

COMMENTARY NUMBER 633
May Employment and Unemployment, Money Supply M3
June 6, 2014

Monthly Payroll Gains Overstated by 200,000-Plus Jobs

**Contrary to Common Experience,
May Payrolls Purportedly Regained Pre-Recession High**

May Unemployment: 6.3% (U.3), 12.2% (U.6), 23.2% (ShadowStats)

Year-to-Year M3 Growth Jumped to 4.6% in May

PLEASE NOTE: The next regular Commentary is scheduled for Thursday, June 12th, covering May retail sales and monetary policy.

Best wishes to all! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Seriously-Flawed Headline Jobs Growth and Unemployment Reporting Miss Underlying Reality by a Wide Margin. May 2014 headline jobs growth of 217,000 and headline unemployment at 6.3% both were close to market expectations, but they were far removed from common experience and underlying reality. ShadowStats regularly discusses in the background text of these *Commentaries* how and why key

labor data activity—numbers heavily relied on by the financial markets and economic prognosticators—are so misleading. Still, it is worth headlining the related detail on occasion. With broad unemployment topping 23% and with monthly payroll–employment reporting currently overstating jobs growth by a couple of hundred thousand jobs, the economy never recovered from its plunge into 2009. It also is not about to recover, but instead it is turning down anew, as otherwise discussed in [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#).

The separate issue of the lack of month-to-month comparability in labor data—due to the Bureau of Labor Statistics’ (BLS) unconscionable use of concurrent seasonal adjustment factors—is covered in other background material (see *Concurrent Seasonal Adjustment Distortions* in the *Reporting Detail* section).

On the monetary front, annual growth in money supply M3 continued to pick-up in May 2014, now at 4.6% (see the *Hyperinflation Watch*). A broad review of recent and likely developments in domestic and global monetary policy will follow in the next regular *Commentary*, scheduled for June 12th.

Headline Monthly Payroll Changes Overstated by 200,000-Plus Jobs. Underlying issues with the basic modeling assumptions and related guesstimates of upside bias factors in the payroll-employment estimation process mean that headline employment reporting currently overstates monthly jobs growth by at least 200,000 (see *Birth Death Model* section in *Reporting Detail*). This is on top of regular monthly surveying by the BLS of month-to-month changes in payroll employment within private industry.

The effect, most commonly, is that the BLS overstates monthly and annual employment levels, as evidenced by frequent and massive, annual downside benchmark revisions (2011 and 2012, excepted) to the payroll estimates. As discussed in the benchmark detail of [Commentary No. 598](#), the regular benchmark revision to March 2013 payroll employment was to the downside by 119,000, separate from other games being played by the BLS with the numbers.

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.

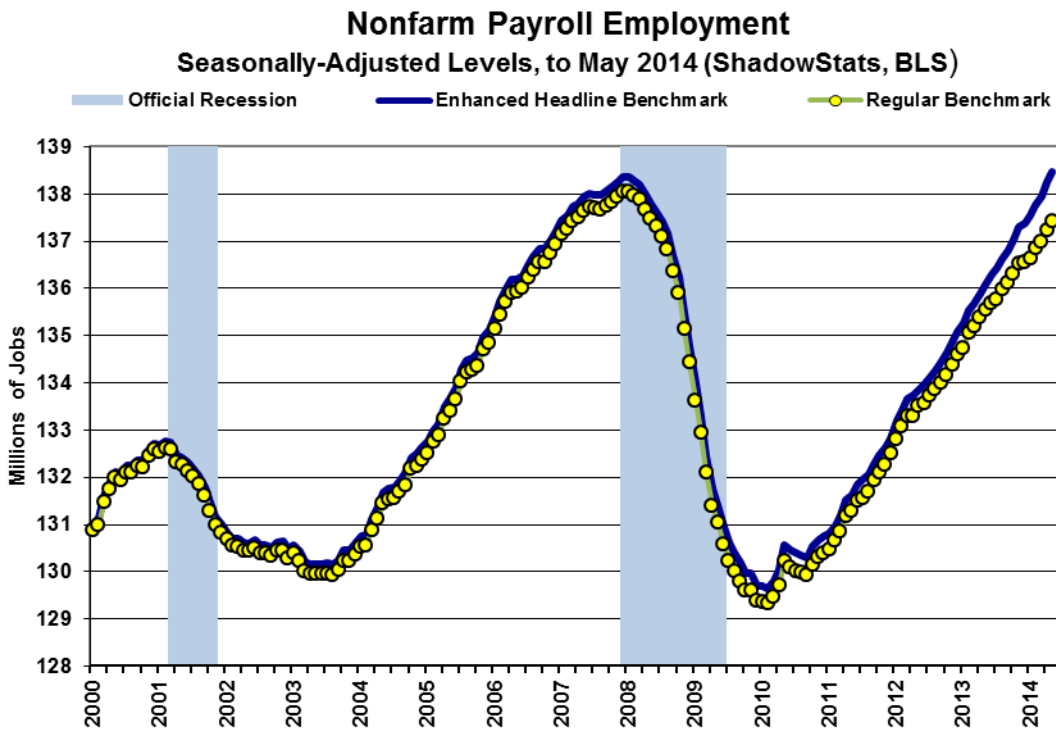
In particular, BDM biases have tended to overstate payroll employment levels—to understate employment declines—during recessions. There is a faulty underlying premise here that jobs created by start-up companies in this downturn have more than offset jobs lost by companies going out of business. Recent studies have suggested that there is a net jobs loss, not gain, in this circumstance. So, if a company fails to report its payrolls because it has gone out of business, the BLS assumes the firm still has its previously-reported employees and adjusts those numbers for the trend in the company's industry.

Separately, consider that the Conference Board, in its press release on the survey of online help-wanted advertising for May 2014, ran the headline, “Labor demand remains flat in 2014 and extends last year’s flat trend.” That does not sound like an environment that would create 200,000-plus jobs per month, as currently reported by the BLS.

