

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

COMMENTARY NUMBER 679

Labor Numbers, Trade Deficit, Household Income and Construction Spending

December 6, 2014

Widening Fourth-Quarter Trade Deficit Should Hit GDP Growth Hard

October Median Household Income in Continued Low-Level Stagnation

Full-Time Employment Is 2.4 Million Shy of Pre-Recession Peak

**Headline Unemployment Really Increased by 0.1%,
But Gain Was Hidden in Rounding Details**

**November Payroll and Unemployment Data Heavily Skewed Again
By Volatile and Inconsistent Seasonal Adjustments**

November Unemployment Rates: 5.8% (U.3), 11.4% (U.6), 23.0% (ShadowStats)

**Downtrend in Inflation-Adjusted Construction;
Annual Growth Turned Negative in September and October**

November Money Supply M3 Annual Growth Surged to Five-Year High

PLEASE NOTE: The next Commentary is planned for Thursday, December 11th, covering November retail sales and reviewing financial-market circumstances.

Unusual twists to some of the December 5th (Friday's) reporting extended the writing time needed for this Commentary. As a result, it has gone overnight, and the planned financial-market review moved to the next Commentary on December 11th. That missive will encompass a much-lighter economic-release calendar. I apologize to subscribers for any inconveniences caused by the delay and shift in dates.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Labor Data Again Were Heavily Skewed by Poor-Quality and Inconsistent Seasonals; Trade and Construction Numbers Signaled Terribly-Troubled Economic Activity. Headline November 2014 payrolls surged by 321,000, on top of large upside revisions to October and September payroll levels and headline monthly gains. Those happy numbers, though, simply were just constructs of highly unstable, inconsistent and questionable seasonal adjustments being shifted between months.

The adjusted upside revisions did not come from better information surfacing in the underlying not-seasonally-adjusted data, where the unadjusted October payroll level revised lower by 15,000, and the unadjusted September payroll level was not revised. In addition, despite surging seasonally-adjusted November activity, the unadjusted year-to-year change in November payrolls was 2.00%, minimally below the 2.02% of October, and versus 1.96% in September.

Separately, discussed in the *Birth-Death Model* (BDM) section of the *Reporting Detail*, monthly headline payroll reporting is boosted by excessive monthly bias- or add-factors that currently top 200,000 jobs per month. The bias factors here are independent of other reporting issues reflected in the graph of payroll employment levels shown later in these *Opening Comments*.

The seasonally-adjusted, month-to-month headline gain of 321,000 jobs in November payrolls also was reported in conjunction with, and in contrast to, a month-to-month headline gain of 4,000 in November employment as shown in the household survey.

In fairness, the seasonally-adjusted October employment (household survey) increase was unrevised at 683,000; still it is not at all comparable with November's 4,000 gain. A needed downside balancing change to the poorly-adjusted October headline employment surge did not show up in the headline November reporting, but all that is subject to the one-time per year revision scheduled for next month's December reporting. Then, all recent data from the household survey will be restated on a consistent basis. Items such as the October employment surge should be corrected or offset. Come January 2015 reporting, though, all the adjusted headline household-survey data will become non-comparable, once again (see the *Concurrent Seasonal Factor* discussion in the *Reporting Detail* section).

In the context of the headline November gain of 4,000 employed, the household-survey count of unemployed rose by 115,000. That was enough to raise the level of the headline unemployment rate by 0.06%, which rounds up to an increase of 0.1%, at the first decimal point. With October U.3 unemployment rate at 5.76%, and November at 5.82%, the rounded, headline unemployment was unchanged at 5.8%. Again, though, as published, those monthly numbers really are not comparable.

Headline monthly changes reported from both the payroll and household surveys remain seriously flawed.

Full-Time Employment Has Not Topped Pre-Recession Levels. Explored in the next section, in September 2014, household-survey reporting of total employed individuals (full-time employed and part-time employed) moved above its pre-recession high of November 2007. Yet, the number of full-time employed in November 2014 still was about 2.4 million shy of its pre-recession high of seven years before. The difference was an increase of 3.1 million people in part-time employment during the same

period, where 79% of that gain reflected those working part-time for economic reasons, people who were looking for but unable to find a full-time job. In contrast to the payroll survey, which counts only the number of jobs, not people, the household survey counts just the number of people who are employed, counting each individual only once, irrespective of how many jobs he or she might hold. Accordingly, much of the reported headline activity in payroll employment has been in individuals just taking on multiple jobs, jobs that often are part-time by their nature.

Trade Deficit Widening Surprised the Consensus, Signaled GDP Problems Ahead. Covered in these *Opening Comments* and in the *Reporting Detail*, the October 2014 trade deficit widened sharply versus third-quarter activity, both before and after adjustment for inflation. This early indicator of fourth-quarter trade activity has signaled a much-reduced potential for positive, quarter-to-quarter economic growth in upcoming fourth-quarter 2014 GDP reporting.

Construction Spending Generally Remained Stagnant and Is in a Downtrend in Real Terms. Also discussed in these *Opening Comments*, and covered with extensive graphics in the *Reporting Detail* section, October headline construction spending continued to show heavy month-to-month volatility, reporting instabilities and large revisions, along with a developing, solid downtrend in activity, when adjusted for inflation. Inflation-adjusted annual change has been negative for two months.

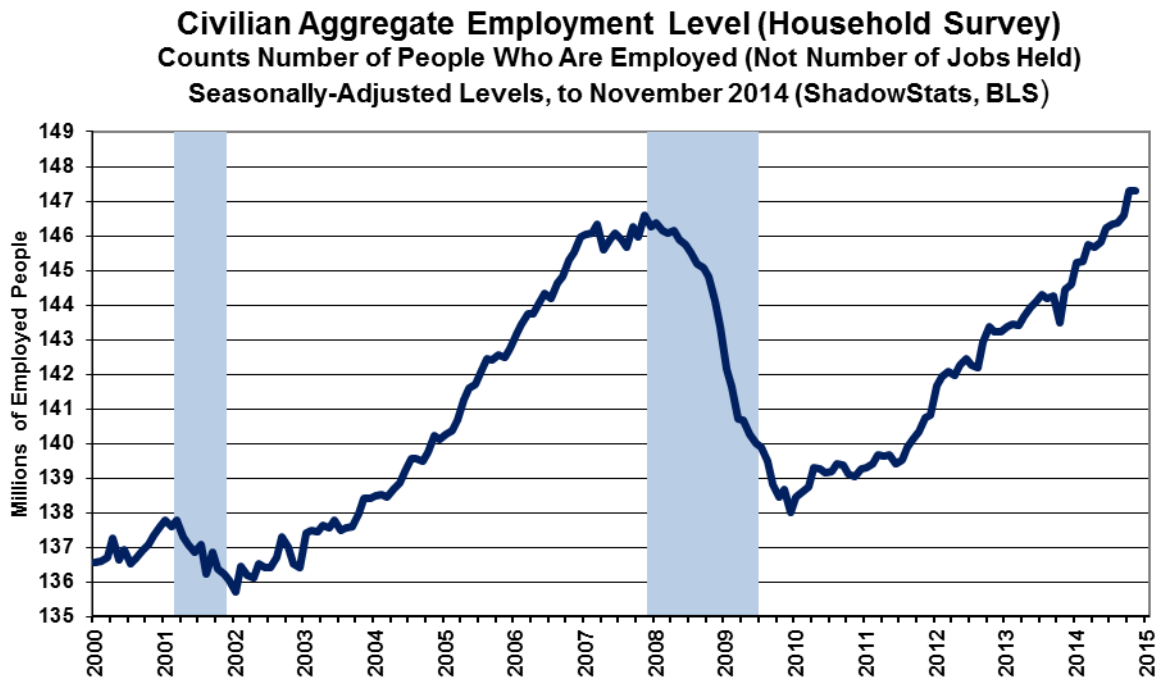
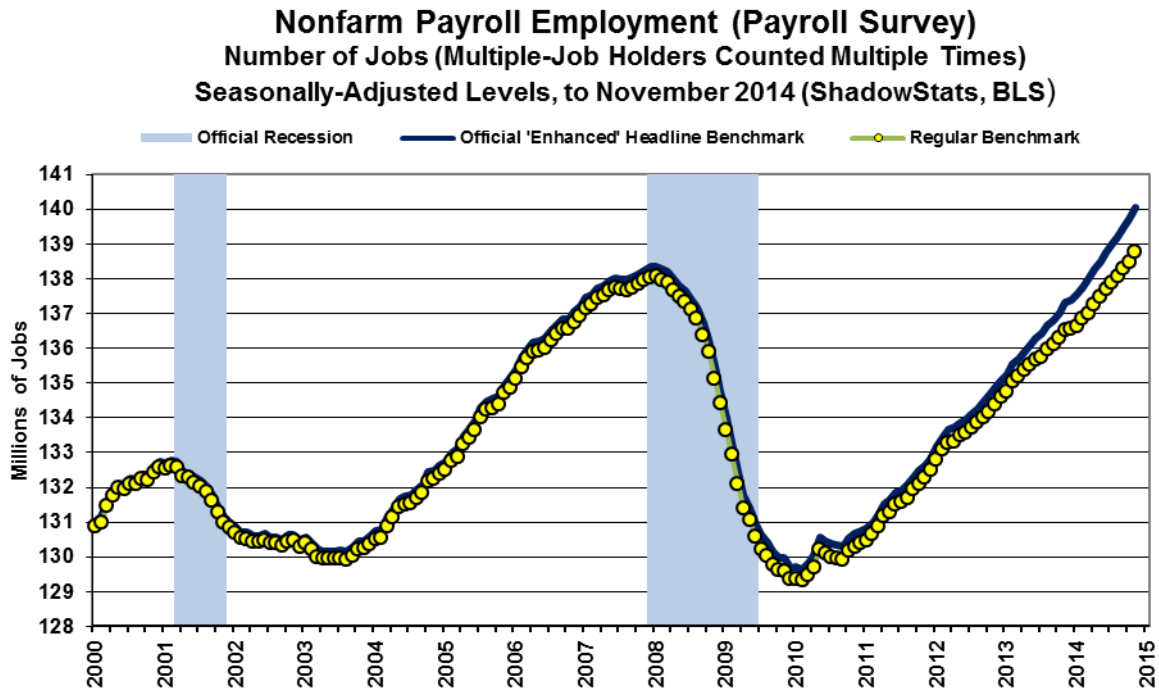
Today's Missive (December 6th). Closing out the *Opening Comments* section, continued stagnation in October real median household income is discussed and graphed. Separately, the *Hyperinflation Watch* section includes the monthly update on monetary conditions. November M3 growth jumped to a five-year high. The *Hyperinflation Outlook Summary* largely is unchanged from the prior *Commentary*.

The *Week Ahead* section discusses the outlook for the release of November 2014 nominal retail sales on December 11th. The opening month of the Holiday Season likely will show a headline monthly contraction, before inflation adjustment. As mentioned in the opening notes, the December 11th *Commentary* also will cover the review of current financial-market circumstances.

Employment and Unemployment—November 2014—Full-Time Employment Is Down by 2.4 Million Since Start of Recession. Supplemental to the regular coverage of headline November 2014 employment and unemployment in the *Reporting Detail* section, ShadowStats is pleased to introduce two new graphs on the employment circumstance, which may help to clarify the relationship of payroll-survey reporting of nonfarm payrolls and household-survey reporting of civilian employment. Putting aside the various reporting-quality issues with both series, for purposes of this discussion, consider again that the household survey estimates the number of people who are employed in the civilian population (including agriculture, excluding military), irrespective of the number jobs they may hold.

The payroll survey estimates the number of jobs in the economy (excluding agriculture and military), irrespective of how many total people actually work at those jobs. Multiple-jobs holders in the payroll survey often have at least one part-time job, but separate accounting of full-time and part-time employment is found only in the household survey, and it largely is irreconcilable with the payroll survey.

Employment is a coincident indicator of economic activity, and both the payroll and employment series formally regained pre-recession highs in 2014, despite the GDP purportedly doing the same back in 2011. Such is seen in following two graphs, which are published regularly in these employment *Commentaries*.

