

COMMENTARY NUMBER 810

Labor Conditions, M3, Trade Deficit and Revisions, Construction Spending

June 5, 2016

As Happy Economic Data Evaporate, Chances for an FOMC Rate Hike and Perpetual Fed Propping of the Dollar and Stocks Will Diminish

Net of Downside Revisions to April, May Payrolls fell by 50,000 (-50,000), by More than the 35,000 Striking Telecommunication Workers; Full-Time Employment Dropped by 59,000 (-59,000)

May 2016 Unemployment Rates Diverged: U.3 Fell from 5.0% to 4.7%, but U.6 Held at 9.7% and the ShadowStats-Alternate Rate Rose from 22.9% to 23.0%

Plunge in the Headline Unemployment Rate Came from Unemployed Leaving the Labor Force, Not from Finding Jobs

The Labor-Force Participation-Rate Measure Favored by Fed Chair Yellen Shifted Negatively to 62.6% in May, from 62.8% in April

Despite Collapsing April 2016 Real Construction Spending, Broad Activity Continued in Low-Level, Stagnating Non-Recovery

Commerce Department Moved to Reduce the Trade Deficit and to Boost the Headline Economy by Redefining and Gussying-Up the Trade Surplus in the Otherwise Fluffy-Services Sector

Hard Detail from the Real Merchandise Trade Sector Showed a Deeper Deficit and Weaker Economy in Revision

Annual M3 Growth Jumped to 4.2% in May 2016, from 3.9% in April; M2 Jumped to 6.8% from 6.4%; M1 Surged to 8.7% from 6.2%

PLEASE NOTE: The next regular Commentary, scheduled for Friday, June 10, will provide an open discussion on current financial-market and economic conditions, and likely near-term developments. No major releases are scheduled next week, but watch out for the week thereafter. This missive was delayed and is unusually long, due particularly to unusual features in the annual trade revisions and in unstable labor data. The first several pages of the Opening Comments provide summary detail.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Watch Out for the Week of June 13th! Up until Friday's market-shocking jobs report, questions most frequently posed by subscribers ran along the lines of:

- Is the economy finally beginning to pick up, as discussed in the popular financial media?
- How long can Federal Reserve actions keep propping the U.S. dollar and the stock market?

While these general issues will be covered in the next *Commentary No. 811* of June 10th, here are some basic considerations. The general answers to those questions remain “no” and “likely not much longer.” While some elements of April 2016 headline economic activity showed heavily-touted, relative monthly pick-up, those gains arose largely from one-time events or seasonal-factor distortions that should reverse or not be repeating in May. Where some positive reporting surprises are inevitable, downside surprises and negative revisions to prior periods should become the dominant trend in the months ahead.

Particularly in the context of the weak May labor data, weak headline detail in the major May 2016 economic series should do much to intensify the shift in economic expectations sharply to the downside. Successive daily releases of key May reports begin on June 14th with Nominal Retail Sales, followed on June 15th with Industrial Production, on June 16th with the Consumer Price Index (CPI) and related Real Retail Sales, and on June 17th with Housing Starts. Consensus expectations are a fair bet to move towards a “new” recession, in response to the weakening headline detail.

Those numbers also should help to kill any lingering rate-hike hype or considerations by the Federal Reserve's Federal Open Market Committee (FOMC) for June 15th, where the FOMC will have seen or will have a reasonably good sense of most, if not all of those economic releases. Consider that the regular coincident timing of releases of the Fed's Industrial Production series and FOMC rate decisions likely is not accidental.

As the economy shows an intensifying downturn, a process that should accelerate into the July 29th GDP benchmark revisions, FOMC rate-hike speculation likely will have been shifted until after the November 8th election. In response, currency markets should reflect intensified dollar-selling pressure, with rallying gold and silver prices and upside pricing pressures on the price of oil. The more troubled the economy and the more intense the selling pressure on the U.S. currency, the more difficult will become the circumstances for the U.S. equity markets.

The Latest Headline Labor, Trade and Construction Numbers Did Little to Boost the Outlook for Current Economic Expectations. Following the May 27th ([Commentary No. 809](#)) headline contraction of 0.21% (-0.21%) in first-quarter 2016 Gross National Product (GNP)—the nation’s broadest measure of economic activity—collapsing May 2016 labor-market measures, collapsing April 2016 real construction spending and continued trade deficit deterioration (albeit in a revised and revamped series) likely have intensified financial-market discomfort.

May 2016 labor detail showed a much-weaker-than-expected 38,000 monthly gain in payrolls. Even so, net of prior period revisions, the jobs loss was 50,000 (-50,000) for the month and more realistically likely was a monthly decline of approximately 200,000 (-200,000). The unemployment rate dropped to 4.7% from 5.0%, but that was due almost entirely from a sharp drop of the number of unemployed leaving the labor force, as opposed to gaining jobs. Monthly distortions to both the payroll and household surveys from inconsistent seasonal adjustments are intensifying as seen in *Graph 31* and as discussed in *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail* section.

The picture of economic activity was not much happier with April 2016 real construction spending, which still remained shy of its February 2006 pre-recession peak by 25.9% (-25.9%). Inflation-adjusted real construction spending collapsed in April, falling by a statistically-significant 2.6% (-2.6%) for the month, having gained 1.4% in March. Year-to-year real growth collapsed to a positive 2.6% in April 2016, from 8.5% in March 2016. The initial trend for real second-quarter 2016 annualized quarter-to-quarter activity turned to a contraction of 4.7% (-4.7%), versus growth of 8.3% in the first-quarter 2016.

The monthly trade deficit widened for the month of April 2016, both before and after inflation adjustment, but the trade news was in the annual benchmark revisions, which left the real merchandise trade deficit wider, but which also narrowed the deficit for good and services through a revamping and bloating of the services sector surplus. Those revisions are discussed and graphed in these *Opening Comments*.

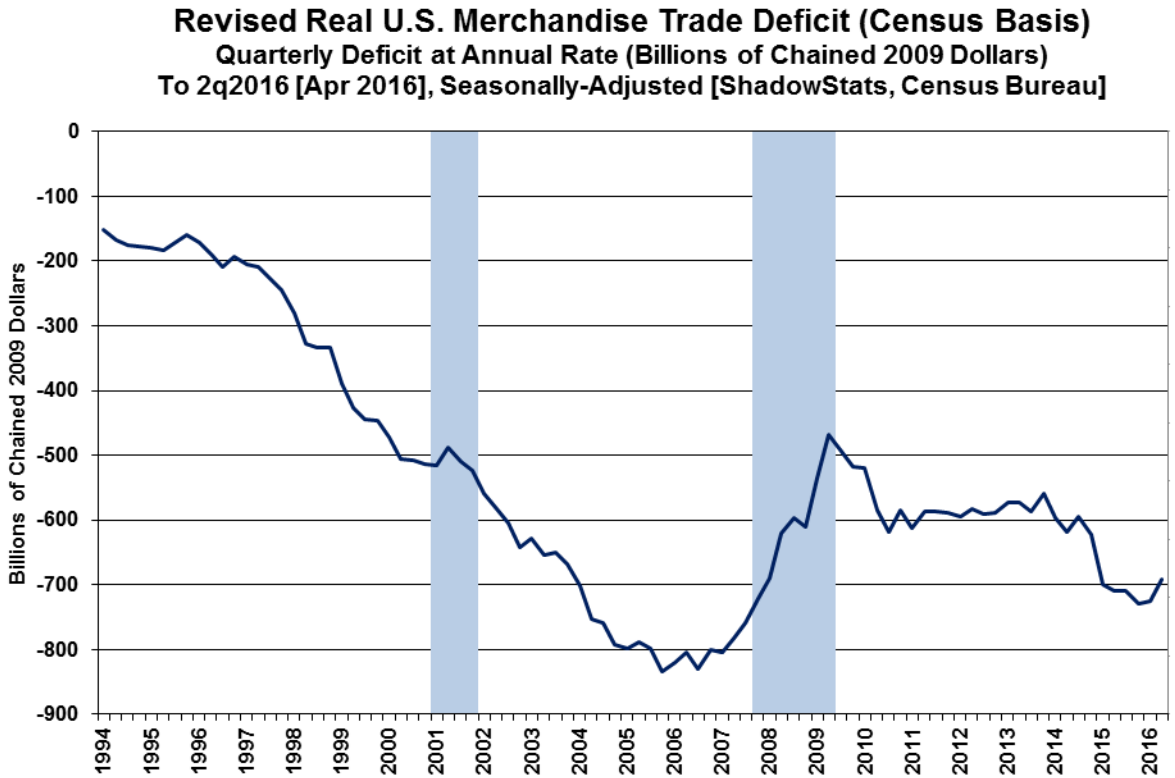
Otherwise, the regular coverage of the labor, construction-spending and trade data are found in their usual respective sections. Separately, the *Hyperinflation Watch* covers a sharp jump in annual money supply growth.

The Commerce Department Just Increased Its Rigging of the Trade and GDP Data. Examined here are two elements of the June 3rd annual benchmarking of the monthly trade data, as published regularly by the Commerce Department (jointly by the Census Bureau and the Bureau of Economic Analysis).

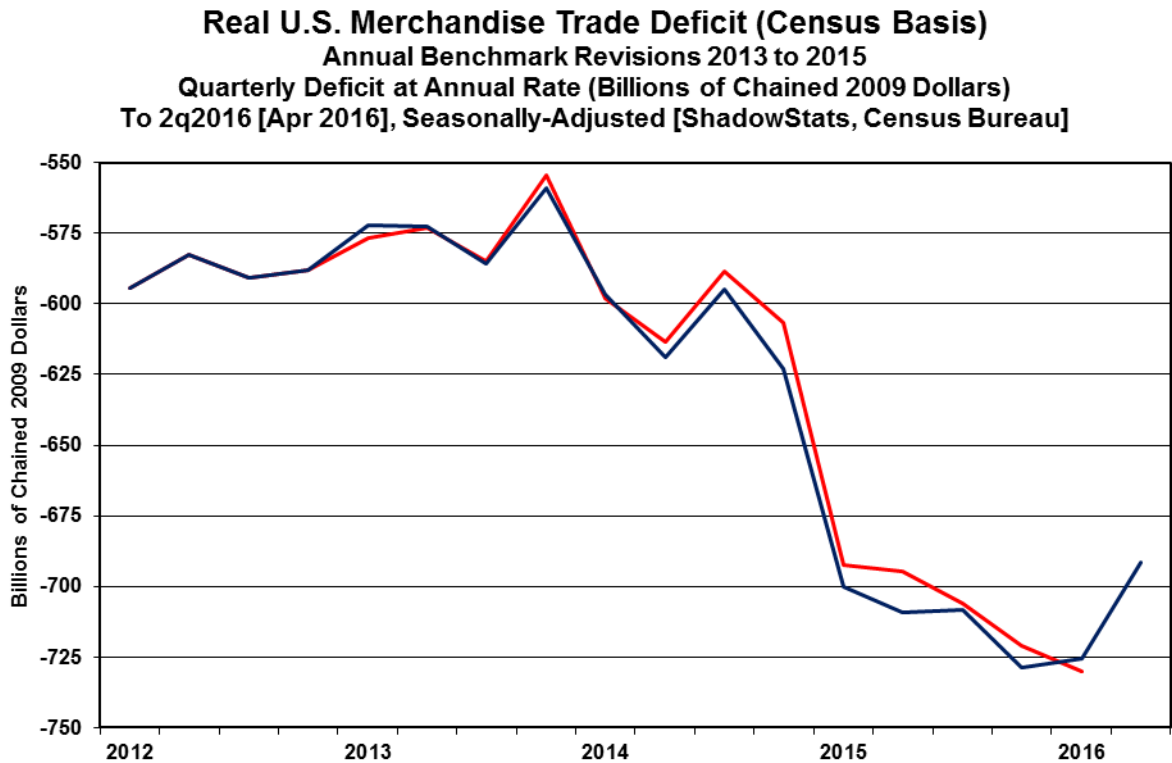
Reflected in the following *Graphs 1* and *2*, the benchmark revision to the inflation-adjusted real Merchandise Trade Deficit came in much as ShadowStats expected, with deeper deficits in recent years, which will have the impact of lowering some quarterly real GDP growth rates in the July 29th benchmark revisions to that series. Please note that the deficit-narrowing in second-quarter 2016, shown in *Graphs 1* and *2*, is based only on the headline April detail, the first month of that quarter.

Shown in *Graphs 3* to *5*, the benchmark revisions to the nominal Trade Balance in Goods and Services was not as expected, with the aggregate trade deficit narrowing, due to a redefinition of the Services sector. The changes could have some upside impact to GDP revisions in 2013 to 2015, but the changes are not that large on a relative period-to-period basis. Nonetheless, the new numbers were inappropriate and timed for the wrong GDP benchmarking.

Graph 1: Revised, Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit to 2q2016 (April 2016)



Graph 2: Quarterly Revisions to the Real Merchandise Trade Balance (2013 to 2015, April 2016 Reporting)

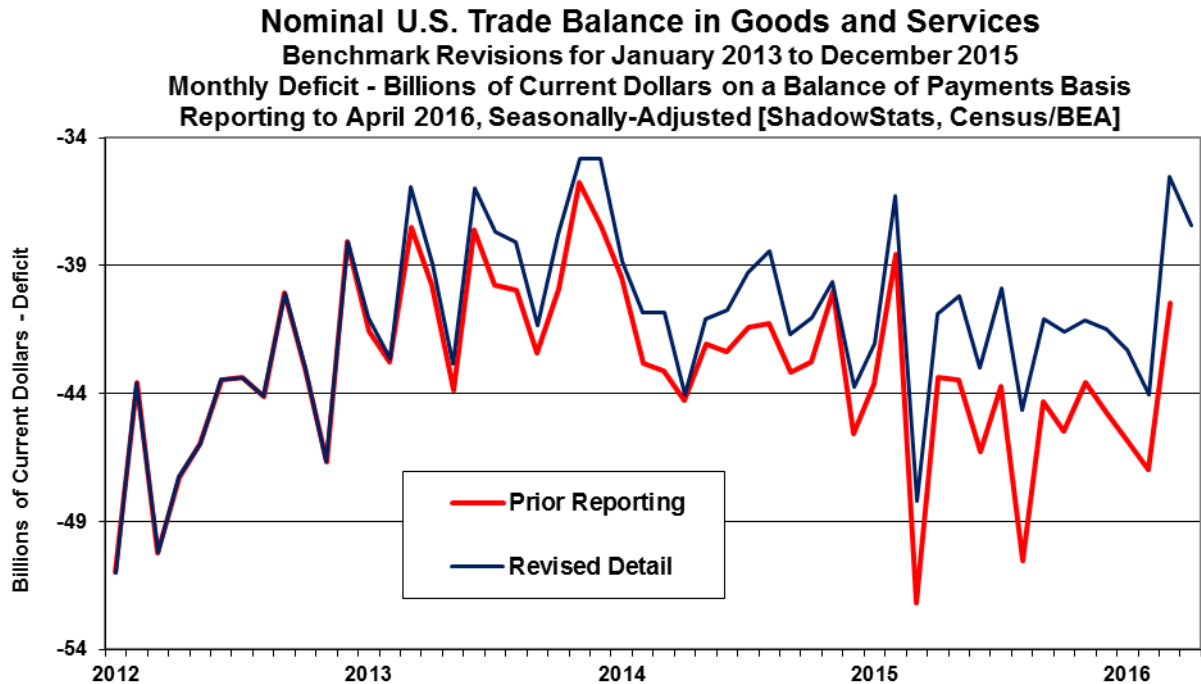


Merchandise Trade Deficit Deteriorated in Revision. The plots for aggregate *Graph 3* of the total revisions to the monthly U.S. Trade Balance in Goods and Services, the component *Graph 4* of the revisions to the monthly deficit in Goods, and the component *Graph 5* of the dominating revisions to the monthly surplus in Services, all are shown to the same scale, for visual purposes. The monthly numbers are shown simply at levels of monthly activity—as reported by the Commerce Department—not at the hyped-up annualized rates used by Commerce in the reporting housing and construction data. The vertical or y-axis for each graph spans \$20 billion from low value to high value.

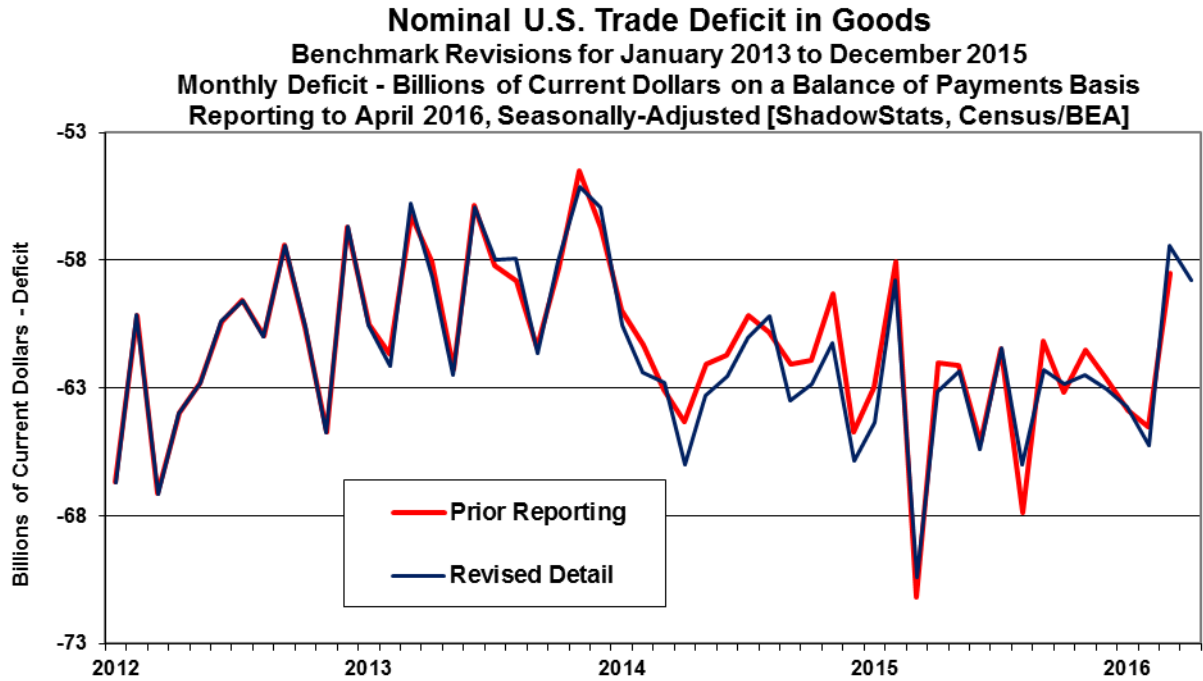
A quick perusal of *Graphs 3 to 5* shows that the net narrowing of the benchmarked aggregate goods and services deficit was due almost entirely to the redefined services sector. As seen in *Graphs 2 and 5*, revisions to both the hard series (“hard” as in based on actual underlying trade-flow paperwork, as opposed to official and increasingly gussied-up “guesstimates” of the “soft” services sector) showed that deficits in both real and nominal goods and merchandise trade generally widened in revision in 2014 and 2015. The merchandise trade revisions indicated a dampening of previously-reported GDP activity.

Noted in the [Trade Release](#), the upwardly revised “services surplus” primarily reflected “newly available and revised source data primarily from BEA surveys, including the results of BEA’s benchmark survey on financial services, and from U.S. Customs and Border Protection on the number of foreign residents traveling in the United States that resulted in revisions to exports of both travel and transport services,” and “a refinement to the methodology for estimating average expenditures by travelers.” With Border Guards now guessing at spending patterns, what is not clear was the impact, if any, from the surging influx of illegal aliens and refugees.

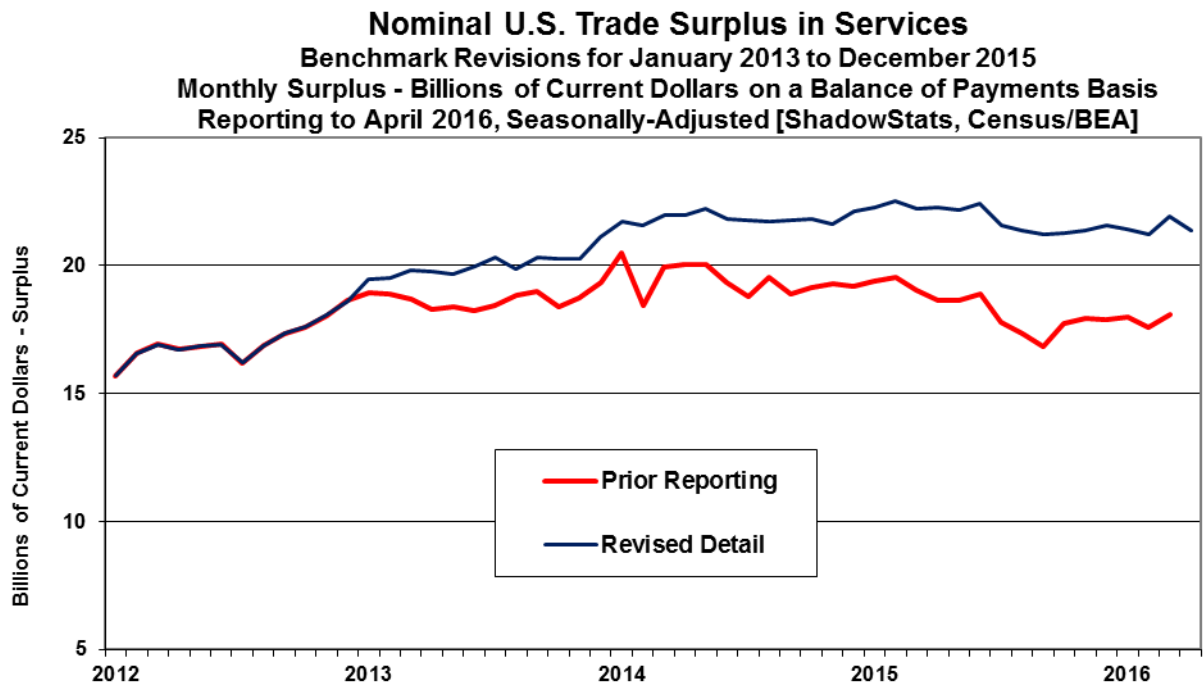
Graph 3: Revisions to Monthly U.S. Trade Deficit in Goods and Services (2013 to 2015)



Graph 4: Revisions to Monthly U.S. Trade Deficit in Goods (2013 to 2015)



Graph 5: Revisions to Monthly U.S. Trade Surplus in Goods and Services (2013 to 2015)



Redefined Services Trade Is Something of a Plus for the GDP Revisions. Applied to previously-reported nominal annual GDP growth, the revised boosts to trade services, by themselves, should increase annual nominal GDP growth, albeit with diminishing effect. The first year of impact (and revisions) is

2013, where the average annual GDP nominal growth rate would increase by 0.11% to 3.26%, in 2014 average annual GDP growth would increase by 0.06% to 4.17%, in 2015 annual growth would increase by 0.07% to 3.53%, while annual first-quarter 2016 growth would not be affected, holding at 3.29%.

Properly handled in a comprehensive GDP benchmark revision (back to 1929) as likely next will take place in 2018, these changes would have been negligible, with consistently minimal impact in the historical GDP reporting, rather than the artificial spiking of relative annual GDP growth rates in 2013, 2014 and 2015.

Analysis of recent changes in the GDP handling of the trade-services sector, however, suggests that these new data already were introduced in the GDP benchmarked reporting for first-quarter 2015, just in time to help counter unfolding quarterly GDP contractions, starting with first-quarter 2015, with full impact of the new methodology hitting up front. If so, “correcting” the historical GDP data in 2013 and 2014, now, actually could put downside pressure on relative 2015 GDP activity in revision.

