John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 597
December Trade Deficit, Construction Spending

February 6, 2014

December Trade Deterioration Could Knock 0.6% off GDP Growth

Construction Spending Gain Was Insignificant in December,
Even with Large Downside Revisions to November and October

PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Friday, February 7th, covering January employment and unemployment, and the annual benchmark revisions to the payroll survey. Due to the nature of the revisions and the amount of analysis that likely will be necessary, there is a good chance that the February 7th* Commentary *will be posted late in the day or even rolled over to February 8th for publication. As usual, though, the ShadowStats-Alternate Unemployment Measure should be graphed, with hard numbers available to subscribers, within an hour of the data being released by the Bureau of Labor Statistics (by 9:30 a.m. ET) at the Alternate Data tab on www.ShadowStats.com.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Data Continue to Recoil from Government Shutdown Distortions. The last of the major December economic reports are covered in today's (February 6th) *Commentary*. The December trade deficit widened in headline reporting. As a result, and in the context of earlier revisions, the fourth-quarter 2013 trade deficit did not improve versus the third-quarter by as much as had been guesstimated by the Bureau of Economic Analysis (BEA), when it published its initial estimate of 3.2% headline growth for fourth-quarter 2013 GDP. The difference was enough to reduce that headline GDP growth rate to 2.6%. Where the headline merchandise trade deficit did narrow by 5.2% in calendar-year 2013, half of the narrowing was due to lower import prices (oil) and higher export prices.

In the construction area, despite large downside revisions to November and October construction spending, the December headline gain of 0.1% (0.06% at the second decimal point) was statistically insignificant. The pattern of activity there remained one of stagnation, not of expanding economic activity.

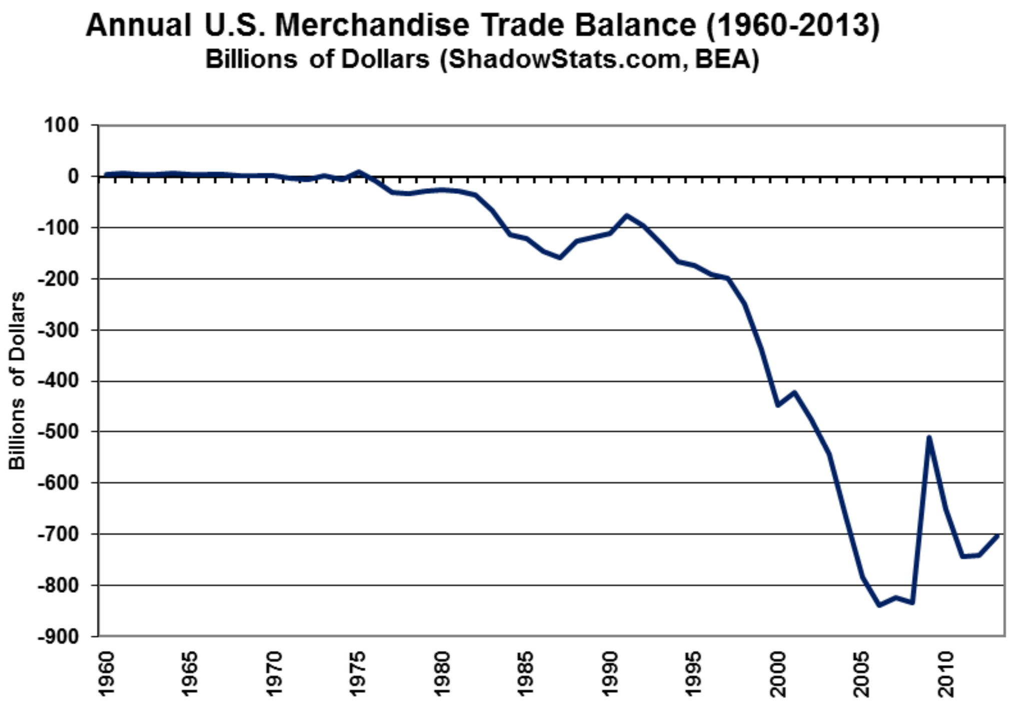
Catastrophic Computer Failure and the Second Installment of the 2014 Hyperinflation Report . Due to disruptions caused by a catastrophic computer failure at *ShadowStats* on January 30th, the timing of the publication of the *Second Installment* of *Hyperinflation 2014—The End Game Begins* has been pushed back by about two weeks, likely to the week of February 17th or 24th. A firm posting date will be published as soon as possible. Your patience and understanding are appreciated.

U.S. Trade Balance—December 2013 and Annual Data. The headline December 2013 trade deficit widened sharply from November, with negative implications for the February 28th first revision to fourth-quarter 2013 GDP. The $4.1 billion monthly widening of the trade deficit to $38.7 billion reflected a $3.5 billion monthly drop in exports plus a $0.6 billion increase in imports. The unusually large swing in the deficit likely was driven by some catch-up reporting in the series, following a variety of trade-flow disruptions, compounded by data gathering and reporting distortions from the government shutdown. Where the actual fourth-quarter trade deficit was worse than had been guessed at by the BEA in generating its "advance" estimate of 3.2% headline fourth-quarter 2013 GDP growth, the new numbers would indicate a 0.6-percentage point downside revision looming for that GDP growth estimate.

Annual Trade Deficit Narrowed in 2013 Versus 2012. As shown in the following graph, on a balance-of-payments basis, the merchandise trade deficit narrowed to $703.2 billion in 2013, versus $741.5 billion in 2012, reflecting higher exports and lowered imports, but most of the trade swing was accounted for by price changes. Nonetheless, the nominal U.S. merchandise trade deficit remained close to its historic low, buffeted in recent years by extreme volatility in oil prices. What differs in the usual accounting of annual trade data versus the puffed-up headline monthly numbers is the lack of solid accounting for trade in services. The services detail generally is not pulled apart, because the numbers are not real, where they often cannot be attributed to particular trading partners.

That said, the annual services surplus increased from $206.8 billion in 2012 to $231.6 billion in 2013. Again, these data are dominated by fantasy or imaginary plug numbers that are guessed at by the BEA. They have been used for years, now, to help offset the headline merchandise trade shortfall. In contrast to the services sector, the merchandise data are hard numbers, backed up by a paper trail.

