

## **ShadowStats Flash Update No. 21**

**Payroll Benchmarking, Household Survey Population Revisions and Adjustments**

**February 11, 2020**

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**First Major Economic Benchmark Revision for 2019 Signaled  
Large Downside Revisions Pending for the GDP and Retail Sales**

**Perfect Storm: Hit by the FOMC Tightening Too Severely in 2018,  
Liquidity-Strapped Consumers Cut Retail Spending, But Full Reporting  
Was Masked by 2018/2019 Partial Government Shutdown Data Disruptions**

**Massive, Corrective Downside Payroll Employment Benchmark Revisions  
Reduced Previously Reported Annual Jobs Growth by 20% (-20%)**

**Benchmarked Jobs Count Cut by 514,000 (-514,000) in March 2019,  
By 422,000 (-422,000) in December 2019**

**Retail Employment Revised Sharply Lower, Plunging for 32-Consecutive Months;  
Year-to-Year Jobs Growth Has Been Negative in Every Month Since June 2017,  
Except for One, Which Was Flat**

**Massive, Corrective Downside Benchmark Revisions for 2018/2019  
Retail Sales and the GDP Should Follow in June and July 2020**

**Separately, Regular Year-End Census Bureau Adjustments  
Reduced the Estimated U.S. Population by 811,000 (-811,000) in January 2020**

**As a Result, December-to-January and Year-to-Year Comparisons of Headline  
Household Survey Counts Are Not Meaningful, Without Special Adjustment**

**January 2020 Headline U.3 Unemployment Rate Rose to 3.58%, from Its  
50-Year Low of 3.50% in December 2019, Otherwise Still at a 50-Year Low;  
Broader U.6 and ShadowStats Unemployment Rates Each Jumped by 0.2%**

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## Overview

### Solid Signals of a Pending GDP Downside Revision

**Reporting of the Missing 2018/2019 Recession Started to Surface in the 2019 Payroll Employment Benchmarking.** In advance of the pending *Special Bullet Edition Commentary No. 19-B*, which will put all these numbers into broad economic context, today's *Flash Update No. 21* lays out the bare bones of the first major annual benchmark revision to 2019 economic activity, that of Payroll Employment. It confirmed that much weaker-than-expected headline economic reporting and activity lies ahead, and also behind us (take a peek at *Graphs 3* and *4* on page 7 to get a sense of what is unfolding).

To be detailed in *Special Bullet Edition Commentary No. 19-B*, the economic issues here go to a terribly mismanaged Federal Reserve, which oversaw the collapse of the domestic banking system in 2007/2008, bailed out the system in manner that doomed the regular economy and most consumers to a perpetual twilight of non-recovery, and now faces a day of reckoning that does not have an easy, and most likely not a happy resolution for the current U.S. Central bank.

*January 2020 Household Survey Showed Some Uptick in Unemployment, Amidst Usual Year-End Data Machinations, As Well As New Seasonal Adjustments for the Marginally Attached Labor Force.* Aside from annual population revisions, which throw off comparability of monthly December-to-January and annual comparisons of counts of employment, unemployment, etc., the BLS generated some new seasonally adjusted numbers. Graphs comparing the impact of the new seasonally-adjusted, and former traditionally unadjusted Marginally Attached Labor Force, on headline U.6 and ShadowStats Alternate unemployment rates are plotted, the differences are negligible.

Full details follow in the week ahead, with the *Special Bullet Edition*.

New data and developments are updated as they break, in the *Daily Update* section of the [www.ShadowStats.com](http://www.ShadowStats.com) home page.

Please feel free to call any time with a question, or if you just would like to talk,

**Best Wishes -- John Williams (707) 763-5786, [johnwilliams@shadowstats.com](mailto:johnwilliams@shadowstats.com)**

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## **Payroll Employment and Annual Benchmark Revisions**

### **FOMC Actions in 2018 Weakened Consumer Liquidity**

### **Consumers Cut Back Their Spending in the 2018/2019 Holiday Season**

### **Government-Shutdown Economic Surveys Missed the Bulk of What Happened**

### **Payroll Employment Benchmarking Picked It Up**

**January 2020 Downside Benchmark Revisions Knocked 514,000 (-514,000) off the Level of Payroll Jobs in the Benchmark Month of March 2019.** The downside Payroll Jobs loss still was 422,000 (-422,000) as of December 2019, hitting the Consumer Sector hard, as reported February 7th by the Bureau of Labor Statistics (BLS).

*The “Nonexistent” 2018/2019 Recession Has Started to Surface.* The 2019 annual Payroll Benchmark Revision is the first major indicator to give some headline support to likely pending “negative” revisions to other major industry series, including Manufacturing and Industrial Production, Retail Sales, the Trade Deficit, Construction Spending and Major Services areas, all currently artifacts of the 2018/2019 Partial Government shutdown, which disrupted many elements of the Federal Government, specifically including data gathering, surveying and reporting by the Commerce Department (including the Census Bureau and the Bureau of Economic Analysis).

What has started to unfold was discussed and previewed in [\*Special Commentary No. 985\*](#). A number of key benchmarkings likely will follow through June, with the ultimate GDP benchmarking on July 30, 2020. It is my expectation that an unfolding formal recession, timed from Fourth-Quarter (November) 2018, will become evident in that process. Again, a full review of this circumstance follows in pending *Special Bullet Edition Commentary No. 19-B*.

**2019 Payroll Net Downside Benchmark Revisions Were Dominated by Retail Sales.** *Graphs 1 to 12* plot the headline benchmark revisions in terms of level and year-to-year change, for the Aggregate Payroll series, both before and after revisions, for Retail Sales and for the two major Retail Sales component series of Retail Trade, and Leisure and Holiday. The longer-term Payroll *Graphs 13 and 14* plot only the new headline values.

Retail Trade and Leisure and Hospitality Employment largely comprise the Retail Sales Series, where headline nominal Retail Sales were \$6.238 trillion in 2019, 29.1% of the headline nominal \$21.429 trillion Gross Domestic Product (GDP) in 2019, both headline series are before pending annual benchmark revisions later this year. The schedule for the Retail Sales benchmarking has not yet been announced, but it will precede and be incorporated into the annual GDP benchmarking of July 30th. Last year the shutdown disrupted Retail Sales Benchmarking was June 25th.

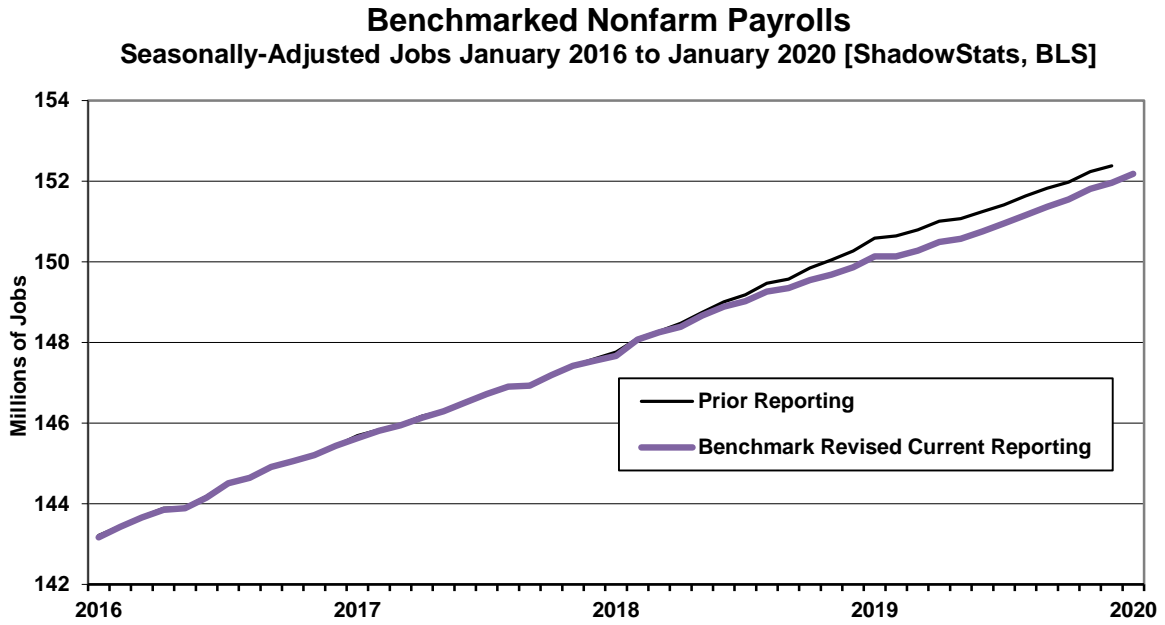
Together Retail Trade and Leisure and Holiday Payrolls accounted for 66.7% of the net downside, seasonally adjusted annual benchmarking to the March 2019 Payroll Employment of 514,000 (-514,000) jobs, so the plots here tell only part of the story.

