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

COMMENTARY NUMBER 547
July Employment and Unemployment, M3, June Construction

August 2, 2013

July Jobs Gain and Unemployment Decline Were Not Meaningful

Payroll Boost of 162,000 was 136,000 Net of Revisions

July Unemployment: 7.4% (U.3), 14.0% (U.6), 23.3% (ShadowStats)

Construction Spending Remained Stagnant

Annual M3 Growth Picked Up Slightly

PLEASE NOTE: The next regular Commentary *is scheduled for Tuesday, August 6th, covering the June trade deficit.*

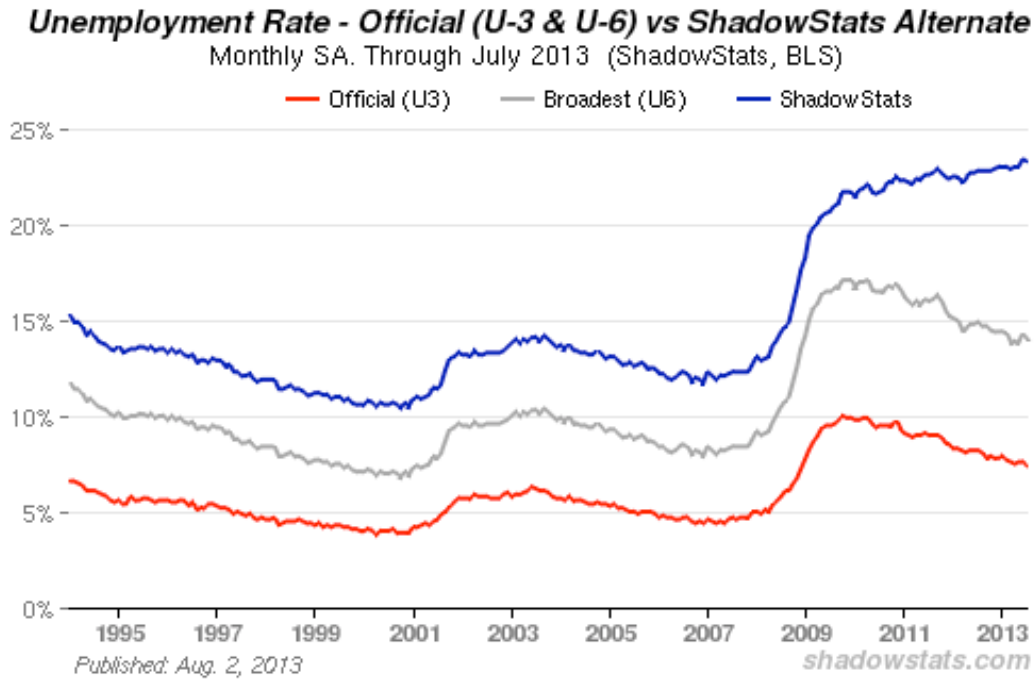
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

No Economic Recovery Evident in the Labor or Construction Numbers. Reporting of July labor conditions was mixed, with weaker jobs growth and a bigger decline in the unemployment rate than had been expected by the markets. June construction spending was weaker than expected. While none of the reported monthly changes in those series was meaningful, the underlying reporting remained of a nature

more consistent with ongoing recession than an economic recovery. The new cycle of business expansion shown in the GDP numbers is not real. It is not reflected in any other major economic reporting, as discussed in *Commentary No. 546*, and no independent confirmation of it is likely in the foreseeable future. The labor and construction reporting is covered in both the *Opening Comments* and *Reporting Detail* sections. The estimate of July M3 growth is covered in the *Hyperinflation Watch*.

July 2013 Employment and Unemployment. As shown in the accompanying graph, the ShadowStats alternate unemployment rate was 23.3% in July 2013, just 0.1% off the series high of June, along with a 0.2% monthly decline in the headline July U.3 unemployment rate to 7.4%, and a 0.3% monthly decline in the broader, July U.6 rate (includes short-term discouraged workers) to 14.0%. The difference in the estimated monthly changes here was due to an apparent large shift of discouraged workers from short-term (U.6) to long-term (ShadowStats) status during the month (see further specifics and definitions in the *Reporting Detail* section). That said, headline unemployment reporting remains seriously flawed.



Labor Data Quality Issues Remains Deeply Troubled. The broad economic outlook has not changed, despite the heavily-distorted numbers that continue to be published by the Bureau of Labor Statistics (BLS). Given recognized margins of error, compounded by the instabilities and inconsistencies created by BLS use of concurrent seasonal factors in the reporting of payroll-employment and unemployment data, neither the headline 162,000 payroll jobs gain for July, nor the 0.2% decline in headline unemployment to 7.4%, was meaningful. There has been a recurring pattern here of meaningless or otherwise statistically-insignificant headline numbers.

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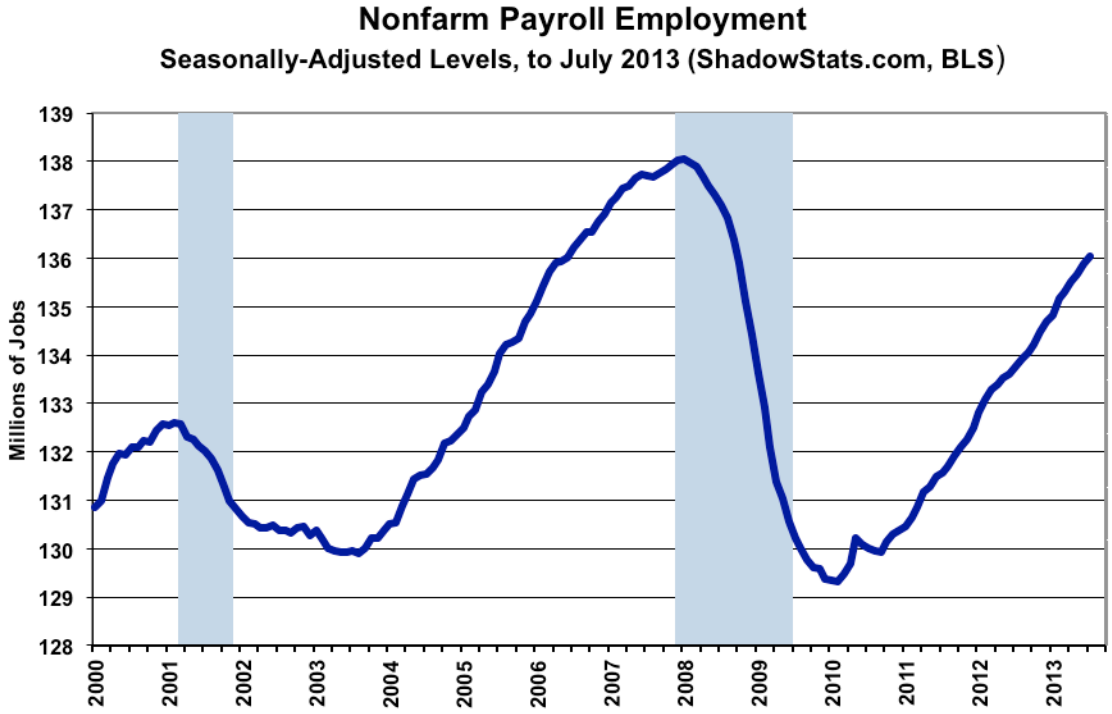
In particular, the reported decline in headline unemployment faces two key issues. First, as discussed in the *Concurrent Seasonal Factor Distortions* section, the July and June headline numbers were not consistent in preparation and accordingly simply are not comparable. Second, as was discussed extensively in the *Opening Comments* of *Commentary No. 521*, the recent decline in headline unemployment rates is bad news. The unemployment rates have not dropped from peak levels due to a surge in hiring; instead, they generally have 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. Payroll employment levels and the broader unemployment-rate measures continue to be consistent with an economy operating below the levels of activity seen in 2007, not with an economy that has fully recovered and is expanding into to the realm of new record-high activity. These weak labor data put the lie to the "recovery" propagandized in GDP reporting.

