

COMMENTARY NUMBER 838
September Employment and Unemployment, ShadowStats Ongoing M3
October 7, 2016

**Political Shenanigans in Reporting of September Labor Conditions
Were No Worse than the Standard Monthly Reporting Gimmicks**

**Below-Consensus Headline Gain in September Payrolls
Probably Was a Contraction, Net of Reporting Biases**

Headline Annual Payroll Growth Held at a 31-Month Low

**With Full-Time Jobs Down in September,
All the Household-Survey Employment Gain Was in Part-Time Jobs**

**September 2016 Unemployment Rate Changes Were Uneven:
U.3 Rose to 5.0%, U.6 Held at 9.7%,
ShadowStats-Alternate Rate Held at 23.0%**

**Annual M3 Growth Held Even at 4.3% in September 2016, versus August 2016,
While the Annual Decline in the Monetary Base Hit a Record**

PLEASE NOTE: The next regular Commentary, scheduled for Friday, October 14th, will cover September nominal Retail Sales and the Producer Price Index (PPI).

Best wishes to all — John Williams

[This revised version of No. 838 has typos and minor omissions corrected (apologies for any remaining typos). The changes add some clarity, but do not alter the given/intended meaning of the text. – JW]

OPENING COMMENTS AND EXECUTIVE SUMMARY

Weakening Labor Conditions in September Still Overstated the Health of the U.S. Economy.

Although the September 2016 reporting of headline employment and unemployment would have been the economic release most likely to reflect any pre-election political shenanigans, the headline details were no more skewed, or otherwise out of whack, than they normally are each month. Most of those regular distortions, though, have evolved out of longer-range political circumstances, such as the upside bias-factors that were created post-1983 recession and evolved into the current birth-death modeling and related upside biases, or from politically-orchestrated methodology changes, such as redefining “discouraged workers” out of longer-term accounting, in advance of the NAFTA agreement taking effect.

Not Quite as Advertised. The payroll jobs gain likely was overstated, as usual, while the employment gains on the household-survey side all were part-time, where full-time employment contracted in the month. Underlying reality for September 2016 U.S. labor conditions remained in the realm of a 23.0% broad unemployment rate, with the actual monthly payroll-employment change likely well into a monthly contraction, despite more-upbeat headline indications out of the Bureau of Labor Statistics (BLS).

News Was Not Particularly Happy or Consistent on the Household Survey Side. The minimal increase in the headline U.3 unemployment rate to 5.0% in September, from 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 the opening paragraphs of [Commentary No. 819](#) and in *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*.

Consider that the headline Household Survey showed the number of employed increasing by 354,000 in September 2016. Standardly that would be good news, with an expectation for accompanying news of some unemployed individuals returning to work. That was not the case, though, with the number of unemployed also increasing in September, by 90,000. A similar nonsensical pattern was seen in August, with the general pattern having repeated frequently in headline monthly data this year.

Normally, meaningful 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 or decreasing at the same time. Normal patterns were not seen here, again, simply because the seasonally-adjusted August and September monthly data were not reported on a consistent basis and were not comparable month-to-month (again see the expanded discussion in *Headline Distortions from Shifting Concurrent-Seasonal Factors* and related BLS definitions on page 24).

To the extent there is any credibility to the seasonally-adjusted, month-to-month detail in the Household Survey (the credibility is nil), the headline gain of 354,000 employed was not as happy as it might appear. The headline count of those with full-time jobs declined by 5,000 (-5,000) in the month, which means that all the gain was in part-time employment.

Separately surveyed, those wanting a job rose month-to-month on a seasonally-adjusted basis, from 5.833 million to 6.088 million, an increase of 255,000. In potentially-horrendous news for the payroll-employment gain, the seasonally-adjusted count of those holding multiple jobs rose from 7.562 million in August 2016 to 7.863 million in September, an increase of 301,000.

Did the Payroll Employment Really Decline by 145,000 (-145,000) Individuals? Where the household survey counts a person as employed only once, irrespective of the number of full-time and or part-time jobs held, the payroll survey counts the number of jobs held (see *Full-Time Employment versus Part-Time Payroll Jobs* on page 20 and BLS definitions of its body counts on page 22). A person on two payrolls is counted as two jobs in the payroll survey. To the extent that there is any comparability between the household and payroll surveys (there is very little), and to the extent that details of the household survey are reported on an internally-consistent basis (they are not), then the 301,000 individuals taking on at least one new job in September 2016 should equate to 301,000 new jobs in the September payroll survey.

The headline payroll gain in September was 156,000, which would translate to an actual decline of at least 145,000 (-145,000) month-to-month in terms of employed individuals (as opposed to jobs count), if the headline payroll aggregate included the double counting of new part-time jobs.

Then, again, to the extent the second jobs gained in the household survey were in agriculture, they would not be counted on the payroll side, which is one of the features making the two surveys difficult to compare. Still, not all may be as suggested within the various headline details of both series.

Back to the Standard Payroll Gimmicks. The headline payroll gain of 156,000 in September 2016 more realistically should have come in well below zero, 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 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*.

Today's Commentary (October 7th). These *Opening Comments* cover the summary of the September 2016 labor conditions.

The *Hyperinflation Watch* provides the regular update to monetary conditions that accompanies the release of the ShadowStats Ongoing Money Supply M3 annual growth estimate, in this case for September 2016.

The *Week and Month Ahead* previews next week's releases of September nominal Retail Sales and the Producer Price Index (PPI).

Employment and Unemployment—September 2016—Continued Heavy Overstatement of Payroll Gains; Household Employment Gains All Were Part-Time, Where Full-Time Employment Declined. In the context of continued heavily-distorted bloating, seasonal adjustments and combined net-negative revisions to July and August, the seasonally-adjusted, headline payroll-employment gain for September 2016 was 156,000. That followed an upwardly revised 167,000 jobs gain in August, and a downwardly-revised and demonstrably-false, not comparable 252,000 gain in July. Consistent, seasonally-adjusted headline detail shows the July gain to have been 272,000, instead of the headline 252,000, with the difference having been used to support higher headline gains in earlier months (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*).

Net of prior-period revisions, September 2016 payrolls rose by 149,000, instead of the headline 156,000.

The not-seasonally-adjusted, year-to-year growth in September 2016 nonfarm payrolls of 1.70% effectively remained within a hair's breadth of being at a 31-month low. That was against a revised annual gain of 1.72% in August 2016, a revised gain of 1.70% in July 2016, an unrevised 1.74% gain in June 2016 (all rounding to 1.7%) and the actual near-term low-growth rate of 1.63% in May 2016.

Household Survey: Counting All Discouraged Workers, September 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*).

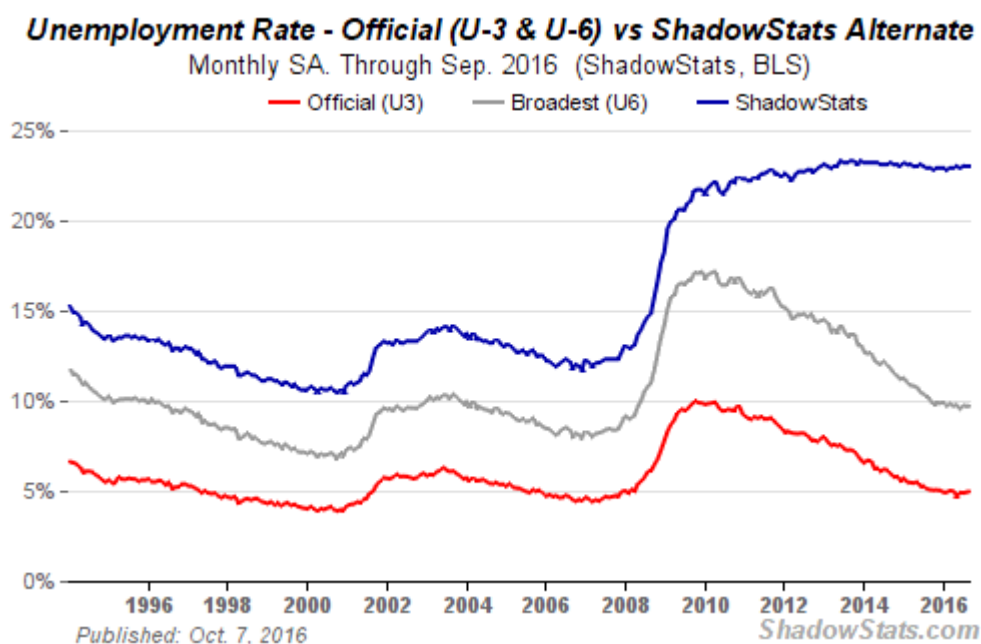
In the ongoing economic collapse into 2008 and 2009, and the non-recovery thereafter, the broad drop in the U.3 unemployment rate from its headline peak of 10.0% in 2009, to the September 2016 headline 5.0%, has been due largely to the unemployed giving up looking for work (common in severe economic 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-September 2016 unemployment rates of 5.0% (U.3) and 23.0% (ShadowStats).