Plotted in *Graphs 3* and *4*, the Retail Trade series probably is the most dramatic with its fall off in activity, but the general patterns are seen broadly in the system. Post-benchmarking, the series has seen 32-consecutive months of year-to-year decline, going into January 2020, with one exception, where the annual growth was flat.

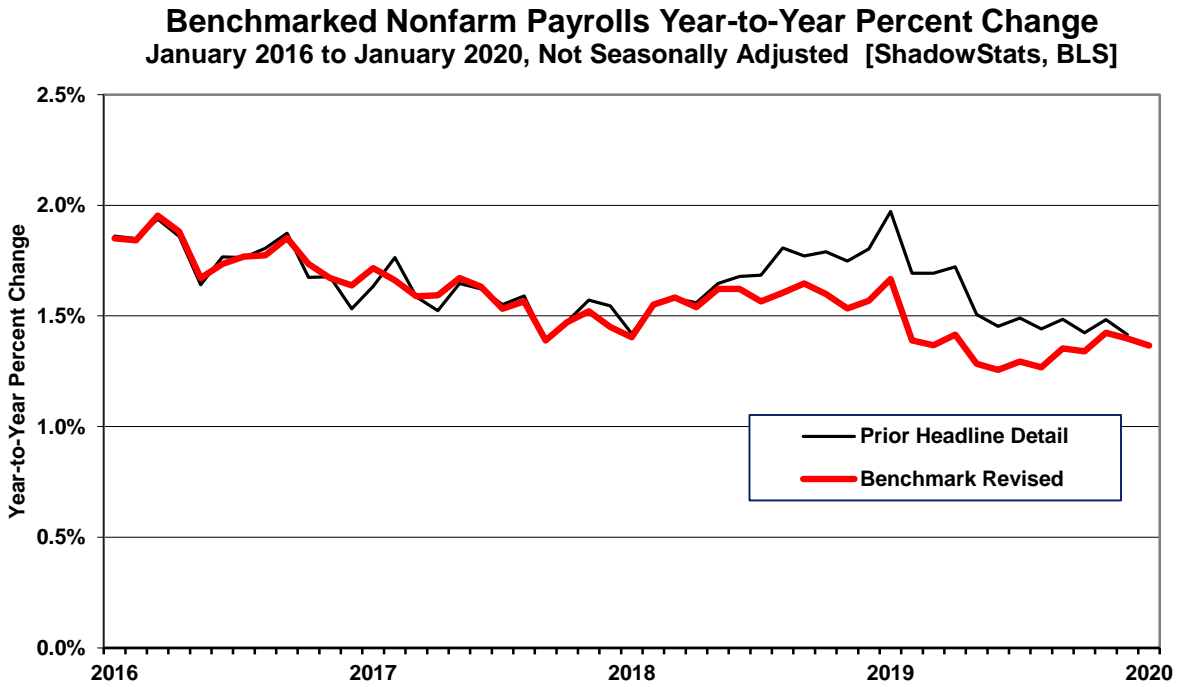
The Retail Sales series surveying, calculations and reporting all were heavily distorted by the Partial Shutdown of the Federal Government and much of the Census Bureau (Retail Sales) and the Bureau of Economic Analysis (GDP), all of the Department of Commerce, during December 2018/January 2019, with major distortions and disruptions in many subsequent months.

**[Graphs 1 to 14 begin on the next page.]**

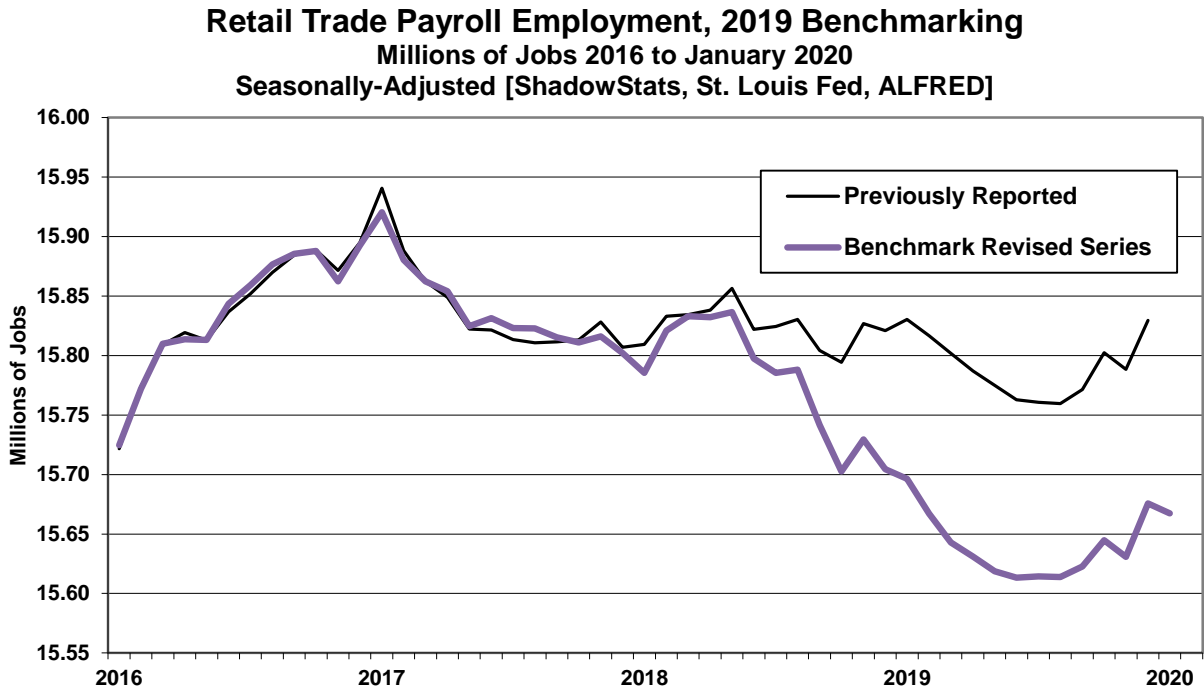
**Graph 1: 2019 Payroll Employment Benchmarking (2016 to 2020)**



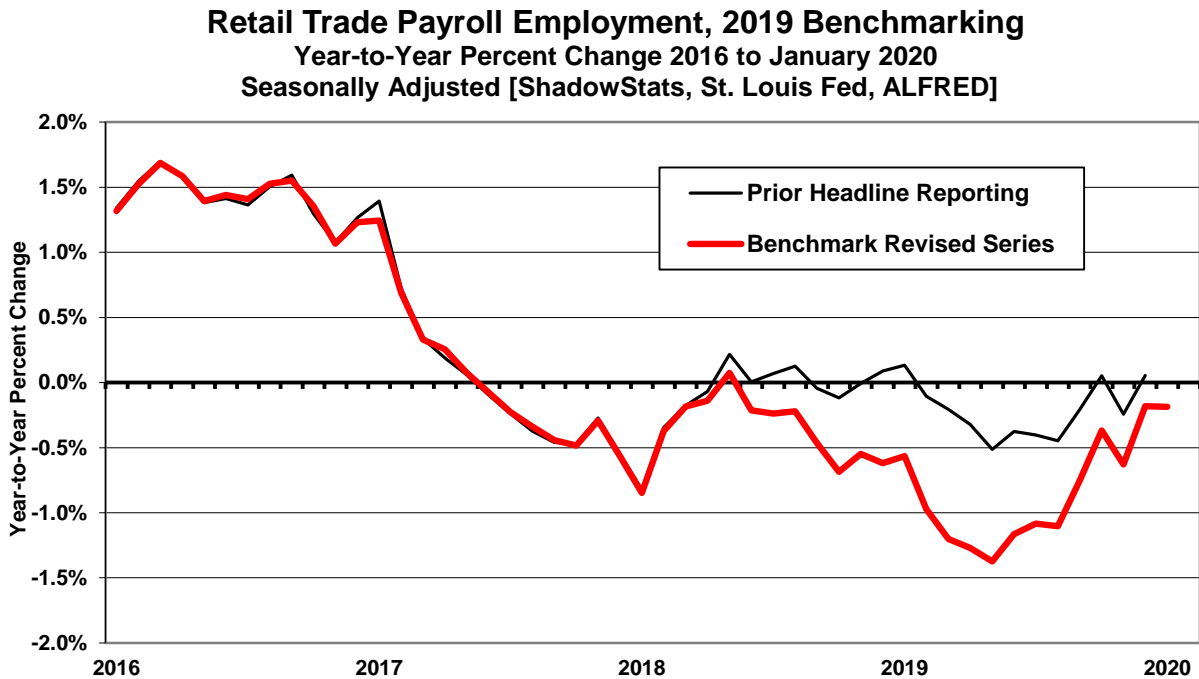
**Graph 2: 2019 Payroll Employment Benchmarking, Year-to-Year Change (2016 to 2020)**



