

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

**COMMENTARY NUMBER 540**

**Updated No. 539, June Employment and Unemployment, Money Supply M3**

**July 8, 2013**

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**With Fed Monetization of Treasury Debt at 90.5%,  
Money Supply Growth Patterns Suggest Banking-System Stress**

**Using Consistent Seasonals, June Payrolls Rose About 160,000**

**Full-Time Employment Plunged by 240,000 in June**

**Economic Issues Accounted for 75% of Gain in Part-Time Employment**

**Number of Short-Term Discouraged Workers Increased by 247,000**

**June Unemployment: 7.6% (U.3), 14.3% (U.6), 23.4% (ShadowStats)**

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*PLEASE NOTE: The next regular Commentary is scheduled for Friday, July 12th, covering the June 2013 producer price index (PPI).*

*Today's (July 8th) Commentary incorporates the June labor data and text from summary Commentary No. 539 of July 5th, along with holiday-delayed material (see Reporting Detail section and the preliminary estimate of broad money supply M3 for June 2013).*

*In this Commentary, as with some others, necessary explanatory, definitional or background text is repeated—often verbatim—each month. Such text sections are noted, where possible, in this Commentary, with new or revised text underlined for the reading convenience of those who otherwise are familiar with the background material.*

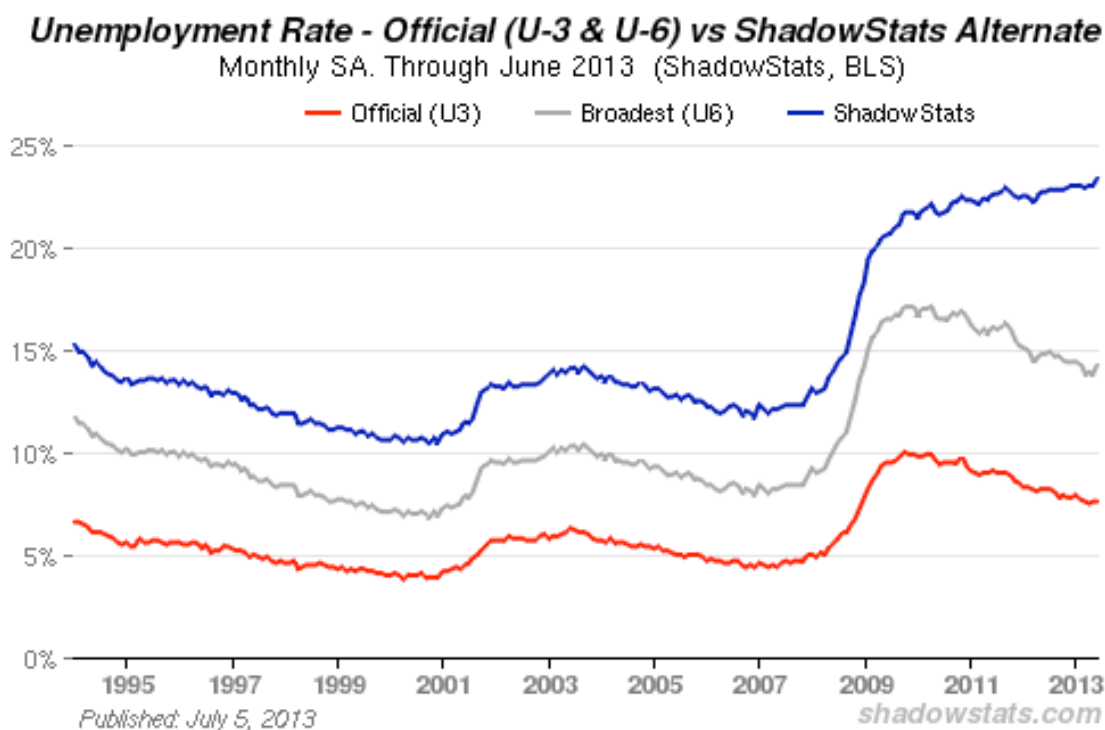
*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Banking-System Stress.** With Fed monetization of U.S. Treasury debt at 90.5%, and with June monetary base annual growth soaring above 20%, the lack of meaningful movement in June M3 annual growth is suggestive of an intensifying liquidity crisis in the bank system, as discussed in the *Hyperinflation Watch*.

*Except for [bracketed text], placement of certain graphs and comments related to the summary nature of the July 5th Commentary, the following Opening Comments text is from [Commentary No. 539](#).*

**No Economic Recovery Here.** The June 2013 report on labor conditions, published July 5th by the Bureau of Labor Statistics (BLS) included some harsh indications of economic deterioration in the broader unemployment detail (ShadowStats measure hit a record high for the series), along with heavy seasonal-factor distortions in the headline payroll data.



**Broader Unemployment Showed Deteriorating Conditions.** The headline unemployment rate (U.3) was unchanged in June 2013 versus May, at 7.6% (also unchanged at the second decimal point at 7.56%). Due to BLS methodologies, however, month-to-month comparisons of seasonally-adjusted household-survey data are not meaningful. Not-seasonally-adjusted, June U.3 rose to 7.8% from 7.3% in May.

The broader U.6 unemployment rate, which includes those marginally attached to the labor force, including short-term (less than one year) discouraged workers, and those working part-time for economic

reasons, jumped to a headline 14.3% in June, up from 13.8% in May (unadjusted, it rose to 14.6% from 13.4%). The number of the never-seasonally-adjusted, short-term discouraged workers rose by 247,000 [corrected] in June, to 1,027,000, from 780,000 [corrected] in May. This reflected a surge in people who had been counted as headline unemployed in May, rolling into short-term “discouraged” status in June, net of those rolling out of short-term and into long-term “discouraged” status in June. The deterioration in broader employment appears to have been large enough to be meaningful.

Incorporating the seasonally-adjusted U.6 and the ShadowStats estimate of long-term (more than one year) discouraged workers, the ShadowStats-Alternate Unemployment Measure rose to a series high 23.4% in June, up from 23.0% in May, as shown in the preceding graph (see the [Alternate Data](#) tab). [See *Reporting Detail* for full definition of the ShadowStats-Alternate Unemployment Measure.]

***Full-Time Versus Part-Time Employment (Household Survey).*** Allowing for internal inconsistencies in BLS surveys and the related preparation of its data, headline June employment rose by 160,000, per the household survey, following an inconsistently estimated employment gain of 319,000 in May.

The BLS only accounts for a seasonally-adjusted June employment gain of 120,000, however, when it breaks the detail into full-time versus part-time employment. That 120,000 gain is broken out as drop of 240,000 full-time employed, offset by a gain of 360,000 part-time employed (from Table A-9 of the July 5th BLS press release).

Otherwise counted as a gain of 432,000 part-time employed (Table A-8), 75% of that gain was in the category of “working part time for economic reasons.”

