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

**COMMENTARY NUMBER 492**
**Fiscal Fiasco, December Employment and Unemployment, November Construction**

**January 5, 2013**

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**Fiscal Crisis Continues Unabated;**
**Last-Minute "Cliff" Deal Did Nothing to Reduce or Contain Budget Deficits**

**No Way of Avoiding A Recession That Already Is Underway**

**December U.3 Unemployment Rate Actually Rose by 0.1%**

**ShadowStats Unemployment Estimate at New High**

**December Unemployment: 7.8% (U.3), 14.4% (U.6), 23.0% (ShadowStats.com)**

**December M3 Annual Growth at 3-1/2 Year High**

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*PLEASE NOTE: The next regular* Commentary *is scheduled for Friday, January 11th, covering the November 2012 monthly U.S. trade balance.*

*Happy New Year to all! — John Williams*

**Opening Comments and Executive Summary.** By third-quarter 2012, the U.S. economy had entered what likely will be recognized formally as a double-dip recession. As discussed in *Special Commentary (No. 485)*, the problems with the economy were in place well before the temporary disruptions of Hurricane Sandy and well before the possible impact of any yet-to-come and still highly improbable, meaningful efforts that might be undertaken by the federal government to bring its deficit spending under control.

Deteriorating chances of the U.S. government taking any serious action to address its sovereign-solvency issues continues to hold the potential for extremely negative selling pressure on the U.S. dollar in the global markets, for significant upside pressure on domestic inflation, and for severe intensification of the ongoing economic and systemic-solvency crises.

The economic releases of this past holiday-shortened week showed real median household income in November to be in continuing severe downturn, and with November construction spending having softened some. While the decline in construction was not statistically significant, it likely reflected some impact of the hurricane, with temporary near-term boosts in construction likely in upcoming months from storm-recovery activity.

The December employment and unemployment reporting remained heavily distorted by poor-quality, seasonal-adjustment factors, while annual benchmark revisions to the seasonally-adjusted unemployment data provided some indication of the unreliability of those adjusted monthly numbers. On the unemployment front, the December U.3 unemployment rate actually increased by 0.1%, although it was reported as "unchanged" at the headline level, while the broader ShadowStats unemployment estimate rose to a cycle high of 23.0%.

Separately, with year-to-year growth in December 2012 broad money supply (the ShadowStats Ongoing M3 estimate) rising to 4.4%, broad money growth is the strongest it has been since July of 2009. The detail here is discussed in the *Hyperinflation Watch* section.

***Festering Fiscal Conditions.*** The strengthening stench of fiscal rot along the Potomac is not about to go away. Back in the near-cataclysmic negotiations of 2011, when the White House and the Congress could not agree on an approach to addressing the United States' sovereign-solvency issues, and the U.S. government faced the first major downgrade to its "AAA" sovereign credit rating, decisions were needed in order to establish fiscal solvency. Instead, action was pushed off until after the 2012 election, with mandatory spending cuts (sequestration) planned for January 1, 2013, if an agreement otherwise could not be reached. Even if those back-up cuts were made, as promised, those actions would not be meaningful in restoring fiscal balance to U.S. government finances on a generally accepted accounting basis (GAAP).

Yet, still unable to come close to meaningful action by the end of 2012 on an approach to the looming sovereign-solvency crisis, the White House and the Congress have pushed the planned second day-of-reckoning further into the future by another two months.

The year-end deal included mixed fiscal impact from generally higher taxes and no spending cuts, but the tax-and-spend actions taken by the White House and Congress to avoid the so-called fiscal cliff provided no meaningful relief from deteriorating fiscal conditions; there was no movement towards balancing federal fiscal operations.

There also was nothing done or that could have been done to dodge an already existing recession, although the avoidance of some of the scheduled tax hikes temporarily lessened some of what would have been additional near-term downside pressures on economic activity. Moves towards fiscal discipline usually dampen economic activity, and meaningful spending cuts in the months ahead would add downside pressures to already negative economic activity. Nonetheless, failure to address the sovereign-solvency issues for the United States would have even greater negative impact on the U.S. economy and financial system, as discussed in *Hyperinflation 2012* and *Commentary No. 491*.

Gimmicked C-CPI Inflation. On the spending side, the only major area that appeared to receive joint support in the 2011 negotiating fiasco, and once again in recent pre-"cliff" talks, was the concept of artificially lowering the rate of inflation used in calculating cost-of-living-adjustments for programs such as Social Security, inflation-adjusting tax brackets, etc. Using the fully-substitution-based chained-weighted or C-CPI-U as a replacement for the CPI (once a fixed-weight inflation measure, now a generally-worthless hybrid number), official inflation reporting would have been reduced enough to lower government payments and/or increase tax revenues by a significant amount.

The problem is that the concept is an outright fraud, misrepresenting and understating the inflation rate that most people look at as a guide for income adjustment or investment returns, as discussed in *Commentary No. 489* and *Public Commentary on Inflation Measurement*. This gimmick, though, which fully eliminates any concept of the CPI as a measure of inflation reflecting the costs of maintaining a constant standard of living, presumably remains in play for the expense-cutting negotiations ahead. The concept, however, has picked up increasingly volatile opposition. As discussed in *Commentary No. 491*, the chances for meaningful changes to the U.S. fiscal outlook remain nil.

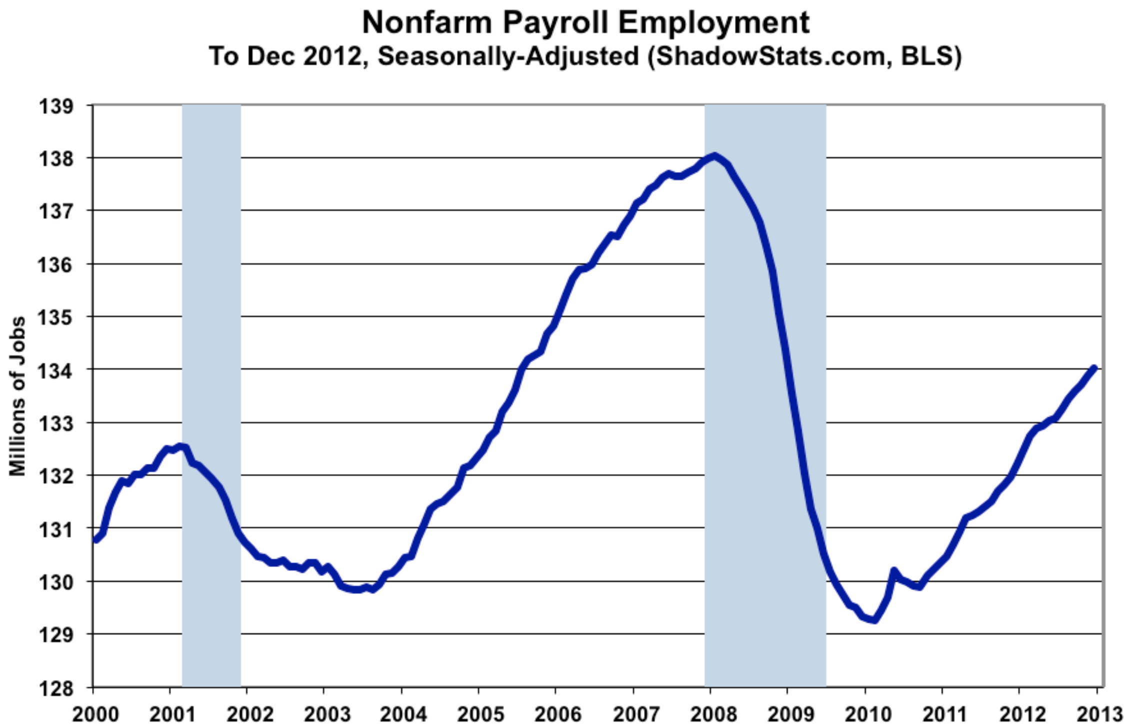
Debt Ceiling and Contentious Negotiations. Coincident with the unproductive budget-deficit reduction negotiations, the U.S. federal debt has reached its current upside limit. The debt ceiling will need to be raised in order for the U.S. government to continue functioning normally and to avoid another ratings downgrade. Negotiations on the debt ceiling and on reducing government spending likely will be particularly contentious in the weeks and months ahead.

What these developments mean is that the U.S. dollar likely will face extreme selling pressure in the near-term, as the global markets adjust to the continuing obvious lack of will and ability of those controlling the U.S. government to address the longer range solvency issues of the United States.

***December 2012 Payrolls and Unemployment.*** The December 2012 payroll employment reporting was within broad market expectations, without meaningfully large new revisions to recent reporting. Significant post-election corrective revisions were seen in last month's reporting (see *Commentary No. 487*). Nonetheless, the ongoing issues with concurrent seasonal adjustments to the series leave the monthly changes unstable beyond the official estimates of reporting error, as discussed in the *Reporting Detail* section, leaving the recent month-to-month employment changes in the realm of not being statistically meaningful. Nonetheless, all current data will be revamped fully in next month's benchmark revision.

