John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 486
Third-Quarter GDP Revision, Durable Goods Orders, New Home Sales

November 29, 2012

Third-Quarter 2012:

Revised GDP Growth Was Flawed and Statistically Insignificant

GDI (Theoretical GDP Equivalent) Rose 1.7%,
With Second-Quarter Falling into 0.7% Contraction

Durable Goods Quarterly Contraction Deepened in Revision

New Homes Sales Quarterly Gain Largely Revised Away

PLEASE NOTE: The next regular Commentary *is scheduled for Friday, December 7th, covering November employment and unemployment, October construction spending and PCE deflator.*

Best wishes to all — John Williams

Opening Comments and Executive Summary. The *Special Commentary (No. 485)*, published two days ago (November 27th), updated *Hyperinflation 2012* and the broad outlooks on the economy and inflation, as well as systemic stability and the U.S. dollar. None of the economic releases of the past several days altered those outlooks. If anything, except for the standard nonsense in GDP reporting, the latest data and revisions show an increasingly negative, not positive, outlook for business activity. Accordingly, today's comments will be relatively short and limited to the latest numbers.

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The upside revision of third-quarter 2012 GDP headline growth to 2.7%, from 2.1%, appears to have been based on an improper, incomplete and inconsistent handling of revisions, which should have been held for the annual revisions due in July 2013. At that time they could have been handled on a complete and consistent basis.

Running counter to the indications of the GDP report, downside revisions to new orders for durable goods and to new home sales suggested that third-quarter 2012 business activity was weaker, not stronger as otherwise was indicated by the heavily-massaged GDP reporting.

Although Faulty, GDP Revision Was No More than Statistical Noise. The second estimate (first revision) of third-quarter 2012 GDP was meaningless—as usual—in terms of having any relationship to underlying real-world economic activity. The headline growth rate of 2.67% remained well within the 95% reporting confidence interval of +/- 3.5%. Further, it appears that changes in underlying fundamentals that drive the series were not accounted for properly in the revised growth estimate.

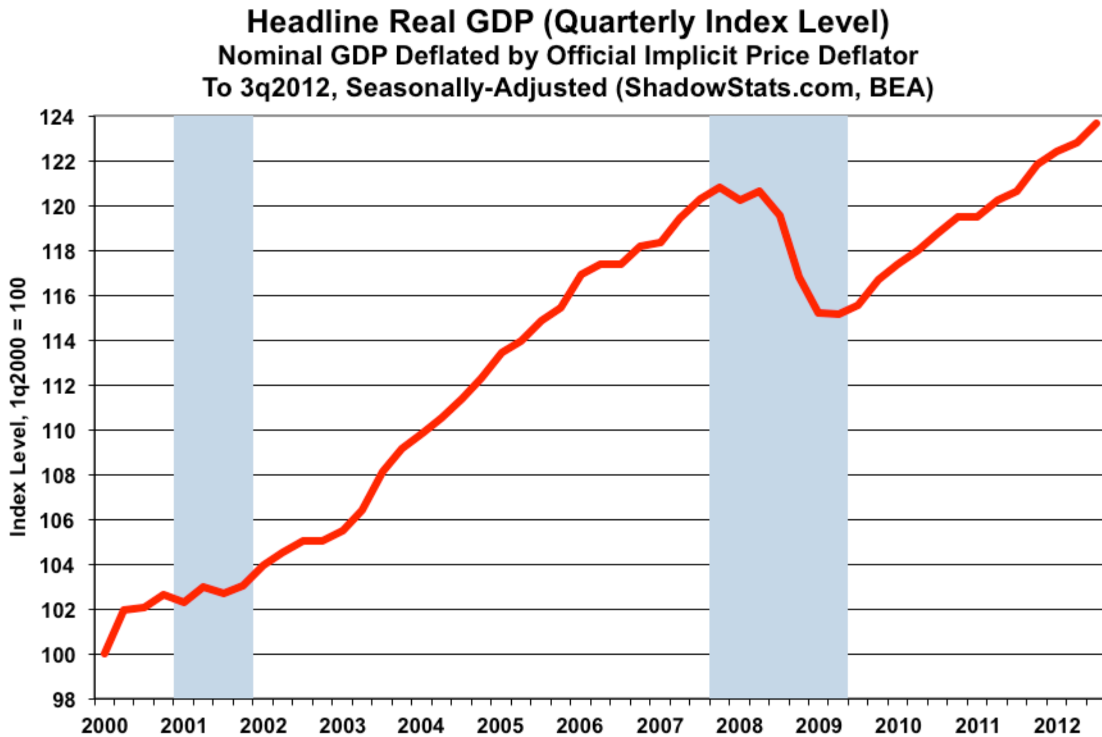
The 0.66-percentage point upside revision to the annualized GDP growth rate (from 2.01% to 2.67%) was explained largely by a 0.43-percentage point negative contribution from personal consumption expenditures (reasonably consistent with downside revisions in the retail series), offset by a 0.32-percentage point positive contribution from net exports (reasonably consistent with updated trade data), and by a 0.79-percentage point positive contribution from gross private investment, where a 0.89-percentage point of that came from higher inventories.