Where the current BDM adds 762,000 jobs to the headline employment each year (average of 64,000 per month), that is on top of the unpublished, positive-bias base “net jobs creation” number. ShadowStats estimates a net upside monthly bias-factor and aggregate monthly jobs change overstatement, at present, of at least 200,000, including the supplemental 64,000 monthly gain generated by the BDM. That would leave current headline jobs change at flat, plus or minus about 130,000.

Hitting the Pre-Recession High? In a separate, but partially related area, payroll employment purportedly just recovered its pre-recession high. Six-plus years after the January 2008 payroll-employment peak, at the beginning of the recession, the headline, seasonally-adjusted, May 2014 payroll employment level of 138.463 million made a new high, by 98,000 jobs. This pre-midterm election feat was made possible only by the highly unusual and suspect 2013 benchmark revision to payrolls, which was published in February 2014. Given current trends and pre-benchmark upside bias factors (a more-conventional benchmark-revision process), the “recovery” in payroll employment would not have been seen until after the November 2014 election.

Shown in the following graph of payroll employment levels (prepared initially for the *Second Installment* of the *2014 Hyperinflation* report) are the official current headline payroll levels (solid blue line) and what ShadowStats estimates the headline levels would be if the benchmark revision of February 7th (see [Commentary No. 598](#)) had been handled as a regular benchmark revision (yellow circles). Simply put, there was a series redefinition in the revision that introduced gimmicked, new upside biases into the headline numbers. The difference is that the headline nonfarm payroll level for May 2014 is about one-million jobs higher than it would have been with the regular reporting and revision procedures.



No New High for Employment versus Population. Of course, beyond just a headline employment count, one might argue that the employment level might be viewed from the perspective of what has happened to the population or the labor force. ShadowStats affiliate www.ExpliStats.com has a couple of interesting, related graphs (click on the link). The employment-population relationship otherwise is shown here as the third graph following. Even with the happy data out of the BLS, these circumstances tend to confirm the ShadowStats picture of a terribly-weak underlying economic reality.

Headline May 2014 Payroll Data. The seasonally-adjusted, month-to-month headline payroll employment gain for May was 217,000 +/- 129,000 (95% confidence interval), close to market expectations. In turn, April payrolls rose by a revised 282,000, with March payrolls up by an unrevised 203,000.

Current, seasonally-adjusted monthly changes in employment levels have been destabilized by the misleading and inconsistently-reported concurrent-seasonal-factor adjustments. These reporting issues suggest that a 95% confidence interval of +/- 200,000 around the formal modeling of the headline payroll gain easily could be justified. This number is separate from the likely overstatement of monthly payroll growth by a similar magnitude.

Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change are reported on a consistent basis, although the redefinition of the series—not the standard benchmarking process—recently boosted reported annual growth in the last year, as discussed and graphed in the benchmark detail of [Commentary No. 598](#).

For May 2014, annual growth was 1.75%, versus a revised 1.74% gain in April, and a revised 1.65% gain in March, and down from a near-term peak in annual growth of 1.85% in November 2013. As an aside, had the 2013 benchmark revision been standard, not a gimmicked redefinition, year-to-year jobs growth as of May 2014 would have been about 1.6%.

Counting All Discouraged Workers, May Unemployment Stood at 23.2%. The headline household survey reporting (unemployment-related) is virtually worthless. The numbers are highly volatile and unstable, inadequately defined—not reflecting common experience—and simply are not comparable on a month-to-month basis. The month-to-month comparability issue is tied to the concurrent seasonal adjustment process, discussed in the *Reporting Detail* section.

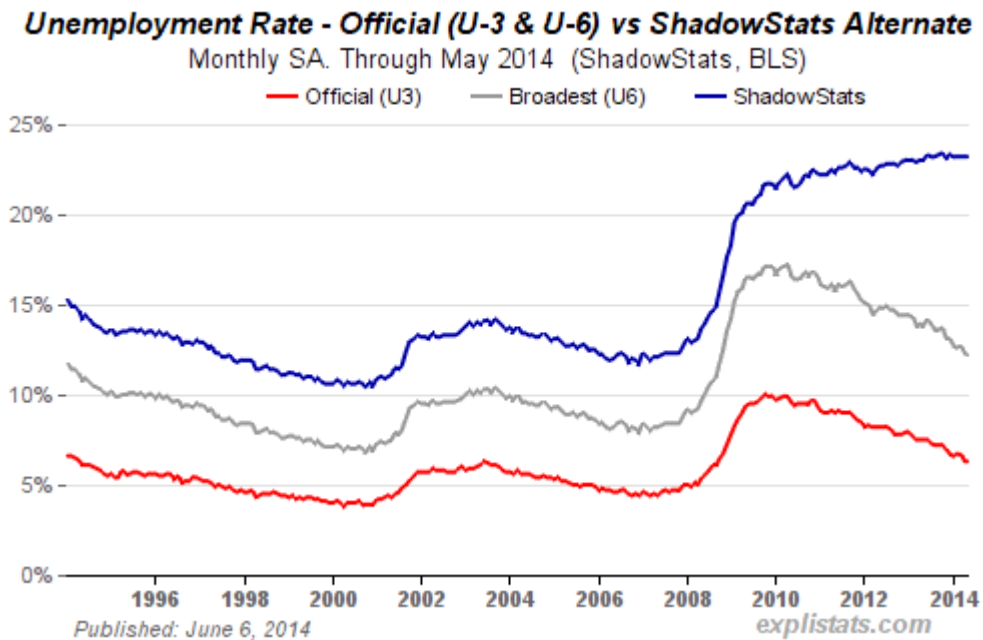
What removes headline-unemployment reporting from underlying economic reality and common experience simply is definitional. To be counted among the headline unemployed (U.3), an unemployed individual has to have looked for work actively within the four weeks prior to the unemployment survey. If the active search for work was in the last year, but not in the last four weeks, the individual is considered a “discouraged worker” by the BLS. ShadowStats defines that group as “short-term discouraged workers,” as opposed to those who become “long-term discouraged workers” after one year.

