John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 878
February Trade Deficit, Construction Spending, Updated Consumer Liquidity

April 4, 2017

**Sharp Narrowing in February 2017 Trade Deficit Reflected
Plunging Imports of Consumer Goods, Such as Autos and Cell Phones**

Declining Consumer Demand and/or a One-Time Reporting Aberration?

**First-Quarter 2017 Real Merchandise-Trade Is on Track for
Worst Deficit Since Third-Quarter 2007**

**Despite a Nominal 0.8% Monthly Gain in February Construction Spending,
Inflation-Adjusted Activity Remained in Stagnant Non-Recovery,
Headed for First-Quarter 2017 Quarterly and Annual Contractions**

Consumers Face Continuing Income and Credit Stresses, Amidst Mixed Optimism

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PLEASE NOTE: The next regular Commentary *on Friday, April 7th, will cover March 2017 Employment and Unemployment conditions and the ShadowStats Ongoing M3 Estimate for March. Please call me at (707) 763-5786, if you have questions or would like to talk.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

No Happy Economic News Here. Following on the heels of the downside benchmark revisions to Industrial Production, which indicated recent, headline economic performance had been overstated, along with suggestions of further downside revisions to come in historical activity (see *Commentary No. 877*), neither the narrowing of the headline February trade deficit, nor the headline monthly gain in February 2017 construction spending was a happy indicator for near-term U.S. economic conditions.

The good news in a narrowing trade deficit usually comes from increased exports, reflecting both increased economic activity in aggregate, as well as the relative sales of U.S. goods and services increasing outside the United States. The headline narrowing in the February deficit, however, reflected a plunge in imports of consumer goods, generally a sign of broadly weakening economic activity, particularly where it likely mirrored impaired domestic consumption of consumer goods.

U.S. construction spending increased for the month by 0.8%, both before and after adjustment for inflation. Yet, net of inflation, first-quarter 2017 activity was on track for both quarter-to-quarter and year-to-year contractions. That circumstance rarely is seen in booming economies.

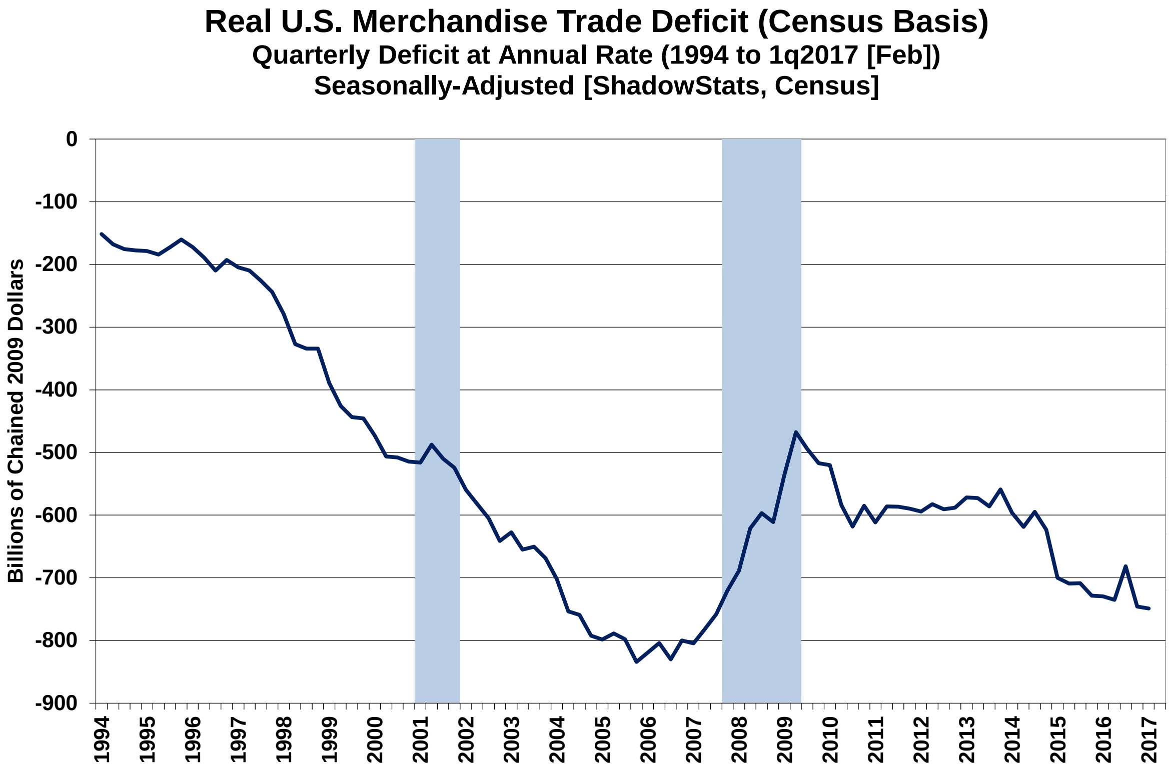
Economic and financial conditions will be reviewed in the *Commentaries* of the next two weeks. The general economic outlook remains one of deterioration, not one of renewed expansion, yet.

Today's *Commentary* (April 4th). These *Opening Comments* and *Executive Summary* cover summary detail and graphs for the February 2017 Trade Deficit and Construction Spending, along with an update to Consumer Liquidity conditions. Analyses of the headline trade and construction numbers are expanded in the *Reporting Detail* section.

The *Week, Month and Year Ahead* updates the preview to Friday's release of the employment and unemployment detail for March 2017.

Executive Summary: U.S. Trade Deficit—February 2017—Narrowing Deficit Reflected Collapsing Consumer Demand, One-Time Reporting Issues or Some Combination of Both. *Graph 1* shows the continuing, quarter-to-quarter deterioration suggested for the first-quarter 2017 real merchandise trade deficit, based on initial January and February 2017 reporting. While still on track for net-quarterly deterioration, both before and after adjustment for inflation, the sharp narrowing of the headline February shortfall also narrowed the trend in the deterioration. Accordingly, the real quarterly shortfall now is trending towards its worst performance since third-quarter 2007, instead of first-quarter 2007.

Graph 1: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit through 1q2017 (Feb)



Nominal (Not-Adjusted-for-Inflation) February 2017 Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for February 2017 narrowed on a balance-of-payments basis, in the context of a small revision for a narrowed deficit in the previously-reported January 2017 activity.

The headline February 2017 deficit of $43.557 billion narrowed sharply by $4.616 billion, versus a revised deficit of $48.172 billion in January 2017. The official headline deterioration in the monthly deficit reflected a negligible increase of $0.360 billion in monthly exports, exacerbated by a $4.256 plunge in imports. The dominant factors in the headline February 2017 deficit improvement were falling imports of consumer goods, largely cell phones and automobiles, factors that had boosted January imports. Energy-related products had minimal impact on the change in the February trade-balance.

The headline January 2017 deficit also narrowed by $2.031 billion versus the unrevised, year-ago $45.588 billion trade shortfall for February 2016.

Real (Inflation-Adjusted) Trade Deficit. Seasonally-adjusted, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the February 2017 merchandise trade deficit (no services) narrowed to $59.710 billion, from a revised $65.103 billion in January 2017 and narrowed from $63.965 billion deficit in February 2016.

Reflected in *Graph 1* the annualized quarterly real merchandise trade deficit was $729.6 billion for first-quarter 2016, $735.2 billion for second-quarter 2016, $681.4 billion for third-quarter 2016 and $746.1 billion for fourth-quarter 2016, the worst quarterly showing since third-quarter 2007. The 2016 annual real merchandise trade deficit widened to $723.1 billion, versus $711.5 billion in 2015, the worst annual showing since 2008.

Based on just the January and February 2017 detail, the early trend in the first-quarter 2017 was for a deficit of $748.9 billion, which would be a new, worst showing since third-quarter 2007. Headline deficits likely will continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP, irrespective of increasingly irregular, headline month-to-month activity. See the *Reporting Detail* section for expanded analysis.

Construction Spending—February 2017—Despite Nominal and Real Monthly Gains, Real Activity Declined Year-to-Year, Still Shy of Recovering Its Pre-Recession Peak by 22.2% (-22.2%). The series remains highly volatile, subject to large monthly revisions. Nominal February 2017 spending rose by 0.8% in the month, on top of an upside revision to January spending and a downside revision to December, with strong nominal growth in the private-residential and public-spending sectors outweighing a decline in the private-nonresidential sector.

Broadly flat for the last year or so, inflation-adjusted real construction spending has held in low-level, stagnating non-recovery. Again, February 2017 activity remained shy of recovering its June 2006 pre-recession peak by 22.2% (-22.2%). Shown in accompanying *Graph 2* (*Graph 19* in the *Reporting Detail*), annual real change in the headline detail held in negative territory for a second month, a pattern last seen in 2016 and otherwise not seen since the economic collapse into 2009. The real series also appeared to be on track for first-quarter 2017 quarterly and annual contractions.

Inflation adjustment here reflects the ShadowStats Composite Construction Deflator (CCD), as discussed in *Commentary No. 829* and as detailed in the *Construction Inflation* section of the *Reporting Detail*.

Headline Reporting. In the context of an upside revision to January 2017 spending and a downside revision to December 2016, the headline, total value of construction put in place in the United States for February 2017 was $1,192.8 billion on a seasonally-adjusted but not-inflation-adjusted, annual-rate basis.

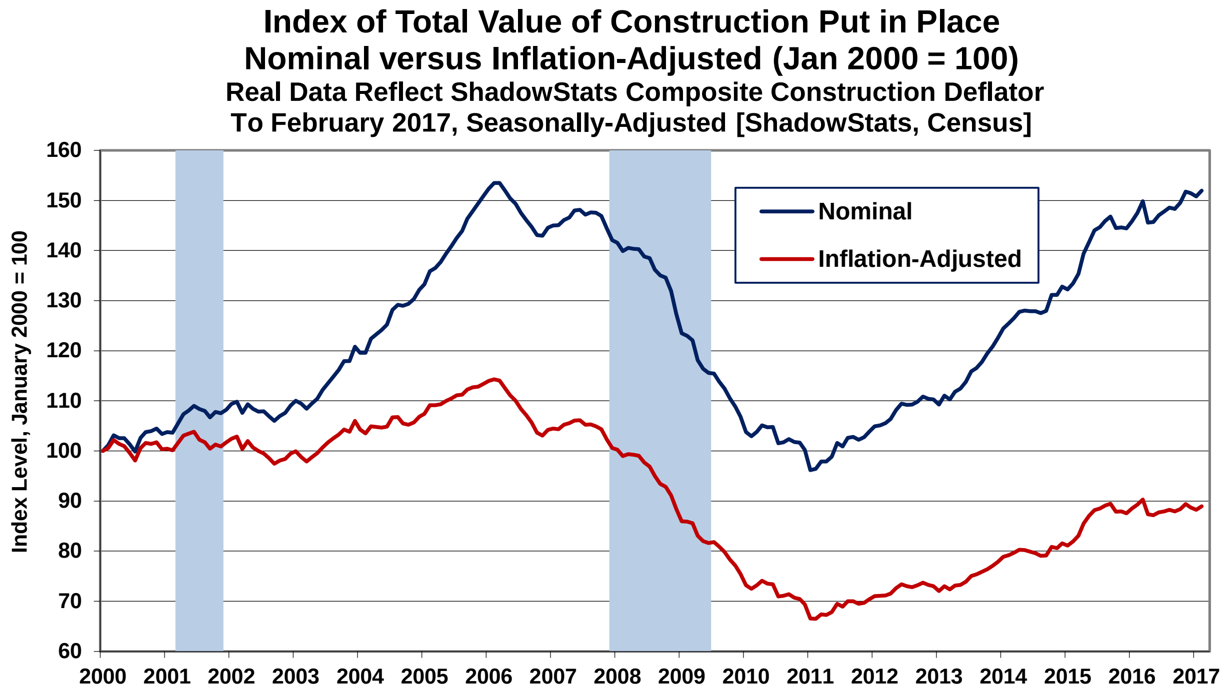
That estimate was up month-to-month by a statistically-insignificant 0.8%, versus an upwardly-revised $1,183.8 billion in January 2017, a downwardly revised $1,188.9 billion in December 2016 and an unrevised $1,191.5 billion in November 2016.

With a nominal monthly gain of 0.8% in February 2017, and respective monthly contractions in January 2017 and December 2016 of 0.4% (-0.4%) and 0.2% (-0.2%), total real month-to-month spending in February 2017 rose by 0.8%. That was against real monthly declines in January 2017 and December 2016, respectively, of 0.6% (-0.6%) and 0.7% (-0.7%). Inflation adjustment was based on the CCD.

