

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

COMMENTARY NUMBER 871

February Labor Conditions, Help Wanted Online, Money Supply M3, Consumer Liquidity

March 10, 2017

**Real World Employment Prospects Deteriorated in February 2017,
Plunging at an Annual Pace Not Seen Since the
Depths of the Economic Collapse into 2009**

Nonetheless, FOMC Hawks Got Their Strong Headline Jobs Report

**Headline Employment and Unemployment Remained Nonsensical and
Generally Not Comparable Month-to-Month or Otherwise**

**Payroll Employment, Which Gained 235,000 Jobs in February,
Counts Each Part-Time Job as an Employed Individual**

**Household Survey Employment Counts Each Individual Only Once;
Multiple Job Holders Gained 260,000 in February**

**February Unemployment Rates Dropped: U.3 Declined to 4.7% from 4.8%,
U.6 Fell to 9.2% from 9.4%, ShadowStats-Alternate Fell to 22.7% from 22.9%**

**February Money Supply M3 Annual Growth Sank to a 55-Month Low,
Closing in on a Formal Recession Signal**

PLEASE NOTE: The next regular Commentary, scheduled for Wednesday, March 15th, will cover the February PPI, CPI and real and nominal Retail Sales, followed by Commentaries on Thursday, March 16th, covering February Housing Starts, and Friday, March 17th, covering February Industrial Production. Please call me at (707) 763-5786, if you have questions or would like to talk.

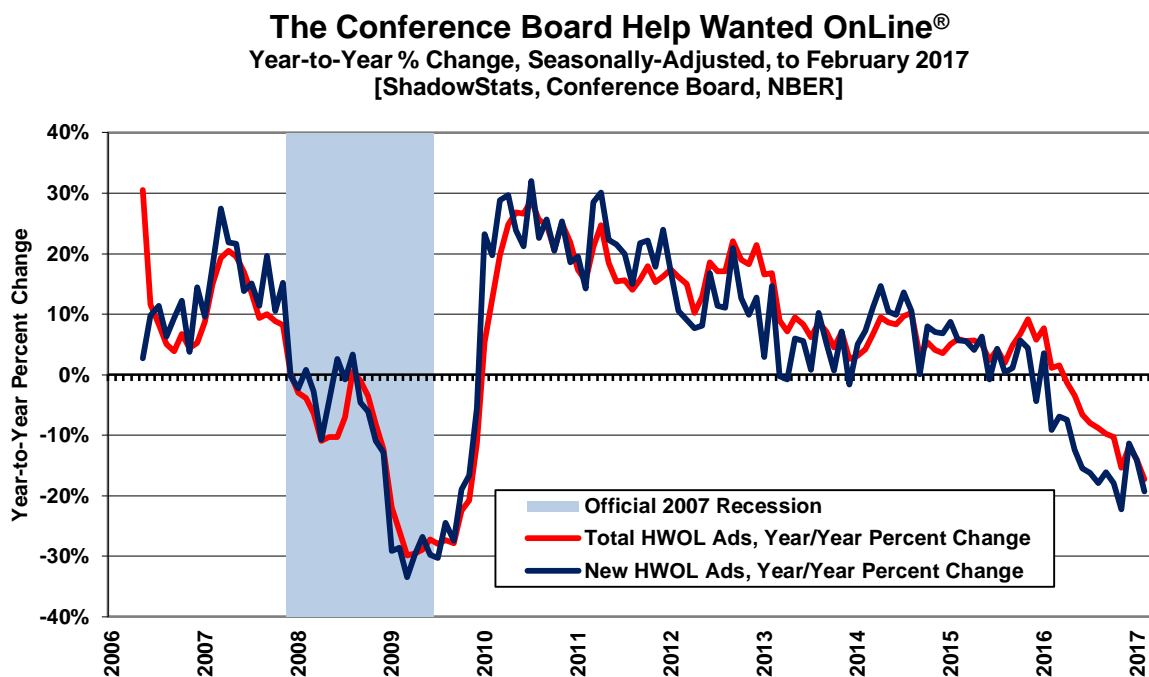
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Real-World Activity Continued to Show an Intensifying Downturn. Beyond various private and public alternative measures to the federal government’s headline employment, unemployment and GDP reporting, discussed in [Commentary No. 869](#), [No. 859 Special Commentary](#) and in the *Household Survey* section of the *Executive Summary*, ShadowStats is pleased to update for subscribers The Conference Board’s Help Wanted OnLine® (HWOL). First fully covered in [Commentary No. 820](#) of July 16, 2016, reviewed anew in the December 2nd [Commentary No. 852](#) and updated today through February 2017, the HWOL is one of the best leading indicators (private or public) of economic activity.

Where tracking help-wanted advertising as a leading economic indicator had its roots as far back in time as the initial reporting of industrial production, post-World War I, The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Opening Graph: The Conference Board Help Wanted OnLine® to February 2017



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The Conference Board Help Wanted OnLine® Advertising. Many thanks to The Conference Board for permission to publish the preceding graph of year-to-year change from its *Help Wanted OnLine®* (HWOL) data, updated through the monthly surveying of February 2017 (released March 8th), in the context of annual revisions. The annual percentage change is plotted for two series: Total Ads (red line)

and New Ads (blue line). Where, “Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads.” While, “New ads are all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as ‘New’ only in the month it first appears.” Related background details and reporting are found here: [The Conference Board Help Wanted OnLine®](#).

Where the tracked seasonally-adjusted monthly measures have declined year-to-year in each of the last eleven months for the total ads, and in each of the last thirteen months (fourteen of the last fifteen months) for the new ads, including February 2017, annual change generally has continued to sink, as seen in the *Opening Graph*, with annual growth beginning to slow in 2010 and turning negative year-to-year in late-2015 and early-2016. With the latest “Total” and “New” ads counts respectively down year-to-year by roughly 17% (-17%) and 19% (-19%), the annual contractions have hit depths last seen going into the trough of the business collapse into 2009. Month-to-month changes have been irregular in the last year, down in 8 out of 12 months for the “Total,” 5 out of 12 months for the “New,” but both series took sharp monthly hits in February 2017.

While much of this text is repetitive of prior discussions in [No. 852](#) and [No. 820](#), the detail is updated for the latest information and annual revisions. These comments and analysis remain mine alone, not those of The Conference Board.

Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board’s Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

The NBER has published detail with the St. Louis Federal Reserve on help-wanted advertising indices constructed back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized as a formal recession, when annual change in the index contracted by 15% (-15%) or more.

Since formal tracking switched to help-wanted advertising on the Internet, around 2005, as seen with The Conference Board Help Wanted OnLine[®], that series has been through only one, formally confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Even with a limited initial history, the new series did track that headline downturn into 2009, in tandem with the last newspaper surveys, and it has tracked to the downside, again, in the current environment of what appears to be a “new,” still-unfolding recession (see [No. 859 Special Commentary](#)).

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be of high value. As for the BLS employment and unemployment series, headlined as of February 2017 in today’s (March 10th) reporting, eventually they should catch up with the Conference Board’s high-quality, independent leading indicator, despite the heavy upside reporting biases deliberately structured into the BLS series, and expanded anew in last month’s payroll-

survey benchmarking. See the discussion in [Commentary No. 864](#) and the *Birth-Death/Bias-Factor Adjustment (BDM)* section in today's *Reporting Detail*.

Economic Reality versus Economic Hype, and a Central Bank that Has Lost Control. There is something of a dichotomy here. Today's (March 10th) headline, heavily upside-biased and gimmicked employment and unemployment numbers out of the Labor Department's Bureau of Labor Statistics (BLS) showed "strong" jobs growth and a declining unemployment rate. Some members of the Federal Reserve's politicized Federal Open Market Committee (FOMC) argue that the "low" unemployment rate represents a "full employment" economy and the need to hike interest rates, so as to prevent an overheating economy. Accordingly, the FOMC appears set to hike the federal funds rate by 0.25% to 0.50% at the conclusion of its meeting on March 15th (coverage and assessment of same follows in the March 16th *Commentary No. 873*). In this unstable environment, though, anything is possible with this befuddled Fed.

On the other hand, the private sector generates some high quality, unbiased and politically independent economic indicators. The Federal Reserve's economic series also usually have been less-gimmicked and politicized. Particularly in times of economic distress, surveys independent of the Executive Branch of the U.S. government, have tended to lead or to reflect underlying economic activity more realistically, than have the headline details generated by a system dependent on a happy electorate.¹

Again, a dichotomy exists between the government's headline February labor market conditions and the Conference Board's high-quality private survey of online help-wanted advertising, discussed in the prior section. BLS headline February data looking increasingly positive, while year-to-year decline in the HWOL makes the economy look like it is headed again into the 2009 depths of the economic collapse.

The Fed Cannot Escape Intensifying Systemic Liquidity Problems. Given an environment where heavily gimmicked government data are diverging from high-quality private surveys and common experience, underlying real-world activity will win out. Accordingly, despite a likely near-term rate hike—and very possibly exacerbated by same—a renewed and deepening economic downturn already is in play. Intensifying liquidity and solvency stresses on the domestic banking system, however, should push the Federal Reserve back into quantitative easing—the same emergency tool used previously to salvage banking-system solvency—at the expense of not providing domestic economic stimulus.

Major economic stimulus still should be hitting the economy in 2018, assuming the Trump Administration receives the legislative support it needs from Congress. Interim economic difficulties still will run their course through 2017.

The various issues discussed here have been reviewed recently in greater detail in [No. 859 Special Commentary](#) (economic and financial circumstances), [Commentary No. 869](#) (economic reality) and [Commentary No. 870](#) (the Fed).

¹ In the history of the two major economic indicators that go back nearly 100 years, to the post-World War I era, current year-to-year contractions are of a nature never seen outside of what have been declared as formal recessions. Those series are industrial production and the current version of help-wanted advertising (The Conference Board's Help Wanted OnLine[®]), discussed respectively in [Commentary No. 869](#) and [Commentary No. 866](#) and in these *Opening Comments*.

Today's Commentary (March 10th). The balance of these *Opening Comments and Executive Summary* covers detail of February 2017 labor conditions, with the headline numbers expanded upon in the *Reporting Detail*. Also included here is an update of *Consumer Liquidity Conditions*.

The *Hyperinflation Watch* updates monetary conditions with an initial estimate of year-to-year growth in the February 2017 ShadowStats Ongoing M3 Estimate.

The *Week, Month and Year Ahead* previews next week's reporting of February 2017 CPI and PPI inflation, nominal and real Retail Sales, House Starts and Industrial Production.

Executive Summary: Employment and Unemployment—February 2017—Labor Details Remain Terribly Misleading. Today's payroll details were published in the context of last month's heavily upside-biased annual Payroll Survey benchmark revisions (see [Commentary No. 864](#)). What should have ended as a net downside revision for 2016 payrolls, turned to the upside, instead, setting up bloated payroll growth going forward into 2017. Separately distorting to the Household Survey was an unusually large downside revision to the Bureau of Labor Statistics (BLS) population estimates last month.

At least for once, although the household numbers never are meaningful month-to-month (see *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*), except by coincidence, the headline decline in the U.3 unemployment rate from 4.8% to 4.7% actually reflected a drop in the number of unemployed, more than offset by a gain in the number of employed. Unfortunately, though, neither the household nor the payroll survey is reported consistently month-to-month, and neither survey is directly comparable to each other.

That said, reconsider the following, underlying reality for these series, which helps to undermine the general credibility of U.S. economic reporting. 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 following point is repeated later in the *Reporting Detail*. In the headline detail of the February 2017 labor conditions, headline Payroll Employment, which counts each part-time job as an employed individual, gained 235,000 jobs in the month. The Household Survey, which counts employed individuals only once, irrespective of how many jobs a given individual holds, showed an increase of 260,000 in the number of multiple jobholders.

Again, these series generally are not comparable, and the month-to-month changes are not meaningful, yet one has to wonder sometimes.

Headline U.S. Economic Health Still Massively Overstated. Underlying reality for February 2017 labor conditions remained in the realm of a 22.7% broad unemployment rate, with the actual monthly payroll-employment change likely flat-to-minus, despite more-upbeat headline indications out of the BLS.

Specifically, the government showed headline U.3 unemployment notching lower to 4.7%, with a headline monthly jobs gain, again, of 235,000.

Payroll Survey: Heavily Bloated Growth. Despite minimal prior-period revisions, payroll-employment detail was heavily bloated, specifically in the context of the unusual and heavily upside-distorted annual benchmark revisions (and upside bias-factor revisions) published on February 3rd (see [Commentary No. 864](#)). The seasonally-adjusted, headline payroll gain for February 2017 was 235,000, following revised monthly gains of 238,000 in January 2017 and 155,000 in December 2016. Net of prior-period revisions, February 2017 payrolls rose by 244,000, instead of the headline 235,000.

The not-seasonally-adjusted, year-to-year growth in February 2017 nonfarm payrolls of 1.61%, notched higher from a revised 1.54% annual gain in January 2017 and a revised 1.45% in December 2016. The 1.45% annual growth in December 2016 was the lowest level of growth in 62 months, since October 2011, when payrolls were first recovering from the economic collapse. The uptick through February 2017 annual growth to 1.61% still held at a level rarely seen, except going into or coming out of recessions.

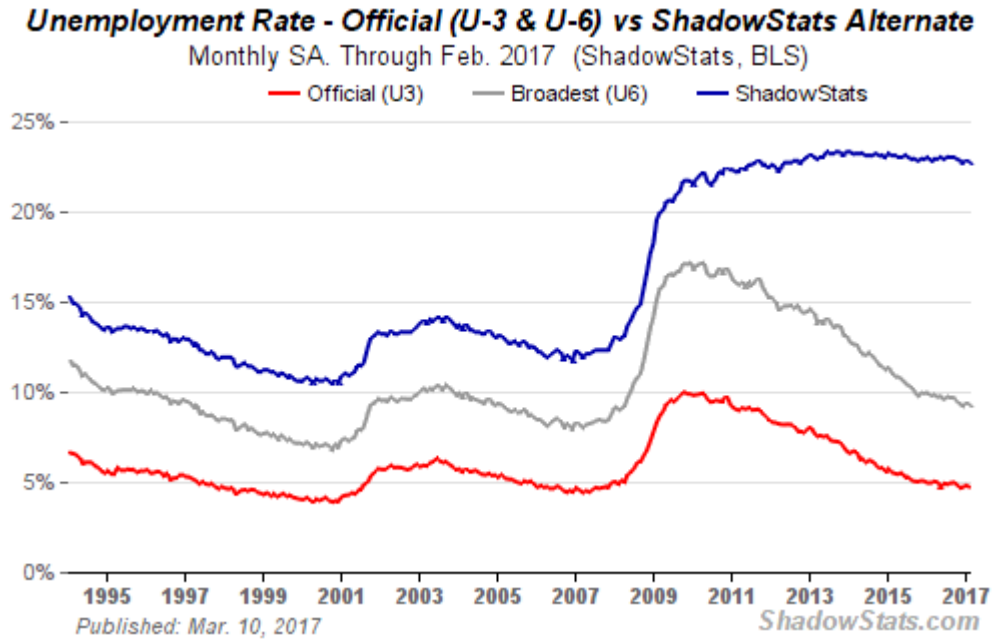
Household Survey: Counting All Discouraged Workers, February Unemployment Eased to 22.7%. Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, simply is definitional. 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 estimated by ShadowStats (see the extended comments in the *ShadowStats Alternate Unemployment Measure in the Reporting Detail*).

Graph 1 reflects headline February 2017 U.3 unemployment declining to 4.70%, from 4.78% in January and versus 4.72% in December 2016 and 4.65% in November; headline February 2017 U.6 unemployment declined to 9.24%, from 9.43% in January and against 9.18% in December 2016 and 9.29% in November 2016; and the headline February 2017 ShadowStats unemployment estimate declined to 22.7%, from 22.9% in January and against 22.7% in December 2016 and 22.8% in November.

