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

COMMENTARY NUMBER 554
August Employment and Unemployment, M3

September 6, 2013

August Labor Conditions Showed a Deteriorating Economy

Instead of Being Matched Happily with Rising Employment,
Falling Unemployment Reflected a Shrinking Labor Force with Declining Employment

Payroll Boost of 169,000 was 95,000 Net of Revisions

August Unemployment: 7.3% (U.3), 13.7% (U.6), 23.3% (ShadowStats)

Annual M3 Growth Slowed Markedly in August

PLEASE NOTE: The next regular Commentary *is scheduled for Friday, September 13th, covering August retail sales and the producer price index (PPI).*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

August Labor Numbers Stumble Badly. The broad economic outlook has not changed, although the economic downside may be picking up a little more credibility with consensus forecasters. The latter circumstance is due to continuing negative swings in the heavily-flawed numbers 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 169,000 jobs gain in August, nor the 0.1% decline in headline unemployment to 7.3%, was meaningful by itself. Yet, seriously deteriorating unemployment trends have solidified. Separately, weaker-than-expected payroll numbers, in the context of negative revisions, are showing a softening jobs picture. That could be compounded by the upcoming initial estimate of the 2013 payroll benchmark revision, which has a fair chance of coming in on the downside.

More serious than the monthly consistency issues for the household survey, the nature of reported declines in the headline unemployment rate is symptomatic of an imploding economy. As discussed below, and previously in *Commentary No. 521*, recent declines in headline unemployment have had horrendous implications for the financial health of the consumer and for the stability of business activity. The unemployment rate has not dropped from its peak due to a surge in hiring; instead, it generally has dropped because of increasing ranks of the unemployed becoming "discouraged workers" and being eliminated from headline labor-force accounting.

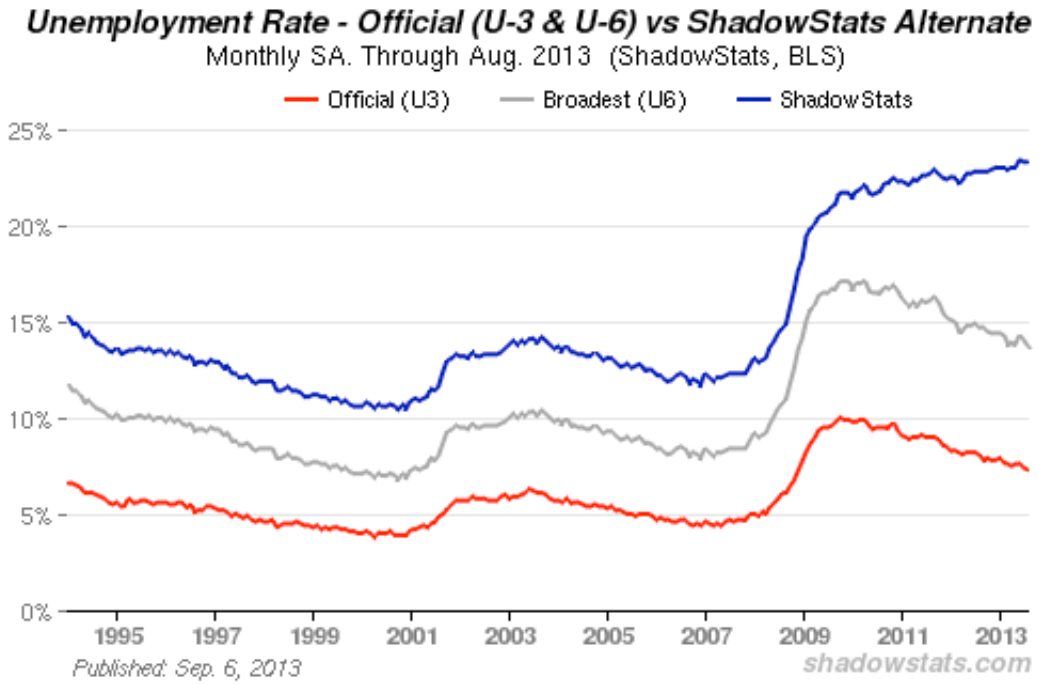
The story from the August labor data is that the economy has not recovered, that it is not about to recover, and that it is turning down anew. The monthly payroll level still is 1.9-million jobs shy of the pre-recession high (or perhaps by significantly more, based on a likely downgrade of the circumstance in the looming payroll benchmark revision), which puts the lie to the expanding economic recovery propagandized in GDP reporting. Further, unemployment—as viewed by common experience (the ShadowStats Alternate Measure)—was just shy of the all-time high rate for the series in August, a level that rivals any other downturn of the post-Great Depression era. That unemployment measure includes those people who consider themselves unemployed; who would take a job if one were available to them; but who have given up looking for work because they believe there are no jobs available.

When Declining Unemployment Is Bad News. Shown in the accompanying graph, the ShadowStats alternate unemployment rate held 23.3% in August 2013, the same as in July, just 0.1% off the series' high in June 2013, along with a 0.1% monthly decline in the headline August U.3 unemployment rate to 7.3%, and a 0.3% monthly decline in the broader, August U.6 rate (includes short-term discouraged workers) to 13.7%. The differences in the estimated monthly levels and changes here were due largely to ongoing shifts of unemployed in U.3, to short-term discouraged workers in U.6, to long-term discouraged workers in the ShadowStats number, during the month (see further specifics and series definitions in the *Reporting Detail* section).

