

COMMENTARY NUMBER 819
June Employment and Unemployment, Money Supply M3
July 8, 2016

**Headline Month-to-Month Payroll and Unemployment Data Are Rubbish,
Heavily Skewed by Inconsistent and Not-Comparable Seasonal Adjustments**

**Private Surveying Shows Plunging Employment Circumstances
Last Seen During the 2009 Economic Collapse**

**June 2016 Unemployment Rates: U.3 Rose to 4.9%, but
U.6 Notched Lower to 9.6% and the ShadowStats-Alternate Rate Eased to 22.9%**

The Fed Will Not Buy These Numbers, Legitimately

**Annual M3 Growth Jumped to 4.5% in June 2016, from 4.3% in May;
While the Monetary Base Shrank a Bit**

PLEASE NOTE: The next regular Commentary, scheduled for Friday, July 15th, will cover June 2016 Industrial Production, Nominal and Real Retail Sales and the Consumer and Producer Price Indices (CPI and PPI). Given the amount of new material being released on the 15th, that Commentary likely will be late day and could go overnight.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Deliberate Nonsense Out of the Bureau of Labor Statistics. My unusually rough language on the Bureau of Labor Statistics (BLS) this month is intentional. For years, ShadowStats has highlighted how deliberate misreporting by that Bureau leaves month-to-month comparisons of the Household Survey (unemployment) data meaningless; they simply are not comparable. Beyond the monthly comparisons having no meaning, there is the occasional result where the headline details appear nonsensical. Such just happened in the consecutive month-to-month details for May and June 2016 unemployment.

In the headline May 2016 detail, U.3 unemployment plunged from 5.0% to 4.7% with 484,000 unemployed simply disappearing from the labor force, with no offsetting big surges in employment or marginally-attached workers. In the headline June 2016 detail, U.3 unemployment rose from 4.7% to 4.9%, with the number of unemployed surging by 347,000, but with no offsetting decline in employed, and despite a jump in marginally-attached workers. The story here is that the headline monthly numbers are not consistent. Each month's data are published with a set of seasonal adjustments unique to the headline month. While the last five years of the monthly data are recalculated with the new month's seasonal adjustments, they are not published on a comparable basis, even though the BLS has the consistent, seasonally-adjusted monthly data available internally.

The problem remains that back in December 2003, when the BLS introduced the use of [Concurrent Seasonal Adjustments](#) into its labor data, it decided not to publish historical data on comparable basis:

“With concurrent seasonal adjustment, the seasonal adjustment program is rerun each month as the latest CPS [Current Population Survey/Household Survey] data become available. The seasonal factors for the most recent month are produced by applying a set of moving averages to the entire data set, extended by extrapolations, including data for the current month. *While all previous month seasonally adjusted estimates are revised in this process, BLS policy is not to revise previous months' official seasonally adjusted estimates as new data become available during the year* [emphasis added]. Instead, revisions are introduced for the most recent 5 years of data at the end of each year [that leaves the monthly employment reporting consistent once per year, in December, for one month, until the next month's reporting revamps all the seasonal factors again].”

Why not publish the consistent monthly data, since it is available? The BLS explains:

“Numerous revisions during the year, however, should be avoided, because they tend to confuse data users and to increase publication costs substantially.”

Despite good intentions, the BLS's “new” approach to its concurrent seasonal adjustments was complicated and compromised by the U.S. economy plunging from 2007 into 2009. Consistent month-to-month declines heavily distorted the new seasonal-adjustment process, particularly the not-comparable published headline unemployment detail. Those issues and distortions appear to be surfacing anew, as economic activity and employment conditions again are in collapse. (See *Headline Distortions from*

Shifting Concurrent-Seasonal Factors in the *Reporting Detail* for further background and payroll-employment implications. Separately, *Graph 19* there provides some sense of the volatility in month-to-month revisions to the seasonal-adjustment factors).

Privately-Surveyed Employment Conditions Are Collapsing Anew, as Last Seen in 2009. Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board’s Help-Wanted Advertising Index was the most reliable leading indicator 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—such a strong leading relationship to broad activity has been less evident, but that likely reflects, at least partially, the significant deterioration seen in the quality of headline government economic data in the same period.

Available at the following link: [The Conference Board Help Wanted OnLine® \(HWOL\)](#) is published with consistent, seasonally-adjusted data. If you look at the numbers, you can note that both the new ads and continuing ads numbers are in year-to-year decline, as well as having taken particularly-sharp monthly hits in May and June 2016, patterns last seen with the economy collapsing into 2009.

Today’s Commentary (July 8th). The balance of these *Opening Comments* provides summary detail of the June labor-market conditions.

The *Hyperinflation Watch* includes the regular monthly review of monetary conditions, including the initial estimate of June 2016 annual growth in the ShadowStats Ongoing M3 Estimate. [Commentary No. 818](#), [Commentary No. 817](#), [Commentary No. 814](#), [General Commentary No. 811](#), [Commentary No. 799](#) and [No. 777 Year-End Special Commentary](#) provide background to the unfolding financial and systemic circumstances. The most-recent *Hyperinflation Outlook Summary* is found in [Commentary No. 783](#). These *Commentaries* will be updated and consolidated shortly in a new *Special Report*, once first half-2016 economic detail is in place.

The *Week and Month Ahead* previews next week’s releases of the CPI and PPI, nominal and real Retail Sales and Industrial Production, all for the month of June (second-quarter, first-half 2016).

Employment and Unemployment—June 2016—In Nonsense Reporting, Payroll Activity Remained Massively Overstated; Monthly Unemployment Details Remained Not Comparable. Underlying reality for June 2016 U.S. labor conditions was in the realm of a 22.9% broad unemployment rate, with the actual monthly payroll-employment change likely on the downside of flat.

The nonsensical but nearly “statistically-significant” gain in headline U.3 unemployment from 4.7% in May 2016 to 4.9% in June 2016, largely reversing the “statistically-significant” decline in the May U.3 rate to 4.7% from 5.0%, reflected not-comparable and meaningless month-to-month changes in the Household Survey data, as discussed in the preceding opening paragraphs of these *Opening Comments*.

The gimmicked, headline payroll change of 287,000, more realistically should have come in below zero, net of built-in upside biases, and allowing for a one-time surge of 35,000 returning Verizon workers, who were on strike during tabulation of the May 2016 detail.

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.

Payroll Survey Detail: Gains Remain Bloated and Inconsistent. In the context of downside prior-period revisions and 35,000 striking communication workers returning to work, the seasonally-adjusted, headline payroll gain for June 2016 was 287,000, still in the context of generally slowing annual growth.

That followed a downwardly-revised 11,000 jobs gain in May 2016, and a demonstrably false and not comparable, upwardly revised 144,000 gain in April 2016. Consistent headline detail shows the April gain to have been 126,000 (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*). Net of prior-period revisions, June 2016 payrolls rose by 281,000, instead of the headline 287,000.

Except for the revised 28-month low for May 2016, the not-seasonally-adjusted, year-to-year growth in June 2016 nonfarm payrolls tied a twenty-seven month low of 1.77% in April 2014. Such followed revised annual growth of 1.63% in May 2016, and revised annual growth of 1.87% in April 2016.

Construction employment generally revised lower, sinking in May and flat in June, generally consistent with slowing conditions in the housing and construction sectors, irrespective of recent upside annual revisions to those series.

Household Survey: Counting All Discouraged Workers, June 2016 Unemployment Notched Lower to 22.9%. 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 and 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 business 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*).

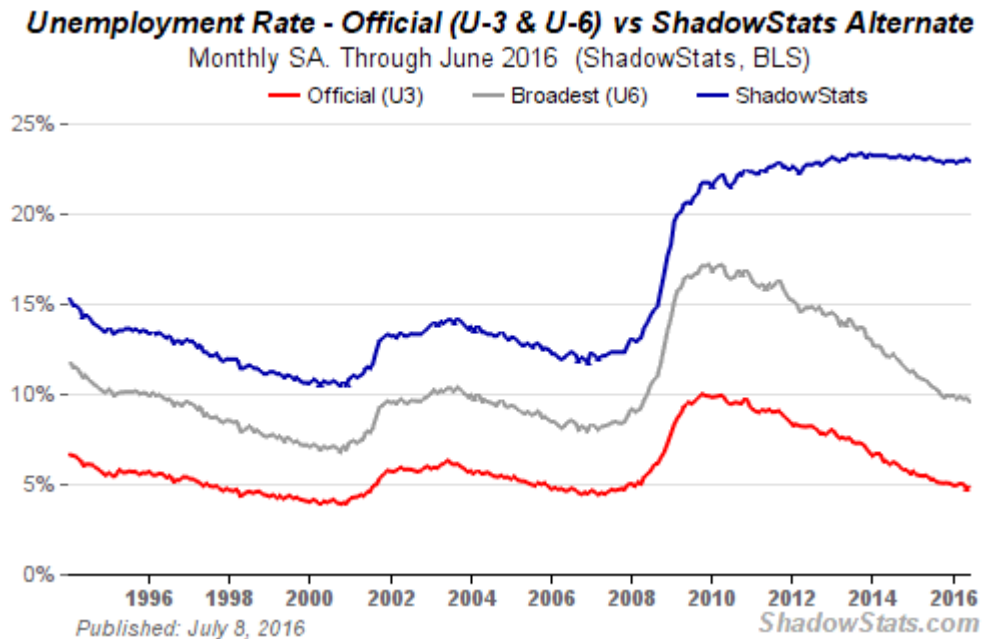
In the ongoing economic collapse into 2008 and 2009, and the non-recovery thereafter, the broad drop in the U.3 unemployment rate from its headline peak of 10.0% in 2009, to the June 2016 headline 4.9%, has been due largely to the unemployed giving up looking for work (common in severe economic contractions 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 that, much more so than the happier circumstance of the unemployed finding new and gainful employment.

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 by ShadowStats for political convenience (as is done after one year by the BLS), hence the longer-term divergence between the various unemployment rates. The resulting difference here is between headline-June 2016 unemployment rates of 4.9% (U.3) and 22.9% (ShadowStats).

Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats



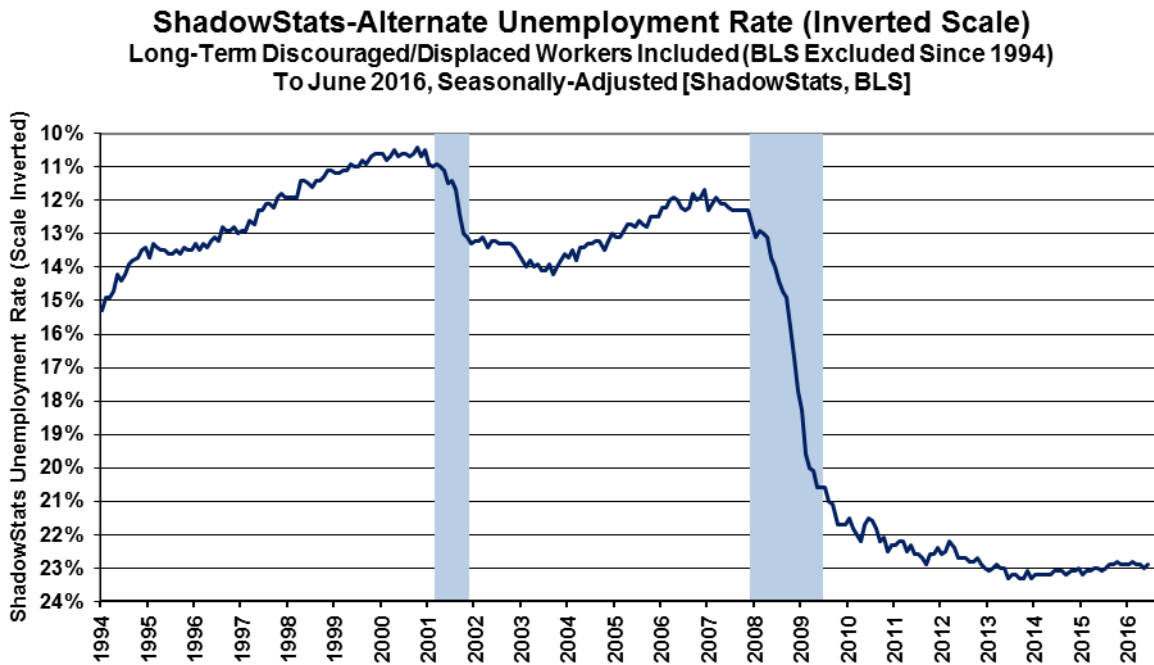
Graph 1 reflects headline June 2016 U.3 unemployment at 4.90%, versus 4.69% in May 2016; headline June 2016 U.6 unemployment at 9.56%, versus 9.73% May 2016; and the headline June 2016 ShadowStats unemployment estimate at 22.9%, versus 23.0% in May 2016.

Graphs 2 to 4 reflect longer-term unemployment and discouraged-worker conditions. Graph 2 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, May and June 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 3*. 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.

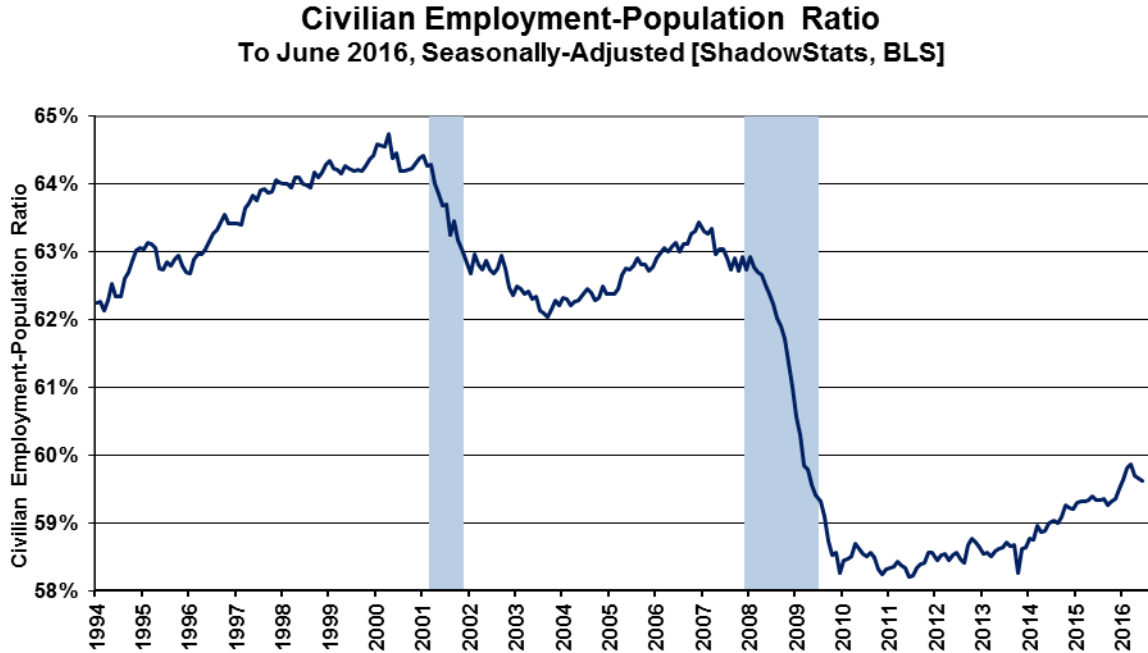
Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



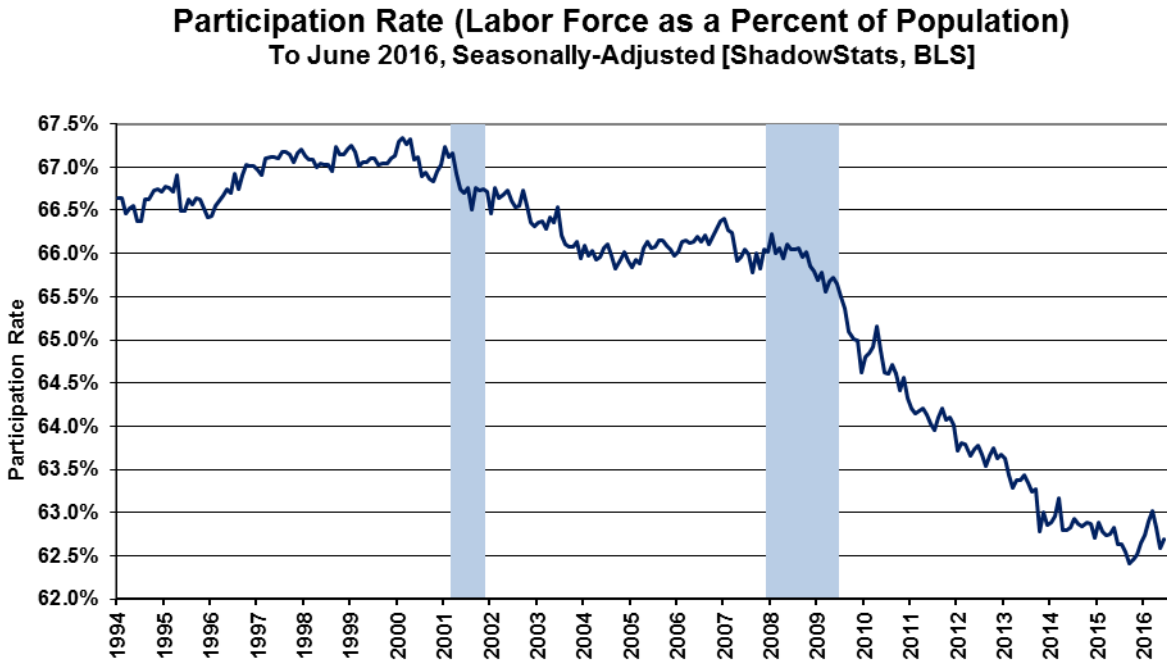
Shown in *Graph 4*, the June 2016 participation rate (the ratio of the headline labor force to the population) notched fractionally higher in June, having turned down in April and May. Both the near-term Employment-to-Population Ratio and the Participation Rate appear to have suffered near-term spikes 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 June 2016. Unadjusted ratios for these series had been running respectively about 0.2% below and 0.1% above the adjusted numbers, with the differences moving more to the upside in June.

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 changed little in June. The labor force used in the Participation-Rate calculation is the headline employment plus U.3 unemployment. As with *Graph 3* of employment-to-population, its holding near a post-1994 low in current reporting indicates problems with long-term discouraged workers. Their swelling ranks generally continue to shrink the headline (U.3) labor force, and the plotted ratio.

