

COMMENTARY NUMBER 732
June Employment and Unemployment, May Construction Spending
July 2, 2015

**June Payrolls (Number of Jobs, Not People with Jobs) Rose by 223,000,
But Number of People with Full-Time Employment Dropped by 349,000**

**June Payroll Gain of 223,000 Was Just 163,000,
Net of a Downside Revision of 60,000 Jobs to Overstated May Payrolls**

**Bad News—Drop in Unemployment from 5.5% to 5.3%
Reflected 375,000 Unemployed Disappearing from the Labor Force,
Instead of Finding Gainful Employment**

June 2015 Unemployment: 5.3% (U.3), 10.5% (U.6), 23.1% (ShadowStats)

**Revamped Construction-Spending Series, Net of Headline Inflation,
Remained in Low-Level but Up-Trending Stagnation**

**Weaker Residential Activity Offset Stronger Nonresidential Activity
in Construction-Spending Benchmark Revisions**

PLEASE NOTE: The next regular Commentary, scheduled for Tuesday, July 7th, will cover the May 2015 Trade Deficit and the June 2015 estimate of the ShadowStats Ongoing M3 Measure.

Where the June ShadowStats M3 number normally would be covered in this June labor-report Commentary, holiday-driven shifts in underlying data releases have pushed the M3 release until July 7th. Early detail suggests that annual M3 growth has held near 5.0% for a second month.

Separately, the Public Commentary on employment and unemployment measurement will be published shortly, encompassing new background text on the ShadowStats assessments of labor conditions, included in today's Commentary. With the Public Commentary published as background material, future monthly missives on employment and unemployment should be shorter and less repetitive in nature.

Best wishes to all for a Happy Fourth of July! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

The Good News in the Reporting of June Labor Conditions Was Not Good News. Headline June employment and unemployment numbers were more typical of deteriorating, broad economic activity than they were of an expanding economy in its purported sixth year of recovery.

Conditions deteriorated sharply in June. Headline payroll jobs rose by 223,000 per the Bureau of Labor Statistics (BLS), but underlying reality likely was an outright monthly loss of at least 50,000 (-50,000) jobs in the headline aggregate. The headline gain came in close to consensus expectations, only because of a downside revision of 60,000 jobs to May payrolls. Net of that revision, June payrolls rose by 163,000. Yet, that gain was exaggerated further by undisclosed, upside shifting in seasonal factors for May and June payrolls, due in turn to unreported inconsistencies in historical data generated by BLS concurrent seasonal-factor adjustments. Allowing further for false, monthly add factors in the Birth-Death Model, in excess of 200,000 jobs, June 2015 payrolls most likely fell month-to-month.

Not-seasonally-adjusted headline, annual growth in payroll employment continued to slow for the fourth consecutive month.

Separately, aside from the headline June payroll gain of 223,000, which was a count of jobs, not people holding jobs, headline full-time employment fell by 349,000 (-349,000), representing the count of people who lost full-time jobs in June.

On the unemployment front, the drop in the headline U.3 rate from 5.5% to 5.3% could not have been more negative. Instead of the 375,000 drop in unemployment representing people finding gainful employment, it represented those people leaving the headline labor force, most likely being shifted to the headline discouraged-worker category by the BLS. In contrast, the headline ShadowStats Alternate Unemployment Rate, including an estimate of all discouraged workers, held at 23.1% in June.

Both these *Opening Comments* and the *Reporting Detail* section address those issues.

Construction-Spending Revisions Left the Real Series in Low-Level, Albeit Up-Trending Stagnation. Headline May 2015 reporting of, and the accompanying benchmark revisions to construction spending, showed somewhat stronger aggregate activity than before. Yet, there were offsetting downside revisions to residential spending, versus upside shifts to nonresidential spending, in the private sector. Nonetheless, particularly net of inflation, total construction-spending activity generally remained in low-level

stagnation, never recovering from the collapse in economic activity into 2008 and 2009. The May 2015 headline gain in construction spending was, as usual, not statistically significant in this otherwise highly volatile series.

The benchmark revision is covered later in these *Opening Comments*; the headline construction reporting also is covered here and in the *Reporting Detail*.

Next Week's Missive to Cover Latest Financial Instabilities and the Second-Quarter GDP Outlook.

Barring unusual developments, which would accelerate the process, *Commentary No. 733* on July 7th will review developing circumstances in the financial-market arena, such as the default by Greece and some mounting concerns for domestic liquidity issues. Along with the May trade-deficit reporting, the developing second-quarter GDP outlook also will be reviewed.

Today's Missive (July 2nd). The balance of today's *Opening Comments* concentrates on the detail from the headline reporting of June labor conditions and on the headline May construction spending and accompanying benchmark revision. Complimentary and extended detail related to the headline monthly numbers also is found in the *Reporting Detail* section.

The *Hyperinflation Outlook Summary* has not been revised from the prior *Commentary*. The *Week Ahead* section provides a preview of the May trade-deficit reporting, which will be particularly important for the evolution of market expectations for second-quarter 2015 GDP.

Employment and Unemployment—June 2015—Unemployed Not Finding Work, Payroll Growth Shrinking with Revisions. A variety of reporting issues, ranging from unrealistic add-factor biases to inconsistent seasonal adjustments took their usual toll on the accuracy of headline June payroll growth. Separately, discussed in the prior *Week Ahead* section, the decline in headline U.3 unemployment indeed was due to a decline in unemployed people leaving the labor force, instead of finding new jobs. The underlying reality here increasingly looks like the onset or continuation of a broad economic contraction, not the accelerating GDP growth of an ongoing economic recovery.

Payroll Survey Headline Detail. In the context of downside revisions to the headline levels of April and May payrolls, the seasonally-adjusted, headline gain for June was 223,000 jobs. Net of prior-period revisions, though, that gain in June payroll activity was 163,000 jobs.

That followed a downwardly-revised increase of 254,000 [previously 280,000] jobs in May, and downwardly-revised gain of 187,000 jobs [previously up by 221,000] in April. The new, headline jobs gain in April of 187,000, however, really was 204,000 on a consistent-reporting basis (see *Reporting Detail* section).

Payroll versus Employment 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 three years earlier, back in 2011, headline June payroll employment now stands about 3.5 million jobs above the pre-recession peak.

Beyond excessive upside add-factor biases built into the monthly calculations (see the *Birth-Death Model* in the *Reporting Detail*), 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.

In contrast, the number of people holding full-time jobs—the level of full-time employment, from the Household Survey—still was 0.8 million shy of its precession high, declining by 349,000 (-349,000) in June 2015, following a gain of 630,000 in May 2015, and a drop of 252,000 (-252,000) in April.

Annual Percent Change in Payrolls—Continued Downturn in Growth. 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 at least are reported on a consistent basis. Yet, 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](#)).

With the 2014 benchmarked surges built into recent headline payroll activity, patterns of year-to-year growth in unadjusted payrolls also moved higher, setting a post-recession high of 2.39% in February 2015. Such was the strongest annual growth since June 2000 (another recession), but subsequent annual growth has slowed. Year-to-year nonfarm payroll growth in June 2015 was 2.09%, versus a downwardly revised 2.20% in May 2015, a downwardly revised 2.21% in April 2015, and an unrevised 2.25% in March 2015.

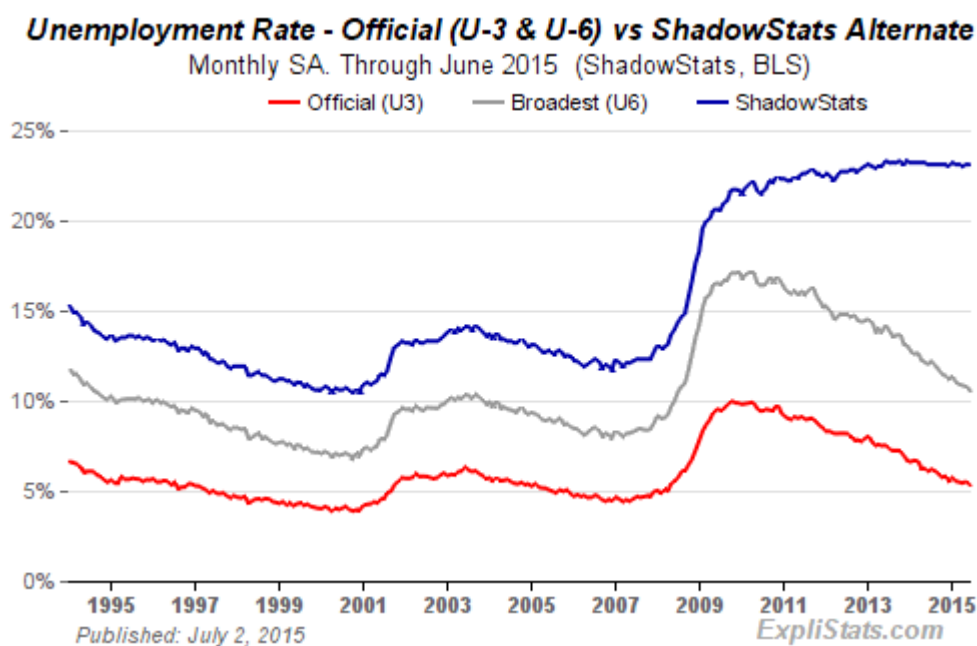
Counting All Discouraged Workers, June 2015 Unemployment Was About 23.1%. Discussed frequently in the *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, simply is definitional. To be counted among 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, after one year, no longer are counted by the government and enter the realm of "long-term discouraged workers," as counted by ShadowStats (see the updated, extended comments on the *ShadowStats Alternate Unemployment Measure* in the *Reporting Detail* section).

In the ongoing economic collapse into 2008 and 2009, and the non-recovery thereafter, the broad drop in the U.3 unemployment rate from its headline peak of 10.0% in 2009 to today's 5.3% has been due largely to unemployed giving up looking for work, being redefined out of headline reporting and the labor force, as discouraged workers. As seen with the headline June 2015 U.3 reporting, the drop in the headline unemployment rate generally has not been due to the usual healthy indicator of a recovering economy, that of the unemployed finding new and 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 time, but those being pushed out of U.6 still are counted in the ShadowStats Alternate Unemployment Measure, which has remained steady, at or near its historic-high rate for the last couple of years.

Moving on top of U.3, the broader U.6 unemployment rate—the government's broadest 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 define and measure the series, before 1994.

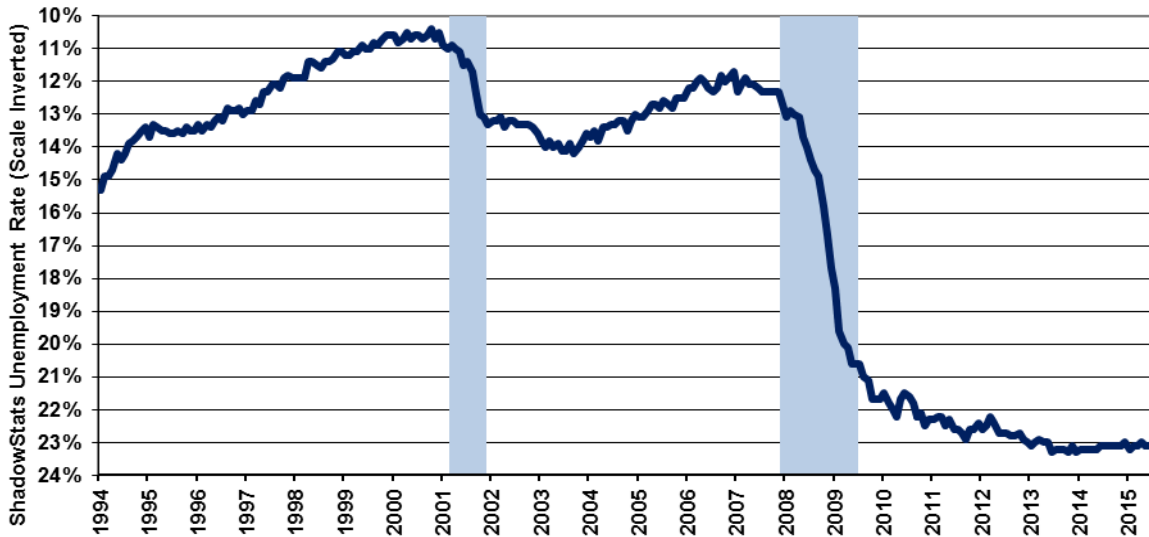
Again, when the headline unemployed become "discouraged," they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. The resulting difference here is between headline-June 2015 unemployment rates of 5.3% (U.3) and 23.1% (ShadowStats).



