

COMMENTARY NUMBER 959-A

June 2018 Labor Conditions, May Trade Deficit

July 6, 2018

Private Labor-Market Surveying Showed Continued Retrenchment in June 2018

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

June U.3 Unemployment Rate Rose to 4.05% from 3.75% in May, Up by 0.30%; Headline Gain of 0.2% Was a Rounding Artefact of 4.0% versus 3.8%

June U.6 Unemployment Rose to 7.79% from 7.65% in May

June ShadowStats-Alternate Unemployment Rose to 21.5% from 21.4% in May

June Payroll Jobs Gained 213,000 (up by 250,000 Net of Revisions), but with Annual Growth of 1.62% Still in Recession-Signal Territory

Household Survey Lost 89,000 (-89,000) Full-Time Employed, but Gained 145,000 Part-Time Employed

May 2018 Nominal Balance-of-Payments Trade Deficit Shrank for Third-Straight Month

Second-Quarter Real Merchandise Trade Deficit Is on Track for a Sharp Narrowing

PLEASE NOTE: Subsequent to today’s “Flash Coverage” of the headline labor and trade-deficit details, an expanded Commentary will be posted on Monday, July 9th, with full coverage and analysis of June 2018 Employment and Unemployment, along with much-expanded detail of the May 2018 Trade Deficit. A Commentary on Friday, July 13th will review the June 2018 Consumer and Producer Price Indices.

[*Hyperinflation Watch - No. 1*](#), including coverage of June Monetary Conditions was published July 5th. [*Consumer Liquidity Watch No. 2*](#) was posted on June 29th and will be updated in the week ahead. The latest *Watches* are available on the [ShadowStats Web site](#) and by link from current *Commentaries*. Updates are 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.

COMMENTARY-TRANSITION UPDATE. Previously discussed, ShadowStats is transitioning to more-concise, more-frequent and more-timely publication of its *Commentaries*. All material, analysis and commentary that standardly have been covered and reviewed will continue. The full formatting transition should be completed by mid-July.

Today’s and Monday’s *Commentaries* incorporate into the regular reporting of the Labor Statistics and Trade Deficit the new formatting and structural changes needed to make the missives more concise and easier to follow, including a *Table of Contents* that links to key sections and graphs.

Your comments and suggestions always are invited.

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

Today’s (July 6th) *Opening Comments* discusses the labor numbers in the context of the June 2018 Conference Board Help-Wanted Online Advertising[®].

The *Flash Reporting Detail* reviews the headline numbers for June 2018 employment and unemployment and for the May 2018 Trade Deficit, with extended coverage following in Monday’s (July 9th) *Commentary No. 959-B*.

The *Week, Month and Year Ahead* returns with the full *Commentary No. 959-B* on Monday, July 9th.

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

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OPENING COMMENTS

Private Surveying of Labor Demand Showed Continued Weakening in June 2018

Is Payroll Growth Being Constrained by a Lack of Available Workers? Popular financial media picked up on a story yesterday that growth in payroll employment was constrained by a lack of available workers. While I have heard anecdotal evidence of that in several industries, those stories are along the lines that available workers either want more pay than is being offered, or they do not have the required skills. The market place will tend to resolve those issues with some form of wage inflation and/or offer of training. It is not that there are no potential workers out there.

If this were a wide-spread problem—and other anecdotal evidence suggests that it is not—one would expect that help-wanted advertising would be strong, with employers competing for workers against other employers. That does not appear to be happening broadly, however, where the Conference Board’s just-published survey of online help-wanted advertising in June 2018 showed month-to-month and annual declines for the second consecutive month.

June 2018 Help-Wanted Advertising Continued to Decline Month-to-Month and Year-to-Year, in Deepening Non-Expansion. The Conference Board Help-Wanted Online Advertising[®] (HWOL) for June 2018 dropped month-to-month by 3.7% (-3.7%), following a revised decline in May of 2.1% (-2.1%) [previously down by 1.1% (-1.1%)], a decline of 1.4% (-1.4%) in April, a gain of 2.2% in March and a decline of 3.8% (-3.8%) in February, while the “New Ads” subcomponent gained 2.7% in June 2018, having plunged month-to-month by a revised 7.6% (-7.6%) [previously down 7.0% (-7.0%)], after declining by 1.0% (-1.0%) in April, gaining by 0.4% in March and declining by 6.1% (-6.1%) in February. The monthly patterns have continued to be irregular, with monthly gains and losses shifting towards the negative for both series in the last twelve months. The regular plot of this series is shown in *Graph OC-1*; a subsequent, experimental/alternative historical *Graph OC-2* is shown shortly thereafter.

