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

COMMENTARY NUMBER 959-B

Expanded Coverage of June Labor Conditions, May Trade Deficit and an Economic Update

July 11, 2018

_____

Consumer Liquidity Stresses Intensify

**Bias Factors Generated 45% of the 2.4 Million Payroll Jobs
"Created" in the Twelve Months Through June 2018**

**June Payroll Survey Gained 213,000 Jobs (up by 250,000 Net of Revisions), but
Annual Growth of 1.6% Still Held in Recession-Signal Territory**

**In Contrast the Household Survey Lost 89,000 (-89,000) Full-Time Employed, and
Gained 145,000 Part-Time Employed**

**June U.3 Unemployment Rate Rose a Statistically-Significant 0.30% in the Month;
Headline Monthly Gain of 0.2% Simply Was a Rounding Artefact of
June U.3 Rising to 4.0% (4.05%) from 3.8% (3.75%) in May**

**Labor-Market Stress Remained at High Levels, Consistent with Headline
Unemployment Much Closer to a Record High than Just Off a Record Low**

**Official U.3 and the Broader U.6 Unemployment Measures Cannot Reconcile that
Conflicting Circumstance, but the ShadowStats Alternate Unemployment Measure Does**

**June U.6 Unemployment Rose to 7.79% from 7.65% in May, While the
June ShadowStats-Alternate Unemployment Rose to 21.5% from 21.4%**

**May 2018 Balance-of-Payments Trade Deficit Shrank for Third-Straight Month;
Driven by Large, Irregular Export Surges That Should Reverse Shortly**

_____

PLEASE NOTE: The next regular Commentary on Friday, July 13th will review the June 2018 Consumer and Producer Price Indices (CPI and PPI). Updated Consumer Liquidity and Hyperinflation Watches will follow shortly thereafter.

The most recent *Hyperinflation Watch - No. 1* and *Consumer Liquidity Watch No. 2* are available on the *ShadowStats Web site* and by link here. Updates will be advised by e-mail.

The planned Publication Schedule, revisions to same and any updated Notes are posted regularly near the top of the left hand-column (under the *Latest Commentaries* heading) of the *ShadowStats* home page.

PLEASE LET US KNOW IF YOU DO NOT WISH TO RECEIVE E-MAIL ADVICE OF THE REGULAR POSTINGS OF COMMENTARIES AND/OR THE HYPERINFLATION AND CONSUMER LIQUIDITY WATCHES. All postings otherwise are accessible directly at www.shadowstats.com with your case-sensitive log-in and password.

Your comments and suggestions always are invited.

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

_____

Today's (July 11th) ***Opening Comments*** review the developing economic outlook in the context of recent headline employment, trade detail and consumer credit reporting.

The ***Reporting Detail*** provides extended coverage of the June 2018 employment and unemployment, including and a revised and expanded Supplemental Labor-Detail Background, and extended coverage of the May 2018 Trade Deficit, preliminarily reviewed in the Friday, July 6th *Commentary No. 959-A*.

The ***Week, Month and Year Ahead*** provides background on recent *Commentaries* and discusses/previews this week's releases of the June 2018 Consumer and Producer Price Indices.

_____

Commentary No. 959-B contents, including graphs and tables, are indexed and linked on following page.

_____

Contents – Commentary No. 959-B Major Sections and Graphs

OPENING COMMENTS

Broad Economic Outlook Continues to Dim

Despite Some Positive Headlines, Broad Economic Conditions Generally Are Deteriorating or Indicative of Problems Ahead. The ShadowStats contention that broad U.S. economic activity never fully recovered from its crash into 2009, and that it has started to turn down anew, remains in play (see *Commentary No. 957*). That outlook received further confirmation in the reporting of May 2018 Consumer Credit Outstanding, despite some contradictory headline elements in the June 2018 employment and unemployment numbers and the May 2018 trade deficit details. Highlighted here are the unfolding consumer liquidity issues, expanded detail and discussion on June 2018 Labor conditions and the May 2018 Trade Deficit as reviewed initially in *Commentary No. 959-A*

Consumer Liquidity. As will be updated fully in the pending *Consumer Liquidity Watch – No. 3*, to be posted in the week head, deflated by the headline CPI-U, real May 2018 Consumer Credit Outstanding (CCO) continued in low-level non-expansion, with real annual growth continuing to drop, as reflected in *Graph OC-1*. Ex-Federally Held Student Loans, the unadjusted level (only unadjusted data are available) of real activity remained shy of recovering its pre-recession peak by 15.84% (-15.84%), with annual growth closing in on zero, as reflected in the graph. Growth in real CCO, net of the student loans category, theoretically has a strong relationship to personal consumption expenditures in the GDP.

Graph OC-1: Real Consumer Credit Outstanding, Ex-Federally Held Student Loans, Yr-to-Yr Percent Change

Real Consumer Credit Outstanding, Yr-to-Yr Percent Change
Total and Ex-Federally Held Student Loans (Deflated by CPI-U)
To May 2018, Adjusted for Discontinuities, NSA [ShadowStats, FRB, BLS]
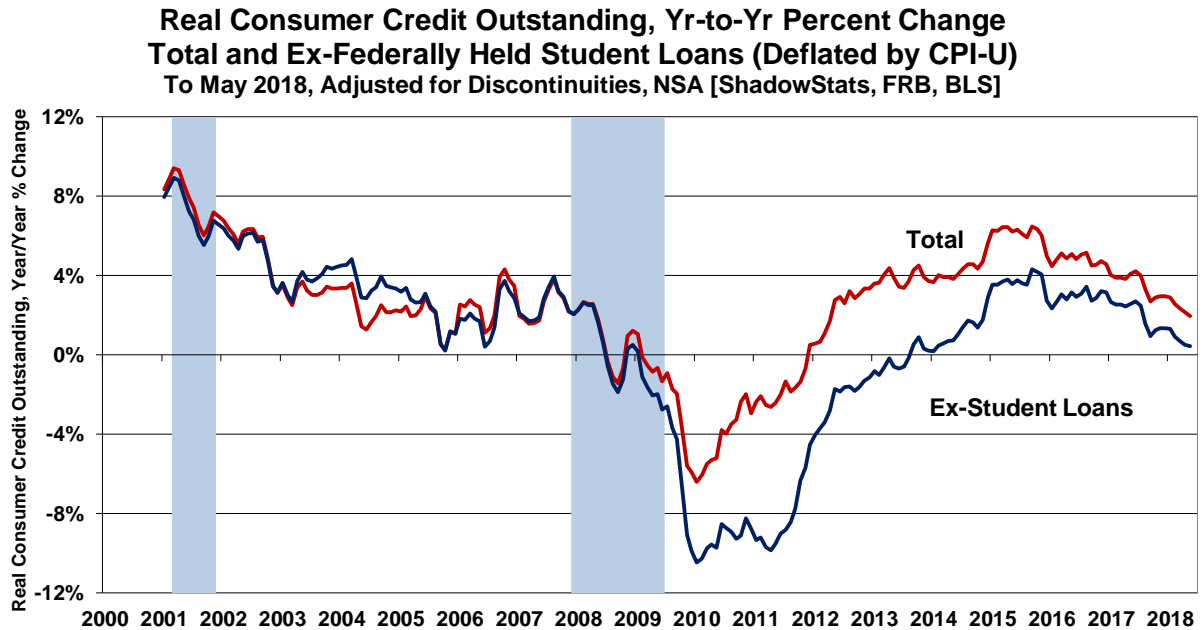
Inflation from Rising Oil Prices, as Opposed to a Strong Economy, Impairs Real Consumer Liquidity.
Continuing to reflect rising oil prices from supply and political distortions, as opposed to strong economic demand, the June 2018 Producer Price Index (PPI) was reported today (July 11th) up year-to-year by 3.37%, versus 3.11% in May 2018, its highest level of annual inflation since 3.70% in November 2011.

Similarly, for the same reason, tomorrow's (July 12th) release of the June 2018 Consumer Price Index (CPI-U) should see a jump in annual inflation to around 2.9% or 3.0%, from 2.8% in May 2018, likely the highest annual consumer inflation also since the end of 2011. These inflation details will be covered in *Commentary No. 960* planned for July 13th (see the *Week, Month and Year Ahead* section).

Discussed in *Consumer Liquidity Watch - No. 2* (to be updated over the weekend) and *Commentary No. 948,* rising consumer inflation driven by commodity price distortions, instead of by strong economic activity, impairs consumer liquidity. In such a circumstance, where headline inflation is outpacing growth in real disposable in income, real consumer purchasing power is reduced.

Conflicting Labor-Market Signals. Today's coverage of the June 2018 headline labor numbers includes an updated *Reporting Detail* section in conjunction with a fully revamped and expanded *Supplemental Labor Detail (SLD)* section that explores specifics as to why headline employment and unemployment details often run counter to the U.S. public's common experience.

Reviewed in the *Reporting Detail*, while the monthly payroll gain of 213,000 (250,000 net of revisions) exceeded consensus expectations, annual growth held even, continuing in recession-signal territory. Where the headline U.3 unemployment backed up by 0.30% off the record low of 3.75% in the current series in May 2018, to 4.05%, it still was at a healthy, near-record low. Nonetheless, traditional measures of labor-market stress and a number of better-quality economic indicators indicated that the United States still may be experiencing something shy of a purported booming-economic recovery.

Reviewed in the *Supplemental Labor Detail (SLD)*, in the *Payroll-Employment Monthly Bias Factors* section: "Put another way, that upside bias of 1,077,000 in unadjusted payroll levels in the twelve months through June 2018 accounted for 44.8% of the headline unadjusted 2,402,000 payroll jobs gain the same period On a seasonally adjusted basis, that twelve-month payroll gain was 2,374,000."

A new section in the *SLD*, *Reconciling Record 'Low' Unemployment with Record-High Labor-Market Stress*, picks up on the *Opening Comments* of *Commentary No. 953-B*, which explored the reasons as to how the historically-low U.3 unemployment of May 2018 (and-near-record low June 2018) could be consistent with near-record levels of labor-market stress, as seen with current low levels the Employment-Population Ratio and the Participation Rate, where usually those stress measures historically have been at coincident, near-record strength (high levels). The differences can be resolved by considering the nature of the ShadowStats Alternate Unemployment measure.

Narrowing May Trade Deficit Likely Will Widen Anew in the Next Couple of Months. Discussed in the *Reporting Detail*, the continued narrowing of the trade deficit in May 2018, reflected surging exports of commercial aircraft and soybeans. Those areas, however, usually are sporadic, with heavy exports concentrated irregularly in a couple of months a year. Accordingly, look for some reversal, for a renewed widening in the monthly and quarterly deficits in the next couple of months.

_____

REPORTING DETAIL

June 2018 Employment and Unemployment

Headline Unemployment and Jobs Numbers Were Mixed, But Still Broadly Positive, Against Continuing Contradictory and Extremely-Negative, Labor-Market Stresses. Reported by the Bureau of Labor Statistics (BLS) on July 6th, headline June 2018 unemployment and employment news was varied, with unemployment rising unexpectedly from 3.8% (3.75%) to 4.0% (4.05%), but with payroll growth topping expectations, up by 213,000 (up by 250,000 net of revisions).

Household Survey. Where the headline U.3 unemployment rate had dropped to an 18-year (or a 49-year) low of 3.8% (3.75%) in May 2018, depending on the historical base used for comparison (see *Commentary No. 953-A*), the headline unemployment rate jumped by 0.2% (0.30%) to 4.0% (4.05%) June 2018, an unexpected increase.

On top of the headline U.3 unemployment rate, monthly declines in marginally-attached workers and those working part-time for economic reasons tempered the relative unemployment-rate increases for headline U.6 from 7.65% in May to 7.79% in June, and for the ShadowStats Alternate Unemployment Rate on top of U.6, from 21.4% in May, to 21.5% in June.

Nonetheless, the headline U.3 unemployment rate of 4.05% in June 2018 remained at level that normally would be considered healthy, at or close to full employment. Still, as was seen with the May 2018 data, the "low" unemployment was coincident with high levels of employment-market stress, reflected still in low levels of the Employment-to-Population Ratio and the Participation Rate, which traditionally have been seen in deep recessions, along with high unemployment, not in booming economies with low unemployment. Those issues will be discussed here shortly and fully explored in today's revamped and expanded *Supplemental Labor Detail-Section IV*, reconciling low unemployment with high labor-market stress, beginning on page 30.

Headline month-to-month changes in Household Survey details, which are reported consistently only once per year in December, showed a gain of 102,000 employed in June, versus a gain of 499,000 unemployed, which looked like the usual nonsense-headline activity tied to seasonally-adjusted monthly details not being comparable month-to-month. See the background in *Supplemental Labor Detail-Section I*, covering concurrent seasonal factor irregularities, beginning on page 22.

Payroll Survey. The headline June 2018 monthly payroll gain of 213,000 (250,000 net of prior-period revisions) was headline statistically significant, although it was bloated heavily, as usual, by upside bias factors, by counting multiple jobholders as multiple jobs and by shifting seasonal adjustment factors that can borrow or lose growth from or to the months before April, which are not reported in consistent detail with the headline April 2018 to June 2018 numbers. Again, see the background in *Supplemental Labor Detail-Section I*, covering concurrent seasonal factor irregularities, beginning on page 22.

Where the Household Survey counts an employed person only once, irrespective of how many jobs or part-time jobs he or she may hold, the Payroll Employment counts only the number of jobs, irrespective of the number of people holding those jobs. A person holding two or more part-time jobs is counted as employed with each job in the Payroll Survey. The Household Survey estimated a seasonally-adjusted 7.619 million individuals held multiple jobs in June 2018, up 177,000 from May 2018.

Seen in *Graph 12*, annual growth in unadjusted payroll employment held at low levels, seen historically with economies either coming out of recession or, in the current circumstance, falling into recession, with the June 2018 annual growth rate of 1.63% minimally above the near-term trough in January 2018.

Underlying Reality. In terms of underlying reality, the seasonally-adjusted 213,000 monthly payroll jobs gain in June, likely was unchanged, plus-or-minus, again, given upside biases added into the series (see *Supplemental Labor Detail-Section II*, covering Birth-Death Modeling, beginning on page 26). In the context of the *ShadowStats-Alternate Unemployment Rate Measure* discussion (also in the *Supplemental Labor Detail-Section III*, page 28), headline June 2018 unemployment at 4.0% for the U.3 rate was much closer to 21.5%, accounting for all discouraged and displace workers as defined prior to the 1994 overhaul to the series, as viewed from the perspective of common experience. Extended assessment of labor-reporting distortions, again, is found separately in *No. 885* and in the *Supplemental Labor Detail-Section III*, accounting for displaced workers, which begins on page 28.

Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats
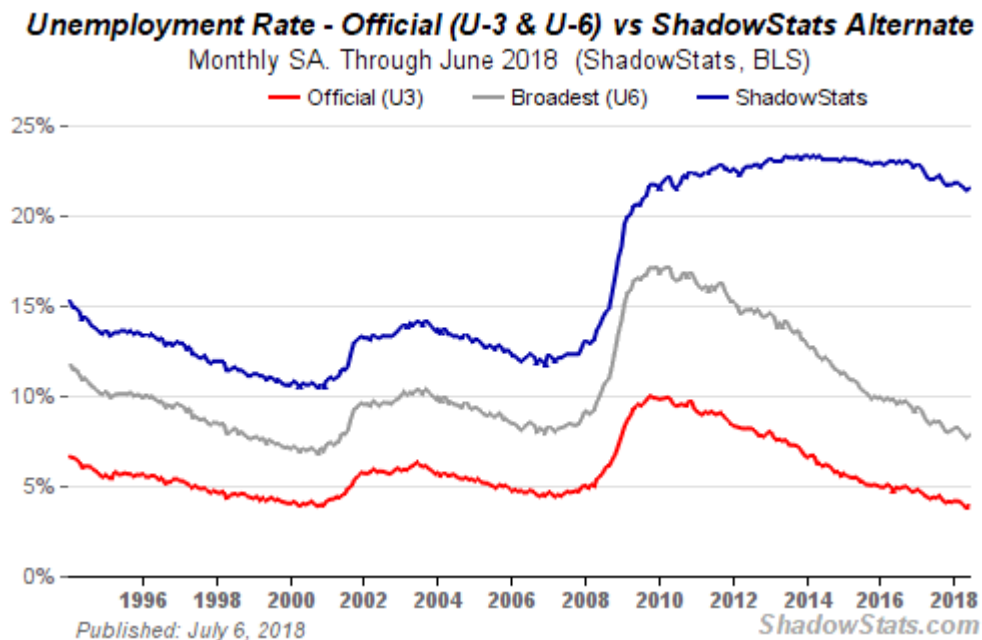
Household Survey: Counting All Discouraged and Displaced Workers, on Top of a Rising U.3 at 4.0%, and a Rising U.6 at 7.8%, June 2018 Unemployment Notched Higher to 21.5%. Only one of the unemployment rates plotted in *Graph 1* explains the current employment circumstance versus high stress in the labor market, and that is the ShadowStats-Alternate Unemployment measure.

At the same time that headline June 2018 U.3 employment came in at 4.05%—historically still a very low unemployment rate—underlying reality was not so rosy. Discussed in *Supplemental Labor Detail-Section IV*, reconciling low unemployment with high labor-market stress, beginning on page 30, meaningful discrepancies between the near-record-low unemployment rate and extremes of near-record-high readings of labor-market stress are tied to population distortions in the headline detail, which were removed from consideration the 1994 overhaul and redefinitions of headline unemployment reporting.

Those stress measures reflect the impact of long-term discouraged and displaced workers, no longer counted in the headline government numbers, but they still are included in the ShadowStats unemployment estimate. While the current headline U.3 unemployment likely qualifies as "full employment," such remains unconfirmed by historically-low Employment-to-Population and Labor-Force-to-Employment (Participation) Ratios, which were little changed in June, at levels more consistent with a headline unemployment rate of about 10% instead of 4.0%.

The difference is the unusually large number of discouraged and displaced workers in this cycle, not counted in the headline U.3, as well as a goodly number not included in U.6 (see definitions and detail, again in *Supplemental Labor Detail-Section IV*, and in *Commentary No. 953-B*).

The inverted scale of the ShadowStats Alternate Unemployment Rate (*Graph 2*) is a surrogate for the magnitude of discouraged and displaced workers, who also are reflected in the *Graphs 3* and *SLD-3* of the *Civilian Employment-to-Population Ratio* and *Graph SLD-4* of the *Labor-Force Participation Rate* in the *Supplemental Labor Detail*.

Other Major Indicators Do Not Show an Expanding—Let Alone Recovered—Economy. Regularly plotted here are various graphs that mirror the patterns of *Graphs 2* and *3*, and *Graph SLD-4*, 1994-to-date where available. These graphs do not confirm the purported headline recoveries in either the GDP or headline employment and unemployment. That detail was expanded upon and covered in *Special Commentary No. 935*; see also the *Opening Comments* of *Commentary No. 953-B* and the most-recent coverage of the GDP in *Commentary No. 957*, where some of those and related series are updated in this section.

Consider *Graph 4*, which shows the ShadowStats version of that GDP, also plotted from 1994, but now through the June 28th downwardly-revised, third-estimate of first-quarter 2018 GDP, where the plot has been corrected for the understatement of inflation used in deflating the headline GDP (estimated at about two-percentage points per year).

Other graphs range from the May 2018 Cass Freight Index (*Graph 5*) to April 2018 U.S. Petroleum Consumption (*Graph 6*), the May 2018 dominant Manufacturing Sector of U.S. Industrial Production (*Graph 7*), along with May Real Construction Spending (*Graph 8*) and May Housing Starts (*Graph 9*). Where these series generally are uptrending, they all show patterns of non-expansion. Economic "expansion" traditionally is defined as growth beyond the prior (pre-recession) peak in activity. The economic graphs shown here are from earlier regular *Commentaries*, with the Cass Freight Index,

Manufacturing and Housing Starts from *Commentary No. 956*, the GDP and Petroleum Consumption from *Commentary No. 957* and Construction Spending from *Commentary No. 958*.

These economic plots, as well as plots of the labor-market stress measures of the Employment-Population Ratio and Participation-Rate (see *Graphs SLD-3* and *SLD-4*) tend to support the pattern of unemployment change seen in the ShadowStats Alternate Unemployment Measure, as discussed in the new *Supplemental Labor Detail (Section IV)* beginning on page 30. They also tend to support the ShadowStats Alternate GDP estimate, as discussed in *Commentary No. 957*, beginning there on page 29 in the *Underlying Economic Reality* section.

[Graphs 2 to 9 begin on the next page.]

Graph 2: Inverted-Scale — ShadowStats Alternate Unemployment Measure
(Same as Graph SLD-6 in the Supplemental Labor Detail)

ShadowStats-Alternate Unemployment Rate (Inverted Scale)
Long-Term Discouraged/Displaced Workers Included (BLS Excluded Since 1994)
To June 2018, Seasonally-Adjusted [ShadowStats, BLS]
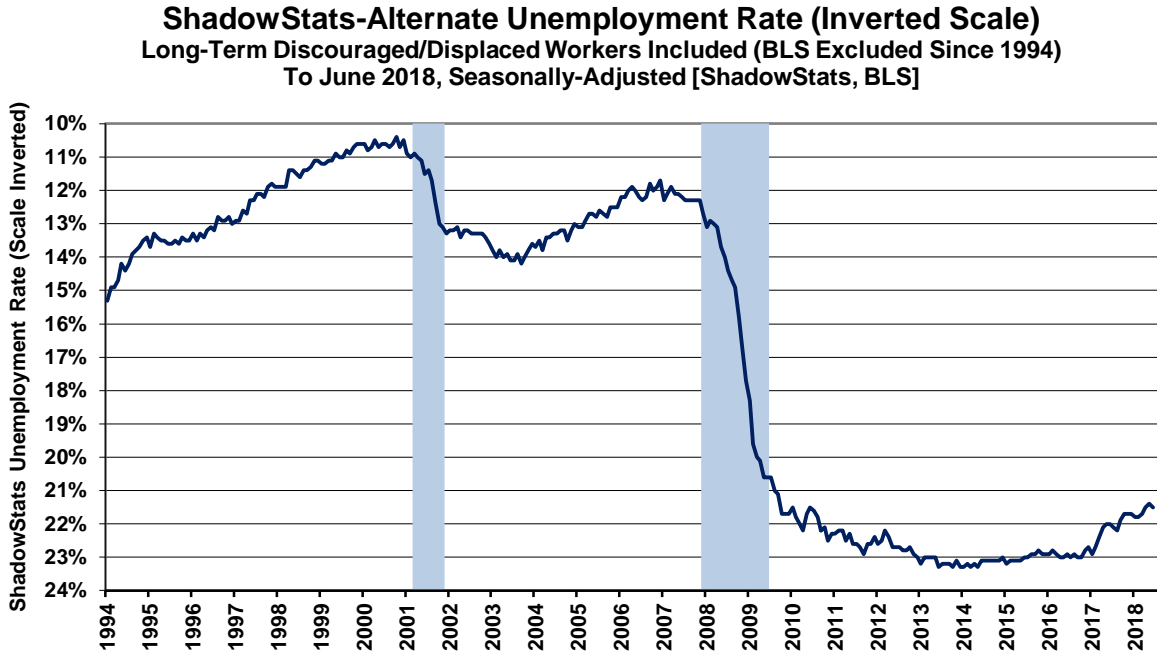
Graph 3: Civilian Employment-to-Population Ratio
(Same as Graph SLD-3 in the Supplemental Labor Detail)

Civilian Employment-Population Ratio
To June 2018, Seasonally-Adjusted [ShadowStats, BLS]
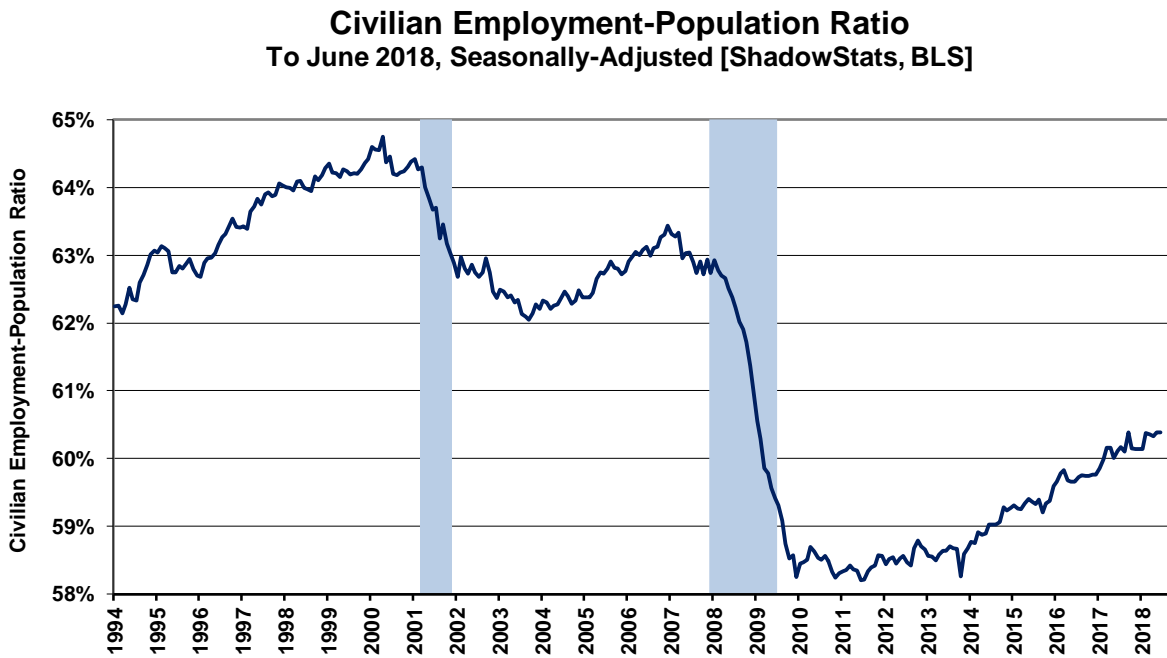
Graph 4: Corrected Real GDP through 1q2018, Third-Estimate

Corrected Real GDP
Nominal GDP Deflated by Implicit Price Deflator Adjusted for
Understatement of Annual Inflation
To 1q2018, Seasonally-Adjusted [ShadowStats, BEA]

Legend:
- Formal Recession
- ShadowStats Recession
- Corrected GDP

Y-axis: Billions of "Corrected" 2009 Dollars (8,500 to 10,500)
X-axis: 1994 to 2018
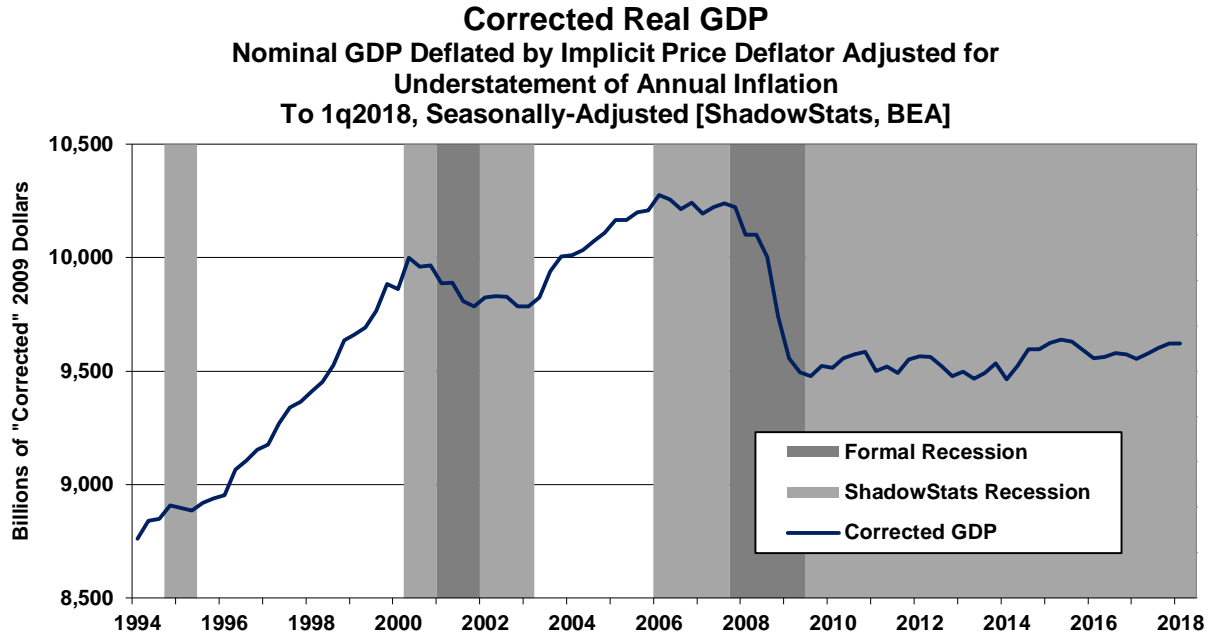
Graph 5: Cass Freight Index for North America (1994 to May 2018), Indexed to January 2000 = 100

Cass Freight Index™ (Jan 2000 = 100)
To May 2018, Not Seasonally Adjusted
[ShadowStats, Cass Information Systems, Inc.]