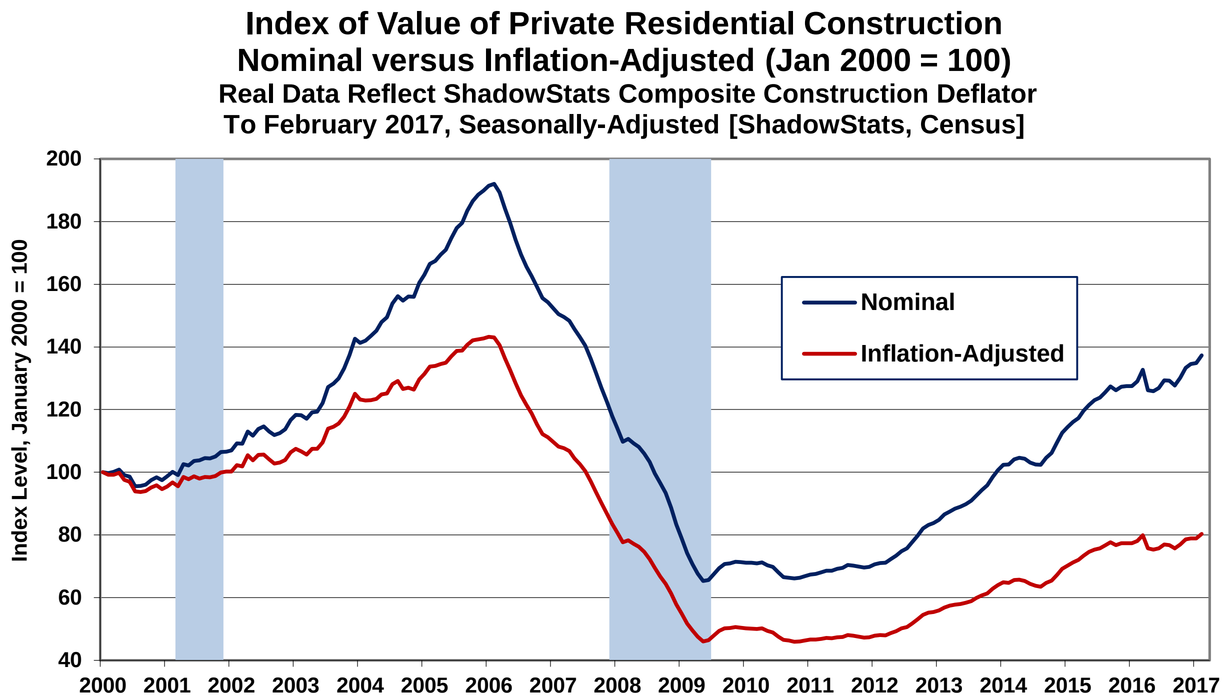
On a year-to-year annual-growth basis, February 2017 nominal construction spending rose by a statistically-significant 3.0%, following revised annual gains of 3.4% in January 2017 and 4.9% in December 2016. Net of construction inflation, annual growth in total real construction declined by 0.4% (-0.4%) in February 2017, 0.3% (-0.3%) in January 2017 and a downwardly revised annual gain of 1.3% in December 2016.

See the *Reporting Detail* for the full analysis, including expanded graphs.

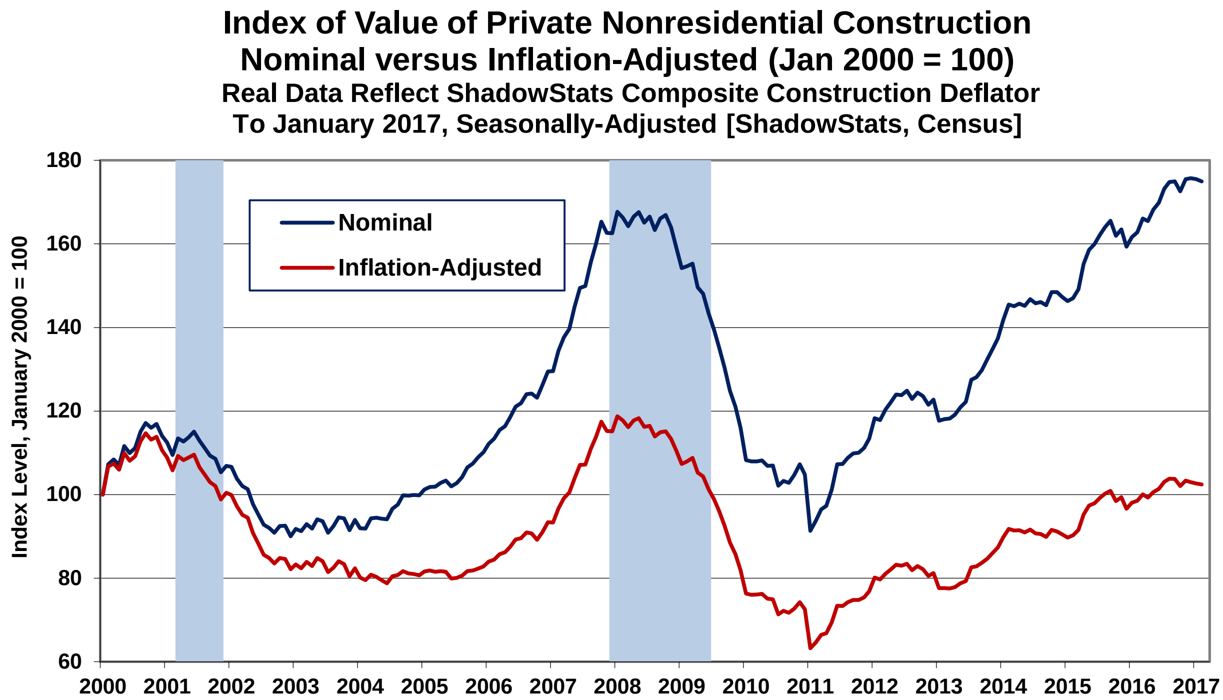
Graph 2: Index, Nominal versus Real Value of Total Construction



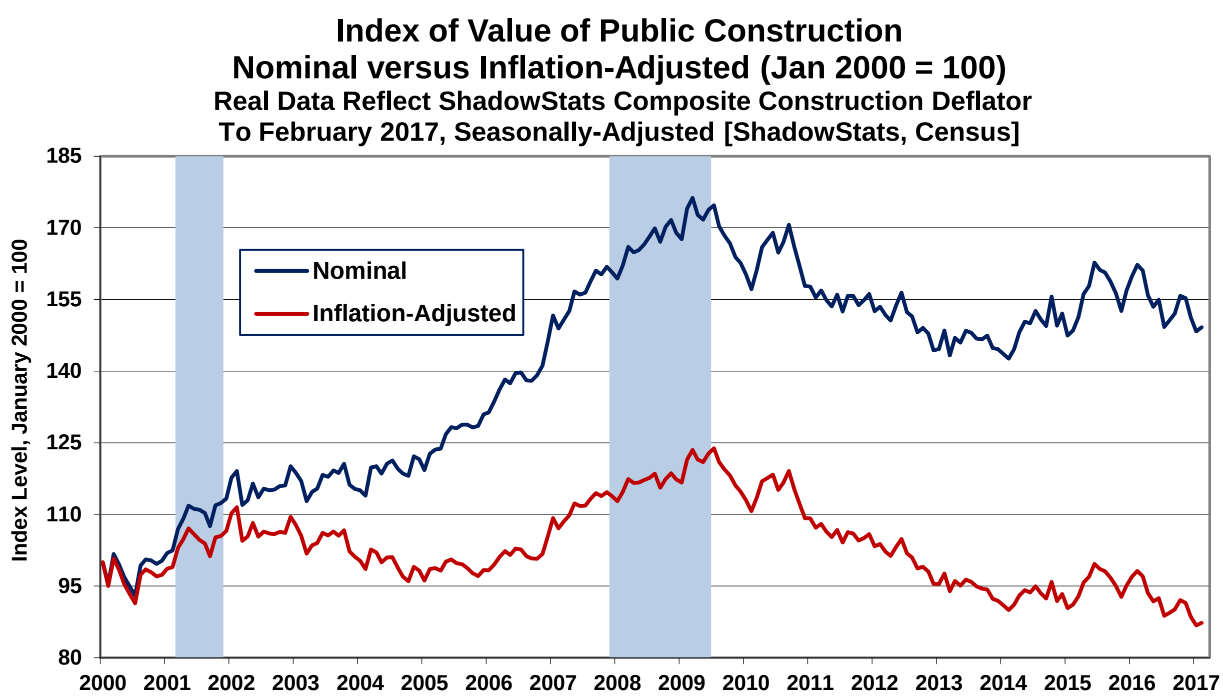
Graph 3: Index, Nominal versus Real Value of Private Residential Construction



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



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



Updated Consumer Liquidity Conditions—Continuing Income and Credit Stresses Amidst Mixed Optimism. Consumer Liquidity Conditions are updated here for full-month estimates of the March 2017 Conference Board's Consumer Confidence Index® and the University of Michigan's Consumer Sentiment Index surveying, along with the most-recent details on household income and consumer credit, as last covered in *Commentary No. 876*, *Commentary No. 871* and as fully reviewed in the *CONSUMER LIQUIDITY* section of *No. 859 Special Commentary.*

Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the ability and willingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in consumer optimism to levels generally not seen since before the formal onset of the revision in 2007, while underlying liquidity conditions and reality continued to remain shy of consumer hopes. Accompanying details reflect January 2017 and fourth-quarter 2016 readings of consumer credit and obligations, stressed real median monthly household income in February 2017 and those elevated, but mixed, March 2017 sentiment and confidence numbers.

Generally, the higher and stronger these measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes remain off their lows, and one of the hard ones—real monthly median household income—actually had spiked recently to pre-recession levels, reflecting the temporary collapse in gasoline prices and deflation by the otherwise underestimated headline CPI-U inflation. Having stagnated briefly, real monthly median household income generally has begun to falter or move lower, along with a developing pickup in consumer inflation.

Still, the broad underlying consumer liquidity fundamentals simply have not supported, and still do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic of 2008 era, limited growth in household income and credit, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers.

This circumstance remains in play in the context of that post-election surge in consumer expectations that now has exceeded pre-recession levels. Nonetheless, underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales activity and the related, personal-consumption-expenditure and residential-construction categories related to the Gross Domestic Product (GDP). Those sectors account for more than 70% of total U.S. GDP activity.

Yet, with the better-quality economic indicators, and likely underlying economic reality, never having recovered fully from its collapse into 2009 (see *Commentary No. 876*, *Commentary No. 877* and *Commentary No. 869*, consumers again are pulling back on consumption, as evidenced by a renewed slowdown in broad a broad array of economic indicators. Underlying reality is evident in more-meaningful series—not the GDP—irrespective of the transient, gimmicked boosts to that most worthless of economic indicators.

Consumer Confidence and Sentiment. This detail incorporates full March 2017 reporting for the Conference Board's Consumer-Confidence the University of Michigan Consumer-Sentiment measures. Reflected in *Graphs 6* and *7*, both confidence and sentiment rose in September and plunged in October, likely reflecting concerns as to the direction of the presidential race. The November measures rallied sharply, reflecting post-election consumer optimism and continued to explode in December, generally consistent with post-election reaction in the domestic stock-market and U.S. dollar.

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*), again, both soared post-election into December 2016 , but took breathers in January 2017, with Confidence jumping in anew in February but with Sentiment off its near-term high. While the three-month moving average in sentiment in January rose to a pre-recession high, the three-month moving average in confidence as of February set a new post-recession high. The March numbers, however, showed a jump in Consumer-Confidence Index® not seen since before the 2001 recession, while the Consumer Sentiment number continued to flutter around its near-term peak, still at a pre-2007-recession high. Those patterns also are reflected now in both the three- and six-month moving averages of the series.

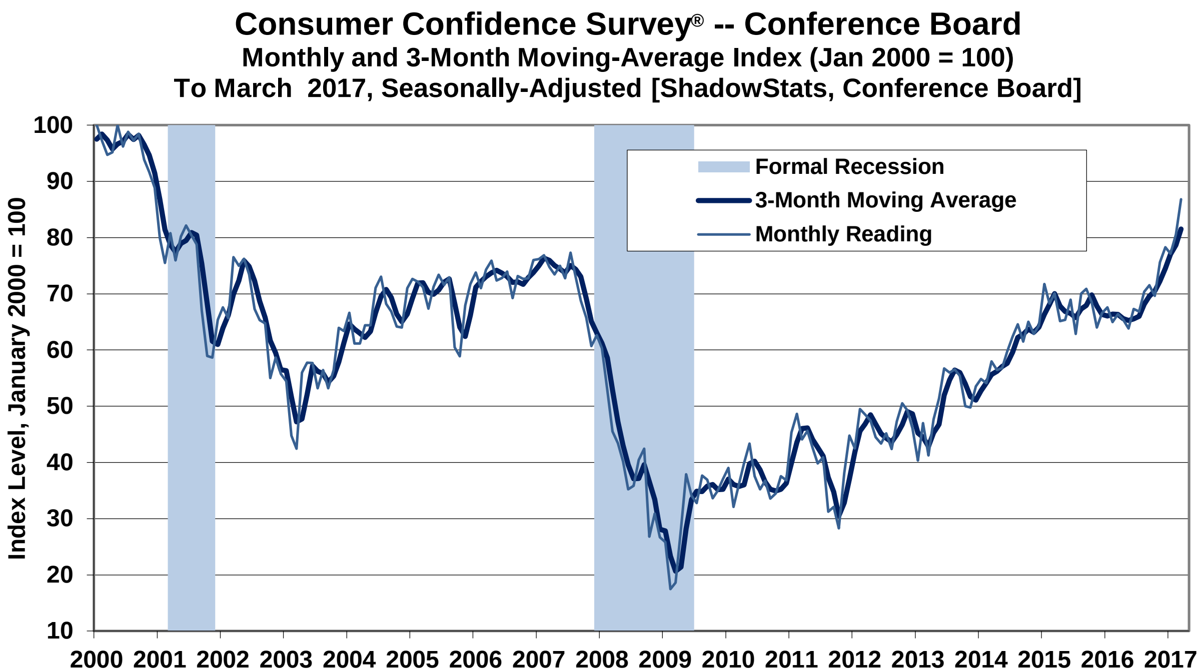
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 6* to *8* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With what should become increasingly-negative, unstable and uncertain headline financial and economic reporting in the months ahead—beyond the initial change-in-government euphoria—successive negative hits to both the confidence and sentiment readings remain increasingly likely in the near future.

