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

SUPPLEMENTAL COMMENTARY NUMBER 934-B

Market Turmoil, January Labor, Payroll Benchmarking, December Trade Deficit

February 6, 2018

**Unexpected Faltering in U.S. Economic Activity Likely
Will Not Benefit Disorderly Markets**

Annual 2017 Real Merchandise-Trade Deficit Was Worst Since 2007, with the Fourth-Quarter 2017 Deficit Worst Since Second-Quarter 2007

Trade Deficit Exploded Versus China, NAFTA and OPEC

Widened Deficit Adds Downside-Revision Pressure to Fourth-Quarter GDP

**Sinking Annual Payroll Growth Intensified Its Recession Signal,
Despite Upside Benchmark Revisions to Payroll Levels**

**Population Re-Estimation Added 488,000 Working-Age People,
Boosting a Magical (Illusioned) 409,000 Surge in January Employment**

**January 2018 Unemployment Rates Notched Higher Month-to-Month:
U.3 Firmed to 4.15% from 4.07%, U.6 Rose to 8.19% from 8.08%, and the
ShadowStats-Alternate Rose to 21.8% from 21.7%**

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PLEASE NOTE: The Special Commentary providing a review of 2017 and a preview of 2018 is planned for Friday, February 9th.

Best wishes — John Williams (707) 763-5786

Today's (February 6th) ***Opening Comments and Executive Summary.*** The ***Opening Comments*** provides an extended review of the annual benchmark revisions to Payroll Employment and the annual "adjustment" to population estimates for the Household Survey, as initially covered in *Advance Commentary No. 934-A* of February 2nd. The ***Executive Summary*** (page 6) provides extended highlights of the January 2018 Employment and Unemployment detail, as well headline detail on the December 2017 Trade Deficit released this morning. Analyses of the January 2018 Conference Board Help-Wanted Online Advertising® (HWOL), December 2017 Construction Spending and January 2018 Monetary Conditions are not repeated here, as they received regular coverage in *934-A*.

The ***Reporting Detail*** (page 9) reviews in greater depth the January labor numbers, with Payroll Employment benchmarking updates reflected in the *Supplemental Labor-Detail Background* (beginning on page 24). Initial reporting of the December 2017 Trade Deficit and related annual and quarterly details begin on (page 32).

The ***Consumer Liquidity Watch*** (page 35) has not been updated from its prior publication, other than for revised links or references.

The ***Week, Month and Year Ahead*** (page 48) provides background on recent *Commentaries*..

OPENING COMMENTS

A Volatile Stock Market Faces Difficult Times Ahead. John Crudele writes in today's *New York Post* about possible intervention by the "Plunge Protection Team" (PPT) in helping to mute Monday's stock sell-off. Created after the 1987 Stock Panic, the PPT (formally the President's Working Group on the Financial Markets) was empowered effectively to take whatever actions were necessary to assure orderly financial markets, including direct market intervention. Composed of the Treasury Secretary, the Fed Chairman and chairmen of the SEC, CFTC and the various financial-market exchanges, it would be surprising if the PPT had not intervened in yesterday's markets, let alone closely monitored and affected, where necessary, today's volatile trading activity.

There is strong evidence that before there was a formal PPT, the Fed directly backed and helped to coordinate stock-market intervention, on Tuesday, October 20, 1987, bringing the market back to life, after trading activity effectively had ground to halt that morning, following the 22.6% (-22.6%) plunge in the Dow Jones Industrial Average the day before.

Watch the Dollar! Where market swings in the U.S. dollar's exchange rate and in precious metals' prices have been relatively muted during the stock-market turmoil, such could change. Next week's heavy calendar of January 2018 economic releases includes Retail Sales, Industrial Production, Housing Starts along with CPI and PPI inflation, Wednesday to Friday (February 14th to 16th). There is a good chance of the new headline detail showing "unexpected" weakness in the economy, which could hit the U.S.

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dollar hard. If so, that should intensify downside pressure on U.S. equity prices, and upside pressure on gold and oil prices.

Current financial market circumstances will be reviewed in *Special Commentary No. 935*, planned for Friday, February 9th, subject to going into the weekend, in the event of disorderly markets.

Payroll Benchmark Intensified the Recession Signal; Working-Age Population Revised Higher. Coincident with the February 2nd release of January 2018 employment (Payroll Survey) and unemployment (Household Survey), the Bureau of Labor Statistics (BLS) published its annual benchmark revisions to the Payroll Employment Survey, along with its annual re-estimation of the Civilian, Noninstitutional U.S. Population (effectively of working-age). The population count is used in the Household Survey (see *BLS Press Release*).

Working-Age U.S. Population Was Boosted by 488,000; Beware January vs. December Comparisons of Household-Survey Body Counts. The BLS revamps its population estimate each January, versus the prior December. While the changes can be large, the BLS does not revise historical reporting of the Household Survey. So, most headline December-to-January changes in survey-category counts, such as the number of employed or unemployed, simply are not comparable with other months.

Ratios such as the unemployment rate or the employment-to-population ratio, however, remain comparable. Where the monthly Household Survey generates the proportions of people in the relevant population who are, for example, "employed" or "unemployed," those proportions are translated into hard counts versus the population count. Accordingly, an upside revision to the population ups the relative count of "employed." The unemployment rate, however, which reflects the ratio of the "unemployed" count to the "labor force" count ("labor force" = "employed" + "unemployed"), remains comparable with prior periods, as the distortions in the numerator and denominator cancel each other out.

On a comparative basis, the effective upside revision needed to the December 2017 population, in order to keep it on a parallel basis with the headline January 2018 detail, was 488,000, per the BLS (population is not seasonally adjusted). The reporting difference, if one compares the current "headline" January 2018 numbers with December 2017, is that the seasonally-unadjusted month-to-month gain in the "employed" was 409,000, but that was just 91,000 after adjusting for the effects of the population revision. In like manner, the number of headline "unemployed" rose by 108,000 in the month, but it was up by 93,000 after adjustment for the population-change distortions, all as per BLS cautions. Accordingly, the seasonally-adjusted headline unemployment of 4.1% in January 2018 was comparable with the headline 4.1% in December, except for seasonal-adjustment inconsistencies.

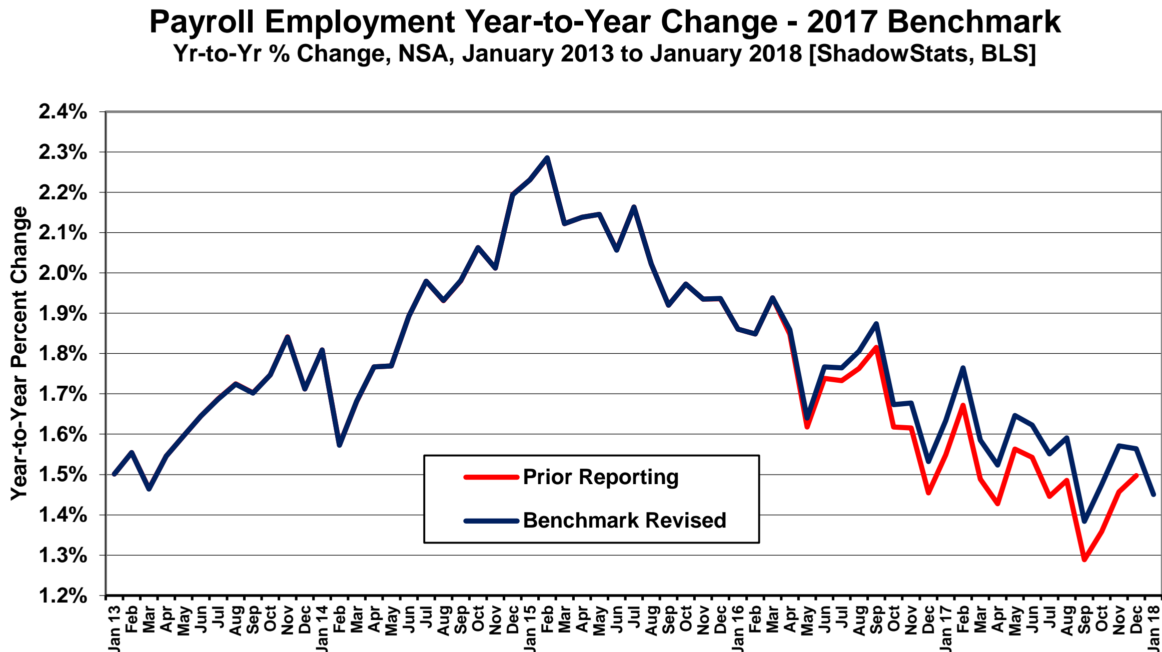
Those just-cited "corrected" numbers, however, were as published by the BLS (see *BLS Press Release*, Table C) in explaining the headline distortions, yet the actual calculations and re-adjustments were done with the not-seasonally-adjusted details numbers (see *BLS Press Release*, Table B).

Discussed with last month's Household Survey benchmark revisions (see *Commentary No. 930-B* and today's *Supplemental Labor-Detail Background* beginning on page 24), however, the seasonally-adjusted monthly data are not comparable month-to-month, except for the once-per-year headline December detail published with the annual benchmarking.

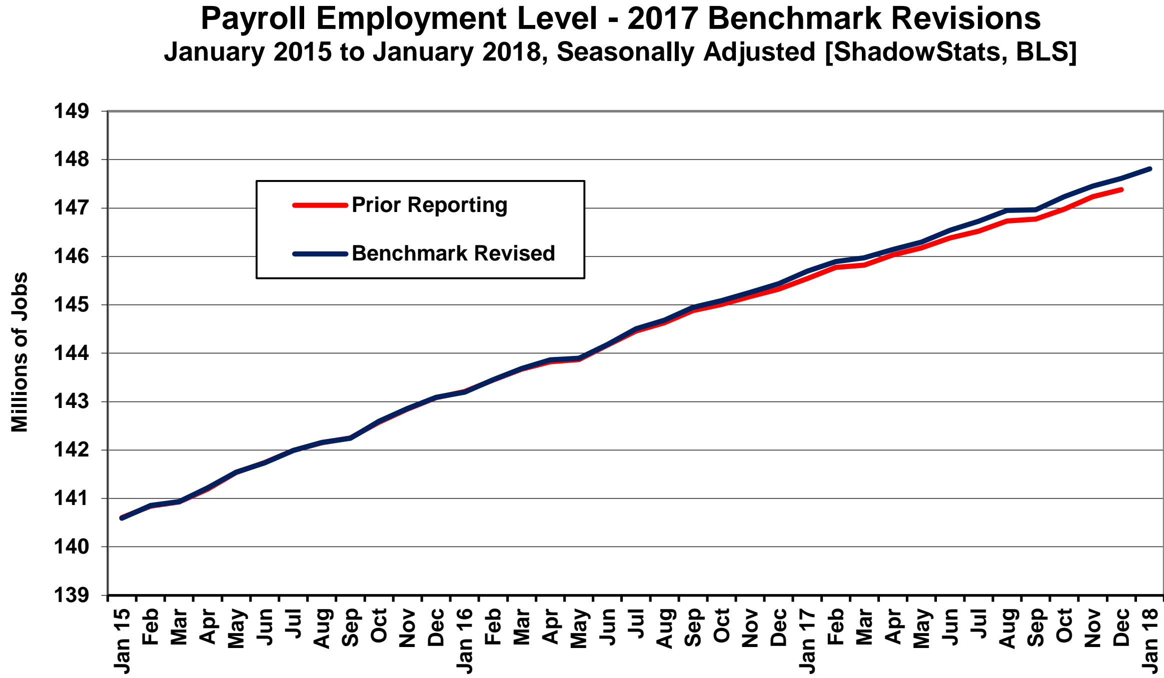
Payroll Benchmark Revisions Were Somewhat Stronger than Initially Estimated. The initial upside revision to the level of payroll employment, in the benchmark month of March 2017, was announced as a not-seasonally-adjusted 95,000 (see *Commentary No. 908-B* of September 6, 2016). That ballooned to 138,000 in the current detail. The unadjusted payroll counts were revised back to April 2016, while annual seasonal-adjustment revisions went back to January 1990 (again there are comparability issues with the monthly seasonally-adjusted details, in this case back more than one month. In theory, those new, adjusted monthly numbers temporarily are reported on a consistent basis, which will disappear with next month's headline reporting (see today's *Supplemental Labor-Detail Background* beginning on page 24).

Graphs OC-1 to *OC-3* plot summary detail of the benchmark revisions. Of particular note, although the unadjusted payroll data generally were revised higher, year-to-year growth in unadjusted payrolls sank to 1.45% in January 2018, the lowest level in standard headline-payroll reporting since August of 2011, when the economy purportedly was recovering from recession (the hurricane-depressed September 2017 year-to-year growth of 1.38% was the only lower reading). Discussed here frequently, that level of growth is seen only coming out of or going into a recession, it is not at a level of sustainable, healthy employment or economic growth.

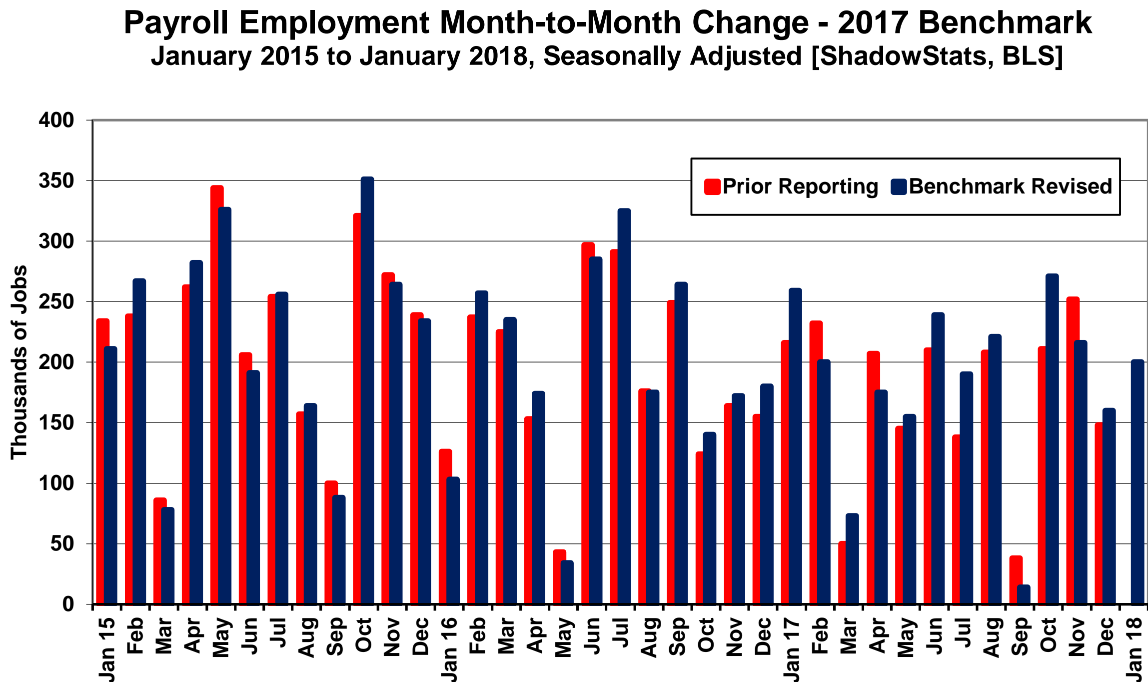
Graph OC-1: Payroll Employment, Not-Seasonally-Adjusted, Annual Percent Change — 2017 Benchmarking



Graph OC-2: Payroll Employment, Seasonally-Adjusted Level — 2017 Annual Benchmarking



Graph OC-3: Payroll Employment, Seasonally-Adjusted Monthly-to-Month Change — 2017 Annual Benchmarking



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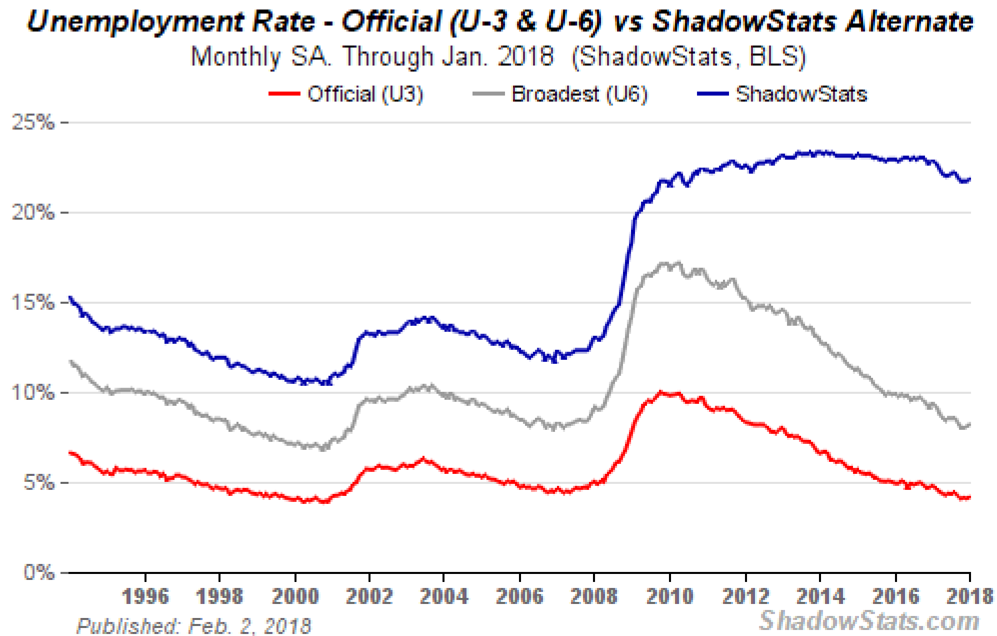
EXECUTIVE SUMMARY: Employment and Unemployment—January 2018—Unemployment Notched Higher as Annual Payroll Growth Softened – a Hardening "Recession" Signal. In the seasonally-adjusted Household Survey data, although the U.3 headline unemployment rate held at a 17-year low of 4.1% in January 2018, for the fourth straight month, it notched higher, when considered at the second decimal point, firming to 4.15% in January from 4.07% in December. That reading was shy of rounding to 4.2% by less than 3,000 unemployed out of the 6,684,000 "unemployed" individuals. The broader U.6 unemployment rate rose for the second month, to 8.19% from 8.08%, and the still-broader ShadowStats-Alternate rose to 21.8% from 21.7%, all as reflected in accompanying *Graph 1*.