The relative shifts implied in real quarter-to-quarter historical changes were not assessed, here, but will be considered in the pre-July 29th GDP benchmarking estimates from ShadowStats in mid-July. The inflation-adjustment impact varies sharply by trade sector, where extreme volatility in oil prices has moved the goods-sector growth rates massively, with much smaller impact on the services-sector’s real activity.

Nothing New in These Gimmicks. This area of the services trade always has been a guesstimate and an offsetting fudge factor to the generally persistent, negative trade flows in merchandise. Backed by limited hard data, the services sector regularly has been used for limiting the quarterly hit to the GDP from the ever-widening trade deficit. These numbers can be gimmicked and biased, but the actual trade deficit has not been changed by a penny. The overall impact on the upcoming GDP revisions still should be regularly on the downside. More will follow in the weeks ahead.

Today’s Commentary (June 5th). The balance of today’s *Opening Comments* provides a summary of the May employment and unemployment numbers, and the April detail on construction spending and the Trade Deficit. The annual benchmark revision to the trade detail is covered in the opening paragraphs of these *Opening Comments*.

The *Hyperinflation Watch* includes the regular monthly review of monetary conditions, including the initial estimate of May annual growth in the ShadowStats Ongoing M3 Estimate. The most recent *Hyperinflation Outlook Summary* is found in [Commentary No. 783](#), with [Commentary No. 807](#), [Commentary No. 799](#) and [No. 777 Year-End Special Commentary](#) as background to the currently unfolding financial circumstances. These documents will be updated shortly in a new *Special Report*.

The *Week and Month Ahead* section is dormant as to *Pending Releases* for the week ahead—given no major economic releases scheduled for next week—but continued developments tied to near-term reporting and the July 29th GDP benchmark revisions are discussed.

Employment and Unemployment—May 2016—Heavily Distorted and Negative Reporting.

Underlying reality for May 2016 U.S. labor conditions was in the realm of a 23.0% broad unemployment rate, with actual monthly payroll employment change well into negative territory, likely by a couple of hundred thousand.

The nonsensical but “statistically-significant” decline in headline U.3 unemployment from 5.0% in April 2016 to 4.7% in May 2016 reflected a unwholesome, net loss of 458,000 (-458,000) unemployed [a headline decline of 484,000 (-484,000) in unemployed versus a gain of 26,000 employed] from the labor force, without those unemployed finding gainful employment. Discussed shortly, headline month-to-month comparisons of the seasonally-adjusted household survey numbers, such as the headline unemployment-rate U.3, standardly are without any meaning or statistical significance.

The gimmicked, headline payroll change of 38,000 more realistically should have come in around minus 200,000 (-200,000). Most obviously, it was rigged to the upside by downside revisions to March and April 2016 employment. Net of those prior-period revisions, May payrolls declined by 50,000 (-50,000) jobs, an amount that exceeded Bureau of Labor Statistics (BLS) estimate of a one-time monthly payroll hit of 35,000 (-35,000) from striking Verizon workers.

Discussed in the *Birth-Death/Bias-Factor Adjustment* section, subsequent to the downside payroll-benchmark revisions of February 2016, the usual, excessive monthly biases added into the headline monthly payroll detail by the BLS were revised to the upside. This less-obvious use by the BLS of the Birth-Death Model (BDM) artificially inflated headline month-to-month payroll gains with meaningless add-factors that currently are well in excess of 200,000 jobs per month.

Confirmation of Weakening Labor Conditions in Help-Wanted Advertising? Some tip-off as to the much-weaker-than-consensus headline payroll gain may have been found in the Conference Board’s measure of [Help-Wanted Online](#). Back in the days when help-wanted advertising was a primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board’s Help-Wanted Advertising Index was one of the most reliable leading indicators of broad economic activity. Since the tracking switched to help-wanted advertising on the Internet, following both new ads as well as continuing ads—all unduplicated—no such strong leading relationship to broad activity has been evident. Yet, the May 2016 data, published on June 1st, showed unusually sharp monthly declines in both the ongoing and new ads, down by 5.5% (-5.5%) and by 5.1% (-5.1%), with those seasonally-adjusted measures sinking to the lowest levels since January 2014 and August 2013, respectively.

Major Seasonal-Factor Distortions and Inconsistencies. A further major problem with monthly payroll-growth estimation, as well as the primary, non-definitional problem with the unemployment-related detail, is the lack of historical comparability of the seasonally-adjusted, headline numbers. Such results from the BLS using concurrent seasonal adjustment factors, a process that revises the last five years of seasonally-adjusted headline data, each and every month, based on the latest headline detail but where BLS does not publish the revised historical data. Due to extraordinary seasonal-factor shifts with the June 3rd headline Payroll Survey reporting, the market-disappointing May payroll gain was plus 38,000 jobs, instead of what should have been even-weaker zero jobs growth (see *Graph 31* and discussion in *Headline Distortions from Shifting Concurrent-Seasonal Factors* section).

On the Household-Survey side and related unemployment measurement, data-quality was horrendous, as usual. While there was some continuing catch-up to more-realistic levels with ratios such as the

participation rate, that did not mean that the numbers were more accurate, other than by coincidence. The seasonally-adjusted details simply are not comparable month-to-month, where each month has been seasonally-adjusted uniquely and inconsistently with the month before. Consider that in the context of these not consistent month-to-month details, May's headline seasonally-adjusted reporting patterns were highly unusual, following three months of headline detail otherwise not usually seen in natural or real-world activity.

The decline in the headline U.3 unemployment rate from 5.0% to 4.7% was horrendously negative, if accurate. Good news would have been if the decline in U.3 reflected a reduction in unemployed offset by an equivalent or greater gain in employed. Instead, as discussed earlier, the detail here reflected a large decline in unemployed, with a minimal gain in employed. The big drop in the unemployment rate—a pattern common to the purported economic recovery of the last seven years—was due to the unemployed disappearing from the workforce, not due to the unemployed finding jobs.

As to the last three months, employment and unemployment fundamentally tend to move in opposite directions. Yet, for February 2016 to April 2016 monthly headline reporting, employment and unemployment counts consistently crashed or surged in tandem each month.

Payroll Survey: Net of Heavy Seasonal Distortions and Bias Factors, May Payrolls Likely Plunged by About 200,000 (-200,000). In the context of significant, downside prior-period revisions, the headline, seasonally-adjusted payroll gain for May 2016 was a statistically-insignificant 38,000 jobs. That followed a downwardly-revised 123,000 gain in April 2016, and a downwardly-revised 186,000 gain in March 2016.

Net of prior-period revisions, May 2016 payrolls fell by 50,000 (-50,000) in the month. That was a greater decline than the one-time loss of 35,000 (-35,000) jobs in the month as estimated by the BLS to be due to a strike in the telecommunications industry. The jobs lost to the strike should come back in the June 2016 reporting. Net of heavily distorted seasonal-factor revisions, that 38,000 gain likely was about zero (again, see *Graph 31* and discussion in *Headline Distortions from Shifting Concurrent-Seasonal Factors* section in the *Reporting Detail*). Net of upside bias factors that minimally add 200,000 jobs to the monthly activity (see *Birth-Death/Bias-Factor Adjustment* section in the *Reporting Detail*), realistic jobs creation (loss) in May 2016 was a headline loss of 200,000 (-200,000).

Not-seasonally-adjusted, year-to-year growth in nonfarm payrolls fell to a twenty-seven month low of 1.66%, the weakest growth since February 2014. Such followed unrevised annual growth of 1.88% in April 2016, and minimally-revised annual growth of 2.00% in March 2016.

Household Survey: Counting All Discouraged Workers, May 2016 Unemployment Rose to About 23.0%. Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, simply is definitional. To be counted among the headline unemployed (U.3), an individual has to have looked actively for work within the four weeks prior to the unemployment survey. If the active search for work was in the last year, but not in the last four weeks, the individual is considered a “discouraged worker” by the BLS, not counted in the headline labor force.

ShadowStats defines that group as “short-term discouraged workers,” as opposed to those who, after one year, no longer are counted by the government. Instead, they enter the realm of “long-term discouraged

workers,” those displaced by extraordinary economic conditions, including regional/local businesses activity affected negatively by trade agreements or by other factors shifting U.S. productive assets offshore, as defined and counted by ShadowStats (see the extended comments in the *ShadowStats Alternate Unemployment Measure* in the *Reporting Detail*).

In the ongoing economic collapse into 2008 and 2009, and the non-recovery thereafter, the broad drop in the U.3 unemployment rate from its headline peak of 10.0% in 2009, to the May 2016 headline 4.7%, has been due largely to the unemployed giving up looking for work (common in severe economic contractions and major economic displacements). Those giving up looking for work are redefined out of headline reporting and the labor force, as discouraged workers. The declines in the headline unemployment rate reflect same, much more so than the unemployed finding new and gainful employment, as reflected in the headline May 2016 data.

As new discouraged workers move regularly from U.3 into U.6 unemployment accounting, those who have been “discouraged” for one year are dropped from the U.6 measure. As a result, the headline U.6 measure has been declining along with headline U.3 for some time, but those being pushed out of U.6 still are counted in the ShadowStats-Alternate Unemployment Measure, which has remained relatively steady, near its historic-high rate for the last couple of years.

Moving on top of U.3, the broader U.6 unemployment rate—the government’s broadest unemployment measure—includes only the short-term discouraged workers (those marginally attached to the labor force). The still-broader ShadowStats-Alternate Unemployment Measure includes an estimate of all discouraged workers, including those discouraged for one year or more—those who effectively have been displaced by circumstances beyond their control—as the BLS used to define and measure the series more broadly, before 1994.

Again, when the headline unemployed become “discouraged,” they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. The resulting difference here is between headline-May 2016 unemployment rates of 4.7% (U.3) and 22.3% (ShadowStats).

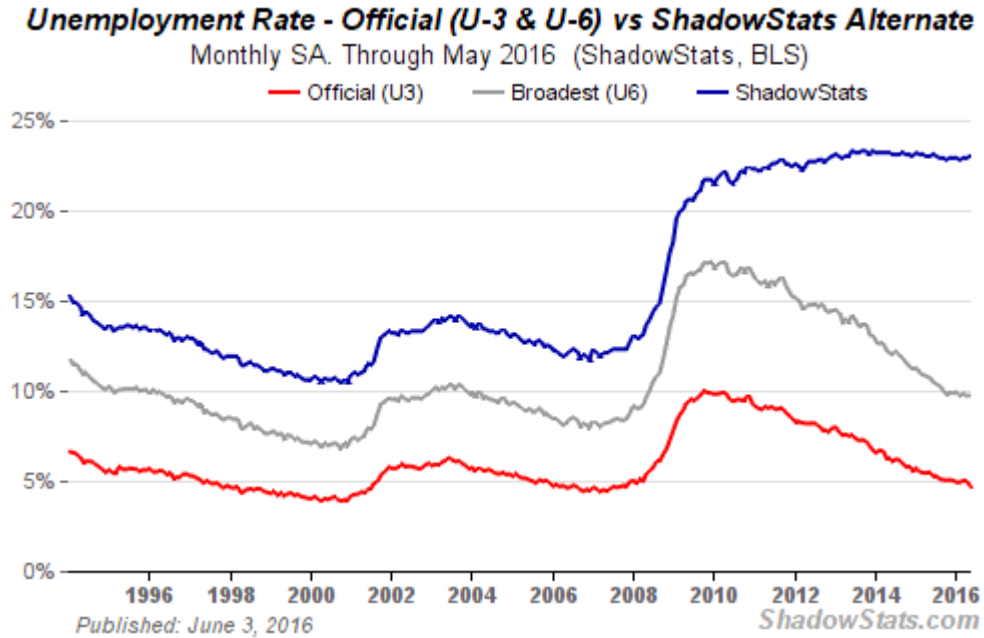
Graph 6 reflects headline May 2016 U.3 unemployment at 4.69%, versus 4.98% in April 2016; headline May 2016 U.6 unemployment at 9.73%, versus 9.71% in April; and the headline May 2016 ShadowStats unemployment estimate holding at 23.0%, up from 22.9% in April.

Graphs 7 to 9 reflect longer-term unemployment and discouraged-worker conditions. *Graph 7* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move visually in tandem with plots of most economic statistics, where a lower number means a weaker economy.

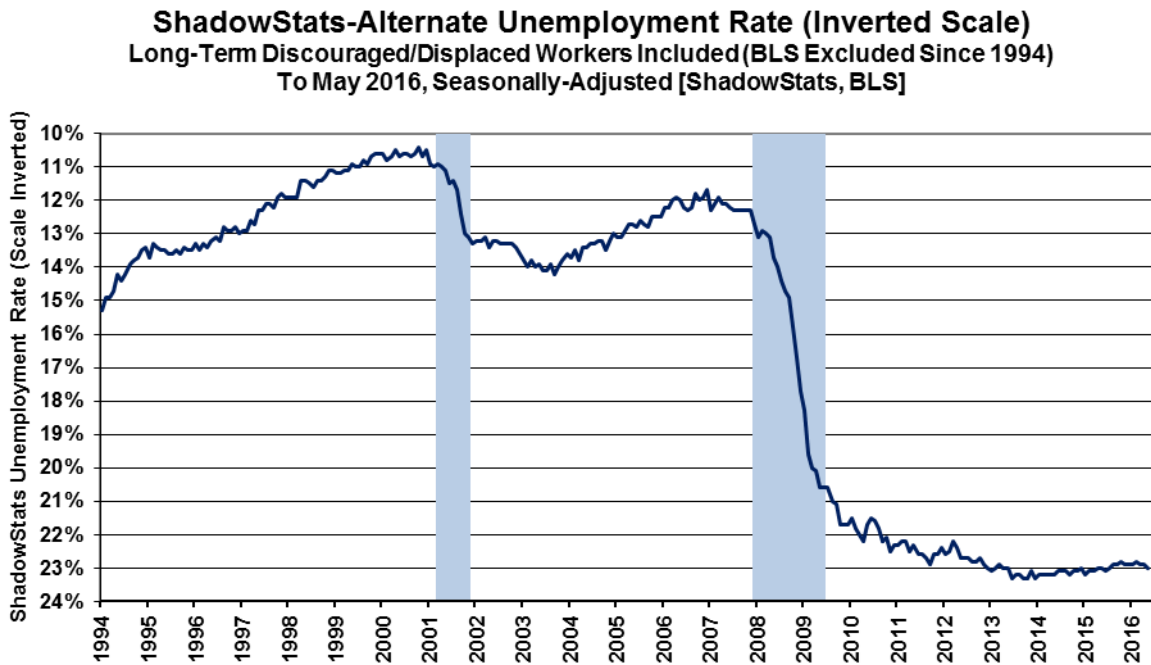
The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which has turned lower in April and May 2016. That ratio still remains near its post-1994 record low, the historic low and bottom since economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), as shown in *Graph 8*. The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated

with the population, so the employment-to-population ratio remains something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

Graph 6: Comparative Unemployment Rates U.3, U.6 and ShadowStats



Graph 7: Inverted-Scale ShadowStats Alternate Unemployment Measure



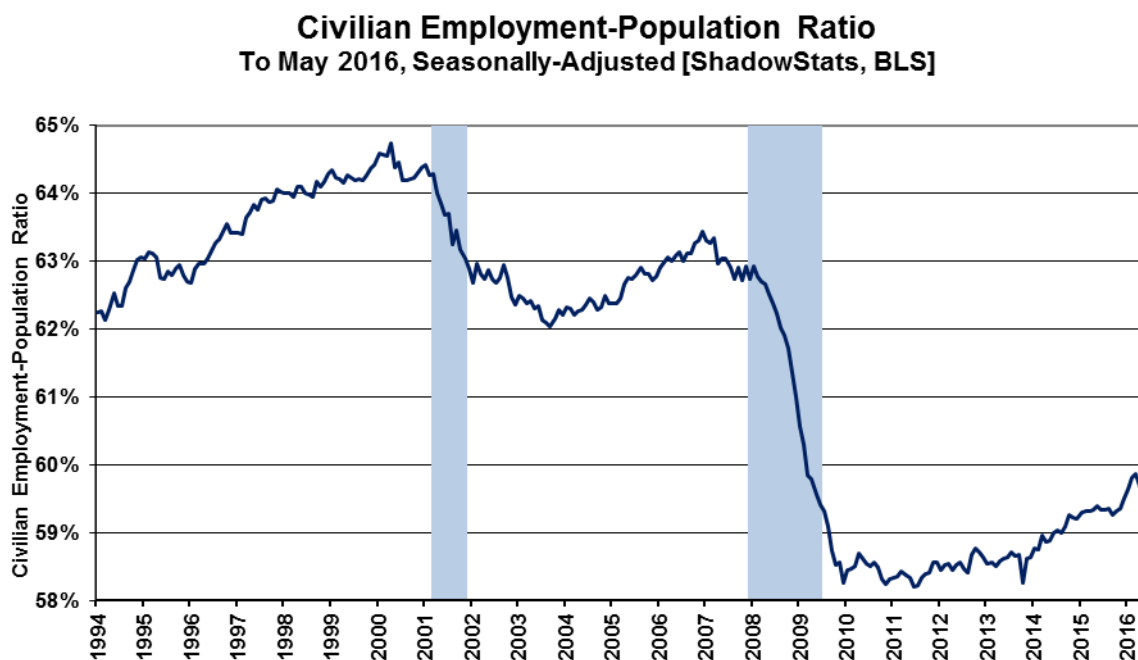
Shown in *Graph 7*, the May 2016 participation rate (the ratio of the headline labor force to the population) also turned lower for the second month. Both the near-term Employment-to-Population Ratio and the

Participation Rate appear to have suffered near-term spikes and volatility from a combination of population redefinition in January 2016 and specifically the lack of any consistency or comparability in the seasonally adjusted monthly detail from the source Household Survey so far through May 2016. Unadjusted ratios for these series are running respectively about 0.2% below and 0.1% above the adjusted numbers, with the differences having narrowed in May.

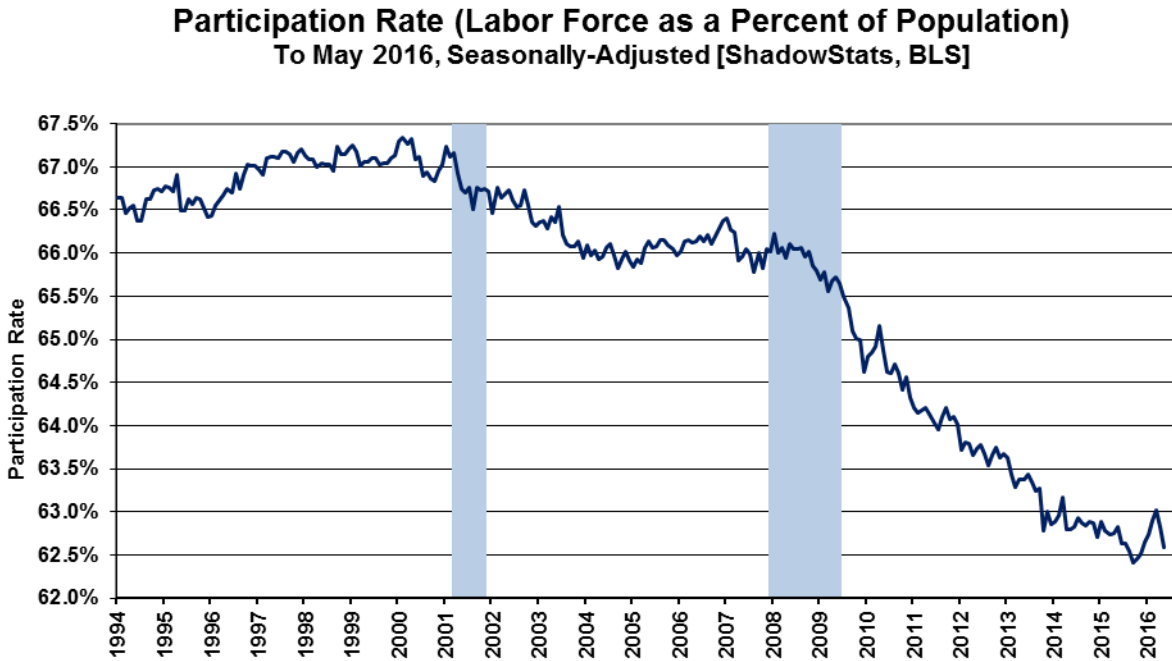
The Participation-Rate—one followed closely by Fed Chair Janet Yellen—remains off the historic low hit in September 2015 (again, pre-1994 estimates are not consistent with current reporting), but it also notched lower again in May. The labor force used in the Participation-Rate calculation is the headline employment plus U.3 unemployment. As with *Graph 8* of employment-to-population, its holding near a post-1994 low in current reporting indicates problems with long-term discouraged workers, the loss of whom generally continues to shrink the headline (U.3) labor force, and the plotted ratio.

Graphs 6 through *9* reflect data available in consistent detail only back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with the May 2016 Household-Survey reporting simply are not available, irrespective of any protestations to the contrary by the BLS. Separately, consider *Graph 10*, which shows the ShadowStats version of the GDP, also from 1994 but through the May 27th second estimate of first-quarter 2016 activity, where the GDP plot has been corrected for the understatement of inflation used in deflating the headline GDP series (a description of approach and related links are found in [Commentary No. 809](#)).

