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

COMMENTARY NUMBER 845
October Labor, September Trade and Construction Spending, M3, Dollar and Gold

November 4, 2016

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October Annual Payroll Growth Declined to a 42-Month Low

Full-Time Employment Declined by 103,000 (-103,000) in October

October 2016 Unemployment Rates Notched Lower: U.3 at 4.9%, U.6 at 9.5%, ShadowStats-Alternate Rate at 22.9%

Drop in Headline October Unemployment Rate Reflected Unemployed Leaving the Labor Force, Not Getting Jobs

Participation Rate and Employment-to-Population Ratio Declined

With Continuing Contractions in Monthly, Quarterly and Annual Activity, Real Construction Spending Remained Down by 24% (-24%) from Recovering Its Pre-Recession High

Narrowing of Third-Quarter Trade Deficit Due to Short-Lived, Soybean-Export Surge

Collapsing Annual M3 Growth Showed Increasing Flight to Liquidity for Big Money; Growth Soared in the M1 and M2 Subcomponents of M3

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PLEASE NOTE: The next regular Commentary, *scheduled for Friday, November 11th, will be general in nature, reviewing post-election circumstances. There are no major economic releases in the week ahead.*

Please call at (707) 763-5786 if you have questions or would like to discuss current issues or otherwise. Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Headline October Labor Conditions Massively Overstated the Health of the U.S. Economy. Although the September 2016 reporting of headline employment and unemployment was the most-likely labor release to reflect any pre-election political shenanigans, the October release still had the potential for extra gimmicking. The headline details in both instances were no more skewed, nor otherwise gimmicked, than they normally are each month. Most of those regular monthly distortions, however, are significant. They have evolved out of the fine-tuning of longer-range political manipulation, such as changes to methodology with the upside bias-factors created post-1983 recession, and that evolved into the current birth-death modeling and related upside biases in payroll jobs counting. Consider as well politically-orchestrated methodology changes, such as redefining "discouraged workers" out of longer-term unemployment accounting in coordination with the NAFTA agreement. As designed, intended and implemented over decades, the regularly-gimmicked employment and unemployment numbers meaningfully overstated headline labor-market health in the October jobs and unemployment reporting.

Not as Advertised. Underlying reality for October 2016 U.S. labor conditions remained in the realm of a 22.9% broad unemployment rate, with the actual monthly payroll-employment change likely flat-to-minus, despite the usual, more-upbeat headline indications out of the Bureau of Labor Statistics (BLS). Specifically, the BLS showed the headline October 2016 unemployment rate declining to 4.9%, with a headline monthly jobs gain of 161,000.

News Was Not Particularly Happy or Consistent on the Household Survey Side. The minimal decline in the headline U.3 unemployment rate to 4.9% in October, versus 5.0% in September, 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*.

That said, if the headline October details were comparable, the decline in the unemployment rate reflected a decline in the number of unemployed [down by 152,000 (-152,000)], in the context of a decline also in the number of employed [down by 43,000 (-43,000)]. That means instead of the decline in unemployment from 5.0% to 4.9% being good news, with a number of the former unemployed gaining jobs, the decline was bad news, with the drop in the unemployed count reflecting a number of unemployed giving up looking for work and dropping out of the headline labor force.

The Gain in Payroll Employment Reflected No More than Upside Biases. The headline payroll gain of 161,000 in October 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, with the Birth-Death Model (BDM) artificially inflating 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* (November 4th). The balance of these *Opening Comments* provides summary details of October employment and unemployment, as well as the September trade deficit and construction spending. Extended information follows in the *Reporting Detail*.

The *Hyperinflation Watch* updates the pre-election circumstances for the U.S. dollar, gold and silver, along with an updated estimate of the year-to-year growth in the October 2016 ShadowStats Ongoing M3 Estimate.

With no major economic releases in the week ahead, the *Week and Month Ahead* section is limited to its otherwise usual summary of prior *Commentaries*.

Employment and Unemployment—October 2016—Annual Payroll Growth Sank to 42-Month Low, Unemployment Rate Declined Due to "Unemployed" Being Redefined Out of the Workforce. While the reporting of October 2016 employment and unemployment was the final economic release prior to next-Tuesday's election, its positively-biased, political manipulations were egregious, but not unusually so. They reflected just more of the regular overstatement of jobs growth and understatement of actual unemployment.

Payroll Survey: Collapsing Annual Growth. In the context of continued heavily-distorted bloating, unstable seasonal adjustments, and upside revisions to August and September, the seasonally-adjusted, headline payroll gain for October 2016 of 161,000 was meaningless. It followed an upwardly-revised 191,000 jobs gain in September, and an upwardly-revised but demonstrably-false, not comparable 176,000 jobs gain in August. Consistent, seasonally-adjusted headline detail shows the August gain to have been 165,000, instead of the headline 176,000, with the difference having been borrowed from earlier (but not published) historical detail (see *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*). Net of prior-period revisions, October 2016 payrolls rose by 205,000, instead of the headline 161,000.

The not-seasonally-adjusted, year-to-year growth in October 2016 nonfarm payrolls of 1.56%, however, set a 42-month low for the series. That was against an upwardly-revised annual gain of 1.76% in September 2016 and an unrevised year-to-year growth of 1.72% in August 2016.

Household Survey: Counting All Discouraged Workers, October 2016 Unemployment Notched Lower to 22.9%. Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic

reality, simply is definitional. To be counted among the headline unemployed (U.3), an individual has to have looked actively for work within the four weeks prior to the unemployment survey. If the active search for work was in the last year, but not in the last four weeks, the individual is considered a "discouraged worker" by the BLS and not counted in the headline labor force.

ShadowStats defines that group as "short-term discouraged workers," as opposed to those who, after one year, no longer are counted by the government. Instead, they enter the realm of "long-term discouraged workers," those displaced by extraordinary economic conditions, including regional/local business activity affected negatively by trade agreements or by other factors shifting U.S. productive assets offshore, as defined and counted by ShadowStats (see the extended comments in the *ShadowStats Alternate Unemployment Measure* in the *Reporting Detail*).

In the ongoing economic collapse into 2008 and 2009, and the non-recovery thereafter, the broad drop in the U.3 unemployment rate from its headline peak of 10.0% in 2009, to the October 2016 headline 4.9%, has been due largely to the unemployed giving up looking for work (common in severe economic contractions and major economic displacements). Such was seen again in the headline October 2016 reporting. 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.

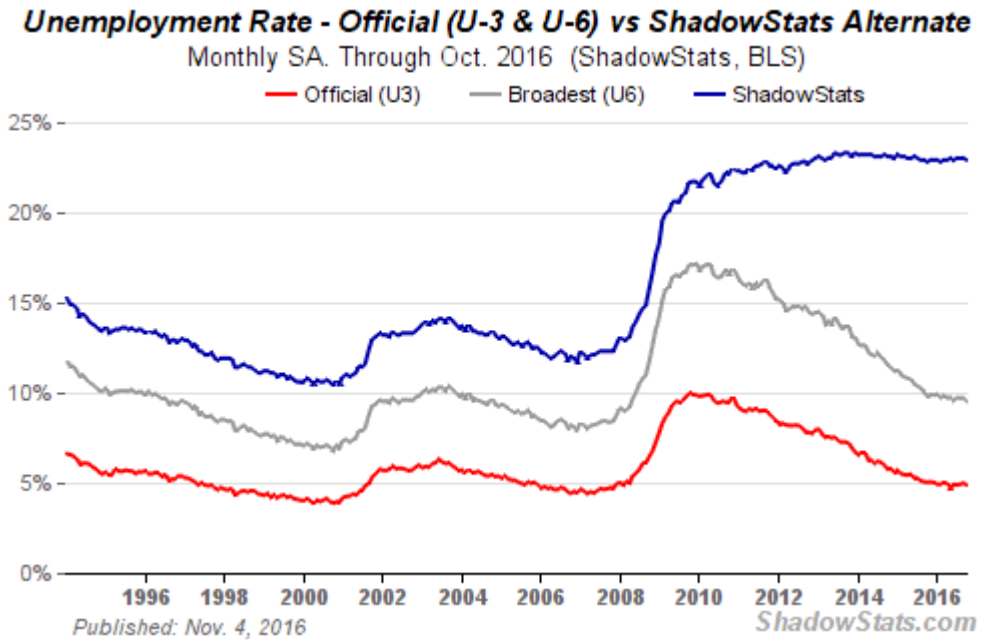
As new discouraged workers move regularly from U.3 into U.6 unemployment accounting, those who have been "discouraged" for one year are dropped from the U.6 measure. As a result, the headline U.6 measure has been declining along with headline U.3 for some time, but those being pushed out of U.6 still 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.

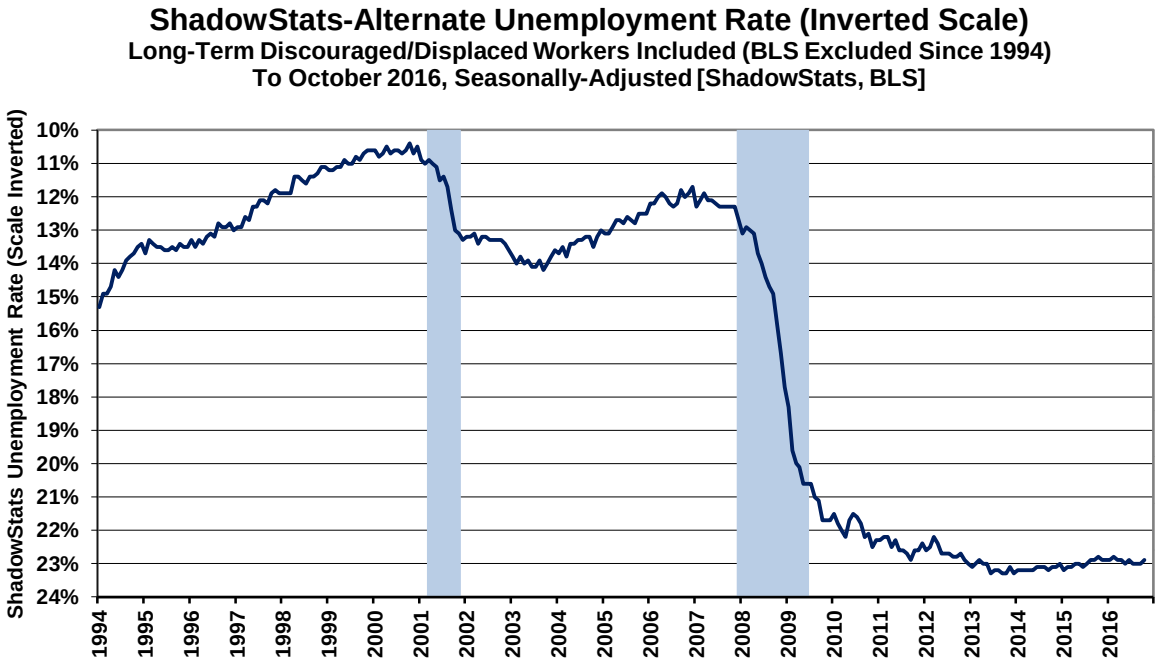
Again, when the headline unemployed become "discouraged," they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence 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-October 2016 unemployment rates of 4.9% (U.3) and 22.9% (ShadowStats).

Graph 1 reflects headline October 2016 U.3 unemployment declining to 4.88% from 4.96% in September 2016; headline October 2016 U.6 unemployment eased to 9.53% from 9.69% in September 2016; and the headline October 2016 ShadowStats unemployment estimate notched lower to 22.9% from 23.0% in September 2016.

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



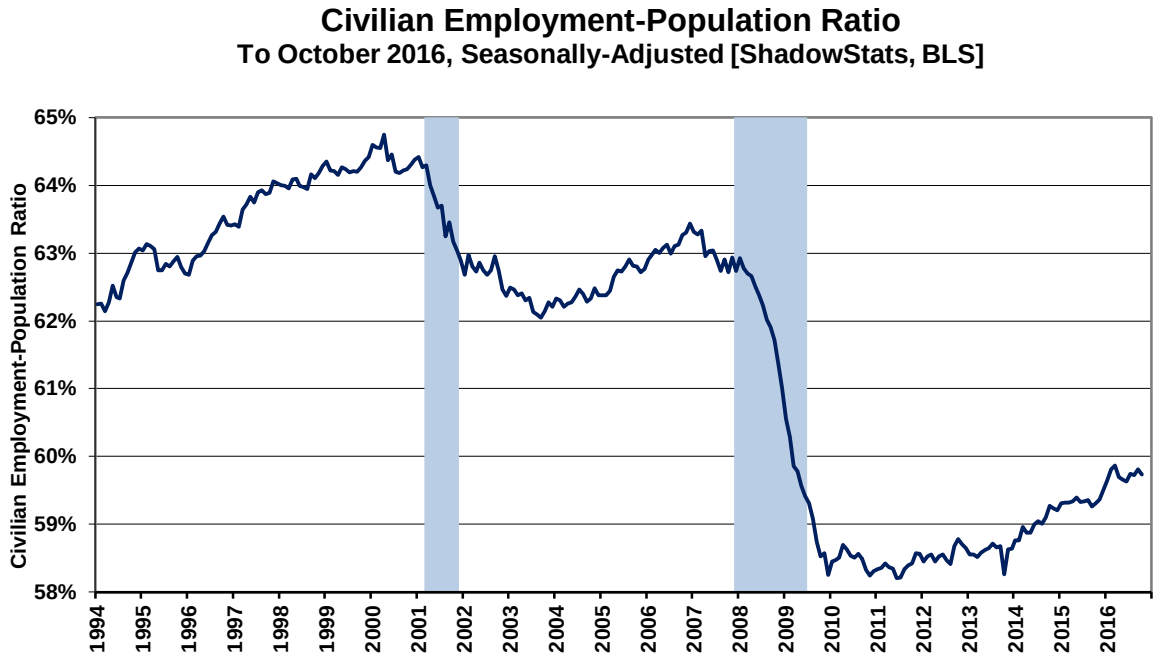
Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



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, notched higher in July and marginally lower in August, held even in September but notched lower again in October 2016.

Graph 3: Civilian Employment-Population Ratio



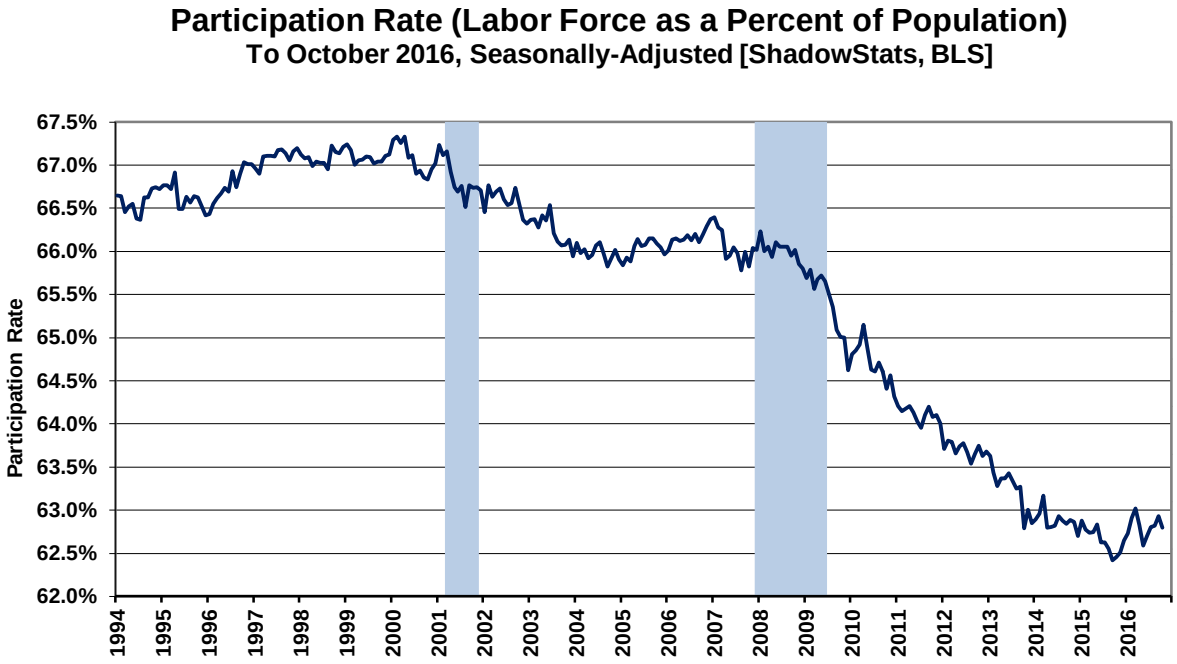
That ratio still remains near its post-1994 record low, the historic low and bottom since economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), shown in *Graph 3*. The labor force containing all unemployed (including total discouraged workers) plus 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 October 2016 participation rate (the ratio of the headline labor force to the population) moved lower in October 2016, having notched minimally higher in September, effectively was unchanged in August, having notched higher in July and June and having turned down in April and May. Both the 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 October 2016. Unadjusted ratios for these series had been above the adjusted numbers in June and July, but they dropped sharply in August, were mixed in September and moved higher against the adjusted ratios in October.

The Participation-Rate—one measure 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 moved lower in October, having notched minimally to the upside in September and 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



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, prior employment/ unemployment *Commentary No. 838* and *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 U.3 unemployment of about 4.0%). Full employment with unemployment at 5.0%, also minimally should be reflected at a near-term peak in the participation rate, not at a trough. Today's October 2016 headline unemployment rate of 4.9%, for example was in the context of a 62.8% participation rate. That participation rate, though, was more consistent with a headline unemployment rate (U.3) of 9.5%[1] instead of the headline 4.9%. 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.

