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

ShadowStats Flash Update No. 7

Economic Distortions, August 2019 Payrolls and Employment/Unemployment

September 7, 2019

**Weakening and Negatively Benchmarked
Annual Payroll Growth Signaled Deepening Recession**

**As Has Become Commonplace, Monthly Payroll Gains Continued to
Disappoint Expectations, Despite Regular Relative Monthly Boosts from
Downwardly Revised Prior-Month Activity**

**August Headline Unemployment of 3.7% Held Just a
Notch Above Its Historic Low, Yet Broader Unemployment Measures
Jumped by 0.2% to 0.3% Amidst Deteriorating Employment Conditions**

**Economic and Systemic Conditions Are Worse than Headlined, Where
Government-Shutdown Bloated Data Have Been Enshrined, Temporarily**

Pending August Retail Sales and Production Should Disappoint Expectations

**The FOMC Needs to Cut Interest Rates More Aggressively
Than the Quarter-Point Being Suggested for September 18th**

Fed Is Boosting Money Supply Growth; M3 Growth Strongest Since 2009

**FOMC Easing Should Intensify Shortly;
Renewed Quantitative Easing Remains a Good Bet**

Contents – Flash Update No. 7

Note to Subscribers: Beginning on page 6, ***Flash Update No. 7*** reviews key elements of yesterday's (September 6th) reporting of the August 2019 labor numbers, including intensifying, negative trends in broad U.S. economic activity.

Today's ***Opening Comments***, however, touch upon areas that will be covered more fully in still-pending ***Commentary No. 985***, which will be posted in the next several of days. Hinted at in some of the preceding opening headlines, the expanded coverage in ***No. 985*** includes:

(1) Updated and extended Gross Domestic Product coverage, including annual benchmark revisions (see ***Flash Update No. 5***) and implications of headline distortions from the December 2018/January 2019 partial government shutdown that have begun to surface, such as the impact of the shutdown delayed Construction Spending 2019 benchmark revisions, discussed here along with *Graph 1*.
(2) ShadowStats' expectations as to how the headline reporting of the deepening and still unfolding recession likely will be timed.
(3) An updated assessment of probable, intensified Federal Reserve accommodation through its Federal Open Market Committee (FOMC) on September 18th, and in the months ahead, as discussed along with *Graph 2*.
(4) An updated ALERT on the financial markets, which should be little changed. In the context of intensifying near-term 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.

Opening Comments: FOMC Needs to Ease More Aggressively

Shutdown Disrupted Economic Activity Was Worse than Headlined

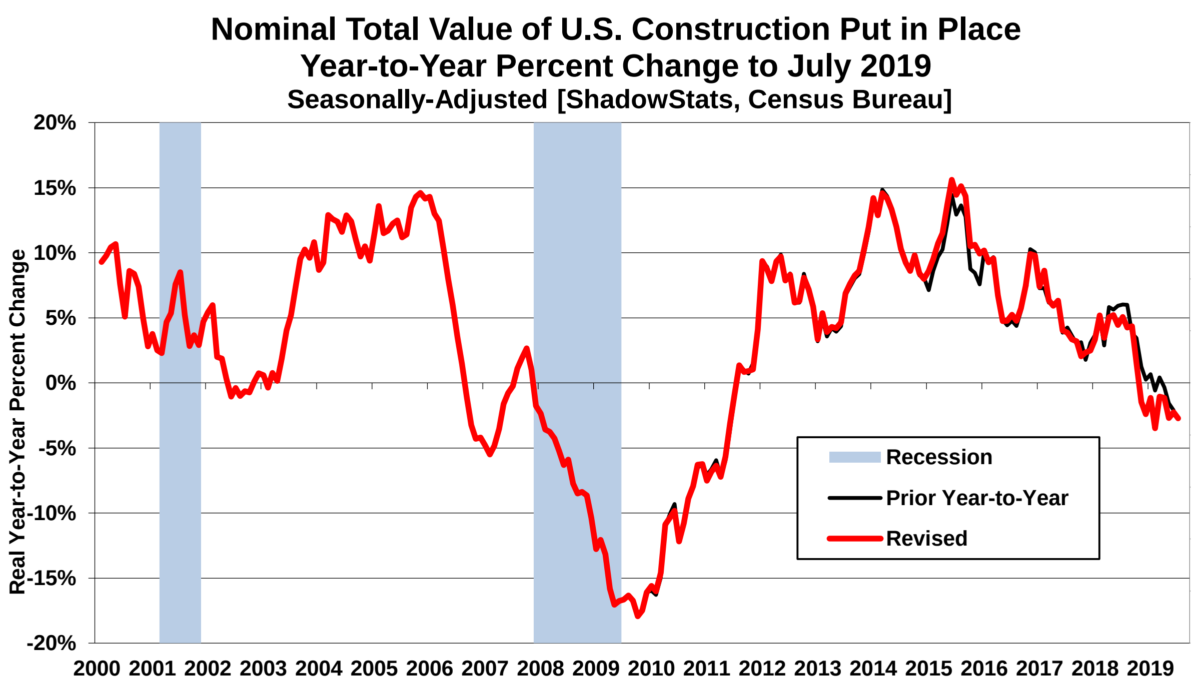
Government-Shutdown Distorted and Delayed Numbers Have Begun to Surface, With Delayed Accounting Artificially Spiking Headline Data Now Enshrined in the 2019 GDP Benchmarking. Disrupted and distorted by the partial government shutdown, heavily bloated headline First-Quarter 2019 GDP is locked in place until the benchmark revision of July 2020. The first major confirmation of this circumstance came with the September 3rd shutdown-postponed 2019 annual benchmark revisions to Construction Spending, subsequent to the initial downside 2019 GDP benchmark revisions of July 26th.

Shutdown-Delayed Construction Spending Benchmark Revisions Helped to Generate Overstated Headline GDP Benchmarked Growth. Annual benchmarking of the Construction Spending Series should have been published in early July 2019, prior to, and then incorporated with the July 26th GDP Annual Benchmark Revisions. Due to the December 2018/January 2019 partial shutdown of the Federal Government, however, the Construction Spending benchmarking was delayed until September 3rd. Those just-revised Construction numbers showed a sharp deterioration in already weakened, recent headline Construction Spending, a pattern that would have generated weaker quarterly GDP growth than has been headlined in the current "healthy" economy, as otherwise touted by those on the FOMC not wanting to cut interest rates (see ***Flash Update No. 6***).

Indeed, the current headline GDP and FOMC economic assumptions are overstated as a result. Revised nominal year-to-year Construction Spending turned negative in Fourth-Quarter 2018 and after, previously having held positive until Second-Quarter 2019. The last time nominal annual Construction Spending growth turned negative was in First-Quarter 2008, at the formal onset of the Great Recession.

Had the new Construction Spending detail been available on its regularly scheduled basis for the GDP benchmarking (as it is now for the next GDP benchmarking in July 2020), it would have resulted in weaker, benchmarked headline GDP growth patterns in Second-Quarter 2018 and after, than currently is headlined. Reflected in *Graph 1*, consider that nominal year-to-year change in Third-Quarter 2018 Construction Spending revised lower to 4.57% from 5.29%, while Fourth-Quarter 2018 revised from an annual nominal gain of 1.65% to an annual decline of 0.80% (-0.80%), with First-Quarter 2019 revising from a positive 0.16% to a negative 1.91% (-1.91%) and Second-Quarter 2019 revising from a contraction of 1.35% (-1.35%) to 2.04% (-2.04%). Separately, net of ShadowStats Construction Inflation estimates, the broad ongoing monthly, quarterly and annual contractions in real Construction Spending have continued, only in a deepening pattern. Full details and complete graphs will follow in ***No. 985***.

