

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

**COMMENTARY NUMBER 672**  
**October Labor Data, Money Supply M3, Federal Deficit, Election 2014**  
**November 9, 2014**

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**October's Labor Numbers Skewed by Seasonal-Factors  
Distorted by Last Year's Government Shutdown**

**Resulting Understated October 2014 Unemployment Rates:  
5.8% (U.3), 11.5% (U.6), 23.0% (ShadowStats)**

**Election Polling Again Indicated No Economic Recovery,  
With Pocketbook Issues Dominating the Voting – New Proprietary Analyses**

**GAAP-Based 2014 Federal Deficit Was About \$6 Trillion,  
Versus Headline Cash-Based \$0.5 Trillion Shortfall**

**2014 Net Federal Obligations Approached \$100 Trillion,  
GAAP-Based, Net Present Value**

**Reporting Shenanigans: Headline Deficit Well Shy of Jump in Debt**

**Fed Monetized 78% of Headline 2014 Federal Deficit**

**Annual Money Supply M3 Growth Held at 4.2%**

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*PLEASE NOTE: The next Commentary, on Friday, November 14th, will cover October retail sales.*

*I apologize to subscribers for any inconvenience caused by publishing this Commentary over the weekend, instead of as planned on Friday (November 7th). The missive quickly took on significant new material (witness the extended opening headlines), with the time needed for related analysis compounded by a distracting inner-ear problem.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Never Recovered, the Economy Remains in Terrible Shape.** The large number of opening headlines in today's (November 9th) missive reflects various stories, ranging from twisted unemployment data, to an election dominated by underlying economic reality, and to headline 2014 financial results on the federal government's operations that should raise some troubling questions in the markets. The general outlook is unchanged

***Twisted Unemployment Numbers.*** Headline October 2014 unemployment reporting, in particular, was skewed heavily by warped seasonal-adjustment factors that do not account properly for last year's government shutdown. When the U.S. government closed in October 2013, the shutdown encompassed the Bureau of Labor Statistics (BLS) base-period for determining the unemployment and employment detail in the household survey, as well as for determining employment in the payroll survey. The BLS was unable to determine fully the impact of the government shutdown on the monthly October labor data.

For last year's October 2013 headline payroll-employment survey, the shutdown's impact generally was guesstimated by the BLS, but it was not reflected in the headline reporting of the time. For the headline unemployment and employment detail, some government employees were counted among the unemployed as being on temporary lay-off, some were just counted as employed but absent from work. Where the headline employed dropped by 735,000, unemployed only rose by 17,000 in October 2013 (see [Commentary No. 572](#) and [Commentary No. 580](#) for the analysis of the time). Where all government employees should have returned to work by the November 2013 reporting, the headline employed rose by 818,000, the unemployed dropped by 365,000.

The BLS never attempted to correct its data, and heavy distortions to the regular seasonal-adjustment process were a virtual certainty. As revised in December 2013, only for the resetting of seasonal adjustment factors—not adjusting for poor-quality reporting—seasonally-adjusted household data now show employment dropping by 785,000 in October 2013 and rebounding by 958,000 in November 2013.

***Distorted Numbers One Year Later.*** The seasonally-adjusted 683,000 jump just reported in headline October 2014 household-survey employment largely was an offsetting seasonally-adjusted artefact of those 2013 events. The October 2013 plunge in household employment, and the counter-adjusted jump in October 2014 employment, can be seen later in these *Opening Comments* in the *Employment and Unemployment* section, in the graphs of *Civilian Employment Level* and the *Civilian Employment-to-Population Ratio*.

***Employment Should Fall Sharply and the Unemployment Rate Should Rise in November.*** Reversing the swings seen in 2013, November 2014 likely will move sharply in the opposite direction from October, as the reporting and adjusting imbalances catch up. Watch for an offsetting sharp headline decline in the November 2014 household-survey employment number, and an increase in the November headline unemployment rate.

Otherwise, the headline October 2014 payroll employment and unemployment reporting suffered their regular distortions and non-comparable month-to-month estimates, where the non-comparability results

from BLS reporting policies tied to the concurrent seasonal-factor adjustment process (see *Reporting Detail* section), with general detail and misreporting summarized later in these *Opening Comments*.

**Today's (November 9th) Missive.** Beyond reviewing October 2014 labor market conditions in both the *Opening Comments* and *Reporting Detail*, today's missive examines some unusual twists both to the mid-term election and polls and to the reporting of the 2014 federal deficit (fiscal year-end September 30).

Details from the election and exit polling tend to confirm that the economy has not recovered from its collapse, and that negative pocketbook issues can impart heavy damage to an incumbent political party holding the White House.

Despite the narrowing of the cash-based headline 2014 fiscal deficit to \$0.5 trillion, GAAP-based accounting will leave the 2014 annual shortfall still at around \$6 trillion,

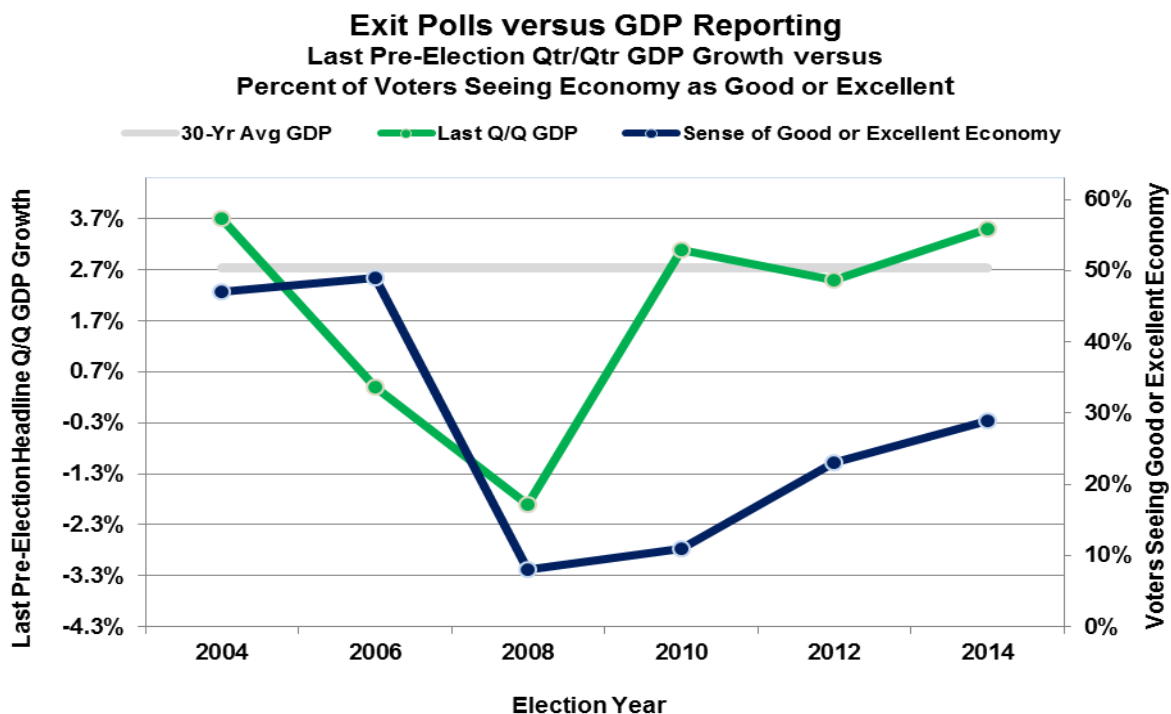
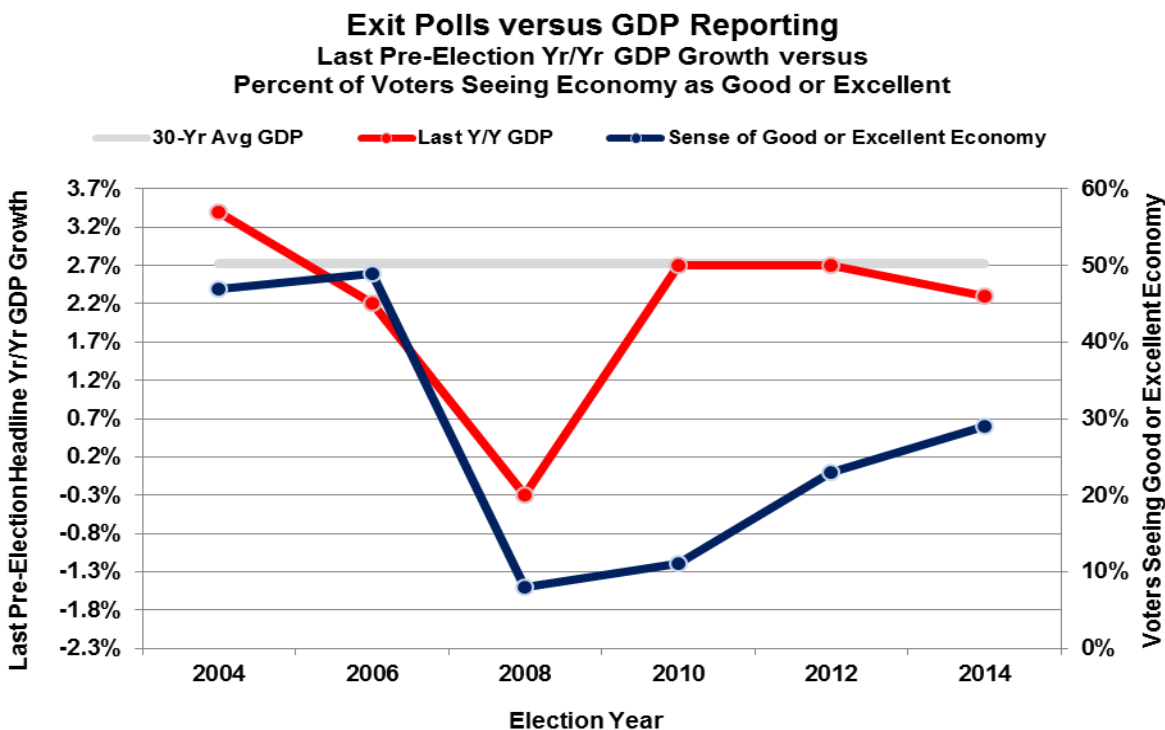
Updated monetary conditions are included in the *Hyperinflation Watch*, but an updated *Hyperinflation Outlook Summary* is not. The most-recent version of the *Summary* is found in prior [Commentary No. 671](#). A *Summary* fully updated for the election, fiscal and economic details; extended comments on financial-market conditions; and a review of some options open to the politicians in Washington for addressing the extraordinary fiscal and economic crises facing the United States; all will follow in a series of *Commentaries*, beginning with the next regular *Commentary No. 673*, scheduled for November 14th.