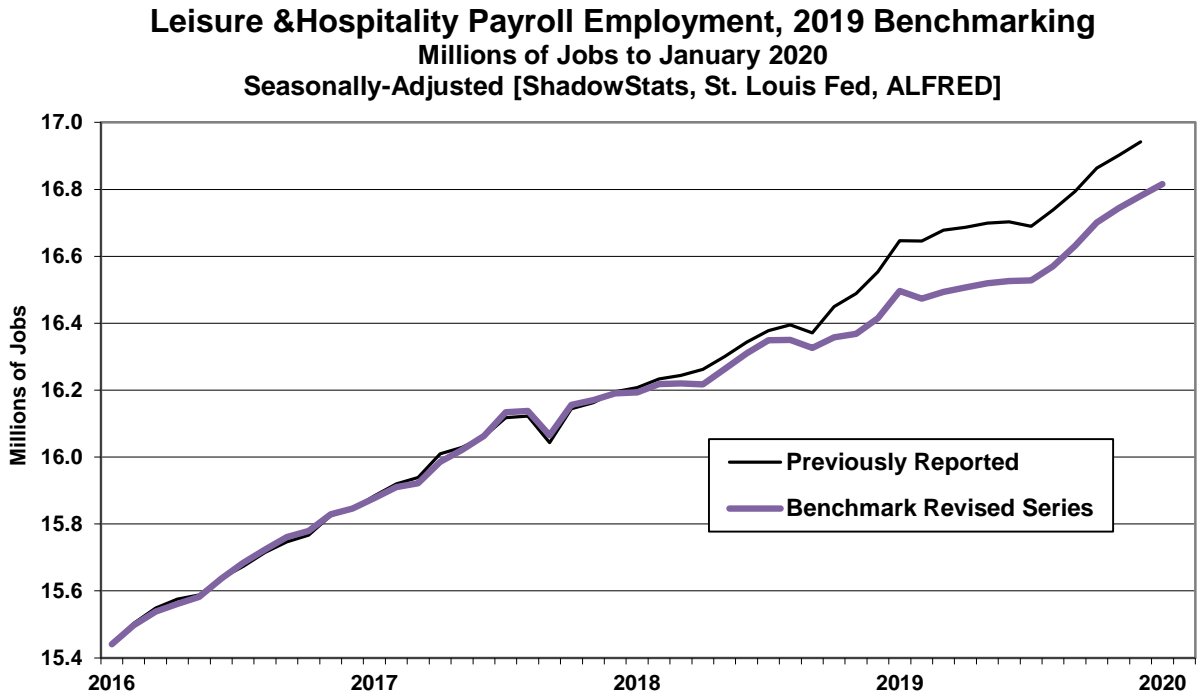
**Graph 3: Retail Trade Payrolls Benchmarking (2016 to 2020)**



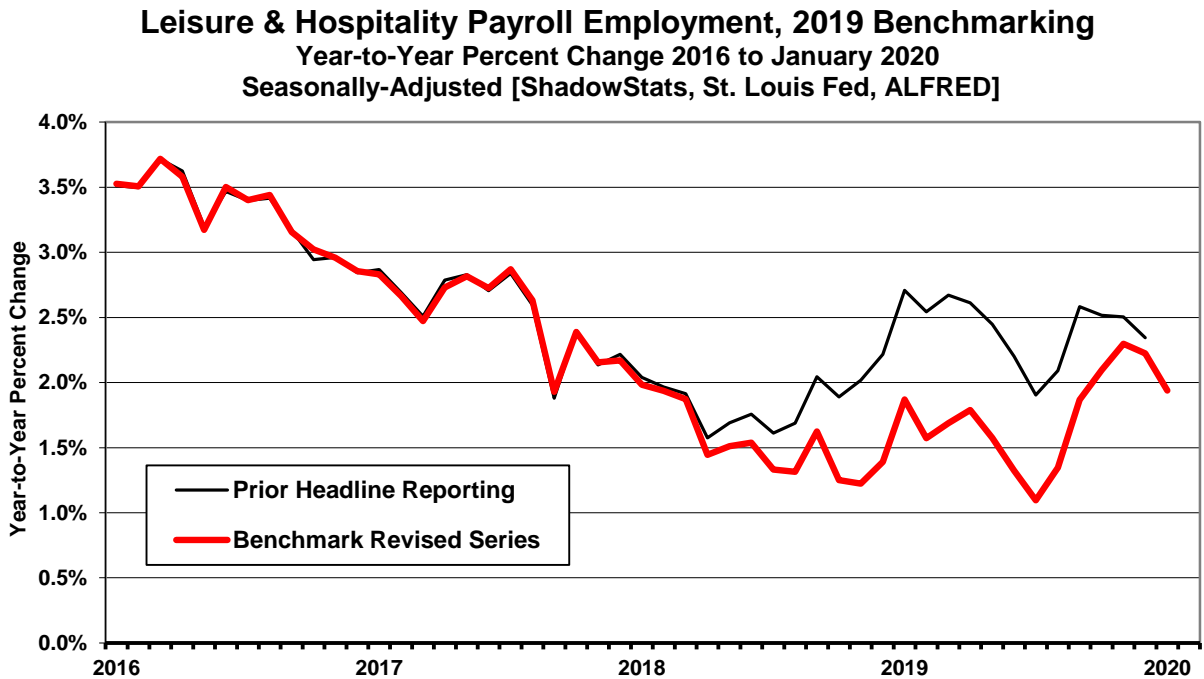
**Graph 4: Retail Trade Payrolls Benchmarking, Year-to-Year Change (2016 to 2020)**