Discussed in prior *Advance Commentary No. 934-A*, and in the context of annual benchmark revisions to payroll employment discussed in the *Opening Comments*, January 2018 payrolls rose month-to-month by 200,000, versus 160,000 (148,000 pre-benchmarking) in December and 216,000 (previously 252,000) in November (see *Graph 2*). Reflected in *Graph 3*, annual payroll growth of 1.45% in January 2018, versus 1.56% (previously 1.50%) in December 2017 and 1.57% (previously 1.46%) in November 2017, broadly remained in a downtrend that has reached a level and pattern of growth that usually precedes and signals the onset of a recession (see the largely unrevised discussion in the *Opening Comments*).

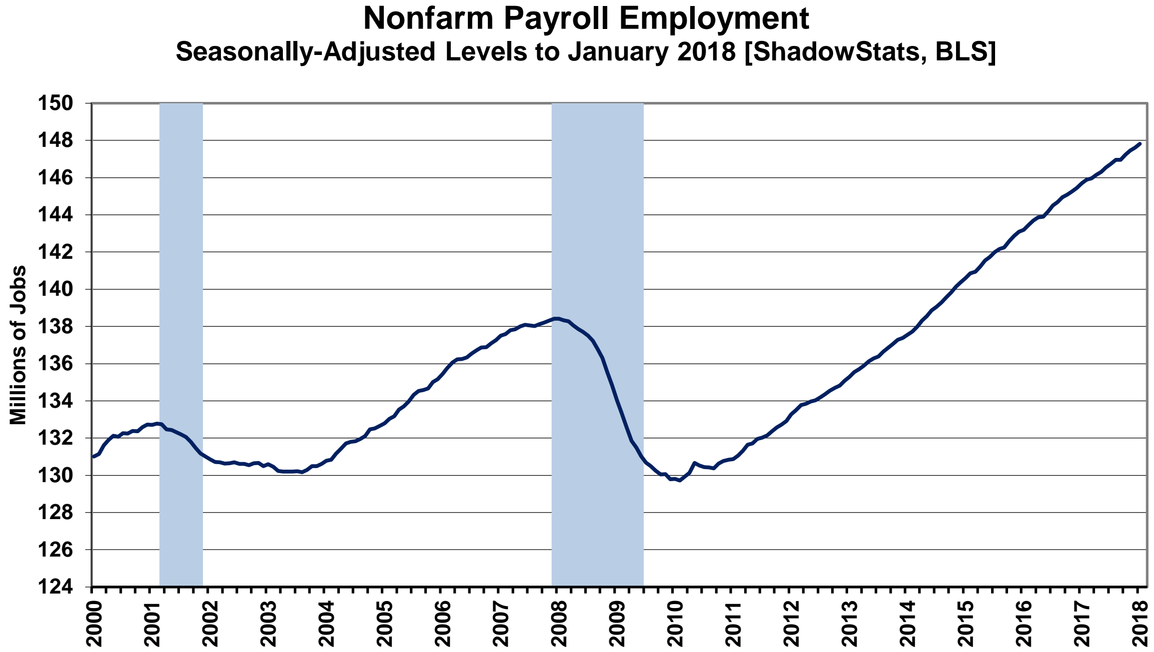
Separately, discussed in *Advance Commentary No. 934-A*, the January 2018 Conference Board Help-Wanted Online Advertising® survey showed that growth in new help-wanted advertising had continued in annual contraction for the 24th straight month, in a state of continuing non-expansion.

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

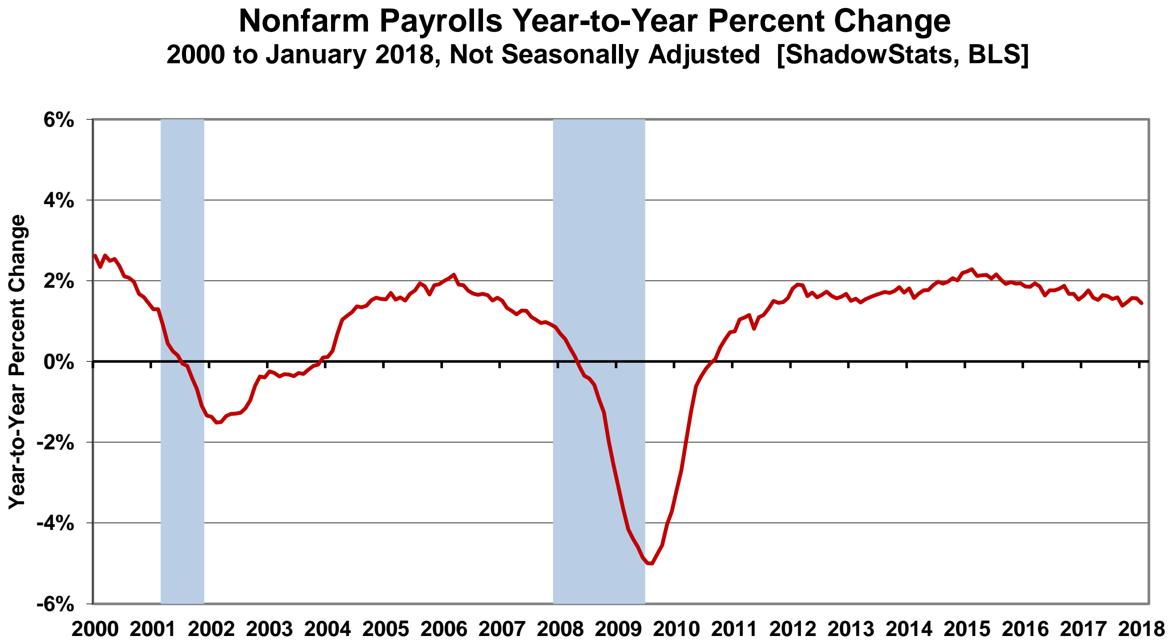


Despite ongoing political- and stock-market-hyped speculation of the U.S. economy being at full employment, the U.6 and ShadowStats measures show that not to be the case. Such is confirmed in expanded *Reporting Detail* discussions tied to the employment-population ratio and the participation rate (*Graphs 6* to *8*), as well as to the low level of headline annual growth in payroll employment (see *Graphs 3*, *17* and *18*), again, also as discussed in the *Opening Comments* and as reflected there in *Graph OC-1*.

Graph 2: Benchmarked Nonfarm Payroll Employment 2000 to Date



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



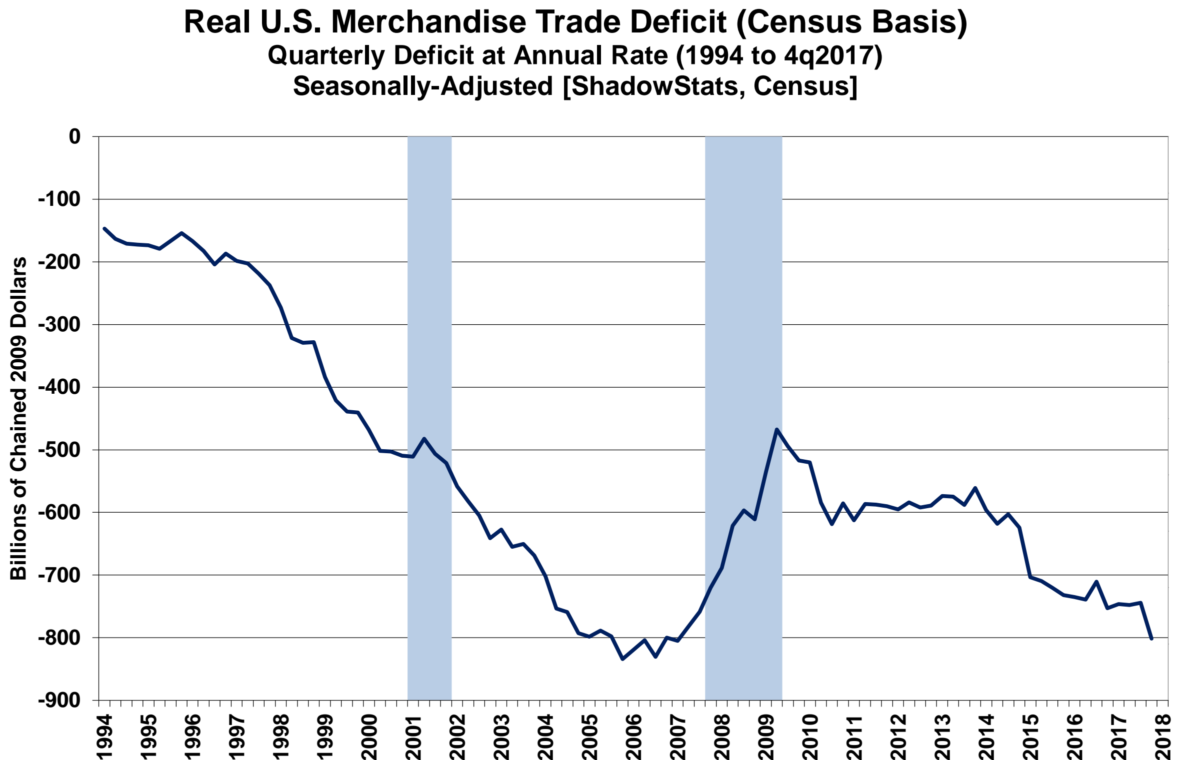
Extended coverage on the January 2018 details of both the Household and Payroll Surveys, and on the annual Payroll Benchmark revisions, will follow in the *Reporting Detail* and

Trade Deficit—December 2017— Real Merchandise Trade Worst Since 2007, Nominal Goods and Services Worst Since 2008. The headline real trade-deficit deepened more than expected, widening to monthly, quarterly and annual levels not seen since before the 2007 recession. That circumstance was suggestive of downside revision pressures on the second estimate of fourth-quarter 2017 GDP.

On the nominal goods and services side, the balance of payment was at its most-negative reading since 2008. Where the deficit widened sharply in 2017, such reflected rapidly-deteriorating trade balances with China, OPEC and NAFTA (Mexico and Canada), among others. The deteriorating deficits are direct subtractions from headline growth in the GDP, which should take increasing hits not only in its fourth-quarter 2017 first revision, but also in the upcoming first-quarter 2018 GDP estimate.

December's Nominal Goods and Services Trade Deficit Topped $53 Billion for First Time Since 2008. Before adjustment for inflation, the nominal December 2017 balance-of-payments trade deficit, reflecting trade in both goods and services, deteriorated, month-to-month and year-to-year, breaking above $53 billion for the first time in ten years. The nominal deficits seen for December 2017, for fourth-quarter 2017 and for the full year 2017 all were the worst readings seen since 2018. In terms of the inflation-adjusted real merchandise trade, those same superlatives get pushed back to being the worst since 2017, as discussed in the *Reporting*.

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



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Quarterly Real Deficits Rival Pre-Recession Levels. Detailed in the *Real Trade Deficit* section in the *Reporting Detail*, adjusted for the fourth-quarter 2017 real merchandise trade deficit was worst showing since second-quarter 2007 (see *Graph 4*).

In 2016, the annual real merchandise trade deficit widened for the year to $734.5 billion, versus $716.4 billion in 2015. The 2016 annual trade shortfall then was the worst since 2008.

On an annual basis, the 2017 real merchandise trade deficit widened to $760.1 billion, versus $734.5 billion in 2016. The 2017 deficit was the worst since 2007.

Extended Trade Deficit coverage follows in the *Reporting Detail* (see page 32).

[Extended analysis and graphs follow in the* Reporting Detail.*]

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REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (January 2018)

U.S. Labor Conditions Signal High Levels of Employment Stress and Renewed Economic Downturn. In the context of the regular reporting distortions discussed in *Special Commentary No. 885* as well as in the *Supplemental Labor-Detail Background* on page 24, incorporated here by reference, broad labor circumstances generally have weakened sharply, irrespective of what may appear still to be happy headline details, on the surface. The inverted-scale plot of the ShadowStats Alternate Unemployment Rate measure is shown in *Graph 6*, for comparison with the *Graphs 7* and *8* of the Civilian Employment-to-Population Ratio and the Labor-Force Participation rate. Where the latter two series had gyrated around recent hurricane disruptions, they have weakened anew. The lower the reading of those ratios, the more-distressed are employment conditions, as correlated with the heavy impact of discouraged and displaced workers on the level of the ShadowStats Alternate Unemployment Measure.

Seen in *Graph OC-1* of the *Opening Comments* and discussed there, annual growth in payroll employment has dropped to levels seen historically with economies either coming out of recession, or the current circumstance of falling into recession, with a declining pace of annual payroll growth.

In terms of underlying reality, the revamped headline 200,000 monthly payroll jobs gain in January 2018, likely still 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...*), headline January 2018 unemployment at 4.1% for the U.3 rate was much closer to 21.8%, 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, January 2018 Unemployment Notched Higher to 21.8%. The headline detail from the Household Survey continued nonsensically positive, still distorted heavily by hurricane impacts in September and October 2017, but negligibly revised in last month's annual benchmarking (revisions were only to seasonal adjustments, not in correcting unadjusted levels of activity).

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 January 2018 notched higher to 21.8%. The broadest government unemployment measure U.6 notched higher, too, to 8.2%, while the headline U.3 rate held at 4.1% for the fourth month, a reading shy of rounding to 4.2% in January by less

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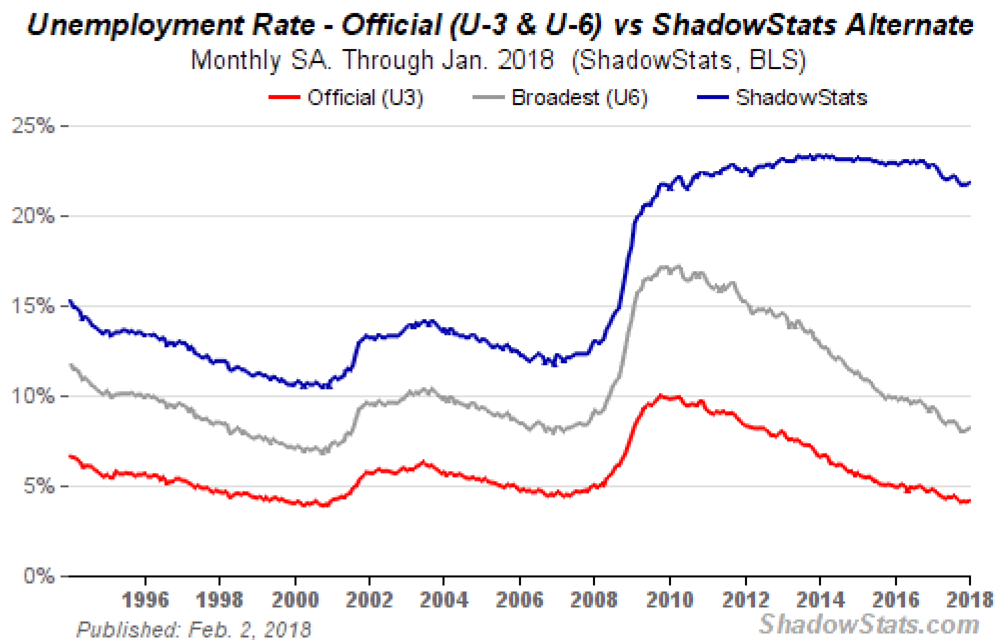
than 3,000 unemployed out of the 6,684,000 unemployed individuals. The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force, effectively becoming long-term discouraged or displaced workers. That broad unemployment level is heavily dependent on the underlying 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 24).

Unemployment Circumstances Remained Heavily Distorted. *Graphs 5* to *9* reflect various aspects of the Household Survey detail, which generates the unemployment rate. Moving beyond wild internal data gyrations of recent months (see *Commentary No. 915*, *Commentary No. 919-B* and *Commentary No. 924*) the headline unemployment rate U.3 at 4.15% in January 2018, followed 4.09% in December 2017, 4.12% in November and 4.07% in October—the lowest level since December 2001. The broader U.6 rate rose to 8.19% in January 2018, versus 8.08% in December 2017, 7.99% in November and 7.99% in October. The ShadowStats-Alternate measure, built upon U.6, rose to 21.8% in January 2018, versus 21.7% in each of December, November and October 2017. Those headline rates are plotted here in accompanying *Graph 5* (*Graph 1* in the *Executive Summary*).

