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

COMMENTARY NUMBER 580
November Labor Data and M3, October Household Income

December 6, 2013

Real Household Income Falls Slightly in October, Remaining Near Cycle-Low

Shutdown Effects on October Labor Data, and Misreporting of Same, Are More than Reversed in Headline November Numbers

Resulting Seasonal-Factor Distortions Weigh Heavily on Data Significance; Current Headline Labor Numbers Have Little Meaning

November Unemployment: 7.0% (U.3), 13.2% (U.6), 23.2% (ShadowStats)

PLEASE NOTE: The next regular Commentary *is scheduled for Thursday, December 12th, covering November retail sales.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Wild Numbers Do Not A Recovery Make. There is no economic recovery being signaled by the labor data, only troubled reporting. Further, the latest consumer-related measures continued to show ongoing, structural liquidity constraints that not only prevented the U.S. consumer from fueling the purported post-June 2009 GDP recovery, but also will prevent the consumer from driving a near-term economic

recovery, irrespective of fantasy-GDP reporting, meaningless unemployment and employment data, and wishful thinking in a number of quarters. Updated details on the liquidity circumstance are found at the end of this *Opening Comments* section (see also *Commentary No. 575*.)

The 2008-panic never was resolved. Although extraordinary monetary actions and direct market and business interventions, at the time, delayed an imminent systemic collapse, little was resolved. The economy remains in continuing crisis, as reflected in the broadest unemployment measure, while systemic stability appears to be increasingly fleeting, as the Federal Reserve faces slowing broad-money growth, despite continued extreme efforts at flooding the system with liquidity, through growth in the monetary base (see the money supply, monetary base and monetization detail in the *Hyperinflation Watch* section).

Unusual circumstances disrupted reporting of both the October and November labor data—particularly for the household survey, which the Bureau of Labor Statistics (BLS) previously had admitted was in error (see *Commentary No. 572*). With standard reporting procedures, concurrent seasonal factors were calculated for September, October, and then again for November. The headline reporting, however, only included the initial calculations for September, October, and again for November, with no reporting of all the prior data, which otherwise are available and are consistent with the newly-calculated November seasonals. That all is standard practice for the deliberate reporting of these poor-quality data.

What is unusual is that those concurrent-seasonal-adjustments were on the basis, first, of trying to normalize or seasonally-adjust the impact of the government's shutdown in October (higher unemployment), and, second, of trying to normalize or seasonally-adjust the impact of the government's reopening in November (lower unemployment), significant events that presumably were nonrecurring. The resulting reporting detail lacked significance, an issue seen with other shutdown-affected data such as various housing numbers. Reporting in a number of series has not been stable, and there could be benefit to data users of just averaging October and November numbers that do not otherwise make much sense.

Separately, on the household survey (unemployment) front, an article by John Crudele, "Census 'faked' 2012 election jobs report," in the November 18th *New York Post*, detailed how some individuals, involved in conducting the monthly household survey (conducted by the Census Bureau for the BLS), had been falsifying their results. The sense of the issue here has been that it was ongoing, at least through the 2012 election, and that desired results may have been communicated to the involved individuals by a supervisor. Congressional investigation should be able to clarify what has been happening, but the process certainly has added further questions as to the reliability of the BLS reporting.

November 2013 Employment and Unemployment. With the caveat that the following numbers are not meaningful in terms of changes in the seasonally-adjusted data (see the preceding and comments in the *Reporting Detail* section), here are the results from the November report on labor conditions.

Headline Unemployment Data. Unemployment (U.3) fell to 7.02% in November, after rising to 7.28% in October, from 7.24% in September, and versus 7.28% in August. Separate from government-shutdown-related fluctuations, the November number and earlier data regularly are not comparable with each other.

Beyond the other reporting issues, when the seasonally-adjusted November 2013 unemployment data were calculated, consistent, new seasonal factors also were recalculated for October 2013 and prior

months. Based on the new November-based seasonal factors, there is a revised October unemployment rate that is consistent with November'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 October.

A normal pattern of inconsistent reporting is repeated every month, except in December (next month's reporting), when a revised and consistently seasonally-adjusted series will be published. The misreporting process will begin anew with the reporting of January 2014 unemployment.

On an unadjusted basis, however, the unemployment rates are not revised and are consistent at least in reporting methodology (although still distorted by the shutdown effects); they simply are not adjusted for regular seasonal variations. November's unadjusted U.3 unemployment rate was 6.6%, versus 7.0% in October and 7.0% in September.

Where the headline U.3 unemployment rate has declined from 7.8% in November 2012 to 7.0% in November 2013, that is not good news, as discussed in *Commentary No. 521* and *Commentary No. 554*. Instead of reflecting those who are unemployed finding jobs, the lower headline U.3 rate reflects those who are unemployed being defined out of the government's unemployment measurement by restrictive definitions. Those leaving the headline labor force usually end-up moving to the broader U.6 and ShadowStats measures.

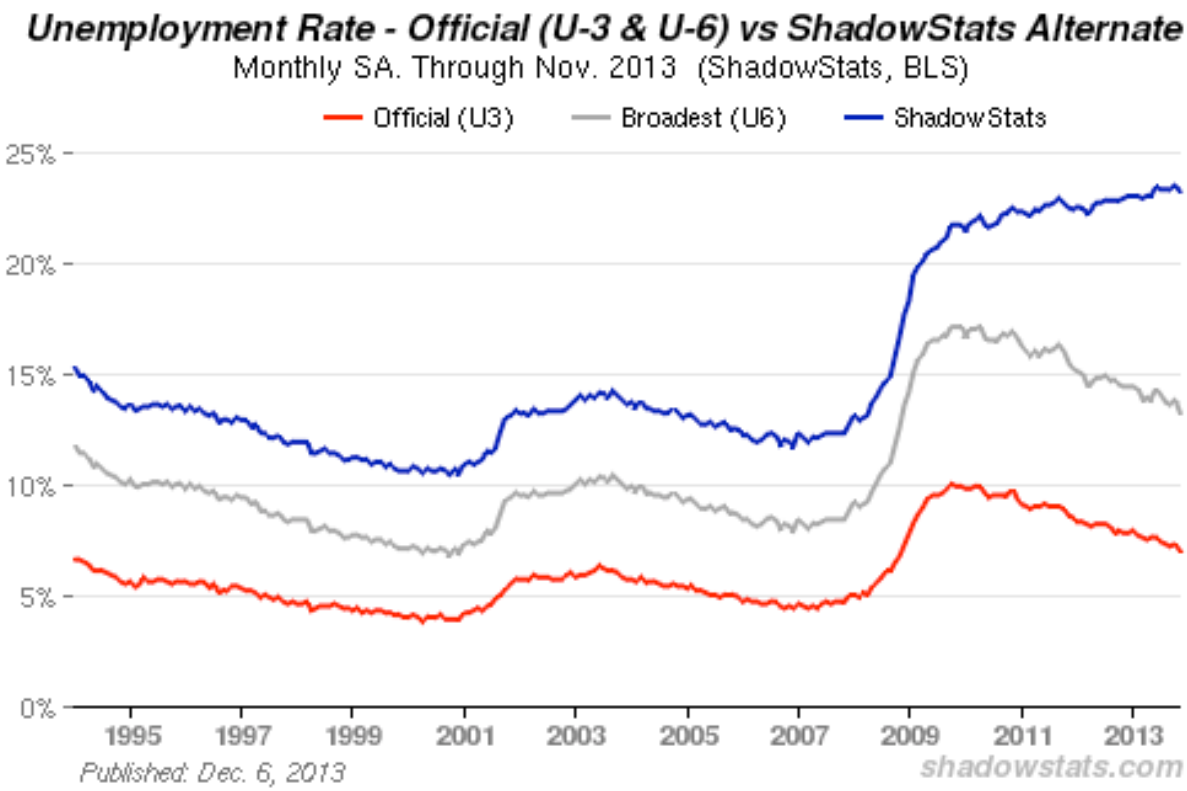
The U.6 measure includes short-term discouraged workers (those who have not looked for work in the last four-weeks, but have looked in the last year) and those working part-time for economic reasons. After being discouraged for a year or more, the short-term discouraged workers become long-term discouraged workers and move to the ShadowStats-Alternate Unemployment measure. More-complete definitions—including discussion on the increasing divergence between the ShadowStats number and U.3 and U.6—are found near the end of the *Reporting Detail* section.

