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

COMMENTARY NUMBER 764
September Trade Deficit, Construction Spending

November 4, 2015

Third-Quarter Real Merchandise Trade Deficit Was Worst Since 2007

Full Reporting of September Trade Detail Indicated a Greater Hit to GDP, Suggesting a Negative Third-Quarter GDP Revision

Third-Quarter Real Construction Spending Growth Slowed Sharply

Consumer Outlook Falters Along with a Declining Economy and Increasingly Volatile and Negative Financial Markets

With Time Running Out on the Dollar, Who Is Going to Buy the U.S. Treasuries?

PLEASE NOTE: The next regular Commentary, *scheduled for Friday, November 6th, will review the October 2015 Employment and Unemployment reporting.*

Best wishes to all! — John Williams

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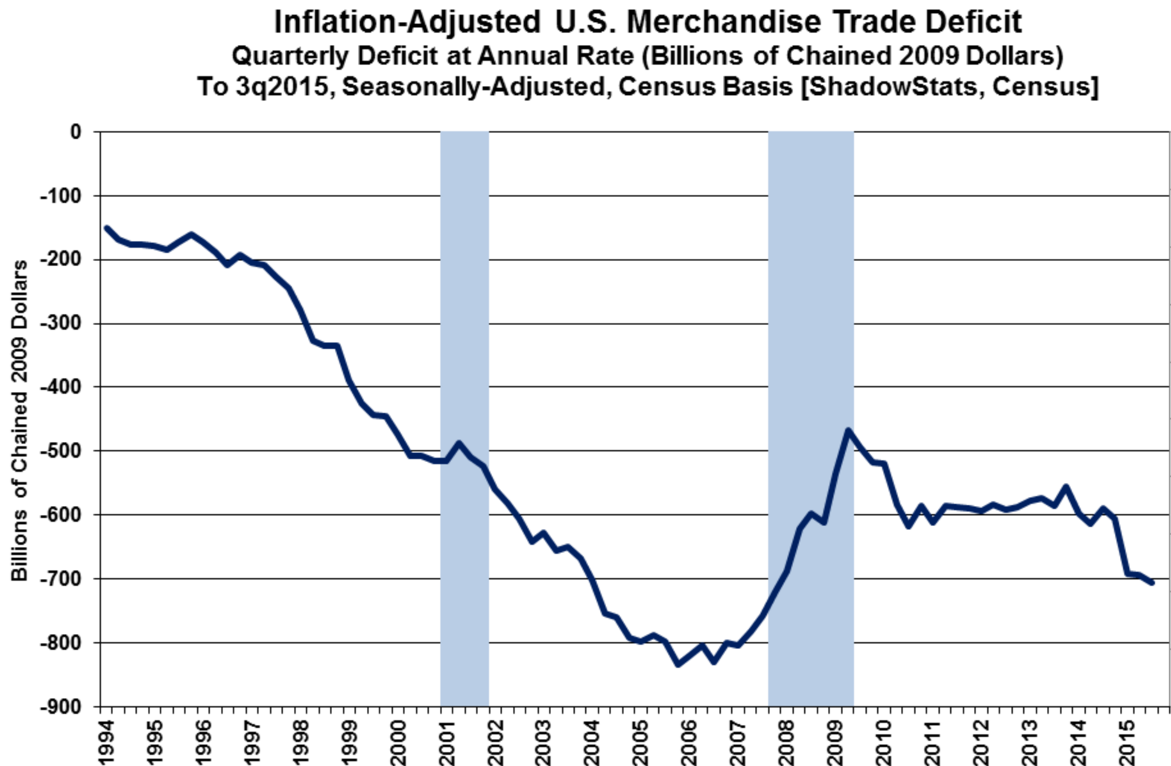
OPENING COMMENTS AND EXECUTIVE SUMMARY

Third-Quarter GDP Faces Downside Revision from Deteriorating Deficit. Based on the October 28th "advance" reporting of the September 2015 merchandise trade deficit, a negligible widening in the inflation-adjusted, third-quarter 2015 net-export account contributed a net-negative 0.03% (-0.03%) to the aggregate, annualized 1.49% growth rate in the "advance" estimate of real or inflation-adjusted third-quarter Gross Domestic Product (GDP). The GDP detail was published on October 29th and reviewed in *Commentary No. 763* of that date.

Based on today's (November 4th) full reporting of the September 2015 merchandise trade deficit, however, the real third-quarter merchandise trade deficit widened to its worst reading since fourth-quarter 2007. It deteriorated enough to knock off 0.2% (-0.2%) to 0.3% (-0.3%) from the first estimate of 1.5% growth in third-quarter 2015 GDP, come the November 24th second estimate, first revision. A widening or deteriorating real trade deficit subtracts from broad national economic activity.

Exacerbated recently by the effects of falling oil prices in boosting inflation-adjusted oil imports, the headline, annualized third-quarter real merchandise trade deficit at $705.3 billion (in constant, chained 2009 dollars) was the worst in eight years, having widened by 58.1% from its near-term, narrowest reading in second-quarter 2009, as shown in *Graph 1* and detailed in the regular trade deficit coverage.

Graph 1: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit



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Today's *Commentary* (November 4th). The balance of these *Opening Comments* provides summary coverage of the headline September trade deficit and construction spending. Also reviewed are the latest Consumer Sentiment and Confidence reporting and the relationship of the results of those surveys to the tone of headline popular media coverage of the economy and financial markets.

The U.S. dollar is living on borrowed time, as discussed in the updated *Hyperinflation Outlook.* Text there has been updated for the rapidly evolving systemic deterioration, reflected in recent FOMC deliberations and in the latest domestic economic, fiscal and political developments.

The *Week Ahead* provides a revised assessment of Friday's likely reporting of October labor conditions.

U.S. Trade Balance—September 2015—Worst Real Quarterly Merchandise Deficit in Eight Years. With implications for a negative revision to third-quarter 2015 GDP, detail from the full September 2015 trade report showed the third-quarter merchandise real trade deficit to have widened to its worst level since fourth-quarter 2007, as discussed and graphed in the first section of these *Opening Comments*.

Additionally, the limited September 2015 nominal goods trade-deficit detail published in the "advance" September trade report suffered some revised monthly deterioration, along with August reporting, in the just-published full trade report for September.

Although the headline nominal reporting of the monthly trade balance for goods and services showed the headline deficit narrowing by 15.0% (-15.0%) in the month, the headline real or inflation-adjusted reporting of the deficit—in just the goods sector—narrowed by 5.7% (-5.7%), where falling oil prices and related negative inflation masked some of the nominal September deficit narrowing.

Nominal (Not-Adjusted-for-Inflation) September 2015 Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for September 2015, on a balance-of-payments basis, narrowed by $7.205 billion to $40.812 billion, versus a revised $48.017 billion in August 2015. The September 2015 nominal deficit also narrowed versus a non-comparable $43.186 billion trade shortfall in September 2014 (see *Ongoing Cautions...* in the *Reporting Detail* section).

In terms of month-to-month trade patterns, that headline $7.205 billion narrowing in the September deficit reflected a gain of $2.958 billion in monthly exports, combined with a $4.248 billion decline in monthly imports (difference is in rounding).

The gain in exports was seen largely in consumer goods, ranging from art and antiques to jewelry, along with an increase in capital goods. The import decline reflected most heavily a decline in oil imports, along with a decline in capital goods. Declining oil prices accounted for the drop in nominal oil imports.

<u>Energy-Related Petroleum Products.</u> For September 2015, the not-seasonally-adjusted average price of imported oil fell to $42.72 per barrel, versus $49.33 per barrel in August 2015, and versus $92.52 per barrel in September 2014. Separately, not-seasonally-adjusted, physical oil-import volume in September 2015 averaged 7.714 million barrels per day, up from 7.078 million in August 2015 but down from 7.535 million in September 2014.

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Real (Inflation-Adjusted) September 2015 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the September 2015 merchandise trade deficit (no services) narrowed to $57.241 billion, from a revised $63.012 billion in August 2015. Minor monthly revisions also affected months from April to July 2015. The September 2015 shortfall, however, widened sharply versus a comparable year-ago $49.987 billion deficit.

The annualized quarterly real merchandise trade deficit stood at $588.6 billion for third-quarter 2014, $605.5 billion for fourth-quarter 2014, $692.1 billion for first-quarter 2015, and at a revised $694.5 billion for second-quarter 2015. Widening quarter-to-quarter real trade deficits subtract growth from the quarterly real GDP estimates, while narrowing deficits boost headline GDP.

With initial third-quarter reporting in place, the annualized quarterly real trade shortfall in third-quarter 2015 widened versus the second quarter to $705.3 billion. Such was the worst real trade deficit since fourth-quarter 2007, the formal onset of the 2007 recession, with implications for a downside first revision the third-quarter GDP, all as discussed in the opening paragraphs of these *Opening Comments*.

Construction Spending—September 2015—Sharp Slowing in Third-Quarter Growth. In the context of a small upside revision to previously-reported August activity, September 2015 construction spending gained a headline 0.6% month-to-month. That would have been a gain of 0.7% before the August revision. Nonetheless, the general trend in this highly-volatile series, net of inflation, remained one of low-level, albeit up-trending stagnation.

Although negative construction-related PPI inflation in August, and zero-to-minus inflation in September limited the headline nominal numbers, the resulting relatively stronger patterns of inflation-adjusted real growth, and earlier patterns of softer, inflation-adjusted growth still have continued to run well ahead of, and are not supported by, growth in recent, related construction employment (see *Graph 11* in the *Reporting Detail* section). Such continues to suggest that government estimates of construction inflation are too low, as generally confirmed in private surveys (see discussion the *PPI Final Demand Construction Index* in the *Reporting Detail*).