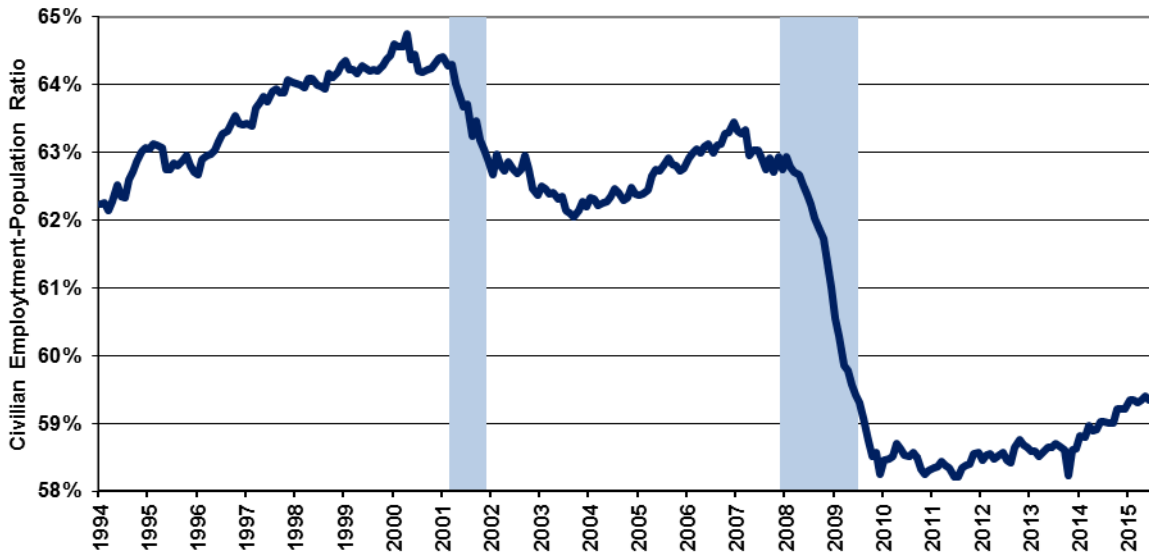
The graph immediately preceding reflects headline June 2015 U.3 unemployment at 5.28%, versus 5.51% in May; headline June U.6 unemployment at 10.52%, versus 10.79% in May; and the headline June ShadowStats unemployment measure holding at 23.1%, the same level as in May. Again, the ShadowStats-Alternate 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 following three graphs 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 June 2015, Seasonally-Adjusted [ShadowStats, BLS]

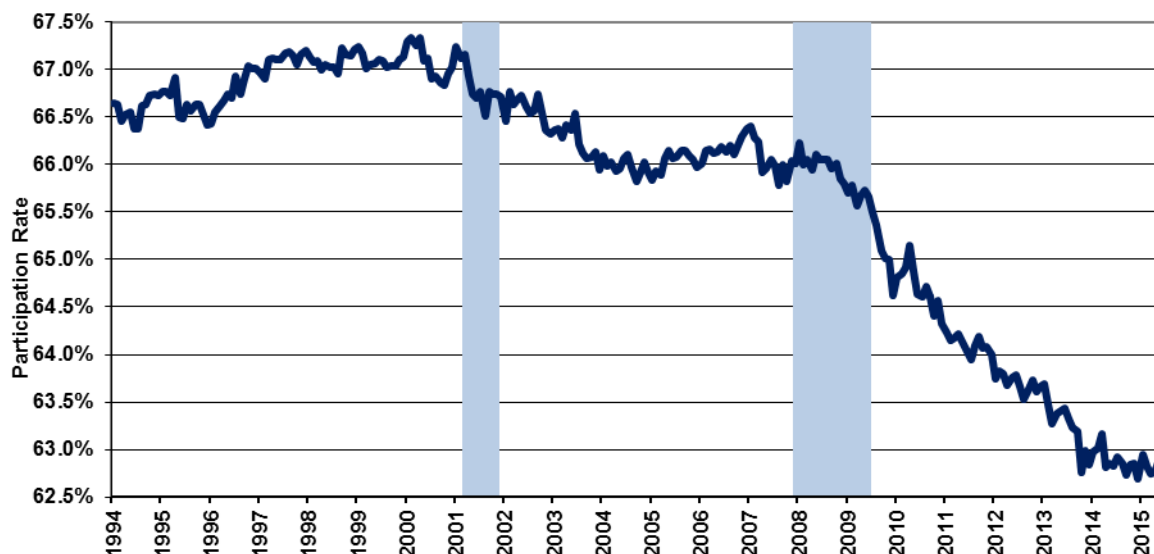


Civilian Employment-Population Ratio
 To June 2015, Seasonally-Adjusted [ShadowStats, BLS]



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 June 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 indicated by Federal Reserve Chair Janet Yellen as one she sees as a particularly good indicator of the health of the labor market. She has mentioned a needed improvement in labor-market health as a precondition for raising interest rates, but such conditions remain under debate. The participation rate deteriorated anew, to a new low in June 2015, which means, in theory, that the Fed still is not about to tighten monetary conditions, despite other "happy" headline economic data, if the Fed Chair still is to be believed.

The labor force here is the headline employment plus U.3 unemployment. As with the prior graph of employment-to-population, its holding at or near a post-1994 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 June's reporting simply are not available.

Headline Unemployment Rates. Headline June 2015 unemployment (U.3) declined by 0.23-percentage point to 5.28%, from 5.51% in May. That change is meaningless, though, in the context of the non-comparability of the headline monthly data, which results from the BLS's reporting methodology and use of concurrent-seasonal-adjustment factors. Those issues are separate from recent official questions raised as to falsification of Current Population Survey results, from which the unemployment detail ultimately is derived (see discussion in *Household Survey* section of the *Reporting Detail*).

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. June's unadjusted U.3 unemployment rate rose to 5.46%, versus 5.31% in May.

The seasonally-adjusted headline decline in the June U.3 unemployment rate reflected the number of unemployed individuals declining by 375,000 (-375,000). Yet, instead of the happy circumstance of the disappearing unemployed finding gainful employment, they disappeared from the headline labor force. Where headline employment declined by 56,000 (-56,000), much of the lost labor force likely was in reclassification of unemployed from U.3 to U.6 as new discouraged workers, with a portion of the U.6 discouraged workers also being defined out of the government's short-term discouraged worker status.

Indeed, new discouraged and otherwise marginally-attached 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 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).

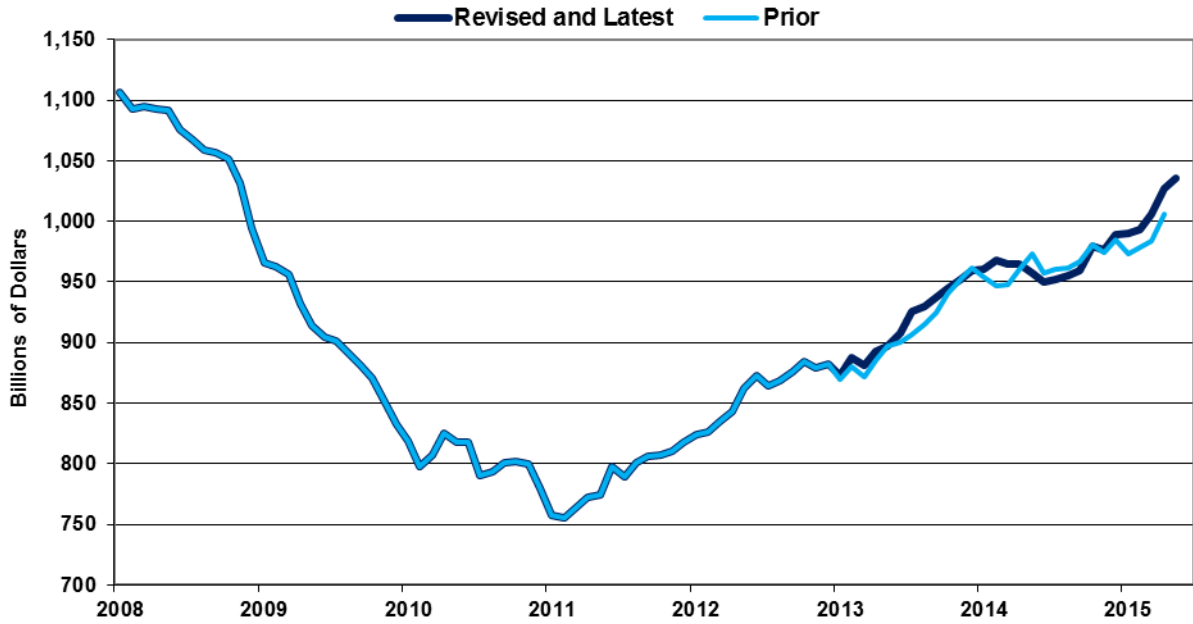
With a decline in the underlying seasonally-adjusted U.3 rate, a decline in the adjusted number of people working part-time for economic reasons and an increase in unadjusted discouraged workers and the balance of those marginally attached to the workforce, headline June 2015 U.6 unemployment eased to 10.52% from 10.79% in May. The unadjusted U.6, however, was at 10.82% in June, up from 10.40% in May.

ShadowStats Alternate Unemployment 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 June 2015 ShadowStats-Alternate Unemployment Measure, held at 23.1%, the same level as in May. Such was down from the 23.3% series high in 2013 (back to 1994). Again, the ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force.

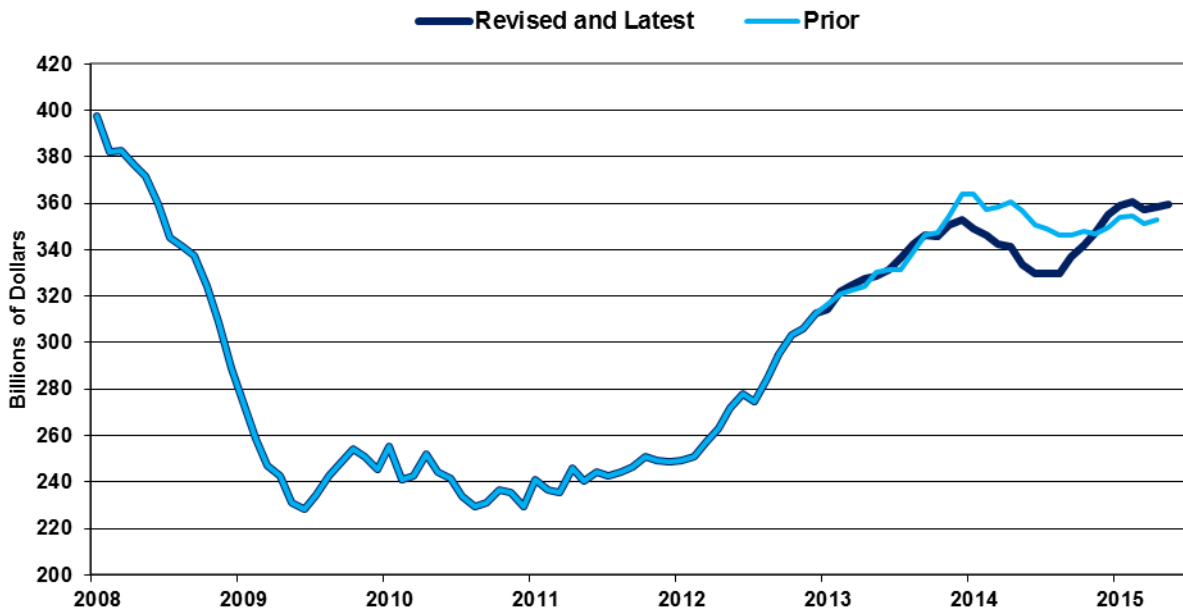
Construction Spending—May 2015 Benchmark Revision—Weaker Residential versus Stronger Nonresidential Private-Sector Spending. The four graphs following plot the 2015-benchmark-revision details for the value of nominal (before inflation adjustment) construction spending put in place in the United States. With the revamped data beginning in January 2013, the first graph of total construction shows April 2015 spending level revised higher by 2.1%, versus its initial reporting last month. Such is not much beyond the scope of the regular volatility in the month-to-month reporting for this series.

While the fluctuation of the old series versus the new, revised series might appear to be due to little more than revised seasonal-factor patterns, there were some major changes in the subcategories, underlying the relatively placid aggregate revisions. The net-upside revision to total construction spending in April 2015 of 2.1% reflected an upside revision to private-construction spending of 2.8% (upside revisions of 1.5% to residential and 4.0% to nonresidential construction) and an upside revision to public-construction spending of 0.2%.

