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

ShadowStats Flash Update No. 10

September 2019 Labor Data, Money Supply, August Trade Deficit

October 5, 2019

U.S. Economy Remains in an Intensifying Downturn

Despite Headline Unemployment at a 50-Year Low of 3.52%, Broader Unemployment Measures and Employment Stress Levels Still Signal Deep Recession

September Payrolls Gained 136,000 (181,000 Net of Revisions), While Year-to-Year Payroll Growth Held at a Low of 1.4%, Last Seen Going Into and Coming Out of the Great Recession

August Trade Deficit Widened, With Negligible Impact on Third-Quarter GDP Outlook

October FOMC Meeting Should See a 50-Basis-Point Rate Cut and Renewed Quantitative Easing

September Money Supply M3 Annual Growth Jumped to a 10-Year High

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Contents – Flash Update No. 10

Note to Subscribers: Today's ***Flash Update No. 10*** reviews key elements of yesterday's (October 4th) headline reporting of September 2019 Money Supply, September 2019 labor and employment conditions (including intensifying, negative trends in broad U.S. economic activity and in continuing levels of labor-market stress) and the August 2019 Trade Deficit.

Today's opening headlines cover yesterday's reporting and touch upon areas that will be covered extensively in the long-delayed ***Commentary No. 985-A*** and ***Commentary No. 985-B***, both of which should be posted in the week ahead. Areas reviewed in ***No. 985-A*** include:

(1) Updated and extended broad U.S. economic coverage including recent and pending economic benchmark revisions, which generally will or have shown weaker headline data than previously reported.
(2) Implications of still-unfolding headline disruptions and distortions from the December 2018/ January 2019 partial government shutdown that continue to surface, including major benchmark revisions missed due to federal budget delayed publication of the 2017 Five-Year U.S. Economic Census, against which nearly all major domestic series are benchmarked. Initial Census numbers have just been released, and indications are for major downside revisions to series such as Industrial Production.
(3) ShadowStats' expectations as to how the headline recognition and reporting of the deepening and still unfolding recession likely will unfold, as to timing.

Areas covered in ***No. 985-B*** include:

(4) An updated assessment of still badly needed, intensified Federal Reserve accommodation through its Federal Open Market Committee (FOMC) on October 30th, and in the months and year ahead.
(5) An updated financial-market ALERT, which is little changed, other than it has been exacerbated by fast-moving and potentially extreme domestic and global political instabilities and other systemic stresses, as highlighted in ***Flash Update No. 9*** and reviewed as needed in the ***Daily Update*** section of the ***ShadowStats*** home page. In the context of intensifying near-term financial market risks, the ShadowStats broad outlook in the weeks and months ahead remains for:
    a. A rapidly intensifying U.S. economic downturn.
    b. Mounting selling pressure on the U.S. dollar (particularly against stronger currencies such as the Swiss Franc).
    c. Continued flight to safety in precious metals, with upside pressures on gold and silver prices.
    d. Increasingly high risk of extraordinarily heavy stock-market selling.

Your comments and suggestions are invited. Always happy to discuss what is happening.

Best Wishes — John Williams (707) 763-5786, johnwilliams@shadowstats.com

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Opening Comments: More-Aggressive Easing Likely at October FOMC

50-Basis-Point Rate Cut and Renewed Quantitative Easing Needed

U.S. Economy Remains in an Intensifying Downturn

The Still-Deepening and Yet Not Fully Recognized New U.S. Economic Recession Was Triggered by Overly Aggressive Federal Reserve Tightening and Rate Hikes in the Last Couple of Years. Accordingly, it is time now for the Fed to ease aggressively, not only cutting its targeted Federal Funds Rate by 0.50%, but also by re-expanding Quantitative Easing (QE) at the upcoming October 29th to 30th FOMC meeting. The New York Federal Reserve effectively has been forced to provide QE in recent weeks, in order to maintain adequate overnight systemic liquidity, recently announcing continuing overnight funding through November 4th, post FOMC. Extended background and discussion on the nature and timing of the recession and likely FOMC actions follow in pending ***Commentaries No 985-A*** and ***985-B***.

Otherwise, this ***Flash Update No. 10*** focuses on the economic releases of the last day, where (1) recent economic conditions and Fed actions have boosted the domestic Money Supply measures M1, M2 and M3, across the board; (2) broader and deeper measures of domestic labor conditions indicate an ongoing recession, despite a fifty-year low in headline unemployment; (3) net of inflation, the August trade deficit widened for the month, but third-quarter-trade activity held on track for minimal quarterly deterioration and minimal quarterly impact on pending Third-Quarter 2019 GDP.

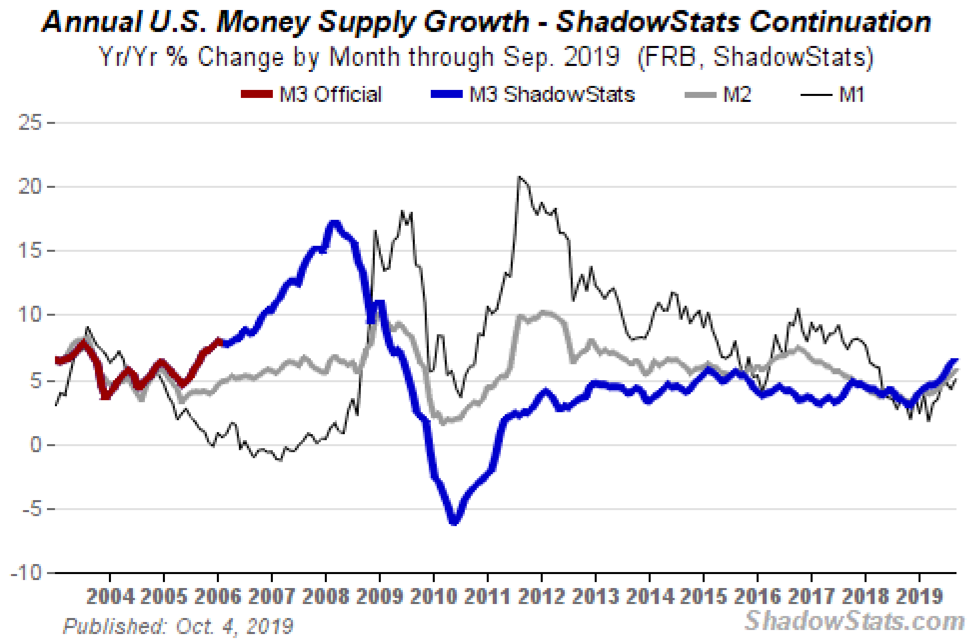
Annual Growth in September Money Supply M3 Jumped to a New 10-Year High

Touched upon here are the just-updated monthly estimates of nominal annual growth in September 2019 Money Supply M1, M2 and M3, where M1 and M2 reflect the most recent Federal Reserve estimates into late September 2019 (imputed for the month of September by ShadowStats), with M3 as estimated by ShadowStats since the Fed ceased publishing its prior broadest money measure in January 2006. Full details and the latest numbers are found off the **ShadowStats** home page on the ***Alternate Data*** tab, with background in the ***Money Supply Special Report***.

Year-to-year change in the narrowest money supply measure M1 rose to 5.04% in September 2019, its strongest growth since April 2018, up from a revised estimate of 4.34% in August 2019 and 4.77% in July 2019.

Year-to-year change in the now-broadest Federal Reserve money supply measure of M2 rose to 5.80% in September 2018, its strongest reading since May 2017, versus a revised 5.37% in August 2019, and 5.11% in July 2019.