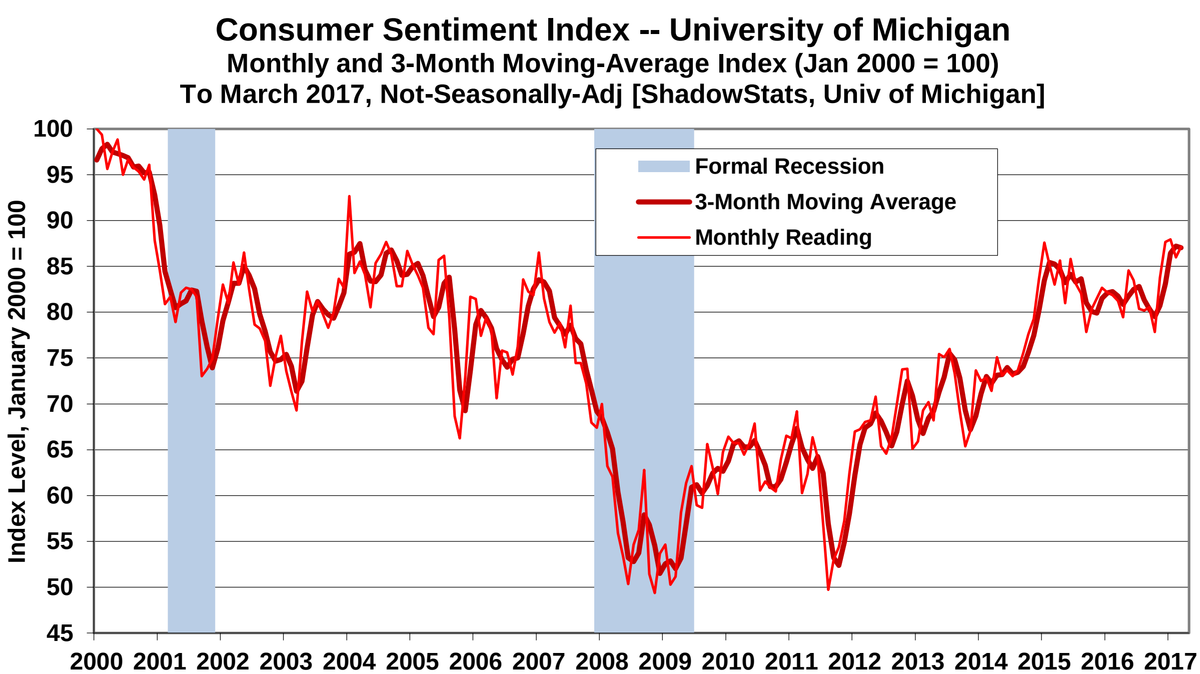
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election era. Suggested in *Graph 8*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen periods of normal, positive economic activity of the last four decades. Broadly, though, the harder consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and third-quarter 2016.

[Graphs 6 to 8 begin on the following page.]

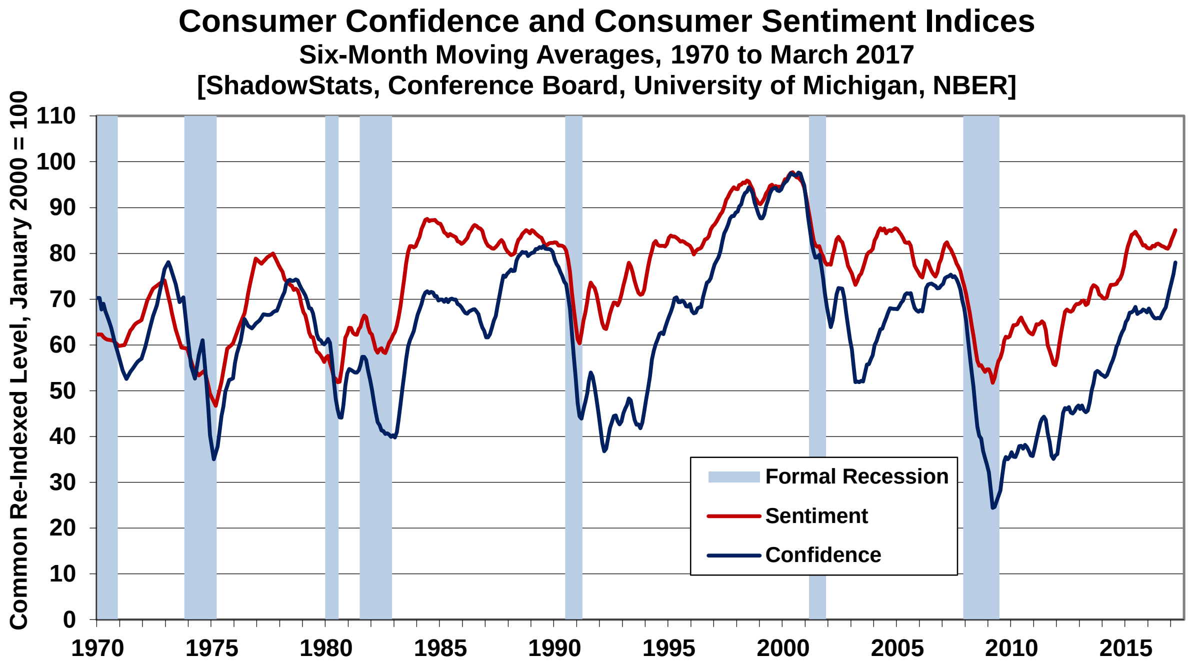
Graph 6: Consumer Confidence (2000 to 2017)



Graph 7: Consumer Sentiment (2000 to 2017)



Graph 8: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)



February 2017 Real Median Household Income Showed a Statistically-Significant Monthly Gain. Discussed in *Commentary No. 876*, while February 2017 real Median Household Income rose in the month, it held below its pre-recession peak, consistent with ongoing consumer-liquidity stresses.

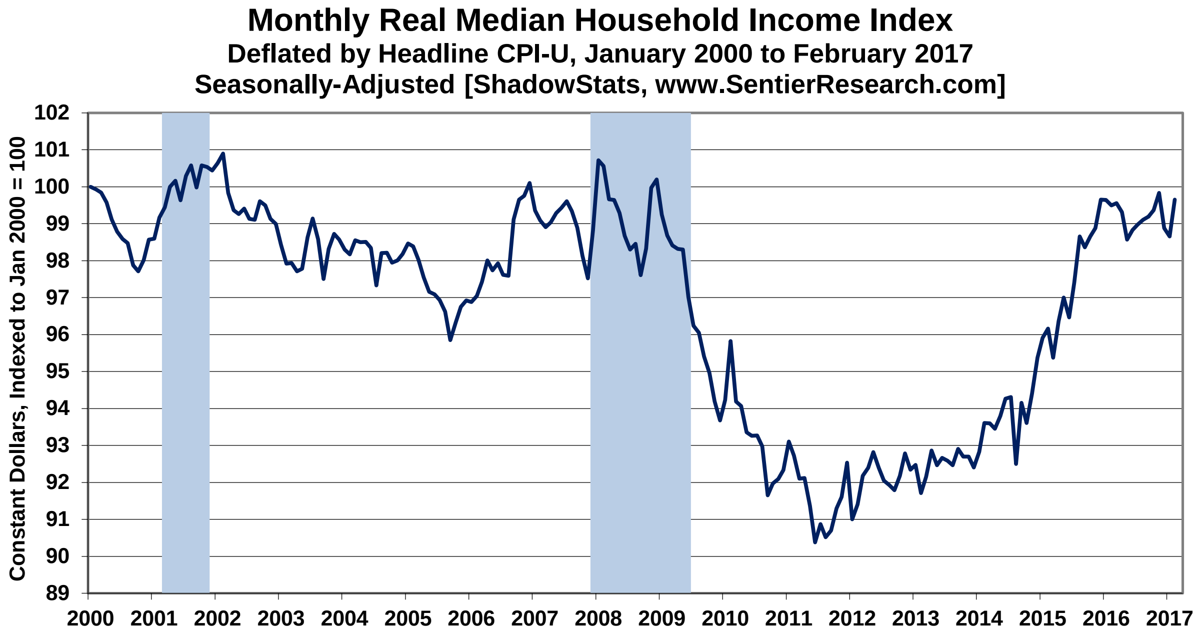
Reported March 30th, by www.SentierResearch.com, the level of the February 2017 Real Median Household Income Index rose month-to-month by a statistically-significant 1.01%, having declined by 0.23% (-0.23%) in January. The series also rose by 0.16% year-to-year in February 2017, having declined by 0.99% (-0.99%) in January 2017. Those details are plotted in the accompanying *Graphs 9* and *10*, both in terms of level and year-to-year change.

Where low or negative headline CPI-U inflation and related spikes in inflation-adjusted real income resulted from collapsing gasoline prices in 2014, that process began to reverse in the latter part of 2016.

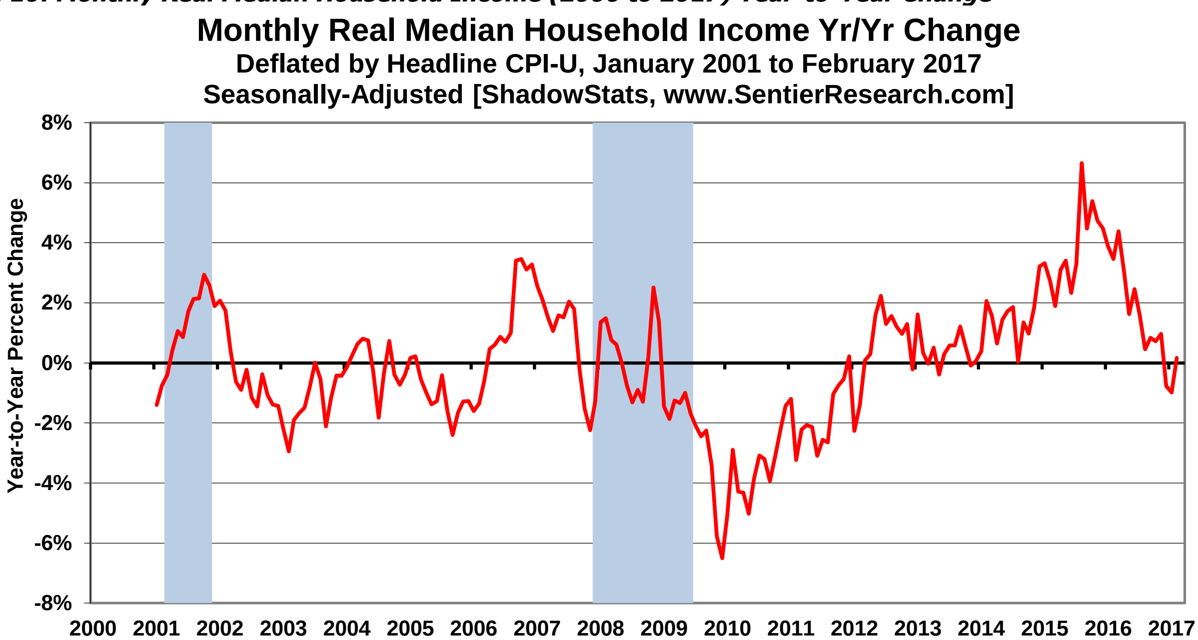
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. Again, the income series had been in low-level stagnation, with the post-2014 uptrend in the inflation-adjusted monthly index boosted specifically by collapsing gasoline prices and related, negative headline CPI-U consumer inflation. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions. It should continue turning down anew, as headline monthly consumer inflation generally picks up at an accelerating pace.

Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Again, the effects of changing gasoline prices have reversed, pushing headline consumer inflation higher.

