

COMMENTARY NUMBER 852
November Labor Conditions and Money Supply, October Construction Spending
December 2, 2016

November Help-Wanted On-Line Advertising Fell Month-to-Month, and Declined Year-to-Year at a Pace Not Seen Since the Depths of the Economic Collapse into 2009

Payrolls Rose by 178,000 in November and 142,000 in October, but Full-Time Employment Gained Just 9,000 in November, Having Declined by 103,000 (-103,000) in October

Drop in Headline November Unemployment Rate Was Dominated by the Unemployed Leaving the Labor Force Faster than They Could Gain Jobs

November 2016 Unemployment Rates Moved Lower: U.3 to 4.6% from 4.9%, U.6 to 9.3% from 9.5%, ShadowStats-Alternate Rate to 22.8% from 22.9%

Participation Rate Declined, with Employment-to-Population Ratio Unchanged

Despite a Monthly Gain and Upside Prior-Period Revisions, Real Construction Spending Remained Down by 23% (-23%) from Recovering Its Pre-Recession High

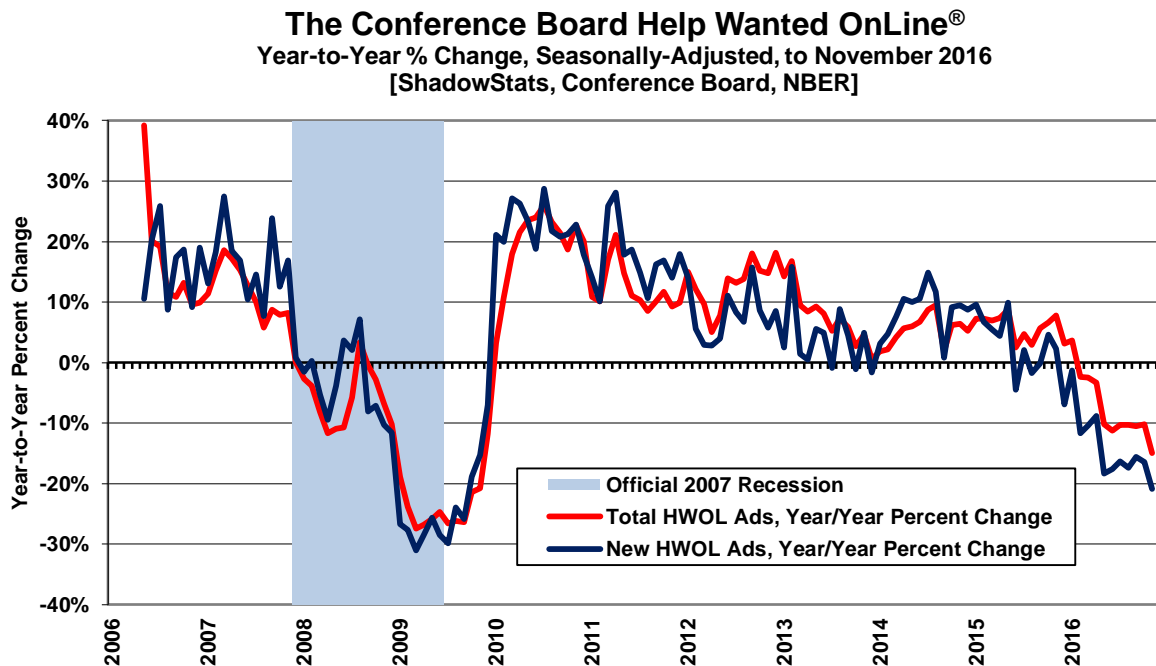
November M3 Annual Growth Notched Higher to 3.7% Versus an Upwardly Revised 3.6% in October; Still Down from 4.1% in September

PLEASE NOTE: The next regular Commentary, scheduled for Tuesday, December 6th, will cover the October Trade Deficit. 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

Real World Activity Continues to Show Intensifying Downturn. Beyond various private and public alternative measures to the federal government’s headline GDP reporting, discussed in the prior GDP [Commentary No. 851](#), ShadowStats is pleased to update for our subscribers one of the best leading indicators (private or public) of economic activity, **The Conference Board’s Help Wanted OnLine®**, first fully covered here in [Commentary No. 820](#) of July 16, 2016. Where tracking help-wanted advertising as a leading economic indicator had its roots as far back in time as the initial reporting of industrial production, post-World War I, The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Opening Graph: The Conference Board Help Wanted OnLine® to November 2016



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The Conference Board Help Wanted OnLine® Advertising. Many thanks to The Conference Board for permission to publish the preceding graph of year-to-year change from its *Help Wanted OnLine®* (HWOL) data, updated through the monthly surveying of November 2016 (released November 30th). The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). Where, “Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads.” While, “New ads are

all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as ‘New’ only in the month it first appears.” Related background, complete details and reporting are found here: [The Conference Board Help Wanted OnLine®](#).

Where the two, tracked seasonally-adjusted monthly measures have declined month-to-month in six or seven of the last twelve months, including November 2016, annual change generally has continued to sink, as seen in the *Opening Graph*, with annual growth beginning to slow in 2010 and turning negative year-to-year in late-2015 and early-2016. With the latest “Total” and “New” ads counts respectively down year-to-year by roughly 15% (-15%) and 20% (-20%), the annual contractions now have hit low levels last seen going into the trough of the economic collapse in 2009.

While much of this text is repetitive of the discussion in [No. 820](#), the detail is updated for the latest information. These comments and analysis are mine alone, not those of The Conference Board. Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board’s Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. The NBER has published detail with the St. Louis Federal Reserve on help-wanted advertising indices constructed back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical series always signaled what would become recognized as a formal recession, when annual change in the index contracted by 15% (-15%) or more.

Since formal tracking switched to help-wanted advertising on the Internet, around 2005, as seen with The Conference Board Help Wanted OnLine®, that series has been through only one, formally confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Even with a limited initial history, the new series did track that headline downturn into 2009, and it has tracked to the downside, again, in the current environment of what appears to be a “new,” unfolding recession (again see [No. 851](#)).

Time will establish new annual growth parameters that would signal a formal recession. My betting is that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be of high value. As for the BLS employment and unemployment series, headlined for November 2016 in today’s (December 2nd) reporting, eventually they should catch up with the Conference Board’s high-quality, independent leading indicator.

Today’s Commentary (December 2nd). The balance of these *Opening Comments* covers summary detail of November 2016 labor conditions and October 2016 construction spending. Those headline numbers are expanded upon in the *Reporting Detail*.

The *Hyperinflation Watch* updates monetary conditions, with an initial estimate of year-to-year growth in the November 2016 ShadowStats Ongoing M3 Estimate, and a look at the latest Monetary Base detail.

The *Week, Month and Year Ahead* previews the full reporting of the October trade deficit, to be released on Tuesday, December 6th.

Employment and Unemployment—November 2016—As Reported by Bureau of Labor Statistics, Headline Labor Conditions Massively Overstated Health of the U.S. Economy. Reporting quality of November 2016 headline employment and unemployment data suffered, as usual, from regular monthly distortions. Those gimmicks evolved out of the fine-tuning of longer-range political manipulation. Such includes changes to methodology with the upside bias-factors created post-1983 recession for payroll counts, and that evolved into the current birth-death modeling and related upside biases in payroll jobs counting. Consider too, the 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 headline employment and unemployment numbers meaningfully overstated labor-market health in the November jobs and unemployment reporting.

Not as Advertised. Underlying reality for November 2016 U.S. labor conditions remained in the realm of a 22.8% 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 November 2016 unemployment rate declining to 4.6%, with a headline monthly jobs gain of 178,000.

News Was Not Particularly Happy or Consistent on the Household Survey Side. The decline in the headline U.3 unemployment rate to 4.6% in November, versus 4.9% in October, 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*.

Of note in the household survey, the decline in the unemployment rate did reflect some movement of unemployed into the employed category, which accounted for “good news” of 0.1% (-0.1%) of the headline unemployment rate decline of 0.3% (-0.3%). The bad news was that 0.2% (-0.2%) balance of the unemployment rate decline reflected 266,000 unemployed individuals being defined out of headline existence, “dropping out” of the labor force as defined for the narrow, headline U.3 unemployment rate.

That said, those monthly changes in the household data have no meaning, since the October and November details were not comparable, respectively based on separate, unique universes of monthly seasonal adjustments. All the seasonally-adjusted household survey data, however, are made consistent in month-to-month reporting once per year, in December, only to be made inconsistent and non-comparable, again, with the subsequent January reporting (again, see *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*).

The Gain in Payroll Employment Reflected No More than Upside Biases. The headline payroll gain of 178,000 in November 2016 more realistically should have come in 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* in the *Reporting Detail*.

Payroll Survey: Annual Growth Remained Near Recent Lows. In the context of continued heavily-distorted bloating, unstable seasonal adjustments, and upside mixed revisions to September and October, the seasonally-adjusted, headline payroll gain for November 2016 was a not-meaningful 178,000. That followed a downwardly-revised 142,000 jobs gain in October and an upwardly-revised 208,000 in September. Even though the September jobs gain did not reflect the seasonal adjustments that were calculated based on the November detail, that headline gain versus August still was the same as if it had been based on the new November seasonals, by coincidence (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*). Net of prior-period revisions, October 2016 payrolls rose by 176,000, instead of the headline 178,000.

The not-seasonally-adjusted, year-to-year growth in November 2016 nonfarm payrolls of 1.58% was minimally higher than the downwardly-revised 42-month low annual growth rate of 1.55% in October 2016. Such was against an upwardly-revised annual gain of 1.78% in September 2016.

Household Survey: Counting All Discouraged Workers, November 2016 Unemployment Notched Lower to 22.8%. 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 November 2016 headline 4.6%, 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 November 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 circumstance, much more so than the happier circumstance of the unemployed finding new and gainful employment.

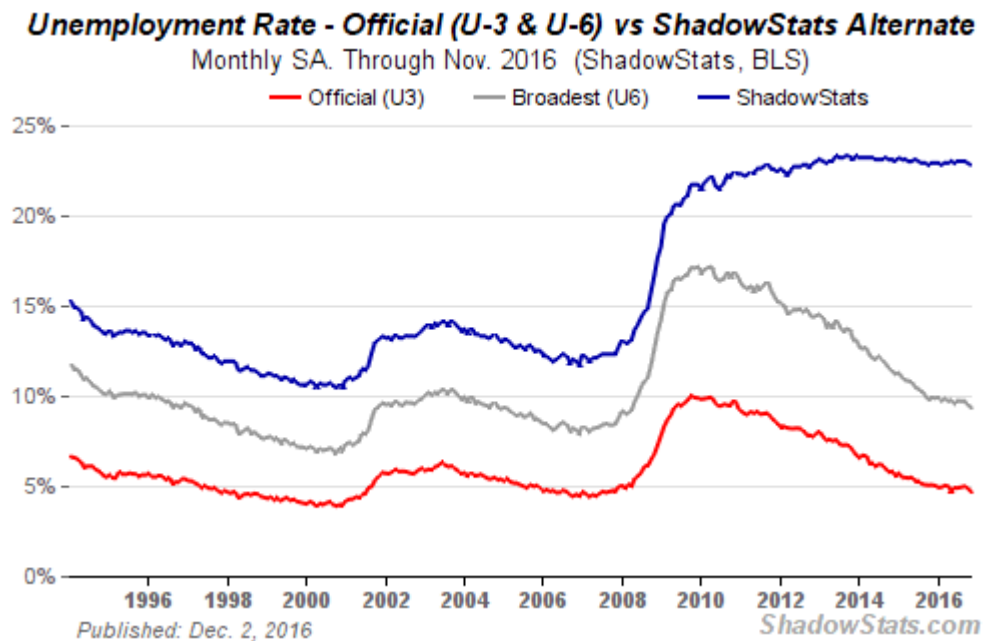
As new discouraged workers move regularly from U.3 into U.6 unemployment accounting, those who have been “discouraged” for one year are dropped from the U.6 measure. As a result, the headline U.6 measure has been declining along with headline U.3 for some time, but those being pushed out of U.6 still 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-November 2016 unemployment rates of 4.6% (U.3) and 22.8% (ShadowStats).

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



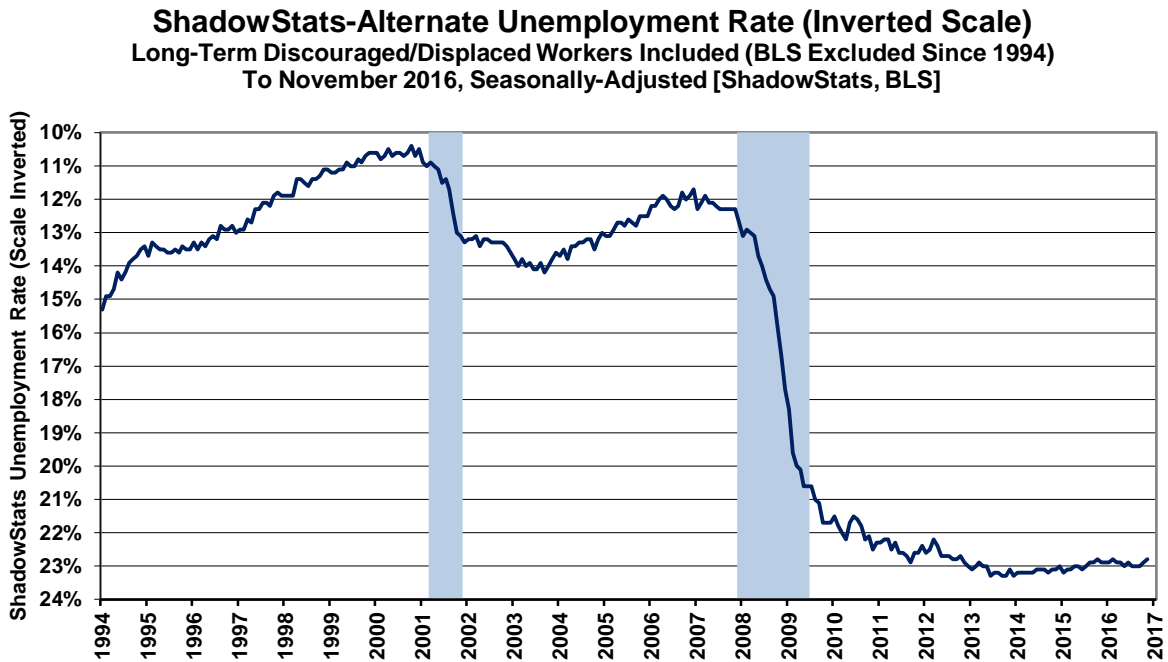
Graph 1 reflects headline November 2016 U.3 unemployment declining to 4.66% from 4.88% in October 2016; headline November 2016 U.6 unemployment eased to 9.29% from 9.53% in October 2016; and the headline November 2016 ShadowStats unemployment estimate notched lower to 22.8% from 22.9% in October 2016.

Graphs 2 to 4 reflect longer-term unemployment and discouraged-worker conditions. *Graph 2* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move visually in tandem with plots of most economic statistics, where a lower number means a weaker economy.