Graph 1: Money Supply M1, M2 and ShadowStats M3, Nominal Yr-to-Yr % Change to September 2019



Year-to-year change in the traditionally broadest M3 measure (at least through January 2006) rose to 6.64% in September 2019, up from a revised 6.25% in August 2019 and 5.61% in July 2019. M3 growth was at its highest level since May 2009 and the still deepening Great Recession. The stronger the Money Supply growth, traditionally, the stronger will be the economy and the higher will be inflation.

[Employment/Unemployment Coverage Begins on the Next Page]

Headline Unemployment Hit a 50-Year Low of 3.52%

Yet, Broader Measures and Employment Stresses Signal Deep Recession

September Real Average Weekly Earnings Appear to Have Declined

Payroll Growth of 136,000 Was Muted by Upside Revisions of 45,000 Jobs to July/August

Yet, September Annual Payroll Growth Tied Weakest Growth Post-Great Recession

Last Month's Payroll Benchmarking Wiped Out 20% of Last Year's Jobs Growth

Despite Some Happy Headlines, the Economy Continued in Deepening Recession. September 2019 headline U.3 unemployment hit a 50-Year Low of 3.52%, the lowest reading since 3.51% in November 1969, to the extent the numbers are comparable. While surveying techniques have changed in the last five decades, the Bureau of Labor Statistics (BLS) touts the headline (now called U.3) series as generally consistent over time in definition.

September 2019 U.3 Unemployment dropped to 3.52%, from 3.69% in August, 3.71% in July and 3.67% in June. While Hurricane Dorian disrupted the East Coast outside the formal surveying period, it was close enough in time and disruptive enough to have had some impact on these labor numbers.

Yet, also as discussed and plotted here, while the headline unemployment rate is at a low, related measures of employment stress still are signaling a deep recession. An unchanged Employment-Population Ratio and a gain of 0.1% in the Participation Rate remained consistent with ongoing recession and inconsistent with historically low headline U.3 unemployment (see *Graphs 3* to *6*).

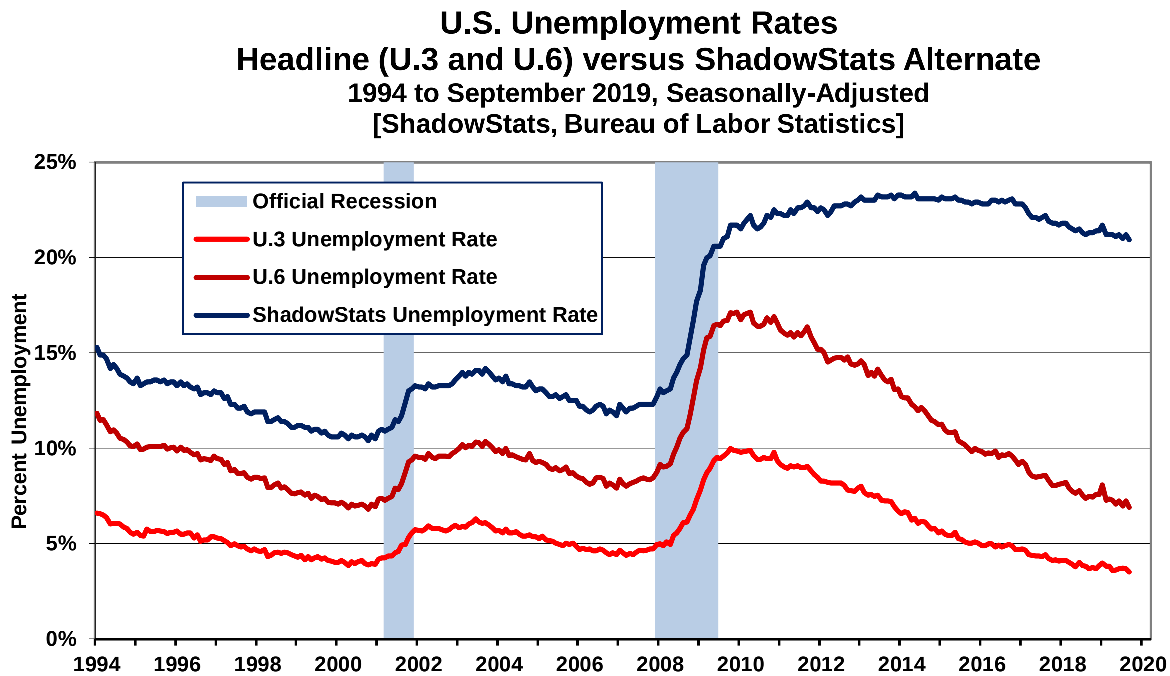
Reflecting a monthly decline in those working part-time for economic reasons and in marginally attached workers, including headline discouraged workers, broader September 2019 U.6 Unemployment declined to 6.91%, from 7.24% in August, versus 6.99% in July and 7.23% in June. Riding on top of U.6, the September ShadowStats Alternate Unemployment Estimate, including long-term displaced/discouraged workers not counted by the BLS, declined to 20.9%, from 21.2% in August versus 21.0% in July and 21.2% in June (again, see *Graph 2*), as well as the updated graph and table of the key headline unemployment measures available on the **Alternate Data** tab of the ShadowStats.com website.

Record Low Headline U.3 Versus the ShadowStats Alternate Unemployment, and Employment Stresses Signaling Ongoing Recession. The 50-year low 3.52% September U.3 unemployment rate suggested a booming economy, yet Labor–Market Stress levels (Employment-Population Ratio and the Participation Rate) still ran massively counter to the historically low headline U.3 unemployment rate, continuing at levels already consistent with an ongoing recession (see *Graphs 3* to *6*).

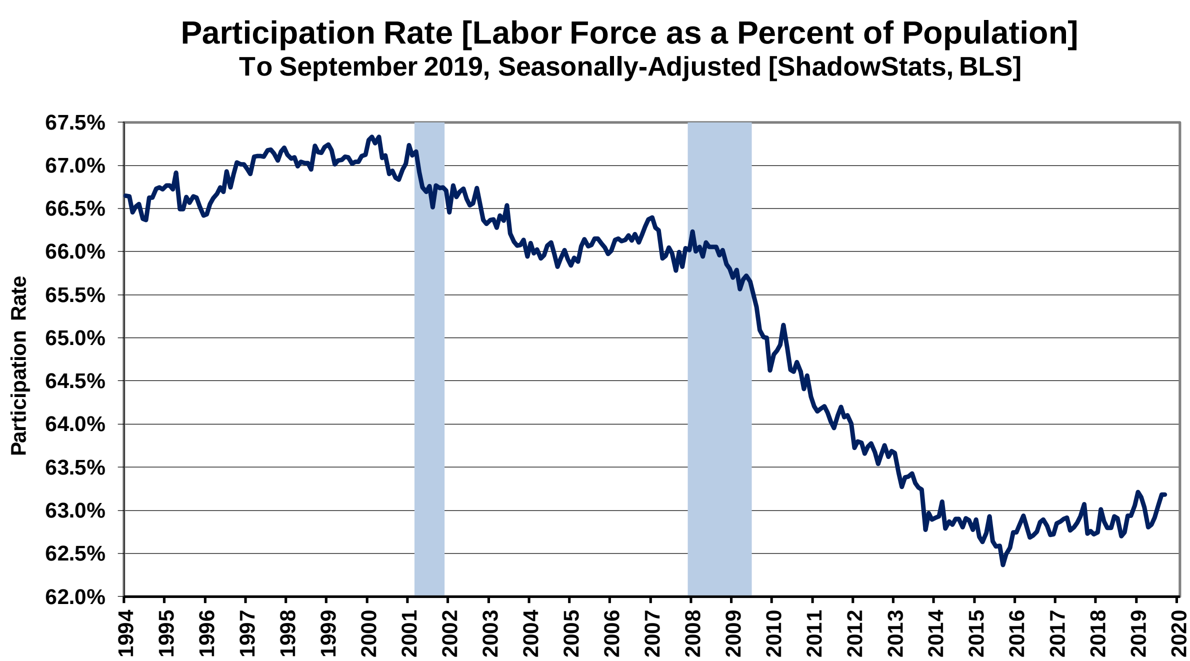
In contrast, the September 2019 ShadowStats Alternate Unemployment Estimate, including long-term displaced/discouraged workers not counted by the BLS was 20.9% in September. *Graphs 3* and *4* plot the usual measures of Labor Market Stress, the Participation Rate and the Employment to Population Ratio. As seen here for a number of years, the headline levels of employment stress (particularly *Graph 4*) are consistent with a deep recession, and with the high levels of unemployment reflected in *Graph 5* of the inverted ShadowStats alternate unemployment measure, as opposed to going in the wrong direction in later years (post-Great Recession and those defined out of the headline labor force) for *Graph 6* of the inverted headline U.3 unemployment rate. See the detailed discussion in *Section 4* of ***Commentary No. 983-B***.