That said, the headline gain in December payrolls was 155,000 (up by 169,000 before prior-period revisions) versus a revised 161,000 gain in November. Annual growth slowed minimally to 1.40% in December from 1.42% in November.

Following are the usual graphs of nonfarm payrolls with the first graph showing seasonally-adjusted payroll levels (indexed to January 2000 = 100), reflecting detail of the current employment level well below its pre-2007 recession peak. There has been no full recovery as reported in the GDP. The second, longer-term graph of the payroll employment level, shows historical detail back to 1940 and, in perspective, that payroll levels still are minimally above levels in 2000.


Nonfarm Payroll Employment
To Dec 2012, Seasonally-Adjusted (ShadowStats.com, BLS)
Millions of Jobs
139
138
137
136
135
134
133
132
131
130
129
128
2000
2001
2002
2003
2004
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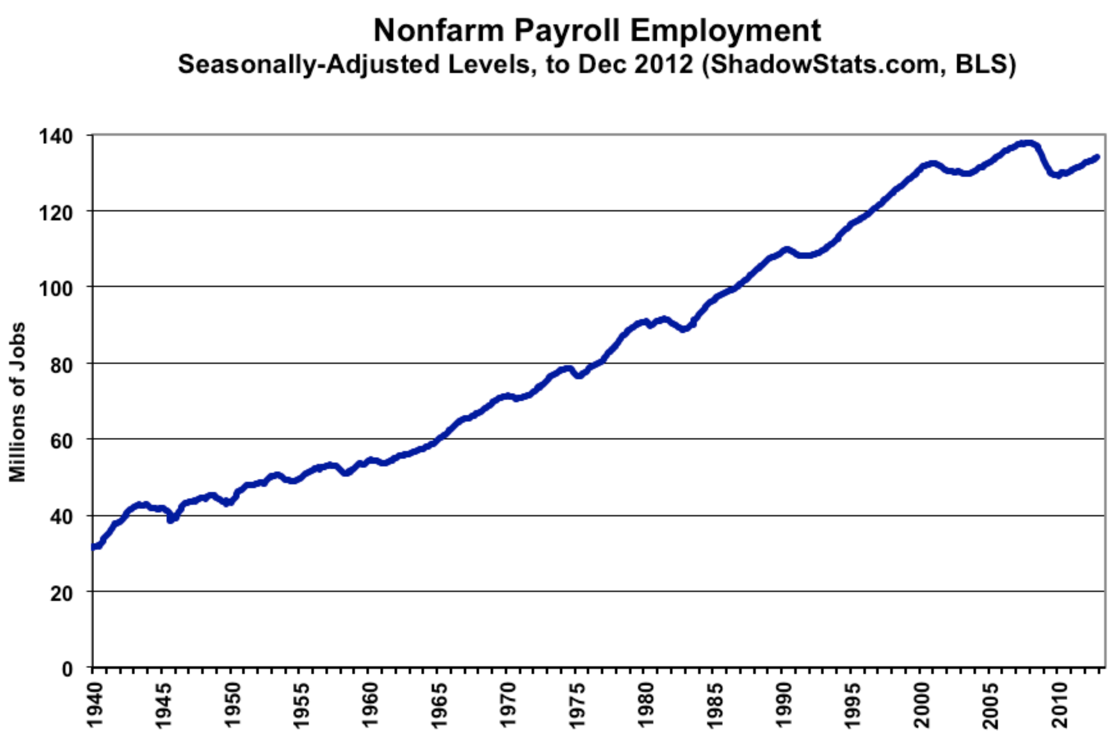
2013


Nonfarm Payroll Employment
Seasonally-Adjusted Levels, to Dec 2012 (ShadowStats.com, BLS)
Millions of Jobs
140
120
100
80
60
40
20
0
1940
1945
1950
1955
1960
1965
1970
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2005
2010

Unemployment and Revisions. As discussed frequently (see for example *Commentary No. 451* and *Commentary No. 453*), the concurrent seasonal adjustment process used to generate the headline unemployment data leaves the month-to-month comparisons on the employment data meaningless, since the published monthly numbers are not prepared on a consistent basis and simply are not comparable.

Once per year, however, with the December benchmark revision to the seasonally-adjusted unemployment data, the monthly comparisons are at least consistent. The revised monthly U.3 unemployment rates did not change by more than one-tenth of a percentage point in any given period, but there is no telling what the actual consistent numbers were in any data before November, because all those earlier numbers have been revised more than once, with no publication of the revision.

The most recent effect was where the headline U.3 dropped by 0.2% from 7.9% in October to 7.7% in November; that now appears as drop of 0.1% from 7.9% to 7.8%, although that revision would not be reflected in the standard reporting of the other 11 months in the year.

Had the usual reporting methods been held in place, the December headline unemployment rate would have shown an increase of 0.1% from 7.7% to 7.8%. Instead, with the only month in the year with fully consistent reporting, the headline unemployment rate happily did not increase, but instead it held at 7.8%, or did it?

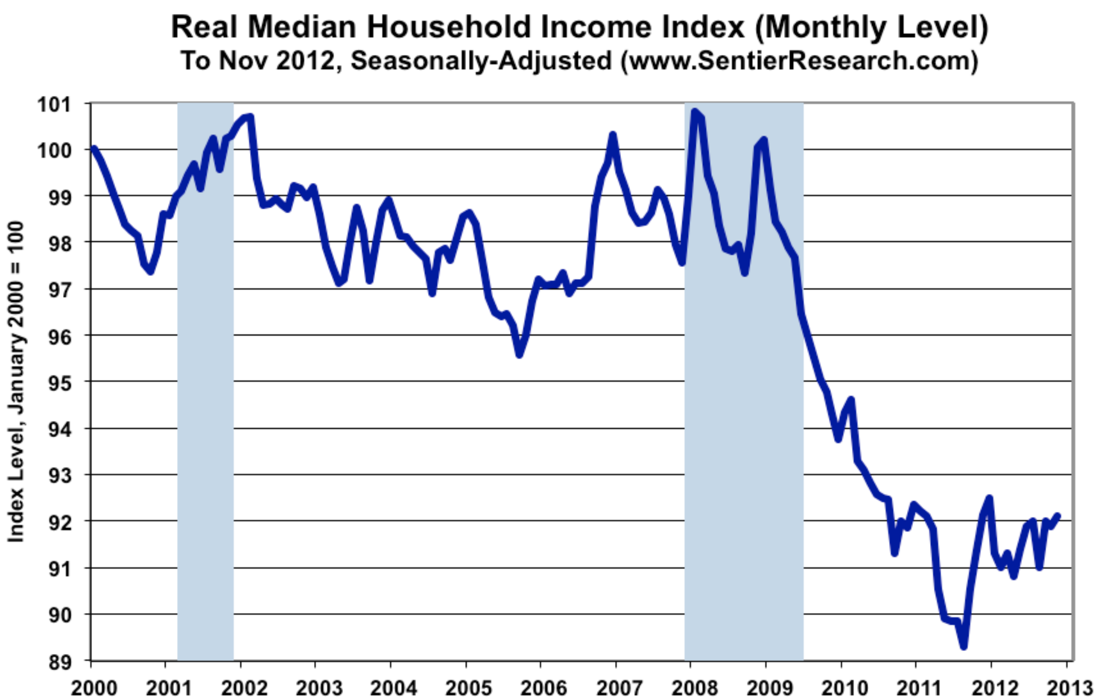
*Thank Goodness for Rounding.* With the November and December numbers comparable, a look at the second decimal point is legitimate, and there the "unchanged" December unemployment rate clearly was due solely to very fortuitous rounding. The reported December 2012 seasonally-adjusted headline (U.3) unemployment rate of 7.85% (rounds to 7.8%) was 0.096% (rounds to 0.1%) higher than the revised 7.75% (rounds to 7.8%), which initially had been reported at 7.75% (rounds to 7.7%). So, the unemployment rate rose by one-tenth percentage point, but the November headline number, which initially had rounded to 7.7%, now rounds to 7.8%, with the December headline U.3 rate at an unchanged 7.8%. For the one month in this year where the numbers are consistent, the unemployment rate really rose by 0.1%, although the headline number was unchanged.

*A Sense of the Seasonal Factor Distortions.* For an example of revisions that otherwise never are seen in the household survey reporting, consider that the October U.6 unemployment rate revised lower, from 14.6% to 14.5%, reflecting a downside revision in the count of people working part-time for economic reasons from 8,344,000 to 8,286,000. That revision reflected no fundamental change in the underlying data other than the current monthly recasting of October's of seasonal adjustments.

Other revisions are cited in the *Reporting Detail* section. The monthly numbers are not stable in month-to-month reporting when concurrent seasonal adjustments change the numbers every month. Come the January 2013 data, next month, the month-to month numbers will not be comparable for another year.

Of increasing significance to the broader unemployment numbers, the count of unadjusted (and accordingly unrevised) "short-term" discouraged workers rose by 9.1%, to 1,068,000 in December, up from 979,000 in November, which, in turn was up 20.4% from 813,000 in October. With increasingly distressed, unemployed individuals being dropped from the government's headline-unemployment and labor-force numbers, the BLS's broadest U.6 unemployment rate held at 14.4% in December, with the December ShadowStats (SGS) Alternate Unemployment measure rising to a cycle-high of 23.0% (see further detail in the *Reporting Detail* section).