Legend:
- Monthly Level, Not Seasonally Adjusted
- 12-Month Trailing Average of Same

Y-axis: Index Level, January 2000 = 100 (70 to 125)
X-axis: 1994 to 2018
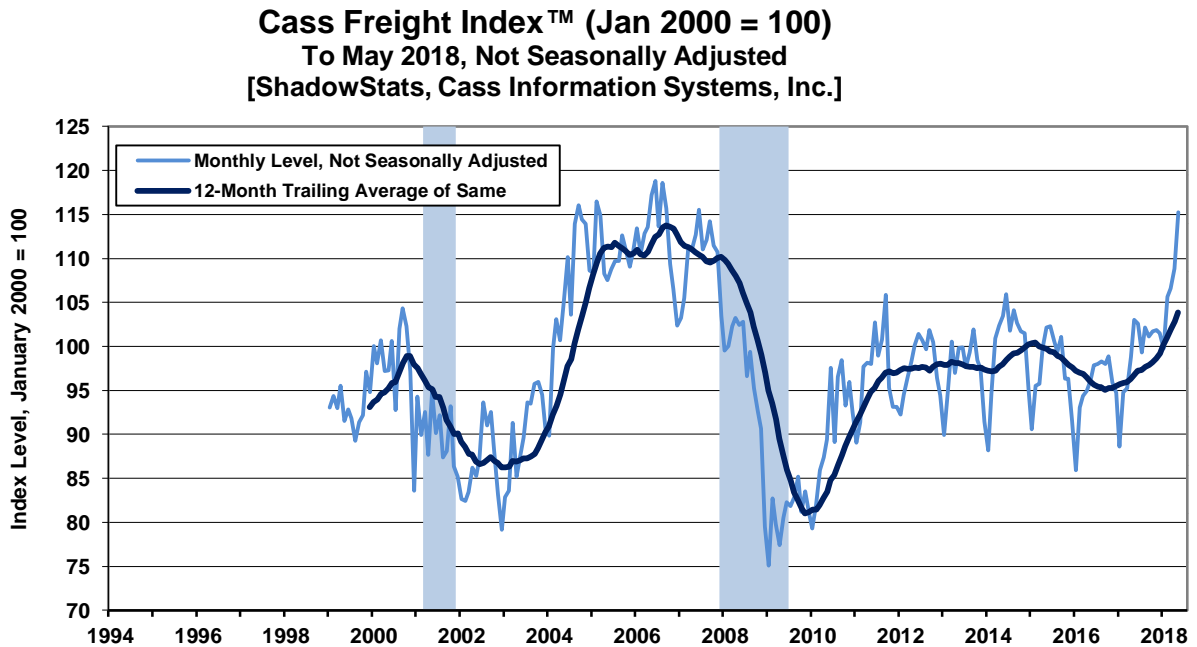
Graph 6: U.S. Petroleum Consumption 1994 to April 2018

U.S. Product Supplied of Crude Oil and Petroleum Product
Millions of Barrels per Month, Trailing Twelve-Month Average
To April 2018, Not Seasonally Adjusted [ShadowStats, EIA]
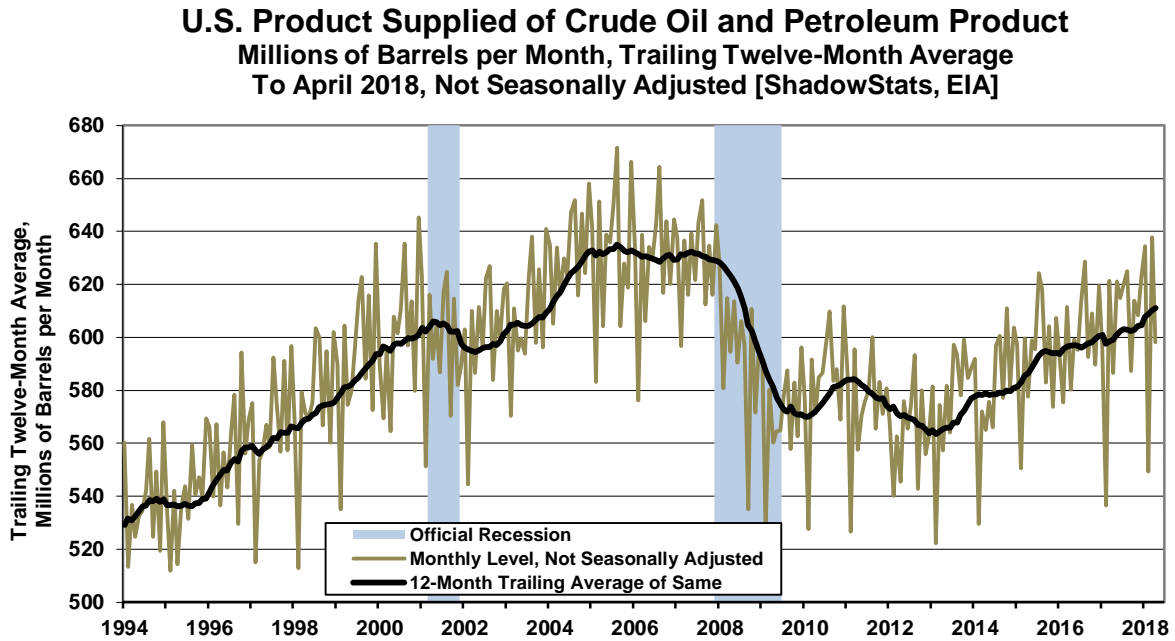
Graph 7: Manufacturing Sector of Industrial Production (1994 to May 2018)

Production - Manufacturing (SIC) (2012 = 100)
Level to May 2018, Seasonally-Adjusted [ShadowStats, FRB]
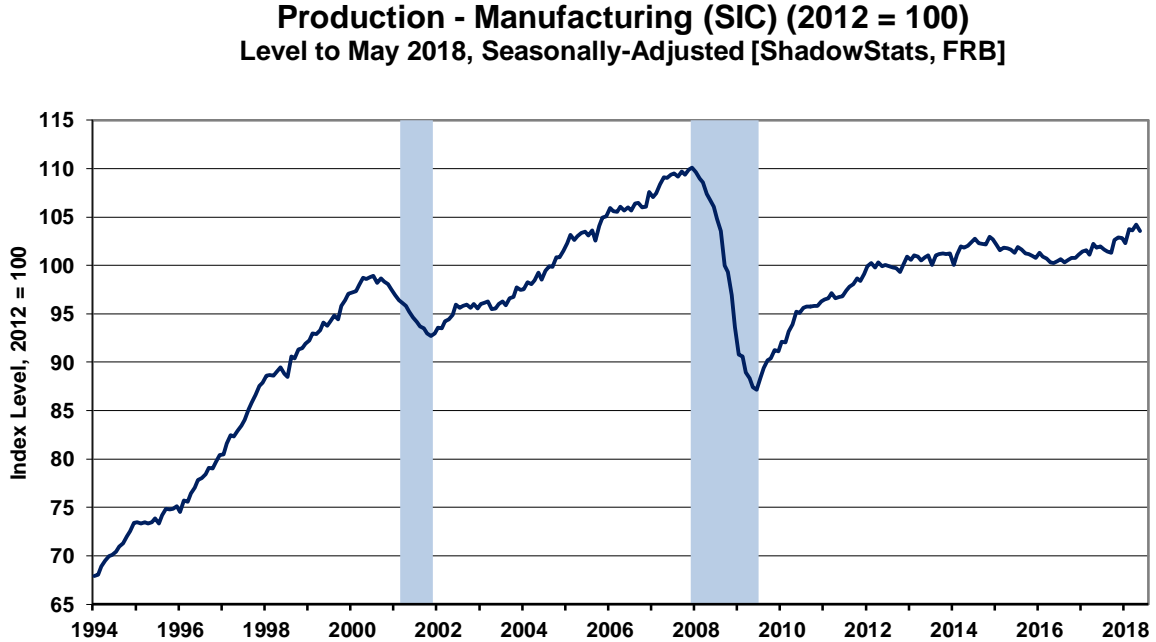
Graph 8: Real Construction Spending (1994 to May 2018)

Index of Real Total Value of Construction Put in Place
To May 2018, Inflation Adjusted (Jan 2000 = 100)
Seasonally-Adjusted [ShadowStats, Census Bureau]

Reflects all forms of U.S. construction spending, public and private, ranging from residential and office buildings, to highways and water systems.

Inflation-adjustment is based on the ShadowStats Composite Construction Deflator (using weighted industry cost surveys and related GDP deflators).

Graph 9: Housing Starts, Annual Rate by Month (1994 to May 2018)

Housing Starts (Six-Month Moving Average of Annual Rate by Month)
1994 to May 2018, Seasonally-Adjusted [ShadowStats, Census]

Official Recession
Housing Starts (1994 to Date)
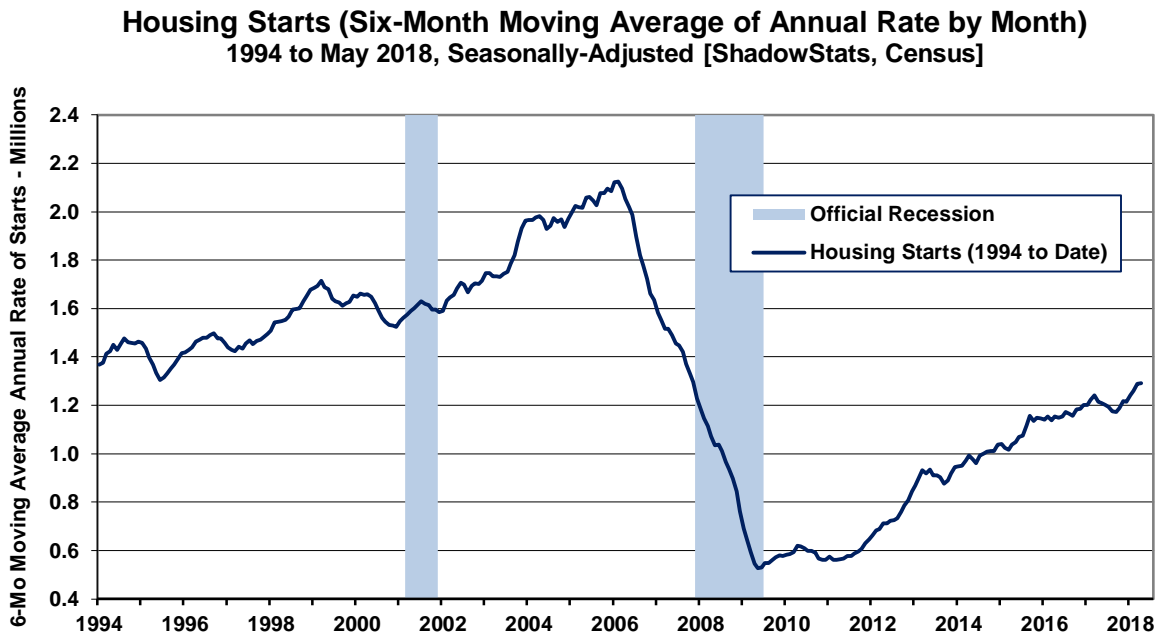
Headline Unemployment Rates. The headline June 2018 U.3 unemployment rate of 4.0% [4.05% at the second decimal point] rose from 3.8% [3.75%] in May. While the headline monthly gain in unemployment was 0.2%, the monthly gain was 0.30% at the second decimal point due to a twist in

rounding patterns at the second decimal point. The May 2018 U.3 unemployment rate of 3.75%, at second decimal point, was the lowest level in the history of the U.3 modern series, as defined in 1994.

That May unemployment rate of 3.8% [3.75%] had declined from 3.9% [3.93%] in April, versus 4.1% [4.07 %] in March, 4.1% [4.14%] in February, and 4.1% [4.15%] January. As benchmark revised in December 2017, the headline December U.3 was 4.1% [4.09%], versus 4.1% [4.12%] in November, 4.1% [4.07%] in October, 4.2% [4.20%] in September, 4.4% [4.44%] in August, 4.3% [4.33%] in July, 4.3% [4.35%] in June, 4.3% [4.28%] in May, 4.4% [4.38%] in April, 4.5% [4.48%] in March, 4.7% [4.68%] in February and 4.8% [4.78%] in January 2017.

The month-to-month gain of 0.30% in the headline June 2018 U.3 was statistically-significant (+/- 0.23% at the 95% confidence interval). Other than for the once-per-year December benchmarking, such consideration broadly is nonsense, given that the comparison of monthly numbers otherwise is on an inconsistent basis, a circumstance that resumed for the next eleven months beginning with the January 2018 headline detail (see the *Supplemental Labor-Detail Background – Section I*, beginning on page 22).

On an unadjusted basis, unemployment rates are not revised and, in theory, are consistent in post-1994 methodology. The unadjusted unemployment rate U.3 rose to 4.17% in June 2018, versus 3.56% in May 2018, 3.68% in April, 4.13% in March, 4.39% in February and 4.49% in January. The January 2018 unadjusted rate of 4.49% was against 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, 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 the seasonally-adjusted June 2018 U.3 unemployment rate, downside pressure on the unadjusted monthly count of marginally-attached workers (including discouraged workers) and a decline in the adjusted number of people working part-time for economic reasons, the adjusted June 2018 U.6 unemployment rate rose to 7.79%, from a corrected 7.65% (rounds to 7.6%) in May [previously miscalculated by ShadowStats at 7.59%]. May 2018 was down from 7.79% in April, 8.00% in March, 8.24% in February and 8.19% in January. The unadjusted 8.08% U.6 in December 2017, rose 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 8.07% in June 2018, versus a corrected 7.31% [previously] 7.26% in May, versus 7.40% in April, 8.10% in March, 8.60% in February, 8.85% in January. Unadjusted December 2017 U.6 was at 8.00%, versus 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.

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 and not otherwise re-entering the labor force still are counted in the ShadowStats-

Alternate Unemployment Estimate, which has remained relatively stable, despite recent easing some with the recent monthly declines in the underlying U.3 and U.6 series. Monthly counts in June 2018 showed an decreased level of 1.437 million marginally attached workers (never seasonally adjusted), of which 359,000 were discouraged workers, down from 1.455 million aggregate marginally attached and 378,000 in discouraged workers in May.

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. Those numbers are net of those who re-enter the labor force.

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 who otherwise were building as a portion of the U.S. population. 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 June 2018 was 21.5%, up versus was 21.4% May, regaining the 21.5% of April 2018.

April 2018 had declined versus 21.7% in March, and 21.8% in February and January. The January 2018 reading was up from 21.7% in December 2017, versus 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/displaced workers— discussed in the *Supplemental Labor-Detail Background – Sections III and IV* beginning on page 28.

Payroll Survey: Headline June Payroll Jobs Gain of 213,000 Was 250,000 Net of Revisions, With Annual Growth of 1.63% Holding in Recession-Signal Territory. In the context of heavily distorted headline reporting and inconsistent and non-comparable seasonal-adjustments, the headline month-to-month payroll employment gain was an upwardly-biased 213,000 in the month, topping expectations. Yet, that was on top of upside revisions to April and May activity, and only marginally significant, given the headline volatility in the series. Nonetheless, annual growth in payrolls held at 1.63%, unchanged from a revised May, still holding within the low-range of annual growth that often leads into recession.

Keep in mind that where the Household Survey counts an employed person only once, irrespective of how many jobs or part-time jobs he or she may hold, the Payroll Survey counts only the number of jobs, irrespective of the number of people holding those jobs. In that circumstance, a person holding two or

more part-time jobs is counted as employed with each job. Odds favor the June payroll gain reflecting at least a partial increase tied to the gain of 177,000 multiple-job holders indicated in the Household Survey.

While there are a number of other differences between the Payroll and Household Surveys, such as the Payroll count excluding, and the Household count including Agriculture, the headline Payroll gain of 213,000 was against a Household Survey decline of 89,000 (-89,000) in full-time employed plus an increase of 145,000 in part-time employed.

Non-Comparable and Inconsistent Seasonally-Adjusted Monthly Changes. The adjusted June payroll gain detail was stated on a consistent basis only with the April and May headline details, but not with prior periods, from which recent headline growth has borrowed (see the *Supplemental Labor-Detail Background (Section I)*, page 22, for discussion on the various reporting distortions and gimmicks).