**Graph 5: Leisure and Hospitality Payrolls Benchmarking (2016 to 2020)**

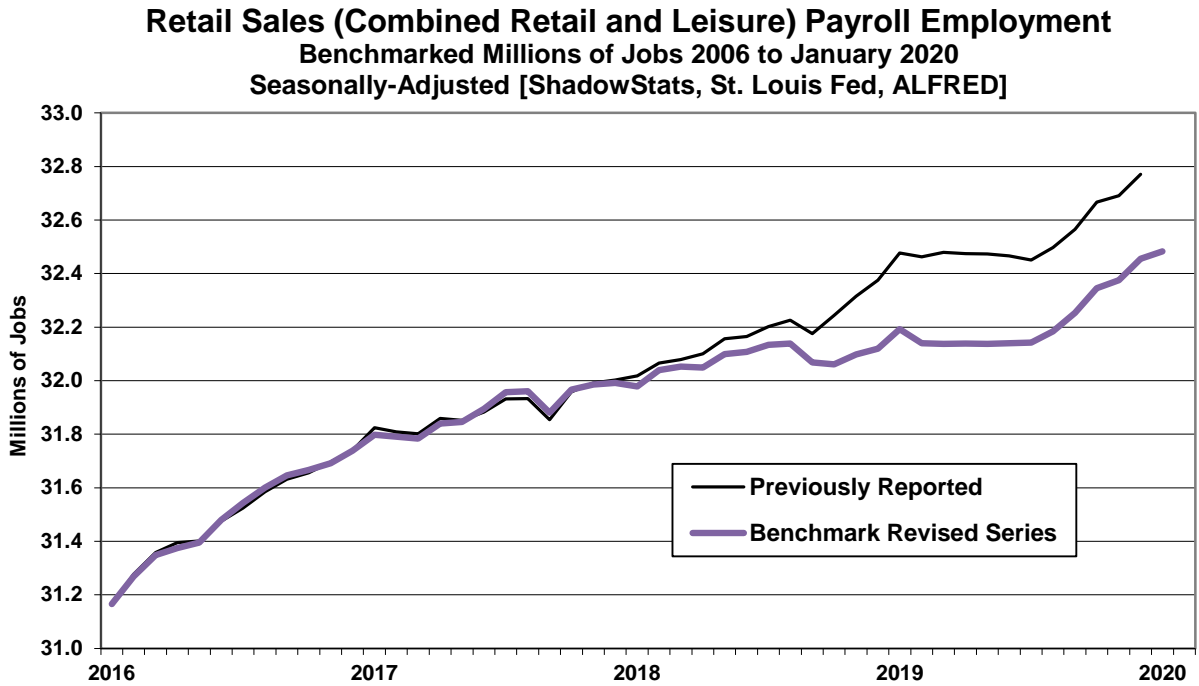


**Graph 6: Leisure and Hospitality Payrolls Benchmarking, Year-to-Year Change (2016 to 2020)**

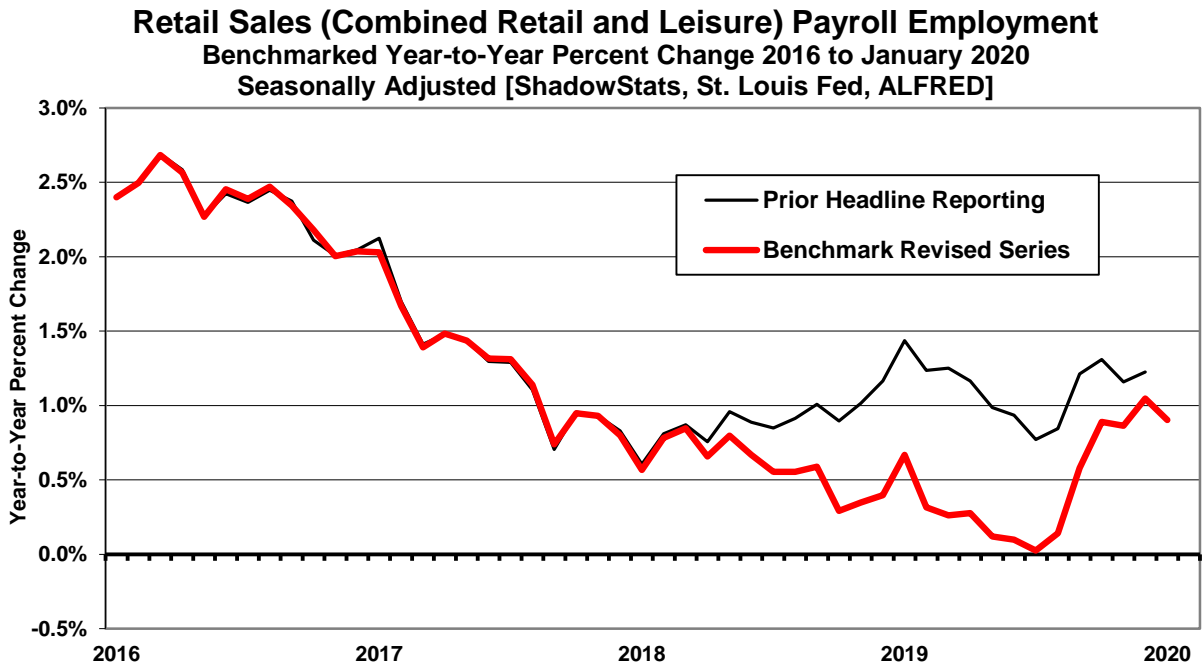




**Graph 7: Retail Sales Employment (Combined Retail and Leisure & Hospitality) Benchmarking (2016 to 2020)**

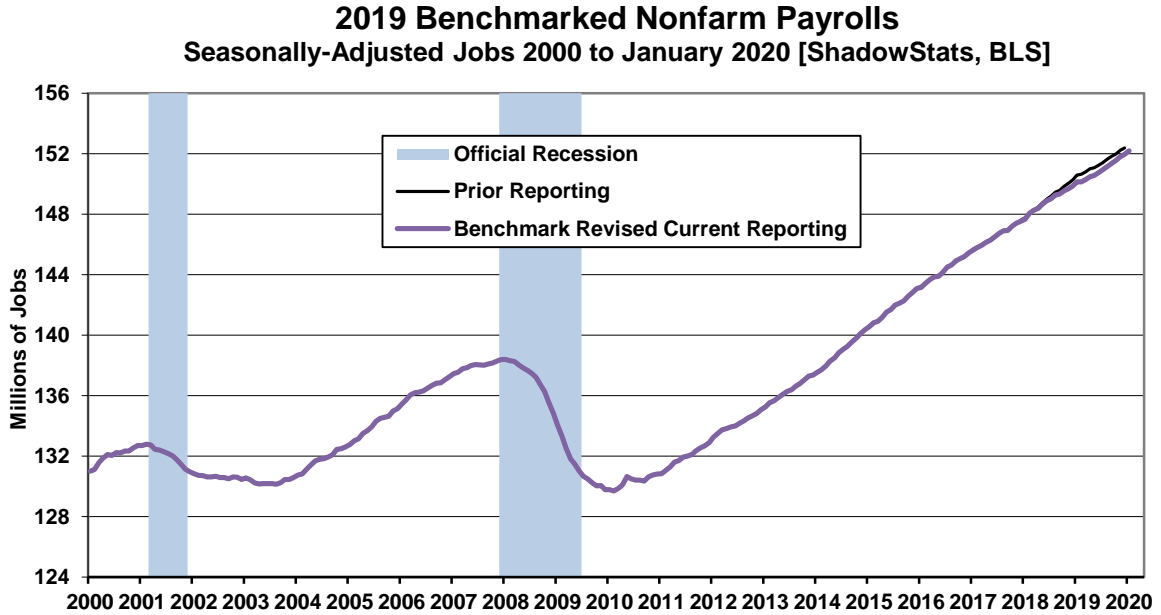