Graph 9: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



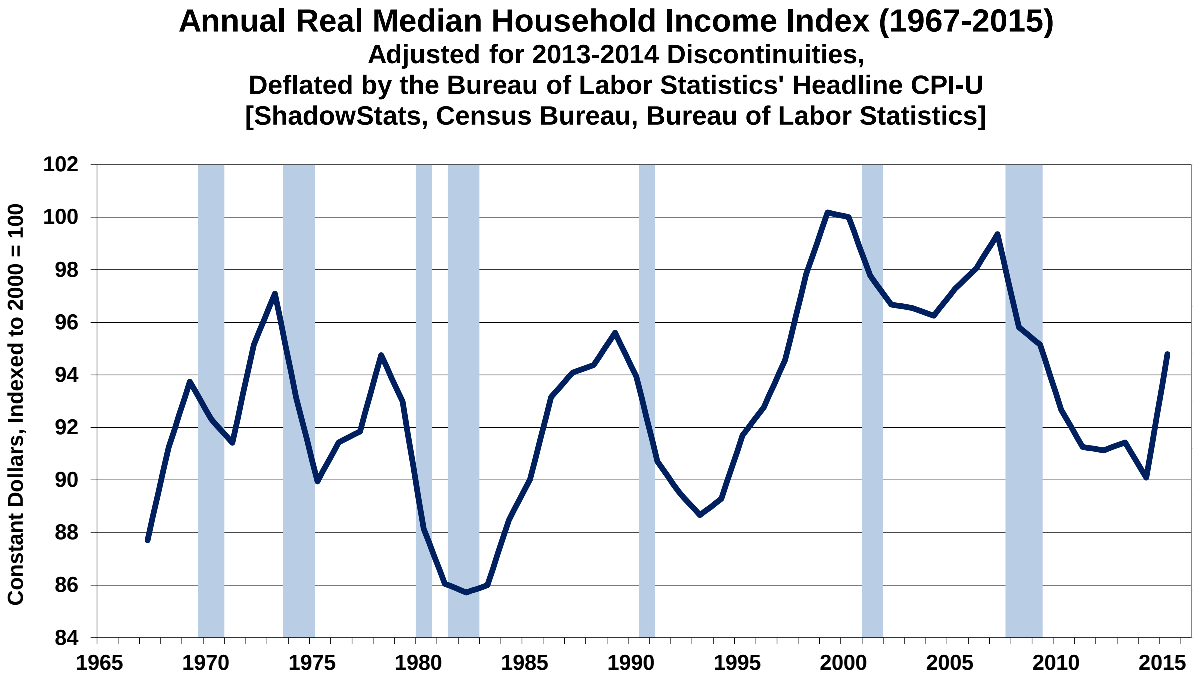
Graph 10: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 11*, which was updated nine months ago for 2015 detail (see the full analysis of the 2015 annual household income reporting in *Commentary No. 833*). The relative jump seen in the headline annual 2015 median income, despite formal adjustment for discontinuities in the recent annual reporting, was due largely to series redefinitions, not due to a sudden change in consumer liquidity, other than as tied to the collapse in gasoline prices and a related spike in the inflation-adjusted numbers. The level of real annual median household income for 2015, not only was below that seen at the purported trough of the economic collapse into 2009, but also it was below levels seen in the early-1970s and the late 1980s.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 11*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 annual number still holding below that seen when the collapsing economy hit its purported trough in 2009.

Graph 11: Annual Real Median U.S. Household Income (1967 to 2015)



The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier uses monthly questions surveying current annual household income, the headline annual Census detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings through February 2017, shown in *Graph 12* and as reported by the Bureau of Labor Statistics (see *Commentary No. 872* for full background on that series).

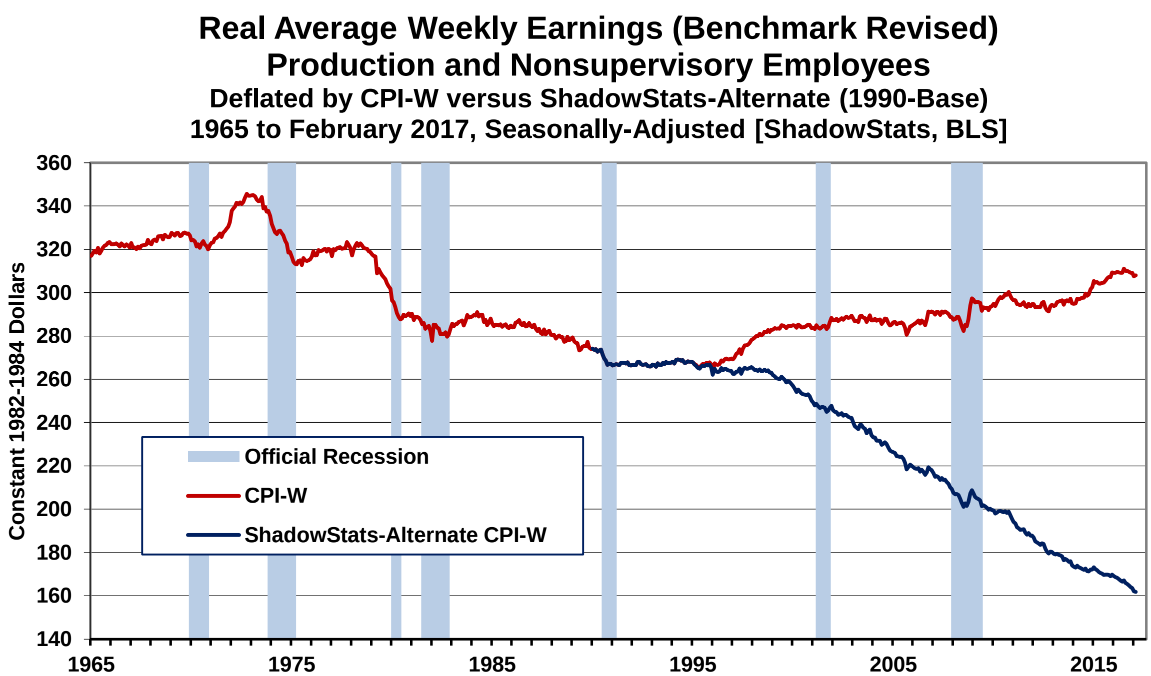
Real Average Weekly Earnings—February 2017—On Track for Consecutive Quarterly Contractions and a Quarterly Year-to-Year Downturn. In the production and nonsupervisory employees category—the only series for which there is a meaningful history on earnings, the regularly-volatile real average weekly earnings, deflated by the CPI-W, were up by 0.12% month-to-month in February 2017, having declined in January by 0.52% (-0.52%), the sixth consecutive monthly decline for the series.

Year-to-year, the adjusted February 2017 annual detail declined for the third straight month, down by 0.39% (-0.39%), versus a deeper January 2017 annual decline of 0.51% (-0.51%) and an annual decline of 0.07% (-0.07%) in December 2016.

Such left fourth-quarter 2016 in a 1.36% (-1.36%) annualized real quarter-to-quarter contraction, with first-quarter 2017 on track for an annualized quarterly contraction of 2.00% (-2.00%), based on two months of reporting. Year-to-year change in first-quarter 2017 Real Earnings also is on track for the first annual contraction since fourth-quarter 2012, down at a year-to-year pace of 0.51% (-0.51%). Neither consecutive quarterly contractions nor a quarterly year-to-year contraction has been seen since second-half 2012, when headline GDP growth slowed to a stall.

Graph 12 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

Graph 12: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



Consumer Credit Has Remained Constrained. The final four graphs on consumer conditions address consumer borrowing. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 13* of *Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through fourth-quarter 2016. Household Sector, Real Credit Market Debt Outstanding in fourth-quarter of 2016 still was down by 11.6% (-11.6%) from its pre-recession peak of third-quarter 2007. Third-quarter 2016 was down by a revised 11.8% (-11.8%) [previously down by 11.6% (-11.6%)] from the peak.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016. Current activity also has reflected surging student loans, as shown in the *Graphs 14* to *16*.

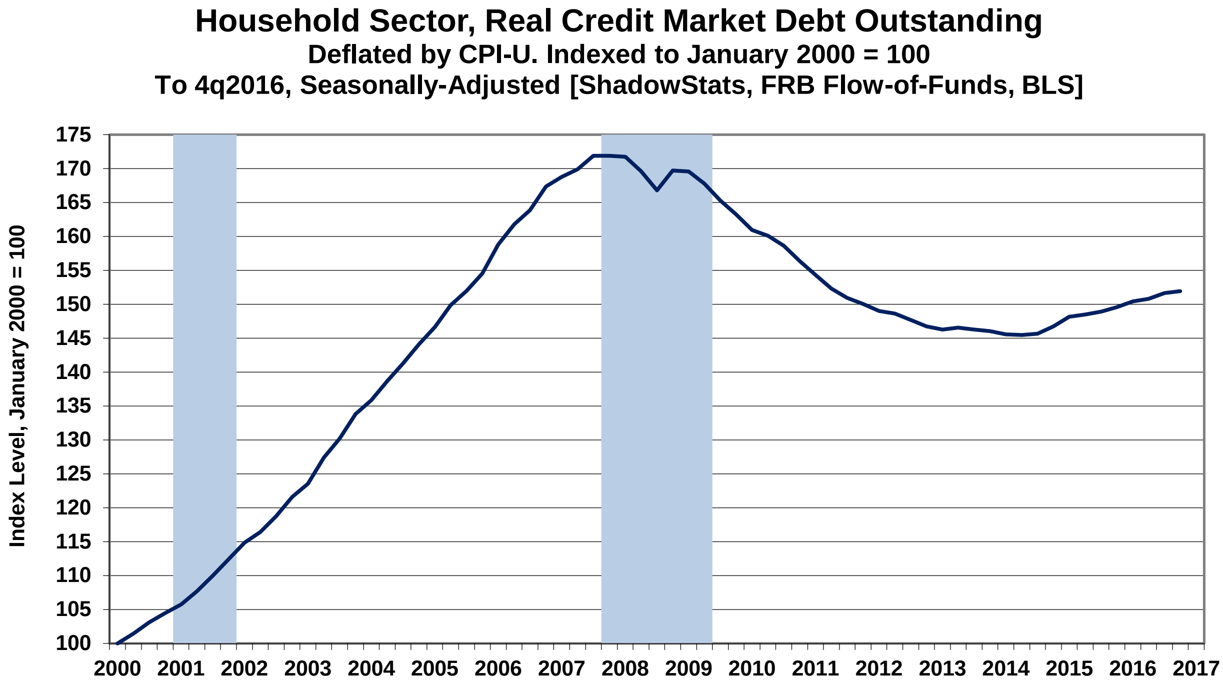
Shown through the latest reporting (January 2017), *Graph 14* of monthly Consumer Credit Outstanding is a subcomponent of *Graph 13* on real Household Sector debt. Where *Graph 14* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for the monthly Consumer Credit Outstanding is shown both in terms of level (*Graph 1*5 and in terms of year-to-year change (*Graph 16*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels over one year reflecting some regular, unadjusted seasonal dips or jumps.

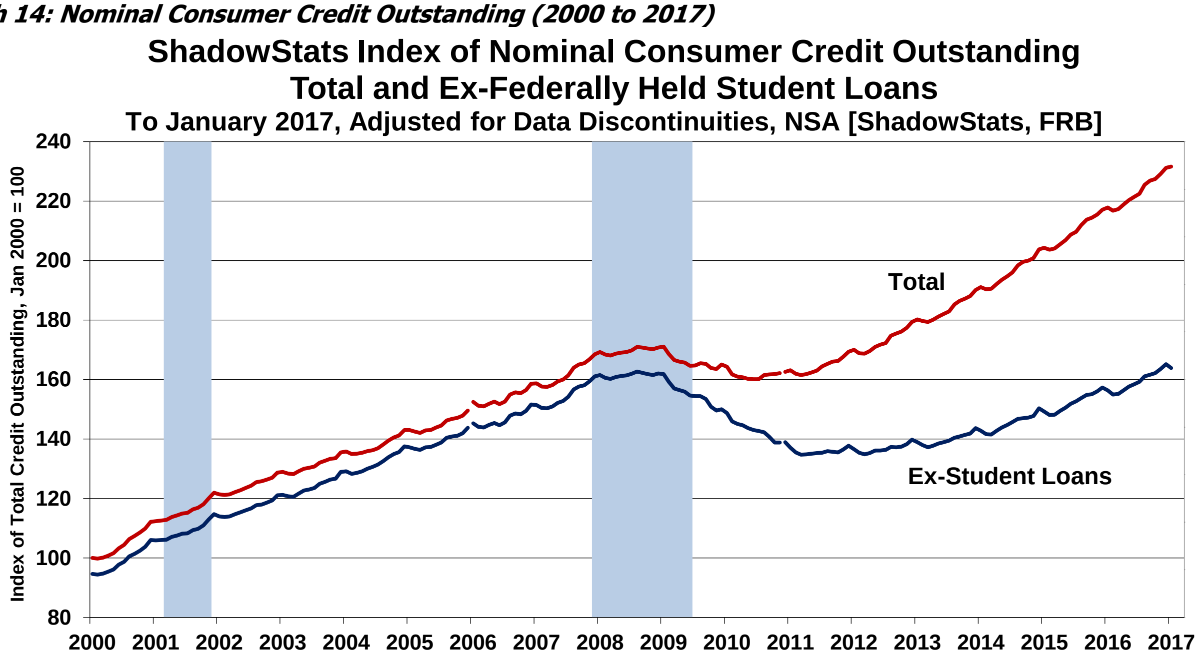
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in January 2017 was down from its December 2007 pre-recession peak by 12.0% (-12.0%). Year-to-year growth in *Graph 16* tends to resolve most of the monthly distortions in not-seasonally-adjusted data.