Moving on top of U.3, the broader U.6 unemployment measure includes only the short-term discouraged workers. The still-broader ShadowStats-Alternate Unemployment Measure includes an estimate of all

discouraged workers, including those discouraged for one year or more, as the BLS used to measure the series pre-1994, and as Statistics Canada still does.

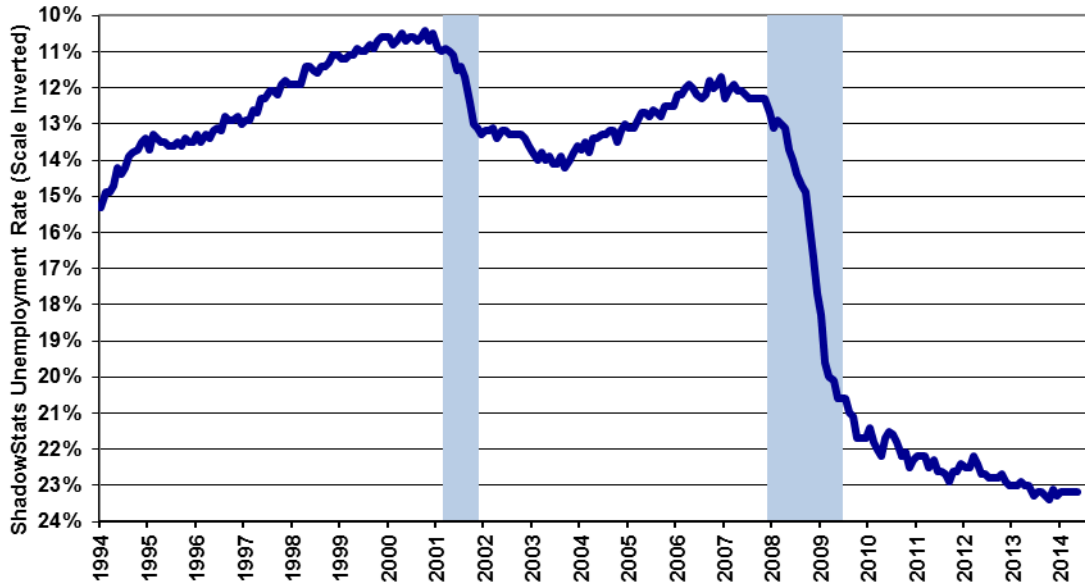
When the headline unemployed become discouraged, they rollover from U.3 to U.6. As the headline short-term discouraged workers rollover into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. Further detail is discussed in the *Reporting Detail* section. The difference here is between headline unemployment of 6.3% (U.3) versus 23.2% (ShadowStats).

The following graph reflects headline May 2014 U.3 unemployment at 6.3%, unchanged from April; headline U.6 unemployment notching lower to 12.2% in May, versus 12.3% in April; and the headline ShadowStats unemployment measure holding at 23.2% in May, for the fifth month. The October 2013 ShadowStats reading of 23.4% was the series high (since 1994).

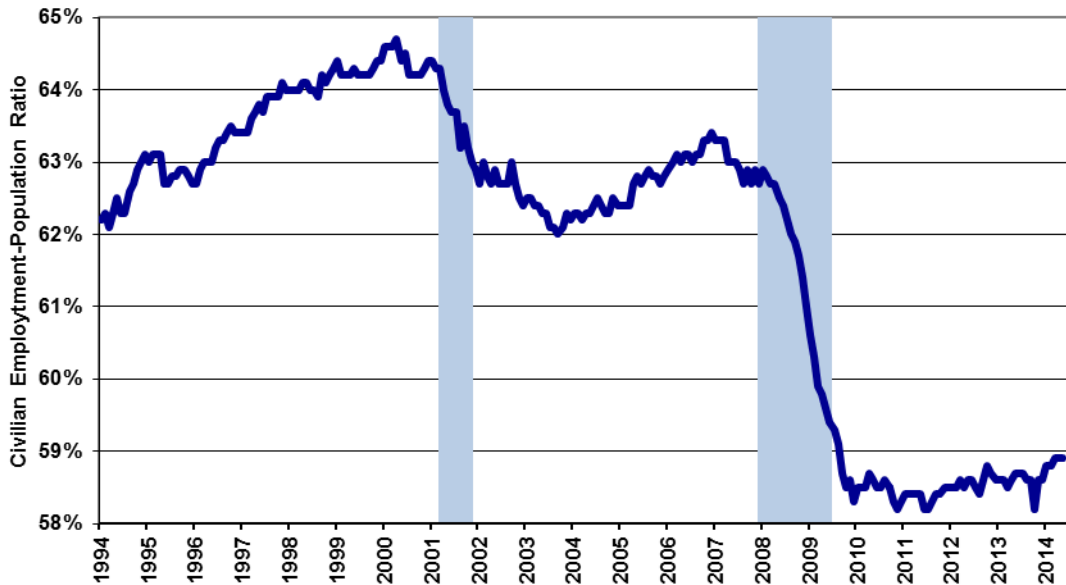


Two other graphs follow. The first is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic statistics, where a lower number means a weaker economy.

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



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



The inverted-scale ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which is plotted in the second graph (preceding). Discouraged workers are not counted in the headline labor force, which generally 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.