Graph 3: Civilian Employment-Population Ratio



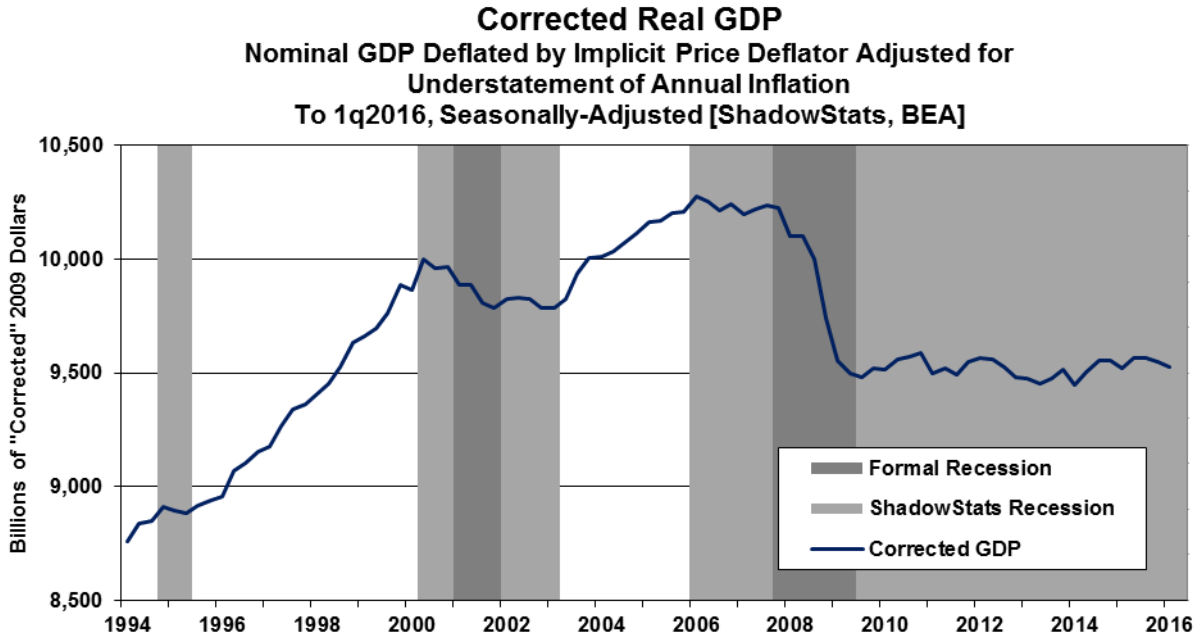
Graph 4: Participation Rate



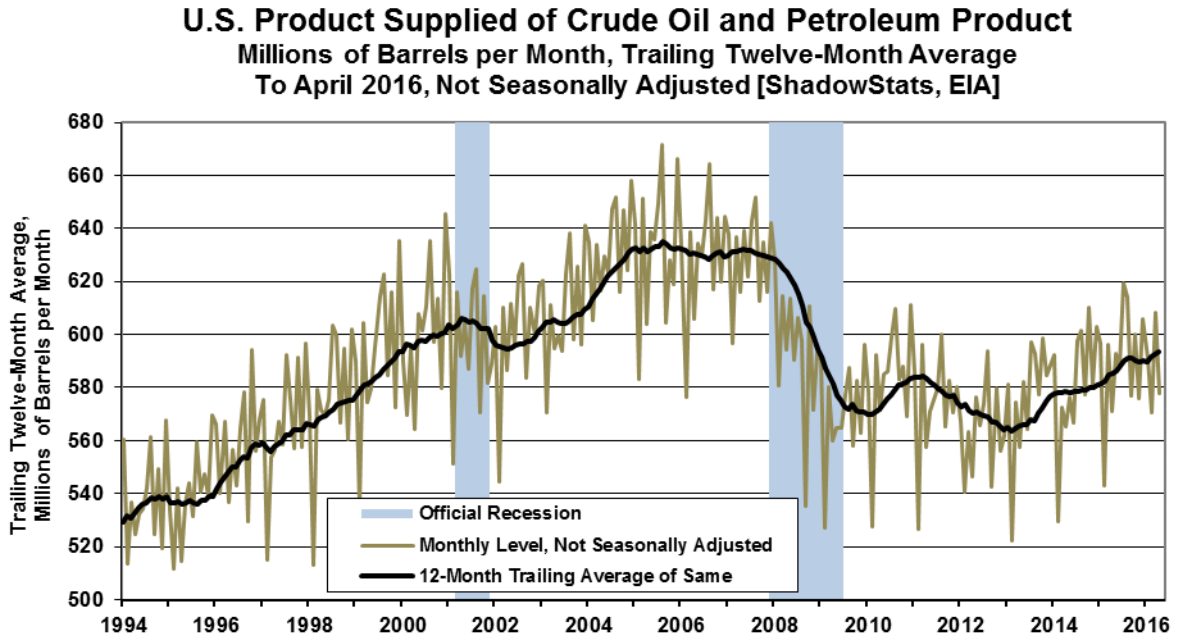
Graphs 1 through 4 reflect data available in consistent detail only back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with the June 2016 Household-Survey reporting simply are not available, irrespective of any protestations to the contrary by the BLS. Separately, consider Graph 5,

which shows the ShadowStats version of the GDP, also from 1994 but through the June 28th third 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. 817](#)).

Graph 5: Corrected Real GDP through 1q2016, Second Estimate

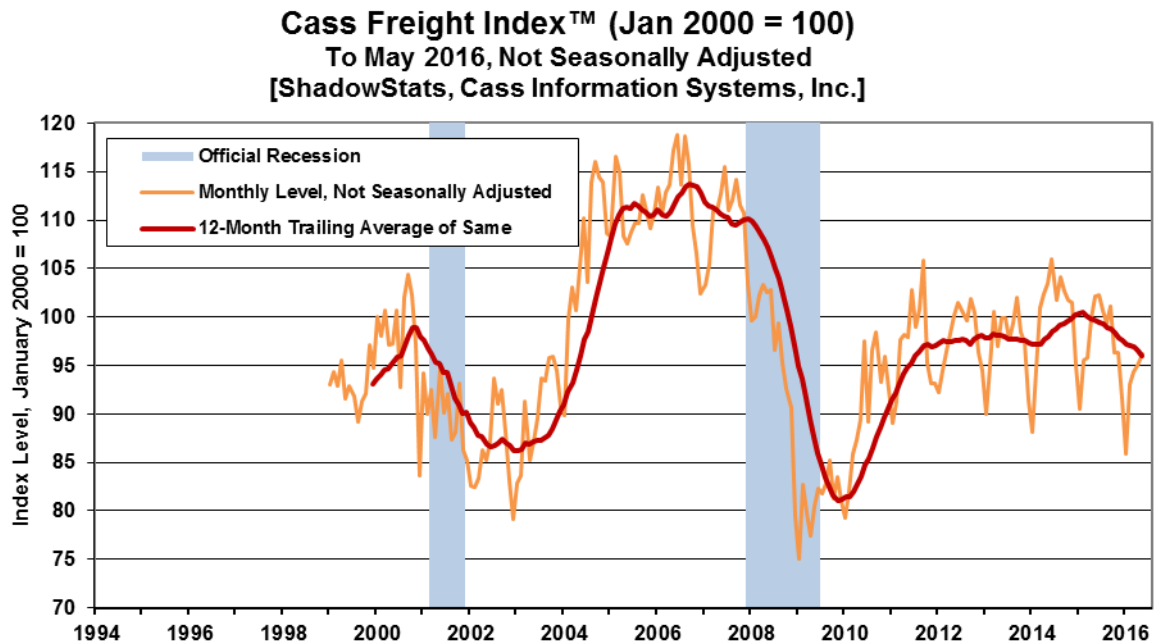


Graph 6: U.S. Petroleum Consumption to April 2016



ShadowStats also regularly publishes less-biased series from a variety of sources. Shown in *Graph 6*, 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](#) (EIA), Department of Energy, publishes this detail on a monthly basis.

Graph 7: CASS Freight Index for North America (2000 - 2016), Indexed to January 2000 = 100



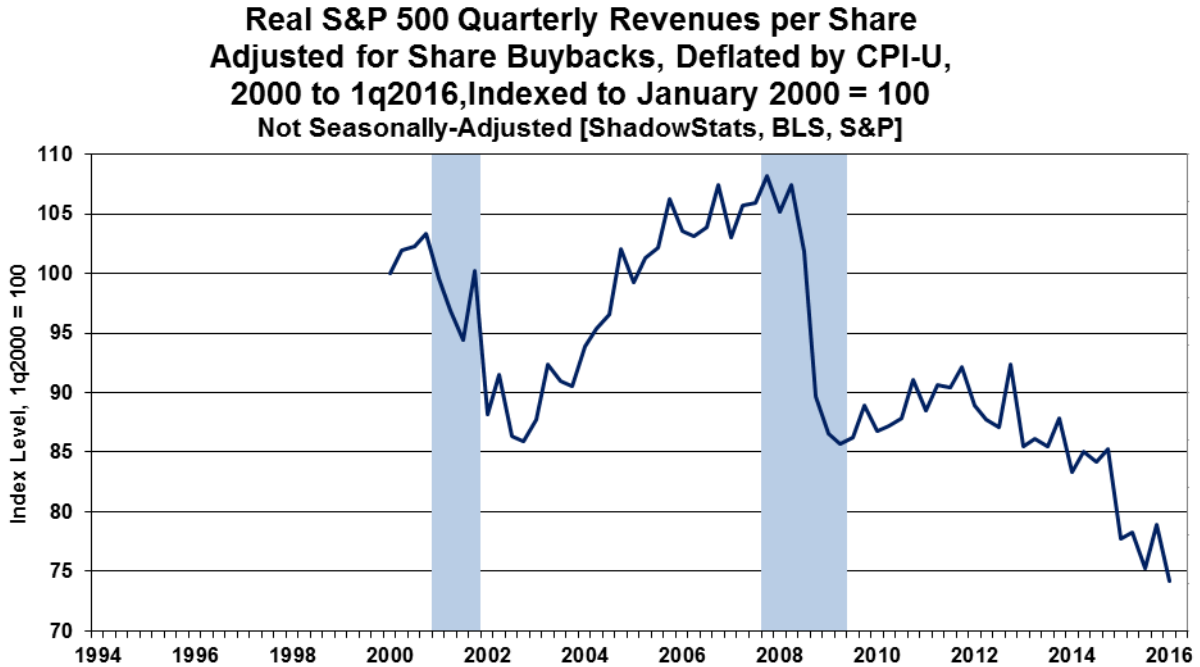
As with the CASS freight index (*Graph 7*), where the monthly data are not seasonally adjusted, ShadowStats has plotted the petroleum series using a trailing twelve-month average, through headline monthly detail of April 2016. The resulting smoothed pattern reflects the economic collapse into 2009, followed by a protracted period of variable, low-level stagnation, and an upside notch into March, flat in April 2016. In contrast, the CASS index currently (through May 2016) continues to turn down in its twelve-month trailing average, with deepening year-to-year contractions on a monthly basis (see [Commentary No. 816](#)). Introduced in [Commentary No. 782](#), the graphic detail on the [Cass Freight Index™](#), 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.

In particular, the broad patterns of activity seen in the weakened employment measures in *Graphs 2* and *3* generally are mirrored in *Graph 5* of the “corrected” GDP. They also are largely consistent with the post-1994 period shown in *Graph 6* of petroleum consumption, *Graph 7* of the CASS Freight Index and *Graph 8* of real S&P 500 revenues, as estimated for the impact of share buybacks, previously published in [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

Graph 8 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 2* to *6*. A similar re-plotting of the monthly time scale

was used for the freight index detail in *Graph 7*. Of note, unlike *Graphs 2 to 5*, *Graphs 6 to 8* are not seasonally adjusted, although the primary plots in *Graphs 6 and 7* 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 2 to 4, 6 and 7*) or quarterly (as seen in *Graphs 5 and 8*).

