

**COMMENTARY NUMBER 521**  
**April Employment and Unemployment, M3 and Monetary Base**

**May 3, 2013**

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**Employment and Unemployment Data Were Nonsense:  
The Economy Remains in Serious Trouble**

**April Unemployment: 7.5% (U.3), 13.9% (U.6), 23.0% (ShadowStats)**

**Annual M3 Growth Holds at 4.3%, Monetary Base at 14.7%**

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*PLEASE NOTE: Due to a dearth of major economic releases during the week beginning May 6th, the next regular Commentary is scheduled for Monday, May 13th, covering April retail sales. A brief interim Commentary on evolving market or business conditions is likely, however, and its posting, will be advised as usual to subscribers by e-mail.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Labor Market Conditions Still Reflect a Troubled Economy and No Economic Recovery.** The outlook for current economic conditions has not changed at all. While happy headline news from the April jobs and unemployment report may have some on Wall Street hyperventilating, stories based on the

Bureau of Labor Statistics (BLS) press release—that the economy is strong or not faltering—are little more than hype. Both employment and unemployment are coincident indicators of broad economic activity and the signals are not good for near-term business conditions. There has been no recovery, and there can be no sustainable economic recovery, without a recovery first in consumer income and liquidity.

Unemployment. The pattern of declining headline unemployment rates since the end of 2011 has not been due to new jobs from a surging economy. Instead, these declining numbers tell the unhappy tale of discouraged workers—unable to find work—being moved out of the BLS headline counting. The ShadowStats alternate unemployment rate regained its series-high 23.0%, based on detail from the same April unemployment report that excited the markets today (May 3rd).

Separately, as discussed in all recent unemployment-related *Commentaries* and in *Concurrent Seasonal Factor Distortions* in the *Reporting Detail* section, month-to-month comparisons of the unemployment data are meaningless. Each month's rate is calculated on a different basis, and although consistent prior-month data are calculated internally by the BLS, the consistent numbers are not made public. The consistency and instability issues here could be worse than the monthly revision issues that are demonstrable for the payroll-employment series.

That said, the seasonally-adjusted headline U.3 unemployment rate was 7.51% in April 2013, versus 7.57% in March. The broader headline U.6 unemployment rate was 13.9% in April versus 13.8% in March, while ShadowStats Alternate Unemployment Rate reclaimed its series-high 23.0% in April, versus 22.9% in March.

Payroll Employment. Headline payrolls remain 2.6-million jobs shy of recovering pre-recession highs, and are more than 6.0-million jobs shy of catching up with activity falsely indicated by GDP reporting.

Month-to-month payroll growth estimates are extremely volatile and unreliable. Unusual revision activity, in both the unadjusted monthly data and the concurrent seasonal-adjustment factors, highlights recent data instabilities. Payroll employment growth has been relatively tepid, recently, with slowing and subnormal annual growth off an unusually low base.

The headline jobs gain was 165,000 in April 2013, up from a revised 138,000 in March, but down from a revised 332,000 in February. The February number is demonstrably wrong, due to the ongoing issues with the inconsistency of published data versus what has been calculated on a consistent basis with the concurrent seasonal-factor adjustments. Separately, the March revision is highly questionable,

Money Supply. Discussed in the *Hyperinflation Watch*, year-to-year growth in April 2013 M3 (ShadowStats Ongoing-M3 Measure) held at 4.3%, while the annual growth in the monetary base has risen to a two-year high of 14.7%. The circumstance remains suggestive of intensifying solvency issues in the banking system.

***Bad News in a Declining Unemployment Rate.*** Although headline unemployment dropped to 7.5% in April from 7.6% in March, the third straight month-to-month decline, the pattern here of a declining unemployment rate is bleak, not good news. Instead of reflecting unemployed people finding jobs in an expanding economy, the declining unemployment rate generally has reflected the unemployed being defined out of the government's unemployment measurement, due to restrictive government definitions. The phenomenon is more popularly referred to in Washington and Wall Street as unemployed individuals “deciding to leave the labor force.”

The “labor force” is defined only by those who are included among the measured unemployed. For example, for the headline U.3 unemployment rate, the related labor force is the total of the employed plus the headline unemployed, those are willing and able to work and who have actively looked for work in the last four weeks.

Anyone who wants a job, considers himself or herself to unemployed, is willing and able to work, but has not actively looked for work in the last four weeks is considered by the BLS to be unemployed, having left the labor force. Until a year has passed of not actively looking for work, such an individual—still wanting a job, ready and able to work, still considering himself or herself to be unemployed—is counted as a discouraged worker in the government’s broadest unemployment rate U.6. After a year has passed, the individual no longer is counted, except in ShadowStats estimations. Before 1994, the BLS counted individuals as “discouraged” irrespective of time lapsed since the last active search for employment.

The current circumstance makes clear now why the government moved in 1994 to define away long-term discouraged workers. In a particularly severe and protracted downturn, as has been the case since 2006 or so, discouraged workers automatically disappear from the accounting of the unemployed after a year. Eventually, that puts a cap on the reporting of the government’s broadest unemployment measure, followed by an eventual decline in U.6, as the long-term discouraged workers disappear one-on-one, as counted as an unemployed individual in U.6, and also as a member of the U.6 labor force.

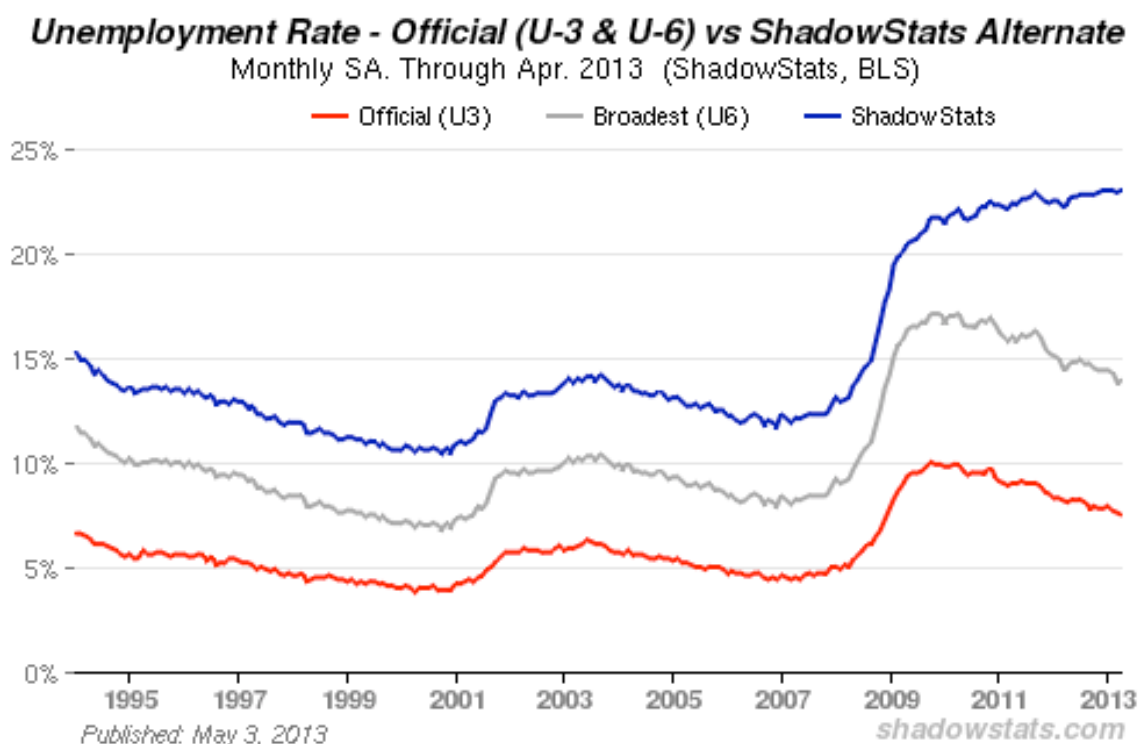
The principle here also applies to the headline U.3 unemployment accounting and explains why the headline unemployment rate is getting better, while a bad economy remains static or is getting worse.

