

COMMENTARY NUMBER 749
August Employment and Unemployment

September 4, 2015

**However the FOMC Sets Its Policy,
It Cannot Be Serious About Relying on Generally Worthless Labor Data**
**Month-to-Month Unemployment Comparisons Remained Meaningless,
While Some 41,000 Unemployed Were Defined out of Headline Existence**

**Likely Downside Payroll-Employment Benchmark Revision
Announcement Looms for September 17th**

**Full-Time Employment Level Finally Hit Its Pre-Recession High,
At Least Temporarily, 16 Months After Payrolls, 4 Years After the GDP**

**Continued Flat Construction Employment
Did Not Support Unstable, Headline Construction Gains**

August 2015 Unemployment: 5.1% (U.3), 10.3% (U.6), 22.9% (ShadowStats)

**Annual Growth in M3 Money Supply Hit Six-Year High of 6.1%;
Monetary Base Is at a 5-Month High**

PLEASE NOTE: The next regular Commentary, Thursday, September 10th, will address broad issues related to the economy and financial circumstances.

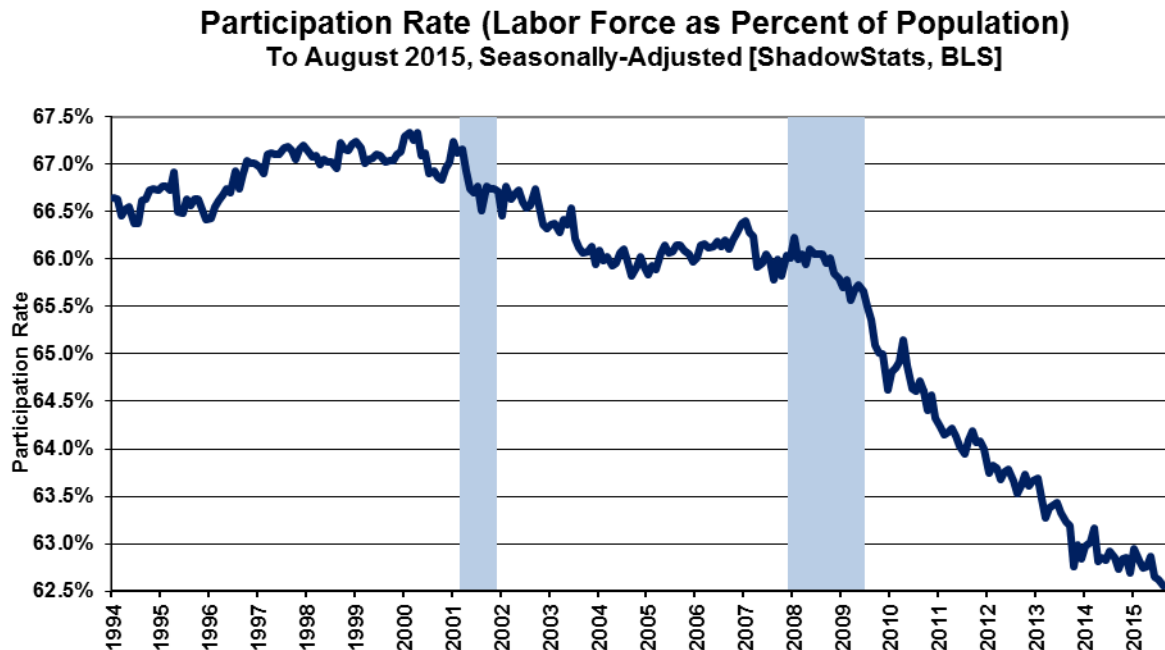
Best wishes to all for a most enjoyable Labor Day Weekend! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Fed Interest Rate Action. If the Federal Reserve is going to wait for a solid signal of healthy, domestic economic activity, before raising interest rates, nothing is going to happen for a long time. The headline employment and unemployment data for August were worthless, as usual, and there are those at the U.S. central bank who know that. At one time, Fed Chair Janet Yellen mentioned a needed improvement in labor-market health as a precondition to raising interest rates, but such conditions continue under debate, and the headline labor data for August 2015 did not provide the desired clarity of an unfolding economic recovery. It is interesting how issues remain of ongoing economic strength, in debate by the Fed and others, while headline GDP reporting has been booming in recovery for the last six years. Could there be a doubt somewhere as to the legitimacy or significance of the government's reporting of broad economic activity? Might there be lingering doubts as to the health and stability of the domestic banking system?

Chair Yellen has indicated that she views the participation rate (labor force as a percent of population) as a meaningful indicator of the health of the labor market, and it is such a measure. Shown in *Graph 1*, the August 2015 participation rate notched minimally lower to a new historic low. Such means, in theory, that the Fed still is not about to tighten monetary conditions, despite other occasionally "happy" headline economic data, if the Fed Chair still is to be believed.

Graph 1: Participation Rate



Where the Fed well may wish to hike interest rates, it can do so at any time; the financial markets already largely have discounted such a move at mid-month. It just will be very difficult for the Federal Open

Market Committee (FOMC) to find a legitimate, broad economic indicator on which the rate hike can be piggybacked.

Similar issues were faced by the FOMC earlier this year, as noted in [Commentary No. 729](#) of June 18th. Conditions remain suggestive of an economic-and-monetary system at the outer boundaries of, or beyond, effective control of the U.S. central bank and the federal government, as discussed in [No. 742 Special Commentary: A World Increasingly Out of Balance](#),

Today's Commentary (September 4th)—New Data Availability. ShadowStats is pleased to offer subscribers a breakout of the industry components of the headline August payroll data, along with various drill-down and graphics options, including a new "heat map" by industry and rate of change. All the detail is available directly, here: [August 2015 Payroll Detail](#), provided courtesy of our affiliate [www.ExpliStats.com](#).

The balance of today's *Opening Comments* concentrates on the reporting of the August labor data.

The *Hyperinflation Watch* section covers the detail on August Money Supply M3 and related monetary conditions. The *Hyperinflation Outlook Summary* will return in next week's *Commentary No. 750*, a missive that will take a broad look at economic and financial-market and financial-system circumstances.

With limited economic releases in the Labor Day week ahead, the *Week Ahead* section reviews the outlook for the August Producer Price Index (PPI).

Employment and Unemployment—August 2015—Mixed Headline Data Simply Were Meaningless. Underlying domestic labor-market reality is in the realm of a 22.9% broad unemployment rate, with headline payroll employment declining month-to-month. Separately, the headline payroll employment series appears headed for downside annual benchmark revision. These areas will be reviewed more completely in the main text.

Reality aside, the headline (U.3) unemployment rate dropped from 5.26% in July to 5.11% in August, reflecting a net headline shift of 196,000 unemployed individuals to employed status, along with another 41,000 unemployed being defined out headline existence by restrictive Bureau of Labor Statistics (BLS) "unemployment" definitions, along with a resulting decline of 41,000 (-41,000) in the labor force.

Yet, those headline employment and unemployment shifts were without any meaning or significance, because the August and July details were neither consistent nor comparable. On a consistent reporting basis, the headline monthly unemployment rate could have declined in August, but it just as easily could have been flat, or it could have increased. Only the BLS knows for sure, but the Bureau simply will not publish consistent data, because—as they have explained—they do not want to confuse their data users. Such a concept must be very comforting to the FOMC.

Reviewed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors* section, the BLS recalculates seasonal factors with each new headline month, changing all prior history, including the prior month's estimates. Yet, the BLS does not publish the prior revisions, leaving actual month-to-month

changes in headline data, such as the unemployment rate, unknowable from a public perspective and otherwise completely without meaning.

Separately, headline payroll growth slowed to 173,000 in August, from an upwardly revised 245,000 jobs gain in July, but again, the headline numbers remained subject to the usual reporting biases and distortions, with August payrolls non-comparable to reporting in June and before.

Specifically, the headline Payroll Survey numbers were distorted by unreported inconsistencies in the historical data, again as generated by BLS reporting policies with its concurrent seasonal-factor adjustments. Separately, the jobs gains also were inflated meaningfully by monthly add-factors in the Birth-Death Model (BDM). With the aggregate monthly upside biases well in excess of 200,000 jobs, actual August 2015 payrolls most likely fell month-to-month (see *Birth-Death Model*).

Headline Payrolls—Weakening Jobs Growth. In the context of upside revisions to the headline levels of June and July payrolls, the seasonally-adjusted, headline payroll-employment gain for August 2015 was 173,000 jobs. Net of prior-period revisions, the gain in August payroll employment was 217,000 jobs.

The headline 173,000 increase in August payrolls followed a revised gain of 245,000 in July, and a revised increase of 245,000 jobs in June. The 245,000 jobs pick-up in June, however, really was 234,000, on a consistent-reporting basis. Although the headline detail prior to July deliberately is misreported by the BLS, unlike the household survey reporting, the earlier actual numbers can be calculated using material available from the BLS, and the differences can run up to 100,000 jobs per month.

See updated graphs in the *Reporting Detail* section related to payroll employment levels versus full-time employment, where full-time employment just hit its pre-recession high.

Annual Percent Change in Headline Payrolls—Slower 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 August 2015 was 2.08%, versus a revised 2.18% in July 2015 and an unrevised 2.11% in June.

