

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

COMMENTARY NUMBER 693
December Trade Balance, Construction Spending
February 5, 2015

**Trade Deficit Deteriorated Sharply for the Month, the Quarter and the Year,
Both Before and After Accounting for Inflation and Oil Prices**

**Fourth-Quarter GDP Already Reflected Some of the Trade Hit;
Further GDP Deterioration Is Likely**

Oil Imports Rose and Oil Exports Fell in the Context of Declining Oil Prices

Real Construction Spending Continued in Stagnation

PLEASE NOTE: The next Regular Commentary is scheduled for tomorrow, Friday, February 6th, covering the January labor numbers.

Best Wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

No Happy News Here for the Broad Economy. Adjusted for inflation, December 2014 construction spending continued a pattern of stagnation, which neither confirmed broad growth in the U.S. economy during 2014, nor suggested any improvement pending in the year ahead. Catch-up in reporting of U.S. trade activity showed sharp deterioration in the trade deficit during fourth-quarter 2014. That confirmed the pattern of slowing growth reported in fourth-quarter GDP. It not only was suggestive of downside

revisions to fourth-quarter GDP activity, but also was indicative of a negative economic outlook going forward for first-quarter 2015 GDP.

Today's Missive (February 5th). The *Commentary* concentrates on detail from the reporting of the December 2014 the trade deficit and its revisions, and from the reporting of December 2014 construction spending. The outlook for general economic reporting in the next month or so will be discussed anew in tomorrow's *Commentary No. 694*, in the context of the January labor detail.

[*No. 692 Special Commentary: 2015 - A World Out of Balance*](#), published on Monday, February 2nd, updated the *Hyperinflation 2014* reports and the broad economic outlook. There is no *Hyperinflation Watch* section today, but one will follow in tomorrow's *Commentary No. 694* on January labor data, covering the December 2014 annual-growth estimate for money supply M3. The usual *Hyperinflation Summary Outlook* will be revamped shortly, reflecting the *Special Commentary*. In the interim, anyone looking for a *Summary* is referred to the *Opening Comments* of *No. 692*, or to [*Commentary No. 684*](#), for the prior version.

The *Week Ahead* section previews tomorrow's reporting of headline January labor data, including effects of the annual payroll-benchmark revision on headline jobs reporting, and the annual re-estimation of population controls on the unemployment detail and related measures out of the household survey.

U.S. Trade Deficit—December 2014—Deficit Widened Sharply in 2014 for the Year, for the Fourth-Quarter and for December, Irrespective of Inflation and Collapsing Oil Prices. A key underpinning of a nation's currency is its trade balance, and the U.S. trade deficit—the biggest in global history, and in general deterioration for more than forty years—just took an unexpected hit. The headline December trade data and accompanying revisions should rattle—at least a little bit—market complacency that the trade data do not matter anymore. Amidst contentions that the United States has reversed its dependency on foreign oil, oil-related detail did not contribute positively to the headline December trade numbers.

Fourth-Quarter GDP Reporting Appears to Have Been Prepared with Some Idea of Today's Trade Detail. Early guessing by the Bureau of Economic Analysis (BEA) of the fourth-quarter 2014 net-export account [January 30th headline fourth-quarter GDP estimate] showed a sharp deterioration in the quarter that was not supported by the headline November 2014 trade deficit report, the last formal trade estimate published before the GDP report. Headline trade reporting through November had suggested an initial neutral impact on the first estimate of the GDP. Today's headline December trade detail and revisions, however, were consistent with the initial GDP estimate.

Accordingly, where net exports were responsible for a negative contribution of 1.02% (-1.02%) to the below-consensus, aggregate headline estimate of 2.64% annualized real growth in the initial fourth-quarter GDP reporting, much of today's trade detail likely was known already and incorporated into the headline GDP detail at the time.

As we noted at the time (see [*Commentary No. 691*](#)), "...the net export account subtracted more from GDP growth than was suggested by November trade deficit reporting; the impact should have been about neutral. So, there could be some 'surprise' widening in the real merchandise trade deficit in the pending December number."

The information here and BEA-related actions, remain consistent with the BEA expecting to revise fourth-quarter GDP growth lower, and part of that likely downside restatement will be seen in further deterioration to the December 2014 trade deficit, come next month's revision (again see comments in [Commentary No. 691](#)).

Monthly, Quarterly and Annual Deterioration of Both Real and Nominal Deficits. In headline nominal (not-inflation-adjusted) seasonally-adjusted terms, the December 2014 trade deficit widened by an annualized \$81.7 billion versus November; the fourth-quarter 2014 widened versus the third-quarter by \$19.8 billion on an annualized basis, and the full-year deficit in 2014 versus 2013 widened by \$28.7 billion.

In headline real (inflation-adjusted) seasonally-adjusted terms the December 2014 trade deficit widened by \$72.2 billion (measured in 2009 dollars as used in the GDP) versus November, on an annualized basis; the fourth-quarter 2014 widened versus the third-quarter by \$29.0 billion on an annualized basis, and the full-year deficit in 2014 versus 2013 widened by \$28.8 billion.

Nominal (Not-Adjusted-for-Inflation) December 2014 Trade Deficit. The headline, nominal, seasonally-adjusted monthly trade deficit in goods and services for December 2014, on a balance-of-payments basis, widened by \$6.806 billion to \$46.557 billion, from a revised \$39.751 billion in November, and widened versus a \$37.393 billion deficit in December 2013. Headline monthly data were revised going back to January 2014, with negligible shifts in aggregate quarterly data.