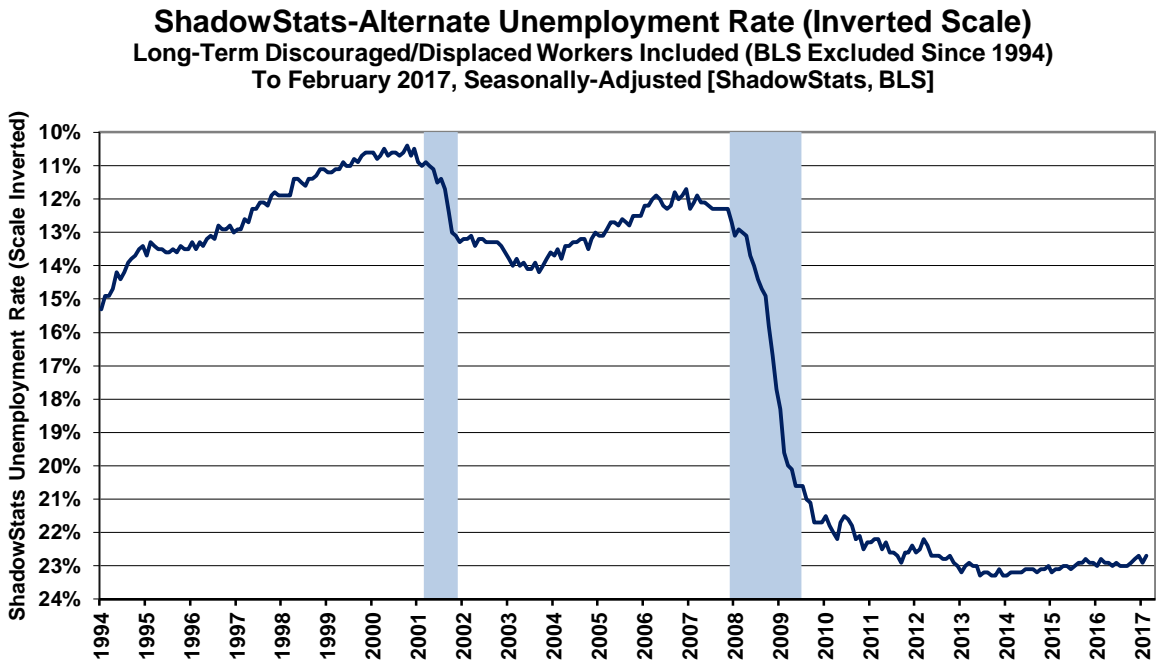
[Graph 1 follows on the next page.]

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



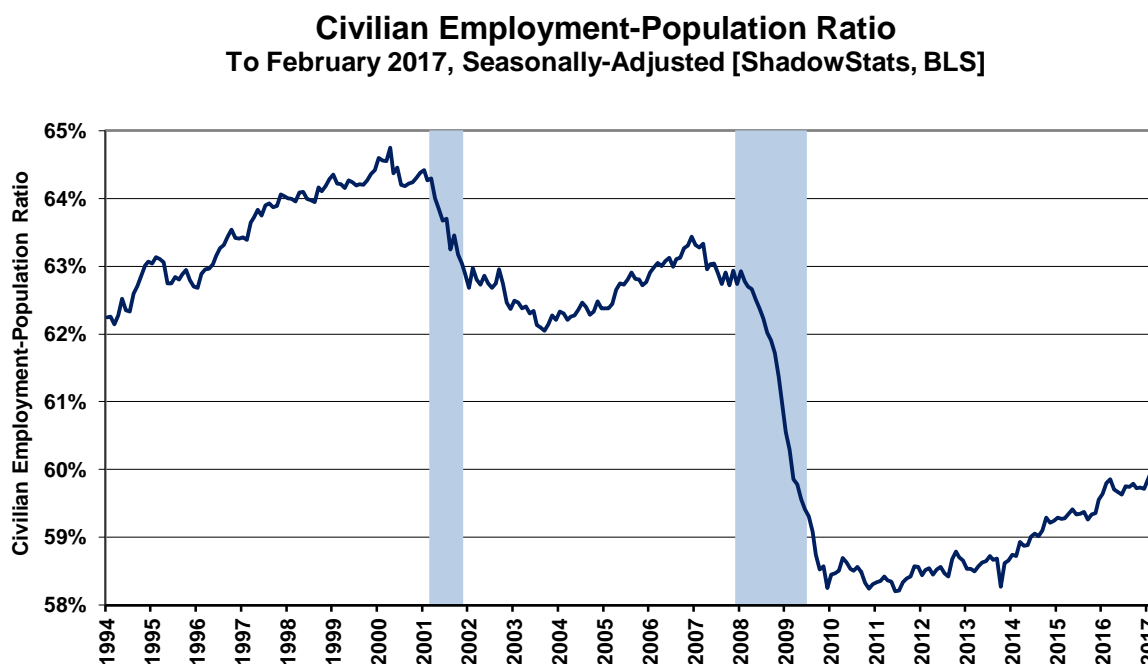
Graphs 2 to 4 reflect longer-term unemployment and discouraged-worker conditions. Graph 2 is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move visually in tandem with plots of most economic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

Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which had turned slightly weaker in second-half 2016, but increased in January and February 2017 with monthly jumps and month-to-month inconsistencies in headline employment and the recently rejiggered population numbers (see [Commentary No. 864](#)). Nonetheless, that ratio still remains near its post-1994 record low, the historic low and bottom since the economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), as shown in *Graph 3*.

Graph 3: Civilian Employment-Population Ratio



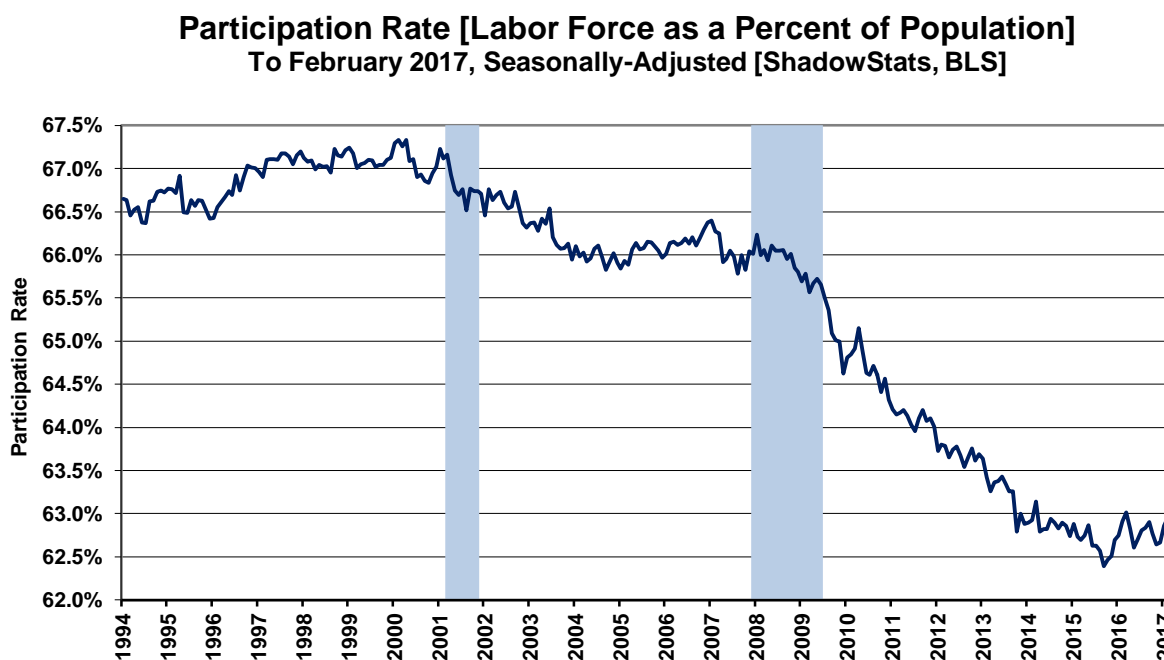
The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment-to-population ratio remains something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats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

Shown in *Graph 4*, the February 2017 participation rate (the ratio of the headline labor force to the population) also increased month-to-month, having declined in second-half 2016. Both the Employment-to-Population Ratio and the Participation Rate appear to have suffered near-term spikes and volatility from the population redefinition in January 2016, but fell off again in the second half of 2016, only to spike again in the environment of the just-published January 2017 population redefinitions.

The Participation-Rate—one measure that had been followed closely and touted frequently 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 had moved lower in both in second-half 2016, holding flat in December, picking up in January and February 2017. The labor force used in the Participation-Rate calculation is the headline employment plus U.3 unemployment. As with *Graph 3* of employment-to-population ratio, 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 4: Labor-Force Participation Rate



Graphs 1 through 4 reflect labor data available in consistent detail only back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with the February 2017 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](#) (see also the *Opening Comments* of prior [Commentary No. 870](#)), 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, the earlier employment/unemployment [Commentary No. 845](#), 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 February 2017 headline unemployment rate of 4.7%, for example was in the context of a 63.0% participation rate. That participation rate, though, was more consistent with a headline unemployment rate (U.3) of 9.1% 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 more than 80% above the hyped 5.0% full-employment unemployment rate, almost double the current headline U.3 number.²

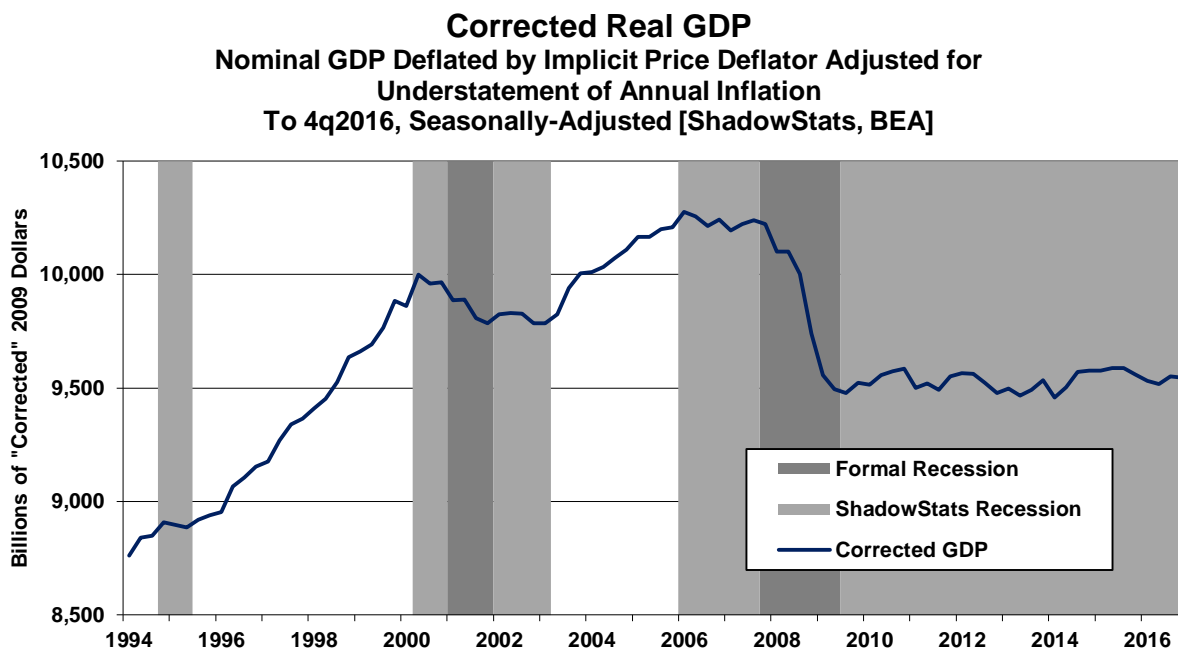
The reason for the heavily distorted current unemployment detail remains that the numbers reflect the unusual nature of the post-recession drop in headline unemployment. The declining unemployment rate heavily has reflected discouraged, unemployed persons being defined out of the labor force, instead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

Other Major Indicators Do Not Show a Growing, Expanding—Let Alone Recovered— Economy.

Regularly plotted here are various graphs that mirror the patterns of *Graphs 2 to 4* (1994-to-date where available), which do not confirm the purported headline recoveries in the GDP or relative employment. That detail was expanded upon and covered in [No. 859 Special Commentary](#). Some of those series are updated in this section.

Consider *Graph 5*, which shows the ShadowStats version of the GDP, also plotted from 1994 but through the February 28th second estimate of fourth-quarter 2016 GDP, where the GDP plot has been corrected for the understatement of inflation used in deflating the headline GDP series (further detail and a description of the approach and related links are found in [Commentary No. 869](#)).

Graph 5: Corrected Real GDP through 4q2016, Second Estimate

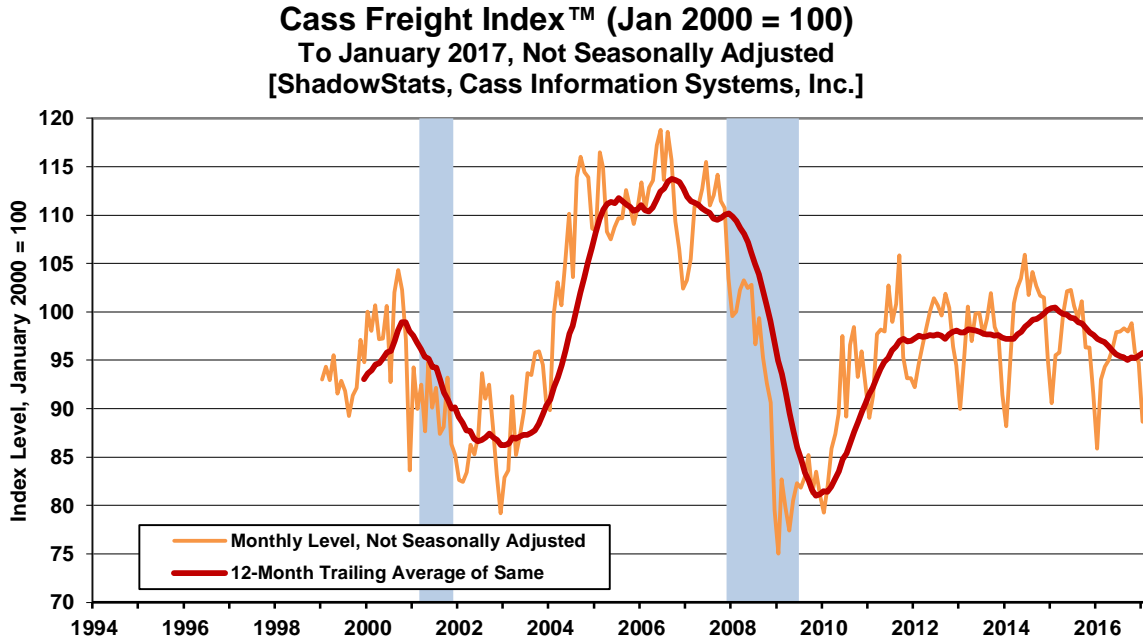


Other graphs (again, see [No. 859](#)) range from the CASS Freight Index (*Graph 6*, see [General Commentary No. 867](#)) to Real S&P 500 Revenues adjusted for share buybacks (*Graph 7*), and include

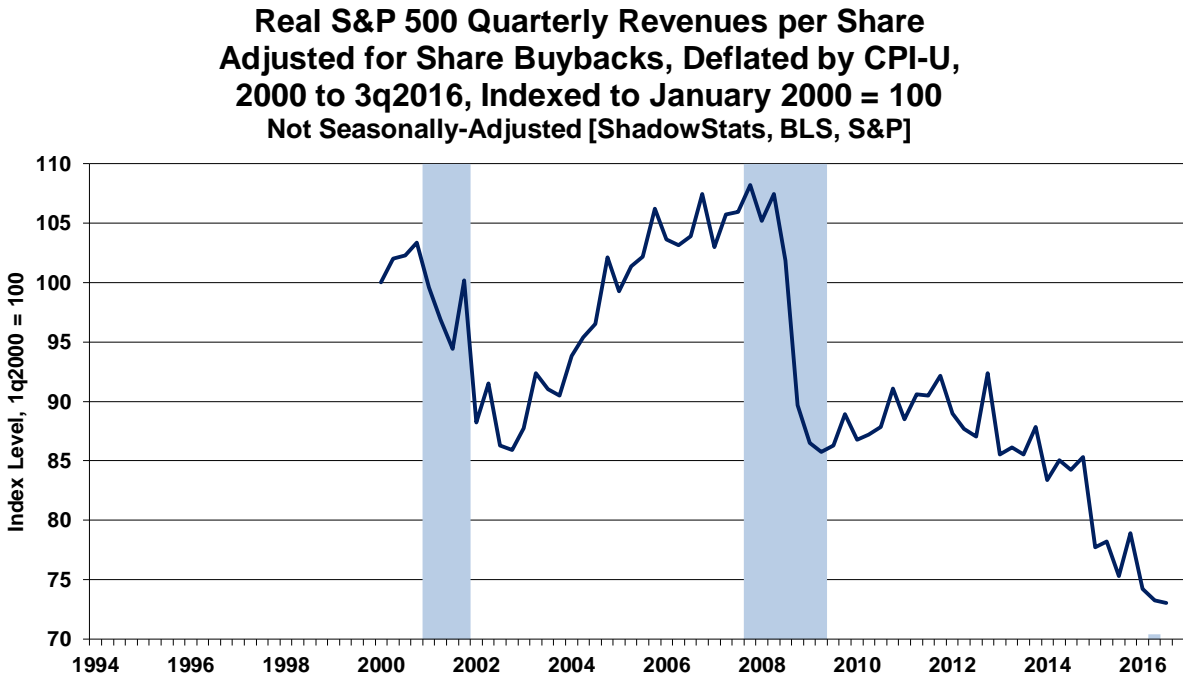
² Consider with the February 2017 population of 254.246 million, that the implied labor force at the full-employment participation rate of 66.0% would be $0.66 \times 254.246 = 167.802$. That labor force less current headline employed, $167.802 - 152.528 = 15.274$ million implied unemployed / labor force of $167.802 = 9.1\%$ unemployment. The problem with the assumptions underlying these numbers and concept remains that the economy is not at full employment, as has been claimed.