In the context of a downside revision to June's headline payroll count, the headline July payroll gain was 162,000. Net of prior-period revisions, the monthly gain would have been 136,000. The June headline month-to-month jobs increase was revised to 188,000 from 195,000. The May headline gain was revised to 176,000 from 195,000, but that would have been reported at 185,000, if the monthly details were reported on a consistent basis.

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 July 2013, the year-to-year percent gain in payrolls was 1.72%, versus a revised 1.65% in June, and a unrevised 1.62% in May.



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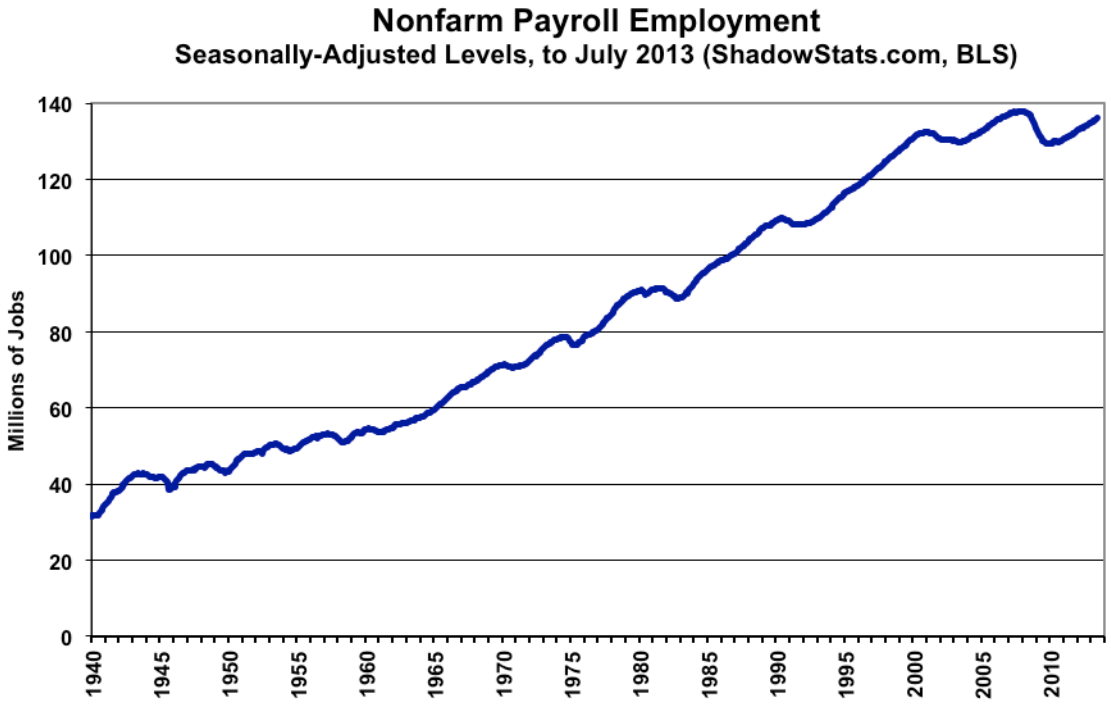

Payroll Employment Graphs. The preceding two graphs are updated for the headline payroll levels. Year-to-year rates of change are graphed in the *Reporting Detail* section. Even with the annual growth seen in the payroll series since mid-2010, the July 2013 level of employment is shy by 2.0-million jobs, or by 1.5% in official reporting, from recovering its pre-recession high. In perspective, the longer-term plot of employment levels shows the extreme duration of the non-recovery in employment, the worst such circumstance of the post-Great Depression era.

June Construction Spending. The total value of construction put in place in the United States during June 2013 was $883.9 billion, on a seasonally-adjusted—but not inflation-adjusted—annual-rate basis, a statistically-insignificant 0.6% monthly decline, versus a revised $889.4 (previously $874.9) billion in May. Before prior-period revisions, June reporting would have reflected a statistically-insignificant monthly gain of 1.0%.

Adjusted for PPI new construction inflation, aggregate real spending in June 2013 was down month-to-month by 0.4%, versus a 1.2% real monthly gain in May. Given the usual lack of statistical significance in the monthly change in spending, and the impact of inflation, activity in the construction-spending series generally has continued at a low level of stagnation since early 2011. Such can be seen in the accompanying graph.

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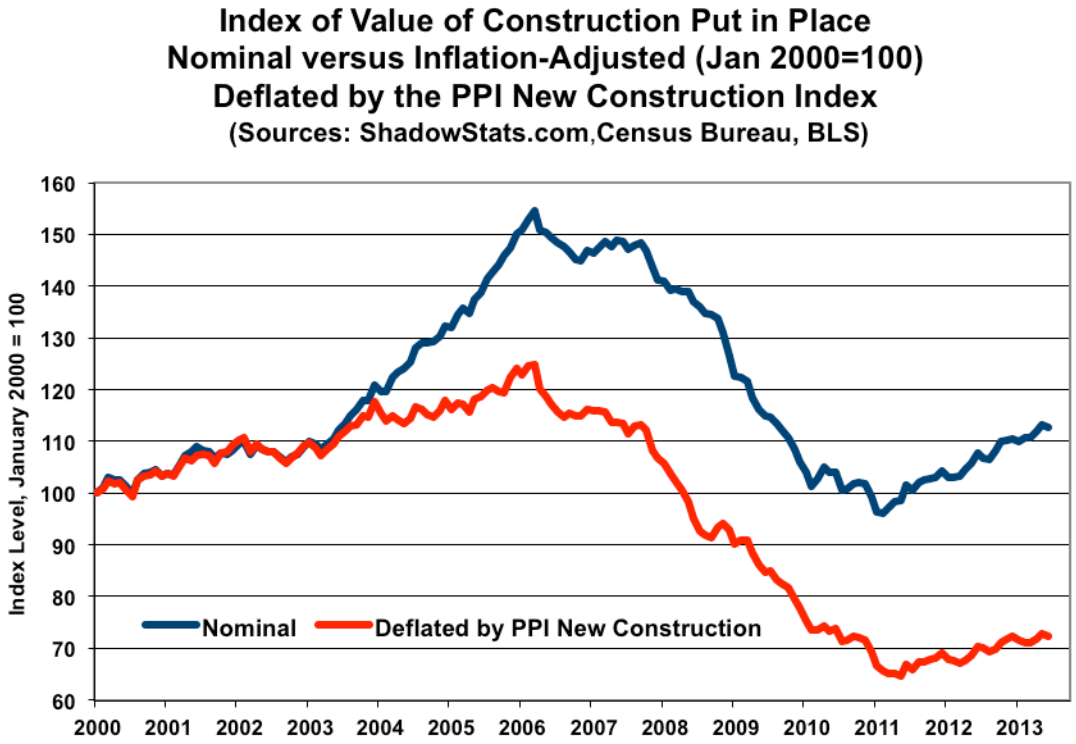
In terms of year-to-year change, June 2013 construction spending was up by a statistically-significant 3.3%, versus a revised May annual gain of 7.1% (previously up 5.4%). Net of construction costs indicated by the PPI current construction index, year-to-year growth in spending was 3.0% in June, versus 6.1% in May 2013. More-realistic private surveying shows annual construction costs to be up by enough to turn those annual growth rates into annual contractions.