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

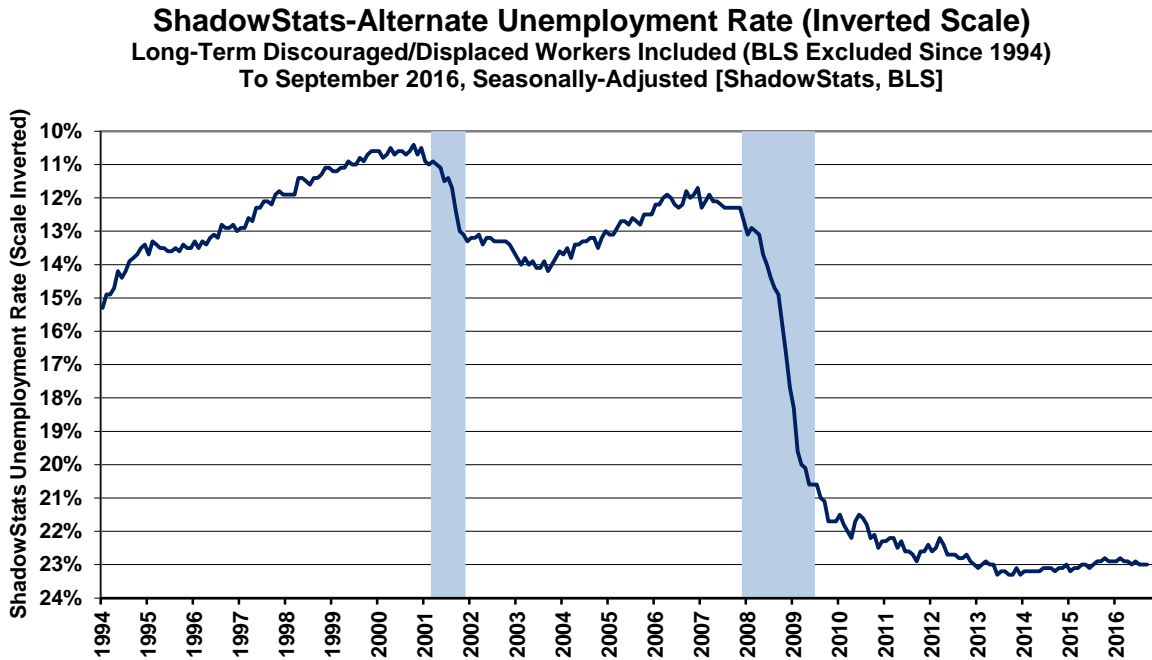


Graph 1 reflects headline September 2016 U.3 unemployment at 4.96%, versus 4.92% in August 2016; headline September 2016 U.6 unemployment held at 9.69%, unchanged from 9.69% in August 2016; and the headline September 2016 ShadowStats unemployment estimate held at 23.0%, unchanged from 23.0% in August 2016.

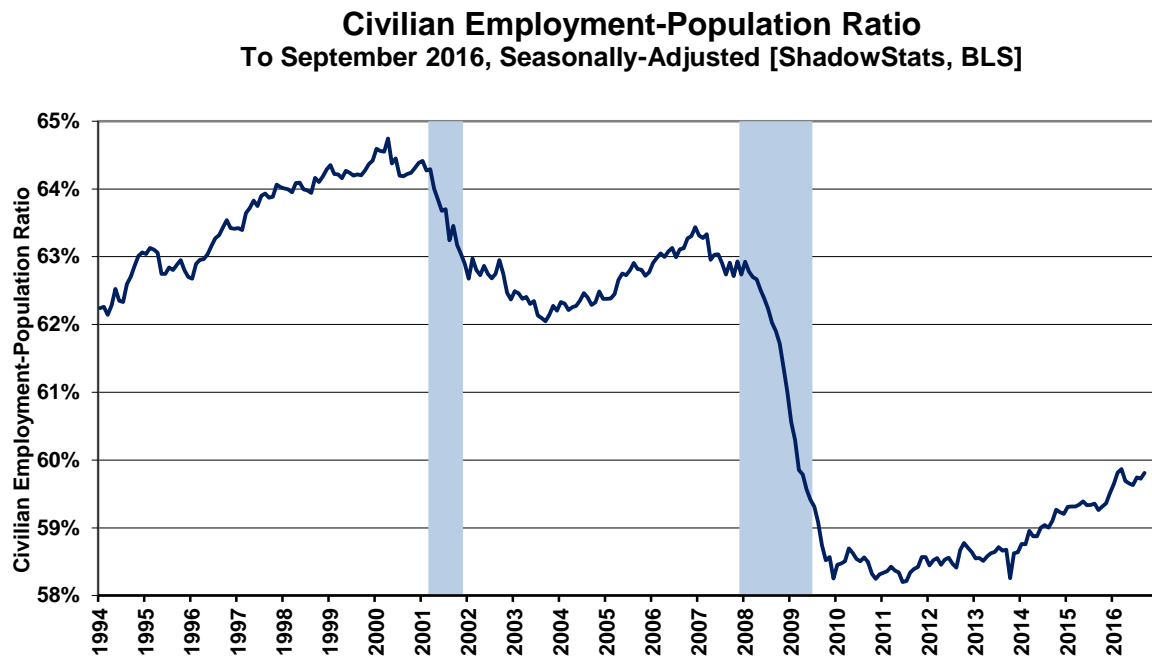
Graphs 2 to 4 reflect longer-term unemployment and discouraged-worker conditions. Graph 2 is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move visually in tandem with plots of most economic 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, and which held even in September 2016.

Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



Graph 3: Civilian Employment-Population Ratio



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

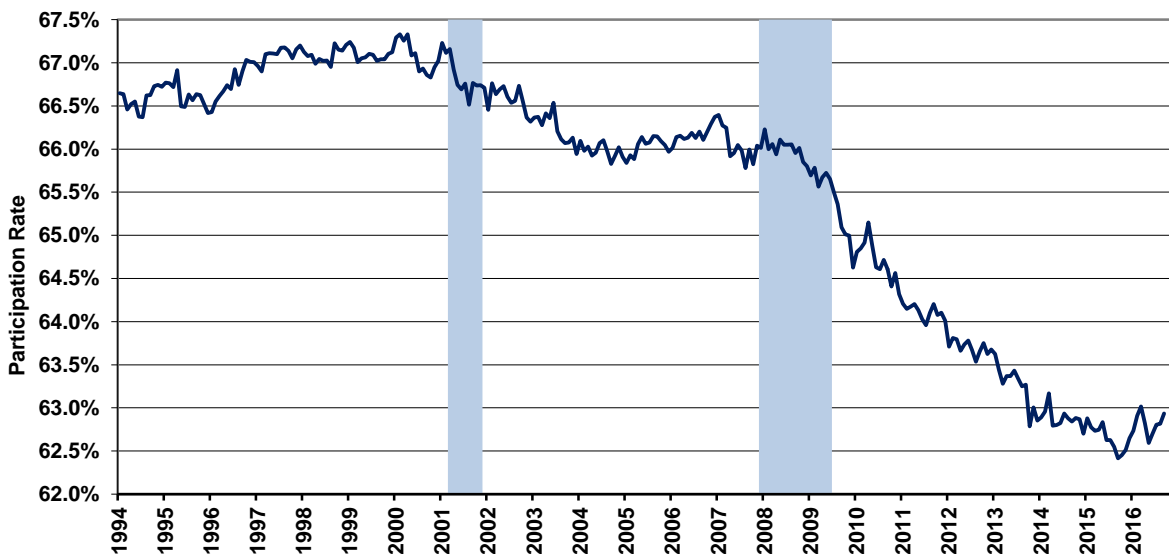
something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

Shown in *Graph 4*, the September 2016 participation rate (the ratio of the headline labor force to the population) notched minimally higher, having been effectively unchanged in August, 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 September 2016. Unadjusted ratios for these series had been above the adjusted numbers in June and July, but they dropped sharply in August and were mixed in September, with the unadjusted participation rate lower than, and the employment-population on a par with, the adjusted headline 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). It also notched minimally to the upside in September having been 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 ratios.

Graph 4: Participation Rate

**Participation Rate (Labor Force as a Percent of Population)
To September 2016, Seasonally-Adjusted [ShadowStats, BLS]**



The Economy Remains Far From Full-Employment. Certain members of the Federal Reserve Board (see [Commentary No. 827](#)) have suggested recently that an unemployment rate near 5.0% reflects full-employment conditions in the United States. As noted in, and updated from, the prior employment/unemployment [Commentary No. 829](#), 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, traditionally 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. Today's September 2016 headline unemployment rate of 5.0%, for example was in the context of a 62.9% participation rate. That participation rate, though, was more consistent with a headline unemployment rate (U.3) of 9.5%¹ instead of the headline 5.0%. Where the count of Household Survey employed generally is not gimmicked, that 66% full-employment participation rate—consistent with the 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 September 2016 Household-Survey reporting simply are not available, irrespective of any protestations to the contrary by the BLS.

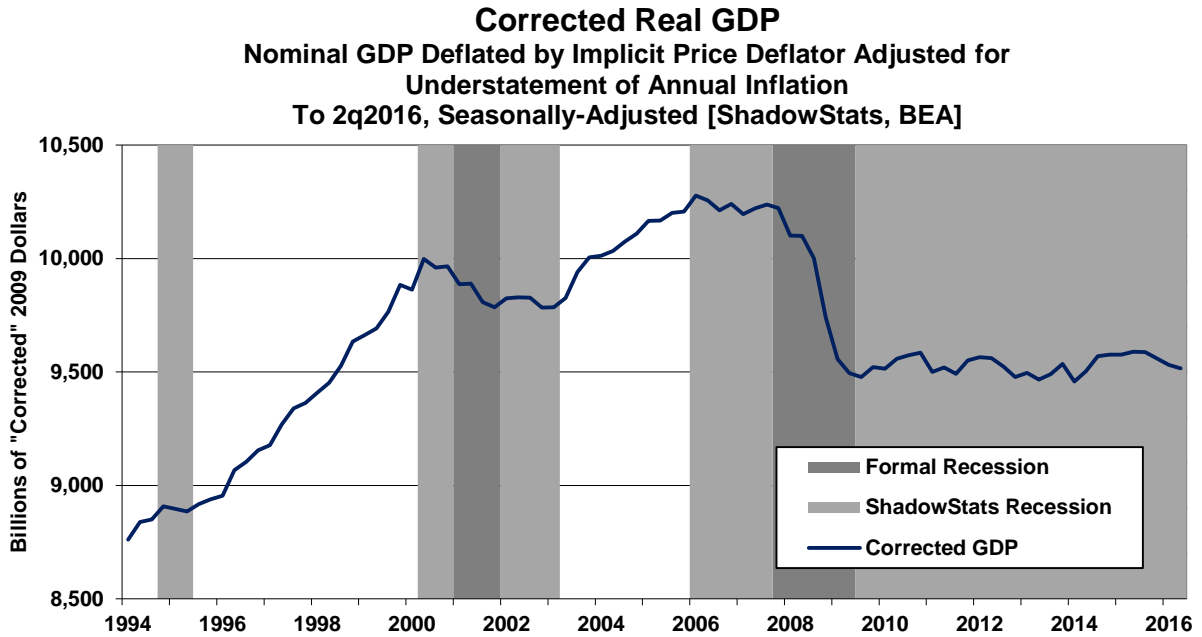
Separately, consider *Graph 5*, which shows the ShadowStats version of the GDP, also from 1994 but through the September 29th third estimate of second-quarter 2016 activity, where the GDP plot has been corrected for the understatement of inflation used in deflating the headline GDP series (a description of the approach and related links are found in [Commentary No. 836](#)).