Pending Announcement of 2015 Benchmark Payroll Employment Revision. The BLS will announce its preliminary estimate for the 2015 payroll-employment benchmark revision, on September 17, 2015. Based on more-frequent quarterly "benchmarkings" and related downside adjustments to recent add-factors, an announcement for general downside benchmarking is likely (see the *Birth-death Model* section).

Counting All Discouraged Workers, August 2015 Unemployment Was About 22.9%. Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, simply is

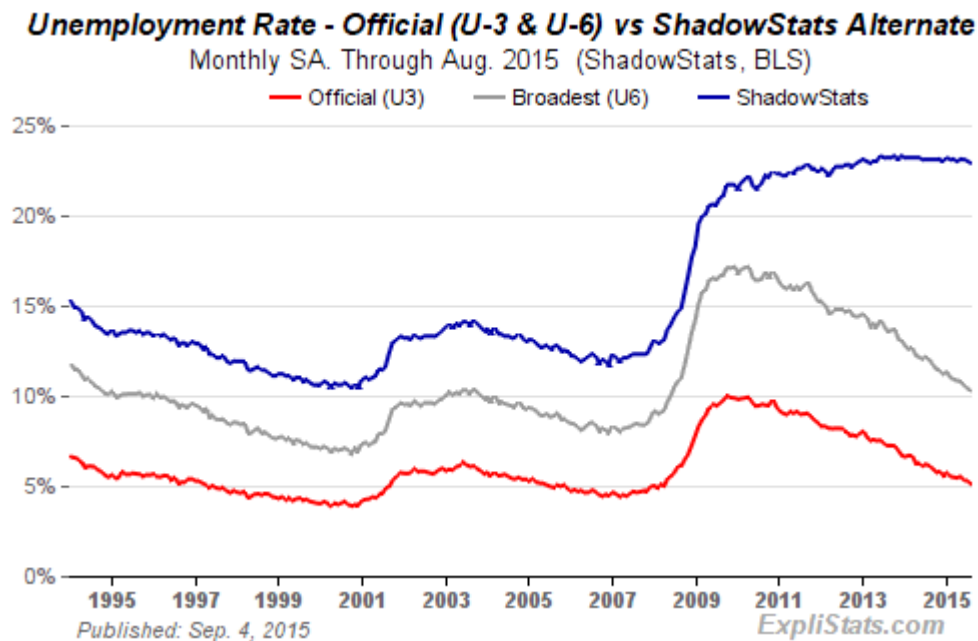
definitional. To be counted among the headline unemployed (U.3), an individual has to have looked for work actively within the four weeks prior to the unemployment survey. If the active search for work was in the last year, but not in the last four weeks, the individual is considered a "discouraged worker" 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 defined and counted by ShadowStats (see the extended comments in 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 5.1% has been due largely to unemployed giving up looking for work—being redefined out of headline reporting and the labor force, as discouraged workers—not so much from 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 (those marginally attached to the labor force). 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.

Graph 2: Comparative Unemployment Rates U.3, U.6 and ShadowStats



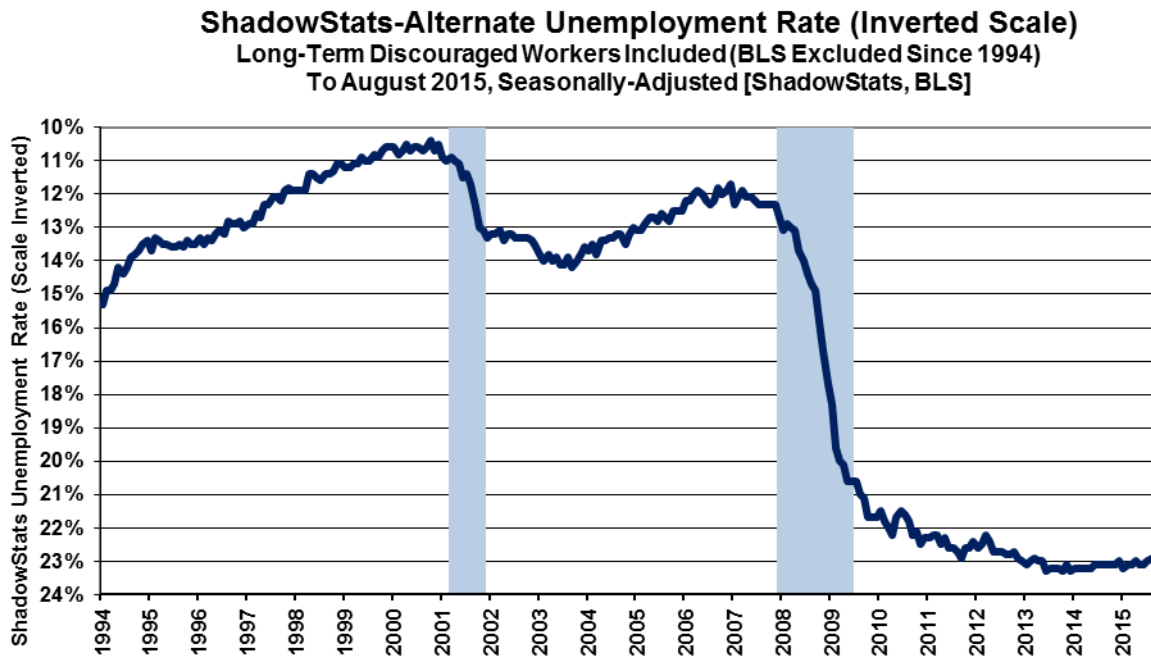
Again, when the headline unemployed become "discouraged," they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. The resulting difference here is between headline-August 2015 unemployment rates of 5.1% (U.3) and 22.9% (ShadowStats).

Graph 2 reflects headline August 2015 U.3 unemployment at 5.11%, versus 5.26% in July; headline August U.6 unemployment at 10.27%, versus 10.39% in July; and the headline August ShadowStats unemployment estimate at 22.9%, versus 23.0% in July. 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.

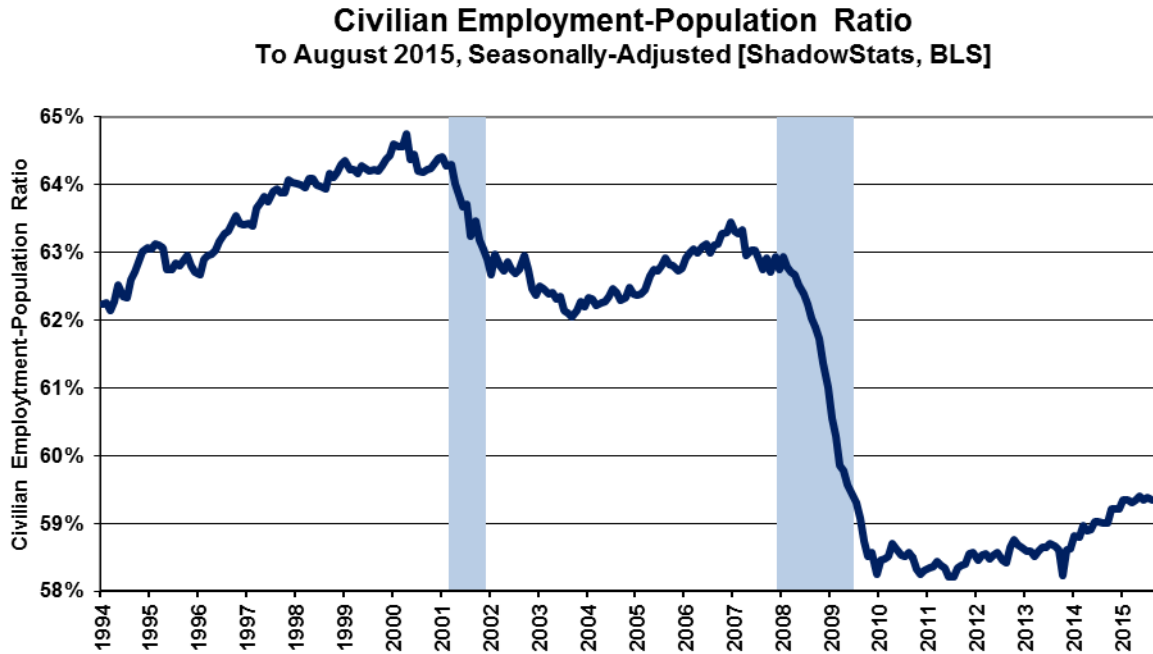
The next two graphs reflect longer-term unemployment and discouraged-worker conditions. *Graph 3* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic statistics, where a lower number means a weaker economy.

The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, shown in *Graph 4*. 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.

