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

COMMENTARY NUMBER 919-B

October 2017 Employment and Unemployment Reporting

November 6, 2017

Unwinding Hurricane Impact Generated Some Nonsense October Labor Reporting; Payroll Survey Appears to Have Settled Back into Its Regular Patterns of Upside Biases, but Household Survey (Unemployment) May Not Stabilize Before December Revisions

Payroll Jobs Jumped 261,000, Household Survey Employment Plunged 484,000 (-484,000)

Headline U.3 Unemployment Fell to 17-Year Low of 4.1%, in the Context of Deteriorating Health in Key Employment Indicators

Plunging Counts of Both Unemployed and Employed Generated an Extreme and Unusual Decline of 765,000 (-765,000) in the Labor Force

Meaningless Declines in Headline October 2017 Unemployment Rates: U.3 Fell to 4.07% versus 4.22%, U.6 Fell to 7.91% versus 8.29%, and the ShadowStats-Alternate Fell to 21.6% versus 21.9%

Plunging Participation Rate and Employment-to-Population Ratio Traditionally Would Concern Fed Chair Janet Yellen

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PLEASE NOTE: The next Regular Commentary, Wednesday, November 15th, will review details of the October 2017 Consumer and Producer Price Indices (CPI and PPI) as well as October Retail Sales, followed by a missive on Friday, November 17th covering October Industrial Production and Housing Starts and Building Permits.

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

Today's (November 6th) ***Opening Comments*** review the nature of unfolding, broad U.S. economic activity, in the context of the October 2017 employment and unemployment details, released November 3rd. Comments encompass and expand upon the initial detail reviewed in prior *Commentary No. 919-A*.

The ***Reporting Detail*** (page 4), again, in the context of the discussion in *Commentary No. 919-A*, the October labor data are reviewed more completely, along with accompanying notes on major background issues with the headline reporting of the monthly labor data in the ***Supplemental Labor-Detail Background*** (page 20).

The ***Consumer Liquidity Watch*** (page 28) has not been changed from its prior version.

The ***Week, Month and Year Ahead*** (page 38) provides background on recent *Commentaries* and previews next week's releases of the October CPI, PPI, Retail Sales, Industrial Production and New Residential Construction.

OPENING COMMENTS

Outlook for U.S. Economic Activity Continued to Darken. The initial impact of, and now the unwinding of the impact of Hurricanes Harvey and Irma on September and October 2017 employment and unemployment data have been highly unstable, leaving the headline labor details—particularly the household-survey measures (*e.g.*, the unemployment rate) heavily distorted in both months. Headline October 2017 labor details are expanded upon, here, both in the context of near-term reporting stability, and in terms of developing indications for economic activity in the months ahead, which are not shaping up as a positive outlook. Where, pre-hurricanes, the payroll data were signaling renewed economic downturn, that signal has held in place and intensified. Now, the household survey data are sending off unusually negative signals, amidst admittedly unstable and highly questionable reporting.

Headline Labor Reporting Should Stabilize in the Next Several Months. In the context of unwinding the disruptive impact from two major hurricanes, which heavily distorted September 2017 headline labor data (see the *Opening Comments* of *Commentary No. 914* and *Commentary No. 915*), the Bureau of Labor Statistics (BLS) published its headline October 2017 labor numbers on Friday, November 3rd. Those details were reviewed initially in *Commentary No. 919-A* of that date, and much of that material is repeated here, along with expanded analysis. Separately, the headline monthly labor data remain subject to regular distortions from reporting issues discussed in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*.

October Payroll Data Appeared to Return to Their Regular Biases and Distortions. As will be discussed, the headline payroll-survey details for October 2017 were within the regular bounds of volatility and revisions for this series. The headline-weakened monthly and annual payroll growth rates seen in September and October 2017 were within the bounds of what had been expected, particularly given the nature and the timing of Hurricane Irma's hitting Florida during the monthly payroll-

employment survey period. The October 2017 monthly-rebound and revisions to September payrolls were the on the soft-side of consensus expectations but, again, within normal volatility for that series.

Accordingly, the current payroll-survey detail appears to be dominated again by its regular reporting biases and distortions, as discussed in the *Supplemental Labor-Detail Background* (page 20): *(I.) Headline Distortions from Shifting Concurrent Seasonal-Adjustment Factors*, and *(II.) Payroll-Employment Monthly Bias Factors (Birth-Death Modeling)*.

October Household Survey Data Continued to Be Massively Distorted, a Circumstance Exacerbated by the Non-Comparability of the Seasonally-Adjusted Monthly Detail. A combination of factors appears to have been at play in the particularly-unstable, household-survey reporting. First was definitional, tied to those who usually were employed in the surveying, being counted as employed if they were unemployed due to the bad weather. That was opposite the payroll-survey definitional approach. The payroll numbers appear to have reflected the resulting circumstances more accurately.

The headline household survey numbers showed a monthly jump of 906,000 employed in September 2017, but that figure included 1.5 million who were counted as employed, even though they had been unemployed by the weather, at least temporarily. Some of the unusual month-to-month number swings in the headline October detail reflect some unwinding of that circumstance.

A separate and heavily-distorting issue, though, is the month-to-month non-comparability of the seasonally-adjusted monthly household-survey numbers (see the *Headline Distortions from Shifting Concurrent Seasonal-Adjustment Factors* noted below). The household-survey numbers are seasonally-adjusted each month, using seasonal adjustments updated to the headline survey month, where the seasonals are based and recalculated for all the preceding historical monthly detail for five years or so. The problem is that the BLS does not restate the published historical headline detail each month, which it has to do, if the month-to-month numbers are to be comparable. This gets particularly complicated when there are big swings in the data, which are due to irregular, non-seasonal elements such as severe hurricanes.

The household survey, however, is revised once per year to put the prior history on a consistent basis, a circumstance that exists only for the one-month restatement, which is December. Accordingly, the best bet for the current headline household survey detail to settle back into a stable pattern, at the moment, is with the December 2017 headline data, which most likely be released on January 5, 2018.

Regular systemic distortions to the headline Household Survey labor data are discussed in the *Supplemental Labor-Detail Background* (page 20): *(I.) Headline Distortions from Shifting Concurrent Seasonal-Adjustment Factors*, and *(III.) ShadowStats Alternate-Unemployment Rate (Accounting for Displaced Workers)*.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (October 2017)

Headline Reporting Continued to Signal Deepening Economic Woes. In the context of the reporting distortions discussed in *Special Commentary No. 885* and *Supplemental Labor-Detail Background* (page 20), incorporated here by reference, labor circumstances are weakening rapidly. Allowing for hurricane-related disruptions to the data, headline annual payroll growth in October 2017 continued to signal a new recession, while the household survey continued to indicate massive distortions in underlying headline employment and unemployment details tied to measuring the unemployment rate, versus underlying, impaired surveying and implied labor-force detail.

The headline monthly payroll jobs gain of 261,000 in October 2017, likely was flat-to-minus in reality (see *Supplemental Labor-Detail*...). In the context of the *ShadowStats-Alternate Unemployment Rate Measure* discussion (also in the *Supplemental Labor-Detail*...), the headline 4.1% October 2017 U.3 unemployment rate was much closer to 21.6%, when viewed from the context of common experience. Extended assessment of headline reporting distortions in the payroll-employment and household survey detail, again is found in *No. 885*.

Household Survey: Counting All Discouraged Workers, October 2017 Unemployment Eased to 21.6%. The headline detail on the employment/unemployment news was nonsensically positive, again, heavily distorted by hurricane impacts in both September 2017 and October 2017, with the seasonally-adjusted, U.3 unemployment rate dropping to 4.07% in October 2017, from 4.22% in September 2017 and a pre-hurricane 4.44% in August. In extraordinarily volatile and unstable detail, the number of unemployed declined by 281,000 (-281,000) in October 2017, in the context of the number of employed collapsing by 484,000 (-480,000) for the month.

There likely is an employment component here that reflects some temporary pick-up of people hired for cleanup activity, post-hurricanes, but these BLS numbers are so unstable as to provide little clarity or sensibility to underlying detail.

The October 2017 headline numbers were skewed massively in the unwinding of the September 2017 distortions. Consider that the total employment gain in September 2017 reflected a purported surge of 935,000 full-time employed, plus a gain of 81,000 part-time employed persons (not the number of jobs held as reported in the payroll survey), which together totaled an employment gain of 1,016,000. That exceeded the headline gain in employment of 906,000 by 110,000. These numbers never add up and remain suggestive of some of the underlying inconsistencies in the Household Survey data. That all was in the context, again, of 1.5 million being counted as employed in the household survey, where they had actually been unemployed, at least temporarily by the bad weather.

The unusual, corrective movements in the Household Survey labor detail likely have at least another month or two of reverberations (see the *Opening Comments)*. The ultimate, unfolding trend here will not be the happy, booming economy, which appears to be expected by the markets and reflected in recent Consumer Confidence and Consumer Sentiment surveying, discussed in the *Consumer Liquidity Watch*.

Considering a decline of 369,000 (-369,000) persons working part-time for economic reasons in October, and a decline of 34,000 (-34,000) in those marginally attached to the labor force, on top of the headline U.3 unemployment rate, the broader U.6 rate declined to 7.91% in October 2017, from 8.29% in September and from 8.59% in pre-hurricane August.

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 October 2017 was 21.6%, versus 21.9% in September and 22.2% in pre-hurricane August. The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force, effectively becoming long-term discouraged or displaced workers, although its level is heavily dependent on the underlying level of U.6 unemployment, on top of which the ShadowStats measure is constructed (see full description of the series in the *Supplemental Labor-Detail Background*, page 20).

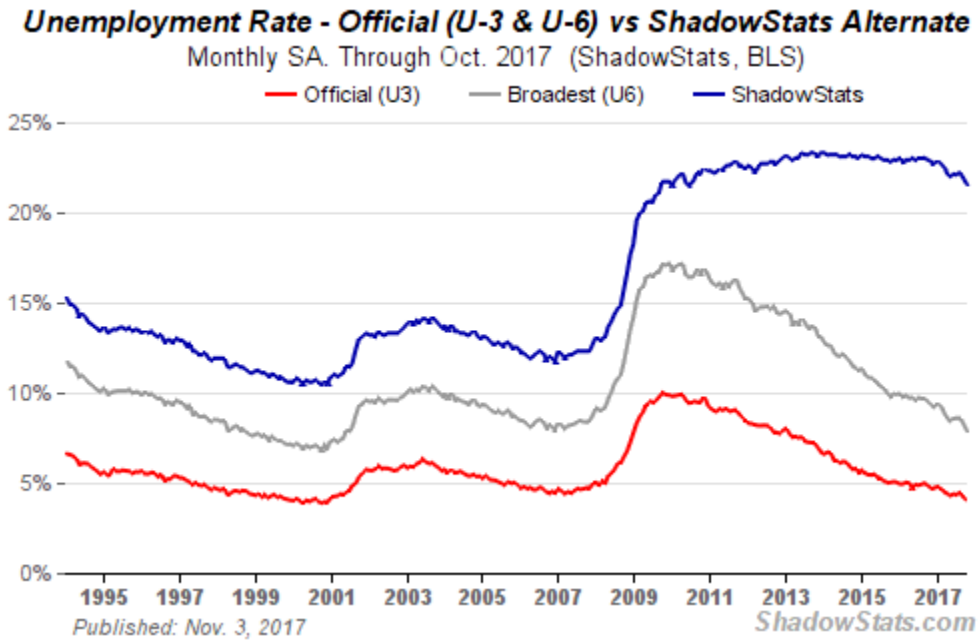
Separately, the BLS simply refuses to publish consistent monthly details. The seasonally-adjusted, month-to-month numbers reported with the Household Survey were neither directly comparable nor meaningful, specifically including comparisons of seasonally-adjusted month-to-month levels of the unemployment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

Unemployment Rate Plunge Reflected Collapsing Labor Force. *Graphs 1* to *4* reflect various aspects of the Household Survey detail, which generates the unemployment rate. What happened in October 2017, was that the labor force, the total of number of people employed and unemployed, which had soared by a hurricane disrupted false gain of 575,000 in September, crashed by 765,000 (-765,000) in October. October employed crashed by 484,000 (-484,000), where the separate payroll-employment survey gain was 261,000 jobs, with the count of unemployed crashing by 281,000 (-281,000). The disproportionately large decline in the unemployed versus the employed, resulted in the headline decline in U.3.

The headline unemployment rate U.3 fell to its lowest level since July 2000, to 4.07% in October 2017, versus 4.22% in September 2017. Accordingly, the broader U.6 fell to 7.91%, versus 8.29%, and the ShadowStats-Alternate measure, built upon U-6, fell to 21.6%, versus 21.9%. Those rates are nonsense, but nonetheless are plotted in *Graph 1*.

The inverted-scale plot of the ShadowStats Alternate Unemployment Rate measure is shown in *Graph 2*, as usual, for comparison with the plots in *Graphs 3* and *4* of the Civilian Employment-to-Population Ratio and the Labor-Force Participation rate, where both those measures took large hits. The higher those ratios, the healthier are the employment conditions in the economy. Nonetheless, both measures dropped sharply in October, in the context of what should have been very positive news with the headline unemployment rate at a 17-year low. Again, these are nonsense numbers.