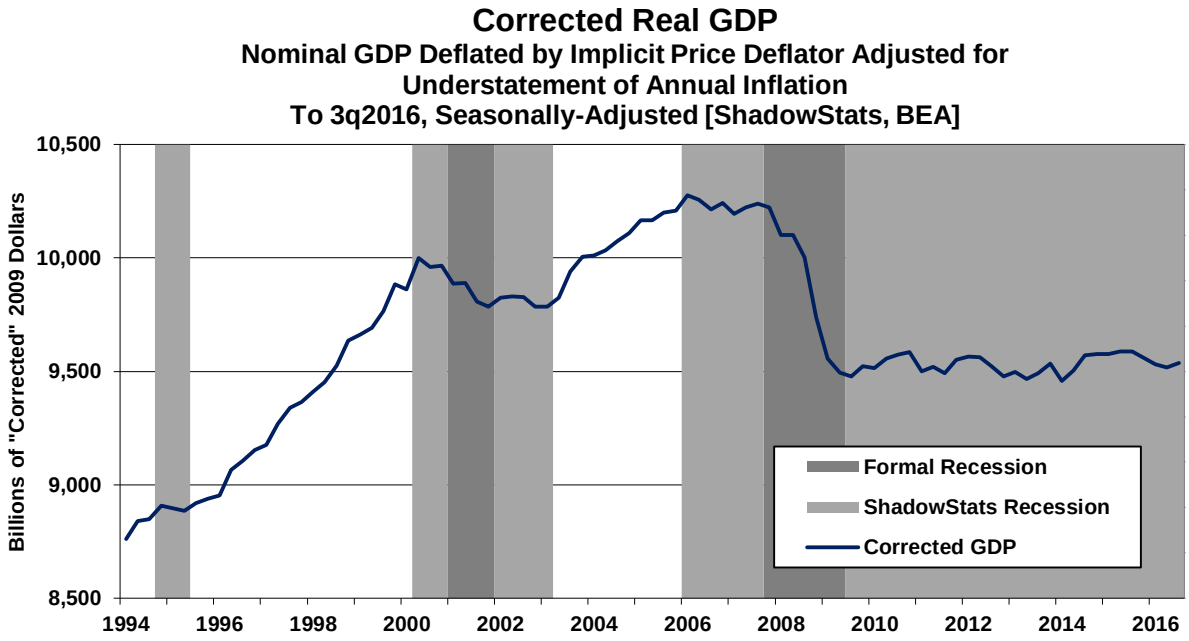
[1] Consider with an October 2016 population of 254.321 million, that the implied labor force at the full-employment participation rate of 66.0% would be 0.66 x 254.321 = 167.852. That labor force less current headline employed, 167.852 – 151.925 = 15.927 million implied unemployed/ labor force of 167.852 = 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.

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 October 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 October 28th "advance" estimate of third-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 prior *Commentary No. 844*).

Graph 5: Corrected Real GDP through 3q2016, First Estimate



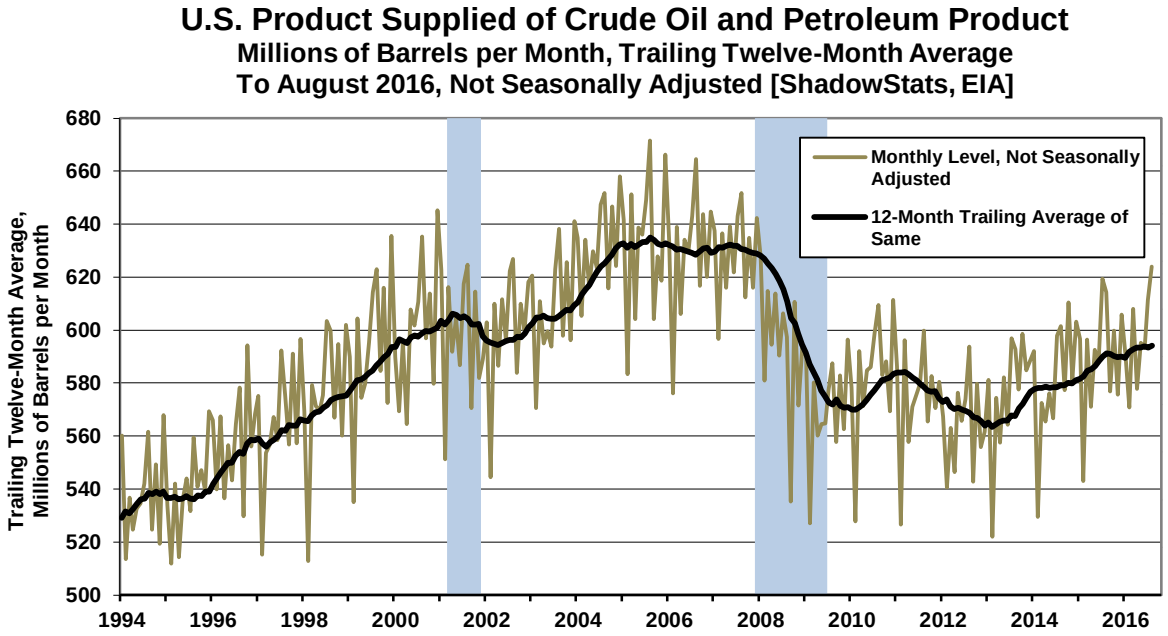
ShadowStats also regularly publishes generally unbiased series from a variety of sources. Shown in *Graph 6*, for example, the U.S. aggregate consumption of crude oil petroleum product, measured in physical barrel count, is an extraordinarily broad indicator of general activity. The U.S. Energy Information Agency (EIA), Department of Energy, publishes this detail on a monthly basis (also see the related discussion in *Commentary No. 836*).

In contrast, the CASS index currently (through September 2016) continues to turn down in its twelve-month trailing average, with deepening year-to-year contractions on a monthly basis (see *Commentary No. 841*). 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.

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 the just-published headline monthly detail of August 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 and a little bit of fluttering in July and August 2016, never having recovered its pre-recession high.

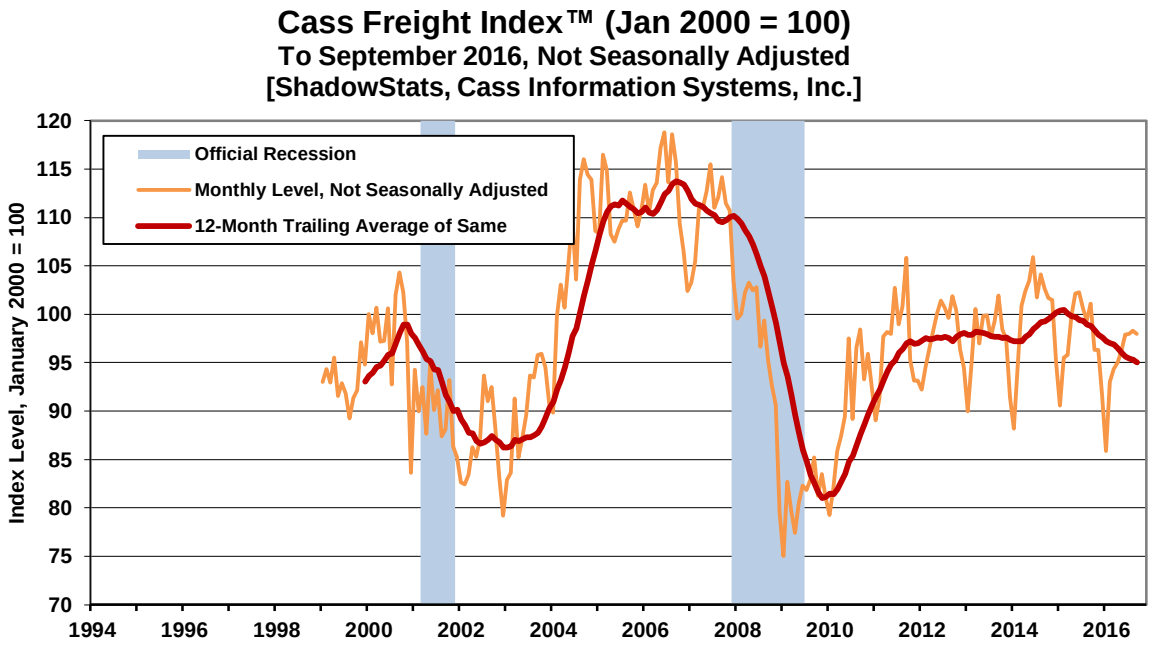
Graph 6: U.S. Petroleum Consumption to August 2016



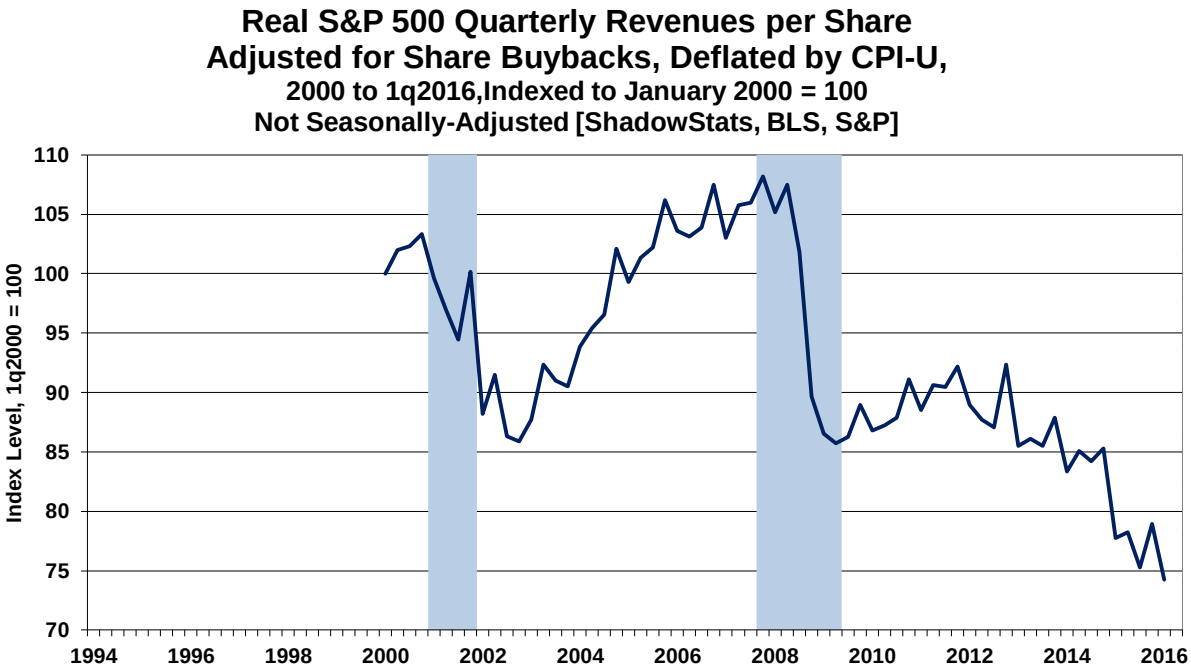
In particular, the broad patterns of activity seen in the weakened employment measures in *Graphs 2* and *3* generally are mirrored in *Graph 5* of the "corrected" GDP. They also are largely consistent with the post-1994 period shown in *Graph 6 of* petroleum consumption, *Graph 7* of the CASS Freight Index and *Graph 8* of real S&P 500 revenues, as estimated for the impact of share buybacks, previously published in *Commentary No. 838*, *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*).

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



Headline Unemployment Rates. At the first decimal point, the headline October 2016 unemployment rate (U.3) declined to 4.9%, versus 5.0% in September. At the second decimal point, the headline October 2016 U.3 was 4.88%, versus 4.96% in September. Formally, the decline of 0.08% (-0.08%) in October U.3 was statistically-insignificant. All that is nonsense, though, given that the monthly numbers

are reported on an inconsistent basis and are not even comparable with each other (see the opening paragraphs of these *Opening Comments*).

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate decreased to 4.66% in October 2016, from 4.79% in September 2016.

Marginally-Attached and Displaced Workers. New discouraged and otherwise marginally-attached workers always are moving into U.6 unemployment accounting from U.3, while those who have been discouraged 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 October 2016 (never seasonally-adjusted) declined by 66,000 (-66,000) to 487,000, with total, short-term marginally-attached workers declining by 144,000 to 1,700,000. The September short-term discouraged workers had declined by 23,000 (-23,000) to 553,000, with total, short-term marginally-attached workers rising by 131,000 to 1,844,000.

The latest, official "discouraged" number, again, reflected the flow of the headline unemployed—giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term "marginally-attached discouraged workers," net of the further increase in the number of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status.

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

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

On top of the decline in the seasonally-adjusted U.3 unemployment rate, a decline in the count of marginally-attached workers and a minimal decline of 5,000 (-5,000) in the adjusted number of people working part-time for economic reasons combined to generate a headline October 2016 U.6 unemployment rate of 9.53%, versus 9.69% in September 2016. The unadjusted U.6 unemployment rate declined to 9.16% in October 2016, versus 9.32% in September 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

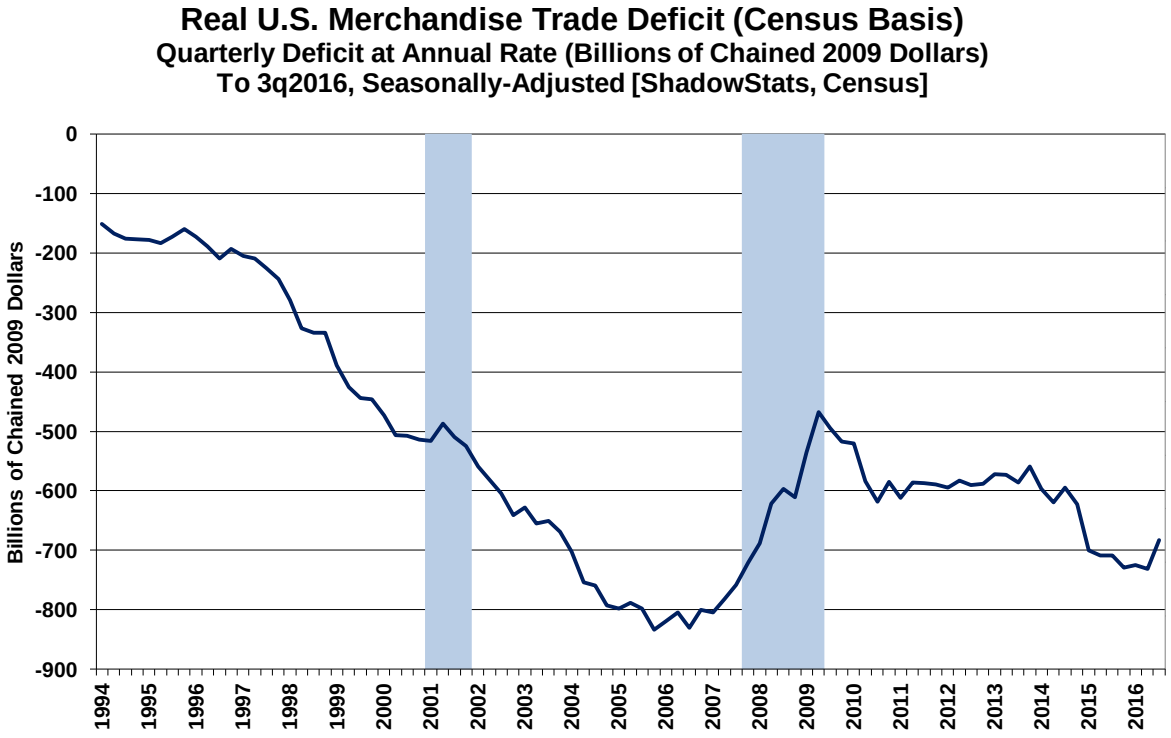
Unemployment Estimate for October 2016 declined to 22.9%, from 23.0% in September 2016. The October 2016 reading was down by 40 basis points or 0.4% (-0.4%) from the 23.3% series high last seen in December 2013.

In contrast, October 2016 headline U.3 unemployment of 4.9% was down by 510 basis points or by 5.1% (-5.1%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.5% in October 2016, was down by 770 basis points or 7.7% (-7.7%) from its peak of 17.2% April 2010.

A subscriber raised the question as to why the ShadowStats Alternate Unemployment Estimate has been holding around 23%. Recalculated each and every month, the ShadowStats estimate generally picks up the net flows of headline "discouraged" workers, who have been redefined out of existence after having been inventoried in the BLS accounting of the U.6 rate for about eleven months (where individuals have not looked actively for a job in one year). In turn, U.6 picks up as "discouraged workers" those in U.3 who have not actively looked for work in the last four weeks. It is the resulting reduction in the U.3 and U.6 "unemployed" and the related labor forces used in calculating those respective headline unemployment rates that has accounted for the bulk of the reduction in those headline rates, with much of the difference flowing into and holding reasonably steady in the ShadowStats alternate measure.

U.S. Trade Deficit—September 2016—Third-Quarter Real Merchandise Trade Deficit Narrowed in Highly Suspect Circumstances that Boosted Initial Reporting of Third-Quarter GDP. Shown in accompanying *Graph 9*, the third-quarter 2016 real merchandise trade deficit narrowed sharply versus the second-quarter 2016 deficit, which still was the worst reading since third-quarter 2007.

Graph 9: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit through 3q2016



Yet, the unusual surge in July and August 2016 exports of soybeans, among other factors, provided a one-time narrowing in the real third-quarter 2016 deficit, a positive but still likely short-lived boost. These data and other near-term distortions are highly suspect and should balance out in the next quarter or so, now that the pre-election, headline boost to the "advance" third-quarter 2016 GDP is out of the way.

Nominal (Not-Adjusted-for-Inflation) September 2016 Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for September 2016, narrowed on a balance-of-payments basis. The detail was released in the context of a minimal narrowing, in revision, of the August 2016 monthly deficit.

The headline September 2016 deficit of $36.440 billion, narrowed by $4.022 billion versus a revised August 2016 deficit of $40.462 billion. The $4.022 improvement in the headline monthly deficit reflected gain of $1.036 billion in monthly exports, supplemented by a $2.986 billion drop in imports. The headline September 2016 deficit also narrowed versus an unrevised $41.072 billion in trade shortfall in September 2015. The dominant factors in these unusual September numbers were surging aircraft exports, reversals in the soybean exports, and a reversal in last month's intellectual property import of the Rio Olympics. Once again, shifting activity in energy-related products did not have heavy impact on the monthly trade balance changes.

Energy-Related Petroleum Products. From an import standpoint, declining oil prices had bottomed out in February 2016, inching higher by 0.7% in March, gaining 6.5% in April, 16.0% in May, 15.2% in June and 4.2% in July, but they fell by 4.0% (-4.0%) in August and by a further 0.9% (-0.9%) in September 2016. The impact of the small September price decline was exaggerated by declining physical oil-import volume in the month.

The not-seasonally-adjusted average price of imported oil declined to $39.02 in September 2016, versus $39.38 in August 2016, and it was down from $42.72 per barrel in September 2015. Separately, not-seasonally-adjusted physical oil-import volume in September averaged 7.864 million barrels per day, down from 8.279 million in August 2016 but up from 7.712 million in September 2015.