As to month-to-month trade patterns, December 2014 saw roughly a \$1.547 billion decline in monthly exports, exacerbated by a \$5.259 billion increase in monthly imports. Both the decline in exports and increase in imports were impacted heavily by crude oil and petroleum-related products. The decline in exports also encompassed a drop of \$1.2 billion in nonmonetary gold.

Aside from temporarily declining oil prices, the ongoing trend should continue to be for significant monthly, quarterly and annual deterioration in the U.S. trade deficit, both before and particularly after adjustment for inflation. Look for a sharp widening of the headline real deficit again in January, along with a further widening of the December shortfall in the accompanying revision.

Real (Inflation-Adjusted) December 2014 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, also used for GDP deflation), the December 2014 merchandise trade deficit (no services) widened to \$54.679 billion, versus a revised \$48.660 in November, and a revised \$49.695 billion in October 2014, and it widened sharply versus a \$47.063 billion deficit in December 2013.

Headline monthly real detail was revised back to January 2014, with the effect of minimally narrowing first-, second- and third-quarter real trade deficits, in revision, versus prior reporting.

With full, fourth-quarter 2014 reporting in place, the headline deterioration in the real fourth-quarter 2014 versus third-quarter merchandise trade deficit now is consistent with the initial fourth-quarter GDP estimate, as discussed in the opening remarks of this trade-deficit section.

Consistent with headline December reporting and revisions, the annualized quarterly real merchandise trade deficit stood at \$554.7 billion for fourth-quarter 2013, a revised \$587.3 (previously \$591.0) billion

for first-quarter 2014, a revised \$616.5 (previously \$619.9) billion for second-quarter 2014, and a revised \$583.1 (previously \$587.2) billion for third-quarter 2014.

With today's reporting, the real fourth-quarter 2014 trade deficit annualized out to \$612.1 billion. Based on reporting for just October and November, the early fourth-quarter estimate had been \$587.6 billion, virtually unchanged versus the estimate of third-quarter activity of the time of \$587.2 billion.

Looking ahead, to the headline January 2015 trade-deficit reporting and December 2014 revision, that detail likely will widen the fourth-quarter deficit in revision and set a negative tone for the first-quarter 2015 trade deficit and GDP.

Construction Spending—December 2014—Inflation-Adjusted Spending Has Been in Fluctuating Stagnation Since Late-2013. The headline monthly gain of 0.4% in nominal construction spending for December 2014 was not statistically meaningful—as is usual for the monthly change to this series—even allowing for the headline gain being on top of upside revisions to monthly activity in October and November. The pattern of ongoing, low-level stagnation remained intact, however, both before and after inflation adjustment, with the recent real (inflation-adjusted) series showing an ongoing irregular pattern of flat activity that began in late-2013.

Initial numbers for fourth-quarter 2014 showed real year-to-year growth of just 0.3%, but annualized quarter-quarter-to-quarter growth was at 5.2% versus third-quarter 2014, which in turn had contracted at annualized pace of 2.3% (-2.3%) versus second-quarter 2014.

Such is shown in the accompanying graph of nominal and real or inflation-adjusted detail. The historical pattern remains one that does support the headline, real-GDP story of a full economic recovery and post-recession expansion since 2009.

PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the aggregate activity in the construction-spending series since November 2009. For earlier periods, the New Construction Index (NCI) is used.

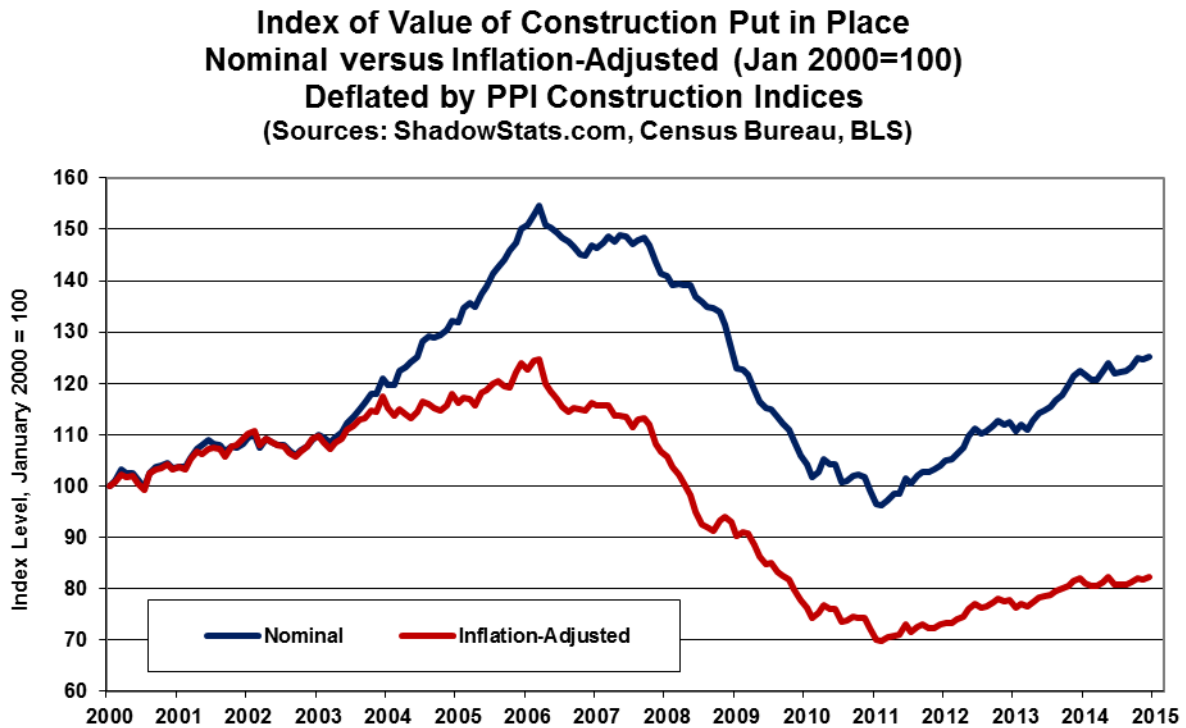
For December 2014, the seasonally-adjusted FDCI month-to-month inflation was unchanged at 0.00%, for a second month. In terms of year-to-year change, December FDCI was 2.11%, versus 2.20% in November.