For example, assume an unemployment rate of 10.0%, based on 16 million unemployed and a labor force of 160 million ( $16 / 160 = 10.0\%$ ), where the labor force equals total employed plus the counted unemployed. Let’s say that in a deep recession, 5 million unemployed no longer are counted due to restrictive definitions (i.e., while they still consider themselves unemployed, they are “discouraged,” having not looked actively for work in the last four weeks). The headline accounting removes 5 million from both the count of unemployed and the count of the labor force. With 11 million now unemployed and the labor force reduced to 155 million, the unemployment rate now is 7.1% ( $11 / 155 = 7.1\%$ ). Again, the decline in the unemployment rate here is definitional, not due to the unemployed finding new jobs.

***ShadowStats Alternate Unemployment Measure.*** Adding back into the total U.6 unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers, broad unemployment—more in line with common experience, as estimated by the ShadowStats-Alternate Unemployment Measure—rose a notch to 23.0% in April 2013, regaining the series high, up from 22.9% in March. Prior to March, that measure had held at the series high of 23.0% for the three months through February 2013. The ShadowStats estimate reflects the increasing toll of unemployed leaving the headline labor force. Where the ShadowStats alternate estimate generally is built on top of the official U.6 reporting, it tends to follow its relative monthly movements. Accordingly, the alternate measure often will suffer some of the same seasonal-adjustment woes that afflict the base series, including underlying annual revisions.

As seen in the accompanying graph of the various unemployment measures, there continues to be a noticeable divergence in the ShadowStats series versus U.6. The reason for this is that U.6 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. In the context of the discussion in the prior subsection, the downturn in U.6, and lack of same in the ShadowStats number, can be accounted for by long-term discouraged workers moving out of U.6 and its related labor force.



With continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker status (a ShadowStats measure). There was a lag in this happening as those having difficulty during the early months of the economic collapse, first moved into short-term discouraged status, and then, a year later into long-term discouraged status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force has been accelerating.

**Payroll Employment Still 2.6 Million Jobs Shy of Recovery.** While the headline 165,000 gain in April payrolls was at the upper end of expectations, even happier news for the markets came from sizable—and highly questionable—upside revisions to the February and March data.

With last month’s March reporting, the headline gain in February payrolls was 268,000. With April reporting, that gain revised to 332,000. It was and should have been reported as 304,000. Fully 40% of the upside revision, however, was due to January’s payrolls not being revised so as to be consistent with reporting in the more-recent months. The BLS recalculates all the seasonally-adjusted data each month, but it only reports the level of the headline month two prior months on a consistent basis. At present only April, March and February are reported on a consistent basis (none of the headline unemployment numbers are consistent, see *Concurrent Seasonal Factor Distortions* in the *Reporting Detail* section).

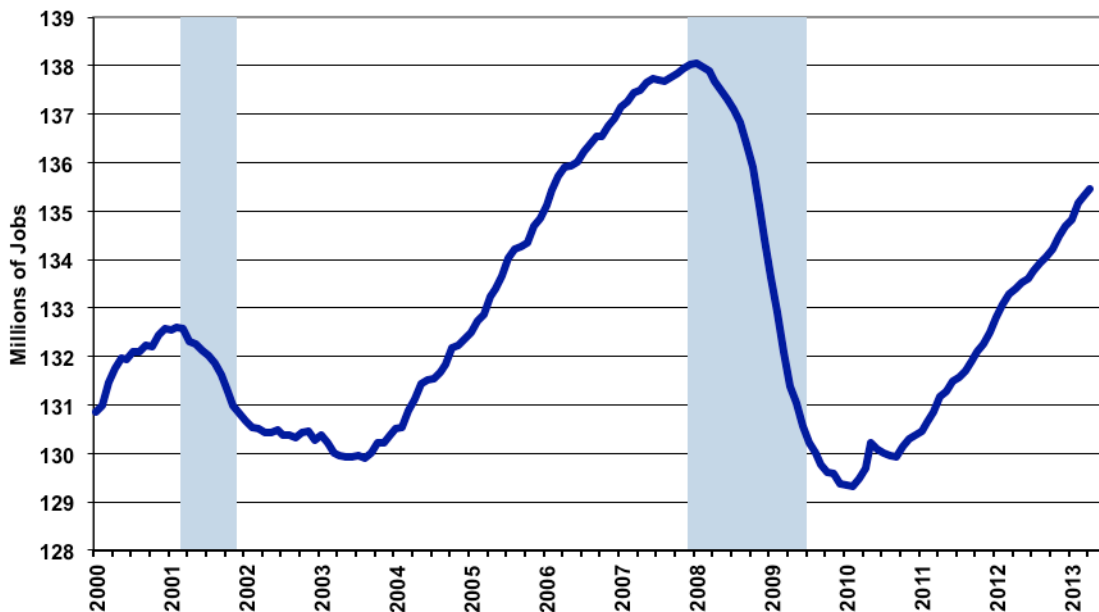
The BLS makes available the programs and data to those who wish to calculate the consistent numbers (payroll only, not unemployment), and ShadowStats has done so. Instead of the seasonally-adjusted January 2013 total nonfarm payrolls being the currently reported 134,839,000, the number consistent with the latest February, March and April reporting is 134,867,000, a difference of 28,000, which means the actual February jobs gain—heavily touted today at 332,000—was really 304,000.

