

**COMMENTARY NUMBER 694**  
**January Payrolls, Employment and Revisions**

**February 6, 2015**

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**Payroll Benchmark Revision Nonsense—Altered and Inflated by  
Affordable Care Act Considerations?**

**Upside-Bias Factor for Annual Payrolls Increased by 161,000 to 892,000**

**Extreme Instability Apparent in New Headline Payrolls**

**January Household Survey Numbers Not Comparable with  
Headline December Detail**

**January 2015 Unemployment: 5.7% (U.3), 11.3% (U.6), 23.2% (ShadowStats)**

**Annual Money Supply M3 Growth Jumped to 5.3% in January, Highest Since July 2009**

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*PLEASE NOTE: The next Regular Commentary is scheduled for Thursday, February 12th, covering  
January retail sales.*

*Best Wishes to all—John Williams*

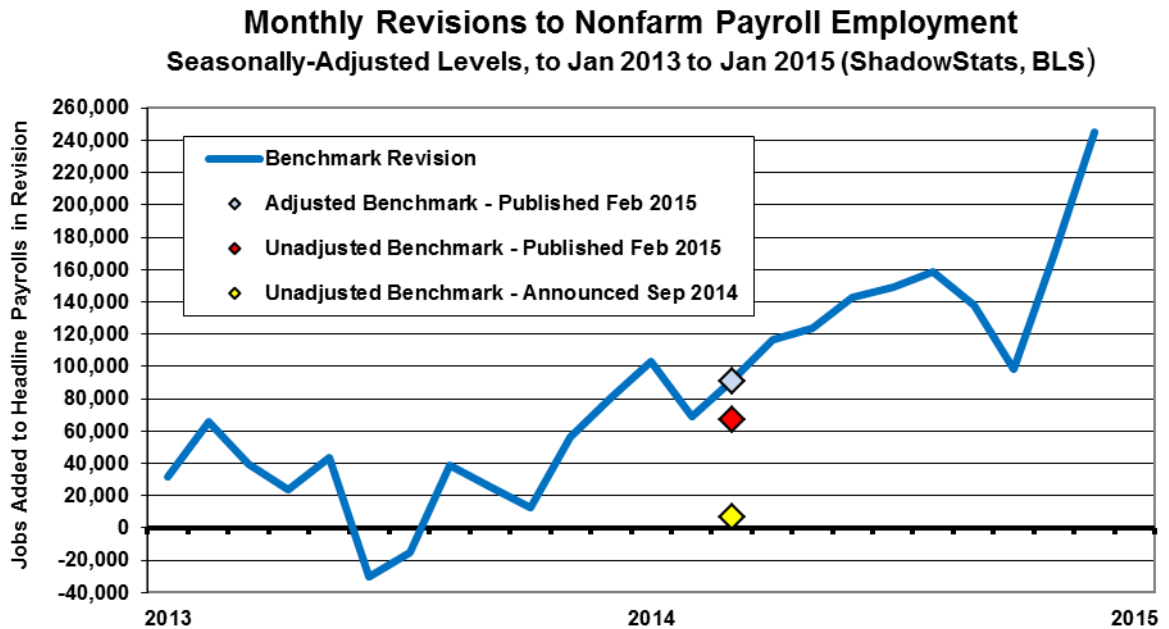
**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Nonsense in the Benchmark Revision.** All was not as promised for the annual, benchmark revision to U.S. payroll employment. For March of each year, the Bureau of Labor Statistics (BLS) benchmarks its headline monthly payroll estimates against detail from state unemployment-insurance filings. Although a

helpful process, the system is far from perfect, particularly when the government begins adjusting detail based on its underlying modeling or assumptions. On September 18, 2014, the BLS announced its benchmark revision to March 2014 payrolls would be a negligible, upside adjustment of about 7,000 unadjusted jobs. Instead, that revision, as published today (February 6th), was an upside change of 67,000 jobs to unadjusted March 2014 payrolls, which translated, somehow, into an accelerating upside seasonally-adjusted revision of 245,000 jobs to the previously-estimated December 2014 payroll-employment level. Related- and increased-upside biases fed into the headline January 2015 payroll level, and a resulting headline monthly gain of 257,000 jobs.

The difference in the benchmark payroll-revision estimates, between the initial September 2014 and the final January 2015 readings—benchmarking that supposedly was against rock-hard numbers from state unemployment-insurance records—came primarily from an unexplained improvement in the revisions to the *Education and Health Services* sector. Estimated revisions to most major components changed little between the September 2014 announcement and the just-published January 2015 detail. For example, on the downside, *Government* employment was to revise lower by 40,000 (-40,000) in September; the actual decline was 38,000 (-38,000) in January; *Professional and Business Services* (such as temporary placement services) was to revise lower by 147,000 (-147,000) in September, it was down in January reporting by 151,000 (-151,000). On the upside, *Construction* was to revise higher by 89,000, it was up by 90,000; *Information* was to revise higher by 65,000, it was up by 66,000.

*Education and Health Services* was scheduled to revise lower by 72,000 (-72,000) in September, but it revised lower by only 16,000 (-16,000) in the January reporting. The difference accounted for the bulk of the revision discrepancy. This area would encompass Affordable Care Act (ACA) activity, and accordingly the ACA is suspect. Last year's benchmark introduced a new category of home healthcare in "social assistance," which also could be involved in the funny numbers (see [Commentary No. 598](#)).



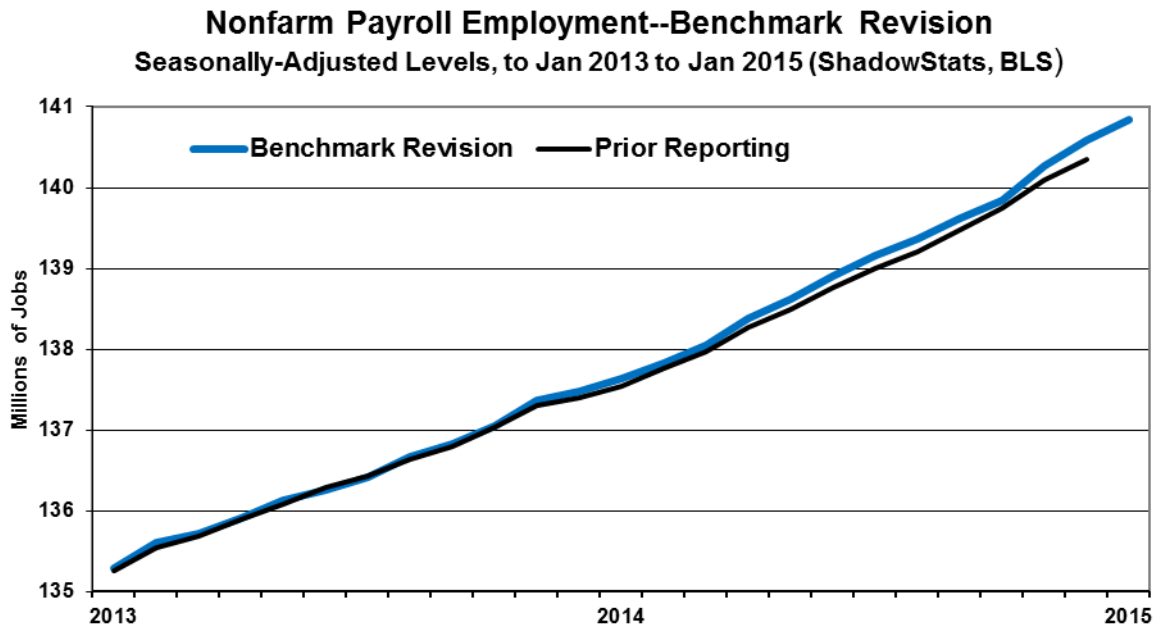
***Making a Mountain out of a Molehill.*** The actual month-to-month revisions are plotted in the preceding graph. The level of change shown is the net revision in the headline level of payroll employment, on a seasonally-adjusted basis, as built upon the unadjusted revision to the March 2014 payroll level. These are not the headline month-to-month changes, which will be covered later.

