

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

COMMENTARY NUMBER 884

March 2017 Trade Deficit, Construction Spending, Real-World Employment

May 4, 2017

**April 2017 Real-World Employment Conditions Continued in
Annual Decline at a Pace Not Seen Since the Depths of the 2009 Collapse**

**First-Quarter Real Merchandise Trade Deficit Narrowed Minimally versus
What Had Been on Track for a Minimal Widening**

**Despite a Decline in March, First-Quarter Construction Spending Surged with
Massive, Upside Monthly Revisions to January and February Activity**

**Real Construction Spending Remained 21.1% (-21.1%) Shy of Recovering its
Pre-Recession Peak, Still Holding in Low-Level Stagnation**

PLEASE NOTE: The next regular Commentary, tomorrow Friday, May 4th, will cover April 2017 Employment and Unemployment conditions, as well as the initial estimate of annual growth in the April 2017 ShadowStats Ongoing Estimate of M3. Please telephone me at (707) 763-5786, if you have questions or if you would like to talk.

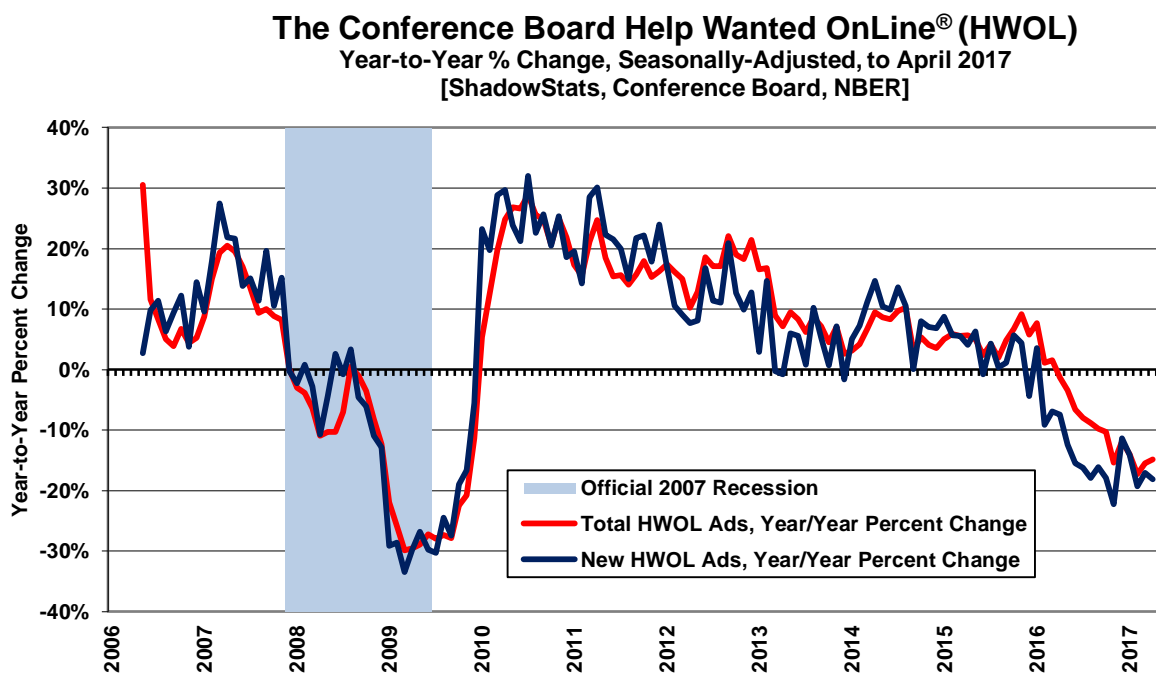
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Real-World Activity Continues to Signal an Intensifying Downturn. Beyond various private and public alternative measures to the federal government’s headline employment, unemployment and GDP reporting, discussed in [No. 859 Special Commentary](#), The Conference Board’s Help Wanted OnLine® (HWOL) simply is one of the best leading indicators—private or public—of economic activity.

First fully covered by ShadowStats in [Commentary No. 820](#) of July 16, 2016, the HWOL is updated here through April 2017 (published May 3rd). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of industrial production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Graph 1: The Conference Board Help Wanted OnLine® to April 2017



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The Conference Board Help Wanted OnLine® Advertising. Many thanks to The Conference Board for permission to publish the preceding graph of year-to-year change in its *Help Wanted OnLine®* data.

The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). Where, “Total ads are all unduplicated [online] ads appearing during the reference period. This figure

includes ads from the previous months that have been reposted as well as new ads.” While, “New ads are all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as ‘New’ only in the month it first appears.” Related background details and reporting are found here: [The Conference Board Help Wanted OnLine®](#).

The tracked seasonally-adjusted monthly measures have declined year-to-year in each of the last thirteen months for the total ads, and in each of the last fifteen months (sixteen of the last seventeen months) for the new ads, including April 2017. Annual change generally has continued to sink, as seen in *Graph 1*, with annual growth beginning to slow in 2010 and turning negative year-to-year in late-2015 and early-2016. With April 2017 “Total Ads” and “New Ads” counts down year-to-year by 14.8% (-14.8%) and 18.1% (-18.1%), respectively, the annual contractions have hit depths last seen going into the trough of the business collapse into 2009. Month-to-month changes have been irregular, down in 11 of the last 16 months for the “Total” and down 9 out of the last 16 months for the “New.” Both series showed month-to-month declines in April 2017.

While much of this text is repetitive of prior discussions in [Commentary No. 879](#), [No. 852](#) and [No. 820](#), detail is updated for the latest information. These comments and analysis remain mine alone, not those of The Conference Board.

Historical Background. Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board’s Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

The National Bureau of Economic Research (NBER) has published detail with the St. Louis Federal Reserve on help-wanted advertising indices constructed back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized as a formal recession, when the annual change in the index contracted by 15% (-15%) or more.

Since formal tracking switched to help-wanted advertising on the Internet, around 2005, as seen with The Conference Board Help Wanted OnLine®, that series has been through only one, formally confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Even with a limited initial history, the new series did track that headline downturn into 2009 (in tandem with the last newspaper surveys, which continued for a while), and it has tracked to the downside in the current environment of what appears to be a “new,” still-unfolding recession (again, see [No. 859 Special Commentary](#)).

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be of high value. As for the BLS employment and unemployment series, which will be updated for April 2017 in tomorrow’s (May 5th) reporting, they should begin to catch up with the Conference Board’s high-quality, independent leading indicator, despite the heavy upside reporting biases deliberately structured into the BLS series, and expanded anew in the 2017

payroll-survey benchmarking. See the discussion in [Commentary No. 864](#) and the *Birth-Death/Bias-Factor Adjustment (BDM)* section in [Commentary No. 879](#).

The annual benchmark revision (March 31st) to the Industrial Production (see [Commentary No. 877](#)) confirmed that activity recent headline economic reporting broadly had been overstated. This is a common issue with most government-based reporting, where overly-optimistic assumptions underlie the current headline detail. Noted in *No. 877*, “... explained by an official of one of the [U.S. government’s] statistical bureaus, it was a political embarrassment to understate actual economic conditions, but there was no political problem with overstating them.”

The annual benchmark revision (April 26th) to the Retail Sales series (see [Commentary No. 882](#)), showed an upside revision to sales in 2015, but with annual growth slowing markedly in the current period, at traditional recession-signal levels.

Negative benchmark revisions regularly lie ahead for most of the headline economic reporting out of the government, specifically including New Orders for Durable Goods (May 18th, based on the same survey as used for production), the Trade Deficit (June 2nd), the GDP (July 28th) and the employment detail (initial estimate in September 2017, full detail in February 2018).

Softening Economic Growth Continues Otherwise. In the context of the weaker-than-consensus first-quarter 2017 GDP growth discussed in prior [Commentary No. 878](#)), subsequent headline first-quarter detail on real Construction Spending (May 1st) and the real Merchandise Trade Deficit (today, May 4th) broadly were in line with the initial GDP estimate, despite indications to the contrary as of prior reporting.

The shift from a minimal quarterly deterioration to a minimal improvement in the real trade deficit was not meaningful, and likely it will deteriorate anew in revisions of the next two months of headline detail. The shift from negative to positive in real construction spending, however, reflected massive upside revisions to the January and February numbers, but that already appears to have been reflected in the headline first-quarter GDP estimate.

Subsidiary reporting of the next two weeks, ranging from employment to retail sales, industrial production and housing starts, should be heavily suggestive of contracting real economic activity, as well as downside revisions to first-quarter GDP. Such will be reviewed, as the new details are published, along with a revised, broad economic review planned for *Commentary No. 887* of May 17th.

Today’s Commentary (March 4th). These *Opening Comments* and *Executive Summary* respectively review broad economic activity and provide summary detail on initial estimates of the March 2017 Trade Deficit and Construction Spending..