Reflecting initial full quarterly reporting, growth slowed sharply in third-quarter 2015 real construction spending (deflated by PPI construction inflation), falling to an annualized quarterly pace of 7.0%, against a revised annualized 28.4% quarterly gain in second-quarter 2015 and an unrevised 4.1% annualized gain in first-quarter 2015.

Graphs 2 to *5* in these *Opening Comments* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public construction spending. Seen after adjustment for inflation, the aggregate series remained in low-level stagnation into first-quarter 2015. Activity spiked in recent months, but slowed again in the last couple months of reporting, with the real series in September 2015 still holding at 27.0% (-27.0%) below its pre-recession peak of March 2006.

Areas of recent relative real strength in aggregate activity generally have been in the nonresidential sector and as boosted by negative inflation, versus weakness in residential construction. Relative residential-versus-nonresidential growth patterns, however, reversed in headline September reporting.

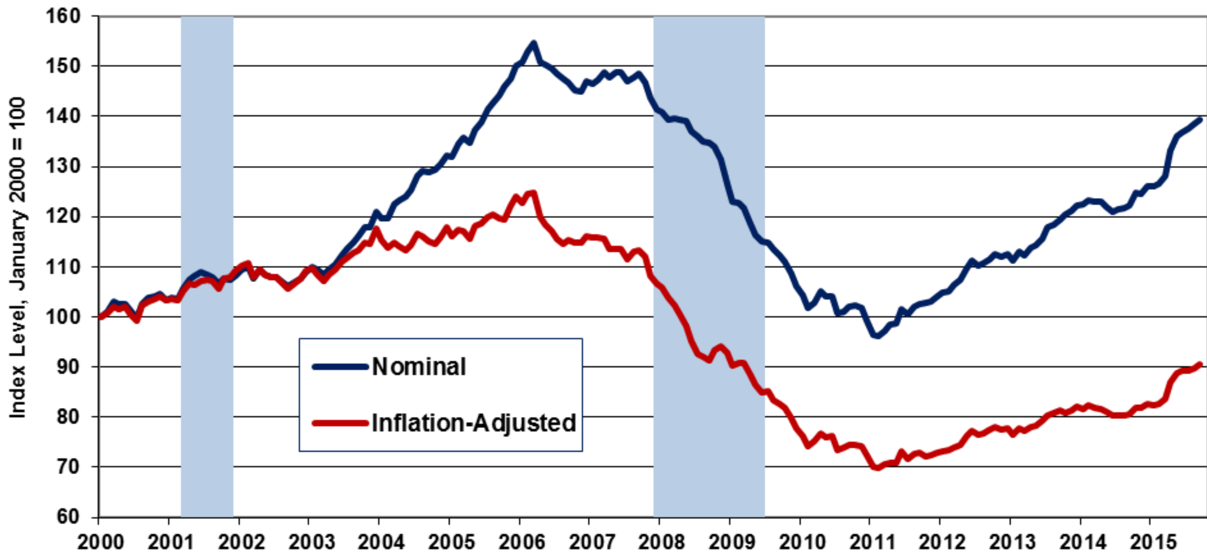
PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary series. Again, see details in the *Reporting Detail*. The inflation-adjustment effects by construction sector are shown here in *Graphs 2* to *5.*

Headline Construction Spending for September 2015. The headline, total value of construction put in place in the United States for September 2015 was $1,094.2 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up by a statistically-insignificant 0.6% versus an upwardly revised $1,087.5 billion in August. Net of prior-period revisions, the headline monthly gain for September was 0.7%.

In turn, August spending was up by an unrevised 0.7%, versus a revised $1,080.4 billion in July, with July gaining at an upwardly-revised monthly pace of 0.6%, versus an unrevised $1,074.3 billion in June. Adjusted for FDCI inflation, aggregate monthly real spending in September 2015 was up by 0.8%, following an unrevised August 2015 gain of 0.8% and a revised, unchanged July.

On a year-to-year or annual-growth basis, September 2015 nominal construction spending rose by a statistically-significant 14.1%, versus revised annual gains of 13.9% in August 2015 and 13.4% in July 2015. Net of construction costs indicated by the FDCI, year-to-year change in spending was at 12.1% in September 2015, versus revised annual gains of 11.9% in August 2015 and 11.2% in July 2015.

Graph 2: Index, Nominal versus Real Value of Total Construction



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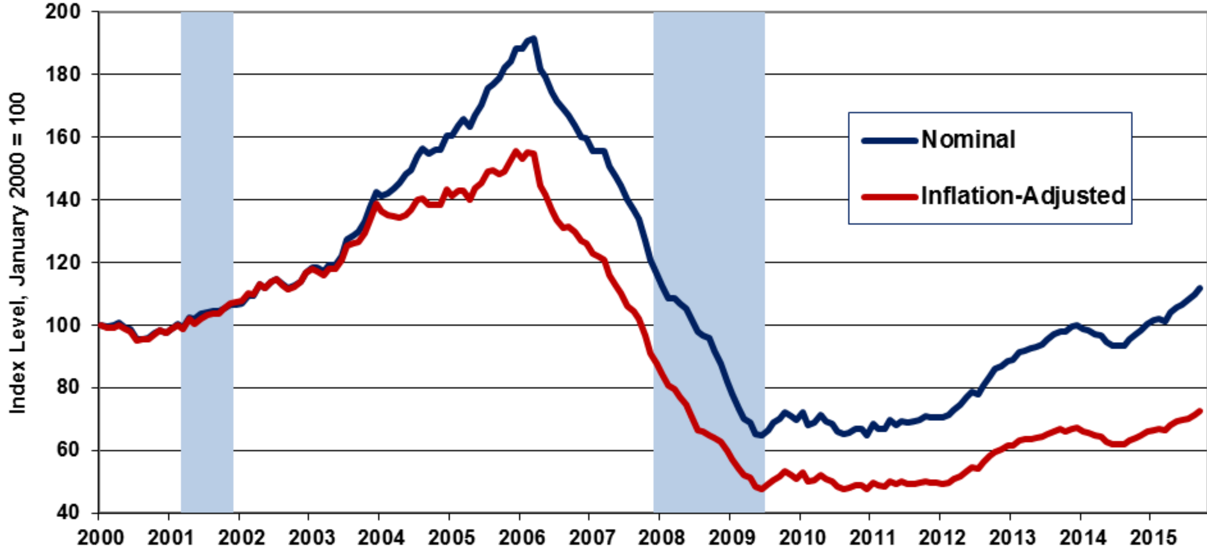
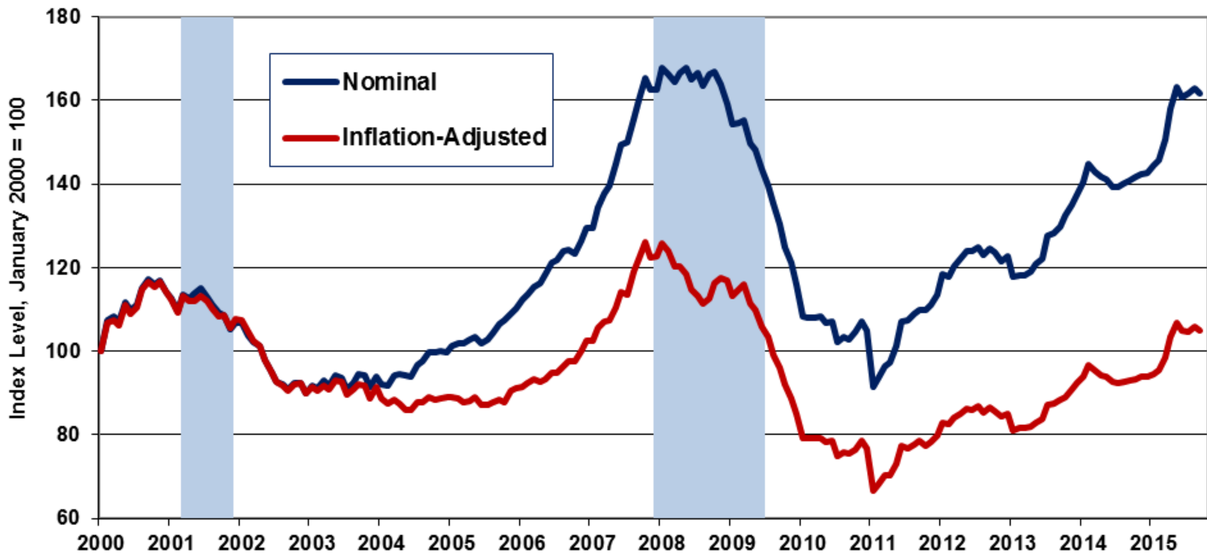
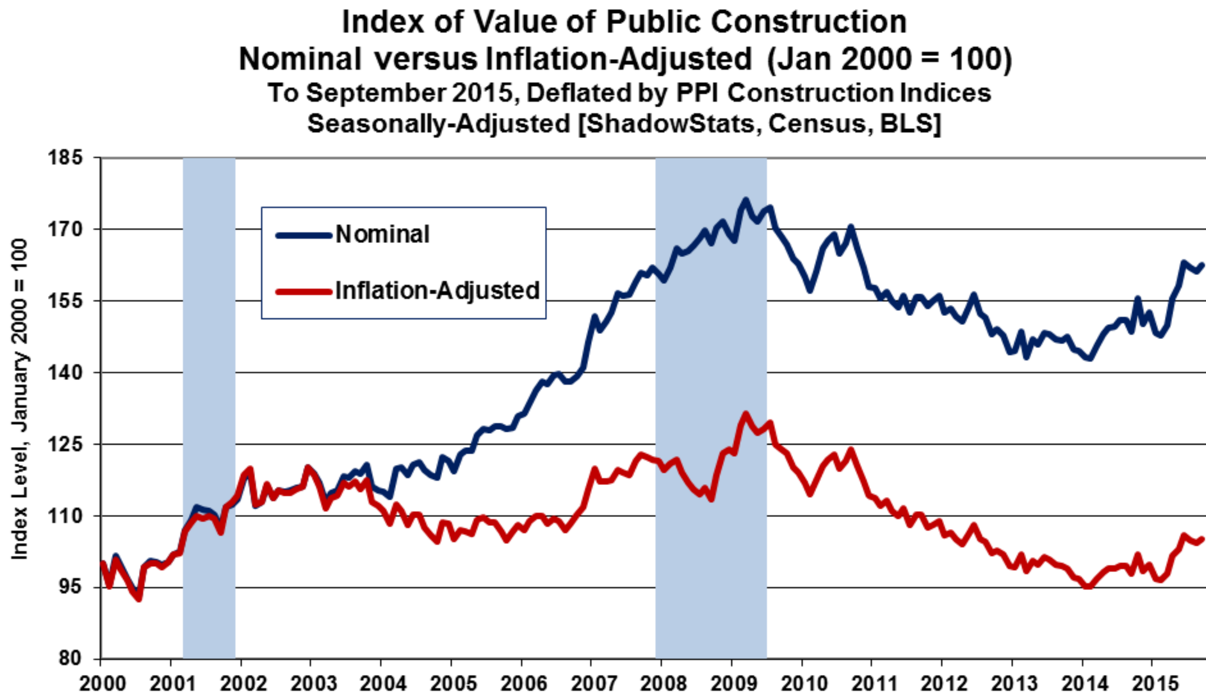
Graph 3: Index, Nominal versus Real Value of Private Residential Construction