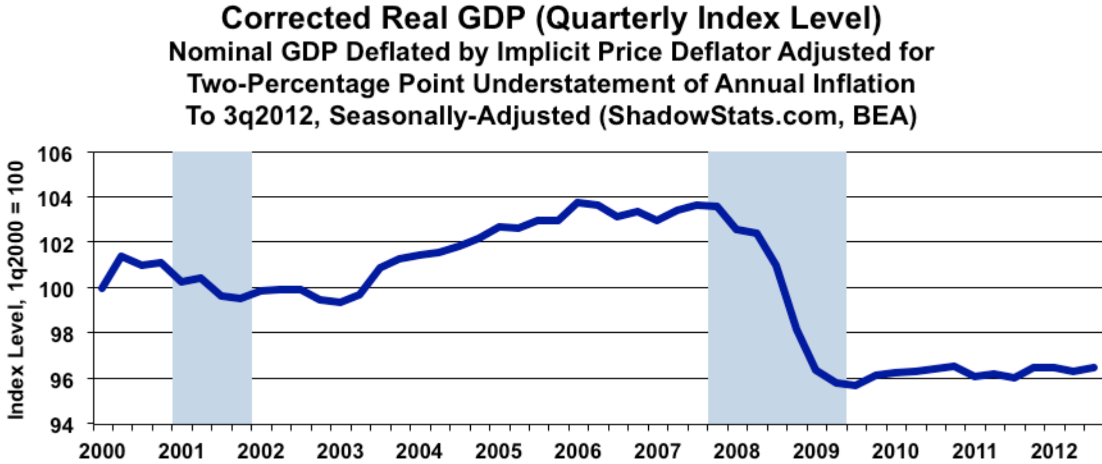
As discussed in *Commentary No. 483* on October industrial production, revisions that gave a relative boost to third-quarter 2012 production activity were due to second-quarter, not third-quarter activity. Accordingly the impact of those revisions usually would have been reflected in the annual GDP revisions in July 2013, not in the regular revision to third-quarter 2012, when numbers in the second-quarter and before are not subject to revision. The relatively stronger third-quarter production estimate would account—albeit improperly—for the inventory gain. Without the relative surge in inventories, third-quarter 2012 GDP growth would have revised from to 2.01% to 1.78%, instead of to 2.67%

Gross domestic income (GDI), which is the income-side reporting equivalent of the consumption-side GDP, showed initial headline third-quarter growth of 1.68%, but that was against a revised 0.72% outright annualized quarter-to-quarter contraction in the second-quarter. Second-quarter GDI last had been estimated at 0.16% annualized growth. Year-to-year GDI growth was 2.29% in third-quarter 2012, versus 1.80% in the second-quarter. The GDI is on a different revision schedule than is the GDP.

Gross national product (GNP) is the broadest measure of U.S. economic activity. Where GDP is GNP net of trade in factor-income, or interest and dividend payments, the headline initial third-quarter 2012 GNP growth rate was an annualized 2.67%, versus 2.05% in the second-quarter. Year-to-year GNP was 2.36% in the third-quarter, versus 2.06% in the second-quarter.

Corrected Gross Domestic Product. The full economic recovery indicated by the official real GDP numbers is an illusion. It is a statistical illusion created by using too-low a rate of inflation in deflating (removing inflation effects) from the GDP series. The following two graphs tell the story. They are the same graphs on pages 10 and 11 (*Graphs 1* and *2*) *of* *No. 485: Special Commentary*, updated for today's first revision to the third-quarter GDP.





Shown in the first graph, the official level of real GDP activity has been reported at above pre-2007 recession levels—in full recovery—since fourth-quarter 2011. No other major economic series has shown a parallel pattern of full economic recovery. Either GDP reporting is wrong, or all other major economic series are wrong. While the GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which attempt to survey real-world activity. Flaws in the GDP inflation methodologies have created the "recovery."