Headline Payroll Detail. The headline June 2018 payroll gain of 213,000 formally was statistically-significant +/- 135,000 (but that 95% confidence interval more appropriately should be closer to the range +/- 300,000) at the 95% confidence interval (all confidence intervals used are at the 95% level). That followed revised monthly gains of 244,000 in May [previously 223,000] and 175,000 [previously 159,000, initially 164,000] in April and unrevised, but inconsistent monthly gains of 155,000 in March, 324,000 in February and 176,000 in January (see *Graphs 10* and *11*).

Annual percentage change in payroll employment picked up minimally, but it remained in recession-signal territory with a 1.63% year-to-year increase in June 2018, versus a revised 1.63% [previously 1.61%] annul increase in May 2018, versus unrevised gains of 1.55% in April 2018, 1.59% in March 2018, 1.56% in February 2018 and 1.42% in unadjusted January 2018 payrolls. The January 2018 annual gain was the weakest standard level of annual growth since coming out of the headline 2007 recession in August 2011, other than for a benchmark-revised, hurricane-induced trough of 1.38% in September 2017, (see *Graphs 12* and *13*).

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

Graphs 10 to *13* 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 the onset of the series in 1939. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

[Graphs 10 to 15 begin on the next page.]

Graph 10: Nonfarm Payroll Employment, 2000 to Date

Nonfarm Payroll Employment
Seasonally-Adjusted Levels to June 2018 [ShadowStats, BLS]
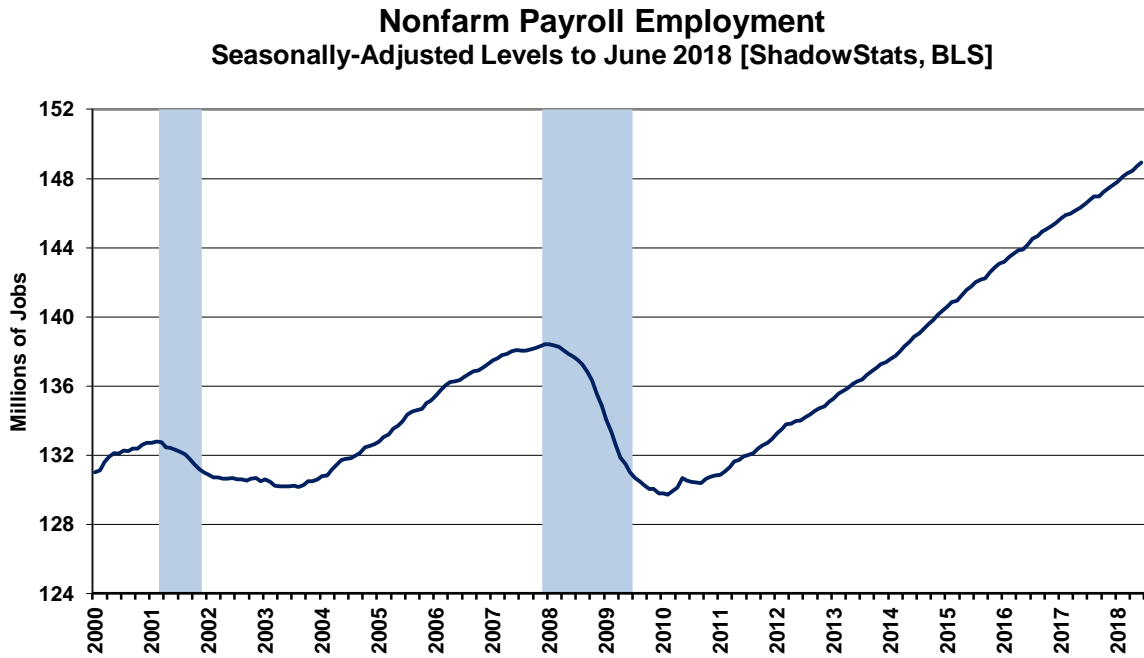
Graph 11: Nonfarm Payroll Employment, 1939 to Date

Nonfarm Payrolls
Seasonally-Adjusted Jobs 1939 to June 2018 [ShadowStats, BLS]
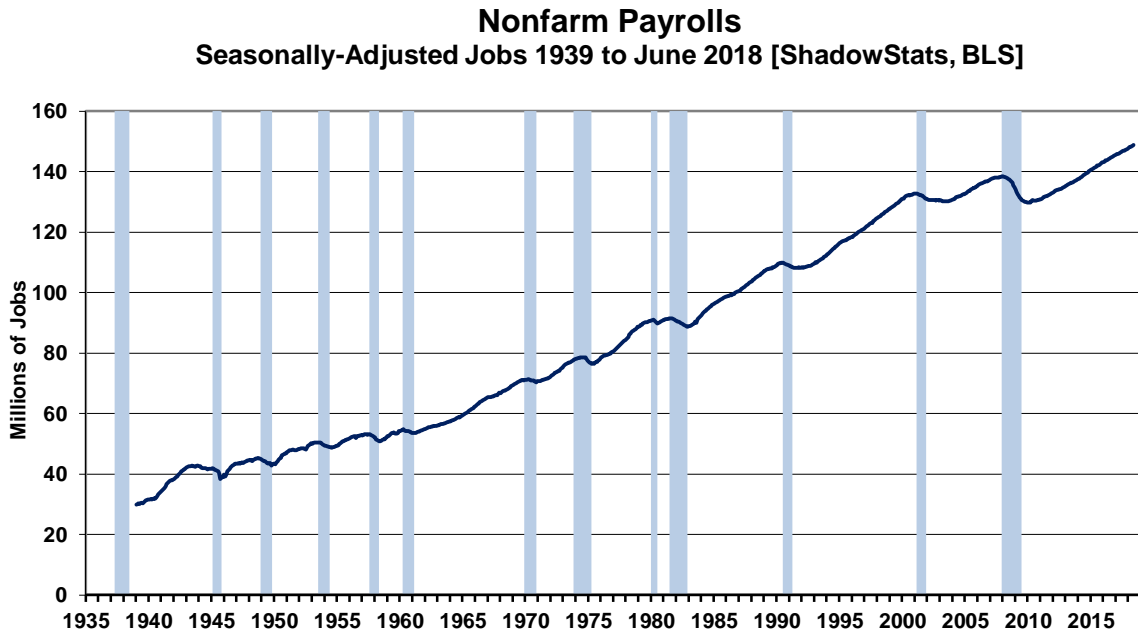
Graph 12: Payroll Employment, Year-to-Year Percent Change, 2000 to Date

Nonfarm Payrolls Year-to-Year Percent Change
2000 to June 2018, Not Seasonally Adjusted [ShadowStats, BLS]
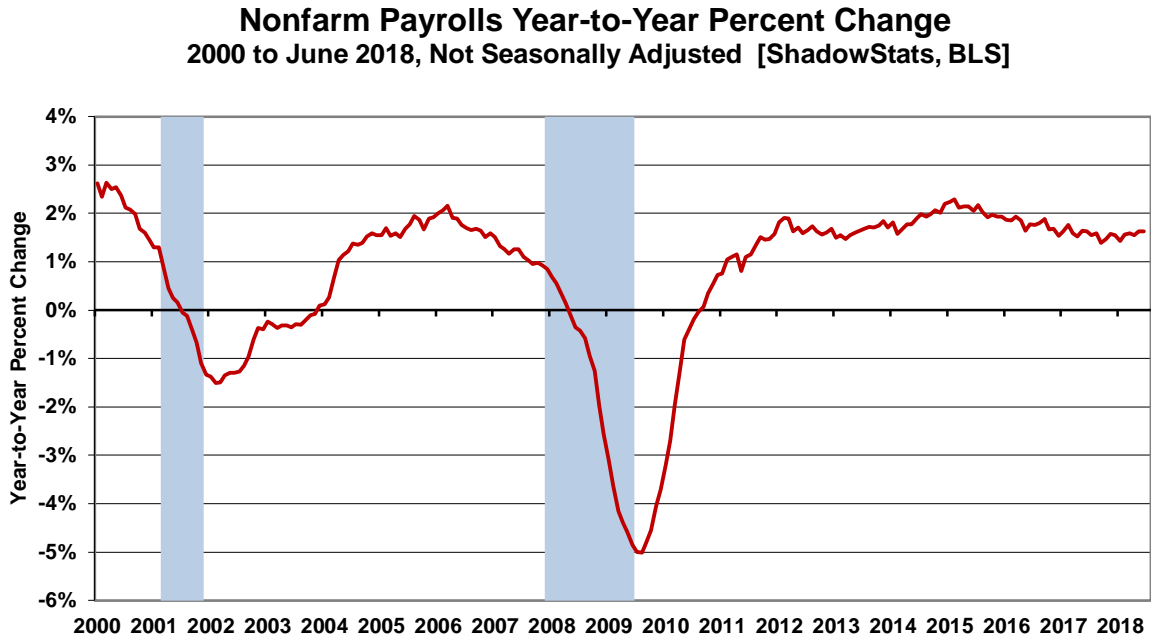
Graph 13: Payroll Employment, Year-to-Year Percent Change, 1940 to Date

Nonfarm Payrolls Year-to-Year Percent Change
1940 to June 2018, Not Seasonally Adjusted [ShadowStats, BLS]
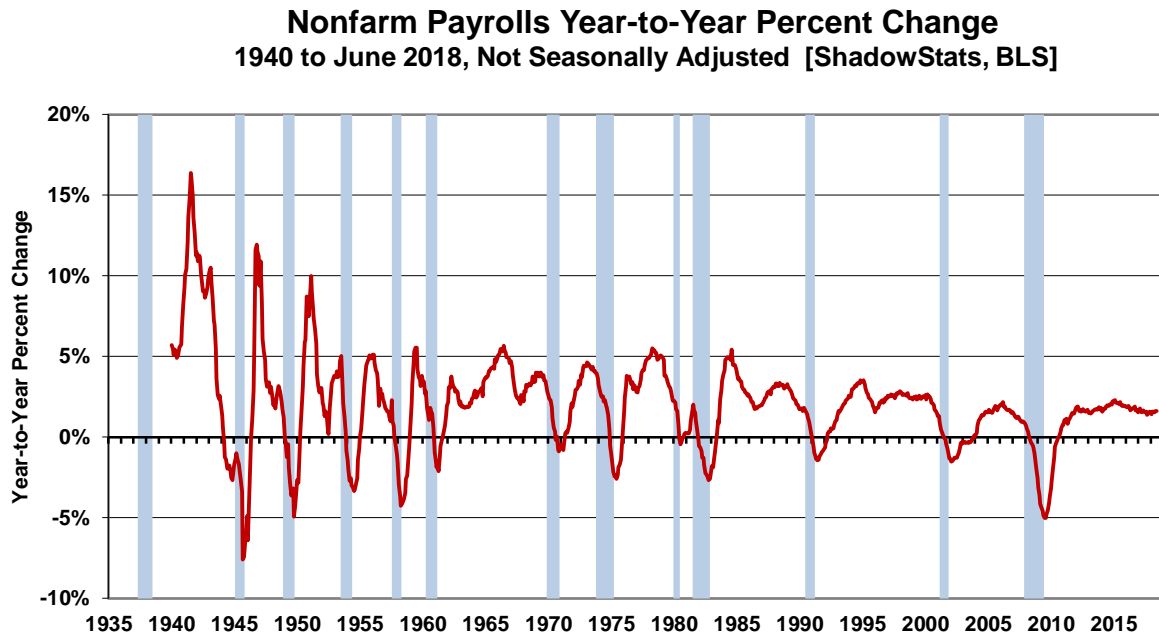
Graph 14: Full-Time Employment (Household Survey), 2000 to Date

Civilian Full-Time Employment Level - (Household Survey)
Counts Number of People Who Are Employed (Not Number of Jobs Held)
Seasonally-Adjusted Levels to June 2018 [ShadowStats, BLS]
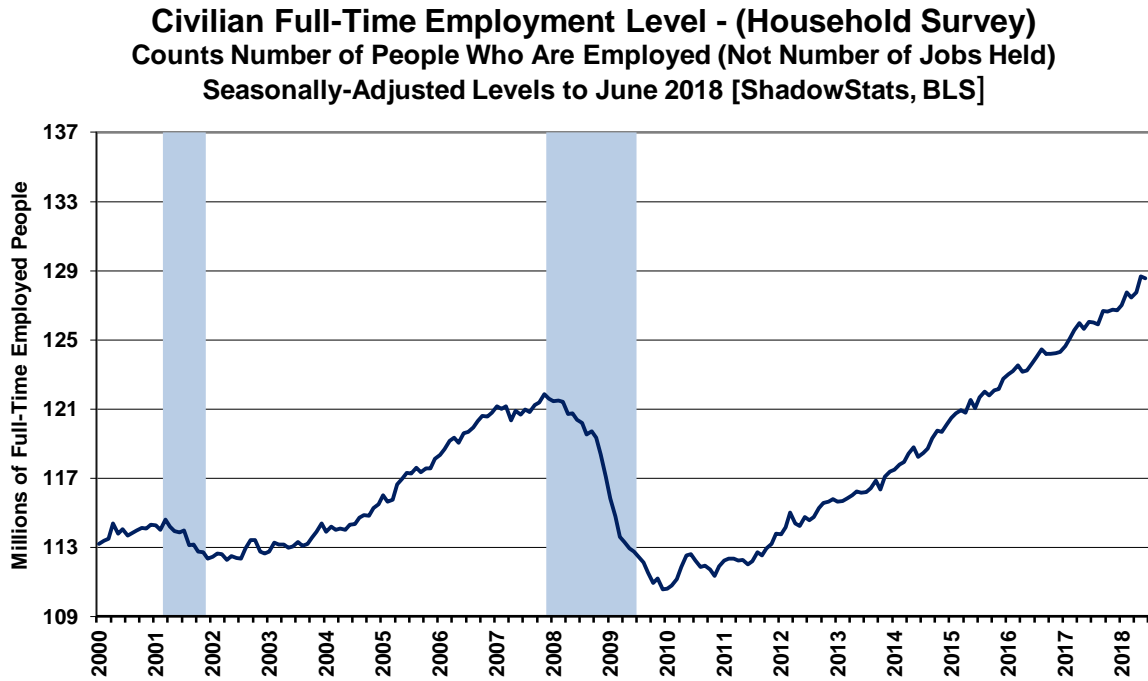
Graph 15: Full-Time Employment (Household Survey), Year-to-Year Percent Change, 2000 to Date

Full-Time Employment Year-to-Year Percent Change
2000 to June 2018, Not Seasonally Adjusted [ShadowStats, BLS]
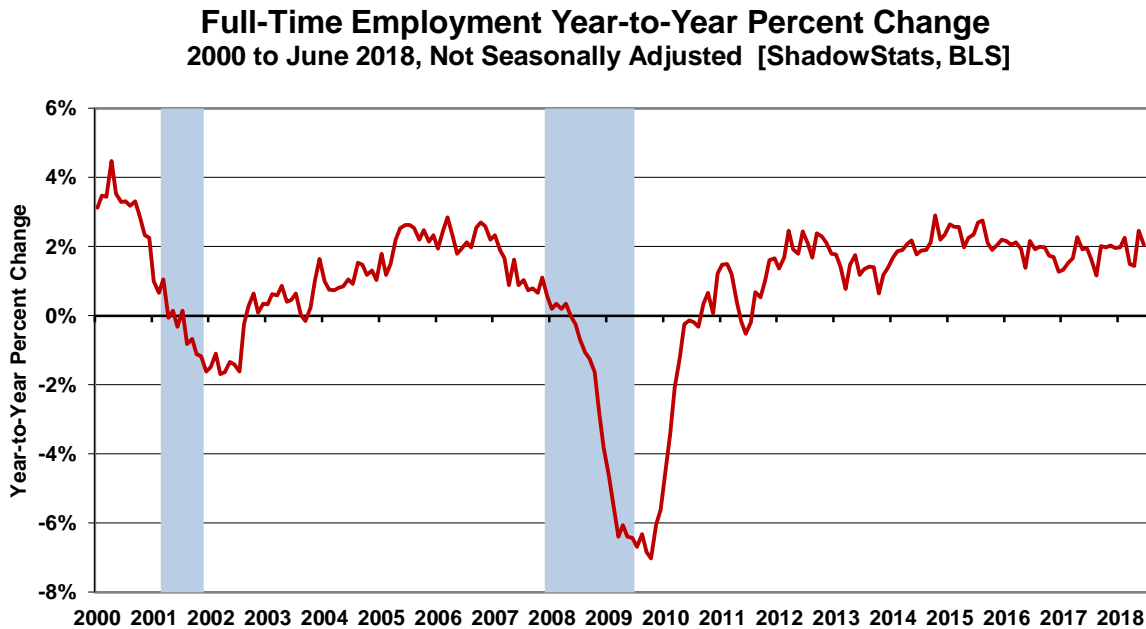
Discussed earlier, while Payroll Survey counts "employed" people with more than one job (such as part-time jobs) for each job counted, the Household Survey counts employed individuals only once, irrespective of the number of jobs held.