Graph 4: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 5: Index, Nominal versus Real Value of Public Construction



The statistically-insignificant, headline nominal monthly gain of 0.6% in aggregate September 2015 construction spending, versus a 0.7% gain in August 2015, included a monthly gain of 0.7% in September public spending, versus a decline of 0.4% (-0.4%) in August. Private spending increased by 0.6% in September, following a 1.1% gain in August. Within total private construction spending, however, the residential sector picked up by 1.9% in September, versus a 1.4% gain in August, while the nonresidential sector fell by 0.7% (-0.7%) in September, following a 0.8% gain in August. *Graphs 2* to *5*, preceding, and the graphs in the *Reporting Detail* reflect that extended detail.

Consumer Conditions—Full-October Sentiment and Confidence Surveys. Updating the detailed review of consumer liquidity circumstances in *Commentary No. 758*, and related brief updates found in *Commentary No. 759* (real earnings), *Commentary No. 760* and *Commentary No. 762*, this section reviews and graphs the full October 2015 detail on the University of Michigan's Consumer Sentiment measure and the Conference Board's Consumer Confidence measure (initially covered in *No. 762*).

Structural liquidity woes and related, pummeled consumer attitudes continue to constrain domestic economic activity, severely, as they have since before the Panic of 2008. Never recovering in the post-Panic era, limited growth in household income and credit, and a faltering consumer outlook, have eviscerated and continue to impair domestic business activity, which feeds off the financial health, attitudes and liquidity of consumers.

Without significant real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. Impaired consumer liquidity and its direct restraints on consumption have

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been responsible for much of the economic turmoil of the last eight-plus years, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as in constraining real retail sales activity and the related, personal-consumption-expenditures category of the GDP. Together, those sectors account for more than 70% of total U.S. GDP activity.

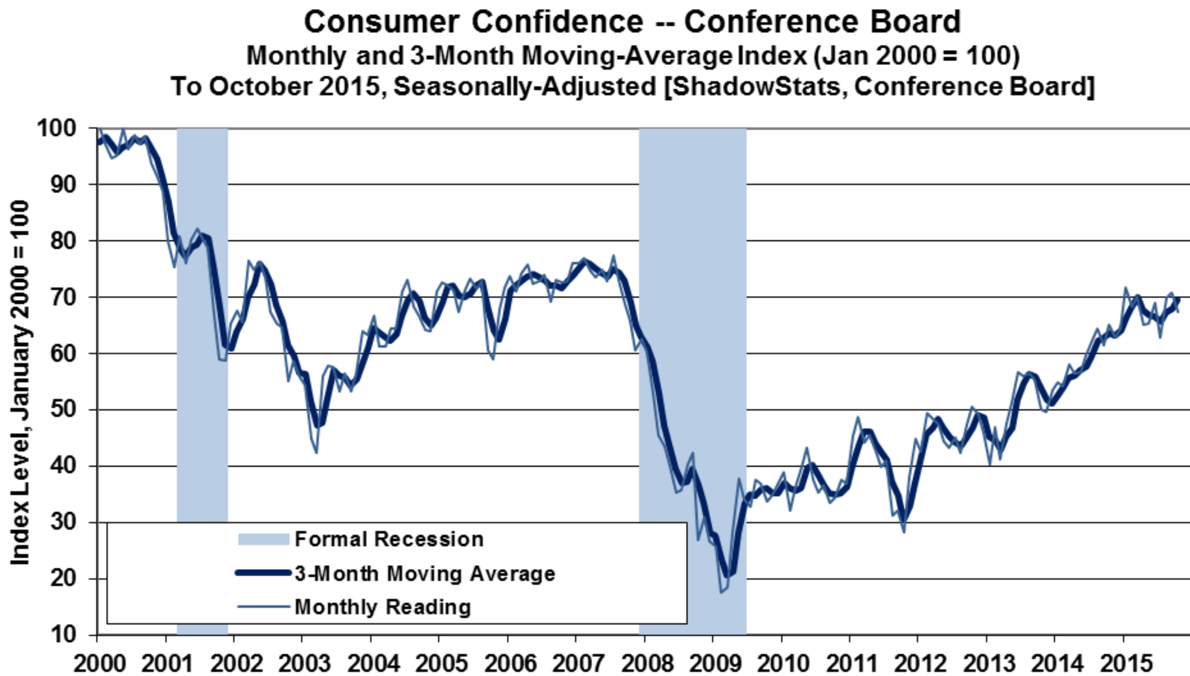
Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth without a fundamental upturn in consumer- and banking-liquidity conditions.

Confidence and Sentiment Generally Remain Below Pre-Recession Readings. The full-October readings of Conference Board's Consumer-Confidence and the University of Michigan's Consumer-Sentiment measures are reflected in *Graphs 6* to *8*.

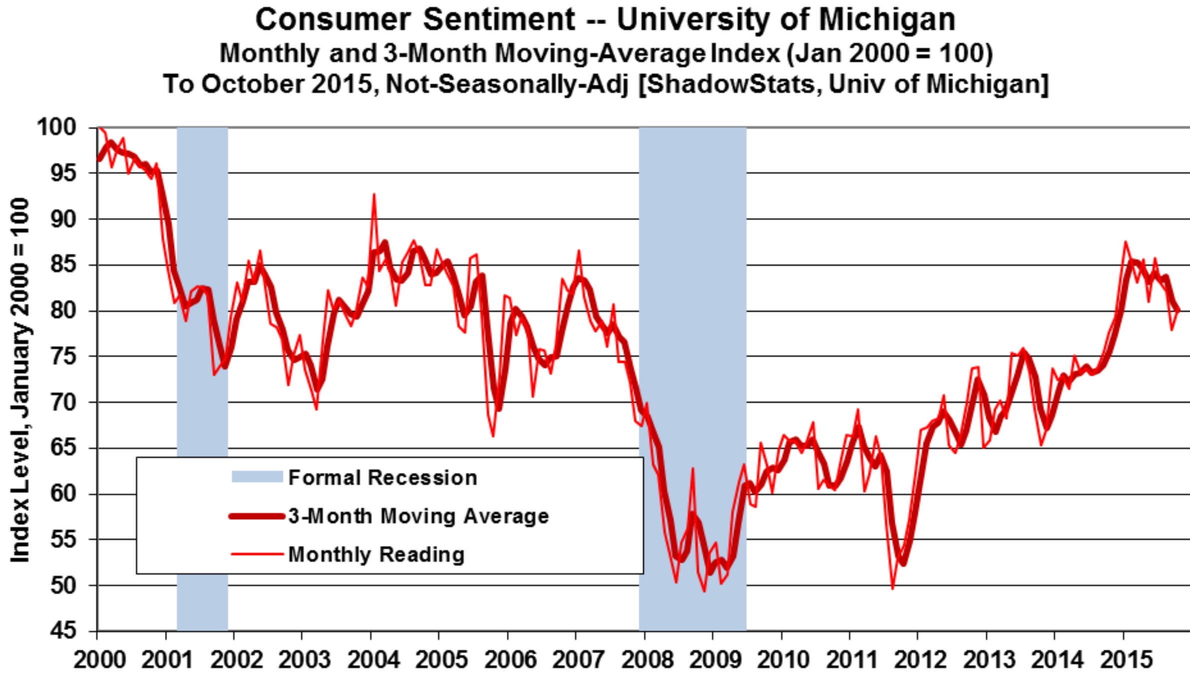
For purposes of plotting the two series on a comparable basis, all three of the following graphs reflect the both the Confidence and Sentiment measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 6*) and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 7*) for the full-month of October 2015 moved in opposite directions, with confidence down sharply and sentiment up for the month. Sentiment had fallen sharply in September, reflecting market turmoil, but confidence had rallied in September. The October measures both were below the August readings. As an aside, a good case never has been made for seasonally-adjusting confidence.

