

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

**COMMENTARY NUMBER 564**  
**Government Negotiations, Labor Conditions, Consumer Credit and Sentiment**  
**October 11, 2013**

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**Estimated Headline U.3 Unemployment Rates:**  
**7.3% in September, 7.6% in October, versus August Actual of 7.3%**

**Estimated Headline Payroll Changes, or Jobs Gains/Losses:**  
**181,000 Gain in September, 430,000 Loss in October, versus August Gain of 169,000**

**Consumer Credit and Sentiment Show Deteriorating Consumer Liquidity Circumstances**

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*PLEASE NOTE: The next regular Commentary is scheduled for Thursday, October 17th, covering September industrial production, as well as ongoing systemic-crisis impact. An interim Commentary will address any agreement reached on re-opening the government and/or delaying the day-of-reckoning for the debt ceiling, or otherwise on the collapse of current government negotiations. Financial-market, etc. implications of same also will be addressed.*

*For the duration of the shutdown of the Federal Government, federal statistical agencies (including the Bureau of Labor Statistics, the Census Bureau and the Bureau of Economic Analysis) have suspended issuance of regular economic releases. This does not apply to releases from the privately-owned Federal Reserve, or from other non-federal government entities. As usual, ShadowStats Commentaries will be published at least once per week. See the [schedule](#) for full detail.*

*Best wishes to all — John Williams*

## ANY GOVERNMENT DEAL LIKELY WILL NOT ADDRESS U.S. SOLVENCY ISSUES

Up against the deadline of Senators and Congressmen leaving town for the one-week Columbus Day Congressional Recess, those controlling the U.S. government are in “encouraging” negotiations, as we go to press with this *Commentary* on October 11th. With the federal government shutdown becoming ever-more painful and disruptive to the general public, and with the government facing a circumstance where it might not be able to meet all its financial obligations come next Thursday, at least the debt-ceiling issues are under discussion. Whatever are the results of these negotiations, they will be discussed in a subsequent *Commentary*, following release of substantive detail, along with an assessment of implications for the financial markets, etc. The markets are going through spasms at the moment, responding to incomplete information and shifting speculations. Chances remain nil for a meaningful agreement addressing the long-term solvency issues of the United States. Comments on this circumstance in [Commentary No. 563](#) and [Commentary No. 562](#) hold.

Comments on the appointment of Janet Yellin (no likely near-term change in Fed policy) to replace Ben Bernanke as Fed Chairman are incorporated into an updated summary *Hyperinflation Outlook* in the *Hyperinflation Watch*.

**Any U.S. Default In the Near Future Would Reflect Direct Action by the Administration.** In theory, a credit rating on debt reflects the risk of default in the next year, with the top ratings of “AAA” as used by Standard & Poor’s (S&P) and Fitch, and the “Aaa” as used by Moody’s, indicative of the lowest perceived risk of default. Yet, those leading rating agencies of sovereign debt have not cut the existing ratings on U.S. Treasury securities, amidst all the new threats of U.S. default being bandied about by both the Administration and Congress.

After tap-dancing around the current debt limit for five months (since May 19th) with “extraordinary measures,” accounting and otherwise, Treasury Secretary Jacob Lew suggested yesterday (October 10th) that the U.S. Treasury—shy of full cash needs—might not have the technical ability to prioritize interest and debt payments, in order to prevent an actual event of default. By itself, that comment would be worthy of a downgrade. The concept that U.S. could not prioritize its debt payments, though is nonsense; default could happen here only as a result of deliberate action or inaction by the U.S. Treasury.

One of two circumstances could explain current inaction by the rating agencies. First would be that the U.S. Treasury privately has assured the rating agencies that it would not in any circumstance miss a debt or interest payment. Second would be that the U.S. Treasury is arm-twisting those rating agencies, whose questionable ratings of various forms of collateralized debt obligations (CDO) were a factor in fueling the 2008 financial crisis.