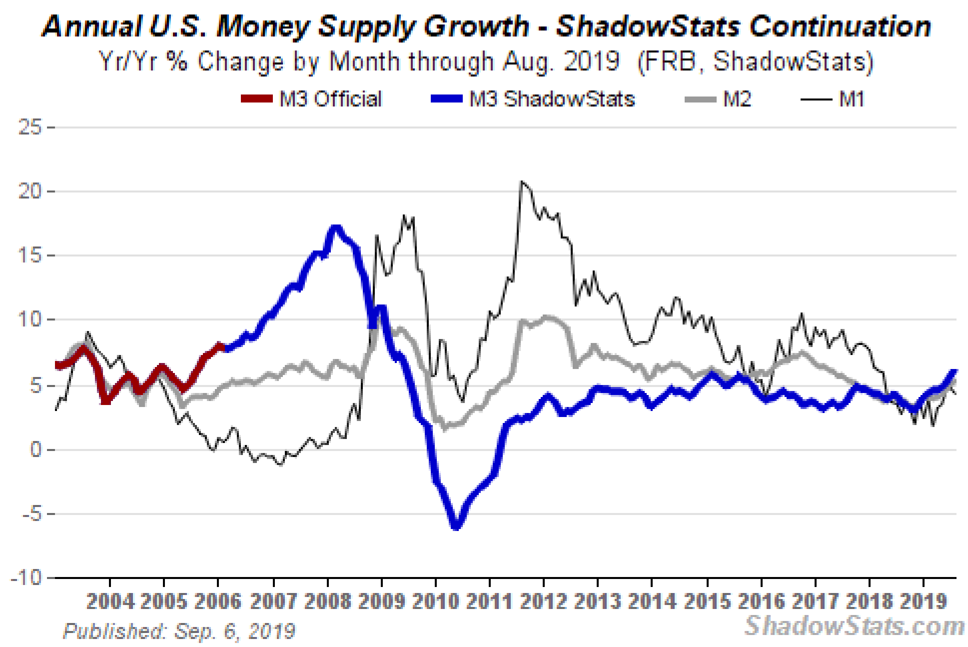
Graph 1: Nominal Construction Spending, Yr-to-Yr Percent Change, 2019 Benchmark Revisions



Similar Disruptions Likely Were Seen from the Delayed Benchmarking of Manufacturing, Production, New Orders for Durable Goods and Elements of Retail Sales. Budget constraints and shutdown effects also impacted the reporting and elements of the regular benchmarkings of series ranging from Industrial Production and New Orders for Durable Goods. Although the Bureau of Labor Statistics fared better than other agencies in the shutdown, it is possible that issues there also could have impacted the unusually large downside benchmark revisions recently published for payroll employment (see ***Flash Update No. 5***, *Graphs 12* to *18* and accompanying comments beginning on page 10).

With an Intensifying U.S. Economic Downturn, the FOMC Should Cut Interest Rates on September 18th by More Than the "Hinted" 0.25%; It Already Is Boosting Money Supply Growth. Recent and pending policies of the Federal Reserve's Federal Open Market Committee (FOMC) will be discussed extensively in pending ***Commentary No. 985***. What is touched upon here are the just-updated monthly estimates of Money Supply M1, M2 and M3, where M1 and M2 reflect the most recent Federal Reserve Estimates into late August 2019 (imputed for the month of August 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***.

Graph 2: Money Supply M1, M2 and M3 (ShadowStats), Nominal Yr-to-Yr Change to August 2019



Year-to-year change in the narrowest M1 measure weakened to 4.27% in August 2019 from 4.77% in July 2019. Year-to-year change in the now-broadest Federal Reserve money supply measure of M2 rose to 5.29% in August 2019, up from 5.11% in July 2019, and at its highest reading since August 2017. Year-to-year change in the traditionally broadest M3 measure rose to 6.24% in August 2019, up from 5.66% in July 2019, and it was at its highest level since June 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.

August 2019 Employment, Unemployment and Payrolls Deteriorated Sharply

Weakening Jobs Growth and Benchmark Revisions Signaled Recession

3.7% U.3 Unemployment Held, While Broader Measures Jumped Sharply

130,000 August Payroll Gain was 85,000 Net of Revisions and Temporary Census Hiring

Headline Year-to-Year Payroll Growth of 1.38% Was Weakest Since Great Recession

August Payroll Weakness Did Not Reflect 501,000 Jobs Lost in Benchmark Revisions

20% of Headline Jobs Growth in the Year-Ended March 2019 Just Disappeared

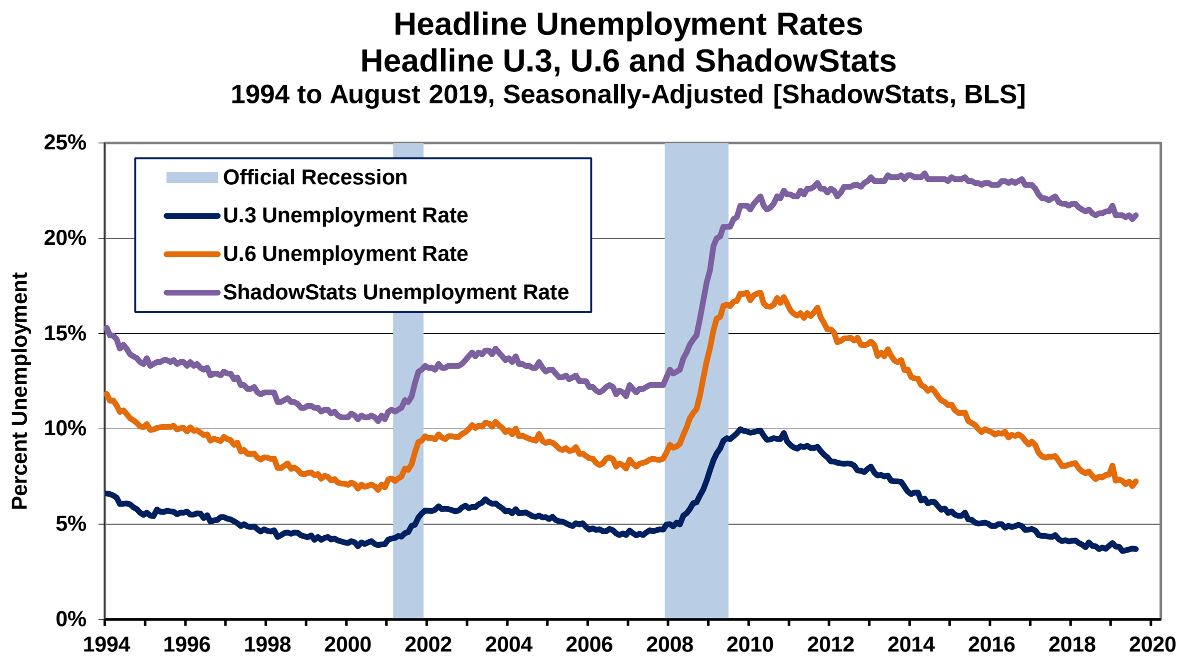
Implications Are for More-Intense FOMC Easing and Downside GDP Revisions

Headline U.3 Unemployment Held at 3.7%, While Broader Unemployment Rate Measures Surged With the Weakening Economy. August 2019 U.3 Unemployment was little changed at 3.69%, versus 3.71% in July, 3.66% in June, continuing above its 49-year low of 3.58% in April (*Graph 3*). Although minimally eased, Labor–Market Stress levels (Employment-Population Ratio and the Participation Rate) still run massively counter to the historically low headline U.3 unemployment rate, continuing at levels already consistent with an ongoing recession (see *Graphs 4* to *11*).

