COMMENTARY NUMBER 860
December Labor Conditions, November Trade Deficit and Construction Spending

January 10, 2017

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November Trade Deficit Widened Sharply, Setting the Stage for the
Worst Quarterly Real Merchandise Trade Deficit Since 2007, and
Taking a Large Chunk Out of Fourth-Quarter 2016 GDP Growth

Nonsense Employment Detail:
Payrolls Rose 156,000 in December, Gained 703,000 in Last Four Months, but
Full-Time Employment Rose 35,000 in December, Flat (-8,000) in Last Four Months

Annual Growth Rates in December Payroll and Full-Time Employment
Fell Sharply, to Multi-Year Lows; Nonfarm Payrolls at
Weakest Growth Since Exiting the Recession

Household Survey Revisions Were Minimal for Widely Followed Details, yet
January Unemployment Data Face a Series Break, while the
Payroll Survey Faces Net Downside Benchmark Revisions Next Month

December 2016 Unemployment Rates Mixed: U.3 Rose to 4.7% from 4.6%,
U.6 Eased to 9.2% from 9.3%, ShadowStats-Alternate Rate Eased to 22.7% from 22.8%

Despite a Monthly Nominal Gain and Downside Prior-Period Revisions,
Real Construction Spending Remained Down by 22% (-22%) from
Recovering Its Pre-Recession High

December M3 Annual Growth Notched Higher to 3.9% Versus an
Upwardly Revised 3.8% in November; Still Down from 4.5% in June

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PLEASE NOTE: The next regular Commentary*, scheduled for Friday, January 13th, will cover December 2016 nominal Retail Sales and the Producer Price Index (PPI).*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Latest Numbers Showed Deteriorating Trade, Non-Recovered Real-Construction Spending and Increasingly-Troubled Labor Activity. U.S. economic activity has continued to falter. Covered here, a further, sharp deterioration seen with the November monthly trade deficit suggested a serious, quarterly widening in the real merchandise trade shortfall, with a resulting, significant hit to the upcoming, first estimate of fourth-quarter 2016 GDP growth.

Separately, November real construction spending continued in stagnation, reflecting no recovery. That remained consistent with faltering construction employment and related, impaired measures of residential sales and construction activity.

On the employment and unemployment fronts, underlying reality for December labor conditions remained in the realm of a 22.7% broad unemployment rate, with the actual monthly payroll-employment change likely in month-to-month contraction. Such was despite a relatively happier headline unemployment rate of 4.7%, up a notch from November, and rapidly deteriorating employment conditions, with headline jobs growth weakening to a still-positive 156,000 in December. Somewhat weaker than November's detail, the December data nonetheless remained well removed from more-negatively-perceived, underlying economic reality and common experience.

Consider that headline payroll employment, which counts each part-time job as an employment unit, has surged in the last four months. At the same time, though, the full-time employment count (only individuals are counted) has not grown at all; it actually has contracted a bit.

Headline December reporting for series such as retail sales and industrial production are likely to disappoint market expectations, sharply, in the next week or two. Consensus expectations accordingly should begin shifting away from further Fed tightening, with some roiling of the currency and other financial markets an increasingly good bet. See the discussion in *No. 859 Special Commentary*.

Today's *Commentary* (January 9th). These *Opening Comments and Executive Summary* cover summary detail of the recent reporting of December 2016 employment and unemployment, including revisions to the household (unemployment) survey, and the November 2016 trade deficit and construction spending. As usual, expanded full coverage of these series and significant additional graphs of the employment and construction series are found in the *Reporting Detail* section.

The *Hyperinflation Watch* updates monetary conditions, with the headline estimate of year-to-year growth in the December 2016 ShadowStats Ongoing M3 Estimate.

The *Week, Month and Year Ahead* previews Friday's reporting of December nominal retail sales and the Producer Price Index (PPI).

Executive Summary: Employment and Unemployment—December 2016—Seriously-Negative Signals on the Jobs/Employment Front. In the context of continued massive upside bias factors added by the Bureau of Labor Statistics (BLS), unstable seasonal adjustments, and mixed revisions to October and November, the seasonally-adjusted, headline payroll gain for December 2016 was 156,000. That followed an upwardly-revised 204,000 jobs gain in November, following a further downside revision to a monthly gain of 135,000 in October. Where the October jobs gain did not reflect seasonal adjustments that were calculated based on the December detail, the headline gain in October versus September was 137,000 if based on the new December seasonals (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*). Net of prior-period revisions, December 2016 payrolls rose by 175,000, instead of the headline 156,000.

Troubled Monthly Activity. Consider a comparison between the levels of activity in and annual growth for headline payroll numbers (employment units count each part-time job) from the Establishment or Payroll Survey, and those same measures for full-time employment out of the Household Survey. Detailed in the regular monthly BLS press release covering employment/unemployment BLS (second page of the *Technical Note*, subheading *Differences in Employment Estimates*):
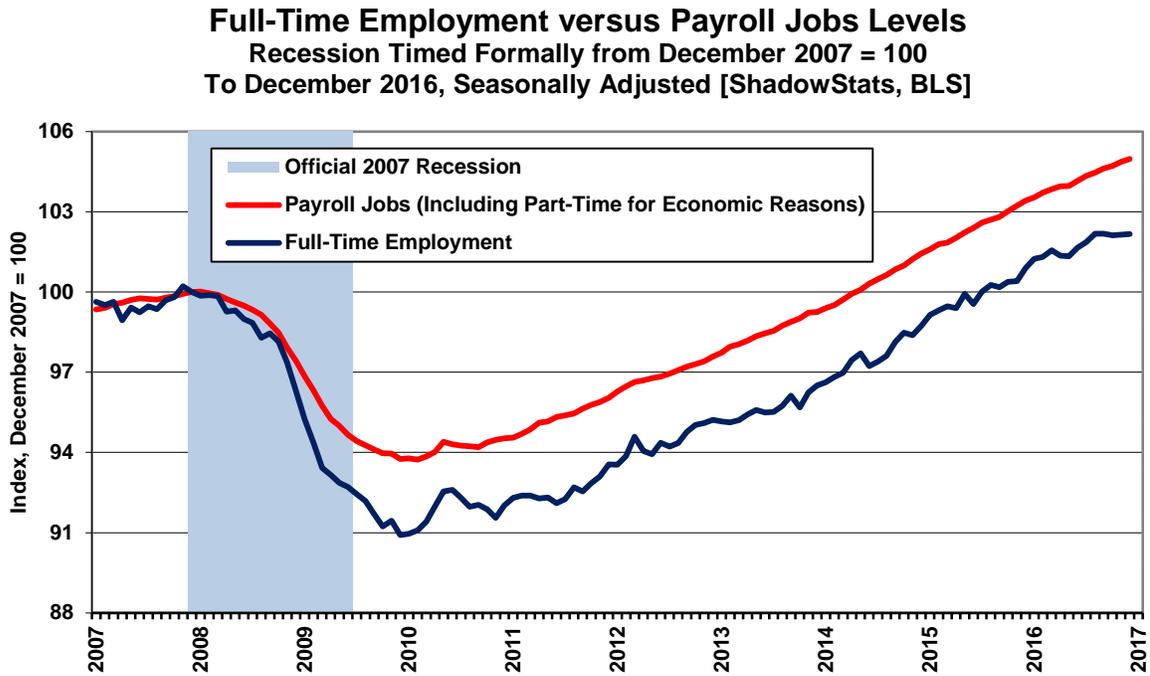
> The household survey has no duplication of individuals, because individuals are counted only once, even if they hold more than one job. In the establishment survey, employees working at more than one job and thus appearing on more than one payroll are counted separately for each appearance.

The household survey counts only the number of individuals that have at least one job. In this particular comparison, the series are payroll employment versus full-time employment. In terms of employment, consider the two series indexed to 100 at the onset of the recession. As full-time jobs were lost, there was an increasing shift to part-time employment, as discussed in the *Reporting Detail*. What is startling here, at present, is that December 2017 payrolls rose by 156,000, having gained 703,000 jobs in the last four months, Yet, as reflected in *Graph 1*, full-time employment rose by just 35,000 in December, having been flat, actually down by 8,000 (-8000), in the last four months.
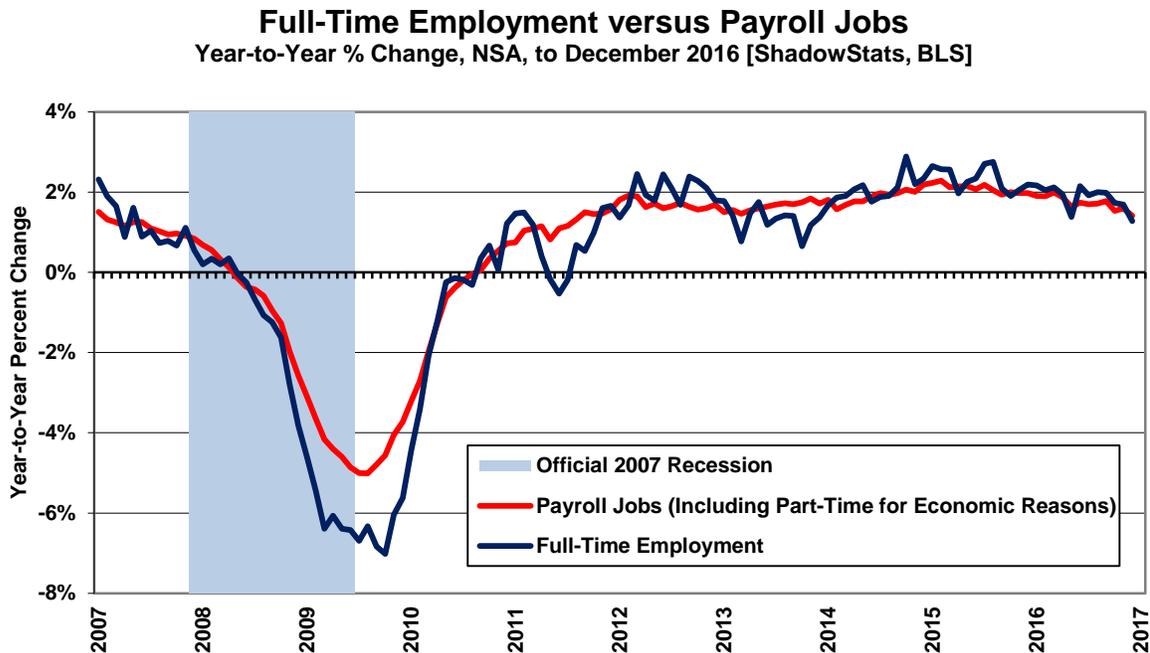
Collapsing Annual Growth. The not-seasonally-adjusted, year-to-year growth in December 2016 nonfarm payrolls of 1.41% fell sharply versus an upwardly-revised 1.59% gain in November 2016 and a downwardly-revised 1.53% in October. The annual growth in December payrolls, however, was the lowest level of growth seen in 64 months, since August 2011, when payrolls were first recovering from the economic collapse. As shown in *Graph 2*, year-to-year change in headline full-time employment also dropped sharply in December 2016, declining to a multi-year low.

These patterns are suggestive of employment circumstances just having taken a sharply-negative turn. Such would be consistent with broadly deteriorating economic activity seen in a variety of indicators outside of headline GDP reporting (see *No. 859 Special Commentary*).

Graph 1: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)

Full-Time Employment versus Payroll Jobs Levels
Recession Timed Formally from December 2007 = 100
To December 2016, Seasonally Adjusted [ShadowStats, BLS]

Legend:
- Official 2007 Recession
- Payroll Jobs (Including Part-Time for Economic Reasons)
- Full-Time Employment

Graph 2: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year

Full-Time Employment versus Payroll Jobs
Year-to-Year % Change, NSA, to December 2016 [ShadowStats, BLS]

Legend:
- Official 2007 Recession
- Payroll Jobs (Including Part-Time for Economic Reasons)
- Full-Time Employment

Household Survey: Counting All Discouraged Workers, December 2016 Unemployment Notched Lower to 22.7%. 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*).