Headline Unemployment Rates. Subject to the reporting issues and lack of real-world relevance discussed earlier, the headline unemployment rate (U.3) was 6.30%, up 0.02-percentage point versus 6.28% in April 2014. Technically that was a statistically-insignificant change, where the official 95% confidence interval around the monthly change in the headline U.3 rate is +/- 0.23-percentage point, but that is absolutely meaningless 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 at least are consistent in reporting methodology. May's unadjusted U.3 unemployment rate rose to 6.1%, from 5.9% in April.

With a small seasonally-adjusted drop in people working part-time for economic reasons, and a decline in short-term (unadjusted) discouraged workers, headline May 2014 U.6 unemployment notched lower to 12.2%, from 12.3% in April. The unadjusted U.6 also notched lower to 11.7% in May versus 11.8% in April.

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, per the May 2014 ShadowStats-Alternate Unemployment Measure—held at 23.2% for the fifth month. That is down minimally from 23.4% in October 2013, which was the series high (back to 1994). The ShadowStats estimate shows the increasing toll of unemployed leaving the headline labor force.

*[For further details on May employment and unemployment, see the **Reporting Detail section.**]*

HYPERINFLATION WATCH

Money Supply M3 Annual Growth Surges to 4.6% in May 2014. Annual growth in May 2014 M3 is on track to hit 4.6%, up from a revised 4.2% (previously 4.0%) estimate in April. Monthly year-to-year growth began to slow after hitting a near-term peak of 4.6% in January 2013, the onset of expanded QE3,

then hitting a near-term trough of 3.2% in January 2014. That period of slowing growth now has reversed fully. The initial estimates of annual growth in M3, M2 and M1 for May 2014 will be posted on the [Alternate Data](#) tab of www.shadowstats.com by the end of the day on June 7th.

Any revisions in the following numbers are due to the revisions of underlying data by the Federal Reserve. The seasonally-adjusted, preliminary estimate of month-to-month change for May 2014 money supply M3 is on track for a 0.5% gain, versus a revised 0.4% (previously 0.3%) gain in April. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

Initial Growth Estimates for May M1 and M2. For May 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 May 2014 is estimated to have shown year-to-year growth of roughly 6.5%, versus a revised 6.2% (previously 6.1%) gain in April, with month-to-month change estimated at roughly a 0.6% gain in May, versus a revised 0.5% (previously 0.3%) gain in April. The early estimate of M1 for May is for year-to-year growth of roughly 10.1% versus an unrevised 10.3% gain in April, with a month-to-month May gain of 0.1%, versus an unrevised 1.2% monthly gain in April.

Hyperinflation Summary Outlook. The hyperinflation and economic outlooks were updated with the publication of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), on April 2nd, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8th. A basic summary of the broad outlook is found in the *Opening Comments* and *Overview and Executive Summary* in the *First Installment Revised*. The broad outlook for a hyperinflationary great depression beginning this year has not changed—only evolved—with various details continuing to fall into place. A formal and more-condensed summary of the extraordinarily-difficult times ahead will take over this section, soon. What follows here is detail on the evolving economic disaster, all to be incorporated into that summary.

Economy Turns Down Anew. Consistent with the above *Special Commentaries*, a renewed U.S. business slowdown/downturn was evident in the revised headline contraction of 1.0% in first-quarter 2014 GDP, versus 2.6% growth in fourth-quarter 2013. As the patterns of headline growth in economic reporting continue to slow and to turn down, financial-market expectations increasingly should shift towards renewed or deepening recession. That circumstance, in turn, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Intensifying weakness in the U.S. dollar will place upside pressure on oil prices and other commodities, boosting inflation and inflation fears. Both the dollar weakness and resulting higher inflation should boost the prices of gold and silver, where physical holding of those key precious metals remains the primary hedge against the pending inflation and financial crises.

The fundamental issues threatening the dollar, again, include, but are not limited to: the U.S. government not addressing its long-term solvency issues; monetary malfeasance by the Federal Reserve seeking to provide liquidity to a troubled banking system, and to the U.S. Treasury, with a current pace of 80% monetization of effective net issuance of public federal debt; a mounting domestic and global crisis of

confidence in a dysfunctional U.S. government; mounting global political pressures contrary to U.S. interests; and a severely damaged U.S. economy, which never recovered post-2008 and is turning down anew (including a widening trade deficit).

Pending GDP Contractions. Generally reflecting weaker data in revisions to underlying data, downside revisions to recent GDP reporting are increasingly likely in the July 30th annual benchmark revisions. Underlying, current economic activity actually is deteriorating and weak enough that the benchmark GDP revision should be accompanied by an initial headline contraction in second-quarter 2014 GDP, on top of a deepening first-quarter 2014 GDP contraction, which faces two further near-term revisions (including the benchmark).

With continued deterioration in the trade deficit (see [Commentary No. 632](#)) and underlying weakness in labor conditions (see the *Opening Comments*), the previous headline downturns in April industrial production and real retail sales, and the headline upturns in the CPI and PPI, should be followed with further deterioration in the weeks and months ahead. If those patterns continue, market expectations—and related financial-market reactions—should move into the “renewed recession” camp before or coincident with the July 30th annual revisions to GDP.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (May 2014)

Seriously-Flawed Headline Reporting of Jobs Growth and Unemployment. May 2014 headline jobs growth of 217,000 and headline unemployment at 6.3% both were close to market expectations, but far removed from common experience and underlying reality. ShadowStats regularly discusses how and why these key numbers on economic activity—numbers heavily relied on by the financial markets and economic prognosticators—are so misleading, but it is worth headlining the related detail on occasion. Accordingly, detail is reviewed in the *Opening Comments* section, while the specifics also are covered in this section. See *Birth-Death/Bias-Factor Adjustment* for a discussion on payroll-employment survey issues, and *ShadowStats-Alternate Unemployment Rate* for a discussion on broad unemployment concerns.

