

COMMENTARY NUMBER 717
April Employment and Unemployment, Money Supply M3
May 8, 2015

Weakening Economy Taking Toll on U.S. Dollar

Labor Data Seriously Flawed and Likely Gimmicked

April Full-Time Civilian Employment Dropped by 252,000

**Net of Revisions, April Payroll Gain of 223,000 Was 184,000;
March Headline Jobs Gain of 126,000 Revised to 85,000**

**Decline in Headline April Unemployment to 5.4% Was a Rounding Game,
Easing from 5.47% to 5.44%, and Otherwise Not Consistent with March**

April 2015 Unemployment: 5.4% (U.3), 10.8% (U.6), 23.0% (ShadowStats)

**Annual Growth in April 2015 Money Supply M3 Slowed to 5.4%, from
5.7% in March and from February's 5-Year High of 5.8%**

PLEASE NOTE: The next regular Commentary, scheduled for Wednesday, May 13th, will cover the April report on nominal retail sales, followed by a Commentary on Friday, May 15th, covering April industrial production and the producer price index (PPI).

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Near-Consensus Headline April Payroll Gain of 223,000 Was Such Only after a Sharp Downside Revision to March Activity; Full-Time Jobs Plunged by 252,000. The regular reporting distortions, biases and inconsistencies in the monthly labor data continued unabated (see specifics in the *Reporting Detail*), leaving the headline employment and unemployment numbers of limited significance, but with some interesting twists.

Consider employment. Despite market concentration on the payroll-employment numbers, the source Establishment Survey counts total jobs, including multiple part-time jobs taken on by individuals who cannot find full-time employment. In contrast, the employment detail in the Household Survey, which generates the unemployment report, counts only the individuals who are employed, who have at least one job, not the number of jobs.

Indicated in the headline Household Survey detail for April 2015, monthly employment growth all was in part-time employment, which was up by 437,000 for the month. Partially offsetting that was a 252,000 drop in those holding full-time employment. Where headline payroll employment regained its pre-recession high, one-year ago, and stood 2.8 million above that peak, as of April 2015, the count of those with full-time jobs still remained 1.1 million shy of its pre-recession high (see *Reporting Detail*). The U.S. economy not only remains well shy of recovering its normal, pre-recession activity, but it also is turning down anew (see [Commentary No. 715](#)).

In the latest payroll reporting, the headline April payroll gain of 223,000 was unusually close to the 220,000 consensus estimated by Bloomberg, but that was just a reporting illusion. Except for a downside revision of 39,000 jobs to the previous estimate of March payrolls, April's headline gain would have come in well below consensus, at just 184,000. With minor revisions also to February payrolls, the previous estimate of a headline payroll gain of 126,000 for March—well below consensus expectations at the time of its initial reporting—revised to a monthly gain of just 85,000.

Discussed in the *Reporting Detail*, the initial headline 126,000 gain in March payrolls, at the time, would have been 57,000 before a downside revision to the prior month's February reporting. As currently estimated, the headline March 2015 payroll employment of 141,144,000 stood just 18,000 jobs above what had been the initial headline reporting of 141,126,000 for payroll employment in February 2015.

Dollar Has Begun to Ease in Tandem with Weakening Data. Following what now can be seen as an artificially-strong, initial headline jobs gain of 295,000 in February 2015 payrolls—reported in early-March—the U.S. dollar rallied to its recent multi-year high. As subsequent, other economic reporting showed market-surprising weakness, and as later payroll data reflected weaker numbers and downside revisions, the exchange rate value of the U.S. dollar also has turned down, on a trade-weighted basis, dropping about 5% from the near-term peak.

The downturn in current, headline economic data has just begun. As the process accelerates and a "new" recession gains market recognition, expectations should fade for a near-term hike in interest rates by the Fed. That likely will intensify the pace of decline in the value of the U.S. dollar, pushing dollar-based

commodity prices—such as seen with oil—higher and, correspondingly, generating upside inflationary pressures (see [No. 692 Special Commentary: 2015 - A World Out of Balance](#)).

Today's Missive (May 8th). The balance of today's *Commentary* concentrates on the reporting detail from the report on April 2015 labor conditions.

The *Hyperinflation Watch* covers the initial estimate of annual growth in April 2015 broad money supply M3. The *Hyperinflation Outlook Summary* is not revised from *No. 711*. Separately, the *Week Ahead* section previews next week's reporting of April nominal retail sales, industrial production and the PPI.

Employment and Unemployment—April 2015—Quality Deterioration in Labor-Market Conditions, Revisions Hint at Darkening Reality. Although heralded in the popular media as indicating reinvigorated employment growth and declining headline unemployment, April's headline reporting of labor conditions and the accompanying revisions was not a happy circumstance. Underlying economic reality remains deteriorating broad activity. Below the surface, the April labor detail did not tell a happy story, as noted in the opening paragraphs of these *Opening Comments*.

The headline decline of 0.1% (-0.1%) in the April 2015 U.3 unemployment rate primarily took place last month (see [Commentary No. 710](#)). Discussed then, what was to become the decline in the April unemployment rate was due to the loss of labor force, not to rising employment. The unrounded unemployment rate decline of 0.07% (-0.07%) in March 2015 did not translate into a headline decline of 0.1% (-0.1%) in March unemployment, due to rounding issues. A further minor shift in the headline data—a decline of 0.03% (-0.03%)—allowed for that reporting in April. The notching lower of headline U.3 in April 2015 also triggered parallel downside notching in the levels of the broader headline unemployment rates U.6 and ShadowStats Alternate Unemployment.

Frequently discussed in these *Commentaries* for the monthly labor data releases, payroll employment is bloated by significant and unnecessary upside biases, with monthly changes distorted by the manner in which the Bureau of Labor Statistics (BLS) reports its payroll numbers using concurrent seasonal adjustments (see related sections in *Reporting Detail*). Separately, much of the payroll employment growth of recent years has been due to growth in part-time jobs for economic reasons, where not all those seeking full-time employment can find it (again, see the opening paragraphs).

Payroll Employment Detail. In the context of sharp, downside revisions to March payroll employment, the seasonally-adjusted, headline payroll-employment gain for April 2015 was 223,000 jobs. Net of prior-period revisions, the headline April gain would have been well below consensus at 184,000.

The headline April 2015 employment gain of 223,000 followed a downwardly-revised gain of 85,000 in March, versus a revised 266,000 in February.

Inconsistent, Non-Comparable and Fraudulent Monthly Gains for February 2015 and Before (November 2014 Now Overstated by 95,000 Jobs). 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.

Using consistent seasonal adjustments, the current 266,000 headline gain in February 2015 really is 270,000, the 201,000 headline gain in January 2015 really is 216,000; the 329,000 gain in December really is 324,000; and the 423,000 gain in November really is 328,000. The consistent numbers change each month, with the consistent series explored fully in [Commentary No. 695](#).

Annual Percent Change in Payrolls—Down-Trending Growth. With the benchmarked surges of January headline data built into recent headline payroll activity, patterns of year-to-year growth of unadjusted payrolls also moved higher as a result of the benchmarking, initially hitting a new post-recession high in February, as result. Such was the strongest growth since June 2000 (another recession), but that February number was not credible and did not survive March revisions, and subsequent, slower down-trending annual growth has set in.

For April 2015, year-to-year or annual nonfarm payroll growth was 2.22%, slightly weaker before rounding than a revised 2.22% in March 2015, and down from a revised 2.39% in February 2015.

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, which was the most severe annual contraction since the production shutdown at the end of World War II. Disallowing the post-war shutdown as a normal business cycle, the August 2009 annual decline was the worst since the Great Depression.