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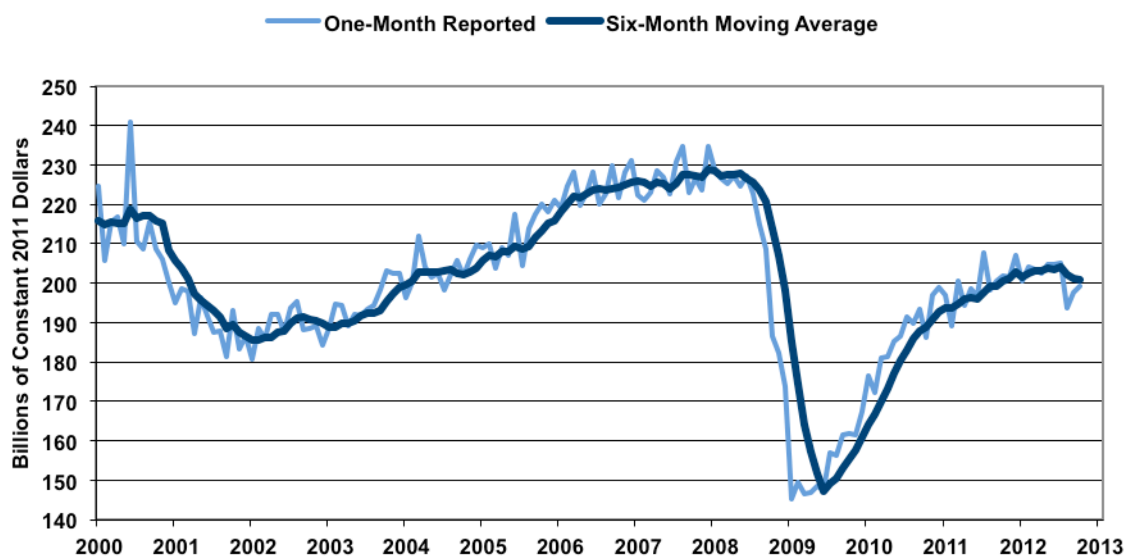
The second graph shows the GDP corrected for the understatement inherent in official inflation estimates. It plots the GDP with the deflation by the implicit price deflator (IPD) corrected for understatement of roughly two-percentage points of annual inflation in the IPD. The inflation understatement has resulted from hedonic-quality adjustments, as discussed in *Hyperinflation 2012*, *No. 485: Special Commentary* and *Public Comment on Inflation*. Both graphs are indexed to first-quarter 2000 = 100, with the plots to consistent scales

Third-Quarter Contraction in Durable Goods Orders Deepened in Revision. October 2012 new orders for durable goods were unchanged, month-to-month, per headline reporting. September activity also was revised lower, with parallel impact on third-quarter activity.

New orders for durable goods have been in quarter-to-quarter contractions for the first three quarters of 2012, both before and after consideration for the effects of inflation. With changes reported along with the headline October 2012 number, the third-quarter 2012 pace of contraction deepened in revision. Real (inflation-adjusted) aggregate new orders showed a revised third-quarter annualized contraction of 7.6% (was 6.9%), against a 4.2% contraction in the second-quarter, and 4.9% in the first-quarter.

The following two graphs plot new orders for durable goods, adjusted for inflation (using the PPI finished goods capital equipment index) and smoothed, using the monthly as well as a six-month moving average of activity levels. The first graph shows the aggregate new orders series; the second series is net of the extremely volatile commercial-aircraft order sector.



The first graph is an updated version of *Graph 10*, on page 16 *of No. 485: Special Commentary*, reflecting the October estimate of new orders as well as prior-period revisions that just were published.

In terms of inflation-adjusted level, these series have shown a slowing uptrend and flattening-out in the last two-to-three years—now in a pattern of downturn—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in October and September 2012 remained below both the pre-2001 and pre-2007 recession highs.

The pattern of decline unfolding in new orders is one that usually precedes or is coincident with a recession, as suggested in the historical graphs of the inflation-adjusted series, both aggregate and net of nondefense aircraft.

If the deflation measure here were corrected meaningfully for hedonic-adjusted understatement of inflation, the post-2009 uptrend in real orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity, with the most recent reporting turning increasingly negative.

Revisions Pummeled Previous Third-Quarter 2012 New Home Sales Gain. October 2012 new home sales remained in a state of depressed bottom-bouncing. The 0.3% monthly contraction in October sales was in the context of, and despite, hefty downside revisions to previous monthly growth estimates, which had the effect of flattening the pattern of recent activity. What had been heralded as a 5.7% (albeit statistically-insignificant) monthly gain in September, revised to just 0.8% with October's data.

Previously-estimated annualized third-quarter growth (same form of growth calculation used with the GDP) had been at 16.8%; that slowed to 5.3% in revision. The impact of Hurricane Sandy likely was

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minimal in October and certainly had no effect on the prior-period downside revisions. Negative revisions to prior estimates should become an increasingly familiar pattern in the reporting of most economic series, where underlying positive assumptions help to drive the nature of monthly reporting.

[More detail and graphics on the GDP revision, October durable goods orders and October new home, are found in the* Reporting Detail *section.]

REPORTING DETAIL

GROSS DOMESTIC PRODUCT—GDP (Third-Quarter 2012, Second Estimate, First Revision)

Third-Quarter GDP Headline Growth Revision to 2.67%, from 2.01%, Was Faulty but Still Little More than Statistical Noise. The second estimate of third-quarter 2012 GDP was meaningless—as usual—in terms of having any relationship to underlying real-world economic activity. The headline growth rate remained well within the 95% reporting confidence interval of +/- 3.5%. This most-worthless and most-heavily-politicized of government economic series did not reflect properly or accurately the changes to the underlying fundamentals that drive the series.

Details of the impact of major GDP components upon the revision are discussed in the *Opening Comments and Executive Summary* section. As discussed there and in *No. 485: Special Commentary*, the GDP remains the only major economic series to show a full economic recovery, but the GDP's upswing since mid-2009 has been no more than a statistical illusion resulting from the use of bad-quality inflation data. Details there also are discussed and graphed in the *Opening Comments*.