Had the unadjusted initial benchmark estimate (yellow diamond) not been revised to the level of today's reporting (red diamond), the revisions would have been largely flat, and new upside biases likely would not have been added, as discussed in the *Birth-Death Model* section of the *Reporting Detail*.

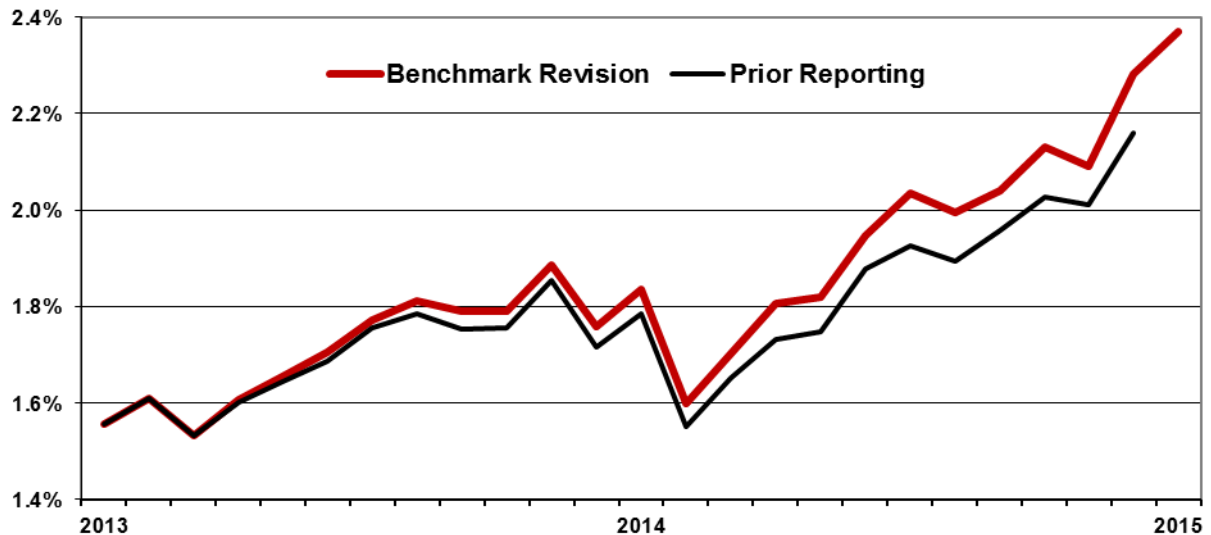
The next two graphs plot the benchmark changes both in terms of seasonally-adjusted level, and in terms of unadjusted year-to-year change. The actual impact from the March 2014 benchmarking revised the unadjusted data back one year, to April 2013, and ahead to the present. Seasonal-adjustment revisions were made back to January 2010, while other minor adjustments were made back to January of 1990.

As will be discussed more extensively in a soon-to-follow *Commentary*, updating the BLS's revised seasonal-adjustment model, current seasonal factors appear to be highly unstable. For example, where the BLS reported today that the revised headline monthly jobs gain for November 2014 was an incredibly large 423,000, early assessment of the BLS modeling indicates that a November increase consistent with the headline December and January reporting would be 340,000, some 83,000 jobs shy of the new number.

Shown in the graphs of the *Reporting Detail* section, the benchmarked year-to-year change in payroll employment, as of January 2015, has reached a new post-recession high.



**Payroll Employment--Benchmark Revision**  
Yr-to-Yr % Change, NSA, to January 2015 (ShadowStats, BLS)



*Today's Missive (February 6th).* Unusual twists occasionally come out of the annual benchmark revisions to payroll employment, and that was the case today. Discussed in the opening paragraphs, the vagaries of hard data on the economic effects of the Affordable Care Act not only appear to be boosting headline GDP growth (see [Commentary No. 691](#)), but also possibly headline payroll growth. Lacking hard numbers, the U.S. statistical bureaus have to make assumptions in order to publish their headline data, and those assumptions look like they are boosting various levels of reported economic activity beyond underlying reality.

This *Commentary* concentrates on detail from the headline reporting of the January 2015 labor data, and the annual benchmark revision to payrolls and the annual resetting of the population parameters in the household survey. It also covers the initial estimate of year-to-year growth in the ShadowStats Alternate M3 Measure for December 2014 (see the *Hyperinflation Watch* section).

The *Hyperinflation Summary Outlook* will be revamped shortly, reflecting [No. 692 Special Commentary: 2015 - A World Out of Balance](#). It is not included in the current *Commentary*. Anyone looking for a *Summary* is referred to the *Opening Comments* of No. 692, or to [Commentary No. 684](#), for the prior version.

The *Week Ahead* section previews next Thursday's reporting of January 2015 nominal retail sales, which well could accelerate recognition of a renewed economic contraction.

Changes to Regular or Planned Features. With unexpected concentration on new issues here, the outlook for general economic reporting in the next month or so, planned for this *Commentary*, will be reviewed instead in the February 12th *Commentary*. The outlook for general economic activity remains bleak, as discussed in [No. 692](#).

*New Seasonal-Adjustment Modeling for Payroll Employment Available in the Week or So Ahead.* Usual employment *Commentary* sections, covering the payroll-trend model and the concurrent-seasonal-adjustment process, will follow in a week or so, in a separate *Commentary*, upon the completion of an updated recreation of the Bureau of Labor Statistics (BLS) concurrent-seasonal-adjustment modeling process for headline payroll employment, which was revamped today by the BLS.

With each annual payroll benchmark revision, ShadowStats, through its affiliate [www.ExpliStats.com](http://www.ExpliStats.com), recreates the BLS adjustment model, using detail available from the Bureau. Such enables ShadowStats and ExpliStats to publish comparable month-to-month headline payroll data back in time, which the BLS will not do beyond two months. It leaves headline historic numbers not comparable with headline reporting. The model also enables reporting of the BLS payroll-trend estimate, which is not otherwise available to the public, and provides the basis for assessing the headline reporting distortions generated by the BLS reporting process.

**Employment, Unemployment and Revisions—January 2015—Nonsense Revisions and Headline Reporting.** Discussed in the opening paragraphs, the 2014 payroll-benchmark revision appears to have been spiked by assumptions boosting the economic impact of an otherwise not-quantifiable Affordable Care Act (ACA). Separately, the seasonal-adjustment revisions to the series were wild and unstable, falsely boosting the headline November 2014 jobs gain by an extra 83,000.