[Graphs 13 to 16 begin on the next page.]

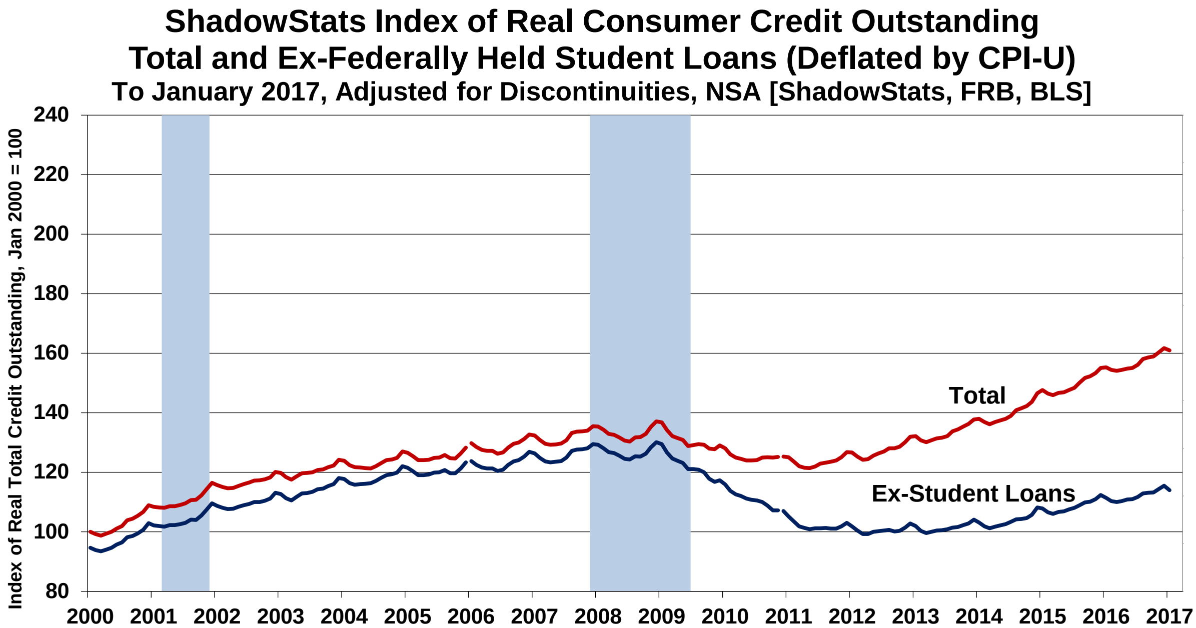
Graph 13: Household Sector, Real Credit Market Debt Outstanding (2000 through Fourth-Quarter 2016)



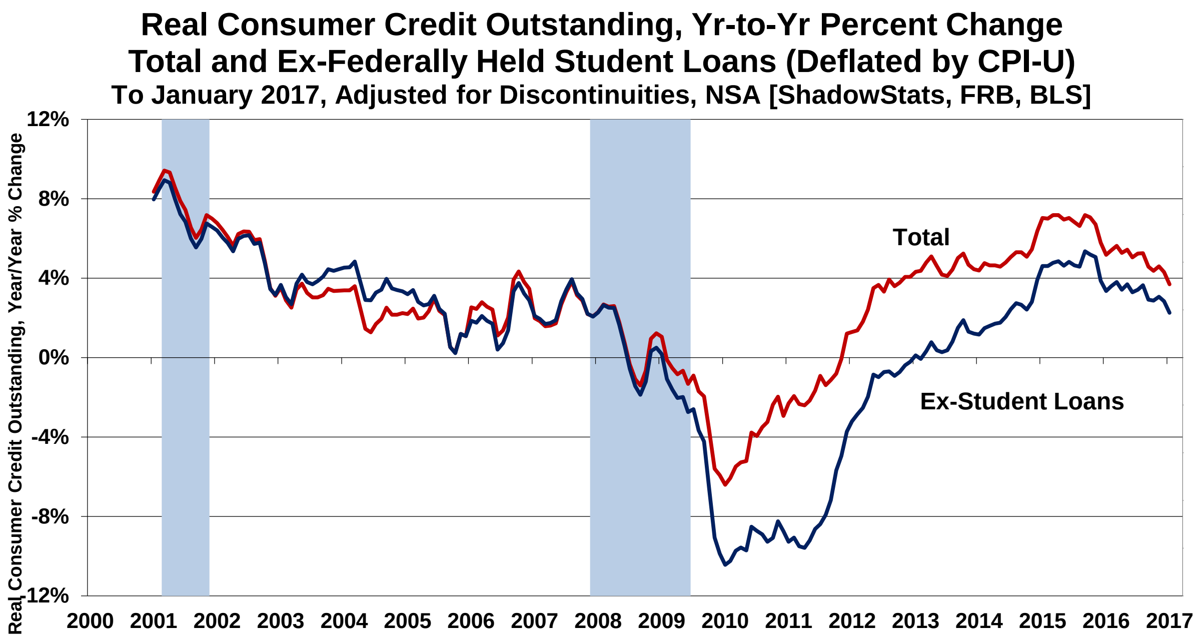
Graph 14: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph 15: Real Consumer Credit Outstanding (2000 to 2017)



Graph 16: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



[The **Reporting Detail** *contains extended analysis and graphs.]*

REPORTING DETAIL

U.S. TRADE DEFICIT (February 2017)

Sharp Monthly Narrowing Likely Reflected Collapsing Consumer Demand, One-Time Reporting Distortions or Some Combination of Same. *Graph 1* in the *Executive Summary* shows the continuing, quarterly deterioration suggested for the first-quarter 2017 inflation-adjusted (real) merchandise trade deficit, based on initial January and February 2017 detail. While still on track for net-quarterly deterioration, both before and after adjustment for inflation, the sharp narrowing of the headline February shortfall also narrowed the trend in the deterioration. Initially, the early first-quart 2017 trend suggested the worst quarterly real trade deficit since first-quarter 2007, parallel with related GDP reporting. That has shifted now to the worst showing since third-quarter 2007, but the pattern likely still will shift anew with the headline March numbers.

Where sharp narrowing in the monthly trade deficit took the headline February real shortfall below the 12-month moving average, the unusually-sharp monthly movement most likely reflected a one-time aberration in the monthly detail and/or a sharp decline in demand for imported consumer goods. A combination of those two elements is a good bet, which should be clarified with next month's headline March 2017 detail. Against previous first-quarter 2017 GDP growth estimates, the new trade detail should cause those forecasts to be upped.

Nominal (Not-Adjusted-for-Inflation) February 2017 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, April 4th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for February 2017 narrowed on a balance-of-payments basis. Such was in the context of a small revision for a narrowed deficit in the previously-reported January 2017 activity.

The headline February 2017 deficit of $43.557 billion narrowed sharply by $4.616 billion, versus a revised deficit of $48.172 [previously $48.492] billion in January 2017. The official headline deterioration in the monthly deficit reflected a negligible increase of $0.360 billion in monthly exports, exacerbated by a $4.256 plunge in imports. The headline January 2017 deficit also narrowed by $2.031 billion versus the unrevised, year-ago $45.588 billion trade shortfall for February 2016.

The dominant factors in the net monthly improvement of the headline February 2017 deficit were falling imports of consumer goods, largely cell phones and automobiles. Those factors had boosted imports in January. Activity in energy-related products had minimal impact on the change in the February trade-balance.

Energy-Related Petroleum Products. From an import standpoint, February 2017 oil prices increased by 3.0% from January 2017, up by 64.7% versus February 2016. Declining oil prices into 2016 bottomed in February 2016 at $27.48, inched higher by 0.7% in March, gained 6.5% in April, 16.0% in May, 15.2% in

June and 4.2% in July. They fell by 4.0% (-4.0%) in August and 0.9% (-0.9%) in September, only to bounce anew by 2.5% in October, 2.0% in November, 1.5% in December 2016 and 6.0% in January 2017.

The not-seasonally-adjusted average price of imported oil rose to $45.25 per barrel in February 2017, versus $43.94 per barrel in January 2017 and $27.48 per barrel in February 2016.

Separately, not-seasonally-adjusted physical oil-import volume in February 2017 averaged 8.402 million barrels per day, up from 8.353 million in January 2017 and from 7.404 million in February 2016.

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 labor conditions and retail sales, where the headline number reflects seasonally-adjusted month-to-month change. Discussed frequently (see *2014 Hyperinflation Report—Great Economic Tumble* for example), the extraordinary length and depth of the current business downturn and disruptions have distorted regular patterns of seasonality. Separately, the monthly trade data can be influenced by irregular shipping patterns, affected by factors ranging from labor disruptions to unusual weather conditions.

Annual Benchmark Revisions Set four June 2nd. The 2017 benchmark revision for the trade series has been announced for June 2, 2017, with historical revisions going back to 2014.

Real February 2017 Trade Deficit. Seasonally-adjusted, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the February 2017 merchandise trade deficit (no services) narrowed to $59.710 billion, from a revised $65.103 [previously $65.346] billion in January 2017. The February 2017 shortfall also narrowed versus a $63.965 billion deficit in February 2016.

Reflected in *Graph 1* (see the *Executive Summary*), the annualized quarterly real merchandise trade deficit was $623.1 billion for fourth-quarter 2014, $700.0 billion for first-quarter 2015, $709.1 billion for second-quarter 2015, $708.4 billion for third-quarter 2015, $728.6 billion for fourth-quarter 2015.

For last year, the annualized deficit was $729.6 billion for first-quarter 2016, $735.2 billion for second-quarter 2016, $681.4 billion for third-quarter 2016 and $746.1 billion for fourth-quarter 2016. The fourth-quarter 2016 deficit was the worst quarterly showing since third-quarter 2007. The annual real merchandise trade deficit widened for the year of 2016 to $723.1 billion, versus $711.5 billion in 2015. The 2016 annual trade shortfall was the worst since 2008.

Based on just the January and February 2017 detail, the early trend in the first-quarter 2017 detail is for a deficit of $748.9 billion, which would be a new, worst showing since third-quarter 2007. Previously, just based on the January 2017 detail, the first-quarter 2017 deficit had been on track for $784.2 billion, which would have been the worst showing since first-quarter 2007.

Headline deficits likely will continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP, irrespective of increasingly irregular, headline month-to-month activity.

CONSTRUCTION SPENDING (February 2017)

Despite a Monthly Jump in both Nominal and Real Terms, Real Activity Declined Year-to-Year and Remained Shy of Recovering Its Pre-Recession Peak by 22.2% (-22.2%). The construction spending series remains highly volatile and subject to large monthly revisions. Nominal February 2017 spending rose by 0.8% in the month, on top of an upside revision to the January level and a downside revision to December. Strong nominal growth in the private-residential and public-spending sectors outweighed a decline in the private-nonresidential sector.

Real construction spending has been broadly flat for the last year or so, holding in low-level, stagnating non-recovery. February 2017 activity remained shy of recovering its June 2006 pre-recession peak by 22.2% (-22.2%). As shown in accompanying *Graph 19*, annual real change in the headline detail held in negative territory for a second month, a pattern last seen in 2016 and otherwise not since the economic collapse into 2009. The real series also appeared to be on track for first-quarter 2017 quarterly and annual contractions.

Ongoing Consumer Liquidity Issues Constrain Residential Construction Spending. Updated in today's *Executive Summary* and last fully reviewed in *No. 859 Special Commentary*, the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential real-estate activity, including related construction. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt, to make up for the income shortfall, the U.S. consumer remains unable to support positive growth in broad economic activity.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in the dominant residential-construction category of construction spending—irrespective of stronger, recent upside revisions to the series—without a fundamental upturn in consumer and banking-liquidity conditions.

