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

COMMENTARY NUMBER 538
May Trade and Construction Spending

July 3, 2013

May Trade Deterioration Will Be A Drag on Second-Quarter 2013 GDP Growth

Construction Benchmark Suggests Downside Revisions to 2012 GDP

PLEASE NOTE: The next regular Commentary *is scheduled for Friday, July 5th, covering June 2013 employment and unemployment.*

FURTHER: Due to the holiday-delayed release of Federal Reserve's weekly monetary statistics, the preliminary estimate of the ShadowStats Ongoing M3 Estimate for June 2013 will not be published in the July 5th Commentary. *It will be posted, however, July 6th on the Alternate Data tab and discussed in the first regular* Commentary *following.*

Best wishes to all for a most-enjoyable 4th of July! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Downside GDP Indicators. This week's reporting of May trade data and construction spending has generated two sets of negative indicators, both for current- as well as prior-GDP reporting. This morning's (July 3rd) estimate of the May 2013 trade deficit showed meaningful deterioration. It was enough to turn the second-quarter trade outlook to a net-negative contributor for the upcoming initial estimate of second-quarter GDP growth. With market expectations also disappointed, the consensus outlook also should revise lower for upcoming second-quarter GDP growth. Separately, the July 1st benchmark revision to construction spending showed a net downside revision to 2012 construction activity, versus 2011. The changes were enough to make downside contributions to pending revisions of relative 2012 GDP growth. Both the "advance" estimate of second-quarter 2013 GDP, and the "comprehensive" revisions to the GDP series back to 1929, are due for release on July 31st. ShadowStats will publish, in advance, estimates of the likely nature of the pending revisions.

May 2013 Trade Balance. The May 2013 trade deficit widened to $45.0 billion, from a revised $40.1 billion in April. Exports contracted slightly for the month, while imports jumped sharply. The increase in imports was broadly based, although it reflected minimal change from activity surrounding energy-related petroleum products. The reported import surge also included an unusually large "carryover" of $1.7 billion. Carryover, here, refers to imports from prior periods that had not been properly or previously reported. Accordingly, the May data reflected some catch-up, but the amount of unreported May import activity at this point in time is unknown.

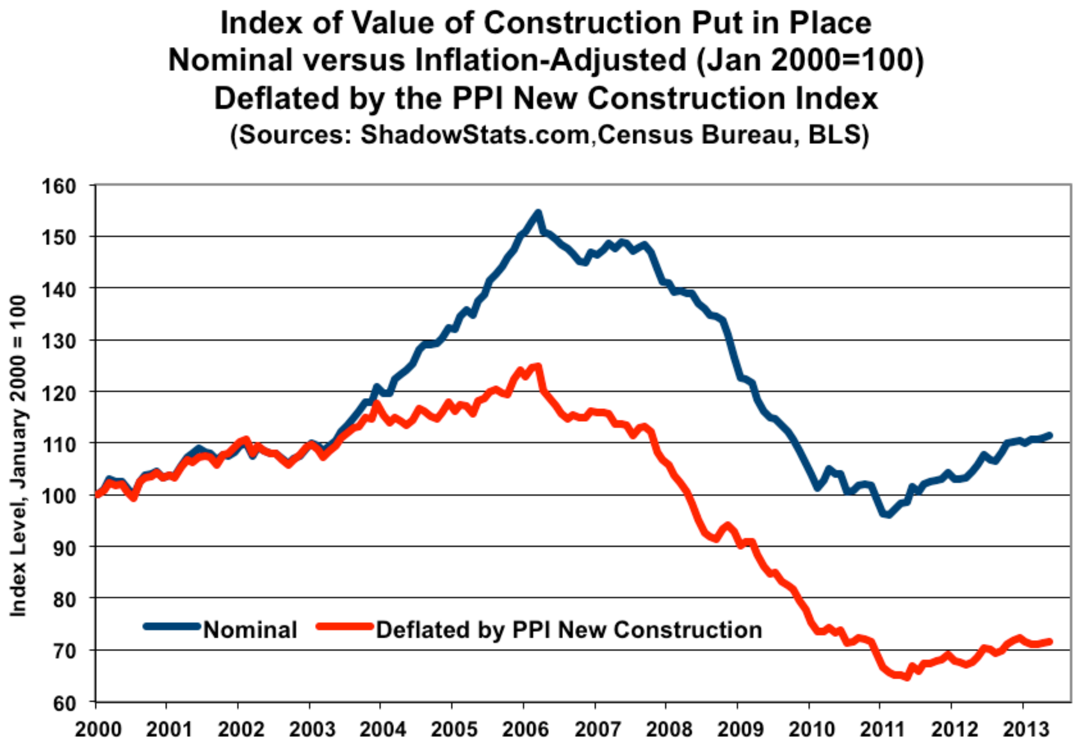
In real terms—adjusted for inflation—the May merchandise trade deficit also expanded meaningfully, to $52.3 billion, from a revised $47.4 billion in April. Based on today's reporting of the first two months of second-quarter 2013, the second-quarter real deficit annualizes to $597.7 billion, versus $573.1 billion in first-quarter 2013. That shows a large enough deterioration in second-quarter 2013 trade reporting to have negative impact on the "advance" estimate of second-quarter 2013 GDP, due for release on July 31st. The April and May trade numbers will provide the basis for the BEA's first guess at the second-quarter net-export component of the GDP.

May Construction Spending. Despite an annual benchmark revision that showed stronger construction spending in 2011, and weaker spending in 2012, May 2013 aggregate construction spending continued a monthly pattern of stagnation at current levels that were little changed from prior reporting. As detailed in the next sub-section, however, the pattern of shifting revisions suggested pending downside revisions to 2012 GDP, which likely will be seen in the scheduled July 31st comprehensive GDP revision.

In the context of the annual construction revisions, neither the headline monthly gain of 0.5% in May 2013 construction, nor the 0.1% benchmarked monthly gain in April constriction spending, was statistically significant. The May year-to-year gain of 5.4% and the benchmarked 6.0% annual gain in April, however, were significant.

Adjusted for PPI new construction inflation, aggregate real spending in May 2013 was up month-to-month by 0.4%, versus a 0.2% real monthly gain in April. Net of construction costs indicated by the PPI current construction index, year-to-year growth in spending was 4.4% in May 2013, versus 5.4% in April.