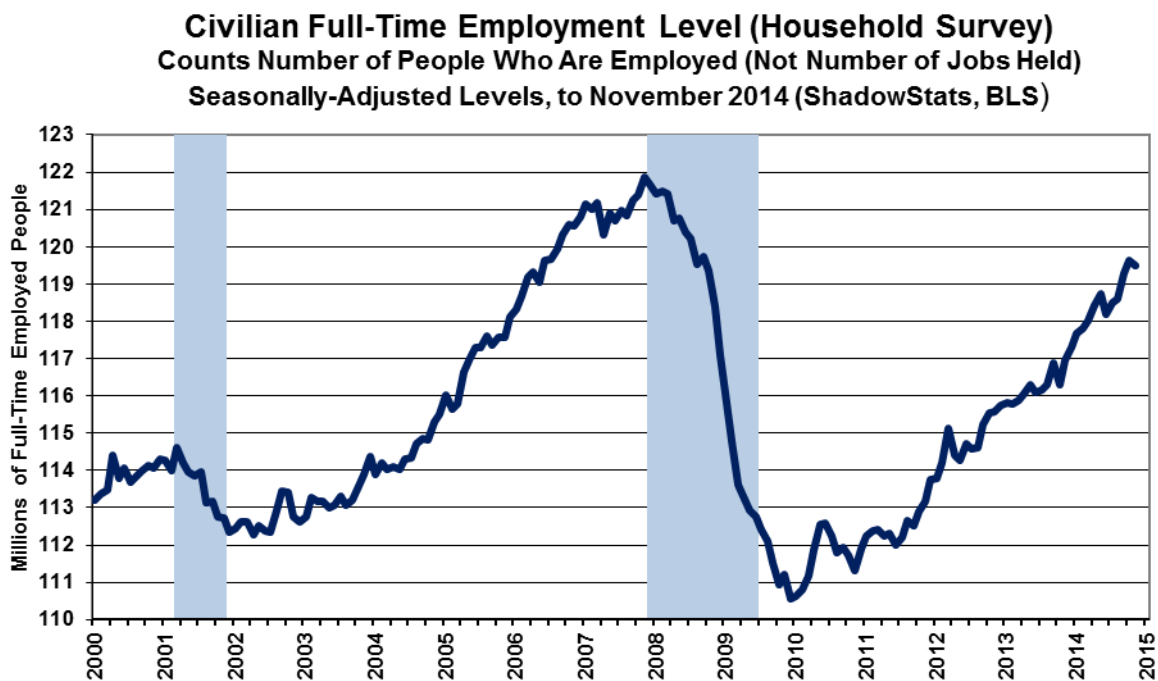


Shown in the first of the two graphs preceding, headline payroll employment moved to above its pre-recession high in May 2014, and it has continued to rise. If the data were corrected for unprecedented and massive upside biases built into the 2013 benchmark revision (yellow dots), the payroll employment level did not reach its pre-recession peak until September 2014. As shown in the second of the two graphs

preceding, aggregate household employment also recovered its pre-recession peak in September 2014, yet, there is a great deal more to that story.

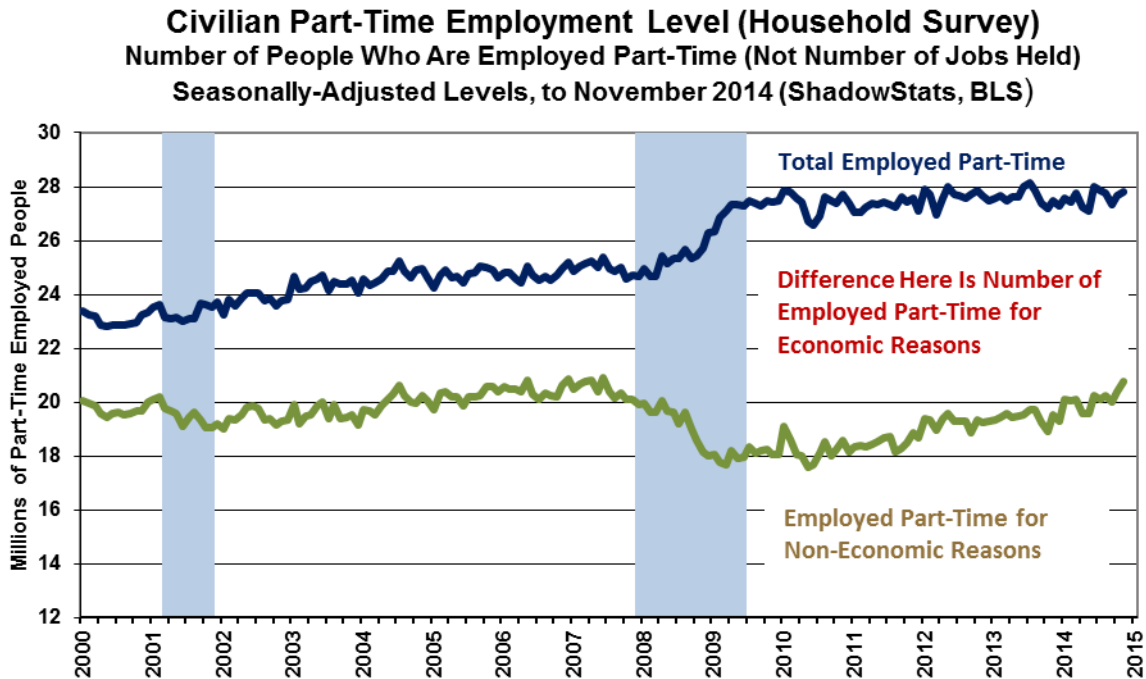
Full-Time Employment Has Not Recovered Pre-Recession Peak Activity. Headline household employment stood at 147,287,000, as of November 2014. Of the total employed, roughly 81% were employed full-time, 19% were employed part-time. Rough percentages and rough numerical estimates are used here, because the precise government numbers never add up, thanks to BLS sampling and reporting procedures. For example, the BLS estimates November full-time employment at 119,482,000, and part-time employment at 27,770,000. Those total 147,252,000, which is 35,000 shy of the headline total employment. ShadowStats has applied percentages against the aggregate data so as to be able to generate numbers that can be used to plot the detail on a consistent basis.

The less-than-happy problem that arises here is that despite the headline employed having recovered pre-recession levels of activity, the number of full-time unemployed still is about 2.4 million shy of its pre-recession peak of November 2007, as shown in the following new graph.



The difference here is that there was an increase during the same period of 3.1 million people in part-time employment, which more than offsets the 2.4 million decline in full-time unemployment, when the two series are aggregated into total civilian employment. Of the increase in part-time unemployment, however, as reflected in the second new graph, 79% of the part-time gain was from an increase in those employed part-time for economic reasons. Those working part-time for economic reasons are doing so because they cannot find a full-time job. Therein is a serious indication of a terribly-troubled economy.

Consider, again, that much of the increased activity in the highly touted payroll employment numbers is tied to multiple part-time jobs held by individuals. Consider, too, that these details are before any consideration of the massive surveying and reporting difficulties discussed elsewhere in this *Commentary*.



Headline November 2014 Payroll Employment. The seasonally-adjusted, month-to-month headline payroll-employment gain for November 2014 was 321,000, well above trend as well as market expectations. The November gain, followed a revised 243,000 (previously 214,000) gain in October, and a fraudulent, revised September gain of 271,000 (previously 256,000, initially 248,000).

The upside revisions to October and September were due entirely to irregular shifts in seasonal-factor adjustments, not to updated, better-quality unadjusted raw data. Unadjusted payroll levels in October revised lower, while unadjusted September payrolls were unrevised.

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 November's headline reporting, for example, only headline monthly changes for November 2014 and October 2014 were comparable with each other. Due to unreported historical revisions to August 2014 data from the seasonal-adjustment process generating the headline November number, the headline

September change from August actually was a gain of 253,000, based on consistent and comparable reporting, instead of the purported headline 271,000 increase shown in the BLS's press release. The year-ago 274,000 gain headline for November 2013, also in the December 5th BLS press release, really was 268,000 on a consistent and comparable basis with the November 2014 headline reporting.

The most extreme variance in the last several years of reporting was the current reading for November 2012 (that month of the year just had its seasonal factors reset). The official headline monthly gain for November 2012 was 203,000. Comparable with the November 2014 headline reporting, however, the November 2012 gain really was 143,000.

Annual Change in Payrolls—Holding Steady, Despite Headline Monthly Surge. Despite the nonsensical surge in the headline payroll activity in November 2014, year-to-year growth held at recent levels. 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](#) and consistent with the earlier, yellow-dotted payroll survey graph.

For November 2014, year-to-year or annual nonfarm payroll growth was 2.00%, basically even with the revised 2.02% seen in October, which was a post-recession high, versus unrevised annual growth of 1.96% in September. 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. Graphs and further detail and analysis are found in the *Reporting Detail* section.

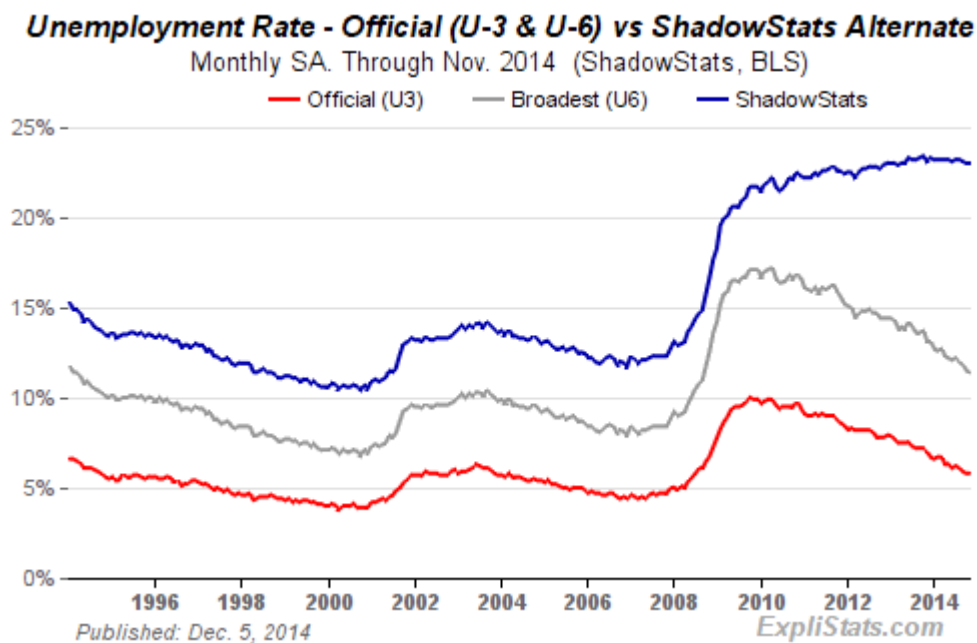
Counting All Discouraged Workers, November 2014 Unemployment Held at 23.0%. The headline household survey reporting remains virtually worthless. Previously discussed, aside from sampling-quality issues, the numbers are highly volatile and unstable, inadequately defined—not reflecting common experience—and simply are not comparable on a month-to-month basis. The month-to-month comparability issue results from the concurrent seasonal adjustment process, discussed in the *Reporting Detail* section. The BLS revises all historical data each month in setting the headline month's seasonal factors, but it does not publish the new, revised comparable data. Instead, the BLS leaves the old, non-comparable data, in place, without comment.

For the only time since December 2013, and for the only time before December 2015, however, next month's pending series revisions will reflect the December 2014 and prior monthly household survey detail on a one-time only, consistent basis. Come January 2015, again, none of the monthly, seasonally-adjusted household data will be meaningfully comparable with any other monthly reporting.

More than anything else, though, what removes headline-unemployment reporting from broad underlying economic reality and common experience 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.

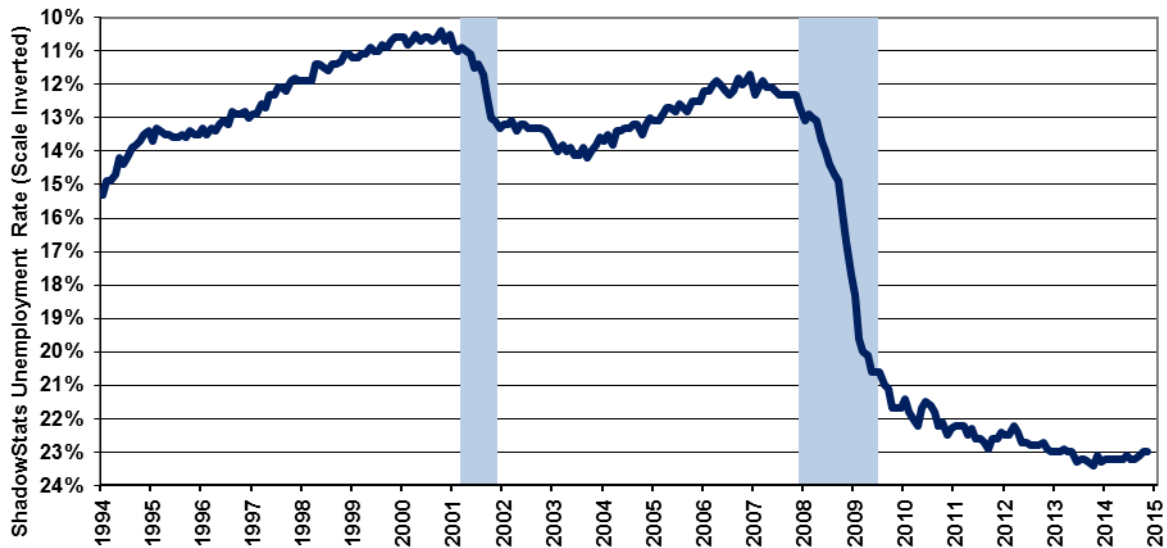
When the headline unemployed become discouraged, they roll over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political 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 November 2014 unemployment rate of 5.8% (U.3) and 23.0% (ShadowStats).