Where, out of the Payroll Survey, headline payroll employment (again, counting each part-time job as an employed person) rose month-to-month by 213,000 in June 2018, having gained 244,000 in May 2018, the Household Survey total "employed" count rose by 102,000, having declined by 293,000 (293,000) in May (including agriculture, not counted in the payroll reporting). Again, although seasonally adjusted, the headline Household Employment series is not reported consistently for the headline month, against the prior month. Where current Payroll Reporting is against consistent headline employment levels for the prior two months, earlier months never are consistent with the current headline payroll numbers. Again, see the discussion in *Supplemental Labor-Detail Background – Section I* on page 22.

Seasonally-adjusted, full-time employment in the Household Survey declined month-to-month by 89,000 (-89,000) in June 2018, in the context of each month's data being inconsistent with the prior month, having gained by 904,000 in May 2018, part-time employment gained by 145,000 in June, having declined by 625,000 (-625,000) in May. Multiple job holders (already counted as employed individuals) rose 177,000 in June having declined by 225,000 (-225,000) in May. The seasonally-adjusted sub-categories in the Household Survey rarely add up, due to the seasonal adjustments. Again, among other differences between the Payroll and Household series, the Payroll Survey is nonfarm, where the Household Survey covers agricultural employment.

Year-to-year change in unadjusted full-time employment (Household Survey) declined to 2.04% in June 2018, having jumped to 2.46% in May 2018, versus 1.44% in April 2018, 1.49% in March 2018, 2.26% in February 2018 and 1.97% in January 2018.

Graph 16: Construction Employment (Payroll Survey), 2000 to Date

Construction Payroll Employment to June 2018
Seasonally-Adjusted [ShadowStats, BLS]
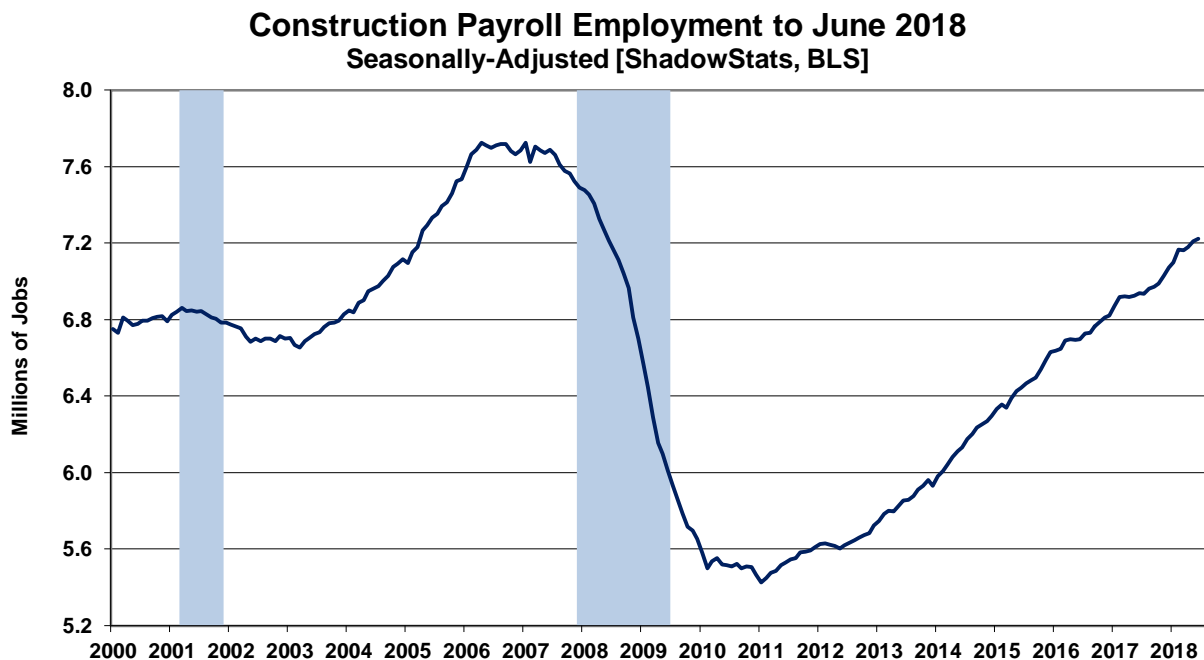
June 2018 Construction Payrolls Slowed to a Month Gain of 0.18%, an Annual Gain of 3.94% and Remained Down by 6.5% (-6.5%) from Its Pre-Recession Peak. Headline June 2018 construction payrolls gained 0.18% month-to-month on top of small upside revisions to seasonally-adjusted May and April activity, as reflected in accompanying *Graph 16*.

Headline Construction Detail. Headline June 2018 construction payrolls rose month-to-month by 0.18%, versus a revised monthly gain of 0.49% [previously 0.35%] in May and a downwardly revised 0.22% [previously 0.29%, initially 0.24%] monthly gain in April. Unadjusted year-to-year change slowed to 3.94% in June 2018, versus 4.13% [previously 4.16%] in May 2018 and again against a revised 3.89% [previously 3.92%, initially 3.84%] in April 2018.

The June 2018 payroll series remained down from its pre-recession peak by 6.5% (-6.5%), while May 2018 real construction spending remained down from its pre-recession high by 19.8% (-19.8%), as discussed in *Commentary No. 958*.

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

Supplemental Labor-Detail Background - Expanded

Reasons Why Headline Employment and Unemployment Numbers Usually Fail to Match Common Experience. The accompanying material provides background detail on reporting biases, reporting gimmicks, Pollyannaish redefinitions of methodology ("Pollyanna Creep" in the ShadowStats lexicon), surveying and reporting inconsistencies and other issues with the monthly headline labor data from the Bureau of Labor Statistics (BLS) surveys: the Establishment Survey (nonfarm payrolls) and the Household Survey (unemployment and employment detail). Although expanded this month with a general re-writing of *Supplemental Labor Detail Background*, along the introduction of *Section IV: Reconciling Record-Low Unemployment with Record-High Labor-Market Stress*, the text here usually is not revised much each month from its prior version, other than for updated monthly numbers through the latest headline detail (currently June 2018).

The current headline numbers also are referenced and discussed separately in the standard employment and unemployment text of the *Reporting Detail.* Note: Accompanying Household (December 2017) and Payroll-Survey (January 2018) comments reflect the indicated, most-recent annual benchmarkings.

SECTIONS

(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)
(IV.) Reconciling Record "Low" Unemployment with Record-High Labor-Market Stress

(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 what is known as a "concurrent-seasonal-adjustment process" to adjust both the payroll and unemployment data for the latest seasonal patterns. The new headline numbers are used each month as the new base month for monthly seasonally-adjustments going back in time. 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. While the procedure is unnecessarily complex and, there is no problem with the basic concept. The problem is that historically-comparable revised data are not published along with the new headline detail by the Bureau of Labor Statistics (BLS), Department of Commerce (Commerce) or the Bureau of Economic Analysis (BEA).

For example, 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 month-to-month consistent basis for the Payroll Survey, even with accompanying headline benchmark revisions. The Household Survey is published only once per year on a consistent basis, in December (see the opening note above), but the numbers become inconsistent, once again, with the ensuing January reporting. Headline month-to-month inconsistencies in the seasonally-adjusted Household Survey are highly variable every month, but that detail never is published and is not knowable by the public.

Effective Reporting Fraud. The problem remains that the BLS does not publish the monthly historical revisions along with the new headline data. As a result, current headline reporting is neither consistent nor comparable with published historical data, including the most-recent months, and the unreported actual monthly variations versus headline detail can be meaningful. The deliberately-misleading reporting effectively is a fraud. The problem is not with the BLS using concurrent-seasonal-adjustment factors; it is with the BLS not publishing the consistent data, where those data are calculated each month and are available internally to the Bureau. The BLS expressed reasons for not publishing the revised monthly numbers on a consistent basis: "Numerous revisions during the year, however, should be avoided, because they tend to confuse data users and to increase publication costs substantially."

If that indeed is the reason for not publishing consistent monthly data, then the BLS would do itself and the public a favor by using its prior annual or semi-annual revisions to the seasonal factors, where the data at least were published in a manner where monthly changes were consistent on a month-to-month basis.

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, until the next December's benchmarking.

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, except temporarily for the one month of December.

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 revisions (see the comments with *Graphs SLD-1* and *SLD-2*).
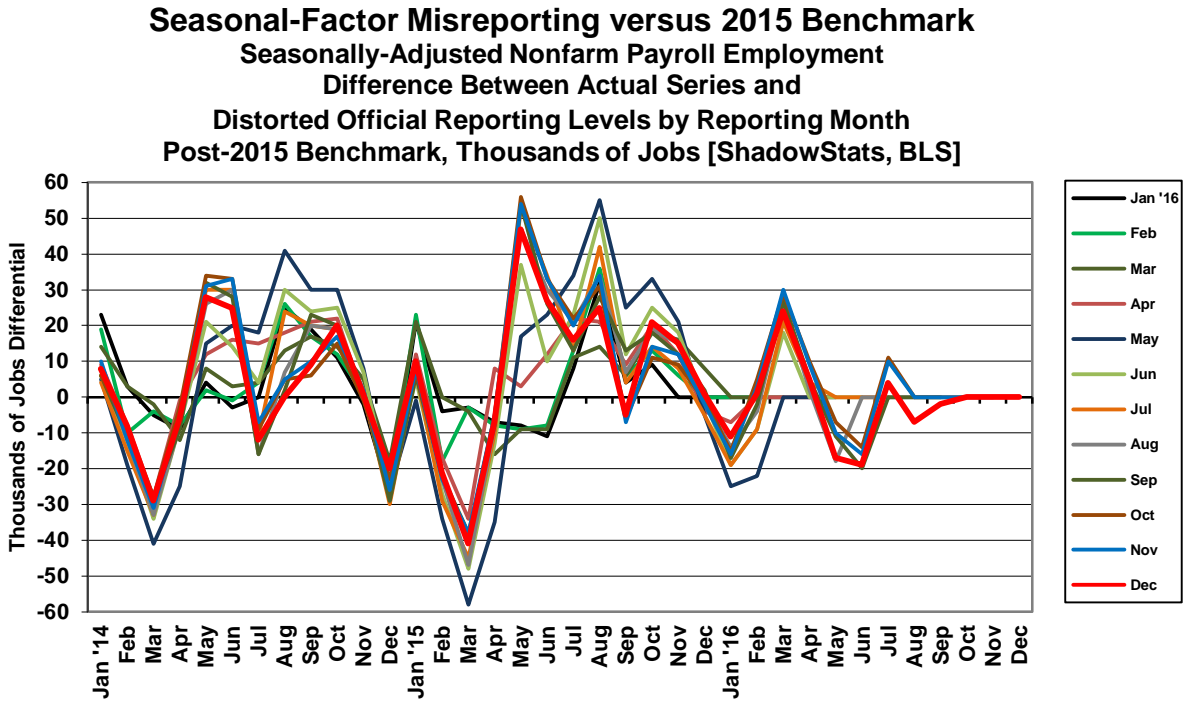
Where the BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, no such accommodation has been made for the Household Survey. ShadowStats affiliate ExpliStats has done such third-party calculations for the payroll series, and the resulting detail of the differences 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 (benchmarking) publication, which allows the initial headline publishing to stray from the actual initial benchmarking. *Graph SLD-1* shows how far the system strayed from the initial 2016 benchmarking, in its formal benchmark reporting of January 2017.

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

Seen in the detail, the differences go both ways and often are much larger. Such was the case for example in 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.

[Graphs SLD-1 and SLD-2 follow on the next page.]

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

Seasonal-Factor Misreporting versus 2015 Benchmark
Seasonally-Adjusted Nonfarm Payroll Employment
Difference Between Actual Series and
Distorted Official Reporting Levels by Reporting Month
Post-2015 Benchmark, Thousands of Jobs [ShadowStats, BLS]

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

Seasonal-Factor Misreporting versus 2016 Benchmark
Seasonally-Adjusted Nonfarm Payroll Employment
Difference Between Actual Series and
Distorted Official Reporting Levels by Reporting Month
Post-2016 Benchmark, Thousands of Jobs [ShadowStats, BLS]
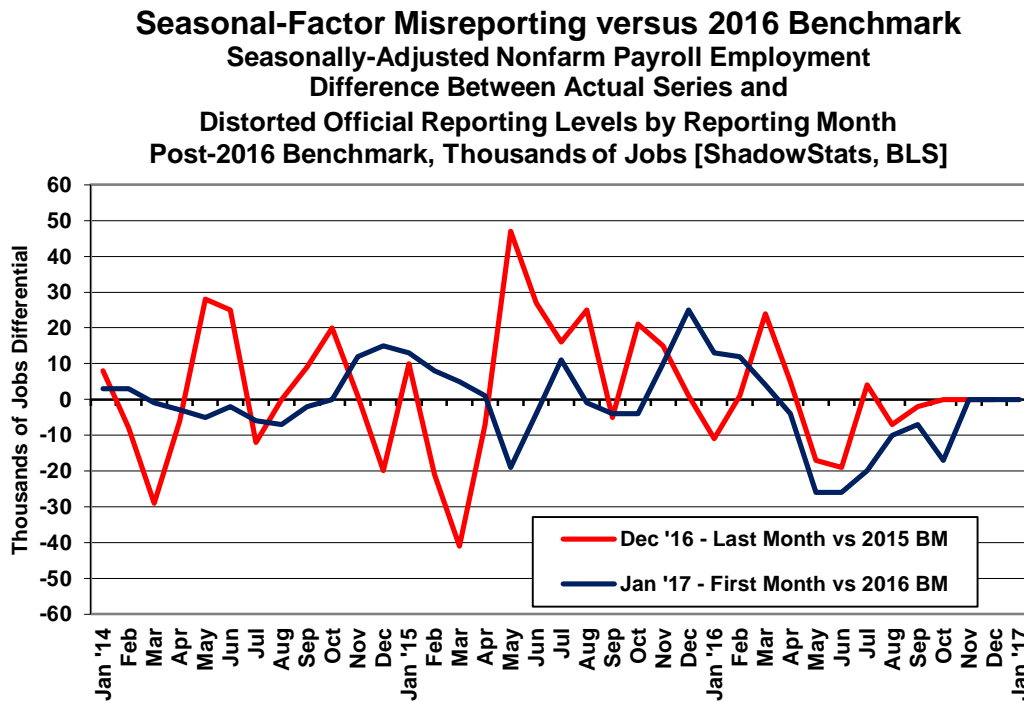
(II.) Payroll-Employment Monthly Bias Factors (Birth-Death Modeling: BDM)

In 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 by 95,000).