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

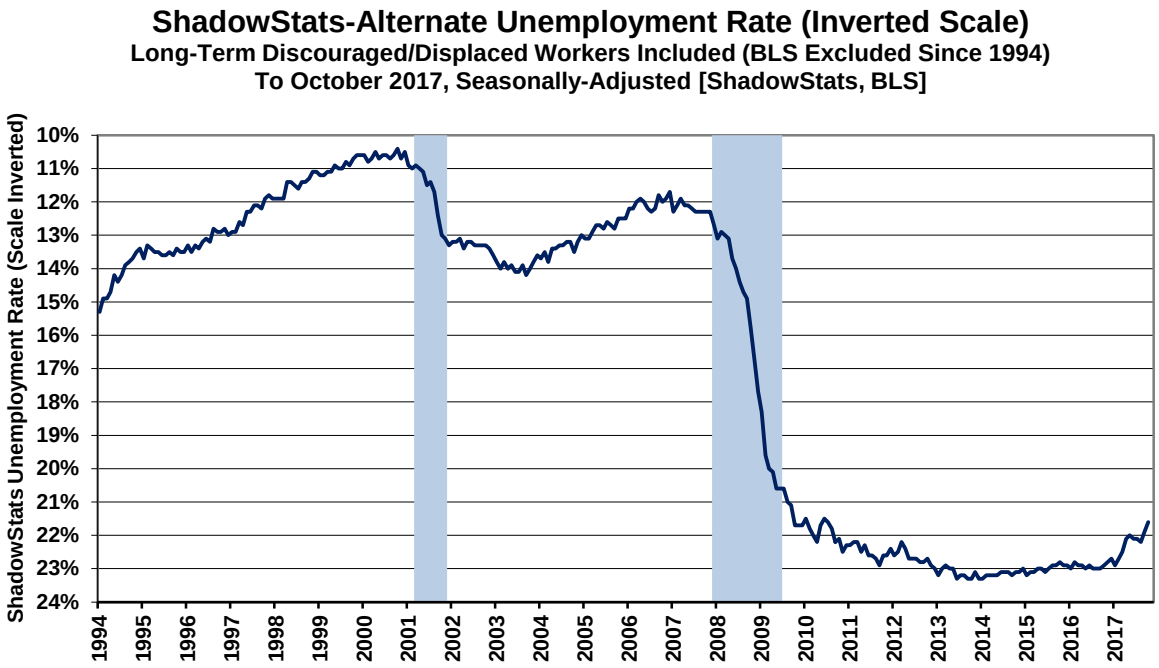


Reflected in *Graph 1*, the headline unemployment rate U.3 fell to 4.07% in October 2017, versus 4.22% in September. U.6 (U.3 plus those employed part-time for economic reasons, and those marginally attached to the labor force, including discouraged workers) fell to 7.91% versus 8.29%, and the ShadowStats-Alternate measure (U.6 plus all estimated long-term discouraged and displaced workers), fell to 21.6% versus 21.9%.

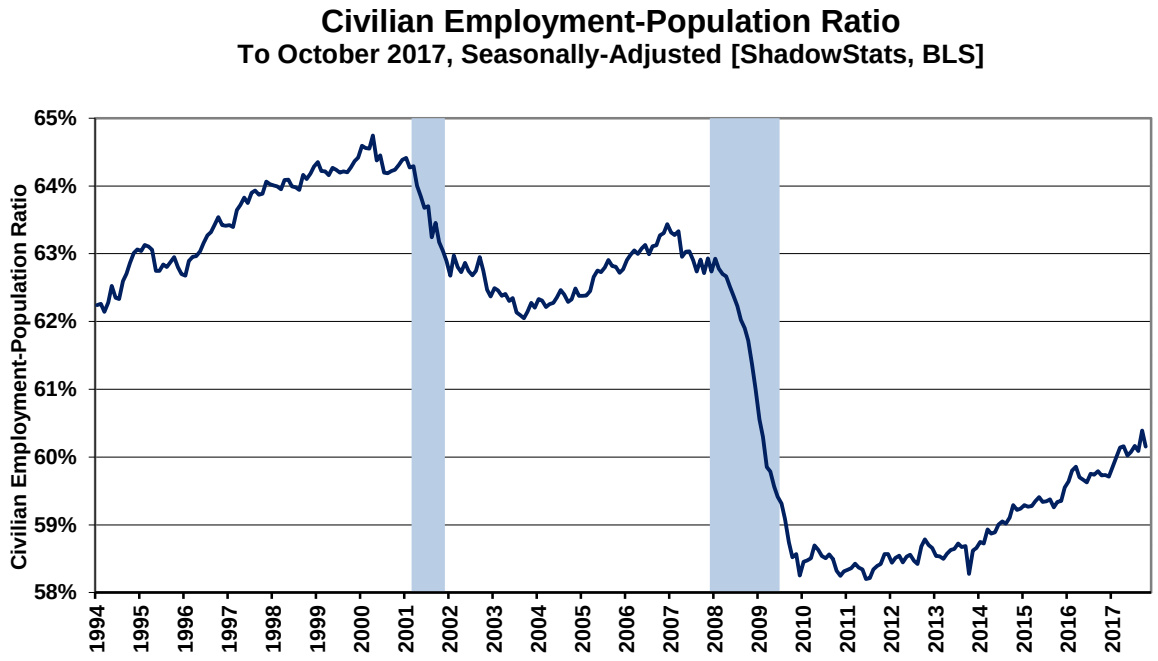
Dysfunctional, Seasonally-Adjusted Headline Detail from the Household Survey. With the headline U.3 unemployment at its lowest level since January 2000, systemic imbalances and instabilities still are reflected in the labor-force participation rate (labor force/population) and the employment-to-population ratio (headline employment/population), which also are still just off historical lows, in the context of just having taken monthly hits in October (inconsistent with "good" headline labor news), following artificial spikes in September. Still, with the headline unemployment rate so low, those ratios should be approaching historic highs, not holding near historic lows, as seen in *Graphs 3* and *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, 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*). With booming September employment, that ratio notched higher to 60.4% in September 2017, versus 60.1% in August 2017, while the collapsing employment number in October took that back to 60.2%. 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

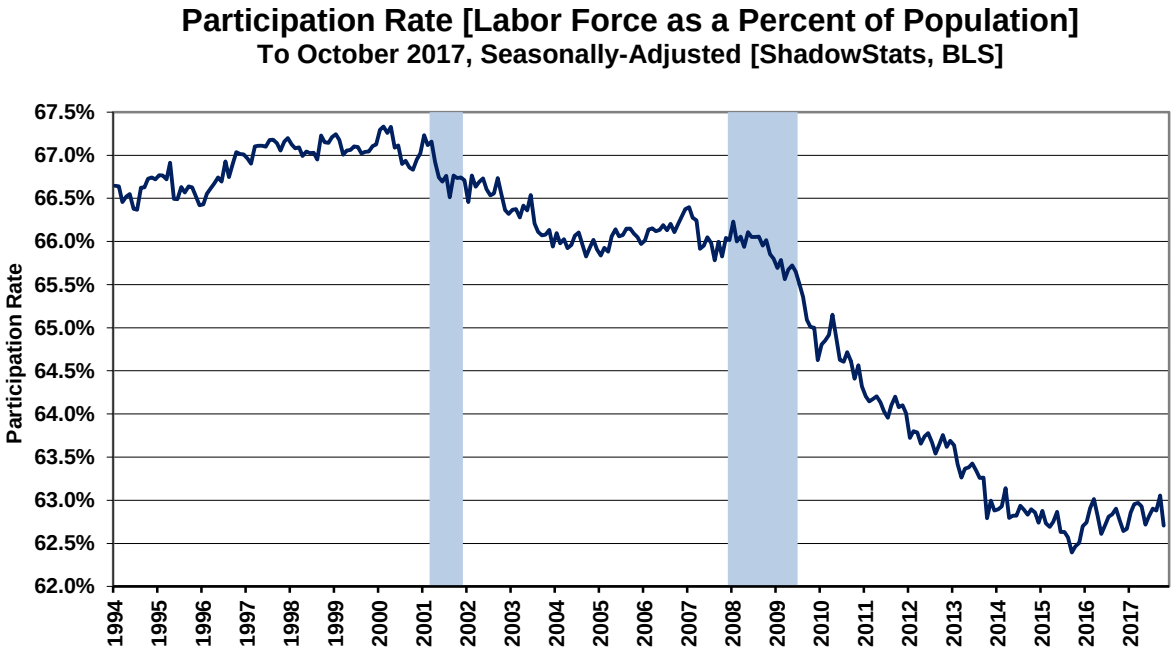


The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment-to-population ratio remains

something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

Shown in *Graph 4*, the October 2017 participation rate (the ratio of the headline labor force to the population) fell to 62.7%, from 63.1% in September and 62.9% in August.

Graph 4: Labor-Force Participation Rate



Graphs 3 through *5* reflect labor data available in consistent detail only back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with the 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 4.1% at the moment) reflected 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 October 2017 headline unemployment rate of 4.1%, for example was in the context of a 62.7%

participation rate. That participation rate, though, was more consistent with a headline unemployment rate (U.3) of 8.7% instead of the headline 4.1%. 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 74% above the hyped 5.0% full-employment unemployment rate, and well 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 3* to *5* (1994-to-date where available), which do not confirm the purported headline recoveries in the GDP or relative employment. That detail was expanded upon and covered in *No. 859 Special Commentary*; see also *Special Commentary No. 918-B*. Some of those series are updated in this section.

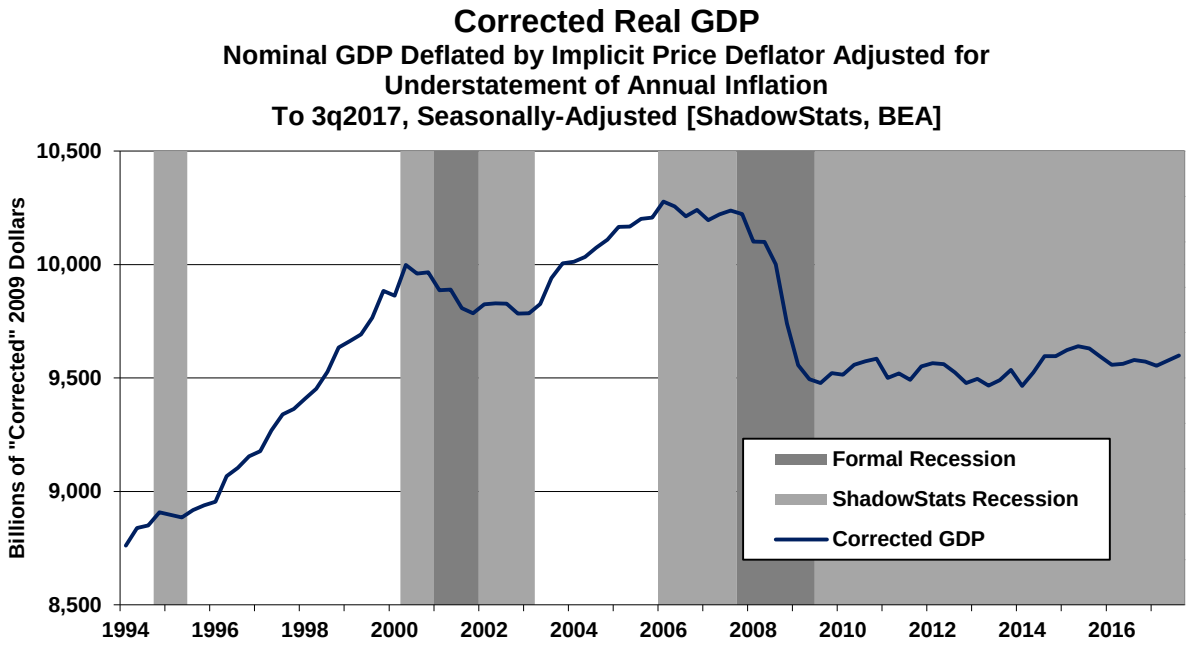
Consider *Graph 5*, which shows the ShadowStats version of the GDP, also plotted from 1994 but through the October 27th initial estimate of third-quarter 2017, where the GDP plot here has been corrected for the understatement of inflation used in deflating the headline GDP (see *Special Commentary No. 918-B* for details).

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 the just-released August 2017 U.S. Petroleum Consumption (*Graph 8*), the Consumer Goods sector out of September 2017 Industrial Production (*Graph 9*) and September 2017 Housing Starts (*Graph 10*).

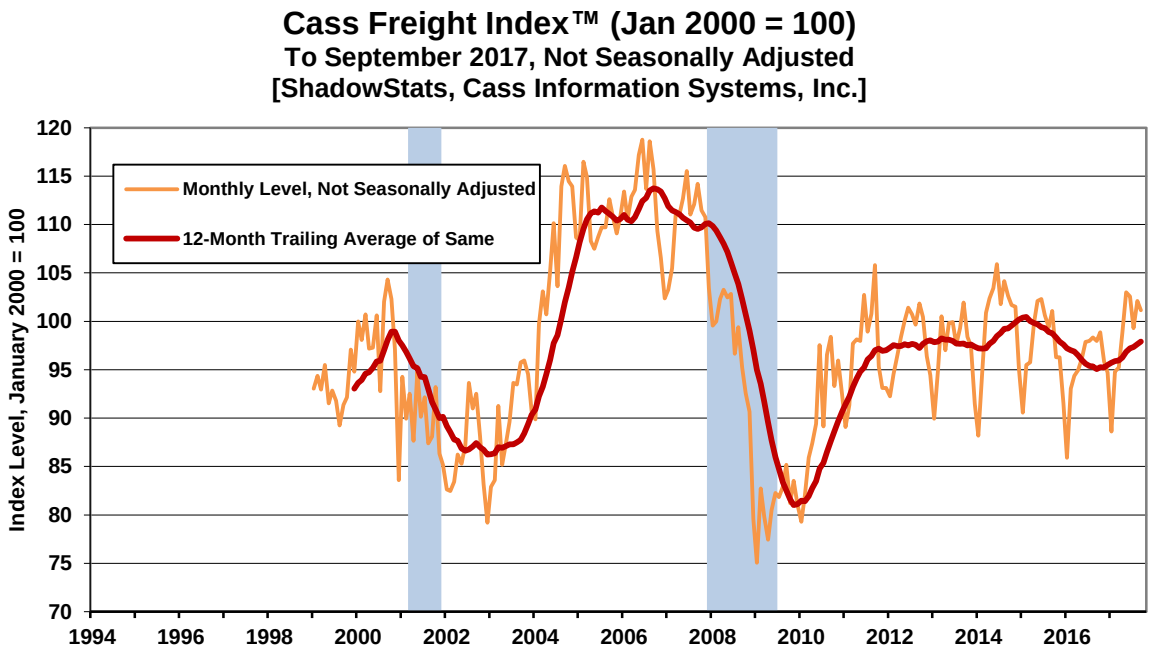
[Graphs 5 to 10 begin on the next page].

[1] Consider with the October 2017 population of 255.766 million, that the implied labor force at a full-employment participation rate of 66.0% would be 0.66 x 255.756 = 168.806. That labor force less current headline employed, 168.536 - 153.861 = 14.675 million implied unemployed / labor force of 168.806 = 8.7% 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.