U.S. Petroleum Consumption (*Graph 8*), Consumer Goods Manufacturing out of January 2017 Industrial Production (*Graph 9*, see [Commentary No. 866](#)) and Housing Starts (*Graph 10*, also [No. 866](#)).

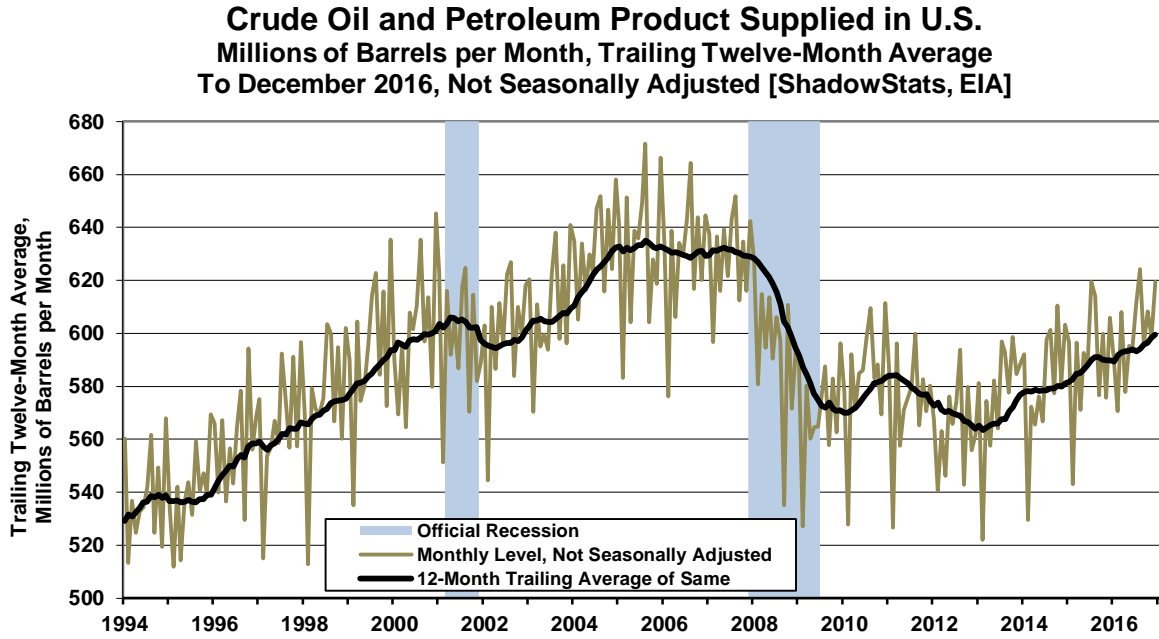
Graph 6: CASS Freight Index for North America (2000 - 2017), Indexed to January 2000 = 100



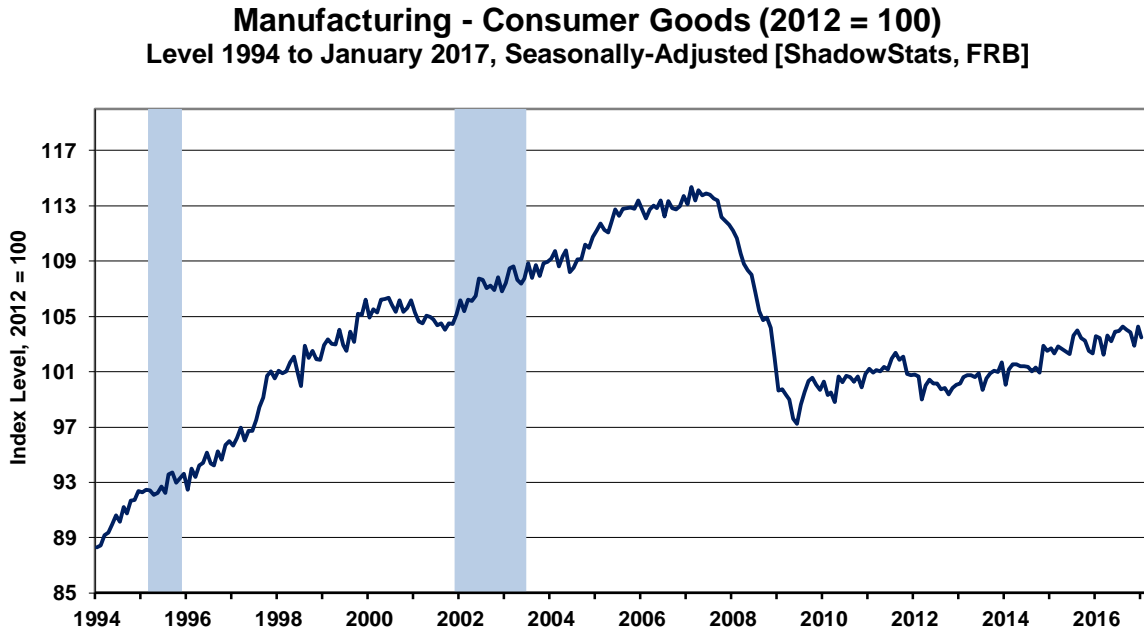
Graph 7: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2016), Indexed to January 2000 = 100

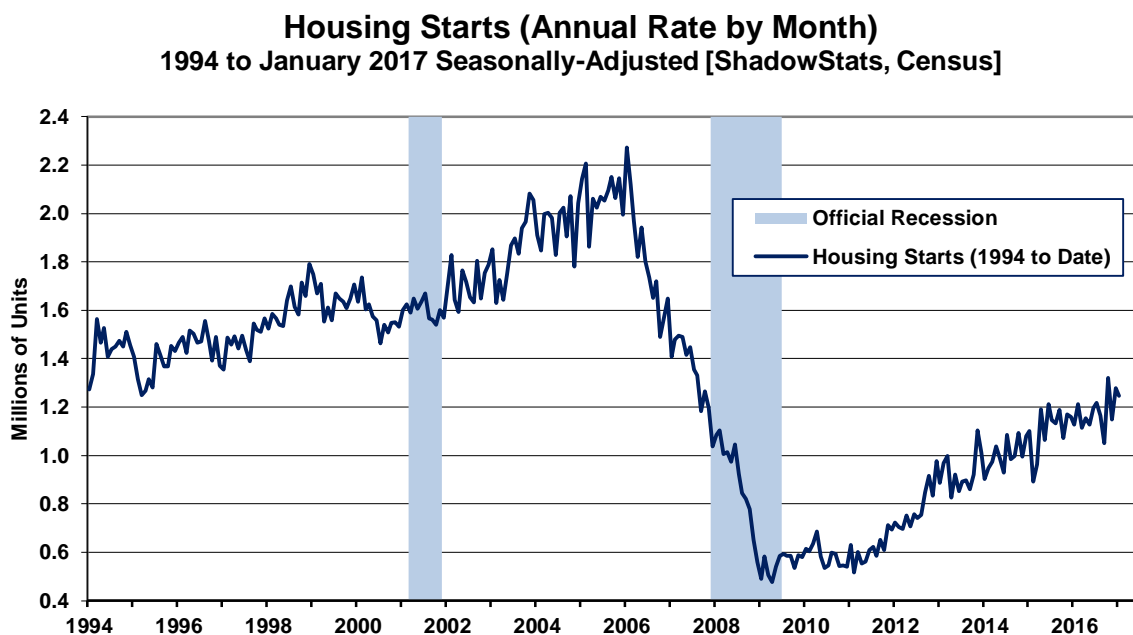


Graph 8: U.S. Petroleum Consumption to December 2016



Graph 9: Industrial Production – Consumer Goods Manufacturing (1994 - 2017)



Graph 10: Housing Starts, Annual Rate by Month (1994 - 2017)

Headline Unemployment Rates. Again, in the context of last month’s revamped underlying population estimates, and the resumption of regular non-comparability of month-to-month changes in seasonally-adjusted headline unemployment detail, February 2017 unemployment rate (U.3) declined to 4.70%, versus 4.78% in January and 4.72% in December 2016. On an unadjusted basis, unemployment rates are not revised and, in theory, are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate declined to 4.95% (rounds to 4.9%) in February 2017 versus 5.14% in January, but was up versus 4.51% in December 2016.

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 a decline in the seasonally-adjusted U.3 unemployment rate, an unadjusted decline in the count of marginally-attached workers of 10,000 (-10,000) and a decline of 136,000 (-136,000) in the adjusted number of people working part-time for economic reasons, the adjusted headline February 2017 U.6 unemployment rate eased to 9.24%, versus 9.43% in January. That also was minimally higher against 9.18% in December 2016. The unadjusted U.6 unemployment rate was 9.54% in February 2017, versus 10.08% in January 2017 and 9.06% in December 2016.

ShadowStats Alternate Unemployment Estimate. Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced workers, of long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for February 2017 declined to 22.7%, versus 22.9% in January 2017 and 22.7% in December 2016.

Updated Consumer Liquidity Conditions—Continuing Household Income a Credit Stresses Hamper Economic Expansion. Consumer Liquidity Conditions are updated here for the latest monthly and quarterly releases from the Fed on consumer credit and outstanding obligations, along with the latest reporting on real median household income and consumer outlook, last covered in [Commentary No. 864](#) and last fully reviewed in the *CONSUMER LIQUIDITY* section of [No. 859 Special Commentary](#).

Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the ability and willingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in consumer optimism to levels, while underlying liquidity conditions and reality still remain shy of consumer hopes. Accompanying details reflect January 2017 and fourth-quarter 2016 readings of consumer credit and obligations, real median monthly household income and those elevated February sentiment and confidence numbers.

Generally, the higher and stronger these measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes remain off their lows, and one—real monthly median household income—actually had spiked recently to pre-recession levels, reflecting the temporary collapse in gasoline prices and deflation by the otherwise underestimated headline CPI-U inflation. Having stagnated briefly, real monthly median household income generally has begun to move lower, along with a developing pickup in consumer inflation.

Still, the broad underlying consumer liquidity fundamentals simply have not supported, and still do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic of 2008 era, limited growth in household income and credit, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers. This circumstance remains in play in the context of that post-election surge in consumer expectations that has approached or exceeded pre-recession levels.

The combined issues here have driven the housing-market collapse and ongoing stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales activity and the related, personal-consumption-expenditure and residential-construction categories related to the Gross Domestic Product (GDP). Those sectors account for more than 70% of total U.S. GDP activity.

Yet, with the economy never having recovered fully from its collapse into 2009 (see [Commentary No. 869](#), consumers again are pulling back on consumption, as evidenced by a renewed slowdown in broad a broad array of economic indicators (see the preceding section), where that reality is evident in more-meaningful series—not the GDP—irrespective of the transient, gimmicked boosts to that most worthless of economic indicators.

Consumer Confidence and Sentiment. This detail incorporates full February 2017 reporting for the Conference Board's Consumer-Confidence the University of Michigan Consumer-Sentiment measures.

Reflected in *Graphs 11* and *12*, both confidence and sentiment rose in September and plunged in October, likely reflecting concerns as to the direction of the presidential race. The November measures rallied sharply, reflecting post-election consumer optimism and continued to explode in December, generally consistent with post-election reaction in the domestic stock-market and U.S. dollar.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index[®] (*Graph 11*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 12*), again, both soared post-election into December 2016, but took breathers in January 2017, with Confidence jumping in anew in February but with Sentiment off its near-term high. While the three-month moving average in sentiment in January rose to a pre-recession high, the three-month moving average in confidence as of February set a new post-recession high.

Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 11* to *13* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index[®] is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

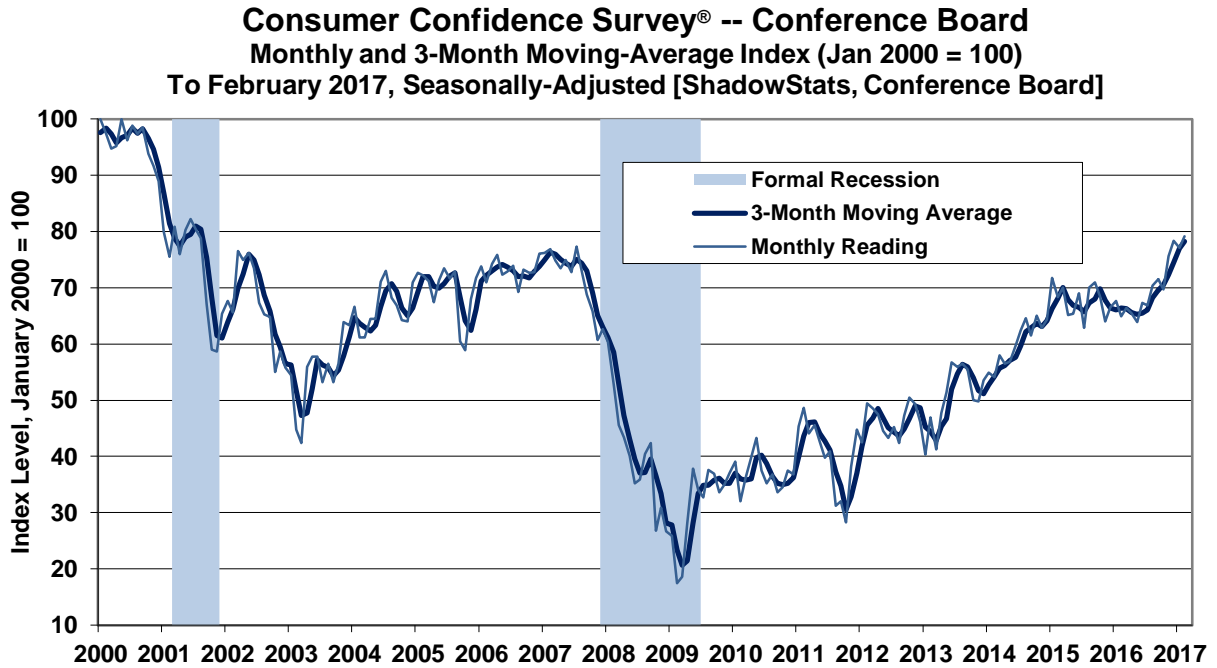
Consumer Sentiment continued to hold off its June 2015 near-term peak, smoothed for its six-month moving-average reading, but Confidence, again, broke to a new post-recession high (*Graph 13*), still below but rapidly closing in on pre-recession levels.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With what should become increasingly-negative, unstable and uncertain headline financial and economic reporting in the months ahead—beyond the initial change-in-government euphoria—successive negative hits to both the confidence and sentiment readings remain increasingly likely in the near future.