That said, headline unemployment reporting suffers seriously-flawed definitions, and the continuing declines in headline U.3 and U.6 are bad news for the U.S. economy. In relatively shallow and short-duration recessions, a declining unemployment rate usually reflects the good economic news of unemployed people going back to work.

In the current circumstance—with ongoing casualties of the deepest and longest economic contraction since the Great Depression—the declining U.3 and, increasingly, the U.6 employment rates reflect the unemployed giving up looking for work, because they cannot find gainful employment. Consider, for example, that the number of U.3 unemployed declined by 198,000 in August, but there was no offsetting gain in employment, which would have been positive economic news. Instead, the offsets to the unemployment drop were a 115,000 decline in headline employment, and a 312,000 decline in the headline labor force.

Once the unemployed have not looked actively for work in four weeks, they move in the government's unemployment accounting from the headline unemployed and labor force in U.3, to the less-publicized, broader U.6, with the U.3 unemployment rate declining as a result. Once they have not looked actively for work for one year, they move from the U.6 unemployed and labor force, to a netherworld not counted by the BLS, where their presence is reflected in the ShadowStats-Alternate Unemployment Measure, with the U.6 unemployment rate declining as a result. U.3 is included in U.6, U.6 is included in the ShadowStats measure along with many of those have left the U.3 and U.6 measures. That accounts for the divergences in the three series seen in the following graph.



Payroll Employment Growth Begins to Slow. In the context of a downside revision to July's headline payroll data, and of continued heavily distorted seasonal factors, the month-to-month headline gain in August 2013 payroll employment was 169,000. Net of prior-period revisions, the monthly gain would have been 95,000. 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 July 2013 headline month-to-month jobs increase revised to 104,000 (previously 162,000), versus a revised 172,000 (previously a 188,000, initially a 195,000) gain in June.

An ongoing reporting issue here is that the BLS publishes only two prior months of consistent data with concurrent-seasonally-adjusted payrolls. Accordingly, the published June number no longer is consistent with May reporting, and related month-to-month comparisons have no meaning, as discussed in the *Concurrent Seasonal Factors Distortions* section. If the numbers were reported on a consistent basis, the monthly gain for June versus May would have been 186,000, instead of the official 172,000. The month-

to-month reporting discrepancies go in both directions and often are greater than the June difference of 14,000, with monthly magnitudes approaching 100,000 jobs, on occasion.

Annual growth in payrolls has started to slow. 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 August 2013, the year-to-year percent gain in payrolls slowed from prior reporting, at 1.65%, versus a revised 1.66% (previously 1.72%) in July, and a revised 1.64% (previously 1.65%, initially 1.67%) in June. What had become a growth uptick in July has disappeared in revision.

Trend Model Distortions. Part of the analysis involved in restating the payroll data on a consistent basis, using concurrent seasonal factor adjustments, includes assessing indications from the BLS trend model. As described generally in *Payroll Trends*, the trend indication from the BLS's concurrent seasonal-adjustment model is for a 181,000 monthly payroll gain in September 2013, based on August's reporting. The trend often becomes the consensus outlook. The trend model also can signal unusual patterns in the payroll-survey data.

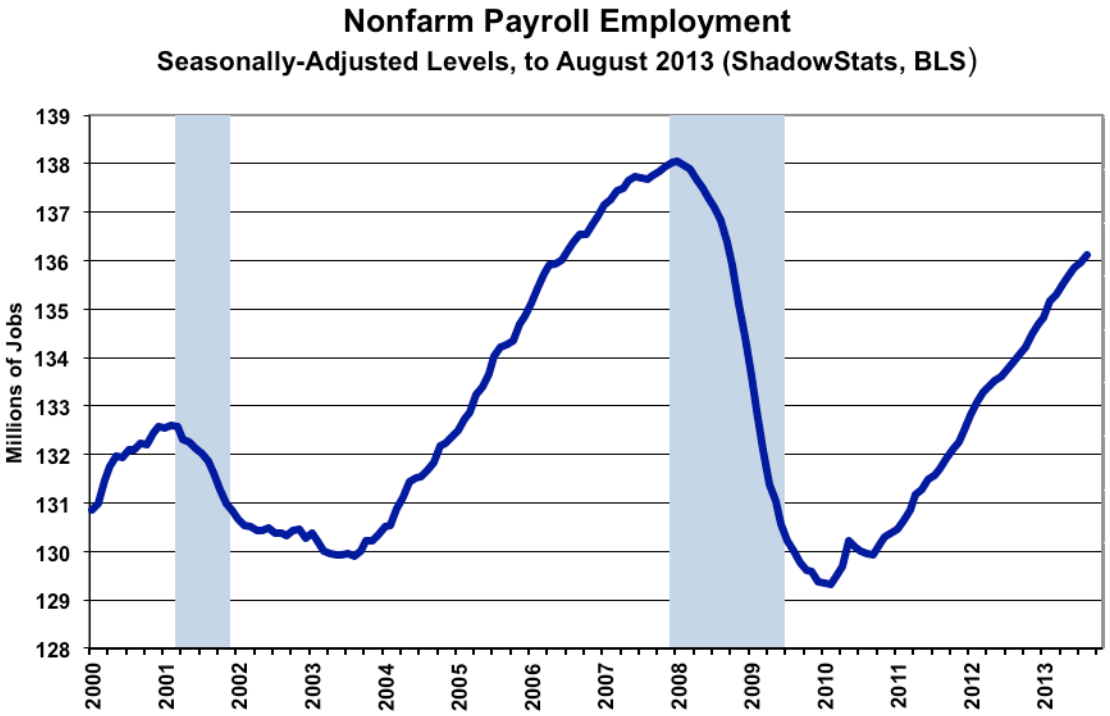
Problems with Reporting Teacher Employment. Prior to today's release, the BLS's seasonal-adjustment model had a built-in tendency to adjust August local education jobs upwards by about 35,000 (see *Week Ahead* in *Commentary No. 553*). Today's reported 20,100 gain needs to be viewed as partly a consequence of that, and partly due to large downward revisions to June and July levels (down by 2,800 and 6,300 respectively). The effect also has been to push out this seasonal-adjustment bulge for one more month, where the model trend is now for a further 20,000 increase in September. Nonetheless, proper seasonal-adjustments at this time of year, as teachers return to work, should tend to show stable monthly patterns, not large increases.