**Graph 8: Retail Sales Employment (Combined Retail and Leisure) Yr-to-Yr Benchmarking (2016 to 2020)**

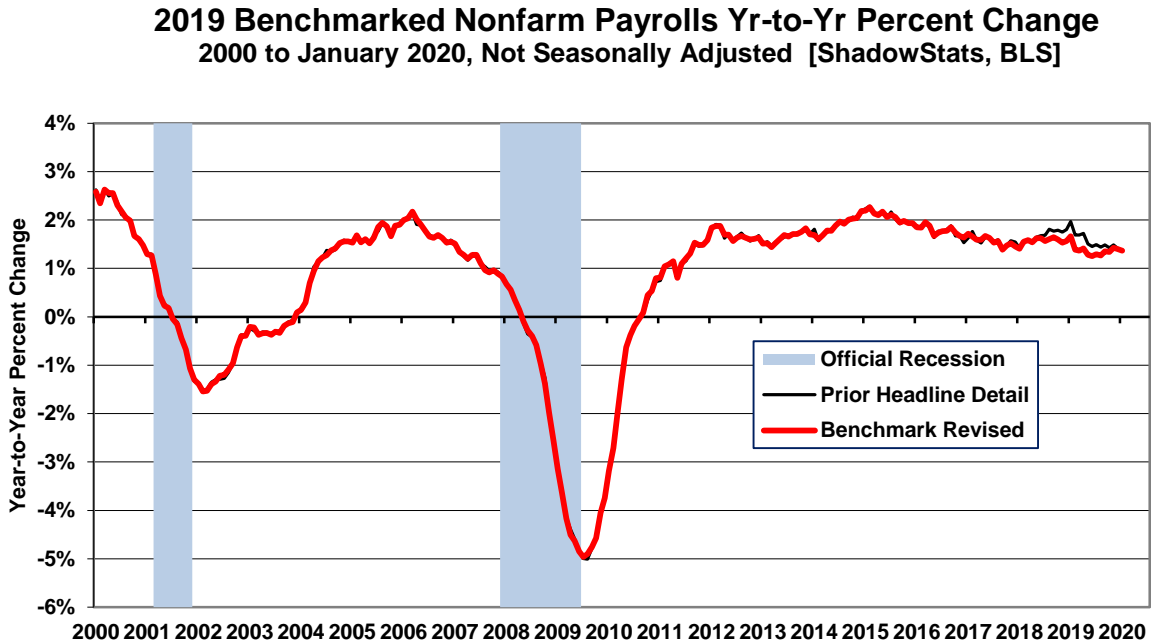


### Looking at a Slightly Longer-Term Perspective (*Graphs 9 to 12*)

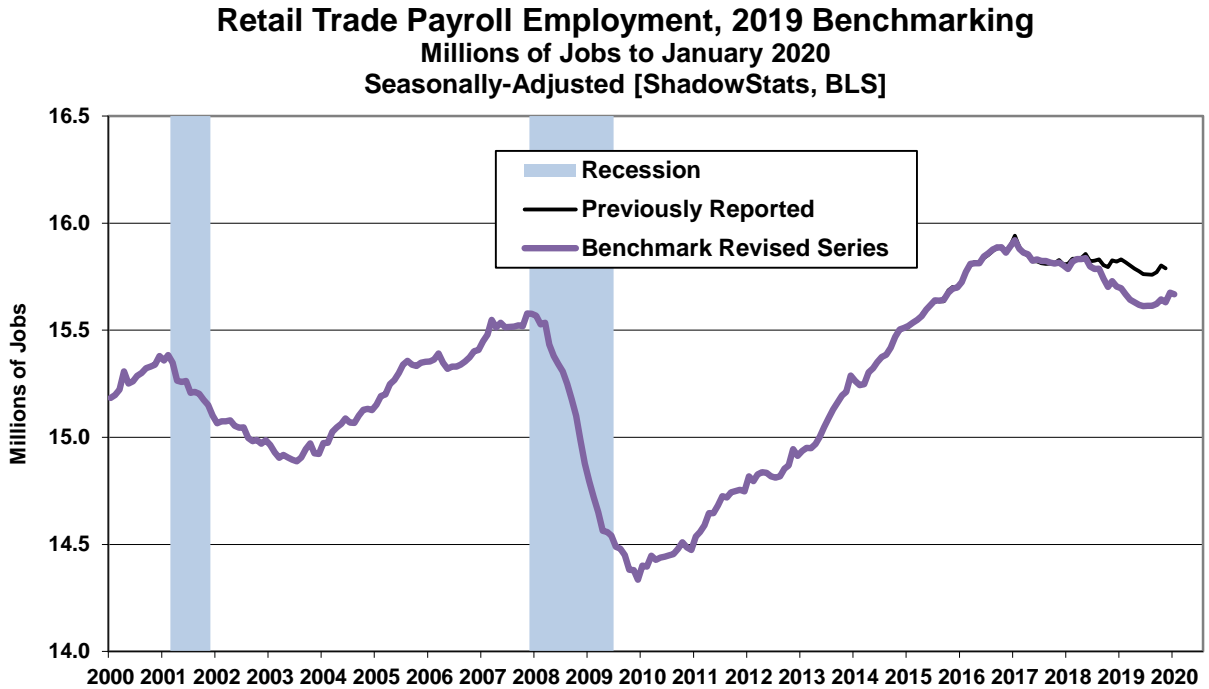
**Graph 9: Nonfarm Payrolls Benchmarking (2000 to 2020)**



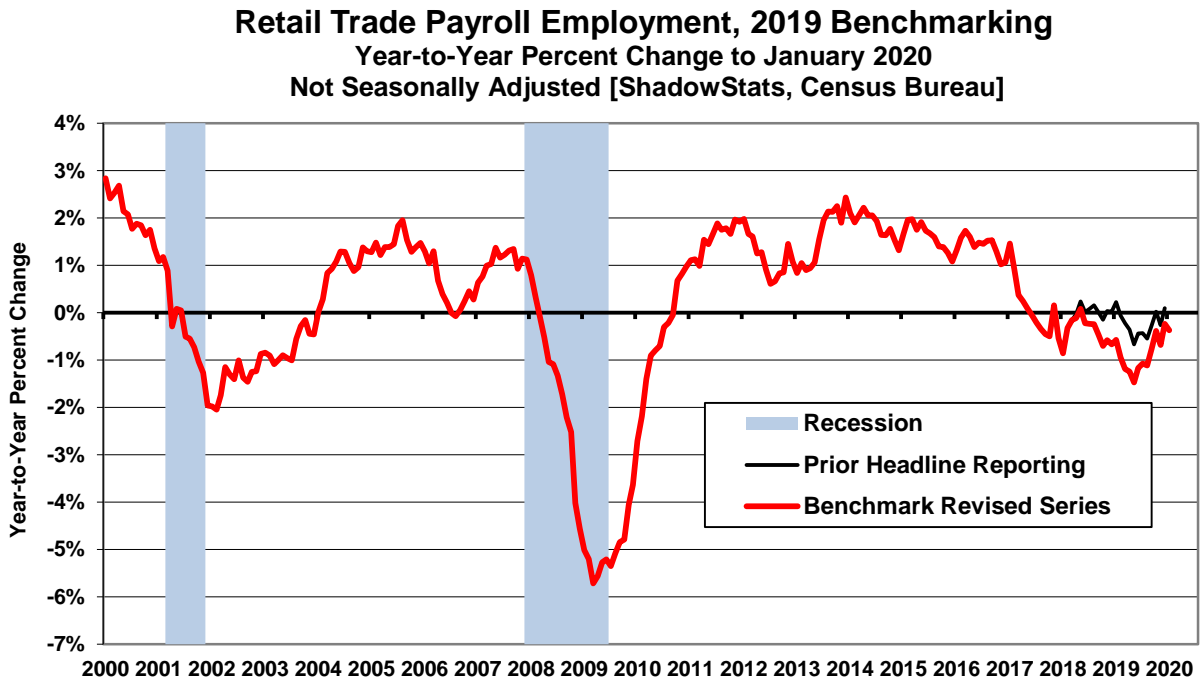
**Graph 10: Nonfarm Payrolls Benchmarking, Year-to-Year Change (2000 to 2020)**