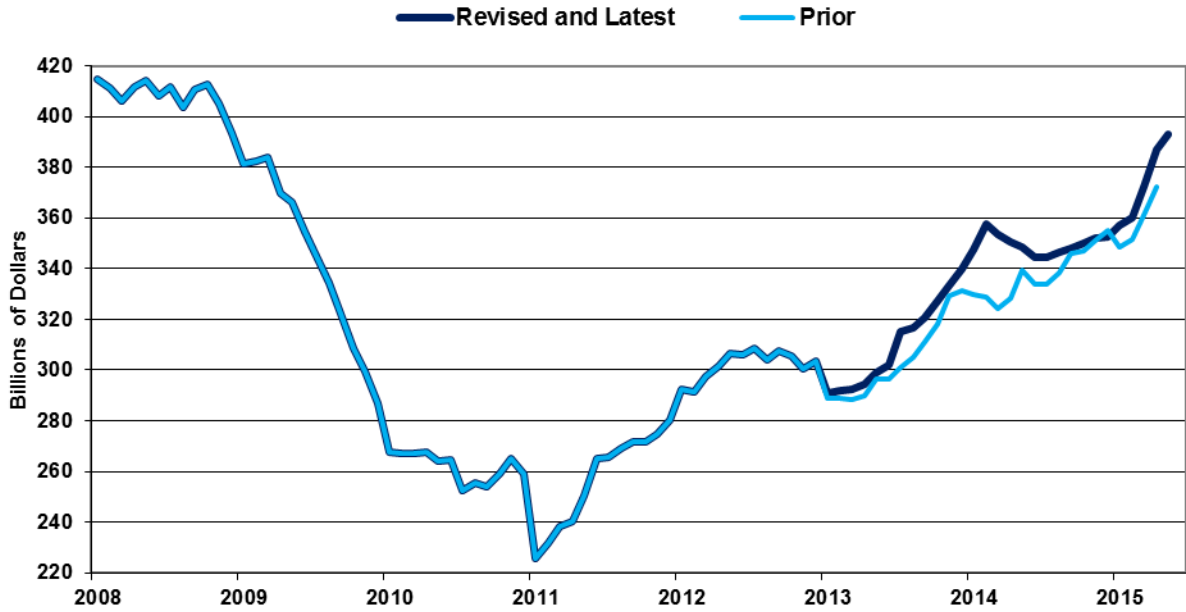
Total Construction Spending Revisions
Monthly to May 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



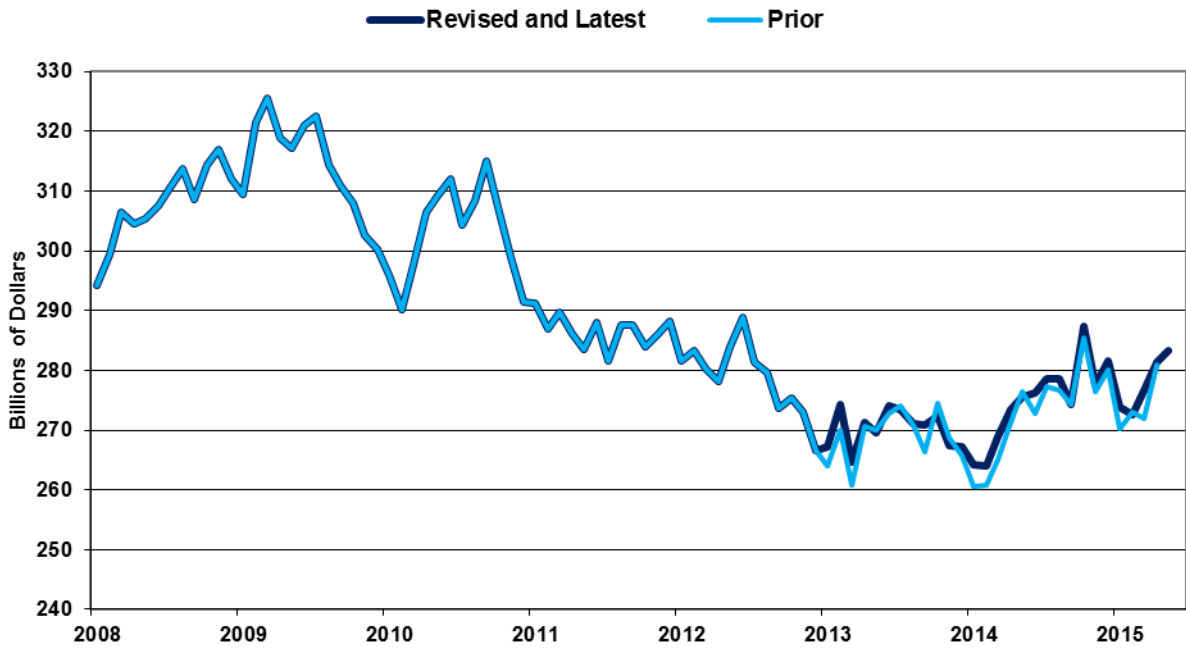
Private Residential Construction Revisions
Monthly to May 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Private Nonresidential Construction Revisions
Monthly to May 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Public Construction Revisions, Monthly to May 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Revised Construction-Spending Gains in Nonresidential Sector Offset Downside Revisions to Residential Spending. Shown in the second graph, revised private-residential-construction spending shifted sharply lower in the period from late-2013 to late-2014, while the third graph shows a sharp upside shift in private-nonresidential-construction spending in roughly the same timeframe. The revisions to public-construction-spending, shown in the fourth graph, are relatively small and generally consistent with the previously-reported growth pattern.

Within the aggregate residential sector gain of 1.5%, single-family construction revised upward by 1.4%, with the multi-family construction revising downward by 5.3% (-5.3%).

Larger growth revisions were seen within the nonresidential sector upside adjustment of 4.0%. Construction related to power revised lower by 4.8% (-4.8%), but that was more than offset by upside revisions in other construction-spending sectors of 26.5% in communication, 10.8% in manufacturing, 7.5% in commercial and 5.4% in office.

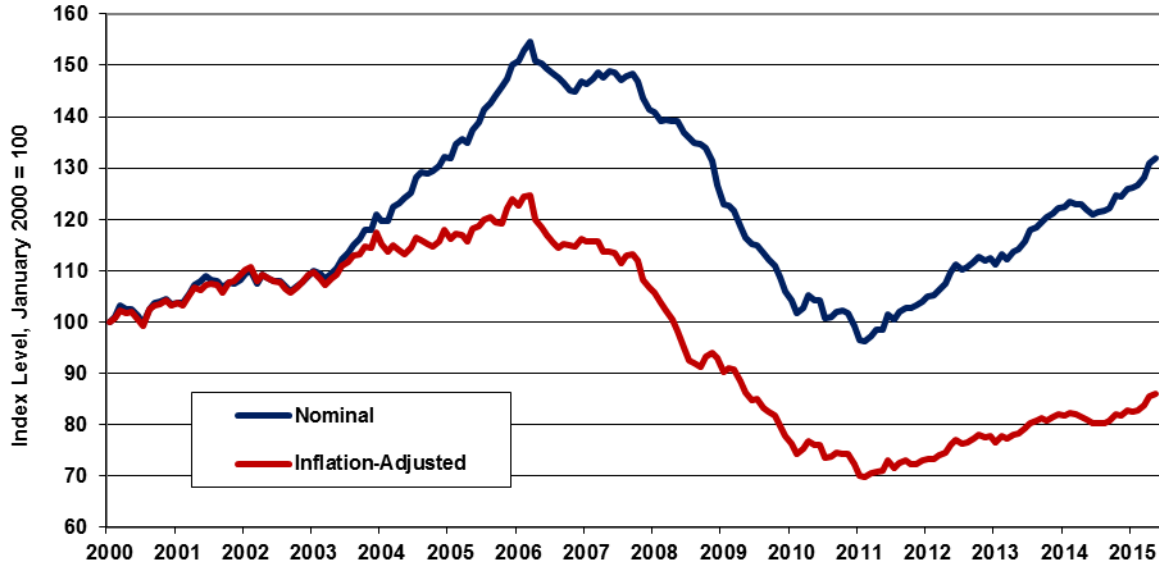
Construction Spending—May 2015—Headline Gain of 0.8% Was Statistically-Insignificant. The monthly construction-spending data usually are volatile and heavily revised, and such certainly was the case with the headline May 2015 release, which was in the context of annual revisions back to 2013.

Reflecting all revisions, and based on reporting for just April and May, second-quarter 2015 real construction spending (deflated by PPI construction inflation) was on track for an annualized quarterly gain of 13.8%, versus a 4.3% gain in first-quarter 2015. Private-residential construction, however, was on track for no change, 0.0%, for the second quarter, both before and after inflation adjustment, having gained at an annualized pace of 10.6% in first-quarter 2015, net of inflation.

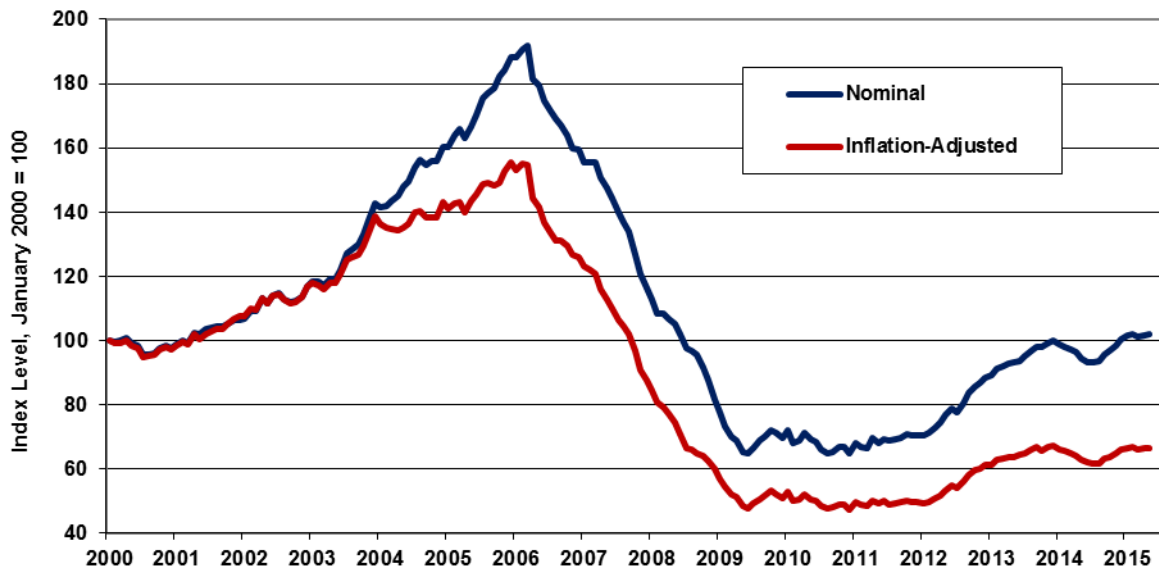
Graphs of both nominal and real construction activity follow for the aggregate series as well as private residential- and nonresidential-construction and public construction spending. Real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014 and in a low-level uptrend into 2015. The series remained not far above the recent low of a down-trending pattern of stagnation, with the real series holding at 31.0% (-31.0%) below [was down by 32.9% (-32.9%) in pre-benchmark April 2015 from] its pre-recession peak of March 2006.

The general pattern of real activity remains one of low-level, albeit up-trending stagnation. The historical pattern here does not confirm the economic recovery indicated by the headline GDP series (see [Commentary No. 731](#) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#)). To the contrary, the latest construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, shows a pattern of low-level, variable stagnation, where activity never recovered pre-recession highs.

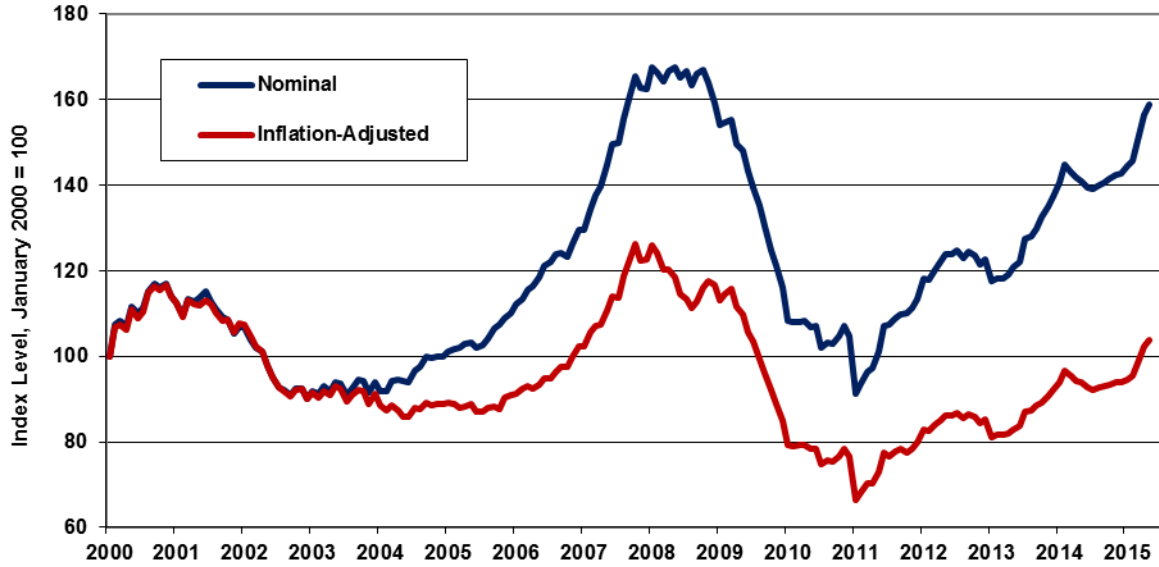
Index of Total Value of Construction Put in Place (Revised)
Nominal versus Inflation-Adjusted (Jan 2000=100)
To May 2015, Deflated by PPI Construction Indices
[Sources: ShadowStats, Census Bureau, BLS]