The inconsistent “part-time” counts here reflect various BLS approaches in the handling of answers to its household survey questions (including incomplete or contradictory results), as modeled against its in-house population estimates.

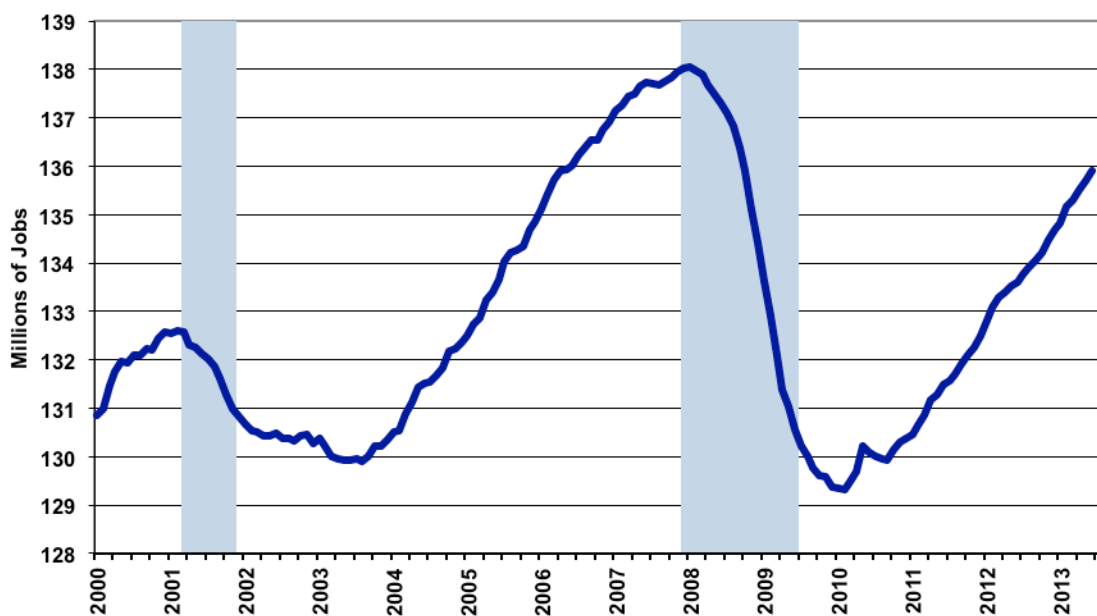
***[Payroll Employment Gain of 195,000 Should Have Been About 160,000.]*** In the context of shifting, but not reported seasonal factors [see *Reporting Detail* section], the BLS reported headline June payroll employment up by 195,000 jobs [about 160,000 with consistent seasonal adjustments]. Net of prior-period revisions, the headline monthly gain would have been 265,000. Where the standard 95% confidence interval on headline monthly payroll change 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.

The May headline monthly jobs increase was revised to 195,000 (previously 175,000), with April’s revised headline gain at 199,000 (previously 149,000, initially 165,000). [In aggregate, April and May jobs gains revised higher by 120,000, but only 47,000 jobs were from hard numbers, while 73,000 came from the games played by the BLS with its seasonal-adjustment factors.]

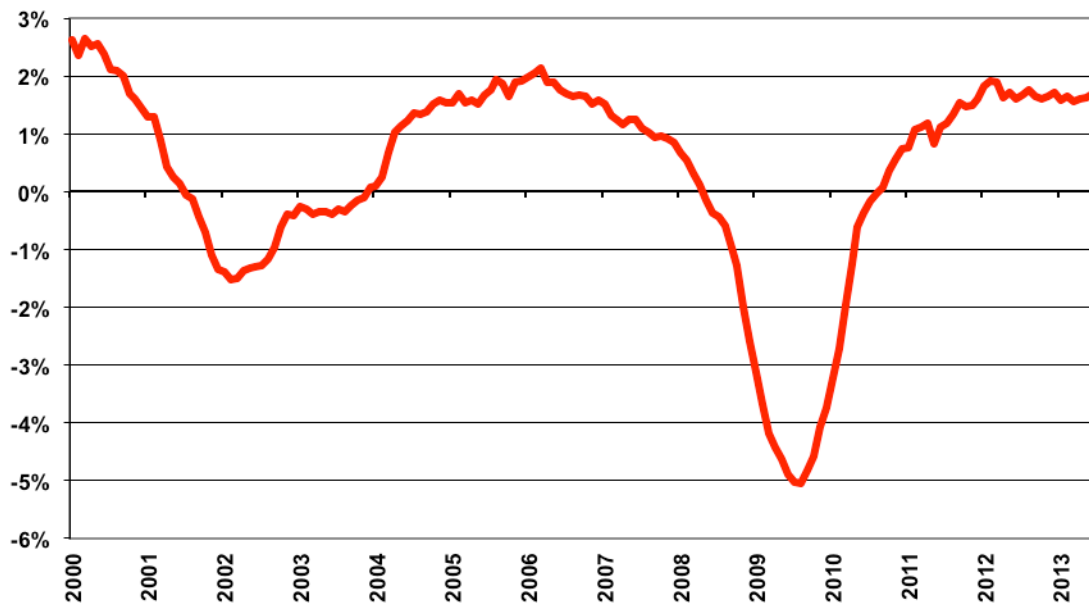
The not-seasonally-adjusted, year-to-year change for June 2013 was 1.67%, versus a revised 1.62% (previously 1.60%) in May, and a revised 1.58% (previously 1.56%, initially 1.57%) in April.

In the birth-death model, the monthly upside bias factors appear to have upped, with the June 2013 upside bias at 132,000 versus 122,000 in June 2012. The average monthly upside bias in the last 12 months now is 53,000, versus 52,000 last month.

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



**Payroll Employment**  
Yr-to-Yr % Change, NSA, to June 2013 (ShadowStats, BLS)



The preceding graphs are updated for the headline payroll levels and year-to-years rates of change [historical graphs back to World War II are included in the *Reporting Detail* section].

