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

ADVANCE COMMENTARY NUMBER 908-A

August Labor and Monetary Conditions, July Construction Spending

September 1, 2017

August 2017 Unemployment Rates Notched Higher:
U.3 Rose to 4.44% versus 4.35%, U.6 Rose to 8.59% versus 8.57%, and the ShadowStats-Alternate Rose to 22.2% versus 22.1%

Full-Time Jobs Dropped by 166,000 (-166,000) in July

Weaker-Than-Expected August Payroll Jobs Gain of 156,000 was Just 115,000 Net of the Prior Month's Revisions, Well Within Range of Statistical Insignificance

Payroll Revisions Suggestive of Looming Negative Benchmarking

Annual Payroll and Full-Time Employment Growth Rates Dropped to 1.45% and 1.16%, Levels Common at the Onset of Recessions

Deepening Real Annual Decline in July 2017 Construction Spending Continued in a Manner Last Seen in the Housing Collapse of 2006, Despite Upside Revisions to May and June Activity

Shy of Recovering Its Pre-Recession Peak by 23.1% (-23.1%), Real Construction Spending Continued in Intensifying Downtrend

August 2017 Money Supply M3 Annual Growth and Monetary Base Jumped in Tandem; M3 Growth Rose to an Eight-Month High of 3.6%, While the Growth and Level of the Saint Louis Fed Monetary-Base Climbed to Seventeen-Month Highs as of August 16th

Faltering Economic Activity and Intensifying Political Discord Increasingly Peril the Dollar and Intensify Risks of Market Turmoil

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PLEASE NOTE: The next regular Commentary, *planned for Wednesday, September 6th, will provide full analysis of the August Employment and Unemployment, and the July Construction-Spending data summarized in today's (September 1st)* "Advance" Commentary, *along with assessment of the initial 2017 Benchmark Revisions to Payroll Employment and the headline July Trade Deficit, which will be released September 6th. Today's abbreviated format was set to accommodate an early and brief* Commentary *summarizing the key numbers in advance of the holiday weekend. The August 2017 ShadowStats Alternate Unemployment Measure and the Ongoing Money Supply M3 Estimate have been updated and are available on the Alternate Data tab at* www.ShadowStats.com.

Best wishes to all for a most-enjoyable Labor Day Weekend — John Williams (707) 763-5786

Today's *Comments and Reporting Summary* (September 1st) provide highlights of the August 2017 estimates of employment and unemployment and of July 2017 construction spending.

The ***Hyperinflation Watch*** (page 17) covers August 2017 monetary conditions, based on Federal Reserve and Saint Louis Fed reporting of August 31st.

The usual *Commentary* formatting, as well as the regular ***Consumer Liquidity Watch*** and ***Week, Month and Year Ahead*** sections, will return with the next regular *Commentary* on Wednesday, September 6th (current versions of those are found in prior *Commentary No. 907*).

COMMENTS AND REPORTING SUMMARY

Economic Troubles Continued to Mount. Intensifying weakness in both the August 2017 labor data and the July 2017 real construction spending both signaled recession. The headline labor detail, which formally recovered its pre-recession high and has been expanding, faces a "new" recession. The real construction spending detail never recovered its pre-recession high, still 23.1% (-23.1%) below that peak, now faces a renewed and intensifying downturn. Brief summary details and updated graphs are shown here, while extended coverage of the new detail will follow in *Commentary No. 908-B* on September 6th.

UNEMPLOYMENT AND EMPLOYMENT (August 2017)

Payrolls Took a Heavy Hit, as Did Full-Time Employment. Headline labor-market details released this morning (September 1st) by the Bureau of Labor Statistics (BLS) reflected deteriorating circumstances in August 2017 for both the Household Survey (unemployment rate and related circumstances) and the Payroll Survey (payroll employment change), with declining employment in the household survey, and a well-below-consensus payroll gain.

In the context of continuing reporting distortions out of the Bureau of Labor Statistics (BLS), 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. The usual 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.

Specifically, the headline 4.4% August 2017 unemployment rate remained far short of reflecting common experience. In contrast, the August 2017 ShadowStats-Alternate Unemployment Rate was estimated to have risen to 22.2%. At the same time, the headline monthly payroll jobs gain of 156,000 in August 2017 likely was in monthly contraction, in reality. Extended assessment of headline distortions in the household and payroll-employment survey reporting, again, is found in *Special Commentary No. 885*.

Household Survey: Counting All Discouraged Workers, August 2017 Unemployment Notched Higher to 22.1%. The headline detail on the employment/unemployment news was negative, with the seasonally-adjusted, U.3 unemployment rate notching higher to 4.44% in July 2017, from 4.35% in June and off its 16-year low of 4.29% in May. The number of unemployed increased by 151,000 in July, in context of the number of employed declining by 74,000 (-74,000). Where much of the variability in those numbers can be in changing part-time versus full-time employment status, full-time employment declined in the month by 166,000 (-166,000). With "declining" long-term discouraged workers, headline U.6 unemployment was little changed at 8.59%, versus 8.57% in July.

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 August 2017 was 22.2%, versus 22.1% in July, 22.1% in June, 22.0% in May, 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 (detail follow in *No. 908-B*, full description of the series is found in *Commentary No. 903*, page 37).

Where the BLS simply refuses to publish consistent monthly details, the seasonally-adjusted, month-to-month numbers reported with the household survey were neither directly comparable nor meaningful, specifically including comparisons of seasonally-adjusted month-to-month the levels of the unemployment rate and the counts of employed and unemployed. The problem remains that while the headline monthly data for August 2017 were calculated using new seasonal-adjustment patterns unique to August 2017, consistent data were not published historically. Standardly, the month-to-month comparisons of the seasonally-adjusted, headline Household Survey data simply are not comparable.

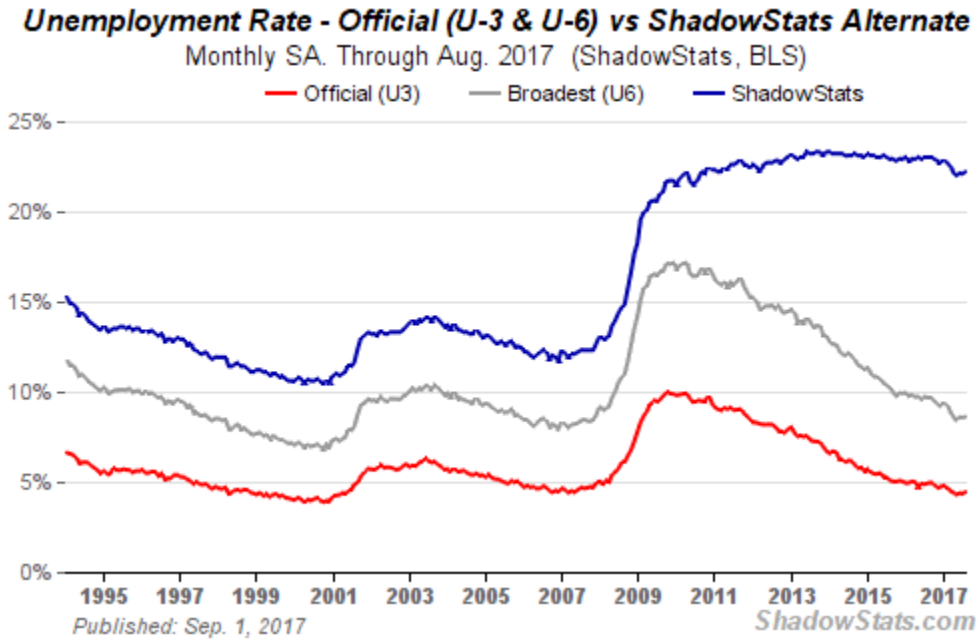
Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, simply is definitional. To be counted among the headline unemployed (U.3), an individual has to have looked actively 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.

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 August 2017 U.3 unemployment at 4.44%, versus 4.35% (rounds to 4.3%) in July, 4.36% in June, versus 4.29% in May and 4.40% in April; headline August 2017 U.6 unemployment at 8.59%, versus 8.57% in July, 8.59% in June, 8.41% in May and 8.57% in April; and the headline August 2017 ShadowStats unemployment estimate at 22.2%, versus 22.1% in July, 22.1% in June, 22.0% in May and 22.1% in April.