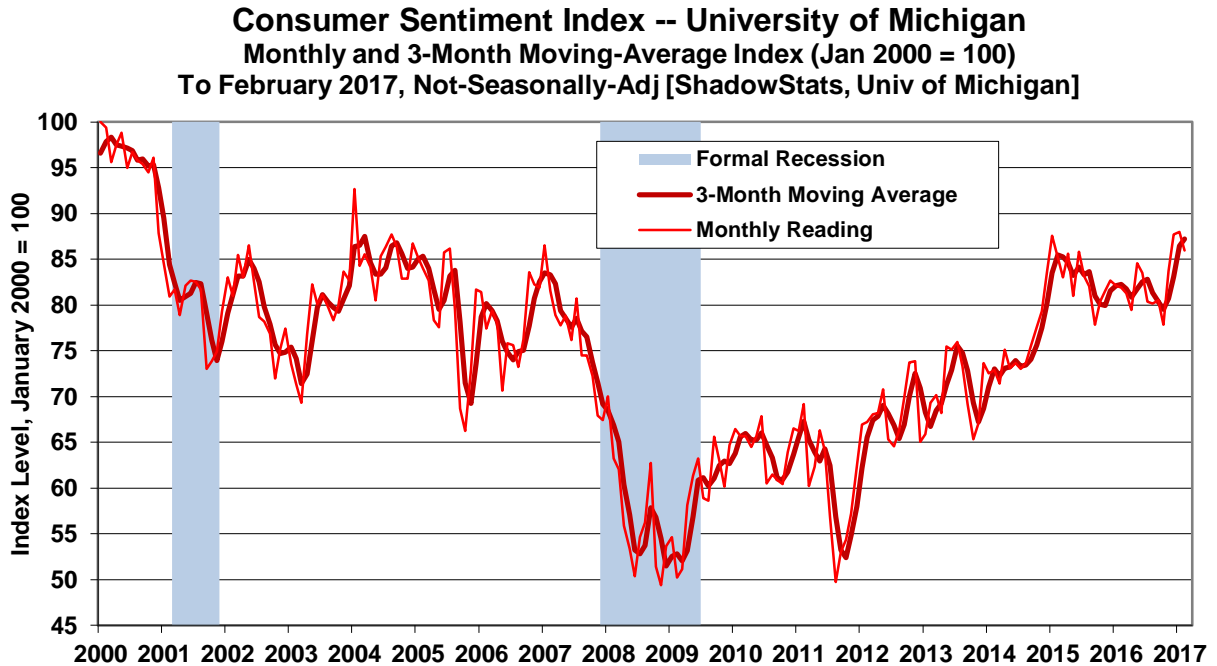
Smoothed for irregular, short-term volatility, the two series still generally remain at levels seen typically in recessions. Suggested in *Graph 13*—plotted for the last 47 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and third-quarter 2016.

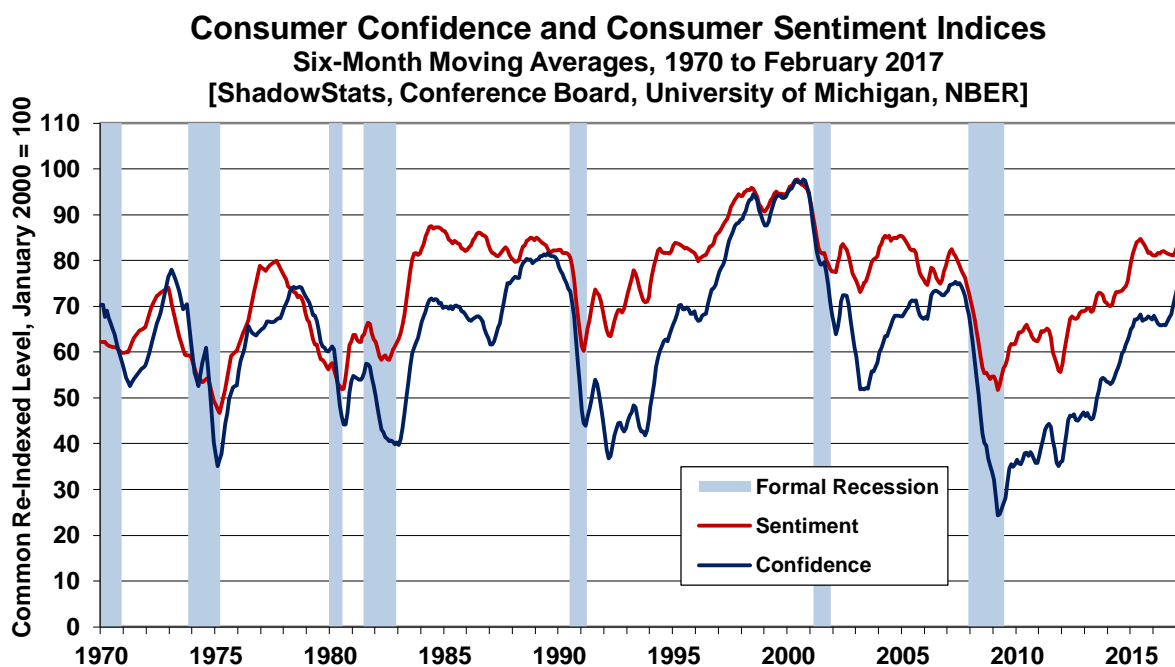
[Graphs 11 to 13 begin on the following page.]

Graph 11: Consumer Confidence (2000 to 2017)



Graph 12: Consumer Sentiment (2000 to 2017)



Graph 13: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)

January 2017 Monthly Household Income Declined to an Eight-Month Low, Still Signaling Broadly-Based Liquidity Difficulties. Despite a continuing monthly surge in the Conference Board’s Consumer Confidence Survey, and a minimal pullback in the University of Michigan’s Consumer Sentiment Survey, monthly Real Median Monthly Household Income has continued to falter. The household income measure, as surveyed by www.SentierResearch.com, was discussed and graphed in the *Opening Comments* of prior [Commentary No. 870](#), and is plotted in accompanying, repeated *Graphs 14* and *15*, both in terms of level and year-to-year change, which has turned negative.

At an eight-month low, the series turned negative year-to-year in December 2016 by 0.8% (-0.8%) for the first time since 2014, followed by an annual decline of 1.0% (-1.0%) in January 2017. Where low headline CPI-U inflation and related spikes in inflation-adjusted real income had resulted from collapsing gasoline prices, that process has begun to reverse.

Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing economic expansion since. The limited level of, and growth in, sustainable real income, and the ability and willingness of the consumer to take on new debt have remained at the root of the consumer liquidity crisis and the ongoing, related, broad economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. Where the post-election environment showed a near-term surge in consumer optimism, again, sentiment has flattened out at relatively high levels, with confidence bounding in February detail, yet underlying liquidity conditions and reality—particularly income and credit—still remain well shy of consumer hopes and needs.

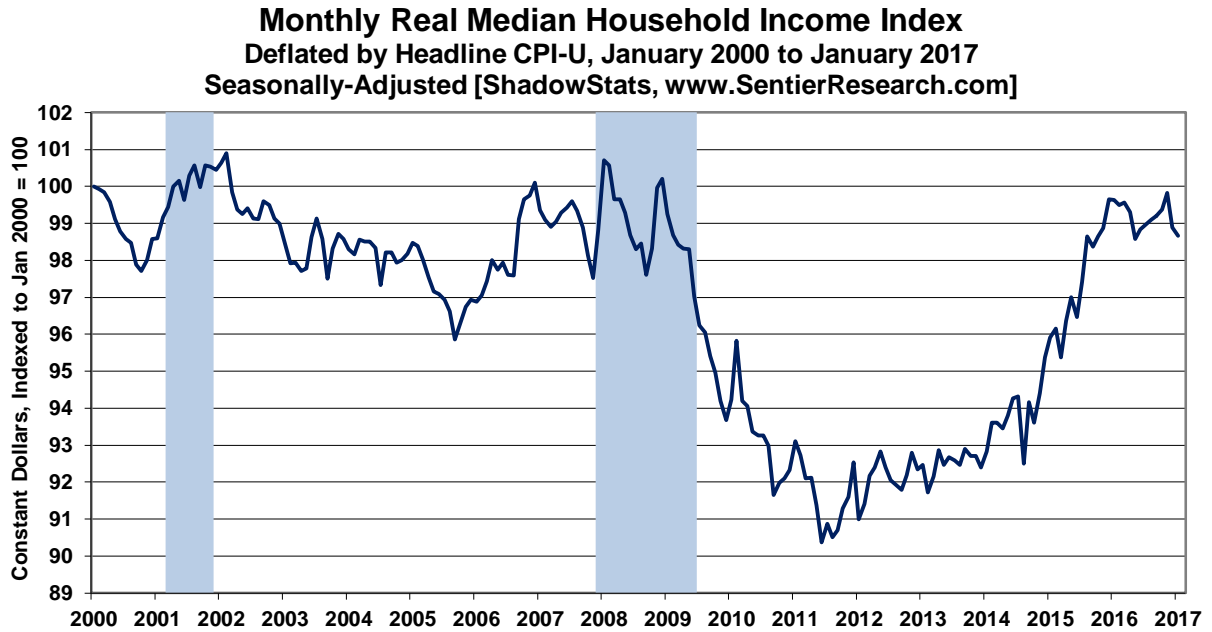
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. Again, the income series had been in low-level stagnation, with the post-2014 uptrend in the inflation-adjusted monthly index boosted specifically by collapsing gasoline prices and related, negative headline CPI-U consumer inflation. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions. It should continue turning down anew, as headline monthly consumer inflation generally picks up at an accelerating pace.

Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Again, the effects of changing gasoline prices have reversed, pushing headline consumer inflation higher.

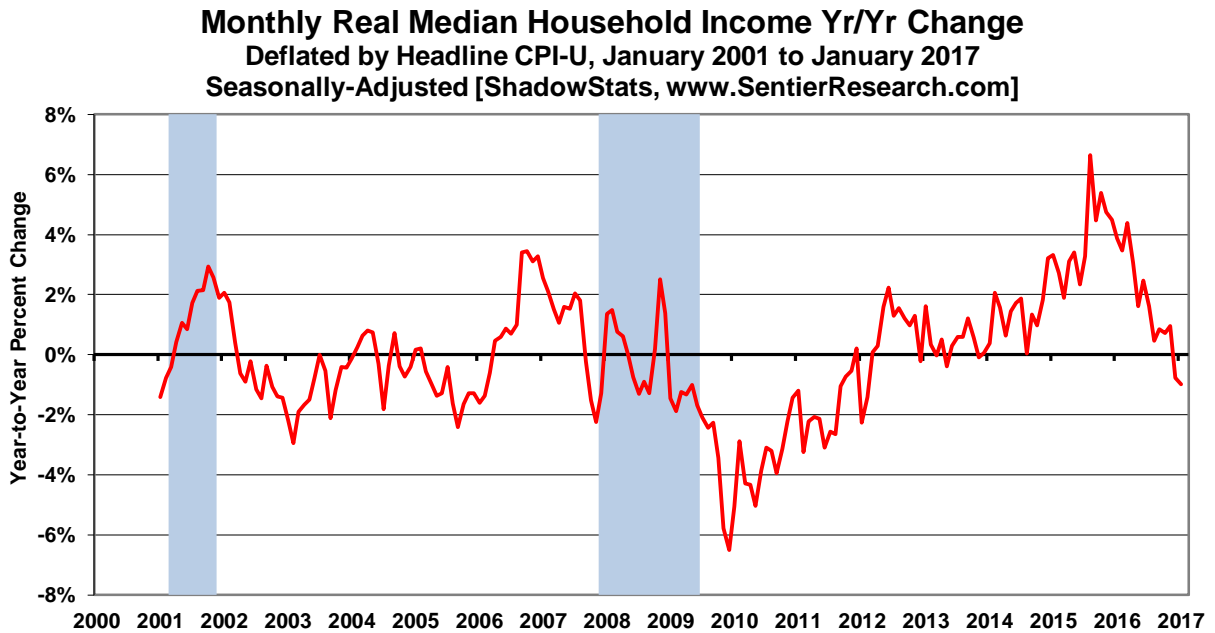
This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 16*, which was updated six months ago for 2015 detail (see the full analysis of the 2015 annual household income reporting in [Commentary No. 833](#)). The relative jump seen in the headline annual 2015 median income, despite formal adjustment for discontinuities in the recent annual reporting, was due largely to series redefinitions, not due to a sudden change in consumer liquidity, other than as tied to the collapse in gasoline prices and a related spike in the inflation-adjusted numbers. The level of real annual median household income for 2015, not only was below that seen at the purported trough of the economic collapse into 2009, but also it was below levels seen in the early-1970s and the late 1980s.

[Graphs 14 to 16 begin on the following page]

Graph 14: Monthly Real Median Household Income (2000 to 2017)



Graph 15: Year-to-Year Change in Monthly Real Median Household Income (2000 to 2017)

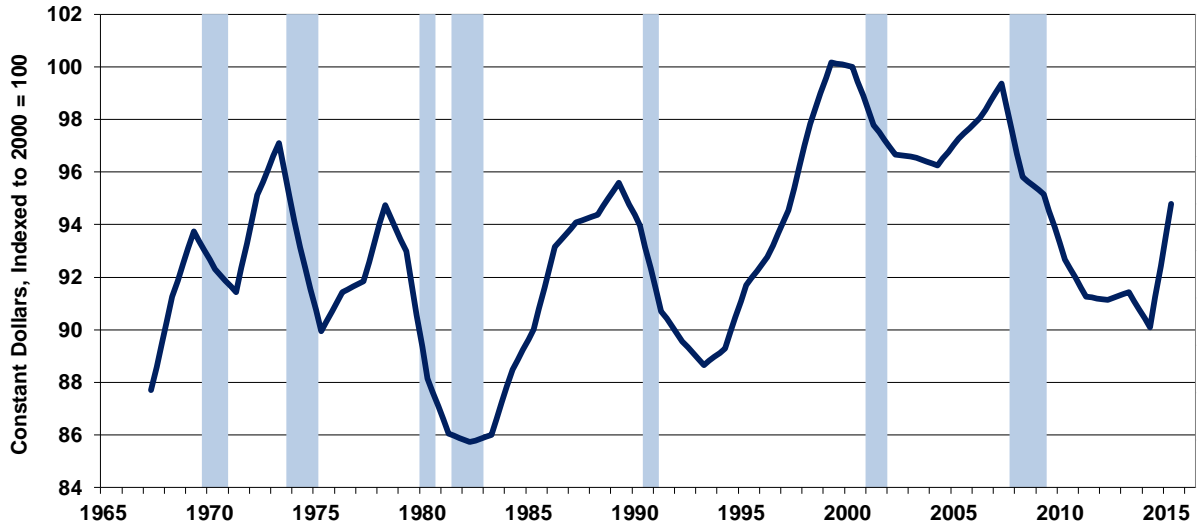


Differences in the Monthly versus Annual Median Household Income. The general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 16*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 annual number still holding below that seen when the collapsing economy hit its purported trough in 2009.

Graph 16: Annual Real Median U.S. Household Income (1967 to 2015)

Annual Real Median Household Income Index (1967-2015)

Adjusted for 2013-2014 Discontinuities,
Deflated by the Bureau of Labor Statistics' Headline CPI-U
[ShadowStats, Census Bureau, Bureau of Labor Statistics]

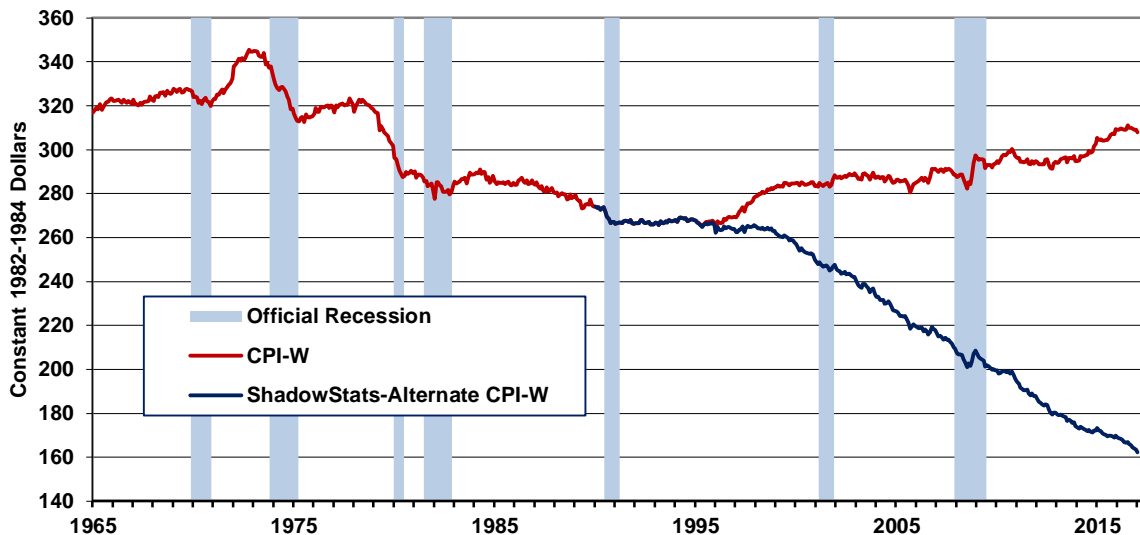


The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau.