Graph 5: Comparative Unemployment Rates U.3, U.6 and ShadowStats
(Same as Graph 1 in the Executive Summary)

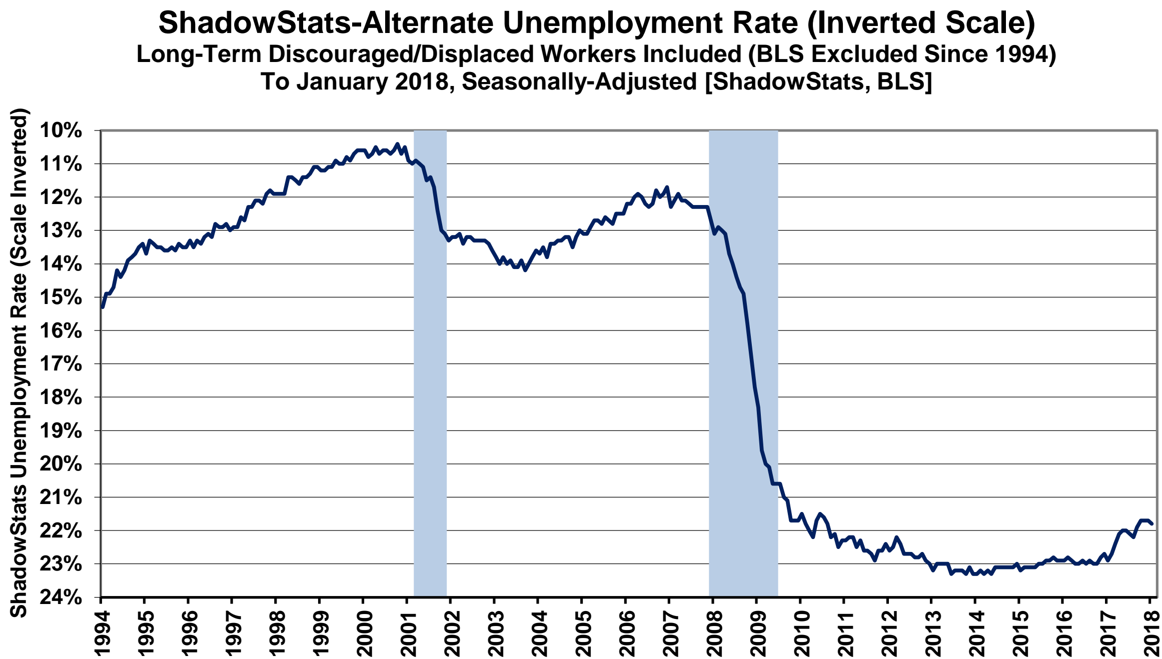


Graph 6 shows the inverted-scale plot of the ShadowStats Alternate Unemployment Rate measure, as usual, for comparison with the plots in *Graphs 7* and *8* of the Civilian Employment-to-Population Ratio and the Labor-Force Participation rate, where both those measures jumped sharply with September hurricane disruptions to the data, falling back sharply in recent months. 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. They are at low levels, consistent with severe recessions, despite the headline December 2017 U.3 unemployment rate having hit a 17-year low, in theory a strong economic positive. Headline U.3 unemployment largely remains a nonsense number. Reflected in *Graph 5*, the headline U.3 was 4.15% (rounding to 4.1%) in January 2018, versus 4.09% in December and versus 4.12% in November. 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 8.19% in January 2018, versus 8.08% in December and 7.99% in both November, while the ShadowStats-Alternate measure (U.6 plus all estimated long-term discouraged and displaced workers) rose to 21.8%, having held at even 21.7% in December, November and October.

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 remained heavily stressed and unstable, suggestive of an economy still deep in non-recovery and non-expansion, instead of one purportedly expanding rapidly at full employment. Systemic imbalances and instabilities are indicated by the labor-force participation rate (labor force/population) and the employment-to-population ratio (headline employment/population) near historic lows, despite recent hurricane-distorted monthly spikes. Still, with the headline unemployment rate so low, those ratios should be approaching historic highs, not holding near historic lows, as seen in *Graphs 7* and *8*.

Graph 6: Inverted-Scale ShadowStats Alternate Unemployment Measure



Graphs 6 to *8* reflect longer-term unemployment and discouraged-worker conditions. *Graph 6* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move visually in tandem with plots of most economic statistics, where a lower number means a weaker economy. The upturn on the headline ShadowStats measure is in tandem with renewed weakening in the broad employment indicators.

The inverted-scale of the ShadowStats unemployment measure tends to move with the employment-to-population ratio over time, which eased to 60.0% in January 2018 from 60.1% in December, and from higher from, post-hurricane disruptions, with the ShadowStats unemployment measure notching higher. Nonetheless, that ratio remained 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 7*.

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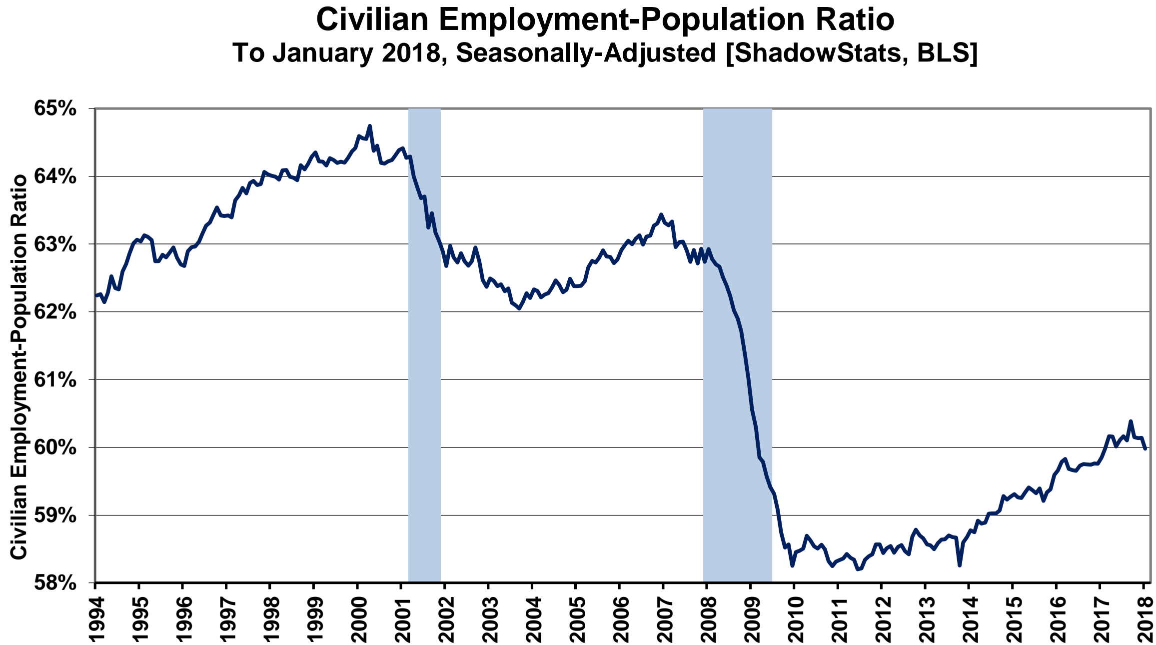
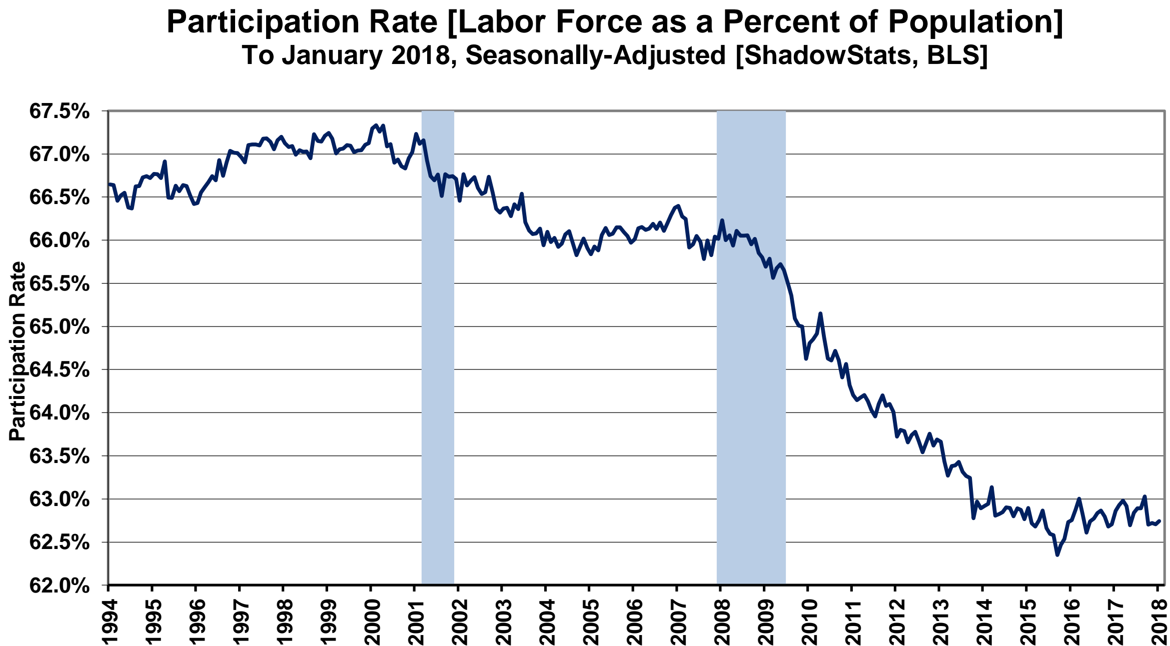
The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment-to-population ratio remains something of a surrogate indicator of broad unemployment and, again, with a strong correlation with the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

Graph 7: Civilian Employment-to-Population Ratio



Graph 8: Labor-Force Participation Rate



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Graph 8 shows the January 2018 participation rate (ratio of the headline labor force to the population) held at a rounded 62.7% for the third-straight month, having jumped to a 63.0% in hurricane-distorted September, from 62.9% in August.

Graphs 6 through *8* 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 January 2018 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 January 2018 headline unemployment rate of 4.1%, for example was in the context of a 62.7% participation rate. Yet, that participation rate 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]

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 6* to *8* (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. 933* covering the GDP. Some of those series are updated in this section.

Consider *Graph 9*, which shows the ShadowStats version of that GDP, also plotted from 1994, but now through the January 26th first estimate of fourth-quarter 2017 GDP, where the plot has been corrected for the understatement of inflation used in deflating the headline GDP.

[1] Consider with the January 2018 population of 256.780 million, that the implied labor force at a full-employment participation rate of 66.0% would be 0.66 x 256.780 = 169.475. That labor force less current headline employed, 169.475 – 154.430 = 15.045 million implied unemployed / labor force of 169.475 = 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.

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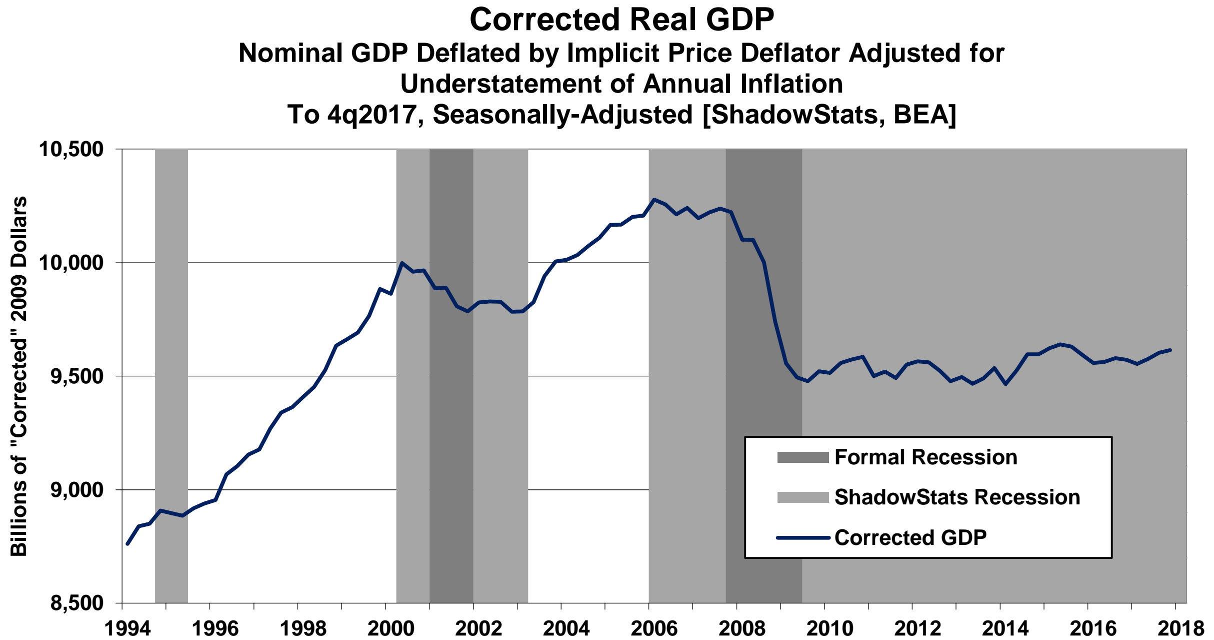
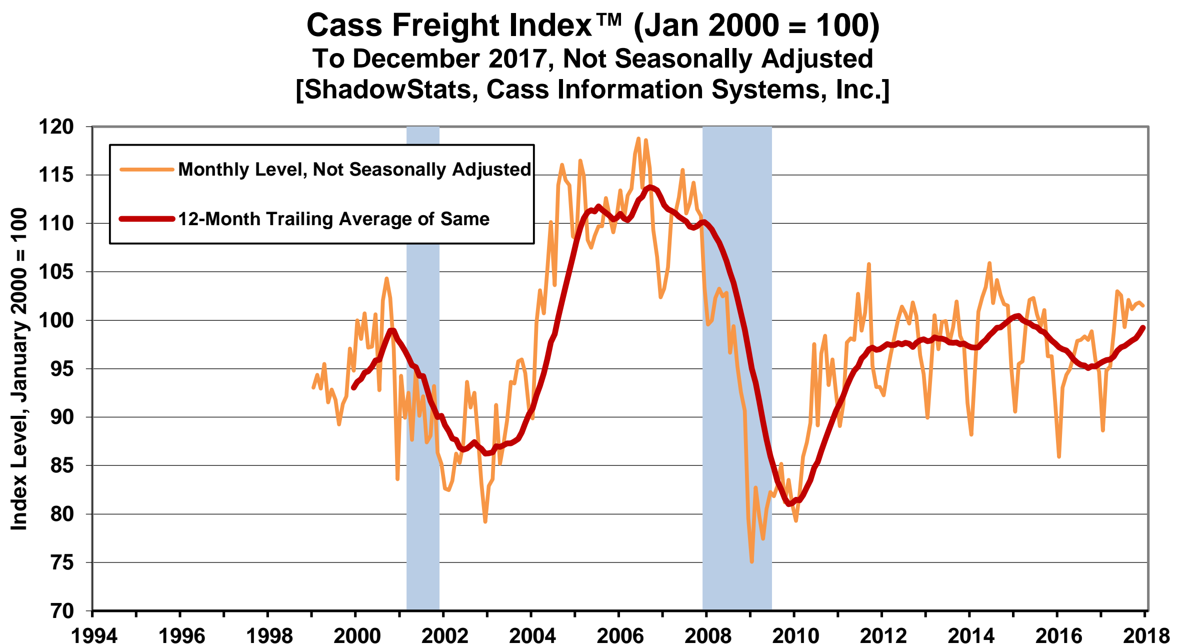
Other graphs range from the December 2017 Cass Freight Index (*Graph 10*) to November U.S. Petroleum Consumption (*Graph 11*), December U.S. Industrial Capacity Utilization (*Graph 12*), related December Consumer Goods Production (*Graph 13*) and December Housing Starts (*Graph 14*), with all but the Petroleum Consumption graph from [Commentary No. 933](#) and [Commentary No. 932](#).