As noted in a Reuters story of September 3, 2013, *S&P calls lawsuit retaliation for stripping AAA rating*: “Standard & Poor’s on Tuesday [September 3rd] blasted a \$5 billion fraud lawsuit by the U.S. government as retaliation for its 2011 decision to strip the country of its AAA credit rating.” S&P was the only one of the top three rating agencies of sovereign credit to have downgraded the United States (2011). It also has been the only agency prosecuted by the U.S. Treasury, despite Moody’s and Fitch also having been involved in the questionable market of the CDO ratings.

A suggestion of the deficit-crisis having abated, thanks to a reduced cash-based federal deficit in fiscal 2013, has been used by at least one credit-rating agency as an explanation for “no downgrade.” Anyone suggesting that is not looking too carefully at the government’s GAAP-based fiscal conditions (see [No. 500: Special Commentary](#)). Some combination of both the “assurance” and “blackmail” strategies likely is being used by the U.S. Treasury to ward off—at least temporarily—a rating downgrade.

As to comments that the S&P rating downgrade in 2011 was not reflected in higher market interest rates, keep in mind that the Federal Reserve’s massive purchasing of U.S. Treasury securities has been keeping market yields artificially low.

**Government Shutdown Boosting Unemployment, Cutting Payrolls.** The Bureau of Labor Statistics (BLS) has not published its data on September labor market conditions (scheduled initially for October 4th), due to the government shutdown. Nonetheless, the summary headline data for September, as well as those that would have been surveyed in the current week (including October 12th) for October, can be estimated within certain parameters. What is newsworthy here, is that the government shutdown, and its impact on the private sector, almost certainly have caused a spike in October headline unemployment, and a decline in October nonfarm payrolls, all subject, of course, to official reporting by the BLS.

<b>Pro Forma Recent Labor Market Conditions</b> (Estimated by ShadowStats.com)				
2013	Headline Unemployment Rate (U.3)	Non Farm Payroll Employment Monthly Change		
		Total	Private Sector	Government Sector
August*	7.3%	+169,000	+152,000	+17,000
September	7.3%	+181,000	+163,000	+18,000
October	7.6%	-430,000	+81,000	-511,000
* Initial headline reporting.				

The September and October estimates are based on consensus forecasts and the trend models discussed below. The base unemployment rate for October was held at 7.3% and adjusted for the furlough impacts, as indicated below.

Discussed partially in *Commentary No. 561*, of September 26th, most commonly, the monthly consensus jobs estimate settles around the trend estimate from the BLS seasonal-adjustment models. The September