Noted in *No. 885*, "During the Reagan Administration, the Bureau of Labor Statistics (BLS) underestimated employment growth, coming out of the 1983 recession. [As expressed by a spokesperson for the BLS] That "political embarrassment" for the BLS resulted in the introduction of monthly, upside-bias factors to payroll-employment reporting. Those biases evolved into the current Birth-Death modeling for the payroll series."

Recent History. As a separate matter, though, formalized, corrective downside revisions to prior history 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.

June 2018 Add-Factor Bias. In context of the recently published 2017 benchmarking (see the *Opening Comments* of [*Commentary No. 934-B*](#)), the not-seasonally-adjusted monthly add-factor bias in June 2018 was 104,000, previously up by 99,000. The revamped, aggregate upside annual bias for the trailing twelve months through June 2018 is estimated from the current headline bias reporting at 1,077,000, up by 185,000 or 20.7% from the last prior count of 892,000 in December 2017. That is a monthly average now of 89,750, 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.

Put another way, that upside bias of 1,077,000 in unadjusted payroll levels in the twelve months through June 2018 accounted for 44.8% of the headline unadjusted 2,402,000 payroll jobs gain the same period On a seasonally adjusted basis, that twelve-month payroll gain was 2,374,000.

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 overstate official estimates of general economic growth. Along with 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 89,750 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

At the same time, as reviewed in today's following new *Section IV: Reconciling Record "Low" Unemployment with Record-High Labor-Market Stress*, the recent new low in headline unemployment (and current near-record low) was despite continued signals of extreme stress in labor-market conditions. The dominant issue with that dichotomy remains that the headline unemployment numbers out of the BLS have not counted the aggregation of long-term discouraged or displaced workers, since the 1994 redefinitions of the unemployment reporting. Those issues have become a factor here in the context of the severity of the economic collapse from 2007 into 2009.

In 1994, the Bureau of Labor Statistics (BLS) overhauled its system for estimating unemployment, including changing survey questions and unemployment definitions. In the new system, measurement of the previously-defined discouraged or displaced workers disappeared. These were individuals who had given up looking for work, because there was no work to be had. These people, who considered themselves unemployed, had been counted in the old survey, irrespective of how long they had not been looking actively for work. These were individuals who were and would be considered displaced workers, due to circumstances of severely-negative economic conditions or other factors such as changing industrial activity resulting from shifting global trade patterns.

The new survey questions and definitions had the effect of minimizing the impact on unemployment reporting for those workers about to be displaced by the just-implemented North American Free Trade Agreement (NAFTA). At the time, I (John Williams) had close ties with an old-line consumer pollster and his 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 a seasonally-adjusted 5.258 million in June 2018 (5.654 million not seasonally adjusted). That was up for the third straight month, despite a record-low unemployment rate in May 2018, when 5.183 million wanted a job, up from 5.115 million in April and 5.096 million in March. 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 Alternate Unemployment 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." Again, discussed the following *Section IV: Reconciling Record "Low" Unemployment with Record-High Labor-Market Stress*, and shown in the *Reporting Detail*, the graph of the inverted ShadowStats unemployment measure has a strong correlation with the employment-to-population ratio, in conjunction with the labor-force participation rate (see *Graphs 2* and *3* there and *Graph SLD-4* in the next section). Other measures, such as the ShadowStats-Alternate GDP Estimate, the Cass Freight Index, U.S. Petroleum Consumption, Manufacturing, Construction Spending and Housing Starts are highlighted in subsequent *Graphs 4* to *9* in today's *Reporting Detail* and in the *Economy* section of *Special Commentary No. 935*.

Headline June 2018 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 June 2018 was 21.5%, versus 21.4% in May, 21.5% in April, 21.7% in March, 21.8% in February, 21.8% in January. That was against 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 June 2018 ShadowStats reading was down by 180 (-180) basis points or 1.8% (-1.8%) from the 23.3% series high seen in May 2014.

In contrast, the June 2018 headline U.3 unemployment rate of 4.0% was down by 600 (-600) basis points or by 6.0% (-6.0%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 7.7% in June 2018, was down by 950 (-950) basis points or 9.5% (-9.5%) 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 *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-to-minus recently, against a higher level, fluttering U.6 and a still-higher level, relatively stagnant, but mixed-trend ShadowStats number, which had been flat for several months, yet where all have notched lower with the headline May 2018 detail, they notched higher with the June 2018 detail.

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%.

(IV.) Reconciling Record "Low" Unemployment with Record-High Levels of Labor-Market Stress

It All Is in the Gimmicked Unemployment Definitions. From the *Opening Comments* of *Commentary No. 953-B*: *Graphs SLD-3* and *SLD-4* plot measures of broad labor-market health. *Graph SLD-3* shows the ratio of headline employment to the working age population, the *Employment-Population Ratio*. *Graph SLD-4* shows labor-force participation (the total of the headline employed plus headline unemployed) as a percent of the working age population, the *Participation Rate*. The higher those ratios, the healthier is the economy. Correspondingly, the weaker those ratios the more intense is the labor-market stress. Also consider *Graph SLD-5*, which plots the headline U.3 Unemployment Rate, but with an inverted scale, since the 1994 beginning of the current unemployment series.

June 2018 U.3 unemployment moved higher to 4.05% (rounds to 4.0%), from 3.75% (3.8%) in May 2018. At the second decimal point, the May unemployment rate, however, was the historic low for the current series, which was defined in 1994. At the first decimal point, May 2018 unemployment tied the record low of 3.8% of April 2000 (the low April unemployment is the early high point with the inverted scale of *Graph SLD-5*), April 2000 also is the happy high point for the *Employment-Population Ratio* and the *Participation Rate*. That is as it should be. The problem comes with the May 2018 "low" unemployment rate (the recent high point in *SLD-5*) going against relatively low points (severe levels of labor-market stress) in *Graphs SLD-3* and *SLD-4*.

Those three graphs move pretty much in unison (particularly *SLD-3* and *SLD-5*) until they pass the second blue recession bar, when the unemployment rate turns lower (rises in with the inverted-scale in *SLD-5*), while the measures of labor-market stress begin to bottom-bounce. Now consider *Graph SLD-6* of the inverted-scale ShadowStats Alternate Unemployment rate (same as *Graph 2* in the *Reporting Detail*, which includes long-term discouraged or displaced workers.
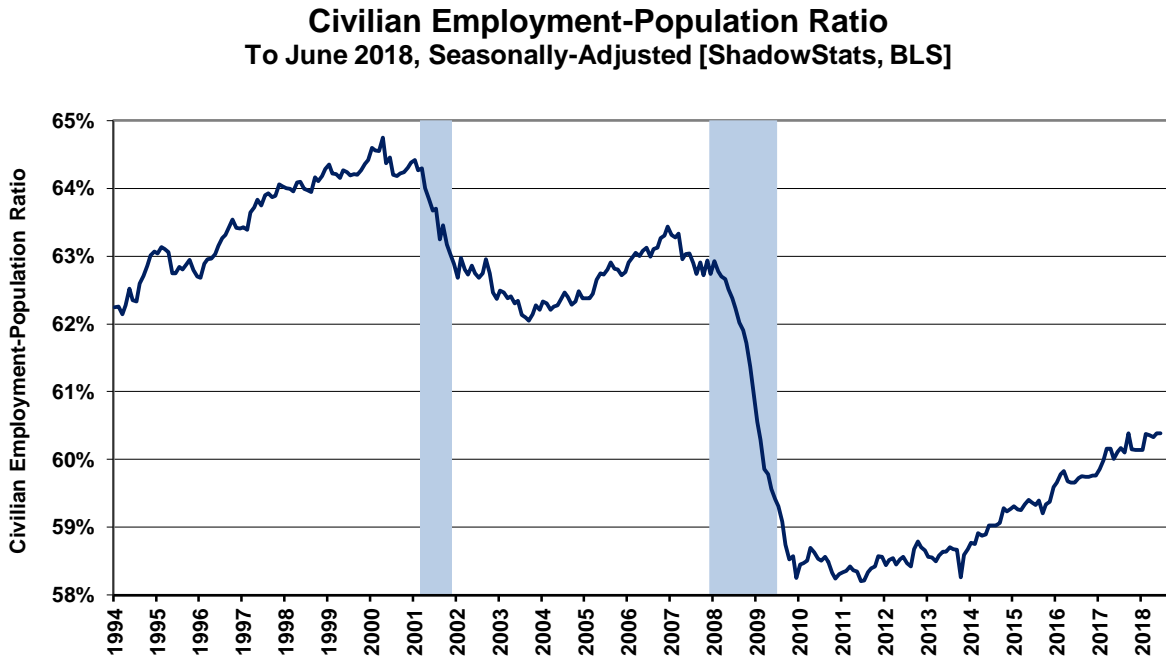
The problem and the conflict with the headline numbers out of the Bureau of Labor Statistics is that the current unemployment series was redefined in 1994 (at the onset of NAFTA) so as not to count "discouraged workers" for more than one year. Otherwise, that population (and share of the total population) would aggregate, rather than be retired after twelve months (see prior *Section III: ShadowStats Alternate-Unemployment Rate (Accounting for Displaced Workers)*.

Subsequent to the redefined series, the U.S. economy collapsed into its most severe downturn since the Great Depression, and as the headline unemployment rate dropped (rose on the inverted scale) the ShadowStats measure (also on an inverted scale) continued to track the accumulating discouraged workers. The ratio differences here reflect issues with population. Some argue the difference here is due to an increased portion of the population entering retirement. While that is a partial factor, many who had planned to retire are finding that they cannot afford to do so, at present, as originally planned.

Allowing for the build-up of the discouraged/displaced worker population allows for some non-conventional employment/unemployment estimates. With calculations shown in the footnotes, the current *Employment-Population Ratio* and *Participation-Rate* suggest that a realistic unemployment, as the public might sense it, would be closer to 10% in instead of 3.8%. With the *Participation-Rate* suggesting room for another 11.1 million employed. Separately, despite the record-low U.3, the headline count of discouraged workers and those not counted in the headline labor force "wanting a job" both increased in the May 2018 survey.

[Graphs SLD-3 to SLD-6 begin on the next page.]

Graph SLD-3: Civilian Employment to Population Ratio
(Same as Graph 3 in the Reporting Detail)

Civilian Employment-Population Ratio
To June 2018, Seasonally-Adjusted [ShadowStats, BLS]

Graph SLD-4: Labor-Force Participation Rate

Participation Rate [Labor Force as a Percent of Population]
To June 2018, Seasonally-Adjusted [ShadowStats, BLS]
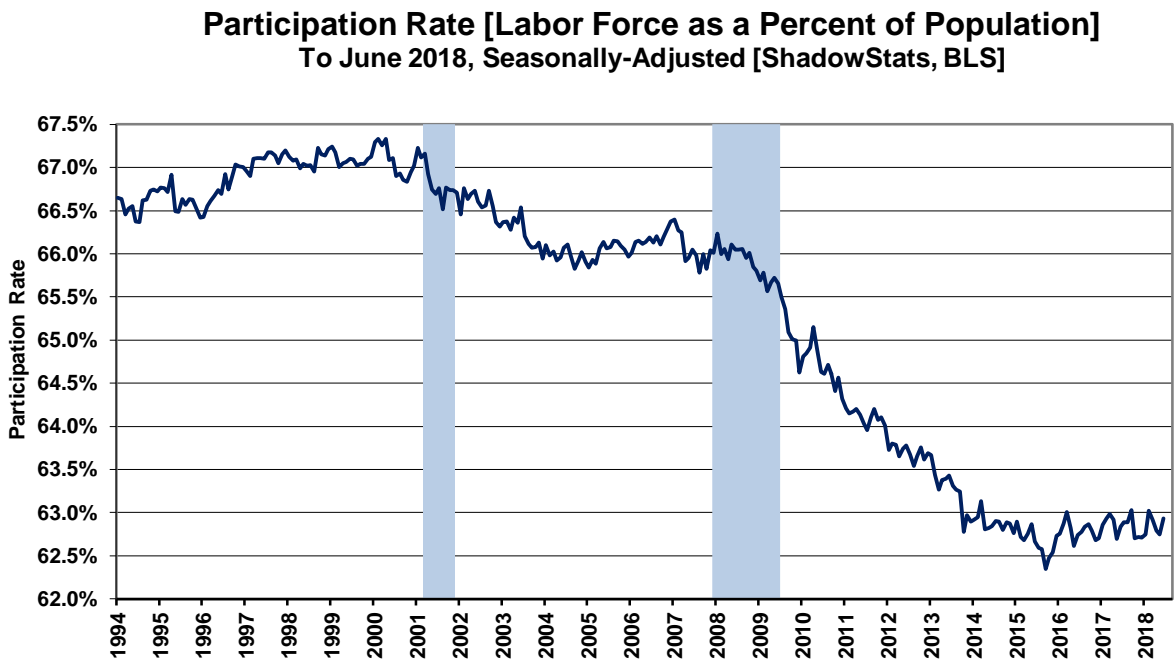
Graph SLD-5: Inverted-Scale of the Headline U.3 Unemployment Measure