Notes on GDP-Related Nomenclature and Definitions

For purposes of clarity and the use of simplified language in the text of the GDP analysis, here are definitions of several key terms used related to GDP reporting:

Gross Domestic Product (GDP) *is the headline number and the most widely followed broad measure of U.S. economic activity. It is published quarterly by the Bureau of Economic Analysis (BEA), with two successive monthly revisions, and with an annual revision in the following July.*

Gross Domestic Income (GDI) *is the theoretical equivalent to the GDP, but it generally is not followed by the popular press. Where GDP reflects the consumption side of the economy and GDI reflects the offsetting income side. When the series estimates do not equal each other, which almost always is the case, since the series are surveyed separately, the difference is added to or subtracted from the GDI as a "statistical discrepancy." Although the BEA touts the GDP as the more accurate measure, the GDI is relatively free of the monthly political targeting the GDP goes through.*

Gross National Product (GNP) *is the broadest measure of the U.S. economy published by the BEA. Once the headline number, now it rarely is followed by the popular media. GDP is the GNP net of trade in factor income (interest and dividend payments). GNP growth usually is weaker than GDP growth for net-debtor nations. Games played with money flows between the United States and the rest of the world tend to mute that impact on the reporting of U.S. GDP growth.*

Real *(or* ***Constant Dollars****) means the data have been adjusted, or deflated, to reflect the effects of inflation.*

Nominal *(or* ***Current Dollars****) means growth or level has not been adjusted for inflation. This is the way a business normally records revenues or an individual views day-to-day income and expenses.*

GDP Implicit Price Deflator (IPD) *is the inflation measure used to convert GDP data from nominal to real. The adjusted numbers are based on "Chained 2005 Dollars," at present, where the 2005 is the base year for inflation, and "chained" refers to the methodology which gimmicks the reported numbers so much that the total of the deflated GDP sub-series misses the total of the deflated total GDP series by nearly $107 billion in "residual" as of fourth-quarter 2011.*

Quarterly *growth, unless otherwise stated, is in terms of seasonally-adjusted, annualized quarter-to-quarter growth, i.e., the growth rate of one quarter over the prior quarter, raised to the fourth power, a compounded annual rate of growth. While some might annualize a quarterly growth rate by multiplying it by four, the BEA uses the compounding method, raising the quarterly growth rate to the fourth power. So a one percent quarterly growth rate annualizes to 1.01 x 1.01 x 1.01 x 1.01 = 1.0406 or 4.1%, instead of 4 x 1% = 4%.*

Annual *growth refers to the year-to-year change of the referenced period versus the same period the year before.*

GDP. Published this morning, November 29th, by the Bureau of Economic BEA, the second estimate (first revision) of third-quarter 2012 gross domestic product (GDP) showed revised real (inflation-adjusted) quarterly growth at a statistically-insignificant 2.67% +/- 3.5% (95% confidence interval), initially reported at 2.01%. The revised headline growth rate was against a 1.25% headline gain in the second-quarter and versus 1.96% growth reported in the first-quarter.

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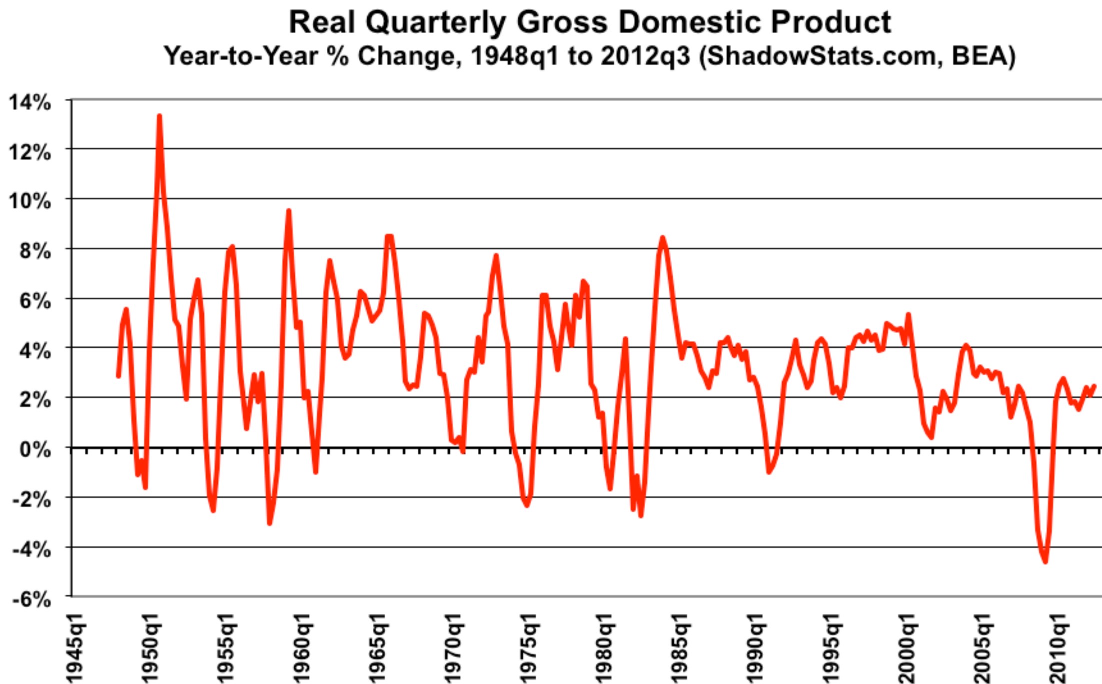
For six of the seven quarters since first-quarter 2011 (fourth-quarter 2011 excepted), estimated growth rates have been little more than statistical noise around the unchanged level, and these heavily guessed-at numbers possibly have been massaged to keep the quarterly growth rates in minimally-positive, as opposed to minimally-negative territory.