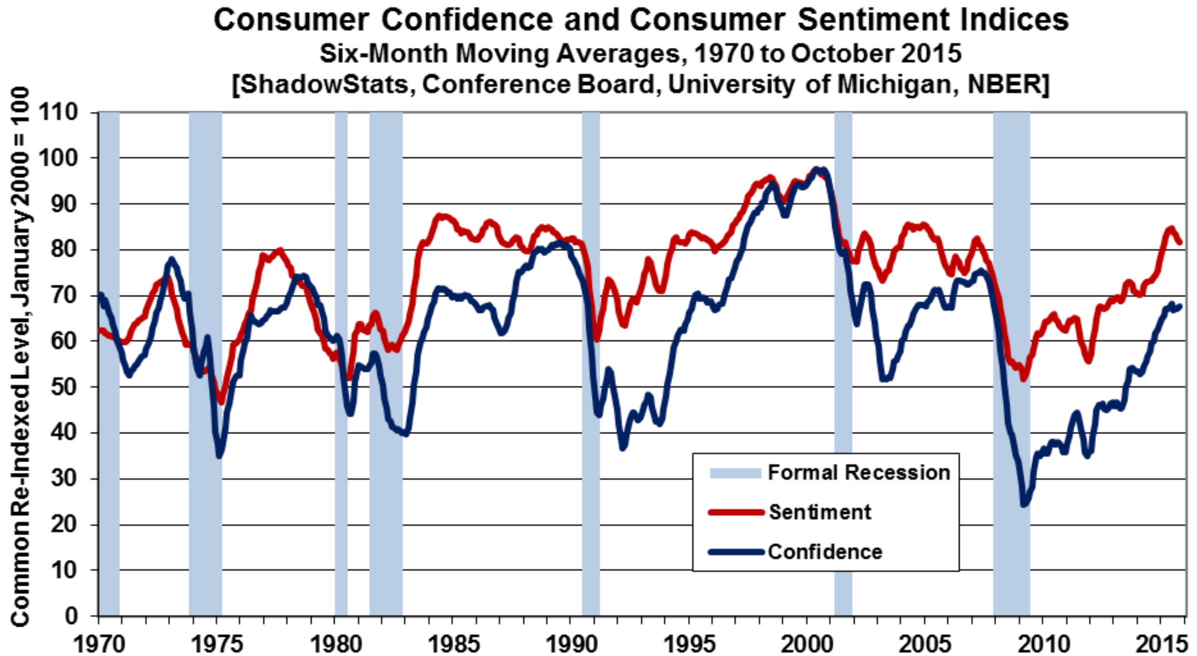
Graph 6: Consumer Confidence (Re-Indexed for Consumer Sentiment Comparability) to October 2015



Graph 7: Consumer Sentiment (Re-Indexed for Consumer Confidence Comparability) to October 2015



Graph 8: Comparative Consumer Confidence and Sentiment (6-Month Moving Averages) since 1970



Public Response to the Leading Confidence and Sentiment Surveys Usually Reflects the Tone of the Popular Media. The confidence and sentiment surveys generally ask respondents to forecast the economy six months into the future. Where the average survey respondent is not an economist, responses most frequently tend to reflect the tone of the popular press. Professor David Fan, PhD, of the University of Minnesota, established such several decades ago. By indexing the relative positive or negative nature

of the tone of press coverage towards the economy and the markets, he was able to predict the movements in the confidence and sentiment surveys with high a degree of accuracy.

Both of the series here recently have continued to move lower or to hold off near-term peaks, on a monthly basis and as smoothed for their three-month and six-month moving-averages. Indeed, where the confidence and sentiment series do tend to mimic the tone of the popular media, the surveys often are highly volatile month-to-month, as a result. Where the surveys can rise in a period of overly-hyped economic reporting, they also face increasingly-negative, headline financial and economic developments at present and ahead. Accordingly, successive and continuing negative hits to both the confidence and sentiment readings remain highly likely in the quarters ahead.

Smoothed for the irregular, short-term volatility, the two series remain at levels often seen in recessions. Suggested in *Graph 8*—plotted for the last 45 years—the latest readings of confidence and sentiment generally have not recovered levels seen preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic GDP growth seen in 2014 and the relatively strong, headline upturn in second-quarter 2015 GDP (not GDI) growth, and the still positive, but sharply slowing growth in initial reporting of third-quarter 2015 (see *Commentary No. 763*).

Next Full Review of Consumer Liquidity Conditions. A fully updated discussion of consumer conditions—more-in-depth detail on recent reporting—will follow in the more-closely related, nominal retail sales *Commentary No. 766* of November 13th, instead of the employment *Commentary No. 765* as had been planned initially.

[The* Reporting Detail *section includes expanded material on trade and construction spending.]

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HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

U.S. Dollar Is Living on Borrowed Time. This *Summary* is updated for recent developments with the Federal Reserve, with domestic political and fiscal conditions and with evolving economic conditions. There has been no fundamental shift in the broad outlook, just some general movement forward in variety of related areas. With future updates, new comments will be concentrated in the *Recent Developments* section. The prior *Hyperinflation Outlook Summary* is available in *Commentary No. 762*.

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Recent Developments. Discussed in *Commentary No. 763* of October 29th, and in today's trade data detail, where initial third-quarter GDP growth came in at 1.5%, slowing sharply from second-quarter activity of 3.9%, downside revisions now loom for third-quarter number. In the context of an ongoing contraction in underlying economic reality, as seen for example with corporate revenues and industrial production, headline third-quarter GDP reporting likely will slow much further in its pending monthly revisions, accelerating the pace of broad market recognition of a "new" recession.

A widening trade deficit and slowing economic activity have significant negative implications, ranging from selling pressure on the U.S. dollar, to unexpected and additional widening of the federal budget deficit and U.S. Treasury funding needs, to increased volatility in what already is shaping up as an extraordinarily-significant presidential election year.

When Main Street U.S.A. suffers enough financial and other pain, the common reaction, historically, has been to dump those running the system. That pain threshold was crossed some time ago, and the year ahead assuredly will not be a happy one for many incumbents or for those who are counting on politics as usual.

That said, a heavily politics-as-usual new budget deal was just forced into place. With promised higher deficit spending, and with no debt limit to contain continuing excesses until after the election, who is going to fund the expanded spending ahead? Who is going to buy the proffered U.S. Treasury securities? Recent big buyers such as China, Japan and the Federal Reserve either are selling for a variety of reasons or otherwise are sitting on their hands.

The U.S. Dollar is living on borrowed time, and the confluence of the factors raised here remains likely to push the U.S. dollar into a heavy sell-off.

Discussed in *Commentary No. 763*, the weak economy continues as political cover for the Federal Reserve and for continued FOMC inaction, masking serious other problems in the domestic and global financial systems. One likely major concern has to be for continued stability and liquidity of the market for U.S. Treasury securities. Beyond domestic and global banks, the biggest beneficiary of QE3 was the U.S. Treasury.

As previously noted, if the FOMC were to keep holding back on its rate increase until after the economy improved, the wait for a rate hike would be quite protracted. From a practical standpoint, meaningful FOMC action still appears to be on hold until after the 2016 presidential election. In the event of any funding issues for the Treasury, however, flailing domestic economic activity still will be able to provide cover for expanded quantitative easing, and for the Fed resuming its role as buyer of last resort of increasingly unwanted supply of U.S. Treasury securities.

Of such a circumstance is a currency crisis created.

Nothing has changed here, including the ShadowStats broad outlook for ongoing economic stagnation and downturn, intensifying systemic instabilities and a looming massive decline in the U.S. dollar. Along with the pending dollar crisis are the ongoing implications ultimately for severe inflation, for a domestic hyperinflation.

Background Documents to this Summary. Underlying this *Summary* as general background are *No. 742 Special Commentary: A World Increasingly Out of Balance* of August 10th, and *No. 692 Special*

Commentary: 2015 - A World Out of Balance of February 2, 2015, which 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 two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. In terms of underlying economic reality, one other reference is the *Public Commentary on Inflation Measurement*. The regular *Commentaries* also update elements of the general outlook, as circumstances develop.

Primary Summary. The U.S. economy remains in ongoing downturn, while the U.S. dollar continues to face a massive decline in the wake of the extraordinary rally seen since June 2014, and in the context of a renewed economic downturn, ongoing domestic fiscal imbalances and ongoing financial-system instabilities. Financial-system concerns, including possible Treasury-funding issues, likely are behind the unwillingness of the Federal Reserve's Federal Open Market Committee (FOMC) to raise interest rates. Those factors have implications for a meaningful upturn in domestic inflation, eventually evolving into a great hyperinflationary crisis.

Fed policy inaction, if anything, has exacerbated the long-term economic stagnation and renewed business downturn, where the quantitative easings always were intended as covert bailouts for the banking system, not as stimuli for the economy. Instead, the weak economy regularly was used as political cover for the effective banking-system bailouts (see for example, the *Monetary Conditions* section of *Commentary No. 756*).

Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by eventual, unfettered monetization of the national debt and obligations, leading to a hyperinflation. As first estimated by ShadowStats in 2004, such hyperinflation appeared likely by 2020. That time horizon for the hyperinflation forecast was moved to 2014, because of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) responses to same. That hyperinflation forecast remains in place, but it has been adjusted into 2015 or 2016, as discussed in *No. 742* and *No. 692*.

The basic 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 the *2014 Hyperinflation Report—The End Game Begins—First Installment Revised*.

Dollar Circumstance. Discussed in the background documents, the U.S. dollar rallied sharply from mid-2014 into early-2015, and despite some fluttering, into August and September, there was some temporary easing of the dollar's strength in October (see *Commentary No. 759*). Initially, the rally reflected likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and over-estimated by global markets looking to support the dollar.