**Election Polling Still Suggested No Economic Recovery.** With headline economic activity crashing into 2009, but with GDP activity having fully recovered by early 2011 and expanding ever since, one might expect that a weak economy would not have been the prime area of voter concern for the 2014 Midterm Election. Yet, it was, and underlying economic reality was a major factor in driving voter discontent, helping to push control of the U.S. Congress into the hands of the Republicans.

In more-normal economic times, such as seen in 2004 and early-2006, exit polls from the Presidential or Midterm Elections of those years showed about half the voters rating the national economy as "excellent or good," with a 50% rating there being average. Not too surprisingly, that assessment of "excellent or good" dropped to 8% in 2008, as the economy was collapsing, inching higher to 11% in the early-recovery period of 2010. Yet, the "excellent or good" descriptor only recovered to 23% in 2012, and to 29% in 2014, despite the purported boom in GDP activity (exit poll numbers here reflect reporting of CNN, both current and historical, as well as detail from Wikipedia).

The accompanying graphs reflect the electorate's rating of economic activity, versus the headline GDP reporting of third-quarter 2014, the last GDP published before the election. Where the thirty-year average growth rate for headline real GDP is 2.7%, the 2014 voter assessment corresponds in the accompanying graphs to what would be relatively flat year-to-year GDP growth rate (first graph following), or negative quarter-to-quarter growth (second graph following). Instead, current headline annual GDP growth is 2.3%, headline annualized quarterly GDP growth is 3.5%, as reported for third-quarter 2014.

ShadowStats continues to contend that actual economic activity plunged into 2009 and never recovered. Instead, broad activity entered a period of low-level stagnation, which now has started to turn down anew. See [Commentary No. 670](#) and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) for further detail.



**Voting and the Pocketbook Issues.** Also, as noted among *Political Considerations* on page 108 of the April 8, 2014 [2014 Hyperinflation Report—Great Economic Tumble](#): "What lies ahead for the economy and inflation will have significant impact on the U.S. political process, as economic woes did on the 2010 mid-term election. Historically, the concerns of the electorate have been dominated by pocketbook

issues. Negative pocketbook issues should be more of a concern in the upcoming election than they were in 2010, or 2012."

Historically, pocketbook issues have dominated U.S. elections, where strong economic activity usually has helped the incumbent party holding the White House, more often than not. In contrast, and perhaps more quantifiably, a weak economy usually has hurt the election prospects for the incumbent party holding the White House.

When voters become financially stressed due to a weak economy or business environment, or to financial crisis, they usually react in the voting booth. With a meaningful low level of, or slowing in, real (inflation-adjusted) growth in disposable income—effectively take-home pay—voter reaction in Presidential elections has been against the incumbent party holding the White House, favoring the non-incumbent party's Presidential candidate. In midterm Congressional elections, lacking a direct vote as to the President, the financially-impaired voter usually has turned on the incumbent party holding the White House, more often than not, with a net shift in Congressional seats in favor of the non-incumbent party.

The results of the 2014 election tended to confirm that pattern, where exit polls showed the economy to be the key concern among the voters, and the Democrats—the incumbent party holding the White House—lost control of the Senate as well as losing seats in the Republican-controlled House.

As shown in the accompanying table, since 1930 (using the earliest reporting of the current official version of disposable income), every time annual real disposable income (DPI) has been below 2.9%, in either a Presidential Election year, or a Midterm Election year:

- In Presidential Election Years (DPI below 2.9%). The incumbent party holding the White House always has lost the White House, and usually has lost seats in both the House and Senate. For example, in 2008, when the Republicans were the incumbent party holding the White House with George W. Bush, and real disposable income growth was at 1.5% that year, below the 2.9% threshold, the Republican John McCain lost to the Democrat Barack Obama. The Republicans also lost seats in both the House and the Senate.
- In Midterm Election Years (DPI below 2.9%). The incumbent party holding the White House always has lost seats in both the House and Senate. For example, in 2014, when the Democrats were the incumbent party holding the White House with Barack Obama, and annual real disposable income growth was 2.5% (for the first three quarters of 2014), below the 2.9% threshold, the Democrats lost control of the Senate, as well as seats in the House. With the same incumbency, similar results were seen in the 2010 Midterm Election, where disposable income was at 1.0%. The Democrats lost control of the House, as well as seats in the Senate.

Many factors impact elections, but the economic or pocketbook issues tend to dominate, particularly when the economy is weak and the electorate is hurting financially. In the 22 midterm elections since 1930, 17 have seen losses in both House and Senate seats for the incumbent party holding the White House. Three elections have had mixed losses and gains, and only two elections have shown incumbent gains in both the Senate and the House.

Of the 17 elections with incumbent losses in both the House and the Senate, 11 were dominated by economies weak enough to take annual real disposable income growth to below 2.9%, as shown in the

table. The six remaining midterm losses in both the Senate and House reflected impact primarily from wars (World War II, Korea, Vietnam, Iraq) or issues such as an energy crisis.

<b>Pocketbook Issues versus Presidential and Midterm Elections (1930*-2014)</b> <b>All Election Years Where Official Real Disposable Income Growth Was Less Than 2.9%</b> <b>Sources: <a href="http://www.ShadowStats.com">www.ShadowStats.com</a>, St. Louis Federal Reserve</b>			
All Federal Election Years Since 1930 Where Growth in Real DPI < 2.9%	Real DPI Year/Year Percent Change	Incumbent Party Holding White House: R - Republican D - Democrat	<p>In every bi-annual federal election since 1930, when annual growth in inflation-adjusted (real) disposable income fell below 2.9%, the incumbent party holding the White House always lost the White House in a Presidential Election year, and always lost seats in both the House and Senate in a Midterm Election year.</p> <p>Election Results for Party Holding White House**</p>
1930 - Midterm	-6.32%	R-Hoover	Lost seats in both House and Senate.
1932 - Presidential	-13.09%	R-Hoover	Hoover lost to Roosevelt.
1938 - Midterm	-5.48%	D-Roosevelt	Lost seats in both House and Senate.
1946 - Midterm	-1.05%	D-Truman	Lost control of both House and Senate.
1954 - Midterm	1.43%	R-Eisenhower	Lost seats in both House and Senate.
1958 - Midterm	1.06%	R-Eisenhower	Lost seats in both House and Senate.
1960 - Presidential	2.62%	R-Eisenhower	Nixon lost to Kennedy.
1974 - Midterm	-1.13%	R-Ford	Lost seats in both House and Senate.
1980 - Presidential	0.72%	D-Carter	Carter lost to Reagan.
1982 - Midterm	2.08%	R-Reagan	Lost seats in House, Senate seat shifted.***
1990 - Midterm	1.99%	R-GHW Bush	Lost seats in both House and Senate.
1994 - Midterm	2.74%	D-Clinton	Lost control of both House and Senate.
2008 - Presidential	1.54%	R-GW Bush	McCain lost to Obama.
2010 - Midterm	1.03%	D-Obama	Lost control of House and seats in Senate.
2014 - Midterm****	2.50%	D-Obama	Lost control of Senate and seats in Republican House.
In the year of the 2012 Presidential race, real disposable income growth exceeded 2.9%.			
2012 - Presidential	3.02%	D-Obama	Re-elected; gained seats in both House and Senate.
<p>* Official Disposable Personal Income (DPI) from Bureau of Economic Analysis, deflated by the GDP implicit price deflator, is available on an annual basis only from 1929 on (2014 based on three-quarters of reporting).</p> <p>** Large variety of historical sources, with heavy usage of CNN and Wikipedia. In Presidential Elections with real DPI below 2.9%, except for 1960, the White-House incumbent party lost seats in both the House and Senate, as well as the Presidency. In 1960, with Nixon losing to Kennedy, seats were lost in the House, gained in the Senate.</p> <p>*** Democrats picked up one seat from a retired independent, unchanged Republican count.</p> <p>**** Annual real DPI growth is for nine months through September 2014.</p>			

**Beyond Gimmicked Reporting of a Headline, Cash-Based \$0.5 Trillion 2014 Federal Deficit, the 2014 GAAP-Based Shortfall Likely Held at About \$6 Trillion.** The U.S. Treasury has reported its annual cash-based operating deficit for fiscal year-end September 30, 2014 at \$483.350 billion (\$0.48 trillion), narrowed from \$680.212 billion in 2013, ostensibly at its lowest level since 2008. The narrowing deficit included such items as higher receipts from tax increases, the end of the payroll-tax holiday, and rising Federal Reserve interest-income kickbacks to the U.S. Treasury helping to boost federal receipts at a faster pace than was seen in the increase of federal outlays.

***Fed Monetizes the Deficit.*** The Federal Reserve, through its net purchases of U.S. Treasuries actually ended up monetizing 77.6% of headline, cash-based 2014 Federal Deficit, and then it more than refunded the related interest earned to the U.S. Treasury. These actions are nothing more than pure money printing, with eventual horrendous implications for the financial markets and inflation, as touched upon in the *Hyperinflation Watch* section, and as will be discussed in further detail in the weeks ahead.

***Not Exactly Cash-Based.*** There was a time, just before 2008, when the headline federal deficit was really cash-based, cash-in less cash-out, although it still had its own reporting gimmicks. In the wake of the 2008 Panic, however, the government opted to "capitalize" some of its bailout money, instead of reflecting it as cash-out. Not being consolidated in the federal government's financial statements, for example, Fannie Mae and Freddie Mac ended up paying "dividends" to the investing U.S. Treasury, based on accounting gimmicks that would have no place in an entity owned by the Federal Government.

What would be realistic here? Cash-in versus cash-out would suggest looking at the change in federal debt net of cash balances. Headline fiscal-year-end gross federal debt in 2013 was \$16.74 trillion versus \$17.82 trillion at year-end in 2014, an increase of \$1.08 trillion, well above the happy headline number of \$0.48 trillion 2014 deficit. One problem here is that the September 30, 2013 headline debt number reflected an active debt ceiling in place, with a government shutting down. The Treasury had obfuscated the effective actual debt level in keeping the headline debt level below the ceiling. A realistic level would have been about \$17.08 trillion at the end of 2013, ex-ceiling constraints. That would mean an increase in 2014 gross federal debt of about \$0.74 trillion, still well above the \$0.48 trillion.

As to the cash flows in 2014, were there any disruptions from the debt ceiling and government shutdown? There likely were disruptions, but they are not likely to be publicized.