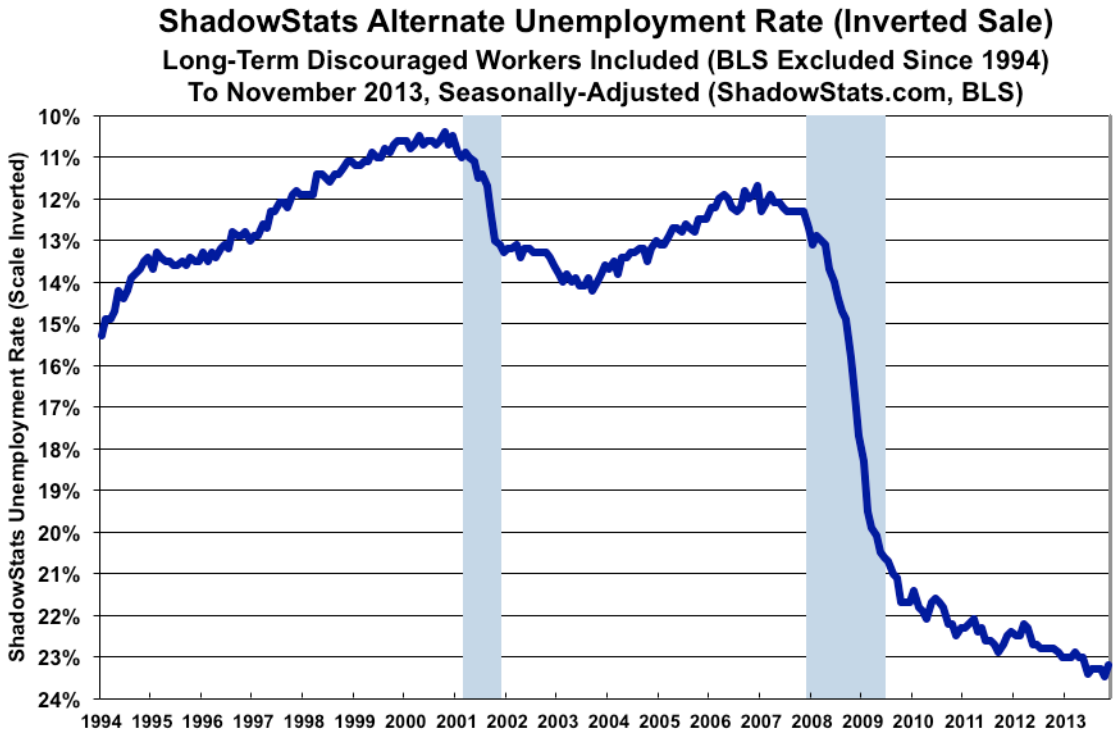
The first graph following reflects headline November 2013 U.3 unemployment at 7.0%, down from 7.3% in October, and versus 7.2% in September; headline U.6 unemployment at 13.2% in November, 13.8% in October, and 13.6% in September; and the headline ShadowStats unemployment measure at 23.2% in November, 23.5% in October and 23.3% in September.

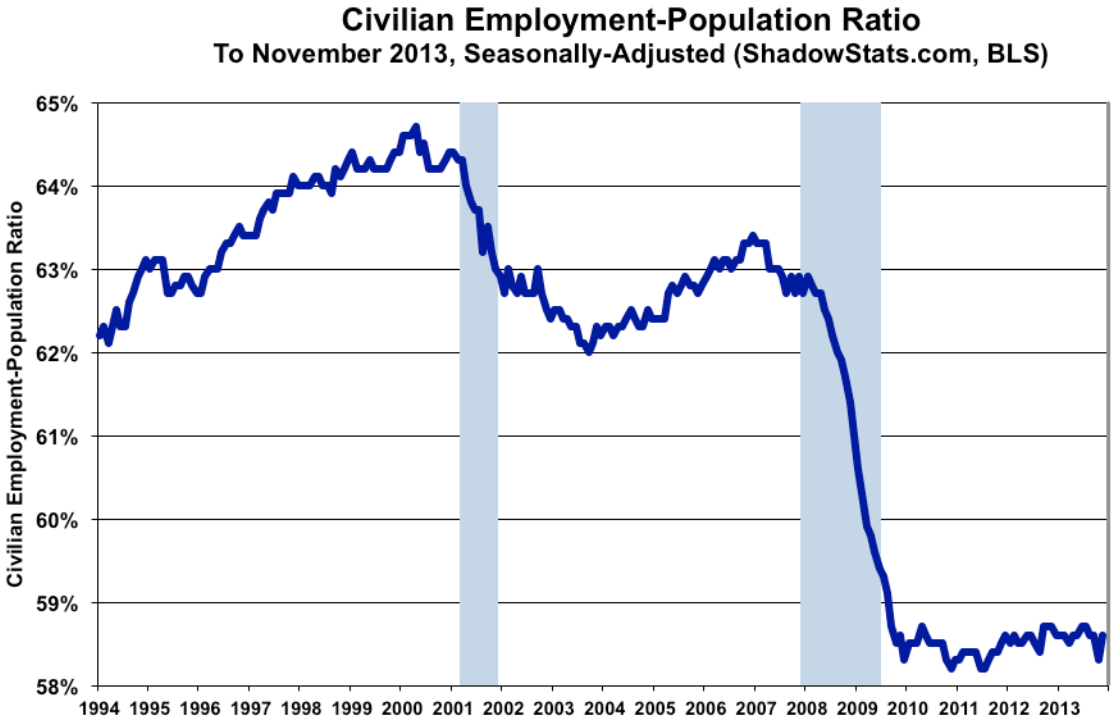
Two new graphs follow the traditional plot of the three mentioned unemployment rates. The first new graph (the second graph following) is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic statistics, where a lower number means a weaker economy.

The inverted-scale ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which is plotted in the third graph following. Discouraged workers are not counted in the headline labor force, which continues to shrink. The labor force containing all unemployed (including total discouraged workers) plus the employed, however, tends to be correlated with the population, so the employment to population ratio tends to be something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

These graphs reflected detail back to the 1994 redefinitions of the household survey. Before 1994, data consistent with today's reporting are not available.





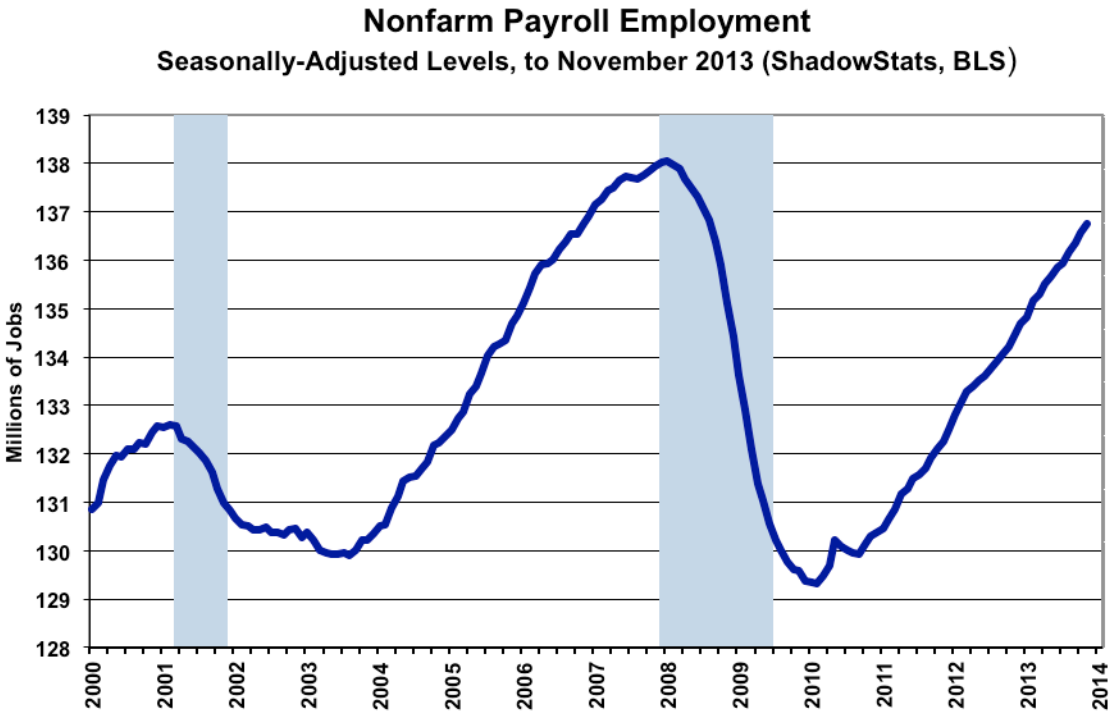


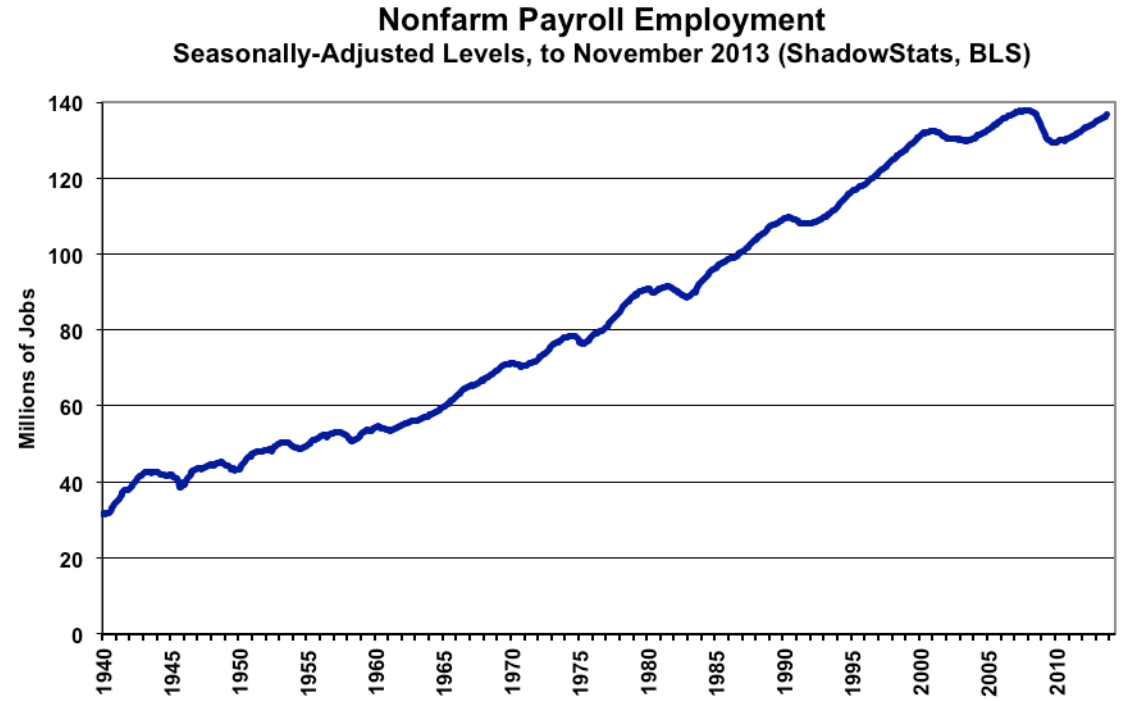
Headline Payroll Employment. November payroll data were published in the context of an upside 8,000 jobs revision to the level of October's payrolls, an upside 12,000 jobs revision to September's level, continued heavily distorted seasonal factors (unadjusted October revised lower by 19,000), and reversal of the October government-shutdown effects, as discussed earlier and in the *Reporting Detail* section.