The June 2013 monthly decline of 0.6% in construction spending, reflected a 0.4% decline in private construction and a 1.1% monthly contraction in public construction spending. The usual graphs, by type of construction, since 2000, are shown in the *Reporting Detail* section.



[For further detail on July employment and unemployment and June construction spending, see the* Reporting Detail *section.]

HYPERINFLATION WATCH

July M3 Money Supply Growth Should Hit 4.5%. 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 July 2013 is on track to increase minimally, to roughly 4.5%, from a revised 4.3% (previously 4.4%) in June. Annual M3 growth has held relatively steady in recent months, after slowing slightly 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 revisions of underlying data by the Federal Reserve. The July detail is based on three-plus weeks of data from the Federal Reserve and the hard number will be published in the Alternate Data tab of www.shadowstats.com by tomorrow, August 3rd.

Where annual growth had been on the upswing into the expanded QE3, the unfolding new pattern of slowing-to-constant M3 growth levels, in an environment of rapid growth in the monetary base, likely is a sign of mounting systemic problems. Issues involving the monetary base, Fed monetization of U.S. Treasury debt and related measures were discussed and graphed in yesterday's (August 1st) *Commentary No. 546*.

The seasonally-adjusted, preliminary estimate of month-to-month change for July 2013 money supply M3 is for a likely gain of 0.7%, versus an unrevised 0.4% gain in June. Estimated month-to-month M3 changes, however, remain less reliable than the estimates of annual growth.

For July 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 year-to-year growth of roughly 6.8%, the same as the revised 6.8% (previously 6.7%) in June, with month-to-month change estimated at roughly a 0.9% gain July, versus a revised 0.4% (previously 0.3%) gain in June. The early estimate of M1 for July 2013 is for slower year-to-year growth of roughly 10.1%, versus a revised 11.3% (previously 11.0%) gain in June, with the month-to-month July change a likely gain of 1.0%, versus a revised contraction of 0.5% (previously 0.7%) in June.

Hyperinflation Outlook—Unchanged. *[This* Outlook *summary is unchanged from* Commentary No. 546 *of August 1st]*. 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

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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, a 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. The talk of ending QE3 still appears to be little more than jawboning, aimed a placating Fed critics. As part of the mind-game with the public, various Fed officials regularly offer contradictory stories, when the stock market needs a boost or distraction.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift increasingly 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, 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. Despite the happy news from the redefined GDP series that the recession was shallower, and the recovery more rapid, than previously estimated, there still never has been an actual recovery following the economic downturn that began in 2006, and collapsed into 2008 and 2009. No other major economic series has confirmed the pattern of activity now being reported in the GDP.

Instead, what followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012 (see the corrected GDP graph in the *Opening Comments* section of *Commentary No. 546*). 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 still should gain eventual 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. Again, 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-festering 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 soft 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 still 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 have 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.

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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.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (July 2013)

Labor Data Continue to Be 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 recognized margins of error, compounded by the instabilities and inconsistencies created by BLS use of concurrent seasonal factors in the reporting of payroll-employment and unemployment data, neither the headline 162,000 jobs gain in July, nor the 0.2% decline in headline unemployment to 7.4%, was meaningful. There has been a recurring pattern here of meaningless headline data.

In particular, the reported decline in the unemployment faces two key issues. First, as discussed in the *Concurrent Seasonal Factor Distortions* section, the July and June headline numbers were not consistent in preparation and accordingly simply are not comparable. Second, as was discussed extensively in the *Opening Comments* of *Commentary No. 521*, recent declines in the level of headline unemployment rates are bad news. The unemployment rate has not dropped from its peak due to a surge in hiring; instead, it generally 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 2.0-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)—was 23.3% in July, 0.1% shy of the series all-time high level, a level that rivals any other downturn of the post-Great Depression era.

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PAYROLL SURVEY DETAIL. In the context of a downside revision to June's headline payroll data and heavily distorted seasonal factors, the BLS reported this morning, August 2nd, a seasonally-adjusted, month-to-month headline payroll employment gain of 162,000 for July 2013. Net of prior-period revisions, the monthly gain would have been 136,000. Where the standard 95% confidence interval on the 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 June 2013 headline month-to-month jobs increase was revised to a seasonally-adjusted 188,000 (previously 195,000) gain, versus a revised 176,000 (previously 195,000, initially 175,000) monthly gain in May.

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 May number no longer is consistent with April 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 May gain versus April was 185,000, instead of the official 176,000. 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 212,000 monthly payroll gain in August 2013, based on July's reporting. While the trend indication often misses actual reporting (the indication for July was for a 175,000 monthly gain, which also became the market expectation, slightly more than the actual headline 162,000 gain). The trend number becomes the basis for the consensus outlook.

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 July 2013, the year-to-year percent gain in payrolls was 1.72%, versus a revised 1.65% (previously 1.67%) in June, and an unrevised 1.62% (initially 1.60%) in May

The following graphs of year-to-year unadjusted payroll change reflect near-term detail as well as seventy-plus years of history. Graphs of seasonally-adjusted payroll levels are found 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, although the July 2013 growth pattern reflected an uptick.

