

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

COMMENTARY NUMBER 520
March Trade Deficit and Construction Spending

May 2, 2013

March Trade Report Puts Upside Pressure on GDP Revision
Construction Spending Appears to Be Turning Down, Again

PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Friday, May 3rd, covering the employment and unemployment detail for April.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Late Data for March Did Not Alter the General Outlook. The general economic outlook remains severely troubled, with no economic recovery likely having occurred in recent years or likely to occur in the near future, as discussed in [Commentary No. 519](#), and the stragglers of March economic reporting have not altered that outlook. Although the March trade deficit showed enough of an improvement, by itself, to provide something of an upside boost to the next estimate of first-quarter GDP, GDP reporting is not meaningful, and the trade improvement very likely was little more than a seasonal-adjustment problem.

March construction spending declined for the month. Although, by itself, the monthly drop in construction was not statistically significant, it was accompanied by downside prior-period revisions, and a pattern of renewed downturn—in an otherwise stagnating series—that has become noticeable in the graphs of the level of activity.

The May 3rd *Commentary* on April 2013 labor-market conditions—the first major economic release for April—will explore more broadly any unfolding economic news, along with an update on monetary conditions.

March 2013 Trade Balance. The sharp narrowing in the March 2013 monthly trade deficit was enough to put upside pressure on the pending GDP revision. While the headline, seasonally-adjusted March deficit shrank to \$38.8 billion, from a revised \$43.6 billion in February, which was in the context of ongoing seasonal-factor and reporting instabilities. Both imports and exports declined in March, by \$6.6 and \$1.7 billion respectively, with the \$4.8 billion greater decline in imports accounting for the improved trade number. The issue appears to be in seasonal-adjustment problems.

As an indication of the sensitivity and volatility in these numbers tied to that process, consider that the not-seasonally-adjusted deficit narrowed to \$45.3 billion in March, from \$47.2 billion in February. Unlike the adjusted numbers, though, with imports declining faster than exports, the unadjusted numbers reflected exports soaring by more than imports, respectively up by \$13.1 billion and \$11.1 billion.

Back in the seasonally-adjusted world, however, declines in seasonally-adjusted oil and computer imports accounted for roughly half the import decline. The rest of the decline was spread widely across the “consumer goods” category, in a pattern indeed suggestive of a seasonal-adjustment problem, rather than a fundamental shift in trade patterns. Eventually, the seasonal-adjustment distortions will balance out in the monthly reporting.

Impact on GDP Revision. Adjusted for seasonal factors and real terms (net of oil-price swings and other inflation, 2005 chain-weighted dollars as used in reporting real GDP), the now complete reporting of first-quarter 2013 trade activity showed a narrowing of the relative quarterly deficit, not the initial estimate of a widening. The headline growth for the “advance” estimate of first-quarter GDP was 2.50%, including a negative 0.50% contribution from the widening trade deficit (see [Commentary No. 519](#)). As a result of the new trade data, the net export account should provide a net positive, not negative, contribution to the revised GDP estimate due for release on May 30th.

All the trade numbers will be revamped in the benchmark revisions due for this series on June 4th, while all the GDP numbers will be revised and recast back to 1929 in revisions due on July 31st.