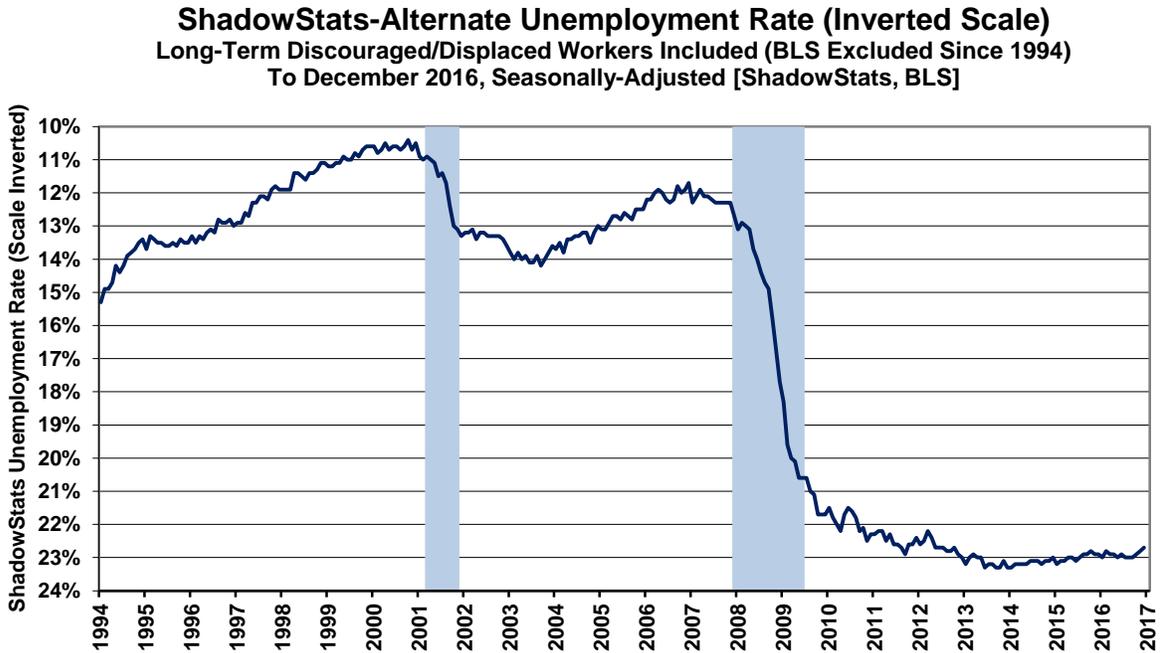**Graph 3: Comparative Unemployment Rates U.3, U.6 and ShadowStats**
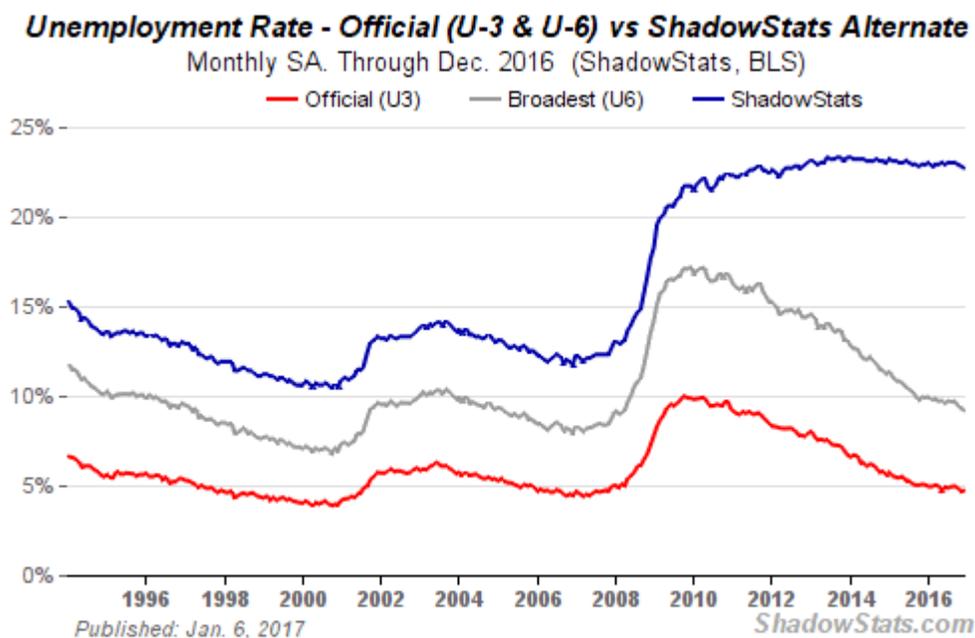
Graph 3 reflects headline December 2016 U.3 unemployment notching higher to 4.72% from a revised 4.65% (previously 4.66%) in November, and against a revised 4.85% (previously 4.88%) in October 2016; headline December 2016 U.6 unemployment eased to 9.18% from an unrevised 9.29% in November 2016 and from a revised 9.48% (previously 9.53%) in October 2016; and the headline December 2016 ShadowStats unemployment estimate notched lower to 22.7% from 22.8% in November and 22.9% in October 2016.

Graphs 4 to 6 reflect longer-term unemployment and discouraged-worker conditions. *Graph 4* 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.
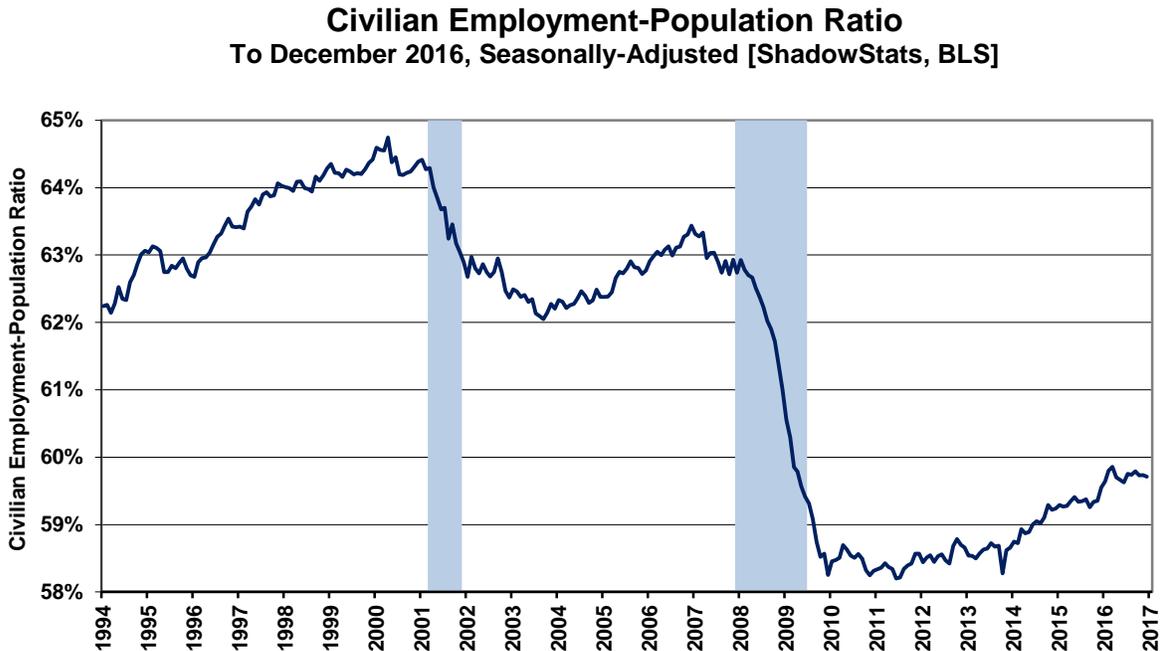
The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which revised minimally to the downside in the annual revisions, had turned slightly weaker in second-half 2016. That ratio still remains near its post-1994 record low, the historic low and

bottom since economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), shown in *Graph 5*.

Graph 4: Inverted-Scale ShadowStats Alternate Unemployment Measure

ShadowStats-Alternate Unemployment Rate (Inverted Scale)
Long-Term Discouraged/Displaced Workers Included (BLS Excluded Since 1994)
To December 2016, Seasonally-Adjusted [ShadowStats, BLS]

Graph 5: Civilian Employment-Population Ratio

Civilian Employment-Population Ratio
**To December 2016, Seasonally-Adjusted [ShadowStats, BLS]**

The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment-to-population ratio remains something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

Shown in *Graph 6,* the November 2016 participation rate (the ratio of the headline labor force to the population) held-even in December, having declined in second-half 2016. Both the Employment-to-Population Ratio and the Participation Rate appear to have suffered minimal near-term spikes and volatility from population redefinition in January 2016, but fell off again in the second half.

The Participation-Rate—one measure that was 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). Again, it has moved lower in both in second-half 2016, holding flat in December. The labor force used in the Participation-Rate calculation is the headline employment plus U.3 unemployment. As with *Graph 5* 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 depress the headline (U.3) labor force, and the plotted ratios.

Graph 6: Participation Rate

Participation Rate [Labor Force as a Percent of Population]
To December 2016, Seasonally-Adjusted [ShadowStats, BLS]
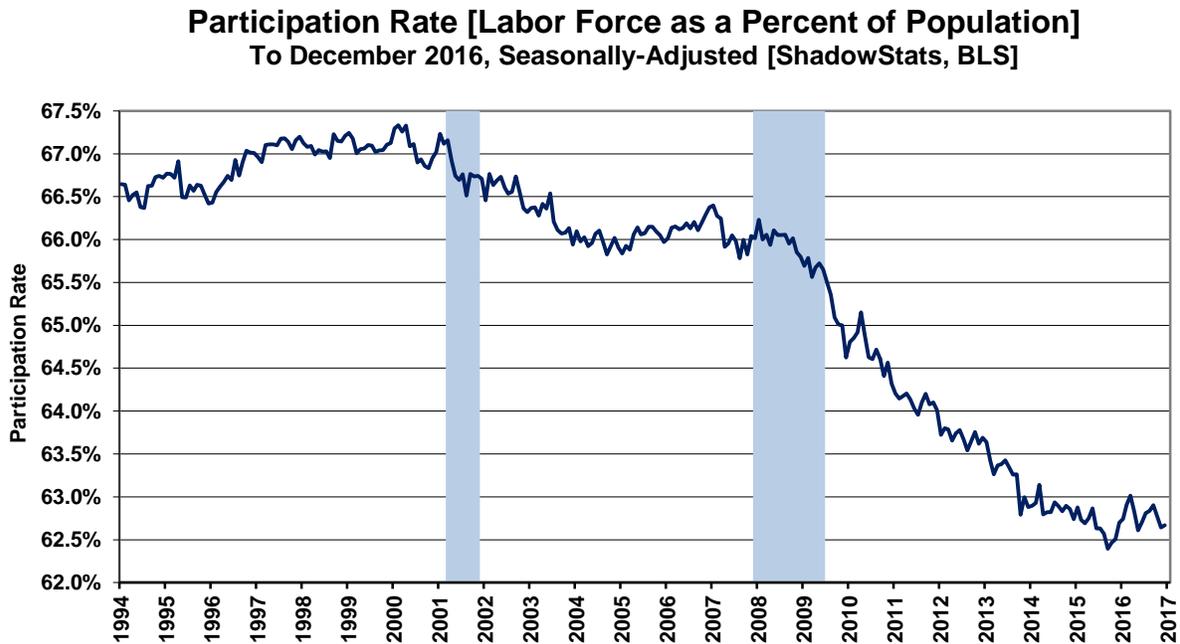
Graphs 3 through *6* reflect labor data available in consistent detail only back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with the December 2016 Household-Survey reporting simply are not available, irrespective of any protestations to the contrary by the BLS.

The Economy Remains Far From Full-Employment. Discussed in the *Fedspeak* portion of the *FED* section of *No. 859 Special Commentary*, 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. The December 2016 headline unemployment rate of 4.7%, 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 4.7%. 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 revised, preceding decline in headline U.3 from 4.8% in October, to 4.6% in November 2016.

Other Economic Series Do Not Show a Growing, Recovering Economy. Regularly plotted here are various graphs that mirror the patterns of *Graphs 4* to *6*, which do not confirm the purported headline economic recovery. The other graphs, range from the CASS Freight Index to Real S&P 500 Revenues adjusted for share buybacks.   Where this month's *Employment and Unemployment* comparative graphs were shown along with other such charts of *No. 859 Special Commentary*, they are not repeated here, for purposes of brevity and non-repetition, but they shall return next month.

Headline Unemployment Rates. The headline December 2016 unemployment rate (U.3) rose to 4.72%, versus revised 4.65% in November. On an unadjusted basis, the unemployment rates are not revised and always are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate increased to 4.51% in December 2016, versus 4.43% in November.

Unemployment rate U.6 is the broadest unemployment rate published by the BLS. It 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 increase in the seasonally-adjusted U.3 unemployment rate, a decline in the count of marginally-attached workers and a decline of 61,000 (-61,000) in the adjusted number of people working part-time for economic reasons combined to generate a headline December 2016 U.6 unemployment rate

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[1] Consider with a December 2016 population of 254.742 million, that the implied labor force at the full-employment participation rate of 66.0% would be 0.66 x 254.742 = 168.130. That labor force less current headline employed, 168.130 – 152.111 = 16.019 million implied unemployed/ labor force of 168.130 = 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.

was 9.18%, versus an unrevised 9.29% in November. The unadjusted U.6 unemployment rate rose to 9.06% in December 2016, from 8.99% in November.

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 December 2016 eased to 22.7%, from 22.8% in November.

Trade Deficit—November 2016—Continued Deterioration in Trade Shortfall Indicates Significant Risk to GDP. Accompanying *Graph 7* shows the trend of the quarterly impact of the sharp deterioration in the headline November 2016 inflation-adjusted, real merchandise trade deficit. That circumstance has put the fourth-quarter 2016 deficit on a solid track to be the worst in nine years, since third-quarter 2007, with implications for a significant negative impact on headline fourth-quarter 2016 real GDP activity.

Graph 7: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit through (November) 4q2016
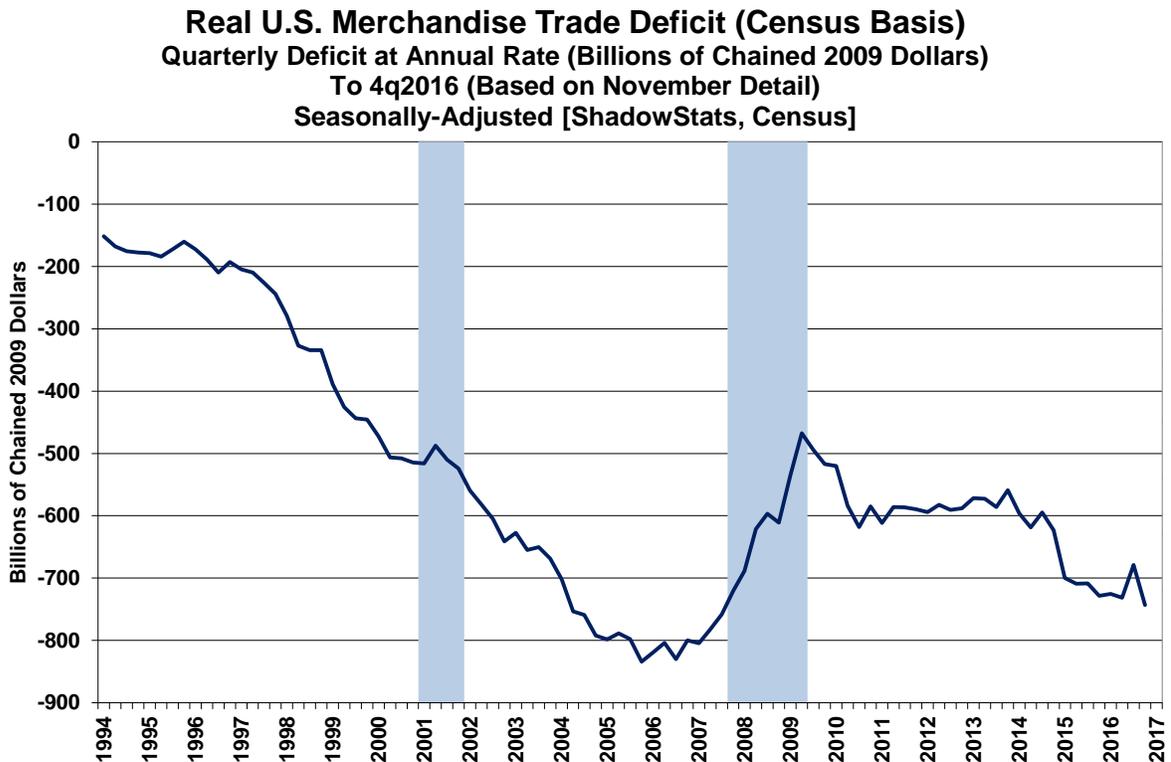
The nominal, seasonally-adjusted monthly trade deficit in goods and services for November 2016, widened sharply on a balance-of-payments basis. Such was in the context of a narrowing, in revision, of the previously-reported level of the October 2016 monthly deficit, which still had deteriorated markedly versus September 2016.

