

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

ADVANCE COMMENTARY NUMBER 930-A

December Labor, Private Surveying and M3, November Trade Deficit and Construction Spending
January 5, 2018

**Annual Household Survey Revisions Were Negligible for Headline U.3, but
Not as Placid for Broader Unemployment and Other Measures**

**December 2017 Unemployment Rates Were Mixed Month-to-Month:
U.3 Eased to 4.07% from 4.12%, U.6 Rose to 8.08% from 7.99%, and the
ShadowStats-Alternate Held at 21.7%**

Low-Level Annual Payroll Growth Continued to Signal a New Recession

**Private Surveying of December Labor Conditions Showed Monthly Gains, but with
Annual Contraction/No Growth and Ongoing Non-Expansion**

**Trade Deficit Widened Month-to-Month and Year-to-Year with the
Fourth-Quarter 2017 Real Merchandise Trade Deficit Still on Solid Track for
Worst Showing Since First-Quarter 2007**

**Despite a November Gain on Top of Upside Revisions, Real Construction Spending
Continued in Annual Decline, as Last Seen During the 2006 Housing Collapse,
Still Shy of Recovering Its Pre-Recession Peak by 21.4% (-21.4%)**

**December 2017 M3 Annual Growth Jumped Back to a Two-Year High of 4.8%, as
Monetary-Base Annual Growth Jumped to a Three-Year High of 9.3%**

PLEASE NOTE: The next Regular Commentary on Monday, January 8th will expand upon today's (January 5th) brief summary coverage of the December labor numbers and the November construction spending and trade deficit, to be followed on Friday, January 12, 2018, with a Commentary reviewing the December 2017 Consumer and Producer Price Indices (CPI and PPI) and Retail Sales.

Best wishes — John Williams (707) 763-5786

SUMMARY AND GENERAL ECONOMIC REVIEW

Despite Negligible Benchmark Revisions to U.3 Unemployment, Its Gimmicked, Headline December Reading of 4.1% Remained Well Removed from Full-Employment Conditions. This missive provides a short summary of the latest economic reporting, all of which will be expanded upon in the full *Commentary No. 930-B*, planned for Monday, January 5th. Given ongoing ShadowStats analysis of today's (January 5th) headline labor detail and related annual benchmark revisions by the Bureau of Labor Statistics (BLS) to the Household Survey data, what follows is a partial and preliminary summary of the new labor numbers.

Commentary No. 930-B specifically will cover and review the latest employment and unemployment conditions, in the context of the current headline reporting of the November Trade Deficit, Construction Spending and The Conference Board Help-Wanted Online Advertising® (HWOL), where those series all continue to signal ongoing, economic non-expansion and renewed downturn or “new” recession, despite the low-level, headline U.3 unemployment rate of 4.1%. It also will include a full update of monetary conditions, where annual growth in the ShadowStats Ongoing M3 Measure continued to rise as headlined above, along with a continued spike to annual growth in the Monetary Base.

Labor Data: Benchmarked Unemployment Numbers. The revisions to the seasonally-adjusted, headline U.3 unemployment rate, the broader U.6 unemployment rate, which includes those working part-time for economic reasons (they would like to gain, but cannot find, full-time employment) plus those marginally-attached to the labor force (including short-term discouraged workers who have given up looking for work in the last year because there are no jobs to be had) are shown in *Table 1*. Also revised is in that table is the ShadowStats Alternate Unemployment Rate, which is built upon U.6 (where discouraged workers are dropped after one year) plus estimates of the still-discouraged and displaced workers not accounted for in the government's numbers.

Seen in *Table 1*, unlike some changes seen in the broader U.6 measure and Full Employment data (to be discussed Monday), the “revisions” to the U.3 unemployment rates all were in the context of rounding only higher or lower to the next, first decimal point by an amount of less than 0.01%. That is not credible in this otherwise unstable series, particularly with the last several months of extreme distortions from a severe Atlantic Hurricane Season. The revisions were only to the seasonally-adjusted series and went

back for five years, from January 2013 to November 2017. Where the table shows just the last two years, revised data have been posted for the full five years to the Alternate Data tab on www.ShadowStats.com.