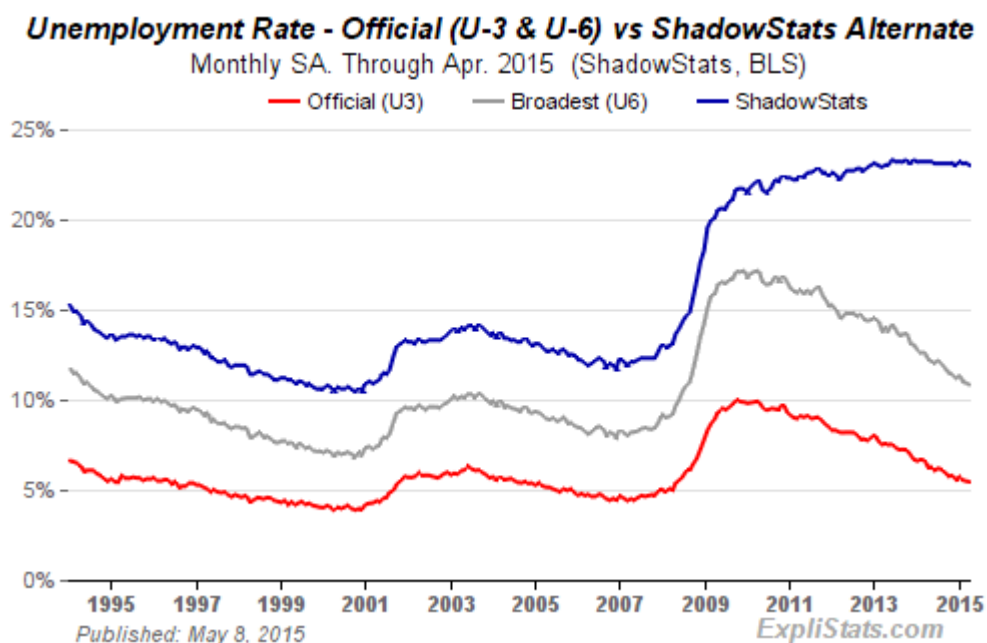
Counting All Discouraged Workers, April 2015 Unemployment Was About 23.0%. More than anything else, what removes headline-unemployment reporting from broad underlying economic reality and common experience simply is definitional. To be counted among the headline unemployed (U.3), an individual has to 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, not counted in the headline labor force. ShadowStats defines that group as "short-term discouraged workers," as opposed to those who become "long-term discouraged workers" after one year.

In the ongoing economic collapse into 2008 and beyond, the broad drop in the U.3 unemployment rate from its headline peak of 10.0% in 2009 has been due largely to the unemployed giving up looking for work, being redefined out of headline reporting and the labor force, as discouraged workers. The drop in the unemployment rate generally has not been due to the unemployed finding gainful employment.

At the same time as new discouraged workers move regularly from U.3 into U.6 unemployment accounting, those who have been discouraged for one year are dropped from the U.6 measure. As a result, the U.6 measure has been declining along with U.3 for some months, but those being pushed out of U.6 still are counted in the ShadowStats Alternate Unemployment Measure, which has remained steady.

Indeed, 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, before 1994, and as Statistics Canada still does.

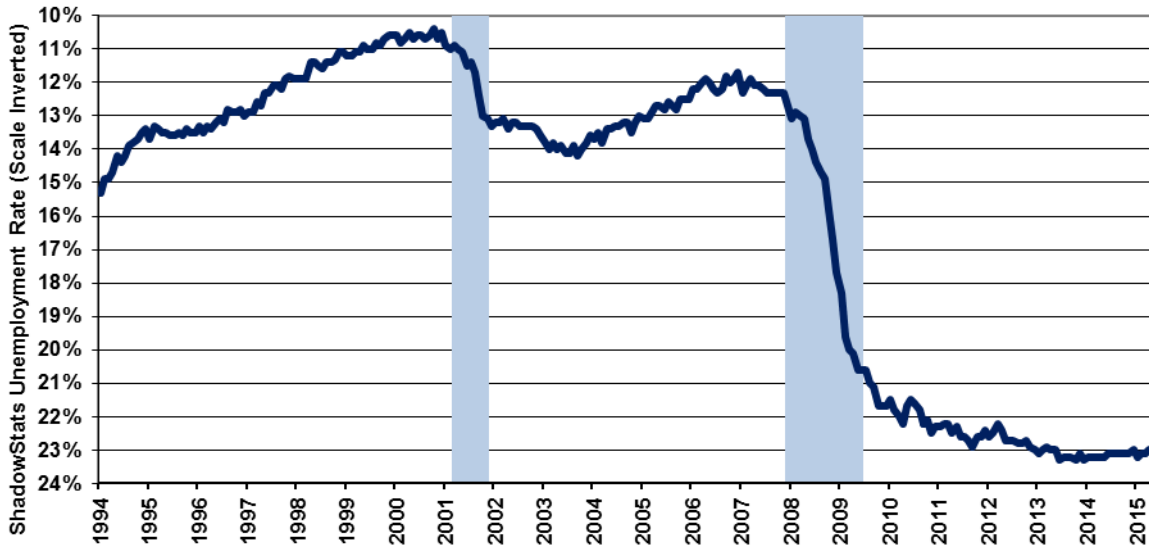
Again, when the headline unemployed become "discouraged," they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence 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 April 2015 unemployment rates of 5.4% (U.3) and 23.0% (ShadowStats).



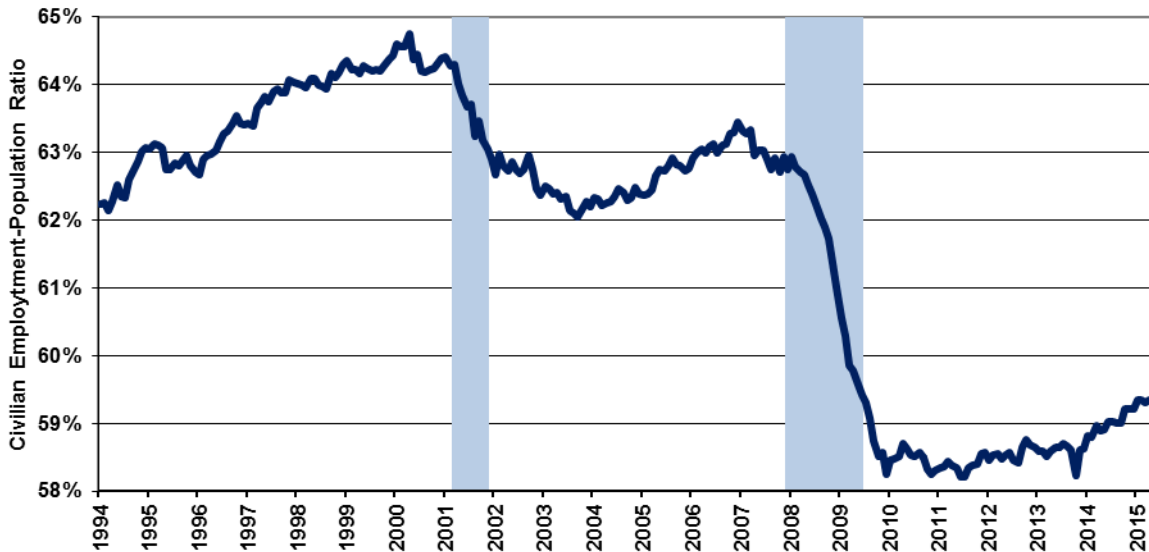
The graph immediately preceding reflects headline April 2015 U.3 unemployment at 5.44%, down from 5.47% in March; headline April U.6 unemployment at 10.83%, versus 10.91% in March; and the headline April ShadowStats unemployment measure at 23.0%, versus 23.1% in March. The ShadowStats series high (since 1994) was seen in 2013 at 23.3%. The ShadowStats-Alternate Unemployment series is built upon the BLS reporting of seasonally-adjusted U.3 and U.6 series, and correspondingly, is affected by the reporting and annual seasonal adjustments to those underlying 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.