Graph 9: Corrected Real GDP through 4q2017, First-Estimate



Graph 10: Cass Freight Index for North America (2000 – December 2017), Indexed to January 2000 = 100



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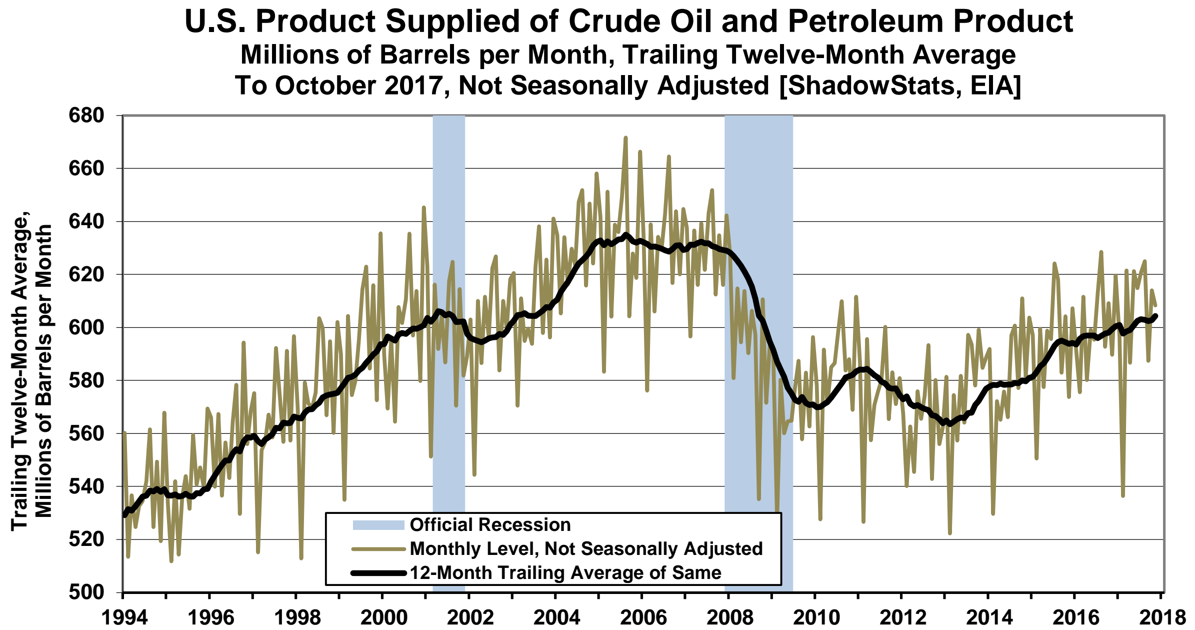
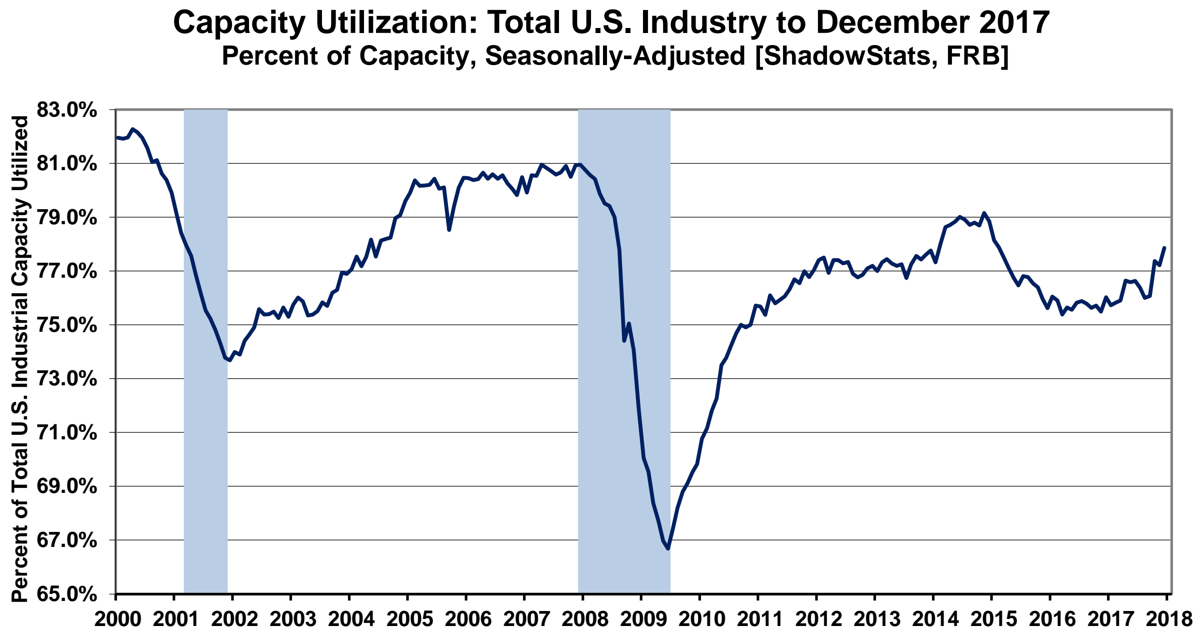
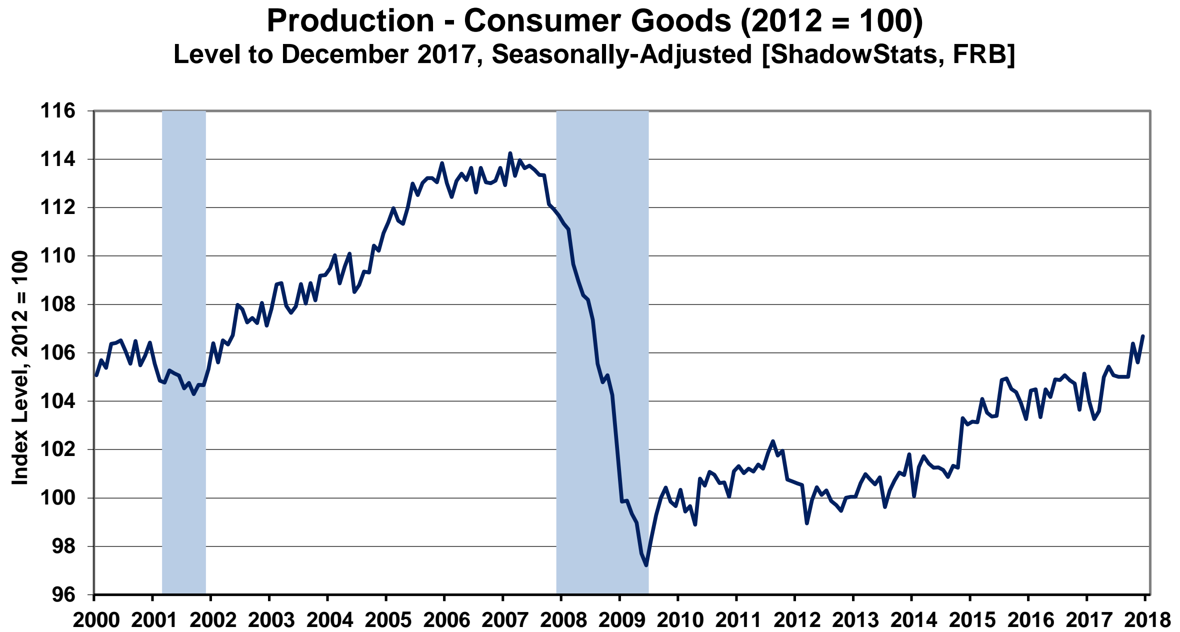
Graph 11: U.S. Petroleum Consumption to November 2017



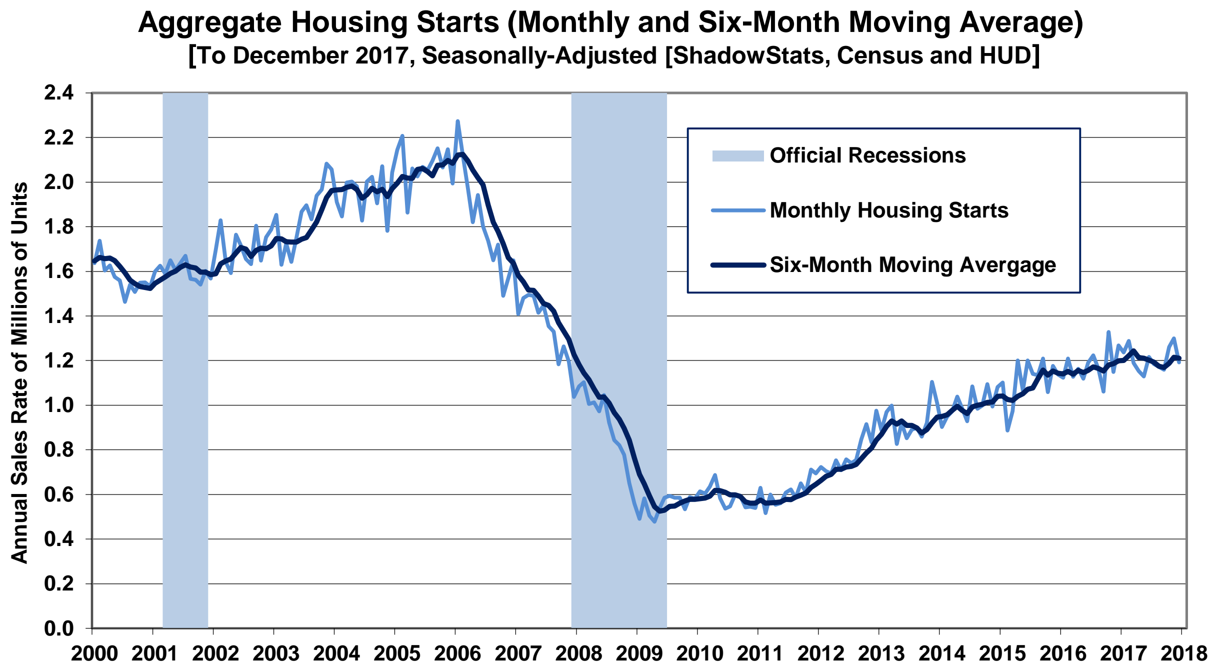
Graph 12: Utilization of Total U.S. Industrial Production Capacity (2000 to December 2017)



Graph 13: Industrial Production – Consumer Goods Sector (1994 – December 2017)



Graph 14: Housing Starts, Annual Rate by Month (1994 – December 2017)



Headline Unemployment Rates. Headline January 2018 U.3 unemployment rate of 4.1% [4.15% at the second decimal point], was unchanged versus the 4.1% [4.09%] in December 2017, 4.1% [4.12%] in November, and 4.1% [4.07%] in October, which followed 4.2% [4.20%] in September, 4.4% [4.44%] in

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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 2017.

Formally, the month-to-month increase of 0.06% in the January 2017 U.3 was well shy of being statistically-significant (+/- 0.23% at the at the 95% confidence interval). Other than for the once-per-year December 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 jumped to 4.49% in January 2018, from 3.93% in December 2017, 3.92% in November, 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 upside pressure on the seasonally-adjusted January 2018 U.3 unemployment rate, some likely increase in the unadjusted monthly count of marginally-attached workers (including discouraged workers) and in the adjusted number of people working part-time for economic reasons, the adjusted January 2018 U.6 unemployment rate rose to 8.19% from 8.08% in December 2017 and versus 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 8.85% in January 2018, versus 8.00% in December 2017, 7.66% in November, 7.61% in October, 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 2017.

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. Monthly counts in January 2018 versus December are not necessarily comparable at the moment, reflecting with January showing a headline 1.653 million marginally attached, of which 241,000 were discouraged workers.

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 January 2018 was at 21.8%, versus 21.7% in December 2017, 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 2017. 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 24.

Payroll Survey: January 2018's Monthly Gain of 200,000 Was in the Context of Annual Revisions, and an Intensified Slowing in Annual Growth. In the context of annual benchmark revisions reviewed in the *Opening Comments,* and reflected in *Graphs 15* and *16*, the headline month-to-month payroll employment gain in January 2018 was 200,000, versus 160,000 in December 2017 and 216,000 in November.

Despite the annual benchmarking, the November monthly gain detail was not stated on a consistent basis with the December and January headline details (see the *Supplemental Labor-Detail Background*, page 24, for discussion on the various reporting distortions and gimmicks).

The headline January payroll gain of 200,000 formally was statistically-significant +/- 135,000 (a confidence interval more appropriately in the range +/- 300,000) at the 95% confidence interval (all confidence intervals used are at the 95% level).

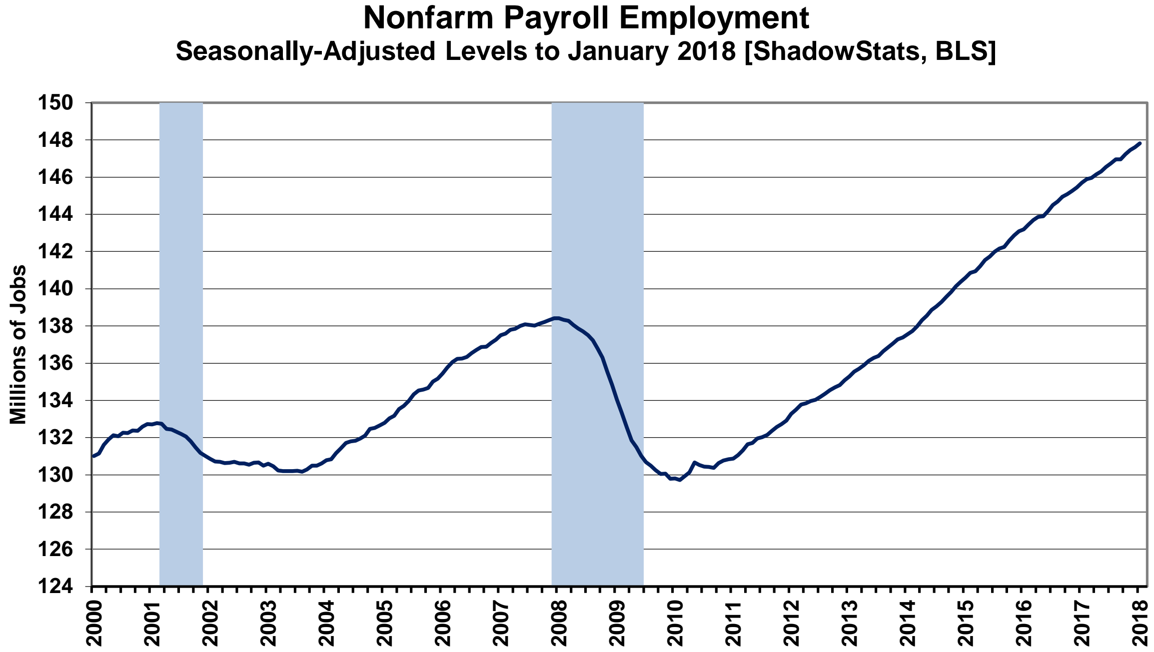
Annual percentage growth in payroll employment, however, deepened in recession-signal territory (see the discussion and *Graph OC-1* in the *Opening Comments*, with the 1.45% year-to-year gain in unadjusted payrolls January 2018 payrolls at its weakest level since coming out of the 2007 recession in August 2011, other than for a benchmark-revised, hurricane-induced trough of 1.38% in September 2017.

Accordingly, contrary to claims by economists at the San Francisco Fed, far from being healthy or normal, such low-level annual growth rates are seen either coming out of recession, or going into recession, but never seen consistently in the regular variability of ongoing, normal economic activity, as discussed in *Commentary No. 843*. Current levels of annual growth in unadjusted payrolls likely are at the threshold, on the downside, of heading into recession.

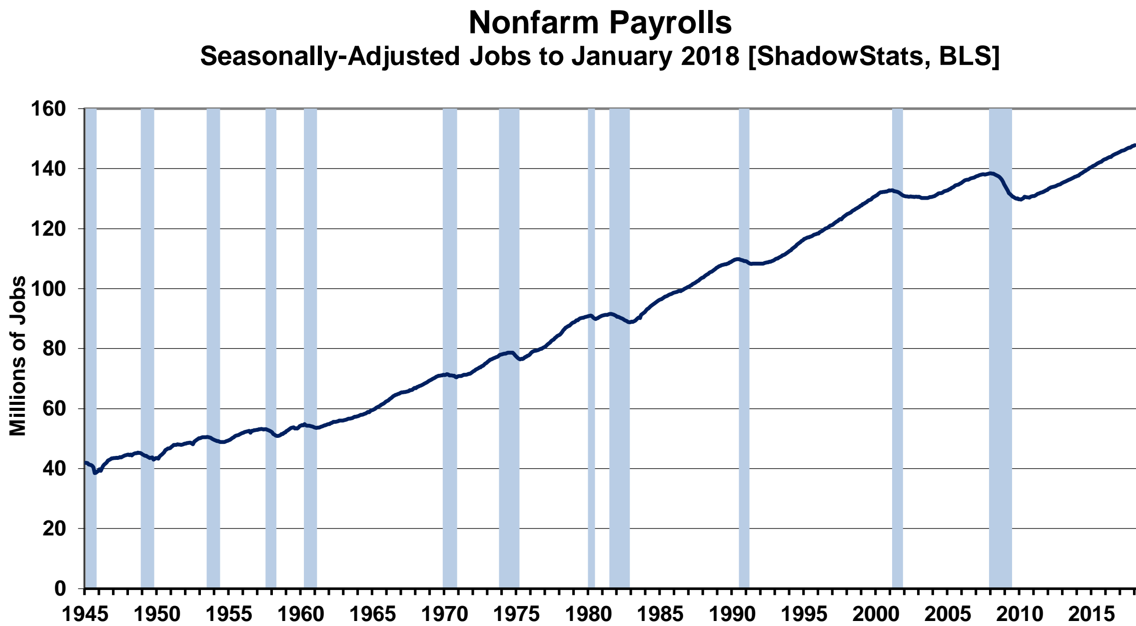
Graphs 15 to *18* show the headline payroll series, level and annual change, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

Graph 15: Nonfarm Payroll Employment 2000 to Date

(Same as Graph 2 in the Executive Summary)