Table-1: December 2017 Annual Household Survey Revisions – Unemployment Rates

December 2017 Annual Revisions to the Headline Unemployment Rates										
Revisions Were Made Back to January 2013 (New Detail Posted in the Alternate Data Tab at ShadowStats.com)										
Month	U.3 Unemployment				U.6 Unemployment				ShadowStats Unemployment	
	1st-Decimal Point		2nd-Decimal Point		1st-Decimal Point		2nd-Decimal Point			
	New	Old	New	Old	New	Old	New	Old	New	Old
Jan '16	4.9%	4.9%	4.93%	4.94%	9.9%	9.9%	9.88%	9.94%	22.9%	23.0%
Feb	4.9%	4.9%	4.92%	4.94%	9.7%	9.7%	9.73%	9.75%	22.8%	22.8%
Mar	5.0%	5.0%	5.04%	5.01%	9.8%	9.8%	9.84%	9.82%	22.9%	22.9%
Apr	5.0%	5.0%	5.00%	4.98%	9.8%	9.7%	9.76%	9.71%	23.0%	22.9%
May	4.7%	4.7%	4.71%	4.70%	9.8%	9.7%	9.78%	9.72%	23.0%	23.0%
Jun	4.9%	4.9%	4.91%	4.91%	9.5%	9.6%	9.54%	9.58%	22.9%	22.9%
Jul	4.9%	4.9%	4.85%	4.86%	9.7%	9.7%	9.66%	9.70%	23.0%	23.0%
Aug	4.9%	4.9%	4.91%	4.92%	9.6%	9.7%	9.62%	9.67%	22.9%	23.0%
Sep	5.0%	4.9%	4.96%	4.95%	9.7%	9.7%	9.69%	9.66%	23.0%	23.0%
Oct	4.9%	4.8%	4.86%	4.85%	9.6%	9.5%	9.55%	9.48%	23.0%	22.9%
Nov	4.7%	4.6%	4.65%	4.65%	9.3%	9.3%	9.33%	9.29%	22.8%	22.8%
Dec	4.7%	4.7%	4.70%	4.72%	9.1%	9.2%	9.13%	9.18%	22.7%	22.7%
Jan '17	4.8%	4.8%	4.78%	4.78%	9.4%	9.4%	9.39%	9.43%	22.9%	22.9%
Feb	4.7%	4.7%	4.68%	4.70%	9.2%	9.2%	9.20%	9.24%	22.7%	22.7%
Mar	4.5%	4.5%	4.48%	4.50%	8.8%	8.9%	8.82%	8.87%	22.4%	22.5%
Apr	4.4%	4.4%	4.38%	4.40%	8.6%	8.6%	8.57%	8.57%	22.1%	22.1%
May	4.3%	4.3%	4.28%	4.29%	8.4%	8.4%	8.42%	8.41%	22.0%	22.0%
Jun	4.3%	4.4%	4.35%	4.36%	8.5%	8.6%	8.54%	8.59%	22.0%	22.1%
Jul	4.3%	4.3%	4.33%	4.35%	8.5%	8.6%	8.53%	8.57%	22.1%	22.1%
Aug	4.4%	4.4%	4.44%	4.44%	8.6%	8.6%	8.56%	8.60%	22.2%	22.2%
Sep	4.2%	4.2%	4.20%	4.22%	8.3%	8.3%	8.29%	8.29%	21.9%	21.9%
Oct	4.1%	4.1%	4.07%	4.07%	8.0%	7.9%	7.99%	7.91%	21.7%	21.6%
Nov	4.1%	4.1%	4.12%	4.12%	8.0%	8.0%	7.99%	7.96%	21.7%	21.7%
Dec	4.1%	n.a.	4.09%	n.a.	8.1%	n.a.	8.08%	n.a.	21.7%	n.a.