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

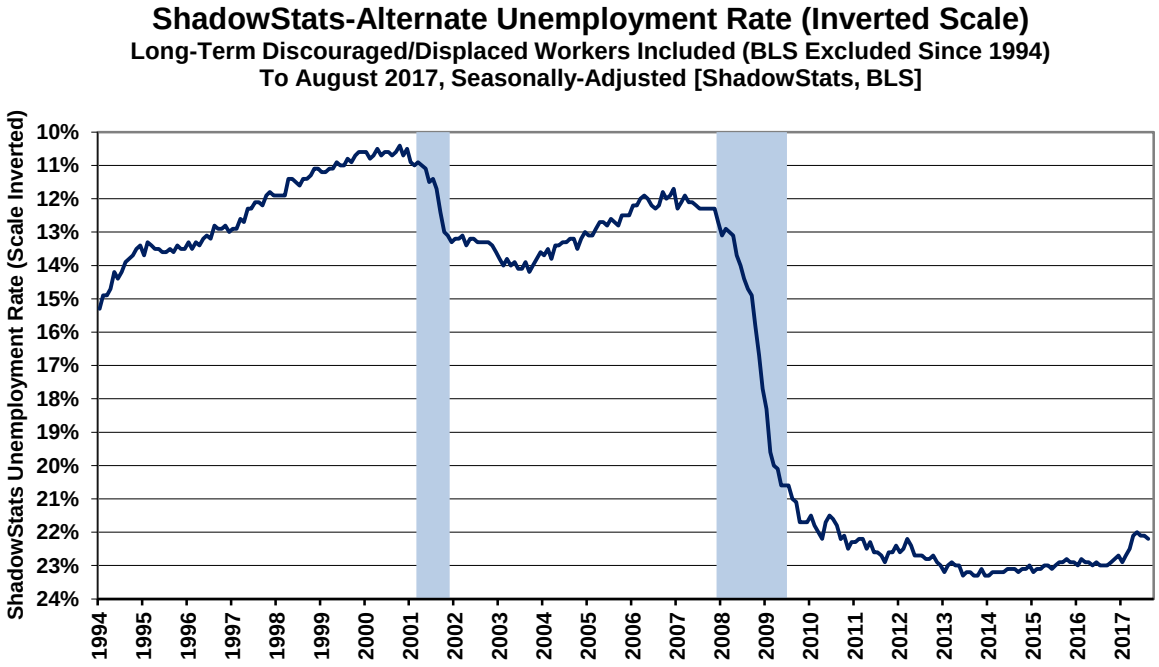


Dysfunctional, Seasonally-Adjusted Headline Detail from the Household Survey. With the headline U.3 unemployment rate not far off historic low levels, systemic imbalances and instabilities still are reflected in the labor-force participation rate (labor force/population) and the employment-to-population 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, not near historic lows (see *Graphs 3* and *4*). As will be reviewed in the more comprehensive coverage of *Commentary No. 908-B*, the current low level of the participation rate is broadly consistent with a headline U.3 unemployment rate of about 9.0%, more than double August's headline rate of 4.4%.

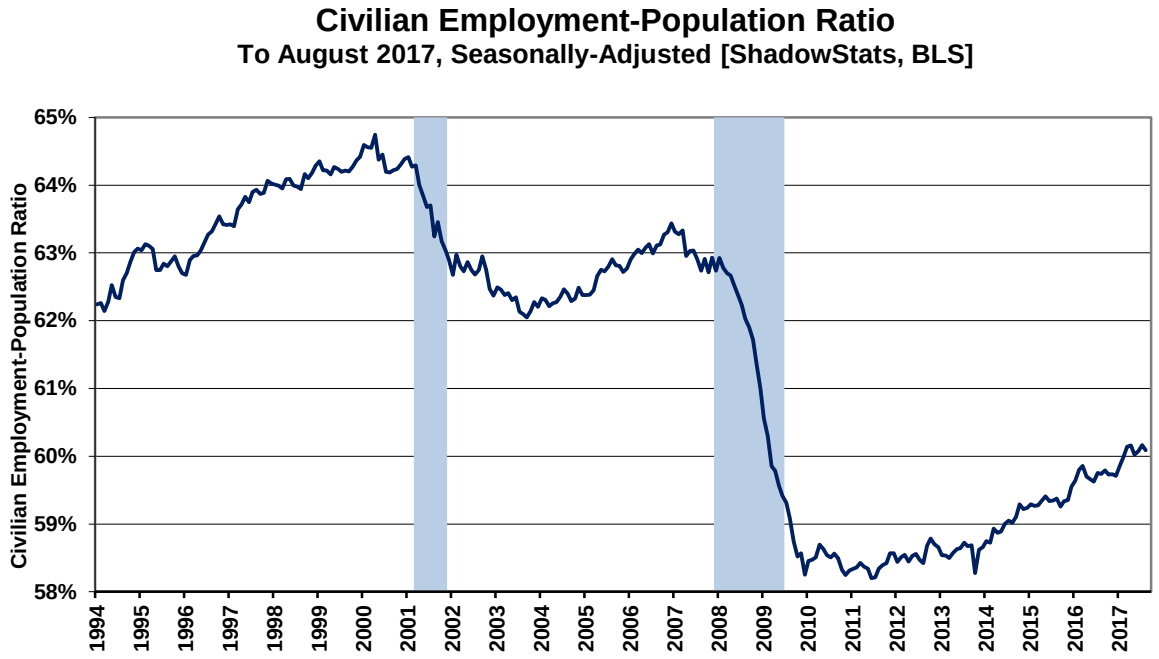
Graphs 2 to *4* reflect longer-term unemployment and discouraged-worker conditions. *Graph 2* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move visually in tandem with plots of most 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 lower in August 2017 to 60.1, versus 60.2 in July. Nonetheless, that ratio remains somewhat off its post-1994 record low, the historic low and bottom subsequent to the 2007 economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), as shown in *Graph 3*.

Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



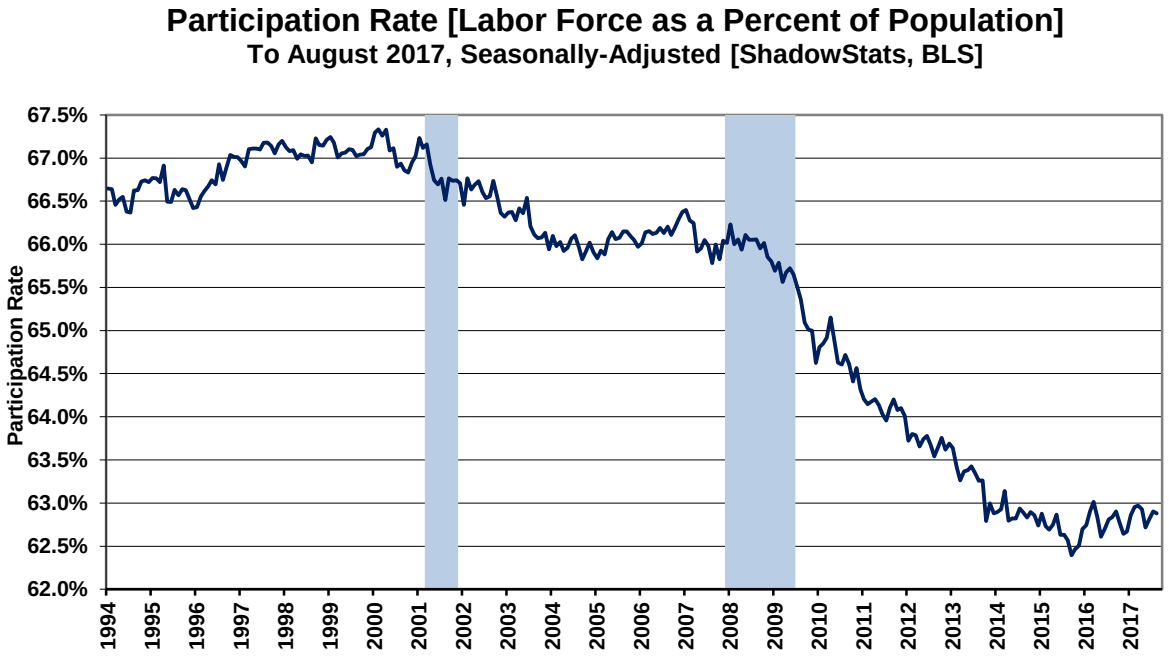
Graph 3: Civilian Employment-to-Population Ratio



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 August 2017 participation rate (the ratio of the headline labor force to the population) held about even at 62.9% having continued to fluctuate 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.

Graph 4: Labor-Force Participation Rate



Graphs 2 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.

Payroll Survey: Growth Weakened in Context of Downside Revisions, Possibly Reflecting Imminent Benchmark Revisions. Headline payroll growth slowed to 156,000 in August 2017, versus 189,000 in July and 210,000 in June, but the prior months' payroll levels had revised lower. Net of those revisions, the headline August detail gained a statistically-insignificant 115,000. These numbers may foreshadow benchmark revisions that will be published on September 6th.