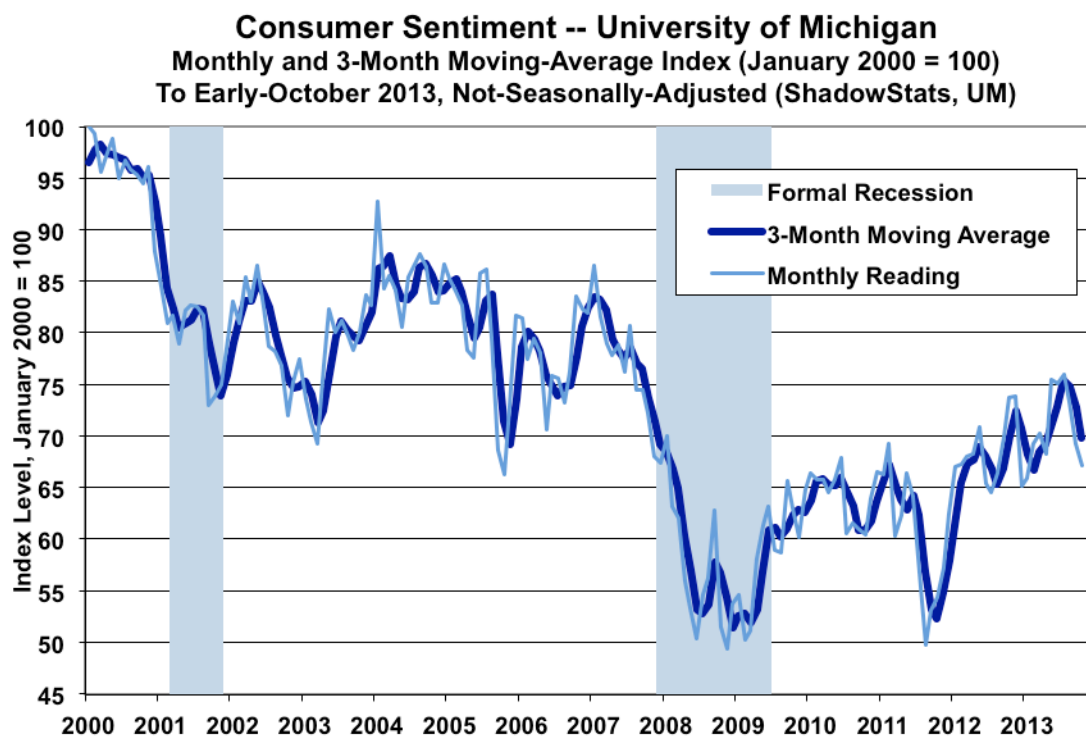
2013 payroll trend number was for a 181,000 jobs gain, versus August's headline gain of 169,000 (see [Commentary No. 554](#)), and the market consensus for September settled around that the trend estimate. The BLS trend model shows a sharp slowing in total October payrolls, with a suggested 70,000 jobs gain. The slowing there is due to a downside seasonal-adjustment distortion to local government employment for October.

Separately, the market expectations looked for the still-unpublished the September headline U.3 unemployment rate to hold at August's 7.3% level.

We estimate the level of government furloughs at 470,000, with another 30,000 related layoffs or furloughs in the private sectors, for a total of 500,000 jobs lost, at the moment, since October 1st.

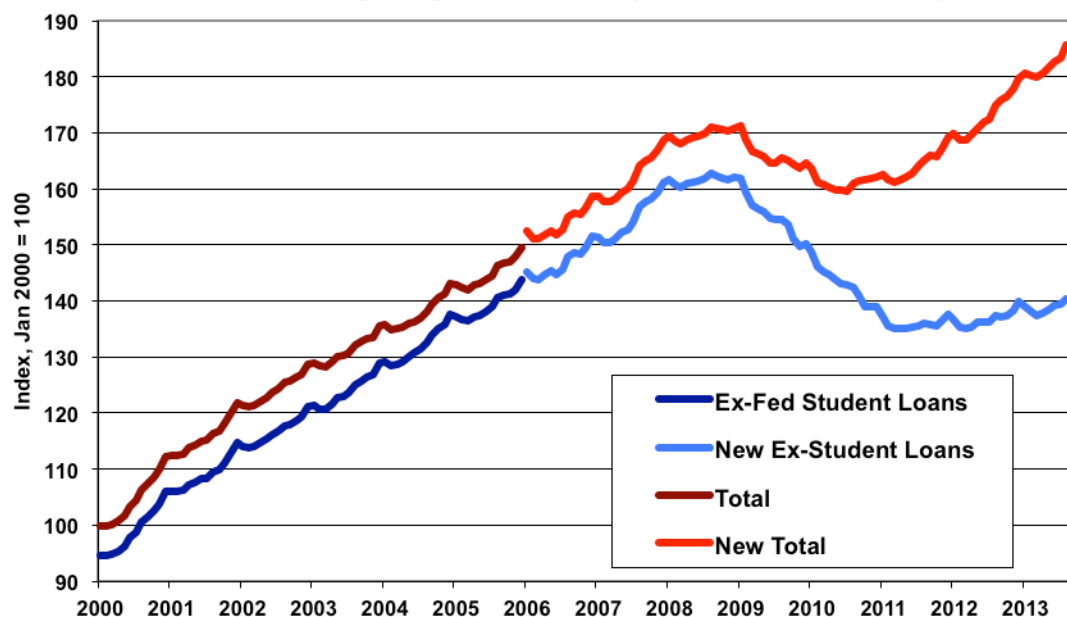
The actual September headline unemployment rate easily could have come in at 7.2%, reflecting the loss of discouraged workers from the headline labor force, as happened in the August drop in headline unemployment to 7.3%. September payrolls are a good bet to have been below consensus with downside revisions to August reporting. Nonetheless, the sharp deterioration in October numbers in both areas should have taken place, shy of the BLS redefining its survey period for October. These data will be updated as better information becomes available.