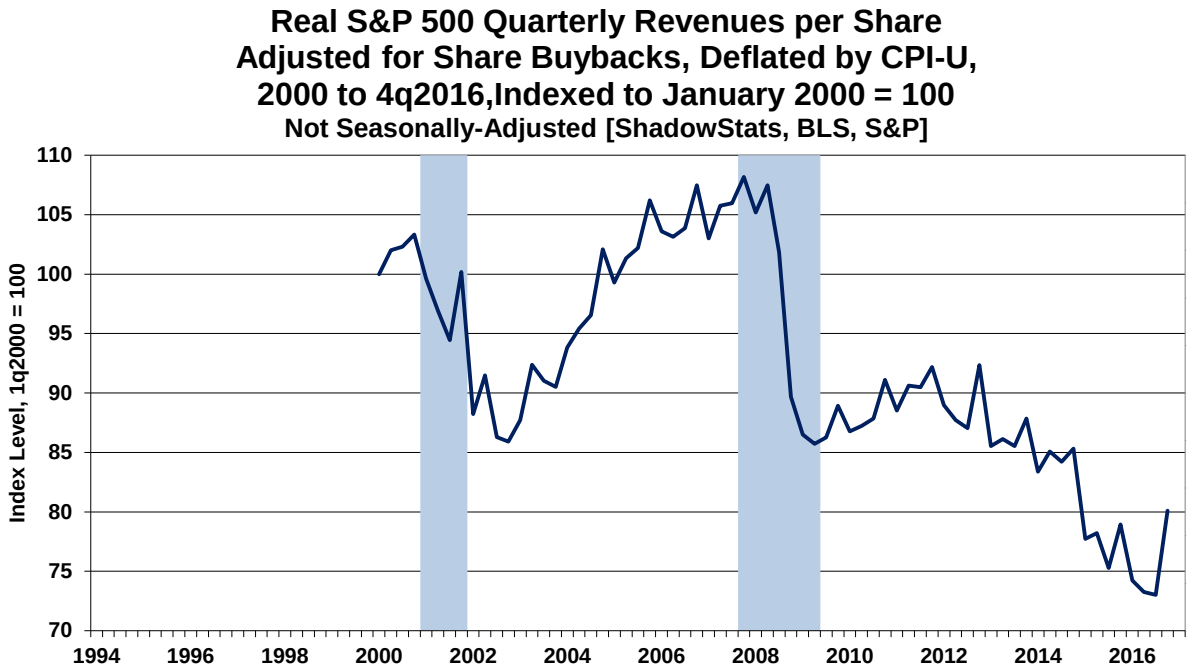
Graph 5: Corrected Real GDP through 3q2017, First Estimate



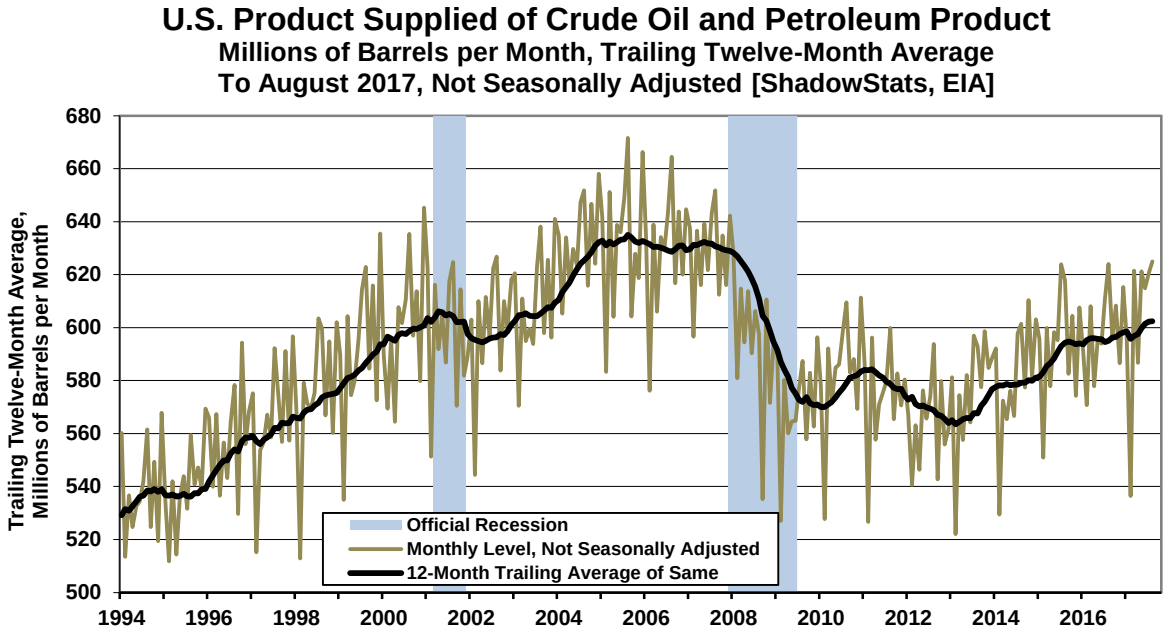
Graph 6: Cass Freight Index for North America (2000 – September 2017), Indexed to January 2000 = 100



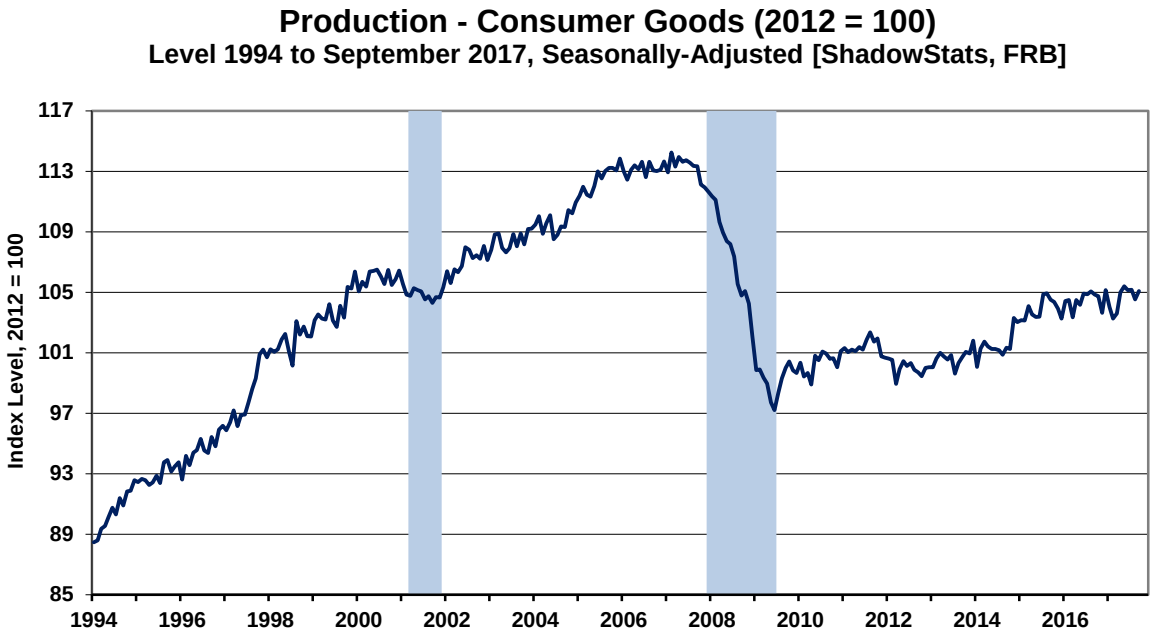
Graph 7: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2016), Indexed to January 2000 = 100



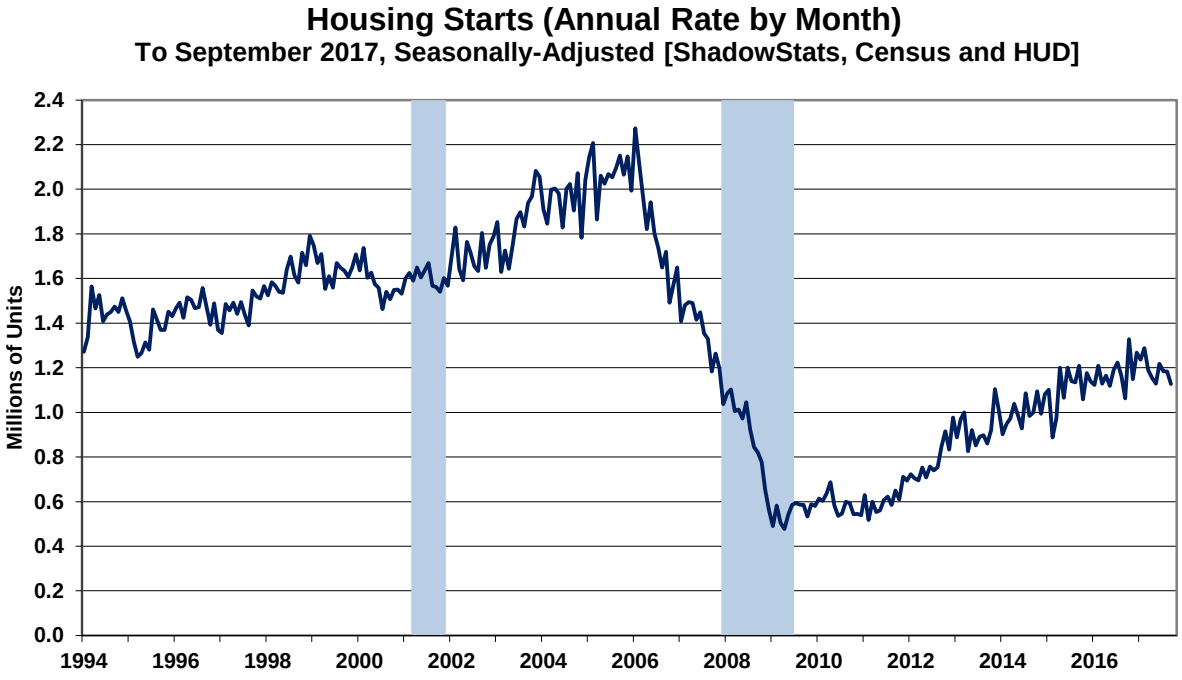
Graph 8: U.S. Petroleum Consumption to August 2017



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



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



Headline Unemployment Rates. Again, in the context of the non-comparability of month-to-month changes in seasonally-adjusted unemployment detail, October 2017 U.3 unemployment declined to 4.1% [4.07% at the second decimal point], versus 4.2% [4.22%] in September, 4.4% [4.44%] in August, 4.3%

[4.35%] in July, 4.4% [4.36%] in June, 4.3% [4.29%] in May, 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 month-to-month decline of 0.15% [-0.15%] in the October 2017 U.3 was shy of being statistically-significant (+/- 0.23% at the at the 95% confidence interval). Such consideration is nonsense, however, given that the monthly numbers are reported on an inconsistent basis and are not even comparable with each other, except once per year, in December, which disappears with the ensuing January reporting (again, see the *Supplemental Labor-Detail Background*).

On an unadjusted basis, unemployment rates are not revised and, in theory, are consistent in post-1994 methodology. The unadjusted unemployment rate U.3 declined to 3.89% in October 2017, versus 4.07% in September, 4.53% in August, versus 4.60% in July, 4.49% in June, 4.11% in May 2017, 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 a declining, seasonally-adjusted October 2017 U.3 unemployment rate, an unadjusted decline in the count of marginally-attached workers of 34,000 (-34,000) and a decline of 369,000 (-369,000) in the adjusted number of people working part-time for economic reasons, the adjusted October 2017 U.6 unemployment rate was 7.91%, versus 8.29% in September, 8.59% in August, 8.57% in July, 8.59% in June, 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 7.61% in October 2017, versus 8.29% in September, 8.64% in August, 8.86% in July, 8.59% in June, 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 October 2017 (never seasonally-adjusted) rose by 123,000 to 524,000, from 421,000 in September, another sign of inconsistency in these supposedly happy household survey numbers, September's level had declined by 27,000 (-27,000) versus August, which had declined by 88,000 (-88,000) versus July, which had gained 22,000 versus a 159,000 gain in June, having declined by 100,000 (-100,000) in May, 5,000 (-5,000) in April, 62,000 (-62,000) in March, and 10,000 (-10,000) in February [the headline monthly change in January 2017 was meaningless, in the context of annual population revisions]. Total marginally-attached declined to 1,535,000 in October 2017 by 34,000 (-34,000) versus August, which had declined by 81,000 (-81,000), where it had increased by 47,000 in July, 107,000 in June, having declined by 59,000 (-59,000) in May, 61,000 (-61,000) in April, 128,000 (-128,000) in March and 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 worker—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 October 2017 was 21.6%, versus 21.9% in September, 22.2% in August, 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—as discussed in the *Supplemental Labor-Detail Background*, page 20.

Payroll Survey: Monthly Gain Reflected Some Hurricane Catch-Up, but Annual Growth Weakened Further, Falling Even Deeper into Recession-Signal Territory. Reflected in *Graphs 11* and *12*, the payroll employment gain in October 2017 was 261,000 (up by 351,000, net of prior-period revisions), a count the reflected the total number of jobs (including multiple part-time jobs, not the number of people). Yet, as noted earlier, the number of people employed per the October household survey, which reflected the number of people who are employed, not the number of jobs, crashed by 484,000 (-484,000).

The October 2017 payroll gain was against a revised monthly gain of 18,000 [previously a decline of 33,000 (-33,000)] in September, and a revised gain of 209,000 [previously 169,000, initially 156,000] in August. The August detail was not stated on a consistent basis with the September and October headlines (see the *Supplemental Labor-Detail Background*, page 20). September's initial contraction and subsequent revised low-level gain reflected hurricane suppressed payroll employment.

The headline October payroll gain of 261,000 formally was statistically-significant +/- 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).