Reflected in the preceding graph, the revised estimate of year-to-year real change in third-quarter 2012 GDP was 2.49% (previously 2.32%), versus 2.14% in the second-quarter and 2.45% in first-quarter 2012. The latest annual growth remains off the near-term peak growth of 2.80% reported during third-quarter 2010. The current cycle trough was in second-quarter 2009 at a 4.58% year-to-year decline, the deepest annual contraction seen for any quarterly GDP in the history of the series, which began with first-quarter 1947.

Implicit Price Deflator (IPD) and PCE Deflator. The third-quarter 2012 GDP implicit price deflator (IPD) revised to an annualized quarterly inflation rate of 2.80%, which initially was 2.90%. The downside revision to GDP inflation rate was responsible for 0.1-percentage point of the 0.7-percentage point aggregate upside revision to the headline growth rate. The annualized IPD inflation was 1.53% in the second-quarter and 2.17% in the first-quarter. Third-quarter year-to-year inflation was estimated at a revised 1.65% (previously 1.68%), little changed from 1.70% in the third-quarter, but down from 1.98% in the first-quarter.

For comparison purposes, annualized seasonally-adjusted quarterly inflation for the CPI-U in third-quarter 2012 was 2.30%, versus 0.75% in the second-quarter and 2.48% in the first-quarter, with year-to-year CPI-U at 1.70%, versus 1.89% in the second-quarter and 2.82% in the first-quarter.

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The lower the inflation rate that is used in deflating the GDP, the stronger will be the resulting inflation-adjusted number and vice versa.

Year-to-year change in the third-quarter personal consumption expenditures (PCE) deflator was a revised 1.45% (previously 1.50%), versus 1.64% in the second-quarter and 2.36% in the first-quarter. The PCE deflator detail will be updated in the December 7th *Commentary*, which will cover the November 30th release of the October monthly data.

SGS-Alternate GDP. The SGS-Alternate GDP estimate for third-quarter 2012 is a 2.1% year-to-year contraction versus the revised official estimate of a 2.5% gain. The SGS third-quarter estimate is a narrower contraction than the 2.2% estimated for second-quarter 2012, versus the official estimate of 2.2% year-to-year growth (see the Alternate Data tab).

While annualized real quarterly growth is not estimated formally on an alternate basis, a quarter-to-quarter contraction once again appears to have been a realistic possibility for the third-quarter, as it has been for six of the last seven quarters, a period of protracted business bottom-bouncing in the real world.

Adjusted for gimmicked inflation and other methodological changes, the business downturn that began in 2006/2007 is ongoing; there has been no meaningful economic rebound. The inflation-corrected GDP graph (see the *Opening Comments and Executive Summary* section and *Hyperinflation 2012* and *No. 485: Special Commentary*) is based on the removal of the impact of hedonic quality adjustments that have reduced the reporting of official annual GDP inflation by roughly two-percentage points. It is not the same measure as the SGS-Alternate GDP, which reflects the impact of reversing additional methodological distortions of recent decades.

GDI. Gross domestic income (GDI) is the income-side reporting equivalent of the consumption-side GDP. Free of most of the media hype that helps to shape the GDP reporting, the GDI can be more meaningful in its separate surveying and lack of relative political massaging. Where the GDI and GDP have to equal each other, that rarely happens, except for the use of a statistical-discrepancy account that is included on the GDI side to establish equality. In the initial reporting of third-quarter GDI, the headline growth rate was 1.68%, versus a revised 0.72% annualized contraction in the second-quarter. The second-quarter GDI last had been estimated at 0.16% annualized growth. Year-to-year GDI growth was 2.29% in third-quarter 2012, versus 1.80% in the second-quarter.

GNP. Gross national product (GNP) is the broadest measure of U.S. economic activity, where GDP is GNP net of trade in factor-income, or interest and dividend payments. In initial reporting, the headline third-quarter 2012 GNP growth rate was an annualized 2.67%, versus 2.05% in the second-quarter. Year-to-year GNP was 2.36% in the third-quarter, versus 2.06% in the second-quarter.

NEW ORDERS FOR DURABLE GOODS (October 2012)

Third–Quarter Contraction in Durable Goods Orders Deepened in Revision. Both before and after adjustment for PPI finished capital goods inflation, new orders for durables have been in quarterly contraction for the first three quarters of 2012. With changes reported along with headline October 2012 number, the third-quarter 2012 durable goods orders contraction just deepened in revision. Real

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(inflation-adjusted) new orders show a revised, annualized third-quarter contraction of 7.6% (was 6.9%), against a 4.2% contraction in the second-quarter, and a 4.9% contraction in the first-quarter.