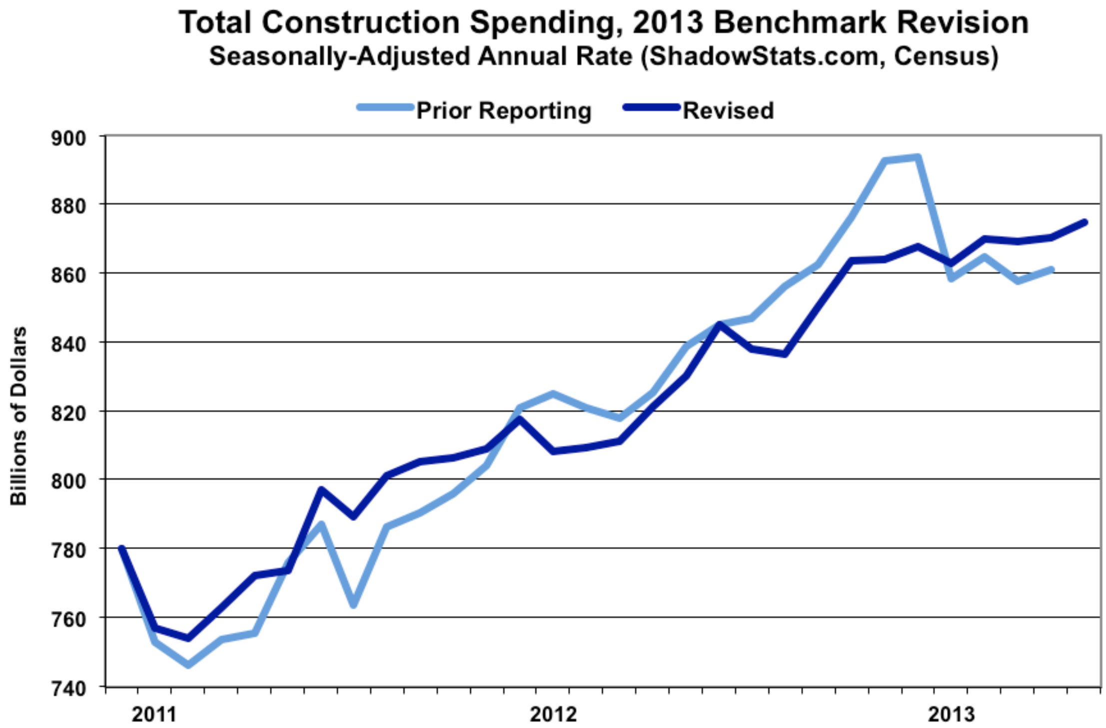
Nonetheless, as shown in the accompanying graph, the patterns of the level of monthly construction, both before and after inflation adjustment, continued to show stagnant or downside activity.

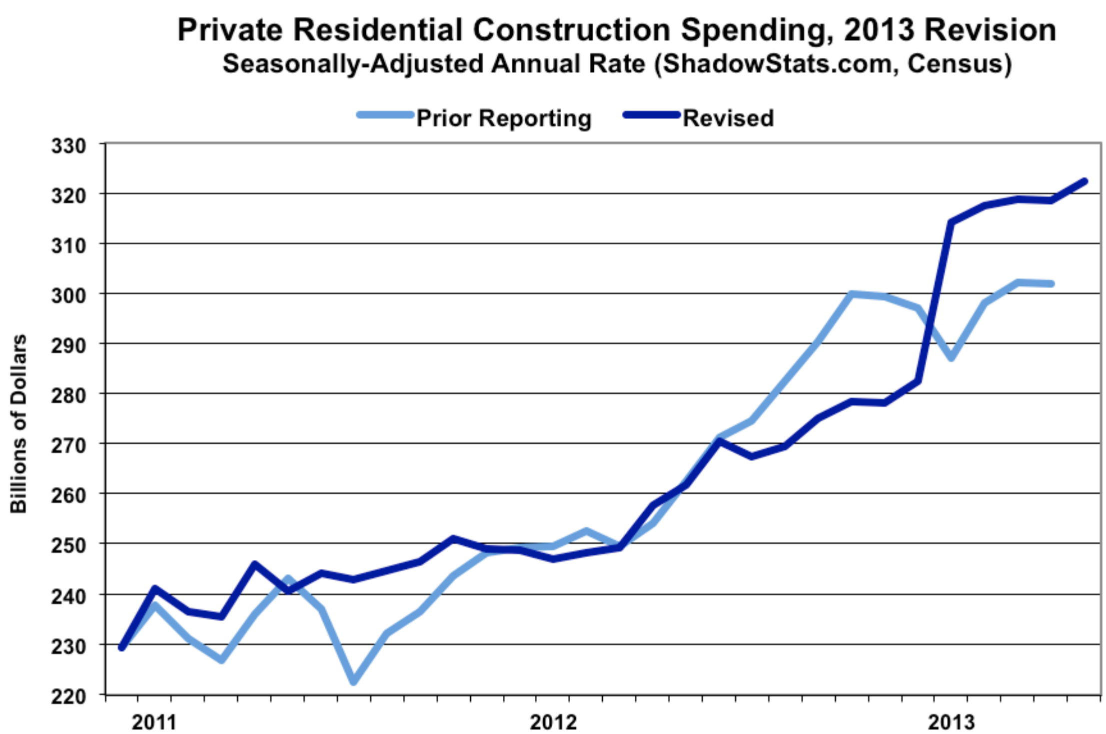


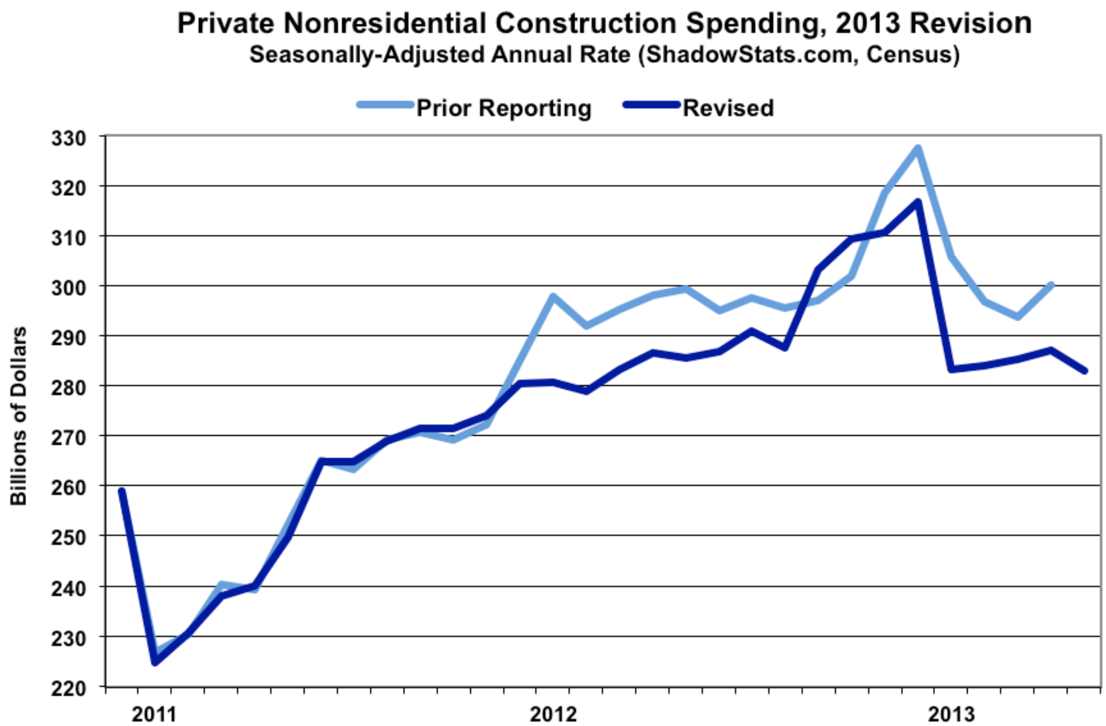
As discussed in the following sub-section, the shifting patterns of activity from the benchmark revision varied greatly by type of construction. That said, the statistically-insignificant 0.5% gain in the benchmarked monthly May 2013 construction spending included a 1.8% monthly gain in public construction spending, which was against a benchmark-revised contraction of 0.2% in April. May private construction was unchanged for the month, versus a benchmark-revised 0.3% gain in April. Revised graphs by type of construction since 2000 are shown in the *Reporting Detail* section.