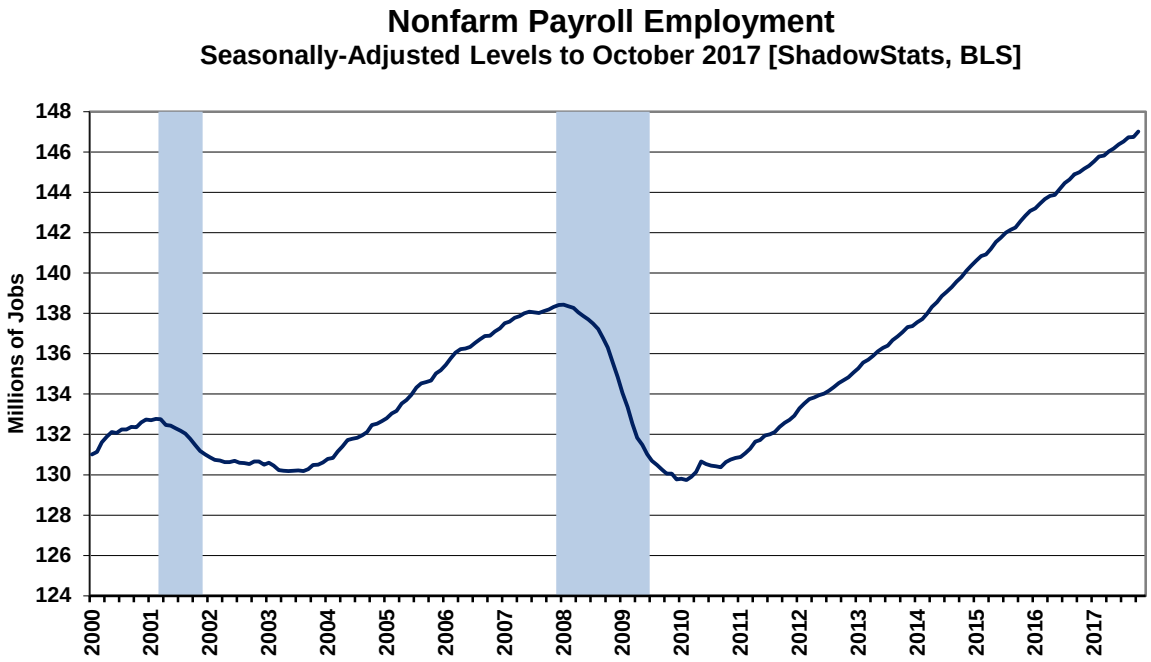
Annual percentage growth in payroll employment, however, softened further to a level seen only coming out of, or going into recessions. The not-seasonally-adjusted, year-to-year growth in October 2017 nonfarm payrolls was 1.40% —a 75-month low—the lowest level of annual growth since the economy was last coming out of a recession in August 2011, except for the hurricane-depressed and revised 1.30% [previously 1.24%] one-month annual growth reading reported for September 2017.

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*. The October 2017 annual growth hit a new threshold on the downside, headed into recession.

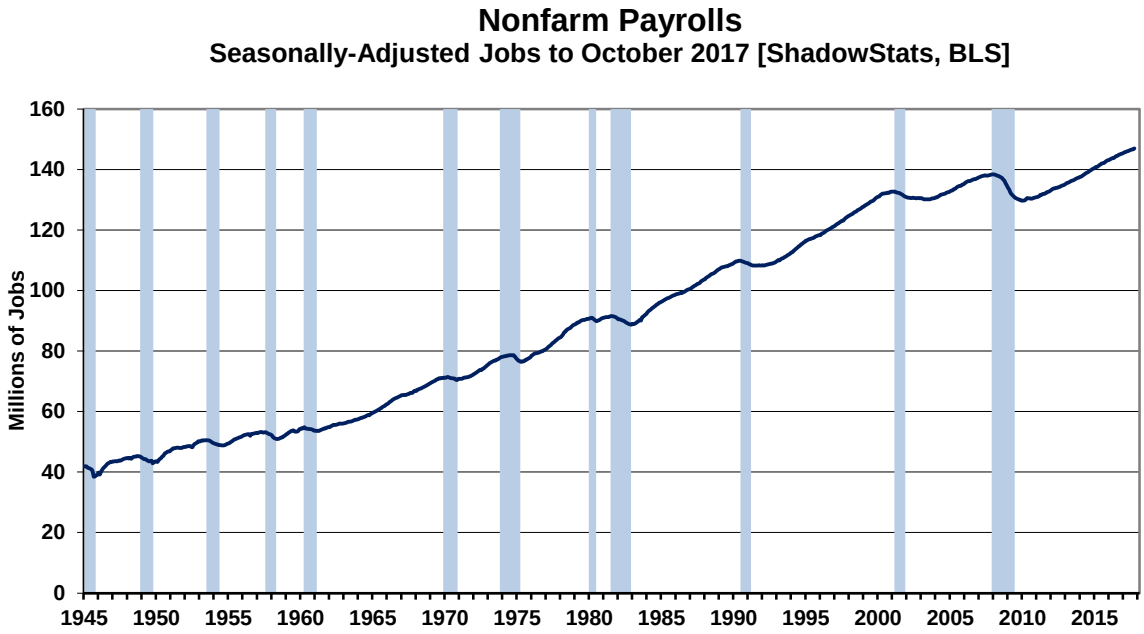
Graphs 11 to *14* show the headline payroll series, level and annual change, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

[Graphs 11 to 14 begin on the next page.]

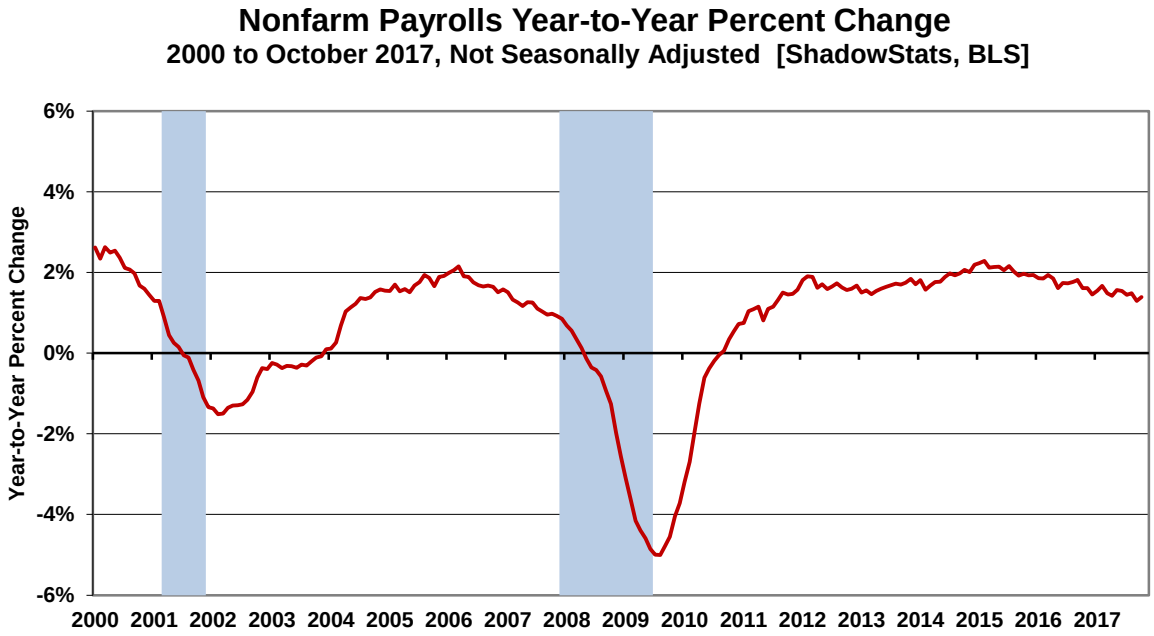
Graph 11: Nonfarm Payroll Employment 2000 to Date



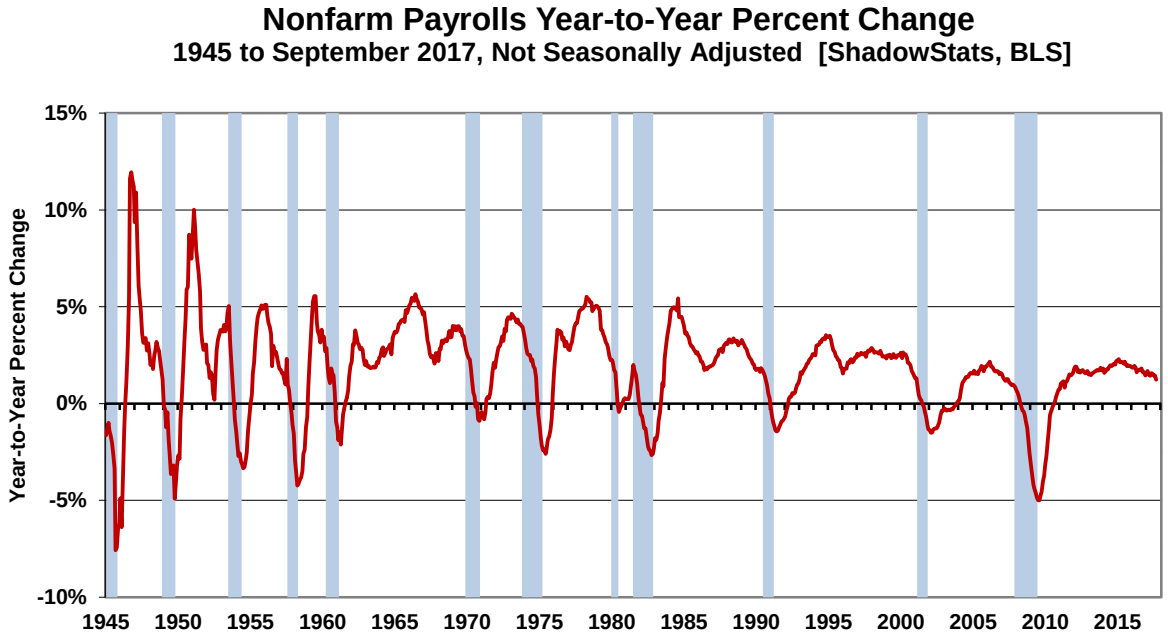
Graph 12: Nonfarm Payroll Employment 1945 to Date



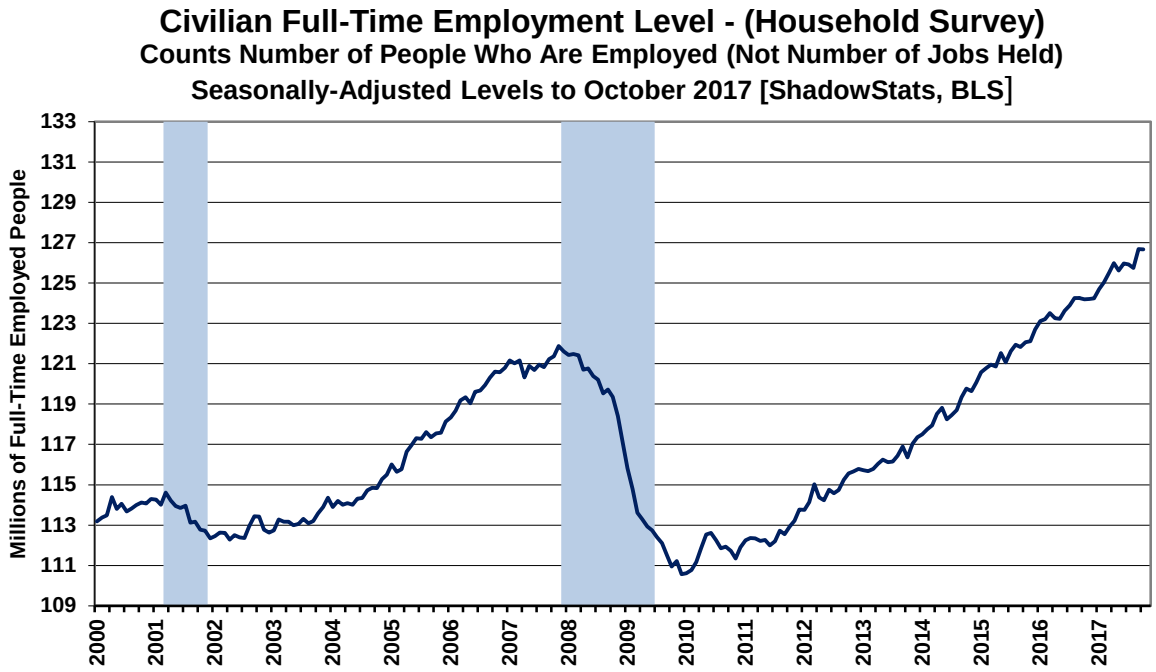
Graph 13: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



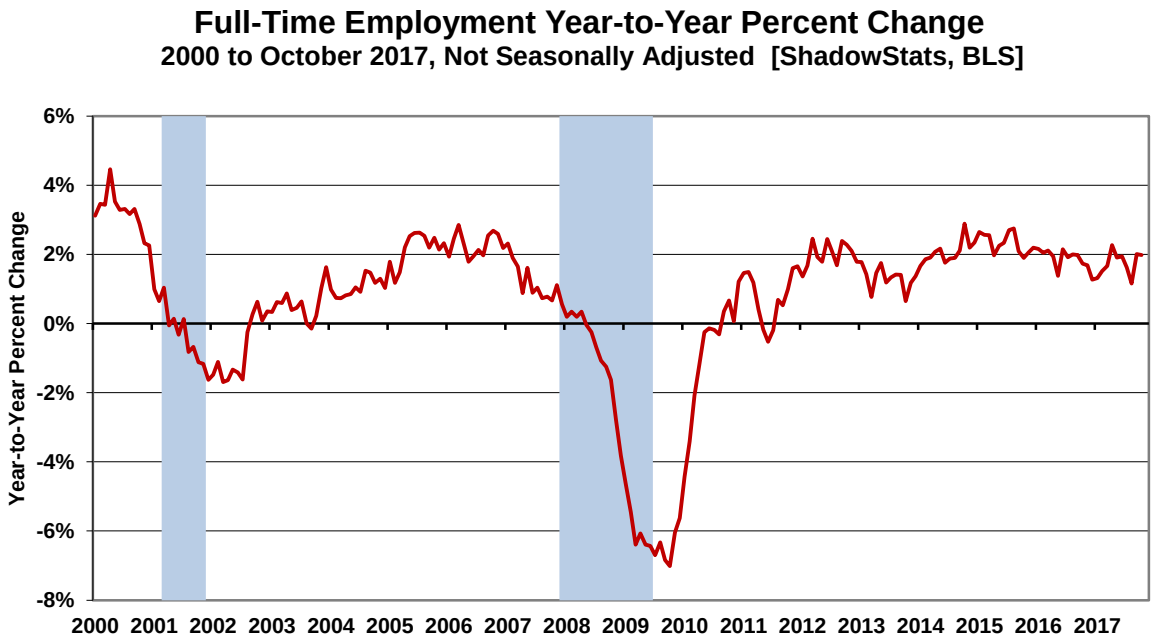
Graph 14: Payroll Employment, Year-to-Year Percent Change, 1945 to Date