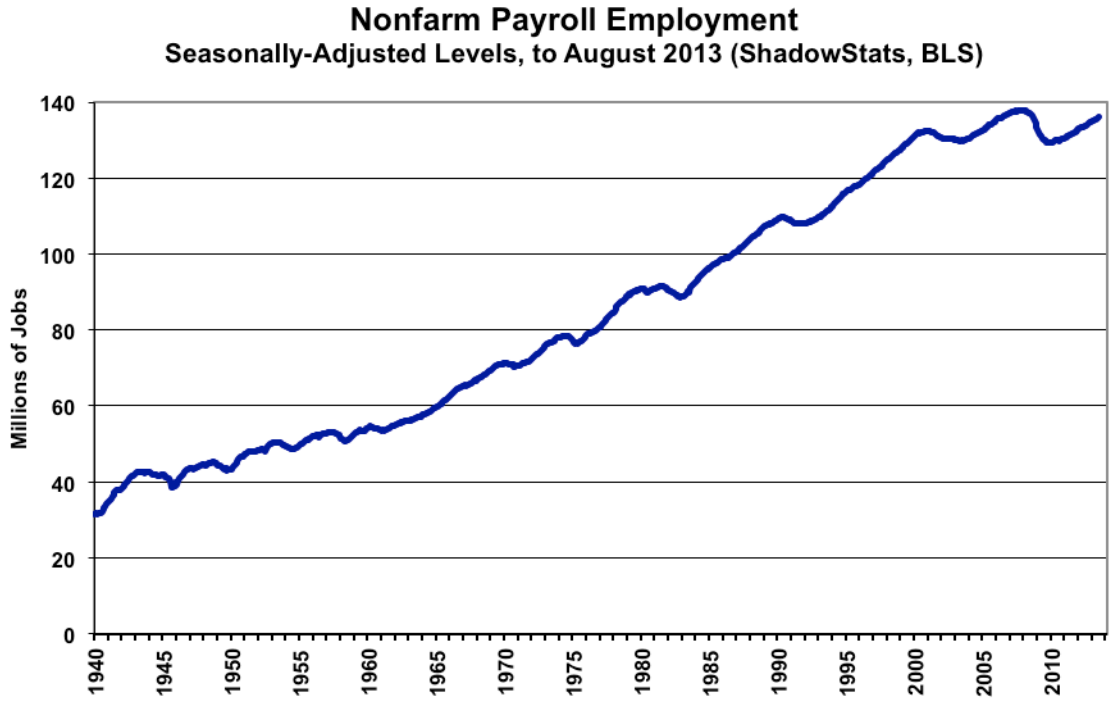
Separately, at the state education level, a similar downward revision took place, with job growth cut back by 8,100 and 5,700 in June and July respectively.

Another "sore thumb" in the monthly industry data was in the motion picture and sound recording industry, where there was an unusual loss of 22,000 jobs, or a loss of 5.7% of industry payrolls.

2013 Annual Payroll Employment Benchmark Revision Estimate. The BLS has announced that it will release its preliminary estimate for the March 2013-based payroll benchmark revision on September 26, 2013. Full revision details will be released with the publication of January 2014 data in February 2014. There is a good chance of a downside-revision estimate. If so, that would tend to accelerate a broader market acceptance of renewed economic downturn, as well as to move the recent uptrend, seen in the accompanying payroll graphs, to a more-shallow slope.

Payroll Employment Graphs. The following two graphs are updated for the headline payroll levels through August 2013. 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 August 2013 level of employment is shy by 1.9-million jobs, or by 1.4% in official reporting, from recovering its pre-recession high of January 2008. 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.





[For further detail on the August employment and unemployment data, see the* Reporting Detail *section.]