Real (Inflation-Adjusted) September 2016 Trade Deficit. Seasonally-adjusted, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), and in the context of minor monthly revisions back to April 2016, the September 2016 merchandise trade deficit (no services) narrowed to $55.014 billion, versus a revised $57.418 billion in August, and from a $58.886 billion deficit in September 2015.

Again, reflected in *Graph 9*, the annualized quarterly real merchandise trade deficit was $623.1 billion for fourth-quarter 2014, $700.0 billion for first-quarter 2015, $709.1 billion for second-quarter 2015, $708.4 billion for third-quarter 2015, $728.6 billion for fourth-quarter 2015, $725.2 billion for first-quarter 2016, and a revised $731.3 billion for second-quarter 2016. The initial full reporting of the annualized quarterly real merchandise for third-quarter 2016 was $682.7 billion.

Headline deficits likely will get much deeper in the months and quarters ahead, revising and intensifying the ongoing and more-common negative impact on headline GDP.

Construction Spending—September 2016—Held in Real Quarterly Contractions and Low-Level Stagnation. Where this series remains highly volatile and subject to large monthly revisions, nominal September 2016 spending fell, in the context of upside revisions to August and July detail, with inflation-adjusted real activity in the construction spending series remaining negative on a monthly, quarterly and annual basis. Real monthly spending declined in September 2016, the fourth monthly contraction in six months, the fourth-straight monthly year-to-year contraction, tumbling at ever-deepening annual rates and with annualized quarterly spending also declining in both second and third-quarter 2016, although the third-quarter decline was minimal. The series increasingly has followed a pattern seen when construction spending previously has fallen rapidly into recessionary contractions.

Construction Inflation—ShadowStats Composite Construction Deflator (CCD). Deflation of the Construction Spending series was restructured recently to reflect the ShadowStats Composite Construction Deflator (CCD), as discussed in *Commentary No. 829* and as detailed in the *Construction Inflation* section of the *Reporting Detail*.

Accompanying *Graphs 10* to *13* show comparative nominal and real construction activity for the aggregate series, as well as for private residential- and nonresidential-construction and public-construction. Seen after adjustment for inflation, the real aggregate series generally has remained in low-level stagnation, down-trending through third-quarter 2016. Areas of recent relative strength in the major subcomponents generally have flattened out, or turned down, after inflation adjustment, except for private nonresidential spending, which just turned minimally from up-trending to down-trending.

A variety of extended and comparative graphics are published in the related *Reporting Detail* section, see *Graphs 28* to *36*.

Headline Reporting for September 2016. In the context of upside revisions to August and July activity, the headline, total value of construction put in place in the United States for September 2016 was $1,150.0 billion, on a seasonally-adjusted, but not-inflation-adjusted, annual-rate basis. That estimate was down month-to-month by a statistically-insignificant 0.4% (-0.4%), versus an upwardly revised $1,154.4 billion in August 2016. Net of prior-period revisions September activity gained month-to-month by a still statistically-insignificant 0.7% versus August.

In turn, August was down by a revised 0.5% (-0.5%), versus an upwardly revised $1,160.4 billion in July 2016, while July was up by a revised 0.5% versus an unrevised $1,154.1 in June 2016.

Adjusted for CCD inflation, total real month-to-month spending in September 2016 fell by 0.6% (-0.6%), versus a revised decline of 0.7% (-0.7%) in August and a revised gain of 0.1% in July.

On a year-to-year annual-growth basis, September 2016 nominal construction spending declined by a statistically-insignificant 0.2% (-0.2%), following a revised annual gain of 0.8% in August 2016 and a gain of 2.2% in July 2016. Net of construction costs indicated by the CCD, the year-to-year change in total real construction spending dropped to a 66-month low of minus 3.0% (-3.0%) in July 2016, versus revised annual declines of 2.1% (-2.1%) in August 2016 and 0.7% (-0.7%) in July 2016. The headline annual real decline in September activity was the weakest since the historical series troughed in its collapse into 2011.

The statistically-insignificant, nominal monthly decline of 0.4% (-0.4%) in aggregate September 2016 construction spending, versus a decline of 0.5% (-0.5%) in August 2016, included a headline monthly

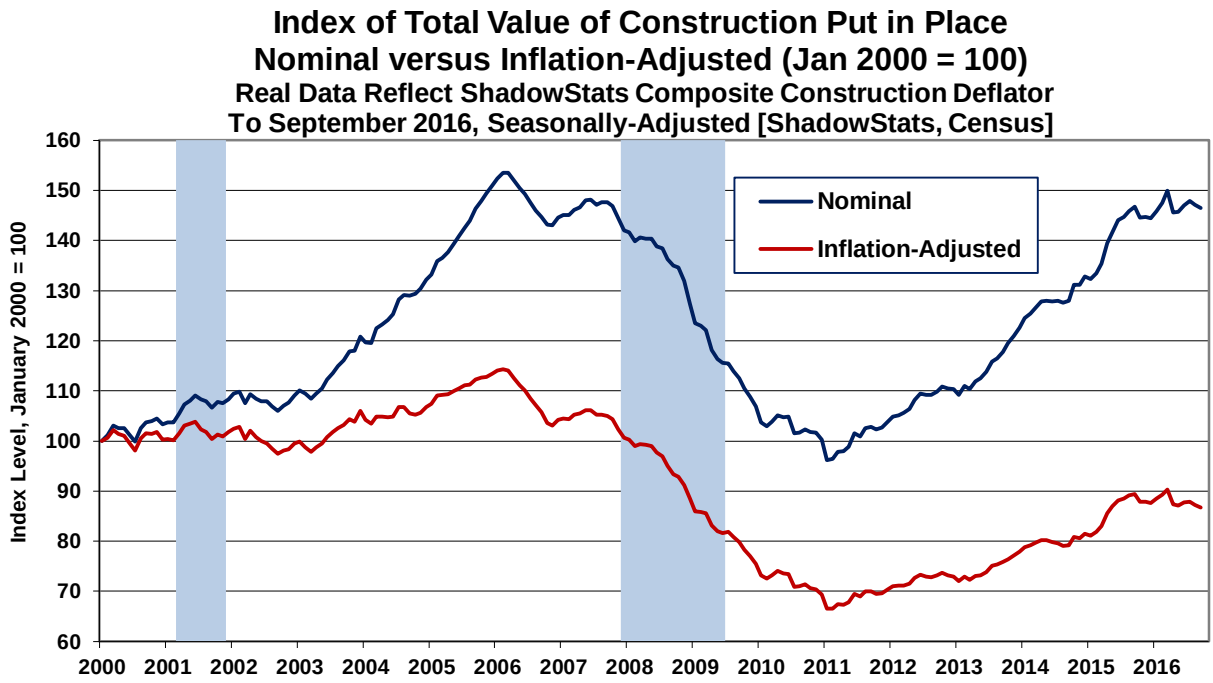
drop in September of 0.9% (-0.9%), versus a monthly plunge of 1.0% (-1.0%) in August public spending. Private spending declined by 0.2% (-0.2%) in September having declined by 0.4% (-0.4%) month-to-month in August. Within total private construction spending, residential-sector activity gained by 0.5% in September, having declined by 1.2% (-1.2%) in August, while the nonresidential sector fell in September by 1.0% (-1.0%), having gained 0.5% in August.

Quarterly Trends. Reflecting full reporting for third-quarter 2016 reporting and attendant revisions, real construction spending declined quarter-to-quarter at an annualized pace of 0.5% (-0.5%), following an annualized second-quarter 2016 contraction of 8.4% (-8.4%). First-quarter 2016 real construction spending rose at an unrevised annualized pace of 7.3%.

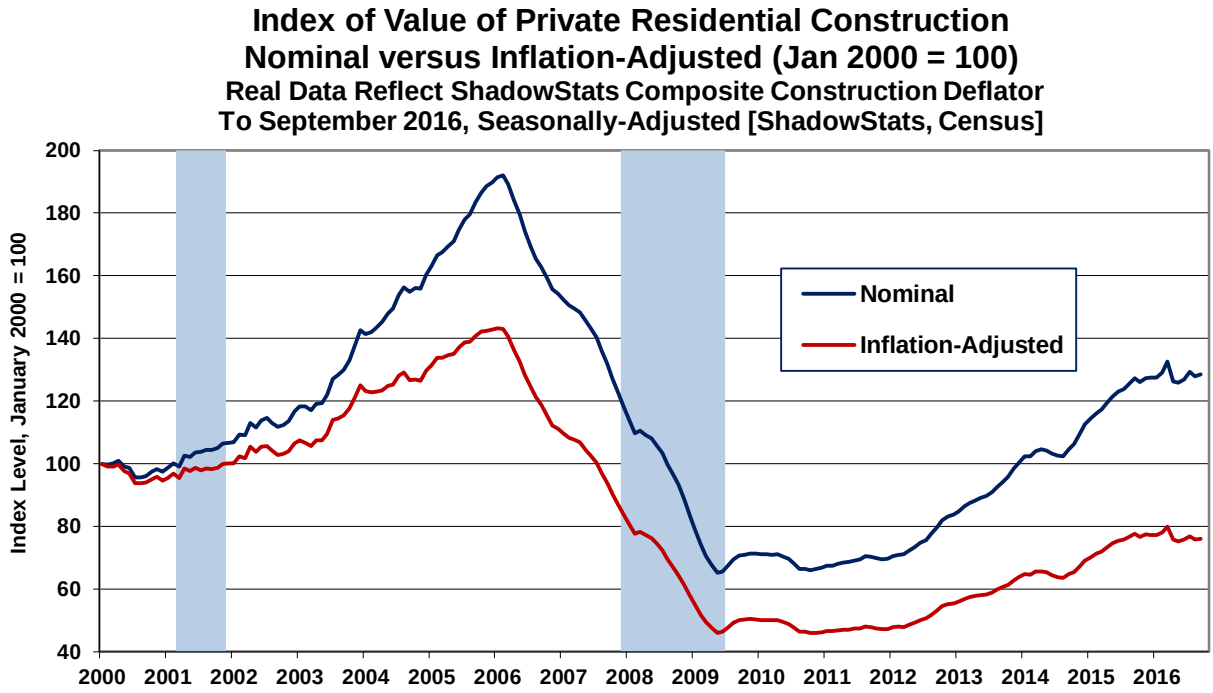
Going back into last year, fourth-quarter 2015 real construction spending contracted at an annualized pace 5.4% (-5.4%), following annualized quarterly real gains of 10.1% in third-quarter 2015, 26.0% in second-quarter 2015 and 5.3% in first-quarter 2015.

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

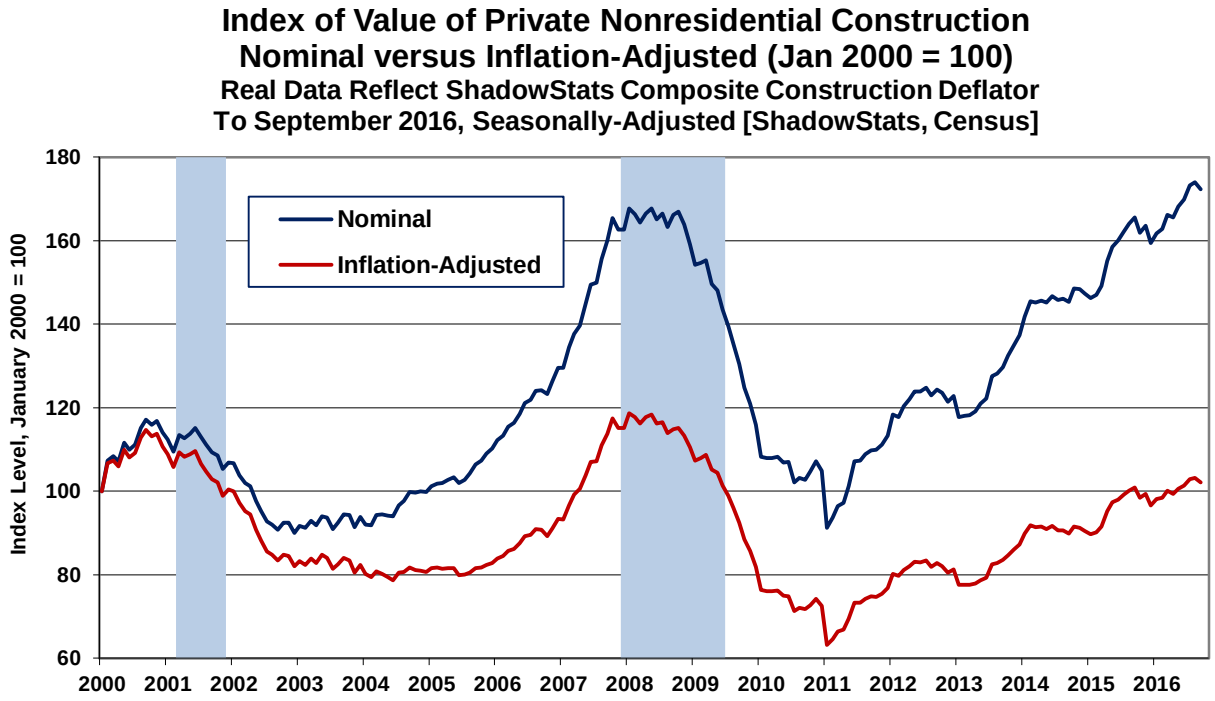
Graph 10: Index, Nominal versus Real Value of Total Construction



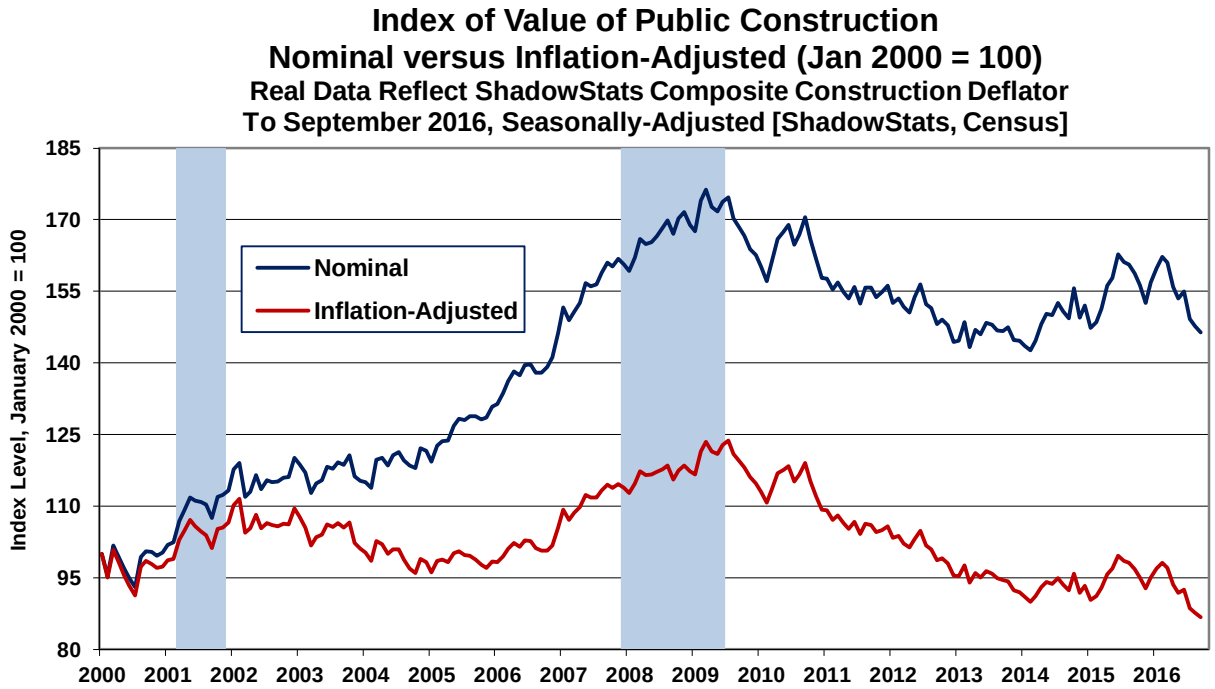
Graph 11: Index, Nominal versus Real Value of Private Residential Construction



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



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



[The* Reporting Detail *section contains significant additional analysis and graphs on labor conditions, construction spending and trade.]

HYPERINFLATION WATCH

DOLLAR, GOLD AND MONETARY CONDITIONS

Shifting Polls and Shifting Markets. Noted in *Commentary No. 841*, the early-month consumer sentiment surveys in June and October 2016 showed a respective surge and plunge. The surge followed Donald Trump being declared the presumptive Republican nominee; the plunge followed the release of the old tape of inappropriate comments, which had immediate negative impact in his polling numbers. The reaction in the gold was to buy (sell the dollar) into early-June and to sell gold (buy the dollar) into early October, and related election concerns still appear to be in play.

Likely mirroring shifting "establishment" concerns, circumstances appear to have reversed again, with the popular polls showing a tightening of the presidential race in Mr. Trump's favor. Buying pressure on gold and renewed selling pressure on the U.S. dollar have surfaced in recent days. The shifting pressures can be seen in the accompanying gold and dollar graphs, updated here from *No. 841*. For example, note the higher, current gold-price point as of November 4th, versus the lower, monthly-average gold price in October.

November FOMC Meeting Passed Without Any New Action. As expected, the Federal Reserve's Federal Open Market Committee (FOMC) took no action at its November 2016 meeting. Expectations remain strong now, however, for a rate hike at the December meeting. Significant jawboning for a rate hike continues, but the economy will not cooperate, and systemic-liquidity issues likely will continue to frustrate the FOMC's rate-hike desires.

Irrespective of near-term Fed action or inaction on hiking rates come December, the U.S. economy is tanking, and it will continue to decline into the foreseeable future. That threatens banking- and financial-system liquidity. It is the systemic-liquidity concerns, not the economic news (still political cover for liquidity actions) that would force the Fed to fall back to its basic and expanded missions of propping the U.S. as well as global banking systems. That is the effect of the commitment that the Fed and the U.S. Treasury made in 2008, when they decided to save the banking system at any and all costs. The required action, again, would be to expand quantitative easing post-election, not to tighten monetary policy meaningfully. Expanded quantitative easing has the added systemic benefit of providing needed liquidity for what will become rapidly expanding funding needs for the U.S. Treasury.

