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

COMMENTARY NUMBER 829
Labor Market, Trade Deficit, Construction Spending, M3 and Consumer Conditions

September 2, 2016

Real Construction Spending Remained Down 24% (-24%) from Recovering Its Pre-Recession Peak

Weakest Real Construction Spending Growth since Series Trough in 2011

Monthly Unemployment Data Simply Are Not-Comparable, Heavily Skewed by Inconsistent Seasonal Adjustments

August 2016 Unemployment Rates Held Even: U.3 at 4.9%, U.6 at 9.7% and the ShadowStats-Alternate Rate at 23.0%

Actual Monthly Change in August Payrolls Likely Was a Contraction

Though Bloated by Seasonal-Factor Distortions and Add-Factors, Annual Payroll Growth Effectively Held at a 30-Month Low

Second-Quarter Real Merchandise Trade Deficit Remained Worst Since 2007

Surging Soybean Exports Provided Short-Lived, Temporary Relief for the July and Early-Trend Third-Quarter Trade Deficits

Annual M3 Growth Notched Higher to 4.2% in August 2016, from 4.1% in July, With the Annual Decline in the Monetary Base Just Shy of a Record

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PLEASE NOTE: With no regular economic releases in the week ahead, the next Commentary, *scheduled for Thursday, September 8th, will be general in nature, although it will include coverage of the preliminary estimate of the 2016 payroll-employment benchmark revision.*

Best wishes to all for a most enjoyable Labor Day Weekend! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

FOMC Remains Unlikely to Boost Rates Before the Election. Today's headline employment and unemployment details were on the weak side of expectations, with some minimal market reaction suggestive of a slight easing of concerns for an imminent rate hike.

Nonetheless, despite the relatively neutral comments from Federal Reserve Chair Janet Yellen at the Fed's Jackson Hole conference, Vice Chairman Stanley Fischer appears to be pushing hard for a September 21st rate hike, and market expectations had been firming in that direction coming into the employment report (see the opening paragraphs of *Commentary No. 827*). Having taken the liberty of interpreting the Fed Chair's August 26th comments as being consistent with an imminent rate hike, Mr. Fischer also cited the economy being near full employment with unemployment near 5%. That is far from reality, as reviewed in *Household Survey: Counting All Discouraged Workers...* section later in these *Opening Comments*.

Mr. Fischer also cited productivity concerns on the other side, but the productivity measures—generally some ratio of a production measure (usually tied to the heavily gimmicked GDP) to a labor-market measure (usually tied to the heavily-gimmicked employment numbers)—are as meaningless as the underlying data. Again, as discussed in *No. 827*, the FOMC can raise rates any time it wants to, but tightening monetary policy this close to a pending Presidential Election still would be highly unusual.

The economy is not going to cooperate with Fed's hawks, but, again, it does not have to, in the near term, if the Fed simply wants to raise rates. As an aside, prospects of expanded, quantitative easing beyond purchases of U.S. Treasuries, Agencies and Mortgage-Backed Securities to include Corporate Bonds and Equities were raised at the Federal Reserve's get-together. Irrespective of near-term regulatory constraints, such expansive asset purchases likely would be the course of Federal Reserve actions in addressing ongoing and expanding systemic liquidity woes. Such actions would accelerate pushing the system into what should become uncontainable inflation. Further discussion of these issues will follow in next week's *General Commentary (No. 830)*, scheduled for September 8th.

Deteriorating Labor Conditions—Private Surveying. Published on August 31st, details of the August 2016 help-wanted online advertising are available here: The Conference Board Help Wanted OnLine®. The hard numbers are available there, and a review of them shows that the year-to-year declines in the monthly data—discussed in *Commentary No. 825*—continue unabated. Historically, such activity has been among the best of the leading indicators to an unfolding economic downturn, irrespective of any happy reporting out of the Bureau of Labor Statistics.

Today's *Commentary* (September 2nd). The balance of these *Opening Comments* provides summary detail of the August employment and unemployment reporting, the July Trade Deficit and Construction Spending and updated Consumer Liquidity conditions. Deflation of the Construction Spending series has been overhauled, in order to reflect more-realistic inflation numbers. Background is introduced in the *Reporting Detail* with the ShadowStats Composite Construction Deflator (CCD).

The *Hyperinflation Watch* updates current monetary conditions, along with the release of the ShadowStats Ongoing Estimate of Money Supply M3 for August 2016, and late-headline detail on the Monetary Base. The most-recent *Hyperinflation Outlook Summary* is found in *Commentary No. 783*, with an updated outlook for Fed activity and the U.S. dollar in *No. 826* and *No. 827*. See notes on the pending *Special Commentary* in the *Week and Month Ahead* section.

The *Week and Month Ahead* section has no major economic releases to preview for the week ahead.

Employment and Unemployment—August 2016—Continued Heavy Misreporting, with Payroll Gains Massively Overstated, and with the Monthly Unemployment Data Not Comparable. Underlying reality for August 2016 U.S. labor conditions remained in the realm of a 23.0% broad unemployment rate, with the actual monthly payroll-employment minimally down by 50,000 (-50,000).

The "unchanged" headline U.3 unemployment at 4.9% in August was continuing nonsense, simply reflecting not-comparable and meaningless month-to-month changes in the Household Survey data, as discussed in in the opening paragraphs of *Commentary No. 819* and in *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*. Consider that headline Household Survey detail showed the number of employed increasing by 97,000 in August 2016, while the number of unemployed increased by 79,000. That pattern has been repeated frequently in headline detail this year. Normally, changes in the monthly count of the employed have some offset in the count of the unemployed, and vice versa. They generally are not complementary, with both employment and unemployment increasing at the same time. Again, the suggested change patterns most likely did not happen, in reality, simply because the seasonally-adjusted July 2016 and August 2016 data were not reported on a consistent basis. The headline numbers were not comparable month-to-month.

The gimmicked, headline payroll gain of 151,000 in August more realistically should have come in well below zero, perhaps by minus 50,000 (-50,000), net of built-in upside biases. Discussed in the *Birth-Death/Bias-Factor Adjustment* section in the *Reporting Detail*, 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 inflates headline month-to-month payroll gains with meaningless add-factors, currently in excess of 200,000 jobs per month. Such is separate from the constantly shifting seasonal-adjustment patterns that can boost headline data in a given month, with no prior-period offset accounting. Again, see the *Headline Distortions from Shifting Concurrent-Seasonal Factors*.

Payroll Survey: Slowing Annual and Monthly Growth. In the context of heavily-distorted bloating and seasonal adjustments, and largely-offsetting revisions in headline June and July activity, the seasonally-adjusted, headline payroll gain for August 2016 was a statistically-insignificant 151,000. That followed

an upwardly-revised 272,000 gain in July and a downwardly-revised and demonstrably-false, not-comparable 271,000 gain in June. Consistent, seasonally-adjusted headline detail shows the June gain to have been 289,000, instead of the headline 271,000, with the May 2016 gain now at just 4,000, against the official headline gain of 24,000 (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*). Net of prior-period revisions, August 2016 payrolls rose by 150,000, instead of the headline 151,000.

The not-seasonally-adjusted, year-to-year growth in August 2016 nonfarm payrolls of 1.73% effectively remained within a hair's breadth of being at a 30-month low. That was against a revised annual gain of 1.71% in July 2016, a revised 1.74% in June 2016 and the actual near-term, low-growth rate of 1.63% in May 2016.

Household Survey: Counting All Discouraged Workers, August 2016 Unemployment Held at 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 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*).

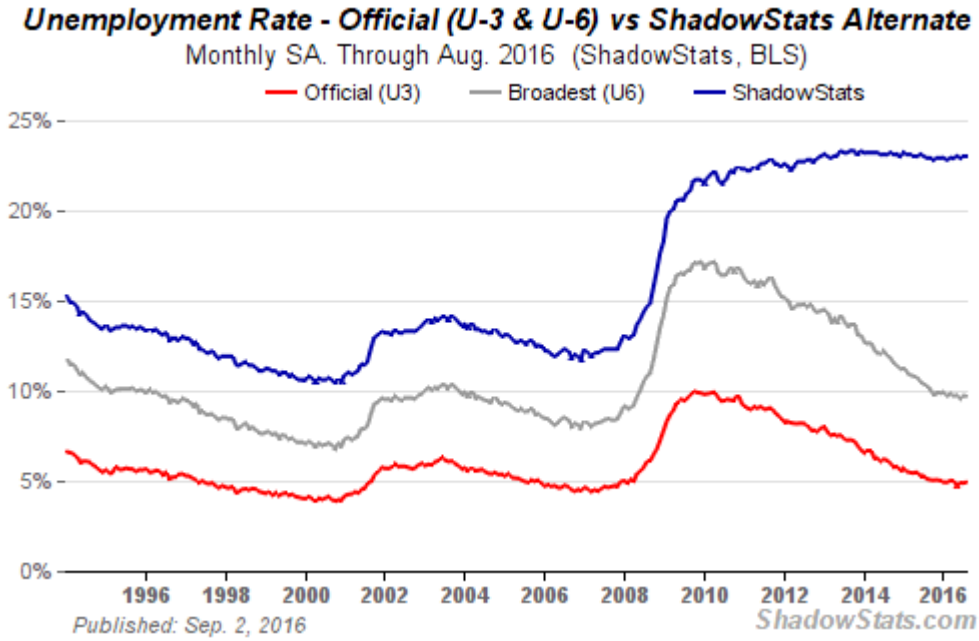
In the ongoing economic collapse into 2008 and 2009, and the non-recovery thereafter, the broad drop in the U.3 unemployment rate from its headline peak of 10.0% in 2009, to the August 2016 headline 4.9%, has been due largely to the unemployed giving up looking for work (common in severe economic contractions 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 most-comprehensive 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-August 2016 unemployment rates of 4.9% (U.3) and 23.0% (ShadowStats).

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



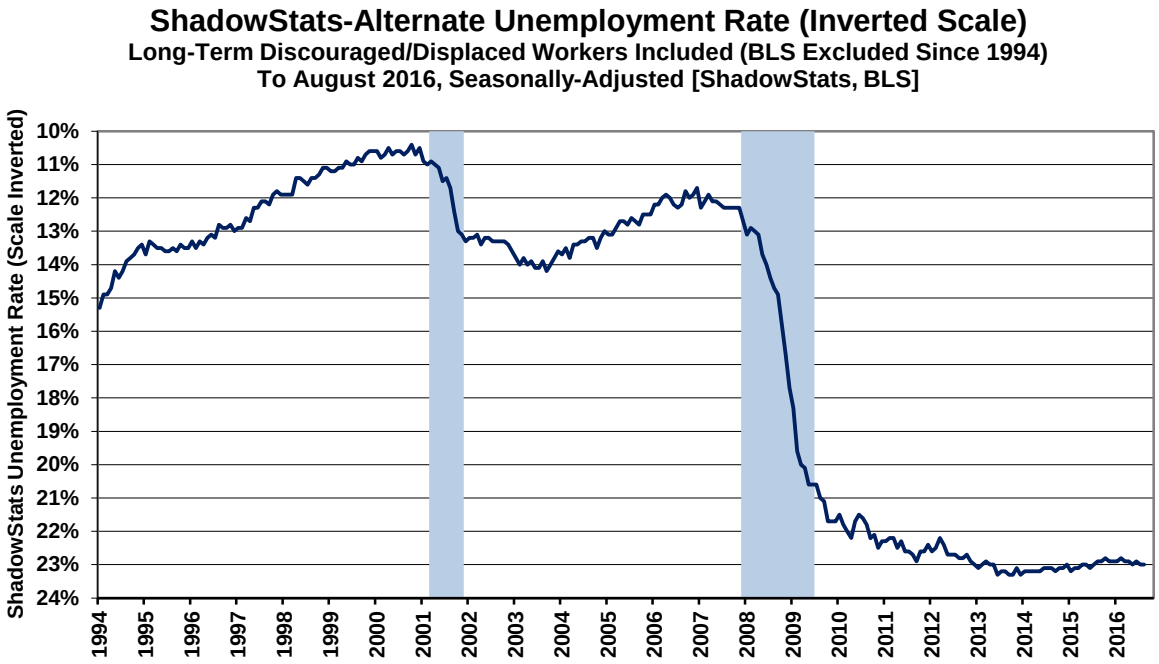
Graph 1 reflects headline August 2016 U.3 unemployment at 4.92%, versus 4.88% in July 2016; headline August 2016 U.6 unemployment at 9.69%, versus 9.71% in July 2016; and the headline August 2016 ShadowStats unemployment estimate at 23.0%, unchanged from July 2016.

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.

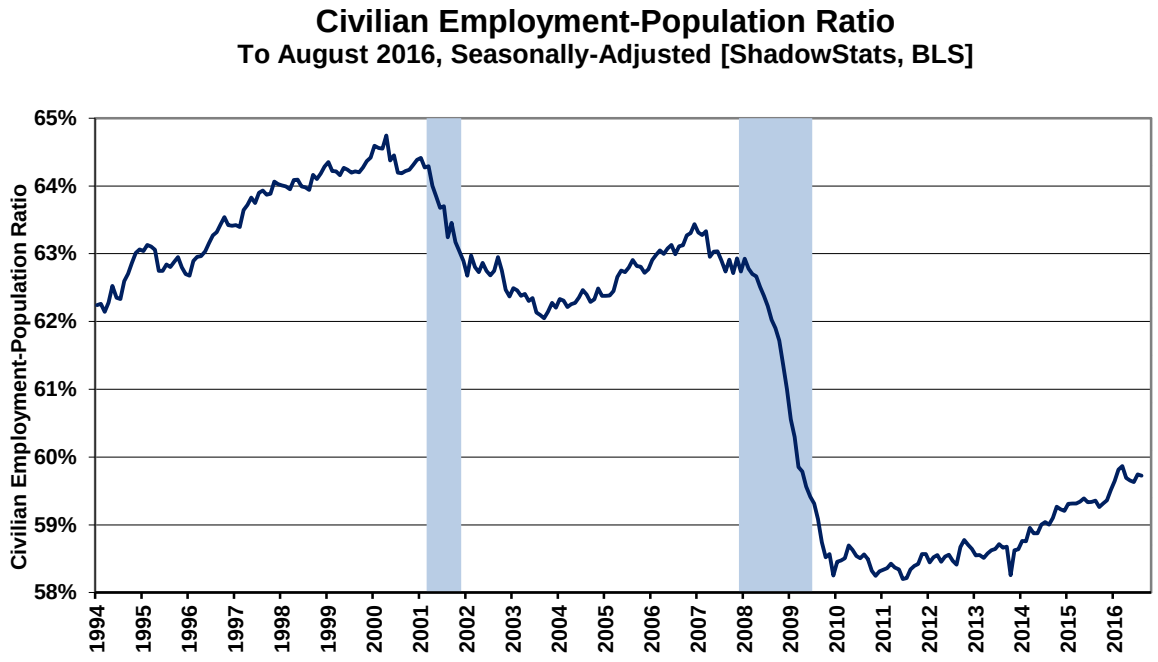
The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which had turned lower in April, May and June, and notched higher in July and marginally lower in August 2016.

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), 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



Graph 3: Civilian Employment-Population Ratio

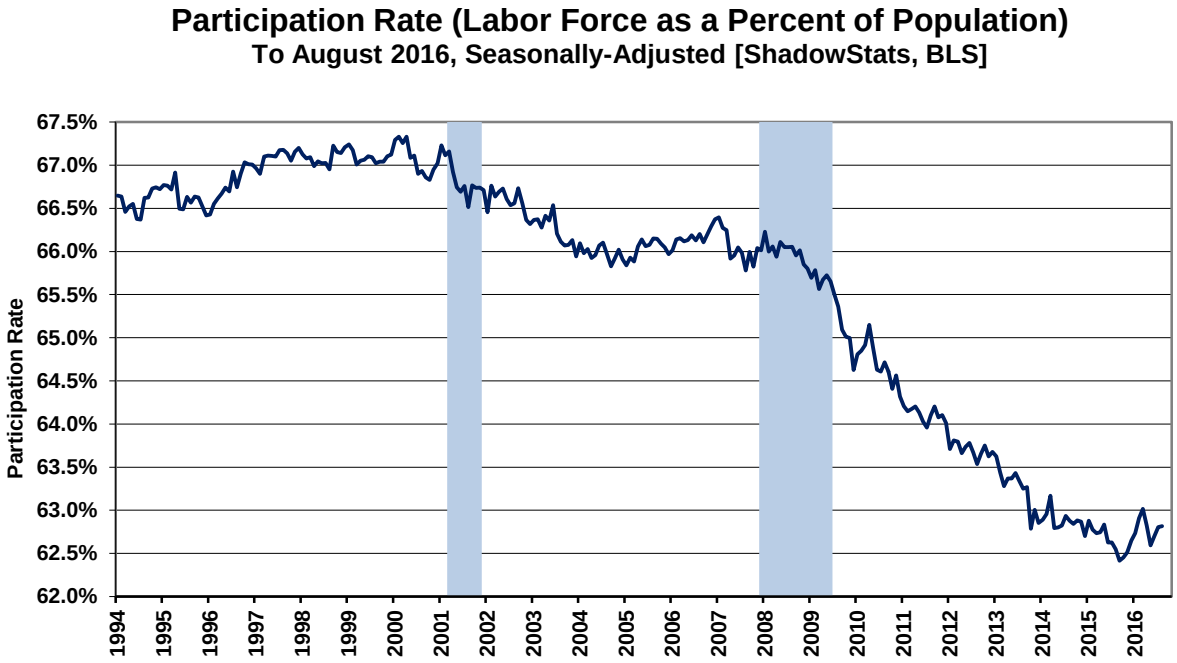


Shown in *Graph 4*, the August 2016 participation rate (the ratio of the headline labor force to the population) was effectively unchanged, having notched higher in July and June, and having turned down in April and May. Both the near-term Employment-to-Population Ratio and the Participation Rate appear 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 August 2016. Unadjusted ratios for these series had been above the adjusted numbers in June and July, but they dropped sharply in August, closing in on par with the adjusted detail.

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 minimally to the upside in July and was flat in August. 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 4: Participation Rate



No Full-Employment Circumstance Here. As suggested would be the case in *No. 827*, the April 26th comments by the Fed Chair largely were consistent with her previously-expressed views on the economy (although she noted the economy had improved some) and that the rate-change outlook still depended on that economy. Contrary to the consensus outlook of a full-employment rate of 5.0% unemployment, as hyped by the Vice Chair, Ms. Yellen's expressed concerns for factors such as the labor-force participation rate have indicated a more-realistic overview of current economic activity. Though not explicitly detailed by the Fed Chair, one would expect that "full employment" not only would be consistent with a certain headline unemployment rate, traditionally about 5.0%, but also with a coincident labor-force participation rate of about 66%.