HYPERINFLATION WATCH

August M3 Money Supply Annual Growth Drops to 4.1% from 4.5% in July. Despite the continuing surge in the annual growth in the monetary base (see *Commentary No. 552*), the preliminary estimate of year-to-year growth in the ShadowStats Ongoing-M3 Estimate for August 2013 is on track to slow to roughly 4.1%, from 4.5% in July.

Annual M3 growth has held relatively steady in recent months, after slowing from a four-year high annual growth in January 2013 of 4.6%, and then notching higher to 4.5% in July. January 2013 was the onset of expanded QE3 easing. The August detail is based on three-plus weeks of data from the Federal Reserve and the hard-number estimate will be published in the Alternate Data tab of www.shadowstats.com by tomorrow, September 7th.

Where annual growth had been on the upswing into the expanded QE3, the unfolding pattern of slowing-to-constant, and now slowing M3 growth levels, in an environment of rapid growth in the monetary base, likely is a sign of mounting banking-system problems. Issues involving the monetary base, Fed monetization of U.S. Treasury debt and related measures, again, were discussed and graphed in *Commentary No. 552*. Revisions in the following numbers are due to revisions of underlying data by the Federal Reserve.

The seasonally-adjusted, preliminary estimate of month-to-month change for August 2013 money supply M3 is for a likely gain of 0.1%, versus revised 0.8% (previously 0.7%) gain July. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

Initial Growth Estimates for August M1 and M2. For August 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 August is estimated to show year-to-year growth of roughly 6.8%, versus a revised 7.0% (previously 6.8%) gain in July, with month-to-month change estimated at roughly a 0.5% gain in August, versus a revised 1.0% (0.9%) gain in July. The early estimate of M1 for August 2013 is for slower year-to-year growth of roughly 9.2%, versus a revised 10.2% (previously 10.1%) gain in July, with a month-to-month August gain of about 0.2%, versus a revised 1.1% (previously 1.0%) gain July.

Hyperinflation Outlook—Unchanged. This summary of the *Hyperinflation Outlook* has been not been changed from *Commentary No. 550* of August 16th. 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, a fully-updated hyperinflation report is planned in 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. Yet, the talk of ending (or extending/expanding) QE3 still appears to be little more than jawboning, aimed either at placating a growing chorus of Fed critics or at manipulating variously the gold, currency and domestic-stock markets. Indeed, as part of the ongoing mind-games with the public, various Fed officials regularly offer contradictory stories, when the stock market needs a boost or distraction from other concerns, such as pending discord over U.S. fiscal policy.

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. These factors, in combination, show the end game to be nearing, and while they may have been in recent summer-holiday hibernation, post-Labor Day political turmoil is imminent.

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, at any time, with little or no warning. 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 precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises, hoping to push the problems even further into the future. Such attempts to save the system, however, all have exceptional inflationary implications.

The global financial markets appear ready to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Accordingly, the U.S. dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment still 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, with current reporting in basic economic series coming into synchronization with a renewed downturn in broad economic activity starting in second- and third-quarter 2013.

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. As of August 15, 2013, the Fed had monetized 110% of the net issuance of U.S. Treasury debt, since the beginning of the calendar year.

The Fed's unconscionable market manipulations and games playing in fueling speculation over the future of quantitative easing clearly have been used to move the U.S. dollar (the purpose of initial quantitative easing was U.S. dollar debasement). QE3 and continuing efforts at dollar-debasement are not about to go away. 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. The loss of some reserve status for the U.S. dollar is likely, as the crises break, and that would intensify both the dollar-selling and domestic U.S. inflationary pressures.

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 remain 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*). Recent reductions reported in the year-to-date cash-based 2013 deficit reflect gimmicks such as the U.S. government declaring itself dividends out of government-backed and controlled Fannie Mae and Freddie Mac. Those dividends also have helped the Treasury operate around the limits of the current debt ceiling. If the government consolidated those entities into its financial

statements, as would happen in the corporate world, the deficit position would be much bleaker, as it is otherwise with generally accepted accounting principles or GAAP-based accounting.

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 global markets previously had expressed their extreme discomfort with the unresolved longer-range sovereign solvency issues of the United States, by dumping dollars at the time of the failed July/August 2011 fiscal negotiations. The continuing unwillingness and political inability of the current government to address those issues, only pushes along the regular unfolding of events that eventually will trigger a massive flight from the U.S. dollar and 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 extreme 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 near-term—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.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (August 2013)

August Labor Data Suggested a Deteriorating Economy. The broad economic outlook has not changed, although the economic downside maybe picking up a little momentum among consensus forecasters. The latter circumstance is due to a negative swing in 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 169,000 jobs gain in July, nor the 0.1% decline in headline unemployment to 7.3%, was meaningful by itself. Yet, serious deteriorating unemployment trends have solidified, while the upcoming September 26th initial estimate of the 2013 payroll benchmark revision has a fair chance at being to the downside.

In particular, the reported decline in the unemployment faces two key issues. First, as discussed in the *Opening Comments* and in *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. Second, as discussed in the *Concurrent Seasonal Factor Distortions* section, the August and July headline numbers were not consistent in preparation and accordingly simply are not comparable.