PAYROLL SURVEY DETAIL. The May payroll data were published today, June 6th, by the Bureau of Labor Statistics (BLS). Seasonally-adjusted, headline payroll employment of 138.463 million in May 2014, topped by 98,000 the 138.365 million number estimated as the peak employment level at the beginning of the recession (January 2008). As noted and graphed in the *Opening Comments*, however,

that pre-midterm election feat was made possible only by the highly unusual and suspect 2013 benchmark revision to payrolls, which was published in January 2014.

The seasonally-adjusted, month-to-month headline payroll employment gain for May was 217,000 +/- 129,000 (95% confidence interval), close to market expectations and the trend model. In turn, April payrolls rose by a revised 282,000 (previously 288,000), with March payrolls up by an unrevised 203,000 (initially 192,000).

Current employment levels have been spiked by misleading and inconsistently reported concurrent-seasonal-factor adjustments. These reporting issues suggest that a 95% confidence interval of +/- 200,000 around the formal modeling of the headline gain easily could be justified.

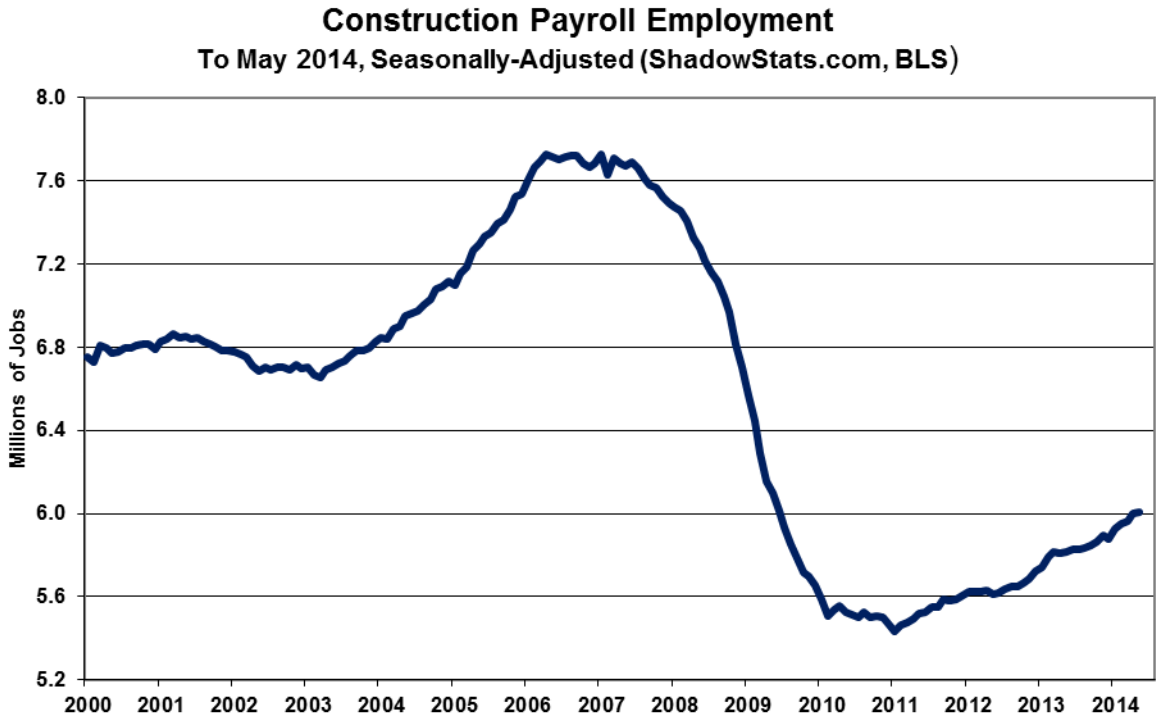
Due to the misleading reporting policies used by the BLS, the headline March 2014 gain became non-comparable and inconsistent with the February data, as of the May reporting. Where the BLS makes available enough background data so that third parties can calculate the consistent reporting (payroll employment only, not the unemployment rate), the actual, consistent headline monthly gain for March 2014 was 206,000, not 203,000, February's gain was 206,000, not 222,000. Historically, the monthly variations have come close to 100,000.

Separately, as discussed in the *Opening Comments* (see also the *Birth Death Model* section that follows), underlying issues with the basic modeling assumptions and related guesstimates of upside bias factors in the estimation process mean that headline employment reporting overstates monthly jobs growth by at least 200,000.

“Trend Model” and Consensus were Close to the Headline Payroll Gain. As discussed in [Commentary No. 632](#), and as described generally in [Payroll Trends](#), the trend indication from the BLS's concurrent-seasonal-adjustment model—prepared by our affiliate www.ExpliStats.com (see this link for updated detail)—was for a May 2014 monthly payroll gain of 235,000, based on the trend structured by BLS modeling of April's reporting. The consensus appears to have been below the trend, close to where the headline gain came in at 217,000.