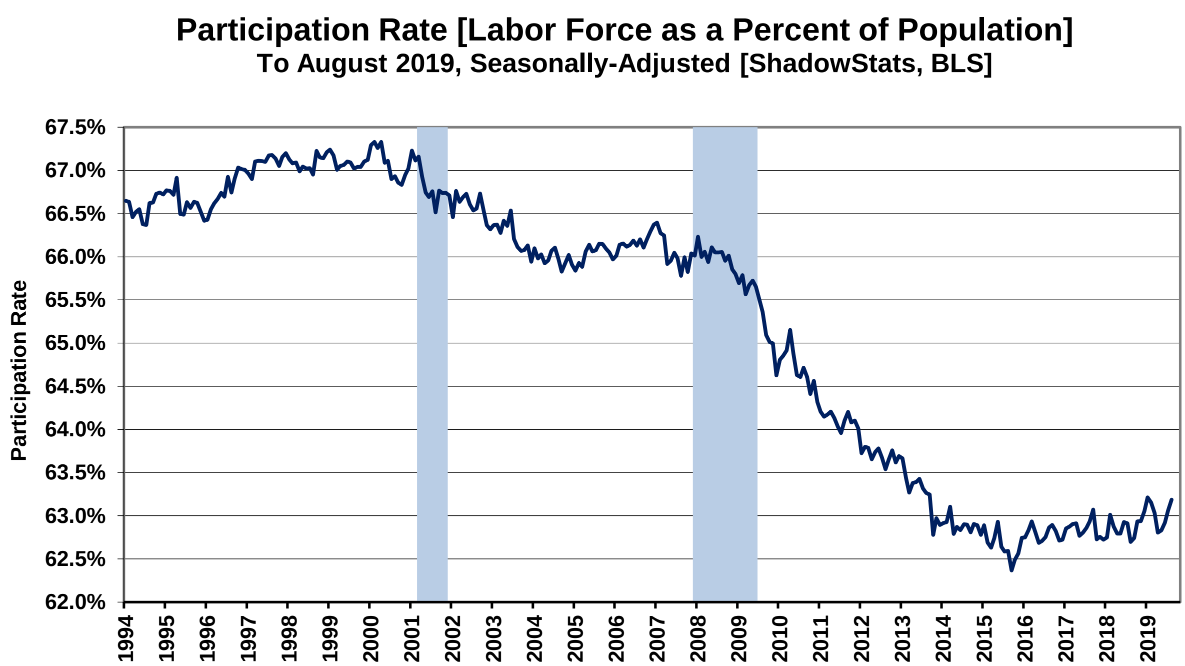
Reflecting surges in those working part-time for economic reasons, unable to find full-time employment, and in marginally attached workers, including headline discouraged workers, broader August 2019 U.6 Unemployment rebounded to 7.24%, from 6.99% in July, 7.23% in June and 7.09% in May. On top of U.6, the August 2019 ShadowStats Alternate Unemployment Estimate, including long-term displaced/ discouraged workers not counted by the BLS, also rebounded, to 21.2% versus 21.0% in July, 21.2% in June and 21.1% in May. Updated *Graph 3* of the unemployment measures reflects underlying data available to subscribers on the Alternate Data tab on the www.ShadowStats.com home page.

Graphs 4 and *5* 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 are consistent with a deep recession and the high levels of unemployment reflected in *Graph 6* of the inverted ShadowStats alternate unemployment measure, as opposed to *Graph 7* of the inverted headline U.3 unemployment rate. See details in *Section 4* of ***Commentary No. 983-B*** and updated detail in pending ***No. 985***.

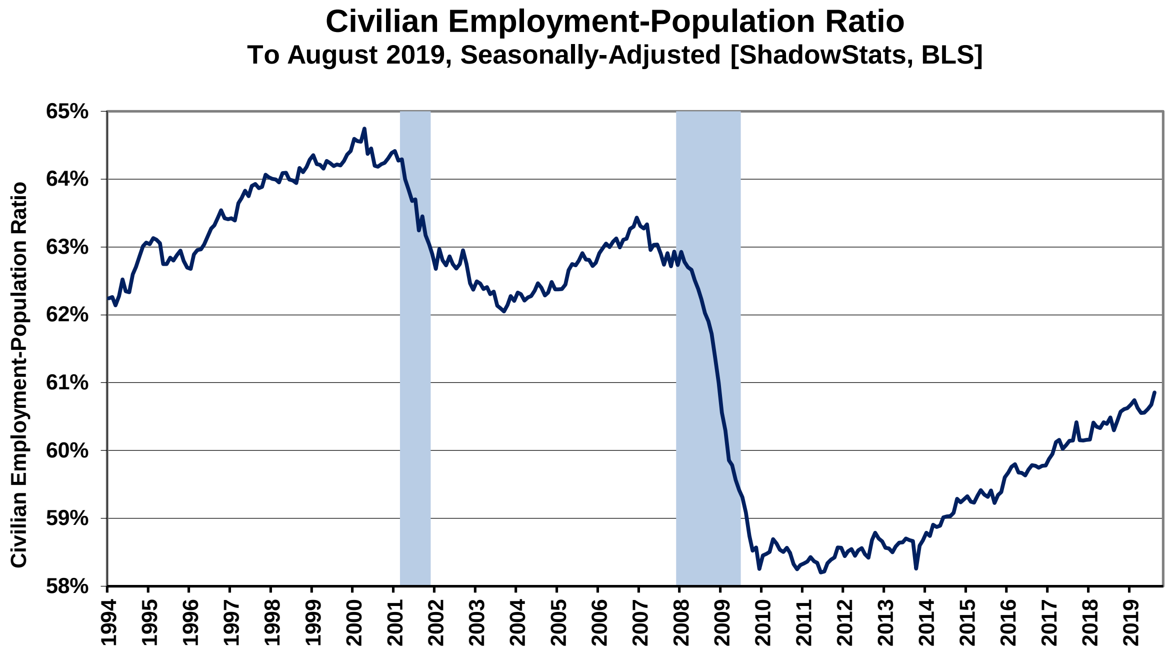
Graph 3: Headline August 2019 Unemployment Rates: U.3, U.6 and the ShadowStats Alternate Measure