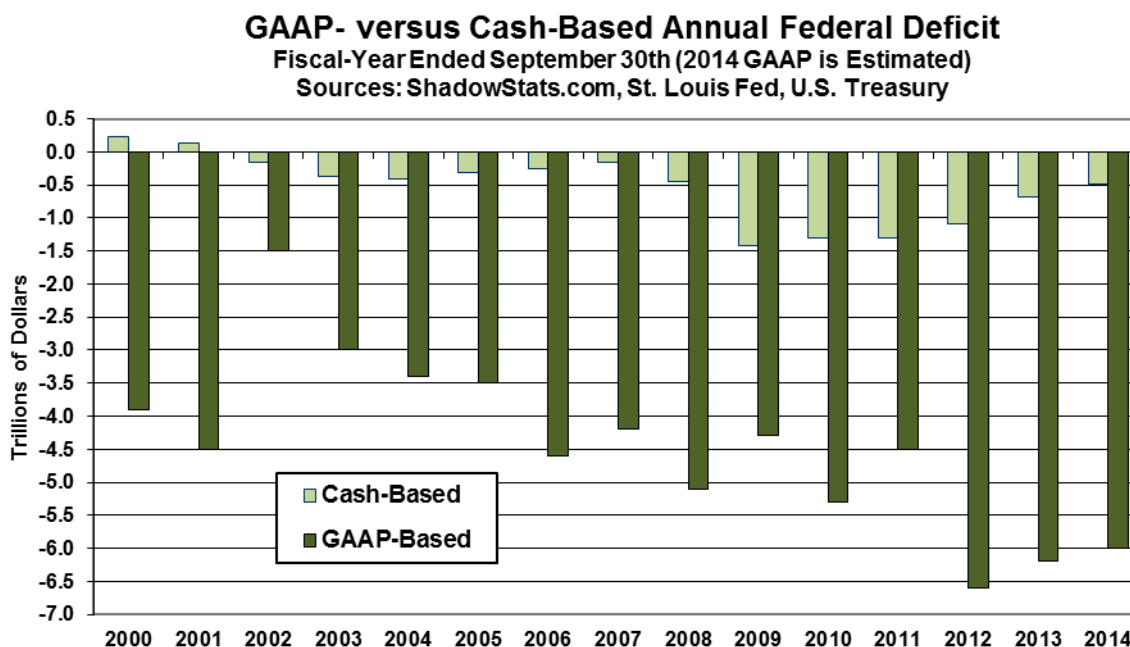
Whatever the headline 2014 cash-based deficit was, it was not fully cash-based, and it likely was more than \$0.48 trillion. It also was not based on generally accepted accounting principles, or GAAP-based accounting, as discussed and shown through fiscal-year 2013 in Chapter 5 of [\*2014 Hyperinflation Report—The End Game Begins – First Installment Revised\*](#).

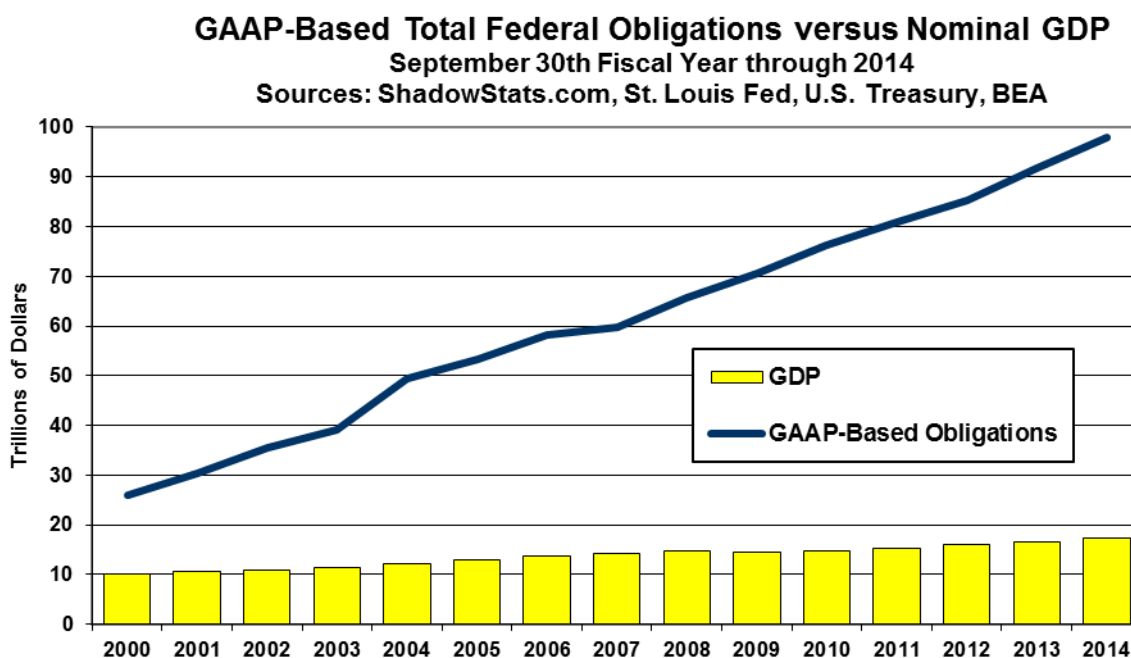
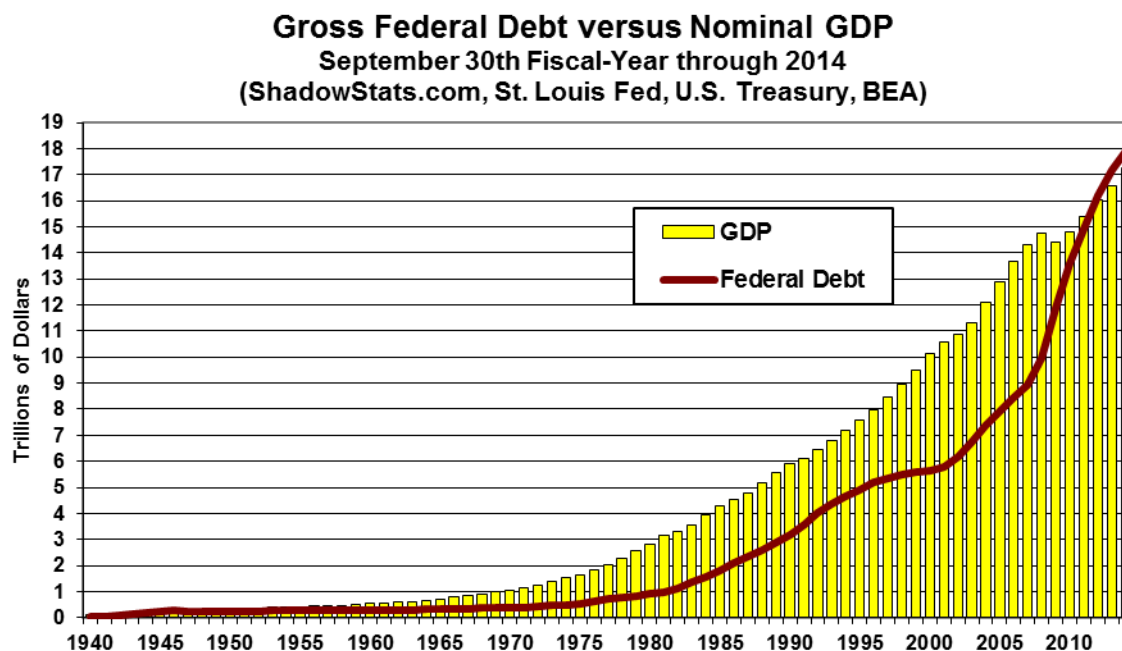
***GAAP-Based 2014 Deficit Likely Held Around \$6 Trillion.*** Rough estimates at present suggest that the GAAP-Based shortfall in the U.S. government's fiscal 2014 operations, including the annual change in the net present value of unfunded liabilities in programs such as Social Security, and prepared using consistent actuarial assumptions and accounting principles was \$6.0 trillion, versus \$6.2 trillion in 2013. The would mean that the net present value of all federal obligations was about \$97.9 trillion as of year-end 2014, versus \$91.7 trillion in 2013. These 2014 estimates are subject to revision.

That means the United States needs to have set aside, today, something shy of \$100 trillion, in order to meet its present obligations, going forward. In perspective, that is roughly 5.5 times the total amount of

current, annual U.S. economic activity. That amount meaningfully exceeds estimates of total global GDP in 2014. There is no possibility of the U.S. covering such obligations, going forward. The basic choices for the United State government come down to printing the money needed, which leads to eventual hyperinflation, or to slashing the GAAP-based budgets and unfunded liabilities, bringing the various "social" programs into fiscal balance. The latter case still likely remains a political impossibility, even post-election, but such will be discussed in weeks ahead.

The accompanying graphs are updated versions of those in the analysis of the 2013 U.S. government financial statements in [2014 Hyperinflation Report—The End Game Begins](#). The annual GAAP-based deficit numbers in the graphs are adjusted so as to be consistent year-to-year for one-time accounting changes. The gross federal debt level (and obligations) for the prior fiscal-year 2013 have been adjusted to reflect actual year-end obligations otherwise masked by U.S. Treasury accounting gimmicks used to keep the reported debt below the debt ceiling in effect at that fiscal year-end. The nominal GDP levels were redefined higher in the July 30, 2013 benchmark revision. The latest headline reporting of the annual average nominal GDP level for the government's fiscal year is shown.