Graph 15: Full-Time Employment (Household Survey) to Date (2000 to Date)



Graph 16: Full-Time Employment (Household), Year-to-Year Percent Change, 2000 to Date

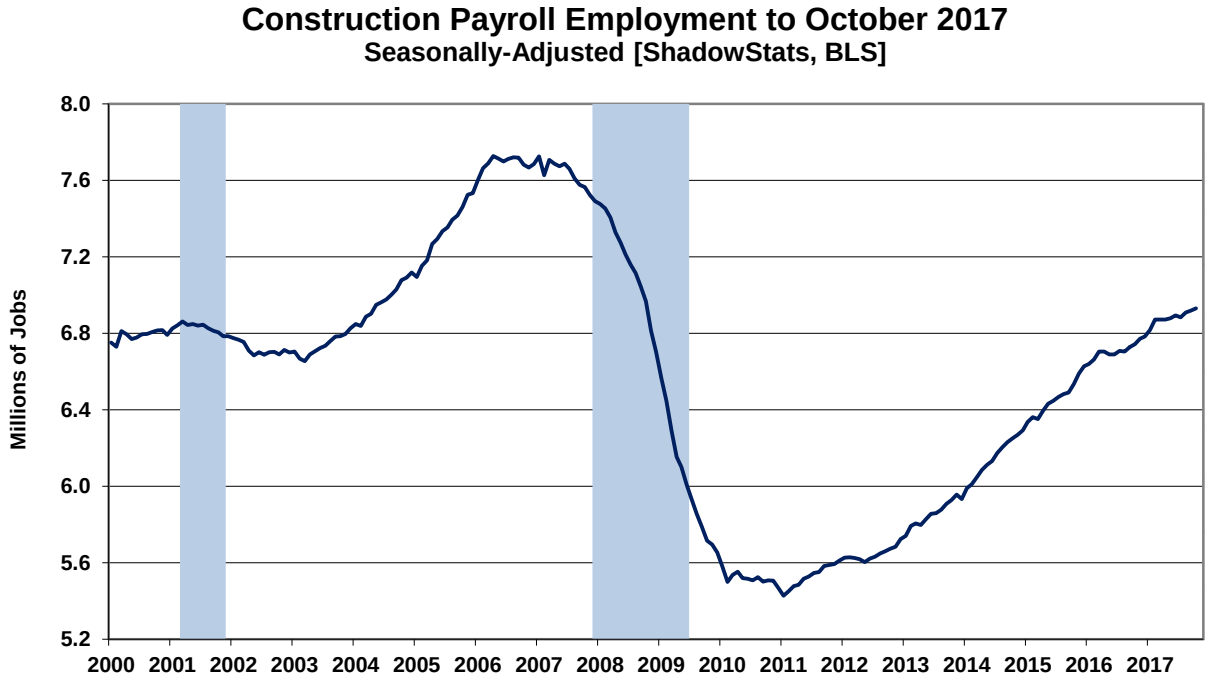


Unlike the Payroll Survey, which counts "employed" people with more than one job (such as part-time jobs) for each job counted, the Household Survey counts employed individuals only once, irrespective of the number of jobs held. Heavily distorted in recent headline Household Survey reporting, full-time employment declined by 23,000 [-23,000] in the month of October 2017, having gained a remarkable,

heavily-warped 935,000 jobs in September 2017, and having lost 166,000 (-166,000) jobs in August. Year-to-year change eased minimally to 1.98%, having jumped to 2.11% in September 2017 from 1.16% in August 2017. Those details are plotted in *Graphs 15* and *16*, with scales consistent with *Graphs 11* and *13* of nonfarm payrolls.

The final plot here updates Construction Payrolls in *Graph 17*, associated with the September 2017 Construction Spending detail discussed in prior *Commentary No. 919-A*. Construction payrolls rose to 6.930 million in October 2017, having revised higher to 6.919 [previously 6.911] million in September and to 6.908 [previously 6.903, initially 6.918] million in August. Headline October 2017 construction employment remained down by 9.1% (-9.1%) from recovering its pre-recession high.

Graph 17: Construction Employment (Payroll Survey), Year-to-Year Percent Change, 2000 to Date



[The Supplemental Labor-Detail Background Begins on the Next Page.]

SUPPLEMENTAL LABOR-DETAIL BACKGROUND

(I.) Headline Distortions from Shifting Concurrent Seasonal-Adjustment Factors
(II.) Payroll-Employment Monthly Bias Factors (Birth-Death Modeling)
(III.) ShadowStats Alternate-Unemployment Rate (Accounting for Displaced Workers)

(I.) Headline Distortions from Shifting Concurrent Seasonal-Adjustment Factors. There remain serious and deliberate flaws with the government's seasonally-adjusted, monthly reporting of both employment and unemployment (there are parallel issues with the Retail Sales, New Orders for Durable Goods and Trade Deficit series). 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, even when accompanying headline benchmark revisions. 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 in terms of statistical significance, 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 SLD-1* and *SLD-2*, 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 monthly instability likely is of similar magnitude. Shown here as an example 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 were consistent only for January and December. With the Household Survey, except for December, seasonally-adjusted monthly detail is not comparable with any other month, so seasonally-adjusted, month-to-month Household Survey comparisons have no meaning, even for the headline month.

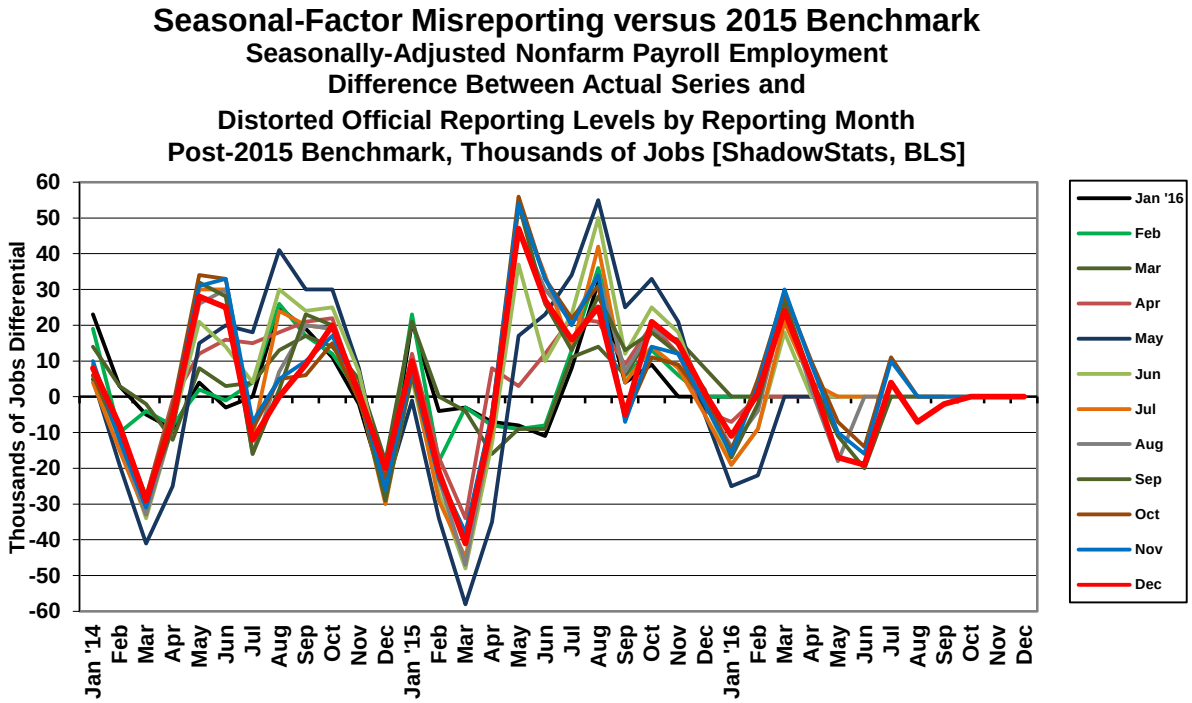
Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), again, the current monthly changes in the seasonally-adjusted headline data are comparable only with the prior month's month-to-month reporting, not before. Due to the BLS modeling process, the historical data never are published on a consistent basis, even with publication of the annual benchmark revision (see the comments with *Graphs SLD-1* and *SLD-2*).

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. 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 SLD-1*, 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 actual initial benchmarking. *Graph SLD-1* shows how far the system strayed from the initial 2016 benchmarking, in its formal benchmark reporting of January 2017.

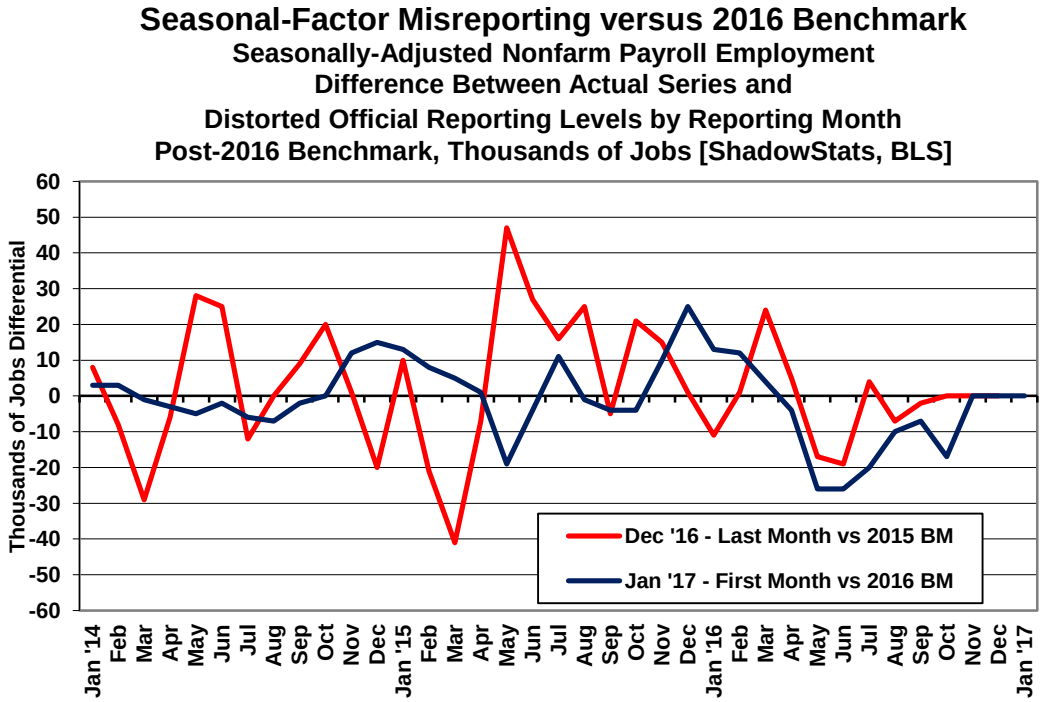
Where the red line reflected seasonal-factor straying through December 2016 from the 2015 benchmarking, the blue line indicates the straying in January 2017 versus the initial 2016 benchmarking. The January 2017 detail suggested a reversal of seasonal factors, consistent with the benchmarking detail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

As seen in the 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.

Graph SLD-1: Concurrent-Seasonal-Factor Irregularities – December 2016 Detail versus 2015 Benchmarking



Graph SLD-2: Concurrent-Seasonal-Factor Irregularities – January '17 Detail versus 2016 Benchmarking



(II.) Payroll-Employment Monthly Bias Factors (Birth-Death Modeling: BDM). Despite the ongoing, general overstatement of monthly payroll employment (see *Special Commentary No. 885*, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*), 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, 2012 and 2017 excepted), with the initial 2017 benchmark revisions to the upside by 95,000, as announced September 6th. Discussed in the *Opening Comments* of *Commentary No. 908-B*, formal prior-period revisions will be detailed in the February 2018 release of the headline January 2018 payroll employment.

As a separate matter, though, when formalized, downside revisions increasingly have been 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 for March 2016 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.

October 2017 Add-Factor Bias. The not-seasonally-adjusted add-factor upside bias was a revised 216,000 in October 207, versus a downside bias of 49,000 (-49,000) in September 2017 and an upside 103,000 in

August 2017 and against positive add-factor of 237,000 in October 2016 reporting. The revamped, aggregate upside annual bias for the trailing twelve months through October 2017 is estimated from current headline bias reporting at 914,000 up by 73,000 or 8.7% from 841,000 in the December 2016 pre-benchmarking level, and up 133,000 or 17.0% from 781,000 in December 2015, the year before. That is a monthly average of 76,167, in October 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. Private surveying runs counter to the BLS contentions.

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 76,167 jobs per month for the current year. As a result, in current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month (the underlying positive base-assumption upside bias, plus the monthly Birth-Death Model add-factor).

(III.) ShadowStats Alternate-Unemployment Rate (Accounting for Displaced Workers). 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 (John Williams) 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 incorporates the currently-defined and undercounted "discouraged workers" category used in the U.6 calculation, those not in the labor force currently wanting a job was an unadjusted 4.938 million in October 2017, versus 5.415 million in September 2017, 5.852 million in August 2017, 5.713 million in July 2017. Seasonally-adjusted the aggregate October 2017 number was 5.185 million, versus 5.628 million in September, 5.844 million in August 2017, 5.420 million in July 2017. The short-term swings in this number in the hurricane impacted months were discussed in the earlier.

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 *Reporting Detail*, 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 October 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 October 2017 was 21.6%, versus 21.9% in September, 22.2% in August, 22.1% in July, 22.1% in June, 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 October 2017 ShadowStats reading was down by 170 basis points or 1.7% (-1.7%) from the 23.3% series high last seen in December 2013.

In contrast, the October 2017 headline U.3 unemployment rate of 4.1% was down by 590 basis points or by 5.9% (-5.9%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 7.9% in October 2017, was down by 930 basis points or 9.3% (-9.3%) from its peak of 17.2% April 2010.

