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

COMMENTARY NUMBER 879
March Employment and Unemployment, Help-Wanted Advertising, Money Supply M3

April 7, 2017

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FOMC-Rattling "Substantially Adverse Economic Circumstances" Loom

March 2017 Real-World Employment Prospects Continued to Plunge at an Annual Pace of Decline Not Seen Since the Depths of the Economic Collapse

Soft Payroll Jobs Gain of 98,000 in March Was Not Statistically Significant

Declining Monthly Unemployment Rates Simply Were Not Comparable

That Said, March Unemployment: U.3 Declined to 4.5% from 4.7%, U.6 Fell to 8.9% from 9.2% and ShadowStats-Alternate Fell to 22.5% from 22.7%

Those Were the Lowest, Headline Unemployment Rates for U.3 since May 2007, for U.6 since December 2008 and for ShadowStats since April 2012

Nominal Money Supply M3 Annual Growth Sank to a 57-Month Low in March, Real Growth Declined to a Level Not Seen Since Depths of the Economic Collapse

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PLEASE NOTE: The next regular Commentary *on Friday, April 14th, will cover the March 2017 Consumer Price Index (CPI), Producer Price Index (PPI), Retail Sales (Nominal and Real) and Real Earnings, as well as review the financial markets, specifically covering the U.S. dollar and gold. 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 Continues to Show Intensifying Downturn. With today's (April 7th) *Commentary*, ShadowStats begins regular monthly coverage of The Conference Board's Help Wanted OnLine® (HWOL). Beyond various private and public alternative measures to the federal government's headline employment, unemployment and GDP reporting, discussed in *No. 859 Special Commentary*, HWOL simply is one of the best leading indicators—private or public—of economic activity.

First fully covered by ShadowStats in *Commentary No. 820* of July 16, 2016, the HWOL is updated here through March 2017. As a leading economic indicator, help-wanted advertising 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.

Graph 1: The Conference Board Help Wanted OnLine® to March 2017

The Conference Board Help Wanted OnLine®
Year-to-Year % Change, Seasonally-Adjusted, to March 2017
[ShadowStats, Conference Board, NBER]
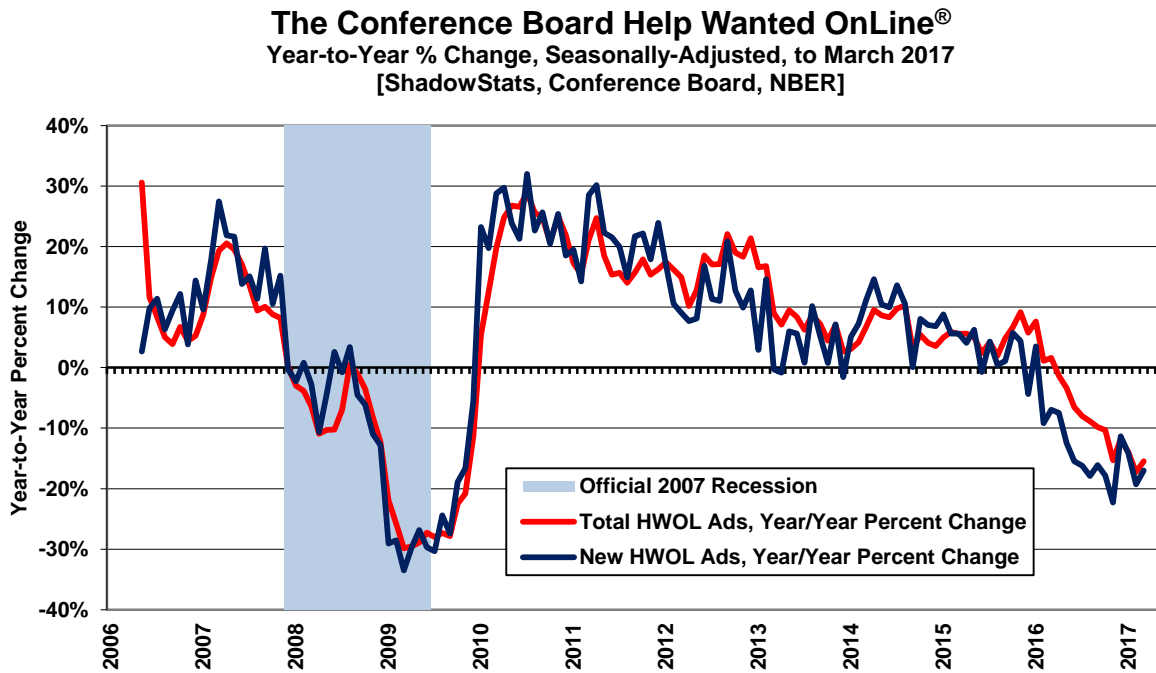
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The Conference Board Help Wanted OnLine® Advertising. Many thanks to The Conference Board for permission to publish the preceding graph of year-to-year change based on its *Help Wanted OnLine®* (HWOL) data, updated through the monthly surveying detail for March 2017, released April 5th.

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 twelve months for the total ads, and in each of the last fourteen months (fifteen of the last sixteen months) for the new ads, including March 2017, annual change generally has continued to sink, as seen in *Graph 1*, with annual growth beginning to slow in 2010 and turning negative year-to-year in late-2015 and early-2016. With March 2017 "Total" and "New" ads counts down year-to-year by 15.5% (-15.5%) and 17.0% (-17.0%), respectively, 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, down in 10 of the last 15 months for the "Total" and down 8 out of the last 15 months for the "New." Both series showed month-to-month gains in March 2017, but neither of those monthly gains came close to offsetting the sharp monthly declines of the prior month.

While much of this text is repetitive of prior discussions in *Commentary No. 871*, *No. 852* and *No. 820*, detail is updated for the latest information. These comments and analysis remain mine alone, not those of The Conference Board.

Historical Background. 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 National Bureau of Economic Research (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 the 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 (again, 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 March 2017 in today's 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 the 2017 payroll-survey benchmarking. See the discussion in *Commentary No. 864* and the *Birth-Death/Bias-Factor Adjustment (BDM)* section in today's *Reporting Detail*.

The recently published annual benchmark revision to the Industrial Production (see *Commentary No. 877*) confirmed that activity recent headline economic reporting broadly has been overstated. This is a common issue with most government-based reporting, where overly-optimistic assumptions underlie the current headline detail. Noted in *No. 877*, "*... explained by an official of one of the* [U.S. government's] *statistical bureaus, it was a political embarrassment to understate actual economic conditions, but there was no political problem with overstating them.*"

Downside benchmark revisions regularly lie ahead for most of the headline economic reporting out of the government, specifically including the employment detail.

U.S. Central Bank Has Lost Control, Amidst Faltering Economic Reality. In the Panic of 2008, the imminent collapse of the U.S. banking system pushed the Federal Reserve into actions it deemed necessary at the time, to prevent a systemic meltdown. The extraordinary, stopgap actions taken by both the Fed and the U.S. Treasury to prevent collapse, bought some time. Yet, major problems and imbalances in the system, including returning economic activity to full recovery, and returning the banking system to normal functioning, still have not been resolved (see *Commentary No. 876* and *No. 859 Special Commentary*).

Discussed in the *Hyperinflation Watch*, efforts by the Fed to return the system to normal functioning should continue to be frustrated by a renewed and intensifying economic contraction. The intensifying downturn has been signaled by the sharp hit to help-wanted advertising, discussed in the prior section, as well as by the pattern of sinking real year-to-year growth in Money Supply M3 (the ShadowStats Ongoing Measure) covered, again, in the *Hyperinflation Watch*. The real M3 circumstance shall be expanded upon in next week's *Commentary No. 880* (see also *Commentary No. 872*). A variety of other indicators also confirm the unfolding difficulties (again, see *No. 876*).

Today's *Commentary* (April 7th). These *Opening Comments* and *Executive Summary* cover the detail for the March 2017 Help-Wanted Advertising and summary detail and graphs for March 2017 Employment and Unemployment. Analyses and graphs of the headline labor conditions are expanded in the *Reporting Detail* section.

The *Hyperinflation Watch* updates the FOMC outlook and monetary conditions, with an initial estimate of year-to-year growth in the March 2017 ShadowStats Ongoing M3 Estimate, the latest detail on the Monetary Base and minutes from the last FOMC meeting.

The *Week, Month and Year Ahead* previews next week's releases of the March 2017 CPI and PPI inflation measures nominal and real retail sales and real earnings.

Executive Summary: Employment and Unemployment—March 2017—Easiest Fix for the Fed Has Been to Redefine Bad Economic News Out of Existence. Where most economists would view a monthly payroll jobs gain of 98,000—just 60,000 net of the prior month's revisions—as bad news for the economy, the economists at the Fed redefined such an inevitability as "good news," back in October 2016. Discussed in the *Fedspeak* portion of the *FED* section of *No. 859 Special Commentary*:

"Fed Speak perhaps reached a new nadir in *Commentary No. 843* (see accompanying discussion there), where Fed economists went far beyond the argument that the economy was at full employment [see the accompanying discussion in the *Household Survey* section of this *Executive Summary*], trying to sell the concept that weak labor circumstances—seen usually only in recession-related circumstances—really represented normal healthy economic activity:

> Such is amidst faux concerns of an "overheating" economy. Some Federal Reserve Board members have warned that recent headline U.3 unemployment readings around 5.0% show the economy to be near full employment (see *Commentary No. 838*); they know better. The latest nonsense, however, comes from research at Fed Chair Janet Yellen's home base of the San Francisco Federal Reserve Bank. The new story is that monthly jobs growth of 50,000 to 110,000 is adequate "to maintain a healthy labor market."

The implied annual growth rates for the levels proffered there, for healthy monthly jobs growth, historically have never been seen outside of a recession (either going into or coming out of), never in a sustainable, healthy economy."

Headline U.S. Economic Health Still Massively Overstated. Underlying reality for March 2017 labor conditions remained in the realm of a 22.5% broad unemployment rate, with the actual monthly payroll-employment change likely in contraction. Where the headline monthly payroll gain was 98,000, keep in mind that the Payroll Survey numbers count jobs, not employed individuals, while the Household Survey counts the number of people with jobs. While the two series are not extraordinarily compatible, consider that the count of individuals in the Household Survey who moved into multiple-job-holder status in March was 168,000, well in excess of the 98,000 payroll jobs increase in the Payroll Survey, which again counted all the part-time jobs individually along with the full-time jobs.

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.

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

Payroll Survey: Heavily Bloated Month-to-Month Growth, Weakening Annual Growth. In the continuing context of heavily-distorted monthly bloating, unstable seasonal adjustments, and inconsistent benchmarking, the seasonally-adjusted, headline payroll gain for March 2017 was a statistically insignificant gain of 98,000. That followed downwardly revised monthly gains of 219,000 in February and 216,000 in January. Net of prior-period revisions, March 2017 payrolls rose by 60,000, instead of the headline 98,000.

Collapsing Annual Growth. The not-seasonally-adjusted, year-to-year growth in March 2017 nonfarm payrolls of 1.49% notched lower from a revised 1.66% in February 2017, versus a revised 1.55% annual gain in January 2017. The annual growth of 1.49% in March 2017 was the weakest since March of 2013, other than the 1.45% growth in December 2016, which was the lowest level of annual in 65 months, since October 2011, when payrolls were first recovering from the economic collapse. These are year-to-year growth levels rarely seen, except going into or coming out of recessions.

Household Survey: Happy Headline News Was Not So Happy; Counting All Discouraged Workers, March Unemployment Eased to 22.5%. The headline happy news was that the unemployment rate declined from 4.7% to 4.5%, with the count of the unemployed dropping by 326,000 (-326,000) being more than offset by a gain of 472,000 in the employed. As rarely seen recently with these headline monthly changes, such is the way an economic recovery should look. Ideally, those dropped from the unemployed count should be finding gainful employment, not being reclassified as "discouraged workers."

All that said, the month-to-month numbers were not directly comparable, including month-to-month levels of the unemployment rate and the counts of employed and unemployed. The problem remains that while the headline monthly data for March 2017 were calculated using new seasonally-adjustment patterns unique to March 2017, and the new seasonally-adjusted and comparable data for February 2017 also were calculated, the new February detail was not published. Instead, the unique seasonal adjustments based on prior February 2017 calculations were left in place, unrevised for February. Standardly, the month-to-month comparisons of the seasonally-adjusted, headline Household Survey data simply are not comparable.

Occasionally, at random, one sees a happy alignment of the month-to-month detail, as was seen today. Little, if any, real word activity can be read into those headline numbers (see *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*).