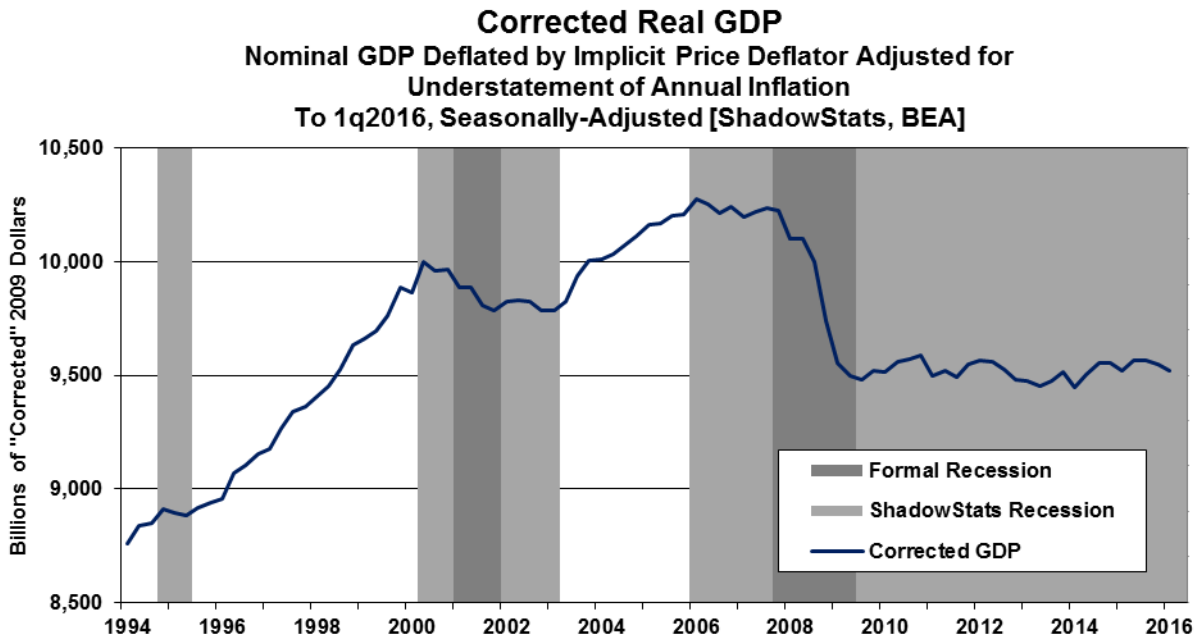
Graph 8: Civilian Employment-Population Ratio



Graph 9: Participation Rate



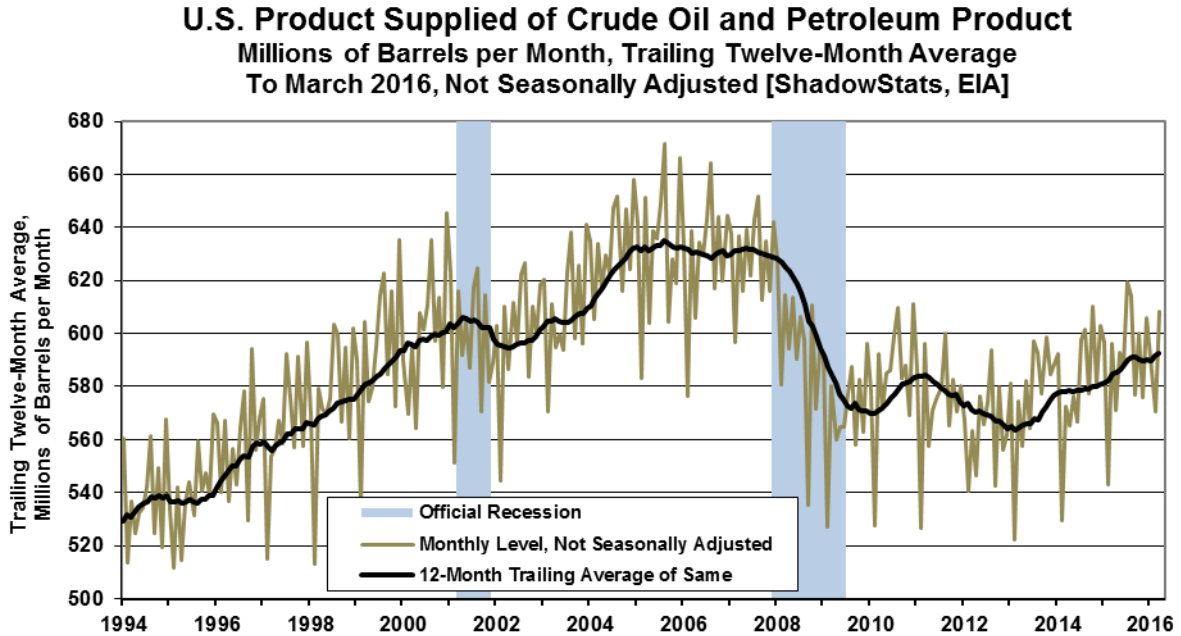
Graph 10: Corrected Real GDP through 1q2016, Second Estimate



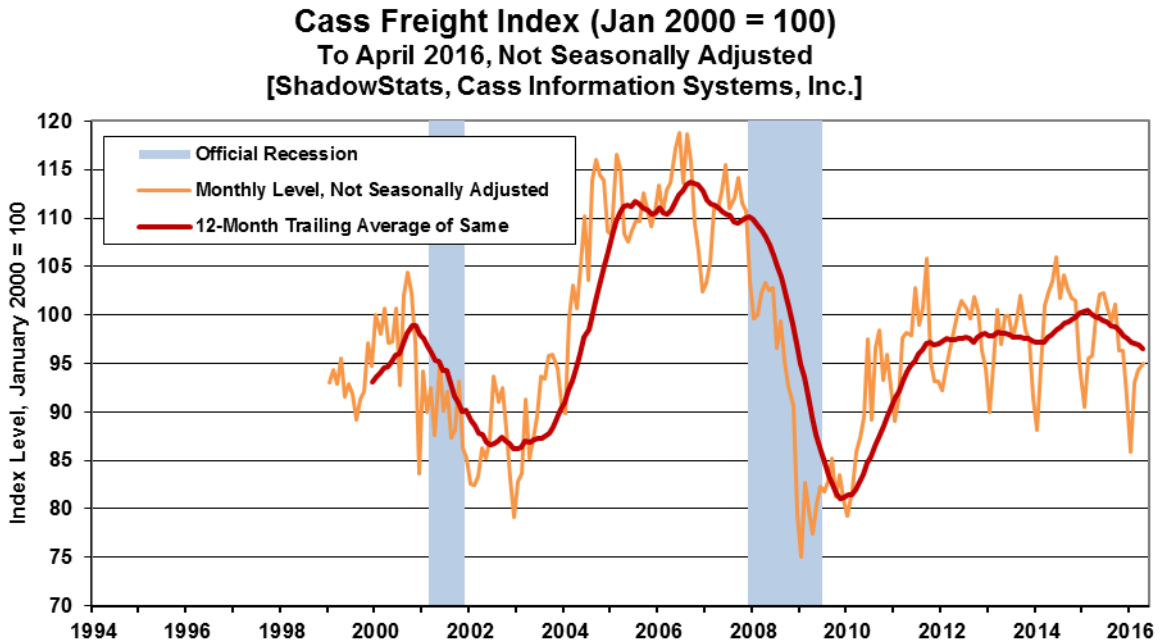
ShadowStats also regularly publishes less biased series from a variety of sources. Shown in *Graph 11*, for example, is the U.S. aggregate consumption of crude oil petroleum product, measured in physical barrel

count, is an extraordinarily broad indicator of general activity. The [U.S. Energy Information Agency](http://www.eia.doe.gov) (EIA), Department of Energy, publishes this detail on a monthly basis.

Graph 11: U.S. Petroleum Consumption to March 2016



Graph 12: CASS Freight Index for North America (2000 - 2016), Indexed to January 2000 = 100

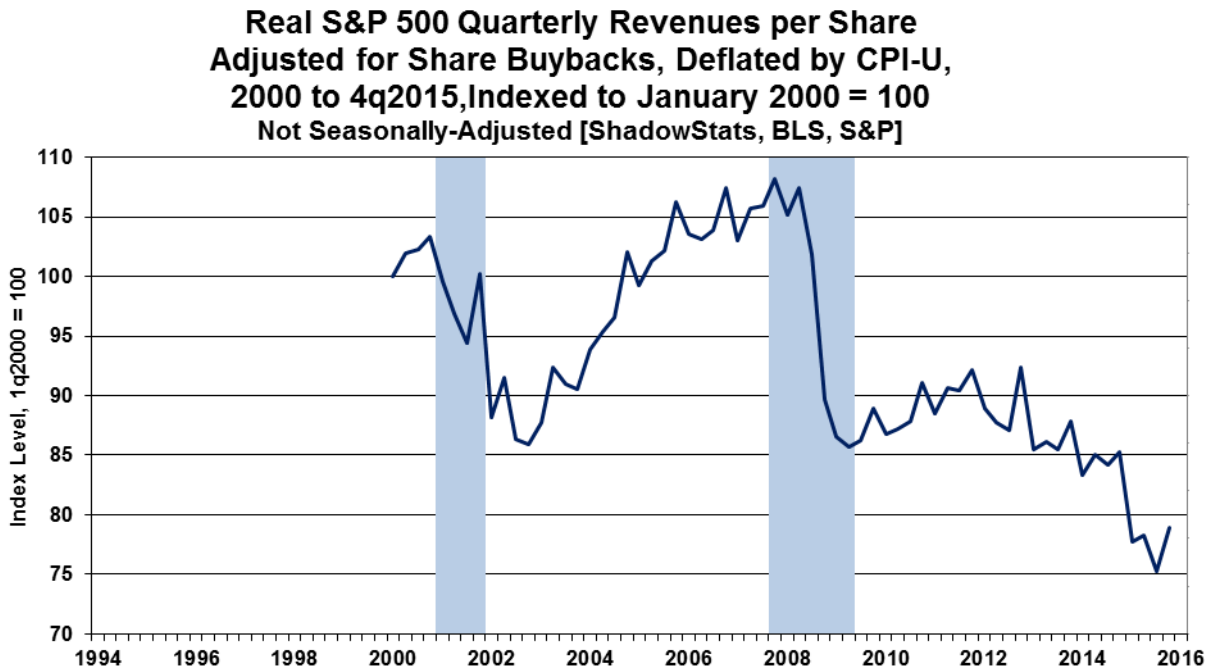


As with the CASS freight index (*Graph 12*), where the monthly data are not seasonally adjusted, ShadowStats has plotted the petroleum series using a trailing twelve-month average, through headline monthly detail of April 2016. The resulting smoothed pattern reflects the economic collapse into 2009, followed by a protracted period of variable, low-level stagnation, and an upside notch into March 2016. In contrast, the CASS index currently (through April 2016) continues to turn down in its twelve-month trailing average, with deepening year-to-year contractions on a monthly basis (see [Commentary No. 807](#)).

In particular, the broad patterns of activity seen in the weakened employment measures in *Graphs 7* and *8* generally are mirrored in *Graph 10* of the “corrected” GDP. They also are largely consistent with the post-1994 period shown in *Graph 11* of petroleum consumption, *Graph 12* of the CASS Freight Index and *Graph 13* of real S&P 500 revenues, previously published in [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

Introduced in [Commentary No. 782](#), the graphic detail on the [Cass Freight Index](#)TM, a measure of North American freight volume, is calculated by, and used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity. *Graph 13* of S&P 500 revenues usually is plotted with quarterly data beginning in 2000, but the time scale of the graph was shifted here back to 1994 to show the S&P 500 revenue detail on roughly a comparative, coincident basis with the related detail in *Graphs 7* to *11*. A similar re-plotting of the monthly time scale was used for the freight index detail in *Graph 12*. Of note, unlike *Graphs 7* to *10*, *Graphs 11* to *13* are not seasonally adjusted, although the primary plots in *Graphs 11* and *12* are trailing 12-month averages. As an aside, apparent recession-band widths in the graphs vary depending on whether the base plotting period is monthly (as seen in *Graphs 7* to *9*, *11* and *12*) or quarterly (as seen in *Graphs 8* and *13*).

Graph 13: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2015), Indexed to January 2000 = 100



Headline Unemployment Rates. At the first decimal point, the headline May 2016 unemployment rate (U.3) fell to 4.7%, versus 5.0% in April. At the second decimal point, the headline May 2016 U.3 was 4.69%, down from 4.98% in April. Formally, the 0.23% decline in May U.3 was statistically-insignificant, although that is nonsense, given that the monthly numbers are reported on an inconsistent basis and are not comparable with each other.

Indeed, the headline decline in May U.3 also is without meaning, given that the seasonally-adjusted, month-to-month details simply are not comparable, thanks to the BLS's reporting methodology and use of concurrent-seasonal-adjustment factors (again, see *Headline Distortions from Shifting Concurrent Seasonal*). This issue remains separate from official questions raised as to falsification of the Current Population Survey (CPS), from which are derived the unemployment details (see *Note on Reporting-Quality Issues and Systemic-Reporting Biases* in the *Week Ahead* section).

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate eased to 4.54% in May 2016, from 4.68% in April 2016.

The Worst Kind of a Declining Unemployment Rate—The Unemployed Disappear Without Gaining Employment. The decline in the headline, seasonally-adjusted May 2016 U.3 unemployment rate to 4.69%, from 4.98% in April 2016 reflected a decline of 484,000 (-484,000) in the unemployed, but with the number of employed increasing only by 26,000. The 458,000 unemployed, who did not get jobs, just disappeared from the labor force, which resulted in the declining unemployment rate.

This troubled reporting follows three months of other nonsensical reporting. Usually the unemployed count rises when the employed count declines, and vice versa. Yet, for February, March and April 2016, there were unusual trends, both employment and unemployment moving in the same direction. These details remain suggestive, once again, of the incompatibility and inconsistency of the month-to-month headline detail in the published history of the seasonally-adjusted, household-survey numbers. Discussed in the *Reporting Detail* section in *Headline Distortions from Shifting Concurrent-Seasonal Factors*, these monthly inconsistencies are deliberate misrepresentations of better-quality, consistent data that are prepared internally each month by the BLS. The inconsistencies here mean that the published, seasonally-adjusted headline month-to-month changes in everything from the employed, unemployed and labor-force counts to the Employment-Population Ratio and Participation Rate simply are meaningless.

Marginally-Attached and Displaced Workers. New discouraged and otherwise marginally-attached workers always are moving into U.6 unemployment accounting from U.3, while those who have been discouraged for one year, continuously are dropped from the U.6 measure. As a result, the U.6 measure has been easing along with U.3, for a while, but those being pushed out of U.6 still are counted in the ShadowStats-Alternate Unemployment Estimate, which has remained relatively stable.

The monthly count of short-term discouraged workers in May 2016 (never seasonally-adjusted) declined by 30,000 (-30,000) to 538,000, while the total, short-term marginally-attached discouraged workers declined by 2,000 (-2,000) to 1,713,000 in May. The latest, official “discouraged” number, again, reflected the flow of the headline unemployed—giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term “marginally-attached discouraged workers,” net of the further increase in the number of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status.

It is the displaced workers—the long-term discouraged-worker category—that defines the ShadowStats-Alternate Unemployment Measure. There is a continuing rollover from the short-term to the long-term category, with the ShadowStats measure encompassing U.6 and the short-term discouraged workers, plus the long-term discouraged workers. In 1994, “discouraged workers”—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been “discouraged” for less than a year. This time qualification defined away a large number of long-term discouraged workers. The remaining redefined short-term discouraged and redefined marginally-attached workers were included in U.6.

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

On top of a decline in the seasonally-adjusted U.3 unemployment rate, and a virtually unchanged count of marginally-attached workers, a surge of 468,000 in the adjusted number of people working part-time for economic reasons held the headline May 2016 U.6 unemployment at 9.73%, versus 9.71% in April. The unadjusted U.6 unemployment rate was at 9.44% in May 2016, versus 9.30% in April 2016.

ShadowStats Alternate Unemployment Estimate. Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced workers, of long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for May 2016 rose to 23.0%, versus 22.9% in April. The May 2016 reading was down by 30 basis points or 0.3% (-0.3%) from the 23.3% series high last seen in December 2013.

In contrast, the May 2016 headline U.3 unemployment reading of 4.7% was down by a 530 basis points or 5.3% (-5.3%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.7% in May 2016, was down from its April 2010 peak of 17.2% by 750 basis points or 7.5% (-7.5%).

Trade Deficit—April 2016— Commerce Department Has Expanded Its Gimmicking of the Trade Deficit and GDP Detail. Annual benchmark revisions to the U.S. Trade Balance in Goods and Services are covered in the opening paragraphs of the *Opening Comments*, with generally negative implications for revisions to recent GDP reporting, based on the hard detail of the real merchandise trade deficit. A redefinition and expansion of the soft detail in the fluff and guesstimates of the services sector has narrowed the traditional level of the aggregate monthly goods and services deficit, by increasing the purported services surplus. Accordingly, the headline data here are presented as published in their new form. Despite the gimmicked detail, the headline numbers always are as the government wants them to be reported. It does not mean they reflect underlying reality. See *Graphs 3 to 5* and accompanying discussion in the opening paragraphs of the *Opening Comments* for the revision to nominal Goods and Services Trade Balance, and *Graphs 1 and 2* and related discussion for the revisions to the real Merchandise Trade Deficit.

Nominal (Not-Adjusted-for-Inflation) Revamped and Revised Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for April 2016, on a balance-of-payments basis, deteriorated by \$1.900 billion to \$37.436 billion, versus a revised and redefined \$35.536 billion in March 2016. Before the benchmarking and redefinition of the services sector, the March 2016 monthly deficit

had been \$40.443 billion. The April 2016 deficit also narrowed from the revised trade shortfall of \$40.885 billion in April 2015.

Discussed in the opening paragraphs of these *Opening Comments*, the actual U.S. trade deficit circumstance has not improved by one penny, it is just that U.S. statistical bureaucrats have gussied-up the otherwise guessed-at “surplus” in the Services trade sector, in an effort to improve appearances, not to improve the reporting quality of actual underlying fundamentals.

The \$1.900 billion deterioration in the headline monthly deficit reflected an increase of \$2.622 billion in monthly exports, more than offset by an even greater increase of \$4.523 billion (rounding difference) in imports. The increase in exports reflected industrial supplies (largely oil related) and automobiles, parts and engines, while the surge in imports reflected industrial supplies (again, largely oil related) and capital goods, including civilian aircraft and computers).

Declining oil prices bottomed out in February 2016, inching higher by 0.7% in March and gaining 6.5% in the month of April, with some upside impact on nominal oil-related activity.

Real (Inflation-Adjusted) Revised Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the April 2016 merchandise trade deficit (no services) widened to \$57.618 billion, from a benchmark-revised \$56.109 billion in March, and versus a revised \$63.601 billion in February 2016 and a revised \$62.663 billion in January 2016. The April 2016 shortfall also narrowed versus a wider revised \$58.584 billion real deficit in April 2015.

As benchmark revised [and as previously reported], shown in *Graph 2* in the opening paragraphs of these *Opening Comments*, the annualized quarterly real merchandise trade deficit was \$623.1 [\$605.5] billion for fourth-quarter 2014, \$700.0 [\$692.4] billion for first-quarter 2015, \$709.1 [\$694.8] billion for second-quarter 2015, \$708.4 [\$706.1] billion for third-quarter 2015, and \$728.6 [\$721.1] billion for fourth-quarter 2015. Reporting for first-quarter 2016 now stands at a revised \$725.5 [\$730.1] billion, where the prior number had been the worst reading since third-quarter 2007, a distinction that now has reverted back to fourth-quarter 2015 (see *Graph 1* in the opening paragraphs).

Based solely on the initial reporting for April 2016, the second-quarter 2016 real trade shortfall is on a track for an annualized quarterly pace of \$691.4 billion, a level that would tend to boost relative second-quarter 2016 GDP, if it holds. Instead, the second quarter 2016 number likely will shift to the negative side with next month's headline May reporting and accompanying April revision. Headline deficits likely will get even deeper in the months and quarters ahead, intensifying the ongoing negative impact on headline GDP growth.

Construction Spending—April 2016—Despite Collapsing Monthly Activity, Real Construction Spending Continued in Low-Level, Stagnating Non-Recovery. Still shy of its February 2006 pre-recession peak by 25.9% (-25.9%), inflation-adjusted real construction spending collapsed in April 2016, versus a large upside revision to March 2016 activity. Adjusted for inflation, monthly construction in spending fell month-to-month by a statistically-significant 2.6% (-2.6%) having gained 1.4% in March. Year-to-year real growth collapsed to a positive 2.6% in April 2016, from 8.5% in March 2016. The

initial trend in real second-quarter annualized quarter-to-quarter activity turned to a contraction of 4.7% (-4.7%), versus growth of 8.3% in the first-quarter 2016.

While this series is highly volatile and subject to large monthly revisions (next month's reporting will be subject to annual benchmark revisions), the April 2016 detail was subject to a particularly sharp spike in construction-related inflation, which reduced headline growth in real inflation-adjusted terms. That inflation spike was not transient although it is subject to some revision.

The Data and Graphs Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to be reasonably smooth in month-to-month movement. Note the comparative monthly *Graphs 39* and *41* in the *Reporting Detail*. Unusual in the current headline construction-spending detail was the sharp upside revision to March 2016 activity and the ensuing relative plunge in the headline April detail. That pattern appears as a spike in a number of the headline graphs including accompanying *Graphs 14* and *16* in this section.

Quarterly Trends. As currently reported, but subject to the July 1st benchmark revisions, fourth-quarter 2015 real construction spending contracted at an annualized quarterly pace of 2.7% (-2.7%), following annualized quarterly real gains of 4.1% in third-quarter 2015, 25.0% in second-quarter 2015, and 6.0% in first-quarter 2015. Reflecting revisions to February and March 2016 detail, first-quarter 2016 real construction spending rose at an upwardly revised annualized pace of 8.3%. Again, based solely on the unstable April 2016 reporting, the early trend for second-quarter 2016 activity was for an annualized quarterly contraction of 4.7% (-4.7%), an early negative indication for second-quarter 2016 GDP activity.

Accompanying *Graphs 14* to *17* show comparative nominal and real construction activity for the aggregate series, as well as for private residential- and nonresidential-construction and public-construction. Again, seen after adjustment for inflation, the real aggregate series has remained in low-level stagnation into second-quarter 2016, with some short-lived fluttering in early-2016. Areas of recent relative real strength in all major subcomponents have flattened out, or turned down, after inflation.

PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary series, again, all as shown in *Graphs 14* to *17*.

Seasonally-adjusted April 2016 FDCI month-to-month inflation rose by 0.79% month-to-month, following a monthly gain of 0.09% in March. In terms of year-to-year inflation, the April 2016 FDCI was up by 1.87%, having gain 1.07% in March 2016, also on an adjusted basis. Further deflation details follow in the *Reporting Detail*.

Headline Reporting. In the context of a sharp upside revisions to March and February spending, the headline, total value of construction put in place in the United States for April 2016 was \$1,133.9 billion, on a seasonally-adjusted, but not-inflation-adjusted, annual-rate basis. That estimate was down month-to-month by a statistically-significant 1.8% (-1.8%), versus an upwardly-revised March 2016 level of

\$1,155.1. Net of prior-period revisions, the headline April 2016 change would have been a month-to-month decline of 0.3% (-0.3%).

March 2016 month-to-month spending rose by an upwardly revised 1.5%, versus upwardly revised spending of \$1,137.0 billion in February 2016. In turn, February 2016 month-to-month spending rose by an upwardly revised 1.4%, versus an unrevised \$1,122.0 billion level in January 2016.

Adjusted for FDCI inflation (monthly inflation turned positive in March and sharply higher in April), total real monthly spending in April 2016 fell by 2.6% (-2.6%), versus monthly gains of 1.4% in March and 1.5% in February.

On a year-to-year annual-growth basis, April 2016 nominal construction spending rose by a statistically-significant 4.5%, versus upwardly revised annual gains of 9.7% in March 2016, and 8.9% in February 2016. Net of construction costs indicated by the FDCI, the year-to-year gain in total real construction spending plunged to 2.6% April 2016, from 8.5% in both March 2016 February 2016.

The statistically-significant, headline month-to-month nominal decline of 1.8% (-1.8%) in aggregate April 2016 construction spending, versus a gain of 1.5% in aggregate March 2016, included a headline monthly drop of 2.8% (-2.8%) in April public spending, versus a 0.6% (-0.6%) decline in March.

Private spending fell by 1.5% month-to-month in April, following a 2.3% gain in March. Within total private construction spending, the residential sector fell by 1.5% (-1.5%) in April, following a gain of 3.2% in March, while the nonresidential sector also fell by 1.5% (-1.5%) in April, following a 1.3% gain in March.

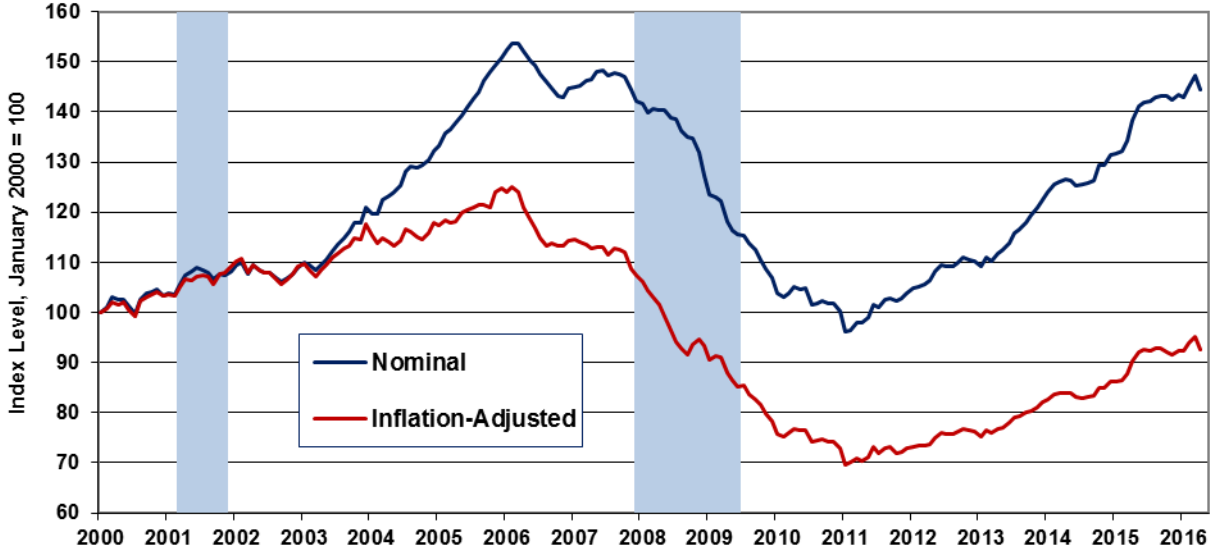
Construction Graphs. Despite protracted and variable stagnation in broad activity, the pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see [Commentary No. 809](#) and the earlier accompanying detail to the unemployment comments). To the contrary, the latest broad construction reporting in real terms generally has shown a pattern of low-level, albeit variably up-trending stagnation, where activity never recovered pre-recession highs, and where the patter of stagnation has begun to flatten out anew.