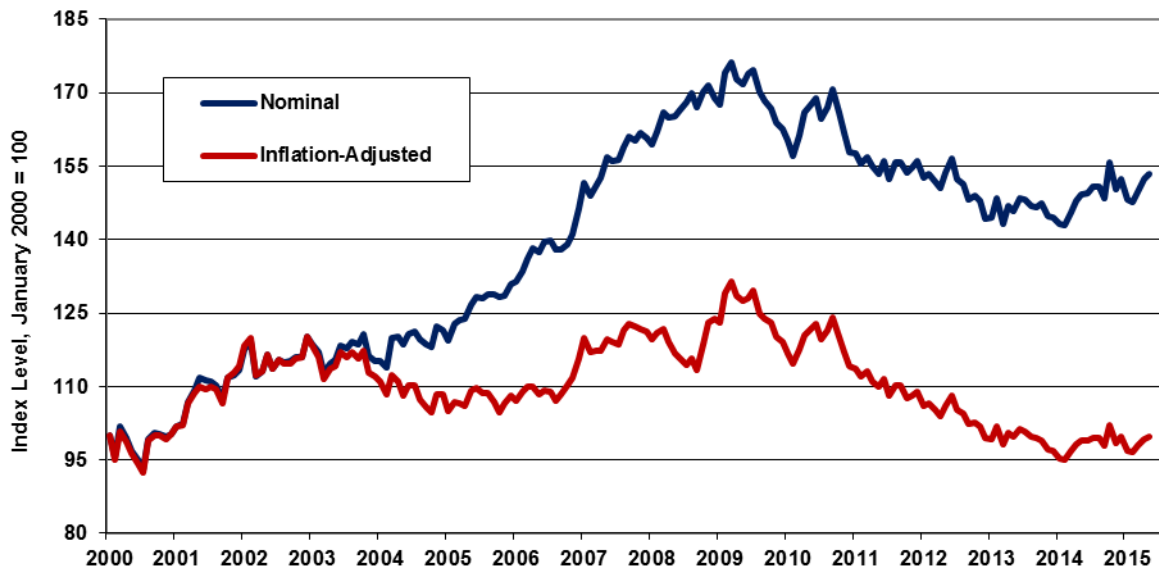
Index of Value of Private Residential Construction (Revised)
Nominal versus Inflation-Adjusted (Jan 2000=100)
To May 2015, Deflated by PPI Construction Indices
[Sources: ShadowStats, Census Bureau, BLS]



Index of Value of Private Nonresidential Construction (Revised)
Nominal versus Inflation-Adjusted (Jan 2000=100)
To May 2015, Deflated by PPI Construction Indices
[Sources: ShadowStats, Census Bureau, BLS]



Index of Value of Public Construction (Revised)
Nominal versus Inflation-Adjusted (Jan 2000=100)
To May 2015, Deflated by PPI Construction Indices
[Sources: ShadowStats, Census Bureau, BLS]



PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series and the subsidiary private- and public-construction PPI series.

The PPI's New Construction Index (NCI) is used to deflate the various measures up to October 2009, and the FDCI thereafter (see *Reporting Detail*). For May 2015, the seasonally-adjusted FDCI month-to-month inflation was a positive 0.09%, for the fourth consecutive month. In terms of year-to-year inflation, the May 2015 FDCI rose to 1.81% from 1.72% in April 2015. Where the subsidiary series tend to track the aggregate inflation detail over time, May headline publicly-funded construction inflation gained 0.18% for the month, 1.81% year-to-year, with privately-funded construction inflation unchanged for the month, up by 1.73% year-to-year.

Headline Reporting for May 2015. In the context of accompanying benchmark revisions to the series, the headline, total value of construction put in place in the United States for May 2015 was \$1,035.8 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.8%, versus the benchmark-revised level of \$1,027.0 billion in April. In turn, April spending was up by a benchmark-revised 2.1% (previously up by 2.2%) from the benchmark-revised level of \$1,006.4 billion in March. Adjusted for FDCI inflation, aggregate real spending in May 2015 rose by 0.8%, following a revised April 2015 gain of 2.0%.

On a year-to-year or annual-growth basis, May 2015 nominal construction spending rose by a statistically-significant 8.2%, versus a benchmark-revised annual gain of 6.2% (previously up by 4.8%) in April 2015. Net of construction costs indicated by the FDCI, year-to-year change in spending was at 6.2% in May 2015, versus a revised 4.7% in April 2015.

The statistically-insignificant, headline monthly increase of 0.8% in nominal May 2015 aggregate construction spending, versus the 2.1% gain April 2015 spending, included a monthly increase of 0.7% in May public spending, versus a 1.7% gain in April spending. Private spending increased by 0.9% in May, following a monthly gain of 2.2% in April. Within total private construction spending, the residential sector rose by 0.3% in May, versus a 0.3% gain in April, while the nonresidential sector rose by 1.5% in May, versus a gain of 4.0% in April. The preceding graphs and those in the *Reporting Detail* section include the latest and benchmark-revised extended detail.

[The Reporting Detail section provides further information on the labor and construction-spending reports.]

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for a Hyperinflation Crisis. The *Hyperinflation Outlook Summary* has not been revised from its prior publication, other than for updated internal links.

The U.S. economy remains in ongoing downturn, while the U.S. dollar faces a massive decline, with implications for a meaningful upturn in inflation evolving into a great hyperinflationary crisis. Signs of systemic instability are increasing anew.

Background. Underlying this missive, [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 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 have been met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation by 2020, as first estimated by ShadowStats in 2004. That time horizon for the hyperinflation forecast was moved to 2014, as a result of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same. That hyperinflation forecast remains in place, adjusted to 2015, as discussed in [No. 692](#).

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 the *Hyperinflation Report—First Installment Revised* (linked earlier). The following summarizes the underlying current circumstance and recent developments.

The U.S. dollar rallied sharply from mid-2014 into early-2015, initially reflecting likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and heavily over-estimated by the global markets looking to support the dollar. Yet structural faults started to appear in the foundation underpinning U.S. dollar strength (see [Commentary No. 711](#)).

Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had 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 a result, the U.S. dollar backed off its recent highs, with some related upside pressure having been seen on oil prices, but those changes have been relatively small, so far.

First-quarter 2015 U.S. GDP contracted by 0.2% (-0.2%) as per its second and "final" revision, other than for benchmark revisions due on July 30th ([Commentary No. 731](#)). Although early reporting on the second-quarter economy indicated the likelihood of a second, consecutive quarterly GDP downturn, which would constitute a "new" recession, reporting of the last several weeks has been relatively strong, as discussed in the *Opening Comments* of [Commentary No. 726](#). Such strong numbers should prove increasingly fleeting in the next four-to-five weeks, with a second-quarter GDP contraction still likely.

Nonetheless, the Fed could raise interest rates at any time, irrespective of economic activity. Where the stock and currency markets pretty much already have anticipated such action in their pricing, the big market moves ahead should come from areas such as downside surprises in U.S. economic reporting, which increasingly will show an ongoing contraction in activity.

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, if the Fed has not already tightened, but also renewing expectations for a more-accommodative or newly-accommodative Fed. While such could 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 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. These circumstances should continue to unwind what had been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances began, then faltered recently, but should resume shortly, possibly a matter of weeks. 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; and 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 for heavy selling of the dollar.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity is turning down anew, despite brief fluttering in unstable series. GDP and industrial production face heavy downside-benchmark revisions through the end of July. Other key series all have benchmarked to the downside. Weak, underlying economic reality generally has surfaced in headline reporting. That should become increasingly and painfully obvious to the financial markets in the detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit and payroll employment. Again, headline GDP will be in trouble.

As financial-market expectations resume shifting 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, more than fully reversing the dollar's gains since June 2014, and 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—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. Nonetheless, the Fed still likely would move to normalize interest rates (see *Opening Comments* of [Commentary No. 726](#)), if it could get away with it. The FOMC meeting of June 17th apparently concluded that the Fed could not get away with it (see *Opening Comments* of [Commentary No. 729](#)).

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; if the Fed does not act quickly to extricate itself from prior actions, 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). Such 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.

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, increasingly 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 the ability of the Federal Reserve to control its 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 details in the *Opening Comments* of [Commentary No. 729](#)). 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 operates 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. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion to quantitative easing, 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 any 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 fiscal and economic issues are nil, except possibly for new trade legislation, which would compound domestic economic problems. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency should continue to devolve into extreme political crises.

- ***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, significant 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 (June 2015)

Little Happy News from the June Labor Data. *[Except for the last paragraph, the text in this section largely is repeated to the opening lines of the Opening Comments section.]* The headline June employment and unemployment numbers were more typical of deteriorating, broad economic activity than they were of an expanding economy in its purported sixth year of recovery.

Conditions deteriorated sharply in June. Headline payroll jobs rose by 223,000 per the Bureau of Labor Statistics (BLS), but underlying reality likely was an outright monthly loss of at least 50,000 (-50,000) jobs in the headline aggregate. The headline gain came in close to consensus expectations, only due to a downside revision of 60,000 jobs in overstated May payrolls (see *Payroll Reporting*). Net of that revision, June payrolls rose by 163,000. Yet, even that gain was exaggerated by undisclosed, favorable shifting in seasonal factors for May and June payrolls, due to unreported inconsistencies in the historical data, as generated by BLS concurrent seasonal-factor adjustments (see *Concurrent Seasonal Factor Adjustments*). Allowing further for false, monthly add factors in the Birth-Death Model, in excess of 200,000 jobs, June 2015 payrolls most likely fell month-to-month (see *Birth-Death Model*).

Not-seasonally-adjusted headline, annual growth in payroll employment continued to slow for the fourth consecutive month (*Payroll Reporting*).

Separately, aside from the headline June payroll gain of 223,000, which was a count of jobs, not people holding jobs, headline full-time employment fell by 349,000 (-349,000), representing the count of people who lost full-time jobs in June (*Payroll Reporting*).

On the unemployment front, the drop in the headline U.3 rate from 5.5% to 5.3% could not have been more negative. Instead of the 375,000 drop in unemployment representing people finding gainful employment, it represented those people leaving the headline labor force, most likely being shifted to the headline discouraged-worker category by the BLS. In contrast, the headline ShadowStats Alternate Unemployment Rate, including an estimate of all discouraged workers, held at 23.1% in June (*Household Survey Reporting*).

Separately, issues remain as to falsification of the Household Survey data by employees of the Census Bureau, by those who have conducted the underlying Current Population Survey. Details on the related Congressional investigation were discussed in [Commentary No. 669](#). Purportedly the investigation continues in the new Congress.

PAYROLL SURVEY DETAIL. The Bureau of Labor Statistics (BLS) published the headline employment and unemployment data for June 2015, today, July 2nd. In the context of downside revisions to the headline levels of April and May payrolls, the seasonally-adjusted, headline gain for June was 223,000 jobs +/- 129,000 (95% confidence interval). Net of prior-period revisions, the gain in June payroll employment was 163,000 jobs.

The headline 223,000 increase in June payrolls followed a downwardly-revised increase of 254,000 [previously 280,000] jobs in May, which followed a downwardly-revised gain of 187,000 jobs [previously up by 221,000, initially up by 223,000] in April. The 187,000 jobs gain in April, however, really was 204,000, on a consistent reporting basis.

Inconsistent, Non-Comparable and Deliberately-Misstated Monthly Changes for April 2015 and Before. Headline monthly payroll detail is not comparable with earlier months, back more than one month from the headline month, due to the BLS's misuse of concurrent-seasonal-factor adjustments. Discussed in the later *Headline Distortions from Shifting Concurrent Seasonal Factors* section, the reporting fraud comes not from the adjustment process, itself, but rather from the Bureau deliberately not publishing a consistent headline history, where a new history is generated and available each month, along with the recalculation of the seasonal factors unique to creating the current month's headline detail.

As a result, the headline 223,000 monthly gain in June 2015 payrolls and the revised 254,000 jobs gain May were inconsistent with and not comparable to the headline revised April 2015 gain of 187,000 [previously up by 221,000]. The gain consistent with the new headline June-based detail was 204,000 for April, some 17,000 more than the official number. Consistent with June's reporting, the headline payroll gain for March 2015 now is 102,000, some 17,000 jobs shy of the official headline gain of 119,000. Such are regular misstatements of historical headline payroll activity by the BLS.

Headline differences can be more significant. For example, the headline monthly gain for November 2014 payrolls still is 423,000, but that never was true. That number came out of the 2014 benchmark reporting, including headline January 2015, but the November change versus October—consistent with the headline reporting of the time—was 337,000, some 86,000 less. With intervening monthly revisions, the actual aggregate November and October levels have changed some, but now consistent with the headline June 2015 reporting and recalculations, the November 2014 versus October 2014 gain was 333,000, down by 90,000 (-90,000) versus the 423,000 headline number. Consistent with May 2015 reporting, the actual difference in the headline versus actual gain was down by 86,000 (-86,000). The prior history changes each month, along with the new seasonal-factor calculations that determine the latest headline month's numbers, with the consistent series explored fully in [Commentary No. 695](#).

