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

COMMENTARY NUMBER 930-B

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

January 8, 2018

Weaker-Than-Consensus 148,000 Payroll Gain Was Boosted by Downside Revisions, Low-Level Annual Payroll Growth Continued to Signal a New Recession

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%: No Full Employment

Indicators of Stressed-Employment Conditions Have Re-Intensified, Following Brief, Hurricane-Distorted Improvements in September

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

Monthly Trade Deficit Topped $50 Billion for First Time in Five Years, with Fourth-Quarter 2017 Real Merchandise Trade Deficit 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 to Back to a Two-Year of 4.8%, as Monetary-Base Annual Growth Jumped to a Three-Year High of 9.7%

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PLEASE NOTE: The next Regular Commentary on Friday, January 12, 2018, will cover the December 2017 Consumer and Producer Price Indices (CPI and PPI) and Retail Sales.

Best wishes — John Williams (707) 763-5786

Today's (January 8th) ***Opening Comments and Executive Summary.*** The *Opening Comments* reviews the annual benchmark revisions to the employment/unemployment numbers (Household Survey) and *The Conference Board Help Wanted OnLine® Advertising* for *December 2017*. The *Executive Summary* (page 8) reviews highlights of the December Employment and Unemployment and the November Trade Deficit and Construction Spending.

The ***Reporting Detail*** (page 14) discusses in greater detail the headline December Employment and Unemployment data (page 14), along with accompanying notes on major background issues with the headline reporting of the monthly labor data in the ***Supplemental Labor-Detail Background*** (page 31). More complete coverage also follows here for the November Trade Deficit (page 39) and Construction Spending (page 41).

The ***Hyperinflation Watch*** (page 51) reviews the latest monetary conditions, including the initial estimate of year-to-year change in the December 2017 ShadowStats Ongoing M3 Estimate and the current Monetary-Base circumstance.

The ***Consumer Liquidity Watch*** (page 55) text has not been revised since its prior publication.

The ***Week, Month and Year Ahead*** (page 67) provides background on recent *Commentaries*, and previews releases of the December 2017 Consumer and Producer Price Indices and Retail Sales (nominal and real) at the end of this week.

OPENING COMMENTS

Economy Remains In Deepening Trouble and Is Not at Full Employment. This missive expands upon headline details published in *Advance Commentary No. 930-A* of January 5th, reviewing the headline December 2017 labor numbers and the related annual benchmark revision to the Household Survey data, which cover unemployment and related measures, the November 2017 Trade Deficit and November 2017 Construction Spending.

Some highly questionable benchmark revisions or non-revisions to the headline seasonally adjusted U.3 unemployment rate are assessed here, and despite some happy headline appearances, the details generally are not good news for the economy. Separately, the final section of these *Opening Comments* reviews the December 2017 The Conference Board Help-Wanted Online Advertising® (HWOL), which showed some good monthly pick-up in the HWOL, but with continued year-to-year contractions or no growth that suggest continued no expansion in employment and no expansion in the broad economy.

Continuing real year-to-year contractions in Construction Spending and the continued deterioration in the monthly, quarterly and annual Trade Deficit both signal a new or deepening downturn in U.S. economic activity, as discussed in the *Executive Summary* and *Reporting Detail* sections.

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 here in *Table OC-1*. Also revised 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. The data reflected here are the regular annual revisions to the Household Survey data, as published each January for the prior month of December (December 2017 in this case), by the Bureau of Labor Statistics (BLS).

Seen in the table, unlike some changes seen in the broader U.6 measure and Full Employment data, 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 0.03%. That is not credible in this otherwise unstable series, particularly in the context of the last several months of extreme Household Survey distortions from a severe Atlantic Hurricane Season. Particularly, in September 2017, where Hurricane Irma hit Florida during the week when the labor data were surveyed. Those who lost their jobs then due to the hurricanes were still counted as employed by the BLS, in the now-benchmarked Household Survey. Yet, those who lost their jobs during the hurricane were not counted as employed in the Payroll Survey, which gets benchmarked next month. The Household Survey 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 of revised headline unemployment, data have been posted for the full five years from January 2013 to date on the www.ShadowStats.com Alternate Data tab.

As shown in *Table OC-1*, the revisions to September through November 2016 were to headline unemployment numbers that were reported within a hair's breadth of rounding up to the next first-decimal point, where, for example U.3 rates September through November 2016, were seasonally adjusted readings of 4.95%, 4.85% and 4.65%, they round down to 4.9%, 4.8% and 4.6%, but rounded up to 4.96%, 4.86% and 4.65%, rounding up to 5.0%, 4.9% and 4.6%, the next first-decimal point, post-revisions. Those were the only headline revisions in 2016. The only revision in 2017 was in June, a similar circumstance, where 4.36% rounded to 4.35%, or 4.4% to 4.3%. All but one revision at the second-decimal was 0.02% or less, the exception was 0.03% in March 2016.

Yet, at the same time, consider full-time employment in the hurricane-affected months of September to November 2017. Pre-revision, September 2017 was reported initially with a gain of 935,000 employed that revised to 794,000. October 2017 was reported initially down by 23,000 (-23,000), that revised to a drop of 40,000 (-40,000). November 2017 was reported initially up by 160,000, that revised to 122,000. December 2017, not previously reported, came in at a headline decline of 35,000 (-35,000). While these numbers are not as closely massaged as the headline detail, the broad employment number is affected by them. These revisions, if reflected proportionately in the headline unemployment detail would have added 0.1% to 0.2% to the headline U.3 in September 2017. What was the revision there? It was a minus 0.02% (-0.02%) to the headline U.3.

With a 95% confidence interval of +/- 0.23% around the headline U.3 unemployment rate in a given month, there is negligible chance that these numbers are not being massaged.

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Other, somewhat less-politically-sensitive details, such as the employment-to-population ratio and the participation rate (labor force as a percent of the working age population) both spiked in September, which is positive move, due to the extraordinarily disrupted employment details then, but they recovered their prior, more-negative readings, post revisions, as seen in *Graphs 12* and *13* in the *Reporting Detail.*

These revisions still are being examined closely, and more will follow, likely along with an assessment of next month's payroll benchmark revisions, which openly are heavily biased and gimmicked.

Table OC-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)

	U.3 Unemployment				U.6 Unemployment				ShadowStats Unemployment	
	1st-Decimal Point		2nd-Decimal Point		1st-Decimal Point		2nd-Decimal Point			
Month	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.

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December Help-Wanted Advertising Showed a Sharp Monthly Gain but Continuing Economic Non-Expansion. A sharp month-to-month jump in "New Ads" dominated the monthly gain in "Total Ads" in The Conference Board Help-Wanted Online Advertising® (HWOL) for December 2017. Those monthly gains were enough to push the "Total Ads" category to a minimal year-to-year gain of 0.3%, following 20 consecutive months of year-to-year decline, with the pace of annual decline in "New Ads" narrowing to 5.0% (-5.0%), the 23rd consecutive monthly year-to-year drop. Although sharply improved in the month, the year-to-year deterioration in labor-market demand reflected in "New Ads" remains a meaningfully-negative, leading indicator to broad economic activity. Against the November 2015 series peaks, "Total Ads" remained down by 14.5% (-14.5%), with "New Ads" still down by 23.8% (-23.8%).

ShadowStats follows a number of business indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. The HWOL is one of the best, private leading-indicator measures. Increasingly, a number of major government economic indicators, including recent production, employment and housing and construction measures, had been showing "unexpected" weakness, or continued non-recovery and renewed downturn in the post-2007 economic collapse period. Those trends should continue in play net of any short-lived, Atlantic hurricane-related reporting disruptions, and the current unwinding of same.

The Conference Board Help Wanted OnLine® Advertising, December 2017. With the counts of December 2017 "Total Ads" up by 0.3% year-to-year and "New Ads" down by 5.0% (-5.0%), year-to-year, the annual changes broadly continued at levels seen coming out of the trough of the business collapse into 2009/2010. Where the annual contraction in December 2017 "Total Ads" turned to the upside by 0.3% [previously down by 3.7% (-3.7%)], the annual contraction in "New Ads" narrowed to 5.0% (-5.0%) [previously down by 13.1% (-13.1%)]. The "New Ads" series provides the better indication of unfolding economic trends. Monthly volatility can take these series sharply either way in the next several months, but the current trend is positive.

Where seasonally-adjusted, month-to-month change rose by 4.9% for "Total Ads," the third straight month-to-month gain, the series had declined month-to-month for the preceding three months. Month-to-month change in December activity rose by 12.8% for "New Ads," having declined by 6.2% (-6.2%) in November, having gained in both October and September, and having declined month-to-month for the preceding three months.

The monthly patterns have been irregular, down in fourteen of the last twenty-five months for the "Total," and down in thirteen out of the last twenty-five months for the "New" Ads.

The tracked, seasonally-adjusted monthly measures, however, have declined year-to-year in each of the last twenty-one months prior to the December 2017 "Total Ads," and in each of the last twenty-three months (twenty-four of the last twenty-five months) for the "New Ads," including December 2017. Where the pattern of annual declines has narrowed recently, the annual downturn generally had continued at or deeper than 10% (-10%) for both series, as reflected in *Opening Comments Graph OC-1*. Again, though, the December 2017 annual changes improved sharply for both series.

Annual growth began to slow in 2010 and turned negative year-to-year in late-2015 and early-2016. The shaded area in the graph reflects the formal bounds of the 2007 to 2009 recession. While the HWOL held in negative annual growth territory into early-2010, beyond the formal economic trough in June 2009,

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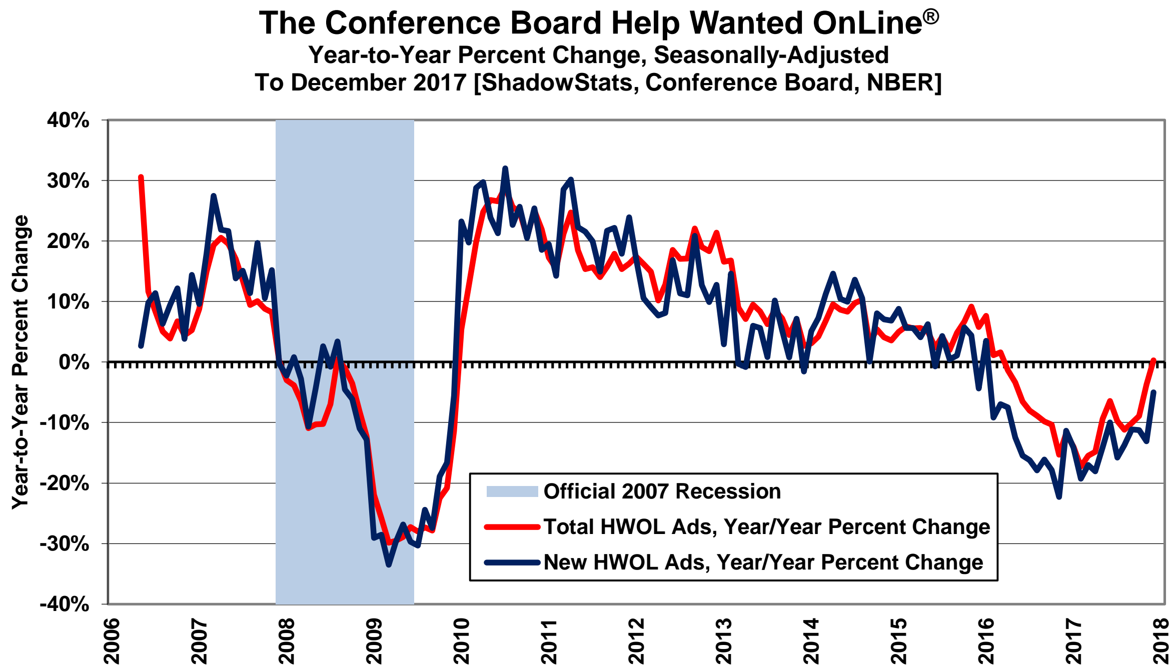
keep in mind that payroll employment—traditionally a coincident economic indicator to the general economy—did not hit its cycle trough until February 2010.

Many thanks to The Conference Board for permission to publish the accompanying graph of year-to-year change in its *Help Wanted OnLine®* data. The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). Where, "Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads." While, "New ads are all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as 'New' only in the month it first appears." Related background details and reporting are found here: The Conference Board Help Wanted OnLine®.

While much of this text is repetitive of prior discussions in *Commentary No. 924*, *No. 852* and *No. 820*, the detail here has been updated for the latest information. These comments and analysis remain those of ShadowStats alone, not those of The Conference Board.

Graph OC-1: The Conference Board Help Wanted OnLine® to December 2017



Historical Background. *[Please note: this section generally has been repeated, unrevised from prior reporting, other than for updated links. It provides general background and historical perspective for the series.]* The HWOL basic concept has proven itself over the last century, in the context of the closely-paralleled tallying of help-wanted advertising in newspapers. The current on-line series tracked the economic collapse into 2009, parallel with the last of the series based on newspaper help-wanted advertising. The beauty and benefit of a good leading indicator is that it provides a meaningful "advance" signal of a shift in economic activity, before that shift may become obvious in other series. Such is a particularly valuable commodity, when headline data out of the federal government increasingly are politicized and unreliable (see *Special Commentary No. 885*, *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*).

With the preceding ShadowStats comments in mind, the following caution, posted on the Conference Board's web site, speaks for itself:

> NOTE: Recently, the HWOL Data Series has experienced a declining trend in the number of online job ads that may not reflect broader trends in the U.S. labor market. Based on changes in how job postings appear online, The Conference Board is reviewing its HWOL methodology to ensure accuracy and alignment with market trends.

First fully covered by ShadowStats in *Commentary No. 820* of July 16, 2016, the HWOL is updated here through December 2017 (released January 3rd). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of industrial production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board's Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It was a component of the Commerce Department's Index of Leading Economic Indicators. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

The National Bureau of Economic Research (NBER) has published detail with the St. Louis Federal Reserve on help-wanted advertising indices constructed back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized eventually as a formal recession, when the annual change in the index contracted by 15% (-15%) or more, which has happened here.

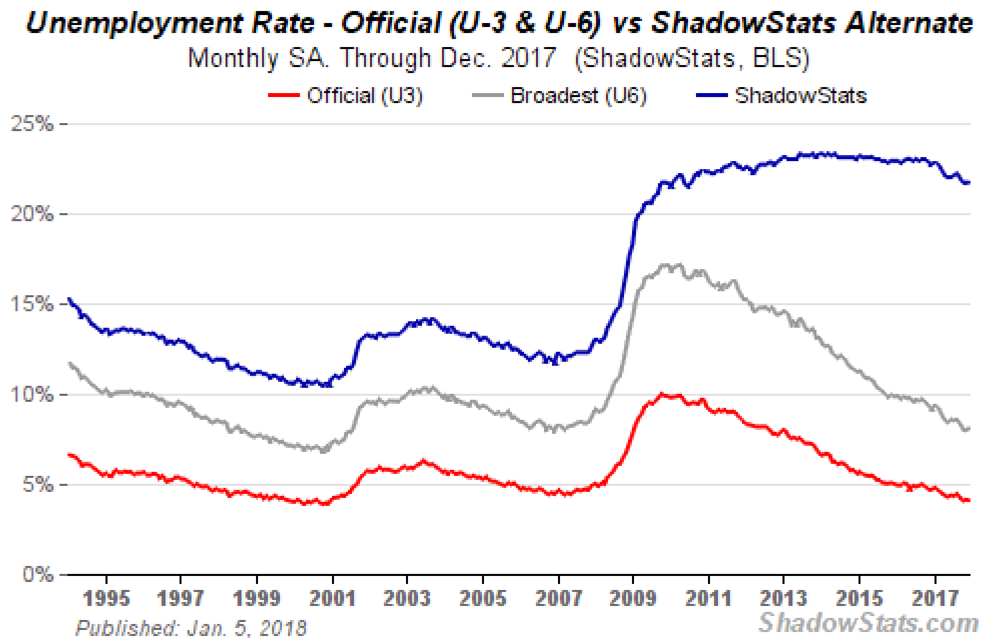
Since formal tracking switched to help-wanted advertising on the Internet, around 2005, as seen with The Conference Board Help Wanted OnLine®, that series has been through only one, formally-confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Even with a limited initial history, the new series tracked that headline downturn into 2009 (in tandem with the final surveys of newspaper help-wanted online advertising, which continued for a while), and it has tracked to the downside in the current environment of what appears to be a "new," still-unfolding recession (see *No. 859 Special Commentary*).

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be highly valuable. As for the BLS employment and unemployment series, they should still begin to catch up with the Conference Board's high-quality, independent leading indicator, despite the ongoing , heavy upside reporting biases deliberately structured into the BLS series and expanded anew into the initial 2017 payroll-survey benchmarking. See the discussions in *Special Commentary No. 885*, *Commentary No. 864* and in the *Birth-Death/Bias-Factor Adjustment (BDM)* section of the *Supplemental Labor-Detail Background* in today's *Reporting Detail*.

EXECUTIVE SUMMARY: Employment and Unemployment—December 2017—Low-Level Annual Growth in Payrolls Continued to Signal Recession; No Full Employment. 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 just 139,000 net of prior-period revisions . Annual payroll growth of 1.50% in December 2017, versus 1.46% in November 2017, broadly remained in a downtrend that has reached a level, where that pattern of growth usually precedes and signals the onset of a recession.

In the context of the annual benchmark revisions to the seasonally-adjusted Household Survey data, as reviewed in the prior *Opening Comments*, the headline, seasonally-adjusted U.3 unemployment rate held at a 17-year low of 4.1% in December 2017, for the third straight month. The broader U.6 unemployment rate, however, notched higher from 8.0 to 8.1% in December, while the still-broader ShadowStats Alternate Unemployment Rate held at 21.7% for the third straight month in December.

Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats
(Same as Graph 10 in the Reporting Detail)



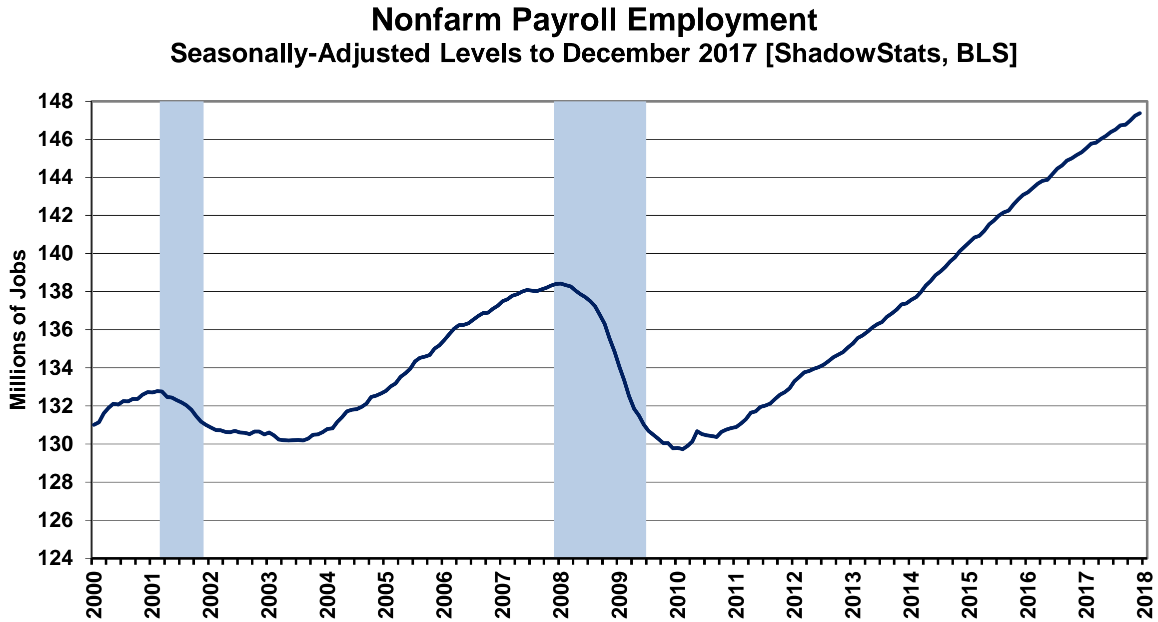
Despite some hyped speculation of the U.S. economy now being at full employment, those latter two unemployment estimates show that not to be the case, as is confirmed also in the *Reporting Detail* discussions tied to the employment-population ratio and the participation rate, as well as to the low level of headline year-to-year growth in payroll employment, which likely is signaling a recession.

In the context of the regular reporting distortions discussed in *Special Commentary No. 885* as well as in the *Supplemental Labor-Detail Background* (page 31), incorporated here by reference, broad labor circumstances generally have weakened sharply, irrespective of the Household Survey benchmarking.

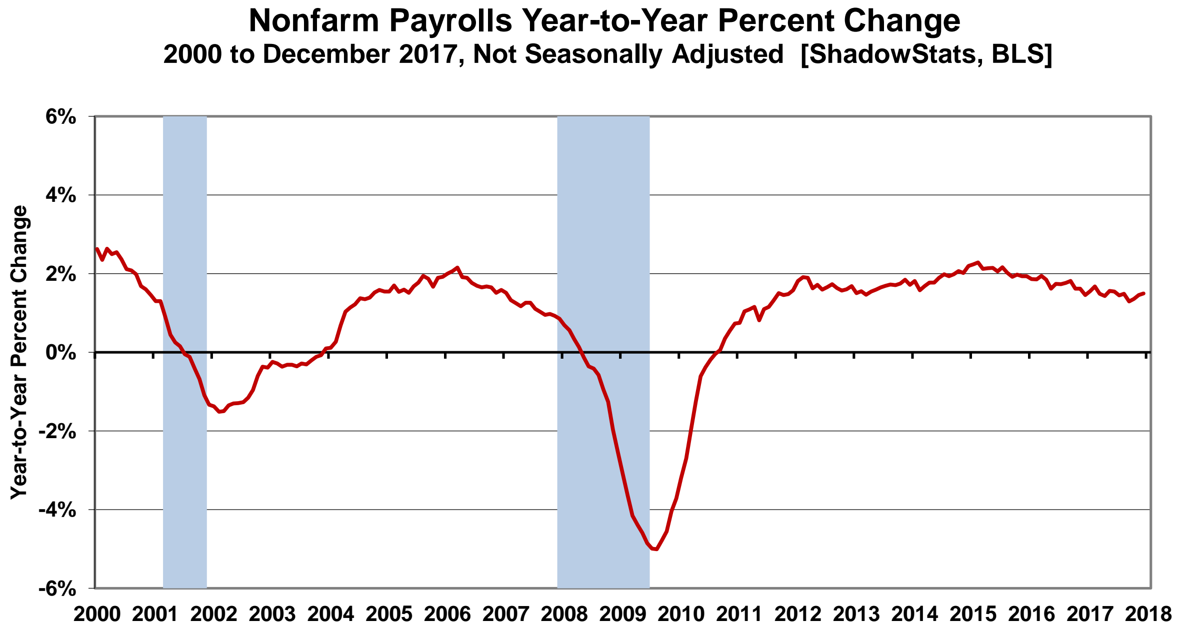
The headline monthly payroll jobs gain of 148,000 in December 2017, likely was on the minus side of flat, in reality (see *Supplemental Labor-Detail...*). In the context of the *ShadowStats-Alternate Unemployment Rate Measure* discussion (also in the *Supplemental Labor-Detail...*), the headline 4.1%

December 2017 U.3 unemployment rate was much closer to 21.7%, when viewed from the context of common experience.

Graph 2: Nonfarm Payroll Employment 2000 to Date
(Same as Graph 20 in the Reporting Detail)



Graph 3: Payroll Employment, Year-to-Year Percent Change, 2000 to Date
(Same as Graph 22 in the Reporting Detail)



Extended coverage on the Household and Payroll Surveys follows in the *Reporting Detail*, page 14.

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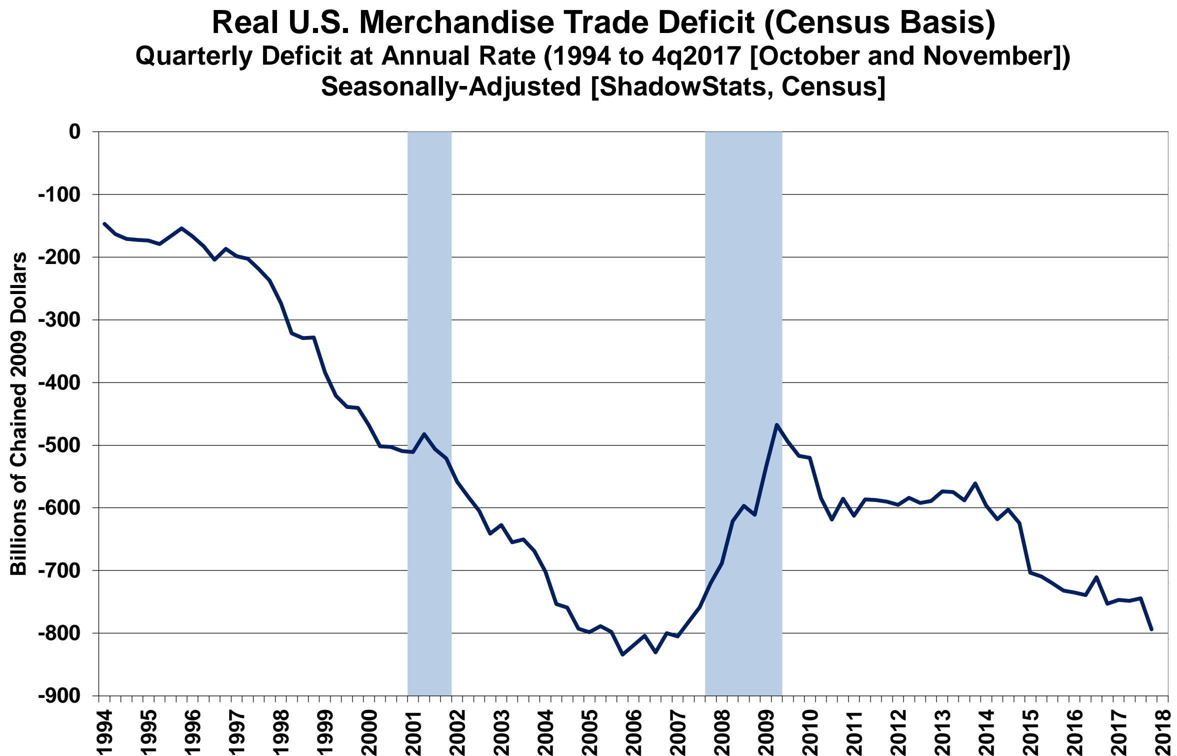
Trade Deficit—November 2017—Nominal Monthly Deficit Topped $50 Billion for First Time in Five Years, Quarterly Real Merchandise Trade Deficit on Track for Worst Showing in 10 Years. Before adjustment for inflation, the nominal November 2017 balance-of-payments trade deficit, reflecting trade in both goods and services, deteriorated, once again, month-to-month and year-to-year, breaking above $50 billion for the first time in five years. Implications here intensified for negative, trade-deficit impact on real growth in fourth-quarter 2017 GDP.