The headline November 2016 deficit of $45.240 billion widened by $2.880 billion versus a revised October 2016 deficit of $42.360 billion. That $2.880 deterioration in the headline monthly deficit reflected a drop of $0.448 billion in monthly exports, exacerbated by a $2.431 billion jump in imports. The headline November 2016 deficit also widened versus the unrevised, year-ago $41.122 billion trade shortfall of November 2015. Full details follow in the *Reporting Detail*.

Construction Spending—November 2016—Despite Monthly Surge, Bloated by Inflation and Revisions, Real Spending Held in Low-Level Stagnation, 22.4% (-22.4%) Shy of Recovery. Where this series remains highly volatile—subject to large monthly revisions—nominal November 2016 spending rose by 0.9% in the month, in the context of downside revisions to October and September details, and rising inflation. The stronger nominal activity was across all major sub-categories of construction spending.

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 November 2016. In the context of downside revisions to October and September spending, the headline, total value of construction put in place in the United States for November 2016 was $1,182.1 billion on a seasonally-adjusted, but not-inflation-adjusted, annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.9%, versus a downwardly revised $1,171.4 billion in October 2016. Net of prior-period revisions, November activity gained month-to-month by what would have been a statistically-insignificant 0.8% versus the initial headline October detail.
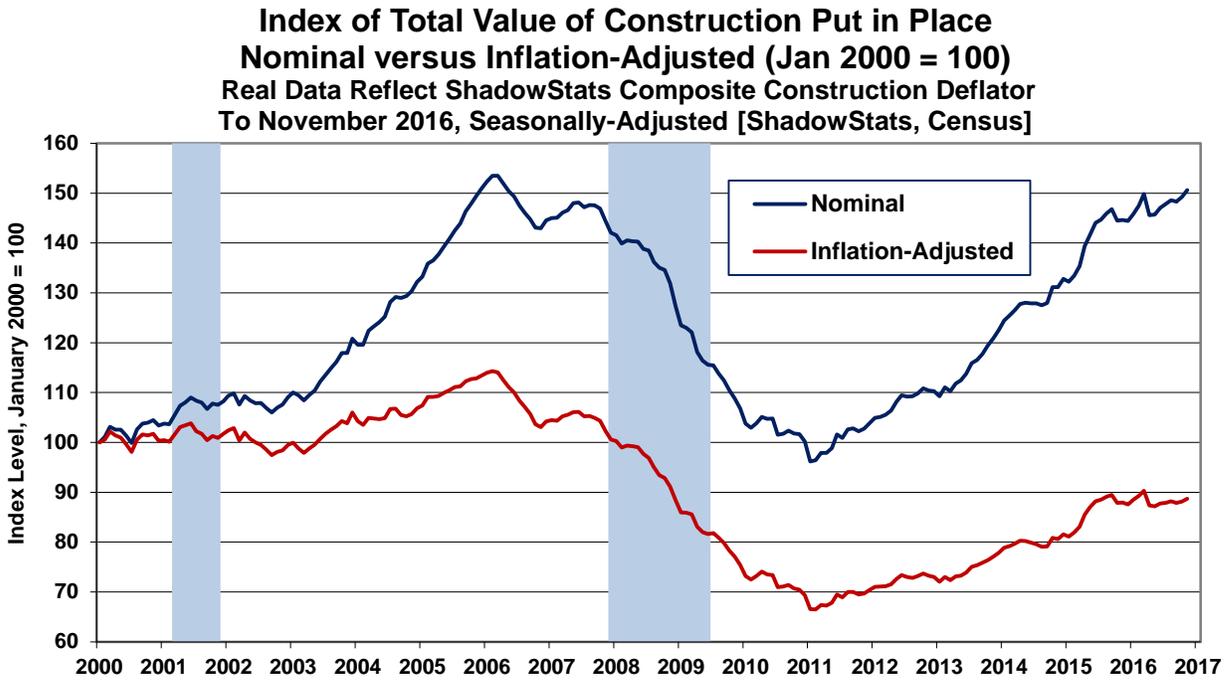
Adjusted for CCD inflation, total real month-to-month spending in November 2016 rose by 0.7%, versus a revised gain of 0.3% October 2016, and a revised decline of 0.4% (-0.4%) in September 2016.

On a year-to-year annual-growth basis, November 2016 nominal construction spending rose by a statistically-significant 4.1%, following a revised October annual gain of 3.3%, and a revised September 2016 annual gain of 1.1%. Net of construction costs indicated by the CCD, the year-to-year change in total real construction rose to 0.9% in November 2016, versus a revised gain of 0.3% in October 2016 and a revised annual decline of 1.8% (-1.8%) in September 2016.
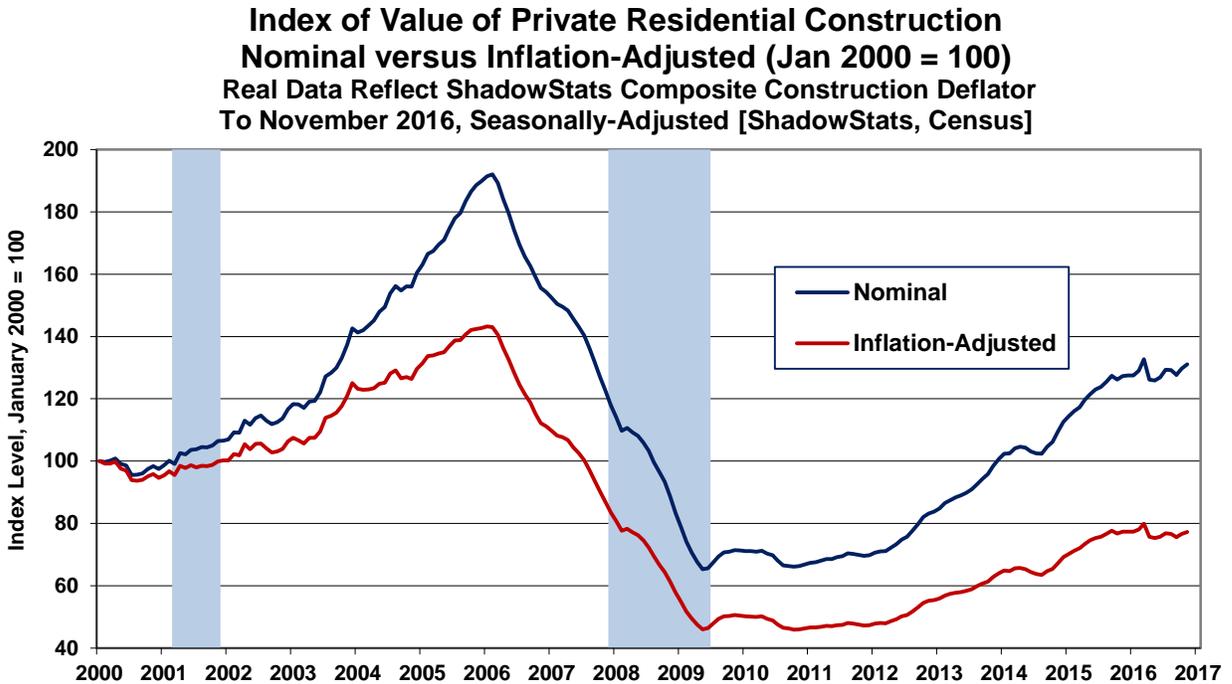
See the *Reporting Detail* for the full analysis.

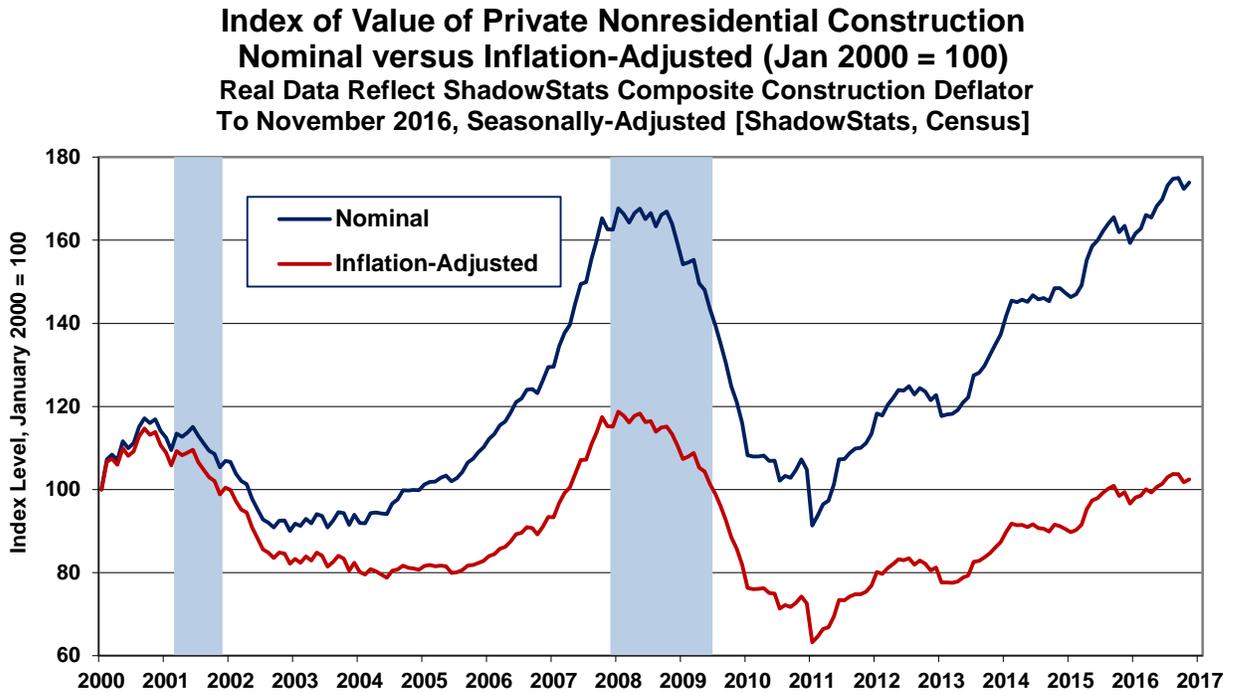[Graphs 8 to 11 begin on the next page.]

Graph 8: Index, Nominal versus Real Value of Total Construction

**Index of Total Value of Construction Put in Place
Nominal versus Inflation-Adjusted (Jan 2000 = 100)**
**Real Data Reflect ShadowStats Composite Construction Deflator
To November 2016, Seasonally-Adjusted [ShadowStats, Census]**

Graph 9: Index, Nominal versus Real Value of Private Residential Construction

**Index of Value of Private Residential Construction
Nominal versus Inflation-Adjusted (Jan 2000 = 100)**
**Real Data Reflect ShadowStats Composite Construction Deflator
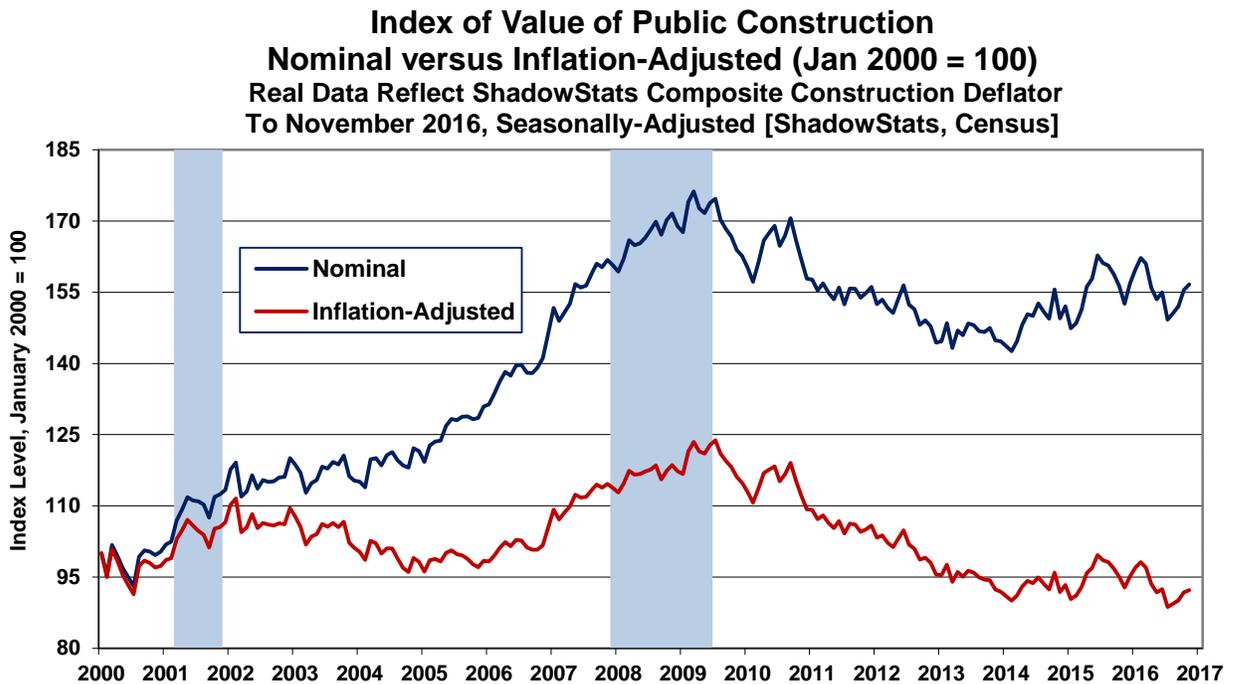To November 2016, Seasonally-Adjusted [ShadowStats, Census]**

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

Index of Value of Private Nonresidential Construction
Nominal versus Inflation-Adjusted (Jan 2000 = 100)
Real Data Reflect ShadowStats Composite Construction Deflator
To November 2016, Seasonally-Adjusted [ShadowStats, Census]

Graph 11: Index, Nominal versus Real Value of Public Construction

Index of Value of Public Construction
Nominal versus Inflation-Adjusted (Jan 2000 = 100)
Real Data Reflect ShadowStats Composite Construction Deflator
To November 2016, Seasonally-Adjusted [ShadowStats, Census]

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

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HYPERINFLATION WATCH

MONETARY CONDITIONS

December M3 Annual Growth Notched Higher to 3.9%, with M1 and M2 Annual Growth Rates Still Soaring; Month-to-Month Growth is Slowing. Based on three-plus weeks of reporting, the estimate of December 2016 annual growth for the ShadowStats Ongoing M3 Money Supply notched higher to 3.9%, versus an upwardly-revised 3.8% (previously 3.7%) gain in November 2016 and an unrevised 3.6% gain in October 2016. That October annual growth was at a 34-month low, having plunged versus an unrevised 4.1% annual growth rate in September 2016.