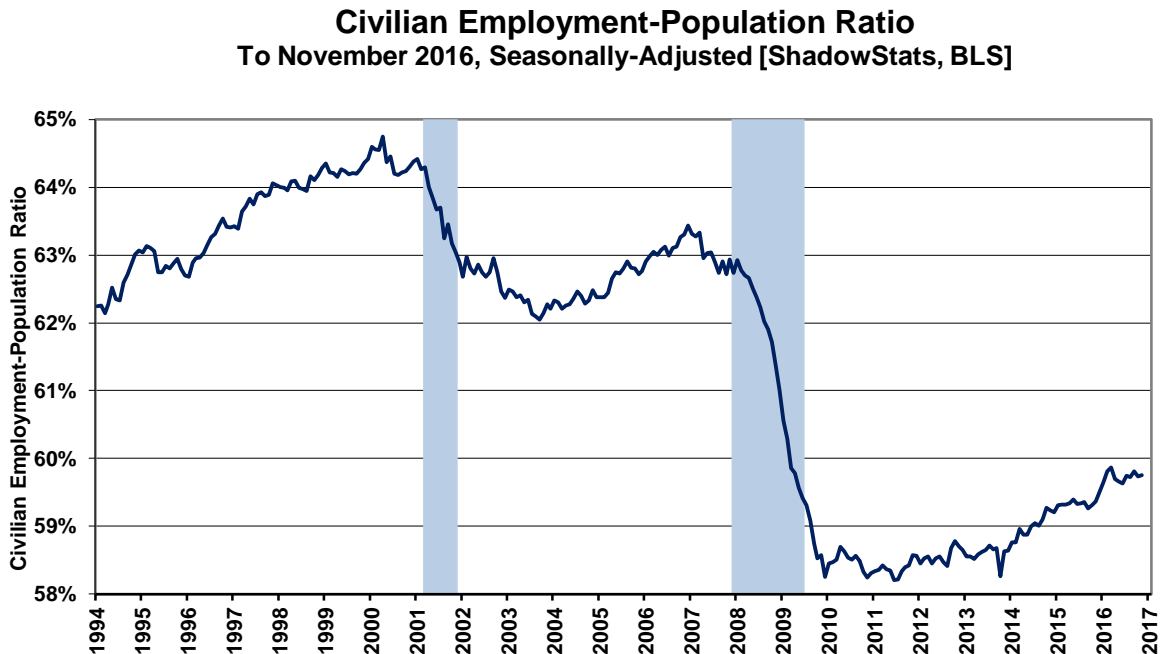
The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which had turned lower in April, May and June, notched higher in July and marginally lower in August, held even in September but notched lower again in October and holding even into November 2016. That ratio still remains near its post-1994 record low, the historic low and bottom since economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), shown in *Graph 3*. The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment-to-

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

Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



Graph 3: Civilian Employment-Population Ratio

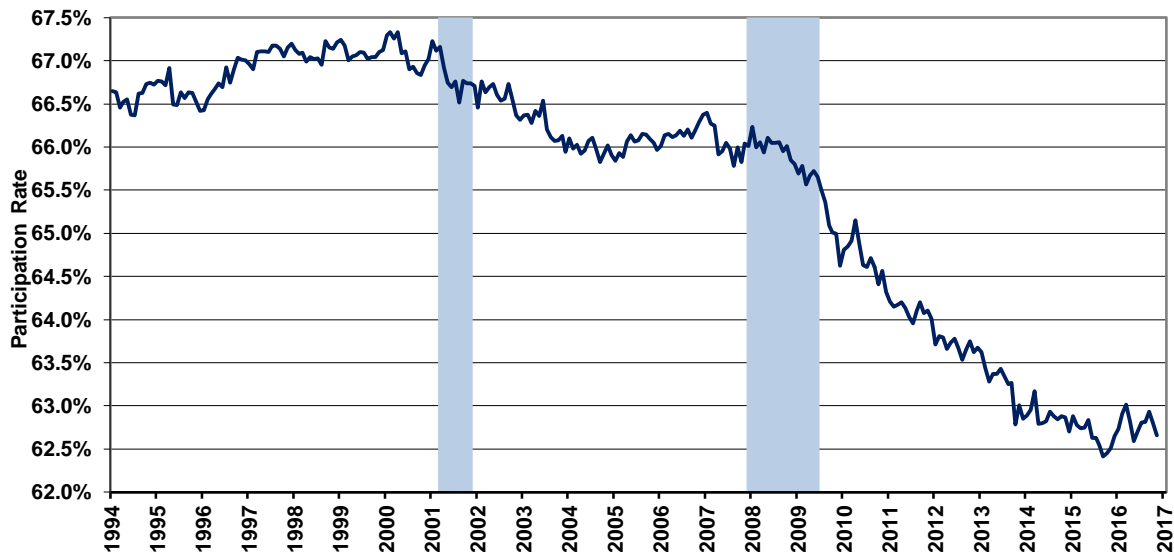


Shown in *Graph 4*, the November 2016 participation rate (the ratio of the headline labor force to the population) moved lower again, having notched lower in October 2016, minimally higher in September, effectively was unchanged in August, having notched higher in July and June and having turned down 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 November 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, moved higher against the adjusted ratios in October and were mixed again in November.

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 has moved lower in both November and 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

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



The Economy Remains Far From Full-Employment. Certain members of the Federal Reserve Board (see [Commentary No. 827](#)) have suggested that an unemployment rate near 5.0% reflects full-employment conditions in the United States. As noted in, and updated from, earlier employment/unemployment [Commentary No. 845](#) and earlier months, 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 November 2016 headline unemployment rate of 4.6%, for example was in the context of a 62.7% participation rate. That participation rate, though, was more consistent with a headline unemployment rate (U.3) of 9.5%¹ instead of the headline 4.6%. Where the count of Household Survey employed generally is not gimmicked, that 66% full-employment participation rate—consistent with the latest hyped “full-employment” economy—generally was consistent with a U.3 unemployment nearly double the purported full-employment U.3 number.

The reason for the heavily distorted current unemployment detail is that the numbers reflect the unusual nature of the post-recession drop in headline unemployment. The declining unemployment rate heavily has reflected discouraged, unemployed persons being defined out of the labor force, instead of the more-traditional and positive circumstance of the unemployed being reemployed, as was reflected largely in today's decline in headline U.3 from 4.9% in October, to 4.6% in November.

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 November 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 November 29th second 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. 851](#)).

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](#)).

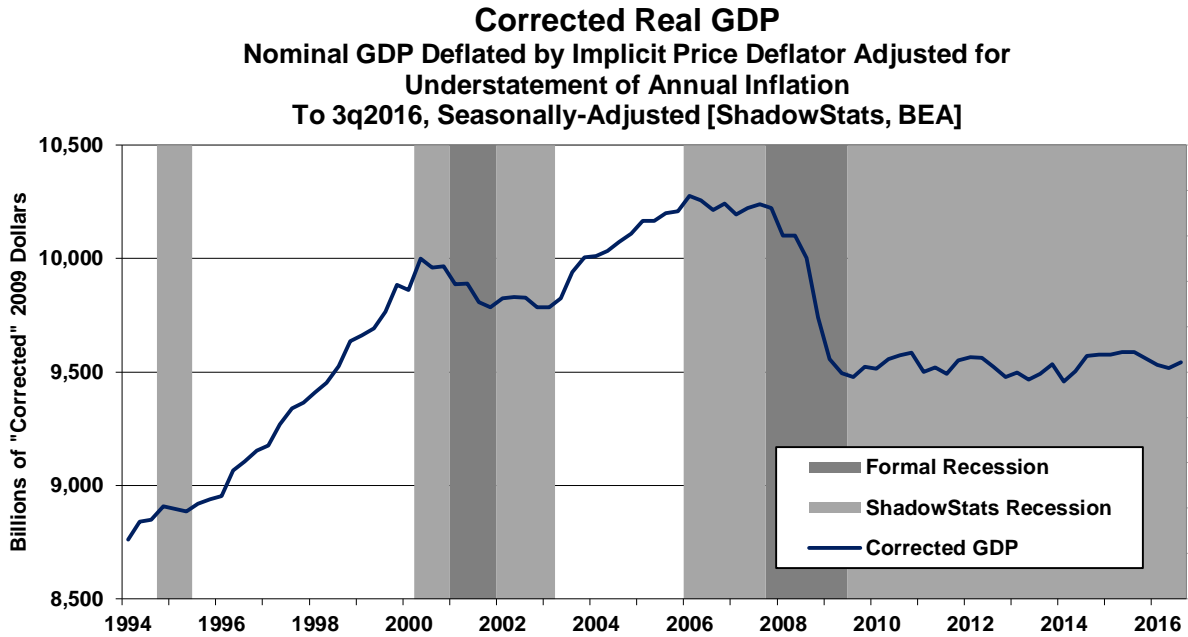
In contrast, the CASS freight index currently (through October 2016) continued to turn down in its twelve-month trailing average, with deepening year-to-year contractions on a monthly basis through September 2016, but with a minimal uptick in October ([Commentary No. 851](#)). Introduced in [Commentary No. 782](#), the graphic detail on the [Cass Freight Index](#)TM, a measure of North American freight volume, is calculated by, and used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity.

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

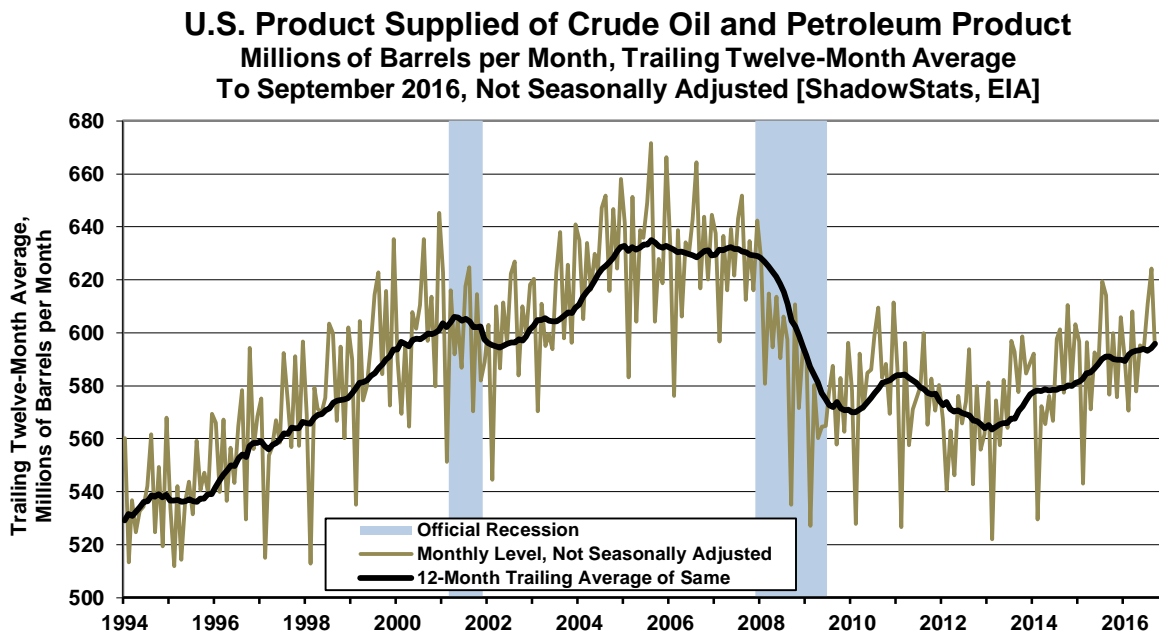
¹ Consider with a November 2016 population of 254.540 million, that the implied labor force at the full-employment participation rate of 66.0% would be $0.66 \times 254.540 = 167.996$. That labor force less current headline employed, $167.996 - 152.085 = 15.911$ million implied unemployed/ labor force of $167.996 = 9.5\%$ unemployment. The problem with the assumptions underlying these numbers and concept remains that the economy is not at full employment, as has been claimed.

seasonality patterns—through the just-published headline monthly detail of September 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 further upside fluttering in July to September 2016, never having recovered its pre-recession high.

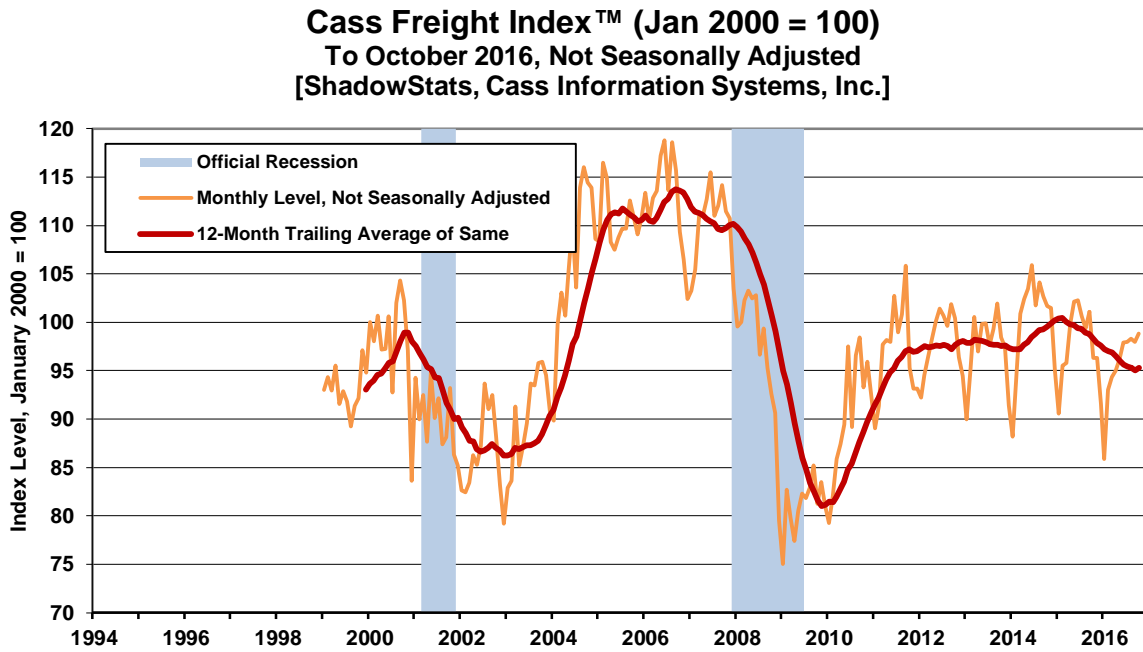
Graph 5: Corrected Real GDP through 3q2016, Second Estimate



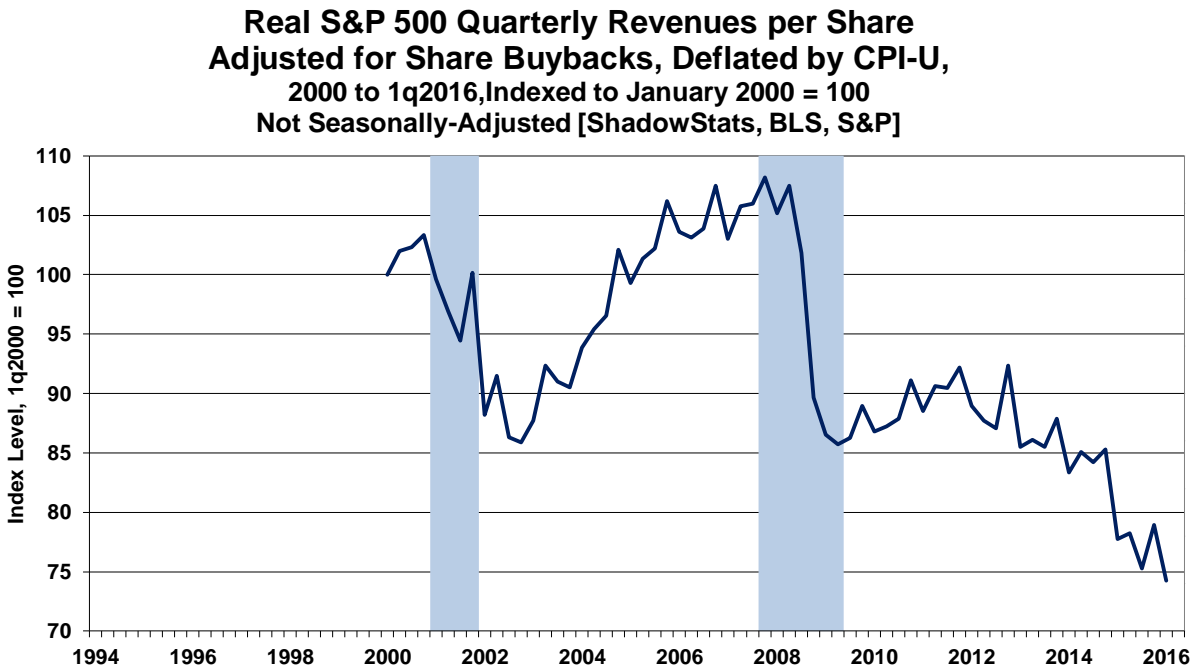
Graph 6: U.S. Petroleum Consumption to September 2016



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



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



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

Headline Unemployment Rates. At the first decimal point, the headline November 2016 unemployment rate (U.3) declined to 4.6%, versus 4.9% in October. At the second decimal point, the headline November 2016 U.3 was 4.64%, versus 4.88% in October. Formally, the decline of 0.24 % (-0.24%) in November U.3 was marginally, statistically-significant. 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 4.43% in November 2016, from 4.66% in October 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 November 2016 (never seasonally-adjusted) rose by 104,000 to 591,000 in November 2016, with total, short-term marginally-attached workers rising by 232,000 to 1,932,000, having declined by 66,000 (-66,000) to 487,000 in October, with total, short-term marginally-attached workers declining by 144,000 to 1,700,000.