A variety of construction spending and related, comparative graphs (*Graphs 32 to 40*) are found in the *Reporting Detail* section. *Graphs 14 to 17*, which follow here, show plots of the comparative construction series both before and after adjustment for headline inflation.

[Graphs 14 to 17 begin on the next page.]

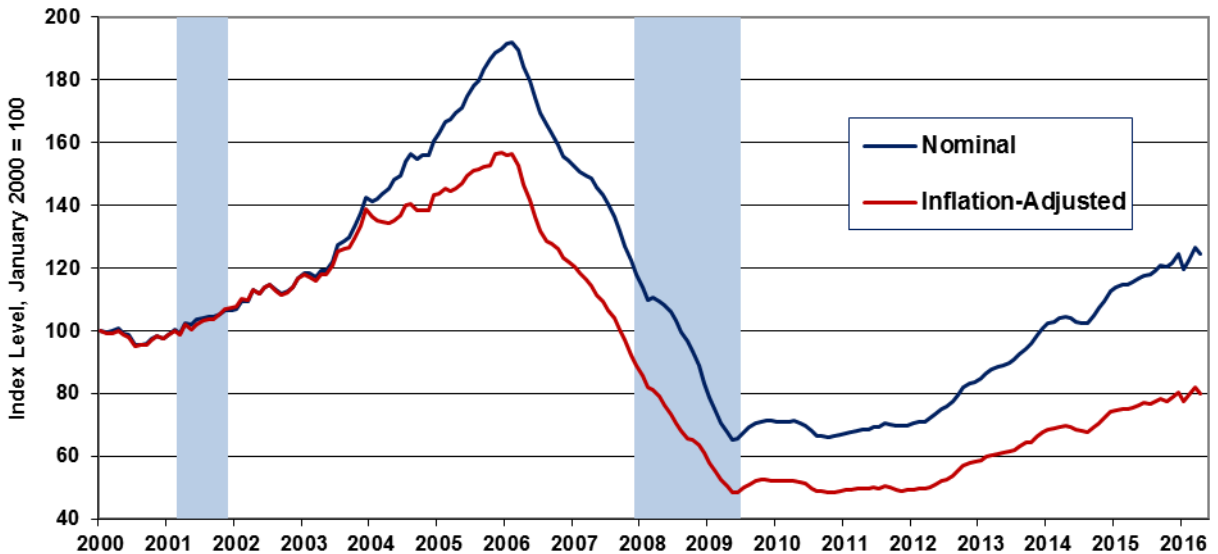
Graph 14: Index, Nominal versus Real Value of Total Construction

**Index of Total Value of Construction Put in Place
Nominal versus Inflation-Adjusted (Jan 2000 = 100)
To April 2016, Deflated by PPI Construction Indices
Seasonally-Adjusted [ShadowStats, Census, BLS]**



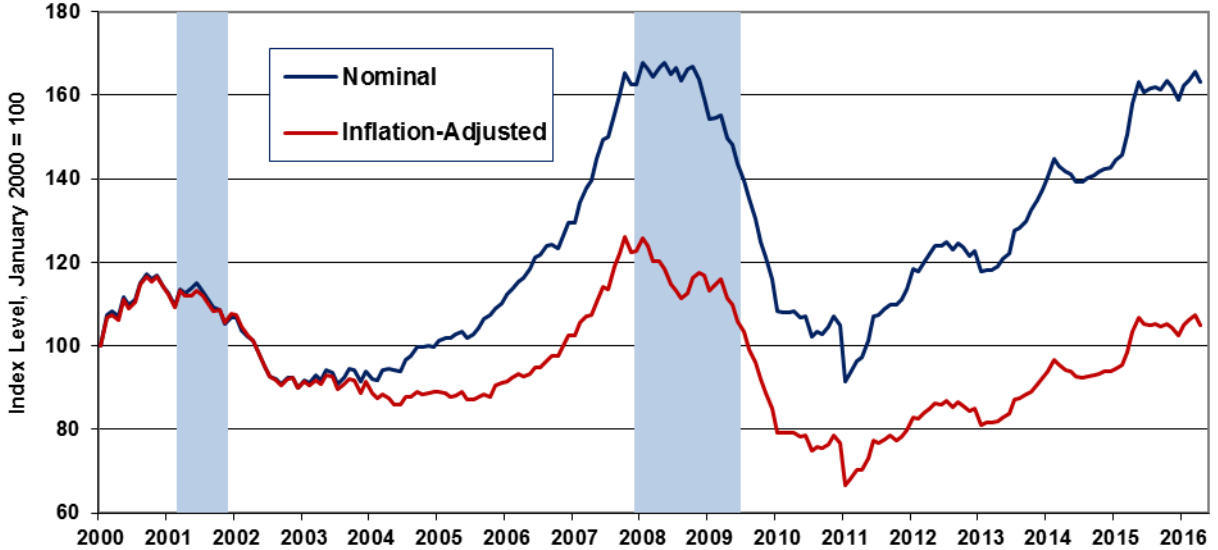
Graph 15: Index, Nominal versus Real Value of Private Residential Construction

**Index of Value of Private Residential Construction
Nominal versus Inflation-Adjusted (Jan 2000 = 100)
To April 2016, Deflated by PPI Construction Indices
Seasonally-Adjusted [ShadowStats, Census, BLS]**



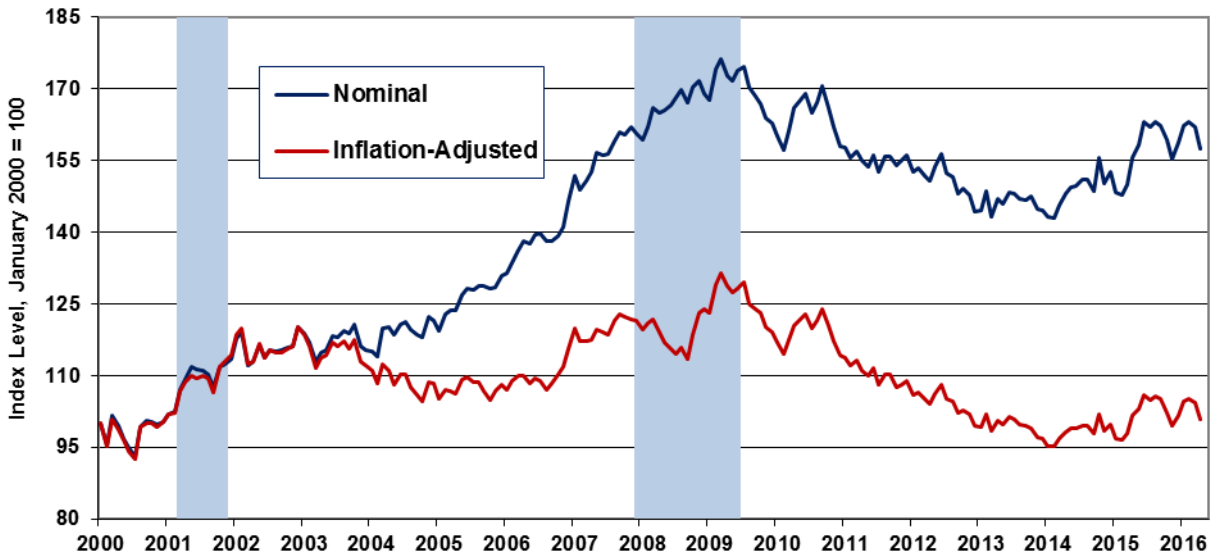
Graph 16: Index, Nominal versus Real Value of Private Nonresidential Construction

**Index of Value of Private Nonresidential Construction
Nominal versus Inflation-Adjusted (Jan 2000 = 100)
To April 2016, Deflated by PPI Construction Indices
Seasonally-Adjusted [ShadowStats, Census, BLS]**



Graph 17: Index, Nominal versus Real Value of Public Construction

**Index of Value of Public Construction
Nominal versus Inflation-Adjusted (Jan 2000 = 100)
To April 2016, Deflated by PPI Construction Indices
Seasonally-Adjusted [ShadowStats, Census, BLS]**



Updated Consumer Conditions: Three-Month Moving Average for Confidence at a 17-Month Low. Continuing to constrain sales and construction of residential structures, the ongoing extreme liquidity bind besetting consumers is updated briefly here for the May 2016 Consumer Confidence reporting (May 31st)

from the Conference Board, and full reporting for May 2016 on Consumer Sentiment (May 27th) from the University of Michigan.

Consumer conditions last were reviewed fully in [Commentary No. 806](#) and supplemented in [No. 808](#), with more extensive detail available in [No. 777 Year-End Special Commentary](#). The next full update of consumer liquidity conditions should follow in the *Commentary No. 811*, of June 10th. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise, and including demand for residential real estate and related construction spending.

Severely impaired in the last decade or so, fundamentals underlying consumer economic activity, such as liquidity, have driven economic activity into collapse and have prevented a meaningful or sustainable economic rebound, recovery or ongoing growth. The lack of sustainable growth in real income, and the lack of the ability and willingness of the consumer to take on new debt, remain at the root of the crisis.

Latest Consumer Confidence and Sentiment Detail. The May 2016 Consumer-Confidence measure and the full-May 2016 Consumer-Sentiment measure are plotted in *Graphs 18 to 20*. For purposes of showing the Consumer Confidence and Consumer Sentiment measures on a comparable basis, those graphs reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 18*) fell in May 2016 to a six-month low (since November 2015). On a three-moving average basis, the confidence measure was at a 17-month low, its lowest reading since December 2014, and down by 11.1% (-11.1%) from its near-term peak of March 2015.

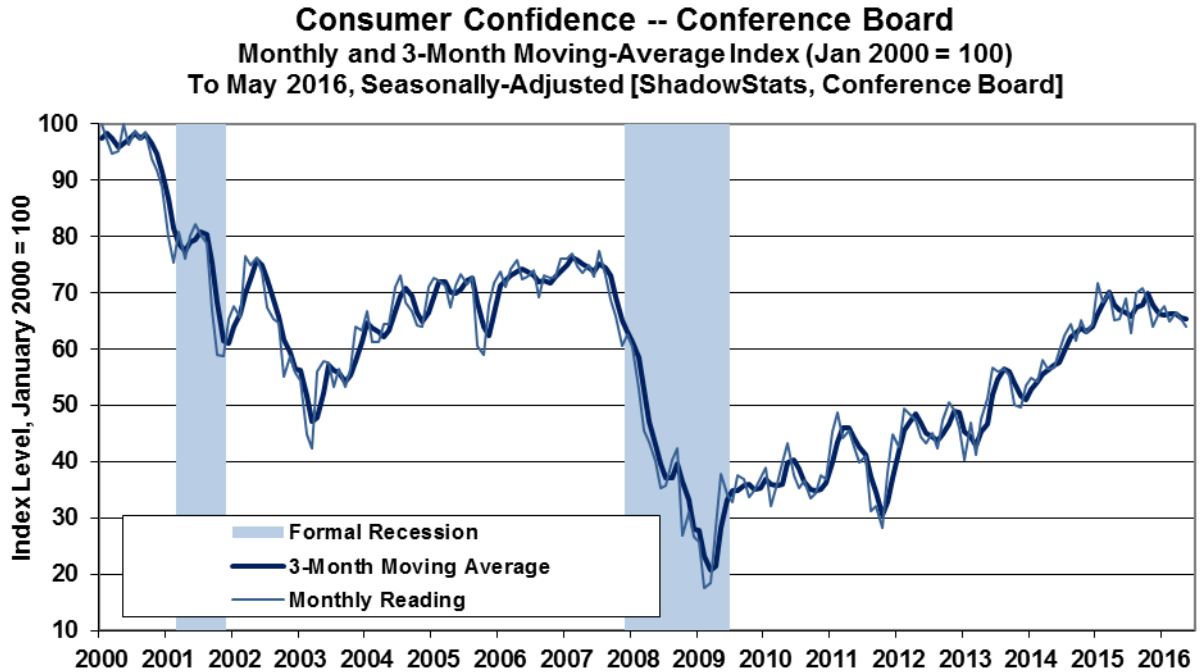
Previously discussed, the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 19*) had surged in its early-May reading (possibly related to election-year developments), but it backed down slightly for the full month. The May monthly reading was the highest in eleven months, since June 2015, but it still was down by 3.5% (-3.5%) from the near-term monthly high in January 2015. On a three-month moving average basis, May 2016 was down by 4.3% (-4.3%) from the near-term high for the moving-average series in February 2015.

For their six-month moving-average readings, Confidence continued to soften while Sentiment notched higher, with both well off near-term highs. In broad terms, the Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With increasingly-negative, headline financial and economic reporting and developments at hand and ahead, successive negative hits to both the Confidence and Sentiment readings likely will continue in the months ahead.

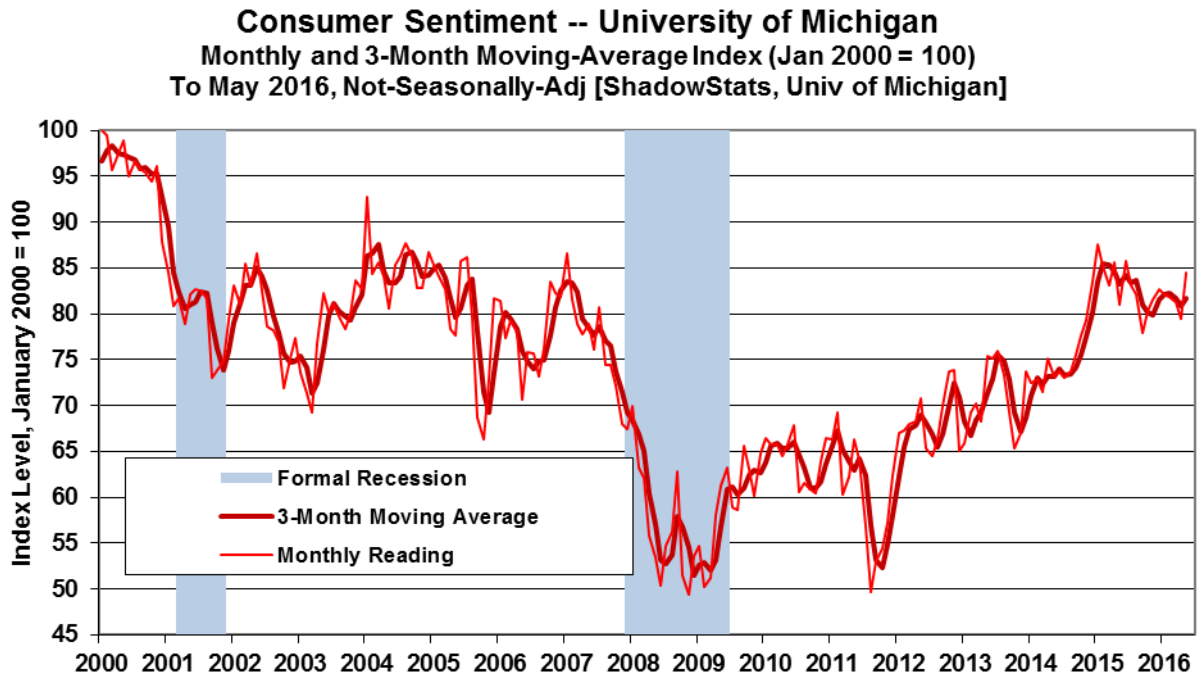
Further smoothed for irregular, short-term volatility, using a six-month moving average, the two series remained at levels seen typically in recessions. Suggested in *Graph 20*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are

inconsistent with, periods of historically-strong economic growth reported in 2014 and as indicated for second-and third-quarter 2015 GDP growth (subject to pending downside revisions).

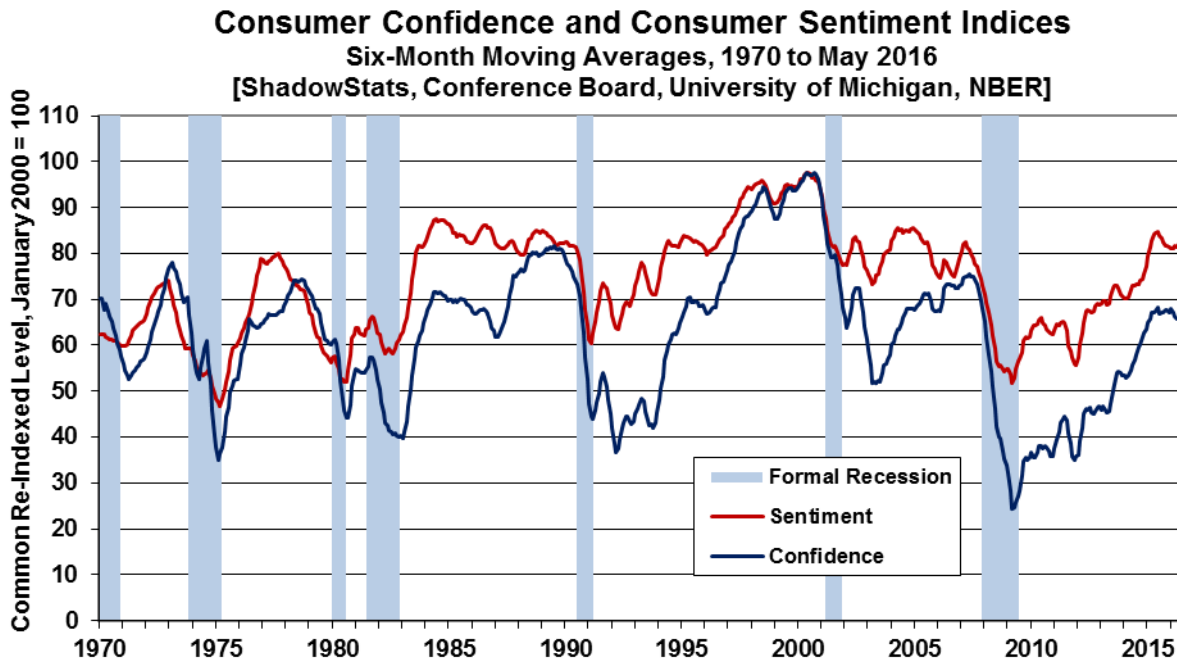
Graph 18: Consumer Confidence to May 2016



Graph 19: Consumer Sentiment to May 2016



Graph 20: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970



[The Reporting Detail section includes significant additional graphs and data related to May 2016 Labor Conditions, April Construction Spending, and expanded Trade Deficit Detail, including benchmark-revision analysis in the opening paragraphs of these preceding Opening Comments.]

HYPERINFLATION WATCH

MONETARY CONDITIONS

May 2016 Annual M3 Growth Rose to 4.2% from 3.9% in April, with M1 Jumping to 8.7% from 6.3%. ShadowStats Ongoing M3 Money Supply annual growth rose to 4.2% in May 2016, up from 3.9% in April 2016, 3.9% in March 2016 and versus a two-year low of 3.7% in February 2016.

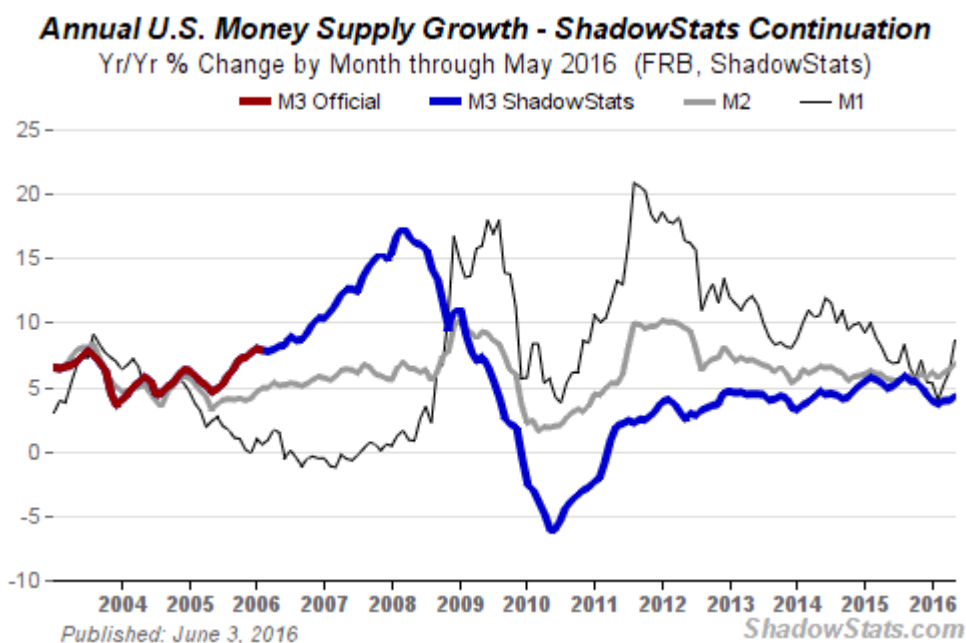
Both M1 and M2 annual growth rates also jumped in May versus April, with M2 growth rising to 6.8% from 6.4%, and M1 annual growth rising to 8.7% from 6.3%.

Headline Details. In the context of regular revisions to underlying headline data published by the Federal Reserve Board (FRB), the preliminary estimate of the year-to-year change in the ShadowStats Ongoing

M3 Money Supply Measure was 4.2% in May 2016, up from 3.9% in April 2016. In turn, April's growth was unchanged from 3.9% in March 2016, but up from the near-term trough in annual growth of 3.7% in February 2016. The annual change had been in continual month-to-month slowing since the revised near-term peak annual growth of 5.9% [previously 5.8%] in August 2015, as seen in *Graph 21*. On a month-to-month basis, May 2016 M3 rose by 0.4%, versus a revised 0.3% [previously 0.2%] gain April and an unrevised gain of 0.6% in March. Note in particular the relative surge of M1 annual growth in the accompanying graph, where M1 basically is cash-in-hand and checking accounts.

The relative weakness in annual M3 growth versus M2 reflects the shift over time in funds from accounts included just in M3, such as large time deposits and institutional money funds, into accounts in M2.