Aside from not being comparable month-to-month, the sharp, headline declines in the March 2017 unemployment rates were not statistically meaningful. All that said, the latest seasonally-adjusted monthly readings were at multi-year lows. The primary headline unemployment rate of 4.50% for the headline U.3 hit its lowest reading since May 2007, before the formal recession. The headline unemployment rate of 8.17% for the government's broadest measure U.6 was the lowest since December 2008, well into the economic collapse, when President Obama was elected (Main Street U.S.A. voting pocketbook issues). The headline unemployment rate of 22.5% for the ShadowStats Alternate unemployment rate, including long-term discouraged workers, and which is built upon the U.6 number, was at its lowest level since April 2012, nine month after the official full recovery in the GDP, and the onset of official, new economic expansion (see *Commentary No. 876*).

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 2 reflects headline March 2017 U.3 unemployment at 4.50%, versus in 4.70% in February and 4.78% in January; headline March 2017 U.6 unemployment at 8.87%, versus 9.24% in February and 9.43% in January; and the headline March 2017 ShadowStats unemployment estimate at 22.5%, versus 22.7% in February and 22.9% in January.

Graph 2: Comparative Unemployment Rates U.3, U.6 and ShadowStats

Graph title: Unemployment Rate - Official (U-3 & U-6) vs ShadowStats Alternate
Monthly SA. Through Mar. 2017 (ShadowStats, BLS)
Legend: Official (U3), Broadest (U6), ShadowStats
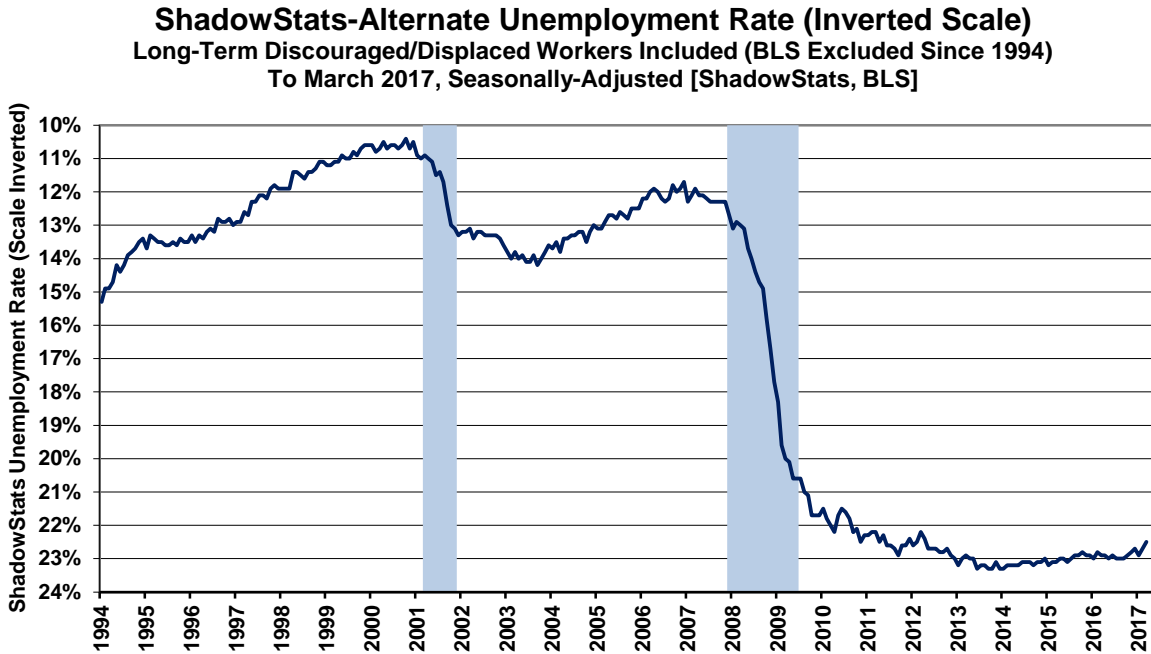Published: Apr. 7, 2017
ShadowStats.com
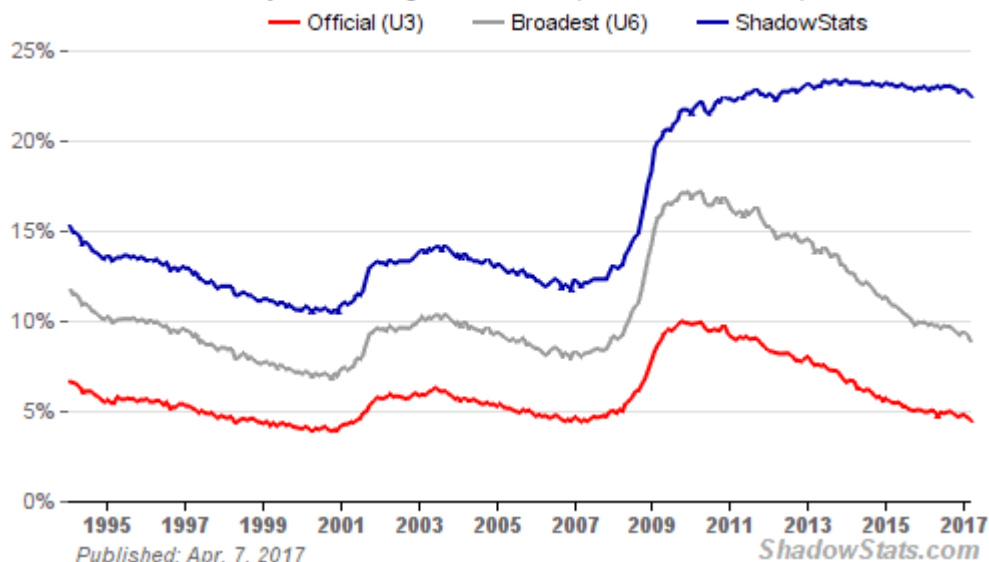
Graphs 3 to *5* reflect longer-term unemployment and discouraged-worker conditions. *Graph 3* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move visually in tandem with plots of most economic statistics, where a lower number means a weaker economy.
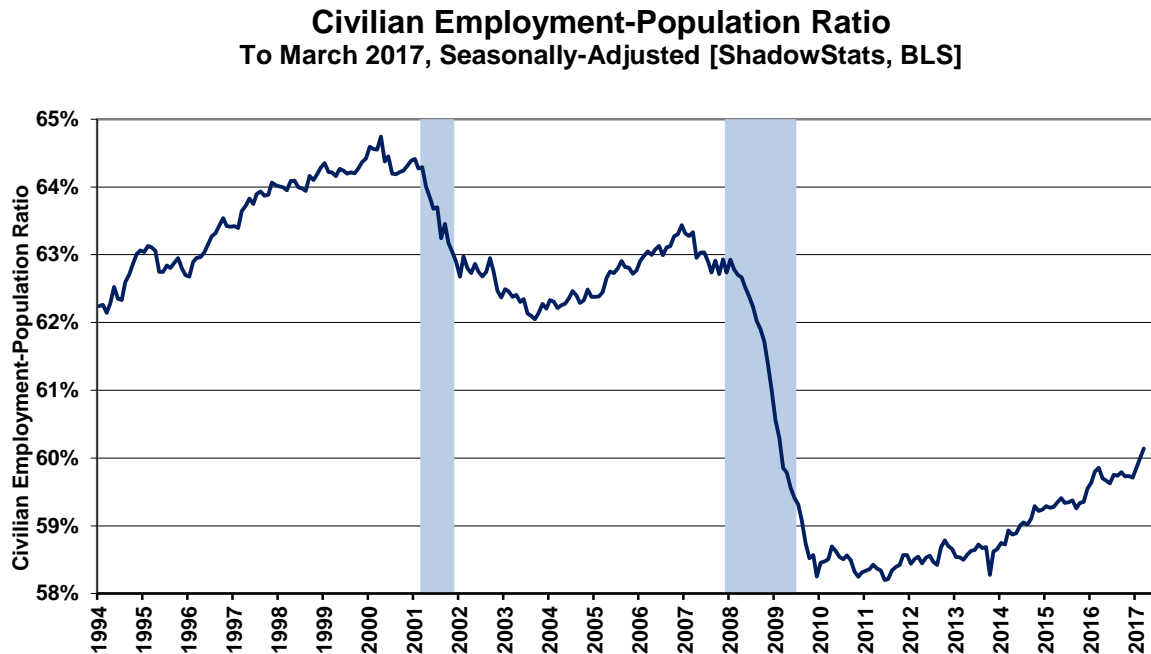
The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which had turned slightly weaker in second-half 2016, but recently has been in an uptrend, having increased in minimally in January, with pickup in February and March 2017 , along with monthly jumps and month-to-month inconsistencies in headline employment and the recently rejiggered population numbers (see *Commentary No. 864*). Nonetheless, that ratio remains somewhat off its post-1994 record low, the historic low and bottom subsequent to the economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), as shown in *Graph 4*.

[Graphs 3 to 5 begin on the following page.]

Graph 3: Inverted-Scale ShadowStats Alternate Unemployment Measure

ShadowStats-Alternate Unemployment Rate (Inverted Scale)
Long-Term Discouraged/Displaced Workers Included (BLS Excluded Since 1994)
To March 2017, Seasonally-Adjusted [ShadowStats, BLS]

Graph 4: Civilian Employment-Population Ratio

Civilian Employment-Population Ratio
**To March 2017, Seasonally-Adjusted [ShadowStats, BLS]**

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

Shown in *Graph 5,* the March 2017 participation rate (the ratio of the headline labor force to the population) held even for the month at 63.0% having been fluctuating shy of the 63% mark for the last year. Both the Employment-to-Population Ratio and the Participation Rate appear to have suffered near-term spikes and volatility from the population redefinitions in January 2016, but fell off again in the second half of 2016, only to spike again in the environment of the January 2017 population redefinitions.

The Participation-Rate—one measure that had been followed closely and touted frequently by Fed Chair Janet Yellen before the recent tightening actions by the Fed—remains off the historic low hit in September 2015 (again, pre-1994 estimates are not consistent with current reporting). The labor force used in the Participation-Rate calculation is the headline employment plus U.3 unemployment. As with *Graph 4* of employment-to-population ratio, its holding near a post-1994 low in current reporting indicates problems with long-term discouraged workers. Their swollen ranks generally have continued to depress the headline (U.3) labor force, and the plotted ratios.

Graph 5: Labor-Force Participation Rate

Participation Rate [Labor Force as a Percent of Population]
To March 2017, Seasonally-Adjusted [ShadowStats, BLS]
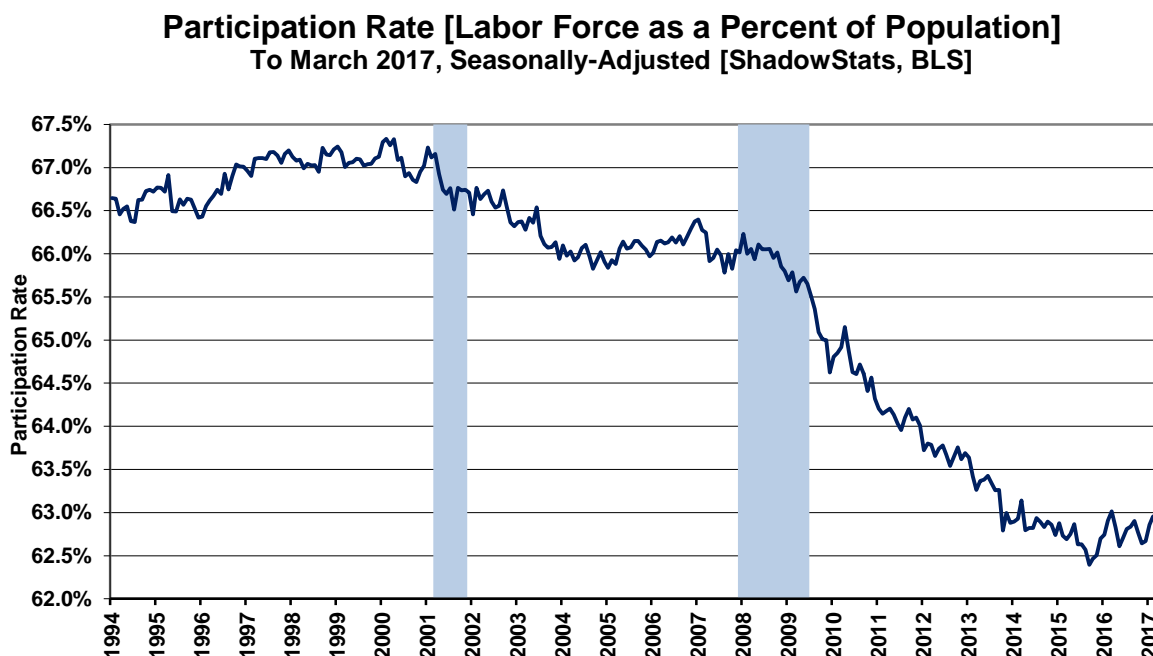
Graphs 2 through *5* reflect labor data available in consistent detail only back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with the March 2017 Household-Survey reporting simply are not 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 *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 March 2017 headline unemployment rate of 4.5%, 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 8.9% instead of the headline 4.5%. Where the count of Household Survey employed generally is not gimmicked, that 66% full-employment participation rate—consistent with the latest hyped "full-employment" economy—generally was consistent with a U.3 unemployment nearly 80% above the hyped 5.0% full-employment unemployment rate, almost double the current headline U.3 number. [1]