The pattern of decline unfolding in new orders is one that usually precedes or coincides with a recession (contracting broad general economic activity), as suggested in the historical graphs of the real (inflation-adjusted) series, both aggregate and net of nondefense aircraft, in the *Opening Comments and Executive Summary*. The level of October 2012 real new orders remained below both the pre-2001 and pre-2007 recession highs for the series.

Note on Deflating New Orders for Durable Goods: As described in Special Commentary No. 426*, there is no fully appropriate inflation measure available for deflating durable goods. The one used in the "real" graphs is the PPI's inflation measure for finished goods capital equipment (PPI-FGCE), an official inflation measure. The problem with that measure is in the hedonic quality adjustments to prices, where nebulous "quality improvements," which cannot be measured directly and are not consistently applied to all products, are modeled in incredibly imprecise efforts by the government to reduce reported inflation versus real-world experience. The same issues are part of the methodological problems that significantly understate the CPI and the GDP implicit price deflator inflation measures.*

In terms of smoothing, the graphs in the Opening Comments and Executive Summary *section reflect a six-month moving average, as well as the raw monthly data. The detail also is graphed net of nondefense aircraft orders, a significant cause of month-to-month volatility in the series.*

Official, Nominal September Reporting. The Census Bureau reported November 27th, that the regularly-volatile, seasonally-adjusted nominal (not adjusted for inflation) level of October 2012 new orders for durable goods was unchanged for the month, following a revised 9.2% (previously 9.9%) gain in September, and an unrevised 13.1% (unchanged second revision versus an initial estimate of a 13.2%) monthly drop in August.

The irregular and highly volatile long-term nondefense aircraft orders dropped back by 5.8% in October, from a revised 2,651.8% (previously 2,640.7%) rebound in September, which followed an unrevised decline in August of 97.2%. Initially, August orders had been reported down by 101.8%, including cancellations. Aircraft orders usually are placed years in advance of delivery and rarely impact near-term economic activity.

Unadjusted, year-to-year change in total October 2012 new orders rebounded to growth of 5.4%, from a revised 0.5% (previously 0.3%) decline in September, from the year before, and an unrevised annual contraction of 7.2% in August.

Also heavily affected by the extreme volatility in nondefense aircraft orders, seasonally-adjusted new orders for nondefense capital goods gained 0.8% in October, versus a revised 23.0% (previously 23.7%) increase in September, and a revised 23.9% (previously 24.0%, initially 24.3%) decline in August. For October 2012, the unadjusted year-to-year change in the series was 3.8%, versus a revised 3.2% (previously 3.4%) annual contraction in September.

Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems that are seen with retail sales and payroll reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly changes.

Inflation-Adjusted and Smoothed. The nominal unchanged orders level in October effectively was a real monthly gain of 0.3%, after adjusting for a small monthly decline in the PPI finished goods capital equipment deflator. The revised nominal 9.2% monthly gain in September also was 9.2% after inflation adjustment.

In terms of inflation-adjusted level, however, as indicated in the graphs in the *Opening Comments and Executive Summary*, these series have shown a slowing uptrend and flattening-out in the last two-to-three years—now in a pattern of downturn—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in October and September 2012 remained below both the pre-2001 and pre-2007 recession highs.

If the deflation measure here were corrected meaningfully for its hedonic-adjusted understatement, the post-2009 uptrend in seen in the graphs of real orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity, with the recent pattern of downturn now well entrenched.

NEW-HOME SALES (October 2012)

Downside Revisions Pummeled Previous Estimate of Third-Quarter 2012 New Home Sales. October 2012 new home sales remained in a state of depressed stagnation or bottom-bouncing, following the collapse of housing-industry activity from 2006 into 2009. The same pattern has been seen consistently with the housing starts data. The two graphs following show the pattern of new-home sales activity versus housing starts.

The 0.3% monthly contraction in October 2012 sales was in the context of, and despite, hefty downside revisions to previous monthly growth estimates, which had the effect of flattening the pattern of recent activity. What had been heralded as a 5.7% (albeit statistically-insignificant) monthly gain in September, revised to just 0.8% with October's estimates. Previously-estimated annualized third-quarter growth (same form of growth calculation used with the GDP) had been at 16.8%; that slowed to 5.3% in revision. The impact of Hurricane Sandy likely was minimal in October and had no effect on the prior periods.

Softening growth and some other downside revision in recent housing activity also was seen in the October reporting of housing starts and existing-home sales (see *Commentary No. 484*). The various housing series likely will experience downside benchmark revisions in the year ahead. As discussed in *No. 485: Special Commentary*, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or an unfolding, broad economic recovery.

October Reporting. The November 28th release of October 2012 new-home sales (counted based on contract signings, Census Bureau) showed a statistically-insignificant 0.3% month-to-month contraction (down by 5.4% before prior-period revisions) +/- 21.4% (all confidence intervals are at the 95% level). Lack of statistical significance in month-to-month change has been a common circumstance for more than three years. In turn, September's monthly gain was revised to 0.8% (previously 5.7%).