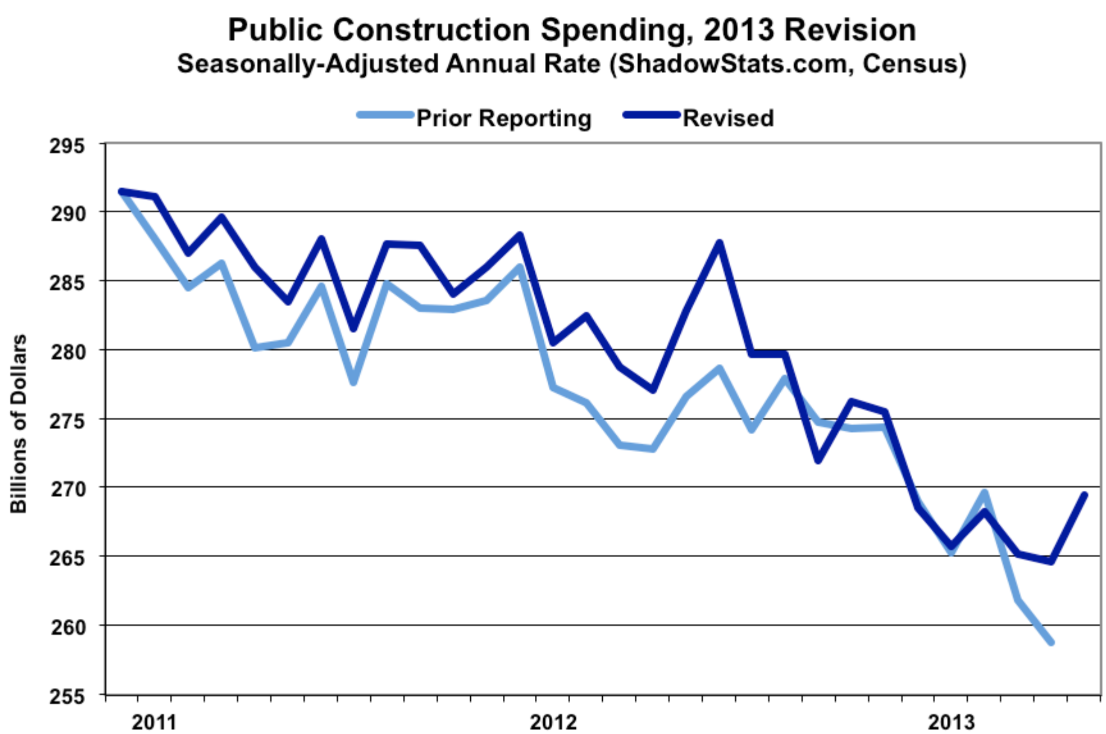
Construction Spending Benchmark Revision. The Commerce Department published its 2013 annual benchmark revision, restating construction history back to January 2011. The following four graphs show the revised (dark-blue lines) and previous (light-blue lines) levels of the nominal (not-adjusted-for inflation) detail for total construction spending, and by the private-residential, private-nonresidential and public construction spending categregories.

The first graph following is of aggregate construction, the category most closely related to the aggregate GDP. Whatever revisions to 2010 would have been consistent with the 2011 revisions are not known. As published, the average level of activity was revised higher by 1.3% in 2011, but was revised lower by 1.5% in 2012, with a net reduction in December 2012 year-to-year growth of 2.8-percentage points (from 8.9% to 6.1%). That will translate into weaker construction growth in the 2012 GDP revisions on July 31st. As with most government statistical revisions, after better-quality historical data were incorporated in the 2012 construction numbers, the ongoing overly-optimistic assumptions were put back into play, returning current reporting to where it was before the benchmarking.


Total Construction Spending, 2013 Benchmark Revision
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Prior Reporting
Revised
Billions of Dollars
900
880
860
840
820
800
780
760
740
2011
2012
2013


Private Residential Construction Spending, 2013 Revision
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Prior Reporting
Revised
Billions of Dollars
330
320
310
300
290
280
270
260
250
240
230
220
2011
2012
2013


Private Nonresidential Construction Spending, 2013 Revision
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Prior Reporting
Revised
Billions of Dollars
330
320
310
300
290
280
270
260
250
240
230
220
2011
2012
2013


Public Construction Spending, 2013 Revision
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Prior Reporting
Revised
Billions of Dollars
295
290
285
280
275
270
265
260
255
2011
2012
2013

The aggregate series, as would be expected, now shows a more-consistent and stable pattern of shallower growth than it did before. The second graph shows private residential construction at an average level that is 2.9% higher in 2011 and 2.9% lower in 2012, with December 2012 year-to-year growth reduced by 5.6-percentage points, from 19.2% to 13.6%. An extraordinary 11.3% revised month-to-month surge (previously a 3.7% decline) in activity between December 2012 and January 2013 is highly suspect and did much to underpin aggregate 2013 reporting at close to pre-benchmark levels.

The third graph of private nonresidential construction showed a 0.1% decline in average 2011 levels, versus a 2.6% decline in 2012, with December 2012 year-to-year growth slowing by 2.0-percentage points in 2012, from 14.9% to 12.9%.

Public construction, shown in the final graph, reflects average activity levels up by 1.1% in 2011 and by 1.3% in 2012, with December 2012 year-to-year growth revised lower by 0.9-percentage point, from a 6.0% annual contraction to a 6.9% annual decline.

Keep in mind here that these numbers are before adjustment for the effects of inflation.

[For further detail on the May trade balance and construction data, see the* Reporting Detail *section.]

HYPERINFLATION WATCH

Hyperinflation Outlook—Unchanged Summary. *[This summary has not been revised from* Commentary No. 536 *of June 26th]*. The comments here are intended as background material for new subscribers and for those looking for a brief summary of the broad outlook of the economic, systemic and inflation crises that face the United States in the year or so ahead.

Background Material. *No. 527: Special Commentary* (May 2013) supplemented *No. 485: Special Commentary* (November 2012), reviewing shifting market sentiment on a variety of issues affecting the U.S. dollar and prices of precious metals. *No. 485*, in turn, updated *Hyperinflation 2012* (January 2012)—the base document for the hyperinflation story—and the broad outlook for the economy and inflation, as well as for systemic-stability and the U.S. dollar. Of some use, here, also is the *Public Comment on Inflation*.

These are the primary articles outlining current conditions and the background to the hyperinflation forecast, and they are suggested reading for subscribers who have not seen them and/or for those who otherwise are trying to understand the basics of the hyperinflation outlook. The fundamentals have not changed in recent years, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, the next, fully-updated hyperinflation report is planned for the near future.