**Graph 11: Retail Trade Payrolls Benchmarking (2000 to 2020)**

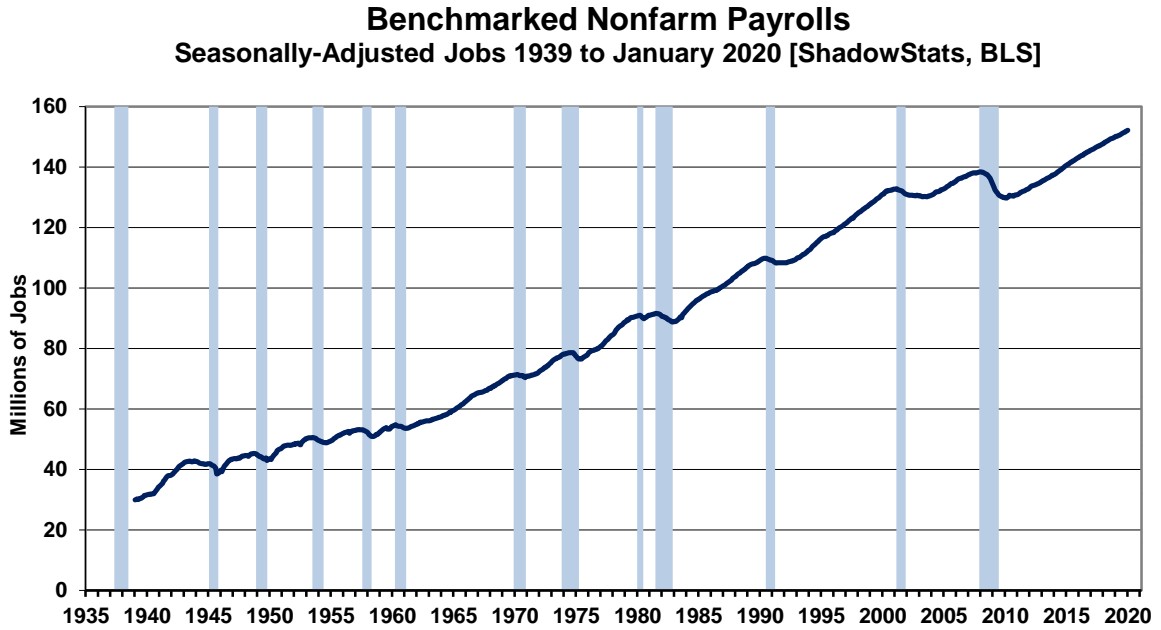


**Graph 12: Retail Trade Payrolls Benchmarking, Year-to-Year Change (2000 to 2019)**

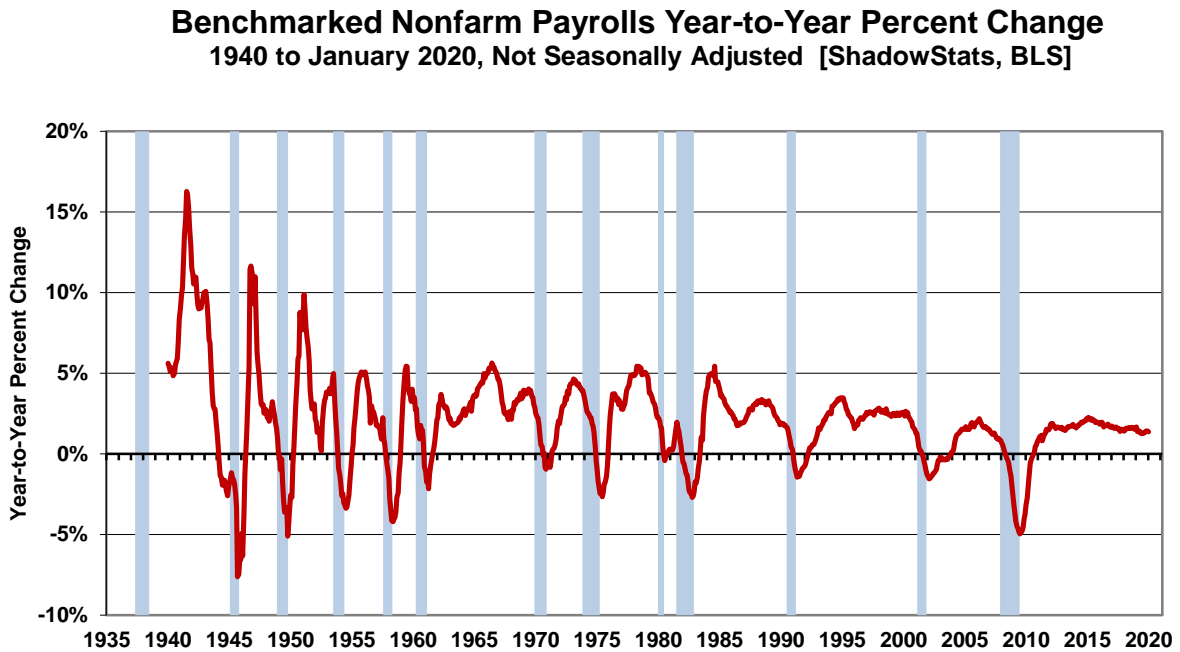


### The Full Historical Series

**Graph 13: Nonfarm Payrolls (1939 to 2019)**



**Graph 14: Nonfarm Payrolls, Year-to-Year Change (1940 to 2020)**



## Household Survey Employment and Unemployment

### Downside Population Revisions Distorted Some Numbers

#### Marginally Attached Labor Force Adjustments Generated Minimal Revisions

#### Current Labor-Market Stresses Are Common to Recessions, Not to Low Unemployment

**The Census Bureau Just Knocked 811,000 (-811,000) People off the U.S. Population.** In its annual guesstimates, the Census Bureau (Bureau of Labor Statistics – BLS) corrects its year-end Civilian Noninstitutional Population estimate, which determines the counting base used for the number of Household Survey employed and unemployed, all of which are revised proportionately. As a result, none of the counts (i.e. the number employed or unemployed) in the Household Survey data are comparable December-to-January or year-to-year, unless specially calculated. Such likely helped the highly touted headline boost in the seasonally-adjusted Participation Rate (Labor Force/Population stress measure) from 63.2% to 63.4%, despite BLS protestations to the contrary. Where the Population never is seasonally adjusted, the unadjusted Participation Rate was unchanged at 63.0% using the unadjusted Labor Force. It rose though by 0.2%, however, using the seasonally adjusted Labor Force against the unadjusted, parallel reduction in Population. As an aside, the populations have no effect on the completely separate Payroll Benchmark Revisions.

**Minimal Changes to Headline Unemployment Rates from Seasonal Adjustments to the Marginally Attached Labor Force and Current Headline Discouraged Workers.** Effective with the February 7th release of the January 2020 Household Survey, the BLS also revised its traditional headline reporting of its broader U.6 Unemployment Measure (the headline U.3 Unemployment Measure plus accounting for those marginally-attached to the labor-force, including discouraged workers [although not those discouraged for more than twelve months]). Previously the marginally attached were not seasonally-adjusted in U.6, but they are now in the new series.

Riding on top of U.6, the January 2020 ShadowStats Alternate Unemployment Estimate includes an estimate of long-term displaced/discouraged workers no longer counted by the BLS, an estimate that is not subject to seasonal variation and adjustment. Long-term discouraged workers used in the ShadowStats' measure, by their nature, do have meaningful seasonal variations and, accordingly, are not adjusted. That said, the ShadowStats Alternate estimate has been altered so as to incorporate the new fully-adjusted U.6 Unemployment Measure.

The reporting differences in the U.6 and ShadowStats' series from the definitional change are negligible, with no more than a 0.1% revision in a given month's unemployment rate, since the creation of the

current unemployment series in 1994. The new fully-seasonally-adjusted U.6 and ShadowStats series, and the prior version, are plotted respectively in *Graphs 15* and *16*. The new historical data base is available on the [Alternate Data Tab](#) of [www.shadowstats.com](http://www.shadowstats.com); the prior historical series is available upon request (e-mail: [johnwilliams@shadowstats.com](mailto:johnwilliams@shadowstats.com)).

***Headline U.3 Unemployment jumped from its 50-year low of 3.50% Low to 3.58%, Otherwise Still at a 50-Year Low and a Theoretical Economic Boom, While Broader Unemployment Jumped 0.2%.***

January 2020 U.3 Unemployment rose to 3.58% from an unrevised 3.50% in December 2019. Broader than U.3, January 2020 U.6 Unemployment widened to 6.88% from a recast 6.71% (previously 6.72%) in December 2019. Riding on top of U.6, the January 2020 ShadowStats Alternate Unemployment Estimate includes a tally of long-term displaced/discouraged workers no longer counted by the BLS, an estimate that is not subject to seasonal variation and adjustment. With the underpinnings of U.3 and U.6, the ShadowStats Alternate rose to 21.0% from an unrevised 20.8% in December 2019.