Under those circumstances, unexpected economic weakness increasingly should trigger flight from the U.S. dollar, rallying prices in gold, silver and oil. The pattern of bad economic news and intensifying flight from the dollar should increase sharply in the weeks and months ahead, post-election, with near-

term FOMC waffling eventually giving way to renewed easing against an intensified downturn in U.S. economic activity, and related intensification of liquidity stresses within the financial system.

These circumstances and related Fed activity should continue to unfold irrespective of whether Ms. Clinton or Mr. Trump is the next U.S. President. If Clinton wins, she has her FOMC already in place. If Trump wins, it likely would take him at least one year to replace the current Chairman of the Federal Reserve, Ms. Yellen, whose term does not expire until March of 2018.

The *ShadowStats* general outlook remains unchanged, but it continues to evolve with underlying circumstances. The U.S. economy remains in intensifying crisis, with no chance of near-term recovery. A U.S. dollar collapse looms as the Fed inches closer to a highly likely, renewed and expanded quantitative easing, post-election. The dollar collapse and related dumping of dollar-denominated assets should trigger the early stages of serious domestic inflation, with spiking commodity prices. Heavily bloated U.S. equity markets should suffer along with heavy flight from the U.S. dollar and related assets. Flight-to-safety will spike the dollar prices of store-of-wealth assets such as physical gold and silver, the ultimate hedges for those living in a U.S. dollar-denominated world.

Again, the U.S. economy collapsed into 2009 and never fully recovered, holding in low-level stagnation until it began turning down anew in December 2014. Facing horrendous long-term solvency issues, the U.S. government currently is committed to total net obligations—including federal debt and the net-present value of unfunded liabilities—well in excess of $100 trillion dollars, at more than 160% of current global GDP and at more than 650% of U.S. GDP.

Faced with the threat of a banking-system collapse in the Panic of 2008, the U.S. Treasury and the Federal Reserve took whatever stopgap measures were needed to buy time, to push the crisis into the future, irrespective of cost. Those stopgap measures, however, did nothing to address the underlying U.S. economic or long-term solvency issues, and that postponed future is upon us.

With the renewed and deepening economic downturn hitting banking-system stresses and U.S. Treasury funding needs with intensified severity, the Fed most likely will have little choice but to renew and expand its active quantitative easing and, in the process, pummeling the U.S. dollar in the global markets.

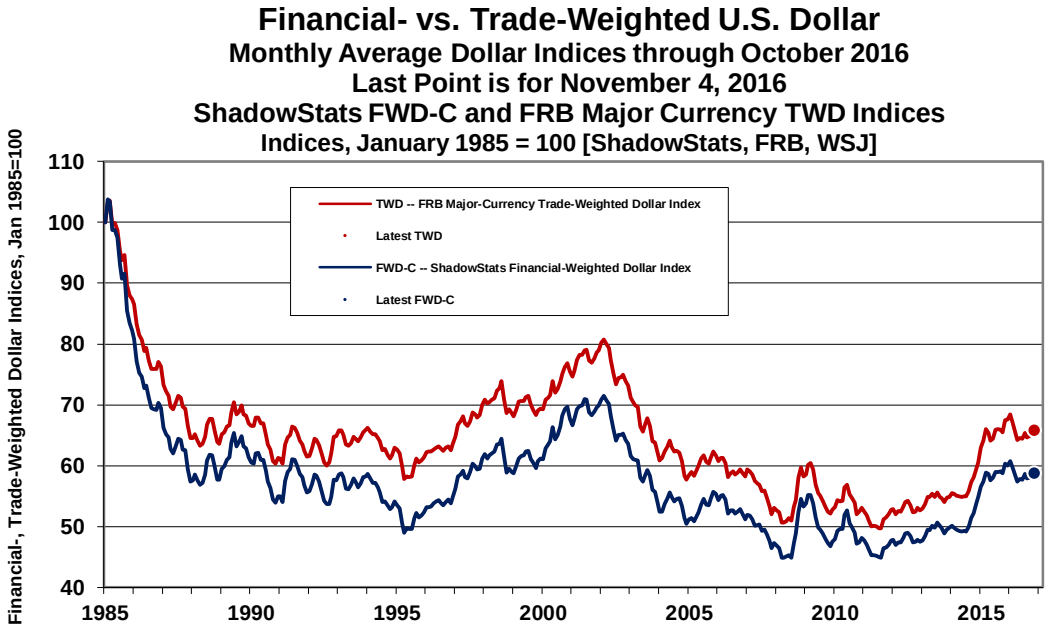
Once heavy flight from the dollar and dollar-denominated assets comes into play, commodity prices, such as seen with oil and gasoline, will spike sharply, triggering a further surge in domestic inflation and setting the stage for an evolving inflationary spiral into hyperinflation.

The more troubled the U.S. economy, the more intense will be the selling pressure on the U.S. currency, and the more difficult circumstances will become for the U.S. equity markets. The broad impact from weakness in the U.S. dollar should be seen in higher domestic inflation, including rising oil prices, as well as continued and rapidly increasing flight to the precious metals of gold and silver, where holding the physical precious metals remains the primary hedge against what soon should unfold as an increasing inflation/dollar-debasement crisis. Holding physical gold, for example, acts as a store of wealth, preserving the purchasing power, liquidity and portability of one's wealth and assets.

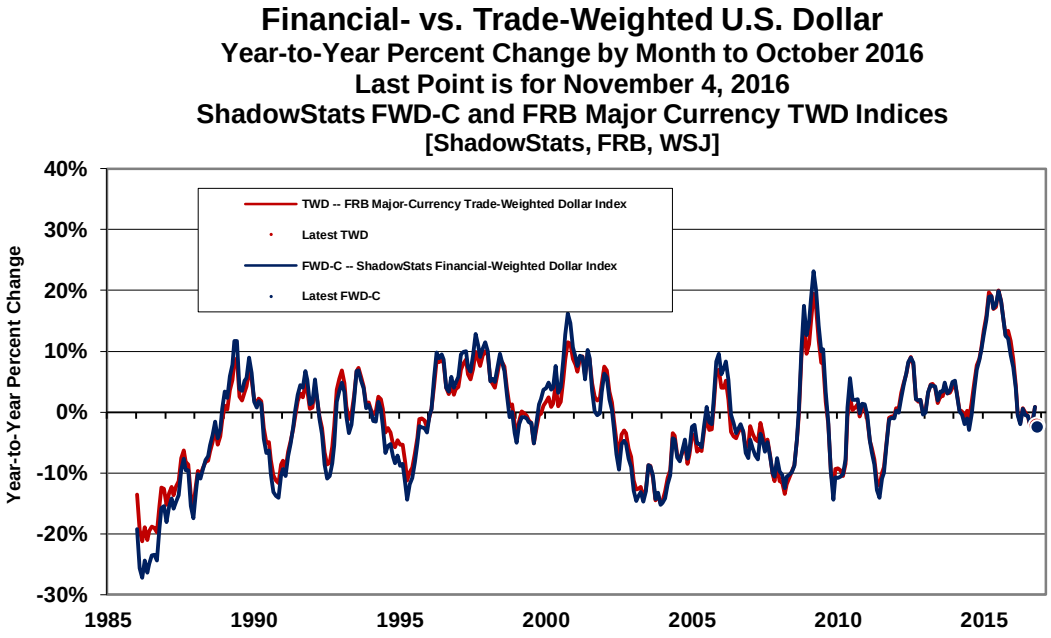
The following monthly plots cover the U.S. Dollar (*Graphs 14* and *15*), along with the three gold graphs (*Graphs 16*, *17* and *18*), updated through late-day New York prices for November 4th. Recent activity has reflected sudden weakness in the U.S. dollar's exchange rate, as well an upturn in gold and silver prices, despite some downside movement in oil. Where recent action may have been tied to a tightening

in the headline polls for the U.S. presidential race, the underlying fundamental issues continue to fester and promise massive dollar debasement in the not-too-distant future.

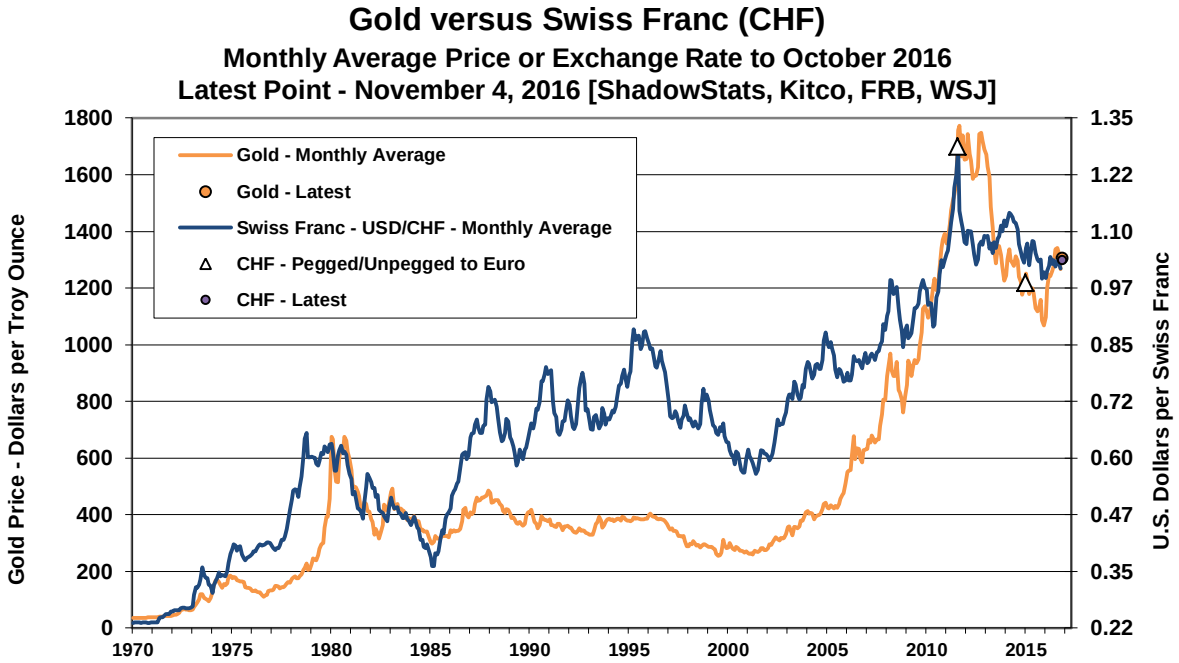
Graph 14: Financial- versus Trade-Weighted U.S. Dollar



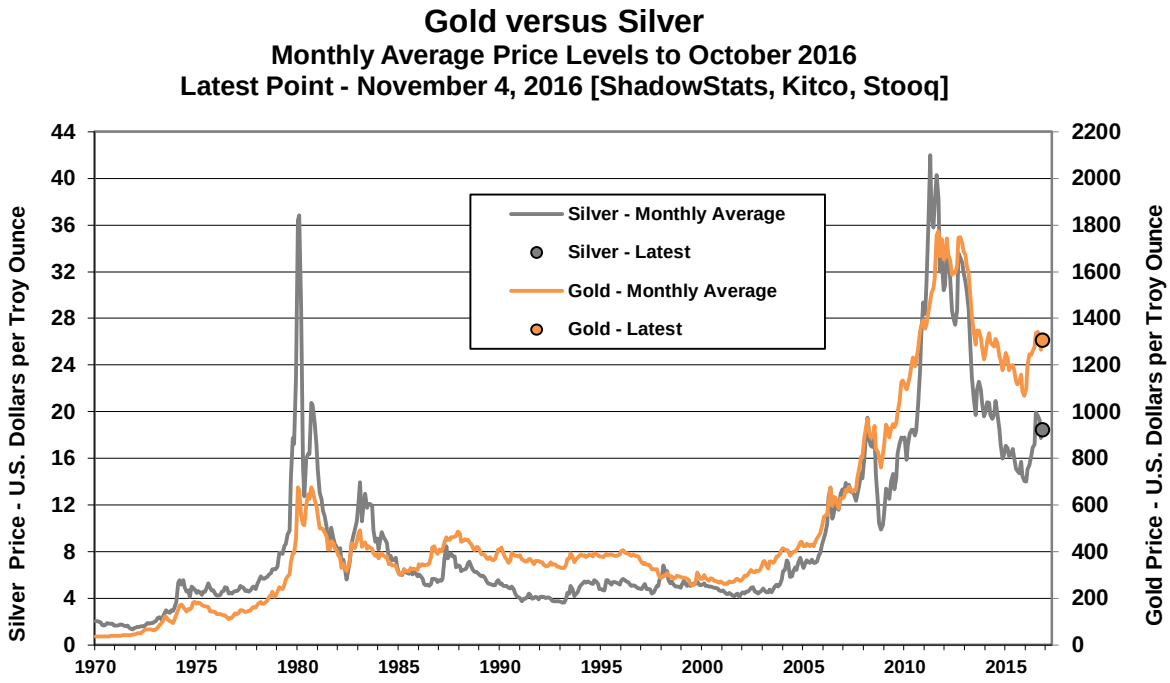
Graph 15: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



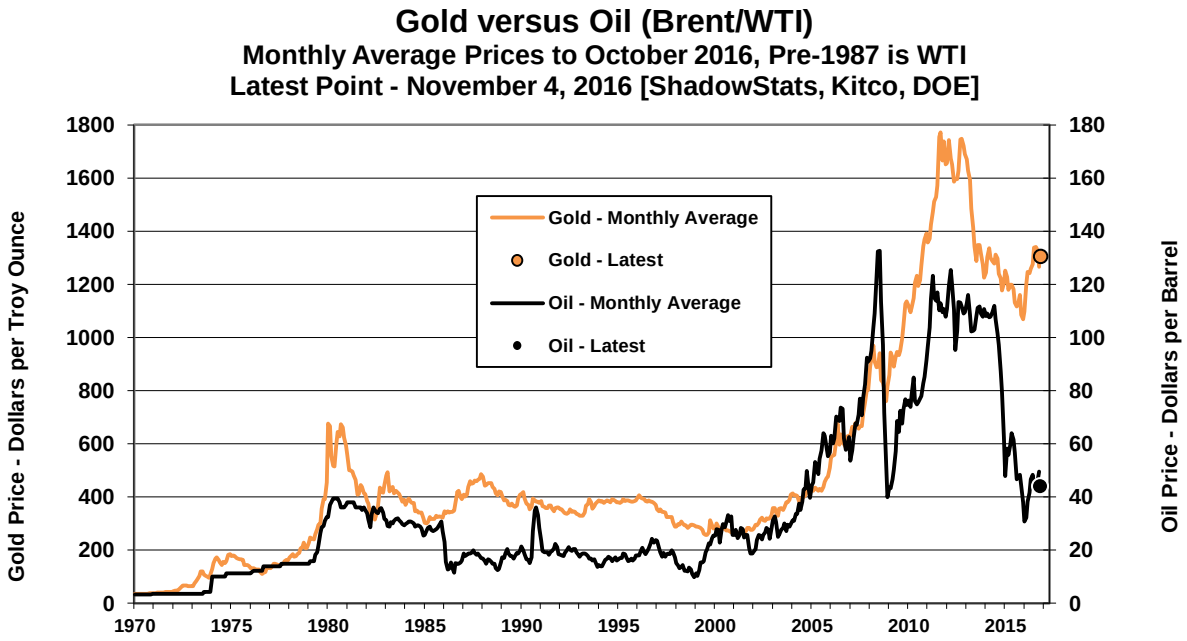
Graph 16: Gold versus the Swiss Franc



Graph 17: Gold versus Silver



Graph 18: Gold versus Oil



October 2016 M3 Annual Growth Plunged to 3.5% from 4.1% As Big Money Increasingly Seeks Liquidity and Safety

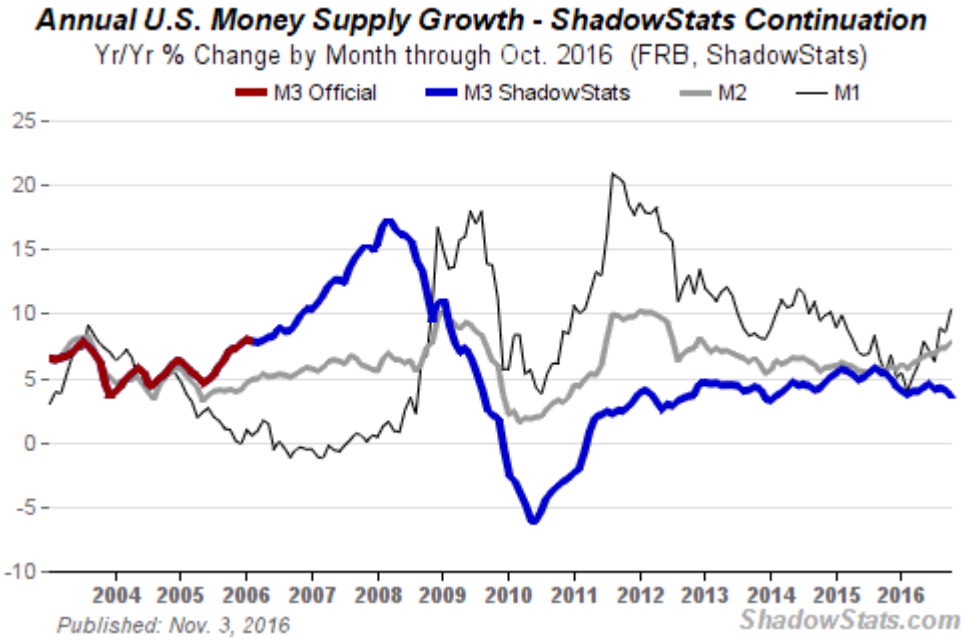
Money Growth Is Exploding, If One Looks Only at M1 and M2 (the Fed Stopped Publishing M3 in 2006). Based on the regular three-plus weeks of reporting—updating prior *Commentary No. 844* that had reflected circumstances based on a more-limited two-to-three weeks of reporting—the advance-estimate of October 2016 annual growth for the ShadowStats Ongoing M3 Money Supply still was at a 34-month low of 3.5%, having plunged versus a downwardly-revised 4.1% [previously 4.3%] annual growth rate in September. While the aggregate M3 stayed at about the same level as the early-October reporting, the upturns in M2 and M1 accelerated from their early estimates, reflecting intensified flight from the large time deposits and institutional money funds into accounts in the subsidiary M2 an M1 series (M2 includes M1; M3 includes M2).