“Trend Model” for June 2015 Headline Payroll-Employment Change. Discussed in [Commentary No. 725](#), and as described generally in [Payroll Trends](#), the trend indication from the BLS's concurrent-seasonal-adjustment model—prepared by our affiliate www.ExpliStats.com—was for a June 2015 monthly payroll gain of 236,000, based on the BLS trend model structured into the actual headline reporting of May 2015.

Consensus estimates tend to settle around the trend, where late-consensus expectations for June 2015 ranged from 225,000 (early-consensus at 218,000) [MarketWatch] to 230,000 [Bloomberg]. The 223,000-headline gain was close to both the trend and consensus estimates. Although not the case in the current circumstance, reporting surprises sometimes are signaled, in the direction of the trend, when there are sharp variations between the trend and consensus expectations.

July 2015 Trend Estimate. Exclusive to ShadowStats subscribers, based on June 2015 reporting, the ExpliStats trend number calculations suggest a BLS-based headline gain of 243,000 for July 2015. That is the level around which the July consensus expectations likely will settle.

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.

June Construction-Payroll Growth Flattened Out in the Context of Downside Revisions. The graph of construction-payroll employment is found in the Construction Spending detail, later in this *Reporting Detail* section. Following downside revisions to the levels of activity in April and May, headline June 2015 construction payrolls came in at 6.380 million jobs, unchanged from the revised level for May, and down by 7,000 (-7,000) from the initial headline reporting for May. As revised, the May 2015 detail showed a monthly gain of 15,000 [previously up by 17,000], versus a revised April gain of 30,000 [previously up by 35,000, initially up by 45,000].

In theory, construction payroll levels should move closely with the inflation-adjusted aggregate construction spending series and the housing starts series (measured in units rather than dollars). Today's downside revisions to the headline jobs detail and the otherwise-flattening pattern of construction jobs growth ran counter to the headline detail and revisions for May construction spending, but otherwise were generally in line with the still-faltering starts series.

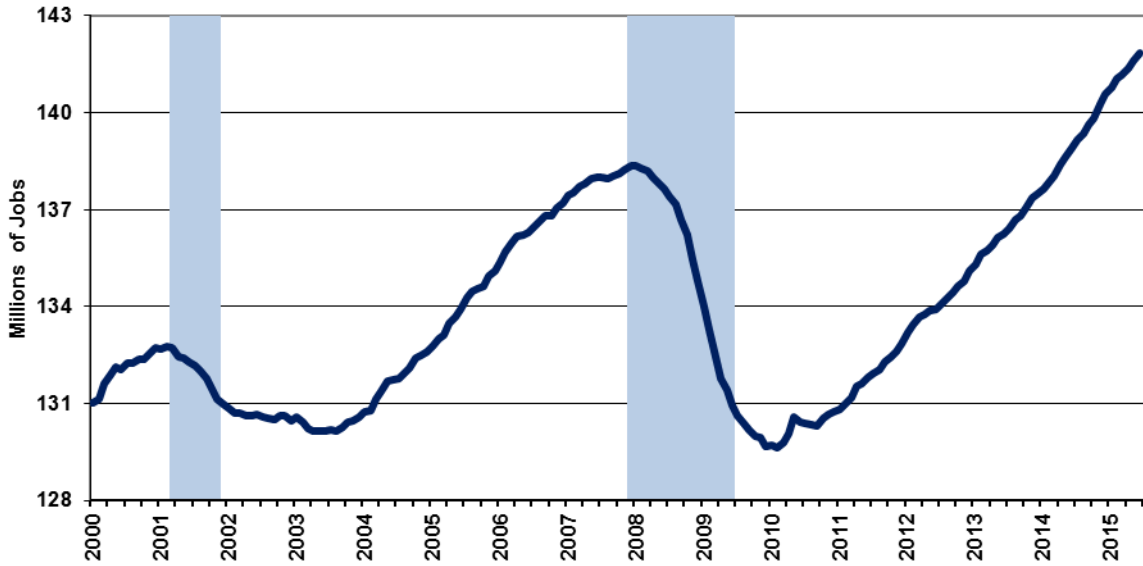
Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total June 2015 construction jobs were down by 17.4% (-17.4%) from the April 2006 pre-recession series peak.

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 three years earlier, 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, prior to the benchmark revisions published in February 2015), and it has continued to rise, now about 3.5 million jobs above the pre-recession peak.

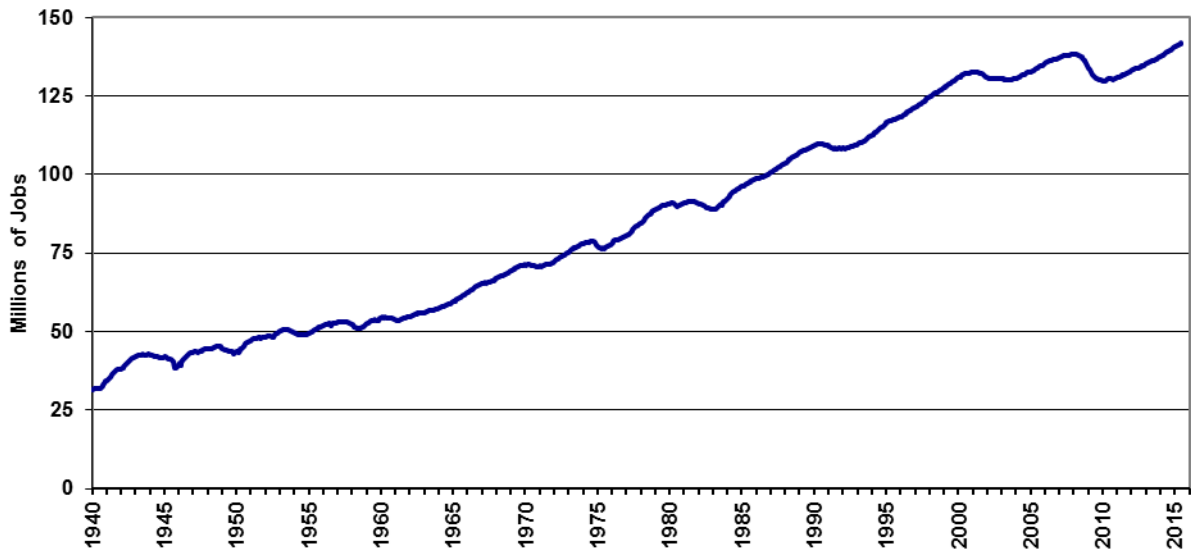
The first two graphs show the headline payroll series, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1940. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls,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

Nonfarm Payroll Employment
Seasonally-Adjusted Levels, to June 2015 [ShadowStats, BLS]

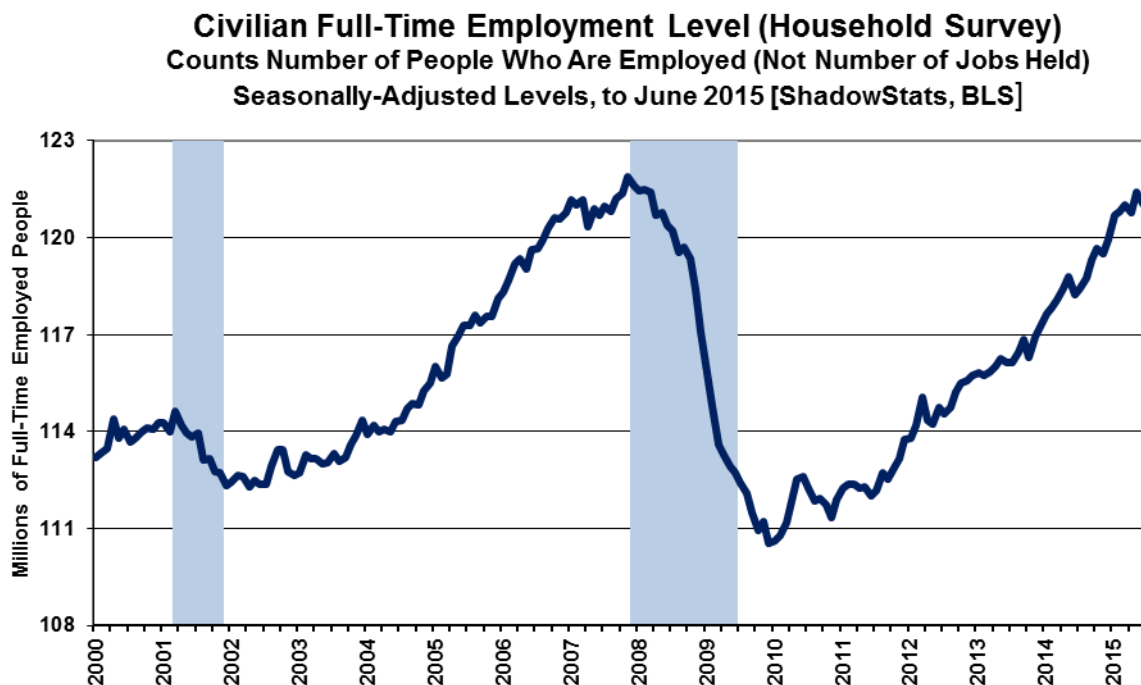


Nonfarm Payroll Employment
Seasonally-Adjusted Levels, to June 2015 [ShadowStats, BLS]



Full-Time Employment versus Part-Time Payroll Jobs. Shown in the accompanying graph, as of June 2015, the level of full-time employment—from the Household Survey—still was 0.8 million shy of its precession high, declining by 349,000 (-349,000) in June 2015, following a gain of 630,000 in May 2015, and a drop of 252,000 (-252,000) in April. Headline month-to-month volatility here is more a function of

the instabilities from non-comparability of the monthly data (see the discussion in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section), as opposed to actual month-to-month volatility in economic activity.



As an aside, the recent shortfall in full-time employment 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 for both the Household and Payroll Series. More will be forthcoming on this.

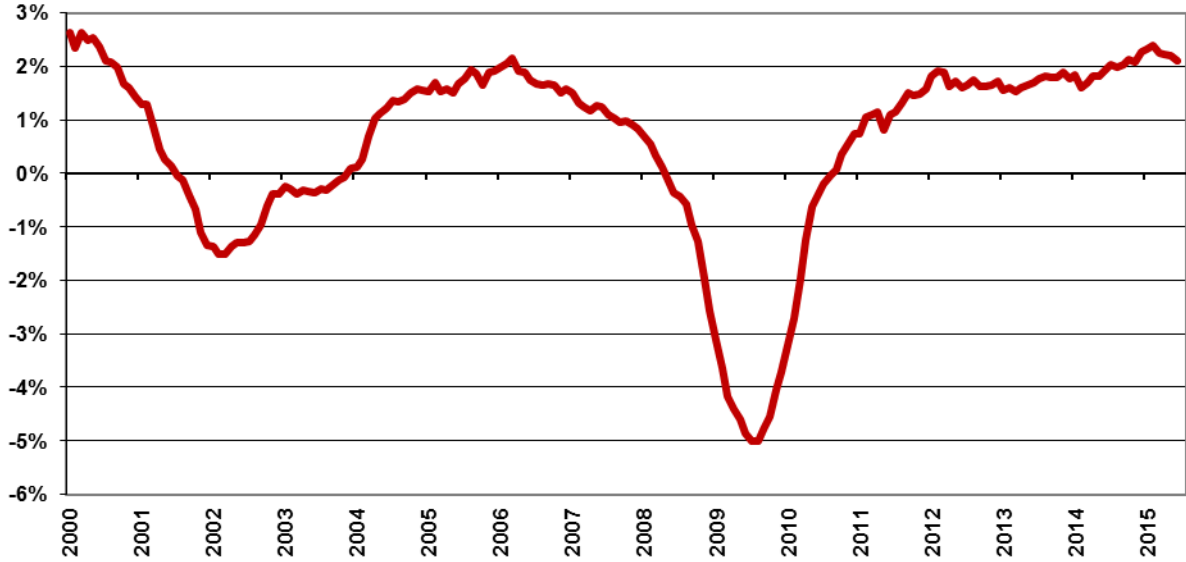
The graph of full-time employment excludes the count of those employed with only part-time jobs, one or more. Total employment, including those employed with part-time work, has recovered its pre-recession high, but it still is not close to the payroll reporting. Again, the Household Survey numbers count 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—Continued Downturn in Growth. 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 at least are reported on a consistent basis. Yet, 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](#)).

