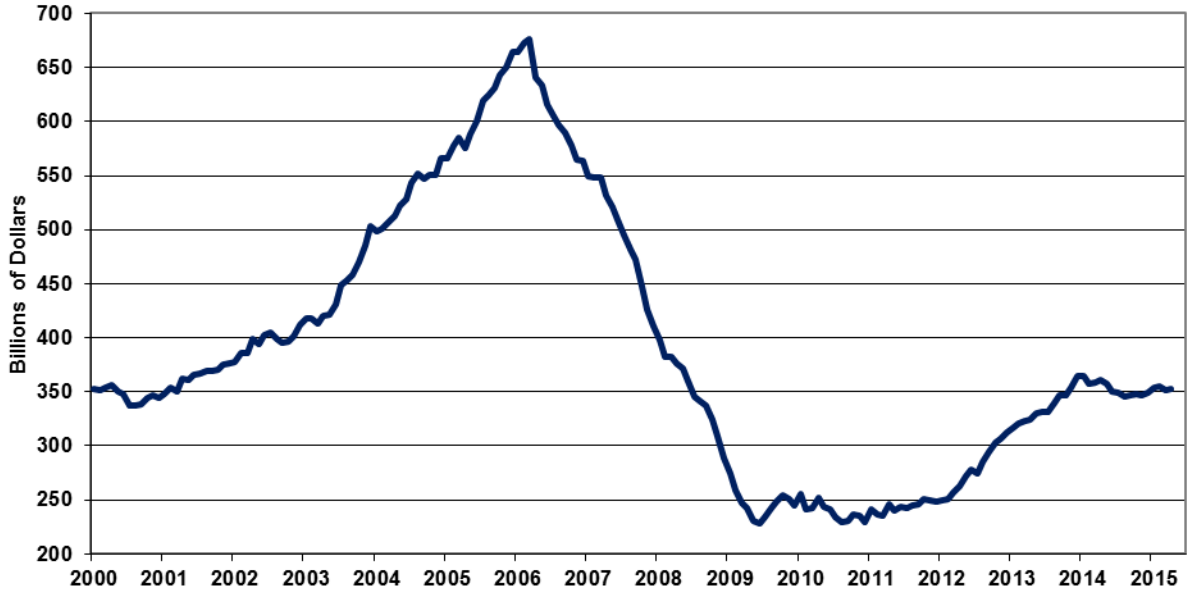
The preceding graph shows April 2015 construction employment (from *Commentary No. 717*). The construction employment numbers and the graph will be updated for May 2015 in Friday's June 5th *Commentary No. 724*. In theory, payroll levels should move more closely with the inflation-adjusted aggregate 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).

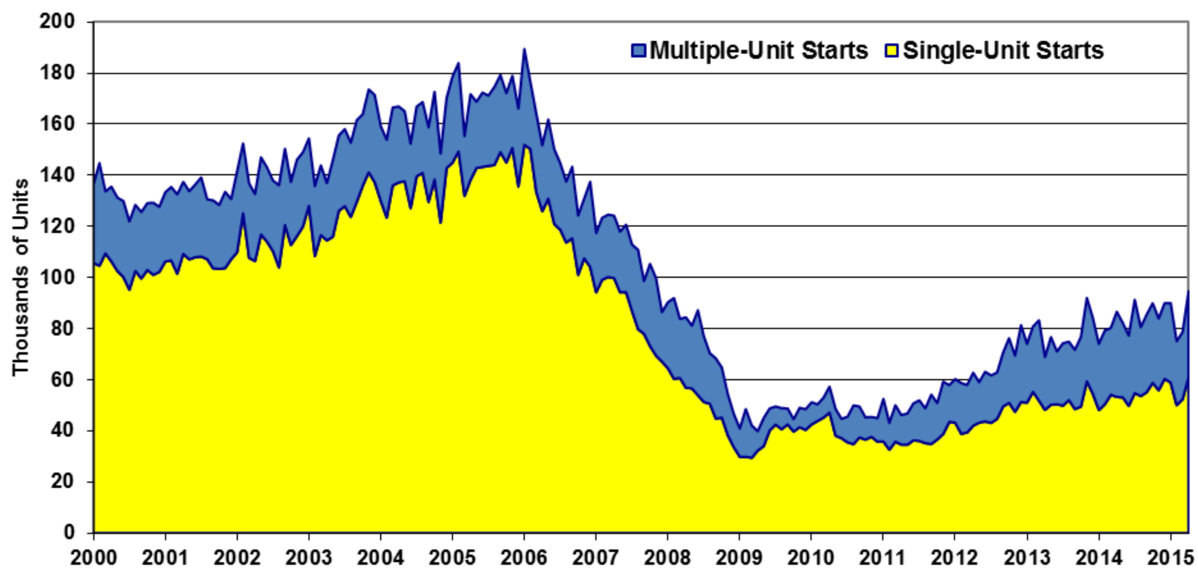


The next two graphs following cover private residential construction along with housing starts (combined single- and multiple-unit starts) for April 2015 (see *Commentary No. 720*). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing starts 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 still in outright quarterly contraction, even before adjustment for inflation, before the April uptick.