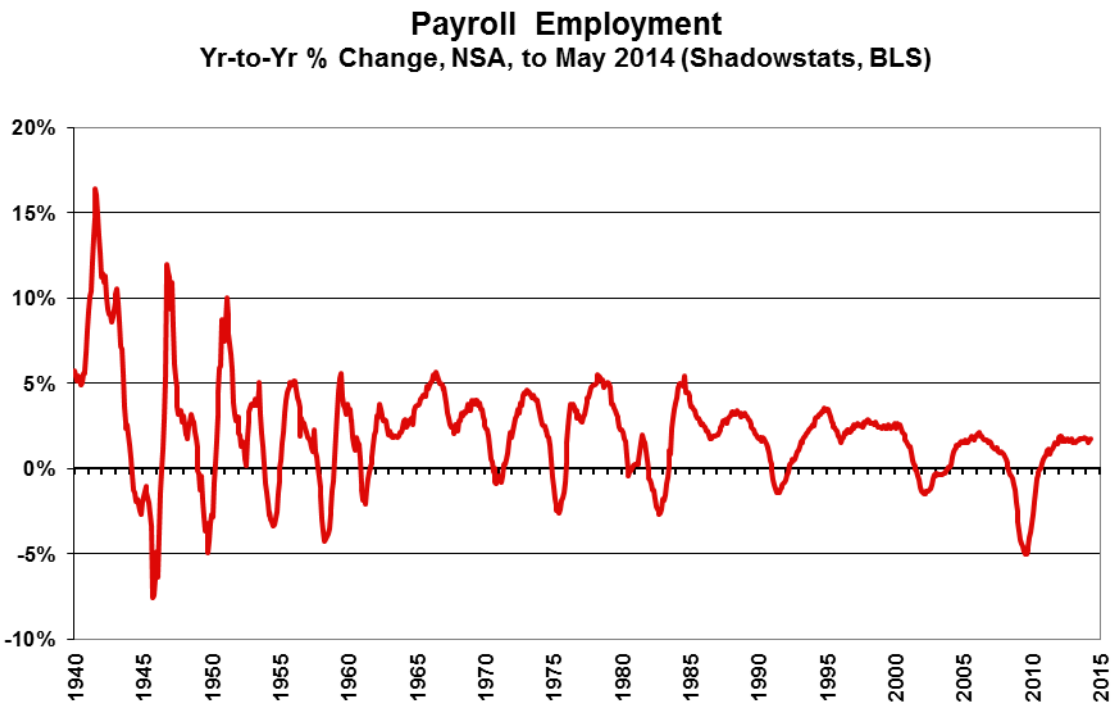
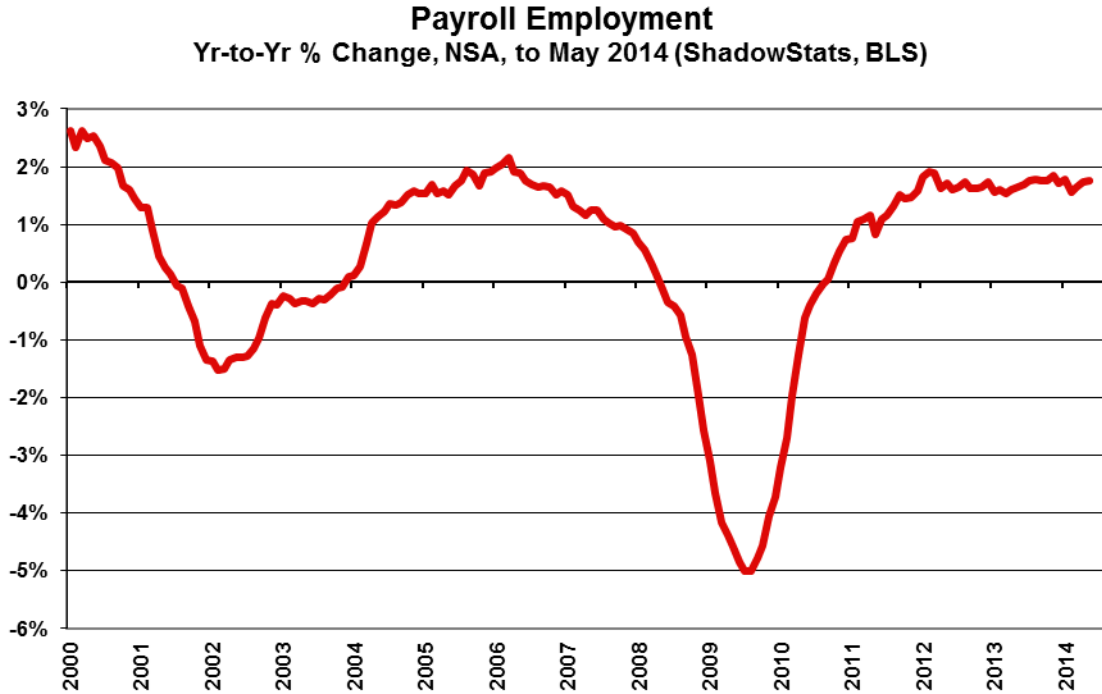
Based on May 2014 reporting, the trend number built into the BLS reporting model is for a headline gain of 243,000 in June 2014.

Construction Payrolls. The graph of May 2014 construction employment updates the one in [Commentary No. 632](#) of June 4th, covering April construction spending. In the context of prior-period revisions, headline May 2014 construction employment rose by 6,000 in the month, following a revised 34,000 (previously 24,000) gain in April, and a revised 13,000 (previously 17,000, initially 19,000) gain in March. Total May 2014 construction jobs still were 22.3% shy of the pre-recession peak for the series in April 2006.



Annual Change in Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change are reported on a consistent basis, although the redefinition of the series—not the standard benchmarking process—recently boosted reported annual growth in the last year, as discussed and graphed in the benchmark detail of [Commentary No. 598](#). For May 2014, annual growth was 1.75%, versus a revised 1.74% (previously 1.75%) gain in April, and a revised 1.65% (previously and initially 1.64%) gain in March, and down from a near-term peak in annual growth of 1.85% in November 2013. As an aside, had the 2013 benchmark revision been standard, not a gimmicked redefinition, year-to-year jobs growth as of May 2014 would have been about 1.6%.