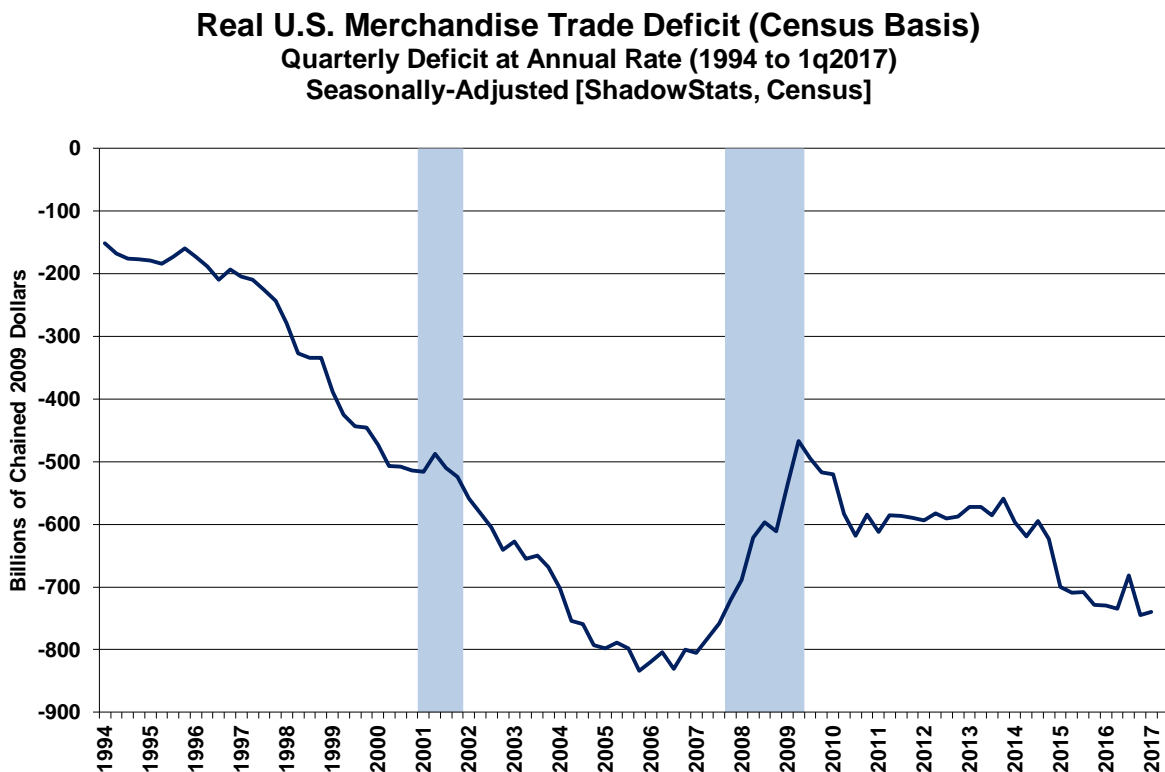
The ***Reporting Detail*** (beginning page 10) provides more-extensive analysis and graphics on the related headline detail.

The ***Week, Month and Year Ahead*** (beginning page 21) updates the outlook for tomorrow’s reporting of the April 2017 employment and unemployment numbers.

Executive Summary: U.S. Trade Deficit—March 2017—First-Quarter Real Merchandise Trade Deficit Narrowed Minimally versus What Had Been on Track for a Minimal Widening. *Graph 2* reflects a small narrowing in the annualized, first-quarter 2017 real (inflation-adjusted) merchandise trade deficit, in the context of revised reporting back to October 2016, and in conjunction with the initial estimate for March 2017. The minimal narrowing in the quarterly deficit was reasonably consistent with the just-published, first-quarter 2017 GDP.

The small deterioration previously suggested for the first-quarter 2017 real merchandise trade deficit, had been on track for the worst showing since third-quarter 2007. While the current reporting still was worse than in third-quarter 2007, it was minimally improved versus fourth-quarter 2016.

Graph 2: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit through 1q2017



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

The headline March 2017 deficit of \$43.706 billion narrowed negligibly by \$0.054 billion, versus a revised deficit of \$43.760 billion in February 2017. The improvement in the monthly deficit reflected a decline of \$1.669 billion in monthly exports, more than offset by a \$1.722 easing in imports (a rounding difference). The headline March 2017 deficit, however widened sharply by \$6.447 billion, versus the unrevised, year-ago \$37.259 billion trade shortfall for March 2016.

Real (Inflation-Adjusted) Trade Deficit. Seasonally-adjusted and in real terms, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the March 2017 merchandise trade deficit (no services) widened minimally to \$59.991 billion, versus a revised \$59.944 in February, with small monthly revisions back through October 2016. The March 2017 real shortfall in trade activity widened versus an unrevised \$56.409 billion deficit in March 2016.

Reflected in *Graph 2*, 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 a revised \$745.4 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 a revised \$722.9 billion, versus \$711.5 billion in 2015. The 2016 annual trade shortfall was the worst since 2008.

Based on initial, full first-quarter 2017 reporting, the quarterly real deficit narrowed minimally to an annual rate of \$739.8 billion, versus \$745.4 billion in fourth-quarter 2016. That quarterly deficit still was worse than the shortfall in third-quarter 2007, with the fourth-quarter 2016 shortfall still the worst.

Irrespective of occasional, quarterly aberrations and increasingly irregular, headline month-to-month activity, headline deficits broadly should continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP. See the *Reporting Detail* section for expanded analysis.

Construction Spending—March 2017—Despite Massive Upside Revisions Leading into a Small March “Decline,” Real Activity Held Shy of Recovering Its Pre-Recession Peak by 21.1% (-21.1%). The Construction Spending series remains highly volatile and subject to unstable and extraordinarily-large monthly revisions. Headline nominal spending in March 2017 declined by 0.2% (-0.2%) for the month, but that was on top of large upside revisions to January and February that moved initial February 2017 nominal annual growth from 3.0% to 5.4%, shifting the prospects of quarterly and annual contractions in real first-quarter activity, to quarterly and annual gains.

Broadly flat for the last year or so, inflation-adjusted real construction spending generally has held in low-level, stagnating non-recovery. Again, March 2017 activity remained shy of recovering its June 2006 pre-recession peak by 21.1% (-21.1%). Shown in *Graph 9*, despite the sharp upside revisions to headline February and January numbers, annual real change in the headline March detail moved minimally into negative territory, a circumstance last seen in 2016 and otherwise not seen since the economic collapse into 2009.

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*. Accompanying *Graphs 3* to *6* plot the levels of the aggregate Construction Spending series and major its major subcomponents, in both nominal (before inflation adjustment) and real (after inflation adjustment) terms.

Headline Reporting. In the context of sharp upside revisions to the levels of February 2017 and January 2017 spending, the total value of construction put in place in the United States for March 2017 was \$1,218.3 billion on a seasonally-adjusted but not-inflation-adjusted, annual-rate basis. That estimate was

down month-to-month by a statistically-insignificant 0.2% (-0.2%), versus an upwardly-revised \$1,220.7 billion in February 2017. Net of the highly-unstable, prior-period revisions, March activity would have gained a statistically-significant 2.1% month-to-month.

In turn February 2017 showed a revised monthly gain of 1.8%, versus an upwardly-revised \$1,198.8 billion in January 2017, which showed a revised month gain of 0.8% versus an unrevised \$1,188.9 billion in December 2016.

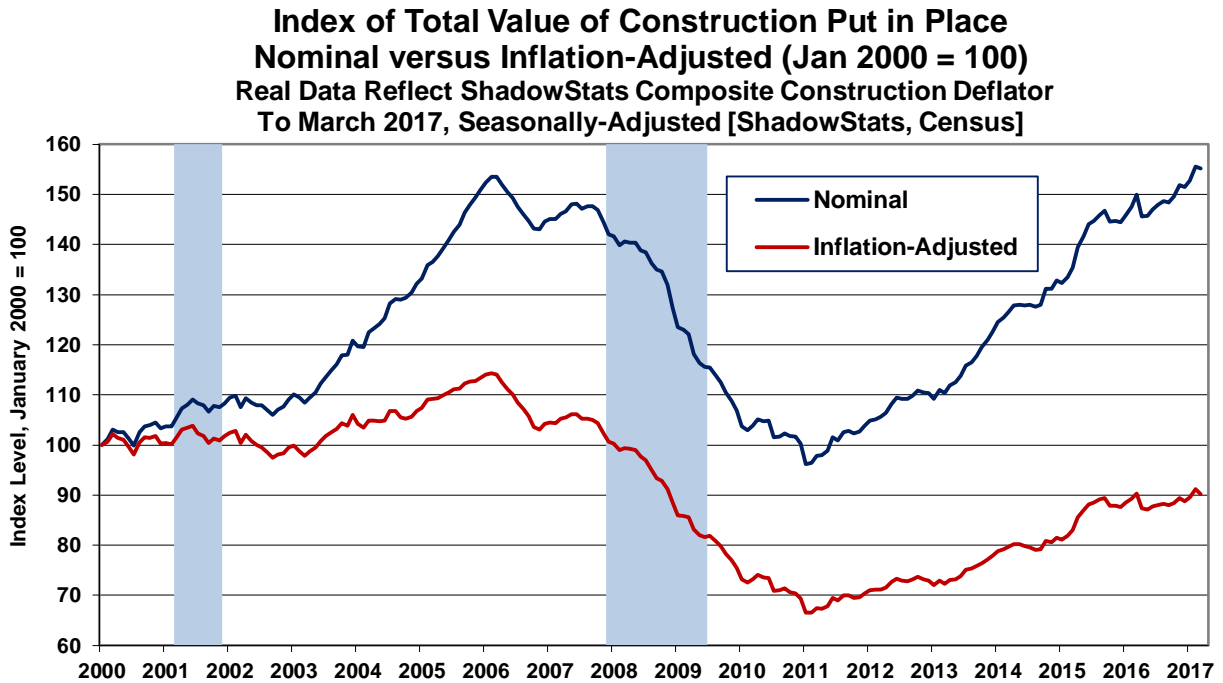
Adjusted for CCD inflation, total real spending in March 2017 declined by 1.2% (-1.2%) month-to-month, versus a revised February gain of 2.0% and a revised monthly gain of 0.8% in January 2017.