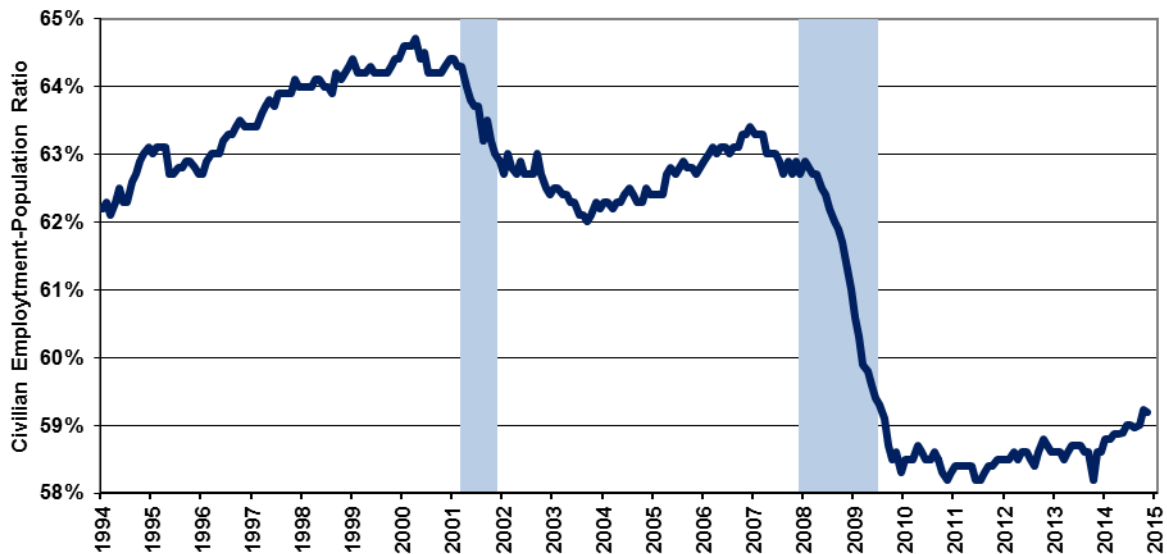
The graph immediately preceding reflects headline November 2014 U.3 unemployment at 5.8%, same as in October; headline November U.6 unemployment at 11.4%, down from 11.5% in October; and the headline November ShadowStats unemployment measure holding at 23.0%, the same level as in October 2014. The ShadowStats series high (since 1994) was in October 2013 at 23.4%.

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 November 2014, Seasonally-Adjusted (ShadowStats, BLS)



Civilian Employment-Population Ratio
 To November 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. Those factors should be worked out somewhat in the pending series revision due for publication next month.

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—November 2014. Subject to the various reporting issues and lack of real-world relevance discussed elsewhere, the headline November 2014 unemployment (U.3) rate increased by increased by 0.06-percentage point to 5.82% from 5.76% in October. On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. November's unadjusted U.3 unemployment rate was 5.5% unchanged from 5.5% in October.

With a seasonally-adjusted decline in people working part-time for economic reasons more as well as a monthly decline in short-term (unadjusted) discouraged workers, headline November 2014 U.6 unemployment declined to 11.4% from 11.5% in October. The unadjusted U.6 declined to 11.0% in November, from 11.1% in October.

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 November 2014 ShadowStats-Alternate Unemployment Measure, held at 23.0%, the same level as in October 2014. That was down 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.

Trade Deficit—October 2014—Fourth-Quarter Trade Shortfall Headed for Meaningful

Deterioration. With the first reading on fourth-quarter 2014 trade activity—the headline October 2014 trade deficit—in hand, prospects have dimmed for positive economic growth in the current quarter's GDP activity. Separately, trade data revisions to prior periods suggest some further trade-related, minimal downside-revision pressure on third-quarter GDP growth, where earlier estimates of a strong trade improvement in third-quarter 2014 have continued to wither.

Market expectations had favored a relative narrowing in the October trade deficit, due to lower oil prices. While oil prices did drop, the headline, nominal October deficit was little changed from the September deficit, which had widened in revision.

Nominal (Not-Adjusted-for-Inflation) October 2014 Trade Deficit. The nominal, seasonally-adjusted monthly trade deficit in goods and services for October 2014, on a balance-of-payments basis, narrowed minimally to \$43.432 billion, from a revised \$43.603 (previously \$43.032) billion in September 2014, but widened versus a \$42.358 billion deficit in October 2013. The headline October 2014 deficit also widened versus what had been the initial reporting of the September 2014 trade shortfall. As to 2014 month-to-month trade patterns, October 2014 saw roughly offsetting gains in both imports and exports, versus September 2014.

Monthly nominal headline deficits were revised for both the second- and third-quarter 2014, with the combined effect of reducing the relative narrowing of the nominal third-quarter deficit seen previously versus the second-quarter deficit.

The ongoing trend should be for significant monthly, quarterly and annual deterioration in the U.S. trade deficit, both before and after adjustment for inflation. Look for a sharp widening of the headline deficit in the November reporting, along with further relative deterioration of fourth-quarter versus third-quarter data, in both nominal and real terms.

Energy-Related Petroleum Products. For October 2014, the not-seasonally-adjusted average price of imported oil continued to drop sharply, to \$88.47 per barrel, from \$92.54 in September, and \$96.32 in August, and it was down from \$99.96 per barrel in October 2013. Also not-seasonally-adjusted, physical oil import volume in October 2014 averaged 7.229 million barrels per day, down from 7.550 million in September, versus 6.947 million in August, and down from 7.820 million in October 2013.

Real (Inflation-Adjusted) October 2014 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, used for GDP deflation), the October 2014 merchandise trade deficit (no services) held about even at \$50.841 billion, versus a revised \$50.853 (previously \$50.759) billion in September 2014, but it widened sharply versus a \$46.499 deficit in October 2013.

With the first, early reporting now in place for fourth-quarter trade activity, the news is not good for fourth-quarter 2014 GDP growth prospects. The wider the deficit is, the weaker is the GDP.

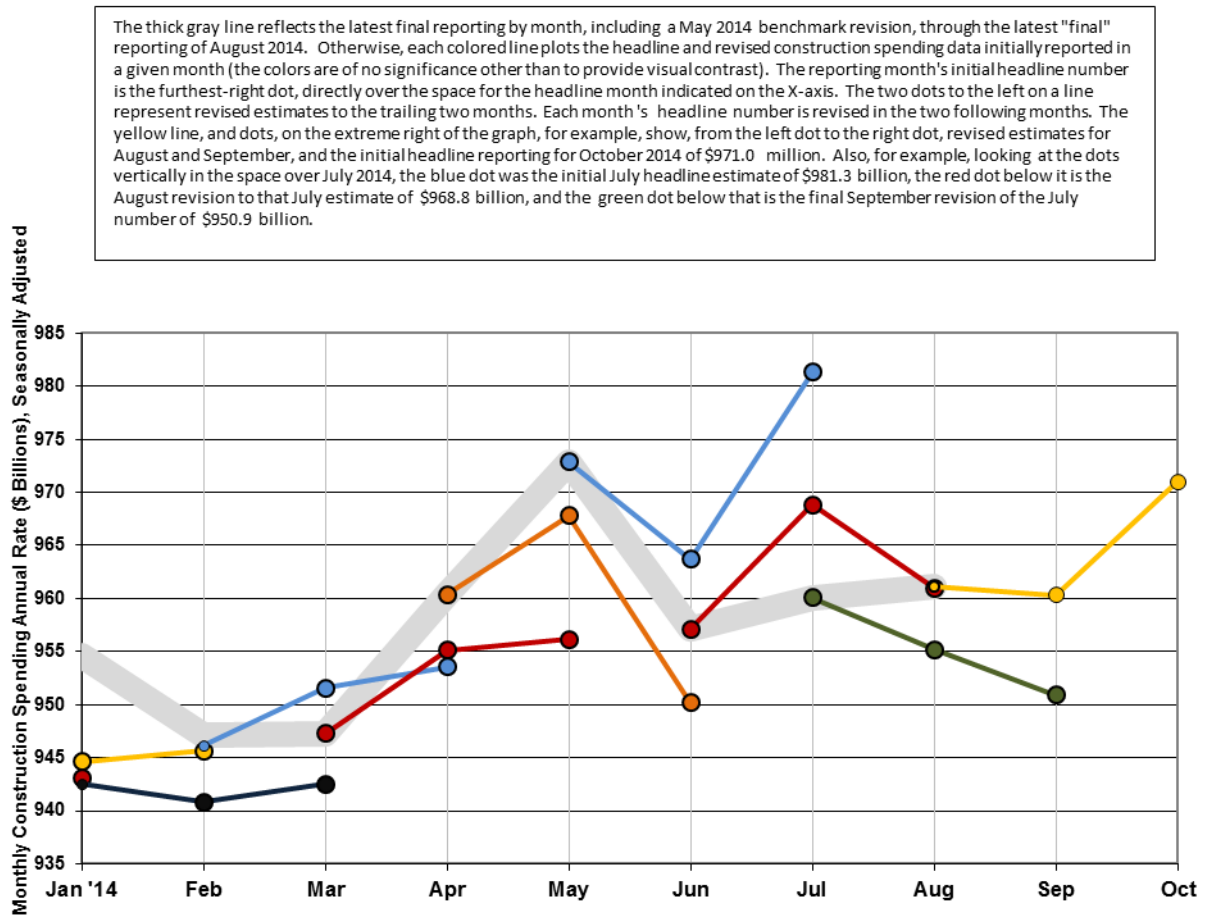
Consistent with the headline October data, the annualized quarterly real merchandise trade deficit stood at \$554.7 billion for fourth-quarter 2013, \$591.0 billion for first-quarter 2014, \$619.9 billion for second-quarter 2014, and at a revised \$587.2 (previously \$586.9) billion for third-quarter 2014.

Based just on the headline October 2014 reporting, the fourth-quarter 2014 deficit would annualize out to \$610.1 billion, showing a significant new deterioration versus third-quarter activity of \$587.2 billion, and likely providing a large hit against initial fourth-quarter 2014 GDP headline growth.

Given the slightly-revised greater deterioration in the real third-quarter 2014 deficit, and the deterioration in the revised nominal third-quarter deficit, which does not yet seem to be in the inflation-adjusted accounting, there also is the potential for some minimal downside-revision pressure on third-quarter GDP growth, which still is pending from the trade data.

Construction Spending—October 2014—Downtrend in Inflation-Adjusted Spending, Annual Growth Turned Negative in September and October. The accompanying new graph of construction-spending reporting and revision volatility suggests that the latest monthly revisions and reporting in the October 2014 release were within a normal range of instabilities for this series. That said, the general trend of construction-spending activity has been one of stagnation in the last year, before consideration of inflation; and one of downturn, after consideration of inflation, as reflected in the second graph of both nominal and real, aggregate construction activity.

Construction Spending -- Monthly Reporting and Revisions January 2014 to October 2014 (ShadowStats.com, Census)

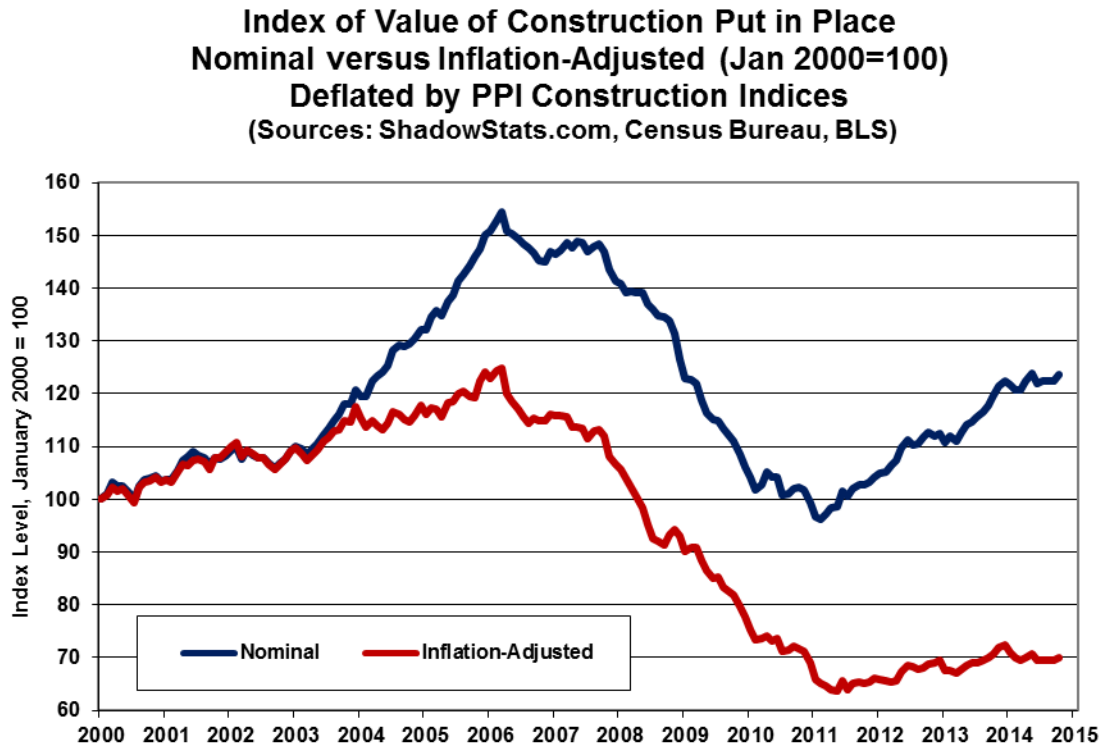


PPI Final Goods Construction Index (FGCI)—New Deflation Measure for Construction Activity.

