

COMMENTARY NUMBER 898
June Labor Conditions, Money Supply M3

July 7, 2017

June Payroll Gain Was on Top of Upside Revisions

**Nonetheless, Unadjusted Year-to-Year Payroll Growth Held at Low Levels
Common to Periods Preceding Economic Recession**

Headline Unemployment Remained Well Short of Common Experience

**June 2017 Unemployment: U.3 Rose to 4.4% from 4.3%,
U.6 Rose to 8.6% from 8.4% and the ShadowStats-Alternate Rose to 22.1% from 22.0%**

Watch Out for Reporting Surprises in Week Ahead

June Money Supply M3 Annual Growth Declined to 3.1% from 3.5% in May

PLEASE NOTE: The next regular Commentary, scheduled for Monday, July 17th, will cover the June Producer Price Index (PPI), Consumer Price Index (CPI), Nominal and Real Retail Sales, Real Earnings and Industrial Production. Given the large amount of data to be released on Friday, July 14th, the related analysis will go over the weekend to the 17th.

Best wishes to all — John Williams (707) 763-5786

Today's *Opening Comments and Executive Summary (July 7th)* focuses on the headline June employment and unemployment reporting in the context of an otherwise renewed, broad faltering in U.S. economic activity.

The ***Reporting Detail*** (beginning page 15) provides extended analysis on June labor conditions.

The ***Hyperinflation Watch*** (beginning page 12) updates monetary conditions with the initial estimate of annual growth in the June 2017 ShadowStats Ongoing Measure of Money Supply M3 and the latest Monetary Base graphs.

The ***Week, Month and Year Ahead*** (beginning page 32) reviews recent *Commentaries* and previews next week's releases of the June Producer Price Index, Consumer Price Index (CPI), Nominal and Real Retail Sales, Real Earnings and Industrial Production.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Headline Economic Activity Should Continue to Falter in the Immediate Future. While today's (July 7th) headline monthly gains in payroll employment were stronger than market expectations, the payroll series still signaled imminent recession, with annual growth at 1.5%, a level generally seen only in transition periods, either going into (the current circumstance) or coming out of a recession. Protracted growth at that level is not healthy and generally not sustainable.

The small bounce-back in the unemployment rate from 4.29% to 4.36%, from a rounded 4.3% to 4.4%, was not consensus, but it should not have been a shock. What remains broadly overlooked is that those low unemployment readings are far from normal, in the context of related measures such as the participation rate. Discussed in the *Executive Summary*, for example, the current low level of the labor-force participation rate broadly is consistent with the headline U.3 unemployment at 9.0%, not at 4.4%.

With the headline payroll detail generally stronger than expected, the U.S. dollar rallied on the day and gold prices declined. Those circumstances easily can reverse next Friday, where the June CPI, retail sales and industrial production all will come into play, and where each of those measures is at solid risk of surprising likely market expectations on the downside, discussed in the *Week, Month and Year Ahead*.

As noted there, covered in [General Commentary No. 894](#), and further to the discussions in the *Opening Comments* and *Hyperinflation Watch* of [Commentary No. 892](#), headline economic reporting during June showed a marked downturn versus market expectations. While such usually signals an unfolding, major downshift in underlying economic reality, in the current circumstance that also forewarns of a potential shift in FOMC activity.

A deepening economic downturn would stress banking system solvency and liquidity, pushing Fed policy back towards expanded quantitative easing, with a resulting, intensive U.S. dollar debasement. Market reaction likely would be reflected in heavy dollar selling and gold buying.

Executive Summary: Employment and Unemployment—June 2017—Recession Signaled in Annual Payroll Growth; Headline Unemployment Detail Remained Far Shy of Common Experience. In the continuing context of reporting distortions discussed in [Special Commentary No. 885](#), entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play* (incorporated here by reference), underlying reality in labor conditions is much weaker than popularly touted. Despite the stronger-than-expected headline gain in June 2017 payrolls, ongoing low levels of year-to-year growth continued to signal pending recession, as reviewed later in the *Reporting Detail*. Separately, major distortions continued in the underlying measurement, definition and reporting of the headline unemployment rate, with the effect that the related numbers remain well removed from common experience, as discussed in this *Executive Summary* and in the context of the *ShadowStats-Alternate Unemployment Rate Measure* discussion on page 29.

Specifically, the headline monthly payroll jobs gain of 222,000 in June 2017 likely was near unchanged, plus-or-minus, in reality, while the headline 4.36% June 2017 unemployment rate remained far short of reflecting common experience. In contrast, the June 2017 ShadowStats-Alternate Unemployment Rate was estimated at 22.1%. Extended assessment of headline distortions in the payroll-employment and household survey reporting, again, is found in [Special Commentary No. 885](#).

Payroll Survey: Continued Weakening Growth Signaled New Downturn. In the context of upside prior-period revisions, continued heavily-distorted bloating, unstable seasonal adjustments and inconsistent benchmarkings, seasonally-adjusted headline June 2017 payrolls showed a strong-than-expected monthly gain of 222,000 jobs. That followed upwardly-revised monthly gains of 152,000 in May and 207,000 in April. The revised monthly gain in April, however, was not reported on a comparable basis with the headline June 2017 and May 2017 details. Net of prior-month revisions, June 2017 payrolls rose by 269,000, instead of the headline 222,000.

Collapsing Annual Growth Still at Levels Seen Only Going Into or Coming Out of Recession. The not-seasonally-adjusted, year-to-year growth in June 2017 nonfarm payrolls declined minimally to 1.52%, versus an upwardly revised 1.57% in May 2017, versus an upwardly revised 1.43% in April 2017. That annual growth of 1.43% in April 2017 still hit a 68-month low, the weakest since August 2011, and at that time, it was the highest growth seen coming out of the economic collapse into 2009. Before that, the same growth rate was last seen as annual growth slowed going into the 2007 recession, signaling the pending recession.

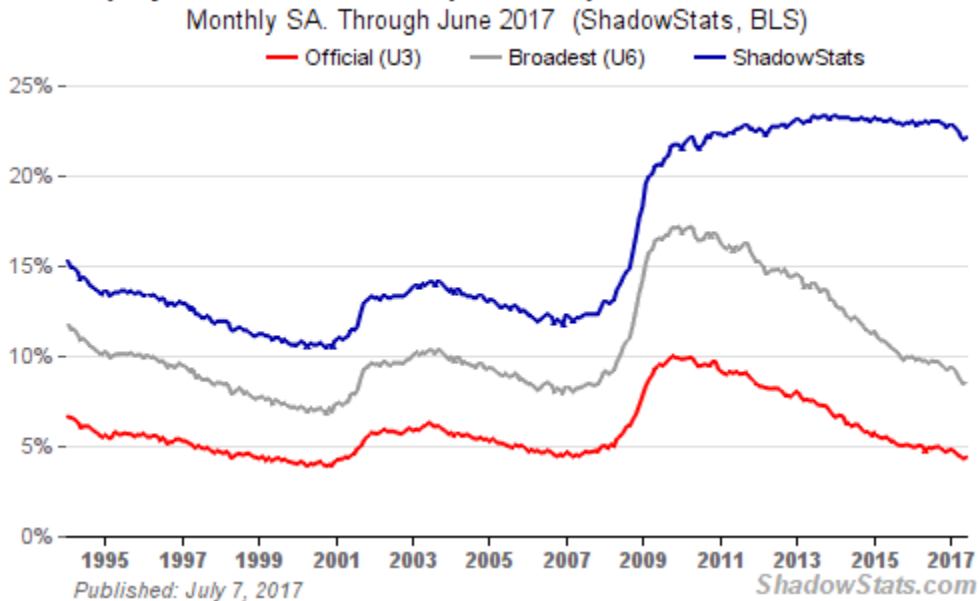
Household Survey: Counting All Discouraged Workers, June 2017 Unemployment Notched Higher to 22.1%. The headline detail on the employment/unemployment news was mixed, as commonly is the circumstance, with the seasonally-adjusted, headline U.3 unemployment rate rising to 4.4% in June from a 16-year low of 4.3% in May. The number of unemployed rose by 116,000 for the month, in context of the number of employed rising by 245,000. That simply could be a distortion in students leaving school and entering the workforce, but such generally should be balanced out with proper seasonal adjustments.

As noted last month, the decline in the May 2017 unemployed count was 195,000 (-195,000), in the context of a decline of 233,000 (-223,000) in the employed count, suggestive there perhaps of a surge in new discouraged workers. More likely, both June and May, headline details just were skewed, not comparable month-to-month, due to the regular non-comparability of seasonally-adjusted detail, because the headline household survey data are not reported consistently, month-to-month, as discussed in *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*.

Despite what appeared to be reasonably-logical, offsetting moves in employment and unemployment numbers in the headline detail for March and April 2017, the seasonally-adjusted series remained hopelessly befuddled month-to-month, again, because the Bureau of Labor Statistics (BLS) refuses to publish consistent details. As usual, the seasonally-adjusted, month-to-month numbers reported with the household survey were neither directly comparable nor meaningful, including comparisons month-to-month of the levels of the unemployment rate and the counts of employed and unemployed. The problem remains that while the headline monthly data for June 2017 were calculated using new seasonally-adjustment patterns unique to June 2017, and the new seasonally-adjusted and comparable data for May 2017 and the months before also were re-calculated, the earlier months' details were not published. Instead, the unique seasonal adjustments based on prior May 2017 calculations were left in place for May, unrevised for the June-based seasonals, and the unique seasonal adjustments based on the initial April 2017 calculations were left in place, unrevised for May or June. Standardly, the month-to-month comparisons of the seasonally-adjusted, headline Household Survey data simply are not comparable.

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.

Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats
Unemployment Rate - Official (U-3 & U-6) vs ShadowStats Alternate



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

Graph 1 reflects headline June 2017 U.3 unemployment at 4.36%, versus 4.29% in May and 4.40% in April; headline June 2017 U.6 unemployment at 8.59%, versus 8.41% in May and 8.57% in April; and the headline June 2017 ShadowStats unemployment estimate at 22.1%, versus 22.0% in May and 22.1% in April.

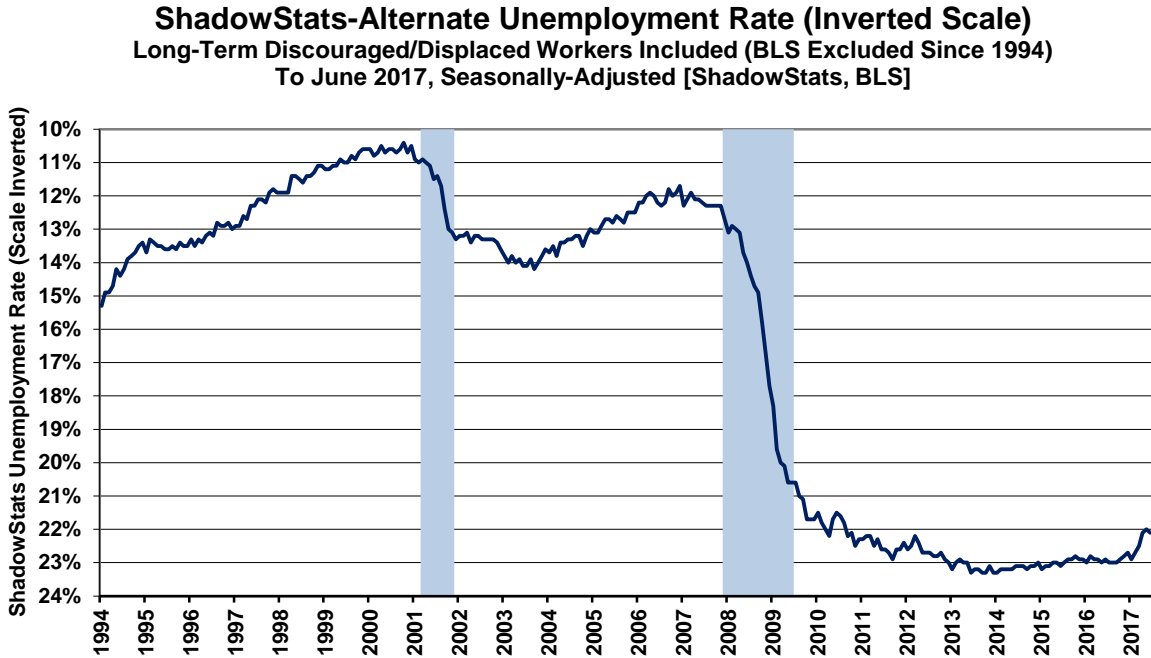
Dysfunctional, Seasonally-Adjusted Headline Detail from the Household Survey. With the headline U.3 unemployment rate still closing in on historic low levels, systemic imbalances and instabilities are reflected in the labor-force participation rate (labor force/population) and the employment-to-population ratio (headline employment/population), which also are just off historical lows. Yet, in a purportedly healthy, growing economy, those ratios should be approaching historical highs (see *Graphs 3* and *4*). Discussed in the following section *Economy Remains Far From Full-Employment*, the current low level of the participation rate is broadly consistent with a headline U.3 unemployment rate of 9.0%, more than double June's headline rate of 4.4%.