Annual growth in December 2016 M2 softened minimally versus November and October, but otherwise it remained at a multi-year high, reflecting intensified flight from the large time deposits and institutional money funds in M3, into accounts in the subsidiary M2 an M1 series (M2 includes M1; M3 includes M2).

December 2016 M2 annual growth eased to 7.6% from an upwardly revised 7.8% in November 2016, and an unrevised in October 2016, which held at a four-year high. Still also generally reflecting the relative flight to cash or near cash, the December 2016 M1 annual growth eased to 7.9%, from a downwardly revised 8.8% in November 2016 and an unrevised 10.2% in the October 2016 estimation.

Graph 12: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through December 2016
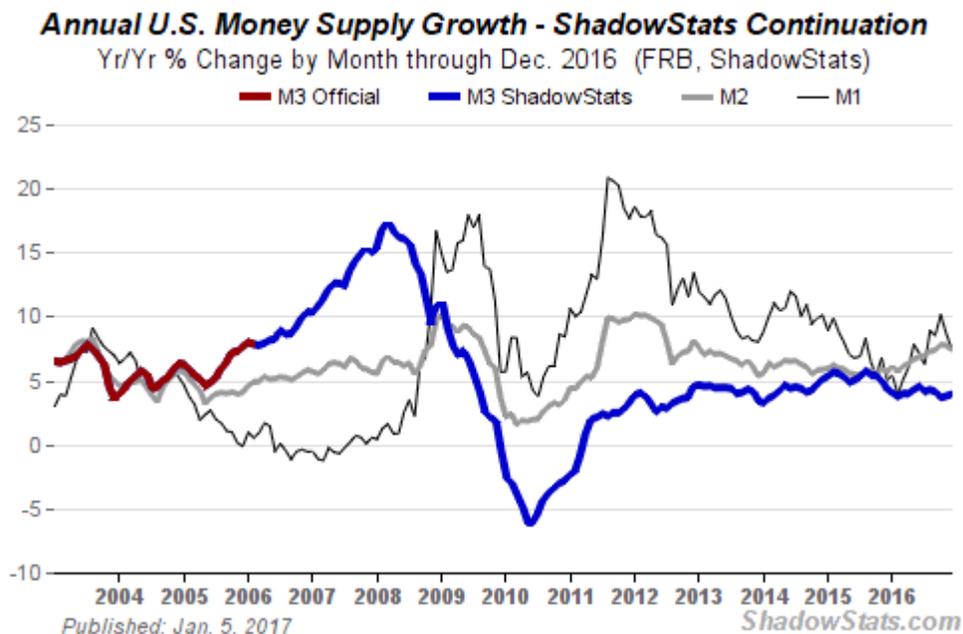
For those living in the headline money-supply world comprised of just the Fed's headline M1 and M2, money growth has been soaring, but that growth does not necessarily imply a pending inflation surge, since it reflects a flow of funds down from the more-inclusive M3 category, not due to any apparent Fed effort to boost the basic 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.

Despite the strong M1 and M2 annual growth rate, though, headline month-to-month growth rates slowed sharply for December 2016. Month-to-Month change in December 2016 for M3 slowed to 0.1% from 0.5% in November, M2 slowed to 0.2% in December from 0.6% in November, while M1 contracted month-to-month by 0.9% (-0.9%) in December, versus a monthly gain of 0.4% in November.

The latest estimates of level and annual changes for December 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 and the *FED* section of *No. 859 Special Commentary* for the latest discussion on Federal Reserve Activity.

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REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (December 2016)

As Reported by Bureau of Labor Statistics, Headline December Labor Conditions Continued to Overstate U.S. Economic Health, Massively. Reporting quality of December 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, which evolved into the current birth-death modeling and related upside biases in payroll jobs counting (all subject to a benchmark revision next month). 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 December jobs and unemployment reporting, as intended.

Not as Advertised. Underlying reality for December 2016 U.S. labor conditions remained in the realm of a 22.7% broad unemployment rate, with the actual monthly payroll-employment change likely in month-to-month contraction, despite the still, more-upbeat headline indications out of the Bureau of Labor

Statistics (BLS), and minimal changes to the widely-followed headline Household Survey data from the annual revisions to the monthly seasonal adjustments. Specifically, the BLS showed the headline December 2016 unemployment rate inching higher to 4.7%, with a headline monthly jobs gain slowing 156,000, somewhat weaker than November's detail but still well removed from underlying activity and common experience.

News Was Not Particularly Happy, but It was Temporarily Consistent on the Household-Survey Side. The increase in the headline U.3 unemployment rate to 4.7% in December, versus 4.6% in November, was not statistically significant, although the headline December reporting is the only month in the year where the monthly Household Survey data are comparable, month-to-month, as discussed in *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*. Of note in the household survey, the increase the unemployment rate did reflect some increased count of unemployed, despite a smaller increase, but not a decrease in the count of the employed.

The Gain in Payroll Employment Reflected Heavy Bloat from the Usual Upside Biases. The headline monthly payroll change, which was a gain of 156,000 in December 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. The Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for December 2016 on January 6th. In the context of continued heavily-distorted bloating, unstable seasonal adjustments, and mixed revisions to October and November, the seasonally-adjusted, headline payroll gain for December 2016 was 156,000 +/- 135,000 [a confidence interval more appropriately in the range +/- 300,000] at the 95% confidence interval (all confidence intervals used are at the 95% level). That followed an upwardly-revised 204,000 [previously 178,000] jobs gain in November, following a further downside revision to a monthly gain of 135,000 [previously 142,000, initially 161,000] jobs gain in October. Where the October jobs gain did not reflect seasonal adjustments that were calculated based on the December detail, the headline gain in October versus September was 137,000 if based on the new December seasonals (see *Headline Distortions from Shifting Concurrent-Seasonal Factors*). Net of prior-period revisions, December 2016 payrolls rose by 175,000, instead of the headline 156,000.

Collapsing Annual Growth. The not-seasonally-adjusted, year-to-year growth in December 2016 nonfarm payrolls of 1.41% fell sharply versus the upwardly-revised 1.59% [previously 1.58%] in November 2016 and a downwardly-revised 1.53% [previously 1.55%, initially 1.56%] in October 2016. Such was the lowest level of growth in 64 months, since August 2011, when payrolls were first recovering from the economic collapse.

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 Ticked Lower. Losing 3,000 (3,000) jobs in December 2016 to 6.699 million, construction payroll-employment declined against a downwardly-revised 17,000 [previously 19,000] gain in November and an unrevised 14,000 gain in October. 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 21* in the later *Construction Spending* section. The recent general pattern of flattening-out and turning lower increasingly is consistent with the low-level plateauing and weakness seen in real construction spending and other construction measures.

Headline month-to-month construction employment declined by 0.04% (-0.04%) in December 2016, following a revised 0.25% [previously 0.28%] gain in November 2016, versus an unrevised 0.21% gain in October. Year-to-year growth plunged to 1.49% in December 2016, from an upwardly-revised 2.42% (previously 2.39%) in November 2016 and down from an unrevised 2.65% in October 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 December 2016 construction jobs, other than the November 2016 near-term high, was the highest seen since December 2008, but it remained down by 13.29% (-13.29%) from the April 2006 pre-recession series peak.
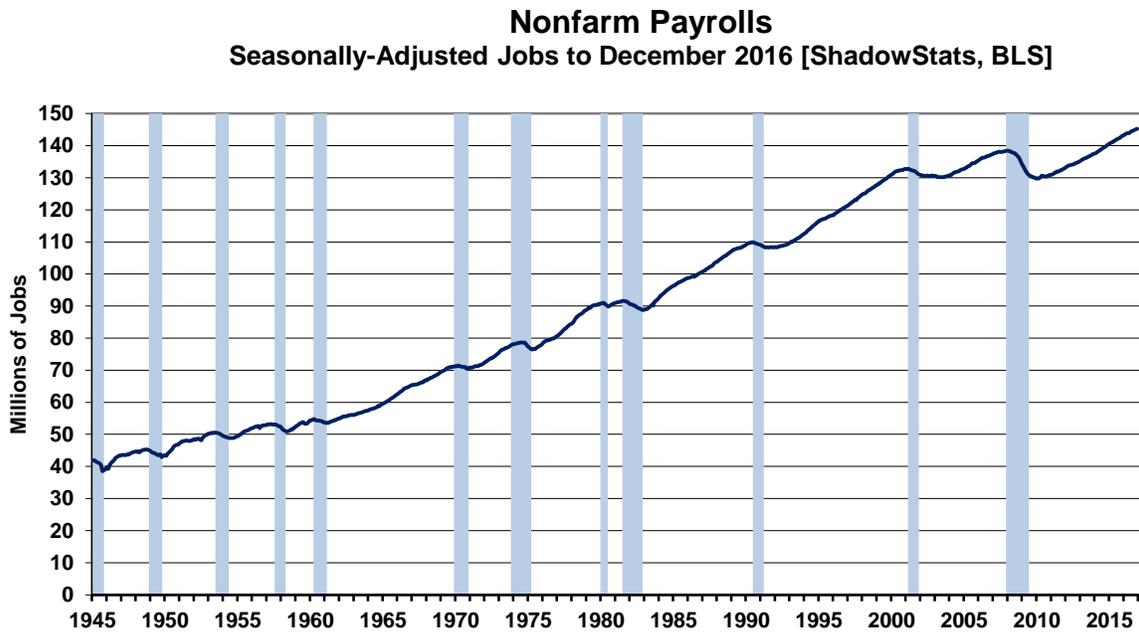
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy 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 generally has continued to rise since. Through December 2016, headline payroll employment was 6.87-million jobs above its pre-recession peak.

Graphs 13 and 14 follow on the next page]

Graph 13: Nonfarm Payroll Employment 2000 to Date

Nonfarm Payroll Employment
Seasonally-Adjusted Levels, to December 2016 [ShadowStats, BLS]
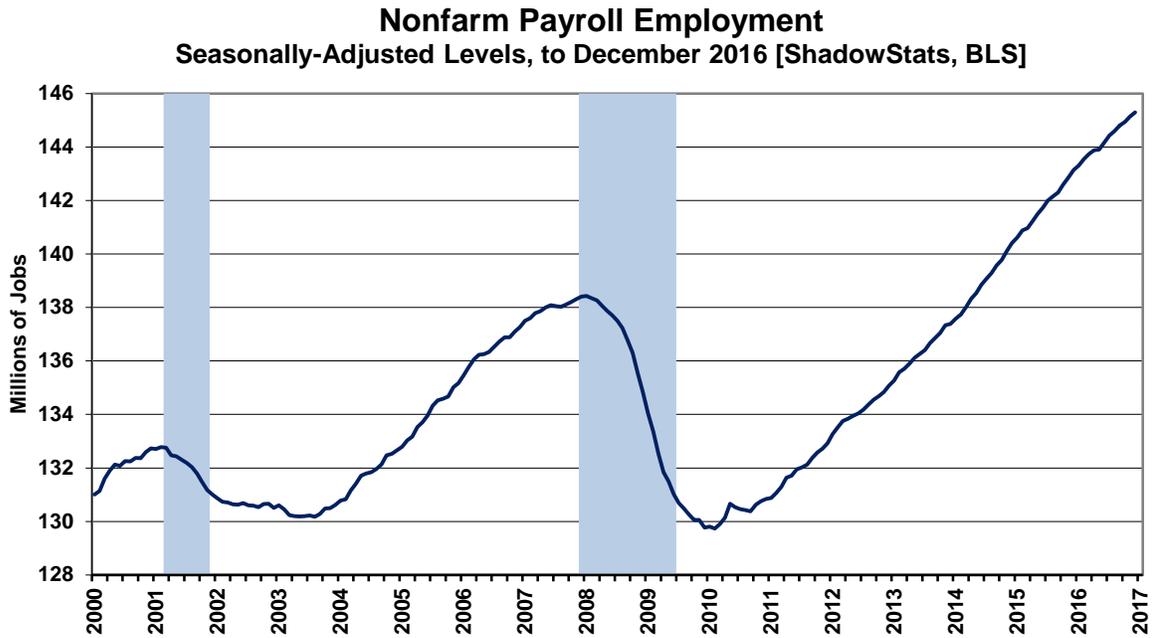
Graph 14: Nonfarm Payroll Employment 1945 to Date