On a year-to-year annual-growth basis, March 2017 nominal Construction Spending rose by a statistically-significant 3.6%, following revised annual gains of 5.4% in February 2017 and 4.7% in January 2017. Net of construction costs indicated by the CCD, the annual growth in total real construction declined by 0.1% (-0.1%) in March 2017 against upwardly revised annual gains of 2.2% in February 2017 and 1.1% in January 2017.

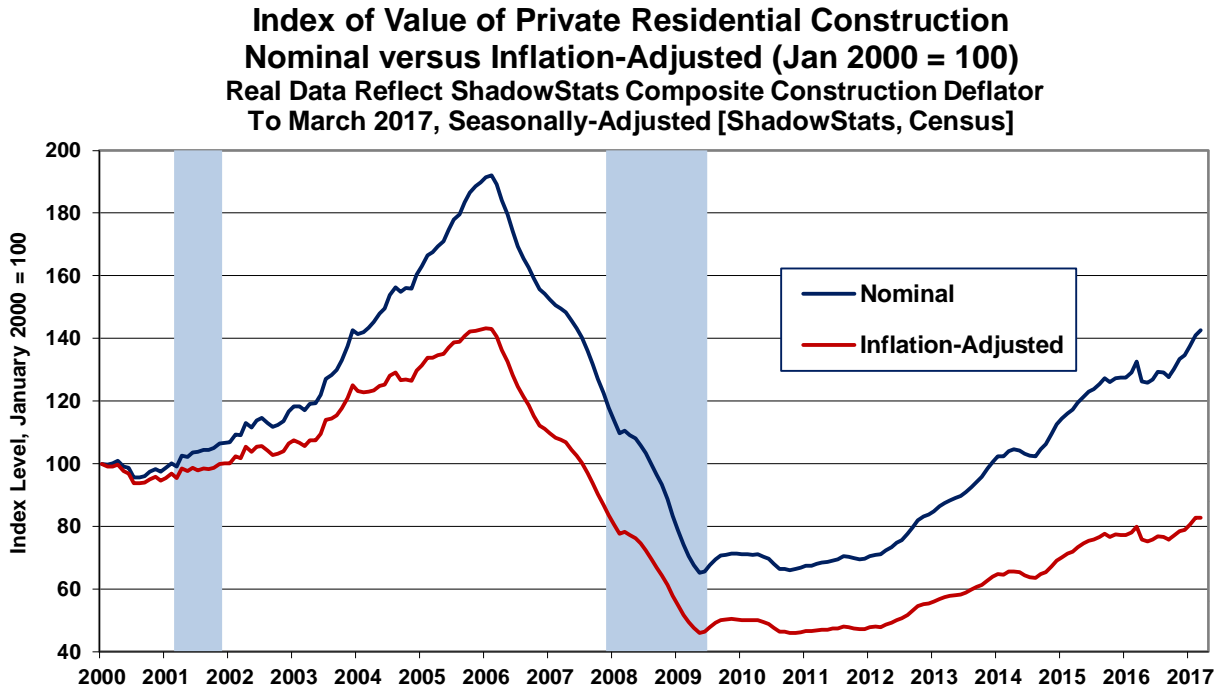
See the *Reporting Detail* for the full analysis, including expanded graphs.

[Graphs 3 to 6 begin on the next page.]

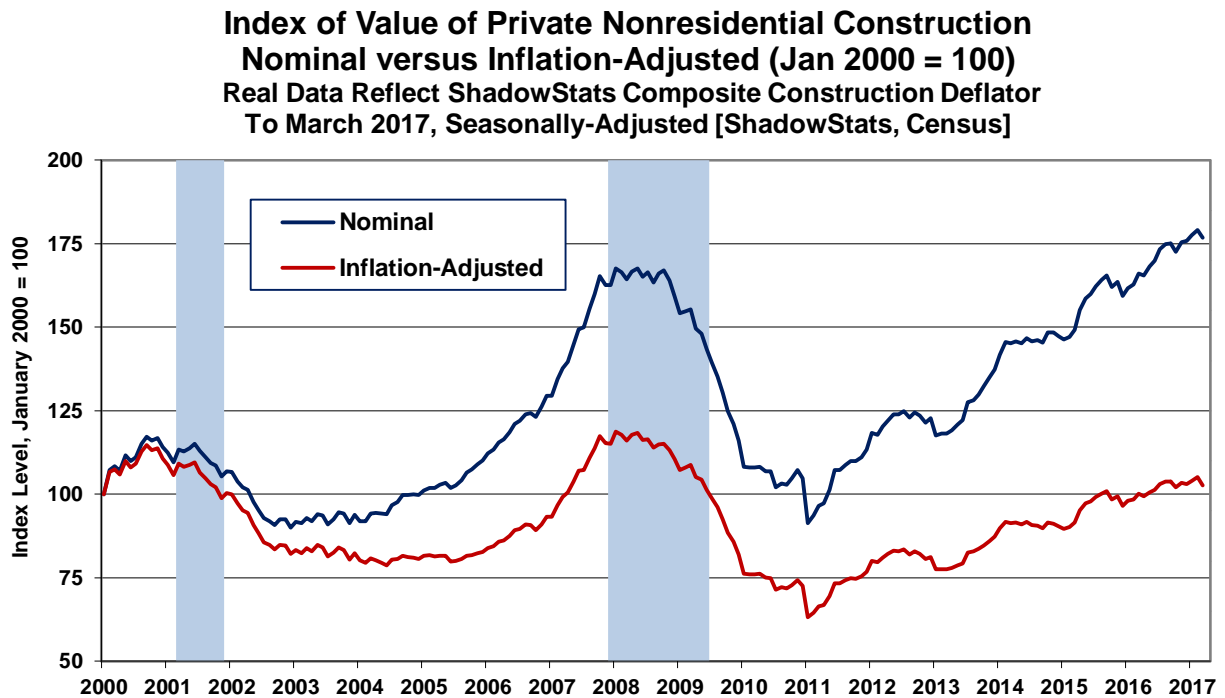
Graph 3: Index, Nominal versus Real Value of Total Construction



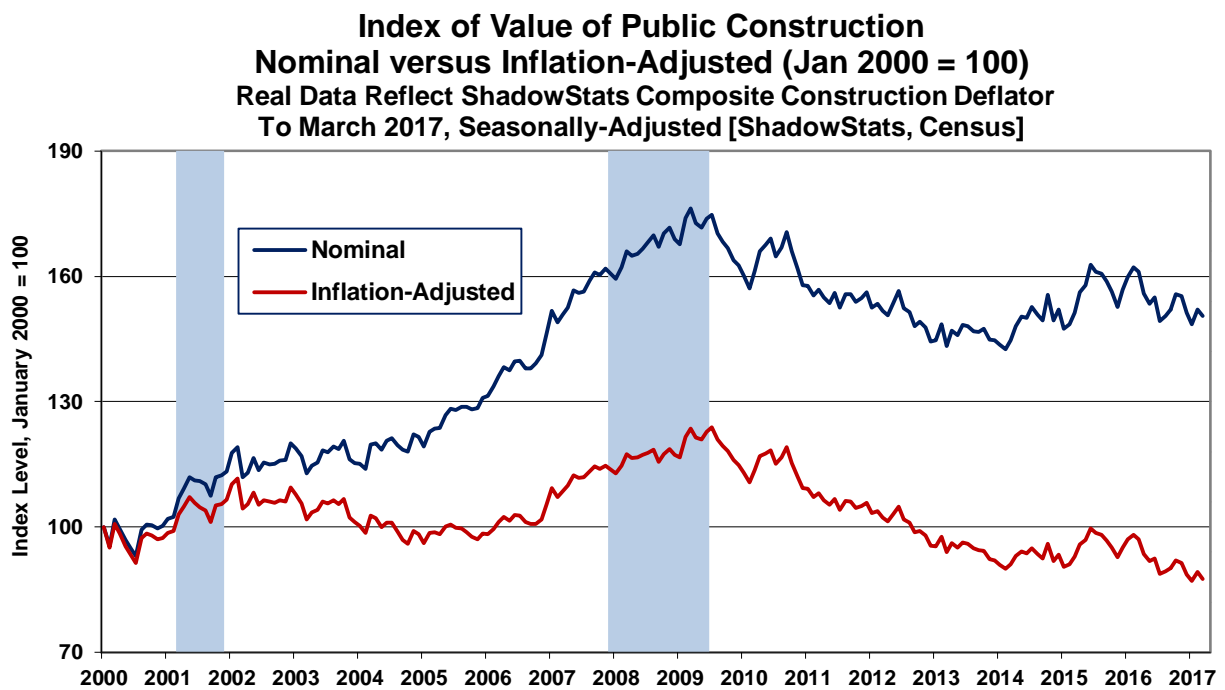
Graph 4: Index, Nominal versus Real Value of Private Residential Construction



Graph 5: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 6: Index, Nominal versus Real Value of Public Construction



[The Reporting Detail contains extended analysis and graphs.]

