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

COMMENTARY NUMBER 514
March Employment and Unemployment, M3 Money Supply,
February Trade Balance, Construction Spending, Consumer Credit

April 6, 2013

March Unemployment and Employment Counts Both Dropped by 200K-Plus, Signaling Intensifying Economic Contraction

March Unemployment: 7.6% (U.3), 13.8% (U.6), 22.9% (ShadowStats)

M3 Continues to Slow as Monetary Base Pushes to Record $3.0 Trillion

February Trade Deficit and Construction Suggestive of Continuing Economic Stagnation

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PLEASE NOTE: The next regular Commentary *is scheduled for Friday, April 12th, covering March retail sales and wholesale inflation (the PPI).*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY.

Renewed U.S. Downturn Intensifies, as Systemic Problems and Global Concerns Expand. The employment and unemployment numbers are coincident indicators of economic activity, and both government and private March 2013 labor data suggested that the U.S. economy has faltered anew. Those unable to find jobs have been leaving the headline labor force at an accelerating pace, while a

possible monthly jobs loss in March payrolls was well within the statistical confidence interval surrounding the reported, minimal headline jobs growth.

The February trade and construction data generally were indicative of continuing low-level economic stagnation or softening business activity, while the February estimate of consumer credit outstanding continued to show no growth outside of federal-government-held student loans. These economic indicators are discussed in the *Opening Comments* and, except for consumer credit, in the *Reporting Detail* section.

With the Federal Reserve's continuing easing efforts, the monetary base has been pushed to successive historic high levels, with rising year-to-year growth, yet annual growth in the broad money supply (ShadowStats Ongoing M3 Measure) has continued to slow, as detailed in the *Hyperinflation Watch* section. Suggested here are deteriorating financial-system solvency conditions.

The ongoing U.S. economic and systemic-solvency crises should exacerbate global market concerns for the long-range, sovereign-solvency issues facing the United States, particularly as budget-deficit and debt-ceiling issues come to a head in the next month or two. The general outlook here has not changed; circumstances continue to evolve towards an environment that should trigger heavy selling pressure against the U.S. dollar, with resulting heavy upside pressure on domestic inflation.

Global political instabilities continue to intensify in Asia, the Middle East and Europe, and some could come to a head in the next week or two, creating short-term flight-to-safety circumstances in the U.S. dollar and gold. Any such issues will be addressed as needed. Again, the general outlook has not changed (see the *Hyperinflation Outlook*).

Deteriorating Economic Conditions Surface in March Labor Data. The latest Bureau of Labor Statistics (BLS) and private indicators of employment activity show deteriorating labor market conditions, even when allowing for reporting-quality distortions. Employment remains the broadest and most significant coincident indicator of domestic economic activity, and current circumstances are highly suggestive of a renewed economic downturn.

In March 2013, broad unemployment conditions deteriorated markedly; estimated monthly payroll employment change was indistinguishable from zero, while annual growth continued to slow; and the online help-wanted index showed its first quarterly contraction since the economy has been in "recovery."

Help-Wanted Advertising and New Claims for Unemployment Insurance. The Conference Board's measure of online help-wanted advertising contracted in first-quarter 2013, the first quarterly downtown since the economy hit bottom in mid-2009. As measured end-of-quarter versus end-of-quarter, first-quarter total ads (unduplicated ads in March 2013, consisting of new ads plus ads from prior periods) fell at an annualized pace of 6.0%, following an annualized quarterly gain of 8.0% at the end of fourth-quarter 2012. For new ads, the pace of quarterly decline was 19.3% in first-quarter 2013, versus a 2.8% contraction in fourth-quarter 2012.

The Conference Board is noted for having published the newspaper help-wanted advertising index since the days of Harry Truman. Where the newspaper index had been one of the best leading indicators of economic activity, the Internet destroyed much of the relevance there, and that series no longer is calculated. The replacement online help-wanted advertising measure still is in a nascent phase.

Help-wanted advertising is the only significant measure that offers a counterpart to the weekly jobless claims numbers. The weekly new claims for unemployment insurance series is meaningless in terms of week-to-week change, other than for its use by traders in getting the financial markets to hyperventilate. Unexpected large weekly changes almost always are the result of the inability of the Department of Labor to seasonally-adjust the data in the weeks including and surrounding holidays. Various longer-term moving averages are better indicators of underlying claims activity.

Separately, long-term trend levels for new claims are used by some analysts to assess the stage of the employment cycle. That approach is of limited value in the current circumstance. No one in the period of modern economic reporting (post-World War II) has seen a downturn of the depth or length of the current crisis. Accordingly, one would expect the level of layoffs and firings eventually to taper off to lower levels, more out of economic exhaustion, though, than from reviving economic activity.

New claims reflect the pace of jobs losses, but the effect of new claims on employment and unemployment is balanced by the pace of new hirings, which is tied to help-wanted advertising. If help-wanted advertising is falling, falling claims still could be consistent with rising unemployment, because fewer people are being rehired. Likewise, rising new claims in a period of rapidly rising help-wanted advertising is not necessarily bad news. The healthiest condition is reflected by falling claims and rising help-wanted ads, while the most negative condition is rising claims and falling help-wanted ads.

The last, unfortunate case of rising new claims and falling help-wanted advertising has been the most-recent current circumstance, and that is consistent with weakening conditions seen in the March 2013 labor market numbers just published by the BLS.

March 2013 Unemployment. The headline March U.3 unemployment rate "narrowed" to 7.57% from 7.74% in February. The headline data, however, measure only a subset of those who consider themselves to be unemployed, where an increasing portion of the labor force just cannot find a job.

The broader U.6 rate narrowed to 13.8% from 14.3%, reflecting declining part-time employment for economic reasons and declining short-term discouraged workers. The decline in short-term discouraged workers, though, reflected an influx of new discouraged workers from the headline unemployed, with an even greater outflow of unemployed from the short-term to the long-term discouraged-worker category.

Encompassing downside pressures from the underlying U.6 rate, offset by increasing numbers of individuals leaving the headline labor force, the ShadowStats Alternate Unemployment Measure notched lower to 22.9% in March, from the series-high 23.0% seen in the December 2012-to-February 2013 period.

Nonsensical circumstances can be created by the restrictive definitions of "unemployment" used by the BLS in determining its headline unemployment rate. A restrictive definition example would be the headline U.S. unemployed having to have sought work actively in the last four weeks. Active jobs-seeking, however, does not include just reading the help-wanted ads, as it does in the euro area. If an unemployed individual has difficulty finding a job, the jobs search can slow down due to lack of available work, for example. Even though an individual desires work and remains willing and able to take a job, once an unemployed person has not been knocking on doors for the prior four weeks, he or she is classified as a "discouraged worker" and is defined as having left the labor force. That is nonsense from

the standpoint of common perception and usage; it is, however, accurate within the scope of the government's narrow definitions.

The labor force simply is the total of those who are employed plus those who are unemployed, and the unemployment rate is the total unemployed as a percent of the labor force. Accordingly, the composition of the labor force effectively is defined by how the unemployed are defined. From the official-reporting and political perspective, the "labor force" is the number of those employed (those who worked at least one hour in the survey period) plus the number of narrowly-defined, headline unemployed, who are used in calculating the U.3 unemployment rate. From the standpoint of counting discouraged workers among the unemployed, that expands the respective labor force, by definition, to include discouraged workers.

As to the headline March 2013 unemployment data, the purported happy news was that the unemployment rate dropped from 7.7% to 7.6%, with the number of unemployed dropping by 290,000 for the month. That would be good news, indeed, if the number of employed also had increased, but that did not happen. Instead, the number of employed declined by 206,000 for the month. That means that 496,000 people left the headline labor force. Putting aside the BLS's restrictive definitions, for a moment, these numbers suggest that an unfettered unemployment rate in March would have risen by two-tenths of a percentage point, instead of falling by one-tenth of a point.

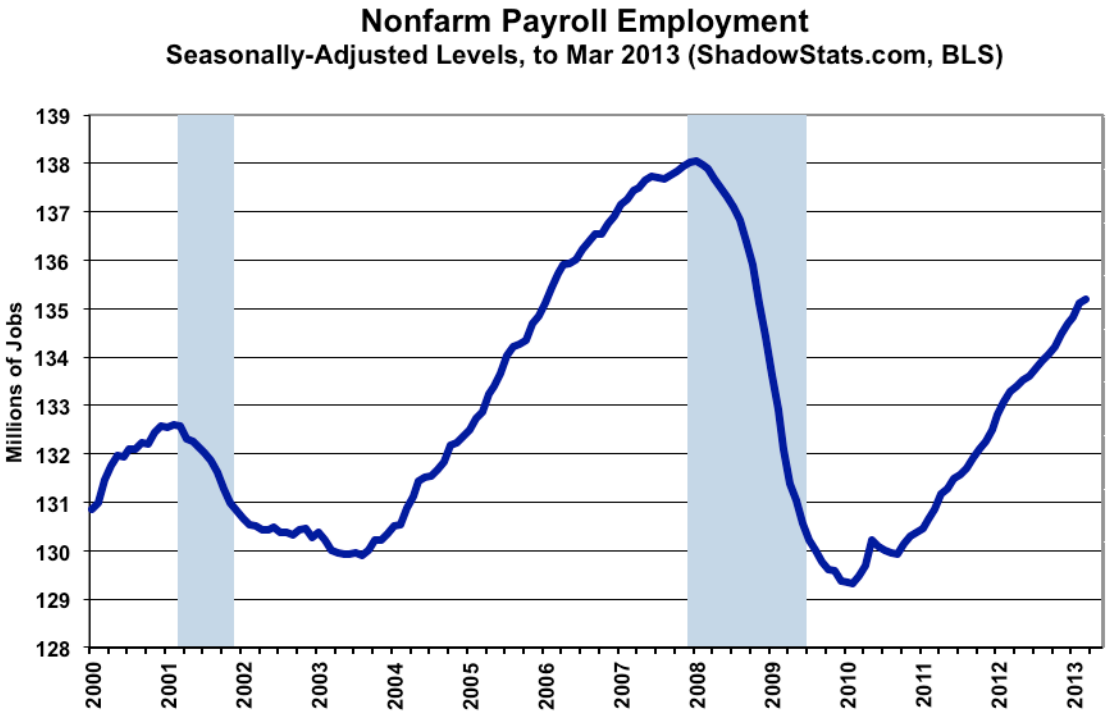
All that presumes that these numbers from the household survey have some comparative month-to-month meaning. They do not. The monthly comparisons simply are garbage and have been so designed, deliberately. The BLS reported the current March household data, which were calculated in the context of, and based relative to revised February numbers, but the BLS did not and will not publish the comparable and consistent prior-month numbers; it republished only the unrevised February numbers. Accordingly, the official monthly comparisons of the reported seasonally-adjusted household-survey numbers are without meaning.