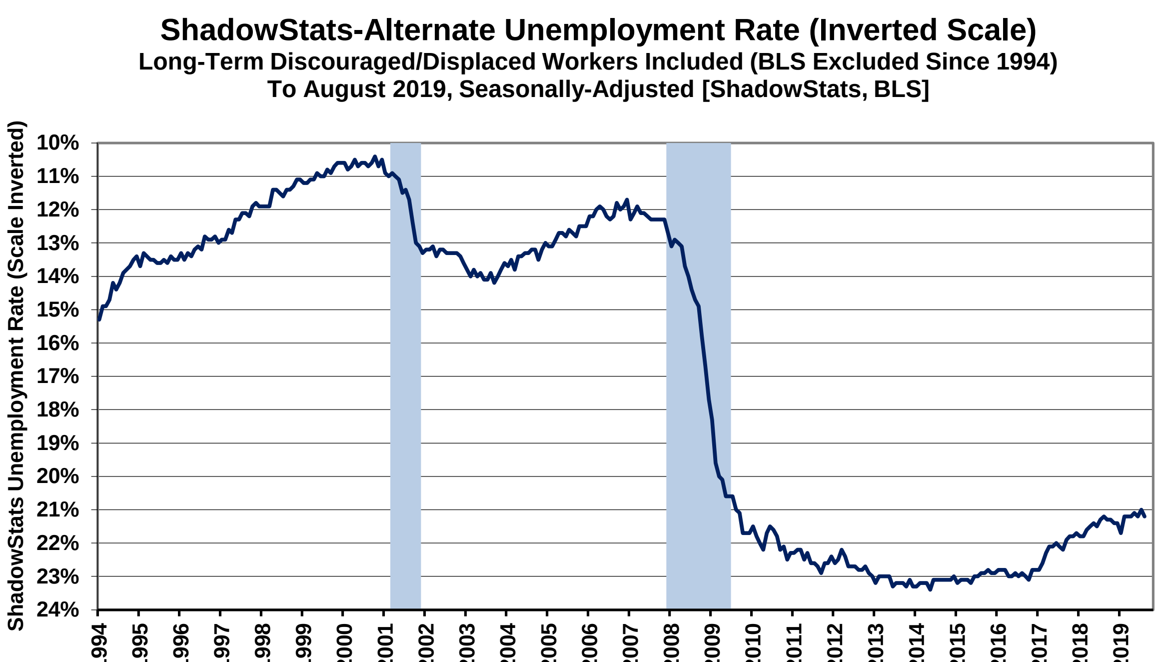
Graph 4: Participation Rate, 1994 to August 2019



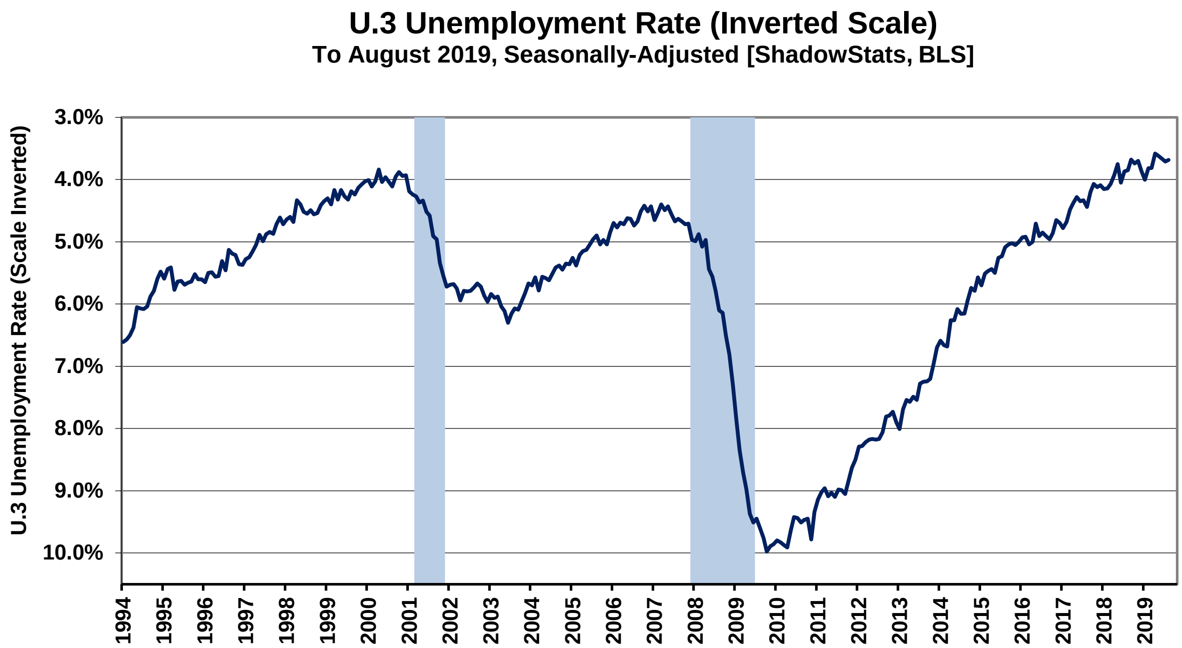
Graph 5: Civilian Employment-Population Ratio, 1994 to August 2019



Graph 6: Inverted Scale ShadowStats Unemployment, 1994 to August 2019



Graph 7: Inverted Scale U.3 Unemployment, 1994 to August 2019



[Coverage of the Payroll Numbers / Benchmarking begins on the next page.]

Annual Payroll Growth at Lowest Level Since Great Recession

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

Headline August 2019 Annual Payroll Growth Slowed to 1.38%, Its Lowest Level Since Coming Out of the Great Recession, and That Was Before Any Adjustment for Pending Major Downside Benchmark Revisions. The headline August payroll gain of 130,000 was just 85,000, net of downside revisions of 20,000 to July and June payroll gains, and a temporary one-time hiring of 25,000 Census workers. Including the Census workers, the 1.38% annual payroll gain in August 2019 was the weakest since August 2011, when the economy was exiting the Great Recession (see *Graphs 8* to *11*). Employment in key economic sectors such as Retail Sales, Construction and Manufacturing broadly continued to slow or decline year-to-year, particularly net of downside revisions in July and June.

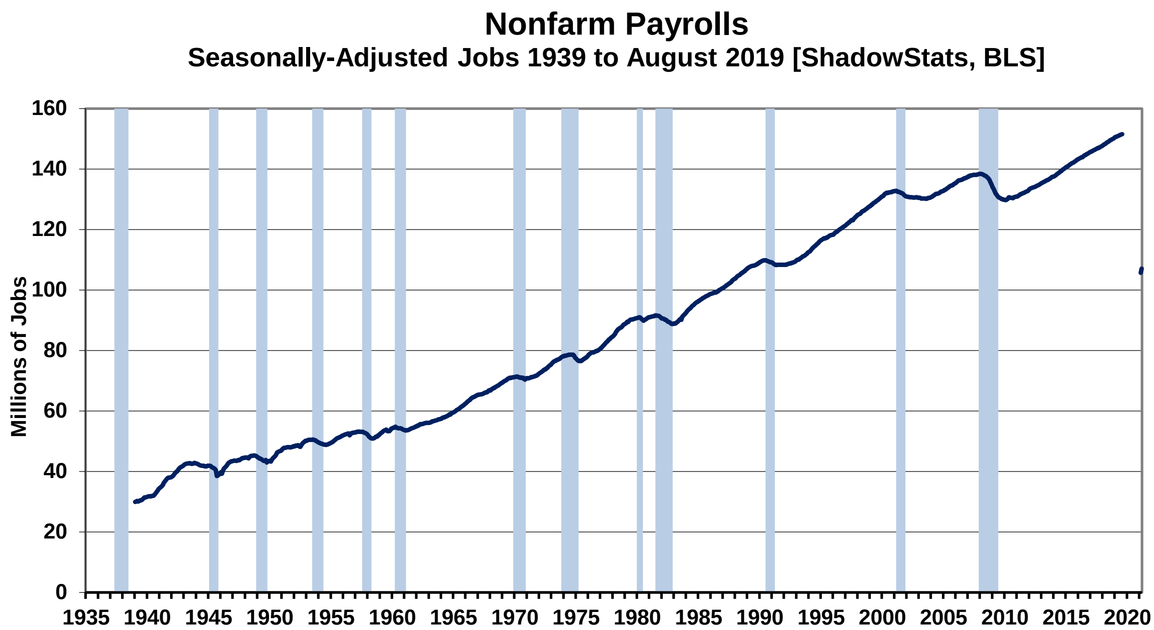
Not Reflected in the headline August Payroll Data was the preliminary, massive downside benchmark revision of 501,000 (-501,000) jobs. The preliminary benchmarking for the year-ended March 2019 effectively wiped out a full 20% of the headline jobs growth in the those twelve months. Again, implications here are for greater FOMC easing and for a downside revision to the next GDP benchmarking in July 2020 (see the discussion in ***Flash Update No. 5***). The headline numbers published are only for the year-ended March 2019, but that was against the prior benchmarking of March 2018.