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

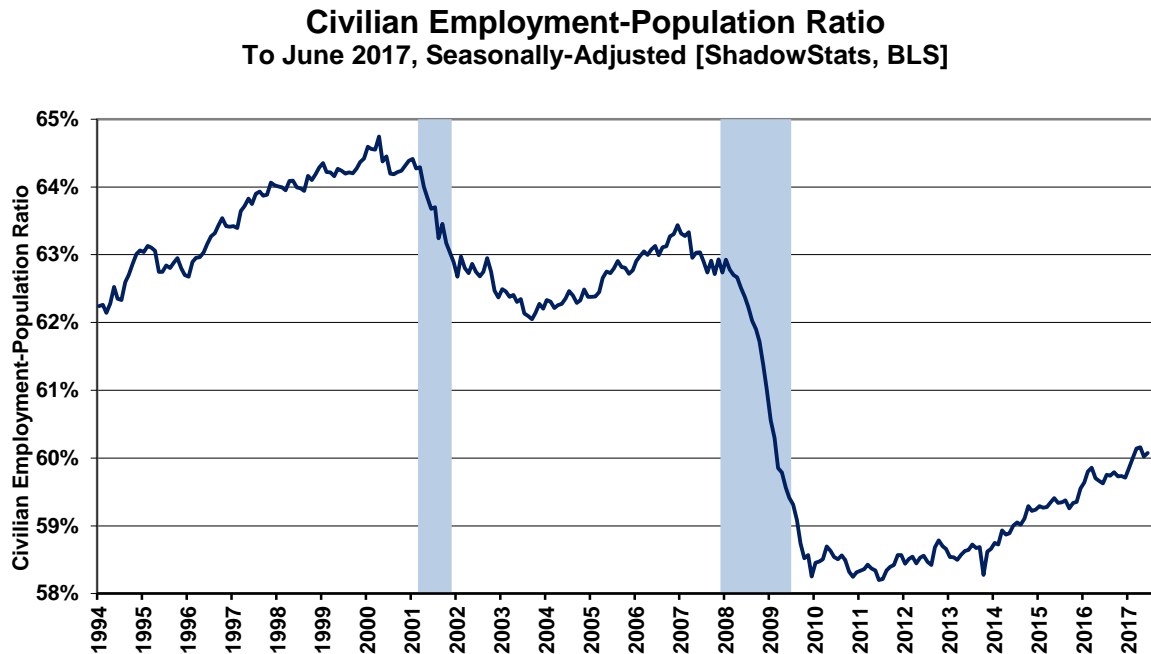
The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which had turned slightly weaker in second-half 2016, but recently had been in an uptrend in 2017, along with monthly jumps and month-to-month inconsistencies in headline employment and the recently rejiggered population numbers (see [Commentary No. 864](#)). That ratio notched higher in June 2017 to 60.1, versus 60.0 in May and 60.2 in April. 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 3*.

[Graphs 2 to 4 begin on the following page.]

Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



Graph 3: Civilian Employment-to-Population Ratio

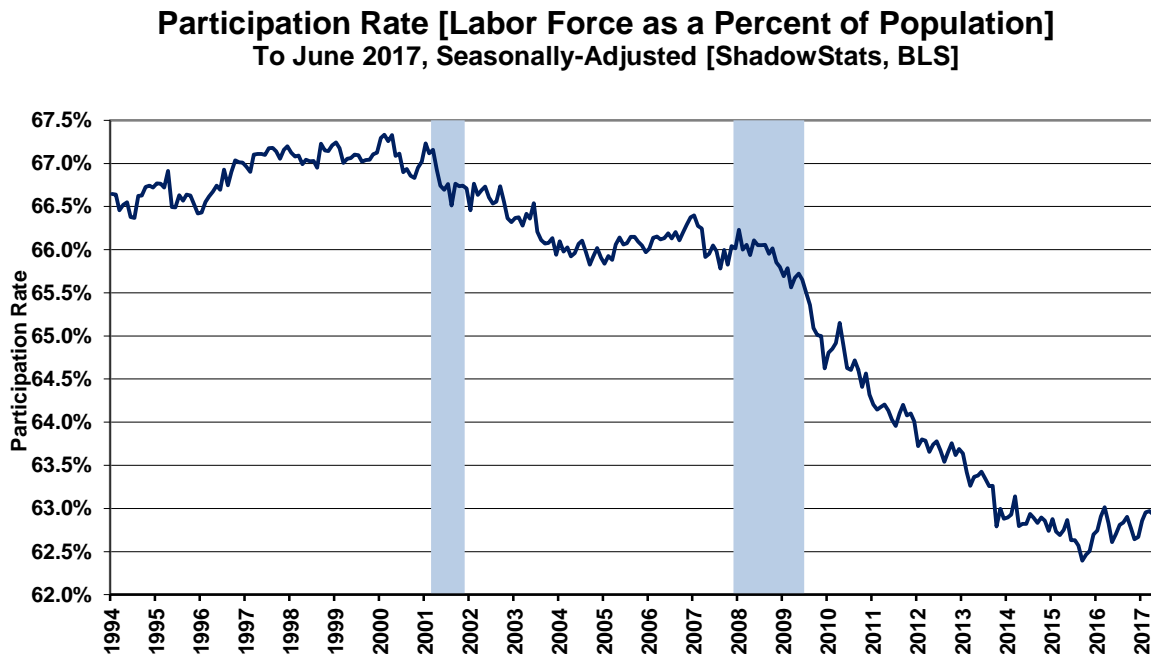


The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment-to-population ratio remains something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats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

Shown in *Graph 4*, the June 2017 participation rate (the ratio of the headline labor force to the population) notched higher to 62.8%, versus 62.7% in May and 62.9% in April, 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, again falling off thereafter.

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 3* 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 4: Labor-Force Participation Rate



Graphs 1 through *4* reflect labor data available in consistent detail only back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with the June 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% (headline U.3 is at 4.4% at the moment) 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 June 2017 headline unemployment rate of 4.4%, for example was in the context of a 62.8% participation rate. That participation rate, though, was more consistent with a headline unemployment rate (U.3) of 9.0% instead of the headline 4.4%. 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 80% above the hyped 5.0% full-employment unemployment rate, and more than 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 2 to 4* (1994-to-date where available), which do not confirm the purported headline recoveries in the GDP or relative employment. That detail was expanded upon and covered in [No. 859 Special Commentary](#); see also [Commentary No. 896](#). Some of those series are updated in this section.

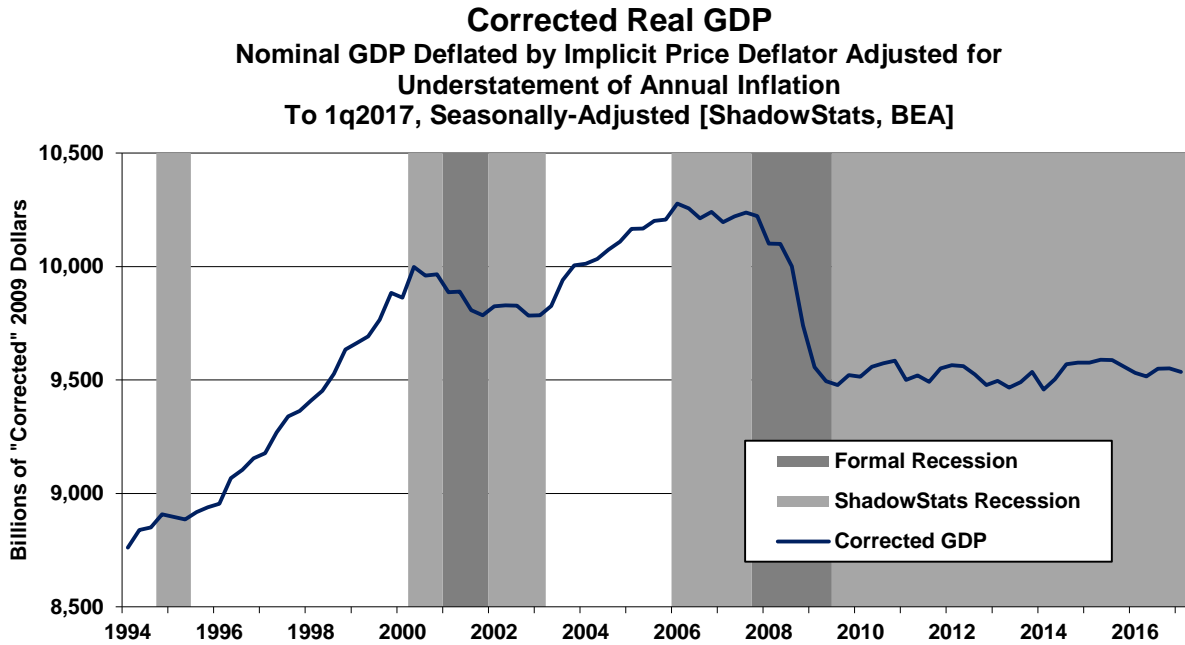
Consider *Graph 5*, which shows the ShadowStats version of the GDP, also plotted from 1994 but through the June 29th third estimate of first-quarter 2017 GDP, where the GDP plot here has been corrected for the understatement of inflation used in deflating the headline GDP series (further detail and a description of the approach and related links are found in [Commentary No. 896](#)).

Other graphs (again, see [No. 859](#)) range from the CASS Freight Index (*Graph 6*) to Real S&P 500 Revenues adjusted for share buybacks (*Graph 7*), and include U.S. Petroleum Consumption (*Graph 8*), the Consumer Goods sector out of May 2017 Industrial Production (*Graph 9*) and May 2017 Housing Starts (*Graph 10*), respectively out of [Commentary No. 892](#) and [Commentary No. 893](#). A similar pattern is seen in real Construction Spending (see *Graph 19*, page 19 in prior [Commentary No. 897](#)).

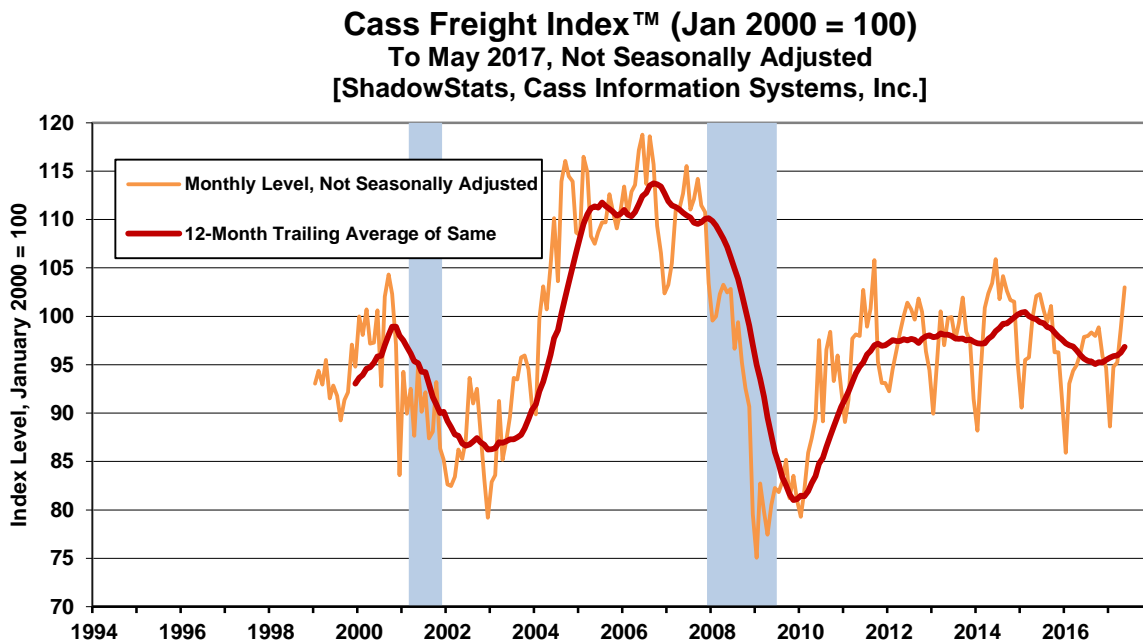
[Graphs 5 to 10 begin on the following page.]