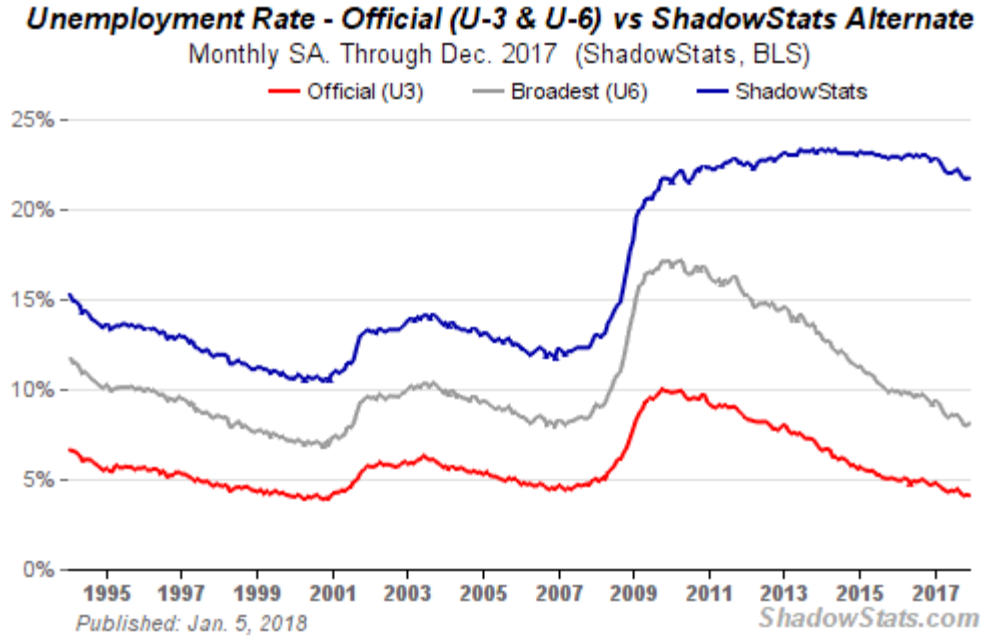
Sources: ShadowStats.com, Bureau of Labor Statistics. Changes in the first-decimal point headline version are highlighted in yellow.

Plotted in *Graph 1* at the second decimal, but shown in the *Table 1* also at the headline first decimal point, the seasonally-adjusted U.3 unemployment rate held even at 4.1% in December 2017, U.6 rose to 8.1% in December from 8.0% in November and the ShadowStats Alternate unemployment rate held even in December at 21.7%.

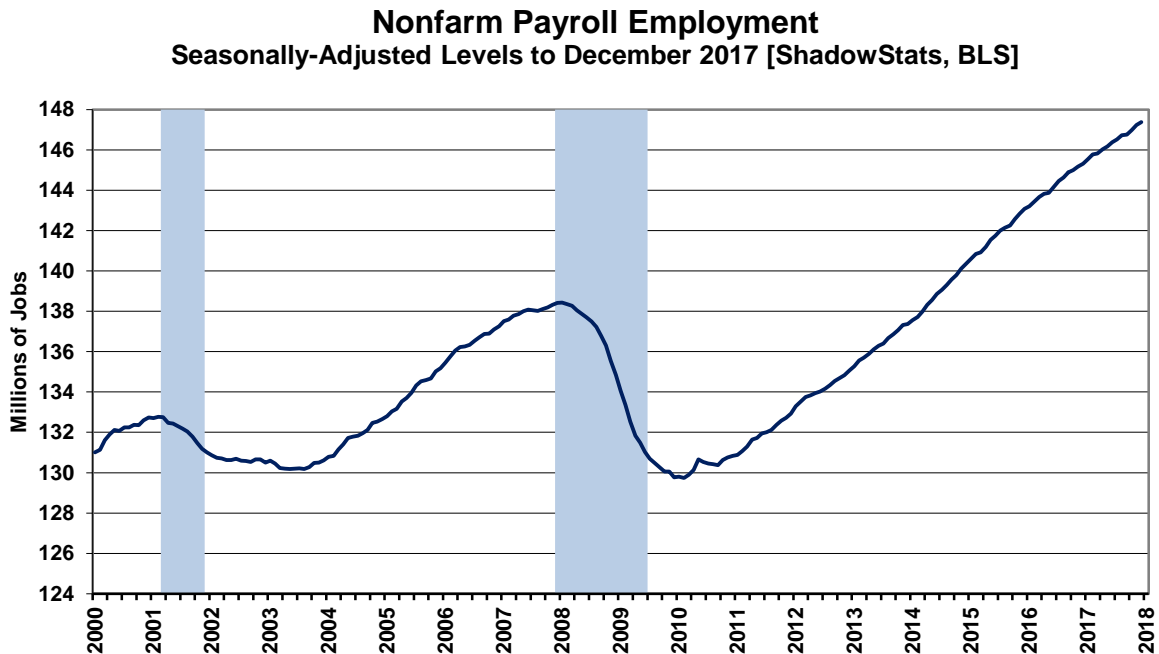
As will be discussed in *930-B*, the broader measures of the health of employment conditions, the labor-force (employment plus unemployment) as a percent of the working age population, known as the “Participation Rate,” and the Employment-Population Ratio, also with minor revisions, were unchanged