ShadowStats has shifted to using the newly created Final Goods Construction Index (FGCI) component of the Producer Price Index (PPI) for deflating the aggregate activity in the construction-spending series. The previously used New Construction Index (NCI), was so far shy of reflecting construction costs as to be virtually useless. Although closely designed to match this construction-spending series, the FGCI has two problems. First, its historical data only go back to November 2009. Second, it still understates actual construction inflation. There is no perfect, publicly-available inflation measure for deflating construction spending. What now is being used here to deflate the historical series in the accompanying graph are the NCI through October 2009, and the FGCI thereafter.

For October 2014, the FGCI month-to-month inflation was 0.54%, following a 0.14% (-0.14%) negative pace of monthly inflation in September, with year-to-year inflation at 4.54% in October 2014, versus 4.28% in September.

While well shy of real-world inflation, the PPI's FGCI—used as a deflator—still shows real construction spending to have been in an ongoing downtrend, from 2013, with year-to-year growth turning negative in September and October 2014.



Headline Reporting for October 2014. The headline, total value of construction put in place in the United States for October 2014 was \$971.0 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 1.1%. Such followed a revised \$960.3 billion in September, which, in turn, was down by a revised 0.1% (-0.1%) from a revised \$961.1 billion in August.

Adjusted for the FGCI inflation measure in the PPI, aggregate real spending in October 2014 was up month-to-month by 0.6%, versus a 0.1% monthly gain in September.

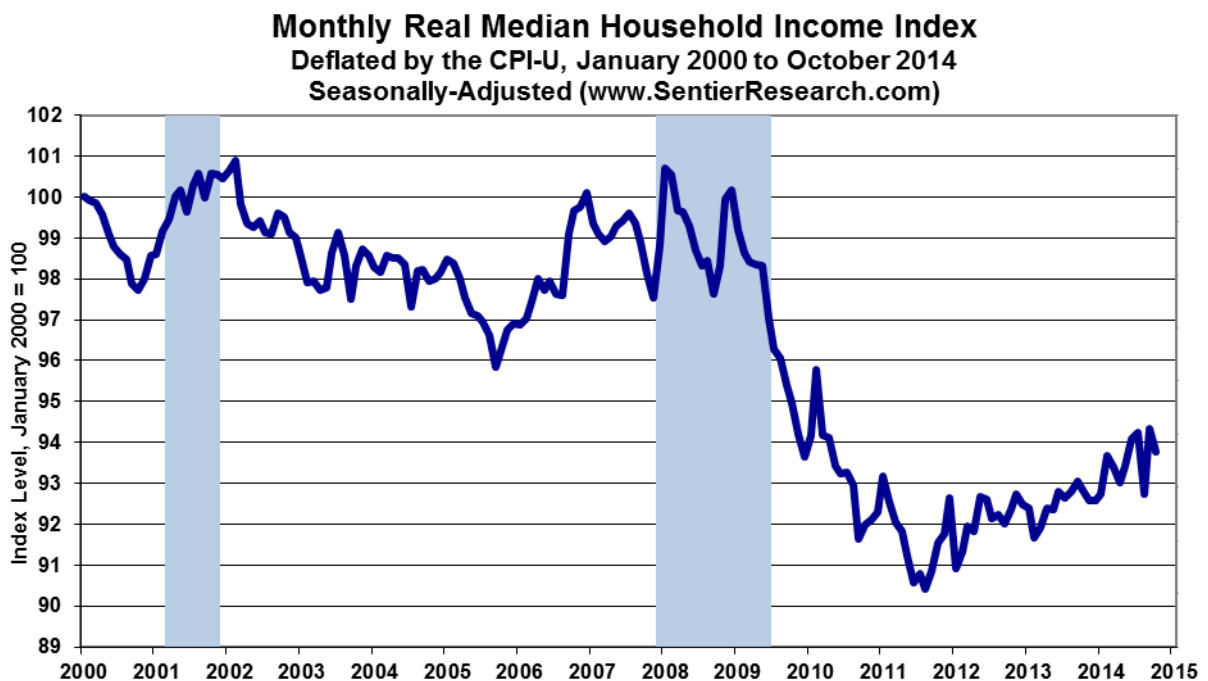
On a year-to-year or annual-growth basis, October 2014 construction spending rose by a statistically-significant 3.3%, versus a revised 3.9% gain in September. Net of construction costs indicated by the FGCI, however, year-to-year change in spending was an outright annual contraction of 0.9% (-0.9%) in October 2014, following a 0.6% (-0.6%) year-to-year decline in September 2014.

The statistically-insignificant 1.1% monthly gain in October 2014 construction spending, versus a monthly decline of 0.1% (-0.1%) in September 2014, included a 2.3% gain in public spending, versus a 1.6% (-1.6%) decline in September. October private construction rose by 0.6% for the month, following a 0.5% gain in September. Within total private construction spending, the residential sector gained 1.3% in

October, following a 0.8% gain in September, while the nonresidential sector declined by 0.1% (-0.1%), having gained 0.2% in September. This latest extended detail is graphed in the *Reporting Detail* section.

Real Median Household Income—October 2014—Still Stagnant Near Cycle Low. Frequently discussed here (see prior [Commentary No. 678](#)), the primary structural issue preventing meaningful, domestic U.S. economic growth remains impaired consumer liquidity. Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including not only retail sales, but also residential investment and related construction spending.

One of the major economic series considered in the regular consumer-liquidity assessment—monthly real median household income—just was updated for the latest three months of activity. Overcoming its issues with reporting inconsistencies generated by recent changes in surveying techniques by the Census Bureau, www.SentierResearch.com has resumed monthly publication of its monthly detail on real median household income. The accompanying graph reflects the new detail published yesterday (December 5th), with initial estimates of real household income for August, September and October 2014.



Real median household income showed continued, low-level stagnation through October 2014, remaining near its cycle low, despite some up-trending month-to-month volatility. When headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows.

Deflated by headline CPI-U, the same series published by the Census Bureau, on an annual basis ([Commentary No. 658](#)), confirmed that 2013 annual real median household income continued to hold at a

low level of activity. In historical perspective, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s. Such indicated the long-term nature of the evolution of the structural changes impairing the current economy. Further discussion of these issues is found in the two installments of the *2014 Hyperinflation Report*, linked in the *Hyperinflation Watch* section.

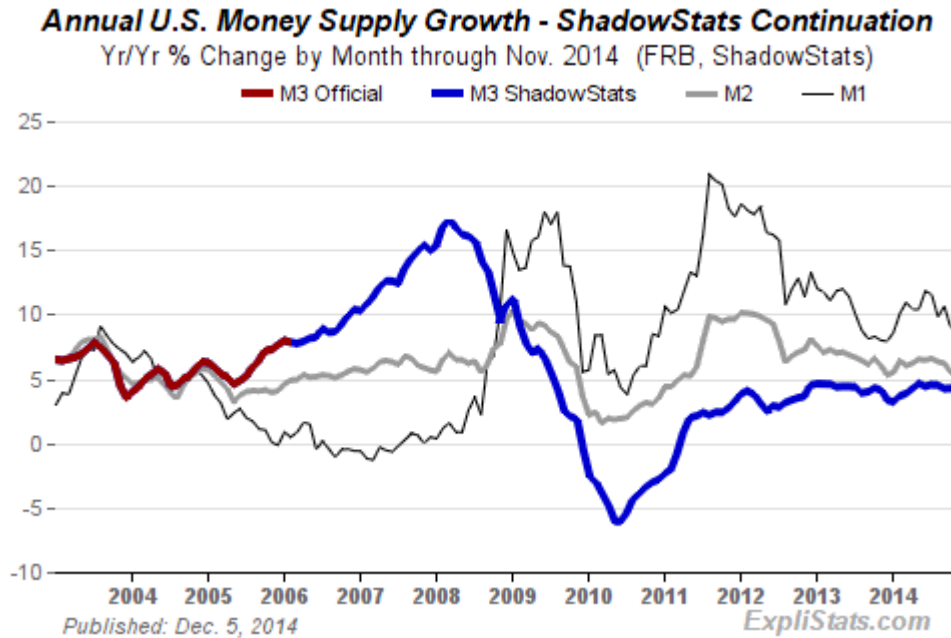
[For further detail on November Employment and Unemployment, and the October Trade Deficit and Construction Spending, see the Reporting Detail section. Various drill-down and graphics options also are available to ShadowStats subscribers at our affiliate: www.ExpliStats.com].

HYPERINFLATION WATCH

Recent Monetary Conditions—M3 Growth Jumped to Five-Year High. The Federal Reserve Board has ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, but its holdings of Treasury securities have been stable. Despite a downturn in the monetary base during the last month, annual growth in November money supply M3 has increased, tentatively, to 4.7%, the strongest showing in five years, since July of 2009.

Money Supply M3 Annual Growth Tentatively Rose to 4.7% in November 2014. Amidst unusual week-to-week volatility in the reporting of underlying money series, year-to-year change in November M3 rose to 4.7%, up from a revised 4.3% (previously 4.2%) annual gain in October. Prior-period revisions were due to regular and frequent revisions of the underlying detail provided 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%, again matching the highest growth since the “end” of the recession, in July 2009. Annual growth pulled back to a revised 4.4% in June 2014, but rose again to 4.5% in July, where it held in August. Growth slowed further to 4.2% in September, notched higher to a revised 4.3% in October, and appeared then jumped to 4.7% in the initial estimate for November 2014. Formal M3 estimates and the first readings of annual growth for M2 and M1 in October 2014 have been updated on the [Alternate Data](#) tab of www.ShadowStats.com.

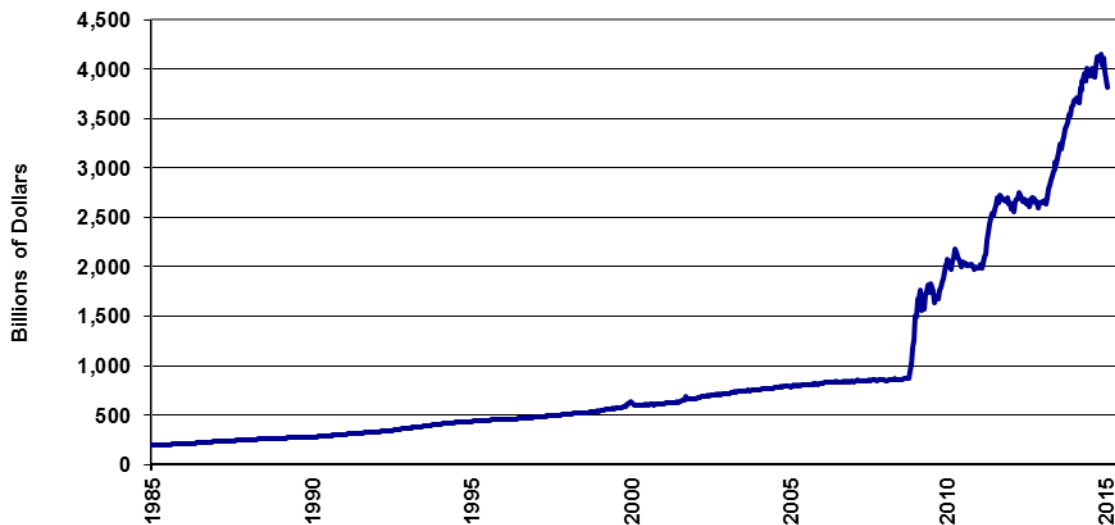


Again, revisions in the following numbers generally are attributable to recent revisions in underlying data by the Federal Reserve. The seasonally-adjusted, preliminary estimate of month-to-month change for November 2014 money supply M3 was roughly a gain of 0.7%, up from a revised 0.5% (previously 0.4%) gain in October. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

Growth for November M1 and M2. For November 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 November 2014 rose to roughly 5.9%, from a revised year-to-year gain of 5.6% (previously 5.7%), with a month-to-month gain of about 0.4% in November, versus a revised 0.3% (previously 0.4%) gain in October. For M1 in November 2014, year-to-year growth rose to about 9.5%, versus a revised 9.1% (previously 8.9%) gain October, with a month-to-month November contraction of 0.2% (-0.2%), versus a revised "unchanged" reading in October [previously a decline of 2.2% (-2.2%)].

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 period ended October 29th. Since then the downtrend has intensified, hitting \$3.813 trillion in the latest two-week period ended November 26th. As reflected in the accompanying graphs, a downtrend in both level and annual growth appears to have been set in play. The slowing of year-to-year growth in the monetary base has been exacerbated by a drop in recent monetary-base levels compared to the regular and still-rapid period-to-period growth seen the year before. Annual growth of 17.0% in the September 17th period, eased to 14.4% for October 1st, 13.5% for October 15th and 9.6% for October 29th, 5.6% for November 12th and 3.3% for November 26th.

St. Louis Fed Adjusted Monetary Base
Bi-Weekly to November 26, 2014, SA (ShadowStats, St. Louis Fed)



St. Louis Fed Adjusted Monetary Base, Yr/Yr %
Bi-Weekly to November 26, 2014, SA (ShadowStats, St. Louis Fed)



Hyperinflation Outlook Summary. Except for minor language changes tied to updating reference links, including to Friday's trade report (text underlined), this *Summary* has not been changed from the version updated in the November 25th [Commentary No. 677](#), which incorporated details from the second estimate of third-quarter 2014 GDP.