***[For further detail on June employment and unemployment, including various constraints on the quality of the reported labor data, see the Reporting Detail section.]***

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## HYPERINFLATION WATCH

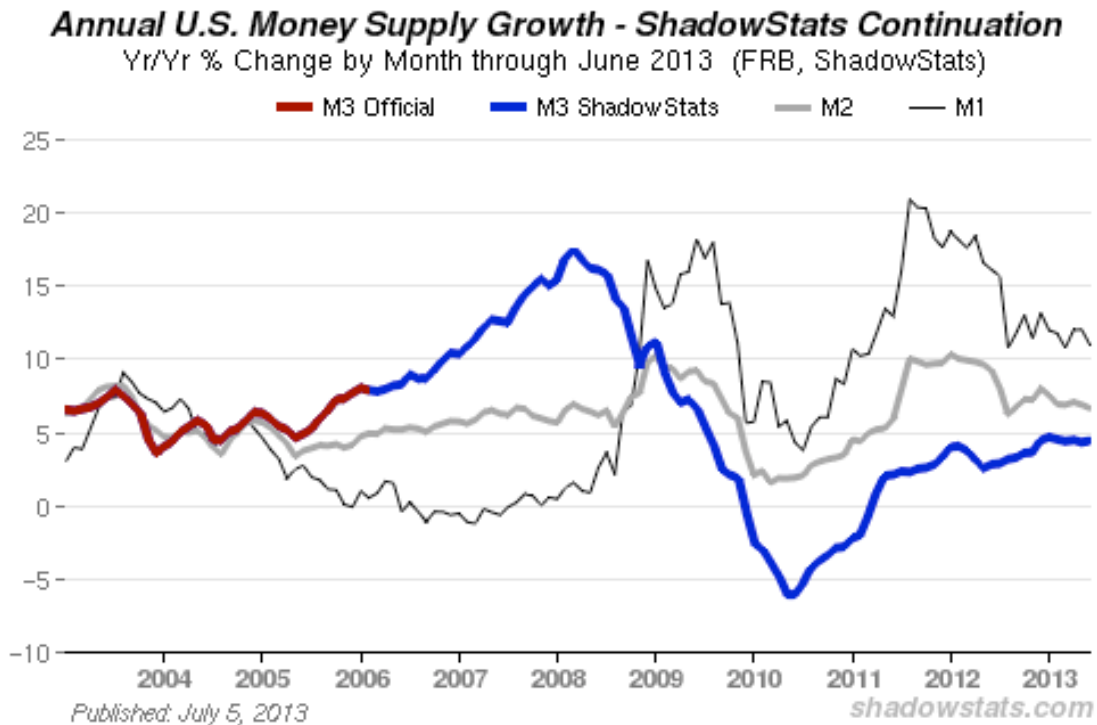
**M3 Money Supply Growth Notched Higher to 4.4% in the Context of Revisions.** Despite the continued surge in the annual growth in the monetary base, the preliminary estimate of year-to-year growth in the ShadowStats Ongoing-M3 Estimate for June 2013 was up minimally, by a notch, to 4.4%, from a revised 4.3% (previously 4.2%) in May. Revised annual M3 growth has held relatively steady in recent months, after slowing from four-year high annual growth in January 2013 of 4.6%. January 2013 was the onset of expanded QE3 easing. All revisions here are due to the most recent of frequent benchmark revisions of underlying data by the Federal Reserve. The June detail is based on three-plus weeks of data from the Federal Reserve and has been published in the [Alternate Data](#) tab of [www.shadowstats.com](http://www.shadowstats.com).

Where annual growth had been on the upswing into the expanded QE3, the unfolding new pattern of slowing-to-constant growth levels likely is a sign of mounting systemic problems, with June's detail suggesting possible, intensifying banking-system stress. As has been case for Fed activity in the ongoing systemic-solvency crisis of the post-2008-panic era, the Fed's active and expanded QE3 has not flowed through to meaningful growth in the broad money supply, but there has been a relationship, as discussed in the *M3 versus Monetary Base* section.

The seasonally-adjusted, preliminary estimate of month-to-month change for June 2013 money supply M3 is for a 0.4% gain, versus a revised 0.1% increase (previously unchanged reading) in May. The estimated month-to-month M3 changes, however, remain less reliable than the estimates of annual growth.

For June 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 of the measures are found in the [Money Supply Special Report](#). M2 for June is estimated to show slower year-to-year growth of about 6.7%, versus and unrevised 6.9% in May, with month-to-month change estimated at roughly a 0.3% gain in June, unchanged versus a revised 0.3% (previously 0.2%) gain in May. The early estimate of M1 for

June 2013 is for slower year-to-year growth of roughly 11.0%, versus a revised 12.0% (previously 11.6%) gain in May, with the month-to-month June change a likely contraction of 0.7%, versus a revised May gain of 0.5% (previously 0.1%).

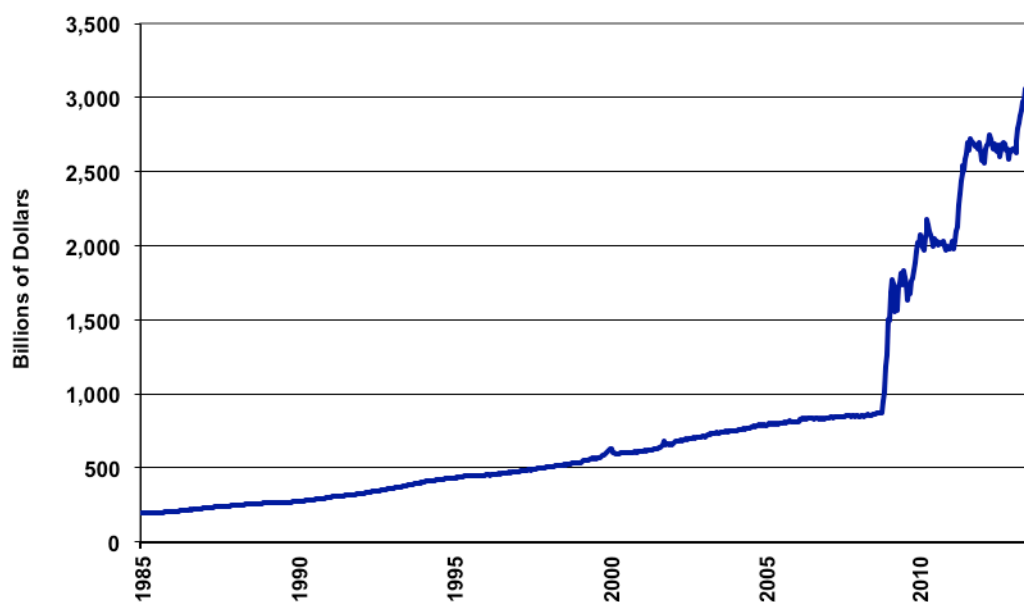


**Monetary Base.** Since the implementation in January 2013 of the Federal Reserve’s expanded quantitative easing QE3, the Fed has continued to buy U.S. Treasury securities at a pace suggestive of concerns that the U.S. government otherwise might have some trouble in selling its debt. From the beginning of 2013 through July 3, 2013, the Fed’s net purchases of Treasury securities has absorbed 90.5% of the coincident net issuance of gross federal debt. That circumstance has been exacerbated somewhat, though, by the level of gross federal debt currently being contained at its official debt ceiling.