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, also see the related discussion in [Commentary No. 836](#).

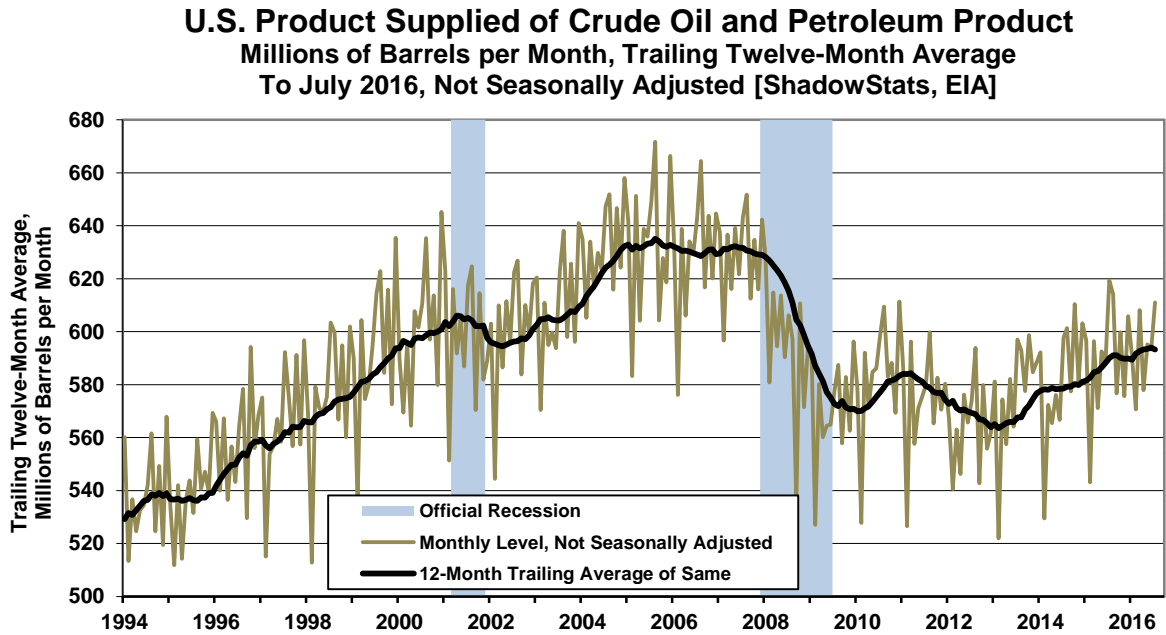
As with the CASS freight index (*Graph 7*), where the monthly data are not seasonally adjusted, ShadowStats has plotted the petroleum series using a trailing twelve-month average—removing regular seasonality patterns—through just-revised headline monthly detail of July 2016. The resulting smoothed pattern reflects the economic collapse into 2009, followed by a protracted period of variable, low-level stagnation, with an upside notching into second-quarter 2016, dropping back in July 2016, never having recovered its pre-recession high.

¹ Consider with a September 2016 population of 253.854 million, that the implied labor force at the full-employment participation rate of 66.0% would be $0.66 \times 253.854 = 167.544$. That labor force less current headline employed, $167.544 - 151.614 = 15.930$ million implied unemployed/ labor force of $167.554 = 9.5\%$ unemployment. The problem with the assumptions underlying these numbers and concept remains that the economy is not at full employment, as has been claimed.

Graph 5: Corrected Real GDP through 2q2016, Third Estimate



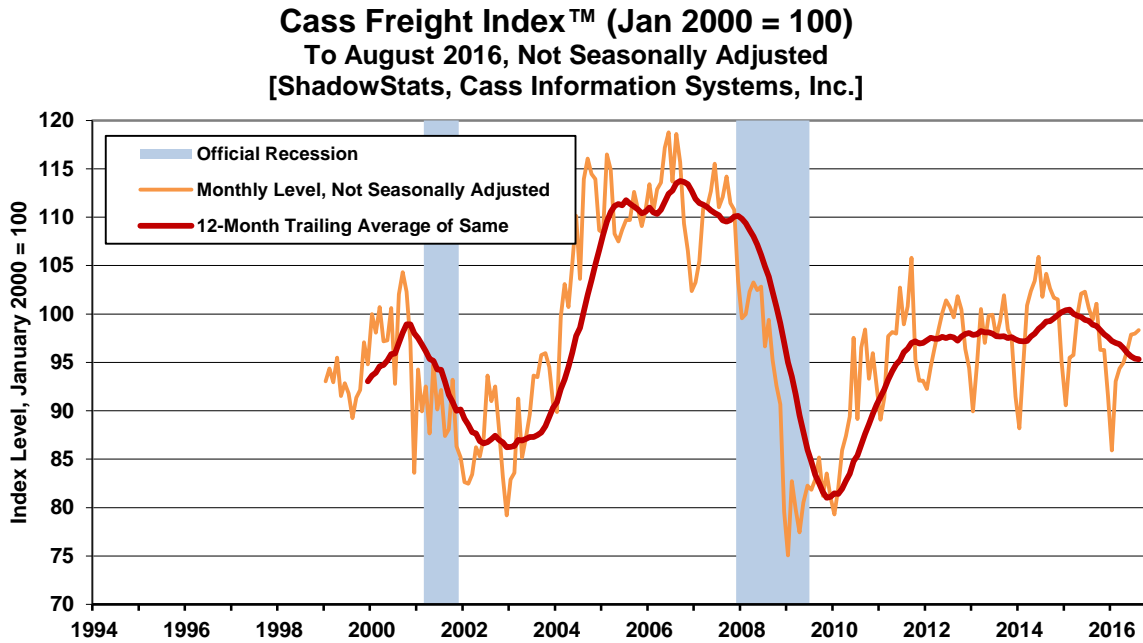
Graph 6: U.S. Petroleum Consumption to July 2016



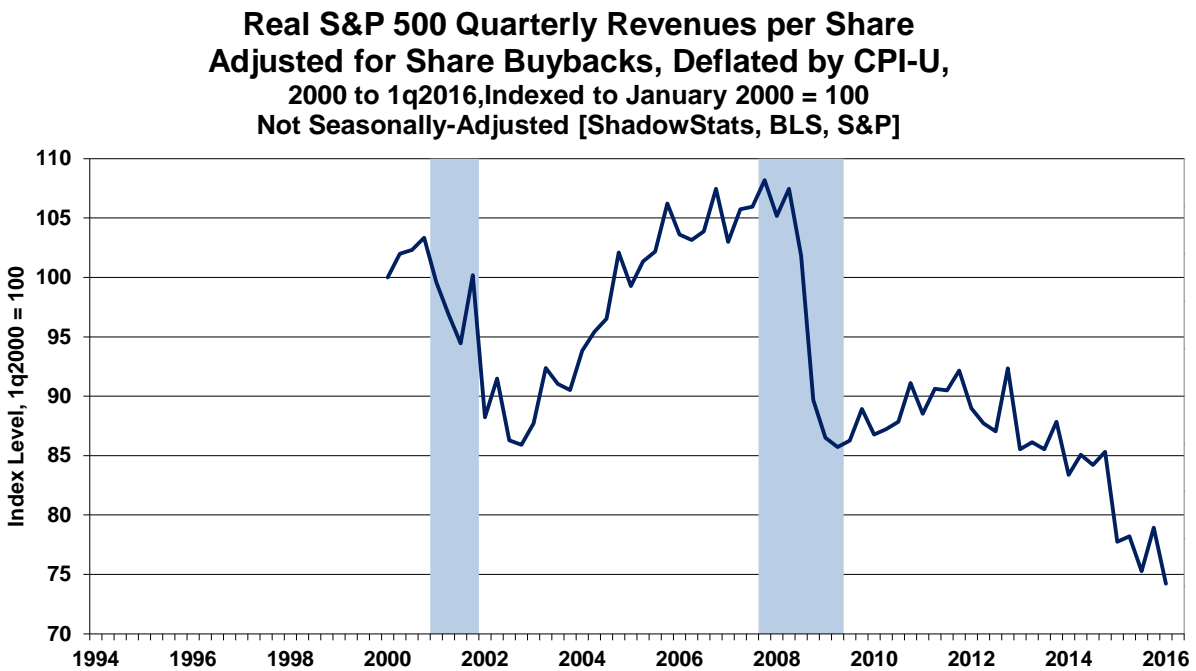
In contrast, the CASS index currently (through August 2016) continues to turn down in its twelve-month trailing average, with deepening year-to-year contractions on a monthly basis (see [Commentary No. 834](#)). Introduced in [Commentary No. 782](#), the graphic detail on the [Cass Freight Index™](#), 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.

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



Graph 8: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2015), Indexed to January 2000 = 100



In particular, the broad patterns of activity seen in the weakened employment measures in *Graphs 2 and 3* generally are mirrored in *Graph 5* of the “corrected” GDP. They also are largely consistent with the post-

1994 period shown in *Graph 6* of petroleum consumption, *Graph 7* of the CASS Freight Index and *Graph 8* of real S&P 500 revenues, as estimated for the impact of share buybacks, previously published in [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

Graph 8 of S&P 500 revenues usually is plotted 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 September 2016 unemployment rate (U.3) rose to 5.0%, versus 4.9% in August. At the second decimal point, the headline September 2016 U.3 was 4.96%, versus 4.92% in August. Formally, the 0.04% increase in September 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 4.79% in September 2016, from 5.00% in August.

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 September 2016 (never seasonally-adjusted) declined by 23,000 (-23,000) to 553,000, with total, short-term marginally-attached workers rising by 131,000 to 1,844,00, while August 2016 short-term discouraged workers fell by 15,000 to 576,000, having risen by 89,000 to 591,000 in July, with total, short-term marginally-attached workers declining by 237,000 (-237,000) to 1,713,000 in August, having risen by 171,000 to 1,950,000 in July. The latest, official “discouraged” number, again, reflected the flow of the headline unemployed—giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term “marginally-attached discouraged workers,” net of the further increase in the number of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status.

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

discouraged workers. The remaining redefined short-term discouraged and redefined marginally-attached workers were included in U.6.