Both the January 2015 headline benchmarked jobs growth of 257,000, and the headline 0.1% increase in the U.3 unemployment rate to 5.7%, remained far removed from common experience and underlying reality. Quality issues continue to reflect extreme seasonal-factor distortions and the general lack of month-to-month data comparability. Discussed frequently, common experience generally would suggest flat headline monthly payroll employment, plus or minus, in January 2015, with a broad unemployment rate—encompassing all short- and long-term discouraged workers—running above 23% (*i.e.*, see the *ShadowStats-Alternate Unemployment Measure*).

Separately, the issue as to the falsification of the household survey by employees of the Census Bureau, who conduct the underlying Current Population Survey remains ongoing. Details on the related Congressional investigation were discussed in [Commentary No. 669](#).

**Headline January 2015 Payroll Employment.** The seasonally-adjusted, month-to-month headline payroll-employment gain for January 2015 was 257,000 jobs, somewhat above market expectations. Such was in the context of a heavily-distorted annual-benchmark revision, which is flowing regular, increased upside monthly biases into recent headline monthly reporting, at a pace of almost 900,000 jobs per year (see the *Birth-Death Model* in the *Reporting Detail*).

The January gain followed a benchmarked 329,000 (previously a 252,000) gain in December, versus a not credible benchmarked 423,000 gain in November (previously 353,000). From an early assessment of seasonal factor distortions, the revised November gain appears to be extremely warped—inflated—with specifics forthcoming shortly, along with updated detail of BLS modeling.

**Historical Payroll Levels.** Payroll employment is a coincident indicator of economic activity and, irrespective of all the reporting issues with the series, it formally regained its pre-recession high in 2014,

despite the GDP purportedly having done the same back in 2011. Reflected in *Reporting Detail* graphs, headline payroll employment moved to above its pre-recession high in April 2014 (it was May 2014 pre-benchmarking), and it has continued to rise, now about 2.5 million jobs above the pre-recession peak.

The problem remaining is that much of that payroll "jobs" growth is in multiple part-time jobs, taken on because full-time employment could not be found. Full-time employment still has not regained its pre-recession peak.

***Annual Change in Payrolls—Strongest Growth Since 2000.*** With the benchmarked surges in recent headline payroll activity, year-to-year growth also increased in revision, hitting a new post-recession high. Although not credible, the annual growth in January 2015 was the strongest since June 2000 (another recession). 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 consistent basis. There are developing issues, though, of significant games that have been played with both the 2013 and 2014 benchmark revisions.

For January 2015, year-to-year or annual nonfarm-payroll growth was 2.37%, up from a revised 2.28% (previously 2.16%) in December, and from a revised 2.09% (previously 2.01%) in November.

***Counting All Discouraged Workers, January 2015 Unemployment Was 23.2%.*** The headline household survey reporting remains virtually worthless on a month-to-month basis. 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, except for December reporting, which, with its seasonal adjustment revisions, brings the last five years of household reporting into a comparable and consistent form, for one month.

Where last month's headline December reporting brought recent history into consistent alignment, that all was thrown askew with January 2015 reporting. The BLS is revising all historical data each month, when setting the headline month's seasonal factors, but it will not publish the new, revised and comparable historical data. Instead, the BLS leaves the old, non-comparable data, in place, without comment, as it has done for years.

Separately, with the BLS revising its population estimates with the January 2015 data, that means that even if the household survey data were comparable month-to-month, on a seasonally-adjusted basis, they would not be comparable, based on the inconsistent monthly population controls.

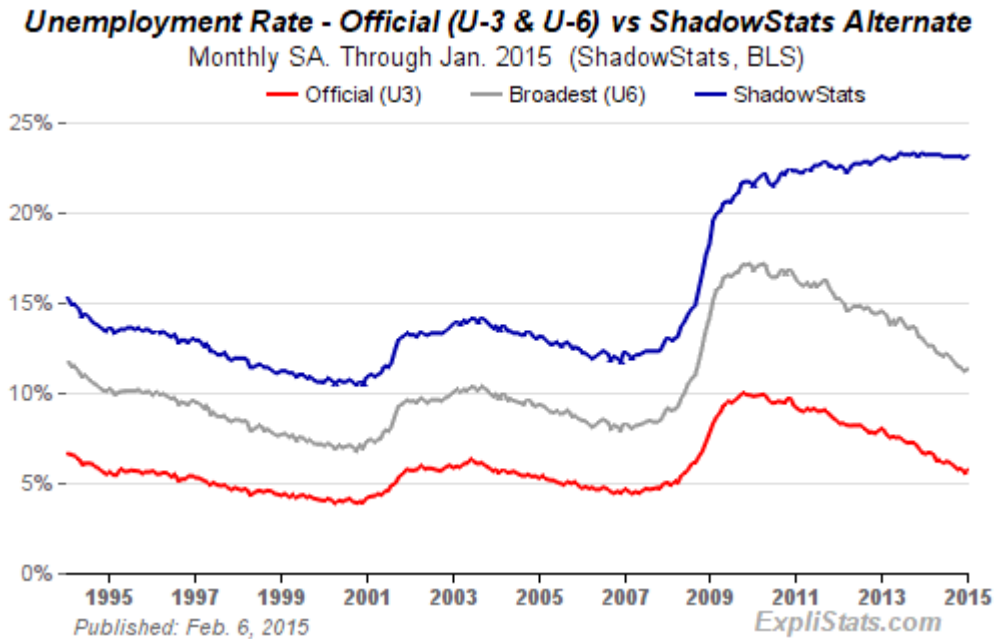
More than anything else, though, what removes headline-unemployment reporting from broad underlying economic reality and common experience simply is definitional. To be counted among the headline unemployed (U.3), an individual has to have looked for work actively within the four weeks prior to the unemployment 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 are rolled 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 headline January 2015 unemployment rates of 5.7% (U.3) and 23.2% (ShadowStats).



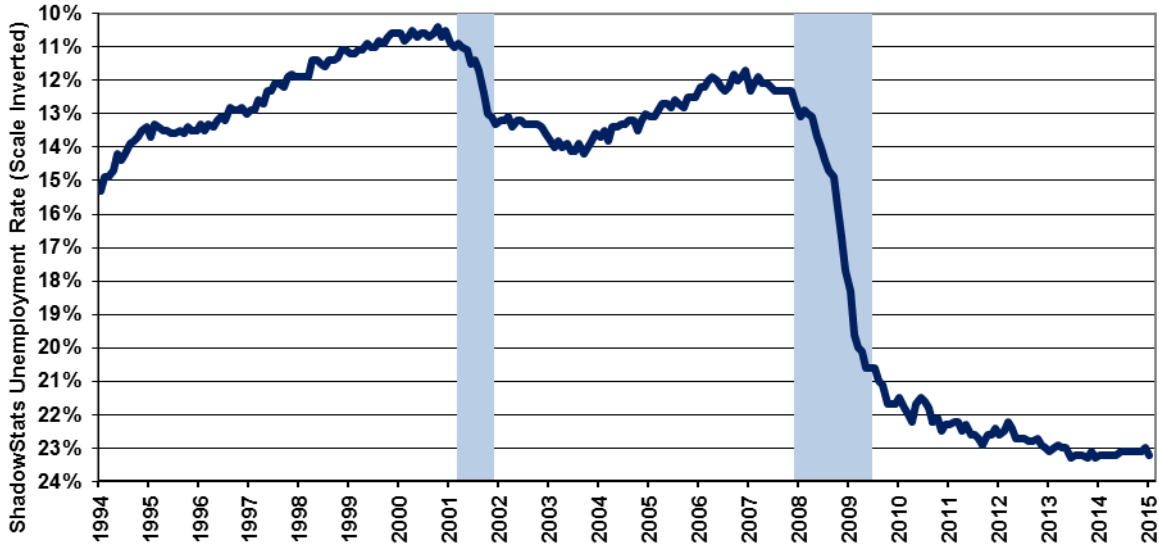
The graph immediately preceding reflects headline January 2015 U.3 unemployment at 5.7%, up from 5.6% in December 2014; headline January U.6 unemployment at 11.3%, up from 11.2% in December; and the headline January ShadowStats unemployment measure at 23.2%, versus 23.0% in December. The ShadowStats series high (since 1994) was seen variously in June, October and December 2013 at 23.3%. The ShadowStats-Alternate Unemployment Measure series is built upon the BLS reporting of seasonally-adjusted U.3 and U.6 series, and correspondingly, it is affected by annual seasonal adjustments to those series.