The seasonally-adjusted, month-to-month headline payroll employment gain for November 2013 was 203,000. Net of prior-period revisions, that monthly gain would have been 211,000. Where the standard 95% confidence interval for the headline monthly change in payroll employment is +/- 129,000, circumstances suggest that a much wider confidence interval is justified. The current numbers continue to be so far out of balance as to be absolutely meaningless, again, due partially to concurrent-seasonal-factor distortions.

The October headline monthly jobs gain was revised to 200,000 (previously 204,000), while the September headline gain was revised to 175,000 (previously 163,000, initially 148,000), which became non-comparable and inconsistent with previous August data, as of the November reporting.

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 September versus August was 167,000, instead of the official 175,000. The month-to-month reporting discrepancies go in both directions and usually are greater than the September difference of 8,000, with monthly differential magnitudes approaching 100,000 jobs, on occasion.


Nonfarm Payroll Employment
Seasonally-Adjusted Levels, to November 2013 (ShadowStats, BLS)
Millions of Jobs
139
138
137
136
135
134
133
132
131
130
129
128
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014

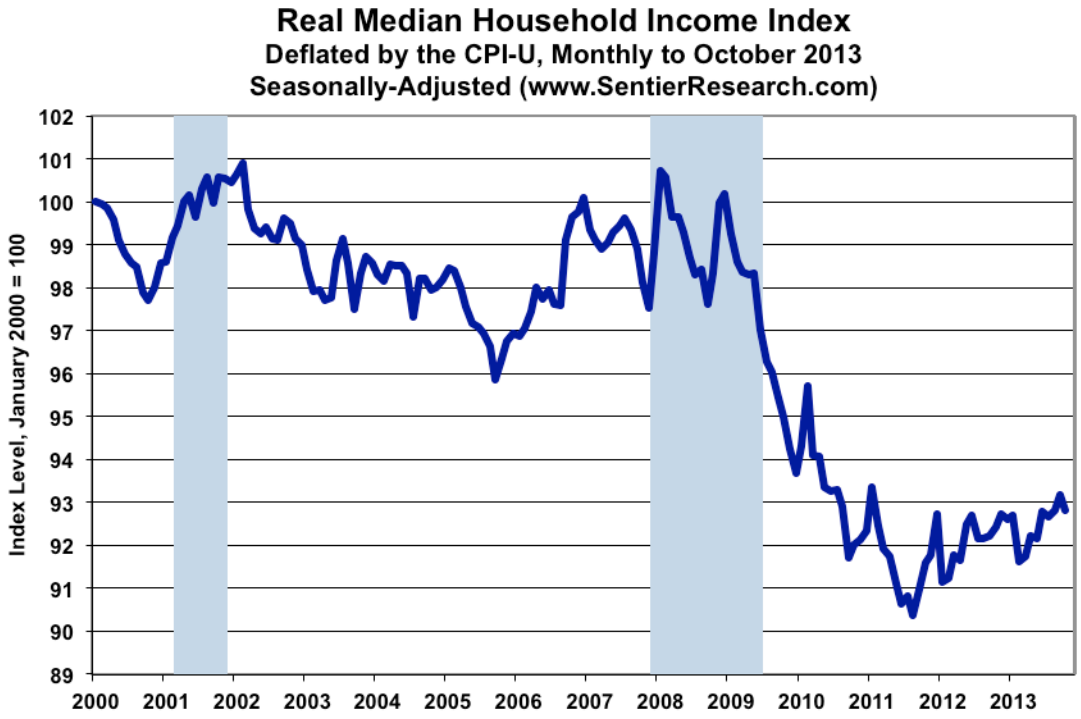

Nonfarm Payroll Employment
Seasonally-Adjusted Levels, to November 2013 (ShadowStats, BLS)
Millions of Jobs
140
120
100
80
60
40
20
0
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010

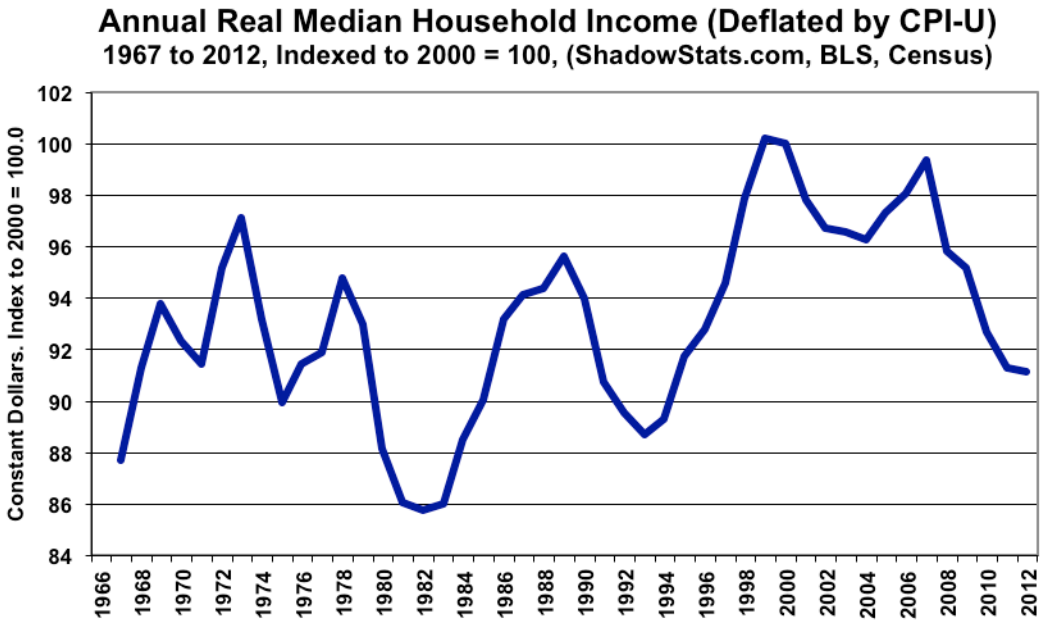
The preceding two graphs are updated for the headline payroll levels through November 2013. Even with the annual growth seen in the payroll series since mid-2010, the October 2013 level of employment is shy by 1.3-million jobs, or 0.9% in official reporting, from recovering its pre-recession high of 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.

Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent seasonal adjustments, so the monthly comparisons of year-to-year change are reported on a consistent basis. For November 2013, the year-to-year percent gain in payrolls increased to 1.70%, from a revised 1.69% in October, and a revised 1.67% in September. The year-to-year rates of change are graphed in the *Reporting Detail* section.

Latest Consumer Liquidity Circumstances. Real median household income was updated today (December 6th) for October data, and consumer sentiment was updated as of early-December surveying. Neither statistic bodes well for holiday-season shopping, or for prospects of Fed tapering. The numbers remain consistent with the broad consumer liquidity problems and the economic circumstance as reviewed in *Commentary No. 575*.