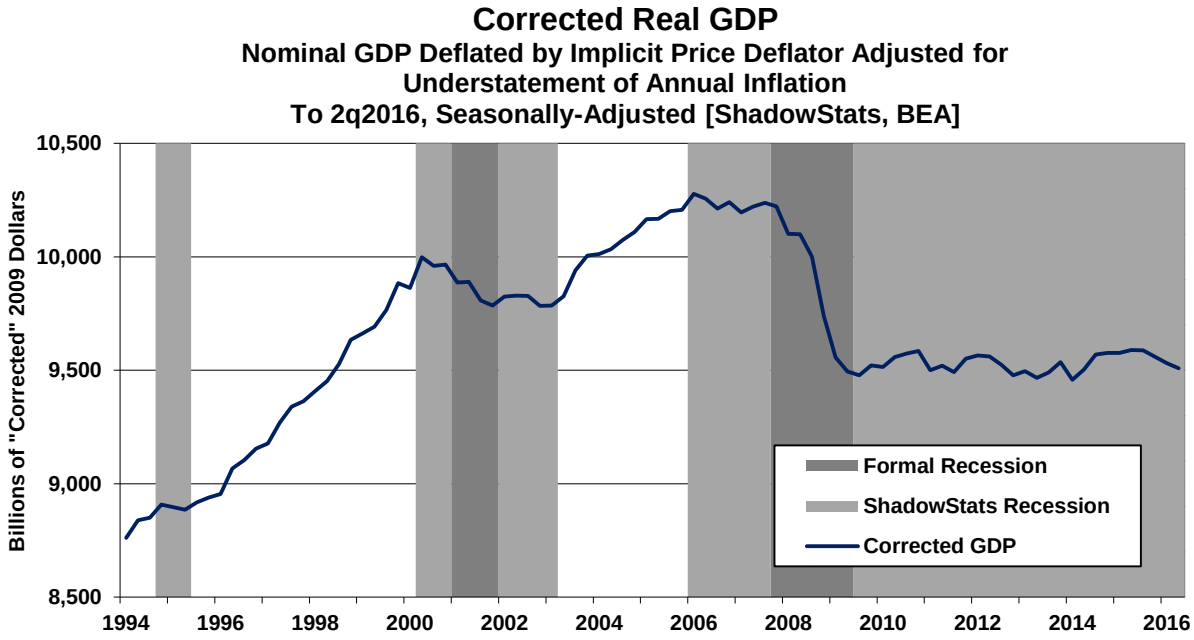
For example, at the formal onset of the recession in December 2007, the headline unemployment rate was 5.0%, with the participation rate at a 66.0% near-term peak (higher peaks in participation, in the early

2000's, were coincident with a U.3 unemployment of about 4.0%). Full employment with unemployment at 5.0%, also should be reflected at a peak in the participation rate, not at a trough. The July 2016 headline unemployment rate of 4.9%, for example was in the context of a 62.8% participation rate, and was the latest detail available to Mr. Fischer before his comments. That participation rate, though, was more consistent with a headline (U.3) 9.5%[1] instead of the 4.9% unemployment rate of the time. Where the count of Household Survey employed generally is not gimmicked, that 66% full-employment participation rate—consistent the with latest hyped "full-employment" economy—generally was consistent with a U.3 unemployment nearly double the purported full-employment U.3 number.

The reason for the heavily distorted current unemployment detail is that the numbers reflect the unusual nature of the post-recession drop in headline unemployment. The declining unemployment rate heavily has reflected discouraged, unemployed persons being defined out of the labor force, instead of the more-traditional and positive circumstance of the unemployed being reemployed.

Other Detail Does Not Show a Growing, Recovering Economy. *Graphs 1* through *4* reflect labor 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 August 2016 Household-Survey reporting simply are not available, irrespective of any protestations to the contrary by the BLS.

Graph 5: Corrected Real GDP through 2q2016, Second Estimate and Annual Benchmark Revisions

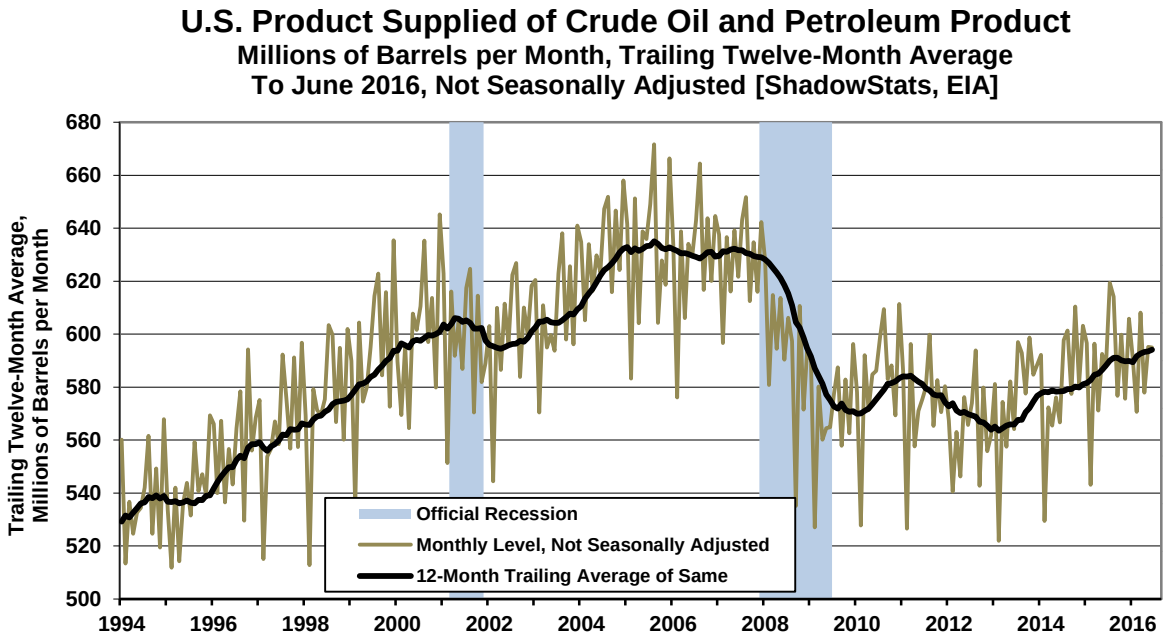


Separately, consider *Graph 5*, which shows the ShadowStats version of the GDP, also from 1994 but through the July 29th GDP benchmark revisions and the August 26th second estimate of second-quarter

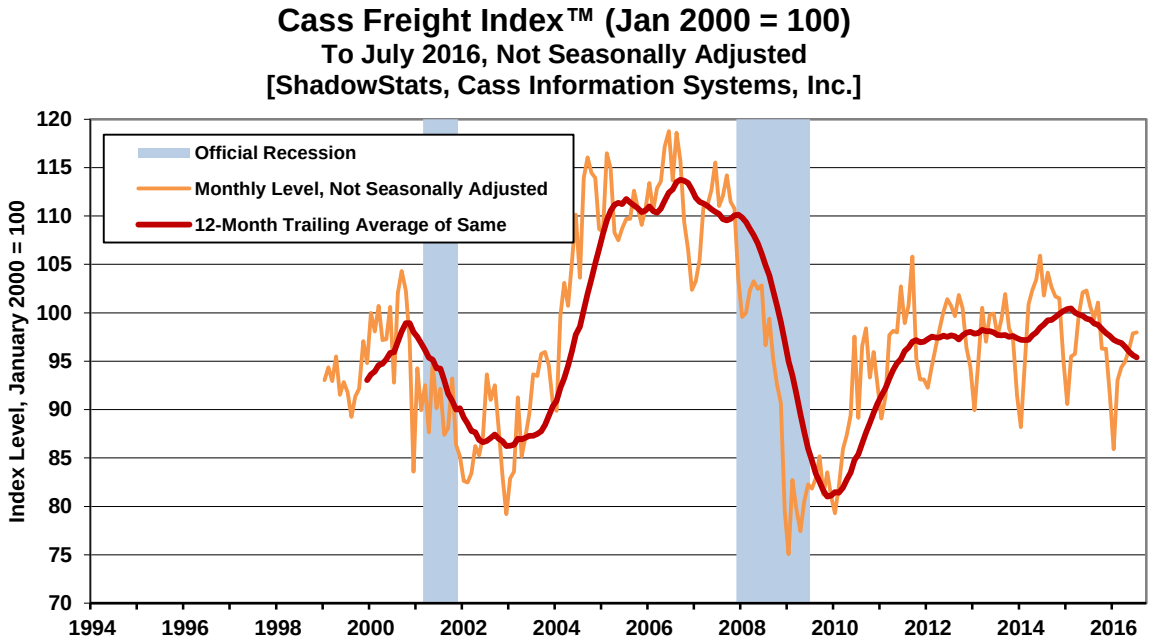
[1] Consider with a July 2016 population of 253.620 million, that the implied labor force at the full-employment participation rate of 66.0% would be 0.66 x 253.620 = 167.389. That labor force less current headline employed, 167.389 – 151.517 = 15.872 million implied unemployed/ labor force of 167.389 = 9.5% unemployment. The problem with the assumptions underlying these numbers and concept is that the economy is not at full employment, as has been claimed.

2016 activity (still subject to downward revision), where the GDP plot has been corrected for the understatement of inflation used in deflating the headline GDP series (a description of the approach and related links are found in *Commentary No. 828*).

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



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

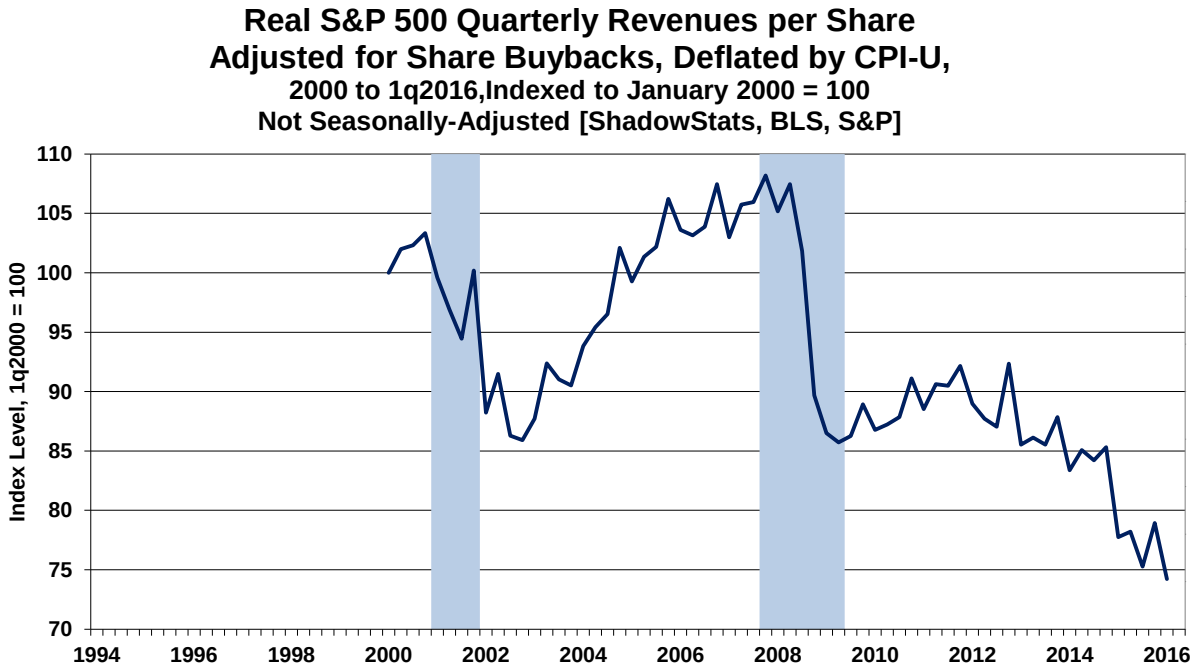


ShadowStats also regularly publishes generally unbiased series from a variety of sources. Shown in *Graph 6*, for example, the U.S. aggregate consumption of crude oil petroleum product, measured in physical barrel count, is an extraordinarily broad indicator of general activity. The U.S. Energy Information Agency (EIA), Department of Energy, publishes this detail on a monthly basis.

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 just-revised headline monthly detail of June 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, and flat into second-quarter 2016. In contrast, the CASS index currently (through July 2016) continues to turn down in its twelve-month trailing average, with deepening year-to-year contractions on a monthly basis (see *Commentary No. 826*). 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: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2015), Indexed to January 2000 = 100



Graph 8 of S&P 500 revenues usually is plotted by ShadowStats 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, hence 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 (*Graphs 2* to *4*, *6* and *7*) or quarterly (*Graphs 5* and *8*).

Headline Unemployment Rates. At the first decimal point, the headline August 2016 unemployment rate (U.3) held at 4.9%, versus 4.9% in July. At the second decimal point, the headline August 2016 U.3 was 4.92%, versus 4.88% in July. Formally, the 0.04% increase in August U.3 was statistically-insignificant. All 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 eased to 5.00% in August 2016, from 5.14% in July.

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 or otherwise marginally-attached 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 August 2016 (never seasonally-adjusted) declined by 15,000 (-15,000) to 576,000, with total, short-term marginally-attached workers declining by 237,000 (-237,000) to 1,713,000, while July 2016 short-term discouraged workers rose by 89,000 to 591,000, with total, short-term marginally-attached workers rising by 171,000 to 1,950,000. 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 unchanged, seasonally-adjusted U.3 unemployment rate, a decline in the count of marginally-attached workers, and a 113,000 increase the adjusted number of people working part-time for economic reasons, combined to generate a headline August 2016 U.6 unemployment of 9.69%, versus

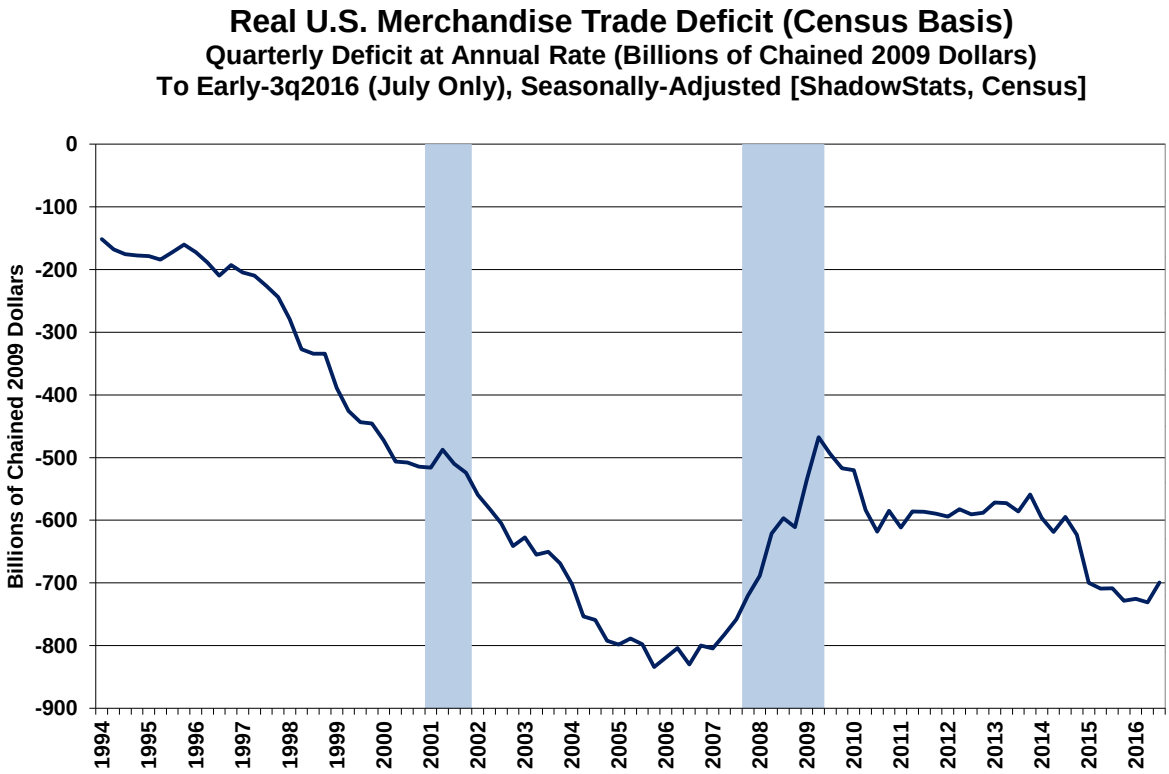
9.71% in July 2016. The unadjusted U.6 unemployment rate eased to 9.70% in August 2016, from 10.07% in July 2016.

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 August 2016 was 23.0%, unchanged from 23.0% in July 2016. The August 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 August 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 9.7% in August 2016, was down from its April 2010 peak of 17.2% by 750 basis points or 7.5% (-7.5%).

U.S. Trade Deficit—July 2016—July and Early-Third Quarter Deficits Were Narrowed by a Surge in Soybean Exports. Shown in *Graph 9*, the second-quarter 2016 real merchandise trade deficit held at its worst reading since third-quarter 2007 (although such has yet to surface in headline second-quarter 2016 GDP reporting). Yet, an unusually-large surge in July 2016 exports of soybeans gave the month, and the initial trend in the real third-quarter 2016 merchandise trade deficit, relatively-positive but likely short-lived boosts.

Graph 9: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit through 2q2016 (and Early-3q2016)



Nominal (Not-Adjusted-for-Inflation) July 2016 Trade Deficit. The headline, nominal, seasonally-adjusted monthly trade deficit in goods and services for July 2016, on a balance-of-payments basis, was reported in the context of revisions to the monthly data in first-half 2016, which widened the headline trade deficit in the first two quarters of this year by 2.3%.

The headline July 2016 deficit of $39.474 billion narrowed by an unusually-large $5.181 billion versus the boosted $44.655 billion deficit in June 2016. The $5.181 billion improvement in the headline July deficit reflected a gain of $3.408 billion in monthly exports, complemented by a $1.774 billion reduction in imports (rounding difference). The headline July 2016 deficit, however, still widened versus an unrevised monthly deficit of $39.900 billion in July 2015.

The July 2016 monthly surge in exports was dominated by an increase of $3.6 billion in soybean shipments, with declining imports seen in pharmaceuticals, cell phones and civilian aircraft. The circumstances generally are not regularly repeating, with a significant reversal in the trade pattern likely with the August detail, well before the initial third-quarter GDP estimate that otherwise would be spiked by these numbers. Shifting activity in energy-related products did not have heavy impact in monthly trade balance changes.

Energy-Related Petroleum Products. From an import standpoint, declining oil prices had bottomed out in February 2016, inching higher by 0.7% in March, gaining 6.5% in April, 16.0% in May, 15.2% in June and 4.2% in July, which was muted by declining physical import volume in the month. The not-seasonally-adjusted average price of imported oil increased to $41.02 in July 2016, versus $39.38 in June 2016, but that still was down from $54.20 per barrel in July 2015. Separately, not-seasonally-adjusted physical oil-import volume in July 2016 averaged 7.277 million barrels per day, down from 8.156 million in June 2016, and down from 7.632 million in July 2015.

Real (Inflation-Adjusted) July 2016 Trade Deficit. Seasonally-adjusted, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the July 2016 merchandise trade deficit (no services) narrowed to $58.274 billion, from a minimally-revised $64.548 in June 2016. Not reflected here were the first-half 2016 revisions to nominal data, which widened the headline, nominal trade shortfall. Presumably, those revisions will follow in next month's headline detail, and possibly in the third estimate to second-quarter 2016 GDP, on September 29th.

The June data were against an unrevised real deficit of $60.892 billion in May 2016, versus $57.316 billion in April 2016, $56.033 billion in March 2016, $63.607 billion in February 2016 and $61.668 billion in January 2016. The July 2016 real shortfall widened versus a $56.773 billion deficit in July 2015.

Again, reflected in *Graph 9*, the annualized quarterly real merchandise trade deficit was $623.1 billion for fourth-quarter 2014, $700.0 billion for first-quarter 2015, $709.1 billion for second-quarter 2015, $708.4 billion for third-quarter 2015, $728.6 billion for fourth-quarter 2015 and $725.2 billion for first-quarter 2016.

The second-quarter 2016 real trade shortfall was at a minimally-revised annualized quarterly pace of $731.0, still the worst quarterly showing since third-quarter 2007. It also still should turn the trade-deficit contribution for second-quarter 2016 GDP growth from its initial and second estimates of a positive-

growth contribution reading, to a negative-contribution reading. Headline deficits likely will get even deeper in the months and quarters ahead, intensifying the ongoing negative impact on headline GDP.

That said, the heavily distorted July 2016 reading has set an initial trend for a real third-2016 merchandise trade deficit of $699.3 billion, a narrowing of $31.7 billion versus the second quarter. With the monthly data in flux, that quarterly trend should shift sharply towards a widening deficit in next month's reporting.

Construction Spending—July 2016—Real Monthly, Quarterly and Annual Contractions, with Ongoing Low-Level Stagnation. This series remains highly volatile and subject to large monthly revisions. With upside revisions to headline June and May activity, inflation-adjusted real construction spending generally remained negative, on a monthly, quarterly and annual basis. Real monthly spending declined in July 2016, the third monthly contraction in four months. Second- and third-quarter 2016 real spending indicated quarterly contractions, while year-to-year change in real spending was tumbling sharply, as of June and July 2016, the first annual downturns since late-2011, continuing to follow a pattern as though the series were falling rapidly into a recessionary contraction.