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

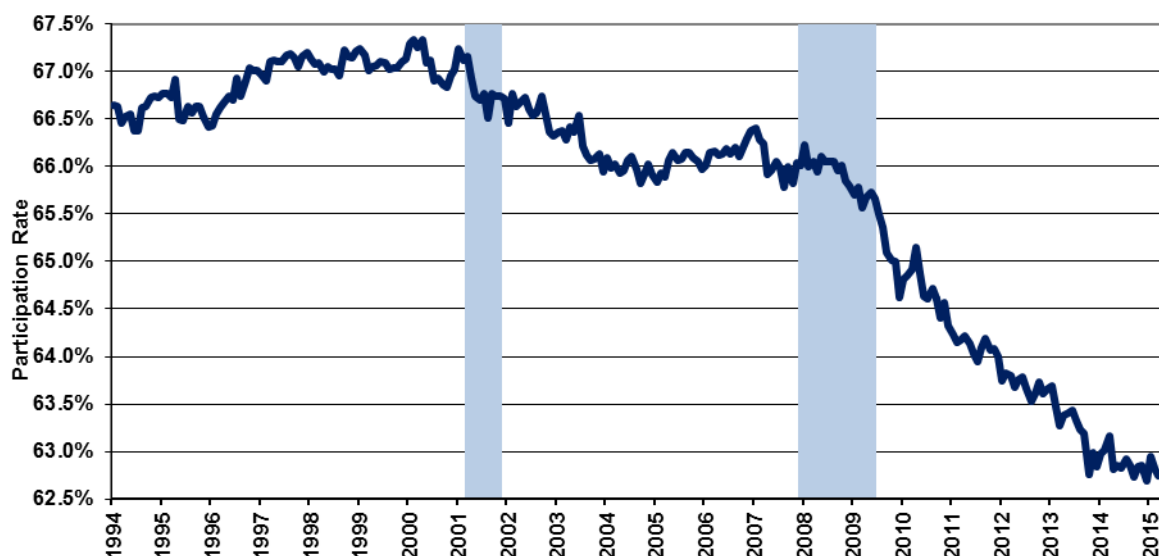


Civilian Employment-Population Ratio
 To April 2015, Seasonally-Adjusted [ShadowStats, BLS]



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 (above). 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.

**Participation Rate (Labor Force as Percent of Population)
To April 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 as an indicator of the health of the labor market. She has suggested a needed improvement labor-market health as a precondition to raising interest rates. The participation rate changed little in April 2015, which, in theory, means the Fed still is not about to tighten monetary conditions, if the Fed Chair is to be believed.

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 Rates. Headline April 2015 unemployment (U.3) declined by 0.1% (-0.1%) [down at the second decimal point by 0.03% (-0.03%)], from 5.47% in March to 5.44% in April. The headline notch lower in unemployment really took place last month; the timing of the reporting was due just to rounding differences.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. April's unadjusted U.3 unemployment rate was 5.1%, versus 5.6% in March.

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 decline in the underlying seasonally-adjusted U.3 rate (viewed at the second decimal point), a decline in the number of people working part-time for economic reasons and a small increase in

discouraged workers and those otherwise marginally attached to the workforce (unadjusted), headline April 2015 U.6 unemployment fell to 10.83%, from 10.91% in March. The unadjusted U.6 declined to 10.4% in April, from 11.0% in March.

ShadowStats Measure. Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—more in line with common experience—broad unemployment, the April 2015 ShadowStats-Alternate Unemployment Measure, notched lower to 23.0%, from 23.1% in March. 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 April employment and unemployment is found in the Reporting Detail section.]

HYPERINFLATION WATCH

MONETARY CONDITIONS

Money Supply M3 (April 2015). Although the Federal Reserve Board ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, late in 2014, its holdings of Treasury securities have remained stable, near record levels. Despite continuing high-level volatility in the monetary base during recent two-week periods, at a record high as recently as the period-ended April 15th, annual growth in April 2015 money supply M3 eased back, tentatively to 5.4%, from 5.7% in March, and 5.8% in February. The general monetary circumstance is discussed in [No. 692 Special Commentary: 2015 - A World Out of Balance](#).

Money Supply M3 Annual Growth Tentatively Fell Back to 5.4% in April 2015. Year-to-year growth in April 2015 M3 (ShadowStats-Ongoing Measure) eased back to 5.4%, from an upwardly revised 5.7% (previously 5.6%) in March and a five-year high of 5.8% in February 2015, then the strongest showing since June of 2009. Revisions here generally reflect regular and irregular revisions by the Federal Reserve to the underlying monthly data.

Monthly year-to-year growth in M3 began to slow, after the series hit an interim 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 to 4.6%. Annual growth pulled back to 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 4.8%, 5.0% and 5.4%, respectively, in November and December 2014, to 5.4% in January 2015, and hitting a five-year high of 5.8% in February. Again, March 2015 eased back to 5.7%, with April tentatively at 5.4%.

Formal M3 estimates and the first readings of annual growth for M2 and M1 in April 2015 will be updated on the [Alternate Data](#) tab of www.ShadowStats.com by May 9th.

The seasonally-adjusted, early estimate of month-to-month change for April 2015 money supply M3 was roughly a gain of 0.1%, versus a revised 0.4% (previously 0.3%) gain in March 2015 and an unrevised 0.8% gain in February 2015. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

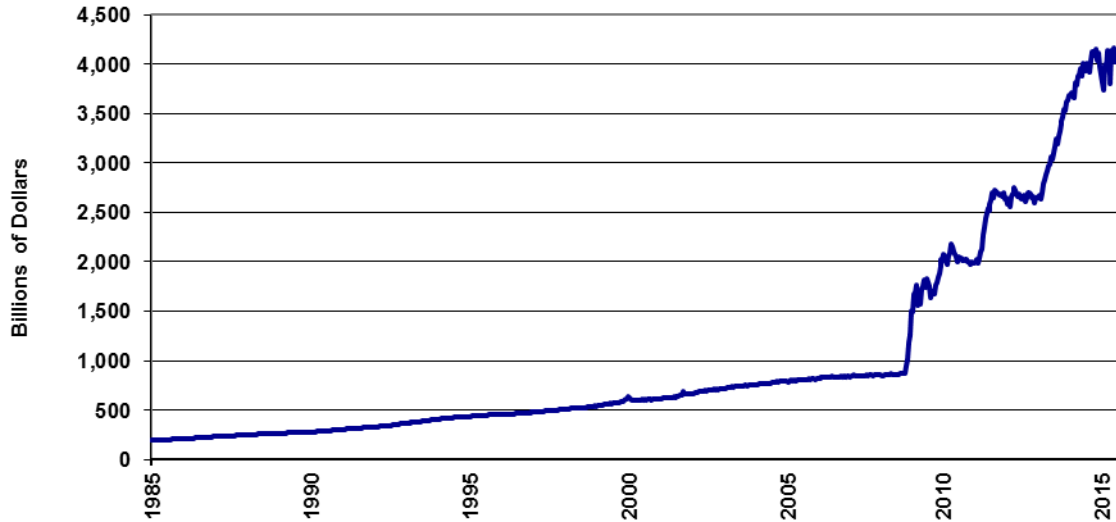
Growth for March M1 and M2. For April 2015, year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1; M3 includes M2). See the [Money Supply Special Report](#) for full definitions of those measures. Annual M2 growth in April 2015 eased to 6.0%, versus a revised 6.1% (previously 6.0%) annual gain in March and a revised 6.4% (previously 6.3%) in February 2015, with a month-to-month gain of about 0.4% in April, versus a revised 0.2% (previously 0.1%) gain in March, and an unrevised 1.0% gain in February. For M1 in April 2015, year-to-year growth slowed to an initial estimate of 7.8%, versus a revised 8.8% (previously 8.5%) gain March and a revised 10.1% (previously 9.9%) gain in February 2015, with a month-to-month unchanged reading in April, versus a revised decline of 0.2% (-0.2%) [previously down by 0.3% (-0.3%)] in March, and an unrevised gain of 2.2% in February.