Regardless of short-term monthly volatility, or extreme turbulence in oil prices, underlying economic reality continues to suggest an ongoing long-range deterioration in the merchandise U.S. trade deficit. That extraordinarily-large U.S. trade deficit is the prime factor behind many of the structural liquidity problems constraining consumer activity. This will be detailed in the pending *Second Installment* of *Hyperinflation 2014—The End Game Begins*.



U.S. Merchandise Trade Deficit by Country
Top Six Deficits in 2013 Versus 2012
Billions of U.S. Dollars
Sources: ShadowStats, Census Bureau

Rank	Country or Trade Area	2013	2012
	Total	688.7	729.6
1	China	318.4	315.1
2	Japan	73.4	76.4
3	Germany	67.2	59.9
	Euro Area	104.0	100.0
4	Mexico	54.3	61.6
6	Canada	31.7	31.4
	NAFTA	86.0	93.0
5	Saudi Arabia	32.8	37.7
	OPEC	68.1	99.0

The preceding table of detail on the annual U.S. merchandise trade deficit is broken out for the six largest annual deficits by U.S. trading partner and related trading areas or groups. The table also reflects the merchandise trade deficit, but on a customs basis, with definitional differences in the handling of freight, versus the merchandise trade deficit details shown in the graph. The patterns and relative broad general numbers, though, basically are the same.

Briefly, China remained the single largest trade deficit account for the United States in 2013, with the U.S. deficit there widening, while the aggregate U.S. merchandise deficit narrowed. The U.S. deficit with Germany also widened, with German trade increasingly dominating the Euro Area.

Although the U.S. deficit with NAFTA narrowed slightly in 2013, keep in mind that the United States enjoyed a trade surplus with both Mexico and Canada before entering into that trade agreement.

Reduced oil imports have cut the U.S. trade deficit with OPEC, where Saudi Arabia took a larger proportional hit on the trade balance than did the rest of the oil cartel.

Nominal (Not-Adjusted-for-Inflation) December Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for December 2013, on a balance-of-payments basis, widened to $38.701 billion, from a revised $34.558 billion in November. Generally, the fourth-quarter detail showed a relatively wider deficit, in revision, versus the third quarter. The monthly detail was revised back through January 2013, revamping, among other issues, seasonally adjustments so that the seasonally-adjusted data actually totaled the published annual number.

Energy-Related Petroleum Products. Lower prices and higher physical imports of oil in December 2013 were not major contributing factors to the seasonally-adjusted December trade deficit widening, but lower annual average prices and physical volume did contribute meaningfully to the annual decline in imports. For the year, imported crude oil averaged $97.01 per barrel, versus $101.16 per barrel in 2012. Physical oil import volume averaged 7.695 million barrels per day in 2013, down from 8.449 million in 2012. With physical volume and prices in combination, the value of imported crude oil was $272.5 billion in 2013, down from $312.8 billion in 2012.

Real (Inflation-Adjusted) December 2013 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, used for GDP deflation), the December 2013 merchandise trade deficit (no services) widened to $49.5 billion, from a revised $45.0 in November 2013 and versus $46.1 billion in December 2012.

The actual deficit now reported for fourth-quarter 2013 annualizes out to $565.8 billion (was $549.8 billion based on reporting for just October and November). While the new number still is significantly narrower than the revised annualized estimate of $583.4 for the third-quarter, the effective quarterly trade-deficit improvement is much less than had been guesstimated by the BEA, when it published its "advance" estimate of fourth-quarter 2013 GDP at 3.2%. The difference is enough to reduce the annualized headline GDP growth number from 3.2% to 2.6%.

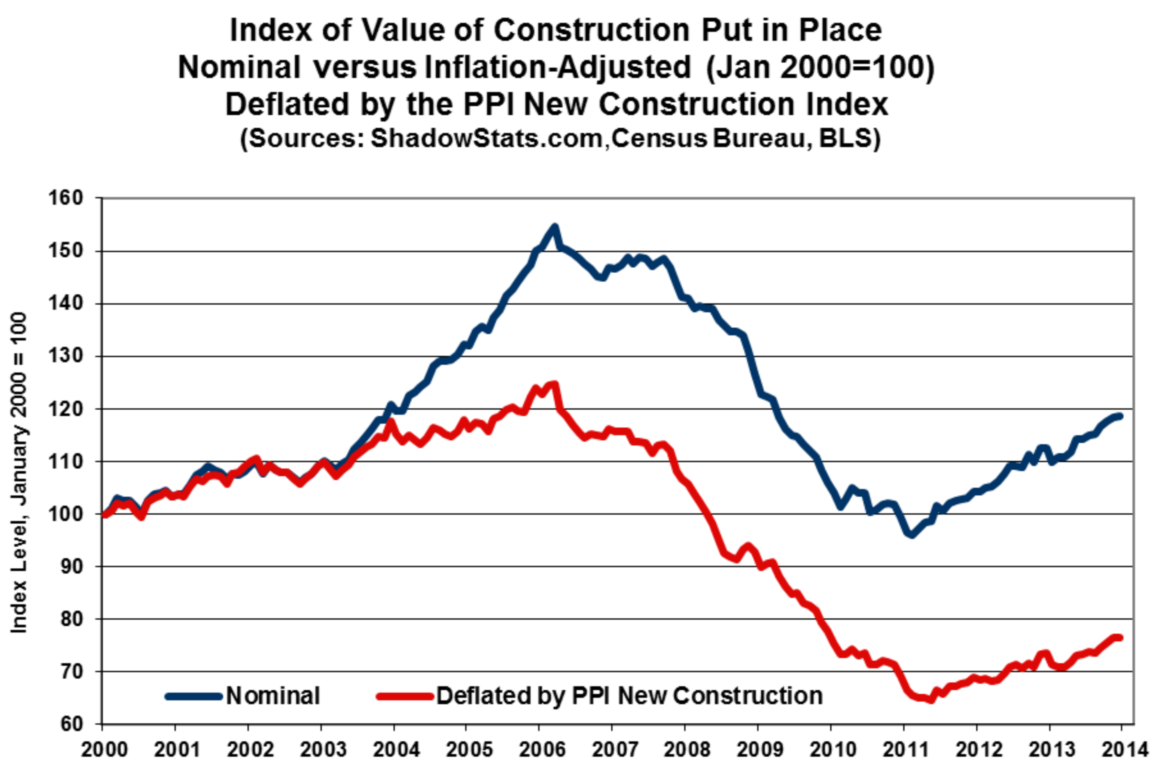
December 2013 Construction Spending Was Minimal and Insignificant, Despite Heavy, Downside Revisions. Construction spending and other recent residential-structure data continue to work their way out of distorted headline reporting patterns that resulted from the October government shutdown.