The inflation data here, however, are not fully comparable with prior ShadowStats reporting, due to a change in inflation-adjustment methodology. Discussed in the *Construction Inflation* section of the *Reporting Detail*, the use of inconsistent deflation detail from the Producer Price Index has been replaced with the ShadowStats Composite Construction Deflator (CCD). With the new inflation-adjusted series, real construction spending generally continued in down-trending, low-level, stagnating non-recovery, with the level of July 2016 real spending still shy of its June 2006 pre-recession peak by 23.7% (-23.7%).

Headline Reporting for July 2016. In the context of upside revisions to May and June activity, the headline, total value of construction put in place in the United States for July 2016 was $1,153.2 billion, on a seasonally-adjusted, but not-inflation-adjusted, annual-rate basis. That estimate was down fractionally, month-to-month by a headline "unchanged" 0.0%, down by a statistically-insignificant 0.03% (-0.03%) at the second decimal point, versus an upwardly-revised $1,153.5 billion in June 2016.

In turn, June was up by a revised 0.9% versus an upwardly-revised $1,143.8 billion in May 2016. In turn May was up by a revised 0.1% from an unrevised level of $1,142.5 billion in April 2016.

Adjusted for CCD inflation, total real month-to-month spending in July 2016 fell by 0.4% (-0.4%), versus a revised gain of 0.6% in June 2016 and an unrevised real decline in May 2016 of 0.2% (-0.2%).

On a year-to-year annual-growth basis, July 2016 nominal construction spending rose by a statistically-insignificant 1.5%, following upwardly-revised annual gains of 2.0% in June 2016 and of 2.8% in May 2016. Net of construction costs indicated by the CCD, the year-to-year change in total real construction spending dropped to 57-month low of minus 1.4% (-1.4%) in July 2016, a revised annual decline of 0.6% (-0.6%%) in June 2016, versus a revised annual gain of 0.1% in May 2016. The headline annual real decline in July activity was the weakest since the historical series troughed in its collapse into 2011.

The statistically-insignificant, nominal "unchanged" activity in aggregate July 2016 construction spending, versus a gain of 0.9% in June 2016, included a headline monthly plunge of 3.1% (-3.1%) in July, versus a 1.3% gain in June public spending. Private spending rallied by 1.0% month-to-month in July, following a 0.7% gain in June. Within total private construction spending, residential-sector activity

gained 0.3% in July, having declined by 0.1% (-0.1%) in June while the nonresidential sector jumped by 1.7% in July, in the context of having revised sharply higher to a 1.6% gain in June.

Real Quarterly Activity. Reflecting headline July 2016 reporting in the context of the upside revisions to May and June 2016 headline detail, and some upside revision to the headline inflation detail, second-quarter 2016 real construction still plunged quarter-to-quarter, with an early trend towards contraction in third-quarter activity.

With all spending revisions (May and June 2016) and inflation revisions (the full series) in hand, first-quarter 2016 real construction spending rose at a revised annualized pace of 7.3%, with second-quarter 2016 showing a revised real contraction of 8.5% (-8.5%). Based on reporting just for July 2016, the early trend for third-quarter 2016 activity was a quarterly contraction of 2.0% (-2.0%).

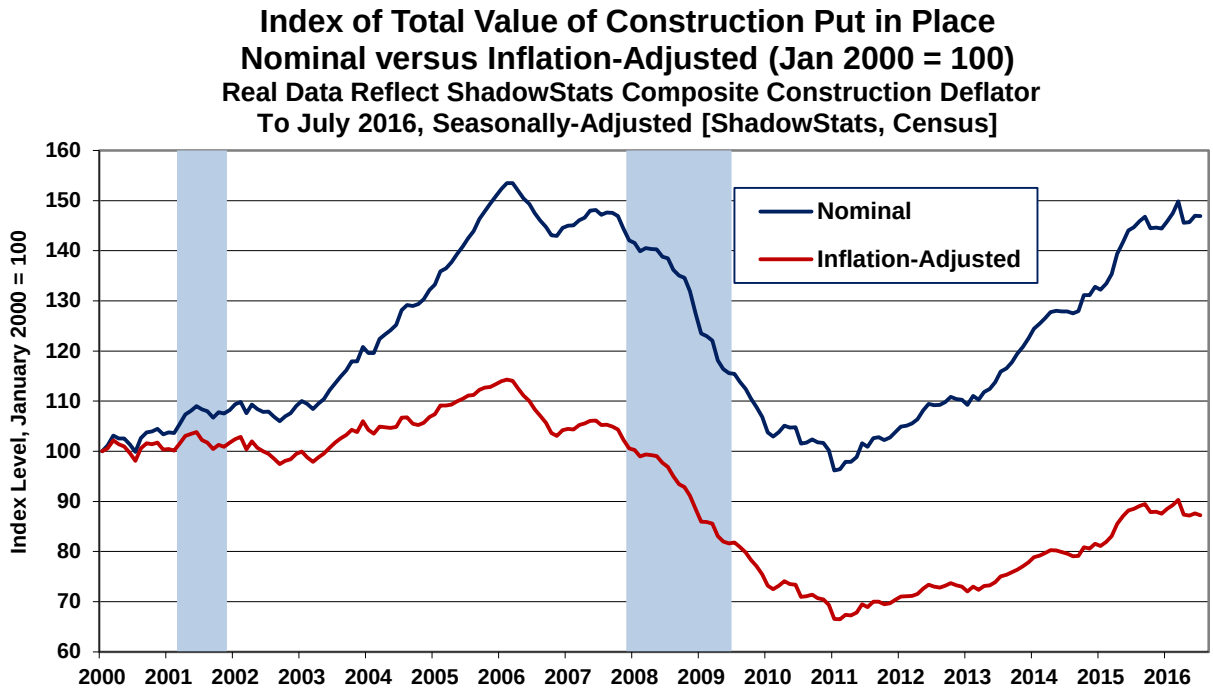
Going back into last year, fourth-quarter 2015 real construction spending contracted at a revised annualized pace of 5.4% (-5.4%), following revised annualized quarterly real gains of 10.1% in third-quarter 2015, 26.0% in second-quarter 2015 and 5.3% in first-quarter 2015.

Construction Spending Graphs. Despite protracted and variable stagnation in broad activity, the pattern of inflation-adjusted activity here—net of inflation estimates—does not confirm the economic recovery suggested by the headline GDP or employment series, as discussed in the *Reporting Detail*. To the contrary, the latest broad construction reporting in real terms generally has shown a pattern of low-level stagnation, where activity never recovered pre-recession highs, and where the pattern of stagnation has begun to turn down anew. Only the private, nonresidential sector has shown a recovery to pre-recession highs, just in the headline July 2016 detail, with the stagnating, related real series there the only one currently up-trending (see *Graph 12*).

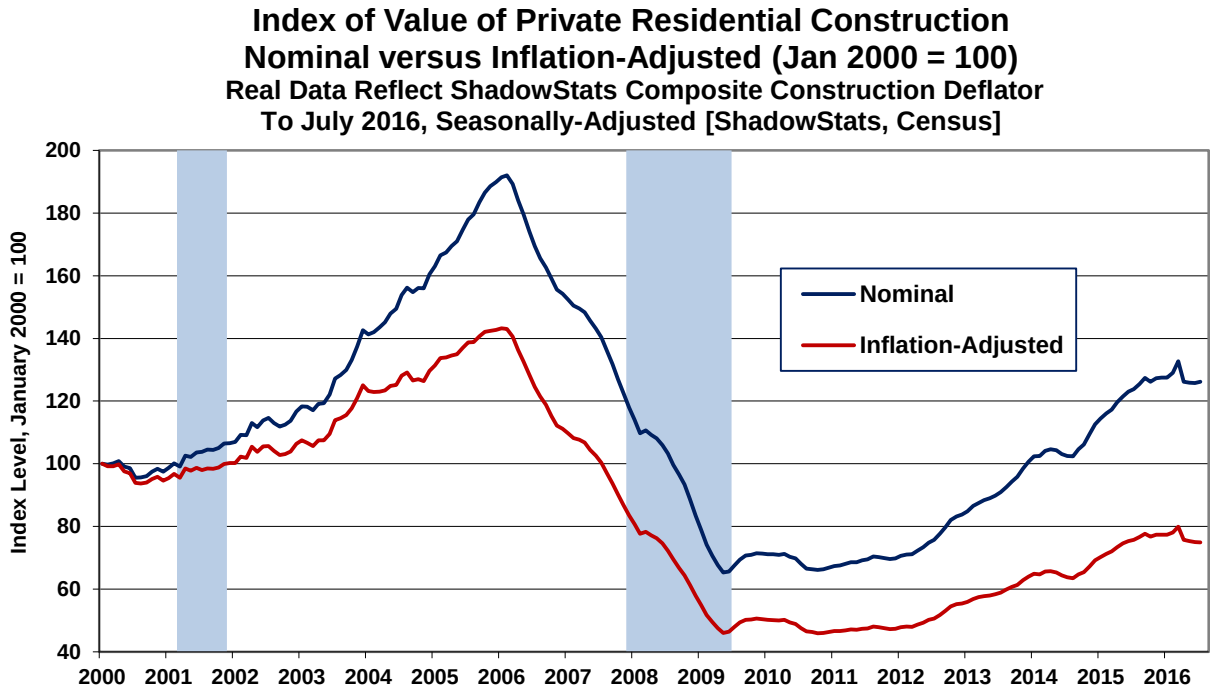
A variety of construction spending and related, comparative graphs (*Graphs 31* to *39*) are found in the *Reporting Detail* section. *Graphs 10* to *13*, which follow here, show plots of the comparative construction series both before and after adjustment for inflation. Deflation of the Construction Spending series has been revamped to reflect the ShadowStats Composite Construction Deflator (CCD), as discussed in the *Reporting Detail*.

[Graphs 10 to 13 begin on the next page.]

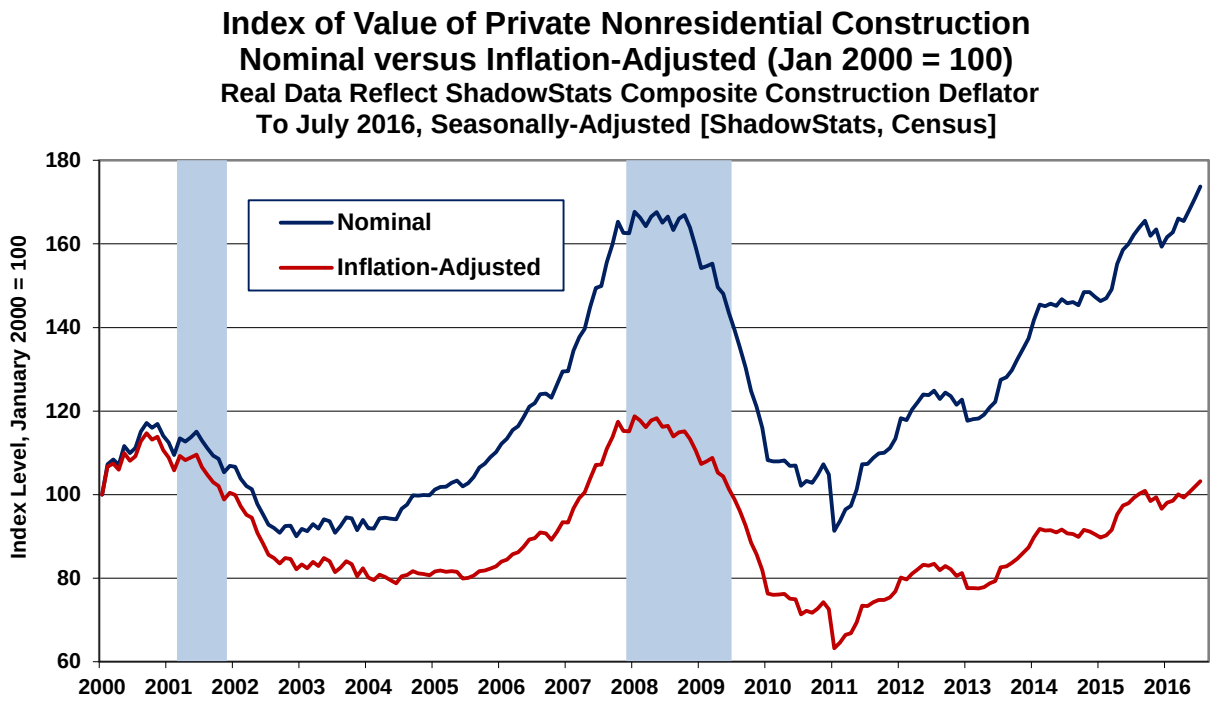
Graph 10: Index, Nominal versus Real Value of Total Construction



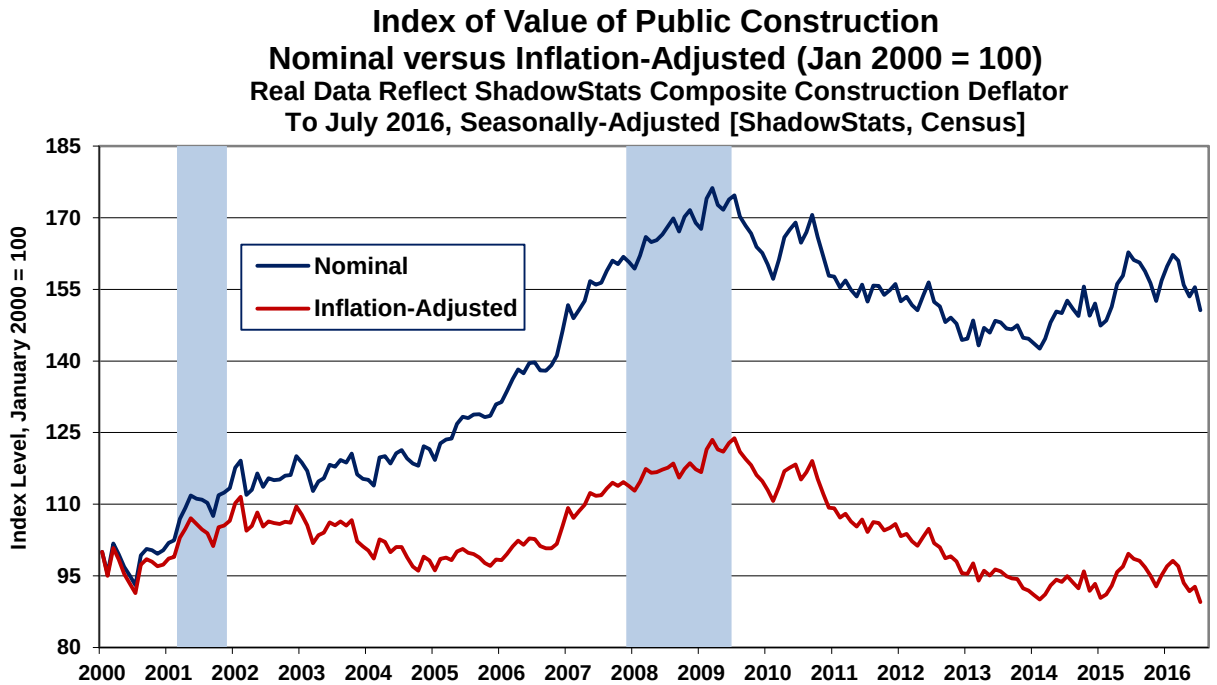
Graph 11: Index, Nominal versus Real Value of Private Residential Construction



Graph 12: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 13: Index, Nominal versus Real Value of Public Construction



Consumer Liquidity Conditions Still Constrain Sustainable Recovery. Consumer liquidity conditions are updated here for the July 2016 real median monthly household income measure (*Graph 14*) (www.SentierResearch.com) and for the full-August 2016 Consumer Confidence and Consumer Sentiment measures, respectively from the Conference Board and the University of Michigan (*Graphs 16* and *17*). The detail here revises and complements the last full-update on liquidity published in the *Opening Comments* of *Commentary No. 825*, with more-extensive background detail available in *No. 777 Year-End Special Commentary*. The next full update will include detail from the Census Bureau's release of 2015 annual household income estimates, scheduled for September 13th, and the Federal Reserve's Flow-of-Funds data for second-quarter 2016, due on September 16th (likely in the *Commentary* of September 16th).

Underlying fundamental drivers of consumer economic activity, such as liquidity, have been severely impaired in the last decade or so, driving broad economic activity into collapse and preventing a meaningful or sustainable economic rebound, recovery or ongoing growth. The level of and growth in sustainable real income, and the ability, and willingness of the consumer to take on new debt, remain at the root of the liquidity issues.

Generally, the higher and stronger those measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes remain off their lows, and one—real monthly median household income—actually had spiked recently to pre-recession levels, reflecting the temporary collapse in gasoline prices and deflation by the otherwise underestimated headline CPI-U inflation. Real monthly median income, however, generally has begun to move lower or to stagnate, again, along with a pickup in consumer inflation (see *Graph 14*).

Still, these underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic of 2008 environment, limited growth in household income and credit, and a still generally, faltering consumer outlook, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers.

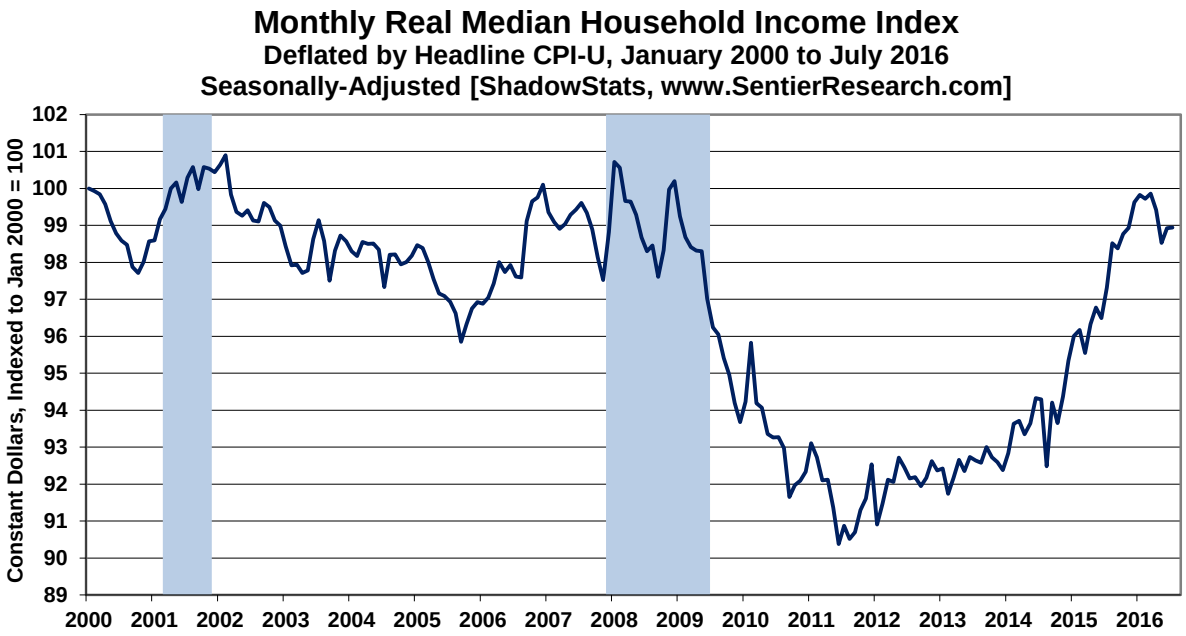
Such has driven the housing-market collapse and ongoing stagnation in consumer-related real estate sales and construction activity, as well as constrained both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential-construction categories of the Gross Domestic Product (GDP). Together, those sectors account for more than 70% of total GDP activity in the United States.

Now, with the economy never having recovered fully from the collapse into 2009, consumers again are pulling back on consumption, as evidenced by a renewed slowdown in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a meaningful, fundamental upturn in consumer- and banking-liquidity conditions.

Household Income Measures Still Signal Broad-Based Economic Difficulties. Discussed and graphed in *Commentary No. 752* are the Census Bureau's most-recent (2014) annual measures of household income. Unexpected weakness in some of the headline annual income data, though partially masked by changes in survey questions, signaled increasing liquidity difficulties for U.S. households. Again, the headline 2015 detail is planned for release on September 13, 2016.