Nominal Trade Deficit Widened Due to a Continuing Relative Surge in Imports. The nominal, seasonally-adjusted monthly trade deficit in goods and services for November 2017 widened on a balance-of-payments basis by $1.583 billion, or by 4.2%, to $50.497 billion, versus a revised, deepened deficit of $48.914 billion in October 2017. The widening in the monthly November deficit reflected a strong increase in monthly exports, more than offset by an even greater increase in imports. The headline November 2017 deficit also widened by $5.574 billion, or by 8.9%, versus the year-ago $46.373 billion trade shortfall for November 2016.

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



Quarterly Real Deficits Rival Pre-Recession Levels. Detailed in the *Real Trade Deficit* section in the *Reporting Detail*, adjusted for inflation, the fourth-quarter 2017 two-month trend in the real merchandise trade deficit continued on track for the worst showing since first-quarter 2007 (see *Graph 4*).

Extended Trade Deficit coverage follows in the *Reporting Detail* (see page 39).

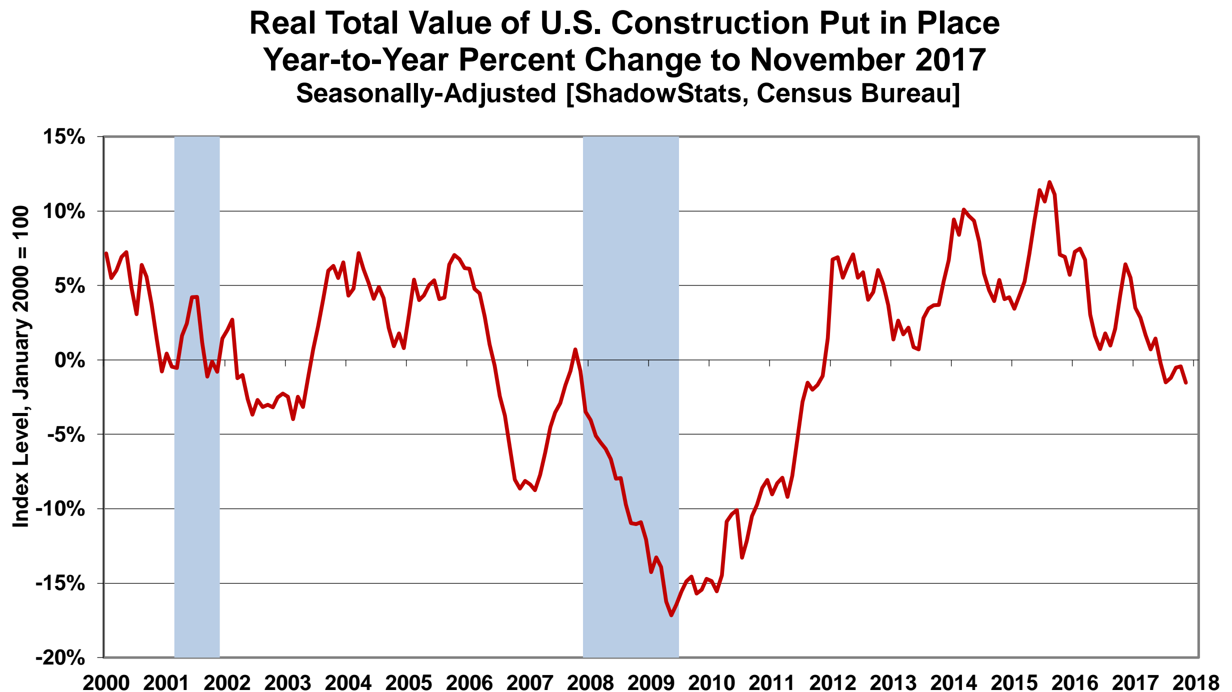
Construction Spending—November 2017—Amidst a Monthly Gain and Upside Monthly Revisions, Real Annual Change Still Declined for the Sixth Straight Month, Suggestive of a "New" Recession. With what still could encompass some minimal, positive impact from the hurricanes, inflation-adjusted U.S. construction spending rose in November 2017, against upside revisions to October and September.

Annual and quarterly contractions in inflation-adjusted, real 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.

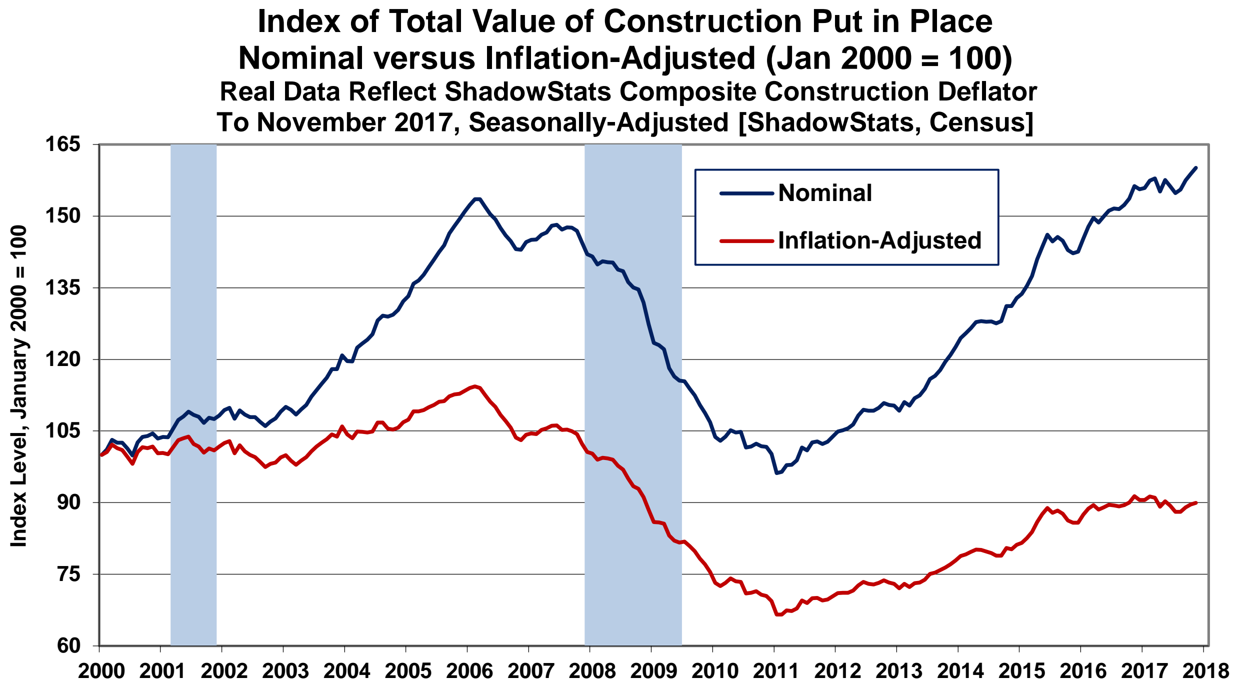
November 2017 Construction Spending. In the context of the upside revisions to September and October activity, nominal construction spending rose month-to-month in November 2017 by a statistically insignificant 0.8%, versus revised gains of 0.9% in October and 1.3% in September. Net of the ShadowStats 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, aggregate November 2017 activity 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*). Real November 2017 spending activity also remained 21.4% (-21.4%) shy of recovering its pre-recession high.

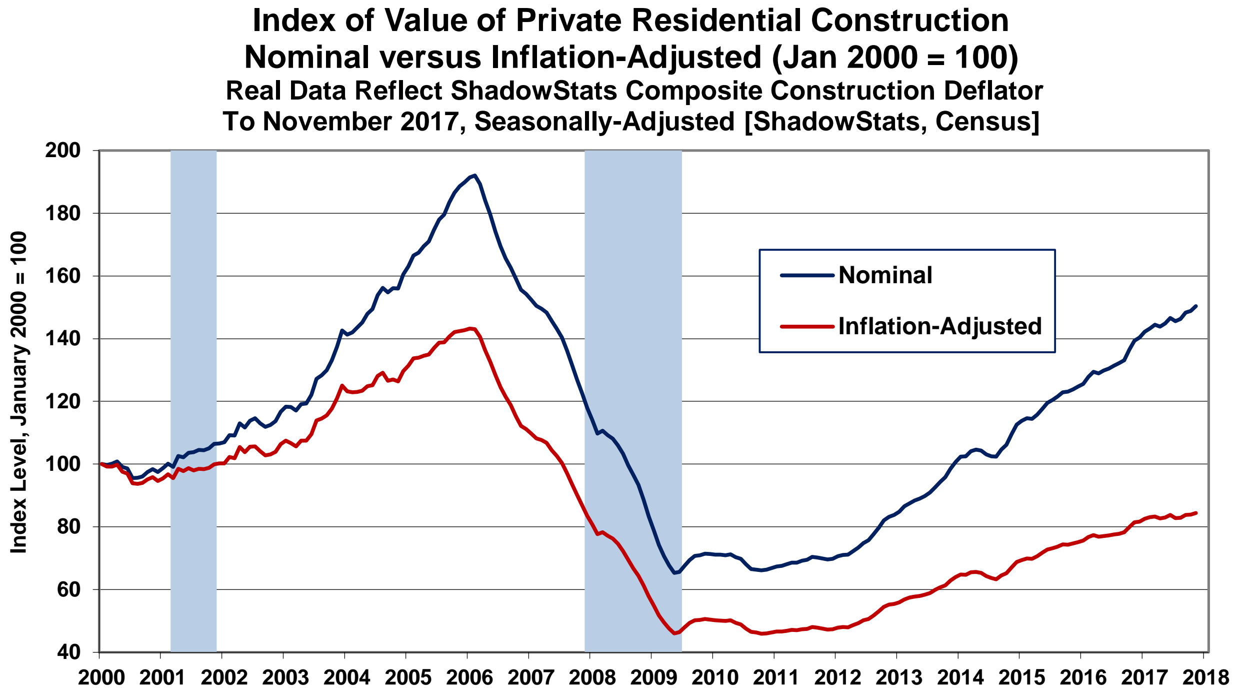
Graph 5: Total Real Construction Spending, Year-to-Year Percent Change
(Same as Graph 13 in the Reporting Detail section)



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



Graph 7: Index, Nominal versus Real Value of Private Residential Construction



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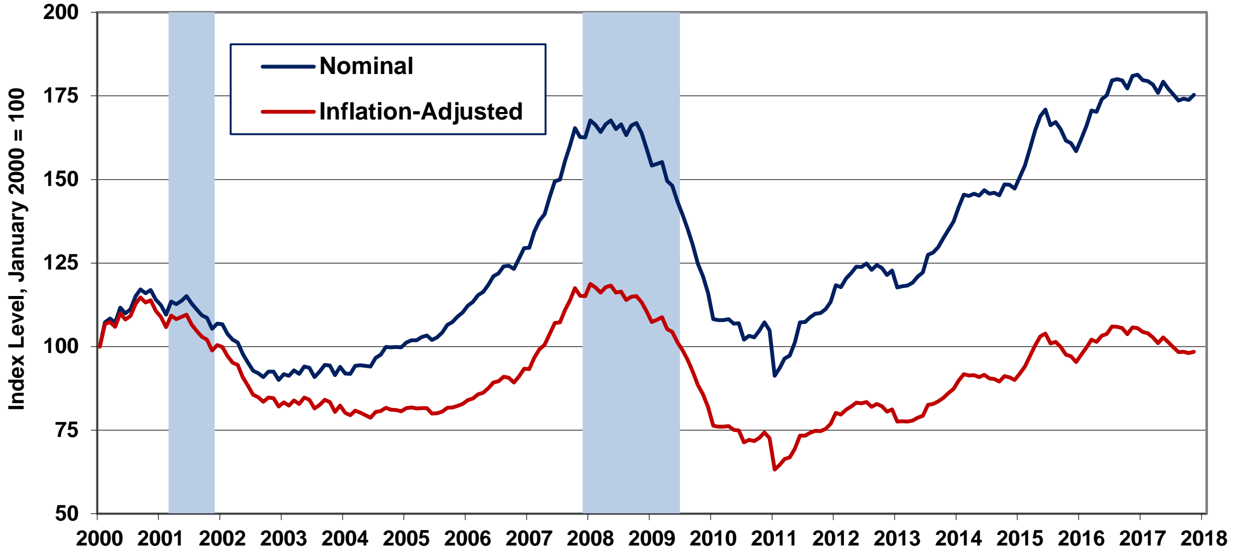
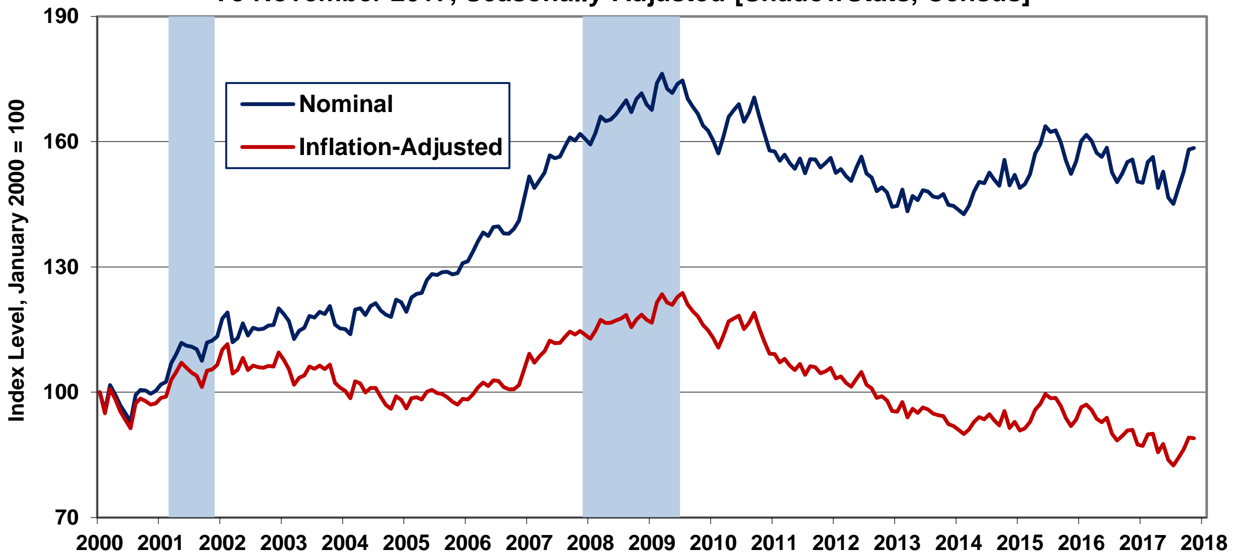
Graph 8: Index, Nominal versus Real Value of Private Nonresidential Construction



Graph 9: Index, Nominal versus Real Value of Public Construction



Reflected in accompanying *Graphs 6* to *9*, neither the aggregate inflation-adjusted real series (the red line in each graph), nor any of its major-subsidiary components, has recovered levels of pre-recession peak activity, with each element currently trending flat-to-lower, consistent with an unfolding new recession or

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re-intensifying downturn. This pattern is an element common to nearly all home-sales and housing-construction series (see Commentary No. 927 and Commentary No. 928).

Extended coverage on Construction Spending follows in the *Reporting Detail* on page 41.

[Extended analysis and graphs of the headline series follows in the* Reporting Detail*.]

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (December 2017)

Household-Survey Unemployment and Employment Details Remained Heavily Warped; Recession Signal from Low-Level Annual Payroll Growth Continued. In the January 5th annual benchmark revisions to the seasonally-adjusted Household Survey details, headline U.3 unemployment rates of the last year effectively were unrevised. Such stretches the limits of credulity for that series to the extreme. Those benchmark revisions are discussed and explored in today's (January 8th) *Opening Comments*. That said, the December 2017 reporting showed the headline U.3 unemployment rate holding at 4.1% for the third month at a 17-year low. The broader headline U.6 unemployment rate rose to 8.1% in December, having held at 8.0% for the two months prior, with the ShadowStats Alternate Unemployment Rate—built upon the U.6 rate—holding at 21.7% in December for the third month.

Separately the Payroll Employment Survey, which goes through its annual benchmarking on February 2nd (see the discussion in the following *Supplemental Labor-Detail Background*), showed a below-consensus, headline monthly jobs gain of 148,000 in December, where the headline monthly was exaggerated for the second month by prior-period downside revisions.

Nonetheless the recession-threatening low-level of unadjusted annual payroll growth continued. Discussed here, the U.S. economy is not at, or close to, full-employment, irrespective of any claims to the contrary of out of economists of a Federal Reserve Banks or members of the Fed's Federal Open Market Committee (FOMC), as will be discussed shortly.

Payroll Data Still Generate an Intensifying Recession Signal, Despite Hurricane Disruptions and Headline Non-Revisions in the Benchmark-Revised Unemployment Rate. Discussed with the employment and unemployment details of recent months (see Commentary No. 915, Commentary No. 919-B and Commentary No. 924), hurricane disruptions heavily impacted labor-related data for September and October. While the Payroll Employment Survey appeared to return to its normal patterns and gimmicks by the November 2017 reporting, the Household Survey, which details employment and

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unemployment numbers, broadly did not unwind meaningfully from its heavily-distorted and hurricane-disrupted September and October details, either in November or in December (contrary to ShadowStats predictions for December revisions), where the December data reflected the annual benchmarking to the seasonally-adjusted Household Survey series discussed in the *Opening Comments*.

Accordingly, ongoing headline payroll data, already signaling a new recession, based on patterns of low-level annual growth, likely will show more-immediate, unfolding economic stresses. In contrast, the headline U.3 unemployment rate likely will be slower in adjusting, although other measures such as the broader U.6 rate, and related components already appear to be moving in the direction of unwinding and deteriorating economic activity.

Payrolls Continued to Signal Deepening Economic Woes. In the context of other, regular reporting distortions discussed in *Special Commentary No. 885* as well as in the *Supplemental Labor-Detail Background*, incorporated here by reference, broad labor circumstances generally have weakened sharply. Allowing for the hurricane-related disruptions to the payroll data, and revisions to same, low-level, headline annual payroll growth in December 2017 continued to signal a new recession.

As to the benchmark-revised Household Survey, although the headline U.3 rate remained at multi-year low level of 4.1%, broader indicators of employment conditions continued to signal economic stresses (see for example the discussion on the Employment-Population Ratio and Participation Rate).

In terms of underlying reality, the headline 148,000 monthly payroll jobs gain in November 2017, likely was on the minus-side of flat (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% December 2017 U.3 unemployment rate was much closer to 21.7%, when viewed from the context of common experience. Extended assessment of headline labor reporting distortions, again, is found in *No. 885*.

Household Survey: Counting All Discouraged and Displaced Workers, December 2017 Unemployment Held at 21.7%. The headline detail on the employment/unemployment news continued nonsensically positive, still distorted heavily by hurricane impacts in September and October 2017. It was not revised meaningfully in the annual benchmarking (see the *Opening Comments*). That said, the post-benchmark, seasonally-adjusted U.3 unemployment rate notched lower to 4.09% in December 2017 from 4.12% in November, versus 4.07% in October, 4.20% in September and a pre-hurricane 4.44% in August.

In the unusual circumstance of theoretically-consistent, month-to-month detail, which happens only once per year with the annual December benchmarking, adjusted month-to-month details at least were comparable in direction, with the number of unemployed rising by 100,000 in December, and the number of employed declining by 40,000 at the same time.

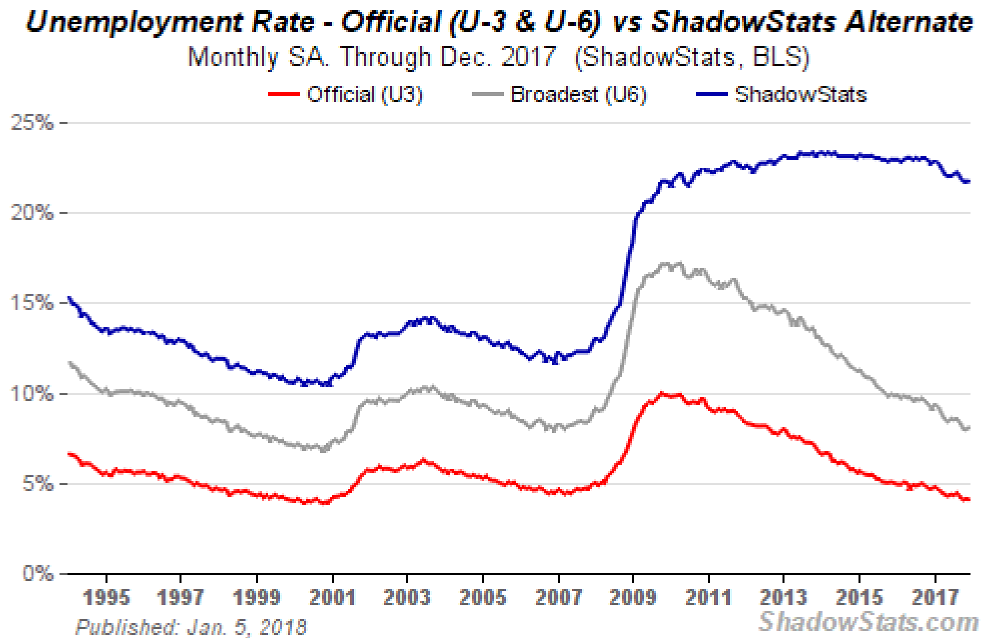
Considering a gain of 102,000 persons working part-time for economic reasons in December, in conjunction with an increase of 142,000 in marginally-attached workers, on top of the headline U.3 unemployment rate, the broader U.6 rate rose to 8.08% in December 2017, versus 7.99% in November, 7.99% in October 2017, 8.29% in September and 8.56% 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 December 2017 was 21.7% the same as in November and October, against 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 a full description of the series in the *Supplemental Labor-Detail Background*, page 31).

Unemployment Circumstances Remained Heavily Distorted. *Graphs 10* to *14* reflect various aspects of the Household Survey detail, which generates the unemployment rate. Moving beyond some of the specific, underlying, wild data gyrations of recent months that were detailed in *Commentary No. 915*, *Commentary No. 919-B* and *Commentary No. 924*, the headline unemployment rate U.3 at 4.09% in December followed an unrevised 4.12% in November 2017 and 4.07% in October—the lowest level since December 2001—versus a revised 4.20% in September 2017. The broader U.6 rose to 8.08% in December 2017, versus upwardly revised measures of 7.99% in November 2017, 7.99% in October and an unrevised 8.29% in September. The ShadowStats-Alternate measure, built upon U-6, held at 21.7% in December 2017, versus 21.7% in November an upwardly-revised 21.7% in October and an unrevised 21.9% September. Those headline rates are plotted in *Graph 10* [*Graph 1* in the *Executive Summary*].

Graph 10: Comparative Unemployment Rates U.3, U.6 and ShadowStats
(Same as Graph 1 in the Executive Summary)



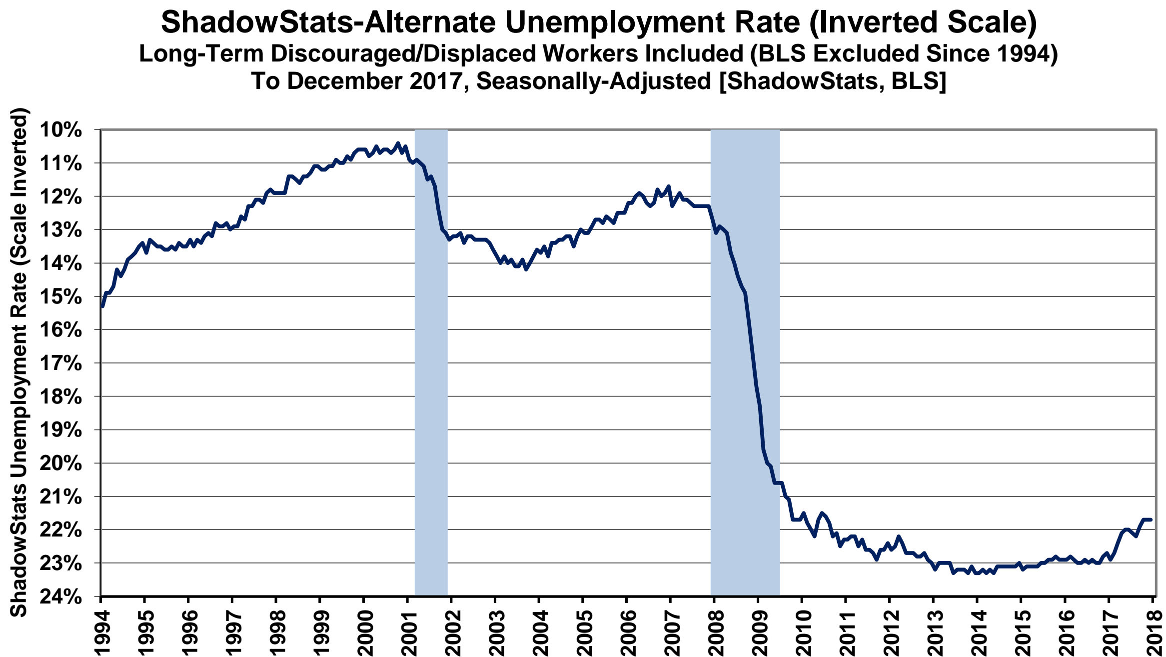
The inverted-scale plot of the ShadowStats Alternate Unemployment Rate measure is shown in *Graph 11*, as usual, for comparison with the plots in *Graphs 12* and *13* of the Civilian Employment-to-Population Ratio and the Labor-Force Participation rate, where both those measures jumped sharply with September hurricane disruptions to the data and then fell back sharply in October. As revised, the Employment-to-Population Ratio now also has dropped in November, holding flat in December, while the Participation Rate held flat in both November and December. The higher those ratios, the healthier are the employment conditions in the economy. Nonetheless, both measures currently are running counter to what should be very positive news, at low levels, consistent with severe recessions, despite the headline December U.3

unemployment rate still at a 17-year low, in theory a strong economic positive. Again, the headline U.3 unemployment rate simply is a nonsense number.