***Other Reporting—November Median Household Income and Construction Spending.*** The following graph shows the latest reporting of real (adjusted for CPI-U inflation) median household income by www.SentierResearch.com. The November reading remained at a level near the cycle-low for the series, and within the realm of normal monthly volatility. Household income remains severely impaired. As discussed in *Special Commentary (No. 485)*, sustained real growth in consumption (economic recovery) is not possible without sustained real growth in income.




November 2012 Construction Spending. November construction spending declined month-to-month by a statistically insignificant 0.3%, in the context of net downside revisions to October activity. Where November construction likely was hit by mixed impact from Hurricane Sandy, with disruptions to normal activity offset by early stages of recovery activity, December likely will see net upside storm impact, as recovery and rebuilding dominate activity in the months ahead. Such would be consistent with the upturn just reported in December construction jobs.

***[More complete details on December employment and unemployment, and the details on November construction spending are found in the* Reporting Detail *section.]***

## HYPERINFLATION WATCH

**December Broad Money Growth Rose to 4.4% from 3.6% in November.** Based on roughly three weeks of reported data, the preliminary estimate of annual growth in the SGS or ShadowStats Ongoing-M3 Estimate for December 2012—published in the Alternate Data section—is 4.4%, up from an upwardly revised 3.6% (previously 3.5%) in November. The December reading is the strongest annual growth seen in the series since July 2009. As usual, revisions to prior months are due primarily to Federal Reserve revisions to underlying data.

The prior near-term peak in annual growth was at 4.1% in February 2012. Thereafter, growth faltered, dropping back to 2.5% in May, and, after sputtering in the last couple of months, now is pushing higher.

The seasonally-adjusted, preliminary estimate of month-to-month gain for the December 2012 money supply M3 is 1.1%, versus a revised 0.3% (previously a 0.1% gain) in November. The estimated month-to-month M3 changes, however, remain less reliable than the estimates of annual growth.

For December 2012, early estimates of year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1, M3 includes M2). Full definitions are found in the *Money Supply Special Report*. M2 for December is on track to show year-to-year growth of about 8.1% versus a revised 7.3% (previously 7.2%) in November, with month-to-month growth estimated at roughly 1.2% in December, versus a revised 0.5% (previously 0.4%) gain in November. The early estimate of M1 for December shows year-to-year growth of roughly 14.2%, versus a revised 11.2% (previously 10.8%) in November, with month-to-month change a likely gain of 3.3%, versus a revised contraction of 0.9% (previously down by 1.3%) in November. Where the variability in year-to-year growth rates still reflects sharp monthly gains a year ago in M1 and M2 that resulted from a shifting of funds out of the aggregate M3 number into M1 and M2 component accounts, the latest monthly gain generally was in line with the gain in M2.

**Hyperinflation Outlook: Background.** The following text is largely as written previously for the prior *Commentary*, intended for new subscribers, as well as for those who otherwise are not familiar with the hyperinflation report or the recent special commentary, linked below. Those documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two. This section will be fully revised following the major monthly economic releases for December during the week of January 14th.

The November 27th *Special Commentary (No. 485)* updated *Hyperinflation 2012* and the broad outlooks for the economy and inflation, as well as for systemic stability and the U.S. dollar. These remain the two primary articles outlining current conditions and the background to the hyperinflation forecast.

Subsequent to the *Special Commentary*, neither new economic data nor fiscal developments—as discussed in the *Opening Comments and Executive Summary*—have altered the outlooks. Further, the expansion of QE3 by the Fed, on December 12th, continued the regular unfolding of events that eventually will trigger a hyperinflation, as discussed in *Commentary No. 488*.

The Fed's activity can be viewed as a signal of deepening problems in the banking system. As discussed by Mr. Bernanke, the Fed can do little to stimulate the economy, but it can create inflation. Nonetheless, the Fed's move here was to prop-up the banking system and to provide back-up liquidity to the U.S.

Treasury in the months ahead. Direct monetization of Treasury debt will tend to savage the U.S. dollar's exchange rate, boost oil and gasoline prices, boost money supply growth and domestic U.S. inflation.

As discussed in the *Opening Comments*, complicating and exacerbating those issues are the failure of the government to make any effort at bringing the nation's extreme and dangerous fiscal conditions into balance, or moving to address the Treasury's debt ceiling on a timely basis. Temporary "fiscal-cliff" avoidance may buy the politicians in Washington a week or two, but it is not likely to last much longer versus what will be evident as increasingly disgruntled global markets begin to move against the U.S. dollar.

## REPORTING DETAIL

### EMPLOYMENT AND UNEMPLOYMENT (December 2012)

**December Payrolls and Unemployment Remain Seriously Flawed.** With the distortions from unstable concurrent seasonal factor adjustments used by the Bureau of Labor Statistics (BLS), as discussed in the *Opening Comments and Executive Summary* and in *Special Commentary (No. 485)*, the monthly headline changes reported for both the headline payroll series and the headline unemployment reporting continue to lack statistical significance.

To the extent that there is any significance in the monthly reporting, it is that the economy is not in recovery, and that unemployment—as viewed by common experience (the SGS Alternate Measure)—has made a new high, at a level that rivals any other downturn of the post-Great Depression era.

***PAYROLL SURVEY DETAIL.*** The BLS reported January 4th a seasonally-adjusted December 2012 month-to-month headline payroll employment gain of 155,000 (a gain of 169,000 before prior-period revisions). Where the standard 95% confidence interval on monthly headline payroll employment reporting is +/- 129,000, the current numbers continue to be so far out of balance as to be absolutely meaningless here, due partially to concurrent-seasonal-factor distortions (discussed in the related *Concurrent Seasonal Factor Distortions* section).

The adjusted November month-to-month increase was revised to 161,000 (previously 146,000), with the October month-to-month increase changed to 137,000 (previously 138,000, initially 171,000). If, however, the October change were counted on a basis consistent with the latest concurrent-seasonal-factor calculations, the revised October gain actually was 143,000.