Accordingly, the impact of the likely final benchmarking is indicated partially in *Graph 12*, where the indicated decline in annual, year-to-year growth is plotted in dark blue, centered on the March 2019 benchmarking, where the annual growth in March 2019 of 1.69% likely declined to 1.35%.

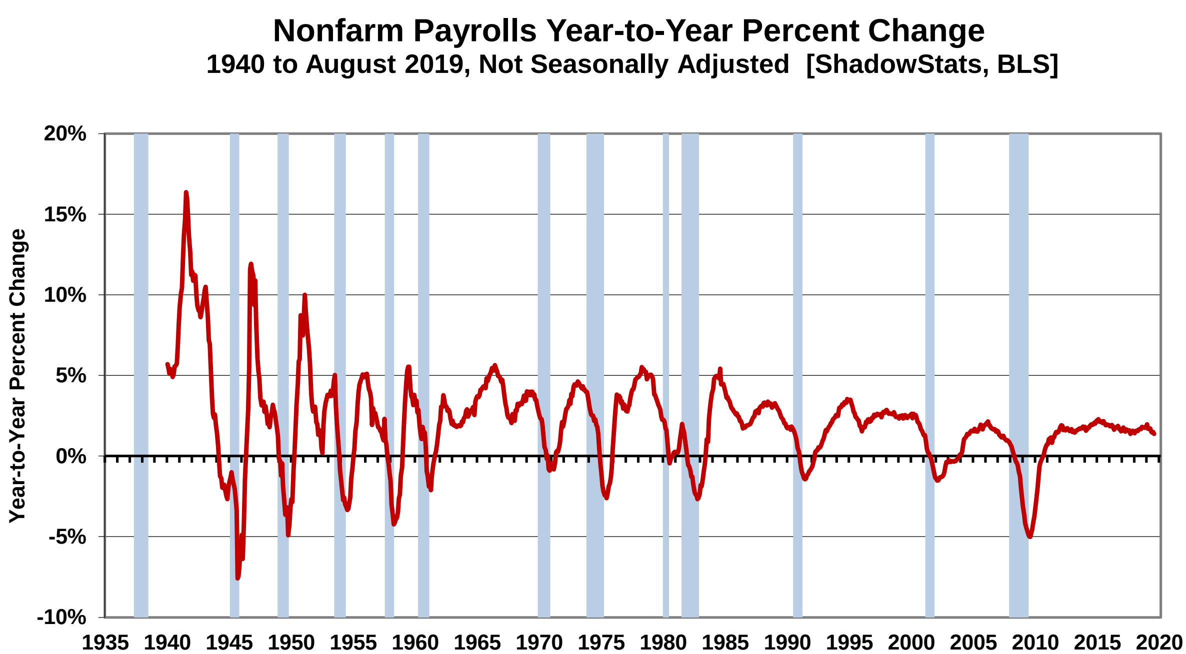
Based on the headline preliminary Payroll Benchmarking estimate for the Retail Trade, the headline year-to-year growth for the benchmarking month of March 2019 likely slowed from minus 0.22% (-0.22%) to minus 1.16% (-1.16%) otherwise plotted with just current headline detail in Graphs *15* to *16.* The other graphs would change as well, but not as sharply as the heavily overstated Retail Sector.

[Coverage of the Payroll *Graphs 8* to *12* begin on the next page.]