A subscriber raised the question as to why the ShadowStats Alternate Unemployment Estimate had been holding around 23%, at the time. 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*), there indeed is a noticeable divergence in the ShadowStats series versus U.6 and U.3, with the BLS headline U.3 unemployment measures broadly heading lower recently against a down-trending U.6 and a higher-level, relatively stagnant, but also down-trending ShadowStats number, which also declined in October.

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%.

[The* Consumer Liquidity Watch *begins on the next page.]

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM. *[The* CLW *has not been revised from its prior version in* Commentary No. 919-A *of November 3rd.]*

Liquidity Stresses Continue to Mount, Amidst Rising Optimism, Aggravated Temporarily by Natural Disasters. The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales of recent months (the headline September sales gains were spiked heavily by hurricane damages), home sales and related construction indicators, and ultimately as reflected in broader-based economic series such as Industrial Production. Where all of those measures face near-term, disaster-triggered reporting disruptions, liquidity stresses nonetheless have been intensified, at least temporarily, in hurricane-hit regions of the United States, where, for example, related September 2017 employment/ unemployment details were heavily disrupted/distorted (see *Commentary No. 915*) of October 6th.

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

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Not surprisingly, consumer optimism has begun to falter anew.

Including the various consumer income stresses discussed in *Special Commentary No. 888*, broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a turnaround in general economic activity—a post "Great Recession" expansion—and broadly are consistent with a "renewed" downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real

retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real (73.0% of nominal), second-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in *Commentary No. 907*.

Consumer Optimism: October Consumer Confidence and Sentiment Boom. This detail reflects the October 2017 readings of The Conference Board's Consumer-Confidence Index© (Confidence) of October 31st and the University of Michigan's Consumer Sentiment Index (Sentiment) of October 27th. Reflected in *Graphs CLW-1* and *CLW-2*, both Confidence and Sentiment jumped sharply to multi-year highs in October. A year ago in September 2016 jumped and then plunged in October 2016, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting a surge in consumer optimism into early-2017. Both series then topped and pulled, with some mixed rebound into August, with the numbers having turned lower in September 2017, but with the October 2017 Sentiment measure showing an large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*). The Conference Board blamed hurricane impact in Texas and Florida for the downturn in September 2017 Confidence, but those numbers also exploded in October 2017.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), again, both soared post-election, into early-2017, with Confidence booming into and topping in March and with sentiment booming into and topping in January 2017. The three-month moving averages in both series also had broken to pre-recession highs, with the Confidence hitting levels not seen since before the 2001 recession, yet the still-high moving averages also had begun to falter in September, the unusual October 2017 surges.

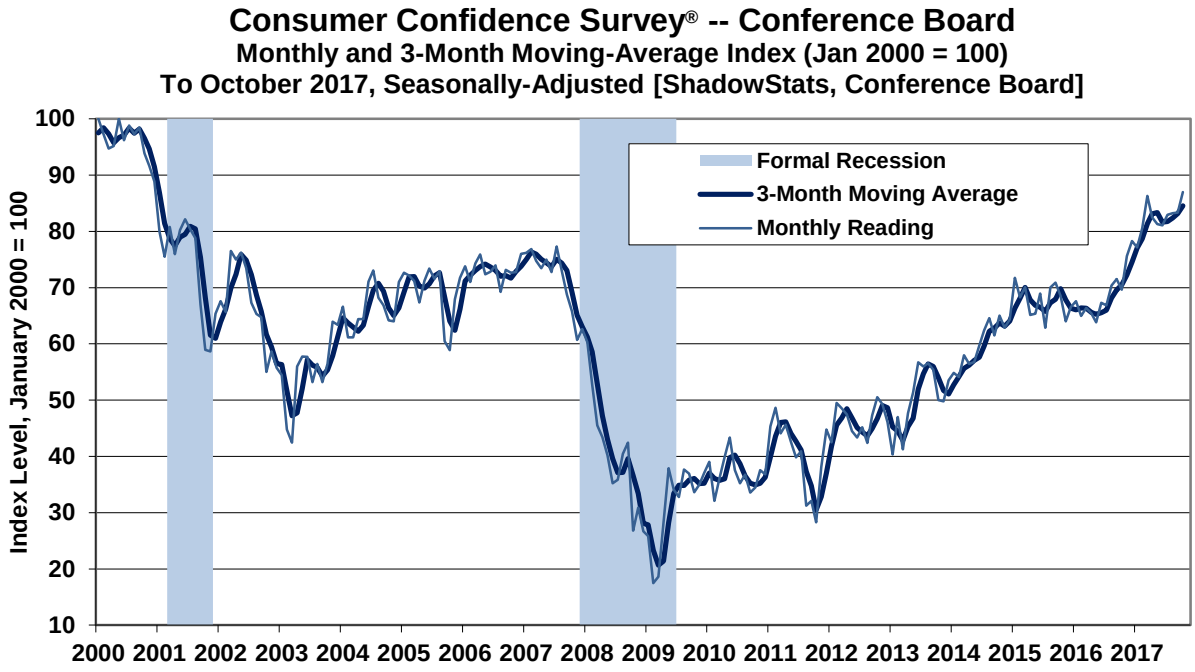
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With what should continue as increasingly-negative, unstable and uncertain headline financial and economic reporting in the months ahead—beyond the early change-in-government euphoria—continued, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the near future, despite the headline-spiked October 2017, which likely were built upon some temporary, hurricane-boosted employment gains from the household survey.

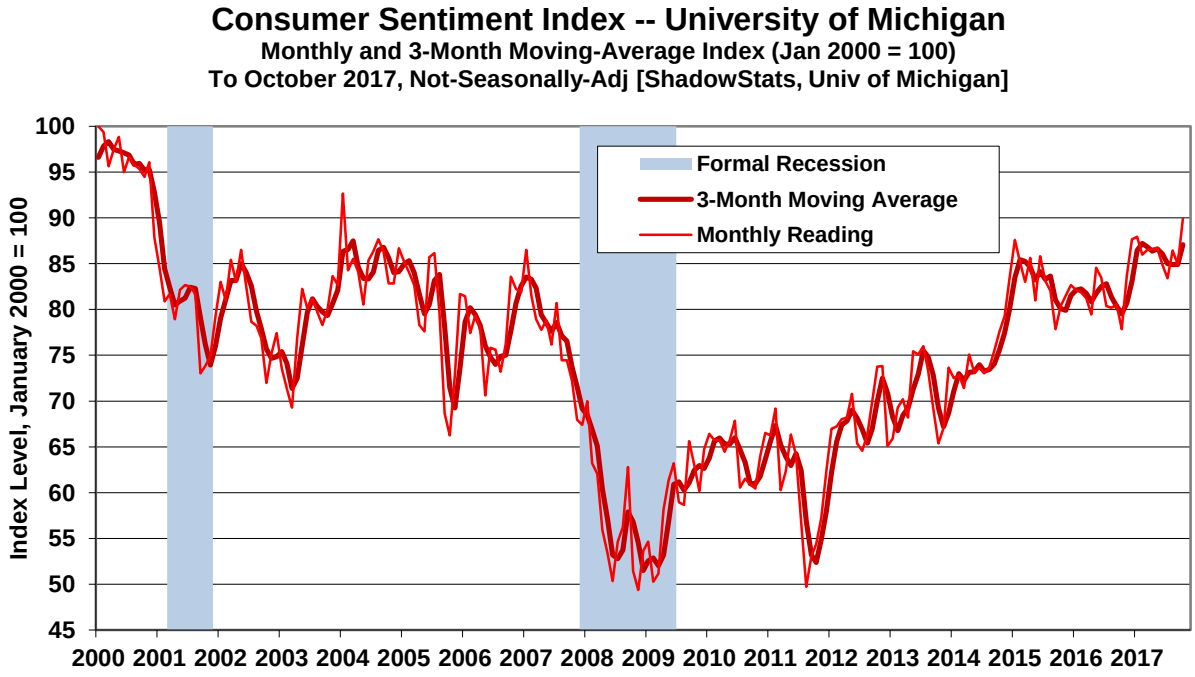
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having

happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

Graph CLW-1: Consumer Confidence (2000 to 2017)



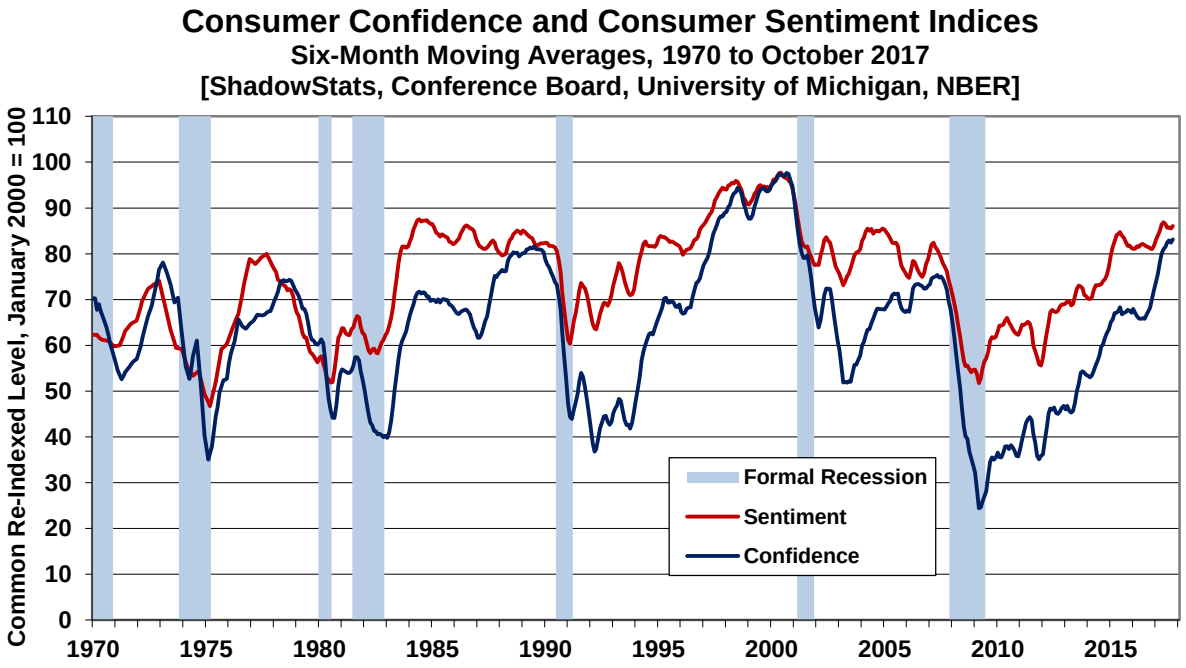
Graph CLW-2: Consumer Sentiment (2000 to 2017)



Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last

47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)

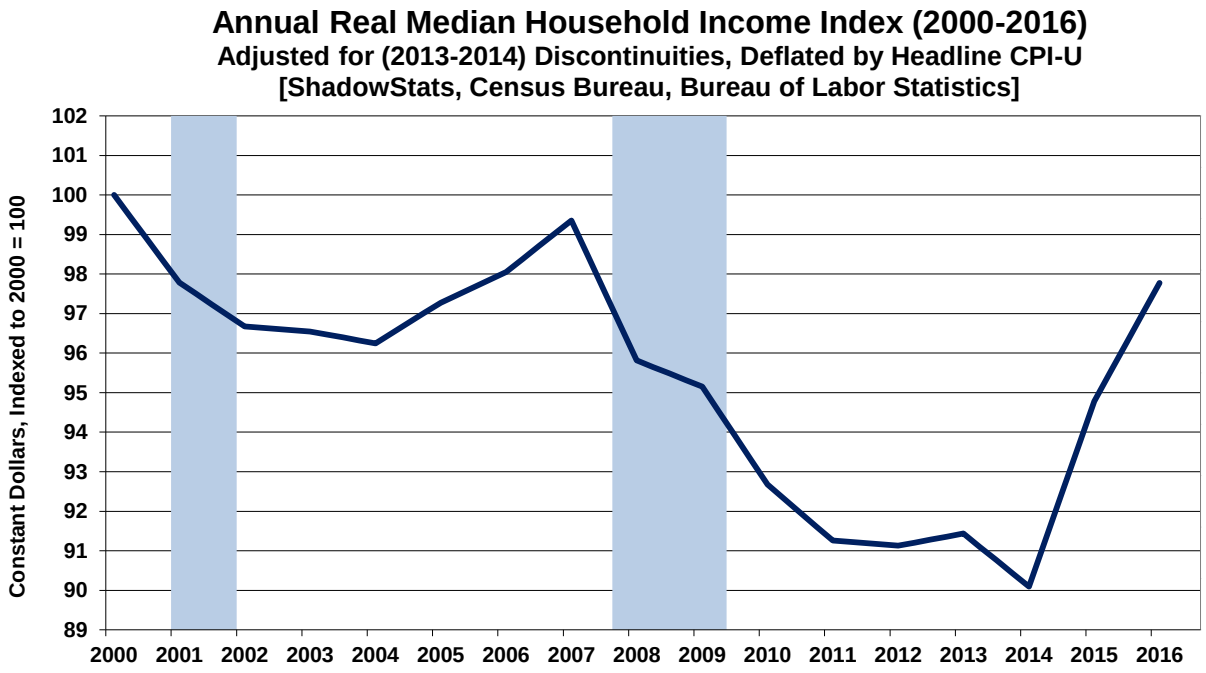


2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*. The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity see in the mid-1970s (see *Graph OC-1* in *No. 909*). The Sentier details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

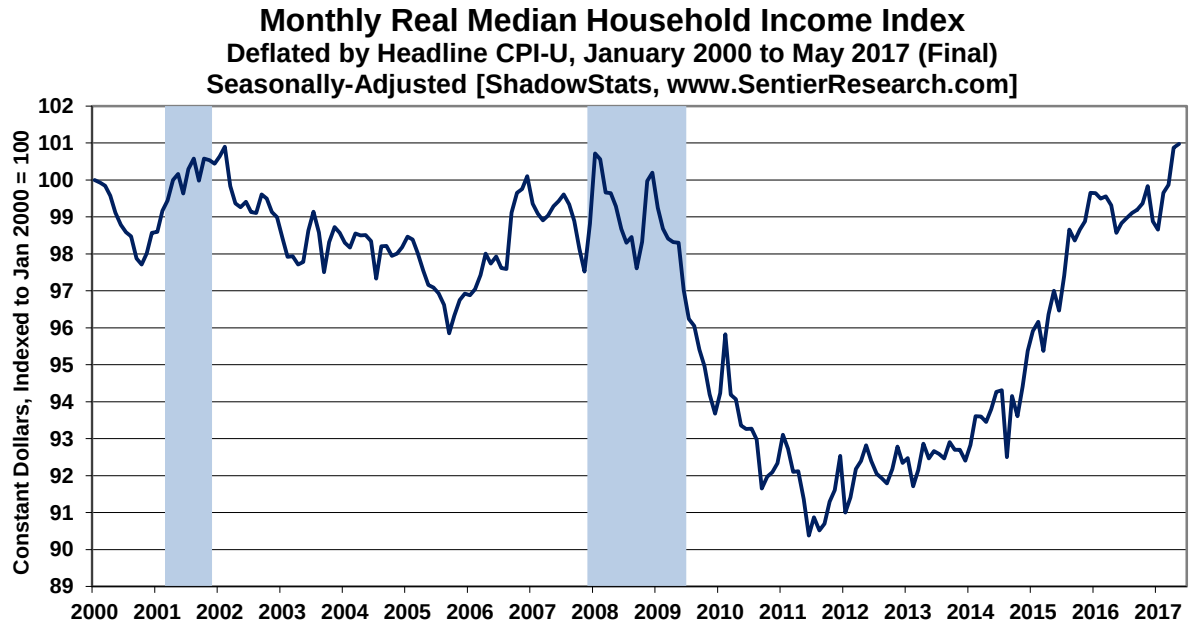
Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in *General Commentary No. 894*, and in the contexts of then-faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-4*, such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017

(see *Graph CLW-5*). The May detail, however, may have been the final reporting of the monthly series (see the *Special Note* that follows).

Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)

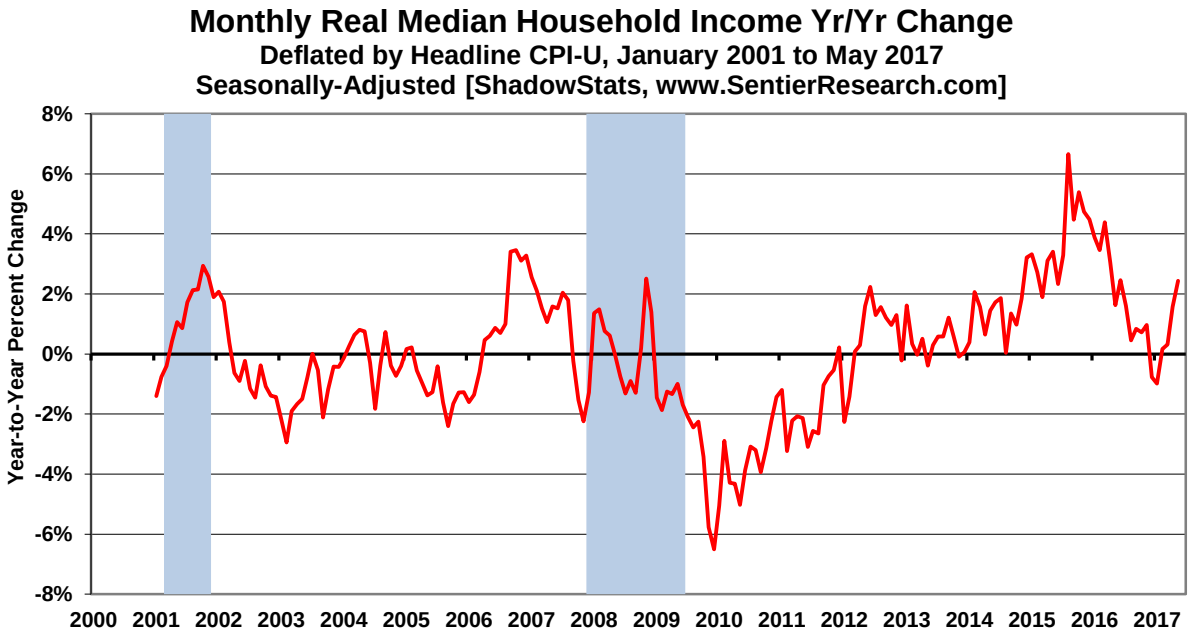


Graph CLW-5: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100



Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

Graph CLW-6: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of *Commentary No. 909*) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

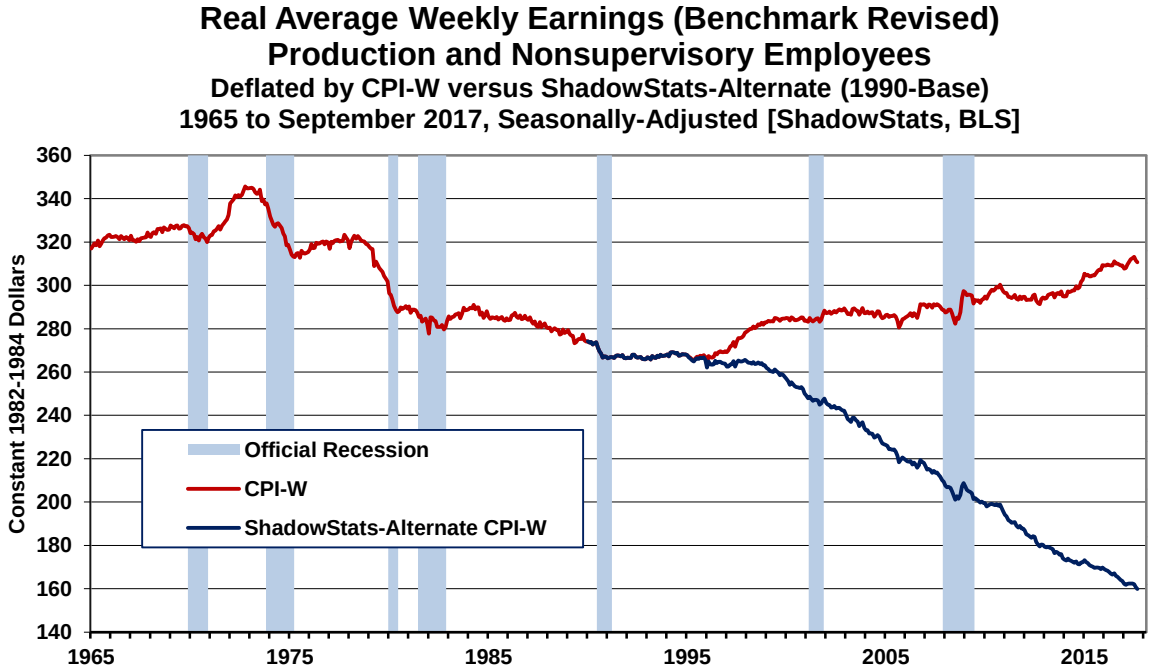
Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

***Special Note*:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

> Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see *Commentary No. 833* for the 2015 detail published in 2016.

Graph CLW-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date

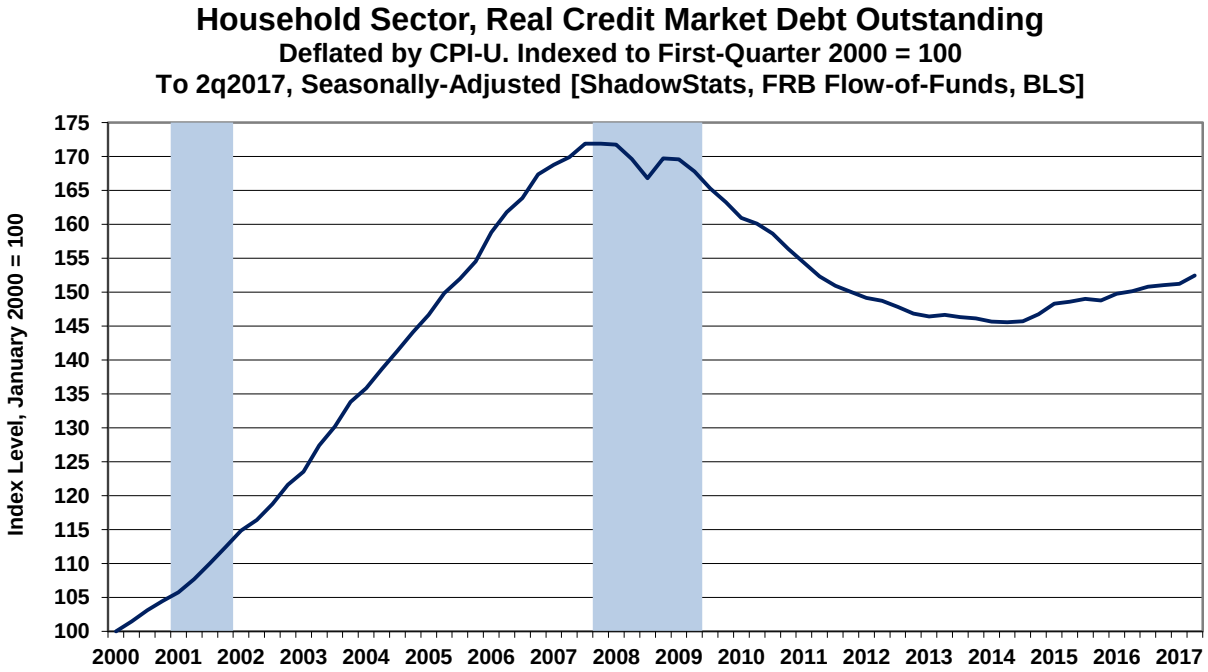


Real Average Weekly Earnings—September 2007—Month-to-Month Real Earnings Declined Again with Third-Quarter Showing Flat/Minimal Contraction . For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on page 23 in *Commentary No. 916*), the regularly-volatile real average weekly earnings fell month-to-month in September with a small quarterly contraction in third-quarter 2017 activity.

Graph CLW-7 plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s (see today's *Opening Comments*), and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Graph CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Second-Quarter 2017)



Consider *Graph CLW-8* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through second-quarter 2017, released on September 21st. Household Sector, Real Credit Market Debt Outstanding in second-quarter 2017 still was down by 11.3% (-11.3%) from its pre-recession peak of third-quarter 2007. That was against an initial first-quarter 2017 decline of 11.5% (-11.5%), recently revised to 11.3% (-11.3%). The visual uptick in the latest point in *Graph CLW-8* resulted from a lowered estimate of first-quarter activity (consumer credit revised lower by more than the upside revision mortgages), with the headline second-quarter inflation-adjusted level of activity boosted by a relatively-rare, annualized quarterly contraction in the seasonally-adjusted second-quarter CPI-U.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016. Current activity also has reflected continued relative strength from student loans, as shown in the *Graphs CLW-9* to *CLW-11*.

The ShadowStats analysis usually focuses on the particular current weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following graphs are so plotted.

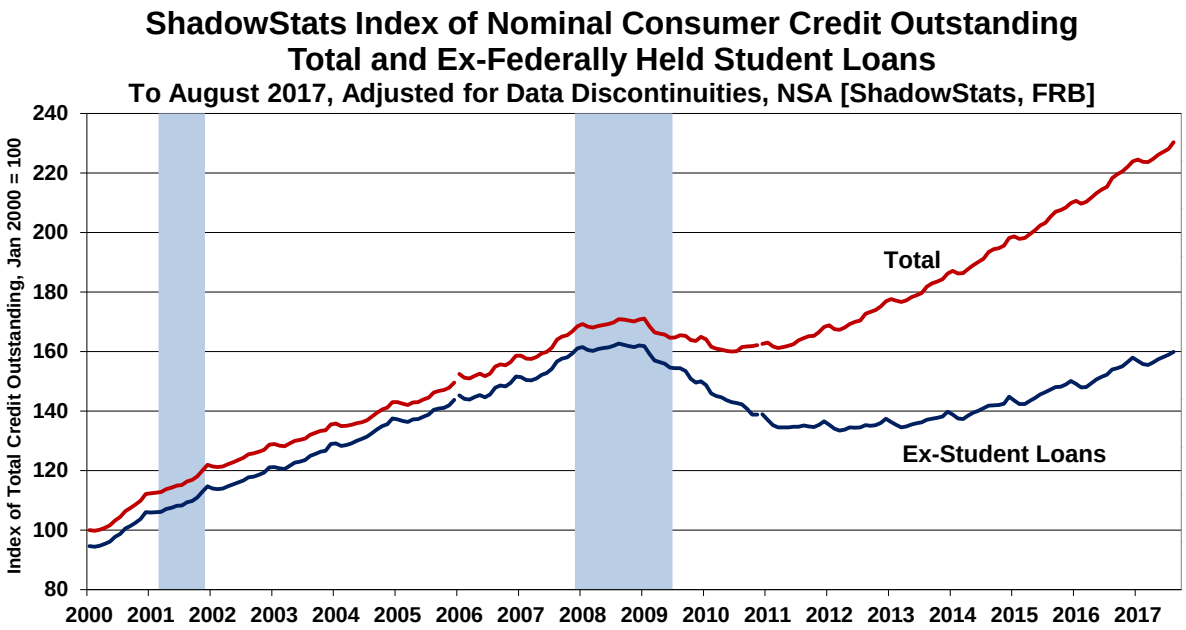
Shown through the August 2017 reporting, *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CLW-10) and year-to-year change (*Graph CLW-11*).