The initial headline gain for March 2013 payrolls was a market-disappointing 88,000. The April report revised that higher by 50,000, to 138,000. That revision largely reflected an unadjusted 9,000 upside revision to jobs at food services and drinking places, which turned into a 42,000 jobs spike after concurrent seasonal factor adjustments. Other upside revisions were seen again with temporary-services hiring, an area, which the BLS has great difficulty stabilizing on a seasonally-adjusted basis.

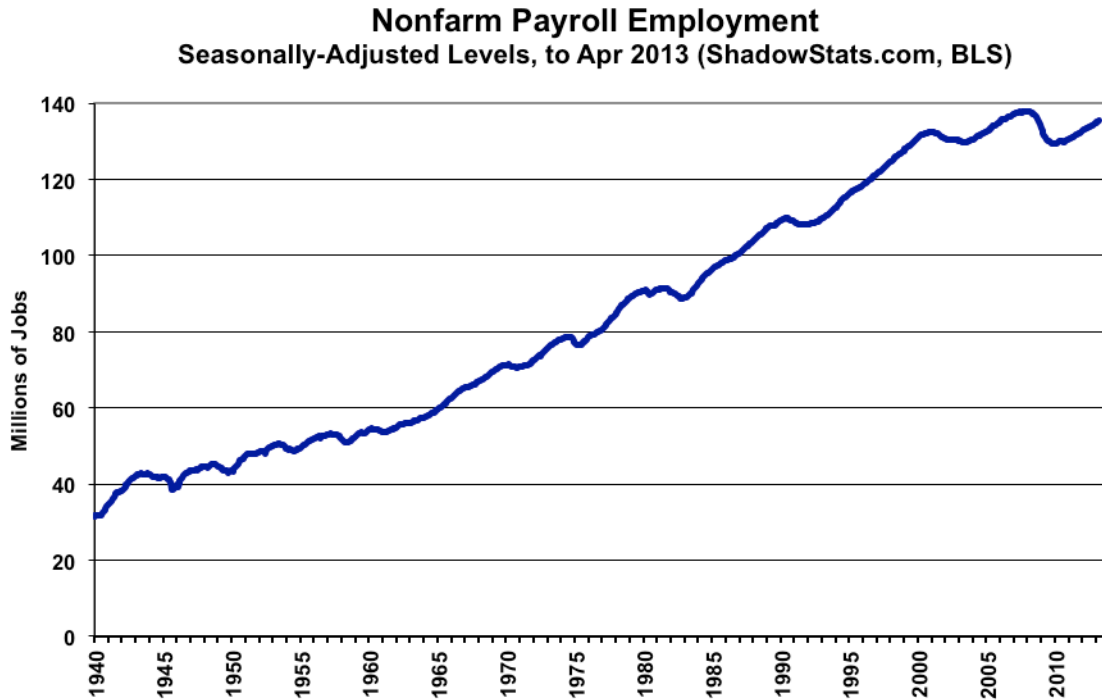
The graph following is of seasonally-adjusted payroll levels since 2000. Official detail of total nonfarm payroll employment shows the latest reading to be 2.6-million jobs, or 1.9%, shy of the January 2008 peak.

Payroll activity, which is a coincident indicator of broad economic activity, never has confirmed the “economic recovery” and continues to run counter to the GDP’s indication of an expanding, post-recovery period. If nonfarm payroll activity were to confirm the purported economic recovery and expansion indicated by the GDP, today’s nonfarm payrolls would need to be at least 6.0-million jobs higher.

**Nonfarm Payroll Employment**  
Seasonally-Adjusted Levels, to Apr 2013 (ShadowStats.com, BLS)



The next graph is longer-term, showing historical detail back to 1940 and, in perspective, that payroll levels still are not that far ahead of the peak levels that preceded the 2001 recession.



*[Further details on the April employment and unemployment situation are found in the Reporting Detail section.]*

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## HYPERINFLATION WATCH

**Monetary Activity: Money Supply Revisions Leave April 2013 Broad Money Growth at 4.3%.** Based on roughly three weeks of reported data, and in the context of one of the Federal Reserve’s frequent benchmark revisions to the money data, the preliminary estimate of year-to-year growth in the ShadowStats Ongoing-M3 Estimate for April 2013 is on track to hit 4.3%. That is the same level seen in the revised March estimate (previously 4.2%), but down from a revised 4.5% (previously 4.4%) in February. The near-term peak of annual growth was unrevised at 4.6% in January. The latest detail,



including historical revisions, will be available tomorrow, May 4th, in the [Alternate Data](#) tab of [www.shadowstats.com](http://www.shadowstats.com).

Where annual growth had been on the upswing in recent months, the slowing growth in February and March likely was a sign of mounting systemic stress, and April suggests no improvement. As shown in the next section, annual growth in the monetary base continues to spike in response to the Fed's active and expanded QE3 but, as has been case for the current systemic-solvency crisis, the Fed's actions have not flowed through to meaningful growth in the broad money supply. Bank lending remains troubled, and that is a signal of ongoing and, at present, likely intensifying systemic stress.

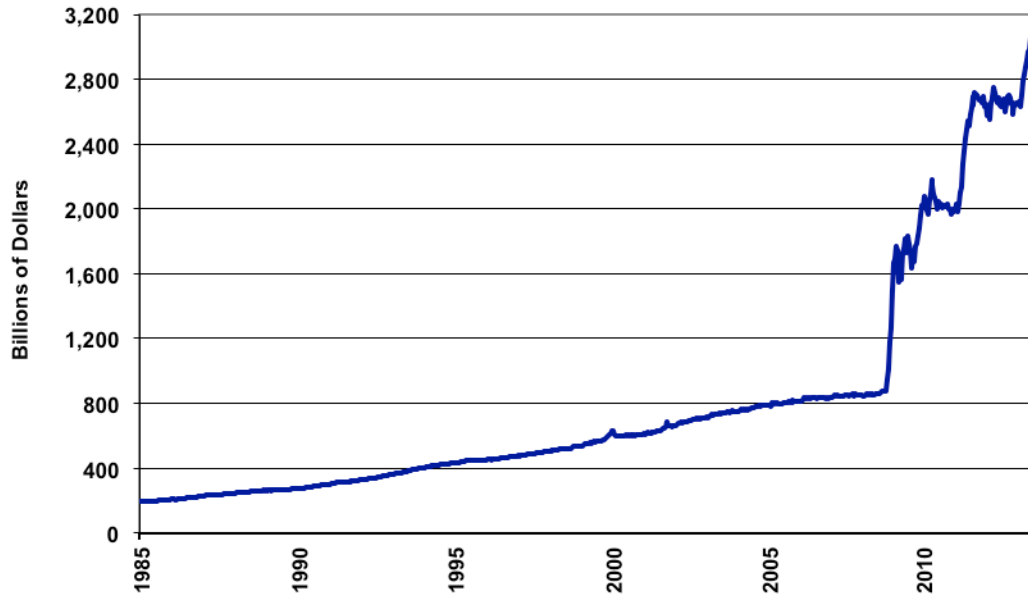
Any prior-period revisions in the following numbers are due to the Federal Reserve's revisions to the underlying data. The seasonally-adjusted, preliminary estimate of month-to-month change for April 2013 money supply M3 is for a gain of 0.1%, versus a revised 0.1% gain (previously unchanged) in March and an unrevised, unchanged monthly growth in February. The estimated month-to-month M3 changes, however, remain less reliable than the estimates of annual growth.