The still unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had begun to raise doubts, and more recently to confirm fears 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 a result, the U.S. dollar briefly backed off its highs, with some related upside pressure having been seen on oil prices. Pressures reversed again recently, spiking the U.S. dollar—also hitting oil prices anew—with false domestic economic strength being touted by Wall Street, and with some in the Fed indicating that interest rates would be raised in September, irrespective of negative indications on the economy (such did not happen), or now by the end of the year. Coincident, with these events, ongoing and not-so-covert central-bank actions appear to have driven the price of gold lower, also in the context of mounting global financial-market instabilities.

The U.S. economy remains in contraction (see *Commentary No. 763*), with a variety of key indicators, such as industrial production, real retail sales and revenues of the S&P 500 companies continuing to show recession. Although formal recognition could take months, consensus recognition of a "new" recession should gain relatively rapidly, in tandem with a variety of monthly, quarterly and annual data reflecting the downturn in business activity. When formal recognition comes, timing of the onset of the recession likely will be December 2014.

As market expectations move towards an imminent, new recession, such not only should reduce expectations for a significant tightening in Fed policy, but also should renew expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting rallies in equity prices should 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 the direction of domestic economic activity, also would 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. These circumstances should unwind what has been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets. Further, oil prices should spike anew, along with a sharp reversal in the dollar's strength.

A crash back to recognition of more-realistic domestic-economic circumstances looms, possibly in the weeks and certainly in the months ahead. It should be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar (currencies with some perceived ties to gold); and 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 risk for fueling further heavy selling of the dollar. Once in heavy downturn, the dollar's gains since June 2014 should reverse fully, pushing the exchange-rate value of the dollar to new historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies 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—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. Again, Fed tightening likely is not now on the horizon until after the 2016 presidential election. Suggestions that all was right again with world were nonsense. The Fed's games likely now will be played out as far as possible, with hopes, once again, of avoiding a financial-system collapse.

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Continued inaction by the FOMC is telling. The Panic of 2008 never was resolved, and the Fed increasingly has found that it has no easy escape from its quantitative easing (QE3), which continues; only overt expansion of QE3 ceased. If the Fed does not act quickly to extricate itself from prior actions, QE4 will become the near-term question. Again, despite loud promises now of higher rates before year-end or next year, banking-system or other systemic-liquidity issues (not the economy) may keep the "pending" interest rate hike in a continual state of suspension. The economy certainly will supply continuing political cover for the Fed's "inaction," with the U.S. central bank having lost control of the system.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). Such 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 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 in the near future, 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 banking system and to the increasingly unstable equity markets. While higher domestic interest rates would tend to act as a dollar prop, a hike in rates also could crash the stock market, as some on Wall Street fear, triggering a round of other systemic problems. Again, there is no happy way out of this for the Fed.

The 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, increasingly against the U.S. currency. That process likely will become dominated by deteriorating global perceptions of stability in U.S. economic activity and political system, and the ability of the Federal Reserve to control its 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 and contracting production, 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. 758*, the reporting of September real earnings in *Commentary No. 759* and today's *Opening Comments*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle.

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- ***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, with total net obligations of the U.S. government pushing $100 trillion, including the net present value of unfunded liabilities. Still, many in Washington look to continue increasing spending and to take on new, unfunded liabilities, with the White House and Congress recently having placed any official solvency concerns on hold until after the November 2016 election. What remains to be seen is for how long the concerns of the global financial markets will remain on hold.

- ***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 2014 monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury, but more of that lies ahead. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion of quantitative easing, 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 any new or expanded systemic accommodation in the intensifying 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 fiscal and economic issues remain nil. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency issues should continue to devolve into extreme political crises.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are intensifying, 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.

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- ***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 global financial instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly. Consider that China has been selling some of its U.S. Treasury debt holdings to raise cash in for its near-term financial needs. Again, much of the rest of the world also has been backing away from holding U.S. treasury securities. Slack demand for U.S. Treasuries always can be taken up by the Federal Reserve's renewed monetization of the debt.

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, still 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. See Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 742*, for other factors afoot in the current environment.

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REPORTING DETAIL

U.S. TRADE BALANCE (September 2015)

Real Third-Quarter Merchandise Trade Deficit Was Worst Since 2007. With negative implications for the first revision to third-quarter 2015 GDP on November 24th, detail from the headline, full trade report for September 2015 showed the third-quarter 2015 merchandise trade deficit to have widened to its worst level since fourth-quarter 2007, as discussed and graphed in the opening paragraphs of the *Opening Comments*.

Additionally, the limited September 2015 nominal goods trade-deficit detail published in the October 28th "advance" September trade report suffered some revised monthly deterioration, along with August reporting, in the just-published full trade report for September.

Although the headline nominal reporting of the monthly trade balance for goods and services showed the headline deficit narrowing by 15.0% (-15.0%) in the month, the headline real or inflation-adjusted reporting of the deficit—in just the goods sector—narrowed by 5.7% (-5.7%), where falling oil prices and related negative inflation again masked some of the nominal deficit narrowing.

Nominal (Not-Adjusted-for-Inflation) September 2015 Trade Deficit. The BEA and the Census Bureau reported this morning, November 4th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for September 2015, on a balance-of-payments basis, narrowed by $7.205 billion to $40.812 billion, versus a revised $48.017 [previously $48.330] billion in August 2015. The September 2015 nominal deficit also narrowed versus a non-comparable $43.186 billion trade shortfall in September 2014 (see *Ongoing Cautions...* section).

In terms of month-to-month trade patterns, that headline $7.205 billion narrowing in the September deficit reflected a gain of $2.958 billion in monthly exports, combined with a $4.248 billion decline in monthly imports (difference is in rounding).

The gain in exports was seen largely in consumer goods, ranging from art and antiques to jewelry, along with an increase in capital goods. The import decline, however, reflected most heavily a decline in oil imports, along with a decline in capital goods. Declining oil prices accounted for the drop in nominal oil imports.

Energy-Related Petroleum Products. For September 2015, the not-seasonally-adjusted average price of imported oil dropped to $42.72 per barrel, versus $49.33 per barrel in August 2015, and versus $92.52 per barrel in September 2014. Separately, not-seasonally-adjusted, physical oil-import volume in September 2015 averaged 7.714 million barrels per day, up from 7.078 million in August 2015 but down from 7.535 million in September 2014.

Ongoing Cautions and Alerts on Data Quality. 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 and disruptions have disrupted regular seasonality patterns. Accordingly, the markets should not rely too heavily on the accuracy of the monthly headline data.

Noted in trade-related *Commentary No. 748*, at least a three-percent understatement of the historical U.S. trade deficit awaits correction in its June 2016 benchmark revision, along with implied, subsequent downside benchmark revisions to historical GDP growth in July 2016. Such formalizes, temporarily, distortions in comparability of near-term (comparable) versus long-term (not comparable) reporting of the goods and services trade detail.

Where imports are counted on the negative side of the trade balance, a change in reporting methodology has shown that imports have been understated regularly, with the effect of underestimating the size of the

U.S. trade deficit by at least three-percent. Such has negative implications for historical, broad economic growth and indeed for future GDP benchmark revisions.

Beginning with the headline reporting for July 2015, the Bureau of Economic Analysis (BEA) and the Census Bureau introduced a change in the trade-deficit calculation, now counting low-value imports, which previously neither were reported nor calculated in the monthly balance-of-payments estimates. To allow for near-term reporting consistency in recent headline data, trade detail back to January 2015 also was restated with last month's July reporting to incorporate a "temporary balance of payments adjustment for low-value imports," included in the trade calculations.

Those changes, along with other regular minor revisions to the trade deficit for first-half 2015, had the net effect of widening the six-month trade deficit by 3.3%. The bulk of that was due to the new reporting approach. Even-greater trade deterioration looms with further, new detail, still to be added. Separately, as a result of the temporary restatement of historical post-December 2014 reporting, current headline balance-of-payment data no longer are consistent with earlier data, such as might be seen with year-ago comparisons.

Noted in the July trade balance *Press Release*, "The Census Bureau will revise historical statistics in June 2016 with the annual revision release. To maintain time-series consistency for imports of goods on a balance of payments (BOP) basis, the U.S. Bureau of Economic Analysis has applied temporary BOP adjustments to imports of goods on a Census basis beginning with January 2015 statistics. These adjustments will be removed from imports of goods on a BOP basis in June 2016 when the Census Bureau revises historical statistics."

Real (Inflation-Adjusted) September 2015 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the September 2015 merchandise trade deficit (no services) narrowed to $57.241 billion, from a revised $63.012 [previously $63.429] billion in August 2015. Minor monthly revisions also covered the months from April to July 2015. The September 2015 shortfall, however, widened sharply versus a still-comparable $49.987 billion real deficit in September 2014.

As currently reported, the annualized quarterly real merchandise trade deficit stood at $588.6 billion for third-quarter 2014, $605.5 billion for fourth-quarter 2014, $692.1 billion for first-quarter 2015, and with a revised $694.5 [previously $694.3] billion for second-quarter 2015. Widening quarter-to-quarter real trade deficits subtract growth from the quarterly real GDP estimates, while narrowing deficits boost headline GDP.

With initial, full third-quarter reporting in place, the annualized quarterly real trade shortfall in third-quarter 2015 widened versus the second quarter to $705.3 billion [previously estimated at $717.3 billion, based on July and August reporting, and initially at $674.5 billion based just on initial July reporting]. Such was the worst real trade deficit since fourth-quarter 2007, the formal onset of the 2007 recession, with implications for a downside first revision to third-quarter 2015 GDP, all as discussed in the opening paragraphs of the *Opening Comments*.

