

COMMENTARY NUMBER 756
September Labor Conditions, Money Supply M3, August Construction Spending
October 2, 2015

Expectations Shift Towards Recession

**September Payrolls Gained Just 83,000, Net of August Revisions;
Annual Payroll Growth Dropped Below 2.0%, to a 15-Month Low**

**September Labor Force Plunged by 350,000, with the
September Unemployment Rate on the Cusp of Rounding Lower by 0.1%**

Yet, Headline Monthly Labor Data Remained Almost Worthless

September 2015 Unemployment: 5.1% (U.3), 10.0% (U.6), 22.9% (ShadowStats)

Construction Spending Gain Mostly Reflected Downside Revisions

Latest Money Supply M3 and Monetary Base Took Unusually Large Hits

PLEASE NOTE: The next regular Commentary, scheduled for Tuesday, October 6th, will cover the August trade deficit.

Best wishes to all! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economic and Monetary Circumstances Are Turning Increasingly Negative. A number of elements tied to economic, financial-market and systemic stability appear to be in motion, but not to a happy effect. Where the "advance" reporting on the August trade balance suggested a significant widening in the monthly trade deficit, along with heavily-negative implications for third-quarter GDP (see the *Week Ahead* section), reports of significantly-downgraded expectations for third-quarter GDP growth have been surfacing. That process likely will be exacerbated by today's reporting of much-weaker-than-expected payroll growth (both in headline and in revision) for third-quarter 2015. The process should accelerate with parallel headline reporting of September retail sales and industrial production in the next two weeks, in addition to next week's hard trade deficit for August. Today's market response to shifting economic expectations was mirrored in a weaker U.S. dollar and rallying gold, silver and oil prices.

Shifting Monetary Circumstances? Whether Fed policy really is on hold because of unexpectedly weak economic activity, or due to some major systemic distortion that is in play, also should become more apparent in the next couple of weeks. Most likely, Fed tightening of monetary policy is not now on the horizon until after the 2016 presidential election.

That said, discussed in the *Monetary Conditions* section of the *Hyperinflation Watch*, unusual weakness was seen the ShadowStats Ongoing Estimate of Money Supply M3 for September 2015, along with an unusually steep hit to the latest estimate of the monetary base. If one looks at M2 as the broadest measure of money supply growth, it still is growing both month-to-month and year-to-year, but the picture changes if the view shifts to the former-broadest measure, M3. Annual growth in M3 dropped sharply to 5.7% in September, down from the 6.1% peak growth seen in August 2015, then the strongest reading since June of 2009. On a month-to-month basis, September M3 declined for the first time since January 2011.

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 relatively stable, near record levels. Despite relative stability also 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, the latest (September 30th) two-week average just tumbled by 4.4% (-4.4%), or down at an annualized pace of 69.1% (-69.1%), its largest bi-weekly drop since the formal trough of the economic plunge in July 2009.

The movements here are unusually large and negative, and ShadowStats will be following developments closely in the weeks ahead. At work could be no more than unusually-poor-quality seasonal adjustments out of the Federal Reserve, or there could be some unheralded machinations or developing difficulties in the financial system.

Renewed Fiscal Concerns? Treasury Secretary Jacob Lew has advised Congress that the Treasury will run out of options and gimmicks for avoiding breaking the existing debt ceiling, by November 5th. The deadline is closer than had been previously estimated, due to tax receipts falling below expectations. Weak tax receipts and burgeoning deficits will become mounting concerns as the U.S. economy tumbles into its renewed economic contraction. Circumstances are evolving quickly and likely do not have a happy ending for the U.S. economy, the U.S. dollar or the U.S. stock market ([No. 742 Special Commentary: A World Increasingly Out of Balance.](#))

Today's Commentary (October 2nd). The balance of these *Opening Comments* provides a summary of the reporting of September labor data and August construction spending, as well as an update to consumer conditions. The *Hyperinflation Watch* covers the headline annual growth in the ShadowStats-Ongoing M3 Money Supply Measure for September 2015. The *Hyperinflation Outlook Summary* has not been changed. The *Week Ahead* previews reporting for the August trade deficit.

Employment and Unemployment—September 2015—Headline Detail Remained Meaningless, with Weakening Payrolls and Unstable Headline Unemployment. Underlying reality for U.S. labor conditions in September 2015 remained in the realm of a 22.9% broad unemployment rate, with headline payroll employment declining month-to-month, as reviewed in the main text.

Reality aside, the headline (U.3) unemployment rate was "unchanged" at 5.1%, dropping from 5.11% in August to 5.05% in September, at the second decimal point. Such reflected a loss of 350,000 (-350,000) in the labor force, comprised of a drop of 114,000 (-114,000) among the unemployed and a decline of 236,000 (-236,000) among the employed. Had the count of the unemployed dropped by just 1,000 more, to 7,914,000, the headline September U.3 unemployment rate would have rounded to 5.0% instead of 5.1%, reflecting a headline monthly decline of 0.1% (-0.1%) in the unemployment rate. Due to definitional distortions in tallying headline U.3 unemployment, such a decline in unemployment would have reflected a negative, not a positive circumstance.

That said, those monthly headline employment and unemployment shifts from the household survey were without any meaning or significance, because the seasonally-adjusted headline September and August details were neither consistent nor comparable. Discussed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail* section, the Bureau of Labor Statistics (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 revised prior-period details, leaving actual month-to-month changes in headline data unknowable from a public perspective, and otherwise completely without meaning. On a consistent-reporting basis, headline monthly reporting detail, such as the unemployment rate, could have held unchanged in September but just as easily could have declined or increased. Only the BLS knows for sure, but the Bureau will not publish the consistent data, because—as they have explained—they do not want to confuse their data users.

In the headline payroll-employment survey, monthly jobs growth came in sharply-below market expectations, at 142,000 in September, versus a revised 136,000 [previously 173,000] gain in August and a non-comparable gain of 223,000 in July. Again, though, the headline numbers were subject to the usual reporting biases and distortions, with September payrolls non-comparable to reporting in July 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 September 2015 payrolls most likely fell month-to-month. In terms of some pending improvement in the data quality—suggested here last month—the BLS confirmed a pending, downside 2015 payroll-benchmark revision (see the *Birth-Death Model* and [Commentary No. 753](#)).

On a not-seasonally-adjusted basis, however, there was some meaningful slowing in year-to-year payroll growth, with September's annual growth rate dropping below 2.0%, to a fifteen-month low.

Separately, in terms of the payroll-versus-household survey, payroll growth reflects the number of jobs, not the count of people who are employed. Shown in the *Reporting Detail* section, growth in the number of part-time jobs—often part-time for economic reasons where full-time employment was unavailable—has accounted for much of the headline recovery in payroll employment. In contrast, the count of individuals with full-time jobs is flirting still with solidly recovering its pre-recession peak.

Headline September 2015 Payrolls. In the context of downside revisions to July and August payrolls, the seasonally-adjusted, headline payroll gain for September 2015 was a weaker-than-expected 142,000 jobs. Net of prior-period revisions, the gain in September payroll employment was 83,000 jobs.

The headline 142,000 increase in September payrolls followed a downwardly-revised 136,000 gain in August payrolls, and a revised gain of 223,000 in July. The headline 223,000 jobs gain in July, however, really was 236,000, on a consistent-reporting basis. Although the headline detail prior to August 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 (see *Inconsistent, Non-Comparable and Deliberately-Misstated Monthly Changes...* in the *Reporting Detail*).

Annual Percent Change—Slowing 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 September 2015 slowed to 1.94%, from a downwardly-revised 2.04% annual gain in August 2015, and an unrevised 2.18% gain in July 2015. The September reading was the weakest annual growth in 15 months.

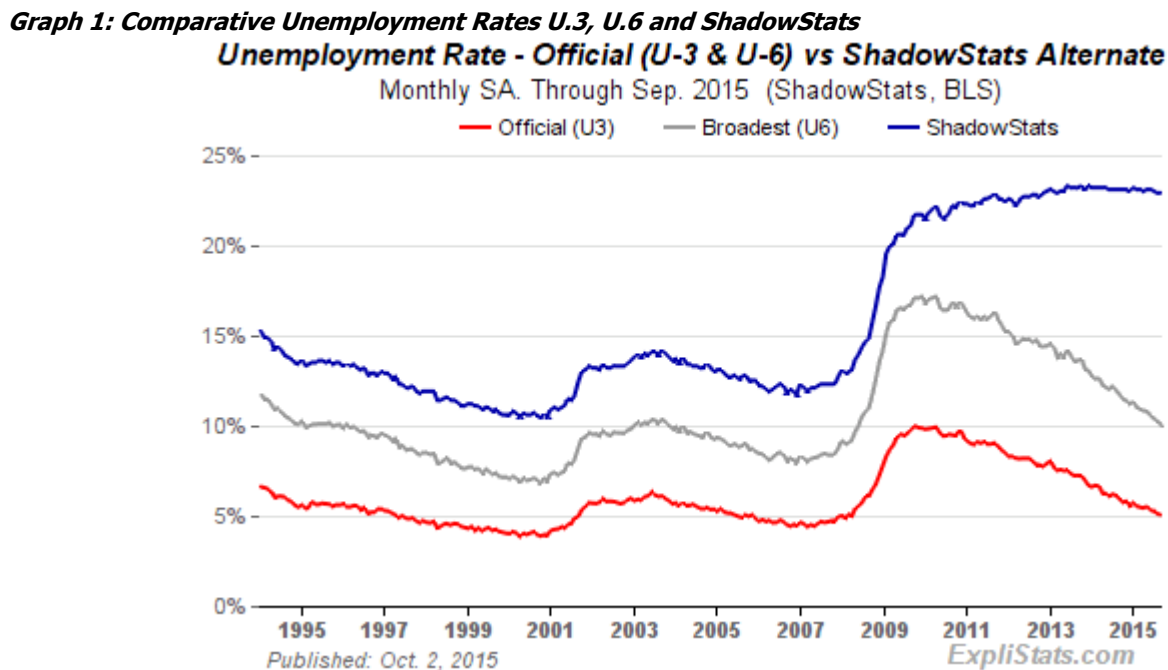
Counting All Discouraged Workers, September 2015 Unemployment Held at About 22.9%. Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, simply is definitional. To be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



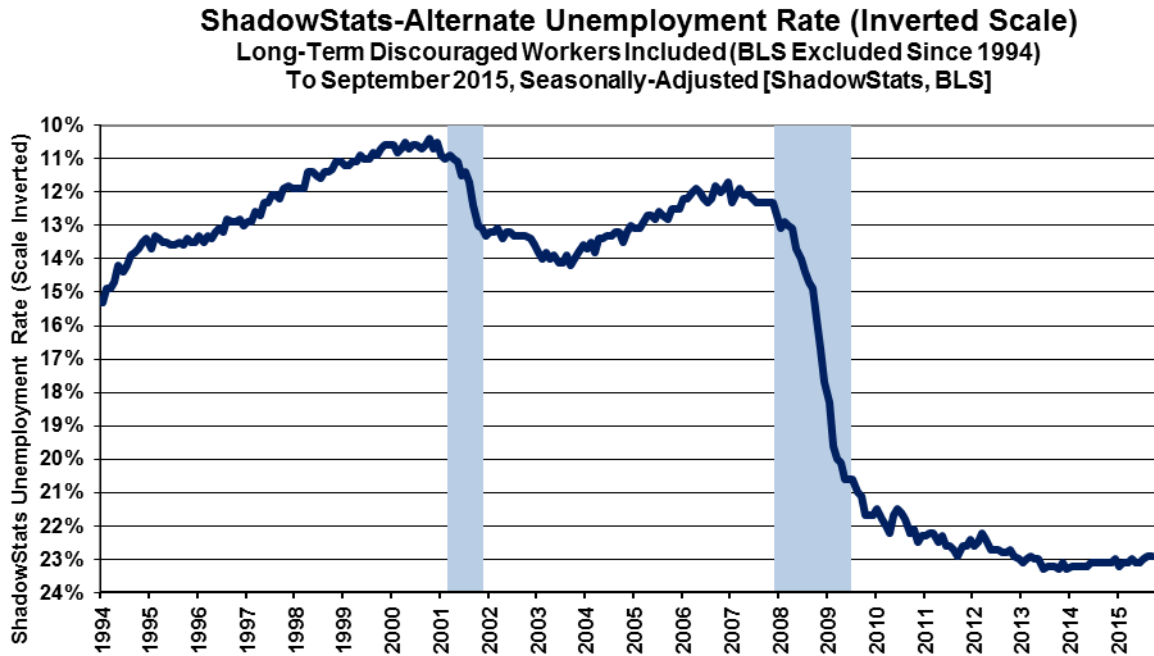
Again, when the headline unemployed become "discouraged," they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence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

Graph 1 reflects headline September 2015 U.3 unemployment at 5.05%, versus 5.11% in August; headline September U.6 unemployment at 10.01%, versus 10.27% in August; and the headline September ShadowStats unemployment estimate at 22.9%, unchanged versus 22.9% in August.

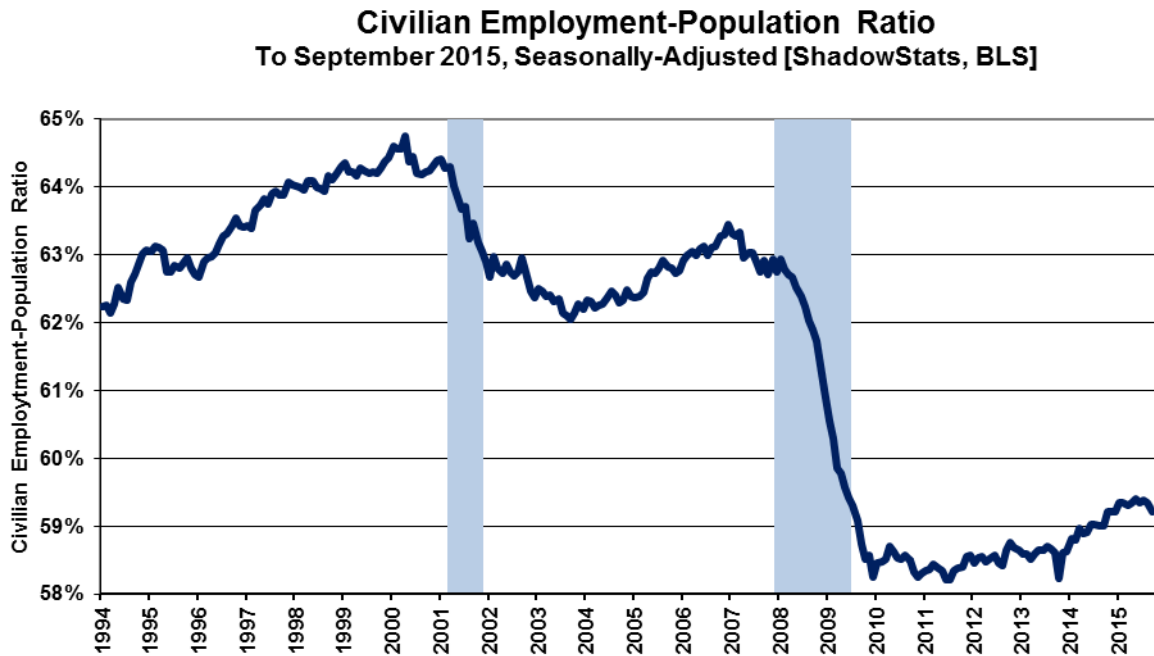
The next three graphs reflect longer-term unemployment and discouraged-worker conditions. *Graph 2* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate,

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.

Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



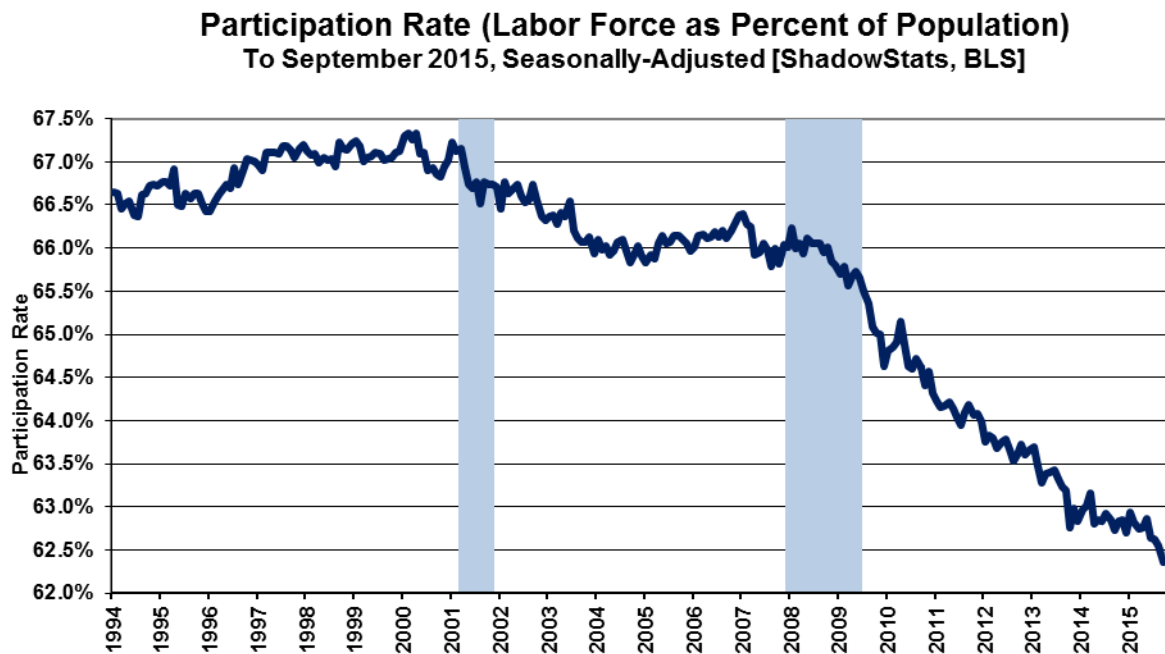
Graph 3: Civilian Employment-Population Ratio



The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which declined anew in September 2015, as shown in *Graph 3*. Discouraged workers are not counted in the headline labor force, which generally continues to shrink, as seen with the loss of another 350,000 (-350,000) individuals today. 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.

Shown in *Graph 4*, the September 2015 participation rate continued to drop, hitting a new historic low (pre-1994 estimates are not consistent with today's reporting). The labor force used in the participation-rate calculation is the headline employment plus U.3 unemployment. As with the *Graph 3* 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 4: Participation Rate



Continued FOMC Interest Rate Inaction? Fed Chair Janet Yellen keeps mentioning a needed improvement in labor-market health as a precondition to raising interest rates. Such conditions certainly were not met by the headline details of the September labor conditions. Chair Yellen had indicated, and re-emphasized following the latest FOMC meeting, that she views the participation rate series as a meaningful indicator of the health of the labor market, and it is such a measure. The continued plunge in the rate means, in theory, that the Fed still is not about to tighten monetary conditions, despite renewed claims and financial-market blather of a rate hike in the month or so ahead, if the Fed Chair still is to be believed.

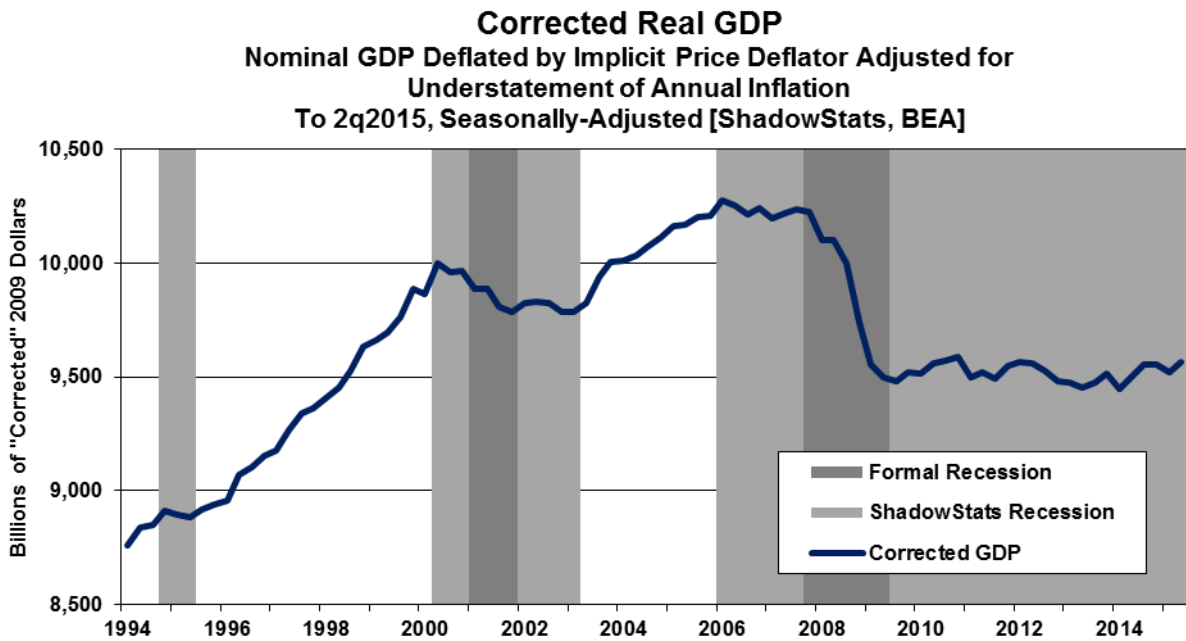
Noted in [Commentary No. 754](#), if the Federal Reserve is going to wait for a solid signal of healthy, domestic economic activity, before raising interest rates, nothing is going to happen for a long time.

Discussed in the opening paragraphs of these *Opening Comments*, the headline employment and unemployment data for September would tend to support continued interest rate inaction by the FOMC, in conjunction with other data—such as the trade deficit—indicating an unfolding recession.

Yet, the headline labor data largely were meaningless, as usual, and there are those at the U.S. central bank who know that. It is interesting how issues remain of ongoing economic strength in the public debate by the Fed and others, while headline GDP reporting purportedly 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? Indeed, as suggested in *No. 754* (previously linked), there likely is an unfolding liquidity crisis in the domestic and/or global financial system that is preventing the FOMC from tightening. Economic weakness simply has been a canard. It continues to be used by the U.S. central bank as political cover for quantitative easing aimed at propping the banking system.

Graphs 1 through *4* reflect detail back to the 1994 redefinitions of the Household Survey. Before 1994, data consistent with September's reporting simply are not available, irrespective of protestations to the contrary by the BLS. Separately, 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. 755](#)). In particular, the general patterns of activity seen in *Graphs 2* and *3* generally are mirrored in *Graph 5* of the "corrected" GDP.

Graph 5: Corrected Real GDP



Headline Unemployment Rates. The headline September 2015 unemployment rate (U.3) declined by 0.06-percentage point to 5.05% (a rounded 5.1%), from 5.11% (a rounded 5.1%) in August. Given headline category counts, rounded to the nearest 1,000, the U.3 unemployment rate was within only 1,000 fewer "unemployed," out of the 7,915,000 headline total unemployed, from rounding to 5.0% in

September. The month-to-month change in the seasonally-adjusted, headline unemployment rates is meaningless, though, in the context of the non-comparability of the headline monthly data.

The non-comparability results from the BLS's reporting methodology and use of concurrent-seasonal-adjustment factors (see *Headline Distortions from Shifting Concurrent Seasonal Factors* in the *Reporting Detail*). Those issues are separate from official questions raised as to falsification of the Current Population Survey (CPS) results, from which the unemployment detail is derived (see the *Reporting Detail*).

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. September's unadjusted U.3 unemployment rate eased to 4.87% from 5.19% in August.

The less than full-point decline in the seasonally-adjusted, headline September U.3 unemployment rate reflected a decline of 114,000 (-114,000) unemployed individuals, on top of an additional decline of 236,000 (-236,000) employed individuals. An aggregate of 350,000 individuals were defined out of labor-force existence, with the labor force declining by 350,000 (-350,000) for the month. The redefinition process involved a portion of the headline unemployed being re-defined out of U.3 as marginally-attached, and a portion of those marginally-attached being redefined out of inclusion in U.6.

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).

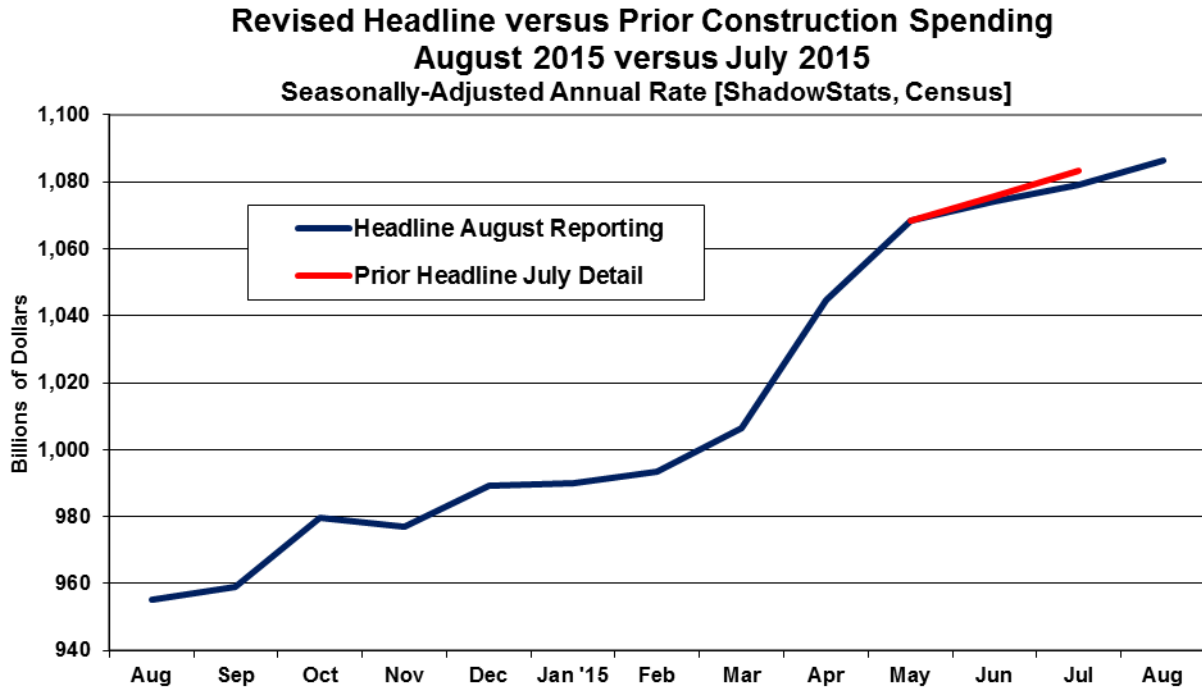
With a minimal decline in the underlying seasonally-adjusted U.3 rate, a decline in the adjusted number of people working part-time for economic reasons and a less-than-offsetting increase in unadjusted discouraged workers and the balance of those marginally attached to the workforce, headline September 2015 U.6 unemployment eased to 10.01%, from 10.27% in August 2015. The unadjusted U.6 was at 9.61% in September, versus 10.26% in August.

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 September 2015 ShadowStats-Alternate Unemployment Estimate held at 29.9%, versus 29.9% in August. The September 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.

Construction Spending—August 2015—Monthly Gain Boosted by Downside Revisions. In the context of continuing, volatile monthly revisions, the 0.7% gain in August construction spending largely was accounted for by a relative downside revision of 0.4% (-0.4%) to the previously-reported level of July

2015 spending, while relative July performance also was enhanced slightly by a downside revision of 0.1% (-0.1%) to the previously-reported level of June activity. The August headline reporting and revisions are plotted versus July's headline detail in *Graph 6*.

Graph 6: August 2015 Headline Reporting and Revisions



Separately, although construction-related inflation continues to spike the headline nominal numbers (month-to-month August 2015 excepted), the softened patterns of inflation-adjusted real growth still continue to run well ahead of, and are not supported by, growth in related construction employment. That suggests that the government estimates of construction inflation are too low, as generally confirmed by private surveys (see the *PPI Final Demand Construction Index* section in the *Reporting Detail*).

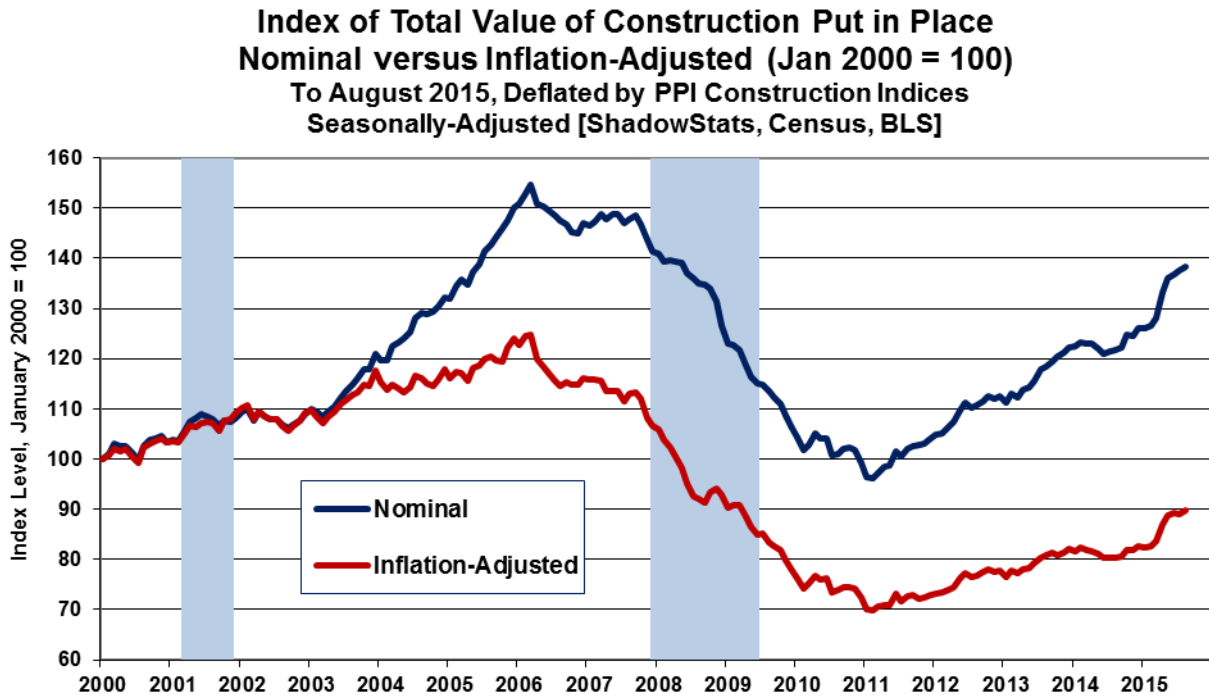
Reflecting all revisions and full quarterly reporting, second-quarter 2015 real construction spending (deflated by PPI construction inflation) showed a revised annualized 28.2% quarterly gain, versus an unrevised 4.1% annualized gain in first-quarter 2015. Based solely on the current headline reporting for July and August 2015, third-quarter annualized growth was on track for an annualized 5.2% gain.