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, an increase in the count of marginally-attached workers and a decline of 220,000 (-220,000) in the adjusted number of people working part-time for economic reasons combined to generate a headline November 2016 U.6 unemployment rate of 9.29%, versus 9.53% in October 2016 U.6. The unadjusted U.6 unemployment rate declined to 8.99% in November 2016, from 9.16% in October 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 November 2016 eased to 22.8%, from 22.9% in October 2016. The November 2016 reading was down by 50 basis points or 0.5% (-0.5%) from the 23.3% series high last seen in December 2013.

In contrast, November 2016 headline U.3 unemployment of 4.6% was down by 540 basis points or by 5.4% (-5.4%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.3% in November 2016, was down by 790 basis points or 7.9% (-7.9%) from its peak of 17.2% April 2010.

Construction Spending—October 2016—Despite Upside Revisions, Real Spending Held in Low-Level Stagnation, Still 23% (-23%) Shy of Recovering Its Pre-Recession Peak. Where this series remains highly volatile and subject to large monthly revisions, nominal October 2016 spending rose, in the context of sharp upside revisions to September and August detail, reflecting stronger private-sector and public-sector spending. Where third-quarter real activity initially had been in quarterly contraction, that revised to a quarterly gain. The series now is flat in its recent history, instead of down-trending, but it remains in low-level, stagnating non-recovery, with October 2016 real activity still shy of its June 2006 pre-recession peak by 22.9% (-22.9%).

Construction Inflation—ShadowStats Composite Construction Deflator (CCD). Deflation of the Construction Spending series reflects the ShadowStats Composite Construction Deflator (CCD), as discussed in [Commentary No. 829](#) and as detailed in the *Construction Inflation* section of the *Reporting Detail*.

Headline Reporting for October 2016. In the context of sharp upside revisions to September and August, the headline, total value of construction put in place in the United States for October 2016 was \$1,172.6 billion on a seasonally-adjusted, but not-inflation-adjusted, annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.5%, versus an upwardly revised \$1,166.5 billion in September 2016. Net of prior-period revisions, October activity gained month-to-month by what would have been a statistically-significant gain of 2.0% against the initial September detail.

In turn, September was a revised “unchanged” (from a contraction), versus an upwardly revised \$1,166.5 billion in August 2016. In turn, August was up by a revised 0.5%, versus an unrevised \$1,160.4 billion in July 2016.

Adjusted for CCD inflation, total real month-to-month spending in October 2016 rose by 0.2% versus a revised decline of 0.2% (-0.2%) in September 2016, and a revised gain of 0.4% in August.

On a year-to-year annual-growth basis, October 2016 nominal construction spending rose by a statistically-significant 3.4%, following upwardly revised annual gains of 1.2% in September and 1.9% in August 2016. Net of construction costs indicated by the CCD, the year-to-year change in total real construction rose to 0.4% in October 2016, versus a revised annual decline of 1.6% (-1.6%) in September 2016 and a revised annual decline of 1.0% (-1.0%) in August 2016.

The statistically-insignificant, nominal monthly gain of 0.5% in aggregate October 2016 construction spending, versus an unchanged level in aggregate September 2016, included a headline monthly gain of 2.8%, versus a revised September gain of 0.4% in September public spending. Private construction spending declined by 0.2% (-0.2%) in October, having declined by 0.1% (-0.1%) month-to-month in September. Within total private construction spending, residential-sector activity gained by 1.6% in October, having gained by 0.6% in September, while the nonresidential sector fell in by 2.1% (-2.1%) in October, having declined by 0.8% (-0.8%) in September.

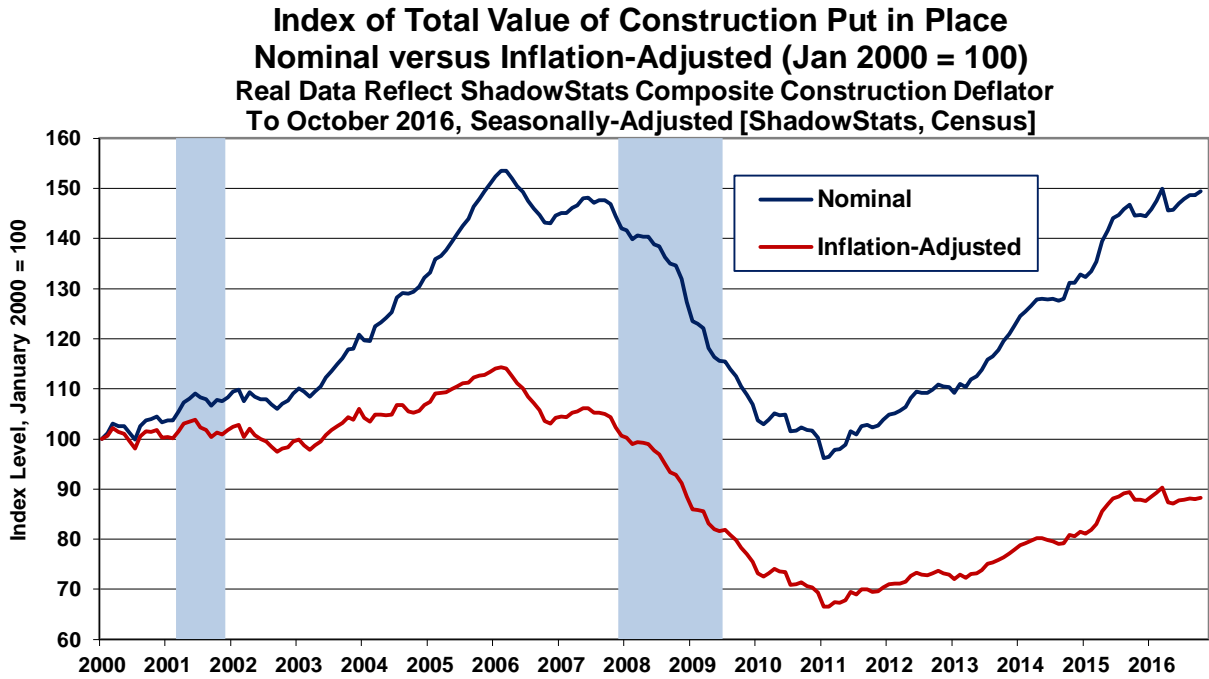
Quarterly Trends. Based solely on the unstable headline October 2016 detail, fourth-quarter 2016 activity is indicated with an early-trend of annualized real growth of 0.8%. Revised third-quarter 2016 reporting showed real construction spending gained quarter-to-quarter at an annualized pace of 2.8%, having shown initially an annualized contraction of 0.5% (-0.5%). That followed an unrevised annualized real second-quarter 2016 contraction of 8.4% (-8.4%). First-quarter 2016 real construction spending rose at an unrevised annualized pace of 7.3%.

Graphs. Accompanying *Graphs 9 to 12* 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, flat into fourth-quarter 2016. Areas of recent relative strength in the major subcomponents generally have flattened out, or turned down, after inflation adjustment.

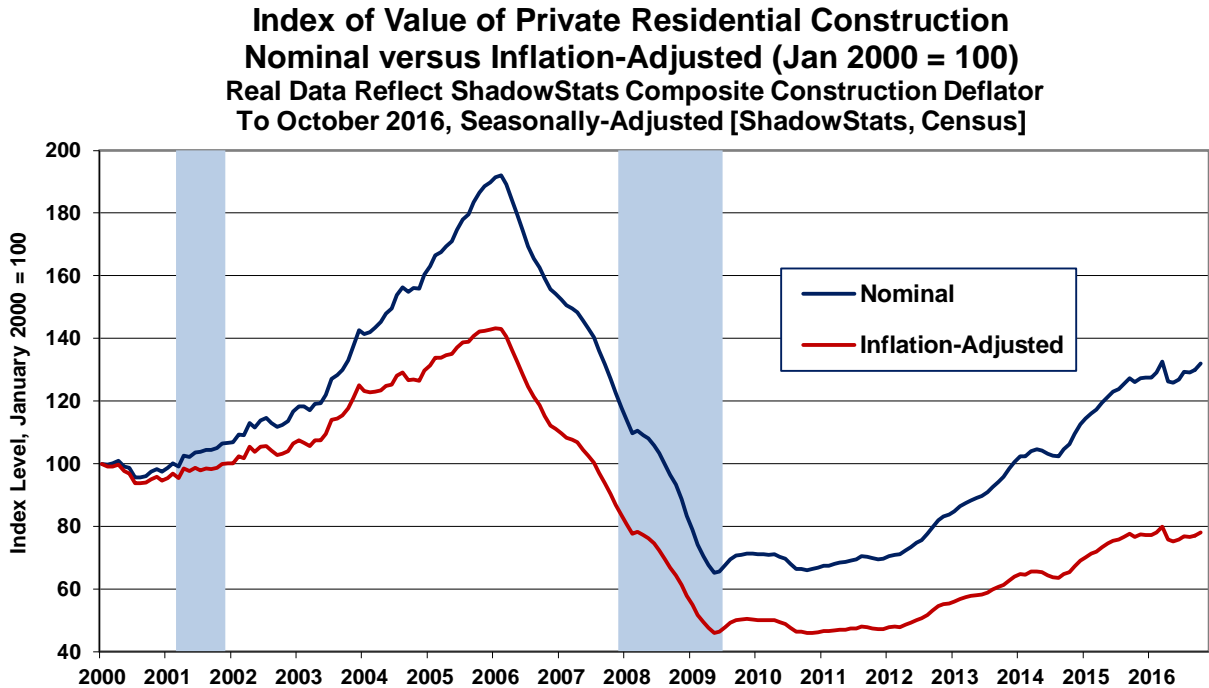
A variety of extended and comparative graphics are published in the related *Reporting Detail* section, see *Graphs 25 to 33*.

[Graphs 9 to 12 begin on the next page.]

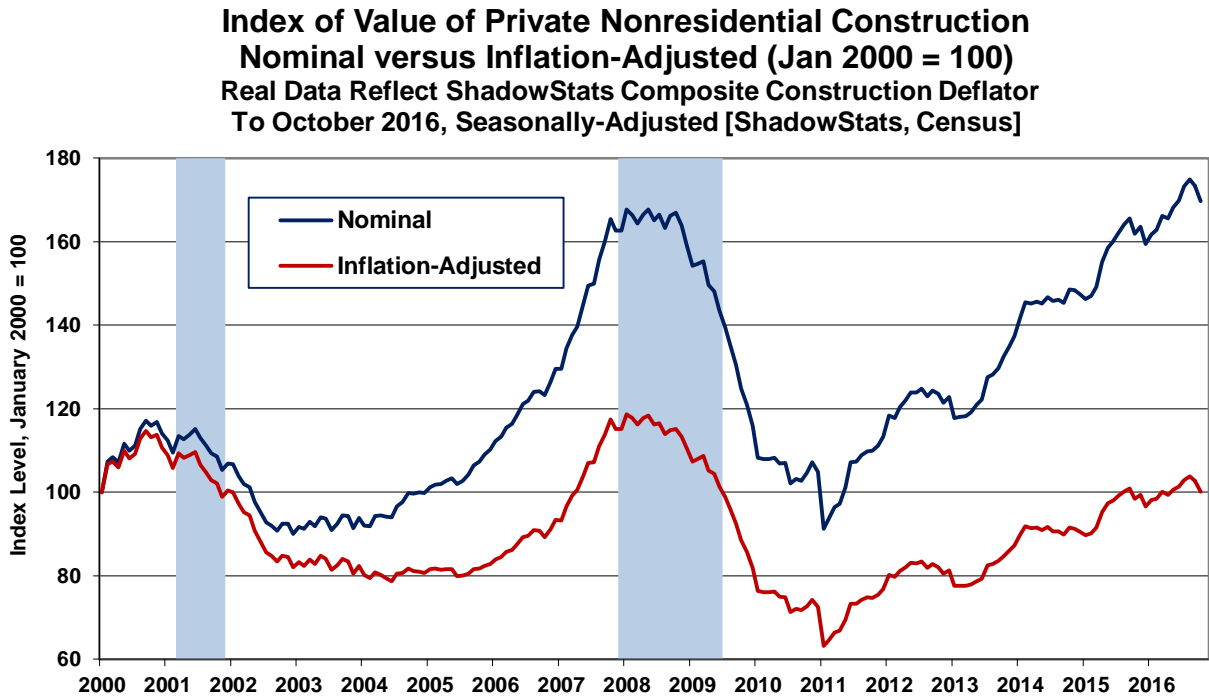
Graph 9: Index, Nominal versus Real Value of Total Construction



