

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

**COMMENTARY NUMBER 598**

**January Employment, Unemployment and Employment Benchmark Revision, M3**

**February 8, 2014**

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**As With December, January's Small Headline Jobs Gain  
Was Statistically Insignificant**

**Annual Upside Bias in the Birth-Death Model Increased by 140,000,  
Despite Last Year's 119,000 Overstatement of Jobs Growth**

**Spurious Revisions Used to Spike Payroll Employment Levels**

**Renewed Concurrent Seasonal Adjustments and New Population Controls  
Make Comparisons of Monthly Unemployment Detail Meaningless**

**January Unemployment: 6.6% (U.3), 12.7% (U.6), 23.2% (ShadowStats)**

**Year-to-Year M3 Growth Slowed to 3.0% in January**

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*PLEASE NOTE: The next regular Commentary is scheduled for Thursday, February 13th, covering January retail sales, followed by one on February 14th, covering January industrial production. At such time as final detail on the payroll employment benchmark revision is made available by the Bureau of Labor Statistics, an update to today's Commentary No. 598 will be published.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**If the Economy Will Not Grow, Just Redefine It.** The U.S. economy continues to stagnate or turn down anew, as part of the deepest and longest economic downturn seen since the Great Depression. With actual business activity moribund, the U.S. government once again has turned to redefining a major economic series so as to help boost reported activity. That happened to the gross domestic product (GDP) in the July 2013 “comprehensive” revision to the series (see [Commentary No. 546](#)), and it happened again on February 7th, with the annual “benchmark” revision to the payroll employment series.

The payroll survey was redefined with the result of spiking recent, reported payroll-employment activity, and correspondingly masking a pending downside revision to regular payroll growth. In the year-ended March 2013, the Bureau of Labor Statistics (BLS) actually had overstated payroll growth by 119,000 jobs. Even with the artificial upside revisions to the payroll survey, employment still has not regained its pre-recession high, and the most-recent headline numbers have been weak. The monthly employment gain in January 2014 was small enough to be statistically insignificant. That was the second such month in a row, where reported month-to-month change in payrolls could have been unchanged, or even in contraction, given the 95% confidence interval around the reporting of headline employment change.

Separately, certain benchmark revision modeling detail—scheduled for release on February 7th—has yet to be made available by the BLS. A supplement to this *Commentary* will be published when the final detail is available.

Headline declines in U.3 unemployment from 6.7% in December to 6.6% in January, and in U.6 unemployment from 13.1% to 12.7%, appeared to be primarily from distorted seasonal adjustments. Weaker-than-usual hiring in the holiday season—amidst government shutdown distortions in data gathering and reporting—was followed by related lower-than-usual layoffs. The reduced layoffs, in turn, were translated into good news by flawed concurrent-seasonal-factor adjustments. Not-seasonally-adjusted, U.3 rose from 6.5% in December to 7.5% in January, and U.6 rose from 13.0% to 13.5%.

On the monetary front, the January 2014 detail on M3 growth is reported in the *Hyperinflation Watch* section. Annual change slowed to 3.0% in January, from 3.2% in December.

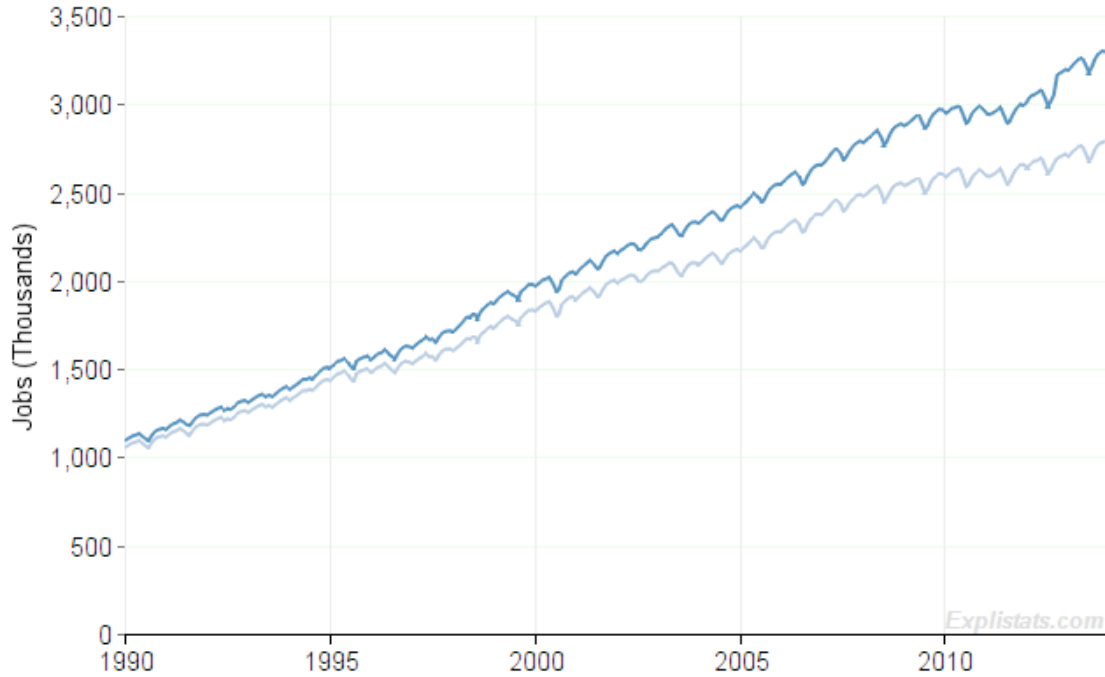
**2013 Payroll Employment Benchmark Revisions.** The annual BLS “survey error,” benchmarked to March 2013, was a 119,000 overstatement of nonfarm payrolls. An offsetting downside revision to payroll employment levels should have been the standard benchmark revision published yesterday, February 7th, but it was masked by a redefinition of the payroll series. The downside revision became an upside revision of 347,000 jobs, thanks to the addition of 466,000 jobs created by “reclassification.”

Aside from excluding agricultural employment, the payroll employment survey traditionally had excluded those on household payrolls. Now 466,000 of those on household payrolls have been moved or reclassified into the “social assistance” area, specifically for “services for the elderly and persons with disabilities.” This is an area that is not surveyed easily by the BLS on a monthly basis, so it also has become a new fudge-factor for re-jiggering the headline payroll numbers.