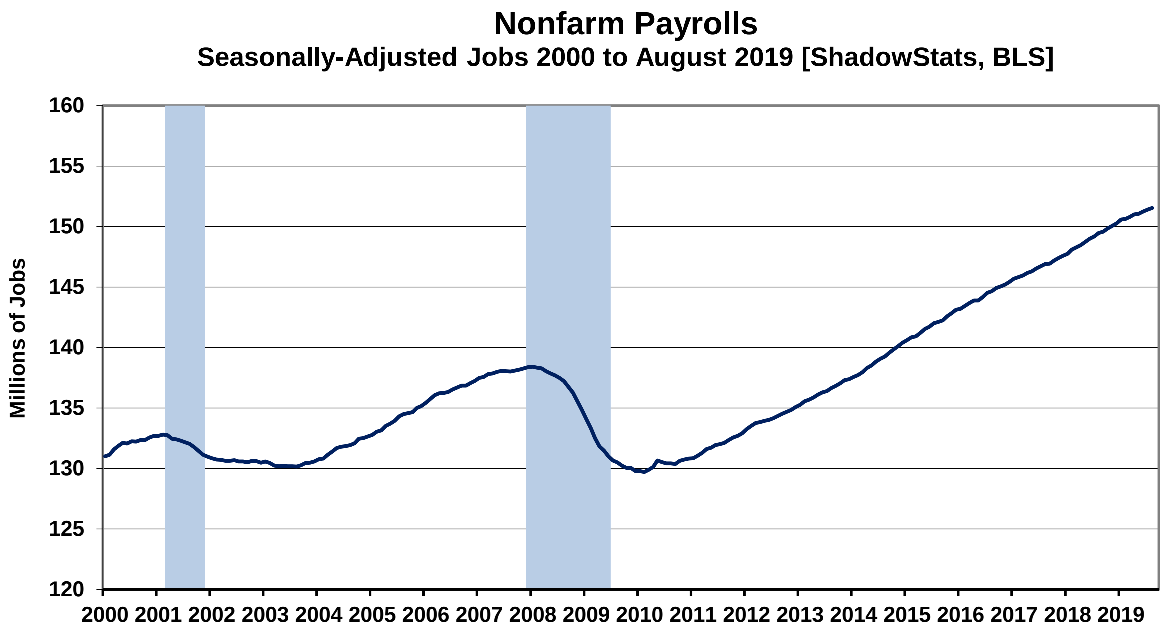
Graph 8: Nonfarm Payrolls, 1939-to-Date



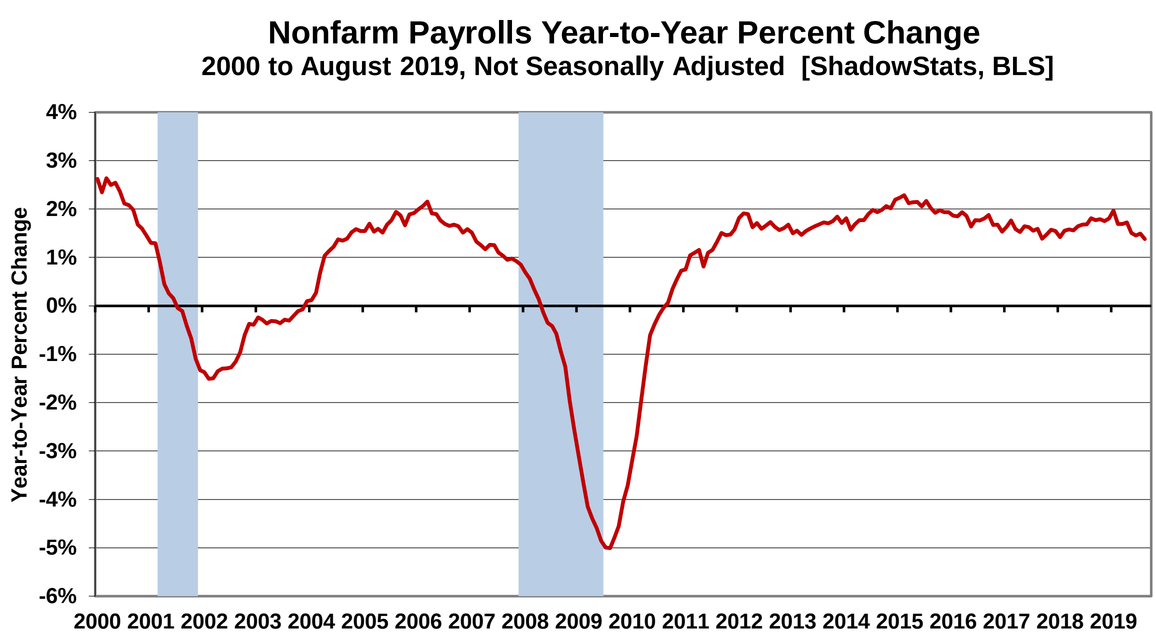
Graph 9: Nonfarm Payrolls, Yr-to-Yr Percent Change, 1940-to-Date



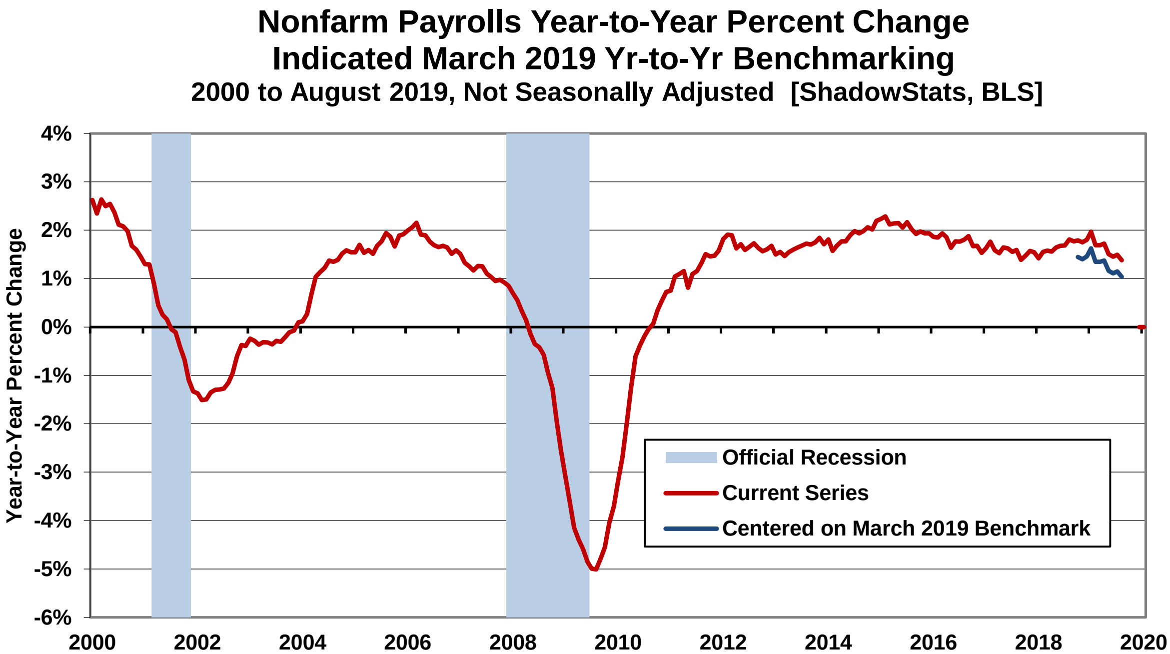
Graph 10: Payroll Employment, 2000-to-Date



Graph 11: Payroll Employment, 2000-to-Date, Yr-to-Yr % Change

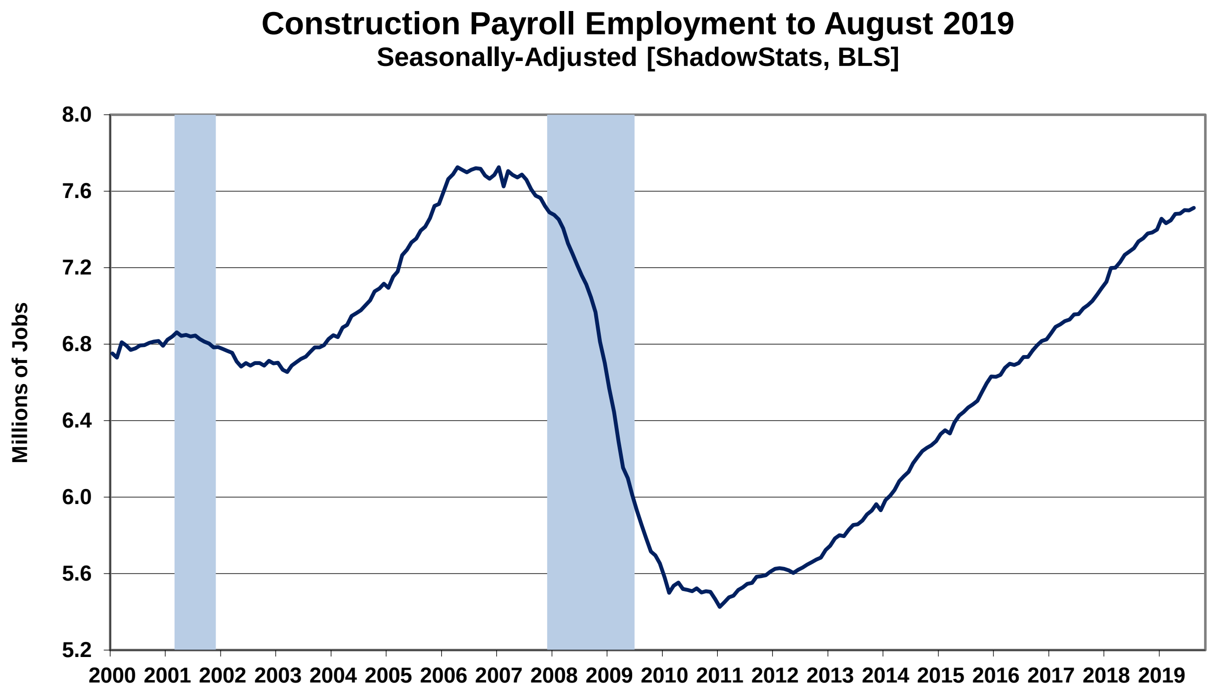


Graph 12: Indicated Preliminary March 2019 Payroll Benchmark Revision – Yr-to-Yr % Change in Payrolls