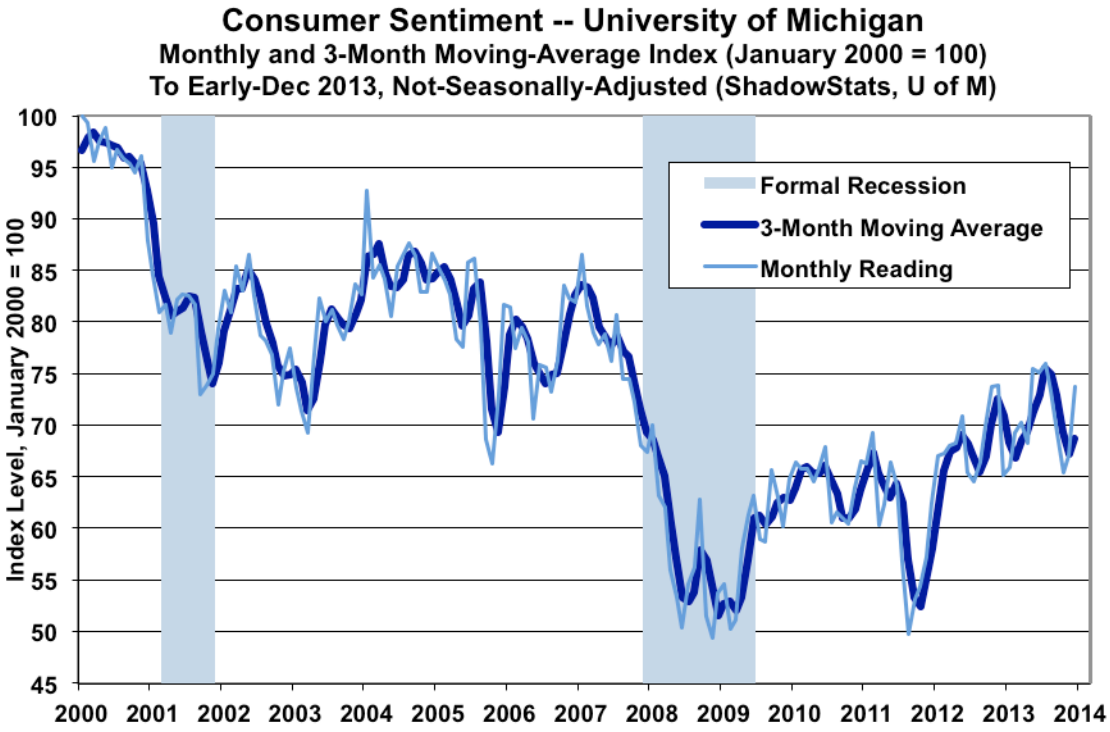
Without growth in real income, without the ability or the will to expand debt meaningfully, and without the confidence to take on new debt, where possible, the consumer has not been able to support the purported, full-fledged economic recovery, and no recovery is pending in the immediate future.





Real Median Household Income for October. Updated for October 2013 detail, real (inflation-adjusted) median household income was slightly lower in October, versus September, but, as with the prior month's small increase, the monthly change was statistically insignificant per www.SentierResearch.com. The series continued to hold near its cycle-low, as shown in the first graph preceding. The second graph is on an annual basis through 2012, based on Census Bureau reporting and CPI-U deflation, and it is included for comparison purposes. As discussed in *Commentary No. 558*, current levels of real median household income, on an annual basis, are below the levels seen the late-1960s and early-1970s. The same should continue to be true for the recent monthly estimates versus the historical annual estimates.

Early-December Consumer Sentiment. Although limited surveying of consumer sentiment (University of Michigan) in early-December showed a rebound from government-shutdown doldrums, levels of sentiment, as well as the detail through November for levels of consumer confidence, show the consumer outlook still to be holding deep in traditional recession territory.



[For further detail on November employment and unemployment, see the **Reporting Detail** *Section.]*

HYPERINFLATION WATCH

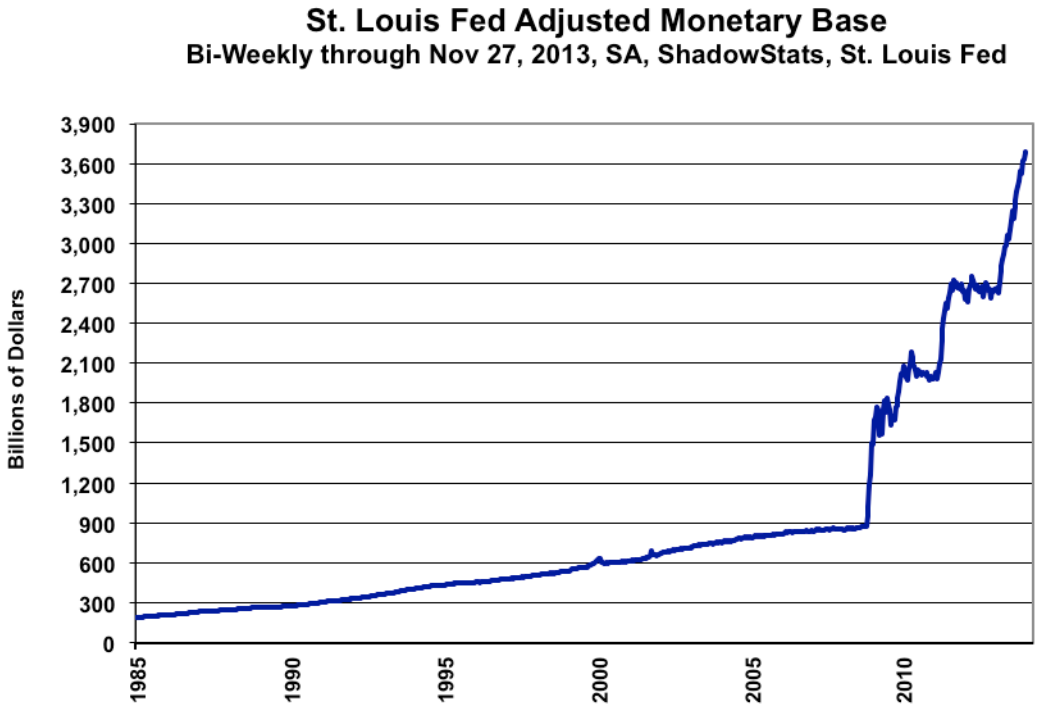
Annual Growth in November M3 Money Supply Likely Slowed to 4.0%, from 4.4% in October, with the Monetary Base Still Exploding. The ShadowStats-Ongoing-M3 Estimate for November 2013 year-to-year growth is on track to hit 4.0%, the same growth rate as seen at the recent cycle trough, and down from an unrevised 4.4% in October.

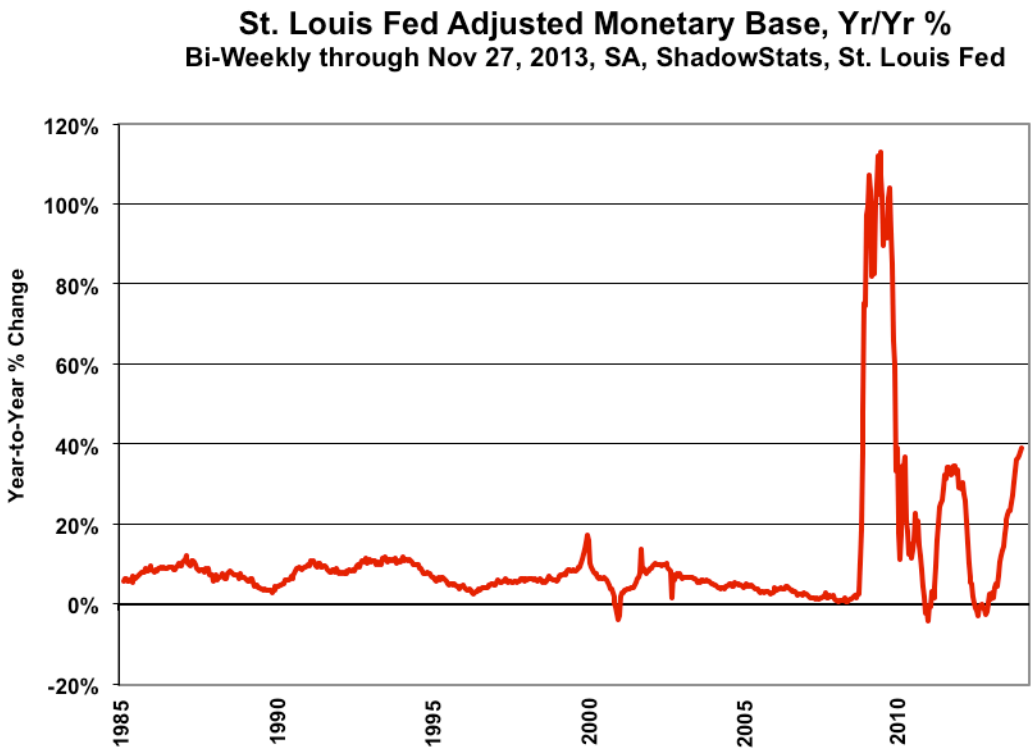
Annual M3 growth had weakened in recent months, down from a four-year high annual growth in January 2013 of 4.6%, easing to a near-term trough of 4.0% in August 2013, and then rebounding to 4.4% in October. January 2013 was the onset of expanded QE3 easing. The hard estimate for November growth will be published on the Alternate Data tab of www.shadowstats.com by Saturday, December 7th.

Where annual growth had been on the upswing into the expanded QE3, the continuing general pattern now of stagnant-to-falling annual growth, in an environment of continued rapid growth in the monetary base, remains a likely sign of mounting banking-system stresses. Any revisions in the following numbers are due to benchmark revisions of underlying data by the Federal Reserve.

The seasonally-adjusted, preliminary estimate of month-to-month change for November 2013 money supply M3 is for a likely contraction of 0.1%, versus an unrevised 0.6% gain in October. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

Initial Growth Estimates for November M1 and M2. For November 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 November is estimated to show year-to-year growth of roughly 6.0%, versus an unrevised 6.8% gain in October, with month-to-month change estimated at roughly a 0.2% contraction in November, versus an revised 1.2% gain in October. The early estimate of M1 for November is for year-to-year growth of roughly 8.4%, versus an unrevised 8.8% gain in October, with a month-to-month November contraction of 1.0%, versus an unrevised October gain of 2.3%.