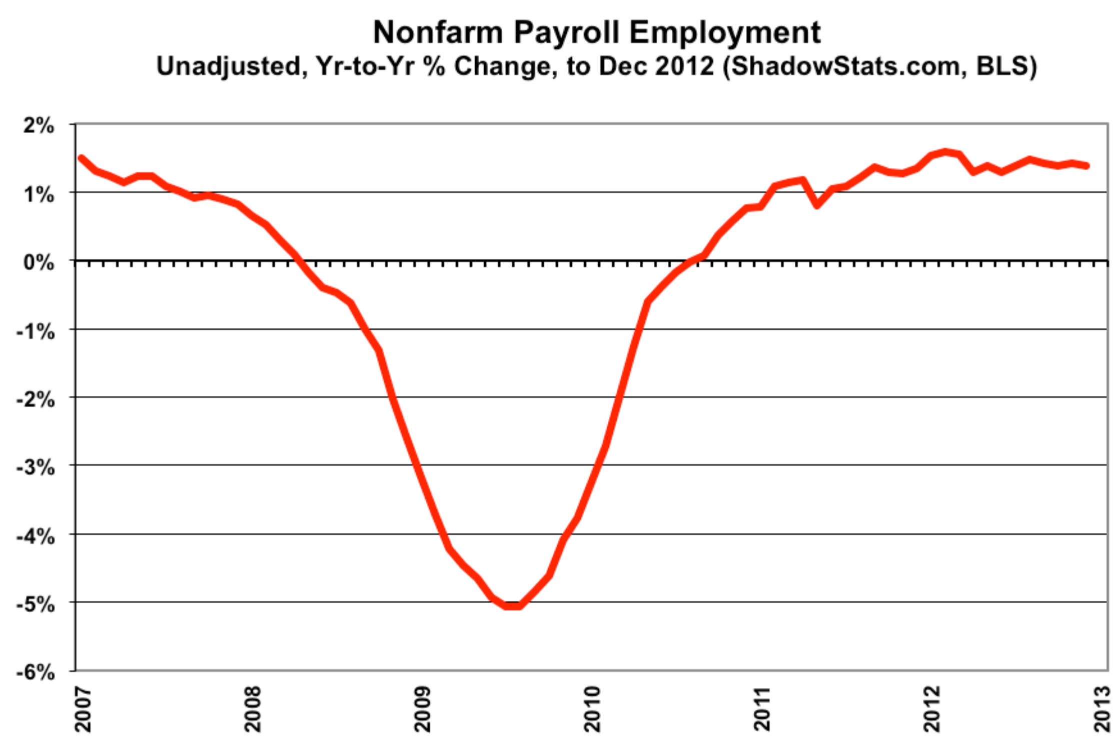
 

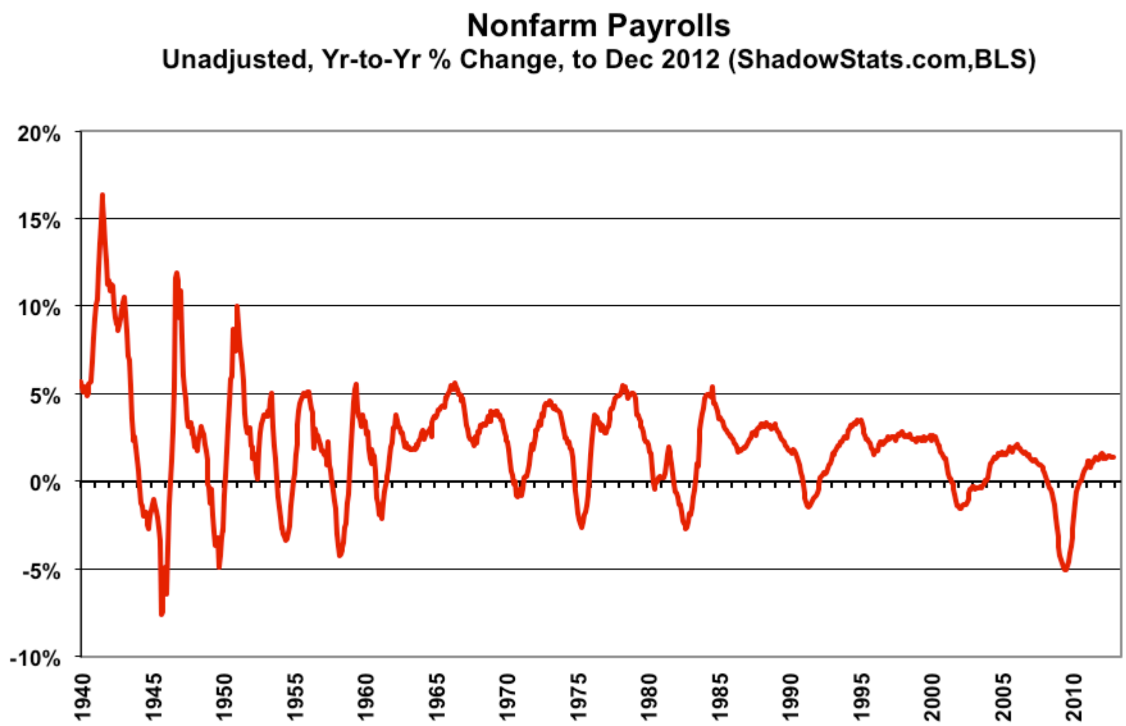
As discussed in the *Concurrent Seasonals* section, the inconsistent use of concurrent-seasonal-adjustment factors had the effect of pushing relative payroll gains into the pre-election reporting period. The BLS publishes two prior months of consistent data with concurrent-seasonally-adjusted payrolls, and the revisions there in last month's reporting appear to have been somewhat corrective (*Commentary No. 487*). Revisions in the latest reporting, however, were not unusually large, but all current data will be revamped fully in next month's benchmark revision.

Trend Model. As described generally in *Payroll Trends*, the trend indication from the BLS seasonal-adjustment model is for a 150,000 monthly payroll gain in January 2013, based on December's reporting. While the trend indication often misses actual reporting (the indication for December was a reasonably close 140,000 monthly gain versus the official 155,000 headline gain), it usually becomes the basis for the consensus outlook.

Annual Change in Payrolls. In terms of year-to-year change, the not-seasonally-adjusted growth in December 2012 payrolls was 1.40%, versus an unrevised 1.42% in November, and 1.38% in October (previously 1.38%, initially 1.45% estimate).

The following graphs of year-to-year unadjusted payroll change had shown a slowly rising trend in annual growth into 2011, which primarily reflected the still-protracted bottom-bouncing in the payroll series. That pattern of growth flattened out in late-2011, as shown in the first graph of the near-term detail in year-to-year change, and it has fluttered around a slowing growth trend since April 2012.



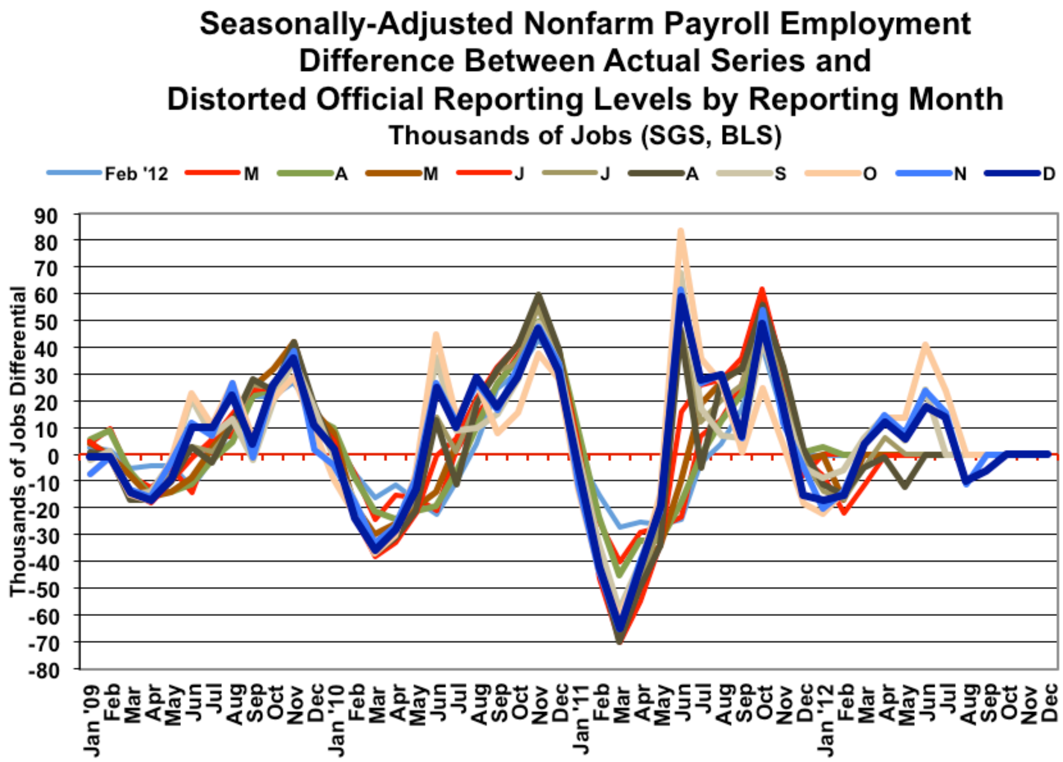



As shown in the longer-term graph (historical detail back to 1940), with the bottom-bouncing of recent years, current annual growth has recovered from the post-World War II record 5.06% decline in August 2009, which remains the most severe annual contraction seen since the production shutdown at the end of World War II (a trough of a 7.59% annual contraction in September 1945). Disallowing the post-war shutdown as a normal business cycle, the August 2009 annual decline was the worst since the Great Depression. Still, even with small annual growth in the series since mid-2010, the current level of employment is far from reflecting an economic recovery.

The regular graph of seasonally-adjusted payroll levels since 2000, showing detail of the current employment level well below its pre-2007 recession peak, as well as a longer-term graph of the payroll employment level, showing historical detail back to 1940 and, in perspective, that payroll levels still are minimally above levels in 2000, are located in the *Opening Comments and Executive Summary* section.

***Concurrent Seasonal Factor Distortions.*** Unreported, seasonally-adjusted monthly payroll numbers still are showing a shift of first-half of the year jobs to the second-half of the year, with the peak upside reporting effect seen in October and shifting into November reporting. The graph below reflects that, but it is the final one for the current series of distortions. All the data will be reset with next month's annual benchmark revisions. The upcoming guesstimated benchmark adjustments will boost previously published monthly data since March of 2011 by roughly 32,000 per month and will reflect publication of the latest concurrent seasonally-adjusted monthly data back for a number of years.

These seasonal factors are revised each month, going back years, but the BLS only publishes two months of revisions with each nonfarm payrolls release (October and November in the current instance), so as not to confuse data users. (Except for the once-per-year December release—the current release—the BLS publishes no revised data on a monthly basis for the household survey, despite a similar seasonal-adjustment approach, as discussed in *Commentary No. 473*, *Commentary No. 461*, *Commentary No. 451* and *Commentary No. 453*, for example). As a result, the reported October-through-December 2012 seasonally-adjusted payroll data are not presently consistent with earlier published reporting. Conceivably, the shifting and unstable seasonal adjustments could move 90,000 jobs or more from earlier periods and insert them into the current period as new jobs, without there being any published evidence of that happening. The following graph suggests that something along those lines happened as recently as November's reporting.




The issues with the BLS's concurrent-seasonal-factor adjustments and related inconsistencies in the monthly reporting of the historical time series are further discussed and detailed in the ShadowStats.com posting on May 2nd of *Unpublished Payroll Data*.