The three 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.

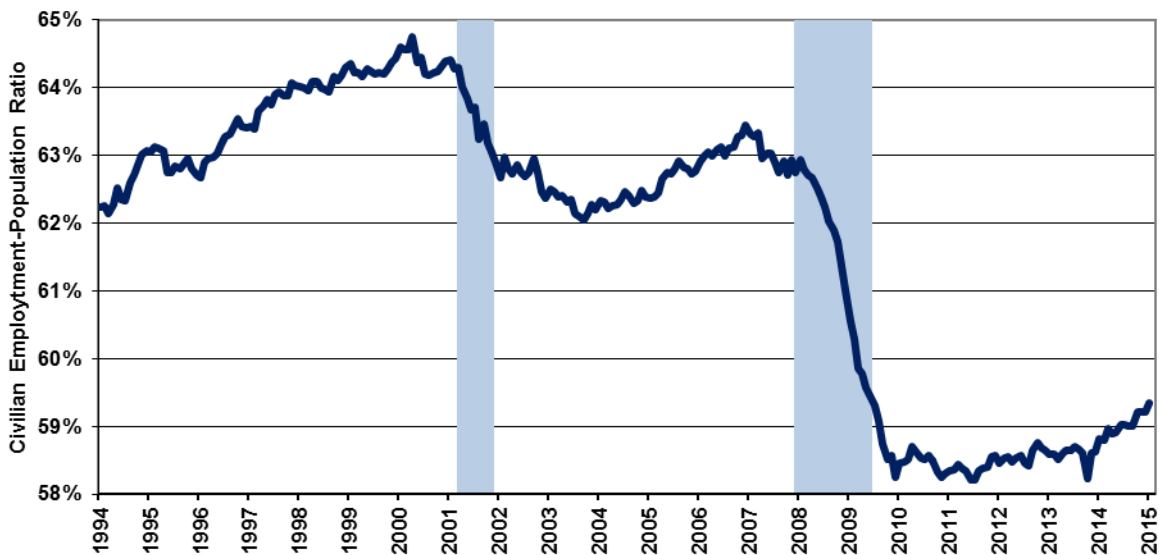
The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which is plotted in the second graph. Discouraged workers are not counted in the

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.

**ShadowStats-Alternate Unemployment Rate (Inverted Scale)**  
 Long-Term Discouraged Workers Included (BLS Excluded Since 1994)  
 To January 2015, Seasonally-Adjusted (ShadowStats, BLS)

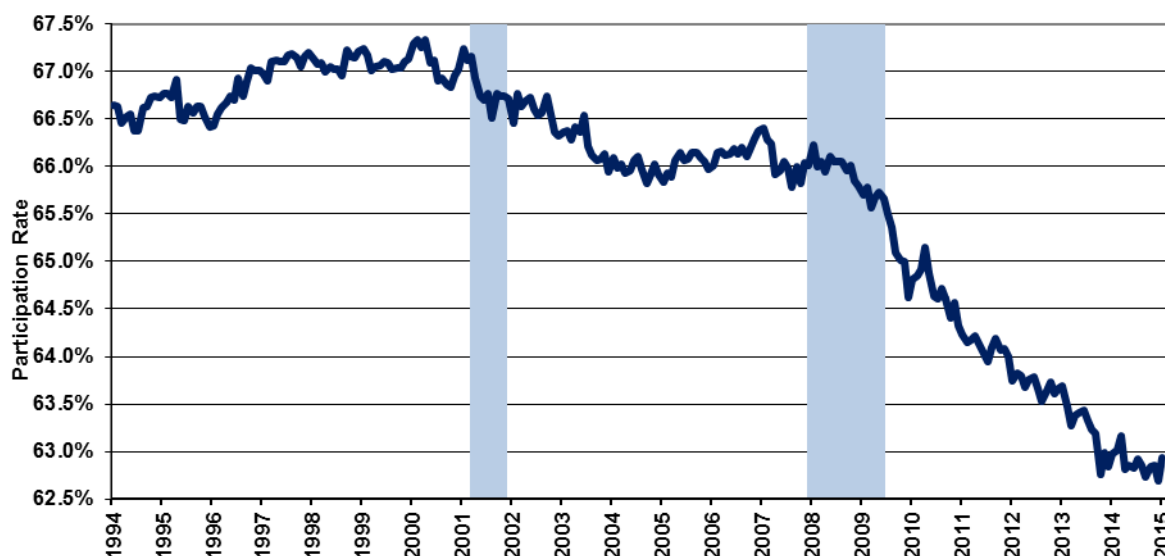


**Civilian Employment-Population Ratio**  
 To January 2015, Seasonally-Adjusted (ShadowStats, BLS)





**Participation Rate (Labor Force as Percent of Population)  
To January 2015, Seasonally-Adjusted (ShadowStats, BLS)**



The third graph (above) plots the labor-force participation rate (headline labor force as a percent of population), a series frequently touted by Federal Reserve Chair Janet Yellen. The labor force here is the headline employment plus U.3 unemployment. So, as with the prior graph of employment-to-population, its holding near a record low in the current reporting is another indication of problems with long-term discouraged workers, the loss of whom continues to shrink the headline (U.3) labor force, and the plotted ratio.

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

***Headline Unemployment—January 2015—Annual-Population Revisions and Concurrent-Seasonal Adjustments Scuttle Month-to-Month Comparability.*** Beyond potential quality issues of the CPS surveying process for the household survey, the BLS already has had in place reporting practices to make the seasonally-adjusted household-survey data virtually meaningless in terms of month-to-month change or comparison. 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, seasonally-adjusted, historical-household survey detail is not published.

Separately, the BLS revises its population estimates each January, as was done today (February 6th). That makes the January 2015 versus December 2014 household numbers not comparable, separate from other issues. The BLS, however, does publish one-time estimates of what the January numbers would have looked like on a consistent December population-estimate basis.

***Headline Unemployment Rates.*** The headline January 2015 unemployment (U.3) rate increased by 0.15-percentage point to 5.71%, from 5.56% in December 2014. On an unadjusted basis, the unemployment

rates are not revised and at least are consistent in reporting methodology (except possibly for December-to-January, with the population changes). January's unadjusted U.3 unemployment rate was 6.1%, up from 5.4% in December.