Mirroring the ongoing and expanded QE3 activity, the monetary base has been setting historic highs, both in terms of level, and in terms of year-to-year growth in the current cycle. As shown in the accompanying graphs, the monetary base was at a seasonally-adjusted (SA) two-week average level of \$3,191.8 billion as of June 26th, reflecting a short-lived dip from the record-high \$3,245.2 billion recorded at the end of the prior, June 12th period. The 22.5% pace of rising year-to-year growth for the June 26th period, however, was at a new cycle high, a level that has not been seen in two years, when QE2 was exploding.

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 that has not had its normal impact in the post-2008 crisis period.

**St. Louis Fed Adjusted Monetary Base**  
Bi-Weekly through Jun 26, 2013, SA, ShadowStats, St. Louis Fed



**St. Louis Fed Adjusted Monetary Base, Yr/Yr %**  
Bi-Weekly through Jun 26, 2013, SA, ShadowStats, St. Louis Fed



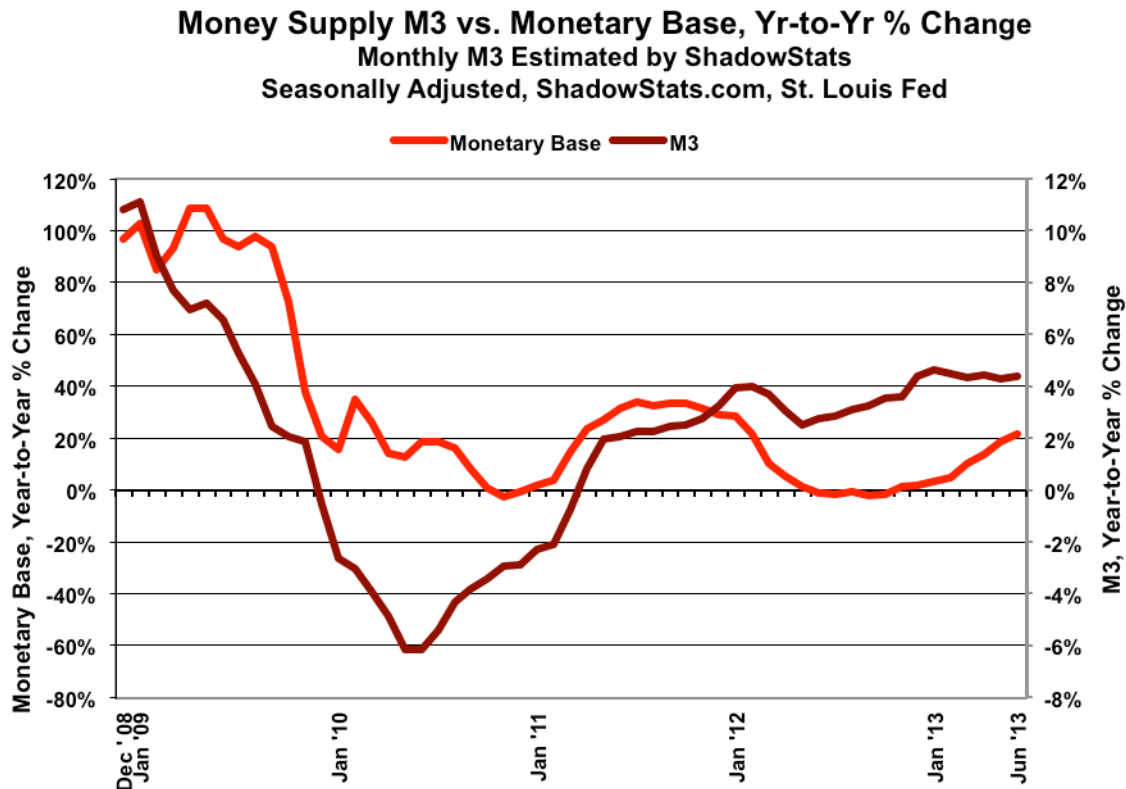


Instead, financially-troubled banks have been holding their excess reserves with the Federal Reserve, not lending the available cash into the normal flow of commerce. When the Fed monetizes U.S. Treasury securities, as it has been doing, that usually adds directly to the broad money supply, and it contributes to selling pressure against the U.S. dollar. Faltering year-to-year growth in broad money supply M3, in this circumstance, tends to be an indication of mounting systemic stress in the banking industry.

**M3 versus Monetary Base—No Letup Likely in Fed Easing.** While there has been no significant flow-through to the broad money supply from the expanded monetary base—a problem directly related to banking-system solvency—there still appears to have been some impact. As shown in the updated graph, there is a correlation between annual growth in the St. Louis Fed’s monetary base estimate and annual growth in M3, as measured by the ShadowStats-Ongoing M3 Estimate. The correlations between the growth rates are 58.1% for M3, 39.9% for M2 and 36.7% for M1, all on a coincident basis versus growth in the monetary base. The June 2013 annual growth estimates are based on four weeks of data.

The Fed’s easing activity of recent years has been aimed primarily at supporting banking-system solvency and liquidity, not at propping the economy. When the Fed boosts its easing, but money growth slows or does not respond, there is a suggestion of mounting financial stress within the banking system.

Further, underlying U.S. economic reality is weak enough to challenge domestic banking stress tests. In this environment, the Fed most likely will have to continue to provide banking-system liquidity, while continuing to take political cover for its quantitative easing from the weakening economy (see [No. 527: Special Commentary](#)). Accordingly, there is nothing here to suggest an imminent end to QE3.





**Hyperinflation Outlook—Unchanged Summary.** *[This summary has not been revised since Commentary No. 536 of June 26th].* The comments here are intended as background material for new subscribers and for those looking for a brief summary of the broad outlook of the economic, systemic and inflation crises that face the United States in the year or so ahead.

**Background Material.** [\*No. 527: Special Commentary\*](#) (May 2013) supplemented [\*No. 485: Special Commentary\*](#) (November 2012), reviewing shifting market sentiment on a variety of issues affecting the U.S. dollar and prices of precious metals. *No. 485*, in turn, updated [\*Hyperinflation 2012\*](#) (January 2012)—the base document for the hyperinflation story—and the broad outlook for the economy and inflation, as well as for systemic-stability and the U.S. dollar. Of some use, here, also is the [\*Public Comment on Inflation\*](#).

These are the primary articles outlining current conditions and the background to the hyperinflation forecast, and they are suggested reading for subscribers who have not seen them and/or for those who otherwise are trying to understand the basics of the hyperinflation outlook. The fundamentals have not changed in recent years, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, the next, fully-updated hyperinflation report is planned for the near future.