Reflected in *Graph 10*, the headline unemployment rate U.3 eased to 4.09% in December 2017, versus 4.12% in November, 4.07% in October 4.20% 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) rose to 8.08% in December 2017, versus 7.99% in both November and October, down from 8.29% in September, while the ShadowStats-Alternate measure (U.6 plus all estimated long-term discouraged and displaced workers) held at even 21.7% in December versus November and October, down from 21.9% in September.

Dysfunctional, Seasonally-Adjusted Headline Detail from the Household Survey. Despite the headline U.3 unemployment holding at its lowest level since January 2001, employment circumstances remain heavily stressed and unstable, suggestive of an economy still deep in non-recovery, non-expansion, instead of one purportedly expanding rapidly at full employment. Systemic imbalances and instabilities are indicated by near historically-low levels of the labor-force participation rate (labor force/population) and the employment-to-population ratio (headline employment/population) Those series remain just off historical lows, in the context of just having held about even in November, having taken monthly hits in October (inconsistent with “good” headline labor news of that month), 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 12* and *13*.

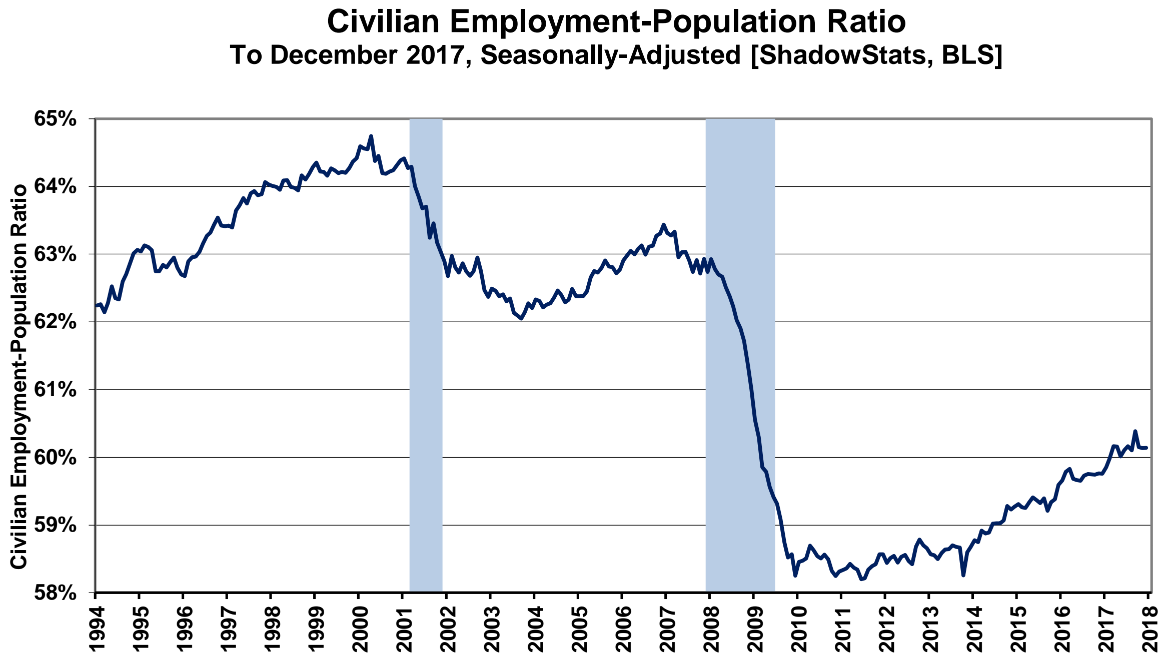
Graph 11: Inverted-Scale ShadowStats Alternate Unemployment Measure



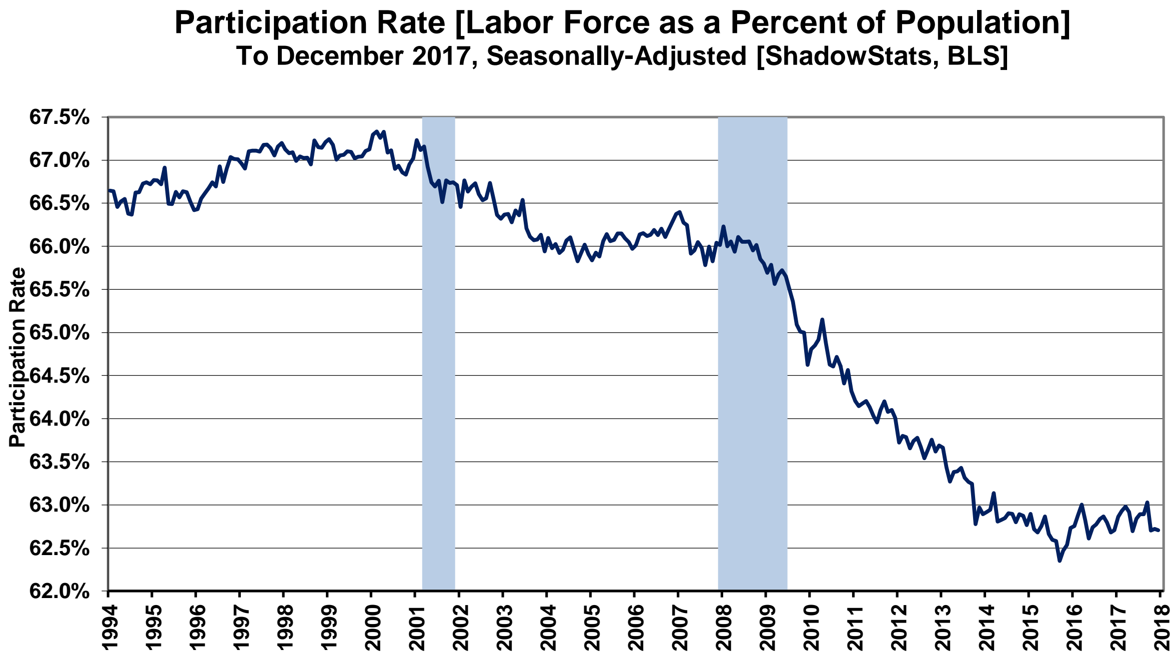
Graphs 11 to *13* reflect longer-term unemployment and discouraged-worker conditions. *Graph 11* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the

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.

Graph 12: Civilian Employment-to-Population Ratio



Graph 13: Labor-Force Participation Rate



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

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2017, along with monthly jumps and month-to-month inconsistencies in headline employment and the January 2017 rejiggered population numbers (see *Commentary No. 864*). In the context of the December 2017 benchmarking of the Household Survey data, where the hurricane-warped booming September employment count had notched that ratio higher to 60.4% in September 2017, versus 60.1% in August 2017, the collapsing employment number in October took that back to 60.2% (60.16%), dropping back to 60.1% (60.14%) in November and holding there in December. 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 12*.

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, with a strong correlation with the ShadowStats unemployment measure.

Graph 13 shows the December 2017 participation rate (ratio of the headline labor force to the population) held at a rounded 62.7% for the third-straight month, October to December, having jumped to a now-downwardly revised 63.0% [previously 63.1%] in hurricane-distorted September, from 62.9% in August.

Graphs 11 through *13* 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 December 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 December 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 8.9% 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 78% above the hyped 5.0% full-employment unemployment rate, and well more than double the current headline U.3 number.[1]

[1] Consider with the December 2017 population of 256.109 million, that the implied labor force at a full-employment participation rate of 66.0% would be 0.66 x 255.949 = 169.032. That labor force less current headline employed, 169.032 – 154.021 = 15.011 million implied unemployed / labor force of 169.032 = 8.9% unemployment. The problem with the assumptions underlying these numbers and concept, again, remains that the economy is not at full employment, as claimed.

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 and displaced, unemployed persons being defined out of the labor force, instead of the more-traditional and positive circumstance of the unemployed being reemployed.

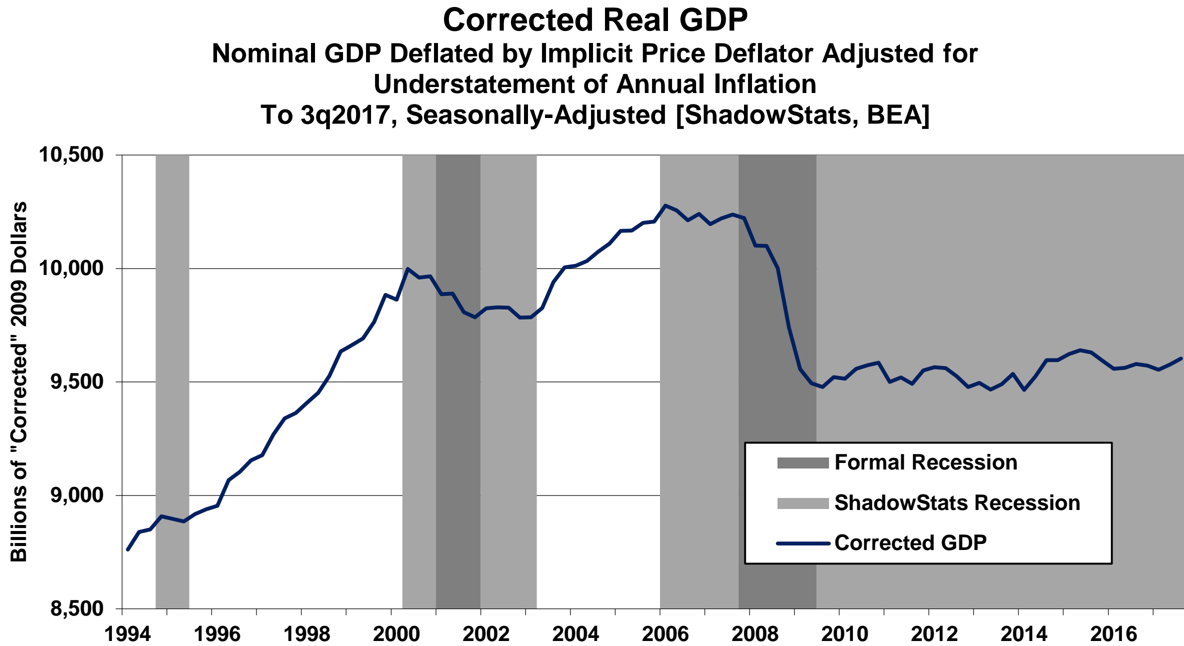
Other Major Indicators Do Not Show a Growing, Expanding—Let Alone Recovered— Economy. Regularly plotted here are various graphs that mirror the patterns of *Graphs 11* to *13* (1994-to-date where available), which do not confirm the purported headline recoveries in the GDP or relative employment. That detail was expanded upon and covered in *No. 859 Special Commentary*; see also recent *Commentary No. 928* covering the GDP. Some of those series are updated in this section.

Consider *Graph 14*, which shows the ShadowStats version of that GDP, also plotted from 1994 but through the December 28th third estimate of third-quarter 2017, where the GDP plot here has been corrected for the understatement of inflation used in deflating the headline GDP (again, see *Commentary No. 928* for details).

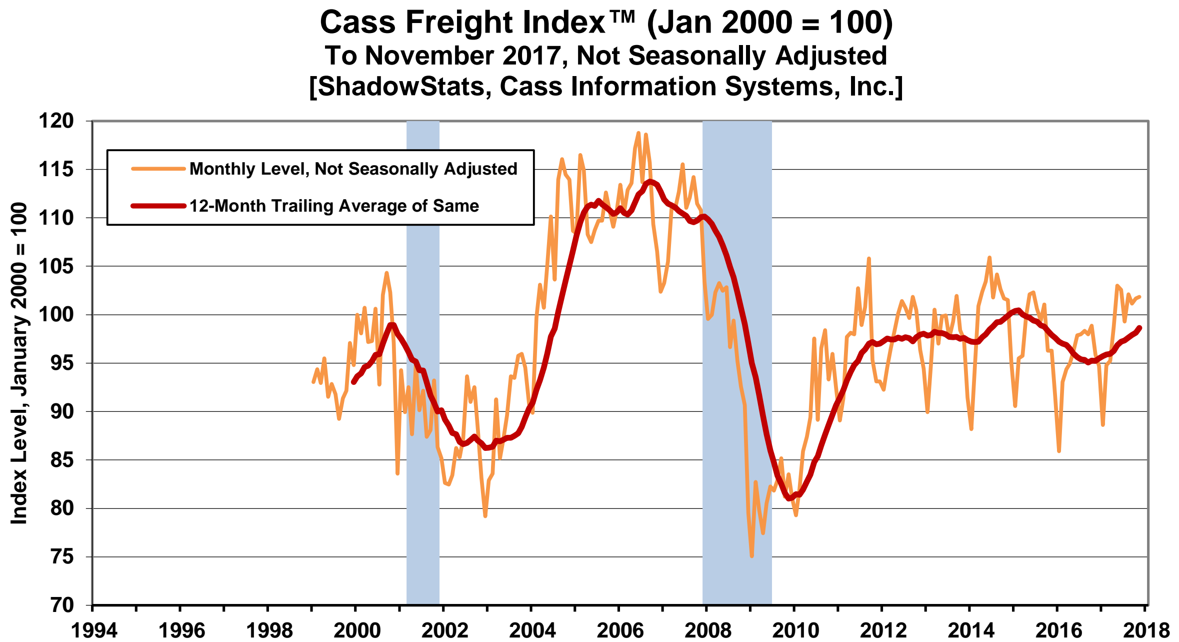
Other graphs range from the November 2017 Cass Freight Index (*Graph 15*) to October U.S. Petroleum Consumption (*Graph 16*), November U.S. Industrial Capacity Utilization (*Graph 17*), related November Consumer Goods Production (*Graph 18*) and November Housing Starts (*Graph 19*), with all but the Petroleum Consumption graph from *Commentary No. 926* and *Commentary No. 927*.

[Graphs 14 to 19 begin on the next page.]

Graph 14: Corrected Real GDP through 3q2017, Third Estimate



Graph 15: Cass Freight Index for North America (2000 – November 2017), Indexed to January 2000 = 100



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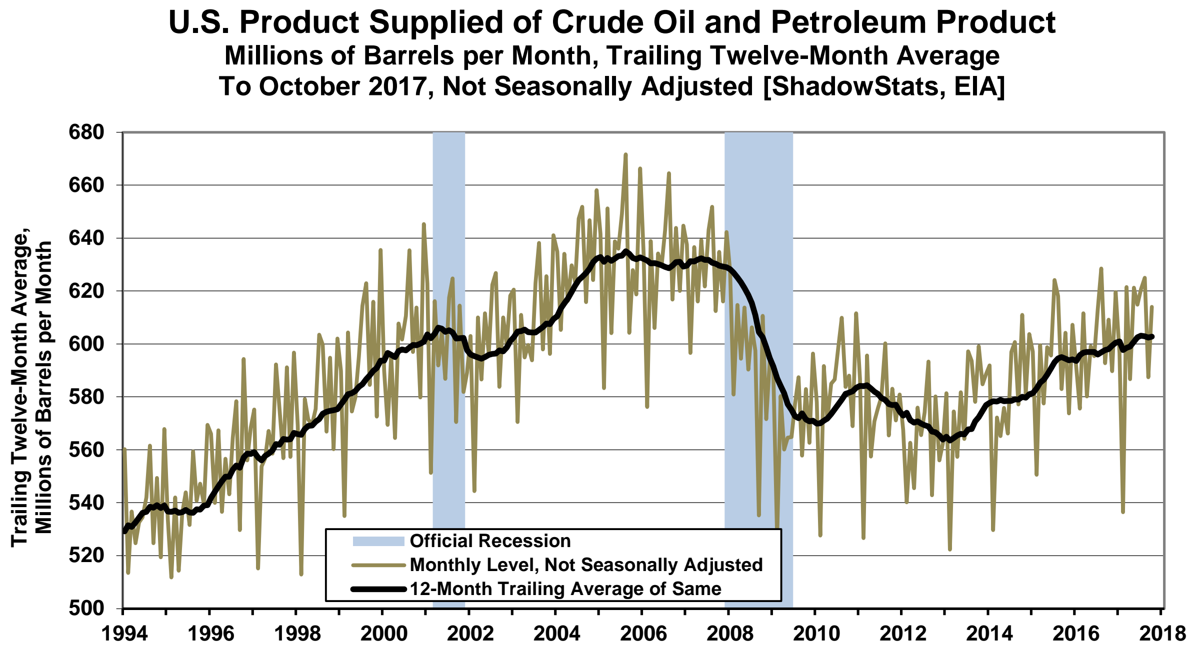
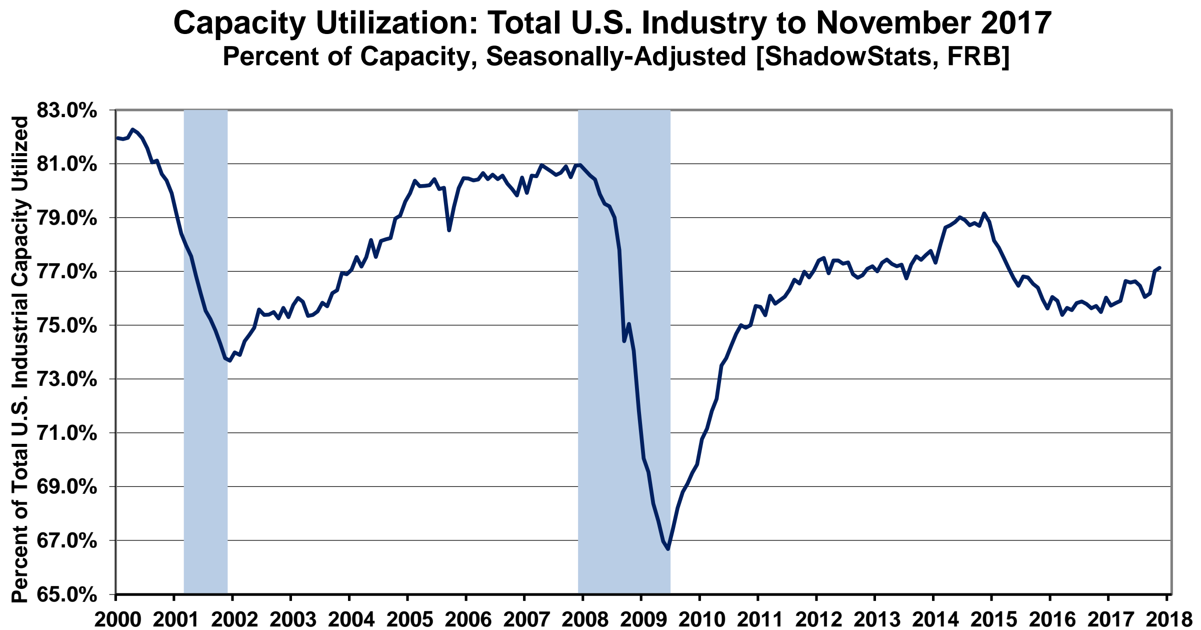
Graph 16: U.S. Petroleum Consumption to October 2017



Graph 17: Utilization of Total U.S. Industrial Production Capacity (2000 to November 2017)



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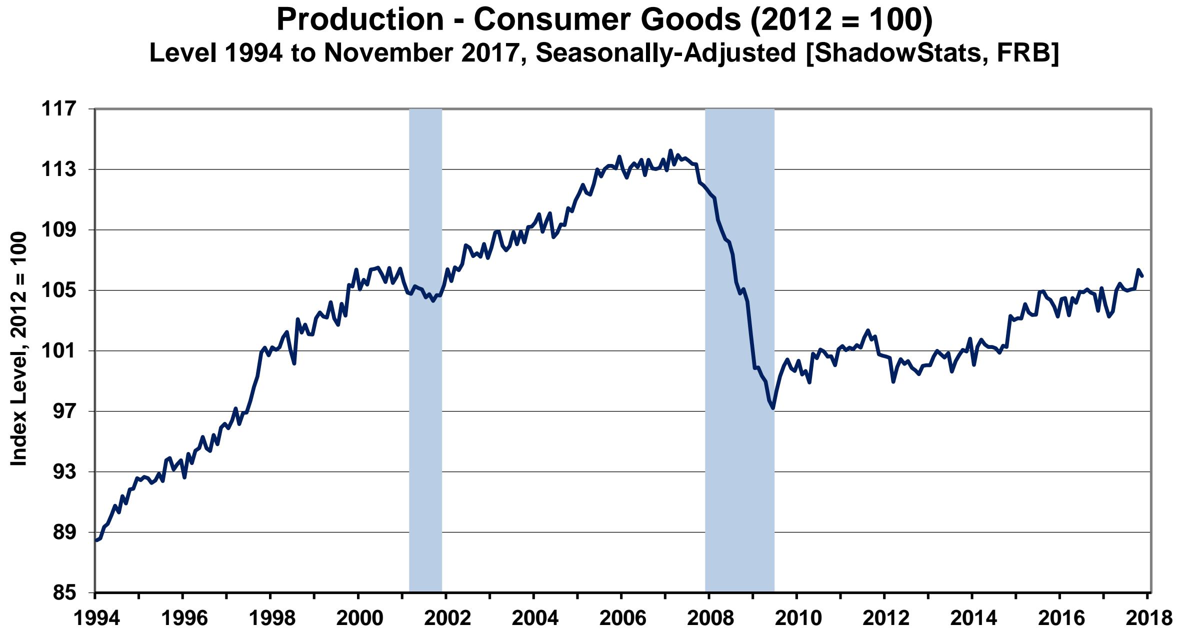
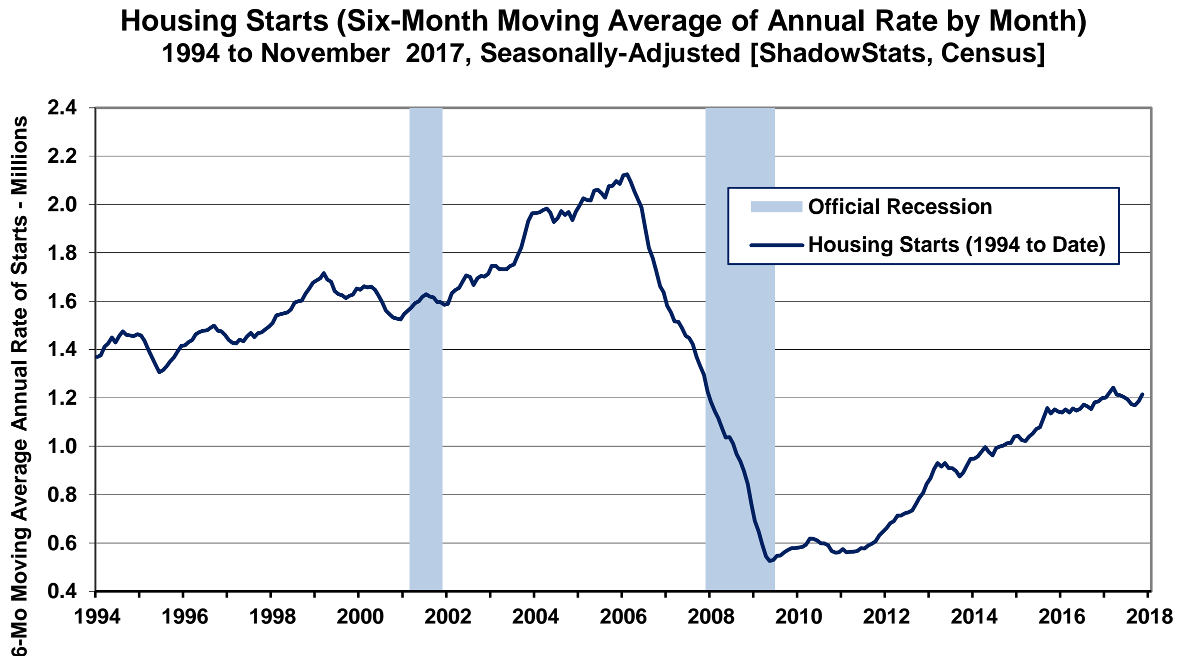
Graph 18: Industrial Production – Consumer Goods Sector (1994 – November 2017)



Graph 19: Housing Starts, Annual Rate by Month (1994 – November 2017)



Headline Unemployment Rates. In the context of the once-per-year (December) purported comparability of month-to-month changes in seasonally-adjusted headline unemployment detail, discussed in the *Opening Comments* and the *Supplemental Labor-Detail Background*, as reflected in *Graph 10*, the

headline December 2017 U.3 unemployment rate of 4.1% [4.09% at the second decimal point], was unchanged versus the benchmark-revised unemployment rate (detailed in *Table OC-1* of the *Opening Comments*) of 4.1% [4.12%] in November, following headline readings of 4.1% [4.07%] in October, 4.2% [4.20%] in September, 4.4% [4.44%] in August, 4.3% [4.33%] in July, 4.3% [4.35%] in June, 4.3% [4.28%] in May, 4.4% [4.38%] in April, 4.5% [4.48%] in March, 4.7% [4.68%] in February and 4.8% [4.78%] in January.

Formally, the month-to-month decline of 0.03% (-0.03%) in the December 2017 U.3 was well shy of being statistically-significant (+/- 0.23% at the at the 95% confidence interval). Other than for the current month's once-per-year benchmarking, however, such consideration broadly is nonsense, given that the comparison of monthly numbers otherwise is on an inconsistent basis, a circumstance that resumes for the next eleven months with the January 2018 headline detail (again, see the following *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 notched higher to 3.93% in December 2017, versus unrevised rates of 3.92% in November 2017, 3.89% in October, 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 neutral pressure on the seasonally-adjusted December 2017 U.3 unemployment rate, an unadjusted monthly increase of 142,000 in the count of marginally-attached workers (including discouraged workers) and an increase of 102,000 in the adjusted number of people working part-time for economic reasons, the adjusted December 2017 U.6 unemployment rate was rose to 8.08%, versus revised estimates (again see *Table OC-1* in the *Opening Comments*) of 7.99% in November, 7.99% in October, 8.29% in September, 8.56% in August, 8.53% in July, 8.54% in June, 8.42% in May, 8.57% in April, 8.82% in March, 9.20% in February and 9.39% in January. The unadjusted U.6 unemployment rate was 8.00% in December 2017, versus 7.66% in November, 7.61% in October, 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 December 2017 (never seasonally-adjusted) increased by 5,000 to 474,000, from 469,000 in November, which declined by 55,000 (-55,000) from 524,000 in October, which gained 123,000 versus 421,000 in September, down by 27,000 (-27,000) versus August, which declined by 88,000 (-88,000) versus July, which 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

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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 workers, again, increased by 142,000 in December 2017 to 1,623.000, versus monthly declines of 54,000 (-54,000) in November, 34,000 (-34,000) in October, a gain of 21,000 in September, a decline of 81,000 (-81,0000 in August, gains of 47,000 in July and 107,000 in June, and declines of 59,000 (-59,000) in May, 61,000 (-61,000) in April, 128,000 (-128,000) in March and down by 9,000 (-9,000) in February.