[Graphs 2 to 6 begin on the next page.]

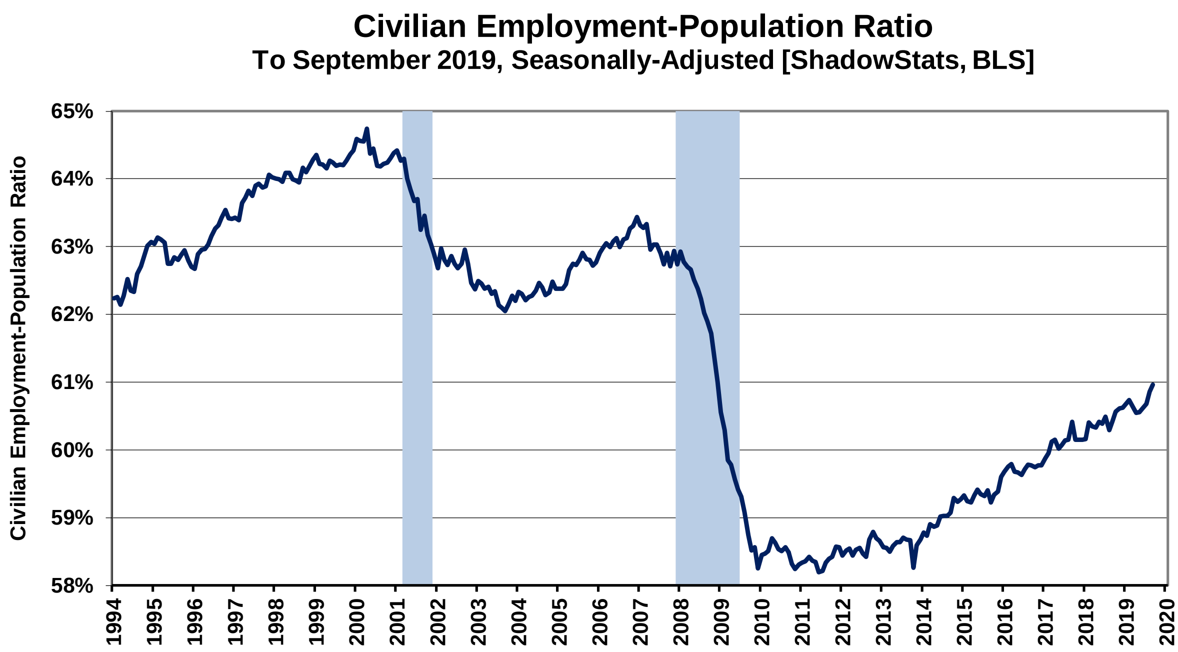
Graph 2: Headline September 2019 Unemployment Rates: U.3, U.6 and the ShadowStats Alternate Measure



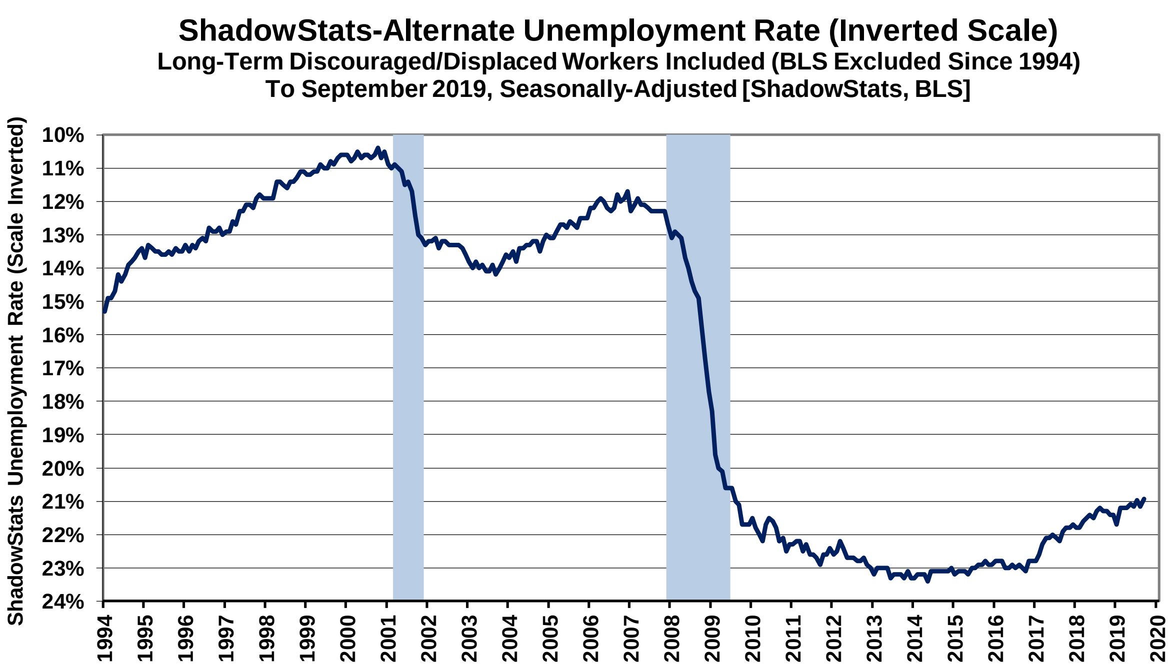
Graph 3: Participation Rate, 1994 to September 2019