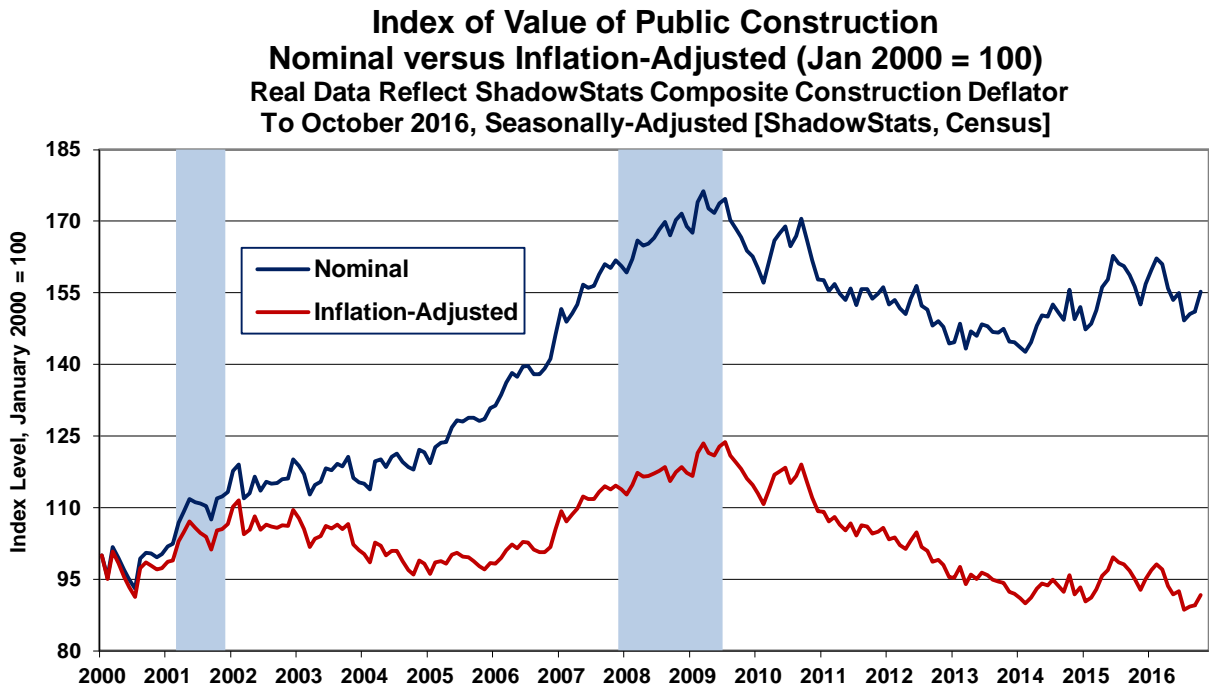
Graph 10: Index, Nominal versus Real Value of Private Residential Construction



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



Graph 12: Index, Nominal versus Real Value of Public Construction



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

HYPERINFLATION WATCH

MONETARY CONDITIONS

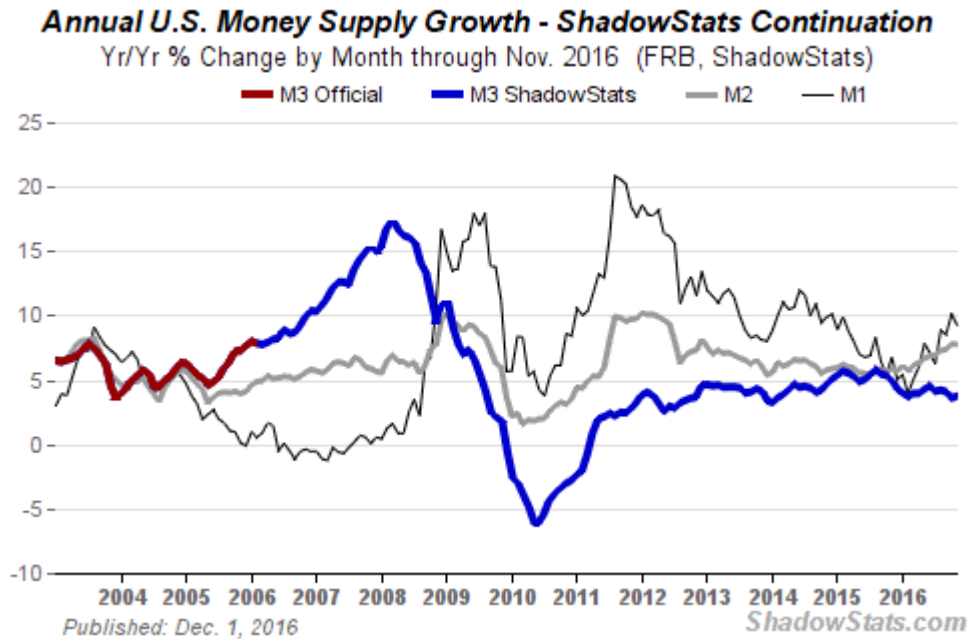
November M3 Annual Growth Notched Higher to 3.7% versus an Upwardly Revised 3.6% in October; Still Down from 4.1% in September

\$300 Billion Hit to Monetary Base Appears to Be Holding

November Money Growth Still 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, the advance-estimate of November 2016 annual growth for the ShadowStats Ongoing M3 Money Supply recovered to 3.7%, from an upwardly-revised 3.6% [previously 3.5%] in October 2016, which still was at a 34-month low, having plunged versus an unrevised 4.1% annual growth rate in September 2016 (updating [Commentary No. 845](#)). Annual growth in November 2016 M2 and M1 softened minimally, versus October, but otherwise remained at multi-year highs, reflecting intensified flight from the large time deposits and institutional money funds into accounts in the subsidiary M2 and M1 series (M2 includes M1; M3 includes M2).

November 2016 M2 annual growth rose eased to 7.8% from an upwardly revised 7.9% [previously 7.7%] in October 2016, but the November reading still was at a four-year high, other than for the revised October 2016 growth estimation, and still up from an unrevised 7.4% in September 2016. Still generally reflecting a continuing relative flight to cash or near cash, the November 2016 M1 annual growth fell back to a still powerful 9.3%, from a downwardly revised 10.2% [previously 10.3%] in the October 2016 estimation, versus an unrevised 8.6% in September 2016. Other than for the two-year high reading of M1 in October 2016, the November 2016 annual growth rate was at a 22-month high.

For those living in the headline money-supply world comprised of just the Fed's headline M1 and M2, money growth is soaring, but that growth does not necessarily imply a pending inflation surge, since it reflects a flow of funds down from the more-inclusive M3 category, not due to any apparent Fed effort to boost the money supply. The relative weakness in annual M3 growth versus M2 and M1 (again, M2 includes M1; M3 includes M2) reflected 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 November 2016 M3, M2 and M1, and for earlier periods are detailed on the [Alternate Data](#) tab of www.ShadowStats.com. See the [Money Supply Special Report](#) for full definitions of those measures.

Graph 14: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through Advance-November 2016

Monetary Base Plummeted to a Three-Year Low in the Two Weeks Ended October 12th, with a Record Year-to-Year Decline, and It Has Held There. The Saint Louis Fed's measure of the Monetary Base took a hit of roughly \$300 billion in the four weeks ended October 12th (subsequent to the hyped but no-action September FOMC meeting). In the context of continued rate-hike waffling into the no-action November FOMC meeting, and subsequent heavy rate-hike jawboning for the December FOMC meeting (December 14th), that decline has held in place in the subsequent six weeks, through November 23rd.

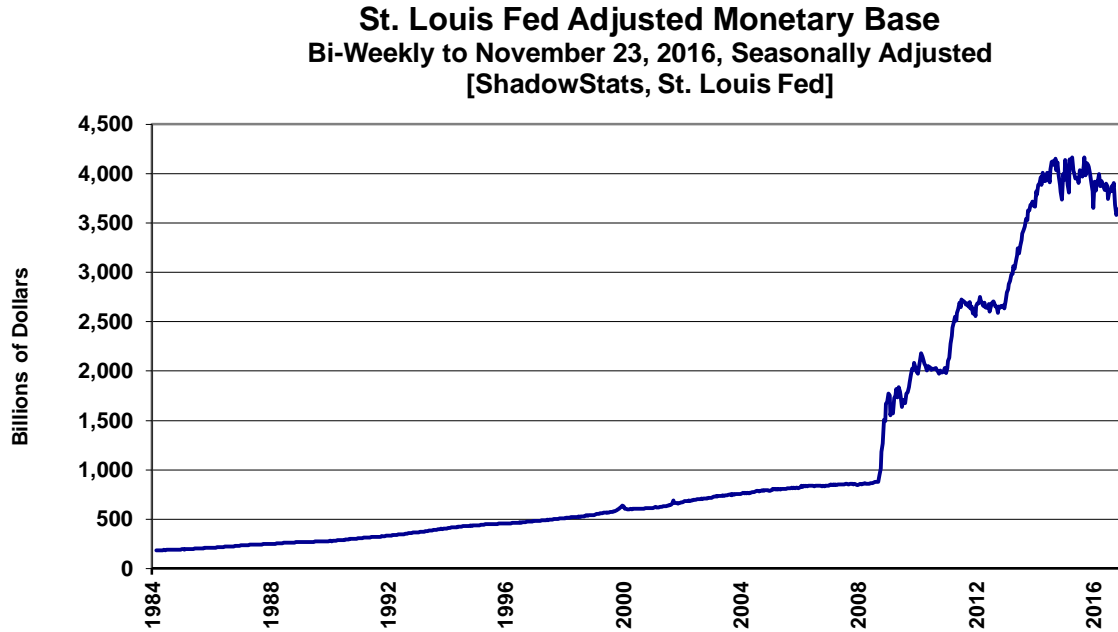
While suggestive of some possible shift in Fed policy, or liquidity or open market distortions in the system, the circumstance was affected at least partially by U.S. Treasury cash flows around fiscal year-end and tax collections. The Fed's balance sheet remained effectively stable in the same period.

In the two week's ended October 12th, the level of the monetary base plunged to a three-year low, with a record annual decline of 12.7% (-12.7%). Prior to that, the September 28th period's year-to-year decline of 7.5% (-7.5%) in the monetary was the steepest in history, just beating out the 7.4% (-7.4%) decline in the January 6th period, which had included the only rate hike subsequent to the Panic of 2008. As shown in Graph 16, the annual decline has softened to -9.0% (-9.0%) in the most-recent reporting.

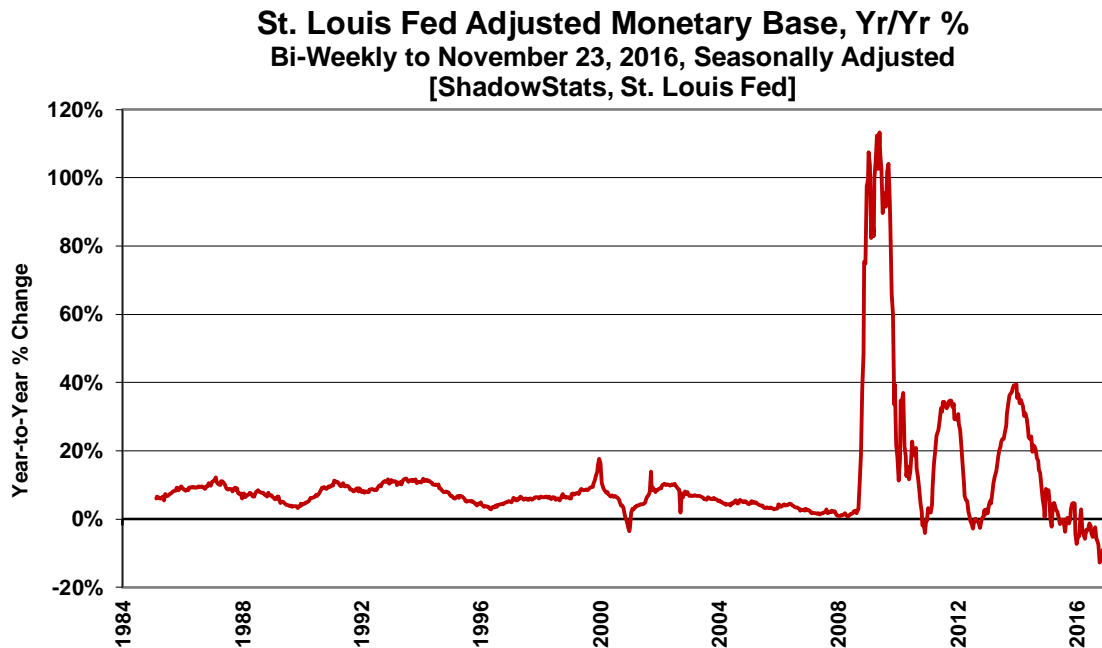
In continuing follow-up to earlier [Commentary No. 844](#), [No. 838](#), [No. 829](#), [No. 824](#), [No. 819](#), [No. 810](#), [No. 805](#), [No. 800](#), [No. 796](#), [No. 790](#), [No. 783](#), [No. 779](#), [No. 779-A](#), and [No. 784](#), the St. Louis Fed's monetary base had been relatively stable, although annual change and level have shifted increasingly and sharply to the negative side. That has been the case since what still appears to have been a one-time rate-hike in December 2015. Despite the continual ranting, jawboning and prattling to the contrary in the past year, the next expected rate hike now is for December 2016. Irrespective of any action or inaction then, actual, underlying economic activity is turning down anew, and some form of expanded quantitative easing could be early in the year ahead, as discussed in recent *Commentaries*.

Graphs 15 and 16 show reporting of the St. Louis Fed’s Monetary Base through the two-week period ended November 23rd, with a level of \$3.637.3 trillion, versus \$3.639.6 trillion November 9th, \$3.600 trillion October 26th, \$3.584 trillion October 12th, \$3.682 trillion September 28th and \$3.905 trillion as of September 14th.

Graph 15: Monetary Base Level, Bi-Weekly through November 23, 2016



Graph 16: Monetary Base, Year-to-Year Percent Change, through November 23, 2016



Late in 2014, the Federal Reserve ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, but its outright holdings of Treasury securities have remained stable at about \$2.5 trillion, rolling over maturing issues. Discussed in the previously-referenced *Commentaries*, where the monetary base during the last year had been plus-or-minus 5% around the St. Louis Fed's estimated 12-month average of \$4.0 trillion, that range had been broken three times, and on the downside. The first was in the immediate post-FOMC period ended January 6th. Such was due largely to related New York Fed activities establishing the newly boosted federal funds rate. Those lower limits then were broken in the July 6th and in the September 28th headline reporting, suggestive, again, of market instabilities and interventions required by the New York Fed. The downside limit in the monetary base now appears to have been moved from 5% (-5%) to 10% (-10%), where monetary base sits in its latest headline detail.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (November 2016)

As Reported by Bureau of Labor Statistics, Headline November 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.*] Reporting quality of November 2016 headline employment and unemployment data suffered, as usual, from regular monthly distortions. Those gimmicks evolved out of the fine-tuning of longer-range political manipulation. Such includes changes to methodology with the upside bias-factors created post-1983 recession for payroll counts, and that evolved into the current birth-death modeling and related upside biases in payroll jobs counting. Consider too, the 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 headline employment and unemployment numbers meaningfully overstated labor-market health in the November jobs and unemployment reporting.

Not as Advertised. Underlying reality for November 2016 U.S. labor conditions remained in the realm of a 22.8% 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 November 2016 unemployment rate declining to 4.6%, with a headline monthly jobs gain of 178,000.

News Was Not Particularly Happy or Consistent on the Household Survey Side. The decline in the headline U.3 unemployment rate to 4.6% in November, versus 4.9% in October, 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*.

Of note in the household survey, the decline in the unemployment rate did reflect some movement of unemployed into the employed category, which accounted for “good news” of 0.1% (-0.1%) of the headline unemployment rate decline of 0.3% (-0.3%). The bad news was that 0.2% (-0.2%) balance of the unemployment rate decline reflected 266,000 unemployed individuals being defined out of headline existence, “dropping out” of the labor force as defined for the narrow, headline U.3 unemployment rate.

That said, those monthly changes in the household data have no meaning, since the October and November details were not comparable, respectively based on separate, unique universes of monthly seasonal adjustments. All the seasonally-adjusted household survey data, however, are made consistent in month-to-month reporting once per year, in December, only to be made inconsistent and non-comparable, again, with the subsequent January reporting (again, see *Headline Distortions from Shifting Concurrent-Seasonal Factors in the Reporting Detail*).

The Gain in Payroll Employment Reflected No More than Upside Biases. The headline payroll gain of 178,000 in November 2016 more realistically should have come in 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 in the Reporting Detail*.