With Monetary Base at Record High, the Fed's Extreme "Quantitative Easing" Still Is Not Helping the Economy. Discussed in [No. 692 Special Commentary: 2015 - A World Out of Balance](#), the Fed's primary mission is to keep the banking system solvent and afloat, but that was not working, coming into the Panic of 2008. Quantitative easing was introduced in 2008 and went through a number of phases, as reflected in the size of, and growth in the monetary base shown in the accompanying graphs. Where normally such growth would have translated into extraordinary growth in the money supply, it has not. Only as the Fed has pulled back from aggressive assets purchases has M3 begun to show a little upside movement.

The extraordinary level of asset purchases by the Fed did not flow through to the broad economy, because banks did not lend into the normal flow of commerce, and there was no resulting significant upside movement in money supply, as a result. Instead, banks turned the funds back to the Fed as excess reserves, earning interest, and providing support to the stock market. As part of this process, the Fed ended up monetizing the bulk of the U.S. Treasury's funding needs during the period of active buying, paying back interest earned on the securities to the Treasury.

With the Fed having ceased purchasing new Treasury securities late in 2014 (maturing issues still are rolled over), the monetary base currently has continued its pattern of volatility at high-levels. Having set a record high level of \$4.167 trillion in the two-week period ended April 15, 2015, the monetary base (Saint Louis Fed measure) back off to \$4.036 trillion in the latest two-week period ended April 29th. The Fed's Treasury asset holdings effectively continue at or near an all-time high.

St. Louis Fed Adjusted Monetary Base
Bi-Weekly to April 29, 2015, Seasonally Adjusted
[ShadowStats, St. Louis Fed]



St. Louis Fed Adjusted Monetary Base, Yr/Yr %
Bi-Weekly to April 29, 2015, Seasonally Adjusted
[ShadowStats, St. Louis Fed]



HYPERINFLATION OUTLOOK SUMMARY

General Outlook Is Unchanged; Intensifying Economic Weakness Has Begun to Impact Market Perceptions of Fed Policy and U.S. Dollar Strength. The *Hyperinflation Outlook Summary* has not been revised from [Commentary No. 711](#), other than for updated internal links or references.

[No. 692 Special Commentary: 2015 - A World Out of Balance](#) of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, 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 2, 2014, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The *Opening Comments* of [No. 692](#) should be considered in terms of recent circumstances and 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. One other reference should be considered here, in terms of underlying economic reality, and that is the [Public Commentary on Inflation Measurement](#).

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. 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 at the end of this decade into the current 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 summarizes the underlying current circumstance and recent developments.

Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners have been over-estimated heavily by the global markets, and structural faults have started to appear in the foundation underpinning recent U.S. dollar strength (see [Commentary No. 711](#)). Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance, in confluence with other fundamental issues, has begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As result, the U.S. dollar has backed off its recent highs, with some related upside pressure having been seen on oil prices.

Domestic economic data should continue to falter, increasingly moving market expectations towards an imminent new recession, not only further pummeling expectations for a significant tightening in Fed policy, but also renewing expectations for a more-accommodative Fed. While such may help to fuel further stock-market mania, any resulting rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on more-conservative Federal Reserve policies and on the direction of domestic economic activity, should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets

outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. Initially, these circumstances should unwind the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and broadly related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances appears to have begun, and it likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful near-term risk for providing further fuel to 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. GDP and other major economic series face heavy downside-benchmark revisions through the end of July. Weak, underlying economic reality has begun to surface in headline reporting and should become increasingly and painfully obvious to the financial markets in the headline detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit, payroll employment and increasingly the headline GDP.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, fully reversing the dollar's gains of the last nine months, pushing the dollar once again to historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—purportedly moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. The Panic of 2008 never was resolved, and the Fed increasingly is finding that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; QE4 will become the near-term question.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). It also throws off estimates of U.S. Treasury funding needs and estimates as to how long the Treasury effectively can dodge the limits of the recently re-imposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

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, any significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may become 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 thought it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

Again, in the event of a 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 become a rapidly-increasing pace of domestic U.S. inflation.

All these crises should combine against the U.S. dollar, likely in the very-near future, if they have not already begun to do so. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility had boosted the U.S. dollar's strength significantly in global trading and contributed to savaging the prices of oil and in weakening the prices of precious metals. That process appears to have begun to reverse.

Strength in the U.S. dollar should continue to reverse sharply, in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, against the U.S. currency. That process may have started with the shift in Swiss National Bank policy early in the year, but it has become dominated by increasingly-negative global perceptions of stability in U.S. economic activity and Federal Reserve monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, 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 [Commentary No. 711](#)). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for the intensifying the unfolding 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 willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address 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 around \$5 trillion for the annual shortfall, while many in Washington look to continue increasing 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 were discussed in [Commentary No. 672](#), and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see [Commentary No. 702](#)). This circumstance now is operating in the context of the formal constraint of a renewed debt ceiling.
- ***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 (see [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. Renewed expansion to quantitative easing remains likely, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for new or expanded systemic accommodation in any "renewed" economic distress.

- ***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 off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress, in addressing fundamental issues are nil. Issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues should continue to devolve, into extreme political crisis.
- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.
- ***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, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term instabilities and a quick reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly.

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, likely in the year ahead.

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. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, [2014 Hyperinflation Report—Great Economic Tumble](#) for detailed discussion on approaches to handling the hyperinflation crisis and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), for other factors afoot in the current environment.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (April 2015)

April Headline Payroll and Unemployment Reporting Suggested Deterioration of Quality in Labor-Market Conditions; Downside Revisions Hint at Darkening Reality. Although heralded in the popular media as indicating reinvigorated employment growth and declining headline unemployment, April's headline reporting of labor conditions, and accompanying revisions was not a happy report. Underlying economic reality remains deteriorating broad activity. Below the surface, the April labor detail did not tell a happy story (see *Opening Comments*).

The headline decline of 0.1% (-0.1%) in the April 2015 U.3 unemployment rate primarily took place last month (see [Commentary No. 710](#)). Discussed then, the decline in the unemployment rate was due to the loss of labor force, not to rising employment. The unrounded unemployment rate decline of 0.07% (0.07%) was not reported as a headline decline in March, however, due to rounding issues. A minor shift of the headline data in the current month—a decline of 0.3% (-0.3%)—allowed for that reporting in April. The notching lower of headline U.3 in April 2015 also was reflected in similar downside notching in the levels of the broader headline unemployment rates U.6 and ShadowStats Alternate Unemployment.

Frequently discussed in these *Commentaries* for the monthly labor data releases, payroll employment is bloated by significant and unnecessary upside biases (see the *Birth-Death Model* section), with monthly changes distorted by the manner in which the Bureau of Labor Statistics (BLS) reports its payroll numbers using concurrent seasonal adjustments (see related section). Separately, much of the payroll employment growth of recent years has been due to growth in part-time jobs for economic reasons, where not all those seeking full-time employment can find it. As of April 2015, the level of full-time employment was 1.1 million jobs shy of its pre-recession peak.

Separately, issues remain 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](#). Purportedly the investigation will continue in the new Congress.

PAYROLL SURVEY DETAIL. In the context of sharp, downside revisions to March payroll employment, the seasonally-adjusted, headline payroll-employment gain for April 2015 was 223,000 jobs +/- 129,000 (95% confidence interval), near consensus expectations of 220,000 [Bloomberg], but that only came about because of a massive downside revision to headline March detail. Net of the prior-period revisions, the headline April gain would have been well below consensus, at 184,000.

Indeed, the headline April 2015 employment gain of 223,000 followed a downwardly-revised gain of 85,000 (previously 125,000) in March, versus a revised 266,000 (previously 264,000, initially 295,000) in February.