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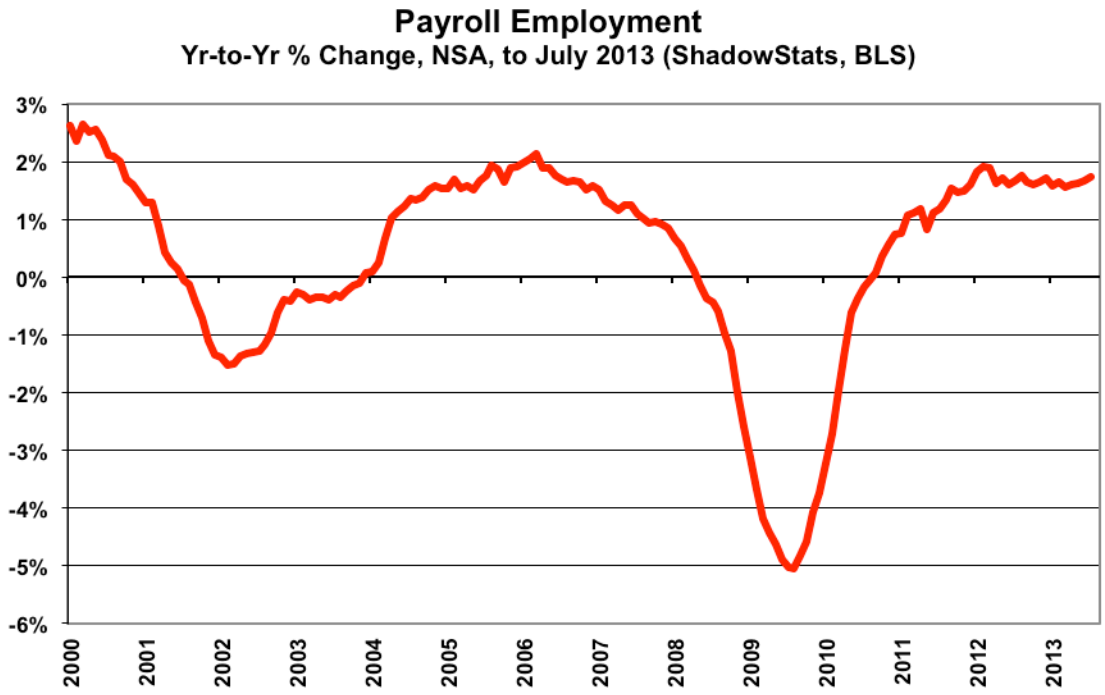
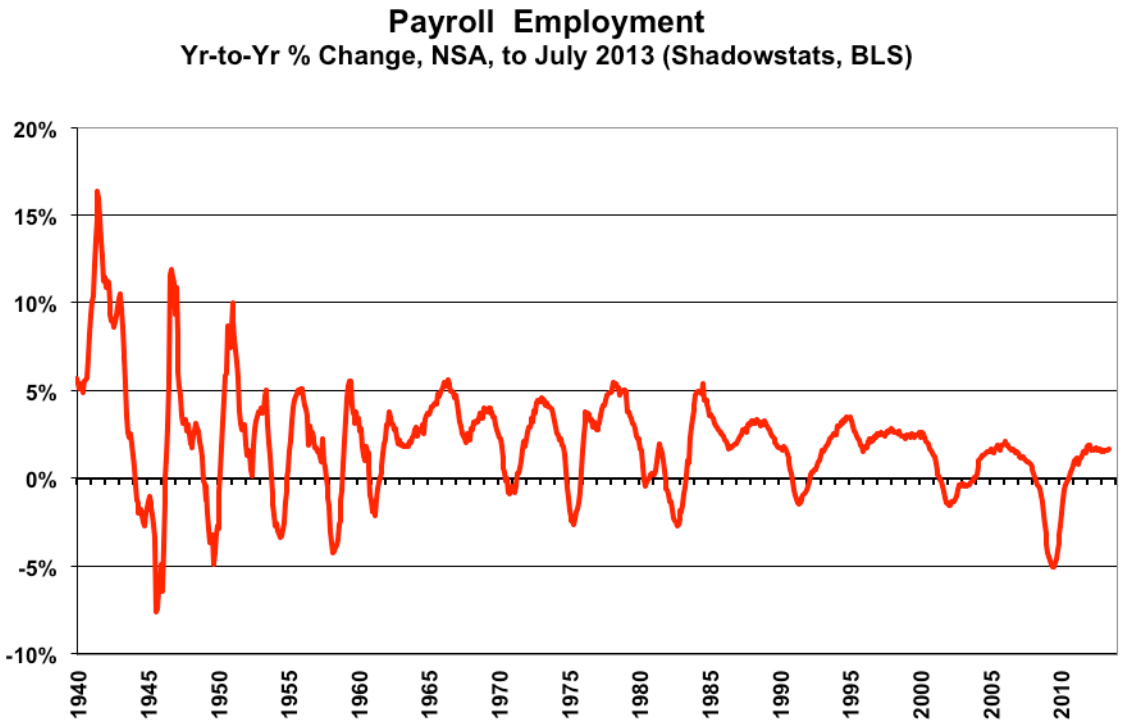

Payroll Employment
Yr-to-Yr % Change, NSA, to July 2013 (ShadowStats, BLS)
3%
2%
1%
0%
-1%
-2%
-3%
-4%
-5%
-6%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Payroll Employment
Yr-to-Yr % Change, NSA, to July 2013 (Shadowstats, BLS)
20%
15%
10%
5%
0%
-5%
-10%
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010

With the bottom-bouncing patterns 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 in the series since mid-2010, the July 2013 level of employment is shy by 2.0-million jobs, or 1.5% in official reporting, from recovering its pre-recession high. In perspective, the longer-term graph of the employment level (see *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. 540 on June 2013 labor conditions.]* As reflected in the accompanying graph, seasonal-factor instabilities continued in the latest payroll reporting. Yet, the bulk of related reporting issues never are brought before the public by the BLS.

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 and unemployment data for the latest seasonal patterns. As each series is calculated, 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 July 2013, the headline unemployment rate was 7.4%, and the headline monthly payroll gain was 162,000 jobs. Yet, the July unemployment rate was neither consistent with nor comparable to the June unemployment rate of 7.6%. While the 162,000 jobs gain for July was consistent with the revised 188,000 jobs increase in June, on a concurrent-seasonally-adjusted basis, those increases were not consistent with the revised 176,000 jobs gain reported for May or with any earlier published data.

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 0.2% decline in July U.3 unemployment, at 7.4%, versus 7.6% in June, 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.