PAYROLL SURVEY DETAIL. This morning, December 2nd, the Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for November 2016. In the context of continued heavily-distorted bloating, unstable seasonal adjustments, and upside mixed revisions to September and October, the seasonally-adjusted, headline payroll gain for November 2016 was 178,000 +/- 135,000 [more appropriately +/- 300,000] at the 95% confidence interval (all confidence intervals used are at the 95% level). That followed a downwardly-revised 142,000 [previously 161,000] jobs gain in October upwardly-revised and an upwardly revised 208,000 [previously 191,000, initially 156,000] in September. Where the September jobs gain did not reflect seasonal adjustments that were calculated based on the November detail, the headline gain versus August still was the same as if it had been based on the new November seasonals (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*).

Net of prior-period revisions, October 2016 payrolls rose by 176,000, instead of the headline 178,000.

The not-seasonally-adjusted, year-to-year growth in November 2016 nonfarm payrolls of 1.58% was minimally higher than the downwardly-revised 42-month low annual growth rate of 1.55% [previously 1.56%] in October 2016. Such was against an upwardly-revised annual gain of 1.78% [previously 1.76%, initially 1.70%] in September 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 +/- 135,000. 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 Upticks and Minimal Upside Revisions. Up by 19,000 jobs, to 6.704 million in November 2016, construction payroll-employment growth gained against an upwardly revised 14,000 [previously 11,000] gain in October, and a minimally revised 26,000 [previously and initially 23,000] upturn in September. 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 27* in the following *Construction Spending* section. The recent general pattern of flattening-out increasingly is consistent with the low-level plateauing and seen in real construction spending and other construction measures.

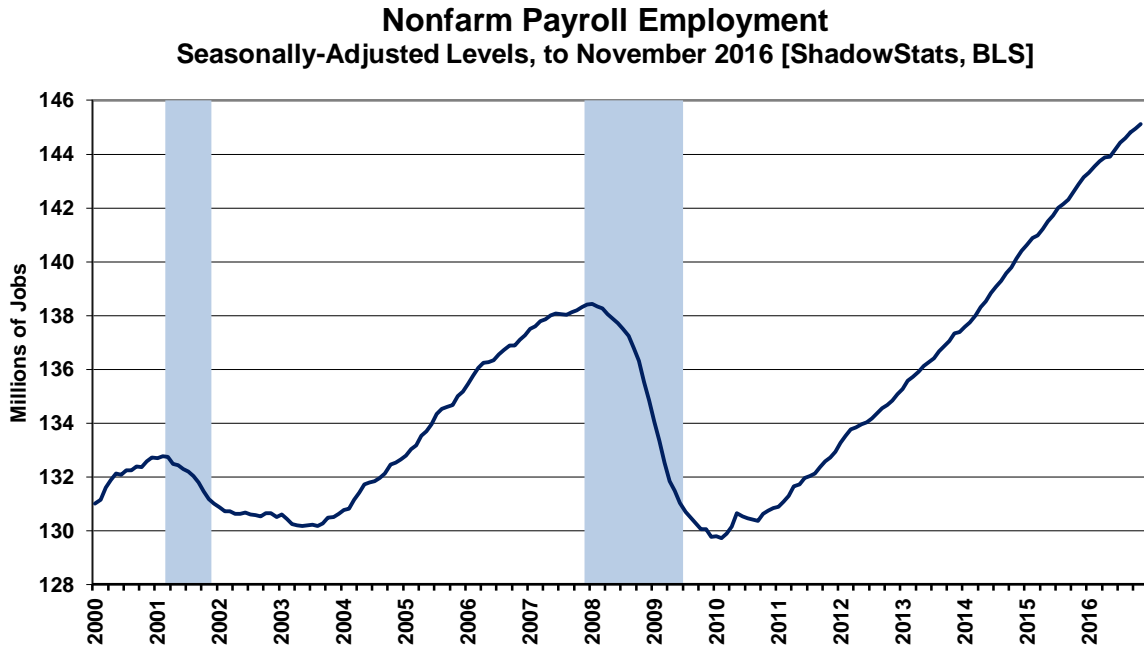
Headline month-to-month construction employment rose by 0.28% in November 2016, versus a revised 0.21% [previously 0.16%] in October, following a revised monthly gain of 0.38% [previously and initially 0.35%] in September 2016. Year-to-year growth was 2.39% in November 2016, down from 2.65% in October 2016 and 3.11% in September 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 November 2016 construction jobs was the highest seen since November 2008, but it remained down by 13.23% (-13.23%) from the April 2006 pre-recession series peak.

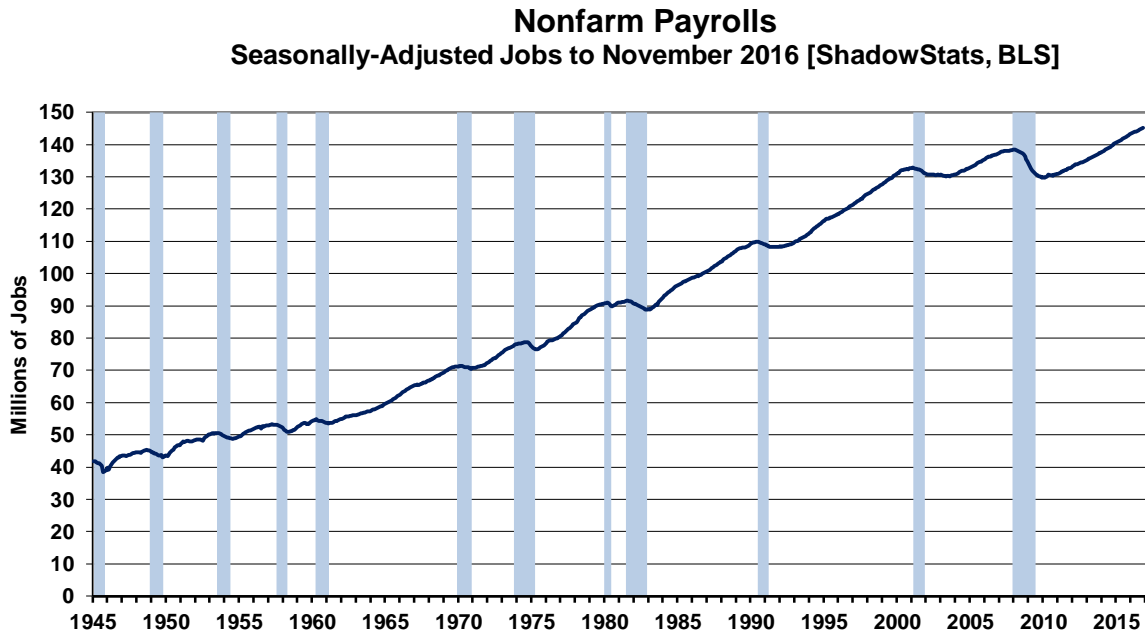
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy 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 November 2016, headline payroll employment was 6.70-million jobs above its pre-recession peak.

[Graphs 17 and 18 follow on the next page]

Graph 17: Nonfarm Payroll Employment 2000 to Date



Graph 18: Nonfarm Payroll Employment 1945 to Date



Graphs 17 and 18 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-

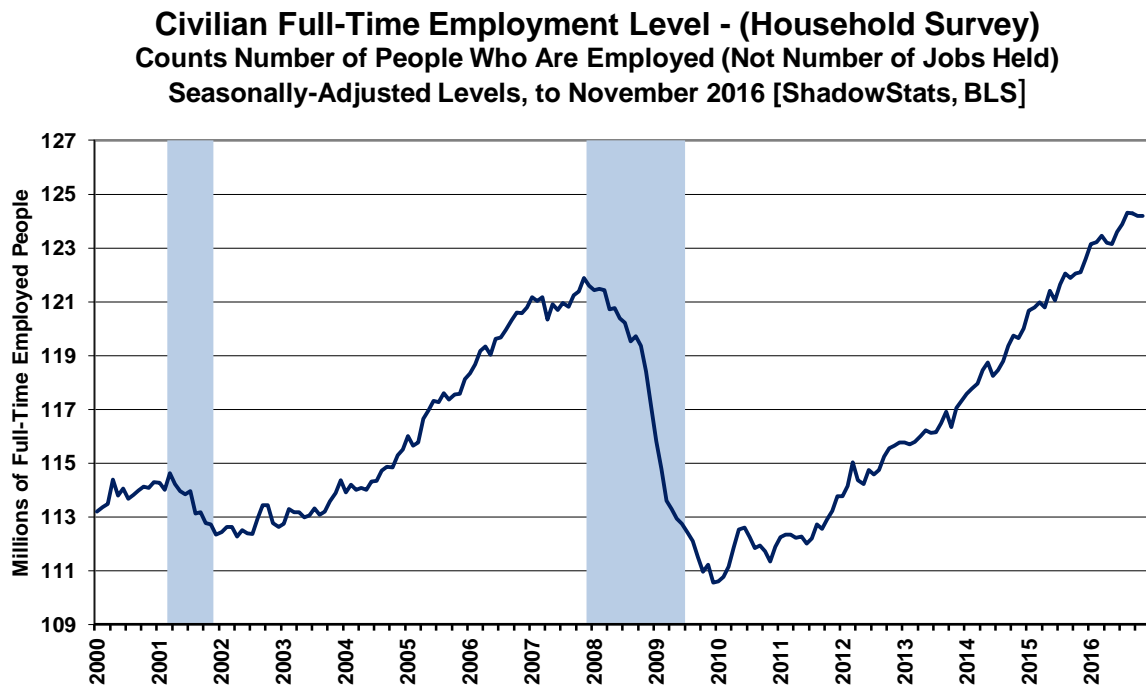
employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

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 26). 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.

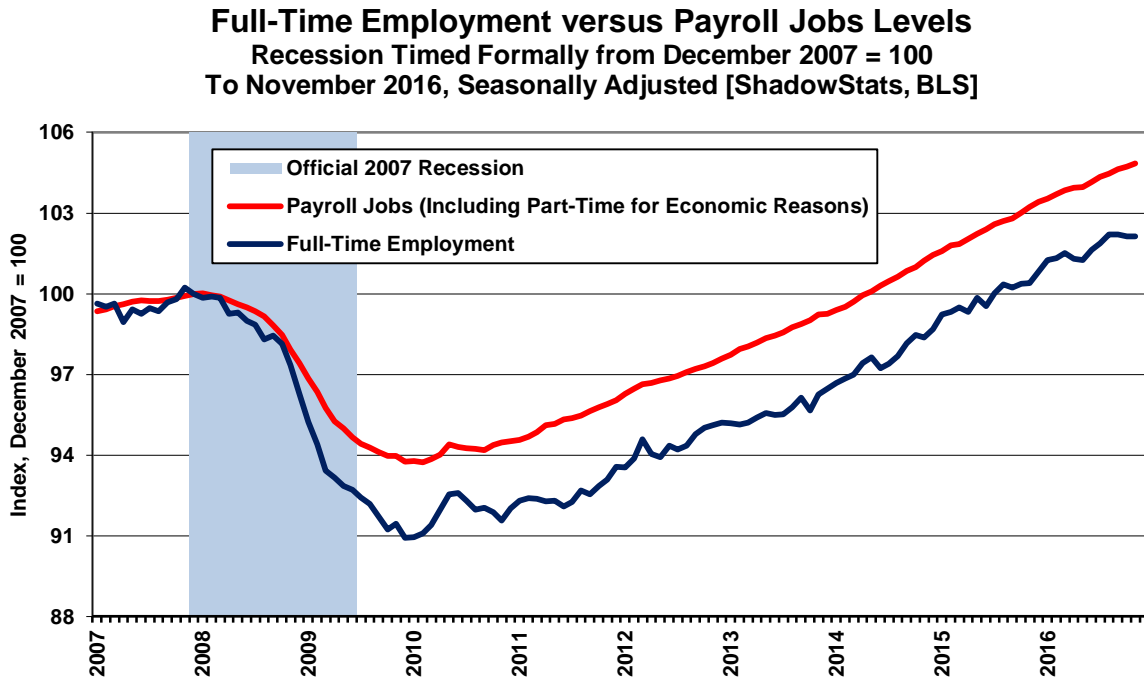
Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 19* (using a roughly-proportionate scale to *Graph 17*), the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline November 2016 full-time employment rose by just 5,000, having declined by 103,000 (-103,000) in October, by 5,000 (-5,000) in September, and following gains of 409,000 in August, 306,000 in July, 451,000 in June, and declines in May and April of 59,000 (-59,000) and 253,000 (-253,000) in April. Headline detail now stands at 2.33-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 6.70-million above its pre-recession high, regained some 30-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.

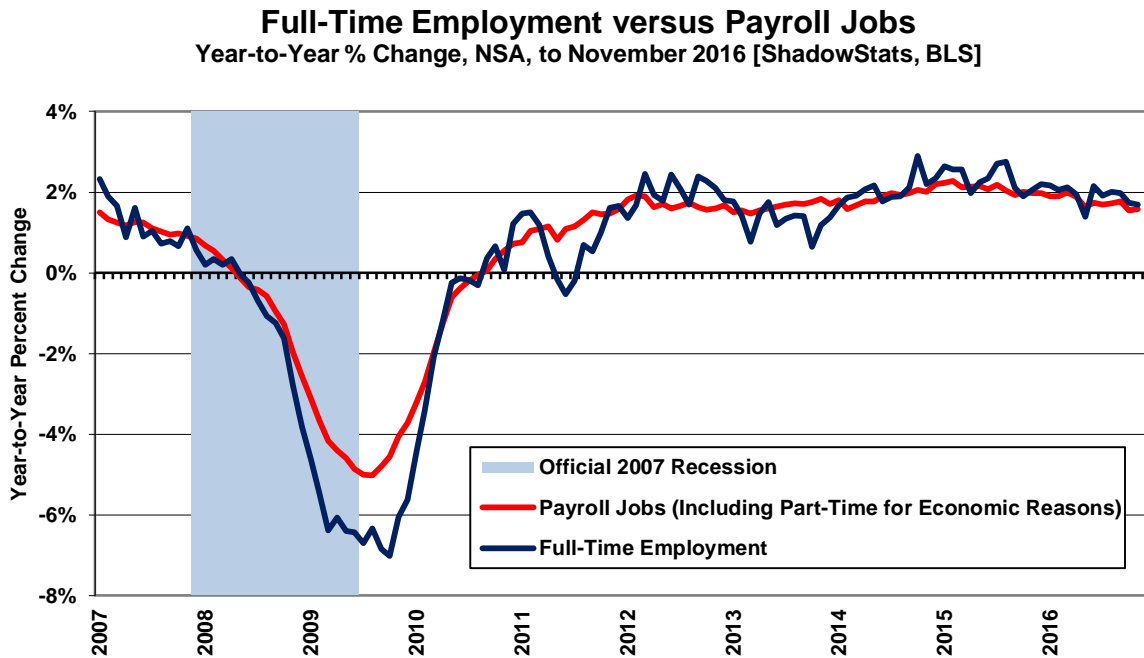
Graph 19: Full-Time Employment (Household Survey) to Date



Graph 20: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)



Graph 21: 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 five 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*

20 and 21 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.