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

With a small, seasonally-adjusted gain in people working part-time for economic reasons and a decline in discouraged workers and those marginally attached to the workforce (unadjusted), headline January 2015 U.6 unemployment rose to 11.31%, from 11.20% in December. The unadjusted U.6 increased to 12.0% in January 2015, versus 11.1% in December.

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 January 2015 ShadowStats-Alternate Unemployment Measure, rose to 23.2%, from 23.0% in December. That was down from the 23.3% series high in 2013 (back to 1994). The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force. It also tends to revise with U.3 and U.6 benchmarks.

***[Further detail on the Employment and Unemployment Data, are found in the Reporting Detail. Various drill-down and graphics options on the headline Labor data also are available to subscribers at our affiliate: [www.ExpliStats.com](http://www.ExpliStats.com)].***

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## HYPERINFLATION WATCH

**Recent Monetary Conditions—M3 Growth at 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 remained stable. Despite high-level volatility in the monetary base during recent two-week periods, annual growth in January 2015 money supply M3 increased, tentatively, to 5.3%, the strongest showing in five years, since July of 2009. These circumstances also are discussed in [No. 692 Special Commentary: 2015 - A World Out of Balance](#).

***Money Supply M3 Annual Growth Tentatively Rose to 5.3% in January.*** Year-to-year change in January 2015 M3 (ShadowStats-Ongoing Measure) jumped to 5.3%, from a revised 5.0% (previously

5.2%) in November. The November revisions were due to major annual benchmark revisions by the Federal Reserve of various M3 components, including M1, M2 and institutional money funds.

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 recovering 4.6%. Annual growth pulled back to a revised 4.4% in June 2014, but rose again to 4.6% in July, easing back to 4.2% in September and October. Growth then jumped to 4.7%, 5.0% and 5.3%, respectively, in November and December 2014, and January 2015.

Formal M3 estimates and the first readings of annual growth for M2 and M1 in January 2015 will be updated on the [Alternate Data](#) tab of [www.ShadowStats.com](http://www.ShadowStats.com) by February 7th

The seasonally-adjusted, preliminary estimate of month-to-month change for January 2015 money supply M3 was roughly a gain of 0.6%, versus a revised 0.5% (previously 0.6%) gain in December 2014. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

**Growth for December M1 and M2.** For January 2015, 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 January 2015 rose to roughly 5.9%, up from a revised 5.8% (previously 6.0%) gain in December 2014, with a month-to-month gain of about 0.6% in January, versus a revised 0.5% (previously 0.6%) in December. For M1 in January 2015, year-to-year growth softened to 8.7%, versus a revised 9.5% (previously 9.8%) in December 2014, with a month-to-month January gain of 0.4%, versus a revised 1.1% (previously 1.7%) gain in December gain.

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## REPORTING DETAIL

### EMPLOYMENT AND UNEMPLOYMENT (January 2015)

**Payroll Revisions Were Utter Nonsense.** Discussed in the *Opening Comments*, the March 2014 benchmark revision appears likely to have been spiked by assumptions boosting the economic impact of an otherwise not-easily quantifiable Affordable Care Act (ACA). Separately, the seasonal-adjustment revisions to the series were wild and unstable, falsely boosting the headline November 2014 jobs gain by an extra 83,000. More detail will follow shortly, as the concurrent seasonal-adjustment-modeling of the Bureau of Labor Statistics (BLS) is vetted in a separate *Commentary*.

Both the January 2015 headline benchmarked jobs growth of 257,000 and the headline 0.1% increase in the U.3 unemployment rate to 5.7% still remained far removed from common experience and underlying reality. Quality issues continue to reflect extreme seasonal-factor distortions and the 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 January, with a broad unemployment rate—encompassing all short- and long-term discouraged workers—running above 23% (see the *ShadowStats-Alternate Unemployment Rate*).

Separately, 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 were discussed in [Commentary No. 669](#).

**PAYROLL SURVEY DETAIL.** Published February 6th, by the Bureau of Labor Statistics (BLS), the seasonally-adjusted, month-to-month headline payroll-employment gain for January 2015 was 257,000 jobs +/- 129,000 (95% confidence interval) somewhat above market expectations. Such was in the context of an upside annual benchmark revision, which flowed increased upside monthly biases into recent headline monthly reporting at an accelerating pace.

The January gain followed a benchmarked 329,000 (previously a 252,000) gain in December, and an absurd benchmarked 423,000 gain in November (previously 353,000, initially 321,000). From an early assessment of seasonal factor distortions, the November gain appears to be extremely warped—inflated—with specifics forthcoming shortly along with the updated detail of BLS modeling.

**Fraudulent November 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, itself, but rather from the BLS not publishing the newly revised history each month, and by not allowing for honest comparisons of the numbers.

This area will be fully updated in the week or so ahead, but an initial analysis indicates that consistent reporting for November, based on the headline January and December numbers, would show a headline November month-to-month gain of 340,000 versus October, not the headline gain of 423,000.

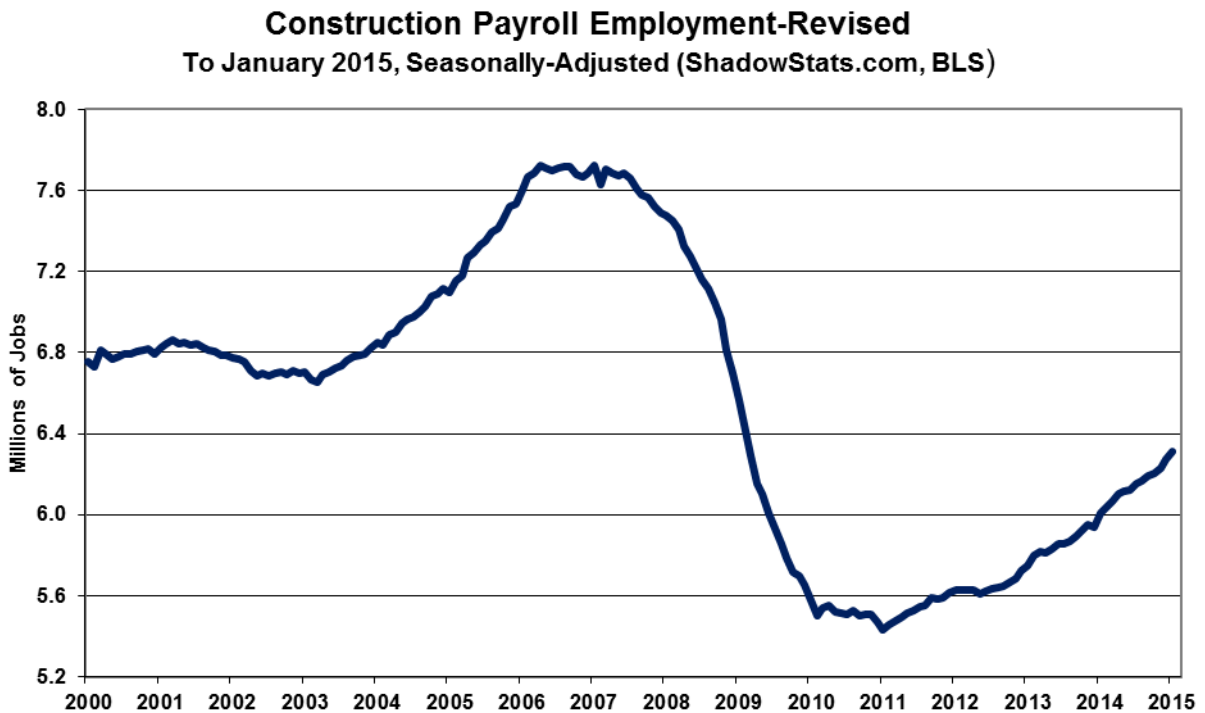
Where the current employment levels have been spiked by misleading and inconsistently-reported concurrent-seasonal-factor adjustments, the reporting issues suggest that a 95% confidence interval around the monthly headline payroll gain should be well beyond +/- 200,000 around the formal modeling of the headline gain, instead of the official +/- 129,000. Even if the data were reported on a comparable month-to-month basis, other reporting issues would prevent the indicated headline magnitudes of change from being significant. Encompassing Birth-Death Model biases, the confidence interval more appropriately should be in excess of +/- 300,000.