Inconsistent, Non-Comparable and Fraudulent Monthly Gains for February 2015 and Before (November 2014 Now Overstated by 95,000 Jobs). 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.

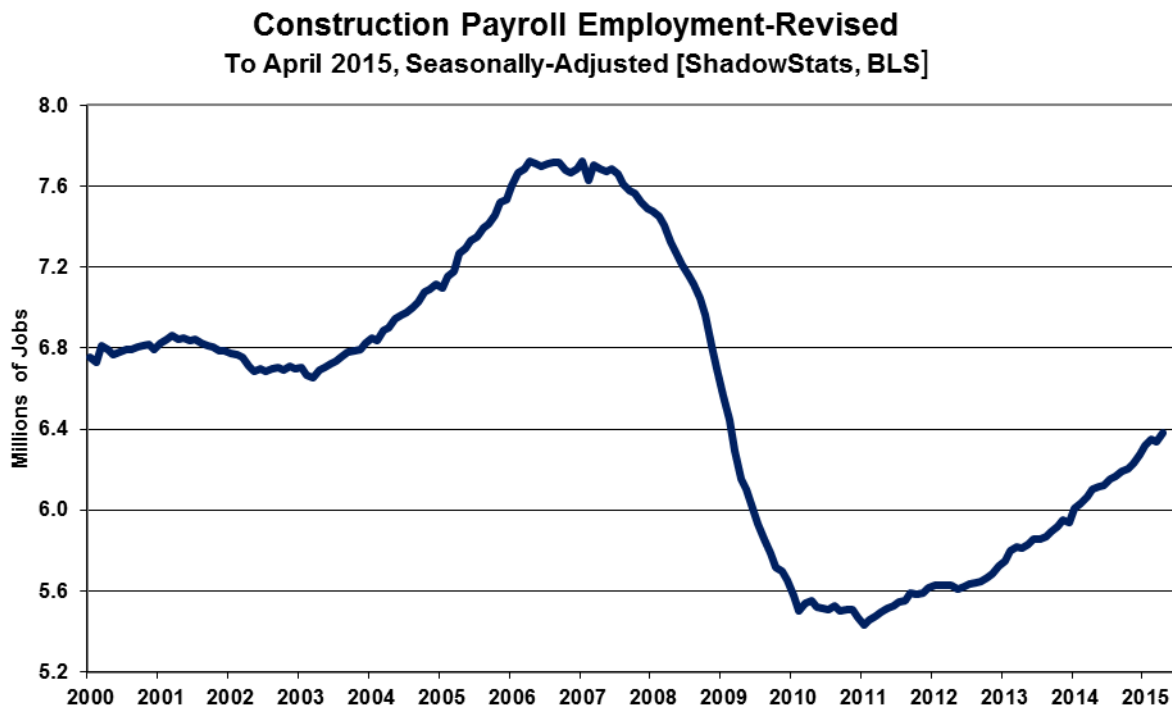
Using consistent seasonal adjustments, the current 266,000 headline gain in February 2015 really is 270,000, the 201,000 headline gain in January 2015 really is 216,000 (214,000 consistent with headline March reporting); the 329,000 gain in December really is 324,000 (327,000 consistent with headline March reporting); and the 423,000 gain in November really is 328,000 (332,000 consistent with headline March reporting). The consistent numbers change each month, with the consistent series explored fully in [Commentary No. 695](#).

“Trend Model” for May 2015 Headline Payroll Employment Gain. Discussed in [Commentary No. 710](#) 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 an April 2015 monthly payroll gain of 237,000, based on the BLS trend model structured into the actual headline reporting of March 2015. The late-consensus for April 2015 reporting was 220,000 [Bloomberg]. Again, the headline gain was 223,000, close to consensus and somewhat below the trend.

May 2015 Trend Estimate. Exclusive to ShadowStats subscribers, based on April 2015 reporting, the ExpliStats trend number calculations suggest a BLS-based headline gain of 214,000 for May 2015.

Confidence Intervals. 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 modeling of the monthly headline payroll gain should be well in excess of +/- 200,000, 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. The graph of current construction payrolls that follows, updates the plot of the March detail shown in prior [Commentary No. 716](#) in the *Reporting Detail* section covering March construction spending.



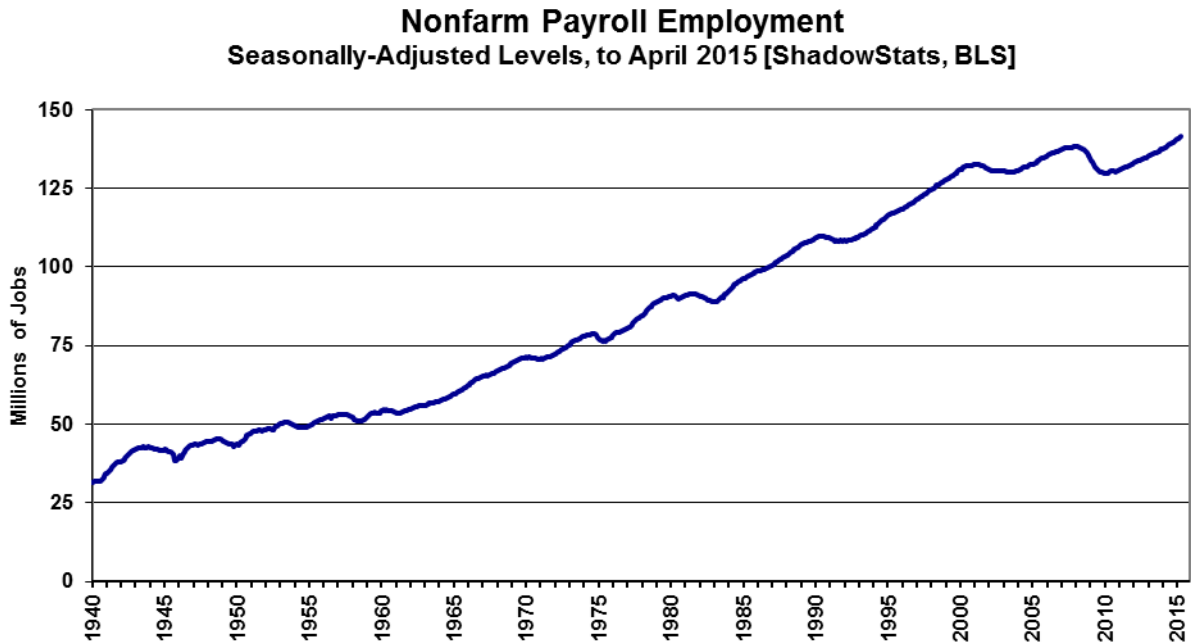
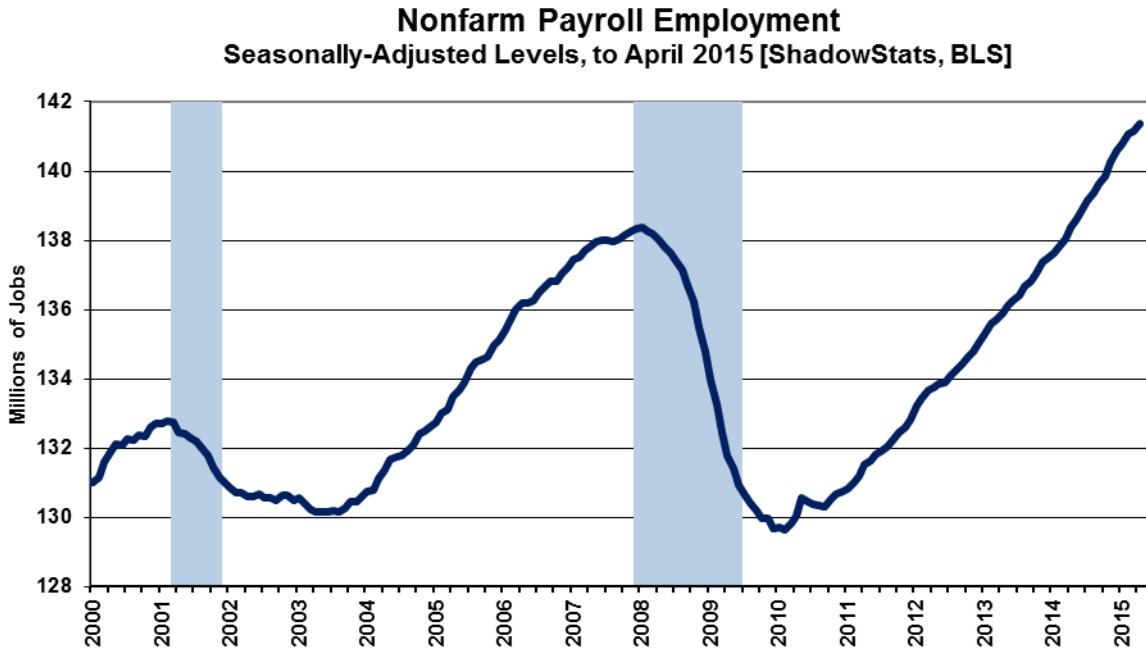
In the context of downside revisions to March activity, headline April 2015 construction payrolls came in at 6.383 million jobs, up by 45,000 from the revised March 2015 level, up by 39,000 net of the prior-period revisions. The revised March 2015 detail reflected a headline monthly decline of 9,000 (-9,000) jobs [previously down by 1,000 (-1,000)] versus February.