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

On top of a small increase in the seasonally-adjusted U.3 unemployment rate, an increase in the count of marginally-attached workers, and a drop of 159,000 (-159,000) in the adjusted number of people working part-time for economic reasons, combined to generate a headline September 2016 U.6 unemployment rate of 9.69%, the as the 9.69% in August 2016. The unadjusted U.6 unemployment rate eased to 9.32% in September 2016, from 9.70% in August 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 September 2016 held at 23.0%, unchanged from 23.0% in August 2016. The September 2016 reading was down by 30 basis points or 0.3% (-0.3%) from the 23.3% series high last seen in December 2013.

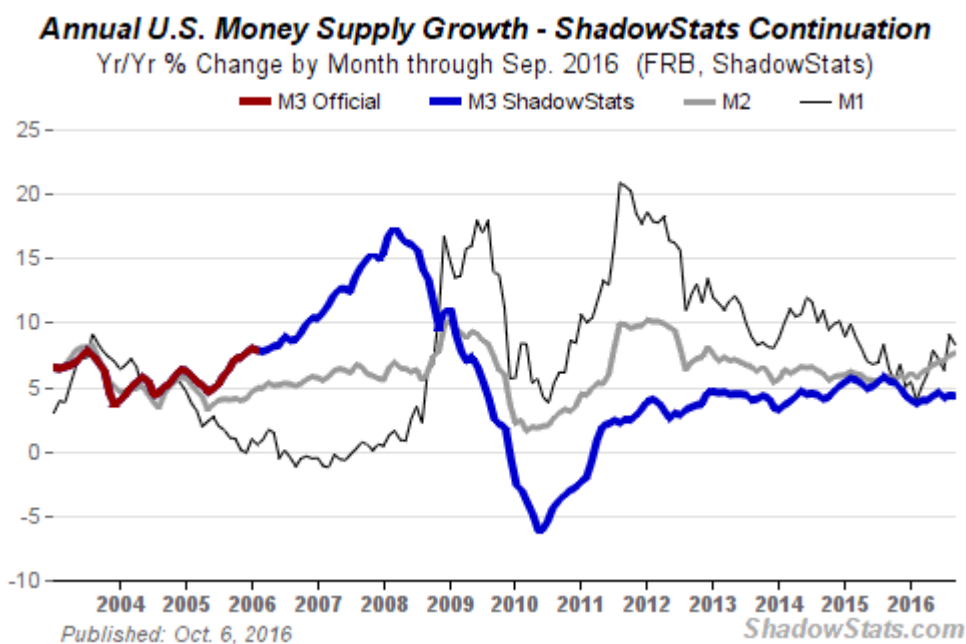
In contrast, September 2016 headline U.3 unemployment of 5.0% was down by 500 basis points or 5.0% (-5.0%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.7% in September 2016, was down by 750 basis points or 7.5% (-7.5%) from its peak of 17.2% April 2010.

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

HYPERINFLATION WATCH

UPDATED MONETARY CONDITIONS

September 2016 Annual M3 Growth Held at 4.3% for the Second Month. ShadowStats Ongoing M3 Money Supply annual growth held at 4.3% in September 2016, versus an upwardly revised 4.3% [previously 4.2%] in August 2016. The M2 annual growth rates increased in September 2016 to 7.7%, from an unrevised 7.5% in August 2016. In contrast, September 2016 annual growth in M1 eased back to 8.4%, from an upwardly revised 9.1% [previously 9.0%] in August 2016.

Graph 9: Comparative Money Supply M1, M2 and M3 Year-to-Year Changes through September 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 4.3% in September 2016, versus an upwardly revised 4.3% [previously 4.2%] in August 2016, a revised 4.2% [previously 4.1%] in July 2016, a revised 4.6% [previously 4.5%] in June 2016, all still against an unrevised two-year low of 3.7% in February 2016. The revisions here largely were to underlying details used in estimating the M3 measure. 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 9*. Note in particular also the relative surges of M1 and M2 annual growth in *Graph 9*, continuing in September.

The relative weakness in annual M3 growth versus M2 and M1 (an M2 component) 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 September 2016 detail.

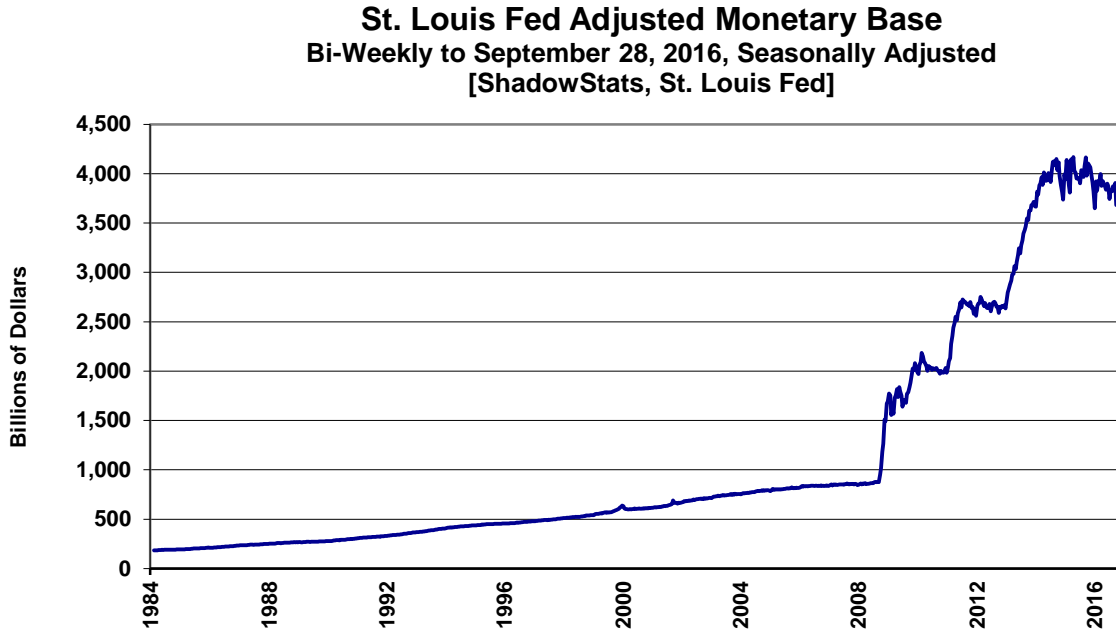
On a seasonally-adjusted, month-to-month basis, September 2016 M3 declined month-to-month by 0.2%, versus unrevised gains of 0.7% in August and 0.3% in July.

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

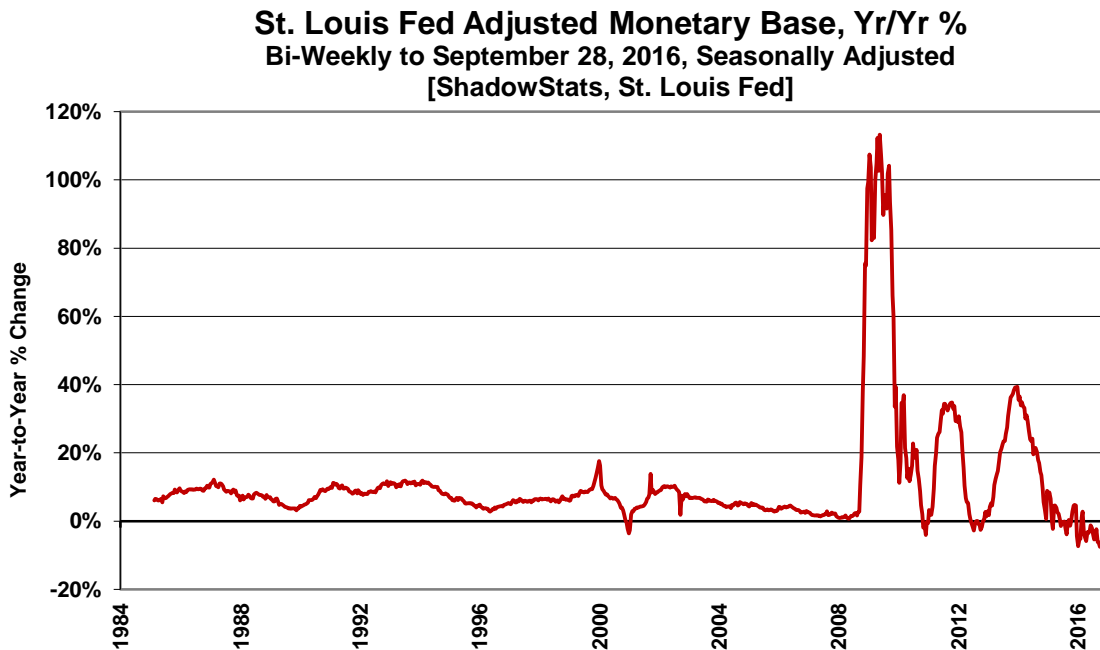
Annual Decline in the Monetary Base Hit a New Low, in the Context of Continued Rate-Hike Waffling and Market Instabilities for Fed Funds? Encompassed in the latest two-week reporting period of the monetary base (September 28th), was the September 21st FOMC meeting, where interest

rates were not raised, despite a heavy chorus of jawboning and harrumphing to the contrary coming into the meeting. Nonetheless, the current period’s year-to-year decline of 7.5% (-7.5%) in the monetary was the steepest in history, just beating out the 7.4% (-7.4%) decline in the January 6th period, which encompassed the only post-panic rate hike back of December 2015.

Graph 10: Monetary Base Level, Bi-Weekly through September 28, 2016



Graph 11: Monetary Base, Year-to-Year Percent Change, through September 28, 2016



In continuing follow-up to earlier [Commentary No. 829](#), [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 the still continuing ranting, 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 various recent commentaries, including yesterday's [Commentary No. 837](#).

Graphs 10 and 11 show reporting of the St. Louis Fed's Monetary Base through the two-week period ended September 28th, with a level of \$3.682 trillion, versus \$3.905 trillion as of September 14th. Year-to-year change showed a near-record decline of 7.5% (-7.5%) in the latest period, versus the record 7.4% (-7.4%) annual drop seen in the January 6th period. Again, that latter period encompassed the Fed's rate hike in December. The latest reading on the monetary base also is the lowest since January, while the period-to-period decline of 5.7% (-5.7%) between September 14th and September 18th was the steepest since 2009. The Fed capped its quantitative easing in 2014.