at the first decimal point in December 2017, versus November, respectively at 62.7% and 60.1%. Those low levels are common to severe recession, not to full-employment.

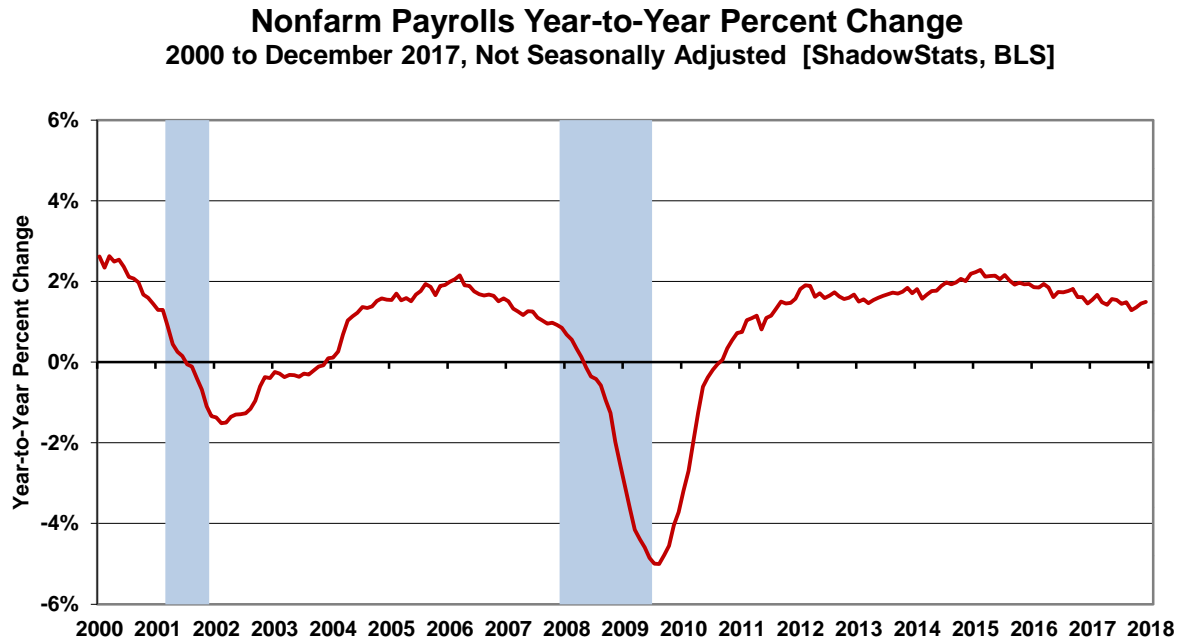
Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats (Benchmark Revised)