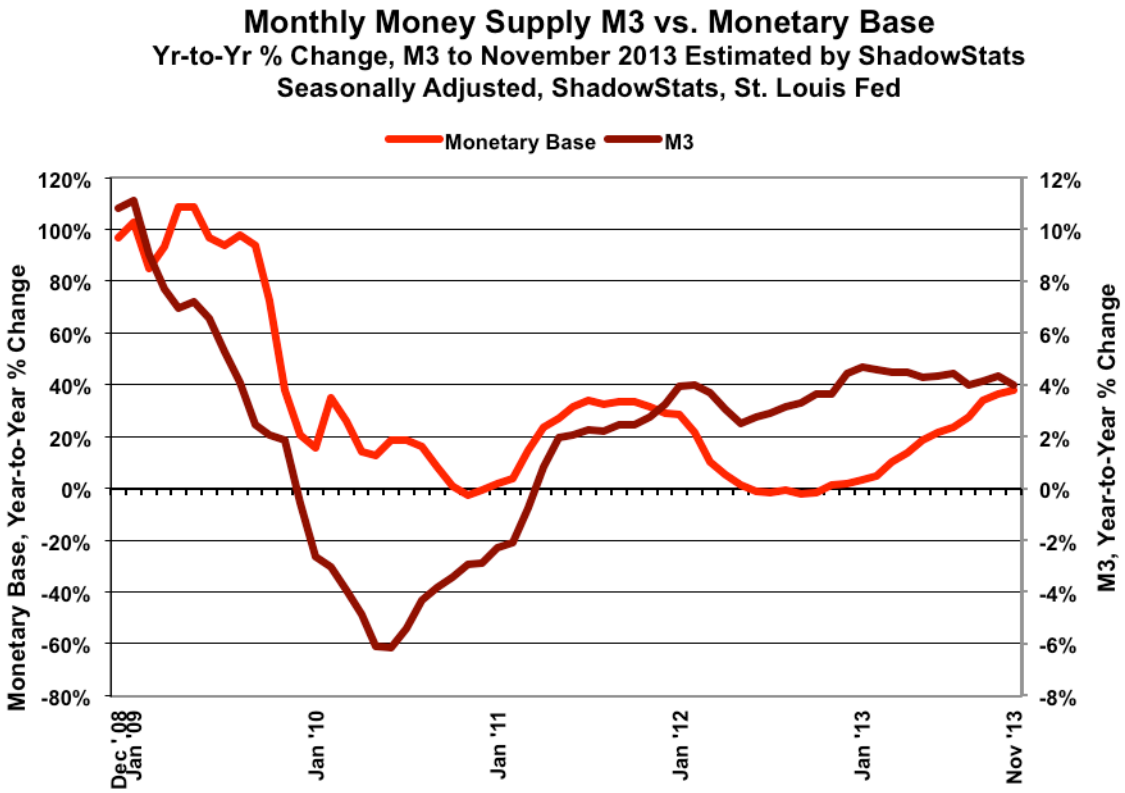




Annual Growth in Monetary Base Rising at Fastest Pace Since Fed First Addressed 2008 Panic. Mirroring the ongoing QE3 activity, the monetary base has continued in uncharted territory, both in terms of historical level, and in terms of year-to-year growth for the near-term cycle. As shown in the accompanying graphs, the monetary base (St. Louis Fed) was at a seasonally-adjusted (SA) two-week average level of $3,689.4 billion as of November 27th, an all-time high. The 39.2% pace of rising year-to-year growth, for the November 27th period, was at a new cycle high and at a level that has not been seen with rising growth since the Fed first began flooding the system with liquidity, during the 2008 panic. The fortnightly data are reflected in the preceding two graphs.

Monetary Base versus M3—"Tapering" in QE3 Still Remains Unlikely. The monetary base is currency in circulation (part of M1 money supply) plus bank reserves (not part of the money supply) (see a more-complete definition in the *Money Supply Special Report*). Traditionally, the Federal Reserve has used the monetary base to increase or decrease growth in the money supply, but that has not had its normal impact in the post-2008 crisis period.

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



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

The divergence between the patterns of annual growth in M3 and the monetary base resumed and continued to increase in November. A divergence is suggestive of still-intensifying liquidity stresses in the banking system.

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

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

Fed Monetization at 69% of Net Issuance of Federal Debt Held by Public. Since the implementation in January 2013 of the Federal Reserve's expanded quantitative easing QE3, the Fed has continued to buy U.S. Treasury securities at a pace suggestive of concerns that the U.S. government otherwise might have some trouble in selling its debt. From the beginning of 2013 through December 4th, the Fed's net purchases of Treasury securities have absorbed 69.1% of the coincident net issuance of publicly-held federal debt, and 63.7% of the issuance of total gross federal debt.

Summary Hyperinflation Outlook—Unchanged. The *Hyperinflation Outlook* of *Commentary No. 567* is repeated here without change. Detail on the pending publication of *Hyperinflation 2014—The End Game*, which will be a fully-updated and expanded version of *Hyperinflation 2012,* was discussed in the *Opening Comments* of *Commentary No. 577*.

This summary is intended as guidance for both new and existing subscribers, who are 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.

Recommended Background Material. *Commentary No. 559* (September 2013) and *No. 527: Special Commentary* (May 2013) supplemented *No. 485: Special Commentary* (November 2012), which reviewed 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 use here also are *No. 500: Special Commentary* on GAAP-based federal deficit reality and 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 or recent months, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, a fully-updated *Hyperinflation 2014—The End Game* is planned by the end of November, again, as discussed in *Commentary No. 567*.

Hyperinflation Timing, Set for 2019 Back in 2004, Advanced to 2014 in Aftermath of 2008 Panic. While the U.S. government has lived excessively beyond its means for decades, it was not until the December 2003 (federal government's 2004 fiscal year) enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 that the United States was set solidly on a course for eventual hyperinflation. Back in 2004, ShadowStats began forecasting a hyperinflation by 2019; that forecast was advanced to 2014 as a result of the nature of, and the official handling of the 2008 panic and near-collapse of the domestic financial system. The hyperinflation forecast for 2014 remains in place, with 90% odds estimated in favor of its occurrence.

The initial unfunded liabilities for the Medicare overhaul, alone, added nearly $8 trillion in net-present-value unfunded liabilities to the fiscal-2004 federal deficit, based on generally accepted accounting principles (GAAP accounting), exceeding the total $7.4 trillion gross federal debt of the time. When approached by ShadowStats as to how this circumstance likely would lead to an eventual domestic

hyperinflation, the response from a member of the Bush Administration was "that is too far into the future to worry about."

That future has come too quickly. Adjusted for one-time events, GAAP-based federal deficits have averaged $5 trillion per year for the last seven years, with government spending and financial commitments exploding out of control. As of fiscal-2012 the GAAP-based annual federal deficit was an uncontainable and uncontrollable $6.6 trillion, with gross federal debt at $16.2 trillion and total federal obligations (net present value) in excess of $85 trillion, more than five-times the level of annual GDP and deteriorating at an annual pace in excess of $6 trillion per year. Details can be found in *No. 500: Special Commentary*.

On a GAAP-basis, the United States faces long-range insolvency. The global financial markets know it, and so do the miscreants currently controlling the U.S. government. Yet, as just demonstrated in the crisis negotiations surrounding the federal-government shutdown and debt ceiling, there is no controlling, political will in Washington to address the long-term solvency issues. The still-festering budget crisis and recent negotiations reflect no more than the formal, continued posturing and political delay of the same issues and crisis that nearly collapsed the U.S. dollar in August and September of 2011, that then were pushed beyond the 2012 election, and then pushed again to the just-postponed negotiations of October 2013.

The chances of the United States actually not paying its obligations or interest are nil. Instead, typically a country which issues its debt in the currency it prints, simply prints the cash it needs, when it can no longer can raise adequate funds through what usually become confiscatory tax rates, and when it can no longer sucker the financial markets and its trading partners into funding its spending. That results in inflation, eventual full debasement of the currency, otherwise known as hyperinflation. The purchasing power of the current U.S. dollar will drop effectively to zero.

Therein lies the root of a brewing crisis for the U.S. dollar (all "dollar" references here are to the U.S. dollar unless otherwise specified). Global financial markets have wearied in the extreme of the political nonsense going on in Washington. No one really wants to hold dollars to or hold investments in dollar-denominated assets, such as U.S. Treasury securities.

Due to ongoing solvency issues within the U.S. banking system, that Federal Reserve is locked into a liquidity trap of flooding the system with liquidity, with no resulting surge in the money supply. Yet, the Fed's quantitative easings have damaged the dollar, which in turn has triggered sporadic inflation from the related boosting of oil prices. The overhang of dollars in the global markets—outside the formal U.S. money supply estimates—is well in excess of $10 trillion. As those funds are dumped in the global markets, the weakening dollar will trigger dumping of U.S. Treasury securities and general flight from the U.S. currency. As the Fed moves to stabilize the domestic financial system, the early stages of a currency-driven inflation will be overwhelmed by general flight from the dollar, and a resulting surge the domestic money supply. Intensifying the crisis, and likely coincident with heavy flight from the dollar, odds also are high of the loss of the dollar's global-reserve-currency status.