Graph 16: Nonfarm Payroll Employment 1945 to Date



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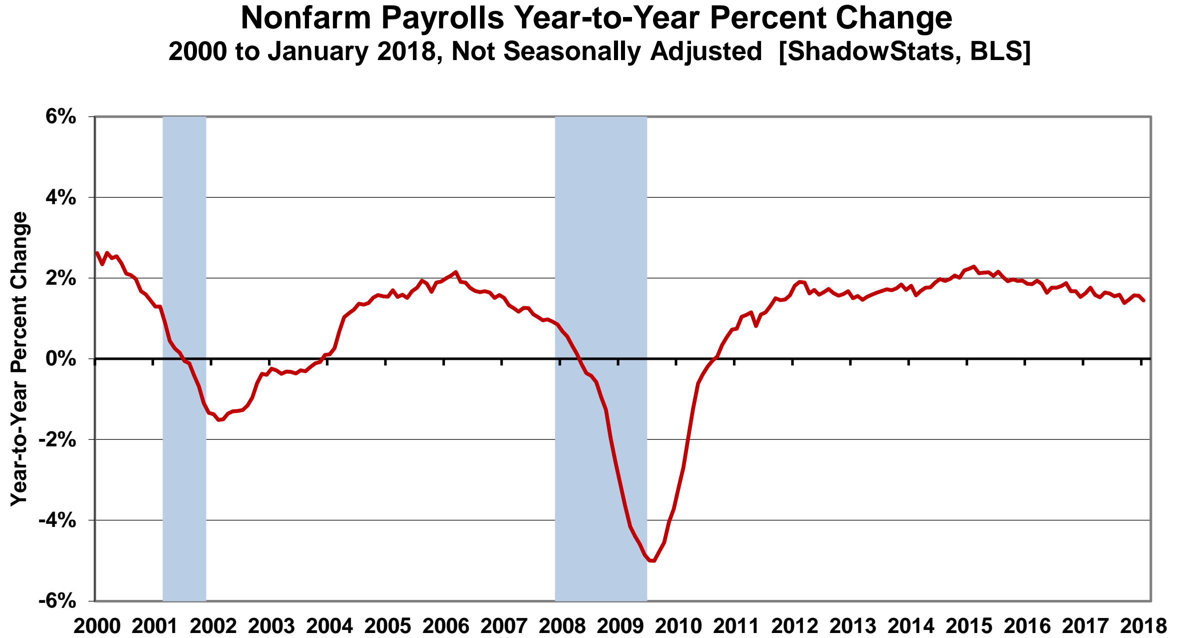
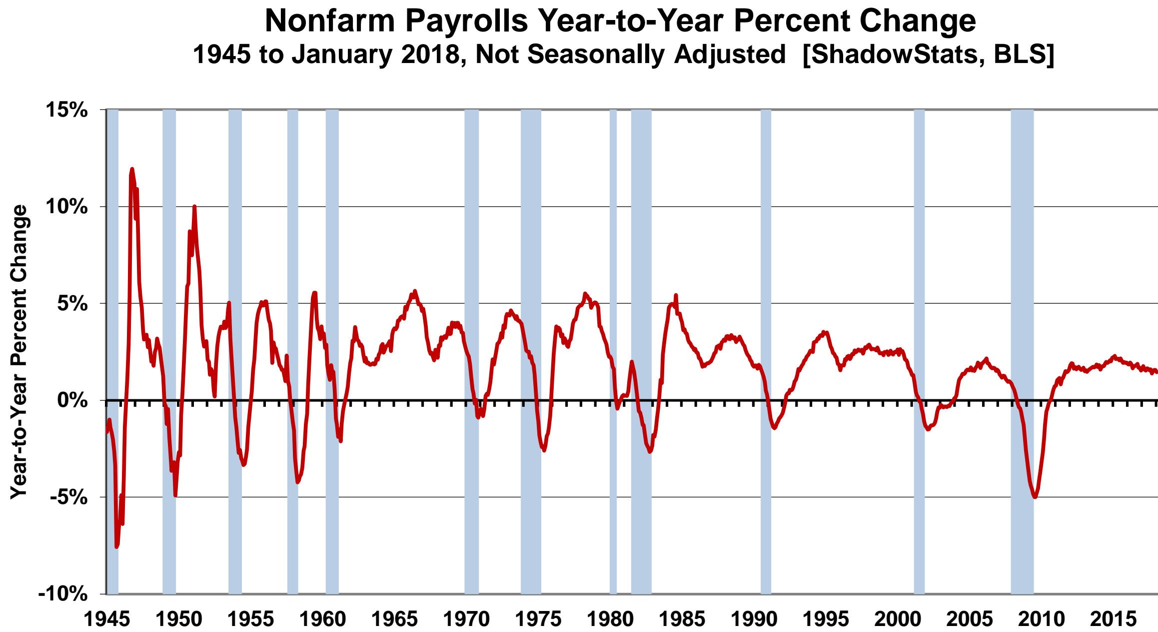
Graph 17: Payroll Employment, Year-to-Year Percent Change, 2000 to Date
(Same as Graph 3 in the Executive Summary)



Graph 18: Payroll Employment, Year-to-Year Percent Change, 1945 to Date



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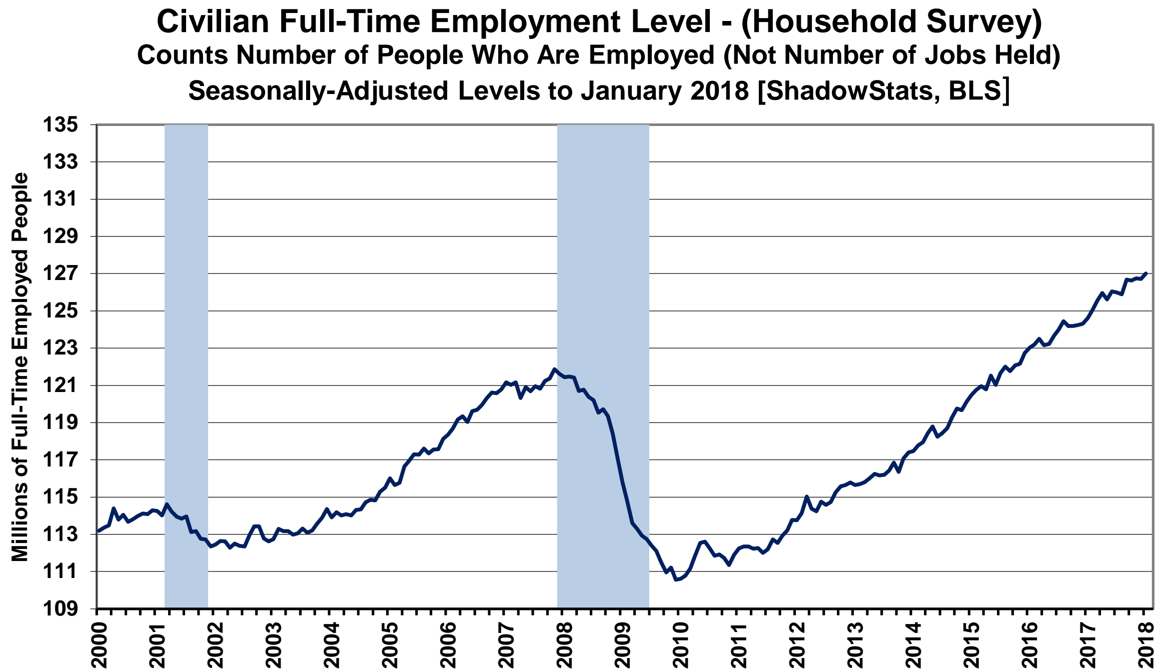
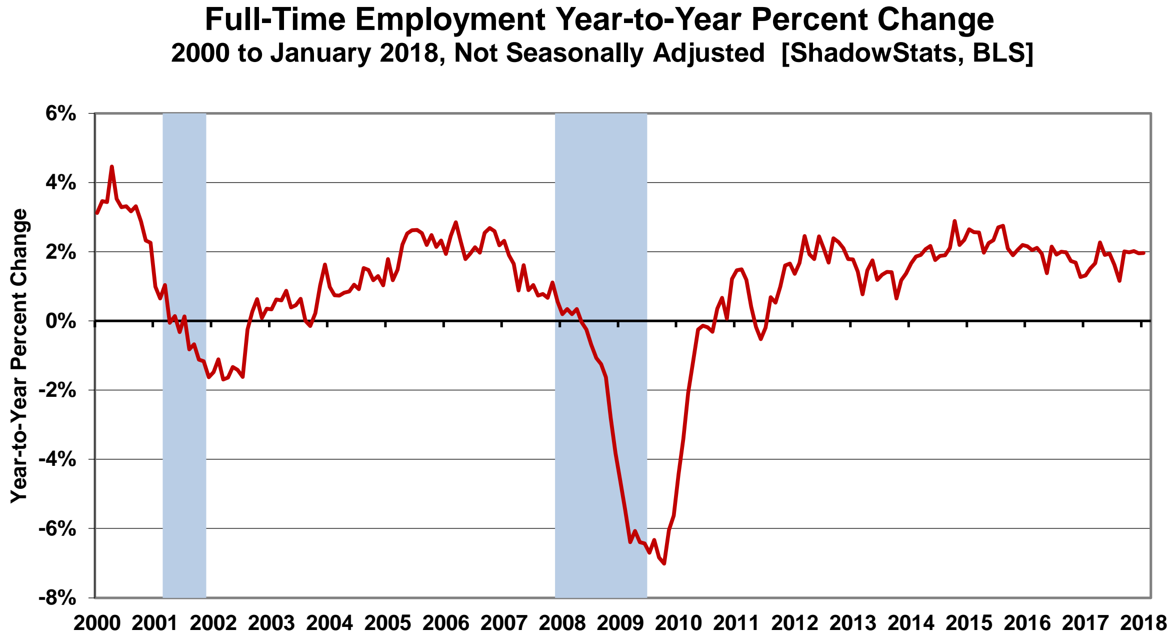
Graph 19: Full-Time Employment (Household Survey) to Date (2000 to Date)



Graph 20: 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.

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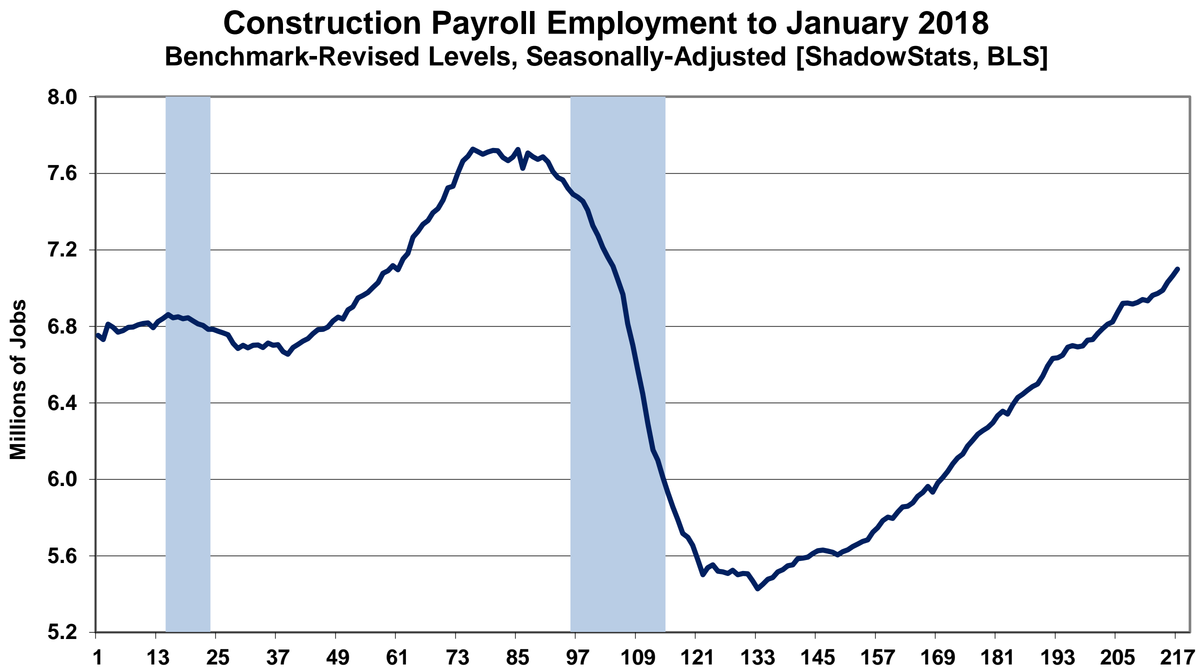
Where, out of the payroll survey, headline payroll employment rose month-to-month by 200,000 in January 2018, out of the household survey, full-time employment rose by 293,000, likely just reflecting an upside break in population estimates discussed in the *Opening Comments*, with multiple job holders (already counted as employed individuals) increasing by 198,000. Among other differences, the payroll survey is nonfarm, where the Household Survey covers agricultural employment.

Year-to-year change in unadjusted full-time employment likely was 1.97%, likely bloated by population adjustments, following 1.95% in December 2017 and 2.02% in November 2017.

Upwardly-Benchmarked January 2018 Construction Payrolls Rose by 0.5% Month-to-Month and by 2.6% Year-to-Year, but Remained Down by 8.1% (-8.1%) from the Pre-Recession Peak. In the context of the annual benchmark revisions to payroll employment (see the [Advance Commentary No. 934-A]() and the *Opening Comments*), construction payrolls were revised higher, as reflected in accompanying *Graph 21.* The upwardly-revised, seasonally-adjusted January 2018 construction payroll employment level remained 8.10% (-8.10%) below the pre-recession high for the series.

The revamped construction payrolls rose month-to-month by 0.60% [previously 0.39%] in November 2017, 0.47% [previously 0.43%] in December 2017 and by 0.51% in January 2018, versus revised annual gains in November 2017 of 3.10% [previously 2.74%], 4.04% [previously 3.75%] in December 2017 and 3.61% in January 2018.

Graph 21: Construction Employment (Payroll Survey) - Benchmarked, 2000 to Date



[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 January 2018), which also are referenced separately in the related standard employment and unemployment text in the *Executive Summary* and *Reporting Detail.* Note: Accompanying Household and Payroll-Survey comments have updated to reflect recently-published 2017 annual benchmarking details.

(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.

<ins>Effective Reporting Fraud.</ins> 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

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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

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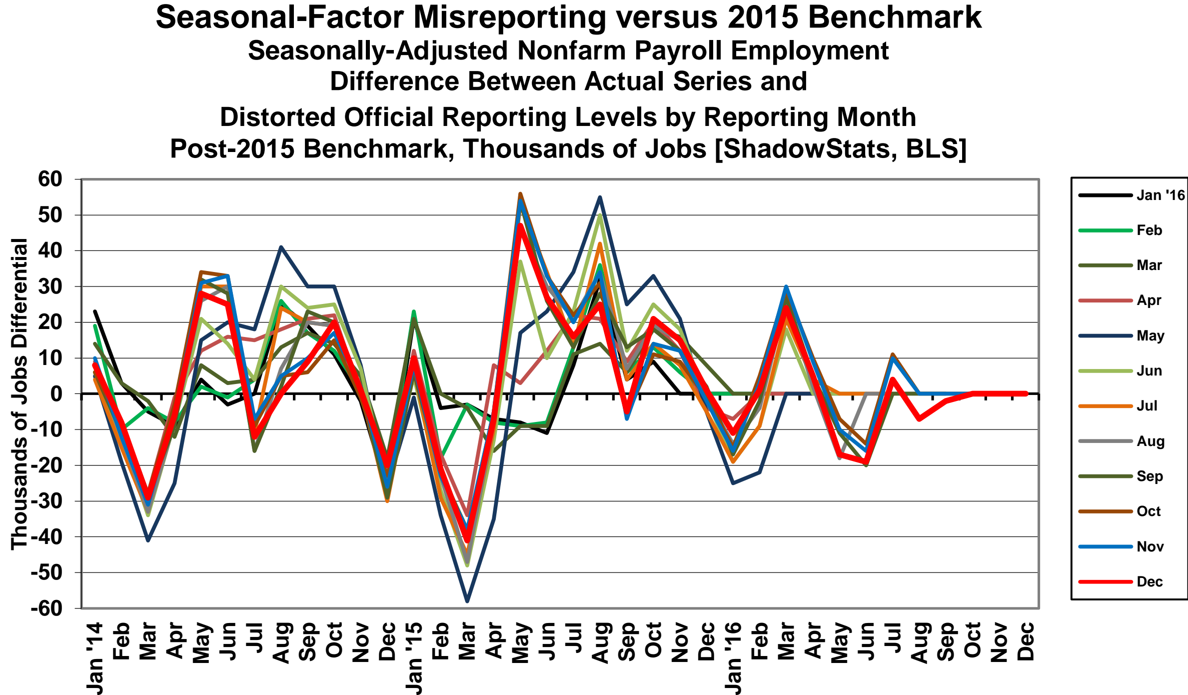
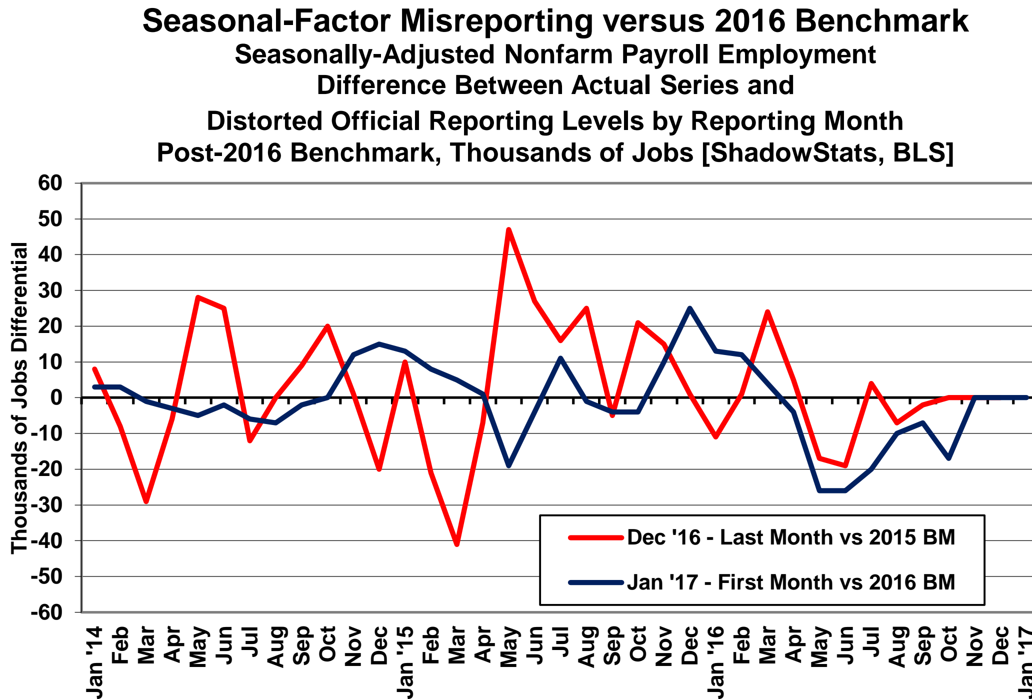
and the new "selective" seasonal adjustment processes. Such variability in seasonal factors, though, rarely is seen in a stable economic series. These data again suggest heavily-gamed headline reporting.