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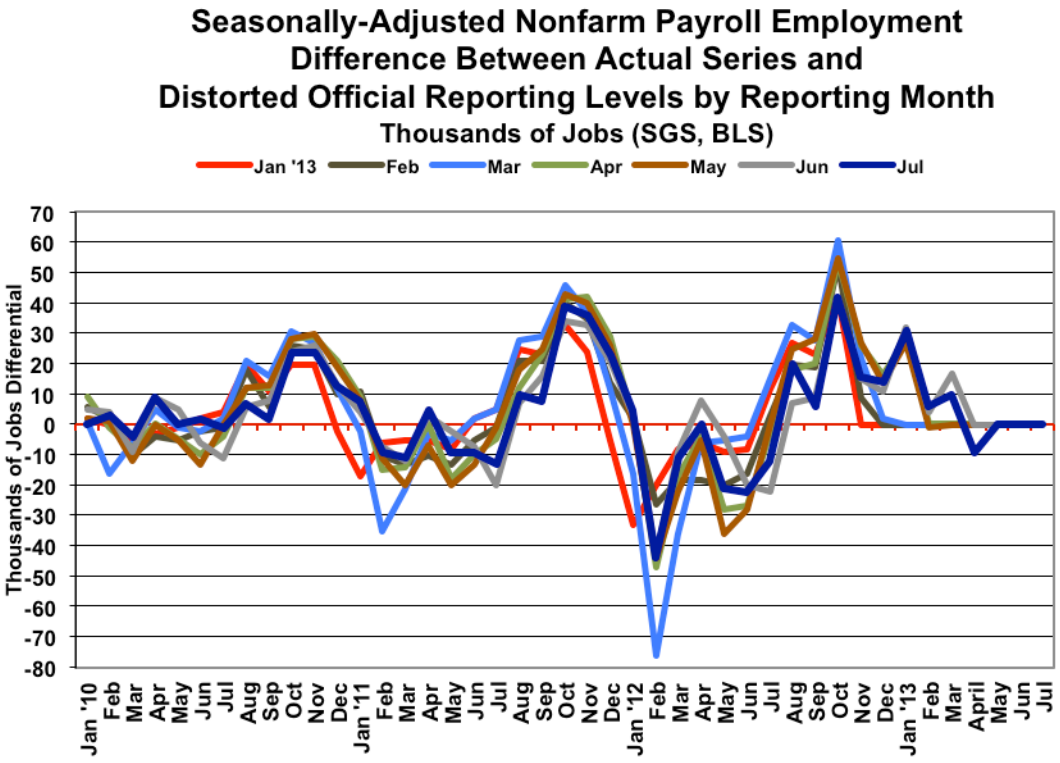

Payroll Growth Is Consistent Only One-Month Back, With Heavy Distortions Usual. With the payroll series, the level of payrolls is released for the headline month, and for the two prior months, on a consistent basis. That means that only the current headline month-to-month change and the change for the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

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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. 540 on June 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.

July 2013 Bias. The not-seasonally-adjusted July 2013 bias was a monthly add factor of 54,000, versus 66,000 in July 2012 and a 132,000 add factor in June 2013. The aggregate upside bias for the trailing twelve months was reduced to 620,000 in July, from 632,000 in June, 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 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 *Concurrent Seasonal Factor Distortions*, the seasonally-adjusted or headline July 2013 household-survey data are inconsistent with June 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 July 2013 employment rose by 227,000, after rising by 160,000 in June, 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 July are not legitimately comparable to the June reporting.

Unemployment Rates. Headline unemployment fell to 7.4% in July, from 7.6% in June. The July 2013 reading was down from an estimated 8.2% from the year before, but that annual decline generally 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 July 2013 seasonally-adjusted headline (U.3) unemployment rate of 7.39% simply was not comparable to the 7.56% unemployment rate of June. Again, 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 July 2013 unemployment data were calculated, consistent, new seasonal factors also were recalculated for June 2013 and prior months. Based on the new seasonal factors, there is a revised June unemployment rate that is consistent with July'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 and obsolete number that previously had been reported for June.

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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, 0.2% (0.17% to the second decimal place) month-to-month decline in the July 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 decline 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. July's unadjusted U.3 unemployment rate was 7.7%, versus 7.8% in June.

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, but a decline in short-term discouraged workers, the headline July 2013 U.6-unemployment rate eased back to 14.0% in July, from 14.3% in June. Again, though, the monthly seasonally-adjusted numbers are not comparable, and the BLS guesstimates are unstable. The unadjusted July U.6 rate declined to 14.3%, from 14.6% in June.

Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) was 988,000 in July 2013, a decline of 39,000 from 1,027,000 in June, versus 780,000 in May, 835,000 in April, 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 July.

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—notched back to 23.3% from a series high of 23.4% in June 2013 (back to 1994). 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 that 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%.

CONSTRUCTION SPENDING (June 2013)

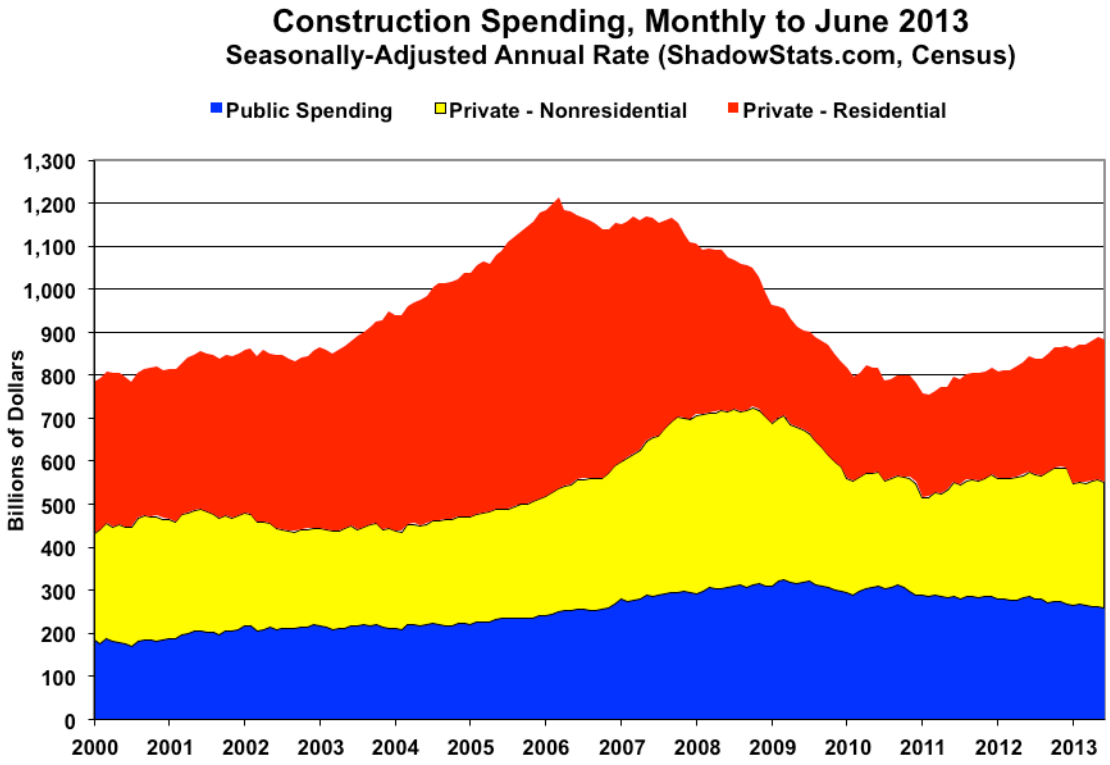
June Construction-Spending Decline Was Insignificant. June 2013 aggregate construction spending continued a monthly pattern of low-level stagnation, along with a pattern of slowing annual growth.