These circumstances can unfold at anytime, with little or no warning. Irrespective of short-lived gyrations, the dollar should face net, heavy selling pressure in the months ahead from a variety of factors, including, but certainly not limited to: (1) a lack of Fed reversal on QE3; (2) a lack of economic recovery and renewed downturn; (3) concerns of increased quantitative easing by the Fed; (4) inability/refusal of

those controlling the government to address the long-range sovereign-solvency issues of the United States; (5) declining confidence in, and mounting scandals involving the U.S. government.

It is the global flight from the dollar—which increasingly should become a domestic flight from the dollar—that should set the early stages of the domestic hyperinflation.

Approaching the End Game. As previously summarized, 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, but that appears to have been more of an intellectual exercise aimed at placating Fed critics, than it was an actual intent to "taper" QE3. The tapering or cessation of QE3 was contingent upon the U.S. economy performing in line with deliberately, overly-optimistic economic projections provided by the Fed.

Manipulated market reactions and verbal and physical interventions have been used to prop stocks and the dollar, and to pummel gold.

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 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.

This still-forming great financial tempest has cleared the horizon; its early ill winds are being felt with increasing force; 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 to have begun to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Again, the dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of 2014.

Still Living with the 2008 Crisis. Despite the happy news from headline GDP reporting that the recession ended in 2009 and the economy is full recovery, there never has been an actual recovery following the economic crash 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 showed no recovery whatsoever.

What followed the economic crash 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.

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 the government shutdown, the Fed had monetized in excess of 100% of the net issuance of U.S. Treasury debt, since the beginning of calendar-year 2013.

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 mounting global banking-system stress.

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 move sustainably against the U.S. dollar, a movement that may have begun. As discussed earlier, a dollar-selling panic is likely in the next several months, 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 (November 2013)

November Labor Data Generally Were Worthless. The reporting of headline November employment and unemployment details lacked significance. This has been an issue with other shutdown-affected data, such as various housing numbers. In such a circumstance, where reporting in a number of series has not been stable, there may be benefit to data users of just averaging October and November numbers that do not otherwise make much sense.

Consider the November labor data, particularly the household survey, which the Bureau of Labor Statistics (BLS) admitted was in error (see *Commentary No. 572*). As is standard BLS practice, the concurrent-seasonal-factor-adjustment process recalculated all the seasonal factors in October (including recalculating but not republishing the numbers for September, and before), and again recalculated all the seasonal factors in November (including recalculating, but not republishing the numbers for October, and before). In October, the process tried to normalize, or seasonally adjust, the impact of the government's shutdown. In November, the process tried to normalize, or seasonally adjust, the impact of the government's reopening. As a result, the data would have become terribly skewed and are about as

inconsistent they could become in regular processing.

PAYROLL SURVEY DETAIL. This morning's (December 6th) November payroll data were published in the context of an upside 8,000 jobs revision to the level of October's payrolls, an upside 12,000 jobs revision to September's level, continued heavily distorted seasonal factors (unadjusted October revised lower by 19,000), and reversal of the October government-shutdown effects, as discussed in the *Opening Comments*. Those factors considered, the BLS reported a seasonally-adjusted, month-to-month headline payroll employment gain of 203,000 for November 2013.

Net of prior-period revisions, that monthly gain would have been 211,000. Where the standard 95% confidence interval for the headline monthly change in payroll employment 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 October headline jobs gain was revised to 200,000 (previously 204,000), while the September headline monthly jobs gain was revised to 175,000 (previously 163,000, initially 148,000), which became non-comparable and inconsistent with previous August data, as of the November reporting.

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 September number no longer is consistent with August 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 September versus August was 167,000, instead of the official 175,000. The month-to-month reporting discrepancies go in both directions and often are greater than the September difference of 8,000, with monthly differential 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 Benchmark Revision. *[The benchmark revision discussion here was not revised from the* Commentary *covering the prior October labor data.]* As discussed in *Commentary No. 561*, of September 26th, the announced benchmark revision to the 2013 payroll survey would be tantamount to fraud, if the entire historical series is not otherwise revamped for a major redefinition of nonfarm payrolls. As standardly reported, the March 2013 benchmarking lowered the payroll levels of that time by 124,000 jobs, instead of the 345,000 "increase" reported, which included 469,000 new workers who were classified and defined previously as not counted in nonfarm payrolls.

Indeed, as it has been configured, the payroll employment level in the benchmark month of March 2013 was found to have been overstated by 124,000 jobs, requiring a downside revision to the series in that month, with adjustments back to March 2012, and with adjustments forward in time through the reporting of January 2014 payrolls (to be released in February 2014). In the later months of the revision cycle, the downside revisions to monthly levels likely would have topped 200,000.

In a turnaround, the announced benchmark revision was restated so as to be to the upside by 345,000, thanks to the inclusion of 469,000 in employment that previously had not been counted as part of the nonfarm payroll survey. Aside from excluding agricultural employment, the payroll survey had excluded those on household payrolls. Now 469,000 of the household payrolls have been moved into the payroll survey, into the education and healthcare industries, and there is no indication that the BLS plans to restate prior history so as to have a consistent historical series.

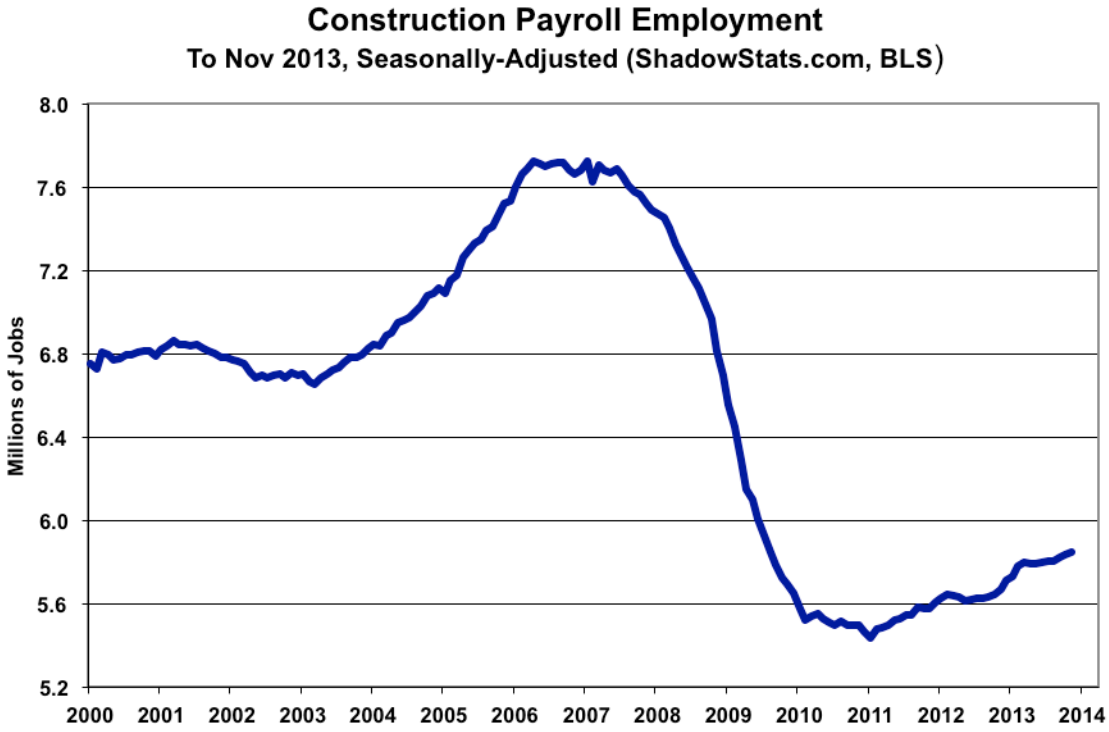
Further, this is an area that is not surveyed easily by the BLS on a monthly basis, so it becomes a new fudge-factor for re-jiggering the headline payroll numbers. As announced by the BLS:

"Each year, [payroll] employment estimates from the Current Employment Statistics (CES) survey are benchmarked to comprehensive counts of employment for the month of March. These counts are derived from State Unemployment Insurance (UI) tax records that nearly all employers are required to file. For National CES employment series, the annual benchmark revisions over the last 10 years have averaged plus or minus three-tenths of one percent of Total nonfarm employment. The preliminary estimate of the benchmark revision indicates an upward adjustment to March 2013 Total nonfarm employment of 345,000 (0.3 percent). This revision is impacted by a large non-economic code change [made by the BLS] in the Quarterly Census of Employment and Wages (QCEW) that moves approximately 469,000 in employment from Private households, which is out-of-scope for CES, to the Education and health care services industry, which is in scope. After accounting for this movement, the estimate of the revision to the over-the-year change in CES from March 2012 to March 2013 is a downward revision of 124,000."

Trend Model. As described generally in *Payroll Trends* and expanded in detail available from our affiliate www.ExpliStats.com, the trend indication from the BLS's concurrent seasonal-adjustment model is for a 170,000 monthly payroll gain in December 2013, based on November's reporting.

The trend indication often misses actual reporting. The indication for November was for a 168,000 monthly gain, which helped to contain market expectations, but the actual headline gain of 203,000 was higher. Nonetheless, the trend number usually becomes the basis for the consensus outlook.