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 1.9-million jobs shy of the pre-recession high (or significantly more per a likely downgrade of the circumstance in the looming benchmark), which 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 August, 0.1% shy of the series all-time high level, a level that rivals any other downturn of the post-Great Depression era. That unemployment level includes those people who consider themselves unemployed; who would take a job if one were available; but who have given up looking for a job because they believe there are no jobs available for them.

PAYROLL SURVEY DETAIL. In the context of a downside revision to July's headline payroll data and of continued heavily distorted seasonal factors, the BLS reported this morning, September 6th, a seasonally-adjusted, month-to-month headline payroll employment gain of 169,000 for August 2013. Net of prior-period revisions, the monthly gain would have been 95,000. 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 July 2013 headline monthly jobs increase was revised to a seasonally-adjusted 104,000 (previously 162,000) gain, versus a revised 172,000 (previously a 188,000, initially a 195,000) gain in June.

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 June number no longer is consistent with May 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 gain for June versus May was 186,000, instead of the official 172,000. The month-to-month reporting discrepancies go in both directions and often are greater than the June difference of 14,000, 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.

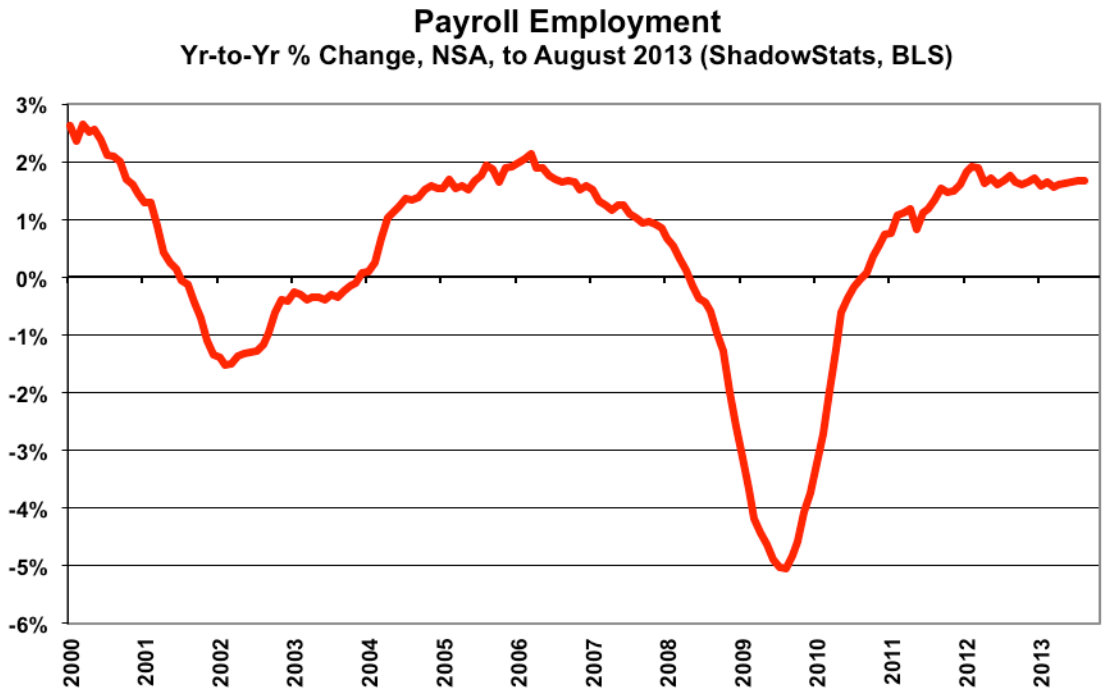
2013 Annual Benchmark Revision Estimate Due on September 26th. The BLS announced today the release of its preliminary estimate for the March 2013-based benchmark payroll revision on September 26, 2013. Full revision details will be published with January 2014 data in February 2014.