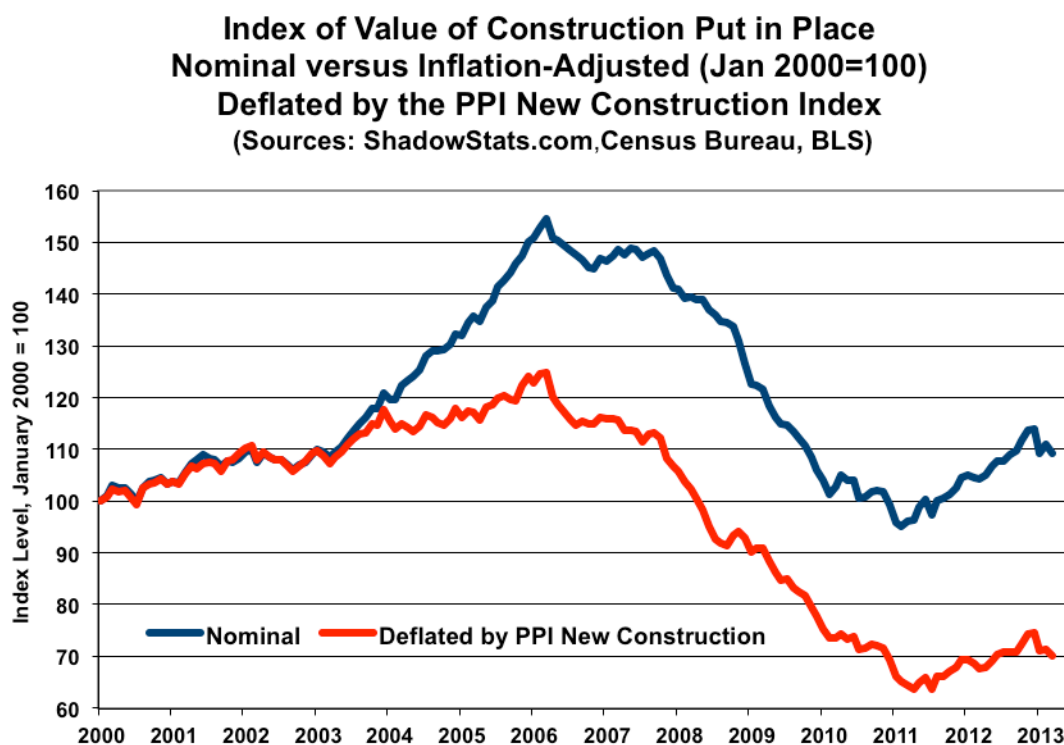
March 2013 Construction Spending. Construction spending appeared to be in renewed decline/stagnation, as of the March 2013 reporting. Although the 1.7% monthly contraction in the series was not statistically-significant, versus February’s revised 1.5% gain, the levels of prior months’ activities were revised lower, and the graphed patterns of activity, both before and after inflation adjustment, have shown downside turns in activity. Adjusted for PPI new construction inflation, aggregate real spending in March also was down by 1.7%, following an unchanged level in February.

The annual year-to-year gain of 4.8% in March 2013 construction spending was statistically-significant, as was the revised annual growth of 6.2% in February. Net of construction costs indicated by the PPI current construction index, year-to-year growth in spending was 3.7% in March, versus 4.0% in February.

Annual revisions to the construction spending series will be published with the July 1st release.

The ShadowStats version of the Census Bureau's construction spending in real terms, 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 in an environment of ongoing low-level stagnation, which now has turned down anew. The peak-to-trough contraction in the level of activity from March 2006 to July 2011 was 49.0%. In March 2013, the level of real activity was up by 10.0% from the July 2011 trough, but it still was down by 43.9% from the March 2006 all-time high. The March 2013 level also remained well below the levels seen going into not only the 2007 recession, but also the 2001 recession.



[Further details on the March trade and construction data are found in the Reporting Detail section.]

HYPERINFLATION WATCH

Hyperinflation Outlook—Unchanged. *This synopsis is unchanged from that published in Commentary No. 517 of April 17th. The summary outlook here is intended for new subscribers and for readers looking for a condensed version of the broad overview of economic, inflation and financial circumstances, or who otherwise are not familiar with the hyperinflation report or special commentaries, linked below. Those latter 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, the next fully-updated hyperinflation report is targeted for publication around mid-May.

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 (see [Public Comment on Inflation](#)). 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.

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.

Before the mid-April rout in gold prices, there had been mounting hype about the Fed potentially pulling back on its “easing” and a coincident Wall Street push to talk-down gold prices. Those factors still appear to be little more than hype, designed for jawboning to support the U.S. dollar and to soften gold, in advance of the still-festering crises in the federal-budget and debt-ceiling negotiations. Despite orchestrated public calls for “prudence” by the Fed, the underlying and deteriorating financial-system and economic instabilities have self-trapped the Fed into an expanding-liquidity or easing role that likely will not be escaped until the ultimate demise of the U.S. dollar. Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the

dollar in international trade, such as seen most recently in the developing relationship between France and China.

The Fed's recent and ongoing liquidity actions themselves suggest a signal of deepening problems in the financial system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed's continuing easing moves appear to have been primarily an effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury, under the political cover of a "weakening economy." Mounting signs of intensifying domestic banking-system stress are seen in a renewed weakening of broad money growth, despite a soaring monetary base, and in global banking-system stress, as reflected in the recent Cyprus crisis and its ongoing aftershocks.

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 unrealistically 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 the release of the Administration's budget for fiscal-year 2014, these issues should be coming to a head, now, in April and 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. A dollar-selling panic is likely this year—of reasonably high risk in the next month or two—with its effects and aftershocks setting hyperinflation into action in 2014. Gold remains the primary and long-range hedge against the upcoming debasement of the U.S. dollar, irrespective of any near-term price gyrations in the gold market.