Headline Reporting for December 2014. The headline, total value of construction put in place in the United States for December 2014 was \$982.1 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.4%.

Such followed a revised level of \$978.6 billion in November, which was down by 0.2% (-0.2%) from a revised \$980.4 billion in October. In turn, the October level was up by a revised 1.4% versus an unrevised level of \$966.4 billion in September.

Adjusted for the FDCI inflation measure, aggregate real spending in December 2014 was up by 0.4% month-to-month versus November, which fell month-to-month by 0.2% (-0.2%) versus October.

On a year-to-year or annual-growth basis, December 2014 construction spending rose by a statistically-significant 2.2%, versus a revised 2.7% gain in November. Net of construction costs indicated by the FDCI, year-to-year change in spending was an annual gain of 0.1% in December, following a revised 0.5% gain in November 2014.



The statistically-insignificant 0.4% monthly gain in nominal December construction, versus a monthly contraction of 0.2% (-0.2%) in November, included a monthly gain in December public spending of 1.1%, versus a monthly contraction of 1.5% (-1.5%) in November. Private construction rose by 0.1% in December, versus a gain of 0.5% in November. Within total private construction spending, the residential sector gained 0.3% in December, versus a gain of 0.1% in November, while the nonresidential sector contracted by 0.2% (-0.2%) in December, versus a gain of 0.8% in November.

This detail, in aggregate, and broken out by category, is found in the graphs of the *Reporting Detail* section.

[Further background material on the December Trade Deficit and Construction Spending is included the Reporting Detail, with various drill-down and graphics options on the trade data available to subscribers at our affiliate: www.ExpliStats.com].

REPORTING DETAIL

U.S. TRADE BALANCE (December 2014)

Trade Deficit Widened Sharply in 2014 for the Year, for the Fourth-Quarter and for December, Irrespective of Inflation and Collapsing Oil Prices. A key underpinning of a nation's currency is its trade balance, and the U.S. trade deficit—the biggest in global history, and in general deterioration for more than forty years—just took an unexpected hit. The headline December trade data and accompanying revisions should rattle—at least a little bit—market complacency that the trade data do not matter anymore. Amidst contentions that the United States has reversed its dependency on foreign oil, oil-related detail did not contribute positively to the headline December trade numbers.

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Nominal (Not-Adjusted-for-Inflation) December 2014 Trade Deficit. The BEA and the Census Bureau reported this morning, February 5th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for December 2014, on a balance-of-payments basis, widened by \$6.806 billion to \$46.557 billion, from a revised \$39.751 (previously \$39.001) billion in November, and widened versus a \$37.393 billion deficit in December 2013. Headline monthly data were revised going back to January 2014, with negligible shifts in aggregate quarterly data.

As to month-to-month trade patterns, December 2014 saw roughly a \$1.547 billion decline in monthly exports, exacerbated by a \$5.259 billion increase in monthly imports. Both the decline in exports and increase in imports were impacted heavily by crude oil and petroleum-related products. The decline in exports also encompassed a drop of \$1.2 billion in nonmonetary gold.

Aside from temporarily declining oil prices, the ongoing trend should continue to be for significant monthly, quarterly and annual deterioration in the U.S. trade deficit, both before and particularly after adjustment for inflation. Look for a sharp widening of the headline real deficit again in January, along with a further widening of the December shortfall in the accompanying revision.

Energy-Related Petroleum Products. For December 2014, the not-seasonally-adjusted average price of imported oil continued to fall sharply, down to \$73.64 per barrel, from \$82.95 in November and \$88.47 in October, and it was down from \$91.33 per barrel in December 2013. Also not-seasonally-adjusted, physical oil import volume in December 2014 averaged 7.980 million barrels per day, up from 6.296 million in November and 7.229 million in October, and up from 7.429 million in December 2013.

Ongoing Cautions on Data Quality. Potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues are seen with other economic releases, such as retail sales and payrolls, where the headline number reflects month-to-month change. Discussed frequently (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) for example), the extraordinary length and depth of the current business downturn have disrupted regular seasonality patterns. Accordingly, the markets should not rely too heavily on the accuracy of the monthly headline data.

Real (Inflation-Adjusted) December 2014 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, also used for GDP deflation), the December 2014 merchandise trade deficit (no services) widened to \$54.679 billion, versus a revised \$48.660 (previously \$47.844 billion) in November, and a revised \$49.695 (previously \$50.082, initially \$50.841) billion in October 2014, and it widened sharply versus a \$47.063 billion deficit in December 2013.

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Looking ahead, to the headline January 2015 trade-deficit reporting and December 2014 revision, that detail likely will widen the fourth-quarter deficit in revision and set a negative tone for the first-quarter 2015 trade deficit and GDP.

CONSTRUCTION SPENDING (December 2014)

Inflation-Adjusted Construction Spending Has Been in Fluctuating Stagnation Since Late-2013.