Graphs 7 to 10 show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public construction spending. Seen after adjustment for inflation, the aggregate series had remained in low-level stagnation into first-quarter 2015. It spiked in recent months, but slowed in the last several months of reporting, with the real series in August 2015 still holding at 28.0% (-28.0%) below its pre-recession peak of March 2006. The general pattern of real activity remains one of low-level, albeit up-trending stagnation.

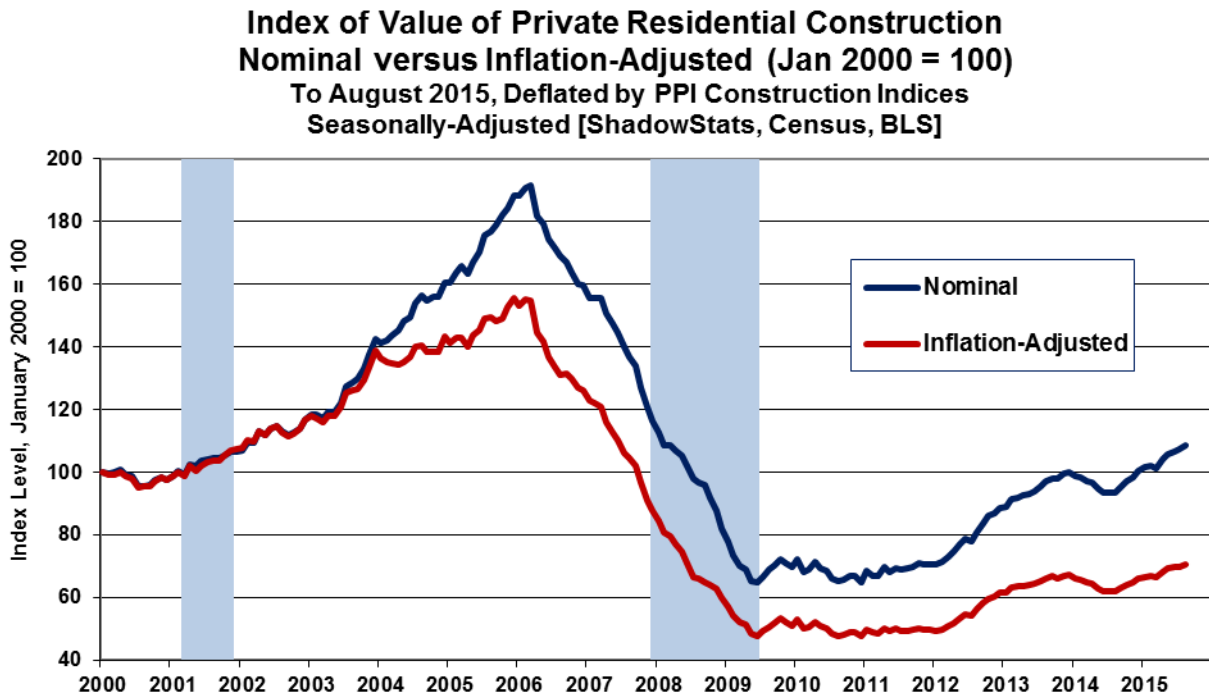
PPI Final Demand Construction Index (FDCI). ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in

deflating the accompanying graphs of subsidiary series. Again, see the *PPI Final Demand Construction Index* section in the *Reporting Detail* graphed in the *Opening Comments*.

Graph 7: Index, Nominal versus Real Value of Total Construction

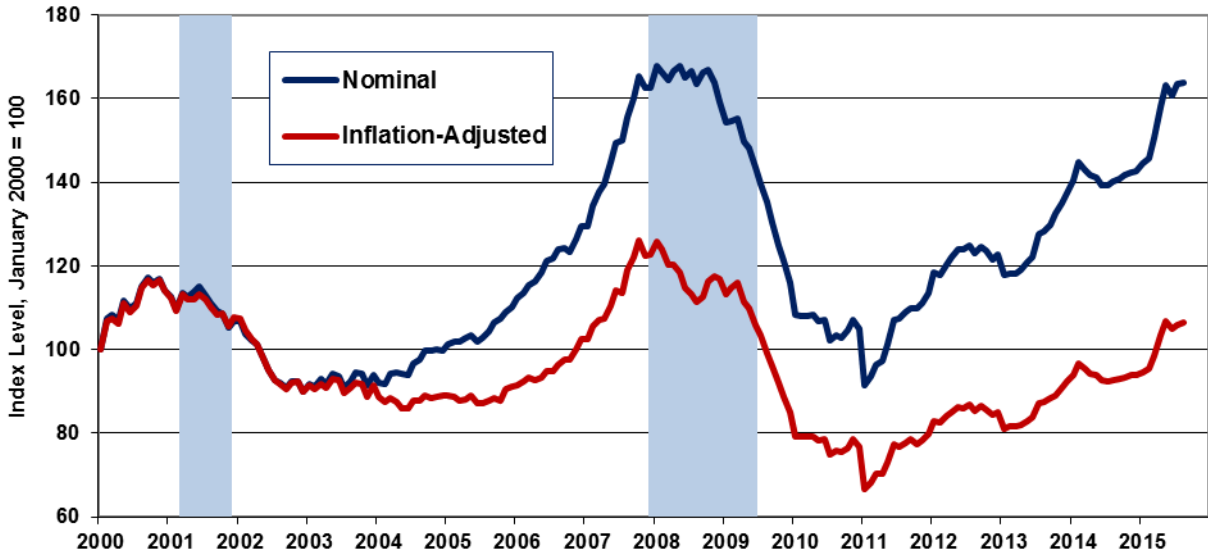


Graph 8: Index, Nominal versus Real Value of Private Residential Construction



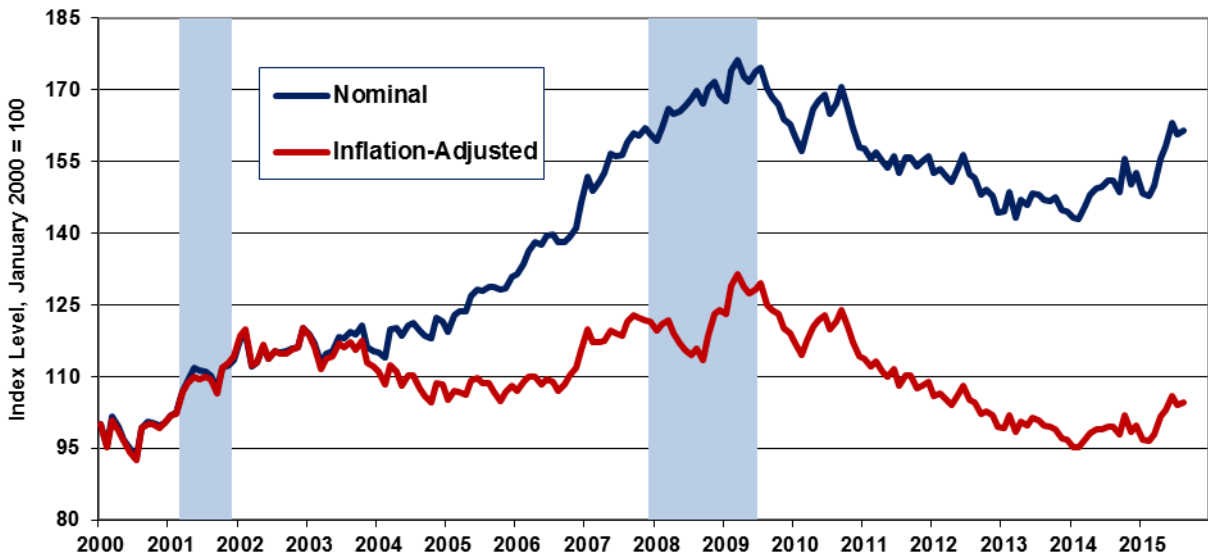
Graph 9: Index, Nominal versus Real Value of Private Nonresidential Construction

**Index of Value of Private Nonresidential Construction
Nominal versus Inflation-Adjusted (Jan 2000 = 100)
To August 2015, Deflated by PPI Construction Indices
Seasonally-Adjusted [ShadowStats, Census, BLS]**



Graph 10: Index, Nominal versus Real Value of Public Construction

**Index of Value of Public Construction
Nominal versus Inflation-Adjusted (Jan 2000 = 100)
To August 2015, Deflated by PPI Construction Indices
Seasonally-Adjusted [ShadowStats, Census, BLS]**



Headline Reporting for August 2015. The headline, total value of construction put in place in the United States for August 2015 was \$1,086.2 billion, on a seasonally-adjusted—but not-inflation-adjusted—

annual-rate basis. That estimate was up by a statistically-insignificant 0.7%, versus a downwardly revised \$1,079.1 billion in July. Net of prior period revisions, the headline gain for August 2015 was 0.3%.

In turn, July spending was up by a downwardly revised 0.4%, versus a revised \$1,074.3 billion in June. In turn, June spending was up by a downwardly revised 0.6%, versus an unrevised \$1,068.4 billion in May 2015 (again, see *Graph 6*). Adjusted for FDCI inflation, aggregate real spending in August 2015 was up by 0.8%, following a revised decline of 0.1% (-0.1%) in July.

On a year-to-year or annual-growth basis, August 2015 nominal construction spending rose by a statistically-significant 13.7%, versus a downwardly revised annual gain of 13.2% in July 2015. Net of construction costs indicated by the FDCI, year-to-year change in spending was at 11.7% in August 2015, versus a revised 11.1% in July 2015.

The statistically-insignificant, headline monthly increase of 0.7% in nominal August 2015 aggregate construction spending, versus the 0.4% gain in July 2015 spending, included a headline monthly gain of 0.5% in August public spending, versus a decline of 1.3% (-1.3%) in July spending. Private spending increased by 0.7% in August, following a 1.1% gain in July. Within total private construction spending, the residential sector rose by 1.3% in August, versus a 0.6% gain in July, while the nonresidential sector rose by 0.2% in August, versus a 1.6% gain in July. The extended graphs in the *Reporting Detail* section also reflect that detail.

Consumer Conditions—Full-September Sentiment and Confidence Surveys, August Real Median Household Income. Updating the detailed review of consumer liquidity circumstances in [Commentary No. 752](#) of September 16th, and as otherwise discussed regularly in these *Commentaries*, following are graphs on consumer confidence and sentiment, through September 2015, and on real median monthly household income through August.

Structural liquidity woes and related pummeled consumer attitudes continue to constrain domestic economic activity, severely, as they have since before the Panic of 2008. Never recovering in the post-Panic era, limited growth in household income and credit, and a faltering consumer outlook, have eviscerated and continue to impair domestic business activity, which feeds off the financial health and liquidity of consumers.

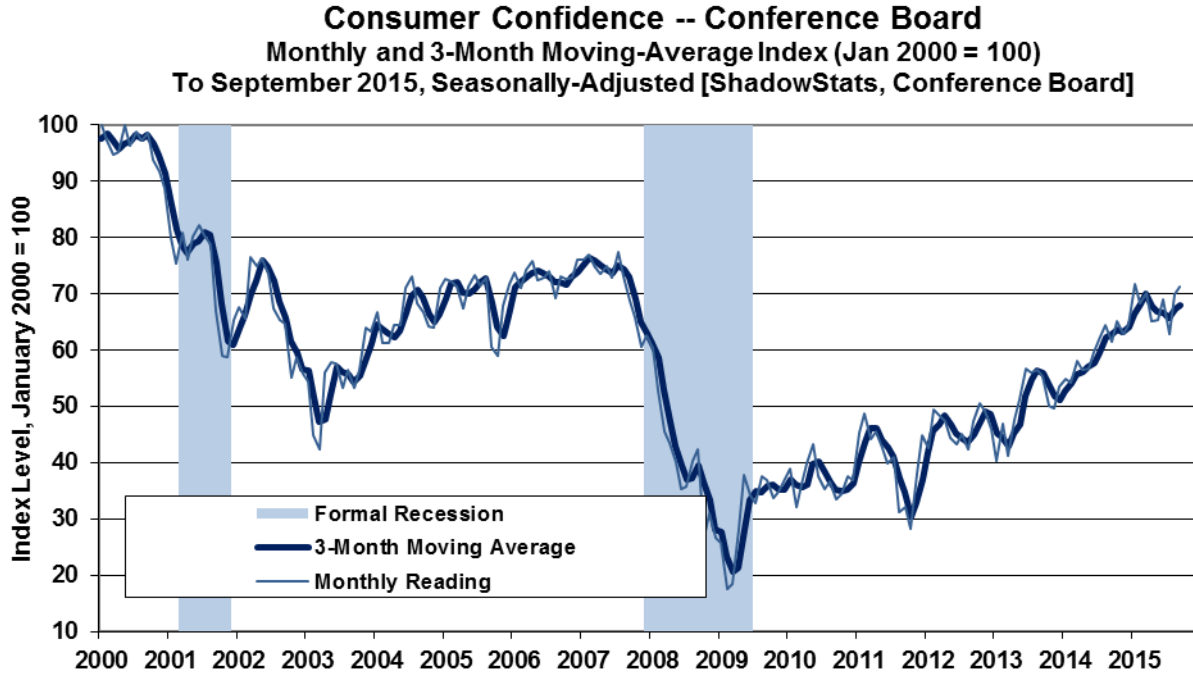
Without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. Impaired consumer liquidity and its direct restraints on consumption have been responsible for much of the economic turmoil of the last eight-plus years, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining real retail sales activity and the related, personal-consumption-expenditures category of the GDP. Together, those sectors account for more than 70% of total U.S. GDP activity.

Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a fundamental upturn in consumer- and banking-liquidity conditions.