REPORTING DETAIL

TRADE DEFICIT (March 2017)

First-Quarter 2017 Real Merchandise Trade Deficit Narrowed Minimally versus What Had Been on Track for a Minimal Widening. *Graph 2* in the *Executive Summary* reflects a small narrowing in the annualized, first-quarter 2017 real (inflation-adjusted) Merchandise Trade Deficit, in the context of revised reporting to fourth-quarter 2016 as well as to January and February 2017 monthly detail, in conjunction with the initial, headline estimate for March 2017. The minimal narrowing in the quarterly deficit was reasonably consistent with the just-published, first-quarter 2017 GDP (see prior [Commentary No. 883](#)).

The small deterioration previously suggested for the first-quarter 2017 real Merchandise Trade Deficit, based on initial January and February 2017 detail, was on track for the worst showing since third-quarter 2007. While the current reporting still was worse than in third-quarter 2007, it was minimally improved versus fourth-quarter 2016 (see discussion in [Commentary No. 878](#)).

The current details are not stable, however, with benchmark revisions to the trade-balance pending for June 2nd (see below). The revised history likely will show a net deterioration in recent trade-balance details, with negative implications for revisions both to first-quarter 2017 GDP, on either May 26th or June 29th, and for the GDP benchmark revisions on July 28th.

Nominal March 2017 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, May 4th, that the nominal (not adjusted for inflation), seasonally-adjusted monthly trade deficit in goods and services for March 2017 narrowed minimally on a balance-of-payments basis. Such was in the context of a small revision for a widened deficit in February 2017 activity.

The headline March 2017 deficit of \$43.706 billion narrowed negligibly by \$0.054 billion, versus a revised deficit of \$43.760 [previously \$43.557] billion in February 2017. The improvement in the monthly deficit reflected a decline of \$1.669 billion in monthly exports, more than offset by a \$1.722 easing in imports (a rounding difference). The headline March 2017 deficit, however widened sharply by \$6.447 billion, versus the unrevised, year-ago \$37.259 billion trade shortfall for March 2016.

The dominant factors in the net monthly changes to the March trade balance were falling imports of aircraft and computers versus increased autos. Export detail showed a decline in petroleum-related products versus increased aircraft and telecommunications equipment. Even so, activity in energy-related products had minimal net impact on the change in the March trade-balance.

Energy-Related Petroleum Products. From an import standpoint, March 2017 oil prices increased by 32.2% from February 2017, up by 67.1% versus March 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, by 6.0% in January 2017 and 3.0% in February.

The not-seasonally-adjusted average price of imported oil rose by 2.2% to \$46.26 per barrel in March 2017 from \$45.25 in February 2017, up by 67.1% from \$27.68 per barrel in March 2016.

Separately, not-seasonally-adjusted physical oil-import volume in March 2017 averaged 8.383 million barrels per day, down from 8.402 million in February 2017, but up from 7.819 million in March 2016.

Pending Benchmark Revisions. The next headline reporting on June 2nd will be in the context of, and coincident with, the 2017 benchmark revisions to the trade deficit series, back to 2002 (see the detail in today's [Press Release](#)).

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 related, ongoing 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.

Real March 2017 Trade Deficit. Seasonally-adjusted and in real terms, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the March 2017 merchandise trade deficit (no services) widened minimally to \$59.991 billion, versus a revised \$59.944 [previously \$59.710 billion] in February, a revised \$65.024 [previously \$65.102] billion in January, a revised \$62.060 [previously \$62.025] billion in December 2016, a revised \$63.799 [previously \$63.869] billion in November, and a revised \$60.481 [previously \$60.624] billion in October. The March 2017 real trade shortfall widened more-sharply versus an unrevised \$56.409 billion deficit in March 2016.

Reflected in *Graph 2* (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.

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 a revised \$745.4 [previously \$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 a revised \$722.9 [previously \$723.1] billion, versus \$711.5 billion in 2015. The 2016 annual trade shortfall was the worst since 2008.

Based on initial, full first-quarter 2017 reporting, the quarterly deficit narrowed minimally to an annual rate of \$739.8 billion, versus \$745.4 billion in fourth-quarter 2016. That quarterly deficit still was worse than the shortfall in third-quarter 2007. Previously, based just on the January and February 2017 detail, the early trend in the first-quarter 2017 detail was for a small, net widening in the quarterly deficit to \$748.9, which would have been the worst quarterly showing since third-quarter 2007.

Irrespective of occasional, quarterly aberrations and increasingly irregular, headline month-to-month activity, headline deficits broadly should continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP.

CONSTRUCTION SPENDING (March 2017)

In the Context of Unusually-Massive, Upside Monthly Revisions and a Minimal March Decline, Real Spending Remained 21.1% (-21.1%) Shy of Recovering Its Pre-Recession Peak. The construction spending series remains highly volatile and subject to unstable and extraordinarily-large monthly revisions. Nominal March 2017 activity declined by 0.2% (-0.2%) month-to-month, on top of large upside revisions to January and February, which moved initial February 2017 from year-to-year nominal growth from 3.0% to 5.4%, shifting the prospects of a quarterly and annual contractions in first-quarter real activity, to quarterly and annual real gains.

Real construction spending has been broadly flat for the last year or so, holding in low-level, stagnating non-recovery. March 2017 activity remained shy of recovering its June 2006 pre-recession peak by 21.1% (-21.1%). As shown in accompanying *Graph 9*, annual real change in the headline March detail was in negative territory, a circumstance last seen in 2016 and otherwise not since the economic collapse into 2009. With heavy upside revisions to January and February, however real quarterly activity was positive on both a quarterly and annual basis, where prior January and February detail had suggested first-quarter 2017 quarterly and annual contractions.

Ongoing Consumer Liquidity Issues Constrain Residential Construction Spending. Updated in prior [Commentary No. 883](#) 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, in order to make up for the income shortfall, the U.S. consumer remains unable to support regularly-positive growth in broad economic activity.

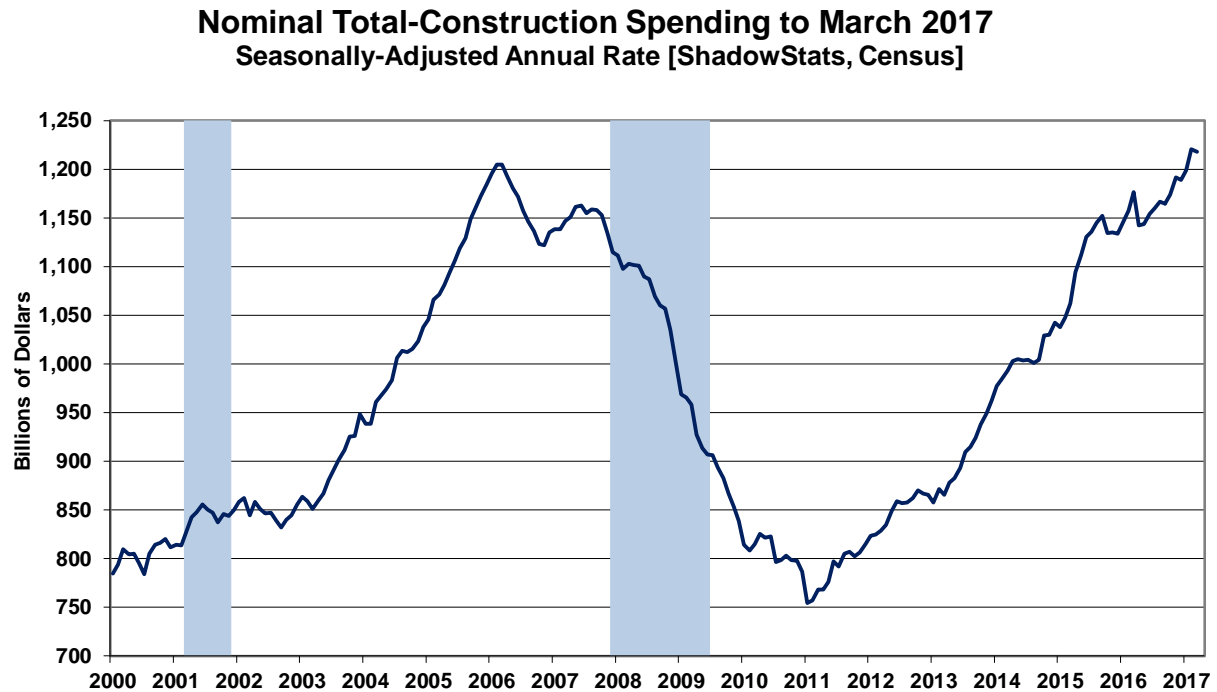
Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in the dominant residential-construction category of construction spending—irrespective of stronger, recent upside revisions to the series—without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