Nonfarm Payrolls
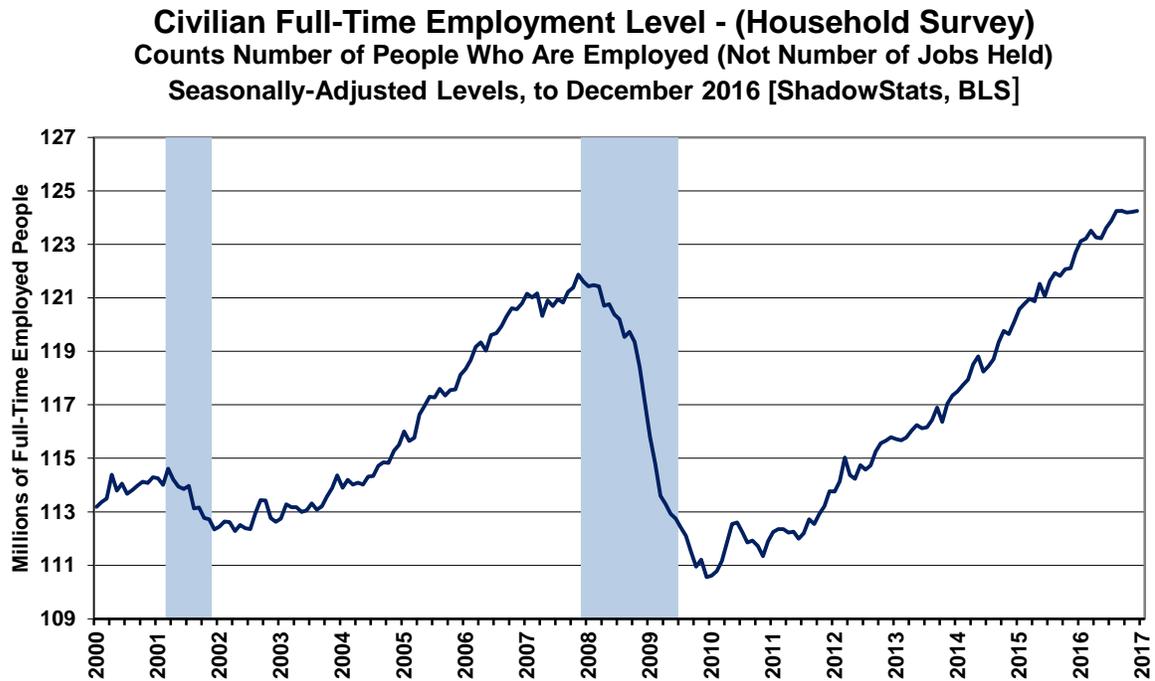**Seasonally-Adjusted Jobs to December 2016 [ShadowStats, BLS]**

Graphs 13 and *14* show the headline payroll series, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. In perspective, the longer-term graph of the headline payroll-

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

Beyond excessive upside add-factor biases built into the monthly calculations (see the *Birth-Death Model* section), the problem remains that payroll employment counts the number of jobs, not the number of people who are employed. 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.

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

Civilian Full-Time Employment Level - (Household Survey)
Counts Number of People Who Are Employed (Not Number of Jobs Held)
Seasonally-Adjusted Levels, to December 2016 [ShadowStats, BLS]

Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 15* (using a roughly-proportionate scale to *Graph 13*), the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline December 2016 full-time employment rose by just 35,000, having gained 23,000 (previously 5,000) in November, having declined by a revised 63,000 (-63,000) [previously down by 103,000 (-103,000)] in October, by 3,000, (-3000) [previously by 5,000 (-5,000) in September, and following a revised gain of 368,000 [previously 409,000] in August.

Headline detail now stands at 2.37-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, with the current numbers having been revamped with annual revisions to seasonal adjustment.

Still the 2.37-million gain compares with the headline payroll-employment level that is 6.87-million above its pre-recession high, regained some 31-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.

Particularly disturbing about the stability of current headline payroll gains versus the full-time employment gains, as noted and graphed in the *Executive Summary* (see *Graph 1* and *2*), is that where full-time employment has been flat in the last four months, payrolls have jumped by 700,000. These are difficult to reconcile, particularly where the payroll data are bloated by such significant add factors.

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 16* and *17*. 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 December 2016 plunged to a 64-month low of 1.41%, the lowest level of growth since purportedly coming out of the recession. November 2016 annual growth was a revised 1.58% [previously 1.58%], a revised 1.53% [previously 1.55%, initially 1.56%] in October 2016 and an unrevised 1.78%. See the recent discussion of "healthy" annual payroll growth in *Commentary No. 843*.
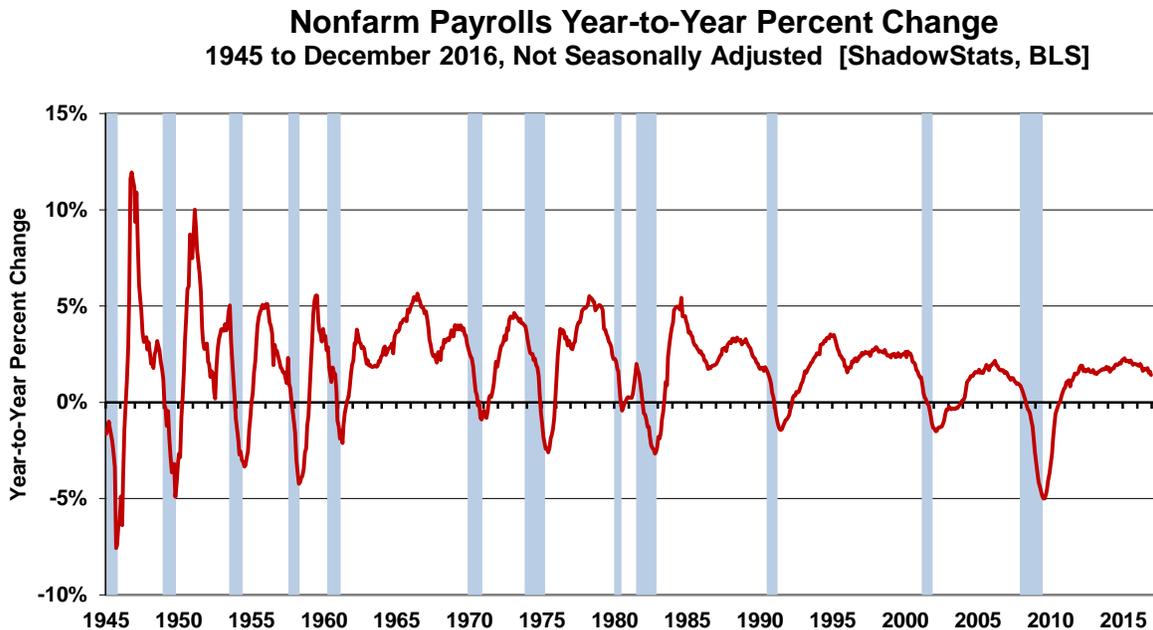
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown 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 16 and 17 follow on the next page.]

Graph 16: Payroll Employment, Year-to-Year Percent Change, 2000 to Date

Nonfarm Payrolls Year-to-Year Percent Change
2000 to December 2016, Not Seasonally Adjusted [ShadowStats, BLS]
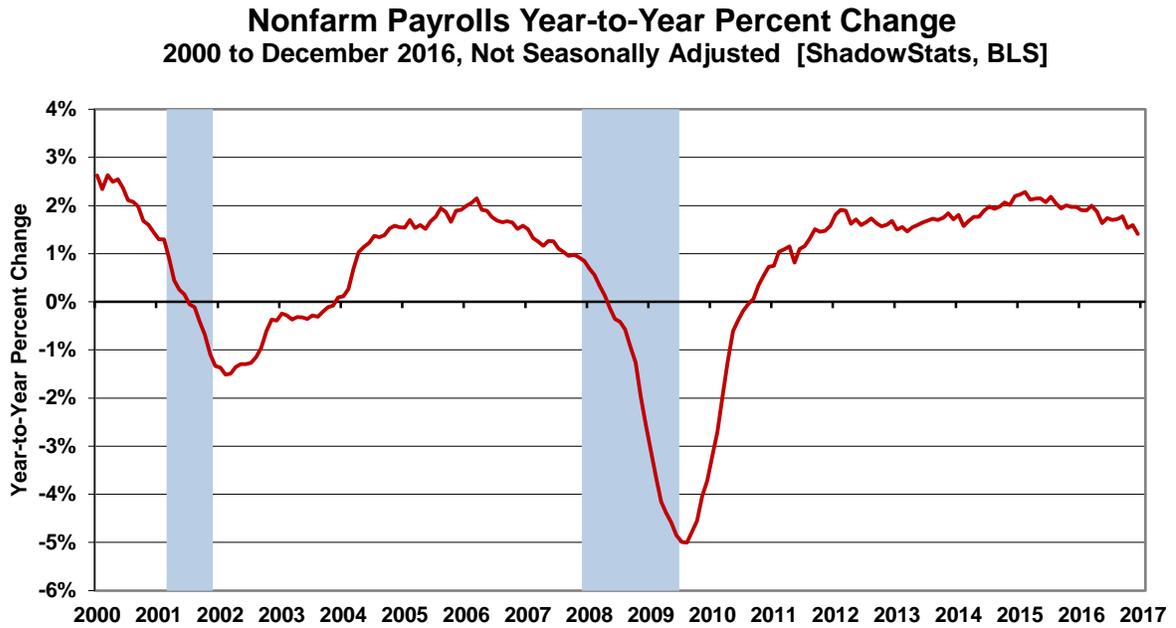
Graph 17: Payroll Employment, Year-to-Year Percent Change, 1945 to Date

Nonfarm Payrolls Year-to-Year Percent Change
1945 to December 2016, Not Seasonally Adjusted [ShadowStats, BLS]

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. The next benchmark revision will published February 3, 2017, revising payroll data through December 2016.

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 seen the current headline detail, but the numbers become inconsistent, once again, with the ensuing month's January reporting (January 2017 reporting in the case of the current December revisions). 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."
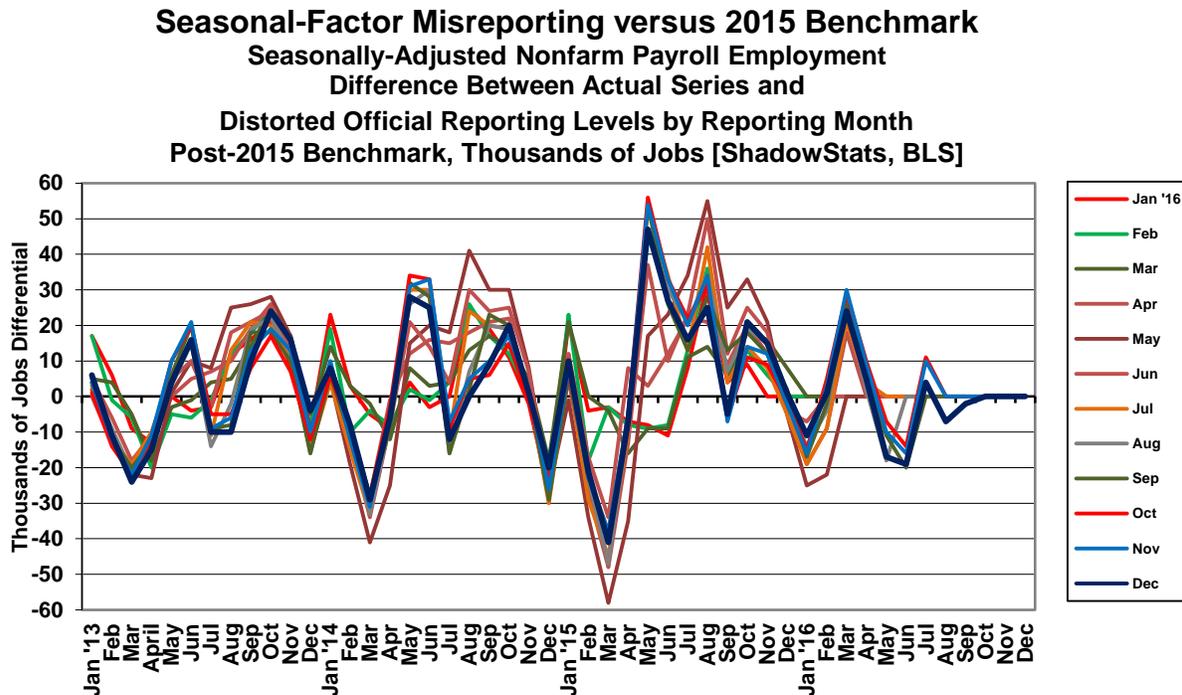
Household Survey. In the case of the published Household Survey (unemployment rate and related data), the seasonally-adjusted headline numbers usually are not comparable with the prior monthly data or any month before. Accordingly, the published headline detail as to whether the unemployment rate was 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, again, with the ensuing headline January reporting, and with each monthly estimate thereafter.

Consider *Graph 18*, 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 December 2016 payroll level was prepared on a consistent basis with the levels of November 2016 and October 2016, but not with September 2016, with the result the headline monthly gains are consistent only for December and November. With the Household Survey, except for December, however, the latest seasonally-adjusted monthly detail is not comparable with any other 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 18*).

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 18*.

Graph 18: Concurrent-Seasonal-Factor Irregularities – Current Headline Detail versus 2015 Benchmark

Seasonal-Factor Misreporting versus 2015 Benchmark
Seasonally-Adjusted Nonfarm Payroll Employment
Difference Between Actual Series and
Distorted Official Reporting Levels by Reporting Month
Post-2015 Benchmark, Thousands of Jobs [ShadowStats, BLS]

Consider in the latest headline detail that December 2016 monthly payroll changes were comparable only with the headline changes in the November 2016 numbers, not with October 2016 or any earlier months.