Official Reporting. The Census Bureau reported August 1st that the total value of construction put in place in the United States during June 2013 was $883.9 billion, on a seasonally-adjusted—but not inflation-adjusted—annual-rate basis. That estimate was down month-to-month by a statistically-insignificant 0.6% +/- 2.5% (all confidence intervals are at a 95% level), versus a revised $889.4 (previously $874.9) billion in May, which, in turn, was up by 1.3% versus April. Before prior-period revisions, June reporting would have reflected a monthly gain of 1.0%.

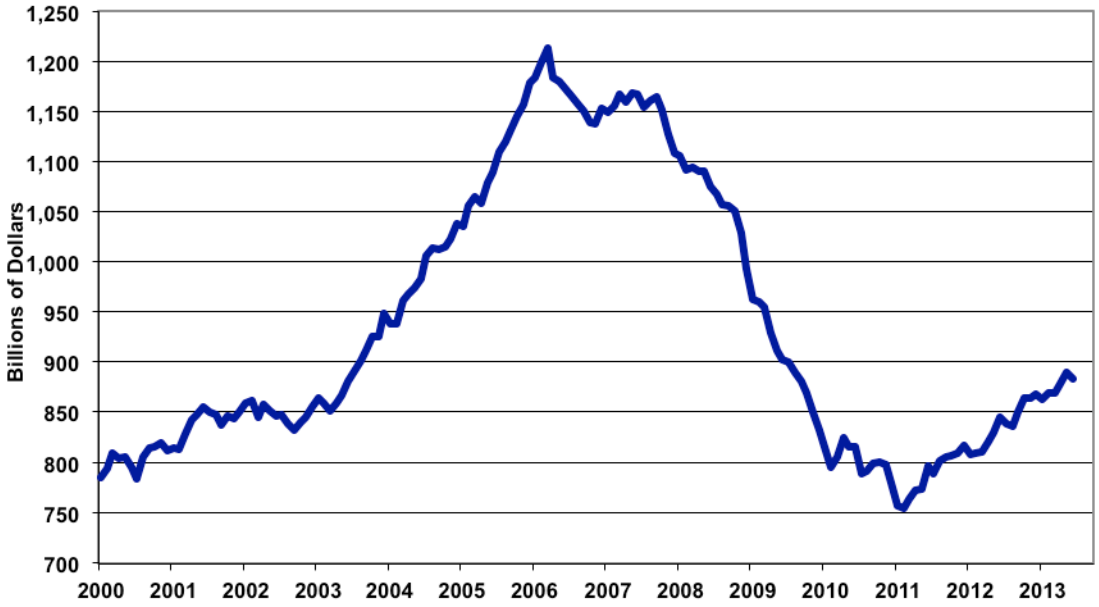
Adjusted for PPI new construction inflation, aggregate real spending in June 2013 was down month-to-month by 0.4%, versus a 1.2% real monthly gain in May.

On an annual-growth basis, June 2013 construction spending was up year-to-year by a statistically-significant 3.3% +/- 2.7%, versus a revised May annual gain of 7.1% (previously up by 5.4%). Net of construction costs indicated by the PPI current construction index, year-to-year growth in spending was 3.0% in June, versus 6.1% in May 2013. More-realistic private surveying shows annual costs to be up enough to turn those annual construction-spending growth rates into annual contractions.

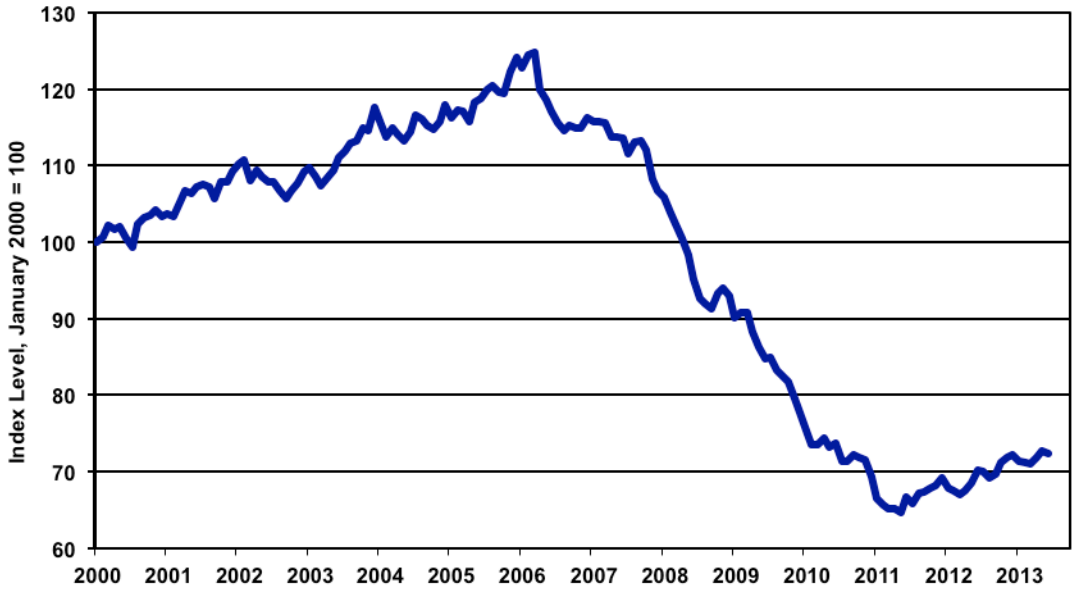
The statistically-insignificant 0.6% decline in monthly June 2013 construction spending included a 1.1% monthly contraction in public construction spending, versus a revised 0.1% (previously 1.8%) monthly gain in May. June private construction was down by 0.4% for the month, following a revised 1.8% gain (previously unchanged) in May. The accompanying graphs, including the first graph following, show the 0.6% monthly contraction in June total construction, with private residential construction unchanged, private nonresidential construction down by 0.9% and public construction down by 1.1% for the month.



Total Construction Spending, Monthly to June 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



Index of Value of Construction Put in Place
To June 2013, Inflation-Adjusted (Jan 2000=100)
Deflated by the PPI New Construction Index
(Sources: ShadowStats.com,Census Bureau, BLS)