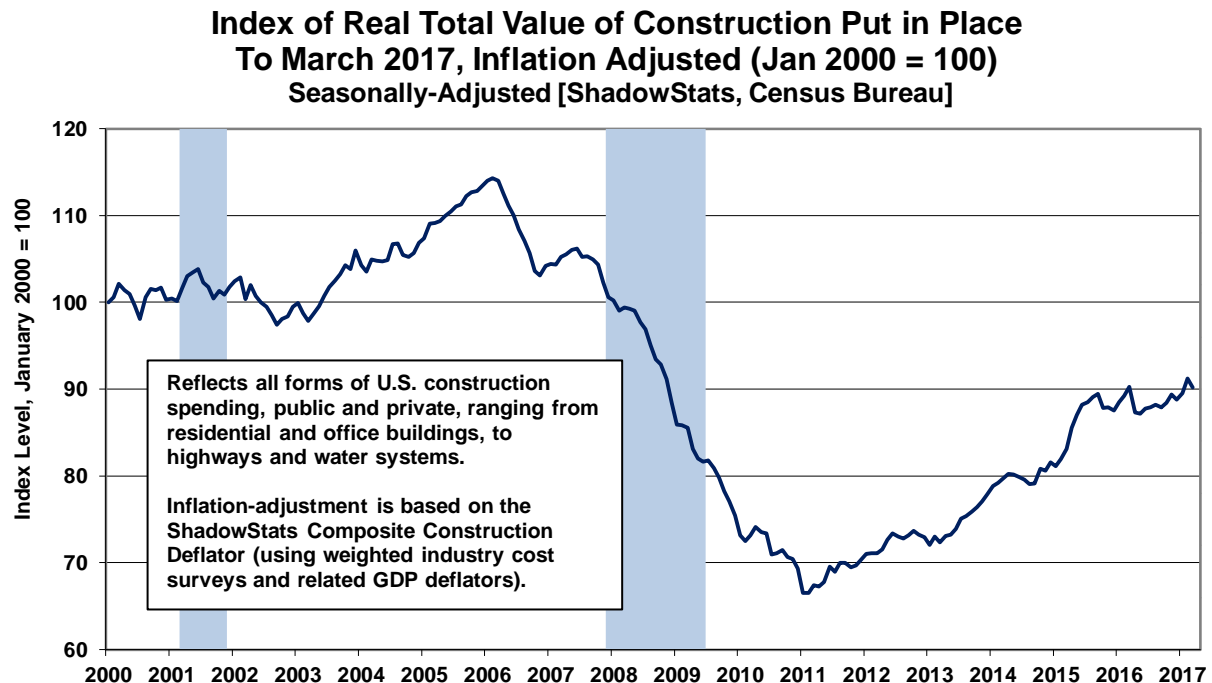
Accordingly, ShadowStats constructed the CCD specifically for deflating construction spending. The CCD is a composite of pricing series, weighted by broad industry segment as compiled in the headline construction spending, with consistent historical tabulation back to before 2000. The combined indices reflect price deflators out of National Income (GDP) reporting, with quarterly numbers there interpolated into a 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 3 to 6* in the *Executive Summary*, and in the accompanying *Graphs 8 and 12* in this section, the inflation-adjusted numbers are deflated by the CCD.

Graph 7: Total Nominal Construction Spending

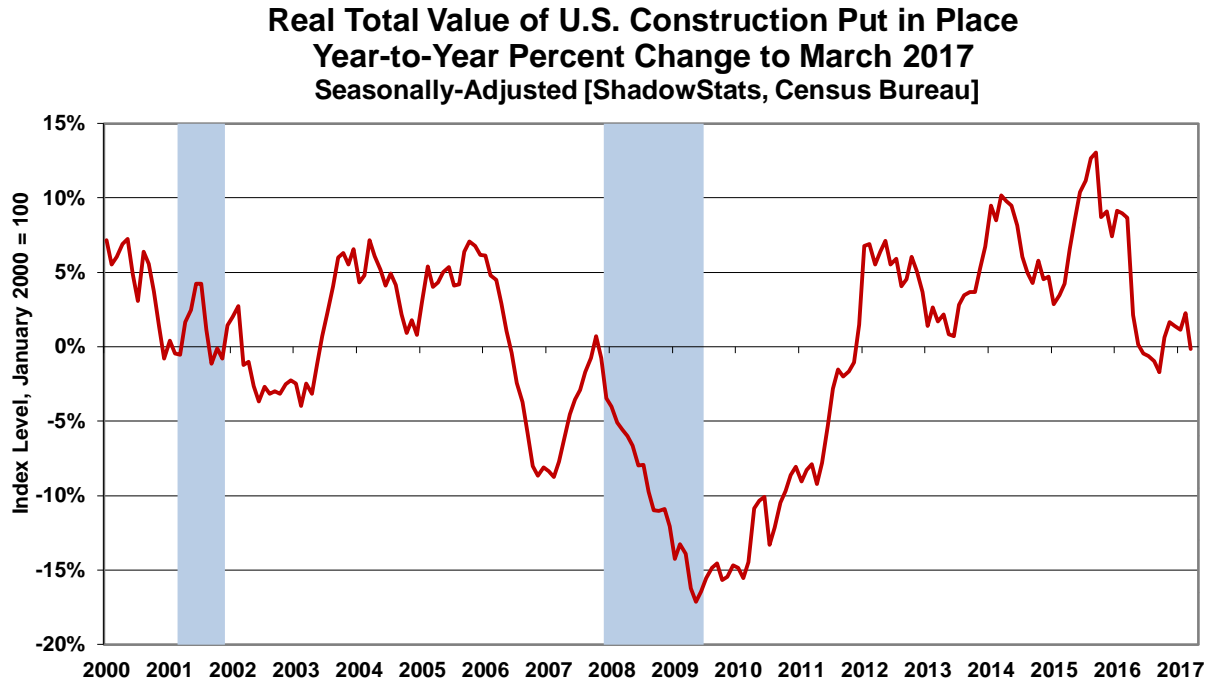


Graph 8: Index of Total Real Construction Spending



Seasonally-adjusted March 2017 CCD month-to-month inflation rose by 1.0%, having declined in February by a revised 0.13% (-0.13%) [previously down by 0.4% (-0.4%)], and a revised monthly gain of 0.04% [previously 0.13%] in January. In terms of year-to-year inflation, the March 2017 CCD gained 4.71%, following a revised 3.14% [previously 3.40%] in February 2017 and a revised 3.53% [previously 3.70%] in January 2017

Graph 9: 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 13 and 14*.

Headline Reporting for March 2017. In the context of sharp upside revisions to the levels of February 2017 and January 2017 spending, the Census Bureau reported May 1st that the headline, total value of construction put in place in the United States for March 2017 was \$1,218.3 billion on a seasonally-adjusted but not-inflation-adjusted, annual-rate basis.

That estimate was down month-to-month by a statistically-insignificant 0.2% (-0.2%) +/- 1.2% (all confidence intervals are at the 95% level), versus an upwardly-revised \$1,220.7 [previously \$1,192.8] billion in February 2017. Net of the highly-unstable, prior-period revisions, March activity would have gained a statistically-significant 2.1% month-to-month.

In turn, February 2017 showed a revised monthly gain of 1.8% [previously a gain of 0.8%], versus an upwardly-revised \$1,198.8 [previously \$1,183.8, initially \$1,180.3] billion in January 2017. In turn,

January showed a revised gain of 0.8% [previously a decline of 0.4% (-0.4%)] versus an unrevised \$1,188.9 billion in December 2016.

Adjusted for CCD inflation, total real spending in March 2017 declined by 1.2% (-1.2%) month-to-month, versus a revised February gain of 2.0% and a revised monthly gain of 0.8% in January 2017.

On a year-to-year annual-growth basis, March 2017 nominal construction spending rose by a statistically-significant 3.6% +/- 1.5%, following revised annual gains of 5.4% [previously 3.0%] in February 2017 and 4.7% [previously 3.4%] in January 2017. Net of construction costs indicated by the CCD, the annual growth in total real construction declined by 0.1% (-0.1%) in March 2017 against upwardly revised annual gains of 2.2% in February 2017 and 1.1% in January 2017.

The statistically-insignificant, nominal monthly contraction of 0.2% (-0.2%) in aggregate March 2017 spending, versus the revised 1.8% gain in aggregate February 2017, included a headline monthly contraction of 0.9% (-0.9%) in March public spending, versus an upwardly revised gain of 2.3% in February. Private construction spending was “unchanged” at 0.0% for the month in March 2017, versus an upwardly revised gain of 1.7% in February. Within total private construction spending, residential-construction sector activity increased by 1.2% in March, having jumped by an upwardly-revised 2.5% in February, while the nonresidential sector showing a monthly decline of 1.3% (-1.3%) in March having gained a revised 0.8% in February, which previously had been in contraction.