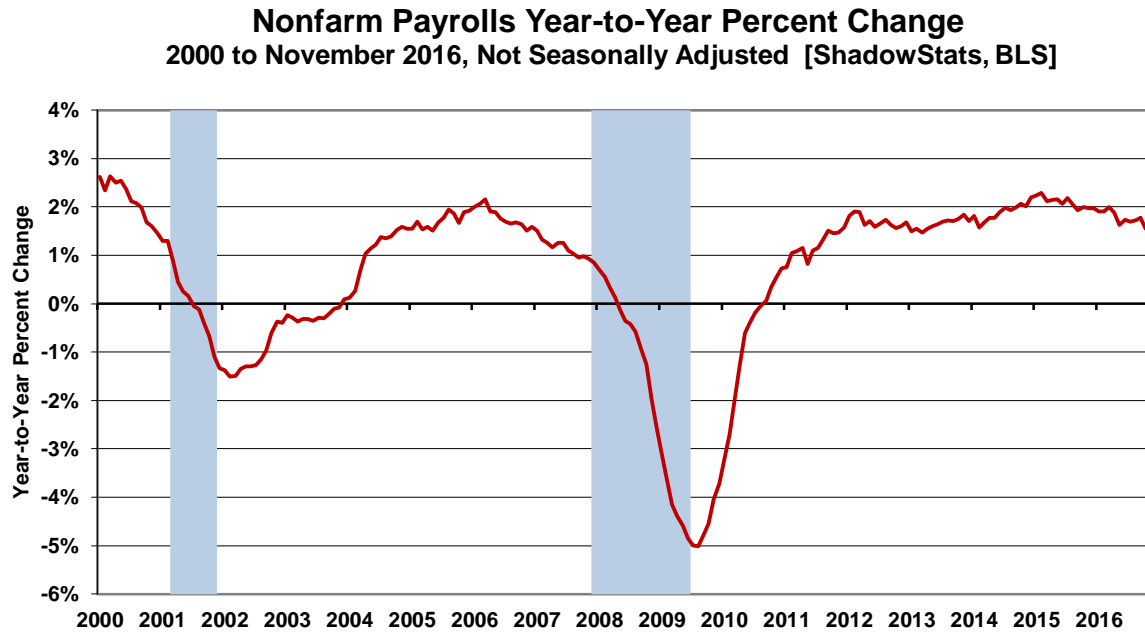
Annual Percent Changes in Headline Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis.

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 22 and 23*. 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 November 2016 was 1.58%, versus a 42-month low of 1.55% [previously 1.56%] in October 2016 and a revised 1.78% [previously 1.76%, initially 1.70%] in September 2016. See the recent discussion of “healthy” annual payroll growth in [Commentary No. 843](#).

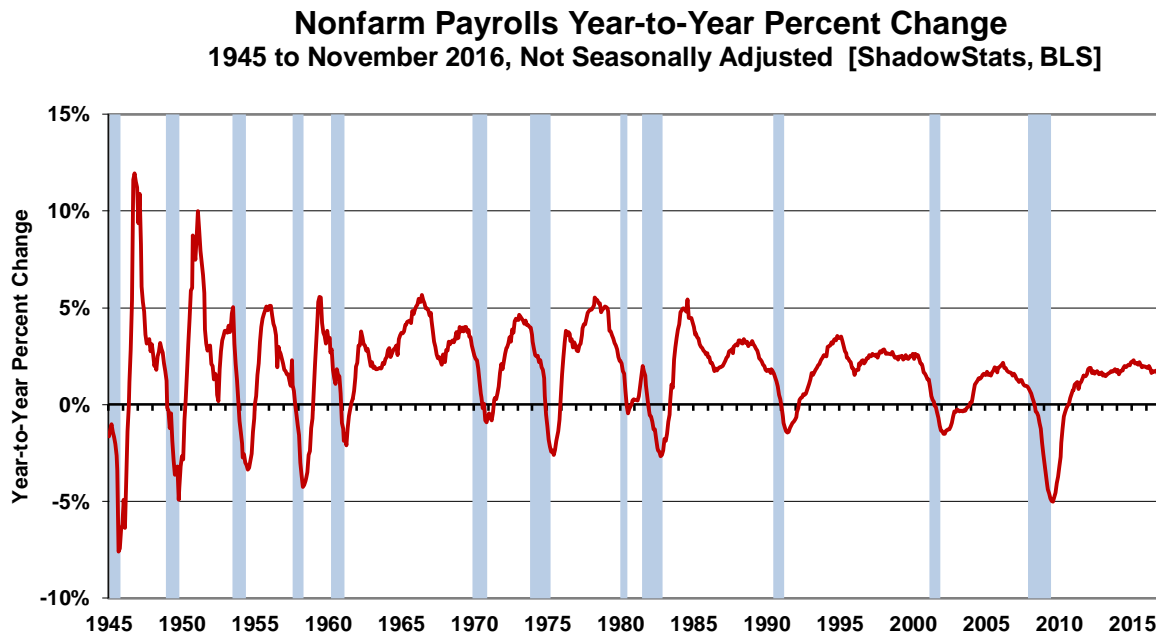
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown 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 22 and 23 follow on the next page.]

Graph 22: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



Graph 23: Payroll Employment, Year-to-Year Percent Change, 1945 to Date



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

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

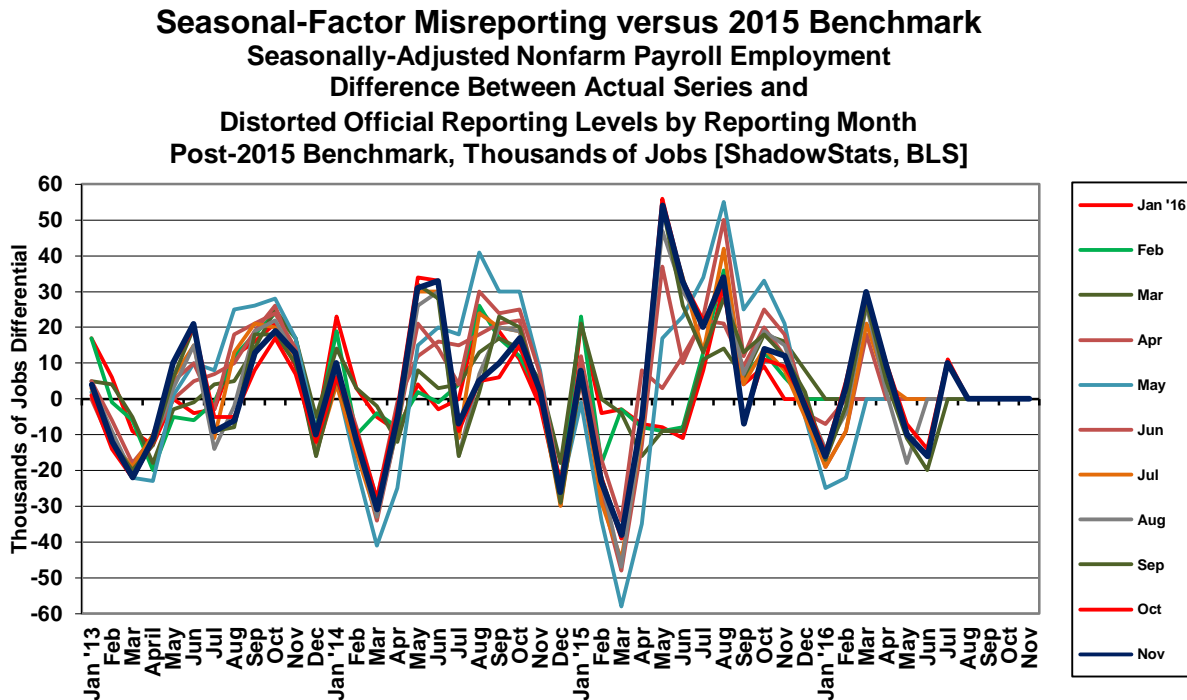
Consider *Graph 24*, where data are available from the BLS to calculate the month-to-month seasonal-adjustment variability in the Payroll Survey. Similar detail is not available for the Household Survey, yet

the month-to-month instability likely is of similar magnitude. At least with the Payroll Survey, the headline November 2016 payroll level was prepared on a consistent basis with the levels of October 2016 and September 2016, but not with August 2016, with the result the headline monthly gains are consistent only for November and October. With the Household Survey, however, the November 2016 detail is not comparable with October 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 24*.

Graph 24: Concurrent-Seasonal-Factor Irregularities – Current Headline Detail versus 2015 Benchmark



Consider in the latest headline payroll detail that the November 2016 monthly changes were comparable only with the headline changes in the October 2016 numbers, not with September 2016 or any earlier months. Per BLS headline reporting (straight from the current press release *Summary Table B*), seasonally-adjusted November 2016 payrolls rose month-to-month by 178,000 from October, while October payrolls rose by a revised 142,000 from August. August payrolls are currently reported up by

176,000 from July. Again, only the November and October gains were calculated consistent with each other. Following are the official headline data, with currently-consistent headline detail of monthly gain in parentheses: September was up by 208,000 (208,000) [such is pure coincidence, not by design], August was up by 176,000 (166,000), July was up by 252,000 (278,000), etc. The published, headline September monthly gain and all of the other prior-period monthly changes were calculated on different basis than the new November 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 (still a difference of . That particular incident is detailed at the [ExpliStats](#) link, and it was discussed in the *Opening Comments* of [Commentary No. 784](#).

Graph 24 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 24*. As seen here, consistent data never have been published.

The difference seen between the dark-red (October 2016) and dark-blue (November 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 November 2016 seasonals.

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

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

Despite the published downside revision of 206,000 (-206,000) to March 2015 payrolls in the last year's 2015 benchmarking (see [Commentary No. 784](#) and [Commentary No. 784-A](#)), the BLS upped its annual upside-bias factors since then by 65,000. Such discrepancies, however, are not unusual for the BLS.

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

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

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

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

November 2016 Add-Factor Bias. The not-seasonally-adjusted November 2016 bias was a positive 1,000, following a positive add-factor of 197,000 (-57,000) in October 2016, but down from a positive add-factor of 13,000 in November 2015.

The revamped, aggregate upside bias for the trailing twelve months through November 2016 was 853,000, up by 72,000 or 9.2% from 781,000 in December 2015. That was a monthly average of 71,083, in November 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 71,083 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 *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 November 2016 unemployment rate (U.3) declined to 4.6%, versus 4.9% in October. At the second decimal point, the headline November 2016 U.3 was 4.64%, versus 4.88% in October. Formally, the decline of 0.24 % (-0.24%) in November U.3 was marginally, statistically-significant (+/- 0.23%). 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 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 4.43% in November 2016, from 4.66% in October 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 November 2016 (never seasonally-adjusted) rose by 104,000 to 591,000 in November 2016, with total, short-term marginally-attached workers rising by 232,000 to 1,932,000, having declined by 66,000 (-66,000) to 487,000 in October, with total, short-term marginally-attached workers declining by 144,000 to 1,700,000.

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, an increase in the count of marginally-attached workers and a decline of 220,000 (-220,000) in the adjusted number of people working part-time for economic reasons combined to generate a headline November 2016 U.6 unemployment rate of 9.29%, versus 9.53% in October 2016 U.6. The unadjusted U.6 unemployment rate declined to 8.99% in November 2016, from 9.16% in October 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 22.8% in November 2016, from 22.9% in October 2016 and 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 (1.932 million in November 2016), those not in the labor force currently wanting a job declined to a net 3.322 million in November 2016 (a reduced total of 5.524 million), versus 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).

In theory, those numbers are counted only on an unadjusted basis, yet the BLS publishes a seasonally-adjusted estimate of 5.876 wanting a job in November 2016, versus 5.912 million in October 2016, 6.088 million in September 2016, 5.833 million in August 2016, 5.886 million in July 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 November 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 November 2016 declined to 22.8%, from 22.9% in October 2016. The November 2016 reading was down by 50 basis points or 0.5% (-0.5%) from the 23.3% series high last seen in December 2013.

In contrast, November 2016 headline U.3 unemployment of 4.6% was down by 540 basis points or by 5.4% (-5.4%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.3% in November 2016, was down by 790 basis points or 7.9% (-7.9%) from its peak of 17.2% April 2010.

A subscriber recently 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.

Seen in the usual graph of the various unemployment measures (*Graph 1* in the *Opening Comments*), there indeed is 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, but minimally down-trending 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%.

CONSTRUCTION SPENDING (October 2016)

Despite Upside Revisions, Spending Held in Real, Low-Level Stagnation, Still 23% (-23%) Shy of Recovering Its Pre-Recession Peak. Where this series remains highly volatile and subject to large monthly revisions, nominal October 2016 spending rose, in the context of meaningful upside revisions to September and August detail, reflecting stronger private-sector and public-sector spending. Where third-quarter real activity initially had been in quarterly contraction, that revised to a quarterly gain. The series now is flat in its recent history, instead of down-trending, but it remains in low-level, stagnating non-recovery, with October 2016 real activity still shy of its June 2006 pre-recession peak by 22.9% (-22.9%).

Ongoing Consumer Liquidity Issues Constrain Residential Construction Spending. Updated in prior [Commentary No. 851](#), and reviewed fully in [Commentary No. 833](#), the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential real-estate 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—irrespective of stronger, headline October residential construction spending—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 recently introduced a Composite Construction Deflator (CCD) 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.

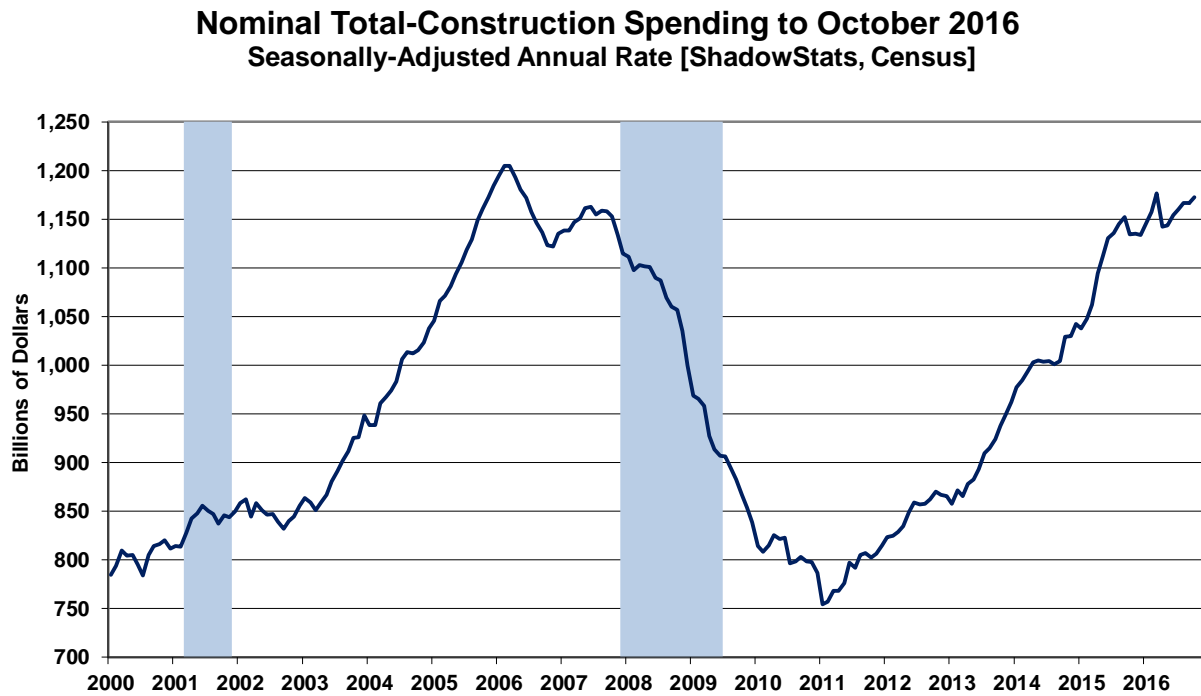
There is no perfect inflation measure, public or private for deflating construction. For the historical series in the accompanying plots, as shown in *Graphs 9 to 12* in the *Opening Comments*, and in the accompanying *Graphs 26 and 29* in this section, the inflation-adjusted numbers are deflated by the CCD.