The rise in the price of gold in recent years was fundamental. The recent panicked sell-off in gold was not. With the underlying fundamentals of ongoing dollar-debasement in place, the upside potential for gold, in dollar terms, is limited only by its inverse relationship to the purchasing power of the U.S. dollar (eventually headed effectively to zero). Again, physical gold—held for the longer term—remains as a store of wealth, the primary hedge against the loss of U.S. dollar purchasing power.

REPORTING DETAIL

U.S. TRADE BALANCE (March 2013)

Sharp Drop in Imports Narrowed the March Trade Deficit. In the context of ongoing seasonal-factor and reporting instabilities, the March 2013 trade deficit narrowed sharply to \$38.8 billion from a revised to \$43.6 billion in February. Both imports and exports declined for the month, by \$6.6 and \$1.7 billion respectively, with the \$4.8 billion greater decline in imports accounting for the improved trade. Where declines in seasonally-adjusted oil and computer imports accounted for roughly half the import decline, the other half was spread widely across the “consumer goods” category, in a pattern suggestive of a seasonal-adjustment problem, instead of a fundamental shift in trade patterns.

Although seasonal-factor distortions will be worked out in later reporting, the March 2013 report was enough of a positive surprise to shift the trade contribution to first-quarter GDP growth from negative to positive, producing upside reporting pressure for the May 30th first-revision to that GDP estimate.

All the trade numbers will be revamped in the benchmark revisions due for this series on June 4th, while all the GDP numbers will be revised an recast back to 1929 in revisions due on July 31st.

Nominal (Not-Adjusted-for-Inflation) Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, May 2nd, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for March 2013, on a balance-of-payments basis, narrowed to \$38.8 billion from a revised \$43.6 (previously \$43.0) in February 2013. The March 2013 deficit also narrowed from \$51.7 billion in March 2012.

The monthly trade deterioration reflected a decline in both exports and imports, with declining imports significantly outpacing exports. Rather than there having been a fundamental shift in trade activity, at work here appears to be a seasonal-adjustment problem, which should balance out in the months ahead. Roughly, one-quarter of the decline in imports was attributable to activity surrounding the oil market.

Crude Oil and Energy-Related Petroleum Products. For the month of March 2013, the not-seasonally-adjusted average price of imported oil rose to \$96.95 per barrel, from \$95.96 in February, but it was down from an average of \$107.95 in March 2012.

Not-seasonally-adjusted, the value of monthly oil imports increased in March, with higher prices more than offsetting declining physical volume. Not-seasonally-adjusted physical oil import volume in March 2013 averaged 6.959 million barrels per day, down from 7.313 million in February 2013, and down from 8.738 million barrels per day in March 2012. See the *Opening Comments* for other unadjusted data.

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 March 2013 merchandise trade deficit (no services) came in at \$44.4 billion, versus a revised \$47.8 (previously \$47.4) billion in February. The March 2013 deficit of \$44.4 billion also narrowed against the \$49.9 billion monthly deficit estimated for March 2012.

These data will put upside pressure on the next GDP revision. In terms of first-quarter 2013 GDP, the now complete reporting of first-quarter 2013 trade activity showed a narrowing of the relative quarterly deficit, not the initial estimate of a widening. The headline growth for “advance” estimate of first-quarter GDP was 2.50%, including a negative 0.50% contribution from the widening trade deficit (see [Commentary No. 519](#)). As a result of the new trade data, the net-export account should reflect a net positive, not negative, contribution to the revised GDP estimate due for release on May 30th.

With the new data and revisions, the initial full estimate of the first-quarter 2013 annualized trade shortfall is \$560.9 (previously guessed at \$572.8) billion, versus a revised fourth-quarter 2012 real annualized trade deficit of \$569.6 (previously \$568.1) billion. With what had been a small net quarter-to-quarter trade deterioration, now turning into a small improvement, the quarterly net-export account shortfall should narrow, adding to the aggregate growth rate in the second GDP estimate. The net export account, however, is only one of a number of GDP components that will be face revision on May 30th.

CONSTRUCTION SPENDING (March 2013)

March’s Decline Was After Prior-Period Downside Revisions. Construction spending appears to be in renewed decline/stagnation. Although the monthly decline for the series of 1.7% was not statistically-significant, prior months were revised lower, and the graphed patterns of activity, both before and after inflation adjustments, are showing downside turns in activity. The annual revision to the series is due for release on July 1st.