The early-estimate of M2 annual growth rose to 7.7%, but that now has revised higher to a 46-month high of 7.8% in the regular October 2016 estimation, from a downwardly revised 7.4% [previous 7.7%] in September 2016. Reflecting a continuing relative flight to cash or near cash, the early-estimate of M1 annual growth rose to 9.6%, but that has revised higher to a 25-month high of 10.3% in the regular October 2016 estimation, from an upwardly-revised 8.6% [previously 7.4%] in September 2016.

For those living in a world comprised of just the Fed's headline M1 and M2, money growth is soaring, but that growth does not imply a pending inflation surge, since it is from a flow of funds down from the more-inclusive M3 category, not due to any apparent Fed effort to boost the money supply. Again, the relative

weakness in annual M3 growth versus M2 and M1 (again, M2 includes M1; M3 includes M2) reflects the shift over time in funds from accounts included just in M3, such as large time deposits and institutional money funds, into accounts in M2. The latest estimates of level and annual growth for October 2016 M3, M2 and M1, and for earlier periods are available on the Alternate Data tab of www.ShadowStats.com. See the *Money Supply Special Report* for full definitions of those measures.

Graph 19: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes, Revised, Advance-October 2016



REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (October 2016)

Headline October Labor Conditions Massively Overstated the Health of the U.S. Economy. *[Note: This section, through the* PAYROLL SURVEY DETAIL, *largely is repeated from the* Opening Comments.*]* Although the September 2016 reporting of headline employment and unemployment was the most-likely labor release to reflect any pre-election political shenanigans, the October release still had the potential for extra gimmicking. The headline details in both instances were no more skewed, nor

otherwise gimmicked, than they normally are each month. Most of those regular monthly distortions, however, are significant. They have evolved out of the fine-tuning of longer-range political manipulation, such as changes to methodology with the upside bias-factors created post-1983 recession and that evolved into the current birth-death modeling and related upside biases in payroll jobs counting. Consider as well politically-orchestrated methodology changes, such as redefining "discouraged workers" out of longer-term unemployment accounting in coordination with the NAFTA agreement. As designed, intended and implemented over decades, the regularly-gimmicked employment and unemployment numbers meaningfully overstated headline labor-market health in the October jobs and unemployment reporting.

Not as Advertised. Underlying reality for October 2016 U.S. labor conditions remained in the realm of a 22.9% broad unemployment rate, with the actual monthly payroll-employment change likely flat-to-minus, despite the usual, more-upbeat headline indications out of the Bureau of Labor Statistics (BLS). Specifically, the BLS showed the headline October 2016 unemployment rate declining to 4.9%, with a headline monthly jobs gain of 161,000.

News Was Not Particularly Happy or Consistent on the Household Survey Side. The minimal decline in the headline U.3 unemployment rate to 4.9% in October, versus 5.0% in September, 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*.

That said, if the headline October details were comparable, the decline in the unemployment rate reflected a decline in the number of unemployed [down by 152,000 (-152,000)], in the context of a decline also in the number of employed [down by 43,000 (-43,000)]. That means instead of the decline in unemployment from 5.0% to 4.9% being good news, with a number of the former unemployed gaining jobs, the decline was bad news, with the drop in the unemployed count reflecting a number of unemployed giving up looking for work, dropping out of the headline labor force.

The Gain in Payroll Employment Reflected No More than Upside Biases. The headline payroll gain of 161,000 in October 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, 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, with the Birth-Death Model (BDM) artificially inflating 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, November 4th, the Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for October 2016. In the context of continued heavily-distorted bloating, unstable seasonal adjustments, and upside revisions to August and September, the seasonally-adjusted, headline payroll gain for October 2016 was 161,000 +/- 135,000 [more appropriately +/- 300,000] at the 95% confidence interval (all confidence intervals used are at the 95% level). That followed an upwardly-revised 191,000 [previously 156,000] jobs gain in September, and an upwardly-revised and demonstrably-false, not comparable 176,000 [previously 167,000, initially 151,000] jobs gain in August. Consistent, seasonally-adjusted headline detail shows the August gain to have been 165,000,

instead of the headline 176,000, with the difference having been borrowed from earlier (but not published) historical detail (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*).

Net of prior-period revisions, October 2016 payrolls rose by 205,000, instead of the headline 161,000.

The not-seasonally-adjusted, year-to-year growth in October 2016 nonfarm payrolls of 1.56%, however, set a 42-month low for the series. That was against an upwardly-revised annual gain of 1.76% [previously 1.70%] in September 2016 and an unrevised year-to-year growth of 1.72% [initially 1.73%] in August 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.

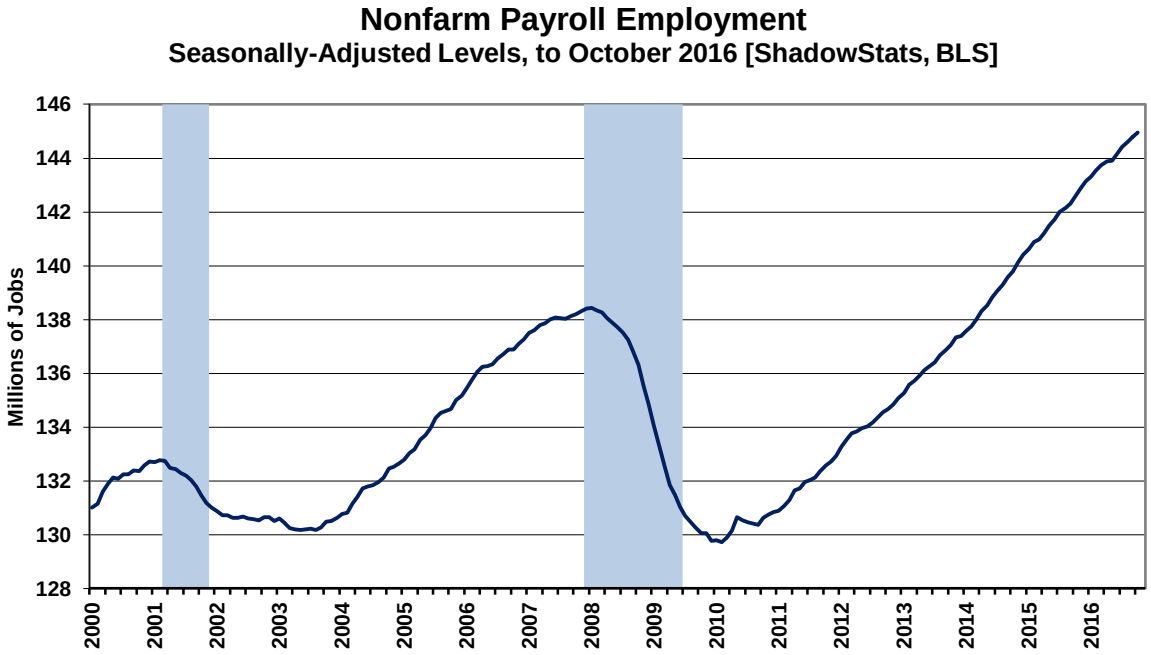
Construction-Payrolls Showed Minimal Uptick. Up by 11,000 jobs, to 6.679 million in October 2016, construction payroll- employment growth gained minimally against the unrevised small upturn in September and a minimal downside revision to August, all in the broader context of plateauing activity since 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 plotted in *Graph 30* in the later *Construction Spending* section. The recent general pattern of flattening-out increasingly is consistent with the low-level plateauing and intensifying weakness seen in real construction spending and other construction measures.

Headline month-to-month construction employment rose by 0.16% in October 2016, following an unrevised gain of 0.35% in September 2016 and a deeper, revised monthly decline of 0.09% [previously down by 0.08% (-0.08%), initially down by 0.09% (-0.09%)] in August 2016.

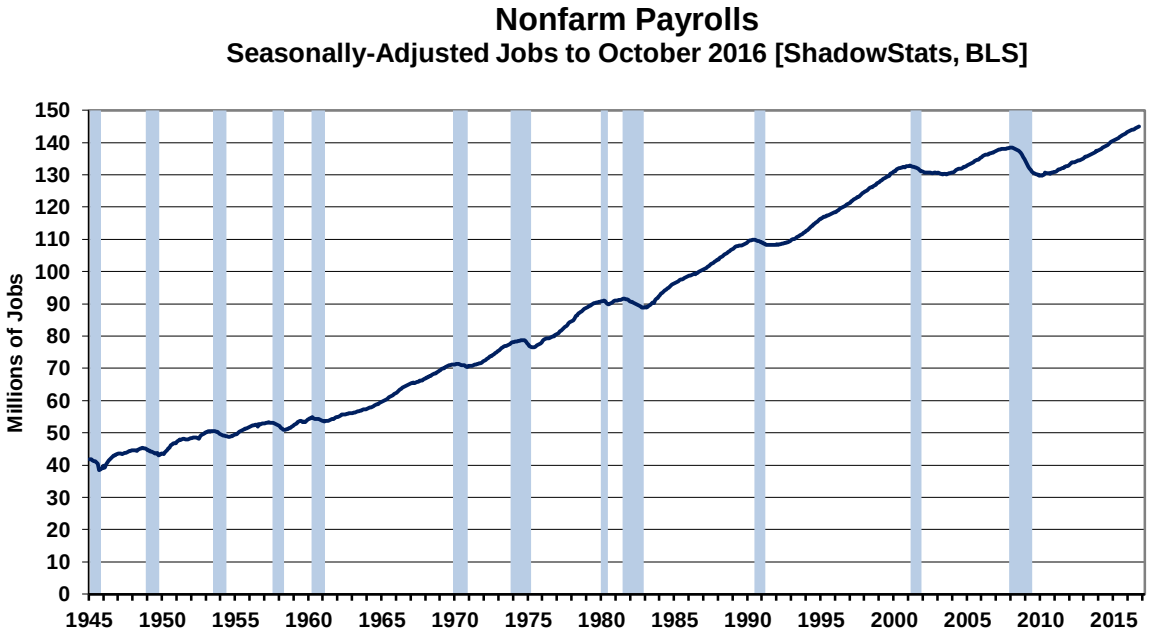
Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,400 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). That said, headline October 2016 construction jobs remained down by 13.55% (-13.55%) from the April 2006 pre-recession series peak, but it was up by an unadjusted 2.62% from October 2015, setting a new near-term trough in annual growth. That was down from a revised 3.17% annual gain in September 2016 and the unrevised prior near-term tough of 2.75% in August 2016. October 2016 annual growth remained well below the recent near-term peak 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 October 2016, headline payroll employment was 6.52-million jobs above its pre-recession peak.

Graph 20: Nonfarm Payroll Employment 2000 to Date



Graph 21: Nonfarm Payroll Employment 1945 to Date



Graphs 20 and *21* 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-

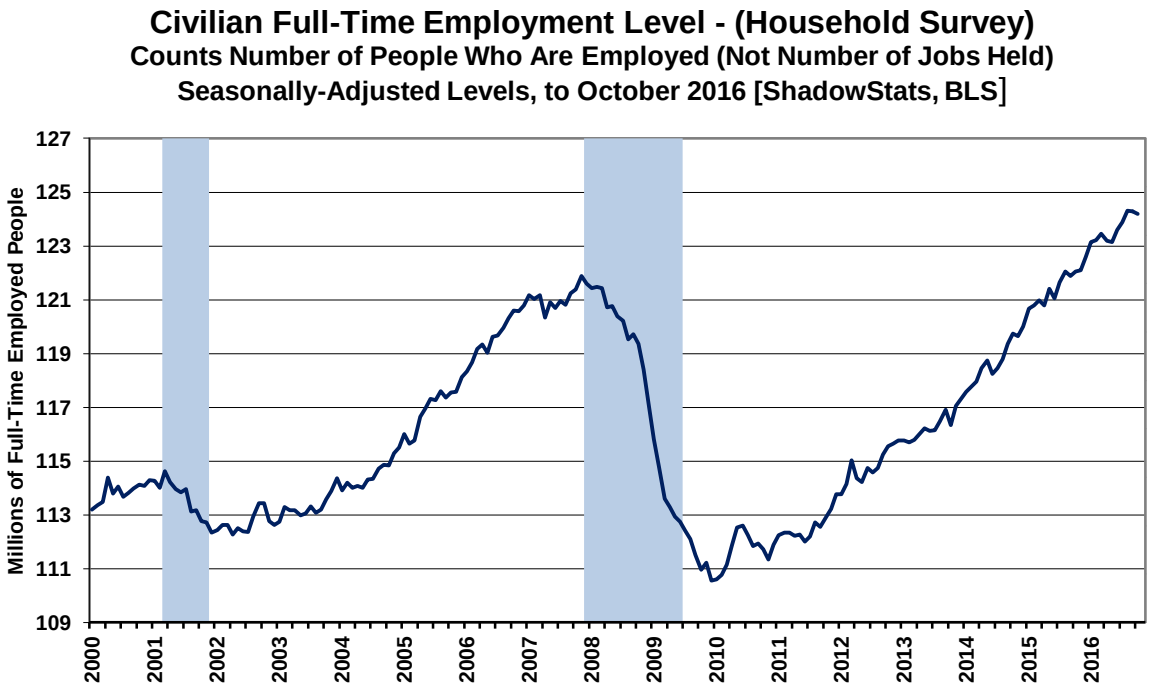
employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

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 29). 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.

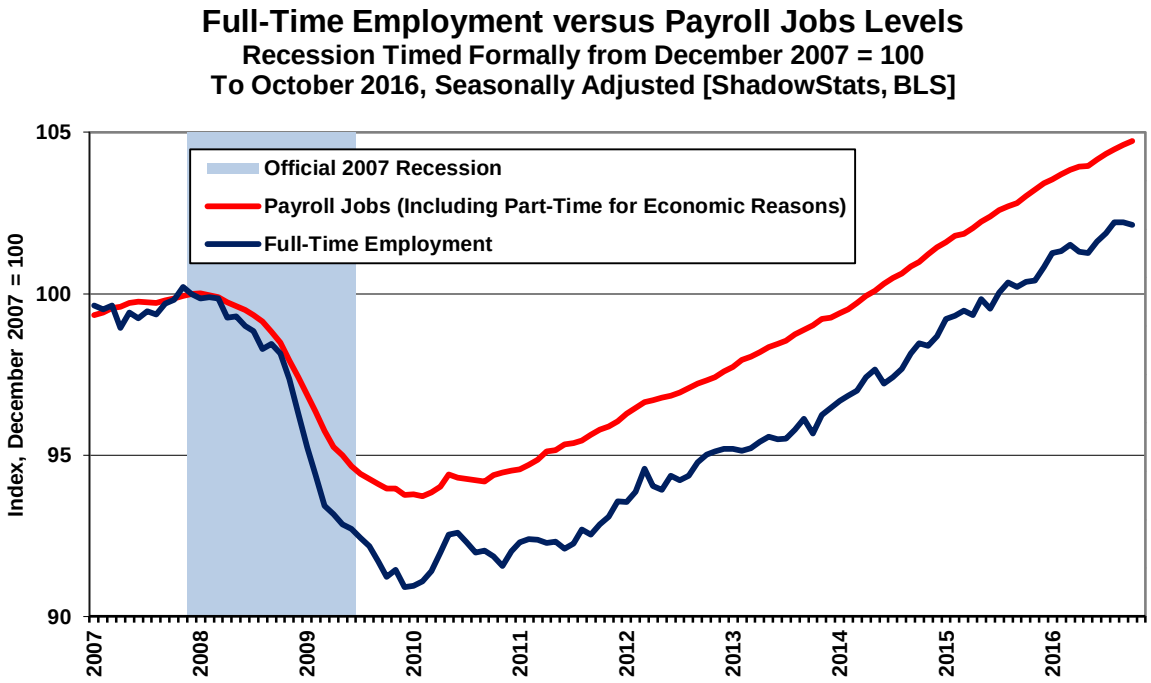
Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 22* (using a roughly-proportionate scale to *Graph 20*), the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline October 2016 full-time employment dropped by 103,000 (-103,000), having declined by 5,000 (-5,000) in September, and 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 2.32-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, still likely to drop again from the current headline level.

Such compares with the headline payroll-employment level that is 6.52-million above its pre-recession high, regained some 29-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.

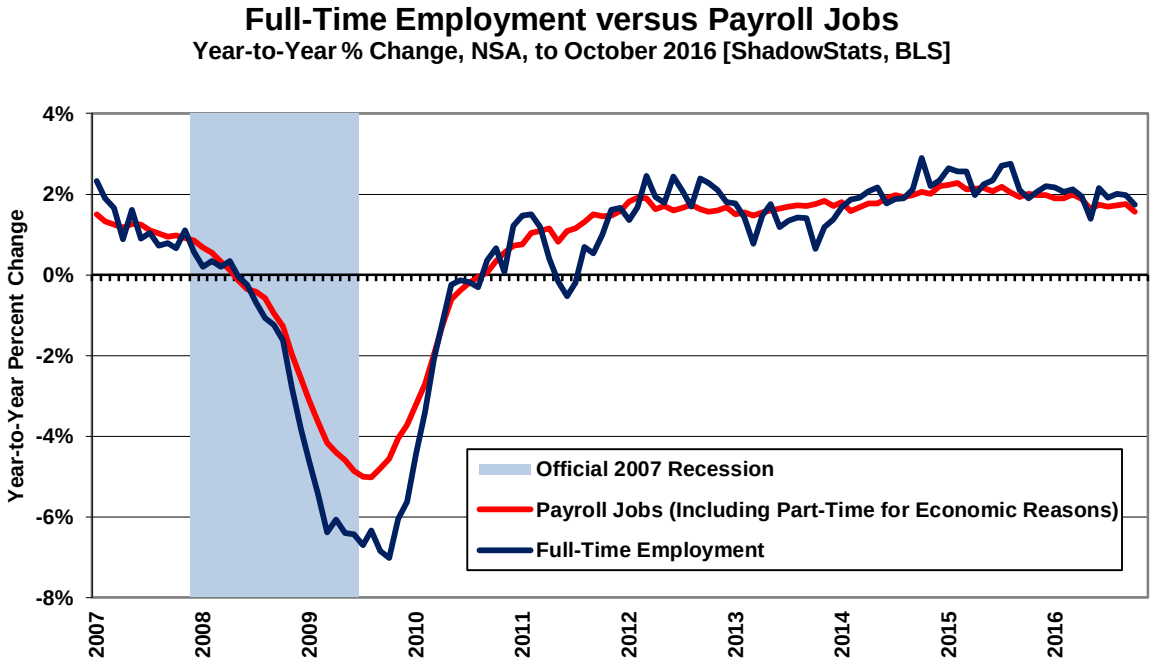
Graph 22: Full-Time Employment (Household Survey) to Date



Graph 23: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)



Graph 24: 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*

23 and *24* 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 the regular monthly BLS press release covering employment/unemployment BLS (second page of the *Technical Note*, subheading *Differences in Employment Estimates*):

> 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.