Per BLS headline reporting (straight from the current press release *Summary Table B*), seasonally-adjusted December 2016 payrolls rose month-to-month by 156,000 from November, while November payrolls rose by 204,000 from October, and October payrolls rose by a revised 135,000 from September. September payrolls are currently reported up by 208,000, with August up by 176,000 from July.

Again, only the December and November gains were calculated consistent with each other. Following are the official headline data, with currently-consistent headline detail of monthly gain in parentheses: October was up by 135,000 (137,000), September was up by 208,000 (213,000), August was up by 176,000 (165,000), July was up by 252,000 (275,000), etc. The consistent numbers change each month as the seasonals factors are revised anew.

The published, headline October monthly gain and all of the other prior-period monthly changes were calculated on different basis than the new December 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, as detailed at the ExpliStats link, and discussed in the *Opening Comments* of *Commentary No. 784*.

Graph 18 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 18*. As seen here, consistent data never have been published.

The difference seen between the light-blue (November 2016) and dark-blue (December 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 December 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 next month's 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.

December 2016 Add-Factor Bias. The not-seasonally-adjusted December 2016 bias was a negative 28,000 (-28,000) 1,000, following a positive add-factor of 2,000 in November 2016, but narrowed from a negative 16,000 (-16,000) add-factor in December 2015.

The revamped, aggregate upside bias for the trailing twelve months through December 2016 was 865,000, up by 74,000 or 10.8% from 781,000 in December 2015. That was a monthly average of 72,083, in December 2016 (versus 65,100 pre-2015 benchmarking) jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS in the BDM, as discussed below.

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

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

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

The presumed net additional "surplus" jobs created by start-up firms are added on to the payroll estimates each month as a special add-factor. On top of that, the monthly BDM add-factors have been increased now to an average of 72,083 jobs per month for the current year. As a result, in current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month (the underlying positive base-assumption upside bias, plus the monthly Birth-Death Model add-factor).

HOUSEHOLD SURVEY DETAIL. Discussed in the *Opening Comments* and below, the continued headline details in the counts of the employed and unemployed, from the seasonally-adjusted, month-to-month Household-Survey detail, usually are nonsense, particularly egregious examples of the BLS misreporting practices, in its use of concurrent seasonal factors (detailed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors*). Only in the month of December, the current circumstance, are most of the headline Household Survey details historically consistent. Come January 2017 headline detail, all the headline monthly inconsistencies return, plus the regular annual break in January detail, based on the introduction of new population controls. As a result, January versus December details never are fully consistent or compatible.

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 December 2016 unemployment rate (U.3) rose to 4.7%, versus 4.6% in November. At the second decimal point, the headline December 2016 U.3 was 4.72%, versus revised 4.65% (previously 4.64%) in November. Formally, the gain of 0.07% in December U.3 marginally, statistically-significant. All that usually is nonsense, given that the monthly numbers are reported on an inconsistent basis and are not even comparable with each other, except one per year in December, which is the current circumstance.

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate increased to 4.51% in December 2016, versus 4.43% in November.

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 December 2016 (never seasonally-adjusted) declined by 165,000 (-165,000) to 426,000, with total marginally-attached workers declining by 248,000 (-248,000) to 1,684,000, having gained 104,000 discouraged workers, to 591,000, in November, coincident then with a gain of 232,000 to 1,932,000 marginally-attached workers.

That 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 increase in the seasonally-adjusted U.3 unemployment rate, a decline in the count of marginally-attached workers and a decline of 61,000 (-61,000) in the adjusted number of people working part-time for economic reasons combined to generate a headline December 2016 U.6 unemployment rate was 9.18%, versus an unrevised 9.29% in November. The unadjusted U.6 unemployment rate rose to 9.06% in December 2016, from 8.99% in November.

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 22.7% in December 2016, from 22.8% in November 2016, and down from 22.9% in October 2016 and 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 (1.684 million in December 2016), those not in the labor force currently wanting a job increased to a net 3.765 million in December 2016 (a reduced total of 5.449 million), versus a net 3.322 million (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 5.662 million wanting a job in December 2016, versus a revised 5.837 (previously 5.876) million in November 2016, 5.889 (previously 5.912) million in October 2016, 6.082 (previously 6.088) million in September 2016, 5.841 (previously 5.833).

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 *Executive Summary*, 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 (see *Graphs 4* to *6*). Other measures, such as the ShadowStats-Alternate GDP Estimate, S&P 500 Real Revenues, the CASS Freight Index, U.S. Petroleum Consumption, etc. are highlighted in the *ECONOMY* section of *No. 859 Special Commentary*.

Headline December 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 December 2016 declined to 22.7% from 22.8% in November 2016. The December 2016 reading was down by 60 basis points or 0.6% (-0.6%) from the 23.3% series high last seen in December 2013.

In contrast, December 2016 headline U.3 unemployment of 4.7% was down by 530 basis points or by 5.3% (-5.3%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.2% in December 2016, was down by 800 basis points or 8.0% (-8.0%) 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 3* 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%.

TRADE DEFICIT (November 2016)

Continued Trade Deficit Explosion in November Suggested Hit to Fourth-Quarter GDP. Shown in *Graph 7* of the *Executive Summary*, the headline November 2016 real merchandise-trade deficit widened sharply, setting the fourth-quarter 2016 deficit on track to be the worst in nine years, since third-quarter 2007. The implications are for a meaningful, negative impact on headline reporting of real growth in fourth-quarter 2016 Gross Domestic Product (GDP), due for initial estimate on January 27th.

The third-quarter 2016 real merchandise trade shortfall had narrowed sharply versus second-quarter activity, due to one-time factors such as an unusual surge in soybean exports. The effect was a sharp narrowing of the net-export account deficit in third-quarter 2016 GDP, contributing 0.9% of the annualized headline 3.5% real GDP growth (third estimate as detailed *Commentary No. 857*). If the level of the November deficit were to hold in December, let alone suffer likely further monthly deterioration, the net-export account easily could subtract 1.0% (-1.0%) from headline real growth in fourth-quarter 2016 GDP, a net-negative swing in real, quarterly GDP-growth contribution of 1.9% (-1.9%).

Nominal (Not-Adjusted-for-Inflation) November 2016 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported January 6th, the nominal, seasonally-adjusted monthly trade deficit in goods and services for November 2016, on a balance-of-payments basis. Such was in the

context of a narrowing, in revision, of the previously-reported level of the October 2016 monthly deficit, which still had deteriorated markedly versus September 2016.

The headline November 2016 deficit of $45.240 billion widened by $2.880 billion versus a revised October 2016 deficit of $42.360 [previously $42.601] billion. That $2.880 deterioration in the headline monthly deficit reflected a drop of $0.448 billion in monthly exports, exacerbated by a $2.431 billion jump in imports (rounding difference]. The headline November 2016 deficit also widened versus the unrevised, year-ago $41.122 billion trade shortfall of November 2015.

The dominant factors in the net deterioration of the headline November deficit were declining exports of civilian aircraft, and some offset from increasing exports of industrial supplies, along with rising imports reflecting an increase in industrial supplies (including crude oil). Shifting activity in energy-related products had a noted impact on the monthly trade-balance.

Energy-Related Petroleum Products. From an import standpoint, declining oil prices bottomed out in February 2016, inched higher by 0.7% in March, gained 6.5% in April, 16.0% in May, 15.2% in June and 4.2% in July, but fell by 4.0% (-4.0%) in August and 0.9% (-0.9%) in September, only to bounce anew by 2.5% in October and 2.0% in November 2016. The impact of the November price gain on oil imports was supplemented by rising physical oil-import volume in the month.

The not-seasonally-adjusted average price of imported oil rose to $40.82 per barrel in November 2016, versus $40.01 in October 2016, and it was up as well from $39.19 per barrel in November 2015. Separately, not-seasonally-adjusted physical oil-import volume in November 2016 averaged 8.016 million barrels per day, up from 7.315 million in October 2016 and up from 7.094 million in November 2015.

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

Separately, the "advance" detail report for November goods trade, released on December 29th, provided a good indication of the pending headline deterioration in the full trade detail, as released on January 6th.

Real November 2016 Trade Deficit. Seasonally-adjusted, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), and in the context of a revised narrower deficit for October 2016, the November 2016 merchandise trade deficit (no services) widened to $63.582 billion, versus $60.316 [previously $60.348] billion in October and $54.154 billion in September. It also widened versus a $60.390 billion deficit in November 2015.

Again, reflected in *Graph 7* in the *Executive Summary*, the annualized quarterly real merchandise trade deficit was $623.1 billion for fourth-quarter 2014, $700.0 billion for first-quarter 2015, $709.1 billion for second-quarter 2015, $708.4 billion for third-quarter 2015, $728.6 billion for fourth-quarter 2015. For last year, the annualized deficit was $725.2 billion for first-quarter 2016, $731.3 billion for second-quarter 2016, $679.2 billion for third-quarter 2016, and a two-month trend (out of three months) indicates an

annualized quarterly real merchandise in fourth-quarter 2016 of $743.4 billion [previously estimated $724.2 billion, based solely on initial October 2016 reporting].

Headline deficits likely will continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP.

CONSTRUCTION SPENDING (November 2016)

Despite a Monthly Surge, Bloated by Inflation and Revisions, Real Construction Spending Held in Low-Level Stagnation, 22.4% (-22.4%) Shy of Recovering Its Pre-Recession Peak. Where this series remains highly volatile—subject to large monthly revisions—nominal November 2016 spending rose by 0.9% in the month, in the context of downside revisions to October and September details, and rising inflation. The stronger nominal activity was across all major sub-categories of construction spending.

Where third-quarter and initial fourth-quarter 2016 real activity show small non-annualized gains, the series broadly has been flat in its recent history. Real construction spending has remained in low-level, stagnating non-recovery, with November 2016 real activity still shy of its June 2006 pre-recession peak by 22.4% (-22.4%).

Ongoing Consumer Liquidity Issues Constrain Residential Construction Spending. Reviewed fully in the *No. 859 Special Commentary*, the extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures and related residential real-estate activity, including construction. 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 November residential construction spending—without a fundamental upturn in consumer and banking-liquidity conditions.

Construction Inflation—ShadowStats Composite Construction Deflator (CCD). ShadowStats recently introduced a Composite Construction Deflator (CCD), 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. 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 8* to *11* in the *Executive Summary*, and in the accompanying *Graphs 20* and *23* in this section, the inflation-adjusted numbers are deflated by the CCD.

Seasonally-adjusted November 2016 CCD month-to-month inflation rose by 0.22%, following gains of 0.32% in October and 0.18% in September. In terms of year-to-year inflation, the November 2016 CCD gained 3.18%, following annual gains of 2.98% in October 2016 and 2.90% in September 2016.
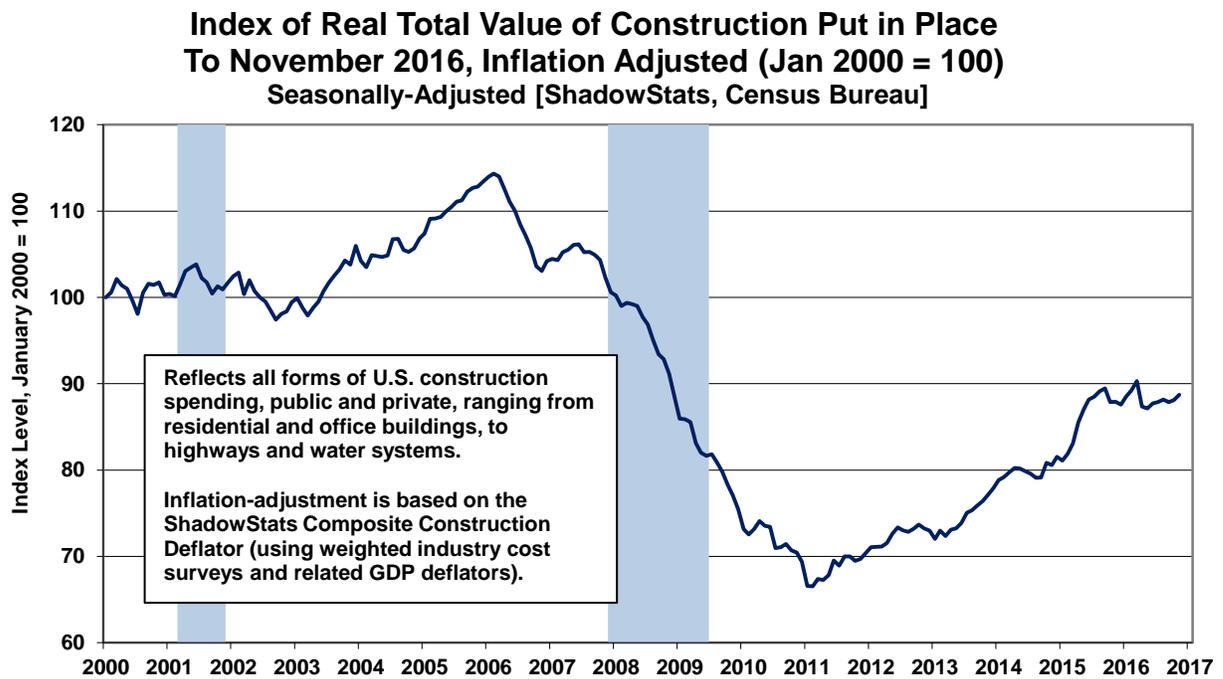
The Data and Graphs Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series 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 24* and *25*.