Graph 17: Real Average Weekly Earnings, Production and Nonsupervisory Employees (1965 to 2017)

**Real Average Weekly Earnings (Benchmark Revised)
Production and Nonsupervisory Employees**

Deflated by CPI-W versus ShadowStats-Alternate (1990-Base)
1965 to January 2017, Seasonally-Adjusted [ShadowStats, BLS]



Where Sentier uses monthly questions surveying current annual household income, the headline annual Census detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings through January 2017, shown in the preceding *Graph 17* and as reported by the Bureau of Labor Statistics and minimally revised in the February 3rd Establishment Survey benchmarking (see [Commentary No. 866](#) for full background on the series). Detail for February 2017 will be published with the March 15th *Commentary No. 872*.

Consumer Credit Has Remained Constrained. The final four graphs on consumer conditions address consumer borrowing. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 18* of *Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered fully, based on the Federal Reserve's just-published (March 9th) flow-of-funds accounting through fourth-quarter 2016. Household Sector, Real Credit Market Debt Outstanding in fourth-quarter of 2016 still was down by 11.6% (-11.6%) from its pre-recession peak of third-quarter 2007. Third-quarter 2016 was down by a revised 11.8% (-11.8%) [previously down by 11.6% (-11.6%)] from the peak.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016. Current activity also has reflected surging student loans, as shown in the *Graphs 19 to 21*.

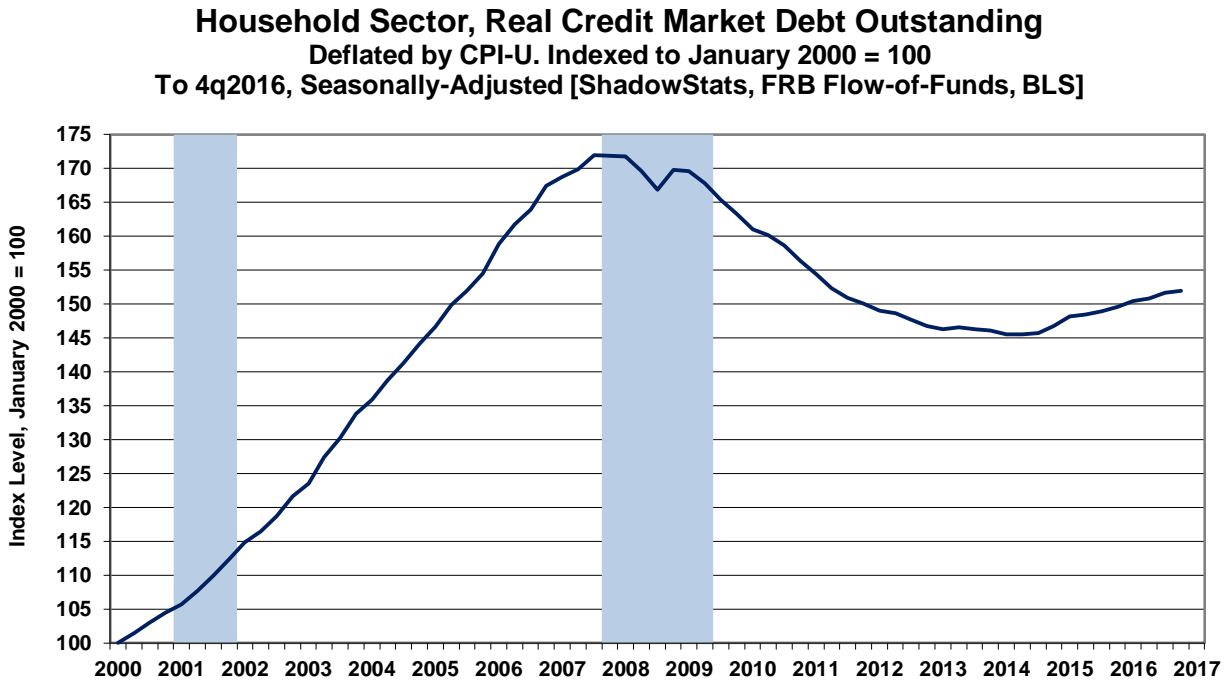
Shown through the latest reporting (January 2017), *Graph 19* of monthly Consumer Credit Outstanding is a subcomponent of *Graph 18* on real Household Sector debt. Where *Graph 19* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for the monthly Consumer Credit Outstanding is shown both in terms of level (*Graph 20*) and in terms of year-to-year change (*Graph 21*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels over one year reflecting some regular, unadjusted seasonal dips or jumps.

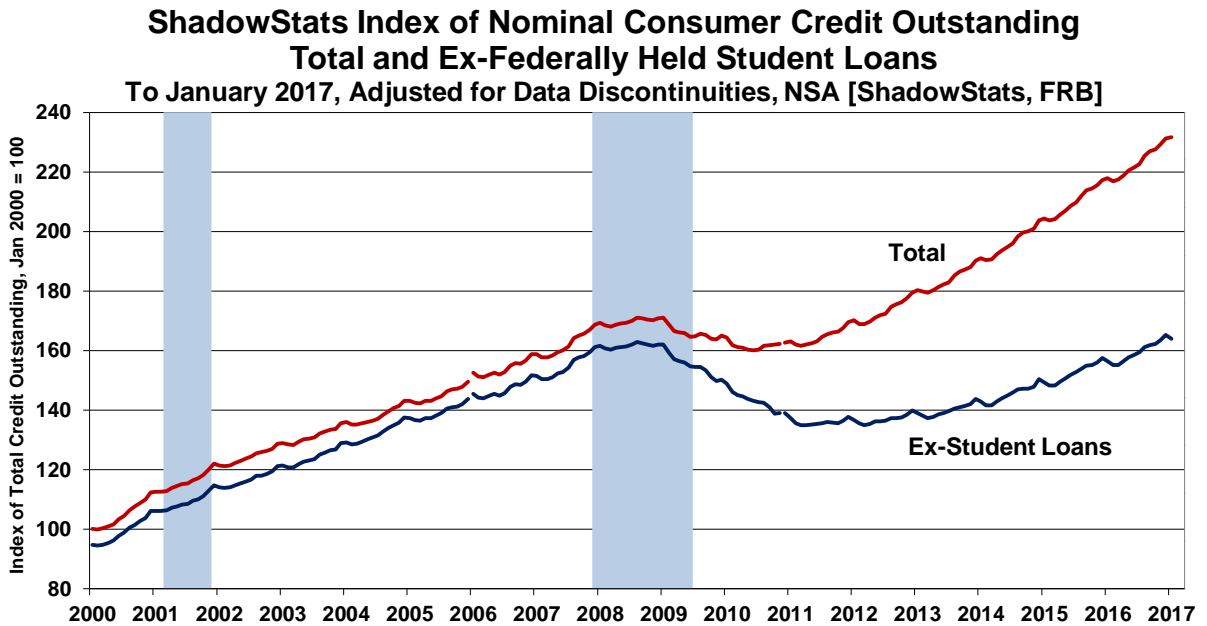
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in January 2017 was down from its December 2007 pre-recession peak by 12.0% (-12.0%). Year-to-year growth in *Graph 21* tends to resolve most of the monthly distortions in not-seasonally-adjusted data.

[Graphs 18 to 21 begin on the next page.]

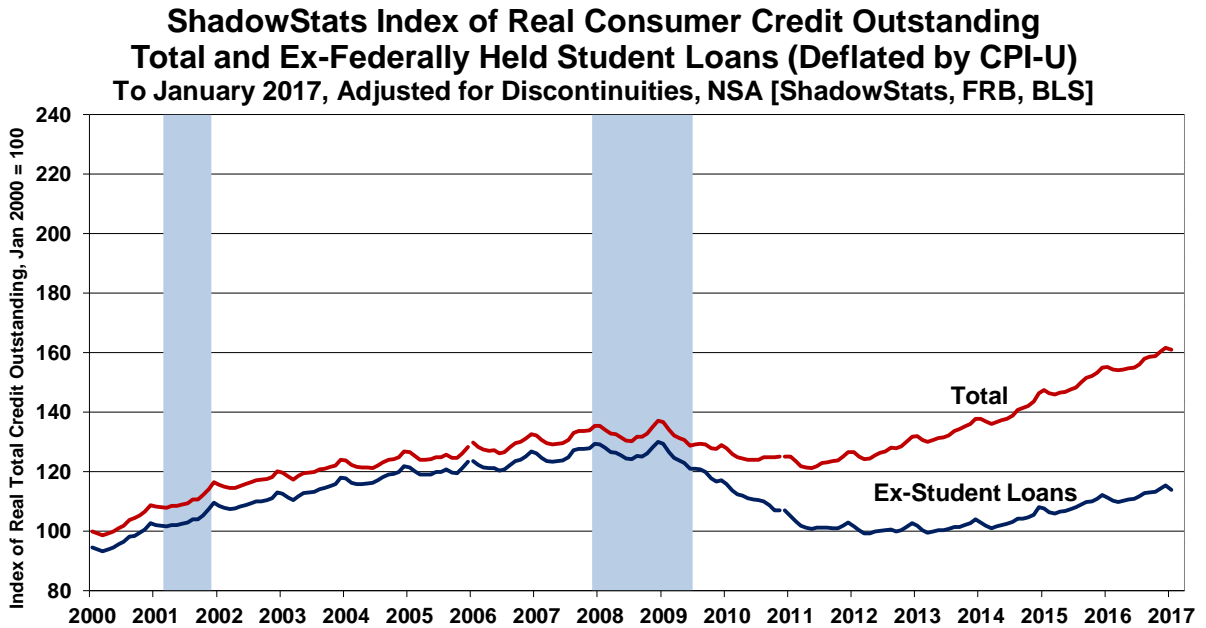
Graph 18: Household Sector, Real Credit Market Debt Outstanding (2000 through Fourth-Quarter 2016)



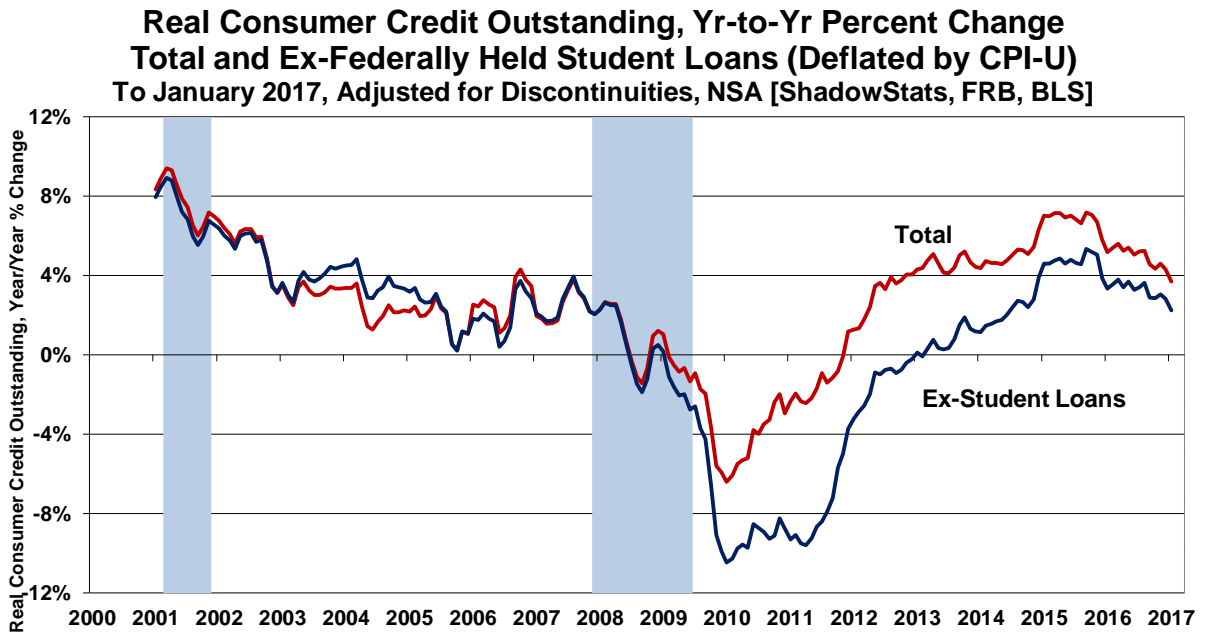
Graph 19: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph 20: Real Consumer Credit Outstanding (2000 to 2017)



Graph 21: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



*[The Reporting Detail contains extended analysis and graphs of the
February 2017 Labor Conditions.]*

HYPERINFLATION WATCH

MONETARY CONDITIONS

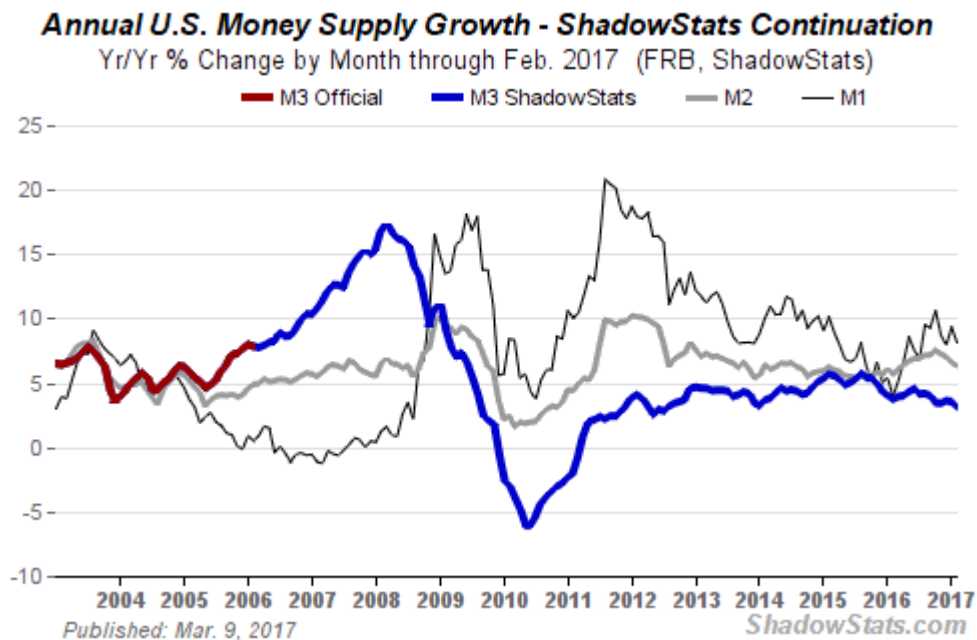
February 2017 Annual Growth Rate in M3 Dropped Sharply, to Slowest Pace Since July 2012.

Based on three-plus weeks of reporting, and in the context of continued flight to cash, estimated February 2017 annual growth for the ShadowStats Ongoing M3 Money Supply slowed to 3.1%. Such was the weakest year-to-year change in fifty-five months, down from 3.5% in January 2017 and down from a near-term peak of 5.7% in August 2015. As noted in [Commentary No. 866](#) (see *Real Money Supply M3—Annual Growth Signaling Economic Downturn* on page 51), slowing annual growth nominal M3 as of January, combined with rising headline annual CPI-U inflation, already had moved annual real M3 growth to a level that historically has preceded recessions. A formal recession signal is imminent.

At the same time, annual M2 growth slowed to a ten-month low of 6.4% in February 2017, down from 6.6% in January 2017, and down from a near-term peak of 7.6% in October 2016.

February 2017 annual M1 growth slowed to a two-month low of 8.2%, down from 9.4% in January 2017, and down from near-term peak annual growth of 10.7% in October 2016, a 25-month high.

Graph 22: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through February 2017



The relatively weaker M3 annual growth reflected a continuing shift from the large time deposits and institutional money funds in M3, into accounts in the subsidiary M2 and M1 series (M2 includes M1; M3 includes M2), with relatively stronger growth in M1 indicating an increased flight to cash or near-cash.

For those living in the headline money-supply world comprised of just the Fed's headline M1 and M2, money growth has been relatively stronger for both M1 and M2. Yet, 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 a shift over time in funds from accounts included just in M3, such as large time deposits and institutional money funds, into accounts in M2.

In conjunction with the weaker M1, M2 and M3 annual growth rates, headline month-to-month change also weakened in February 2017. Monthly change in February 2017 for M3 softened to a 0.1% gain versus 0.2% in January, M2 monthly growth eased to 0.3% in February 2017 versus 0.6% in January, while M1 declined month-to-month by 0.6% (-0.6%) in February 2017, having jumped month-to-month by 2.0% in January 2017.