Shown first in *Graph 14* is the latest monthly real median household income detail through July 2016, as reported by www.SentierResearch.com. The headline reporting had turned down anew, with a statistically-significant monthly decline in May 2016, after several months of statistically-insignificant flutterings around its near-term January 2016 peak, and with a statistically-insignificant monthly uptick—effectively flat—in June 2016 and flat in July 2016.

Graph 14: Monthly Real Median U.S. Household Income through July 2016



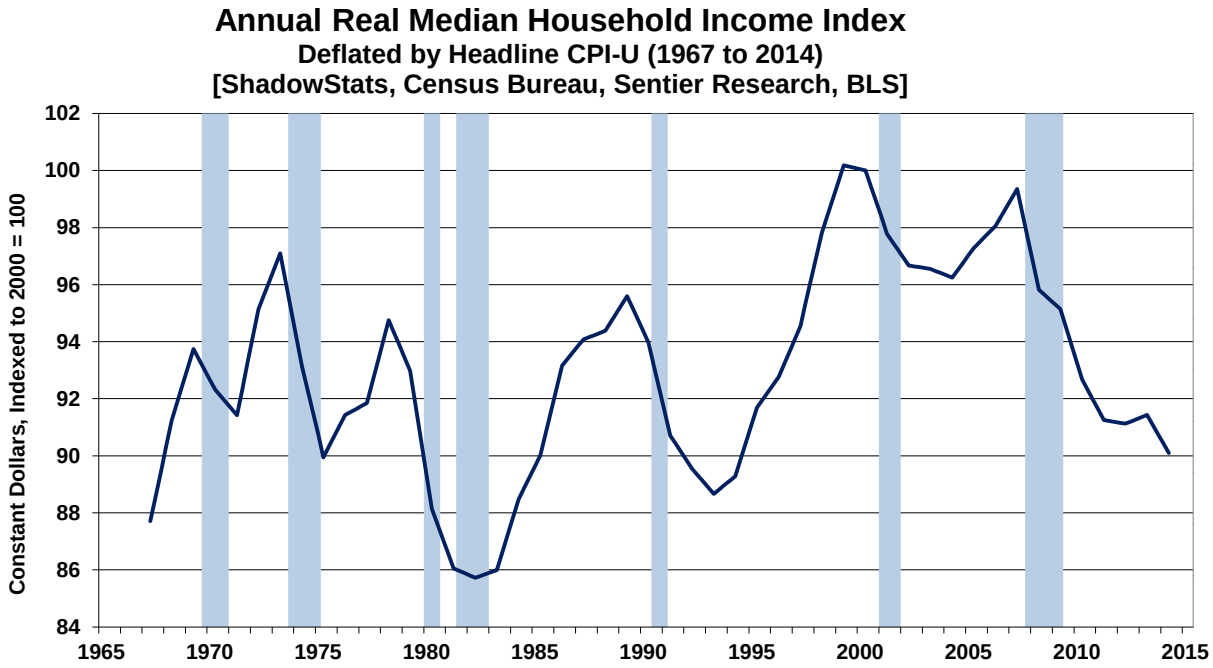
This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 15*, but the monthly specifics are generated from separate surveying and questioning by the Census Bureau.

On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. Generally, the income series had been in low-level stagnation, with the recent uptrend in the monthly index boosted specifically by collapsing gasoline prices and the related, negative headline CPI-U consumer inflation. The index reached pre-recession levels in the December 2015 reporting, but it remains minimally below the pre-recession highs for both the formal 2007 and 2001 recessions. It should continue to turn down anew, as headline monthly consumer inflation picks-up in the months ahead.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 15*, with the latest 2014 real annual median household income at a twenty-year low. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau. Where Sentier uses monthly questions surveying current annual household income, the headline annual Census detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income.

As discussed in *Commentary No. 752*, the Census Bureau changed its annual income questionnaire for 2014, with the effect of boosting income levels reported in 2014. The details on changes between 2013 and 2014, however, also were available on a consistent and comparable basis, and the consistent aggregate annual percentage change of median household income in 2014, versus 2013, was applied to the otherwise consistent historical series to generate *Graph 15*.

Graph 15: Annual Real Median U.S. Household Income through 2014



In historical perspective from *Graph 15*, the annual real median household-income levels in 2011, 2012 and 2013 were below levels seen in the late-1960s and early-1970s, with the 2014 income level below the readings through most of the 1970s, aside from being at a twenty-year low. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy (see related discussions in *2014 Hyperinflation Report—The End Game Begins* and particularly *2014 Hyperinflation Report—Great Economic Tumble*).

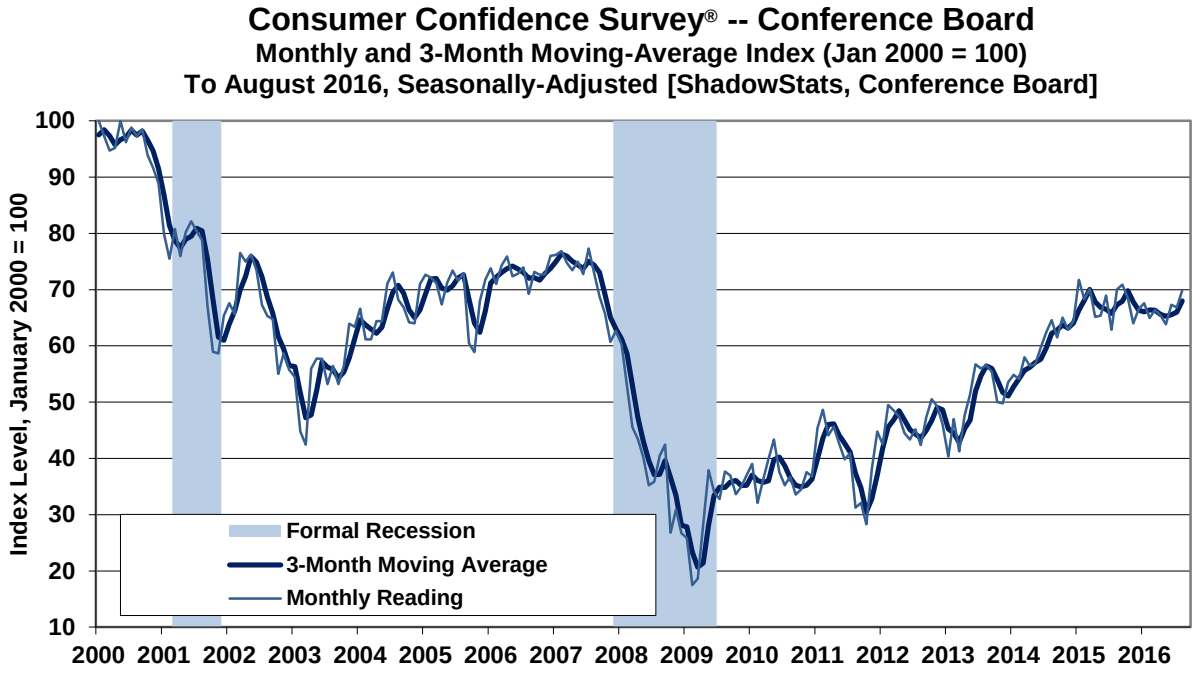
Consumer Confidence and Sentiment. The respective full August 2016 monthly readings for the Conference Board's Consumer-Confidence and University of Michigan's Consumer-Sentiment measures are reflected in *Graphs 16* to *18*.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph 16*) rallied, while the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 17*) sank in their respective August readings (the July Conference Board reading revised lower in conjunction with the headline August release). Still, the three-month moving averages in both series continue to hold below their respective March/February 2015 near-term peaks.

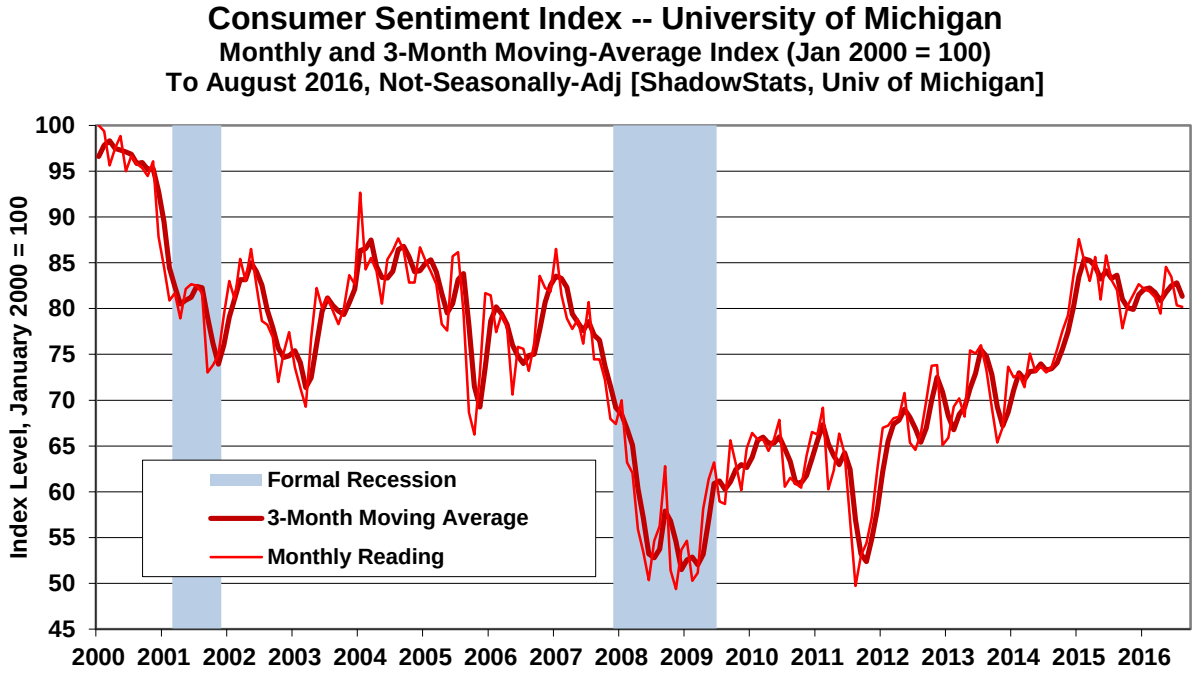
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 16* to *18* reflect both measures re-indexed to January 2000 = 100 for the monthly reading.

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.

Graph 16: Consumer Confidence to July 2016



Graph 17: Consumer Sentiment to Early-August 2016

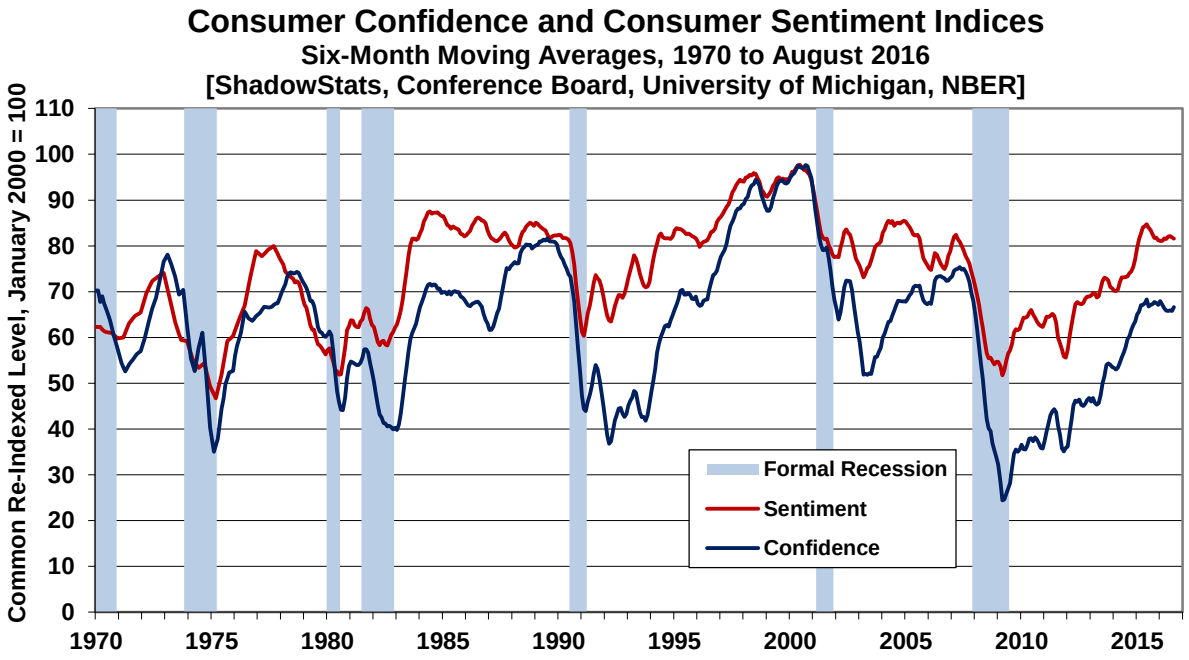


Both series also have continued to hold off near-term peaks, as smoothed for six-month moving-average readings (*Graph 18*), with both measures down from June 2015 near-term highs.

Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 18*—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 seen in 2014 and as indicated for the first three quarters of 2015 GDP growth, post GDP benchmarking (see *Commentary No. 823*).

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, unstable and uncertain headline financial and economic reporting and shifting political developments at hand and ahead, successive negative hits to both the confidence and sentiment readings remain increasingly likely, primarily from the faltering economy, while changes in the political environment could move the measures either way.

Graph 18: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970



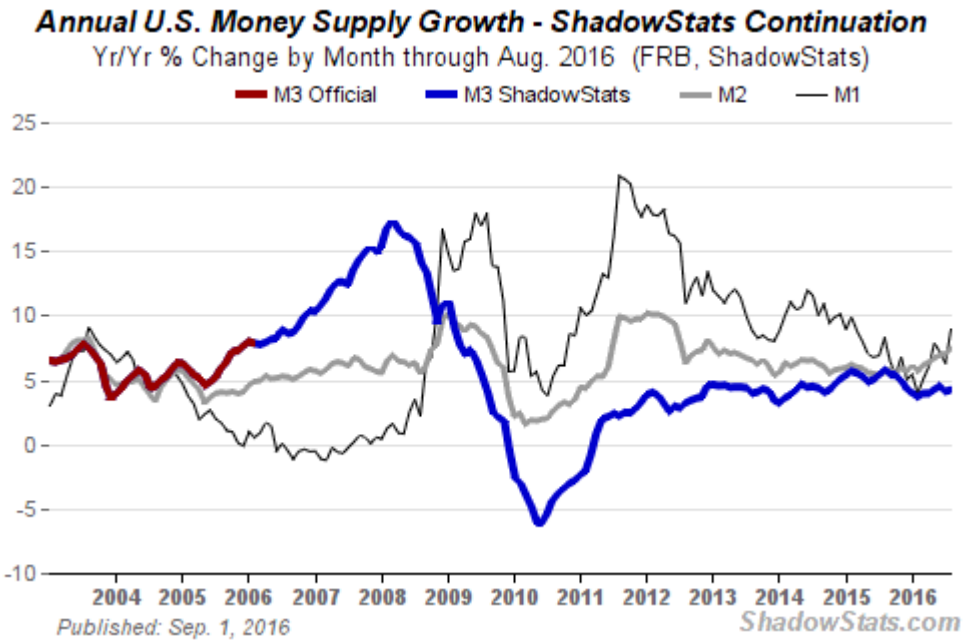
[The* Reporting Detail *section contains significant additional analysis and graphs.]

HYPERINFLATION WATCH

UPDATED MONETARY CONDITIONS

August 2016 Annual M3 Growth Notched Higher to 4.2% from 4.1% in July. ShadowStats Ongoing M3 Money Supply annual growth rose to 4.2% in August 2016, from an unrevised 4.1% in July 2016, and versus an unrevised 4.5% in June 2016 and yet still against a two-year low of 3.7% in February 2016. M1 and M2 annual growth rates also increased in August 2016, with M2 rising at an annualized 7.5% year-to-year pace, versus unrevised annual gains of 7.1% and 7.0%, respectively in July 2016 and June 2016. August 2016 annual growth in M1 soared to 9.0%, versus a revised 6.4% gain in July 2016 and an unrevised annual growth rate of 7.2% in June 2016.

Graph 19: Comparative Money Supply M1, M2 and M3 Year-to-Year Changes through August 2016



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 August 2016, versus unrevised gains of 4.1% in July 2016 and 4.5% in June 2016. Such also was against unrevised gains of 4.2% in May 2016, 4.0% in April 2016, 3.9% in March 2016 and a two-year low annual gain 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 a revised 5.8% in August 2015, as seen in *Graph 19*. Note in particular also the relative surge of M1 annual growth in *Graph 19*, in August, where M1 basically is cash-in-hand and checking accounts.

On a seasonally-adjusted, month-to-month basis, August 2016 M3 rose by 0.7%, versus monthly gains of 0.3% in July, 0.6% in June, 0.4% in May, 0.3% in April and 0.7% in March.

The relative weakness in annual M3 growth versus M2 and M1 (also in 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, as was seen again in the headline August 2016 detail.

Following are initial estimates of August 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 August 2016 M3, M2 and M1, and for earlier periods are available on the Alternate Data tab of www.ShadowStats.com.

Annual M2 growth in August 2016 rose to 7.5%, from 7.1% in July 2016, 7.0% in June 2016, 6.8% in May 2016, and 6.4% in April 2016, with a month-to-month increase in August 2016 of 0.9%, following consecutive monthly increases of 0.6% in each of the months of July, June, May and April in 2016.

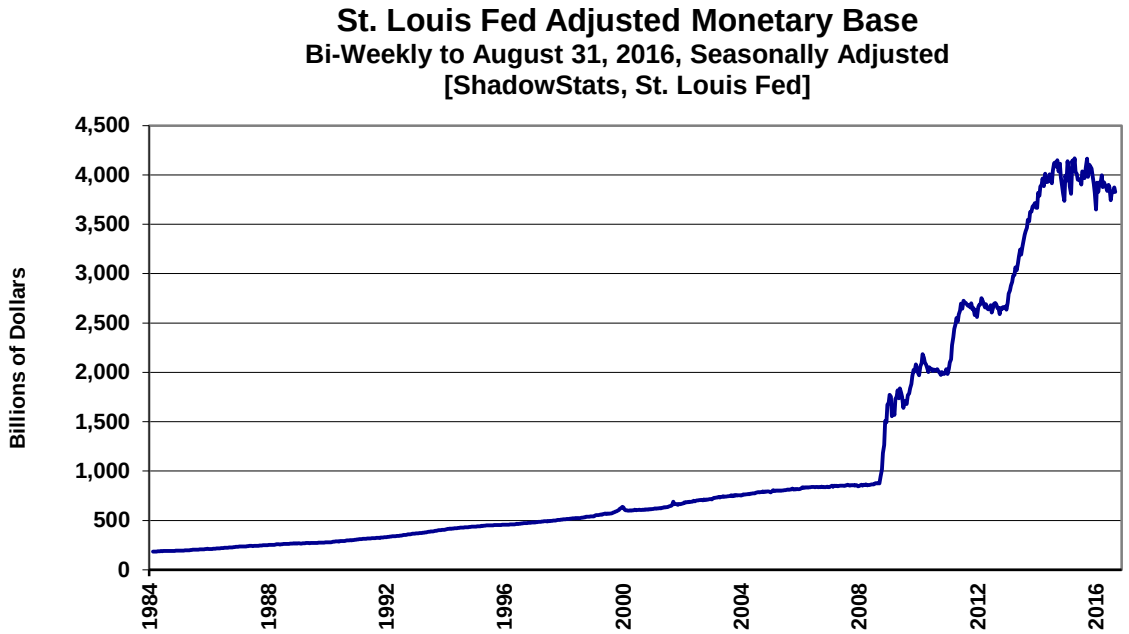
For M1, year-to-year growth jumped to 9.0% in August 2016, having revised to 6.4% (previously 7.1%) in July 2016, versus unrevised annual gains of 7.2% in June 2016, 7.9% in May 2016 and 6.1% in April 2016, with a month-to-month increase of 2.7% in August, following a revised monthly decline in July of 0.1% (-0.1%) [previously a 0.5% increase], and unrevised monthly increases of 0.2% in June, 1.5% in May and 1.0% in April in 2016.