*Note: Incomplete and inconsistent BLS payroll reporting continues. Eleven months have passed since the last annual benchmark revisions to payroll employment, and the latest concurrent seasonal factors show renewed misreporting of the BLS's own historical payroll levels, as well as ongoing instabilities in the BLS's seasonal factors.*

*As discussed in prior writings (see Hyperinflation 2012, for example), seasonal-factor estimation for most economic series has been distorted severely by the extreme depth and duration of the economic contraction. These distortions are exacerbated for payroll employment data based on the BLS's monthly seasonal-factor re-estimations and lack of full reporting.*

*Where the BLS recalculates the monthly seasonal factors each month for payroll employment, going back a number of years, outside of benchmarks, it only publishes the revised data for the last two months of reporting. The benchmark revision that accompanied the release of January 2012 payrolls, in theory, included a full update of the revised concurrent seasonally-adjusted data (actually it is off by a month or two). In the preceding graph, though, the latest revised (but not published by the BLS) adjusted payroll data show increasingly volatile, monthly seasonal-adjustment distortions of up to 90,000 jobs per month, with previously-reported payroll employment being shifted from the first-half to the second-half of the year. If seasonal-adjustment factors were stable in month-to-month reporting, which they should be under normal circumstances, then the graph of differences would be flat and at zero.*

*Note: A major further issue remains that the month-to-month seasonally-adjusted payroll data have become increasingly meaningless, with reporting errors likely now well beyond the official 95% confidence interval of +/- 129,000 jobs in the reported monthly payroll change. Yet the media and the markets tout the data as meaningful, usually without question or qualification.*

***Birth-Death/Bias Factor Adjustment.*** Despite the ongoing and regular overstatement of monthly payroll employment—as evidenced usually by regular and massive, annual downward benchmark revisions (2011 and the recently-announced 2012, excepted)—the BLS generally adds in upside monthly biases to the payroll employment numbers. The process was created simply by adding in a monthly "bias factor," so as to prevent the otherwise potential political embarrassment of the BLS understating monthly jobs growth. The "bias factor" process resulted from an actual such embarrassment, with the underestimation of jobs growth coming out of the 1983 recession. That process eventually was recast as the now infamous Birth-Death Model (BDM), which purportedly models the effects of new business creation versus existing business bankruptcies.

December 2012 Bias. The not-seasonally-adjusted December 2012 bias was a negative 4,000, versus a negative 29,000 in November 2012, versus a current estimation of a negative 1,000 bias in December 2011. The aggregate upside bias for the twelve months ended December 2012 was 535,000, versus 538,000 in November. At present, that is a monthly average of roughly 45,000 jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS as part of the BDM, as discussed below.

Problems with the Model. The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net positive jobs creation by new companies versus those going out business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. Where the BLS cannot measure meaningfully the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), such information is estimated by the BLS along with the addition of a bias-factor generated by the BDM.

Positive assumptions—commonly built into government statistical reporting and modeling—tend to result in overstated official estimates of general economic growth. Along with happy guesstimates, there usually are underlying assumptions of perpetual economic growth in most models. Accordingly, the functioning and relevance of those models become impaired during periods of economic downturn, and the current downturn has been the most severe—in depth as well as duration—since the Great Depression.

Indeed, historically, the BDM biases have tended to overstate payroll employment levels—to understate employment declines—during recessions. There is a faulty underlying premise here that jobs created by start-up companies in this downturn have more than offset jobs lost by companies going out of business. So, if a company fails to report its payrolls because it has gone out of business (or has been devastated by a hurricane), the BLS assumes the firm still has its previously-reported employees and adjusts those numbers for the trend in the company's industry.

Further, the presumed net additional "surplus" jobs created by start-up firms, get added on to the payroll estimates each month as a special add-factor. These add-factors are set now to add an average of about 45,000 jobs per month in the current year, but the actual overstatement of monthly jobs likely exceeds that number by a significant amount. Nonetheless, the BLS published its preliminary estimate for the 2012 benchmark revision on September 27th, indicating an upside revision to not-seasonally-adjusted March 2012 payrolls of 386,000, or roughly 32,000 per month. At that pace, there will be no relief in current reporting issues before the 2013 benchmark revision, due to be published in February of 2014.

***HOUSEHOLD SURVEY DETAILS.*** As discussed in the *Opening Comments and Executive Summary* and earlier writings such as *Commentary No. 461*, seasonally-adjusted month-to-month comparisons of components in the household survey have no meaning for eleven months out of the twelve months each year, other than from the impact they have as hyped by the media, Wall Street and the political establishment. December reporting is the exception, where the seasonally-adjusted numbers—although they may not reflect meaningful seasonal adjustment—at least are consistently prepared and thus are comparable.

The major issues tied to most comparative monthly reporting of the household-survey data are discussed in the prior monthly employment/unemployment *Commentary No. 487*; this month's data are discussed more directly, since they at least are consistent for this one-month's report. Separately, though, the not-seasonally-adjusted numbers generally are consistent in their preparation each month, except for discontinuities at the end of each year due to population re-estimates.

***Headline Household Employment.*** Based on the December household survey, which counts the number of people with jobs, as opposed to the payroll survey that counts the number of jobs (including multiple job holders more than once), December 2012 employment increased month-to-month by 28,000, after declining by a revised 51,000 (previously down by 122,000) in November. The entire revision to the November number was due to the monthly recalculation of the unstable and highly volatile concurrent seasonal factors, nothing else changed. Revisions of varying magnitudes are seen across-the-board in all the seasonally-adjusted data (see the U.6 unemployment rate, for example).

***Unemployment Rates.*** The reported December 2012 seasonally-adjusted headline (U.3) unemployment rate of 7.85% (rounds to 7.8%) was 0.096% (rounds to 0.1%) higher than the revised 7.75% (rounds to 7.8%), which initially had been reported at 7.75% (rounds to 7.7%). So, the unemployment rate rose by 0.1-percentage point, but the November headline number, which initially had rounded to 7.7%, now rounds to 7.8%, with the December headline U.3 rate at an unchanged 7.8%. Yet, for the one month in this year where the numbers are consistent, the unemployment rate really rose by 0.1%.

Given the reporting issues with this series, the official +/- 0.23 percentage-point 95% confidence interval for the monthly headline number generally is meaningless in the context of comparative month-to-month reporting. On an unadjusted basis, which only sees annual revisions based on new population estimates (next month), December's U-3 unemployment rate was 7.6% versus November's 7.4 %.

The broadest unemployment rate published by the BLS, U.6 includes accounting for those marginally attached to the labor force (including short-term discouraged workers) and those who are employed part-time for economic reasons (they cannot find a full-time job).

Reflecting a seasonally-adjusted reduction in individuals working part-time for economic reasons (the number increased month-to-month on an unadjusted basis reflecting a significant seasonal warping of the data), as well as a continued surge in short-term discouraged workers, the December U.6 unemployment rate held at a seasonally-adjusted 14.4% versus November, and a revised 14.5% (previously 14.6%) in October. The unadjusted December U.6 rate was 14.4%, versus 13.9% in November and October.

The downside revision to the October U.6 unemployment rate reflected a downside revision in the level of people working part-time for economic reasons from 8,344,000 to 8,286,000. Again, that revision reflected only the last month's recasting of seasonal adjustments.

Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) rose sharply for a second month, up by 9.1%, to 1,068,000 in December, from 979,000 in November, which, in turn was up 20.4% from 813,000 in October. Keep in mind, though, that the published monthly December number also is net of those who rolled out of "short-term" into the not-officially-counted "long-term" discouraged-worker category.

The current official number reflects the flow of the unemployed, or the balance of the headline unemployed—increasingly giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term "discouraged workers," versus those moving from short-term status into the netherworld of long-term discouraged-worker status. It is the long-term discouraged worker category that defines the ShadowStats or SGS-Alternate Unemployment Measure.

In 1994, during the Clinton Administration, "discouraged workers"—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been "discouraged" for less than a year. This time qualification defined away the long-term discouraged workers. The remaining short-term discouraged workers (discouraged less than one year) are included in U.6.