Graph 3: Inverted-Scale ShadowStats Alternate Unemployment Measure

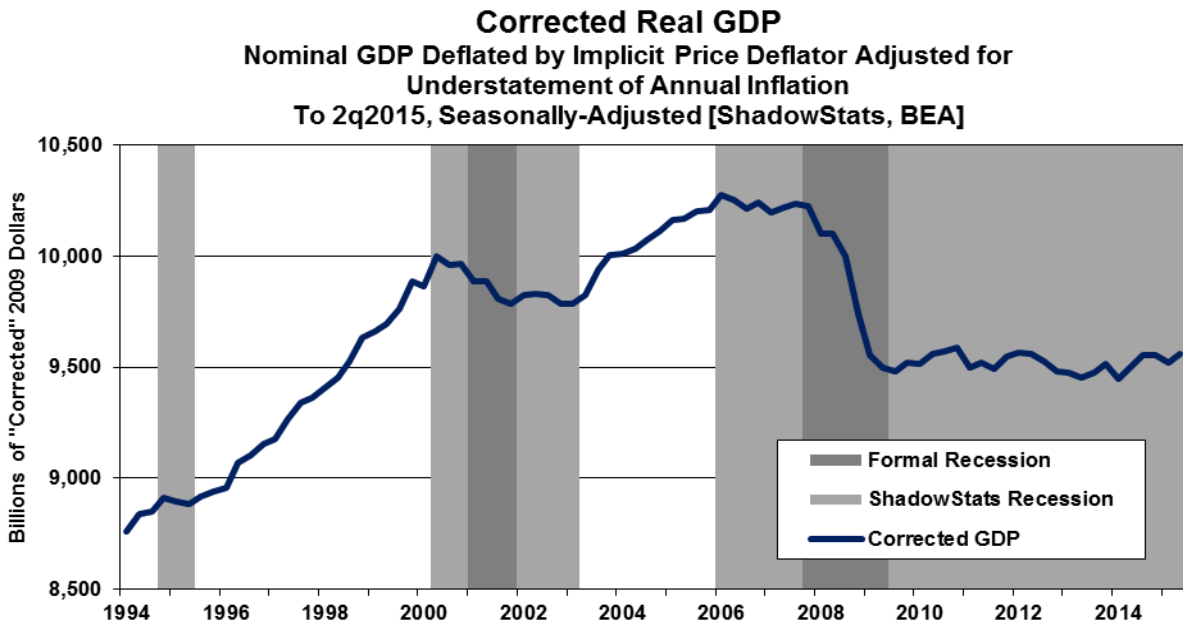


Graph 4: Civilian Employment-Population Ratio



Shown previously in *Graph 1*, the labor force used in the participation rate calculation is the headline employment plus U.3 unemployment. As with the *Graph 4* of employment-to-population, its holding at a post-1994 low in 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.

Graph 5: Corrected Real GDP



Graphs 1, 3 and 4 reflect detail back to the 1994 redefinitions of the Household Survey. Before 1994, data consistent with June's reporting simply are not available, irrespective of protestations to the contrary by the BLS. As an aside, consider *Graph 5*, which shows the ShadowStats version of the GDP, also from 1994 to date, where the GDP is corrected for the understatement of inflation used in deflating that series (a detailed description and related links are found in [Commentary No. 747](#)). The general patterns of activity seen in *Graphs 3 and 4* generally are mirrored in *Graph 6* and the "corrected" GDP.

Headline Unemployment Rates. *Headline Unemployment Rates.* The headline August 2015 unemployment rate (U.3) declined by 0.15-percentage point to 5.11%, from 5.26% in July. The headline 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 (again, see *Headline Distortions from Shifting Concurrent Seasonal Factors*). Those issues are separate from recent official questions raised as to falsification of Current Population Survey results, from which the unemployment detail is derived.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. August's unadjusted U.3 unemployment rate eased to 5.19% from 5.55% (rounds to 5.6%) in July.

The decline in the seasonally-adjusted, headline August U.3 unemployment rate reflected a decline of 237,000 (-237,000) unemployed individuals, but an offsetting gain of only 196,000 employed individuals. With net of 41,000 unemployed being defined out of existence by BLS definitions, the labor force declined by 41,000 (-41,000).

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 Estimate, 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, an increase in the adjusted number of people working part-time for economic reasons and a less-than-offsetting decline in unadjusted discouraged workers and the balance of those marginally attached to the workforce, headline August 2015 U.6 unemployment eased to 10.27%, from 10.39% in July 2015. The unadjusted U.6 was at 10.26% in August, versus 10.75% (rounds to 10.7%) in July.

ShadowStats Alternate Unemployment Estimate. Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—a broad unemployment measure more in line with common experience—the August 2015 ShadowStats-Alternate Unemployment Estimate, eased to 29.9%, versus 23.0% in July. The August reading 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.

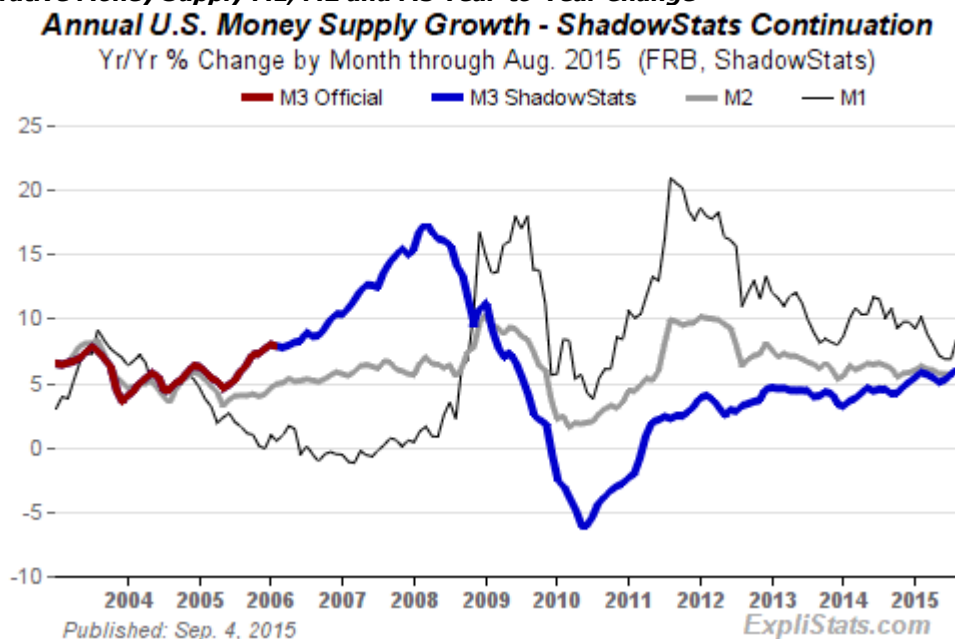
[The Reporting Detail section includes expanded detail on August Labor conditions. Also, significant new drill-down and graphics options (including a new "heat map" of payroll activity) are available here: [August 2015 Payroll Detail](#), courtesy of our affiliate www.ExpliStats.com.]

HYPERINFLATION WATCH

MONETARY CONDITIONS

Annual Growth in Broad Money Supply Jumped to 6.1% in August, a 74-Month High. Late in 2014, the Federal Reserve ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, but its holdings of Treasury securities have remained stable, near record levels. Despite relative stability in the monetary base during the last year—plus-or-minus 5% around the St. Louis Fed's estimated 12-month average of \$4.0 trillion—annual growth in August 2015 money supply M3 rose to 6.1%, from an unrevised 5.6% in July 2015, and a six-month low of 5.0% in May 2015. The rising annual growth rate in August 2015 was the highest since June 2009—the end of the formal 2007 recession—a 74-month high.

Graph 6: Comparative Money Supply M1, M2 and M3 Year-to-Year Change



Money Supply M3 Annual Growth Tentatively Rose to 6.1% in August 2015, versus 5.6% in July.

Year-to-year growth in August 2015 M3 (ShadowStats-Ongoing Measure) rose to 6.1%, versus an unrevised 5.6% in July, an unrevised 5.2% annual gain in June 2015 and a near-term trough of 5.0% in May 2015. The rebounding pace of money-supply growth hit a six-year high, the strongest showing since slowing annual growth in 2009 dropped to 6.5% in June of that year. Any revisions seen in the accompanying data are due to frequent, regular and irregular benchmark revisions by the Federal Reserve to the underlying monthly detail.

In 2015, the pattern of annual growth in M3 has closed in on that of M2, reflecting some relative shifting of funds in M1 and M2 into the larger M3 categories (ex-M2), such as institutional money funds and large time deposits.

After the series hit an interim near-term peak of 4.6% in each of the months of January, February and March 2013—the onset of expanded QE3—monthly year-to-year growth in M3 began to slow. Growth hit a near-term trough of 3.2% in January 2014, but that period of slowing growth had reversed fully as of May 2014, with annual growth recovering to 4.6%. Annual growth pulled back to 4.4% in June 2014, but rose again to 4.5% in July, easing back to 4.2% in September and October. Growth then jumped to 4.7% and 5.1%, respectively, in November and December 2014, rising to 5.4% in January 2015, and then hitting a five-year high of 5.8% in February. Again, annual growth had been falling off, since February, hitting 5.0% in May, but with a sharp upside bounce to 5.2% in June, 5.6% in July and now 6.1% in August.

The seasonally-adjusted, early estimate of month-to-month change for August 2015 money supply M3 was roughly a gain of 0.7%, versus an unrevised gain of 0.9% in July 2015. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

Initial estimates for annual growth in M3, M2 and M1 for August 2015 have been updated on the [Alternate Data](#) tab of www.ShadowStats.com.