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

Typical of an approaching, major turning point in the domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and Federal Reserve policy also have been in increasing flux. The FOMC and Federal Reserve Chairman Ben Bernanke have put forth a plan for reducing and eventually ending quantitative easing in the form of QE3. The tapering or cessation of QE3 is contingent upon the U.S. economy performing in line with overly-optimistic economic projections provided by the Fed. Initially, market reaction pummeled stocks, bonds and gold.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift quickly towards no imminent end to QE3, and then to expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, eventually, they will have to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve—despite currency-market platitudes to the contrary—is locked into quantitative easing by persistent problems now well beyond its control. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, driving the quantitative easing. Economic issues are secondary concerns for the Fed; they are used as political cover for QE3. That cover will continue for as long as the Fed needs it.

At the same time, rapidly deteriorating expectations for domestic political stability reflect widening government scandals, in addition to the dominant global-financial-market concern of there being no viable prospect of those controlling the U.S. government addressing the long-range sovereign-solvency issues of the United States government. All these factors, in combination, show the end game to be nearing.

The most visible and vulnerable financial element to suffer early in this crisis likely will be the U.S. dollar in the currency markets (all dollar references here are to the U.S. dollar, unless otherwise stated). Heavy dollar selling should evolve into massive dumping of the dollar and dollar-denominated paper assets. Dollar-based commodity prices, such as oil, should soar, accelerating the pace of domestic inflation. In turn, that circumstance likely will trigger some removal of the U.S. dollar from its present global-reserve-currency status, which would further exacerbate the currency and inflation problems tied to the dollar.

This still-forming great financial tempest has cleared the horizon; its impact on the United States and those living in a dollar-based world will dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on the precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises. Attempts to save the system all have inflationary implications. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of next year (2014). The shifting underlying fundamentals are discussed in No. 527: Special Commentary; some of potential breaking crises will be expanded upon in the next revision to the hyperinflation report.

Still Living with the 2008 Crisis. 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 (see new detail in Commentary No. 530). The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see No. 527: Special Commentary, Commentary No. 528 and 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 ongoing panicked actions by the Federal Reserve, where it still proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before and since the mid-April rout in gold prices, there had and has been mounting hype about the Fed potentially pulling back on its "easing" and a coincident Wall Street push to talk-down gold prices. As discussed in No. 527: Special Commentary, those factors appeared to be little more than platitudes to the Fed's critics and intensified 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, and Mr. Bernanke's press conference following the June 19th FOMC meeting, 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 (see No. 527: Special Commentary).

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 softening annual growth in the broad money supply, despite a soaring pace of annual growth in the monetary base, and in global banking-system stress that followed the crisis in Cyprus and continuing, related aftershocks.

Still Living with the U.S. Government's Fiscal Crisis. Again, as covered in No. 527: Special Commentary, the U.S. Treasury is in the process of going through extraordinary accounting gimmicks, at present, in order to avoid exceeding the federal-debt ceiling. Early-September appears to be the deadline for resolving the issues tied to the debt ceiling, including—in theory—significant budget-deficit cuts.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that still 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. There still appears to be no chance of a forthcoming, substantive agreement on balancing the federal deficit.

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, including briefly postponing conflict over the Treasury's debt ceiling, bought the politicians in Washington minimal time in the global financial markets, but the time 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*.

U.S. Dollar Remains Proximal Hyperinflation Trigger. 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 has given way to mounting instabilities, and severe market turmoil likely looms, despite the tactics of delay by the politicians and ongoing obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. As discussed earlier, a dollar-selling panic is likely this year—still of reasonably high risk in the next month or so—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 intermittent panicked selling of gold has not been. 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 (May 2013)

Sharp Increase in May Imports Reflected Catch-Up in Previous Underreporting. The May 2013 trade deficit widened to $45.0 billion, from a revised $40.1 billion in April. Exports contracted slightly for the month, while imports jumped sharply. The increase in imports was broadly based, but reflected minimal change from energy-related petroleum products. The jump in imports also included an unusually large carryover of $1.7 billion, imports from prior periods that had not been properly or previously reported.

Adjusted for inflation, the May deficit also expanded meaningfully, suggesting a large enough deterioration in second-quarter 2013 trade reporting to have negative impact on the "advance" estimate of second-quarter 2013 GDP, due for release on July 31st. The April and May trade numbers will provide the basis for the BEA's first guess at the second-quarter, net-export component of the GDP.

Nominal (Not-Adjusted-for-Inflation) Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, July 3rd, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for May 2013, on a balance-of-payments basis, widened to $45.0 billion from a revised $40.1 (previously $40.3) billion in April. The May 2013 deficit still narrowed slightly, though, from $46.2 billion in May 2012.

The monthly trade deterioration reflected a large ($4.4 billion) increase in imports and a small monthly decline ($0.5 billion) in exports. The import increase included an unusually-large $1.7 billion in carryover, where imports had not been previously reported in the proper month. Otherwise, the increase in imports was broadly spread across a number of sectors, with minimal impact from oil related activity.

Crude Oil and Energy-Related Petroleum Products. For the month of May 2013, the not-seasonally-adjusted average price of imported oil eased to $96.84 per barrel, from $97.82 in April 2013, and it was down from an average of $108.06 in May 2012.

Also not-seasonally-adjusted, physical oil import volume in May 2013 averaged 7.759 million barrels per day, down from 7.774 million in April 2013, and down from a revised 8.732 million barrels per day in May 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 (2009 chain-weighted dollars, as will be used in reporting real GDP as of July 31st), the May 2013 merchandise trade deficit (no services) widened to $52.3 billion, from a revised $47.4 (previously $47.6 billion) in April, and from a $49.5 billion deficit in May 2012.

The BEA will use the April and May trade data to estimate the net-export component of the initial reporting of second-quarter 2013 GDP on July 31st. With the April-May deficits annualizing out to a $597.7 billion, versus a $573.1 billion deficit estimated for first-quarter 2013, the net deterioration in the quarterly trade deficit should translate to a negative contribution to the quarterly GDP growth rate. Consensus expectations for the pending GDP growth estimate should revise lower, as a result.

CONSTRUCTION SPENDING (May 2013)

May Construction Spending Gain Was Insignificant in Context of a Revised Pattern of Stagnation. Despite an annual benchmark revision that showed stronger construction spending in 2011, and weaker spending in 2012, May 2013 aggregate construction spending continued a monthly pattern of stagnation at current levels that were little changed from prior reporting. As detailed in the *Opening Comments*, however, the pattern of shifting revisions suggests pending downside revisions to 2012 GDP, which likely will surface in the July 31st GDP revisions.