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 three times, 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 and in the just-published September 28th headline reporting, suggestive, again, of market interventions required by the New York Fed.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (September 2016)

Heavy Overstatement of Payroll Gains; Household Employment Gains All Were Part-Time, Where Full-Time Employment Declined. *[Note: This section, through the PAYROLL SURVEY DETAIL, largely is repeated from the Opening Comments.]* Underlying reality for September 2016 U.S. labor conditions remained in the realm of a 23.0% broad unemployment rate, with the actual monthly payroll-employment change likely well in monthly contraction.

The News Was Not Particularly Happy or Consistent on the Household Survey Side. The minimal increase in the headline U.3 unemployment rate to 5.0% in September, from 4.9% in August was continued nonsense, reflecting not-comparable and meaningless month-to-month changes in the Household Survey data, as discussed in the opening paragraphs of [Commentary No. 819](#) and in *Headline Distortions from Shifting Concurrent-Seasonal Factors* later in this *Reporting Detail*.

Consider that headline Household Survey detail showed the number of employed increasing by 354,000 in September 2016. Standardly that would be good news, with an expectation for accompanying news of some unemployed individuals returning to work. That was not the case, though, with the number of unemployed also increasing, by 90,000 in September. A similar nonsensical pattern was seen in August, with the general pattern repeated frequently in headline monthly data this year.

Normally, meaningful 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 or decreasing at the same time. Normal patterns were not seen here, again, simply because the seasonally-adjusted August and September monthly data were not reported on a consistent basis and were not comparable month-to-month (again see the expanded discussion in *Headline Distortions from Shifting Concurrent-Seasonal Factors* and related BLS definitions on page 24).

To the extent there is any credibility to the month-to-month detail in the Household Survey, the headline gain of 354,000 employed was not as happy as it might sound. The headline count of those with full-time jobs declined by 5,000 (-5,000) in the month, which means that all the gain was in part-time employment.

Separately surveyed, those wanting a job rose month-to-month on a seasonally-adjusted basis, by 255,000, from 5.833 million to 6.088 million. In potentially-horrendous news for the payroll-employment gain, the seasonally-adjusted count of those holding multiple jobs rose from 7.562 million in August 2016 to 7.863 million in September 2016, a monthly increase of 301,000.

Did Payroll Employment Really Decline by 145,000 (-145,000)? Where the household survey counts a person as employed only once, irrespective of the number of full-time and or part-time jobs held, the payroll survey counts the number of jobs held (see *Full-Time Employment versus Part-Time Payroll Jobs* on page 20, and BLS definitions of its body counts on page 22). A person on two payrolls is counted as two jobs in the payroll survey. To the extent that there is any comparability between the household and payroll surveys (there is very little), and to the extent that details of the household survey are reported on an internally-consistent basis (they are not), then the 301,000 individuals taking on at least one new job should equate to 301,000 new jobs to the payroll survey.

The headline payroll gain in September was 156,000, which would translate to an actual decline of at least 145,000 (-145,000) month-to-month in terms of employed individuals, assuming the headline aggregate included double counting of the new part-time jobs.

Then, again, to the extent the second jobs gained in the household survey were in agriculture, they would not be counted on the payroll side, which is one of the features that makes the two surveys difficult to compare. Still, not all may be as suggested within the various headline details.

Back to the Standard Payroll Gimmicks. The headline payroll gain of 156,000 in September 2016 more realistically should have come in well below zero, net of built-in upside biases. Discussed in the *Birth-Death/Bias-Factor Adjustment* section later 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, October 7th, the Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for September 2016. In the context of continued heavily-distorted bloating, unstable seasonal adjustments, and combined net-negative revisions to July and August, the seasonally-adjusted, headline payroll gain for September 2016 was 156,000 +/- 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 167,000 [previously 151,000] jobs gain in August, and a downwardly-revised and demonstrably-false, not comparable 252,000 [previously 272,000, initially 255,000] gain in July. Consistent, seasonally-adjusted headline detail shows the July gain to have been 272,000, instead of the headline 252,000, with the difference having been used to boost earlier historical detail (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*).

Net of prior-period revisions, September 2016 payrolls rose by 149,000, instead of the headline 156,000.

The not-seasonally-adjusted, year-to-year growth in September 2016 nonfarm payrolls of 1.70% effectively remained within a hair's breadth of being at a 31-month low. That was against a revised annual gain of 1.72% [previously 1.73%] in August 2016, a revised gain of 1.70% [previously 1.71%, initially 1.70%] in July 2016, an unrevised 1.74% gain 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.

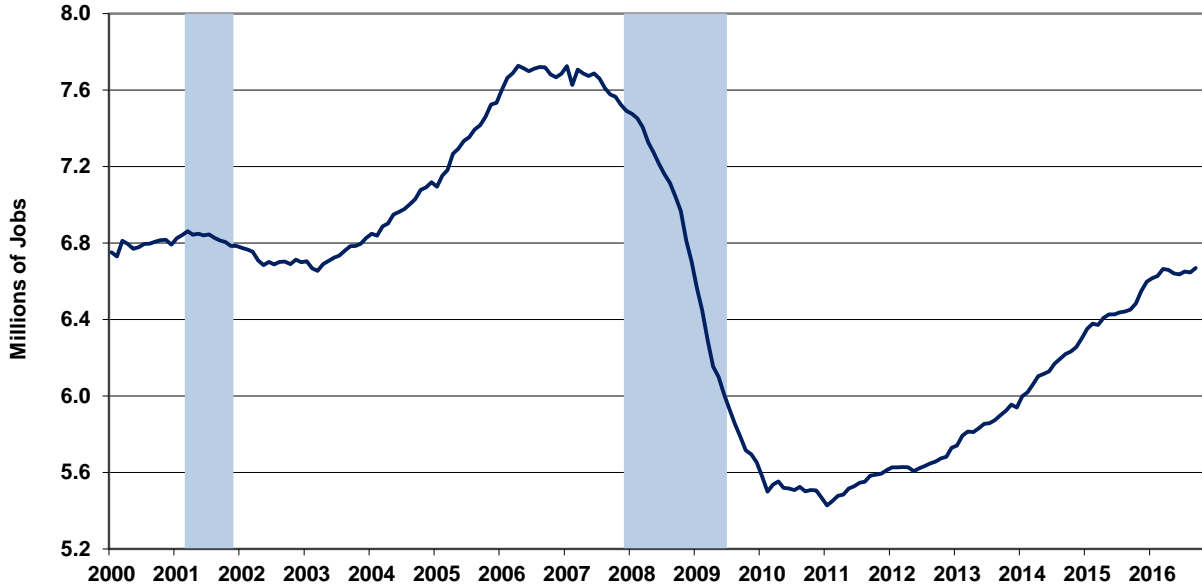
Construction-Payroll Growth Continued Down and Flattened Out. Construction Payroll Employment growth rebounded slightly in September 2016 against August 2016, in the context of minimal prior-period revisions to July and August and in the broader context of plateauing activity since March 2016. In theory, 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 shown in accompanying *Graph 12*, which updates *Graph 8* in the *Construction Spending* section of prior [Commentary No. 837](#). The recent general pattern of downturn or flattening out increasingly is consistent with the intensifying weakness seen in real construction spending.

Headline month-to-month construction employment rose by 0.35% in September 2016, having declined by a revised 0.08% (-0.08%) [previously down by 0.09% (-0.09%)] in August 2016, and having gained an upwardly revised 0.24% [previously up by 0.17%, initially up by 0.21%] in July 2016. Despite the modest

monthly gain, monthly construction employment still appears to be in plateauing process, increasingly consistent with stagnation or downturn in most headline-construction activity.

Graph 12: Construction Payroll Employment to September 2016

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



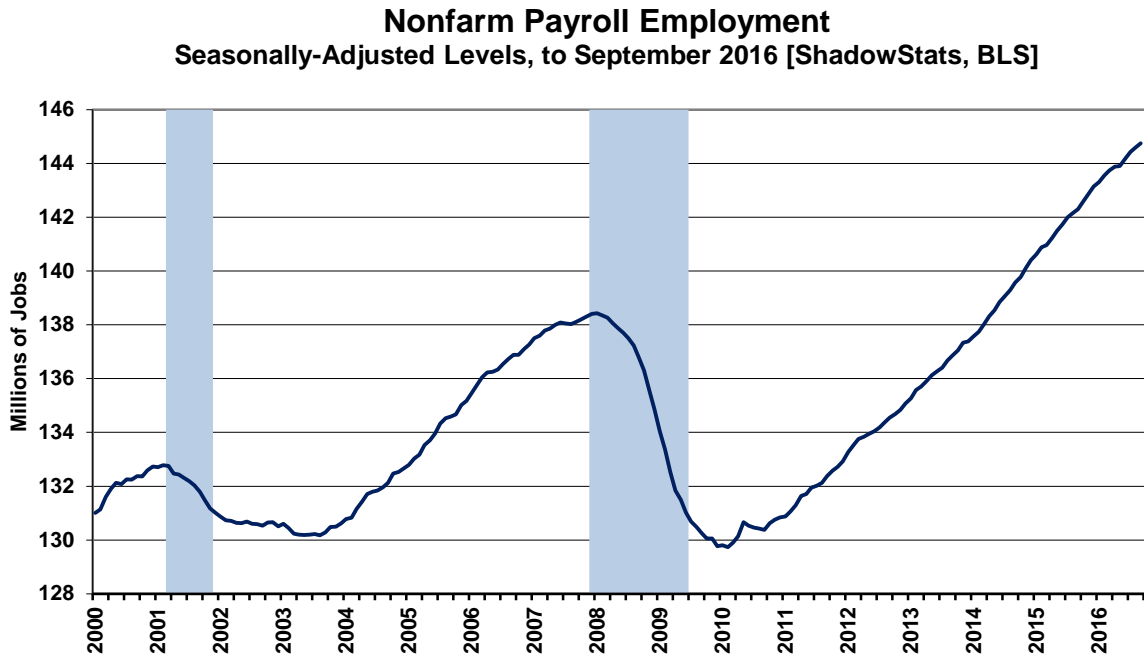
The September 2016 construction-payroll level of 6.669 million was little changed from 6.659 million in April and 6.665 million in March.

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). That said, headline September 2016 construction jobs remained down by 13.68% (-13.68%) from the April 2006 pre-recession series peak, but it was up by an unadjusted 3.11% from September 2015. Annual growth picked up versus the near-term trough in annual growth of 2.75% in August 2016, but it remained down versus the near-term peak in annual growth of 5.02% in March 2016.