The latest estimates of level and annual changes for February 2017 M3, M2 and M1, and for earlier periods, are detailed in the [Alternate Data](#) tab of www.ShadowStats.com. See the [Money Supply Special Report](#) for full definitions of those measures. Today's *Opening Comments*, those in prior [Commentary No. 870](#) and the *FED* section of [No. 859 Special Commentary](#) all discuss Federal Reserve Activity and possible actions on March 15th. The latest monetary conditions reflected in the Monetary Base and in the U.S. dollar exchange rates and the price of gold will be updated in the March 16th *Commentary*, the day following the March 2015 FOMC action or inaction. The quarterly update to the velocity of money was published in the *Hyperinflation Watch* of [Commentary No. 863](#).

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (February 2017)

Underlying Recession Continued in Play, Headline Labor Conditions Continued to Overstate U.S. Economic Health. Today's *Opening Comments* and the opening paragraphs in the *Executive Summary* lay out the background to the headline today's (March 10th) reporting of labor conditions for February 2017. Underlying reality remained in the realm of a 22.7% broad unemployment rate, with the actual monthly payroll-employment change likely flat-to-minus, despite more-upbeat headline indications out of

the BLS. Specifically, the government showed headline U.3 unemployment notching lower to 4.7%, with a headline monthly jobs gain, again, of 235,000. What otherwise often is just nonsense reporting with these series, went to artificial extremes in the latest headline detail.

Reporting quality of February headline employment and unemployment data suffered from regular monthly distortions, exacerbated by last month's annual benchmark revisions and changes to seasonal-adjustment methodologies for payroll employment December, and by annual population re-estimation in the unemployment series last month. Most reporting gimmicks continue to evolve 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. That became the current birth-death modeling, with the upside biases created for enhancing the payroll-employment count, an area that was further bloated in the recent annual revisions (see the later *Birth-Death/Bias-Factor Adjustment [BDM]* section).

Consider too, the politically-orchestrated changes to methodology, such as redefining “discouraged workers” out of longer-term unemployment accounting, in coordination with the NAFTA agreement (see the late *ShadowStats-Alternate Unemployment Rate Measure* section).

As designed, intended and implemented over decades, the regularly-gimmicked headline employment and unemployment numbers and annual revisions meaningfully have overstated labor-market health in the February jobs and unemployment reporting. Separately, the headline monthly reporting details for the both the payroll and unemployment series broadly are not consistent month-to-month. Concurrent seasonal-factor-adjustment are used to revise the prior five years of seasonal adjustments each and every month for both series, but the consistent, revised historical data are not published each month (see the later *Headline Distortions from Shifting Concurrent-Seasonal Factors* section).

PAYROLL SURVEY DETAIL. The Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for February 2017, this morning, March 10th, in the context minimal prior-period revisions, but still in the context of the annual benchmark revisions published on February 3rd. In continuing context of heavily-distorted bloating, unstable seasonal adjustments, and inconsistent benchmarking, the seasonally-adjusted, headline payroll gain for February 2017 was 235,000 +/- 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 a revised gain of 238,000 [previously 227,000] in January 2017 and a revised gain of 155,000 [previously a benchmark-revised 157,000, initially at pre-benchmarked 156,000] gain in December 2016. The headline revised monthly gain in December 2016 of 155,000 jobs was not reported on a comparable basis with the headline February 2017 and January 2017 details. Net of prior-period revisions, February 2017 payrolls rose by 244,000, instead of the headline 235,000.

Collapsing Annual Growth. The not-seasonally-adjusted, year-to-year growth in February 2017 nonfarm payrolls of 1.61%, notched higher from a revised 1.54% [previously 1.51%] annual gain in January 2017 and a revised 1.45% [previously a benchmark-revised 1.46%, initially 1.41% pre-benchmark] in December 2016. The annual growth of 1.45% in December 2016 was the lowest level in 62 months, since October 2011, when payrolls were first recovering from the economic collapse. The uptick in February

2017 annual growth to 1.61% still held at a level rarely seen, except going into or coming out of recessions.

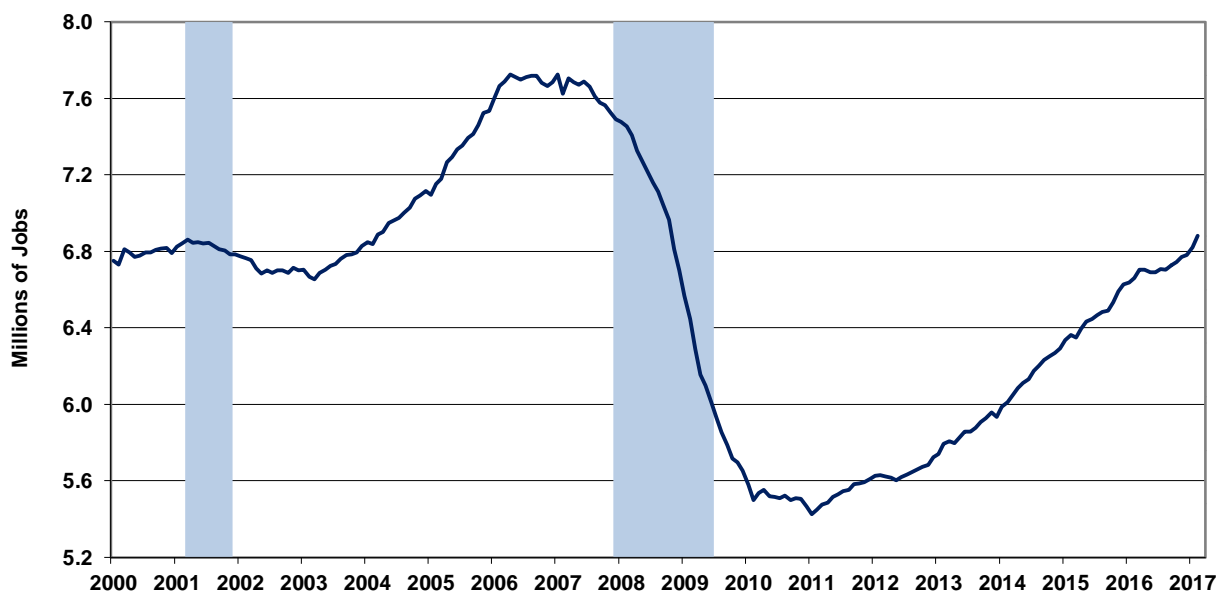
Confidence Intervals. Where the current employment levels have been spiked by misleading and inconsistently-reported concurrent-seasonal-factor adjustments, the reporting issues suggest that a 95% confidence interval around the modeling of the monthly headline payroll gain should be well in excess of +/- 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 Rose in February Revised Higher in January. In the context of upside benchmark revisions in the prior month's reporting, February 2017 construction payroll employment rose by 58,000 to 6.881 million jobs. That was on top of upwardly-revised gains of 40,000 [previously 36,000] jobs in January and 12,000 [previously 2,000] jobs in December 2016. Net of prior-period revisions, the headline February monthly gain would have been 72,000.

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). Details, including both pre- and post-benchmarking levels from January are plotted in accompanying *Graph 23* (updating *Graph 8* in prior [Commentary No. 870](#)). The recent general pattern of flattening-out and turning lower increasingly now is turned to up-trending, post-benchmark, but it still is broadly consistent with the low-level plateauing and weakness seen in real construction spending and other construction measures.

Graph 23: Construction Payroll Employment 2000 to Date

Construction Payroll Employment to February 2017
Seasonally-Adjusted [ShadowStats, BLS]



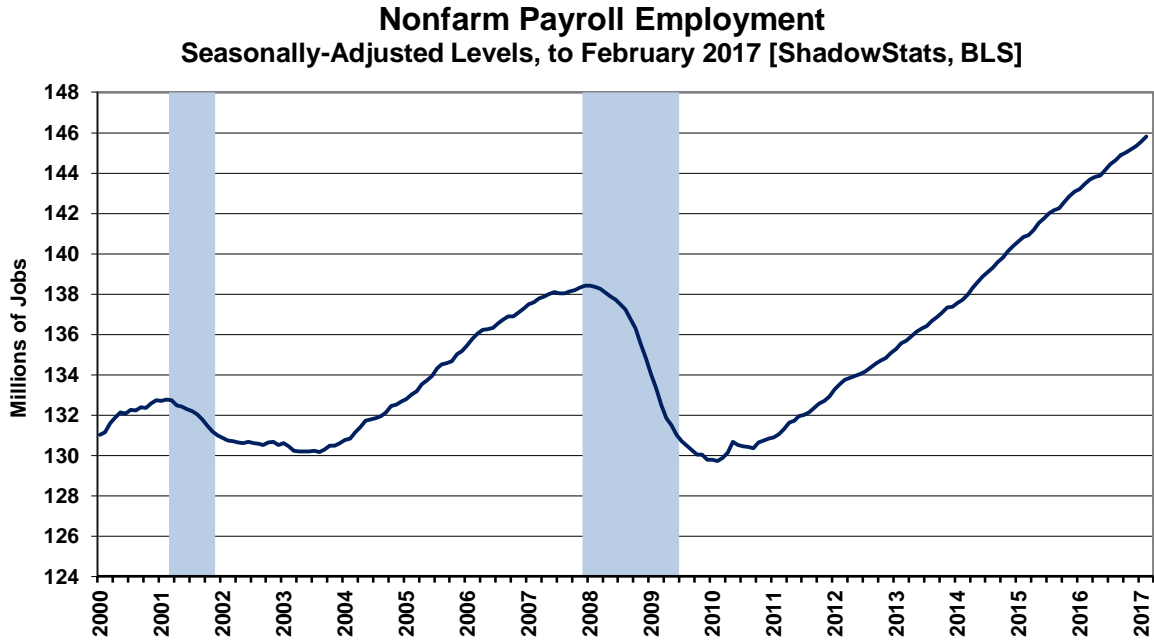
Headline month-to-month construction employment rose by 0.85% in February 2017, having gained a revised 0.59% [previously 0.53%] in January and a revised 0.18% [previously post-benchmarking at 0.03%, pre-benchmarking down by 0.04% (-0.04%)] in December 2016. Unadjusted year-to-year growth rallied to 3.50% in February 2017, versus a revised 2.59% [previously 2.64%] in January 2017 and a revised 1.80% [previously 1.77% post-benchmarking, 1.49% pre-benchmarking] in December 2016.

Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 7,600 jobs per month, unofficially at an order of magnitude of 21,000 jobs per month). The headline February level of construction jobs was the highest seen since October 2008, but it remained down from the April 2006 pre-recession series peak by 10.94% (-10.94%).

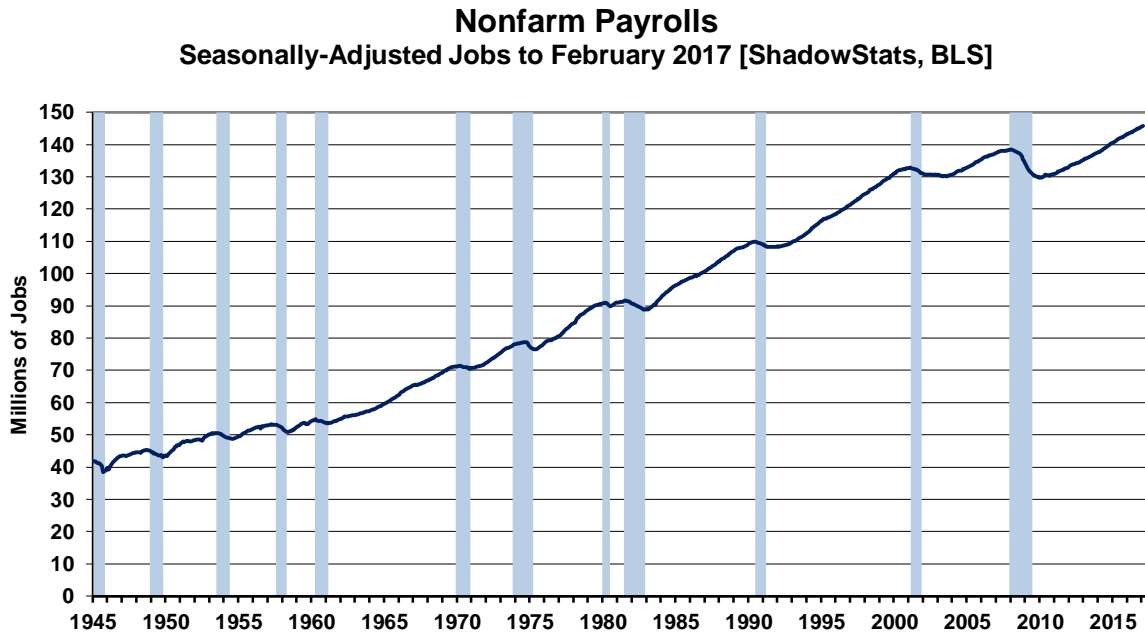
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy 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 and 2016 benchmarkings. Previously that had been April 2014, as of the 2014 benchmarking. Payroll employment generally has continued to rise since. Through February 2017, headline payroll employment was 7.37-million jobs above its pre-recession peak.

[Graphs 24 and 25 follow on the next page]

Graph 24: Nonfarm Payroll Employment 2000 to Date



Graph 25: Nonfarm Payroll Employment 1945 to Date



Graphs 24 and 25 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.

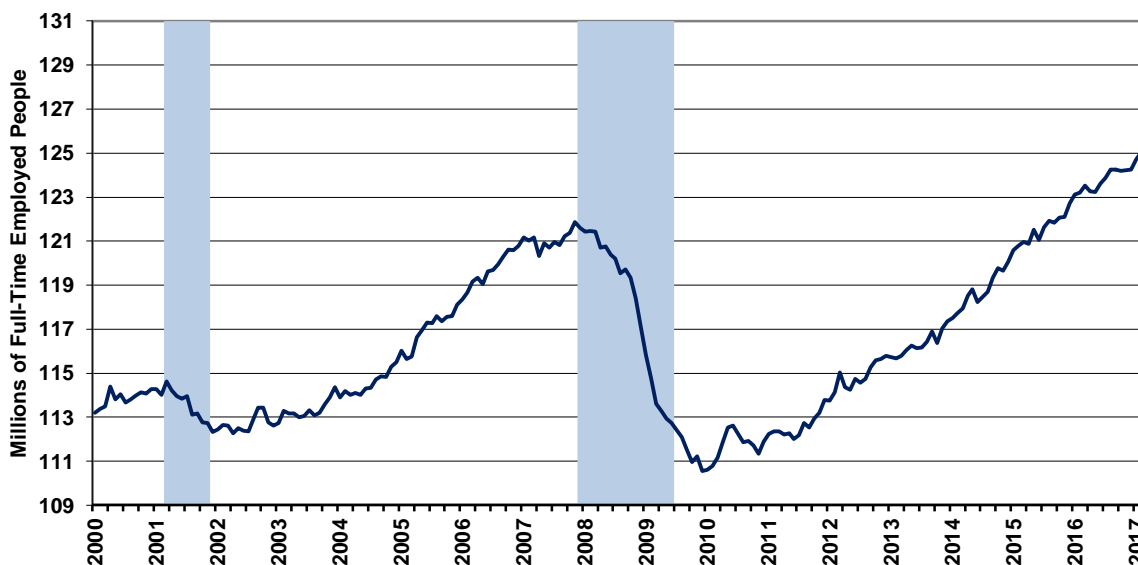
Beyond excessive upside add-factor biases built into the monthly calculations (see the *Birth-Death Model* section), the problem remains that payroll employment counts the number of jobs, not the number of people who are employed. Much of the payroll “jobs” growth has been in multiple part-time jobs—many taken on for economic reasons—where full-time employment was desired but could not be found. Consider that in the headline detail of the February 2017 labor conditions, headline payroll jobs, which count each part-time job as an employed individual, gained 235,000 jobs in the month. The Household Survey, which counts employed individuals only once, irrespective of how many jobs a given individual holds, showed an increase of 260,000 in the number of multiple jobholders.

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.