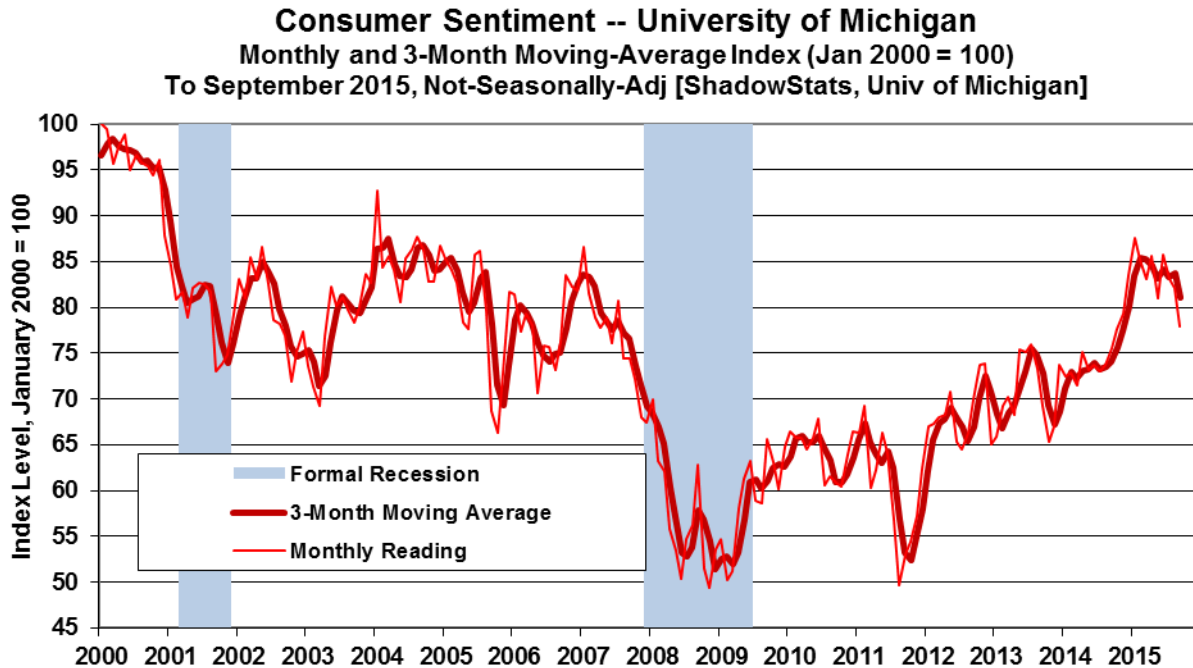
The full-September measures for the Conference Board's Consumer-Confidence and the University of Michigan's Consumer-Sentiment measures are shown in *Graphs 11 to 13*. The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 11*) and the

University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 12*) for the full-month of September 2015 moved in opposite directions, with confidence up slightly and sentiment sharply lower for the month. A good case never has been made for seasonally-adjusting confidence.

Graph 11: Consumer Confidence to September 2015

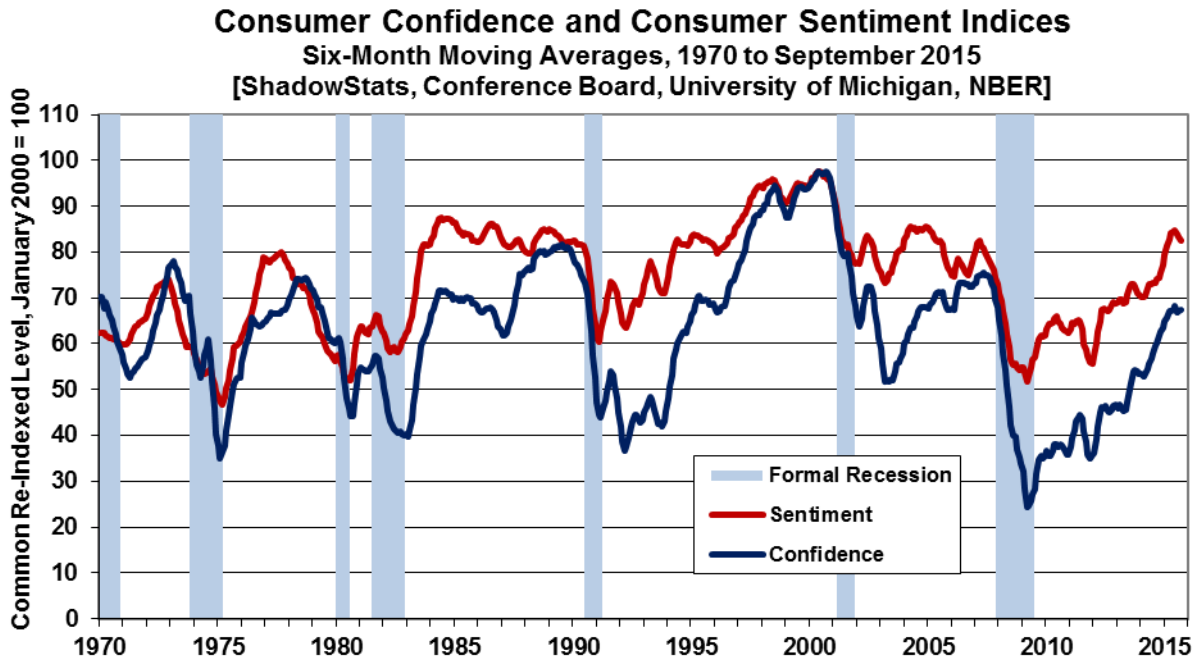


Graph 12: Consumer Sentiment to September 2015



Both series continued to move lower or to hold off near-term peaks, though, smoothed for their three-month and six-month moving-average readings. The confidence and sentiment series tend to mimic the tone of headline economic reporting in the press, and often are highly volatile month-to-month, as a result. With increasingly-negative, headline financial and economic reporting ahead, successive negative hits to both the confidence and sentiment readings remain highly likely in the months ahead.

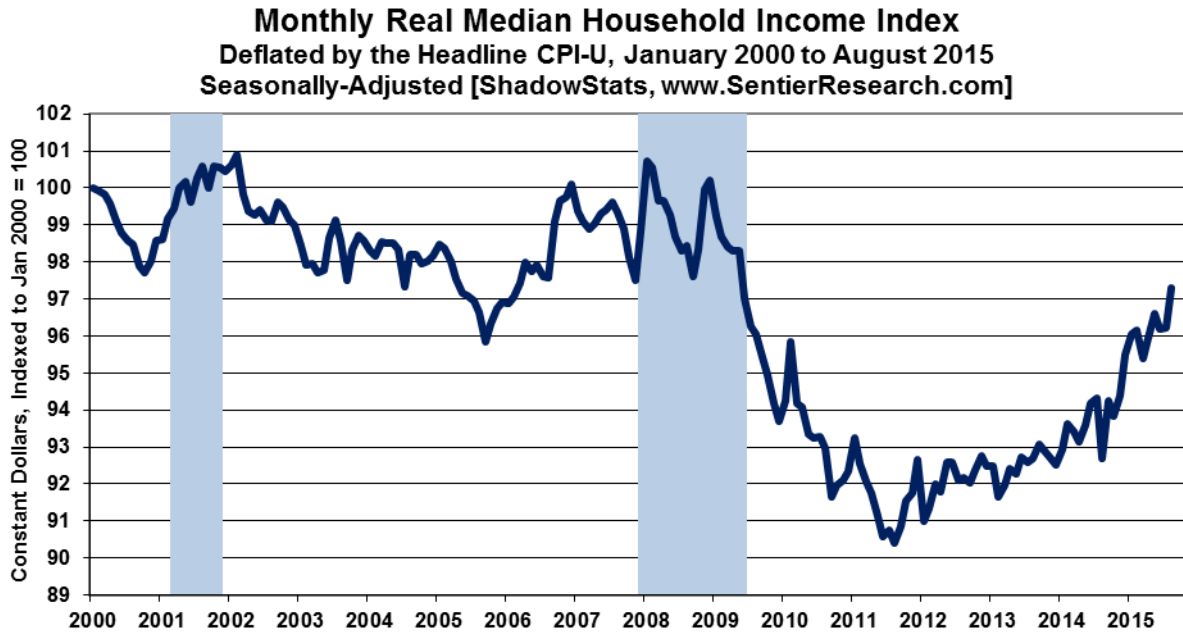
Graph 13: Comparative Consumer Confidence and Sentiment (6-Month Moving Averages) since 1970



Smoothed for the irregular, short-term volatility, the two series remain at levels often seen in recessions. Suggested in *Graph 13*—plotted for the last 45 years—the latest readings of confidence and sentiment generally have not recovered levels seen preceding most formal recessions of the last four decades. Generally, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic GDP growth seen in 2014 and the strong, headline upturn in second-quarter 2015 GDP (not GDI) growth (see [Commentary No 755](#)).

As we go to press, www.SentierResearch.com has updated its monthly estimate of real median household income through August 2015, as plotted in *Graph 13a*. Benefitting from a gasoline-price driven headline contraction in August CPI-U inflation, the real median income household income jumped sharply in August 2015, recovering for the first time its level seen at the trough of the formal 2007-to-2009 recession. All the consumer-liquidity series will be updated and reviewed fully in *Commentary No. 758*, scheduled for October 14th, coincident with the release of September 2015 nominal retail sales.

Graph 13a: Monthly Real Median Household Income Index to August 2015



[The Reporting Detail includes expanded detail on Labor Conditions and Construction Spending.]

HYPERINFLATION WATCH

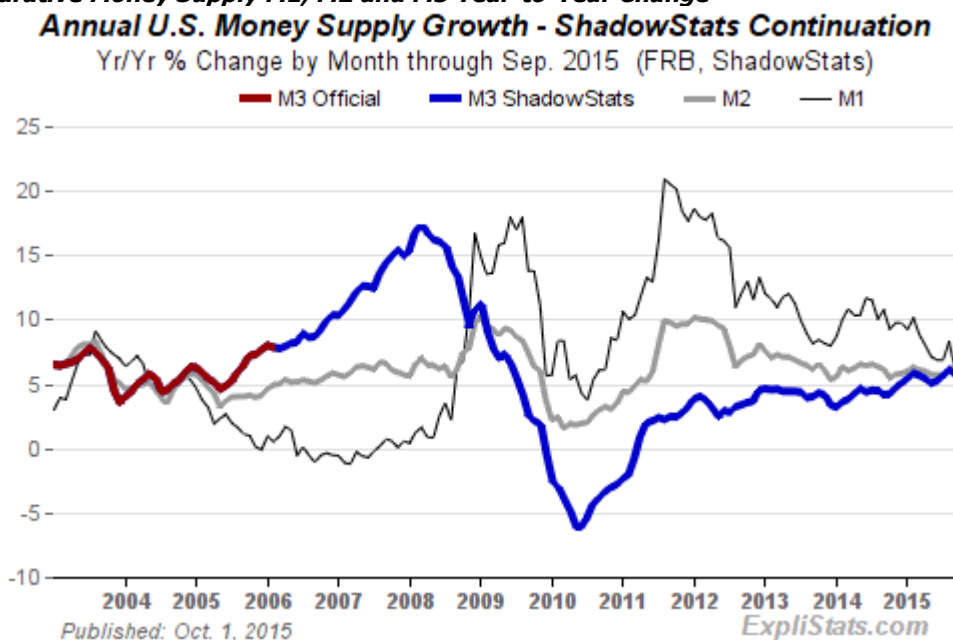
MONETARY CONDITIONS

September M3 Growth Slowed Sharply Year-to-Year, Declined Month-to-Month for First Time Since January 2011; Monetary Base Had Largest Two-Week Tumble Since July 2009. 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 relatively stable, near record levels. Despite relative stability also 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, the latest (September 30th) two-week average just tumbled by 4.4% (-4.4%), or down at an annualized pace of 69.1% (-69.1%), its largest bi-weekly drop since the formal trough of the economic plunge in July 2009.

Separately, ShadowStats estimates that annual growth in September 2015 broad money supply M3 slowed to 5.7%, from an unrevised 6.1% in August 2015. The previously surging annual growth rate in August 2015 had been the highest seen since June 2009—the end of the formal 2007 recession. On a month-to-month basis, September M3 declined for the first time since January 2011.

The movements here are unusually large and negative, and ShadowStats will be following developments closely in the weeks ahead. At work could be no more than unusually poor-quality seasonal adjustments out of the Federal Reserve, the FOMC could be working some unheralded machinations in the system, and/or there could be a problem developing in the financial system.

Graph 14: Comparative Money Supply M1, M2 and M3 Year-to-Year Change



Money Supply M3 Annual Growth Tentatively Eased Back to 5.7% in September, versus a 6.1% Gain in August 2015. Year-to-year growth in September 2015 M3 (ShadowStats-Ongoing Measure) fell to 5.7% from an unrevised 6.1% in August 2015, but still was up from 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. Any revisions seen in the accompanying data generally are due to frequent, regular and irregular benchmark revisions by the Federal Reserve to the underlying, seasonally-adjusted monthly detail.

Money Pulled Out of M3 Into M2 Is Distorting Broad Money Growth Picture. For most of 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, but that suddenly is reversing. Viewed separately from the September pullback in annual M3 growth, annual M2 growth was on the relative rise, but only due to cash moving out of M3 accounts such as large time deposits and institutional money funds, into M2 accounts. Broad money supply is shrinking month-to-month, slowing year-to-year, not expanding as suggested by the narrower M2 account.

After the M3 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 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 6.1% in August, and now a pullback to 5.7% in September.

The seasonally-adjusted, early estimate of month-to-month change for September 2015 money supply M3 was roughly a decline of 0.2% (-0.2%), the first monthly decline in M3 since January 2011. The September drop was versus an unrevised gain of 0.7% in August 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 September 2015 have been updated on the [Alternate Data](#) tab of www.ShadowStats.com.

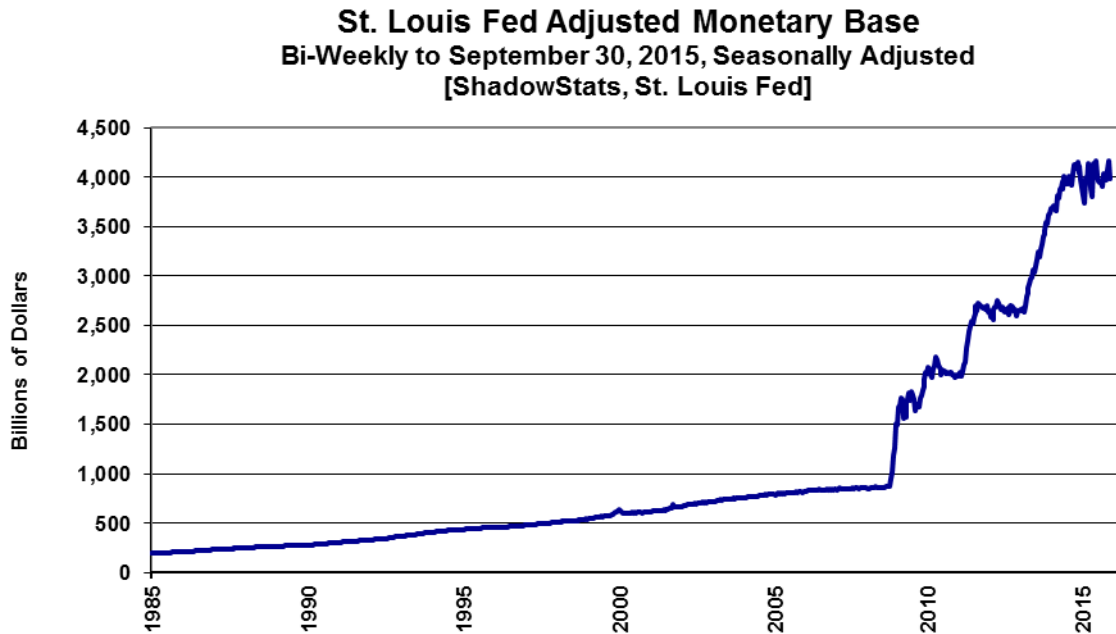
Growth for September M1 and M2. In the context of distortions from shifting funds, discussed in the M3 section, September 2015, year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1; M3 includes M2). See the [Money Supply Special Report](#) for full definitions of those measures.

Annual M2 growth in September 2015 rose by 6.5%, versus an unrevised gain of 6.1% in August 2015, with a month-to-month gain of about 0.7% in September 2015, the same as the revised 0.7% monthly gain in August. For M1, year-to-year growth fell back to 6.3% in September 2015, versus a revised annual gain of 8.3% [previously up by 8.5%], with a month-to-month decline of 0.4% (-0.4%) in September 2015, versus a revised gain of 0.5% [previously up by 0.7%] in August 2015.