That latest, official "discouraged" number, again, reflected the flow of the headline unemployed—giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term "marginally-attached discouraged workers," net of the further increase in the number of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status.

It is the displaced 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 December 2017 was 21.7 %, versus revised estimates (again see the *Opening Comments*) of 21.7% in November, 21.7% in October 2017, 21.9% in September, 22.2% in August, 22.1% in July, 22.0% in June, 22.0% in May, 22.1% in April, 22.4% in March, 22.7% in February and 22.9% in January. The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force—effectively becoming long-term discouraged or displaced workers—as discussed in the *Supplemental Labor-Detail Background*, page 31.

Payroll Survey: December's Weak Gain Was Boosted by Downside Revisions; Low Annual Growth Continued Its Recession Signal. Reflected in *Graphs 20* and *21*, the headline payroll employment gain in December was 148,000, versus an upwardly-revised November gain of 252,000 [previously 228,000] and an even greater downwardly-revised October gain of 211,000 [previously 244,000, initially 261,000] in October and now unrevised, but inconsistent 38,000 gain in hurricane-hit September, with recovery from same reflected in the October and November gains. With a net downside revision of 9,000 (-9,000) jobs to October and November, December payrolls gained 139,000 jobs net of revisions.

Separately, the October monthly gain detail was not stated on a consistent basis with the November and December headline details (see the *Supplemental Labor-Detail Background*, page 31. for discussion on the various reporting distortions and gimmicks), and September's gain was not consistent with reporting for October, November or December.

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The headline December payroll gain of 148,000 formally was just 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, remained in recession-signal territory, with the 1.50% year-to-year gain in unadjusted December 2017 payrolls, up slightly from revised annual gains of 1.46% [previously 1.44%] in November 2017 and 1.36% [previously 1.37%, initially 1.40%] in October 2017 and the unrevised hurricane-induced trough of 1.29% in September 2017.

Ignoring the hurricane-warped data for September and October, the 1.50% headline annual gains in December 2017 and 1.46% in November 2017 (with the exception of 1.43% annual growth in April 2017) were at a 75-month low, the lowest level of annual growth since the economy was last coming out of a recession in August 2011.

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*. Subject to next month's payroll benchmark revisions, current levels of annual growth in unadjusted payrolls likely are at a threshold, on the downside, of heading into recession.

Graphs 20 to *23* 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 20 to 23 begin on the next page.]

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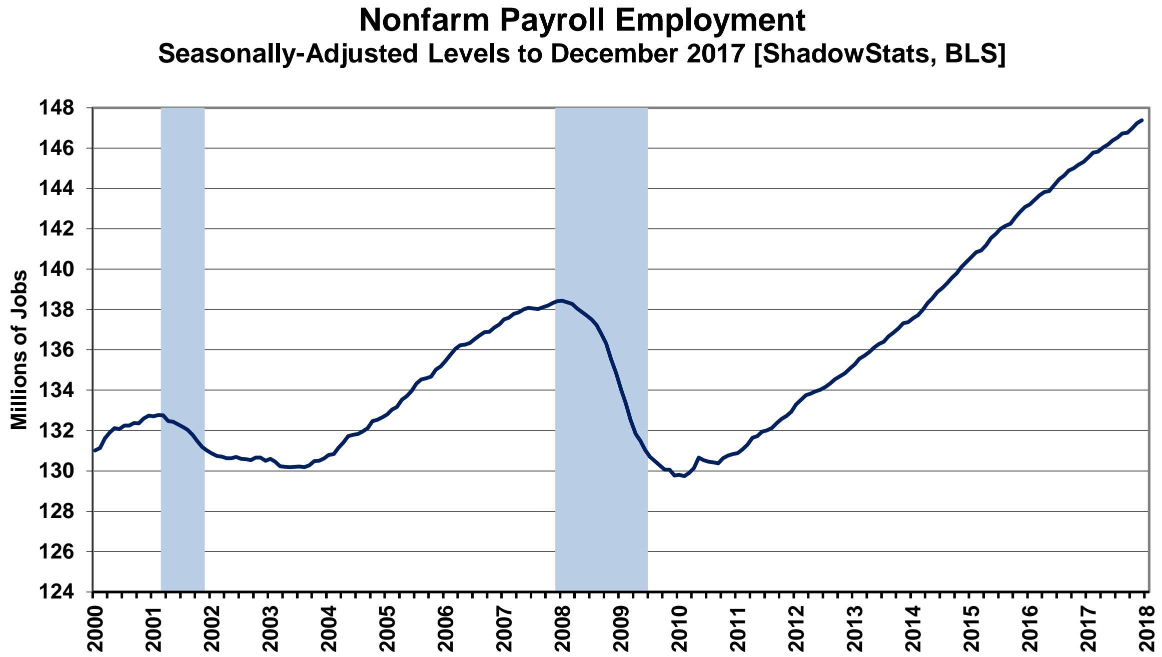
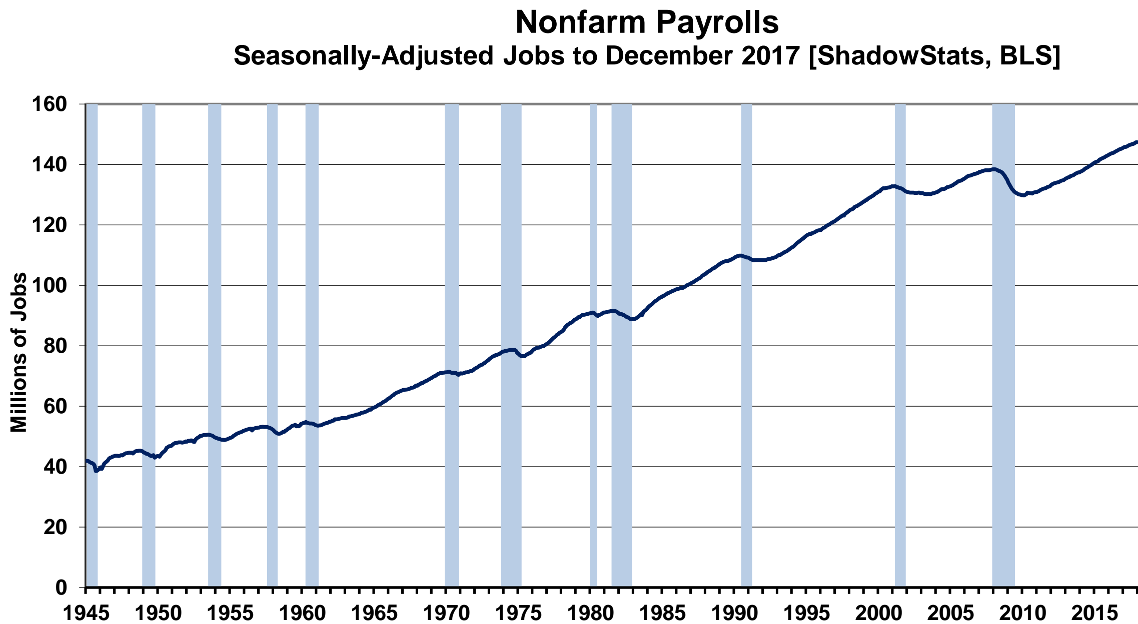
Graph 20: Nonfarm Payroll Employment 2000 to Date

(Same as Graph 2 in the Executive Summary)

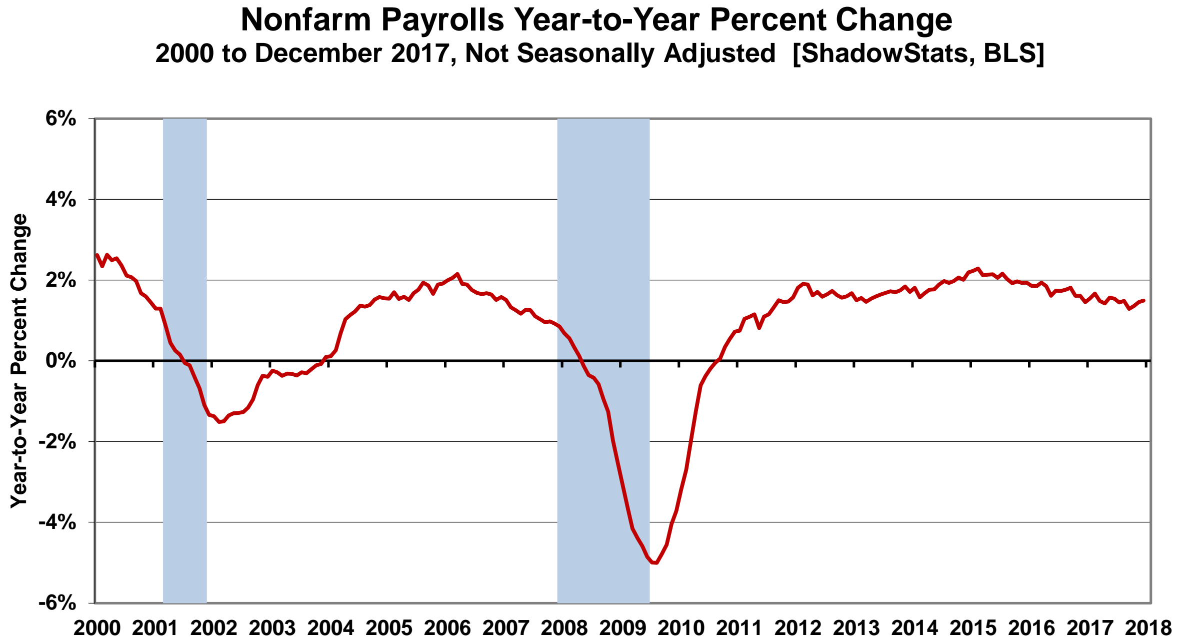


Graph 21: Nonfarm Payroll Employment 1945 to Date

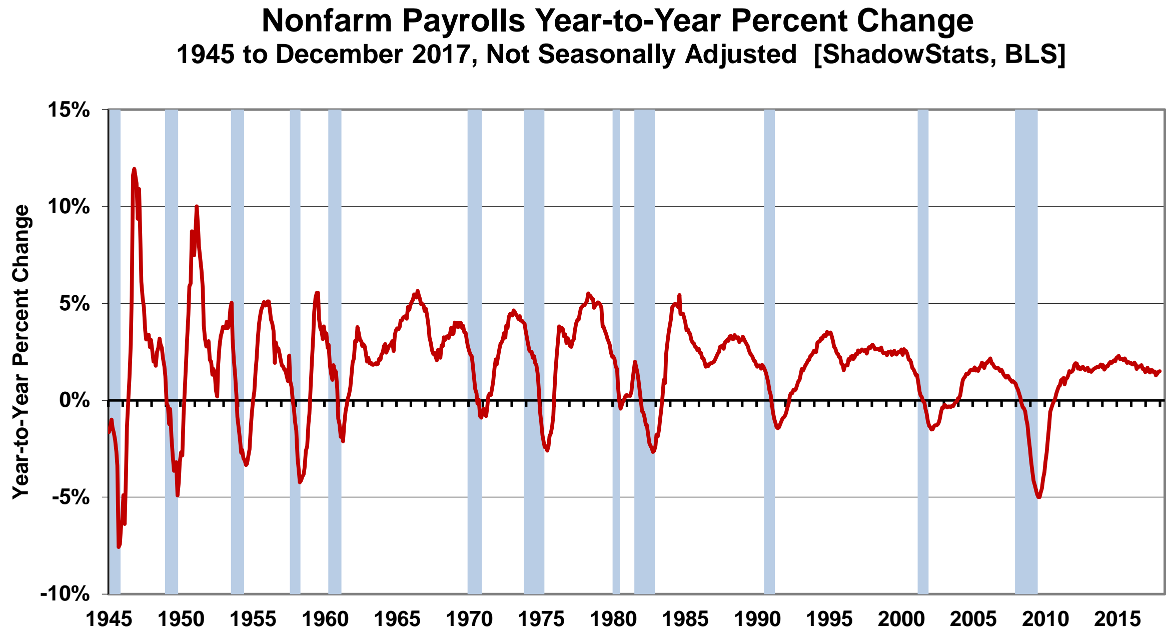


Graph 22: Payroll Employment, Year-to-Year Percent Change, 2000 to Date

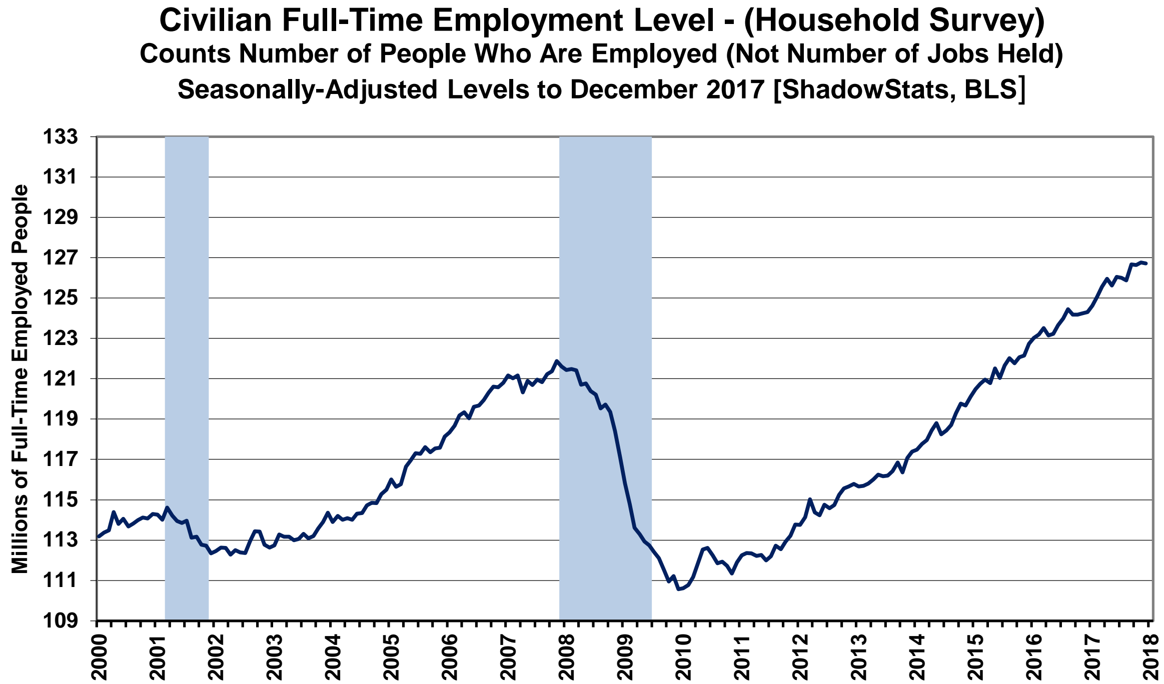
(Same as Graph 3 in the Executive Summary)



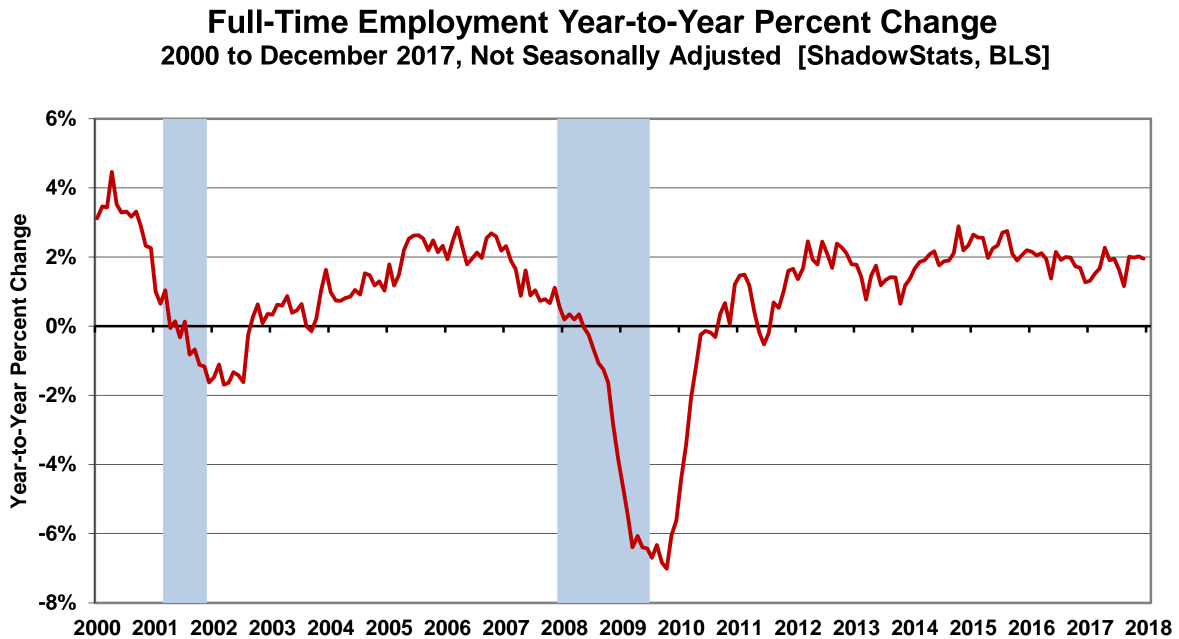
Graph 23: Payroll Employment, Year-to-Year Percent Change, 1945 to Date



Graph 24: Full-Time Employment (Household Survey) to Date (2000 to Date)



Graph 25: 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.

Where, out of the payroll survey, headline payroll employment rose month-to-month by 148,000 in December 2017, out of the household survey, full-time employment declined by 35,000 (-35,000), with multiple job holders (already counted as employed individuals) increasing by 305,000. Among other differences, the payroll survey is nonfarm, where agricultural employment is covered in the Household Survey.

Heavily hurricane-distorted in recent headline Household Survey reporting, full-time employment purportedly had gained 160,000 [now 122,000] in the month of November 2017, having declined by 23,000 (-23,000) [now down by 40,000 [-40,000]) in October 2017, having gained a remarkable, heavily-hurricane-warped 935,000 jobs [now up by 794,000] in September 2017, with no hurricane impact before September. December 2017 full-time employment declined month-to-month by 35,000 (-35,000).

Year-to-year change in unadjusted full-time employment had risen to 2.10% [now 2.02%] in November 2017 from 1.99% [now 1.98%], in October 2017, versus 2.11% [now 2.01%] in September 2017. Headline year-to-year change dropped to 1.95% in December 2017. The benchmark-revised headline details are plotted in *Graphs 24* and *25*, with scales consistent with *Graphs 20* and *21* of nonfarm payrolls, for comparison purposes. The annual changes here can be distorted by annual population adjustments made each year in January by the BLS.

December Construction Payrolls Rose by 0.4% Month-to-Month, Bloated Again by Bad Seasonals, Still Down by 9.5% (-9.5%) from Its Pre-Recession Peak. For the second-straight month, there was a positive shift in seasonal adjustments so as to boost current headline monthly reporting, with upside revisions to seasonally-adjusted October and November 2017 activity, while revisions were to the downside for not-seasonally-adjusted October and November 2017 activity. Such is particular nonsense. Discussed in the following *Supplemental Labor-Detail Background*, headline details here are not revised back before two months prior (October 2017 at present), which means that the current seasonal-adjustment boost was borrowed from earlier periods not from headline revised data (again the same happened with the headline November 2017 reporting, discussed in *Commentary No. 924*).

That said, December 2017 construction payrolls gained an adjusted 30,000 jobs or 0.43% [38,000 jobs or 0.54% net of revisions] to 6.993 million employed, following revised gains of 15,000 and 20,000 jobs in October and November. Annual growth was at an unadjusted 3.75% in December 2017, versus a revised 2.74% [previously 2.78%] in November 2017, yet the adjusted December 2017 construction payroll employment level still remained down by 9.48% (-9.48%) from the pre-recession high for the series.

In parallel with various construction measures, headline December 2017 construction employment remained down by 9.48% (-9.48%) from recovering its pre-recession high. The current plot of Construction Payrolls *(Graph 32)* is found on page 46, associated with the November 2017 Construction Spending detail discussion.

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

SUPPLEMENTAL LABOR-DETAIL BACKGROUND

The following material provides background on issues with headline monthly reporting of labor data from the Bureau of Labor Statistics (BLS) surveys: the Establishment Survey (nonfarm payrolls) and the Household Survey (unemployment and employment detail). The text here is not revised each month from its prior version, except for updated monthly numbers through the latest headline detail (currently December 2017), which also are referenced separately in the related standard employment and unemployment text in the *Executive Summary* and *Reporting Detail.* Note: The annual benchmark revisions to the Payroll Survey are scheduled for February 2, 2018. The January 5, 2018 annual benchmark revisions to the Household Survey are discussed in today's *Opening Comments*.

(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 (see the opening note above), but the numbers become inconsistent, once again, with the ensuing January reporting. Headline month-to-month inconsistencies in the seasonally-adjusted 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. In theory, 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, 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.

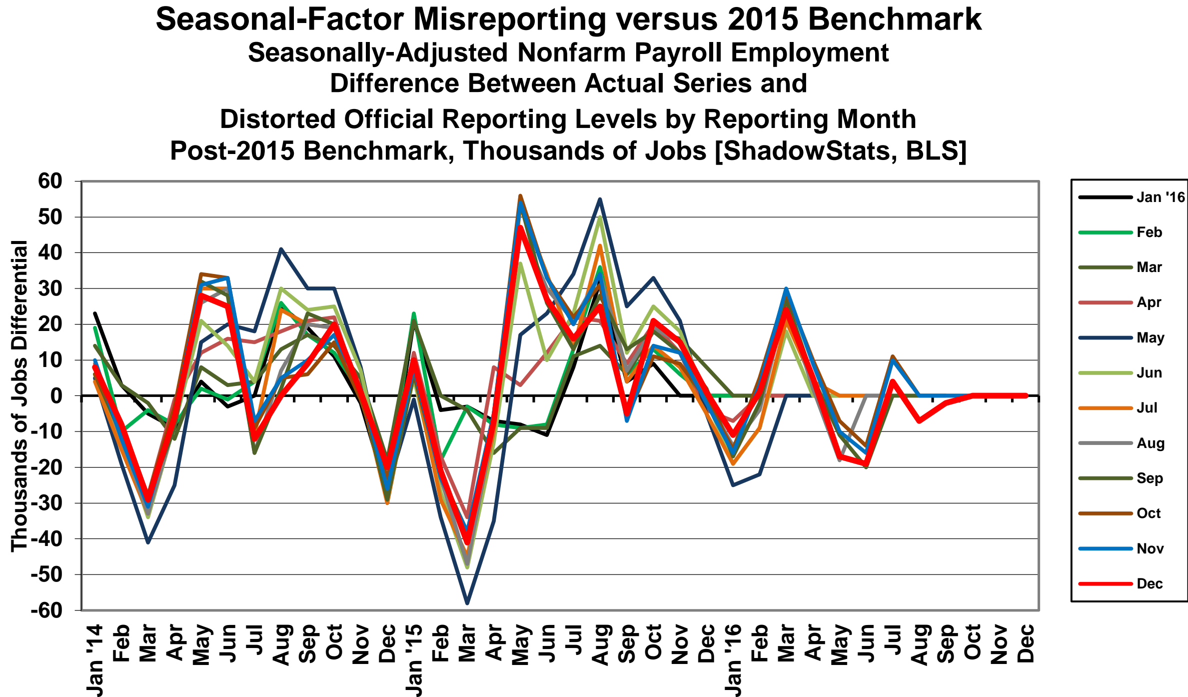
Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), again, the current monthly changes in the seasonally-adjusted headline data are comparable only with the prior month's month-to-month reporting, not before. Due to the BLS 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.

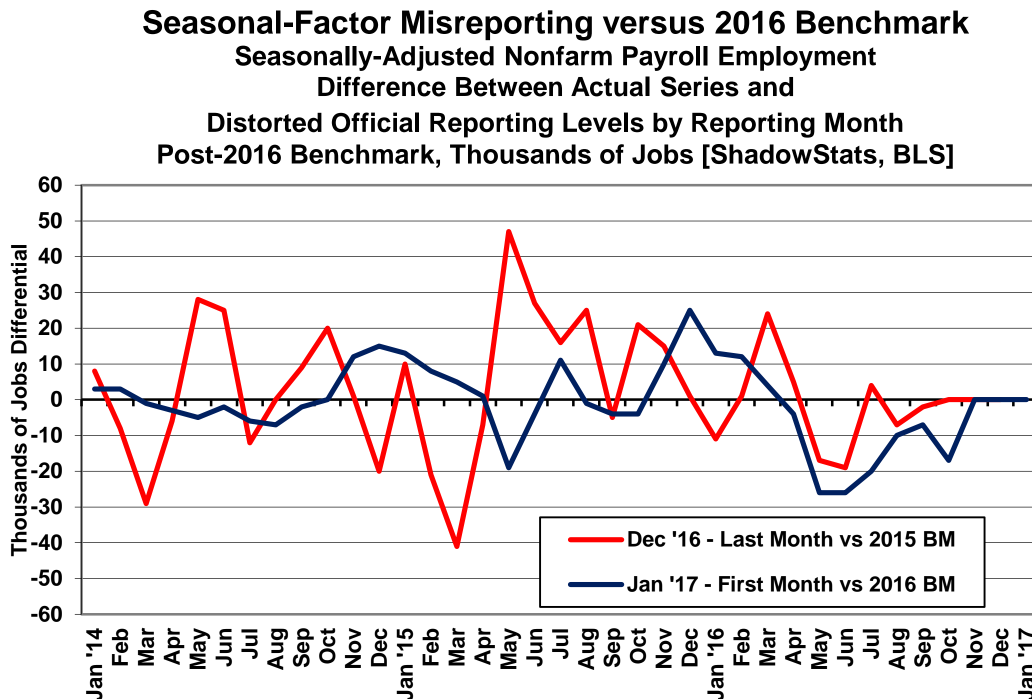
Where the red line reflected seasonal-factor straying through December 2016 from the 2015 benchmarking, the blue line indicates the straying in January 2017 versus the initial 2016 benchmarking. The January 2017 detail suggested a reversal of seasonal factors, consistent with the benchmarking detail

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.