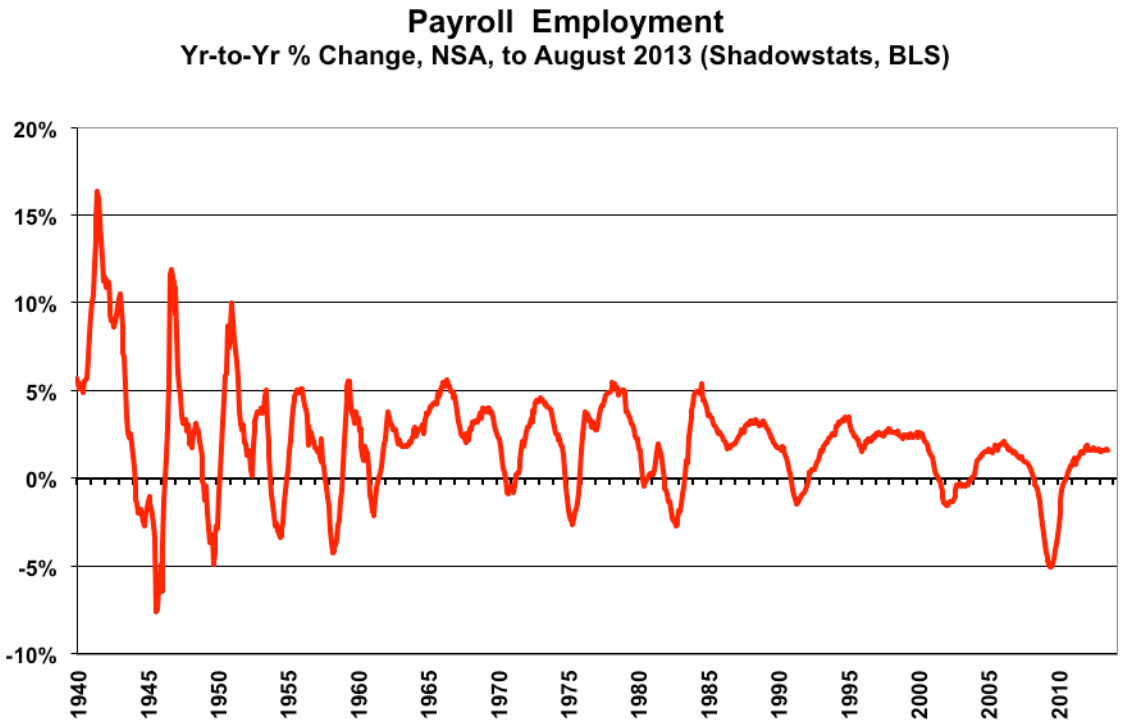
Trend Model. As described generally in *Payroll Trends*, the trend indication from the BLS's concurrent seasonal-adjustment model is for a 181,000 monthly payroll gain in September 2013, based on August's reporting. While the trend indication often misses actual reporting (the indication for August was for a 212,000 monthly gain, which did not become the market expectation and was somewhat higher than the actual headline 169,000 gain). The trend number, however, usually becomes the basis for the consensus outlook.

Distortions in the Trend Model. Prior to today's release, the BLS's seasonal-adjustment model had a built-in tendency to adjust August local education jobs upwards by about 35,000 (see *Week Ahead* in *Commentary No. 553*). Today's reported 20,100 gain needs to be viewed as partly a consequence of that, and partly due to large downward revisions to June and July levels (down by 2,800 and 6,300 respectively). The effect also has been to push out this seasonal adjustment bulge for one more month, where the model trend is now for a further 20,000 increase in September. Nonetheless, proper seasonal-adjustments at this time of year, as teachers return to work, should tend to show stable monthly patterns, not large increases. Separately, at the state education level, a similar downward revision took place, with job growth cut back by 8,100 and 5,700 in June and July, respectively.

Another "sore thumb" in the monthly industry data was in the motion picture and sound recording industry, where there was an unusually large drop of 22,000, or a loss of 5.7% of industry payrolls.

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 at least are on a consistent basis. For August 2013, the year-to-year percent gain in payrolls slowed from prior reporting, at 1.65%, versus a revised 1.66% (previously 1.72%) in July, and a revised 1.64% (previously 1.65%, initially 1.67%) in June.


Payroll Employment
Yr-to-Yr % Change, NSA, to August 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

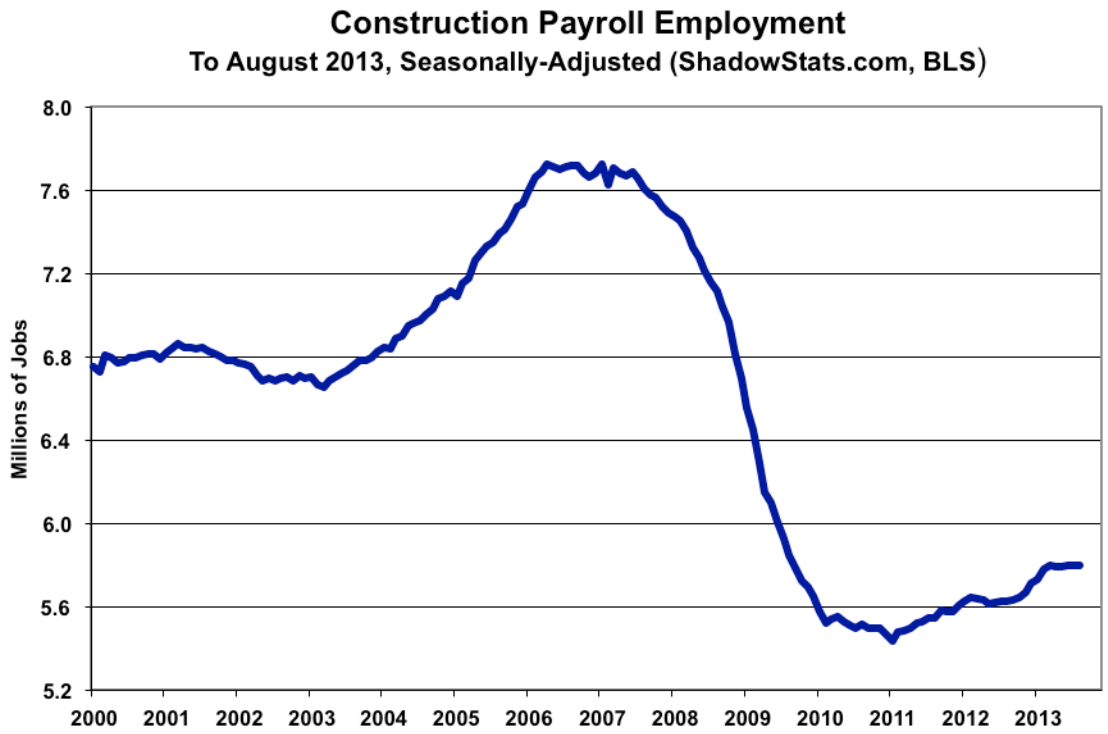

Payroll Employment
Yr-to-Yr % Change, NSA, to August 2013 (Shadowstats, BLS)
20%
15%
10%
5%
0%
-5%
-10%
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010

The preceding 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. Where the July 2013 growth pattern reflected an uptick that now has revised away.