**Construction Payrolls.** Updating the graph of construction payrolls shown in [Commentary No. 693](#), and in the context of upside benchmark revisions, January 2015 construction rose by 39,000, versus a benchmark-revised 44,000 in December 2014, and a 30,000 jobs gain in November. Based on an upside

revision of 90,000 jobs to unadjusted March 2014 construction payrolls, the adjusted level of December 2014 construction jobs came in at 6.275 million, revised higher by 109,000 jobs from the prior reporting. The January 2015 level was 6.314 million.

The ongoing strength in headline construction jobs generally runs counter to all other indications of flat-to-down construction activity.

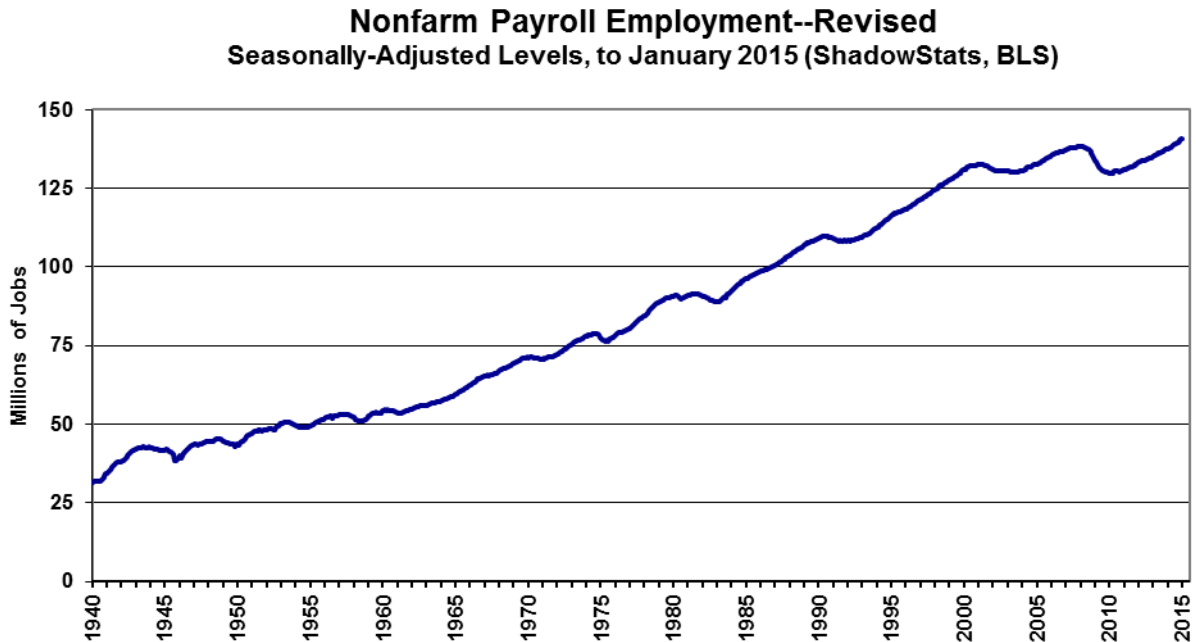
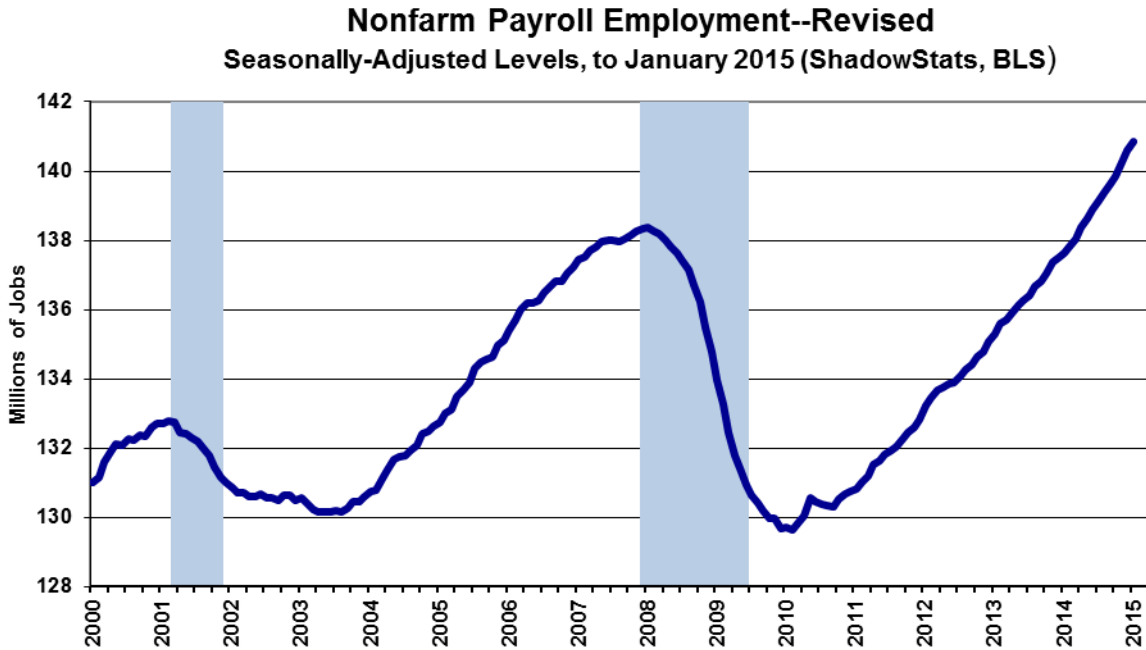
The construction payroll numbers are heavily biased to the upside (officially bloated by 6,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total January 2015 construction jobs still were down by 18.3% (-18.3%) from the pre-recession peak for the series in April 2006.



**Historical Payroll Levels.** Payroll employment is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same back in 2011. Reflected in the following graphs, headline payroll employment moved to above its pre-recession high in April 2014 (it had happened in May 2014 pre-benchmarking), and it has continued to rise, now about 2.5 million jobs above the pre-recession peak.

The problem remaining is that much of that payroll "jobs" growth is in multiple part-time jobs, taken on because full-time employment could not be found. Full-time employment still has not regained its pre-recession peak. The headline employment and full-time employment graphs shown in this section with

December's reporting ([Commentary No. 686](#)), are being reworked to as to be shown on a consistent basis over time along with the regular the population revisions. Those graphs shall return here next month.