Graph 8: 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 June 2016 unemployment rate (U.3) rose to 4.9%, versus 4.7% in May. At the second decimal point, the headline June 2016 U.3 was 4.90%, up from 4.69% in May. Formally, the 0.21% increase in June U.3 was nearly statistically-insignificant, while the 0.29% (-0.29%) decline in May the unemployment rate, versus 4.98% in April, technically was considered statistically-significant. That is nonsense, though, given that the monthly numbers are reported on an inconsistent basis and are not comparable with each other (see the opening paragraphs).

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate rose to 5.08% in June 2016, from 4.54% in May 2016.

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 June 2016 (never seasonally-adjusted) declined by 36,000 (-36,000) to 502,000, while the total, short-term marginally-attached discouraged workers rose

by 66,000 to 1,779,000 in June. 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 an increase in the seasonally-adjusted U.3 unemployment rate, and a jump in the count of marginally-attached workers, a plunge of 587,000 (-587,000) in the adjusted number of people working part-time for economic reasons caused the headline June 2016 U.6 unemployment to ease to 9.56% from 9.73% in May. The unadjusted U.6 unemployment rate rose to 9.91% in June 2016, versus 9.44% in May 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 June 2016 was 22.9%, versus 23.0% in May 2016. The June 2016 reading was down by 40 basis points or 0.4% (-0.4%) from the 23.3% series high last seen in December 2013.

In contrast, the June 2016 headline U.3 unemployment reading of 4.9% was down by 510 basis points or 5.1% (-5.1%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.6% in June 2016, was down from its April 2010 peak of 17.2% by 760 basis points or 7.6% (-7.6%).

[The Reporting Detail section contains significant additional analysis and graphs.]

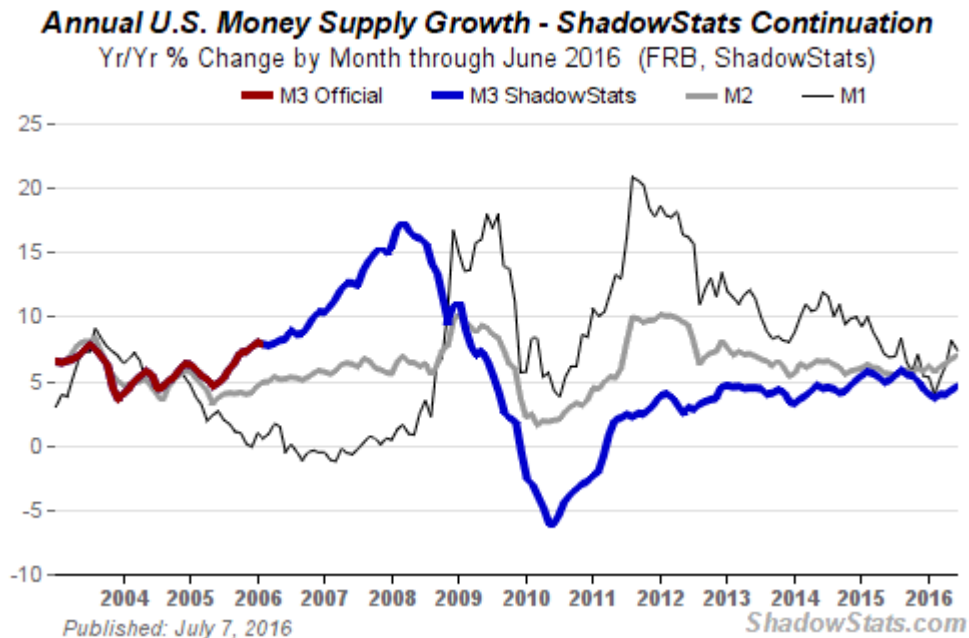
HYPERINFLATION WATCH

MONETARY CONDITIONS

June 2016 Annual M3 Growth Rose to 4.5% from 4.3% in May. ShadowStats Ongoing M3 Money Supply annual growth rose to 4.5% in June from a revised 4.3% in May 2016 and against a two-year low of 3.7% in February 2016. M1 and M2 year-to-year growth rates were mixed in June, with M2 rising at a 7.0% annual pace, versus an unrevised 6.8% in May, with M1 annual growth slowing to 7.5% in June, versus a revised 8.2% in May. Such M3 growth would be considered on the brink of being “inflationary.”

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 4.5% in June, up from a revised 4.3% [previously 4.2%] in May 2016, a revised 4.0% [previously 3.9%] in April 2016, 3.9% in March 2016 and versus a two-year low of 3.7% in February 2016. The annual change had been in continual month-to-month slowing into February 2016, since the near-term peak annual growth of 5.9% in August 2015, as seen in *Graph 9*. On a month-to-month basis, June 2016 M3 rose by 0.6% versus May, which was up by an unrevised 0.4% versus April, which in turn was by 0.3% from March. Note in particular the relative surge of M1 annual growth in *Graph 9*, where M1 basically is cash-in-hand and checking accounts.

Graph 9: Comparative Money Supply M1, M2 and M3 Year-to-Year Changes through June 2016



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.

Following are initial estimates of June 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 June 2016 M3, M2 and M1, and for earlier periods are available on the [Alternate Data](#) tab of www.ShadowStats.com.

Annual M2 growth in June 2016 rose to 7.0%, from 6.8% in May 2016 and 6.4% in April 2016, with a month-to-month increase of 0.6% in June 2016, versus a revised gain of 0.6% [previously 0.7%] in May and an unrevised gain of 0.7% in April.

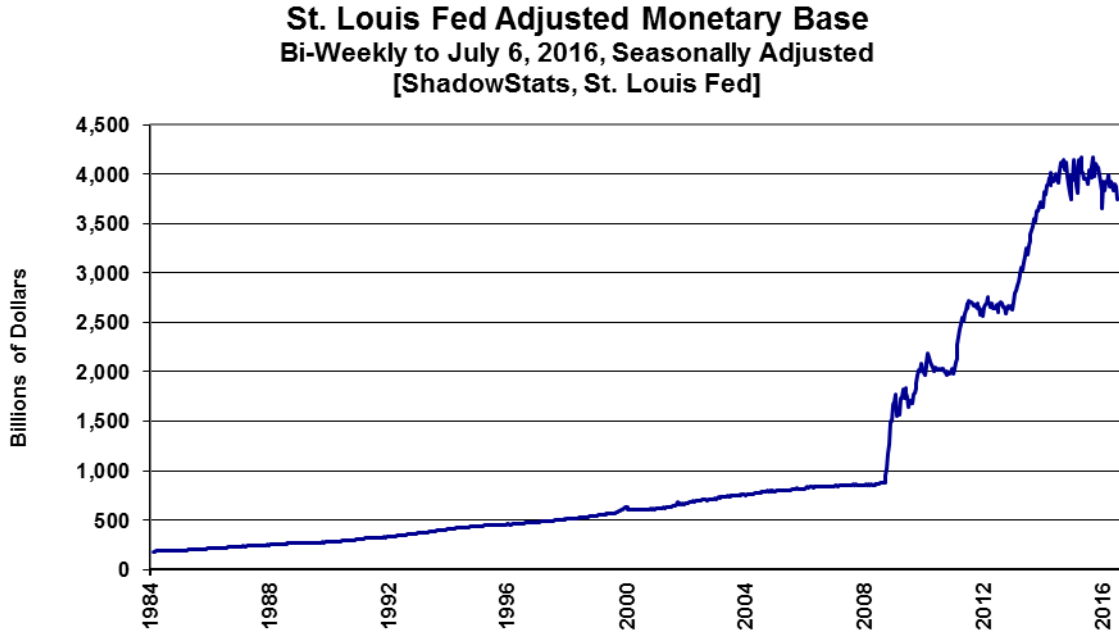
For M1, year-to-year growth eased back slightly to 7.5% in June 2016, from a revised 8.2% [previously 8.7%] in May 2016 and an unrevised 6.3% in April 2016, with a month-to-month 0.2% increase in June, versus a revised 1.6% [previously 2.1%] increase in May and an unrevised revised 1.1% in April.

Monetary Base Has Backed Off Recent High Levels, in the Context of the Fed Shying Away from Continued, Imminent Rate Hikes. In continuing follow-up to earlier [Commentary No. 810](#), [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 to have stabilized, although the annual change and level have been shifting increasingly to the soft side, following the December 2015 rate hike. Subsequently, the Fed did not raise rates as planned in March, with no further action likely now until after the November election. With the U.S. economy turning down anew, some form of expanded quantitative easing could be seen, as discussed in [Commentary No. 818](#).

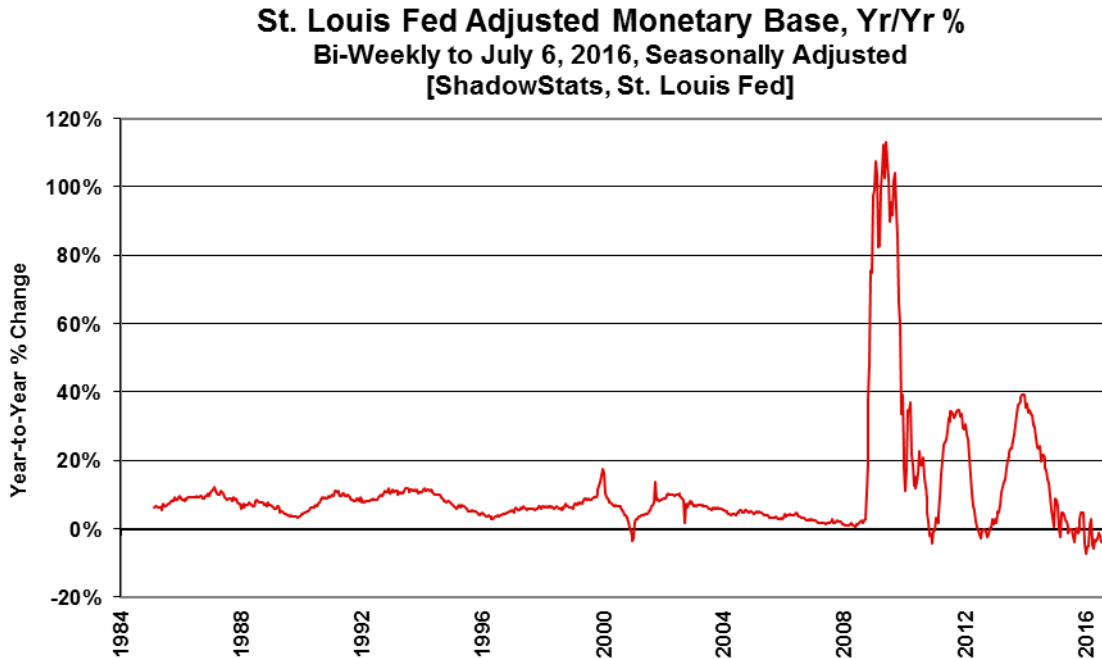
Graphs 10 and 11 show reporting of the St. Louis Fed's Monetary Base through the two-week period ended July 7th, with a level of \$3.743 trillion, versus \$3.873 trillion as of June 22nd. Year-to-year change showed a decline of 4.1% (-4.1%) in the latest period, versus an annual decline of 2.0% (-2.0%) 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 most recent measure 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 has been broken twice, and on the downside. The first was 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. Those lower limits have just been broken again, with the latest headline reporting.