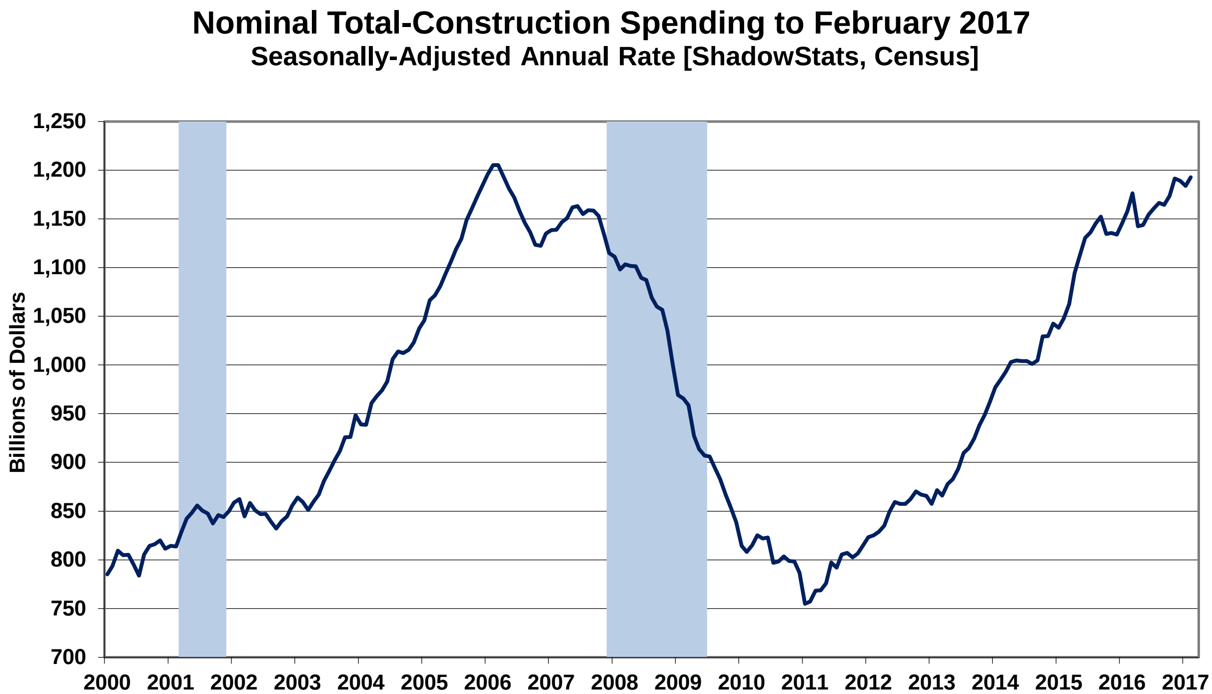
Construction Inflation—ShadowStats Composite Construction Deflator (CCD). ShadowStats produces a Composite Construction Deflator (CCD), for use in converting current-dollar or nominal (not-adjusted-for-inflation) headline construction spending into inflation-adjusted, real or constant-dollar terms. Detailed in *Commentary No. 829*, previously used measures from the Producer Price Index (PPI) lacked historical consistency and did not measure inflation appropriately for the construction-spending series.

Accordingly, ShadowStats constructed the CCD specifically for deflating construction spending. The CCD is a composite of pricing series, weighted by broad industry segment as compiled in the headline construction spending, with consistent historical tabulation back to before 2000. The combined indices reflect price deflators out of National Income (GDP) reporting, with quarterly numbers there interpolated into smoothed monthly series, in conjunction with privately surveyed monthly cost indicators.

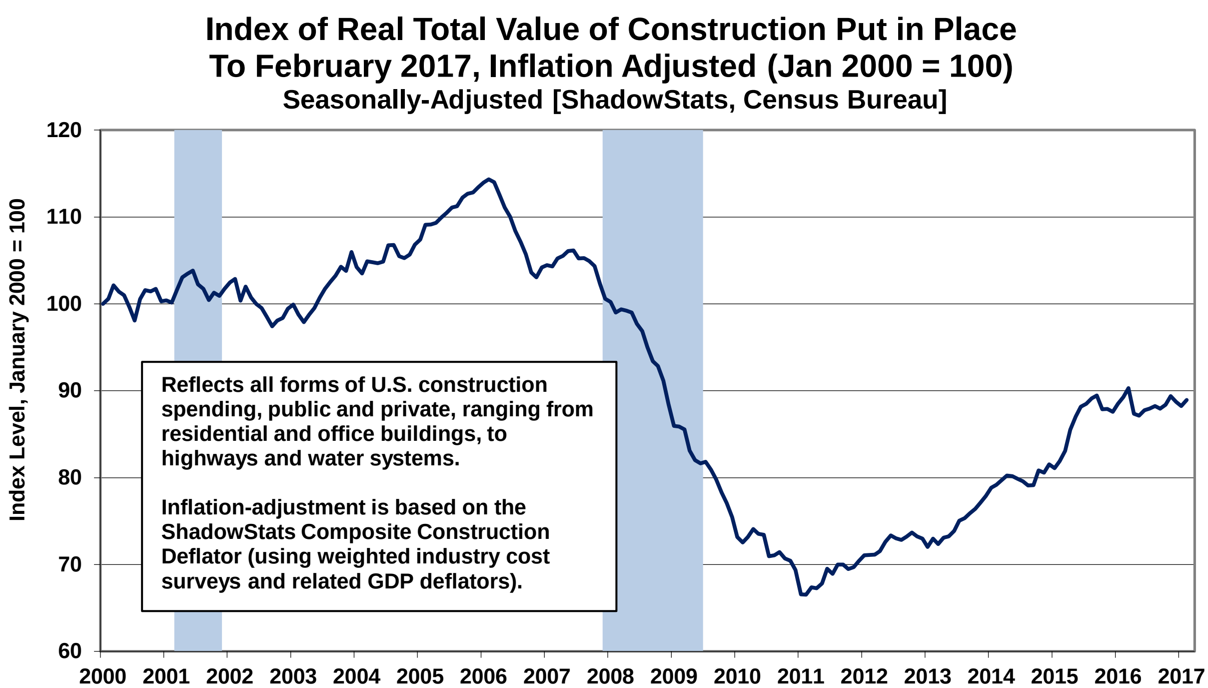
There is no perfect inflation measure, public or private, for deflating construction. For the historical series in the accompanying plots, as shown in *Graphs 2* to *5* in the *Executive Summary*, and in the accompanying *Graphs 18* and *22* in this section, the inflation-adjusted numbers are deflated by the CCD.

Seasonally-adjusted February 2017 CCD month-to-month inflation declined by 0.4% (-0.4%), following a revised gain of 0.13% [previously 0.14%] in January and a revised 0.53% [previously 0.46%] gain in December 2016. In terms of year-to-year inflation, the February 2016 CCD gained 3.40%, following a revised 3.70% [previously 3.44%] in January 2017 and a revised annual gain of 3.52% [previously 3.24%] in December 2016.

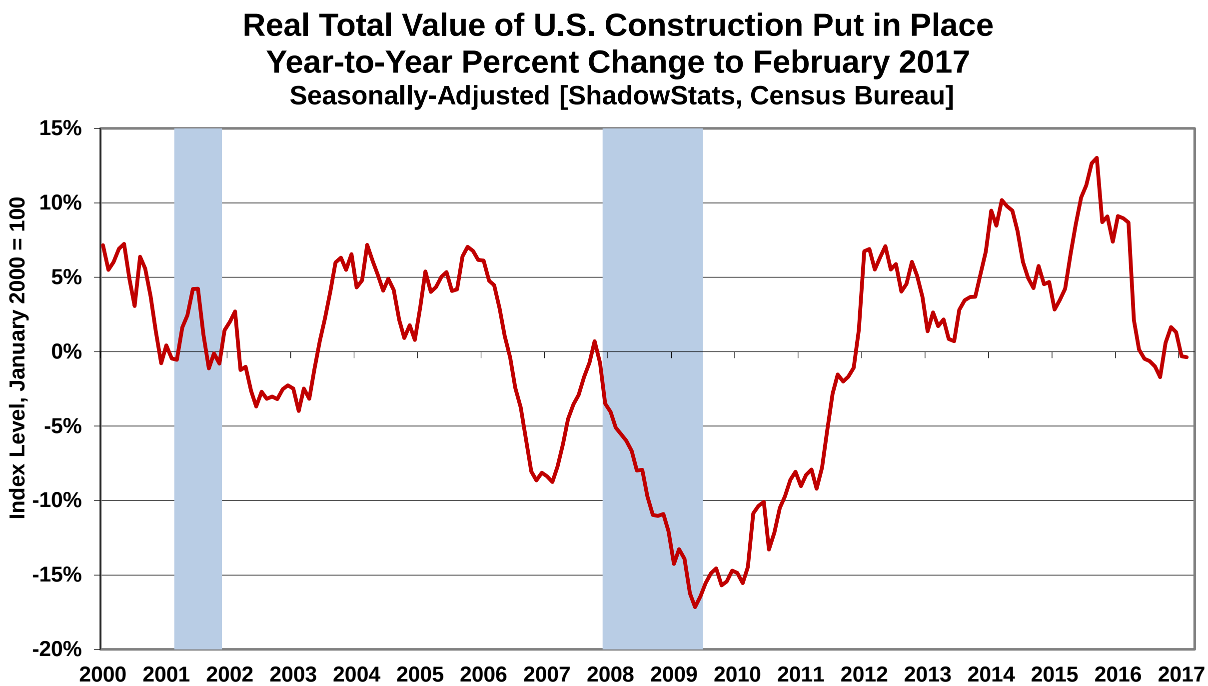
Graph 17: Total Nominal Construction Spending



Graph 18: Index of Total Real Construction Spending



Graph 19: Total Real Construction Spending, Year-to-Year Percent Change



The Data and Graphs Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to remain reasonably smooth in the residual month-to-month change. Note the comparative monthly volatilities in the non-smoothed *Graphs 23* and *24.*

Headline Reporting for February 2017. In the context of an upside revision to the level of January 2017 spending and a downside revision to December 2016, the Census Bureau reported April 3rd that the headline, total value of construction put in place in the United States for February 2017 was $1,192.8 billion on a seasonally-adjusted but not-inflation-adjusted, annual-rate basis.

That estimate was up month-to-month by a statistically-insignificant 0.8% +/- 1.2% (all confidence intervals are at the 95% level), versus an upwardly-revised $1,183.8 [previously $1,180.3] billion in January 2017. Net of prior-period revisions, February activity would have gained 1.1% month-to-month.

In turn January 2017 showed a revised decline of 0.4% (-0.4%) versus a downwardly revised $1,188.9 [previously $1,192.2, initially $1,181.5] billion in December 2016. In turn, December 2016 showed a revised decline of 0.2% (-0.2%) versus an unrevised $1,191.5 billion in November 2016.

Adjusted for CCD inflation, total real month-to-month spending in February 2017 rose by 0.8%, versus a revised January 2017 decline of 0.6% (-0.6%) and a revised December 2016 decline of 0.7% (-0.7%).

On a year-to-year annual-growth basis, February 2017 nominal construction spending rose by a statistically-significant 3.0% +/- 1.5%, following revised annual gains of 3.4% in January 2017 and 4.9% in December 2016. Net of construction costs indicated by the CCD, the annual growth in total real construction declined by 0.4% (-0.4%) in February 2017, 0.3% (-0.3%) in January 2017 and a downwardly revised annual gain of 1.3% in December 2016.

The statistically-insignificant, nominal monthly gain of 0.8% in aggregate February 2017, versus the revised 0.4% (-0.4%) decline in aggregate January 2017, included a headline monthly gain of 0.6% in February public spending versus a narrowed monthly decline of 1.9% (-1.9%) in January. Private construction spending rose by 0.8% in February, having narrowed to "unchanged" from a small gain previously in January. Within total private construction spending, residential-sector activity jumped by 1.8% in February, having gained a downwardly-revised 0.2% in January, while the nonresidential sector showed a monthly decline of 0.3% (-0.3%) in February, following a revised decline of 0.2% (-0.2%), which previously had been unchanged in January.

Quarterly Real Trends. Based just on January and February reporting, this highly unstable series is on early track for an annualized contraction of 1.1% (-1.1%) in first-quarter 2017, following a revised 3.4% [previously 4.7%, initially 2.5%] gain in fourth-quarter 2016. First-quarter 2017 real construction spending also was on track for a year-to-year contraction of 1.1% (-1.1%), having gained 1.9% in fourth-quarter 2016.

Third-quarter 2016 reporting showed unrevised annualized real quarter-to-quarter growth of 2.9%. That followed a second-quarter 2016 contraction of 8.4% (-8.4%), with first-quarter 2016 real construction spending rising at a pace of 7.3%. Going back into 2015, fourth-quarter real construction spending contracted at an annualized pace of 5.4% (-5.4%), following annualized quarterly gains of 10.1% in third-quarter 2015, 26.0% in second-quarter 2015 and 5.3% in first-quarter 2015.