Graph 21: Comparative Money Supply M1, M2 and M3 Year-to-Year Changes through May 2016

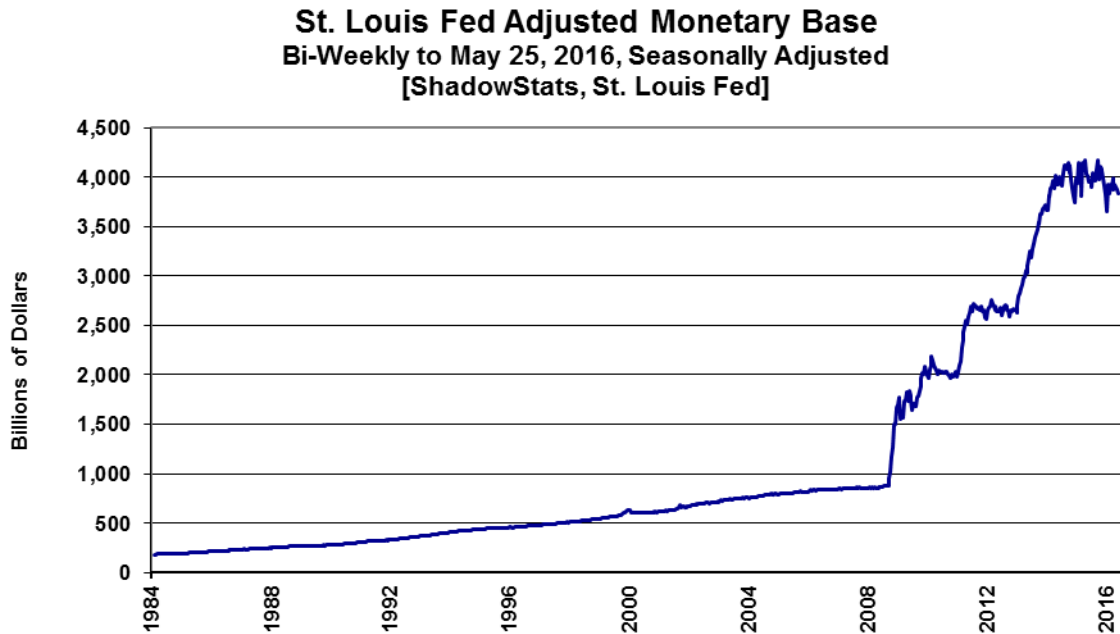


Following are initial estimates of May 2016 year-to-year and month-to-month changes for the narrower M1 and M2 measures (M2 includes M1; M3 includes M2). See the [Money Supply Special Report](#) for full definitions of those measures. The latest estimates of level and annual growth for May 2016 M3, M2 and M1, and for earlier periods are available on the [Alternate Data](#) tab of www.ShadowStats.com.

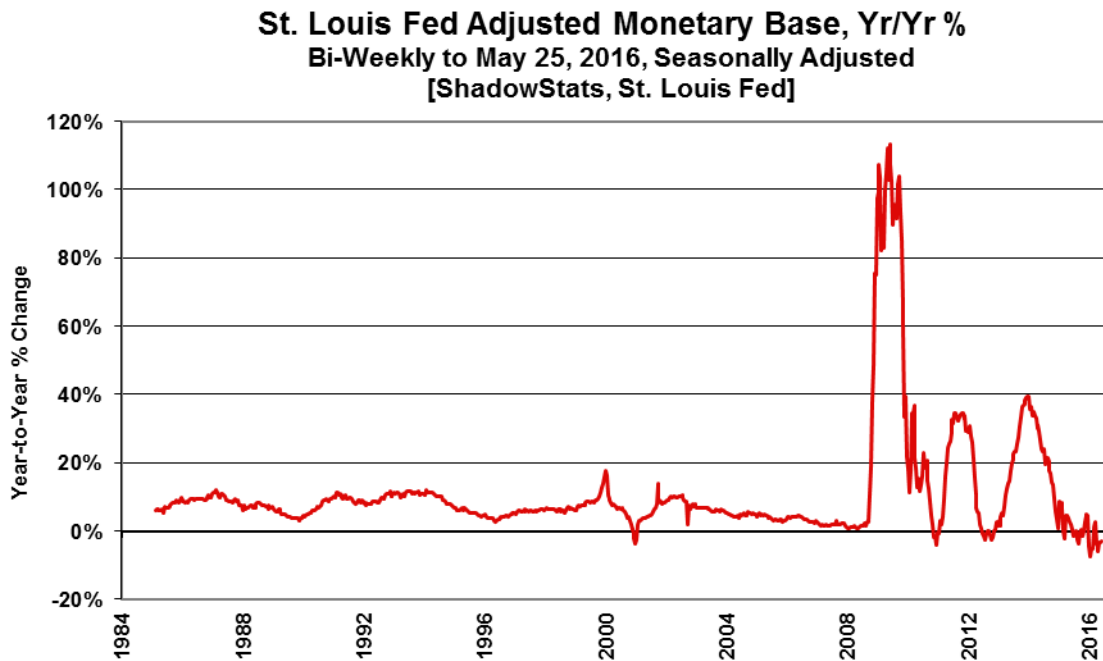
Annual M2 growth in May 2016 rose to 6.8%, relative to an upwardly-revised 6.4% [previously 6.1%] in April 2016, with a month-to-month increase of 0.7% in May 2016, versus a revised 0.7% [previously 0.6%] in April 2016.

For M1, year-to-year growth soared to 8.7%, from an upwardly revised 6.3% [previously up by 5.4%] in April 2016, with a month-to-month 2.1% increase in May 2016, versus an upwardly revised 1.1% [previously up by 0.9%] in April.

Graph 22: Monetary Base Level, Bi-Weekly through May 25, 2016



Graph 23: Monetary Base, Year-to-Year Percent Change, through May 25, 2016



Monetary Base Has Remained Reasonably Stable in the Context of Continued Fed Waffling. In continuing follow up earlier [Commentary No. 805](#), [No. 800](#), [No. 796](#), [No. 790](#), [No. 783](#), [No. 779](#), [No. 779-A](#), and [No. 784](#), the St. Louis Fed’s monetary base appears largely to have stabilized both in terms of level and annual change, although the annual change has been somewhat on the soft side, following the

December 2015 rate hike. Subsequently, the Fed did not raise rates as planned in March, with no action in April and, despite rumors of a pending rate hike in June, further “tightening” appears to be on hold indefinitely.

Graphs 22 and 23 show reporting of the St. Louis Fed’s Monetary Base through the two-week period ended May 25th, with a level of \$3.837 trillion, versus \$3.869 trillion as of May 11th. Year-to-year change showed a decline of 0.8% (-0.8%) in the latest period, versus an annual decline of 0.7% (-0.7%) in the prior period. That annual decline has narrowed from the record 7.4% (-7.4%) drop seen in the January 6th period, which encompassed the Fed’s rate hike in December. Nonetheless, the recent measures have continued on the negatively-deep side of normal volatility in annual change.

Late in 2014, the Federal Reserve ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, but its outright holdings of Treasury securities have remained stable at \$2.5 trillion, rolling over maturing issues. Discussed in the previously-referenced *Commentaries*, where the monetary base during the last year had been plus-or-minus 5% around the St. Louis Fed’s estimated 12-month average of \$4.0 trillion, that range was broken once, and on the downside, in the immediate post-FOMC period ended January 6th. Such was due largely to related New York Fed activities establishing the newly boosted federal funds rate. *Graphs 22 and 23* show reporting of the St. Louis Fed’s Monetary Base through the two-week period ended May 25th, where those lower limits have just been skirted.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (May 2016)

Despite Some Catch-Up Reporting, Payroll Activity Remained Massively Overstated; Monthly Unemployment Details Remained Not Comparable. [*Note: This section, through the PAYROLL SURVEY DETAIL, largely is repeated from the Opening Comments.*] Underlying reality for May 2016 U.S. labor conditions was in the realm of a 23.0% broad unemployment rate, with actual monthly payroll employment change well into negative territory, likely by a couple of hundred thousand.

The nonsensical but “statistically-significant” decline in headline U.3 unemployment from 5.0% in April 2016 to 4.7% in May 2016 reflected a unwholesome, net loss of 458,000 (-458,000) unemployed [a headline decline of 484,000 (-484,000) in unemployed versus a gain of 26,000 employed] from the labor force, without those unemployed finding gainful employment. Discussed shortly, headline month-to-month comparisons of the seasonally-adjusted household survey numbers, such as the headline unemployment-rate U.3, standardly are without any meaning or statistical significance.

The gimmicked, headline payroll change of 38,000 more realistically should have come in around minus 200,000 (-200,000). Most obviously, it was rigged to the upside by downside revisions to March and April 2016 employment. Net of those prior-period revisions, May payrolls declined by 50,000 (-50,000) jobs, an amount that exceeded Bureau of Labor Statistics (BLS) estimate of a one-time monthly payroll hit of 35,000 (-35,000) from striking Verizon workers.

Discussed in the *Birth-Death/Bias-Factor Adjustment* section, subsequent to the downside payroll-benchmark revisions of February 2016, the usual, excessive monthly biases added into the headline monthly payroll detail by the BLS were revised to the upside. This less-obvious use by the BLS of the Birth-Death Model (BDM) artificially inflated headline month-to-month payroll gains with meaningless add-factors that currently are well in excess of 200,000 jobs per month.

Confirmation of Weakening Labor Conditions in Help-Wanted Advertising? Some tip-off as to the much-weaker-than-consensus headline payroll gain may have been found in the Conference Board's measure of [Help-Wanted Online](#). Back in the days when help-wanted advertising was a primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board's Help-Wanted Advertising Index was one of the most reliable leading indicators of broad economic activity. Since the tracking switched to help-wanted advertising on the Internet, following both new ads as well as continuing ads—all unduplicated—no such strong leading relationship to broad activity has been evident. Yet, the May 2016 data, published on June 1st, showed unusually sharp monthly declines in both the ongoing and new ads, down by 5.5% (-5.5%) and by 5.1% (-5.1%), with those seasonally-adjusted measures sinking to the lowest levels since January 2014 and August 2013, respectively.

Major Seasonal-Factor Distortions and Inconsistencies. A further major problem with monthly payroll-growth estimation, as well as the primary, non-definitional problem with the unemployment-related detail, is the lack of historical comparability of the seasonally-adjusted, headline numbers. Such results from the BLS using concurrent seasonal adjustment factors, a process that revises the last five years of seasonally-adjusted headline data, each and every month, based on the latest headline detail but where BLS does not publish the revised historical data. Due to extraordinary seasonal-factor shifts with the June 3rd headline Payroll Survey reporting, the market-disappointing May payroll gain was plus 38,000 jobs, instead of what should have been even-weaker zero jobs growth (see *Graph 31* and discussion in *Headline Distortions from Shifting Concurrent-Seasonal Factors* section).

On the Household-Survey side and related unemployment measurement, data-quality was horrendous, as usual. While there was some continuing catch-up to more-realistic levels with ratios such as the participation rate, that did not mean that the numbers were more accurate, other than by coincidence. The seasonally-adjusted details simply are not comparable month-to-month, where each month has been seasonally-adjusted uniquely and inconsistently with the month before. Consider that in the context of these not consistent month-to-month details, May's headline seasonally-adjusted reporting patterns were highly unusual, following three months of headline detail otherwise not usually seen in natural or real-world activity.

The decline in the headline U.3 unemployment rate from 5.0% to 4.7% was horrendously negative, if accurate. Good news would have been if the decline in U.3 reflected a reduction in unemployed offset by an equivalent or greater gain in employed. Instead, as discussed earlier, the detail here reflected a large decline in unemployed, with a minimal gain in employed. The big drop in the unemployment rate—a

pattern common to the purported economic recovery of the last seven years—was due to the unemployed disappearing from the workforce, not due to the unemployed finding jobs.

As to the last three months, employment and unemployment fundamentally tend to move in opposite directions. Yet, for February 2016 to April 2016 monthly headline reporting, employment and unemployment counts consistently crashed or surged in tandem each month.

Unemployment. Looking at headline detail, the U.3 unemployment rate (Household-Survey) dropped to 4.7% in May 2016, from 5.0% in April. The broader U.6 unemployment measure, encompassing those “marginally attached” to the workforce, held at 9.7% in May 2016, the same level as in April. Adding back into the total unemployed and labor force the ShadowStats estimate of the ever-growing ranks of long-term discouraged workers—effectively displaced workers—the ShadowStats-Alternate Unemployment Estimate notched higher to 23.0% in May 2016, versus 22.9% in April.

Headline full-time employment fell for the second month, down by 59,000 (-59,000). Discussed later, household-survey employment counts the total number of people who have a job, while the payroll survey counts only the number of jobs, where an individual may hold multiple part-time jobs.

Payrolls. In the context of heavy upside biases and extraordinarily-shifting positive seasonal factors, nonfarm payroll activity still slowed to a headline monthly gain of 38,000 jobs in May 2016, from a downwardly-revised monthly gain of 123,000 in April 2016. With aggregate, monthly upside biases added into these numbers in excess of 200,000 jobs, the actual May 2016 headline payroll change most certainly was a monthly contraction. On a not-seasonally-adjusted basis, year-to-year nonfarm payroll growth in May 2016 slowed to a twenty-seven month low of 1.66%, versus an unrevised 1.88% in April 2016.

PAYROLL SURVEY DETAIL. On Friday, June 3rd, the Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for May 2016. In the context of significant, downside prior-period revisions, the seasonally-adjusted, the headline payroll gain for May 2016 was a statistically-insignificant 38,000 jobs +/- 129,000 [more appropriately +/- 300,000] at a 95% confidence interval (all confidence intervals used are at the 95% level). That followed a downwardly-revised 123,000 [previously 160,000] gain in April 2016, and a downwardly-revised but demonstrably false and not-comparable 186,000 [previously 208,000, initially 215,000] gain in March 2016 (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*).

Net of prior-period revisions, May 2016 payrolls fell by 50,000 (-50,000) in the month. That was a greater decline than the one-time loss of 35,000 (-35,000) jobs in the month as estimated by the BLS to be due to a strike in the telecommunications industry. The jobs lost to the strike should come back in the June 2016 reporting.

Not-seasonally-adjusted, year-to-year growth in nonfarm payrolls fell to a twenty-seven month low of 1.66%, the weakest growth since February 2014. Such followed unrevised annual growth of 1.88% in April 2016, and revised annual growth of 2.00% [previously 1.99%, initially 1.98%] in March 2016.

Confidence Intervals. Where the current employment levels have been spiked by misleading and inconsistently-reported concurrent-seasonal-factor adjustments, the reporting issues suggest that a 95%

confidence interval around the modeling of the monthly headline payroll gain should be well in excess of +/- 200,000, instead of the official +/- 129,000. Even if the data were reported on a comparable month-to-month basis, other reporting issues would prevent the indicated headline magnitudes of change from being significant. Encompassing Birth-Death Model biases, the confidence interval more appropriately should be in excess of +/- 300,000.

Construction-Payroll Growth Turned Down. Construction Payroll Employment growth declined in May 2016, in the context of prior-period downside revisions. In theory, construction payroll levels should move closely with the inflation-adjusted aggregate construction spending series and the Housing Starts series (the latter measured in units rather than dollars). *Graph 34* in the Construction Spending detail reflects the May 2016 construction payroll-employment detail, grouped with various graphs of construction-related activity .

Headline month-to-month growth in construction employment declined by 0.23% (-0.23%) in May 2016, following a revised 0.08% (-0.08%) decline [previously “unchanged” at 0.01%] in April 2016, having gained a revised 0.56% [previously up by 0.62%] in March 2016. The pace of monthly construction jobs growth has turned down, increasingly consistent with most headline construction activity and real construction spending that also have started to turn down or to stagnate.

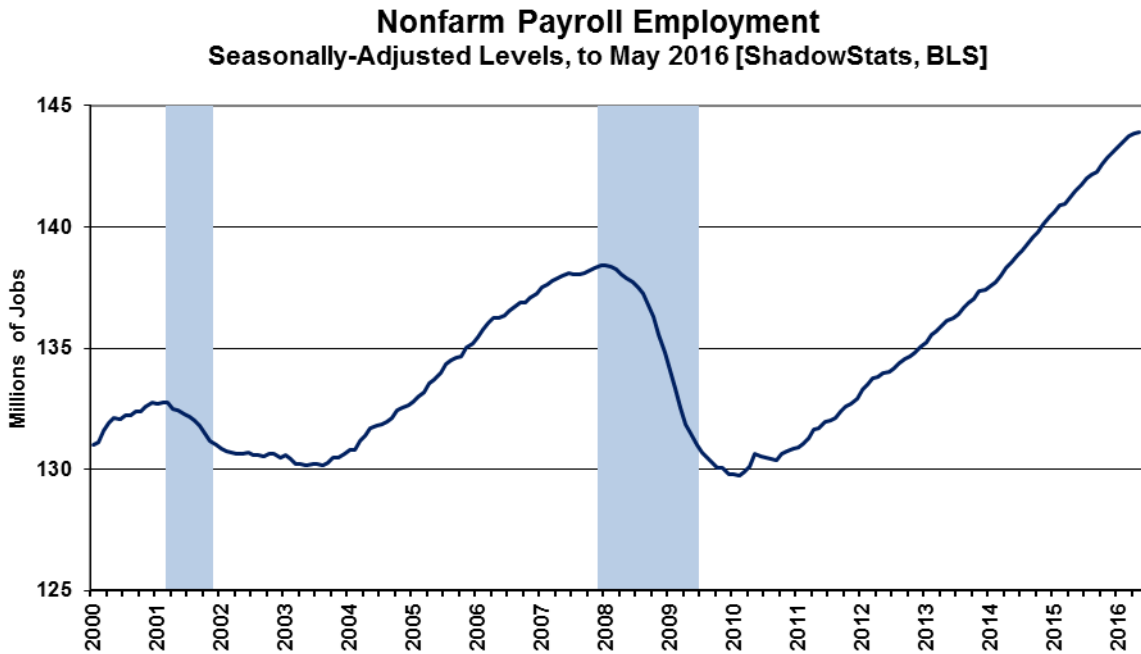
The May construction-payroll level of 6.645 million was down by 15,000 from a downwardly-revised 6.660 [previously 6.670] million in April, which was down by 5,000 from a downwardly-revised 6.665 [previously 6.669] million in March 2016.

Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,400 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total May 2016 construction jobs remained down by 13.99% (-13.99%) from the April 2006 pre-recession series peak, but it was up by an unadjusted 3.29% year-to-year from May 2015. Year-to-year change in April 2016 was up by a revised 4.19% [previously 4.16%].

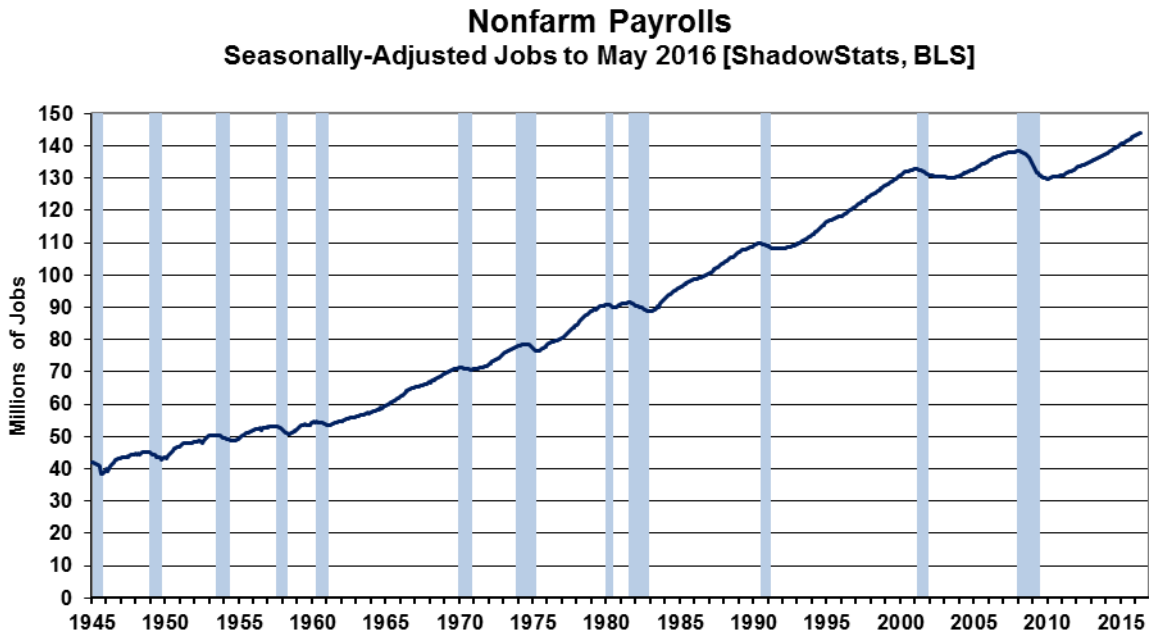
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy of three years earlier, back in 2011. Reflected in the next two graphs, headline payroll employment moved to above its pre-recession high in May 2014, as of the 2015 benchmarking. Previously that had been April 2014, as of the 2014 benchmarking. Payroll employment has continued to rise since, although it now is faltering. Including the headline jobs gain of 38,000 in May 2016, headline payroll employment remained 5.46-million jobs above its pre-recession peak.

[Graphs 24 and 25 follow on the next page.]

Graph 24: Nonfarm Payroll Employment to May 2016



Graph 25: Nonfarm Payroll Employment 1945 to May 2016



Graphs 24 and 25 show the revised headline payroll series, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. In perspective, the longer-term graph of the headline

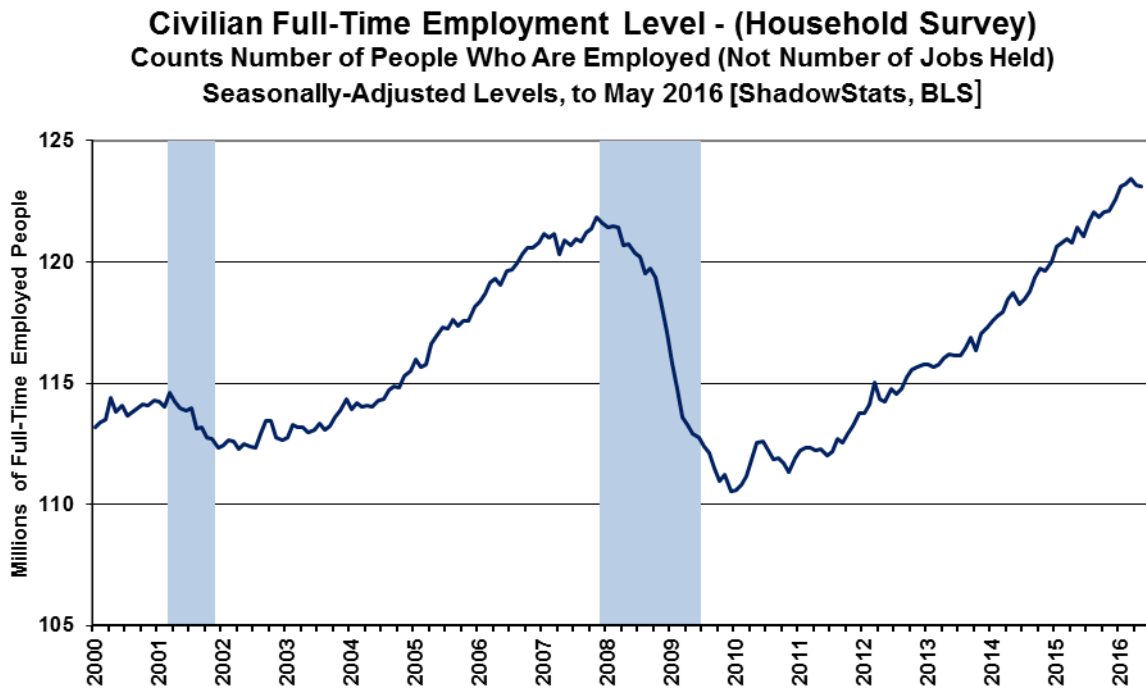
payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

Beyond excessive upside add-factor biases built into the monthly calculations (again, see the *Birth-Death Model* section), the problem remains that payroll employment counts the number of jobs, not the number of people who are employed. Much of that payroll “jobs” growth has been in multiple part-time jobs—many taken on for economic reasons—where full-time employment was desired but could not be found.

Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 26*, the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline May 2016 full-time employment declined by 59,000 (-59,000) in the month, following headline drop of 253,000 (-253,000) in April, with the detail now standing at 1.25-million above that pre-recession high for the series, thanks in particular to irregularly-volatile monthly gains in the seasonally-adjusted data of earlier months in 2016. That will gyrate further in the next several months, likely to drop even further from the current headline level.