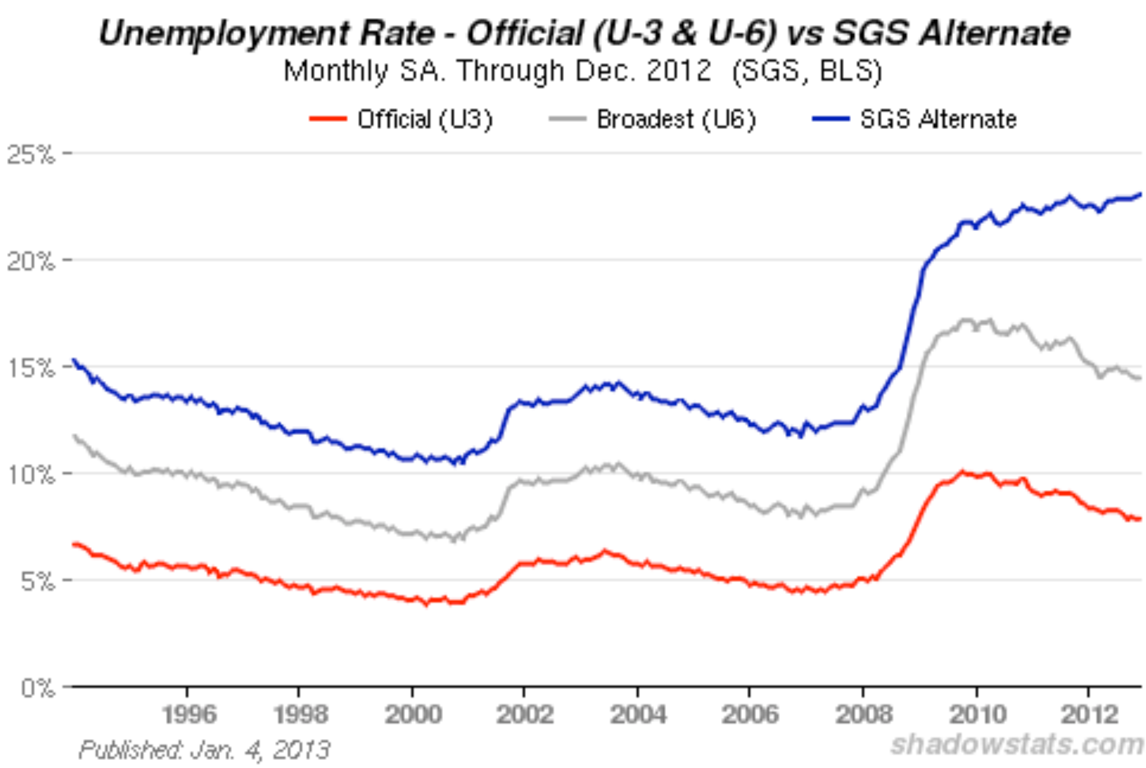
Adding the SGS estimate of excluded long-term discouraged workers back into the total unemployed and labor force, unemployment—more in line with common experience as estimated by the SGS-Alternate Unemployment Measure—rose to a series record-high 23.0%, from 22.9% in November, the same as in October, and was up from 22.8% in September, reflecting the toll of an increasing number of unemployed leaving the headline labor force. The SGS estimate generally is built on top of the official U.6 reporting, and tends to follow its relative monthly movements. Accordingly, the SGS measure often will suffer some of the current seasonal-adjustment woes afflicting the base series, including underlying revisions.

In particular, the 23.0% mark had been hit previously in September 2011, along with the U.6 at 16.4%. The downside one-tenth percentage point revision in September 2011 U.6 to 16.3% reduced the ShadowStats measure similarly to 22.9%.

As seen in the following graph, there continues to be a noticeable divergence in the ShadowStats.com series versus U.6. The reason for this is that U.6, again, only includes discouraged workers who have been discouraged for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as new workers enter "discouraged" status. Accordingly, with the continual rollover, the flow of headline workers continues into the short-term discouraged workers (U.6), and from U.6 into long-term discouraged worker status (a ShadowStats.com measure), at what has been an accelerating pace. The aggregate November data show an increasing rate of individuals dropping out of the headline (U.3) labor force. See the *Alternate Data* tab for more detail.

**CAUTION: Month-to-month comparisons of the various unemployment rates usually are meaningless, due to deliberate inconsistencies in BLS reporting, but the following graph reflects the once-per-year publication of revised seasonally-adjusted numbers, prepared on a consistent basis.**




As discussed in previous writings, an unemployment rate around 23% might raise questions in terms of a comparison with the purported peak unemployment in the Great Depression (1933) of 25%. Hard estimates of the SGS series are difficult to generate on a regular monthly basis before 1994, given the reporting inconsistencies created by the BLS when it revamped unemployment reporting at that time. Nonetheless, as best I can estimate it, the current SGS level likely is about as bad as the peak unemployment seen in the 1973 to 1975 recession. The Great Depression unemployment rate of 25% was estimated well after the fact, with 27% of those employed working on farms. Today, less that 2% work on farms. Accordingly, for purposes of Great Depression comparison, I would look at the estimated peak nonfarm unemployment rate in 1933 of 34% to 35%.

**CONSTRUCTION SPENDING (November 2012)**

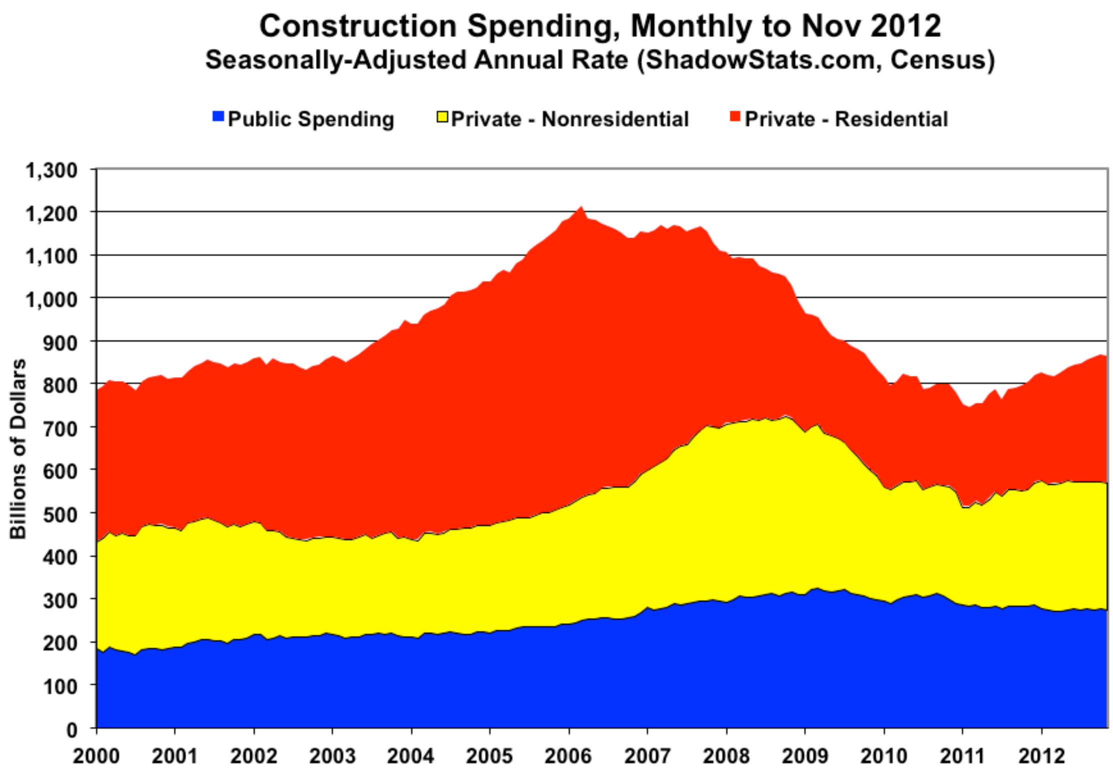
**November Construction Spending Continued in Stagnation; Some Hurricane Impact Likely.** The trend of stagnation in construction spending, at low levels of activity, continued in the latest survey. Circumstances have been more negative, after adjustment for inflation. The November numbers most likely reflected some impact from the disruptions and destruction of Hurricane Sandy, with the headline month-to-month decline in activity statistically insignificant. Storm impact likely was mixed, given disruptions to planned activity and a beginning of activity tied to rebuilding and reconstruction. Some temporary upside effects from the rebuilding are likely for the next quarter or so.

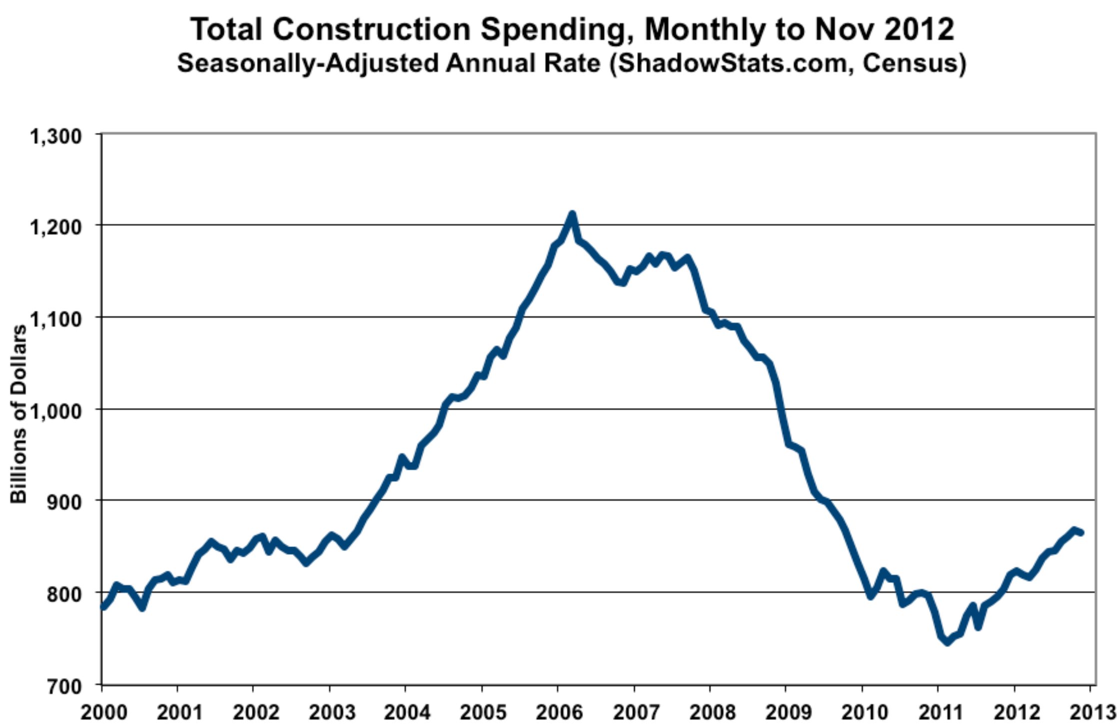
The Census Bureau reported January 2nd that the total value of construction put in place in the United States during November 2012 was $866.0 billion, on a seasonally-adjusted—but not inflation-adjusted—annual-rate basis. That estimate was down for the month by a statistically-insignificant 0.3% +/- 1.9% (all confidence intervals are at a 95% level), from a downwardly revised $868.2 (previously $872.1) billion in October. Before prior-period revisions, the November level was down by 0.7% from initial October reporting. The monthly gain in October versus September activity revised to 0.7%, from an initial estimate of a 1.4% monthly increase.