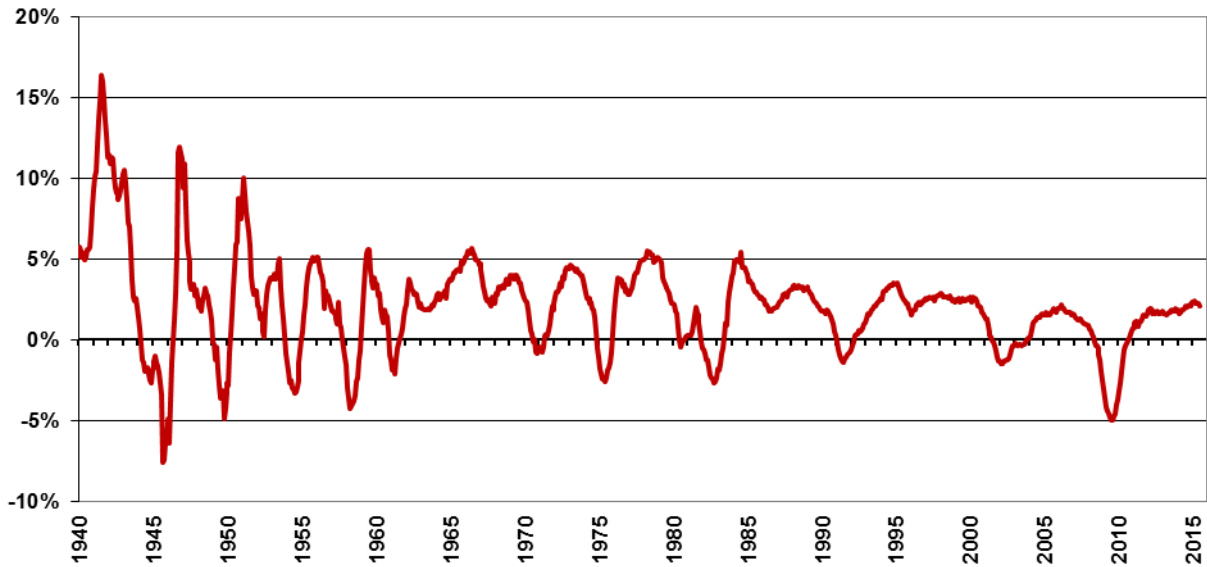
With the 2014 benchmarked surges built into recent headline payroll activity, patterns of year-to-year growth in unadjusted payrolls also moved higher, setting a post-recession high of 2.39% in February 2015. Such was the strongest annual growth since June 2000 (another recession), but subsequent annual

growth has slowed. Year-to-year nonfarm payroll growth in June 2015 was 2.09%, versus a revised 2.20% (previously was 2.24%) in May 2015, a revised 2.21% (previously and initially 2.22%) in April 2015, and an unrevised 2.25% in March 2015.

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



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



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

Headline Distortions from Shifting Concurrent-Seasonal Factors. 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 re-adjustment process also revises the monthly history of each series, recalculating prior, adjusted reporting for every month, going back five years, so as to be consistent with the new seasonal patterns that generated the current headline number.

Effective Reporting Fraud. The problem is that the BLS does not publish the monthly historical revisions along with the new headline data. As a result, current headline reporting is neither consistent nor comparable with prior data, and the unreported actual monthly variations versus headline detail can be large. The deliberately-misleading reporting effectively is a fraud. The problem is not with the BLS using concurrent-seasonal-adjustment factors, it is with the BLS not publishing consistent data, where those data are calculated each month and are available internally to the Bureau.

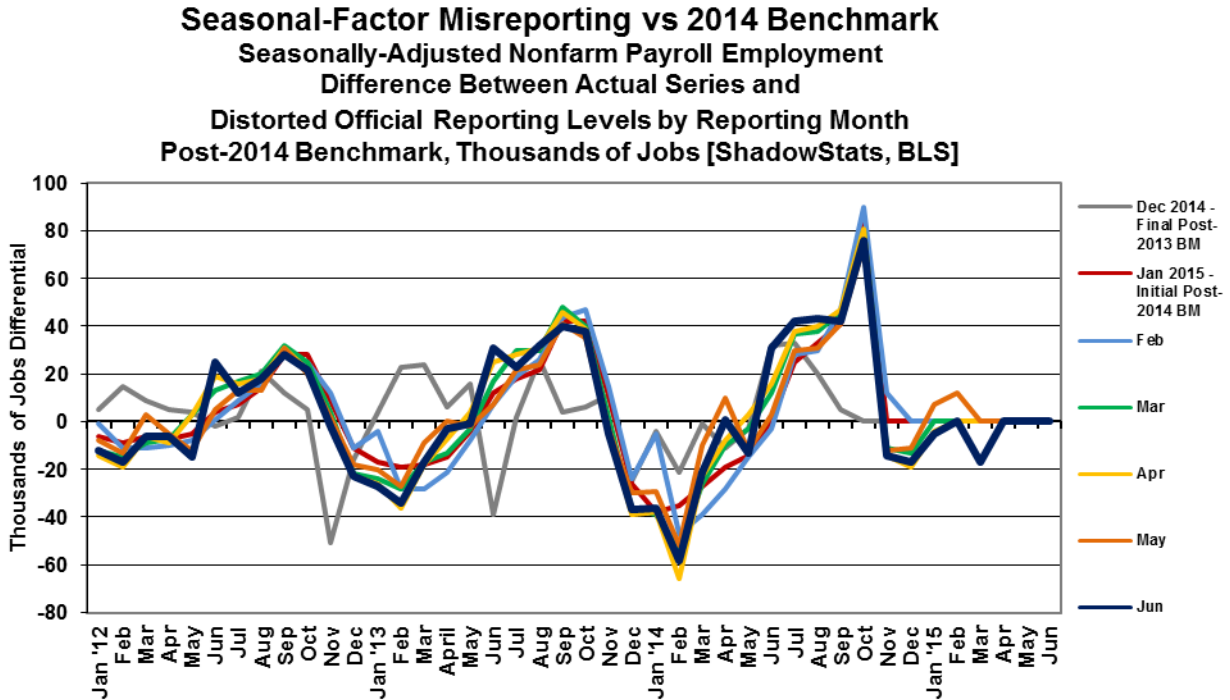
Household Survey. In the case of the published Household Survey (unemployment rate and related data), the seasonally-adjusted headline June 2015 numbers are not comparable with the headline May 2015 data or any month before. Accordingly, the published headline detail as to whether the unemployment rate was up, down or unchanged in a given month is not meaningful, and what actually happened is not knowable by the public. Month-to-month comparisons of these popular numbers are of no substance, other than for market hyping or political propaganda.

The headline month-to-month reporting is made consistent in the once-per-year reporting of December data, when the annual revisions to the faux "fixed" seasonal adjustments are published. All historical comparability evaporates, though, with the ensuing month's headline January reporting, and with each monthly estimate thereafter.

Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), monthly changes in the seasonally-adjusted headline June 2015 data are comparable only with the headline changes in the May 2015 numbers, not with April 2015 or any earlier months. Due to the BLS modeling process, the historical data never are published on a consistent basis, even with publication of the annual benchmark revision, as discussed shortly.

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, as often is the case, without any formal indication of the shift from the previously-published historical data.

The BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, but no such accommodation has been made for the Household Survey. ShadowStats affiliate ExpliStats does such third-party calculations, and the detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are plotted in the accompanying graph.



The preceding chart details 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 color-coded lines show the January to June 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.

A comparison of the heavy, dark-blue line (June 2015) with the thin dark-orange line (May 2015), shows the positive, upside shifts in seasonal factors that boosted revised headline reporting of the adjusted May and June 2014 numbers, with implied seasonal-factor boosts for headline reporting in both May and June 2015. Despite the headline downside revision to May 2015, both May and June 2015 headline reporting would have been even weaker, but for the shift in seasonals.

If the headline reporting were comparable and stable, month-after-month, all the lines in the graph would be flat and at zero. Here, with the payroll series, again, only the headline month and the prior month are consistent in terms of month-to-month reporting detail (headline May 2015 detail no longer is consistent nor comparable with data from April 2015 or earlier). Comparable with headline June and May reporting, April's current headline jobs gain was understated by 17,000, March's headline jobs gain was overstated by 17,000, as discussed in the earlier section *Inconsistent, Non-Comparable and Deliberately-Misstated Monthly Changes*.

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.

June 2015 Add-Factor Bias. The not-seasonally-adjusted June 2015 bias was a positive monthly add-factor of 109,000, down from the positive monthly add-factor of 213,000 in May 2015, and versus a positive monthly add-factor of 129,000 in June 2014. The BLS has begun quarterly revisions to the biases, and the early cut still seems to indicate something of a slowing pace of upside biases, versus prior reporting, coincident with what still appears otherwise to be a broad slowing in economic activity. Such a shift would mean that first-quarter 2015 jobs growth likely was overstated as seen internally in official calculations.

The revamped, aggregate upside bias for the trailing twelve months through June 2015 was 836,000, versus 856,000 in of May 2015, and versus the pre-benchmarked level of 731,000 in December 2014. That was a rough-monthly average of 70,000 in June (versus 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 70,000 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. Discussed in the earlier *Headline Distortions from Shifting Concurrent Seasonal Factors* section, seasonally-adjusted data from the monthly Household Survey simply are not comparable on a month-to-month basis. In this form, headline monthly changes in the unemployment-related numbers are virtually meaningless, good only for the market- or political-hype of the moment. The seasonal-adjustment process here restates the history of each series, each month, as unique adjustment factors determine the current month's headline detail. Yet, when the BLS publishes the headline numbers, it does not publish the comparable revised history. Only the BLS, not the public, knows the actual, comparable monthly change in the seasonally-adjusted U.3-unemployment rate.

Separately, 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.

Headline Unemployment Rates. Headline June 2015 unemployment (U.3) declined by 0.23-percentage point to 5.28%, from 5.51% in May. Technically, the headline June decline in U.3 was borderline statistically-significant, 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. June's unadjusted U.3 unemployment rate rose to 5.46%, versus 5.31% in May.

The headline downturn in the U.3 rate reflected the number of unemployed individuals declining by 375,000 (-375,000), but instead of finding jobs, they disappeared from the headline labor force. Where headline employment declined by 56,000 (-56,000), much of the lost labor force likely was in reclassification of unemployed from U.3 to U.6 as new discouraged workers, with a portion of the U.6 discouraged workers also being defined out of the government's short-term discouraged worker status.

Indeed, new discouraged and otherwise marginally-attached 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 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, a decline in the adjusted number of people working part-time for economic reasons and an increase in unadjusted discouraged workers and the balance of those marginally attached to the workforce, headline June 2015 U.6 unemployment eased to 10.52% from 10.79% in May. The unadjusted U.6 was 10.82% in June, up from 10.40% in May.

"Short-Term" Discouraged Workers. The count of short-term discouraged workers in June 2015 (never seasonally-adjusted) increased to 653,000 from 563,000 May, versus 756,000 in April, and 738,000 in March. The latest, official discouraged-worker number reflected the flow of the unemployed—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 is 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 and marginally-attached workers were included in U.6.

SHADOWSTATS-ALTERNATE UNEMPLOYMENT RATE MEASURE. In 1994, the BLS overhauled its system for estimating unemployment, including changing survey questions and unemployment definitions. In the new system, measurement of the previously-defined discouraged workers disappeared.

These were individuals who had given up looking for work, because there was no work to be had. These people, who considered themselves unemployed, had been counted in the old survey, irrespective of how long they had not been looking for work.

The new survey questions and definitions had the effect of minimizing the impact on unemployment reporting for those workers about to be displaced by the just-implemented North American Free Trade Agreement (NAFTA). At the time, I had close ties with an old-line consumer polling company, whose substantial economic monthly surveys were compared closely with census-survey details. The new surveying changed the numbers, and what had been the discouraged-worker category soon became undercounted or effectively eliminated. Change or reword a survey question and you can affect the results meaningfully.

The post-1994 survey techniques also fell far shy of adequately measuring the long-term displacement of workers tied to the economic collapse into 2008 and 2009, and from the lack of subsequent economic recovery. The BLS has a category for those not in the labor force who currently want a job. Net of the "marginally attached workers," which includes the currently-defined discouraged-worker category used in the U.6, those not in the labor force currently wanting a job totaled 4.647 million in June. While some may contend that number includes all those otherwise-uncounted discouraged workers, that number is far shy of underlying reality.

The ShadowStats number is my estimate. The approximation of the ShadowStats "long-term discouraged worker" category—those otherwise largely defined out of statistical existence in 1994—reflects proprietary modeling based on a variety of private and public surveying over the last two decades. Beyond using the BLS U.6 estimate as an underlying monthly base, I have not found a way of accounting fully for the current unemployment circumstance and common experience using just the monthly headline data from the BLS.

Some broad systemic labor measures from the BLS, though, are consistent in pattern with the ShadowStats measure, even allowing for shifts tied to an aging population. Shown in the *Opening Comments*, the graph of the inverted ShadowStats unemployment measure has a strong correlation with the employment-to-population ratio, in conjunction with the labor-force participation rate. Those series all are plotted subsequent to the 1994 overhaul of unemployment surveying.

Headline June Detail. 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 indicated by the June 2015 ShadowStats-Alternate Unemployment Measure held at 23.1%, the same level as in May. That was down from the 23.3% series high in 2013 (back to 1994).

As seen in the usual graph of the various unemployment measures (*Opening Comments*), there continues to be a noticeable divergence in the ShadowStats series versus U.6 and U.3, with the headline BLS headline unemployment measures heading lower against a currently-stagnant, high-level ShadowStats number.

The reason for this is that U.6, again, only includes discouraged and marginally-attached 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" or otherwise marginally attached, 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 (the 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 they began moving increasingly 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.