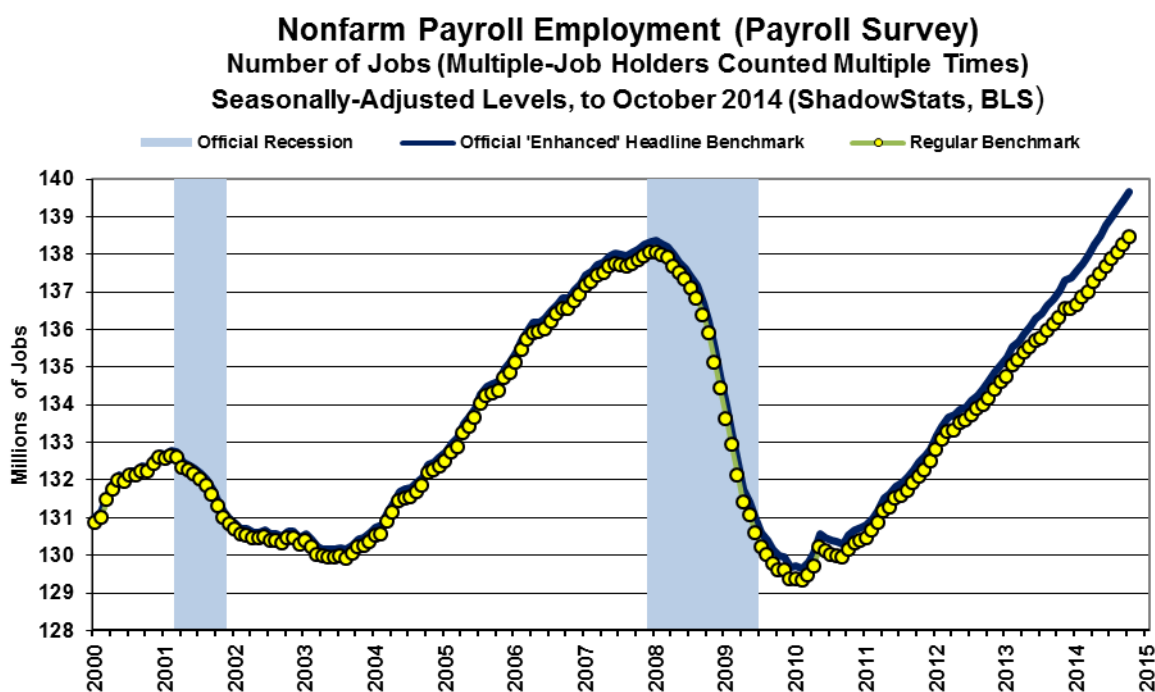




**Employment and Unemployment—October 2014—Bad Seasonals Haunt Headline Details.** Both the October 2014 headline jobs growth of 214,000 and headline unemployment rate at 5.8% remained far removed from common experience and underlying reality, with new reporting-quality issues discussed in the opening paragraphs of these *Opening Comments*. Current headline detail has been distorted by seasonal-factor issues generated by the misreporting of employment and unemployment during the year-

ago government shutdown. Discussed frequently in these *Commentaries*, common experience generally would suggest flat headline monthly payroll employment, plus or minus in October; with an unemployment rate, encompassing all short- and long-term discouraged workers, running around 23%.

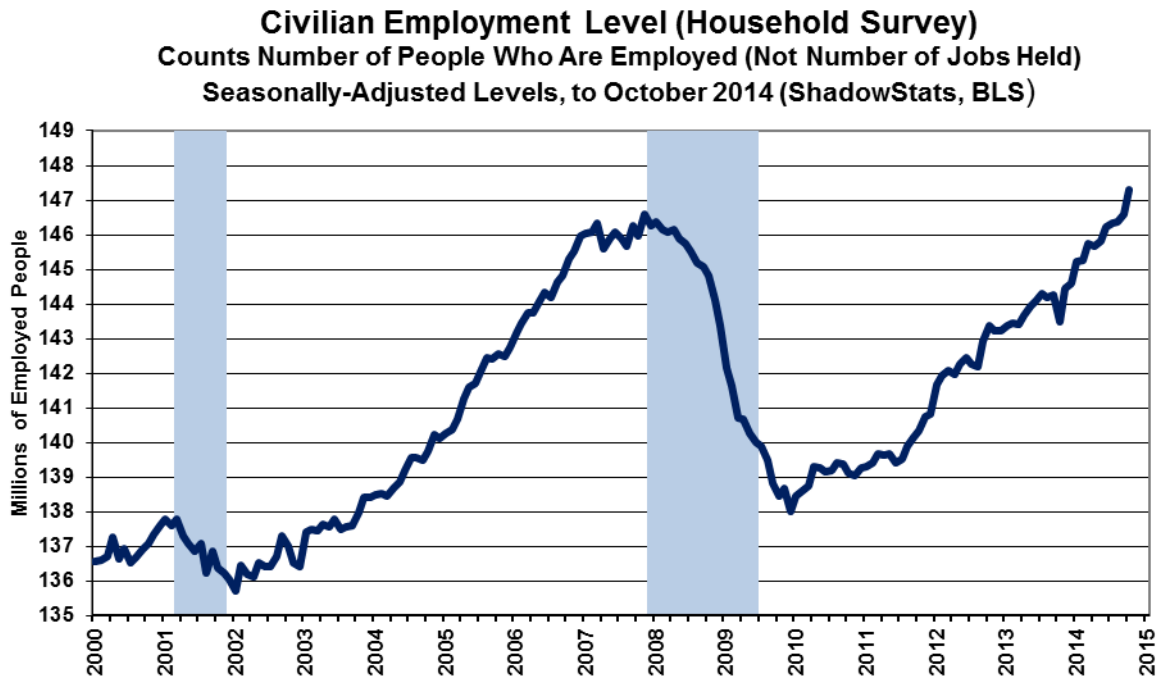
**Headline October 2014 Payrolls.** The seasonally-adjusted, month-to-month headline payroll-employment gain for October 2014 was 214,000, well below market expectations. The October gain followed a revised September gain of 256,000 and a revised August gain of 203,000, where the new August detail was an outright fraud in BLS reporting. Due to unreported historical revisions to the July data from the seasonal-adjustment process generating the headline October number, the headline August change from July actually was a gain of 196,000, based on consistent and comparable reporting, instead of the purported headline 203,000 increase (see *Concurrent Seasonal Factor Distortions in the Reporting Detail* section.)



**Annual Change in Payrolls—New Post-Recession Growth Peak.** 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 October 2014, year-to-year or annual nonfarm payroll growth was 2.03%, which was a new post-recession high, versus unrevised annual growth of 1.96% in September, and unrevised growth of 1.89% in August. Had the 2013 benchmark revision been standard, not a gimmicked redefinition, year-to-year jobs growth as of October 2014 would have been about 1.6%, consistent with near-term peak annual growth of about 1.9% in February 2012, as reflected by the yellow dots in the preceding graph.

In the following graph of the civilian employment level, note the sharp trough in October 2013 and offsetting spiked peak in October 2014, reflecting the seasonal-adjustment distortions in the headline employment counts, as discussed in the initial paragraphs of these *Opening Comments*.



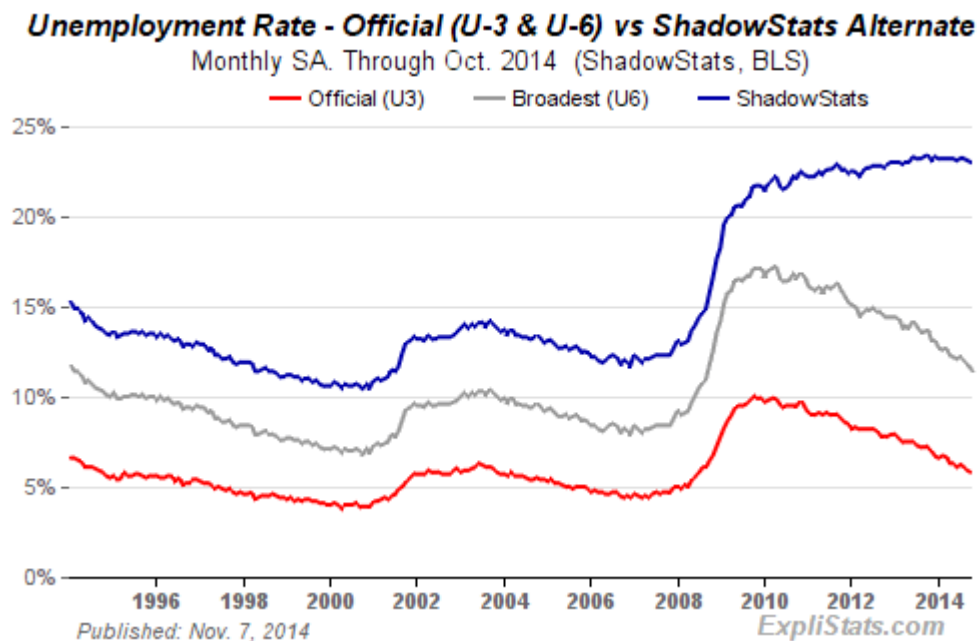
***Counting All Discouraged Workers, October 2014 Unemployment Stood at an Understated 23.0%.*** The headline household survey reporting (unemployment-related) is virtually worthless, particularly in the context of last year's government shutdown distortions discussed in the introductory paragraphs of these *Opening Comments*. Previously discussed, aside from sampling-quality issues, 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 again is tied to the concurrent seasonal adjustment process, discussed in the *Reporting Detail* section.

What removes headline-unemployment reporting from broad underlying economic reality and common experience, though, simply is definitional. To be counted among the headline unemployed (U.3), an 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.

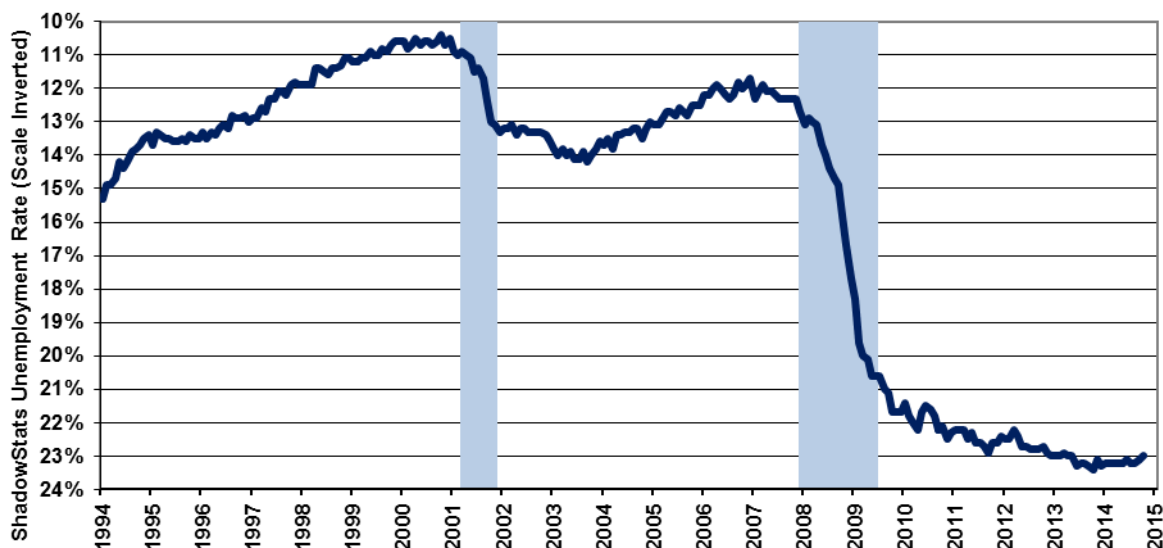
When the headline unemployed become discouraged, they roll over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. Further detail is discussed in the *Reporting Detail* section. The resulting difference here is between a headline October 2014 unemployment rate of 5.8% (U.3) and 23.0% (ShadowStats).