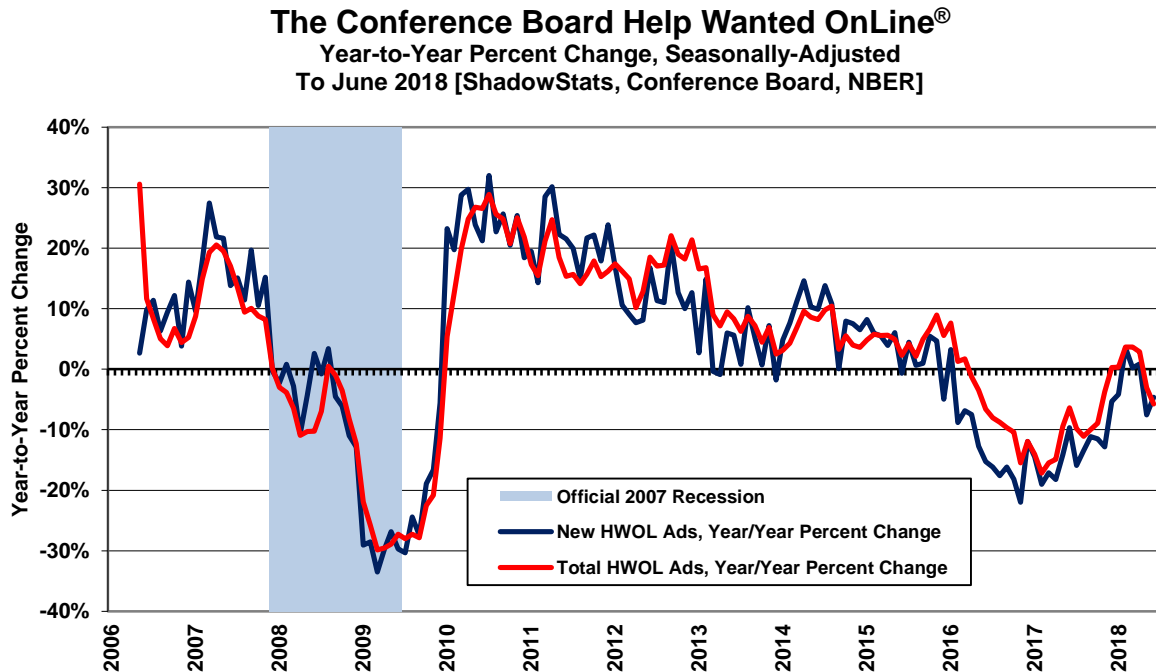
“Total Ads” showed a year-to-year decline of 5.7% (-5.7%) in June 2018, having declined by a revised 3.0% (-3.0%) [previously 2.1% (-2.1%)] in May 2018, which was the first such annual drop since November 2017. That followed annual gains of 2.9% in April 2018, 3.7% in March and February 2018, 0.4% in January 2018 and 0.3% in December 2017. A November 2017 decline of 3.7% (-3.7%) was the 20th consecutive month of year-to-year decline.

“New Ads” annual growth also declined year-to-year in June 2018, down by 4.6% (-4.6%), versus a revised May 2018 annual drop of 7.5% (-7.5%) [previously down by 6.9% (-6.9%)], having increased by

0.9% in April 2018, versus 0.2% in March 2018 and 3.6% year-to-year in February 2018, after having declined by 4.1% (-4.1%) year-to-year in January 2018, its 24th consecutive month of annual decline.

Having turned down for the year in May and June 2018, the protracted year-to-year deterioration in labor-market demand reflected in “New Ads” remains a meaningfully negative, leading indicator to broad economic activity. Against the November 2015 series peaks, May 2018 “Total Ads” were down by 21.8% (-21.8%), with “New Ads” down by 30.1% (-30.1%).