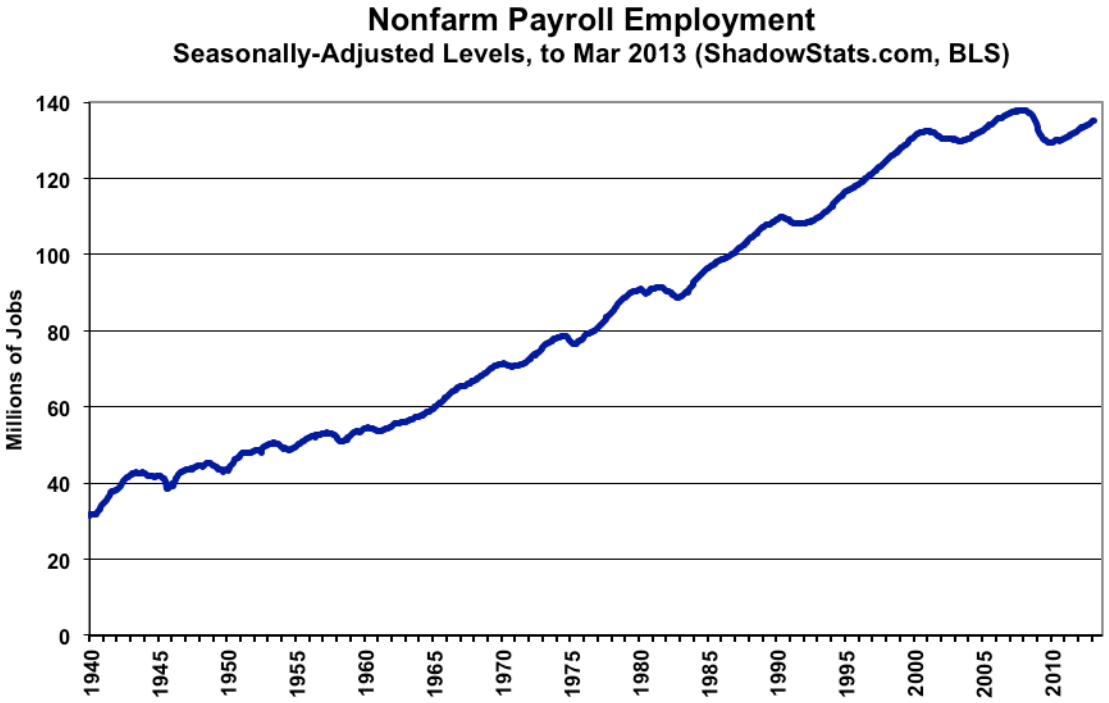
Payroll Employment. The seasonally-adjusted March 2013 headline, month-to-month 88,000 gain in payroll employment (95% confidence interval of +/- 129,000) was not statistically significant, with the confidence interval encompassing "no change," even a possible monthly contraction. The March gain slowed markedly from the revised February monthly jobs increase of 268,000 (previously 236,000) and the revised January increase of 148,000 (previously 119,000, initially 157,000 jobs).

Upside revisions to the not-seasonally-adjusted data in January and February were dominated by the hiring of temporary workers and by employment in education at the state and local government level, traditional problem areas for BLS guesstimations.

The unpublished concurrent-seasonal-factor adjustments to the payroll series just showed a major shift that again points to the unreliable nature of and major distortions to the official monthly employment reporting (see *Concurrent Seasonal Factor Distortions* in the *Reporting Detail* section). Separately, the Birth-Death Model biases likely overstate monthly payroll change by at least 100,000 jobs per month (see *Birth-Death/Bias-Factor Adjustment* in the *Reporting Detail* section).

Not-seasonally-adjusted, annual growth in payrolls continued to slow. For March 2013, the year-to-year percent gain in payrolls was 1.49%, a somewhat weaker pace than the revised 1.61% (previously 1.52%) gain estimated for February. Those numbers are not affected by the concurrent seasonal adjustments distortions.





The first of the preceding graphs is of seasonally-adjusted payroll levels since 2000. Official detail of total nonfarm payroll employment shows the latest reading to be 2.9 million jobs, or 2.1%, shy of the January 2008 peak. Payroll activity, which again is a coincident indicator of broad economic activity, never has confirmed the "economic recovery" and continues to run counter to the GDP's indication of an expanding, post-recovery period.

The second graph, preceding, is longer-term, showing historical detail back to 1940 and, in perspective, that payroll levels still are not that far ahead of the peak levels that preceded the 2001 recession.

February 2013 Trade Balance. The February trade deficit narrowed to $43.0 billion from a revised $44.5 (previously $44.4) billion in January, with exports rising at a somewhat faster monthly pace than did imports. The February 2013 deficit, however, also narrowed from $44.6 billion the year before.

Adjusted for seasonal factors and net of oil-price swings and other inflation (2005 chain-weighted dollars as used in reporting real GDP), the February 2013 merchandise trade deficit (no services) came in at $47.4 billion, versus a revised $48.1 (previously $48.0) billion in January 2013. The February 2013 deficit of $47.4 billion widened against the $44.9 billion monthly deficit estimated for February 2012.

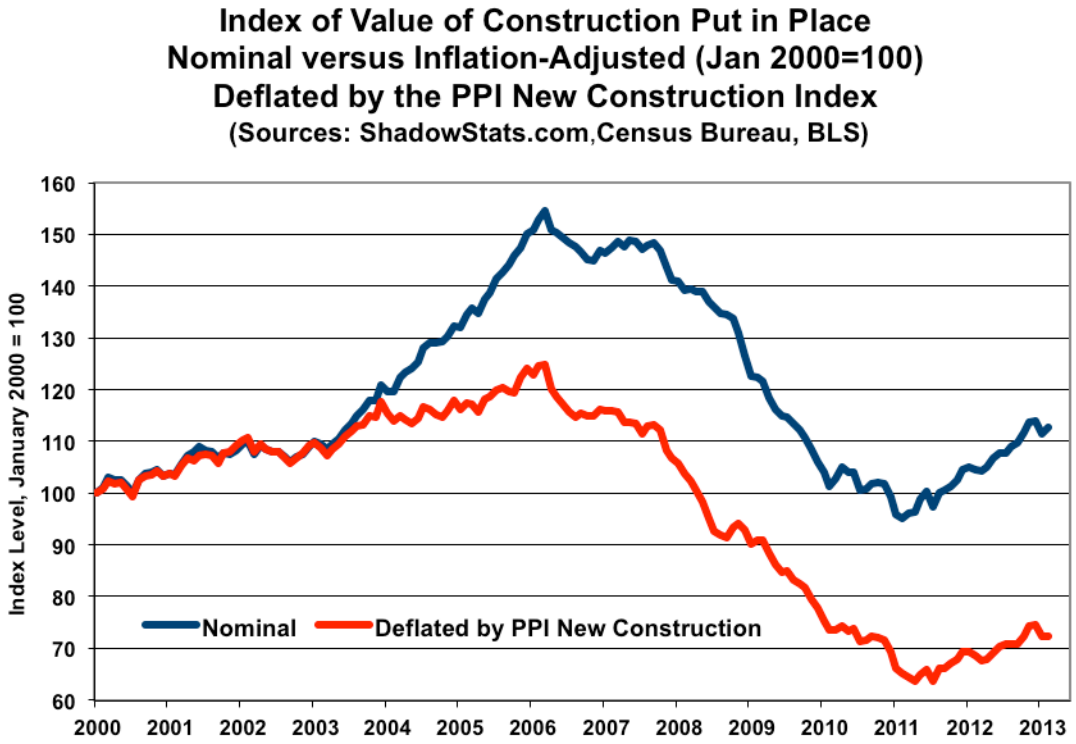
The first-quarter deficit is running at a pace that suggests a net-trade deterioration versus fourth-quarter 2012, both before and after consideration for the effects of inflation. Hence, first-quarter 2013 net trade activity should subtract some growth—albeit minimal—from the pending April 26th initial estimate of first-quarter 2013 GDP.

February 2013 Construction Spending. In the context of downside revisions to prior reporting, and allowing for the impact of inflation on nominal (not-adjusted-for-inflation) activity, monthly construction spending continued to stagnate in February 2013.

The nominal value of total construction put in place in the United States during February rose for the month by a statistically-insignificant 1.2%, versus an unrevised 2.1% decline in January. Both January and December levels, however, were revised lower. Adjusted for PPI new construction inflation, aggregate real spending in February effectively was unchanged month-to-month at the first decimal point (down by 0.04%), following a 2.7% monthly decline in February.

The ShadowStats version of the Census Bureau's construction spending in real terms, again, adjusted for inflation, follows. The graph shows the index levels of U.S. construction spending, both before and after adjustment for inflation, using the PPI new construction index as the deflator (deflation calculations by ShadowStats). The beginning points for both the nominal and the real indices have been set equal to each other, with January 2000 = 100. There is no perfect inflation measure for deflating construction, but the PPI new construction index is the closest found in publicly-available construction-inflation series.

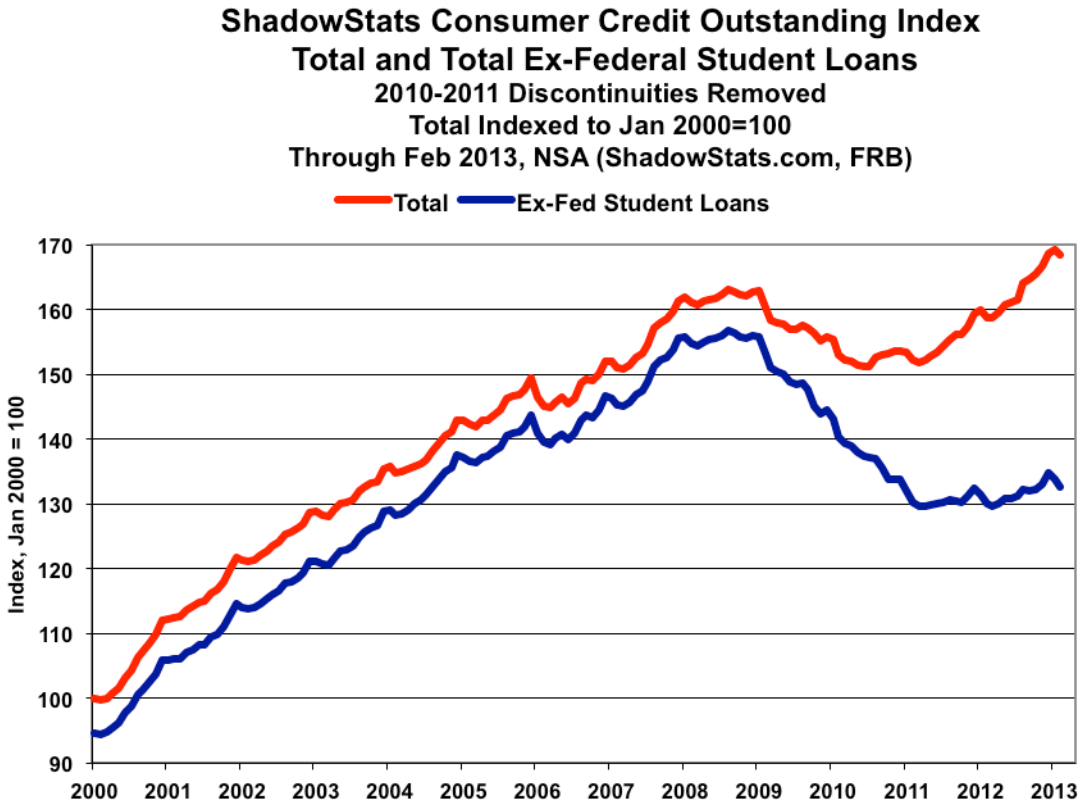
The real series shows the economy slowing in 2006 and plunging into 2011, with a minimal upturn recently in an environment of ongoing low-level stagnation. The peak-to-trough contraction in the level of activity from March 2006 to July 2011 was 49.0%. In February 2013, the level of real activity was up by 15.3% from the July 2011 trough, but it still was down by 41.2% from the March 2006 all-time high. The February 2013 level also remained well below the levels seen going into not only the 2007 recession, but also the 2001 recession.



[Further details on March employment and unemployment, the February trade balance and construction spending are found in the* Reporting Detail *section.]