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

Typical of an approaching, major turning point in the domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and Federal Reserve policy also have been in increasing flux. The FOMC and Federal Reserve Chairman Ben Bernanke have put forth a plan for reducing and eventually ending quantitative easing in the form of QE3. The tapering or cessation of QE3 is contingent upon the U.S. economy performing in line with overly-optimistic economic projections provided by the Fed. Initially, market reaction pummeled stocks, bonds and gold.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift quickly towards no imminent end to QE3, and then to expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, eventually, they will have to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve—despite currency-market platitudes to the contrary—is locked into quantitative easing by persistent problems now well beyond its control. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, driving the quantitative easing. Economic issues are secondary concerns for the Fed; they are used as political cover for QE3. That cover will continue for as long as the Fed needs it.

At the same time, rapidly deteriorating expectations for domestic political stability reflect widening government scandals, in addition to the dominant global-financial-market concern of there being no viable prospect of those controlling the U.S. government addressing the long-range sovereign-solvency issues of the United States government. All these factors, in combination, show the end game to be nearing.

The most visible and vulnerable financial element to suffer early in this crisis likely will be the U.S. dollar in the currency markets (all dollar references here are to the U.S. dollar, unless otherwise stated). Heavy dollar selling should evolve into massive dumping of the dollar and dollar-denominated paper assets. Dollar-based commodity prices, such as oil, should soar, accelerating the pace of domestic inflation. In turn, that circumstance likely will trigger some removal of the U.S. dollar from its present global-reserve-currency status, which would further exacerbate the currency and inflation problems tied to the dollar.

This still-forming great financial tempest has cleared the horizon; its impact on the United States and those living in a dollar-based world will dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on the precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises. Attempts to save the system all have inflationary implications. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of next year (2014). The shifting underlying fundamentals are discussed in [No. 527: Special Commentary](#); some of potential breaking crises will be expanded upon in the next revision to the hyperinflation report.

***Still Living with the 2008 Crisis.*** 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 (see new detail in [Commentary No. 530](#)). The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see [No. 527: Special Commentary](#), [Commentary No. 528](#) and [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 ongoing panicked actions by the Federal Reserve, where it still proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before and since the mid-April rout in gold prices, there had and has been mounting hype about the Fed potentially pulling back on its “easing” and a coincident Wall Street push to talk-down gold prices. As discussed in [No. 527: Special Commentary](#), those factors appeared to be little more than platitudes to the Fed’s critics and intensified jawboning to support the U.S. dollar and to soften gold, in advance of the still-festered crises in the federal-budget and debt-ceiling negotiations. Despite orchestrated public calls for “prudence” by the Fed, and Mr. Bernanke’s press conference following the June 19th FOMC meeting, 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 (see [No. 527: Special Commentary](#)).

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 softening annual growth in the broad money supply, despite a soaring pace of annual growth in the monetary base, and in global banking-system stress that followed the crisis in Cyprus and continuing, related aftershocks.

***Still Living with the U.S. Government's Fiscal Crisis.*** Again, as covered in [No. 527: Special Commentary](#), the U.S. Treasury is in the process of going through extraordinary accounting gimmicks, at present, in order to avoid exceeding the federal-debt ceiling. Early-September appears to be the deadline for resolving the issues tied to the debt ceiling, including—in theory—significant budget-deficit cuts.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that still 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. There still appears to be no chance of a forthcoming, substantive agreement on balancing the federal deficit.

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, including briefly postponing conflict over the Treasury's debt ceiling, bought the politicians in Washington minimal time in the global financial markets, but the time 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](#).

***U.S. Dollar Remains Proximal Hyperinflation Trigger.*** 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 has given way to mounting instabilities, and severe market turmoil likely looms, despite the tactics of delay by the politicians and ongoing obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. As discussed earlier, a dollar-selling panic is likely this year—still of reasonably high risk in the next month or so—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 intermittent panicked selling of gold has not been. 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.

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## REPORTING DETAIL

### EMPLOYMENT AND UNEMPLOYMENT (June 2013)

**Payroll and Unemployment Data Remain 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). Neither the 195,000 jobs gain in June payrolls nor the unchanged level of the headline U.3 unemployment rate at 7.6%, was meaningful, thanks to ongoing severe distortions in seasonal-adjustment factors that continue to plague the statistical-reporting system. Particular problems continue with the unstable concurrent-seasonal-factor adjustments used by the BLS in adjusting both the payroll and household surveys, and given restrictive definitions on the nature of “unemployment.”

Poor-quality seasonal adjustments heavily distorted the June jobs report, accounting for about 73,000 of the aggregate 120,000 upside revision to April and May jobs gains, and boosting the June payroll gain to 195,000 from what would have been about 160,000, using consistent seasonal factors. These numbers are before the concurrent-seasonal-factor distortions come into play, with the third month of payroll reporting.

In the case of the upside revisions to April and May, payroll gains revised higher by a total 120,000. Only 47,000 of that was from revisions to the unadjusted numbers, 73,000 was due to unconscionable shifts in the near-term seasonal factors as put forth by the BLS. With consistent seasonal factors applied to both June of 2012 and 2013, the year-to-year changes should be close to each other on both an adjusted and unadjusted basis. With adjusted May and June payrolls calculated using consistent annual growth, as reflected in the unadjusted series, the headline June gain would have been about 160,000.

The preceding detail, however, was before consideration of the concurrent-seasonal-factor distortions, which kick in with the third month of payroll reporting. With consistent, concurrent seasonal adjustments, the official upside revision to April headline growth would have been from 149,000 to 182,000, not to the reported 199,000. The point with these various measures is that official reporting is

heavily skewed by poor-quality seasonal factors. The resulting official headline numbers are not meaningful.

Despite the purported unchanged headline June U.3 unemployment rate, broader measures of unemployment spiked sharply, coincident with the deteriorating economy and the increasing difficulty for the longer-term unemployed to find work. As was discussed extensively in the *Opening Comments* of [Commentary No. 521](#), the current, relatively low level of the headline unemployment rate is bad news. The unemployment rate has not dropped from its peak due to a surge in hiring; instead, it has dropped because of discouraged workers being eliminated from the headline labor-force accounting.

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 2.2-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)—rose to an all-time high for the series of 23.4% in June, a high level that rivals any other downturn of the post-Great Depression era.

**PAYROLL SURVEY DETAIL.** In the context of an upside revision to May’s headline payroll data and heavily distorted seasonal factors, the BLS reported July 5th, a seasonally-adjusted, month-to-month headline payroll employment gain of 195,000 for June 2013. Net of prior-period revisions, the monthly gain was 265,000. 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 *Concurrent Seasonal Factor Distortions* section).