Graph OC-1: The Conference Board Help Wanted OnLine® to June 2018



Annual growth began to slow in 2010 and turned negative year-to-year in late-2015 and early-2016. The shaded area in *Graph OC-1* reflects the formal bounds of the 2007 to 2009 recession. While the HWOL held in negative annual growth territory into early-2010, beyond the formal economic trough in June 2009, keep in mind that payroll employment—traditionally a coincident economic indicator to the general economy—did not hit its cycle trough until February 2010.

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

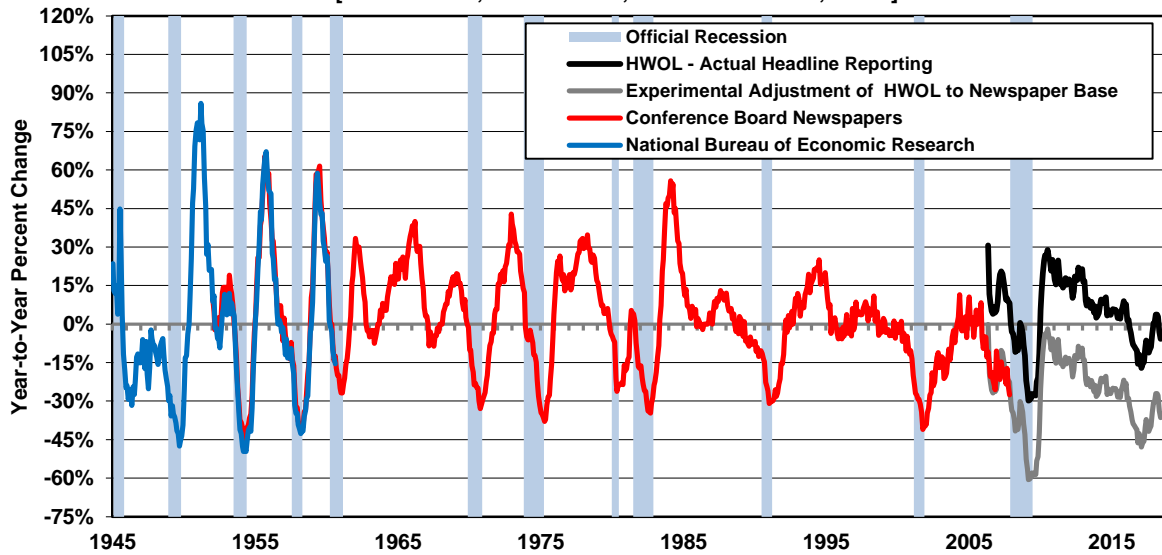
The detail of prior discussions in [Commentary No. 952](#), [No. 852](#) and [No. 820](#), has been updated for the June 2018 information. These comments and analysis remain those of ShadowStats alone, not those of The Conference Board, including the experimental *Graph OC-2*.

ShadowStats follows a number of business indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. The HWOL is one of the best, private leading-indicator measures. Before the natural-disaster (hurricanes and wildfires) economic disruptions and the related recovery boosts in the last five months of 2017, a number of major government economic indicators, including production, employment and housing and construction measures, had been showing “unexpected” weakness, or continued non-recovery/non-expansion and renewed downturn in the post-2007 economic collapse period.

The Conference Board Help Wanted OnLine® Advertising, Historical Background. [Please note: this section has been revised minimally from prior reporting, primarily for the monthly update to the experimental, comparative Graph OC-2.] The HWOL basic concept has proven itself over the last century, in the context of the closely-paralleled tallying of help-wanted advertising in newspapers. As had been noted previously, annual growth in the current on-line series tracked the economic collapse into 2009, parallel with the last of the series based on newspaper help-wanted advertising (see *Graph OC-2*).

Although the new series tracked the newspapers with parallel shifts in annual growth, the new series relative changes were at more-positive year-to-year change levels, presumably related to the change in the nature (perhaps cost or ease) of the new advertising technology (online versus printed newspaper). As to what the new series would look like, if shifted visually to match the highly correlated, prior and coincident newspaper series, consider experimental *Graph OC-2*. The current plot would be underwater, where the black line reflects the headline HWOL series and related annual growth rates for the actual series, the gray line shows that series fit to overlay the annual growth in the newspaper series. Again, this plot is an experiment of ShadowStats, not the Conference Board.