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



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.

(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 along with next month's February 2, 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.

<u>December 2017 Add-Factor Bias.</u> The not-seasonally-adjusted add-factor upside bias was a revised subtraction of 38,000 (-38,000), versus a negative bias of 5,000 (-5,000) in November 2017, an upside bias of 216,000 in October 207, a downside bias of 49,000 (-49,000) in September 2017 and an upside 103,000 bias in August 2017 and against a negative add-factor of 28,000 (-28,000) in December 2016 reporting. The revamped, aggregate upside annual bias for the trailing twelve months through December 2017 is estimated from current headline bias reporting at 892,000, up by 51,000 or 6.1% from 841,000 in the December 2016 pre-benchmarking level, and up 111,000 or 14.2% from 781,000 in December 2015, the year before. That is a monthly average of 74,333, in December 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.

<u>Problems with the Model.</u> 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 74,333 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 5.071 million in December 2017, versus 4.877 million in November 2017, 4.938 million in October 2017, 5.415 million in September 2017, 5.852 million in August 2017, 5.713 million in July 2017. Seasonally-adjusted the aggregate December 2017 number was 5.308 million, versus benchmark-revised estimates of 5.265 [previously 5.238] million in November 2017, 5.232 [previously 5.185] million in October, 5.626 [previously 5.628] million in September and 5.809 [previously 5.844] million in August 2017. 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's U.6 estimate as an underlying monthly base, I have not found a way of accounting adequately 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 11* to *13*). Other measures, such as the ShadowStats-Alternate GDP Estimate, the Cass Freight Index, U.S. Petroleum Consumption, etc. are highlighted in subsequent *Graphs 14* to *19* there and in the *Economy* section of *No. 859 Special Commentary*.

Headline December 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 December 2017 was 21.7%, versus 21.7% in November, 21.7% in October, 21.9% in September, 22.2% in August, 22.1% in July, 22.0% in June, 22.0% in May, 22.1% in April, 22.4% in March 2017, 22.7% in February, and 22.9% in January. Built upon the headline U.3 and U.6 estimates, the December 2017 ShadowStats reading was down by 160 basis points or 1.6% (-1.6%) from the 23.3% series high seen in May 2014.

In contrast, the December 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 8.1% in December 2017, was down by 910 basis points or 9.1% (-9.1%) 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* in the *Executive Summary*, *Graph 10* in the *Reporting Detail*), there indeed is a noticeable divergence in the ShadowStats series versus U.6 and U.3, with the BLS headline U.3 unemployment measure broadly heading lower recently, against a higher level, down-trending U.6 and a still-higher level, relatively stagnant, but also down-trending ShadowStats number, which has been flat in for the last three months despite an upside notch to the December 2017 U.6.

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%.

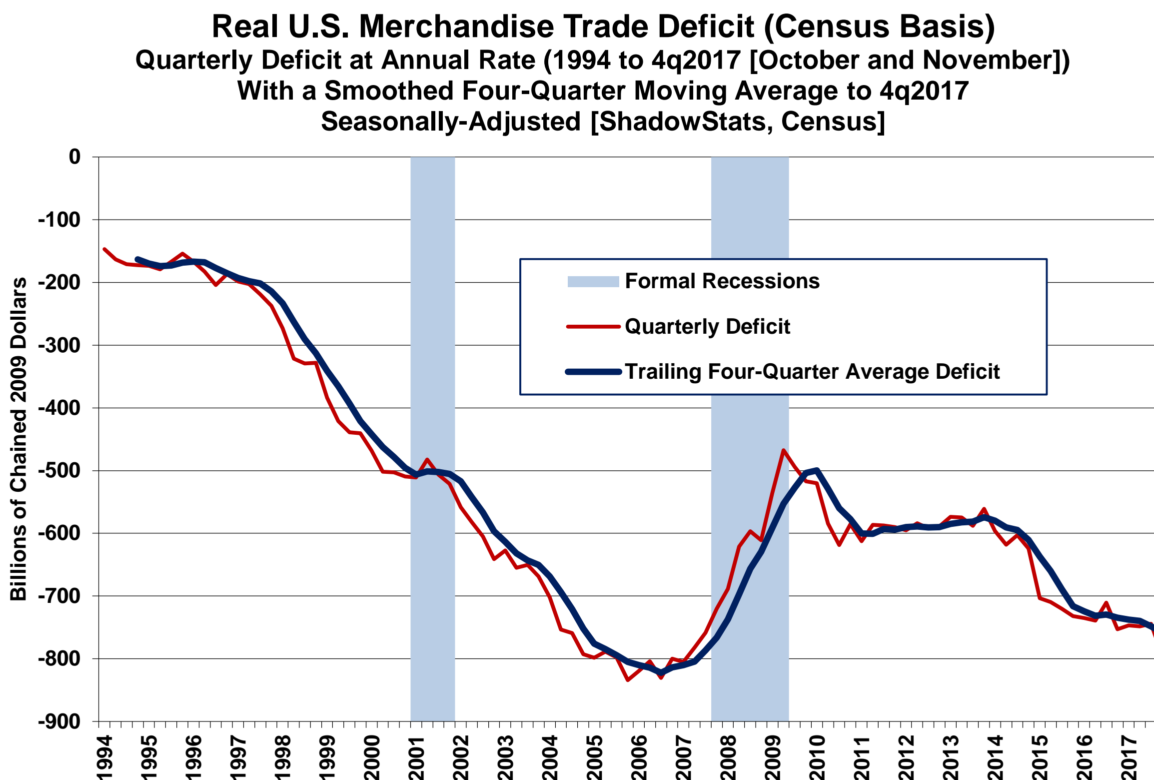
[Coverage of the U.S. Trade Deficit Begins on the Next Page.]

U.S. TRADE DEFICIT (November 2017)

November Nominal Trade Deficit Topped $50 Billion for First Time Since March 2012, Quarterly Real Merchandise Trade Shortfall on Track for Worst Showing 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, again, month-to-month and year-to-year, breaking above $50 billion for the first time in five years. Implications here intensified for negative trade-deficit impact on real growth in fourth-quarter 2017 GDP.

Quarterly Real Deficits Rival Pre-Recession Levels. Detailed in the *Real Trade Deficit* section, adjusted for inflation, the fourth-quarter 2017 two-month trend in the real merchandise trade deficit continued on track for the worst showing since first-quarter 2007 (see *Graph 4* in the *Executive Summary*). Also shown in accompanying *Graph 26*, previously, the fourth-quarter 2016 real merchandise trade deficit had been the worst shortfall since third-quarter 2007, with subsequent first-, second- and third-quarter 2017 deficits only minimally narrowed. As a result, the four-quarter smoothed moving-average of the annual real merchandise trade deficit, through third-quarter 2017, remained the worst since fourth-quarter 2007, with that pattern continuing and intensifying, based on two months of fourth-quarter 2017 detail.

Graph 26: Four-Quarter Smoothed, Real Quarterly Merchandise Trade Deficit (1994-2017)



Nominal November 2017 Trade Deficit Widened, with Continuing Relative Surge in Imports. The Bureau of Economic Analysis (BEA) and the Census Bureau (Census) reported Friday, January 5th, that the nominal (not adjusted for inflation), seasonally-adjusted monthly trade deficit in goods and services for November 2017 widened on a balance-of-payments basis by $1.583 billion, or by 4.2%, to $50.497

billion, versus a revised, deepened deficit of $48.914 [previously $48.731] billion in October 2017. The widening in the monthly November deficit reflected a strong increase in monthly exports of $4.440 billion, more than offset by an increase of $6.023 billion in imports. The headline November 2017 deficit also widened by $5.574 billion, or by 8.9%, versus the year-ago $46.373 billion trade shortfall for November 2016.

The widening in the goods-related deficit on a Census Basis by $1.583 billion was unusually close to the "advance" estimate of a $1.578 billion widening of the November Balance-of-Payments Basis goods deficit published on December 28th.

Factors affecting the net deterioration to the November 2017 trade balance were widespread, with the increase in imports simply exceeding the increase exports in capital and consumer goods as well as in oil.

Energy-Related Petroleum Products. November 2017 imported oil prices rose by an unadjusted 6.0% to $50.10 per barrel versus $47.26 in October 2017, and by 22.8% versus $40.81 per barrel in November 2016. Separately, unadjusted physical oil-import volume in November 2017 averaged 7.852 million barrels per day, up from 7.570 million in October 2017, but down from 8.014 million in November 2016.

Hurricane Impact. The BEA and Census have indicated they had no way of estimating the impact of the Atlantic hurricanes on the reported trade activity, and net trade-flow disruptions (exports versus imports) are not obvious in the headline data. Noted in *Commentary No. 919-A*, "damages from Hurricane Harvey likely had some negative near-term impact on aggregate trade-flow activity in August, although not in much that would affect the aggregate trade balance, and little in the way of obvious impact was seen in the September detail, either. In general, where the aggregate dollar value of the net U.S. trade flow is negative, trade-flow disruption tends to understate the trade deficit, a circumstance that tends to be a positive contributor to headline GDP activity." Any hurricane distortions here likely have largely passed.

Ongoing Cautions and Alerts on Data Quality. Monthly trade data can be influenced by irregular shipping patterns, affected by factors ranging from labor disruptions to unusual weather conditions, such just discussed with recent hurricanes.

Separately, potentially heavy distortions in headline data continue from distorted and unstable seasonal adjustments. Similar issues affect other economic releases, such as labor conditions and retail sales, where the headline number reflects seasonally-adjusted month-to-month change. Discussed frequently (see *2014 Hyperinflation Report—Great Economic Tumble* for example), the extraordinary length and depth of the current business downturn and related, ongoing disruptions have distorted regular patterns of seasonality.

Real November 2017 Merchandise Trade Deficit. Discussed here and reflected in *Graph 4* of the *Executive Summary* and in *Graph 26,* earlier in this section, seasonally-adjusted and in real terms, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the November 207 merchandise trade deficit (no services) widened to $66.677 billion, versus a revised $65.612 [previously $65.320] billion in October. The November 2017 real trade shortfall of $66.677 billion also widened versus the deficit of $64.530 billion in November 2016.

Last year, the annualized deficit was $735.3 billion for first-quarter 2016, $739.4 billion for second-quarter 2016, $710.4 billion for third-quarter 2016 and $753.1 billion for fourth-quarter 2016. The fourth-quarter 2016 deficit was the worst quarterly showing since third-quarter 2007. The annual real

merchandise trade deficit widened for the year of 2016 to $747.2 billion, versus $716.4 billion in 2015. The 2016 annual trade shortfall was the worst since 2008.

The first-quarter 2017 deficit narrowed minimally to $747.1 billion, with the second-quarter 2017 deficit widening minimally to $748.3 billion, the third-quarter 2017 deficit narrowing some to an unrevised annualized deficit of $744.4 billion.

Based solely on the October and November 2017 detail, fourth-quarter 2017 is on early track for an annualized deficit of $798.7 billion, which would be the worst showing since first-quarter 2017 (see *Graph 4*) [that previously had been $783.8 billion based just on October detail]. Again, previously the fourth-quarter 2016 deficit had been the worst quarterly showing since 2007, and, as indicated in *Graph 26*, the four-quarter moving annual average deficit through third-quarter 2017 was the deepest shortfall seen since 2007. The fourth-quarter deficit appears set to challenge the 2007 readings on both fronts.

Irrespective of occasional, quarterly aberrations and increasingly irregular, headline month-to-month activity, headline deficits broadly should continue to deteriorate sharply in the months and quarters ahead, revising and intensifying the ongoing and commonly-negative impact on headline GDP reporting.

CONSTRUCTION SPENDING IN THE UNITED STATES (November 2017)

Amidst a Monthly Gain and Upside 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 2017 activity remained indicative of the onset of a new recession, with early fourth-quarter activity trending positive quarter-to-quarter, but trending negative year-to-year. The third-quarter patterns of real activity were seen last during the housing collapse of 2006, leading into the formal 2007 recession, and the continuing, annual real contractions in October and November are consistent with that condition. The signals here remain for an intensifying downturn.

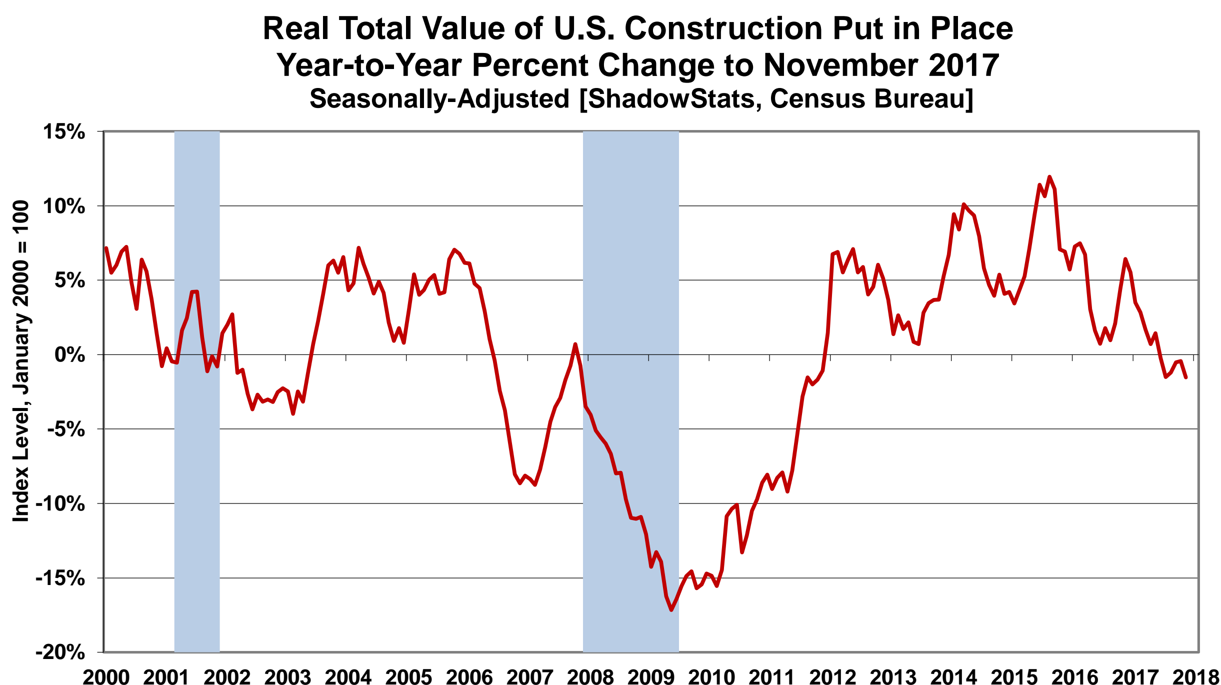
With nominal annual growth in total construction spending slowing to 2.4% in November 2017, from a revised 3.4% [previously 2.9%] in October 2017, down at a year-to-year real pace—net of inflation—of 1.5% (-1.5%) in November 2017, versus a revised annual real decline of 0.4% (-0.4%) [previously down by 0.9% (-0.9%)] in October 2017, the pattern of downturn in real annual growth continued. Though less-severe than reported previously, again, after six consecutive months of renewed annual downturn, this pattern last was seen going into the housing collapse in 2006 and the 2007 recession.

While declining real annual activity should remain the general trend, recovery and rebuilding efforts from hurricane damages still may offer some possible short-lived moderation to the otherwise negative activity. Despite the negative trends in place, discussed in *Commentary No. 912*, construction spending could see activity from rebuilding and reconstruction engendered by the massive destruction wrought by both Hurricanes Harvey and Irma. The Census Bureau previously had offered some background as to what its reporting will and will not cover: *Construction Spending - Hurricane Impact*.

In normal times, the Construction Spending series remains highly volatile, subject to unstable and extraordinarily-large monthly revisions. Aggregate revisions were to the upside for September and

October 2017 activity, along with the publication of the initial November 2017 detail. Revised boosts were seen across the board, with upside revisions to the residential sector much stronger than those seen in nonresidential-construction activity. On top of those upside revisions to October activity, nominal November 2017 monthly activity increased by 0.8%, dominated by an increase of 1.0% in private=construction spending versus a gain of 0.2% in public-construction spending.

Graph 27: Total Real Construction Spending, Year-to-Year Percent Change
(Same as Graph 5 in the Executive Summary)



Contracting Annual Growth. What had been an intensifying downside shift in trend in the inflation-adjusted real series continued with the headline November 2017 detail, but in the context of some moderation with upside revisions (although still in year-to-year contraction) for September and October detail. That said, real year-to-year change continued in an annual contraction of a scope last seen during the housing collapse of 2006 (see *Graph 27*, and *Graph 5* in the *Executive Summary*), down year-to-year in each of the last six consecutive months. Real spending also was down year-to-year by 0.8% (-0.8%) in third-quarter 2017, and on an early trend for an annual contraction of 0.9% (-0.9%) in fourth-quarter 2017 (based on October and November reporting).

That said, the headline real November 2017 monthly reading stood at 21.3% (-21.3%) below its pre-recession peak, in contrast to November 2017 Construction Employment down by 9.9% (-9.9%) [down by 9.5% (-9.5%) in December 2017] from recovering its pre-recession high. The broad housing and related construction sector remain severely constrained by ongoing consumer liquidity issues, discussed in regularly in the *Consumer Liquidity Watch*.

November 2017 Construction Spending. In the context of November's monthly gain in nominal aggregate construction spending, dominated by the residential sector, and the upside revisions to October and September activity also dominated by the residential sector, aggregate activity, net of inflation remained in decline on an annual basis.

The headline, seasonally-adjusted nominal November 2017 Value of Construction Put in Place in the United States rose to $1,257.0 billion, from an upwardly revised $1,247.1 [previously $1,241.5] billion in October 2017, an upwardly revised $1,236.3 [previously $1,224.6, initially $1,219.5] billion in September 2017 and an unrevised $1,220.9 billion in August 2017.

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% +/- 1.8% (all confidence intervals are at the 95% level), versus a revised gain of 0.9% [previously 1.4%] in October, 1.3% [previously 0.3%] in September and an unrevised gain of 0.5% in August. Net of the Composite Construction Deflator inflation (see the next section), those were real changes of a 0.3% gain in November 2017, a 0.7% gain in October, a 1.1% gain in September and an "unchanged" 0.0% in August.

Headline annual nominal growth rose by a statistically-significant 2.4% +/- 2.1% in November 2017, versus revised annual gains of 3.4% [previously 2.9%] in October 2017, 3.4% [previously 2.4%, initially 2.0%] in September 2017 and an unrevised 2.7% in August 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, down by 0.5% (-0.5%) in September 2017 and 1.2% (-1.2%) in August 2017. The preceding headline details are reflected in accompanying *Graphs 28* to *31* and in *Graph 6* in the *Executive Summary.*

The statistically-insignificant, nominal monthly gain of 0.8% in aggregate November 2017 spending, versus the revised 0.9% gain in aggregate October 2017 spending, included a headline monthly gain of 0.2% in November Public Construction Spending, which followed a monthly revised gain of 3.5% in October. Private Construction Spending gained by 1.0% in November, having gained a revised 0.1% in October. Within total Private Construction Spending, Residential Construction activity rose by 1.0% in November, having gained a revised 0.3% in October, while the Nonresidential Construction sector gained 0.9% in November, having declined by a revised 0.2% (-0.2%) in October.

The preceding headline details are reflected in accompanying *Graphs 30* and *31* and in *Graphs 6* to *9* in the *Executive Summary*, which show headline detail both before and after adjustment for inflation.

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

CCD year-to-year inflation was 4.03% for November 2017, 3.79% for October 2017 versus 3.94% for September 2017. Month-to-month inflation was 0.45% for November 2017, 0.20% for October 2017 and 0.20% for September 2017.

Second-Quarter and Third-Quarter 2017 Real U.S. Construction Spending Contracted Sharply Quarter-to-Quarter. In the context of upside revisions to September and October 2017 activity and initial November 2017 reporting, net of inflation, second-quarter 2017 growth contracted at an unrevised annualized real pace of 5.8% (-5.8%), versus first-quarter 2017. Annualized real first-quarter 2017 growth had slowed to 1.4% from 5.4% in fourth-quarter 2016.

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Reflecting the third, full reporting for third-quarter 2017, real growth contracted at a revised annualized quarterly pace of 4.2% (-4.2%) [previously down by 5.1% (-5.1%), initially down by 7.4% (-7.4%)], with the early fourth-quarter 2017 trend for an annualized gain of 5.3%, based solely on the regularly-volatile reporting of the two months of October and November, previously up by 3.7%, based on the initial reporting of the single month of October.

Again, in terms of real year-to-year change, first-quarter 2017 growth of 2.7% slowed to 0.6% in second-quarter 2017 reporting and turned negative, down year-to-year by a 0.8% (-0.8%) [previously down by 1.1% (-1.1%)] in third-quarter 2017, with an early trend for a fourth-quarter 2017 year-to-year contraction of 0.9% (-0.9%) [previously estimated at 1.5% (-1.5%), based on the initial October estimate].

[Graphs 28 to 31 begin on the next page.]

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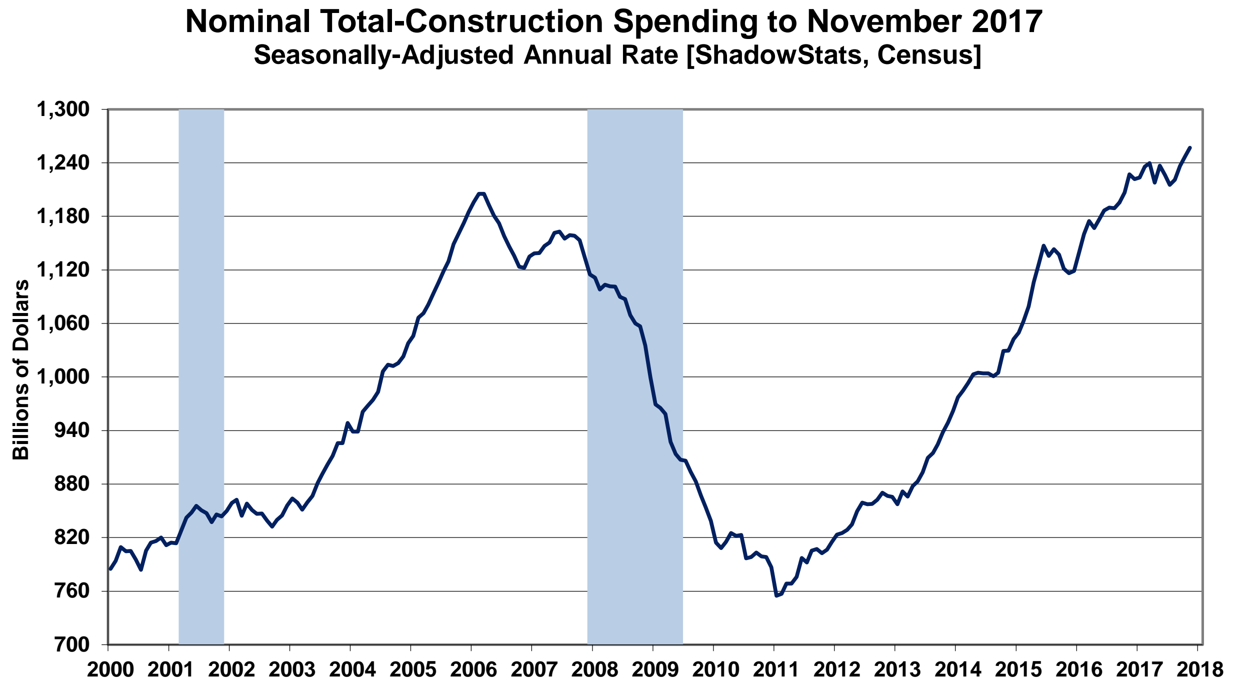
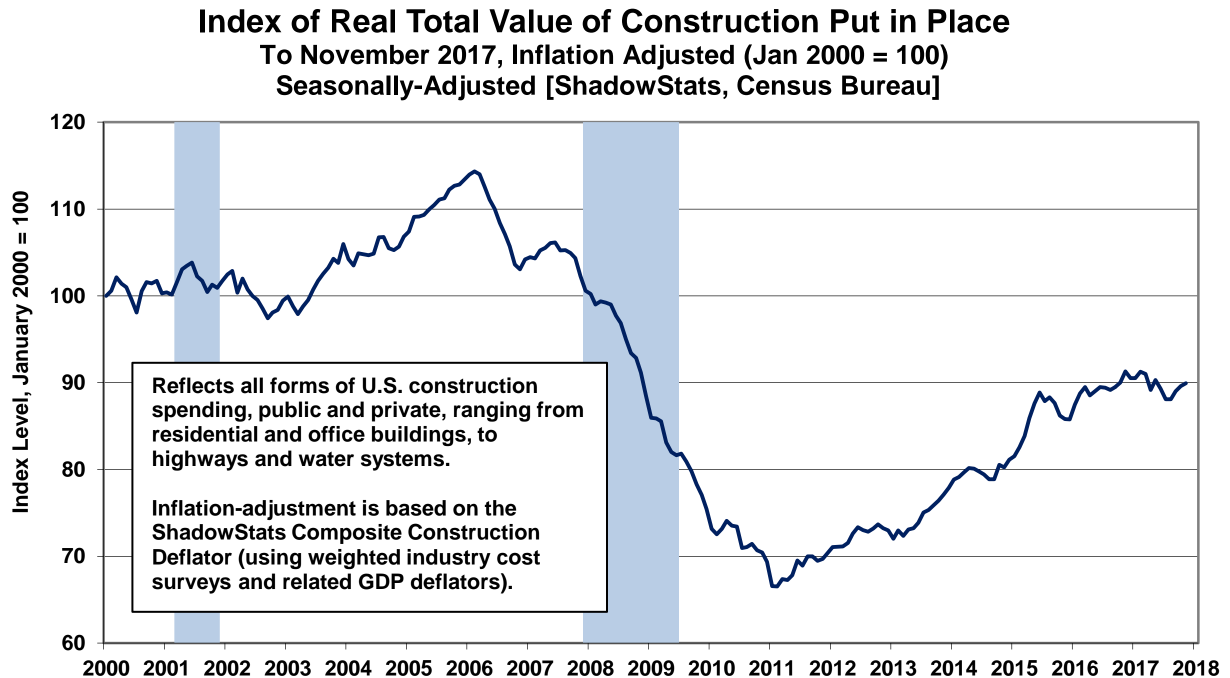
Graph 28: Total Nominal Construction Spending