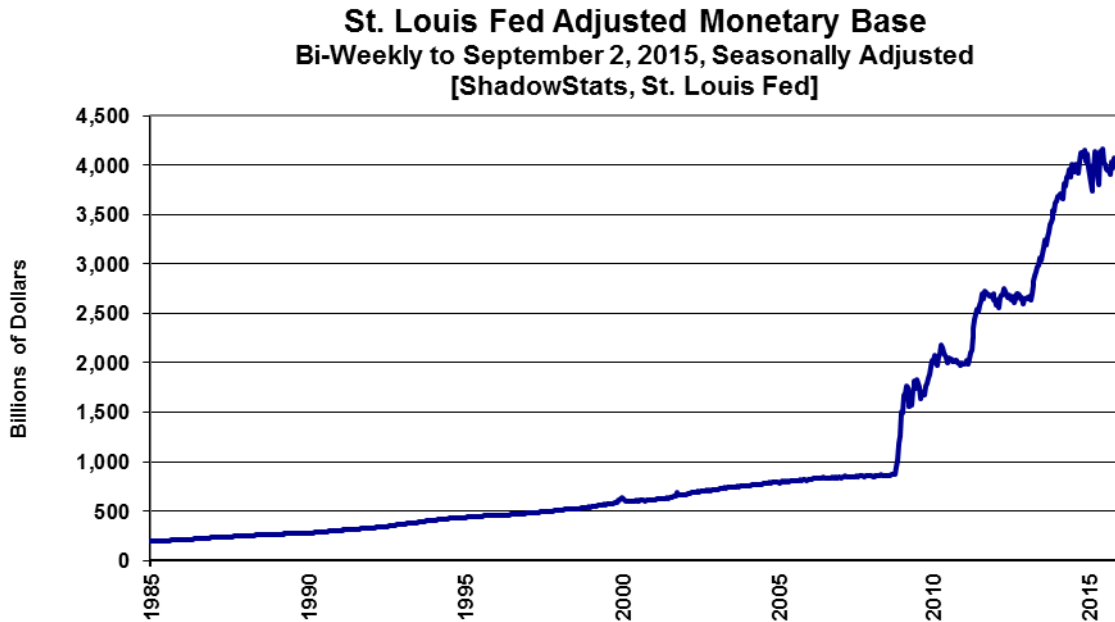
Growth for August M1 and M2. For August 2015, year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1; M3 includes M2). See the [Money Supply Special Report](#) for full definitions of those measures.

Annual M2 growth in August also rose to 6.1%, up from 5.7% in July 2015, with a month-to-month gain of about 0.6% in August 2015, the same as in July versus 0.4% in June. For M1, year-to-year growth jumped to an initial 8.5%, from an upwardly revised 6.9% [previously up by 6.5%] in July, with a month-to-month increase of 0.7% in August 2015, versus a revised 0.9% [previously 0.5%] in July.

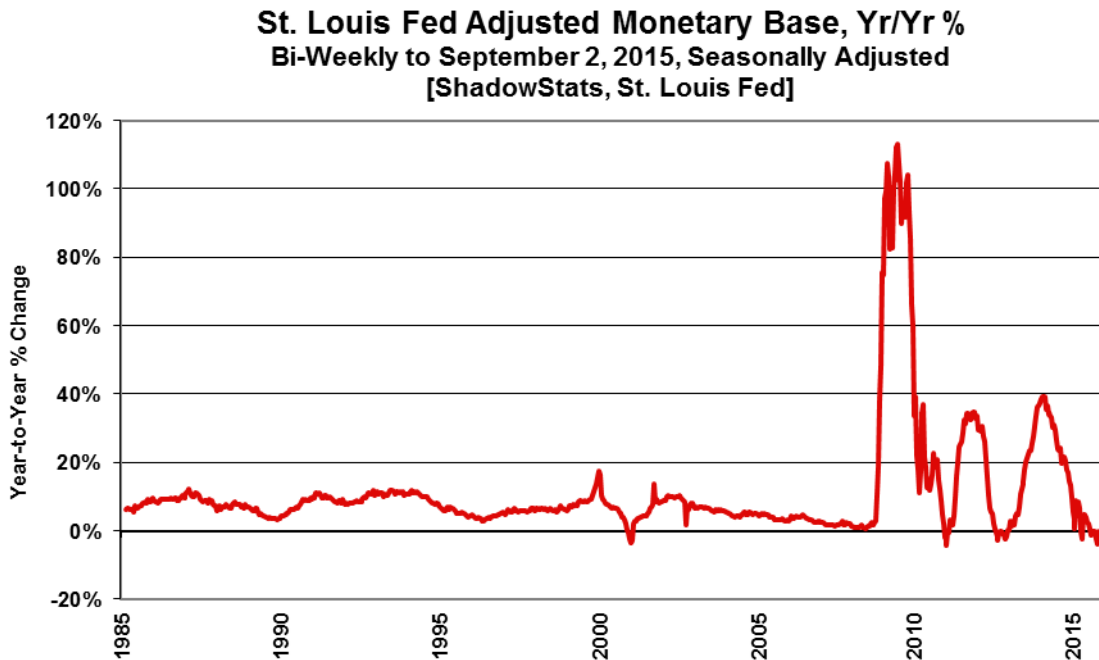
With the Monetary Base Near Its Record High, "Quantitative Easing" Remains Very Much in Play.

Discussed in [No. 742 Special Commentary: A World Increasingly Out of Balance](#) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), the Fed's primary mission is to keep the banking system solvent and afloat, but that was not working, coming into the Panic of 2008. Quantitative easing was introduced in 2008 and went through a number of phases, as reflected in the size of, and growth in, the monetary base shown in the accompanying graphs. Where such monetary-base expansion normally would have translated into extraordinary growth in the money supply, it has not. Only as the Fed pulled back from aggressive asset purchases did M3 begin to show a little, fluctuating upside movement.

Graph 7: Monetary Base Level, through September 2, 2015



Graph 8: Monetary Base, Year-to-Year Percent Change, through September 2, 2015



The extraordinary level of asset purchases by the Fed did not flow through to the broad economy, because banks did not lend into the normal flow of commerce, and there was no resulting significant upside movement in money supply, as a result. Instead, banks turned the funds back to the Fed as excess reserves, earning interest and providing support to the stock market. As part of this process, the Fed

ended up monetizing the bulk of the U.S. Treasury's funding needs during the period of active buying, paying back interest earned on the securities to the Treasury.

With the Fed having ceased purchases of new Treasury securities late in 2014 (maturing issues still are rolled over), the monetary base has continued its recent pattern of volatility at high-levels. Having set a record high level of \$4.167 trillion in the two-week period ended April 15, 2015, the monetary base (Saint Louis Fed measure) has fluctuated around the average twelve-month \$4.0 trillion level of the base, rising to a five-month high of \$4.075 trillion in the latest two-week period ended September 2nd.

The Fed's Treasury asset holdings effectively have continued at or near an all-time high, in the context of ongoing QE3. The expressed desire by some in the Fed to push interest rates higher, to more-normal levels, combined with a failing economy that should provide a practical restraint to such action, is suggestive of an economic-and-monetary system that continues to move beyond effective control of the U.S. central bank and the federal government, as touched upon in the *Opening Comments*.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (August 2015)

Mixed Headline August Labor Detail Was Meaningless. *[Note: This section largely is repeated from the Opening Comments.]* Underlying reality for U.S. labor conditions is in the realm of a 22.9% broad unemployment rate, with headline payroll employment declining month-to-month. Separately, the headline payroll employment series appears headed for downside annual benchmark revision. These areas are reviewed in the main text.

Reality aside, the headline (U.3) unemployment rate dropped from 5.26% in July to 5.11% in August, reflecting a net headline shift of 196,000 unemployed individuals to employed status, along with another 41,000 unemployed being defined out headline existence by restrictive Bureau of Labor Statistics (BLS) "unemployment" definitions, with a resulting decline of 41,000 (-41,000) in the labor force.

Yet, those headline employment and unemployment shifts were without any meaning or significance, because the August and July details were neither consistent nor comparable. On a consistent reporting basis, the headline monthly unemployment rate could have declined in August, but it just as easily could have been flat, or it could have increased. Only the BLS knows for sure, but the Bureau simply will not

publish consistent data, because—as they have explained—they do not want to confuse their data users. Such a concept must be very comforting to the FOMC.

Discussed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors* section, the BLS recalculates seasonal factors with each new headline month, changing all prior history, including the prior month's estimates. Yet, the BLS does not publish the prior revisions, leaving actual month-to-month changes in headline data such as the unemployment rate unknowable, from a public perspective, and otherwise completely without meaning.

From the payroll-employment survey, jobs growth slowed to 173,000 in August, from an upwardly revised 245,000 jobs gain in July, but again, the headline numbers remained subject to the usual reporting biases and distortions, with August payrolls non-comparable to reporting in June and before.