¹ Consider with the June 2017 population of 254.957 million, that the implied labor force at a full-employment participation rate of 66.0% would be $0.66 \times 254.957 = 168.272$. That labor force less current headline employed, $168.272 - 153.168 = 15.104$ million implied unemployed / labor force of $168.272 = 9.0\%$ unemployment. The problem with the assumptions underlying these numbers and concept, again, remains that the economy is not at full employment, as has been claimed.

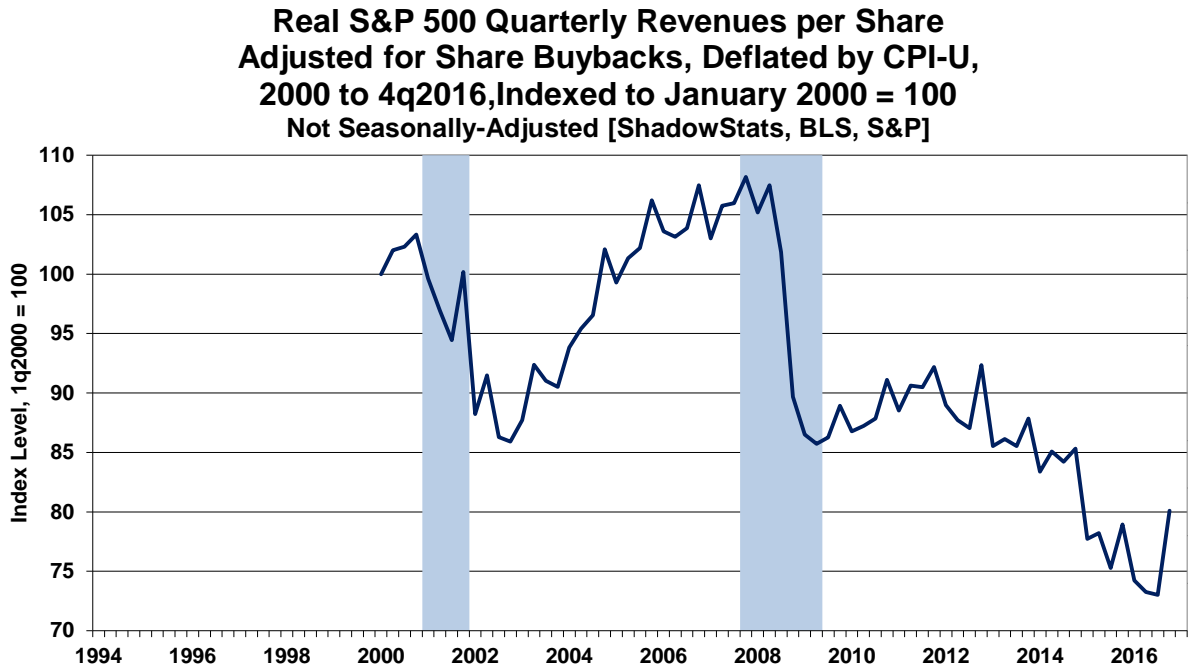
Graph 5: Corrected Real GDP through 1q2017, Third Estimate



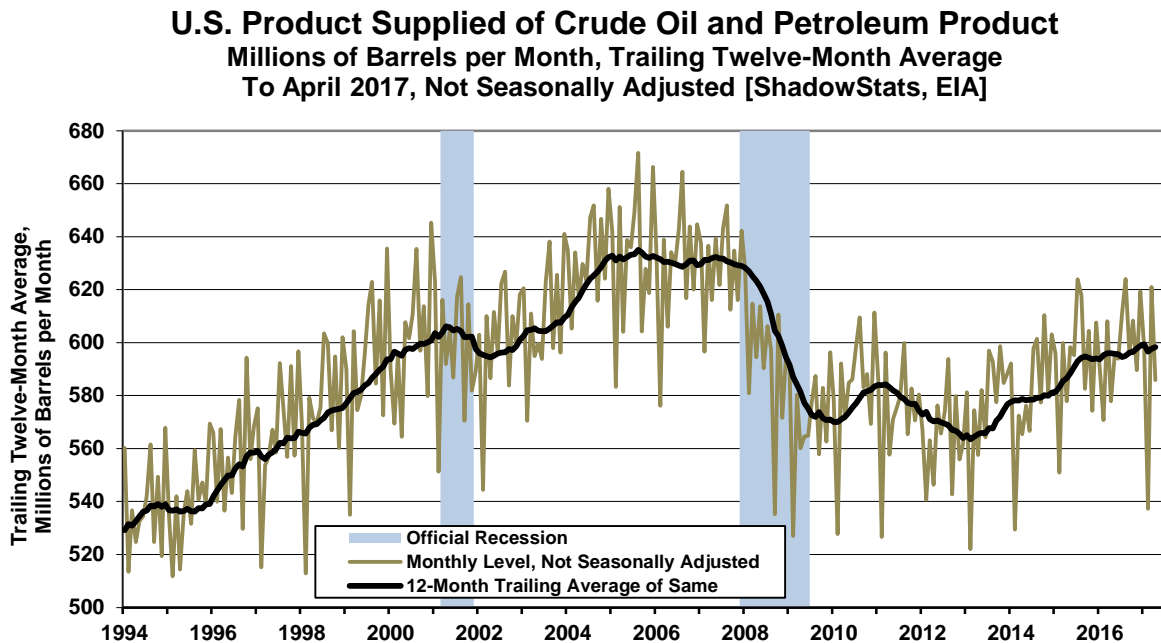
Graph 6: CASS Freight Index for North America (2000 – May 2017), Indexed to January 2000 = 100



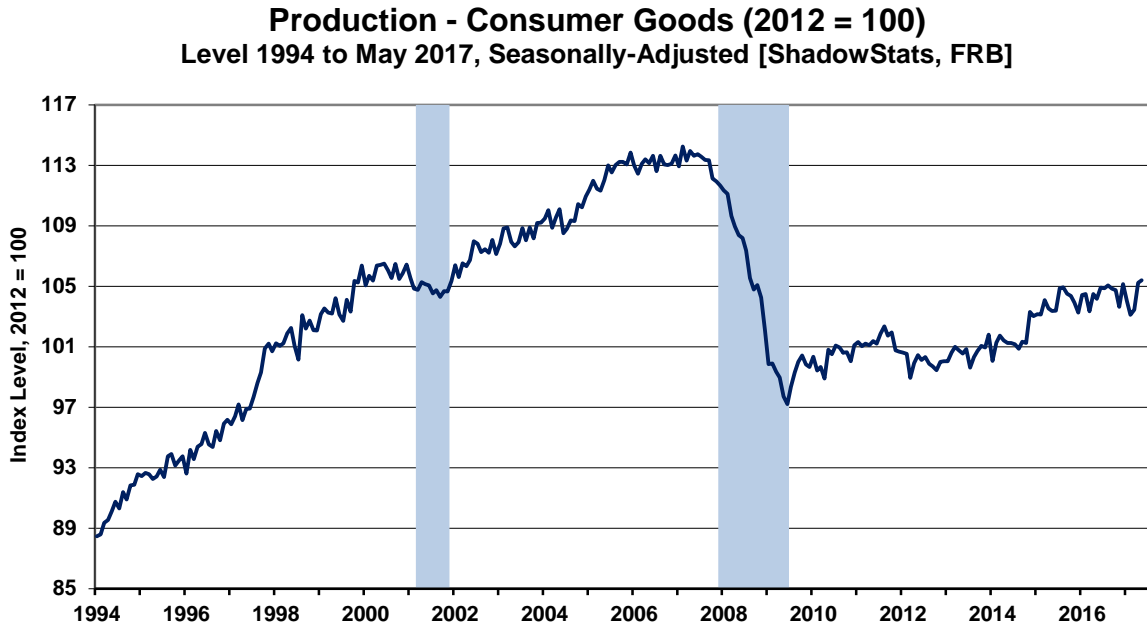
Graph 7: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2016), Indexed to January 2000 = 100



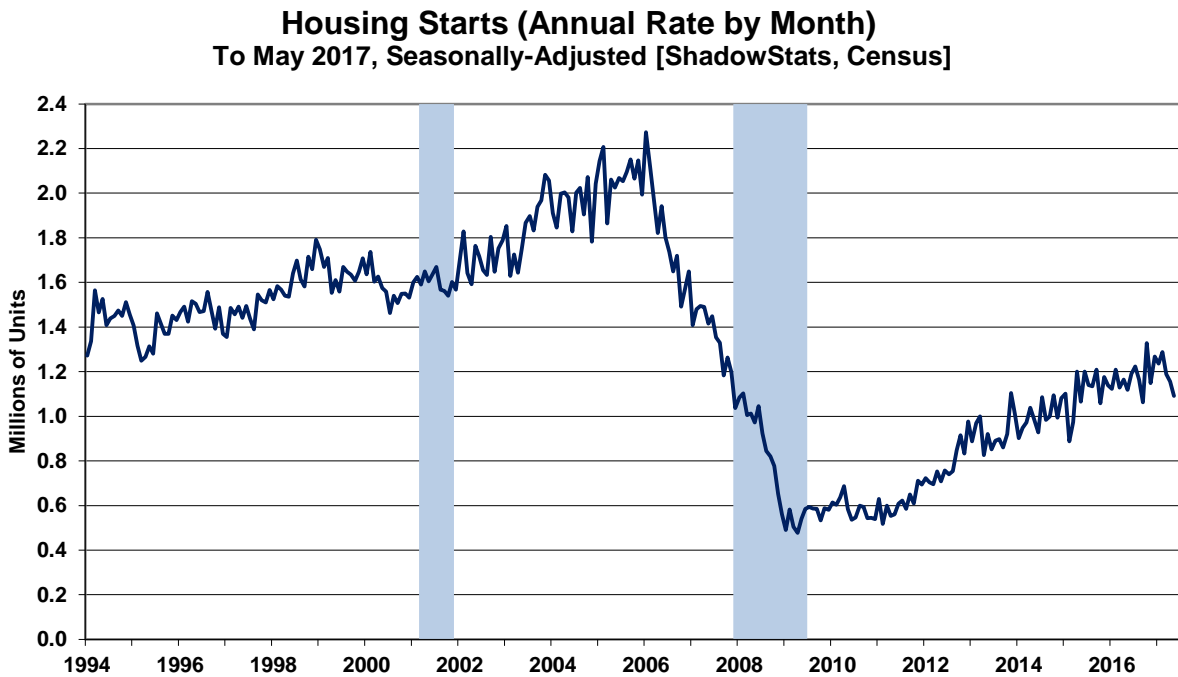
Graph 8: U.S. Petroleum Consumption to April 2017



Graph 9: Industrial Production – Consumer Goods Sector (1994 – May 2017)



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



Headline Unemployment Rates. Again, in the context of the non-comparability of month-to-month changes in seasonally-adjusted unemployment detail, the June 2017 unemployment rate (U.3) rose to 4.36% from 4.29% in May, versus 4.40% in April, 4.50% in March, 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 rose to 4.49% in June 2017 from 4.11% in May 2017, versus 4.11% in April, 4.56% in March, 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 an increase in the seasonally-adjusted June 2017 U.3 unemployment rate, an unadjusted increase in the count of marginally-attached workers of 107,000 and an increase also of 107,000 in the adjusted number of people working part-time for economic reasons, the adjusted June 2017 U.6 unemployment rate rose to 8.59%, versus 8.41% in May, 8.57% in April, 8.87% in March, 9.24% in February and 9.43% in January. The unadjusted U.6 unemployment rate was 8.86% in June 2017, versus 8.10% in May, 8.15% (rounds to 8.1%) in April, 8.94% in March, 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 June 2017 was 22.1% versus 22.0% in May, 22.1% in April, 22.5% in March, 22.7% in February and 22.9% in January.