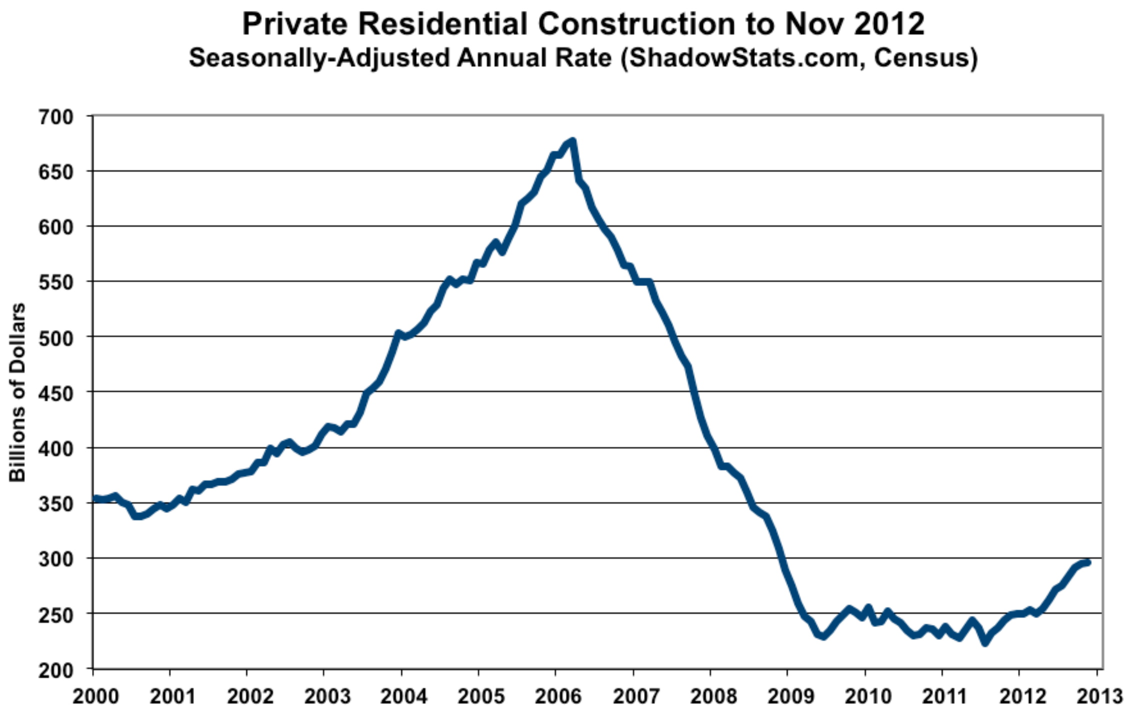
Although aggregate November construction spending was up year-to-year by a statistically-significant 7.7% +/-2.3%, the gain likely was more than covered by increases in actual construction costs. The Bureau of Economic Analysis (BEA) continued to underestimate year-to-year inflation in "structures" at 2.9% in its first revision to third-quarter GDP 2012. Year-to-year, October 2012 construction growth was revised lower to 9.1% (previously 9.6%).

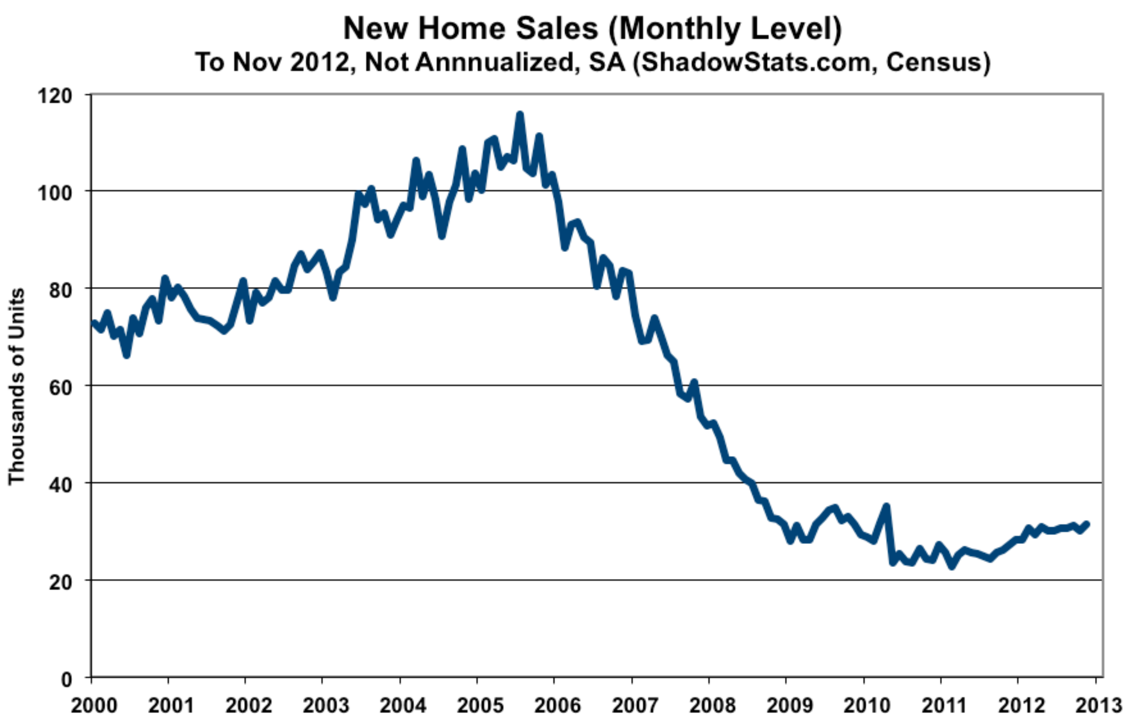
The statistically-insignificant 0.3% decline in monthly November construction spending included a 0.4% drop in public construction spending, which had revised to a 1.1% (previously 0.8%) monthly gain in October. November private construction fell by 0.2% in the month, versus a revised 0.6% (previously 1.6%) monthly gain in October. The accompanying graphs show the 0.3% monthly decline in November total construction, with private residential construction up by 0.4%, private nonresidential construction down by 0.7% and public construction down by 0.4% for the month.

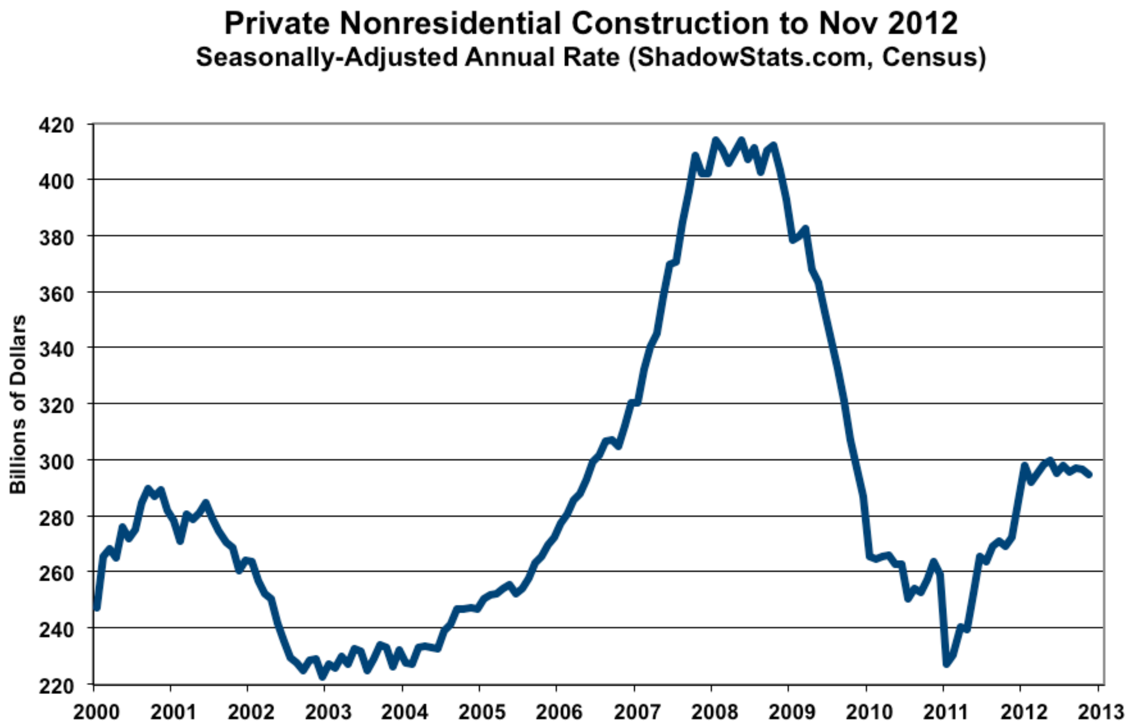
The third construction-spending graph, covering private residential spending is shown along with an accompanying graph on the housing starts data as of November 2012. The difference in the graphs is the smoother pace of actual spending (not-adjusted-for-inflation), instead of the more-irregular count of physical monthly starts.