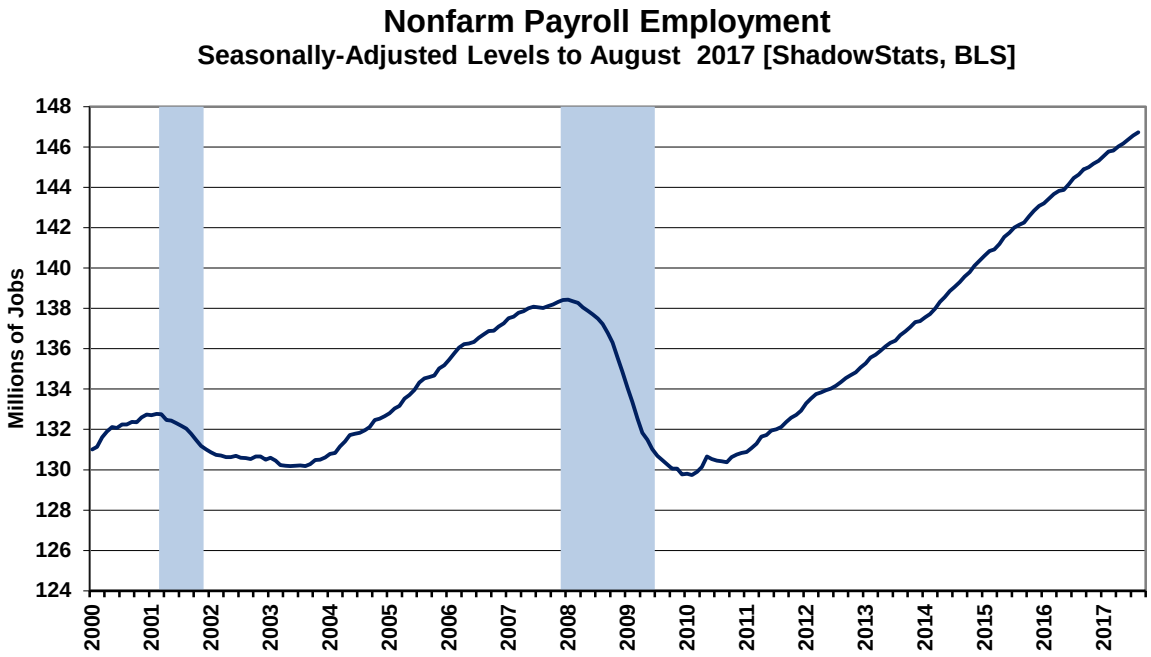
As reported, headline year-to-year change in August 2017 payrolls dropped to 1.45%, versus a revised 1.48% [previously 1.50%] in July 2017, a level consistent with the onset of a new recession. More

dramatically, a 166,000 (-166,000) drop in full-time employment took annual growth there from 1.62% in July 2017 to 1.16% in August 2017, also consistent with a "new" recession. 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 (see *Graphs 7*, *8* and *10*).

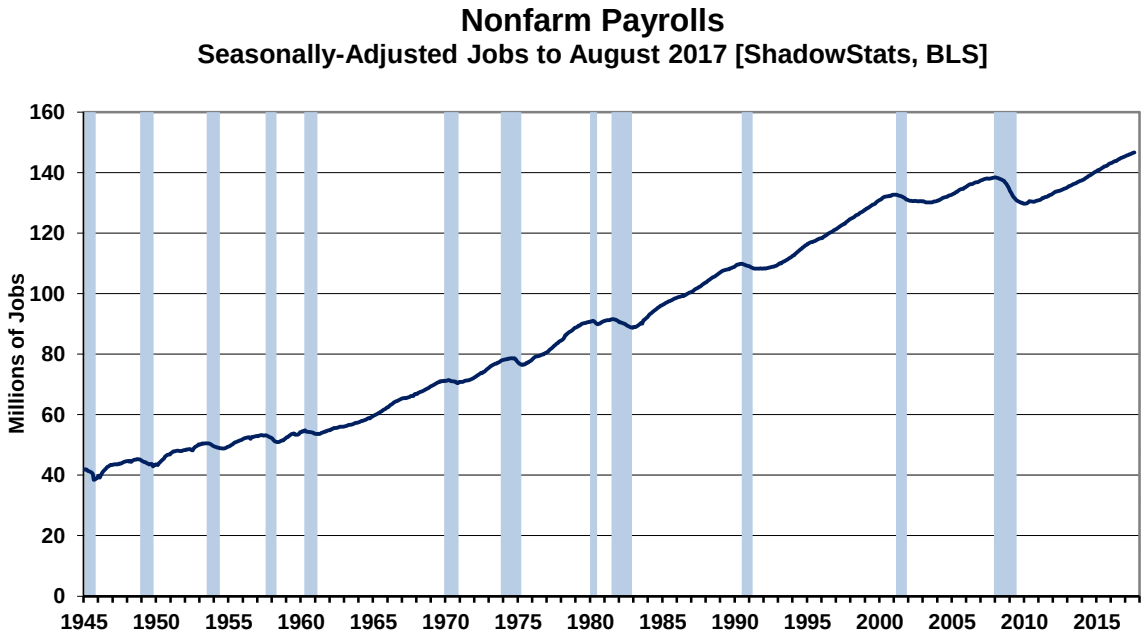
Graphs 5 to *8* show the headline payroll series, level and annual change, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

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

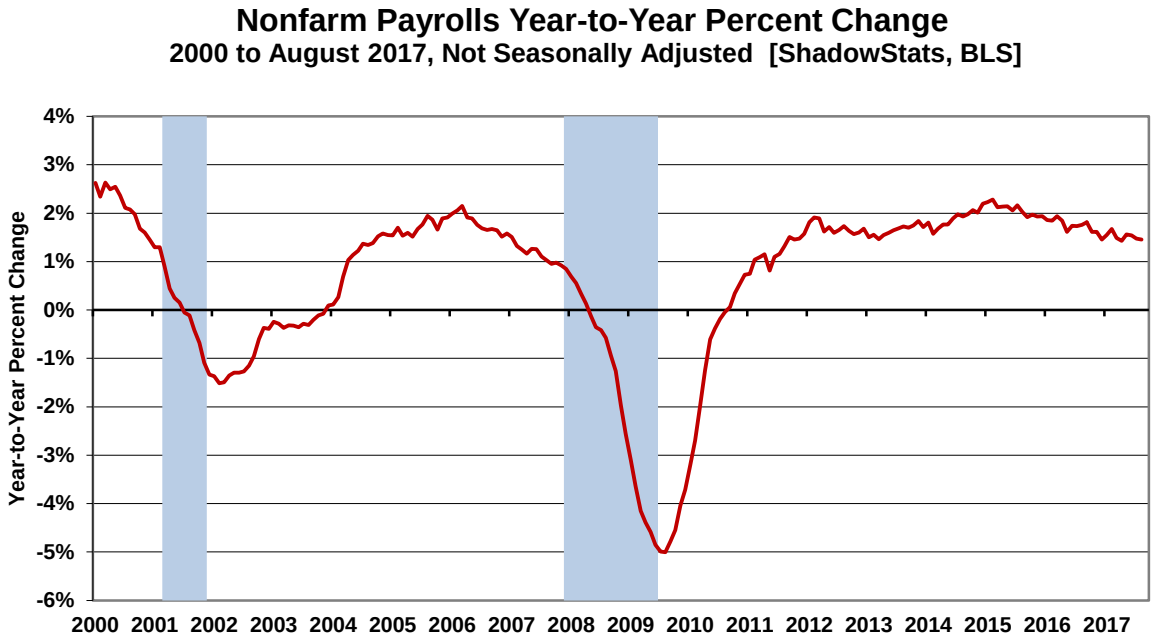
Graph 5: Nonfarm Payroll Employment 2000 to Date