U.3 Unemployment Rate (Inverted Scale)
To June 2018, Seasonally-Adjusted [ShadowStats, BLS]
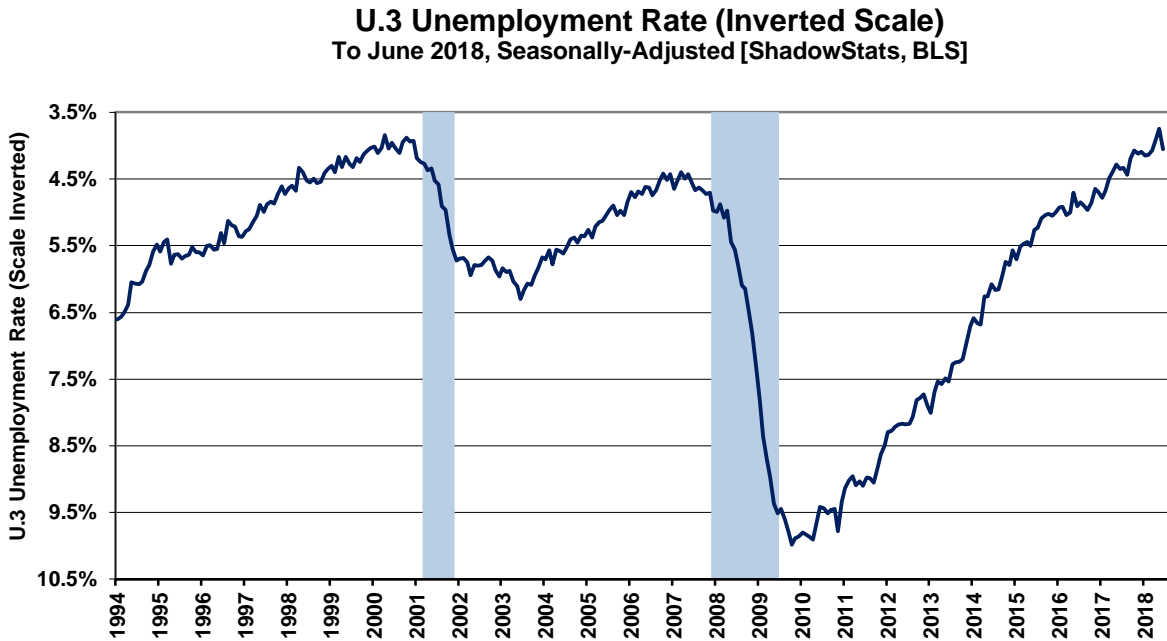
Graph SLD-6: Inverted-Scale of ShadowStats Alternate Unemployment Measure
(Same as Graph 2 in the Reporting Detail)

ShadowStats-Alternate Unemployment Rate (Inverted Scale)
Long-Term Discouraged/Displaced Workers Included (BLS Excluded Since 1994)
To June 2018, Seasonally-Adjusted [ShadowStats, BLS]
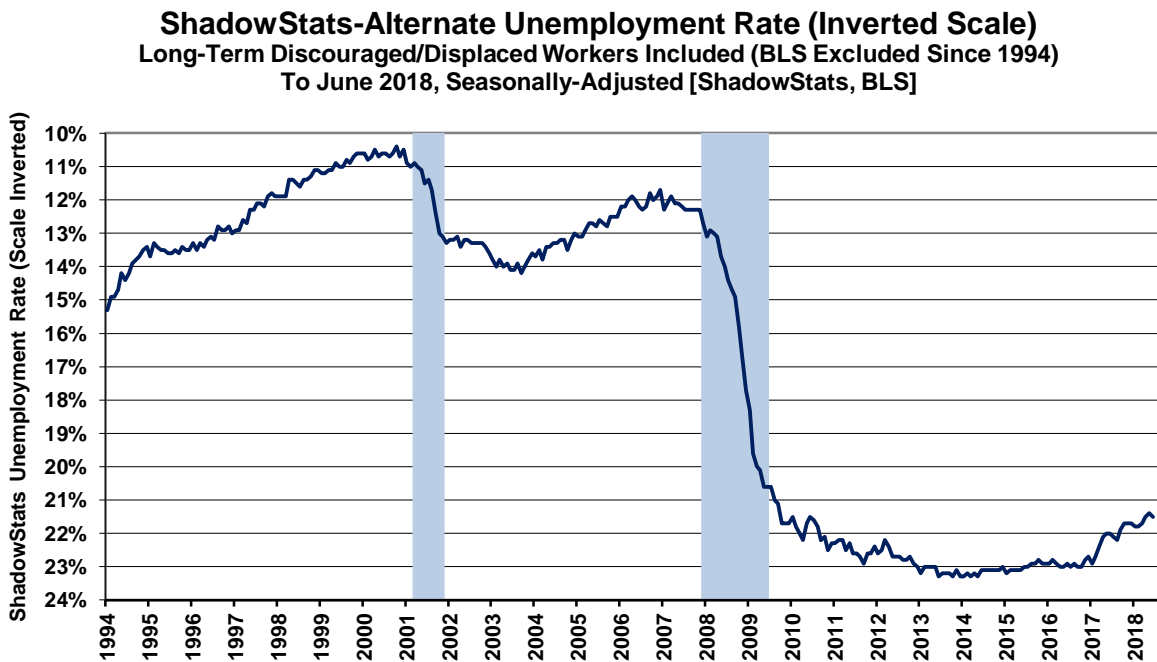
Economy Remains Far From Full-Employment (Part 1); 3.8% U.3 Unemployment Historically Is Consistent with 67.3% Participation Rate, Not the Current 62.7%, Which is Consistent with a 10.3% U.3. Argued here for many months, the U.S. economy is not at, or close to, full employment. As with much-earlier comments from former Fed Chair Janet Yellen, Treasury Secretary Steven Mnuchin (*Treasury Secretary Mnuchin: Economy is not really at full employment yet*) recently noted, "My comment is we're not really at full employment because of the participation rate." The near-historically-low level of the headline participation rate (labor force/working-age population) is despite the series-low 3.8% headline U.3 unemployment rate. The headline participation rate should be at an all-time high. In like manner, the employment-to-population ratio, also near its historic low, also should be at an historic high. Something very much is amiss in the government's headline Household Survey detail.

Discussed in the *Fedspeak* portion of the *Fed* section of *No. 859 Special Commentary* and the *Opening Comments* of *Commentary No. 870,* certain members of the Federal Reserve Board (*Commentary No. 827*) had suggested that an unemployment rate near 5.0% (U.3 now is at 3.8%) reflected full-employment conditions in the United States. Noted in *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%). The last time the U.3 rate was at 3.8% [3.84%] was in April 2000, versus the May 2018 reading of 3.8% [3.75%]—certainly a more-realistic full-employment rate—the participation rate then was the series-high of 67.33%.

Full employment with unemployment at 5.0% or the record-low 3.8% in May 2018, also minimally should be reflected at a relative near-term peak in the participation rate, not close to its historic trough. The May 2018 headline unemployment rate of 3.8%, for example was in the context of a 62.7% participation rate. Yet, that historically-consistent participation rate, in the current circumstance (where the count of Household Survey employed generally is not gimmicked), would generate a consistent, current headline unemployment rate (U.3) of 10.3%, instead of the headline 3.8%.[1]

The calculations used here are for May 2018, as the series-low U.3 unemployment rate. New calculations will provided, if the 3.8% is breached anew on the downside.

Far From Full-Employment (Part 2): Historic Low 3.8% May 2018 Unemployment Was Consistent a Record-High 64.7% Employment to-Population Ratio, Not the Current Near-Historic Low. The historic-low 3.8% U.3 unemployment of May 2018 U.3 (currently 4.0% in June 2018) also should have reflected an historic high Employment-to-Population Ratio, not the near-record low indicated for both May and June 2018. In turn, the current headline 60.4% Employment-to-Population Ratio was suggestive of a 9.9% U.3 unemployment rate and a missing 11.1 million employed.

---

[1] Consider with the May 2018 working-age population of 257.454 million, the implied labor force at a full-employment participation rate of 67.3% (last seen when headline unemployment was 3.8% in April 2000) would show 0.673 x 257.454 = 173.267. That labor force less current headline employed, 173.267 – 155.474 = 17.793 million implied unemployed, which divided by the labor force of 173.267 = 10.3% unemployment. The problem with the assumptions underlying these numbers and concept, again, remains that the economy is not at full employment, as would be suggested normally by a headline 3.8% U.3; there are serious flaws in the surveying and/or definitional concept of U.3.

The last time[2] U.3 unemployment rate dropped to 3.8% was in April 2000, with the Employment-to-Population Ratio also hitting an historic high of 64.7%. Detailed in the accompanying footnote, historical consistency would suggest a parallel headline unemployment rate for May 2018 at 9.9%, instead of the headline 3.8%, otherwise with a missing 11.1 million "employed" individuals.

The reason for the heavily-distorted current headline unemployment details, largely is definitional, reflecting 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.

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

---

[2] Consider with the May 2018 working-age population of 257.454 million, the implied level of employment, given an historically consistent employment-to-population ratio of 64.7% (last seen when headline unemployment was 3.8% in April 2000) would show 0.647 x 257.454 = 166.573 million employed. Yet, the current headline employed count of 155.474 – 166.573 implied employed = a current shortfall of 11.099 million employed, based on historical norms with a headline unemployment rate U.3 of 3.8%.

   To the extent one could count those implied missing employed as unemployed, such would suggest a consistent headline U.3 unemployment rate in May 2018 of 9.9% (Unemployed of 17.164 million = headline 6.065 unemployed + the missing 11.099 employed) / (Labor Force of 172.638 = 155.474 headline employed + the headline unemployed of 6.065 + the missing 11.099 employed). The problem with the assumptions underlying these numbers and concept, again, remains that the economy is not at full employment, as would be suggested normally by a headline 3.8% U.3; there are serious flaws in the surveying and/or definitional concept of U.3.

May 2018 U.S. Trade Deficit

The Nominal Balance of Payments Trade Deficit Narrowed in May 2018 for the Third Consecutive Month; a Pattern That Should Not Last Long. The Census Bureau and the Bureau of Economic Analysis reported July 6th that the monthly Balance of Payments trade deficit narrowed to $43.1 billion in May 2018, versus $46.1 billion in April 2018 and down from $45.8 billion in May 2017. The monthly deficit narrowing was the third consecutive monthly improvement a row, dominated by improving exports. The recent trade deficit narrowing, however, has reflected large, but what otherwise usually are irregular monthly surges in aircraft and soybean exports. Accordingly, the positive trade balance trends likely will reverse sharply in the next several months, as the irregular patterns balance out.

Real Merchandise Trade Deficit - May 2018. Reporting detail for the Real Merchandise Trade Deficit is plotted in *Graph 17* on a quarterly basis, also with a trending, sharp improvement in the second-quarter 2018 deficit, based just on April and May 2018 reporting. As with the nominal trade balance of payments deficit, the real monthly trade shortfall narrowed in each of last three months, also against May 2017. Again, with large irregular export boosts in hand, the pattern should subside and reverse in the near-term, barring any extraordinary trade-pattern shifts affected by changing tariff regimens.

All the numbers here are in the context of annual benchmark revisions published last month (see *Commentary No. 954*). The extended detail on the May 2018 reporting follows.

Continued Monthly Narrowing in the Nominal May Balance of Payments Deficit Has Been Dominated by Rising Exports. The Bureau of Economic Analysis (BEA) and the Census Bureau (Census) reported Friday, July 6th, that the nominal (not adjusted for inflation), seasonally-adjusted May 2018 trade deficit in goods and services narrowed month-to-month on a balance-of-payments basis by $3.028 (-$3.028) billion, by 6.6% (-6.6%), to $43.053 billion. That was down from a revised $46.081 [previously $46.188] billion deficit in April 2018, which was down from an unrevised $47.210 billion in March 2018, all in the context of last month's (June 6th) annual revisions to the series. The currently unrevised March 2018 deficit of $47.210 billion previously (pre-benchmarking) had reflected a $48.956 billion deficit.

The narrowing in the headline May 2018 deficit reflected a monthly gain of $4.091 billion in exports, partially offset by a gain in imports of $1.064 billion.

That said, the headline May 2018 deficit also narrowed by $2.770 billion, or by 6.0%, versus the year-ago $45.823 billion trade shortfall for May 2017. Such reflected a somewhat stronger gain exports versus imports in the last year.

The big relative monthly gains in May 2018 exports were tied to large but irregular shipments of civilian aircraft and soybeans. Although dominated by imports, the relative monthly changes to imports and exports in the petroleum-related sector largely were offsetting.

Energy-Related Petroleum Products. May 2018 imported oil prices increased by 7.1% month-to-month to $58.37 per barrel, versus $54.50 in April 2018, and were up by 29.6% from $45.04 per barrel in May 2017. Separately, unadjusted physical oil-import volume in May 2018 averaged 7.492 million barrels per day, down from 7.865 million barrels in April 2018, and down from 8.581 million barrels in May 2017.

Real Merchandise Trade Deficit – May 2018. Reporting detail for the Real Merchandise Trade Deficit is discussed here and plotted (quarterly) in *Graph 17*. The seasonally-adjusted details are in real terms, net of oil-price swings and other inflation, with a revised base-inflation year of 2012 (previously 2009) chain-weighted dollars. The 2012 dollars will be used as the deflation base for upcoming, comprehensive GDP benchmark revisions on July 27th. Changing just the inflation-year base (no change to the nominal data) changes only the headline level of the real dollars, it leaves the real relative month-to-month and year-to-year percent changes exactly as they were before.

Unless indicated otherwise, the details here are as reported in the June 6th benchmarked, headline detail, in billions of constant 2012 dollars. Given the shift in the deflation-year base, the headline monthly, quarterly annual and dollar amounts are not directly comparable with prior reporting.

The May 2018 real merchandise trade deficit (no services) narrowed by 2.8% (-2.8%) to $75.283 billion from a revised $77.480 [previously benchmarked at $77.473] billion in April 2018, and narrowed year-to-year by 1.9% (-1.9%) from $76.772 billion in May 2017. In turn, the revised April 2018 real deficit narrowed by 0.9% (-0.9%) versus March 2018 and was virtually unchanged versus April 2017.

Reflecting last month's benchmarking, the 2016 annual real merchandise trade deficit widened for the year to $902.0 billion, versus $800.7 billion in 2015. The 2016 annual trade shortfall then was the worst since 2007 [pre-benchmarking, it had been the worst since 2008].

On an annual basis, the benchmarked 2017 real merchandise trade deficit widened to $935.3 billion, versus $900.2 billion in 2016. The 2017 deficit was the worst since 2006 [pre-benchmarking, it had been the worst since 2007].

The first-quarter 2017 deficit narrowed minimally to $914.4 billion, the second-quarter 2017 deficit widened to $921.3 billion, the third-quarter 2017 deficit widened to $924.9 billion, with the fourth-quarter 2017 real merchandise trade deficit exploding to $980.5 billion, its worst showing since third-quarter 2006 [pre-benchmarking, the worst since second-quarter 2007].