CONSTRUCTION SPENDING (September 2015)

Sharp Slowing in Third-Quarter Growth. In the context of a small upside revision to previously-reported August activity, September 2015 construction spending gained a headline 0.6% month-to-month. That would have been a gain of 0.7% before the August revision. That said, the general trend in this highly-volatile series, net of inflation, remained one of low-level, albeit up-trending stagnation.

Separately, although negative, construction-related PPI inflation in August and zero-to-minus inflation in September limited the headline nominal numbers, the relatively stronger patterns of inflation-adjusted real growth there, and earlier patterns of softer, inflation-adjusted growth still have continued to run well ahead of, and are not supported by, growth in recent, related construction employment (*Graph 11*). That suggests that the government estimates of construction inflation are too low, as generally confirmed by private surveys (see the *PPI Final Demand Construction Index* section).

Reflecting initial full quarterly reporting, growth slowed sharply in third-quarter 2015 real construction spending (deflated by PPI construction inflation), falling to an annualized quarterly pace of 7.0%, against a revised annualized 28.4% quarterly gain [previously up by 28.2%, up by 28.3% and initially up by 25.7%] in second-quarter 2015 and an unrevised 4.1% annualized gain in first-quarter 2015.

Graphs 2 to *5* in the *Opening Comments* section show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public construction spending. Seen after adjustment for inflation, the aggregate series had remained in low-level stagnation into first-quarter 2015. It spiked in recent months, but slowed in the last several months of reporting, with the real series in September 2015 still holding at 27.0% (-27.0%) below its pre-recession peak of March 2006. Areas of recent relative real strength in activity generally have been in the nonresidential sector and boosted by negative headline inflation, with the relative residential versus nonresidential sectors reversing patterns of strength in the headline September reporting. The general pattern of real activity remains one of low-level, albeit up-trending stagnation. The aggregate nominal detail is shown here in *Graph 9*, with the real detail in *Graph 10*.

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, again, all as shown in *Graphs 2* to *5* in the *Opening Comments.*

The previously-used New Construction Index (NCI) in the PPI 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. Private surveys tend to show higher construction-related inflation than is reported by the government. For example, year-to-year inflation reflected in the privately-published Construction Cost Index [Dodge Data and Analytics (McGraw Hill) *Engineering News-Record*] is running about one-third above the headline pace of annual inflation in the PPI's Final Demand Construction Index.

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.

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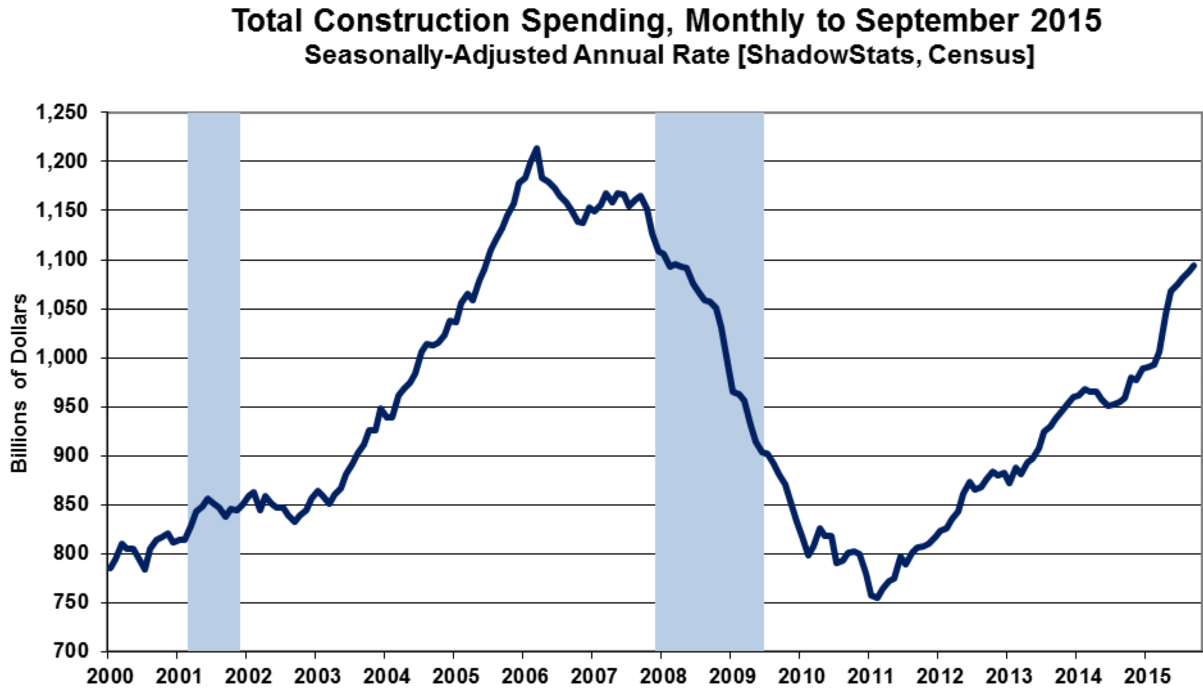
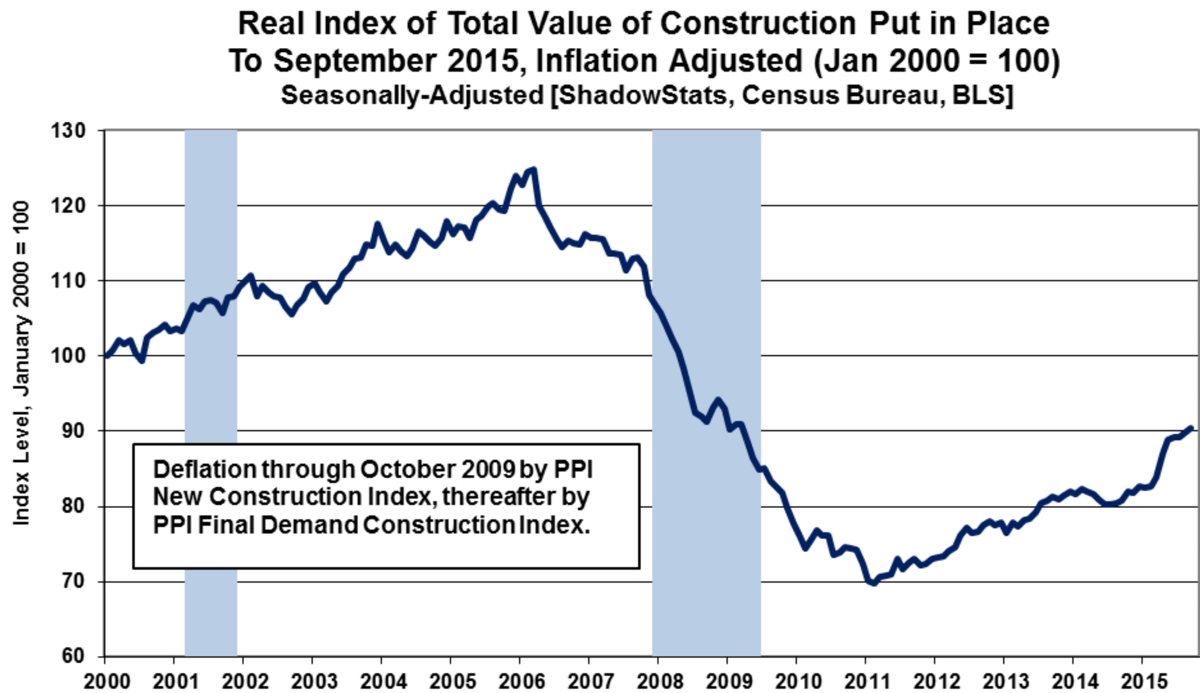
Graph 9: Total Nominal Construction Spending



Graph 10: Index of Total Real Construction Spending



For September 2015, the seasonally-adjusted FDCI month-to-month inflation was unchanged at 0.00%, having declined by 0.09% (-0.09%) in August. In terms of year-to-year inflation, the September 2015 FDCI was up by 1.80%, at the same level of annual growth as seen in August 2015.

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Where the subsidiary series tend to track the aggregate inflation detail over time, September 2015 headline inflation for publicly-funded construction fell by 0.09% (-0.09%) for the second straight month, and rose by 1.80% year-to-year, also for the second straight month.

Inflation for privately-funded construction was unchanged at 0.00% month-to-month in September 2015, following an August monthly decline of 0.18% (-0.18%), with year-to-year inflation holding at 1.81% for the second month.

Headline Reporting for September 2015. The Census Bureau reported November 2nd that the headline, total value of construction put in place in the United States for September 2015 was $1,094.2 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up by a statistically-insignificant 0.6% +/- 2.1% (all confidence intervals are at the 95% level), versus an upwardly revised $1,087.5 [previously$1,086.2] billion in August. Net of prior-period revisions, the headline monthly gain for September was 0.7%.

In turn, August spending was up by an unrevised 0.7% versus a revised $1,080.4 [previously $1,079.1, initially $1,083.4] billion in July. July rose by an upwardly revised 0.6% [previously up by 0.4%, initially up by 0.7%] versus an unrevised $1,074.3 billion in June.

Adjusted for FDCI inflation, aggregate monthly real spending in September 2015 was up by 0.8%, following an unrevised August 2015 gain of 0.8% and a revised unchanged July.

On a year-to-year or annual-growth basis, September 2015 nominal construction spending rose by a statistically-significant 14.1% +/- 2.5%, versus a revised annual gain of 13.9% [previously up by 13.7%] in August 2015 and a revised annual gain of 13.4% [previously up by 13.2%, initially up by 13.7%] in July 2015.

Net of construction costs indicated by the FDCI, year-to-year change in spending was at 12.1% in September 2015, versus a revised 11.9% in August 2015 and a revised 11.2% in July 2015.