Quarterly Real Trends. Based on initial full reporting for first-quarter 2017, this highly unstable series showed an annualized quarterly gain of 6.68% [previously on an early track for a quarterly contraction of 1.1% (-1.1%)], following a revised 3.8% [previously 3.4%, 4.7% and initially a 2.5%] gain in fourth-quarter 2016. First-quarter 2017 real construction spending showed an initial year-to-year gain of 1.1% [previously on track for an annual contraction of 1.1% (-1.1%)], having gained a revised 1.2% [previously 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 3 to 6 in the Executive Summary 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 from mid-2015 through 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.

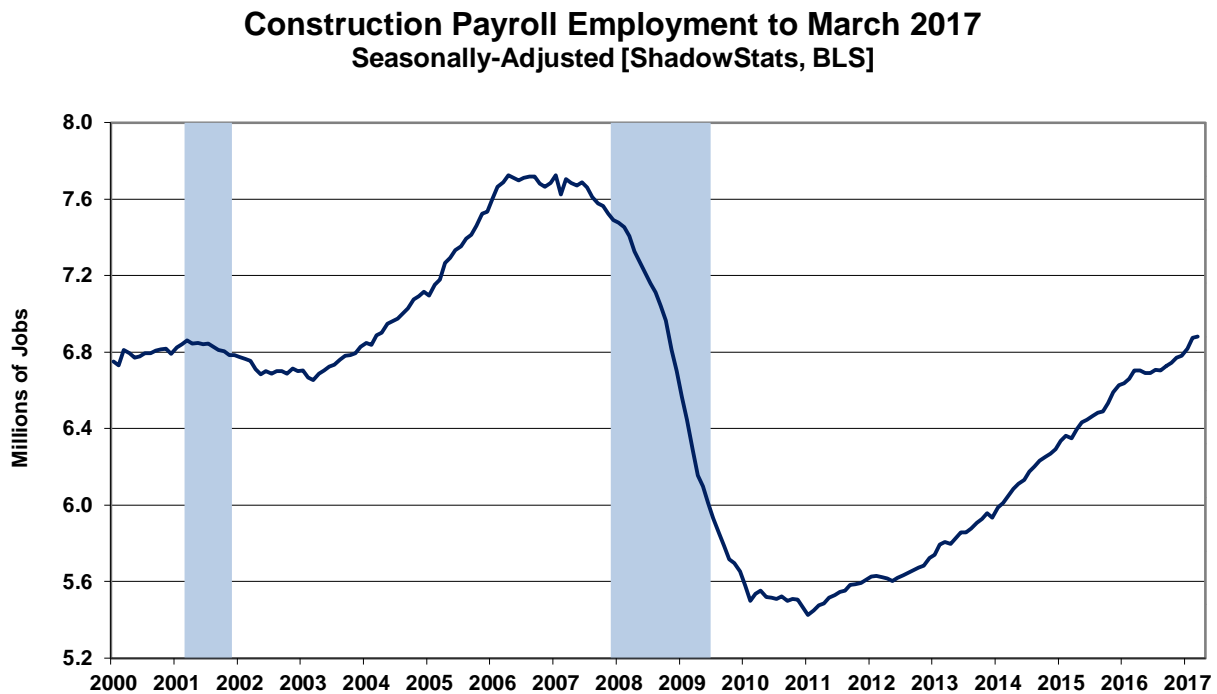
The general pattern of real activity had been one of low-level, up-trending stagnation that now has turned generally flat for a number of quarters. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 7* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 8*. while *Graphs 11* and *12* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs. Earlier *Graphs 7* and *8*, and later *Graphs 11* and *12* reflect total construction spending through March 2017, both in the headline nominal dollar terms, and in real terms,

after inflation adjustment. *Graph 8* is on an index basis, with January 2000 = 100.0, where *Graph 9* 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 fluttered into late in 2016 to date, with recent annual growth faltering as indicated in *Graph 9*.

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 prior [Commentary No. 883](#) 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 10: Construction Payroll Employment to Date



Construction-Payrolls Rose Minimally in March, Revised Lower in February, Activity Still Was Down 10.9% (-10.9%) from Its Pre-Recession Peak. Discussed in [Commentary No. 879](#), in the context of a downside revision to the prior month's reporting, March 2017 construction payroll employment rose by 6,000 to 6.882 million jobs. *Graph 10* shows the March detail as updated in *No. 879*. February employment previously had been estimated at 6.881 million. The March 2017 gain was on top of an upwardly revised gain of 59,000 in February, and a downwardly revised gain of 34,000 jobs in January. Net of prior-period revisions, the headline March monthly gain would have been 1,000.

In theory, construction payroll levels should move closely with the inflation-adjusted aggregate construction spending series and the Housing Starts series (the latter measured in units rather than dollars). The recent general pattern in construction has become one of uptrending activity that still

remains shy of recovering its pre-recession high, still broadly consistent with continuing weakness seen in real construction spending and other construction measures, again, albeit uptrending at the moment. While the headline March level of construction jobs was the highest seen since October 2008, it still remained down from its April 2006 pre-recession series peak by 10.9% (-10.9%).

Where construction payrolls generally had flattened out, albeit somewhat more up-trending post-payroll-benchmarking, such generally has been broadly consistent with patterns of stagnating non-recovery seen in 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 through April 2017 in tomorrow's *Commentary No. 885* of May 5th.

Graphs of Construction Activity. *Graph 11* shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 12* shows the same breakout as in *Graph 11*, 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.

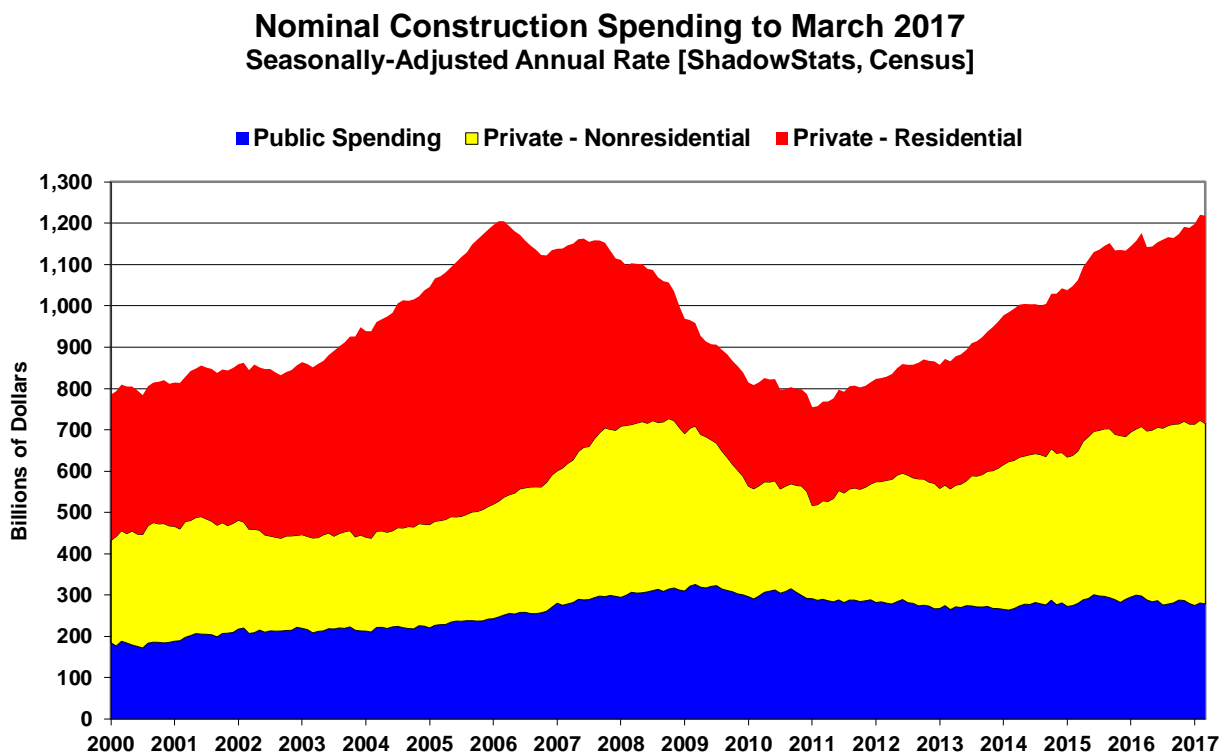
Graphs 13 and *14* cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for March 2017 (see [Commentary No. 881](#)). Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 4* of the *Opening Comments* section, *Graph 12* and presumably with the headline construction-payroll data in *Graph 10*.

The final two graphs (*Graphs 15* and *16*) 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 surged beyond its pre-recession nominal peak in 2016, hitting a new high on February 2017, and backing off same in March 2017.