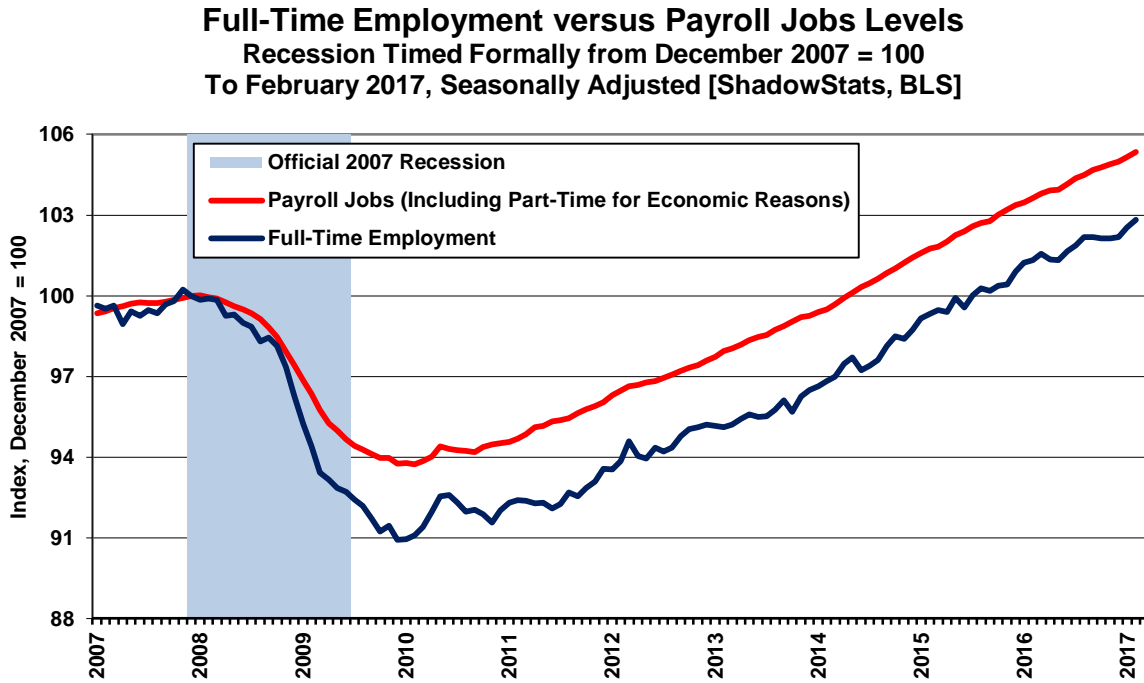
Graph 26: Full-Time Employment (Household Survey) to Date

**Civilian Full-Time Employment Level - (Household Survey)
Counts Number of People Who Are Employed (Not Number of Jobs Held)
Seasonally-Adjusted Levels, to February 2017 [ShadowStats, BLS]**

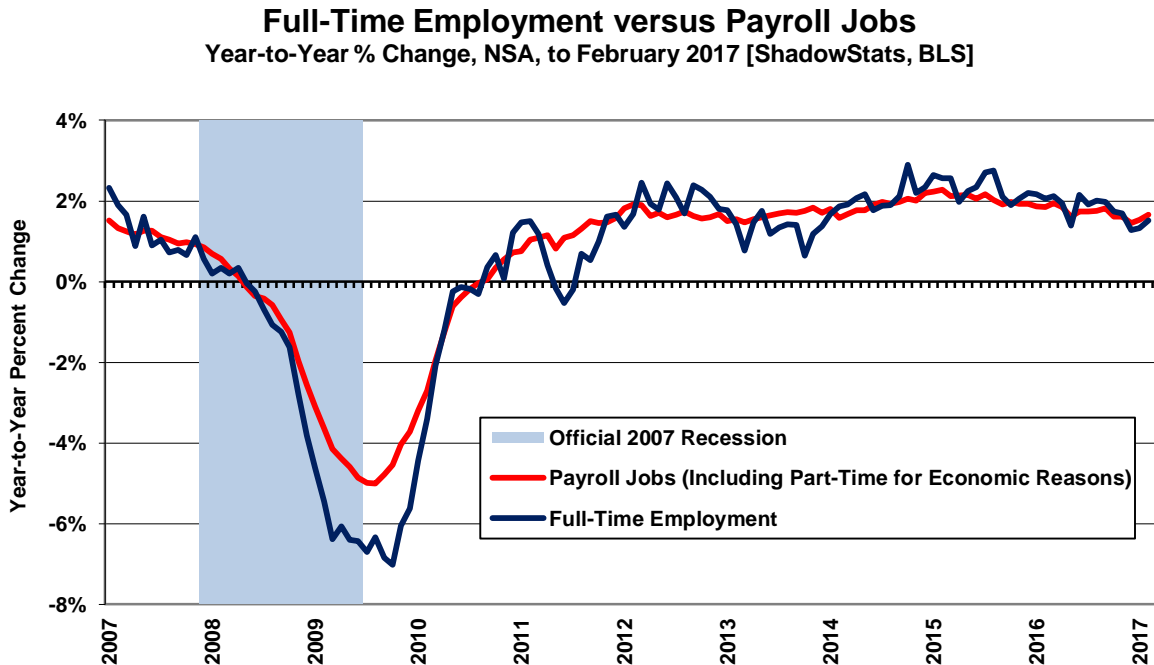


Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 26* (using a roughly-proportionate scale to *Graph 24*), the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline February 2017 full-time employment rose by another not believable monthly gain of 326,000, on top the headline 457,000 [an implied nonsensical 865,000 if the population revisions were to be believed] gain January 2017, having gained 35,000 in December 2016, 23,000 in November, and having declined by 63,000 (-63,000) in October and by 3,000, (-3000) in September, and having gained 368,000 in August.

Graph 27: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)



Graph 28: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year



Headline detail now stands at 3.16-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 the last year or so. The series will gyrate further in the months ahead, and remains likely to drop from the current headline level.

Still the 3.16-million gain compares with the headline payroll-employment level that is 7.37-million above its pre-recession high, regained some 32-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.

As a separate consideration and an indication of the level of nonsensical GDP reporting, where employment traditionally is a coincident indicator of broad economic activity, again the GDP purportedly recovered its pre-recession high some five years ago, more than two years before similar payroll activity, and more than four years before the likely temporary, lesser recovery in full-time employment. *Graphs 27 and 28* plot comparisons of activity in full-time employment versus payroll jobs, post-economic collapse. Full-time employment was hit hardest, with headline employment “recovery” coming largely from individuals having to settle for part-time work.

Headline month-to-month volatility in the full-time employment reporting is more a function of the instabilities from the non-comparability of the headline, seasonally-adjusted monthly data (see the discussion in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section).

The graph of full-time employment excludes the count of those employed with only part-time jobs, one or more. Total employment, including those employed with part-time work, has recovered its pre-recession high, but it is not close to the payroll reporting and has been irregular in pattern. Once more, the Household-Survey numbers count the number of people who have at least one job. The Payroll Survey simply counts the number of jobs (see [Commentary No. 686](#) for further detail).

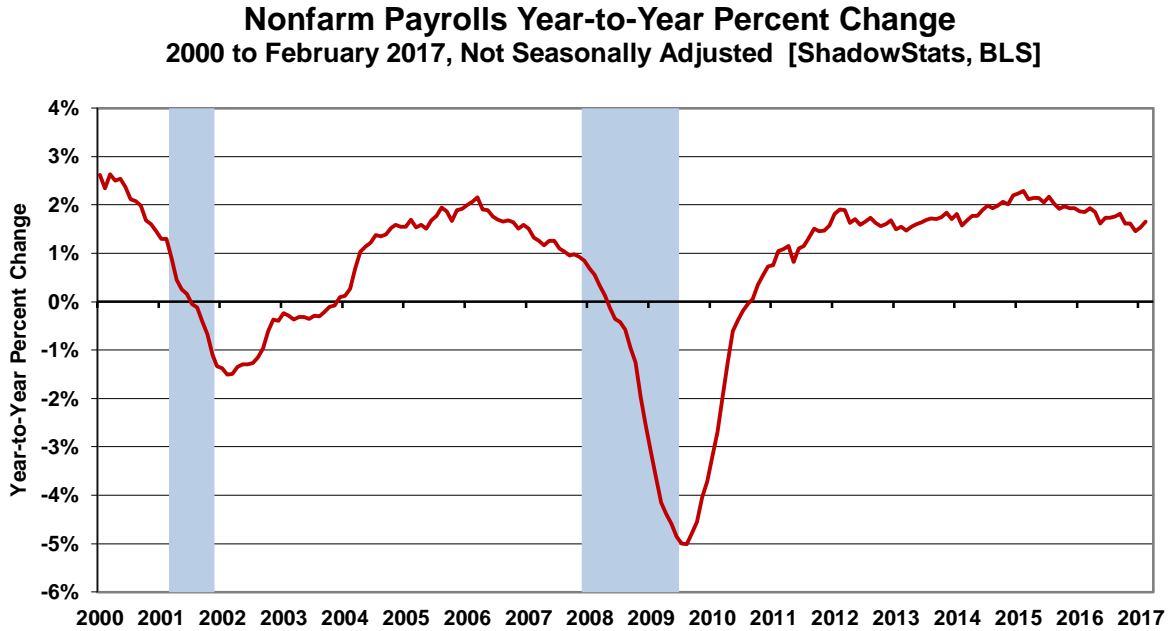
Annual Percent Changes in Headline Payroll Employment. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis, although they are, in theory, the basis for the core annual benchmarking of payroll employment.

Year-to-year growth in unadjusted payrolls still stands at a post-recession peak of 2.29% in February 2015, reflected in the headline detail of *Graphs 29 and 30*. 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 January and February 2017 notched higher respectively to 1.54% and 1.66%, from a 62-month low of 1.45% in December 2016, the lowest level of growth since purportedly coming out of the recession. See the recent discussions of “healthy” annual payroll growth in [Commentary No. 843](#) and the FOMC discussion in [Commentary No. 870](#).

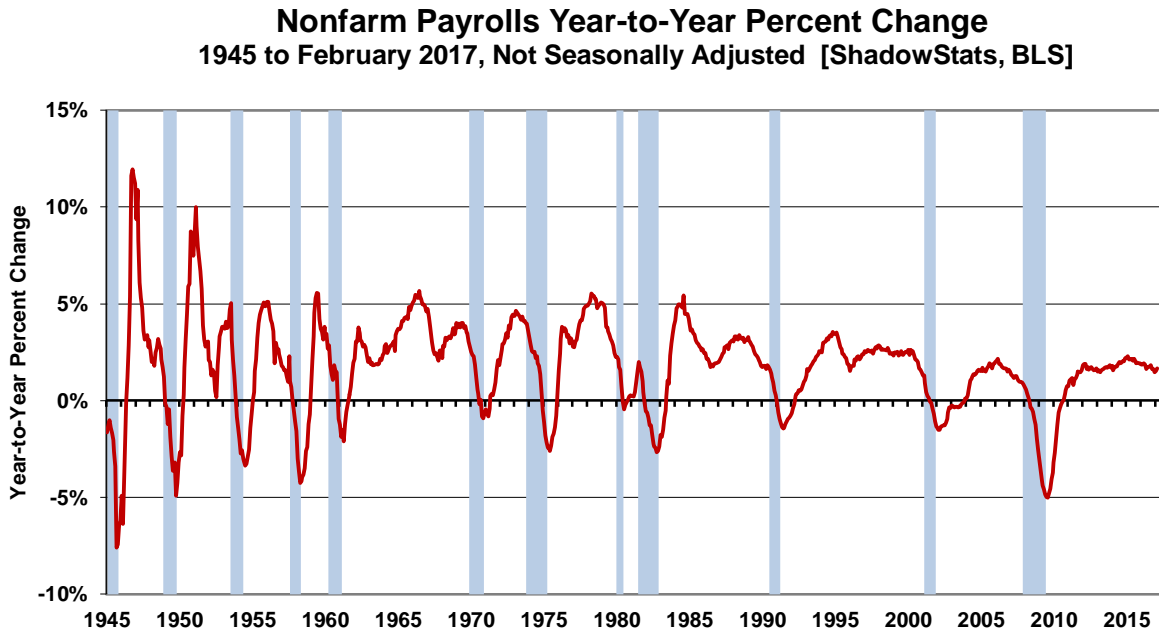
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown 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 29 and 30 follow on the next page.]

Graph 29: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



Graph 30: Payroll Employment, Year-to-Year Percent Change, 1945 to Date



Headline Distortions from Shifting Concurrent-Seasonal Factors. 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 remains that the historically-comparable revised data are not published along with the new headline detail.

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

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

Discussed in the following paragraphs, the historical data never are published on a consistent basis for the payroll survey, again, even with the headline benchmark revision. The household survey is published only once per year on a consistent basis, in December, but the numbers become inconsistent, once again, with the ensuing January 2017 reporting. Headline month-to-month inconsistencies in the household survey are highly variable every month, but that detail never is published and is not 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. 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.

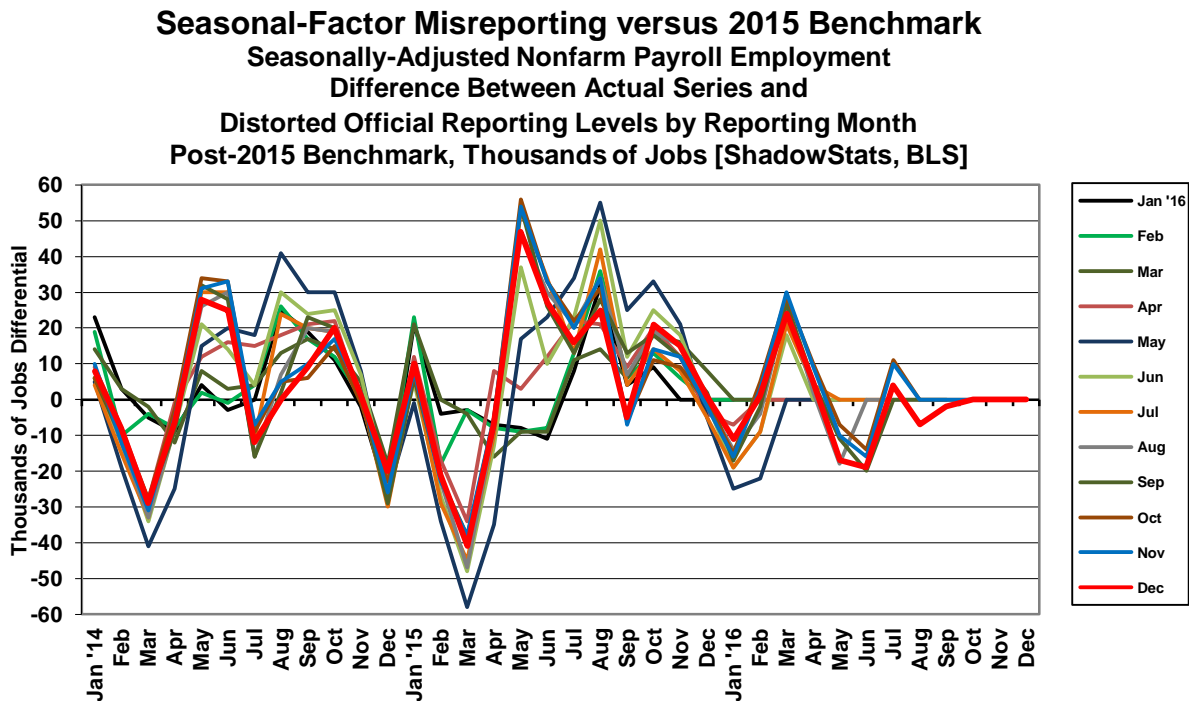
Consider *Graphs 37* and *38*, where data are available from the BLS to calculate the month-to-month seasonal-adjustment variability in the Payroll Survey. Similar detail is not available for the Household Survey, yet the month-to-month instability likely is of similar magnitude. At least with the Payroll

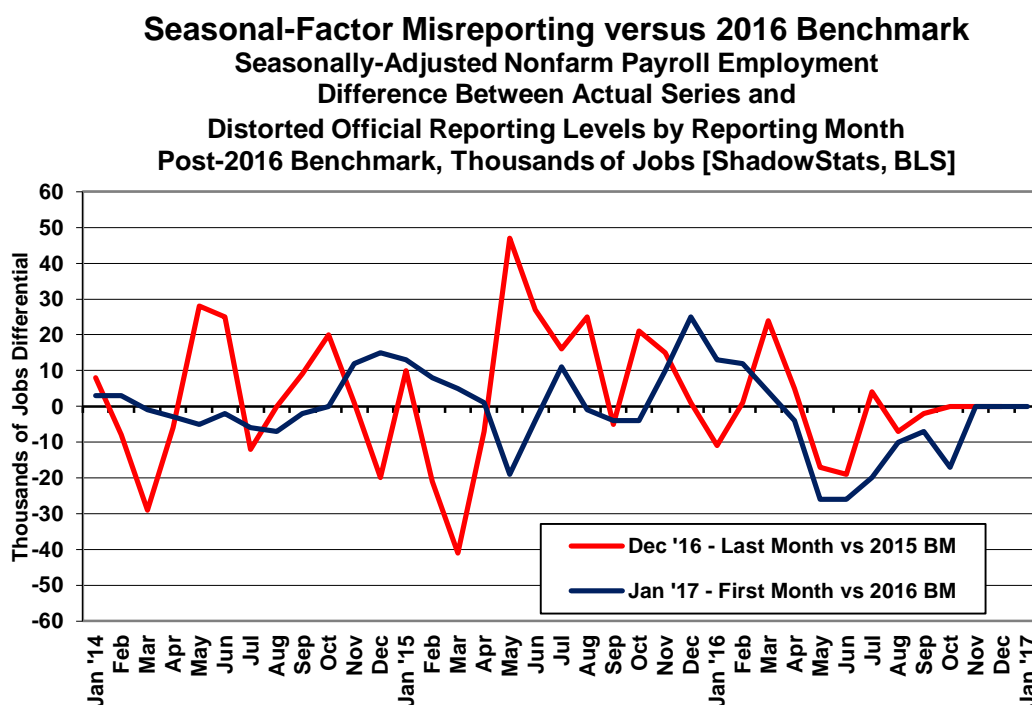
Survey, the headline January 2017 payroll level was prepared on a consistent basis with the levels of December 2016 and November 2016, but not with October 2016, with the result the headline monthly gains are consistent only for January and December. With the Household Survey, except for December, however, 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 *Graphs 37* and *38*).