February 2013 Consumer Credit. The April 5th release by the Federal Reserve Board of February 2013 consumer credit outstanding again reflected the continuing and intensifying structural stresses on consumer liquidity. As shown in the following graph, the highly touted recent growth in total consumer credit outstanding—a factor viewed by some as a recovery in consumer liquidity and confidence—has been due solely to the extraordinary growth in federally-owned student loans, not due to bank lending that normally would help to stimulate retail sales and other consumption. Combined with a lack of real income growth and waning consumer confidence and sentiment, as discussed in *Commentary No. 513*, the lack of meaningful credit growth means that the consumer has no ability to support sustainable real (inflation-adjusted) growth in retail sales (see *Week Ahead*), or personal consumption and housing, which account directly for 74% of the GDP, and which indirectly account for most of the remaining balance of broad economic activity.

The ShadowStats graph of Consumer Credit Outstanding was created by combining discontinuous series, published by the Federal Reserve, into a continuous index of activity, indexed to January 2000 = 100, as described in *Commentary No. 501*.



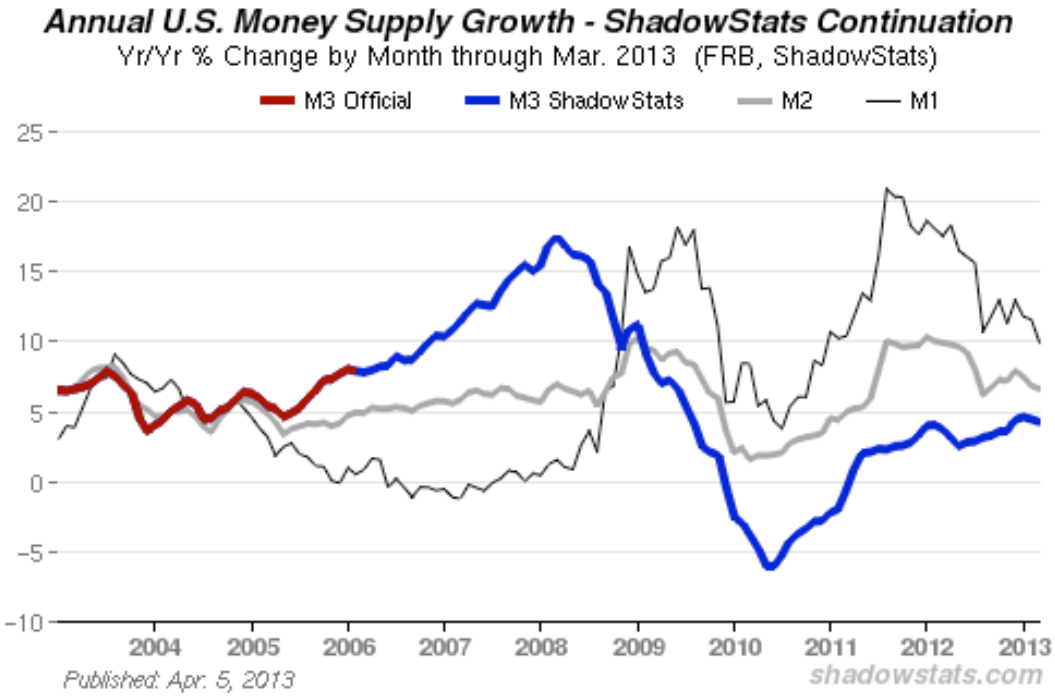
HYPERINFLATION WATCH

March 2013 Broad Money Growth Slowed to Further to 4.2%. Based on roughly three weeks of reported data, the preliminary estimate of year-to-year growth in the ShadowStats Ongoing-M3 Estimate for March 2013 is 4.2%, down from 4.4% in February, and down from a near-term peak annual growth of 4.6% in January. The latest detail has been published in the Alternate Data tab at www.shadowstats.com.

Where annual growth had been on the upswing in recent months, the slowing growth in February and March likely is a sign of mounting systemic stress. As shown in the next section, the monetary base continues to spike in response to the Fed's active and expanded QE3 but, as has been case for the current systemic-solvency crisis, the Fed's actions have not flowed through to meaningful growth in the broad money supply. Bank lending remains troubled, and that is a signal of ongoing and, at present, likely intensifying systemic stress.

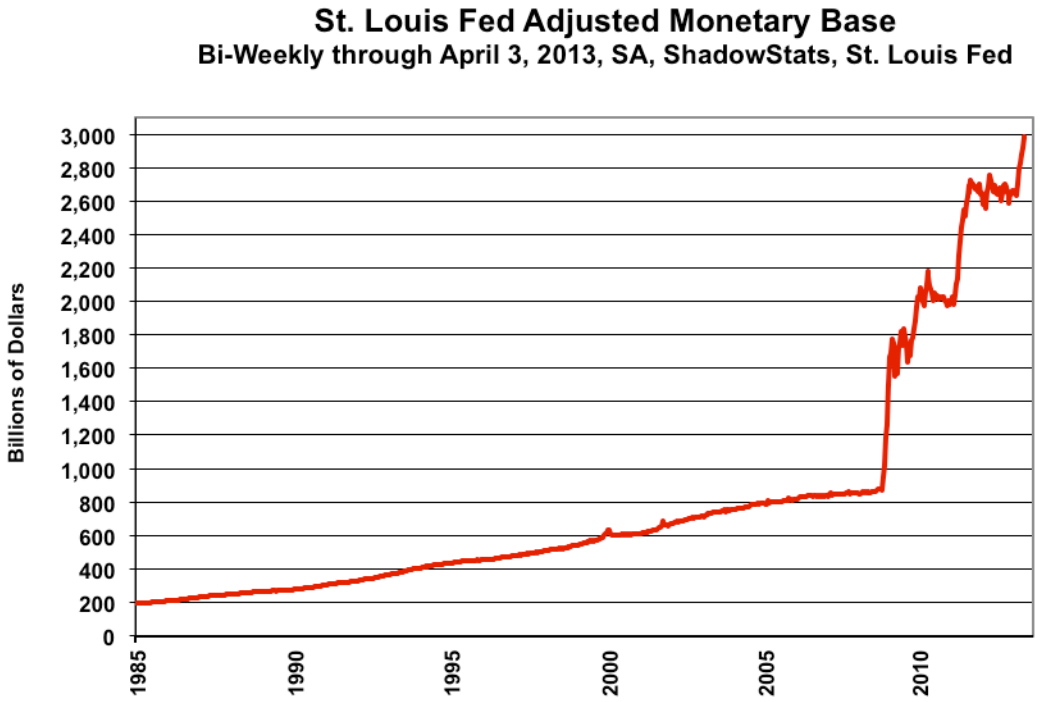
Any prior-period revisions in the following numbers are due to Federal Reserve revisions to underlying data. The seasonally-adjusted, preliminary estimate of month-to-month change for March 2013 money supply M3 is unchanged, versus a revised "unchanged" at the first decimal point (previously a 0.1% decline in February. The estimated month-to-month M3 changes, however, remain less reliable than the estimates of annual growth.

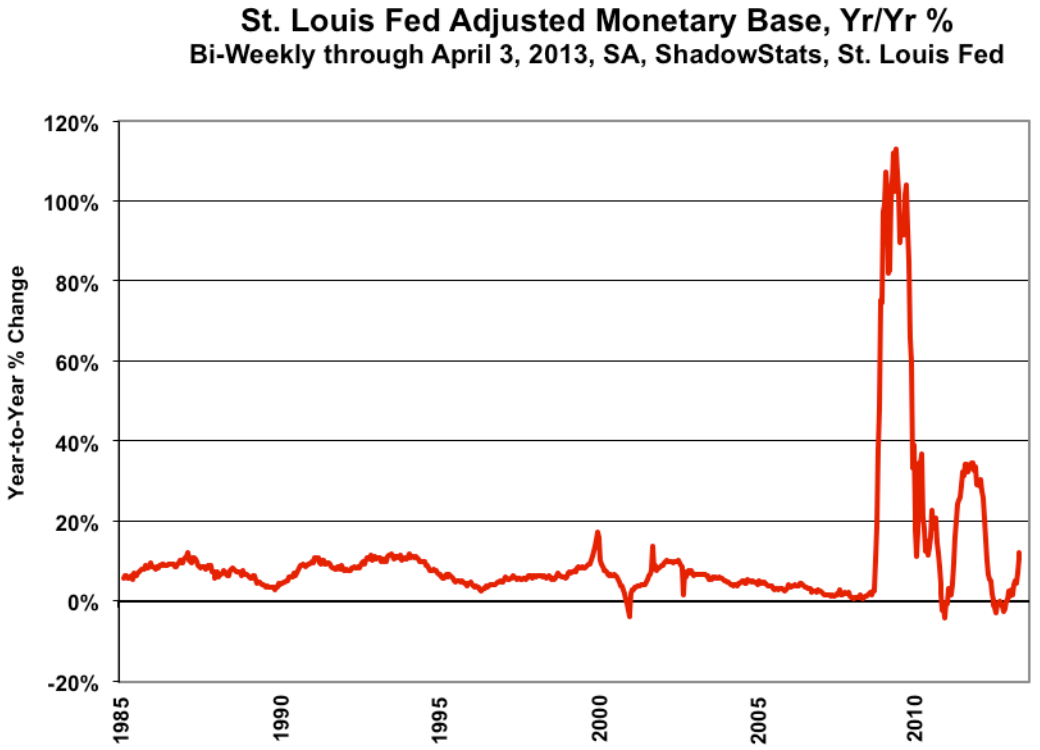
For March 2013, early estimates of year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1, M3 includes M2). Full definitions are found in the *Money Supply Special Report*. M2 for March is estimated to show year-to-year growth of about 6.6%, down from 6.8% in February, with month-to-month change estimated at roughly a 0.2% gain in March, versus a 0.3% contraction in January. The early estimate of M1 for March 2013 is year-to-year growth of roughly 10.0%, versus a revised 11.6% (previously 11.5%) gain in February, with the month-to-month March change a likely contraction of 1.2%, versus a revised gain of 0.5% (previously 0.4%) in February.



Monetary Base. Mirroring the ongoing expanded quantitative easing (QE3) by the Federal Reserve, the monetary base continues to set successive new highs, with rising year-to-year growth, as shown in the accompanying graphs. At a record-high, seasonally-adjusted (SA) two-week average level of $2,985.7 billion in the April 3rd accounting, the $3.0 trillion mark likely will fall in the next month. Year-to-year growth now stands at 12.3%, the strongest pace of rising growth in more than two years.

The monetary base is currency in circulation (part of M1 money supply) plus bank reserves (not part of the money supply) (see a more-complete definition in the *Money Supply Special Report*). Banks are parking their excess reserves with the Federal Reserve, not lending the available cash into the normal flow of commerce. When the Fed monetizes U.S. Treasury securities, as it has been doing, that usually adds directly to the broad money supply, and it contributes to selling pressure against the U.S. dollar. Faltering money supply growth in this circumstance, which appears to has continued in March, tends to indicate mounting systemic stress in the banking industry.


St. Louis Fed Adjusted Monetary Base
Bi-Weekly through April 3, 2013, SA, ShadowStats, St. Louis Fed
Billions of Dollars
3,000
2,800
2,600
2,400
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
1985
1990
1995
2000
2005
2010


St. Louis Fed Adjusted Monetary Base, Yr/Yr %
Bi-Weekly through April 3, 2013, SA, ShadowStats, St. Louis Fed
Year-to-Year % Change
120%
100%
80%
60%
40%
20%
0%
-20%
1985
1990
1995
2000
2005
2010

Hyperinflation Outlook—Unchanged. Unchanged from the text published in the *Commentary No. 512*, this summary is intended for new subscribers and for readers looking for a condensed version of the broad outlook or who otherwise are not familiar with the hyperinflation report or recent special commentaries, linked below. Those documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two.