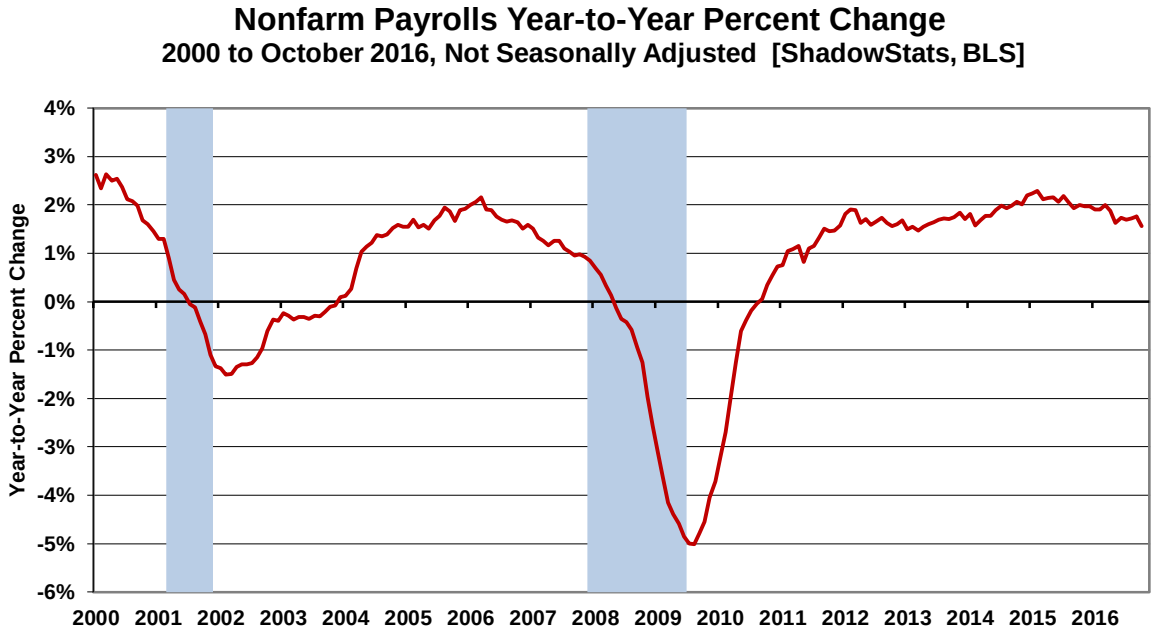
Annual Percent Changes in Headline Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis.

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 25* and *26*. 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 October 2016 slowed to a 42-month low of 1.56%, versus a revised 1.76% [previously 1.70%] in September 2016 and an unrevised revised 1.72% [initially 1.73%] in August 2016. See the recent discussion of "healthy" annual payroll growth in *Commentary No. 843*.

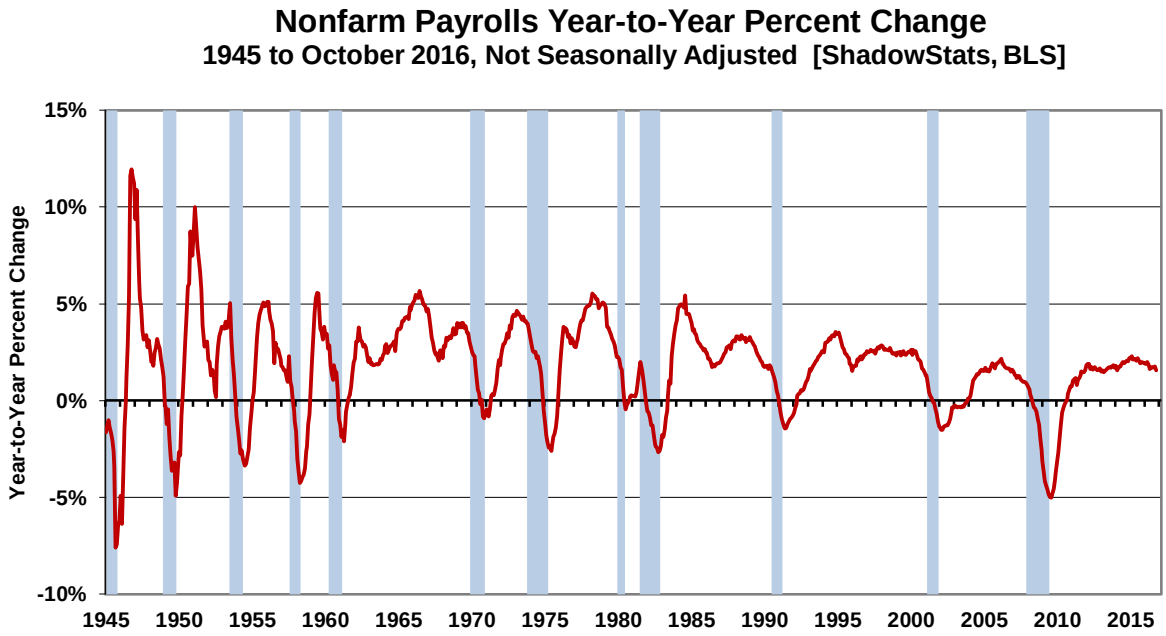
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown 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 25 and 26 follow on the next page.]

Graph 25: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



Graph 26: Payroll Employment, Year-to-Year Percent Change, 1945 to Date



Headline Distortions from Shifting Concurrent-Seasonal Factors Overstate the August 2016 Headline Monthly Gain, Amidst Shifting and Continuing, Current Seasonal Distortions. Discussed and graphed here, with extended commentary and the latest detail available from ShadowStats affiliate ExpliStats,

there are serious and deliberate flaws with the government's seasonally-adjusted, monthly reporting of both employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll and unemployment data for the latest seasonal patterns. As new headline data are seasonally-adjusted for each series, the re-adjustment process also revises the monthly history of each series. A new seasonally-adjusted history is recalculated for every month, going back five years, so as to be consistent with the new seasonal patterns generated for the current headline number. The problem is that the historically-comparable revised data are not published along with the new headline detail.

Detailed in the regular monthly BLS press release covering employment/unemployment BLS (second page of the *Technical Note*, subheading *Seasonal Adjustment*):

> 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 nor officially 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 October 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

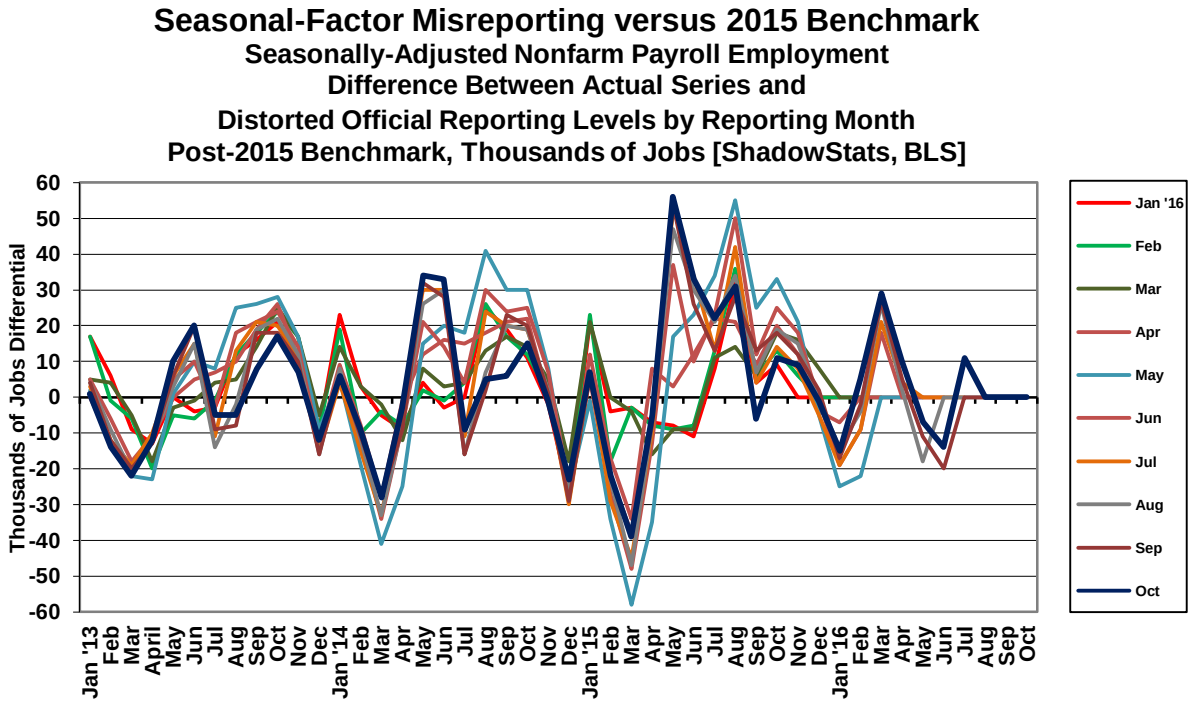
years. All historical comparability disappears, though, with the ensuing headline January reporting, and with each monthly estimate thereafter.

Consider *Graph 27*, 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 October 2016 payroll level was prepared on a consistent basis with the levels of September 2016 and August 2016, but not with July 2016, with the result the headline monthly gains are consistent only for October and September. With the Household Survey, however, the October 2016 detail is not comparable with September 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 27*).

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 27*.

Graph 27: Concurrent-Seasonal-Factor Irregularities – Current Headline Detail versus 2015 Benchmark



Consider in the latest headline payroll detail that the October 2016 monthly changes were comparable only with the headline changes in the September 2016 numbers, not with August 2016 or any earlier months. Per BLS headline reporting (straight from the current press release *Summary Table B*), seasonally-adjusted October 2016 payrolls rose month-to-month by 161,000 from September, while September payrolls rose by a revised 191,000 from August, with August payrolls up by a revised 176,000 from July. Again, only the October and September gains were consistent with each other. Following are the official headline data, with currently-consistent headline detail of monthly gain in parentheses: August was up by 176,000 (165,000), July was up by 252,000 (277,000), June was up by 271,000 (264,000), May was up by 24,000 (7,000) and April was up by 144,000 (125,000). The published, headline August monthly gain and all of the other prior-period monthly changes were not accurate or comparable with the headline details for October, because the earlier published numbers did not reflect adjustment for the new October 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. Such 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 27 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 (that process now is underway for the 2016 benchmarking). Yet, at that point of initial publication, the headline detail already has three months of inconsistent seasonal adjustments in play; October makes that twelve. If the historical data were consistent with the headline reporting, the dark blue line would be flat and at zero in *Graph 27*. As seen here, consistent data never have been published.

The difference seen between the dark-red (September 2016) and dark-blue (October 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 October 2016 seasonals. The downside seasonal-adjustment revision to September 2015 would be consistent with a relative seasonal-adjustment boost to October 2016.

Birth-Death/Bias-Factor Adjustment. Despite the ongoing, general overstatement of monthly payroll employment, the BLS adds in upside monthly biases to the payroll employment numbers. The continual overstatement is evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 2012 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.

October 2016 Add-Factor Bias. The not-seasonally-adjusted October 2016 bias was 197,000, following a negative add-factor of 57,000 (-57,000) in September 2016, but increased from a positive add-factor of 178,000 in October 2015.

The revamped, aggregate upside bias for the trailing twelve months through October 2016 was 865,000, up by 84,000 or 10.8% from 781,000 in December 2015. That was a monthly average of 72,083, in October 2016 (versus 65,100 pre-2015 benchmarking) jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS in the BDM, as discussed below.

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

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

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

The presumed net additional "surplus" jobs created by start-up firms are added on to the payroll estimates each month as a special add-factor. On top of that, the monthly BDM add-factors have been increased now to an average of 72,083 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 with updated links (Crudele) 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. That investigation still is unfolding. 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. At the first decimal point, the headline October 2016 unemployment rate (U.3) declined to 4.9%, versus 5.0% in September. At the second decimal point, the headline October 2016 U.3 was 4.88%, versus 4.96% in September. Formally, the decline of 0.08% (-0.08%) in October U.3 was statistically-insignificant. All that is nonsense, though, given that the monthly numbers are reported on an inconsistent basis and are not even comparable with each other (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*).

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate decreased to 4.66% in October 2016, from 4.79% in September 2016.

Marginally-Attached and Displaced Workers. New discouraged and otherwise marginally-attached workers always are moving into U.6 unemployment accounting from U.3, while those who have been discouraged 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 October 2016 (never seasonally-adjusted) declined by 66,000 (-66,000) to 487,000, with total, short-term marginally-attached workers declining by 144,000 to 1,700,000. The September short-term discouraged workers had declined by 23,000 (-23,000) to 553,000, with total, short-term marginally-attached workers rising by 131,000 to 1,844,000. August 2016 short-term discouraged workers fell by 15,000 (-15,000) to 576,000, having risen by 89,000 to 591,000 versus July, with total, short-term August marginally-attached workers declining by 237,000 (-237,000) to 1,713,000, 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 the decline in the seasonally-adjusted U.3 unemployment rate, a decline in the count of marginally-attached workers and a minimal decline of 5,000 (-5,000) in the adjusted number of people working part-time for economic reasons combined to generate a headline October 2016 U.6 unemployment rate of 9.53%, versus 9.69% in September 2016. The unadjusted U.6 unemployment rate declined to 9.16% in October 2016, versus 9.32% in September 2016.

ShadowStats Alternate Unemployment Estimate. Adding back into the unemployed and labor force the ShadowStats estimate of the still-growing ranks of displaced workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate eased to 22.9% in October 2016, down from 23.0% in September, August and July. Again, the ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force—effectively becoming long-term discouraged or 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 (1.700 million in October 2016), those not in the labor force currently wanting a job increased to a net 3.913 million in October 2016 (a reduced total of 5.613 million), versus 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 (an increased total of 6.244 million) and against 4.322 million in June 2016 (a total of 6.101 million).

That net of 3.913 million in October 2016 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 5.912 wanting a job in October 2016, versus 6.088 million in September 2016, 5.833 million in August 2016, and 6.039 million in October 2016.

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 October 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 October 2016 eased to 22.9%, versus September 2016 at 23.0%.

The September 2016 reading of 22.9% for the ShadowStats Alternate measure was down by 40 basis points or 0.4% (-0.4%) from the 23.3% series high last seen in December 2013. Again, in contrast, the October 2016 headline U.3 unemployment of 4.9% was down by 510 basis points or 5.1% (-5.1%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.5% in October 2016, was down from its April 2010 peak of 17.2% by 770 basis points or 7.7% (-7.7%).

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 and correspondingly has been reasonably stable over a longer timeframe.

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

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

U.S. TRADE BALANCE (September 2016)

Third-Quarter 2016 Merchandise Trade Deficit Narrowed in Highly Suspect Circumstances that Boosted Initial Reporting of Third-Quarter GDP. Shown in *Graph 9* in the *Opening Comments*, the third-quarter 2016 real merchandise trade deficit narrowed sharply versus the second-quarter 2016 deficit, which still was the worst reading since third-quarter 2007. Yet, the unusual surge in July and August 2016 exports of soybeans, among other factors, provided a one-time narrowing in the real third-quarter 2016 deficit, a positive but still likely short-lived boost. These data and other near-term distortions are highly suspect and should balance out in the next quarter or so, now that the pre-election, headline boost to the "advance" third-quarter 2016 GDP is out of the way.

Nominal (Not-Adjusted-for-Inflation) September 2016 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, November 4th, the nominal, seasonally-adjusted monthly trade deficit in goods and services for September 2016, on a balance-of-payments basis. Such was released in the context of a minimal narrowing, in revision, of the August 2016 monthly deficit.

The headline September 2016 deficit of $36.440 billion, narrowed by $4.022 billion versus a revised August 2016 deficit of $40.462 [previously $40.725] billion. The $4.022 improvement in the headline monthly deficit reflected gain of $1.036 billion in monthly exports, supplemented by a $2.986 billion drop in imports. The headline September 2016 deficit also narrowed versus an unrevised $41.072 billion in trade shortfall in September 2015. The dominant factors in these unusual September numbers were surging aircraft exports, reversals in the soybean exports, and a reversal in last month's intellectual property import of the Rio Olympics. Once again, shifting activity in energy-related products did not have heavy impact on the monthly trade balance changes.

Energy-Related Petroleum Products. From an import standpoint, declining oil prices had bottomed out in February 2016, inching higher by 0.7% in March, gaining 6.5% in April, 16.0% in May, 15.2% in June and 4.2% in July, but they fell by 4.0% (-4.0%) in August and by a further 0.9% (-0.9%) in September 2016. The impact of the small September price decline was exaggerated by declining physical oil-import volume in the month.

The not-seasonally-adjusted average price of imported oil declined to $39.02 in September 2016, versus $39.38 in August 2016, and it was down from $42.72 per barrel in September 2015. Separately, not-

seasonally-adjusted physical oil-import volume in September averaged 7.864 million barrels per day, down from 8.279 million in August 2016 and up from 7.712 million in September 2015.

Ongoing Cautions and Alerts on Data Quality. Potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues affect other economic releases, such as labor conditions and retail sales, where the headline number reflects seasonally-adjusted month-to-month change. Discussed frequently (see *2014 Hyperinflation Report—Great Economic Tumble* for example), the extraordinary length and depth of the current business downturn and disruptions have distorted regular seasonality

Separately, as usual, the "advance" detail on goods trade, released on October 27th, bore little information useful in estimating the full trade detail released today.

Real (Inflation-Adjusted) September 2016 Trade Deficit. Seasonally-adjusted, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), and in the context of minor monthly revisions back to April 2016, the September 2016 merchandise trade deficit (no services) narrowed to $55.014 billion, versus a revised $57.418 [previously $57.478] billion in August, and from a $58.886 billion deficit in September 2015.