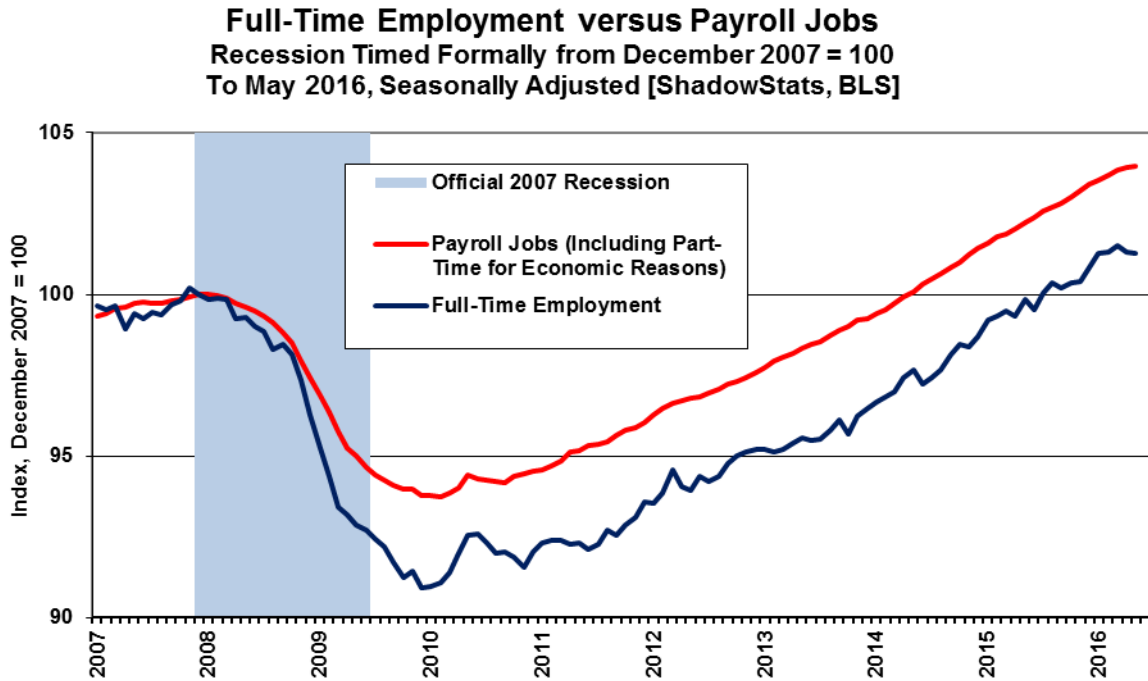
Such compares with the headline payroll-employment level that is 5.46-million above its pre-recession high, regained some 24-months ago. Again, the payroll count is of jobs, not people, where much of that payroll “jobs” growth has been in part-time, and in multiple part-time jobs, many taken on for economic reasons, where full-time employment was desired but could not be found.

Graph 26: Full-Time Employment (Household Survey) to May 2016

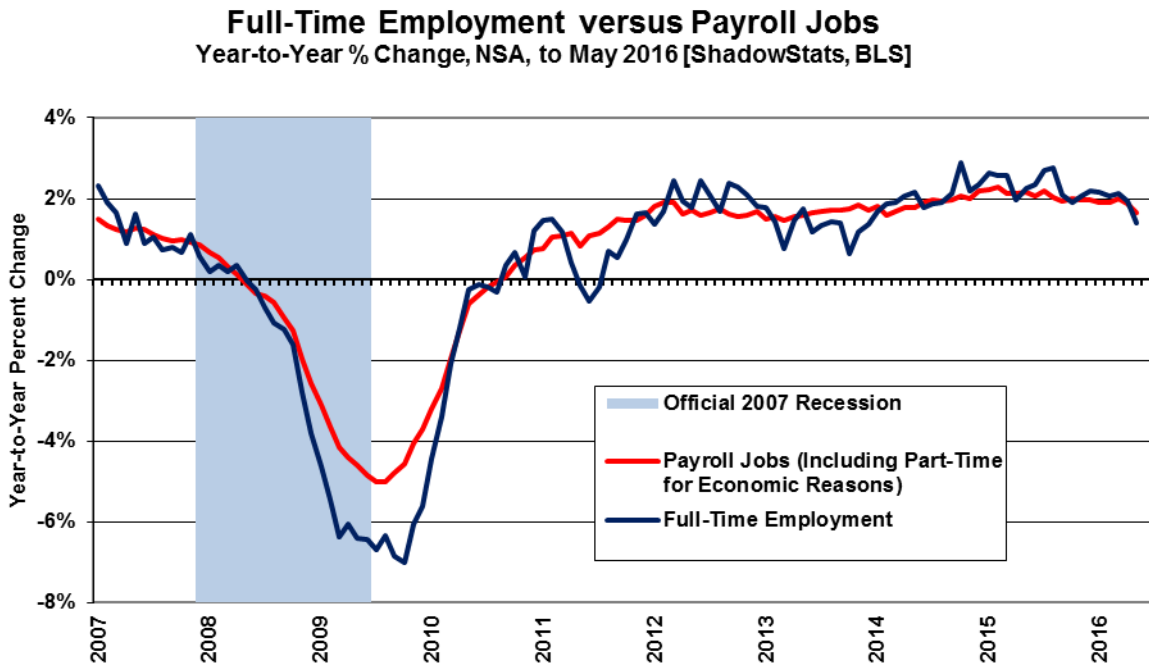


As a separate consideration and an indication of the level of nonsensical GDP reporting, employment traditionally is a coincident indicator of broad economic activity, again the GDP purportedly recovered its pre-recession high some four years ago, more than two years before similar payroll activity, and more than four years before the likely-temporary, current but faltering recovery in full-time employment.

Graph 27: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)



Graph 28: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year



Graphs 27 and 28 plot comparisons of activity in full-time employment versus payroll jobs, post-economic collapse. Full-time employment was hit hardest, with headline employment “recovery” coming largely from individuals having to settle for part-time work.

Headline month-to-month volatility in the full-time employment reporting is more a function of the instabilities from the non-comparability of the headline, seasonally-adjusted monthly data (see the discussion in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section) and the *Opening Comments*.

The graph of full-time employment excludes the count of those employed with only part-time jobs, one or more. Total employment, including those employed with part-time work, has recovered its pre-recession high, but it is not close to the payroll reporting and has started to turn lower again. Once more, the Household-Survey numbers count the number of people who have at least one job. The Payroll Survey simply counts the number of jobs (see [Commentary No. 686](#) for further detail).

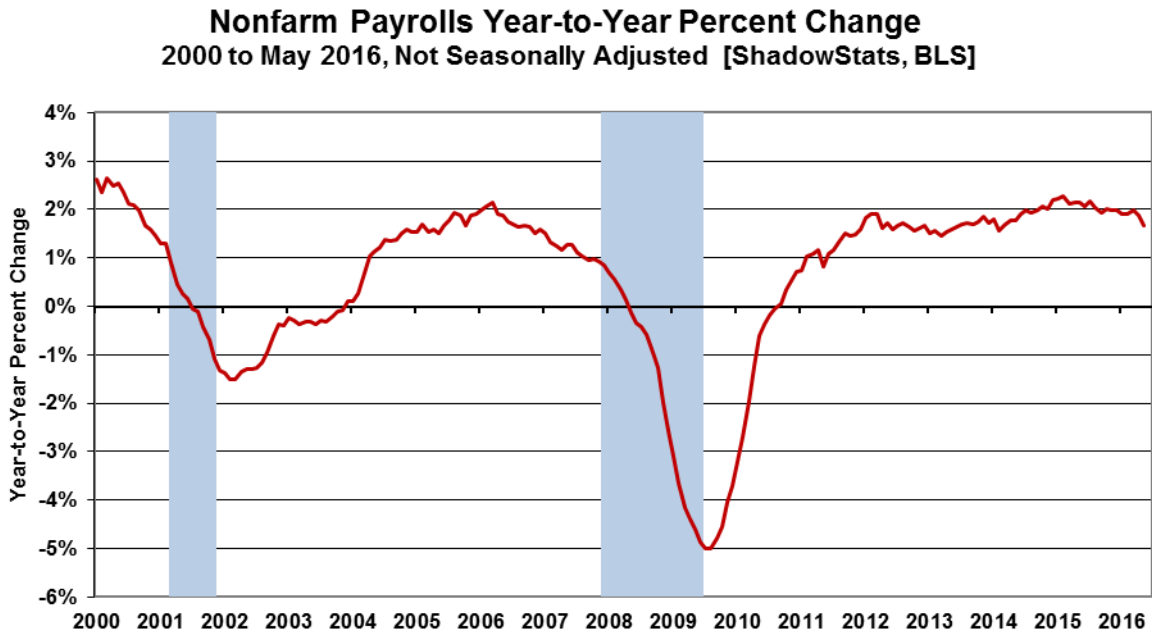
Annual Percent Changes in Headline Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis.

Year-to-year growth in unadjusted payrolls stood at a post-recession peak of 2.29% in February 2015, reflected in the headline detail of *Graphs 29* and *30*. Such remains the strongest annual growth since June 2000 (another recession), but subsequent annual growth has slowed sharply. Year-to-year nonfarm payroll growth in May 2016 slowed to a twenty-seven month low of 1.66%, versus an unrevised 1.88% gain in April 2016 and a minimally revised 2.00% in March 2016.

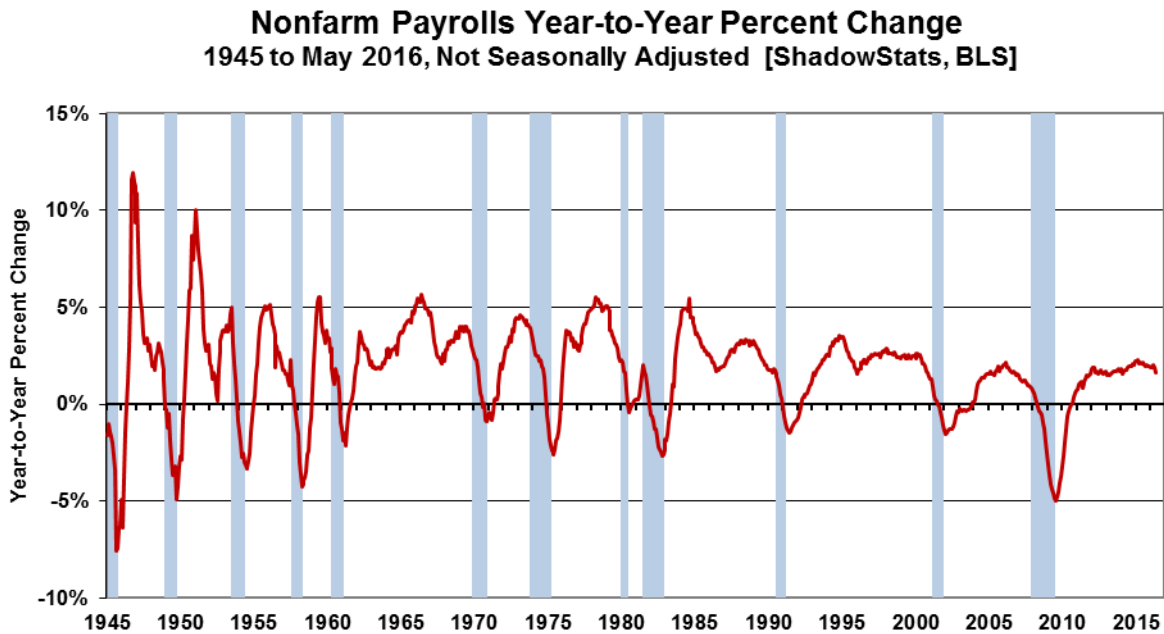
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown at the end of World War II [a trough of a 7.59% (-7.59%) annual contraction in September 1945]. Disallowing the post-war shutdown as a normal business cycle, the August 2009 annual decline was the worst since the Great Depression.

[Graphs 29 and 30 follow on the next page.]

Graph 29: Payroll Employment, Year-to-Year Percent Change, 2000 to May 2016



Graph 30: Payroll Employment, Year-to-Year Percent Change, 1945 to May 2016



Headline Distortions from Shifting Concurrent-Seasonal Factors. Discussed and graphed here, with extended commentary and the latest detail available from ShadowStats affiliate [ExpliStats](#), there are serious and deliberate flaws with the government’s seasonally-adjusted, monthly reporting of both

employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll and unemployment data for the latest seasonal patterns. As new headline data are seasonally-adjusted for each series, the re-adjustment process also revises the monthly history of each series. A new seasonally-adjusted history is recalculated for every month, going back five years, so as to be consistent with the new seasonal patterns generated for the current headline number.

Effective Reporting Fraud. The problem remains that the BLS does not publish the monthly historical revisions along with the new headline data. As a result, current headline reporting is neither consistent nor comparable with prior data, and the unreported actual monthly variations versus headline detail can be meaningfully large, as seen in the headline May 2016 detail. The deliberately-misleading reporting effectively is a fraud. The problem is not with the BLS using concurrent-seasonal-adjustment factors; it is with the BLS not publishing consistent data, where those data are calculated each month and are available internally to the Bureau.

Household Survey. Circumstances here again are highlighted in the today's *Opening Comments*. In the case of the published Household Survey (unemployment rate and related data), the seasonally-adjusted headline numbers usually are not comparable with the prior monthly data or any month before. Accordingly, the published headline detail as to whether the unemployment rate was up, down or unchanged in a given month is not meaningful, and what actually happened is not knowable by the public. Month-to-month comparisons of these popular numbers are of no substance, other than for market hyping or political propaganda. The headline month-to-month reporting in the Household Survey is made consistent only in the once-per-year reporting of December data, with annual revisions back for five years. All historical comparability disappears, though, with the ensuing headline January reporting, and with each monthly estimate thereafter.

Consider *Graph 31*, where data are available from the BLS to calculate the month-to-month seasonal-adjustment variability in the Payroll Survey. Similar detail is not available for the Household Survey, yet the month-to-month instability likely is of similar magnitude. At least with the Payroll Survey, headline May 2016 payroll level was prepared on a consistent basis with the levels of April 2016 and March 2016, but not with February 2016, with the headline monthly gains consistent only for May and April. With the Household Survey, however, the May 2016 detail is not comparable with April 2016 or any other published month, so seasonally-adjusted, month-to-month comparisons have no meaning.

Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), the current monthly changes in the seasonally-adjusted headline data are comparable only with the prior month's month-to-month reporting, not before. Due to the BLS modeling process, the historical data never are published on a consistent basis, even with publication of the annual benchmark revision (see the comments on *Graph 31*).

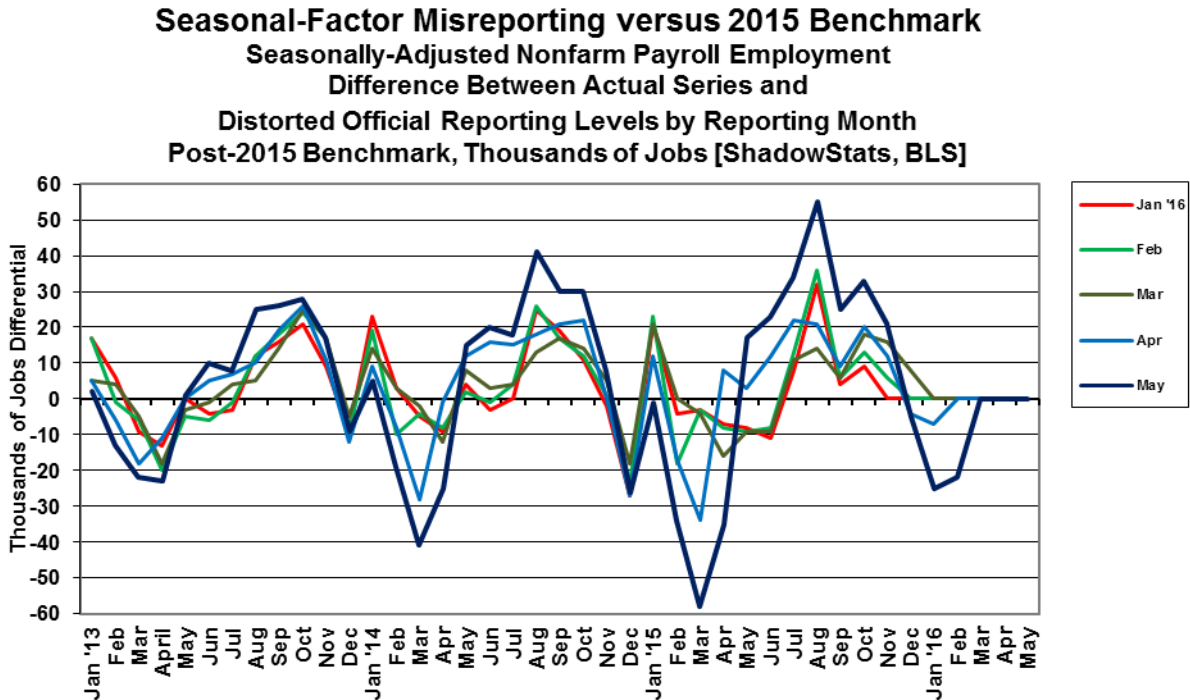
Where the BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, no such accommodation has been made for the Household Survey. Again, ShadowStats affiliate ExpliStats does such third-party calculations for the payroll series, and the resulting detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are reflected here in *Graph 31*.

Consider in the latest headline payroll detail that the May 2016 monthly changes were comparable only with the headline changes in the April 2016 numbers, not with March 2016 or any earlier months. Per BLS headline reporting, seasonally-adjusted May 2016 payrolls rose month-to-month by 38,000 from April, while April payrolls rose by 123,000 from March, and March payrolls rose by 186,000 from February. That headline March monthly gain was not accurate and not comparable with the headline details for May and April, because the February payroll level was not adjusted for the new seasonal adjustments.

Had the BLS published the headline February reporting on a consistent basis with May 2016, the February-to-March change would have been a comparable gain of 208,000, instead of the purported 186,000 increase.

The differences go both ways and often are much larger, as was seen in the case of November 2014, coming out of the 2014 benchmark revision. That particular incident is detailed at the [ExpliStats](#) link, and it was discussed in the *Opening Comments* of [Commentary No. 784](#).

Graph 31: Concurrent-Seasonal-Factor Irregularities - Headline Detail in May 2016 versus 2015 Benchmark



Graph 31 details how far the monthly payroll employment data already have strayed from being consistent with the actual, most-recent benchmark revision, which was in October but not published. The revised series is run in the background in October, November and December, with January being the first month where the new numbers are published. Yet, at that point, the headline detail already has three months of inconsistent seasonal adjustments in play; May makes that seven. If the historical data were consistent with the headline reporting, the dark blue line would be flat and at zero. As seen here, consistent data never have been published.

The difference seen between the light-blue (April 2016) and dark-blue (May 2016) lines, indicates shifting seasonal patterns between just this month's headline detail and last month's headline detail. The extraordinarily extreme shifts evident in the April 2015 and May 2016 seasonals were enough to imply that May 2016 likely would have shown close to zero change, instead of the headline 38,000, had annual seasonal patterns been left intact for the year—on a consistent basis—rather than being recalculated just for May 2016.

Birth-Death/Bias-Factor Adjustment. Despite the ongoing, general overstatement of monthly payroll employment, the BLS adds in upside monthly biases to the payroll employment numbers. The continual overstatement is evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 2012 and 2014 excepted). Even with the published downside revision of 206,000 (-206,000) to March 2015 payrolls in the latest 2015 benchmarking (see [Commentary No. 784](#) and [Commentary No. 784-A](#)), the BLS has upped its annual upside-bias factors since then by 124,000 jobs. Such discrepancies, however, are not unusual for the.

Discussed in the benchmark detail of [Commentary No. 598](#), the regular benchmark revision to March 2013 payroll employment was to the downside by 119,000 (-119,000), where the BLS had overestimated standard payroll employment growth.

With the March 2013 revision, though, the BLS separately redefined the Payroll Survey so as to include 466,000 workers who had been in a category not previously counted in payroll employment. The latter event was little more than a gimmicked, upside fudge-factor, used to mask the effects of the regular downside revisions to employment surveying, and likely was the excuse behind an increase then in the annual bias factor, where the new category could not be surveyed easily or regularly by the BLS. Elements here likely had impact on the unusual issues with the 2014 benchmark revision.

Abuses from the 2014 benchmarking were detailed in [Commentary No. 694](#) and [Commentary No. 695](#). With the headline benchmark revision for March 2014 showing understated payrolls of 67,000 (-67,000), the BLS upped its annual add-factor bias by 161,000 for the year ahead.

Historically, the upside-bias process was created simply by adding in a monthly “bias factor,” so as to prevent the otherwise potential political embarrassment to the BLS of understating monthly jobs growth. The “bias factor” process resulted from such an actual embarrassment, with the underestimation of jobs growth coming out of the 1983 recession. That process eventually was recast as the now infamous Birth-Death Model (BDM), which purportedly models the relative effects on payroll employment of jobs creation due to new businesses starting up, versus jobs lost due to bankruptcies or closings of existing businesses.

May 2016 Add-Factor Bias. The not-seasonally-adjusted May 2016 bias was a positive add-factor of 224,000, following a positive add-factor of 233,000 in April 2016, versus a positive add-factor of 217,000 in April 2016.

The revamped, aggregate upside bias for the trailing twelve months through May 2016 was 905,000, up by 124,000 or 15.9% from 781,000 in December 2015. That is a monthly average of 75,417, in May 2016 (versus 65,100 pre-2015 benchmarking) jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS in the BDM, as discussed below.

Problems with the Model. The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net positive jobs creation by new companies versus those going out of business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. The BLS cannot measure meaningfully the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), or by changes in household employment that were incorporated into the 2015 redefined payroll series. Such information simply is guesstimated by the BLS, along with the addition of a bias-factor generated by the BDM.

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

Indeed, historically, the BDM biases have tended to overstate payroll employment levels—to understate employment declines—during recessions. There is a faulty underlying premise here that jobs created by start-up companies in this downturn have more than offset jobs lost by companies going out of business. Recent studies have suggested that there has been a net jobs loss, not gain, in this circumstance. Nonetheless, if a company fails to report its payrolls because it has gone out of business (or has been devastated by a hurricane), the BLS assumes the firm still has its previously-reported employees and adjusts those numbers for the trend in the company’s industry.

The presumed net additional “surplus” jobs created by start-up firms are added on to the payroll estimates each month as a special add-factor. On top of that, the monthly BDM add-factors have been increased now to an average of 75,417 jobs per month for the current year. As a result, in current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month (the underlying positive base-assumption upside bias, plus the monthly Birth-Death Model add-factor).

HOUSEHOLD SURVEY DETAIL. Discussed in the *Opening Comments* and below, the continued nonsensical headline details in the counts of the employed and unemployed, from the seasonally-adjusted, month-to-month Household-Survey detail, are particularly egregious examples of the BLS misreporting practices, in its use of concurrent seasonal factors, as detailed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors*.

Separately detailed in [Commentary No. 669](#), and updated in the today’s *Note on Reporting-Quality Issues and Systemic-Reporting Biases* in the *Week Ahead* section, significant issues as to falsification of the data gathered in the monthly Current Population Survey (CPS), conducted by the Census Bureau, have been raised in the press and investigated by the House Committee on Oversight and Government Reform and the U.S. Congress Joint Economic Committee. The investigation continues. CPS is the source of the Household Survey used by the BLS in estimating monthly unemployment, employment, etc. Accordingly, the statistical significance of the headline reporting detail here remains open to serious question.

Headline Unemployment Rates. At the first decimal point, the headline May 2016 unemployment rate (U.3) fell to 4.7%, versus 5.0% in April. At the second decimal point, the headline May 2016 U.3 was 4.69%, down from 4.98% in April. Formally, the May U.3 month-to-month decline of 0.29% (-0.29%) +/- 0.23% was statistically-significant, although that is nonsense, given that the monthly numbers are reported on an inconsistent basis and are not comparable with each other.