### Payroll Survey Revision, Jan. 2014 - Social Assistance.

Not Seasonally Adjusted. Source: BLS

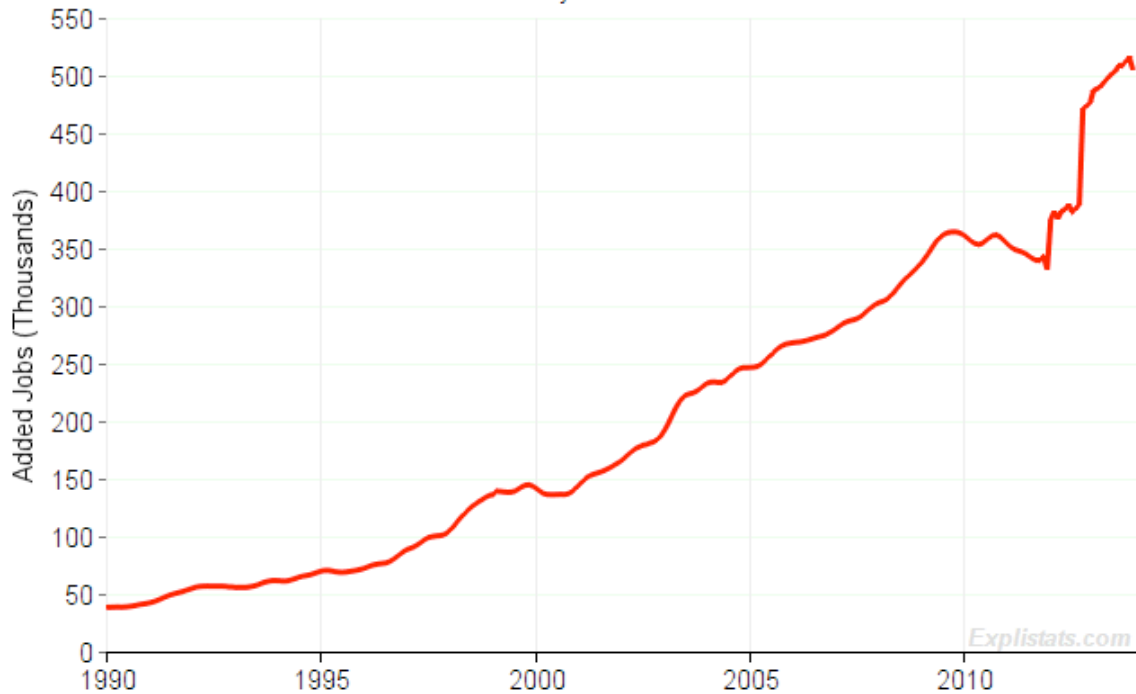
— Jan 2014 Benchmark — Dec 2013 Release



### Payroll Survey Revision, Jan. 2014 - Social Assistance.

Not Seasonally Adjusted. Source: BLS

— Jobs added by Benchmark Revision

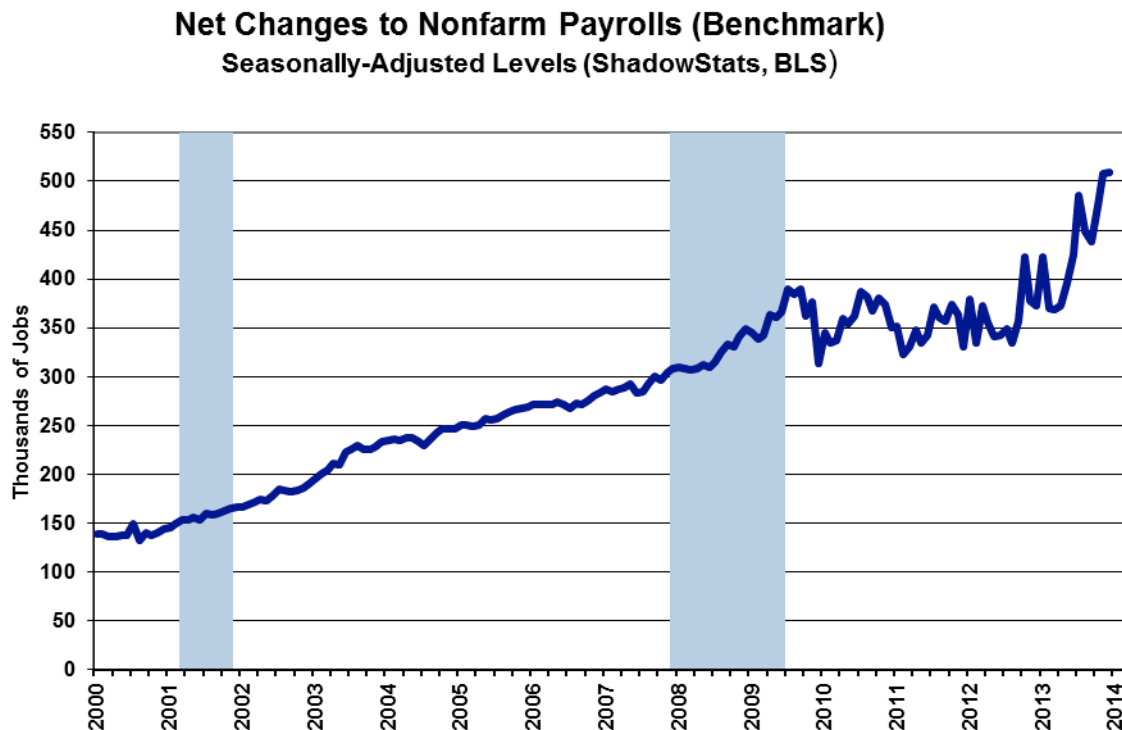


The “new jobs,” and the related series that has been expanded by the BLS ledgerdomain, are shown in the two preceding graphs. The first plot shows the unadjusted level of payrolls in “social assistance” for both the December 2013 and benchmarked-January 2014 reporting, with the difference between the two series—the net upside revision between December and January—plotted in the second graph.

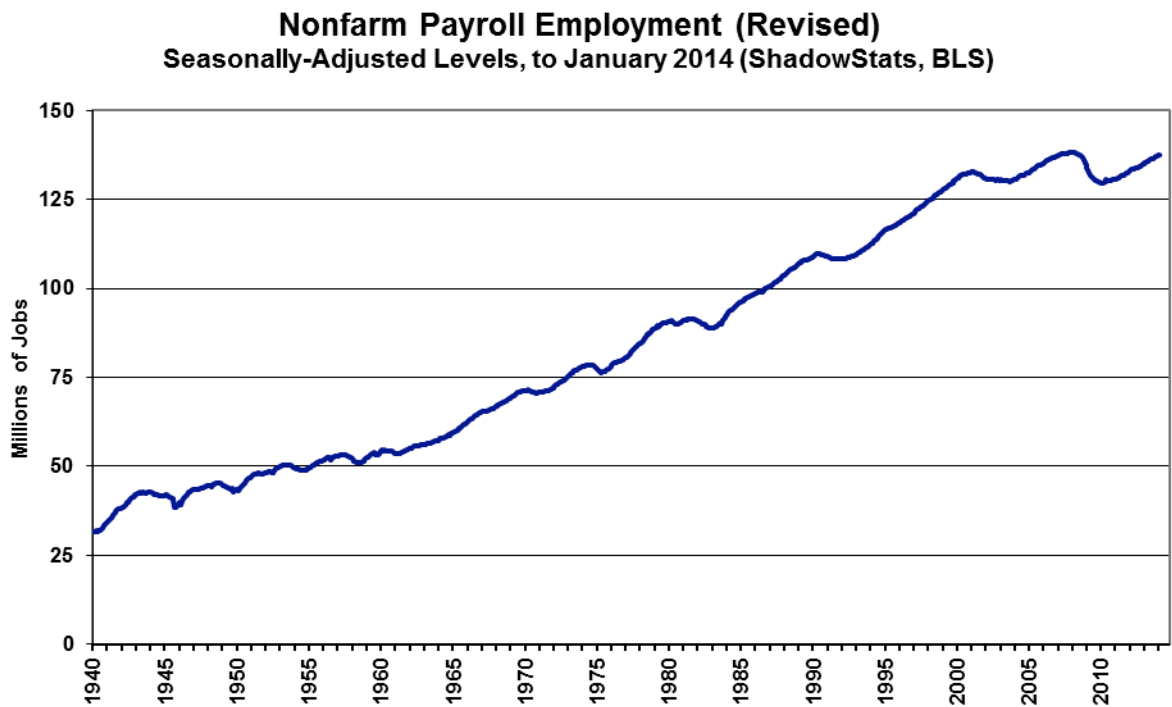
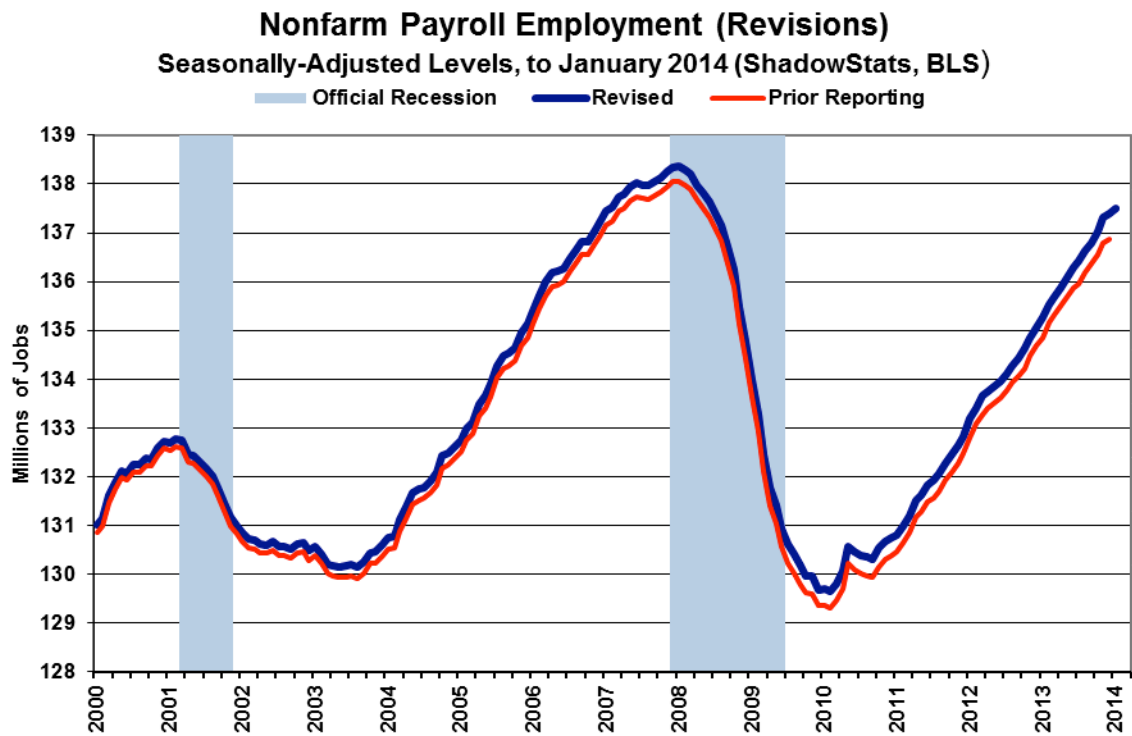
Where the social-assistance series does not appear to be particularly stable, the 2012-2013 spike sure helped to turn around what otherwise would have been a downside revision to payrolls, particularly with upside growth in the added series accelerating in recent reporting. It is hard to believe that home care for the elderly and disabled provided no jobs before 1980 (see below). Frankly, this unusual reclassification looks like a gimmick to provide an artificial boost to otherwise troubled nonfarm payrolls. It also appears to have had the effect of damaging the historical integrity of the payroll series.