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 3* to *5* (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*, see also *Commentary No. 876*. Some of those series are updated in this section.
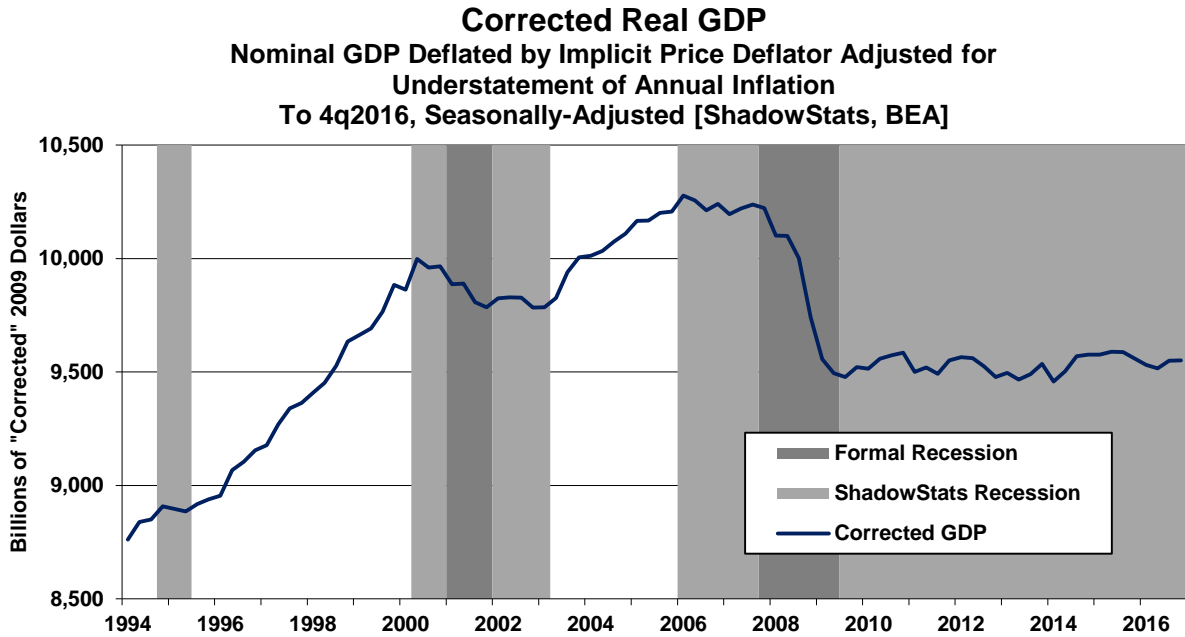
Consider *Graph 6*, which shows the ShadowStats version of the GDP, also plotted from 1994 but through the March 31st third estimate of fourth-quarter 2016 GDP, where the GDP plot has been corrected for the understatement of inflation used in deflating the headline GDP series (further detail and a description of the approach and related links are found in *Commentary No. 876*).

Other graphs (again, see *No. 859*) range from the CASS Freight Index (*Graph 7*, see *Commentary No. 875*) to Real S&P 500 Revenues adjusted for share buybacks (*Graph 8*), and include U.S. Petroleum Consumption (*Graph 9*), the Consumer Goods sector out of the benchmark-revised February 2017 Industrial Production (*Graph 10,* see *Commentary No. 877*) and Housing Starts (*Graph 11*, see *Commentary No. 873*).
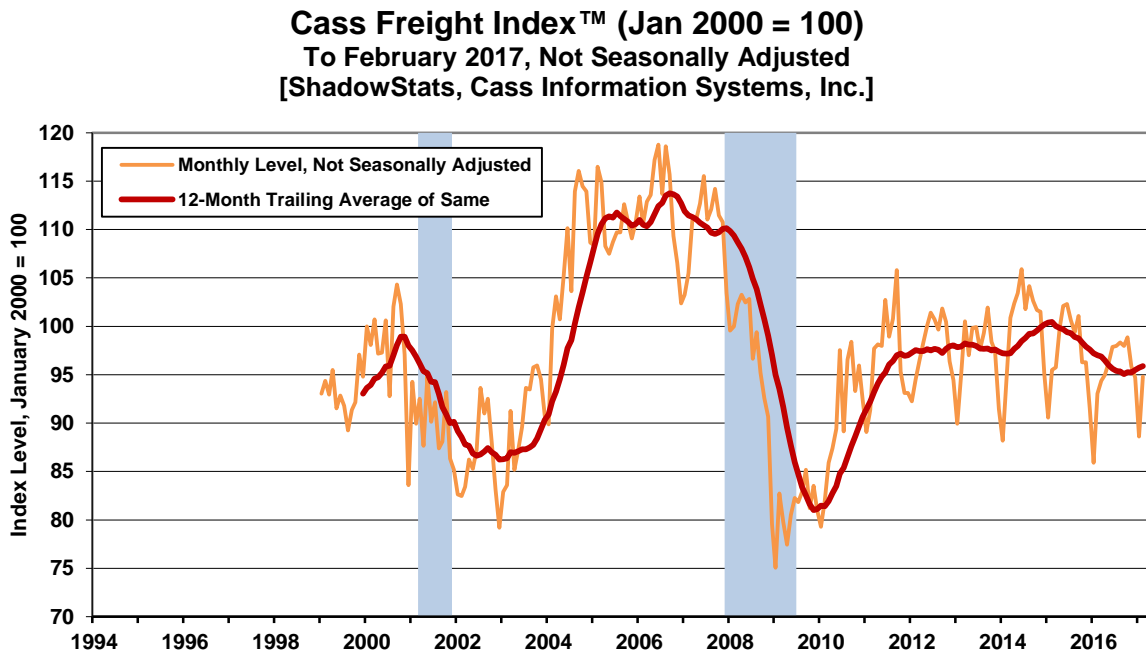
[Graphs 6 to 11 begin on the following page.]

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[1] Consider with the March 2017 population of 254.414 million, that the implied labor force at the full-employment participation rate of 66.0% would be 0.66 x 254.414 = 167.913. That labor force less current headline employed, 167.913 – 153,000 = 14.913 million implied unemployed / labor force of 167.913 = 8.9% unemployment. The problem with the assumptions underlying these numbers and concept remains that the economy is not at full employment, as has been claimed.
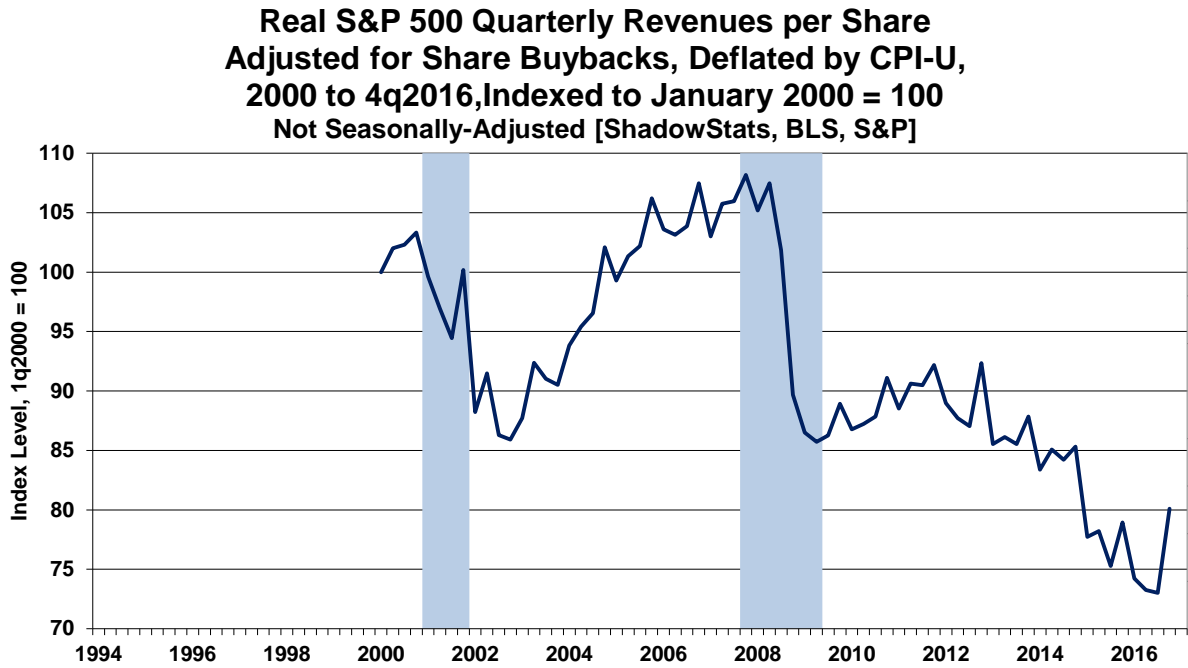
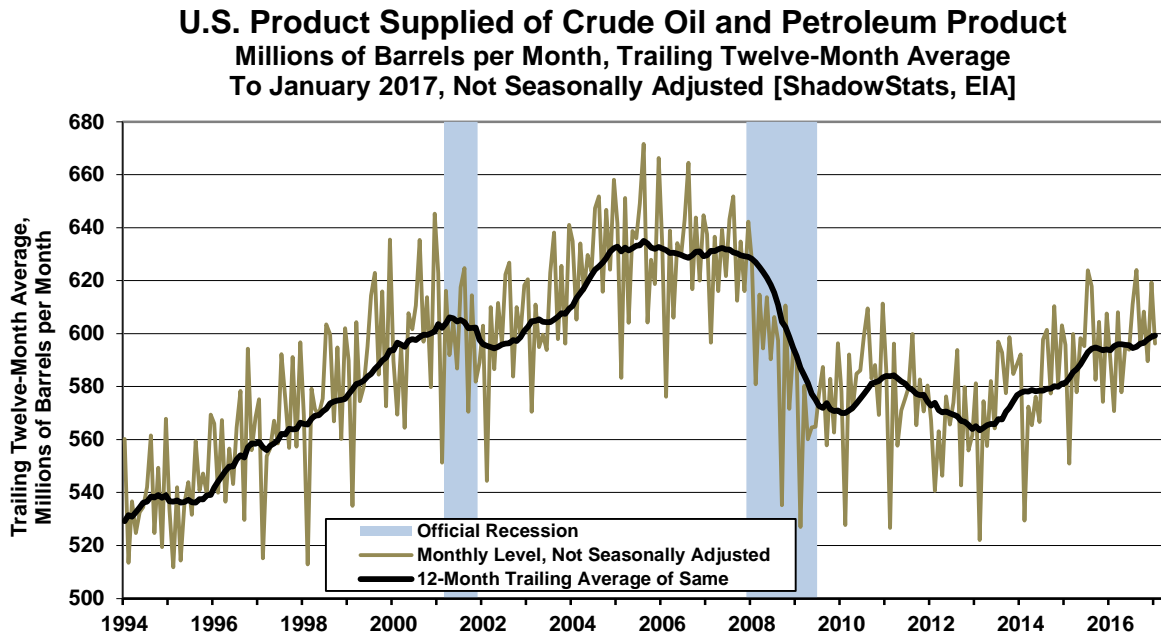**Graph 6: Corrected Real GDP through 4q2016, Third Estimate**

Corrected Real GDP
**Nominal GDP Deflated by Implicit Price Deflator Adjusted for
Understatement of Annual Inflation
To 4q2016, Seasonally-Adjusted [ShadowStats, BEA]**

Graph 7: CASS Freight Index for North America (2000 - 2017), Indexed to January 2000 = 100

Cass Freight Index™ (Jan 2000 = 100)
**To February 2017, Not Seasonally Adjusted
[ShadowStats, Cass Information Systems, Inc.]**

Graph 8: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2016), Indexed to January 2000 = 100

Real S&P 500 Quarterly Revenues per Share
Adjusted for Share Buybacks, Deflated by CPI-U,
2000 to 4q2016,Indexed to January 2000 = 100
Not Seasonally-Adjusted [ShadowStats, BLS, S&P]