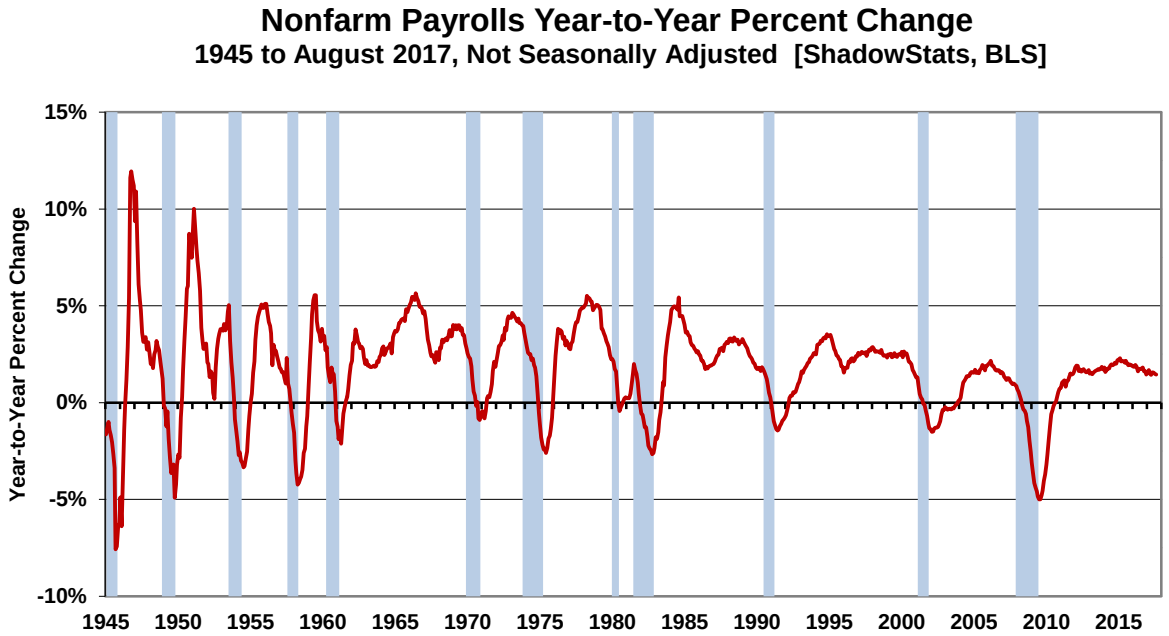
Graph 6: Nonfarm Payroll Employment 1945 to Date



Graph 7: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



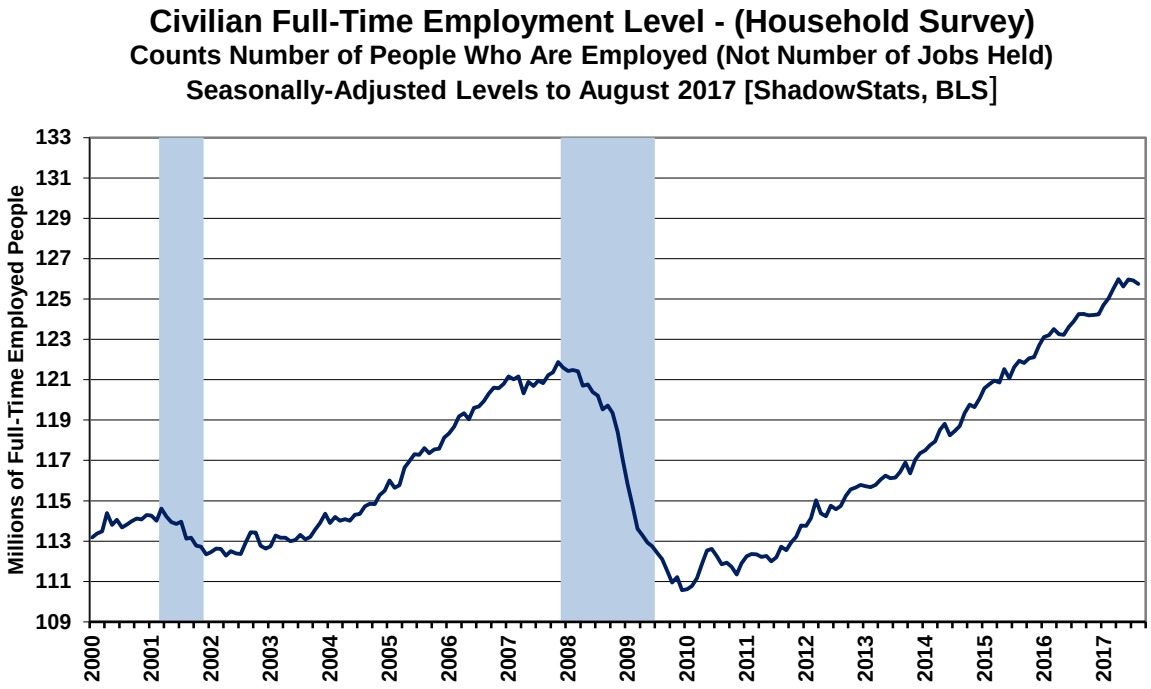
Graph 8: Payroll Employment, Year-to-Year Percent Change, 1945 to Date



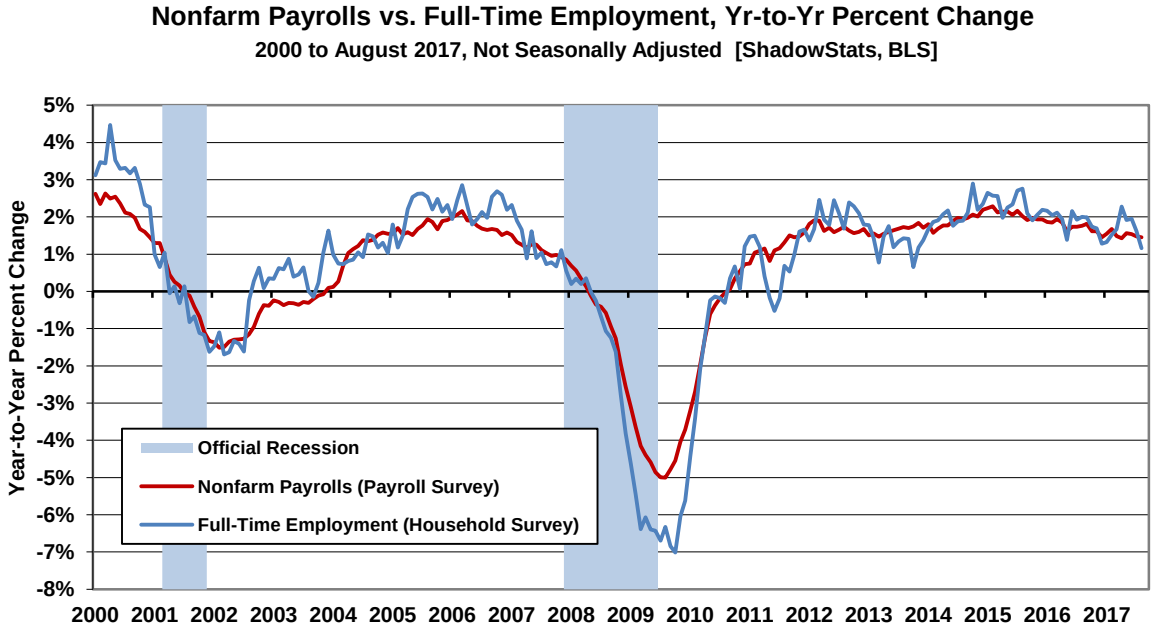
Unlike the Payroll Survey, which counts "employed" people with more than one job (such as part-time jobs) for each job counted, the Household Survey, which counts employed individuals only once, irrespective of the number of jobs held, showed a monthly decline of 74,000 (-74,000) in August 2017

total employed, which encompassed a decline of 166,000 (-166,000) for the month in full-time employment. Reflected in *Graphs 9* and *10*, full-time employment now is in downtrend with annual growth also at pre-recession levels.

Graph 9: Full-Time Employment (Household Survey) to Date (2000 to Date)
(Plotted with Scale Proportional to Graph 5)



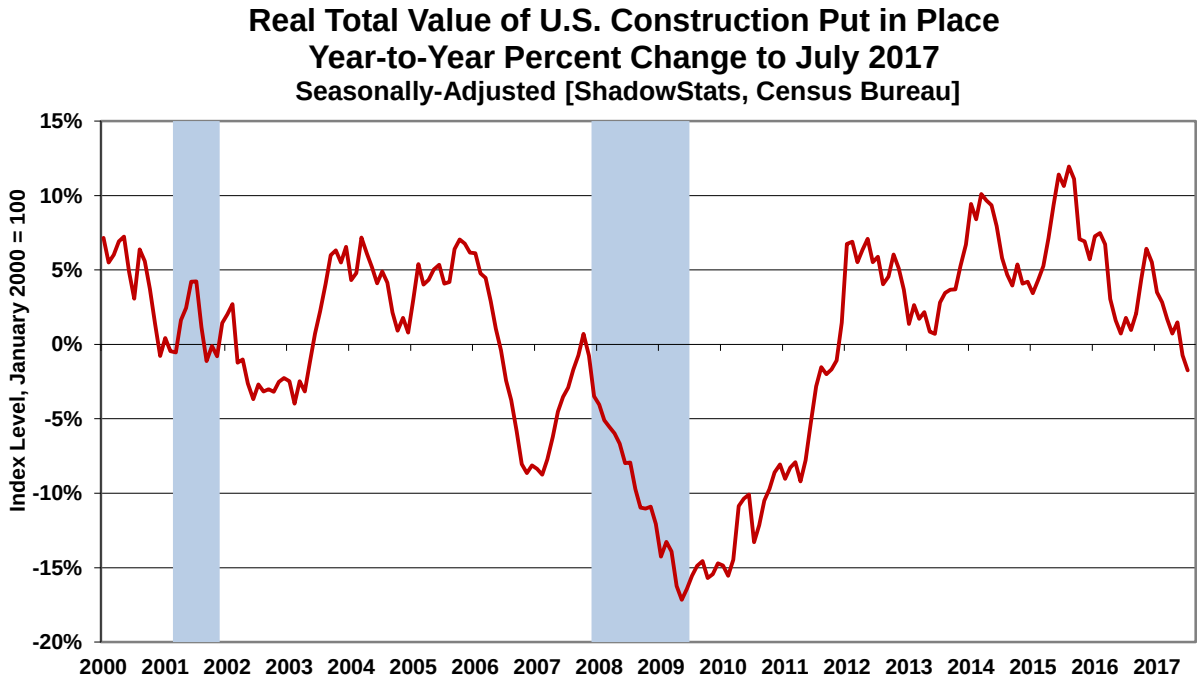
Graph 10: Full-Time Employment (Household), Year-to-Year Percent Change, 2000 to Date