The long-standing 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. The outlooks also are updated in regular *Commentaries*, such as [Commentary No. 661](#), [Commentary No. 664](#), and [Commentary No. 672](#), and the *Opening Comments* of [Commentary No. 673](#) should be considered in terms of near-term, proximal triggers for massive dollar selling. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts.

Hyperinflation Timing Shifted to 2015. Discussed in the *Opening Comments* of [Commentary No. 673](#), as 2014 draws to a close, the U.S. dollar has strengthened significantly in recent months, instead of being dumped in a panicked sell-off as predicted for 2014. Nonetheless, the outlook for the dollar panic remains in place. It could be triggered or otherwise just start at any time, with little or no warning, and still before year-end.

From a practical standpoint, though, where a dollar-selling panic will be the likely immediate precursor to and trigger of the early stages of a hyperinflation, the outlook for the timing of the hyperinflation as detailed in the *Hyperinflation Reports* has been shifted to 2015, from 2014. I had put 80% odds in favor of the hyperinflation breaking this year, in 2014. Other than for the calendar shift, the general outlook was not changed, with the ultimate currency panic and financial crises still highly likely in the very near-term (80%), virtual certainties (95% in the not-so-distant future, *i.e.*, the year ahead).

Primary Summary. Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation (see [Commentary No. 672](#)). The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis into the 2014-2015 period. The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of that *First Installment Revised* (linked earlier). The following sections summarize the underlying current circumstance and recent developments.

Consistent with the above *Special Commentaries*, the unfolding economic circumstance, 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. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending total loss of U.S. dollar purchasing power, despite sharp recent rallies in the U.S. dollar's exchange rate and related heavy selling in the gold and silver markets.

Current relative U.S. economic strength versus major U.S. trading partners is seriously over-estimated, with a crash back to recognition of realistic domestic-economic circumstances likely to be accompanied by a crash in the U.S. dollar versus major currencies, such as the euro, yen, pound, Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil; and related sell-offs in the domestic stock and bond markets. Further, a sharp deterioration in near-term domestic U.S. political stability appears to be developing and is of meaningful near-term risk for triggering heavy selling of the dollar.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity is turning down anew, despite overstated growth in recent GDP reporting. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom and continued strong headline GDP growth in third-quarter 2014 were not. The more-recent data appear to have been spiked, at best, by overly-optimistic assumptions on the part of the Bureau of Economic Analysis (BEA). At worst, the bloated growth estimates reflect heavy political massaging. Where third-quarter GDP still may see some near-term downside revision, both second- and third-quarter 2014 GDP growth patterns should suffer heavy downside revisions in the July 30, 2015 benchmark revision. The weak, underlying economic reality should become increasingly and painfully obvious to the financial markets in the domestic economic reporting and accompanying data revisions of the weeks and months ahead, including early indications for an outright contraction in fourth-quarter 2014 GDP.

As expanded upon in the *Opening Comments* of [Commentary No. 677](#), recent reporting of relatively hard annual numbers from 2013 showed ongoing economic contraction, with no trend towards sustainable economic growth (see [Commentary No. 656](#)). Also, discussed in [Commentary No. 668](#), actual business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis in putting together the overstated third-quarter GDP growth estimate—has been flat-to-minus, with real sales of the S&P 500 showing a decline in third-quarter 2014 activity. Further, Main Street U.S.A. remains the ultimate judge of actual economic activity, and the 2014 election results and related exit polling confirmed no post-Panic economic recovery (see [Commentary No. 672](#)).

Despite short-term pre-election fluff, those basic underlying and increasingly-negative economic conditions should show with mounting frequency in various series, such as the trade deficit, retail sales, industrial production, payroll employment and inventories, providing consensus expectations with downside shocks. In turn, that should shift the popular outlook quite rapidly towards a "new recession," with negative shifts in the economic consensus negatively roiling the extraordinarily unstable financial markets.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should place mounting and massive selling pressures on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, hence a perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC finally has run its course. Future, constructive Federal Reserve behavior—purportedly moving towards normal monetary conditions in the currently unfolding, perfect economic environment—is pre-conditioned by a continued flow of "happy" economic news. Suggestions that all is right again with world are nonsense. The 2008 Panic never has been resolved, and the Fed soon will find that it has no easy escape from its quantitative easing.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, some speculation already has begun to circulate as to an added round of Federal Reserve quantitative easing, QE4. That would be a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it could, with continual, negative impact on the U.S. economy. The easing to date, however, appears to have been only a prop to the increasingly unstable equity markets (see [Commentary No. 663](#)).

In the event of QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would be a rapidly-increasing pace of domestic U.S. inflation.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal "good news" is from cash-based, not GAAP-based and accounting projections, where comparative year-ago, cash numbers recently were distorted against U.S. Treasury and government activity operating *sub rosa*, in order to avoid the limits of a constraining debt ceiling (see [Commentary No. 672](#)).

All these crises should combine against the U.S. dollar, likely in the very-near future. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility have boosted the U.S. dollar's strength significantly in global trading and have contributed to savaging the prices of precious metals. Again, such should not prevail in the context of underlying reality. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed. The key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008 and is turning down anew.*** The circumstance includes a widening trade deficit (see [trade deficit analysis in Reporting Detail section](#)), as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see the *Opening Comments* of [Commentary No. 678](#)). Sharply-negative economic reporting shocks, versus unrealistically-positive consensus forecasts, remain a heavily-favored, proximal trigger for the pending dollar debacle.
- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of will to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The impact of the shift in control of Congress will be assessed in the weeks ahead, but the change does not appear likely to alter the systemic willingness to address the underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run in the \$6-trillion-plus range for annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details are discussed in [Commentary No. 672](#).
- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S.

Treasury's fiscal-2014 cash-based deficit, as discussed in [Commentary No. 672](#). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is at an historic low, post-election. Early post-election activity continues to show disintegrating chances of a shift towards constructive cooperation between the White House and the new Congress in addressing fundamental issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues, let alone addressing the contentious immigration circumstance. Conditions here still could devolve rapidly into an extreme political crisis (see *Opening Comments* of [Commentary No. 673](#))
- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation in Ukraine versus Russia and the extremely-volatile circumstances in the Middle East.
- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France and India, along with some rumblings in OPEC and elsewhere.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation. Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (November 2014)

Ongoing, Seriously-Flawed Headline November Reporting of Jobs Growth and Unemployment.

Incorporated here by reference are today's *Opening Comments*, which cover not only specific reporting irregularities in the headline November labor data, but also new graphs and analysis on full-time versus part-time employment, based on detail from the Bureau of Labor Statistics (BLS) household survey.

Both the November 2014 headline jobs growth of 321,000 and headline unemployment rate holding at 5.8% remained far removed from common experience and underlying reality. Quality issues continue to reflect extreme seasonal-factor distortions and general lack of month-to-month data comparability. Discussed frequently in these *Commentaries*, common experience generally would suggest flat headline monthly payroll employment, plus or minus in November; with an unemployment rate, encompassing all short- and long-term discouraged workers, running around 23%.

As was evident again in November, 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).

In November's reporting, current and long-term U.3 underreporting of unemployment, versus common experience, 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, except for one-time annual revisions in December (see *Concurrent Seasonal Adjustment Distortions*).

Recently, an issue also 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 December 5th, by the Bureau of Labor Statistics (BLS), the seasonally-adjusted, month-to-month headline payroll-employment gain for November 2014 was 321,000 +/- 129,000 (95% confidence interval) well above trend as well as market expectations

The November gain, followed a revised 243,000 (previously 214,000) gain in October, and a fraudulent, revised September gain of 271,000 (previously 256,000, initially 248,000).

As usual, the upside revisions to October and September were due entirely to the irregular shifts in seasonal-factor adjustments, not to updated, better-quality unadjusted raw data. The unadjusted payroll levels in October and September, respectively were revised lower and unrevised.

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 November's headline reporting, for example, only headline monthly changes for November 2014 and October 2014 were comparable with each other. Due to unreported historical revisions to August 2014 data from the seasonal-adjustment process generating the headline November number, the headline September change from August actually was a gain of 253,000, based on consistent and comparable reporting, instead of the purported headline 271,000 increase shown in the BLS's press release. The year-ago 274,000 gain headline for November 2013, also in the December 5th BLS press release, really was 268,000 on a consistent and comparable basis with the November 2014 headline reporting.

The most extreme variance in the last several years of reporting was the latest reading for November 2012 (the month of the year just had its seasonal factors reset). The official headline monthly gain for November 2012 was 203,000. Comparable with November 2014 headline reporting, however, the November 2012 gain really was 143,000.

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 November seasonal adjustments, indicating unusual distortions in the headline November 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.

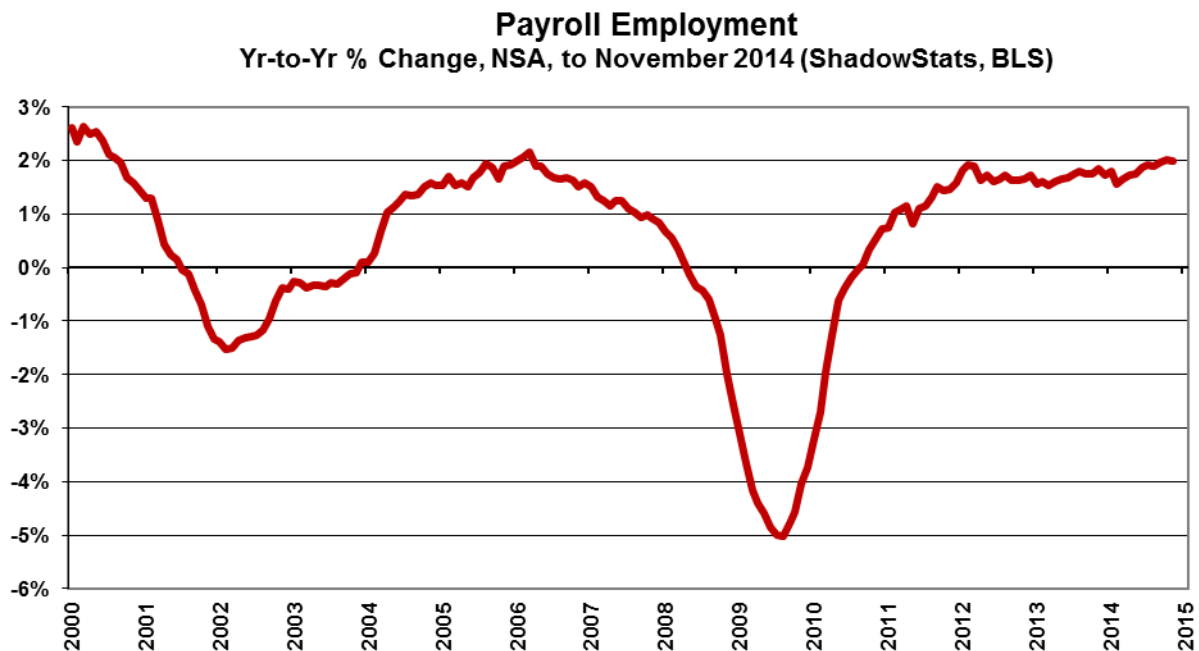
“Trend Model” Estimate Suggests Sharp Slowing in December Payroll Growth. As discussed in [Commentary No. 663](#), and as described generally in [Payroll Trends](#), the trend indication from the BLS's concurrent-seasonal-adjustment model—prepared by our affiliate www.ExpliStats.com—was for a November 2014 monthly payroll gain of 230,000, based on the BLS trend model structured into October's actual reporting. The late-consensus for November 2014 reporting was 230,000 (Bloomberg), where the headline gain came in at 321,000, much higher than the trend and the consensus. 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.

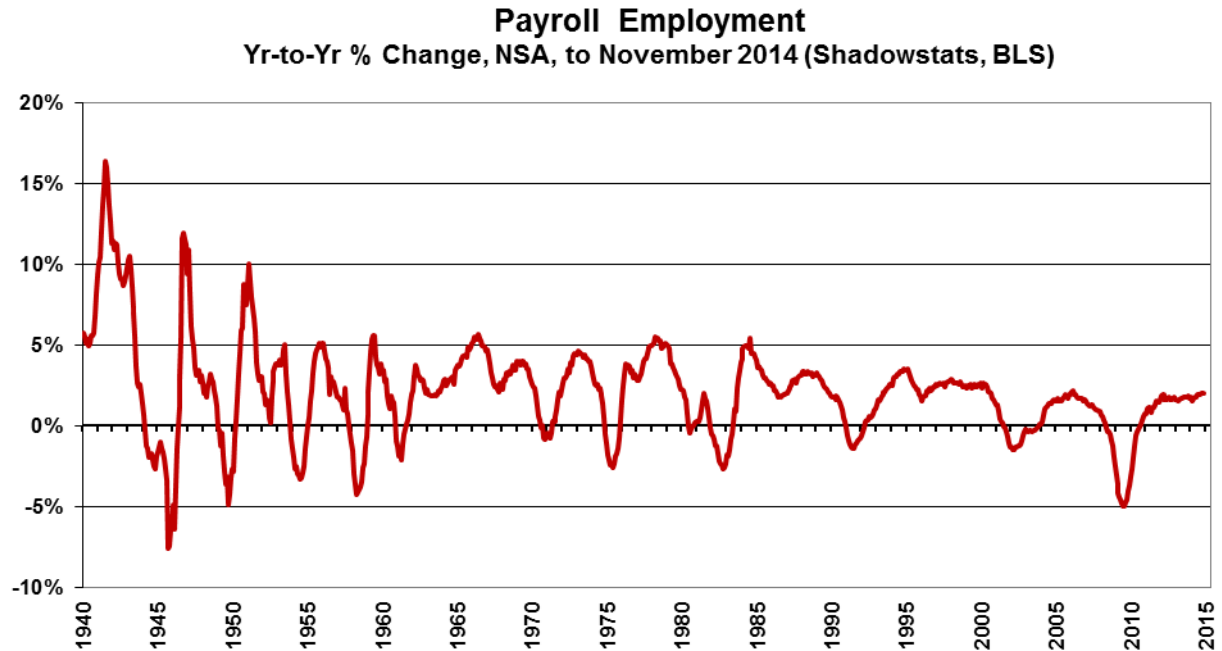
December Trend Estimate. Based on the November 2014 BLS seasonal-adjustment modeling, the trend number calculations suggest a headline gain of 214,000 in December 2014. The consensus outlook for December reporting most likely will settle-in around that number.