**Consumer Liquidity Remains Impaired.** Released this morning (October 11th), the University of Michigan's consumer sentiment measure for early October continued to sink. Reflecting ongoing liquidity stresses on the consumer, sentiments remain deep in traditional recession territory, not reflecting the purported four-year economic recovery as published with the heavily-gimmicked GDP data.



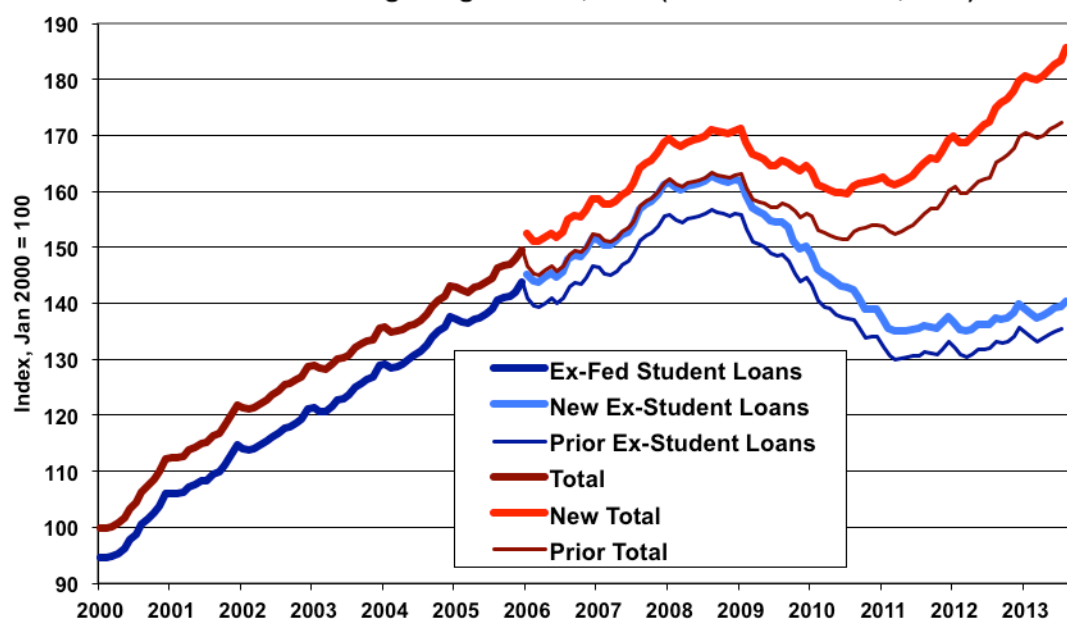
### ShadowStats Consumer Credit Outstanding Index Total and Total Ex-Student Loans

With Jan 2006 Discontinuities, 2010-2011 Discontinuities  
Removed, Total Credit Indexed to Jan 2000=100  
Through August 2013, NSA (ShadowStats.com, FRB)



### ShadowStats Consumer Credit Outstanding Index Total and Total Ex-Student Loans

As Just Revised from Jan 2006 on,  
2010-2011 Discontinuities Removed, Total Indexed Jan 2000=100  
Through August 2013, NSA (ShadowStats.com, FRB)



Shown in the two preceding graphs, despite massive revisions (some definitional) in the post-2006 period, the Federal Reserve's commercial credit outstanding series continues to show that any post-recovery growth in consumer credit has been only in student loans. Added to the federally-owned loans now, by definition, are student loans held by educational institutions.