These two graphs are courtesy of ShadowStats affiliate [www.ExpliStats.com](http://www.ExpliStats.com). New detail will be available in the ShadowStats supplement, and at ExpliStats, when the full BLS modeling detail becomes available.

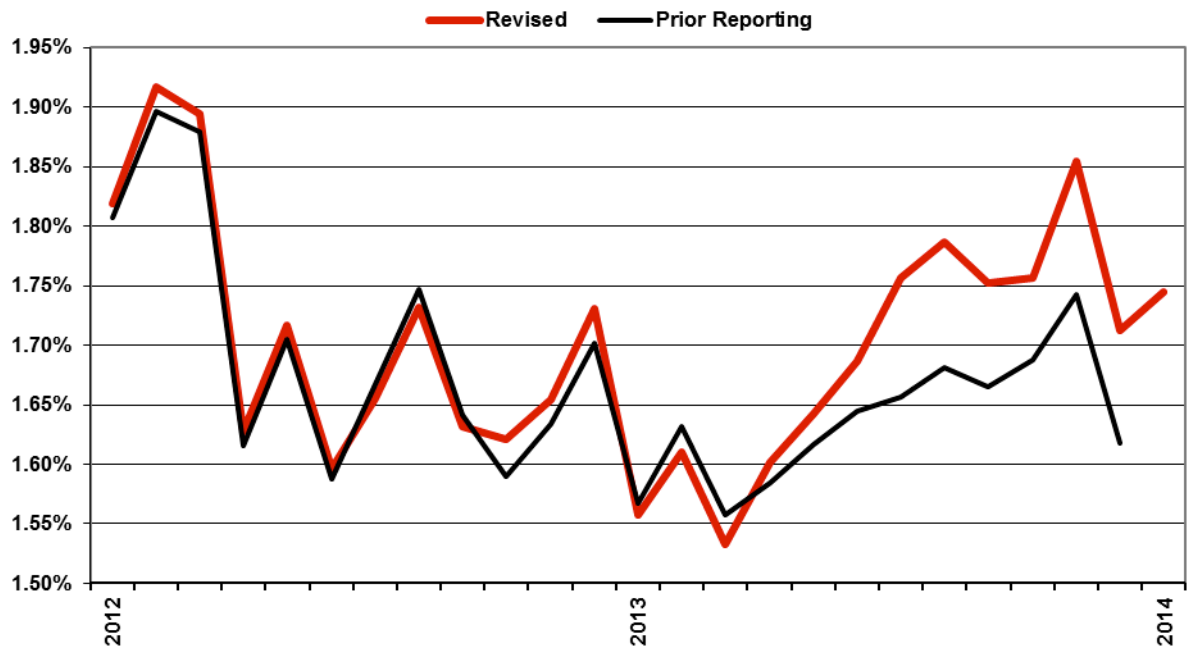
The next graph shows the net change in the seasonally-adjusted nonfarm payrolls from the December 2013 to the benchmarked-January 2014 reporting, reflecting all factors. The traditional corrective benchmarking encompassed the period of March 2012-to-date. Revised seasonal factors are seen in the period of January 2009-to-date, while new social-assistance jobs boom is reported from 1980 to date.



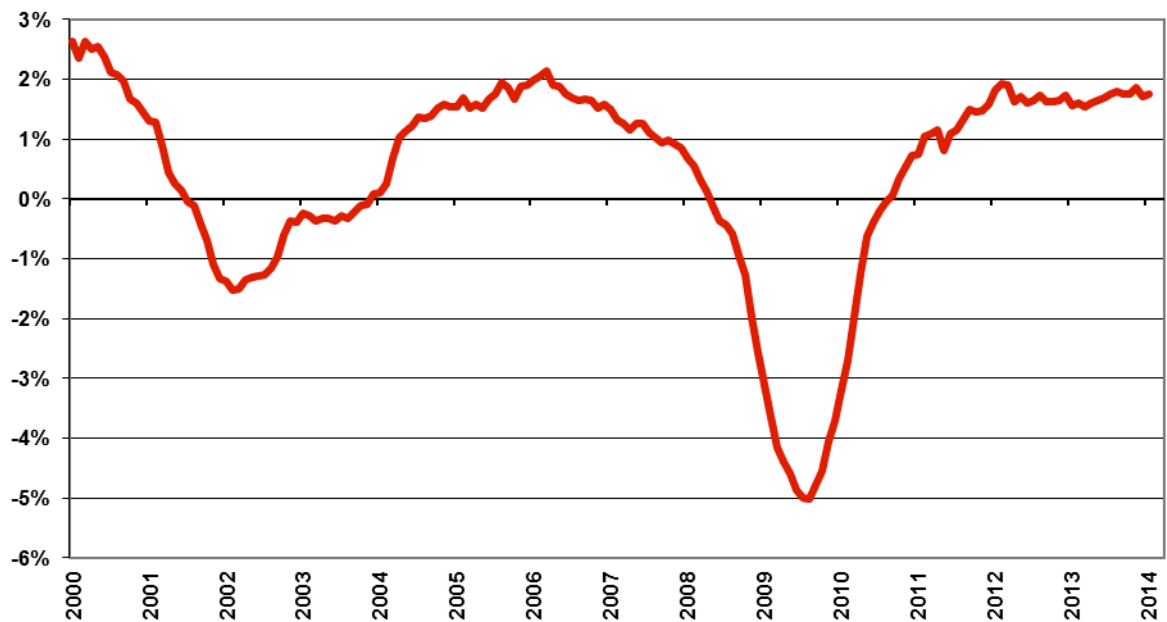
The next two series of graphs reflect the revised and previously-reported levels of, and year-to-year changes in, payroll employment. The graphs show both short- and long-term detail. Again, note the recent happy growth spike generated by the additions to the social-assistance area.