The ongoing relative strength in headline construction jobs growth 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 April 2015 construction jobs still were down by 17.4% (-17.4%) 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 next two 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, holding about 2.8 million jobs above the pre-recession peak.

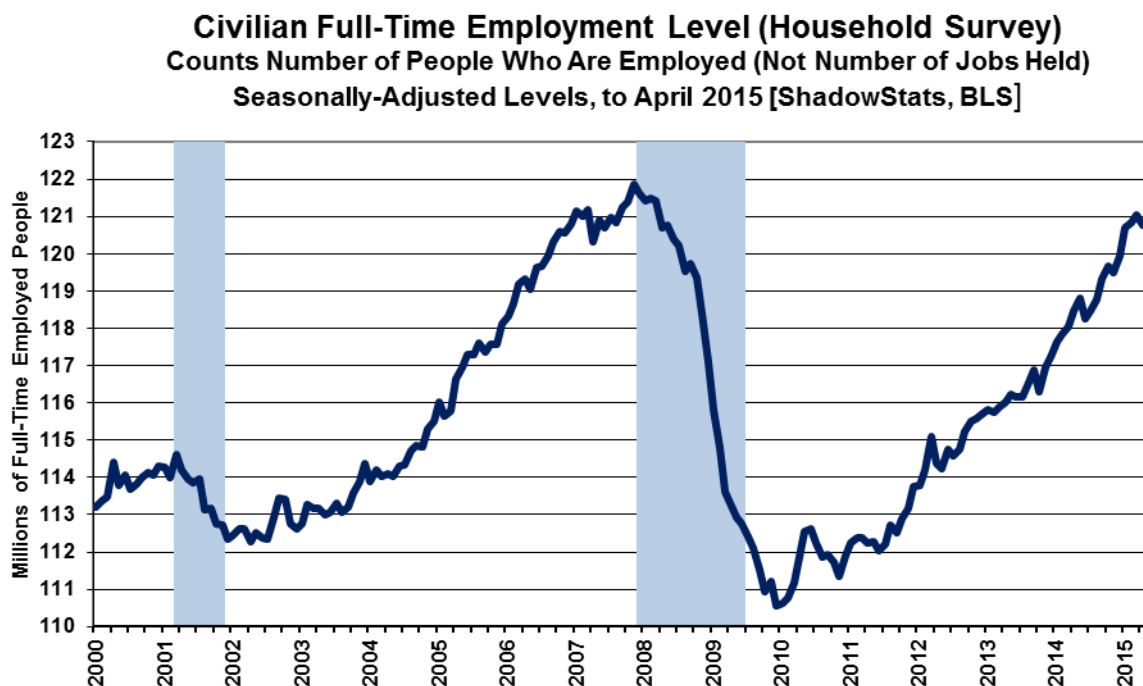
The first two graphs show the headline payroll series, both on shorter-term basis since 2000, and on a longer-term historical basis from 1940. In perspective, the longer-term graph of the headline payroll-

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.



Beyond excessive upside add-factor biases built into the monthly calculations (see the *Birth-Death Model* section), the problem remains that payroll employment counts the number of jobs, not the number of people who are employed. Much of that payroll "jobs" growth is in multiple part-time jobs, many taken

on for economic reasons, where full-time employment was desired but could not be found.



Full-Time Employment versus Part-Time Payroll Jobs. As shown in the accompanying graph, as of April 2015, the level of full-time employment—from the Household Survey—still was 1.1 million shy of its precession high, having declined by 252,000 in the month of April 2015. As an aside, that shortfall would be even greater, except for the regular annual games the BLS plays with its "population adjustments." ShadowStats continues to work on an alternate measure for the employment numbers from both the Household and Payroll Series. More will be forthcoming on this soon.

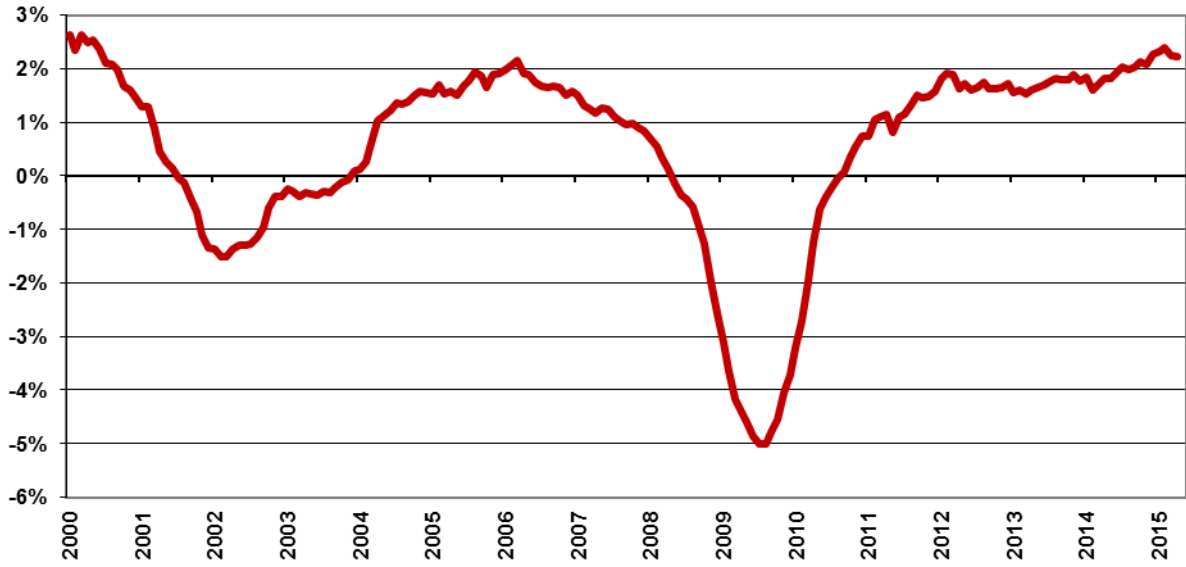
This graph of full-time employment excludes the count of those employed with one-or-more part-time jobs. Total employment, including those employed with part-time work, also has recovered its pre-recession high, but still not close to the payroll reporting. Again, the Household Survey numbers count the number of people who have at least one job. The Payroll Survey simply counts the number of jobs (see [Commentary No. 686](#) for further detail).