CONSTRUCTION SPENDING IN THE UNITED STATES (July 2017)

Despite Upside Revisions, Downturns and Downtrends Held in Place; Real Construction Spending Remained 23.1% (-23.1%) Shy of Its Pre-Recession Peak, and Signaled Renewed Recession. The Construction Spending series remains highly volatile, subject to unstable and extraordinarily-large monthly revisions. Where June 2017 had seen prior months' downside revisions, the headline July 2017 data saw prior months' upside revisions. That said, the unfolding downside shift in trend in the inflation-adjusted real series continued, with year-to-year change still showing an annual contraction of a scope last seen during the housing collapse of 2006 (see *Graph 10).* Separately, both the real second-quarter and early-trend in third-quarter 2017 activity showed steep quarterly, annualized contractions, while the headline real July 2017 monthly reading stood at 23.1% (-23.1%) below its pre-recession peak.

Graph 10: Total Real Construction Spending, Year-to-Year Percent Change



Headline detail saw upside revisions to monthly activity largely across-the-board in May and, June, with the new headline July nominal activity turning down month-to-month in all major categories except for residential construction.

Where, in the context of upside revisions to May and June activity, nominal construction spending declined in July 2017 by 0.6% (-0.6%) in the month, versus a decline of 1.4% (-1.4%) in June and a gain of 1.6% in May, net of the Composite Construction Deflator inflation (see the next section), those were real changes of down 1.1% (-1.1%) in July, down 1.7% (-1.7%) in June and a gain of 1.3% in May. Headline annual nominal growth was 1.8% for July 2017, 2.8% for June 2017 and 5.1% for May 2017. Net of inflation, July 2017 was down by 1.7% (-1.7%), June 2017 was down by 0.7% (-0.7%) and up by 1.5% in May 2017.

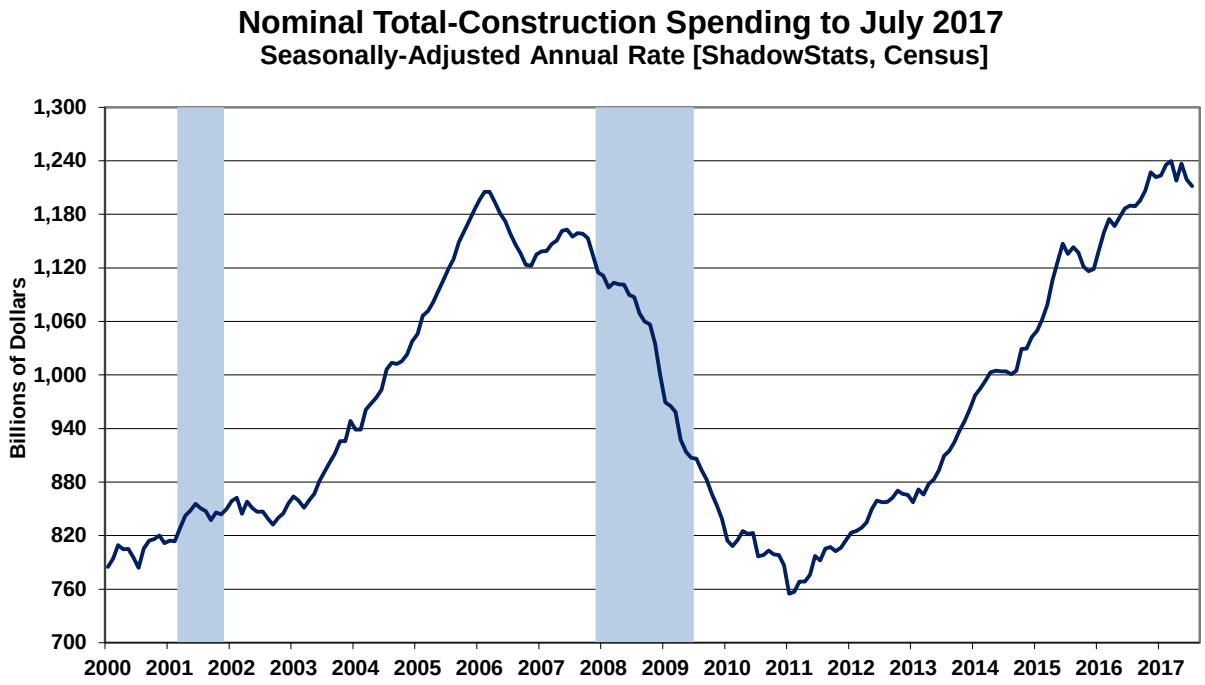
These details are plotted in a sampling of the regular graphs (see *Graphs 11* to *18*). Traditional background material is found in *Commentary No. 903*; a full update follows in *Commentary 908-B of September 6th.*

Construction Inflation—ShadowStats Composite Construction Deflator (CCD). ShadowStats produces a Composite Construction Deflator (CCD) for use in converting current-dollar or nominal (not-adjusted-for-inflation) headline construction spending into inflation-adjusted, real or constant-dollar terms. Detailed in *Commentary No. 829*, previously used measures from the Producer Price Index (PPI) lacked historical consistency and did not measure inflation appropriately for the construction-spending series.

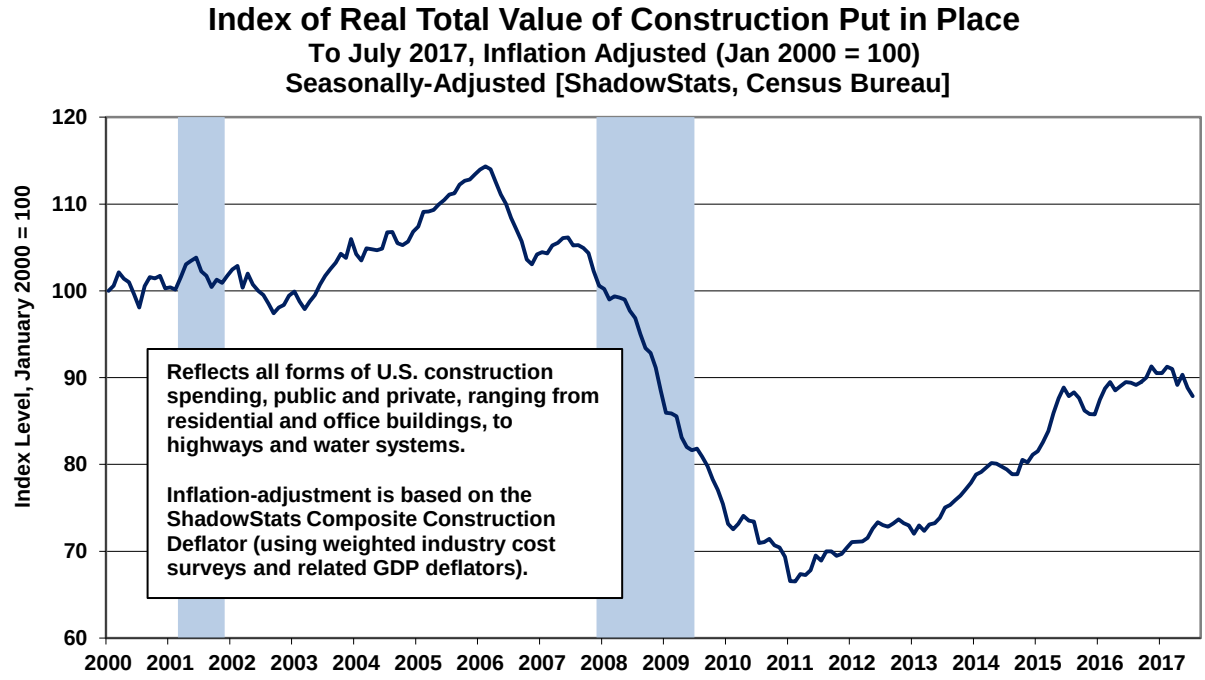
CCD year-to-year inflation was 3.63% for July 2017, 3.53% for June 2017 and 3.54% for May 2017. Month-to-month inflation was 0.46% for July 2017, 0.24% for June and 0.26% for May.