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 2017 benchmark revision of February 2, 2018 on the upside by 138,000 (initially estimated at 95,000).

As a separate matter, though, 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.

January 2018 Add-Factor Bias. In context of the just published 2017 benchmarking (see today's *Opening Comments*), the not-seasonally-adjusted monthly add-factor bias in January 2018 was a positively-revised subtraction of 198,000 (-198,000), previously down by 247,000 (-247,000). The revamped, aggregate upside annual bias for the trailing twelve months through January 2018 is estimated from the current headline bias reporting at 1,070,000, up by 178,000 or 20% from the last prior count of 892,000 in December 2017. That is a monthly average now of 89,167, versus 74,333 in December 2017, jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS in the BDM, as discussed below.

Problems with the Model. The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net-positive jobs creation by new companies versus those going out of business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. The BLS cannot measure meaningfully the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), or by changes in household employment that were incorporated into the 2017 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 89,167 jobs per month for the current year. As a result, in current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month (the underlying positive base-assumption upside bias, plus the monthly Birth-Death Model add-factor).

(III.) ShadowStats Alternate-Unemployment Rate (Accounting for Displaced Workers). In 1994, the Bureau of Labor Statistics (BLS) overhauled its system for estimating unemployment, including changing survey questions and unemployment definitions. In the new system, measurement of the previously-

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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 5.364 million in January 2018, 5.171 million on a seasonally-adjusted basis. Due to the coincident annual revision of the BLS’s population estimate, these number are not comparable with prior-period estimates (see today’s *Opening Comments*). While some contend that that number includes all those otherwise-uncounted discouraged workers, such is extremely shy of underlying reality due to changes in survey methodology since 1994.

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 with my modeled adjustments, 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 6* to *8*). Other measures, such as the ShadowStats-Alternate GDP Estimate, the Cass Freight Index, U.S. Petroleum Consumption, etc. are highlighted in subsequent *Graphs 9* to *14* there and in the *Economy* section of [*No. 859 Special Commentary*].

Headline January 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 January 2018 was 21.8%, versus 21.7% in December 2017, 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 1.5% (-1.5%) from the 23.3% series high seen in May 2014.

In contrast, the January 2018 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 8.2% in January 2018, was down by 900 basis points or 9.0% (-9.0%) 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 5* 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 flat recently, against a higher level, uptrending U.6 and a still-higher level, relatively stagnant, but also uptrending ShadowStats number, which had been flat in for several months.

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 21% 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%.

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

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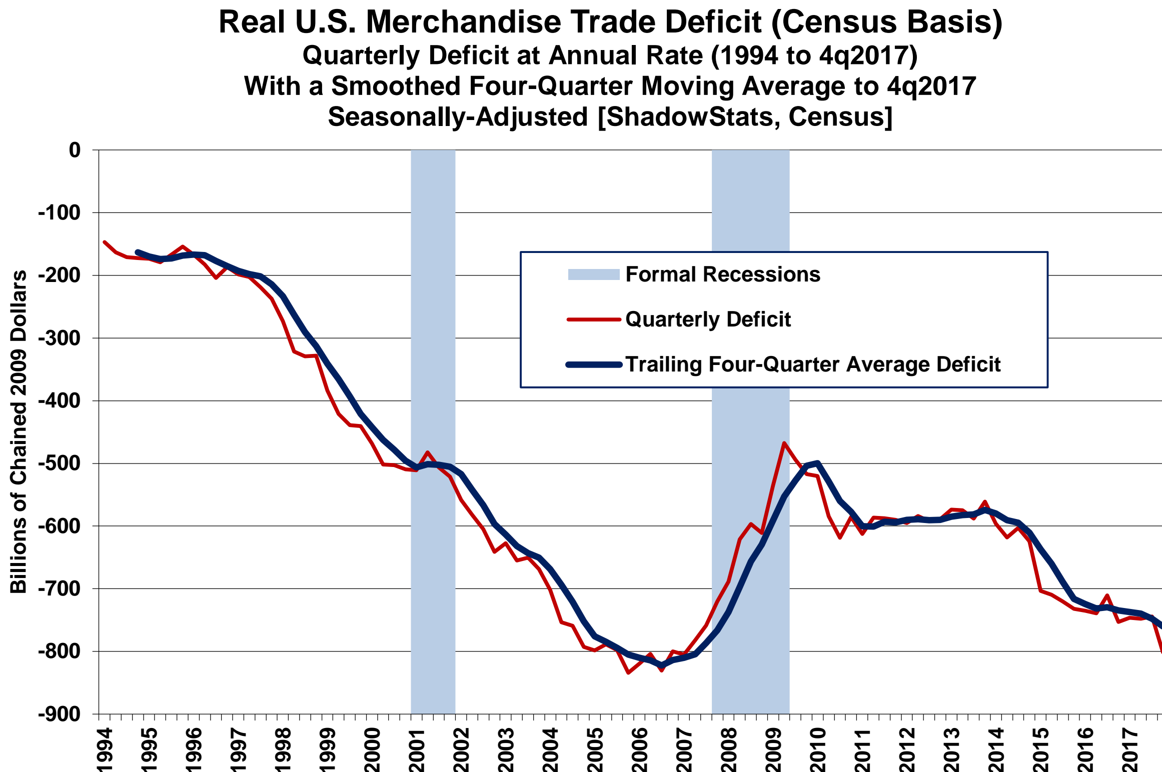
U.S. TRADE DEFICIT (January 2018)

Real Merchandise Trade Deficit Hit Its Worst Levels Since 2007, Nominal Goods and Services Deficit Hit Its Worst Level Since 2008. The headline real trade-deficit deepened more than expected, widening to monthly, quarterly and annual levels not seen for more than a decade. On the nominal goods and services side, the balance of payment was at its most-negative reading since 2008. Where the deficit widened sharply in 2017, such reflected rapidly-deteriorating trade balances with China, OPEC and NAFTA (Mexico and Canada), among others. Where the deteriorating deficits are direct subtractions from headline growth in Gross Domestic Product (GDP), the worse-than-expected fourth-quarter 2017 results are suggestive of a negative revision to the next estimate of real fourth-quarter 2017 GDP.

December's Nominal Goods and Services Trade Deficit Topped $53 Billion for First Time Since 2008. Before adjustment for inflation, the nominal December 2017 balance-of-payments trade deficit, reflecting trade in both goods and services, deteriorated, again, month-to-month and year-to-year, breaking above $53 billion for the first time in ten years. The nominal deficits seen for December 2017, for fourth-quarter 2017 and for the full year 2017 all were the worst readings seen since 2018. In terms of the inflation-adjusted real merchandise trade, those same superlatives get pushed back to being the worst since 2017, as discussed later and plotted in *Graph 4* in the *Opening Comments* and *Graph 23* at the end of this section.

Graph 23: Four-Quarter Smoothed, Real Quarterly Merchandise Trade Deficit (1994-2017)



Nominal December 2017 Trade Deficit Widened, with a Continuing Relative Surge in Imports. The Bureau of Economic Analysis (BEA) and the Census Bureau (Census) reported this morning, Tuesday,

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February 6th, that the nominal (not adjusted for inflation), seasonally-adjusted monthly trade deficit in goods and services for December 2017 widened on a balance-of-payments basis by $2.683 billion, or by 5.3%, to $53.118 billion, versus a revised, a slightly narrowed deficit of $50.435 [previously $50.497] billion in November 2017. The widening in the monthly December deficit again reflected a strong increase in monthly exports of $3.545 billion, more than offset by an increase of $6.228 billion in imports. The headline December 2017 deficit also widened by $8.511 billion, or by 19.1%, versus the year-ago $46.607 billion trade shortfall for December 2016. Factors affecting the net deterioration to the December 2017 trade balance were widespread, with the increase in imports simply exceeding the increase in exports.

Energy-Related Petroleum Products. December 2017 imported oil prices rose by an unadjusted 4.0% to $52.10 per barrel versus $50.10 in November 2017, and by 25.8% versus $41.80 per barrel in December 2016. Separately, unadjusted physical oil-import volume in December 2017 averaged 6.903 million barrels per day, down from 7.852 million in November 2017, and down from 7.679 million in December 2016.

The Net Trade Deficit in Nominal Goods Widened, Including Rising Deficits with China, NAFTA and OPEC. In nominal terms, before inflation adjustment, the annual trade deficit in Goods, as measured on the Census basis widened by $59.356 billion to $786.150 billion in 2017, from $736.794 billion in 2016.

The Census Bureau broke out annual U.S. merchandise trade balances by various trading partners, trade groups and regions (see the *Press Release*, Exhibit 19 for extended detail). Some major examples included deficits with:

- China – The 2017 U.S. trade deficit with China widened to $375.228 billion, versus $347.016 billion in 2016 [net trade deterioration in 2017 of $28.212 billion].

- NAFTA – The 2017 U.S. trade deficit with NAFTA widened to $88.640 billion, versus $75.312 billion in 2016 [net trade deterioration in 2017 of $13.328 billion]. (Deficit with Mexico widened to $71.057 billion in 2017 versus $64.354 in 2016; 2017 deficit with Canada widened to $17.583 billion versus $10.958 in 2016.

- OPEC – The 2017 U.S. trade balance with OPEC swung to an annual deficit of $13.025 billion in 2017, from an annual surplus of $6.754 billion in 2016 [net trade deterioration of $19.779 billion].

Real December 2017 Merchandise Trade Deficit. Reporting detail for the real merchandise trade deficit is discussed here and plotted in *Graph 4* of the *Executive Summary* and *Graph 23,* earlier in this section. The seasonally-adjusted details are in real terms, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), and in the context of revised monthly data for all of 2017.

The December 2017 merchandise trade deficit (no services) widened to $68.447 billion, versus a revised $66.462 [previously $66.677] billion in November. The December 2017 real trade shortfall of $68.447 billion also widened versus the deficit of $62.567 billion in December 2016.

In 2016, the annual real merchandise trade deficit widened for the year to $734.5 billion, versus $716.4 billion in 2015. The 2016 annual trade shortfall then was the worst since 2008.

On an annual basis, the 2017 real merchandise trade deficit widened to $760.1 billion, versus $734.5 billion in 2016. The 2017 deficit was the worst since 2007.

The first-quarter 2017 deficit narrowed minimally to a revised $746.6 [previously $747.1] billion, with the second-quarter 2017 deficit widening to a revised $748.0 [previously $748.3] billion, the third-quarter 2017 deficit narrowed to a revised $744.2 [previously $744.4] billion. The initial fourth-quarter 2017 real merchandise trade deficit exploded to $801.6 billion, the worst showing since second-quarter 2007

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.

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. 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.

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

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CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.

[With no new detail, the CLW *has not been updated from its prior posting.]*

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 data by the February/ March reporting of January/February 2018-headline detail. Such effects have been, and will continue to be, discussed in the separate analyses of relevant series in covered in the regular *ShadowStats Commentaries*. Separately, as discussed ahead, there have been recent signals of faltering consumer liquidity as well as optimism, despite recent, albeit heavily distorted, positive economic reporting.

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 the *Opening Comments* of *Commentary No. 930-B*) and Retail Sales (*Commentary No. 931*). December 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 *Commentary No. 932*). Despite the initial slowing in headline Fourth-Quarter 2017 GDP growth, the series remains heavily bloated from the disaster-distortions (see *Commentary No. 933*).

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, and those numbers have begun to stumble in recent detail.

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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 place. Nonetheless, mirroring the disaster-fueled economic hype in the popular press, consumer optimism had rallied strongly, albeit, again, now faltering, 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 73.1% of the headline real, fourth-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 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* of *Commentary No. 930-B*.

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 faltering most recently.

Consumer Optimism: Consumer Sentiment and Confidence Continue to Falter. On top of the full-month December 2017 readings pulling back sharply for both The Conference Board's Consumer-Confidence Index® (Confidence), and the University of Michigan's Consumer Sentiment Index (Sentiment), full-January 2018 Confidence and Sentiment (February 2nd) readings were minimally-positive and down. While January Confidence (January 30th) rose slightly, it did little to offset the December decline and was in the context of indications of mounting foreclosure activity in the homeowner real estate market (see *Existing Home Sales* in the *Reporting Detail* of *Commentary No. 933*).

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, and now January also pulled back sharply or only minimally recovered, largely offsetting the October surge there. Nonetheless, the latest headline readings remained above their pre-2007 recession peaks.

The deepening 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, just-passed 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—either flattened out or notched lower in January—having begun to falter in September 2017, before the storm-distorted, unusual headline surges in October and November activity.

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 January 2017 readings for both the Confidence and Sentiment measures were down respectively from their pre-2001 recession peaks of May and January 2000, by 15.7% (-15.7%) and 14.6% (-14.6%).

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.

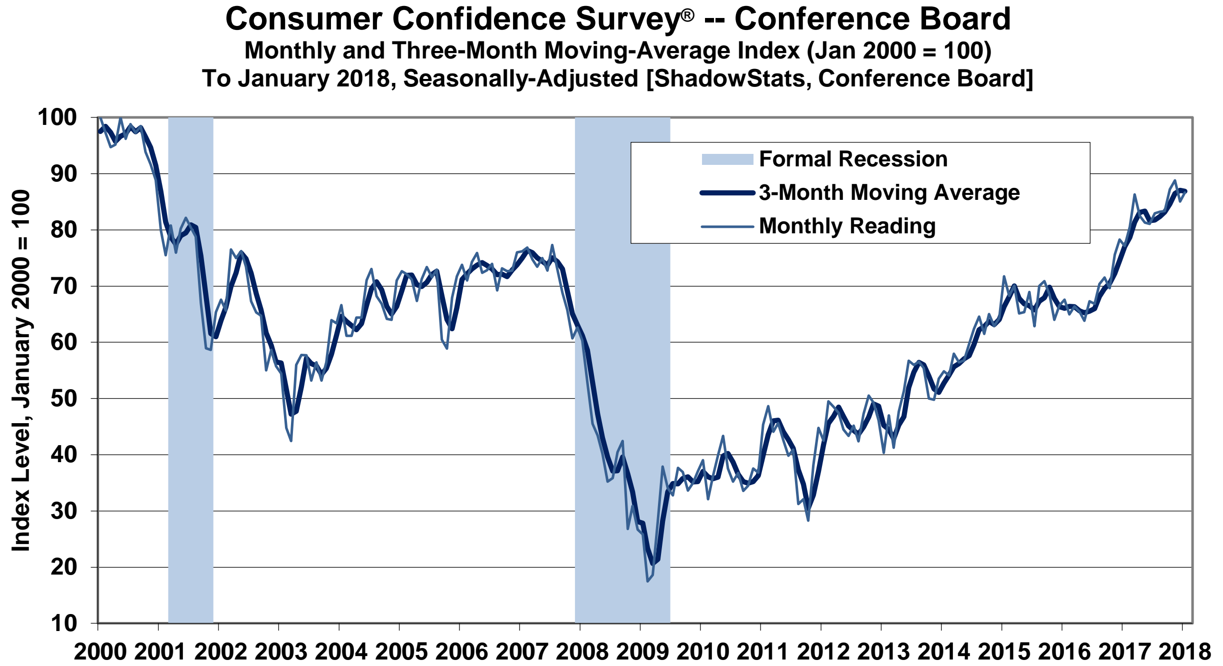
With near-term headline financial and economic reporting likely to turn increasingly negative in the next couple of months, successive negative hits to both the confidence and sentiment readings are likely to continue in the near future.

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.