The preceding graphs show the revised payroll series, both on shorter-term basis since 2000, and on a longer-term historical basis from 1940. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the

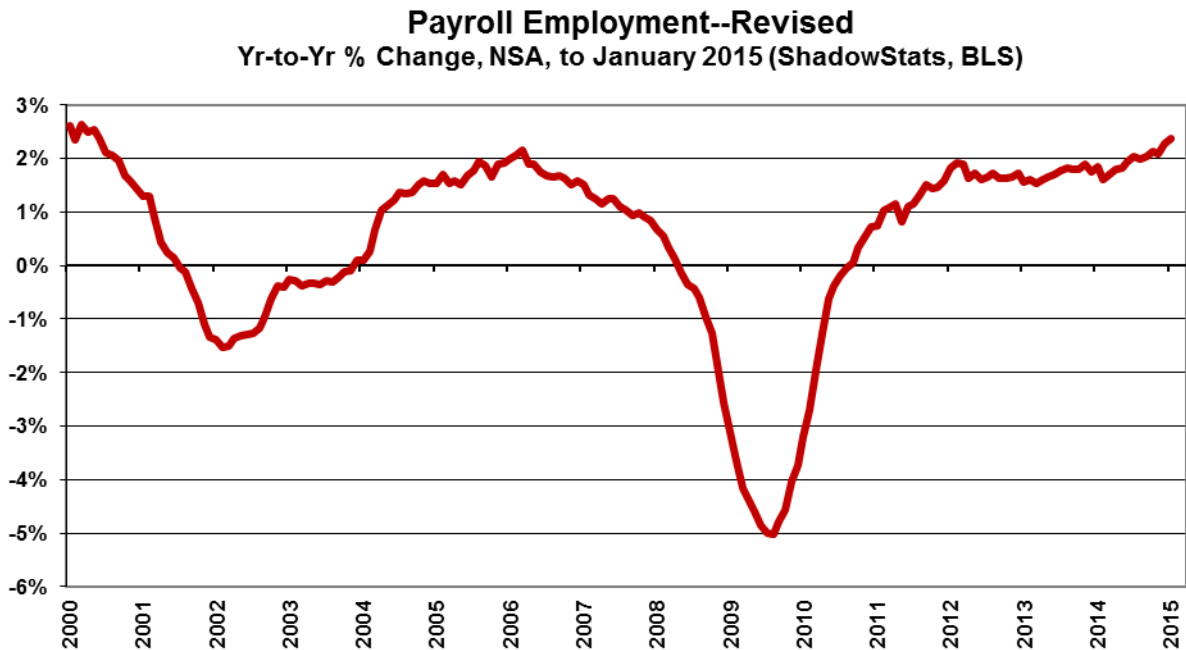


worst such circumstance of the post-Great Depression era. The payroll-benchmark-revision detail is graphed in the *Opening Comments* section.

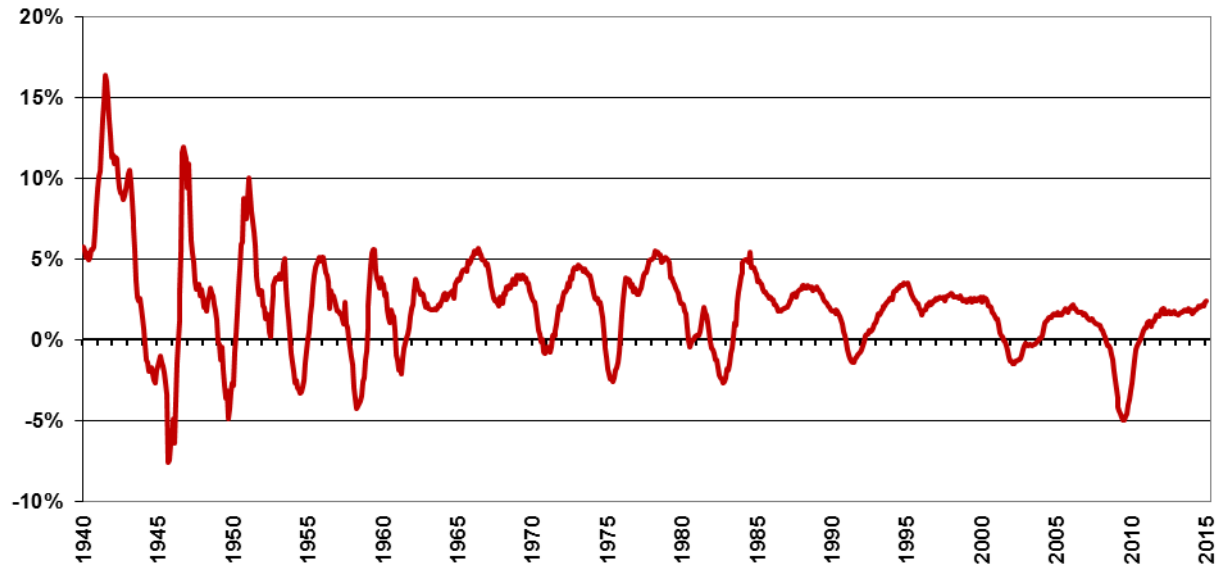
**Annual Change in Payrolls—Strongest Growth Since 2000.** With the benchmarked surges in recent headline payroll activity, year-to-year growth also moved higher with the benchmark revision, hitting a new post-recession high. Although not credible, the annual growth in January 2015 was the strongest since June 2000 (another recession). 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 a possible new redefinition of the series—not the standard benchmarking process in 2014—appears to be in play, on top of the distortions from the 2013 benchmarking (see [Commentary No. 598](#)).

For January 2015, year-to-year or annual nonfarm payroll growth was 2.37%, up from a revised 2.28% (previously 2.16%) in December, and from a revised 2.09% (previously 2.01%, initially 2.00%) in November.

With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record 5.02% (-5.02%) decline seen in August 2009, as shown in the accompanying graphs. That 5.02% (-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% (-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.



**Payroll Employment--Revised**  
Yr-to-Yr % Change, NSA, to January 2015 (Shadowstats, BLS)



***Concurrent-Seasonal-Factor Adjustments.*** Both the *Concurrent-Seasonal-Factor* section and the *Trend Model* section will be updated in the week or so ahead, upon the completion of benchmarking updates to the ExpliStats version of the Bureau of Labor Statistics concurrent-seasonal-adjustment model for the headline monthly payroll employment 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 and 2014 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. Today's *February 6th* benchmark revision to March 2014 payrolls is discussed in the *Opening Comments* section.

With the March 2013 revision, though, 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. Elements tied to this may have had impact on the unusual issues with the 2014 revisions (see *Opening Comments* and [Commentary No. 598](#)).

With the headline benchmark revision for March 2014 showing a jobs understatement of 67,000, the BLS naturally upped its annual add-factor bias by an even greater 161,000 for the year ahead, to 892,000. There just is no good political reason for risking a headline understatement of jobs growth.

Historically, the upside-bias process was created simply by adding in a monthly "bias factor," so as to prevent the otherwise potential political embarrassment to the BLS of understating monthly jobs growth. The "bias factor" process resulted from such an actual embarrassment, with the underestimation of jobs growth coming out of the 1983 recession. That process eventually was recast as the now infamous Birth-Death Model (BDM), which purportedly models the effects of new business creation versus existing business bankruptcies.