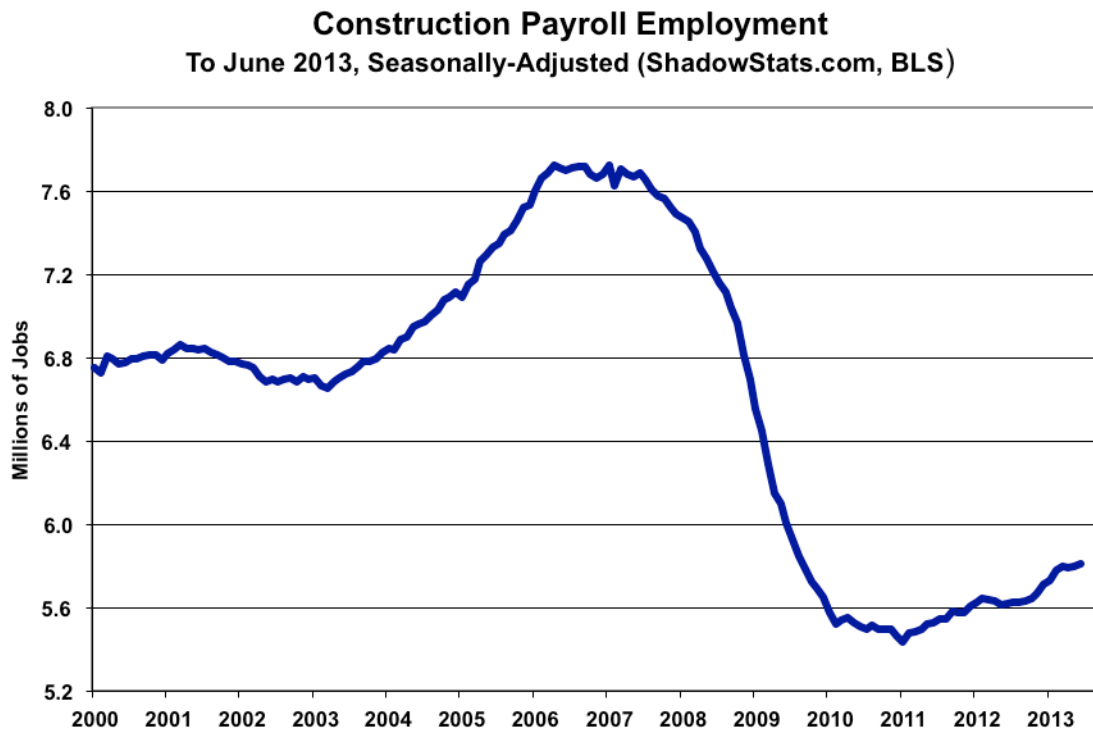
The May 2013 headline month-to-month jobs increase was revised to a seasonally-adjusted 195,000 (previously 175,000), versus a revised headline gain of 199,000 (previously 149,000, initially 165,000) in April. Separate from published concurrent-seasonal-factor detail, consider that the aggregate upside revisions to the seasonally-adjusted April and May numbers were 120,000 jobs. Yet, only 43,000 were due to upside revisions in the unadjusted numbers, 73,000 were generated by a rejiggering of April and May seasonal adjustments. These distortions are discussed at the opening of the *Employment and Unemployment* section.

The ongoing reporting issue here remains that the BLS publishes only two prior months of consistent data with concurrent-seasonally-adjusted payrolls. Accordingly, where the published April number no longer is consistent with March reporting, related 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 that the consistent, actual revised (but not published) month-to-month change for the April gain, versus March was 182,000, instead of the official 199,000. The month-to-month reporting discrepancies often are greater, with monthly 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 BLS's concurrent seasonal-adjustment model is for a 175,000 monthly payroll gain in July 2013, based on June's reporting. While the trend indication often misses actual reporting (the indication for June was for a 148,000 monthly gain, less than the actual—above-consensus—headline 195,000 gain), the trend number nonetheless usually becomes the basis for the consensus outlook.

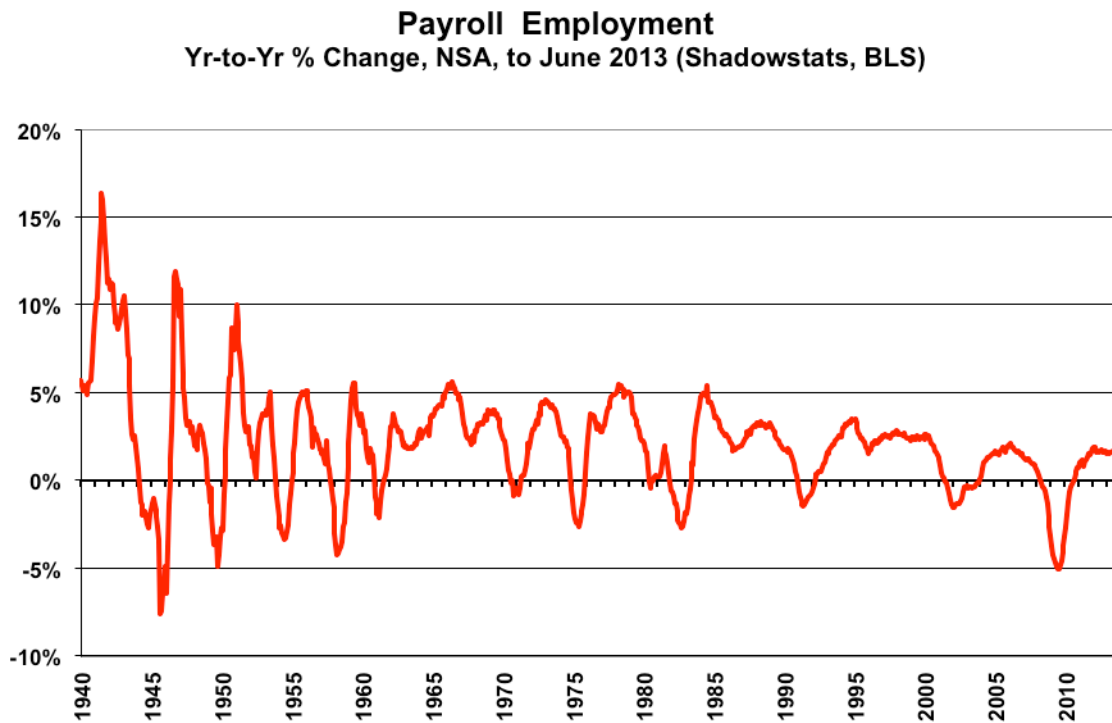


*Construction Payroll Employment.* The accompanying graph of construction employment shows updated payrolls for the plot included in [Commentary No. 538](#), which covered May construction spending. Detail from the June 2013 payroll survey showed a gain in the level of seasonally-adjusted construction employment, with June jobs of 5.812 million, up from a downwardly revised 5.799 (previously 5.804) million in May, and up from a downwardly revised 5.792 (previously 5.797, initially 5.790) million in April. 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 annual change is untouched by the concurrent seasonal adjustments, so the monthly comparisons of year-to-year change are on a consistent basis. For June 2013, the year-to-year percent gain in payrolls was 1.67%, versus a revised 1.62% (previously 1.60%) in May, and a revised 1.58% (previously 1.56%, initially 1.57%) in April.