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

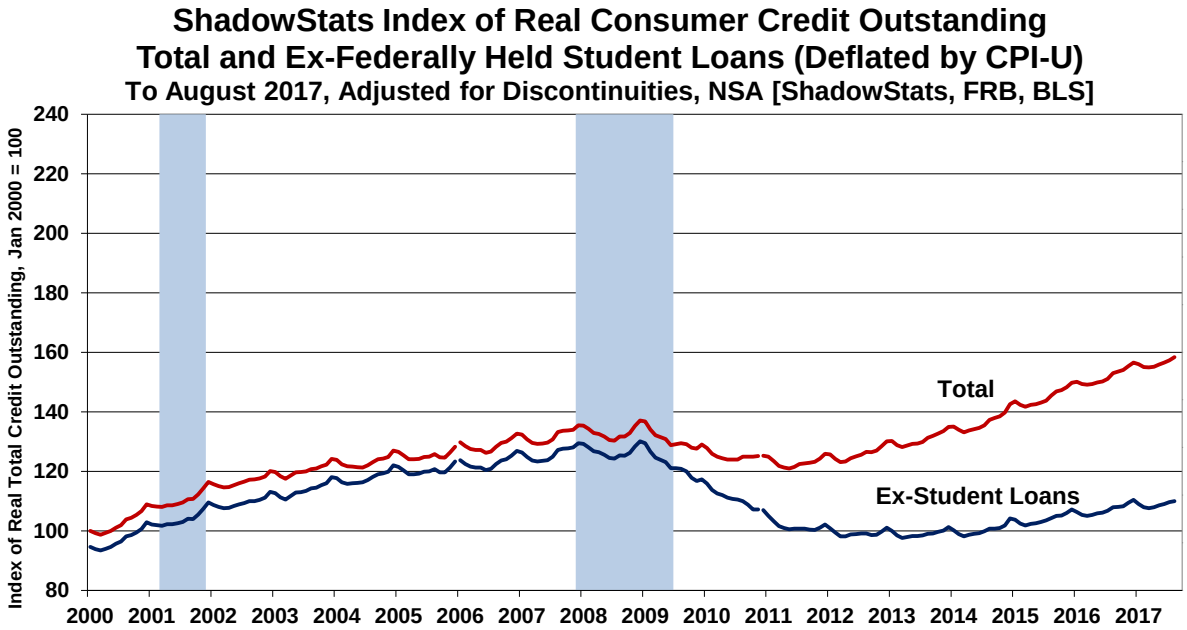
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in August 2017 was down from its December 2007 pre-recession peak by 15.1% (-15.1%) [that previously had been down by 12.3% (-12.3%) in June 2017, before a recent downside revision to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

[Graphs CLW-9 to CLW-11 begin on the next page.]

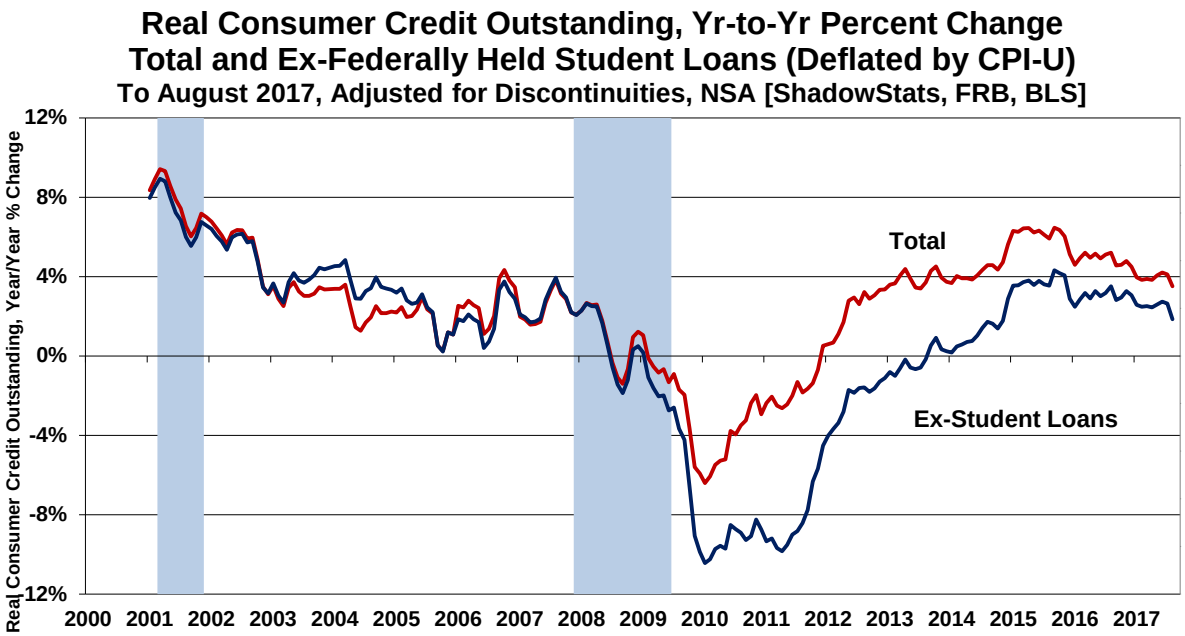
Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CLW-10: Real Consumer Credit Outstanding (2000 to 2017)



Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



Real Consumer Credit Outstanding, Yr-to-Yr Percent Change
Total and Ex-Federally Held Student Loans (Deflated by CPI-U)
To August 2017, Adjusted for Discontinuities, NSA [ShadowStats, FRB, BLS]

WEEK, MONTH AND YEAR AHEAD

Deteriorating Domestic and Global Political Circumstances Continue: Other than for Any Brief Respites from Short-Lived Hurricane Boosts, Economic Reporting Should Continue in Downtrend. Irrespective of continued nonsense reporting of the GDP, and net of near-term hurricane disruptions to headline activity, both positive and negative, the economy, broadly, is deteriorating anew, rapidly. The financial markets remain at extraordinarily-high risk of panicked declines. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving purchasing power of one's assets, in the context of liquidity and portability.

Hyperinflation Watch in *Special Commentary No. 918-B* of October 30th speaks for itself, with a major review looming in the context of the nomination for the new Fed Chairman now being in place, touched upon in the *Hyperinflation Watch* *Commentary No. 919-A* of November 3rd. Other than for the *Pending Releases* paragraphs language changes from *No. 919-A* are nil. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

The *Hyperinflation Watch* of *Commentary No. 909* also speaks for itself. Given the continuing and broadening weakness in the U.S. economy and shifting political instabilities/circumstances in Washington, mixed pronouncements of sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely to solidify as promised. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace.

In the context of the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904* and the *Opening Comments* of *Commentary No. 905*, underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters.

Unfolding circumstances still threaten the promised shift in FOMC policy, combined with the mounting political discord discussed in *Special Commentary No. 904* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never recovered fully from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of *Commentary No. 899* and *General Commentary No. 894*, and further to the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting during June, July and early August of 2017, had shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include 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. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued 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 continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Generally, 2017 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*), and reporting subsequent to the benchmarks, confirmed that historical activity in recent years has been overstated and/or that it was turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite some recent near-term improvement in details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series 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 an otherwise unconfirmed economic expansion of 13.6%.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but still 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. Increasing and continuing 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 they cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will intensify well before the 2018 Congressional Election will have any chance to stabilize the political outlook for economic policy.

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 not 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: *Commentary No. 902-B*, *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 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. *[Listed here are* Commentaries *of the last month, plus recent* Special Commentaries *and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 919-A (November 3rd) provided initial detail and background on October labor data, and reviewed the October 2017 Conference Board Help Wanted OnLine® Advertising, the September Cass Freight Index™, Trade Deficit and Construction Spending, and updated Monetary Conditions.

Special Commentary No. 918-B (October 30th) provided a more comprehensive review of the initial third-quarter 2017 GDP detail, along with update versions of the *Hyperinflation Watch* and *Consumer Liquidity Watch*.

Advance Commentary No. 918-A (October 27th) provided a brief summary of the headline detail of the first or "advance" estimate of third-quarter 2017 GDP.

Commentary No. 917 (October 26th/27th) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

Commentary No. 916 (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

Commentary No. 915 (October 6th) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

Commentary No. 914 (October 5th) reviewed the August 2017 Trade Deficit and Construction Spending, along with September 2017 detail on the The Conference Board Help Wanted OnLine® Advertising for August 2017, in the context of disruptions from hurricanes.

Commentary No. 913 (September 28th) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

Commentary No. 912 (September 27th) reviewed likely impact on economic reporting from the so-far, highly destructive hurricane season. Headline details of August New- and Existing-Home Sales and New Orders for Durable Goods were covered.

Commentary No. 911 (September 19th) covered detail on August New Residential Construction, including monthly Building Permits and Housing starts, and the August Cass Freight Index™.

Commentary No. 910 (September 15th) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14th) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an updated *Alert* on the financial markets

Commentary No. 908-B (September 6th) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

Advance Commentary No. 908-A (September 1st) provided summary coverage of the headline reporting on August 2017 Labor and Monetary conditions and July 2017 Construction Spending.

Special Commentary No. 904 (August 14th) issued an "Alert" on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident "advance" estimate of second-quarter 2017 GDP.

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™.

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. 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.

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.

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. 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 New- and Existing-Home Sales.

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™.

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.

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 (October 2017) The Bureau of Labor Statistics (BLS) will release the October 2017 PPI on Tuesday, November 14th, with detail covered in *Commentary No. 920* of Wednesday, November 15th. Odds favor relatively flat-to-minus wholesale inflation on the goods side of the reporting, reflecting a combination of mixed wholesale oil and gasoline prices in October, with a minimally-positive seasonal-factor boost common at this time of year.

The dominant services sector, however, often provides some counter-move to the hard-inflation estimate on the goods side. Such comes particularly 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. 916*, where, again, the services component could offset some of the weakness in the headline goods inflation.

Per the Department of Energy, unadjusted crude oil prices increased in October 2017, while wholesale gasoline prices declined. Based on the two most-widely-followed oil contracts, monthly-average oil prices rose by 1.8% (Brent) and 3.0% (WTI). That was accompanied by declines in unadjusted, monthly-average wholesale gasoline prices by 8.7% (-8.7%) (NY Harbor) and 6.7% (-6.7%) (Gulf Coast). Where PPI seasonal adjustments for energy costs in October are minimally positive, relatively-neutral petroleum-related monthly price changes, again should temper headline changes in the month-to-month adjusted Final Demand Goods component of the PPI.

Consumer Price Index—CPI (October 2017). The Bureau of Labor Statistics (BLS) will release the October 2017 CPI on Wednesday, November 15th, which will be covered in *Commentary No. 920* of that date. The headline October CPI-U likely will be minimally on the plus side, perhaps 0.1%, plus-or-minus, in the context of a month-to-month decline in unadjusted gasoline prices, which likely will remain

minimally negative, even after positive, monthly seasonal adjustments. Headline, unadjusted year-to-year annual inflation for October 2017 should ease to about 2.0%, versus the 2.2% seen in September 2017 reporting.

Negative Monthly Inflation Impact from Falling Gasoline Prices Only Muted by Positive Seasonal Adjustments. After jumping by a hurricane-induced, unadjusted 10.7% in September 2017, average monthly gasoline prices retreated by 5.1% (-5.1%) in October 2017. Where BLS seasonal adjustments to gasoline prices in October are to the upside, the implied adjusted gasoline price change still suggested a negative contribution to the adjusted monthly CPI-U inflation of 0.07% (-0.07%). Likely boosted by higher food and "core" (net of food and energy) inflation, the headline CPI-U reading could come in around 0.1% in October 2017.

***Annual Inflation Rate*.** Noted in *Commentary No. 916*, year-to-year CPI-U inflation would increase or decrease in October 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.29% in October 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 October 2017, the difference in October's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the September 2017 annual inflation rate of 2.23%. Given an early guess of a seasonally-adjusted, relatively-flat 0.1% monthly gain, plus-or minus, for October 2017 CPI-U, that would leave the annual CPI-U inflation rate for October holding at about 2.0%, plus-or-minus.

Retail Sales—Nominal and Real (October 2017). The Census Bureau will release its "advance" estimate of October 2017 nominal (not-adjusted-for-inflation) Retail Sales on Wednesday, November 15th, coincident with the BLS's release of the October CPI. Accordingly, the detail on both the nominal and real (adjusted-for-inflation) Retail Sales will be discussed in *Commentary No. 920* of that date. Whatever is reported in terms of nominal growth likely will be close to the inflation-adjusted real rate, where the headline CPI-U in October likely was close to "unchanged" (see preceding CPI discussion).

Headline September volatility reflected a surge in automobile sales, replacing autos destroyed in hurricane flooding and other destruction in August and September. There are some indications of continued replacement sales boosting headline October activity. Separately, mixed impacts likely will be seen with a return to relative stability in normal retail commerce, along with increased purchases of building materials for repairs.

Beyond lingering hurricane disruptions, per the *Consumer Liquidity Watch*, 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 still remains unable to sustain growth in regular, broad economic activity, including personal-consumption expenditures and retail sales, real or otherwise. Those liquidity circumstances have been exacerbated, temporarily, by hurricane disruptions.

Index of Industrial Production (October 2017). The Federal Reserve Board will publish its estimate of October 2017 Industrial Production on Thursday, November 16th, with coverage in *Commentary No. 921* of November 17th. While there may be some production boosts for replacement automobiles and other goods destroyed in the hurricanes, as well as from some recovered petroleum production and processing,

basic trends should remain to the downside in the months ahead, with continuing non-recovery in the manufacturing sector. Nonetheless, consensus expectations likely will be on the upside for October production, tied to the areas just mentioned.

New Residential Construction—Housing Starts, Building Permits (October 2017). The Census Bureau will release the October 2017 estimate of New Residential Construction, including Housing Starts and Building Permits on Friday, November 17th, with detail covered in *Commentary No. 921* of that date.

In line with common-reporting experience of recent years, monthly results are likely to be unstable, heavily revised and not statistically meaningful, holding in a general pattern of down-trending stagnation, as seen increasingly in recent months (see *Commentary No. 911*). That said, in the wake of frequent, although irregular extreme monthly swings, almost anything remains possible in this unstable series in a given month, despite what usually are positive, consensus expectations for the headline detail.

Irrespective of the usual lack of significance in the headline numbers, the broad pattern of Housing Starts should remain consistent with the low-level, stagnant-to-downtrending activity, seen at present. Both Housing Starts and Building Permits showed patterns of deepening quarter-to-quarter contractions for first-, second- and third-quarter 2017 activity, with respective headline September activity down by 48.1% (-48.1%) and by 42.6% (-42.6%) from recovering pre-recession highs. Such low-level stagnation is particularly evident with headline detail viewed in the context of a six-month moving average. Again, these series remains subject to regular and extremely-large, prior-period revisions.

Discussed in today's *Consumer Liquidity Watch*, 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 demand for residential construction, other than for some likely insurance-funded activity replacing hurricane-destroyed structures.