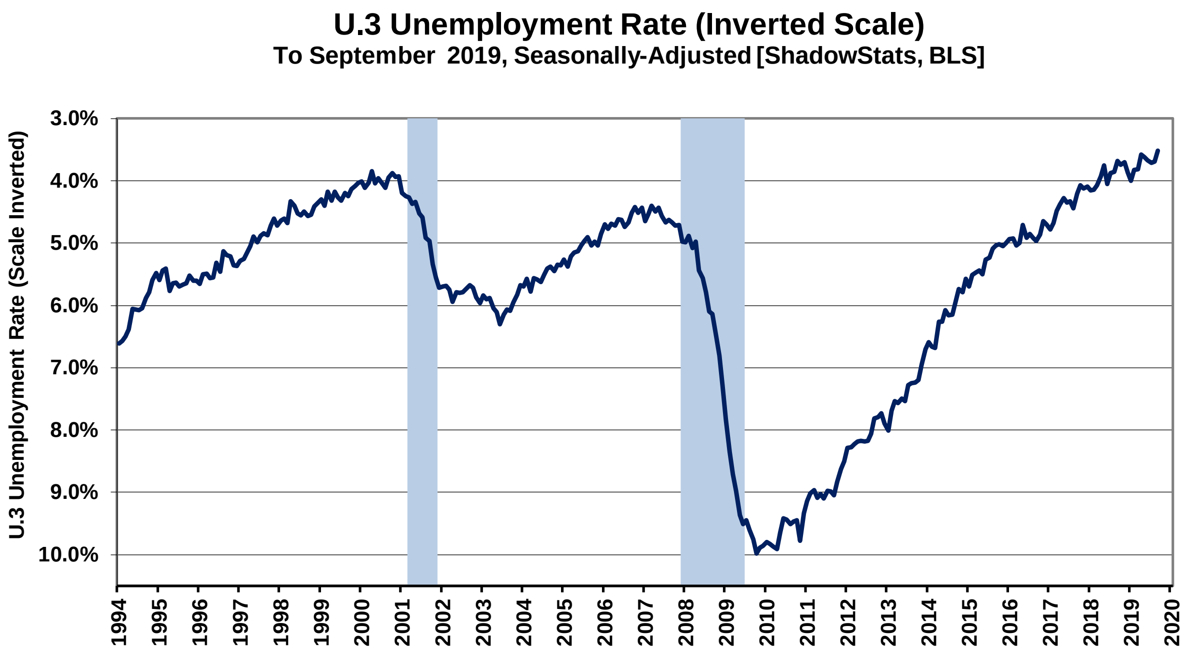
Graph 4: Civilian Employment-Population Ratio, 1994 to September 2019



Graph 5: Inverted Scale ShadowStats Unemployment, 1994 to September 2019



Graph 6: Inverted Scale U.3 Unemployment, 1994 to September 2019



Monthly Payroll Growth Was Depressed. The headline monthly payroll growth in September 2019 was 136,000, but that was depressed on a relative basis by a net upside revision to August employment (including July) totaling 45,000 jobs not counted before. Net of that, September monthly growth would have been 181,000, instead of 136,000.

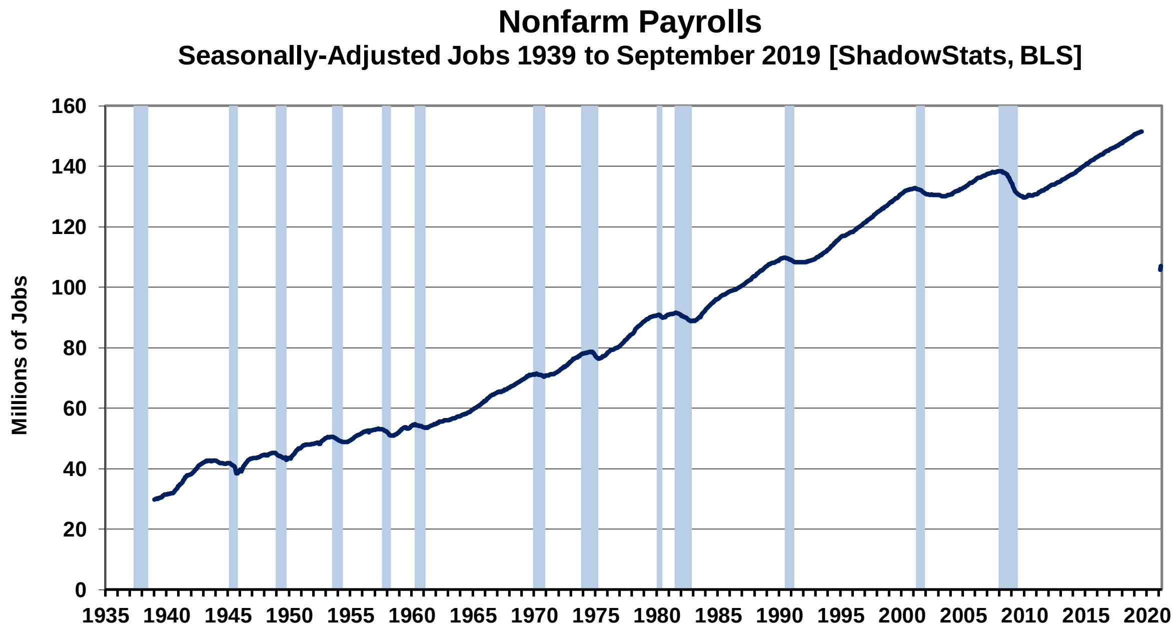
Nonetheless, year-to-year annual payroll growth held at 1.4%, tied at the same growth level with several occurrences in the last year, of the weakest annual growth since coming out of the Great Recession (see *Graphs 7* to *10*).

Current headline payroll numbers do not incorporate last month's the initial downside annual payroll benchmark revision estimate of 501,000 (-501,000) jobs, which wiped out 20% of the headline jobs growth in the year before (full details are to be published in January 2020). *Graph 11* shows a hint of what that benchmarking will show.

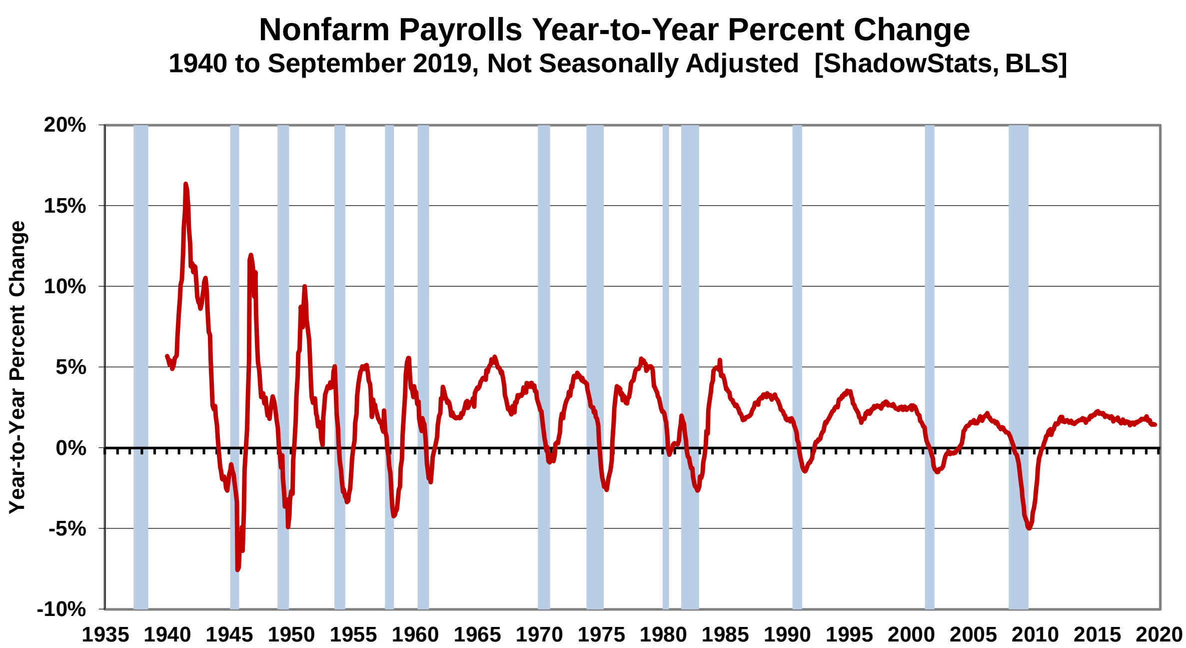
Still, payrolls in key sectors continued in monthly and annual decline for the Retail Trade and remained flat month-to-month for Construction and Manufacturing, as usually seen in recessions (*Graphs 12 to 16*).