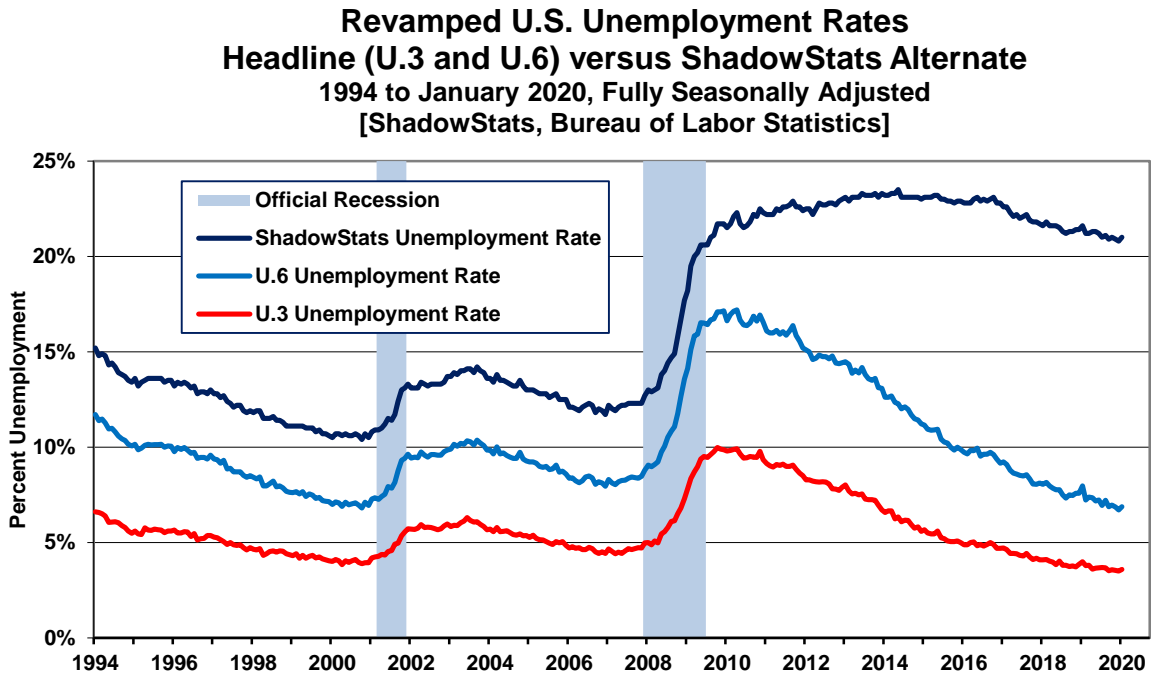
**Historic-Low Unemployment Continues at Odds With Intense Labor-Market Stress.** Once again, the historically low January U.3 unemployment at 3.58% (see *Graph 15*) was consistent with an economic boom, yet high levels of employment stress and a headline ShadowStats Alternate Unemployment Measure of 21.0% signal an Economy that remains in serious trouble, never having recovered fully from the Great Recession. As discussed in the *Payroll Employment* section, 2019 Payroll Benchmark Revisions signaled an intensifying economic downturn, with major downside benchmark revisions looming for the GDP and the Retail Sales, in the consumer sector of the economy.

As seasonally adjusted, January 2020 U.3 Unemployment notched higher to 3.58% (a rounded 3.6%), from its 50-year historic low of 3.50% in December 2019. Aside from the lower headline U.3 Unemployment Rates in the last several months, the January 2020 U.3 still is at a 50-year low.

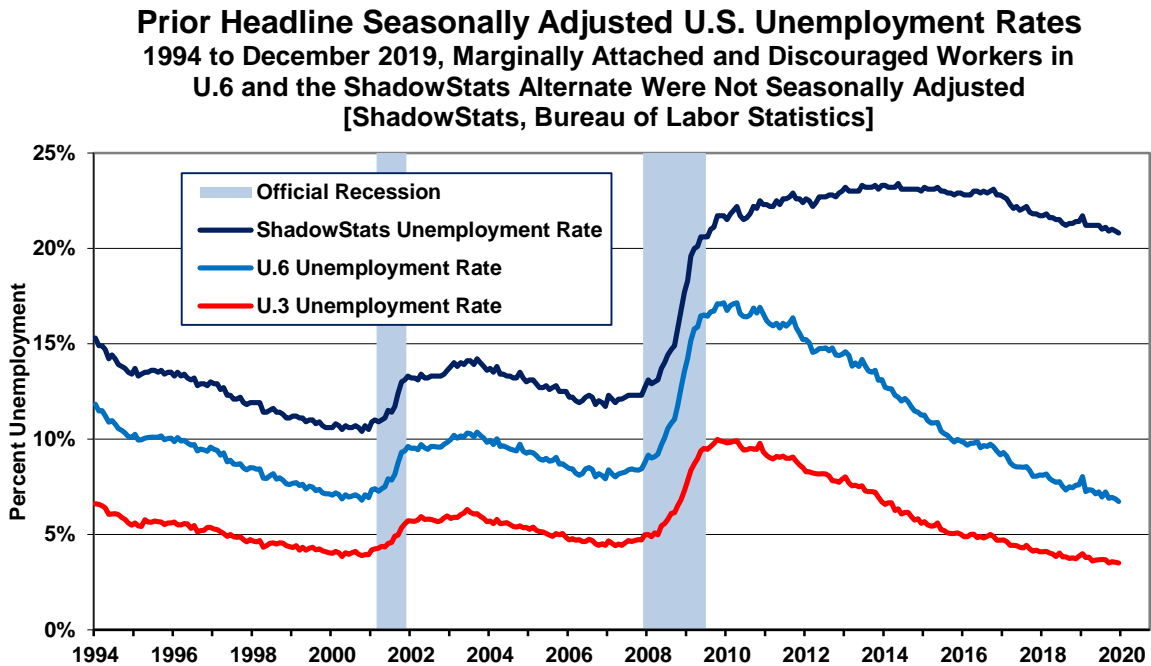
In contrast, contrary to the upside notch in headline unemployment, extreme readings of labor–market stress improved slightly in January 2020, with the Employment-Population Ratio of 61.16% in January, up from 61.04% in December, and the January Participation Rate of 63.43%, up from 63.25% in December, although still consistent with an ongoing recession. Those historical patterns of labor stress (*Graphs 17* and *19*) also were more consistent with the inverted-scale plot of ShadowStats Alternate 21.0% unemployment rate in *Graph 18* than with the historically low, headline U.3 headline 3.58% unemployment in *Graph 20*,

The major issue with the current, historically low U.3 headline unemployment rate remains that it still runs counter to Labor-Market Stress measures, such as the Employment-Population Ratio (*Graph 17*) and Participation Rate (*Graph 19*), which continue to hold at levels consistent with a recession. Under normal economic circumstances, the high levels of employment stress seen at present, usually would be consistent with high levels of unemployment and recession, not at record low unemployment, as seen in the comparative inverted-scale *Graph 21* of the headline U.3 unemployment rate, versus *Graph 18* of the inverted-scale, high-level “recessionary” ShadowStats Alternate unemployment measure.

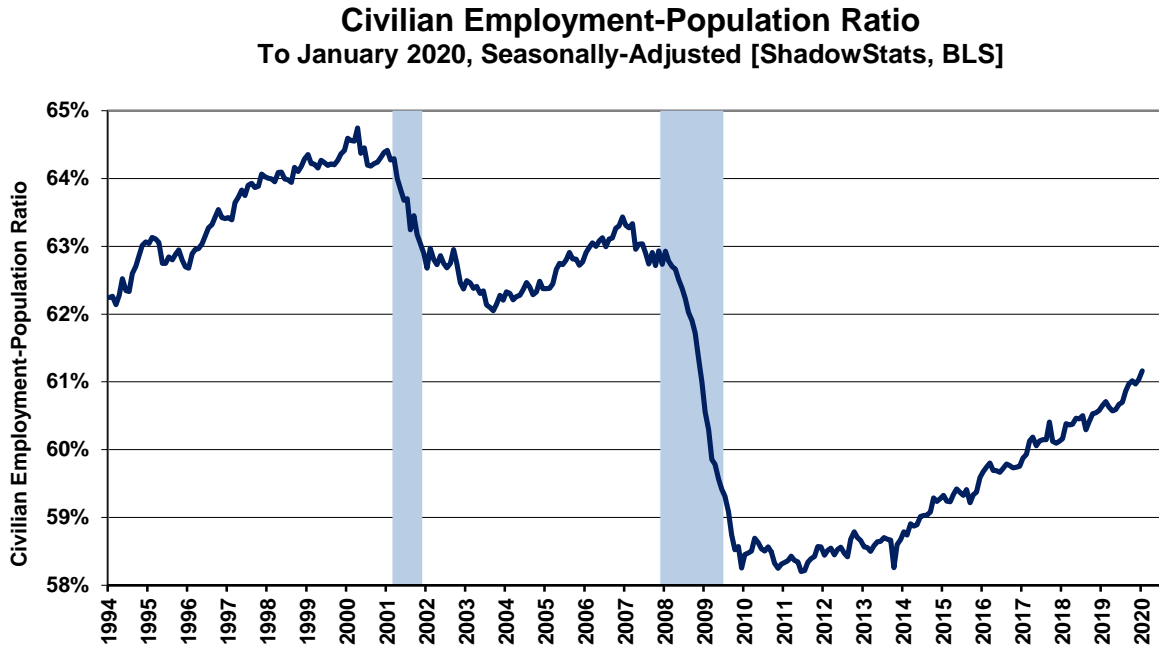
**Graph 15: New, Fully Seasonally Adjusted Headline Unemployment Rates (1994 to January 2020)**