[Graphs 19 and 20 follow on the next page]

Graph 19: Total Nominal Construction Spending

Nominal Total-Construction Spending to November 2016
Seasonally-Adjusted Annual Rate [ShadowStats, Census]
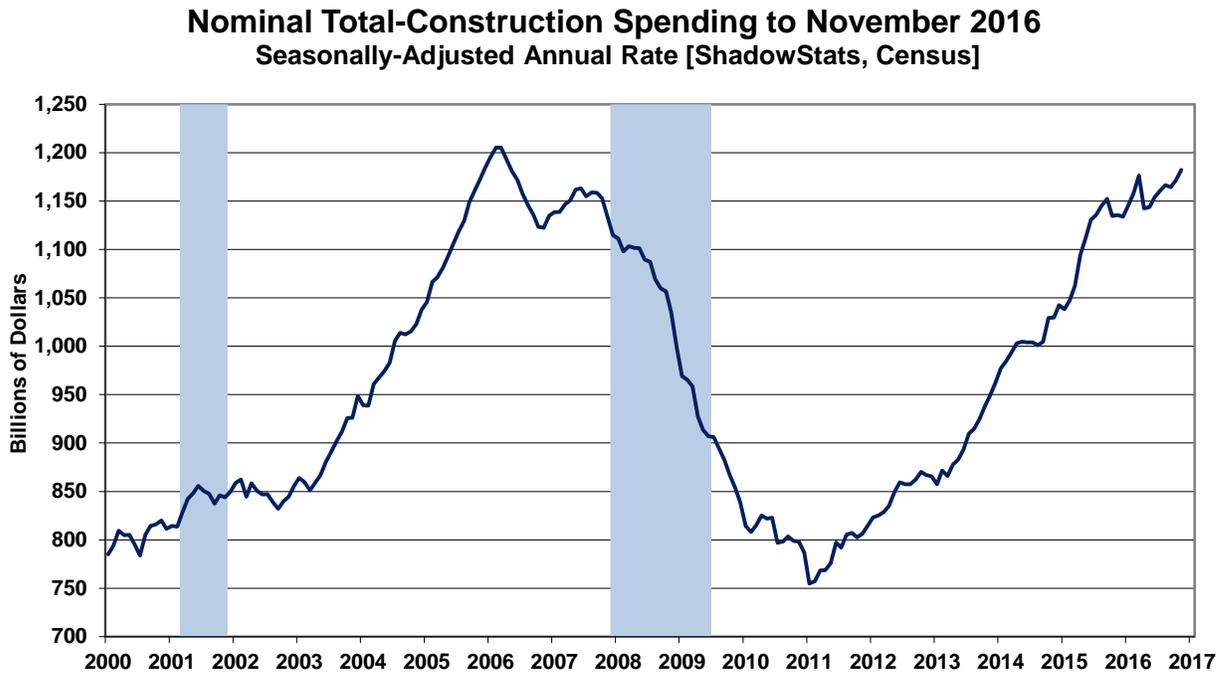
Graph 20: Index of Total Real Construction Spending

Index of Real Total Value of Construction Put in Place
To November 2016, Inflation Adjusted (Jan 2000 = 100)
Seasonally-Adjusted [ShadowStats, Census Bureau]

Reflects all forms of U.S. construction spending, public and private, ranging from residential and office buildings, to highways and water systems.

Inflation-adjustment is based on the ShadowStats Composite Construction Deflator (using weighted industry cost surveys and related GDP deflators).

Headline Reporting for November 2016. In the context of downside revisions to October and September spending, the Census Bureau reported January 3rd that the headline, total value of construction put in place in the United States for November 2016 was $1,182.1 billion on a seasonally-adjusted, but not-

inflation-adjusted, annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.9% +/- 1.8% (all confidence intervals are at the 95% level), versus a downwardly revised $1,171.4 [previously $1,172.6] billion in October 2016. Net of prior-period revisions, November activity gained month-to-month by what would have been a statistically-insignificant 0.8% versus the initial headline October detail.

In turn, October 2016 was a revised 0.6% gain [previously 0.5%] versus a downwardly revised $1,164.4 [previously 1.166.5] billion in September 2016. September 2016 was down by a revised 0.2% (-0.2%) [previously unchanged, initially down by 0.4% (-0.4%)] versus an unrevised $1,166.5 billion in August 2016.

Adjusted for CCD inflation, total real month-to-month spending in November 2016 rose by 0.7%, versus a revised gain of 0.3% October 2016, and a revised decline of 0.4% (-0.4%) in September 2016.

On a year-to-year annual-growth basis, November 2016 nominal construction spending rose by a statistically-significant 4.1% +/- 2.3%, following a revised October annual gain of 3.3% [previously up by 3.6%], and a revised September 2016 annual gain of 1.1% [previously up by 1.2%, initially down by 0.2% (-0.2%)]. Net of construction costs indicated by the CCD, the year-to-year change in total real construction rose to 0.9% in November 2016, versus a revised gain of 0.3% in October 2016 and a revised annual decline of 1.8% (-1.8%) in September 2016.

The statistically-insignificant, nominal monthly gain of 0.9% in aggregate November 2016 construction spending, versus a 0.6% gain in aggregate October 2016, included a headline monthly gain of 0.8%, in November public spending, versus a revised 2.2% gain in October. Private construction spending rose by 1.0% in November, having gained a revised 0.1% in October. Within total private construction spending, residential-sector activity rose by 1.0% in November, having gained an unrevised 1.6% in October, while the nonresidential sector rose 0.9% in November, having dropped by a revised 1.5% (-1.5%) in October.

Quarterly Trends. Based solely on unstable headline September, October and November 2016 details, fourth-quarter 2016 activity is indicated with an early-trend of annualized real growth of 2.0%. Revised third-quarter 2016 reporting showed real construction spending gained quarter-to-quarter at an annualized pace of 2.6% (previously 2.8%). 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 2015, fourth-quarter real construction spending contracted at an annualized pace of 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 8 to *11* in the *Executive Summary* of 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 2016. Areas of recent relative strength in the major subcomponents generally have flattened out, or turned down, after inflation adjustment, except for public spending, with varying short-term volatility.

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 19* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 20*. *Graphs 22* and *23* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs. Earlier *Graphs 19* and *20*, and later *Graphs 22* and *23* reflect total construction spending through November 2016, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. *Graph 20* 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 a fluttering trend that generally flattened out in 2016.
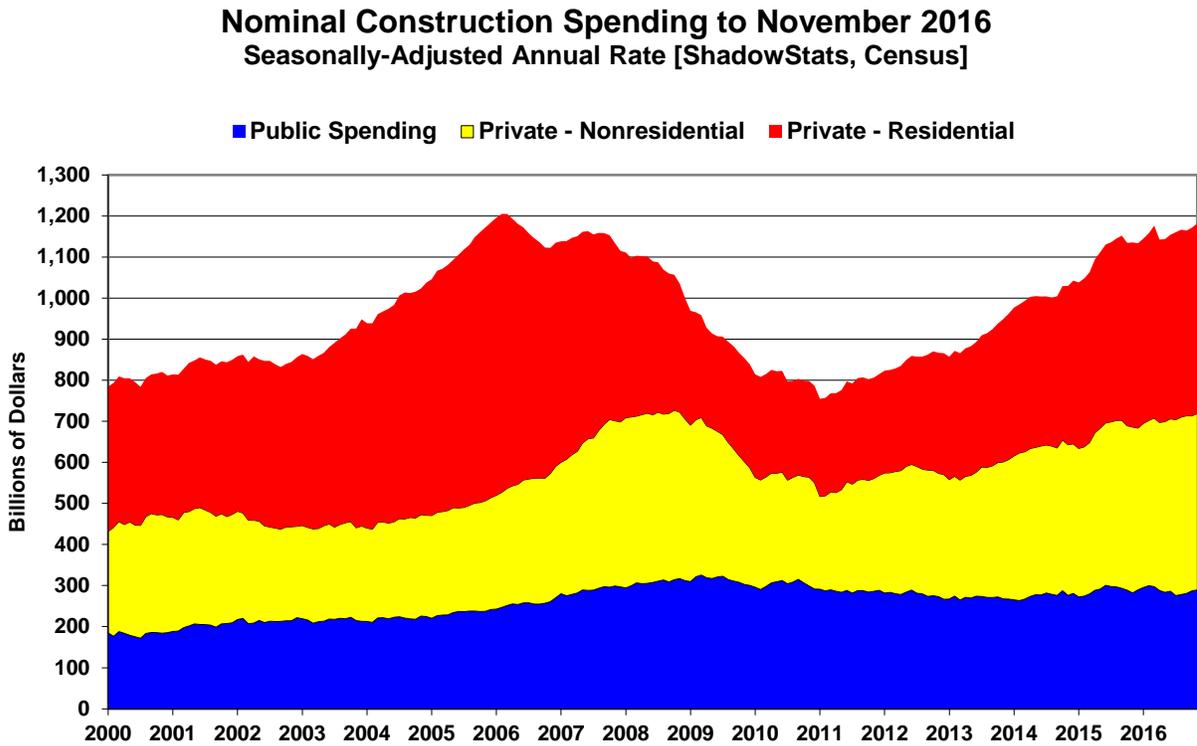
The pattern of non-recovered, inflation-adjusted activity here—net of ShadowStats inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see the *ECONOMY* section in *No. 859 Special Commentary*). To the contrary, the broad construction reporting, both before (nominal) and after (real) inflation adjustment, generally still shows a pattern of low-level activity, where aggregate activity never recovered pre-recession highs and, again, has flattened-out anew.

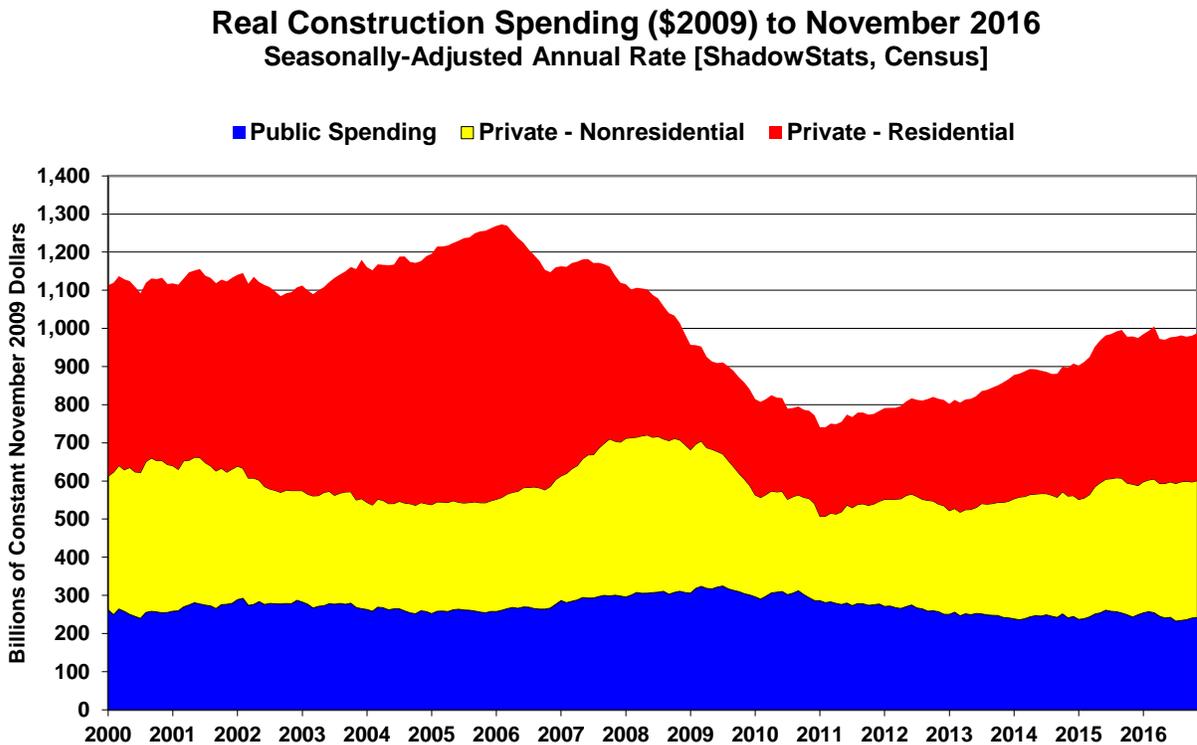**Graph 21: Construction Payroll Employment to Date**

Construction Payroll Employment to December 2016
Seasonally-Adjusted [ShadowStats, BLS]
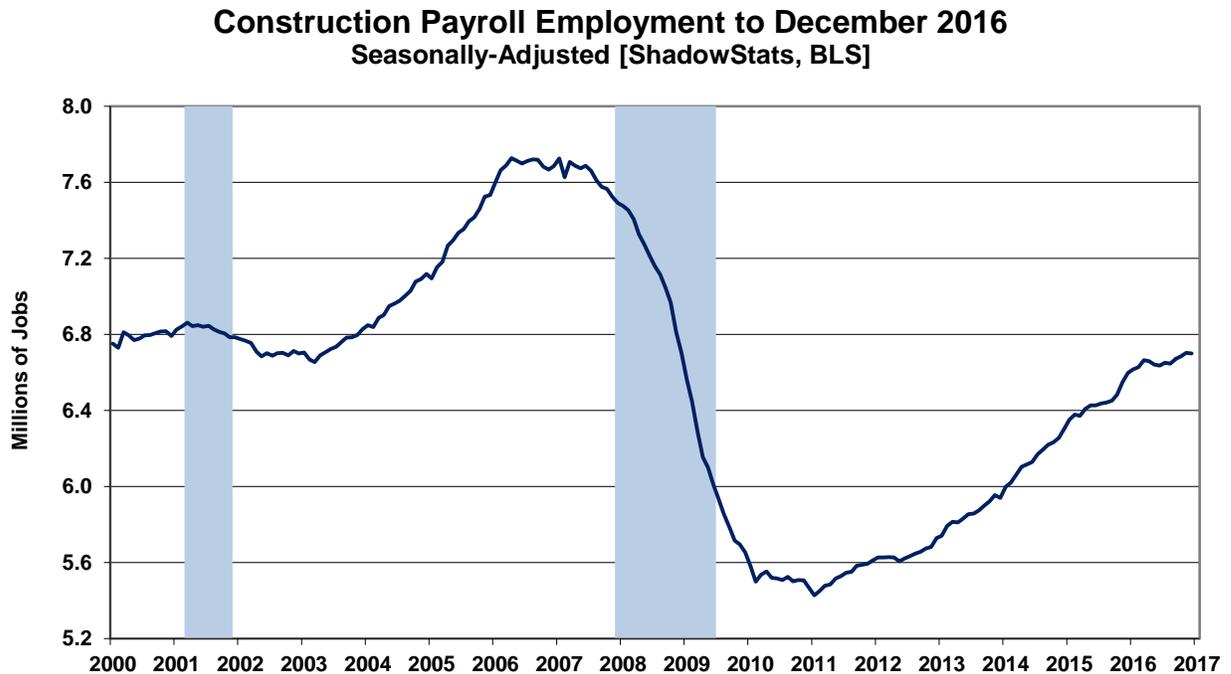
Construction Employment Not Recovering. *Graph 21* shows December 2016 construction employment, as discussed and detailed in the *Payroll Employment* section. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact 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.