[Graphs 11 to 18 begin on the next page.]

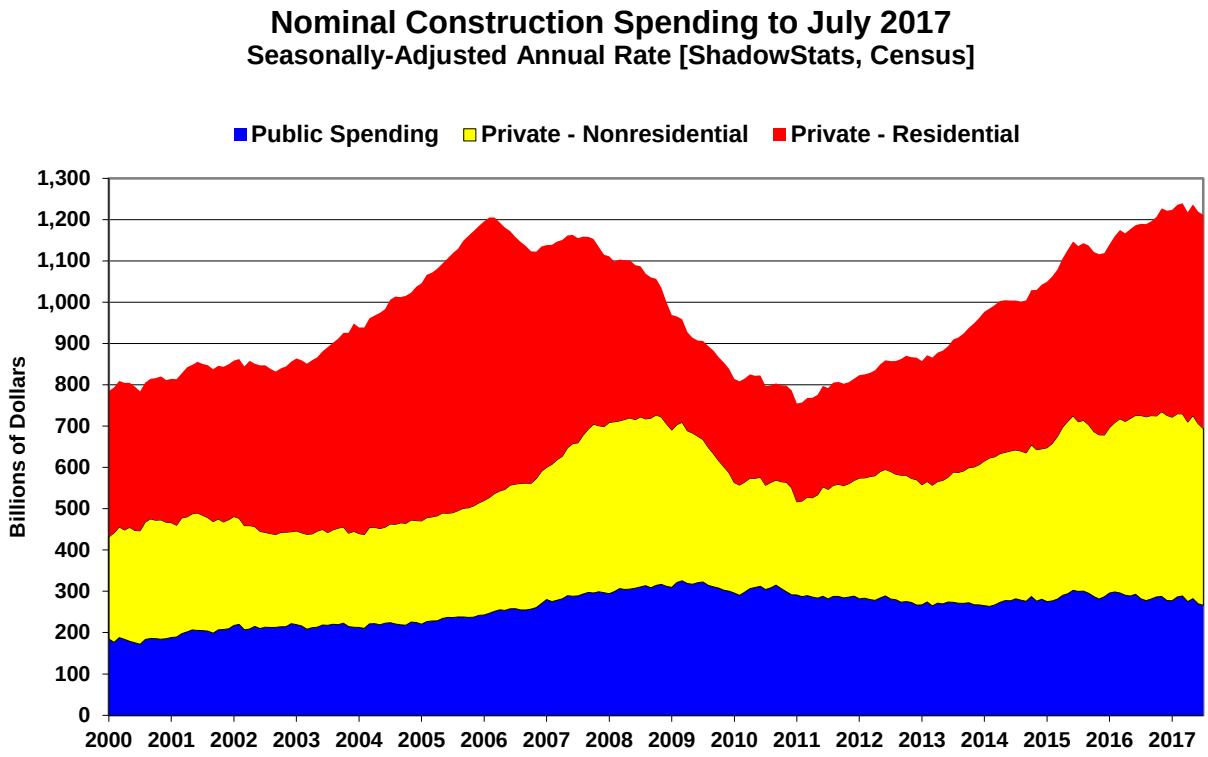
Graph 11: Total Nominal Construction Spending



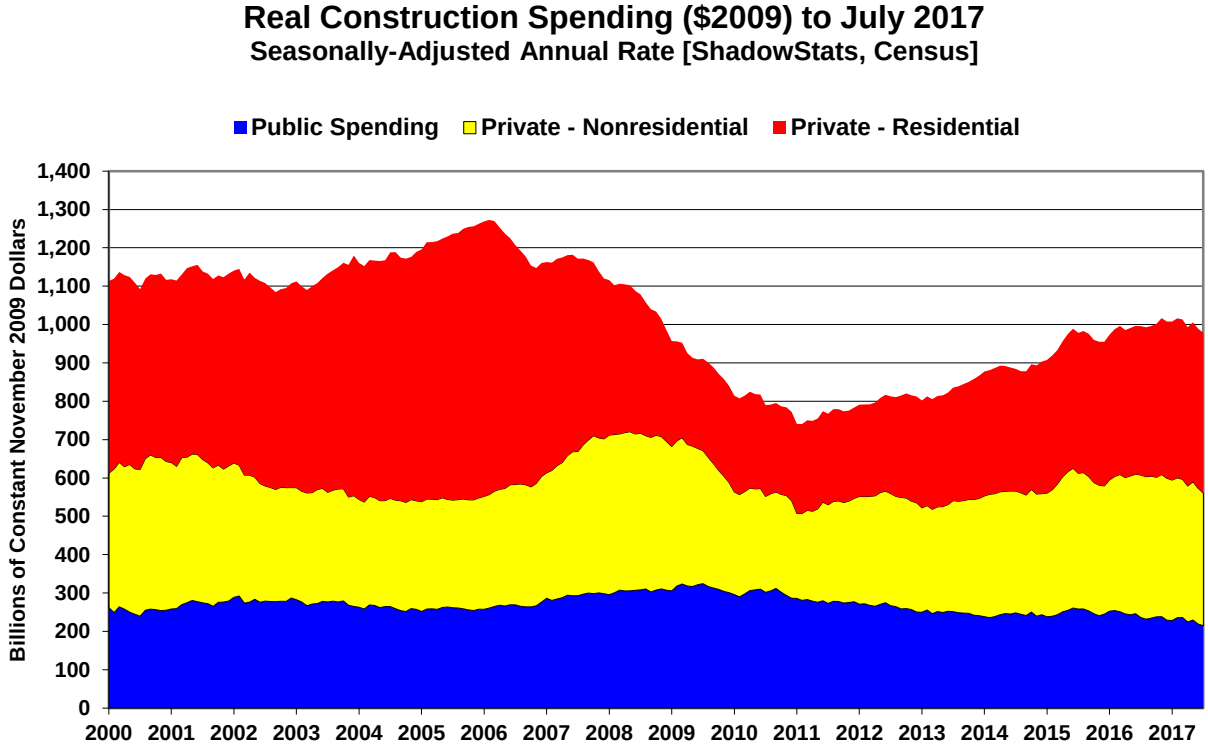
Graph 12: Index of Total Real Construction Spending



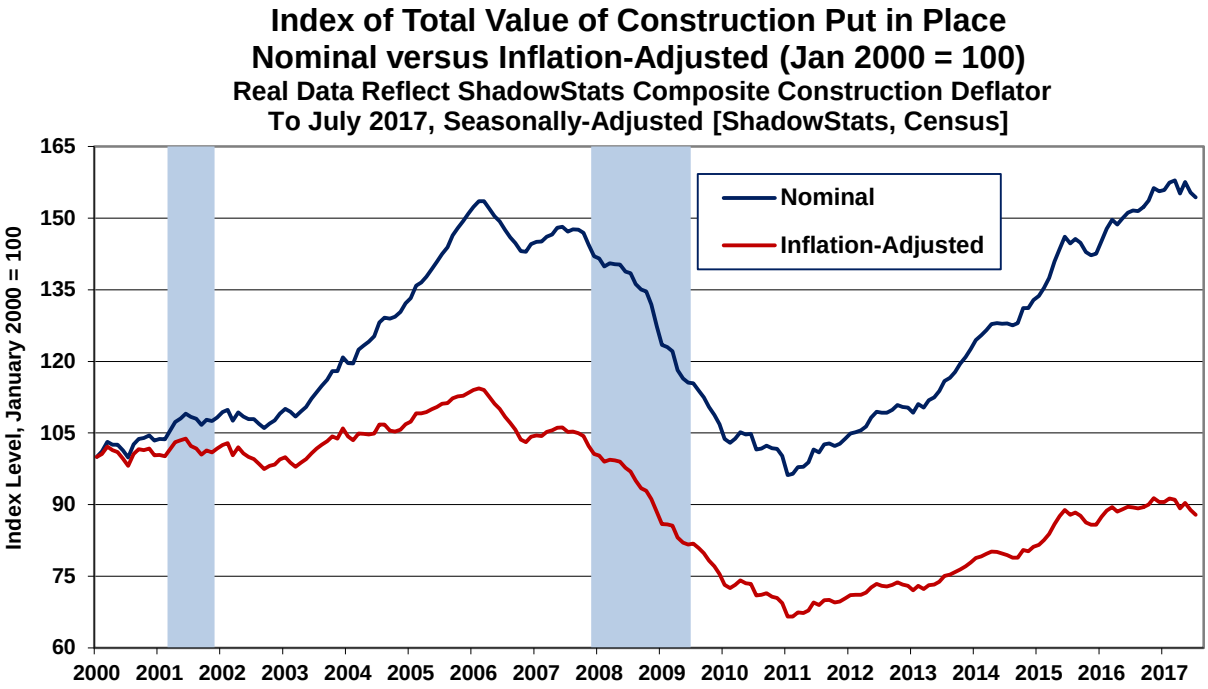
Graph 13: Aggregate Nominal Construction Spending by Major Category to Date