Graph 2: Nonfarm Payroll Employment 2000 to Date



Graph 3: Payroll Employment, Year-to-Year Percent Change, 2000 to Date

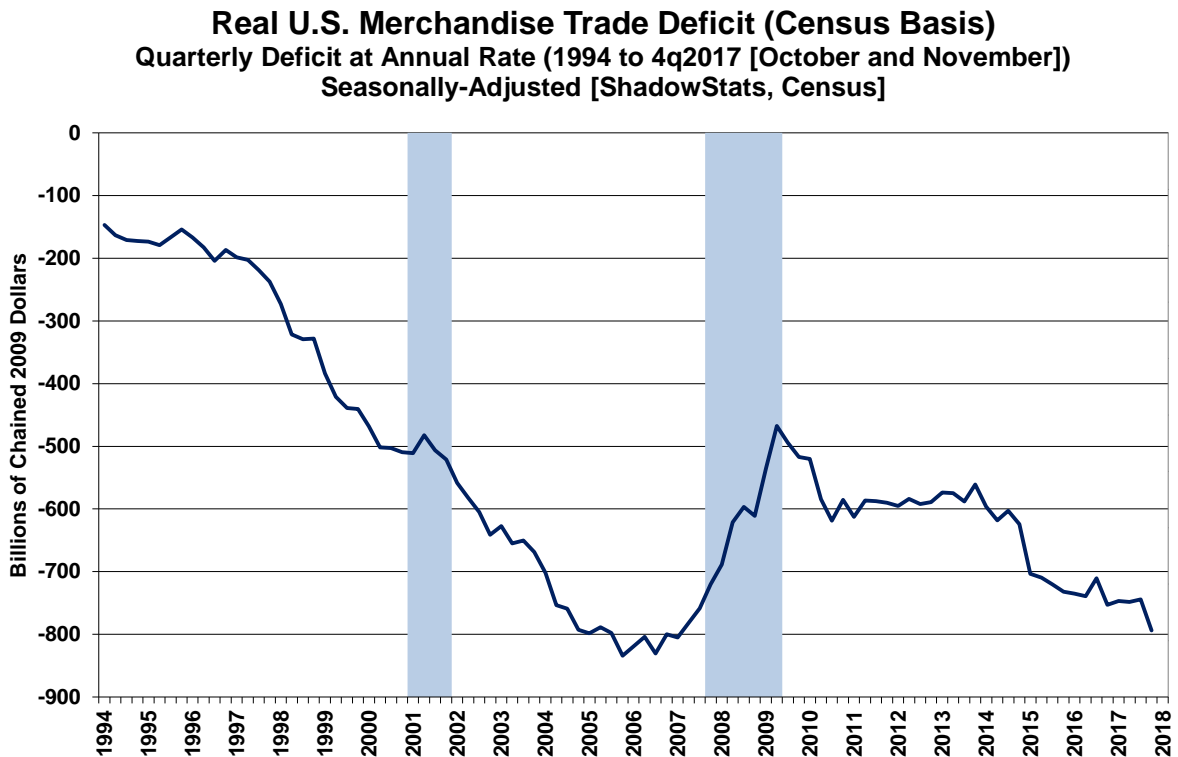


Payroll Survey Gain Was Below Expectations, Boosted by Relative Downside Revisions, and It Continued to Show Low-Level Annual Growth Commonly Seen at the Onset of Recessions. Against market expectations for a monthly payroll gain in the range 190,000 to 195,000, December 2017 payrolls rose by 148,000, which was 139,000 net of prior-period revisions, which lowered the level of November's reading in the context of an upside revision to November's gain to 262,000 (originally 228,000), versus an even greater downside revision to October's gain to 211,000 (originally 244,000).

December 2017 annual payroll growth of 1.50%, versus 1.46% in November 2017, broadly remained in a downtrend, at a level and with a pattern of growth that usually precedes recessions.