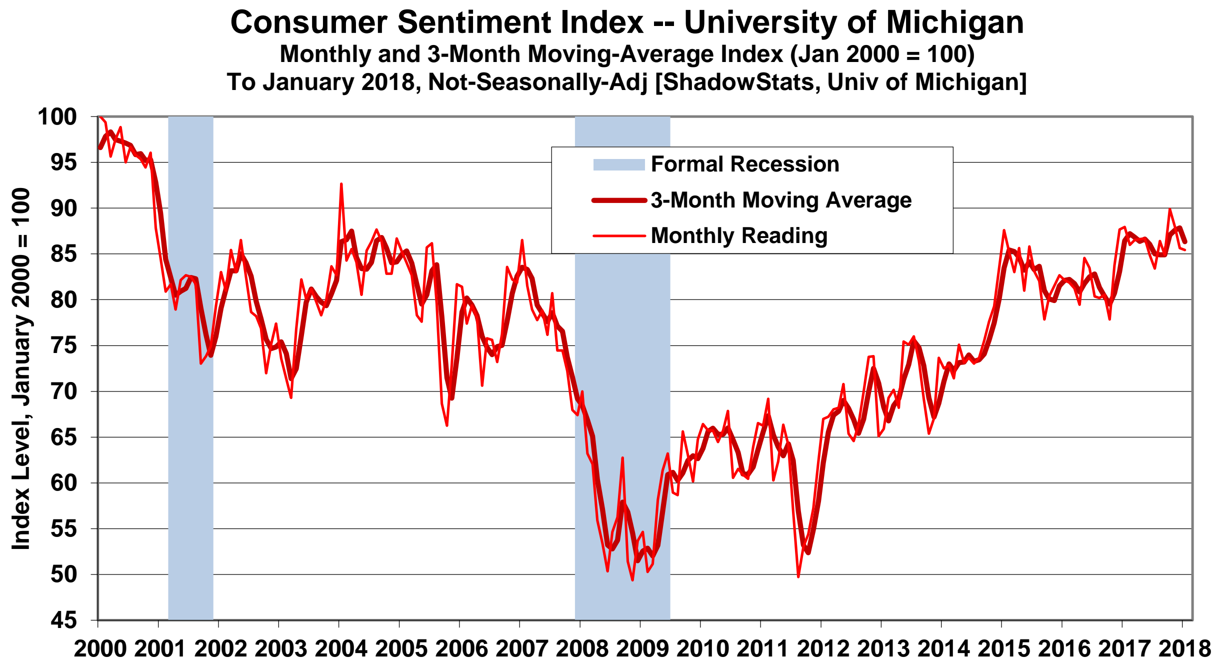
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 48 years—the latest readings of Confidence and Sentiment recently have recovered levels 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.]

Graph CLW-1: Consumer Confidence (2000 to 2018)



Graph CLW-2: Consumer Sentiment (2000 to 2018)



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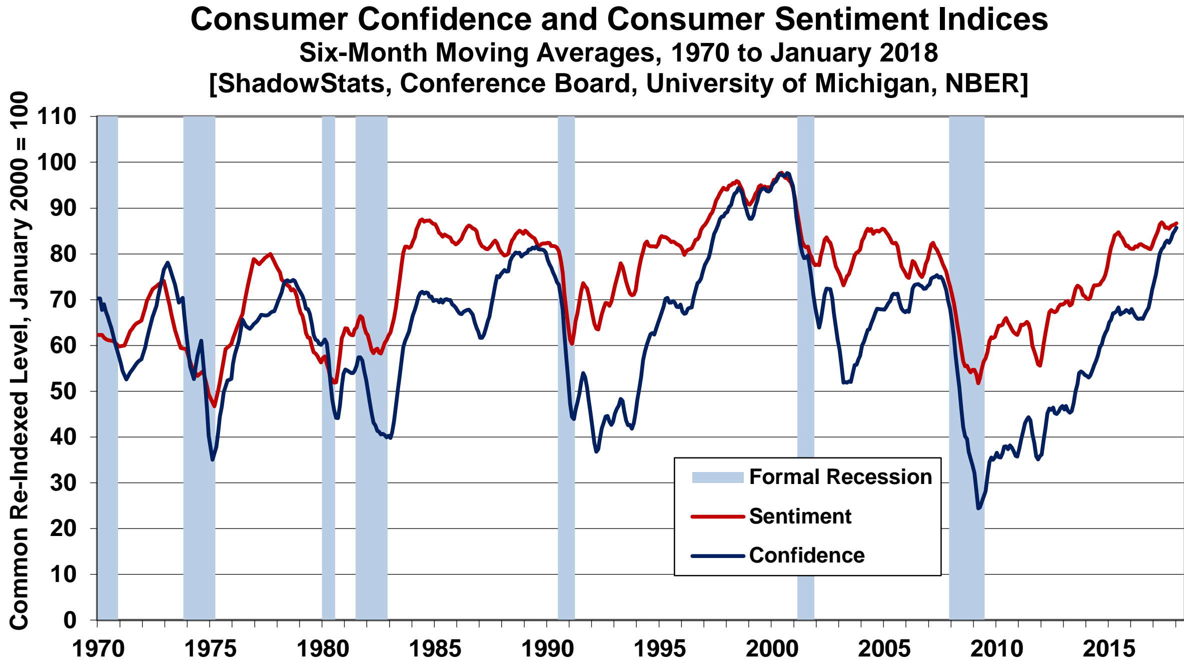
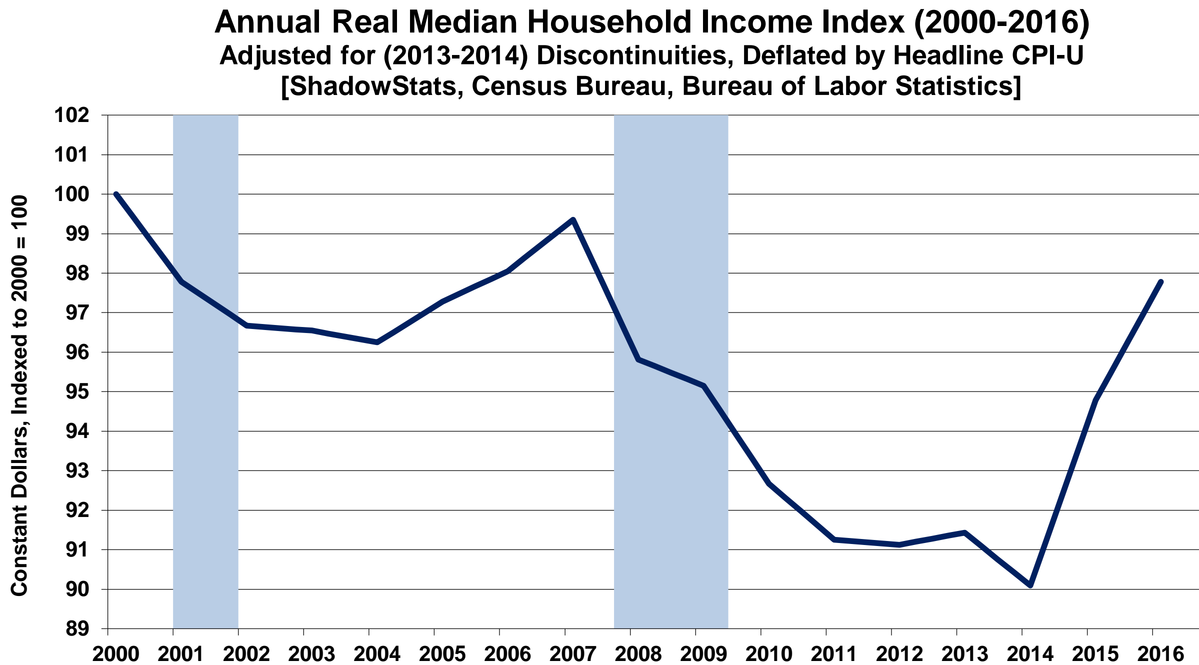
Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2018)



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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Final Monthly Estimate Showed Stagnating Monthly Real Growth. Last reported by Sentier Research, in what appears to have been the 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*).

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.

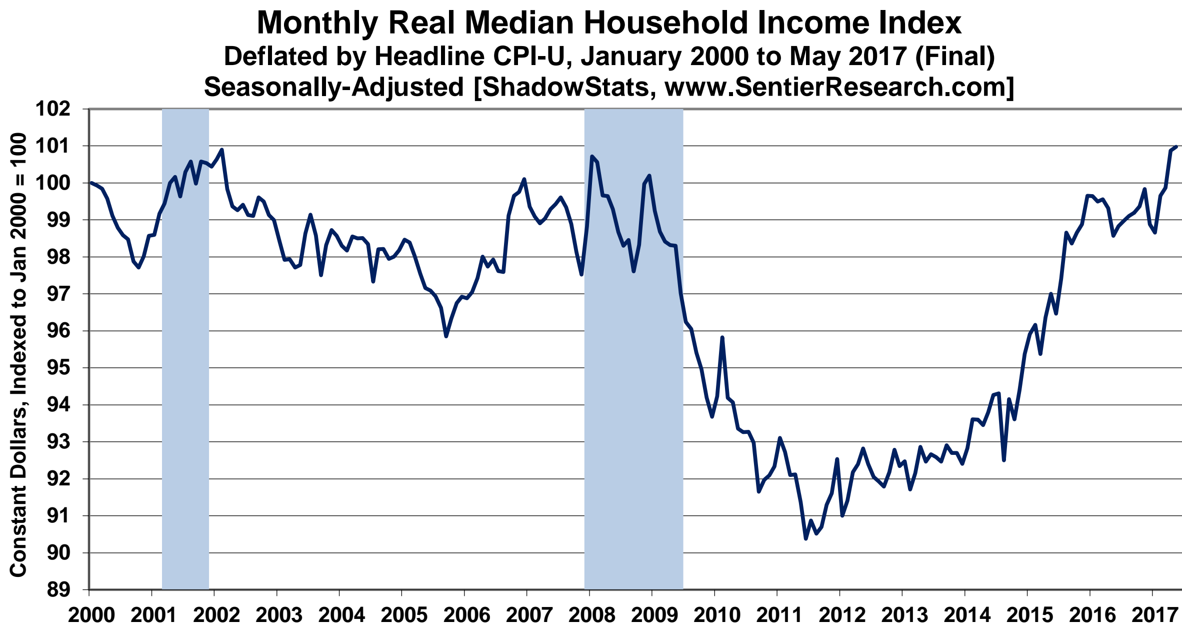
Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or 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.

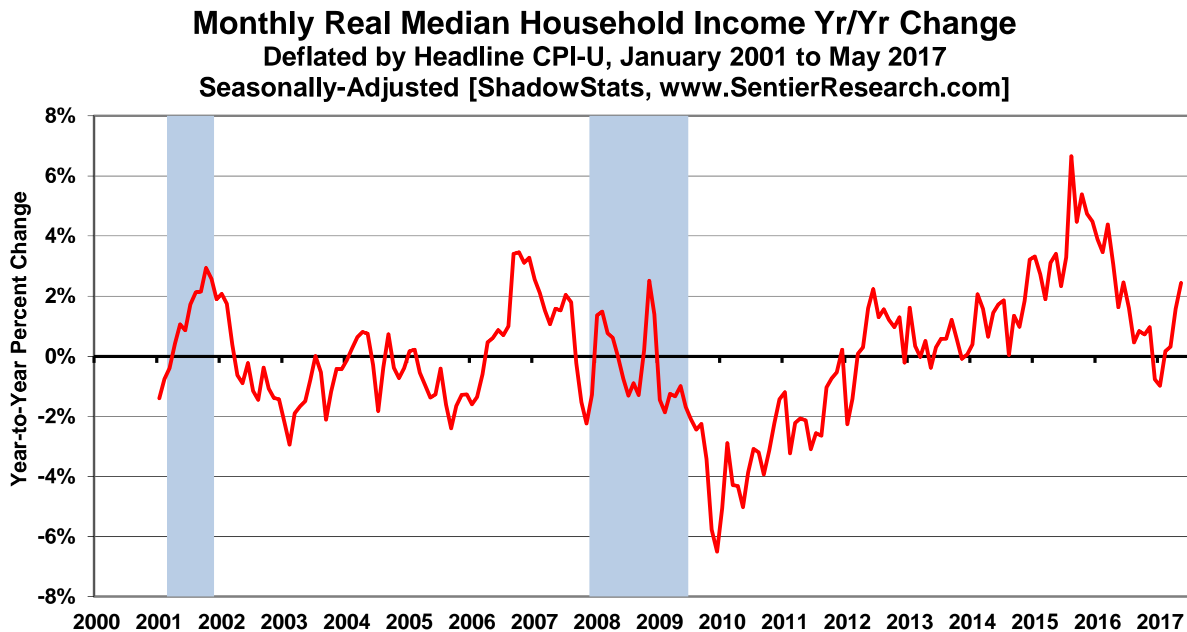
The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of Commentary No. 909) 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



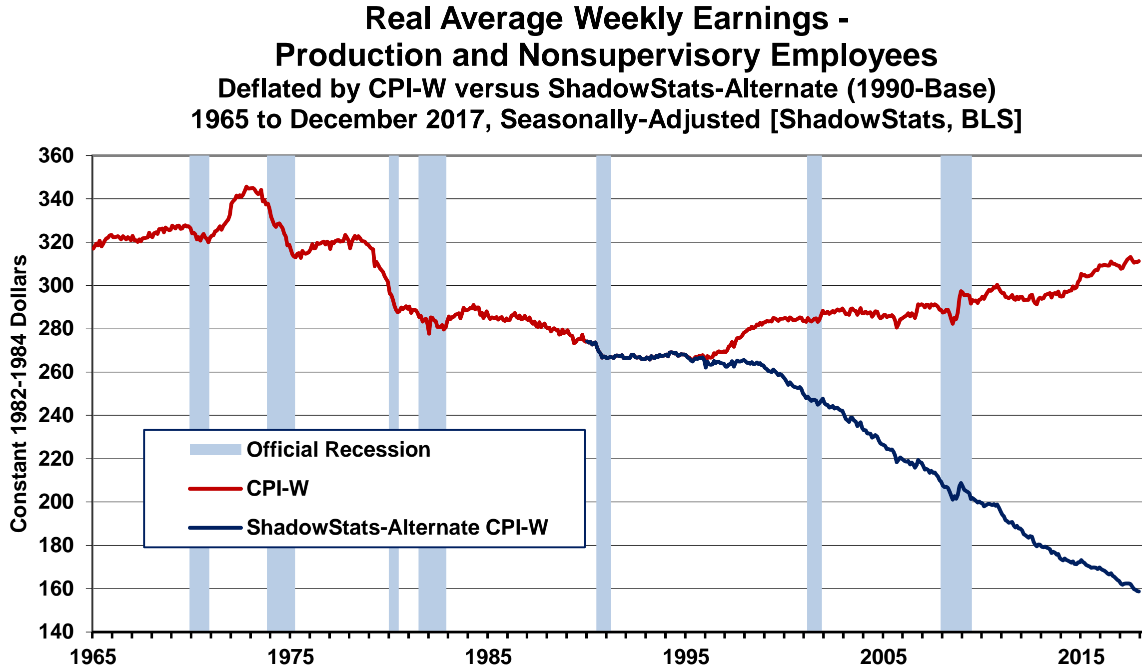
Graph CLW-6: Monthly Real Median Household Income (2000 to May 2017) Year-to-Year Change



Real Average Weekly Earnings—December 2017—Contracted for the Second Consecutive Quarter. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the discussion in *Reporting Detail* and *Opening Comments* of *Commentary No. 931*), the regularly-volatile, real average weekly earnings gained month-to-month in December 2017, but fourth-quarter 2017 earnings contracted quarter-to-quarter, for the second consecutive quarter, down at an annualized pace of 0.94% (-0.94%), having declined by 0.07% (-0.07%) in third-quarter 2017. In the

broader all-employees category, fourth-quarter real average weekly earnings also contracted, down at an annualized pace of 1.16% (-1.16%), having gained 0.63% in third-quarter 2017 activity.

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



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.

Shown in *Graph CLW-8*, and as discussed in *Commentary No. 931*, both the “all-employees” and “production and nonsupervisory employees” categories showed a sharply slowing pace in annual growth in 2017. Presumably coming off more-positive economic circumstances, the patterns there are consistent with a renewed economic downturn, not with a new economic boom, and the current pace of decline is greater than the average tax reduction to be seen by consumers in the year ahead.

Not all economic downturns are reflected in the headline economic data. For example, industrial production indicated the U.S. economic downturn intensified in fourth-quarter 2014, enough to qualify as a new recession, which is consistent with the plot in *Graph CLW-8*. See the related discussions in the GDP missive *Commentary No. 928* and Industrial Production (*Reporting Detail* in *Commentary No. 932*).