Graph 9: U.S. Petroleum Consumption to December 2016

U.S. Product Supplied of Crude Oil and Petroleum Product
Millions of Barrels per Month, Trailing Twelve-Month Average
To January 2017, Not Seasonally Adjusted [ShadowStats, EIA]

Graph 10: Industrial Production – Consumer Goods Sector (1994 - 2017)

Benchmarked Production - Consumer Goods (2012 = 100)
Level 1994 to February 2017, Seasonally-Adjusted [ShadowStats, FRB]
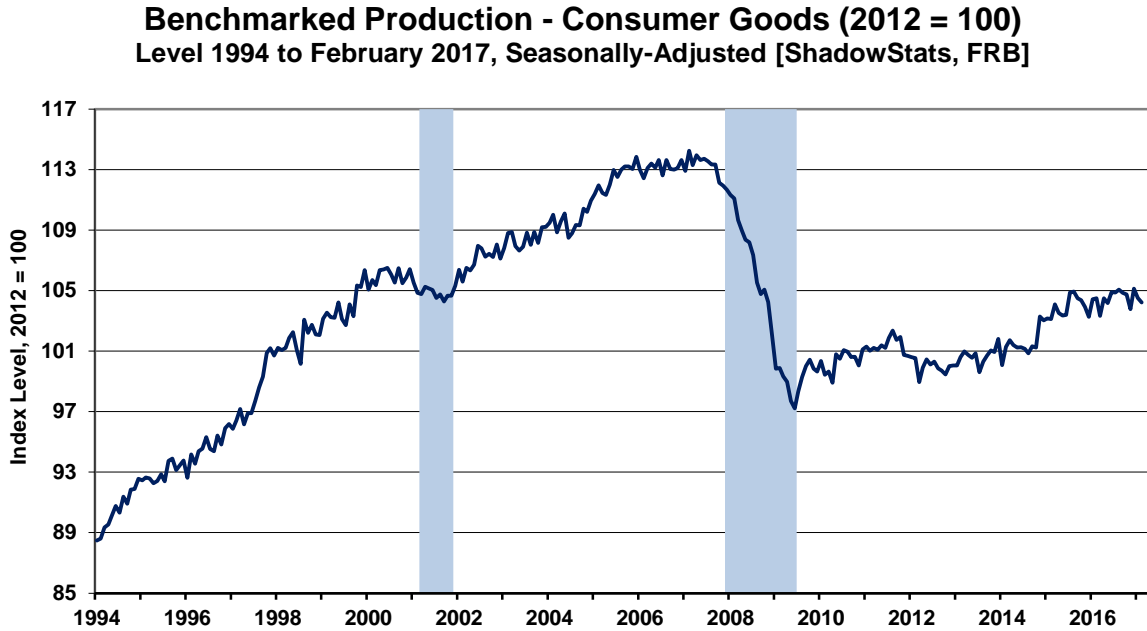
Graph 11: Housing Starts, Annual Rate by Month (1994 - 2017)
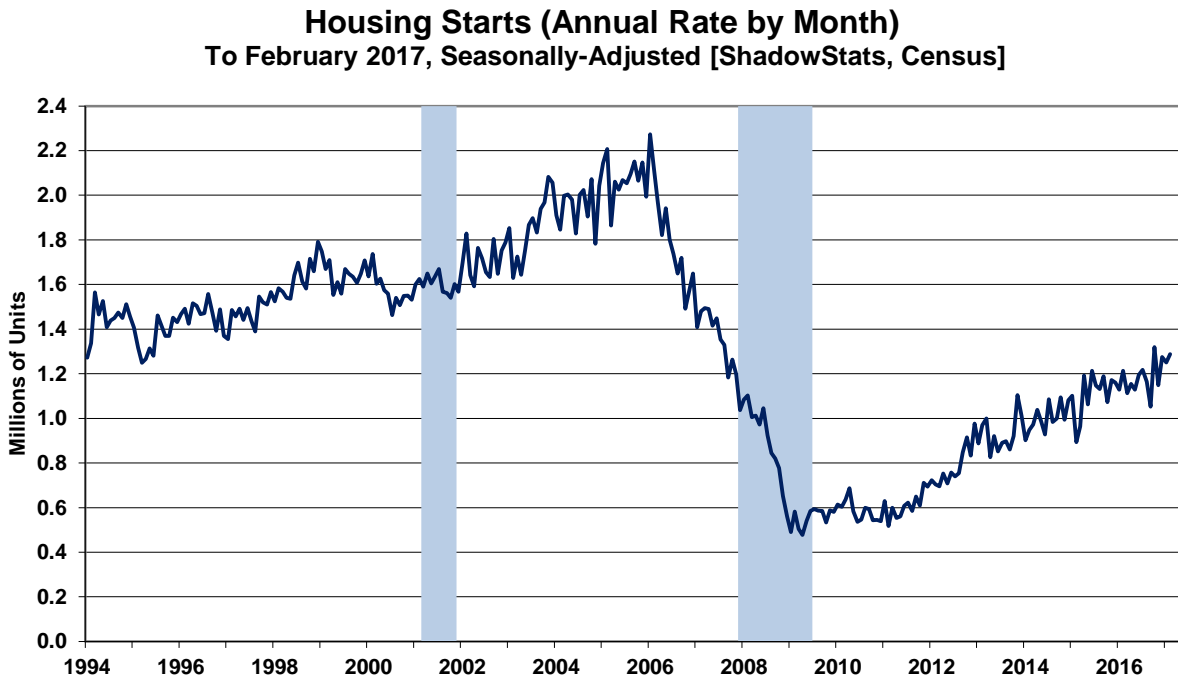
Housing Starts (Annual Rate by Month)
To February 2017, Seasonally-Adjusted [ShadowStats, Census]

Headline Unemployment Rates. Again, in the context of the non-comparability of month-to-month changes in seasonally-adjusted unemployment detail, the March 2017 unemployment rate (U.3) declined to 4.50%, versus 4.70% in February and 4.78% in January. On an unadjusted basis, unemployment rates

are not revised and, in theory, are consistent in post-1994 methodology. The unadjusted unemployment rate U.3 declined to 4.56% in March, versus 4.95% (rounds to 4.9%) in February and 5.14% in January.

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 128,000 (-128,000) and a decline of 151,000 (-151,000) in the adjusted number of people working part-time for economic reasons, the adjusted March 2017 U.6 unemployment rate eased to 8.87%, versus 9.24% in February and 9.43% in January. The unadjusted U.6 unemployment rate was 8.94% in March 2017, versus 9.54% in February and 10.08% in January.

ShadowStats Alternate Unemployment Estimate. Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced long-term discouraged workers—a broad measure of unemployment more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for March 2017 declined to 22.5%, versus 22.7% in February and 22.9% in January.

[The **Reporting Detail** *contains extended analysis and graphs.]*

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HYPERINFLATION WATCH

MONETARY CONDITIONS

FOMC Considers "Balance Sheet Normalization," Leaving Open the Option to "Resume Asset Purchases" in "Substantially Adverse Economic Circumstances." Quantitative Easing continues in place, in something of a dormant state. The Federal Reserve Board's (FRB) Federal Open Market Committee (FOMC) has raised its targeted federal funds rate three times in the last fifteen months, each time by a quarter point, from its targeted low rate range of 0.00% to 0.25% set in December 2008 with the Panic of 2008, to its first subsequent rate hike to a range of 0.25% to 0.50% in December 2016, to 0.50% to 0.75% in December 2016 and most recently, on March 15, 2017 to a 0.75% to 1.00% range. At the same time, the FRB has kept intact its holdings of U.S. Treasury and Mortgage Backed Securities intact, respectively at $2.5 trillion and $1.8 trillion ($4.2 trillion aggregate, with a rounding difference).

Initial Talk of Starting Balance Sheet Normalization by Year-End 2017. Beyond the quarter-point rate hike at the latest FOMC Meeting, the Minutes of that gathering raised the suggestion of a possible move to start liquidating those assets, perhaps by year-end. While the indication was that such would be a very

gradual process, when it started, perhaps initially just ceasing to roll over funds from maturing securities, the actual timing of such a move does not appear to be imminent.

Of interest, the Minutes included repeated qualifications as to the further raising of rates and the later "balance sheet normalization," based on the risk of development of "substantially adverse economic circumstances." Note the text ShadowStats has italicized here, from the *Minutes of the March 14-15, 2017 FOMC Meeting*:

> "In their discussion, policymakers reaffirmed the approach to balance sheet normalization articulated in the Committee's Policy Normalization Principles and Plans announced in September 2014. In particular, participants agreed that reductions in the Federal Reserve's securities holdings [both Treasury securities and agency mortgage-backed securities (MBS)] should be gradual and predictable, and accomplished primarily by phasing out reinvestments of principal received from those holdings. Most participants expressed the view that changes in the target range for the federal funds rate should be the primary means for adjusting the stance of monetary policy when the federal funds rate was above its effective lower bound. *A number of participants indicated that the Committee should resume asset purchases only if substantially adverse economic circumstances warranted greater monetary policy accommodation than could be provided by lowering the federal funds rate to the effective lower bound. ...*

> "Consistent with the Policy Normalization Principles and Plans, nearly all participants preferred that the timing of a change in reinvestment policy *depend on an assessment of economic and financial conditions. ...*

> "Such a judgment would importantly encompass an *assessment by the Committee of the risks to the outlook, including the degree of confidence that evolving circumstances would not soon require a reversal in the direction of policy. ...*"

> "Provided that the economy continued to perform about as expected, most participants anticipated that gradual increases in the federal funds rate would continue and judged that a change to the Committee's reinvestment policy would likely be appropriate later this year. Many participants emphasized that reducing the size of the balance sheet should be conducted in a passive and predictable manner. *Some participants expressed the view that it might be appropriate for the Committee to restart reinvestments if the economy encountered significant adverse shocks that required a reduction in the target range for the federal funds rate.*"

Deteriorating Economic Conditions Should Push the FOMC Back into Quantitative Easing. Those substantially adverse economic circumstances feared by the Fed already are in play, as discussed in 859 876 and as signaled separately by the help-wanted advertising, discussed in the *Opening Comments*, and y collapsing real growth in Money Supply M3, discussed here.

March 2017 Annual Growth Rate in M3 Continued to Decline, to Slowest Pace Since July 2012.
Based on three-plus weeks of reporting, and in the context of continued flight to cash, estimated March 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 3.2% in February 2017, 3.6% in January 2017 and down from a near-term peak of 5.7% in August 2015. As noted in *Commentary No. 872* (see *Real Money Supply M3—Annual Growth Signaling Economic Downturn* on page 19), slowing annual real growth in M3 already has pushed to levels that historically have preceded recessions. A formal recession signal is in place, with further detail there to be covered in next Friday's *Commentary No. 880*, covering the March 2017 CPI inflation.

Separately, nominal year-to-year growth for M2 notched higher to 6.5% in March 2017, versus 6.4% in February 2017 and down from 6.6% in January. Annual nominal growth in M1 rose to 8.5% in March 2017, versus 8.1% in February and against 9.4% in January 2017.