Graph 10: Monetary Base Level, Bi-Weekly through July 6, 2016



Graph 11: Monetary Base, Year-to-Year Percent Change, through July 6, 2016



REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (June 2016)

In Nonsense 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 June 2016 U.S. labor conditions was in the realm of a 22.9% broad unemployment rate, with the actual monthly payroll-employment change likely on the downside of flat.

The nonsensical but nearly “statistically-significant” gain in headline U.3 unemployment from 4.7% in May 2016 to 4.9% in June 2016, largely reversing the “statistically-significant” decline in the May U.3 rate to 4.7% from 5.0%, reflected not-comparable and meaningless month-to-month changes in the Household Survey data, as discussed in the opening paragraphs of the *Opening Comments*.

The gimmicked, headline payroll change of 287,000, more realistically should have come in below zero, net of built-in upside biases, and allowing for a one-time surge of 35,000 returning Verizon workers who were on strike during tabulation of the May 2016 detail.

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 Bureau of Labor Statistics (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.

PAYROLL SURVEY DETAIL. This morning, July 8th, the Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for June 2016. In the context of downside prior-period revisions and 35,000 striking communication workers returning to work, the seasonally-adjusted, headline payroll gain for June 2016 was 287,000 +/- 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 11,000 [previously 38,000] gain in May 2016, and a demonstrably false and not comparable, upwardly revised 144,000 [previously up by 123,000, initially a 160,000] gain in April 2016. Consistent headline detail shows the April gain to be 126,000 (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*). Net of prior-period revisions, June 2016 payrolls rose by 281,000, instead of the headline 287,000.

Except for the revised 28-month low for May 2016, the not-seasonally-adjusted, year-to-year growth in June 2016 nonfarm payrolls tied a twenty-seven month low of 1.77% in April 2014. Such followed

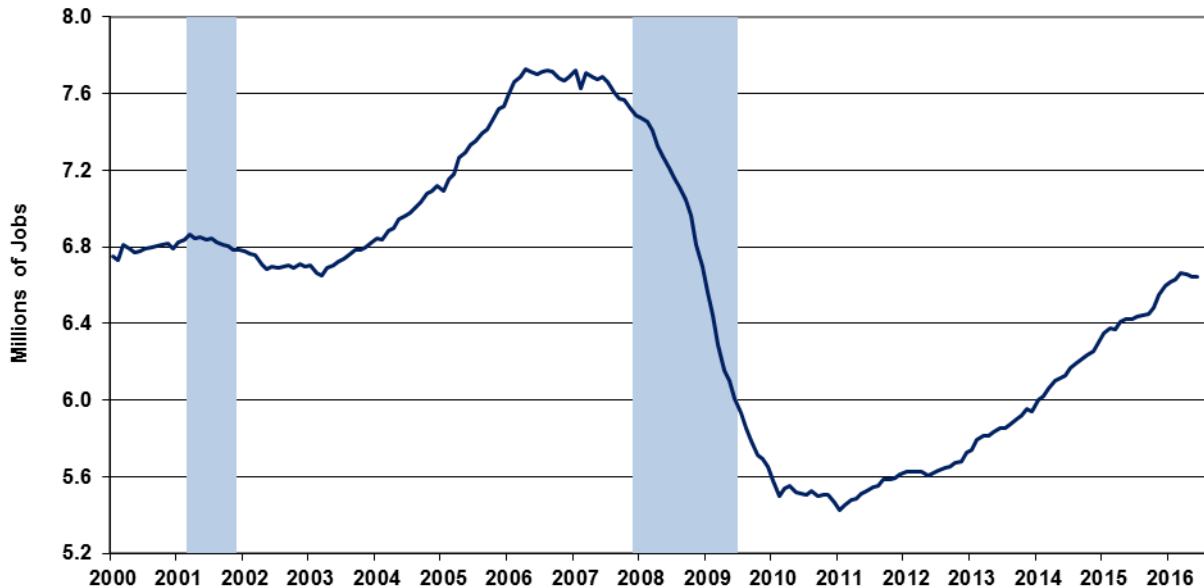
revised annual growth of 1.63% [previously 1.68%] in May 2016, and revised annual growth of 1.87% [previously 1.88%] in April 2016

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 Down and Flattened Out. Construction Payroll Employment growth held unchanged in June 2016 versus May 2016, in the context of prior-period downside revisions to May and April. 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). The following *Graph 11* updates *Graph 18* in the Construction Spending detail of prior [Commentary No. 818](#), for the headline June 2016 construction payroll-employment detail.

Graph 11: Construction Payroll Employment to June 2016

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



Headline month-to-month growth in construction employment was “unchanged” at 0.00% in June 2016, having declined by a revised 0.24% (-0.24%) [previously down by 0.23% (-0.23%)] in May 2016, following a revised decline of 0.09% (-0.09%) [previously down by 0.08% (-0.08%), initially “unchanged” at 0.01%] in April 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 been turning lower or stagnating, despite recent upside annual revisions.

The June 2016 construction-payroll level of 6.643 million was even with a downwardly-revised 6.643 [previously 6.645] million in May and down by 16,000 (-16,000) from a from a downwardly-revised 6.659 [previously 6.660, initially 6.670] million in April.

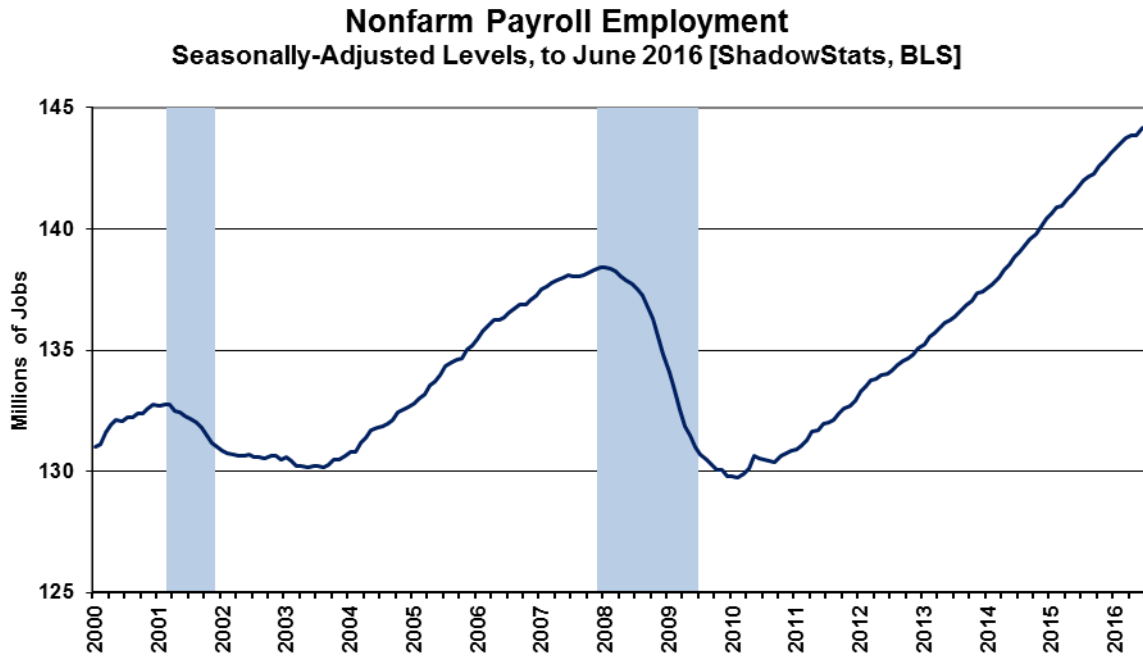
Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,400 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month).

Nonetheless, total June 2016 construction jobs remained down by 14.01% (-14.01%) from the April 2006 pre-recession series peak, but it was up by an unadjusted 3.46% from June 2015, with May 2016 up by a revised 3.35% [previously 3.29%] year-to-year, and with April 2016 up by a revised 4.21% [previously 4.19%, initially 4.16%] from April 2015.