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 August 2013 level of employment is shy by 1.9-million jobs, or 1.4% 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.

Construction Employment. Following is the revised graph for construction employment (update to *Commentary No. 553* on construction spending), reflecting August industry employment. Construction payroll employment has been flat since March, with August construction payrolls at 5.798 million, unchanged from a revised 5.798 (previously 5.793) million in July, and against a revised 5.801 (5.799) million in June.



Concurrent Seasonal Factor Distortions. *[Only underlined text in this Concurrent Seasonal Factor section and subsections is new or revised from Commentary No. 547 on July 2013 labor conditions.]* As reflected in the accompanying graph, seasonal-factor instabilities continued in the latest payroll reporting. Still, the BLS never brings the bulk of related reporting issues before the public.

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.

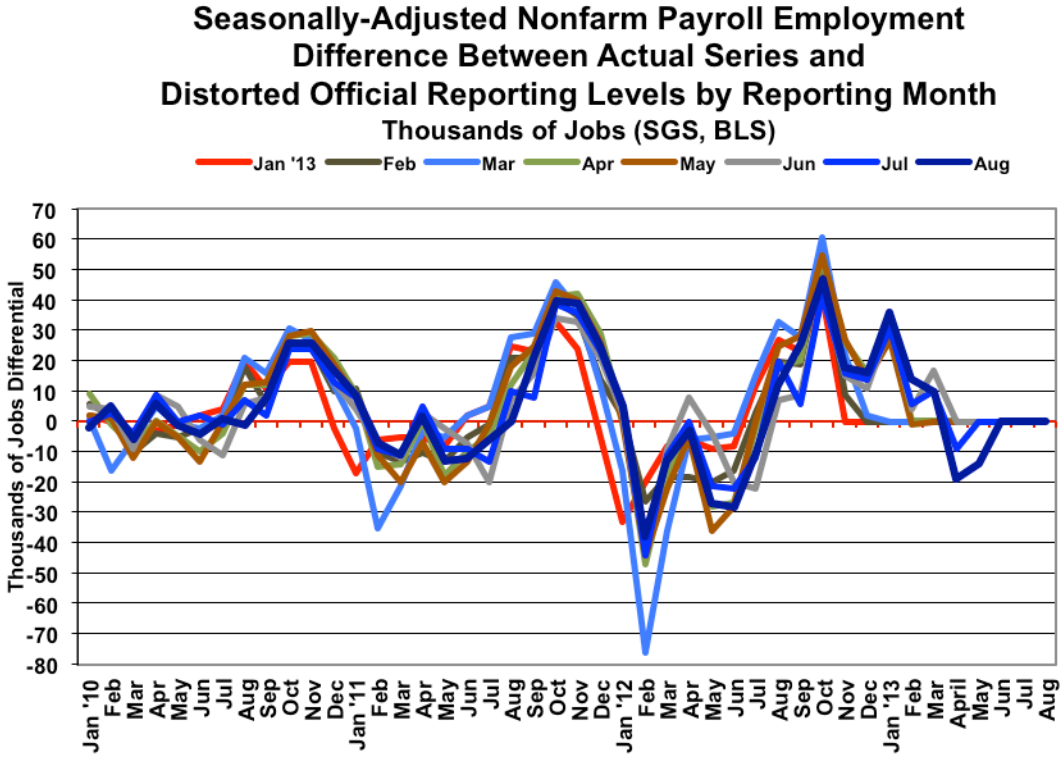
August Inconsistencies. For August 2013, the headline unemployment rate was 7.3%, and the headline monthly payroll gain was 169,000 jobs. Yet, the August unemployment rate was neither consistent with nor comparable to the July unemployment rate of 7.4%. While the 169,000 jobs gain for August was consistent with the revised 104,000 jobs increase in July, on a concurrent-seasonally-adjusted basis, those increases were not consistent with the revised 172,000 jobs gain reported for June or with any earlier published data. The August number would have been consistent with a 186,000 jobs gain in June.

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 0.1% decline in August U.3 unemployment, at 7.3%, versus 7.4% in July, 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. 547 on July 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.

August 2013 Bias. The not-seasonally-adjusted August 2013 bias was a monthly add factor of 90,000, versus 89,000 in August 2012 and a 54,000 add factor in July 2013. The aggregate upside bias for the trailing twelve months notched higher to 621,000 in August, from 620,000 in July, 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, which will be estimated on September 26, 2013 and is due to be published in February of 2014.

HOUSEHOLD SURVEY DETAILS. As discussed in the *Concurrent Seasonal Factor Distortions*, the seasonally-adjusted or headline August 2013 household-survey data are inconsistent with July 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, August 2013 employment fell by 115,000, after rising by 227,000 in July, 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 August are not legitimately comparable to the July reporting.