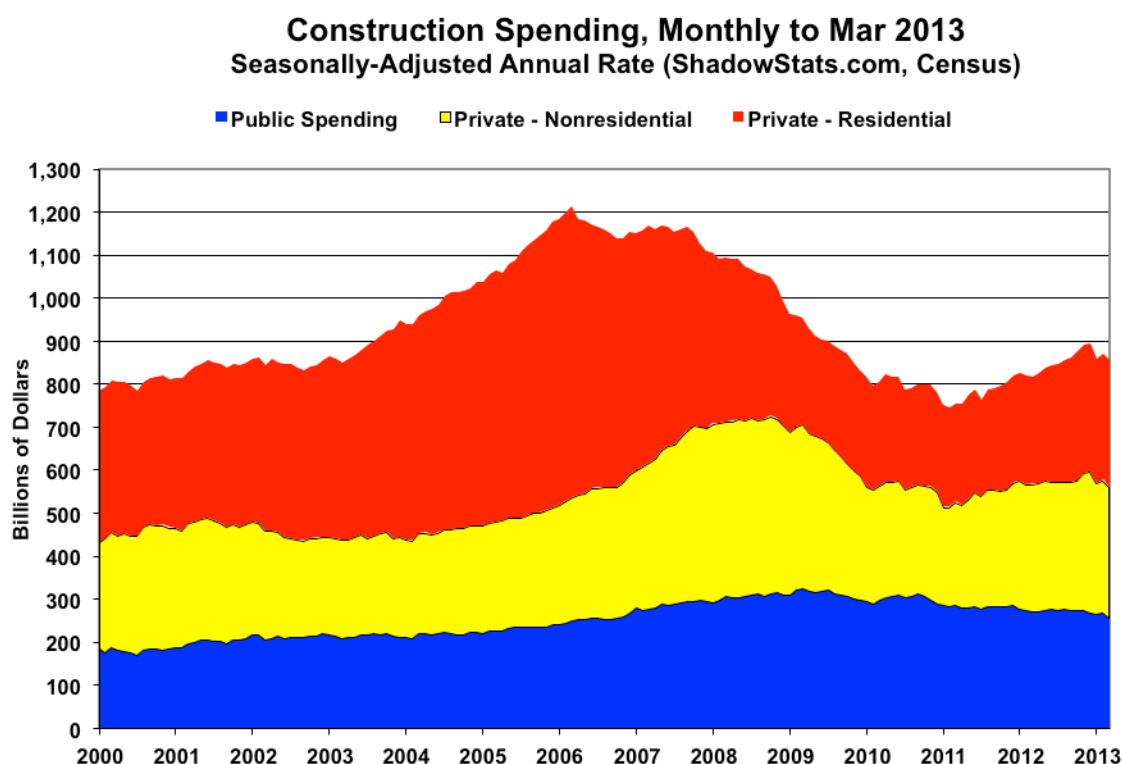
Official Reporting. The Census Bureau reported May 1st that the total value of construction put in place in the United States during March 2013 was \$856.7 billion, on a seasonally-adjusted—but not inflation-

adjusted—annual-rate basis. That estimate was down by a statistically-insignificant 1.7% +/- 1.8% (all confidence intervals are at a 95% level) for the month, from an downwardly revised \$871.2 (previously \$885.1) billion in February.

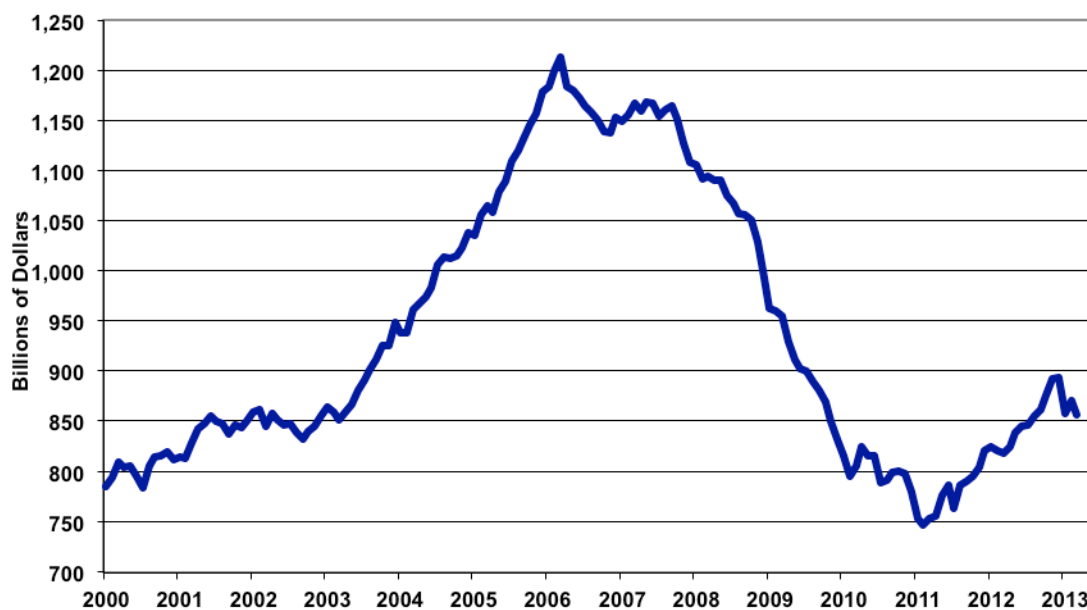
Before prior-period revisions, the monthly March decline was 3.2%. With the March 2013 release, the levels of previously-estimated February and January activity revised lower, respectively, by 1.6% and 1.9%. Respective new monthly rates of change in February and January are a gain of 1.5% (previously 1.2%) and a contraction of 4.0% (previously 2.1%). Adjusted for PPI new construction inflation, aggregate real spending in March also was down by 1.7%, following an unchanged level in February.