The headline monthly gain of 0.4% in nominal construction spending for December 2014 was not statistically meaningful—as is usual for the monthly change to this series—even allowing for the headline gain being on top of upside revisions to monthly activity in October and November. The pattern of ongoing, low-level stagnation remained intact, however, both before and after inflation adjustment, with the recent real (inflation-adjusted) series showing an ongoing irregular pattern of flat activity that began in late-2013.

Initial numbers for fourth-quarter 2014 showed real year-to-year growth of just 0.3%, but annualized quarter-quarter-to-quarter growth was at 5.2% versus third-quarter 2014, which in turn had contracted at annualized pace of 2.3% (-2.3%) versus second-quarter 2014.

Such is shown in the second graph following of real or inflation-adjusted detail. The historical pattern remains one that does support the headline, real-GDP story of a full economic recovery and post-recession expansion since 2009.

PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the aggregate activity in the construction-spending series. The previously-used New Construction Index (NCI), was so far shy of reflecting construction costs as to be virtually useless. Although closely designed to match this construction-spending series, the FDCI has two problems. First, its historical data only go back to November 2009. Second, it still understates actual construction inflation. There is no perfect, publicly-available inflation measure for deflating construction. For the historical series in the accompanying graphs, the numbers are deflated by the NCI through November 2009, and by the FDCI thereafter.

For December 2014, the seasonally-adjusted FDCI month-to-month inflation was unchanged at 0.00%, for a second month, following an unchanged reading in November. In terms of year-to-year change, December FDCI was 2.11%, versus 2.20% in November.

Headline Reporting for December 2014. The Census Bureau reported February 2nd that the headline, total value of construction put in place in the United States for December 2014 was \$982.1 billion, on a

seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.4% +/- 1.5% (all confidence intervals are at the 95% level).

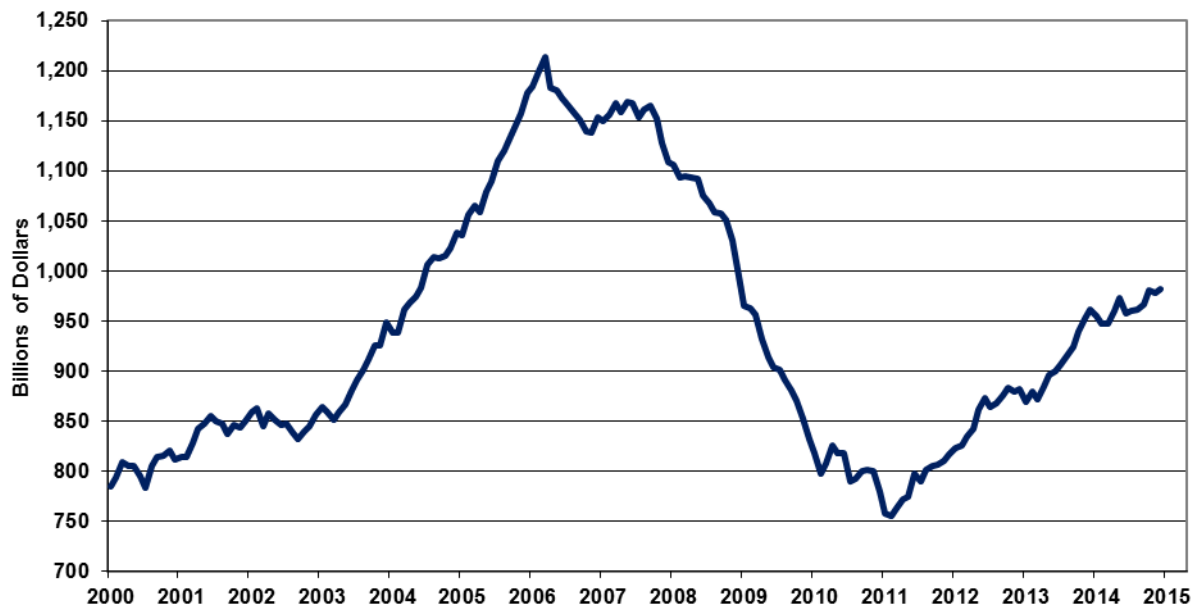
Such followed a revised level of \$978.6 [previously \$975.0] billion in November, which was down by a revised 0.2% (-0.2%) [previously down by 0.3% (-0.3%)] from \$980.4 [previously \$977.7, initially \$971.0] billion in October. In turn, the October level was up by a revised 1.4% [previously a gain of 1.2%, initially a gain of 1.1%] versus an unrevised level of \$966.4 billion in September.