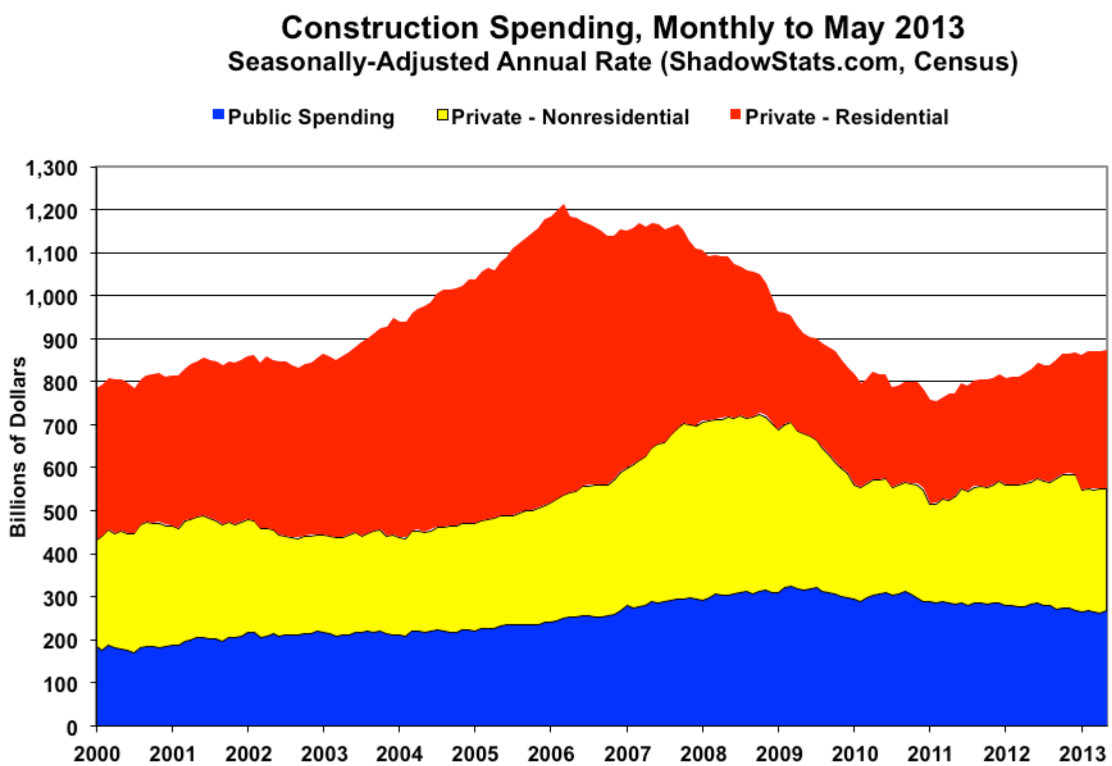
In the context of the annual construction spending revisions, the headline monthly gain of 0.5% in May construction was not statistically-significant, but the year-to-year gain of 5.4% was significant. Nonetheless, the graphed patterns of the level of monthly construction, both before and after inflation adjustment, continued to show patterns of downside or stagnant activity.

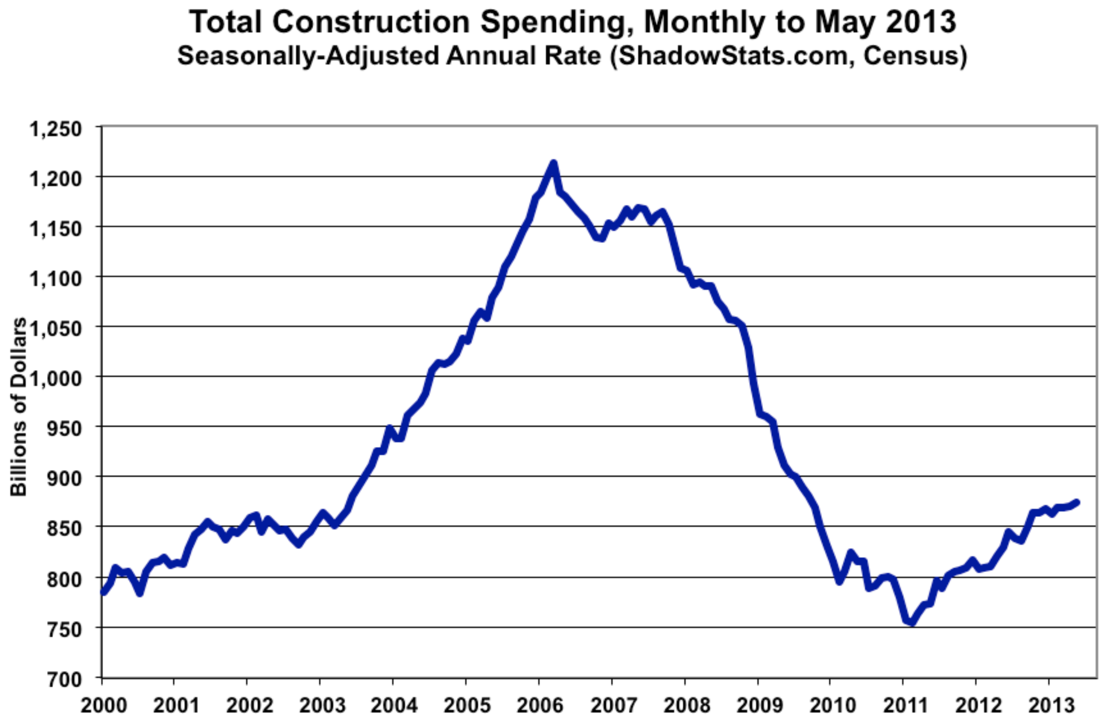
Official Reporting. The Census Bureau reported July 1st that the total value of construction put in place in the United States during May 2013 was $874.9 billion, on a seasonally-adjusted—but not inflation-adjusted—annual-rate basis. That estimate was up by a statistically-insignificant 0.5% +/- 1.9% (all confidence intervals are at a 95% level) for the month, versus a benchmark-revised $870.3 (pre-benchmark $860.8) billion in April. Before the benchmark changes to April and earlier, the current level of monthly activity in May would have reflected a monthly gain of 1.6%. The new April level of monthly activity showed a benchmark-revised gain of 0.1%, versus a pre-benchmark 0.4% monthly gain.