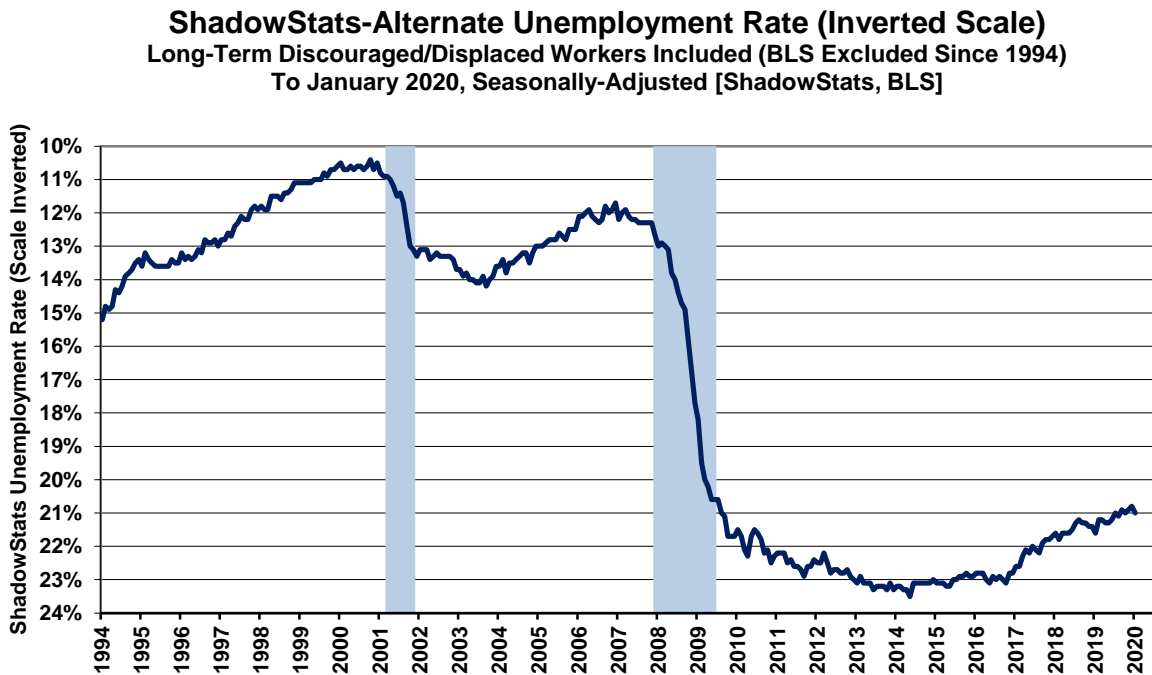
**Graph 16: Prior "Adjusted" Unemployment ("Marginally-Attached Workers" Unadjusted in U.6 and ShadowStats)**



**Graph 17: Civilian Employment-Population Ratio, January 1994 to January 2020**

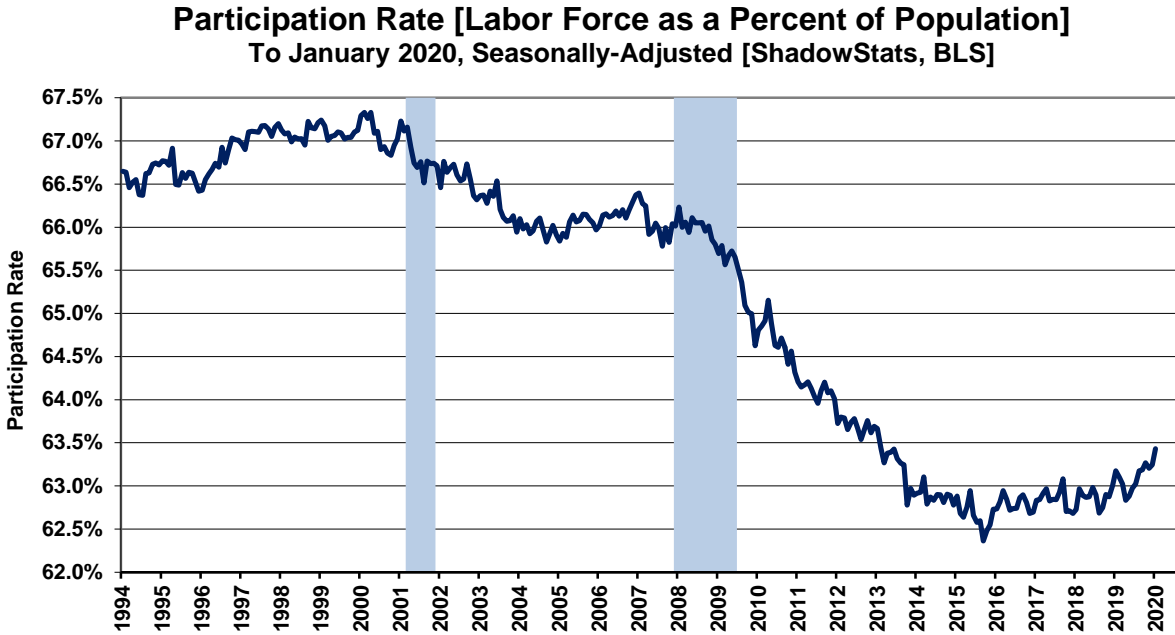


**Graph 18: ShadowStats-Alternate Unemployment Rate, Inverted Scale, January 1994 to January 2020**

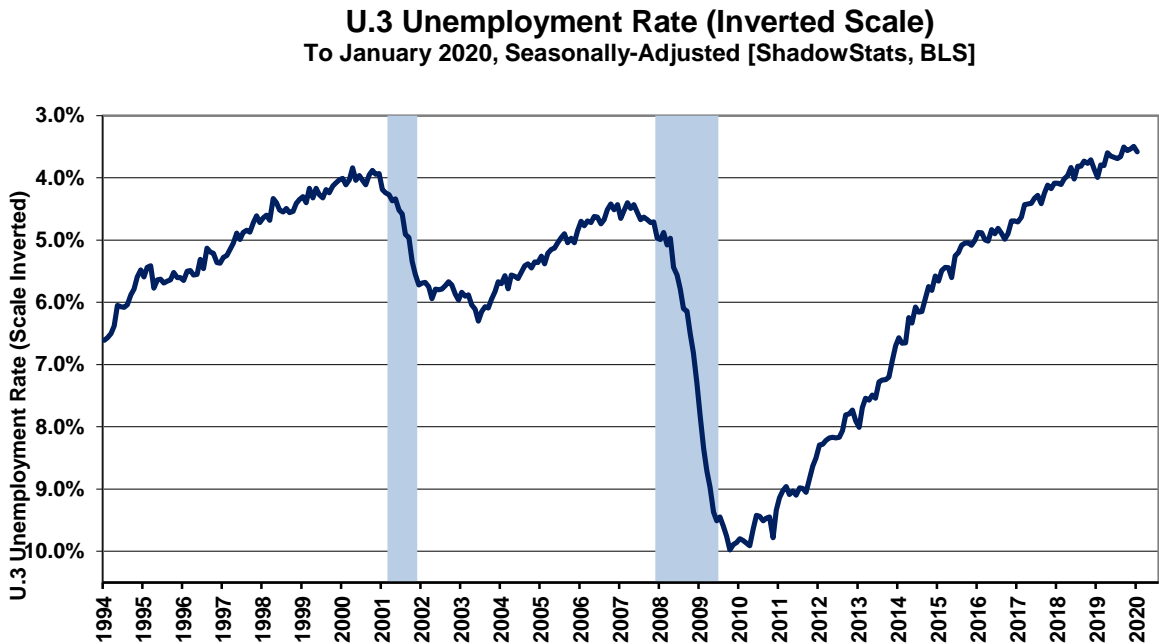




**Graph 19: Headline Participation Rate, January 1994 to January 2020**



**Graph 20: Headline U.3 Unemployment Rate, Inverted Scale, January 1994 to January 2020**



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