Graph OC-2: Historical Comparisons of Help-Wanted Advertising versus Economic Activity, Post World War II
Help-Wanted Advertising (Newspapers and HWOL), Yr-to-Yr % Change
Experimental Shifting of HWOL to Newspaper Base
 1945 to June 2018, Seasonally-Adjusted
 [ShadowStats, St. Louis Fed, Conference Board, NBER]



The beauty and benefit of a good leading indicator is that it provides a meaningful “advance” signal of a shift in economic activity, before that shift may become obvious in other series. Such is a particularly valuable commodity, when headline data out of the federal government increasingly are politicized and unreliable (see [Special Commentary No. 885](#), *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*).

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

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

First fully covered by ShadowStats in [Commentary No. 820](#) of July 16, 2016, the HWOL is updated here through June 2018 (released July 5th). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of Industrial Production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

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

The National Bureau of Economic Research (NBER) has published detail with the St. Louis Federal Reserve on help-wanted advertising indices back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized eventually as a formal recession, when the annual change in the index was a contraction by 15% (-15%) or more, which has happened here. Again, see *Graph OC-2* for the post-World War II era.

Since formal tracking switched to help-wanted advertising on the Internet (HWOL[®]), around 2005, seen with The Conference Board Help Wanted OnLine[®], that series has been through only one, formally-confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Again, even with a limited initial history, the new series tracked that headline downturn into 2009, directly in tandem with the final several years of surveys of newspaper help-wanted online advertising (again see *Graph OC-2*), and the HWOL[®] has broadly tracked to the downside in an environment of what appears to be a “new,” still-unfolding recession (see [Special Commentary No. 935](#)).

Considering the apparent recession signal generated by the HWOL[®], there appears to be a formal recession missing from the headline accounting by the NBER (formal arbiter of recessions), starting at the end of 2014, as indicated also by the better-quality government or Federal Reserve economic series, specifically Industrial Production (see [Commentary No. 942-B](#)), and which very easily could show up in

the pending the comprehensive GDP benchmark revisions back to 1929 on July 27th (see the *Executive Summary* of [Commentary No. 943](#) and [Commentary No. 956](#)). Again, comparing the HWOL versus the prior newspaper series suggests a downside shift in the HWOL annual-change plot to put it on a consistent basis with the prior newspaper advertising growth rates, which, again, has been published on an experimental basis in *Graph OC-2*.

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be highly valuable. As for the BLS employment and unemployment series, they still need to begin catching up with the Conference Board's higher-quality, independent leading indicator, despite the ongoing, heavy upside reporting biases deliberately structured into the BLS series and expanded anew into the January 2018 payroll-survey benchmarking. See the discussions in [Special Commentary No. 885](#), [Commentary No. 864](#) and in [Commentary No. 953-B](#)'s *Birth-Death/Bias-Factor Adjustment (BDM)* section of the *Supplemental Labor-Detail Background*.

FLASH REPORTING DETAIL

June 2018 Employment and Unemployment

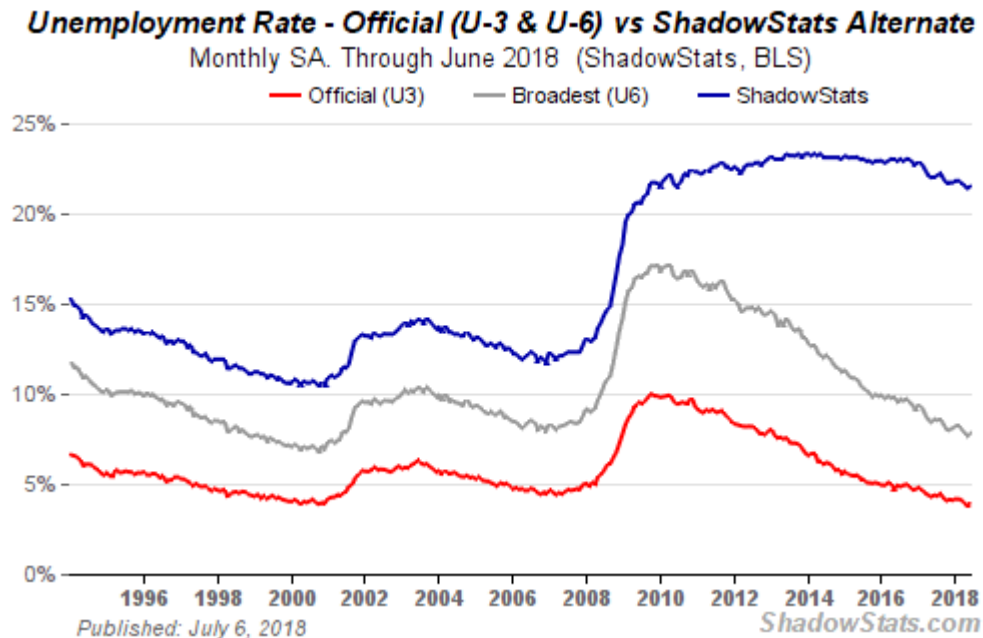
Headline Unemployment and Jobs Numbers Were Mixed, But Still Broadly Positive, Against Continuing Contradictory and Extremely-Negative Labor Market Stresses. Reported by the Bureau of Labor Statistics (BLS), today's (July 6th) headline June 2018 unemployment and employment news was varied, with unemployment rising unexpectedly, but with payroll growth topping expectations.