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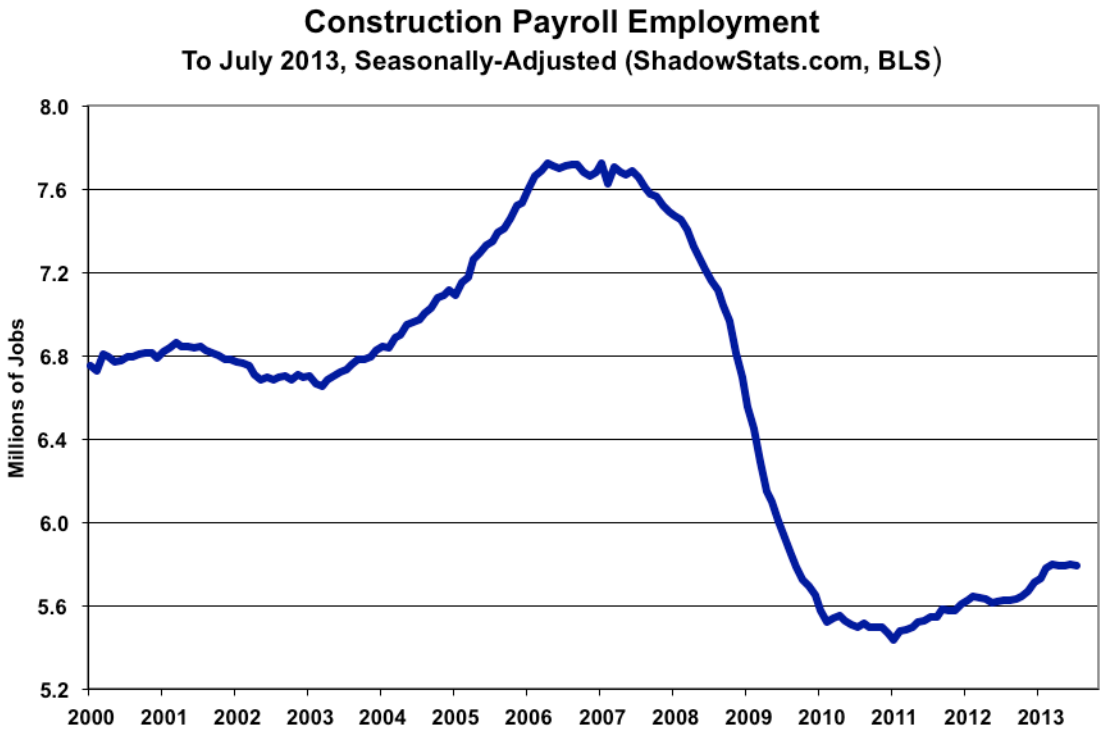
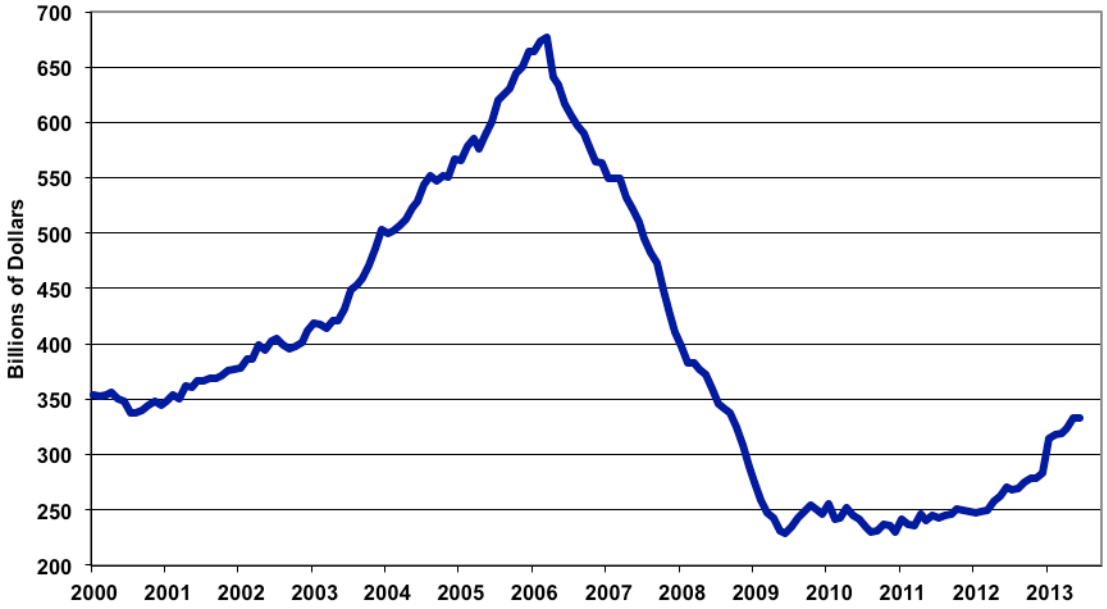
The preceding two graphs reflect total construction spending through June 2013, the first is before inflation adjustment; the second is an aggregate index reflecting inflation-adjusted data. The second graph (see also *Opening Comments)* shows the June 2013 ShadowStats estimation of an inflation-adjusted construction spending series. There is no perfect inflation measure for deflating construction, but the PPI new construction index is the closest found in publicly available series. Adjusted for the PPI measure, construction spending shows the economy slowing in 2006, plunging into 2011 and then turning minimally higher in an environment of low-level stagnation through the most-recent reporting. The pattern of inflation-adjusted activity here does not confirm the economic recovery shown in the headline GDP series (see *Commentary No. 546*). To the contrary, the latest construction reporting, both before and after inflation adjustment, and after the benchmark revision, shows a pattern of ongoing stagnation.

The next graph reflects the reporting of July 2013 construction employment, released this morning, August 2nd, by the Bureau of Labor Statistics, with a reported jobs loss of 6,000 in July, to 5.793 million, following downside revisions to previous May and June reporting.

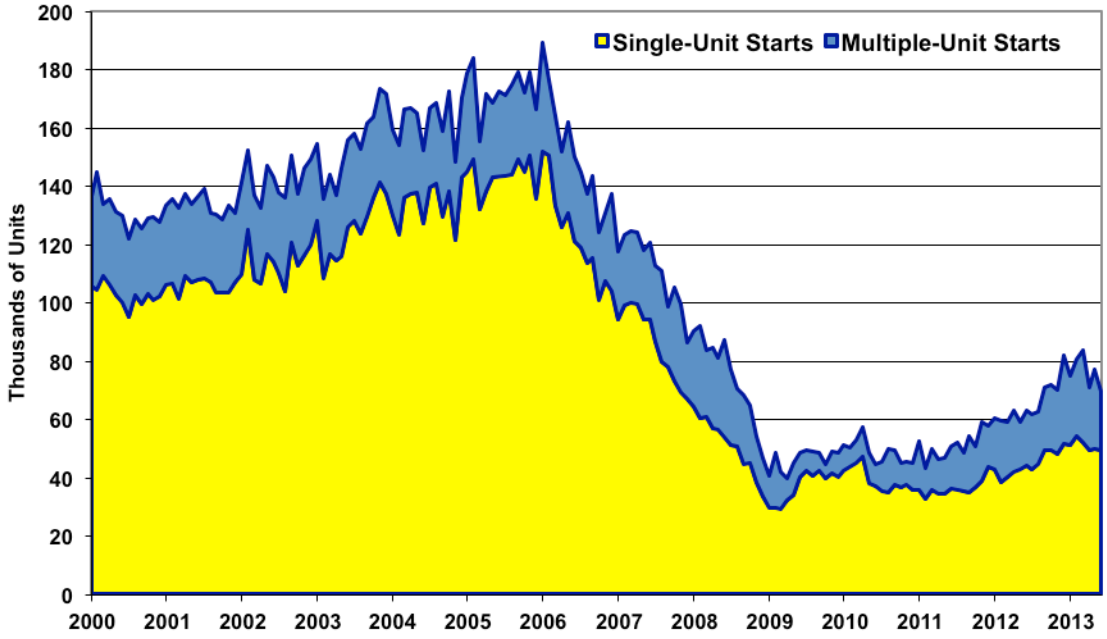


The next two graphs cover private residential construction, including housing starts, as reported for June 2013 (see *Commentary No. 544* for detail). The difference in the graphs is the smoother pace of actual spending (not-adjusted-for-inflation), instead of the more-irregular monthly variation in the count of physical monthly starts.