October's year-to-year gain of 17.2% +/- 24.8% in new-home sales also was statistically-insignificant. The September annual gain was revised to 19.5% (previously 27.1%). Recent volatility in annual change reflects partially the effects of lapsing stimulus efforts last year.

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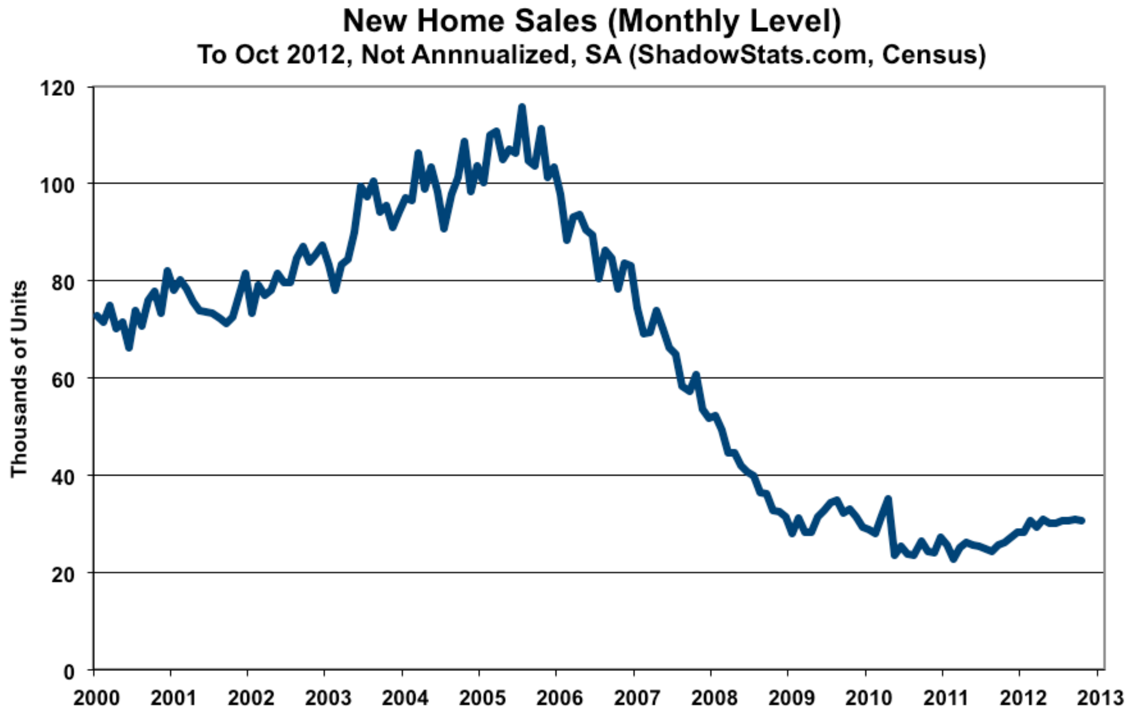