Seasonally-adjusted October 2016 CCD month-to-month inflation rose by 0.32%, following gains of 0.18% in September 2016, 0.15% in August and 0.40% in July. In terms of year-to-year inflation, the October 2016 CCD gained 2.98%, following annual gains of 2.90% in September, 2.93% in August 2016 and 2.90% in July 2016.

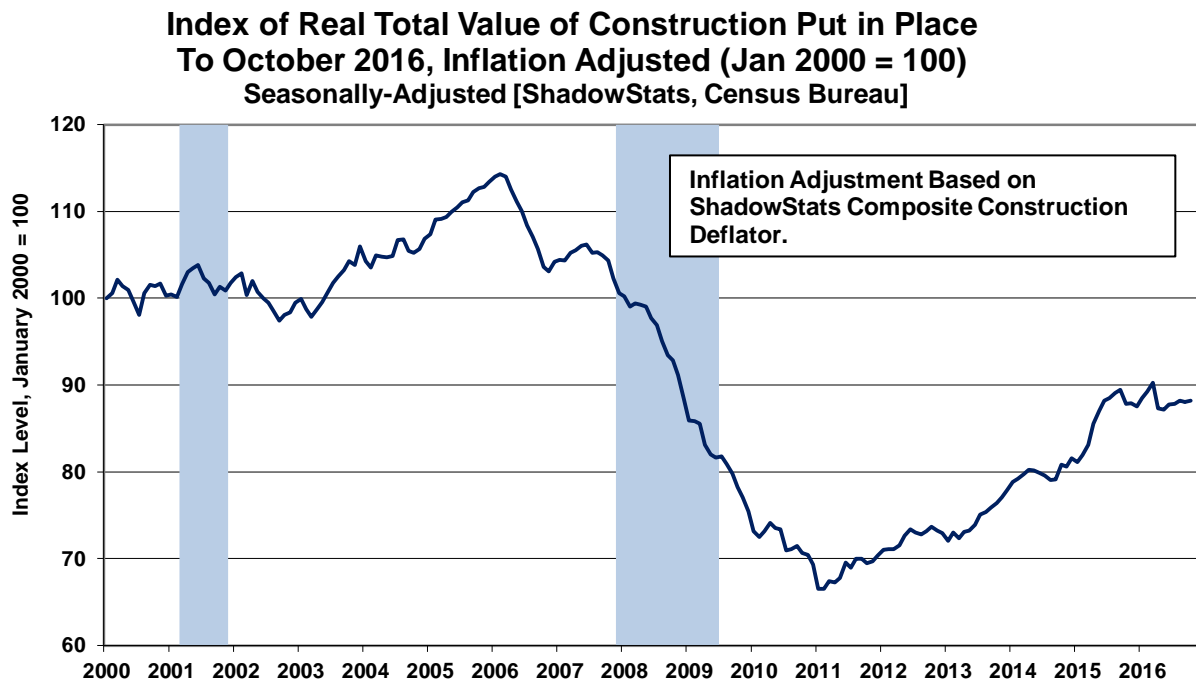
The Data and Graphics Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series 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 30 and 31*.

[Graphs 25 and 26 follow on the next page]

Graph 25: Total Nominal Construction Spending



Graph 26: Index of Total Real Construction Spending



Headline Reporting for October 2016. In the context of sharp upside revisions to September and August, the Census Bureau reported December 1st that the headline, total value of construction put in place in the United States for October 2016 was \$1,172.6 billion on a seasonally-adjusted, but not-inflation-adjusted,

annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.5% +/- 1.5% (all confidence intervals are at the 95% level), versus an upwardly revised \$1,166.5 [previously \$1,150.0] billion in September 2016. Net of prior-period revisions, October activity gained month-to-month by what would have been a statistically-significant gain of 2.0% against the initial September detail.

In turn, September was a revised unchanged [previously down by 0.4% (-0.4%)] versus an upwardly revised \$1,166.5 [previously \$1,154.4, initially \$1,142.2] billion in August 2016.

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

Adjusted for CCD inflation, total real month-to-month spending in October 2016 rose by 0.2% versus a revised decline of 0.2% (-0.2%) in September 2016, and a revised gain of 0.4% in August.

On a year-to-year annual-growth basis, October 2016 nominal construction spending rose by a statistically-significant 3.4% +/- 3.0%, following a revised September 2016 annual gain of 1.2% [previously down by 0.2% (-0.2%)] and a revised annual gain of 1.9% [previously 0.8%] in August 2016. Net of construction costs indicated by the CCD, the year-to-year change in total real construction rose to 0.4% in October 2016, versus a revised annual decline of 1.6% (-1.6%) in September 2016 and a revised annual decline of 1.0% (-1.0%) in August 2016.

The statistically-insignificant, nominal monthly gain of 0.5% in aggregate October 2016 construction spending, versus an unchanged level in aggregate September 2016, included a headline monthly gain of 2.8%, versus a revised September gain of 0.4% in September public spending. Private construction spending declined by 0.2% (-0.2%) in October, having declined by 0.1% (-0.1%) month-to-month in September. Within total private construction spending, residential-sector activity gained by 1.6% in October, having gained by 0.6% in September, while the nonresidential sector fell in by 2.1% (-2.1%) in October, having declined by 0.8% (-0.8%) in September.

Quarterly Trends. Based solely on the unstable headline October 2016 detail, fourth-quarter 2016 activity is indicated with an early-trend of annualized real growth of 0.8%. Revised third-quarter 2016 reporting showed real construction spending gained quarter-to-quarter at an annualized pace of 2.8%, having shown initially an annualized contraction of 0.5% (-0.5%). That followed an unrevised annualized real 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.

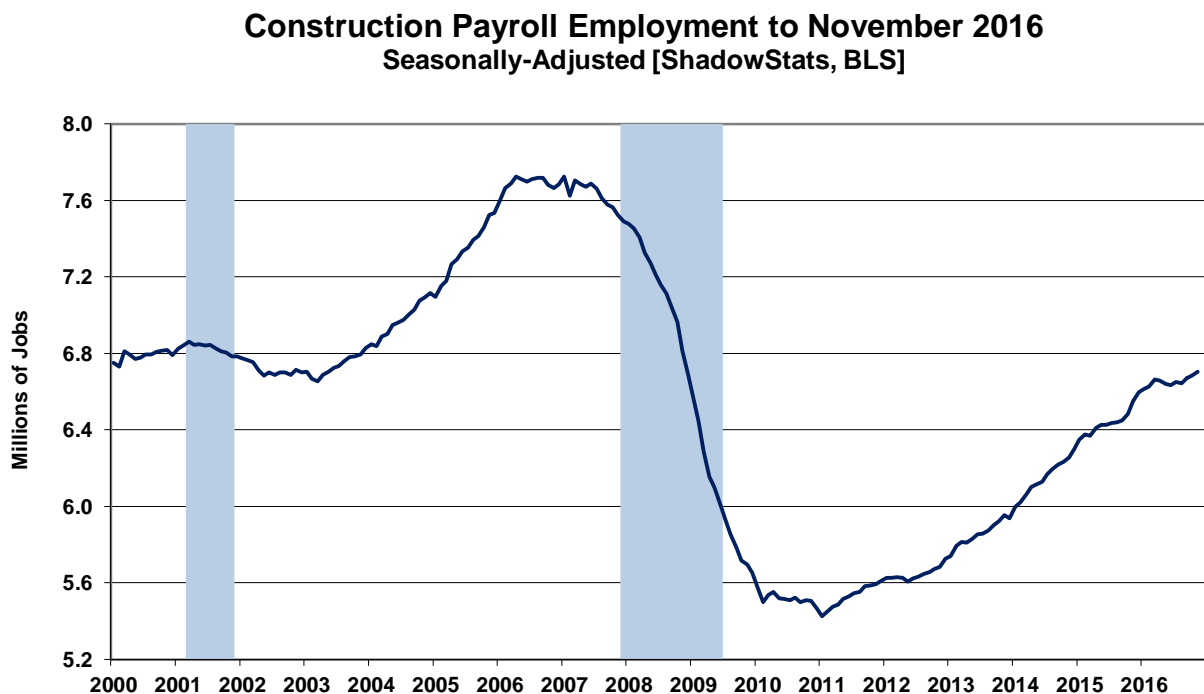
Graphs 10 to 13 in the *Opening Comments* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public-construction. Seen after adjustment for inflation, the real aggregate series generally has remained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

The general pattern of real activity had been one of low-level, up-trending stagnation that now has turned generally flat-to-down in recent quarters. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 25* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 26*. *Graphs 28* and *29* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs. Earlier *Graphs 25* and *26*, and later *Graphs 28* and *29* reflect total construction spending through October 2016, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 26* 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 flattened out into fourth-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 prior [Commentary No. 851](#) 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 27: Construction Payroll Employment to Date



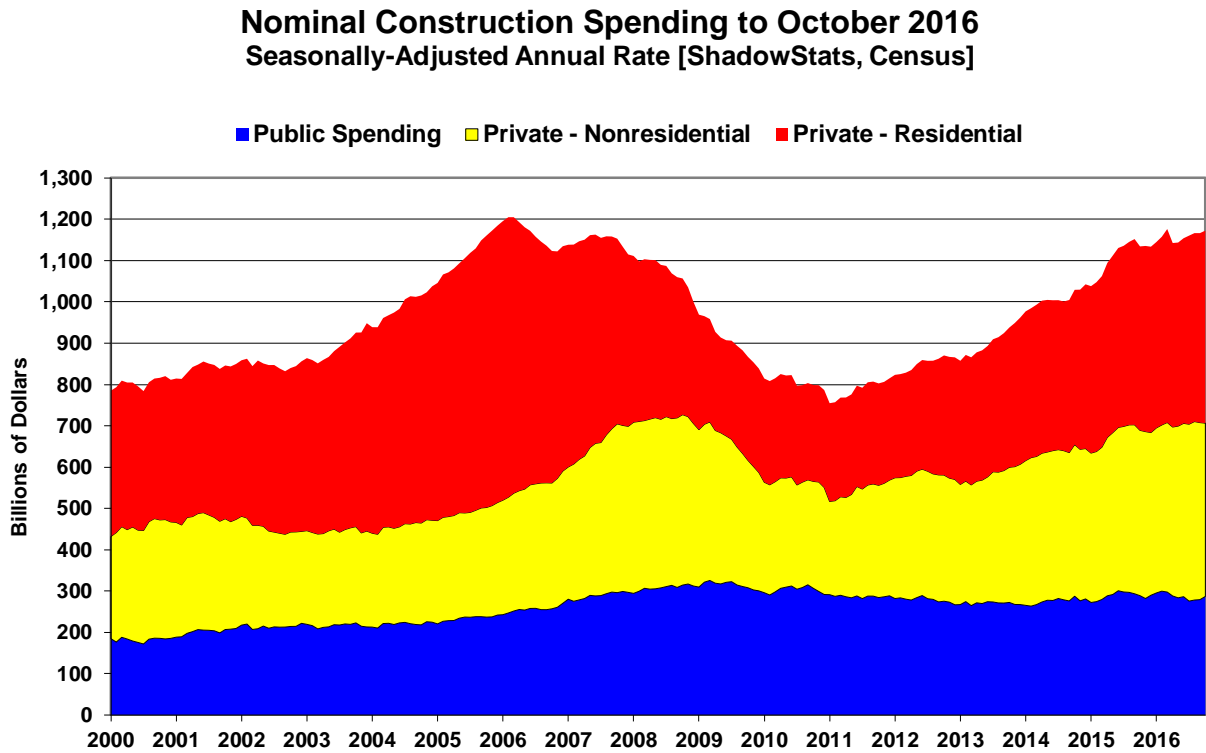
Construction Employment Not Recovering. *Graph 27* shows November 2016 construction employment, as discussed and detailed in the *Payroll Employment* section. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact 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.

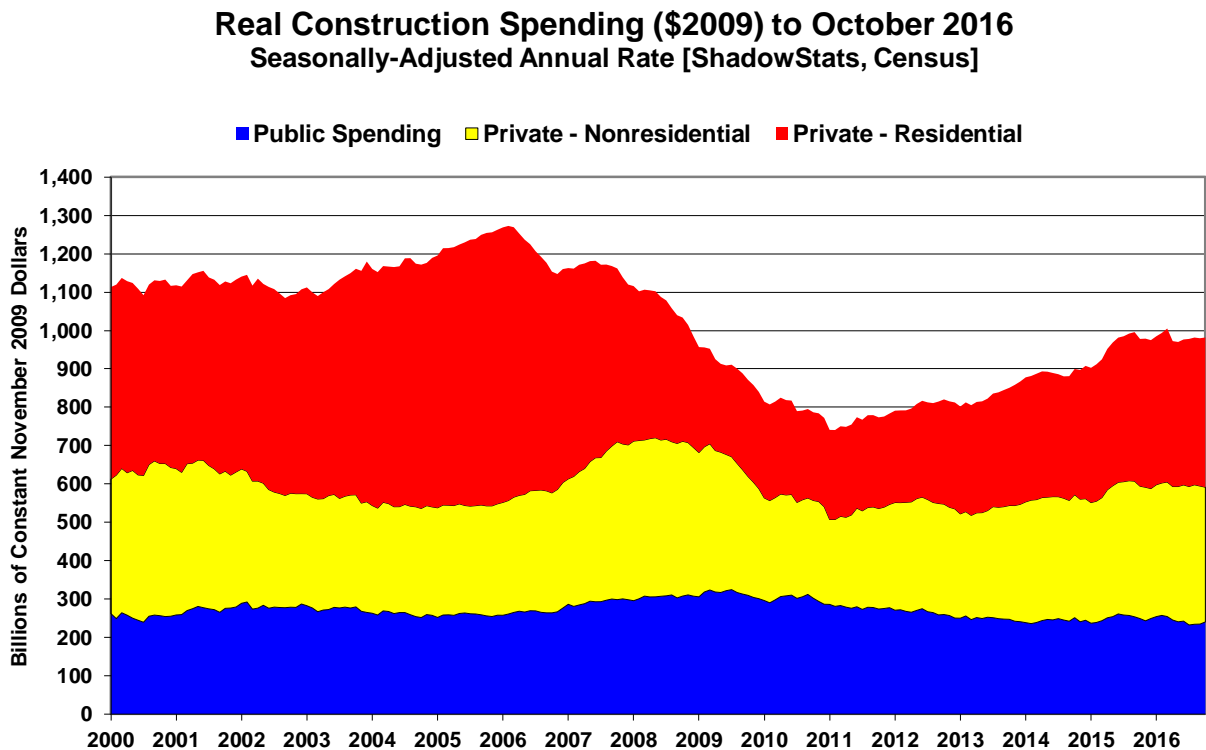
Graphs of Construction Activity. *Graph 28* shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending. *Graph 29* shows the same breakout by sector as in *Graph 28*, but the detail is in 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 28 to 33 begin on the next page.]