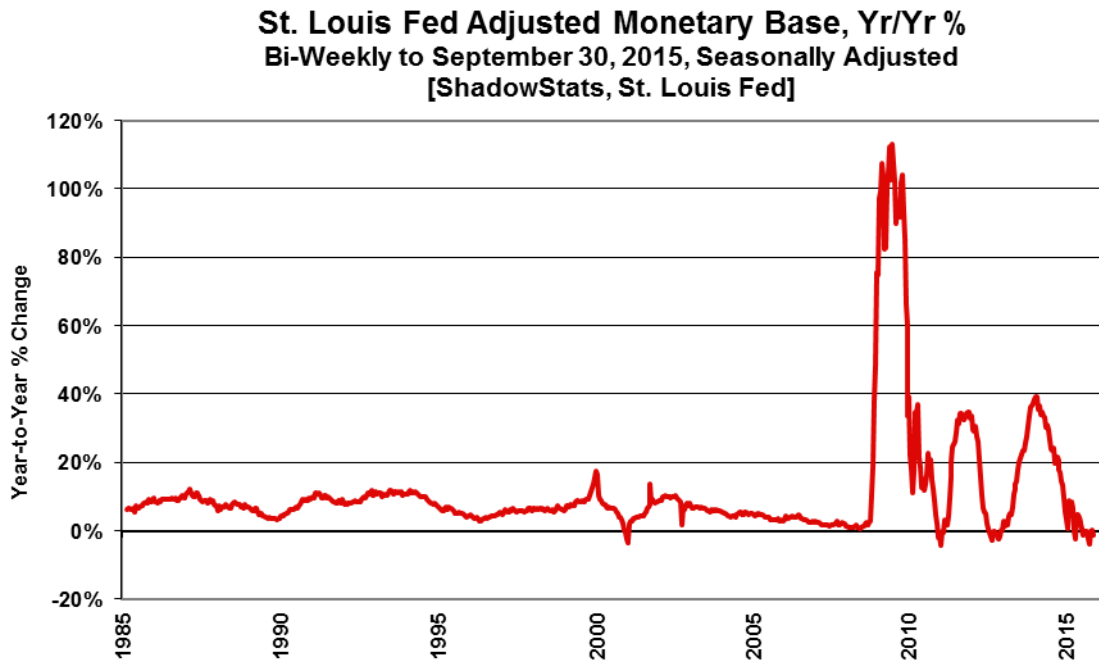
With the Monetary Base Touching Its Record High in Early-September, "Quantitative Easing" Appeared Very Much in Play, Until Late-September. Discussed in [No. 742 Special Commentary: A World Increasingly Out of Balance](#) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), the Fed's actions have shown its primary mission to be keeping the banking system solvent and afloat—irrespective of Congressional mandates on employment and inflation—but that was not working, coming into the Panic of 2008. Introduced in 2008, quantitative easing 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 did not. Only as the Fed pulled back from aggressive asset purchases did M3 begin to show a little, fluctuating upside movement.

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

Graph 15: Monetary Base Level, through September 30, 2015



Graph 16: Monetary Base, Year-to-Year Percent Change, through September 30, 2015



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

back to a five-month high of \$4.165 trillion in the two-week period ended September 16th (a hair's breadth shy of matching the all-time high), before plunging to \$3.981 trillion in the latest two-week period, ended September 30th.

Despite relative stability in the monetary base during the last year, that latest (September 30th) two-week average just tumbled by 4.4% (-4.4%), down at an annualized pace of 69.1% (-69.1%), the largest bi-weekly drop in the monetary base since the formal trough of the economic plunge in July 2009.

Still, 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 purportedly continues to 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 (see [Commentary No. 754](#)).

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Questions Mount on Systemic Stability; Dollar Faces Massive Decline with Ongoing Implications for Hyperinflation. This *Summary* has not been changed since *Commentary No. 754* of September 24th, other than for updated internal references or links and minor language corrections.

Background Documents to this Summary. Underlying this *Summary* are [No. 742 Special Commentary: A World Increasingly Out of Balance](#) of August 10th, and [No. 692 Special Commentary: 2015 - A World Out of Balance](#) of February 2, 2015, which 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 two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. In terms of underlying economic reality, one other reference is the [Public Commentary on Inflation Measurement](#). The regular *Commentaries* also update elements of the general outlook, as circumstances develop.

Primary Summary. The U.S. economy remains in ongoing downturn, while the U.S. dollar still faces a massive decline in the wake of an extraordinary rally seen since June 2014, and in the context of a renewed economic downturn, ongoing domestic fiscal imbalances and ongoing financial-system instabilities. Financial-system concerns likely are the primary reason behind the inability or unwillingness of the Federal Reserve's Federal Open Market Committee (FOMC) to raise interest rates. Those factors have implications for a meaningful upturn in domestic inflation, eventually evolving into a great hyperinflationary crisis.

Indeed, symptomatic of a financial system in serious distress, the FOMC remains unable or unwilling to move decisively on raising interest rates, to move the financial system towards monetary normalcy. Continued inaction or waffling by the Fed has begun to shift the focus and concerns of domestic and global investors away from what appears increasingly to be perpetual moribund economic activity into the areas of systemic instabilities, prospective or otherwise, that are so troubling to the U.S. central bank (see [Commentary No. 750](#) and [Commentary No. 754](#)). Fed policy inaction, if anything, has exacerbated the

long-term economic stagnation and renewed business downturn, where the quantitative easings always were intended as covert bailouts for the banking system, under the political cover of a weak economy (see for example, the preceding *Monetary Conditions* section).

Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by eventual, unfettered monetization of the national debt and obligations, leading to a hyperinflation. As first estimated by ShadowStats in 2004, such hyperinflation appeared likely by 2020. That time horizon for the hyperinflation forecast was moved to 2014, because of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) responses to same. That hyperinflation forecast remains in place, but it has been adjusted into 2015 or 2016, as discussed in [No. 742](#) and [No. 692](#).

The basic 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 [2014 Hyperinflation Report—The End Game Begins—First Installment Revised](#).

Dollar Circumstance. Discussed in the background documents, the U.S. dollar rallied sharply from mid-2014 into early-2015, and despite some fluttering, into August. Initially, the rally reflected 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 over-estimated by global markets looking to support the dollar.

The still unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had begun to raise doubts, and more recently to confirm fears 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 briefly backed off its highs, with some related upside pressure having been seen on oil prices. Pressures reversed recently, spiking the U.S. dollar—also hitting oil prices anew—with false domestic economic strength being touted by Wall Street, and with some in the Fed indicating that interest rates would be raised in September, irrespective of negative indications on the economy (such did not happen). Coincident, with these events, not-so-covert central-bank actions appear to have driven the price of gold lower, also in the context of mounting global financial-market instabilities.

The U.S. economy remains in contraction (see [Commentary No. 747](#), [Commentary No. 751](#), [Commentary No 755](#) and the *Opening Comments*), with a variety of key indicators, such as industrial production, real retail sales and revenues of the S&P 500 companies continuing to show recession. Although formal recognition could take months, consensus recognition of a "new" recession should gain relatively rapidly, in tandem with a variety of monthly, quarterly and annual data reflecting the downturn in business activity. When formal recognition comes, timing of the onset of the recession likely will be December 2014.

As market expectations move towards an imminent, new recession, such not only should reduce expectations for a significant tightening in Fed policy, but also should renew 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 should 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, also would 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 unwind what has 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. Further, oil prices should spike anew, along with a sharp reversal in the dollar's strength.

A crash back to recognition of more-realistic domestic-economic circumstances looms, possibly in the weeks and certainly in the months ahead. It should be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar (currencies with some perceived ties to gold); 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 risk for fueling further heavy selling of the dollar. Once in heavy downturn, the dollar's gains since June 2014 should reverse fully, pushing the exchange-rate value of the dollar to new historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies 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. Fed tightening likely is not now on the horizon until after the 2016 presidential election. Suggestions that all was right again with world were nonsense. The Fed's games likely now will be played out as far as possible, with hopes, once again, of avoiding a financial-system collapse.

Inaction by the FOMC on September 17th was telling. The Panic of 2008 never was resolved, and the Fed increasingly has found 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. Again, despite loud promises now of higher rates before year-end or next year, banking-system issues (not the economy) may keep the "pending" interest rate hike in a continual state of suspension. The economy certainly will supply continuing political cover for the Fed's "inaction," with the U.S. central bank having lost control of the system.

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 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 in the near future, 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 banking system and to the increasingly unstable equity markets. While higher domestic interest rates would tend to act as a dollar prop, a hike in rates also could crash the stock market, as some on Wall Street fear, triggering a round of other systemic problems. Again, there is no happy way out of this for the Fed.

The 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 likely will become dominated by deteriorating global perceptions of stability in U.S. economic activity and political system, 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 and contracting production, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see [Commentary No. 752](#)). Sharply-negative economic reporting shocks, versus softening consensus forecasts, remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle (see *Opening Comments*).
- ***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, with total net obligations of the U.S. government pushing \$100 trillion, including the net present value of unfunded liabilities. Still, many in Washington look to continue increasing spending and to take on new, unfunded liabilities. This circumstance now operates in the context of the formal constraint of a renewed debt ceiling that is within a month of being in crisis (see *Opening Comments*).
- ***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 2014 monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury, but more of that lies ahead. If the Fed does not move soon to boost interest rates, it may be trapped in a

renewed expansion of 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 the intensifying 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 remain nil. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency issues 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 intensifying, 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 global financial instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly. Consider that China has been selling some of its U.S. Treasury debt holdings to raise cash in for its near-term financial needs. Again, much of the rest of the world also has been backing away from holding U.S. treasury securities. Slack demand for U.S. Treasuries always can be taken up by the Federal Reserve's renewed monetization of the debt.

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, still 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. See Chapter 10, [2014 Hyperinflation](#)

[Report—Great Economic Tumble](#) for detailed discussion on approaches to handing the hyperinflation crisis and [No. 742](#), for other factors afoot in the current environment.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (September 2015)

September Labor Detail Remained Meaningless, with Weakening Payrolls and Unstable Headline Unemployment. *[Note: This section, through the PAYROLL SURVEY DETAIL, largely is repeated from the Opening Comments.]* Underlying reality for U.S. labor conditions in September 2015 remained in the realm of a 22.9% broad unemployment rate, with headline payroll employment declining month-to-month. Those areas are reviewed in the main text.

Reality aside, the headline (U.3) unemployment rate was "unchanged" at 5.1%, dropping from 5.11% in August to 5.05% in September, at the second decimal point. Such reflected a loss of 350,000 (-350,000) in the labor force, comprised of a drop of 114,000 (-114,000) among the unemployed and a decline of 236,000 (-236,000) among the employed. Had the count of the unemployed dropped by just 1,000 more, to 7,914,000, the headline September U.3 unemployment rate would have rounded to 5.0% instead of 5.1%, reflecting a headline monthly decline of 0.1% (-0.1%) in the unemployment rate.

That said, those monthly headline employment and unemployment shifts from the household survey were without any meaning or significance, because the seasonally-adjusted headline September and August details were neither consistent nor comparable. Discussed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors* section, the Bureau of Labor Statistics (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 revised prior-period details, leaving actual month-to-month changes in headline data unknowable from a public perspective, and otherwise completely without meaning. On a consistent-reporting basis, headline monthly reporting detail, such as the unemployment rate, could have held even in September, but just as easily could have declined or 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.

In the headline payroll-employment survey, monthly jobs growth came in sharply-below market expectations, at 142,000 in September, versus a revised 136,000 [previously 173,000] gain in August and a non-comparable gain of 223,000 in July. Again, though, the headline numbers were subject to the usual reporting biases and distortions, with September payrolls non-comparable to reporting in July 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 September 2015 payrolls most likely fell month-to-month. In terms of some pending improvement in the data quality—suggested here last month—the BLS confirmed an initial estimate of a downside 2015 payroll-benchmark revision (see the *Birth-Death Model* and [Commentary No. 753](#)).

On a not-seasonally-adjusted basis, however, there was some meaningful slowing in year-to-year payroll growth, with September's annual growth rate dropping below 2.0%, to a fifteen-month low.

PAYROLL SURVEY DETAIL. The Bureau of Labor Statistics (BLS) published the headline employment and unemployment data for September 2015, this morning, October 2nd. In the context of downside revisions to July and August payrolls, the seasonally-adjusted, headline payroll gain for September 2015 was a weaker-than-expected 142,000 jobs +/- 129,000 (95% confidence interval). Net of prior-period revisions, the gain in September payroll employment was 83,000 jobs.

The headline 142,000 increase in September payrolls followed a downwardly-revised 136,000 [previously 173,000] gain in August payrolls, and a revised gain of 223,000 [previously up by 245,000, initially up by 215,000] in July. The headline 223,000 jobs gain in July, however, really was 236,000, on a consistent-reporting basis. Although the headline detail prior to August 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 August 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 142,000 monthly gain in September 2015 payrolls and the revised 136,000 jobs gain in August were inconsistent with, and not comparable to, the revised headline July 2015 gain of 223,000. The gain consistent with the new headline September-based detail was 236,000 for July, some 13,000 more 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 September 2015 reporting and recalculations, the November 2014 versus October 2014 gain was 329,000, down by 94,000 (-94,000) 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](#).

Downside 2015 Payroll Benchmark Revision of 208,000 (-208,000) Announced by the BLS. The advance estimate of the 2015 benchmarking for payroll employment, announced on September 17th, indicated a downside revision of 208,000 (-208,000) jobs to the base March 2015 payroll employment levels (see [Commentary No. 753](#) and the *Birth-death Model* section).

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.

"Trend Model" for October 2015 Headline Payroll-Employment Change Shows Headline Growth Holding Around 150,000. Discussed in [Commentary No. 749](#), 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 September 2015 monthly payroll gain of 252,000, based on the BLS trend model structured into the actual headline reporting of August 2015. The detail here can be calculated independently, using material available from the BLS.

Consensus estimates tend to settle around that trend, but the late-consensus expectations level [Bloomberg at 203,000, MarketWatch at 200,000 (early-consensus at 190,000)] was about 50,000 jobs shy of the trend number. The 142,000-headline gain was well below both consensus and trend estimates, but much closer to trend. Unusual seasonal factors may be repeating here, where similar trend and reporting patterns were seen in September 2014, with the well-below-trend September reporting then revising sharply higher with the October 2014 headline reporting.

October 2015 Trend Estimate. Exclusive to ShadowStats subscribers, based on headline BLS modeling for September 2015 reporting, the ExpliStats trend number calculations suggest a BLS-based headline gain of 152,000 for October 2015. October consensus expectations could be expected to settle in around that level.

Construction-Payroll Growth Reporting Still Not Supportive of Headline Construction Spending Gains. *Graph 27* of construction-payroll employment follows in the *Construction Spending* section, next in this *Reporting Detail*. 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). Headline month-to-month growth was about 0.1% in September 2015 construction payrolls, the same tepid pace (at the first decimal point) as seen in the total nonfarm payroll growth, such was the peak monthly growth since May 2015.