The statistically-insignificant, headline monthly increase of 0.6% in aggregate nominal September 2015 construction spending, versus a 0.7% gain in August 2015 spending, included a headline monthly gain of 0.7% in September public spending, versus a decline of 0.4% (-0.4%) in August. Private spending increased by 0.6% in September, following a 1.1% gain in August. Within total private construction spending, however, the residential sector rose by 1.9% in September, versus a 1.4% gain in August, while the nonresidential sector fell by 0.7% (-0.7%) in September, following a 0.8% gain in August. The graphs that follow reflect that extended detail.

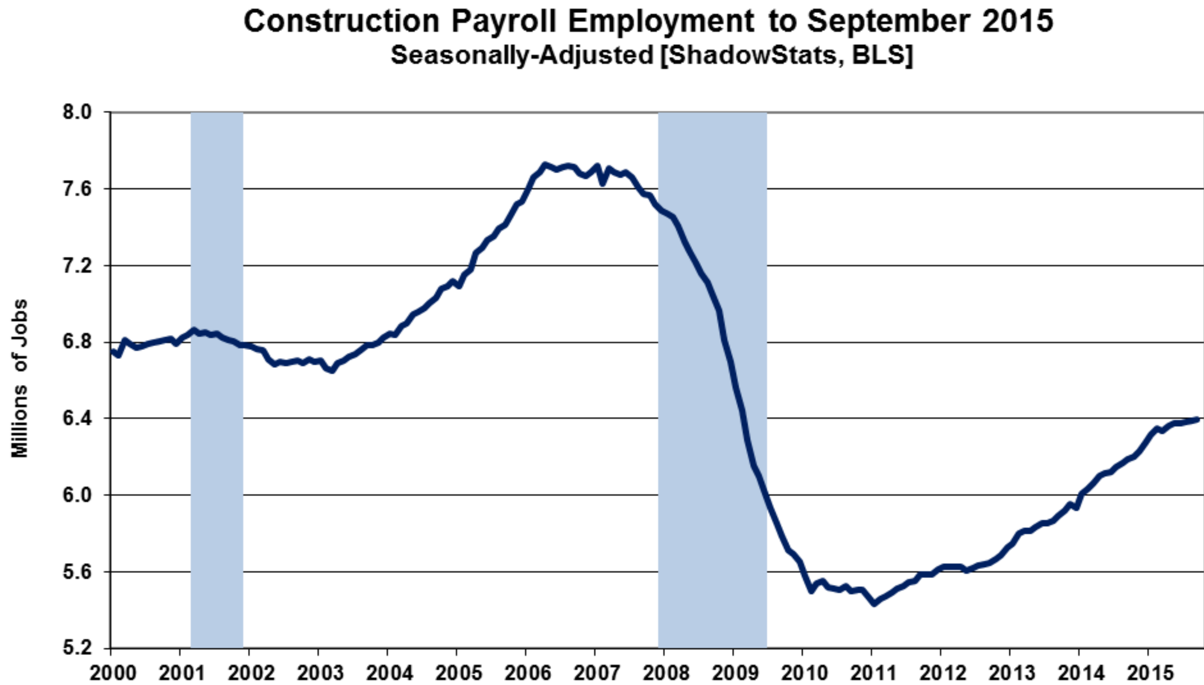
Construction and Related Graphs. The earlier *Graphs 9* and *10* reflected total construction spending through September 2015, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0. Adjusted 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 lower from late-2013 into mid-2014 and in a low-level uptrend into 2015, with a recent spike that now is slowing somewhat.

Despite the recent uptrend, 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. 763). To the contrary, the latest broad construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, generally still shows a pattern of low-level, variably up-trending stagnation, where activity never has recovered pre-recession highs.

Graph 11 shows September 2015 construction employment, as detailed in the coverage of headline September 2015 payroll employment in *Commentary No. 756*. That detail and plot will be updated through October, in the next *Commentary No. 765* of November 6th. 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.

Graph 11: Construction Payroll Employment to September 2015



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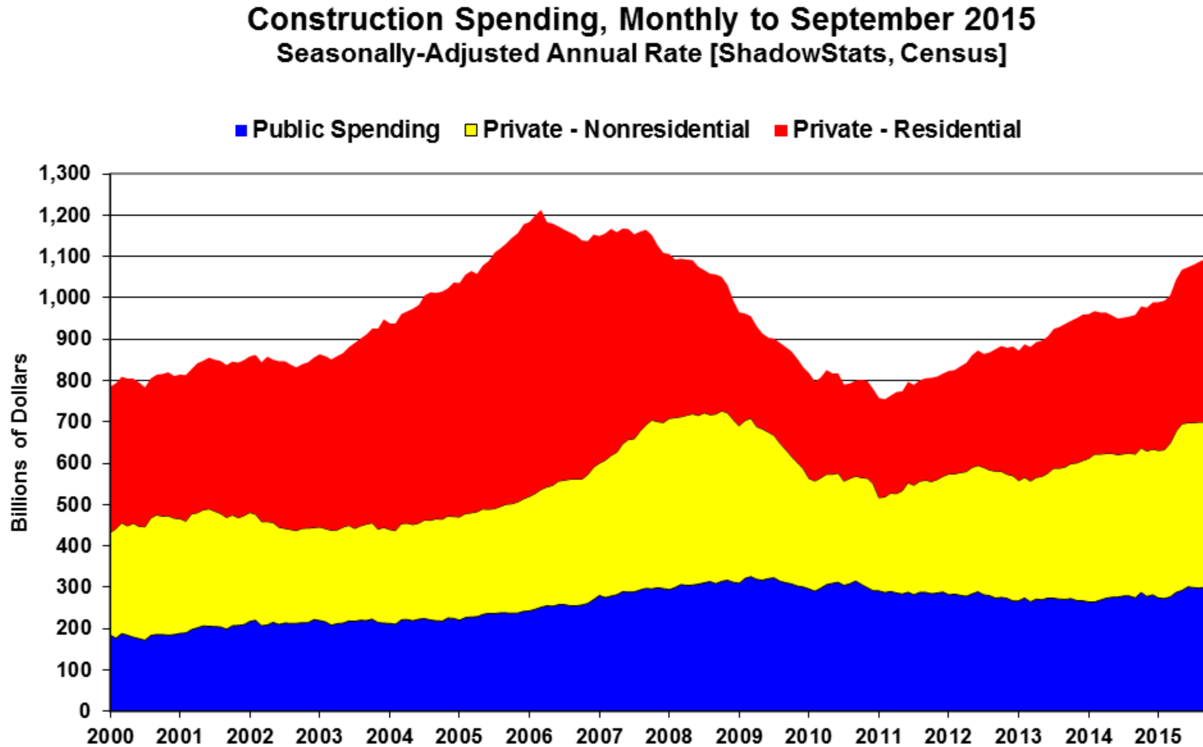
Graph 12 shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending.

Graph 12: Aggregate Nominal Construction Spending by Major Category to September 2015



The next two graphs (*Graph 13* and *14*) cover private residential construction along with housing starts (combined single- and multiple-unit starts) for September 2015 (see *Commentary No. 761*). Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in the *Opening Comments* section.

The final set of two graphs (*Graphs 15* and *16*) 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 off its historic peak, but it recently has been closing in on the pre-recession high, rallying sharply. Public construction spending, which is 98% nonresidential, had continued in a broad downtrend, with intermittent bouts of fluttering stagnation and then some upturn in growth in the last year or so. Both series appear stalled shy of their pre-recession peaks.