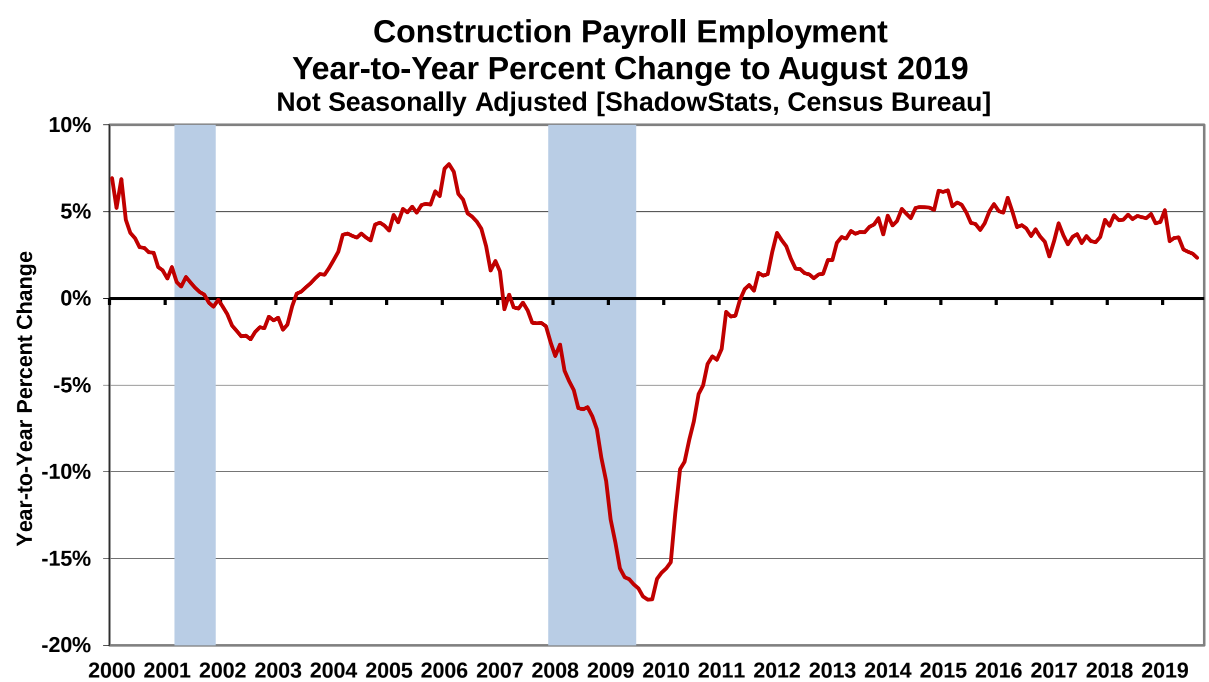


[Updated Payroll *Graphs 13* to *18* of regularly followed key industries begin on the next page.]

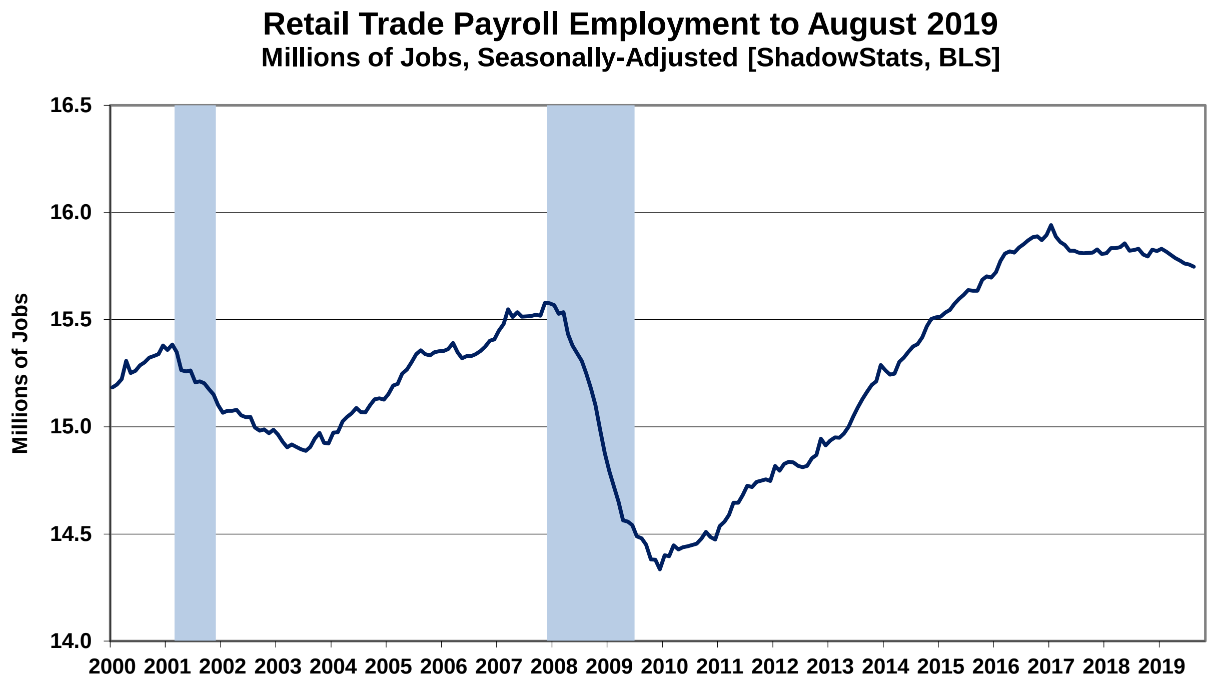
Graph 13: Construction Payroll Employment, 2000-to-Date



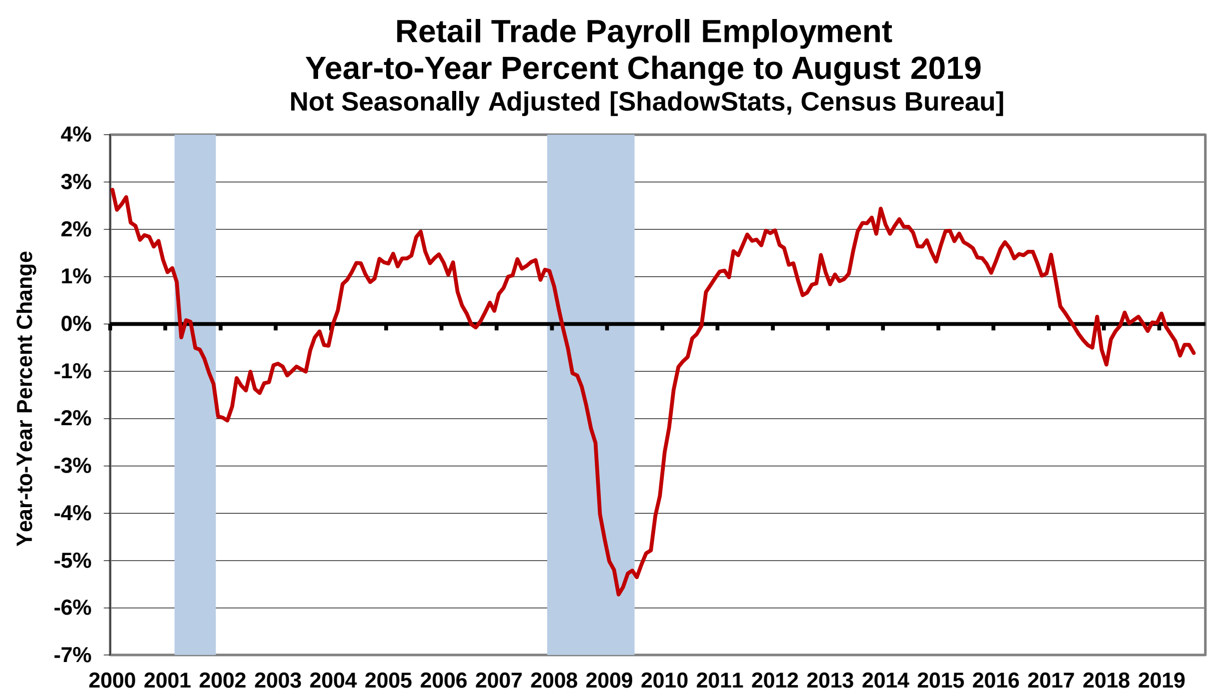
Graph 14: Construction Payroll Employment, 2000-to-Date, Yr-to-Yr % Change