The November 27, 2012 *Special Commentary (No. 485)* updated *Hyperinflation 2012* and the broad outlook for the economy and inflation, as well as for systemic stability and the U.S. dollar. These remain the two primary articles outlining current conditions and the background to the hyperinflation forecast. The basics have not changed here, other than events keep moving towards the circumstance of a domestic hyperinflation by the end of 2014. Nonetheless, a fully updated hyperinflation report is targeted for publication in April.

Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The system remains still in the throes and aftershocks of the 2008 panic and the near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation is inevitable.

The economic and systemic solvency crises of the last eight years continue. There never was an actual recovery following the economic downturn that began in 2006 and collapsed into 2008 and 2009. What followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012. The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series. Nonetheless, given the nature of official reporting, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

Indeed, what continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 turmoil. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That the crises continue can be seen in deteriorating economic activity and in the panicked actions by the Federal Reserve, where it proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise. As discussed in the *Opening Comments* section [of *Commentary No. 505*], hoopla to the contrary in the popular press, that the Fed might pull-back on its "easing," most likely was designed to help jawbone and firm-up the U.S. dollar and to soften gold in the immediate period running up to the imminent crises in the federal-budget and debt-ceiling negotiations.

The Fed's recent and ongoing liquidity actions also can be viewed as a signal of deepening problems in the system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Nonetheless, the Fed's easing moves appear to have been an ongoing effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury. Mounting signs of intensifying stress also are seen in the global banking system, as reflected in the ongoing Cyprus crisis.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that are shy on detail. The ten-year plan by the Republican-controlled House proposes to balance the cash-based deficit as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate

does not look to balance the cash-based deficit. Given continued political contentiousness and the use of positive economic assumptions to help the budget projections along, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of upcoming negotiations. With these issues slated to come to a head now in April or May, there still appears to be no chance of a substantive agreement.

Indeed, ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Chances also remain nil for the government fully addressing the GAAP-based deficit that hit $6.6 trillion in 2012, let alone balancing the popularly-followed, official cash-based accounting deficit that was $1.1 trillion in 2012 (see *No. 500: Special Commentary*).

Efforts at delaying meaningful fiscal action, and at briefly postponing conflict over the Treasury's debt ceiling, have bought the politicians in Washington minimal time in the global financial markets, but the time largely has run out and patience in the global markets is near exhaustion. The continuing unwillingness and political inability of the current government to address seriously the longer-range U.S. sovereign-solvency issues, only pushes along the regular unfolding of events that eventually will trigger a domestic hyperinflation, as discussed in *Commentary No. 491*.

The unfolding fiscal catastrophe, in combination with the Fed's direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility likely will not last much longer, despite the tactics of delay by the politicians and obfuscation by the Federal Reserve. This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar, despite any near-term gyrations. A dollar-selling panic is likely this year, with its effects and aftershocks setting hyperinflation into action in 2014.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (March 2013)

March Payroll and Unemployment Data Were Seriously Misleading. The broad economic outlook has not changed, despite the heavily-flawed numbers that continue to be published by the Bureau of Labor Statistics (BLS). Given the distortions from unstable concurrent-seasonal-factor adjustments used by the BLS in adjusting both the payroll and household surveys, neither the March 2013 headline jobs gain of 88,000 nor the headline one-tenth percentage-point decline in the unemployment rate was meaningful. The numbers lacked statistical significance and/or simply were not comparable to February's reporting, as

discussed in the *Opening Comments*, the *Concurrent Seasonal Factor Distortions* subsection of this section and *Special Commentary (No. 485)*.

The seasonally-adjusted month-to-month comparisons of household survey details continue to be without meaning. That said, as discussed in the *Opening Comments*, if the comparative unemployment numbers were meaningful, the drop from the headline unemployment of 7.7% in February to 7.6% in March was bad news, as the official numbers showed a surge in unemployed leaving the headline labor force. Without the BLS's constraints on the definition of headline unemployment, the March unemployment rate would have jumped by at least two-tenths of a percentage point, instead of declining by one-tenth.

The headline month-to-month change in payroll employment was not statistically significant; not-seasonally-adjusted year-to-year growth continued to slow; and the unpublished concurrent seasonal factor adjustments have just shown a major shift that again points to the unreliable nature of the official employment reporting.

The developing negative labor trends have been confirmed by recent private surveying, including a quarterly decline in online help-wanted advertising (see *Opening Comments*). To the extent that there is any meaning in the monthly reporting, it remains that the economy has not recovered and is not in recovery. The monthly payroll level still is 2.9 million jobs shy of the pre-recession high, and it puts the lie to the expanding economic recovery propagandized in GDP reporting. Further, unemployment—as viewed by common experience (the ShadowStats Alternate Measure)—remains at or near an all-time high for the series, a level that rivals any other downturn of the post-Great Depression era.

PAYROLL SURVEY DETAIL. The BLS reported April 5th, a seasonally-adjusted, month-to-month headline payroll employment gain of 88,000 for March 2013 (net of prior period revisions, the gain was 149,000). Where the standard 95% confidence interval on monthly headline payroll employment reporting is +/- 129,000, circumstances suggest that a much wider confidence interval could be justified. The current numbers continue to be so far out of balance as to be absolutely meaningless here, due partially to concurrent-seasonal-factor distortions (discussed in the *Opening Comments* and in the *Concurrent Seasonal Factor Distortions* section).

The seasonally-adjusted February 2013 month-to-month jobs increase was revised to 268,000 (previously 236,000), while the January increase revised to 148,000 (previously 119,000, initially 157,000 jobs).

Upside revisions in the not-seasonally-adjusted data in January and February were dominated by the hiring of temporary workers and by employment in education at the state and local government level. Those are two areas where the BLS regularly has problems guesstimating or in getting reliable information.

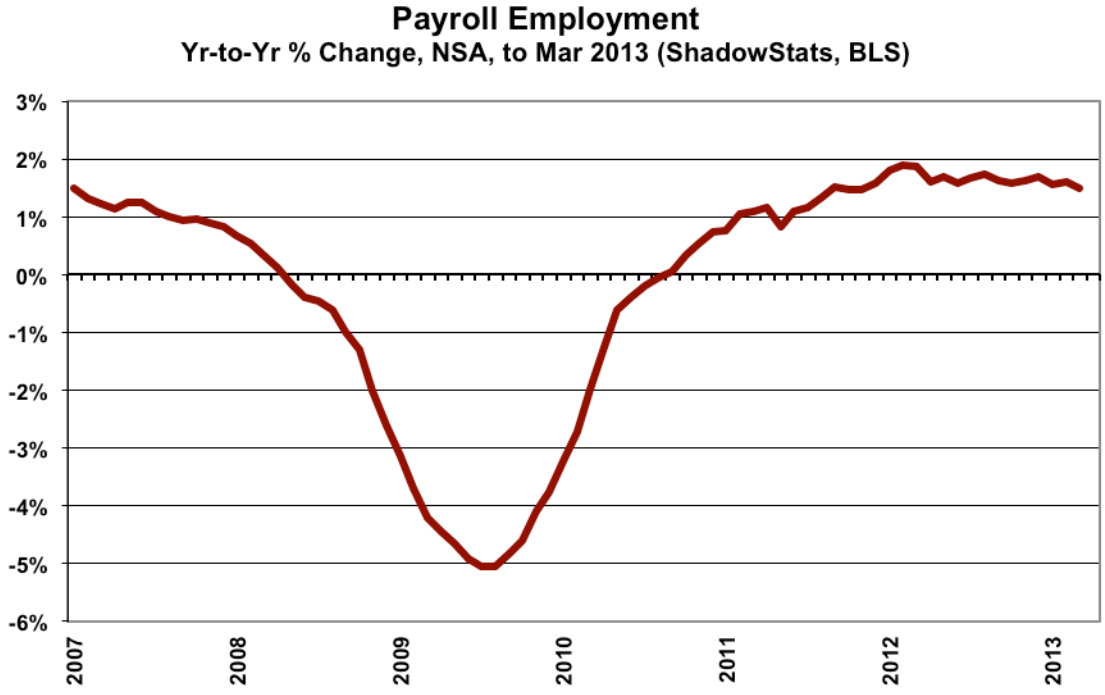
The BLS publishes only two prior months of consistent data with concurrent-seasonally-adjusted payrolls. Accordingly, the published January number no longer is consistent with December reporting, and month-to-month comparisons have no significance, given the BLS adjustment and reporting policies discussed in *Concurrent Seasonal Factors Distortions* in this *Reporting Detail* section. Using the latest concurrent seasonal-factor calculations from the BLS, ShadowStats is able to estimate the consistent, revised (but not published) month-to-month change for January 2013 versus December 2012, which was a gain of 146,000, instead of 148,000. The differences usually are greater. For example, as shown in the graph in *Concurrent Seasonal Factors Distortions*, the estimation of the seasonally-adjusted employment level for

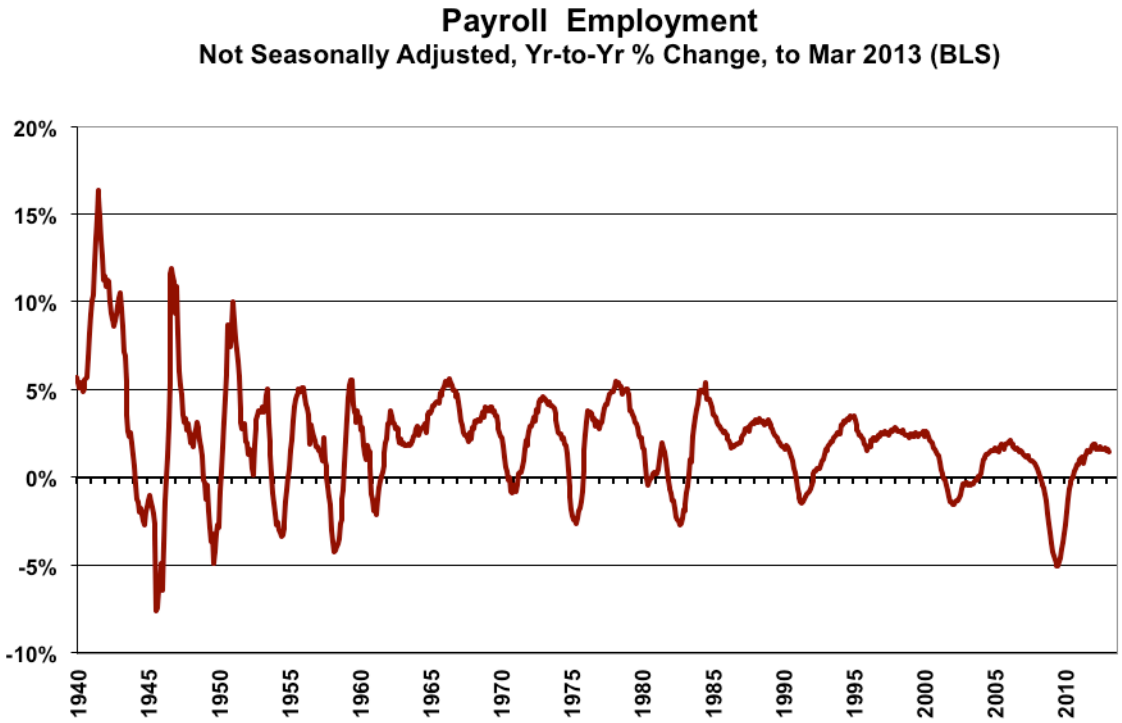
February 2012 just shifted sharply (with implications as to the nature of February 2013 reporting). As published, seasonally-adjusted February 2012 payrolls stand at 133.080 million, but the revised number for that month, which is consistent with the latest reporting, is 133.004 million, some 76,000 less.