Graph 29: Index of Total Real Construction Spending



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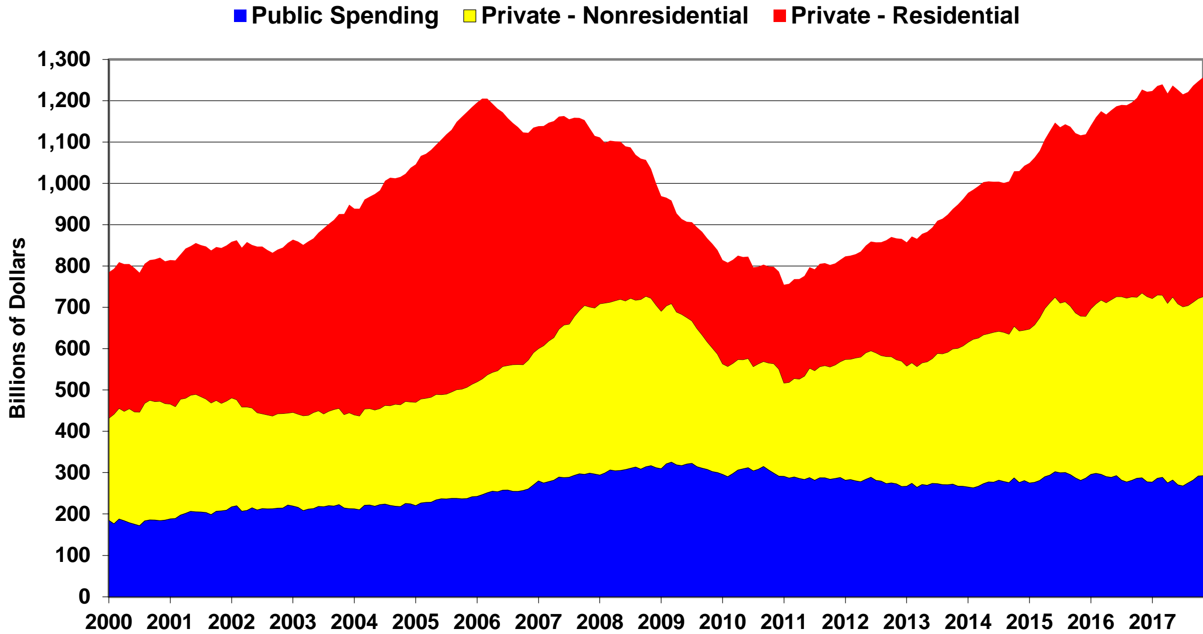
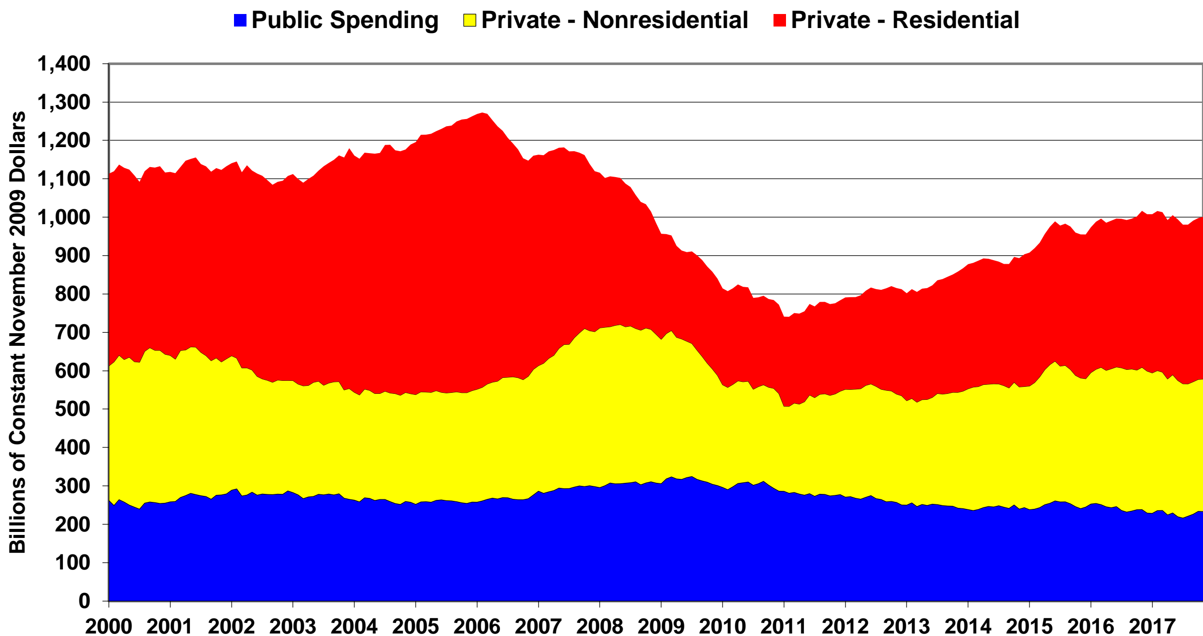
Graph 30: Aggregate Nominal Construction Spending by Major Category to Date

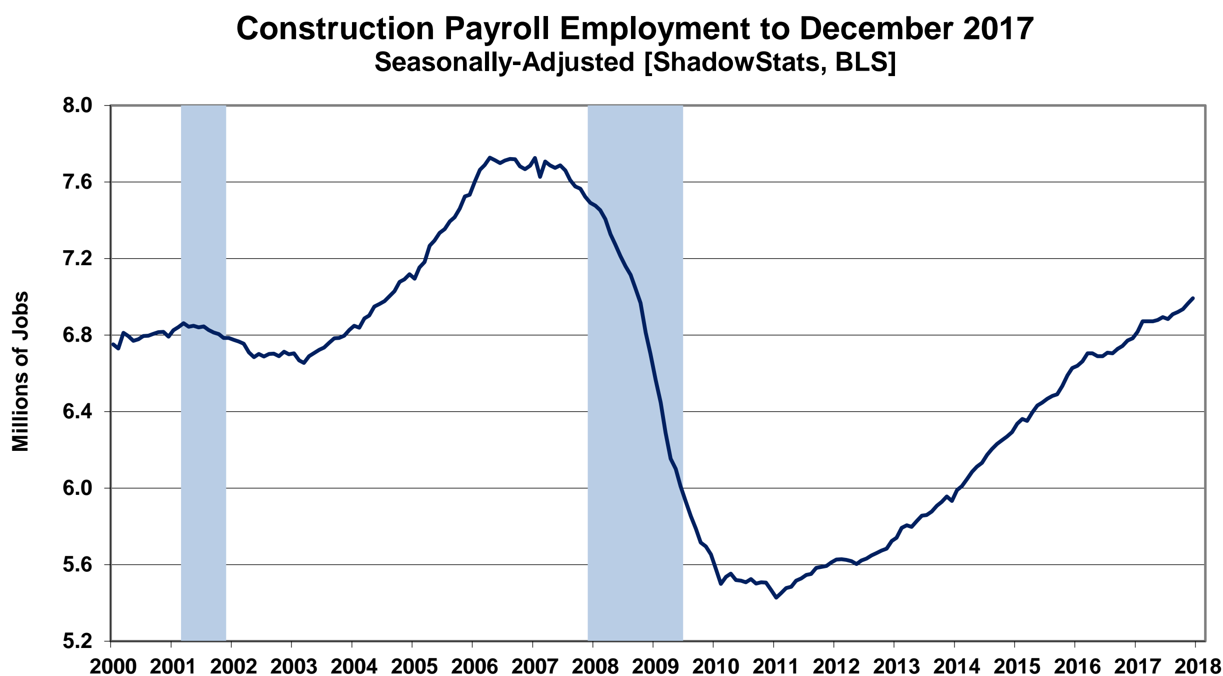


Graph 31: Aggregate Real Construction Spending by Major Category (Billions of November 2009 Dollars)



December Construction Payrolls Rose by 0.4% Month-to-Month, Bloated Again by Rigged Seasonals, Still Down by 9.5% (-9.5%) from Its Pre-Recession Peak. Discussed in the Payroll Employment Section (page 30), in the context of upside revisions to seasonally-adjusted October and November 2017 activity (revisions were to the downside for not-seasonally-adjusted October and November 2017 activity), December 2017 construction payrolls gained an adjusted 30,000 jobs or 0.43% [38,000 jobs or 0.54% net of revisions] to 6.993 million employed. That followed revised gains of 15,000 and 20,000 jobs in October and November. Annual growth was at an unadjusted 3.75% in December 2017, versus a revised 2.74% [previously 2.78%] in November 2017, yet the adjusted December 2017 construction payroll employment level remained down by 9.48% (-9.48%) from the pre-recession high for the series.

Graph 32: Construction Employment (Payroll Survey), Year-to-Year Percent Change, 2000 to Date



Construction Spending and Related Graphs. *Graphs 6* to *9* in the *Executive Summary* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public-construction. Seen after adjustment for inflation, the real aggregate series generally have remained in low-level stagnation, now effectively flat to turning down, from mid-2015 into fourth-quarter 2017. Areas of recent relative strength in the major subcomponents generally have flattened out and have begun to turn down anew, after inflation adjustment.

The general pattern of real activity had been one of low-level, up-trending stagnation but, again, now has turned generally flat-to-minus. The aggregate nominal detail, before inflation adjustment, is shown in *Graph 28* of this *Reporting Detail*, with the real, inflation-adjusted activity plotted in *Graph 29*, while *Graphs 30* and *31* show the relative patterns of nominal and real activity aggregated by sector.

Construction and Related Graphs of Physical Activity. Again, *Graphs 28* and *29*, and *Graphs 30* and *31* reflect total construction spending through November 2017, both in the headline nominal dollar terms,

and in real terms, after inflation adjustment. *Graph 29* is on an index basis, with January 2000 = 100.0, where *Graph 27* reflects the same detail in terms of annual change. Adjusted for the CCD, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014, then with some boost into early-2015. Activity declined in fourth-quarter 2015, with a rebound in 2016, sinking anew into 2017, with annual growth having turned negative, again as indicated in *Graph 27*. The pattern of non-recovered, inflation-adjusted construction spending turning down anew has continued to move contrary to the purported economic recovery and expansion indicated by headline GDP reporting (see *Commentary No. 928*).

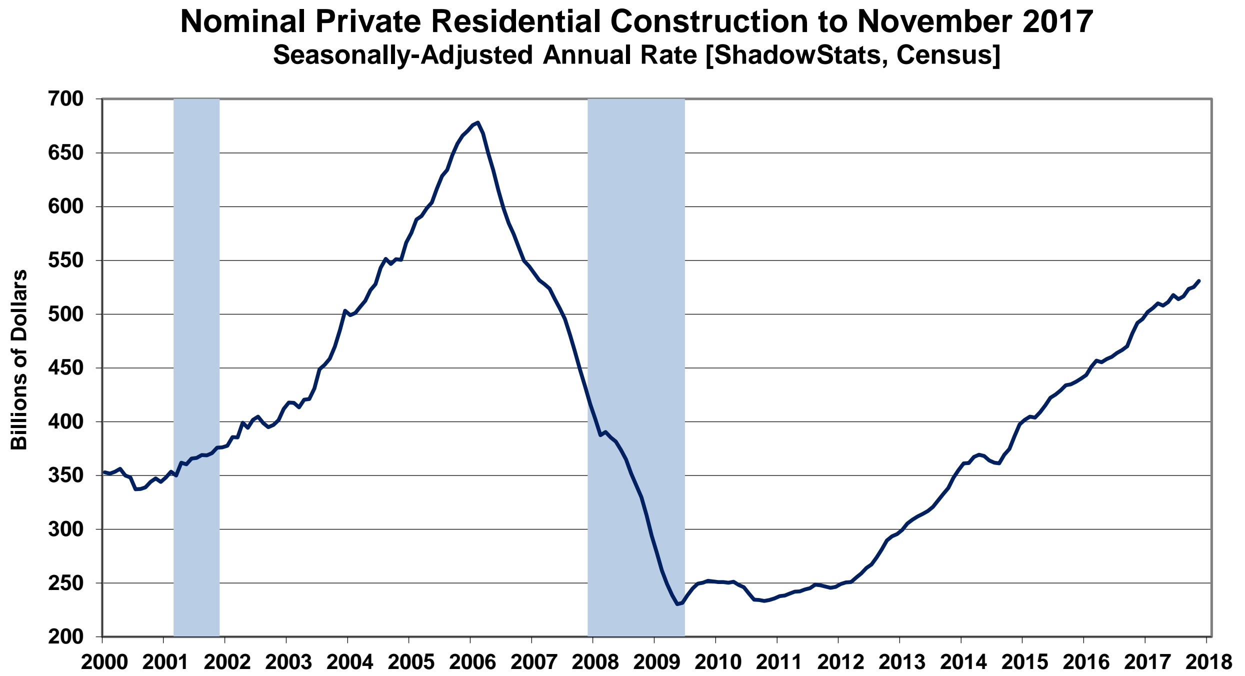
The Data and Graphs Here Reflect Monthly Levels, Not Smoothed, Moving Averages. Unlike the housing-starts and home-sales series—where ShadowStats smooths the irregular and continually-revised monthly data with accompanying plots of smoothed, six-month moving averages—the construction spending series is shown here only on a monthly basis, as published. While the spending series is extremely volatile in its monthly revisions, it tends to remain reasonably smooth in the residual month-to-month change.

Note the comparative monthly volatilities in the non-smoothed *Graphs 33* and *34*, which cover private residential construction spending, along with housing starts (combined single- and multiple-unit starts) for November 2017 (see *Commentary No. 927*). Keep in mind that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 7* in the *Executive Summary* section and *Graph 29* here.

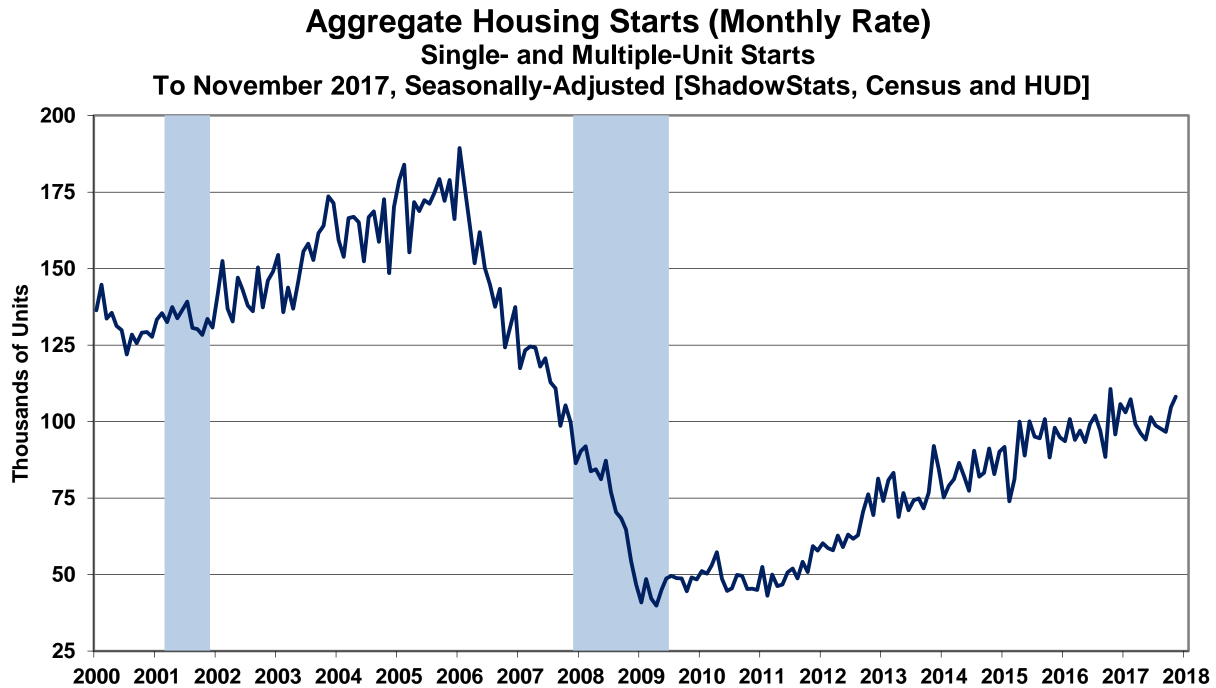
The final two graphs (*Graphs 35* and *36*) show the patterns of the monthly level of activity in nominal private nonresidential-construction spending and in public-construction spending. Private Non-Residential Construction spending surged beyond its pre-recession nominal peak in 2016, hitting a new high in December 2016 and broadly backing off same since. Public Construction spending, which is 98% nonresidential, had continued in a broad downtrend into 2014, with intermittent bouts of fluttering stagnation and then some upturn in 2015. In 2016 and into 2017, the nominal series still appeared to have fluttered into and out of a low-level top, now generally fluttering higher, though not meaningfully so, still shy of its pre-recession peak. Viewed net of inflation, in *Graphs 8* and *9* in the *Executive Summary* and in accompanying *Graph 30,* both series still appear stalled shy of their pre-recession peaks.

[Graphs 33 to 36 begin on the next page.]

Graph 33: Nominal Private Residential Construction Spending to Date



Graph 34: Combined Single- and Multiple-Unit Housing Starts to Date



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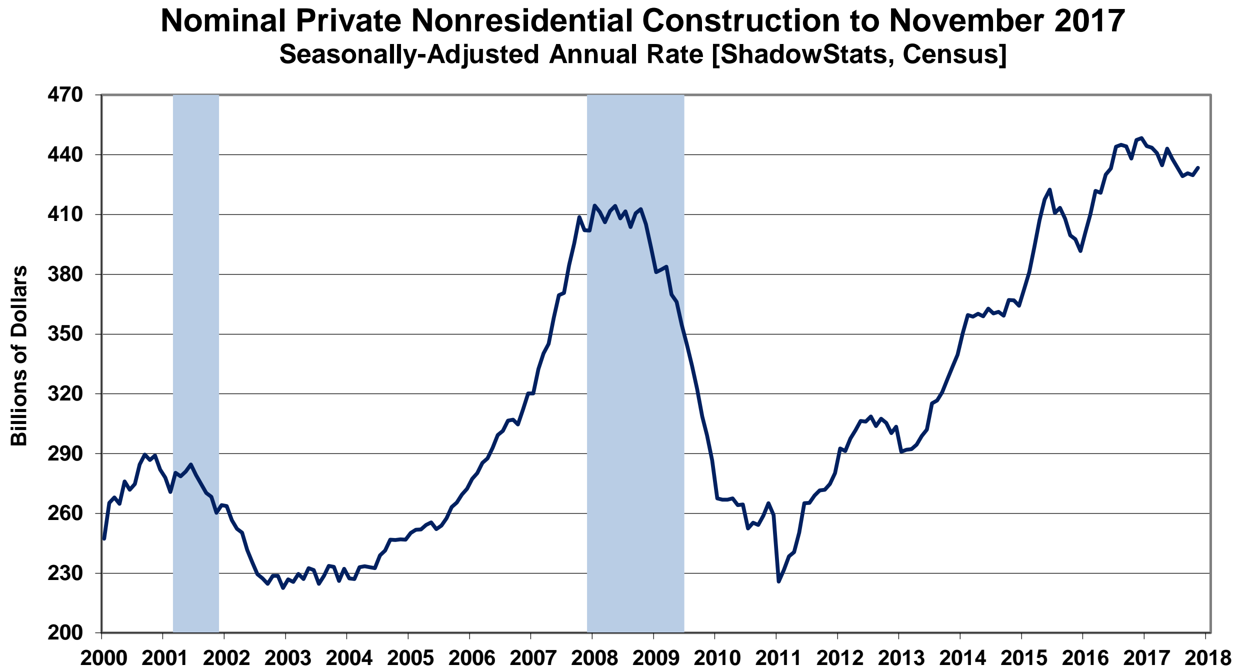
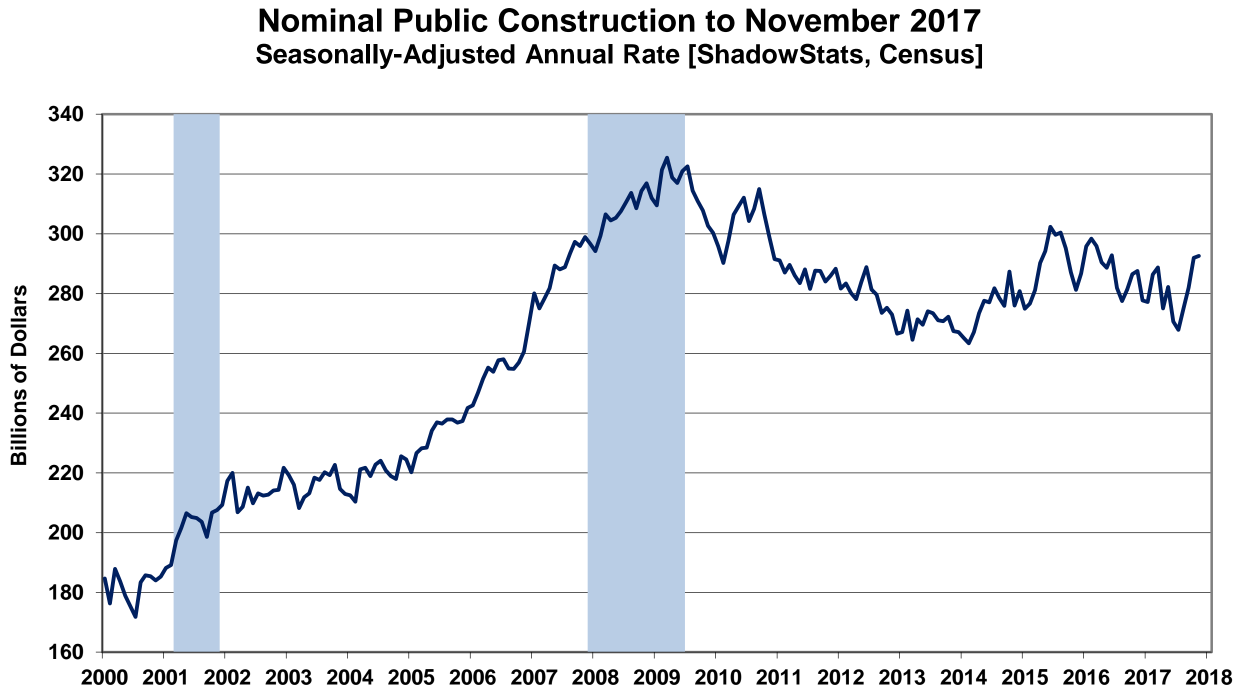
Graph 35: Nominal Private Nonresidential Construction Spending to Date



Graph 36: Nominal Public Construction Spending to Date



[The* Hyperinflation Watch *begins on the next page.]

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HYPERINFLATION WATCH

MONETARY CONDITIONS

Annual Growth in December 2017 M3 Jumped Back to 4.8% from a downwardly-revised 4.5% in November, Monetary Base Annual Growth Jumped to a 9.7% Three-Year High. The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System hiked rates a quarter-point, as expected, on December 19th, with an indication of further rate hikes and balance-sheet liquidations to come.

Nonetheless, as regularly discussed here, negative economic shocks still lie ahead in the next several months, with retail sales and industrial production likely to show some negative catch up following recent hurricane distortions, as well as intensifying issues with the labor numbers, particularly with the payroll series. Systemic distortions largely should have passed from the numbers by publication of headline January and February 2018 economic data. November industrial production already has shown some faltering (see *Commentary No. 926*). As market sentiment increasingly shifts towards a weaker economy, pressure and expectations should mount on the FOMC to pull back from further tightening. That likely will come into play as an early consideration for the new Fed Chairman, presumably Jerome Powell, who is President Trump's nominee for the position.

With the primary concern for the U.S. central bank continuing to be the maintenance of solvency and liquidity in a still-troubled banking system, intensifying economic difficulties remain likely to cause the FOMC to back off its formal, current pattern of promised rate hikes and balance-sheet liquidation, to revert again towards expanded quantitative easing, as openly allowed for in current FOMC policy.

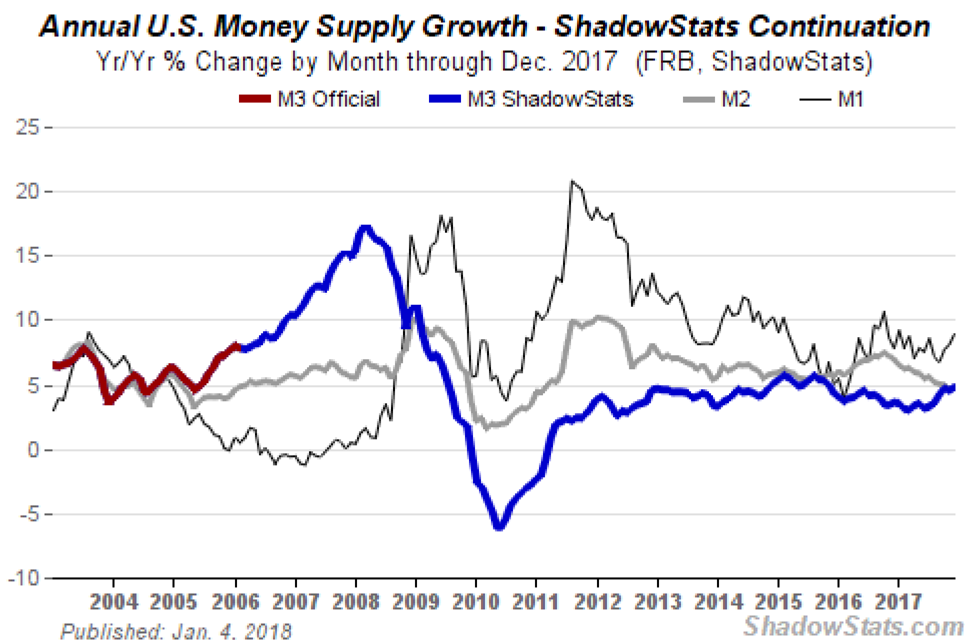
Annual Growth in December 2017 Money Supply M3 jumped to 4.8% from a downwardly-revised 4.5% in November, with Monetary Base Annual Growth up by 9.7%, a Three-Year High. Based on three-plus weeks of reporting, and in the context of regular benchmark revisions and continued softening growth in the narrower M2 measure, the estimate of nominal annual growth for the ShadowStats Ongoing M3 Money Supply in December 2017 rose to 4.8%, from a revised 4.5%, previously 4.6% and versus a revised 4.7% (previously 4.8%) in October 2017. The December annual growth rate was the highest level of year-to-year monthly growth seen since November 2015. Those M3 growth rates were against revised annual gains of 4.2% (previously 4.3%) in September 2017, 3.5% (previously 3.6%) in August 2017 and continual further notching of annual growth lower back in time, until a revised 3.0% in March 2017, which then had been the weakest year-to-year change since July 2012.