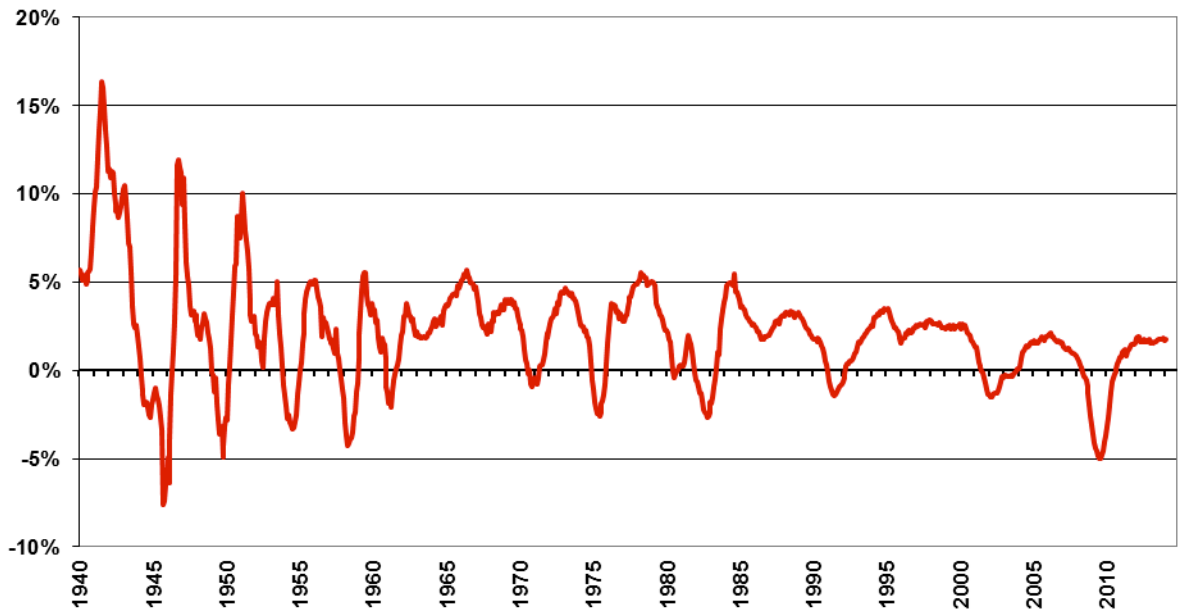
**Payroll Employment (Revisions)**  
Yr-to-Yr % Change, Not Seasonally Adjusted (ShadowStats, BLS)



**Payroll Employment (Revised)**  
Yr-to-Yr % Change, NSA, to January 2014 (ShadowStats, BLS)



**Payroll Employment (Revised)**  
Yr-to-Yr % Change, NSA, to January 2014 (Shadowstats, BLS)



**Employment and Unemployment, Standard Reporting for January 2014.** The U.S. economy continued to falter in January 2014, with payroll employment—within the scope of the 95% confidence interval around the headline monthly jobs change—effectively unchanged for a second month. As discussed in the previous section, the traditional benchmark-revision details showed weaker than previously-reported jobs growth for 2013, but that reality was masked by a gimmicked redefinition of the payroll series. Separately, despite the annual overestimation of jobs growth by the BLS, the annual upside bias added into the birth-death model was revised higher in the latest accounting, by 140,000 to 764,000, not lower as would have been expected. Ongoing, annual overstatement of headline payroll employment growth easily tops 1.2 million, discussed in the *Birth-Death/Bias-Factor Adjustment* section of *Reporting Detail*.

The January 2014 household survey was of unusually-poor quality, in terms of month-to-month comparisons, with all the regular month-to-month inconsistencies inherent in the concurrent-seasonal-factor adjustment process resuming in January, and with BLS changes in population controls otherwise rendering December 2013 and January 2014 household detail not comparable on a month-to-month basis.

The purported declines in headline U.3 unemployment from 6.7% in December to 6.6% in January, and in headline U.6 unemployment from 13.1% in December to 12.7% in January, appear to have reflected little more than horrendous quality in terms of seasonal adjustments. Unadjusted, U.3 increased from 6.5% in December to 7.0% in January, while U.6 increased from 13.0% to 13.5%. What appears to have happened is that holiday-season hiring was not as strong as had been estimated, and the resulting,

relatively lower layoffs in January were transformed into good news by the seriously-flawed BLS concurrent-seasonal-adjustment process.

**Headline Unemployment Data.** Skewed by ongoing issues with seasonal adjustments, headline unemployment (U.3) fell to 6.58% in January 2014, versus 6.68% in December, technically a statistically-insignificant decline.

On an unadjusted basis, the unemployment rates are not revised and are consistent in reporting methodology. January's unadjusted U.3 unemployment rate rose to 7.0%, from 6.5% in December.

**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).

A seasonally-adjusted and otherwise meaningless month-to-month decline in people working part-time for economic reasons, and in short-term (unadjusted) discouraged workers, exacerbated the impact of the decline in headline U.3 unemployment, with the headline January 2014 U.6 unemployment at 12.7%, which was not comparable with the 13.1% in December 2013. The unadjusted January U.6 rate rose to 13.5%, from 13.0% in December.

**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% in January 2014, from 23.3% in December 2013. The ShadowStats estimate reflects the increasing toll of unemployed leaving the headline labor force.

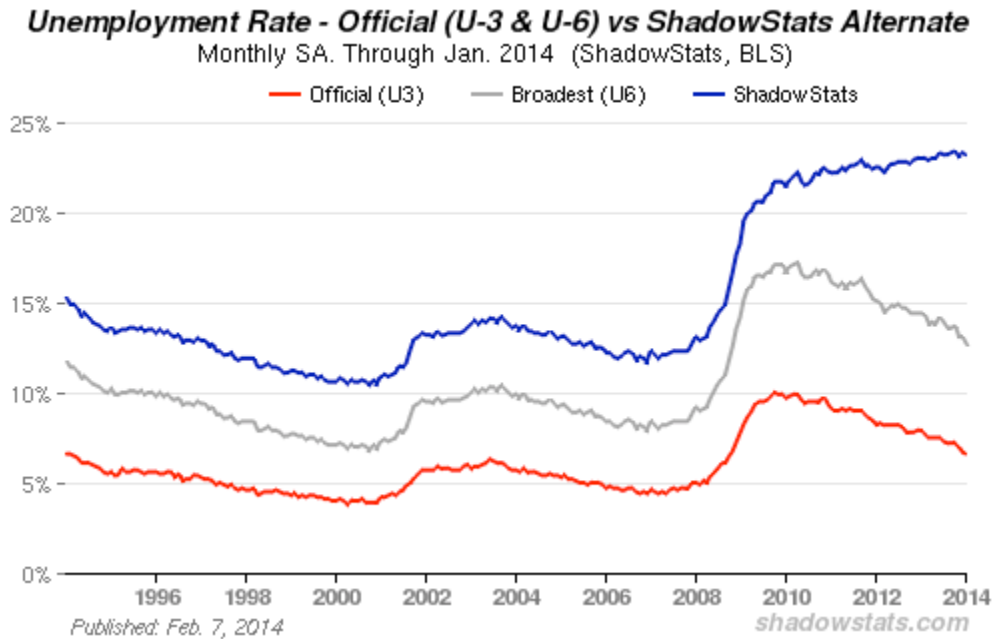
**Discouraged Workers.** The count of short-term discouraged workers (never seasonally-adjusted) was 837,000 in January 2014, not comparable with the 917,000 reported in December 2013. The discouraged worker count continues to reflect an increased rollover of short-term discouraged workers into the long-term discouraged workers category.

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. 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 January 2014 U.3 unemployment at 6.6%, down from 6.7% in December; headline U.6 unemployment at 12.7% in January 2014, versus 13.1% in December; and the

headline ShadowStats unemployment measure at 23.2% in January 2014, versus 23.3% in December. The October 2013 ShadowStats reading of 23.4% was the series high (since 1994).