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 has done 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 31*, showing the full monthly variability in the 2016 historical seasonal adjustments in the period since last year's 2015 payroll benchmark revision. As seen here, consistent data never is published. The benchmark-revised system is run in the background for three months before the headline January publication, which allows the initial headline publishing to stray from the initial benchmarking. *Graph 32* shows how far the system strayed from the initial 2016 benchmarking, in its formal benchmark reporting of January 2017.

Graph 31: Concurrent-Seasonal-Factor Irregularities – December 2016 Detail versus 2015 Benchmarking



Graph 32: Concurrent-Seasonal-Factor Irregularities – January '17 Detail versus 2016 Benchmarking

Where the red line reflected seasonal-factor straying through December 2016 from the 2015 benchmarking, the blue line indicates the straying in January 2017 versus the initial 2016 benchmarking. The January 2017 detail suggested a reversal of seasonal factors, consistent with the benchmarking detail and the new “selective” seasonal adjustment processes. Such variability in seasonal factors, though, rarely is seen in a stable economic series. These data again suggest heavily-gamed headline reporting.

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 and discussed in the *Opening Comments* of [Commentary No. 784](#). Subscribers interested in the modeling of specific industry payroll components on a consistent month-to-month basis—not otherwise available—should contact johnwilliams@shadowstats.com or at (707) 763-5786.

Birth-Death/Bias-Factor Adjustment (BDM). 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), although increasingly the downside revisions, when formalized are more than offset by upside revisions to the monthly bias factors, going forward, as was the case in 2016 (see [Commentary No. 864](#)).

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, however, were massaged and recast to an aggregate downside revision of 81,000 (-81,000) jobs. That change then was used to impute adjustments back to April 2015, and it should have been carried forward to December 2016, but that did not happen, again, as discussed in the *Opening Comments* of [No. 864](#).

Despite the published downside revision of 206,000 (-206,000) to March 2015 payrolls in the 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 creation of “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.

February 2017 Add-Factor Bias. The not-seasonally-adjusted February 2017 add-factor bias was a positive 124,000, following a negative 247,000 (-247,000) in January 2017, following a positive 129,000 add-factor in February 2016.

The revamped, aggregate upside annual bias for the trailing twelve months through January 2017 is estimated from current headline bias reporting at 962,000 up by 121,000 or 14.4% from 841,000, the December 2016 pre-benchmarking level and up 181,000 or 23.2% from 781,000 in December 2015, the year before. That is a monthly average of 80,167, in February 2017 (versus 70,083 pre-2016 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 2016 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 continue to suggest 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 80,167 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 December 2016 labor-conditions reporting (see [Commentary No. 860](#)), the 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 prior December 2016 reporting were most of the headline Household Survey details historically consistent, but only for that one month. With the January 2017 and today’s subsequent February 2017 headline detail, all the monthly inconsistencies first returned and then increasingly were scrambled. Separately, the regular annual break in January detail, based on the introduction of new population controls left many of the headline numbers—January versus December—in a circumstance where they never are fully consistent or compatible (see [Commentary No. 864](#)).

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. In the context of last month’s revamped underlying population estimates, and the resumption of regular non-comparability of month-to-month changes in seasonally-adjusted headline unemployment detail, February 2017 unemployment rate (U.3) declined to 4.7% [4.70%], versus 4.8% [4.78%] in January and 4.7% [4.72%] in December 2016. Formally, the decline of 0.08% (-0.08%) in February U.3 was well shy of being statistically-significant. Such consideration is nonsense, however, given that the monthly numbers are reported on an inconsistent basis and are not even comparable with each other, except once per year, in December, which disappears with the ensuing January reporting.

On an unadjusted basis, unemployment rates are not revised and, in theory, are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate declined to 4.95% (rounds to 4.9%) in February 2017 versus 5.14% in January, but was up versus 4.51% in December 2016.

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 a decline in the seasonally-adjusted U.3 unemployment rate, an unadjusted decline in the count of marginally-attached workers of 9,000 (-9,000) and a decline of 136,000 (-136,000) in the adjusted number of people working part-time for economic reasons, the adjusted headline February 2017 U.6 unemployment rate eased to 9.24%, versus 9.43% in January. That also was minimally higher against 9.18% in December 2016. The unadjusted U.6 unemployment rate was 9.54% in February 2017, versus 10.08% in January 2017 and 9.06% in December 2016.

Marginally-Attached and Displaced Workers. New discouraged and otherwise marginally-attached workers always are moving into U.6 unemployment accounting from U.3, while those who have been discouraged or otherwise marginally-attached for one year, continuously, are dropped from the U.6 measure. As a result, the U.6 measure has been easing along with U.3, for a while, but those being pushed out of U.6 still are counted in the ShadowStats-Alternate Unemployment Estimate, which has remained relatively stable.

The monthly count of short-term discouraged workers in February 2017 (never seasonally-adjusted) declined by 10,000 (-10,000) to 522,000, having gained in January by about 108,000 (corrected for population distortions), with marginally-attached workers declining by 9,000 (-9,000) to 1,723,000 in February, having gained a population-corrected 74,000 in January.

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.

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 declined to 22.7% in February 2017 from 22.9% in January. The February 2017 reading was the same level as 22.7% in December 2016, versus 22.8% in November 2016, 22.9% in October 2016 and 23.0% in September, August and July. 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 declined to 1.723 million in February 2017, versus 1.752 million in January 2017, those not in the labor force currently wanting a job was 3.918 in February 2017 versus 4.182 million in January 2017 (a total of 5.641 million, in February versus 5.934 in January). Prior estimates are not comparable to the current headline detail.

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 2 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 subsequent graphs there and in the *ECONOMY* section of [No. 859 Special Commentary](#).

Headline February 2017 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 February 2017 declined to 22.7% from 22.9% in January 2017, and against 22.7% December 2016. The January 2017 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, February 2017 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 January 2017, 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 1* in the *Opening Comments*), there indeed is a noticeable divergence in the ShadowStats series versus U.6 and U.3, with the BLS headline U.3 unemployment measures generally headed lower against a down-trending U.6 and a higher-level, relatively stagnant, but minimally down-trending ShadowStats number.

The reason for the longer-term divergence versus the ShadowStats measure, again, is that U.6 only includes discouraged and marginally-attached workers who have been “discouraged” for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as new workers enter “discouraged” status. A similar pattern of U.3 unemployed becoming “discouraged” or otherwise marginally attached, and moving into the U.6 category, also accounted for the early divergence between the U.6 and U.3 categories.

With the continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker or displaced-worker status (the ShadowStats measure). There was a lag in this happening as those having difficulty during the early months of the economic collapse, first moved into short-term discouraged status, and then, a year later they began moving increasingly into longer-term discouraged or displaced status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force had been accelerating. While there is attrition in long-term discouraged numbers, there is no set cut off where the long-term discouraged workers cease to exist. See the *Alternate Data* tab at www.ShadowStats.com for historical detail.

Generally, where the U.6 largely encompasses U.3, the ShadowStats measure encompasses U.6. To the extent that a decline in U.3 reflects unemployed moving into U.6, or a decline in U.6 reflects short-term discouraged workers moving into the ShadowStats number, the ShadowStats number continues to encompass all the unemployed, irrespective of the series from which they may have been ejected and correspondingly has been reasonably stable over a longer timeframe.

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

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

WEEK, MONTH AND YEAR AHEAD

Despite a Likely Near-Term Rate Hike, Continued Economic Woes Promise a Compromised, Frustrated Fed and Deteriorating U.S. Dollar Support. The outlook for pending FOMC action and the assessment of current economic activity are reviewed in today's *Opening Comments*.

Separately, [No. 859 Special Commentary](#) updated near-term economic and inflation conditions, and the outlook for same, including the general economic, inflation and systemic distortions evolving out of the

Panic of 2008 that have continued in play, and which need to be addressed by the new Administration in the immediate future (see also the *Hyperinflation Watch* of [Commentary No. 862](#) and [Commentary No. 869](#)).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never fully recovered. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that should mark the beginning of a “new” formal recession (see [General Commentary No. 867](#)).

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has been making loud noises of raising interest rates, in order to contain an overheating economy (again, see the *Opening Comments*). As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: [No. 777 Year-End Special Commentary](#) (December 2015), [No. 742 Special Commentary: A World Increasingly Out of Balance](#) (August 2015) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#) (February 2015). Those publications updated the long-standing hyperinflation and economic outlooks published in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#) (April 2014) and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the [Public Commentary on Inflation Measurement](#) and the [Public Commentary on Unemployment Measurement](#).

Recent Commentaries:

[Commentary No. 870](#) assessed the headline details for the January 2017 Trade Deficit and January Construction Spending, and reviewed prospects for an FOMC rate hike on March 15th.

[Commentary No. 869](#) reviewed and assessed underlying economic reality and a broad variety of indicators in the context of the second-estimate of fourth-quarter 2016 GDP.

[Commentary No. 868](#) covered the January 2017 reporting of New Orders for Durable Goods.

[General Commentary No. 867](#) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such is in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were January 2017 New- and Existing Home Sales.

[Commentary No. 866](#) reviewed headline January 2017 detail of the CPI (and related series), PPI, Industrial Production, Residential Construction and Retail Sales, both nominal and real.

[Commentary No. 864](#) analyzed the prior January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

[Commentary No. 861](#) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government’s fiscal 2016 operations. The GAAP-detail will be reviewed this month in a *Special Commentary*.

[No. 859 Special Commentary](#) reviewed and previewed economic, financial and systemic developments of the year passed and the year or so ahead.

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 the common experience of 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 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 2016 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 July 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](#), [Crudele on Census Bureau Fraud](#) and [John Crudele on Retail Sales](#).

PENDING RELEASES:

Producer Price Index—PPI (February 2017). The Bureau of Labor Statistics (BLS) will release the February 2017 PPI on Tuesday, March 14th, with detail covered in *Commentary No. 873* of February 15th. Odds favor relatively flat-to-minus wholesale inflation on the goods side of the reporting, due largely to minimally negative seasonal-factor adjustments exacerbating mixed monthly changes in unadjusted prices of petroleum-related 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. 866](#), where, again, the services component could offset any weakness in the headline goods inflation.

Unadjusted oil prices rose in February 2017, but wholesale gasoline prices fell. Based on the two most-widely-followed oil contracts, monthly-average oil prices increased by 0.5% and 1.8%. That was accompanied by a 2.5% (-2.5%) decline in unadjusted, monthly-average wholesale gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in February are minimally negative, such should help to contain the adjusted Final Demand Goods component of the PPI, keeping it flat-to-plus.

Consumer Price Index—CPI (February 2017). The Bureau of Labor Statistics (BLS) will release the February 2017 CPI on Wednesday, March 15th, which will be covered in *Commentary No. 872* of that date. The headline February CPI-U likely will show a continued month-to-month increase, perhaps 0.1%, in the context of a decline in month-to-month gasoline prices being exacerbated by negative seasonal adjustments. Headline, unadjusted year-to-year annual inflation for January 2017 likely will hold around 2.5%, the same level as in January 2017.

Negative Monthly Inflation Impact from Lower Gasoline Prices. Average gasoline prices declined in February 2017 by 1.17% for the month on a not-seasonally-adjusted basis, per the Department of Energy. Where BLS seasonal adjustments to gasoline prices in February are negative, that should exacerbate the drop in the unadjusted gasoline prices, with seasonally-adjusted numbers contributing roughly a negative 0.07% (-0.07%) to the headline monthly change in the CPI-U. Boosted, though, by higher food and “core” (net of food and energy) inflation, a headline monthly CPI-U reading of 0.1% is a reasonable estimate.

Annual Inflation Rate. Noted in [Commentary No. 866](#), year-to-year, CPI-U inflation would increase or decrease in February 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, minimal headline gain of 0.08% in February 2016 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for February 2017, the difference in February’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the January 2017 annual inflation rate of 2.50%. Given an estimate of a seasonally-adjusted gain of 0.1%, in the monthly February 2017 CPI-U, that would leave the annual CPI-U inflation rate for February 2017 at about 2.5%, plus-or-minus, depending on rounding.

Nominal and Real Retail Sales (February 2017). The Census Bureau will release February 2017 nominal (not-adjusted-for-inflation) Retail Sales on Wednesday, March 15th, coincident with the BLS’s release of the February CPI. Accordingly, the detail on both the nominal and real (adjusted-for-inflation) Retail Sales both will be released in *Commentary No. 872* of that date. The headline nominal sales number should be flat-to-down for the month and weaker than expected, along with providing negative indications for early activity in 2017, both in nominal and real terms.

With a likely headline change in the monthly February 2017 CPI-U flat-to-positive, and an annual increase of roughly 2.5% in inflation, headline real sales growth in February 2017, particularly annual

growth, accordingly would be more-negative or weaker, in parallel, than the headline nominal sales activity.

Consensus expectations for headline nominal February Retail Sales should be flat-to-minus, reflecting soft auto sales and retail outlet activity. Downside revisions to previously-estimated January and December sales remain a fair bet.

Discussed in the *CONSUMER LIQUIDITY* section of [No. 859 Special Commentary](#), and updated in today's *Executive Summary*, 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, real or otherwise.

Residential Construction—Housing Starts (February 2017). The Census Bureau will release February 2017 residential construction detail, including Housing Starts, on Thursday, March 16th, and covered in *Commentary No. 873* of that date. In line with common-reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful, holding in a general pattern of down-trending stagnation. That said, in the wake of the nonsensical extreme swings in recent months, almost anything is possible in this unstable series, despite what likely will be positive consensus expectations.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts still should remain consistent with the low-level, stagnant activity, seen at present, where January 2017 activity was down by 45% (-45%) from recovering the pre-recession high of the series. That stagnation is particularly evident with the headline detail viewed in the context of a six-month moving average. Again, this series remains subject to regular and extremely-large, prior-period revisions.

Discussed in [Commentary No. 660](#) on the August 2014 version of this most-unstable of major monthly economic series, the headline detail here simply is worthless. The series best is viewed in terms of a six-month moving average. Again, not only is month-to-month reporting volatility frequently extreme, but also the headline monthly growth rates rarely come close to being statistically significant.

Discussed in the *CONSUMER LIQUIDITY* section of [No. 859 Special Commentary](#), and updated in today's *Executive Summary*, 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 sustainable growth in demand for residential construction.

Index of Industrial Production (February 2017). The Federal Reserve Board will publish its estimate of February 2017 Industrial Production activity on Friday, March 17th, with coverage in *Commentary No. 874* of that date. As had most frequently been the case, recently, the headline monthly reporting should resume coming in on the downside of flat, and below consensus. While consensus expectations may settle on the plus-side of flat, a headline monthly production drop remains likely, reflecting weaker manufacturing, offsetting any mining gains combined with the recently gyrating utilities sector showing some relative stability. The headline detail also should be in the context of downside revisions within the last six months of data, with all current and recent production reporting also subject to an annual benchmark revision on March 31st.

PENDING SPECIAL COMMENTARIES: *GAAP-Based Accounting of the U.S. Government (Fiscal-Year 2016)*. With some preview in [Commentary No. 861](#) and [No. 859 Special Commentary](#), full analysis is planned as a *Special Commentary* before the March 30th GDP revision and the March 31st annual benchmark revisions to Industrial Production.

The long-delayed consolidation of the major *ShadowStats* reporting into one volume, including the recommended reading list is targeted now for the third full week in April.