Separately, nominal year-to-year growth for M2 rose to 4.9% in December 2017, versus a revised 4.7% in November 2017, an unrevised 5.0% in October 2017, 5.1% in September 2017, 5.3% in August 2017, 5.6% in July 2017, 5.6% in June 2017 and 5.9% in May 2017.

Annual nominal growth in December 2017 M1 rose to 9.0% versus an unrevised 8.2% in November 2017, 7.8% in October 2017, 6.8% in September 2017, 7.2% in August 2017, 8.7% in July 2017, 7.6% in June 2017 and 7.9% in May 2017.

For those living in the headline money-supply world comprised of just the Fed's M1 and M2, annual money growth still has been relatively stronger for both M1 and M2, than for M3, although that difference has continued to narrow recently, with M3 growth picking up versus generally slowing annual M2 growth, but against an accelerating pace of annual growth in M1, reflecting some movement into cash/near-cash. The relative weakness in annual M3 growth, versus M2 and M1 (M2 includes M1; M3 includes M2) had reflected a shift over time in funds from accounts included just in M3, such as large time deposits and institutional money funds, into accounts in M2 and M1. The recent relative gains in annual M3 growth have reflected a returning flow of cash from M2 back into M3 accounts, again, such as large-time deposits and institutional money funds. The latest estimates of level and annual changes for December 2017 M3, M2 and M1, and for earlier periods, are detailed in the Alternate Data tab of www.ShadowStats.com. See the *Money Supply Special Report* for full definitions of those measures.

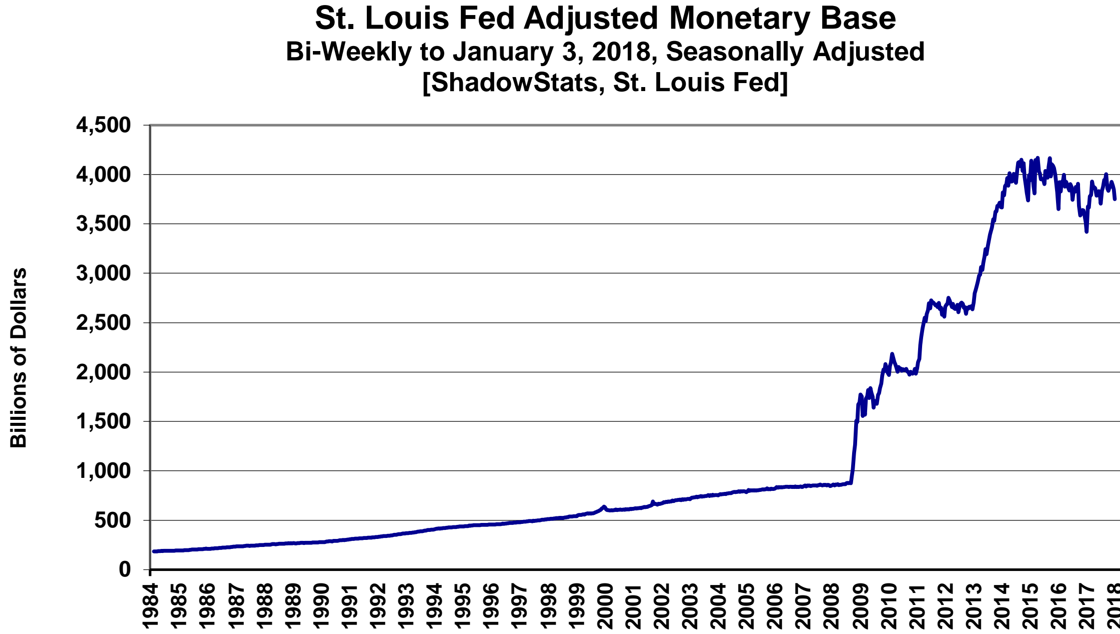
Graph HW-1: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through December 2017



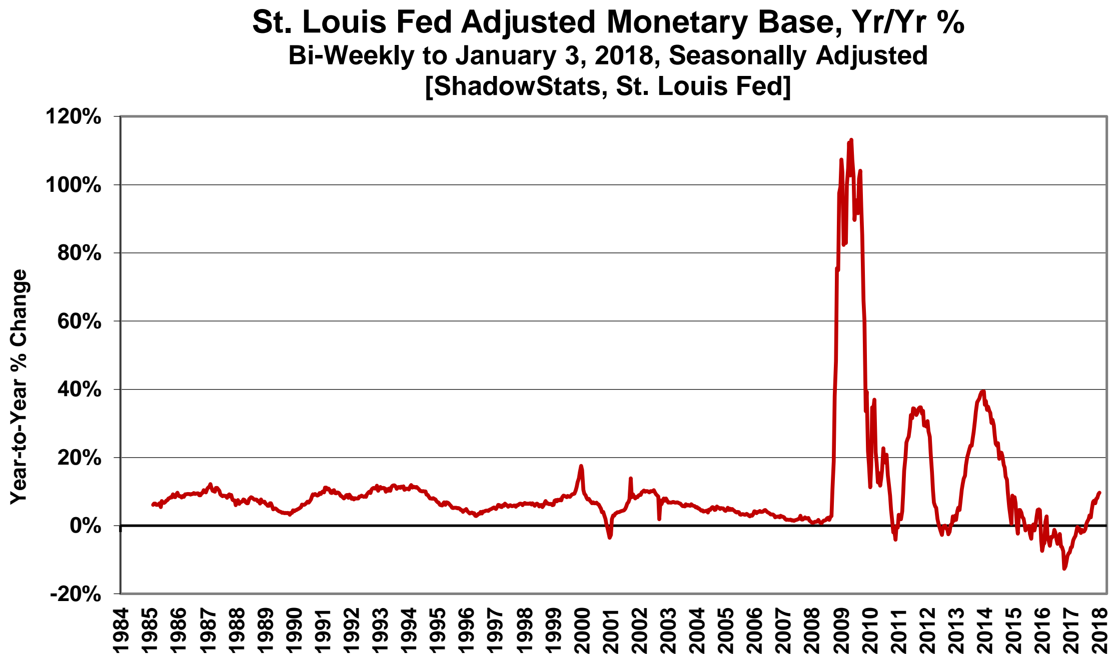
As Annual Growth in M3 Has Continued to Jump in Recent Months, So, Too, Has Annual Growth the Monetary Base. In the wake of near-term volatility surrounding recent rate hikes by the FOMC, and the related market efforts by New York Fed to establish or maintain consistent trading-range activity for the targeted federal funds rate, the level of the monetary base had been reasonably stable, with annual

percentage change fluctuating around zero. Yet, recently the pace of annual growth has turned higher, rapidly moving to consecutive, multi-year highs.

Graph HW-2: Saint Louis Fed Monetary Base, Billions of Dollars (1984 to January 3, 2018)



Graph HW-3: Year-to-Year Percent Change, Saint Louis Fed Monetary Base (1985 to January 3, 2018)



Aside from short-term gyrations around the timing of change in the targeted federal funds rate (as could have affected the late-December 2017, early-January 2018 data), circumstances generally should remain relatively stable, until the Fed begins to sell its Treasuries and Mortgage-Backed Securities more heavily, as part of its planned "balance sheet normalization," or otherwise to embark upon expanded quantitative easing, amidst increasing liquidity stresses in the banking system from deteriorating economic conditions.

Based on the latest Saint Louis Fed estimate (through January 3rd, as we go to press), annual growth in the Monetary Base stood at 9.7% its highest level since October 2014, for the two weeks ended January 3rd. That was up from 9.3% in the two weeks ended December 20, 2017, which was the latest available reading at the time of the publication of the prior *Advance Commentary No. 930-A* of January 5th. Accompanying *Graphs HW-2* and *HW-3*, reflect that detail. Such is despite period-to-period declines for the last three two-week reporting periods.

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

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

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[Other than for referral links, the text here has not been revised meaningfully since its prior publication in General Commentary No. 929.*]*

Continuing Consumer Liquidity Stresses Constrain Broad Economic Activity. The U.S. consumer faces ongoing financial stress, which recently had been mirrored in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales, Housing and Construction, and the Manufacturing/Production sector, all pre-hurricane activity. Net of what have been mixed, but significant, near-term hurricane distortions, initial hits to activity were followed by related and transient economic boosts from recovery, replacement and restoration activity. Funded by insurance payments and savings liquidation, those distortions broadly should have passed from headline economic releases by the February/March reporting of January 2018-headline detail. Such effects have been, and will continue to be, discussed in the separate analyses of relevant series in the covering *ShadowStats Commentaries*.

Monthly series that have faced the most severe, disaster-triggered reporting disruptions, where headline details have yet to stabilize or correct, include in particular Household Survey Employment and Unemployment (see today's comments) and Retail Sales. November Industrial Production appeared to have stabilized in terms of surging activity, but it still needs to subside to levels stable with normal consumption activity and inventories (see retail sales and production coverage in *Commentary No. 926*).

***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 underlying pocketbook 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 2001, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, so far, all have continued to remain shy of consumer hopes.

A temporary liquidity boost fueled by recent disaster effects, such as insurance payments or savings drawdowns to fund replacement of storm-damaged assets, are of a one-time nature and short-lived in terms of ongoing economic impact. The underlying, fundamental longer-term liquidity issues remain in

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place. Nonetheless, mirroring the disaster-fueled economic hype in the popular press, consumer optimism had rallied strongly in recent months, although it has begun to falter anew, as discussed shortly.

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 fundamental 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 average consumer hopes and needs, irrespective of the new tax laws.

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% of the headline real, third-quarter 2017 U.S. GDP.

Net of short-lived disaster distortions (insurance payments, savings liquidations), 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 boosts from disasters or political gimmicks, discussed most recently in *General Commentary No. 929* and the *Executive Summary* of *Commentary No. 928*.

Anecdotal Evidence of Business and Consumer Uncertainty Continue to Indicate a Seriously-Troubled Economy and Very Dangerous Financial Markets. Against what appears to be a headline economic consensus that all is right again with the U.S. economy and financial markets, underlying real-world common experience suggests a much different outlook. Regularly discussed here, ongoing non-recovery, low-level stagnation and signs of renewed downturn remain patterns common to key elements of headline U.S. economic activity. Consider factors ranging from housing sales and broad construction activity, to headline reporting of domestic manufacturing, as well as those series that are heavily gimmicked, such as the Gross Domestic Product (GDP), also regularly discussed and dissected here.

Similar signals of such economic stress are seen in patterns of activity that move along with the real-world broad economy. They range from indicators such as freight volume and domestic consumption of petroleum to factors such as levels of real consumer debt outstanding, real average weekly earnings and measures of employment stress in the broad economy. Those stresses are reflected in historically-low levels of the employment-population ratio and the labor-force participation rate. With the liquidity-starved U.S. consumer driving three-quarters of the GDP, there is no way for the broad economy to boom—happy Retail Sales headlines aside—without some meaningful shift in underlying consumer circumstances. Links to background discussions in these various areas are found in the *Recent Commentaries* section of the *Week, Month and Year Ahead*, along with links to background discussions on the quality of the more-politicized GDP (*Commentary No. 928*) and employment/unemployment details discussed in the *Supplemental Labor-Detail Background* (page 31).

Beyond assessing headline economic numbers, ShadowStats also looks at anecdotal evidence, including comments by subscribers and clients, who live in the real world. Two broad observations have come

from a number of recent conversations. First, real estate activity appears to be slowing in recently strong areas. Second, a number of major companies are "sitting on their hands," holding back on issuing new contracts to third-party vendors in areas such as upgrading computer systems and other consulting. The companies cite the slowdown in contracts as "due to uncertainty," an issue, as well with the U.S. consumer, where that uncertainty encompasses:

- Unfolding circumstances in the Washington, D.C. political arena.
- Where the manic financial markets are headed.
- Ultimately what is, or will be, happening to near-term business activity?

Economic reporting, and business and financial-market stories sometimes receive happy year-end spikes in the press. That circumstance was supplemented in late-2017 by near-term hurricane boosts to, and distortions of, some current economic activity, such as the November Retail Sales reporting. The latter circumstance should prove fleeting. The underlying, broadly-faltering U.S. economy should be dominating headline economic reporting, once again, and all too soon, most likely early in 2018. That said, albeit reflecting some of the headline economic hype in the popular press, headline consumer optimism remains strong, albeit newly faltering.

Consumer Optimism: December 2017 Consumer Sentiment and Confidence Faltered. Full-month December 2017 readings pulled back sharply for both The Conference Board's Consumer-Confidence Index® (Confidence) as of December 27th, and the University of Michigan's Consumer Sentiment Index (Sentiment) as of December 22nd. Reflected in *Graphs CLW-1* and *CLW-2*, Confidence and Sentiment monthly readings had jumped sharply, respectively to multi-year highs in November and October. Yet, the December Confidence reading plunged, more than offsetting the November gain and most of the October gain, in context of a downside revision to the November reading. Similarly, November and December Sentiment readings also pulled back sharply, largely offsetting the October surge there. Nonetheless, the latest headline readings remained above their pre-2007 recession peaks.

The sharp monthly downturns in both the headline Sentiment and Confidence numbers are not consistent with headline, resurgent economic/employment activity, or with the popular media's heavily-touted, strong Holiday-Shopping Season.

For both 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*), the three-month moving averages also were above pre-2007 recession highs, yet the still-high moving averages—both notched higher despite December's downside activity—also had begun to falter in September 2017, before the unusual October and November surges.

Smoothed for six-month moving averages (see *Graph CLW-3*), both series continued above their pre-2007 recession peaks, with the Confidence measure at its highest level since March 2001, as it had been plummeting into the onset 2001 recession. That said, on a monthly basis, the current December 2017 readings for both the Confidence and Sentiment measures were down respectively from their pre-2001 recession peaks of May and January 2000, by 15.6% (-15.6%) and 14.4% (-14.5%).

Pre-election, September 2016 Confidence and Sentiment 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 surges in consumer optimism into early-2017. Both series then topped and pulled back, with mixed numbers into August and September 2017, but with the October 2017 Sentiment measure showing a large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*)? Nonetheless, the Sentiment measure retrenched in November and December. The Conference Board blamed hurricane impact in Texas and Florida for its downturn in September 2017 Confidence, but those numbers exploded into October and November 2017, again reversing largely with December's headline downturn.

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. Recent press has been highly positive on the headline economic and employment news, reflecting short-lived hurricane boosts to activity particularly on unemployment (not payroll employment), retail sales and industrial production. Headline financial and economic reporting in the next month or two should turn increasingly-negative and unstable. The current downturn in consumer outlook, despite euphoric headlines is unusual and likely reflects some deep-seated consumer liquidity concerns.

With near-term headline financial and economic reporting likely to turn increasingly negative in the next couple of months, successive negative hits to both the confidence and sentiment readings are likely to continue in the near future.

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.

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 increasingly, they appear to be topping out.

[Graphs CLW-1 to CLW-3 begin on the next page.]

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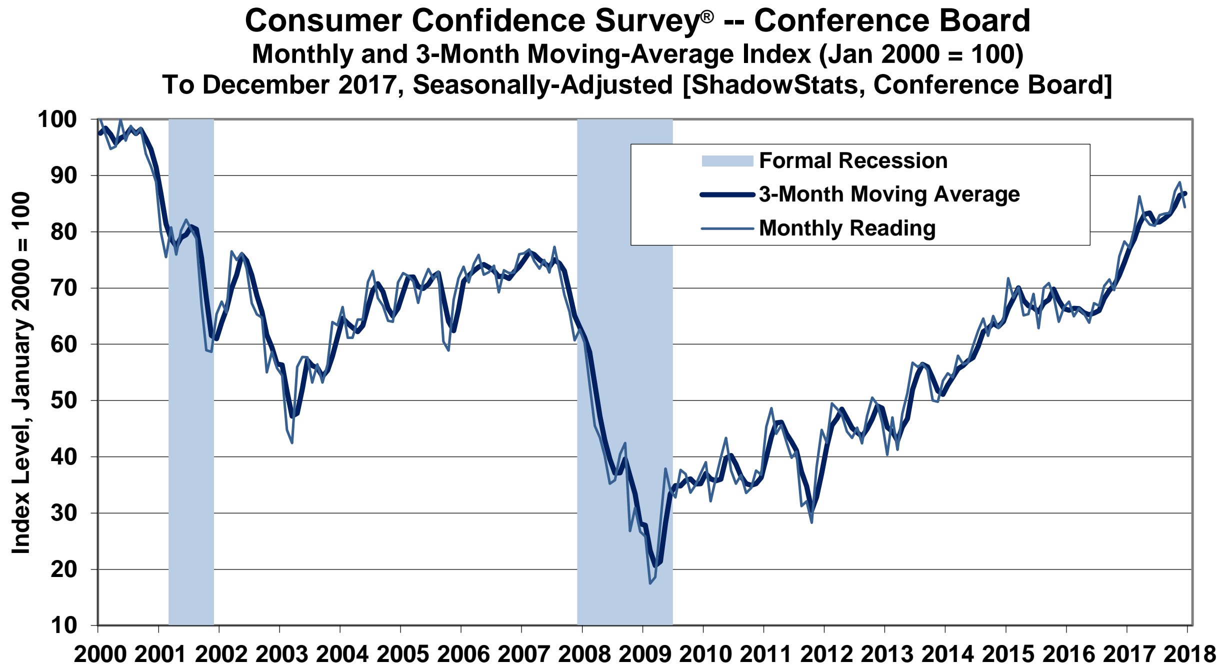
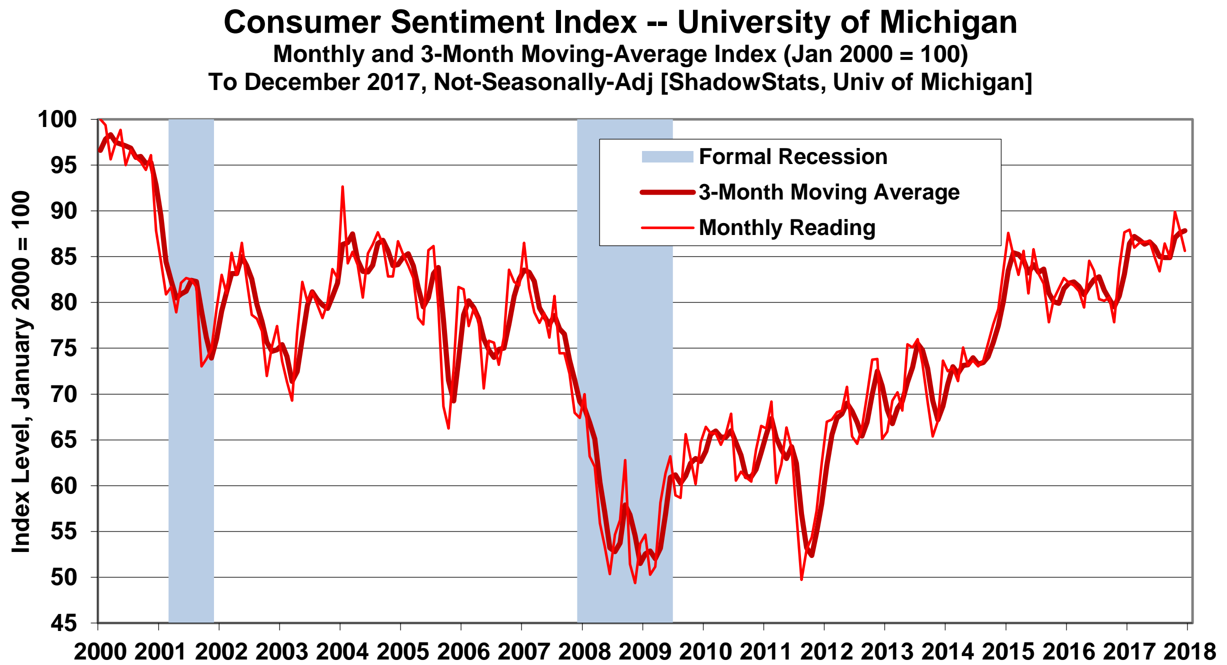
Graph CLW-1: Consumer Confidence (2000 to 2017)



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



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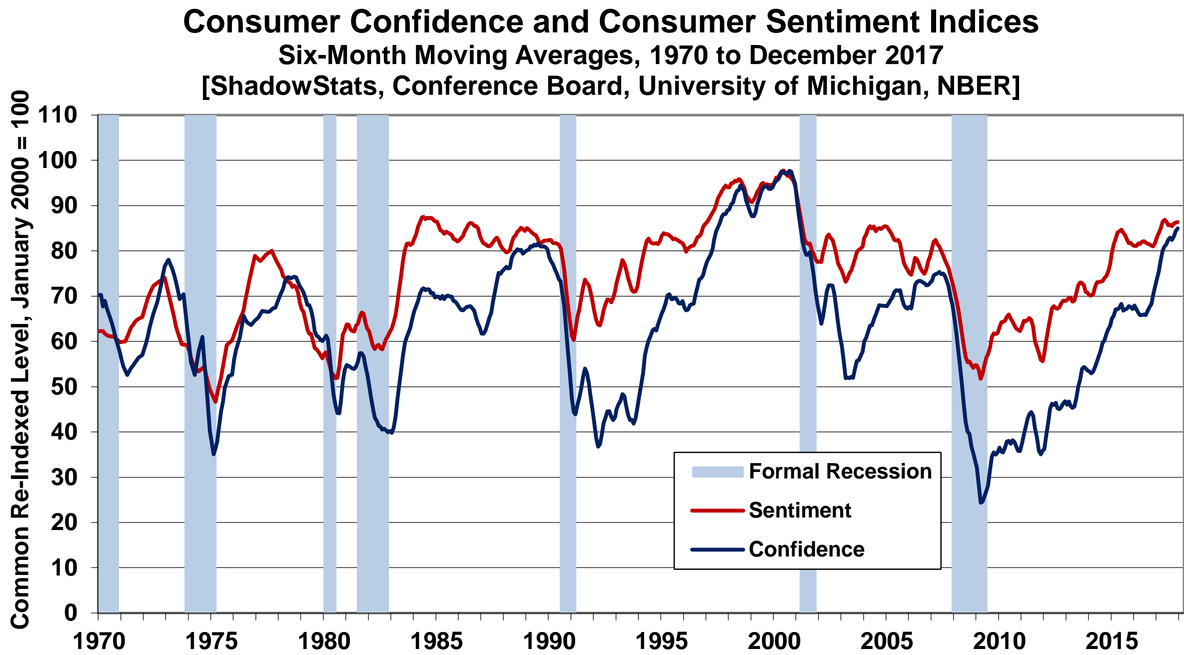
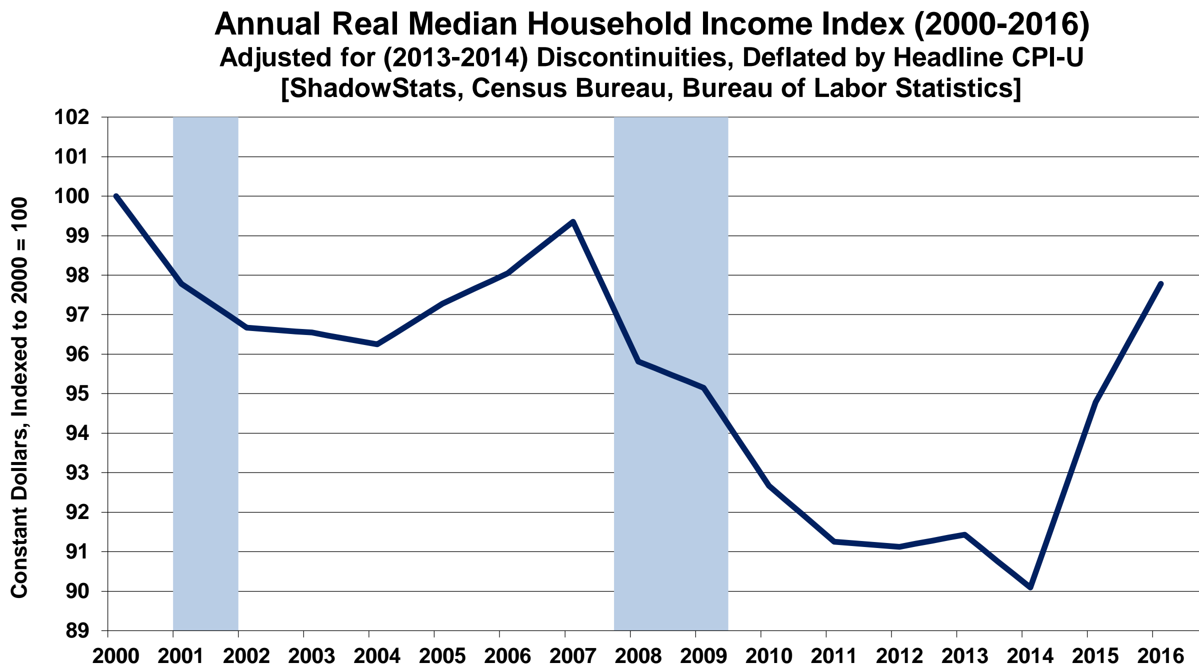
Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)



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 was 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 most-recent annual detail released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*.

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



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Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research in its likely final estimate for the series, 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*). Again, the May detail, appears to have been the final reporting of the monthly series (see the *Special Note* that follows).