March 2013 construction spending was up year-to-year by a statistically-significant 4.8% +/- 1.9%, with February's annual growth revising to 6.2% (previously 7.9%). Net of construction costs indicated by the PPI current construction index, year-to-year growth in spending was 3.7% in March, versus 4.0% in February.

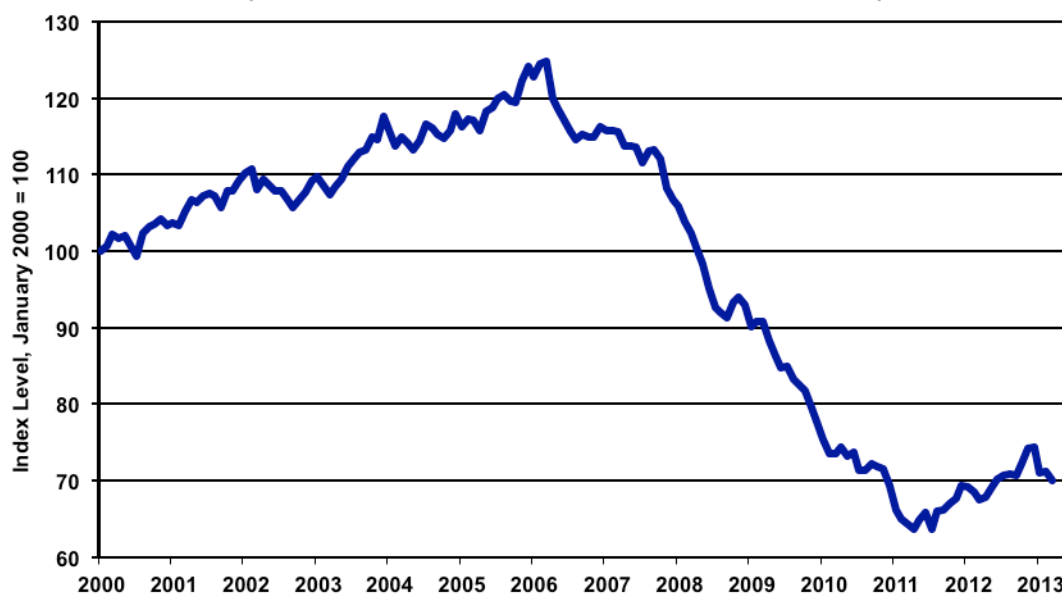
The statistically-insignificant 1.7% decline in monthly March 2013 construction spending included a 4.1% contraction in public construction spending, which had revised to a 1.5% (previously a 0.9%) gain in February. March private construction fell by 0.6% for the month, versus a revised 1.5% (previously 1.3%) gain in February. The accompanying graphs show the 1.7% monthly decline in March total construction, with private residential construction up by 0.4%, private nonresidential construction down by 1.5% and public construction down by 4.1% for the month.