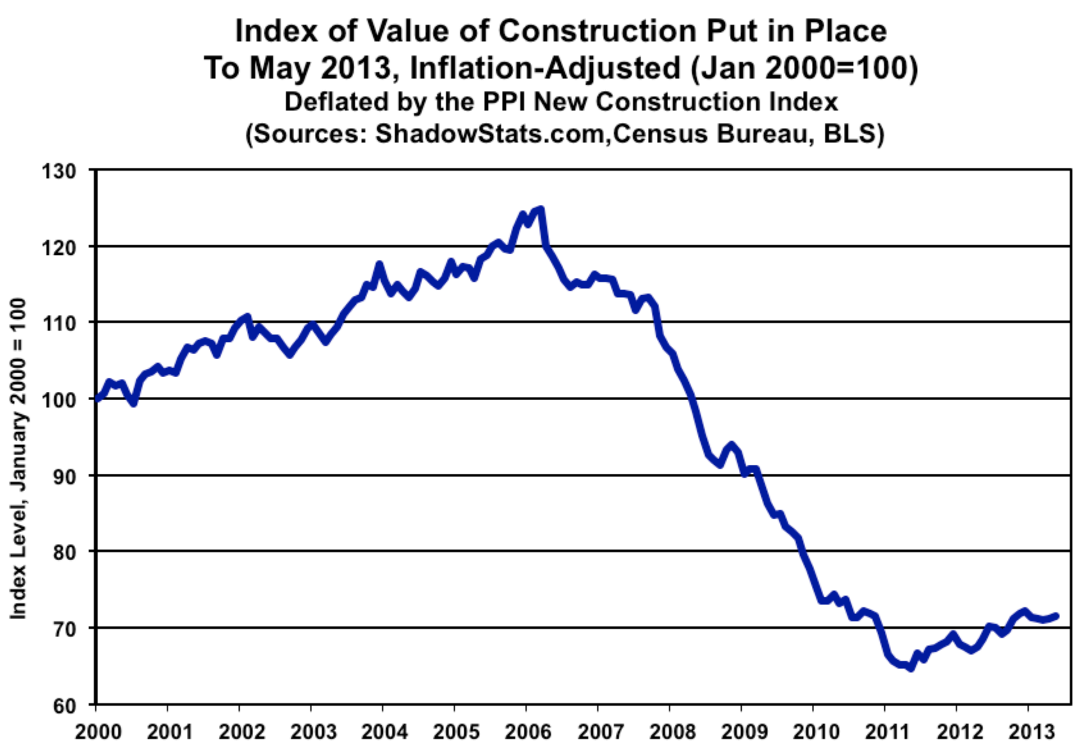
Adjusted for PPI new construction inflation, aggregate real spending in May 2013 was up month-to-month by 0.4%, versus a 0.2% real monthly gain in April.

On an annual-growth basis May 2013 construction spending was up year-to-year by a statistically-significant 5.4% +/- 2.5%, with April's benchmark-revised annual gain of 6.0% (up 4.3% pre-benchmark). Net of construction costs indicated by the PPI current construction index, year-to-year growth in spending was 4.4% in May, versus 5.4% in April 2013.

The shifting patterns of activity from the benchmark revision varied greatly by type of construction, and they are graphed and discussed for the major construction sub-categories in the *Opening Comments* section. That said, the statistically-insignificant 0.5% gain in monthly May 2013 construction spending included a 1.8% monthly gain in public construction spending, which was against a benchmark-revised contraction of 0.2% (a drop of 1.2% pre-benchmark) in April. May private construction was unchanged for the month, versus a benchmark-revised 0.3% gain (a 1.0% pre-benchmark gain) in April. The accompanying revised graphs, including the first graph following, show the 0.5% monthly gain in May total construction, with private residential construction up by 1.2%, private nonresidential construction down by 1.4% and public construction up by 1.8% for the month.

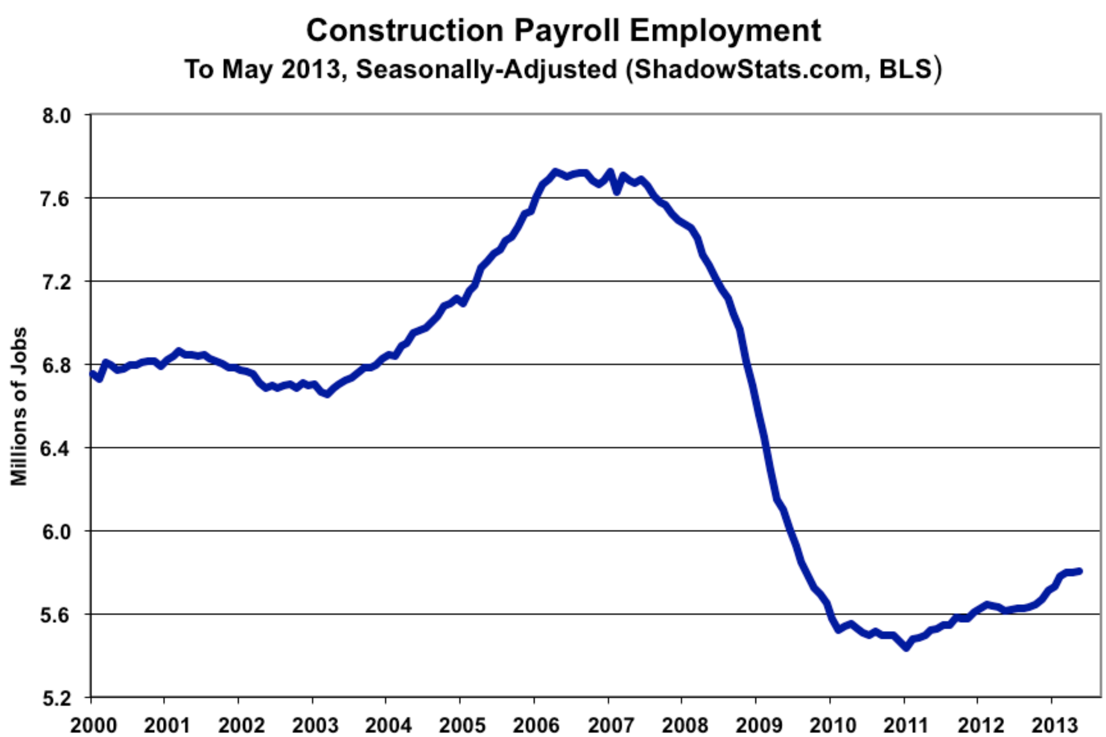



Total Construction Spending, Monthly to May 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Billions of Dollars
1,250
1,200
1,150
1,100
1,050
1,000
950
900
850
800
750
700
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