[The Reporting Detail contains extended analysis and graphs.]

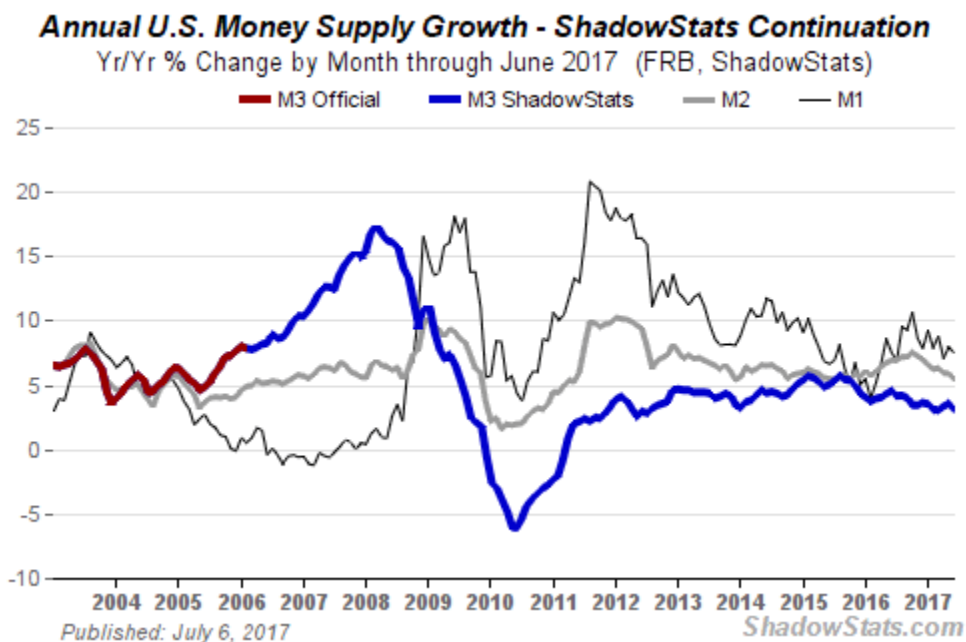
HYPERINFLATION WATCH

MONETARY CONDITIONS

June 2017 Annual Growth Rate in M3 Dropped Back to 3.1%, from 3.5%. Based on three-plus weeks of reporting, and in the context of regular benchmark revisions and softening growth in both the narrower M2 and M1, the estimate of nominal annual growth for the ShadowStats Ongoing M3 Money

Supply in June 2017 slowed to 3.1%, from a downwardly revised 3.5% [previously 3.6%] in May 2017, versus 3.3% [previously 3.4%] in April 2017 and 3.0% [previously 3.1%] in March 2017. The revised March showing still was the weakest year-to-year change since July 2012. Separately, nominal year-to-year growth for M2 declined to 5.6% in June 2017, from 5.9% in May 2017, with annual nominal growth in June 2017 M1 falling back to 7.5% from 8.0% May 2017.

Graph 11: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through June 2017

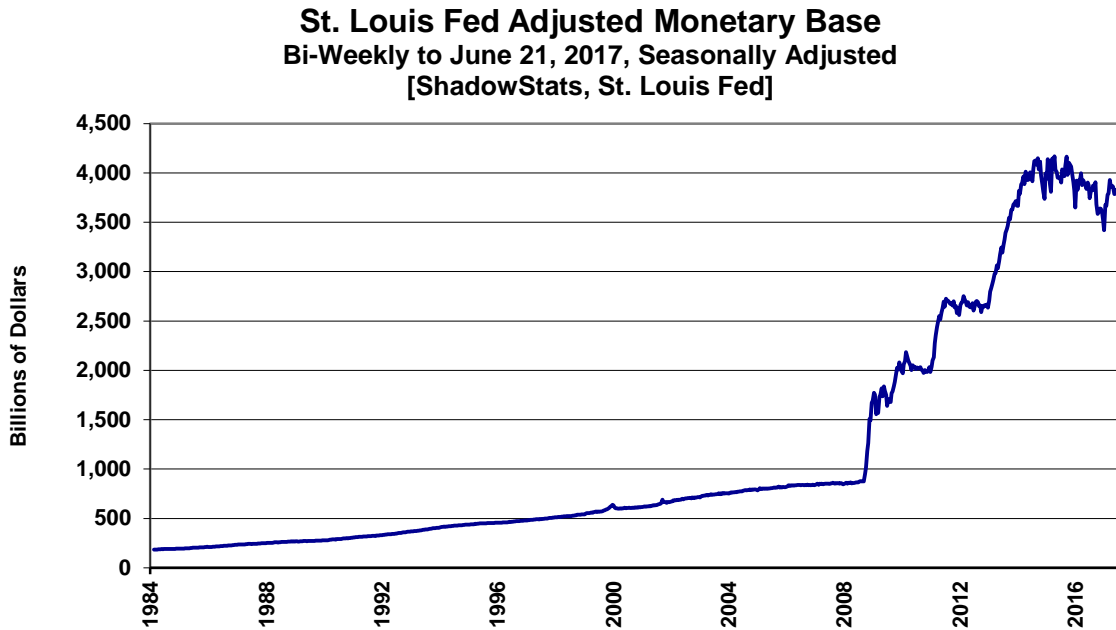


For those living in the headline money-supply world comprised of just the Fed's M1 and M2, money growth still has been relatively stronger for both M1 and M2, than for M3, although that difference has begun to narrow. The relative weakness in annual M3 growth, versus M2 and M1 (M2 includes M1; M3 includes 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 and M1.

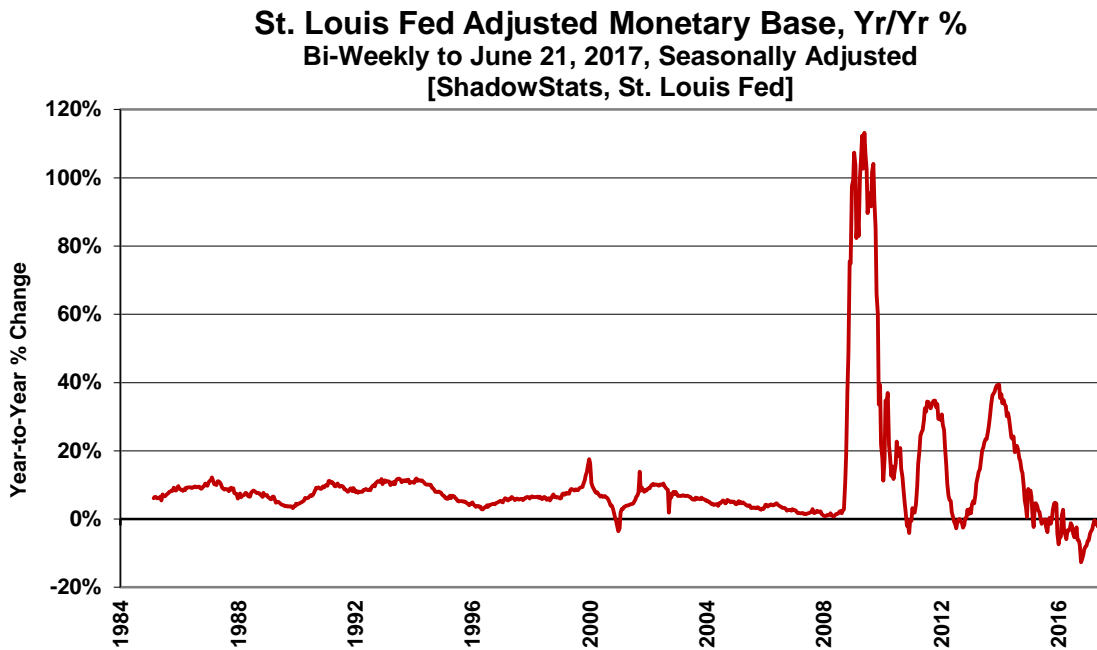
The latest estimates of level and annual changes for May 2017 M3, M2 and M1, and for earlier periods, are detailed in the [Alternate Data](#) tab of www.ShadowStats.com. See the [Money Supply Special Report](#) for full definitions of those measures.

Monetary Base Has Been Reasonably Stable. 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-range activity for upwardly revised target rates for federal funds, the level of the monetary base has been reasonably stable, with annual percentage change fluctuating around zero. Aside from short-term gyrations around a change in the targeted federal funds rate, circumstances generally should stay as they are until the Fed moves meaningfully either to sell its excess Treasuries and Mortgage-Backed Securities as part of a planned, eventual “balance sheet normalization,” or to embark upon expanded quantitative easing, amidst increasing liquidity stresses in the banking system from deteriorating economic conditions.

Graph 12: Saint Louis Fed Monetary Base, Billions of Dollars (1984-June 2017)



Graph 13: Year-to-Year Percent Change, Saint Louis Fed Monetary Base (1985-June 2017)



REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (June 2017)

Annual Payroll Growth Is Signaling Recession; Headline Unemployment Detail Remains Far Shy of Common Experience. Largely repeated from the opening lines of the *Executive Summary*, and in the continuing context of the reporting distortions discussed in [Special Commentary No. 885](#), entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, labor conditions are much weaker than popularly touted. Despite the stronger-than-expected headline gain in June 2017 payrolls, ongoing low levels of year-to-year growth continued to signal pending recession, as reviewed in this *Reporting Detail*. Separately, major distortions continued in the underlying measurement, definition and reporting of headline unemployment, with the effect that the headline details remain well removed from common experience, discussed in the *Executive Summary* and detailed in the context of the *ShadowStats-Alternate Unemployment Rate Measure* discussion on page 29.

Specifically, the headline monthly payroll jobs gain of 222,000 in June 2017 likely was near unchanged, plus-or-minus, when viewed realistically, while the headline 4.4% June 2017 unemployment rate remained far short of reflecting common experience. In contrast, the June 2017 ShadowStats-Alternate Unemployment Rate was estimated at 22.1%. Extended assessment of headline reporting distortions in the payroll-employment and household surveys, again, is found in [Special Commentary No. 885](#).

PAYROLL SURVEY DETAIL. The Bureau of Labor Statistics (BLS) published the June 2017 headline payroll-employment this morning (July 7th). In the context of upside prior-period revisions, and in the continuing context of heavily-distorted bloating, unstable seasonal adjustments, and inconsistent benchmarking, the seasonally-adjusted, headline June 2017 payrolls formally showed a statistically-significant gain of 222,000 +/- 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 upwardly-revised monthly gains of 152,000 [previously 138,000] in May and 207,000 [previously 174,000, initially 211,000] in April. The revised monthly gain in April, however, was not reported on a basis comparable with the headline June 2017 and May 2017 details, as discussed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors*.

Net of prior-month revisions, June 2017 payrolls rose by 269,000, instead of the headline 222,000.

Collapsing Annual Growth Still at Levels Seen Only Going Into or Coming Out of Recession. The not-seasonally-adjusted, year-to-year growth in June 2017 nonfarm payrolls declined minimally to 1.52%,

versus an upwardly revised 1.57% [previously 1.54%] in May 2017, versus an upwardly revised 1.43% [previously 1.42%, initially 1.45%] in April 2017.