Indeed, the headline decline in May U.3 also is without meaning, given that the seasonally-adjusted, month-to-month details simply are not comparable, thanks to the BLS's reporting methodology and use of concurrent-seasonal-adjustment factors (again, see *Headline Distortions from Shifting Concurrent Seasonal Factors*). This issue remains separate from official questions raised as to falsification of the Current Population Survey (CPS), from which are derived the unemployment details (see *Note on Reporting-Quality Issues and Systemic-Reporting Biases* in the *Week Ahead* section).

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate eased to 4.54% in May 2016, from 4.68% in April 2016.

The Worst Kind of a Declining Unemployment Rate—Unemployed Disappear Without Gaining Employment. The decline in the headline, seasonally-adjusted May 2016 U.3 unemployment rate to 4.69%, from 4.98% in April 2016 reflected a decline of 484,000 (-484,000) in the unemployed, but with the number of employed increasing only by 26,000. The 458,000 unemployed, who did not get jobs, just disappeared from the labor force, which resulted in the declining unemployment rate.

This troubled reporting follows three months of other nonsensical reporting. Usually the unemployed count rises when the employed count declines, and vice versa. Yet, for February, March and April 2016, there were unusual trends, both employment and unemployment moving in the same direction. These details remain suggestive, once again, of the incompatibility and inconsistency of the month-to-month headline detail in the published history of the seasonally-adjusted, household-survey numbers. Discussed gain in *Headline Distortions from Shifting Concurrent-Seasonal Factors*, these monthly inconsistencies are deliberate misrepresentations of better-quality, consistent data that are prepared internally each month by the BLS. The inconsistencies here mean that the published, seasonally-adjusted headline month-to-month changes in everything from the employed, unemployed and labor-force counts to the Employment-Population Ratio and Participation Rate simply are meaningless.

Marginally-Attached and Displaced Workers. New discouraged and otherwise marginally-attached workers always are moving into U.6 unemployment accounting from U.3, while those who have been discouraged for one year, continuously are dropped from the U.6 measure. As a result, the U.6 measure has been easing along with U.3, for a while, but those being pushed out of U.6 still are counted in the ShadowStats-Alternate Unemployment Estimate, which has remained relatively stable.

The monthly count of short-term discouraged workers in May 2016 (never seasonally-adjusted) declined by 30,000 (-30,000) to 538,000, while the total, short-term marginally-attached discouraged workers declined by 2,000 (-2,000) to 1,713,000 in May. The latest, official “discouraged” number, again, reflected the flow of the headline unemployed—giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term “marginally-attached discouraged workers,” net of the further increase in the number of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status.

It is the displaced workers—the long-term discouraged-worker category—that defines the ShadowStats-Alternate Unemployment Measure. There is a continuing rollover from the short-term to the long-term category, with the ShadowStats measure encompassing U.6 and the short-term discouraged workers, plus the long-term discouraged workers. In 1994, “discouraged workers”—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been “discouraged” for less than a year. This time qualification defined away a large number of long-term discouraged workers. The remaining redefined short-term discouraged and redefined marginally-attached workers were included in U.6.

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

On top of a decline in the seasonally-adjusted U.3 unemployment rate, and a virtually unchanged count of marginally-attached workers, a surge of 468,000 in the adjusted number of people working part-time for economic reasons held the headline May 2016 U.6 unemployment at 9.73%, versus 9.71% in April. The unadjusted U.6 unemployment rate was at 9.44% in May 2016, versus 9.30% in April 2016.

ShadowStats Alternate Unemployment Estimate. Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate notched higher to 23.0% in May 2016 from held at 22.9% in April 2016.

Again, the ShadowStats unemployment estimate generally shows the toll of long-term unemployed leaving the headline labor force—effectively becoming displaced workers—as discussed in greater detail in the following section.

SHADOWSTATS-ALTERNATE UNEMPLOYMENT RATE MEASURE. In 1994, the Bureau of Labor Statistics (BLS) overhauled its system for estimating unemployment, including changing survey questions and unemployment definitions. In the new system, measurement of the previously-defined discouraged workers disappeared. These were individuals who had given up looking for work, because there was no work to be had. These people, who considered themselves unemployed, had been counted in the old survey, irrespective of how long they had not been looking for work. These were individuals who were and would be considered displaced workers, due to circumstances of severely-negative economic conditions or other factors such as changing industrial patterns resulting from shifting global trade patterns.

The new survey questions and definitions had the effect of minimizing the impact on unemployment reporting for those workers about to be displaced by the just-implemented North American Free Trade Agreement (NAFTA). At the time, I had close ties with an old-line consumer polling company, whose substantial economic monthly surveys were compared closely with census-survey details. The new surveying changed the numbers, and what had been the discouraged-worker category soon became undercounted or effectively eliminated. Change or reword a survey question, and change definitions, you can affect the survey results meaningfully.

The post-1994 survey techniques also fell far shy of adequately measuring the long-term displacement of workers tied to the economic collapse into 2008 and 2009, and from the lack of subsequent economic recovery. In current headline reporting, the BLS has a category for those not in the labor force who currently want a job. Net of the currently-defined “marginally attached workers,” which includes the currently-defined and undercounted “discouraged workers” category used in the U.6 (1.713 million in May 2016), those not in the labor force currently wanting a job increased to 4.736 million in May 2016 (a total of 6.449 million). That net of 4.736 million was against 3.956 million in April 2016, 3.726 million in March 2016, 4.146 million in February 2016, 4.077 million in January 2016, 3.872 million in December 2015 and 3.608 million in November 2015 (those numbers are counted only on an unadjusted basis). While some contend that that number includes all those otherwise-uncounted discouraged workers, such is extremely shy of underlying reality due to the changed survey methodology.

The ShadowStats number—a broad unemployment measure more in line with common experience—is my estimate. The approximation of the ShadowStats “long-term discouraged worker” category—those otherwise largely defined out of statistical existence in 1994—reflects proprietary modeling based on a variety of private and public surveying over the last two-plus decades. Beyond using the BLS U.6 estimate as an underlying monthly base, I have not found a way of accounting fully for the current unemployment circumstance and common experience using just the monthly headline data from the BLS.

Some broad systemic labor measures from the BLS, though, are consistent in pattern with the ShadowStats measure, even allowing for shifts tied to an aging population. Shown in the *Opening Comments*, the graph of the inverted ShadowStats unemployment measure has a strong correlation with the employment-to-population ratio, in conjunction with the labor-force participation rate, as well as with the ShadowStats-Alternate GDP Estimate and S&P 500 Real Revenues (see [No. 777 Year-End Special Commentary](#)), the CASS Freight Index and petroleum consumption. Those economic- and labor-related series all are plotted subsequent to the 1994 overhaul of unemployment surveying (see *Graphs 7 to 13*).

Headline May 2016 Detail. Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced workers, of long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for May 2016 notched higher to 23.0%, from 22.9% in April 2016. The April 2016 reading remained down by 30 basis points or 0.3% (-0.3%) from the 23.3% series high last seen in December 2013.

Again, In contrast, the May 2016 headline U.3 unemployment reading of 4.7% was down by a 530 basis points or 5.3% (-5.3%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.7% in May 2016, was down from its April 2010 peak of 17.2% by 750 basis points or 7.5% (-7.5%).

Seen in the usual graph of the various unemployment measures (*Graph 6* in the *Opening Comments*), there continues to be a noticeable divergence in the ShadowStats series versus U.6 and U.3, with the BLS headline U.3 unemployment measures headed lower again against a stagnant U.6 and an up-ticking, high-level ShadowStats number.

The reason for the longer term divergence versus the ShadowStats measure, again, is that U.6 only includes discouraged and marginally-attached workers who have been “discouraged” for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as new workers enter “discouraged” status. A similar pattern of U.3 unemployed becoming

“discouraged” or otherwise marginally attached, and moving into the U.6 category, also accounted for the early divergence between the U.6 and U.3 categories.

With the continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker or displaced-worker status (the ShadowStats measure). There was a lag in this happening as those having difficulty during the early months of the economic collapse, first moved into short-term discouraged status, and then, a year later they began moving increasingly into long-term discouraged status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force had been accelerating. While there is attrition in long-term discouraged numbers, there is no set cut off where the long-term discouraged workers cease to exist. See the *Alternate Data* tab for historical detail.

Generally, where the U.6 largely encompasses U.3, the ShadowStats measure encompasses U.6. To the extent that a decline in U.3 reflects unemployed moving into U.6, or a decline in U.6 reflects short-term discouraged workers moving into the ShadowStats number, the ShadowStats number continues to encompass all the unemployed, irrespective of the series from which they may have been ejected.

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

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

U.S. TRADE BALANCE (April 2016)

Commerce Department Has Expanded Its Gimmicking of the Trade Deficit and GDP Detail.

Annual benchmark revisions to the U.S. Trade Balance in Goods and Services are covered in the opening paragraphs of the *Opening Comments*, with generally negative implications for revisions to recent GDP reporting, based on the hard detail of the real merchandise trade deficit. A redefinition and expansion of the soft detail in the fluff and guesstimates of the services sector has narrowed the traditional level of the aggregate monthly goods and services deficit, by increasing the purported services surplus. Accordingly, the headline data here are presented as published in their new form. Despite the gimmicked detail, the headline numbers always are as the government wants them to be reported. It does not mean they reflect underlying reality. The actual trade deficit has not changed a penny, only the reporting-quality has deteriorated. See *Graphs 3 to 5* and accompanying discussion in the opening paragraphs of the *Opening Comments* for the revision to nominal Goods and Services Trade Balance, and *Graphs 1 and 2* and related discussion for the revisions to the real Merchandise Trade Deficit.

Nominal (Not-Adjusted-for-Inflation) April 2016 Revamped and Revised Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported June 3rd, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for April 2016, on a balance-of-payments basis, deteriorated by \$1.900 billion to \$37.436 billion, versus a revised and redefined \$35.536 billion in March 2016. Before the benchmarking and redefinition of the services sector, the March 2016 monthly deficit had been \$40.443 billion. The April 2016 deficit also narrowed from the revised trade shortfall of \$40.885 billion in April 2015.

Discussed in the opening paragraphs of the *Opening Comments*, the actual U.S. trade deficit circumstance has not improved by one penny, it is just that U.S. statistical bureaucrats have gussied-up the otherwise guessed-at “surplus” in the Services trade sector, in an effort to improve appearances, not to improve the reporting quality of actual underlying fundamentals.

The \$1.900 billion deterioration in the headline monthly deficit reflected an increase of \$2.622 billion in monthly exports, more than offset by an even greater increase of \$4.523 billion (rounding difference) in imports. The increase in exports reflected industrial supplies (largely oil related) and automobiles, parts and engines, while the surge in imports reflected industrial supplies (again, largely oil related) and capital goods, including civilian aircraft and computers).

Declining oil prices bottomed out in February 2016, inching higher by 0.7% in March and gaining 6.5% in the month of April, with some upside impact on nominal oil-related activity.

Energy-Related Petroleum Products. The not-seasonally-adjusted average price of imported oil increased month-to-month, rising to \$29.48 per barrel in April 2016, from \$27.68 per barrel in March 2016. That still was down from \$46.28 per barrel in April 2015. Separately, not-seasonally-adjusted physical oil-import volume in April 2016 averaged 7.691 million barrels per day, down from 7.819 million in March 2016 and 7.862 million in April 2015.

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

Real (Inflation-Adjusted) April 2016 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the April 2016 merchandise trade deficit (no services) widened to \$57,618 billion, from a benchmark-revised \$56.109 [previously \$57.430] billion in March, and versus a revised \$63.601 [previously \$63.210] billion in February 2016, and a revised \$62.663 [previously \$61.891] billion in January 2016. The April 2016 shortfall also narrowed versus a revised \$58.584 [previously \$57.603] billion real deficit in April 2015.

As currently revised [and previously reported], reflected in *Graph 2* in the *Opening Comments*, the annualized quarterly real merchandise trade deficit was \$623.1 [\$605.5] billion for fourth-quarter 2014, \$700.0 [\$692.4] billion for first-quarter 2015, \$709.1 [\$694.8] billion for second-quarter 2015, \$708.4 [\$706.1] billion for third-quarter 2015, and \$728.6 [\$721.1] billion for fourth-quarter 2015.

The reporting for first-quarter 2016 now stands at a revised \$725.5 [\$730.1] billion, where the prior number had been the worst reading since third-quarter 2007, a distinction that now has reverted back to fourth-quarter 2015 (see *Graph 1* in the *Opening Comments*).

Based solely on the initial reporting for April 2016, the second-quarter 2016 real trade shortfall is on a track for an annualized quarterly pace of \$691.4 billion, a level that would tend to boost relative second-quarter 2016 GDP, if it holds. Instead, the second quarter 2016 number likely will shift to the negative side with next month's headline May reporting and accompanying April revision. Headline deficits likely will get even deeper in the months and quarters ahead, intensifying the ongoing negative impact on headline GDP growth.

CONSTRUCTION SPENDING (April 2016)

Despite the Collapse in April Activity, Real Construction Spending Continued in Low-Level, Stagnating Non-Recovery. Still shy of its pre-recession peak in February 2006 by 25.9% (-25.9%), inflation-adjusted real construction spending collapsed in April 2016, versus a large upside revision in March 2016. Adjusted for inflation, monthly construction spending fell month-to-month by a statistically-significant 2.6% (-2.6%) having gained 1.4% in March. Year-to-year real growth collapsed to a positive 2.6% in April 2016, from 8.5% in March 2016. The initial trend in real, annualized quarter-to-quarter activity for second-quarter 2016 turned to a contraction of 4.7% (-4.7%), from growth of 8.3% in the first-quarter 2016.

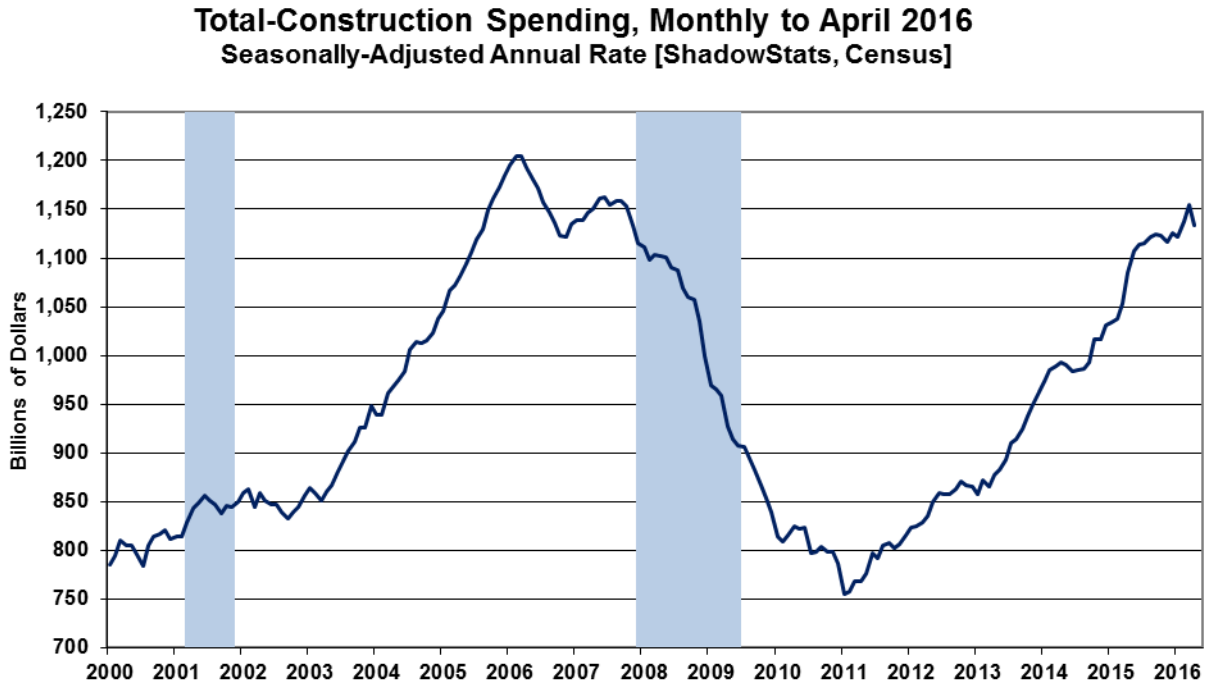
While this series is highly volatile and subject to large monthly revisions (next month's reporting will be subject to annual benchmark revisions), the April 2016 detail was subject to a particularly sharp spike in construction-related inflation, which reduced headline growth in real inflation-adjusted terms. That inflation spike was not transient although it is subject to some revision.

The Data and Graphics Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to be reasonably smooth in month-to-month movement. Note the comparative monthly *Graphs 39* and *41*. What is unusual in the current headline construction-spending detail was the sharp upside revision to March 2016 activity and the ensuing relative plunge in the headline April detail, which appears as a spike in a number of the headline graphs.

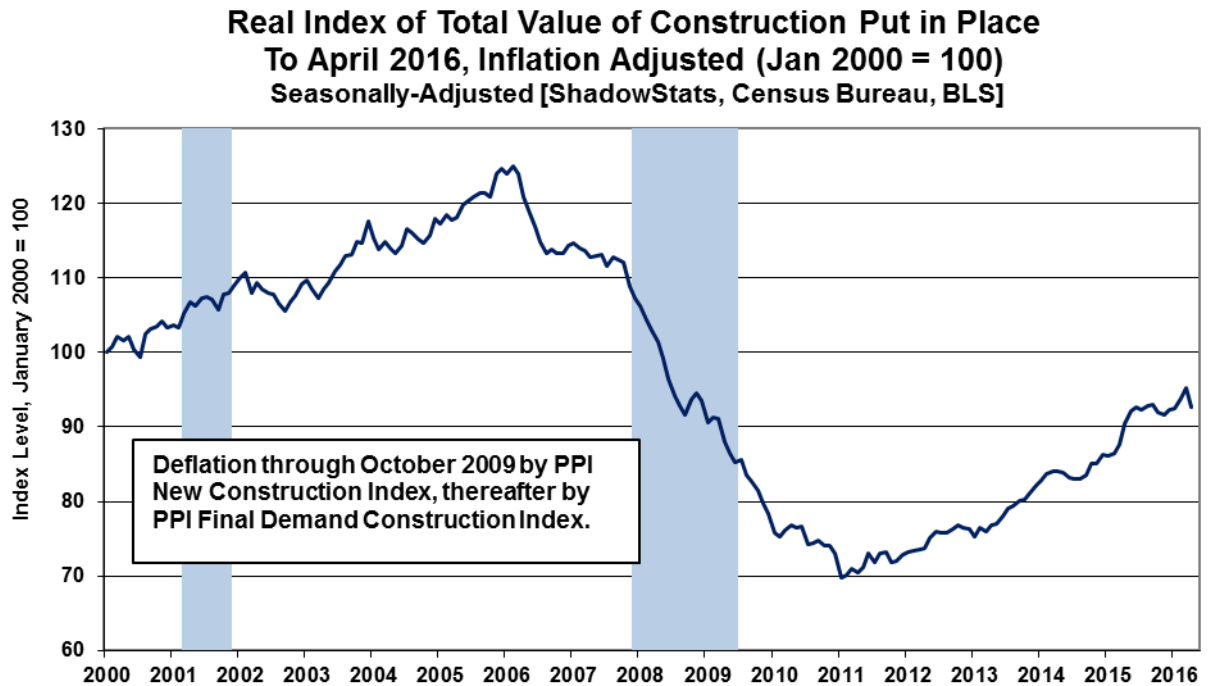
Quarterly Trends. As currently reported, but subject to the July 1st benchmark revisions, fourth-quarter 2015 real construction spending contracted at an annualized quarterly pace of 2.7% (-2.7%), following annualized quarterly real gains of 4.1% in third-quarter 2015, 25.0% in second-quarter 2015, and 6.0% in first-quarter 2015.

Reflecting revisions to February and March 2016 detail, first-quarter 2016 real construction spending rose at a revised annualized pace of 8.3% [previously up by 5.3%]. Based solely on the unstable April 2016 reporting, the early trend for second-quarter 2016 activity was for an annualized quarterly contraction of 4.7% (-4.7%), an early negative indication for second-quarter 2016 GDP activity.

Graph 32: Total Nominal Construction Spending



Graph 33: Index of Total Real Construction Spending



Graphs 14 to 17 in the *Opening Comments* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public-construction. Again, seen after adjustment for inflation, the real aggregate series has remained in low-

level stagnation into second-quarter 2016, with some short-lived fluttering in early-2016. Areas of recent relative real strength in all of the major subcomponents have flattened out, or turned down, after inflation adjustment.

The general pattern of real activity had been one of low-level, but up-trending stagnation. Again, that uptrend, however, largely has flattened out, allowing for some short-term fluttering. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 32* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 33*. *Graphs 35* and *36* show the relative patterns of nominal and real activity aggregated by sector.

PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary series, again, all as shown in *Graphs 14* to *17* in the *Opening Comments* and in accompanying *Graph 36*.

The previously-used New Construction Index (NCI) in the PPI was so far shy of reflecting construction costs as to be virtually useless. Although closely designed to match this construction-spending series, the FDCI and subsidiary numbers have two problems. First, the historical data only go back to November 2009. Second, they generally still understate actual construction inflation. Private surveys tend to show higher construction-related inflation than is reported by the government. For example, year-to-year inflation reflected in the privately-published Building Cost Index and Construction Cost Index [Dodge Data and Analytics (McGraw Hill) [Engineering News-Record](#)] usually runs well above the headline pace of annual inflation in the PPI's Final Demand Construction Index.

Where, the current annual PPI construction-inflation measure briefly and recently had moved to about even with, if not somewhat higher than the private-sector measures, it has fallen significantly below them in the latest detail by a couple of hundred basis points.

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 and subsidiary series thereafter.

Seasonally-adjusted April 2016 FDCI month-to-month inflation rose by 0.79%. That followed a headline monthly gain of 0.09% in March 2016, which had been the first month-to-month increase in five months. In terms of year-to-year inflation, the April 2016 FDCI was up by 1.87%, versus 1.07% annual inflation in March 2016, on both a seasonally-adjusted and unadjusted basis.

April 2016 headline inflation for government-funded construction rose by 0.62%, having gained 0.09%, in March, while it rose by 1.87% year-to-year in April 2016, versus an annual gain of 1.34% in March 2016, seasonally adjusted. Unadjusted, April and May annual gains respectively were 1.78% and 1.43%. Separately, inflation for privately-funded construction rose year-to-year by 0.88% in April 2016, having been “unchanged” at 0.00% in March 2016, with year-to-year inflation at a positive 1.88% in April 2016, versus 0.89% in March 2016, on both an adjusted and unadjusted basis.

Headline Reporting for April 2016. The Census Bureau reported June 1st, in the context of a sharp upside revision to March 2016 spending [the level of spending was raised by 1.6%], and an upside revision to February 2016 [the level of spending was raised by 0.4%], the headline, total value of

construction put in place in the United States for April 2016 was \$1,133.9 billion, on a seasonally-adjusted, but not-inflation-adjusted, annual-rate basis. That estimate was down month-to-month by a statistically-significant 1.8% (-1.8%) +/- 1.5% (all confidence intervals are at the 95% level), versus the upwardly-revised March 2016 level of \$1,155.1 [previously \$1,137.5] billion. Net of prior-period revisions, the headline April 2016 change would have been a month-to-month decline of 0.3% (-0.3%).

March 2016 month-to-month spending was up by a revised 1.5% [previously up by 0.3%], versus an upwardly revised \$1,137.0 billion [previously \$1,133.6, initially \$1,144.0] billion in February 2016. In turn, February 2016 month-to-month spending was up by a revised 1.4% [previously up by 1.0%] versus an unrevised \$1,122.0 billion level in January 2016.

Adjusted for FDCI inflation (monthly inflation turned positive in March and sharply higher in April), total real monthly spending in April 2016 fell by 2.6% (-2.6%), versus monthly gains of 1.4% in March and 1.5% in February.