Specifically, the headline Payroll Survey numbers were distorted by unreported inconsistencies in the historical data, again as generated by BLS reporting policies with its concurrent seasonal-factor adjustment modeling. Separately, the jobs gains also were inflated meaningfully by the monthly add-factors in the Birth-Death Model (BDM). With the aggregate monthly upside biases well in excess of 200,000 jobs, actual August 2015 payrolls most likely fell month-to-month (see *Birth-Death Model*).

PAYROLL SURVEY DETAIL. The Bureau of Labor Statistics (BLS) published the headline employment and unemployment data for August 2015, this morning, September 4th. In the context of upside revisions to the headline levels of June and July payrolls, the seasonally-adjusted, headline payroll gain for August 2015 was 173,000 jobs +/- 129,000 (95% confidence interval). Net of prior-period revisions, the gain in August payroll employment was 217,000 jobs.

The headline 173,000 increase in August payrolls followed a revised gain of 245,000 [previously up by 215,000] July, a revised gain of 245,000 [previously up by 231,000, initially up by 223,000] jobs in June. The 245,000 jobs gain in June, however, really was 234,000, on a consistent-reporting basis. Although the headline detail prior to July deliberately is misreported by the BLS, the earlier actual numbers can be calculated using material available from the BLS, and the differences can run up to 100,000 jobs per month.

Inconsistent, Non-Comparable and Deliberately-Misstated Monthly Changes for June 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 *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 173,000 monthly gain in August 2015 payrolls and the revised 245,000 jobs gain in July were inconsistent with, and not comparable to, the revised headline June 2015 gain of 245,000. The gain consistent with the new headline August-based detail was 234,000 for June, some 11,000 less than the official number. Such is just a regular misstatement 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 revisions each month, the actual aggregate November and October levels have changed some, but now consistent with the headline August 2015 reporting and recalculations, the November 2014 versus October 2014 gain was 335,000, down by 88,000 (-88,000) versus the still 423,000 headline number. 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](#).

Extended Payroll Data Detail Available Here. ShadowStats is pleased to subscribers a breakout of the industry components of the headline August payroll data, along with various drill-down and graphics options, and a new "heat map" by industry and rate of change, all are freely available. Click this link [August 2015 Payroll Detail](#) to go directly to the related graphs and detail, provided courtesy of our affiliate www.ExpliStats.com.

"Trend Model" for August 2015 Headline Payroll-Employment Change Takes Headline Growth Below 200,000. Discussed in [Commentary No. 741](#), and as described generally in [Payroll Trends](#), the trend indication from the BLS's concurrent-seasonal-adjustment model—prepared by our affiliate www.ExpliStats.com—was for an August 2015 monthly payroll gain of 198,000, based on the BLS trend model structured into the actual headline reporting of July 2015. The detail here can be calculated independently, using material available from the BLS.

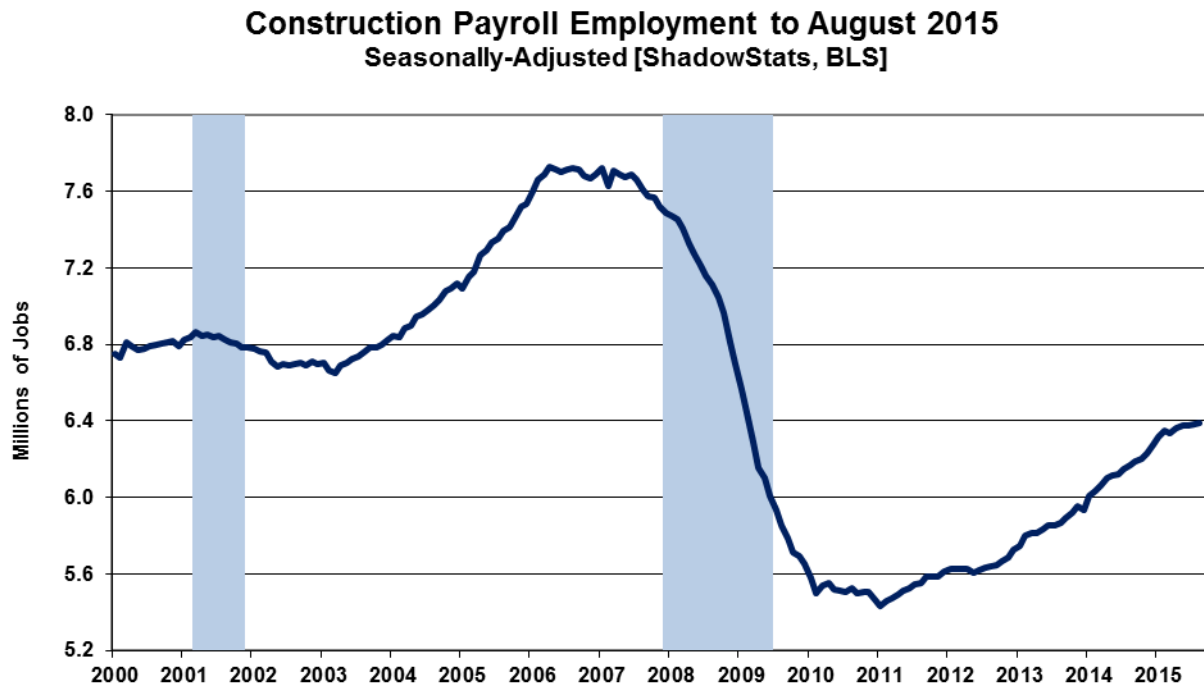
Consensus estimates tend to settle around the trend, but late-consensus expectations for August 2015 ranged from 213,000 (early-consensus at 198,000) [MarketWatch] to 223,000 [Bloomberg]. The 173,000-headline gain was closer to the trend than the consensus estimates.

September 2015 Trend Estimate. Exclusive to ShadowStats subscribers, based on August 2015 reporting, the ExpliStats trend number calculations suggest a BLS-based headline gain of 252,000 for September 2015. September consensus expectations could be expected to settle in around that level.

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.

Pending Announcement of 2015 Payroll Benchmark Revision. The BLS will announce its preliminary estimate for the 2015 payroll-employment benchmark revision, on September 17, 2015. Based on more-frequent quarterly "benchmarkings" and related downside adjustments to recent add-factors, an announcement for general downside benchmarking is likely (see the *Birth-death Model* section).

August Construction-Payroll Growth Reporting Remained Flat, Still Not Supportive of Headline Construction Spending Gains. The following graph of construction-payroll employment updates the one in prior [Commentary No. 748](#), covering July construction spending.

Graph 9: Construction Payroll Employment

In theory, construction payroll levels should move closely with the inflation-adjusted aggregate construction spending series and the housing starts series (the latter measured in units rather than dollars). With negligible, the headline monthly growth basically remained flat, with a gain 1,000 (previously 0) jobs in June, 7,000 (previously 6,000) jobs in July and 3,000 jobs in August, for an aggregate headline construction payroll level in August of 6.388 million jobs.

The purported annualized gain of 28.3% in second-quarter 2015 real construction spending was not supported by the unrevised annualized headline growth of 2.6% in second-quarter 2015 construction payrolls. Further, the pace of construction payroll growth in July suggested the annualized third-quarter growth rate has slowed to about 0.8%.

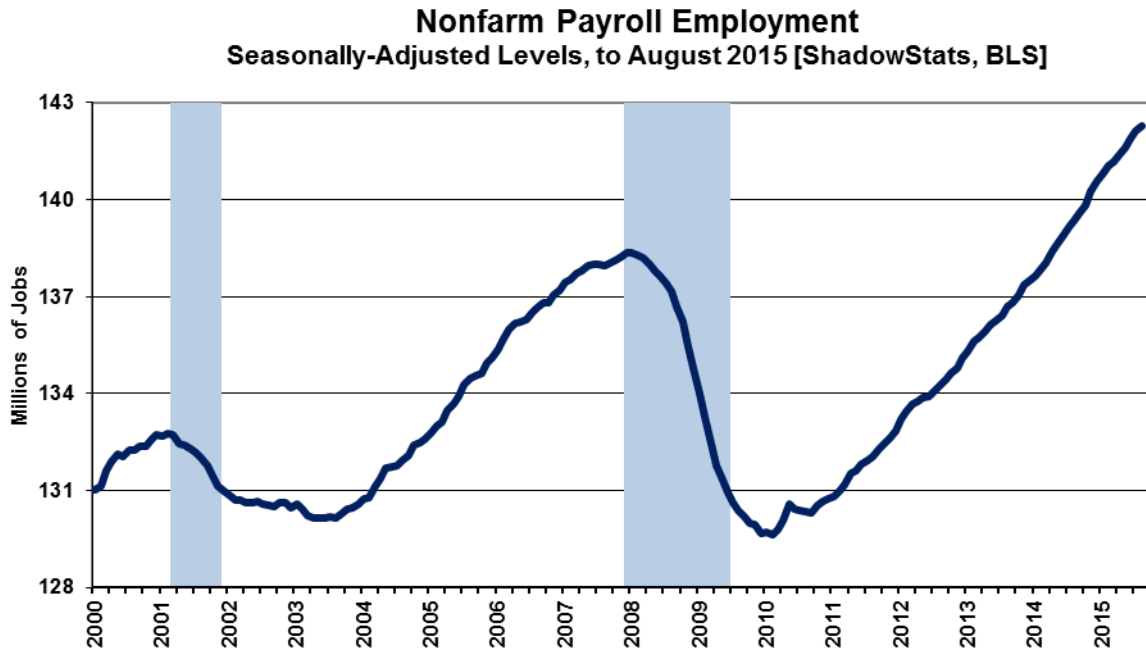
Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total July 2015 construction jobs remained down by 17.3% (-17.3%) from the April 2006 pre-recession series 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. Including the headline jobs gain of 173,000 in August 2015, headline payroll employment now is about 3.9-million jobs above the pre-recession peak.