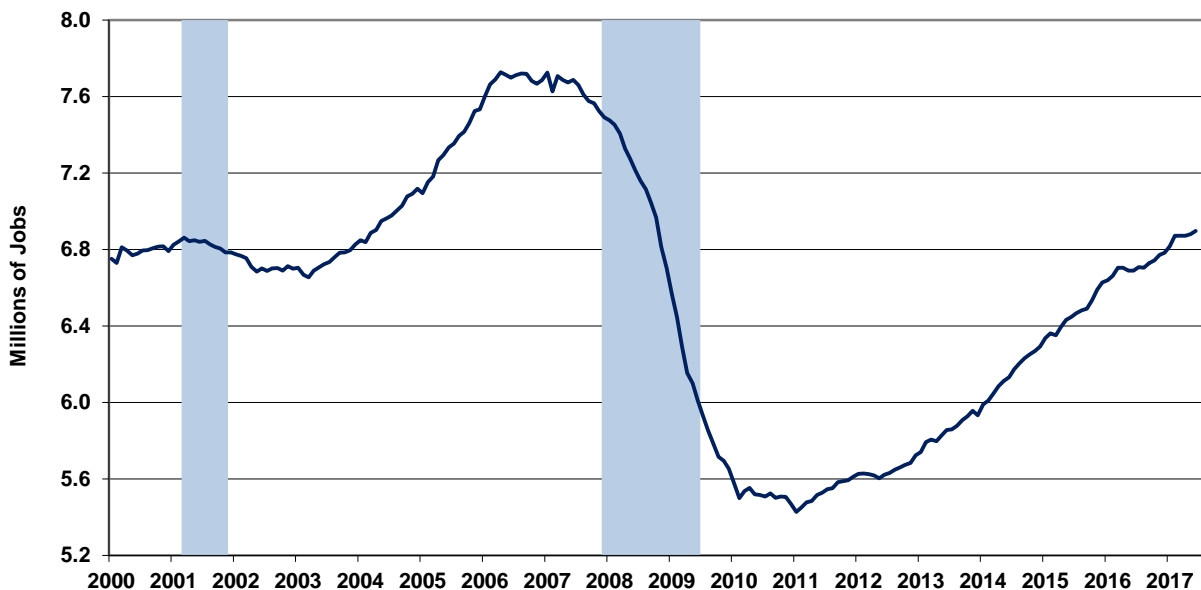
The annual growth of 1.43% in April 2017 hit a 68-month low, the weakest growth since August 2011, and at that time, the highest growth seen coming out of the economic collapse into 2009. As of August 2011, that same growth rate was last seen as annual growth slowed going into the 2007 recession. Minor fluctuations around the April 2017 annual growth are not meaningful.

Accordingly, contrary to claims by economists at the San Francisco Fed, far from being healthy or normal, such low-level annual growth rates are seen either coming out of recession, or going into recession, but never seen consistently in the regular variability of ongoing, normal economic activity, as discussed in [Commentary No. 843](#). April 2017 annual growth hit that threshold on the downside, headed into recession, and subsequent minimal upticks in annual growth have not altered the broad picture.

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.

Graph 14: Construction Payroll Employment 2000 to Date

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



Construction-Payrolls Rose Minimally in June. In the context of minimal revisions to prior months' reporting, June 2017 construction payroll employment rose by 16,000 to 6.896 million jobs. The May jobs count revised to 6.880 [previously 6.881] million, with the monthly jobs gain revising to 9,000

[previously 11,000]. April construction jobs revised to 6.871 [previously 6.870, initially 6.877] million, unchanged for the month [previously down by 1,000 (-1,000), initially up by 5,000]. Net of prior-period revisions, the headline June monthly change would have been a gain of 15,000, instead of 16,000.

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). June details plotted here in *Graph 14* update *Graph 23* in prior [Commentary No 897](#) (page 23). The recent general pattern of activity has softened and flattened out, and still is shy of recovering its pre-recession high. That broadly is consistent with continuing weakness seen in real construction spending and other construction measures.

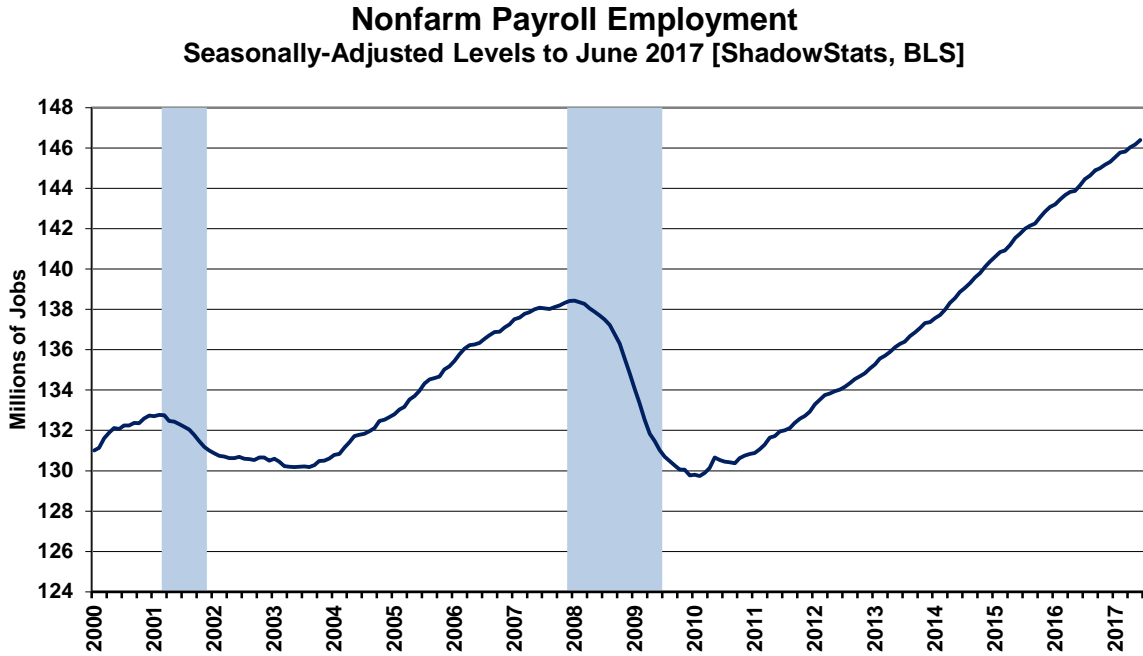
Headline month-to-month construction employment rose by 0.23% in June 2017, by 0.13% in May and was “unchanged” in April. Unadjusted year-to-year growth gained 2.96% in June 2017, versus a revised 2.80% [previously 2.85%] in May 2017 and a revised 2.36% [previously 2.25%, initially 2.48%].

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). Despite downside revisions to recent activity, the headline June 2017 level of construction jobs was the highest seen since October 2008, but it remained down from the April 2006 pre-recession series peak by 10.74% (-10.74%).

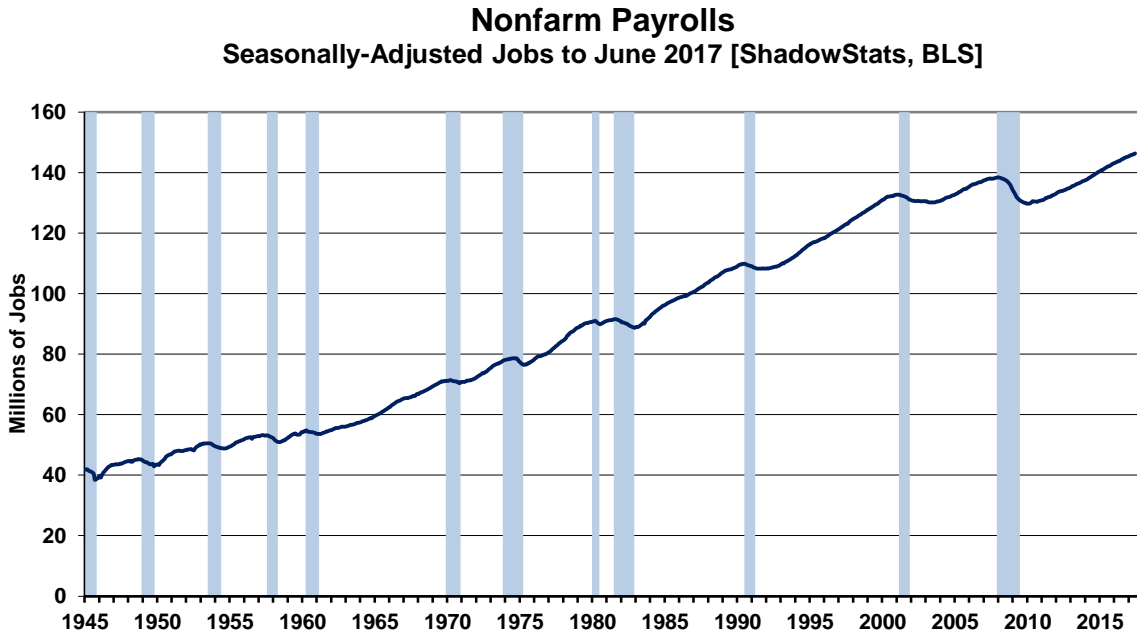
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy 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. June 2017, headline payroll employment was 7.97-million jobs above its pre-recession peak.

[Graphs 15 and 16 follow on the next page]

Graph 15: Nonfarm Payroll Employment 2000 to Date



Graph 16: Nonfarm Payroll Employment 1945 to Date



Graphs 15 and 16 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.

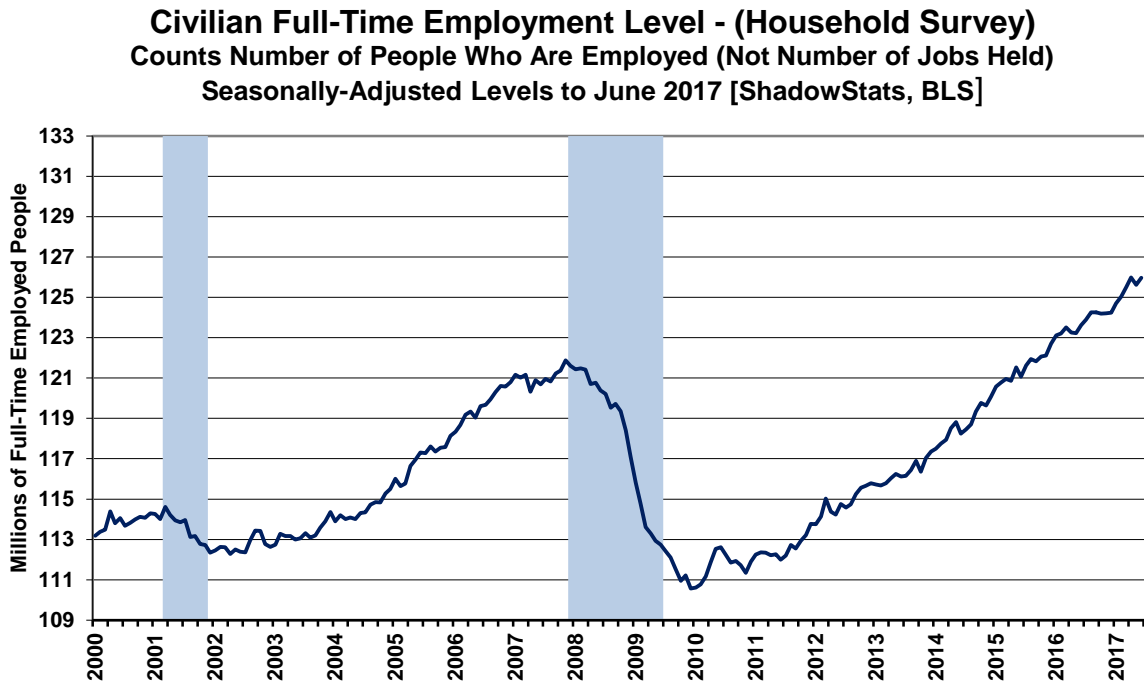
In June 2017 payroll jobs, which count each part-time job as an employed individual, gained an aggregate 222,000 jobs in the month.

The Household Survey, which counts employed individuals only once, showed a gain of 245,000 in total employed [from the summary numbers for the month]. Such was in the context of a gain in 355,000 in full-time employed, versus a decline of 224,000 in part-time employed, suggesting a gain of only 131,000 in the total employed [from the detailed subsidiary tables], but those series never add up. Separately, the number of employed holding multiple jobs increased by 50,000, suggestive of a portion of the new payroll jobs count was indicative of a rising number of multiple-jobs holders.