Trade Deficit—November 2017—Continued Monthly and Quarterly Deterioration Suggested Worst Quarterly Real Merchandise Trade Shortfall Since First-Quarter 2007. Before adjustment for inflation, the nominal November 2017 balance-of-payments trade deficit, reflecting trade in both goods and services, deteriorated sharply month-to-month and year-to-year, once again. Implications continued for a negative, real merchandise trade-deficit, with suggested negative impact on real fourth-quarter 2017 GDP growth. The quarterly shortfall in real merchandise trade is in a strong trend to be the worst since first-quarter 2007 (see *Graph 4*), rivaling that pre-recession level.

[Graph 4 follows on the next page.]

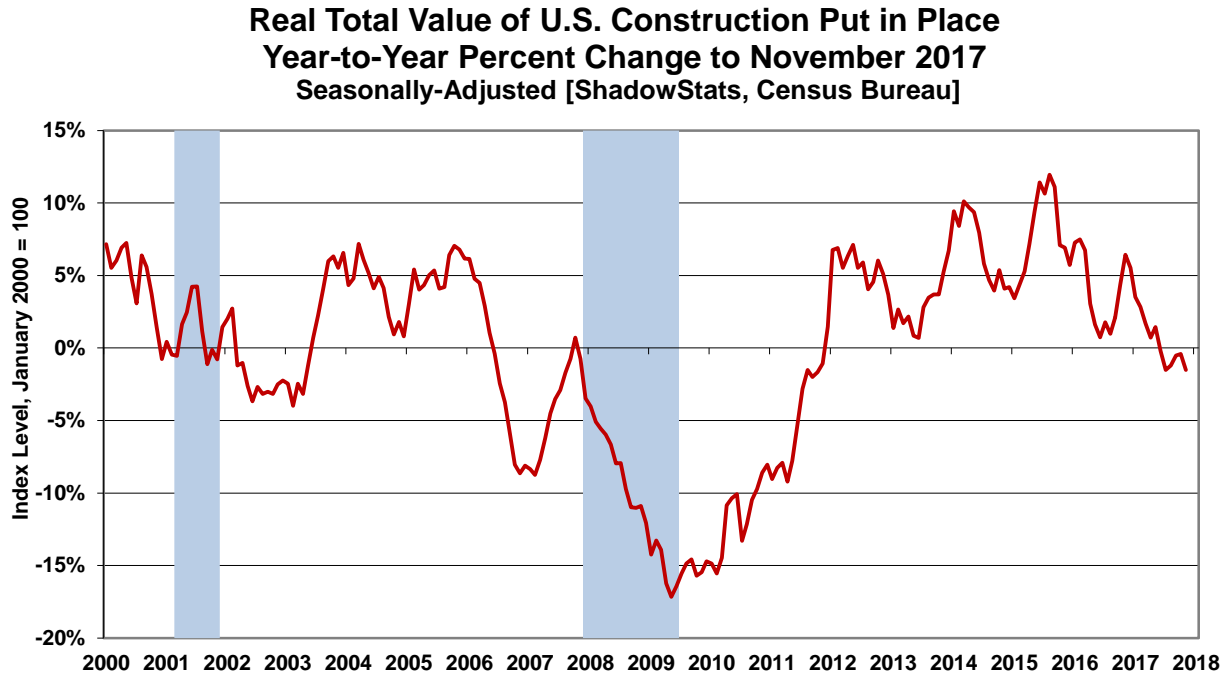
Graph 4: Real Quarterly Merchandise Trade Deficit (1994-2017)

Construction Spending—November 2017—Amidst a Monthly Gain and Upside Monthly Revisions, Annual Change Still Declined for the Sixth Straight Month, Suggestive of a “New” Recession. With what still could encompass some minimal, positive impact from the hurricanes, inflation-adjusted U.S. construction spending rose in November 2017, against upside revisions to October and September. Annual and quarterly contractions in second-and third-quarter activity remained indicative of the onset of a new recession, with early fourth-quarter activity trending positive quarter-to-quarter, but also trending negative year-to-year. A downturn into negative annual activity was seen last during the housing collapse of 2006, leading into the formal 2007 recession, and the continuing, annual real contractions in October and November 2017 are consistent with same. The signals here remain for an intensifying downturn or new recession.