Headline Unemployment Rates. Headline unemployment fell to 7.3% August, from 7.4% in July. The August 2013 reading was down from an estimated 8.1% from the year before, but that annual decline generally is not good news, as discussed in the *Opening Comments* and in *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.

Specifically, as discussed in the *Opening Comments,* where the number of unemployed declined by 198,000 in August, there was no offsetting gain in employment, which would have been positive economic news. Instead, the offsets to the unemployment drop were a 115,000 decline in employment, and a 312,000 decline in the labor force.

Further, the reported August 2013 seasonally-adjusted headline (U.3) unemployment rate of 7.28% simply was not comparable to the 7.39% unemployment rate in July. 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 August 2013 unemployment data were calculated, consistent, new seasonal factors also were recalculated for July 2013 and prior months. Based on the new seasonal factors, there is a revised July unemployment rate that is consistent with August'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 July.

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, 0.1% (0.11% to the second decimal place) month-to-month decline in the August 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 monthly decline in the official U.3 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. August's unadjusted U.3 unemployment rate was 7.3%, versus 7.7% in July.

U.6 Unemployment Rate. 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 a reported decline in people working part-time for economic reasons, and a decline in short-term discouraged workers, the headline August 2013 U.6-unemployment rate eased back to 13.7%, from 14.0% in July. Again, though, the monthly seasonally-adjusted numbers are not comparable, and the BLS guesstimates are unstable. The unadjusted August U.6 rate declined to 13.6% from 14.3% in July. The decline in U.6 has parallels with the decline in U.3, where U.6 partially reflects long-term discouraged workers leaving the U.6 labor force and entering the realm of the ShadowStats alternate measure.

Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) was 866,000 in August 2013, a decline of 122,000 from 988,000 in July 2013, versus 1,027,000 in June, 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 a relatively heavy, continuing rollover from the short-term to the long-term category August.

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.

ShadowStats-Alternate Unemployment Rate. 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—held at 23.3% in August, versus July, which had notched lower from a series

high of 23.4% (back to 1994) in June 2013. The ShadowStats estimate reflects the increasing toll of unemployed leaving the headline labor force. Where the ShadowStats alternate estimate generally is built on top of the official U.6 reporting, it tends to follow its relative monthly movements. Accordingly, the alternate measure often will suffer some of the same seasonal-adjustment woes that afflict the base series, including underlying annual revisions.

As seen in the usual graph of the various unemployment measures (see the *Opening Comments*), there continues to be a noticeable divergence in the ShadowStats series versus U.6. The reason for this is that U.6, again, only includes discouraged workers who have been discouraged for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as new workers enter "discouraged" status.

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

Great Depression Comparisons. 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%.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Remain Likely in the Month and Months Ahead. *[Other than for the section on the pending retail sales and PPI for August, the balance of this*

Week Ahead *section is unchanged from the prior* Commentary.*]* Although there appears to have been some downside adjustment to consensus expectations on the economy, the markets still are overly optimistic. That circumstance and underlying fundamentals that are suggestive of deteriorating business activity, mean that weaker-than-consensus economic reporting should remain the ongoing trend.

Separately, given that energy-inflation-related seasonal-adjustment factors are on the plus-side for a couple of months, combined with stable or higher oil and gasoline prices—exacerbated at the moment by political tensions in the Middle East—stronger-than-expected headline CPI and PPI also are likely for at least the next month or two.

Reflecting the still-likely negative impact on the U.S. dollar in the currency markets, pending 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 continue to soften, still-weaker-than-expected economic results remain likely, given the intensifying structural liquidity constraints on the consumer, as discussed in the *Opening Comments*.

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*.

Retail Sales (August 2013). The headline August 2013 retail sales number is scheduled for release on Friday, September 13th, by the Census Bureau. Once again, odds favor the headline retail sales reporting to come in below developing expectations for a solid month-to-month gain. In turn, continued consumer

inflation should account for the better part, if not all, of any actual nominal (not-adjusted-for-inflation) sales gain, with resulting flat-to-negative real retail sales.

Downside reporting surprises to upside market expectations should be tied directly to the effects of continuing structural stresses on consumer liquidity, including lack of real income growth, rising taxes, and constrained credit (see *Commentary No. 552*). August 2013 real (inflation-adjusted) retail sales will be addressed in the Wednesday, September 17th *Commentary*, along with the detail on the August 2013 CPI-U.

Producer Price Index—PPI (August 2013). The August 2013 PPI is scheduled for release on Friday, September 13th, by the Bureau of Labor Statistics (BLS). For August, PPI energy prices face relatively neutral seasonal factor biases, while the CPI energy prices receive a seasonal-factor boost. Given still-understated food inflation and ongoing upside "core" inflation, the headline PPI should come in on the plus-side.

Depending on the oil contract followed, oil prices, on average, were up by 1.8% to 3.2% for the month of August, with average retail gasoline prices down by 0.4% for a second month. Accordingly, with under-recognition of July's oil price increases, combined with neutral seasonal adjustments to energy prices, a small monthly gain in PPI again is a fair bet.