[Payroll *Graphs 7* to *11* begin on the next page.]

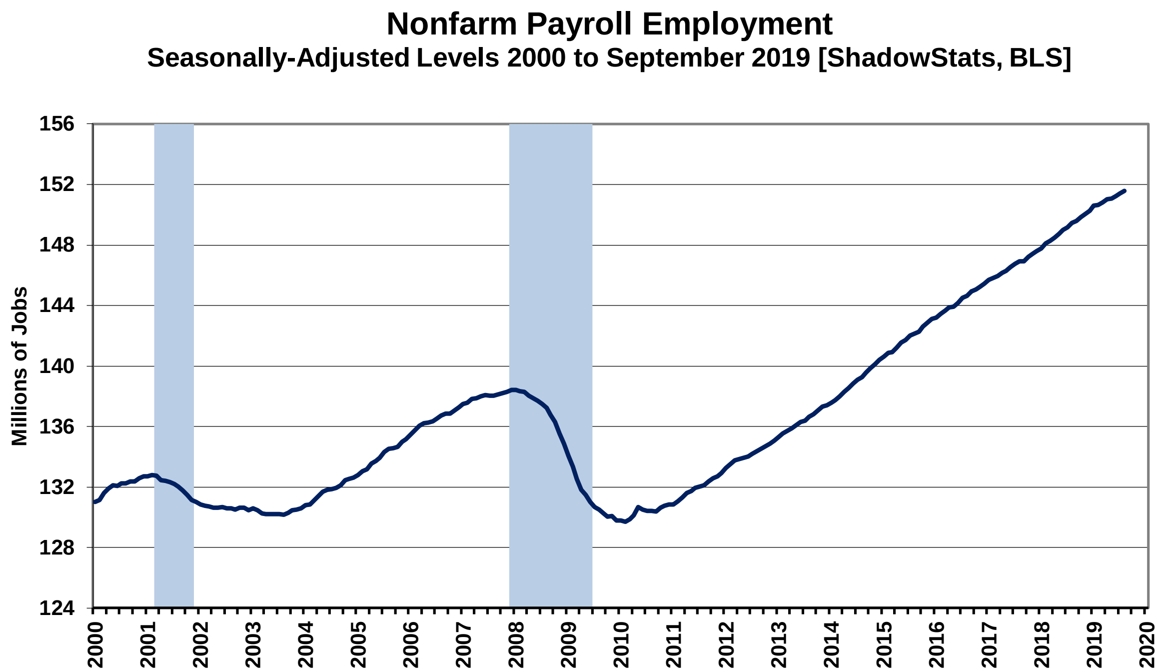
Graph 7: Nonfarm Payrolls, 1939-to-Date



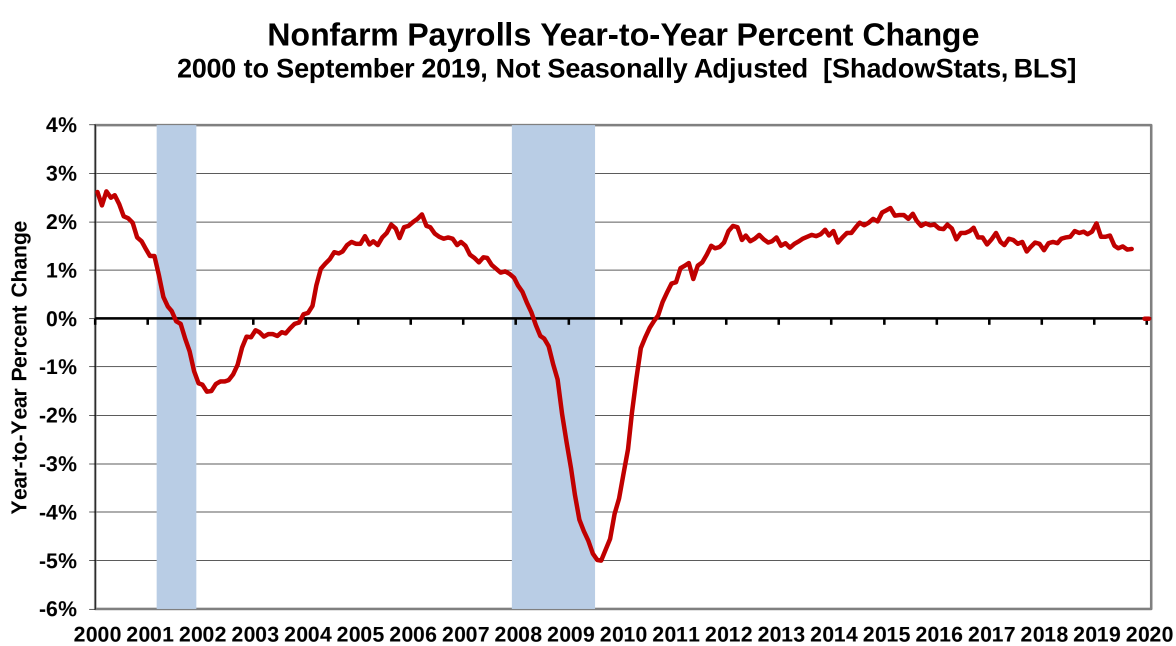
Graph 8: Nonfarm Payrolls, Yr-to-Yr Percent Change, 1940-to-Date



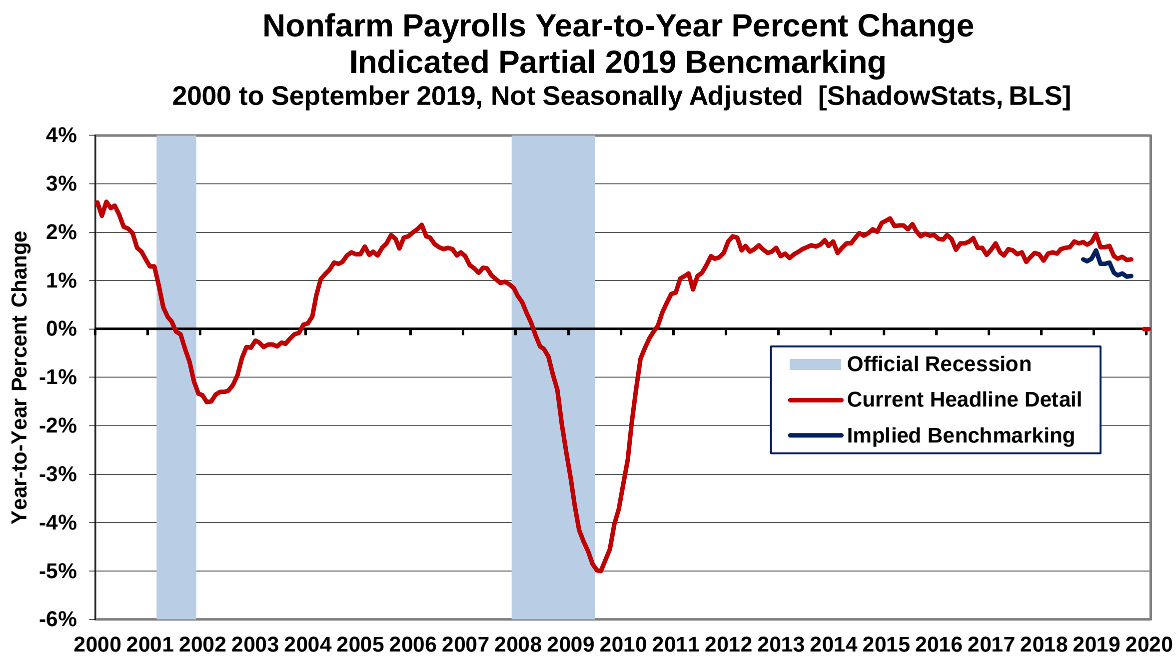
Graph 9: Payroll Employment, 2000-to-Date