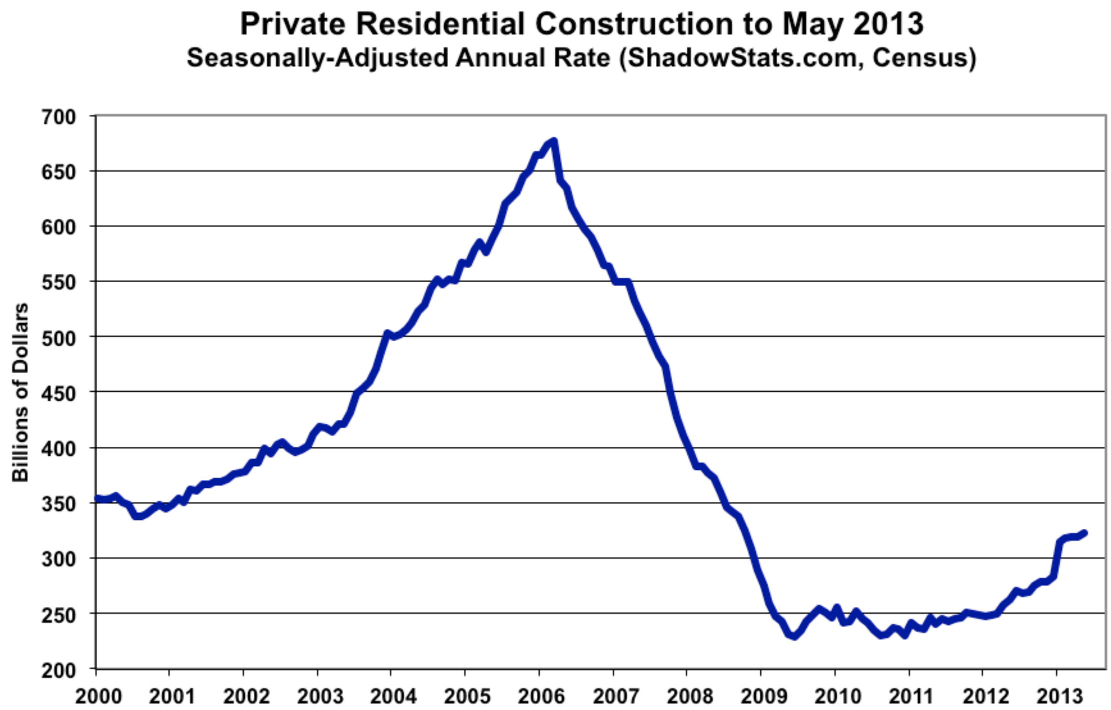

Index of Value of Construction Put in Place
To May 2013, Inflation-Adjusted (Jan 2000=100)
Deflated by the PPI New Construction Index
(Sources: ShadowStats.com,Census Bureau, BLS)
Index Level, January 2000 = 100
130
120
110
100
90
80
70
60
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

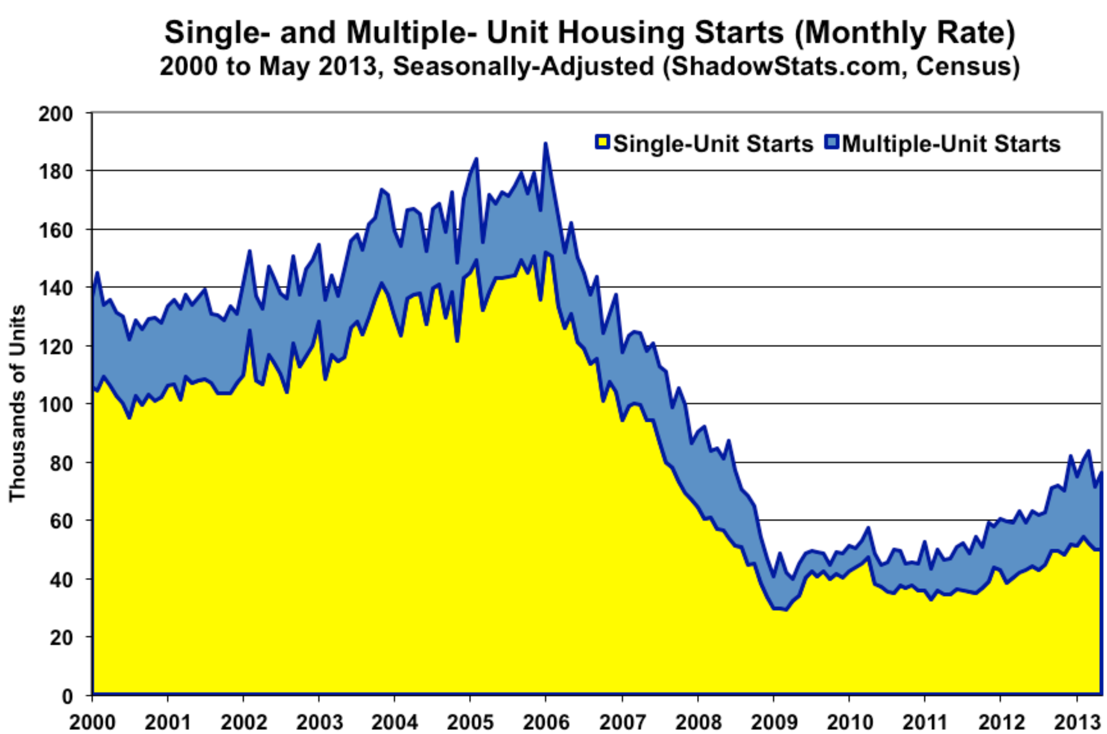
The preceding two graphs reflect total construction spending through May 2013, the first is before inflation adjustment; the second is an aggregate index reflecting inflation-adjusted data. The second graph (see also *Opening Comments)* shows the May 2013 ShadowStats estimation of an inflation-adjusted 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 and then turning minimally higher in an environment of low-level stagnation through 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. 536*). To the contrary, the latest construction reporting, both before and after inflation adjustment, and after the benchmark revision, shows a pattern of ongoing stagnation.

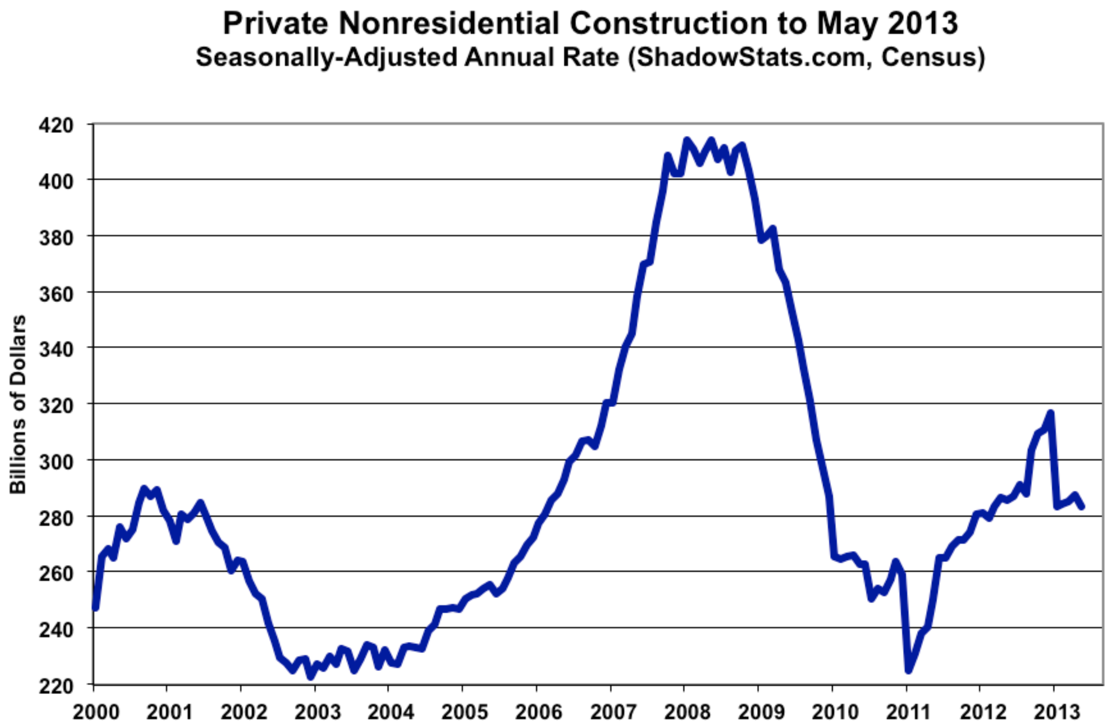
The next graph reflects the reporting of May 2013 construction employment, released June 7th by the Bureau of Labor Statistics. The revised employment graph and data through June will be published in Friday's July 5th *Commentary*, which will cover the June employment report.