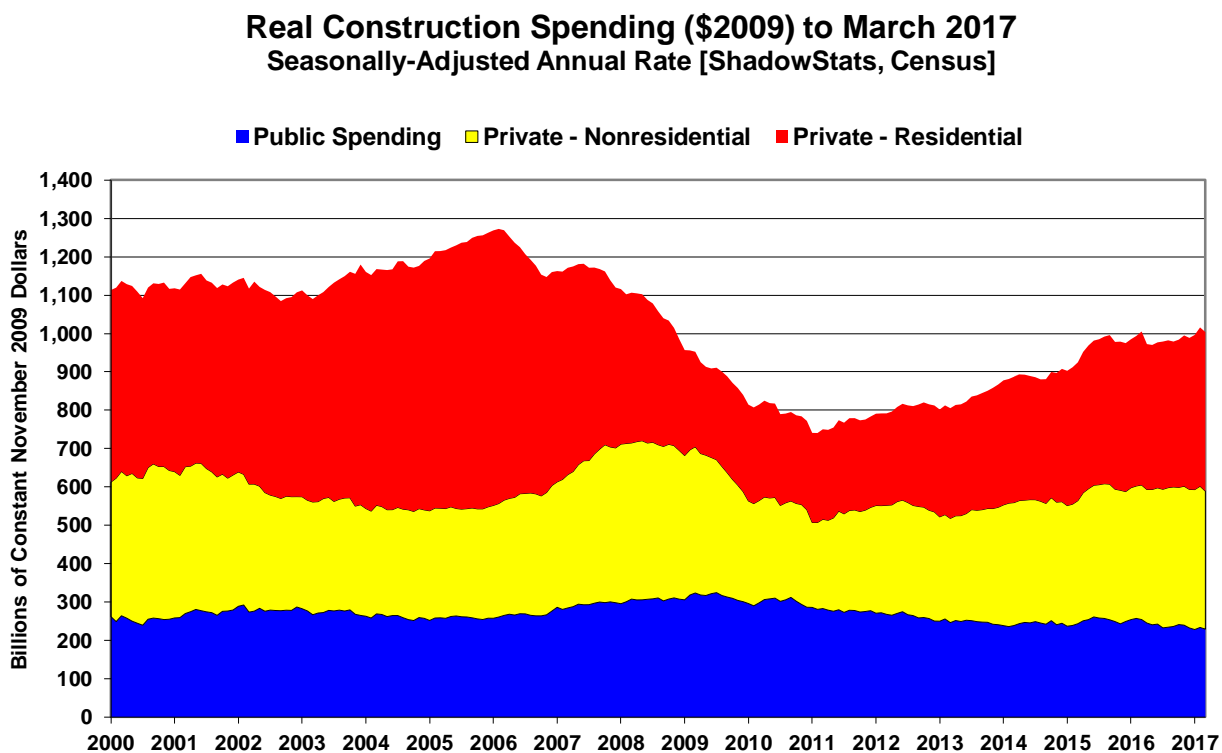
Public Construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016 and into 2017, the nominal series still appeared to have fluttered into and out of a low-level top, now generally lower, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 5, 6* and *12*, both series appear stalled shy of their pre-recession peaks.

[Graphs 11 to 16 begin on the following page]

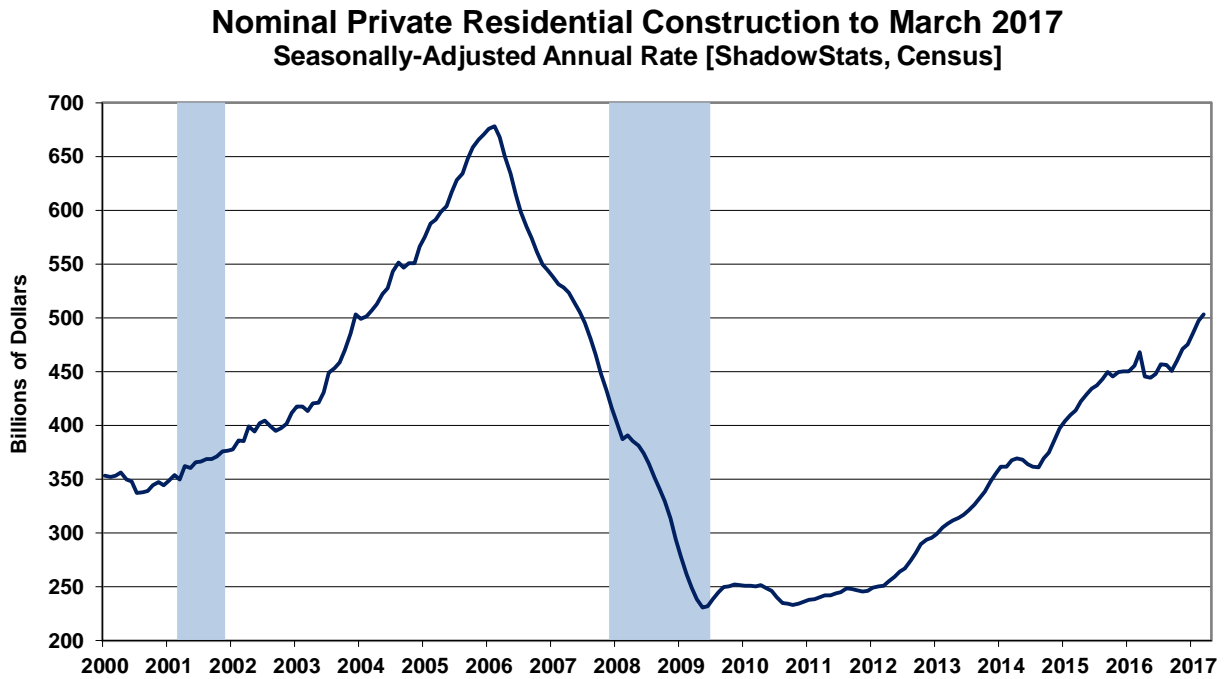
Graph 11: Aggregate Nominal Construction Spending by Major Category to Date



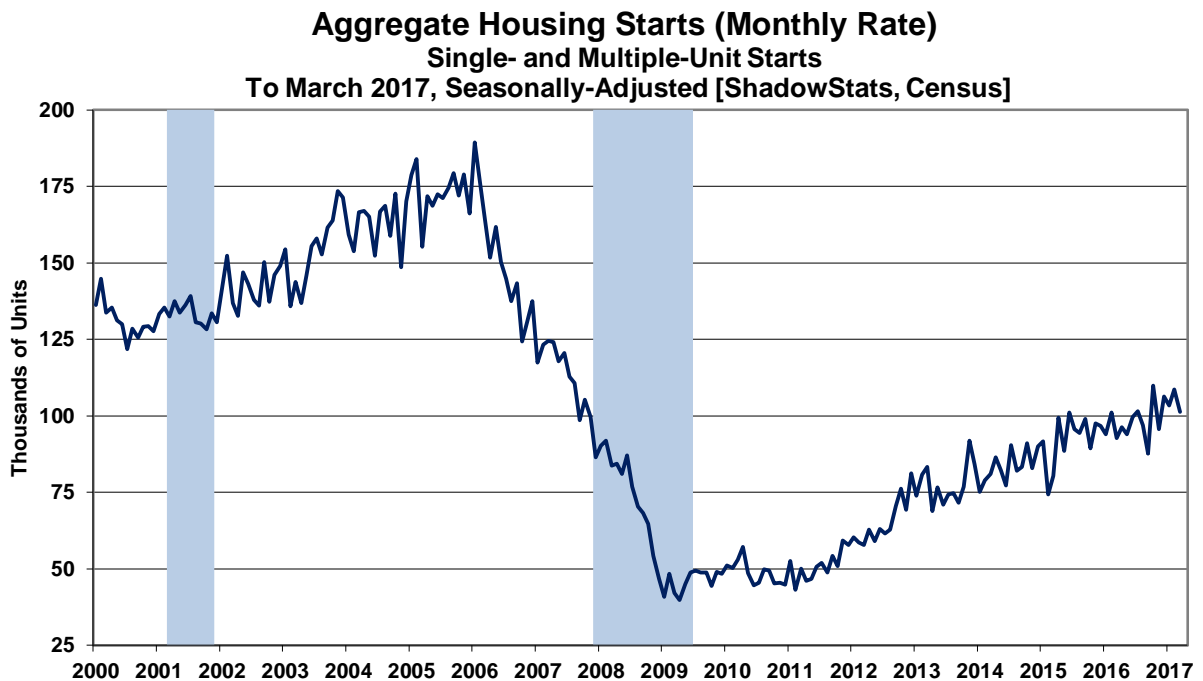
Graph 12: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