Accordingly, the statistically-insignificant 0.1% headline gain in December 2013 spending was in the context of large downside revisions to prior data reported for October and November.

Official Reporting. The headline total value of construction put in place in the United States for December 2013 was $930.5 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.1%, versus a revised $929.9 billion in November, which was up by a revised 0.8% from a revised $922.9 billion in October. The headline construction spending level in December 2013 actually was down by 0.4% from the initial reporting for November 2013, before prior-period revisions.

Adjusted for PPI new construction inflation, aggregate real spending in December 2013 was "unchanged" at the first decimal point (down by 0.03% at the second decimal point), versus a 1.3% month-to-month increase in November, and a 1.2% gain in October.

On a year-to-year or annual-growth basis, December 2013 construction spending was up by a statistically-significant 5.3%, versus a revised 5.5% in November, and a revised 6.9% in October. Net of construction costs indicated by the PPI current construction index, year-to-year growth in spending slowed to 3.9% in December, versus a 4.2% gain in November, and 6.2% in October. More-realistic private surveying suggests annual costs to be up by enough to come close to turning those annual construction-spending growth rates flat or into annual contractions. The deflation series used here will be revamped along with the new PPI series in the next reporting.



The usual full spectrum of eight graphs in the *Reporting Detail* section reflects the 0.1% monthly gain in December total construction, and component changes of private residential construction up by 2.6%, private nonresidential construction down by 0.7%, and public construction down by 2.3%.

[For greater detail on the December 2013 trade deficit and construction spending, see the* Reporting Detail *section.]

HYPERINFLATION WATCH

Hyperinflation Outlook. With the *First Installment* of *Hyperinflation 2014—The End Game Begins* published on January 7th, a new *Hyperinflation Summary* for this section will be added shortly. The publication of the *Second Installment*, which covers historical and prospective economic activity, as well as possible protective and preventative actions and reactions at both a personal and federal level, versus the unfolding circumstance, should be published in the week of February 17th or 24th, as discussed in the *Opening Comments*. The new material in the *Second Installment* will supplement and update the basic material already available to ShadowStats readers in Chapters 4, 5 and 9 of *Hyperinflation 2012*.

REPORTING DETAIL

U.S. TRADE BALANCE (December 2013 and Annual Data)

December Trade Deficit in Sharp Deterioration. The $4.1 billion monthly widening of the headline December 2013 trade deficit to $38.7 billion reflected a $3.5 billion monthly drop in exports plus a $0.6 billion increase in imports. The unusually large swing in the deficit likely was driven by some catch-up reporting in the series, following a variety of trade-flow disruptions, compounded by data gathering and reporting distortions that resulted from the government shutdown. The actual fourth-quarter trade deficit was worse than had been guessed at by the Bureau of Economic Analysis (BEA) in generating its "advance" estimate of 3.2% headline fourth-quarter 2013 GDP growth. The difference here was enough to reduce that headline GDP growth rate to 2.6%

Annual Trade Deficit Narrowed in 2013 Versus 2012. Annual detail on the U.S. trade balance is covered in the *Opening Comments*, with an accompanying graph of the annual merchandise trade deficit from 1960 through 2013, and a table showing the U.S. trade deficit broken out for the six largest annual deficits by U.S. trading partner and related trading areas or groups. On a balance-of-payments basis, the merchandise trade deficit narrowed to $703.2 billion in 2013, versus $741.5 billion in 2012, reflecting higher exports and lowered imports, but most of the trade swing was accounted for by price changes.

The services surplus increased from $206.8 billion in 2012 to $231.6 billion in 2013, but the data there are dominated by fantasy or imaginary plug numbers that are guessed at by the BEA. These numbers have been used for years, now, to help offset the merchandise trade shortfall. In contrast to the services sector, the merchandise data are hard, backed up by a paper trail. Regardless of short-term monthly volatility and gyrating oil prices, underlying economic reality continues to suggest an ongoing long-range deterioration in the U.S. trade deficit.

Nominal (Not-Adjusted-for-Inflation) December Trade Deficit. The BEA and the Census Bureau reported today, February 6th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for December 2013, on a balance-of-payments basis, widened to $38.701 billion, from a revised $34.558 (previously $34.252) billion in November, and versus a revised $39.073 (previously $39.328) billion in October. Generally, the fourth-quarter detail showed a relatively wider deficit, in revision, versus the third quarter. Indeed, the monthly detail was revised back through January 2013, revamping, among other issues, seasonally adjustments so that the seasonally-adjusted data actually totaled the published annual number. In this world of increasingly modeled and massaged imaginary numbers, where for example, the subcategories of the GDP will not total the aggregate GDP (BEA) without the use of a "residual factor," the Census Bureau still does its trade reporting with some statistical integrity.

Energy-Related Petroleum Products. Lower prices and higher physical imports of oil in December 2013 were not major contributing factors to the seasonally-adjusted December trade deficit widening, but lower annual average prices and physical volume did contribute meaningfully to the annual decline in imports.

For December 2013, the not-seasonally-adjusted average price of imported oil fell to $91.34 per barrel, from $94.69 per barrel in November 2013 and against $95.16 per barrel in December 2012. For the year, imported crude oil averaged $97.01 per barrel, versus $101.16 per barrel in 2012.

Not-seasonally-adjusted, physical oil import volume in December 2013 averaged 7.428 million barrels per day, up from 7.091 million in November 2013 and up from 7.189 million in December 2012. For the year, import volume averaged 7.695 million barrels per day in 2013, down from 8.449 million in 2012. With physical volume and prices in combination, the value of imported crude oil was $272.5 billion in 2013, down from $312.8 billion in 2012.

Ongoing Cautions on Data Quality. As previously discussed, 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) December 2013 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, used for GDP deflation), the December 2013 merchandise trade deficit (no services) widened to $49.5 billion, from a revised $45.0 (previously $44.6 billion) in November 2013, and versus $46.1 billion in December 2012.