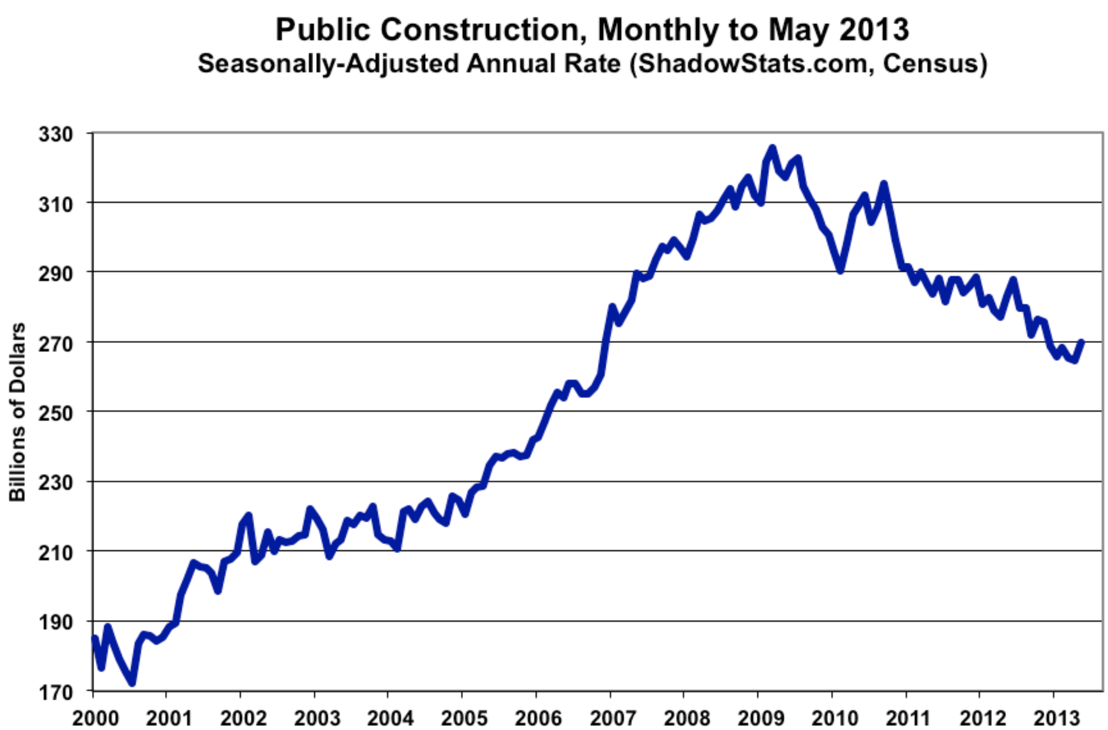


The next two graphs cover private residential construction, including housing starts, as reported for May 2013 (see *Commentary No. 534* for detail). The difference in the graphs is the smoother pace of actual spending (not-adjusted-for-inflation), instead of the more-irregular monthly variation in the count of physical monthly starts.


Private Residential Construction to May 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Billions of Dollars
700
650
600
550
500
450
400
350
300
250
200
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Single- and Multiple- Unit Housing Starts (Monthly Rate)
2000 to May 2013, Seasonally-Adjusted (ShadowStats.com, Census)
Single-Unit Starts
Multiple-Unit Starts
Thousands of Units
200
180
160
140
120
100
80
60
40
20
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Private Nonresidential Construction to May 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Billions of Dollars
420
400
380
360
340
320
300
280
260
240
220
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Public Construction, Monthly to May 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Billions of Dollars
330
310
290
270
250
230
210
190
170
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

The last two graphs of the preceding series 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 Are Likely for June and Beyond. *[Except for underlined text the* Week Ahead *section is unchanged from the prior* Commentary.*]* In the context of mixed, but generally weak May economic reporting, the data into June and beyond likely will disappoint a still overly-optimistic consensus view of the broad economy. Separately, with energy-inflation related seasonal-adjustment factors swinging to the plus-side in June, combined with stable oil and gasoline prices for the month, higher inflation reporting is likely in June and the months ahead.

Going forward, reflecting the still-likely negative impact on the U.S. dollar in the currency markets from continuing QE3 and the still-festering fiscal crisis/debt-ceiling debacle (see *Hyperinflation Outlook*), reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see *No. 527: Special Commentary*).

Where expectations for economic data in the months and year ahead should tend to soften, weaker-than-expected economic results still remain likely, given the intensifying structural liquidity constraints on the consumer. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as has been seen already in industrial production, new orders for durable goods, retail sales, the trade deficit and construction spending. The big revision event, though, remains the July 31st comprehensive overhaul, benchmark revision and redefinition of the GDP back to 1929. A ShadowStats estimate of the likely net shift in GDP reporting patterns (generally slower growth in recent years) will be published before that revision.

Reporting Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

With an increasing trend towards downside surprises in near-term economic reporting, recognition of an intensifying double-dip recession should continue to gain. Nascent concerns of a mounting inflation threat, though muted, increasingly have been rekindled by the Fed's monetary policies. Again, though, significant inflation shocks are looming in response to the fiscal crisis and a likely, severely-negative response in the global currency markets against the U.S. dollar.

The political system and Wall Street would like to see the issues disappear, and the popular media do their best to avoid publicizing unhappy economic news, putting out happy analyses on otherwise negative numbers. Pushing the politicians and media, the financial markets and their related spinmeisters do their best to hype anything that can be given a positive spin, to avoid recognition of serious problems for as long as possible. Those imbedded, structural problems, though, have horrendous implications for the markets and for systemic stability, as discussed in *Hyperinflation 2012*, *No. 485: Special Commentary* and *No. 527: Special Commentary*.

Employment and Unemployment (June 2013). The June labor data are due for release on Friday, July 5th, 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 June 2013 payroll trend number is for a 148,000 jobs gain, versus May reporting of 175,000 (see *Commentary No. 531*). The early consensus appears to have settled around 160,000, above the trend but weaker than the May reporting. Separately, the markets now appear to be looking for the June unemployment rate to hold at the 7.6% headline U.3 level reported in May.

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

Although the unemployment rate should move higher—at least in its broader measures that include discouraged workers—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.

Producer Price Index—PPI (June 2013). The June 2013 PPI is scheduled for release on Friday, July 12th, by the Bureau of Labor Statistics (BLS). With minimally-mixed energy prices in the context of likely positive energy-price related seasonal factors, and with upside food and "core" inflation, the headline June PPI should show solid upside aggregate price movement for the month.

Depending on the oil contract followed, oil prices, on average, were down by 1.1-percentage point or up by 0.4-percentage point for the month of June, with retail gasoline up by 0.4-percentage point. Accordingly, with roughly 2-percentage points upside seasonal adjustments to energy prices, positive seasonally-adjusted energy inflation should put a positive base under the headline PPI finished goods number. The result likely will be near a developing positive consensus.