Graph 28: Aggregate Nominal Construction Spending by Major Category to Date



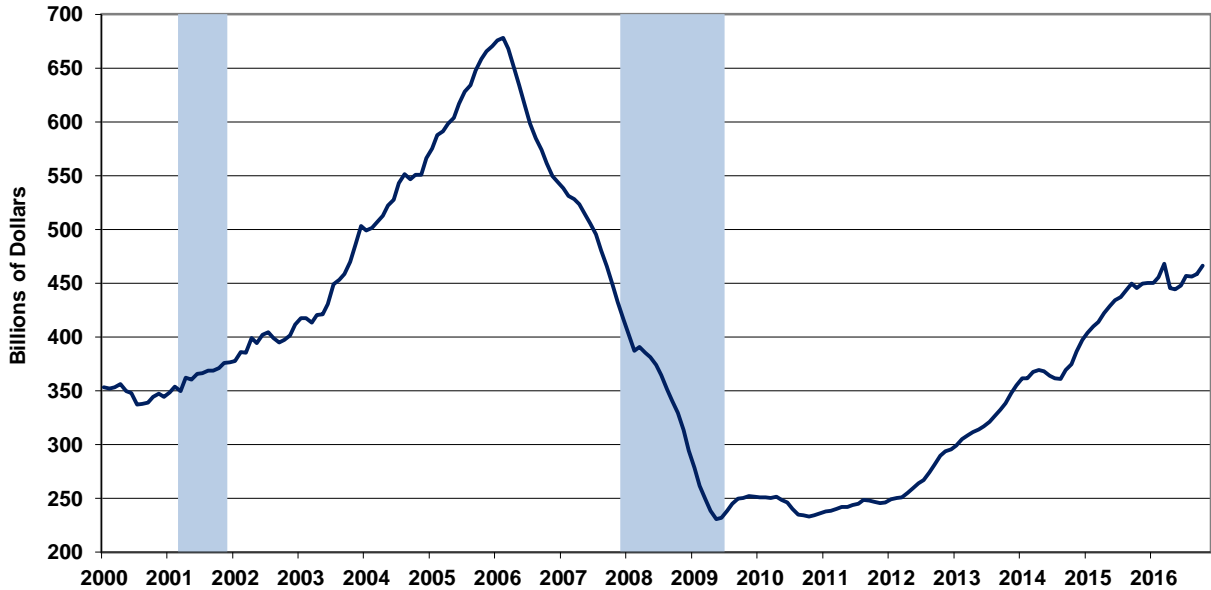
Graph 29: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



The next two graphs (*Graphs 30 and 31*) cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for October 2016 (see [Commentary No. 849](#)).

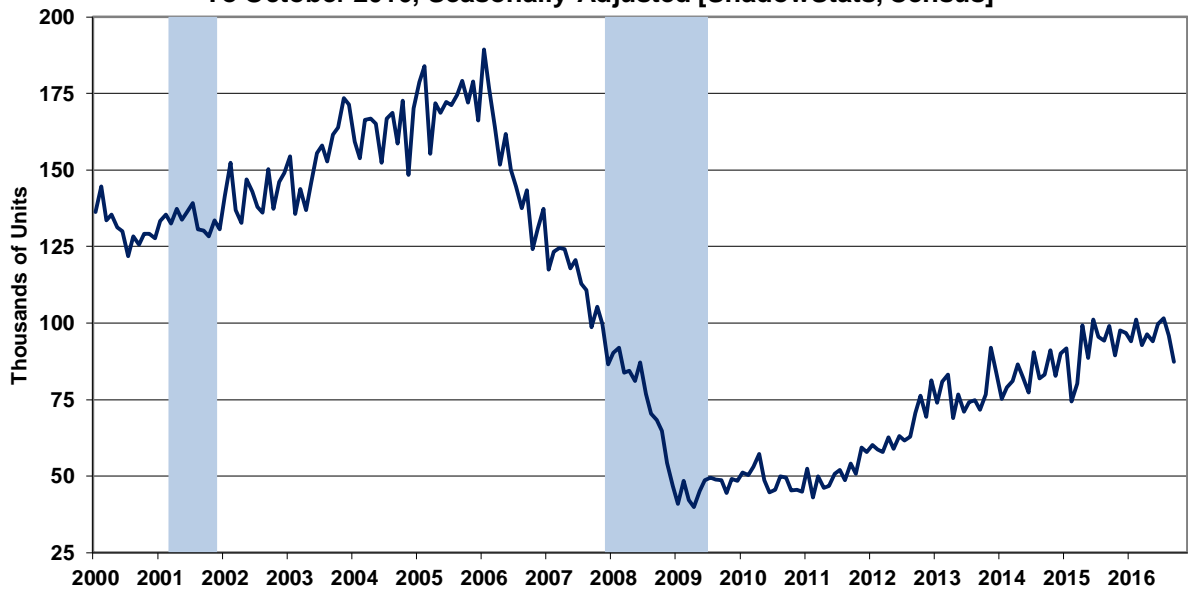
Graph 30: Nominal Private Residential Construction Spending to Date

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



Graph 31: Combined Single- and Multiple-Unit Housing Starts to Date

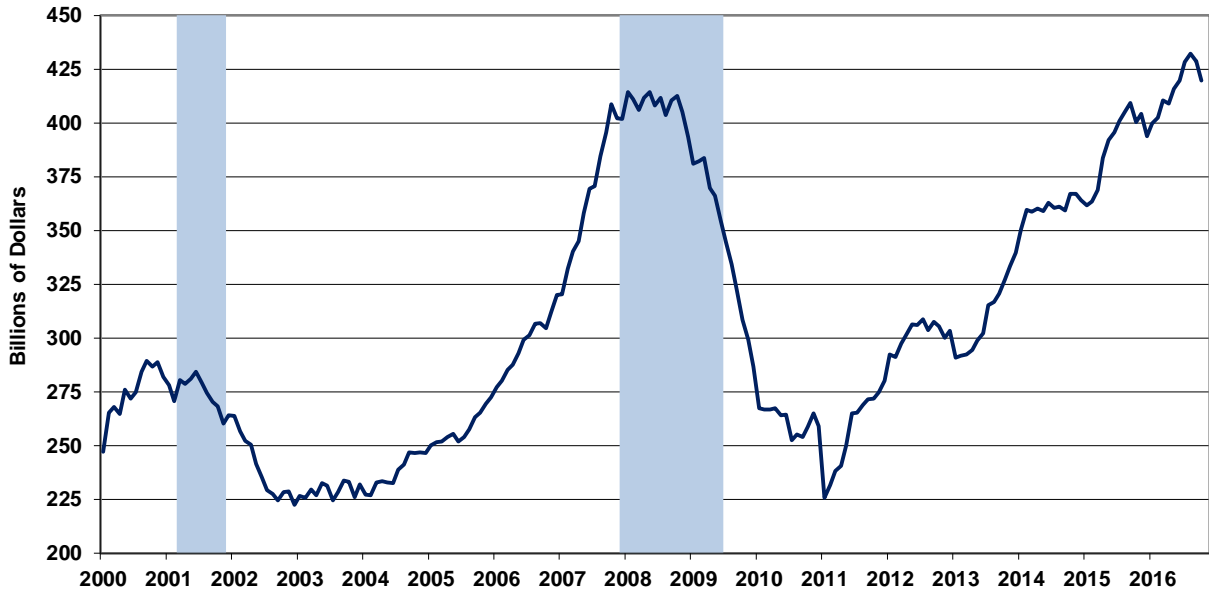
Aggregate Housing Starts (Monthly Rate)
 Single- and Multiple-Unit Starts
 To October 2016, Seasonally-Adjusted [ShadowStats, Census]



Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 10* of the *Opening Comments* section, *Graph 29* and presumably with the headline construction-payroll data in *Graph 27*.

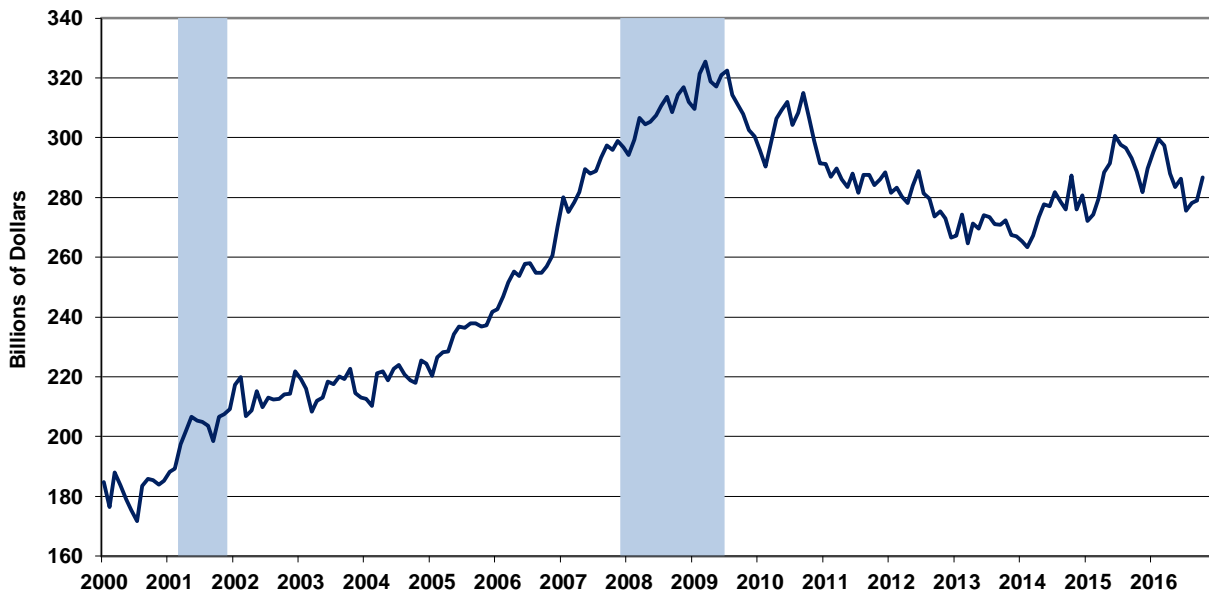
Graph 32: Nominal Private Nonresidential Construction Spending to Date

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



Graph 33: Nominal Public Construction Spending to Date

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



The final two graphs (*Graphs 32 and 33*) 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 has turned lower in September and October headline 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 higher in its latest reporting, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 11, 12 and 29*, indeed, both series appear stalled shy of their pre-recession peaks.

WEEK, MONTH AND YEAR AHEAD

New Fiscal Stimulus Looms, but Trump Administration Needs to Develop a Credible, Long-Range U.S. Solvency Plan to Forestall a Dollar Disaster. Discussed in [Commentary No. 851](#), a looming U.S. dollar crisis already is in play for the Trump Administration, from the outgoing Administration and a befuddled Federal Reserve. Despite expectations for better business conditions under a Trump Administration, market expectations for near-term (not long-term) business activity should continue to falter, amidst what should be ongoing and intensifying, negative headline economic reporting that continue to play out for the next twelve months or so.

New fiscal stimulus under consideration by the incoming Administration will have at least a nine-month lead-time before its impact will surface in headline economic activity, most likely not before early-2018. Accordingly, the new Administration could face deteriorating funding needs for its own Treasury. In the near-term, the federal deficit should swell, reflecting revenue flows already impaired by the current economic downturn, as well as taking an initial hit from any new federal spending and or new tax relief, before hoped-for increased tax revenues begin to flow from a strengthened economy (see [Commentary No. 846](#)).

Irrespective of mounting talk of a December FOMC rate hike, the still-ongoing and deepening domestic economic downturn promises continuing and intensified stress on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an intensified quantitative easing, irrespective of any near-term rate hike.

These circumstances reflect unusual crosscurrents in the markets, which, when combined with an impotent Fed and a re-intensifying banking and fiscal crises, foreshadow U.S. dollar and systemic crises in 2017. Separately, and most dangerously, the Trump Administration will have a difficult time working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-system illiquidity issues. See the *Opening Comments* of [No. 851](#) and the *Hyperinflation Watch* in of [Commentary No. 849](#).

[No. 851](#) also covered the second revision to third-quarter 2016 GDP, along with updated consumer liquidity conditions. [Commentary No. 850](#) reviewed October new orders for durable goods and new- and existing-home sales, where the latest details showed continuing non-recovery in all the covered series. Unfolding annual and quarterly contractions in new orders signaled negative pressures for first-quarter 2017 industrial production. Separately, downside revisions to shipments and orders suggested that surging auto sales, which have been boosting headline GDP and retail sales reporting, might not have been as strong as advertised.

[Commentary No. 848](#) covered October industrial production and the PPI, where industrial production confirmed ongoing recession, and the PPI showed energy-related inflation turning positive year-to-year, for the first time since the 2014 collapse in oil prices. [Commentary No. 847](#) reviewed the highly-suspect headline surge in nominal October retail sales.

Covered in [Commentary No. 845](#), October employment and unemployment and September construction spending did not offer a brightening economic outlook. The sharp narrowing in the September and third-quarter 2016 trade deficit generally reflected nonrecurring elements of highly-suspect quality.

Reviewed in [Commentary No. 844](#) was the above-consensus “advance” estimate of third-quarter 2016 GDP.

[Commentary No. 843](#) offered a *Special Comment* on background economic circumstances and the then pending 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 started to rebound, along with higher gasoline prices, yet the economy continued 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.

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.

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 otherwise have been reviewed regularly 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](#).

Post-election market activity has seen positive boosts to the equity markets and the U.S. dollar, with sharply negative impact on prices of precious metals. Again, severe market concerns as to the Federal Reserve's quagmire should resurface fairly quickly, where 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 pre-election, 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.

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 this month, or otherwise 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 eventually to return to some form of expanded quantitative easing.

Temporary jawboning aside, market reactions into 2017 increasingly should reflect a renewed sense of Federal Reserve impotence, with bleak longer-term implications for the U.S. dollar. 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, beginning with fourth-quarter 2016 and for at least the next several quarters of GDP (and GDI and GNP). Although such was far from being in place with the headline, second-estimate of third-quarter 2016, quarterly economic contractions remain fair bets in fourth-quarter 2016 and first-quarter 2017.

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 and October CPIs were spiked by gasoline prices and positive seasonal adjustments. 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 updated on October 24th: [Crudele](#). In Mr. Crudele’s latest investigation, he has focused on retail sales reporting, as discussed in the *Opening Comments: John Crudele on Retail Sales*.

PENDING RELEASE:

U.S. Trade Deficit (October 2016). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the monthly U.S. trade balance for October 2016 on Tuesday, December 6th, which will be covered in *Commentary No. 853* of that date. The full version of the October 2016 deficit will revise the generally worthless November 25th “advance” estimate in merchandise trade, which did show, however, a significant widening of the deficit month-to-month, reversing gimmicks of recent, prior months. In the event that the October trade shortfall does widen meaningfully, and such is well overdue, the headline October and related fourth-quarter 2016 trade detail will be assessed in terms of an initial sharp widening in the net-export account deficit and subtraction

from prospective fourth-quarter GDP growth. Irrespective of the games being played with the GDP data, the trade deficit generally should continue to widen in successive periods.

PENDING SHADOWSTATS UPDATES: Comprehensive *Special Report* and ShadowStats Website. ShadowStats will update fully, into one, massive background piece—a comprehensive *Special Report (Commentary)*—encompassing the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). Where publication scheduled for November 30th was pushed back, given problems with a lingering seasonal malady that now has started to improve, mid-December is the likely new publication date. Watch this section for details.

The *Special Commentary* will include the latest outlook and will incorporate fully revised materials from 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](#). 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. Subsequently, various background articles available at the www.ShadowStats.com site also will be updated, staggered through year-end.

The *Special Commentary* also will include 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.