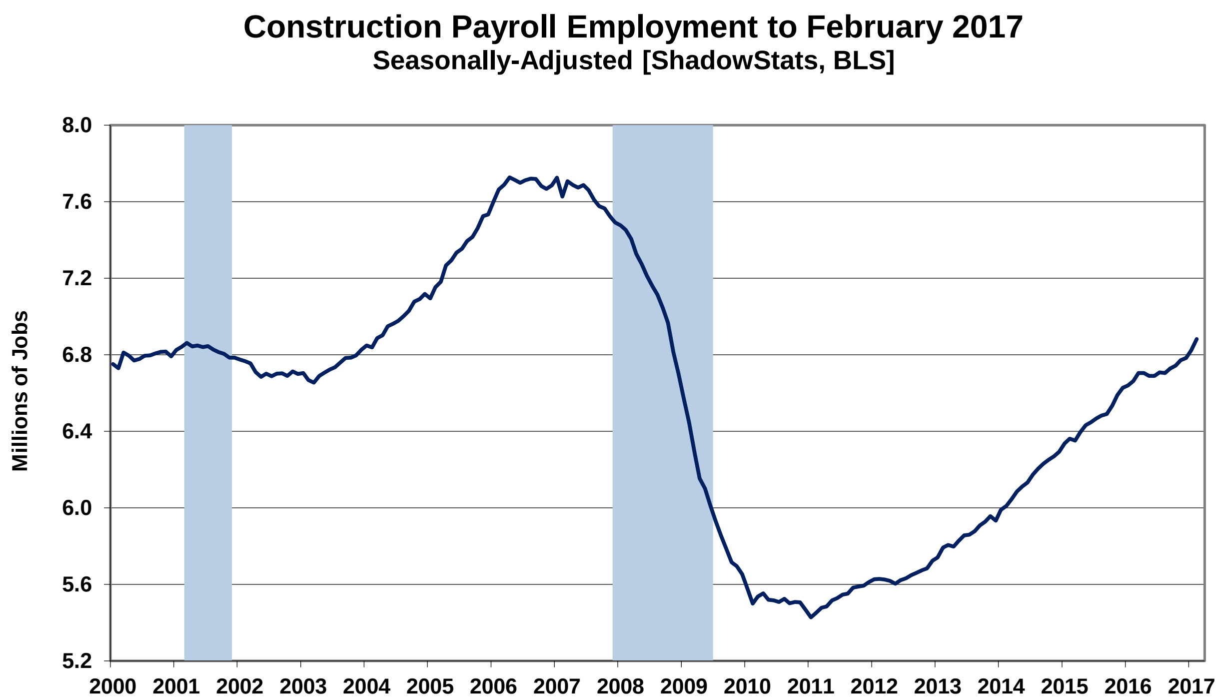
Graphs 2 to *5* in the *Executive Summary* of the *Opening Comments* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public-construction. Seen after adjustment for inflation, the real aggregate series generally have remained in low-level stagnation, now effectively flat through from mid-2015 into first-quarter 2017. Areas of recent relative strength in the major subcomponents generally have flattened out or have begun to turn down anew, after inflation adjustment.

The general pattern of real activity had been one of low-level, up-trending stagnation that now has turned generally flat for a number of quarters. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 17* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 18*. while *Graphs 21* and *22* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs. Earlier *Graphs 17* and *18*, and later *Graphs 21* and *22* reflect total construction spending through February 2017, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 18* is on an index basis, with January 2000 = 100.0, where *Graph 19* reflects the same detail in terms of annual change. Adjusted for the CCD, 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 then some boost into early-2015. Activity declined in fourth-quarter 2015, with a fluttering trend that generally flattened and turned down late in 2016, into 2017, with annual growth faltering into 2017 as indicated in *Graph 19*.

The pattern of non-recovered, inflation-adjusted activity here—net of the CCD inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see *Commentary No. 876* and the *ECONOMY* section of *No. 859 Special Commentary*). To the contrary, the broad construction reporting, both before (nominal) and after (real) inflation adjustment, generally still shows low-level activity, where aggregate activity never recovered pre-recession highs and, again, has flattened-out anew.

Graph 20: Construction Payroll Employment to Date



Construction Employment Showed a February Spike but Still Is 11% (11%) Shy of Recovering. *Graph 20* shows an upside turn in construction payroll employment activity through February 2017, in the context of recent, annual benchmark revisions to payrolls, as discussed in *Commentary No. 871* and *Commentary No. 864*. 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 measures of the level of physical activity. Where construction payrolls generally had flattened out, albeit somewhat more up-trending post-benchmarking, such generally has been broadly consistent with patterns of stagnating non-recovery seen in a various residential real estate sales and construction activity measures, and with faltering growth patterns seen here in headline real construction spending. This detail will be updated for March 2017 in the next *Commentary No. 879* of April 7th.

Graphs of Construction Activity. *Graph 21* shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 22* shows the same breakout as in *Graph 21*, but the detail is in real, inflation-adjusted terms, reflected in constant November 2009 dollars, deflated by the *ShadowStats Composite Construction Deflator (CCD)*, as discussed in the earlier *Construction Inflation* section.

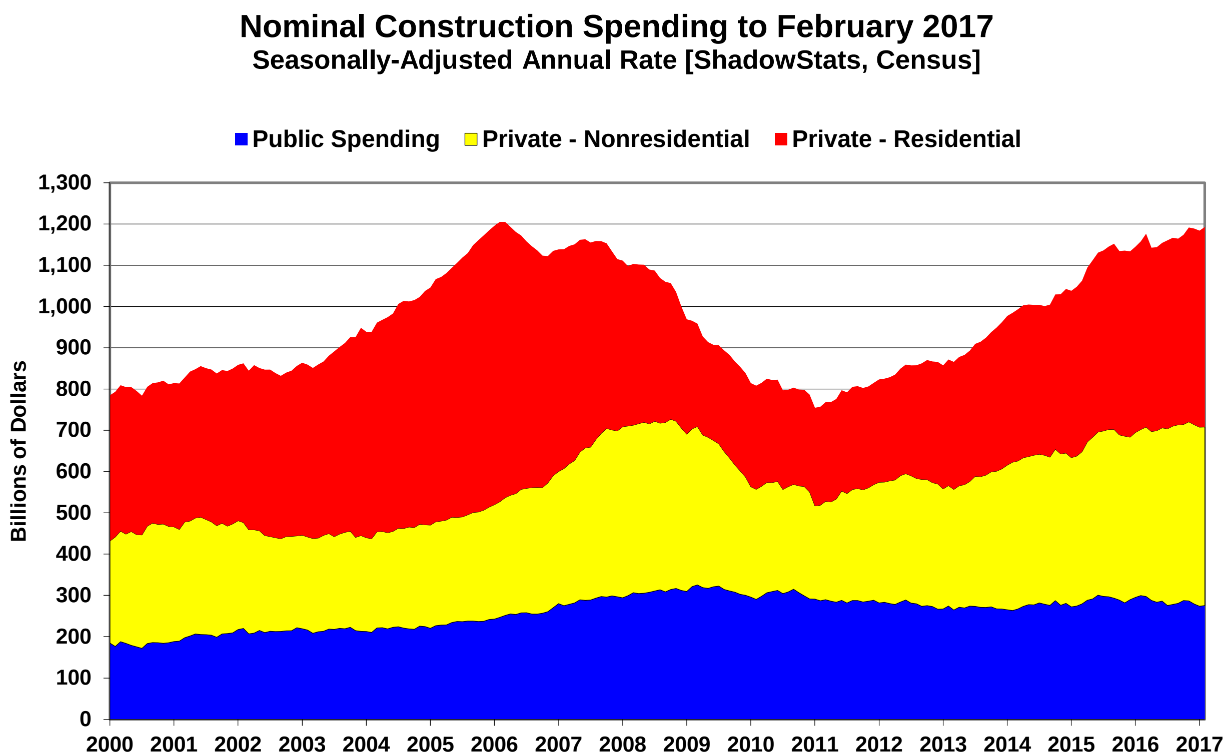
Graphs 23 and *24* cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for February 2017 (see *Commentary No. 873*). Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 3* of the *Opening Comments* section, *Graph 22* and presumably with the headline construction-payroll data in *Graph 20*.

The final two graphs (*Graphs 25* and *26*) show the patterns of the monthly level of activity in nominal private nonresidential-construction spending and in public-construction spending. Private Non-Residential Construction spending had surged to a pre-recession nominal peak in August 2016, with the series fluttering at a high level since.

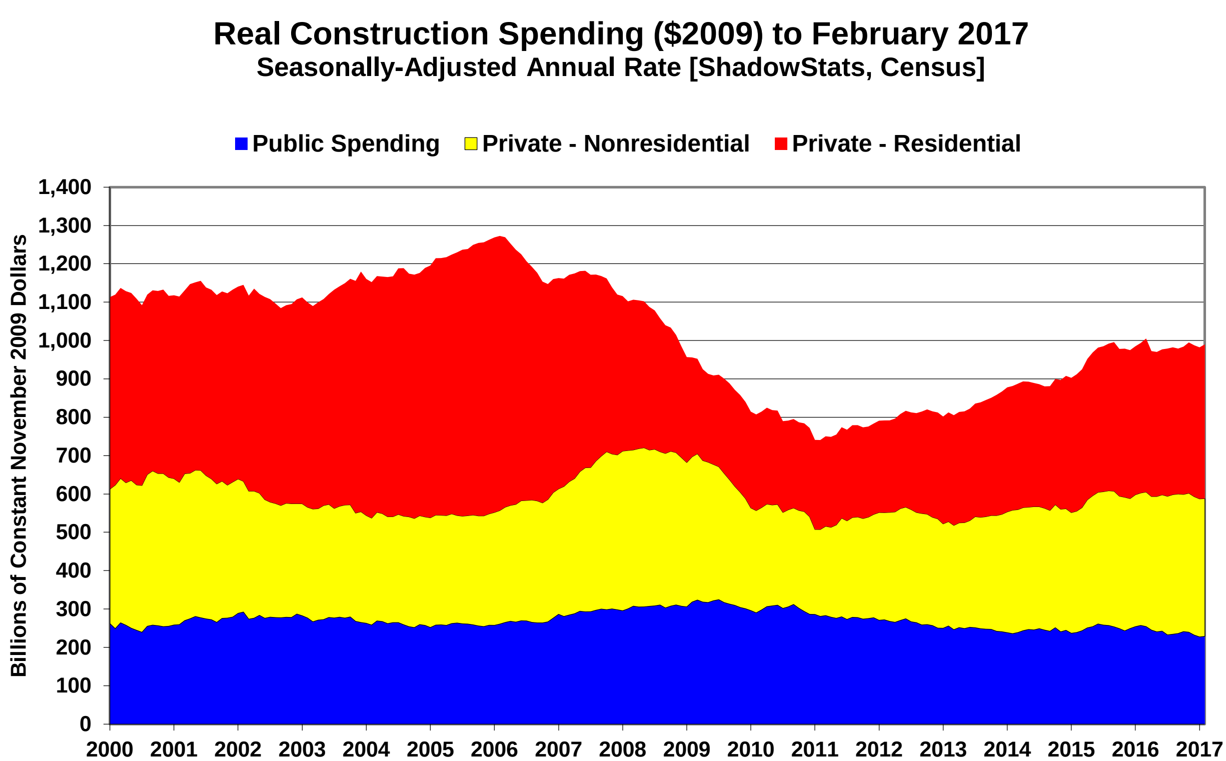
Public Construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016, the nominal series still appeared to have fluttered in something of a volatile topping-out process, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 4*, *5* and *22*, both series appear stalled shy of their pre-recession peaks.

[Graphs 21 to 26 begin on the following page]

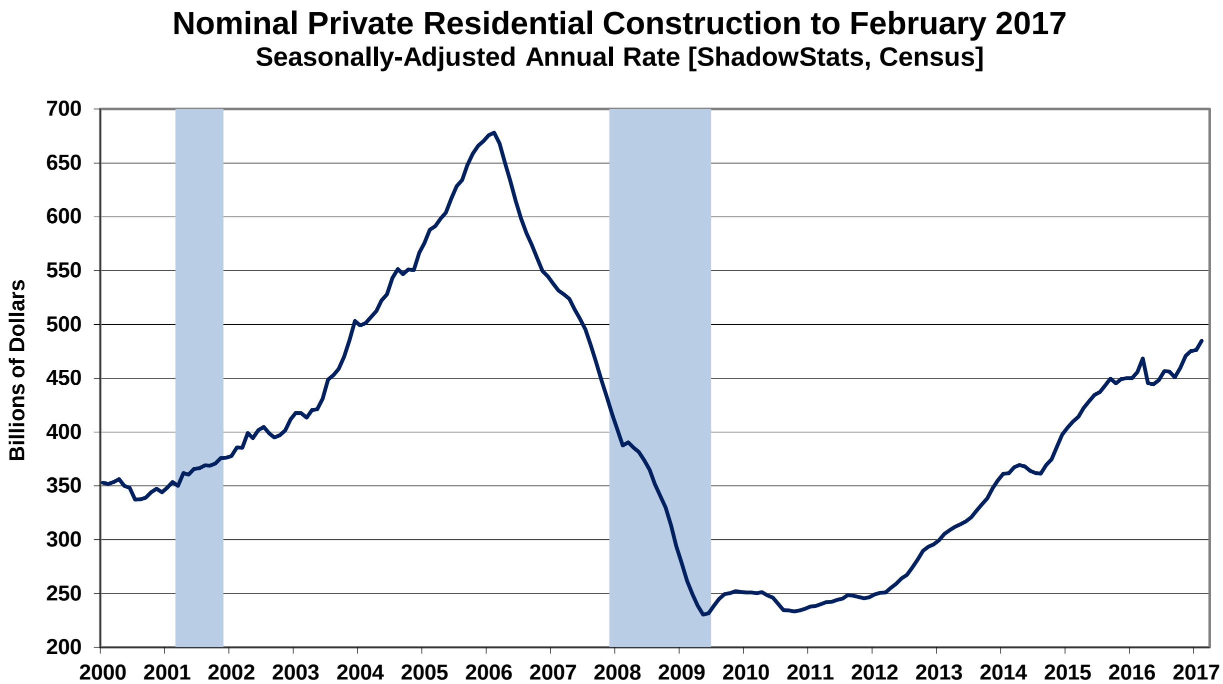
Graph 21: Aggregate Nominal Construction Spending by Major Category to Date