On a year-to-year annual-growth basis, April 2016 nominal construction spending rose by a statistically-significant 4.5% +/- 1.9%, versus an upwardly revised annual gains of 9.7% [previously up by 8.0%] in March 2016, and 8.9% [previously up 8.5%] in February 2016. Net of construction costs indicated by the FDCI, the year-to-year gain in total real construction spending was 2.6% April 2016, 8.5% in March 2016 and 8.5% in February 2016.

The statistically-significant, headline month-to-month nominal decline of 1.8% (-1.8%) in aggregate April 2016 construction spending, versus a gain of 1.5% in aggregate March 2016, included a headline monthly drop of 2.8% (-2.8%) in April public spending, versus a 0.6% (-0.6%) decline in March. Private spending fell by 1.5% month-to-month in April, following a 2.3% gain in March. Within total private construction spending, the residential sector fell by 1.5% (-1.5%) in April, following a gain of 3.2% in March, while the nonresidential sector also fell by 1.5% (-1.5%) in April, following a 1.3% gain in March.

Construction and Related Graphs. Earlier *Graphs 32* and *33*, and later *Graphs 35* and *36* reflect total construction spending through April 2016, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 31* 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 (FDCI) thereafter, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014 and then some boost into early-2015. Activity declined in fourth-quarter 2015, with an early-2016 fluttering trend.

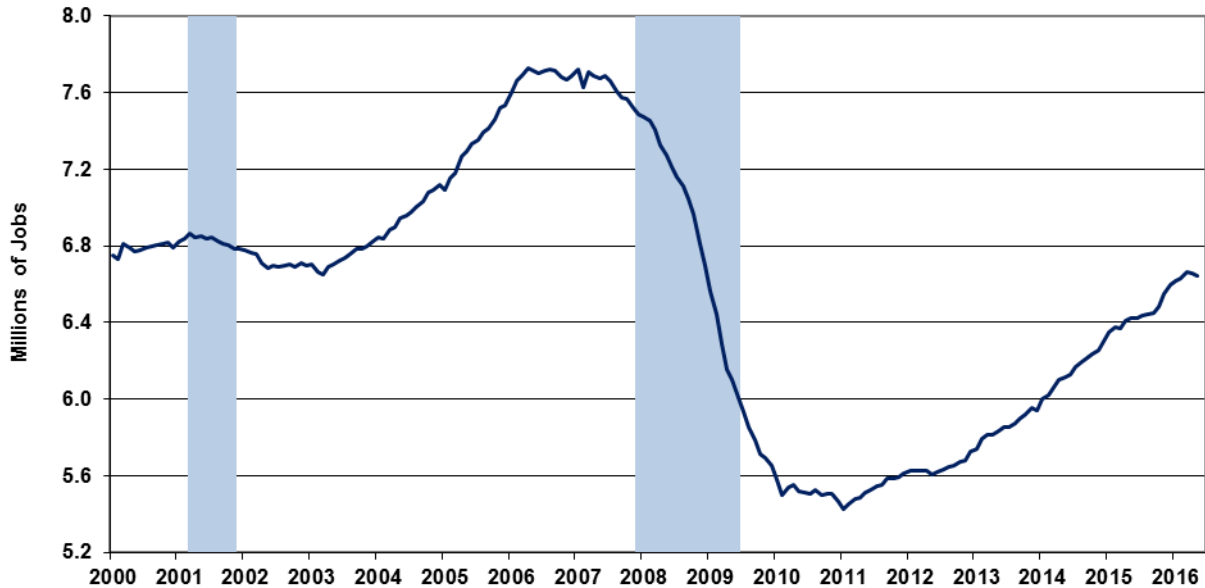
The pattern of non-recovered, inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see prior [Commentary No. 809](#) and [No. 777 Year-End Special Commentary](#)). To the contrary, the latest broad construction reporting, both before (nominal) and after (real) inflation adjustment, generally still shows a pattern of low-level activity, where aggregate activity never recovered pre-recession highs and has flattened-out anew, turning lower in fourth-quarter 2015, but trending minimally to the upside in 2016.

Graph 34 shows May 2016 construction employment, as discussed and detailed in the earlier *Payroll Employment* section. 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. Where construction payrolls had shown increasing strength at the same time that broad construction activity—measured in terms of units or in real, inflation-adjusted dollars—generally had begun to slow, flatten-out or turn down anew, the various series likely will be moving lower, in tandem together, in the near term.

Graph 34: Construction Payroll Employment to Date

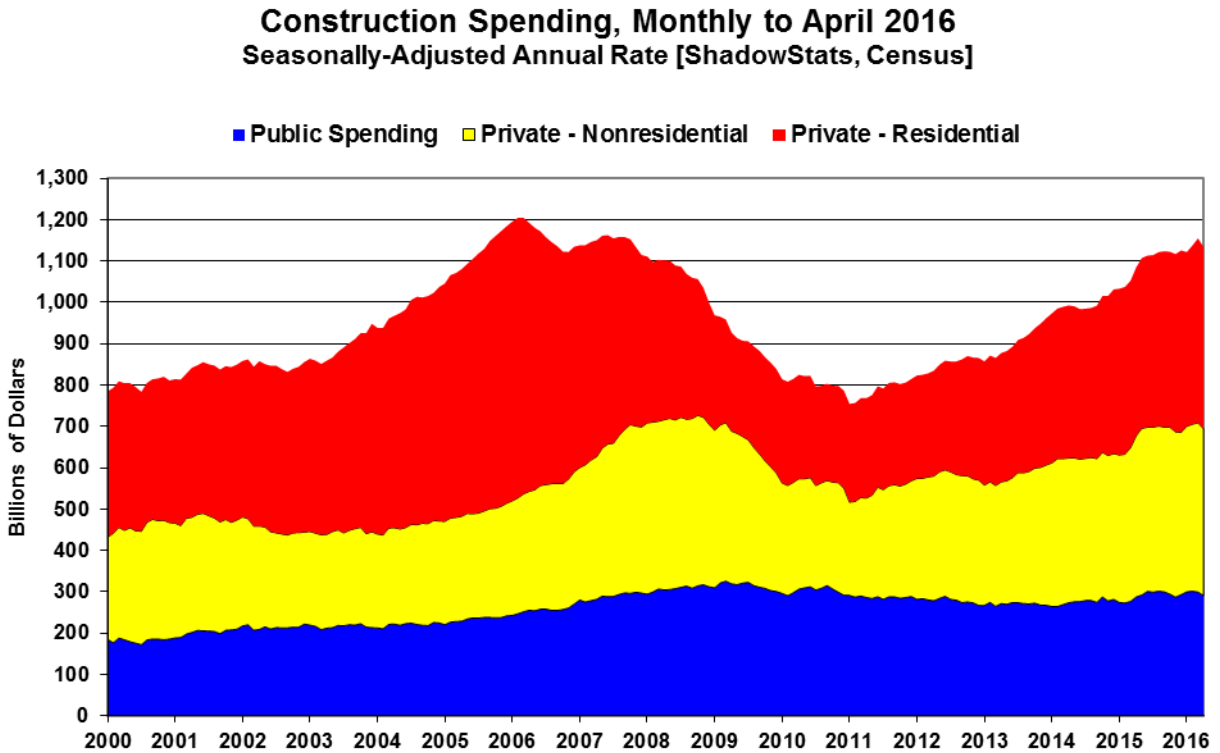
Construction Payroll Employment to May 2016
 Seasonally-Adjusted [ShadowStats, BLS]



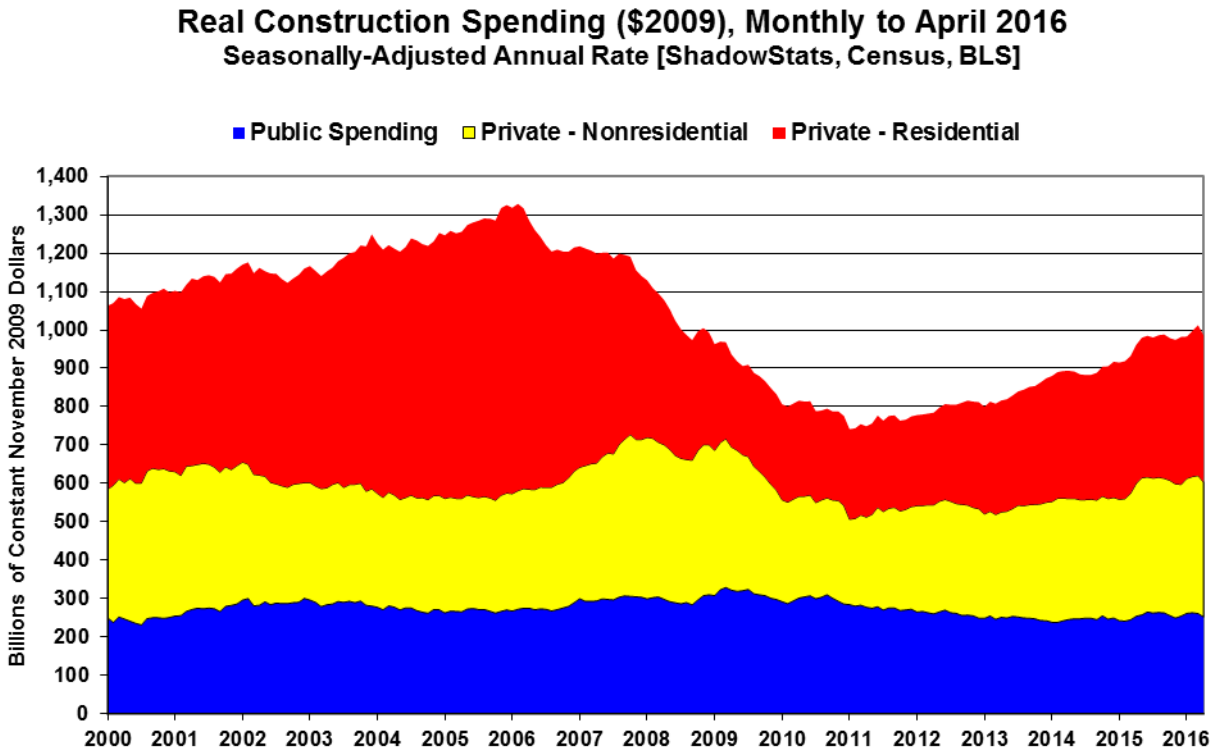
Graph 35 shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 36* shows the same breakout by sector as in *Graph 35*, but the detail is in real, inflation-adjusted terms, reflected in constant November 2009 dollars, deflated by the final-demand PPI inflation measure for construction, as discussed otherwise in the earlier *PPI Final Demand Construction Index* section.

[Graphs 35 and 36 follow on the next page.]

Graph 35: Aggregate Nominal Construction Spending by Major Category to Date



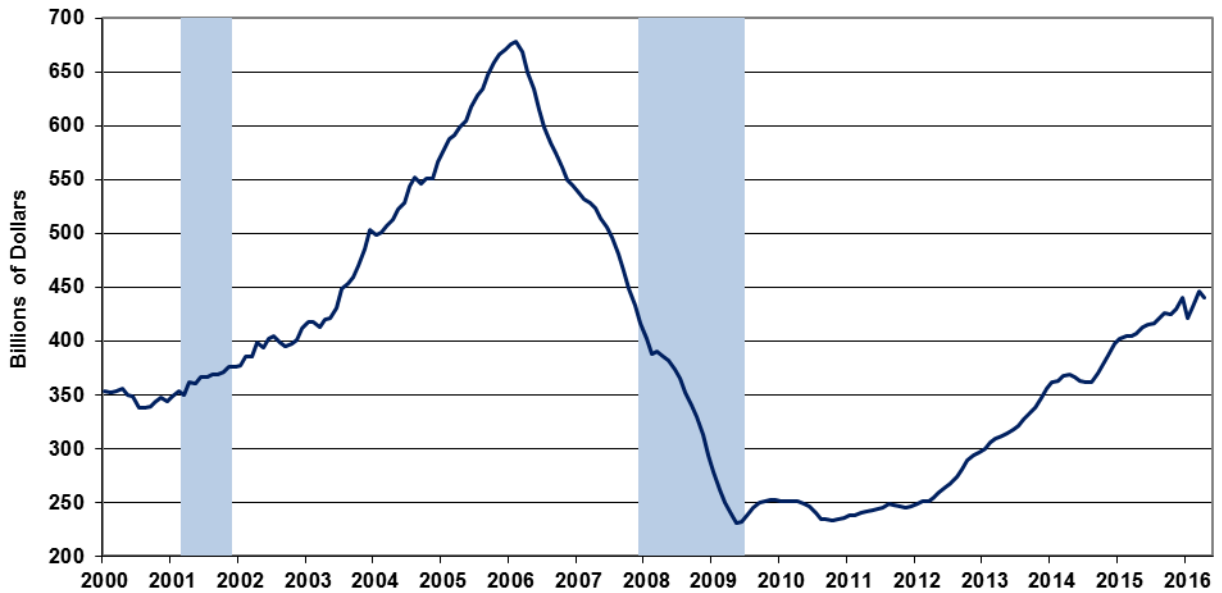
Graph 36: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



The next two graphs (*Graphs 37 and 38*) cover private residential construction along with housing starts (combined single- and multiple-unit starts) for April 2016 (see [Commentary No. 807](#)).

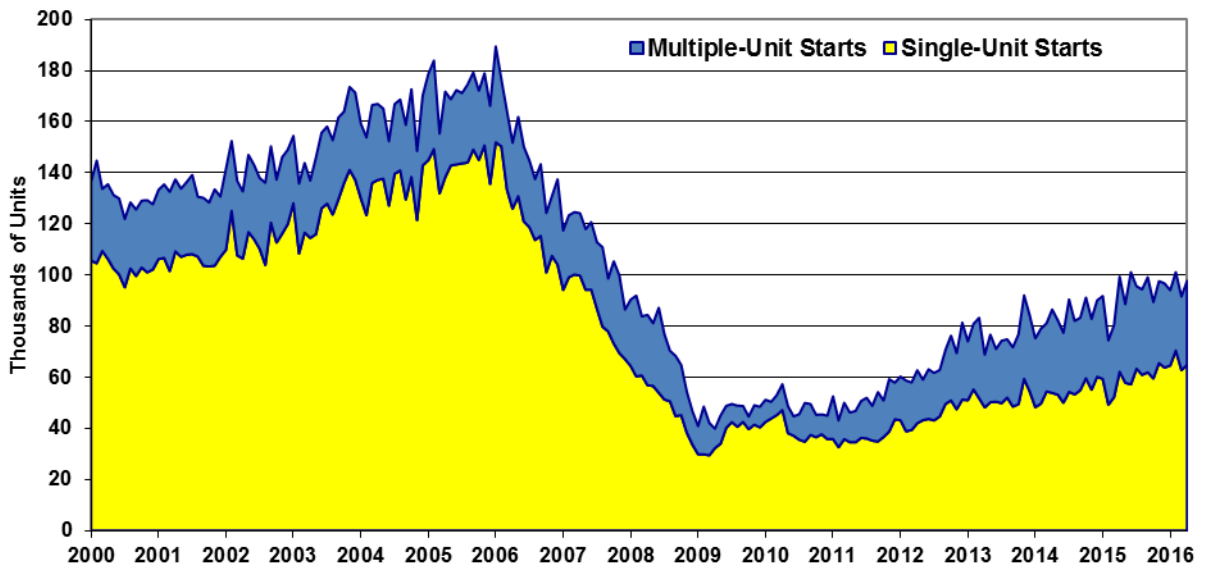
Graph 37: Nominal Private Residential Construction Spending to Date

Private Residential Construction to April 2016
 Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Graph 38: Single- and Multiple-Unit Housing Starts to Date

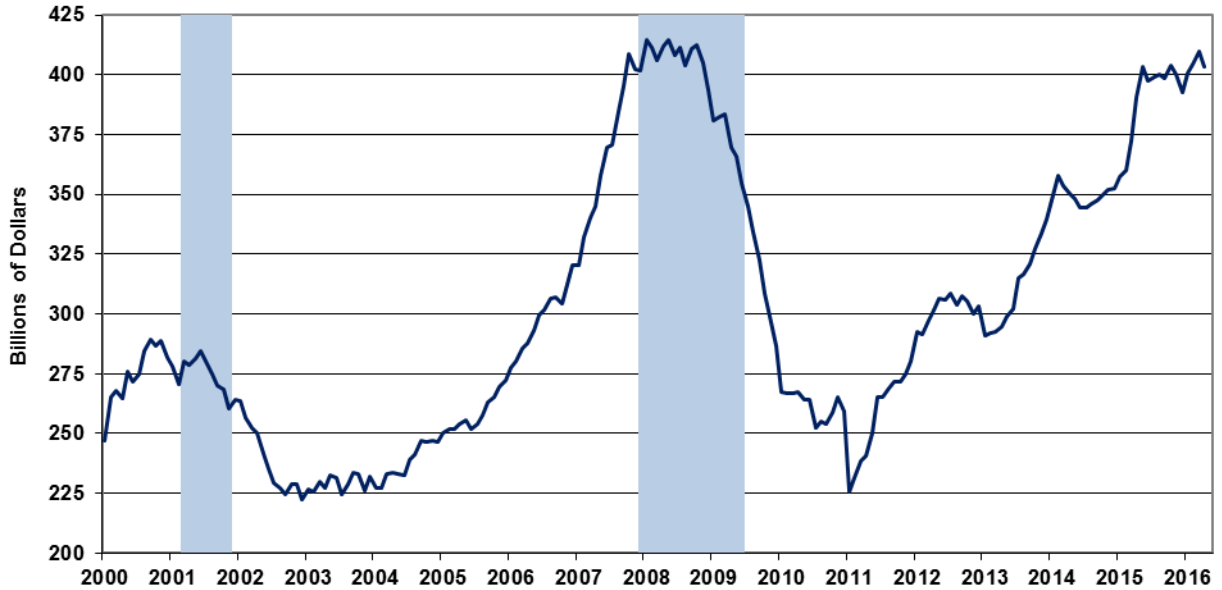
Revised Single- and Multiple-Unit Housing Starts (Monthly Rate)
 To April 2016, Seasonally-Adjusted [ShadowStats, Census]



Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 15* of the *Opening Comments* section, *Graph 36* and presumably with the headline construction-payroll data in *Graph 34*.

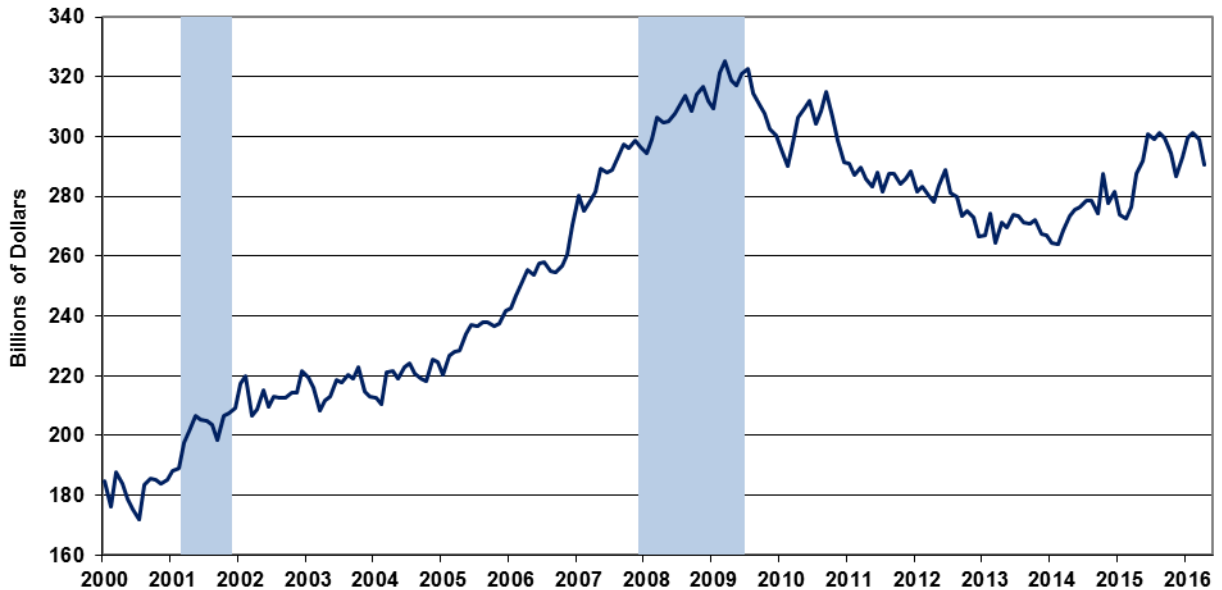
Graph 39: Nominal Private Nonresidential Construction Spending to Date

Private Nonresidential Construction to April 2016
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Graph 40: Nominal Public Construction Spending to Date

Public Construction to April 2016
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



The final two graphs (*Graphs 39 and 40*) 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 spiked in the absurd upside March 2016 revision, turning lower in April, despite sharply rising monthly inflation.

Public construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016, the series still appears to be fluttering in something of a topping-out process, turning lower, shy of its pre-recession peak. Viewed net of inflation, in *Graphs 16, 17 and 36*, indeed, both series appear stalled shy of their pre-recession peaks.

WEEK AND MONTH AHEAD

There Are No Major Economic Releases Scheduled for the Week Ahead

Economic Deterioration Should Intensify, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and continuing Fed-policy waffling in the weeks and months ahead. The broad trend in weakening expectations for business activity, and in movement towards looming recession recognition, continues, as discussed in today's *Opening Comments*, [Commentary No. 809](#), [Commentary No. 808](#), [Supplemental Commentary No. 807-A](#), [Commentary No. 807](#), [Commentary No. 806](#), [Commentary No. 805](#), [Commentary No. 804](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796-A](#), [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

In response to perpetual non-recovery and an intensifying downtrend in underlying economic activity, negative market reactions generally have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices—although market activity is somewhat mixed on oil at the moment—as discussed in [Commentary No. 807](#) and [Commentary No. 799](#). These reactions reflect, at least in part, an intensifying sense of Federal Reserve impotence, despite any near-term games being played by the U.S. central bank. Further tightening by the Fed before the election remains unlikely—despite the continued “good cop” versus “bad cop” routine being used by Fed officials at the moment with the investment community—and despite a now-faltering chorus of “rates are going up in June,” renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds in the next several months.

Increasingly-weak headline reporting of the regular monthly economic numbers should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), as seen with the initial reporting of the first-quarter 2016 contraction in the Gross National Product (GNP)—the broadest measure of U.S. economic activity—as reported in [Commentary No. 809](#).

Such includes reasonable odds of a reported outright quarterly contraction in first-quarter 2016 GDP in the June 28th second monthly revision, as well as pending, meaningful downside revisions to GDP history (including likely headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29, 2016 annual GDP benchmark revisions.

Consistent with the relatively neutral benchmark revisions to retail sales and housing starts, and in line with recent sharp downside revisions to industrial production, durable goods orders, and the annual revisions to the real merchandise-trade deficit and likely negative benchmark revisions to construction spending next month, expectations for the GDP benchmarking also should fall sharply. Discussed in the *Opening Comments* upside redefinitions to the service-sector trade surplus could have some minimal upside revision impact pre-2015. Nonetheless, that GDP benchmarking now appears to be the most-likely point at which the elements for a “formal” recession call will be in full play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline March and April 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise further in May and likely going forward, still boosted by a weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Fundamental reporting issues with the headline CPI also are discussed here: [Public Commentary on Inflation Measurement](#).

Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last nine-to-eleven years—have 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). That has been discussed and explored in the labor-numbers related [Supplemental Commentary No. 784-A](#) and [Commentary No. 695](#).

Further, discussed in [Commentary No. 778](#), a heretofore unheard of spate of “processing errors” surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government’s headline economic reporting. At the same time, it indicates an openness of the involved statistical agencies in revealing the reporting-quality issues.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown

into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see [Commentary No. 669](#)). John Crudele of the *New York Post* continues his investigations in reporting irregularities: [Crudele Investigation](#).