Graph 12: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through March 2017
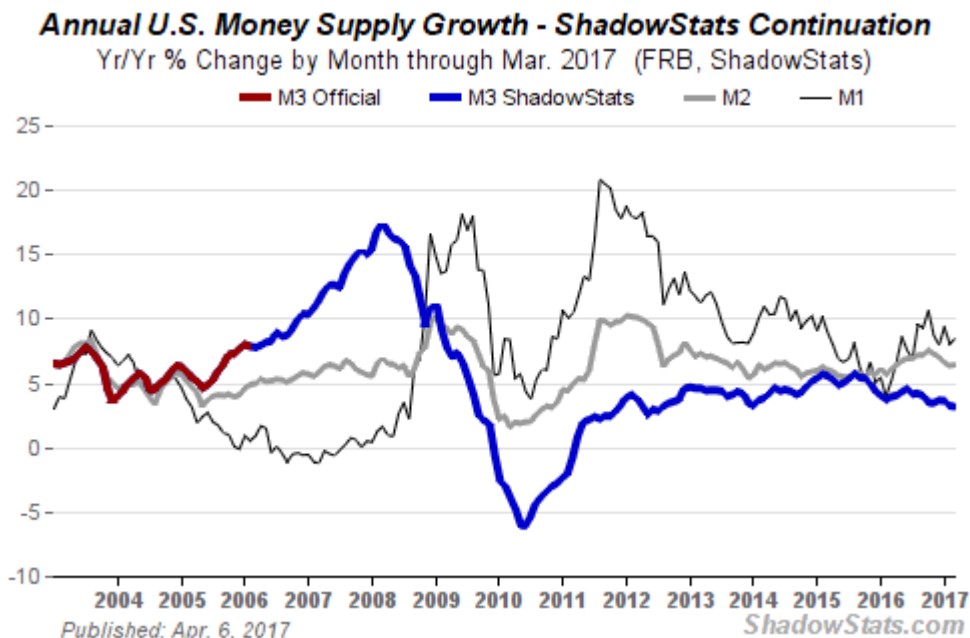
The relatively weaker M3 annual growth reflected a general shift from the large time deposits and institutional money funds in M3, into accounts in the subsidiary M2 and M1 series (M2 includes M1; M3 includes M2), with relatively stronger growth in M1 indicating an increased flight to cash or near-cash.
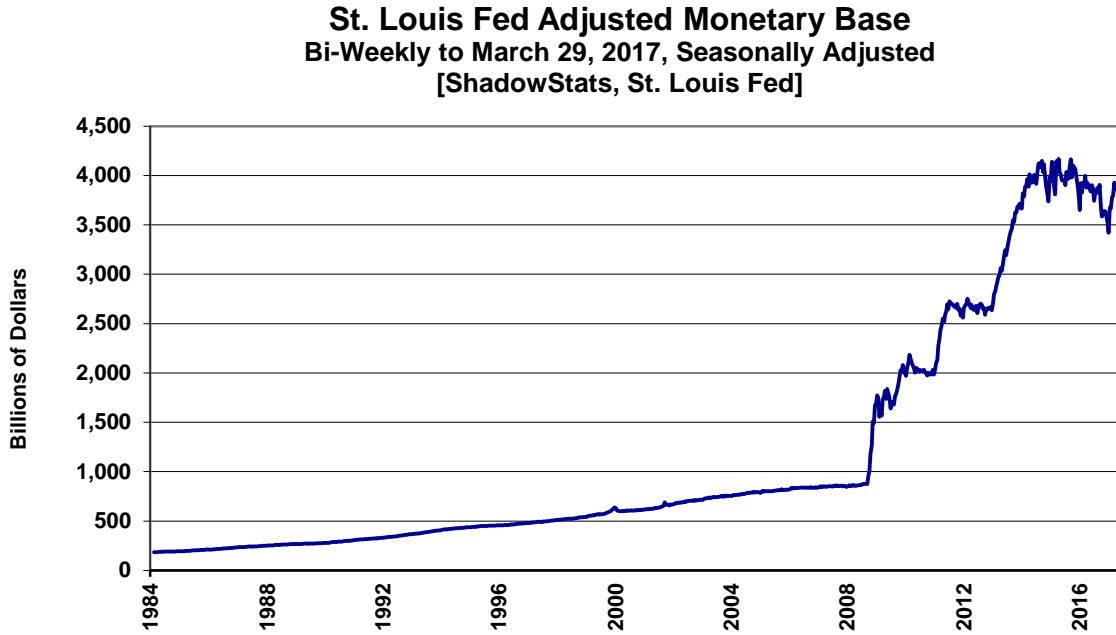
For those living in the headline money-supply world comprised of just the Fed's headline M1 and M2, money growth has been relatively stronger for both M1 and M2. Yet, that growth does not necessarily imply a pending inflation surge, since it reflects a flow of funds down from the more-inclusive M3 category, 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.

The latest estimates of level and annual changes for March 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. The latest monetary conditions the U.S. dollar exchange rates and the price of gold will be updated in the April 14th *Commentary No. 880.* The most-recent quarterly update to the velocity of money is found in the *Hyperinflation Watch* of *Commentary No. 863*.
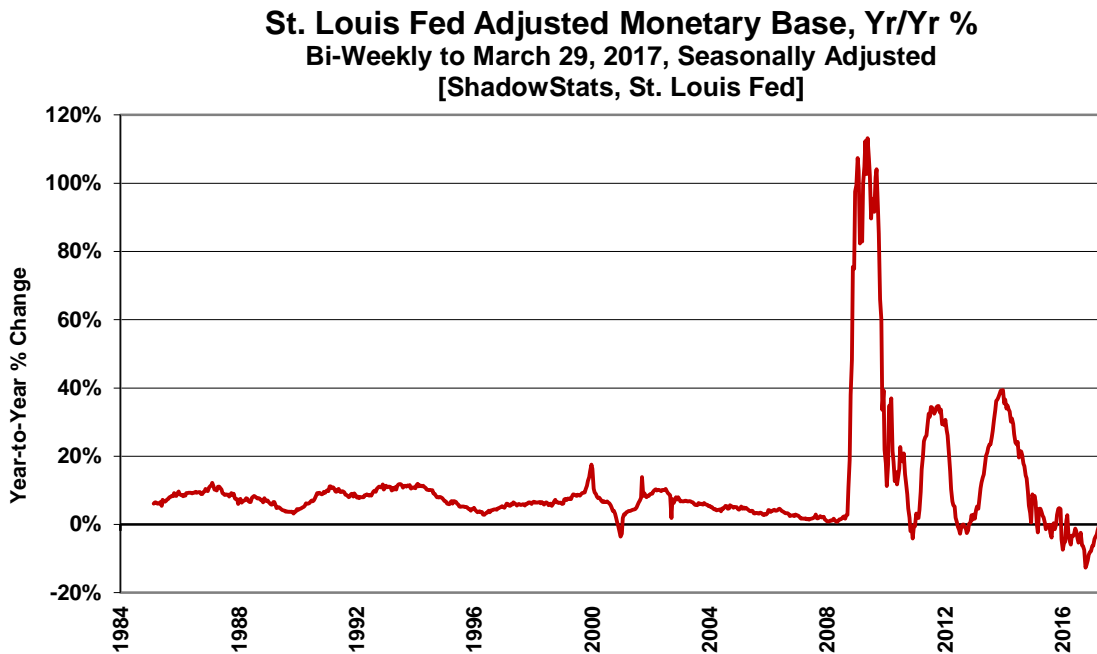
Monetary Base Regains Close to Recent Peaks. In the wake of near-term volatility surrounding recent rate hikes by the FOMC, and the related market efforts by New York Fed to establish stable trading activity for the upwardly revised target rates for federal funds, the level of the monetary base has moved

back towards its historic highs, and generally should stay there until the Fed moves meaningfully to sell off its excess Treasuries and Mortgage-Backed Securities.

Graph 13: St. Louis Fed Monetary Base (1984-2007)

St. Louis Fed Adjusted Monetary Base
Bi-Weekly to March 29, 2017, Seasonally Adjusted
[ShadowStats, St. Louis Fed]

Graph 14: Year-to-Year Percent Change, St. Louis Fed Monetary Base (1985-2007)

St. Louis Fed Adjusted Monetary Base, Yr/Yr %
Bi-Weekly to March 29, 2017, Seasonally Adjusted
[ShadowStats, St. Louis Fed]

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (March 2017)

Underlying Recession Remained 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 extraordinarily-weak background to today's (April 7th) headline reporting of labor conditions for March 2017. Underlying reality remained in the realm of the actual monthly payroll-employment change in likely contraction, with the broad unemployment rate in the range of 22.5%, despite more-upbeat headline indications out of the Bureau of Labor Statistics (BLS). Specifically, the government showed headline U.3 unemployment declining to a pre-recession level of 4.5%, with a headline monthly jobs gain of just 98,000. Those numbers remained nonsensically strong.

Regular Headline Distortions. Reporting quality of the March headline employment and unemployment data suffered from regular monthly distortions, ranging from heavily bloated, upside bias factors, with well in excess of 200,000 jobs per month added into the headline payroll counts, to the definitional issues of, and the non-comparability of month-to-month changes in, the headline household survey data, specifically including the headline unemployment rates. Most of the reporting gimmicks have evolved out of the fine-tuning of longer-range political manipulation.

Such include changes to methodology, with upside bias-factors created post-1983 recession for payroll levels. 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 that the payroll survey counts each part-time job as an "employment."

For the Household Survey, consider 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 later *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 overstated labor-market health in the March 2017 jobs and unemployment reporting. Separately, the headline monthly reporting details for the both the payroll and unemployment series broadly were not consistent month-to-month. Concurrent seasonal-factor-adjustment factors 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 at the same time (see the later *Headline Distortions from Shifting Concurrent-Seasonal Factors* section).

Happy Propaganda Out of Fedspeak. Discussed in the *Executive Summary*, members of the Federal Reserve Board and entities associated with regional banks have moved in the last year to redefine troubled economic conditions as "normal." Such is an apparent attempt to alleviate perceived needs for stimulative action by the FOMC, in an economy that never fully recovered from its crash into 2009 (also see today's

Hyperinflation Watch and [*Commentary No. 876*](#)). The purported "normalcy" of monthly payroll jobs growth of 50,000 to 110,000 is discussed in the opening remarks of the *Executive Summary*, while "full employment" at a headline 5.0% U.3 unemployment rate, irrespective of any accounting for "discouraged workers" is discussed in the section there entitled *The Economy Remains Far From Full-Employment.*

PAYROLL SURVEY DETAIL. The Bureau of Labor Statistics (BLS) published the March 2017 headline payroll-employment detail this morning, April 7th, in the context of downside prior-period revisions, and still in the context of the annual benchmark revisions published on February 3rd. In the continuing context of heavily-distorted bloating, unstable seasonal adjustments, and inconsistent benchmarking, the seasonally-adjusted, headline payroll gain for March 2017 was a statistically insignificant gain of 98,000 +/- 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 downwardly revised monthly gains of 219,000 [previously 235,000] in February and 216,000 [previously 238,000, initially 227,000] in January 2017. The headline revised monthly gain in January 2017 of 216,000 was not reported on a comparable basis with the headline March 2017 and February 2017 details, as discussed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors*.

Net of prior-period revisions, March 2017 payrolls rose by 60,000, instead of the headline 98,000.

Collapsing Annual Growth. The not-seasonally-adjusted, year-to-year growth in March 2017 nonfarm payrolls of 1.49% notched lower from a revised 1.66% [previously 1.61%] in February 2017, versus a revised 1.55% [previously 1.54%, initially 1.51%] annual gain in January 2017. The annual growth of 1.49% in March 2017 was the weakest since March of 2013, where the 1.45% growth in December 2016 still was the lowest level in 65 months, since October 2011, when payrolls were first recovering from the economic collapse. These are levels 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 Minimally in March, Revised Lower in February. In the context of a downside revision to the prior month's reporting, March 2017 construction payroll employment rose by 6,000 to 6.882 million jobs. February previously had been estimated at 6.881 million. The March 2017 gain was on top of an upwardly revised gain of 59,000 [previously 58,000] in February, and a downwardly revised gain of 34,000 [previously 40,000, initially 36,000] jobs in January. Net of prior-period revisions, the headline March monthly gain would have been 1,000.

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). March details are plotted in accompanying *Graph 15* (updating *Graph 20* in prior [*Commentary No. 878*](#)). The recent general pattern has become one of uptrending activity that still remains shy of

recovering its pre-recession high, broadly consistent with continuing weakness seen in real construction spending and other construction measures, again, albeit uptrending at the moment.