Great Depression Comparisons. As discussed in these 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 meaningful 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 might be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

CONSTRUCTION SPENDING (May 2015)

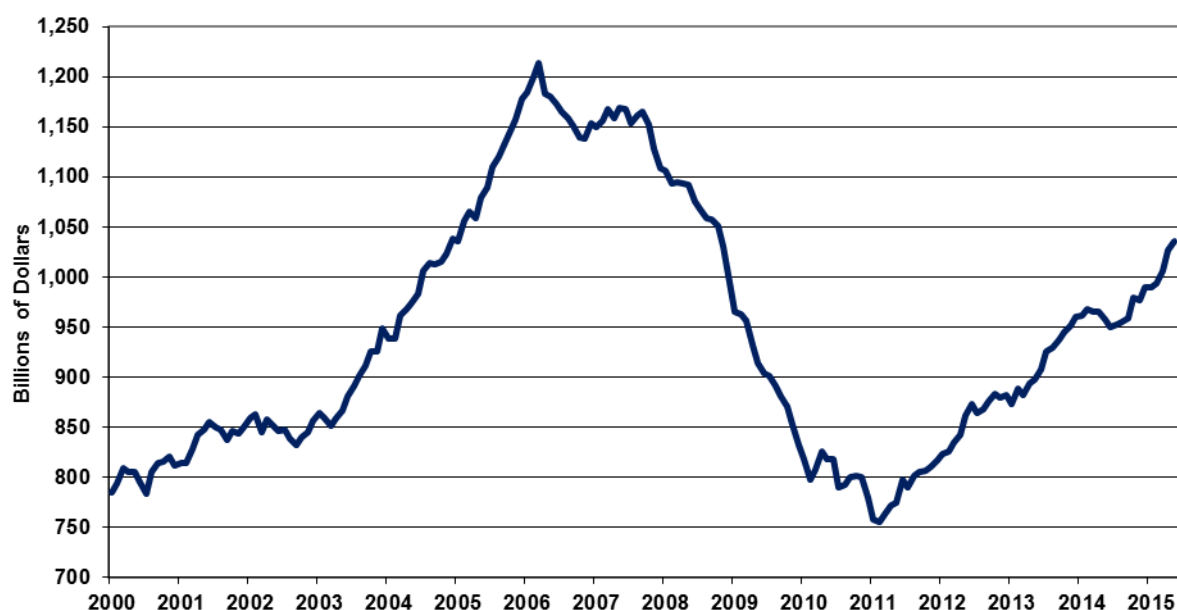
May Construction Spending Gain of 0.8% Was Statistically-Insignificant. The monthly construction-spending data usually are volatile and heavily revised, and such certainly was the case with the headline May 2015 release, which was in the context of annual revisions back to 2013. Discussed and graphed in the *Opening Comments*, the aggregate revisions were not particularly large, although to the upside on average, coming into 2015. In the private-spending sector, residential construction revised lower for much of 2014, but that was more than offset by upside revisions to nonresidential construction.

Reflecting all revisions, and based on reporting for just April and May, second-quarter 2015 real construction spending (deflated by PPI construction inflation) was on track for an annualized quarterly gain of 13.8%, versus a 4.3% gain in first-quarter 2015. Private-residential construction, however, was on track for no change, 0.0%, for the second quarter, both before and after inflation adjustment, having gained at an annualized pace of 10.6% in first-quarter 2015, net of inflation.

Graphs of both nominal and real construction activity are shown in the regular construction spending comments in the *Opening Comments* section, for the aggregate series as well as private residential- and nonresidential-construction and public construction spending. Seen after adjustment for inflation, the aggregate series remained not far above the recent low of a down-trending pattern of stagnation, with the real series holding at 31.0% (-31.0%) below [was down by 32.9% (-32.9%) in pre-benchmark April 2015 from] its pre-recession peak of March 2006. The general pattern of real activity remains one of low-level, albeit up-trending stagnation.

The second graph following shows the real detail, with the nominal detail shown in the first graph.

Total Construction Spending, Monthly to May 2015 (Revised)
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



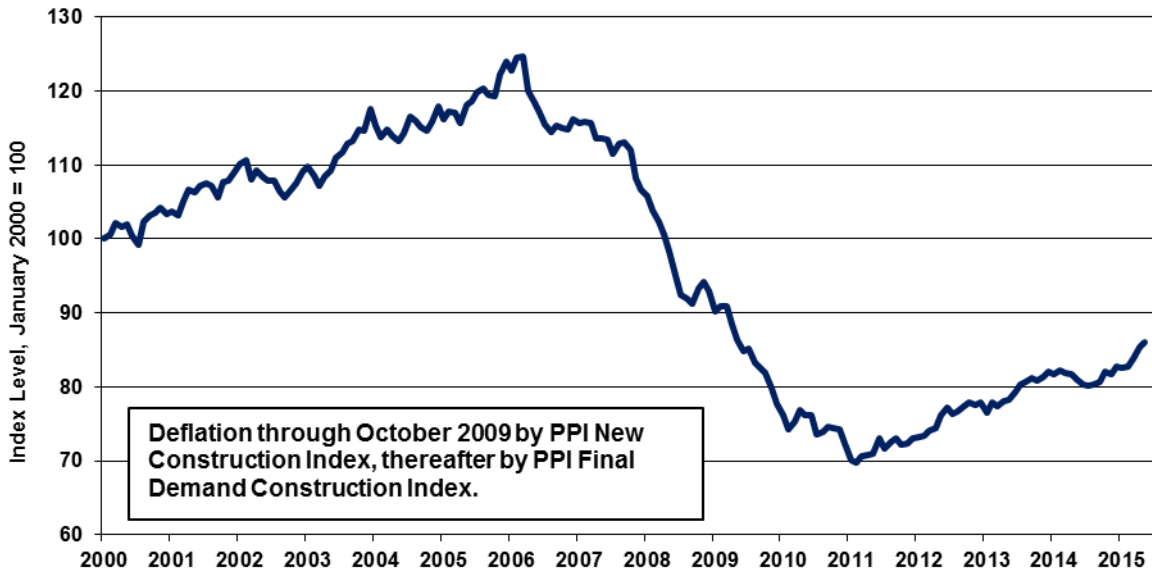
PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary series graphed in the *Opening Comments*.

The previously-used New Construction Index (NCI) was so far shy of reflecting construction costs as to be virtually useless. Although closely designed to match this construction-spending series, the FDCI and subsidiary numbers have two problems. First, the historical data only go back to November 2009. Second, they still understate actual construction inflation. There is no perfect, publicly-available inflation measure for deflating construction. For the historical series in the accompanying graphs, the numbers are deflated by the NCI through November 2009, and by the FDCI and subsidiaries thereafter.

For May 2015, the seasonally-adjusted FDCI month-to-month inflation was a positive 0.09%, for the fourth consecutive month. In terms of year-to-year inflation, the May 2015 FDCI rose to 1.81% from

1.72% in April 2015, and versus 2.00% in both March and February 2015. Where the subsidiary series tend to track the aggregate inflation detail over time, May headline publicly-funded construction inflation gained 0.18% for the month, 1.81% year-to-year, with privately-funded construction inflation unchanged for the month, up by 1.73% year-to-year.

**Real Index of Value of Construction Put in Place (Revised)
To May 2015, Inflation-Adjusted (Jan 2000=100)
Deflated by the PPI Final Demand Construction Index
[Sources: ShadowStats, Census Bureau, BLS]**



Headline Reporting for May 2015. In the context of accompanying benchmark revisions to the series (see the *Opening Comments*), the Census Bureau reported July 1st that the headline, total value of construction put in place in the United States for May 2015 was \$1,035.8 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up month-to-month by a statistically-insignificant 0.8% +/- 1.8% (all confidence intervals are at the 95% level), versus the benchmark-revised level of \$1,027.0 billion in April. In turn, April spending was up by a benchmark-revised 2.1% (previously up by 2.2%) from the benchmark-revised level of \$1,006.4 billion in March.

Adjusted for FDCI inflation, aggregate real spending in May 2015 rose by 0.8%, following a revised April 2015 gain of 2.0%.

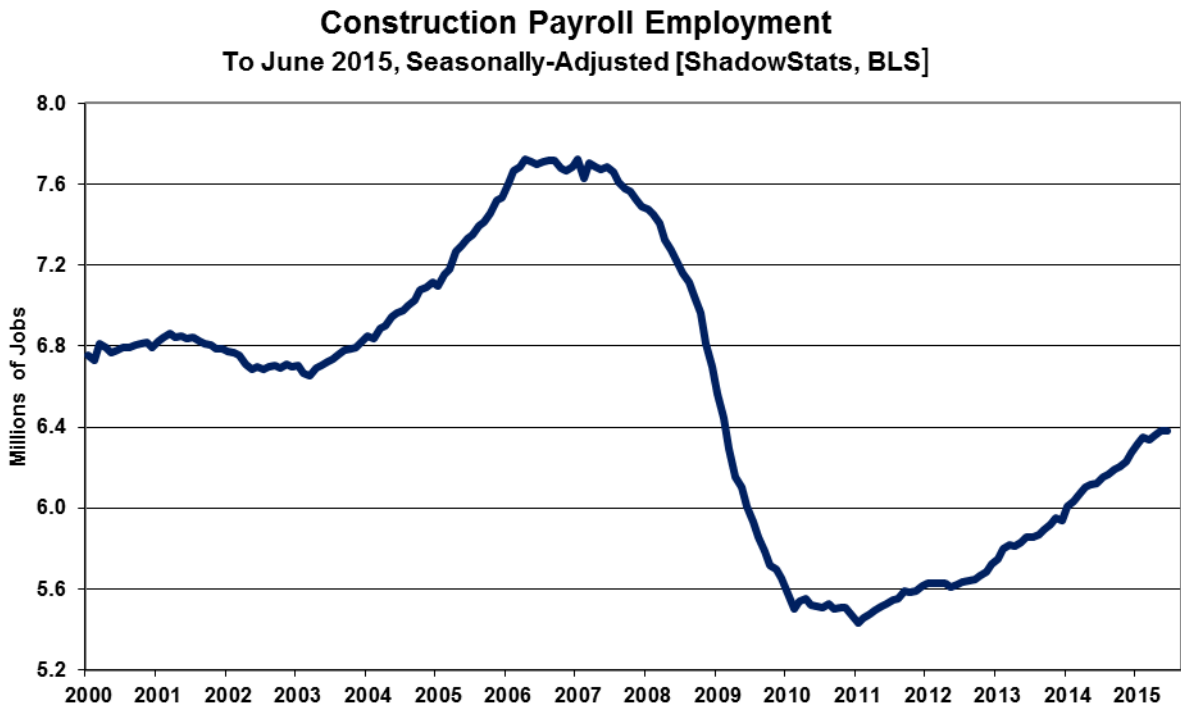
On a year-to-year or annual-growth basis, May 2015 nominal construction spending rose by a statistically-significant 8.2% +/- 2.3%, versus a benchmark-revised annual gain of 6.2% (previously up by 4.8%) in April 2015.

Net of construction costs indicated by the FDCI, year-to-year change in spending was at 6.2% in May 2015, versus a revised 4.7% in April 2015.

The statistically-insignificant, headline monthly increase of 0.8% in nominal May 2015 aggregate construction spending, versus the 2.1% gain April 2015 spending, included a monthly increase of 0.7% in May public spending, versus a 1.7% gain in April spending. Private spending increased by 0.9% in May, following a monthly gain of 2.2% in April. Within total private construction spending, the residential sector rose by 0.3% in May, versus a 0.3% gain in April, while the nonresidential sector rose by 1.5% in May, versus a gain of 4.0% in April. The graphs that follow show the latest and benchmark-revised extended detail.

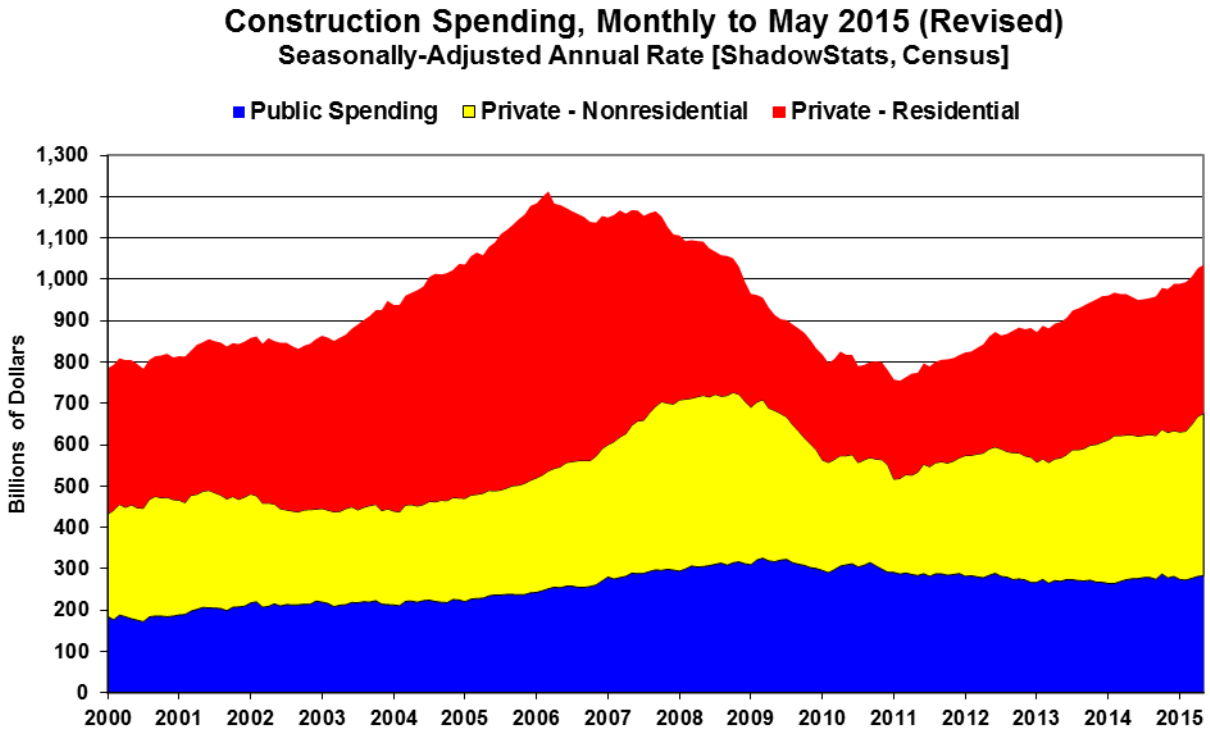
Construction and Related Graphs. The earlier two graphs reflected total construction spending through May 2015, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0. Adjusted for the PPI's NCI measure through October 2009 and the PPI's Final Demand Construction Index thereafter, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014 and in a low-level uptrend into 2015.