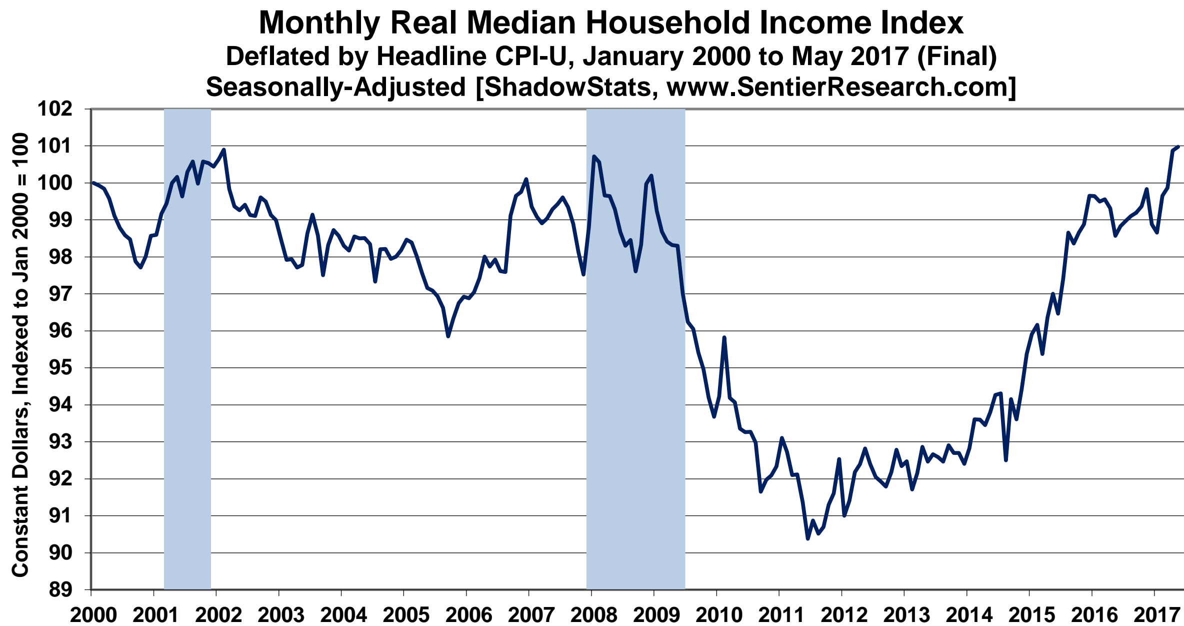
Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new 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.

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.

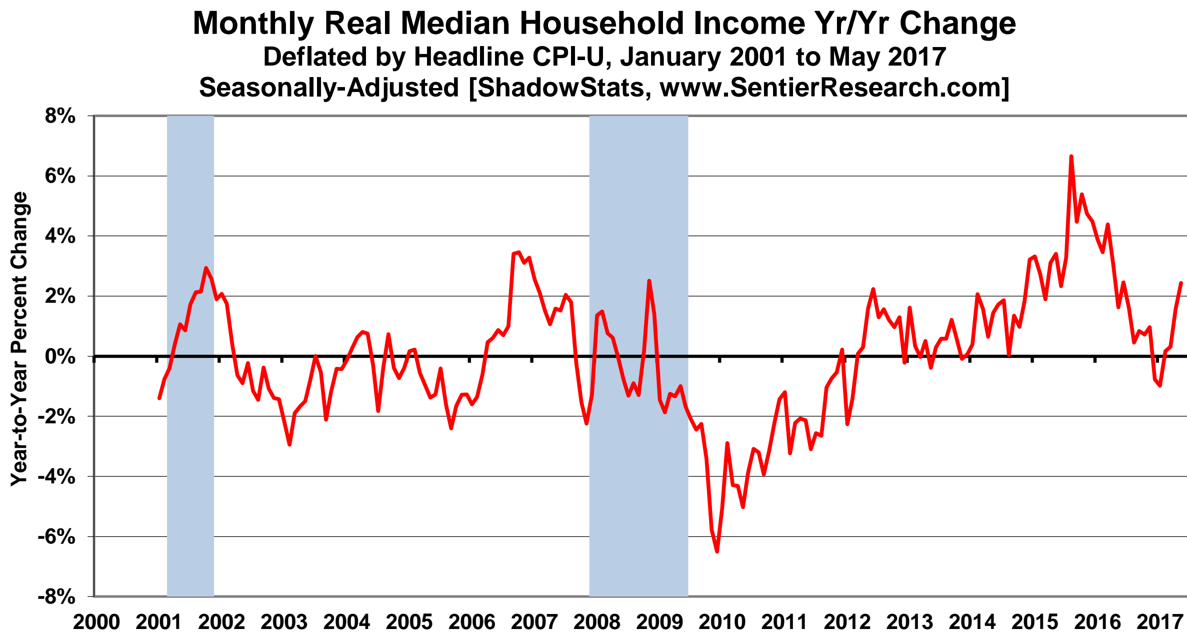
Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year 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.

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



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



***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

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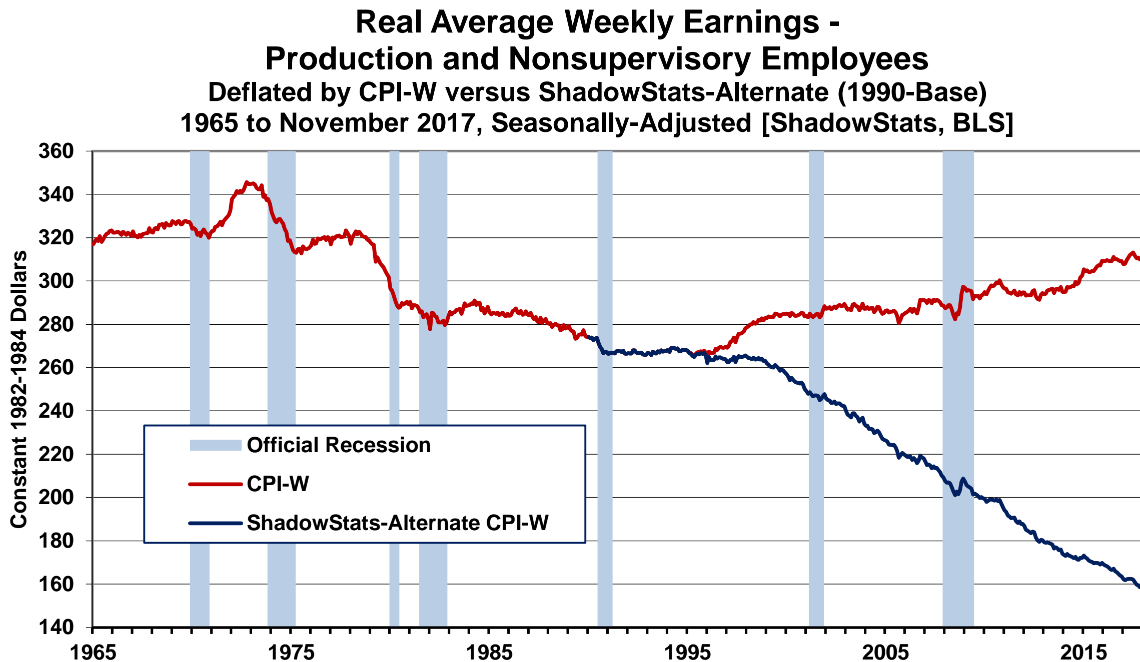
ShadowStats still hopes a circumstance might unfold that would enable continued/renewed reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau, with unique understandings of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2017 Census annual detail will not be released until September 2018. Again, the 2016 Census annual detail was covered in *Commentary No. 909*.

Real Average Weekly Earnings—November 2007—Monthly Real Earnings Continued to Contract, Fourth-Quarter on Solid Track for Second Consecutive Quarterly Contraction. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on in the *Reporting Detail* of *Commentary No. 925*, the regularly-volatile, real average weekly earnings declined month-to-month in November 2017, the third month down in the last four. With a revised, deepened quarterly contraction for third-quarter 2017 activity, the quarterly contraction unfolding for fourth-quarter 2017 also deepened, with two out of three months in place.

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, 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.

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

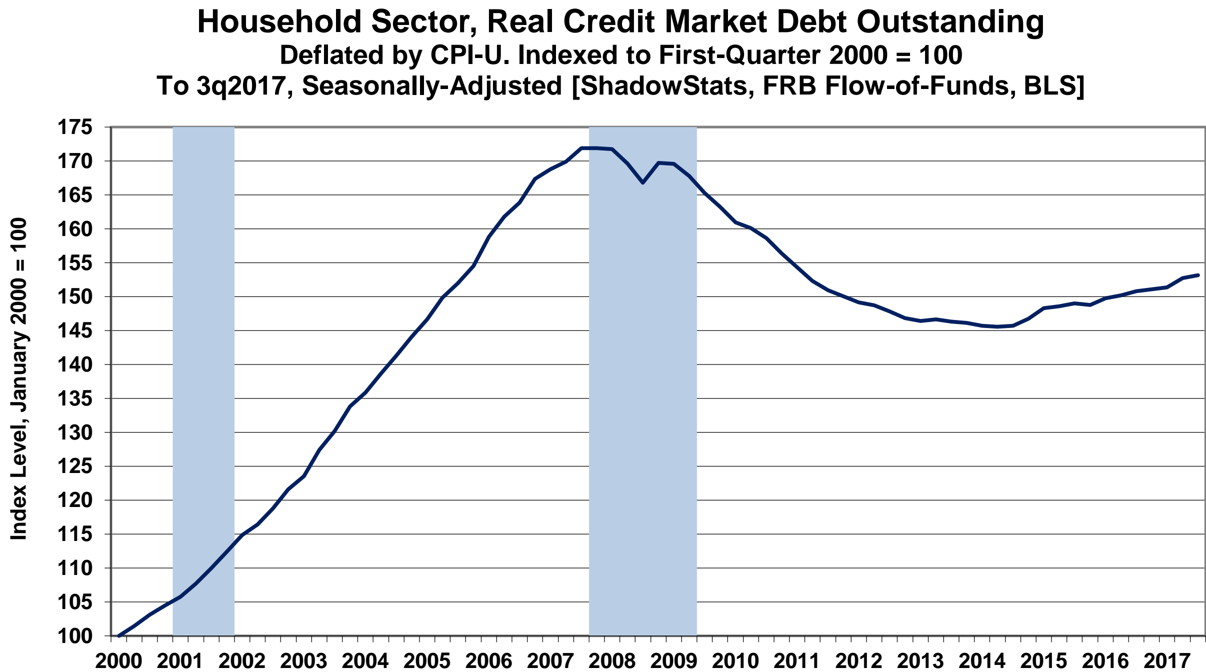


Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth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

Quarterly Series. 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 third-quarter 2017, released on December 7th. Household Sector, Real Credit Market Debt Outstanding in third-quarter 2017 still was down by 10.9% (-10.9%) from its pre-recession peak of third-quarter 2007. That was against a second-quarter 2017 decline of 11.2% (-11.2%). The flattened visual uptick at the latest point in *Graph CLW-8* reflected a slowing in real year-to-year change from 1.70% in second-quarter 2017, to 1.55% in third-quarter 2017.

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 and intermittently into second-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-9* to *CLW-11*.

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



Monthly Series. The ShadowStats analysis usually focuses on the particular current and continuing 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 three graphs are so plotted.

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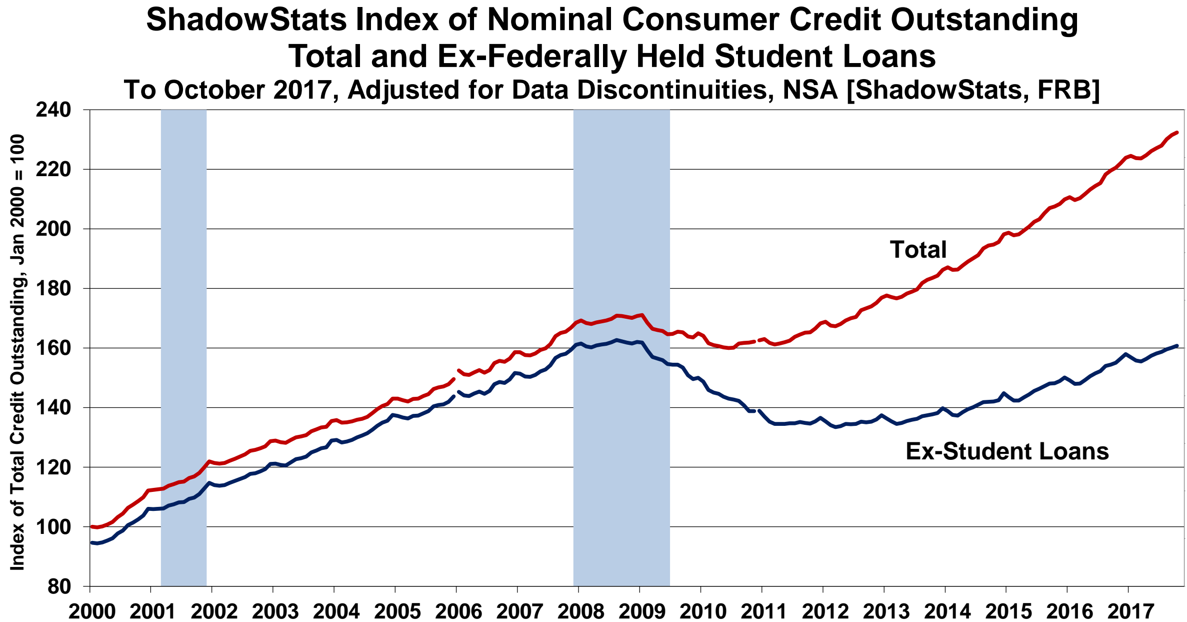
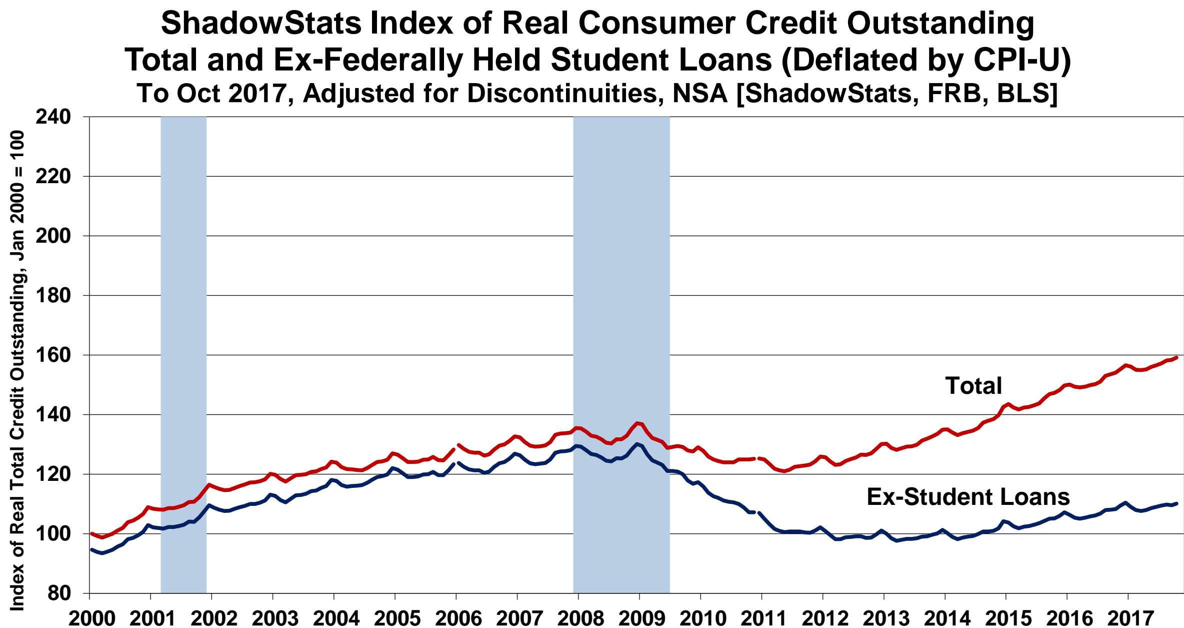
Shown through the October 2017 reading (released December 7th), *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of the preceding *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, real or inflation-adjusted activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CLW-10) and year-to-year change (*Graph CLW-11*).

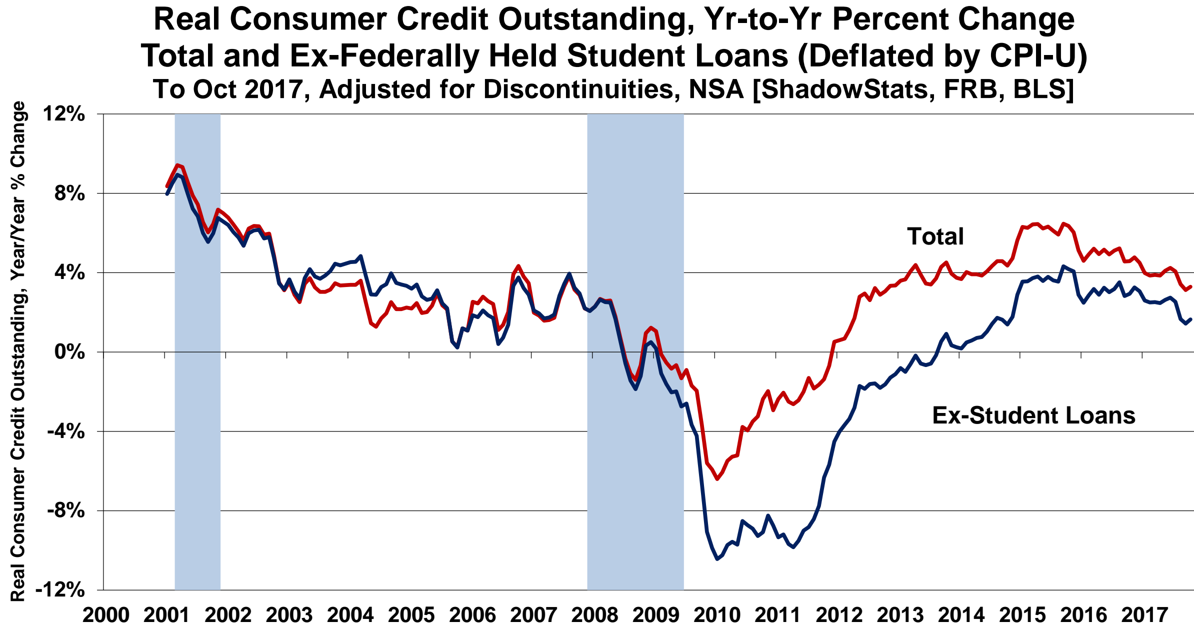
Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



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)



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 October 2017 was down from its December 2007 pre-recession peak by 15.0% (-15.0%) [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.

[The* Week, Month and Year Ahead *begins on the next page.]

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WEEK, MONTH AND YEAR AHEAD

U.S. Dollar and Financial-Market Instabilities, and Turmoil Continue at High Risk, Along with Deterioration of Domestic and Global Economic and Political Circumstances. Irrespective of some distortedly strong, recent economic numbers statistics, and heavy press hype of a booming, full-employment economy, and in the context recent FOMC tightening actions and Federal Reserve Chair Yellen's perception of a "highly uncertain" economic outlook, the economy is not recovering or booming. Allowing for hurricane disruptions and recovery from same, most series should be back to normal, reflecting "unexpected" downtrending economic activity, by the time of headline reporting for headline January and February 2018 economic activity, as discussed in *General Commentary No. 929*.

Where the Wall Street proponents of a never-ending stock-market rally have hyped temporary, nonrecurring economic boosts from natural disasters into a year-end 2017 economic boom, an unhappy period of the markets adjusting to underlying real-world circumstances likely looms early in 2018. Negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside. As the reported the economic downturn intensifies, the FOMC should be forced into an "unexpected" policy retrenchment, moving back towards quantitative easing as outlined in Federal Reserve policy (see today's *Hyperinflation Watch*).

In such circumstances, the U.S. dollar and financial markets remain at extraordinarily-high risk of panicked declines, again, increasingly likely in the very near term. In the context of the update in today's *Opening Comments*, *General Commentary No. 929* and the *Opening Comments* and expanded *Hyperinflation Watch* of *Commentary No. 927* reviewed some background to real-world economic conditions, continuing from the *Opening Comments* and brief *Hyperinflation Watch* of *Commentary No. 925*. Those comments speak for themselves.

Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, in the context of liquidity and portability during times of high inflation and currency debasement, and/or political-system upheaval, discussed regularly here. See the comments linked to other recent *Hyperinflation Watches*, provided in the next section.

Following this note, other than for the *Pending Releases* and updated links, language changes in this section from the prior posting *General Commentary No. 929* are minimal. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

***Recent* Hyperinflation Watch *and* Special Comments.** Previous background to the markets and potential near-term FOMC activity have been reviewed recently in the *Hyperinflation Watches* of *Commentary No. 920* and *Special Commentary No. 918-B* of October 30th, with the nomination for the new Fed Chairman, as touched upon in the *Hyperinflation Watch* *Commentary No. 919-A* of November 3rd, not likely to have immediate, near-term market impact.

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Discussed in *Hyperinflation Watch* of *Commentary No. 909*, 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.

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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 14.4%.

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

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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 or so, 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).]*

Advance Commentary No. 930-A (January 5th) provided a brief summary and/or comments (all expanded in today's *Commentary No. 930-B*) on December 2017 Employment and Unemployment numbers, Household Survey benchmarking, Conference Board Help Wanted OnLine® Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending.

General Commentary No. 929 (December 28th) reviewed current economic and market conditions at year-end 2017.

Commentary No. 928 (December 22nd) covered November 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the third estimate of Third-Quarter 2017 GDP.

Commentary No. 927 (December 19th) reviewed November 2017 New Residential Construction (Housing Starts and Building Permits), along with an expanded discussion on underlying economic reality and the financial markets.

Commentary No. 926 (December 15th) reviewed the headline November 2017 numbers for Retail Sales (both real and nominal), and Industrial Production, along a discussion on the dampening economic impact of business and consumer "uncertainty."

Commentary No. 925 (December 13th) reviewed November 2017 headline detail on the CPI and PPI, along with an update on the FOMC actions and the regular U.S. dollar, gold graphs.

Commentary No. 924 (December 8th) discussed the November 2017 Employment and Unemployment details and Conference Board Help Wanted OnLine® Advertising, the October Trade Deficit and Construction Spending and updated Monetary Conditions in November.

Commentary No. 923 (November 29th) covered the second estimate of Third-Quarter 2017 GDP, including initial estimates for Third-Quarter GNP, GDI and Per Capita Real Disposable Income, the October Trade Deficit, Cass Freight Index and New-Home Sales.

Commentary No. 919-B (November 6th) provided more in-depth detail on the October 2017 labor detail.

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*.

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. 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. 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.

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.

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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 (December 2017) The Bureau of Labor Statistics (BLS) will release the December 2017 PPI on Thursday, January 11th, with detail covered in *Commentary No. 931* of Friday, January 12th. Odds favor neutral-to-negative wholesale inflation on the goods side of the reporting, reflecting a combination of contracting wholesale gasoline prices in December, despite modest increases in crude oil prices, all in the context of neutral seasonal adjustments in the energy sector.

The dominant services-sector "inflation," however, often provides some counter-move to the hard-inflation estimate on the goods side, which likely would be minimally to the upside in the current circumstance. Such comes particularly from counterintuitive "deflation" or "inflation," reflecting falling

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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. 925*, where, again, the services component could offset some of the negative pressures in the headline goods inflation. Consensus expectations appear to be at 0.2% month-to-month, which certainly is within the realm of possibility for the highly-unstable, aggregate number.

Per the Department of Energy (DOE), unadjusted crude oil prices rose, while wholesale gasoline prices declined in December 2017. Based on the two most-widely-followed oil contracts, monthly-average oil prices rose by 2.2% (Brent) and 2.1% (WTI). That was accompanied by decreases in unadjusted, monthly-average wholesale gasoline prices of 4.1% (-4.1%) (NY Harbor) and by 3.2% (-3.2%) (Gulf Coast). Where PPI seasonal adjustments for energy costs are relatively neutral in December, petroleum-related unadjusted monthly price changes, should have somewhat negative-to-neutral impact on the month-to-month adjusted Final Demand Goods component of the PPI.

Consumer Price Index—CPI (December 2017). The Bureau of Labor Statistics (BLS) will release the December 2017 CPI on Friday, January 12th, which will be covered in *Commentary No. 931* of that date. The headline December CPI-U likely will be on the plus side, perhaps 0.2%, plus-or-minus, in the context of a month-to-month decline in unadjusted gasoline prices, which still remain in negative territory, despite positive seasonal adjustments. Headline, unadjusted year-to-year annual inflation for December 2017 should hold at or slightly below the 2.2% level seen in November 2017 reporting. Consensus expectations appear to be for a monthly gain of 0.1%.

Slightly Net-Negative Monthly Inflation Impact from Falling Gasoline Prices versus Positive Seasonal Adjustments. After jumping by a hurricane-induced, unadjusted 10.7% in September 2017, retreating by 5.1% (-5.1%) in October, rebounding by 2.2% in November and now down by 3.1% (-3.1%) in December 2017, per the DOE, gasoline prices, net of positive seasonal adjustments, still should have a net-negative contribution to adjusted monthly CPI-U inflation of about 0.09% (-0.09%). Likely boosted by higher food and "core" (net of food and energy) inflation, though, the headline monthly CPI-U reading could come in around 0.2% for December 2017.

Annual Inflation Rate. Noted in *Commentary No. 925*, year-to-year CPI-U inflation would increase or decrease in December 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.26% in December 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 December 2017, the difference in December's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the unadjusted November 2017 annual inflation rate of 2.20%. Given an early guess of roughly a 0.2% seasonally-adjusted monthly gain in December CPI-U, that would leave the annual CPI-U inflation rate for December 2017 at around 2.2%, perhaps slightly shy of that.

Retail Sales—Nominal and Real (December 2017). The Census Bureau will release its "advance" estimate of December 2017 nominal (not-adjusted-for-inflation) Retail Sales on Friday, January 12th. Given the coincident release of the December CPI-U by the BLS, detail on both nominal and real (adjusted-for-inflation) Retail Sales will be discussed in *Commentary No. 931* of that date.

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Where early readings on December activity have been on the plus-side, along with headline stories of a record Holiday Shopping Season, consensus expectations are for a strong headline monthly gain in the plus 0.4% to 0.5% range. Despite the ongoing hype of resurgent consumer spending, heavily spiked in recent months by coverage/replacement of hurricane damages, headline, seasonally-adjusted aggregate nominal retail sales activity likely will come in below consensus expectations for December and for the 2017 Holiday Shopping Season aggregate tally, with real month-to-month activity close to flat, net of inflation.

Beyond any lingering distortions from insurance payments and savings liquidation covering hurricane losses, consumer "liquidity" remains impaired. 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 remains unable to sustain growth in regular, broad economic activity, including personal-consumption expenditures and retail sales, real or otherwise.

Pending Formal Review of 2017 and Preview of 2018. The ShadowStats formal annual review of 2017 and preview of 2018, updating *No. 859 Special Commentary* of January 8, 2017, is planned for *No. 934 Special Commentary* of January 30, 2018.