The BLS explains that it avoids publishing consistent, prior-period revisions so as not to "confuse" its data users. No one seems to mind if the published earlier numbers are wrong, particularly if unstable seasonal-adjustment patterns have shifted prior jobs growth into current reporting, without any indication of same in the published historical data.

Trend Model. As described generally in *Payroll Trends*, the trend indication from the current BLS seasonal-adjustment model is for a 120,000 monthly payroll gain in April 2013, based on March's reporting. While the trend indication often misses actual reporting (the indication for March was for a 190,000 monthly gain, more than double the headline 88,000), the trend number nonetheless usually becomes the basis for the consensus outlook.

Annual Change in Payrolls. In terms of year-to-year change, the not-seasonally-adjusted growth is untouched by the concurrent seasonal adjustments, so the monthly comparisons of year-to-year change are on a consistent basis. For March 2013, the year-to-year percent gain in payrolls was 1.49%, a somewhat slower pace than the revised 1.61% (previously 1.52%) gain estimated for February.





The preceding graphs of year-to-year unadjusted payroll change show a slowly rising trend in annual growth into 2011, which reflected a protracted bottom-bouncing in the payroll series. That pattern of annual growth flattened out in late-2011 and, as shown in the first graph of the near-term detail in year-to-year change, began a pattern of slowing growth early in 2012.

As reflected in the longer-term graph (historical detail back to 1940), with the bottom-bouncing of recent years, current annual growth has recovered from the post-World War II record 5.06% decline in August 2009, which remains the most severe annual contraction seen since the production shutdown at the end of World War II (a trough of a 7.59% annual contraction in September 1945). Disallowing the post-war shutdown as a normal business cycle, the August 2009 annual decline was the worst since the Great Depression.

Still, even with the annual growth in the series since mid-2010, the March 2013 level of employment is far from reflecting an economic recovery, shy by 2.9-million jobs or 2.1% in official reporting. The regular graph of seasonally-adjusted payroll levels since 2000, showing that detail, as well as a longer-term graph of the payroll employment level, showing historical detail back to 1940 and, in perspective, that payroll levels still are not so far ahead of the levels in 2000, are located in the *Opening Comments*.

Concurrent Seasonal Factor Distortions. As reflected the accompanying graph, seasonal-factor instabilities mounted sharply in the latest payroll reporting. The bulk of the reporting issues here, however, never are brought before the public by the BLS.

Indeed, there are serious and deliberate reporting flaws with the government's seasonally-adjusted, monthly reporting of employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll-employment and unemployment-rate data for the latest seasonal patterns. The headline payroll gain and unemployment rate are so-calculated, but the adjustment process also revises the history of each series, recasting prior reporting on a basis that is consistent with the new headline numbers.

The BLS, however, uses the current estimate but does not publish the revised history, even though it calculates the new data each month. As a result, headline reporting generally is neither consistent with nor comparable to earlier reporting, and month-to-month comparisons of these popular numbers usually are of no substance, other than for market hyping or political propaganda.

For March 2013 the headline unemployment rate was 7.6%, and the headline monthly payroll change was a gain of 88,000 jobs. Yet, the reported March headline unemployment rate was neither consistent with nor comparable to the headline February 2013 unemployment rate of 7.7%. While the 88,000 jobs gain for March was consistent with the revised 268,000 jobs increase estimated for February, those increases were not consistent with the new 148,000 jobs gain reported for January or with any earlier data.

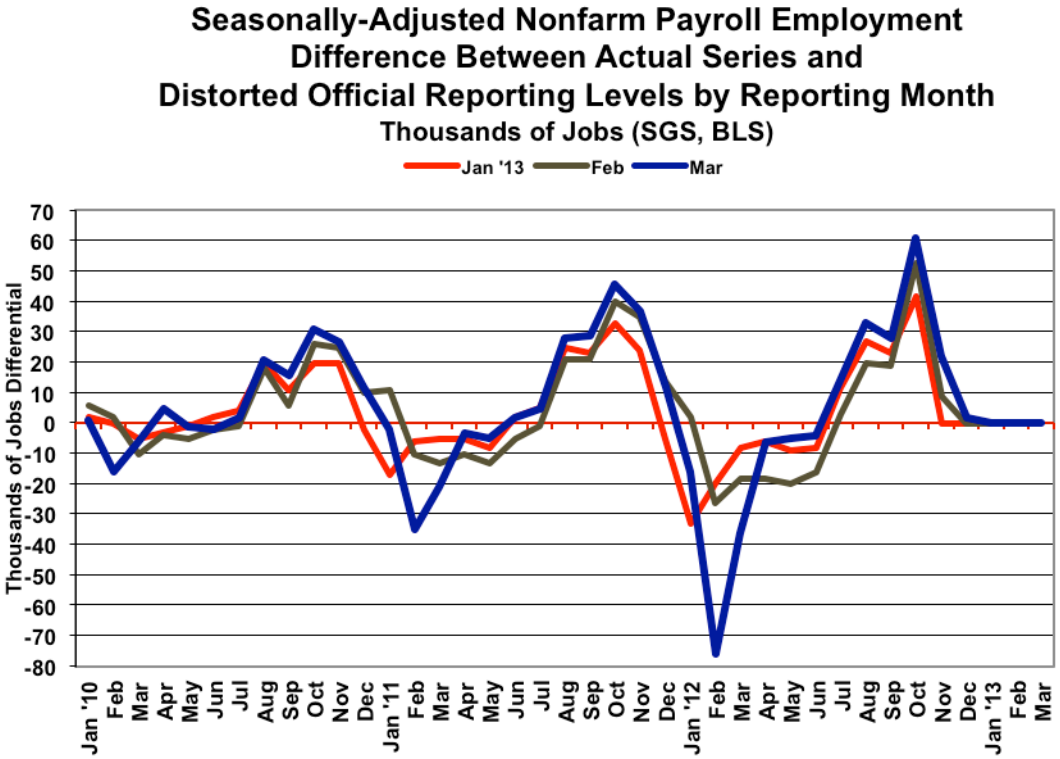
Unemployment Numbers Simply Are Not Comparable Month-to-Month. Except for the once-per-year December release of revisions to seasonally-adjusted data, the BLS publishes no revised seasonally-adjusted data on a monthly basis for the household survey, even though those revisions are made and are available internally to the BLS for publication every month, as part of the concurrent-seasonal-factor process.

As discussed frequently (see *Commentary No. 473*, *Commentary No. 461*, and *Commentary No. 451*, for example), the revisions to earlier data from the concurrent-seasonal-factor process can be significant. As a result, month-to-month changes in seasonally-adjusted unemployment rates are meaningless—not determinable under current BLS reporting policies—and use of monthly comparisons simply should be avoided. At this time, the BLS does make usable, comparative data available to the public.

Payroll Growth Is Consistent Only One-Month Back, With Heavy Distortions Usual. With the payroll series, the level of payrolls is released for the headline month, and for the two prior months, on a consistent basis. That means that only the current headline month-to-month change and the change for the prior month are consistent and comparable. Unlike the household-survey circumstance, however, the BLS makes available the seasonal-adjustment models and data so that others can calculate the payroll revisions, and we have done so for the accompanying graph. All these data were reset with the March 2012 benchmark revision, which was published in January 2013.

Distortions in the post-benchmark environment already have surfaced, even though the data are based on the initial public reporting of the benchmark revision. The reason for this is that the benchmark revision actually was run internally by the BLS, based on October 2012 numbers. With subsequent internal runs in November, December and January 2013, three months of revisions already had skewed the January data, as shown in the accompanying graph. The line for February reflects only one month subsequent of new seasonal-factor revisions, and the March line reflects a second month, with mounting seasonal instabilities. Without distortions, the plotted lines would be flat and at zero.

Conceivably, the shifting and unstable seasonal adjustments could move 90,000 jobs (based on last year's full revisions, and quickly being approached by this year's numbers) or more from earlier periods and insert them into the current period as new jobs, without there being any published evidence of that happening.



Note: The issues with the BLS's concurrent-seasonal-factor adjustments and related inconsistencies in the monthly reporting of the historical time series are discussed and detailed further in the ShadowStats.com posting on May 2, 2012 of Unpublished Payroll Data.

As discussed in other writings (see for example Hyperinflation 2012), seasonal-factor estimation for most economic series has been distorted severely by the extreme depth and duration of the economic contraction. These distortions are exacerbated for payroll employment data based on the BLS's monthly seasonal-factor re-estimations and lack of full reporting.

A further issue remains that the month-to-month seasonally-adjusted payroll data have become increasingly meaningless, with reporting errors likely now well beyond the official 95% confidence interval of +/- 129,000 jobs in the reported monthly payroll change. Yet, the media and the markets tout the data as meaningful, usually without question or qualification.

Birth-Death/Bias-Factor Adjustment. Despite the ongoing, general overstatement of monthly payroll employment—as evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 2012, excepted)—the BLS generally adds in upside monthly biases to the payroll employment numbers. The process was created simply by adding in a monthly "bias factor," so as to prevent the otherwise potential political embarrassment of the BLS understating monthly jobs growth. The "bias factor" process resulted from an actual such embarrassment, with the underestimation of jobs growth coming out of the 1983 recession. That process eventually was recast as the now infamous Birth-Death Model (BDM), which purportedly models the effects of new business creation versus existing business bankruptcies.

March 2013 Bias. The not-seasonally-adjusted March 2013 bias was a monthly add factor of 92,000, versus a preliminary upside bias of 90,000 in March 2012, and an upside bias of 102,000 in February 2013. The aggregate upside bias for the current year appears to have been upped to about 635,000 in the latest reporting, or a monthly average of roughly 53,000 jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS as part of the BDM, as discussed below.

Problems with the Model. The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net positive jobs creation by new companies versus those going out business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. Where the BLS cannot measure meaningfully the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), such information is estimated by the BLS along with the addition of a bias-factor generated by the BDM.

Positive assumptions—commonly built into government statistical reporting and modeling—tend to result in overstated official estimates of general economic growth. Along with happy guesstimates, there usually are underlying assumptions of perpetual economic growth in most models. Accordingly, the functioning and relevance of those models become impaired during periods of economic downturn, and the current downturn has been the most severe—in depth as well as duration—since the Great Depression.

Indeed, historically, the BDM biases have tended to overstate payroll employment levels—to understate employment declines—during recessions. There is a faulty underlying premise here that jobs created by start-up companies in this downturn have more than offset jobs lost by companies going out of business. So, if a company fails to report its payrolls because it has gone out of business (or has been devastated by a hurricane), the BLS assumes the firm still has its previously-reported employees and adjusts those numbers for the trend in the company's industry.

Further, the presumed net additional "surplus" jobs created by start-up firms are added on to the payroll estimates each month as a special add-factor. These add-factors are set now to add an average of about 53,000 jobs per month in the current year. The aggregate overstatement of monthly jobs likely exceeds 100,000 jobs per month. With the economy slowing anew, with growth generally below consensus expectations, the next hope for relief in current over-reporting of jobs growth would be the 2013 benchmark revision, due to be published in February of 2014.