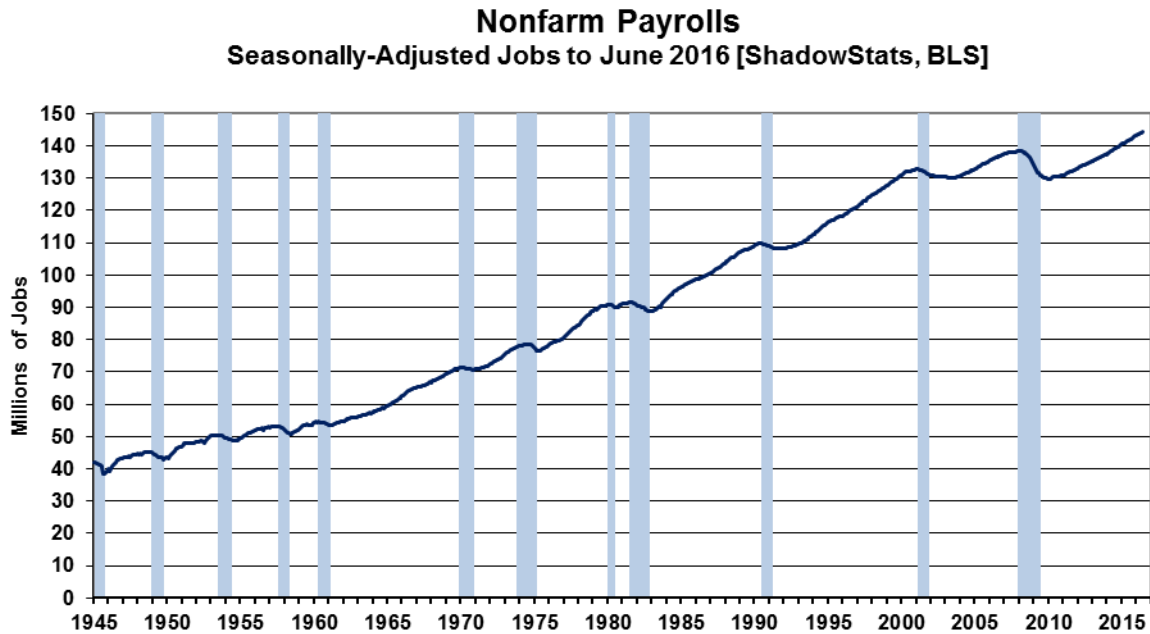
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy 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 faltered in May. Including the headline jobs gain of 287,000 in June 2016, headline payroll employment was 5.74-million jobs above its pre-recession peak.

[Graphs 12 and 13 follow on the next page.]

Graph 12: Nonfarm Payroll Employment to June 2016



Graph 13: Nonfarm Payroll Employment 1945 to June 2016



Graphs 12 and 13 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

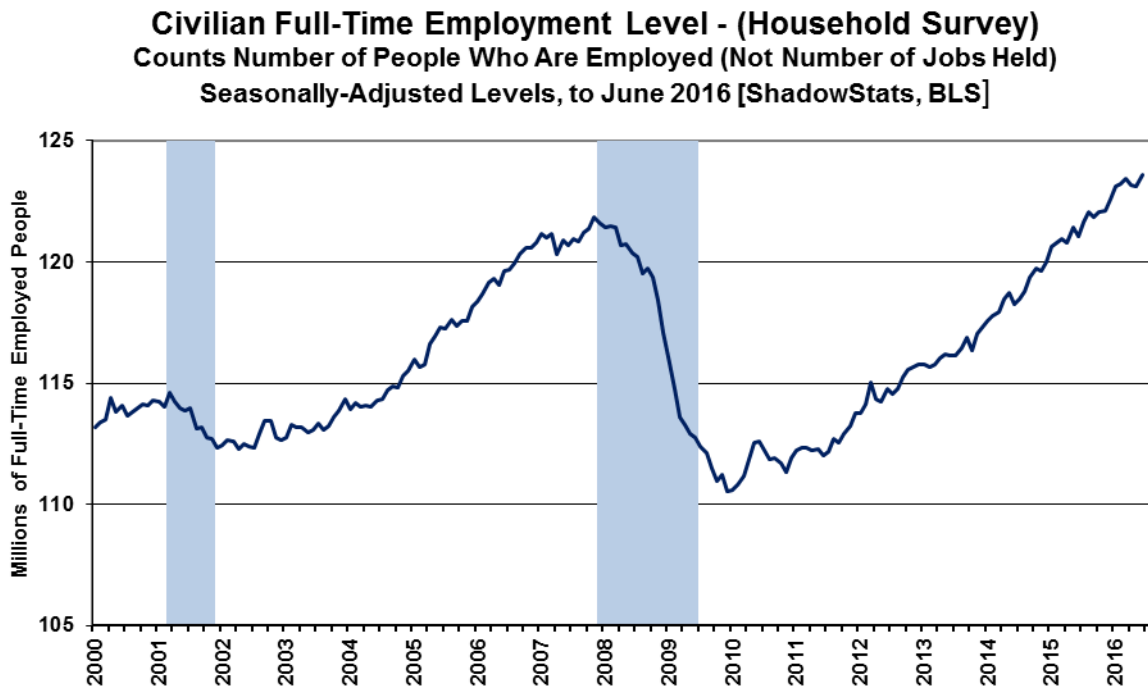
payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

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 14*, the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline June 2016 full-time employment gained by 451,000, having declined by 59,000 (-59,000) in May and by 253,000 (-253,000) in April, with the detail now standing at 1.71-million above that pre-recession high for the series, thanks in particular to irregularly-volatile monthly gains in the seasonally-adjusted data of June and in earlier months of 2016. That will gyrate further in the next several months, likely to drop again from the current headline level.

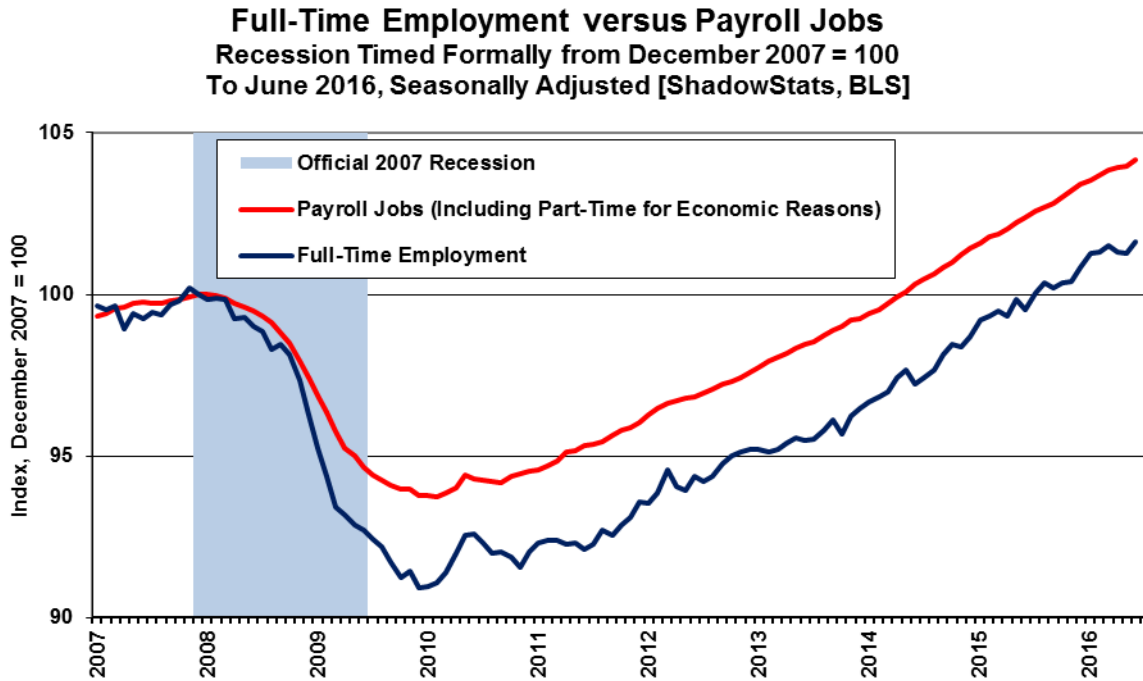
Such compares with the headline payroll-employment level that is 5.74-million above its pre-recession high, regained some 25-months ago. Again, the payroll count is of jobs, not people, where much of that payroll “jobs” growth has been in part-time, and in multiple part-time jobs, many taken on for economic reasons, where full-time employment was desired but could not be found.

Graph 14: Full-Time Employment (Household Survey) to June 2016

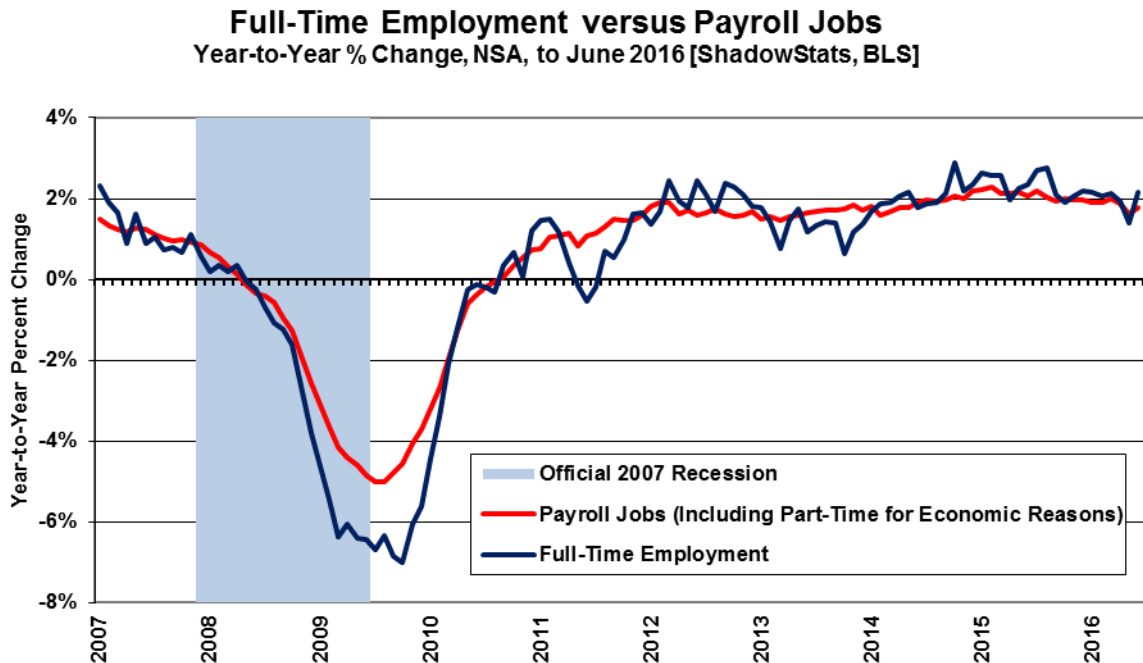


As a separate consideration and an indication of the level of nonsensical GDP reporting, employment traditionally is a coincident indicator of broad economic activity, again the GDP purportedly recovered its pre-recession high some four years ago, more than two years before similar payroll activity,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

Graph 15: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)



Graph 16: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year



Graphs 15 and 16 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 paragraphs of 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 been irregular in pattern. 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).