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

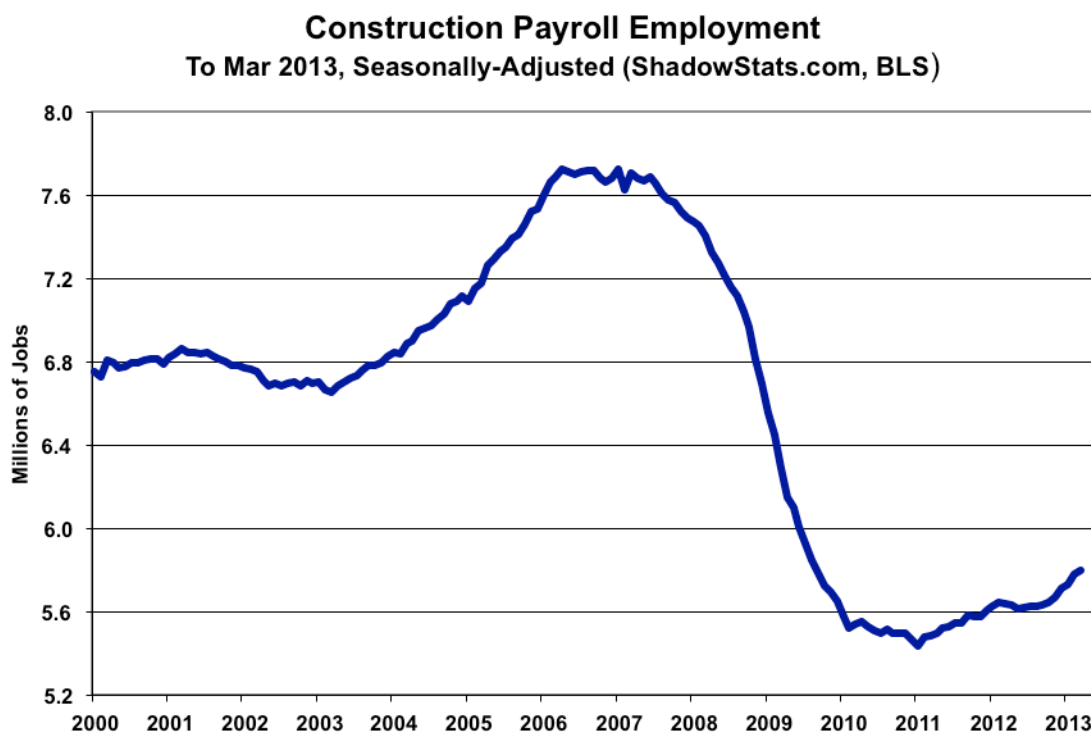


Index of Value of Construction Put in Place
To Mar 2013, Inflation-Adjusted (Jan 2000=100)
Deflated by the PPI New Construction Index
(Sources: ShadowStats.com, Census Bureau, BLS)



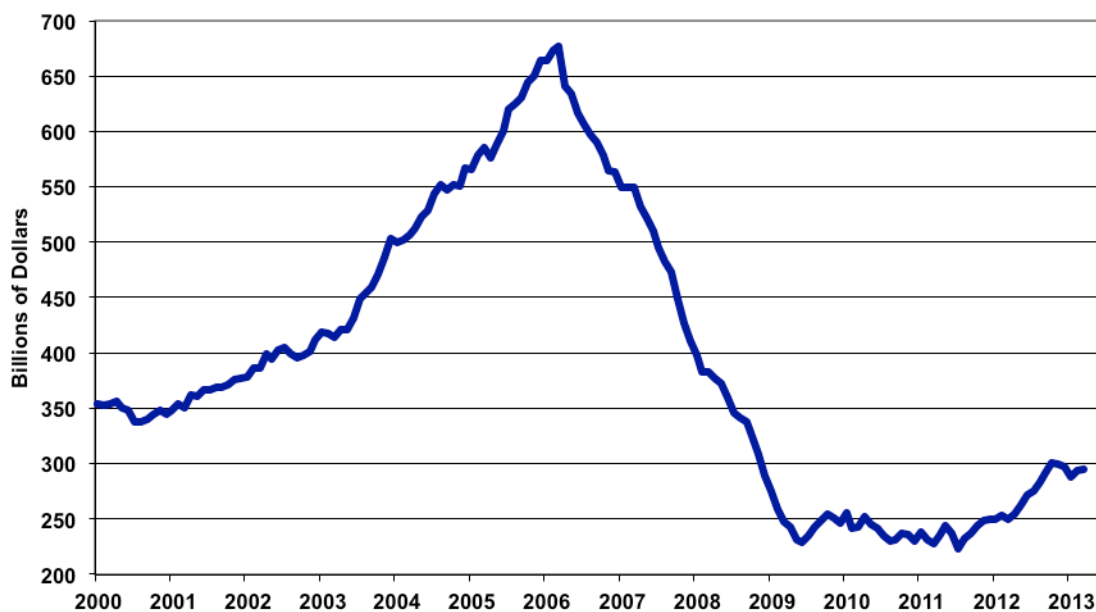
The preceding two graphs reflect total construction spending through March 2013, the first is before inflation adjustment; the second is an aggregate index reflecting inflation-adjusted data. The second graph (see also *Opening Comments*) shows the March 2013 ShadowStats estimation of an inflation-adjusted 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. The pattern of inflation-adjusted activity here does not confirm the economic recovery shown in the headline GDP series (see [Commentary No. 519](#)). To the contrary, the latest construction reporting, both before and after inflation adjustment, shows a developing, renewed decline in activity.