HOUSEHOLD SURVEY DETAILS. As discussed in the *Opening Comments*, the seasonally-adjusted or headline March 2013 household-survey data are inconsistent with February 2013 reporting, due to the BLS's unconscionable practice of revising previous estimates that are the basis for and consistent with current reporting, but then publishing only the current number, not the consistent prior-period revisions. The BLS leaves in place earlier monthly estimates, knowing them to be inconsistent and not comparable with each other, let alone the current headline reporting. Accordingly, seasonally-adjusted month-to-month comparisons of components in the household survey are of no meaning.

Headline Household Employment. The household survey counts the number of people with jobs, as opposed to the payroll survey that counts the number of jobs (including multiple job holders more than once). On that basis March 2013 employment fell by 206,000, following a 170,000 monthly gain in

February, but these numbers are not corrected for the unpublished and currently unknowable in-house BLS seasonal-adjustment revisions. Accordingly, as discussed in the *Unemployment Rates* section, the seasonally-adjusted household numbers in March were not comparable to February's reporting.

Unemployment Rates. The reported March 2013 seasonally-adjusted headline (U.3) unemployment rate of 7.57% simply was not comparable to the reported 7.74% unemployment rate of February. As with other headline household-survey data, the problem with unemployment-rate comparability is tied to the use of concurrent-seasonal-factor adjustments.

When the seasonally-adjusted March 2013 unemployment data were calculated, consistent, new seasonal factors also were recalculated for February 2013 and prior months. Based on the new seasonal factors, there is a revised February unemployment rate that is consistent with March's new headline reporting. Although the BLS knows that number, it will not publish it; it has left intact the now-inconsistent number that previously had been reported for February.

This process is repeated every month, except in December when a revised and consistently seasonally-adjusted series is published. The misreporting process begins anew with the reporting of the unemployment data for each January (see the discussions in *Commentary No. 451*, *Commentary No. 487* and the earlier *Concurrent Seasonal Factor Distortions* section for further detail).

As a result, the purported headline 0.17% month-to-month decline in the March U.3 employment rate could have been an increase, unchanged, or a decline, but no one other than the BLS knows. Even so, the official rate decline was statistically insignificant, based on official error estimates.

The official +/- 0.23 percentage-point, 95% confidence interval for the monthly headline U.3 number is meaningless, in the context of comparative month-to-month reporting inconsistencies already discussed. On an unadjusted basis, however, the unemployment rates are not revised and are consistent in reporting methodology, they are just seasonally warped. March's unadjusted U.3 unemployment rate was 7.6%, versus 8.1% in February.

The broadest unemployment rate published by the BLS, U.6 includes accounting for those marginally attached to the labor force (including short-term discouraged workers) and those who are employed part-time for economic reasons (they cannot find a full-time job).

Reflecting a decline in people working part-time for economic reasons, and an increasing flow of short-term discouraged workers into the long-term discouraged work category (see next subsection), the March 2013 U.6-unemployment rate dropped to a seasonally-adjusted 13.8% from 14.3% in February, but, again, the monthly seasonally-adjusted numbers are not comparable and the BLS guesstimates are unstable. The unadjusted March U.6 rate declined to 13.9% from 14.9% in February.

Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) was 803,000 in March 2013, down from 885,000 in February and about even with 804,000 in January 2013. Those numbers still are not comparable with the 1,068,000 of December, the 979,000 in November, or the 813,000 in October, thanks to the change in population assumptions that were published with the January 2013 data.

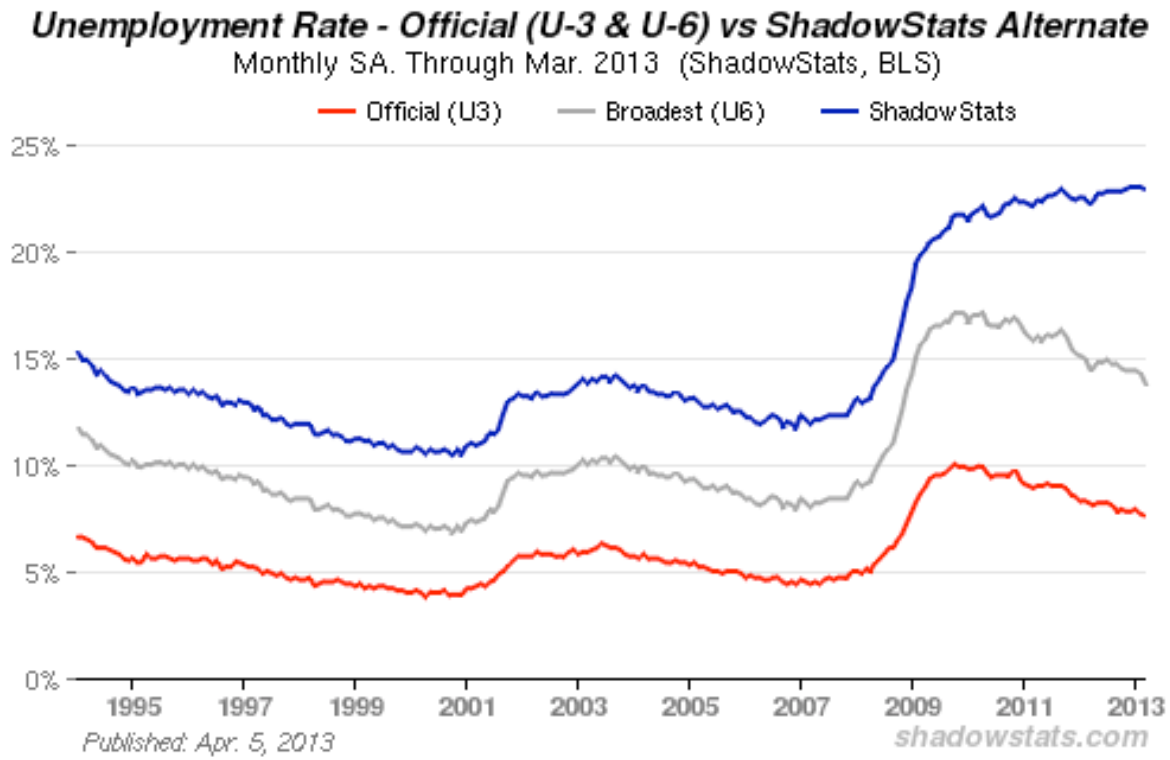
The current official discouraged-worker number reflected the flow of the unemployed—increasingly giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the

U.6 measure as short-term "discouraged workers," versus those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status. It is the long-term discouraged-worker category that defines the ShadowStats-Alternate Unemployment Measure.

In 1994, "discouraged workers"—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been "discouraged" for less than a year. This time qualification defined away a large number of long-term discouraged workers. The remaining short-term discouraged workers (those discouraged less than a year) were included in U.6.

Adding back into the total unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers, broad unemployment—more in line with common experience, as estimated by the ShadowStats-Alternate Unemployment Measure—eased a notch to 22.9% in March. Previously, that measure had held at a series high of 23.0% for the three months through February 2013. The ShadowStats estimate reflects the increasing toll of unemployed leaving the headline labor force. Where the ShadowStats alternate estimate generally is built on top of the official U.6 reporting, it tends to follow its relative monthly movements. Accordingly, the alternate measure often will suffer some of the same seasonal-adjustment woes that afflict the base series, including underlying annual revisions.

CAUTION: Reported month-to-month comparisons of the various unemployment rates are meaningless, due to deliberate inconsistencies in BLS reporting.



As seen in the preceding graph, however, there continues to be a noticeable divergence in the ShadowStats series versus U.6. The reason for this is that U.6, again, only includes discouraged workers who have been discouraged for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as new workers enter "discouraged" status.

With the continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker status (a ShadowStats measure). There was a lag in this happening as those having difficulty during the early months of the economic collapse, first moved into short-term discouraged status, and then, a year later into long–term discouraged status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force has been accelerating. See the *Alternate Data* tab for more detail.

As discussed in previous writings, an unemployment rate around 23% might raise questions in terms of a comparison with the purported peak unemployment in the Great Depression (1933) of 25%. Hard estimates of the ShadowStats series are difficult to generate on a regular monthly basis before 1994, given the reporting inconsistencies created by the BLS when it revamped unemployment reporting at that time. Nonetheless, as best estimated, the current ShadowStats level likely is about as bad as the peak actual unemployment seen in the 1973 to 1975 and in double-dip recession of the early-1980s.

The Great Depression unemployment rate of 25% was estimated well after the fact, with 27% of those employed working on farms. Today, less that 2% of the employed work on farms. Accordingly, a better measure for comparison with the ShadowStats number would be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

U.S. TRADE BALANCE (February 2013)

Exports Rising at a Somewhat Higher Pace than Imports Narrowed the February Trade Deficit. In the context of recent reporting instabilities, the February 2013 trade deficit narrowed to $43.0 billion from a revised $44.5 billion in January. Nonetheless, the first-quarter deficit still is running at a pace that suggests net deterioration versus fourth-quarter 2012, both before and after consideration for the effects of inflation. Accordingly, first-quarter 2013 net trade activity should subtract growth from the pending April 26th initial estimate of first-quarter 2013 GDP.

Nominal (Not-Adjusted-for-Inflation) Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported April 5th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for February 2013, on a balance-of-payments basis, narrowed to $43.0 billion from a revised $44.5 (previously $44.4) billion in January 2013. The February 2013 deficit, however, also narrowed from $44.6 billion in February 2012.

The monthly trade deterioration reflected an increase in both exports and imports, with the export gains somewhat outpacing the import increases. Monthly growth in imports was constrained by activity surrounding the oil market.

Crude Oil and Energy-Related Petroleum Products. For the month of February 2013, the not-seasonally-adjusted average price of imported oil rose to $95.96 per barrel, from $94.08 in January, but it was down

from an average of $103.63 in February 2012. Based on recent oil-market behavior, though, the pattern of declining oil prices on imported oil should move still higher in the months ahead.

More than offsetting higher prices, not-seasonally-adjusted physical oil import volume in February 2013 volume averaged 7.313 million barrels per day, down from 8.411 million in January 2013, and down from 7.783 million barrels per day in February 2012.

Cautions on Data Quality. Potentially heavy distortions in headline data continue from seasonal adjustments, much as has been seen in other economic releases, such as retail sales and payrolls, where the headline number reflects month-to-month change. As has been discussed frequently (see Hyperinflation 2012 *for example), the extraordinary length and depth of the current business downturn have disrupted regular seasonality patterns. Accordingly, the markets should not rely heavily on the accuracy of the monthly headline data.*

Real (Inflation-Adjusted) Trade Deficit. Adjusted for seasonal factors and net of oil-price swings and other inflation (2005 chain-weighted dollars as used in reporting real GDP), the February 2013 merchandise trade deficit (no services) came in at $47.4 billion, versus a revised $48.1 (previously $48.0) billion in January 2013. The February 2013 deficit of $47.4 billion widened against the $44.9 billion monthly deficit estimated for February 2012.

In terms of the "advance" estimate of the first-quarter 2013 GDP, due for release on April 26th, the trade impact should be a small negative. The fourth-quarter 2012 real trade deficit was an unrevised annualized $568.1 billion, versus an estimate of $572.8 billion for first-quarter 2013, based on the January and February data, which are the last numbers that will be issued here before the first GDP guess. The small net quarter-to-quarter deterioration here should be reflected in a widening of the net export account shortfall, which subtracts from the GDP aggregate growth rate.