Construction Payrolls. The following graph of construction employment updates the one accompanying the coverage of September and October construction spending in *Commentary No. 578*. Headline November 2013 construction employment rose by 17,000, following a 12,000 jobs gain in October. November construction employment remained 24.2% shy of the pre-recession peak in April 2006.

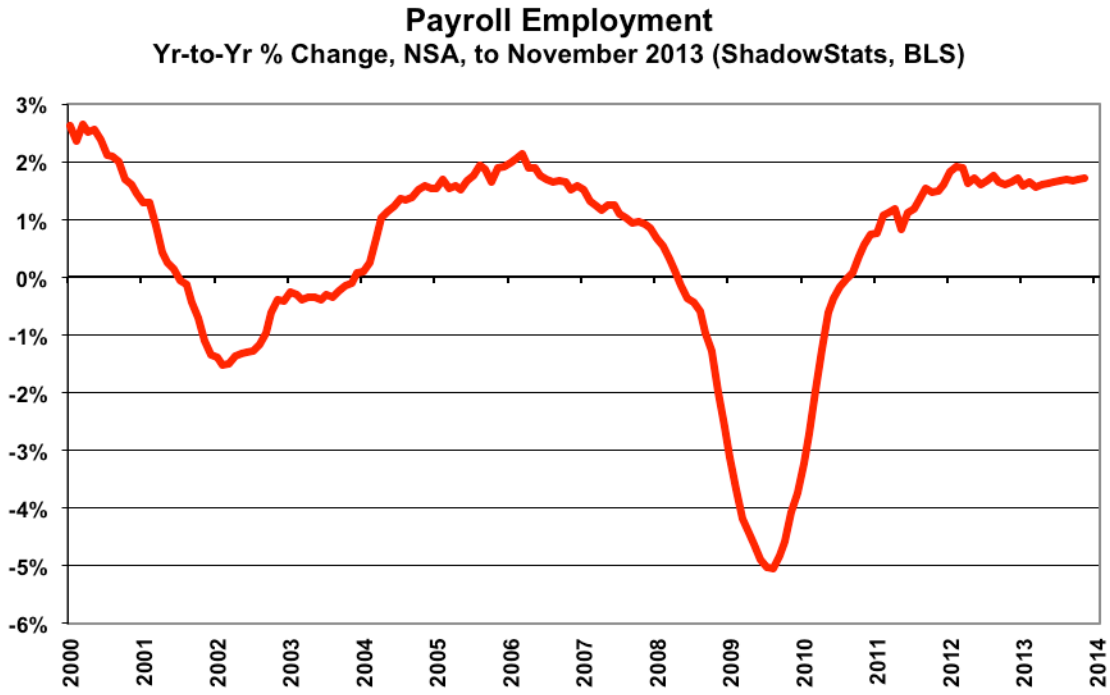


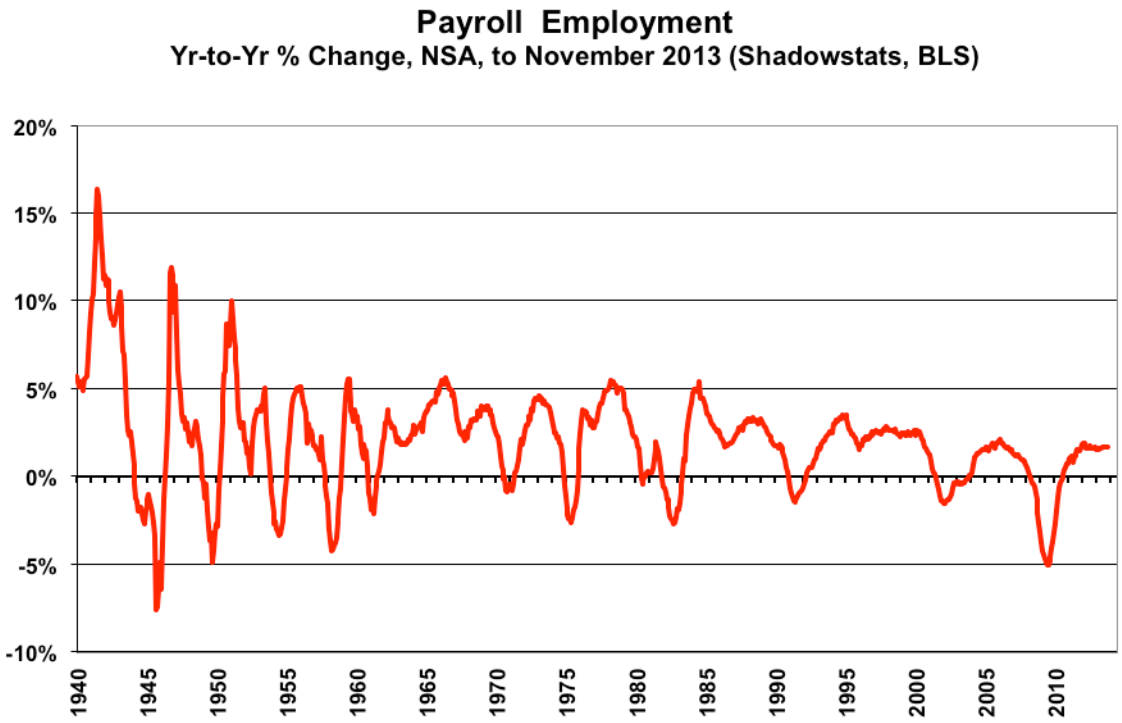
Annual Change in Payrolls. Not-seasonally-adjusted, year-to-year change is untouched by the concurrent seasonal adjustments, so the monthly comparisons of year-to-year change are reported on a consistent basis. For November 2013, the year-to-year percent gain in payrolls increased to 1.70%, from a revised 1.69% (previously 1.70%) in October, and a revised 1.67% (previously 1.66%) in September.

The following graphs of year-to-year unadjusted payroll change reflect near-term detail as well as seventy-plus years of history. Graphs of seasonally-adjusted payroll levels are found in the *Opening Comments*. Year-to-year change had shown a slowly rising trend in annual growth into 2011, which reflected protracted bottom-bouncing in the level of nonfarm payrolls. That pattern of annual growth flattened out in late-2011 and began a pattern of slowing-to-flat growth early in 2012, currently holding at about 1.7%.

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 November 2013 level of employment is shy by 1.3-million jobs, or 0.9% 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.


Payroll Employment
Yr-to-Yr % Change, NSA, to November 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
2014


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

Concurrent Seasonal Factor Distortions. Reflected in the accompanying graph, seasonal-factor instabilities continued in the latest payroll reporting. As discussed in the *Opening Comments*, the concurrent-seasonal-factor distortions likely were exacerbated in October and November, due to the effects of the government shutdown on the unadjusted data.

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 seasonal patterns of the headline numbers.

The BLS, however, uses the current estimate but does not publish the revised history, even though it calculates the consistent 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.

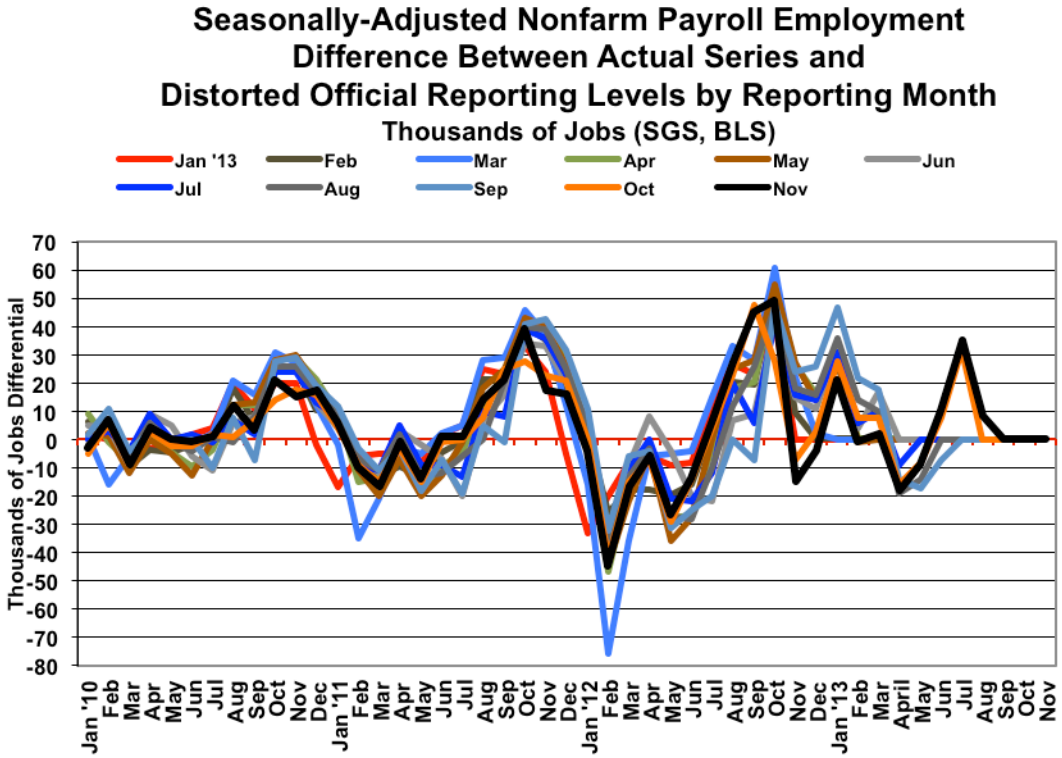
November Inconsistencies. For November 2013, as with October, other severe reporting issues warped headline unemployment and payroll reporting, as discussed in the *Opening Comments.* Otherwise, the headline unemployment rate was 7.0%, and the headline monthly payroll gain was 203,000 jobs. Yet, the headline November unemployment rate was neither consistent with nor comparable to the October unemployment rate of 7.3%. While the 203,000 jobs gain reported for November was consistent with the revised 200,000 jobs increase in October, on a concurrent-seasonally-adjusted basis, those increases were not consistent with the revised 175,000 jobs gain reported for September or with any earlier published data. The October number would have been consistent with a 167,000 jobs gain in September.