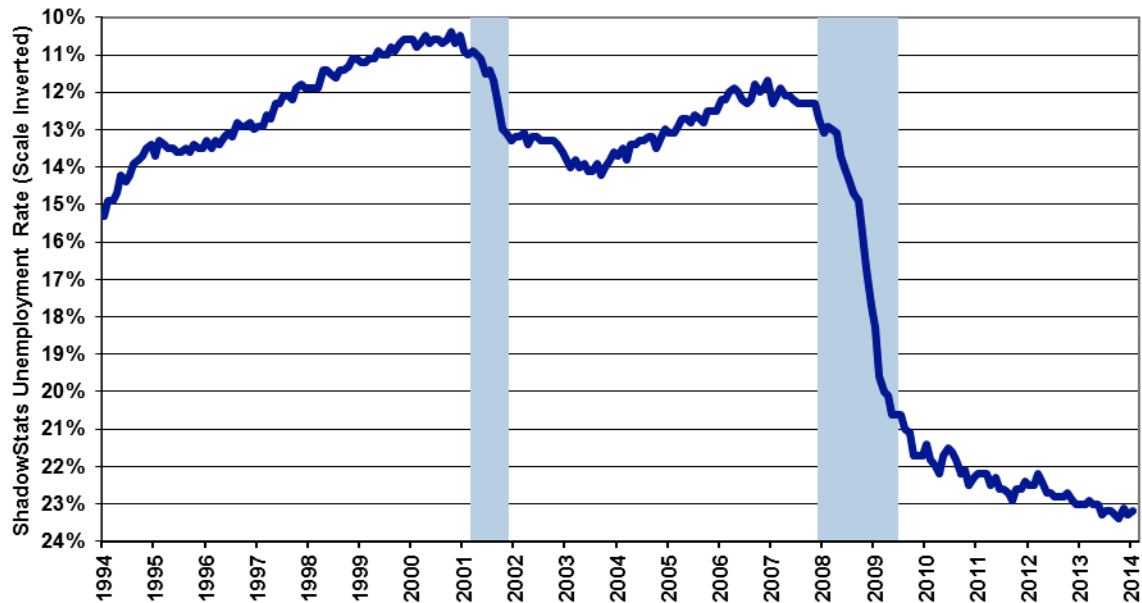


Two graphs follow the traditional plot of the three mentioned unemployment rates. The first graph is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic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

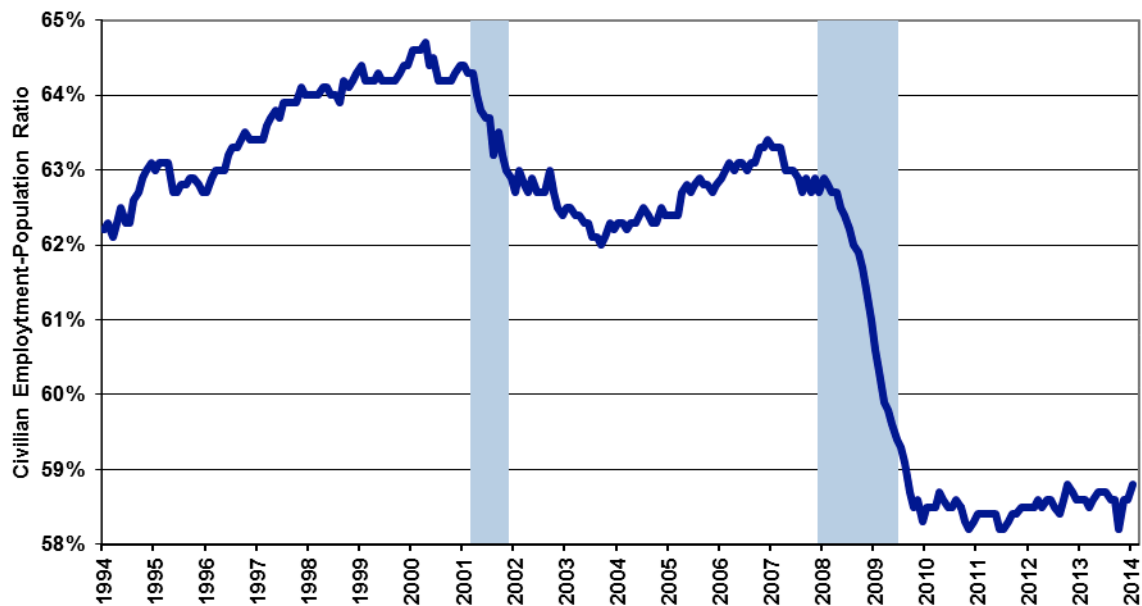
The inverted-scale ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which is plotted in the second graph following. Discouraged workers are not counted in the headline labor force, which continues to shrink. The labor force containing all unemployed (including 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 reflect detail back to the 1994 redefinitions of the household survey. Before 1994, data consistent with today's reporting are not available.

**ShadowStats Alternate Unemployment Rate (Inverted Scale)**  
Long-Term Discouraged Workers Included (BLS Excluded Since 1994)  
To January 2014, Seasonally-Adjusted (ShadowStats, BLS)



**Civilian Employment-Population Ratio**  
To January 2014, Seasonally-Adjusted (ShadowStats, BLS)



**Headline Payroll Employment.** In the context of the benchmark revisions (detailed in the previous section), the seasonally-adjusted, month-to-month headline payroll employment gain for January was a statistically-insignificant 113,000 and well below market consensus, for a second straight month. In turn, December payrolls rose by a revised 75,000 versus November, which in turn was up by a revised 274,000 versus October, but the November gain became non-comparable and inconsistent with the October data, as of the January reporting.

Where the benchmarking detail needed for calculating the latest, actual concurrent-seasonally-adjusted payroll data by month had been scheduled for release on February 7th, it has not been made available, yet. When ShadowStats is able to estimate the consistent, actual revised (but not published) month-to-month gain for November versus October, that will be addressed a supplemental *Commentary*, as discussed in the *Concurrent Seasonal Factors Distortions, Reporting Detail* section.

**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. That said, the redefinition of the series—not the standard benchmarking process—boosted reported annual growth in the last year, as discussed and graphed in the benchmark in the previous section. For January 2014, annual growth was 1.74%, versus a redefined 1.71% (1.62% pre-redefinition) in December, and a redefined 1.85% (1.74% pre-redefinition) in November.

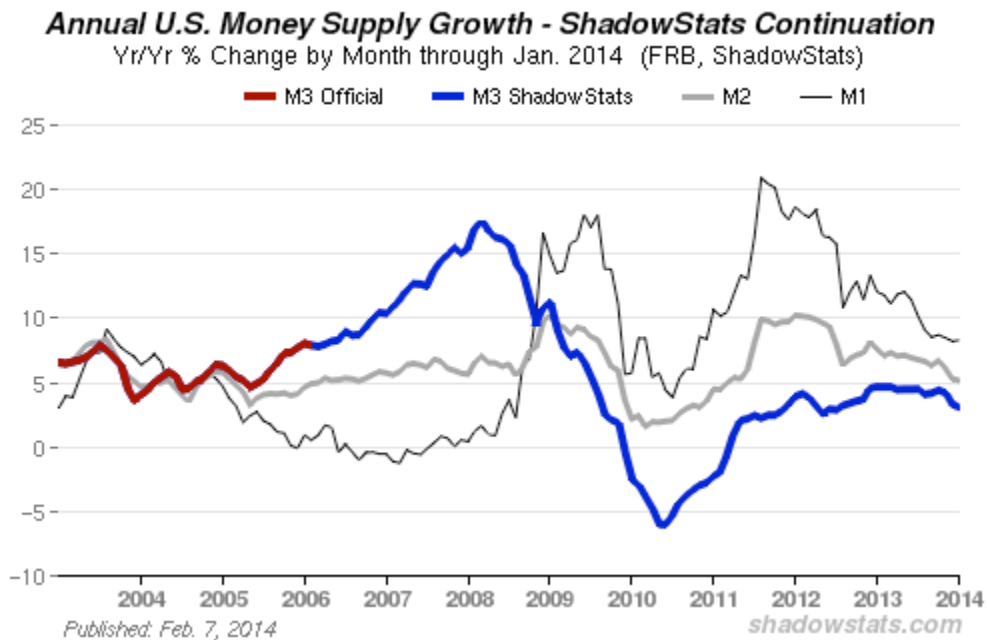
Still, even with the annual growth in the series since mid-2010 and the upside redefinition of payroll employment in the benchmark revision, the January 2014 level of employment still is shy by 0.9-million jobs, or 0.6% in official reporting, from recovering its pre-recession high.