CONSTRUCTION SPENDING (February 2013)

February's Small Gain in Construction Spending Was in the Context of Downside Revisions to Prior Reporting. Allowing for the the usual patterns of reporting instabilities and large revisions, and allowing for the impact of inflation on nominal (not-adjusted-for-inflation) activity, monthly construction spending continued to stagnate in February 2013.

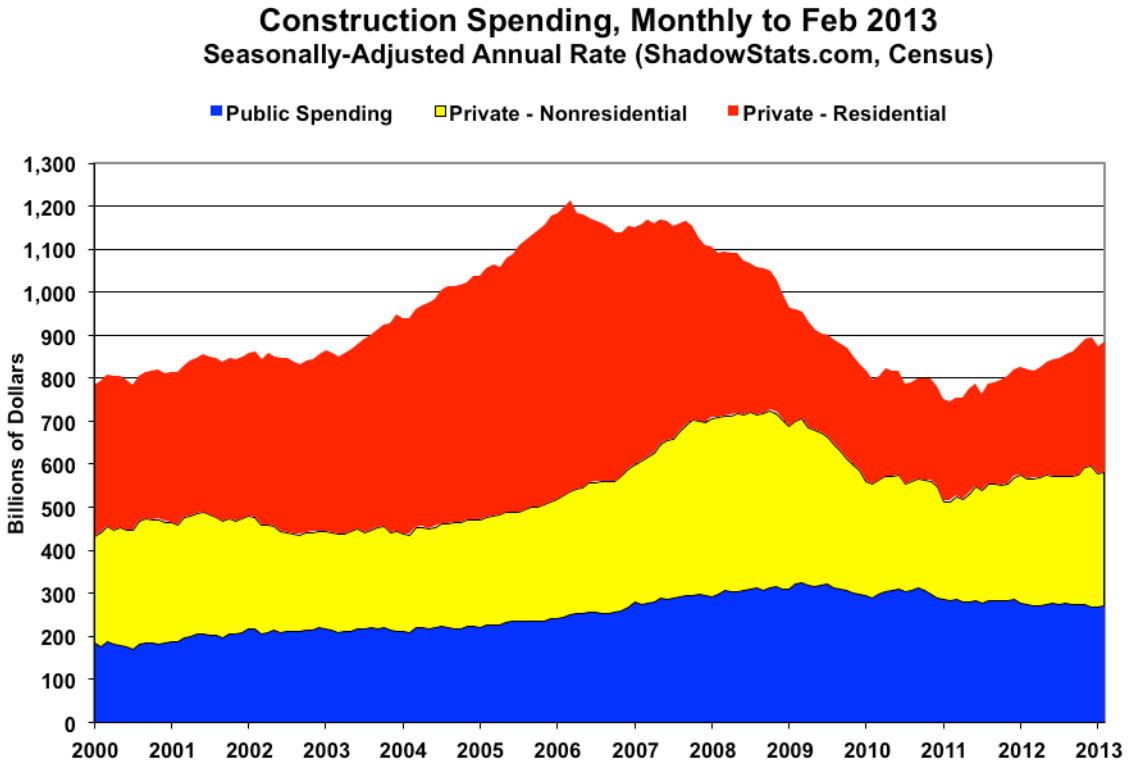
Inflation-Adjusted Construction Spending Series. Shown in the *Opening Comments* and in the following graphics is the February 2013 ShadowStats estimation of an inflation-adjusted construction spending series. There is no perfect inflation measure for deflating construction, but the PPI new construction index is the closest found in publicly available series. Adjusted for the PPI measure, construction spending shows the economy slowing in 2006, plunging into 2011, turning minimally higher in an environment of low-level stagnation, and faltering anew in the most recent reporting.

Official Reporting. The Census Bureau reported April 1st that the total value of construction put in place in the United States during February 2013 was $885.1 billion, on a seasonally-adjusted—but not inflation-adjusted—annual-rate basis. That estimate was up by a statistically-insignificant 1.2% +/- 1.8% (all confidence intervals are at a 95% level) for the month, from an downwardly revised $874.8 (previously $883.3) billion in January. Before prior-period revisions, the monthly February gain was 0.2%. In

revision, January spending fell by an "unrevised" 2.1%, but with parallel downside revisions to levels in both January and December spending. Adjusted for the PPI construction index inflation measure, aggregate spending in February effectively was unchanged month-to-month at the first decimal point (down by 0.04%), following a 2.7% monthly decline in January.

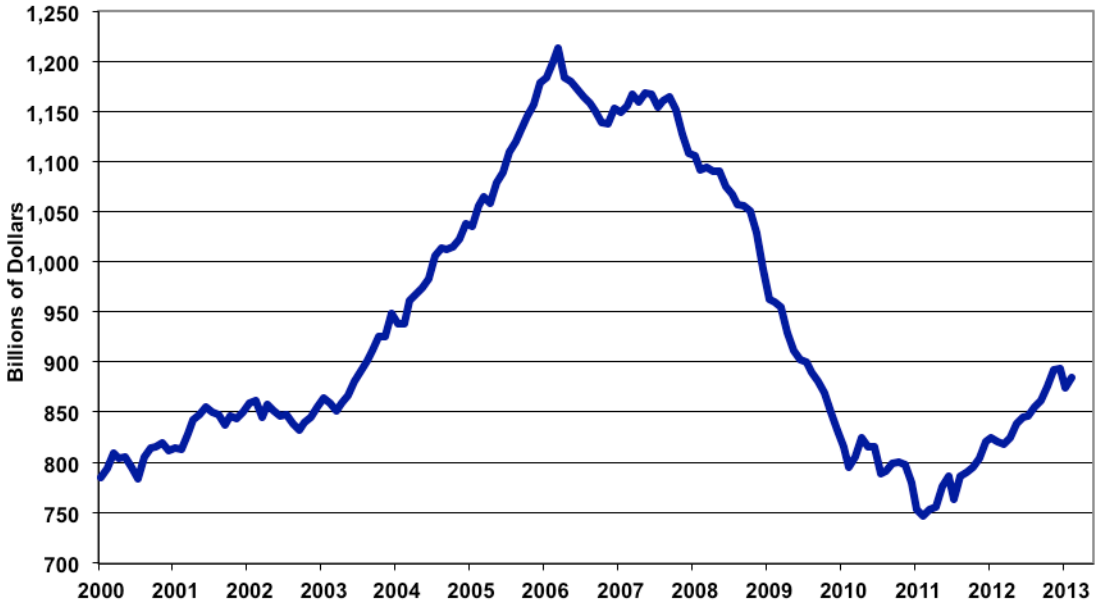
February 2013 construction spending was up year-to-year by a statistically-significant 7.9% +/- 2.5%, with January's annual growth revising to 6.1% (previously 7.1%). A portion of February's 7.9% annual gain was accounted for by increases in actual construction costs, with the PPI current construction index indicating 2.1% related year-to-year inflation.

The statistically-insignificant 1.2% increase in monthly February 2013 construction spending included a 0.9% gain in public construction spending, which had revised to a 0.2% gain (previously a 1.0% decline) in January. February private construction rose by 1.3% for the month, versus a revised 3.1% (previously 2.6%) decline in January. The accompanying graphs show the 1.2% monthly gain in February total construction, with private residential construction up by 2.2%, private nonresidential construction up by 0.4% and public construction up by 0.9% for the month.

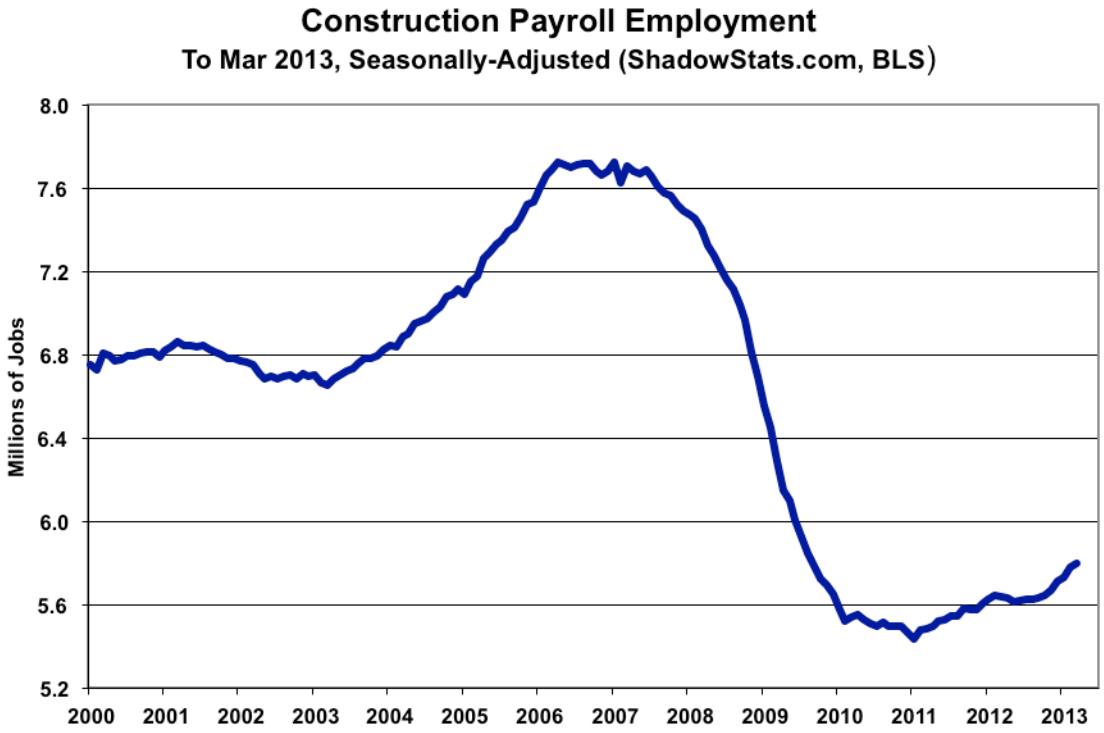


The next two graphs reflect total construction spending through January 2013, the first is before inflation adjustment, the second is an aggregate index reflecting inflation-adjusted data. The third graph reflects the reporting of March 2013 construction employment, released April 5th by the Bureau of Labor Statistics. Seasonally-adjusted construction employment purportedly rose by 0.3% or 18,000 jobs month-to-month, to 5.802 million, up by 3.5% year-to-year.