Construction Payrolls. As graphed in the *Construction Spending* section of this *Reporting Detail*, and in the context of downside revisions to previously September and October activity, headline November 2014 construction rose by 20,000 in the month (up by 14,000 net of prior-period revisions, versus a revised 7,000 (previously 12,000 gain in October, and a revised 18,000 (previously 19,000, initially 16,000) gain in September. Total October 2014 construction jobs still were 20.9% shy of the pre-recession peak for the series in April 2006.

Annual Change in Payrolls—Steady Despite Headline Monthly Surge. Despite the nonsensical surge in the headline payroll activity in November 2014, year-to-year growth held at recent levels. 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 November 2014, year-to-year or annual nonfarm payroll growth was 2.00%, basically even with the revised 2.02% (previously 2.03%) seen in October, which was a post-recession high, versus unrevised annual growth of 1.96% in September. 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.

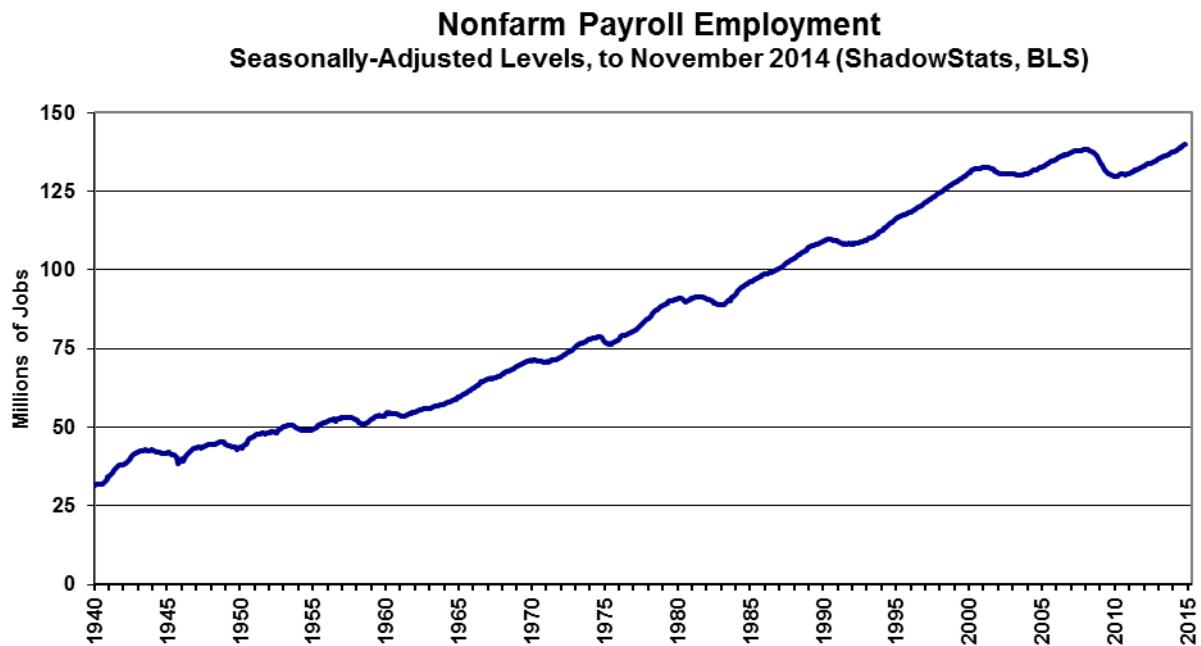
Historical Payroll Levels. Headline payroll employment moved to above its pre-recession high in May 2014, and it has continued to rise, although, as discussed in the *Opening Comments*, the number of employed individuals had not reached that milestone until September's fortuitous reporting. The difference 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, which reflects many individuals holding down multiple jobs. Those multiple jobs often are of a part-time nature

In contrast, new graphs breakout the household employment data in the *Opening Comments* section. As shown there aggregate household employment also recovered its pre-recession peak in 2014, yet the number of full-time unemployed is about 2.4 million shy of its pre-recession peak. The difference is an increase of 3.1 million in part-time employment, where 79% of that gain has reflected those work part-time for economic reasons, unable to find a full-time job.

Back to the payroll survey, as a separate issue, the pattern of recovery in the payroll level count was redefined favorably with the January 2014 benchmarking, despite the actual benchmark having been negative. That 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 official 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.



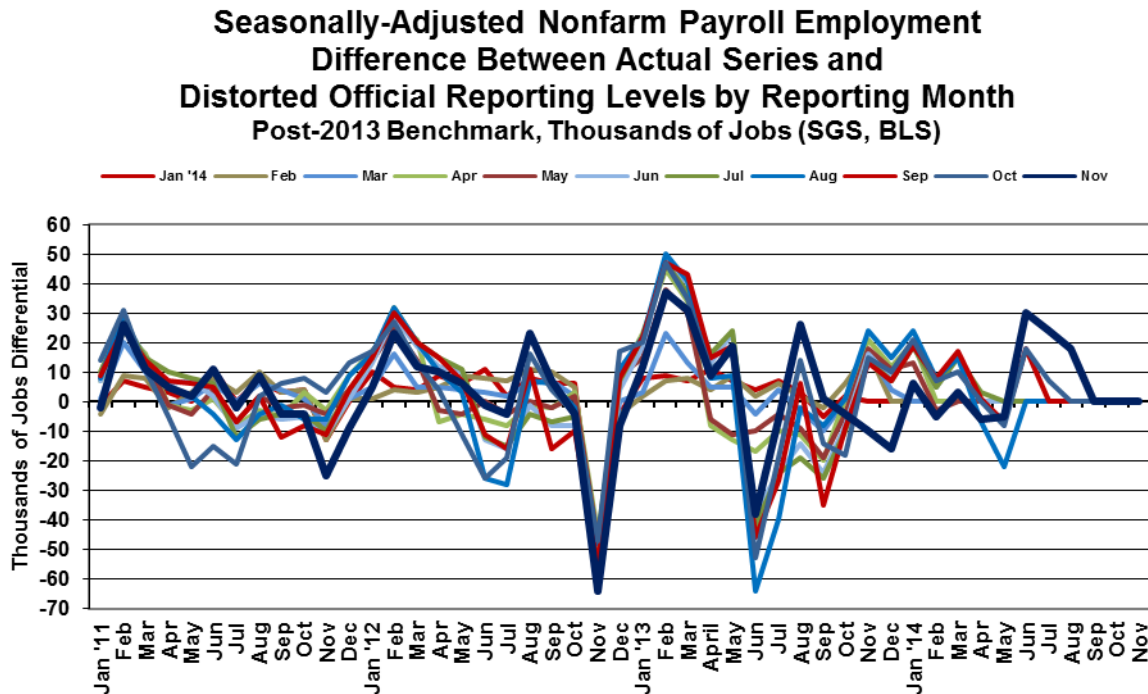
Concurrent-Seasonal-Factor Distortions. There are serious and deliberate reporting flaws with the government’s seasonally-adjusted, monthly reporting of both employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll and unemployment data 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

accompanying graph shows how far the monthly data have strayed from being consistent, as of the latest November 2014 reporting, versus the most recent benchmark revision to the series.

If reporting were comparable and stable month-after-month, all the lines in the graph would be flat and at zero. Current detail also is discussed in the *Opening Comments*.



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.

November 2014 Bias. The not-seasonally-adjusted November 2014 bias was a positive monthly add-factor of 8,000, versus what was (post-2013 benchmark) a negative bias of 11,000 (-11,000) in November 2013, versus a monthly add factor of 137,000 in October 2014. The aggregate upside bias for the trailing twelve months was 741,000, from the pre-benchmark 624,000 twelve-month aggregate as of December 2013, or to a monthly average of 62,000 (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 62,000 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. Previously discussed, as 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 in place 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, as shall be seen in next month's reporting. All the historical data shift anew with the subsequent monthly reporting in January, but that new consistent detail never is published.

Where, for example, the seasonally-adjusted headline unemployment rate for November 2014 of 5.82% 5.76% was based on a set of seasonal adjustments unique to November 2014, and the adjusted unemployment rate for October was revised along with the November seasonal-adjustment calculations, the new historical and comparable result for October was not, and never will be, published. The prior headline reporting of 5.76% for the October 2014 unemployment rate remained in place, although it now is inconsistent and not comparable with the November 2014 number, even though the consistent October 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 November 2014 employment increased by 4,000, having soared by an unrevised 683,000 in October, following an unrevised and not comparable decline of 232,000 (-232,000) in September. The employment changes were in the context of an increase in unemployment by 115,000 in November, following an unrevised decline of 267,000 (-267,000) in October unemployment, and a headline decline of 329,000 (-329,000) in September.

As discussed and detailed in the *Opening Comments*, headline numbers show that full-time employment levels have never recovered pre-recession peak activity, and that gain in part-time employment for the same period was dominated by surging part-time employment for economic reasons. Separately, all these household numbers will be revised and recast on a one-time consistent basis, next month. Beyond lack of consistency and comparability, though, the reporting here is virtually worthless. Many of the household-

survey numbers are highly volatile, unstable, and inadequately defined in that they do not reflect common experience in terms of the concept or definition of unemployment.

Headline Unemployment Rates. In the context of the preceding background, the headline November 2014 unemployment (U.3) rate increased by increased by 0.06-percentage point to 5.82% from 5.76% in October. 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. November's unadjusted U.3 unemployment rate was 5.5% unchanged from 5.5% in October.

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

With a seasonally-adjusted decline in people working part-time for economic reasons more as well as a monthly decline in short-term (unadjusted) discouraged workers, headline November 2014 U.6 unemployment declined to 11.4% from 11.5% in October. The unadjusted U.6 declined to 11.0% in November, from 11.1% in October.

Discouraged Workers. The count of short-term discouraged workers in November 2014 (never seasonally-adjusted) fell back to 698,000, from 770,000 in October, versus 698,000 in September, 775,000 in August, 741,000 in July, 676,000 in June 2014, and 697,000 in May 2014. The latest, 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 further increase in the 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—held at 23.0% in November, the same level as in October 2014, and down 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 October 2014 labor data, except for the language (underlined) referencing the GDP graph.] 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, as well as with the "Corrected-GDP" graph in [Commentary No. 677](#).

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%.

U.S. TRADE BALANCE (October 2014)

Fourth-Quarter 2014 Net-Export Account Headed for Meaningful Deterioration. With the headline October 2014 trade deficit estimate in hand—the first reading on fourth-quarter 2014 trade activity—the outlook has dimmed for positive economic growth in the current quarter's GDP activity. Separately, data revisions to prior periods suggest some further minimal downside revision pressure on third-quarter GDP growth, where earlier estimates of a strong trade improvement in the quarter have continued to wither.

Market expectations favored a relative narrowing in the October trade deficit, due to lower oil prices. While oil prices dropped, the headline, nominal October deficit was little changed from the September deficit, which had widened in revision.

Nominal (Not-Adjusted-for-Inflation) October 2014 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported December 5th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for October 2014, on a balance-of-payments basis, narrowed minimally to \$43.432 billion, from a revised \$43.603 (previously \$43.032) billion in September 2014, but widened versus a \$42.358 billion deficit in October 2013. The headline October 2014 deficit actually widened versus what had been the initial reporting of the September 2014 trade shortfall. As to 2014 month-to-month trade patterns, October 2014 saw roughly offsetting gains in both imports and exports, versus September 2014.

Monthly nominal headline deficits were revised for both the second- and third-quarter 2014, with the combined effect of reducing the relative narrowing of the nominal third-quarter deficit previously seen versus the second-quarter deficit.

The ongoing trend should be for significant monthly, quarterly and annual deterioration in the U.S. trade deficit, both before and after adjustment for inflation. Look for a sharp widening of the headline deficit, again, in the November reporting, along with further relative deterioration of fourth-quarter versus third-quarter data, in both nominal and real terms.