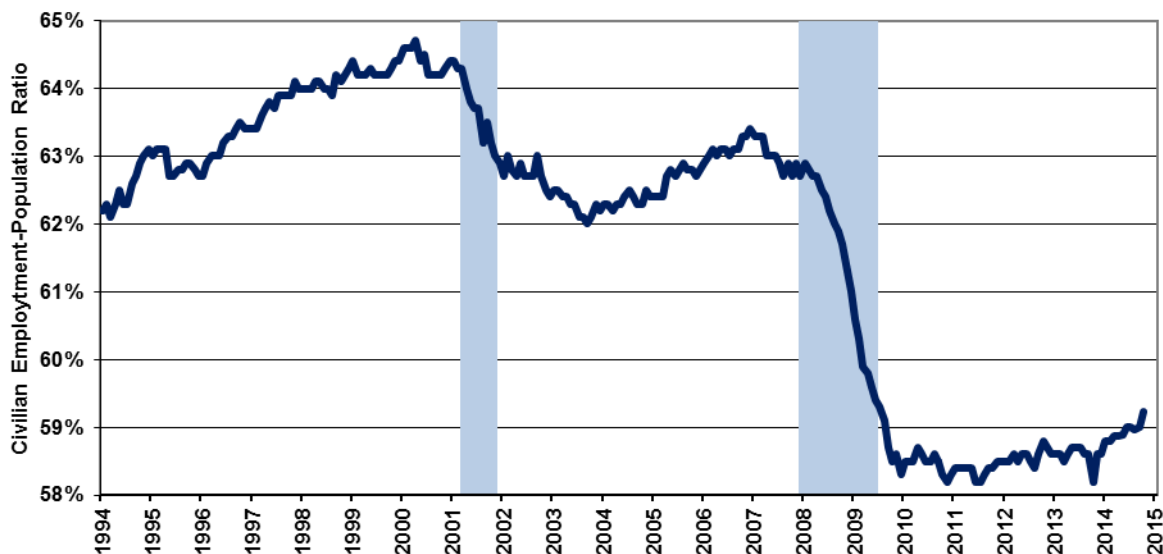
The graph immediately preceding reflects headline October 2014 U.3 unemployment at 5.8%, down from 5.9% in September; headline October U.6 unemployment at 11.5%, down from 11.8% in September; and the headline October ShadowStats unemployment measure dropping a notch to 23.0%, from 23.1% in September. The year-ago October 2013 ShadowStats reading of 23.4% was the series high (since 1994). The bad-quality seasonal adjustments in October, should flip in November, boosting the various headline unemployment rates.

The two graphs that follow reflect longer-term unemployment and discouraged-worker conditions. 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.

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



**Civilian Employment-Population Ratio**  
 To October 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. 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. Note the spiked trough in October 2013 and offsetting spiked peak in October 2014, reflecting the seasonal-adjustment distortions in the headline employment counts.

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

**Headline Unemployment Rates—October 2014.** Subject to the various reporting issues and lack of real-world relevance discussed elsewhere, the headline October 2014 unemployment (U.3) rate declined by 0.18-percentage point (-0.18%) to 5.76%, from 5.94% in September. On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. October's unadjusted U.3 unemployment rate declined to 5.5% from 5.7% in September.

With a seasonally-adjusted decline in people working part-time for economic reasons, and despite an increase in short-term (unadjusted) discouraged workers, headline October 2014 U.6 unemployment declined to 11.5%, from 11.8% in September 2014. The unadjusted U.6 declined to 11.1% in October from 11.3% in September.

Adding back into the total unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers—more in line with common experience—broad unemployment, the October 2014 ShadowStats-Alternate Unemployment Measure, notched lower to 23.0% in October, from 23.1% in September. That still was down minimally from 23.4% in October 2013, which was the series high (back to 1994). The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force.

Again, correcting solely for bad-quality seasonal factors in October 2014, the headline November 2014 rates should be higher.

*[For further detail on the October labor data, see the **Reporting Detail** section. Various trend analyses, and drill-down and graphics options on the headline data are available to ShadowStats subscribers at our affiliate: [www.ExpliStats.com](http://www.ExpliStats.com)].*

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## HYPERINFLATION WATCH

**Recent Monetary Conditions—M3 Growth Held at 4.2%; Fed Fully Monetized 78% of 2014 Cashed-Based Federal Deficit.** With the Federal Reserve Board having ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, there has been a slight downturn in the

monetary base during the last month or so. Further, annual growth in money supply M3 slowed more sharply in September than had been estimated initially, with October's annual growth rate holding about steady with September's 4.2% pace. Generally, recent Federal Reserve benchmark revisions to the underlying data in M3 have softened the reported prior-period annual growth rates for the last six months from what had been seen initially.

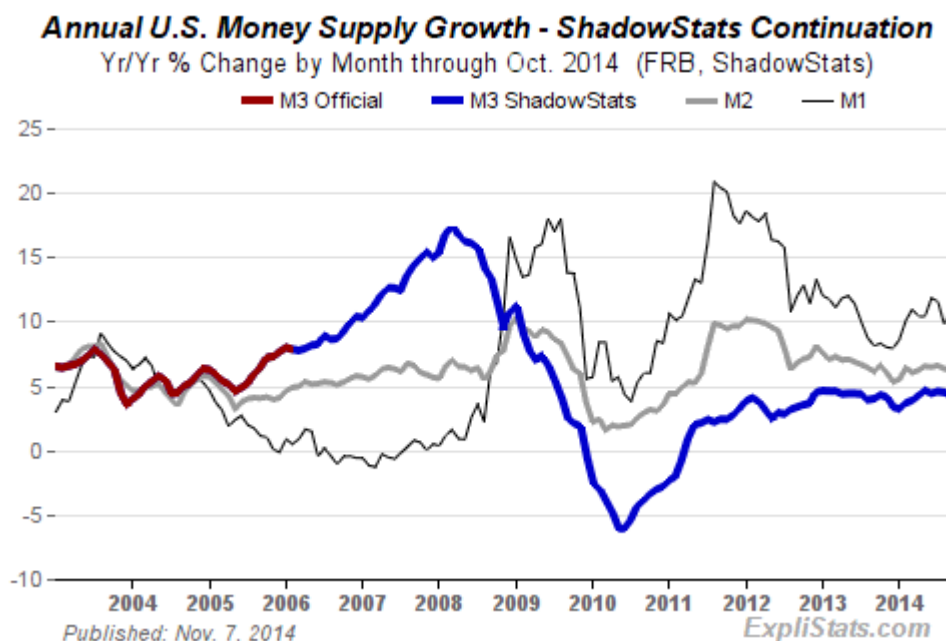
***Fed Returned \$99.2 Billion to U.S. Treasury, in 2014, Primarily Interest Received on the Monetized Treasury Debt.*** As to the Federal Reserve's monetization of net Treasury issuance, the U.S. central bank's net new purchases of U.S. Treasury securities in the federal fiscal year-ended September 30, 2014 effectively monetized \$374.8 billion or 77.6% of the headline cash-based 2014 fiscal-year deficit of \$483.4 billion. The interest earned on that debt held by the Fed was reimbursed to the U.S. Treasury, which means that debt was monetized. The Treasury converted much of its deficit into debt, which in turn was converted into cash by the Fed, with no cost to the issuing federal government.

That cannot be done regularly without consequence, where the consequences usually are in the form of currency debasement, also known as inflation.

***Money Supply M3 Annual Growth Held at 4.2% in October 2014.*** With year-to-year change in October M3 a roughly a 4.2% gain, annual growth held about even versus a downwardly revised 4.2% (previously 4.3%) growth rate in September, and a downwardly revised 4.5% (previously and initially 4.6%) gain in August. Prior-period revisions were due to one of the frequent benchmark revisions to the underlying detail provide by the Federal Reserve.

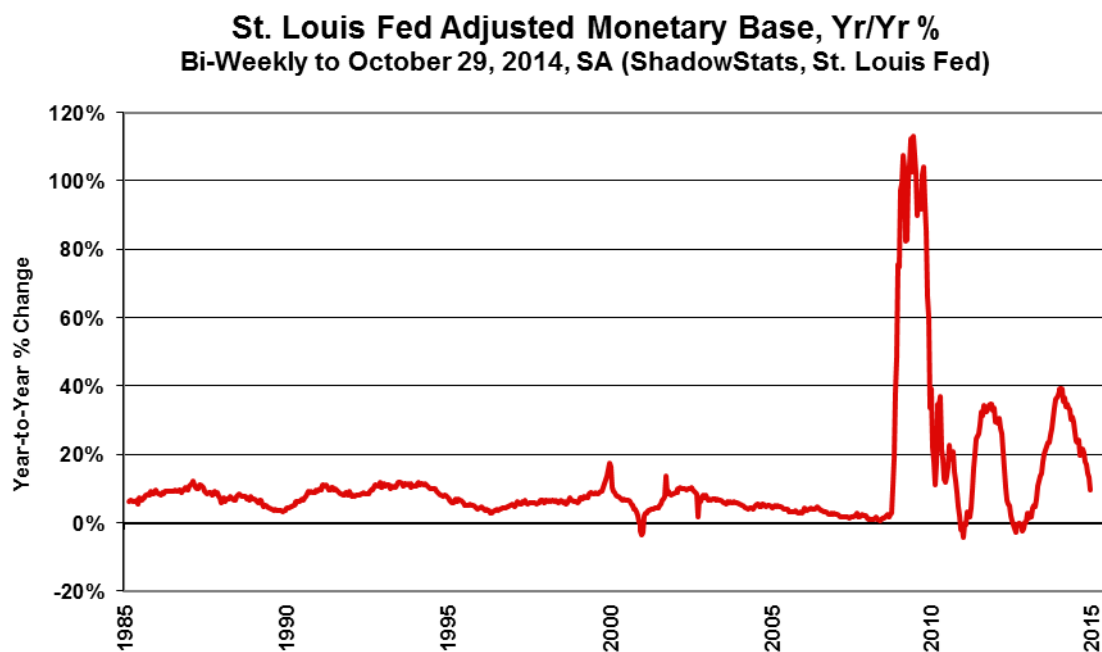
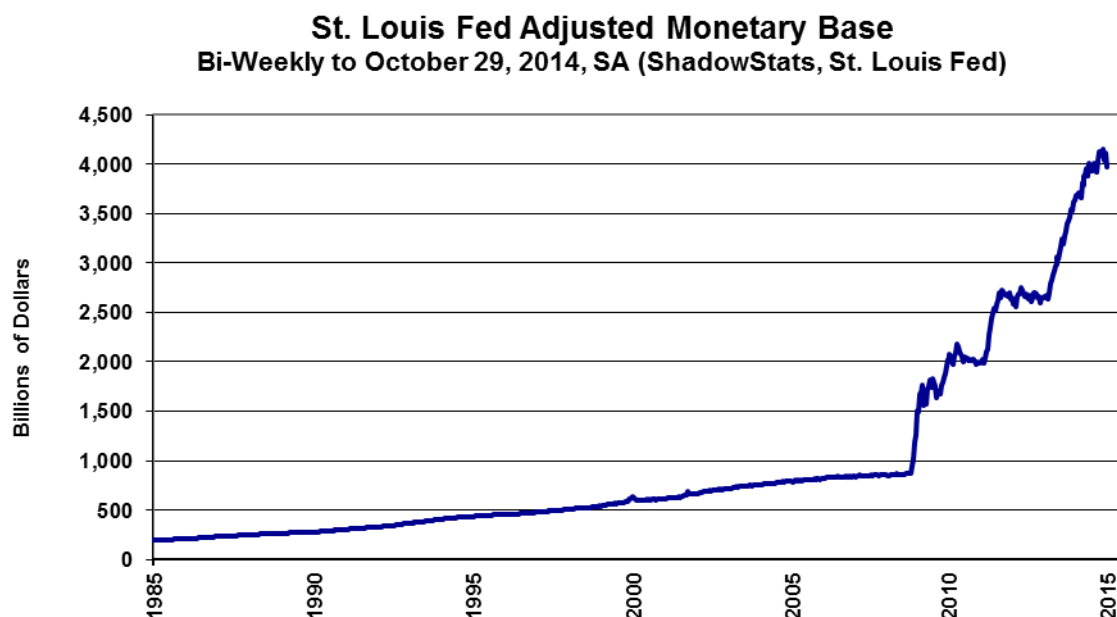
Monthly year-to-year growth began to slow, after hitting a near-term peak of 4.6% in each of the months of January, February and March 2013, the onset of expanded QE3. Growth then fell to a near-term trough of 3.2% in January 2014, but that period of slowing growth had reversed fully as of May 2014, with annual growth then at 4.6%, matching the highest growth since the “end” of the recession, in July 2009. Annual growth pulled back to a revised 4.4% (previously 4.5%) in June 2014, but rose again to a revised 4.5% (previously 4.6%, initially 4.7%) in July, where it held in August. Growth slowed further to a revised 4.2% (previously 4.3%) in September, where it held in October. Formal M3 estimates and the first readings of annual growth for M2 and M1 in October 2014 are posted on the [Alternate Data](http://www.ShadowStats.com) tab of [www.ShadowStats.com](http://www.ShadowStats.com).