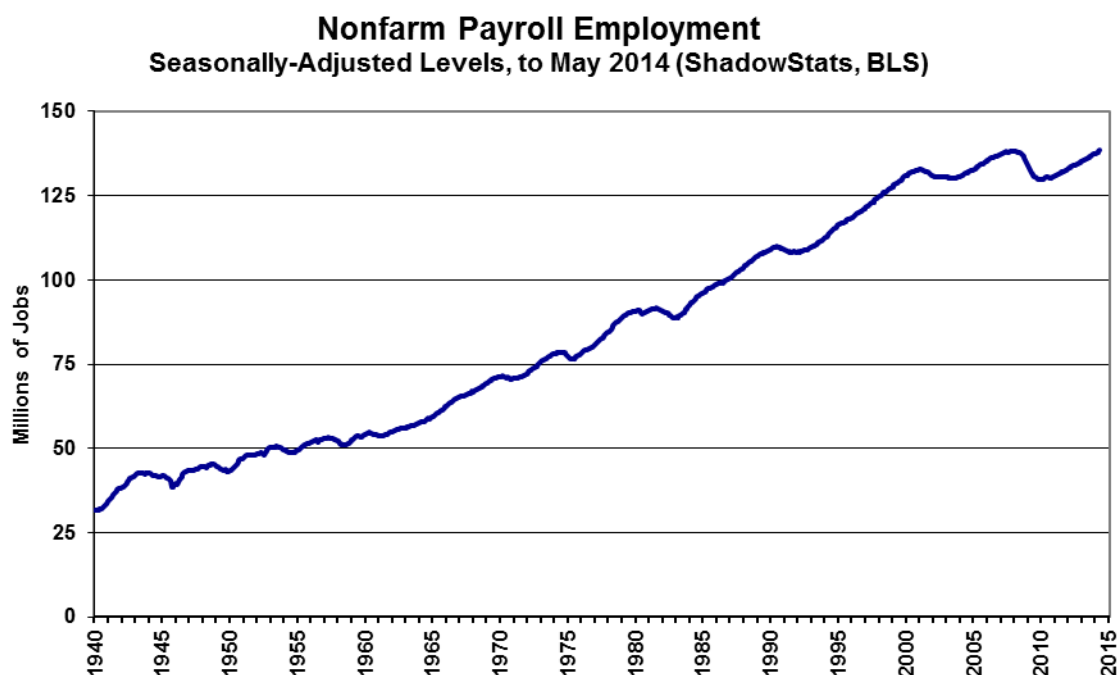
With the bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record 5.02% decline seen in August 2009, as shown in the accompanying graphs. That 5.02% decline remains the most severe annual contraction since the production shutdown at the 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.



Headline payroll employment in May 2014 moved to a pre-recession high, as was suggested in last month's *Commentary* covering the April 2014 labor data. This pattern was accelerated by the payroll

levels all being redefined favorably with the January 2014 benchmarking, despite the actual benchmark having been negative). This can be seen in the shorter-term graph of payroll employment level (see *Opening Comments*). The yellow points in that graph reflect the ShadowStats assessment of what payroll employment would be showing, with just a regular benchmarking, rather than the gimmicked redefinition of the series, which added a new upside bias.

In perspective, the following longer-term graph of the headline employment level shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

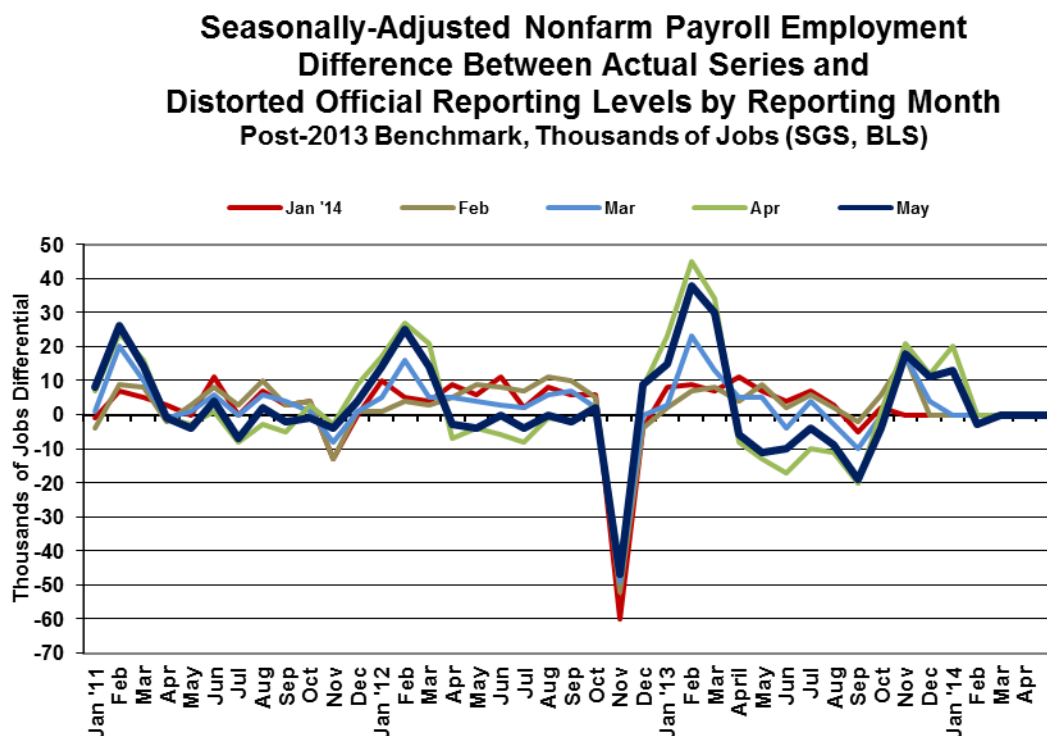


Concurrent Seasonal Factor Distortions. There are serious and deliberate reporting flaws with the government’s seasonally-adjusted, monthly reporting of both employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll and unemployment data 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, going back five years, 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. The following graph shows how far the monthly data have strayed from being consistent.



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 adds in upside monthly biases to the payroll employment numbers, as discussed in the *Opening Comments*. The continual overstatement is evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 2012, excepted). As discussed in the benchmark detail of [Commentary No. 598](#), 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 little more than a gimmicked, upside fudge-factor, used to mask the effects of the regular downside revisions to employment surveying, and likely is the excuse behind the increase in the annual bias factor, where the new category cannot be surveyed easily or regularly by the BLS.