The September 2015 construction-payroll level of 6.396 million, showed a headline gain of 8,000 jobs for the month, versus an unrevised August payroll level, although August payrolls gained a revised 5,000 [previously 3,000] jobs in the month, versus a revised gain of 5,000 jobs [previously up by 7,000, initially up by 6,000] in July.

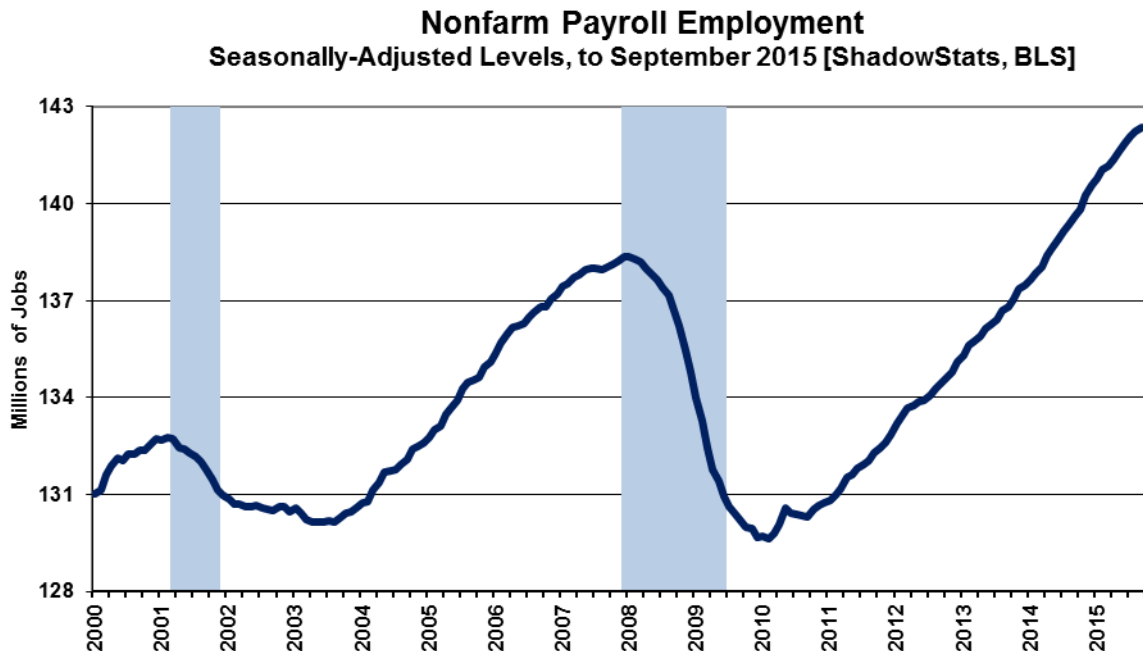
The purported annualized gain of 28.2% in second-quarter 2015 real construction spending was not supported by the unrevised annualized headline growth of 2.6% in second-quarter 2015 construction payrolls. Further, the annualized pace of construction payroll growth in third-quarter growth has slowed to about 1.0%, versus an early third-quarter pace of annualized 5.2% growth in real-construction spending.

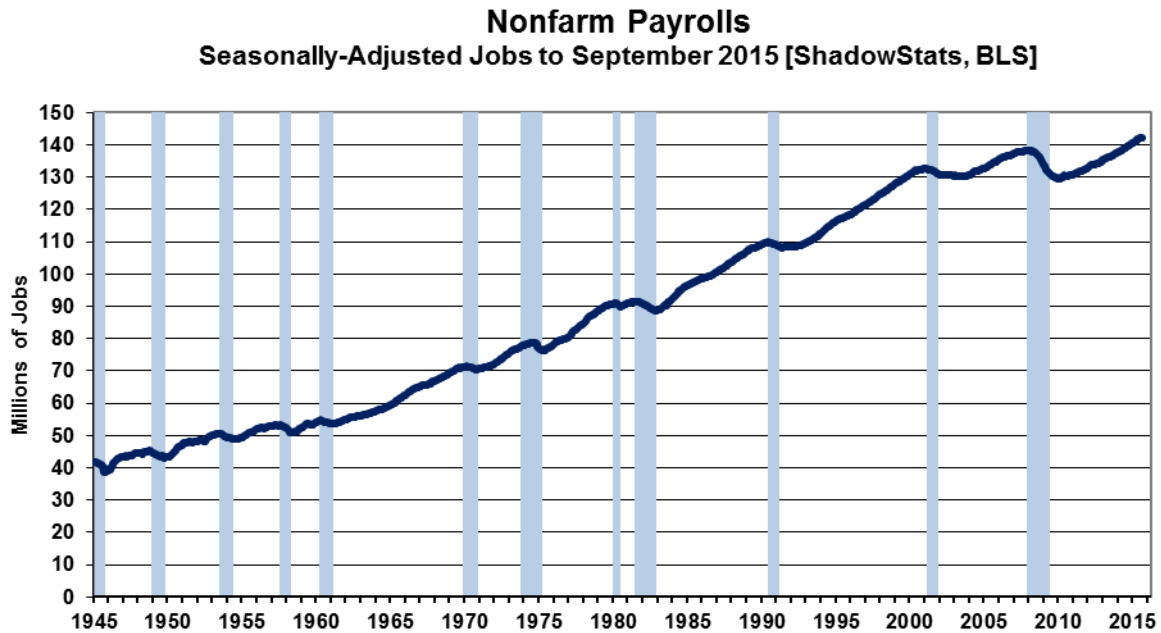
Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total September 2015 construction jobs remained down by 17.2% (-17.2%) from the April 2006 pre-recession 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 2014 benchmark revisions published in February 2015), and it has continued to rise. Including the headline jobs gain of 142,000 in August 2015, headline payroll employment now is about 4.0-million jobs above the pre-recession peak.

The *Graph 17* and *18* show the headline payroll series, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. 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 17: Nonfarm Payroll Employment to September 2015



Graph 18: Nonfarm Payroll Employment 1945 to September 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 19*, where the level of full-time employment (Household Survey) briefly recovered its pre-recession high in August 2015, it fell back to below its pre-recession peak in September, albeit shy of the peak by just 36,000 jobs.

Such compares with the headline payroll-employment level that now is 4.0-million above its pre-recession high, having regained its peak some 17-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.

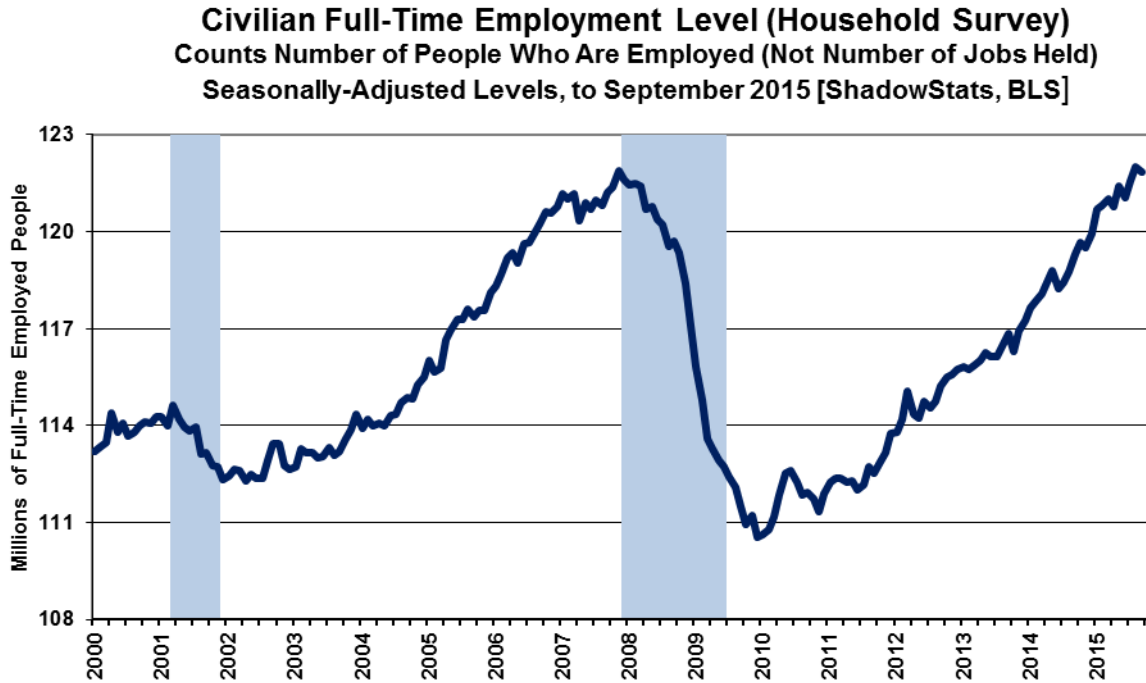
Graphs 20 and *21* plot comparisons of activity in full-time employment versus payroll jobs, post-economic collapse. Full-time employment was hit hardest, with headline employment "recovery" coming largely from individuals having to settle for part-time work.

As a separate consideration and an indication of the level of nonsensical GDP reporting, where employment traditionally is a coincident indicator of broad economic activity, the GDP purportedly recovered its pre-recession high some four years ago, more than two years before payroll activity.

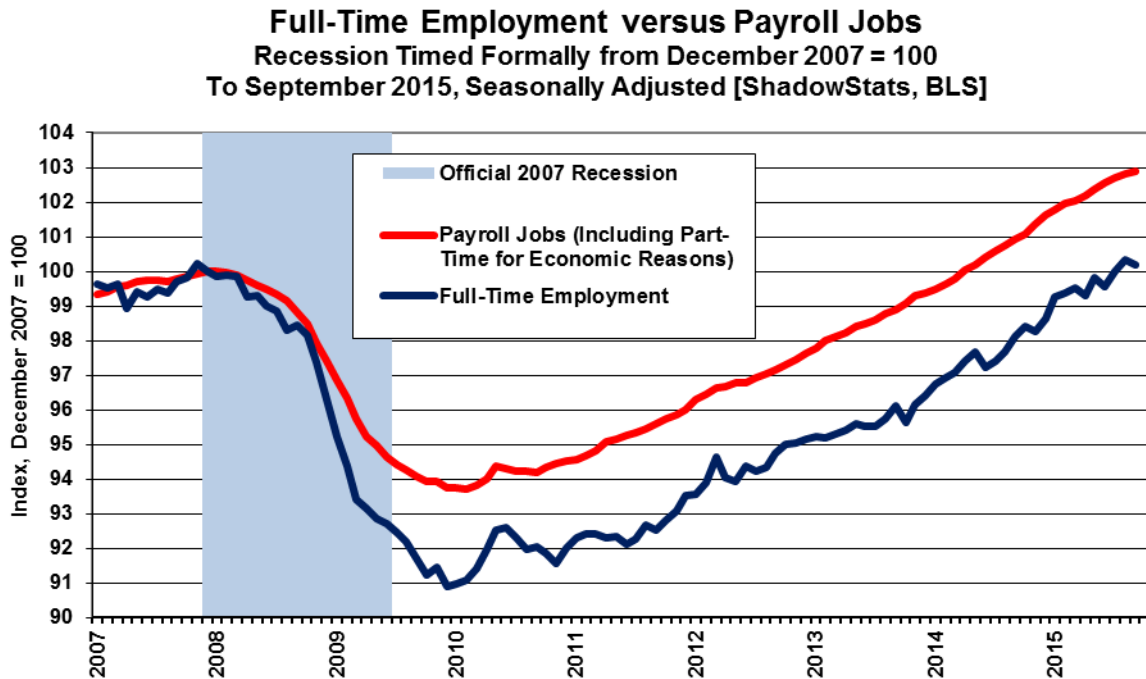
Full-time employment fell by a seasonally-adjusted headline 185,000 (-185,000) in September 2014, following a gain of 435,000 in August, a gain of 536,000 in July, and a decline of 349,000 (-349,000) in June. The monthly reporting is volatile and the series likely will drop even further below its pre-recession

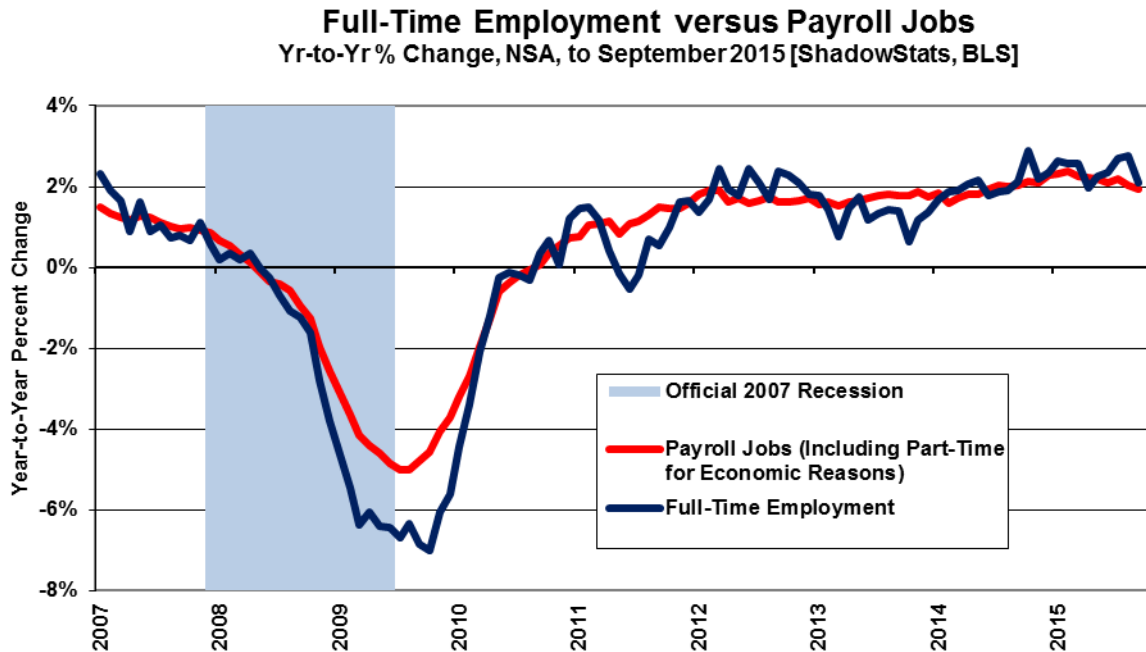
peak in the months ahead. At present, it stands shy by 36,000 (-36,000) of its November 2007 peak of 121.875 million.