*January 2015 Bias.* The not-seasonally-adjusted January 2015 bias was a negative monthly add-factor of 275,000 (-275,000), versus a pre-benchmark negative monthly add-factor of 307,000 (-307,000) in January 2015, and a negative 20,000 (-20,000) in December 2014.

The revamped aggregate upside bias for the trailing twelve months through January 2015 was 892,000, from the pre-benchmarked 731,000 in December 2014, or a monthly average of 74,000 (61,000 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 74,000 jobs per month in the current year. In current reporting, the aggregate average overstatement of employment change easily continues to exceed 200,000 jobs per month.

## ***HOUSEHOLD SURVEY DETAILS.***

**Household-Survey Data Are of Questionable Significance.** *Continued warning:* 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 have been 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.

***Annual Population Revisions and Concurrent Seasonal Adjustments at the BLS.*** Beyond potential quality issues of the CPS surveying process for the household survey, the BLS already has had in place reporting practices to make the seasonally-adjusted household-survey data virtually meaningless in terms of month-to-month change or comparison. 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, seasonally-adjusted, historical household survey detail is not published, except once per year, in December, as was seen last month. All the historical data shifted anew with the headline January 2015, but what would be new historical detail, consistent with the January reporting never will be published.

Separately, the BLS revises its population estimates each January. That was done today for the January 2015 detail, but it makes the January versus December household numbers not comparable, beyond the other issues. The BLS, however, does publish one-time estimates of what the January numbers would have been on a consistent December population-estimate basis.

***Headline Household Employment.*** Due to most of the December 2014 versus January 2015 numbers being not comparable, the concentration today is on the unemployment rates. Most ratios, such as the unemployment rate, employment-to-population ratio, etc., are not seriously distorted by the population changes, while counts, such as the number of people employed or unemployed, are distorted heavily.

***Headline Unemployment Rates.*** The headline January 2015 unemployment (U.3) rate increased by 0.15-percentage point to 5.71%, from 5.56% in December 2014. Technically that was a statistically-insignificant change, where the official 95% confidence interval around the monthly change in headline U.3 is +/- 0.23-percentage point. That is meaningless, usually, in the context of the comparative month-to-month reporting-inconsistencies created by the concurrent-seasonal factors, let alone new questions as to general survey accuracy and significance.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology (except possibly for December-to-January, with the population changes). January's unadjusted U.3 unemployment rate was 6.1%, up from 5.4% in December.

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

With a small, seasonally-adjusted gain in people working part-time for economic reasons and a decline in discouraged workers and those marginally attached to the workforce (unadjusted), headline January 2015 U.6 unemployment rose to 11.31%, from 11.20% in December. The unadjusted U.6 increased to 12.0% in January 2015, versus 11.1% in December.

***Discouraged Workers.*** The count of short-term discouraged workers in January 2015 (never seasonally-adjusted) declined to 682,000 from 740,000 in December 2014, versus 698,000 in November and 770,000 in October. 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 the 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—rose to 23.2% in January 2015, versus 23.0% in December, down from the series high (back to 1994) of 23.3% seen variously in June, October and December 2013. 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 particularly its annual revisions. Accordingly, the alternate measure often will suffer some of the same seasonal-adjustment woes that afflict the base series, again, including underlying annual revisions.

*[The remaining text in this Household Survey section is unchanged from last month's Commentary covering the December 2014 labor data.]* As seen in the usual graph of the various unemployment measures (in the *Opening Comments*), there continues to be a noticeable divergence in the ShadowStats series versus U.6, and the ShadowStats series and U.6 versus U.3. The reason for this is that U.6, again, only includes discouraged workers who have been discouraged for less than a year. As the discouraged-worker status ages, those that go beyond one year fall off the government counting, even as new workers enter “discouraged” status. A similar pattern of U.3 unemployed becoming “discouraged” and moving into the U.6 category also accounts for the early divergence between the U.6 and U.3 categories.

With the continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker status (a ShadowStats measure). There was a lag in this happening as those having difficulty during the early months of the economic collapse, first moved into short-term discouraged status, and then, a year later into long-term discouraged

status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force has been accelerating. While there is attrition in long-term discouraged numbers, there is no set cut off where the long-term discouraged workers cease to exist. See the [Alternate Data](#) tab for historical detail.

Generally, where the U.6 largely encompasses U.3, the ShadowStats measure encompasses U.6. To the extent that a decline in U.3 reflects unemployed moving into U.6, or a 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.

Three 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, and participation rate, a measure commonly touted by Federal Reserve Chair Janet Yellen.

**Great Depression Comparisons.** As discussed in the regular *Commentaries* covering the monthly unemployment circumstance, an unemployment rate above 23% might raise questions in terms of a comparison with the purported peak unemployment in the Great Depression (1933) of 25%. Hard estimates of the ShadowStats series are difficult to generate on a regular monthly basis before 1994, given the reporting inconsistencies created by the BLS when it revamped unemployment reporting at that time. Nonetheless, as best estimated, the current ShadowStats level likely is about as bad as the peak actual unemployment seen in the 1973-to-1975 recession and in the double-dip recession of the early-1980s.

The Great Depression unemployment rate of 25% was estimated well after the fact, with 27% of those employed working on farms. Today, less than 2% of the employed work on farms. Accordingly, a better measure for comparison with the ShadowStats number would be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

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## WEEK AHEAD

**Against Overly-Optimistic Expectations, Economic Releases and Revisions in the Months Ahead Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger after the Impact of 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 remain overly optimistic in the extreme. They exceed any potential, underlying economic reality. Downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting should hammer those expectations in the next several months. Recent GDP excesses, however, will not face downside



revisions until the July 30, 2015 benchmark revision, other than for the two months of revisions still pending for fourth-quarter 2014 GDP.

Headline consumer inflation—dominated by gasoline and other oil-price related commodities—should hit a near-term bottom in the next two months or so. Significant upside inflation pressures should resume when oil prices begin their rebound, a process that already may be underway, and one that would be accelerated rapidly by an eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in [No. 692 Special Commentary: 2015 - A World Out of Balance](#).

***A Note on Reporting-Quality Issues and Systemic-Reporting Biases.*** Significant reporting-quality problems remain with most major economic series. Beyond gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. Data instabilities were induced partially 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. The severity and ongoing nature of the downturn 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 RELEASE:***

**Retail Sales (January 2015).** The Census Bureau has scheduled release of January 2015 retail sales for Thursday, February 12th. Early market expectations appear to be for continued month-to-month decline, before inflation adjustment. Wherever consensus expectations settle, a downside reporting surprise usually is a good bet with this series.

The consumer remains in an extreme liquidity bind, as detailed extensively in [No. 692 Special Commentary: 2015 - A World Out of Balance](#). Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt, making 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 January 2015 retail sales number is at high risk of showing another outright month-to-month contraction (in nominal terms, before inflation adjustment). At the same time, look for downside revisions to the previously-reported December and November detail.

The BLS has delayed release of the January 2015 CPI-U estimate until February 26th, in order to accommodate annual seasonal-adjustment revisions and to introduce series redefinitions. The ShadowStats *Commentary* of that same date will cover January 2015 real retail sales. As happened in December 2014, the headline January CPI-U most likely contracted sharply, month-to-month. Nonetheless, after adjustment for the negative monthly inflation, headline January real retail sales still should have contracted month-to-month, as well.