Annual Percent Change in Payrolls—Down-Trending Growth. With the benchmarked surges built into recent headline payroll activity, patterns of year-to-year growth of unadjusted payrolls also moved higher as a result of the benchmarking, initially hitting a new post-recession high in February, as result. Such was the strongest growth since June 2000 (another recession), but that February number was not credible and did not survive March revisions, and subsequent, slow down-trending annual growth has set in.

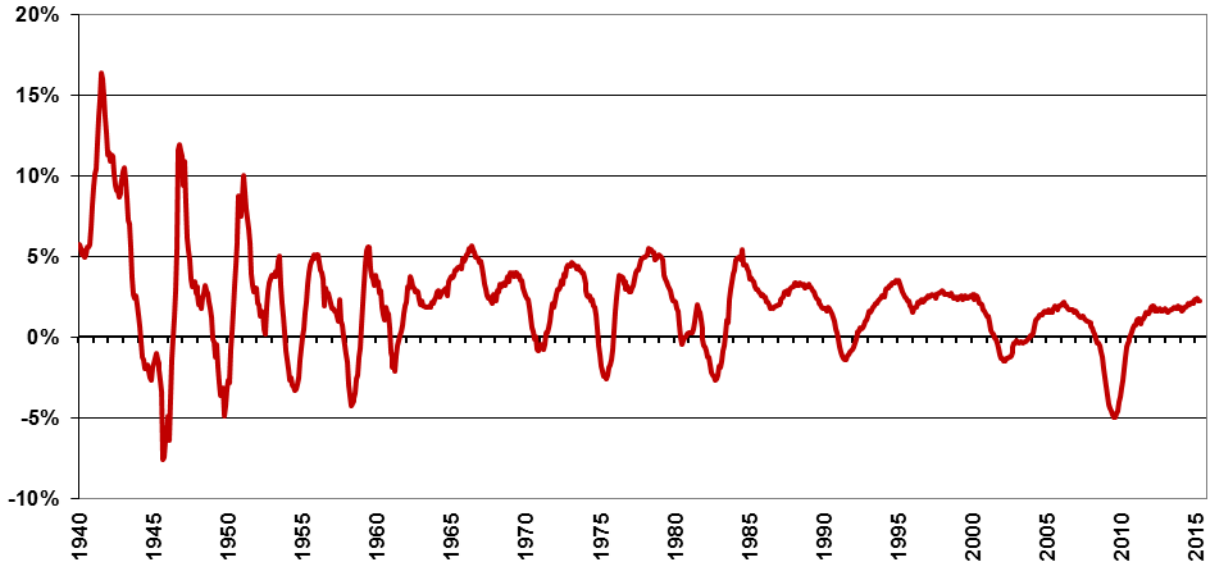
Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change are reported on a consistent basis, although a possible new redefinition of the series—not the standard benchmarking

process in 2014—appears to be in play, on top of the prior distortions from the 2013 benchmarking (see [Commentary No. 598](#)).

Payroll Employment
Yr-to-Yr % Change, NSA, to April 2015 [ShadowStats, BLS]



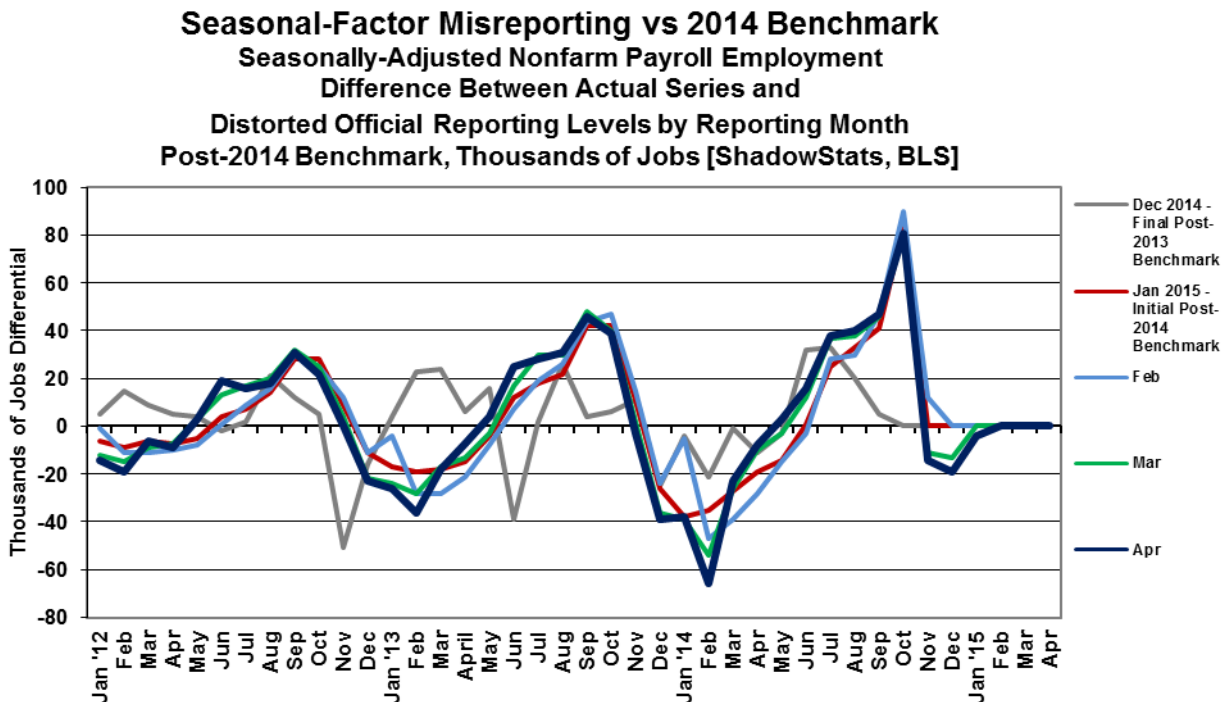
Payroll Employment
Yr-to-Yr % Change, NSA, to April 2015 [ShadowStats, BLS]



For April 2015, year-to-year or annual nonfarm payroll growth was 2.22%, slightly weaker before rounding versus a revised 2.22% (previously 2.27%) in March 2015, and down from a revised 2.39% (previously 2.38%, initially 2.43%) in February 2015.

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.

Shifting Concurrent-Seasonal-Factors—The Graph. Detailed in [Commentary No. 694](#) and [Commentary No. 695](#), 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 new headline data are seasonally-adjusted for each series, the adjustment process also revises the monthly history of each series, recalculating prior, adjusted reporting for every month, going back five years, consistent with the new seasonal patterns of the headline number. The BLS provides modeling detail for the payroll survey, allowing for third-party calculations (as done by ShadowStats affiliate ExpliStats); no such accommodation has been made by the BLS for the household survey.



The BLS uses and publishes the current headline 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.

No one seems to mind if the published earlier numbers are wrong, particularly if unstable seasonal-adjustment patterns have shifted prior jobs growth or reduced unemployment into current reporting, without any formal indication of the shift from the previously-published historical data.

The preceding graph shows how far the monthly payroll employment data have strayed from being consistent with the most recent benchmark revision. The gray line shows that December 2014 pattern versus the 2013-benchmark revision, and the respective red, light-blue, green and dark-blue lines show the January, February, March and April 2015 patterns of distortion versus the 2014-benchmark. Due to several months of testing of the model, before the benchmark release, the BLS never publishes the historical data on a consistent basis.

If the reporting were comparable and stable, month-after-month, all the lines in the graph would be flat and at zero. With the payroll series, only the headline month and the prior month are consistent in terms of month-to-month reporting detail (headline February 2015 detail no longer is consistent with January 2015), earlier data are not comparable.