Graph 10: Payroll Employment, 2000-to-Date, Yr-to-Yr % Change



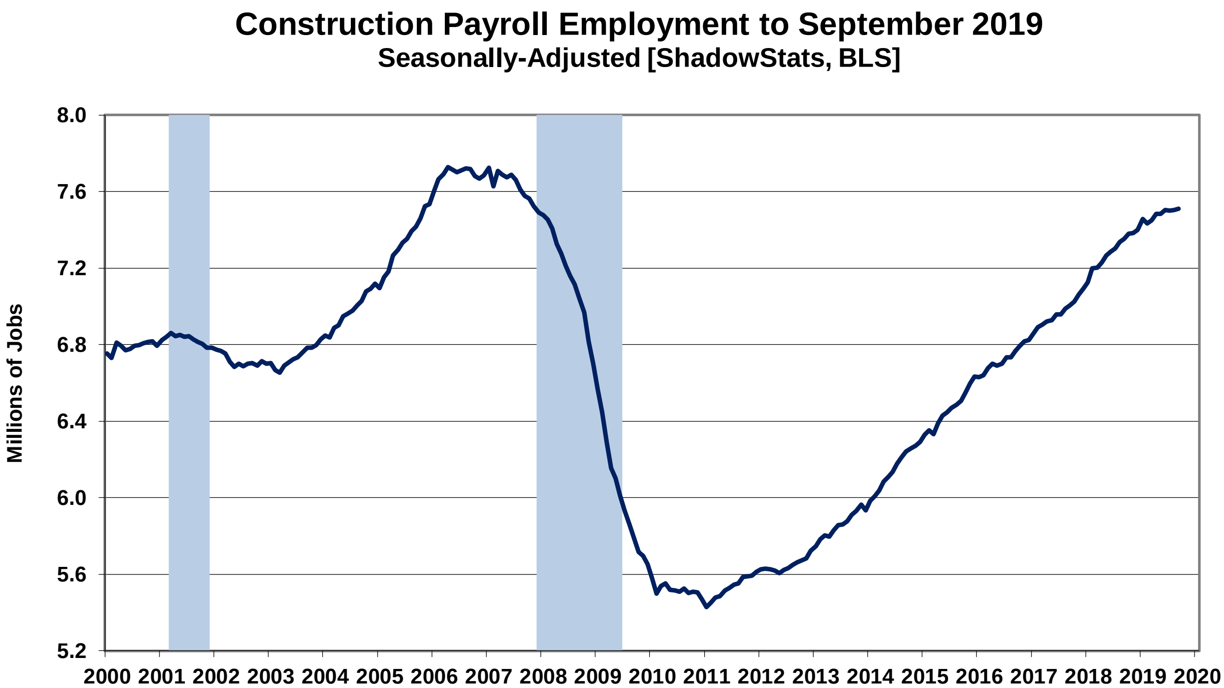
Graph 11: Indicated Preliminary March 2019 Payroll Benchmark Revision – Yr-to-Yr % Change in Payrolls



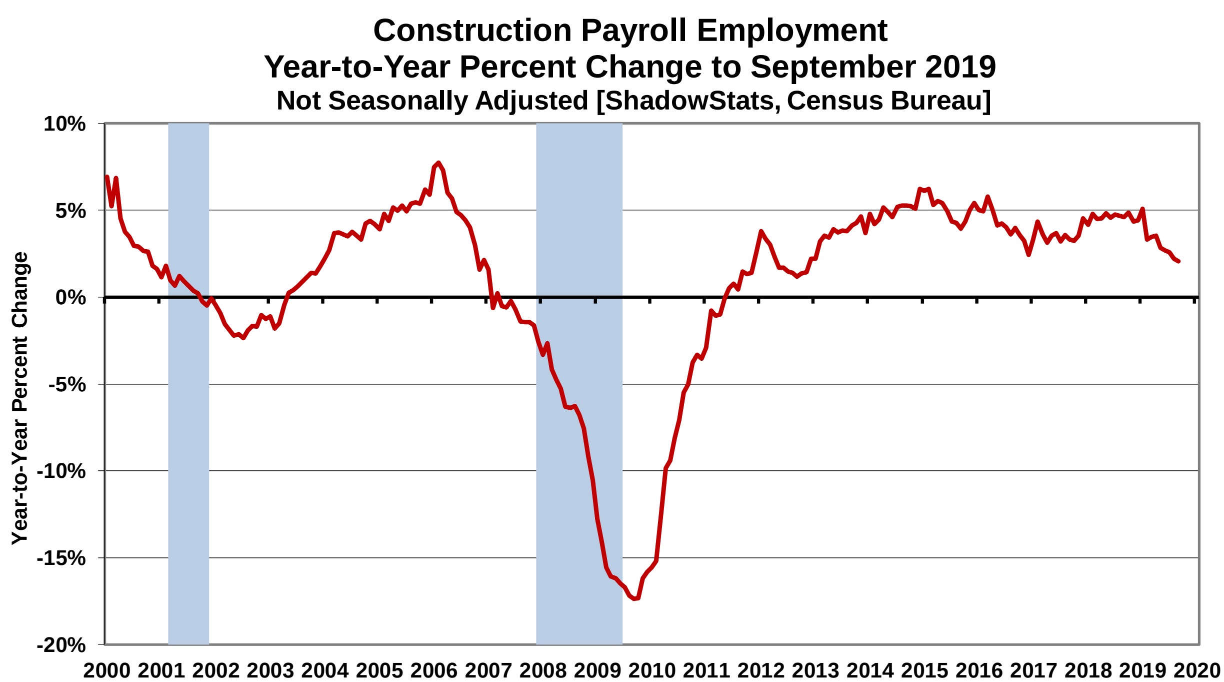
[Payroll *Graphs 12* to *17* of regularly followed key industries begin on the next page.]