Energy-Related Petroleum Products. For October 2014, the not-seasonally-adjusted average price of imported oil continued to drop sharply, to \$88.47 per barrel, from \$92.54 in September, and \$96.32 in August, and it was down from \$99.96 per barrel in October 2013. Also not-seasonally-adjusted, physical oil import volume in October 2014 averaged 7.229 million barrels per day, down from 7.550 million in September, versus 6.947 million in August, and down from 7.820 million in October 2013.

Ongoing Cautions on Data Quality. Potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues are seen in other economic releases, such as retail sales and payrolls, where the headline number reflects month-to-month change. Discussed frequently (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) for example), the extraordinary length and depth of the current business downturn have disrupted regular seasonality patterns. Accordingly, the markets should not rely too heavily on the accuracy of the monthly headline data.

Real (Inflation-Adjusted) October 2014 Trade Deficit. Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, used for GDP deflation), the October 2014 merchandise trade deficit (no services) held about even at \$50.841 billion, versus a revised \$50.853 (previously \$50.759) billion in September 2014, but it widened sharply versus a \$46.499 deficit in October 2013.

With the first, early reporting now in place for fourth-quarter trade activity, the news is not good for fourth-quarter 2014 GDP growth prospects.

Consistent with the headline October reporting, the annualized quarterly real merchandise trade deficit stood at \$554.7 billion for fourth-quarter 2013, \$591.0 billion for first-quarter 2014, \$619.9 billion for second-quarter 2014, and at a revised \$587.2 (previously \$586.9) billion for third-quarter 2014.

Based just on the headline October 2014 reporting, the fourth-quarter 2014 deficit would annualize out to \$610.1 billion, a significant deterioration versus third-quarter activity of \$587.2 billion, likely providing a large hit against initial fourth-quarter 2014 GDP headline growth.

Given the slightly-revised greater deterioration in the real third-quarter 2014 deficit, and the deterioration in the revised nominal third-quarter deficit, which does not yet seem to be in the inflation-adjusted accounting, there is the potential for some minimal downside-revision pressure on third-quarter GDP growth still pending from the trade data.

CONSTRUCTION SPENDING (October 2014)

Downtrend in Inflation-Adjusted Construction Spending, Annual Growth Turned Negative in September and October. The new graph of construction-spending reporting and revision volatility, in the *Opening Comments* section, indicates that the latest monthly revisions and reporting from the October 2014 release were within a normal range of instabilities for this series. That said, the general trend of construction-spending activity has been one of stagnation in the last year, before consideration of inflation; and one of downturn, after consideration of inflation, as reflected in the accompanying graphs of aggregate activity.

PPI Final Goods Construction Index (FGCI)—New Deflation Measure for Construction Activity.

ShadowStats has shifted to using the newly created Final Goods Construction Index (FGCI) component of the Producer Price Index (PPI) for deflating the aggregate activity in the construction-spending series. The previously used New Construction Index (NCI), was so far shy of reflecting construction costs as to be virtually useless. Although closely designed to match this construction-spending series, the FGCI has two problems. First, its historical data only go back to November 2009. Second, it still understates actual construction inflation. There is no perfect, publicly-available inflation measure for deflating construction spending. What now is being used here to deflate the historical series in the accompanying graphs is the NCI through October 2009, and the FGCI thereafter.

For October 2014, the FGCI month-to-month inflation was 0.54%, following a 0.14% (-0.14%) negative pace of monthly inflation in September, with year-to-year inflation at 4.54% in October 2014, versus 4.28% in September.

While well shy of real-world inflation, the PPI's FGCI—used as a deflator—still shows real construction spending to have been in an ongoing downtrend, from 2013, with year-to-year growth turning negative in September and October 2014.

Headline Reporting for October 2014. The Census Bureau reported December 2nd that the headline, total value of construction put in place in the United States for October 2014 was \$971.0 billion, on a

seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 1.1% +/- 2.2% (all confidence intervals are at the 95% level). Such followed a revised \$960.3 (previously \$950.9) billion in September. In turn, September was down by a revised 0.1% (-0.1%) [previously down by 0.4% (-0.4%)] from a revised \$961.1 (previously \$955.2, initially \$961.0) billion in August.

Adjusted for the FGCI inflation measure in the PPI, aggregate real spending in October 2014 was up month-to-month by 0.6%, versus a 0.1% monthly gain in September.

On a year-to-year or annual-growth basis, October 2014 construction spending rose by a statistically-significant 3.3% +/- 2.3%, versus a revised 3.9% (previously 2.9%) in September. Net of construction costs indicated by the FGCI, however, year-to-year change in spending was an outright annual contraction of 0.9% (-0.9%) in October 2014, following a 0.6% (-0.6%) year-to-year contraction in September.

The statistically-insignificant 1.1% monthly gain in October 2014 construction spending, versus a monthly decline of 0.1% (-0.1%) in September 2014, included a 2.3% gain in public spending, versus a 1.6% (-1.6%) decline in September. October private construction rose by 0.6% for the month, following a 0.5% gain in September. Within total private construction spending, the residential sector gained 1.3% in October, following a 0.8% gain in September, while the nonresidential sector declined by 0.1% (-0.1%), having gained 0.2% in September.

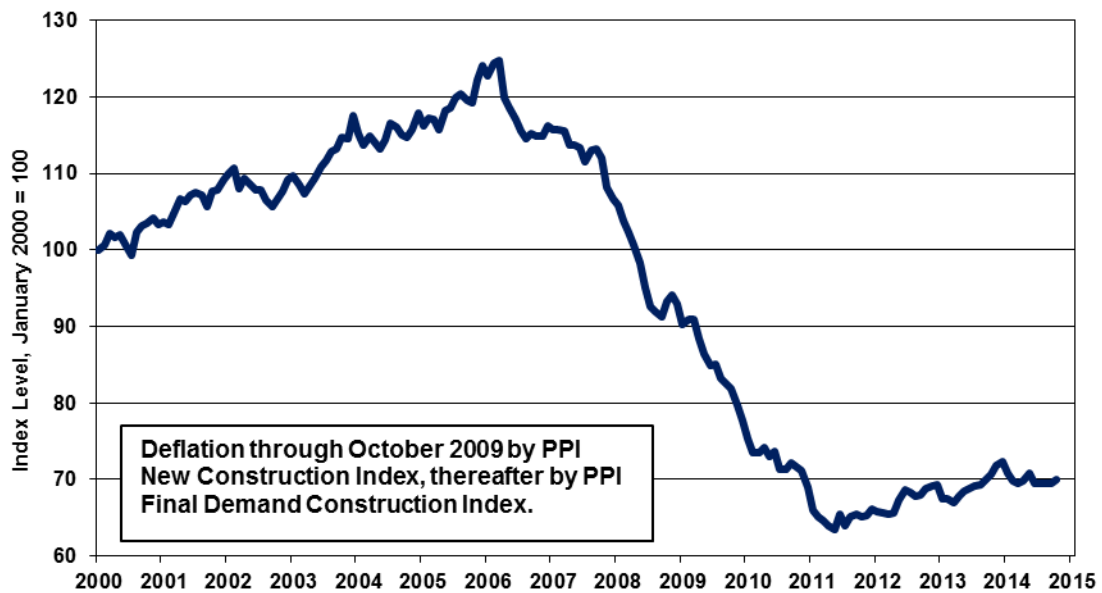
The following graphs show the latest extended detail.

Construction and Related Graphs. The first two graphs following reflect total construction spending through October 2014, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0. Adjusted for the PPI's NCI measure through October 2009 and the PPI's Final Demand Construction Index thereafter, real construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation and now renewed downturn in the most recent reporting. Activity has been trending lower since late-2013, with real (inflation-adjusted) third-quarter activity contracting versus second-quarter 2014, and slight upside blip with the October estimate. Year-to-year real change in the aggregate series, however, turned negative in September 2014 and more deeply negative in October 2014.

Total Construction Spending, Monthly to October 2014
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



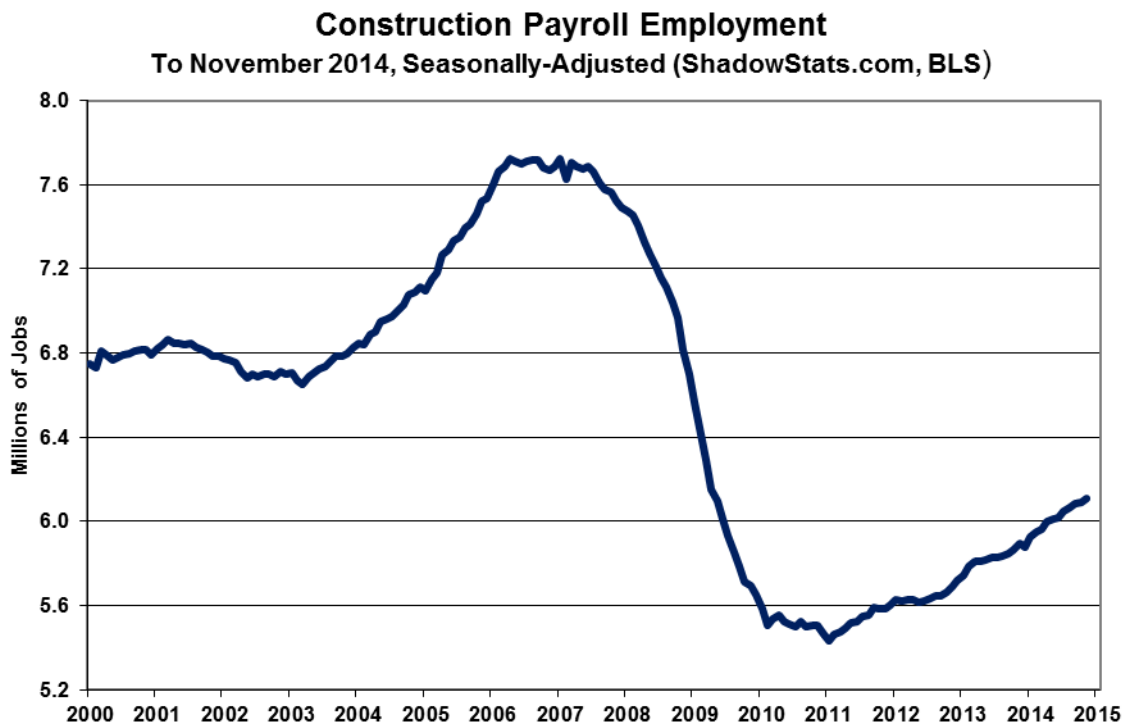
Real Index of Value of Construction Put in Place
To October 2014, Inflation-Adjusted (Jan 2000=100)
Deflated by the PPI Final Demand Construction Index
(Sources: ShadowStats.com, Census Bureau, BLS)

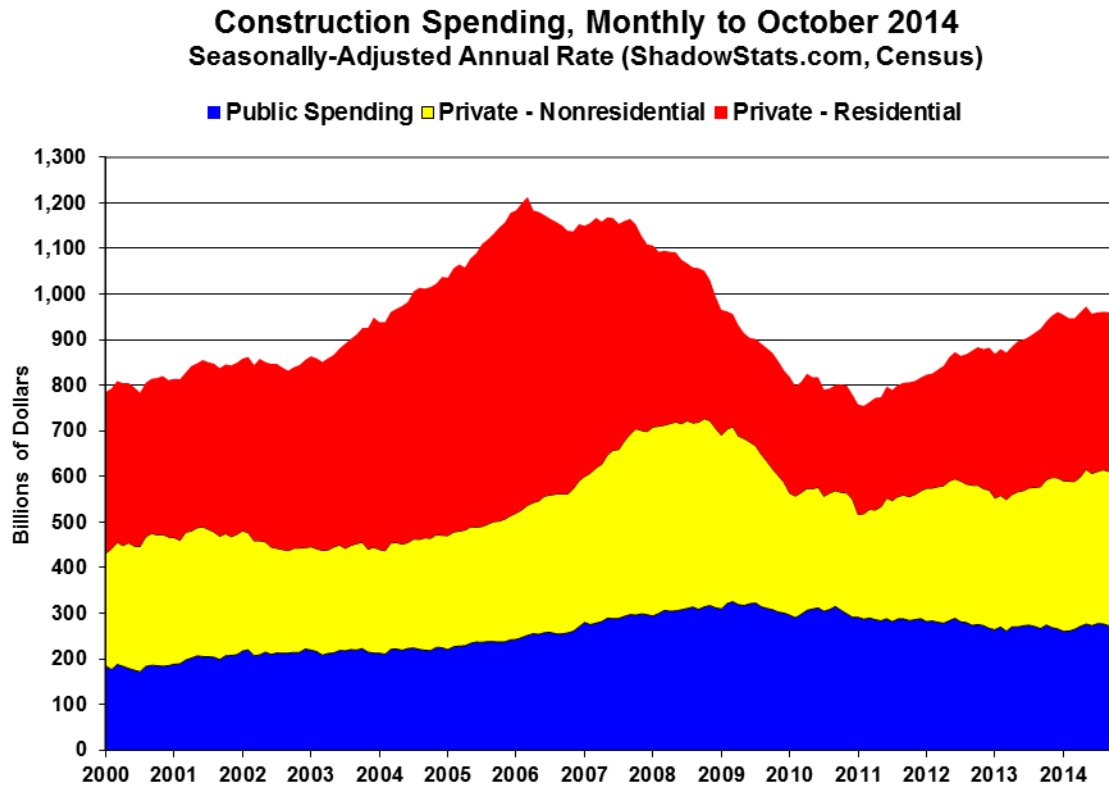


The pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see [Commentary No. 677](#)). To the contrary, the latest construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, shows a pattern of down trending stagnation, as reflected in the preceding two graphs.