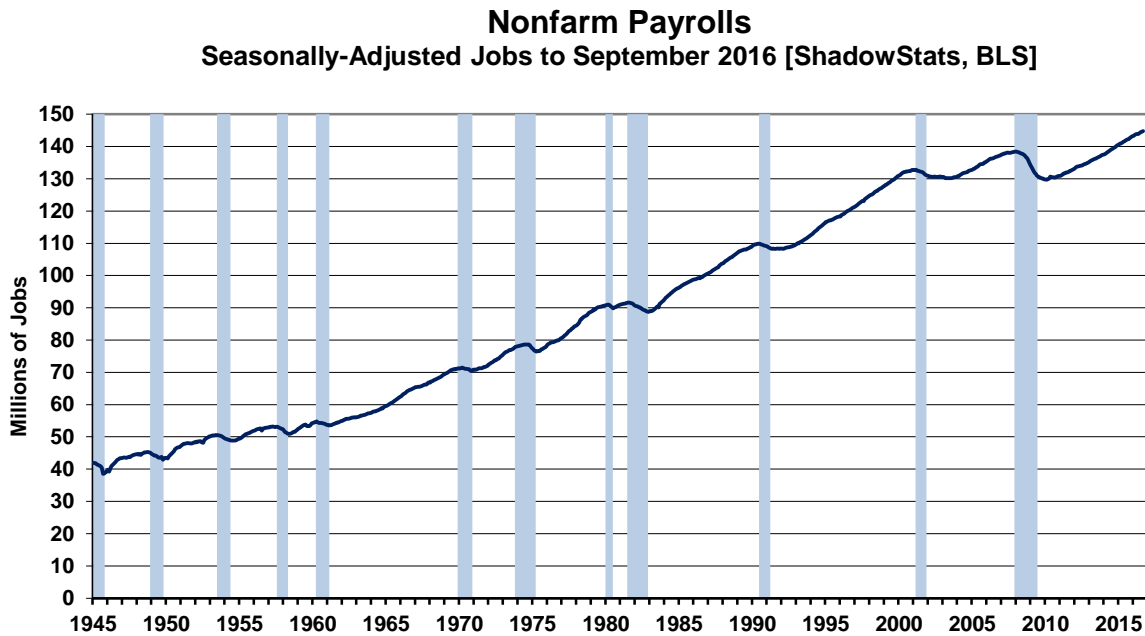
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy 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 6.32-million jobs above its pre-recession peak.

[Graphs 13 and 14 follow on the next page.]

Graph 13: Nonfarm Payroll Employment to September 2016



Graph 14: Nonfarm Payroll Employment 1945 to September 2016



Graphs 13 and 14 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-

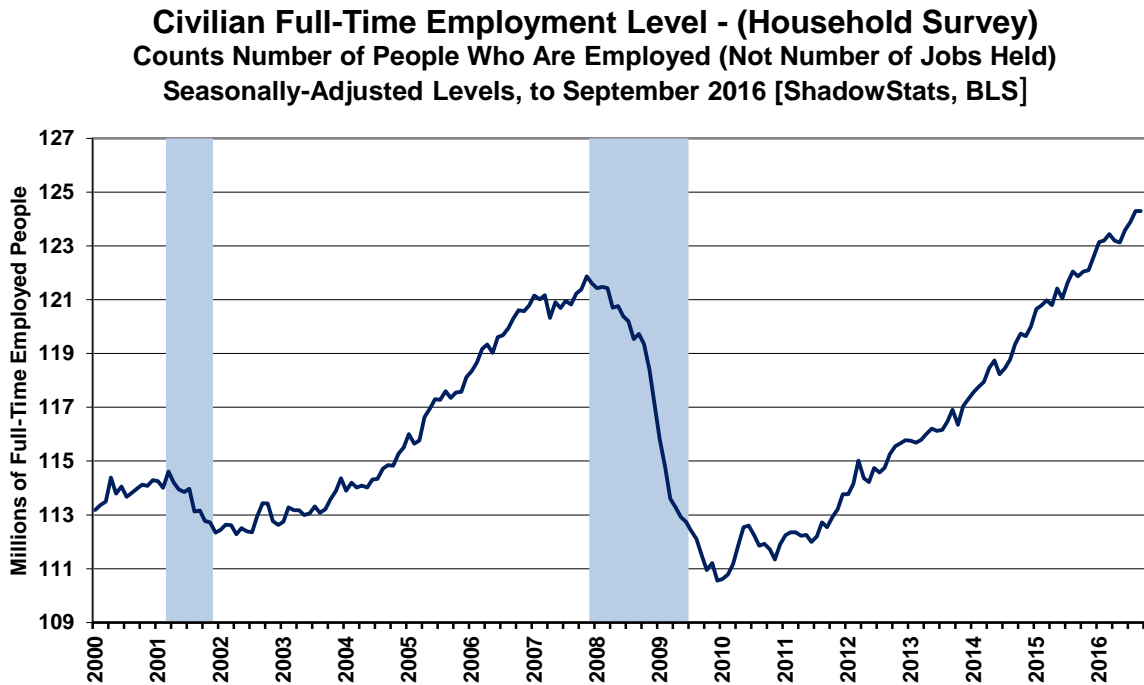
employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

Beyond excessive upside add-factor biases built into the monthly calculations (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 (see the BLS definitions of its body counts on page 22). Much of the 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. An exacerbation of that circumstance was suggested in today’s otherwise poor-quality detail (see opening paragraphs of the *Opening Comments*).

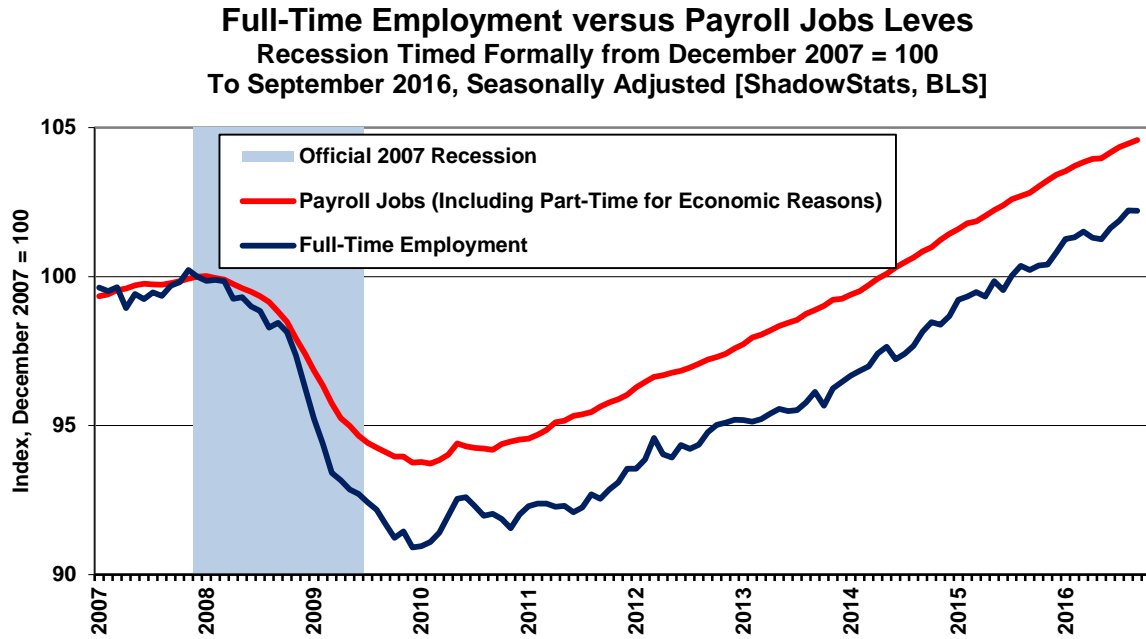
Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 15* (using a roughly-proportionate scale to *Graph 13*), the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline September 2016 full-time employment declined by 5,000 (-5,000), following gains of 409,000 in August, 306,000 in July, 451,000 in June, and decline of 59,000 (-59,000) in May and 253,000 (-253,000) in April, with the detail now standing at 2.42-million above that pre-recession high for the series. That gain 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 6.32-million above its pre-recession high, regained some 28-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.

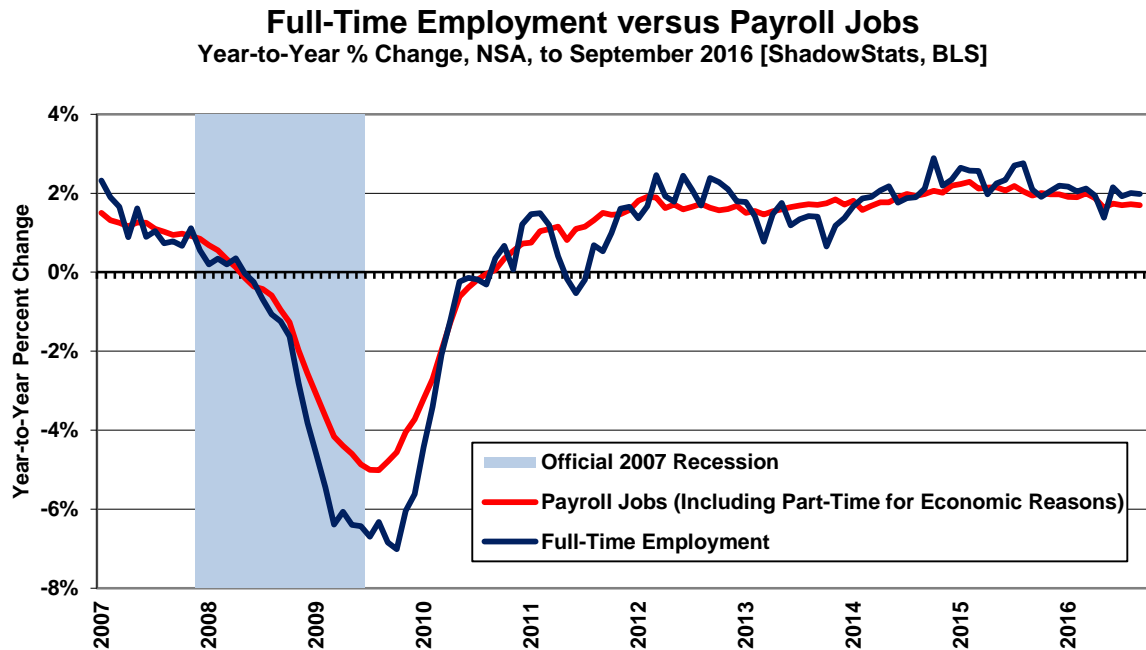
Graph 15: Full-Time Employment (Household Survey) to September 2016



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



Graph 17: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year



As a separate consideration and an indication of the level of nonsensical GDP reporting, where 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. *Graphs 16 and 17* 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).