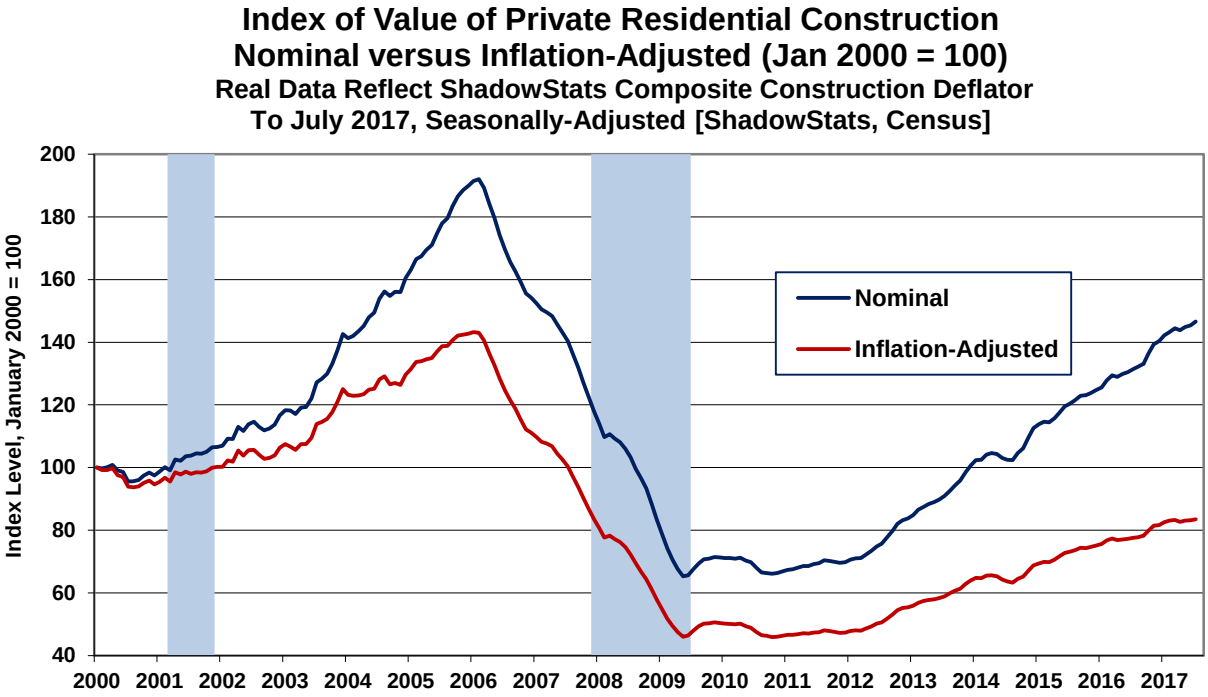
Graph 14: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



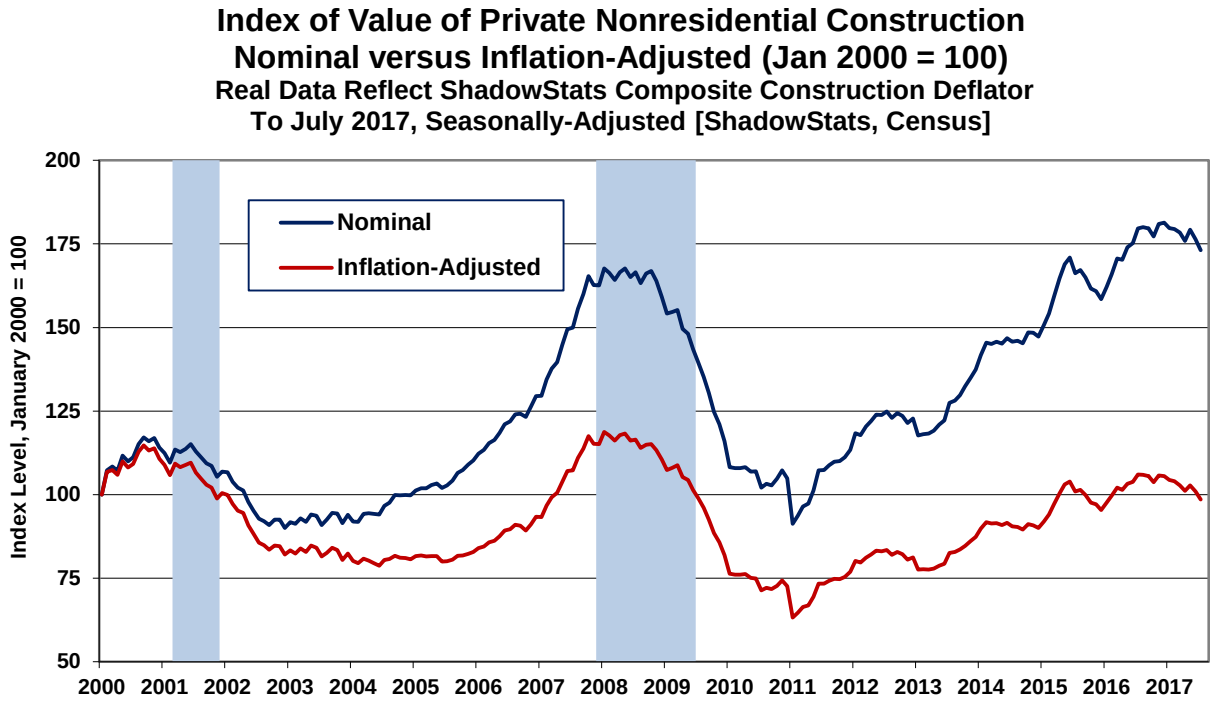
Graph 15: Index, Nominal versus Real Value of Total Construction



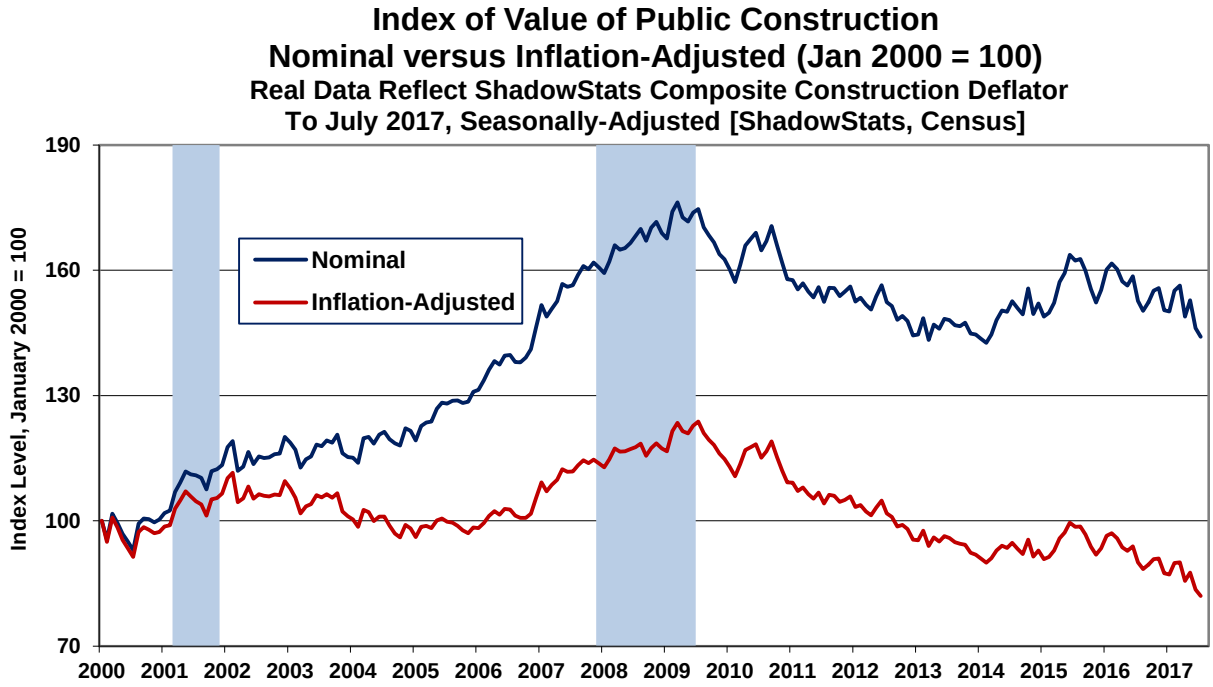
Graph 16: Index, Nominal versus Real Value of Private Residential Construction