The unrevised headline detail for the annualized first-quarter 2018 merchandise deficit was $989.4 billion, making it the new worst showing since third-quarter 2007. Such is just an annualized $16 billion shy of the worst-ever quarterly real merchandise trade deficit in U.S. history.
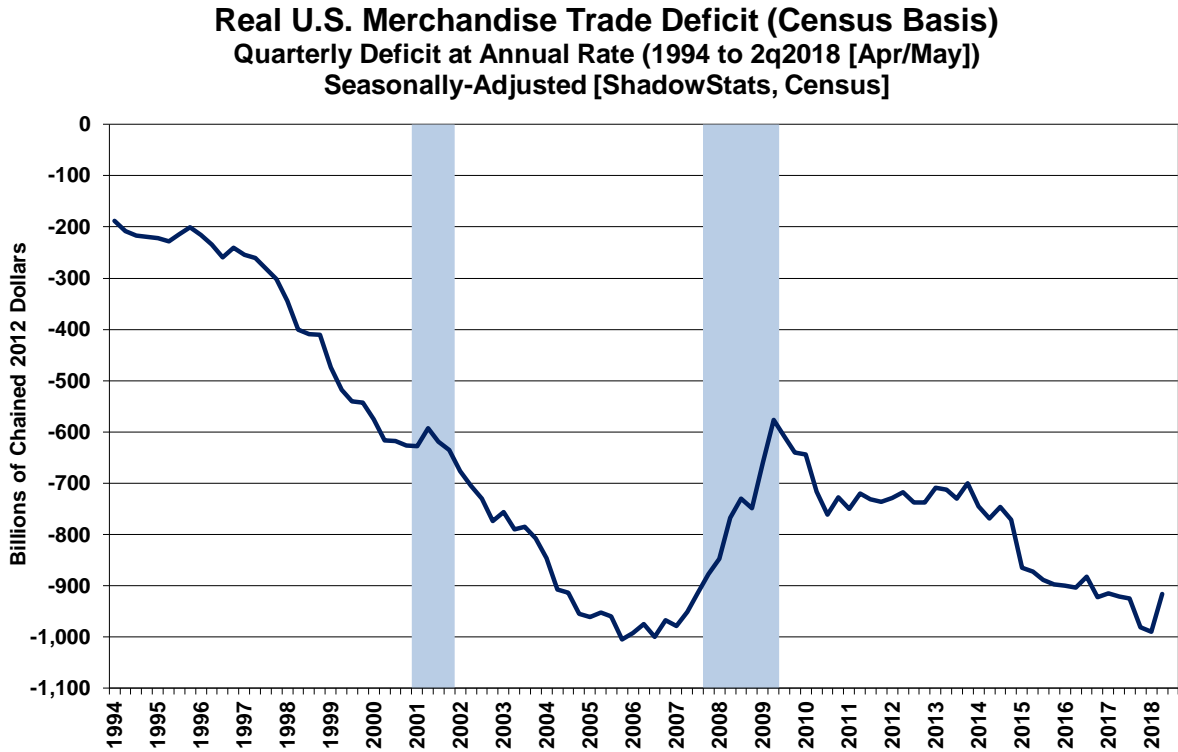
With initial estimates for the April and May 2018 real merchandise trade deficits in hand, the early-trend for second-quarter 2018 is for a sharp, quarterly improvement or narrowing to an annualized quarterly deficit of $916.6 billion, the best showing since first-quarter 2017.

That is not likely to last or to come to full fruition, though, where large aircraft and soybean exports tend to be concentrated irregularly throughout the year, not smoothed month-to-month.

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, beyond any negative impact on the pending July 27th GDP benchmarking from the earlier trade deficit benchmarking.

Graph 17: Quarterly Real Merchandise Trade Deficit (1994-2018)

Real U.S. Merchandise Trade Deficit (Census Basis)
Quarterly Deficit at Annual Rate (1994 to 2q2018 [Apr/May])
Seasonally-Adjusted [ShadowStats, Census]

[The Week, Month and Year Ahead Section follows on the next page]

_____

38

WEEK, MONTH AND YEAR AHEAD

U.S. Dollar and Financial-Market Turmoil Remain Intensified High Risk, Amidst Mounting Fiscal Concerns, Consumer Liquidity Issues and Non-Expanding, Real-World Economic Activity. In the context of the weakening consumer liquidity trends and continuing, conflicted signals in the labor detail, discussed today, in *Commentary No. 957* and in *Consumer Liquidity Watch - No. 2*, the headline economic outlook continues dimming rapidly. The U.S. consumer remains the primary and fundamental driving force behind domestic business activity, and the continued likely deterioration of liquidity conditions should be followed by negative headline monthly surprises in the regular economic reporting in the month or two ahead. Already in play are likely net negative revisions to the GDP in its pending, comprehensive annual benchmarking on July 27th. The broad outlook on the economy has not changed. Weaker economic growth and renewed, faltering economic headlines should continue to follow.

Hyperinflation Watch - No. 1 reviewed the broad outlooks for the U.S. economy, the U.S. dollar, gold, silver and the financial markets. Such updated and expanded upon annual review covered in *Special Commentary No. 935* (see the *Executive Summary*, with *Contents* and links to *Major Sections* and *Graphs* beginning there on page 6). The broad, faltering economic outlook also was reviewed in the *Opening Comments* and *Industrial Production Benchmark Revisions* sections of *Commentary No. 942-B*. The fundamental outlook for U.S. dollar and related market circumstances broadly have not changed from the related vulnerabilities discussed in those earlier missives. The standalone *Hyperinflation Watch* will be updated next week.

The dollar and financial markets remain at an extraordinarily-high risk of intense, panicked declines, still likely in the very near term. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, during times of high inflation and currency debasement, and/or political- and financial-system upheaval. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise.

Best wishes – John Williams

COINCIDENT AND PENDING ECONOMIC RELEASES

Producer Price Index—PPI (June 2018). The Bureau of Labor Statistics (BLS) released the June 2018 PPI, this morning, Wednesday, July 11th. The headline Final-Demand Producer Price Index (PPI-FD) showed a 0.26% monthly gain in June, versus 0.52% in May, with annual inflation rising to 3.37% in June 2018, the highest since November 2011, and against 3.11% in May 2018. Details will follow in *Commentary No. 960* planned for July 13th.

Consumer Price Index—CPI (June 2018). The Bureau of Labor Statistics (BLS) will release its June 2018 CPI tomorrow, Thursday, July 12th, which also will be covered in *Commentary No. 960* planned for July 13th. ***The ShadowStats Alternate CPI detail will be posted on the ShadowStats.com Alternate Detail tab, the morning of July 12th, as usual, shortly after the release of the data.*** The headline June CPI-U likely will show a near-consensus monthly gain of about 0.2%, plus-or-minus, in the context of a small monthly decline in unadjusted gasoline prices, partially offset by positive seasonal adjustments. Unadjusted year-to-year annual inflation for June 2018 should come in around 3.0%, enough higher than the 2.8% level seen in May 2018 to continue rattling the bond market a bit. Once, again, the increase in headline inflation here is not due to strong economic activity, rather due to distorted commodity (oil) price increases, driven largely by non-economic factors.

Minimally-Positive Monthly Inflation Impact from Rising Gasoline Prices, Despite Sharply-Negative Seasonal Adjustments. Unadjusted gasoline prices jumped month-to-month by a hurricane-induced 10.6% in September 2017, retreating by 5.4% (-5.4%) in October, rebounding by 2.6% in November, dropping by 3.3% (-3.3%) in December. At the onset of the New Year, they rose by 3.2% in January 2018, 1.3% in February, 0.1% (0.15% at the second decimal point) in March, 4.0% in April and 4.0% in May, easing back by 0.6% (-0.6%) in June, all as estimated by the Department of Energy.

Minimally-positive seasonal adjustments, however, likely will cut in half that month-to-month decline of 0.6% (-0.6%) in June 2018 (what people pay at the pump) to about 0.3% (-0.3%), which is what is reported in the CPI-U). That still translates into a virtually-nil, negative gasoline-price contribution of about -0.01% (-.01%) to the headline, seasonally-adjusted monthly CPI-U inflation. Likely boosted further by higher food and "core" (net of food and energy) inflation, the headline monthly CPI-U reading still could come in around 0.2% for June 2018.

Annual Inflation Rate. Noted in [Commentary No. 955](#), year-to-year CPI-U inflation can be estimated for June 2018 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline monthly gain of 0.05% in the June 2017 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for June 2018, the difference in June's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the unadjusted May 2018 annual inflation rate of 2.80%. With an early guess of an adjusted monthly gain of about 0.2% in June 2018 CPI-U, that would leave unadjusted June 2018 annual CPI-U inflation around 2.9% to 3.0%.

LINKS TO PRIOR COMMENTARIES, SPECIAL REPORTS AND OTHER WRITINGS

New: The *Consumer Liquidity Watch* a standalone entity, the latest version of June 29th is by link at *Consumer Liquidity Watch - No. 2*.

The *Hyperinflation Watch*, a standalone entity, the latest version of July 5th is available on by link at *Hyperinflation Watch - No. 1*.

The latest Watches always will be available on www.ShadowStats.com and by link from the current *Commentary*, with updates advised by e-mail.

Prior Writings Underlying the Current *Special Commentaries* **and a Sampling of Recent** *Regular Commentaries*. Underlying the recent *Special Commentary No. 935 (Part One)* and the pending *Special Commentaries (Part Two)* on Inflation, and *(Part III)* on the Federal Reserve and U.S. banking system, are *Commentary No. 899* and *General Commentary No. 894*, along with general background from regular *Commentaries* throughout 2017.

These missives also are built upon writings of prior years, including *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). In turn, they updated the long-standing 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 several months 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).]*

These regular *Commentaries* are published at least weekly, with *Consumer Liquidity* and *Hyperinflation Watches* updated about every two weeks, updating general economic and financial-market circumstances as they develop.

Commentary No. 959-A (July 6th) provided flash headlines and summary details of the June 2018 Employment and Unemployment and May 2018 Construction Spending, expanded upon in today's supplemental coverage of *Commentary No. 959-B*.

Commentary No. 958 (July 3rd) covered May 2018 Construction Spending and the accompanying annual benchmarking to that series.

Commentary No. 957 (July 1st) covered May 2018 New Orders for Durable Goods and the third estimate of First-Quarter 2018 Gross Domestic Product (GDP) and the coincident second estimates of Gross National Product (GNP) and Gross Domestic Income (GDI).

Commentary No. 956 (June 27th) reviewed May 2018 Retail Sales, Industrial Production, New Residential Construction (Housing Starts and Building Permits), New- and Existing-Home Sales, along with detail on the May 2018 Cass Freight Index^(TM) and some potential twists to the pending July 27th Comprehensive Benchmark Revision to the GDP.

Commentary No. 955 (June 18th) analyzed May 2018 inflation as reported with the May 2018 Consumer and Producer Price Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* covering FOMC policy, the U.S. dollar and financial markets. Summary headline details also were provided for May Retail Sales, Industrial Production and the Cass Freight Index^(TM).

Commentary No. 954 (June 8th) reviewed the comprehensive annual benchmark revisions to the Trade Deficit, in the context of recent benchmark revisions to other major economic series and implications for the pending GDP benchmark revisions. Such also covered the headline reporting of the April 2018 headline Trade Deficit detail and an updated Consumer Liquidity Watch.

Commentary No. 953-B (June 5th) analyzed the discrepancies between the record-low headline unemployment rate and near-record-high readings of labor-market stress, in the context of extended coverage the May 2018 Employment and Unemployment and April 2018 Construction Spending, previously headlined in *No. 953-A*.

Commentary No. 953-A (June 1st) provided flash headlines and summary details of the May 2018 Employment and Unemployment and April 2018 Construction Spending, expanded upon in the supplemental coverage of *Commentary No. 953-B*. Current monetary conditions were reviewed, along with the initial estimate of annual growth in the May 2018 ShadowStats Ongoing Estimate of Money Supply M3.

Commentary No. 952 (May 30th) reviewed the second estimate of First-Quarter 2018 GDP, initial estimates of first-quarter GNP and GDI, extended detail on the annual benchmarking of the Retail Sales series, and headline coverage of the May 2018 Conference Board Help Wanted OnLine® Advertising.

Commentary No. 951 (May 25th) reviewed April 2018 New Orders of Durable Goods, in the context of the annual revisions (see prior *No. 950*), New- and Existing-Home Sales and brief coverage of the annual benchmarking of the Retail Sales series.

Commentary No. 950 (May 20th) reviewed April Retail Sales, Industrial Production, New Residential Construction (Housing Starts, Building Permits and annual revisions), the Cass Freight Index^(TM) and annual benchmark revisions to Manufacturers' Shipments, including New Orders for Durable Goods.

Commentary No. 949 (May 11th) reviewed inflation as reported with the April 2018 Consumer and Producer Price Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* on the U.S. dollar and financial markets.

Commentary No. 948 (May 9th) explored unusual circumstances with April 2018 Employment and Unemployment numbers, along with the April Conference Board Help Wanted OnLine® Advertising, April Monetary Conditions, the March Trade Deficit and Construction Spending, along with the reintroduction of Sentier Research's monthly Real Median Household Income to March 2018.

Commentary No. 947 (April 27th) detailed the first estimate of First-Quarter 2018 GDP and the related Velocity of Money, March New Orders for Durable Goods, New- and Existing-Home Sales and the "advance" estimate of the March 2018 merchandise goods deficit.

Commentary No. 946 (April 22nd) covered March 2018 Retail Sales, Industrial Production, New Residential Construction (Housing Starts and Building Permits), the Cass Freight Index^{TM} and a review of the current state of the GDP reporting and an outlook for first-quarter 2018 activity.

Commentary No. 945 (April 11th) reviewed the March 2018 Consumer and Producer Prices Indices (CPI and PPI), Real Average Weekly Earnings, along with the latest *Hyperinflation Watch* on the U.S. dollar and financial markets.

Commentary No. 944 (April 8th) covered March 2018 Employment and Unemployment, the March Conference Board Help Wanted OnLine® Advertising, March Monetary Conditions and the full February Trade Deficit and Construction Spending.

Commentary No. 943 (March 29th) covered the third-estimate of, second-revision to Fourth-Quarter 2017 GDP and the only estimates to be made in current reporting of the GDI and GDP, as well as the "advance" estimate of the February merchandise trade deficit.

Commentary No. 942-B (March 27th) reviewed the Industrial Production annual benchmark revisions, general reporting-quality issues, February 2018 New Orders for Durable Good, New- and Existing-Home Sales and the Cass Freight Index^{TM}.

Commentary No. 942-A (March 23rd) provided a very brief summary of the much more extensive details covered in *Commentary 942-B*.

Commentary No. 941 (March 19th) covered February Industrial Production and New Construction Spending (Housing Starts and Building Permits), along with a general discussion in the *Opening Comments* on economic conditions and a preview of the Industrial Production benchmark revisions.

Commentary No. 940 (March 15th) covered February 2018 Retail Sales, CPI, PPI and related Real Average Weekly Earnings, real Annual Growth in M3 and updated financial market prospects.

Commentary No. 939 (March 9th) covered the February 2018 Employment and Unemployment details, the full-reporting of the January 2018 Trade Deficit, February Conference Board Help Wanted OnLine® Advertising and February Monetary Conditions.

Commentary No. 938 (March 1st) reviewed January 2018 Construction Spending and the second estimate of Fourth-Quarter 2017 GDP.

Commentary No. 937 (February 27th) covered January 2018, New Orders for Durable, New- and Existing-Home Sales, the "advance" estimate of the January 2018 Merchandise Trade Deficit and the Cass Freight Index^{TM}.

Commentary No. 936 (February 19th) covered the January 2018 CPI and PPI, Retail Sales, Industrial Production and New Residential Construction (Housing Starts and Building Permits).

Special Commentary No. 935 (February 12th) was the first part of a three part-series reviewing economic and financial conditions of 2017 and the year-ahead, inflation and the U.S. government's balance sheet and conditions in the U.S. banking system and Federal Reserve options.

Commentary No. 934-B (February 6, 2018) provided extended coverage on the January 2018 Employment and Unemployment details, the 2017 benchmark revisions to Payroll Employment and the January annual recasting of population, along with coverage of the December 2017 Trade Deficit.

Commentary No. 934-A (February 2, 2018) provided initial detail on the January 2018 Employment and Unemployment details and the 2017 benchmark revisions to Payroll Employment, along with coverage of

January Conference Board Help Wanted OnLine® Advertising, January Monetary Conditions and December 2017 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.

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

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. 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.

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. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

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

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an "unexpected" headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Special Commentary No. 888 (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers' Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and New- and Existing-Home Sales.

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

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

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

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

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

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

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

_____