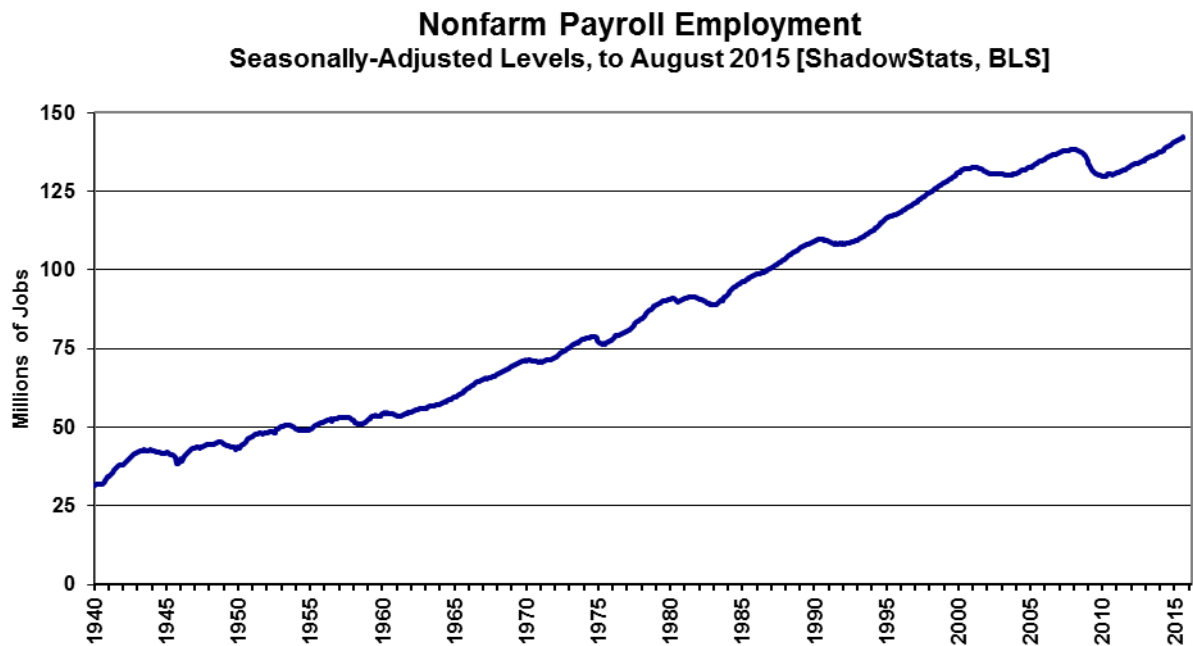
The first two graphs show the headline payroll series, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1940. In perspective, the longer-term graph of the headline payroll-

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.

Graph 10: Nonfarm Payroll Employment to August 2015



Graph 11: Nonfarm Payroll Employment to 1940 to August 2015



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 has been desired but could not be found.

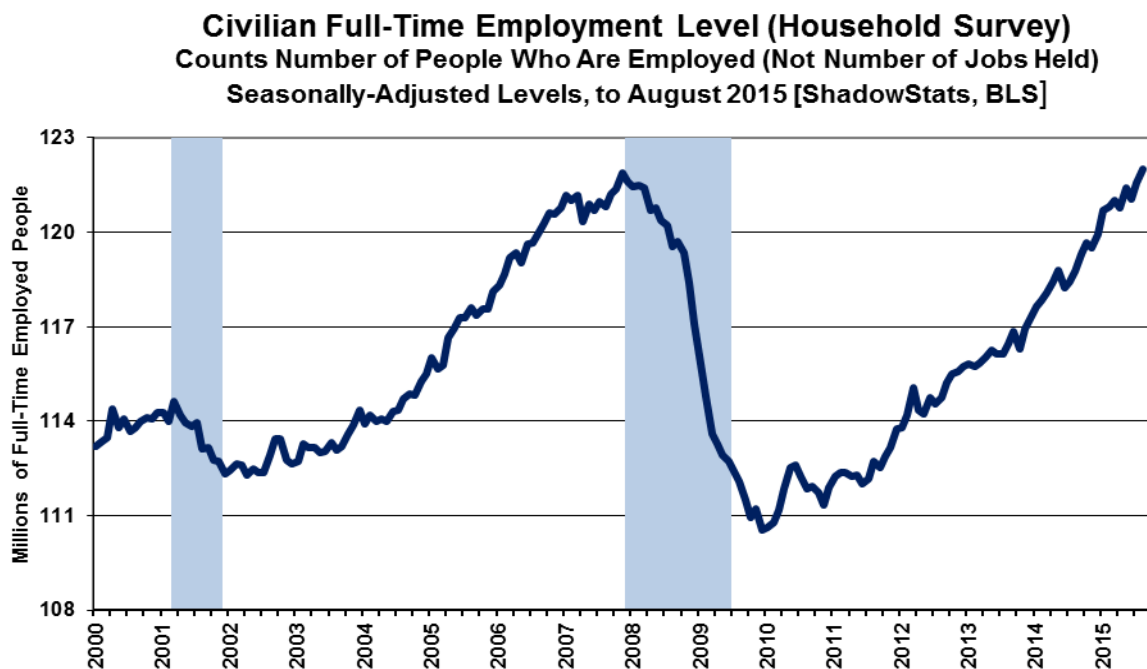
Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 12*, the August 2015 level of full-time employment (Household Survey) just recovered its pre-recession high, compared to the headline payroll-employment level that was 3.9-million above its pre-recession high. Payrolls had regained pre-recession levels some 16-months ago. Again, the payroll count is of jobs, not people, where much of that payroll "jobs" growth has been in part-time, and in multiple part-time jobs, many taken on for economic reasons, where full-time employment was desired but could not be found.

Graphs 13 and 14 plot comparisons of activity in full-time employment versus payroll jobs, post-economic collapse. Full-time employment was hit hardest, with headline employment "recovery" coming largely from individuals having to settle for part-time work.

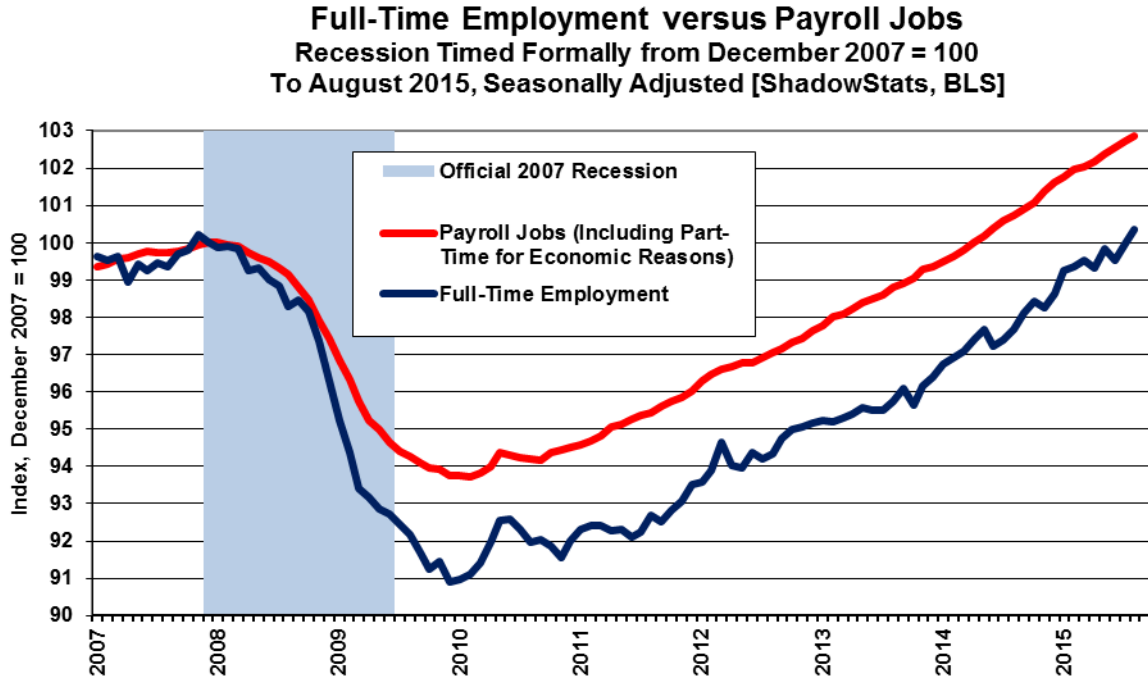
As a separate consideration, where employment is a coincident indicator of broad economic activity, the GDP purportedly recovered its pre-recession high some four years ago.