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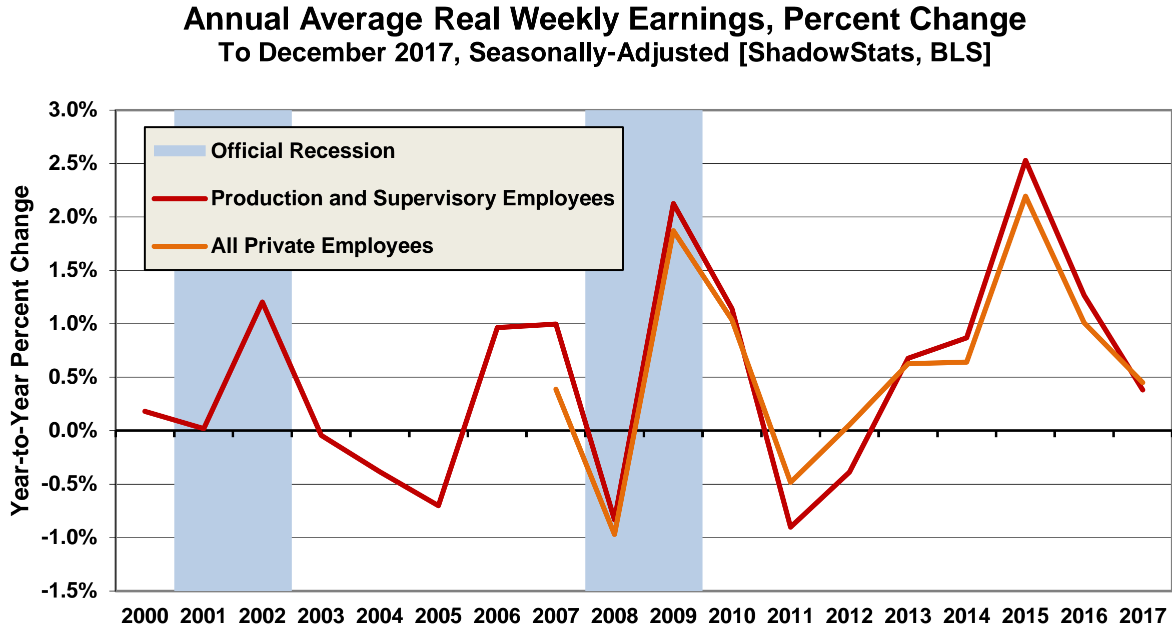
Graph CLW-8: Annual Average of Weekly Earnings, Annual Percent Change (2000 to 2017)



When income growth is inadequate to support consumption growth, consumers often make up the difference in debt expansion. Yet, real Consumer Credit Outstanding has shown a patterns of declining annual real growth for the last several quarters, irrespective of the specific series, as reflected in the plots of real monthly year-to-year change in *Graph CLW-12*.

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-9* 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-9* 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

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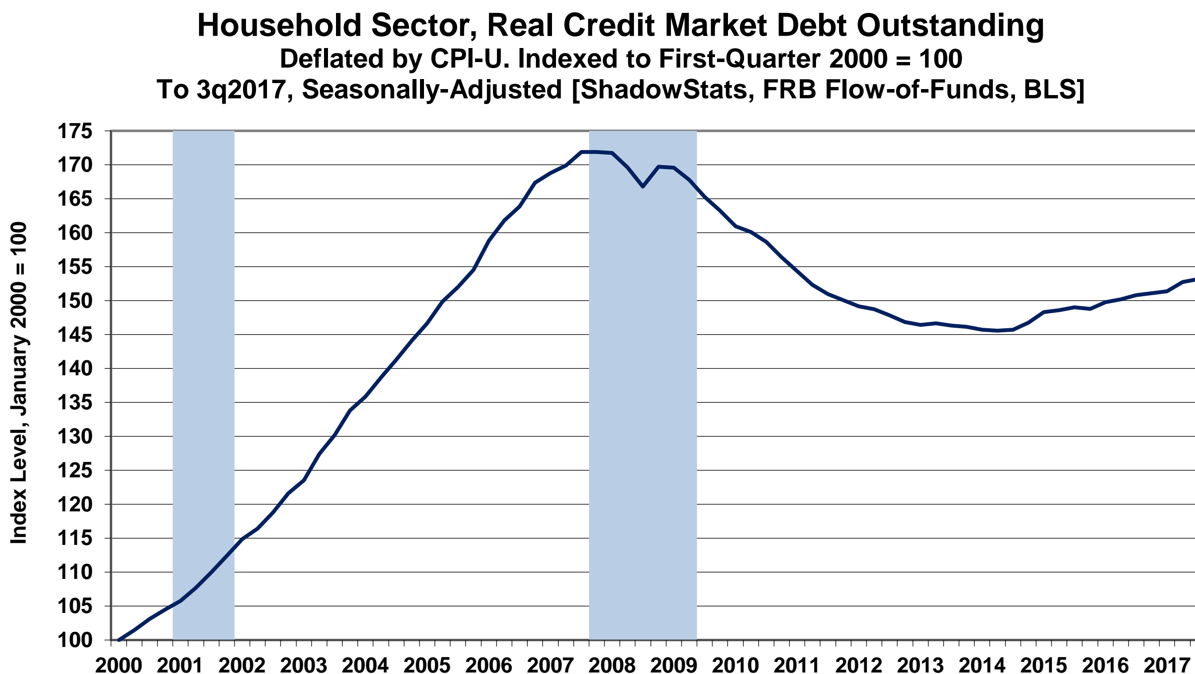
through second-quarter 2016 and intermittently into second-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-10* to *CLW-12*.

Graph CLW-9: 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.

Shown through the November 2017 reading (released January 8th), *Graph CLW-10* of monthly Consumer Credit Outstanding is a subcomponent of the preceding *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-11* reflects the nominal reporting, real or inflation-adjusted activity for monthly Consumer Credit Outstanding is shown in terms of both level (*Graph CLW-11*) and year-to-year change (*Graph CLW-12*).

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

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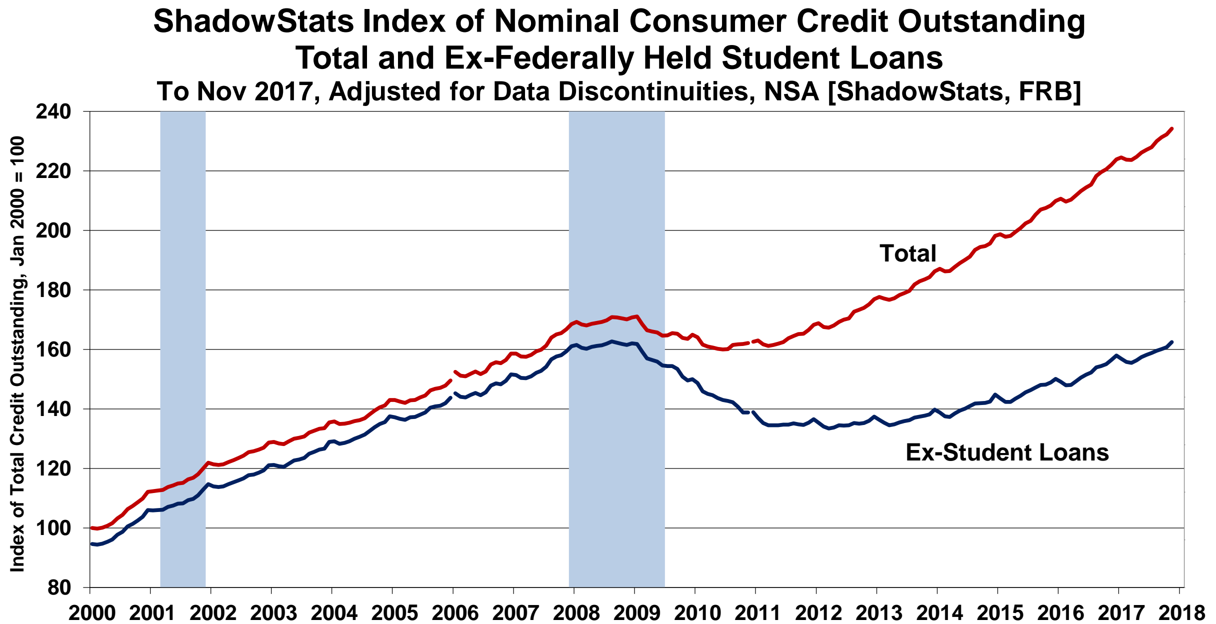
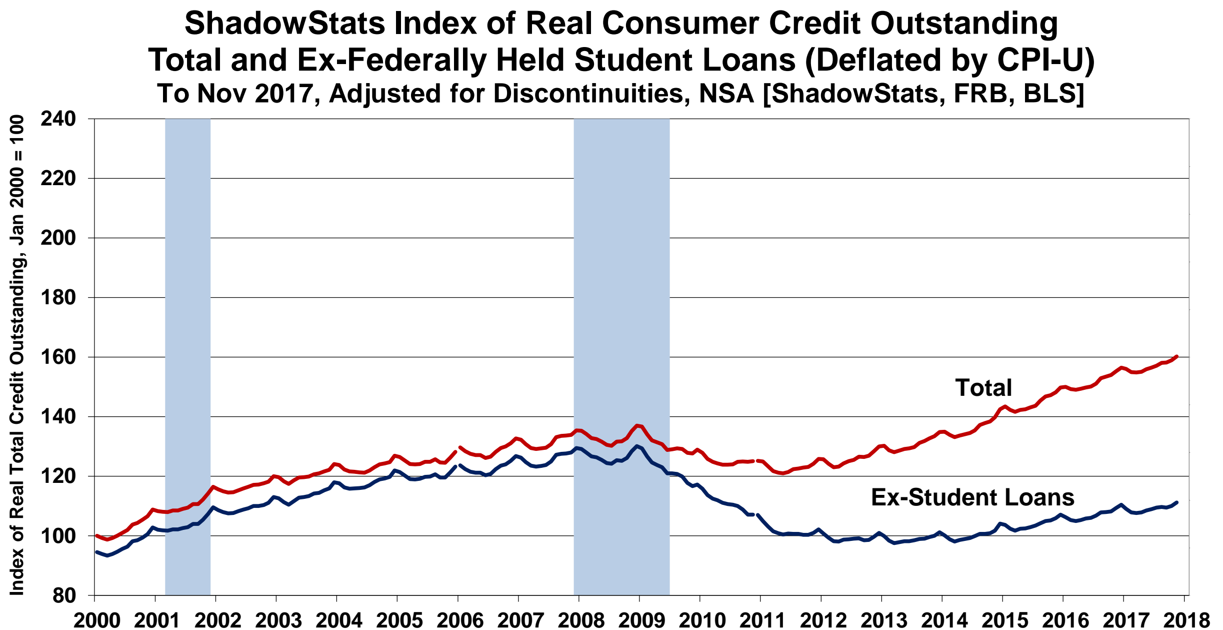
November 2017 was down from its December 2007 pre-recession peak by 14.1% (-14.1%). Year-to-year real growth shown in *Graph CLW-12* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

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



Graph CLW-11: Real Consumer Credit Outstanding (2000 to 2017)



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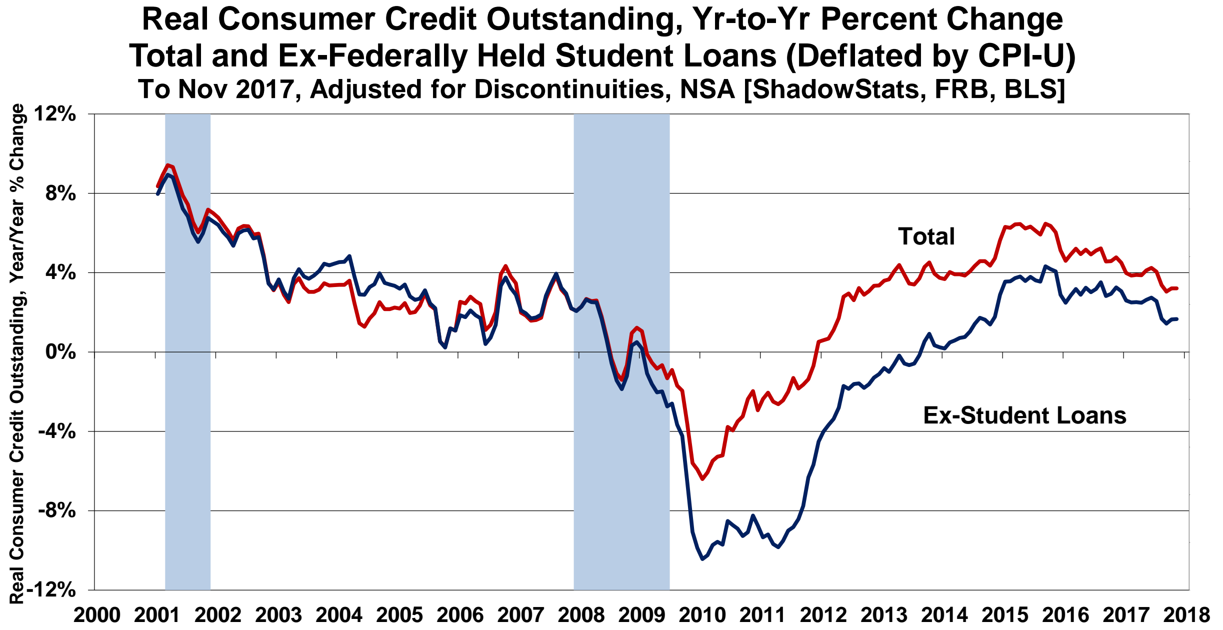
Graph CLW-12: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



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

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. This entire section is little changed, but will be revised in the pending *Special Commentary* due to be published next week.

The real-world economy is not recovering or booming as advertised, irrespective of some distortedly strong, recent economic numbers statistics, which have begun to reverse, despite heavy hype in the press of a booming, full-employment economy, and in the context recent FOMC tightening actions and former Federal Reserve Chair Yellen's perception of a "highly uncertain" economic outlook.

Allowing for hurricane disruptions and recovery from same, most series should be back to normal, reflecting "unexpected" downtrending economic activity, by the headline reporting of January and February 2018 economic activity, as discussed in *General Commentary No. 929*. Nonetheless, misleading, current headline details have been contributing factors to the manic stock market, discussed in the *Opening Comments* and *Hyperinflation Watch* (pages 2 and 33) in *Commentary No. 931*.

An unhappy period of market readjustment to underlying real-world circumstances looms, where Wall Street's proponents of a never-ending stock-market rally have parlayed temporary, nonrecurring economic boosts from natural disasters into a year-end 2017 economic boom. Negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside. As the reported economic downturn intensifies in the months ahead, the FOMC—under its new Chairman—should be forced into an "unexpected" policy retrenchment, moving back towards quantitative easing as discussed in the *Commentary No. 931* *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. The *Opening Comments* of *Commentary No. 930-B*, *General Commentary No. 929* and the *Opening Comments* and expanded *Hyperinflation Watch* of *Commentary No. 927* all reviewed 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, as likely lie ahead and as discussed here regularly. 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 in *Commentary No. 931* 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.

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.

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.

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Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an "overheating" economy, but that "overheating" activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *Commentary No. 902-B*, *General Commentary No. 894*, *Special Commentary No. 885*, *Commentary No. 869*, *No. 859 Special Commentary*, *No. 777 Year-End Special Commentary* (December 2015*)*, *No. 742 Special Commentary: A World Increasingly Out of Balance* (August 2015) and *No. 692 Special Commentary: 2015 - A World Out of Balance* (February 2015). Those publications updated hyperinflation and economic outlooks published in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* (April 2014) and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*.

Recent Commentaries. *[Listed here are* Commentaries *of the last month 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. 934-A (February 2nd) provided an initial review of January 2018 labor detail and the benchmark payroll revision, expanded upon in today's *Commentary*, along with regular coverage of the January 2018 Conference Board Help Wanted OnLine® Advertising, December 2017 Monetary Conditions and Construction Spending

Commentary No. 933 (January 26, 2018) covered December New Orders for Durable Goods, the Cass Freight Index™ and the first estimate of Fourth-Quarter 2017 GDP.

Commentary No. 932 (January 18, 2018) covered December Industrial Production and New Residential Construction (Housing Starts and Building Permits).

Commentary No. 931 (January 15, 2018) reviewed December 2017 Retail Sales and the CPI and PPI, along with an update on the U.S. dollar, the financial markets and gold graphs.

Commentary No. 930-B (January 8th) expanded upon the December 2017 Employment and Unemployment numbers and Household Survey benchmarking, Conference Board Help Wanted OnLine® Advertising, December Monetary Conditions and the November 2017 Trade Deficit and Construction Spending, otherwise headlined in *No. 930-A*.

Advance Commentary No. 930-A (January 5, 2018) provided a brief summary and/or comments (all expanded in *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.

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

Commentary No. 928 (December 22, 2017) 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 19, 2017) reviewed November 2017 New Residential Construction (Housing Starts and Building Permits) and Cass Freight Index™, along with an expanded discussion on underlying economic reality and the financial markets.

Commentary No. 926 (December 15, 2017) 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 8, 2017) 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 29, 2017) 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 6, 2017) provided more in-depth detail on the October 2017 labor detail.

Commentary No. 919-A (November 3, 2017) 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 30, 2017) 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 26/27, 2017) 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 6, 3017) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

Commentary No. 913 (September 28, 2017) 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 15, 2017) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14, 2017) 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 6, 2017) 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 14, 2017) 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.

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Commentary No. 877 (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity). Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

General Commentary No. 867 (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations.

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

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last eleven years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. That issue is discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" surfaced in 2016 surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's headline

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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: No Further Major Government Releases This Week.
Pending releases next week for the January 2018 Consumer Price Index (CPI), Producer Price Index (PPI), Retail Sales, Industrial Production and New Residential Construction (Housing Starts) will be reviewed in Friday's *Special Commentary No. 935*. Barring delayed releases from an unexpected government shutdown, headline detail increasingly should be slowing, as 2017 natural-disaster-impact continues to unwind.

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