In terms of the household survey, none of the month-to-month reporting is consistent, except in the once-per-year reporting of December data, when the annual revisions to seasonal adjustments are published. All historical comparability evaporates with the ensuing monthly headline January reporting and with each monthly estimate thereafter.

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.

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 likely had impact on the unusual issues with the 2014 benchmark revisions.

Abuses from the 2014 benchmarking are detailed in [Commentary No. 694](#) and [Commentary No. 695](#). With the headline benchmark revision for March 2014 showing a jobs understatement of 67,000, the BLS upped its annual add-factor bias by an even greater 161,000 for the year ahead, to 892,000. As has been standard BLS practice, there 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.

April 2015 Bias. The not-seasonally-adjusted April 2015 bias was a positive monthly add factor of 213,000, versus a positive monthly add-factor of 72,000 in March 2015, and versus a positive monthly add-factor of 263,000 in April 2014. The BLS has begun quarterly revisions of the biases, and the first cut appears to be indicating a slowing pace of upside biases, versus prior reporting, coincident with what appears otherwise to be a broad slowing in economic activity.

The revamped aggregate upside bias for the trailing twelve months through April 2015 was 847,000, versus 897,000 as of March 2015, and versus the pre-benchmarked level of 731,000 in December 2014. That was a monthly average of 71,000 in April (versus 75,000 in March, 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. 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 were incorporated into the 2014 redefined payroll series. Such information simply 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 71,000 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 DETAIL. Data Remain of Questionable Quality. 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 investigated by the House Committee on Oversight and Government Reform and the U.S. Congress Joint Economic Committee. Further investigation purportedly is underway with the new Congress. 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.

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. All the historical data shifted anew with the headline January 2015 reporting, and again with all subsequent months through November of the next year, but what would be new historical detail, consistent with the current reporting never will be published.

Headline Unemployment Rates. The headline April 2015 unemployment (U.3) rate decreased by 0.03-percentage point to 5.44% in April, from 5.47% in March. As discussed in the opening paragraphs of this *Employment and Unemployment* section, an effective 0.1% (-0.1%) decline in March 2015 U.3 was not reported then, due to rounding issues, but it was reported as the headline rate drop for April 2015, dominated by the issues discussed in [Commentary No. 710](#). The small further changes in the April data included a minor drop in the unemployed, more than offset by a gain in the employed, with differences most likely due to seasonal factor issues from the use of inconsistent concurrent seasonal factor adjustments (see preceding paragraph).

Technically, the headline April decline in U.3 (even including the March changes) 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, though, 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. April's unadjusted U.3 unemployment rate was 5.1%, versus 5.6% in March.

New discouraged workers always are moving into U.6 unemployment accounting from U.3, while those who have been discouraged for one year continuously are dropped from the U.6 measure. As a result, the U.6 measure has been easing along with U.3, for a while, but those being pushed out of U.6 still are counted in the ShadowStats Alternate Unemployment Measure, which generally has remained stable.

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 decline in the underlying seasonally-adjusted U.3 rate, an decrease in the number of people working part-time for economic reasons and a small increase in discouraged workers and the balance of

those marginally attached to the workforce (unadjusted), headline April 2015 U.6 unemployment fell to 10.83%, from 10.91% in March. The unadjusted U.6 declined to 10.4% in April from 11.0% in March.

"Short-Term" Discouraged Workers. The count of short-term discouraged workers in April 2015 (never seasonally-adjusted) increased to 756,000, from 738,000 in March, versus 732,000 in February, 682,000 in January, 740,000 in December 2014, 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 Measure. Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—more in line with common experience—broad unemployment, the April 2015 ShadowStats-Alternate Unemployment Measure, notched lower to 23.0%, versus 23.1% in March. 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. 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 February 2015 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 around 23% might raise questions in terms of a comparison with the purported peak unemployment in the Great Depression (1933) of 25%. Hard estimates of the ShadowStats series are difficult to generate on a regular monthly basis before 1994, given the reporting inconsistencies created by the BLS when it revamped unemployment reporting at that time. Nonetheless, as best estimated, the current ShadowStats level likely is about as bad as the peak actual unemployment seen in the 1973-to-1975 recession and in the double-dip recession of the early-1980s.

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

WEEK AHEAD

Headline Reporting and Revisions Should Trend Much Weaker versus a Still Overly-Optimistic Economic Consensus; Inflation Will Rise Anew, Following the Bottoming of Oil-Prices. Shifting more to the downside, amidst increasingly-negative fluctuations in the numbers, market expectations for business activity have been, and still remain, overly optimistic. They still exceed any potential, underlying economic reality, even though downside corrective revisions and an accelerating pace of downturn in broad-based, monthly headline economic reporting already have begun to hammer those

expectations. Recent GDP excesses will not face downside revisions until the July 30, 2015 GDP benchmark revision, but expectations for headline growth estimates (or revisions to) of first- and second-quarter 2015 should continue shifting to the downside, into increasingly negative territory (see *Opening Comments* and [Commentary No. 711](#)).

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely is close to its near-term, year-to-year low, having shown monthly declines in annual inflation of less than a full 0.1% (-0.1%) in the three months through March 2015. Significant upside inflation pressures should resume as oil prices rebound, a process that already may be underway, tentatively, and one that would accelerate rapidly with the 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, see the prior labor data related [Commentary No. 695](#)). Combined with recent allegations 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 (see [Commentary No. 669](#)).

PENDING RELEASES:

Nominal Retail Sales (April 2015). The Census Bureau has scheduled release of nominal (not-adjusted for inflation) April 2015 retail sales for Wednesday, May 13th. Real (inflation-adjusted) retail sales for April will be published in the ShadowStats *Commentary* of May 22nd, in conjunction with the detail on headline CPI-U reporting for April. Early expectations appear to be flat-to-plus for the nominal series, following a headline monthly gain of 0.9% in March. Again, with this series, in this environment, downside reporting surprises usually are a good bet.

Net of inflation adjustment, real retail sales likely will have contracted again, in April, helping to set the stage for a second consecutive quarterly decline in real GDP, in second-quarter 2015, following on top of the first-quarter GDP.

Constraining sales activity, the consumer remains in an extreme liquidity bind, as updated most recently in [Commentary No. 714](#), and as discussed in [No. 692 Special Commentary: 2015 - A World Out of Balance](#). Consumer liquidity conditions will be updated and reviewed fully with this May 13th *Commentary No. 718*. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S.

consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

Producer Price Index—PPI (April 2015). The April 2015 PPI will be released on Thursday, May 14th, by the Bureau of Labor Statistics (BLS), and it will be covered in *ShadowStats Commentary No. 719* of May 15th. Early consensus expectations appear to for a flat-to-minus reading for the headline April PPI, and such is not unreasonable.

While the collapse in oil and gasoline prices bottomed out in February, pricing pressures were mixed in March (oil down, gasoline up), and generally were to the upside in April. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices gained 6.5% and 13.9% in April, but with an accompanying increase of just 0.4% the unadjusted monthly-average, retail-gasoline prices (Department of Energy). PPI seasonal adjustments for energy costs in April are negative. That, combined with the inverse inflation reaction of shifting oil prices in the services sector, where rising oil prices often are reflected in falling margins (services deflation), suggests little change in the energy-related, headline April PPI.

With some monthly inflation added in food, “core” goods (everything but food and energy), a small gain in the headline PPI is a possibility, but so is a small decline.

Index of Industrial Production (April 2015). On Friday, May 15th, the Federal Reserve Board will release its estimate of the index of industrial production for April 2015. Early expectations appear to be for a small headline contraction in April production, following a headline decline of 0.6% (-0.6%) in March.

A headline monthly contraction is a fair bet, but downside-reporting risks remain for possibly a much-larger monthly contraction and/or for significant downside revisions to prior reporting of recent months. As with real retail sales, the new production data may help to set the stage for a second consecutive quarterly decline in real GDP, in second-quarter 2015, following on top of the first-quarter GDP.