Full-time employment rose by a seasonally-adjusted headline 435,000 in August 2015, following a monthly gain of 536,000 in July 2015, and a decline of 349,000 (-349,000) in June. The monthly reporting is volatile and likely will drop below its pre-recession peak again, but it stands at 149,000 above its November 2007 peak of 121.875 million, at the moment.

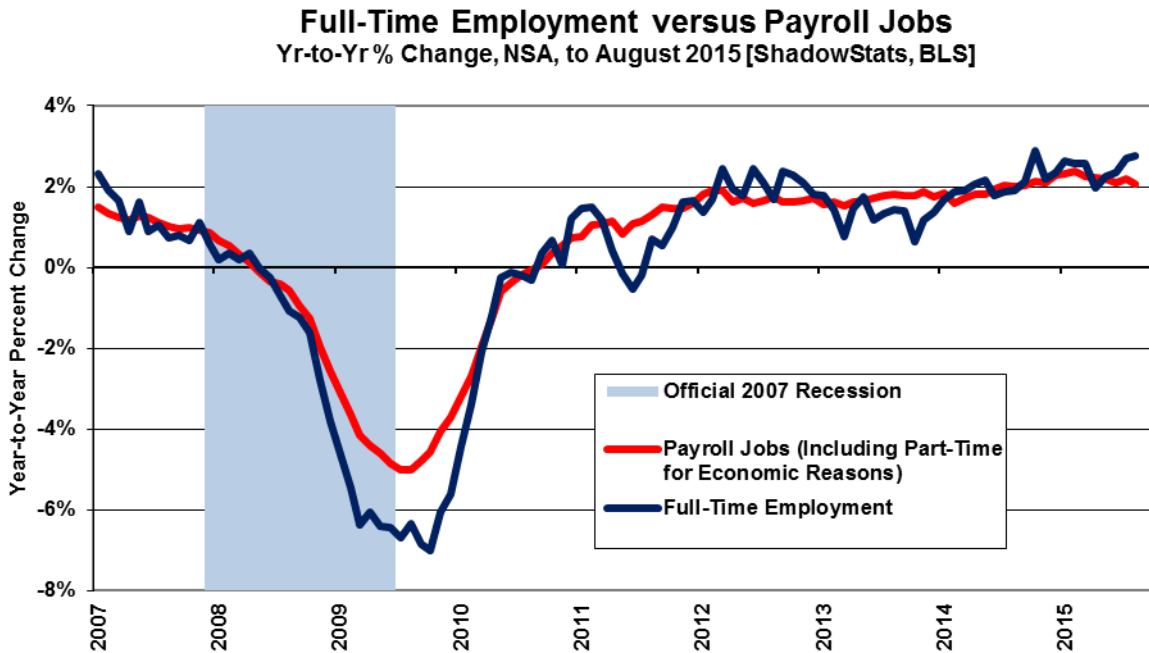
Graph 12: Full-Time Employment (Household Survey) to August 2015



Graph 13: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)



Graph 14: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year



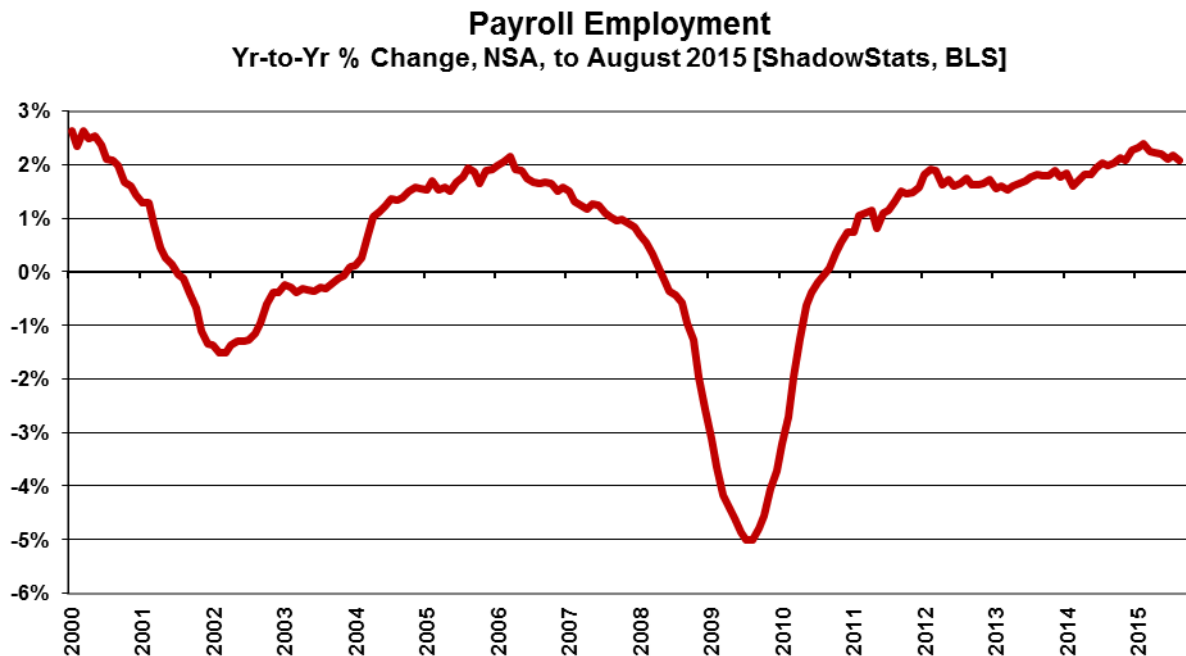
Headline month-to-month volatility in the full-time employment reporting is more a function of the instabilities from non-comparability of the headline, seasonally-adjusted monthly data (see the discussion in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section), than it is as an indicator of actual month-to-month volatility in economic activity.

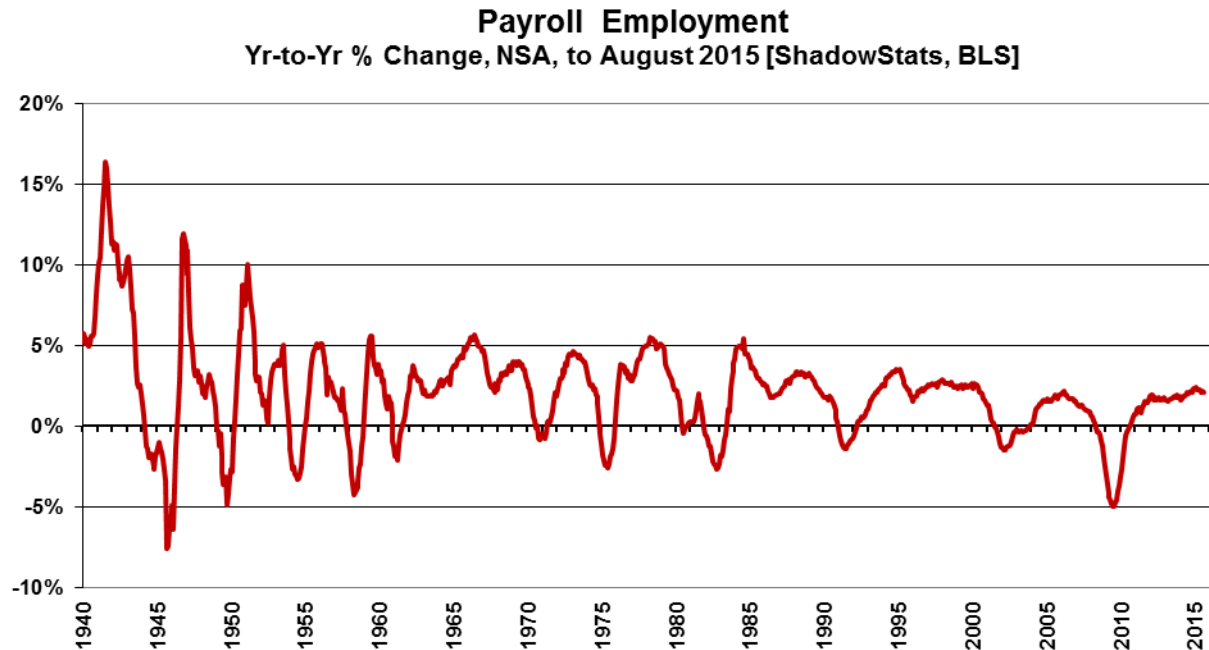
The graph of full-time employment excludes the count of those employed with only part-time jobs, one or more. Total employment, including those employed with part-time work, has recovered its pre-recession high, but it still is not close to the payroll reporting. Again, the Household Survey numbers count 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 Headline Payrolls—Slower 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 August 2015 was 2.08%, versus a revised 2.18% [previously 2.13%] in July 2015, and an unrevised 2.11% [initially 2.09%] in June.