For April 2013, 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 April is estimated to show year-to-year growth of about 6.7%, versus a revised 6.9% (previously 6.6%) in March, and a revised 6.9% (previously 6.8%) in February, with month-to-month change estimated at roughly a 0.3% gain in April, versus a revised 0.3% (previously 0.2%) gain in March, and a revised 0.2% (previously 0.3%) contraction in February. The early estimate of M1 for April 2013 is year-to-year growth of roughly 11.8%, versus a revised 10.8% (previously 10.0%) in March, versus a revised 11.8% (previously 11.6%) gain in February, with the month-to-month April change a likely again of 2.2%, versus a revised 0.6% (previously 1.2%) contraction in March, and an unrevised 0.5% monthly gain in February.

**Monetary Base.** Mirroring the ongoing and expanded quantitative easing (QE3) by the Federal Reserve, the monetary base had been setting successive historic highs in its fortnightly estimates, but it showed a minor pull-back in the latest two-week period. Seasonally-adjusted money numbers around tax season often show aberrations. Year-to-year growth, however, pushed to a new cycle high of 14.7%, versus an annual 13.8% growth rate in the prior two-week period. The 14.7% pace of rising year-to-year growth has not been seen since March of 2011, when QE2 was exploding. As shown in the accompanying graphs, the monetary base was at a seasonally-adjusted (SA) two-week average level of \$3,034.0 billion as of May 1st, just off the record-high \$3,061.5 billion of April 17th.

The monetary base is currency in circulation (part of M1 money supply) plus bank reserves (not part of the money supply) (see a more-complete definition in the [Money Supply Special Report](#)). Traditionally, the Federal Reserve has used the monetary base to increase or decrease growth in the money supply, but such has not had its normal impact in the post-2008 crisis period. Instead, financially troubled banks have been holding their excess reserves with the Federal Reserve, not lending the available cash into the normal flow of commerce. When the Fed monetizes U.S. Treasury securities, as it has been doing, that usually adds directly to the broad money supply, and it contributes to selling pressure against the U.S. dollar. Faltering year-to-year broad money supply growth in this circumstance, as seen in recent months, tends to be an indication of mounting systemic stress in the banking industry.

**St. Louis Fed Adjusted Monetary Base**  
Bi-Weekly through May 1, 2013, SA, ShadowStats, St. Louis Fed



**St. Louis Fed Adjusted Monetary Base, Yr/Yr %**  
Bi-Weekly through May 1, 2013, SA, ShadowStats, St. Louis Fed





**Hyperinflation Outlook—Unchanged.** *This synopsis is unchanged from that published in Commentary No. 517 of April 17th. The summary outlook here is intended for new subscribers and for readers looking for a condensed version of the broad overview of economic, inflation and financial circumstances, or who otherwise are not familiar with the hyperinflation report or special commentaries, linked below. Those latter documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two.*

The November 27, 2012 [Special Commentary \(No. 485\)](#) updated [Hyperinflation 2012](#) and the broad outlook 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. The basics have not changed here, other than events keep moving towards the circumstance of a domestic hyperinflation by the end of 2014. Nonetheless, the next fully-updated hyperinflation report is targeted for publication around mid-May.

Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The system remains still in the throes and aftershocks of the 2008 panic and the near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation is inevitable.

The economic and systemic solvency crises of the last eight years continue. There never was an actual recovery following the economic downturn that began in 2006 and collapsed into 2008 and 2009. What followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012. The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see [Public Comment on Inflation](#)). Nonetheless, given the nature of official reporting, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

What continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 turmoil. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That the crises continue can be seen in deteriorating economic activity and in the panicked actions by the Federal Reserve, where it proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before the mid-April rout in gold prices, there had been mounting hype about the Fed potentially pulling back on its “easing” and a coincident Wall Street push to talk-down gold prices. Those factors still appear to be little more than hype, designed for jawboning to support the U.S. dollar and to soften gold, in advance of the still-festering crises in the federal-budget and debt-ceiling negotiations. Despite orchestrated public calls for “prudence” by the Fed, the underlying and deteriorating financial-system and economic instabilities have self-trapped the Fed into an expanding-liquidity or easing role that likely will not be escaped until the ultimate demise of the U.S. dollar. Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the dollar in international trade, such as seen most recently in the developing relationship between France and China.

The Fed’s recent and ongoing liquidity actions themselves suggest a signal of deepening problems in the financial system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed’s continuing easing moves appear to have

been primarily an effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury, under the political cover of a “weakening economy.” Mounting signs of intensifying domestic banking-system stress are seen in a renewed weakening of broad money growth, despite a soaring monetary base, and in global banking-system stress, as reflected in the recent Cyprus crisis and its ongoing aftershocks.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that are shy on detail. The ten-year plan by the Republican-controlled House proposes to balance the cash-based deficit as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate does not look to balance the cash-based deficit. Given continued political contentiousness and the use of unrealistically positive economic assumptions to help the budget projections along, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of upcoming negotiations. With the release of the Administration’s budget for fiscal-year 2014, these issues should be coming to a head, now, in April and May; there still appears to be no chance of a substantive agreement.

Indeed, ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Chances also remain nil for the government fully addressing the GAAP-based deficit that hit \$6.6 trillion in 2012, let alone balancing the popularly-followed, official cash-based accounting deficit that was \$1.1 trillion in 2012 (see [No. 500: Special Commentary](#)).

Efforts at delaying meaningful fiscal action, and at briefly postponing conflict over the Treasury’s debt ceiling, have bought the politicians in Washington minimal time in the global financial markets, but the time largely has run out and patience in the global markets is near exhaustion. The continuing unwillingness and political inability of the current government to address seriously the longer-range U.S. sovereign-solvency issues, only pushes along the regular unfolding of events that eventually will trigger a domestic hyperinflation, as discussed in [Commentary No. 491](#).