Annual Decline in the Monetary Base Is Pushing Historic Lows, in the Context of Continued Rate-Hike Waffling. In continuing follow-up to earlier *Commentary No. 824*, *No. 819*, *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 has been relatively stable, although annual change and level have shifted increasingly to the negative side. That has been the case since what still appears to have been a one-time rate-hike in December 2015. Despite current jawboning and prattling to the contrary, no further action is likely now until after the election. With the economy turning down anew, some form of expanded quantitative easing could be seen, as discussed in *Commentary No. 827*.

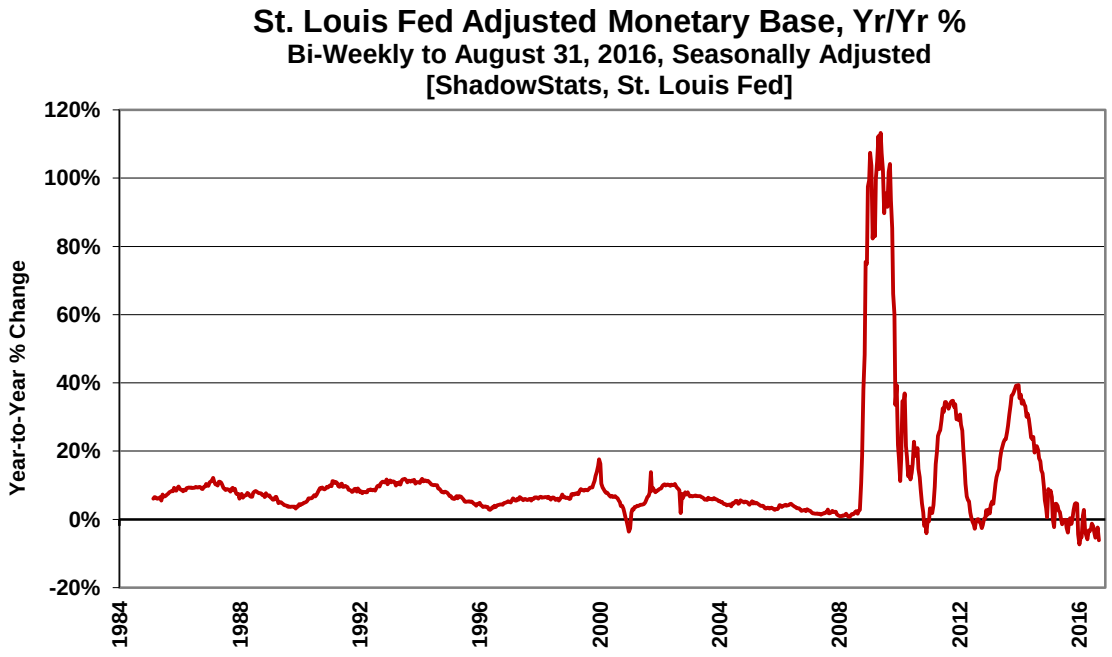
Graphs 20 and *21* show reporting of the St. Louis Fed's Monetary Base through the two-week period ended August 31st, with a level of $3.827 trillion, versus $3.871 trillion as of August 17th. Year-to-year change showed a near-record decline of 6.1% (-6.1%) in the latest period, versus the record 7.4% (-7.4%) annual drop seen in the January 6th period. That latter period encompassed the Fed's rate hike in December.

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 about $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 were broken recently, again, in the July 6th headline reporting, suggestive, again, of market interventions required by the New York Fed.

Graph 20: Monetary Base Level, Bi-Weekly through August 31, 2016



Graph 21: Monetary Base, Year-to-Year Percent Change, through August 31, 2016



REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (August 2016)

In Continued Misreporting, Payroll Activity Remained Massively Overstated; Month-to-Month Unemployment Comparisons Were Without Meaning. *[Note: This section, through the* PAYROLL SURVEY DETAIL, *largely is repeated from the* Opening Comments.*]* Underlying reality for August 2016 U.S. labor conditions remained in the realm of a 23.0% broad unemployment rate, with the actual monthly payroll-employment change down by at least 50,000 (-50,000).

The "unchanged" headline U.3 unemployment at 4.9% in August was continued nonsense, simply reflecting not-comparable and meaningless month-to-month changes in the Household Survey data, as discussed in in the opening paragraphs of *Commentary No. 819* and in *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*. Consider that headline Household Survey detail showed the number of employed increasing by 97,000 in August 2016, while the number of unemployed increased by 79,000. This pattern has been repeated frequently in headline monthly data this year. Normally, changes in the count of the employed have some meaningful offset in the count of the unemployed, and vice versa; they generally are not complementary, with both employment and unemployment increasing at the same time. That did not happen here, again, simply because the seasonally-adjusted July and August data were not reported on a consistent basis and were not comparable month-to-month.

The gimmicked, headline payroll gain of 151,000 in August more realistically should have come in well below zero, perhaps by minus 50,000 (-50,000) net of built-in upside biases. Discussed in the *Birth-Death/Bias-Factor Adjustment* section in this *Reporting Detail*, 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. Such is separate from the constantly shifting seasonal-adjustment patterns that can boost headline data in a given month, with no prior-period offset accounting. Again, see the *Headline Distortions from Shifting Concurrent-Seasonal Factors*.

PAYROLL SURVEY DETAIL. This morning, September 2nd, the Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for August 2016. In the context of heavily-distorted, bloating, seasonal adjustments, and largely offsetting revisions to headline June and July activity, the seasonally-adjusted, headline payroll gain for August 2016 was 151,000 +/- 129,000 [more appropriately +/- 300,000] at the 95% confidence interval (all confidence intervals used are at the 95% level). That followed an upwardly-revised 272,000 [previously 255,000] gain in July and a downwardly-revised and demonstrably-false, not-comparable 271,000 [previously 292,000, initially 287,000] gain in June. Consistent, seasonally-adjusted headline detail shows the June gain to have been 289,000, instead of the

headline 271,000, with the May 2016 gain now at just 4,000, against the official headline gain of 24,000 (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*). Net of prior-period revisions, August 2016 payrolls rose by 150,000, instead of the headline 151,000.

The not-seasonally-adjusted, year-to-year growth in August 2016 nonfarm payrolls of 1.73% effectively remained within a hair's breadth of being at a 30-month low. That was against a revised annual gain of 1.71% (previously 1.70%) in July 2016, a revised 1.74% [previously 1.75%, initially 1.77%] in June 2016 and the actual near-term low-growth rate of 1.63% in May 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 Continued Down and Flattened Out. Construction Payroll Employment growth contracted anew in August 2016, versus July 2016, in the context of prior-period downside revisions to June and July, remaining below levels of March, April and May. 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). Detail is plotted in *Graph 33* in the *Construction Spending* section. The general pattern of downturn or flattening out increasingly is consistent with the intensifying weakness seen in real construction spending through July 2016

Headline month-to-month construction employment contracted by 0.09% (-0.09%) in August 2016, having gained a downwardly revised 0.17% [previously 0.21%] in July 2016, and having contracted month-to-month by a revised 0.09% (-0.09%) [previously down by 0.05% (-0.05%), initially "unchanged" at 0.00%] in June 2016, down by an unrevised 0.27% (-0.27%) in May 2016 and an unrevised decline of 0.09% (-0.09%) in April 2016. Again, 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 are stagnating.

The August 2016 construction-payroll level of 6.640 million was down from 6.659 million in April and 6.665 million in March.

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).

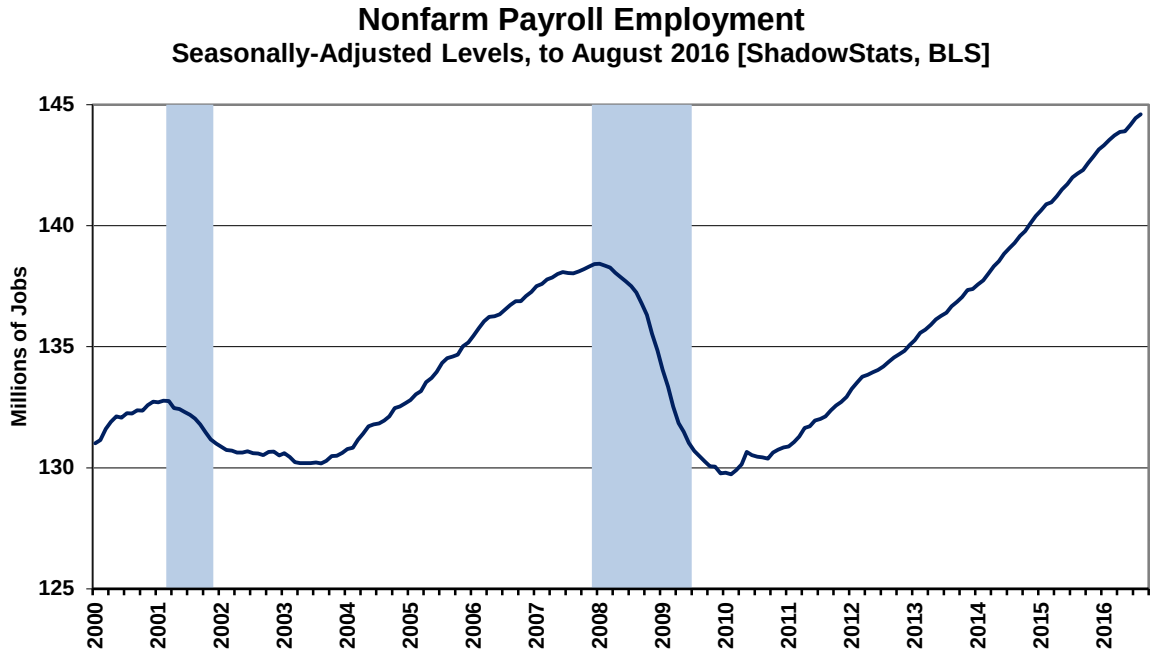
Nonetheless, August 2016 construction jobs remained down by 14.06% (-14.06%) from the April 2006 pre-recession series peak, but it was up by an unadjusted 2.72% from August 2015. Annual growth has slowed versus the pace 3.16% in July 2016, and versus the near-term peak in annual growth of 5.02% in March 2016.

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

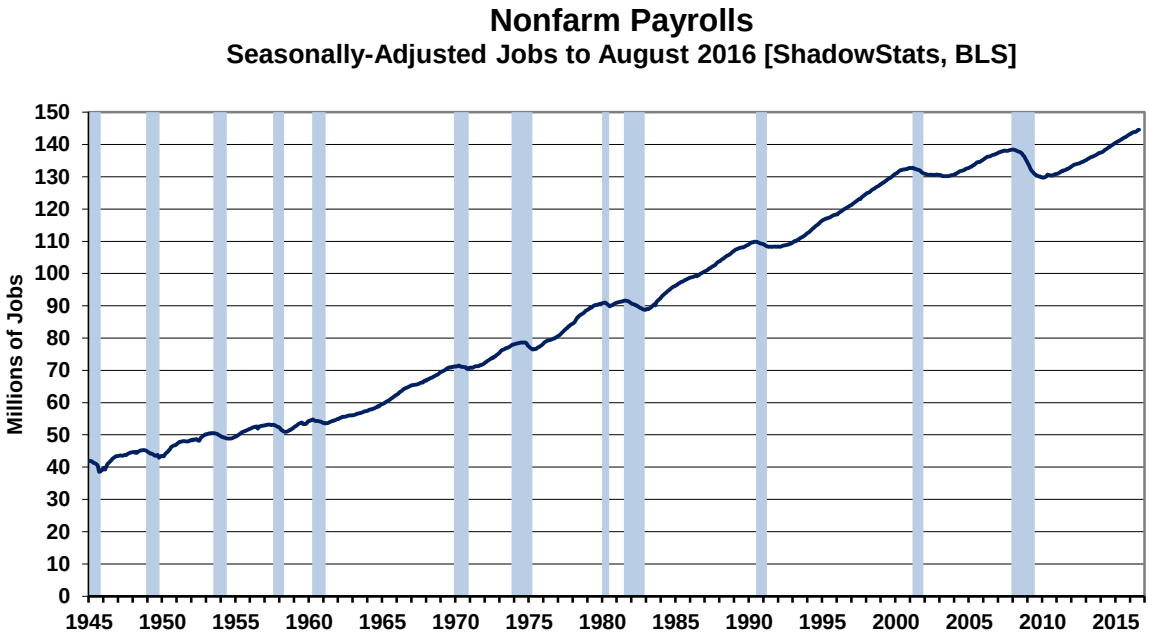
years earlier, back in 2011. Reflected in the next two graphs, headline payroll employment moved to above its pre-recession high in May 2014, as of the 2015 benchmarking. Previously that had been April 2014, as of the 2014 benchmarking. Payroll employment has continued to rise since, although it faltered in May. Including the latest headline monthly gains through August 2016, headline payroll employment was 6.17-million jobs above its pre-recession peak.

[Graphs 22 and 23 follow on the next page.]

Graph 22: Nonfarm Payroll Employment to August 2016



Graph 23: Nonfarm Payroll Employment 1945 to August 2016



Graphs 23 and *23* show the 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-

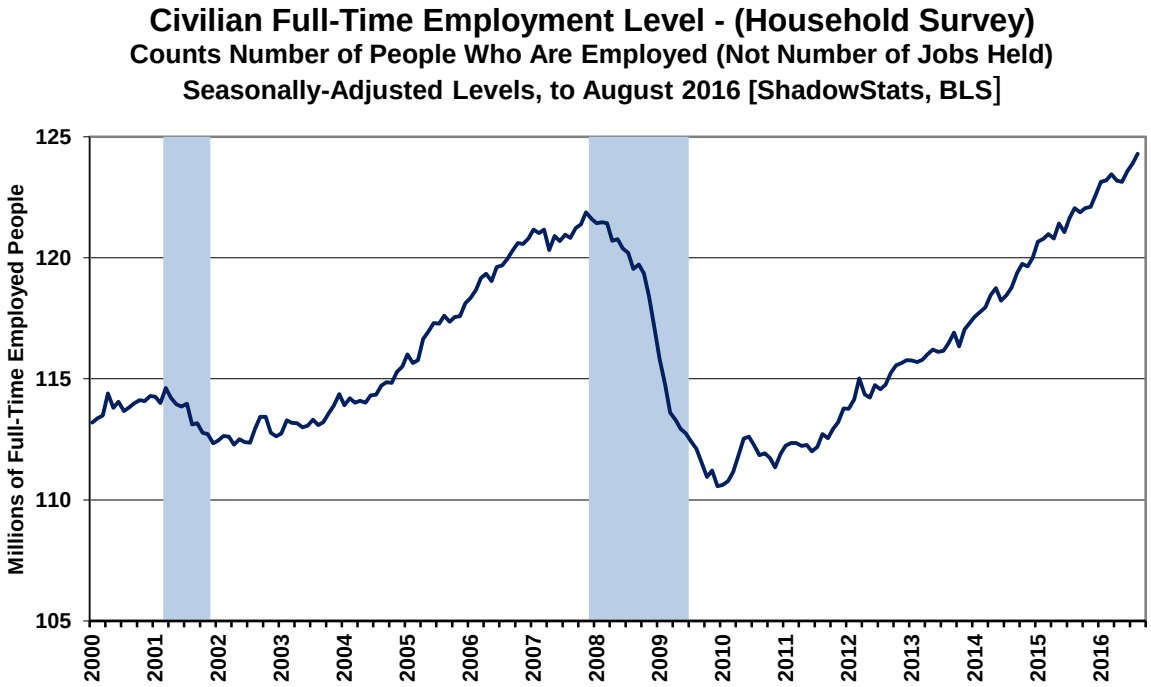
employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

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 24*, the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline August 2016 full-time employment gained 409,000, following gains of 306,000 in July, 451,000 in June, and declines of 59,000 (-59,000) in May and 253,000 (-253,000) in April, with the detail now standing at 2.43-million above that pre-recession high for the series. That is due in particular to irregularly-volatile monthly gains in the seasonally-adjusted data of June through August and in earlier months of 2016. The series 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 6.17-million above its pre-recession high, regained some 27-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.

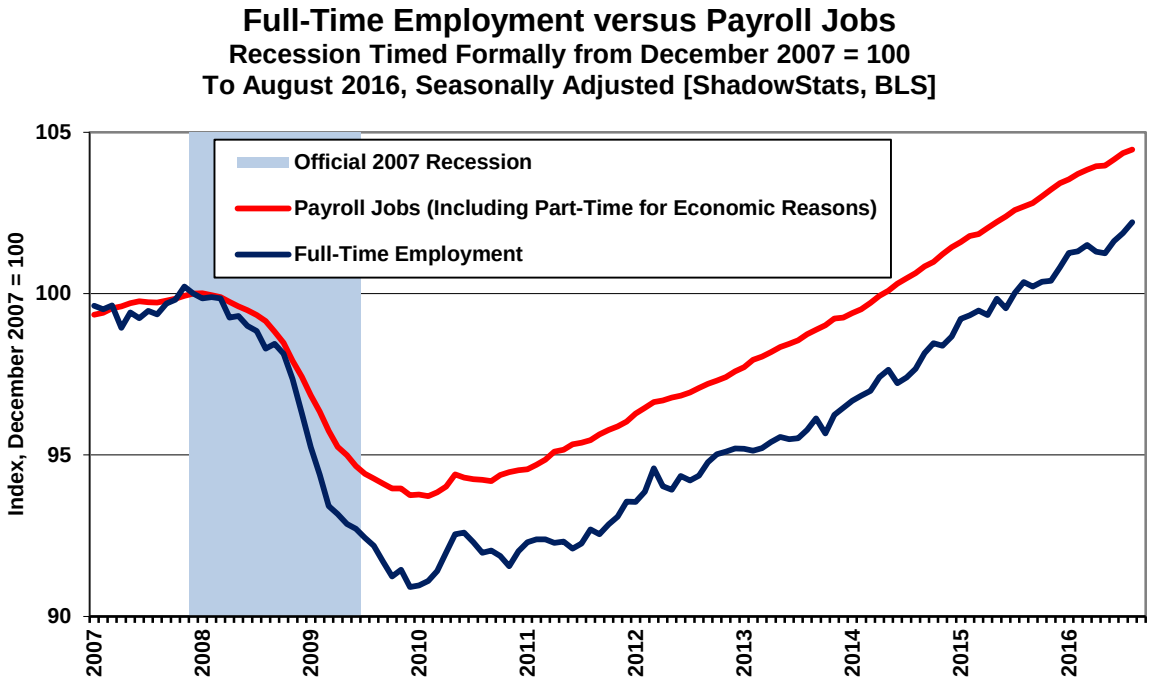
Graph 24: Full-Time Employment (Household Survey) to August 2016



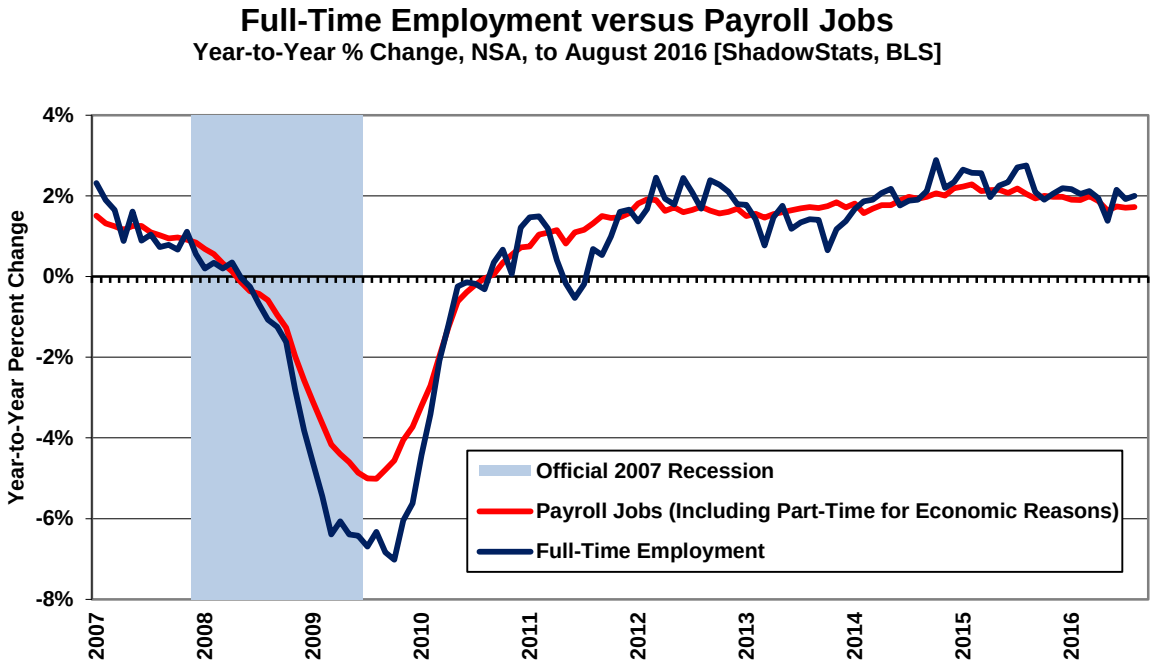
As a separate consideration and an indication of the level of nonsensical GDP reporting, employment traditionally is a coincident indicator of broad economic activity, again the GDP purportedly recovered its

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



Graph 26: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year



Graphs 25 and *26* 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).