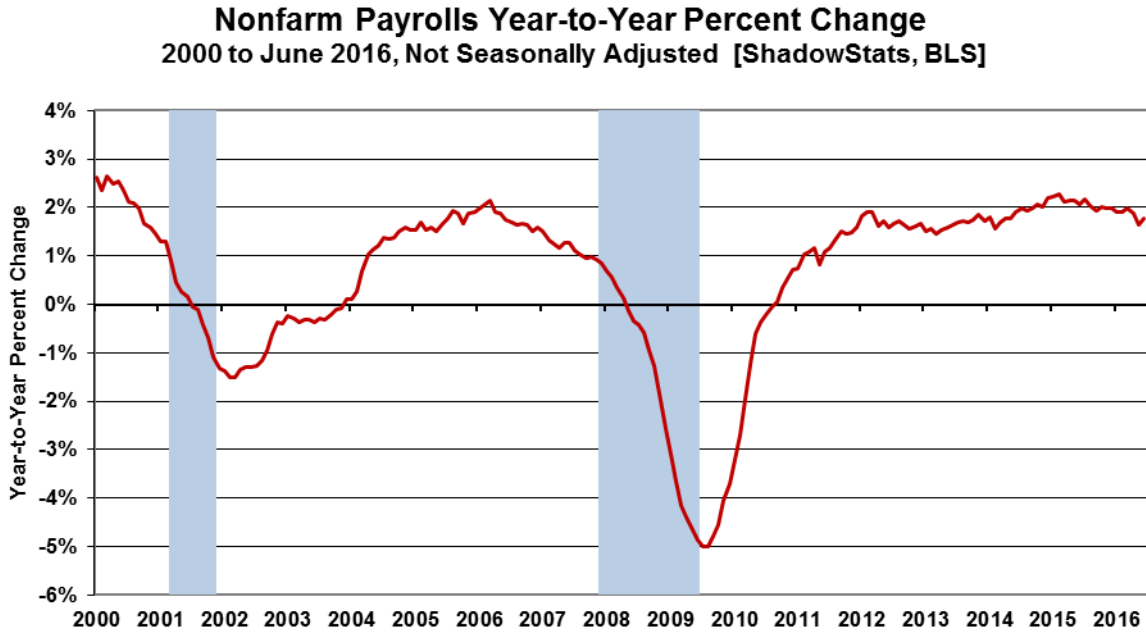
Annual Percent Changes in Headline Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis.

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 17* and *18*. 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 June 2016 was 1.77% versus a twenty-eight month low of 1.63% in May 2015 and a downwardly-revised 1.87% gain in April 2016.

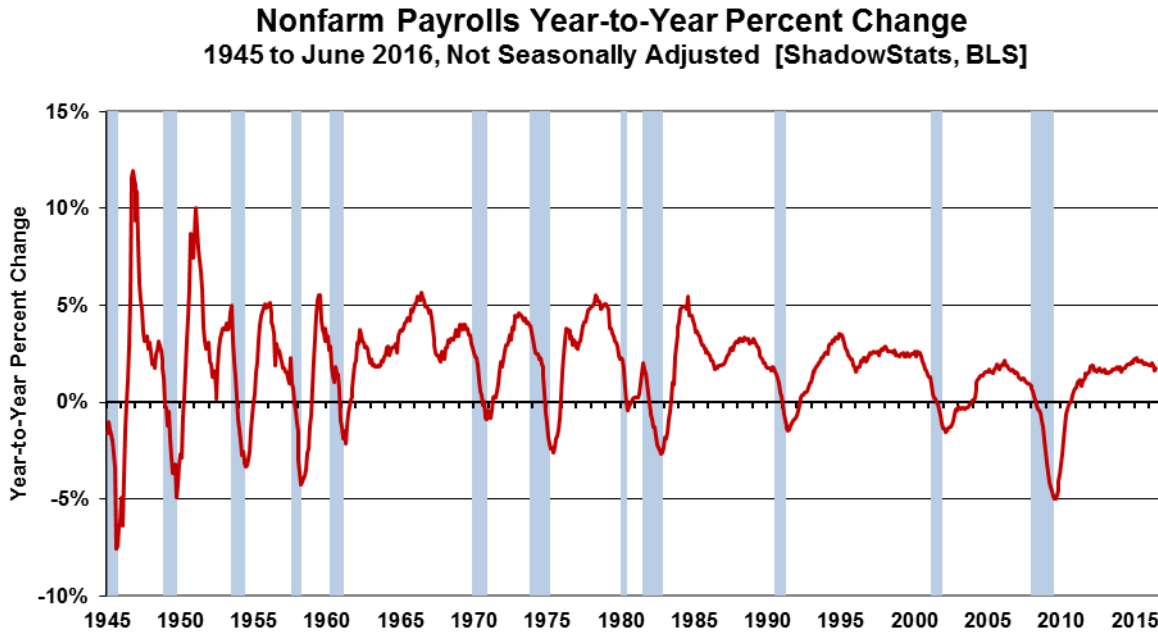
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown 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 17 and 18 follow on the next page.]

Graph 17: Payroll Employment, Year-to-Year Percent Change, 2000 to June 2016



Graph 18: 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. As discussed in opening paragraphs of the *Opening Comments*, 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 June 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 19*, 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 June 2016 payroll level was prepared on a consistent basis with the levels of May 2016 and April 2016, but not with March 2016, with the headline monthly gains consistent only for June and May. With the Household Survey, however, the June 2016 detail is not comparable with May 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 19*).

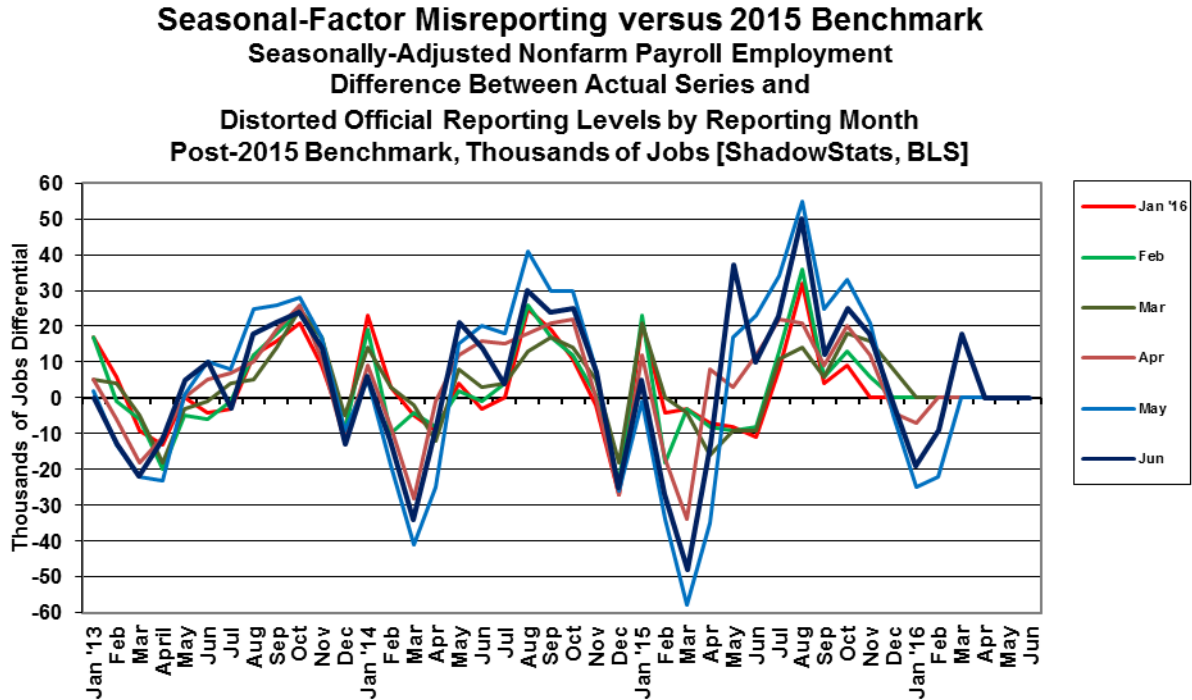
Where the BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, no such accommodation has been made for the Household Survey. Again, ShadowStats affiliate ExpliStats does such third-party calculations for the payroll series, and the resulting detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are reflected here in *Graph 19*.

Consider in the latest headline payroll detail that the June 2016 monthly changes were comparable only with the headline changes in the May 2016 numbers, not with April 2016 or any earlier months. Per BLS headline reporting, seasonally-adjusted June 2016 payrolls rose month-to-month by 287,000 from May, while May payrolls rose by 11,000 from April, and April payrolls rose by 144,000 from March. That headline April monthly gain was not accurate and not comparable with the headline details for June and May, because the March payroll level was not adjusted for the new seasonal adjustments.

Had the BLS published the headline March reporting on a consistent basis with June 2016, the March-to-April change would have been a comparable gain of 126,000, instead of the purported headline monthly increase of 144,000.

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 19: Concurrent-Seasonal-Factor Irregularities - Headline Detail in June 2016 versus 2015 Benchmark



Graph 19 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; June makes that eight. 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 (May 2016) and dark-blue (June 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 May 2016 and June 2016 seasonals were enough to warp the headline data meaningfully had annual seasonal patterns been left intact for the year—on a consistent basis—rather than being recalculated just for June 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 102,000 jobs. Such discrepancies, however, are not unusual for the BLS.

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.

June 2016 Add-Factor Bias. The not-seasonally-adjusted June 2016 bias was a positive add-factor of 92,000, following a positive add-factor of 224,000 in May 2016, versus a positive add-factor of 114,000 in June 2015.

The revamped, aggregate upside bias for the trailing twelve months through June 2016 was 884,000, up by 102,000 or 13.2% from 781,000 in December 2015. That is a monthly average of 73,667, in June 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 73,667 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 paragraphs of 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 discussed in the *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 June 2016 unemployment rate (U.3) rose to 4.9%, versus 4.7% in May. At the second decimal point, the headline June 2016 U.3 was

4.90%, up from 4.69% in May. Formally, the 0.21% +/- 0.23% increase in June U.3 was nearly statistically-insignificant, while the 0.29% (-0.29%) decline in May the unemployment rate versus 4.98% in April technically had been statistically-significant. That is nonsense, though, given that the monthly numbers are reported on an inconsistent basis and are not comparable with each other (see the opening paragraphs of the *Opening Comments*).