Graph 15: Construction Payroll Employment 2000 to Date

Construction Payroll Employment to March 2017
#### Seasonally-Adjusted [ShadowStats, BLS]
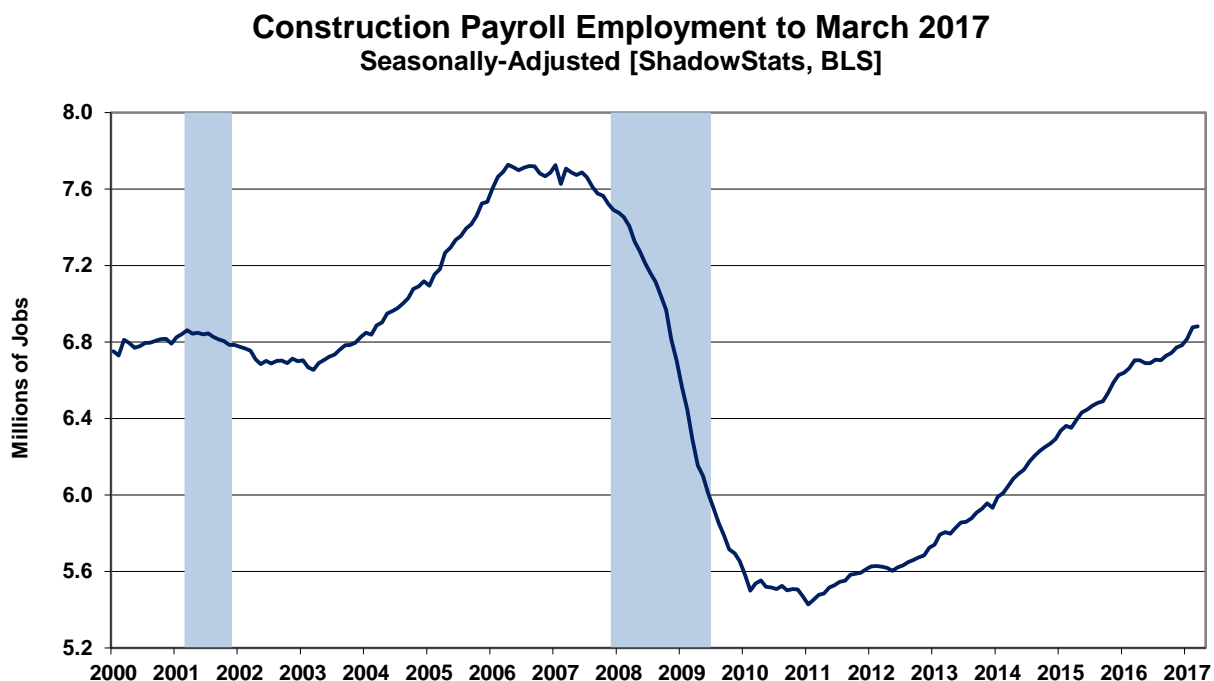
Headline month-to-month construction employment rose by 0.09% in March 2017, versus a revised 0.87% [previously 0.85%] gain in February, and a revised gain of 0.50% [previously 0.59%, initially 0.53%] in January. Unadjusted year-to-year growth gained 1.65% in March 2017, following gain of 1.00% in February 2017 and an annual decline of 3.68% (-3.68%) in January 2017.

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 March level of construction jobs was the highest seen since October 2008, but it remained down from the April 2006 pre-recession series peak by 10.92% (-10.92%).
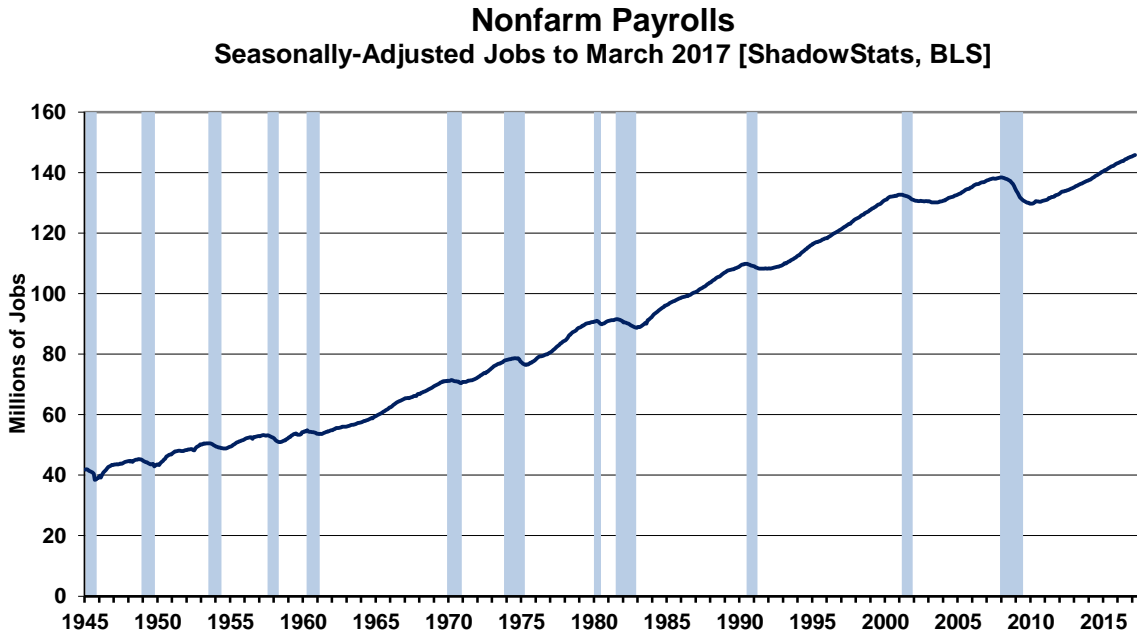
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy of three years earlier, back in 2011 (see quarterly detail *Commentary No. 876*). 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 March 2017, headline payroll employment was 7.51-million jobs above its pre-recession peak.

[Graphs 16 and 17 follow on the next page]

Graph 16: Nonfarm Payroll Employment 2000 to Date

Nonfarm Payroll Employment
Seasonally-Adjusted Levels, to March 2017 [ShadowStats, BLS]
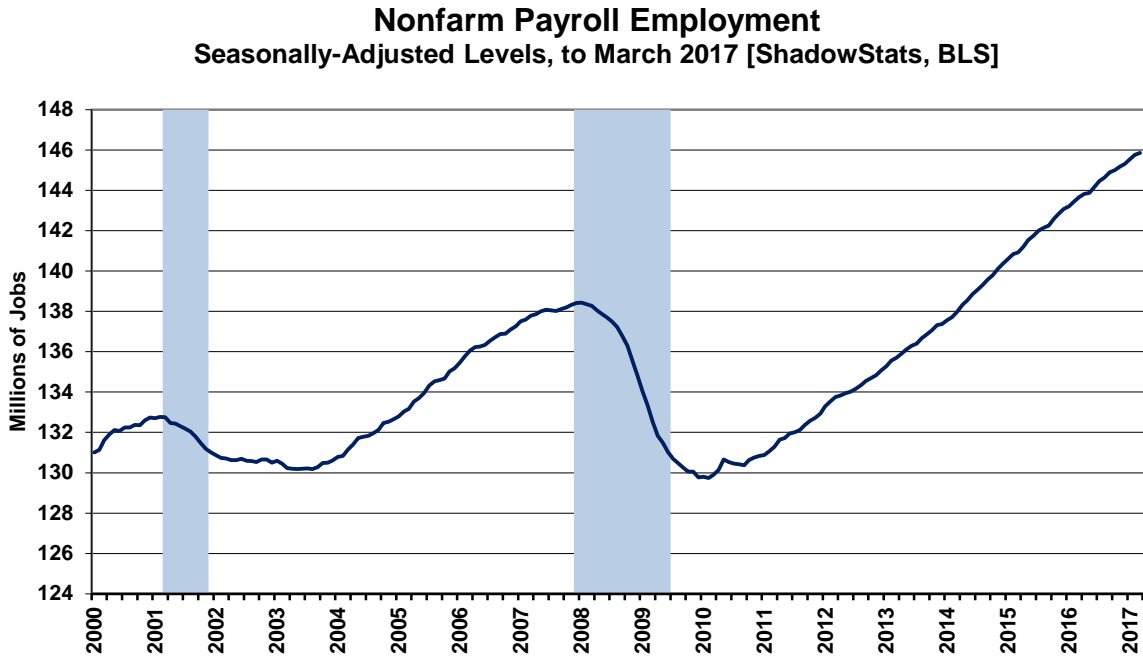
Graph 17: Nonfarm Payroll Employment 1945 to Date

Nonfarm Payrolls
Seasonally-Adjusted Jobs to March 2017 [ShadowStats, BLS]

Graphs 16 and *17* 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 March 2017 labor conditions, headline payroll jobs, which count each part-time job as an employed individual, gained 98,000 jobs in the month. The Household Survey, which counts employed individuals only once, irrespective of how many jobs a given individual holds, showed an even greater increase of 138,000 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.
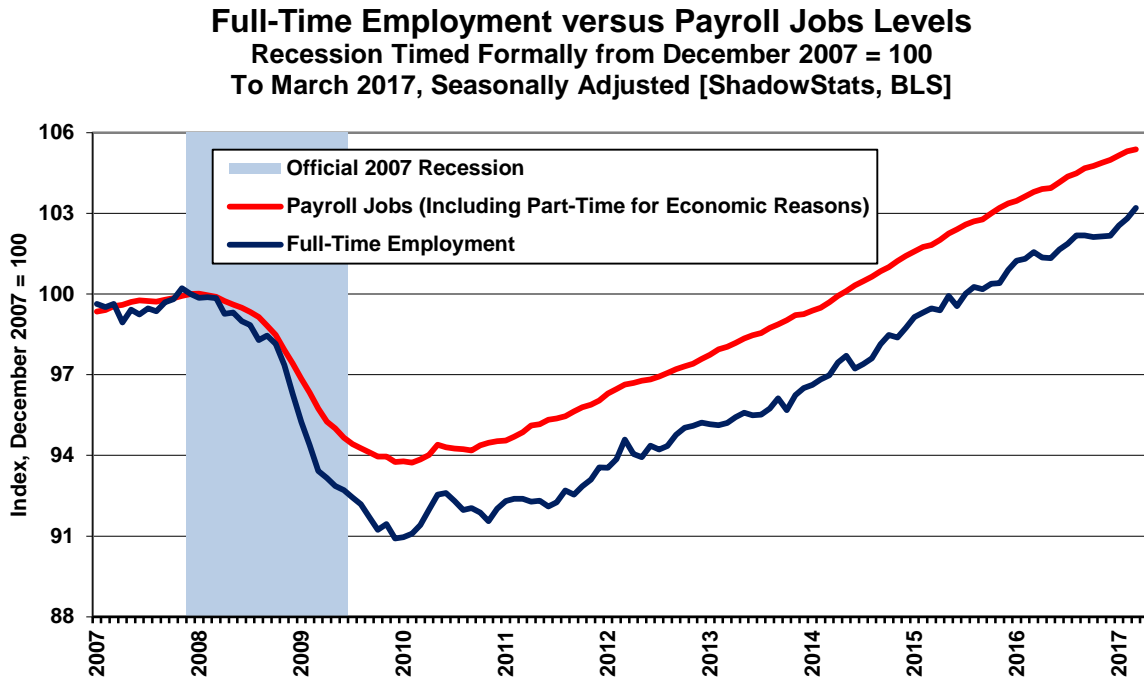
Graph 18: Full-Time Employment (Household Survey) to Date

Civilian Full-Time Employment Level - (Household Survey)
Counts Number of People Who Are Employed (Not Number of Jobs Held)
**Seasonally-Adjusted Levels, to March 2017 [ShadowStats, BLS]**
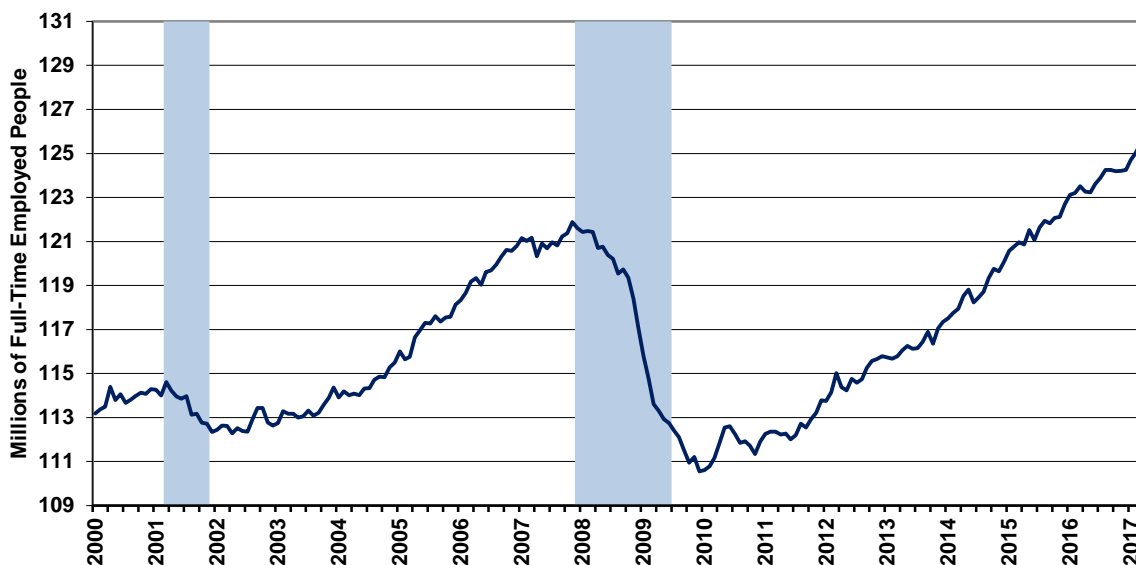
Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 18* (using a roughly-proportionate scale to *Graph 16*), the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015 (see quarterly detail in *Commentary No. 876*). Headline March 2017 full-time employment rose by a further, not believable monthly gain of 476,000, on top of 326,000 in February and 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.