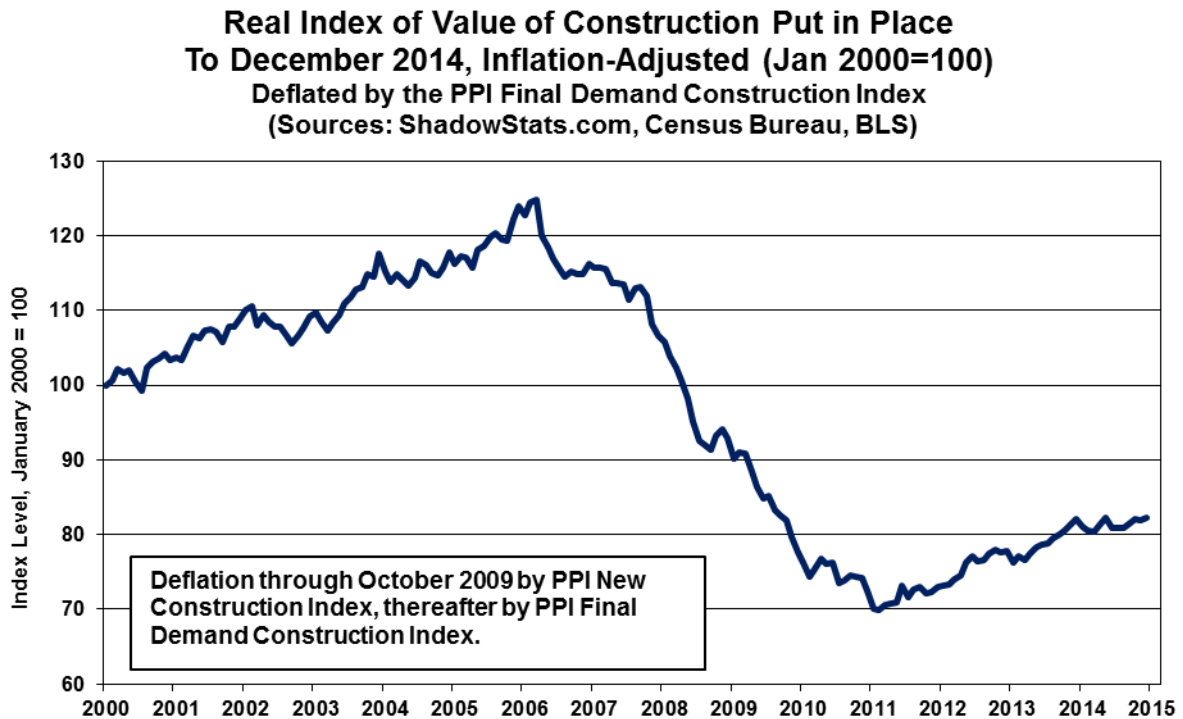
Adjusted for the FDCI inflation measure in the PPI, aggregate real spending in December 2014 was up by 0.4% month-to-month versus November, which fell month-to-month by 0.2% (-0.2%) versus October.

On a year-to-year or annual-growth basis, December 2014 construction spending rose by a statistically-significant 2.2% +/- 1.9%, versus a revised 2.7% [previously 2.4%] gain in November. Net of construction costs indicated by the FDCI, however, year-to-year change in spending was an annual gain of 0.1% in December, following a revised 0.5% [previously 0.2%] gain in November 2014.

The statistically-insignificant 0.4% monthly gain in nominal December construction, versus a monthly contraction of 0.2% (-0.2%) in November, included a monthly gain in December public spending of 1.1%, versus a monthly contraction of 1.5% (-1.5%) in November. Private construction rose by 0.1% in December, versus a gain of 0.5% in November. Within total private construction spending, the residential sector gained 0.3% in December, versus a gain of 0.1% in November, while the nonresidential sector contracted by 0.2% (-0.2%) in December, versus a gain of 0.8% in November. The following graphs show the latest extended detail.

Total Construction Spending, Monthly to December 2014
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



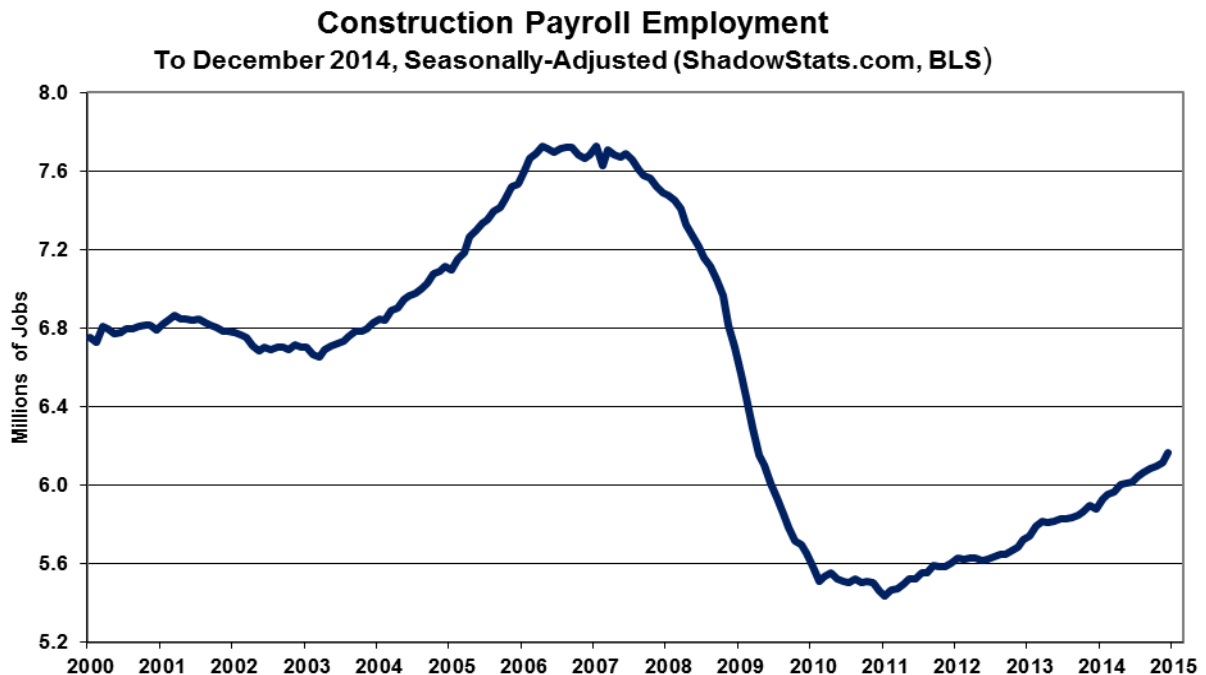


Construction and Related Graphs. The preceding two graphs reflect total construction spending through December 2014, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0. Adjusted for the PPI's NCI measure through October 2009 and the PPI's Final Demand Construction Index thereafter, real construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, and now trending flat since late-2013.