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 17: Full-Time Employment (Household Survey) to Date (2000 to Date)



Full-Time Employment versus Part-Time Payroll Jobs. Shown in the preceding *Graph 17* (using a roughly-proportionate scale to *Graph 15*), the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015 (see quarterly detail in [Commentary No. 876](#)). Headline June 2017 full-time employment rose by 355,000, resuming its recent, unbelievable upside trend in

monthly gains, having declined month-to-month by 367,000 (-367,000), following monthly gains of 480,000 in April, 476,000 in March, 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.

Nonetheless, as shown in following *Graphs 18 and 19*, full-time employment has shown a sudden a pick-up in growth relative to payroll employment. Putting aside comparability and data-quality issues, those patterns otherwise were suggestive of shift from multiple part-time jobs to full-time employment.

Headline full-time employment detail now stands at 4.10-million above the 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, and with particularly strong growth in five of the first six months of 2017. Again, month-to-month seasonally-adjusted details simply are not comparable.

Still that 4.10-million gain compares with the headline payroll-employment level that is 7.97-million above its pre-recession high, regained some 36-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 still taken on for economic reasons, where full-time employment was desired but could not be found.

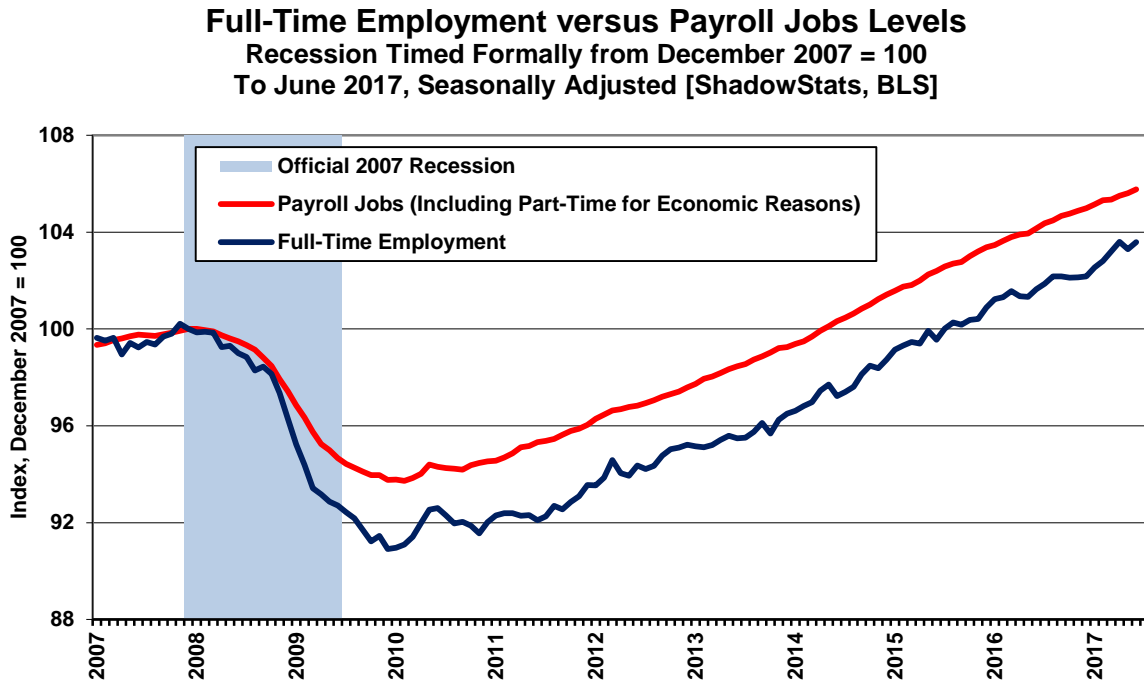
As a separate consideration and an indication of the level of nonsensical GDP reporting, where employment traditionally is a coincident indicator of broad economic activity, again the GDP purportedly recovered its pre-recession high some five years ago, more than two years before similar payroll activity, and more than four years before the likely temporary, lesser recovery in full-time employment. *Graphs 18 and 19* 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 usually 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).

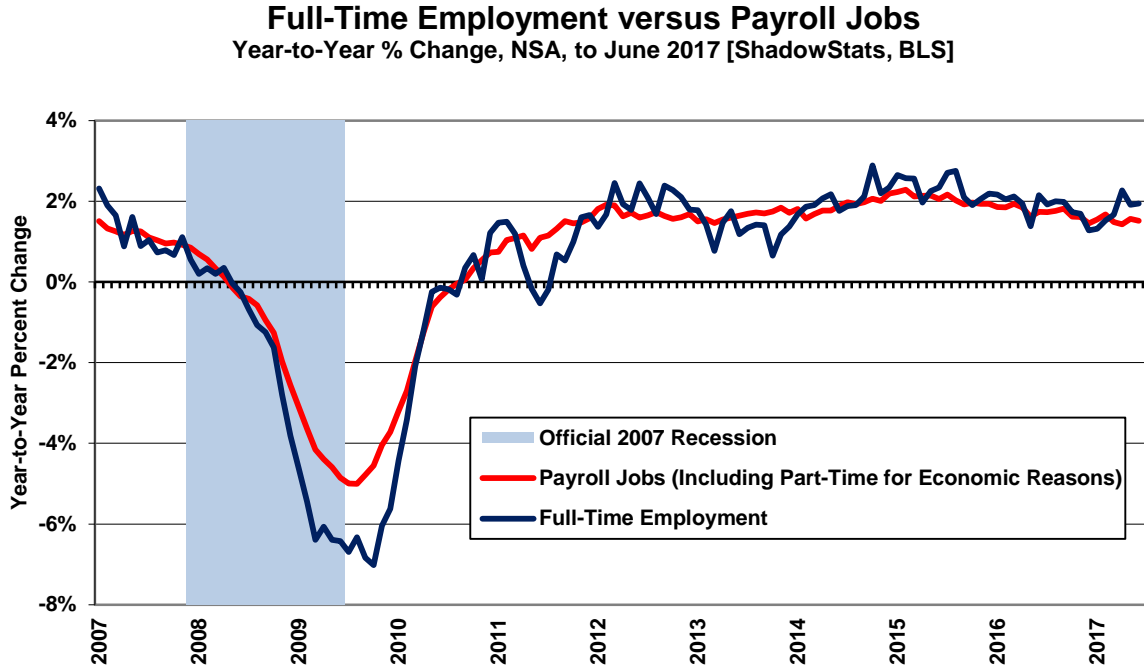
The graphs of full-time employment exclude the count of those employed with only part-time jobs, one or more. Total employment, including those employed with part-time work, has recovered its pre-recession high, but it is not close to the payroll reporting and has been irregular in pattern. Once more, 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).

[Graphs 18 and 19 follow on the next page.]

Graph 18: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)

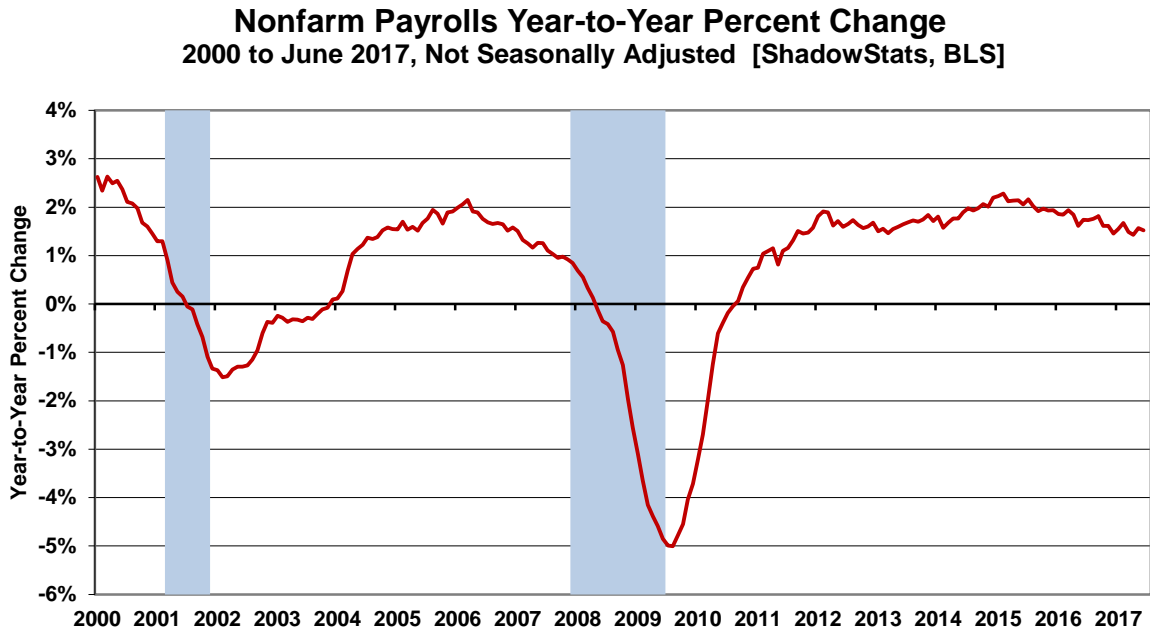


Graph 19: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year

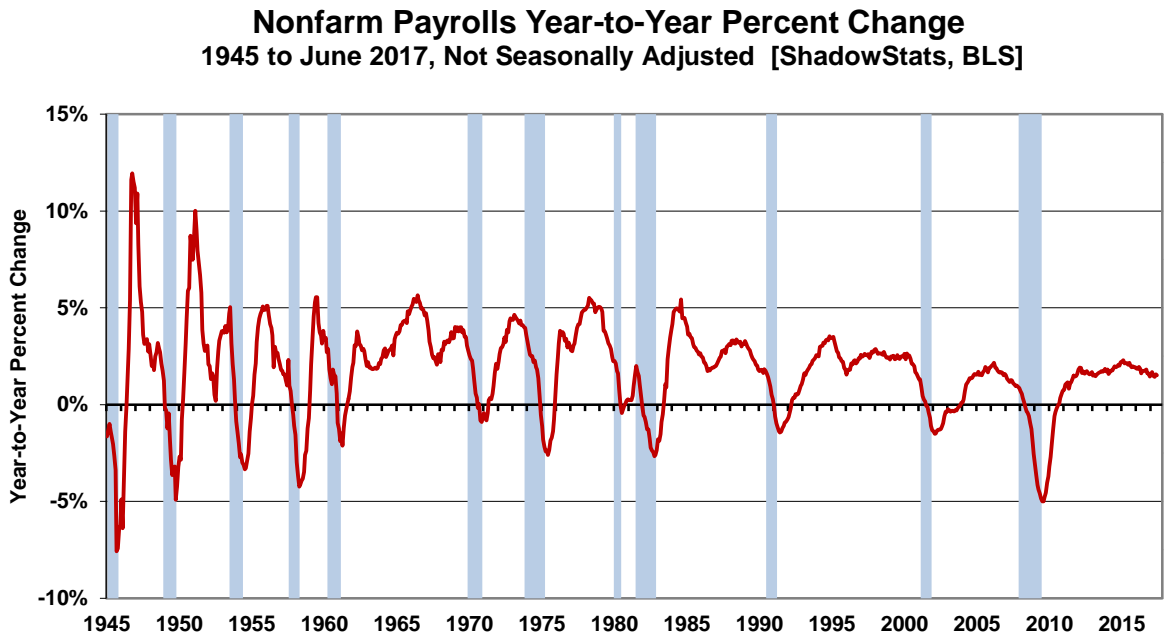


Annual Percent Changes in Headline Payroll Employment. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis, although they are, in theory,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

Graph 20: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



Graph 21: Payroll Employment, Year-to-Year Percent Change, 1945 to Date



Year-to-year growth in unadjusted payrolls hit a post-recession peak of 2.29% in February 2015, reflected in the headline details of *Graphs 20* and *21*. 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 and to a 68-month low of 1.43% in April 2017. Annual growth notched minimally higher to 1.57% in May 2017 and backed off to 1.52% in June 2017. The level of annual growth in April 2017 was last hit on the downside going into the 2007 recession, and on the upside, coming out of the recession, as discussed earlier, again see recent discussions of “healthy” annual payroll growth in [Commentary No. 843](#) and the FOMC discussion in [Commentary No. 870](#).