Unemployment. Where the headline U.3 unemployment rate had dropped to an 18-year (or a 49-year) low in May 2018, depending on the historical base used for comparison ([Commentary No. 953-A](#)), the headline unemployment rate jumped by 0.2% June 2018, an unexpected increase. Where that change was measured in single-digit decimal points of 3.8% unemployment in May 2018 versus 4.0% in June 2018, it was a straight month-to-month increase of 0.30% at the second decimal point, with 3.75% unemployment in May 2018 rising to 4.05% in June 2018.

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.

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



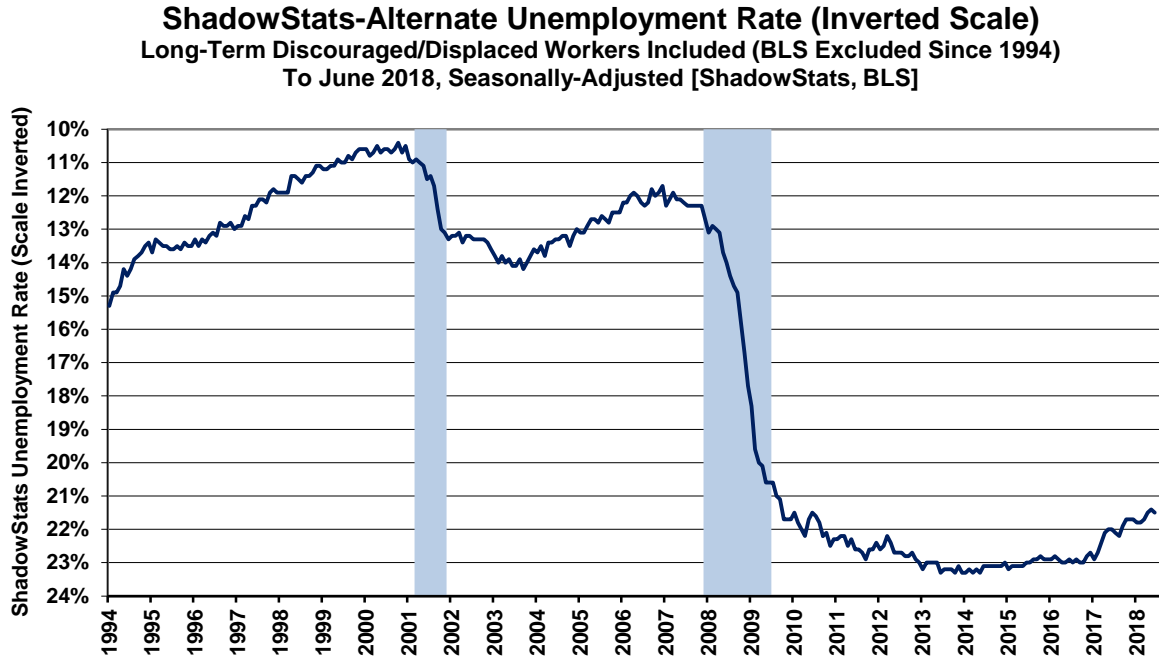
At the same time that headline U.3 employment came in at 4.05%—historically still a very low unemployment rate—underlying reality was not so rosy. Discussed and detailed in [Commentary No. 953-B](#) (June 5th) were meaningful discrepancies between the near-record-low unemployment rate and extremes of near-record-high readings of labor-market stress.