Again, reflected in *Graph 9* of the *Opening Comments*, the annualized quarterly real merchandise trade deficit was $623.1 billion for fourth-quarter 2014, $700.0 billion for first-quarter 2015, $709.1 billion for second-quarter 2015, $708.4 billion for third-quarter 2015, $728.6 billion for fourth-quarter 2015, $725.2 billion for first-quarter 2016, and a revised $731.3 [previously $731.0] billion for second-quarter 2016. The initial full reporting of the annualized quarterly real merchandise for third-quarter 2016 was $682.7 billion.

Headline deficits likely will get much deeper in the months and quarters ahead, revising and intensifying the ongoing and more-common negative impact on headline GDP.

CONSTRUCTION SPENDING (September 2016)

Spending Held in Real Quarterly Contractions and Low-Level Stagnation. Where this series remains highly volatile and subject to large monthly revisions, nominal September 2016 spending fell, in the context of upside revisions to August and July detail, with inflation-adjusted real activity in the construction spending series remaining negative on a monthly, quarterly and annual basis. Real monthly spending declined in September 2016, the fourth monthly contraction in six months, the fourth-straight monthly year-to-year contraction, tumbling at ever-deepening annual rates and with annualized quarterly spending also declining in both second and third-quarter 2016, although the third-quarter decline was minimal. The series increasingly has followed a pattern seen when construction spending previously has fallen rapidly into recessionary contractions.

Real construction spending generally continued in down-trending, low-level, stagnating non-recovery, with the level of September 2016 still shy of its June 2006 pre-recession peak by 23.7% (-23.7%).

Ongoing Liquidity Constraints on the Consumer Constrain Residential Construction Spending. Consumer liquidity conditions were reviewed fully in *Commentary No. 833*, with a brief update in *Commentary No. 844*. The extreme liquidity bind besetting consumers continues to constrain personal-

consumption expenditures and related residential real-estate sales activity. 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 the income shortfall, the U.S. consumer remains unable to sustain positive growth in broad domestic economic activity.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in residential construction, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Construction Inflation—ShadowStats Composite Construction Deflator (CCD). ShadowStats introduced a Composite Construction Deflator (CCD) two months ago, for use in converting current or nominal (not-adjusted for inflation) headline construction spending into inflation-adjusted, real or constant-dollar terms. Detailed in *Commentary No. 829*, previously used measures from the Producer Price Index (PPI), lacked historical consistency and did not measure inflation appropriately for the construction spending series.

Accordingly, ShadowStats constructed the CCD specifically for deflating the construction spending series. The CCD is a composite of pricing series, weighted by broad industry segment as compiled in the headline construction spending, with consistent historical tabulation back to before 2000. The combined indices reflect price deflators out of National Income (GDP) reporting, with quarterly numbers there interpolated into smoothed monthly series, in conjunction with privately surveyed monthly cost indicators.

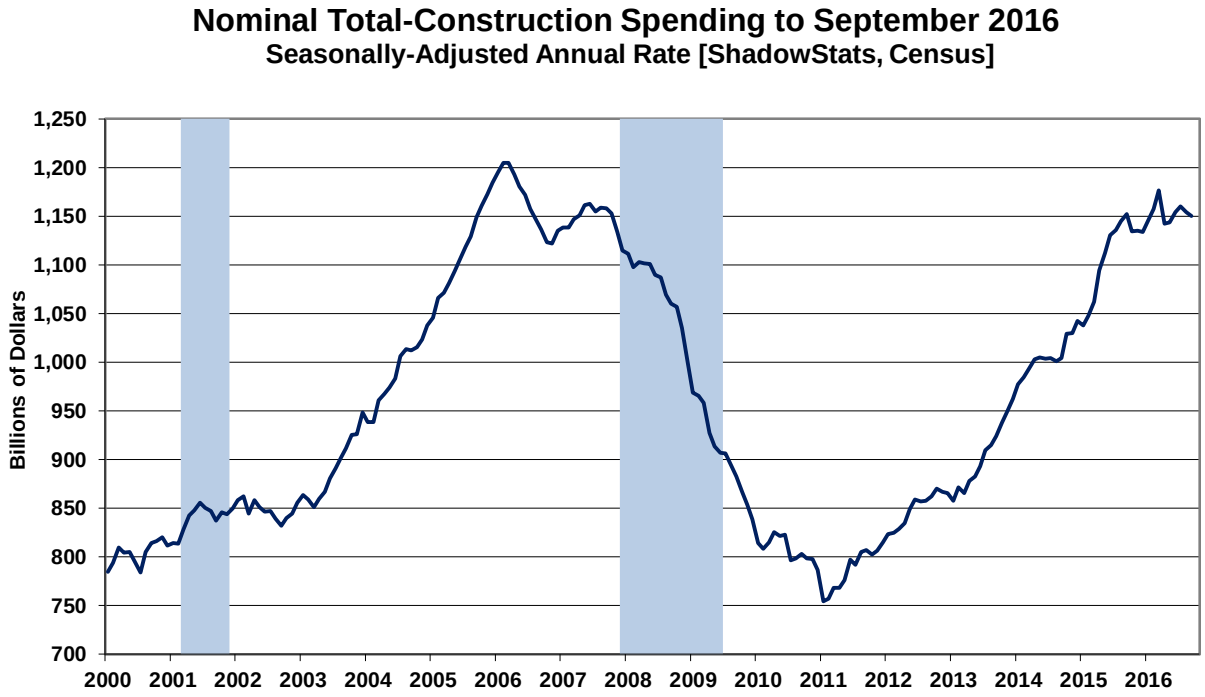
There is no perfect inflation measure, public or private for deflating construction. For the historical series in the accompanying graphs, as shown in *Graphs 10* to *13* in the *Opening Comments*, and in the accompanying *Graphs 29* and *32* in this section, the inflation-adjusted numbers are deflated by the CCD.

Seasonally-adjusted September 2016 CCD month-to-month inflation rose by 0.18%, following gains of 0.15% [previously 0.25% in August] and an unrevised 0.40% in July. In terms of year-to-year inflation, the September 2016 CCD gained 2.90%, following annual gains of 2.93% [previously 3.09%] in August 2016 and 2.90 [previously 2.95%] in July 2016.

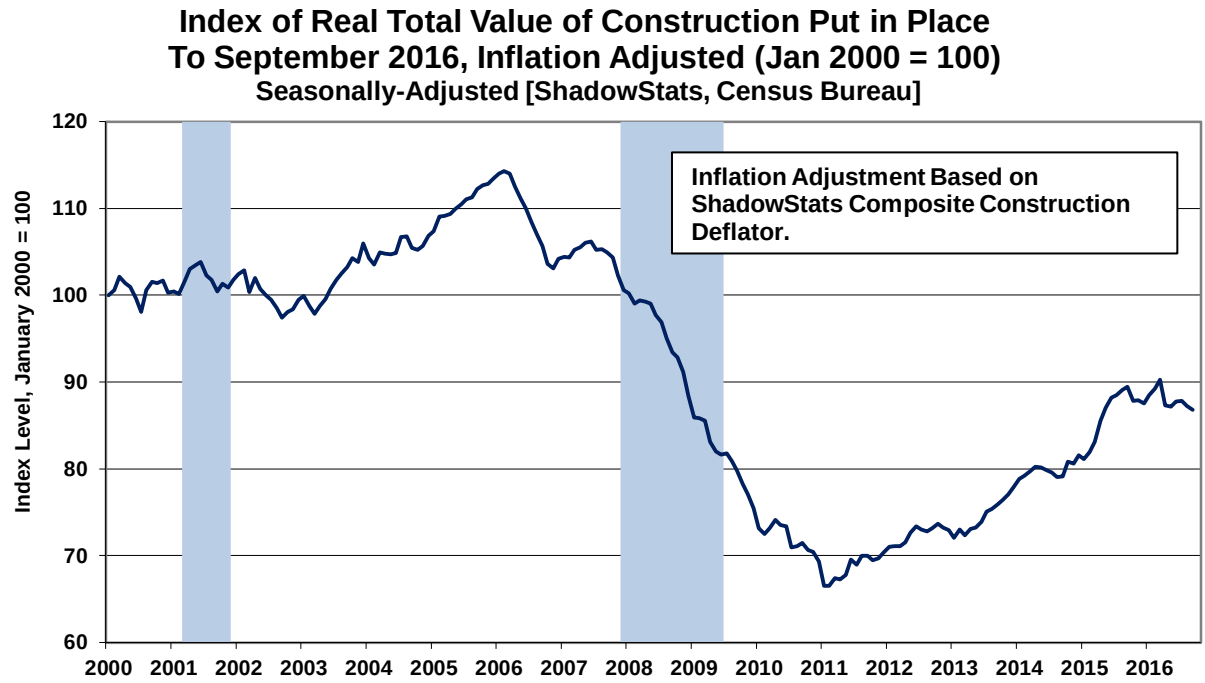
The Data and Graphics Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to be reasonably smooth in the residual month-to-month change. Note the comparative monthly volatilities in the non-smoothed *Graphs 33* and *34*.

[Graphs 28 and 29 follow on the next page]

Graph 28: Total Nominal Construction Spending



Graph 29: Index of Total Real Construction Spending



Headline Reporting for September 2016. In the context of upside revisions to August and July activity, the Census Bureau reported November 1st that the headline, total value of construction put in place in the United States for September 2016 was $1,150.0 billion, on a seasonally-adjusted, but not-inflation-

adjusted, annual-rate basis. That estimate was down month-to-month by a statistically-insignificant 0.4% (-0.4%) +/- 1.5% (all confidence intervals are at the 95% level), versus an upwardly revised $1,154.4 [previously $1,142.2] billion in August 2016. Net of prior-period revisions September activity gained month-to-month by a still statistically-insignificant 0.7% versus August.

In turn, August was down by a revised 0.5% (-0.5%) [previously down by 0.7% (-0.7%)], versus an upwardly revised $1,160.4 [previously $1,150.6, initially $1,153.2] billion in July 2016.

In turn, July was up by a revised 0.5% [previously down by 0.2% (-0.2%), initially unchanged], versus an unrevised $1,154.1 in June 2016.

Adjusted for CCD inflation, total real month-to-month spending in September 2016 fell by 0.6% (-0.6%), versus a revised decline of 0.7% (-0.7%) in August and a revised gain of 0.1% in July.

On a year-to-year annual-growth basis, September 2016 nominal construction spending declined by a statistically-insignificant 0.2% (-0.2%) +/- 2.1%, following a revised annual gain of 0.8% in August 2016 and a gain of 2.2% in July 2016. Net of construction costs indicated by the CCD, the year-to-year change in total real construction spending dropped to a 66-month low of minus 3.0% (-3.0%) in July 2016, versus revised annual declines of 2.1% (-2.1%) in August 2016 and 0.7% (-0.7%) in July 2016. The headline annual real decline in September activity was the weakest since the historical series troughed in its collapse into 2011.

The statistically-insignificant, nominal monthly decline of 0.4% (-0.4%) in aggregate September 2016 construction spending, versus a decline of 0.5% (-0.5%) in August 2016, included a headline monthly drop in September of 0.9% (-0.9%), versus a monthly plunge of 1.0% (-1.0%) in August public spending. Private spending declined by 0.2% (-0.2%) in September having declined by 0.4% (-0.4%) month-to-month in August. Within total private construction spending, residential-sector activity gained by 0.5% in September, having declined by 1.2% (-1.2%) in August, while the nonresidential sector fell in September by 1.0% (-1.0%), having gained 0.5% in August.

Quarterly Trends. Reflecting full reporting for third-quarter 2016 reporting and attendant revisions, real construction spending declined quarter-to-quarter at an annualized pace of 0.5% (-0.5%), following an annualized second-quarter contraction of 8.4% (-8.4%). First-quarter 2016 real construction spending rose at an unrevised annualized pace of 7.3%.

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

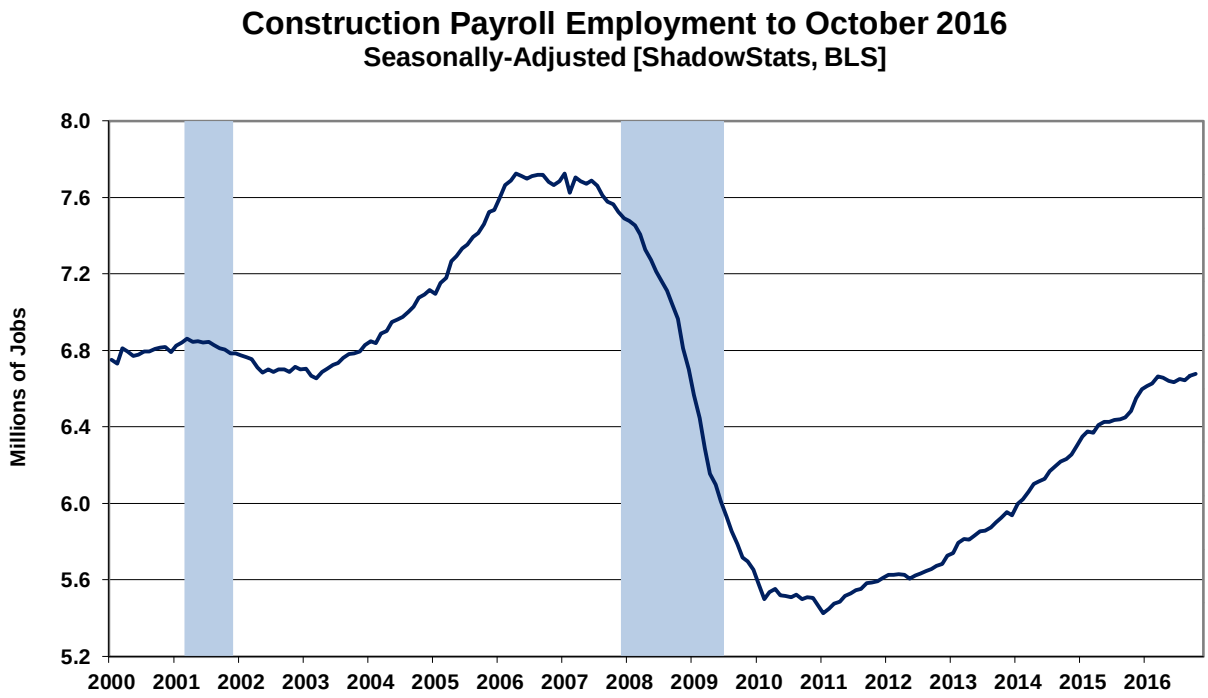
Graphs 10 to *13* in the *Opening Comments* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public-construction. Seen after adjustment for inflation, the real aggregate series generally has remained in low-level stagnation, now down-trending throughout 2016, into the third quarter. Areas of recent relative strength in the major subcomponents generally have flattened out, or turned down, after inflation adjustment, except for private nonresidential spending, which just turned minimally from up-trending to down-trending.

The general pattern of real activity had been one of low-level, up-trending stagnation that now has turned lower in recent quarters. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 28* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 29*. *Graphs 31* and *32* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs. Earlier *Graphs 28* and *29*, and later *Graphs 31* and *32* reflect total construction spending through September 2016, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 29* is on an index basis, with January 2000 = 100.0. Adjusted for the CCD, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014 and then some boost into early-2015. Activity declined in fourth-quarter 2015, with an early-2016 fluttering trend that has turned lower, once again, into third-quarter 2016.

The pattern of non-recovered, inflation-adjusted activity here—net of ShadowStats inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see *Commentary No. 844* and *No. 777 Year-End Special Commentary*). To the contrary, the broad construction reporting, both before (nominal) and after (real) inflation adjustment, generally still shows a pattern of low-level activity, where aggregate activity never recovered pre-recession highs and has flattened-out anew, turning lower in second- and third-quarter 2016.

Graph 30: Construction Payroll Employment to Date



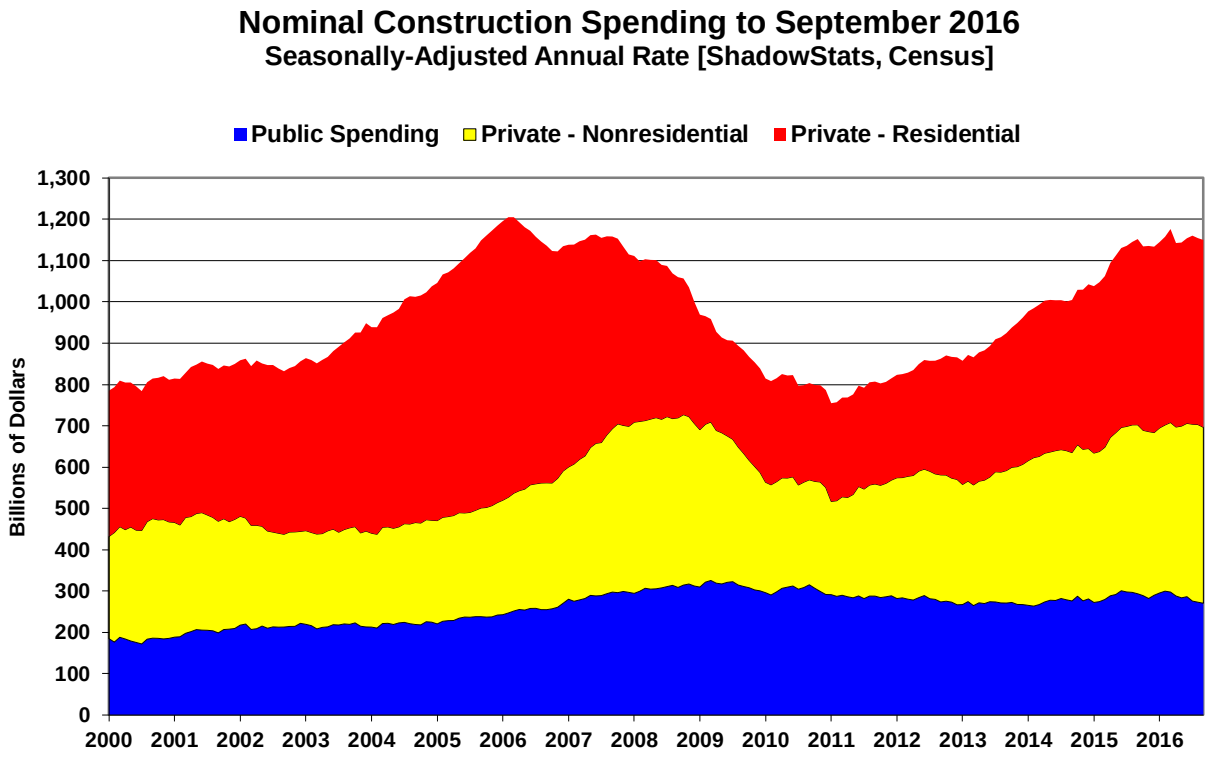
Construction Employment Not Recovering. *Graph 30* shows October 2016 construction employment, as discussed and detailed in the *Payroll Employment* section. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs

and pricing, as well as a measure of the level of physical activity. Where construction payrolls generally have flattened out, such is broadly consistent with patterns of a stagnating non-recovery and renewed downturn seen in a variety of residential real estate construction and sales activity measures, and with the faltering growth patterns seen here in headline real construction spending.