Graph 19: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)

Full-Time Employment versus Payroll Jobs Levels
Recession Timed Formally from December 2007 = 100
To March 2017, Seasonally Adjusted [ShadowStats, BLS]

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

Full-Time Employment versus Payroll Jobs
Year-to-Year % Change, NSA, to March 2017 [ShadowStats, BLS]
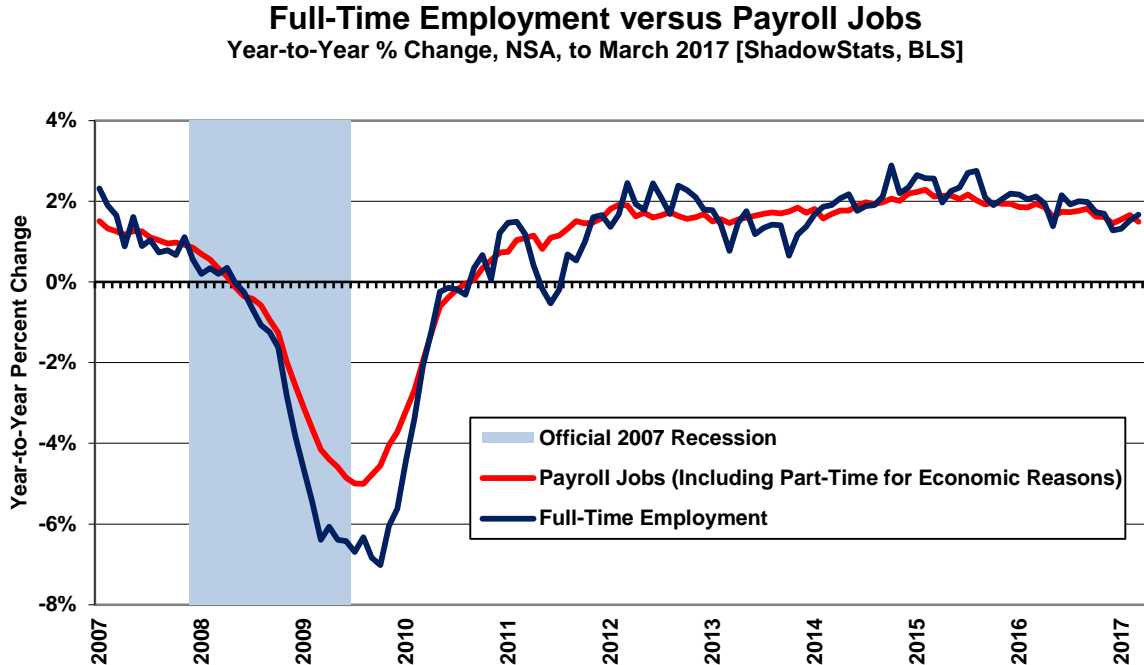
Headline full-employment detail now stands at 3.63-million above that pre-recession high for the series. That gain is due in particular to irregularly-volatile monthly gains in the seasonally-adjusted data of the

last year or so, particularly the first three months of 2017. The series will gyrate further in the months ahead, and remains likely to drop from the current headline level.

Still the 3.63-million gain compares with the headline payroll-employment level that is 7.51-million above its pre-recession high, regained some 33-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. Once again, against a headline Payroll Survey gain of 98,000 in March 2017, the count of new individuals taking on multiple jobs rose by 138,000 per the March Household Survey.

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 19* and *20* 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 (again, see quarterly detail *Commentary No. 876*).

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 21* and *22*. 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 1.55% and 1.66%, then dropped back to 1.49% in March 2017, versus a 65-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*, today's *Executive Summary* and the FOMC discussion in *Commentary No. 870*.

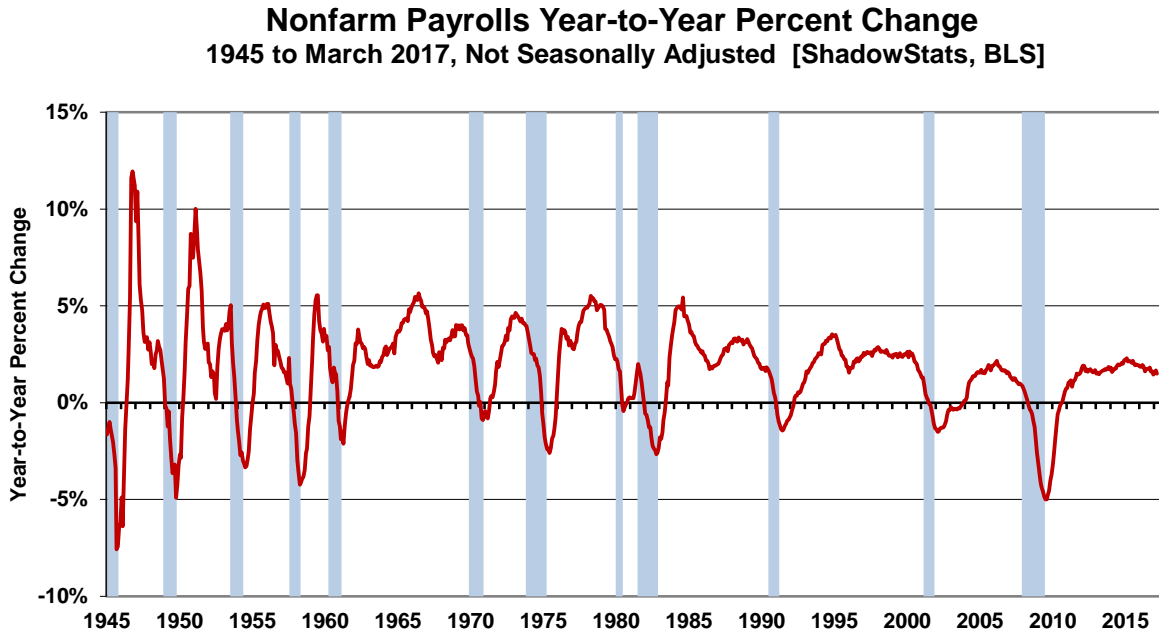With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown at the end of World War II [a trough of a 7.59% (-7.59%) annual contraction in September

24

1945]. Disallowing the post-war shutdown as a normal business cycle, the August 2009 annual decline was the worst since the Great Depression.

Graph 21: Payroll Employment, Year-to-Year Percent Change, 2000 to Date

Nonfarm Payrolls Year-to-Year Percent Change
2000 to March 2017, Not Seasonally Adjusted [ShadowStats, BLS]
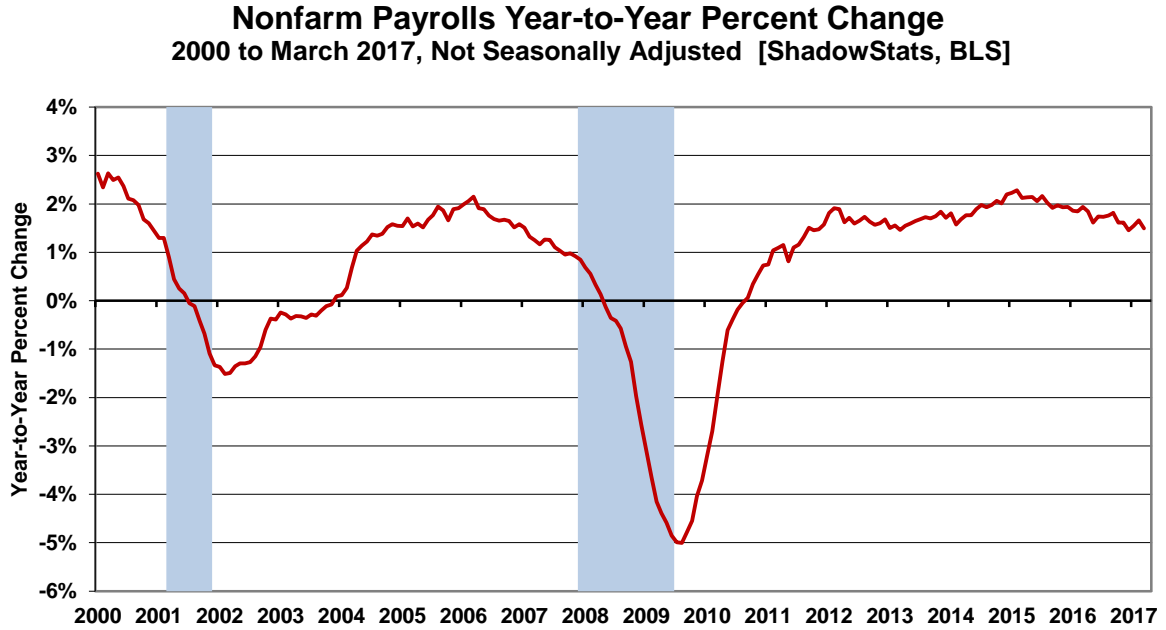
Graph 22: Payroll Employment, Year-to-Year Percent Change, 1945 to Date

Nonfarm Payrolls Year-to-Year Percent Change
1945 to March 2017, Not Seasonally Adjusted [ShadowStats, BLS]

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 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. Again, though, all historical comparability disappears, though, again, with the ensuing headline January reporting, and with each monthly estimate thereafter.

Consider *Graphs 23* and *24*, where data are available from the BLS to calculate the month-to-month seasonal-adjustment variability in the Payroll Survey. Similar detail is not available for the Household Survey, yet the month-to-month instability likely is of similar magnitude. At least with the Payroll Survey, the headline 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, the 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 23* and *24*).
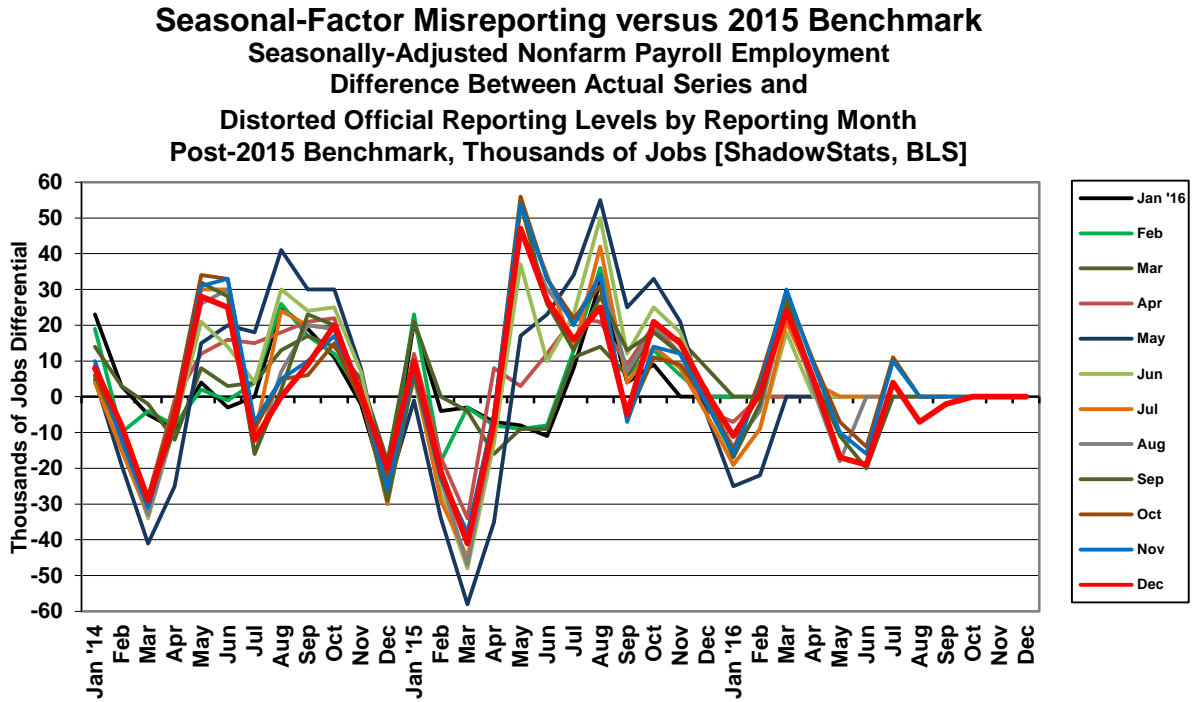
Where the BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, no such accommodation has been made for the Household Survey. Again, ShadowStats affiliate ExpliStats has done such third-party calculations for the payroll series, and the resulting detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are reflected here in *Graph 23*, showing the full monthly variability in the 2016 historical seasonal adjustments in the period since the 2015 payroll benchmark revision. As seen here, consistent data never are 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 23* shows how far the system strayed from the initial 2016 benchmarking, in its formal benchmark reporting of January 2017.

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.