Again, revisions in the following numbers generally are attributable to recent revisions in underlying data by the Federal Reserve. The seasonally-adjusted, preliminary estimate of month-to-month change for October 2014 money supply M3 was roughly a gain of 0.4%, up from a revised 0.2% (previously 0.1%) gain in September. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.



**Growth for October M1 and M2.** For October 2014, year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1; M3 includes M2). See the [Money Supply Special Report](#) for full definitions of those measures. Annual M2 growth in October 2014 slowed to roughly 5.7%, down from a revised 6.3% (previously 6.4%) year-to-year gain in September, with a month-to-month gain of about 0.4% in October, versus an unrevised 0.3% gain in September. For M1 in October 2014, year-to-year growth slowed to about 8.9%, down from a revised 10.7% (previously 11.6%) in September, with a month-to-month October contraction of 2.2% (-2.2%), versus a revised gain of 1.7% (previously 2.2%) in September.

**Monetary Base Backs off Record High.** In the context of completed “tapering,” with no net new Treasury debt purchases planned by the Federal Reserve, the monetary base (St. Louis Fed measure) hit an all-time high in the two weeks ended September 17, 2014, at \$4.150 trillion. It then backed off in the two-weeks ended October 1st to \$4.036 trillion, rebounded to \$4.114 trillion in the period ended October 15th, and pulled back to \$3.975 trillion in the latest period, ended October 29th. As reflected in the accompanying graphs, such period-to-period volatility is not unusual. Year-to-year growth in the monetary base, given current activity compared to the more-regular and faster period-to-period growth the year before, was 17.0% in the September 17th period, 14.4% for October 1st, 13.5% for October 15th and 9.6% for October 29th.



**Hyperinflation Outlook Summary.** Noted in the *Opening Comments*, the current version of the *Summary* is found in [Commentary No. 671](#). A fully updated version of the hyperinflation outlook (the basic outlook and story have not changed) will be published, along with assessments of potential actions open to the federal government in terms of addressing the U.S. fiscal and economic crises, in a series of *Commentaries*, beginning with *No. 673*, planned for November 14th.

## REPORTING DETAIL

### EMPLOYMENT AND UNEMPLOYMENT (October 2014)

**Seriously-Flawed Headline Reporting of Jobs Growth and Unemployment Goes over the Top.** Both the October 2014 headline jobs growth of 214,000 and headline unemployment rate at 5.8% remained far removed from common experience and underlying reality, with new reporting-quality issues discussed in the *Opening Comments* as to seasonal-factor distortions from the impact of the government shutdown in October 2013. As discussed frequently in these *Commentaries*, common experience generally would suggest flat headline monthly payroll employment, plus or minus in October; with an unemployment rate, encompassing all short- and long-term discouraged workers, running around 23%.

As was evident again in October, headline employment gains were no more than statistical illusions resulting from hidden shifts in seasonal factors, and from phantom-jobs creation with the Birth-Death Model's upside bias factors (see the *Birth-Death/Bias-Factor Adjustment* and *Concurrent Seasonal Factor Distortions* sections for extended detail), on top of short-term distortion issues.

In October's reporting, much of the small improvement in the headline U.3 unemployment rate was tied to the short-term seasonal factor distortions. Longer-term, U.3 underreporting reflects the BLS removal of discouraged workers, from the counts of the unemployed and the labor force (see *ShadowStats-Alternate Unemployment Rate*). Separately, month-to-month comparisons of these numbers have no meaning; they simply are not comparable thanks to the concurrent-seasonal-factor adjustment process as practiced by the BLS (see *Concurrent Seasonal Adjustment Distortions*).

Recently, an issue has arisen as to the falsification of the household survey by employees of the Census Bureau, who conduct the underlying Current Population Survey. Details on the related Congressional investigation and recent breaking news are discussed in [Commentary No. 669](#).

**PAYROLL SURVEY DETAIL.** Published November 7th, by the Bureau of Labor Statistics (BLS), the seasonally-adjusted, month-to-month headline payroll-employment gain for October 2014 was 214,000 +/- 129,000 (95% confidence interval), above trend but also well below market expectations. The October gain followed a revised September gain of 256,000 (previously 248,000), versus a revised August gain of 203,000 (previously 180,000, initially 142,000).

The upside revisions to August and September were due, as usual, primarily to the irregular shifts in seasonal-factor adjustments, not to updated, better-quality unadjusted raw data. The revised headline August gain, however, was an outright fraud in reporting by the BLS.

***Fraudulent Monthly Gains.*** Frequently discussed here are the implications of the BLS's use of concurrent-seasonal-adjustment factors, which restates seasonally-adjusted historical monthly payroll levels each-and-every month, as the new headline number is created in its own, unique seasonally-adjusted environment. The reporting fraud comes not from the adjustment process, but from the BLS not publishing the newly revised history each month, allowing for honest comparisons of the numbers.

In October's headline reporting, for example, only headline monthly changes for October and September were comparable with each other. Due to unreported historical revisions to July data from the seasonal-adjustment process generating the headline October number, the headline August change from July actually was a gain of 196,000, based on consistent and comparable reporting, instead of the purported headline 203,000 increase.

Separately, as can be seen in the wild month-to-month revisions of the seasonally-adjusted data in the graph found in the *Concurrent Seasonal Factor Distortions* section, significant changes were made to historical September seasonal adjustments, indicating unusual distortions in the headline September 2014 that cannot be tracked, shy of a private recalculation of the series, as done by ShadowStats. The detail required for such calculations is available from the BLS, but only for the payroll reporting. The monthly unemployment-related detail from the troubled household survey simply is not comparable month-to-month, and there are no options for private recalculation on a consistent basis.

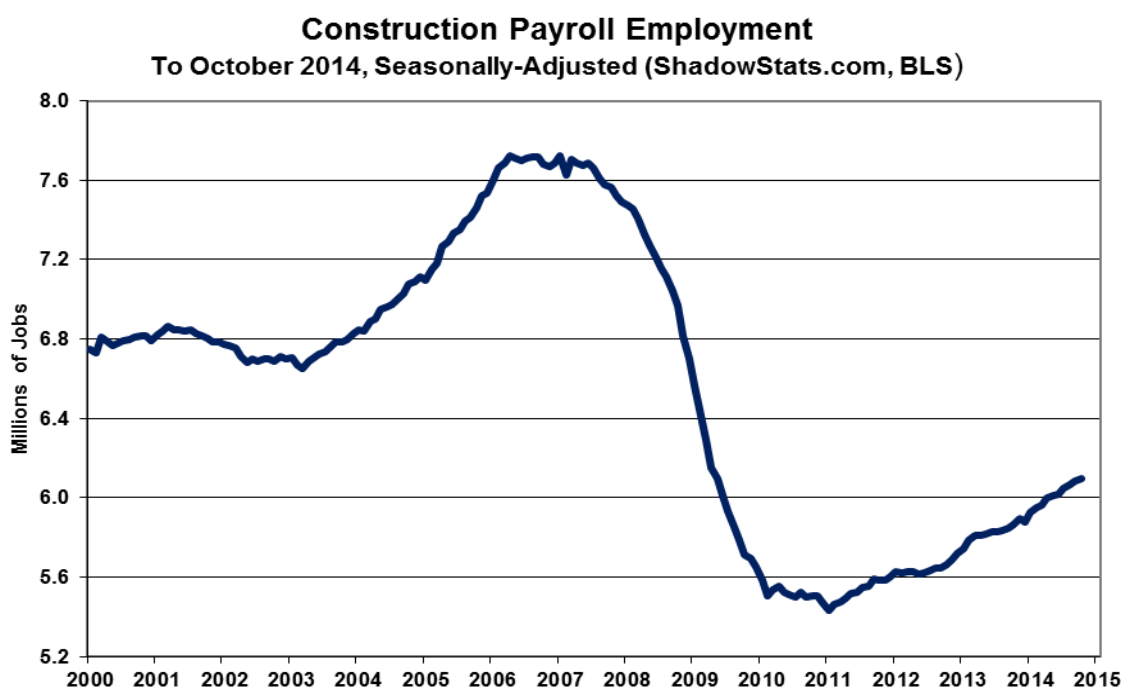
Where the current employment levels have been spiked by misleading and inconsistently-reported concurrent-seasonal-factor adjustments, the reporting issues suggest that a 95% confidence interval around the monthly headline payroll gain should be well beyond +/- 200,000 around the formal modeling of the headline gain, instead of the official +/- 129,000. Encompassing Birth-Death Model biases, it should be in excess of +/- 300,000.