Unemployment Numbers Simply Are Not Comparable Month-to-Month. Except for the once-per-year December release of revisions to seasonally-adjusted data (pending with next month's reporting), 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, beyond other issues, the reported 0.3% decline in November U.3 unemployment, at 7.0%, versus 7.3% in October, 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. The system will be reset, again, with the March 2013 benchmark revision to be published in January 2014.

Distortions in the current 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 BLS actually ran the benchmark revision internally, 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 November, 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 or more, in either direction (based on last year's full revisions, and approached by this year's numbers) in earlier periods and insert them into the current period as new jobs, without there being any published evidence of that happening.

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

As discussed in other writings (see for example Hyperinflation 2012), seasonal-factor estimation for most economic series has been distorted severely by the extreme depth and duration of the economic contraction. These distortions are exacerbated for payroll employment data based on the BLS's monthly seasonal-factor re-estimations and lack of full reporting.

A further issue remains that the month-to-month seasonally-adjusted payroll data have become increasingly meaningless, with reporting errors likely now well beyond the official 95% confidence interval of +/- 129,000 jobs in the reported monthly payroll change. Yet, the media and the markets tout the data as meaningful, usually without question or qualification.

Birth-Death/Bias-Factor Adjustment. Despite the ongoing, general overstatement of monthly payroll employment, the BLS generally adds in upside monthly biases to the payroll employment numbers. The continual overstatement is evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 2012, excepted). As discussed in the *Benchmark Revision* section above, the announced standard benchmarking confirmed an overstatement of currently-defined payroll levels and growth as of March 2013. Without new gimmicks added to the process (again, see the *Benchmark Revision* section), current reporting would be running at a payroll level roughly 200,000 jobs lower, based on that benchmark

The upside-bias 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 such an actual 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.

November 2013 Bias. The not-seasonally-adjusted November 2013 bias was a monthly add-factor of minus 15,000, versus minus 36,000 in November 2012 and a positive 126,000 add-factor in October 2013. The aggregate upside bias for the trailing twelve months was upped to 638,000 in November, from 617,000 in October, or to a monthly average of roughly 53,000 jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS as part of the BDM, as discussed below.

Problems with the Model. The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net positive jobs creation by new companies versus those going out business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. Where the BLS cannot measure meaningfully the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), such information is estimated by the BLS along with the addition of a bias-factor generated by the BDM.

Positive assumptions—commonly built into government statistical reporting and modeling—tend to result in overstated official estimates of general economic growth. Along with happy guesstimates, there usually are underlying assumptions of perpetual economic growth in most models. Accordingly, the functioning and relevance of those models become impaired during periods of economic downturn, and the current downturn has been the most severe—in depth as well as duration—since the Great Depression.

Indeed, historically, the BDM biases have tended to overstate payroll employment levels—to understate employment declines—during recessions. There is a faulty underlying premise here that jobs created by start-up companies in this downturn have more than offset jobs lost by companies going out of business. So, if a company fails to report its payrolls because it has gone out of business (or has been devastated by

a hurricane), the BLS assumes the firm still has its previously-reported employees and adjusts those numbers for the trend in the company's industry.

Further, the presumed net additional "surplus" jobs created by start-up firms are added on to the payroll estimates each month as a special add-factor. These add-factors are set now to add an average of about 53,000 jobs per month in the current year. The aggregate overstatement of monthly jobs likely exceeds 100,000 jobs per month.

HOUSEHOLD SURVEY DETAILS. Where the BLS admitted mistakes in the preparation and reporting of the October 2013 household survey data, and where those numbers otherwise were heavily distorted by the effects of the October government shutdown (see *Commentary No. 572*), the November 2013 reporting is warped not only by a reversal of the October distortions, but also by related, extreme concurrent-seasonal-factor distortions. Mercifully, next month's December reporting will see the annual revision to the seasonally-adjusted household data, so that at least the historical monthly estimates will reflect consistent preparation. That circumstance, however, will be overthrown by the reporting for January 2014.

As discussed in the *Concurrent Seasonal Factor Distortions*, the seasonally-adjusted or headline November 2013 household-survey data otherwise were inconsistent with October 2013 and earlier 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.

CAUTION, OCTOBER AND NOVEMBER 2013 HOUSEHOLD-SURVEY DETAILS ARE DISTORTED HEAVILY—BUT REPORTED HERE AS PUBLISHED BY THE BLS

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, November 2013 employment rose by 818,000, after October employment fell by 735,000; September employment rose by 133,000 and fell by 115,000 in August. These numbers, however, are heavily distorted by the impact of the government shutdown and are not corrected for the unpublished and currently unknowable in-house BLS seasonal-adjustment revisions.

Headline Unemployment Rates. Headline unemployment (U.3) fell to 7.0% (7.02% at the second decimal point) in November, after rising to 7.3% (7.28%) in October, from 7.2% (7.24%) in September, and versus 7.3% (7.28%) in August. Aside from government-shutdown-related fluctuations, the November number and earlier data simply were not comparable with each other.

Beyond the other reporting issues, when the seasonally-adjusted November 2013 unemployment data were calculated, consistent, new seasonal factors also were recalculated for October 2013 and prior months. Based on the new November-based seasonal factors, there is a revised October unemployment rate that is consistent with November'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 October. A special consideration here is that the seasonal factors recalculated in October and in November will have been on the basis of normalizing or seasonally-adjusting the impact of the government's shutdown and subsequent reopening.

A normal pattern of inconsistent reporting is repeated every month, except in December (next month in this current cycle), 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 0.28% month-to-month decline in the October U.3 employment rate could have been an increase, unchanged, or a decline, but no one other than the BLS knows for sure. Given the magnitude of the underreported government-shutdown effects, however, the magnitude of the monthly drop in the official U.3 rate was statistically significant, for once, based on standard, official error estimates. Yet, the BLS admitted to a larger monthly error with the previous reporting in October. The official 95% confidence interval is +/- 0.23 percentage-point around the monthly headline change in the U.3 number, but that otherwise is meaningless in the context of the comparative month-to-month reporting inconsistencies already discussed.

On an unadjusted basis, however, the unemployment rates are not revised and are consistent in at least reporting methodology (although still distorted by the shutdown effects); they are not adjusted for regular seasonal variations. November's unadjusted U.3 unemployment rate was 6.6%, versus 7.0% in October and 7.0% in September.

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).

With a seasonally-adjusted decline in people working part-time for economic reasons and a drop in short-term (unadjusted) discouraged workers, on top of the decline in headline U.3 unemployment, the headline November 2013 U.6-unemployment dropped to 13.2%, from 13.8% in October, and 13.6% in September. Again, though, these monthly seasonally-adjusted BLS guesstimates are not comparable, and they are particularly unstable and unreliable as of the October and November 2013 reporting. The unadjusted November U.6 rate declined to 12.7%, from 13.2% in October, and 13.1% in September.

Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) was 762,000 in November 2013, down from 815,000 in October, likely reflecting an increased rollover of short-term discouraged workers to the long-term discouraged. The November and October readings were against 852,000 in September, 866,000 in August, 988,000 in July 2013, 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. A similar break in consistency will take place with the release of the January 2014 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 be a relatively heavy, continuing rollover from the short-term to the long-term category.

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—eased to 23.2%, off the series high of 23.5% (back to 1994) in October, and versus 23.3% in September. 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 (in *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.

Two new graphs also are shown in the *Opening Comments*, one of the ShadowStats measure, with an inverted scale, the other of the employment-to-population ratio, which has a high correlation with the ShadowStats measure.

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 Likely in the Months Ahead. The markets generally remain overly optimistic as to the economic outlook, although expectations have softened during the last year. That circumstance, and underlying fundamentals that remain highly 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. Data distortions resulting from the October government shutdown increase the risk for unusual reporting and revisions in most federal-government and related series. *[Other than for the new pending-reporting detail, the* Week Ahead *section is unchanged from the prior* Commentary.*]*

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors will be turning negative by year end, and were not positive enough in October to offset declines in unadjusted energy prices in the CPI or the PPI. That said, 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 the *Summary 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.

PENDING RELEASE:

Retail Sales (November 2013). The November 2013 retail sales estimate is scheduled for release on Thursday, December 12th, by the Census Bureau. With the consumer still in an extreme liquidity bind (see comments and link at the end of the *Opening Comments* section), once again, odds favor headline retail sales reporting coming in below market expectations, which appear to be for moderate growth. An outright month-to-month sales contraction is a fair possibility for this first month of the holiday-shopping season, even before adjustment for consumer inflation**.**