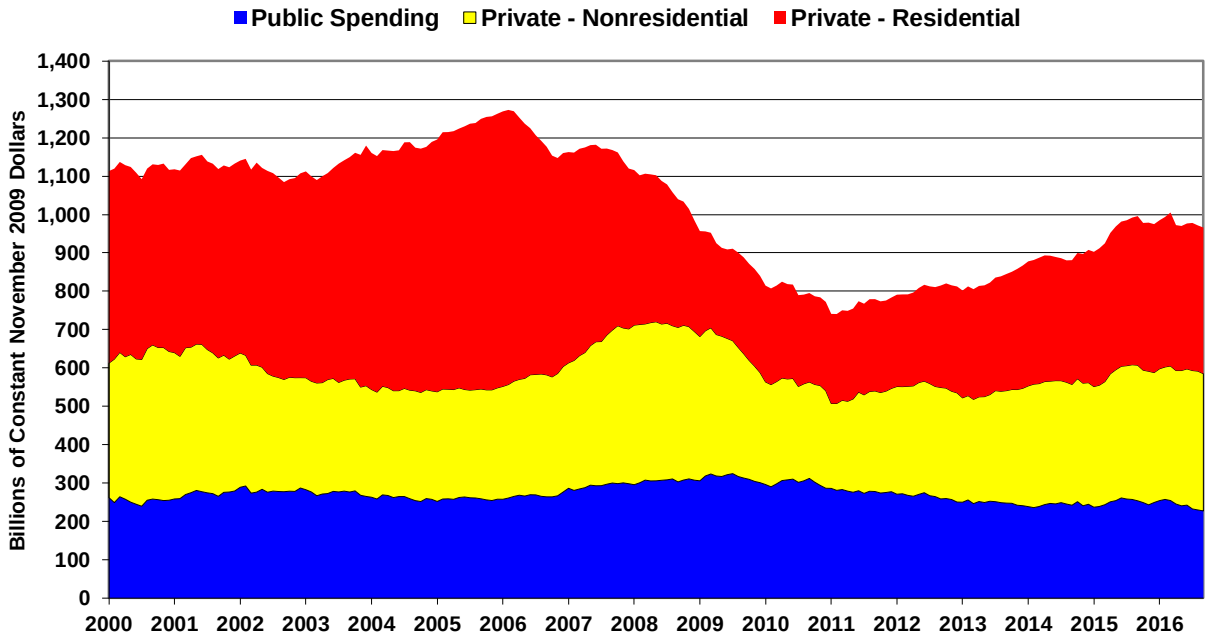
Graphs of Construction Activity. *Graph 31* shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 32* shows the same breakout by sector as in *Graph 31*, but the detail is in real, inflation-adjusted terms, reflected in constant November 2009 dollars, deflated by the *ShadowStats Composite Construction Deflator (CCD)*, as discussed in the earlier *Construction Inflation* section.

[Graphs 31 to 36 begin on the next page.]

Graph 31: Aggregate Nominal Construction Spending by Major Category to Date

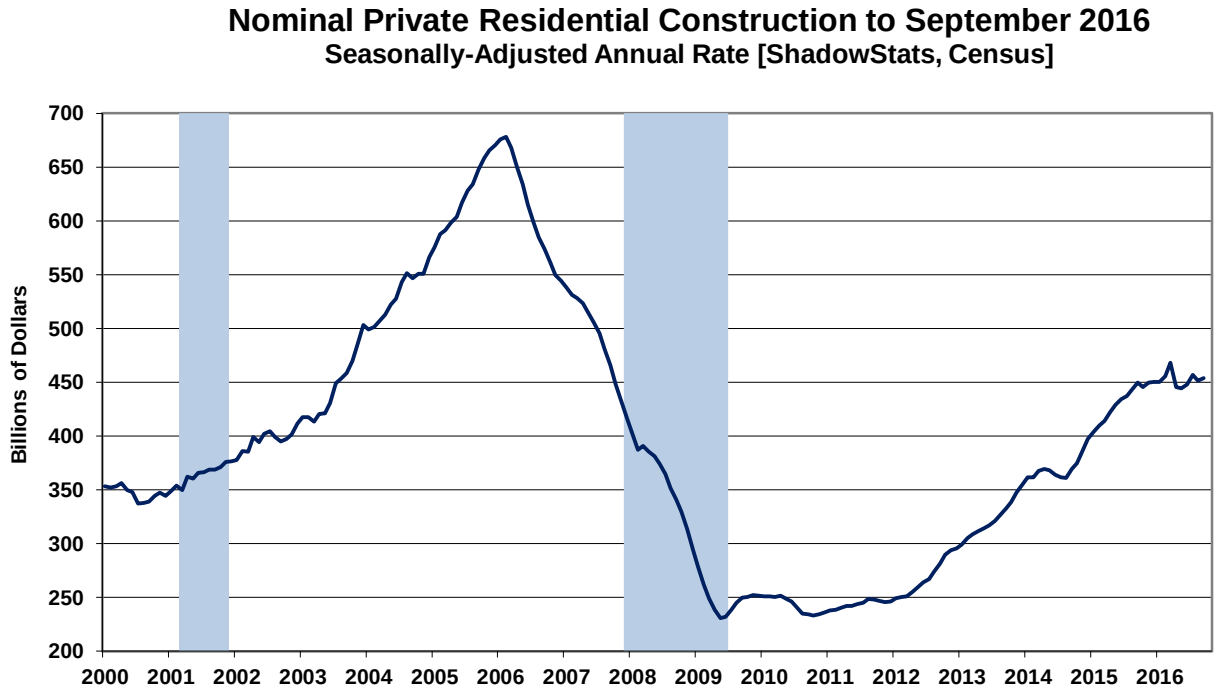


Graph 32: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)

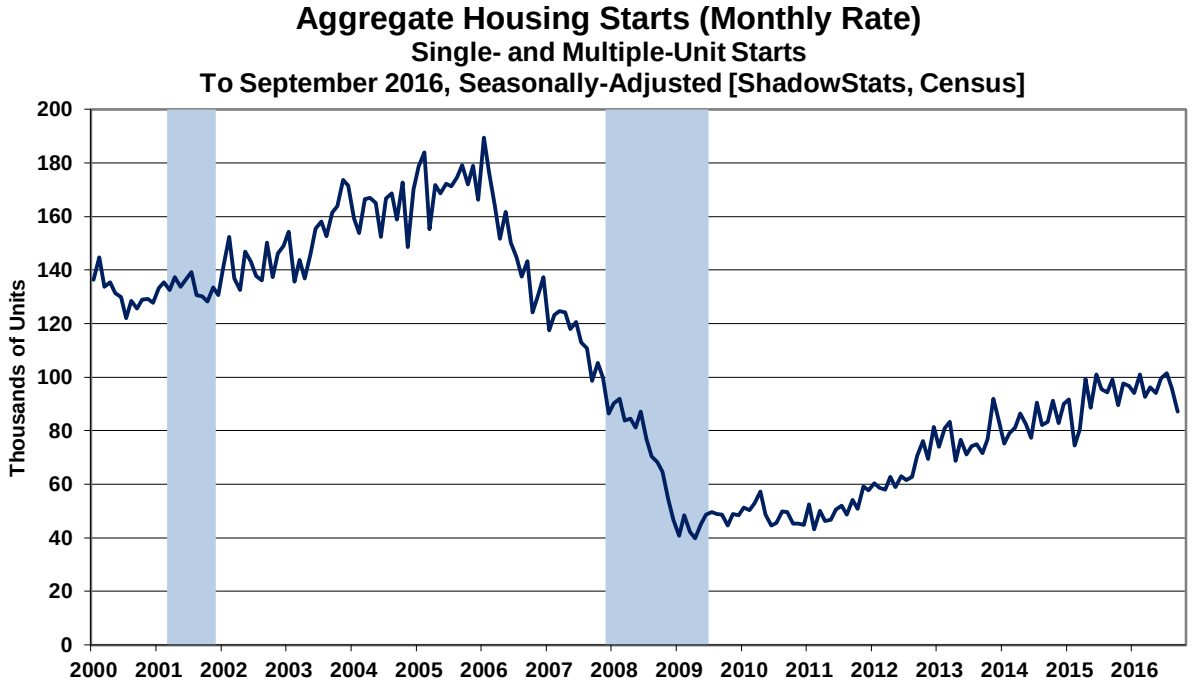


The next two graphs (*Graphs 33* and *34*) cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for September 2016 (see *Commentary No. 842*).

Graph 33: Nominal Private Residential Construction Spending to Date

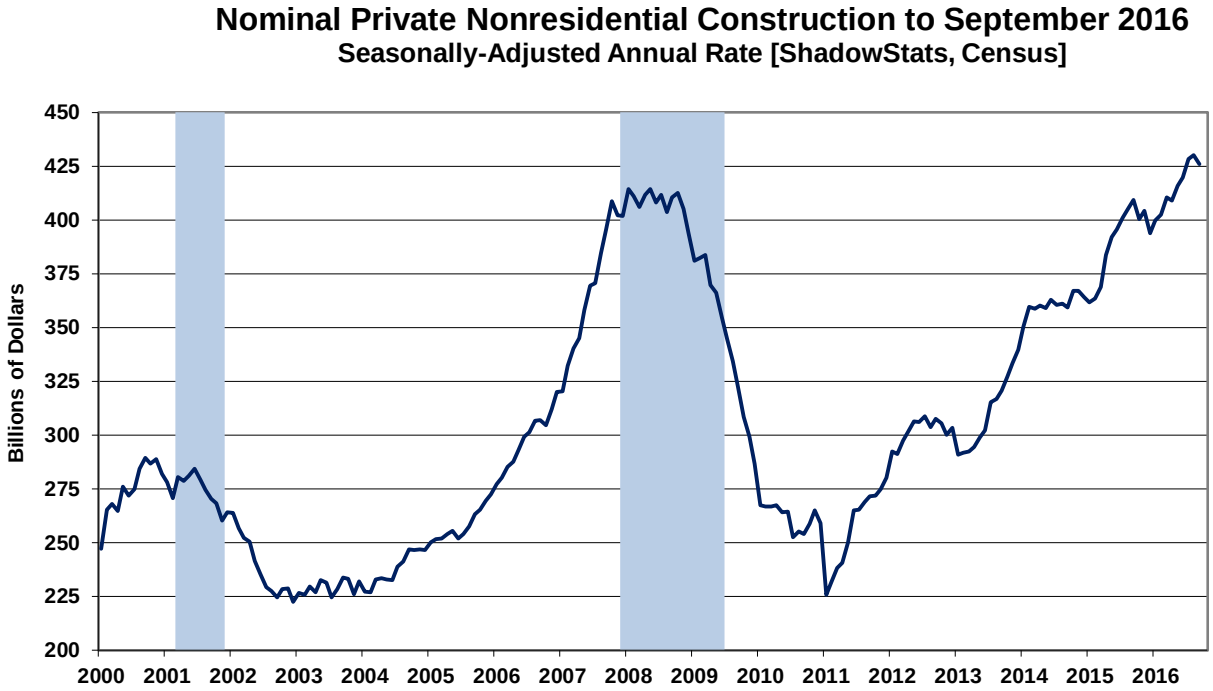


Graph 34: Single- and Multiple-Unit Housing Starts to Date

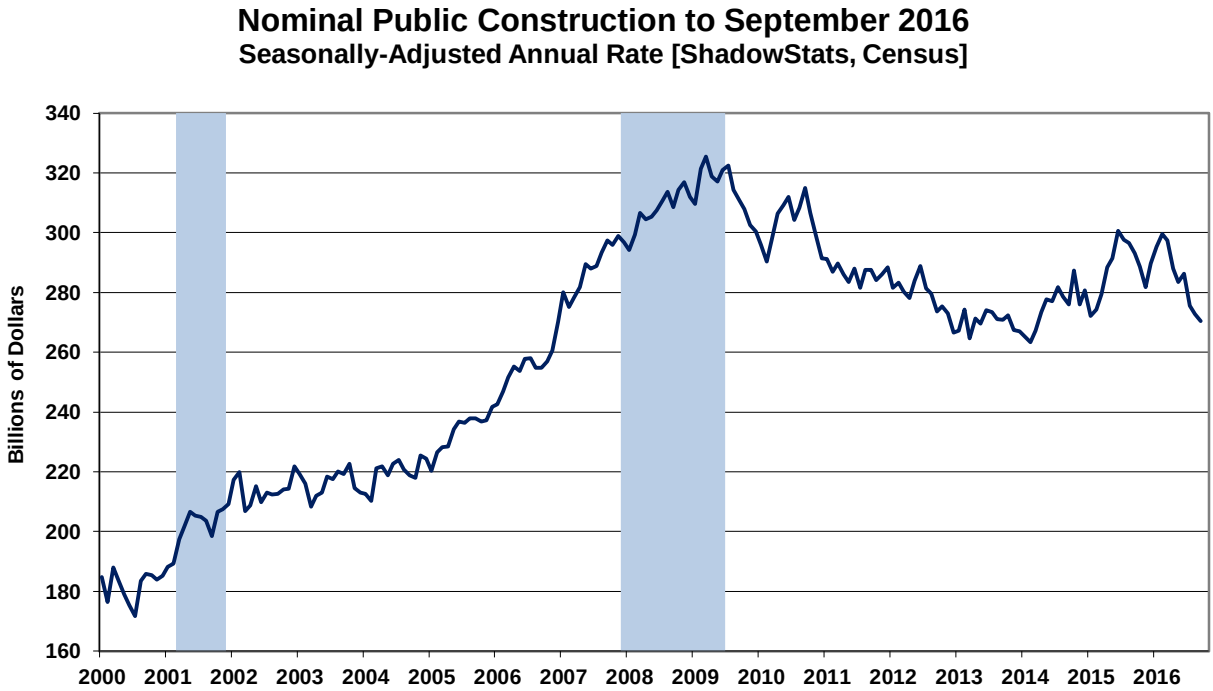


Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 11* of the *Opening Comments* section, *Graph 32* and presumably with the headline construction-payroll data in *Graph 30*.

Graph 35: Nominal Private Nonresidential Construction Spending to Date



Graph 36: Nominal Public Construction Spending to Date



The final two graphs (*Graphs 35* and 36) show the patterns of the monthly level of activity in private nonresidential-construction spending and in public-construction spending.

Private Non-Residential Construction spending had surged in revised headline reporting, to a pre-recession peak in August 2016, but that series also backed off that August peak with the headline September detail.

Public Construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016, the nominal series still appears to be fluttering in something of a volatile topping-out process, turning lower still in its latest reporting, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 12, 13* and *32*, indeed, both series appear stalled shy of their pre-recession peaks.

WEEK AND MONTH AHEAD
[There Are No Major Economic Releases in the Week Ahead]

Near-Term Headline Economic Deterioration Should Intensify, Post-Election, Increasingly Frustrating Fed Provocateurs, Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Despite an upside-gimmicked headline pre-election GDP report, market expectations for business activity should continue to deteriorate, amidst otherwise 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, post-election. The circumstance remains in play even if the FOMC hikes rates at its December meeting.

Reviewed in *Commentary No. 844*, the above-consensus "advance" estimate of third-quarter 2016 GDP remained well above any realistic estimate of domestic U.S. economic activity. As with the October labor conditions, other headline detail from that just-closed month likely will surprise on the downside, with negative revisions also likely to follow for that pre-election "advance" GDP guesstimate.

Commentary No. 843 offered a *Special Comment* on background economic circumstances and the election, following up on *No. 841*. Headline related details from September new- and existing-home sales and from new orders for durable goods reporting also were reviewed. That followed *Commentary No. 842*, which assessed the negative shifts in monthly, quarterly and annual growth patterns of the housing-starts series.

Noted in *Commentary No. 841*, consumer inflation has started to rebound, along with higher gasoline prices, yet the economy continues to falter as indicated in September freight activity, and as seen in the headline detail of September housing starts. The *Special Comments* in *No. 841* also looked a little deeper into the likely impact of unusually protracted and negative economic conditions on the presidential election and on the post-election environment for the U.S. dollar and precious metals, as updated in today's *Hyperinflation Watch*.

September industrial production detail disappointed market expectations and deteriorated sharply in the context of downside, prior-period revisions. Such was reviewed in *Commentary No. 840*. *Commentary No. 839* provided the opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets. Consumer liquidity conditions also were updated, along with a review of September 2016 nominal Retail Sales and the PPI.

September employment and unemployment circumstances were covered in *Commentary No. 838*. 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 *No. 839*, and those of *Commentary No. 837* and *Commentary No. 835*, which respectively also reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

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 the industrial production detail (*No. 840*) and in *Commentary No. 832*. 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 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. Then, Fed rate-hike jawboning 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 4th was considered in *Commentary No. 837* and was discussed further in *No. 841*, in the context of the evolving domestic political conditions.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by 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, post-election.

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. With no FOMC action on November 2nd, market expectations now are for a rate hike at out of the December 2016 FOMC. Irrespective of any near-term, one-shot rate hike, renewed quantitative easing increasingly should become the target of post-election speculation, as the deepening recession continues to unfold.

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). Although such is not in place with the headline, "advance" reporting of third-quarter 2016, with the exception of second-quarter 2016 GDI, downside revisions loom there in the next two months.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—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, while the September CPI was spiked by gasoline prices and positive seasonal adjustments. The October CPI looks to be similarly destined. 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*, and as *just updated on October 24th*: *Crudele*. 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: NONE IN THE WEEK AHEAD

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* will follow this month, subsequent to next week's U.S. presidential election. 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 and/or our readers have found of particular interest and substance. Many thanks to those who already have submitted recommendations of specific books and publications. 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.