Graph 19: Full-Time Employment (Household Survey) to September 2015



Graph 20: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)



Graph 21: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year

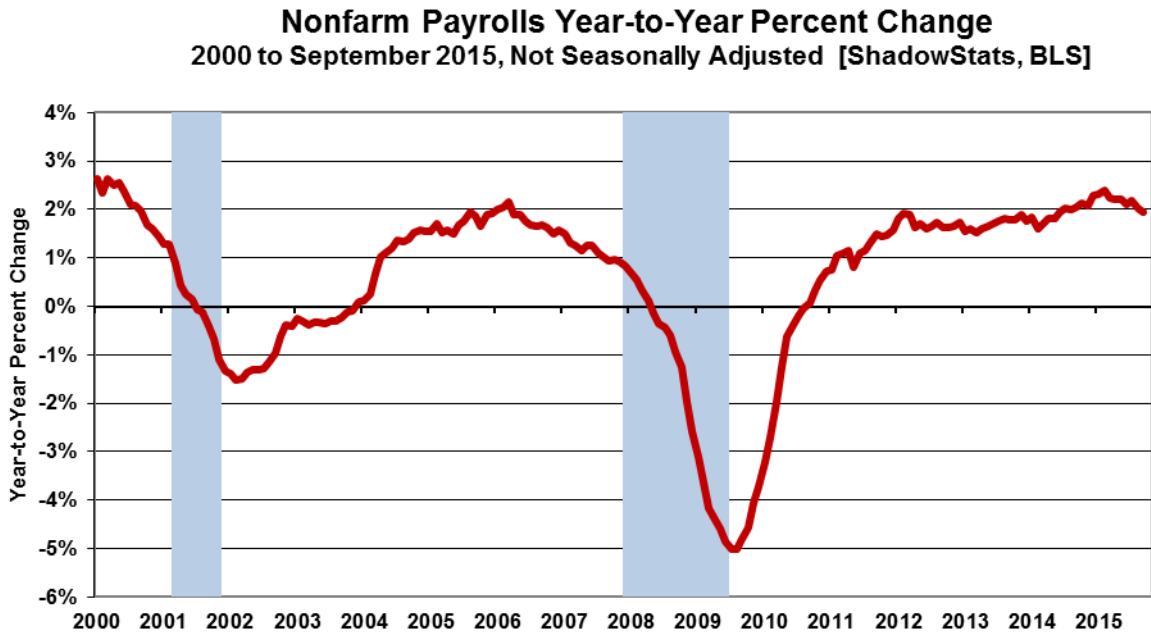
Headline month-to-month volatility in the full-time employment reporting is more a function of the instabilities from non-comparability of the headline, seasonally-adjusted monthly data (see the discussion in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section), than it is as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

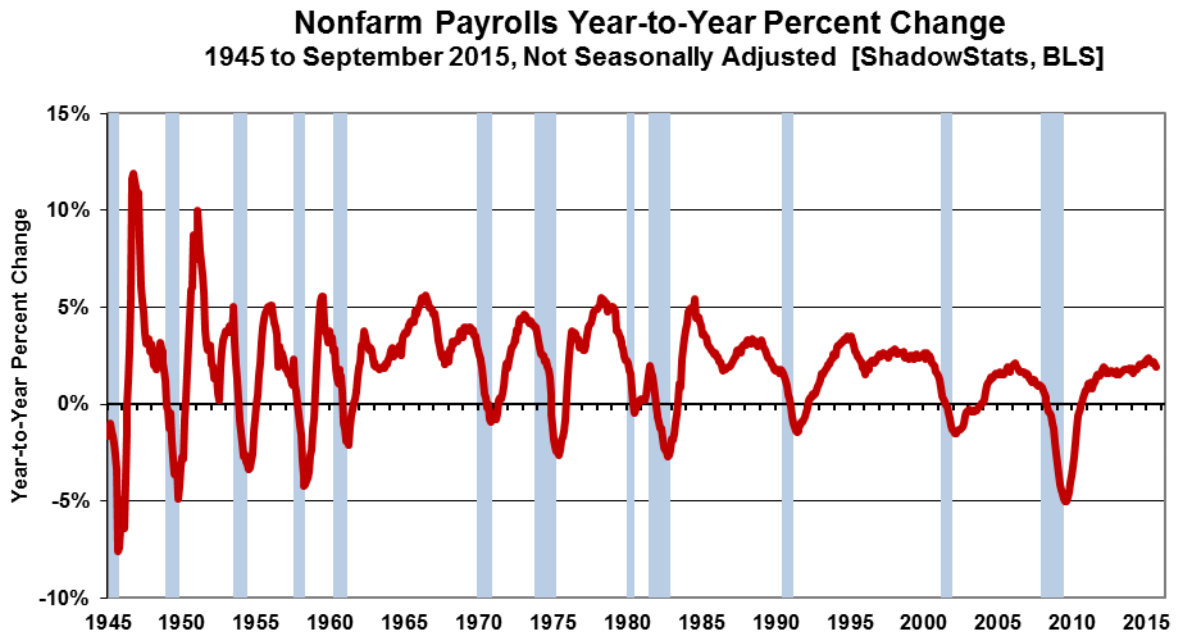
Annual Percent Change in Headline Payrolls—Slowing Growth. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis. Yet, a possible new redefinition 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 September 2015 slowed to 1.94%, from a revised 2.04% [previously 2.08%] annual gain in August 2015, and an unrevised 2.18% [initially 2.13%] gain in July 2015. The September reading was the weakest annual growth in 15 months.

Graph 22: Payroll Employment, Year-to-Year Percent Change, to September 2015



Graph 23: Payroll Employment, Year-to-Year Percent Change, 1945 to September 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 September 2015 numbers were not comparable with the previous August 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.

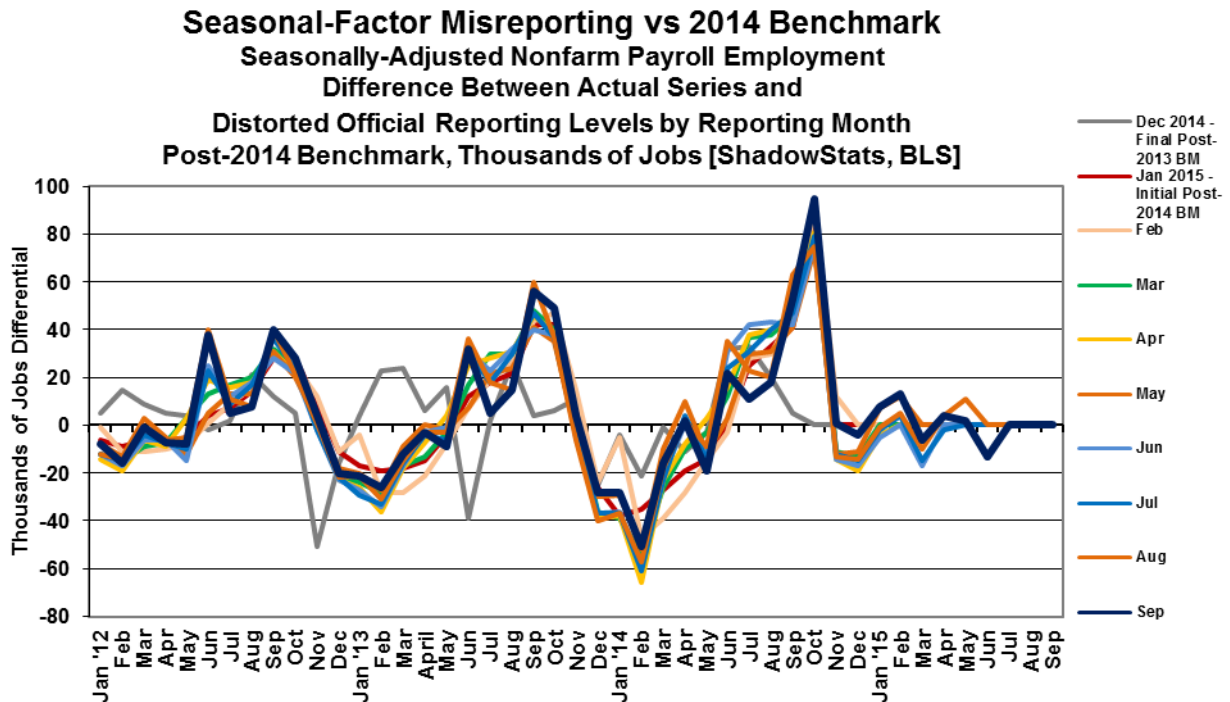
Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), monthly changes in the seasonally-adjusted headline September 2015 data are comparable only with the headline changes in the August 2015 numbers, not with July 2015 or any 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. In the current reporting, September 2015 appears to have been depressed, 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 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 24: Monthly Concurrent-Seasonal-Factor Irregularities with Monthly Payroll Employment



Graph 24 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 September 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 (September 2015) with the thinner orange line (August 2015), shows shifts in seasonal factors in July through September 2014 numbers, with implied seasonality shifts for headline reporting in the July to September 2015 period.

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 August 2015 detail no longer is neither consistent nor comparable with data from July 2015 or earlier). Comparable with headline September and August reporting, July's current headline jobs gain of 223,000 was understated by 13,000 (up by 235,000 on a consistent basis), while the gain for June 2015 is headline at 245,000, such now is 230,000, consistent with the September 2015 detail. 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 understated payrolls of 67,000 (-67,000), the BLS upped its annual add-factor bias by an even greater 161,000 for the year ahead, to 892,000.

The BLS just announced a preliminary downside revision of 208,000 (-208,000) jobs to the base March 2015 payroll employment levels (see [Commentary No. 753](#) of September 17th for details). Such had been suggested from recent shifts in existing bias factors. As has been standard BLS practice, there is no good political reason for risking a headline understatement of jobs growth, so the ultimate, actual benchmarking for 2015, to be published in February 2016, will have to speak for itself.

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.

September 2015 Add-Factor Bias. The not-seasonally-adjusted September 2015 bias was a negative monthly add-factor of 34,000 (-34,000), versus from a positive add-factor of 111,000 in August 2015, and a negative add-factor of 19,000 (-19,000) in September 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 was consistent with the downside benchmark-revision announcement for 2015.

The revamped, aggregate upside bias for the trailing twelve months through September 2015 was 789,000, versus 804,000 in August, 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 66,000 in September (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 66,000 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 September 2015 unemployment rate (U.3) declined by 0.06-percentage point to 5.05% (a rounded 5.1%), from 5.11% (a rounded 5.1%) in August. Technically,

the headline September 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.

Given headline category counts, rounded to the nearest 1,000, the U.3 unemployment rate was within only 1,000 fewer "unemployed," out of the 7,915,000 headline total unemployed, from rounding to 5.0% in September, down from 5.1% in August. The month-to-month change in the seasonally-adjusted, headline unemployment rates is meaningless, though, in the context of the non-comparability of the headline monthly data.

The non-comparability results from the BLS's reporting methodology and use of concurrent-seasonal-adjustment factors (see *Headline Distortions from Shifting Concurrent Seasonal Factors*). Those issues are separate from official questions raised as to falsification of the Current Population Survey (CPS) 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. The September 2015 unadjusted U.3 unemployment rate eased to 4.87% from 5.19% in August.

The less than full-point decline in the seasonally-adjusted, headline September U.3 unemployment rate reflected a decline of 114,000 (-114,000) unemployed individuals, on top of an additional decline of 236,000 (-236,000) employed individuals. An aggregate of 350,000 individuals were defined out of labor-force existence, with the labor force declining by 350,000 (-350,000) for the month. The redefinition process involves a portion of the headline unemployed being re-defined out of U.3 as marginally-attached, and a portion of those marginally-attached being redefined out of inclusion in U.6.

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 minimal decline in the underlying seasonally-adjusted U.3 rate, a decline in the adjusted number of people working part-time for economic reasons and a less-than-offsetting increase in unadjusted discouraged workers and the balance of those marginally attached to the workforce, headline September 2015 U.6 unemployment eased to 10.01%, from 10.27% in August 2015. The unadjusted U.6 was at 9.61% in September, versus 10.26% in August.

"Short-Term" Discouraged Workers. The count of short-term discouraged workers in September 2015 (never seasonally-adjusted) rose to 635,000, from 624,000 in August, where the total, short-term marginally-attached discouraged workers rose to 1,921,000 in September, versus 1,812,000 in August. 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 September 2015 ShadowStats-Alternate Unemployment Estimate held at 29.9%, versus 29.9% in August. The September 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, 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 3.663 million in September 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 (see *Graphs 2 to 4*).

Headline September 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 September 2015 ShadowStats-Alternate Unemployment Estimate, held at 22.9%, the same level as in August. The September 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 1* 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%.

CONSTRUCTION SPENDING (August 2015)

August Construction Spending Gain of 0.7% Largely Was Due to a Downside Revision to July. In the context of continuing, volatile monthly revisions, the 0.7% gain in August construction spending largely was accounted for by a relative downside revision of 0.4% (-0.4%) to the previously-reported level of July 2015 spending, while relative July performance also was enhanced slightly by a downside revision of 0.1% (-0.1%) to the previously-reported level of June activity. The August headline reporting and revisions are plotted versus July's headline detail, as shown in *Graph 6* in the *Opening Comments*.

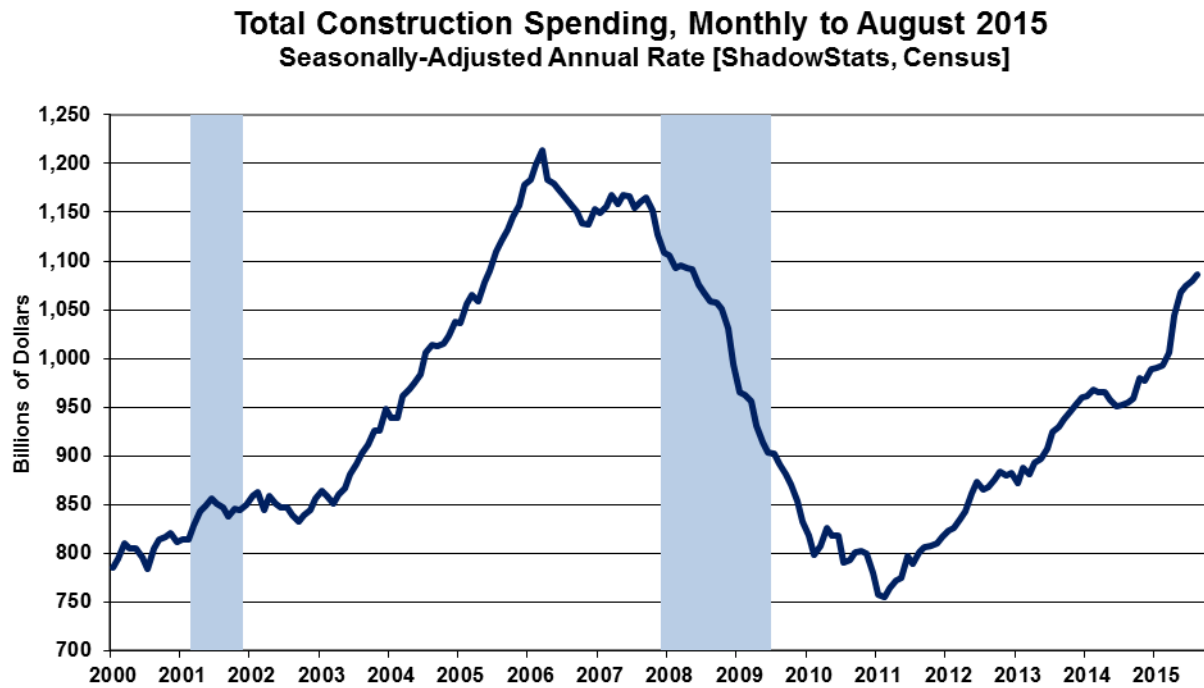
Separately, although construction-related inflation continues to spike the headline nominal numbers (month-to-month August 2015 excepted), the softened patterns of inflation-adjusted real growth still continue to run well ahead of, and are not supported by, growth in related construction employment. That suggests that the government estimates of construction inflation are too low, as generally confirmed by private surveys (see the *PPI Final Demand Construction Index* section).

Reflecting all revisions and full quarterly reporting, second-quarter 2015 real construction spending (deflated by PPI construction inflation) showed a revised annualized 28.2% quarterly gain [previously up by 28.3%, initially up by 25.7%], versus an unrevised 4.1% annualized gain in first-quarter 2015. Based solely on the current headline reporting for July and August 2015, third-quarter annualized growth was on track for an annualized 5.2% gain [previously a 5.3% gain based just on initial July reporting].