The next graph reflects the reporting of March 2013 construction employment, released April 5th by the Bureau of Labor Statistics. The revised employment graph and data through April will be published in tomorrow's May 3rd *Commentary*, which will cover the April employment report.

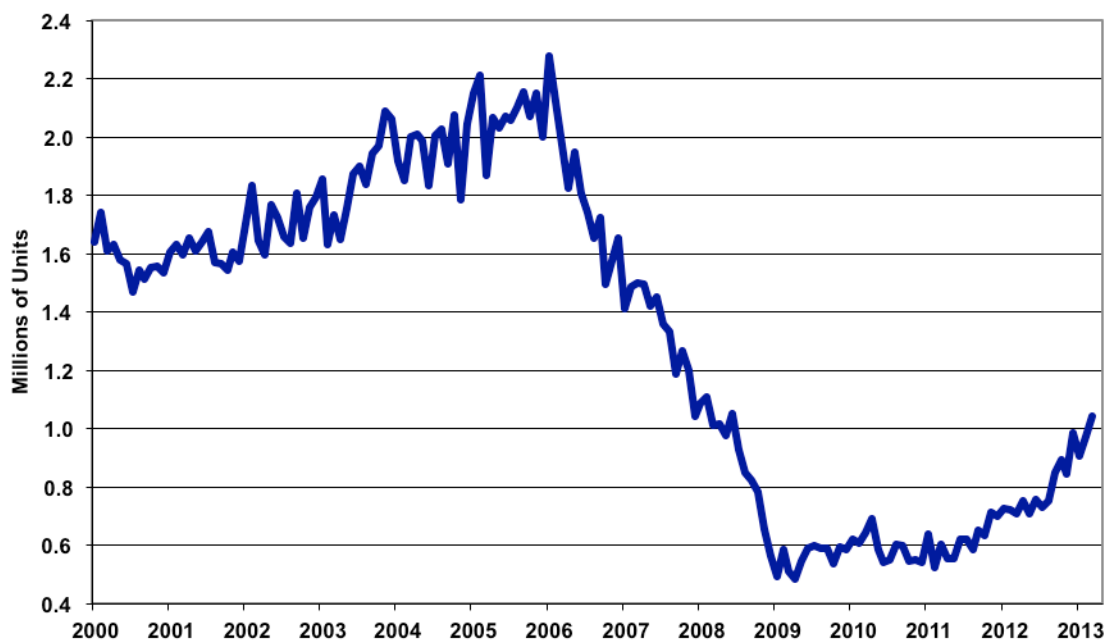


The next two graphs cover private residential construction, including housing starts, as reported for March 2013 (see [Commentary No. 517](#) for detail, including a discussion on single-unit and multi-unit housing starts). The difference in the graphs is the smoother pace of actual spending (not-adjusted-for-inflation), instead of the more-irregular monthly variation in the count of physical monthly starts. The plotted housing starts detail is the level of total activity, including multi-unit starts.

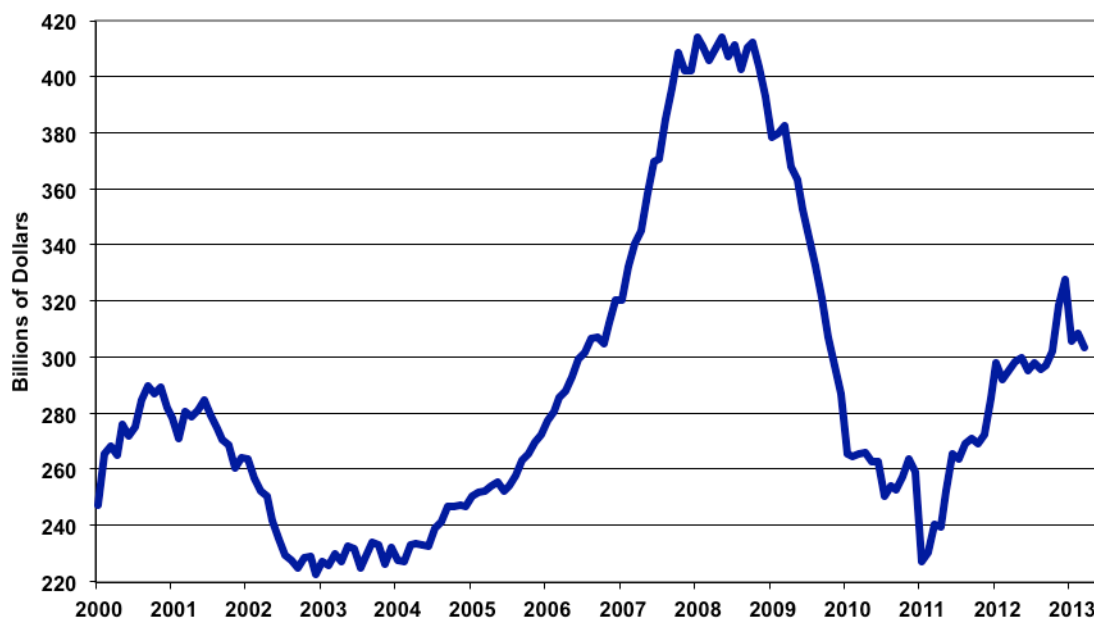
Private Residential Construction to Mar 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