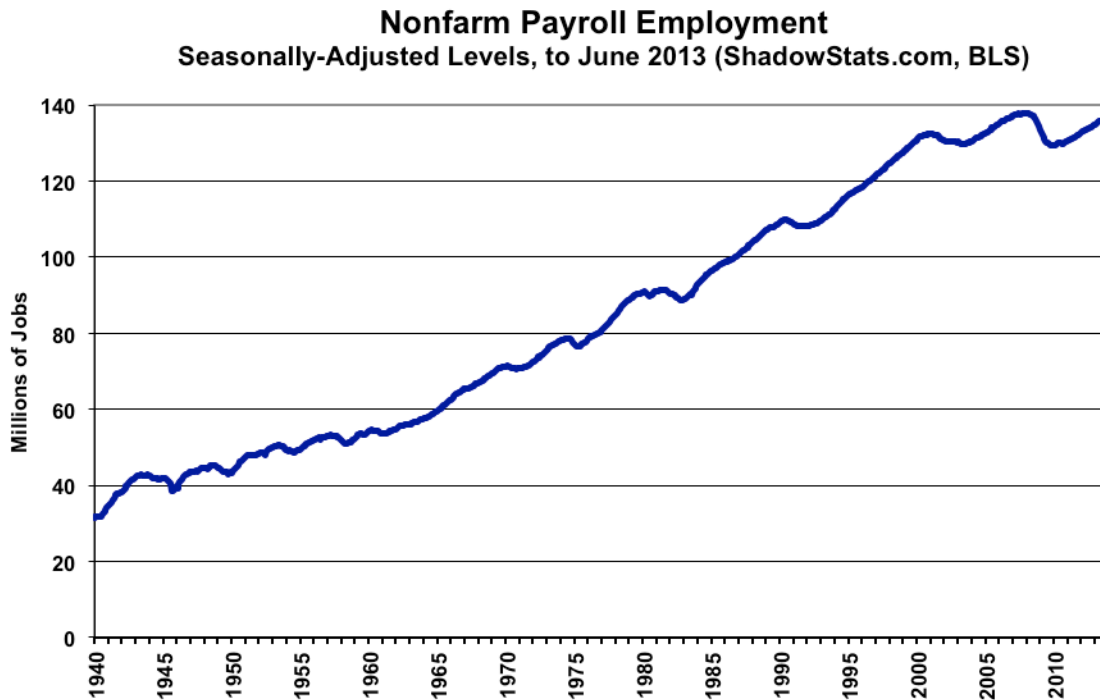
The following graphs of year-to-year unadjusted payroll change and seasonally-adjusted payroll levels reflect seventy-plus years of history. Greater near-term detail is found in the graphs in the *Opening Comments*. Year-to-year change had shown a slowly rising trend in annual growth into 2011, which reflected protracted bottom-bouncing in the level of nonfarm payrolls. That pattern of annual growth flattened out in late-2011 and began a pattern of slowing growth early in 2012.

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.



Still, even with the annual growth seen in the series since mid-2010, the June 2013 level of employment is shy by 2.2-million jobs, or 1.6% in official reporting, from recovering its pre-recession high. In perspective, this longer-term plot (versus the graph in the *Opening Comments*) shows the extreme duration of the non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.





***Concurrent Seasonal Factor Distortions.*** *[Only underlined text in this Concurrent Seasonal Factor section and subsections is new or revised from Commentary No. 531 on May 2013 labor conditions.]* 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.

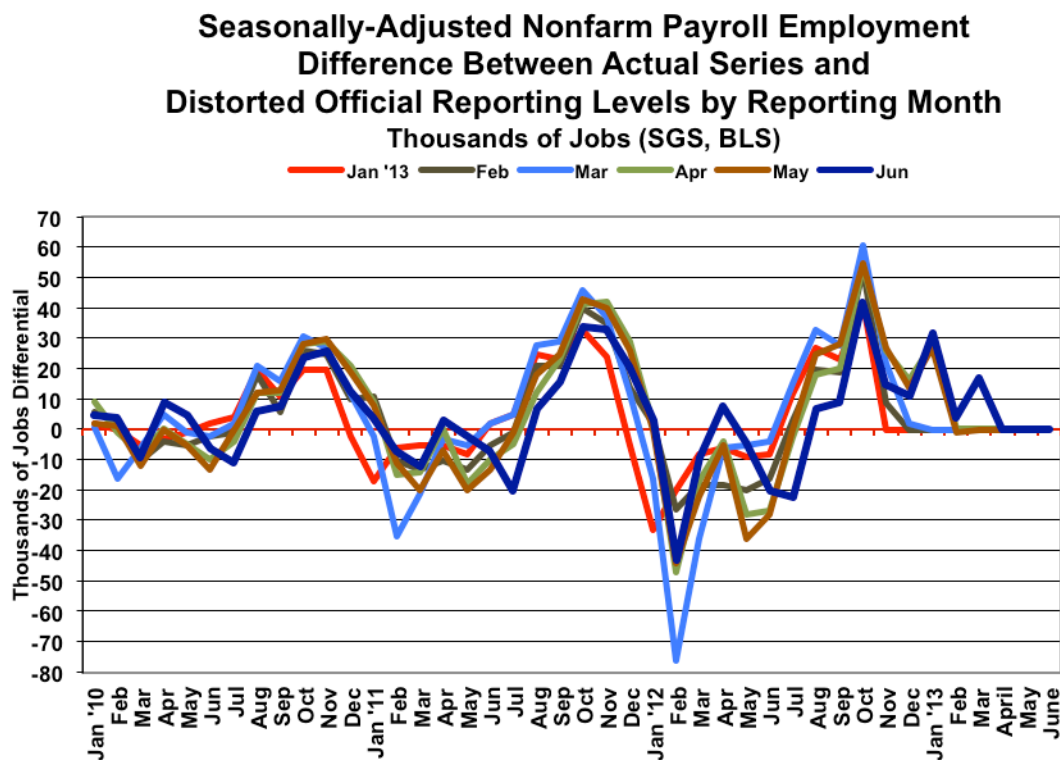
The BLS, however, uses the current estimate but does not publish the revised history, even though it calculates the new data each month. As a result, headline reporting generally is neither consistent with nor comparable to earlier reporting, and month-to-month comparisons of these popular numbers usually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

For June 2013 the headline-unemployment rate was 7.6%, and the headline monthly payroll change was a gain of 195,000 jobs. Yet, the reported June 2013 headline unemployment rate was neither consistent with nor comparable to the headline May unemployment rate of 7.6%. While the 195,000 jobs gain for June was consistent with the revised 195,000 jobs increase estimated for May, on a concurrent-

seasonally-adjusted basis, those increases were not consistent with the new 199,000 jobs gain reported for April or with any earlier published data. The consistent April gain would be 182,000.