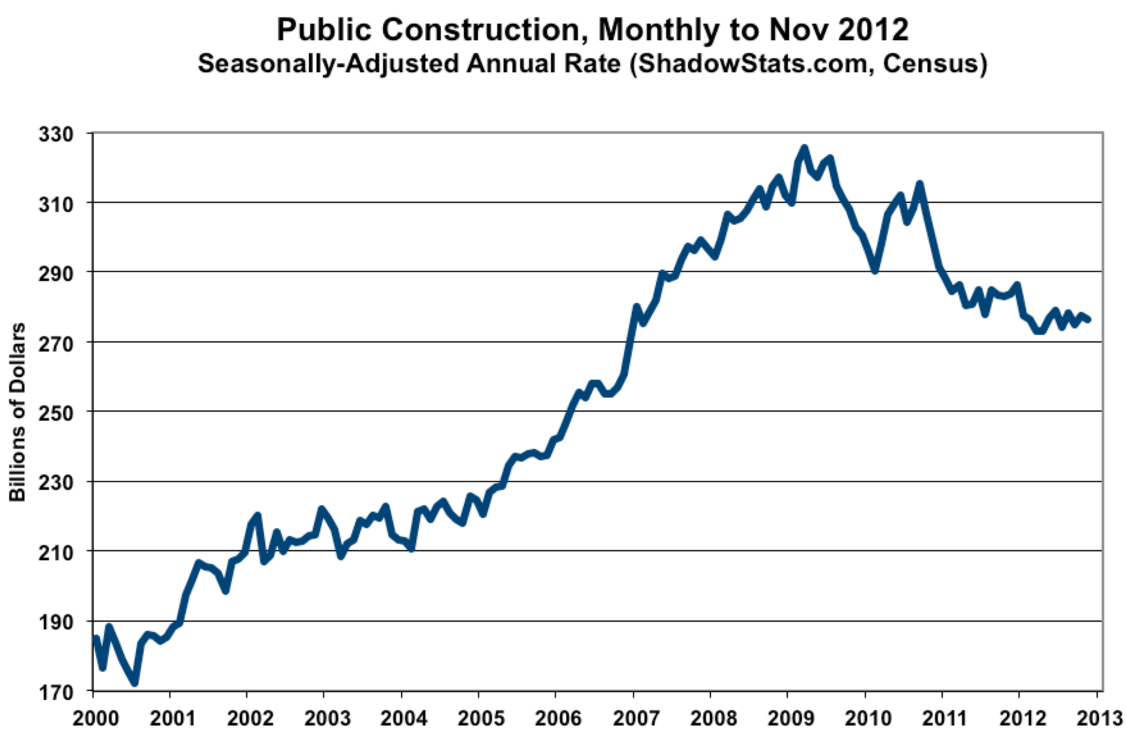

Construction Spending, Monthly to Nov 2012
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Public Spending
Private - Nonresidential
Private - Residential
Billions of Dollars
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


Total Construction Spending, Monthly to Nov 2012
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Billions of Dollars
1,300
1,200
1,100
1,000
900
800
700
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

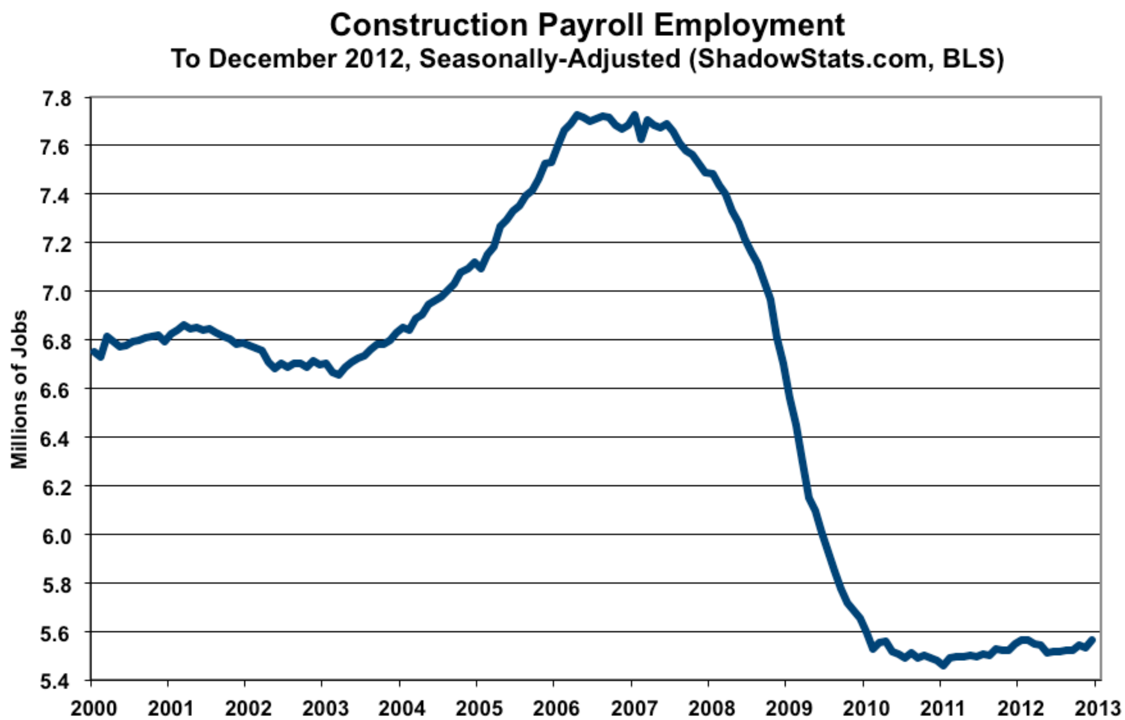

Private Residential Construction to Nov 2012
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Billions of Dollars
700
650
600
550
500
450
400
350
300
250
200
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


New Home Sales (Monthly Level)
To Nov 2012, Not Annnualized, SA (ShadowStats.com, Census)
Thousands of Units
120
100
80
60
40
20
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Private Nonresidential Construction to Nov 2012
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Billions of Dollars
420
400
380
360
340
320
300
280
260
240
220
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Public Construction, Monthly to Nov 2012
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)
Billions of Dollars
330
310
290
270
250
230
210
190
170
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013




As shown in the graph above, although recent activity generally has been consistent with deteriorating stagnation in construction activity, a monthly upturn in December construction jobs—most likely tied to post-Hurricane Sandy reconstruction—is suggestive of some related pick-up in December construction spending. The seasonally-adjusted December construction-employment level was reported at 5.564 million, up by 0.5% or 30,000 jobs from an upwardly revised 5.534 million (previously 5.514) million in November, per yesterday's December payroll survey, as published by the Bureau of Labor Statistics. Not seasonally adjusted, December 2012 construction payrolls were up by 0.8% year-to-year versus a revised unchanged annual pace (previously down by 0.1%) in November.

## WEEK AHEAD

**Weaker Economic and Stronger Inflation Data in Months Ahead.** Beyond what will be the dissipating effects of the repair, replacement and reconstruction activity generated by Hurricane Sandy, and in anticipation of the likely negative impact of expanded QE3 and the ongoing fiscal crisis/debt-ceiling negotiations on the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and indicate weaker-than-expected economic results. Increasingly, previously unreported economic weakness should continue to show up in prior-period revisions.

*Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain 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 by the Fed's monetary policies. The political system would like to see the issues disappear, and still appears to be trying to work numerical slight-of-hand with series such as the GDP; 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, as discussed in* Hyperinflation 2012 *and* No. 485: Special Commentary*).*

***U.S. Trade Balance (November 2012).*** The November 2012 trade deficit detail will be released on Friday, January 11th. While the U.S. trade deficit continues in fundamental deterioration, the November numbers still may be impacted by disruptions from Hurricane Sandy on the flow of goods as well as the flow of paperwork on imports and exports. The goods and reporting flows should be back to normal by December's reporting, with reporting catch-up balancing out any instabilities seen in October and November reporting.

Any significant improvement or deterioration in the November trade deficit—beyond market expectations of a narrowing in the monthly trade shortfall—respectively would tend to boost or impair expectations for initial fourth-quarter 2012 GDP reporting due out on January 30th.

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