The actual deficit now reported for fourth-quarter 2013 annualizes out to $565.8 billion (was $549.8 billion based on reporting for just October and November). While that still is significantly narrower than the revised annualized estimate of $583.4 (previously $584.9 billion) for the third-quarter, the effective quarterly trade-deficit improvement is much less than had been guesstimated by the BEA when it published its "advance" estimate of fourth-quarter 2013 GDP, at 3.2%. The difference is enough to reduce the annualized headline GDP growth number from 3.2% to 2.6%, and a downside revision in the second estimate of fourth-quarter 2013 GDP growth, on February 28th, is a good bet.

CONSTRUCTION SPENDING (December 2013)

Even With Heavy Prior-Period Downside Revisions, Minimal Growth in Headline Construction Spending Was Insignificant. Construction spending and other recent residential-structure data continue to work their way out of previously- distorted headline reporting patterns tied to data disruptions from the government shutdown. The statistically-insignificant 0.1% headline gain in December 2013 spending was in the context of large downside revisions to prior data reported for October and November.

Official Reporting. The Census Bureau reported (February 3rd) the headline, total value of construction put in place in the United States for December 2013 at $930.5 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.1% +/- 1.4% (all confidence intervals are at the 95% level), versus a revised $929.9 (previously $934.4) billion in November, which was up by a revised 0.8% (previously 0.9%, initially 0.8%) from a revised $922.9 (previously $925.1, initially $908.4) billion in October.

The headline construction spending amount in December 2013 actually was down by 0.4% from the initial reporting for November 2013, before prior-period revisions.

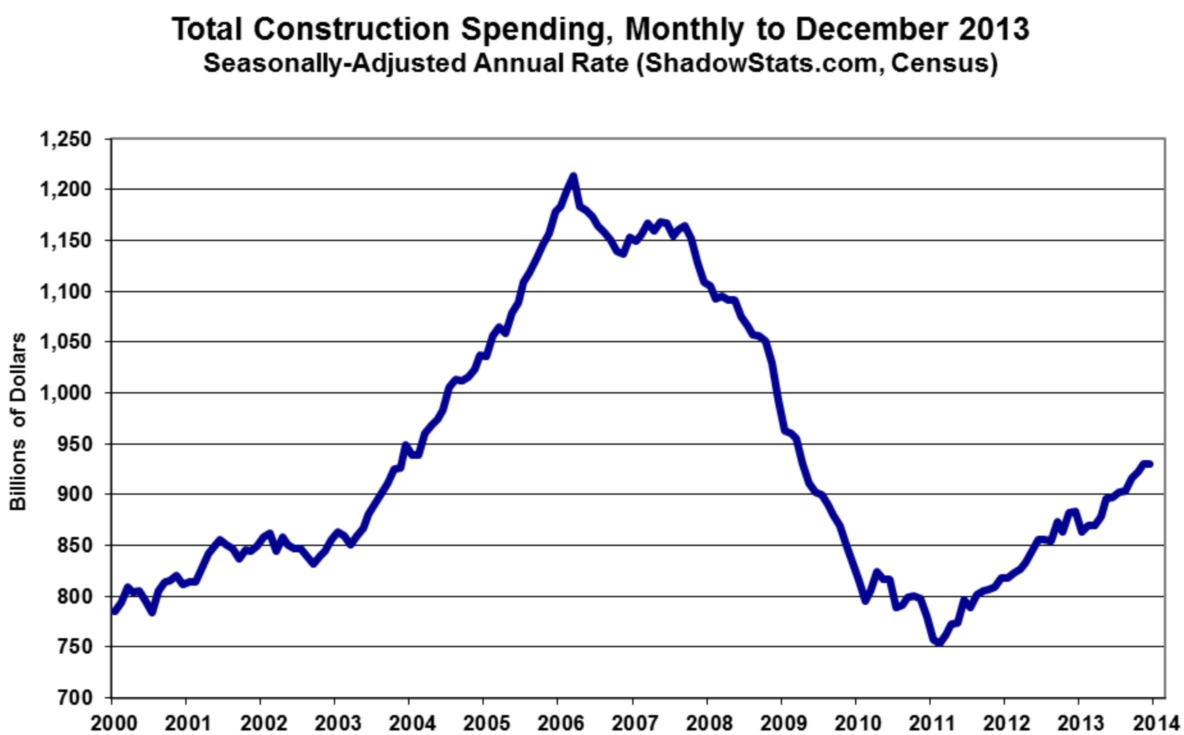
Adjusted for PPI new construction inflation, aggregate real spending in December 2013 was "unchanged" at the first decimal point (down by 0.03% at the second decimal point), versus a 1.3% month-to-month increase in November, and a 1.2% gain in October.

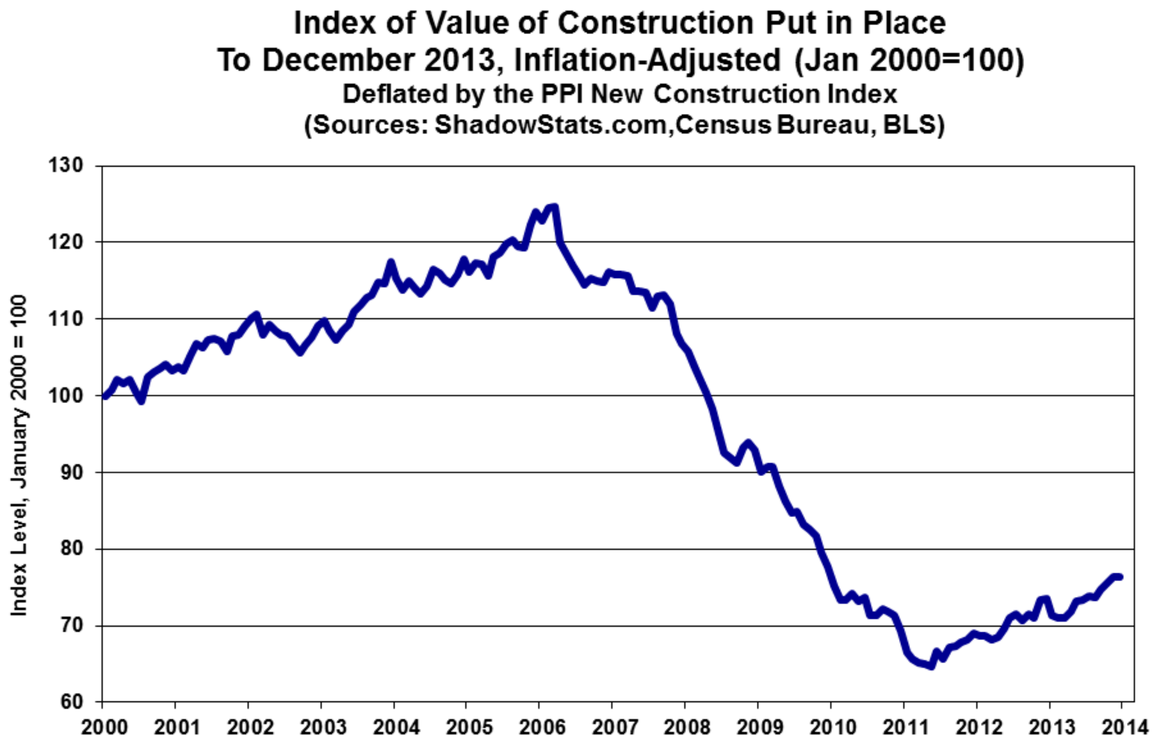
On a year-to-year or annual-growth basis, December 2013 construction spending was up by a statistically-significant 5.3% +/- 1.8%, versus a revised 5.5% (previously 5.9%) in November, and a revised 6.9% (previously 7.2%, initially previously 5.3%) in October. Net of construction costs indicated by the PPI current construction index, year-to-year growth in spending slowed to 3.9% in December, versus a 4.2% gain in November, and 6.2% in October. More-realistic private surveying suggests annual costs to be up by enough to come close to turning those annual construction-spending growth rates flat or into annual contractions.