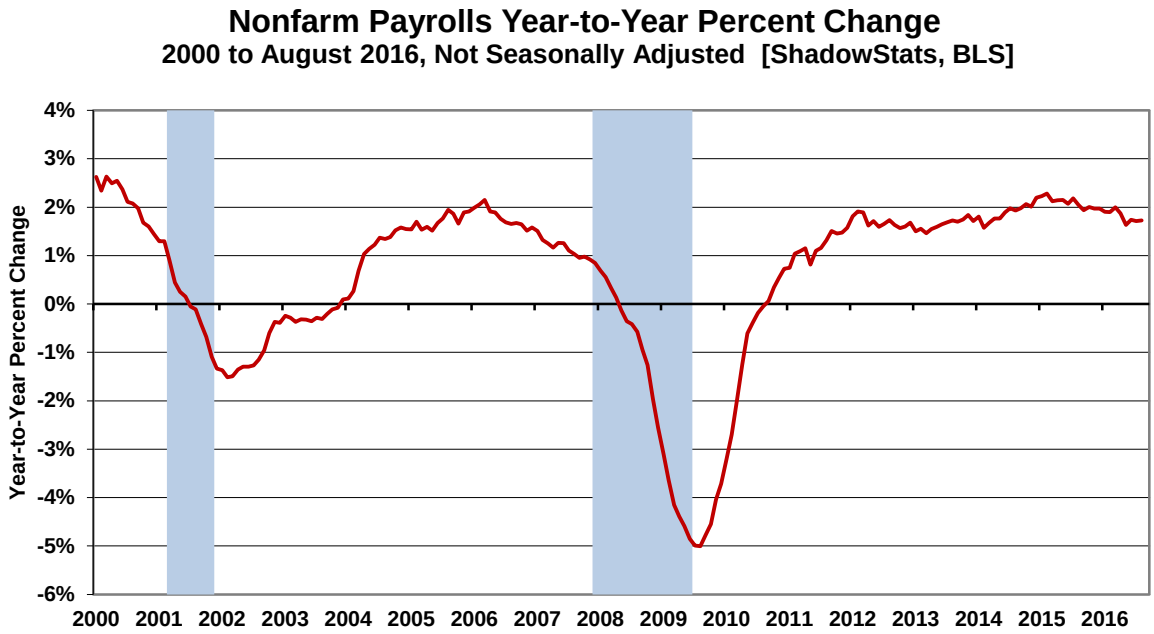
Annual Percent Changes in Headline Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis.

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 27* and *28*. 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 August 2016 was 1.73%, basically even with a revised 1.71% [previously 1.70%] in July 2016, a revised 1.74% [previously 1.75%, initially 1.77%] in June 2016, and versus an unrevised twenty-eight month low of 1.63% in May 2016.

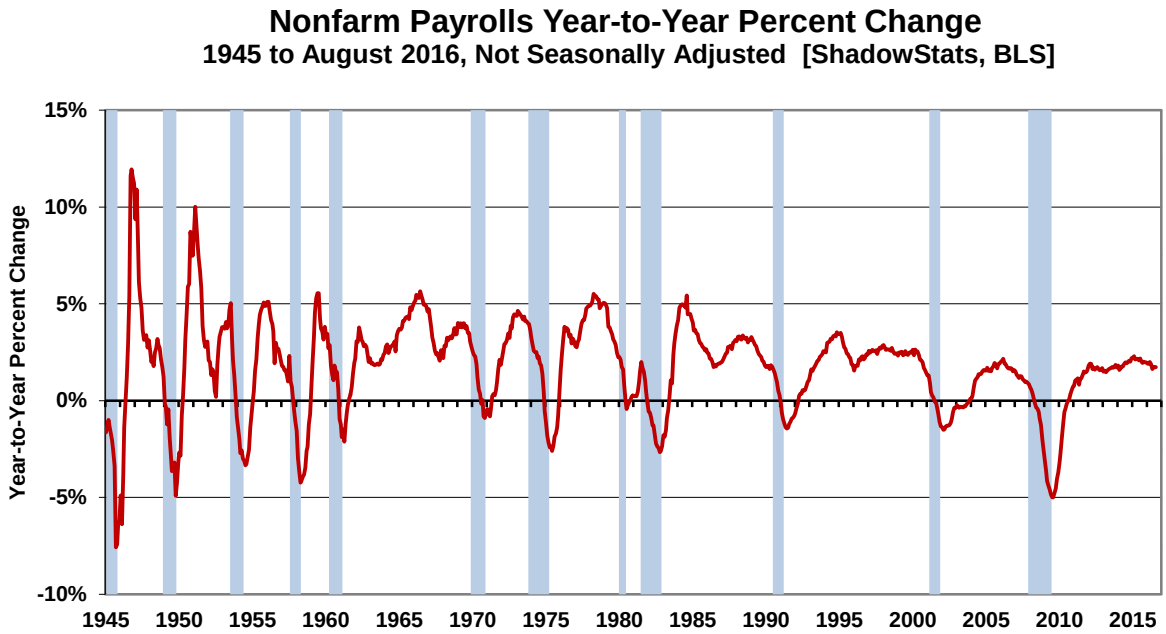
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown 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 27 and 28 follow on the next page.]

Graph 27: Payroll Employment, Year-to-Year Percent Change, 2000 to August 2016



Graph 28: Payroll Employment, Year-to-Year Percent Change, 1945 to August 2016



Headline Distortions from Shifting Concurrent-Seasonal Factors Still Mask Virtually No Growth in May 2016 Payrolls. 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 meaningful, as seen in the headline August 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 29*, 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 August 2016 payroll level was prepared on a consistent basis with the levels of July 2016 and June 2016, but not with May 2016, with the headline monthly gains consistent only for August and July. With the Household Survey, however, the August 2016 detail is not comparable with July 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), again, 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 29*).

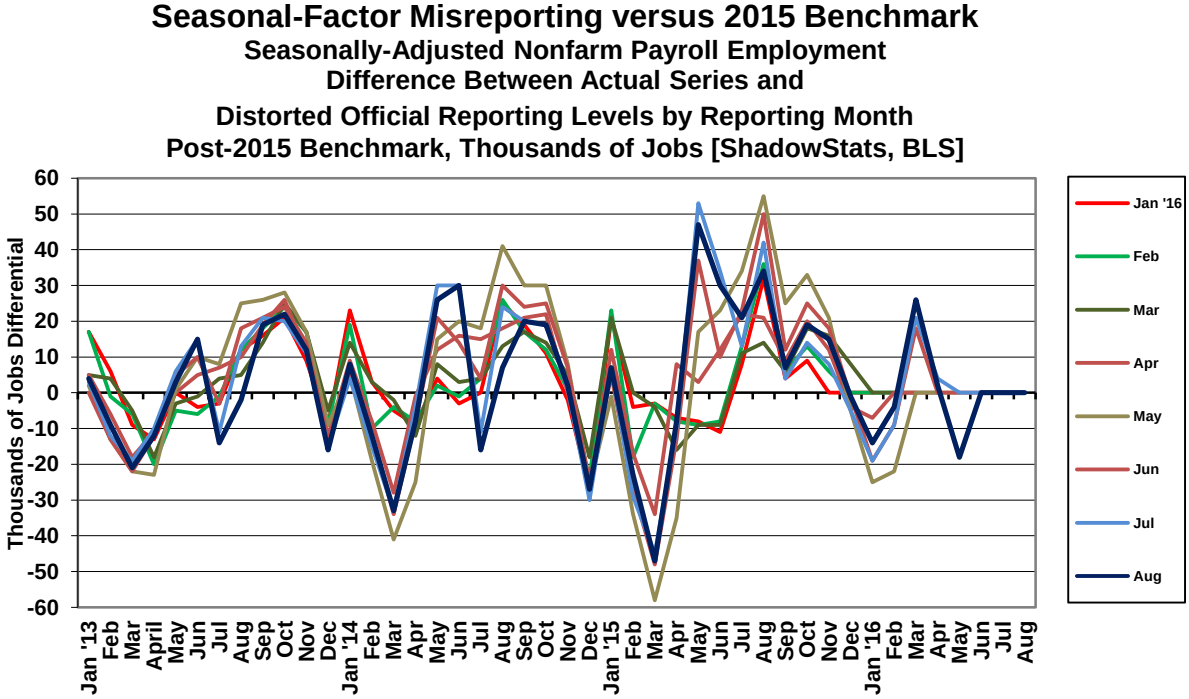
Where the BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, no such accommodation has been made for the Household Survey. Again, ShadowStats affiliate ExpliStats does such third-party calculations for the payroll series, and the resulting detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are reflected here in *Graph 29.*

Consider in the latest headline payroll detail that the August 2016 monthly changes were comparable only with the headline changes in the July 2016 numbers, not with June 2016 or any earlier months. Per BLS headline reporting, seasonally-adjusted August 2016 payrolls rose month-to-month by 151,000 from July, while July payrolls rose by 275,000 from June, with June payrolls rose up by 271,000 from May, and May up by 24,000 from April. The headline June monthly gain and none of any of the other prior-period monthly changes were accurate or comparable with the headline details for August and July, because the published, headline May 2016 and earlier month's payroll levels were not adjusted for the new August 2016-based seasonal adjustments.

Had the BLS published the headline May reporting on a consistent basis with August 2016, the May-to-June change would have shown a comparable monthly gain of 289,000, instead of the purported headline monthly increase of 271,000, and the comparable April-to-May reading would have been a monthly gain of just 4,000, instead of the headline 24,000.

As seen in the recent detail, the differences go both ways and often are much larger, as was the case for 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 29: Concurrent-Seasonal-Factor Irregularities - Headline Detail in August 2016 versus 2015 Benchmark



Graph 29 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; August makes that ten. 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 (July 2016) and dark-blue (August 2016) lines, indicates shifting seasonal patterns between just this month's headline detail and last month's headline detail. Shifts seen in seasonal factors in an earlier year are indicative of changes made to the current headline numbers, from where they would have been otherwise. This seasonality warping would not happen if the headline data were left intact for the year—on a consistent basis—rather than being recalculated just for August 2016 seasonals.

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, 2012 and 2014 excepted).

The initial estimate (summary number) for the 2016 benchmarking is due for release on September 7th and will be covered in the *Commentary No. 830*, next week. Full detail will accompany the release of January 2016 payroll detail on February 3, 2017.

Even with the published downside revision of 206,000 (-206,000) to March 2015 payrolls in the last year's 2015 benchmarking (see *Commentary No. 784* and *Commentary No. 784-A*), the BLS has upped its annual upside-bias factors since then by 91,000 jobs. Such discrepancies, however, are not unusual for the BLS.

Considering related actions of recent years, discussed in the benchmark detail of *Commentary No. 598*, the 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.

August 2016 Add-Factor Bias. The not-seasonally-adjusted August 2016 bias was a positive add-factor of 106,000, following a positive add-factor of 112,000 in July 2016, versus a positive add-factor of 115,000 in August 2015.

The revamped, aggregate upside bias for the trailing twelve months through August 2016 was 872,000, up by 91,000 or 11.7% from 781,000 in December 2015. That is a monthly average of 72,667, in August 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 72,667 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 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 *Opening Comments* and *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 August 2016 unemployment rate (U.3) held at 4.9%, versus 4.9% in July. At the second decimal point, the headline August 2016 U.3 was 4.92%, versus 4.88% in July. Formally, the 0.04% increase in August U.3 was statistically-insignificant. All that is nonsense, however, given that the monthly numbers are reported on an inconsistent basis and are not comparable with each other, in the context of the use of the inconsistent, published seasonally-adjusted detail (see *Graph 1* in 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 eased to 5.00% in August 2016, from 5.14% in July.

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 or otherwise marginally-attached 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 August 2016 (never seasonally-adjusted) declined by 15,000 (-15,000) to 576,000, with total, short-term marginally-attached workers declining by 237,000 (-237,000) to 1,713,000, while July 2016 short-term discouraged workers rose by 89,000 to 591,000, with total, short-term marginally-attached workers rising by 171,000 to 1,950,000. 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 unchanged, seasonally-adjusted U.3 unemployment rate, a decline in the count of marginally-attached workers, and a 113,000 increase the adjusted number of people working part-time for economic reasons, combined to generate a headline August 2016 U.6 unemployment of 9.69%, versus 9.71% in July 2016. The unadjusted U.6 unemployment rate eased to 9.70% in August 2016, from 10.07% in July 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 held at 23.0% in August 2016, the same level as in July 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 (1.723 million in August 2016), those not in the labor force currently wanting a job eased to 4.111 million in August 2016 (a reduced total of 5.824 million), versus 4.294 million in July 2016 (actually an increased total of 6.244 million), and against 4.322 million in June 2016 (a total of 6.101 million).

That net of 4.111 million in August also 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 August 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 August 2016 held at 23.0%, the same as in July 2016. The August 2016 reading was 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 August 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 9.7% in August 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 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 longer-term discouraged or displaced 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 at www.ShadowStats.com 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 (July 2016)

U.S. Trade Deficit—July 2016—July and Early-Third Quarter Deficits Were Narrowed by a Surge in Soybean Exports. Shown in *Graph 9* in the *Opening Comments*, the second-quarter 2016 real merchandise trade deficit held at its worst reading since third-quarter 2007 (although such has yet to surface in headline second-quarter 2016 GDP reporting, see *Commentary No. 828*). Yet, an unusual surge in July 2016 exports of soybeans gave the month, and the initial trend in the real third-quarter 2016 merchandise trade deficit, relatively-positive but likely short-lived boosts.

Nominal (Not-Adjusted-for-Inflation) July 2016 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, September 2nd, the nominal, seasonally-adjusted monthly trade deficit in goods and services for July 2016, on a balance-of-payments basis. Such was released in the context of revisions to the monthly data in first-half 2016, which widened the reported trade deficit in the first two quarters of this year by 2.3%, versus prior reporting.

The headline July 2016 deficit of $39.474 billion narrowed by an unusually-large $5.181 billion versus the restated $44.655 [previously $44.510] billion in June 2016. The $5.181 billion improvement in the headline monthly deficit reflected a gain of $3.408 billion in monthly exports, complemented by a $1.774 billion reduction in imports (rounding difference). The headline July 2016 deficit, however, still widened versus an unrevised monthly deficit of $39.900 billion in July 2015.

The July 2016 monthly surge in exports was dominated by an increase of $3.6 billion in soybean shipments, with declining imports seen in pharmaceuticals, cell phones and civilian aircraft. The circumstances generally are not regularly repeating, with a significant reversal in the trade pattern likely in the August detail, well before the initial third-quarter GDP estimate that otherwise would be spiked by these numbers. Shifting activity in energy-related products did not have heavy impact in monthly trade balance changes.

Energy-Related Petroleum Products. From an import standpoint, declining oil prices had bottomed out in February 2016, inching higher by 0.7% in March, gaining 6.5% in April, 16.0% in May, 15.2% in June and 4.2% in July, which was muted by declining physical import volume in the month. The not-seasonally-adjusted average price of imported oil increased to $41.02 in July 2016, versus $39.38 in June 2016, but that still was down from $54.20 per barrel in July 2015. Separately, not-seasonally-adjusted physical oil-import volume in July 2016 averaged 7.277 million barrels per day, down from 8.156 million in June 2016, and down from 7.632 million in July 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 labor conditions 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, markets should not rely too heavily on the accuracy of the monthly headline data.

Real (Inflation-Adjusted) July 2016 Trade Deficit. Seasonally-adjusted, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the July 2016 merchandise trade deficit (no services) narrowed to $58.274 billion, from a revised $64.548 [previously $64.692 billion] in June 2016. Not reflected here were the first-half 2016 revisions to nominal data, which widened the headline, nominal trade shortfall. Presumably, those revisions will follow in next month's headline real detail, and possibly in the third estimate to second-quarter 2016 GDP on September 29th.

The June data were against an unrevised real deficit of $60.892 billion in May 2016, versus $57.316 billion in April 2016, $56.033 billion in March 2016, $63.607 billion in February 2016 and $61.668 billion in January 2016. The July 2016 real shortfall widened versus a $56.773 billion deficit in July 2015.

Again, reflected in *Graph 9* of the *Opening Comments*, the annualized quarterly real merchandise trade deficit was $623.1 billion for fourth-quarter 2014, $700.0 billion for first-quarter 2015, $709.1 billion for second-quarter 2015, $708.4 billion for third-quarter 2015, $728.6 billion for fourth-quarter 2015 and $725.2 billion for first-quarter 2016.

The second-quarter 2016 real trade shortfall was at a revised annualized quarterly pace of $731.0 [previously $731.6] billion. That still was the worst quarterly showing since third-quarter 2007, and it still should turn the trade-deficit contribution for second-quarter 2016 GDP growth from its initial and second estimates of a positive-growth contribution reading, to a negative-contribution reading. Headline deficits likely will get even deeper in the months and quarters ahead, intensifying the ongoing negative impact on headline GDP.

That said, the massively distorted July 2016 reading has set an initial trend for a real third-2016 merchandise trade deficit of $699.3 billion, a narrowing of $31.7 billion versus the second quarter. With the monthly data in flux, that quarterly trend should shift sharply towards a widening deficit in next month's reporting.

CONSTRUCTION SPENDING (July 2016)

Spending Held in Real Quarterly Contractions and Low-Level Stagnation. While this series remains highly volatile and subject to large monthly revisions, with upside revisions to headline June and May activity, inflation-adjusted real activity in the construction spending series generally remained negative, on a monthly, quarterly and annual basis. Real monthly spending declined in July 2016, the third monthly contraction in four months. Second- and third-quarter 2016 real spending indicated quarterly contractions, while year-to-year change in real spending was tumbling sharply, as of June and July 2016, the first annual downturns since late-2011, continuing to follow a pattern as though the series were falling rapidly into a recessionary contraction.

The inflation data here, however, are not fully comparable with prior reporting, due to a change in inflation-adjustment methodology, discussed in the *Construction Inflation* section. Nonetheless, real construction spending generally continued in down-trending, low-level, stagnating non-recovery, with the level of July 2016 real spending still shy of its June 2006 pre-recession peak by 23.7% (-23.7%).

Construction Inflation—ShadowStats Composite Construction Deflator (CCD). ShadowStats is pleased to introduce a Composite Construction Deflator, for use in converting current or nominal (not-adjusted for inflation) headline construction spending into inflation-adjusted, real or constant-dollar terms.