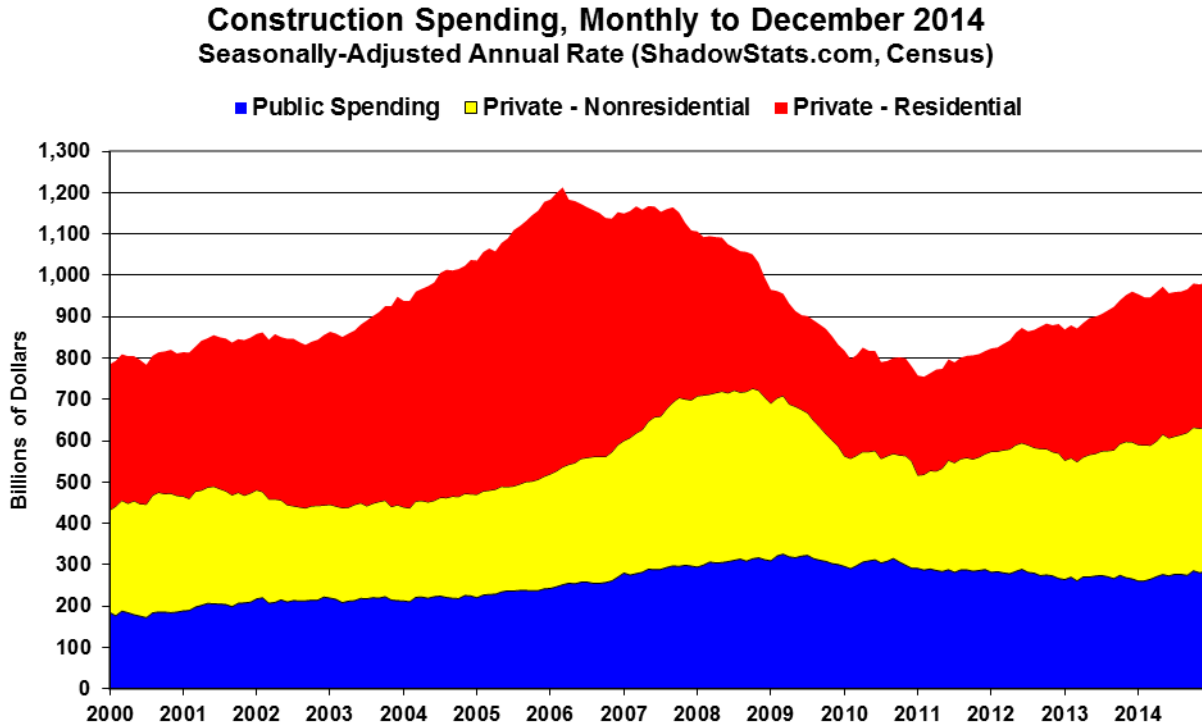
The pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see [No. 692 Special Commentary: 2015 - A World Out of Balance](#)). To the contrary, the latest construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, shows a pattern slightly variable stagnation, where activity never recovered pre-recession highs.

The next graph shows December 2014 construction employment. The graph is from the January 9th [Commentary No. 686](#), where specific detail also will be found. The January numbers and graph will be updated in tomorrow's February 6th *Commentary No. 694*, covering not only January 2014 payroll employment, but also the annual benchmark revision to same.

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. Due to be revised higher in the benchmarking by 89,000 as of March 2014, the heavily-upside-biased construction payroll numbers (officially bloated by 5,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month), as well as the heavily-guessed-at related construction activity in the GDP, still have been running counter to most other recent indications of weakening construction activity, including the real construction spending levels detailed here.



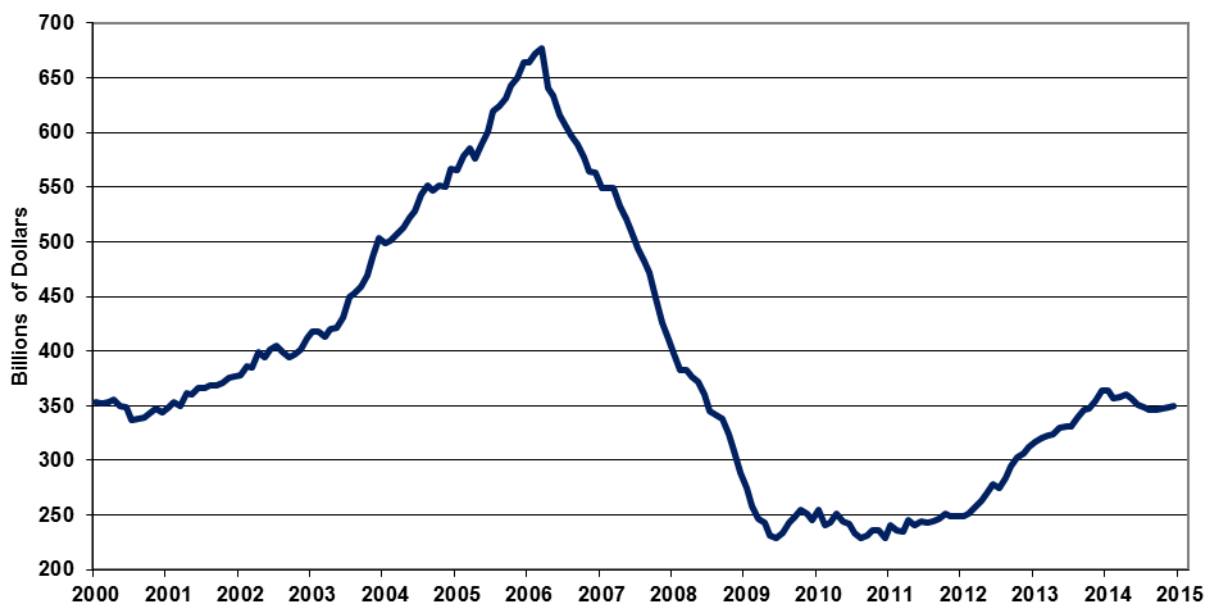
The following plot shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential spending (red).