The first of the credit graphs show the revised series, with a consistency discontinuity in 2006. The second graph shows the series both before and after revisions. While we shall continue to show the detail here for subscribers, the series has lost any meaning it once had as a consistent historical series, usable in econometric models for forecasting purposes.

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## HYPERINFLATION WATCH

**Hyperinflation Outlook—Updated Summary.** This *Hyperinflation Outlook* summary has been updated minimally from the version published in *Commentary No. 562*, of October 1st. The changes are underlined and relate to the nomination of Janet Yellin as successor to Ben Bernanke as Fed Chairman, and in the two paragraphs following that.

The summary is intended as background material for new subscribers and for those looking for a brief version of the broad outlook on 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 month ahead.

**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 early talk of tapering QE3 was 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.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment even could shift from what now is no imminent end to QE3, to an expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, increasingly, they are beginning to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve 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.

The same systemic problems will face incoming Fed Chairman Janet Louise Yellin. She will face the same quandaries and issues addressed by current Chairman Ben Bernanke. Where she also has been involved actively in formulating current Fed policies, no significant shifts in Fed policy are likely. QE3 should continue for the foreseeable future.

At the same time, deteriorating expectations for domestic political stability reflect government scandals and conflicting policy actions, 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 at hand. The government shutdown of October 1st was the beginning of the big battle over long-range sovereign solvency of the United States. The debt-ceiling crisis also is at hand. Despite ongoing negotiations, the sovereign solvency crisis facing the United States is not likely to be mitigated by any short-lived deals that may come out of current negotiations.

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), and the dollar has begun to weaken. 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 early ill winds are being felt; and 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. Indeed, 2012 household income data from the Census Bureau show no recovery whatsoever.

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. 552](#)). 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](#) 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, such as housing, retail sales and production (not the GDP), 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 2013, the Fed had monetized in excess of 100% 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 were 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 discussed early on in [No. 527: Special Commentary](#), the U.S. Treasury now has reached the final stages of going through extraordinary accounting gimmicks, in order to avoid exceeding the federal-debt ceiling. The crisis is at hand, with a deadline in the week or two ahead for resolving related issues, 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.

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## WEEK AHEAD

**Weaker-Economic and Stronger-Inflation Reporting Likely in the Months Ahead.** For the duration of the shutdown of the Federal Government, federal statistical agencies (including the Bureau of Labor Statistics, the Census Bureau and the Bureau of Economic Analysis) have suspended issuance of regular economic releases. This does not apply to releases from the privately-owned Federal Reserve Board (FRB), or from other non-federal government entities. See the [schedule](#) for the latest detail. *[Other than for the new detail of next week's pending release of the FRB's industrial production, the Week Ahead section is unchanged from Commentary No. 561 of September 26th.]* Despite continuing downside adjustments to consensus expectations on the domestic 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 general trend. Inflation likely will be higher than market expectations.

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors are on the plus-side through the end of the year. That, combined with likely stable or higher oil and gasoline prices, means stronger-than-expected headline CPI and PPI are a good bet for at least the next four months, and beyond. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, and the soon-to-resurface fiscal-crisis/debt-ceiling debacle (see opening comments and the *Hyperinflation Outlook* section). Particularly in tandem with the likely weakened dollar, inflation reporting in the year ahead generally should reflect much higher-than-expected inflation (see also [No. 527: Special Commentary](#)).

***A Note on 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.

**Index of Industrial Production (September 2013).** The September 2013 index of industrial production is scheduled for release on Thursday, October 17th, by the Federal Reserve Board. Where the FRB is not part of the federal government, it continues to function normally. As a result, the September production report will be the first, and possibly only major economic release to be published as originally scheduled in October.

Inventories still are too high for existing demand, and an outright monthly contraction in production remains a fair bet. Minimally, continuing downside surprises to artificially high expectations are likely in September production, as are continuing downside revisions to prior-period reporting. The federal government shutdown should have some negative impact on the production in the month of October, which will be released in November.

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