Those stress measures reflect the impact of long-term discouraged and displaced workers, who no longer are counted in the headline government numbers, but they still are included in the ShadowStats unemployment estimate. While the current headline 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%.

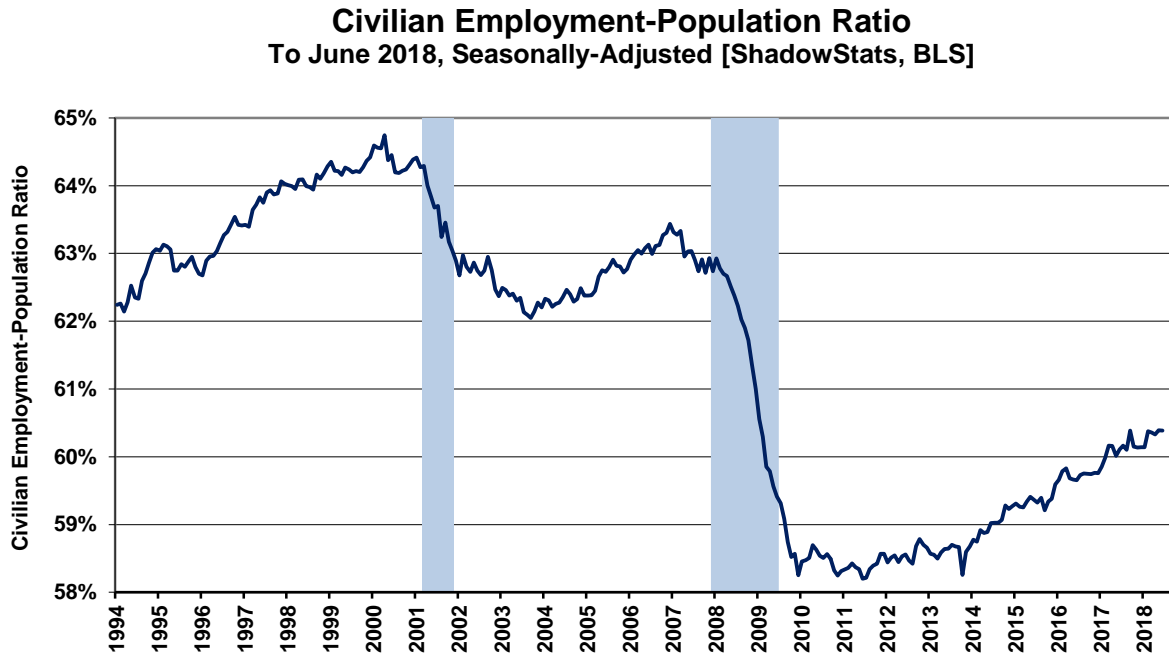
The difference is the unusually large number of discouraged and displaced workers in this cycle, not counted in the headline U.3, as well as a goodly number not included in U.6 (see definitions and detail in [Commentary No. 953-B](#), the *Supplemental Labor-Detail Background*).