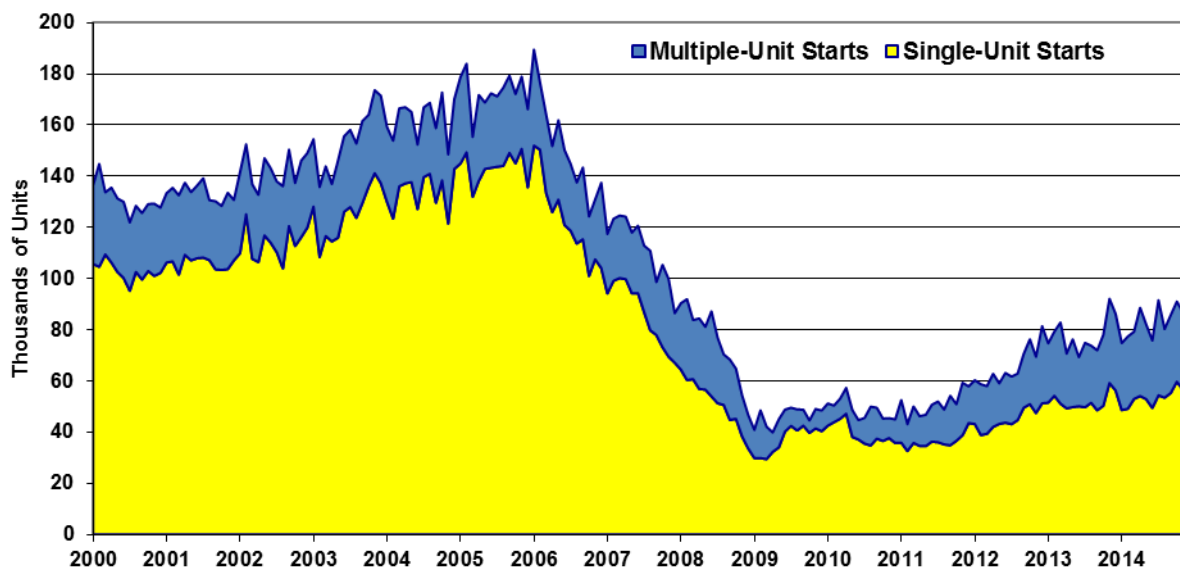
The first two graphs following cover private residential construction along with housing starts (combined single- and multiple-unit starts) for December (see [Commentary No. 689](#)). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing starts reflect unit volume, which should tend to be more parallel with the real (inflation-adjusted) series. Where the private residential construction spending had been in recent upturn through most of 2013, that now has turned lower, trending to the downside in 2014, even before adjustment for inflation.

The final set of two graphs, the third and fourth, following, 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 had bounced higher off a secondary, near-term dip in late-2012, and then heading higher, again, with a topping pattern seen recently. Public construction spending, which is 98% nonresidential, has continued in a broad downtrend or with intermittent bouts of fluttering stagnation and some upturn, most recently.

Private Residential Construction to December 2014
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



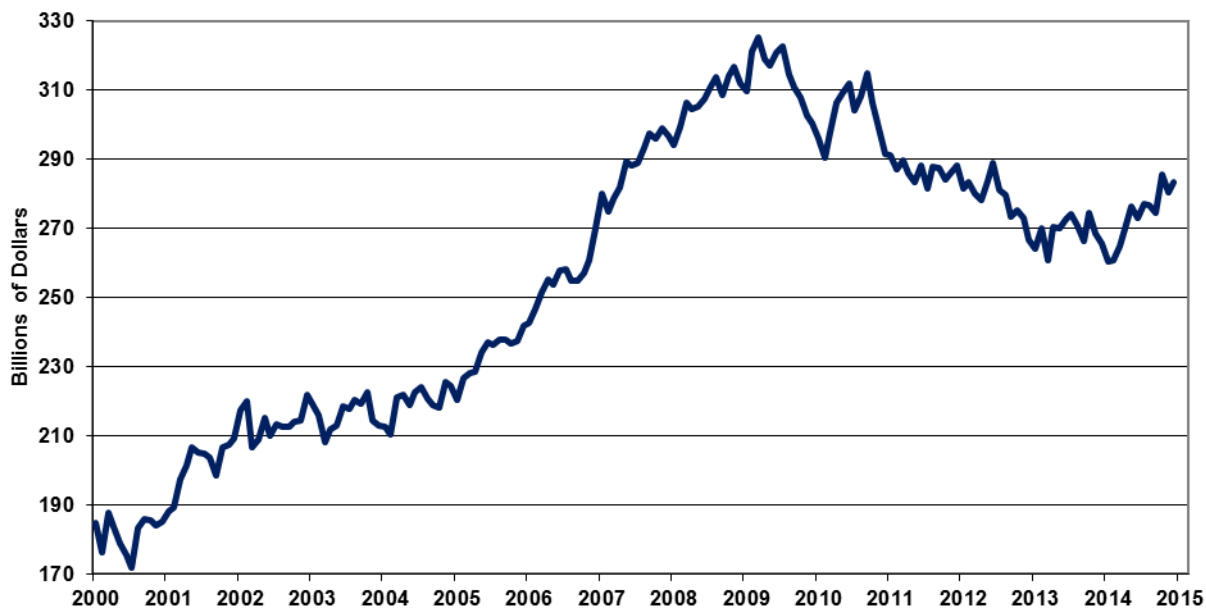
Single- and Multiple-Unit Housing Starts (Monthly Rate)
To December 2014, Seasonally-Adjusted (ShadowStats.com, Census)