Detailed in today’s October 7th BLS [Press Release](#) (under *Technical Note*, unnumbered page 9):

The household survey has no duplication of individuals, because individuals are counted only once, even if they hold more than one job. In the establishment survey, employees working at more than one job and thus appearing on more than one payroll are counted separately for each appearance.

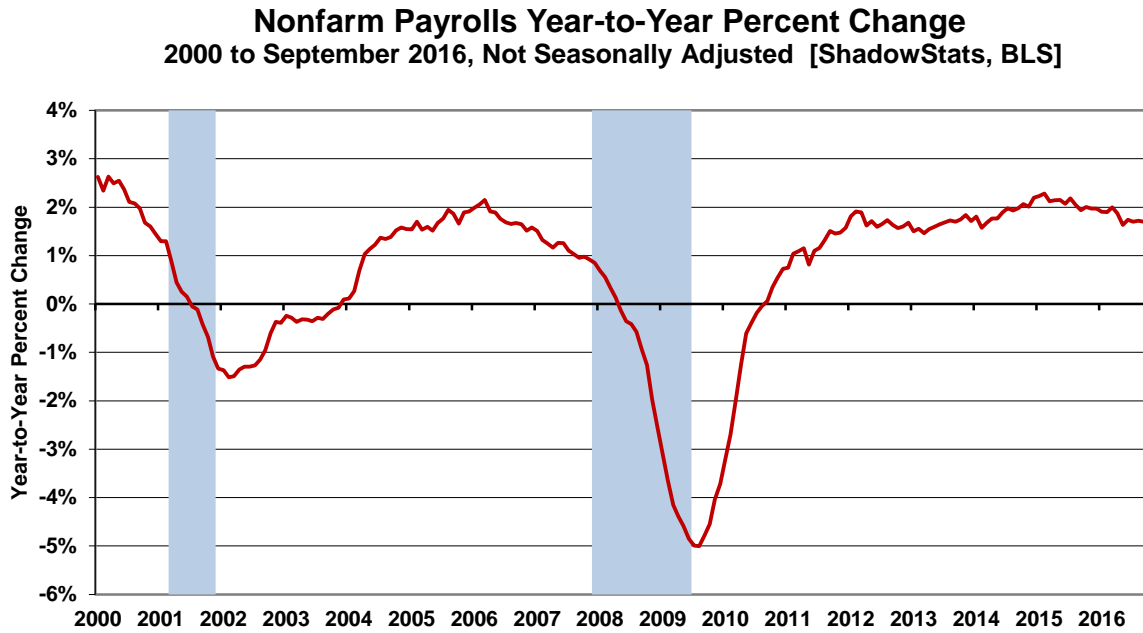
Annual Percent Changes in Headline Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis.

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 18* and *19*. 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 September 2016 was 1.70%, basically even with (they all round 1.7%) a revised 1.72% [previously 1.73%] in August 2016, basically even with a revised 1.70% [previously 1.71%, initially 1.70%] in July 2016, and unrevised gains of 1.74% in June 2016 and an unrevised twenty-eight month low of annual gain of 1.63% in May 2016.

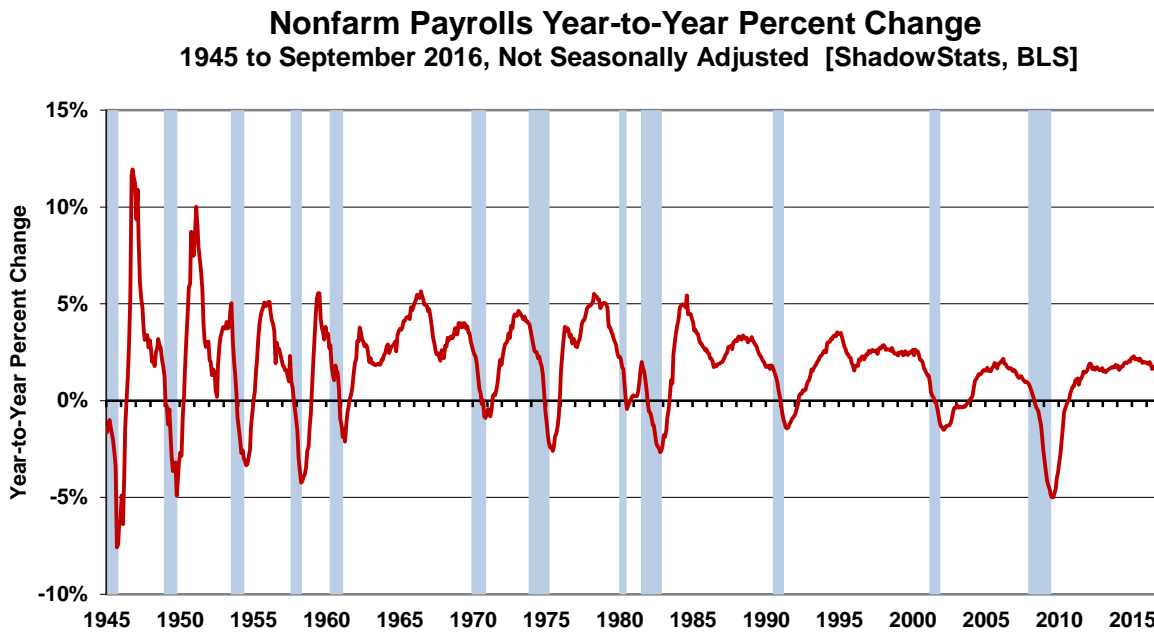
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown 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 18 and 19 follow on the next page.]

Graph 18: Payroll Employment, Year-to-Year Percent Change, 2000 to August 2016



Graph 19: 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 Payroll, Amidst Continuing, Current Seasonal Distortions. Discussed and graphed here, with extended commentary and the latest detail available from ShadowStats affiliate [ExpliStats](http://ExpliStats.com), 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. The problem is that the historically-comparable revised data are not published along with the new headline detail

Detailed in today's October 7th BLS [Press Release](#) (under *Technical Note*, subheading *Seasonal Adjustment*, unnumbered page 9):

For both the household [unemployment] and establishment [payroll] surveys, a concurrent seasonal adjustment methodology is used in which new seasonal factors are calculated each month using all relevant data, up to and including the data for the current month. In the household survey, new seasonal factors are used to adjust only the current month's data. In the establishment [payroll] survey, however, new seasonal factors are used each month to adjust the three most recent monthly estimates. The prior 2 months are routinely revised to incorporate additional sample reports and recalculated seasonal adjustment factors. In both surveys, 5-year revisions to historical data are made once a year.

Discussed in the following paragraphs, the historical data never are published on a consistent basis for the payroll survey, even with the headline benchmark revision. The household survey is published only once per year on a consistent basis, in December, but the numbers become inconsistent, once again, with the ensuing month's January reporting. The headline month-to-month inconsistencies in the household survey are highly variable every month, but that detail never is published or knowable by the public. Effective Reporting Fraud. As discussed in opening paragraphs of this *Reporting Detail and the earlier 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 published historical data, including the most-recent months, and the unreported actual monthly variations versus headline detail can be meaningful, as seen in the headline September 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 the consistent data, where those data are calculated each month and are available internally to the Bureau. The [BLS](#) expressed reasons for not publishing the revised monthly numbers on a consistent basis: "Numerous revisions during the year, however, should be avoided, because they tend to confuse data users and to increase publication costs substantially."

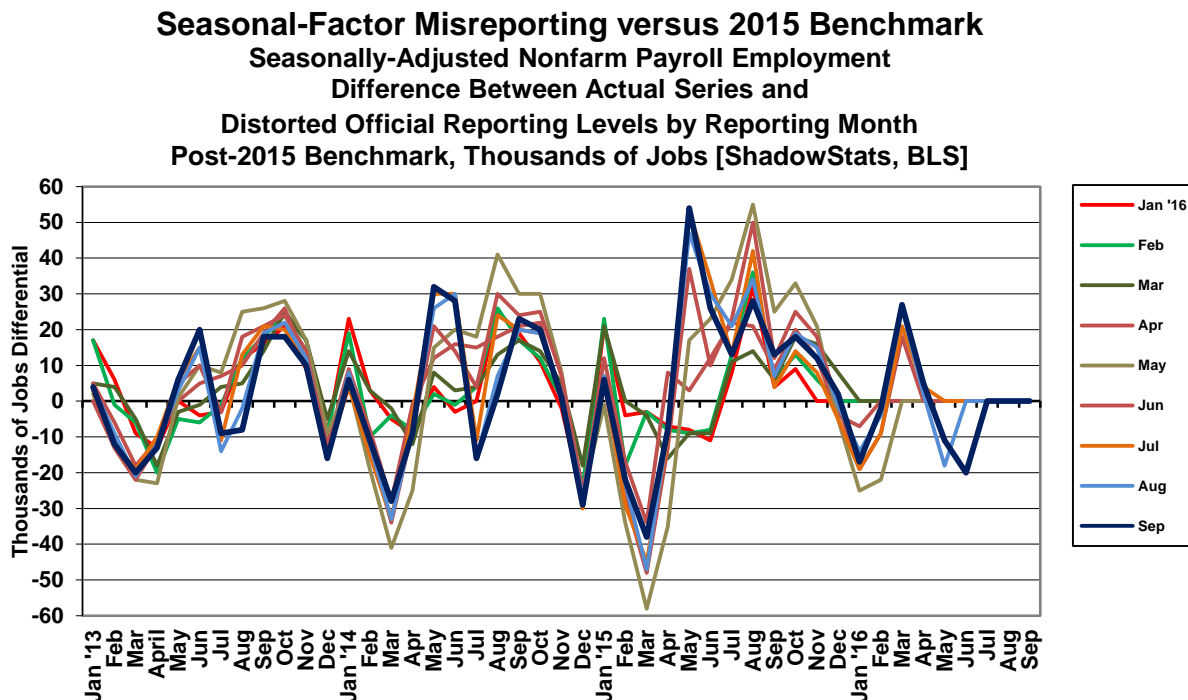
Household Survey. Circumstances here, again, are highlighted in the today's *Opening Comments*. In the case of the published Household Survey (unemployment rate and related data), the seasonally-adjusted headline numbers usually are not comparable with the prior monthly data or any month before. Accordingly, 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 20*, 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, the headline September 2016 payroll level was prepared on a consistent basis with the levels of August 2016 and July 2016, but not with June 2016, with the headline monthly gains consistent only for September and August. With the Household Survey, however, the September 2016 detail is not comparable with August 2016 or any other published month, so seasonally-adjusted, month-to-month comparisons have no meaning in the Household Survey, even for the headline month.