With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown at the end of World War II [a trough of a 7.59% (-7.59%) annual contraction in September 1945]. Disallowing the post-war shutdown as a normal business cycle, the August 2009 annual decline was the worst since the Great Depression.

Headline Distortions from Shifting Concurrent-Seasonal Factors. [PLEASE NOTE: This section has not been revised from prior reporting.] There remain 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.

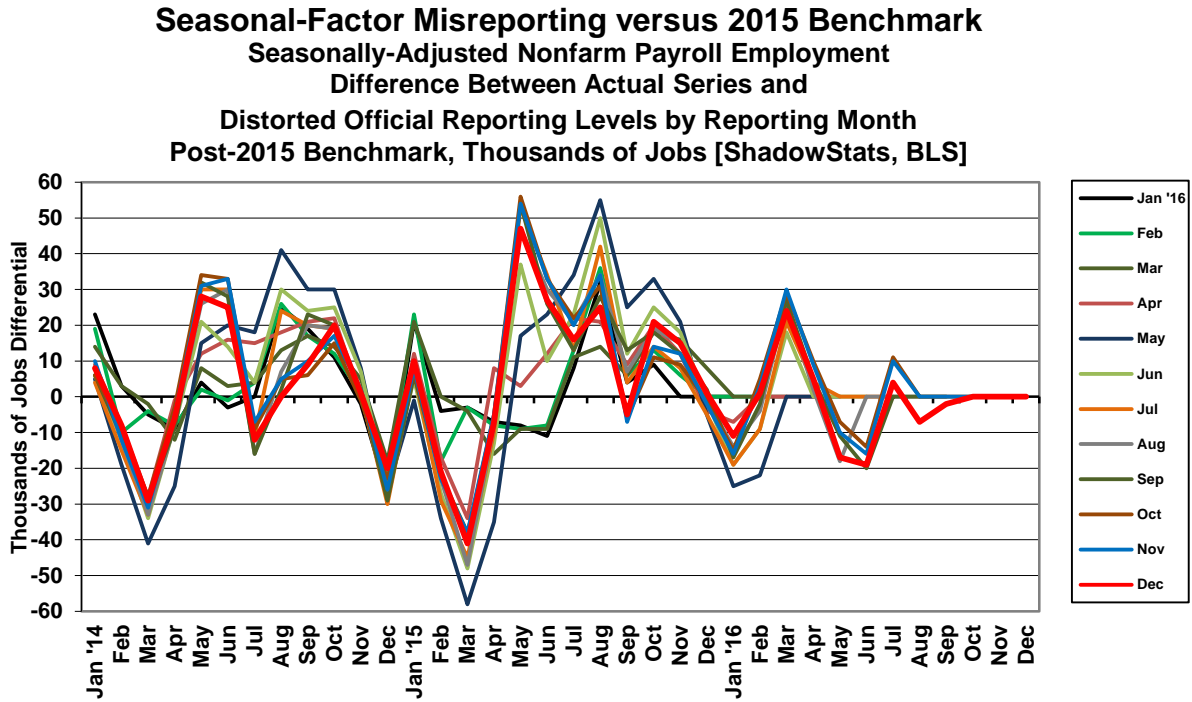
Consider *Graphs 22* and *23*, where data are available from the BLS to calculate the month-to-month seasonal-adjustment variability in the Payroll Survey. Similar detail is not available for the Household Survey, yet the month-to-month instability likely is of similar magnitude. At least with the Payroll 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 22* and *23*).

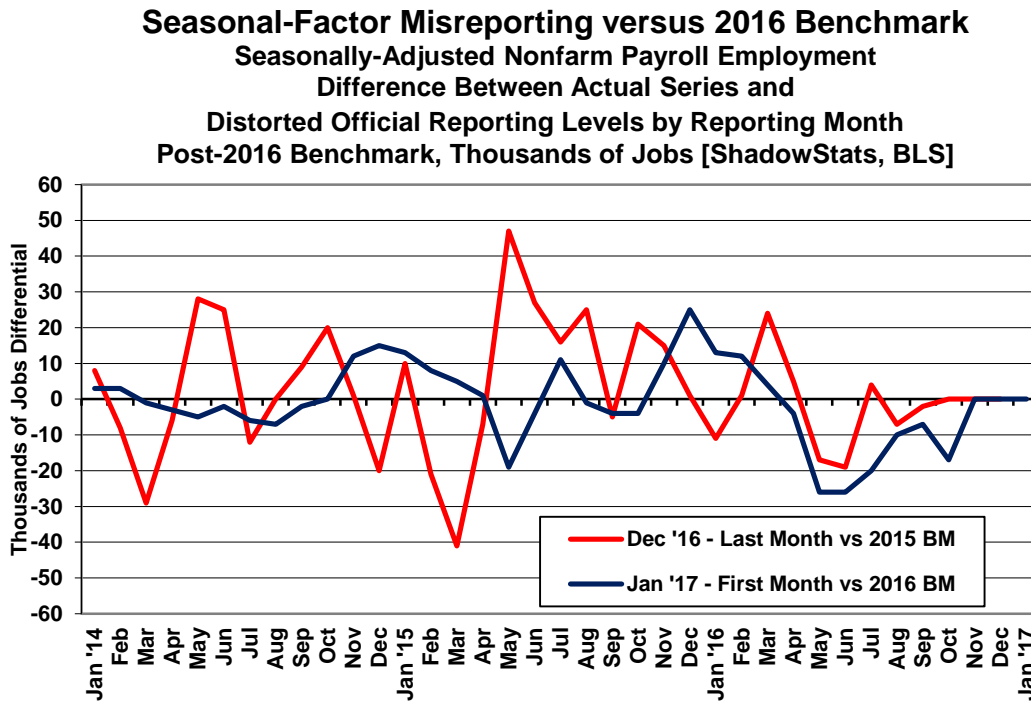
Where the BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, no such accommodation has been made for the Household Survey. Again, ShadowStats affiliate ExpliStats has done such third-party calculations for the payroll series, and the resulting detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are reflected here in *Graph 22*, 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 22* 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.

Graph 22: Concurrent-Seasonal-Factor Irregularities – December 2016 Detail versus 2015 Benchmarking



Graph 23: Concurrent-Seasonal-Factor Irregularities – January '17 Detail versus 2016 Benchmarking



As seen in the recent detail, the differences go both ways and often are much larger. Such was the case for November 2014, coming out of the 2014 benchmark revision, as detailed and discussed in the

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

Birth-Death/Bias-Factor Adjustment (BDM). Despite the ongoing, general overstatement of monthly payroll employment, the BLS adds in upside monthly biases to the payroll employment numbers. The continual overstatement is evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 2012 excepted), although increasingly the downside revisions, when formalized are more than offset by upside revisions to the monthly bias factors, going forward, as was the case in 2016 (see [Commentary No. 864](#)).

The initial estimate (summary number) for the 2016 benchmarking was for a downside revision in total payrolls for March of 2016 by 150,000 (-150,000), down by 224,000 (-224,000) in just private-sector employment (see [Commentary No. 830](#)). Those changes, however, were massaged and recast to an aggregate downside revision of 81,000 (-81,000) jobs. That change then was used to impute adjustments back to April 2015, and it should have been carried forward to December 2016, but that did not happen, again, as discussed in the *Opening Comments* of [No. 864](#).

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

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

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

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

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

June 2017 Add-Factor Bias. The not-seasonally-adjusted June 2017 add-factor bias was a revised 102,000, following a positive 230,000 in May 2017 and a positive add-factor of 92,000 in June 2016 reporting. The revamped, aggregate upside annual bias for the trailing twelve months through June 2017 is estimated from current headline bias reporting at 932,000 up by 91,000 or 10.8% from 841,000 in the December 2016 pre-benchmarking level and up 151,000 or 19.3% from 781,000 in December 2015, the year before. That is a monthly average of 77,667, in June 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 77,667 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 December 2016

reporting were most of the headline Household Survey details last historically consistent, but only for that one month. With the January 2017 and subsequent headline detail, all the monthly inconsistencies first returned and subsequently have been increasingly 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](#)).

Another issue, detailed in [Commentary No. 669](#), and with 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 June 2017 unemployment rate (U.3) rose to 4.4% [4.36% at the second decimal point] from 4.3% [4.29%] in May, versus 4.4% [4.40%] in April, 4.5% [4.50%] in March, 4.7% [4.70%] in February and 4.8% [4.78%] in January.

Formally, the increase of 0.07% in the June 2017 U.3 was shy of being statistically-significant ($\pm 0.23\%$ 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 rose to 4.49% in June 2017 from 4.11% in May 2017, versus 4.11% in April, 4.56% in March, 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 an increase in the seasonally-adjusted June 2017 U.3 unemployment rate, an unadjusted increase in the count of marginally-attached workers of 107,000 and an increase also of 107,000 in the adjusted number of people working part-time for economic reasons, the adjusted June 2017 U.6 unemployment rate rose to 8.59%, versus 8.41% in May, 8.57% in April, 8.87% in March, 9.24% in February and 9.43% in January. The unadjusted U.6 unemployment rate was 8.86% in June 2017, versus 8.10% in May, 8.15% (rounds to 8.1%) in April, 8.94% in March, 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, despite recent monthly declines.

The monthly count of short-term discouraged workers in June 2017 (never seasonally-adjusted) rose by 159,000 to 514,000, having declined by 100,000 (-100,000) to 355,000 in May, having declined in April by 5,000 to 455,000, having declined by 62,000 (-62,000) to 460,000 in March, having dropped by 10,000 (-10,000) to 522,000 in February, with total marginally-attached workers rose by 107,000 to 1,582,000 in June 2017, having declined by 59,000 (-59,000) in May, by 61,000 (-61,000) in April 2017, by 128,000 (-128,000) in March and by 9,000 (-9,000) in February.

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 and displaced 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 June 2017 was 22.1%, versus 22.0% in May 2017, 22.1% in April, 22.5% in March and 22.7% in February. 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. Including the currently-defined level of “marginally attached workers,” which includes the currently-defined and undercounted “discouraged workers” category used in the U.6, those not in the labor force currently wanting a job was an unadjusted 5.725 million in June 2017, versus 5.976 million in May 2017. Seasonally-adjusted the aggregate June 2017 number was 5.431 million, versus 5.561 million in May.

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. Other than using the BLS U.6 estimate as an underlying monthly base, I have not found a way of accounting fully for the current unemployment circumstance and common experience using just the monthly headline data published by the BLS.

Some broad systemic labor measures from the BLS, though, are consistent in pattern with the ShadowStats measure, even allowing for the shifts tied to an aging population with retiring “baby boomers.” Shown in the *Executive Summary*, the graph of the inverted ShadowStats unemployment measure has a strong correlation with the employment-to-population ratio, in conjunction with the labor-force participation rate (see *Graphs 2 to 4*). 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 5 to 10* there and in the *ECONOMY* section of [No. 859 Special Commentary](#).

Headline June 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 June 2017 was 22.1%, versus 22.0% in May, 22.1% in April, 22.5% in March 2017, 22.7% in February, and 22.9% in January. Built upon the headline U.3 estimate, the June 2017 ShadowStats reading was down by 120 basis points or 1.2% (-1.2%) from the 23.3% series high last seen in December 2013.

In contrast, the June 2017 headline U.3 unemployment rate of 4.4% was down by 560 basis points or by 5.6% (-5.6%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 8.6% in June 2017, was down by 860 basis points or 8.6% (-8.6%) from its peak of 17.2% April 2010.