**Graphs.** Graphs of the redefined year-to-year unadjusted payroll changes, as well as the redefined payroll-employment levels are found in the *Payroll Benchmark Revision* section. The lack of full economic recovery is evident in the shorter-term graph of payroll employment level, while, in perspective, the longer-term graph of employment shows the extreme duration of the non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

***[For greater detail on the January 2014 employment and unemployment data, see the Reporting Detail section.]***

## HYPERINFLATION WATCH

**Annual Growth in January M3 Money Supply Slowed to 3.0%, from 3.2% in December.** As suggested in the money-supply and monetary-base discussion in [Commentary No. 595](#), year-to-year growth in the ShadowStats-Ongoing-M3 Estimate for January 2014 eased to 3.0%, down from the benchmark revised 3.2% annual growth in December 2013 and is at its lowest level of growth since July 2012. The January 2014 reading is well off its recent near-term peak in growth of 4.6%, seen in January 2013, at the onset of the expansion of QE3 into purchasing U.S. Treasury securities. The M3 detail is posted on the [Alternate Data](#) tab of [www.shadowstats.com](http://www.shadowstats.com).



As discussed and graphed in [Commentary No. 595](#) and the recently-released [Hyperinflation 2014—The End Game Begins](#) (page 36), where annual M3 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 upturn in the monetary base, remains a likely signal of mounting banking-system stresses.

Any revisions in the following numbers are due to the benchmark revisions of underlying data by the Federal Reserve. The seasonally-adjusted, preliminary estimate of month-to-month change for January 2014 money supply M3 is for a gain of 0.3%, versus a 0.2% gain in December. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

**Initial Growth Estimates for January M1 and M2.** For January 2014, 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 January 2014 is estimated to have shown year-to-year growth of roughly 5.2%, versus 5.3% in December, with month-to-month change estimated at roughly a 0.2% gain in January, versus a 0.5% gain in December. The early estimate of M1 for January is for year-to-year growth of roughly 8.3%, versus an 8.2% gain in December, with a month-to-month January gain of 0.8%, versus a 1.4% increase in December.

**Hyperinflation Outlook.** With the *First Installment* of [Hyperinflation 2014—The End Game Begins](#) published on January 7th, a new *Hyperinflation Summary* for this section will be added shortly. The publication of the *Second Installment*, which covers historical and prospective economic activity, as well as possible protective and preventative actions and reactions at both a personal and federal level, versus the unfolding circumstance, should be published in the week of February 17th or 24th, as discussed in the *Opening Comments* of [Commentary No. 597](#). The new material in the *Second Installment* will supplement and update the basic material already available to ShadowStats readers in Chapters 4, 5 and 9 of [Hyperinflation 2012](#).

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## REPORTING DETAIL

### EMPLOYMENT AND UNEMPLOYMENT (January 2014)

The U.S. economy continued to falter in January 2014, with payroll employment—within the scope of the 95% confidence interval around the headline monthly jobs change—effectively unchanged for a second month. As discussed in the *Opening Comments*, the traditional benchmark-revision details showed weaker than previously-reported jobs growth for 2013, but that reality was masked by a gimmicked redefinition of the payroll series. Separately, despite the annual overestimation of jobs growth by the Bureau of Labor Statistics (BLS), the annual upside bias added into the birth-death model was revised higher in the latest accounting, by 140,000 to 764,000, not lower as would have been expected. Annual overstatement of headline payroll employment growth easily tops 1.2 million, discussed in the *Birth-Death/Bias-Factor Adjustment* section.

The January 2014 household survey was of unusually-poor quality in terms of month-to-month comparisons, with all the regular month-to-month inconsistencies inherent in the concurrent-seasonal-adjustment process resuming in January, and with BLS changes in population controls rendering December 2013 and January 2014 household detail not comparable on a month-to-month basis.

The purported declines in headline U.3 unemployment from 6.7% in December to 6.6% in January, and in headline U.6 unemployment from 13.1% in December to 12.7% in January, appear to have reflected little more than extraordinarily-poor quality in terms of seasonal adjustments. Unadjusted, U.3 increased from 6.5% in December to 7.0% in January, while U.6 increased from 13.0% to 13.5%. What appears to have happened is that holiday-season hiring was not as strong as had been estimated (possibly affected by government-shutdown impact on data gathering and reporting), and a resulting, relatively lower pace of layoffs in January was transformed into good news by the seriously-flawed BLS concurrent-seasonal-adjustment process.

With exception of the latest construction employment numbers, all the usual and special benchmark-revision graphs for the labor data are found in the *Opening Comments* section.

**PAYROLL SURVEY DETAIL.** The January 2014 payroll data, and the annual benchmark revisions to same, were published on February 7th by the BLS. In the context of the benchmark revisions (detailed in the *Opening Comments*), the seasonally-adjusted, month-to-month headline payroll employment gain for January was a statistically-insignificant 113,000 +/- 129,000 (95% confidence interval), which was well below market consensus for a second straight month. Reporting issues, however, suggest that a 95% confidence interval of +/- 200,000 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.

In turn, December payrolls rose by a revised 75,000 (previously 74,000) versus November, which in turn was up by a revised 274,000 (previously 241,000, initially 203,000) versus October, but the November gain became non-comparable and inconsistent with the October data, as of the January reporting.

The ongoing reporting problem here remains that the BLS publishes only two prior months of consistent data with the concurrent-seasonally-adjusted payrolls. Accordingly, where the published November number no longer is consistent with October reporting, related month-to-month comparisons have no meaning, given the BLS adjustment and reporting policies discussed in *Concurrent Seasonal Factors Distortions* (an issue also related to the household-survey reporting of the unemployment rate).