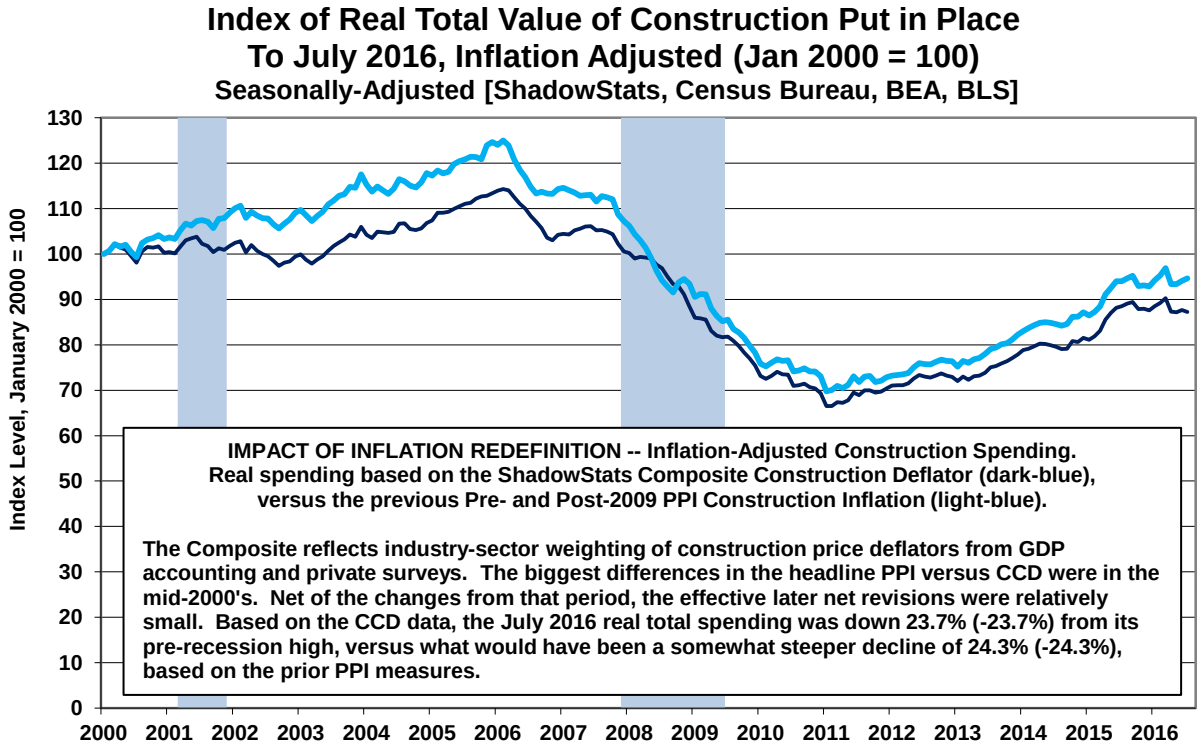
This section usually bemoans the lack of adequate, meaningful and/or consistent price deflators in the Producer Price (PPI) for adjusting construction spending into real terms. The series before the 2009 PPI overhaul and redefinition was woefully inadequate, heavily understating inflation. The series subsequent to 2009, although inconsistent with prior reporting, looked like it held some promise, going forward, broken out by aggregate, private and public construction spending. Yet, there was no meaningful difference between the various series (a 99.99% correlation between the different segments, as well as between seasonally-adjusted and unadjusted series). The big issue with the new PPI series, however, came with increasing instabilities and inconsistencies of the PPI surveying/tabulation process arising from an attempt to meld contractor profit margins with material costs. Those numbers quickly began to look nonsensical, against real-world data availability within the construction industry.

As an evolving remedy, ShadowStats has constructed the Composite Construction Deflator (CCD) for purposes of deflating the construction spending series. The CCD is a composite of pricing series, weighted by industry segment, with consistent historical tabulation back to before 2000. The combined indices reflect price deflators out of National Income (GDP) reporting, with quarterly numbers there interpolated into smoothed monthly series, in conjunction with privately surveyed monthly indicators.

As shown in *Graph 30*, this process smooths the real data somewhat, but the data are consistent over time and more reflective of actual inflation (the old and new series have a 98.8% correlation in terms of level, 95.3% in terms of annual change). Most of the difference between the old and new plots seen in the graph is due to higher inflation shown by the CCD versus the PPI in the period from 2003 to 2006. Net of that,

the post-2007 detail is quite close between the two series. With the CCD, the peak-to-trough contraction in the spending series actually was a little shallower than with the prior series. Current inflation, though, is somewhat higher with the new series.

Graph 30: Index of Total Real Construction Spending Recast for Composite Construction Deflator



The CCD is used here in deflating the aggregate and subsidiary series, again, all as shown in *Graphs 10* to *13* in the *Opening Comments*, and in the accompanying *Graphs 32* and *35*.

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 the residual month-to-month change. Note the comparative monthly volatilities in the non-smoothed *Graphs 36* and *37*.

Quarterly Trends. Reflecting headline July 2016 reporting in the context of the upside revisions to May and June 2016 headline detail, and some upside revision to the headline inflation detail, second-quarter 2016 real construction still plunged quarter-to-quarter, with an early trend towards contraction in third-quarter activity.

With all spending revisions (May and June 2016) and inflation revisions (the full series) in hand, first-quarter 2016 real construction spending rose at a revised annualized pace of 7.3% [previously up by 11.1%]. Second-quarter 2016 showed a revised real contraction of 8.5% (-8.5%) [previously down by 9.5% (-9.5%)]. Based on reporting just for July 2016, the early trend for third-quarter 2016 activity is a quarterly contraction of 2.0% (-2.0%).

Going back into last year, fourth-quarter 2015 real construction spending contracted at a revised annualized pace of 5.4% (-5.4%) [previously down by 6.8% (-6.8%)], following revised annualized quarterly real gains of 10.1% [previously up by 9.5%] in third-quarter 2015, 26.0% [previously 25.8%] in second-quarter 2015 and 5.3% [previously up by 4.2%] in first-quarter 2015.

Graphs 10 to *13* 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. Seen after adjustment for inflation, the real aggregate series generally has remained in low-level stagnation, now down-trending into third-quarter 2016. Areas of recent relative strength in the major subcomponents generally have flattened out, or turned down, after inflation adjustment, except for private nonresidential spending, which is up-trending at the moment.

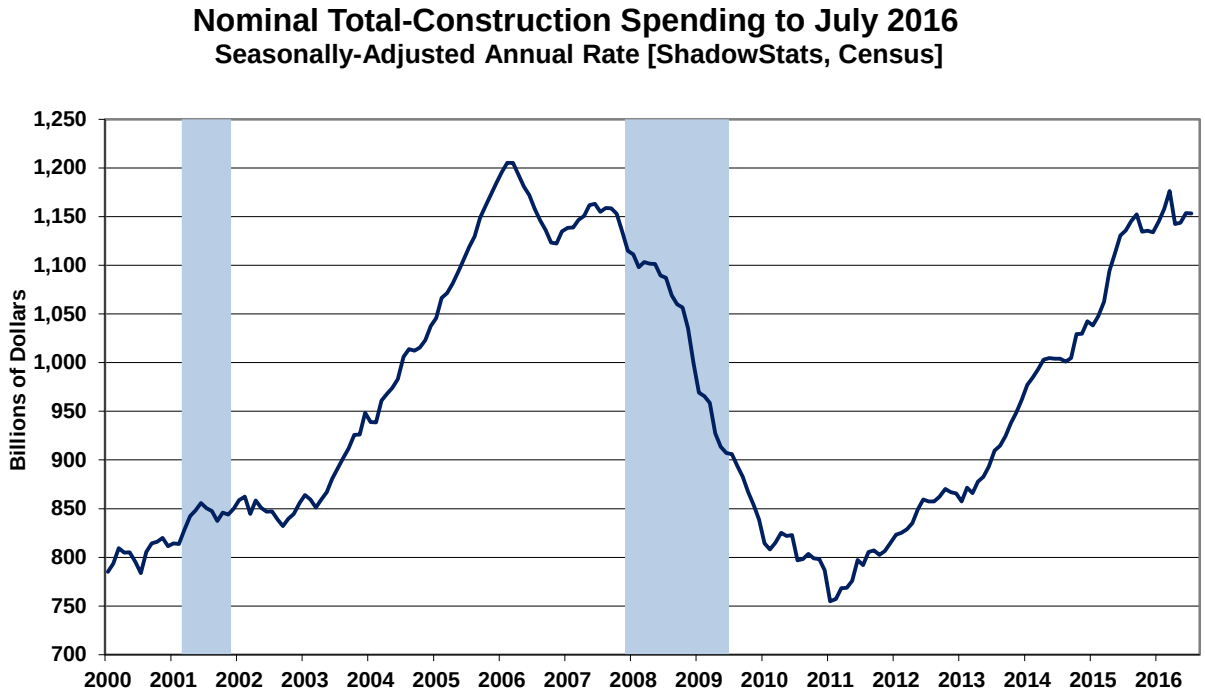
The general pattern of real activity had been one of low-level, up-trending stagnation that now has turned lower. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 31* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 32*. *Graphs 34* and *35* show the relative patterns of nominal and real activity aggregated by sector.

There is no perfect inflation measure, public or private for deflating construction. For the historical series in the accompanying graphs, again, the numbers are deflated by the *ShadowStats Composite Construction Deflator (CCD)*, described earlier in *Construction Spending*.

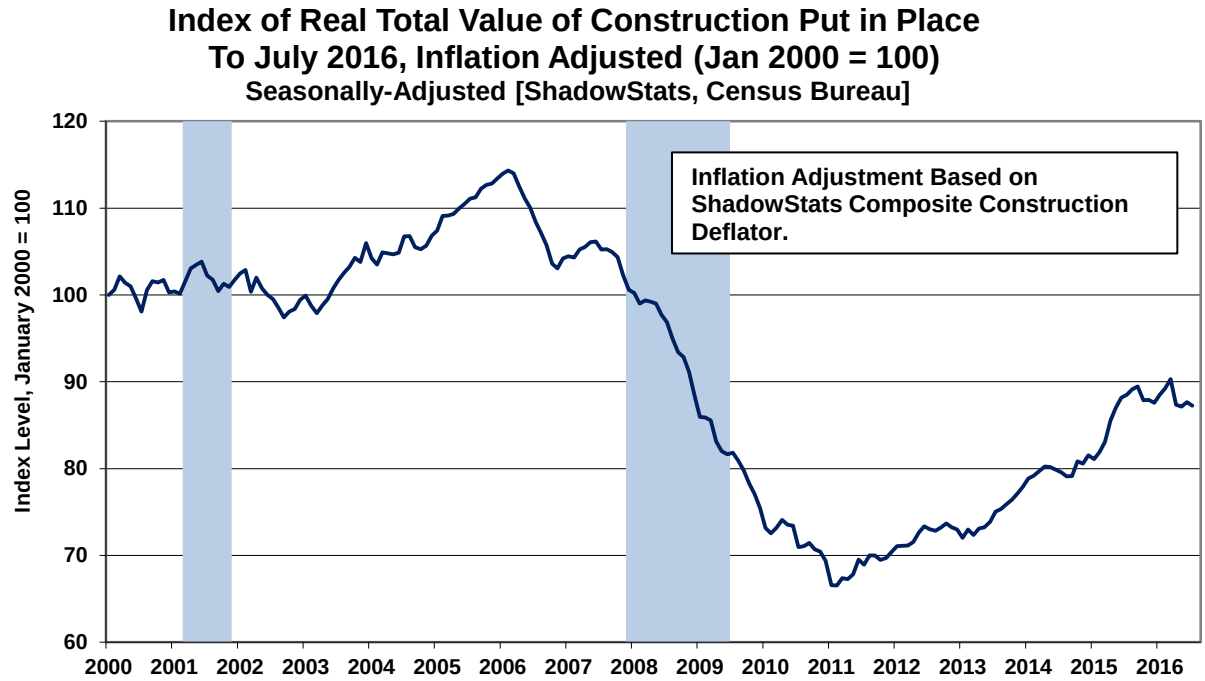
Seasonally-adjusted July 2016 CCD month-to-month inflation rose by 0.40%, following revamped monthly gains of 0.28% [previously up by 0.09%] in June, 0.33% [previously 0.09%] in May, and 0.41% [previously 0.79%] in April 2016. In terms of year-to-year inflation, the July 2016 CCD gained 2.95%, following revamped annual gains of 2.65% [previously 1.96%] in June 2016, 2.70% [previously 1.87%] in May 2016 and 2.25% [previously 1.87% in April 2016].

[Graphs 31 and 32 follow on the next page]

Graph 31: Total Nominal Construction Spending



Graph 32: Index of Total Real Construction Spending



Headline Reporting for July 2016. In the context of upside revisions to May and June activity, the Census Bureau reported September 1st that the headline, total value of construction put in place in the United States for July 2016 was $1,153.2 billion, on a seasonally-adjusted, but not-inflation-adjusted,

annual-rate basis. That estimate was down fractionally, month-to-month by a headline "unchanged" 0.0%, down by a statistically-insignificant 0.03% (-0.03%) at the second decimal point +/- 1.8% (all confidence intervals are at the 95% level), versus an upwardly-revised $1,153.5 [previously $1,133.5] billion in June 2016.

In turn, June was up by a revised 0.9% [previously down by 0.6% (-0.6%)] versus a revised $1,143.8 [previously $1,140.9, initially $1,143.3] billion in May 2016. In turn May was up by a revised 0.1% [previously down 0.1% (-0.1%)] from an unrevised level of $1,142.5 billion in April 2016.

Adjusted for CCD inflation, total real month-to-month spending in July 2016 fell by 0.4% (-0.4%), versus a revised gain of 0.6% in June 2016 and an unrevised real decline in May 2016 of 0.2% (-0.2%).

On a year-to-year annual-growth basis, July 2016 nominal construction spending rose by a statistically-insignificant 1.5% +/- 2.7%, following revised annual gains of 2.0% [previously up by 0.3%] in June 2016 and of 2.8% [previously 2.6%] in May 2016. Net of construction costs indicated by the CCD, the year-to-year change in total real construction spending dropped to 57-month low of minus 1.4% (-1.4%) in July 2016, a revised annual decline of 0.6% (-0.6%%) in June 2016, versus a revised annual gain of 0.1% in May 2016. The headline annual real decline in July activity was the weakest since the historical series troughed in its collapse into 2011.

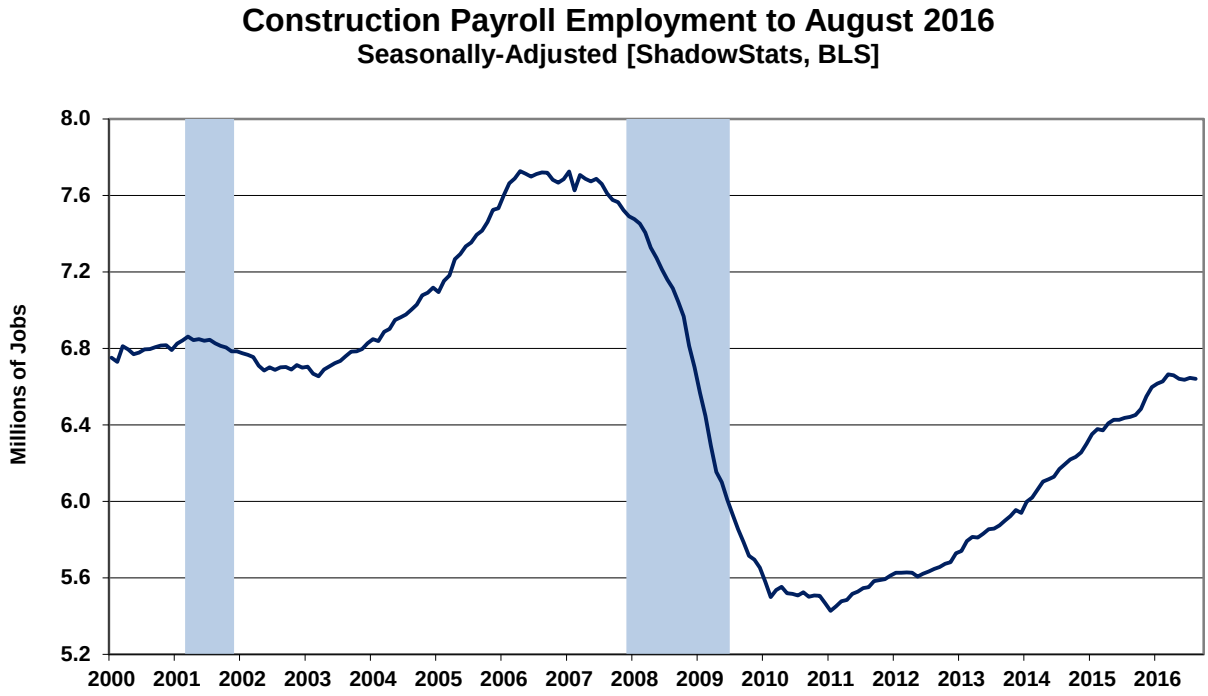
The statistically-insignificant, monthly "unchanged" in aggregate July 2016 construction spending, versus a gain of 0.9% in June 2016, included a headline monthly plunge in July of 3.1% (-3.1%), versus a 1.3% gain in June public spending. Private spending rallied by 1.0% month-to-month in July, following a 0.7% gain in June. Within total private construction spending, residential-sector activity gained 0.3% in July, having declined by 0.1% (-0.1%) in June while the nonresidential sector jumped by 1.7% in July, in the context of having revised sharply higher to a 1.6% gain in June.

Construction and Related Graphs. Earlier *Graphs 31* and *32*, and later *Graphs 34* and *35* reflect total construction spending through July 2016, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 32* is on an index basis, with January 2000 = 100.0. Adjusted for the CCD, 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 that lower, once again, into third -quarter 2016.

The pattern of non-recovered, inflation-adjusted activity here—net ShadowStats inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see *Commentary No. 828*), the unemployment detail graphed in the *Opening Comments* or in *No. 777 Year-End Special Commentary*). To the contrary, the benchmark-revised 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 second- and third-quarter 2016

***Liquidity Conditions Continue Constraining the Consumer and Related Construction Activity*.** Updated in the *Opening Comments*, with more-extensive background detail available in *Commentary No. 825* and *No. 777 Year-End Special Commentary*, consumer conditions continue to constrain activity in residential construction.

Graph 33: Construction Payroll Employment to August 2016

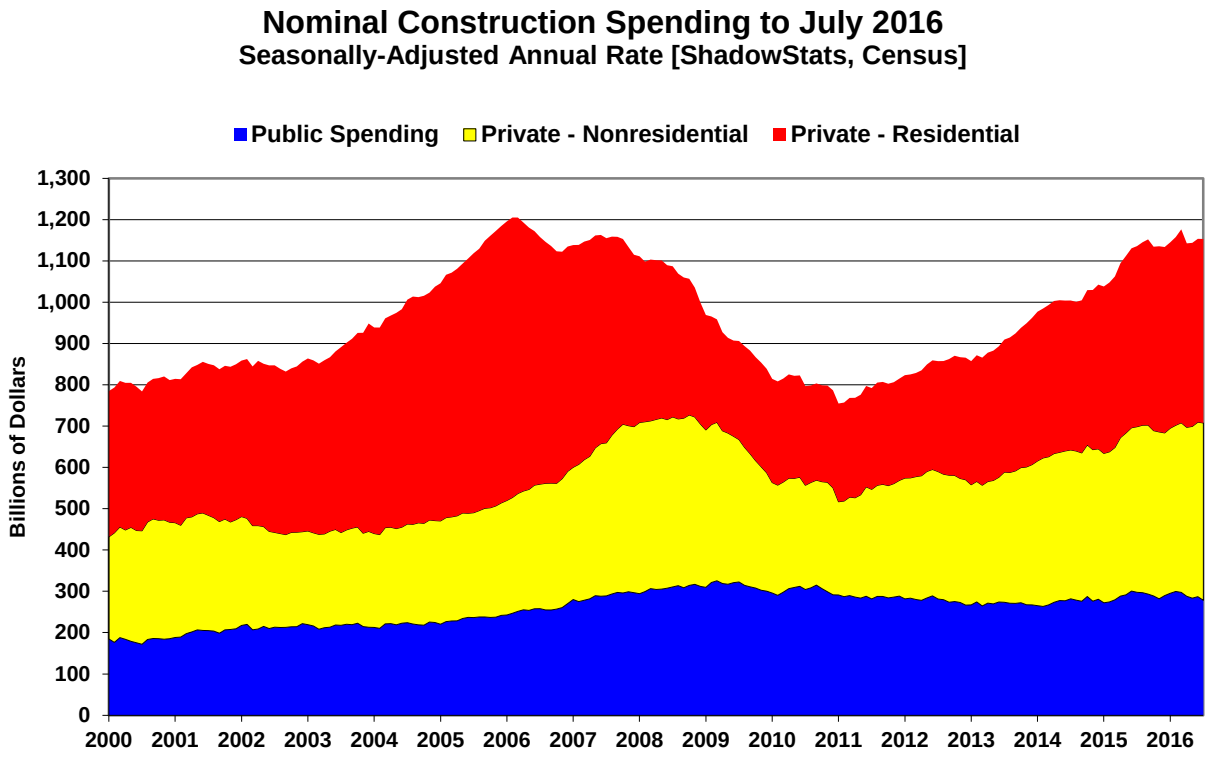


Construction Employment Not Recovering. *Graph 33* shows August 2016 construction employment, as discussed and detailed in the *Payroll Employment* section. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity. Where construction payrolls have gone flat or turned down, such is consistent now with the contracting quarterly and collapsing annual growth here in headline real construction spending.