A subscriber recently raised the question as to why the ShadowStats Alternate Unemployment Estimate had been holding around 23%. Recalculated each and every month, the ShadowStats estimate generally

picks up the net flows of headline “discouraged” workers, who have been redefined out of existence after having been inventoried in the BLS accounting of the U.6 rate for about eleven months (where individuals have not looked actively for a job in one year). In turn, U.6 picks up as “discouraged workers” those in U.3 who have not actively looked for work in the last four weeks. It is the resulting reduction in the U.3 and U.6 “unemployed” and the related labor forces used in calculating those respective headline unemployment rates that has accounted for the bulk of the reduction in those headline rates, with much of the difference flowing into and holding reasonably steady in the ShadowStats alternate measure.

Seen in the usual graph of the various unemployment measures (*Graph 1* in the *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 in the 22% to 23% range might raise questions in terms of a comparison with the purported peak unemployment in the Great Depression (1933) of 25%. Hard estimates of the ShadowStats series are difficult to generate on a regular monthly basis before 1994, given meaningful reporting inconsistencies created by the BLS when it revamped unemployment reporting at that time. Nonetheless, as best estimated, the current ShadowStats level likely is about as bad as the peak actual unemployment seen in the 1973-to-1975 recession and the double-dip recession of the early-1980s.

The Great Depression peak unemployment rate of 25% in 1933 was estimated well after the fact, with 27% of those employed then working on farms. Today, less than 2% of the employed work on farms.

Accordingly, a better measure for comparison with the ShadowStats number might be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

WEEK, MONTH AND YEAR AHEAD

Rapidly Softening Economic Reporting Should Compromise Fed Policies, Pummel the Dollar, Boost the Price of Gold and Foster Other Financial-Market Tumult. Discussed in [General Commentary No. 894](#), and further to the discussions in the *Opening Comments* and *Hyperinflation Watch* of [Commentary No. 892](#), headline economic reporting during June showed a marked downturn versus consensus forecasts. While such usually signals an unfolding, major downshift in underlying economic reality, in the current circumstance that also forewarns of a potential shift in FOMC activity, a circumstance well removed from consensus expectations, at this time. In terms of Fed policy, that would be a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

The immediate effect of such a policy change by the U.S. central bank likely would be a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. The circumstances here and the outlook still remain as broadly outlined in [No. 859 Special Commentary](#); currently shifting headlines only reflect the movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function, in practice, always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the next major systemic financial crisis is likely to break in the next several months.

Separately, recent benchmark revisions to Construction Spending (see [Commentary No 897](#)), the Trade Deficit ([Commentary No. 890](#)), Industrial Production ([Commentary No. 877](#)), Manufacturers' Shipments ([Special Commentary No. 888](#)), Housing Starts ([Commentary No. 887](#)) and Retail Sales ([Commentary No. 882](#)) broadly have confirmed that historical activity in recent years has been overstated and/or that it is turning down anew, particularly in 2015, with the availability of better-quality historical detail. Such is despite recent near-term improvement in some headline details, such as the headline unemployment rate,

which increasingly suffers from dysfunctional definitional and sampling issues. Again, reporting patterns likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in [Special Commentary No. 888](#). Otherwise, the broad outlook has not changed.

Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows economic expansion of 12.6% (see the *Executive Summary* of [Commentary No. 896](#) and [Commentary No. 869](#)).

Discussed in [No. 859 Special Commentary](#), the Trump Administration continues to face extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible 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 (see [No. 859](#)), but cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will break well before the 2018 Congressional Election will have a chance to stabilize the outlook for economic policy objectives.

[No. 859 Special Commentary](#) updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (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 remained and 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](#)). Formal economic expansion does begin until economic recovery breaks above its pre-recession high.

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 made loud noises in the last year or so of needing to raise interest rates, in order to contain an “overheating” economy, but that “overheating” activity—never recognized by Main Street, U.S.A.—has been fading quickly. 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: [General Commentary No. 894](#), [Special Commentary No. 885](#), [Commentary No. 869](#), [No. 859 Special Commentary](#), [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 (Covering Headline Details and/or Special Features). [*Please Note: The complete ShadowStats archives, from 2004 forward, are found at www.ShadowStats.com (left-hand column of home page).*]

[Commentary No 897](#) (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine[®] Advertising and the May Cass Freight Index[™].

[Commentary No. 896](#) (June 29, 2017) reviewed the third estimate of first-quarter 2017 GDP.

[Commentary No. 895](#) (June 26, 2017) covered May 2017 New Orders for Durable Goods.

[General Commentary No. 894](#) (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an “unexpected” headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

[Commentary No. 893](#) (June 16, 2017) assessed May 2017 New Residential Construction (Housing Starts) and updated *Consumer Liquidity Conditions*.

[Commentary No. 892](#) (June 15, 2017) reviewed May 2017 Industrial Production and assessed current circumstances and likely pending shifts in FOMC policy, in the context of rapidly-deteriorating, headline economic data.

[Commentary No. 891](#) (June 14, 2017) covered the May 2017 CPI and PPI, along with real and nominal retail sales, along with a quick comment on the FOMC rate hike.

[Commentary No. 890](#) (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine[®] Advertising and April 2017 estimates of the Cass Freight Index[™], and the monthly trade deficit and construction spending.

[Commentary No. 889](#) (May 26, 2017) reviewed the second-estimate, first-revision to first-quarter 2017 GDP, and the April 2017 estimates of New Orders for Durable Goods and New- and Existing Home Sales and Sentier Research’s April Real Median Household income.

[Special Commentary No. 888](#) (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers’ Shipments and New Orders for Durable Goods and updated *Consumer Liquidity Conditions*.

[Commentary No. 887](#) (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

[Commentary No. 886](#) (May 16, 2017) reviewed the headline details of the April 2017 CPI and PPI detail, along with headline reporting of nominal and real Retail Sales, real Average Weekly Earnings and regular monthly review of U.S. dollar conditions and prospects.

[Special Commentary No. 885](#), entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

[Commentary No. 884](#) (May 4, 2017) reviewed the March 2017 details for the U.S. Trade Deficit and Construction Spending and the Conference Boards' reporting of April 2017 Help Wanted OnLine.

[Commentary No. 883](#) (April 29, 2017) covered the headline detail for the “advance” or first-estimate of first-quarter GDP, along with an update to *Consumer Liquidity Conditions*.

[Commentary No. 882](#) (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and for New- and Existing-Home Sales.

[Commentary No. 881](#) (April 19, 2017) reviewed the prior March 2017 Industrial Production, Housing Starts and the Cass Freight Index™, along with an economic update in advance of the initial first-quarter 2017 GDP estimate.

[Commentary No. 880](#) (April 15, 2017) detailed the prior March 2017 headline reporting the of both Real and Nominal Retail Sales, Real Earnings, the CPI, the PPI and updated Consumer Liquidity, where mounting stresses on consumer income and credit are signaling major economic issues ahead.

[Commentary No. 879](#) (April 7, 2017) covered March 2007 Employment and Unemployment, Help-Wanted Advertising and an update on monetary policy and Money Supply M3 (the ShadowStats Ongoing Measure).

[Commentary No. 877](#) (April 2, 2017) 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](#) (March 30, 2017) 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](#) (March 24, 2017) 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. 873](#) (March 16, 2017) discussed prospects for future tightening and/or a return to quantitative easing by the FOMC, along with the prior review of the February 2017 Residential Construction reporting.

[Commentary No. 872](#) (March 15, 2017) offered some initial comment on the FOMC rate hike, in conjunction with the review of last month's February 2017 Retail Sales (real and nominal), Real Earnings and the CPI and PPI.

[Commentary No. 871](#) (March 10, 2017) covered reporting of February Labor Conditions, updated Consumer Liquidity and the ShadowStats Ongoing M3 Measure for February 2017, and a revised FOMC outlook.

[General Commentary No. 867](#) (February 24, 2017) 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](#) (February 8, 2017) 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](#) (January 13, 2017) 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 in a *Special Commentary*.

[No. 859 Special Commentary](#) (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in [Special Commentary No. 885: Numbers Games that Statistical Bureaus, Central Banks and Politicians Play](#), 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 both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect 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). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. 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 several years 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](#)). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: [Crudele Investigation](#), [Crudele on Census Bureau Fraud](#) and [John Crudele on Retail Sales](#).

PENDING ECONOMIC RELEASES: Producer Price Index—PPI (June 2017). The Bureau of Labor Statistics (BLS) will release the June 2017 PPI on Thursday, July 13th, with detail covered in *Commentary No. 899* of July 17th. Odds favor negative wholesale inflation on the goods side of the reporting, perhaps down by 0.3% (-0.3%), plus-or-minus, due to negative seasonal-factor adjustments intensifying the unadjusted monthly-price declines of petroleum-related products. The dominant services sector, however, often provides some 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. 891](#), where, again, the services component could offset some of the weakness in the headline goods inflation.

Unadjusted oil prices declined in June 2017, as did wholesale gasoline prices. Based on the two most-widely-followed oil contracts, monthly-average oil prices fell by 6.7% (-6.7%) and 7.9% (-7.9%). That was accompanied by a 6.0% (-6.0%) decline in unadjusted, monthly-average wholesale gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in June are negative, a petroleum-related monthly decline should lead a month-to-month drop in the adjusted Final Demand Goods component of the PPI.

Consumer Price Index—CPI (June 2017). The Bureau of Labor Statistics (BLS) will release the June 2017 CPI on Friday, July 14th, which will be covered in *Commentary No. 899* of July 17th. The headline June CPI-U likely will be on the downside of neutral month-to-month change, in the context of a month-to-month decline in gasoline prices exacerbated by negative seasonal adjustments. Headline, unadjusted year-to-year annual inflation for June 2017 could soften to 1.7%, versus the 1.9% in prior May 2017 reporting.

Downside Monthly Inflation Impact from Declining Gasoline Prices Exaggerated by Negative Seasonal Adjustments. Average gasoline prices declined in June 2017 by 1.72% (-1.72%) for the month on a not-seasonally-adjusted basis, per the Department of Energy. Where BLS seasonal adjustments to gasoline prices in June are negative, that should lead to seasonally-adjusted numbers offering a net-negative contribution of roughly 0.1% (-0.1%) to the headline monthly change in the CPI-U. Likely boosted some by higher food and “core” (net of food and energy) inflation, the headline monthly CPI-U reading still likely will be close to unchanged. The artificial, seasonally-maladjusted and depressed CPI reading in June should flip to the plus-side in July, along with a flip in the seasonal adjustments to the upside.

Annual Inflation Rate. Noted in [Commentary No. 891](#), year-to-year, CPI-U inflation would increase or decrease in June 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.20% in June 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 June 2017, the difference in June's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the May 2017 annual inflation rate of 1.87%. Given an estimate of a seasonally-adjusted "unchanged" in the monthly June 2017 CPI-U, that could knock down the annual CPI-U inflation rate for June 2017 to about 1.7%, plus-or-minus, depending on rounding.

Nominal and Real Retail Sales (June 2017). The Census Bureau will release its "advance" estimate of June 2017 nominal (not-adjusted-for-inflation) Retail Sales on Friday, July 14th, coincident with the BLS's release of the June CPI. Accordingly, the detail on both the nominal and real (adjusted-for-inflation) Retail Sales will be discussed in *Commentary No. 899* of July 17th.

Where consensus expectations likely will favor a flat-to-minimal nominal monthly gain, underlying weakness continues to mount in anecdotal evidence tied to auto and retail-store sales, suggestive of a further, outright nominal month-to-month contraction. With consumer inflation likely to be flat, headline real retail sales activity should be close to the nominal changes. Nonetheless, headline nominal sales for June should be weaker than expected, with a fair bet for continued downside revisions to recent headline activity.

Per the *Consumer Liquidity Conditions* discussed in [Special Commentary No. 888](#), 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 remains unable to sustain growth in broad economic activity, including personal-consumption expenditures and retail sales, real or otherwise.

Index of Industrial Production (June 2017). The Federal Reserve Board will publish its estimate of June 2017 Industrial Production activity also on Friday, July 14th, again with coverage in *Commentary No. 899* of July 17th. In the context of continued, previously-weakening reporting, with softening demand for new automobiles (see [Special Commentary No. 888](#), [Commentary No. 889](#) and [Commentary No. 892](#)), production is a good bet to show further month-to-month weakness in June 2017, as well as some continued downside revision to activity in recent months. Early-consensus expectations appear to be for a solid monthly gain.