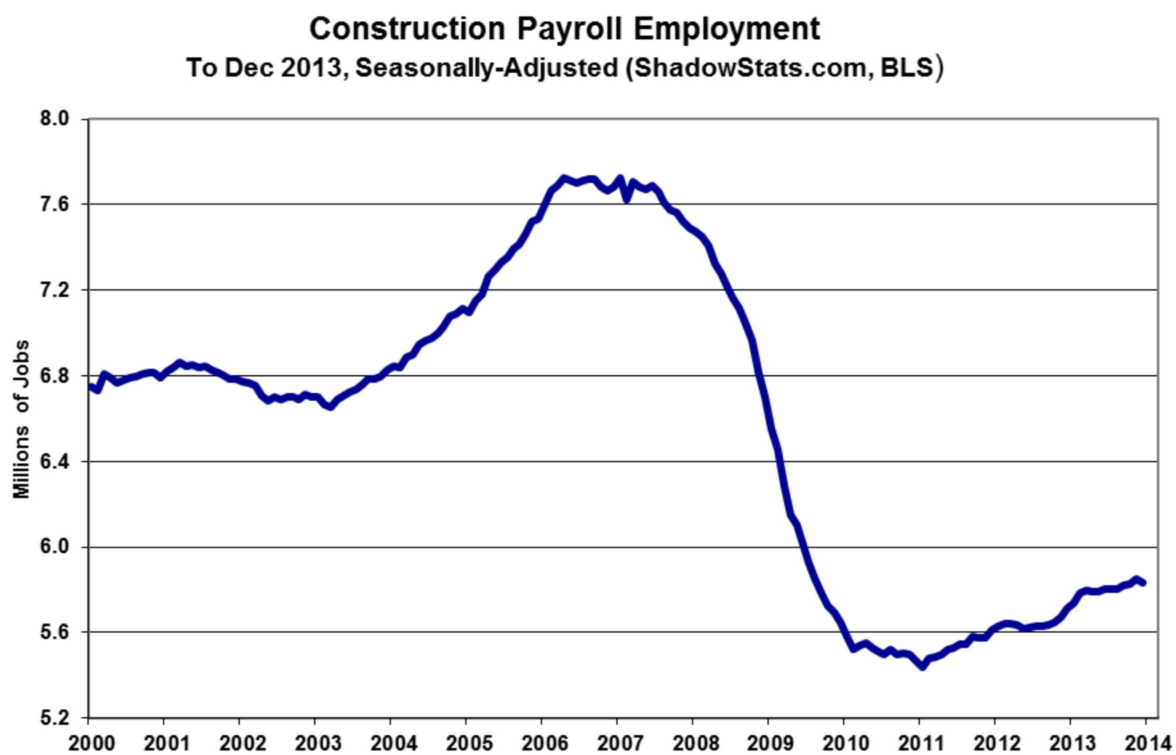
The statistically-insignificant 0.1% monthly gain in December 2013 construction spending, versus the 0.9% gain in November, included a 2.3% contraction in December public construction spending, versus a 1.4% decline in November. December private construction was up by 1.0% for the month, versus a 1.7% monthly increase in November. The following graphs reflect the 0.1% monthly gain in December total construction, with private residential construction up by 2.6%, private nonresidential construction down by 0.7%, and public construction down by 2.3%. Also reflected is the 0.8% monthly gain in November total construction, with private residential construction up by 1.1%, private nonresidential construction up by 2.4% and public construction down by 1.4%.

The two graphs following reflect total construction spending through December 2013, before and after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0.

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. 596*). To the contrary, the latest construction reporting, both before and after inflation adjustment, shows a pattern of ongoing stagnation. Please note that the inflation series here will be revised after the publication of the revamped producer price index series, due for publication on February 19th.