***“Trend Model” Estimate Suggests Slight Gain in November Payroll.*** As discussed in [Commentary No. 663](#), 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](http://www.ExpliStats.com)—was for an October 2014 monthly payroll gain of 180,000, based on the BLS trend model structured into September's actual reporting. The late-consensus for October 2014 reporting was about 240,000, where the headline gain came in at 214,000.

Where the October consensus was significantly above the trend, the headline detail surprised the consensus on the downside, towards the trend. Full detail on the headline payroll data, including various drill-down and graphics options are available to ShadowStats subscribers at ShadowStats-affiliate [www.ExpliStats.com](http://www.ExpliStats.com).

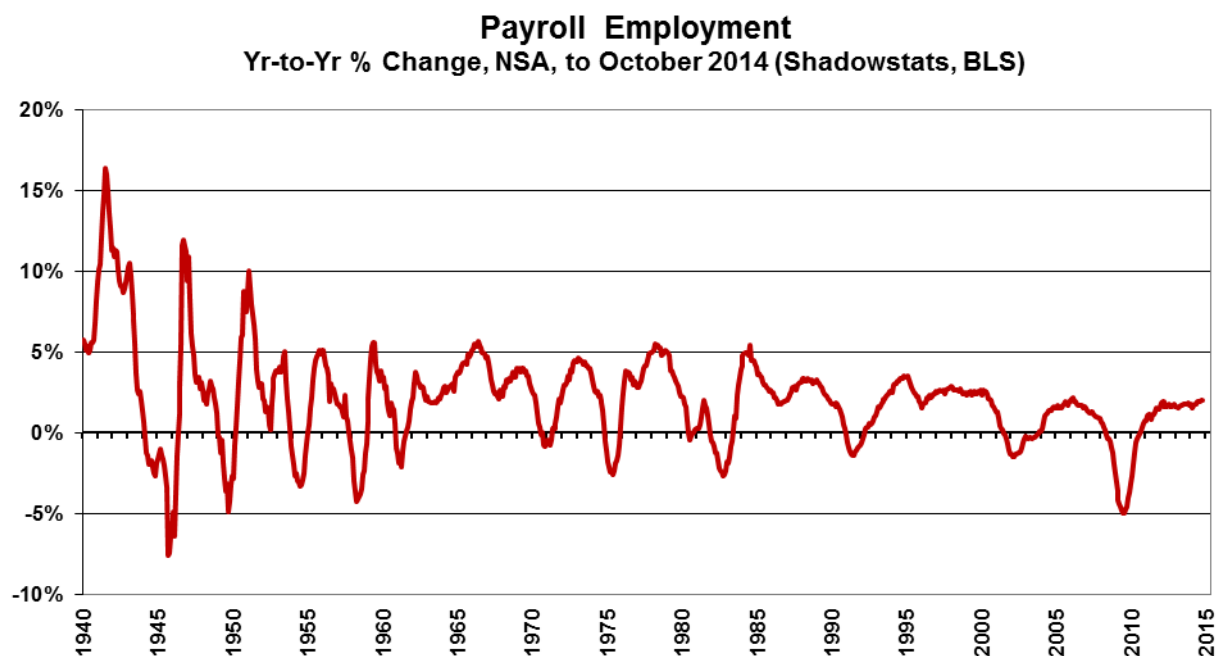
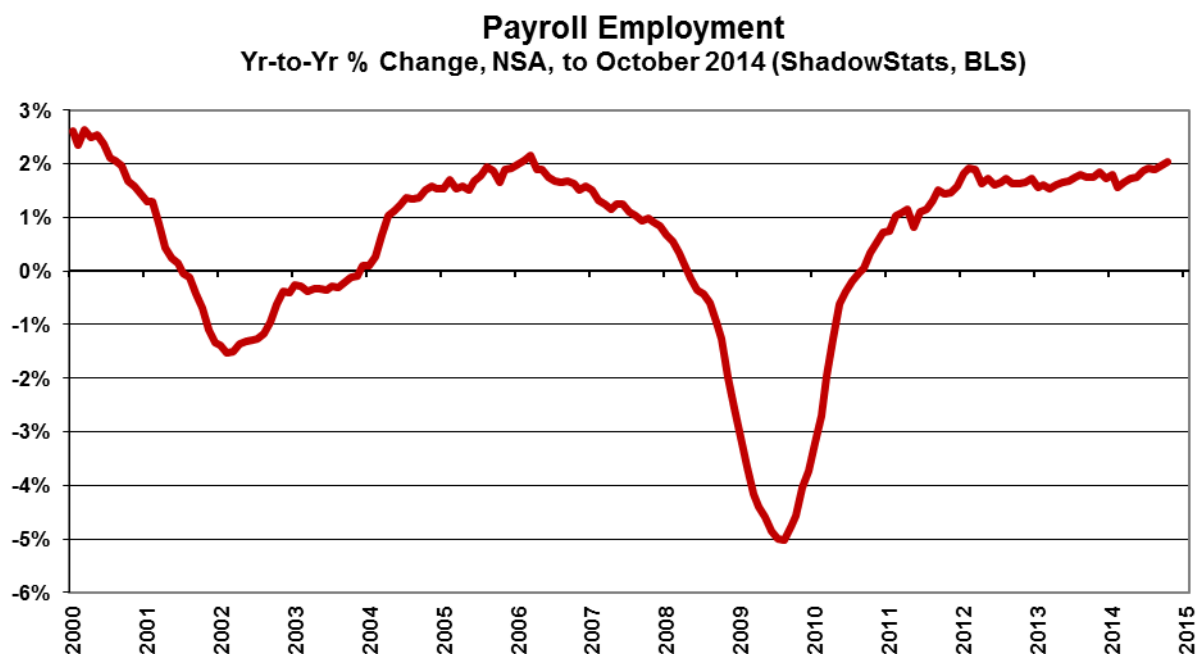
***November Trend Estimate.*** Based on the October 2014 BLS seasonal-adjustment modeling, the trend number calculations suggest a headline gain of 232,000 in November 2014. The consensus outlook for November, most likely will settle-in around that number.

**Construction Payrolls.** Updating the graph in [Commentary No. 671](#), in the *Construction Spending* section of the *Reporting Detail*, and in the context of an upside revision to September activity, headline October 2014 construction rose by 12,000 in the month. That was against a revised 19,000 (previously 16,000) gain in September, and a revised 17,000 (previously and initially 16,000) gain in August. Total September 2014 construction jobs still were 21.1% shy of the pre-recession peak for the series in April 2006.



**Annual Change in Payrolls—New Post-Recession Growth Peak.** 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 October 2014, year-to-year or annual nonfarm payroll growth was 2.03%, which was a new post-recession high, versus unrevised annual growth of 1.96% in September, and unrevised growth of 1.89% (initially 1.84%) in August. Had the 2013 benchmark revision been standard, not a gimmicked redefinition, year-to-year jobs growth as of October 2014 would have been about 1.6%, consistent with near-term peak annual growth of about 1.9% in February 2012.



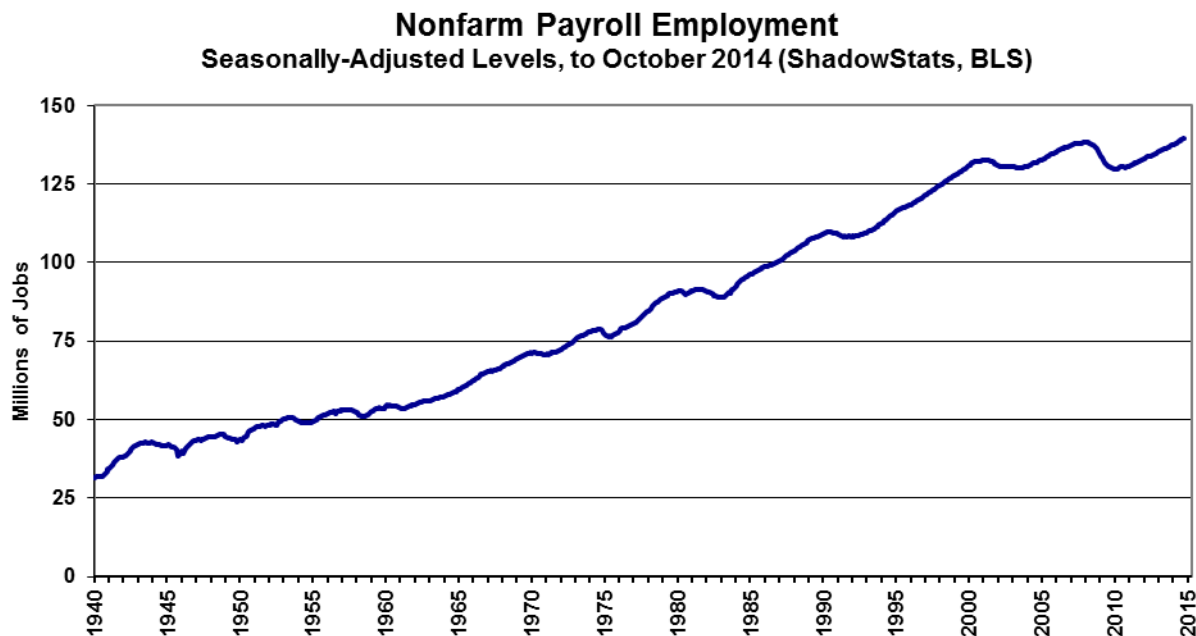
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record 5.02% decline seen in August 2009, as shown in the accompanying graphs. That 5.02% decline remains the most severe annual contraction since the production shutdown at the end

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.

**Historical Payroll Levels.** Headline payroll employment moved to above its pre-recession high in May 2014, and it has continued to rise, although, as discussed in the *Opening Comments*, the number of employed individuals had not reached that milestone until September's fortuitous reporting. The difference remains that the payroll survey count reflects the number of jobs, irrespective of how many jobs an individual holds. The household survey count of employment reflects the number of people who are employed, not the number of jobs.