Nonresidential Construction, Monthly to December 2014
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



Public Construction, Monthly to December 2014
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



WEEK AHEAD

Against Overly-Optimistic Expectations, Economic Releases and Revisions in the Months Ahead Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger after the Impact of Temporary Oil-Price Declines. Shifting some to the downside, again, from the upside, amidst wide fluctuations in the numbers, market expectations for business activity still remain overly optimistic in the extreme. They exceed any potential, underlying economic reality. Downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting should hammer those expectations in the next several months. Recent GDP excesses, however, will not face downside revisions until the July 30, 2015 benchmark revision, other than for the two months of revisions still pending for fourth-quarter 2014 GDP.

Headline consumer inflation—dominated by gasoline and other oil-price related commodities—should hit a near-term bottom in the next two months or. Significant upside inflation pressures should resume when oil prices begin their rebound, a process that already may be underway, and one that would be accelerated rapidly by an eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in [No. 692 Special Commentary: 2015 - A World Out of Balance](#).

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. Data instabilities were induced partially by the still-evolving economic turmoil of the last eight years, which has been without precedent in the post-World War II era of modern economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment, and unemployment data). Combined with recent allegations (see [Commentary No. 669](#) of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Employment and Unemployment (January 2015)—Headline Detail versus Payroll and Population Revisions. The Bureau of Labor Statistics (BLS) will release its January 2015 labor data tomorrow, Friday, February 6th. The release will encompass the monthly payroll data in the context of the annual benchmark revision to payroll employment.

Annual revisions to population assumptions also will alter key household survey numbers (unemployment related), making them not comparable to December 2014 reporting. Such is in addition to the return of not-comparable reporting of the seasonally-adjusted, month-to-month household survey numbers, due to BLS reporting practices surrounding its use of concurrent seasonal factor adjustments (see [Commentary No. 686](#)).

Accordingly, almost anything can come out of the January headline reporting. Underlying economic fundamentals suggest ongoing deterioration in the broader unemployment rates such as U.6 and the ShadowStats Alternate Unemployment measure, as well slowing or negative month-to-month growth in headline payrolls.

Absolutely Meaningless Headline Changes in U.3. In terms of the unemployment rate, though, whatever is reported for the headline U.6 will have no consistency or comparable meaning with December's 5.6% headline number. There will be no practical meaning—other than for market or political hype—of a headline monthly gain or decline in the January U.6 rate versus December. Where some early consensus estimates had unemployment dropping to 5.5%, the late consensus is 5.6%, per Bloomberg.

Benchmark Wildcard Always a Possibility with Payrolls. The preliminary announcement of the benchmark revision to March 2014 payrolls was for a relatively insignificant upside adjustment of 7,000 for that month [a gain of 47,000 in aggregate private payrolls versus a loss of 40,000 (-40,000) in aggregate government payrolls]. The net benchmark revision was the smallest in memory and was preliminary. The changes will be massaged into the aggregate payroll data from March 2013 through the January 2015, to be published on February 6th. The aggregate impact on historical payroll reporting should be close to nil, but surprises in how the benchmarking is applied have been seen over the years, particularly after seasonal adjustments.

The preliminary 7,000 jobs gain was the net balance of revisions across various employment categories, with gains seen in areas such as Construction (89,000), Information (65,000), Manufacturing (44,000) and Other (60,000), being offset by reductions in areas such as Professional and Business Services (-151,000), Education and Health Services (-72,000), Trade, Transportation and Utilities (-18,000) and Natural Resources and Mining (-16,000). The initial announcement was covered in [Commentary No. 660](#).

With the benchmark revisions, published headline gains going back in time will be revised, but they still will not be consistent month-to-month. Potential surprises await not only in payroll levels, but also in patterns of monthly change in the payrolls.

Monthly Bias Is Outdated before the January Headline Reporting. As published previously by ShadowStats-affiliate www.ExpliStats.com, in its analysis of the biases built into the concurrent-seasonal-factor modeling of December 2014 payroll employment, the implied built-in bias trend was for a January 2015 headline jobs gain of 245,000, versus the near-consensus headline reporting of 252,000 in December. Although consensus for the January payroll gain is 230,000 (per Bloomberg) is below that trend number, the trend was based on pre-benchmark data and will be outdated against the benchmark estimates to be published. The new trend estimate for February will reflect the revamped system.

Both Unemployment and Payroll Employment Remain Open to Surprises. With anything possible in this January reporting, consider the underlying fundamentals, which will shine through eventually. Such would favor weaker-than-expected payrolls gains, and higher-than-expected unemployment rates.

If the headline January 2015 U.3 unemployment rate should decline month-to-month, there likely would be additional labor-force loss associated with those relative headline numbers. The broader U.6 and ShadowStats unemployment measures still would tend to hold, or increase anew, at their broader and higher respective levels. In general, again, all the Labor Department data will be unsettled this month and could come in anywhere.