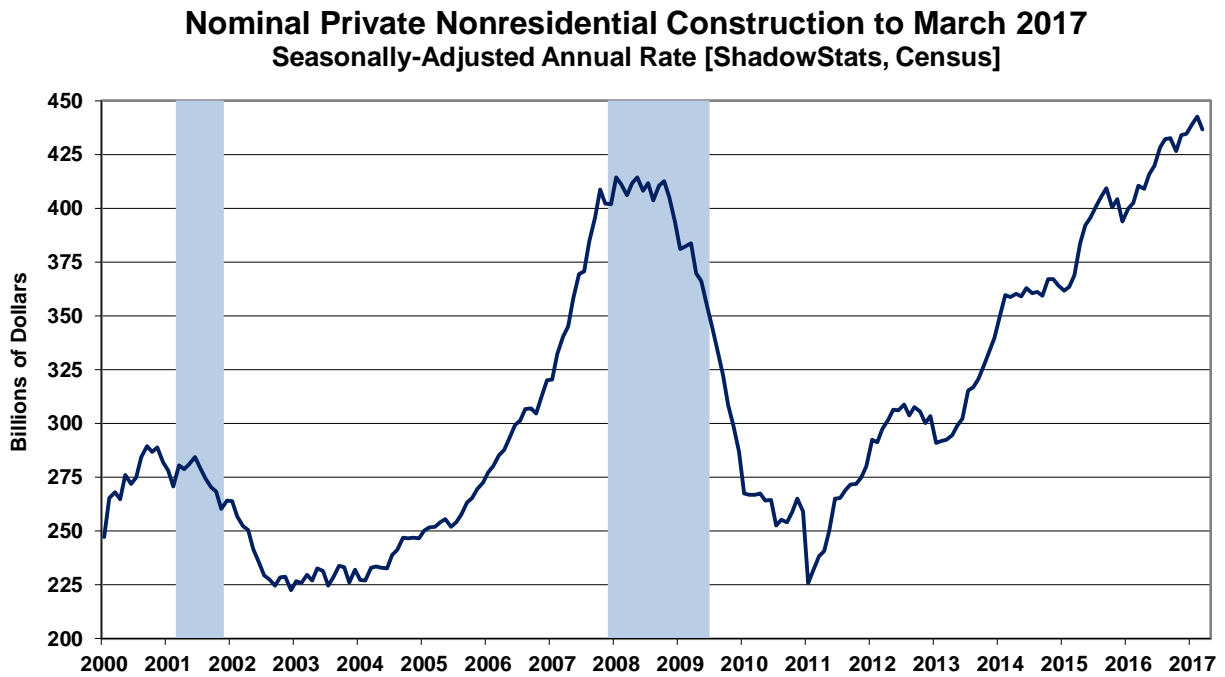
Graph 13: Nominal Private Residential Construction Spending to Date



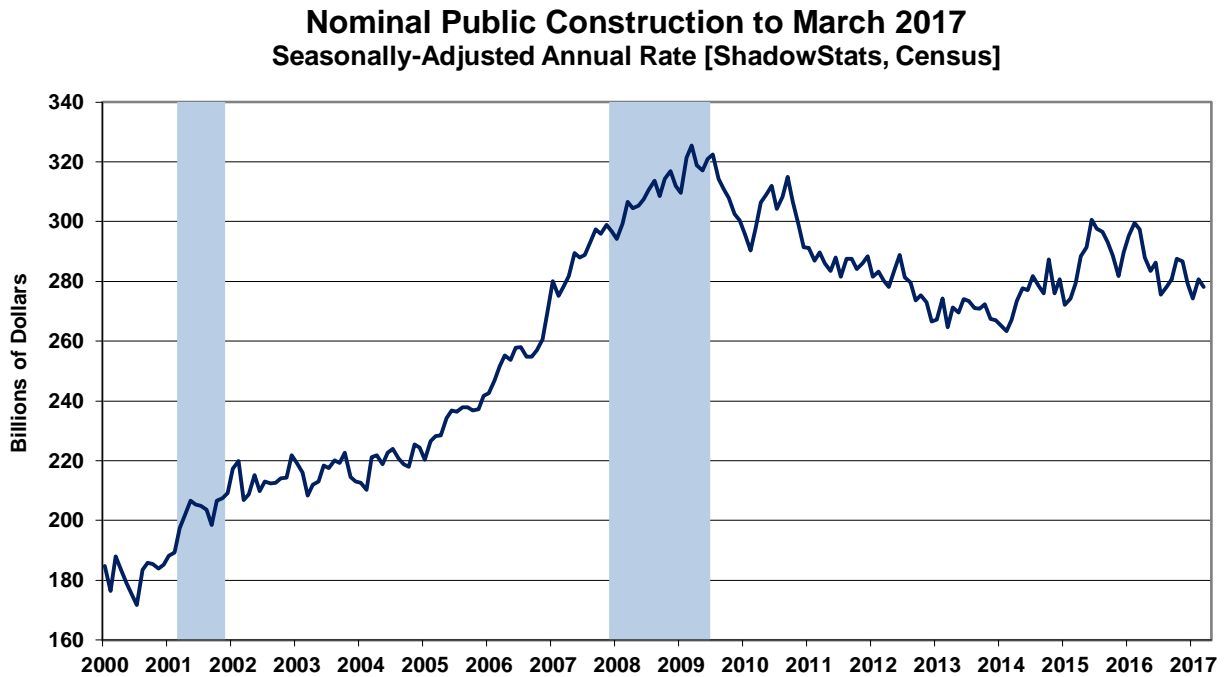
Graph 14: Combined Single- and Multiple-Unit Housing Starts to Date



Graph 15: Nominal Private Nonresidential Construction Spending to Date



Graph 26: Nominal Public Construction Spending to Date



WEEK, MONTH AND YEAR AHEAD

Downturn in the Economy Should Intensify in Headline Reporting, Compromising Fed Policies, Pummeling the U.S. Dollar and Boosting the Price of Gold. Discussed the *Opening Comments* of prior [Commentary No. 883](#), the developing downshift in economic expectations increasingly should move market expectations for Federal Reserve policy away from rate hikes and the normalization of the Fed's balance sheet, towards renewed quantitative easing. The problem for the U.S. central bank remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function, in practice, always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it is one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning.

The outlook for future FOMC activity remains as updated in the *Opening Comments* and *Hyperinflation Watch* of [Commentary No. 880](#), and previously reviewed in [Commentary No. 873](#). Such will be updated fully in *Commentary No. 886* of May 12th. The circumstances and outlook remain as broadly outlined in [No. 859 Special Commentary](#). Some update will follow in tomorrow's (May 5th) *Commentary No. 885*.

Otherwise, the following discussion has changed little from recent comments. As reflected in common experience, actual U.S. economic activity generally continues in 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 12.3% since that series purportedly 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 in hand of intensifying, near-term economic woes, the FOMC soon 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 continues to face 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—now moved well into 2018—before it meaningfully affects the broad economy. Needed at the same time are a credible 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](#) 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 had been making loud noises of continuing to raise interest rates, in order to contain an overheating economy, but that “overheating” activity has started to fade. 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 (Most-Recent Coverage of Specific Series or with Special Features):

[Commentary No. 883](#) covered the headline detail for the “advance” or first-estimate of first-quarter GDP, along with an update to *Consumer Liquidity Conditions*.

[Commentary No. 882](#) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and for New- and Existing-Home Sales.

[Commentary No. 881](#) reviewed March 2017 Industrial Production, Housing Starts and the Cass Freight Index™, along with an economic update in advance of the initial first-quarter 2017 GDP estimate.

[Commentary No. 880](#) detailed the March 2017 headline reporting the of both Real and Nominal Retail Sales, Real Earnings, the CPI, the PPI and updated Consumer Liquidity, where mounting stresses on consumer income and credit are signaling major economic issues ahead.

[Commentary No. 879](#) covered March 2017 Employment and Unemployment, Help-Wanted Advertising and Money Supply M3, the ShadowStats Ongoing Measure.

[Commentary No. 878](#) reviewed detail on the February 2017 Trade Deficit and Construction Spending, along with the latest update on Consumer Liquidity conditions.

[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 were expanded upon significantly, subsequently, in *No. 876*. 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. 873](#) discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with the prior 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 last month's February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

[Commentary No. 871](#) covered prior reporting of February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

[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 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* has continued his investigations in reporting irregularities: [Crudele Investigation](#), [Crudele on Census Bureau Fraud](#) and [John Crudele on Retail Sales](#) (worth a review in the context of the just-published 2017 benchmarking).

PENDING RELEASE: Employment and Unemployment (April 2017). The Bureau of Labor Statistics (BLS) will publish its headline April 2017 labor data tomorrow, on Friday, May 5th, and will be covered in ShadowStats *Commentary No. 885* of that date. Both the more-inclusive unemployment-rate numbers, as well as 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. Where the headline payroll gain of 98,000 in the March detail was a downside shock to the markets, a rebound to average levels of recent months appears to be expected, along with mixed expectations as to whether the headline unemployment rate holds at 4.5% or notches higher.

Underlying Reality Remains to the Downside of Expectations. In the context of the recent extreme volatility and inconsistencies in payroll and unemployment detail, almost anything remains within possible BLS reporting. Suggested by the Help-Wanted OnLine detail discussed in the *Opening Comments* and hinted at by the soft “advance” first-quarter GDP estimate, underlying reality remains a much weaker-than-expected economy, which increases the odds of negative surprises to the headline reporting of both the payroll and household-survey detail, against what likely will be relatively strong consensus expectations.