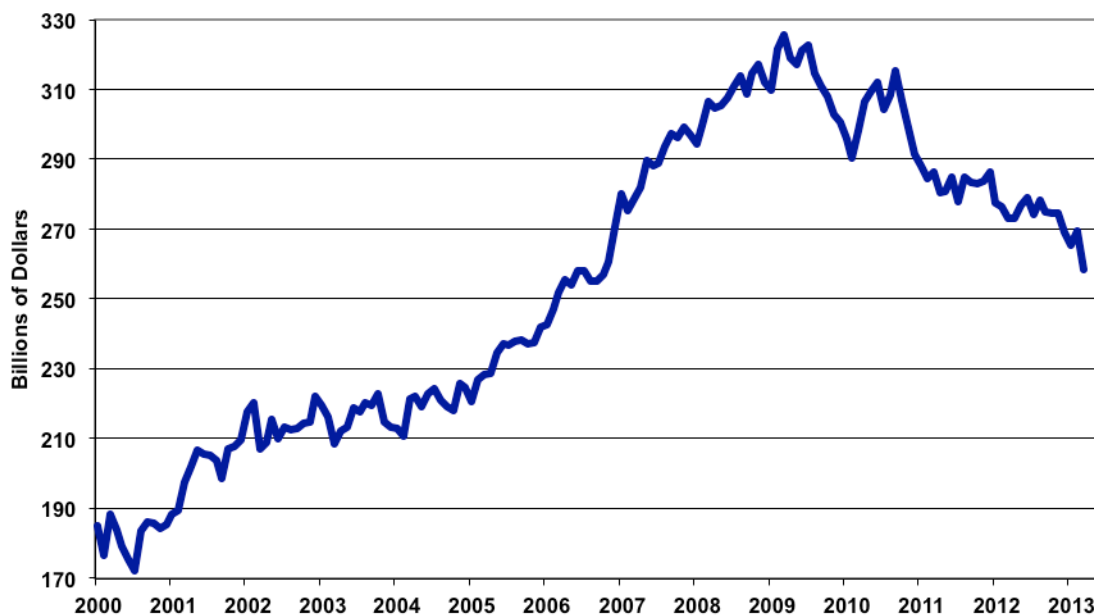
Housing Starts (Annual Rate by Month)
2000 to Mar 2013, Seasonally-Adjusted (ShadowStats.com, Census)



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



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



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

WEEK AHEAD

Weaker Economic and Stronger 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. 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), construction spending (July 1st) 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](#).

Updated – Employment and Unemployment (April 2013). The April labor data are due for release tomorrow, Friday, May 3rd, from the Bureau of Labor Statistics (BLS). Most commonly, the consensus

jobs estimate settles around the trend estimate from the BLS seasonal-adjustment models. The April 2013 payroll trend number is for a 120,000 jobs gain, versus March reporting of 88,000 (see [Commentary No. 514](#)). The market consensus appears to be above the trend level, in the range of 140,000 to 150,000. The markets also appear to be expecting the April unemployment rate to hold at the 7.6% headline U.3 number reported in March.

Reflecting underlying fundamental economic activity that remains much weaker than consensus expectations, reporting risks are to the downside of expectations for payrolls and to the upside of expectations for the unemployment rate.

Although the unemployment rate should move higher, there is a persistent reporting problem that has been discussed frequently with this series (see [Commentary No. 451](#) and [Commentary No. 487](#), for example). Month-to-month comparisons of the headline unemployment data cannot be made legitimately. The headline change in the unemployment rate is of no meaning, other than in misguided-media and market reactions. Specifically, all the recent historical unemployment rates are re-calculated each month as part of the concurrent-seasonal-adjustment process, but where the BLS publishes the new headline unemployment rate, it does not publish, and it does not make available, the revised number from the month before, which would be consistent with the new number.