The unfolding fiscal catastrophe, in combination with the Fed’s direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar’s exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility likely will not last much longer, despite the tactics of delay by the politicians and obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. A dollar-selling panic is likely this year—of reasonably high risk in the next month or two—with its effects and aftershocks setting hyperinflation into action in 2014. Gold remains the primary and long-range hedge against the upcoming debasement of the U.S. dollar, irrespective of any near-term price gyrations in the gold market.

The rise in the price of gold in recent years was fundamental. The recent panicked sell-off in gold was not. With the underlying fundamentals of ongoing dollar-debasement in place, the upside potential for gold, in dollar terms, is limited only by its inverse relationship to the purchasing power of the U.S. dollar (eventually headed effectively to zero). Again, physical gold—held for the longer term—remains as a store of wealth, the primary hedge against the loss of U.S. dollar purchasing power.

## REPORTING DETAIL

### EMPLOYMENT AND UNEMPLOYMENT (April 2013)

**Payroll and Unemployment Data Again Were Seriously Misleading.** The broad economic outlook has not changed, despite the heavily-flawed numbers that continue to be published by the Bureau of Labor Statistics (BLS). Given the distortions from unstable concurrent-seasonal-factor adjustments used by the BLS in adjusting both the payroll and household surveys, given restrictive definitions on the nature of “unemployment,” and given the patterns and nature of unusual revisions to the payroll survey, the April headline payroll and unemployment data were not particularly meaningful.

The numbers generally lacked statistical significance; revisions were flawed or questionable and/or are being misread by the markets. The downtrend in the unemployment rate is bad news. The unemployment rate is dropping because of discouraged workers being dropped from the headline labor force, not because of a surge in hiring. These issues are discussed in the *Opening Comments*, the *Concurrent Seasonal Factor Distortions* subsection of this section and [Special Commentary \(No. 485\)](#).

To the extent that there is any meaning in the monthly reporting, it remains that the economy has not recovered and is not in recovery. The monthly payroll level still is 2.6-million jobs shy of the pre-recession high, and it puts the lie to the expanding economic recovery propagandized in GDP reporting. Further, unemployment—as viewed by common experience (the ShadowStats Alternate Measure)—is at an all-time high for the series, a level that rivals any other downturn of the post-Great Depression era.

**PAYROLL SURVEY DETAIL.** The BLS reported May 3rd, a seasonally-adjusted, month-to-month headline payroll employment gain of 165,000 for April 2013 (net of prior-period revisions, the gain was 279,000). Where the standard 95% confidence interval on headline monthly change in payroll employment reporting is +/- 129,000, circumstances suggest that a much wider confidence interval could be justified. 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 *Opening Comments* and in the *Concurrent Seasonal Factor Distortions* section).

The seasonally-adjusted March 2013 month-to-month jobs increase was revised to 138,000 (previously 88,000), while February’s month-to-month jobs increase was revised to 332,000 (previously 268,000, initially 236,000). The February gain, though, was really 304,000, if viewed on a consistent reporting basis, which the BLS does not publish. So, 40% of the upside revision to the February headline was due solely to the BLS not publishing consistent month-to-month numbers.

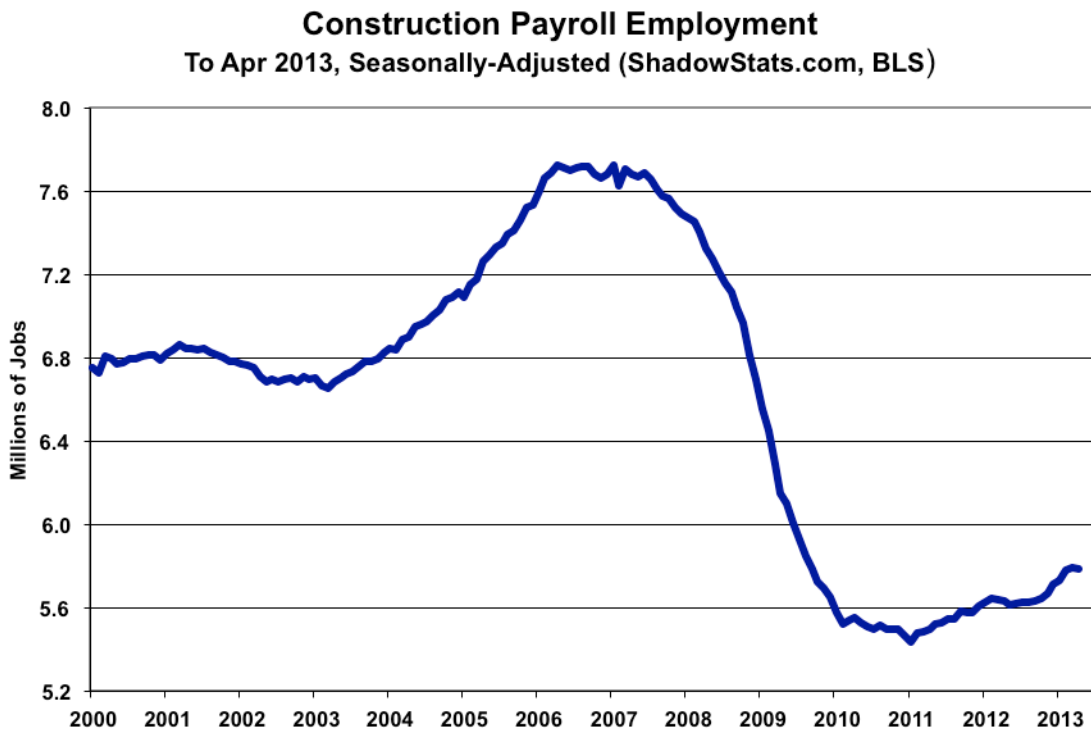
Upside revisions in the not-seasonally-adjusted data in February and March were dominated by the hiring of temporary workers and at eating and drinking places. An extreme example involved March employment at eating and drinking places. It revised higher by 9,000, not seasonally adjusted, but that

became a 42,000 upside revision after seasonal adjustments. Hiring of temporary workers remains an area where the BLS regularly has problems in getting reliable information.

The BLS publishes only two prior months of consistent data with concurrent-seasonally-adjusted payrolls. Accordingly, the published February number no longer is consistent with January reporting, and month-to-month comparisons have no meaning, given the BLS adjustment and reporting policies discussed in *Concurrent Seasonal Factors Distortions* in this *Reporting Detail* section. Using the latest concurrent seasonal-factor calculations from the BLS, ShadowStats is able to estimate the consistent, revised (but not published) month-to-month change for February 2013 versus January, which was a gain of 304,000, instead of 332,000. The differences often are greater, with magnitudes approaching 100,000 jobs, on occasion.

The BLS explains that it avoids publishing consistent, prior-period revisions so as not to “confuse” its data users. No one seems to mind if the published earlier numbers are wrong, particularly if unstable seasonal-adjustment patterns have shifted prior jobs growth into current reporting, without any indication of same in the published historical data.