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate rose to 5.08% in June 2016, from 4.54% in May 2016.

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 June 2016 (never seasonally-adjusted) declined by 36,000 (-36,000) to 502,000, while the total, short-term marginally-attached discouraged workers rose by 66,000 to 1,779,000 in June. 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 an increase in the seasonally-adjusted U.3 unemployment rate, and a jump in the count of marginally-attached workers, a plunge of 587,000 (-587,000) in the adjusted number of people working part-time for economic reasons caused the headline June 2016 U.6 unemployment to ease to 9.56% from 9.73% in May. The unadjusted U.6 unemployment rate rose to 9.91% in June 2016, versus 9.44% in May 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 lower to 22.9% in June 2016, from 23.0% in May 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 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 activity 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 (1.779 million in June 2016), those not in the labor force currently wanting a job declined to 4.322 million in June 2016 (a total of 6.101 million). That net of 4.322 million was against 4.736 million in May 2016, 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 2 to 8*).

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 June 2016 notched lower to 22.9%, from 23.0% in May 2016. The June 2016 reading was down by 40 basis points or 0.4% (-0.4%) from the 23.3% series high last seen in December 2013.

Again, in contrast, the June 2016 headline U.3 unemployment reading of 4.9% was down by a 510 basis points or 5.1% (-5.1%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.6% in June 2016, was down from its April 2010 peak of 17.2% by 760 basis points or 7.6% (-7.6%).

Seen in the usual graph of the various unemployment measures (*Graph 1* in the *Opening Comments*), there remains a noticeable divergence in the ShadowStats series versus U.6 and U.3, with the BLS headline U.3 unemployment measures generally headed lower against a down-trending U.6 and a higher-level, relatively stagnant 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%.

WEEK AND MONTH AHEAD

Economic Deterioration Should Intensify in the Weeks and Month Ahead, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Eventually Oil Prices. Market expectations for business activity should continue to deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and continued Fed-policy retrenchment, with likely movement towards renewed quantitative easing in the months ahead. The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect a broad spectrum of market-disappointing headline data. Those unfolding circumstances have been discussed in the *Opening Comments*, [Commentary No. 818](#), [Commentary No. 817](#), [Commentary No. 816](#), [Commentary No. 815](#), [Commentary No. 814](#), [Commentary No. 813](#), [Commentary No. 812](#), [General Commentary No. 811](#), [Supplemental Commentary No. 807-A](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796-A](#), [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

In the context of continued systemic gyrations related to Brexit and a likely evolving re-organization of the EU and the euro, as well as in response to perpetual U.S. economic non-recovery and a renewed, intensifying downturn, negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices. Market activity in oil has been mixed, due partially still to some relative U.S. dollar strength, as discussed in the *Opening Comments* of [No. 818](#). These market reactions reflect an intensifying sense of Federal Reserve impotence, with bleak longer term implications for the U.S. dollar. Further tightening by the Fed prior to the election appears unlikely, while renewed quantitative easing could become a target of intensified market speculation, as the deepening recession unfolds and becomes increasingly obvious in the next month or so.

Rapidly weakening, regular monthly economic reporting should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP). That was seen with the initial reporting of a small first-quarter 2016 contraction in the Gross National Product (GNP)—the broadest measure of U.S. economic activity—discussed in [No. 809](#), which revised minimally into positive territory with inflation gimmicks (see the *Opening Comments* of [Commentary No. 817](#)).

Pending are meaningful downside revisions to GDP history (including likely headline quarterly contractions for first-quarter 2015, fourth-quarter 2015 and first-quarter 2016), come the July 29, 2016 annual GDP benchmark revisions. A review of likely pending revisions (revisions are limited to first-quarter 2013-to-date) will be published mid-month.

Consistent with the relatively neutral benchmark revisions to retail sales ([No. 804](#)) and housing starts ([No. 807](#)) and in line with recent sharp downside revisions to industrial production ([No. 796-A](#)), durable goods orders ([No. 807-A](#)), and the real merchandise-trade deficit ([No. 810](#)), and despite the positive benchmark revisions to construction spending (see [No. 818](#)), expectations for the GDP benchmarking also should fall sharply. The GDP benchmarking now appears to be the most-likely point at which the elements for a “formal” recession call will come into 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 monthly March to May 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to increase again in June and likely going forward, still boosted by a weakening U.S. dollar environment, with a generally-related upturn in oil prices, gasoline and other commodities. Separately, gasoline-price seasonal adjustments shift to the plus-side in July. Fundamental reporting issues with the headline CPI 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 was 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 increasing 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](#).

PENDING RELEASES:

Producer Price Index—PPI (June 2016). The Bureau of Labor Statistics (BLS) will release the June 2016 PPI on Thursday, July 14th. The detail will be covered in *Commentary No. 820* of Friday, July 15th. Odds favor a headline gain in wholesale inflation, at least on the goods side of the reporting, due to a continued rebound in oil prices and related products.

Unadjusted oil prices rose in June 2016, along with a continued rise in gasoline prices, albeit at a slower pace than in May. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices rose by 2.9% and 4.1%, in conjunction with some weakening in the U.S. dollar. That was accompanied by a 4.0% increase in the unadjusted monthly-average retail-gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in June are minimally negative, they still should leave the adjusted Final Demand Goods component of the PPI up by about 0.2%.

Oil prices have been rallying consistently enough, that the aggregate PPI number—often hit by some offsetting, more-negative and counterintuitive “inflation” in the dominant services sector—appears also to be moving some in a positive direction, which conceivably could put the aggregate headline PPI up by 0.3% for the month. Guesstimation in that services sector, however, remains highly problematic.

The counterintuitive pricing pressures from shrinking profit margins with the sharply rising oil prices are discussed in *Inflation that Is More Theoretical than Real World?* on page 21 of [Commentary No. 813](#).

Consumer Price Index—CPI (June 2016). The Bureau of Labor Statistics (BLS) will release the June 2016 CPI on Friday, July 15th, and it will be covered in *Commentary No. 820* of that date. The headline June CPI-U should increase month-to-month by roughly 0.2%, or more, reflecting rebounding gasoline prices plus higher non-energy inflation. Headline annual inflation in June 2016 likely held around 1.0%.

Continuing Positive Inflation Impact from Gasoline Prices. Average gasoline prices continued to increase in June 2016, up by 4.05% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in June traditionally are negative, they would reduce the unadjusted price gain, but leave it in positive territory. Adjusted gasoline prices should rise by enough to add a positive 0.09% to the headline CPI-U monthly change. Boosted as well by higher food and “core” (net of food and energy) inflation, a headline monthly CPI-U gain of 0.2%, or higher, is a reasonable expectation.

Annual Inflation Rate. Noted in [Commentary No. 814](#), year-to-year CPI-U inflation would increase or decrease in the June 2016 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline gain of 0.23% in June 2015 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for June 2016, the difference in June’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the May 2016 annual inflation rate of 1.02%. For example, a seasonally-adjusted, headline monthly gain of 0.2% in the June 2016 CPI-U would hold the annual CPI-U inflation rate for June 2016 at about 1.0%, plus-or-minus, depending on rounding.

Nominal and Real Retail Sales (June 2016). The Census Bureau has scheduled release of June 2016 nominal (not-adjusted-for-inflation) Retail Sales for Friday, July 15th, the same day as the BLS release of the June CPI. Accordingly, both the nominal and real (inflation-adjusted) June Retail Sales will be covered in *Commentary No. 820* of that date.

With high odds of a continued monthly increase in the CPI, there is a parallel chance for real sales growth in June to be more-negative or weaker than the headline nominal sales activity. The pace of annual CPI-U inflation also should remain positive, helping to generate a deepening recession signal in historically low-level, annual Real Retail Sales growth.

Market expectations likely will be on the plus-side of flat for the monthly change in the headline nominal June Retail Sales, but underlying retail-store and auto sales in June have been relatively soft. An outright nominal sales contraction and downside revisions to April and May 2016 reporting always are good bets. Key, though, is that any headline increase in nominal retail sales likely will not top the headline inflation rate. That means real retail sales should contract for the month. With meaningful downside revisions, real retail sales could contract for second-quarter 2016, but a small real quarterly gain appears most likely, at present.

Continuing to constrain personal-consumption expenditures and retail sales is the extreme liquidity bind besetting consumers, as was updated briefly in [Commentary No. 817](#) and [Commentary No. 816](#) for the June 2016 Consumer Confidence and Sentiment measures and the May 2016 Median Real Monthly Household Income measure, and last fully reviewed in [General Commentary No. 811](#) of June 10th. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

Index of Industrial Production (June 2016). Completing a heavy schedule of statistical releases, the Federal Reserve Board will publish its estimate of June 2016 Industrial Production activity on Friday, July 15th, with coverage in *Commentary No. 820* of that date. Headline reporting likely will continue in contraction, both month-to-month and year-to-year, with continuing revisions to the last six months of data.

Wherever consensus indications settle for relative monthly activity in June, expectations have been disappointed fairly consistently on the downside in the last year or so of activity. Accordingly, headline reporting and monthly revisions remain good bets to offer negative surprises versus consensus forecasts.

Discussed in [Commentary No. 813](#), based on headline May 2016 reporting, second-quarter 2016 industrial production virtually is assured of annual and quarterly contractions. In order for second-quarter activity to turn positive quarter-to-quarter, headline June 2016 production would have to rise by an unlikely 1.28% for the month, versus the current headline May 2016 detail. More significantly, for second-quarter 2016 production to turn positive year-to-year, June production would have to jump month-to-month by more than 3.92%, which is not going to happen.

Accordingly, second-quarter 2016 industrial production appears set to become the third consecutive quarter, showing both annual and quarterly contractions, and the fifth quarter out of the last six, to decline

quarter-to-quarter. Nothing like this ever has been seen in the history of the Index of Industrial Production, which goes back to 1918 (1919 in terms of year-to-year growth rates), outside of formally recognized recessions. Suggested earlier, such formal recession recognition likely will follow in the wake of the July 29th GDP benchmarking.