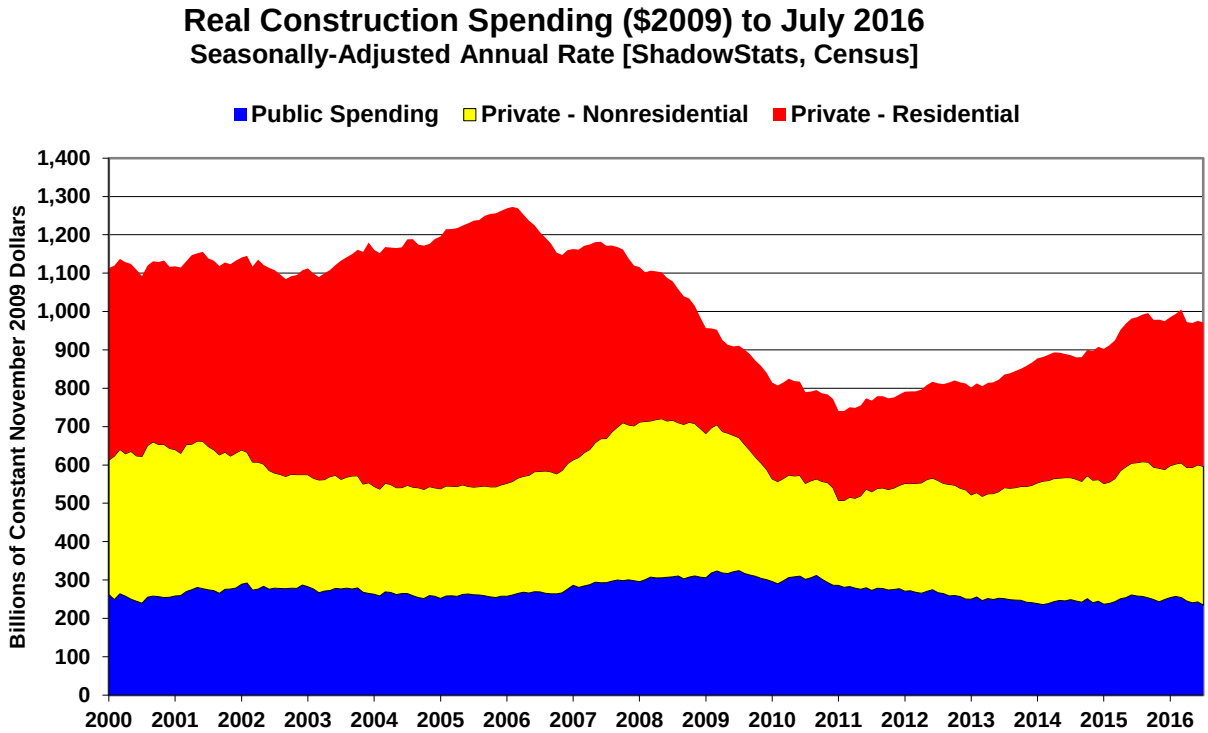
Graphs of Construction Activity. *Graph 34* shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 35* shows the same breakout by sector as in *Graph 34*, but the detail is in real, inflation-adjusted terms, reflected in constant November 2009 dollars, deflated by the *ShadowStats Composite Construction Deflator (CCD)*, as discussed otherwise in the earlier *Construction Inflation* section.

[Graphs 34 to 39 begin on the next page.]

Graph 34: Aggregate Nominal Construction Spending by Major Category to Date

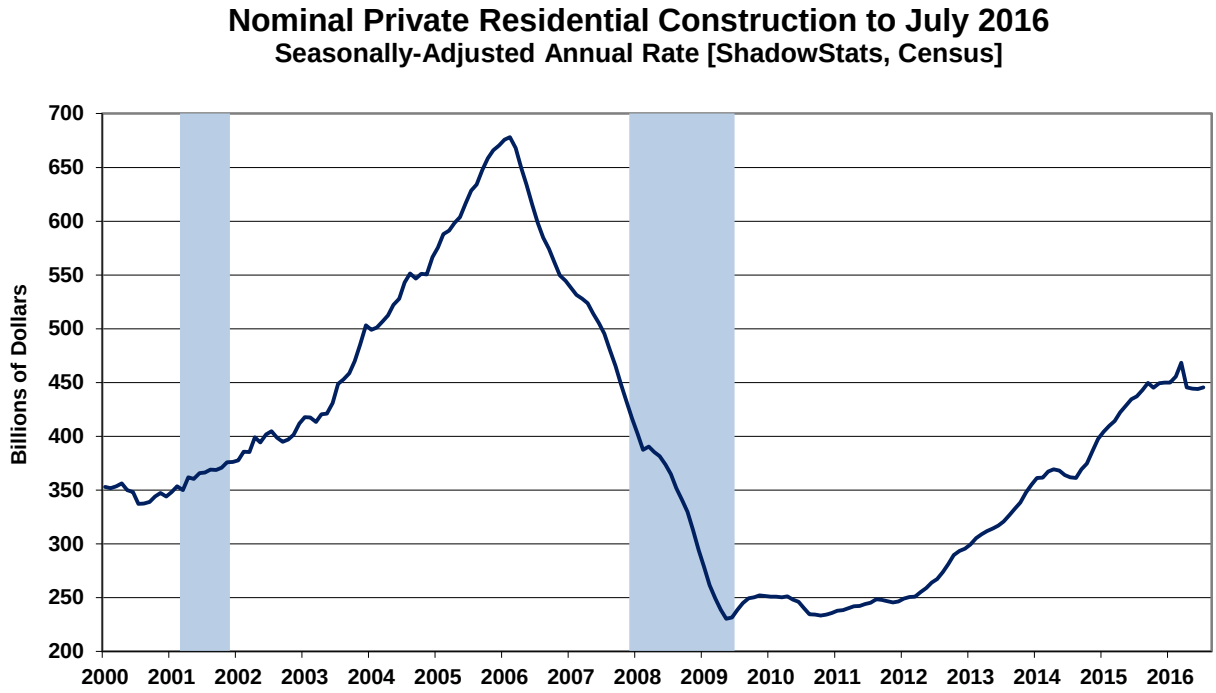


Graph 35: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)

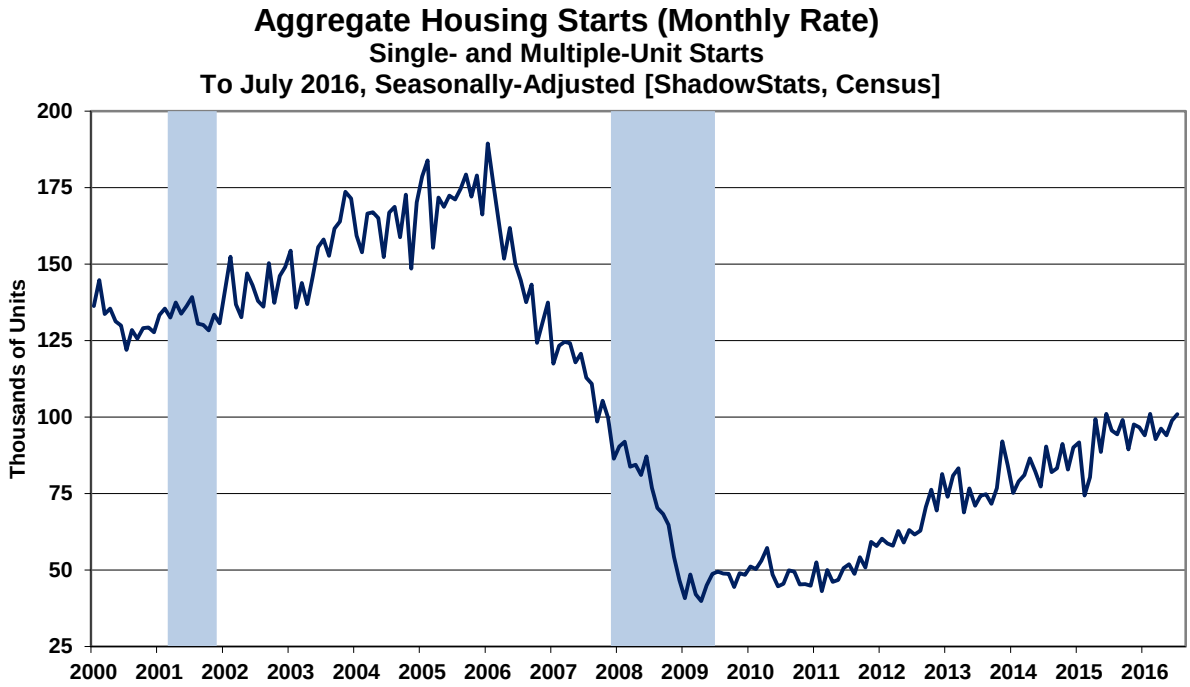


The next two graphs (*Graphs 36* and *37*) cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for July 2016 (see *Commentary No. 826*).

Graph 36: Nominal Private Residential Construction Spending to Date

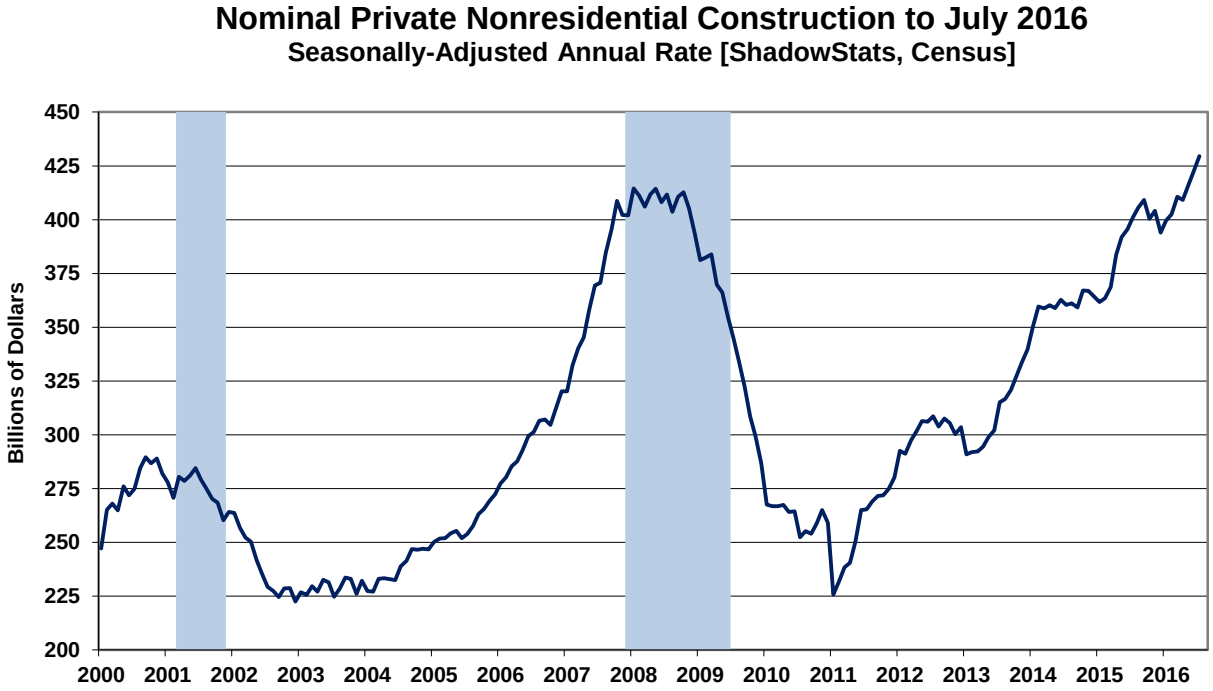


Graph 37: Single- and Multiple-Unit Housing Starts to Date

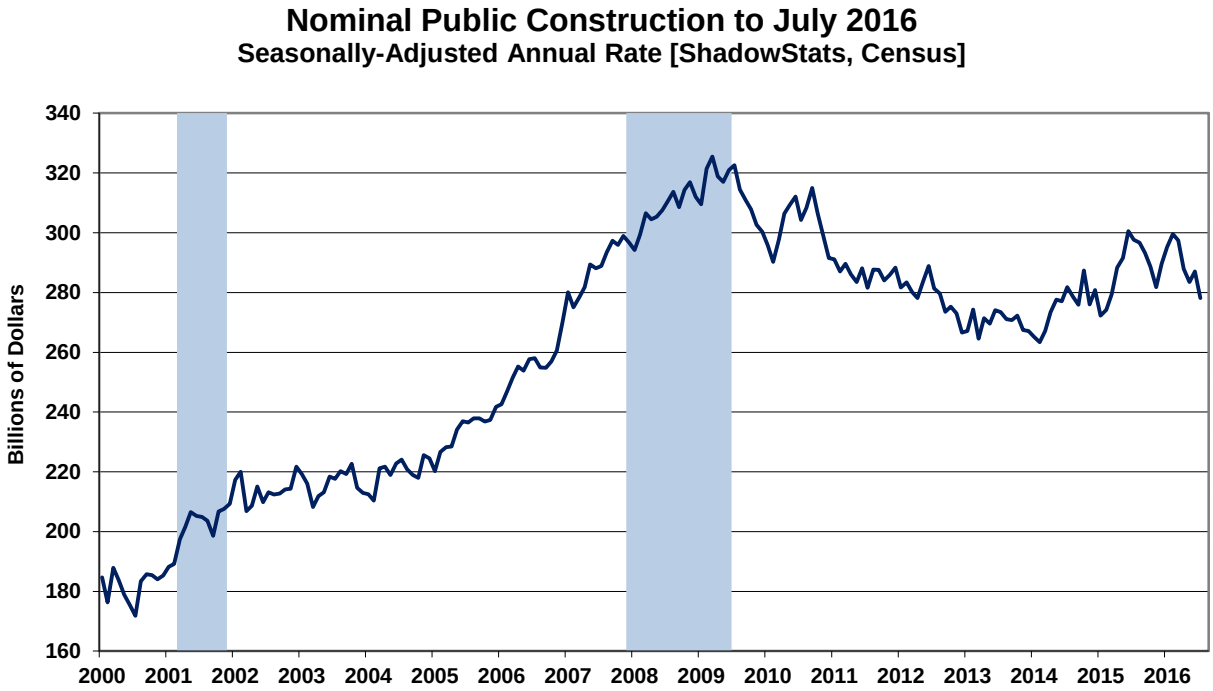


Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 11* of the *Opening Comments* section, *Graph 35* and presumably with the headline construction-payroll data in *Graph 33*.

Graph 38: Nominal Private Nonresidential Construction Spending to Date



Graph 39: Nominal Public Construction Spending to Date



The final two graphs (*Graphs 38* and *39*) show the patterns of the monthly level of activity in private nonresidential-construction spending and in public-construction spending.

Private Non-Residential Construction spending just surged in revisions, and in headline reporting, to a pre-recession peak.

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 volatile topping-out process, turning lower still in its latest reporting, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 12*, *13* and *37*, indeed, both series appear stalled shy of their pre-recession peaks.

WEEK AND MONTH AHEAD

No Regular Monthly Economic Releases in Week Ahead

Headline Economic Deterioration Should Intensify in the Near Term, Increasingly Frustrating Fed Provocateurs, Pummeling the U.S. Dollar and Boosting Gold, Silver and Eventually Oil Prices. Market expectations for business activity should continue to deteriorate, amidst intensifying, negative headline economic reporting, and with Fed-policy retrenchment likely shifting towards renewed quantitative easing in the months ahead, irrespective of current Fed-policy jawboning favoring a rate hike, or even in the still-unlikely event of a one-time rate hike implemented before the election.

The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect an ongoing broad spectrum of market-disappointing headline data. The latest circumstances tied to the Gross Domestic Product (GDP) and related series were discussed in prior *Commentary No. 828*, with broad detail otherwise reviewed in *Commentary No. 827*, *Commentary No. 826*, *Commentary No. 825*, *Commentary No. 824*, *Commentary No. 823*, *Commentary No. 822*, *Commentary No. 821*, *Commentary No. 820*, *Commentary No. 818*, *Commentary No. 817*, *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*.

Negative market reactions had surfaced in trading of the U.S. dollar and in related financial markets, with some upside pressure on gold, silver and oil prices, subsequent to weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Such reflects the impact of perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Nonetheless, renewed

jawboning by some Fed officials of a near-term rate hike has given some minimal, desired support to the U.S. dollar.

Temporary jawboning aside, market activities have been mixed, due partially to irregular U.S. dollar strength, as discussed in *No. 818*. Beyond current hype, market reactions increasingly should reflect a renewed, intensifying sense of Federal Reserve impotence, with bleak longer-term implications for the U.S. dollar. Further Fed tightening prior to the election still remains unlikely, while renewed quantitative easing could still the likely target of intensified market speculation, as the deepening recession unfolds. This should become increasingly obvious in the next several months (see the opening paragraphs of the *Opening Comments* in *No. 827* and the *Hyperinflation Watch* in *No. 826*).

Rapidly weakening, regular monthly economic reporting should result in much worse-than-expected—increasingly negative—reporting for at least the next several quarters of GDP (and GDI and GNP).

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 June 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation was "unchanged"—minimally negative—with a switch to positive seasonal adjustments for gasoline prices only partially offsetting the unadjusted monthly drop in gasoline prices in July. Those shifting energy seasonals should boost the August detail more strongly, resulting in a headline monthly gain. Going forward, a weakening U.S. dollar increasingly should boost inflation, with a related upturn in oil prices, gasoline and other commodities. The *Public Commentary on Inflation Measurement* reviews fundamental reporting issues with the headline CPI.

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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is 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. That construction spending issue now appears to have been structured as a gimmick to help boost the recently-published 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

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*. In the 1990s, the Census Bureau and BLS played political-reporting games with the nature of statistical sampling size in "inner cities" in the Census Bureau surveying tied to the monthly Household Surveys and the annual piggy-backed Poverty Survey. Such had major distorting impact on the headline data, and it may be in the works, again.

THERE ARE NO REGULAR ECONOMIC RELEASES PLANNED FOR THE WEEK AHEAD

PENDING: Comprehensive *Special Report* and ShadowStats Website. The plan is to update fully, into one, massive background piece—a *Special Report (Commentary)*—the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). All of that will be in the context of incorporating and fully revising, wherever necessary, the materials in the *2014 Hyperinflation Report—The End Game Begins*, *2014 Hyperinflation Report—Great Economic Tumble*, *No. 777 Year-End Special Commentary* and other intervening missives, including the most-recent *Hyperinflation Outlook Summary* as found in *Commentary No. 783*.

The various background articles available at the www.ShadowStats.com site also will be updated in the process, including those first published in 2004 as introductory articles to the site. As usual, all original material will remain available to subscribers (all original public material also will remain available to anyone visiting the site).

As to timing, the *Special Report* already is in the works and should be published by early-October. It will incorporate fully up-to-date economic detail, including the mid-September 2016 releases by the Census Bureau of its 2015 income survey and by the Bureau of Labor Statistics of its preliminary benchmark revisions to 2016 payroll employment. It also will include updated, consistent GAAP-based financial detail on the U.S. government's financial condition through September 30, 2015 and initial prospects for the fiscal year ended September 30, 2016.

Updates to the various public materials on the Web site will be staggered through year-end. The introduction of the *2004 Primer Series* will be first (the link is to the initial background article that addressed among other issues political manipulation of data).

We also will introduce, in conjunction with the *Special Report*, a section with links to books and articles that we have found of particular interest and substance. Anyone with materials they would like to have considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.

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