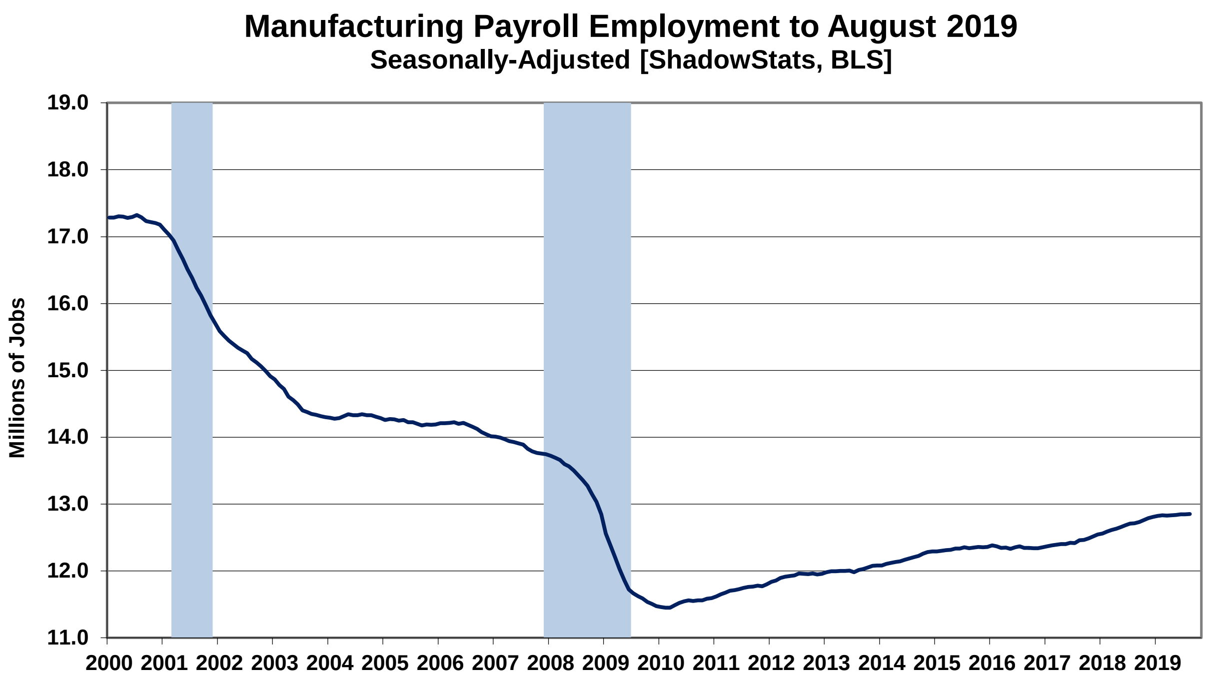
Graph 15: Retail Sales Payroll Employment, 2000-to-Date



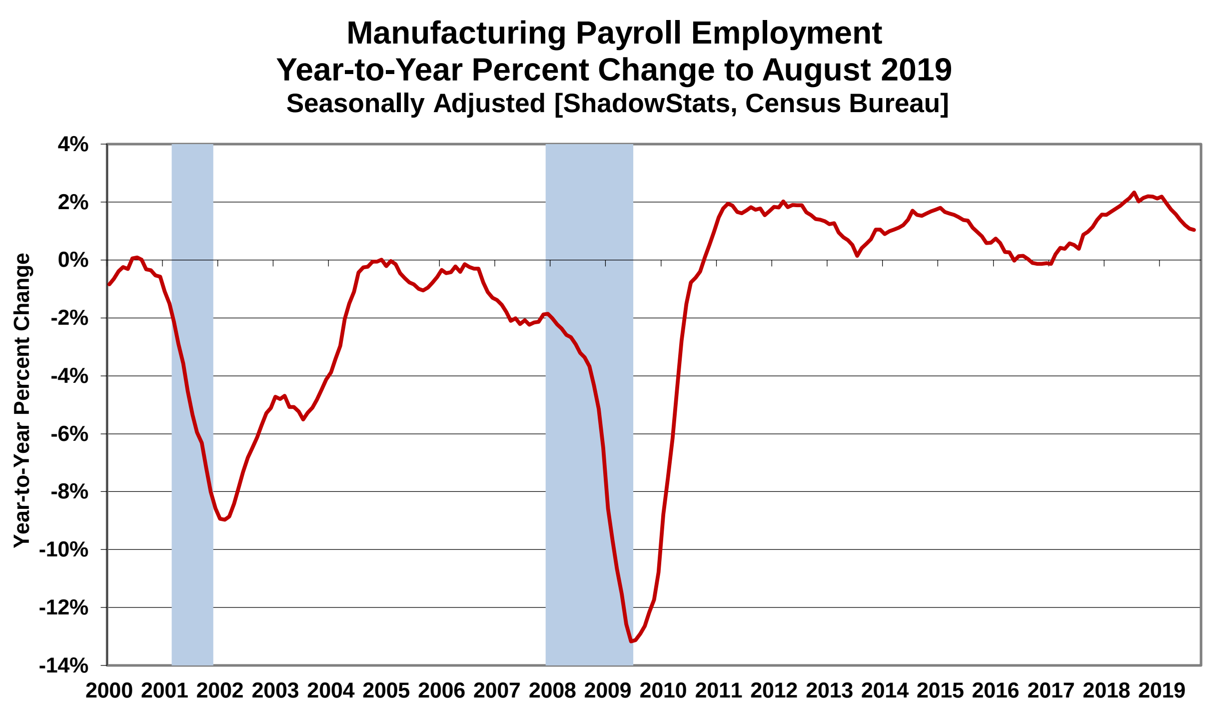
Graph 16: Retail Sales Payroll Employment, 2000-to-Date, Yr-to-Yr % Change



Graph 17: Manufacturing Payroll Employment, 2000-to-Date



Graph 18: Manufacturing Payroll Employment, 2000-to-Date, Yr-to-Yr % Change



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