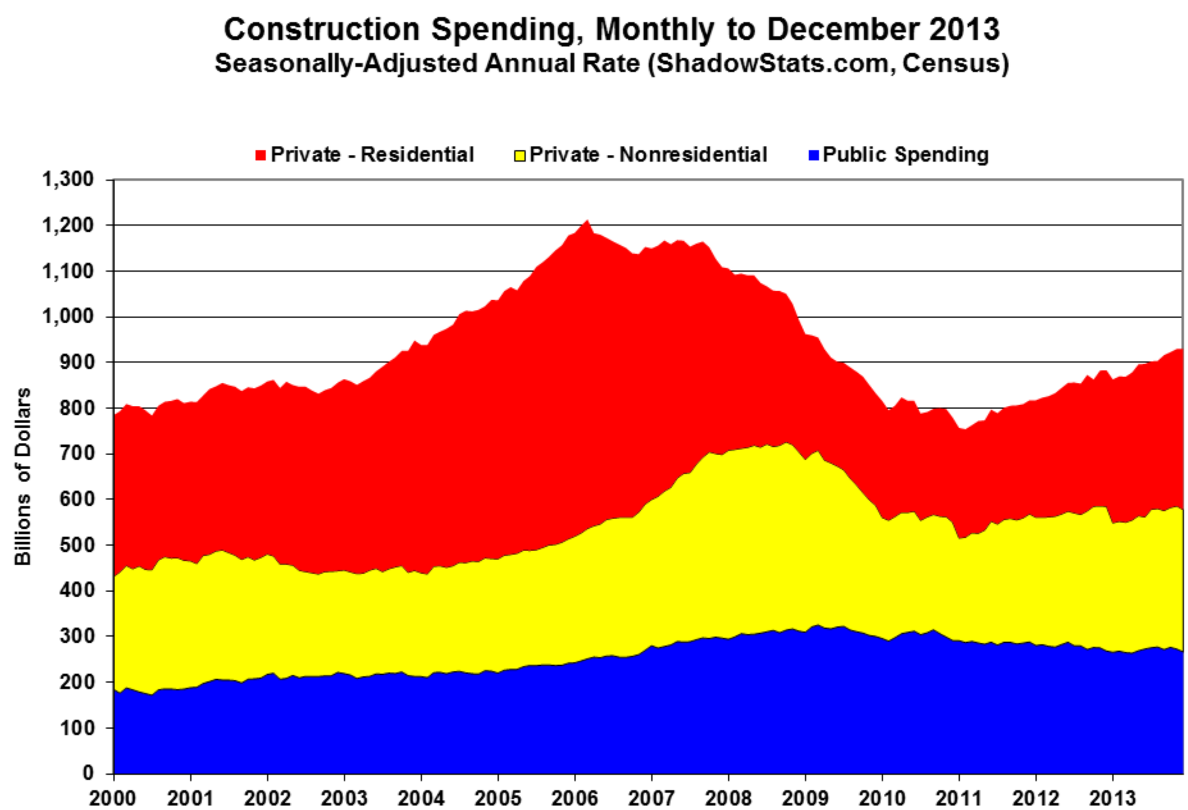



Index of Value of Construction Put in Place
To December 2013, Inflation-Adjusted (Jan 2000=100)
Deflated by the PPI New Construction Index
(Sources: ShadowStats.com, Census Bureau, BLS)
Index Level, January 2000 = 100
130
120
110
100
90
80
70
60
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014

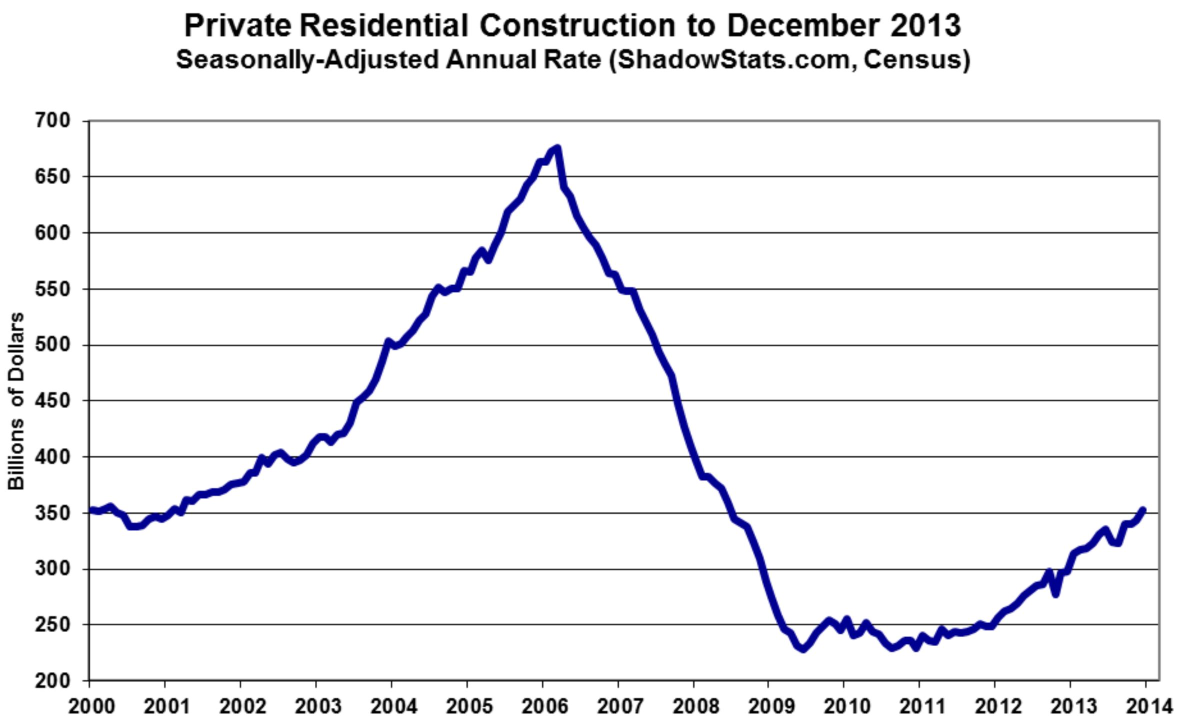

Construction Payroll Employment
To Dec 2013, Seasonally-Adjusted (ShadowStats.com, BLS)
Millions of Jobs
8.0
7.6
7.2
6.8
6.4
6.0
5.6
5.2
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014