Graph 17: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 18: Index, Nominal versus Real Value of Public Construction



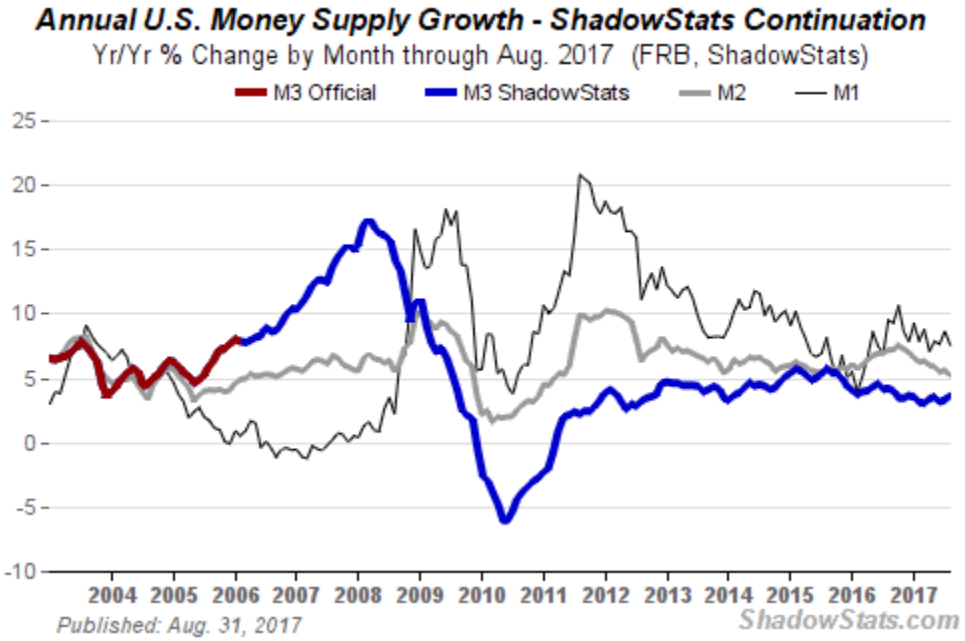
HYPERINFLATION WATCH

MONETARY CONDITIONS

M3 Jumped As Monetary Base Level and Annual Growth Hit 17-Month Peaks.

August 2017 Annual Growth Rate in M3 Rose to 3.6% from an Upwardly-Revised 3.3% in July. Based on three-plus weeks of reporting, and in the context of continued softening growth in both the narrower M2 and M1, and an upside revision to June 2017 M3, the estimate of nominal annual growth for the ShadowStats Ongoing M3 Money Supply in August 2017 rose to 3.6% from an upwardly revised 3.3% [previously 3.2%] in July 2017 and unrevised annual growth of 3.1% in June 2017, 3.5% in May 2017, 3.4% in April 2017 and 3.0% in March 2017. The March 2017 showing was the weakest year-to-year change since July 2012. Separately, nominal year-to-year growth for M2 eased to 5.3% in August 2017, versus 5.6% in July 2017, 5.5% in June 2017 and 5.9% in May 2017, with annual nominal growth in August 2017 M1 easing to 7.7%, versus 8.7% in July 2017, versus 7.7% in June 2017 and 7.9% in May 2017.

Graph HW-1: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through August 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 narrowed further. The relative weakness in annual M3 growth, versus M2 and M1 (M2 includes M1; M3

includes M2) still had 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. August 2017 M3 growth and the July upside revision reflected a returning of flow of cash from M1 and M2 back into M3 accounts, again, such as large-time deposits and institutional money funds.

The latest estimates of level and annual changes for August 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.

As M3 Jumped, So Has the Monetary Base. 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 or maintain stable trading-range activity for the targeted federal funds rate, the level of the monetary base had been reasonably stable, with annual percentage change fluctuating around zero, but now it has moved higher in recent weeks to a multi-year high. Aside from short-term gyrations around a change in the targeted federal funds rate, circumstances generally should remain relatively stable, 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. What is happening will be reviewed in more detail in *Commentary No. 904*, planned for September 14th.

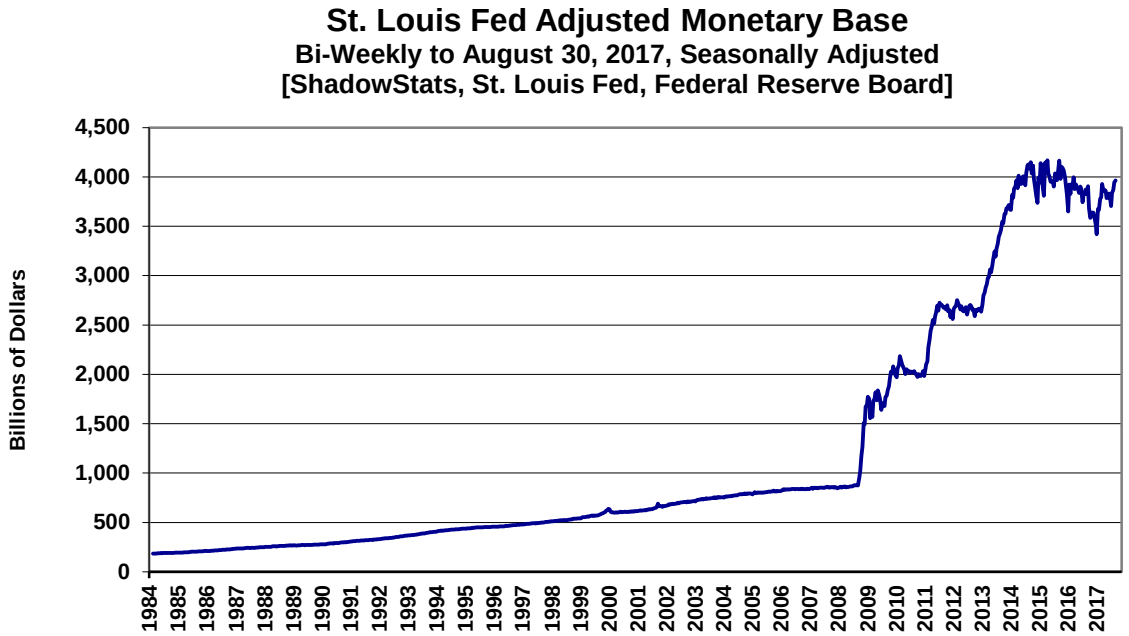
The Saint Louis Fed used to update its Monetary Base estimate within an hour of the Federal Reserve Board publishing its detail, as the FRB did last night, August 31st, for the two weeks ended August 30th. The Saint Louis Fed now appears to be staggering its release by a week, having published its version for the August 16th Monetary Base on August 24th.

Based on the latest Saint Louis Fed estimate, the Monetary Base stood at its highest level for the two weeks ended August 16, 2017, since March of 2016, with annual change up by 1.9%, its highest level also since March 2016. Accompanying *Graphs HW-2* and *HW-3*, reflect an imputation (ShadowStats estimate based on the FRB August 31st reporting) for some slight further upward movement in the Monetary Base for the Saint Louis version into August 30th, with both the level, and the imputed annual growth rate of 3.5%, at their highest readings since late-2015, in almost two years.

The level of the Monetary Base remains well within the bounds of activity seen in the last several years. That said, prior to the Quantitative Easing, changing the level of the Monetary Base had been the primary tool of the Federal Reserve Board's Federal Open Market Committee (FOMC) for targeting growth in the money supply. If the current upside movement in both M3 and the Monetary growth continues, on a regular basis, questions as to a potential covert shift in FOMC policy (towards easing) might arise.

[Graphs HW-2 and HW-3 follow on the next page.]

Graph HW-2: Saint Louis Fed Monetary Base, Billions of Dollars (1984-August 30, 2017)



Graph HW-2: Year-to-Year Percent Change, Saint Louis Fed Monetary Base (1985-August 30, 2017)