[Graphs 23 and 24 are shown on the next page]

Graph 23: Concurrent-Seasonal-Factor Irregularities – December 2016 Detail versus 2015 Benchmarking

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

Graph 24: Concurrent-Seasonal-Factor Irregularities – January '17 Detail versus 2016 Benchmarking

Seasonal-Factor Misreporting versus 2016 Benchmark
Seasonally-Adjusted Nonfarm Payroll Employment
Difference Between Actual Series and
Distorted Official Reporting Levels by Reporting Month
Post-2016 Benchmark, Thousands of Jobs [ShadowStats, BLS]
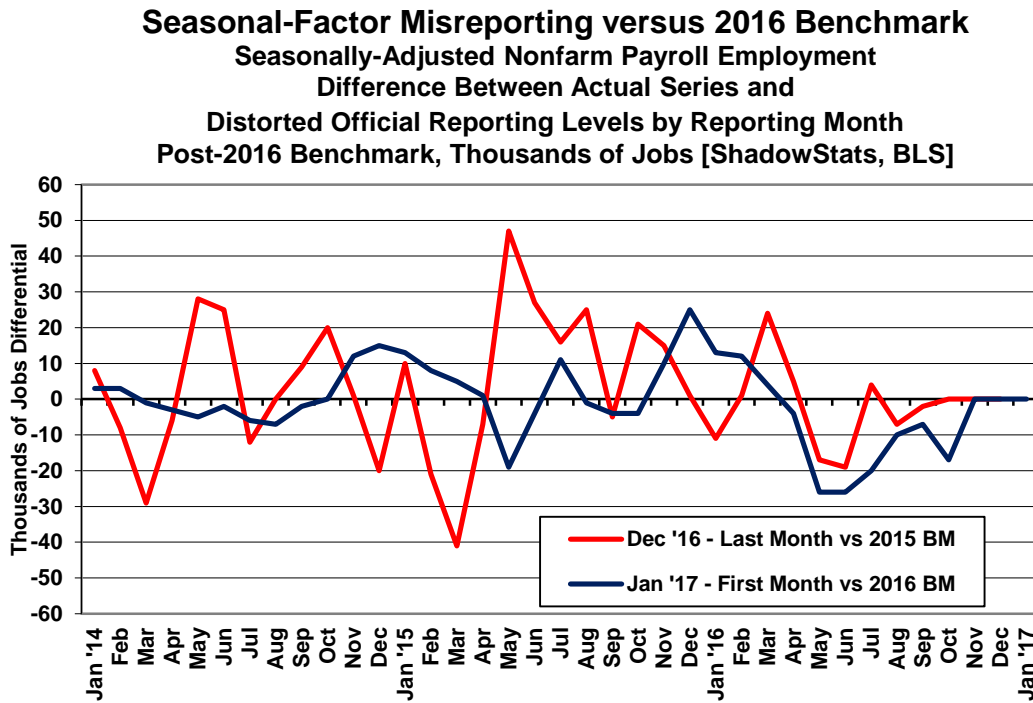
Birth-Death/Bias-Factor Adjustment (BDM). Despite the ongoing, general overstatement of monthly payroll employment, the BLS adds in upside monthly biases to the payroll employment numbers. The

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.

March 2017 Add-Factor Bias. The not-seasonally-adjusted March 2017 add-factor bias was a positive 32,000, following a positive 124,000 in February 2017, following a positive 64,000 add-factor in March 2016. The revamped, aggregate upside annual bias for the trailing twelve months through March 2017 is estimated from current headline bias reporting at 930,000 up by 89,000 or 10.6% from 841,000, the December 2016 pre-benchmarking level and up 149,000 or 19.1% from 781,000 in December 2015, the year before. That is a monthly average of 77,500, in March 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 77,500 jobs per month for the current year. As a result, in current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month (the underlying positive base-assumption upside bias, plus the monthly Birth-Death Model add-factor).

HOUSEHOLD SURVEY DETAIL. Discussed in the 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 March 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. Again, in the context of the non-comparability of month-to-month changes in seasonally-adjusted unemployment detail, the March 2017 unemployment rate (U.3) declined to 4.5% [4.50%], versus 4.7% [4.70%] in February and 4.8% [4.78%] in January. Formally, the decline of 0.20% (-0.20%) in the March U.3 was shy of being statistically-significant (+/- 0.23% at the at the 95% confidence interval). 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 methodology. The unadjusted unemployment rate U.3 declined to 4.56% in March, versus 4.95% (rounds to 4.9%) in February and 5.14% in January.

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 128,000 (-128,000) and a decline of 151,000 (-151,000) in the adjusted number of people working part-time for economic reasons, the adjusted March 2017 U.6 unemployment rate eased to 8.87%, versus 9.24% in February and 9.43% in January. The unadjusted U.6 unemployment rate was 8.94% in March 2017, versus 9.54% in February and 10.08% in January.

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 March 2017 (never seasonally-adjusted) declined by 62,000 (-62,000) to 460,000, having dropped 10,000 (-10,000) to 522,000 in February, and having gained in January by about 108,000 (corrected for population distortions), with marginally-attached workers declining by 128,000 (-128,000) to 1,595,000 in March 2017, following a drop of 9,000 (-9,000) 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 total unemployed and labor force the ShadowStats estimate of effectively displaced long-term discouraged workers—a broad measure of unemployment more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for March 2017 declined to 22.5%, versus 22.7% in February and 22.9% in January. 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 level of "marginally attached workers," which includes the currently-defined and undercounted "discouraged workers" category used in the U.6, which declined to 1.595 million in March 2017 versus 1.723 million in February 2017, those not in the labor force currently wanting a job was 3.912 million in March 2017, versus 3.918 in February 2017 (a total of 5.507

million in March, versus 5.641 million in February). Seasonally adjusted the aggregate March 2017 number was 5.781 million, versus 5.597 million in February.

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 3* to *5*). 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 6* to *11* there and in the *ECONOMY* section of *No. 859 Special Commentary*.

Headline March 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 March 2017 declined to 22.5%, from 22.7% in February, and 22.9% in January. The March 2017 reading was down by 80 basis points or 0.8% (-0.8%) from the 23.3% series high last seen in December 2013.

In contrast, March 2017 headline U.3 unemployment of 4.50% was down by 550 basis points or by 5.5% (-5.3%) from its peak of 10.0% in October 2009, back to pre-recession levels. The broader U.6 unemployment measure of 8.9% in January 2017, was down by 830 basis points or 8.3% (-8.3%) 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 2* in the *Executive Summary*), 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%.

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WEEK, MONTH AND YEAR AHEAD

Continuing Economic Woes Promise an Increasingly-Compromised, Frustrated Fed and Deteriorating U.S. Dollar Support. The outlook for future FOMC activity was reviewed in the *Opening Comments* of *Commentary No. 873*, touched upon in today's *Opening Comments* and will be updated in next week's *Commentary No. 880*. The latest assessment of current economic activity in today's *Opening Comments* in the context of *Commentary No. 876* and *Commentary No. 877*, as well as in earlier *Commentary No. 875*, *Commentary No. 874*, with the broad outlook outlined in *No. 859 Special Commentary*.

Nonetheless, the following discussion has changed little from previous comments in *Commentary No. 878*. As reflected in common experience, actual U.S. economic activity generally continues in economic stagnation or downturn, never having recovered fully its level of pre-economic-collapse (its pre-2007-recession peak). While the latest headline GDP shows economic expansion of 12.2% since that series recovered its 2007-pre-recession high in 2011, no other "recovered" economic series has come close to showing that expansion either in terms of magnitude or in the purported brevity of the depression. Most of the better-quality series have remained in continuing, not-recovered status, in a period of protracted downturn that now rivals that of the Great Depression (see *Commentary No. 869*). With new signals for intensifying, near-term economic woes in hand, the FOMC soon should shift policies, once again, reverting to some form of quantitative easing, in an effort to address related, intensifying solvency risks in the domestic banking system (see the *Opening Comments*).

Discussed in *No. 859 Special Commentary*, the Trump Administration faces extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on prospects for long-range U.S. Treasury solvency and for stability and strength in the U.S. dollar. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, before it meaningfully impacts the broad economy. Needed at the same time are a plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control, and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (again, see *No. 859*).

Prior General Background. *No. 859 Special Commentary* also 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, again, 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 recovered fully. 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 eventually 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 continuing to raise interest rates, in order to contain an overheating economy. 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: *Commentary No. 869*, *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. 878 reviewed detail on the February 2007 Trade Deficit and Construction Spending, along with the latest update on Consumer Liquidity conditions.

Commentary No. 877 outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to retail sales, durable goods orders and the GDP.

Commentary No. 876 current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

Commentary No. 874 reviewed February 2017 Industrial Production and updated the economic outlook.

Commentary No. 873 discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with a review of the February 2017 Residential Construction reporting.

Commentary No. 872 offered some initial comment on the FOMC rate hike, in conjunction with the review of February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

Commentary No. 871 covered prior reporting of February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

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.

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 was 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 the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 analyzed 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* (watch for the annual benchmark revisions here on April 26th).

PENDING RELEASES: Producer Price Index—PPI (March 2017). The Bureau of Labor Statistics (BLS) will release the March 2017 PPI on Thursday, April 13th, with detail covered in *Commentary No. 880* of April 14th. Odds favor negative wholesale inflation on the goods side of the reporting, perhaps down by 0.3% (-0.3%), due largely to minimally negative seasonal-factor adjustments exacerbating meaningful monthly declines in the 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. 872](#), where, again, the services component could offset any weakness in the headline goods inflation.

Unadjusted oil prices declined in March 2017, as did wholesale gasoline prices. Based on the two most-widely-followed oil contracts, monthly-average oil prices dropped by 5.9% (-5.9%) and 7.8% (-7.8%). That was accompanied by a 3.5% (-3.5%) decline in unadjusted, monthly-average wholesale gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in March are minimally negative, such should only intensify the monthly decline in the adjusted Final Demand Goods component of the PPI.

Consumer Price Index—CPI (March 2017). The Bureau of Labor Statistics (BLS) will release the March 2017 CPI on Friday, April 14th, which will be covered in *Commentary No. 880* of that date. The headline March CPI-U likely will show a month-to-month increase of perhaps 0.2%, plus or minus, in the context of a small month-to-month gain in gasoline prices largely being offset by negative seasonal adjustments. Headline, unadjusted year-to-year annual inflation for March 2017 likely will notch higher to about 2.8%, versus 2.7% in February 2017.

Minimal Monthly Inflation Impact from Lower Gasoline Prices. Average gasoline prices rose in March 2017 by 0.87% for the month on a not-seasonally-adjusted basis, per the Department of Energy. Where BLS seasonal adjustments to gasoline prices in March are negative, that largely should offsets the gain in unadjusted gasoline prices, with seasonally-adjusted numbers contributing roughly a negligible, positive 0.02% 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 0.2% is a reasonable estimate.

Annual Inflation Rate. Noted in [Commentary No. 872](#), year-to-year, CPI-U inflation would increase or decrease in March 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.11% in March 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 March 2017, the difference in March's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the February 2017 annual inflation rate of 2.74%. Given an early guess of a seasonally-adjusted gain of 0.2% in the monthly March 2017 CPI-U, that would leave the annual CPI-U inflation rate for March 2017 at about 2.8%, plus-or-minus, depending on rounding.

Nominal and Real Retail Sales (March 2017). The Census Bureau will release March 2017 nominal (not-adjusted-for-inflation) Retail Sales on Friday, April 14th, coincident with the BLS's release of the March CPI. Accordingly, the detail on both the nominal and real (adjusted-for-inflation) Retail Sales both

will be released in *Commentary No. 880* of that date. The headline nominal sales number should be down for the month and weaker than expected, intensifying negative indications for broad first-quarter 2017 economic activity, both in nominal and real terms.

With a likely headline gain in the monthly March 2017 CPI-U of 0.2%, plus-or-minus, and an annual increase of roughly 2.8% in inflation, headline real sales growth in March 2017 accordingly would be relatively more-negative or weaker, in parallel, than the headline change reported in nominal sales activity.

Consensus expectations for nominal March 2017 Retail Sales should be negative, reflecting weak auto sales and retail outlet activity. Downside revisions to previously-estimated February and January sales remain a fair bet. Whatever is reported, the headline March numbers will be revised twelve days later, on April 26th, in the annual benchmark revisions to the Retail Sales series. Recent sales activity generally should be revised lower (see *Commentary No. 877*).

Discussed in the *CONSUMER LIQUIDITY* section of *No. 859 Special Commentary*, and updated in *Commentary No. 878*, 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.

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 remains a work in progress and should be published shortly.

The consolidation of the major *ShadowStats* reporting into one volume, including the recommended reading list remains targeted for late this month.

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