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

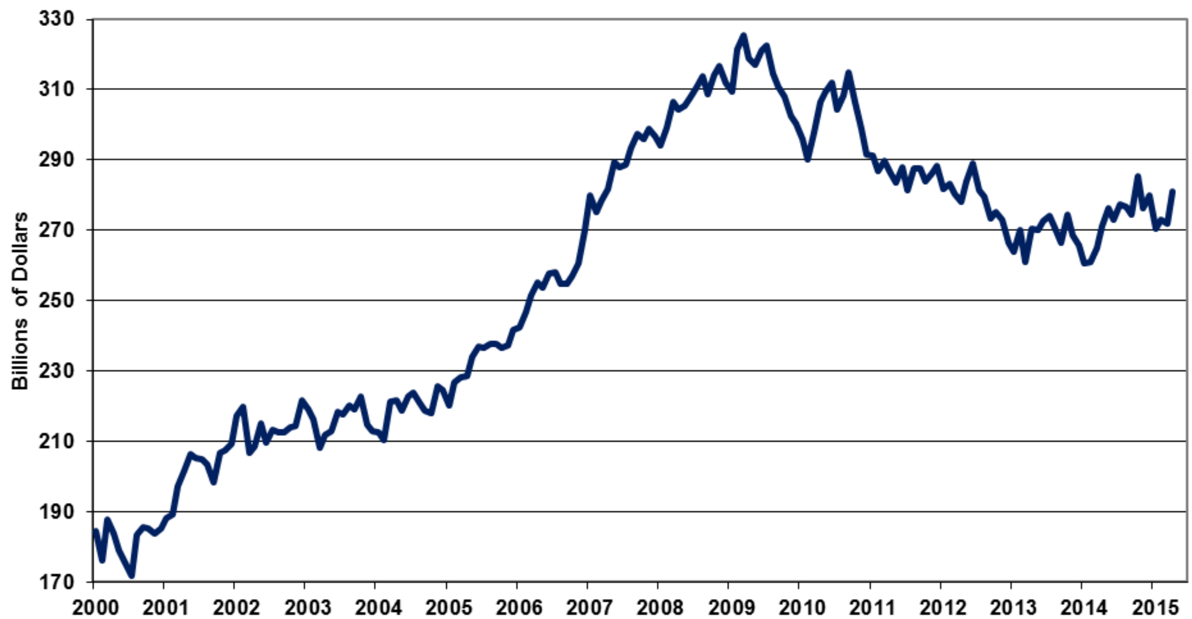


Single- and Multiple-Unit Housing Starts (Monthly Rate)
To April 2015, Seasonally-Adjusted [ShadowStats, Census]



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

Public Construction, Monthly to April 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 recent topping pattern jumping anew in April. Public construction spending, which is 98% nonresidential, had continued in a broad downtrend, with intermittent bouts of fluttering stagnation and some recent that appears still to have topped out, despite the April headline gain.

WEEK AHEAD

Headline Economic Reporting and Revisions Should Trend Much Weaker versus Overly-Optimistic Expectations; Inflation Will Rise Anew, Following Higher Oil Prices. Although shifting increasingly to the downside, amidst largely-negative reporting and surprises in headline numbers, market expectations for business activity still tend to fluctuate with the latest market hype, with the effect of still holding at overly-optimistic levels. They 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 been hammering elements of the consensus outlook. GDP excesses from 2014 will face downside revisions in the July 30, 2015 GDP benchmark revision, and expectations for headline growth estimates of, or further revisions to first- and second-quarter 2015 should continue shifting to the downside, increasingly into negative territory, shy of upside-jawboning of the data in the press, as discussed in the *Opening Comments* of *Commentary No. 722*.

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, but dropping by 0.2% (-0.2%) in April 2015. A large jump in gasoline prices for May 2015 and a softening of negative seasonal-adjustments for gasoline promise a headline jump in May 2015 monthly CPI-U inflation, with annual inflation likely pulling at least even with zero.

Significant upside inflation pressures are building, as oil prices rebound, a process that should 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. Again, see the *Commentary No. 722* as to market and political pressures on the Bureau of Economic Analysis (BEA) relative to pending, headline GDP reporting. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned for the July 30, 2015 benchmark revision, would be extraordinary in terms of BEA behavior and are not likely, although some gimmicked, less-negative summary numbers already have been planned for publication.

Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of monthly 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, explored in the 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:

Employment and Unemployment (May 2015). The Bureau of Labor Statistics (BLS) will release its May 2015 labor data on Friday, June 5th. Both employment and unemployment numbers remain 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).

Early-market expectations [MarketWatch] were for a slightly slower pace of payroll growth in May 2015, up by 210,000 versus the initial headline gain of 223,000 jobs in April, with May's headline U.3 unemployment rate holding at 5.4%. Late-market expectations have held with the MarketWatch detail, Bloomberg is showing a consensus payroll gain of 220,000, with U.3 unemployment holding a 5.4%.

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

Consensus Expectations Straddle the Monthly Payroll Bias. As published previously by ShadowStats-affiliate www.ExpliStats.com, in its analysis of the biases built into the BLS's concurrent-seasonal-factor modeling of the April 2015 payroll-employment reporting, the built-in bias trend for May 2015 is for a headline monthly employment gain of 214,000 (see *Commentary No. 717*), where the current published consensus expectations effectively have settled in a range of 210,000 to 220,000.

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 gains, and higher-than-expected unemployment rates.

____