Trend Model. As described generally in [Payroll Trends](#), the trend indication from the current BLS seasonal-adjustment model is for a 204,000 monthly payroll gain in May 2013, based on April’s reporting. While the trend indication often misses actual reporting (the indication for April was for a 120,000 monthly gain, less than the actual headline 165,000 gain), the trend number nonetheless usually becomes the basis for the consensus outlook.

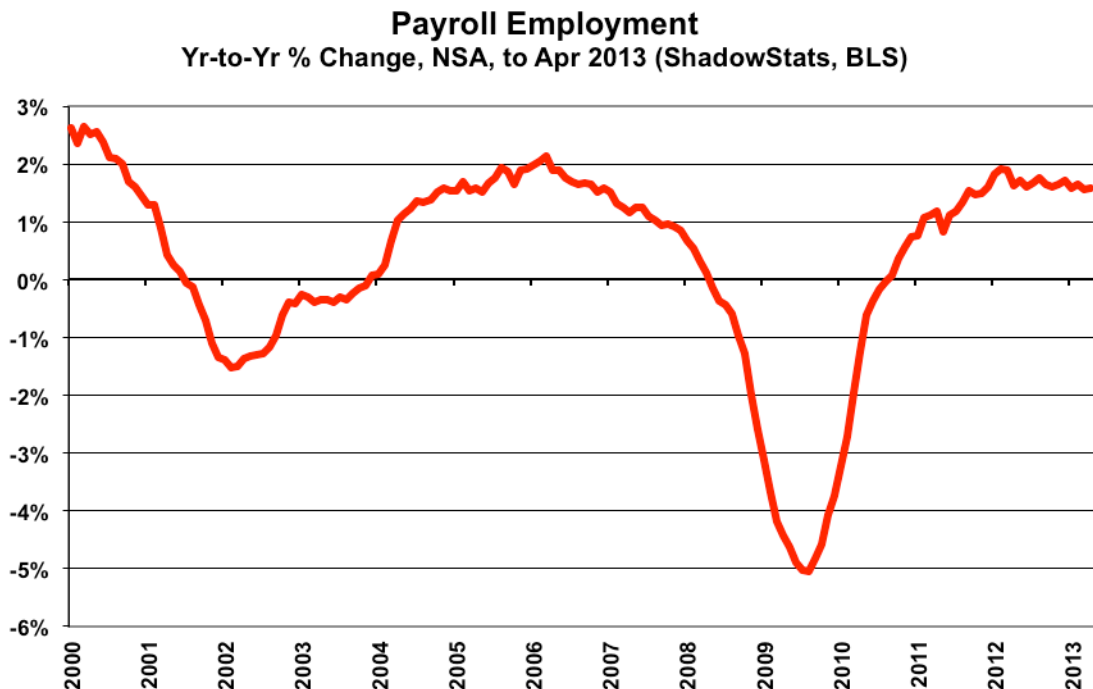


Construction Payroll Employment. The accompanying graph of construction employment updates the one shown in [Commentary No. 520](#), covering construction spending. Detail from the April 2013 payroll survey shows a slight weakening in the level of seasonally-adjusted construction employment, with April jobs of 5.790 million down from a revised 5.796 (previously 5.802) million in March. The detail here, however, is subject to the same seasonal-factor issues that are distorting the aggregate payroll series.

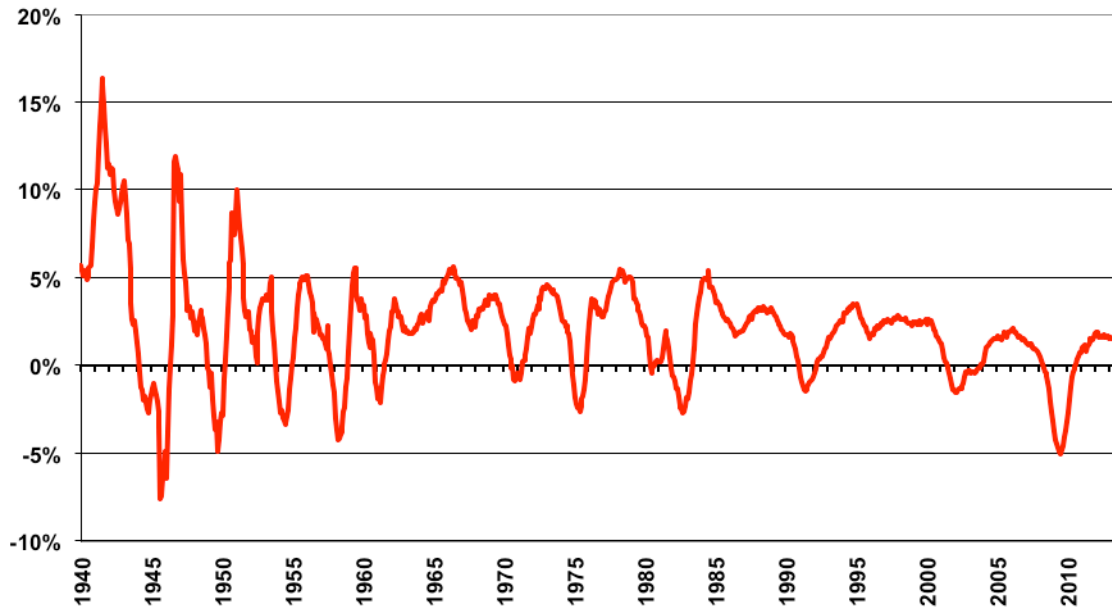
Annual Change in Payrolls. In terms of year-to-year change, the not-seasonally-adjusted growth is untouched by the concurrent seasonal adjustments, so the monthly comparisons of year-to-year change are on a consistent basis. For April 2013, the year-to-year percent gain in payrolls was 1.57%, versus a revised 1.55% (previously 1.49%) in March, and at somewhat slower pace than the revised 1.63% (previously 1.61%, initially 1.52%) gain estimated for February.

The following graphs of year-to-year unadjusted payroll change show a slowly rising trend in annual growth into 2011, which reflected a protracted bottom-bouncing in the level of nonfarm payrolls. That pattern of annual growth flattened out in late-2011 and, as shown in the first graph of the near-term detail in year-to-year change, began a pattern of slowing growth early in 2012.

As reflected 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 seen in August 2009. That 5.06% decline remains the most severe annual contraction 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.



**Payroll Employment**  
**Not Seasonally Adjusted, Yr-to-Yr % Change, to Apr 2013 (BLS)**



Still, even with the annual growth seen in the series since mid-2010, the April 2013 level of employment is far from reflecting an economic recovery, shy by 2.6-million jobs or 1.9% in official reporting. The regular graph of seasonally-adjusted payroll levels since 2000, showing that detail, 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 not so far ahead of the levels in 2000, are located in the *Opening Comments*.