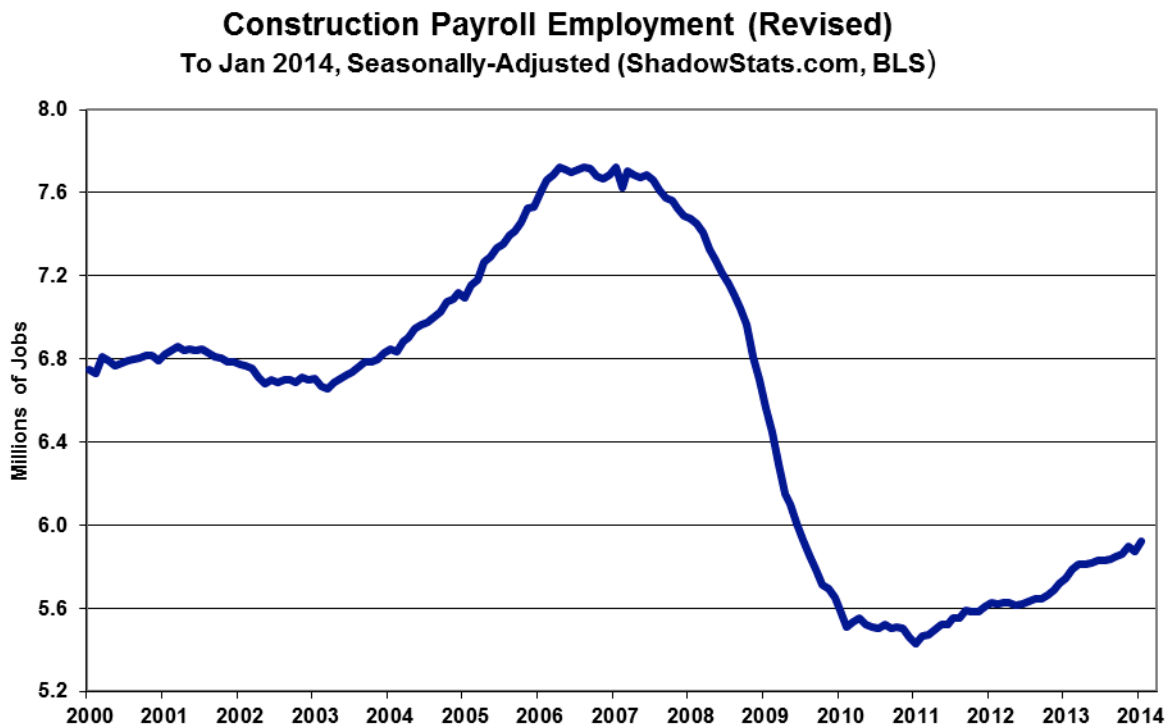
Where the benchmarking detail needed for calculating the latest, actual concurrent-seasonally-adjusted payroll data by month had been scheduled for release on February 7th, it has not been made available from the BLS as ShadowStats goes to press with this *Commentary*. When ShadowStats is able to estimate the consistent, actual revised (but not published) month-to-month gain for November versus October, that will be addressed a supplemental *Commentary*.

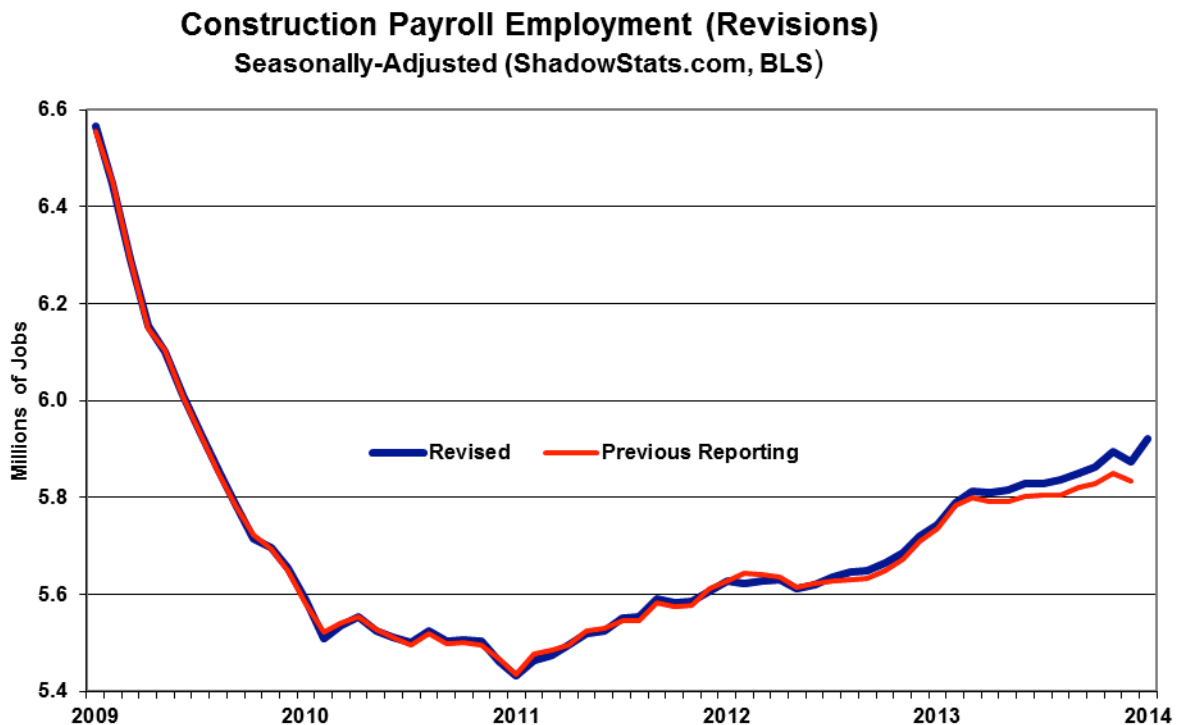
**Trend Model (Delayed Release of Detail).** As described generally in [Payroll Trends](#) and usually expanded upon in detail available from our affiliate [www.ExpliStats.com](http://www.ExpliStats.com), a trend indication from the BLS's concurrent-seasonal-adjustment model usually would indicate the trend for February 2014 monthly payroll change, based on January's reporting and on the benchmark-updated BLS model. Detail will be

published in a supplement at such time as the modeling parameters are released (they were scheduled for February 7th).

The trend indication often misses actual reporting. For example, the indication for January 2014 was for a 145,000 monthly gain, where market consensus purportedly was around 180,000. Of course, the actual headline gain of 113,000 was lower than both the trend and the consensus. Nonetheless, the trend number becomes the basis for the consensus outlook, more often than not.

**Construction Payrolls.** The graphs of construction employment update the graph accompanying the coverage of December construction spending in [Commentary No. 597](#), as well as highlighting the benchmark revisions to that series. In the context of the benchmark, headline January 2014 construction employment gained 48,000, versus 22,000 jobs lost in December. Total January construction jobs still were 23.3% shy of the pre-recession peak for the series 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. That said, the redefinition of the series—not the standard benchmarking process—boosted reported annual growth in the last year, as discussed and graphed in the benchmark detail of the *Opening Comments*. For January 2014, annual growth was 1.74%, versus a redefined 1.71% (1.62% pre-redefinition) in December, and a redefined 1.85% (1.74% pre-redefinition) in November.

With the bottom-bouncing patterns of recent years, current annual growth has recovered from the post-World War II record 5.02% (revised from 5.09%) decline seen in August 2009. That 5.02% 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 and the upside redefinition of payroll employment, the January 2014 level of employment still is shy by 0.9-million jobs, or 0.6% in official reporting, from recovering its pre-recession high. That can be seen in the shorter-term graph of payroll employment level (see *Opening Comments*). In perspective, the longer-term graph of the employment level shows the extreme duration of the non-recovery in payrolls, the worst such circumstance of the post-Great Depression era. The graphs of the redefined year-to-year unadjusted payroll changes, as well as the redefined payroll-employment levels all are included in the benchmark revision detail of the *Opening Comments*.

***Concurrent Seasonal Factor Distortion (Delayed Release of Detail).*** On February 7th, the BLS was scheduled to release benchmark-related detail for the payroll-employment series that would allow for public calculation of the consistent seasonally-adjusted payroll-employment series. The detail has not been released, yet, and a supplementary *Commentary* will follow when the detail is available.

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, recalculating prior reporting, for every month, 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.

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 or reduced unemployment into current reporting, without any formal indication of the shift from the previously-published historical data.

*January 2014 Inconsistencies.* For concurrent-seasonal-adjustment distortions to the household survey (unemployment rate) this month, see the *Household Survey* section. Despite the one-month of revisions each year, as in December 2013, when recent history was restated on a consistent basis, all the monthly unemployment-related data became inconsistent again with the January 2014 reporting.

While the 113,000 nonfarm payroll jobs gain reported for January was consistent with the revised 75,000 jobs increase in December, on a concurrent-seasonally-adjusted basis, those increases were not consistent with the revised headline 274,000 jobs gain reported for November or with any earlier published data.

*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](#).*

***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 in the *Opening Comments*, the regular benchmark revision to March 2013 payroll employment was to the downside by 119,000, where the BLS had overestimated standard payroll employment growth. At the same time, the BLS separately redefined the payroll survey so as to include 466,000 workers who had been in a category not previously counted in payroll employment. The latter event was used to mask the effects of the regular downside revisions to employment surveying.