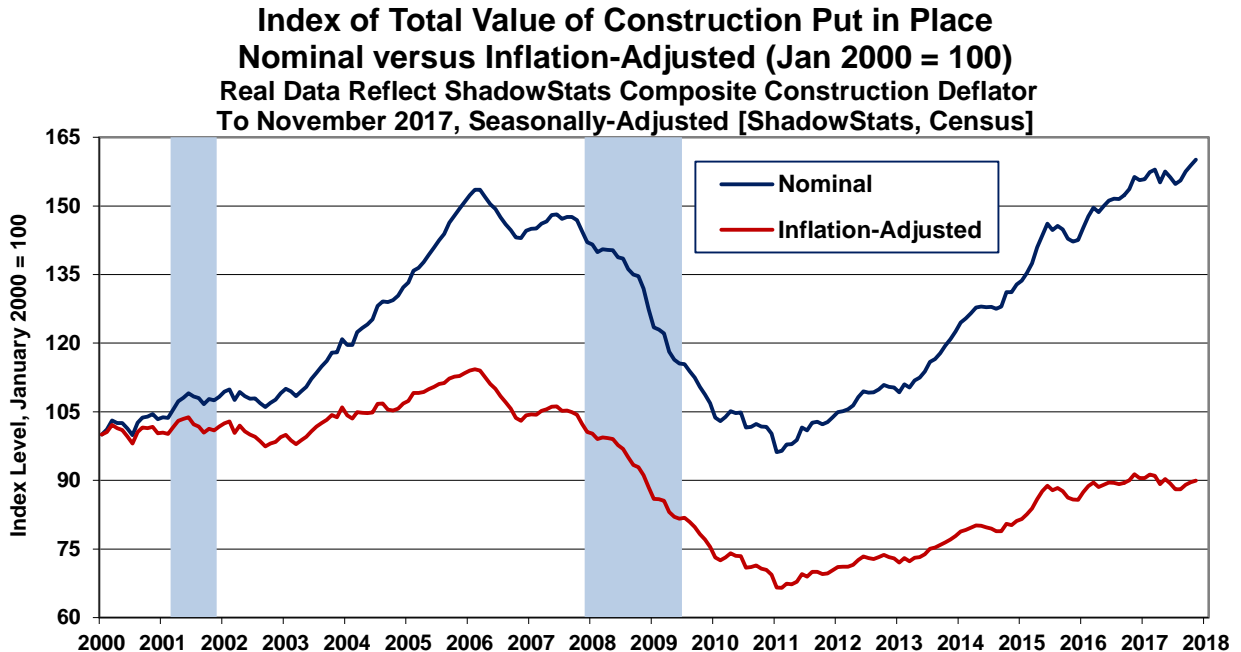
November 2017 Construction Spending. In the context of the upside revisions to September and October activity, nominal construction spending rose month-to-month in November 2017 by a statistically insignificant 0.8%, versus revised gains of 0.9% in October and 1.3% in September. Net of the ShadowStats Composite Construction Deflator inflation, those were real gains of 0.3% in November 2017, 0.7% in October and 1.1% in September.

Headline annual nominal growth rose by a statistically-significant 2.4% in November 2017, versus revised annual gains of 3.4% in October 2017 and 3.4% in September 2017. Net of inflation, November 2017 was down year-to-year by 1.5% (-1.5%), versus annual contractions of 0.4% (-0.4%) in October 2017 and 0.5% (-0.5%) in September 2017 (see *Graphs 5 and 6*).

Graph 5: Total Real Construction Spending, Year-to-Year Percent Change



Graph 6: Index, Nominal versus Real Value of Total Construction



Again, the detail here will be expanded upon in the full
Commentary No. 930-B, planned for Monday, January 8th