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 20*).

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 20*.

Graph 20: Concurrent-Seasonal-Factor Irregularities - Headline Detail, September 2016 versus 2015 Benchmark



Consider in the latest headline payroll detail that the September 2016 monthly changes were comparable only with the headline changes in the August 2016 numbers, not with July 2016 or any earlier months. Per BLS headline reporting (straight from the press release *Summary Table B*), seasonally-adjusted

September 2016 payrolls rose month-to-month by 156,000 from August, while August payrolls rose by 167,000 from July, with July payrolls up by 252,000 from June. Only the September and August gains were consistent with each other. Following are the official headline data, with currently-consistent headline detail of monthly gain in parentheses: July was up by 252,000 (272,000), June was up by 271,000 (262,000), May was up by 24,000 (8,000) and April was up by 144,000 (122,000). The headline July monthly gain and all of the other prior-period monthly changes were not accurate or comparable with the headline details for September, because the earlier published numbers were not adjusted for the new September 2016-based seasonal adjustments. All earlier months' details are available upon request sent to the e-mail: support@shadowstats.com.

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 20 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 2015, but not published. The new benchmark-revised series is run in the background in October, November and December, with January of the next year being the first month where the new numbers actually are published. Yet, at that point, the headline detail already has three months of inconsistent seasonal adjustments in play; September makes that eleven. 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 (August 2016) and dark-blue (September 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 September 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 and 2012 excepted).

The initial estimate (summary number) for the 2016 benchmarking was for a downside revision in total payrolls for March of 2016 by 150,000 (-150,000), down by 224,000 (-224,000) in just private-sector employment (see [Commentary No. 830](#)). Those changes will be recast and imputed for adjustments back to April 2014, and forward to December 2016, with the fully-revised benchmark detail accompanying the release of January 2017 payroll data on February 3, 2017.

Despite 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 upped its annual upside-bias factors since then by 65,000. 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.

September 2016 Add-Factor Bias. The not-seasonally-adjusted September 2016 bias was a negative add-factor of 57,000 (-57,000), following a positive add-factor of 106,000 in August 2016, versus a negative add-factor of 31,000 (-31,000) in September 2015.

The revamped, aggregate upside bias for the trailing twelve months through September 2016 was 846,000, up by 65,000 or 8.3% from 781,000 in December 2015. That was a monthly average of 70,500, in September 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 70,500 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 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. The headline unemployment rates are through September are shown in *Graph 1* in the *Opening Comments*. At the first decimal point, the headline September 2016 unemployment rate (U.3) rose to 5.0%, versus 4.9% in August. At the second decimal point, the headline September 2016 U.3 was 4.96%, versus 4.92% in August. Formally, the 0.04% increase in September 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 of this *Reporting Detail* section).

On an unadjusted basis, the headline unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate eased to 4.79% in September 2016, from 5.00% in August.

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 September 2016 (never seasonally-adjusted) declined by 23,000 (-23,000) to 553,000, with total, short-term marginally-attached workers rising by 131,000 to 1,844,00, while August 2016 short-term discouraged workers fell by 15,000 to 576,000, having risen by 89,000 to 591,000 in July, with total, short-term marginally-attached workers declining by 237,000 (-237,000) to 1,713,000 in August, having risen by 171,000 to 1,950,000 in July. The latest, official “discouraged” number, 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 displaced-worker.

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 or displaced workers. In 1994, “discouraged workers”—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been “discouraged” for less than a year. This time-qualification defined away a large number of long-term discouraged workers. The remaining redefined short-term discouraged and redefined marginally-attached workers were included in U.6.

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

On top of a small increase in the seasonally-adjusted U.3 unemployment rate, an increase in the count of marginally-attached workers, and a drop of 159,000 (-159,000) in the adjusted number of people working part-time for economic reasons, combined to generate a headline September 2016 U.6 unemployment rate of 9.69%, the same as the 9.69% in August 2016. The unadjusted U.6 unemployment rate eased to 9.32% in September 2016, from 9.70% in August 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 again at 23.0% in September 2016, the same level as in August and July.

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 or displaced 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 actively 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 (1.844 million in September 2016), those not in the labor force currently wanting a job eased to 3.909 million in September 2016 (a reduced total of 5.753 million), versus 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.

In theory, those numbers are counted only on an unadjusted basis, yet the BLS publishes a seasonally-adjusted estimate of 6.088 million wanting a job in September 2016, up from 5.833 million in August 2015, and up from 5.944 million in September 2015.

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 published by the BLS.

Some broad systemic labor measures from the BLS, though, are consistent in pattern with the ShadowStats measure, even allowing for the shifts tied to an aging population with retiring “baby boomers.” 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 September 2016 held at 23.0%, the same as in August and July. The September 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 September 2016 headline U.3 unemployment reading of 5.0% was down by a 500 basis points or 5.0% (-5.0%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.7% in September 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%.

WEEK AND MONTH AHEAD

Near-Term Headline Economic Deterioration Should Intensify, 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. Irrespective of continuing talk by some FOMC members of a near-term rate hike, an ongoing and deepening domestic economic downturn promises intensified stress on systemic liquidity. That circumstance ultimately dooms the U.S. central bank to an intensified quantitative easing.

Fed-policy retrenchment should remain very much alive, shifting towards that renewed quantitative easing, in the post-election environment, as discussed in the *Opening Comments* of [Commentary No. 837](#) and [Commentary No. 835](#), which respectively reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

[Commentary No. 836](#) updated the latest GDP reporting (third-estimate of second-quarter 2016), as well as provided an economic reality check on some harder, less-theoretical and more-independent (non-government) economic numbers.

[Commentary No. 834](#) detailed August activity in residential construction units (*i.e.*, housing starts), while underlying consumer liquidity and household income conditions were updated fully in [Commentary No. 833](#), along with continuing discussion of FOMC options and the latest consumer inflation detail.

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, such as seen in [Commentary No. 832](#) and the headline labor-market conditions reported today. Earlier FOMC considerations also were covered in [Commentary No. 831](#), while the initial payroll benchmark revision for 2016 was discussed in [Commentary No. 830](#).

Broad economic and systemic details detail otherwise have been reviewed most recently 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 recent, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Fed rate-hike jawboning, however, had put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency. The downside spike to gold prices on October was considered in [Commentary No. 837](#).

Again, though, the fundamental liquidity issues facing the Fed remain dominated by the impact of perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Even if the Fed should raise rates in the near future, ongoing negative economic pressures still will mount, forcing the U.S. central bank back into a position of having to support domestic financial- and banking-system liquidity needs. Effectively, the Fed will have no way out other than to return to some form of expanded quantitative easing.

Temporary jawboning aside, market reactions increasingly should reflect a renewed sense of Federal Reserve impotence in the wake of the latest no rate hike, with bleak longer-term implications for the U.S. dollar. While anything is possible, Fed tightening prior to the election appears now to be out of consideration, with renewed quantitative easing becoming the likely target of post-election speculation, as the deepening recession unfolds.

Rapidly weakening, regular monthly economic reporting should continue and 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. August CPI was boosted by “core” inflation. 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.

PENDING RELEASES:

Nominal and Real Retail Sales (September 2016). The Census Bureau will release September 2016 nominal (not-adjusted-for-inflation) Retail Sales on Friday, October 14th, which will be covered in *Commentary No. 839* of that date. Detail on real (adjusted-for-inflation) Retail Sales will be covered in the *Commentary No. 841* of October 18th, coincident with the release by the Bureau of Labor Statistics (BLS) of the September 2016 Consumer Price Index (CPI-U).

With a likely solid increase in the monthly CPI-U, there is a parallel chance for real sales growth in September to be more-negative or weaker than the headline nominal sales activity. Not only did unadjusted gasoline prices rise in September, but seasonal-factor adjustments also are strongly positive for gasoline prices in that month. The pace of annual CPI-U inflation in September also should increase from August levels, generating a deepening recession signal in the historically low-level, annual real Retail Sales growth.

Market expectations for headline nominal September Retail Sales likely will settle around a small gain, month-to-month, reflecting stronger auto sales and weaker retail-store activity. Despite the happy outlook, an outright nominal monthly sales contraction in September 2016 and downside revisions to July and August activity are within the scope of underlying reality.

Underlying consumer liquidity and household income conditions were updated fully in [Commentary No. 833](#), with limited updates/revisions in [Commentary No. 836](#); liquidity remains impaired. The extreme liquidity bind besetting consumers continues to constrain activity in personal-consumption expenditures and retail sales. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

Producer Price Index—PPI (September 2016). The Bureau of Labor Statistics (BLS) will release the September 2016 PPI also on Friday, October 14th, with detail covered in *Commentary No. 839* of that date. Odds favor a small, positive headline gain in wholesale inflation, at least on the goods side of the reporting, due to relatively stronger oil prices and a positive effect from related seasonal-factor adjustments.

Unadjusted oil prices increased in September 2016, along with higher gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices rose by 1.0% and 1.6%. That was accompanied by a 1.9% increase in unadjusted, monthly-average retail gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in September are positive, that should contribute to pushing the adjusted Final Demand Goods component of the PPI to the plus side.

Energy- and other goods-related inflation will be supplemented or hit by counterintuitive “inflation” or “deflation” in the dominant services sector, from rising or falling “margins.” Guesstimation in that services sector remains highly problematic. Counterintuitive pricing pressures from shrinking profit margins with the sharply rising oil prices, for example are discussed in *Inflation that Is More Theoretical than Real World?* in [Commentary No. 832](#).

PLANNED UPDATES: Comprehensive *Special Report* and ShadowStats Website. ShadowStats is updating 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* is progressing and should be published this month. It 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.