The pattern of recovery in the payroll level count was 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 (again 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. Even with what should have been a standard benchmarking, the pre-recession level was broken, as expected, with the September 2014 reporting.

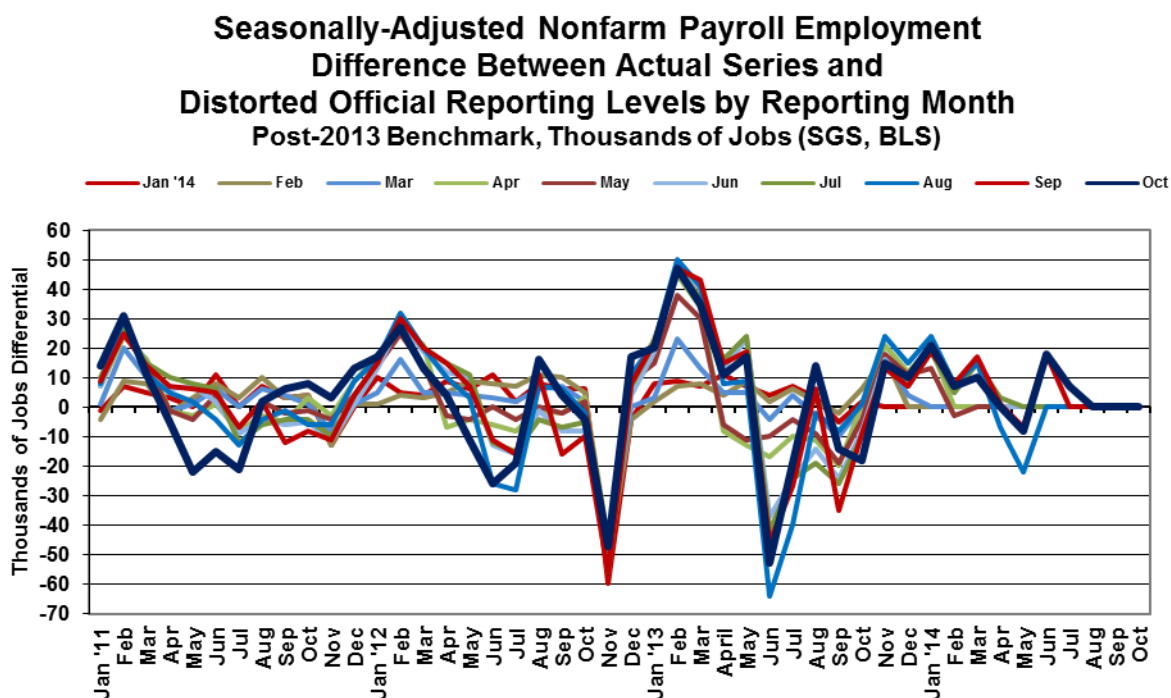
In perspective, the following longer-term graph of the headline-employment level shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.



**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 monthly 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 and publishes the current estimate, but it 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 preceding, accompanying graph shows how far the monthly data have strayed from being consistent, as of the latest October 2014 reporting, versus the most recent benchmark revision to the series.

If the reporting were comparable and stable month-after-month, all the lines in the graph would be flat at zero.

Seen in the accompanying graph the shifting patterns coming into the current reporting, and the sharp upside revision to September 2013, which has an implied parallel in the seasonals for September 2014, although not for October. Consider, though the 31,000 jobs upside revision to the level of the seasonally-

adjusted September 2014 payrolls. Unadjusted, the level of September 2014 payrolls was revised higher by just 1,000 jobs. Nearly all of the adjusted gain came from shifting patterns in the concurrent seasonal factors, not from upside revisions in the hard unadjusted 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 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 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. The preliminary announcement of the 2014 benchmark revision was for a relatively insignificant upside adjustment of 7,000 (see [Commentary No. 660](#)).

Indeed, particularly unusual here is that despite the BLS modeling having overstated jobs creation through March 2013 by 119,000, adjustment to the annual upside biases added into payroll estimation process each month, thereafter, was increased by about 150,000 on an annual basis, instead of being reduced, which would have been expected otherwise (see short-term graph of nonfarm payrolls 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.

**October 2014 Bias.** The not-seasonally-adjusted October 2014 bias was a monthly add-factor of 137,000, versus what was (post-2013 benchmark) a positive bias of 159,000 in October 2013, versus a minus 26,000 (-26,000) add-factor in September 2014. The aggregate upside bias for the trailing twelve months was 722,000, from the pre-benchmark 624,000 twelve-month aggregate as of December 2013, or to a monthly average of 60,000 (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 60,000 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.*** Detailed in [Commentary No. 669](#), significant issues as to falsification of the data gathered in the monthly Current Population Survey (CPS) conducted by the Census Bureau have been raised in the press and are under investigation by the House Committee on Oversight and Government Reform and the U.S. Congress Joint Economic Committee. The CPS is the source of the household survey used by the BLS in estimating monthly unemployment, employment, etc. Accordingly, the statistical significance of the headline reporting detail here is open to serious question.

Separately, the BLS already had introduced reporting practices to make the seasonally-adjusted household-survey data virtually meaningless in terms of month-to-month changes or comparisons. 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 consistent detail never is published.

Where, for example, the seasonally-adjusted headline unemployment rate for October 2014 of 5.76% was based on a set of seasonal adjustments unique to October 2014, and the adjusted unemployment rate for September was revised along with the October seasonal-adjustment calculations, the new historical and comparable result for September was not, and never will be, published. The prior headline reporting of

5.94% for the September 2014 unemployment rate remained in place, although it now is inconsistent and not comparable with the October 2014 number, even though the consistent September 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 a not comparable basis, headline October 2014 employment soared by 683,000, following an unrevised and not comparable decline of 232,000 (-232,000) in September. The employment changes were in the context of a decline by 267,000 (-267,000) in October unemployment, following a headline decline of 329,000 (-329,000) in September.

As discussed and detailed in the *Opening Comments*, however, the headline October employment and unemployment changes appear to reflect a major distortion in the seasonal-adjustment process triggered by the year-ago shutdown in the U.S. government. Accordingly, some reporting reversals are likely in next month's November detail (see *Opening Comments*).

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.

**Headline Unemployment Rates.** In the context of the preceding background, the headline October 2014 unemployment (U.3) rate declined by 0.18-percentage point (-0.18%) to 5.76%, from 5.94% in September.

Technically that was not a statistically-significant change, where the official 95% confidence interval around the monthly change in headline U.3 is +/- 0.23-percentage point. That is meaningless, however, in the context of the comparative month-to-month reporting-inconsistencies created by the concurrent seasonal factors, let alone new questions as to overall survey accuracy and significance.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. October's unadjusted U.3 unemployment rate declined to 5.5% from 5.7% in September.

**U.6 Unemployment Rate.** The broadest unemployment rate published by the BLS, U.6 includes accounting for those marginally attached to the labor force (including short-term discouraged workers) and those who are employed part-time for economic reasons (*i.e.*, they cannot find a full-time job).

With a seasonally-adjusted decline in people working part-time for economic reasons more than offsetting a gain in short-term (unadjusted) discouraged workers, headline October 2014 U.6 unemployment declined to 11.5%, from 11.8% in September 2014. The unadjusted U.6 declined to 11.1% in October from 11.3% in September.

**Discouraged Workers.** The count of short-term discouraged workers in September 2014 (never seasonally-adjusted) rose to 770,000 in October, from 698,000 in September, and versus 775,000 in August, 741,000 in July, 676,000 in June 2014, and 697,000 in May 2014. 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 the increasing number 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—notched lower to 23.0% in October 2014, from 23.1% in September 2014, caught up in the general unemployment/employment seasonal-factor issues discussed in the *Opening Comments*. The October 2014 reading was 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.

*[The remaining text in this Household Survey section is unchanged from the Commentary covering the September 2014 labor data.]* 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 the regular *Commentaries* covering the monthly unemployment circumstance, 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%.

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## WEEK AHEAD

**Against Overly-Optimistic Expectations, Pending Economic Releases and Revisions Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger.** Having shifted some to the upside, again, from the downside, amidst wide fluctuations, market expectations for business activity are overly optimistic in the extreme. They exceed any potential, underlying economic reality. Market outlooks increasingly should be hammered, though, by ongoing, downside corrective revisions and by an accelerating pace of downturn in broad-based headline economic activity.

**Longer-Range Reporting Trends.** The gradual process of downside shifting in economic-growth expectations has been sporadic, but the underlying fundamentals remain extraordinarily negative. Other than for nonsense-growth in the headline second-quarter GDP (see [Commentary No. 662](#)), and the overstated initial third-quarter GDP growth estimate, renewed weakness has been, and increasingly will be seen in the post-election headline reporting of other major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)). Indeed, weaker-than-consensus economic reporting should become the general trend until the unfolding "new" recession receives broad recognition,

which minimally would follow the next reporting of a headline contraction in real GDP growth (very possibly a culmination of pending downside revisions to the headline third-quarter 2014 GDP estimate).

A generally stronger consumer inflation trend remains likely, as seen in recent months (August 2014 excepted). Beyond the spread of earlier oil-based inflation pressures into the broad economy, upside pressure on oil-related prices should continue and be rekindled from the intensifying impact of global political instabilities and a likely near-term weakening of the U.S. dollar in the currency markets. Such excludes any near-term financial sanction actions against Russia that are pushing oil prices lower.

The dollar faces eventual pummeling from the weakening economy, continuing perceptions of needed, ongoing quantitative easing, 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 prospective, significantly-weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected U.S. inflation, across the board.

***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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment, and unemployment data). These issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

### ***PENDING RELEASE:***

**Retail Sales (October 2014).** The Census Bureau has scheduled the release of October 2014 retail sales for Friday, November 15th. As discussed frequently in these *Commentaries*, and as will be updated fully in the related November 15th *Commentary*, the consumer remains in an extreme liquidity bind. Consensus expectations appear to be for headline monthly growth minimally on the plus-side, but the headline number is at high risk of showing an outright monthly contraction (in nominal terms, before inflation adjustment). At the same time, look for downside revisions to previously-reported August and September detail, revisions that would be suggestive of downside-revision pressures on the first revision (November 25th) to third-quarter 2014 GDP growth, as part of the "other" factors discussed in [Commentary No. 671](#).

The October CPI-U estimate (due for publication on November 20th, with coverage in *Commentary No. 675* on the same date) will determine the level of inflation-adjusted, or real, retail sales for the month. The headline CPI-U likely should be weak, but still flat-to-plus for October, despite the 6.6% (-6.6%) monthly drop in gasoline prices, possibly placing further real downside pressure on what appears to be a likely negative headline change in nominal monthly retail sales for October.