Particularly unusual here is that despite the BLS modeling having overstated recent jobs creation by 119,000, adjustment to the annual upside biases added into payroll estimation process each month was

increased by about 140,000 on an annual basis, instead of being reduced, which would have been expected otherwise.

Historically, the upside-bias process was created simply by adding in a monthly “bias factor,” so as to prevent the otherwise potential political embarrassment to the BLS of 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.

*January 2014 Bias.* The not-seasonally-adjusted January 2014 bias was a monthly add-factor of minus 307,000, versus what had been a minus 314,000 in January 2013, versus a revised minus 12,000 (previously minus 15,000) add-factor in December 2013. The aggregate upside bias for the trailing twelve months was raised to 764,000, as best can be estimated, from the pre-benchmark 624,000 twelve-month aggregate as of December 2013, or to a monthly average of 64,000 (previously 52,000) jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS in the BDM, as discussed below.

*Problems with the Model.* The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net positive jobs creation by new companies versus those going out of business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. Where the BLS cannot measure meaningfully the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), or by changes in household employment that just have been incorporated into the redefined payroll series, such information is guesstimated 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 these 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, ongoing 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 64,000 jobs per month in the current year. The aggregate average overstatement of employment change easily exceeds 100,000 jobs per month.

**HOUSEHOLD SURVEY DETAILS.** Two regular features of the household survey, from which the unemployment detail is derived, prevent month-to-month comparisons of the generated headline numbers from having any meaning. Broadly, the seasonally-adjusted household-survey data are worthless.

First, the monthly concurrent-seasonal-factor adjustment process used in generating the headline numbers regenerates all seasonal factors every month, unique to the most recent month. Yet, the revamped and consistent historical detail is not published, except once per year, in December. All the historical data shift anew with the subsequent January reporting, but that new detail never is published.

Where, for example, the seasonally-adjusted headline unemployment rate for January 2014 of 6.58% was based on a set of seasonal adjustments unique to January 2014, and the adjusted unemployment rate for December was revised along with the January calculations, the new historical result for December was not published. The prior reporting of 6.68% for the December 2013 unemployment rate remained in place, although it was inconsistent with the January 2014 number. This is true for every month going back for at least five years of BLS accounting, and it is allowed deliberately by the BLS, even though consistent, historical data are calculated by and available to the Bureau.

Second, with the release of January data, each year, as with the current release, the BLS updates its population controls. Again, with no consistent accounting for earlier data, the headline December and subsequent January numbers are not comparable. As noted in the BLS press release of February 7th on the January 2014 labor conditions, “December – January changes in household data are not shown due to the introduction of updated population controls.”

**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, headline January 2014 employment rose by 523,000, but that really was 499,000, after removing the impact of changed population controls. No one but the BLS, however, knows what the change was on the basis of consistent, monthly seasonal adjustment, although last month’s reporting gave some sense of potential monthly volatility.

As noted with the *Commentary* covering the December 2013 detail, when the household-survey numbers were reported on the once-per-year consistent seasonally-adjusted basis, the headline December 143,000 employment increase followed a revised 958,000 (previously 818,000) gain in November, versus a revised 785,000 (previously 735,000) drop in October, and a revised 91,000 (previously 133,000) gain in September. The differences there were fully a reflection of shifting volatility created by the monthly concurrent seasonal factors. The unadjusted data do not change. Separately, data since September have been heavily distorted by the impact of the government shutdown.

**Headline Unemployment Rates.** Skewed by ongoing issues with seasonal adjustments, headline unemployment (U.3) fell to 6.58% in January 2014, versus 6.68% in December, technically a statistically-insignificant decline. Headline U.3 unemployment was 6.98% in November and 7.20% in October. The official 95% confidence interval is +/- 0.23 percentage-point around the monthly headline change in the U.3 number. That is meaningless, however, in the context of the comparative month-to-month reporting-inconsistencies created by the concurrent seasonal factors.

On an unadjusted basis, the unemployment rates are not revised and are consistent in reporting methodology. January's unadjusted U.3 unemployment rate rose to 7.0% from 6.5% in December, 6.6% in November and versus 7.0% in October.

**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).

A seasonally-adjusted and otherwise meaningless month-to-month decline in people working part-time for economic reasons and in short-term (unadjusted) discouraged workers, exacerbated the impact of the decline in headline U.3 unemployment, with the headline January 2014 U.6-unemployment at 12.7%, which was not comparable with the 13.1% in December 2013, 13.1% in November or 13.7% in October. The unadjusted January U.6 rate rose to 13.5%, from 13.0% in December, 12.7% in November and 13.2% in October.

**Discouraged Workers.** The count of short-term discouraged workers (never seasonally-adjusted) was 837,000 in January 2014, not comparable with the 917,000 reported in December 2013, the 762,000 in November or the 815,000 in October. The discouraged worker count continues to reflect an increased rollover of short-term discouraged workers into the long-term discouraged workers category.

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% in January 2014, from 23.3% in December 2013, versus 23.1% in November, and 23.4% in October, which was the series high (back to 1994). The ShadowStats estimate reflects the increasing toll of unemployed leaving the headline labor force. Where the ShadowStats-alternate estimate generally is built on top of the official U.6 reporting, it tends to follow its relative monthly movements and its annual revisions. 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 the *Opening Comments*), there continues to be a noticeable divergence in the ShadowStats series versus U.6. The reason for this is that U.6, again, only includes discouraged workers who have been discouraged for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as

new workers enter “discouraged” status. A similar pattern of U.3 unemployed becoming “discouraged” and moving into the U.6 category also accounts for the early divergence between the U.6 and U.3 categories.

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. While there is attrition in long-term discouraged numbers, there is no set cut off where the long-term discouraged workers cease to exist. See the [Alternate Data](#) tab for historical detail.

Generally, where the U.6 largely encompasses U.3, the ShadowStats measure encompasses U.6. To the extent that the decline in U.3 reflects unemployed moving into U.6, or the decline in U.6 reflects short-term discouraged workers moving into the ShadowStats number, the ShadowStats number continues to encompass all the unemployed, irrespective of the series from which they otherwise may have been dropped.

Two further related graphs found in the *Opening Comments* section are of the ShadowStats-Alternate Unemployment Measure, with an inverted scale, the employment-to-population ratio, which has a high correlation with the inverted 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 than 2% of the employed work on farms. Accordingly, a better measure for comparison with the ShadowStats number would be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

## WEEK AHEAD

**Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead.** At the moment, markets generally appear to still be overly optimistic as to the economic outlook, based on data that likely were puffed-up in the process of going through the data-gathering and reporting distortions of the October shutdown to the federal government. Expectations should soften anew, quickly, with the increasing likelihood of corrective reporting and revisions in the months ahead. The early stages of that process were seen in elements of recent reporting of the December payroll data, retail sales, new home sales and new orders for durable goods.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend.

Stronger inflation reporting remains likely. 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, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. political conditions (see [Hyperinflation 2014—The End Game Begins](#)). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

***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 seven-to-eight 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 RELEASES:***

**Retail Sales (January 2014).** The January 2014 retail sales estimate is scheduled for release on Thursday, February 13th, by the Census Bureau. With the consumer still in an extreme liquidity bind, as discussed in [Commentary No. 595](#), odds again favor headline retail sales reporting coming in below-market expectations, which appear to be for moderate growth, despite unseasonably bad weather in much of the United States during the month. An outright month-to-month contraction in seasonally-adjusted sales remains a fair possibility for this dominant retail-sales month, even before adjustment for consumer inflation.

**Index of Industrial Production (January 2014).** The January 2014 index of industrial production is scheduled for release on Friday, February 14th, by the Federal Reserve Board. Net of the irregular volatility in utility output tied to seasonable or seasonable weather, moderate expectations for January production growth also are a fair bet to be disappointed, as companies increasingly move to reduce excessive inventory levels. There also remains the potential for unusual reporting volatility and revisions tied to catch-up in the data disruptions that resulted from the October shutdown of the federal government.

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