Graph 15: Payroll Employment, Year-to-Year Percent Change, to August 2015



Graph 16: Payroll Employment, Year-to-Year Percent Change, 1940 to August 2015

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 remains 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 August 2015 numbers were not comparable with the previous July 2015

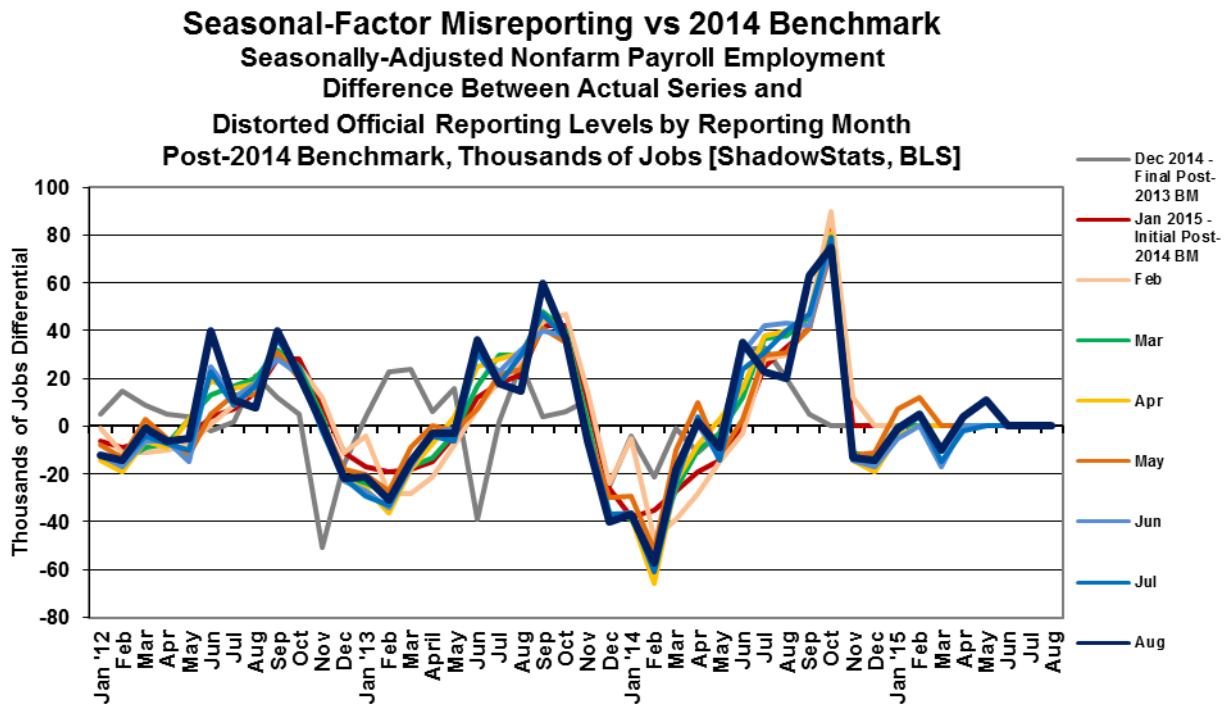
data or any month before. Accordingly, the published headline detail as to whether the unemployment rate was up, down or unchanged in a given month is not meaningful, and what actually happened is not knowable by the public. Month-to-month comparisons of these popular numbers are of no substance, other 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 August 2015 data are comparable only with the headline changes in the July 2015 numbers, not with June 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, including the current August 2015 reporting, without any formal indication of the shift from the previously-published historical data.

Graph 17: Monthly Concurrent-Seasonal-Factor Irregularities with Monthly Payroll Employment



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 www.ExpliStats.com 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.

Graph 17 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 July 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 (August 2015) with the thinner blue line (July 2015), shows shifts in seasonal factors in June through August 2014 numbers, with implied seasonality shifts for headline reporting in the June to August 2015 period. With the light- and dark-blue lines coming together in August 2014, there is an implied relative upside boost to the seasonal adjustments for August 2015. Despite the headline August 2015 jobs gain of a relatively-weak 173,000, headline August jobs gain would have been even softer, 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 July 2015 detail no longer is neither consistent nor comparable with data from June 2015 or earlier). Comparable with headline August and July reporting, June's current headline jobs gain was overstated by 11,000, although monthly discrepancies have been as large as 100,000 jobs (see 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.

Pending Announcement of 2015 Benchmark Revision. The BLS will announce its preliminary estimate of the 2015 benchmark revision on September 17, 2015. Based on more-frequent quarterly "benchmarkings" and related downside adjustments to recent add-factors, as discussed in the next section, an announcement for general downside benchmarking is a good bet.

August 2015 Add-Factor Bias. The not-seasonally-adjusted August 2015 bias was a positive monthly add-factor of 111,000, up from the positive monthly add-factor of 83,000 in July 2015, and against a positive monthly add-factor of 104,000 in August 2014. The BLS has begun quarterly revisions to the biases, and the early cut still seems to be 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 at least first-quarter 2015 jobs growth was overstated as seen internally in official calculations, with an implied downside benchmark revision looming for 2015.

The revamped, aggregate upside bias for the trailing twelve months through August 2015 was 804,000, versus 797,000 in July, 836,000 in June and 856,000 in of May, but still higher than the pre-benchmarked level of 731,000 in December 2014. That was a rough-monthly average of 67,000 in August (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 67,000 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. The headline August 2015 unemployment rate (U.3) declined by 0.15-percentage point to 5.11%, from 5.26% in July. Technically, the headline August decline in U.3 was statistically-insignificant, where the official 95% confidence interval around the monthly change in headline U.3 is +/- 0.23-percentage point. The headline change also 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 (again, see *Headline Distortions from Shifting Concurrent Seasonal Factors*). Those issues are separate from recent official questions raised as to falsification of Current Population Survey results, from which the unemployment detail is derived.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. August's unadjusted U.3 unemployment rate eased to 5.19% from 5.55% (rounds to 5.6%) in July.

The decline in the seasonally-adjusted, headline August U.3 unemployment rate reflected a decline of 237,000 (-237,000) unemployed individuals, but an offsetting gain of only 196,000 employed individuals. With net of 41,000 unemployed being defined out of existence by BLS definitions, the labor force declined by 41,000 (-41,000).

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 Estimate, 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, an increase in the adjusted number of people working part-time for economic reasons and a less-than-offsetting decline in unadjusted discouraged workers and the balance of those marginally attached to the workforce, headline August 2015 U.6 unemployment eased to 10.27%, from 10.39% in July 2015. The unadjusted U.6 was at 10.26% in August, versus 10.75% (rounds to 10.7%) in July.

"Short-Term" Discouraged Workers. The count of short-term discouraged workers in August 2015 (never seasonally-adjusted) eased to 624,000, from 668,000 in July, where the total marginally-attached discouraged workers fell to 1,812,000 in August, from 1,927,000 in July. The latest, official discouraged 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 "marginally-attached 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 redefined short-term discouraged and redefined marginally-attached workers were included in U.6.

ShadowStats Alternate Unemployment Estimate. Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—a broad unemployment measure more in line with common experience—the August 2015 ShadowStats-Alternate Unemployment Estimate, eased to 22.9%, versus 23.0% in July. The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force, as discussed in greater detail in the following section.

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 change definitions, 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 currently-defined "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 4.108 million in August 2015. 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 August 2015 Detail. Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—a broad unemployment measure more in line with common experience—the August 2015 ShadowStats-Alternate Unemployment Estimate, eased to 22.9%, versus 23.0% in July, reflecting some legitimate narrowing of the headline August U.3 unemployment rate. The August ShadowStats reading was down from the 23.3% series high in 2013 (back to 1994).

As seen in the usual graph of the various unemployment measures (*Graph 2* in the *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%.

WEEK AHEAD

Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Higher Oil Prices. In a fluctuating trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless tend to respond to the latest economic hype in the popular media. That general effect holds the consensus outlook at overly-optimistic levels,

with current expectations still exceeding any potential, underlying economic reality. Again, though, the expectations trend generally has continued to soften.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with an eventual downside revision to the recently, upwardly-revised second-quarter GDP estimate, and along with likely downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GDP) into 2016.

CPI-U consumer inflation—driven lower earlier this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low, having turned positive in June 2015, for the first time in six months, and having notched somewhat higher in July.

Upside inflation pressures should continue to build, particularly as oil prices begin to rebound, once again, a process that eventually should accelerate rapidly, along with the pending sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends were reviewed broadly, recently, in [No. 742 Special Commentary: A World Increasingly Out of Balance](#) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#).

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten years—have 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, discussed and 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:

Producer Price Index—PPI (August 2015). The Bureau of Labor Statistics (BLS) will release the August 2015 PPI on Friday, September 11th, which will be reviewed in *Commentary No. 751* of September 15th.

Odds favor a headline monthly decline in wholesale inflation, although early expectations are for a minimal monthly gain in wholesale inflation of 0.1% [MarketWatch], following a headline PPI gain of 0.2% in July.

Unadjusted energy prices were down sharply in August 2015. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices in August declined by 15.8% (-15.8%) and by 17.6% (-17.6%) for the month, with an accompanying decline of 5.4% (-5.4%) in unadjusted monthly-average retail-gasoline prices (Department of Energy). PPI seasonal adjustments for energy and gasoline

prices in August generally are minimally negative. Given the vagaries of margin shifts in the dominant services sector—where dropping oil prices often translate initially to increased margins and higher "inflation"—along with some likely added monthly inflation from wholesale food and "core" goods (everything but food and energy), the headline PPI change still is likely to be on the downside.