***Concurrent Seasonal Factor Distortions.*** As reflected the accompanying graph, seasonal-factor instabilities continued to mount in the latest payroll reporting. The bulk of the reporting issues here, however, never are brought before the public by the BLS.

Indeed, there are serious and deliberate reporting flaws with the government's seasonally-adjusted, monthly reporting of employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll-employment and unemployment-rate data for the latest seasonal patterns. The headline payroll gain and unemployment rate are so-calculated, but the adjustment process also revises the history of each series, recasting prior reporting on a basis that is consistent with the new headline numbers.

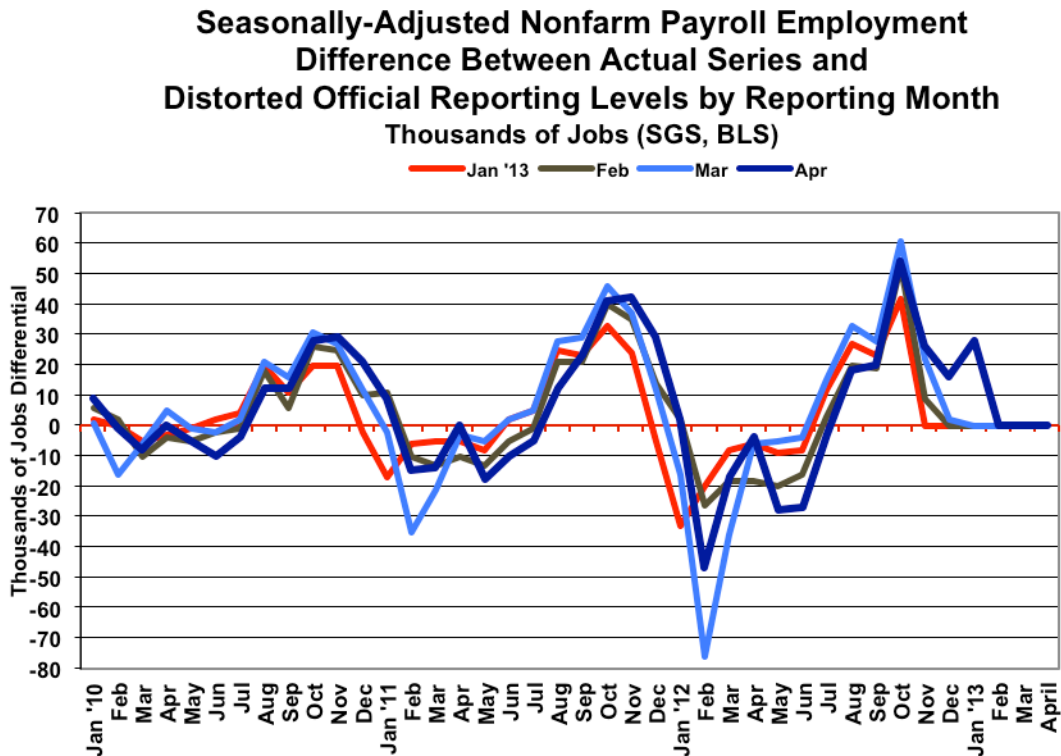
The BLS, however, uses the current estimate but does not publish the revised history, even though it calculates the new data each month. As a result, headline reporting generally is neither consistent with nor comparable to earlier reporting, and month-to-month comparisons of these popular numbers usually are of no substance, other than for market hyping or political propaganda.



For April 2013 the headline unemployment rate was 7.5%, and the headline monthly payroll change was a gain of 165,000 jobs. Yet, the reported April 2013 headline unemployment rate was neither consistent with nor comparable to the headline March unemployment rate of 7.6%. While the 165,000 jobs gain for April was consistent with the revised 138,000 jobs increase estimated for March, those increases were not consistent with the new 332,000 jobs gain reported for February or with any earlier data. The February revision is discussed further in *Opening Comments*.

Unemployment Numbers Simply Are Not Comparable Month-to-Month. Except for the once-per-year December release of revisions to seasonally-adjusted data, the BLS publishes no revised seasonally-adjusted data on a monthly basis for the household survey, even though those revisions are made and are available internally to the BLS for publication every month, as part of the concurrent-seasonal-factor process.

As discussed frequently (see [Commentary No. 473](#), [Commentary No. 461](#), and [Commentary No. 451](#), for example), the revisions to earlier data from the concurrent-seasonal-factor process can be significant. As a result, month-to-month changes in seasonally-adjusted unemployment rates are meaningless—not determinable under current BLS reporting policies—and use of monthly comparisons simply should be avoided. At this time, the BLS does not make usable, comparative data available to the public.



Payroll Growth Is Consistent Only One-Month Back, With Heavy Distortions Usual. With the payroll series, the level of payrolls is released for the headline month, and for the two prior months, on a consistent basis. That means that only the current headline month-to-month change and the change for the prior month are consistent and comparable. Unlike the household-survey circumstance, however, the



BLS makes available the seasonal-adjustment models and data so that others can calculate the payroll revisions, and ShadowStats has done so for the accompanying graph. All these data were reset with the March 2012 benchmark revision, which was published in January 2013.

Distortions in the post-benchmark environment already have surfaced, even though the data are based on the initial public reporting of the benchmark revision. The reason for this is that the benchmark revision actually was run internally by the BLS, based on October 2012 numbers. With subsequent internal runs in November, December and January 2013, three months of revisions already had skewed the January data, as shown in the accompanying graph. The line for February reflects only one month subsequent of new seasonal-factor revisions, the March line reflects a second month and April a third month, with mounting seasonal instabilities. Without distortions, the plotted lines would be flat and at zero.

Conceivably, the shifting and unstable seasonal adjustments could move 90,000 jobs (based on last year's full revisions, and quickly being approached by this year's numbers) or more from earlier periods and insert them into the current period as new jobs, without there being any published evidence of that happening.

*Note: The issues with the BLS's concurrent-seasonal-factor adjustments and related inconsistencies in the monthly reporting of the historical time series are discussed and detailed further in the ShadowStats.com posting on May 2, 2012 of [Unpublished Payroll Data](#).*

*As discussed in other writings (see for example [Hyperinflation 2012](#)), 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.*

*A 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, general overstatement of monthly payroll employment—as evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 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.

April 2013 Bias. The not-seasonally-adjusted April 2013 bias was a monthly add factor of 193,000, versus an upside bias of 206,000 in April 2012, and an upside bias of 92,000 in March 2013. The aggregate upside bias for the current year appears to have been reduced slightly to 622,000 (previously 635,000 in March), or a monthly average of roughly 52,000 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 of 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 are 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 52,000 jobs per month in the current year. The aggregate overstatement of monthly jobs likely exceeds 100,000 jobs per month. With the economy slowing anew, with growth generally below consensus expectations, the next hope for relief in current over-reporting of jobs growth would be the 2013 benchmark revision, due to be published in February of 2014.