Total Construction Spending, Monthly to Feb 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)

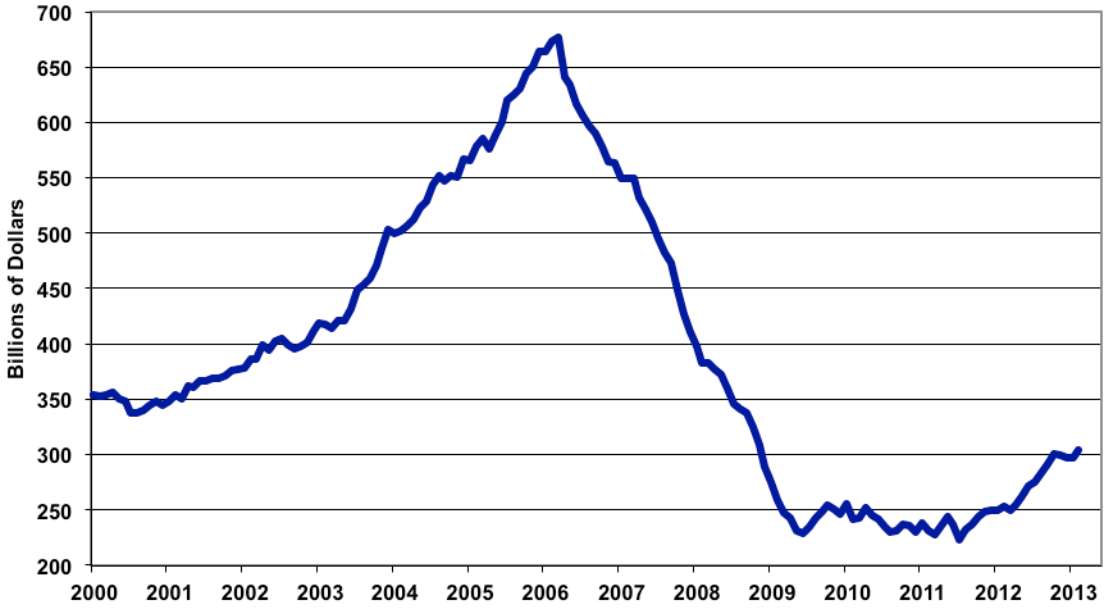


Index of Value of Construction Put in Place
To Feb 2013, Inflation-Adjusted (Jan 2000=100)
Deflated by the PPI New Construction Index
(Sources: ShadowStats.com,Census Bureau, BLS)

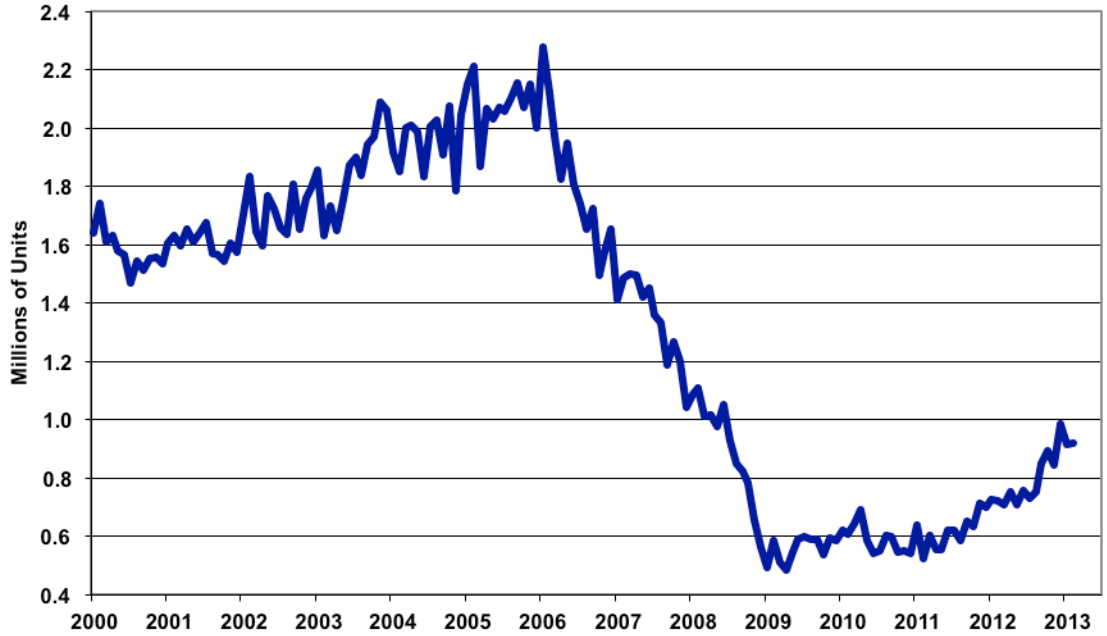


The next two graphs cover private residential construction, including housing starts, as reported for February 2013 (see *Commentary No. 511* for detail). The difference in the graphs is the smoother pace of actual spending (not-adjusted-for-inflation), instead of the more-irregular monthly variation in the count of physical monthly starts.

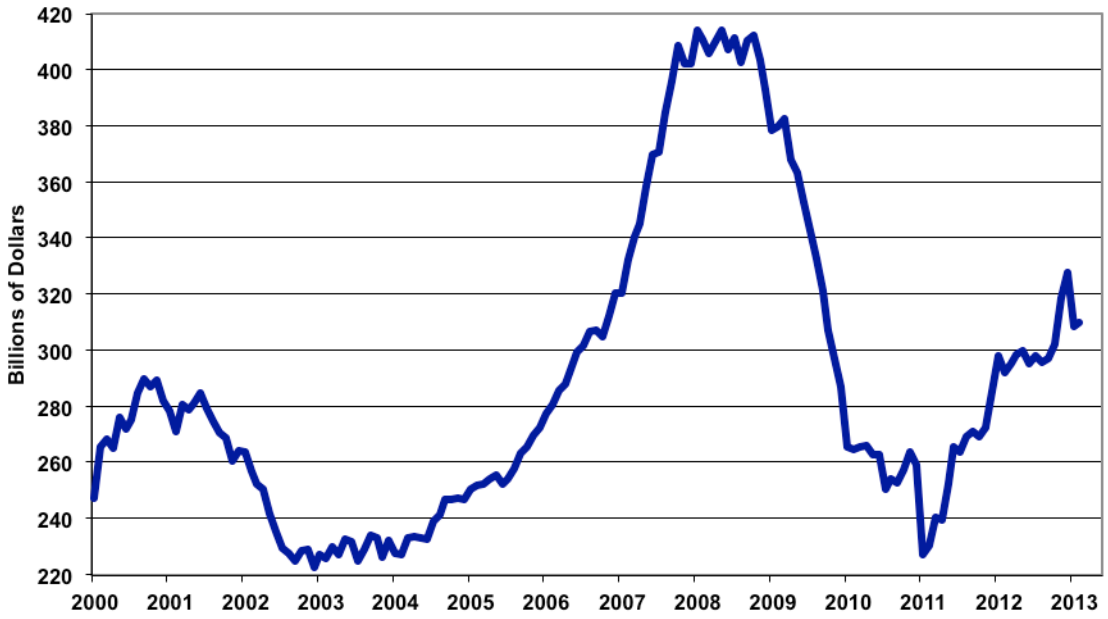
Private Residential Construction to Feb 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



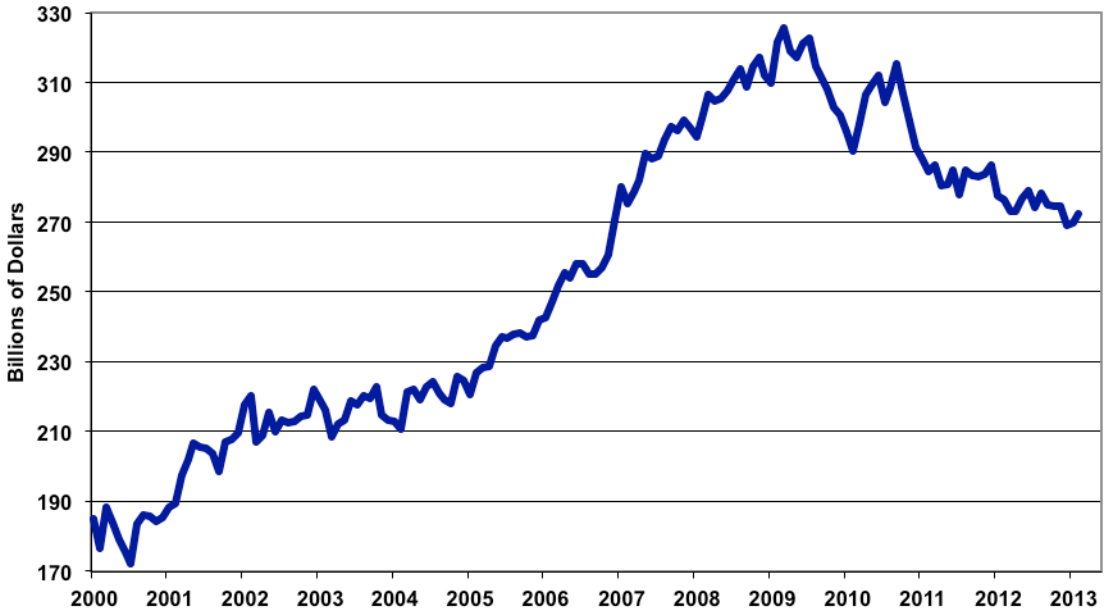
Housing Starts (Annual Rate by Month)
2000 to Feb 2013, Seasonally-Adjusted (ShadowStats.com, Census)



Private Nonresidential Construction to Feb 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



Public Construction, Monthly to Feb 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



The last two graphs in this series, preceding, show the patterns of activity in private nonresidential construction spending and in public construction spending. The public construction spending is 98% nonresidential.

WEEK AHEAD

Weaker Economic and Softer Inflation Data Should Surface in the Near-Term. Reflecting the intensifying structural liquidity constraints on the consumer, and in anticipation of the likely negative impact, of the continuing and expanded QE3 and the still-pending fiscal crisis/debt-ceiling negotiations, on the U.S. dollar in the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and weaker-than-expected economic results. The March inflation numbers, though, should prove to be an exception. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as was seen for industrial production, and as pending for new orders for durable goods (May 17th), retail sales (May 31st), trade deficit (June 4th) and GDP (July 31st—comprehensive overhaul and redefinition back to 1929).

Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain tied largely to systemic distortions of seasonal adjustments, distortions that have been induced by the still-ongoing economic turmoil of the last five years. The recent economic collapse has been without precedent in the post-World War II era of modern economic reporting. These distortions have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series. In any event, where reported numbers are too far removed from common experience, they tend to be viewed by the public with extreme skepticism.

Still, recognition of an intensifying double-dip recession continues to gain, while recognition of a mounting inflation threat has been rekindled by the Fed's monetary policies. The political system would like to see the issues disappear, and it still appears to be trying to work numerical slight-of-hand with series such as the GDP and related projections of the federal budget deficit. The media do their best to avoid publicizing unhappy economic news or, otherwise, they put a happy spin on the numbers. Pushing the politicians and media, the financial markets and related spinmeisters do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability, as discussed in Hyperinflation 2012 *and* No. 485: Special Commentary.

Retail Sales (March 2013). Scheduled for release on Friday, April 12th, by the Census Bureau, the headline March 2013 retail sales number likely will offer a downside surprise to developing, less-than-robust market expectations. With mounting structural stresses on consumer liquidity, including lack of real income growth, rising taxes, and constrained credit (see the consumer liquidity issues detailed in *Commentary No. 513* and the consumer credit outstanding detail just updated in the *Opening Comments*), odds favor a downside surprise and negative reading in the headline nominal retail sales number.

Real retail sales (net of inflation adjustment) will be addressed in a separate *Commentary* on Tuesday April 16th, along with the detail on the March 2013 CPI. The inflation-adjusted sales numbers likely will show negligible monthly change and slowing annual growth. That is despite a likely soft, headline CPI.

Producer Price Index—PPI (March 2013). The March 2013 PPI also is scheduled for release on Friday, April 12th, but by the Bureau of Labor Statistics (BLS). Other than for a small monthly increase in finished gasoline prices, energy prices generally were lower in March 2013. Depending on the oil contract followed, oil prices, on average, were down 2.5-to-6.4 percentage points for the month. With seasonal–adjustment factors for energy prices turning heavily negative in March, seasonally-adjusted energy prices should be a dominant, heavy drag on the headline March PPI.

Expectations appear to be developing for a flat-to-minus monthly reading, but the oil circumstance would suggest an outright decline in the headline March PPI, possibly a downside surprise to expectations, despite any upside pressures from food prices and "core" inflation.