Indeed, 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 150,000 on an annual basis, instead of being reduced, which would have been expected otherwise (see short-term graph and comments on payroll levels in the *Opening Comments*).

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.

May 2014 Bias. The not-seasonally-adjusted May 2014 bias was a monthly add-factor of plus 205,000, versus what was (post-benchmark) a plus 210,000 in bias May 2013, versus a plus 234,000 add-factor in April 2014. The aggregate upside bias for the trailing twelve months was 762,000, from the pre-benchmark 624,000 twelve-month aggregate as of December 2013, or to a monthly average of 64,000 (52,000 pre-benchmark) 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. Recent studies have suggested that there is a net jobs loss, not gain, in this circumstance. 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. In current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month.

HOUSEHOLD SURVEY DETAILS. Generally, the seasonally-adjusted household-survey data are meaningless in terms of month-to-month changes. 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 subsequent monthly reporting, but that new detail never is published.

Where, for example, the seasonally-adjusted headline unemployment rate for May 2014 of 6.30% was based on a set of seasonal adjustments unique to May 2014, and the adjusted unemployment rate for April was revised along with the April seasonal-adjustment calculations, the new historical and not-comparable result for April was not, and never will be, published. The prior headline reporting of 6.28% for the April 2014 unemployment rate remained in place, although it now is inconsistent with the May 2014 number, even though the consistent April estimation is available internally to the BLS. This is true for every month going back for at least five years of BLS accounting, and it is done deliberately by the BLS, even though the consistent and comparable, historical data are calculated by and known to the Bureau.

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 May 2014 employment rose by 145,000, following an unrevised and not comparable 73,000 decline in April. The employment changes were in the context of a 46,000 increase in the number of unemployed in May, versus a non-comparable 733,000 decline in April.

Again, though, the reporting here is virtually worthless. The household-survey numbers are highly volatile and unstable, inadequately defined in that they do not reflect common experience, and simply are not comparable on a month-to-month basis (see the *Opening Comments*).

Headline Unemployment Rates. In the context of the preceding background, the headline May unemployment (U.3) rate was up by 0.02-percentage point at 6.30%, versus 6.28% in April 2014. Technically that was a statistically-insignificant change, where the official 95% confidence interval around the monthly change in the headline U.3 rate is +/- 0.23-percentage point. That is absolutely 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 at least are consistent in reporting methodology. May's unadjusted U.3 unemployment rate rose to 6.1%, from 5.9% in April.

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 small seasonally-adjusted drop in people working part-time for economic reasons, and a decline in short-term (unadjusted) discouraged workers, headline May 2014 U.6 unemployment notched lower to 12.2%, from 12.3% in April. The unadjusted U.6 also notched lower to 11.7% in May versus 11.8% in April.

Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) declined to 697,000 in May 2014, from 783,000 in April and versus 698,000 in March. 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, with the ShadowStats measure encompassing U.6 and the short-term discouraged workers, plus the long-term discouraged workers.

In 1994, “discouraged workers”—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been “discouraged” for less than a year. This time qualification defined away a large number of long-term discouraged workers. The remaining short-term discouraged workers (those discouraged less than a year) were included in U.6.

ShadowStats-Alternate Unemployment Rate. Adding back into the total unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers, broad unemployment—more in line with common experience, as estimated by the ShadowStats-Alternate Unemployment Measure—held at 23.2% in May 2014, for the fifth month. That is down minimally from 23.4% in October 2013, 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, and the ShadowStats series and U.6 versus U.3. 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 ejected.

Two further related graphs, also 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 recession 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

Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)), including the second estimate of real first-quarter 2014 GDP, which was the first contemporary reporting of a quarterly contraction since the formal end of the 2007 recession in mid-2009.

Weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition.

Stronger inflation reporting also 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 global political instabilities. Food inflation has been picking up as well. The dollar faces pummeling from the weakening economy, continuing QE3, the ongoing U.S. fiscal-crisis debacle, and deteriorating U.S. and global political conditions (see [Hyperinflation 2014—The End Game Begins \(Updated\) – First Installment](#)). 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. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last 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 (May 2014). The Census Bureau’s May 2014 retail sales estimate is scheduled for release on Thursday, June 12th. As discussed in [Commentary No. 632](#) of June 4th, the consumer remains in an extreme liquidity bind. Accordingly, odds favor headline retail sales reporting coming in well below market expectations, which likely will be for a relatively strong headline monthly gain. An outright month-to-month contraction in seasonally-adjusted sales remains a good possibility, with headline May CPI-U (due for publication on June 17th) likely to provide additional, downside pressure on the headline inflation-adjusted or “real” retail sales growth.

Producer Price Index—PPI (May 2014). The May 2014 PPI is scheduled for release on Friday, June 13th, by the Bureau of Labor Statistics (BLS). It will be detailed in *Commentary No. 635* of June 16th. A month-to-month increase is likely, reflecting a broad spectrum of goods-related inflation, including energy, food and “core” inflation components (ex-food and energy). Depending on the oil contract followed, not-seasonally-adjusted monthly-average oil prices were up by 0.1% to 1.7% for the month of May, along with a 0.4% unadjusted monthly increase in average retail gasoline prices. PPI seasonal adjustments for energy costs turn slightly to the upside in May.

The wildcard in the PPI remains the new services sector, which largely is unpredictable, volatile and of limited meaning. Although the new series is less dependent on the increasingly “antiquated” concepts of oil, food and “core” (ex-food and energy) inflation, services costs should be seeing continued inflationary pressures—and shrinking profit margins—from rising prices in the “hard” economy. Accordingly, the aggregate headline May PPI inflation most likely will hold in at least in minimally-positive territory.