Note: September 2019 seasonally-adjusted construction payrolls remained shy by 2.89% (-2.89%) of recovering peak activity before the Great Recession,

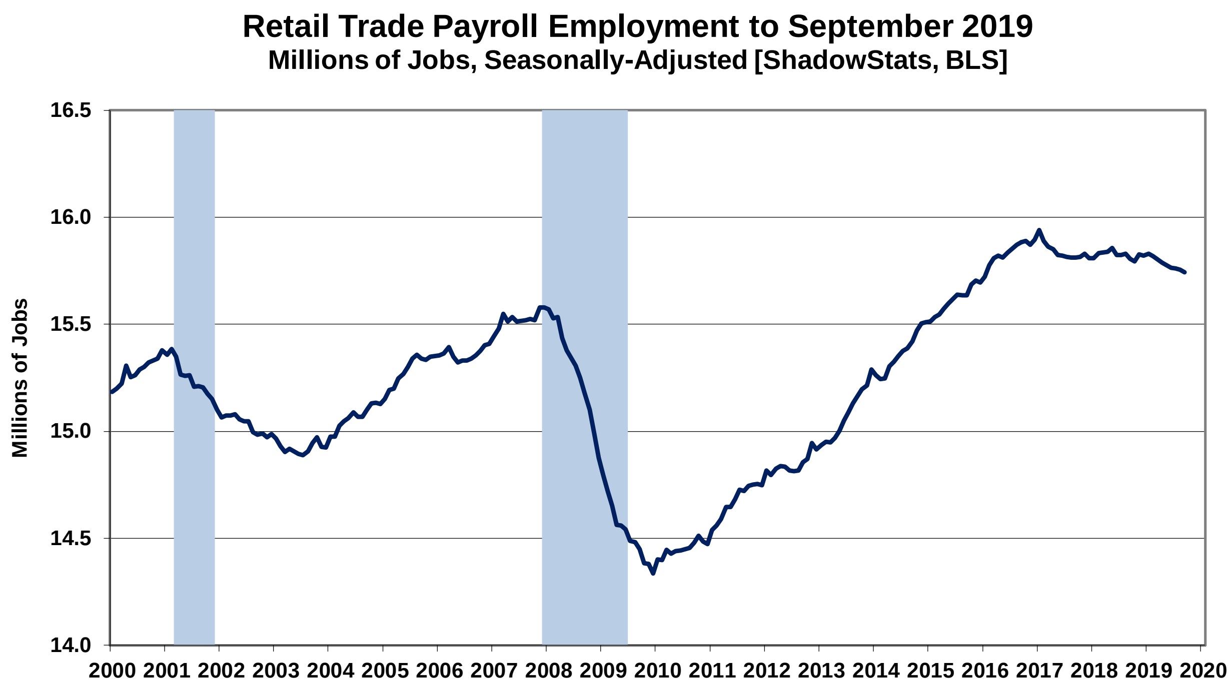
Graph 12: Construction Payroll Employment, 2000-to-Date



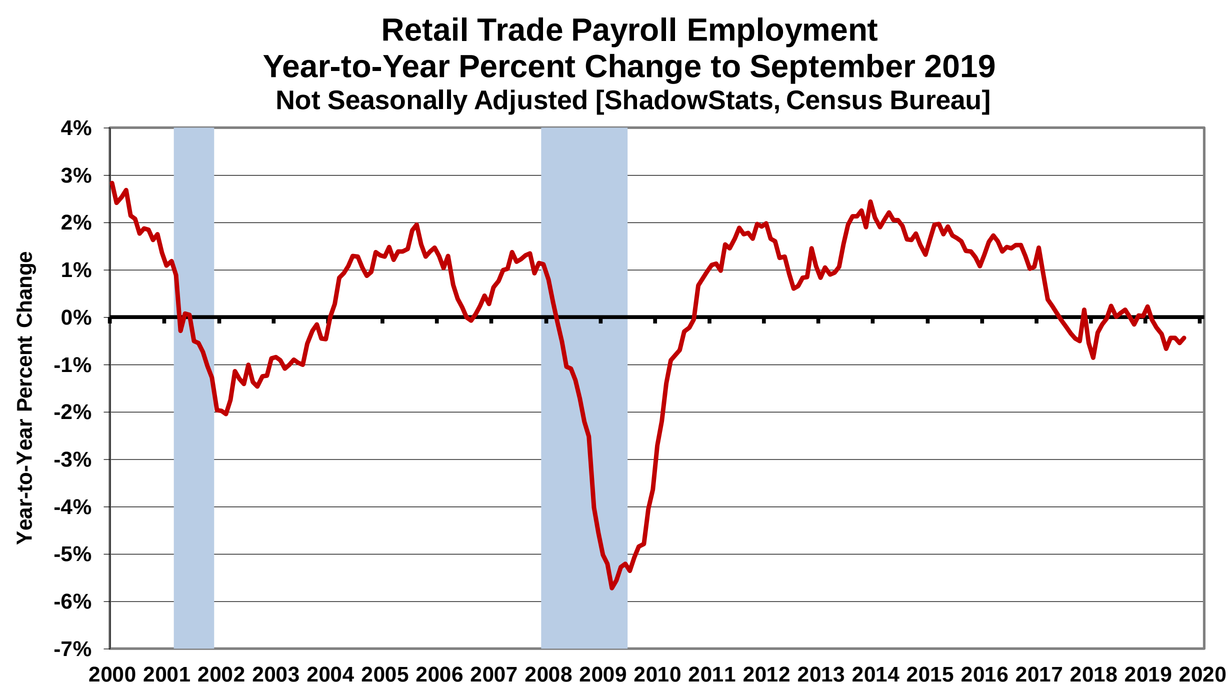
Graph 13: Construction Payroll Employment, 2000-to-Date, Yr-to-Yr % Change



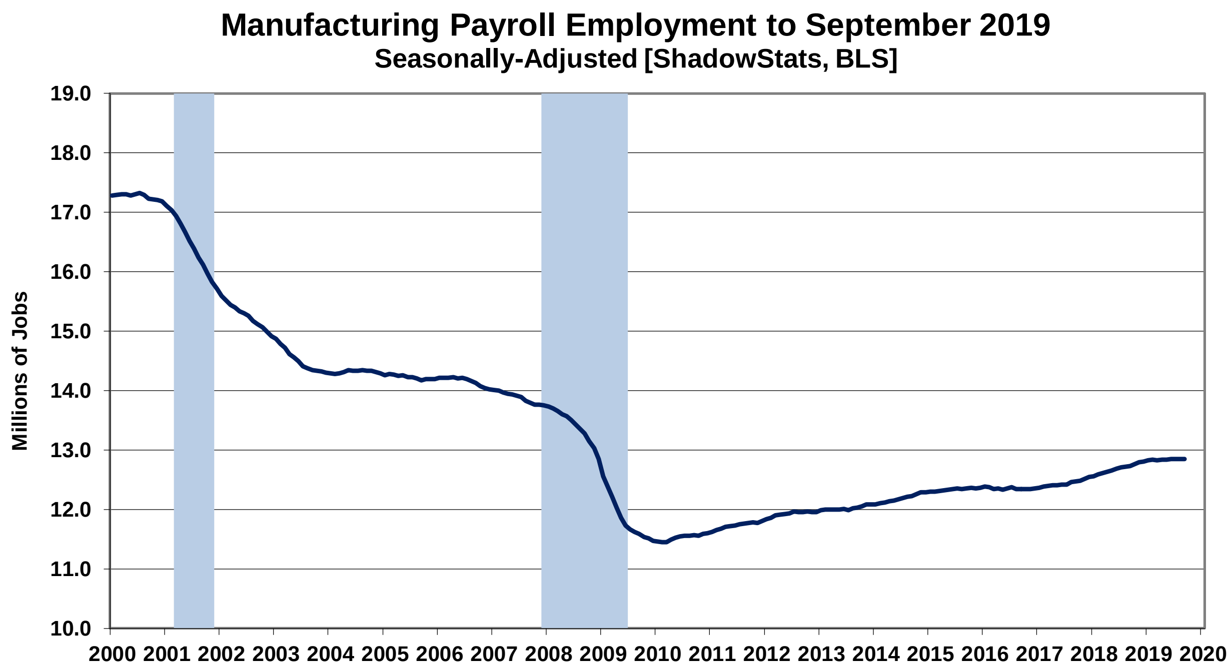
Graph 14: Retail Sales Payroll Employment, 2000-to-Date