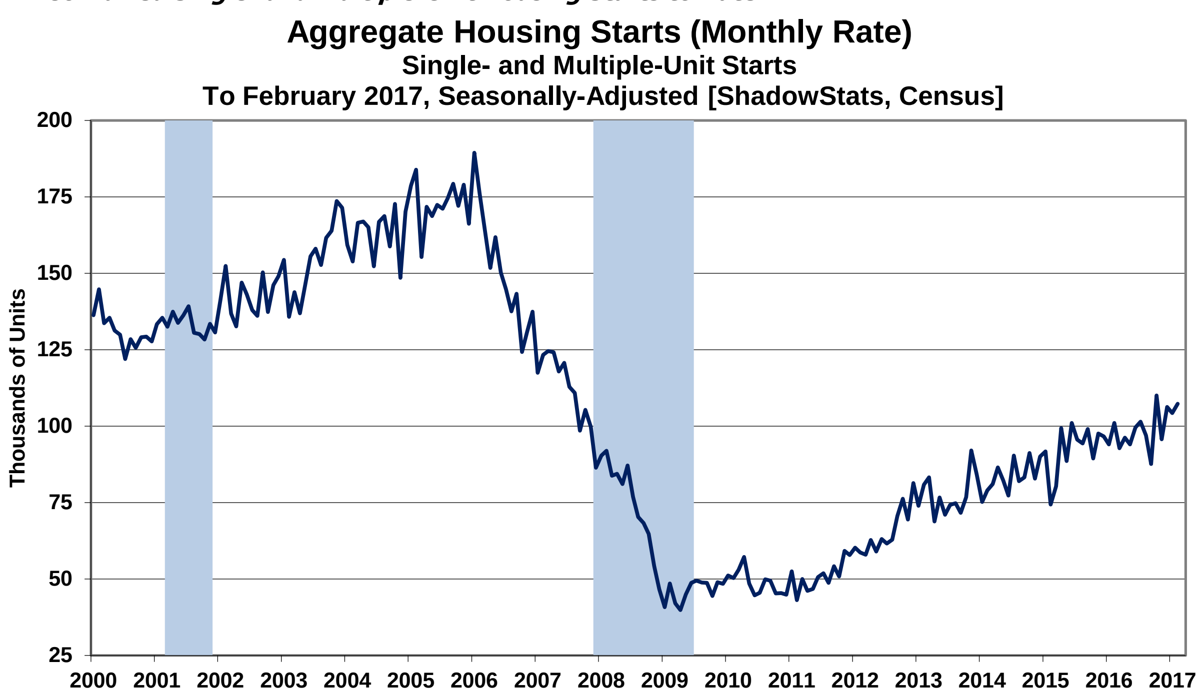
Graph 22: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



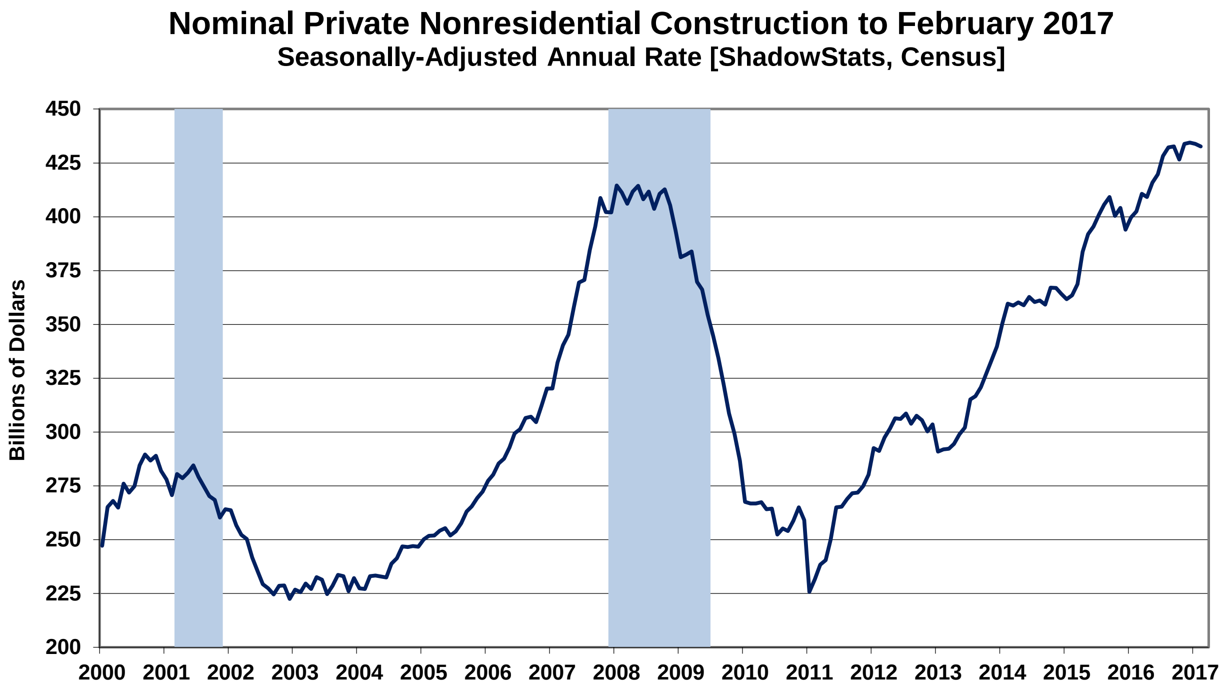
Graph 23: Nominal Private Residential Construction Spending to Date



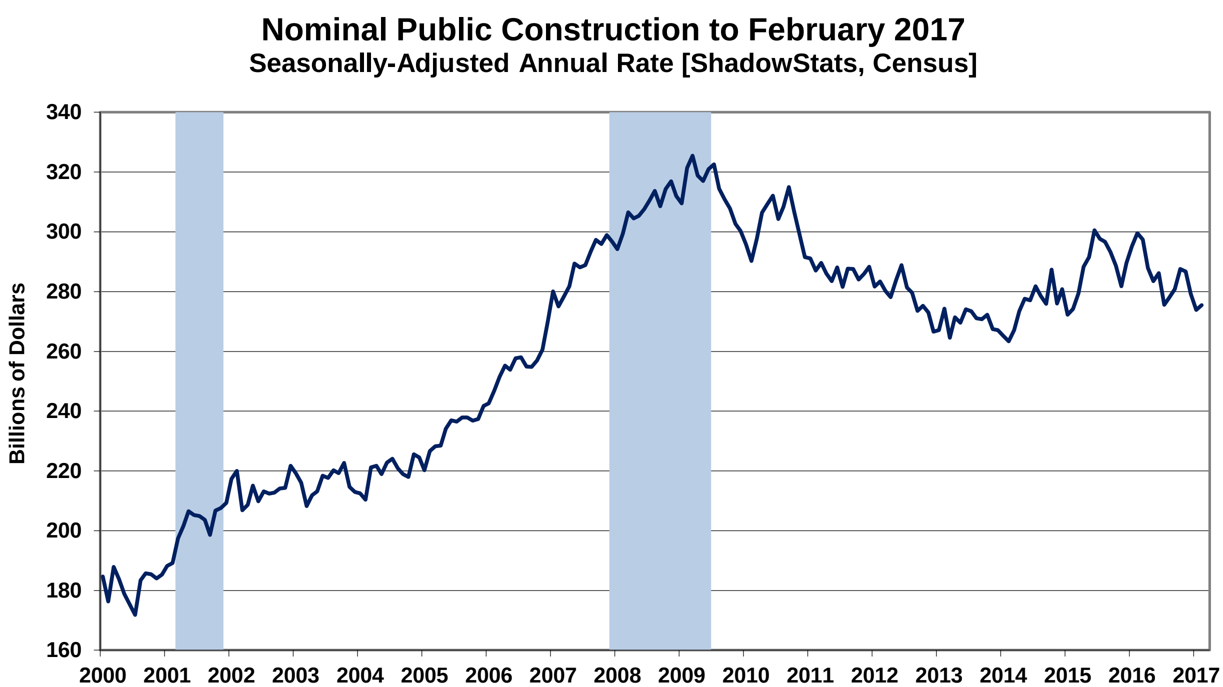
Graph 24: Combined Single- and Multiple-Unit Housing Starts to Date



Graph 25: Nominal Private Nonresidential Construction Spending to Date



Graph 26: Nominal Public Construction Spending to Date



WEEK, MONTH AND YEAR AHEAD

Continuing Economic Woes Promise a Still-Compromised, Frustrated Fed and Deteriorating U.S. Dollar Support. The outlook for future FOMC activity was reviewed in the *Opening Comments* of *Commentary No. 873*, while the latest assessment of current economic activity was in *Commentary No. 876*, with some update in *Commentary No. 877*, as well as in earlier *Commentary No. 875*, *Commentary No. 874*, with a broad outlook outlined in *No. 859 Special Commentary*.

The following discussion his little changed from the prior comments in *Commentary No. 876*. As reflected in common experience, actual U.S. economic activity generally continues in economic stagnation or downturn, never having recovered fully its level of pre-economic-collapse (its pre-2007-recession peak). While the latest headline GDP shows economic expansion of 12.2% since that series recovered its 2007-pre-recession high in 2011, no other "recovered" economic series has come close to showing that expansion either in terms of magnitude or in the purported brevity of the depression. Most of the better-quality series have remained in continuing, not-recovered status, in a period of protracted downturn that now rivals that of the Great Depression (see *Commentary No. 869*). With new signals for intensifying, near-term economic woes in hand, the FOMC shortly should shift policies, once again, reverting to some form of quantitative easing, in an effort to address related, intensifying solvency risks in the domestic banking system.

Discussed in *No. 859 Special Commentary*, the Trump Administration faces extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on prospects for long-range U.S. Treasury solvency and for stability and strength in the U.S. dollar. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, before it meaningfully impacts the broad economy. Needed at the same time are a plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control, and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (again, see *No. 859*).

Prior General Background. *No. 859 Special Commentary* also updated near-term economic and inflation conditions, and the outlook for same, including the general economic, inflation and systemic distortions evolving out of the Panic of 2008 that have continued in play, and which, again, need to be addressed by the new Administration in the immediate future (see also the *Hyperinflation Watch* of *Commentary No. 862* and *Commentary No. 869*).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a "new" formal recession (see *General Commentary No. 867*).

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has been making loud noises of continuing to raise interest rates, in order to contain an overheating economy. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *Commentary No. 869*, *No. 777 Year-End Special Commentary* (December 2015*)*, *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). Those publications updated the long-standing hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Recent Commentaries:

Commentary No. 877 outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to retail sales, durable goods orders and the GDP.

Commentary No. 876 current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 assessed and clarified formal definitions of the U.S. business cycle, which have been expanded upon significantly in today's *Opening Comments*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

Commentary No. 874 reviewed February 2017 Industrial Production and updated the economic outlook.

Commentary No. 873 discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with a review of the February 2017 Residential Construction reporting.

Commentary No. 872 offered some initial comment on the FOMC rate hike, in conjunction with the review of February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

Commentary No. 871 covered February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

Commentary No. 870 assessed the prior headline details for the January 2017 Trade Deficit and January Construction Spending, and reviewed prospects for an FOMC rate hike on March 15th.

Commentary No. 869 reviewed and assessed underlying economic reality and a broad variety of indicators in the context of the second-estimate of fourth-quarter 2016 GDP.

General Commentary No. 867 assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations. The GAAP-detail will be reviewed this month in a *Special Commentary*.

No. 859 Special Commentary reviewed and previewed economic, financial and systemic developments of the year passed and the year or so ahead.

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 inflation and to overstate economic activity—as generally viewed in the common experience of Main Street, U.S.A.—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 eleven 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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" surfaced in 2016 surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline economic reporting. That construction-spending issue now appears to have been structured as a gimmick to help boost the July 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS 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*). John Crudele of the *New York Post* continues his investigations in reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING RELEASE: *Updated* - Employment and Unemployment (March 2017). The Bureau of Labor Statistics (BLS) will publish its headline March 2017 labor data on Friday, April 7th, covered in ShadowStats *Commentary No. 879* of that date. Both the more-inclusive unemployment-rate numbers and the headline payroll-employment details are open for negative headline surprises, given the ongoing, general stagnant-to-weakening tone in a number of the better business indicators.

Underlying Reality Remains to the Downside of Expectations. In the context of recent the extreme volatility and inconsistencies in payroll and unemployment detail, almost anything remains within the realm of possible BLS reporting. Where underlying reality remains a much weaker-than-expected economy, such increases the odds of negative surprises to the headline reporting of both the payroll and household-survey detail for March. Consensus expectations are for a monthly payroll jobs gain in the range of 175,000 to 185,000 (the February headline gain was 235,000), with U.3 unemployment holding at 4.7% for a second month.

PENDING SPECIAL COMMENTARIES: ***GAAP-Based Accounting of the U.S. Government (Fiscal-Year 2016).*** With some preview in *Commentary No. 861* and *No. 859 Special Commentary*, full analysis remains a work in progress and should be published shortly.

The consolidation of the major *ShadowStats* reporting into one volume, including the recommended reading list remains targeted for late this month.