***HOUSEHOLD SURVEY DETAILS.*** As discussed in the *Opening Comments*, the seasonally-adjusted or headline April 2013 household-survey data are inconsistent with March 2013 reporting, due to the BLS's unconscionable practice of revising previous estimates that are the basis for and consistent with current reporting, but then publishing only the current number, not the consistent prior-period revisions. The BLS leaves in place earlier monthly estimates, knowing them to be inconsistent and not comparable with each other, let alone the current headline reporting. Accordingly, seasonally-adjusted month-to-month comparisons of components in the household survey are of no meaning.

***Headline Household Employment.*** The household survey 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). On that basis April 2013 employment rose by 293,000, after falling by 206,000 in March, but these numbers are not corrected for the unpublished and currently unknowable in-house BLS seasonal-adjustment revisions. Accordingly, as discussed in the *Unemployment Rates* section, the seasonally-adjusted household numbers in April are not legitimately comparable to the March reporting.

***Unemployment Rates.*** Headline unemployment dropped to 7.5% in April from 7.6% in March, the third straight month-to-month decline. As discussed in the *Opening Comments*, however, the reporting pattern here of a declining unemployment rate is not good news. Instead of reflecting those who are unemployed

finding jobs, it generally reflects those who are unemployed being defined out of the government's unemployment measurement by restrictive government definitions.

Further, the reported April 2013 seasonally-adjusted headline (U.3) unemployment rate of 7.51%, simply was not comparable to the reported 7.57% unemployment rate of March, just as the March rate was not comparable to February's. As with the other headline household-survey data, the problem with unemployment-rate comparability is tied to the use of concurrent-seasonal-factor adjustments.

When the seasonally-adjusted April 2013 unemployment data were calculated, consistent, new seasonal factors also were recalculated for March 2013 and prior months. Based on the new seasonal factors, there is a revised March unemployment rate that is consistent with April's new headline reporting, but it is not available to the public. Although the BLS knows that number, it will not publish it; it has left intact the now-inconsistent number that previously had been reported for March.

This process is repeated every month, except in December when a revised and consistently seasonally-adjusted series is published. The misreporting process begins anew with the reporting of the unemployment data for each January (see the discussions in [Commentary No. 451](#), [Commentary No. 487](#) and the earlier *Concurrent Seasonal Factor Distortions* section for further detail).

As a result, the purported headline 0.06% month-to-month decline in the April U.3 employment rate could have been an increase, unchanged, or a decline, but no one other than the BLS knows for sure. Even so, the official rate decline was statistically insignificant, based on official error estimates.

The official 95% confidence interval of +/- 0.23 percentage-point around the monthly headline U.3 number is meaningless in the context of comparative month-to-month reporting inconsistencies already discussed. On an unadjusted basis, however, the unemployment rates are not revised and are consistent in reporting methodology, they just are not adjusted for regular seasonal variations. April's unadjusted U.3 unemployment rate was 7.1%, versus 7.6% in March.

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 (such as they cannot find a full-time job).

Reflecting an increase in people working part-time for economic reasons, and an increase of short-term discouraged workers, the April 2013 U.6-unemployment rate rose to a seasonally-adjusted 13.9% from 13.8% in March, but, again, the monthly seasonally-adjusted numbers are not comparable and the BLS guesstimates are unstable. The unadjusted April U.6 rate declined to 13.4% from 13.9% in March.

Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) was 835,000 in April 2013, versus 803,000 in March, 885,000 in February and 804,000 in January. Those numbers still never will be comparable with the 1,068,000 of December 2012, the 979,000 in November, or the 813,000 in October, thanks to the change in population assumptions that were published with the January 2013 data.

The current official discouraged-worker number reflected the flow of the 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,” net of those moving from short-term discouraged-

worker status into the netherworld of long-term discouraged-worker status. It is the long-term discouraged-worker category that defines the ShadowStats-Alternate Unemployment Measure.

The following underlined text is repeated from *Opening Comments* section with no substantive changes. In 1994, “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 a large number of long-term discouraged workers. The remaining short-term discouraged workers (those discouraged less than a year) were included in U.6.

Adding back into the total unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers, broad unemployment—more in line with common experience, as estimated by the ShadowStats-Alternate Unemployment Measure—rose a notch to 23.0% in April 2013, regaining the series high level, up from 22.9% in March. Prior to March, that measure had held at a series high of 23.0% for the three months through February 2013. The ShadowStats estimate reflects the increasing toll of unemployed leaving the headline labor force. Where the ShadowStats alternate estimate generally is built on top of the official U.6 reporting, it tends to follow its relative monthly movements. Accordingly, the alternate measure often will suffer some of the same seasonal-adjustment woes that afflict the base series, including underlying annual revisions.

As seen in the usual graph of the various unemployment measures (see the *Opening Comments*), there continues to be a noticeable divergence in the ShadowStats 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.

With the continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker status (a ShadowStats measure). There was a lag in this happening as those having difficulty during the early months of the economic collapse, first moved into short-term discouraged status, and then, a year later into long-term discouraged status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force has been accelerating. See the *Alternate Data* tab for more detail.

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 ShadowStats 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 estimated, the current ShadowStats level likely is about as bad as the peak actual unemployment seen in the 1973 to 1975 and in double-dip recession of the early-1980s.

The Great Depression unemployment rate of 25% was estimated well after the fact, with 27% of those employed working on farms. Today, less than 2% of the employed work on farms. Accordingly, a better measure for comparison with the ShadowStats number would be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

## WEEK AHEAD

**Weaker Economic and Stronger Inflation Data Should Surface in the Near-Term.** *Reflecting the intensifying structural liquidity constraints on the consumer, and in anticipation of the likely negative impact, of the continuing and expanded QE3 and the still-pending fiscal crisis/debt-ceiling negotiations, on the U.S. dollar in the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and weaker-than-expected economic results. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as was seen for industrial production, and as pending for new orders for durable goods (May 17th), retail sales (May 31st), trade deficit (June 4th), construction spending (July 1st) and GDP (July 31st—comprehensive overhaul and redefinition back to 1929).*

*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 reported 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 it still appears to be trying to work numerical slight-of-hand with series such as the GDP and related projections of the federal budget deficit. The media do their best to avoid publicizing unhappy economic news or, otherwise, they put a happy spin on the numbers. Pushing the politicians and media, the financial markets and related spinmeisters 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](#).*

**There are no major economic releases scheduled for the week ahead.**