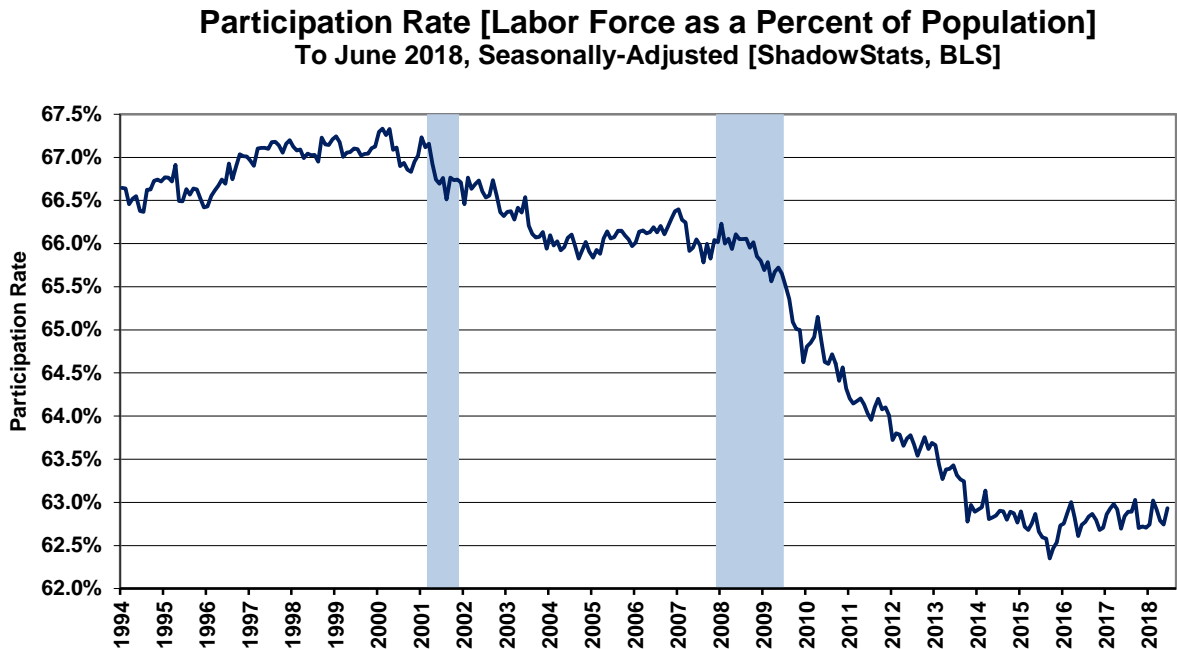
The inverted scale of the ShadowStats Alternate Unemployment Rate (*Graph 2*) is a surrogate for the magnitude of discouraged and displaced workers, who also are reflected in the accompanying *Graphs 3* and *4* of the *Civilian Employment-to-Population Ratio* and the *Labor-Force Participation Rate*.

Graph 2: Inverted-Scale — ShadowStats Alternate Unemployment Measure



Graph 3: Civilian Employment-to-Population Ratio



Graph 4: Labor-Force Participation Rate

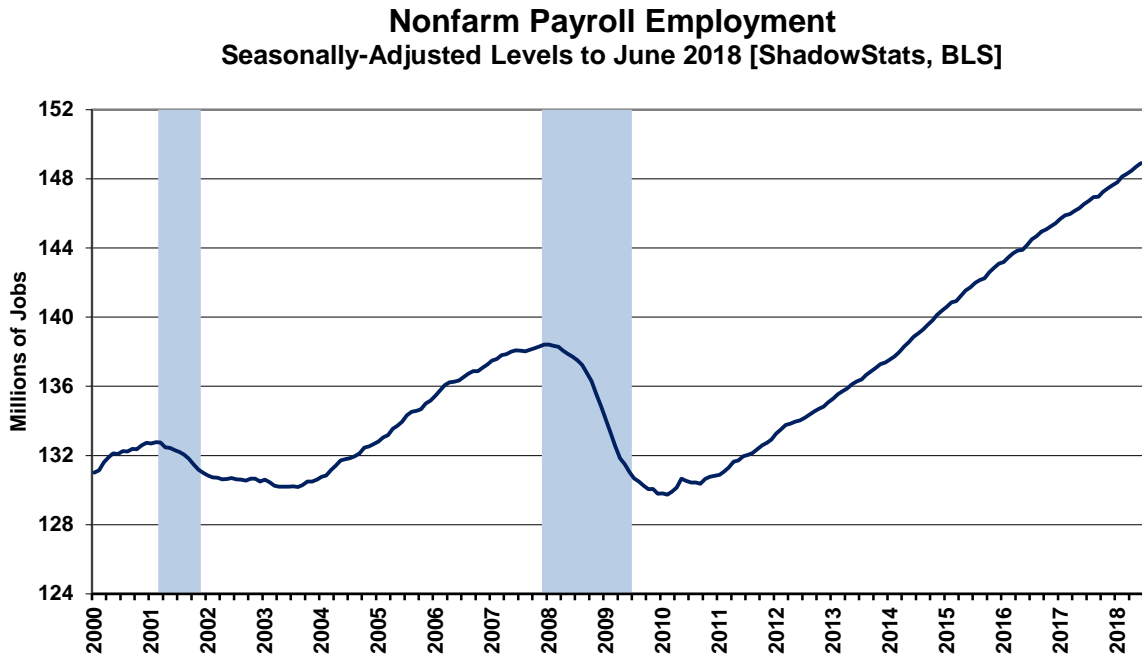
Payroll Employment. The heavily upside-biased, payroll employment jumped by 213,000 in the month, topping expectations. Yet, that was on top of upside revisions to April and May activity, and only marginally significant given the headline volatility in the series. Nonetheless, annual growth in payrolls held at 1.63%, unchanged from 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.