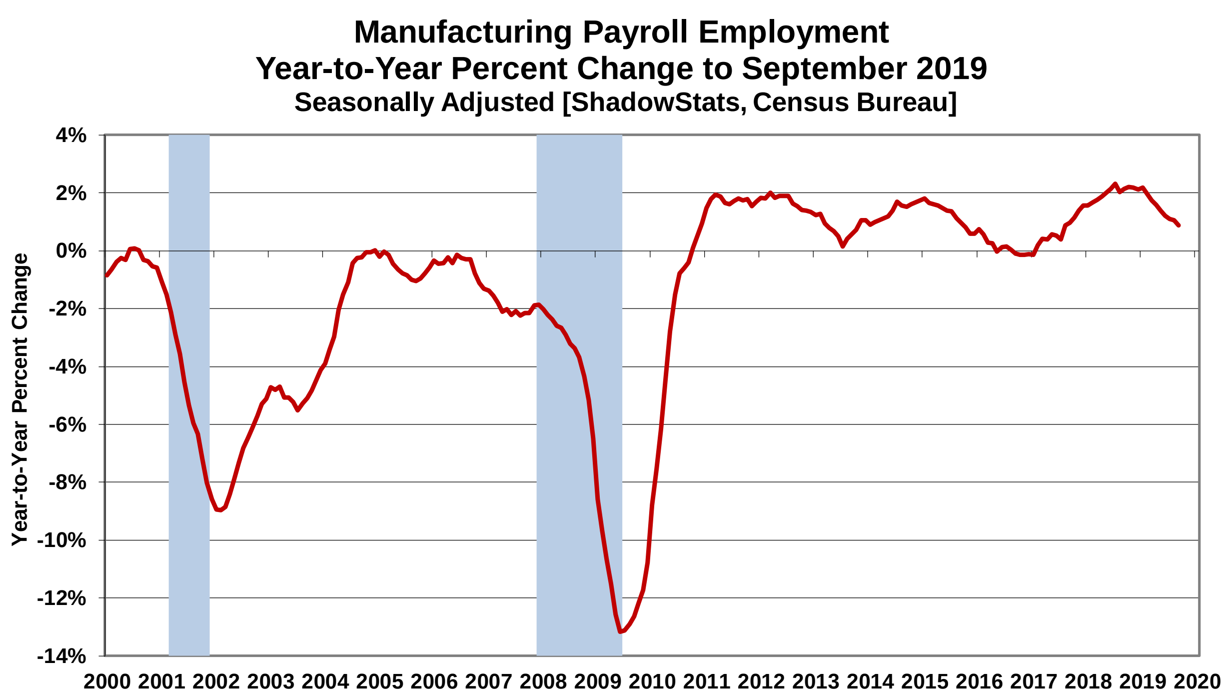
Graph 15: Retail Sales Payroll Employment, 2000-to-Date, Yr-to-Yr % Change



Graph 16: Manufacturing Payroll Employment, 2000-to-Date



Graph 17: Manufacturing Payroll Employment, 2000-to-Date, Yr-to-Yr % Change



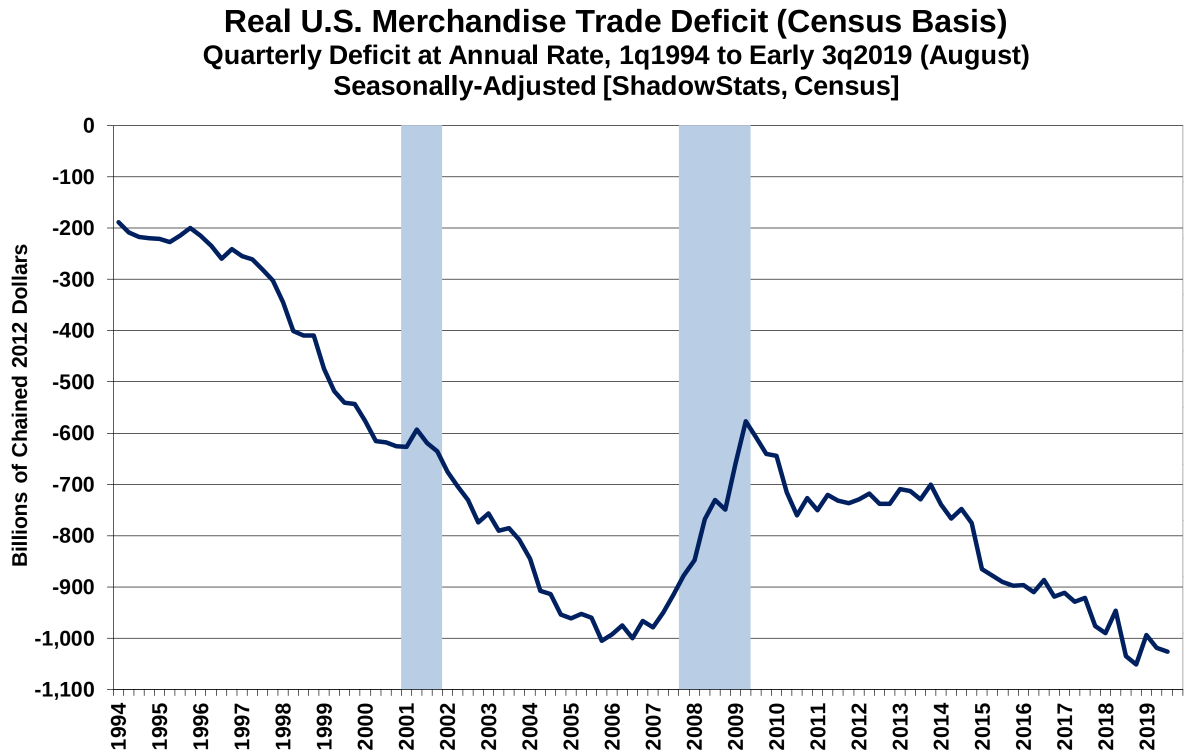
Third-Quarter Real Trade Deficit Held on Track for Minimal GDP Deterioration

August 2019 Trade Deficit Widened Minimally, With the Real Third-Quarter Deficit on Track for Negligible Quarterly Deterioration and Negligible Impact on Third-Quarter GDP Reporting. Reported by the Census Bureau and Bureau of Economic Analysis on October 4th, the nominal August 2019 U.S. Trade Deficit widened to $54.9 billion from an unrevised $54.0 billion, reflecting an increase of $0.4 billion in exports, more than offset by a $1.3 billion drop in imports. None of the changes were meaningful.

Net of inflation, the third-quarter deficit was on track effectively to deteriorate minimally versus the second-quarter deficit, which means the headline real Net Export account for Third-Quarter 2019 GDP, at present, appears likely to reflect negligible net negative impact on the initial real third-quarter GDP growth estimate. That of course can change with the September detail. *Graph 18* plots the quarterly real deficit for Merchandise Trade, through Third-Quarter 2019, imputed from two months of reporting. *Graph 19* plots the quarterly real Net Export account of the GDP through Second-Quart 2019.

[Trade Deficit / Net Export *Graphs 18* to *19* begin on the next page.]

Graph 18: Real U.S. Merchandise Trade Deficit (Census Basis) to Early-Trend Third-Quarter 2019



Graph 19: Real U.S. Net Exports (GDP Accounting) to Second-Quarter 2019

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