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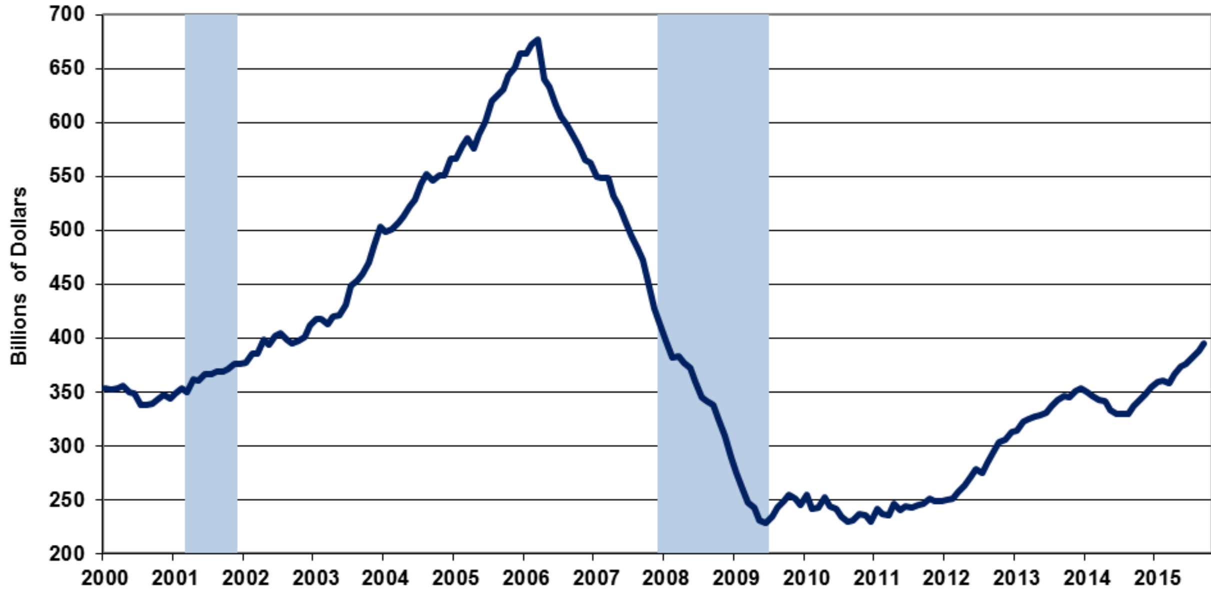
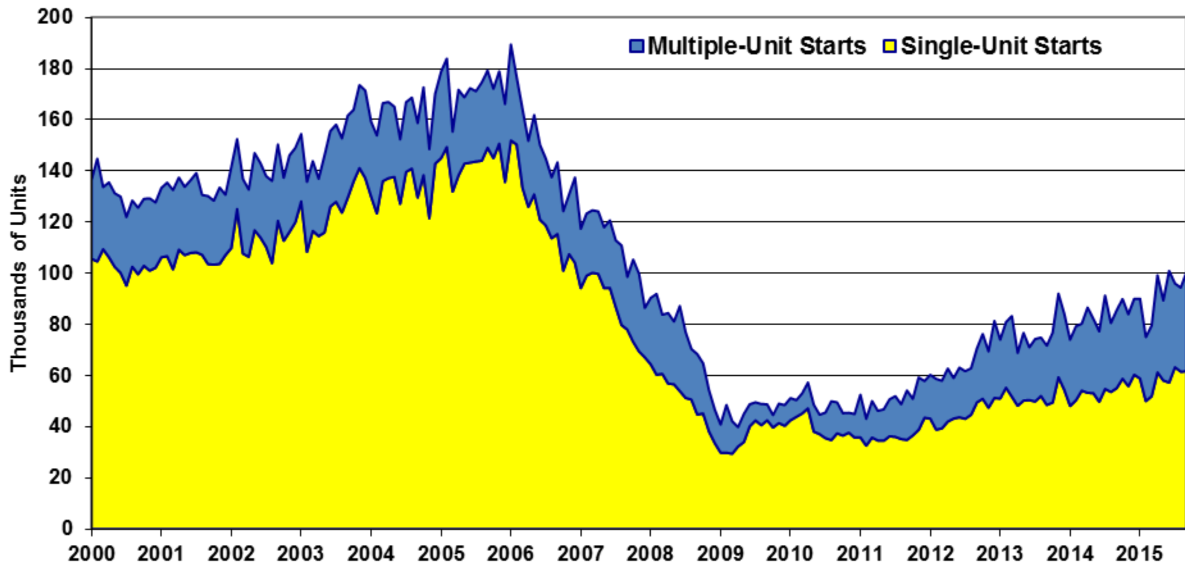
Graph 13: Nominal Private Residential Construction Spending to September 2015



Graph 14: Single- and Multiple-Unit Housing Starts to September2015



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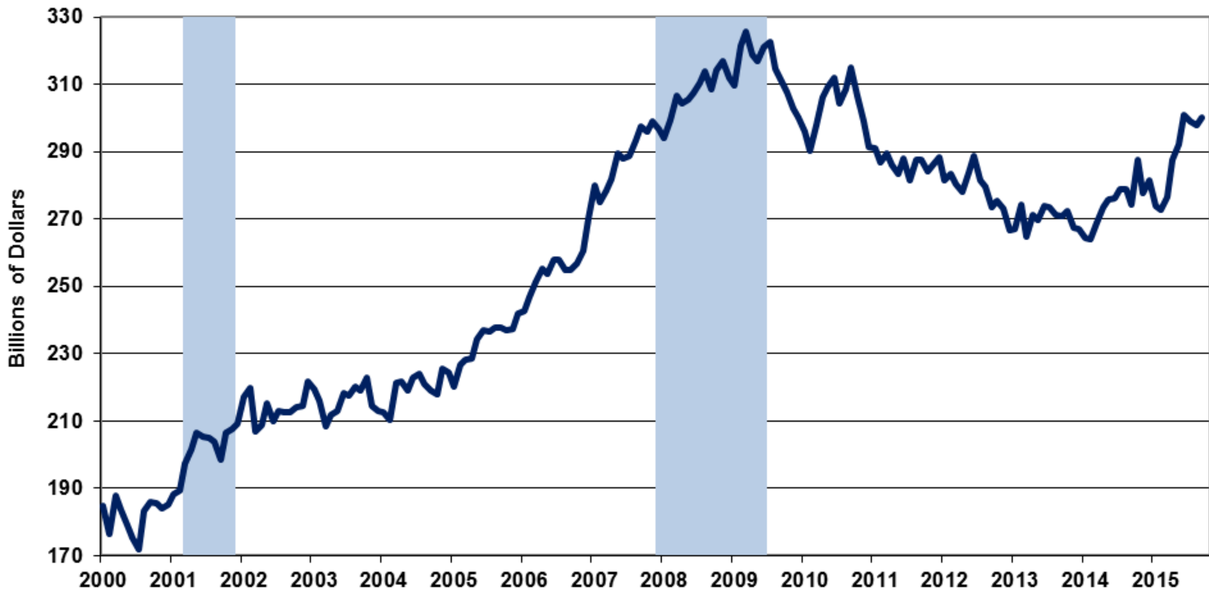
Graph 15: Nominal Private Nonresidential Construction Spending to September 2015

Graph 16: Nominal Public Construction Spending to September 2015



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WEEK AHEAD

Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices. Still in a fluctuating, general trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless can gyrate some with the latest economic hype in the popular media. That general effect holds the consensus outlook still at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Where the net trend still has been towards weakening expectations, movement towards recession recognition appears to be at something of an accelerating pace.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with likely downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GNP) into 2016, including the November 24th first revision to "advance" third-quarter 2015 GDP estimate. Noted in today's *Opening Comments*, headline full reporting of the September trade deficit is suggestive of an initial downside revision to the GDP.

CPI-U consumer inflation—intermittently driven lower this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Annual CPI-U turned minimally positive in June 2015, for the first time in six months, notched somewhat higher in July and August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. Gasoline prices appear to be bottoming out again, with a combination of temporarily-stable gasoline prices and related, positive seasonal adjustments likely to boost headline October 2015 CPI-U.

Meaningful upside inflation pressures should mount anew, once oil prices begin to rebound. Again, that process eventually should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those areas, the general economic outlook and longer range reporting trends were reviewed broadly, recently, in *No. 742 Special Commentary: A World Increasingly Out of Balance*, *No. 692 Special Commentary: 2015 - A World Out of Balance* and have been updated in the *Hyperinflation Outlook Summary*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten years—have 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, discussed and explored in the labor-numbers related *Commentary No. 695*).

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Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see *Commentary No. 669*).

PENDING RELEASES:

***Updated* - Employment and Unemployment (October 2015).** The Bureau of Labor Statistics (BLS) will publish its October 2015 labor data on Friday, November 6th. Both employment and the broader unemployment numbers are open for further negative, headline surprises, given the ongoing, general weakening tone in a number of business indicators.

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).

Despite late-consensus estimates suggesting headline payroll growth of 30,000 to 40,000 higher than the initial headline 142,000 jobs gain in September payrolls, underlying economic fundamentals continue to suggest slowing or negative month-to-month growth in headline payrolls, as well as deterioration in the broader unemployment rates such as U.6 and the ShadowStats Alternate Unemployment Measure.

Expectations for the headline U.S. unemployment rate U.3 to hold at 5.1% or to decline to 5.0% are in the within the realm of headline reality (5.0% is an easy best, as discussed below), but in the realm of nonsense in terms of real-world activity. Simply put, the seasonally-adjusted, headline monthly unemployment data are not comparable. The BLS will not publish consistent historical revisions to the September data that are generated by calculating concurrent-seasonal-adjustment factors for the October data. There is no significant comparison of month-to-month change in the headline U.3 unemployment rate, shy of a month-to-month swing in excess of at least plus-or-minus 0.3%. Where underlying reality is in that range, one has to wonder how much of the usually smooth, headline month-to-month change is massaged (see comments on concurrent seasonal adjustments in the *Reporting Detail*, page 33 of *Commentary No. 756* and in *Commentary No. 694* and *Commentary No. 695*).

Already at the Brink of Headline 5.0% U.3. As seen with the reduction in the narrow, headline U.3 unemployment rate in recent months and years, any meaningful, further narrowing of the headline October unemployment rate likely would encompass more unemployed being redefined off the headline unemployment rolls and out of the headline labor force, than the number of unemployed gaining new employment. Any near-term narrowing in the headline U.3, however, likely will not be meaningful.

In the context of no legitimate month-to-month comparability in the headline monthly unemployment detail, discussed above, the September 2015 headline U.3 unemployment rate of 5.1% was only shy by a count of 1,000 fewer "unemployed" from rounding to a headline unemployment rate of 5.0%. Accordingly, a drop from 5.1% in September to 5.0% in October easily could be in the offing.

Implied Weak Monthly Trend in Payroll Employment. As published previously by ShadowStats-affiliate www.ExpliStats.com, in its analysis of the monthly biases built into the BLS's concurrent-seasonal-factor modeling of the September 2015 payroll-employment reporting, the built-in-bias trend for October 2015 is for a headline monthly employment gain of 152,000 (see *Commentary No. 756*). Consensus forecasts usually settle-in near the trend level, although they appear to be enough above trend, at present, to raise the risk of a downside surprise to market expectations.

ExpliStats cautions, however, that unusual volatility in recent monthly revisions to the payroll data raises the risk of potentially large and unexpected swings in the headline October numbers.

To the extent that underlying fundamentals increasingly shine through all the regular monthly volatility and distortions, though, headline activity should continue to favor much weaker-than-expected payroll gains. With headline September payrolls having come in at a below-consensus 142,000, odds favor a further downside "surprise" to payroll growth in October.

Also, keep in mind that the advance estimate of the 2015 benchmarking for payroll employment indicated a pending downside revision of 208,000 (-208,000) jobs to the base-March 2015 payroll employment levels (see *Commentary No. 753* of September 17th).

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