The first of the next two following graphs reflects November construction employment (see the *Payroll Employment* section for numerical detail). In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity. Where October and September construction spending revised higher, October and September construction employment levels revised lower. Still, the heavily-upside-biased construction payroll numbers (officially bloated by 5,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month), as well as the heavily-guessed-at related construction activity in the GDP, have been running counter to most other recent indications of weakening construction activity, including the real construction spending detailed here.

The second graph following shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential spending (red).

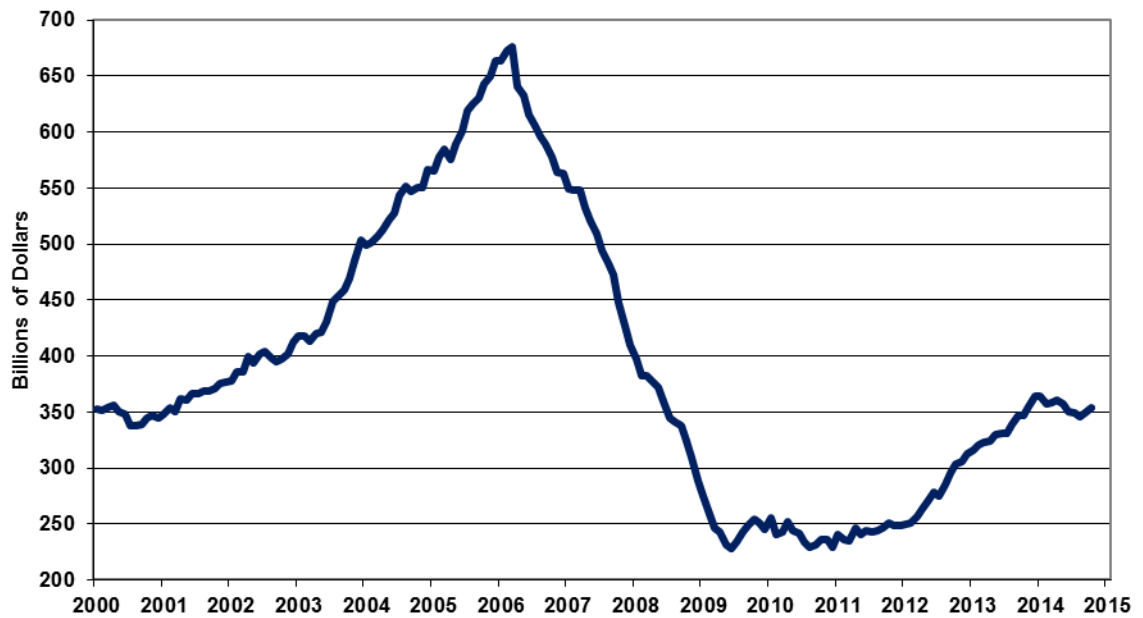




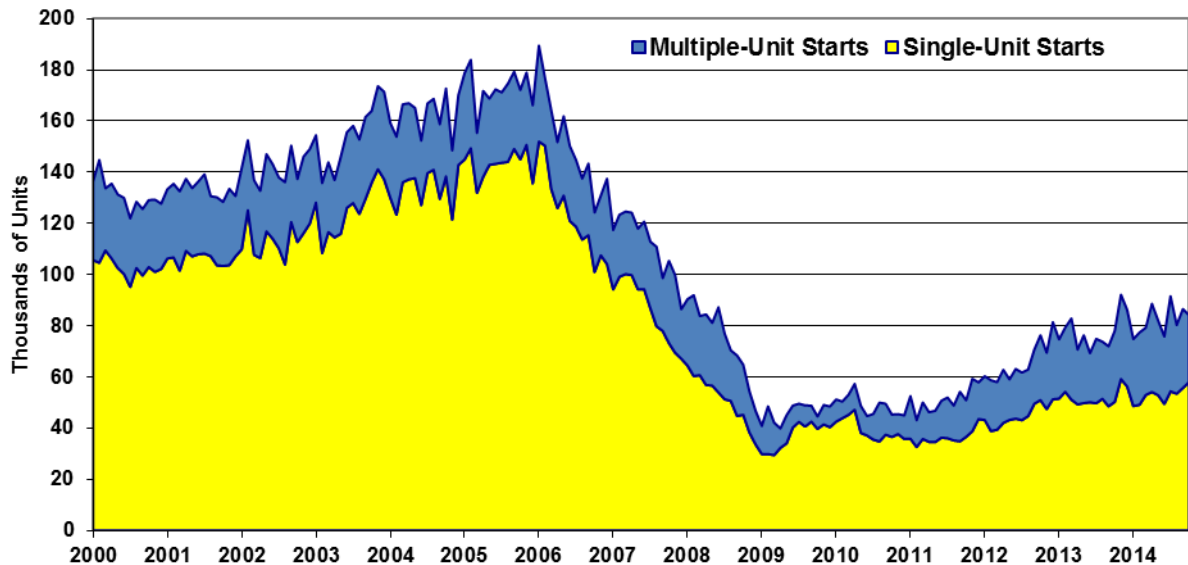
The next two graphs following cover private residential construction along with housing starts (single- and multiple-unit starts) for October (see [Commentary No. 675](#)). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing starts reflect unit volume, which should tend to be more parallel to the real (inflation-adjusted) series. Where the private residential construction spending had been in recent upturn through most of 2013, that now has turned lower, trending to the downside in 2014, even before adjustment for inflation.

The final set of two graphs, the third and fourth, following, show the patterns of the monthly level of activity in private nonresidential construction spending and in public construction spending. The spending in private nonresidential construction remains well off its historic peak, but had bounced higher off a secondary, near-term dip in late-2012, and then heading higher, again, with a topping pattern seen recently. Public construction spending, which is 98% nonresidential, has continued in a broad downtrend with intermittent bouts of fluttering stagnation and some upturn, most recently.

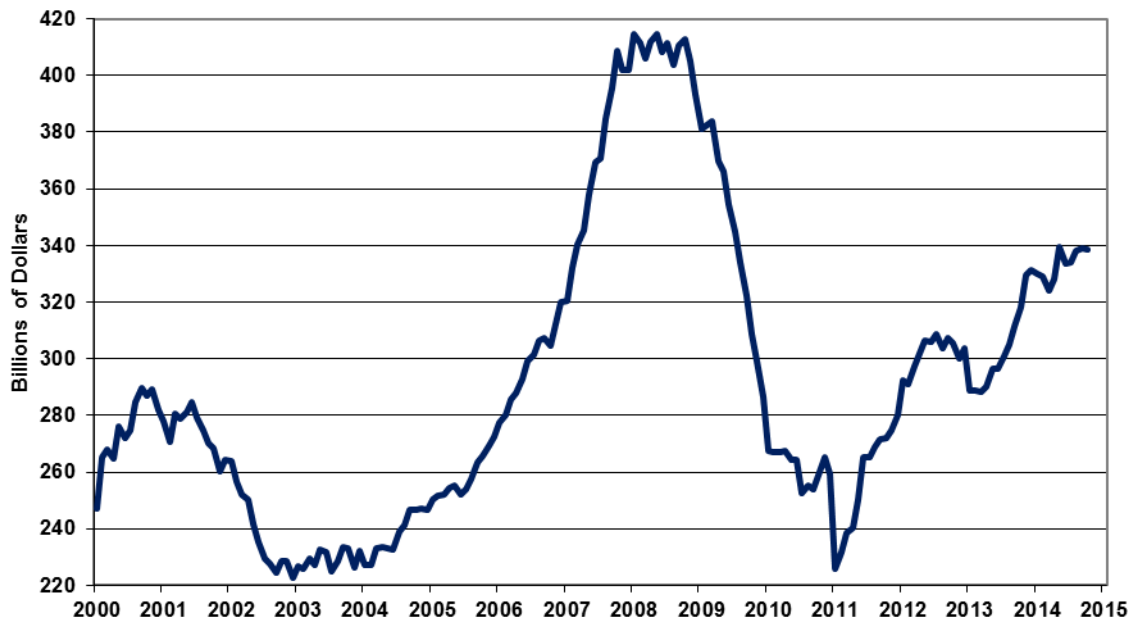
Private Residential Construction to October 2014
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



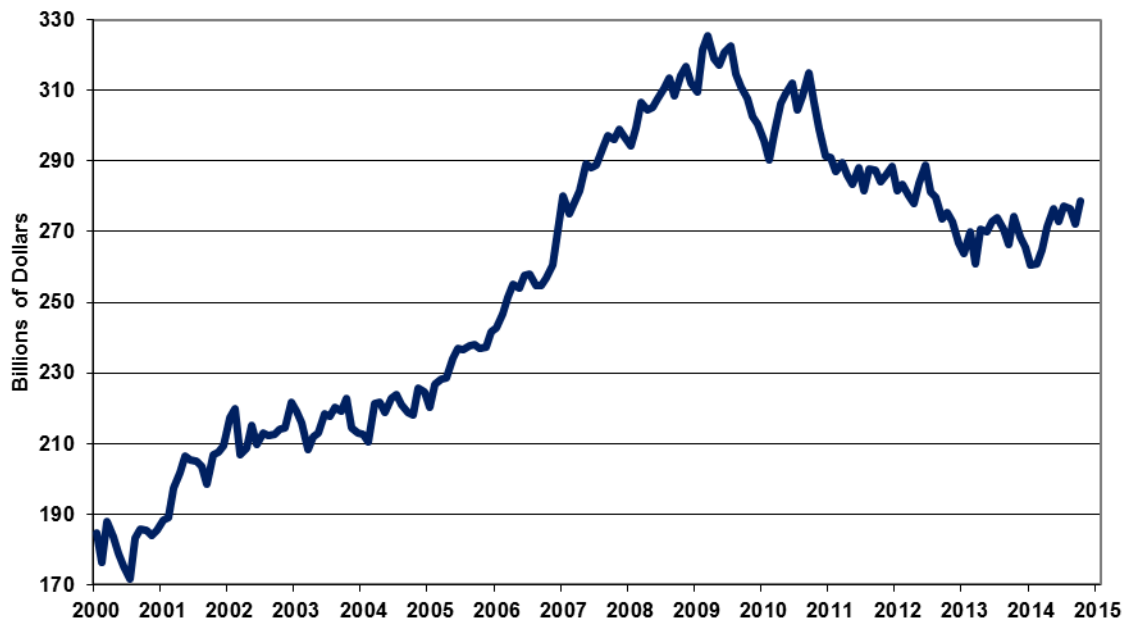
Single- and Multiple-Unit Housing Starts (Monthly Rate)
To October 2014, Seasonally-Adjusted (ShadowStats.com, Census)



Nonresidential Construction, Monthly to October 2014
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



Public Construction, Monthly to October 2014
Seasonally-Adjusted Annual Rate (ShadowStats.com, Census)



WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases and Revisions Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger after Temporary Oil-Price Declines. Shifting some to the downside, again, from the upside, amidst wide fluctuations in the numbers, market expectations for business activity still are overly optimistic in the extreme. They exceed any potential, underlying economic reality. Continuing, downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting, however, increasingly should hammer those expectations.

Longer-Range Reporting Trends. While gradual process of downside shifting in economic-growth expectations has been sporadic, underlying fundamental activity has remained extraordinarily negative. Allowing for the nonsense-growth in the headline second-quarter and third-quarter GDP (see *Opening Comments* of [Commentary No. 677](#)), 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 (which most likely will involve reporting of fourth-quarter 2014 GDP).

A generally stronger consumer inflation trend remains likely, as seen before August, although headline inflation is muted at present, for a couple of months, by a temporary decline in oil prices. 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, covert financial sanctions against Russia that currently 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). Combined with recent allegations (see [Commentary](#)

[No. 669](#)) of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Retail Sales (November 2014). The Census Bureau has scheduled the release of November 2014 retail sales for Thursday, December 11th. Early market expectations appear to be for a minimal gain for this first month of the retail-sales industry's all-important two-month Holiday Shopping Season. A downside reporting surprise to market expectations is a good bet.

The consumer remains in an extreme liquidity bind, as discussed in prior [Commentary No. 678](#) and as updated in the final part of today's *Opening Comments* section for details of October real (inflation-adjusted) median household income. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales.

Accordingly, the headline November retail sales number is at high risk of showing an outright month-to-month contraction (in nominal terms, before inflation adjustment). At the same time, look for downside revisions to the previously-reported September and October detail.

The November CPI-U estimate (due for publication on December 17th, with coverage in *Commentary No. 683* on the same date) will determine the level of inflation-adjusted, or real, retail sales for the month. The headline CPI-U likely will be weak, flat-to-minus for November, dominated by a 7.9% (-7.9%) not-seasonally-adjusted monthly drop in gasoline prices, which would tend to boost the headline real retail sales activity in November, versus the likely weaker nominal headline reporting.