*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. Accordingly, the reported unchanged level of June U.3 unemployment at 7.6%, same as in May, was of no meaning. The unemployment rate could have been up, down or unchanged; there just is no way to know from existing BLS reporting.

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 are evident, even though the first data were 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 so on through June, 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.*** *[Only underlined text in the Birth-Death section and subsections is new or revised from Commentary No. 531 on May 2013 labor conditions.]* 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.

*June 2013 Bias.* The not-seasonally-adjusted June 2013 bias was a monthly add factor of 132,000, versus 122,000 in June 2012 and a 205,000 add factor in May 2013. The aggregate upside bias for the current year increased to 632,000 in June, versus 622,000 in May, or a monthly average of roughly 53,000 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 53,000 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 *Concurrent Seasonal Factor Distortions*, the seasonally-adjusted or headline June 2013 household-survey data are inconsistent with May 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 June 2013 employment rose by 160,000, after rising by 319,000 in May, 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 June are not legitimately comparable to the May reporting.

As noted in the *Opening Commentary*, despite the official headline June employment gain of 160,000, the

BLS only accounts for a seasonally-adjusted June employment gain of 120,000, when it breaks the detail into full-time versus part-time employment. That 120,000 gain is broken out as drop of 240,000 full-time employed, offset by a gain of 360,000 part-time employed (from Table A-9 of the July 5th BLS press release).

Otherwise counted as a gain of 432,000 part-time employed (Table A-8), 75% of that gain was in the category of “working part time for economic reasons.” Those numbers helped to spike the U.6 unemployment rate.

The inconsistent “part-time” counts here reflect various BLS approaches in the handling of answers to its household survey questions (including incomplete or contradictory results), as modeled against its in-house population estimates, and then considered against inconsistent, prior month reporting.

***Unemployment Rates.*** Headline unemployment held at 7.6% in June, the same as in May. Nonetheless, the June 2013 reading was down from an estimated 8.2% from the year before, but that annual decline is not good news, as discussed in the *Opening Comments* of [Commentary No. 521](#). Instead of reflecting those who are unemployed finding jobs, the lower headline U.3 rate of recent months generally has reflected those who are unemployed being defined out of the government’s unemployment measurement by restrictive definitions.

Further, the reported June 2013 seasonally-adjusted headline (U.3) unemployment rate of 7.56%, simply was not comparable to the identical 7.56% unemployment rate of April, just as the April rate was not comparable to March’s 7.57%. 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 June 2013 unemployment data were calculated, consistent, new seasonal factors also were recalculated for May 2013 and prior months. Based on the new seasonal factors, there is a revised May unemployment rate that is consistent with June’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 May.

This pattern of inconsistent reporting 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, unchanged month-to-month June 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 unchanged official rate 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. June’s unadjusted U.3 unemployment rate was 7.8%, versus 7.3% in May.



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 (*i.e.*, they cannot find a full-time job).

Reflecting reported increases in people working part-time for economic reasons and in short-term discouraged workers, the headline June 2013 U.6-unemployment rate jumped to 14.3% from 13.8% in May. Again, though, the monthly seasonally-adjusted numbers are not comparable and the BLS guesstimates are unstable. The unadjusted June U.6 rate rose to 14.6% versus 13.4% in May.

*Discouraged Workers.* The count of short-term discouraged workers (never seasonally-adjusted) was 1,027,000 in June, a jump of 247,000 versus 780,000 in May, 835,000 in April 2013, 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, 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. There appears to have been relatively heavy rollover from the short-term to the long-term category in June.

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 to 23.4% in June 2013—a record high for the series that goes back to 1994—from 23.0% in May. 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 above 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 the 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%.

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## WEEK AHEAD

**Weaker Economic and Stronger Inflation Data Are Likely for June and Beyond.** In the context of mixed, but generally weak May economic reporting, and despite stronger than expected headline payroll numbers for June (see discussion in this missive), the upcoming June economic releases, and beyond likely will disappoint a still overly-optimistic consensus view of the broad economy. Separately, with energy-inflation related seasonal-adjustment factors swinging to the plus-side in June, combined with stable oil and gasoline prices for the month, higher inflation reporting is likely in June and the months ahead. *[The balance of this Week Ahead section is unchanged from the prior Commentary.]*

Going forward, reflecting the still-likely negative impact on the U.S. dollar in the currency markets from continuing QE3 and the still-festering fiscal crisis/debt-ceiling debacle (see *Hyperinflation Outlook*), reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see [No. 527: Special Commentary](#)).

Where expectations for economic data in the months and year ahead should tend to soften, weaker-than-expected economic results still remain likely, given the intensifying structural liquidity constraints on the consumer. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as has been seen already in industrial production, new orders for durable goods, retail sales, the trade deficit and construction spending. The big revision event, though,



remains the July 31st comprehensive overhaul, benchmark revision and redefinition of the GDP back to 1929. A ShadowStats estimate of the likely net shift in GDP reporting patterns (generally slower growth in recent years) will be published before that revision.

***Reporting Quality Issues and Systemic Reporting Biases.*** Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

With an increasing trend towards downside surprises in near-term economic reporting, recognition of an intensifying double-dip recession should continue to gain. Nascent concerns of a mounting inflation threat, though muted, increasingly have been rekindled by the Fed's monetary policies. Again, though, significant inflation shocks are looming in response to the fiscal crisis and a likely, severely-negative response in the global currency markets against the U.S. dollar.

The political system and Wall Street would like to see the issues disappear, and the popular media do their best to avoid publicizing unhappy economic news, putting out happy analyses on otherwise negative numbers. Pushing the politicians and media, the financial markets and their related spinmeisters do their best to hype anything that can be given a positive spin, to avoid recognition of serious problems for as long as possible. Those imbedded, structural problems, though, have horrendous implications for the markets and for systemic stability, as discussed in [Hyperinflation 2012, No. 485: Special Commentary](#) and [No. 527: Special Commentary](#).

**Producer Price Index—PPI (June 2013).** The June 2013 PPI is scheduled for release on Friday, July 12th, by the Bureau of Labor Statistics (BLS). With minimally-mixed energy prices in the context of likely positive energy-price related seasonal factors, and with upside food and “core” inflation, the headline June PPI should show solid upside aggregate price movement for the month.

Depending on the oil contract followed, oil prices, on average, were down by 1.1-percentage point or up by 0.4-percentage point for the month of June, with retail gasoline up by 0.4-percentage point. Accordingly, with roughly 2-percentage points upside seasonal adjustments to energy prices, positive seasonally-adjusted energy inflation should put a positive base under the headline PPI finished goods number. The result likely will be near a developing, positive consensus.