Despite the recent uptrend, the pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see [Commentary No. 731](#) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#)). To the contrary, the latest construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, shows a pattern of low-level, variable stagnation, where activity never recovered pre-recession highs.



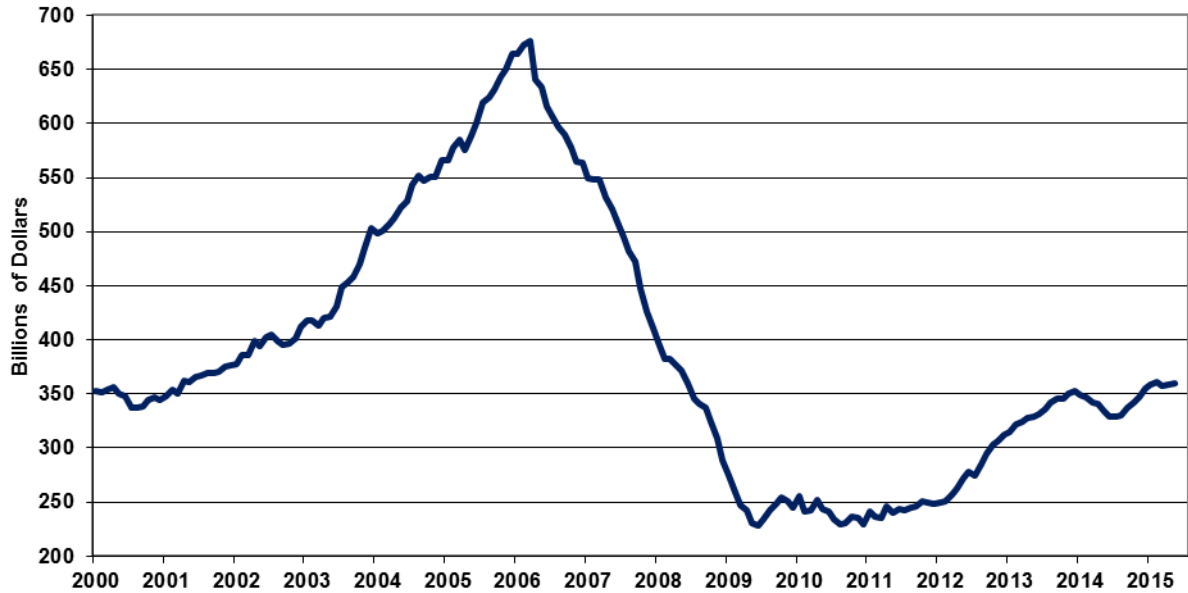
The preceding graph shows June 2015 construction employment, as discussed in the June 2015 payroll-employment section covered earlier in this *Reporting Detail* section. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity. Today's downside revisions to the headline jobs detail and the otherwise-flattening pattern of construction jobs growth ran counter to the headline detail and revisions in the May construction-spending reporting.

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

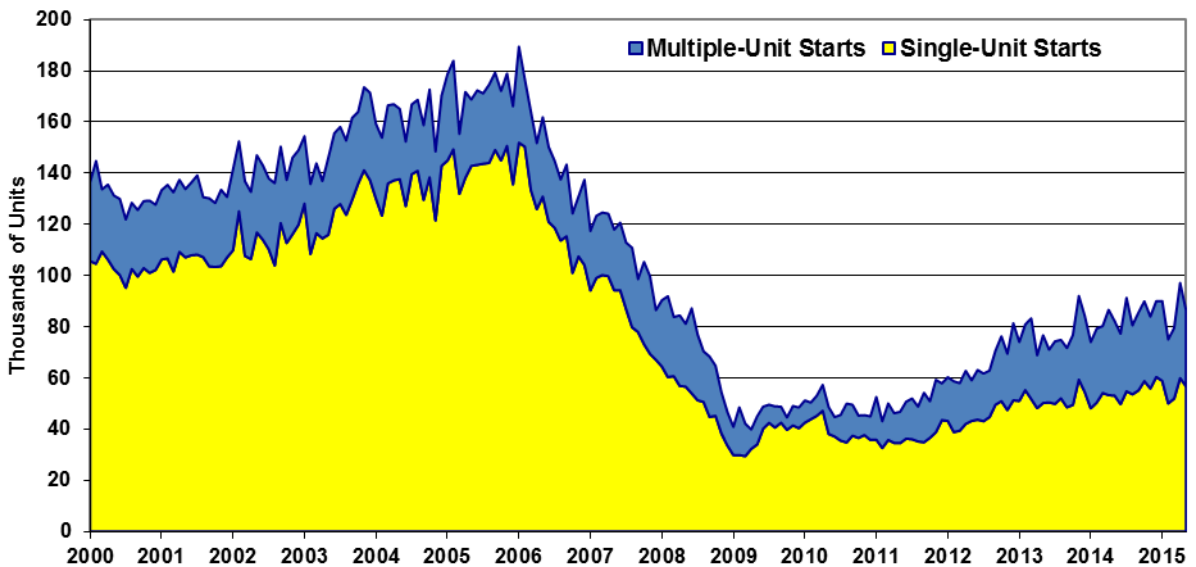


The next two graphs cover private residential construction along with housing starts (combined single- and multiple-unit starts) for May 2015 (see [Commentary No. 728](#)). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, while housing starts reflect unit volume, which should tend to be more parallel with the real (inflation-adjusted) series shown in the *Opening Comments* section. In the context of the benchmark revision and the headline May detail, second-quarter 2015 growth for private-residential construction spending is on track for no change, quarter-to-quarter, both before and after inflation adjustment, having revised to the plus-side in first-quarter 2015.

Private Residential Construction to May 2015 (Revised)
 Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Single- and Multiple-Unit Housing Starts (Monthly Rate)
 To May 2015, Seasonally-Adjusted [ShadowStats, Census]



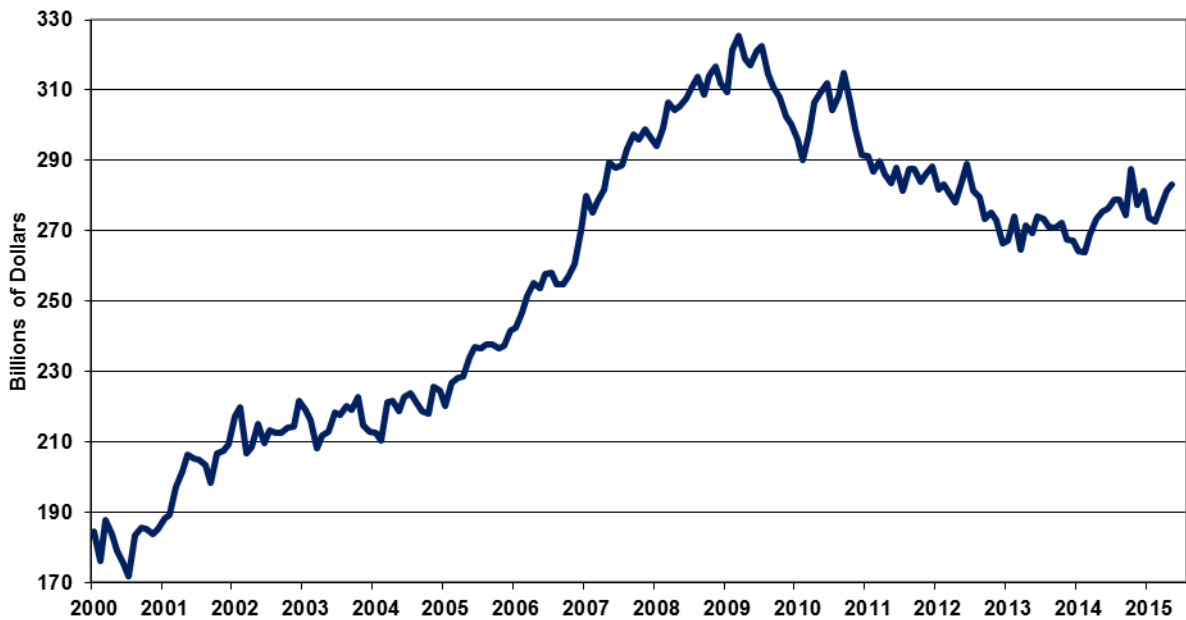
The final set of two graphs, preceding, shows the patterns of the monthly level of activity in private nonresidential-construction spending and in public-construction spending. The spending in private-nonresidential construction remains off its historic peak, but has been moving sharply higher, recently accelerated by the benchmark revision. Public construction spending, which is 98% nonresidential, had

continued in a broad downtrend, with intermittent bouts of fluttering stagnation and then some recent growth that still appears to be topping out.

Nonresidential Construction, Monthly to May 2015 (Revised)
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Public Construction, Monthly to May 2015 (Revised)
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



WEEK AHEAD

Headline Economic Reporting and Revisions Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Rising Oil Prices. In a fluctuating trend to the downside, amidst still-predominantly-negative reporting and surprises in headline numbers, market expectations for business activity nonetheless respond to the latest market hype. The general effect tends to hold the market outlook at overly-optimistic levels. Expectations exceed any potential, underlying economic reality.

GDP excesses from 2014 should face downside adjustments in the July 30, 2015 GDP benchmark, and subsequent to the current headline contraction in first-quarter 2015 GDP, expectations for headline growth in second-quarter 2015 should resume shifting to the downside, increasingly towards (eventually into) negative territory, as headline economic reporting turns lower in the week and weeks ahead.

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely has seen 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, but dropping by 0.2% (-0.2%) in April 2015. A large jump in gasoline prices for May 2015 and a softening of negative seasonal-adjustments for gasoline promise generated a headline monthly increase in May 2015 CPI-U inflation of 0.4%, with annual inflation effectively pulling even with zero. Year-to-year CPI inflation increasingly will be going against negative year-ago numbers in the months ahead, and should move into relative positive territory with headline June 2015 reporting.

Significant upside inflation pressures are building, as oil prices rebound, a process that should 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](#) and in the *Hyperinflation Outlook Summary*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Again, see [Commentary No. 722](#) as to recent market and political pressures on the Bureau of Economic Analysis (BEA) relative to GDP reporting. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned for the July 30, 2015 benchmarking, would be extraordinary in terms of BEA behavior and are not likely. Still, some gimmicked, less-negative summary numbers already have been planned for publication.

Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of monthly 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, explored in the labor-numbers 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 RELEASE:

U.S. Trade Balance (May 2015). The Commerce Department and Bureau of Economic Analysis (BEA) will release their estimate of the May 2015 trade deficit on Tuesday, July 7th. The detail will signal potential further revision (July 30th GDP benchmarking) to first-quarter 2015 GDP and will do much to set the tone for second-quarter 2015 GDP activity.

On July 30th (coincident with the GDP benchmarking and initial estimate of second-quarter GDP growth) the first "advance" monthly estimate for the trade series will be released for June 2015 and incorporated into the headline GDP of that date. Previously, initial GDP reporting for a given quarter was based on just two months of trade-deficit reporting.

Early-consensus expectations are for a widening in the nominal (not-inflation-adjusted) headline May deficit. MarketWatch shows a consensus for a minimal widening of the May trade shortfall to \$42.1 billion, versus the initial deficit estimated for April of \$40.9 billion.

Instead, significant, catch-up deterioration in the headline May monthly deficit is likely, in both nominal and real (inflation-adjusted) terms. If that happens, it would generate a negative signal for real growth in second-quarter 2015 GDP, and it correspondingly would weaken currently-positive consensus expectations for second-quarter GDP growth. The broad trend going forward should be for regular monthly and quarterly deteriorations in the real trade deficit.