Private Residential Construction to June 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



Single- and Multiple- Unit Housing Starts (Monthly Rate)
2000 to June 2013, Seasonally-Adjusted (ShadowStats.com, Census)



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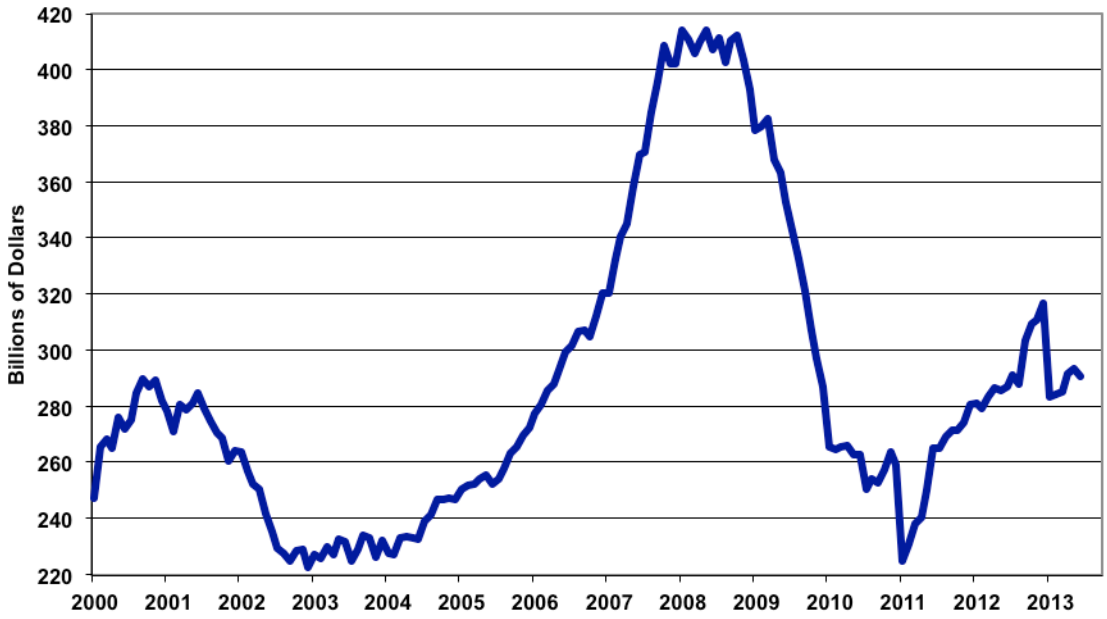
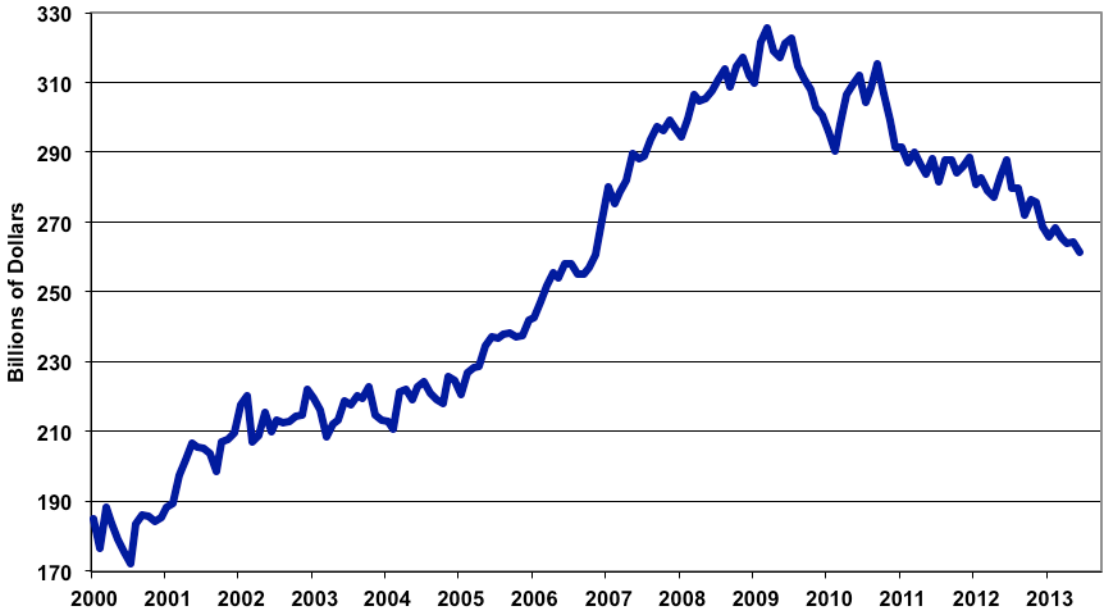
Private Nonresidential Construction to June 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



Public Construction, Monthly to June 2013
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



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The last two graphs of the preceding series show the patterns of the monthly level of activity in private nonresidential construction spending and in public construction spending. The public construction spending is 98% nonresidential.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Data Are Likely in the Months Ahead. *[Except for elimination of the July employment outlook, the* Week Ahead *section is unchanged from the prior* Commentary.*]* Given underlying economic activity that continues to appear weaker than overly-optimistic market expectations, and given underlying fundamentals that are suggestive of deteriorating business activity, weaker-than-consensus economic reporting should be the continuing trend.

Separately, given that energy-inflation-related seasonal-adjustment factors now are on the plus-side for a couple of months, combined with stable or higher oil and gasoline prices, higher headline CPI and PPI reporting is likely in the months ahead.

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* section), reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see *No. 527: Special Commentary*).

Where market expectations for economic data in the months and year ahead should begin to soften, weaker-than-expected economic results remain likely, given the still-intensifying structural liquidity constraints on the consumer, as discussed in the *Opening Comments* section.

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*.

U.S. Trade Balance (June 2013). The June trade deficit is scheduled for release on Tuesday, August 6th, by the Census Bureau and the Bureau of Economic Analysis (BEA). The aggregate two months of inflation-adjusted merchandise trade deficit deterioration in April and May set a negative trend for net exports and provided a negative contribution to the headline second-quarter 2013 GDP growth estimate. Accordingly, significant trade deterioration (or improvement) in the June deficit would be suggestive of a negative (or positive) contribution to the second estimate (first revision) of second-quarter GDP growth, scheduled for release on August 29th. Underlying fundamentals and long-term trends continue to favor trade deterioration.

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