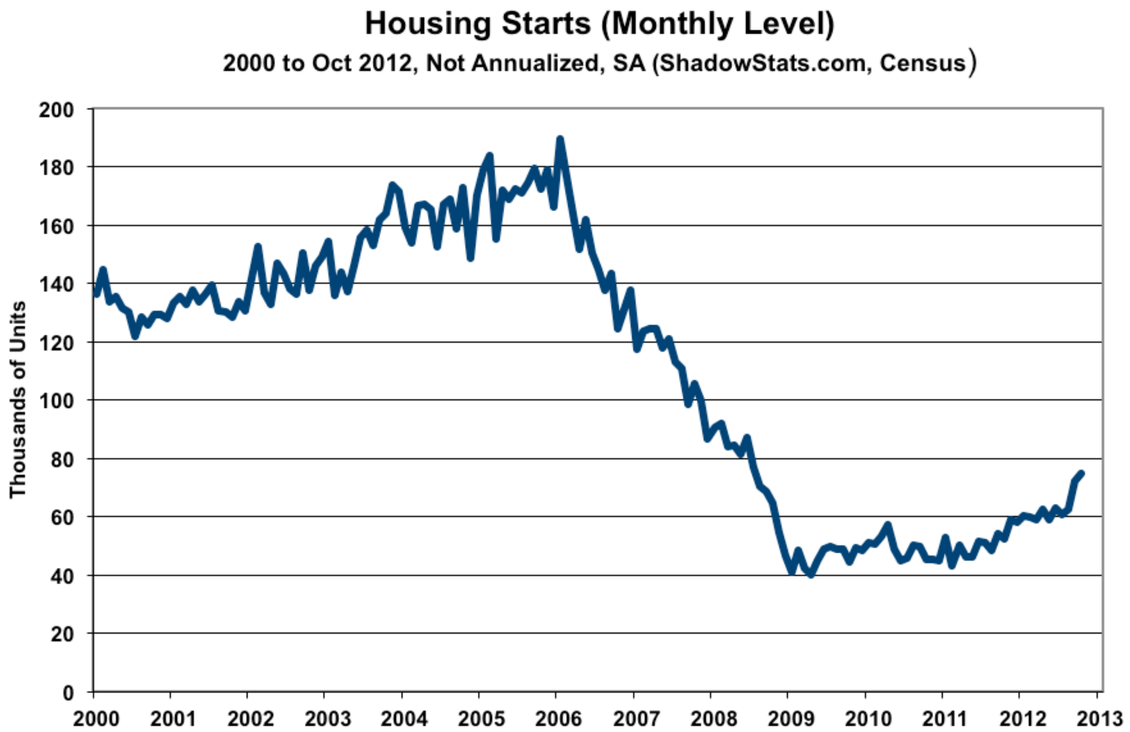

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Week Ahead. *Until such time as financial-market expectations catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally should continue to show higher-than-expected inflation and indicate weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should continue to show up in prior-period revisions, as seen recently, for example, in the reporting of October retail sales, industrial production, housing starts, new- and existing-home sales, and new orders for durable goods.*

Significant reporting-quality problems continue with most widely followed series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments, distortions that have been induced by the still-ongoing economic turmoil of the last five years. The recent economic collapse has been without precedent in the post-World War II era of modern economic reporting. These distortions have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series. In any event, where numbers are too far removed from common experience, they tend to be viewed by the public with extreme skepticism.

Still, recognition of an intensifying double-dip recession continues to gain, while recognition of a mounting inflation threat has been rekindled a bit by recent Fed monetary policies and rising headline inflation numbers. The political system would like to see the issues disappear; the media does its best to avoid publicizing unhappy economic news or, otherwise, it puts a happy spin on the numbers; and the financial markets do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.

Personal Consumption Expenditure (PCE) Deflator (October 2012). The Bureau of Economic Analysis is scheduled to release the October 2012 PCE deflator tomorrow, Friday, November 30th. The Federal Reserve's targeted inflation measure should move slightly higher, still closing in on the targeted 2.0% year-to-year inflation rate, increasing in tandem with changes seen in the various October CPI measures (see *Commentary No. 482*). Nonetheless, as discussed previously, the current concept of an inflation target serves only as pablum for the financial markets, not as a defining priority that drives Fed policy.

Construction Spending (October 2012). Due for release on Monday, December 3rd, by the Census Bureau, October construction spending likely will show continued stagnation at low levels of activity, particularly after inflation-adjustment. With minimal impact likely in October from Hurricane Sandy, the monthly changes should not be statistically significant. Increasing impact from the storm's disruptions to construction activity is likely in November, however, with rebuilding from the destruction adding some temporary upside gains to activity during the next several quarters.

Employment and Unemployment (November 2012). November labor data are due for release by the Bureau of Labor Statistics (BLS) on Friday, December 7th. Most commonly, the consensus jobs estimate settles around the trend estimate that comes out of the BLS seasonal-adjustment models. The November payroll trend number is for a 126,000 gain, as discussed in *Commentary No. 479*, but the consensus seems to be much lower—just above the unchanged level—due largely to the impact of Hurricane Sandy. The headline jobs gain in October was 171,000. Some increase in the unemployment rate versus October's 7.9% also seems to be expected by the markets.

With other indications of the economy already turning lower, before the impact of the hurricane, November payroll number should disappoint market expectations, assuming the consensus otherwise has captured the bulk of the hurricane's impact. The storm-related jobs impact, however, is difficult to

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estimate early on. Among other factors, a number of companies reporting payrolls may not have been able to get their estimates reported to the BLS on time. Under such conditions, the BLS guesstimates where reality lies, usually coming in on the upside of actual circumstances. There is potential here for an outright headline contraction in the November payrolls, but any unexpected weakness likely will be dismissed by the financial media and the administration as storm-related, instead of as being part of economic activity that fundamentally is turning down, again. More difficult to dismiss would be downside revisions to September and October payroll data.

The *actual* November U.3 unemployment rate indeed should be moving higher, meaningfully and by more than consensus expectations, versus October's headline 7.9% number. Nonetheless, the November *headline* number could come in anywhere, with absolutely no significance whatsoever as to the implied month-to-month change in the unemployment rate. That is due to the inconsistent, concurrent-seasonal-factor adjustments that will make the November number not comparable with the October number (see the general unemployment concurrent-seasonal-factor discussion in the *Opening Comments* of *Commentary No. 461*).

Simply put, the headline November unemployment rate will be calculated in the context of a set of seasonal factors unique to November's reporting. That same calculation also will generate revised unemployment rates for October, and earlier, which would be consistent with the November estimate, but the BLS will not publish the revised, consistent October or earlier numbers, so as "to avoid confusing data users."

As a result, that uniquely-calculated November unemployment rate will be published and compared with the unrevised October unemployment rate that was uniquely calculated and published last month. The headline November and October numbers put before the public will be inconsistent and, accordingly, not comparable.

This all is despite the BLS knowing the actual, consistent October number. If used, the consistent number could affect the headline monthly change in the unemployment rate by several tenths of a percentage point, in either direction, conceivably markedly different from what the mainstream media will be touting, and around which the financial markets most likely will be gyrating nonsensically. This issue may have been responsible for the sharp "decline" in September's unemployment rate. Those data all will be revised with the December reporting.

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