*Graph 22: Aggregate Nominal Construction Spending by Major Category to Date*

Nominal Construction Spending to November 2016
Seasonally-Adjusted Annual Rate [ShadowStats, Census]

■ **Public Spending** □ **Private - Nonresidential** ■ **Private - Residential**

Graph 23: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)

Real Construction Spending ($2009) to November 2016
Seasonally-Adjusted Annual Rate [ShadowStats, Census]

■ **Public Spending** □ **Private - Nonresidential** ■ **Private - Residential**

Graphs of Construction Activity. *Preceding Graph 22 shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending.* *Graph 23 shows the same breakout as in Graph 22,* 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.

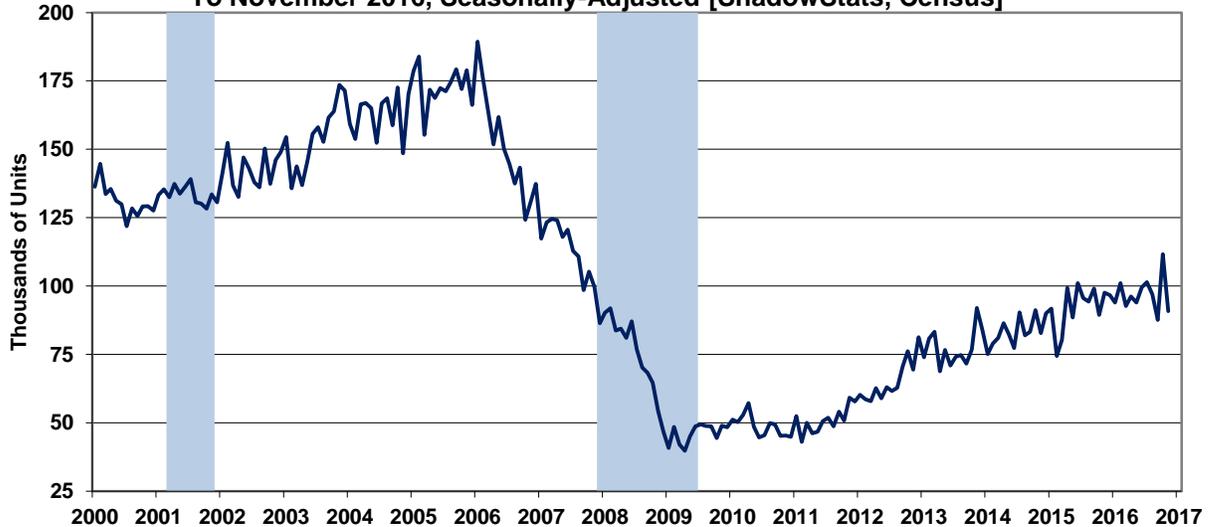**Graph 24: Nominal Private Residential Construction Spending to Date**

Nominal Private Residential Construction to November 2016
Seasonally-Adjusted Annual Rate [ShadowStats, Census]
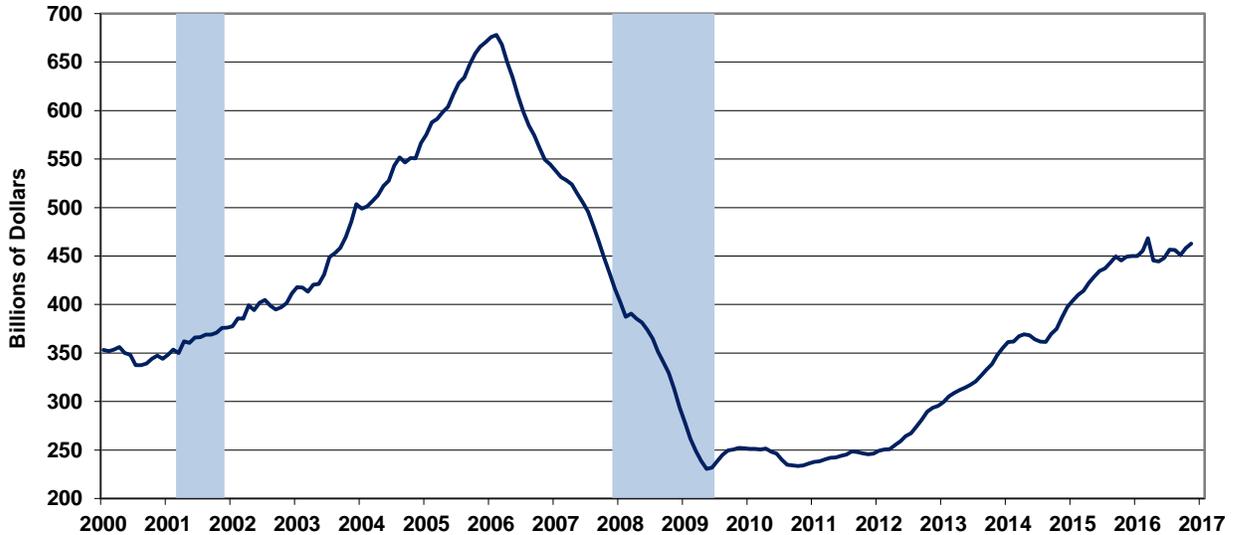
Graph 25: Combined Single- and Multiple-Unit Housing Starts to Date

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

Preceding graphs (*Graphs 24* and *25*) cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for November 2016 (see *Commentary No. 856*). 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 9* of the *Opening Comments* section, *Graph 23* and presumably with the headline construction-payroll data in *Graph 21*.

Graph 26: Nominal Private Nonresidential Construction Spending to Date

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

Graph 27: Nominal Public Construction Spending to Date

Nominal Public Construction to November 2016
Seasonally-Adjusted Annual Rate [ShadowStats, Census]
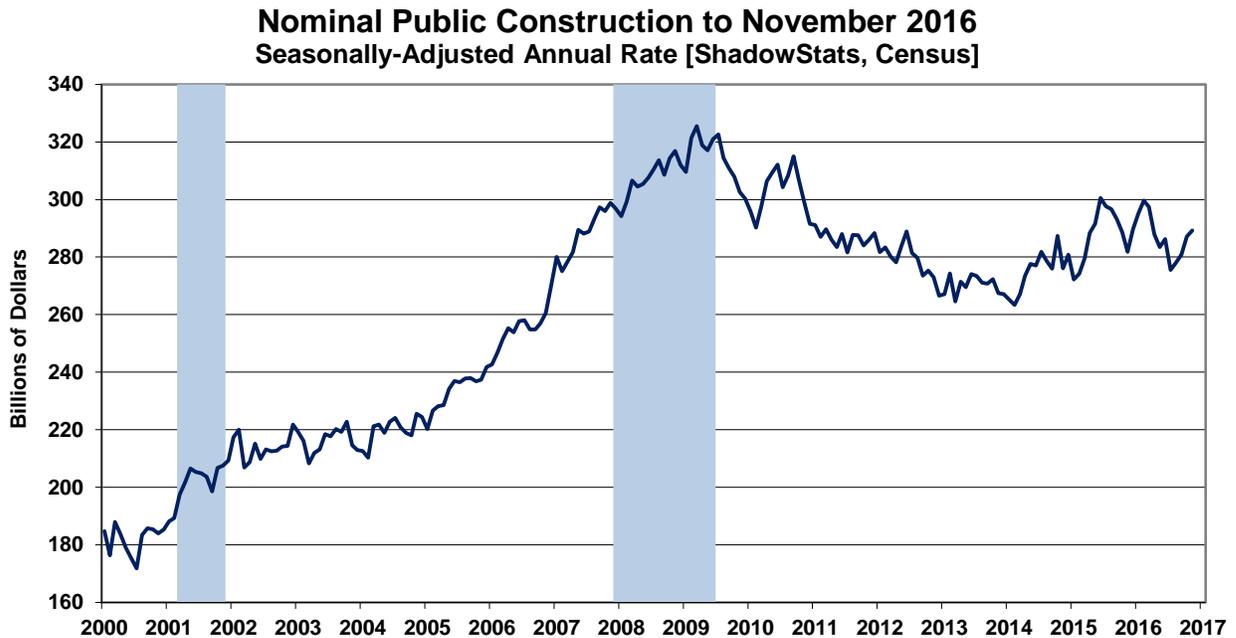
The final two graphs (*Graphs 26* and *27*) show the patterns of the monthly level of activity in nominal private nonresidential-construction spending and in public-construction spending. Private Non-Residential Construction spending had surged, to a pre-recession nominal peak in August 2016, but that series has fluttered minimally lower since.

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, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 10*, *11* and *23,* indeed, both series appear stalled shy of their pre-recession peaks.

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WEEK, MONTH AND YEAR AHEAD

Deepening Economic Downturn Promises a Frustrated Fed and Rapidly Deteriorating Support of the U.S. Dollar, as the New Administration Takes Over. In the context of the recent publication of the *No. 859 Special Commentary*, which updated near-term economic and inflation conditions, and the outlook for same, this *Week, Month and Year Ahead* section is in the process of being fully updated, which will follow in place in the next *Commentary No. 861* of January 13th.

Links to *Commentaries* of December 2016 follow here:

Commentary No. 858 previewed the year-ahead *Special Commentary.*

Commentary No. 857 covered the latest GDP revision, New Orders for Durable Goods and New- and Existing Home Sales.

Commentary No. 856 covered the latest Housing Starts.

Commentary No. 855 covered the latest CPI and related series, and reviewed the dollar and gold circumstances.

Commentary No. 854 covered the latest Industrial Production, PPI and FOMC meeting.

Commentary No. 853 covered the October Trade Deficit.

Commentary No. 852 covered November Employment and Unemployment, and October Construction Spending.

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 inflation and to

overstate economic activity—as generally viewed in common experience by Main Street, U.S.A.—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*. Mr. Crudele's latest investigation focuses on retail sales reporting: *John Crudele on Retail Sales.*

PENDING ECONOMIC RELEASES:

Nominal and Real Retail Sales (December 2016). The Census Bureau will release December 2016 nominal (not-adjusted-for-inflation) Retail Sales on Friday, January 13th, which will be covered in *Commentary No. 861* of that date. Detail on real (adjusted-for-inflation) Retail Sales will be covered in *Commentary No. 862* of January 18th, coincident with the release by the Bureau of Labor Statistics (BLS) of the December 2016 Consumer Price Index (CPI-U). The headline sales number should be weaker than expected, along with providing negative indications for early activity in 2017.

With a likely headline increase in the monthly December CPI-U of 0.2%, or so, and an annual increase of roughly 2.0% in inflation, headline real sales growth in December accordingly would be more-negative or weaker, in parallel, than the headline nominal sales activity.

Consensus expectations for headline nominal December Retail Sales—the second, but most important of the industry's two dominant holiday-season months—are for a monthly gain of 0.7%, reflecting a year-end jump in auto sales and rising inflation. To the extent that the auto-sales surge reflected unusually-strong buying incentives, any related seasonally-adjusted gain will have been borrowed from early-2017 activity, which should soften, accordingly, in the coming months. Outside of a temporary jump in automobile activity, real sales (including the Holiday Season) in December should have been flat-to-minus, following a weaker-than-expected November, which showed an inflation-adjusted, real monthly

contraction of 0.1% (-0.1%), following downwardly-revised activity in October. Both October and November are at risk for downside revisions accompanying the headline December detail.

Discussed in the *CONSUMER LIQUIDITY* section of *No. 859 Special Commentary*, without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the liquidity-strapped U.S. consumer is unable to sustain growth in broad economic activity, including personal-consumption expenditures and retail sales. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

Producer Price Index—PPI (December 2016). The Bureau of Labor Statistics (BLS) will release the December 2016 PPI also on Friday, January 13th, with detail covered in *Commentary No. 861* of that date. Odds favor a solid gain to wholesale inflation on the goods side of the reporting, perhaps 0.4%, plus or minus, due largely to positive seasonal-factor adjustments boosting strong monthly gains in unadjusted prices of petroleum products. The dominant services sector, however, often provides a counter-move to the hard-inflation estimate on the goods side. Such comes from counterintuitive "deflation" or "inflation," reflecting falling or rising "margins," in turn reflecting rising or falling costs. Guesstimation in that services sector remains highly problematic, as discussed in *Inflation that Is More Theoretical than Real World?* in *Commentary No. 854*, where, again, the services component could offset much of the headline goods inflation.

Unadjusted oil prices rose sharply in December 2016, as did gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices increased by 13.7% and 19.1%. That was accompanied by a 10.5% jump in unadjusted, monthly-average wholesale gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in December are positive, such should help push the adjusted Final Demand Goods component of the PPI to a strong gain.

PENDING *SPECIAL COMMENTARIES*.

Discussed in the *FEDERAL DEBT AND DEFICIT* section of *No. 859 Special Commentary*, the U.S. Treasury plans to release the GAAP-based accounting (based on Generally Accepted Accounting Principles) financial statements of the United States government for fiscal-year 2016, on Thursday, January 12th. Audited by the GAO, that detail will be combined with prior annual reporting and related analyses to prepare a *Special Commentary* updating and summarizing—including in graphic and tabular form—the U.S. government's GAAP-based obligations and annual operations.

Subsequent to that, the long-planned and delayed consolidation of the major *ShadowStats* current and historical reporting into one volume, including our recommended reading list, will be published. Targeted publication dates will follow here, shortly.

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