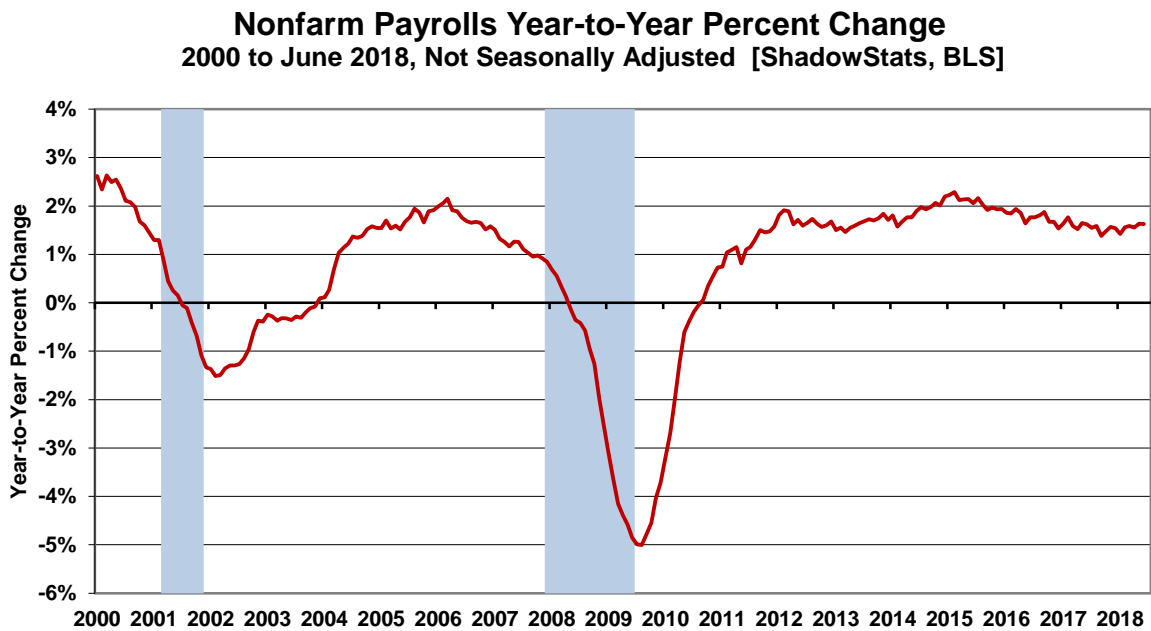
While there are a number of other differences between the Payroll and Household Surveys, such as the Payroll count excluding, and the Household count including Agriculture, the headline Payroll gain of 213,000 was against a Household Survey decline of 89,000 (-89,000) in full-time employed plus an increase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

[Graphs 5 and 6 follow on the next page]

Graph 5: Nonfarm Payroll Employment 2000 to Date



Graph 6: Payroll Employment, Year-to-Year Percent Change, 2000 to Date



May 2018 U.S. Trade Deficit

The Nominal Balance of Payments Trade Deficit Narrowed in May 2018 for the Third Consecutive Month. The Census Bureau and the Bureau of Economic Analysis reported this morning (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, and was dominated by improving exports.

Real Merchandise Trade Deficit - May 2018. Reporting detail for the Real Merchandise Trade Deficit is plotted in *Graph 7* on a quarterly basis, 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 monthly trade shortfall narrowed in each of last three months, and also against May 2017.

All the numbers here are in the context of annual benchmark revisions published last month (see [Commentary No. 954](#)). Full and extended detail on the May 2018 reporting will follow in *Commentary No. 959-B* on July 9th.

Graph 7: Benchmarked, Quarterly Real Merchandise Trade Deficit (1994-2018)