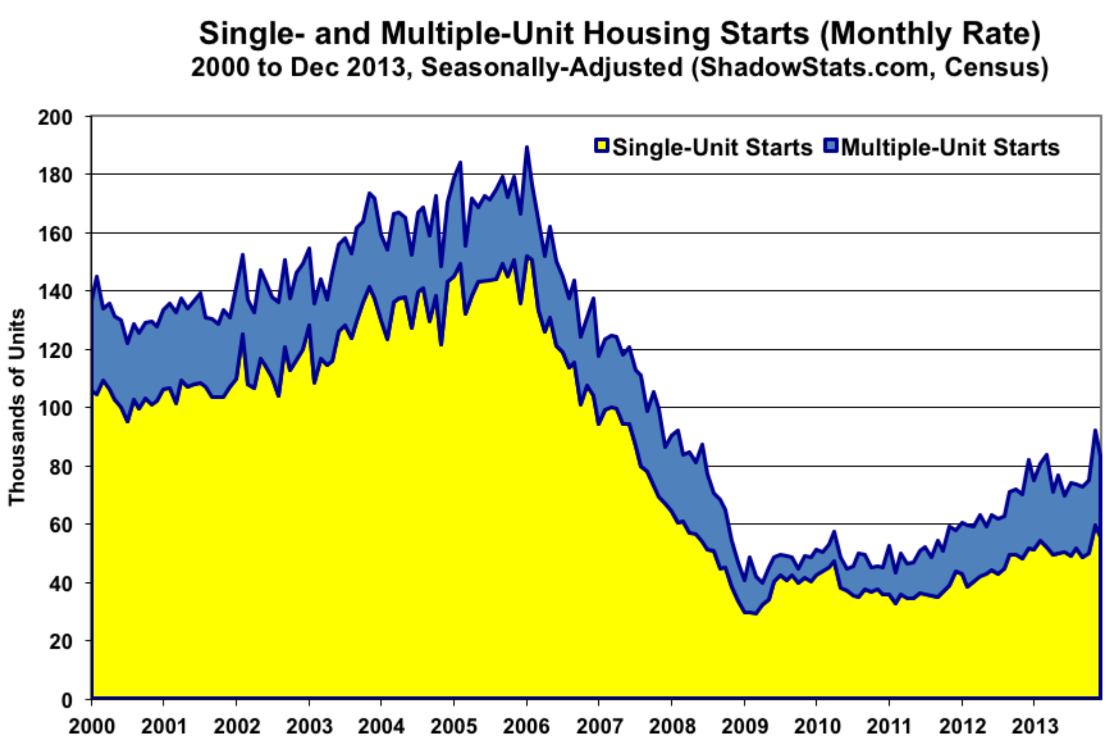
The preceding graph reflects the reporting of December 2013 construction employment, which will be updated with tomorrow's, February 7th, *Commentary* and the release of January 2014 labor conditions, in the context of the annual benchmark revisions. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity.

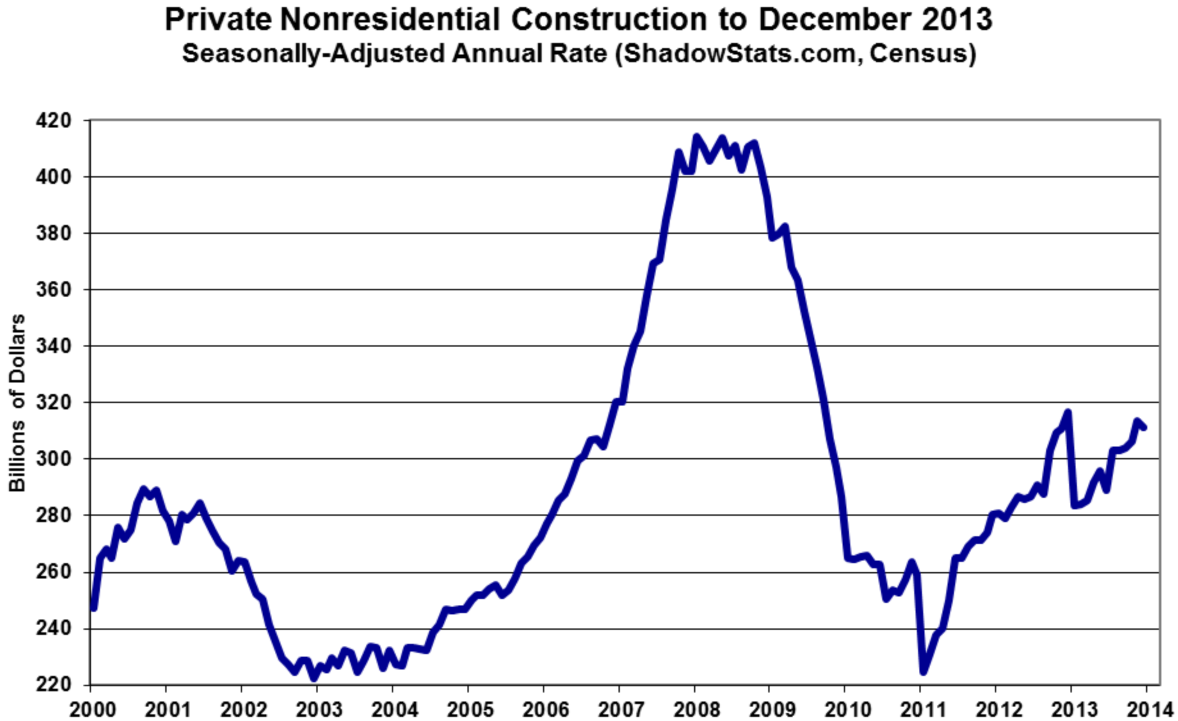
The following graph shows total construction spending, broken out by the contributions from total public spending (blue), private-nonresidential spending (yellow) and private residential spending (red).

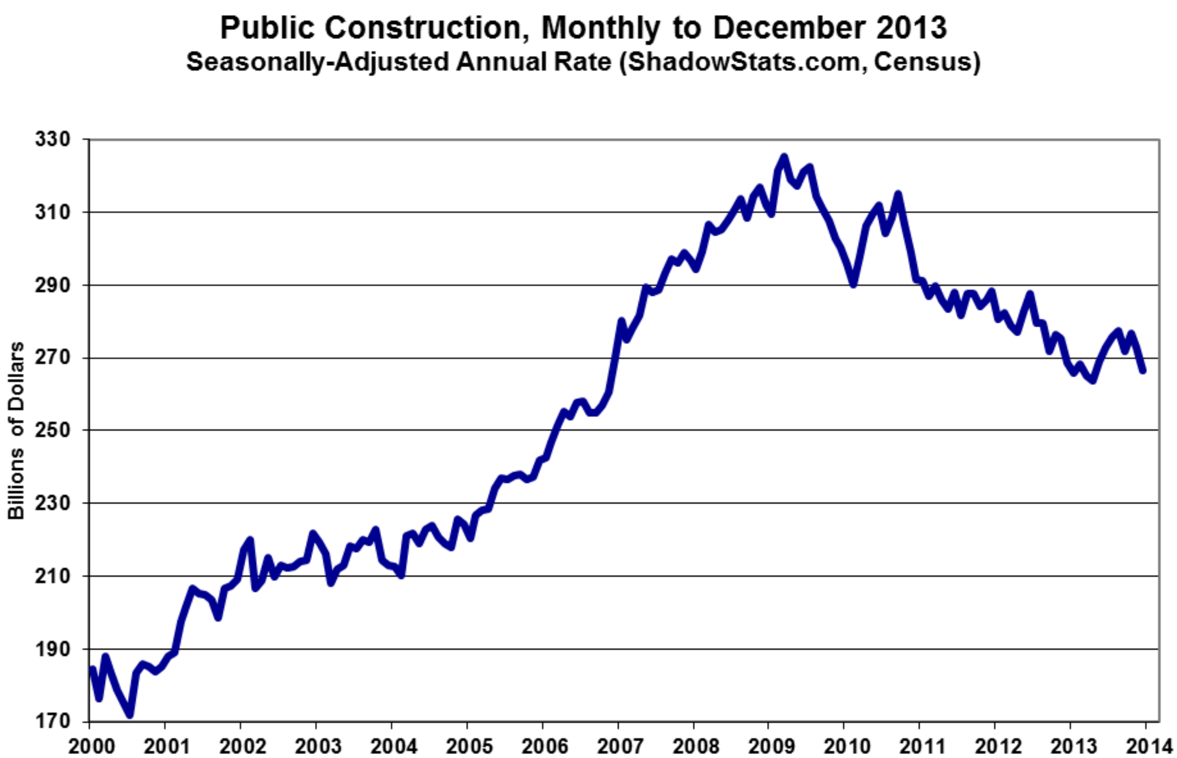


The next two graphs cover private residential construction, including housing starts data, for December. As detailed in *Commentary No. 593*, the recent surge and minimal corrective pullback in housing starts activity likely was an artefact of surveying and reporting disruptions around the October government shutdown. Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing starts and building permits reflect unit volume.


Private Residential Construction to December 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
2014


Single- and Multiple-Unit Housing Starts (Monthly Rate)
2000 to Dec 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 December 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
2014


Public Construction, Monthly to December 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
2014

The last two graphs, preceding, show the patterns of the monthly level of activity in private nonresidential construction spending and in public construction spending. The spending in private nonresidential construction remains well off its historic peak, but has bounced higher recently off a secondary, near-term dip in late-2012. Public construction spending, which is 98% nonresidential, continues in a broad downtrend, with intermittent, short-lived bounces.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. At the moment, markets generally appear to still be overly optimistic as to the economic outlook, based on data that likely were puffed-up in the process of going through the data-gathering and reporting distortions of the October shutdown to the federal government. Expectations should soften anew, quickly, with the increasing likelihood of corrective reporting and revisions in the months ahead. The early stages of that process were seen in elements of recent reporting of the December payroll data, retail sales, new home sales and new orders for durable goods.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend.

Stronger inflation reporting remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. political conditions (see *Hyperinflation 2014—The End Game Begins*). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on 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 seven-to-eight 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.

PENDING RELEASES:

Employment/Unemployment (January 2014). The Bureau of Labor Statistics (BLS) will release its January 2014 labor data tomorrow, Friday, February 7th. Also pending release then are the annual benchmark revisions to the payroll employment data (March 2013 base), and a recasting of population details that affect the household survey and unemployment detail.

Following December's 74,000 consensus-shocking low gain in payroll employment, and with the BLS publishing its annual payroll revisions along with its January jobs estimate, the BLS pretty much can publish whatever number it chooses to publish.

From the payroll-employment perspective, the BLS trend model suggests a 145,000 jobs gain for January. While the consensus often tends to close in around that trend, market expectations appear to be running around 180,000. Underlying economic reality would suggest a downside surprise versus the trend, let alone the consensus.

Expectations likely will be for the headline January U.3 unemployment rate to hold near December's 6.7% reading. The changes to the population assumptions, however, will make the December and January numbers inconsistent and not comparable, with those data problems compounded by the return of the use of concurrent seasonal-factor adjustments, with without consistent historical reporting.

If U.3 drops, again, which is a good possibility, there likely would be some further labor-force loss associated with that. The broader U.6 and ShadowStats unemployment measures should tend to hold, or increase anew, at their higher respective levels.

Again, all these numbers are unsettled and could come in well outside general expectations.

2013 Benchmark Revision. As discussed in *Commentary No. 561*, of September 26th, the announced benchmark revision to the 2013 payroll survey would be tantamount to fraud, if the entire historical series is not otherwise revamped for a major redefinition of nonfarm payrolls. As standardly reported, the March 2013 benchmarking lowered the payroll levels of that time by 124,000 jobs, instead of the 345,000 "increase" reported, which included 469,000 new workers who were classified and defined previously as not counted in nonfarm payrolls.

Indeed, as it has been configured, the payroll employment level in the benchmark month of March 2013 was found to have been overstated by 124,000 jobs, requiring a downside revision to the series in that month, with adjustments back to March 2012, and with adjustments forward in time through the reporting of January 2014 payrolls (to be released February 7th). In the later months of the revision cycle, the downside revisions to monthly levels likely would have topped 200,000.

In a turnaround, the announced benchmark revision was restated so as to be to the upside by 345,000, thanks to the inclusion of 469,000 in employment that previously had not been counted as part of the nonfarm payroll survey. Aside from excluding agricultural employment, the payroll survey had excluded those on household payrolls. Now 469,000 of the household payrolls have been moved into the payroll survey, into the education and healthcare industries, and there is no indication that the BLS plans to restate prior history so as to have a consistent historical series.

Further, this is an area that is not surveyed easily by the BLS on a monthly basis, so it becomes a new fudge-factor for re-jiggering the headline payroll numbers. As announced by the BLS:

"Each year, [payroll] employment estimates from the Current Employment Statistics (CES) survey are benchmarked to comprehensive counts of employment for the month of March. These counts are derived from State Unemployment Insurance (UI) tax records that nearly all employers are required to file. For National CES employment series, the annual benchmark revisions over the last 10 years have averaged plus or minus three-tenths of one percent of Total nonfarm employment. The preliminary estimate of the benchmark revision indicates an upward adjustment to March 2013 Total nonfarm employment of 345,000 (0.3 percent). This revision is impacted by a large non-economic code change [made by the BLS] in the Quarterly Census of Employment and Wages (QCEW) that moves approximately 469,000 in employment from Private households, which is out-of-scope for CES, to the Education and health care services industry, which is in scope. After accounting for this movement, the estimate of the revision to the over-the-year change in CES from March 2012 to March 2013 is a downward revision of 124,000."