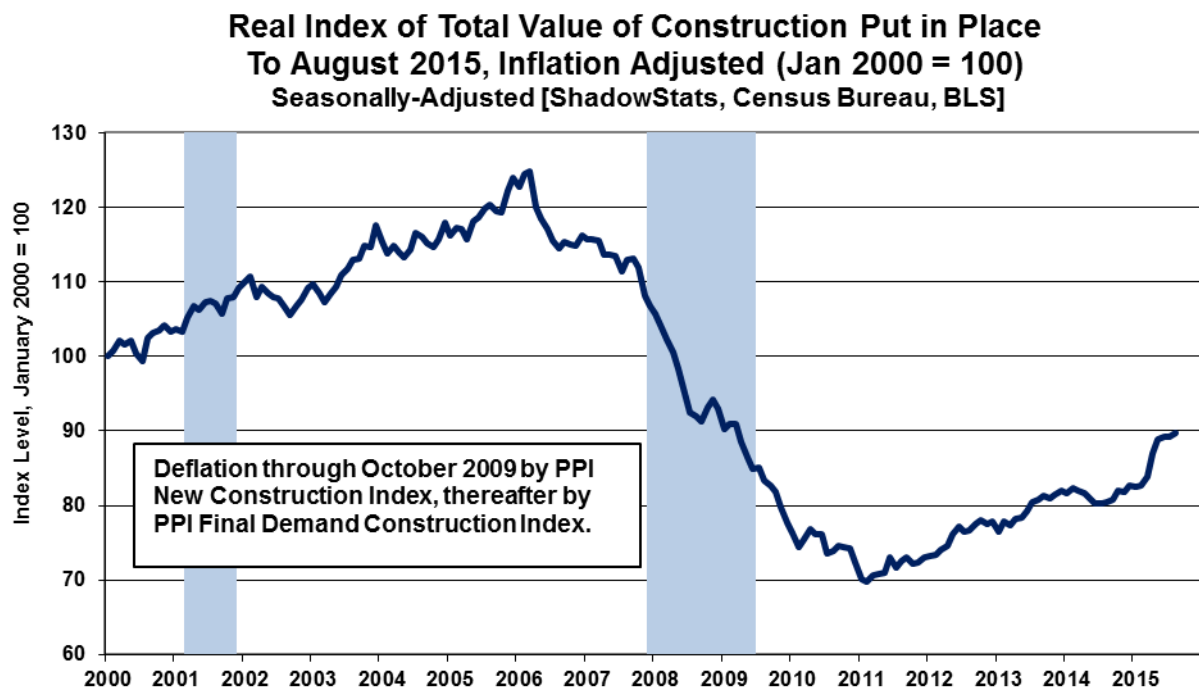
Graphs 7 to 10 in the *Opening Comments* section show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public construction spending. Seen after adjustment for inflation, the aggregate series had remained in low-level stagnation into first-quarter 2015. It spiked in recent months, but slowed in the last several months of reporting, with the real series in August 2015 still holding at 28.0% (-28.0%) below its pre-recession peak of March 2006. The general pattern of real activity remains one of low-level, albeit up-trending stagnation. The aggregate nominal detail is shown here in *Graph 25*, with the real detail in *Graph 26*.

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*.

Graph 25: Total Nominal Construction Spending



Graph 26: Index of Total Real Construction Spending



The previously-used New Construction Index (NCI) in the PPI 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. Private surveys tend to show higher construction-related inflation than is reported by the government. For example, year-to-year inflation reflected in the privately-published Building Cost Index [Dodge Data and Analytics (McGraw Hill) [Engineering News-Record](#)] is running about one-third above the headline pace of annual inflation in the PPI's Final Demand Construction Index.

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 August 2015, the seasonally-adjusted FDCI month-to-month inflation fell by 0.09% (-0.09%), versus a headline gain of 0.53% in July. In terms of year-to-year inflation, the August 2015 FDCI was up by 1.80%, versus 1.99% in July 2015. Where the subsidiary series tend to track the aggregate inflation detail over time, August 2015 headline publicly-funded construction inflation fell by 0.09% (-0.09%) for the month, and gained 1.80% year-to-year, with privately-funded construction inflation in August down by 0.18% (-0.18%) for the month, but up by 1.81% year-to-year.

Headline Reporting for August 2015. The Census Bureau reported October 1st the headline, total value of construction put in place in the United States for August 2015 was \$1,086.2 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up by a statistically-insignificant 0.7% +/- 1.8% (all confidence intervals are at the 95% level), versus a downwardly revised \$1,079.1 [previously \$1,083.4] billion in July. Net of prior period revisions, the headline monthly gain for August 2015 was 0.3%.

In turn, July spending was up by a downwardly revised 0.4% [previously up by 0.7%] versus a revised \$1,074.3 [previously \$1,075.9, initially \$1,064.6] billion in June. In turn, June spending was up by a downwardly revised 0.6% [previously up by 0.7%, initially up by 0.1%] versus an unrevised \$1,068.4 billion in May 2015 (again, see *Graph 6* in the *Opening Comments*).

Adjusted for FDCI inflation, aggregate real spending in August 2015 was up by 0.8%, following a revised decline of 0.1% (-0.1%) [previously up by 0.2%] in July.

On a year-to-year or annual-growth basis, August 2015 nominal construction spending rose by a statistically-significant 13.7% +/- 2.5%, versus a revised annual gain of 13.2% [previously up by 13.7%] in July 2015. Net of construction costs indicated by the FDCI, year-to-year change in spending was at 11.7% in August 2015, versus a revised 11.1% [previously up by 11.5%] in July 2015.

The statistically-insignificant, headline monthly increase of 0.7% in nominal August 2015 aggregate construction spending, versus the 0.4% gain in July 2015 spending, included a headline monthly gain of 0.5% in August public spending, versus a decline of 1.3% (-1.3%) in July spending. Private spending increased by 0.7% in August, following a 1.1% gain in July. Within total private construction spending, the residential sector rose by 1.3% in August, versus a 0.6% gain in July, while the nonresidential sector rose by 0.2% in August, versus a 1.6% gain in July. The graphs that follow show that extended detail.

Construction and Related Graphs. The earlier *Graphs 25* and *26* reflected total construction spending through August 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,

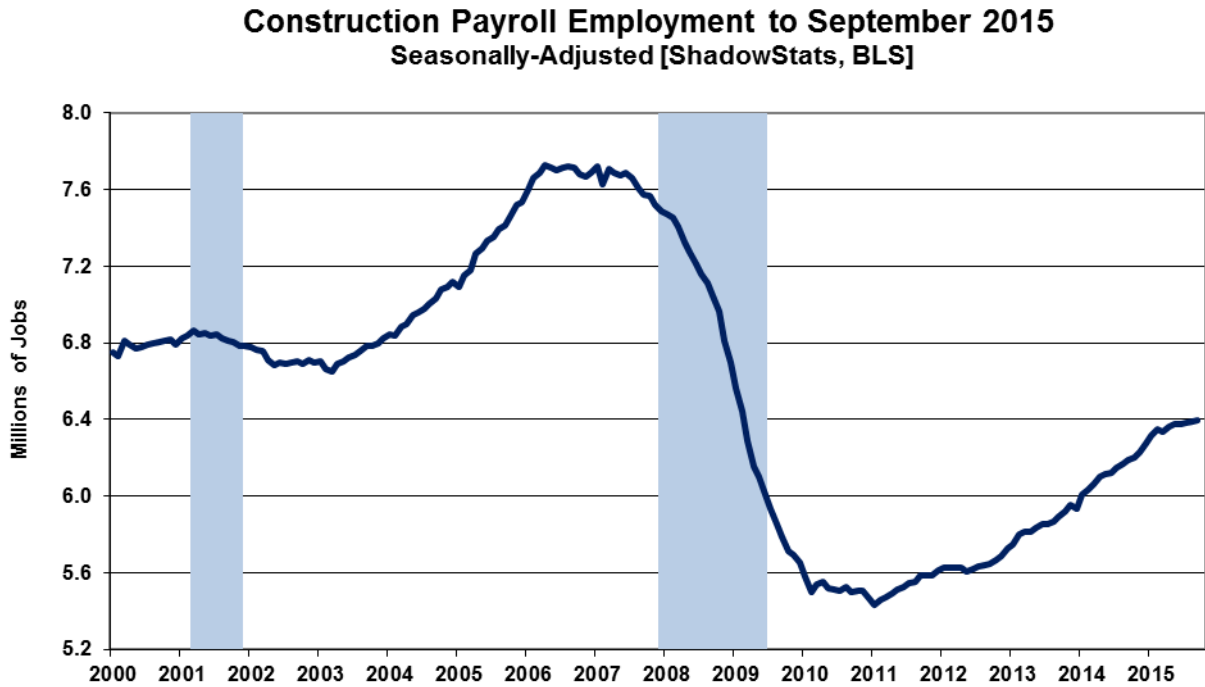
real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014 and in a low-level uptrend into 2015, with a recent spike that now appears to be topping out/softening with along prior-period revisions.

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 755](#)). To the contrary, the latest broad construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, generally still shows a pattern of low-level, variable stagnation, where activity never recovered pre-recession highs.

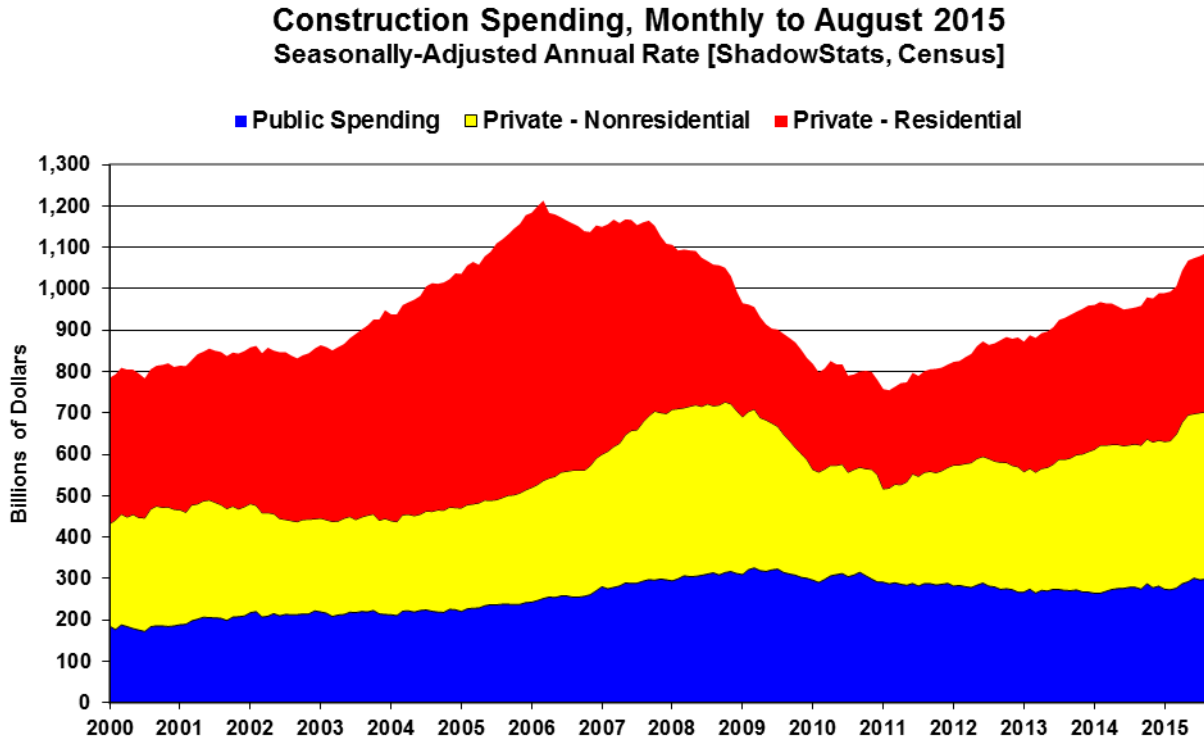
Graph 27 shows September 2015 construction employment, as detailed in the coverage of headline September 2015 payroll employment earlier in this *Reporting Detail*. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity.

Graph 28 shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential spending (red).

Graph 27: Construction Payroll Employment to September 2015



Graph 28: Aggregate Nominal Construction Spending by Major Category to August 2015

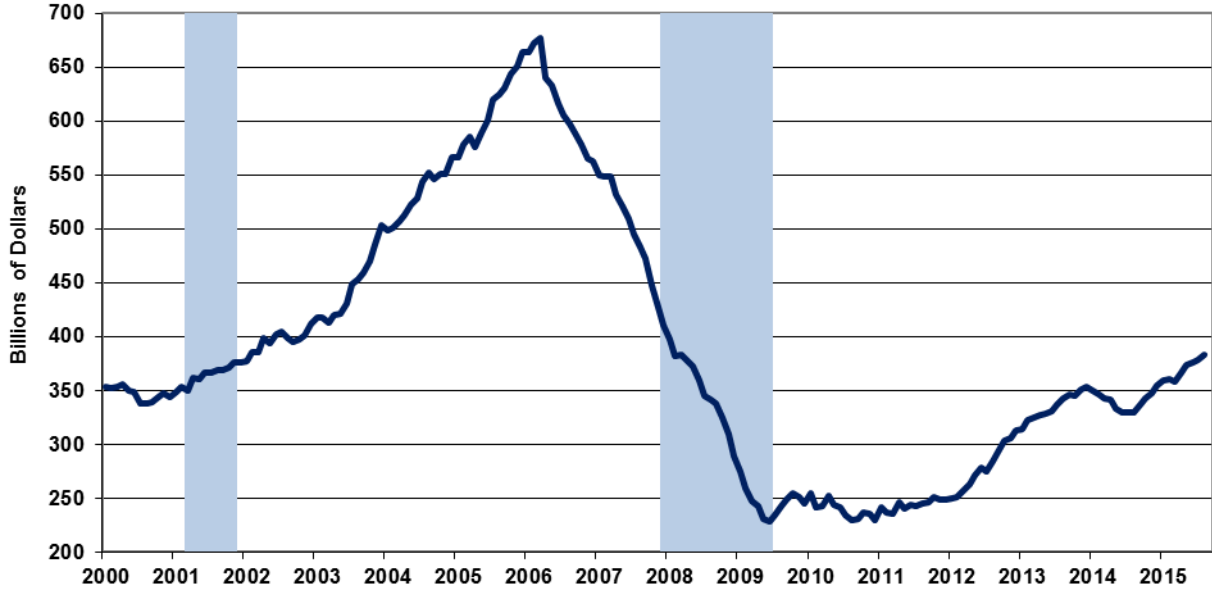


The next two graphs (*Graph 29* and *30*) cover private residential construction along with housing starts (combined single- and multiple-unit starts) for August 2015 (see [Commentary No. 753](#)). Keep in mind that the construction spending series is in nominal (not-adjusted-for-inflation) dollars, 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.

The final set of two graphs (*Graphs 31* and *32*) 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 it recently has been closing in on the pre-recession high, rallying sharply. Public construction spending, which is 98% nonresidential, had continued in a broad downtrend, with intermittent bouts of fluttering stagnation and then some upturn in growth in the last year or so.

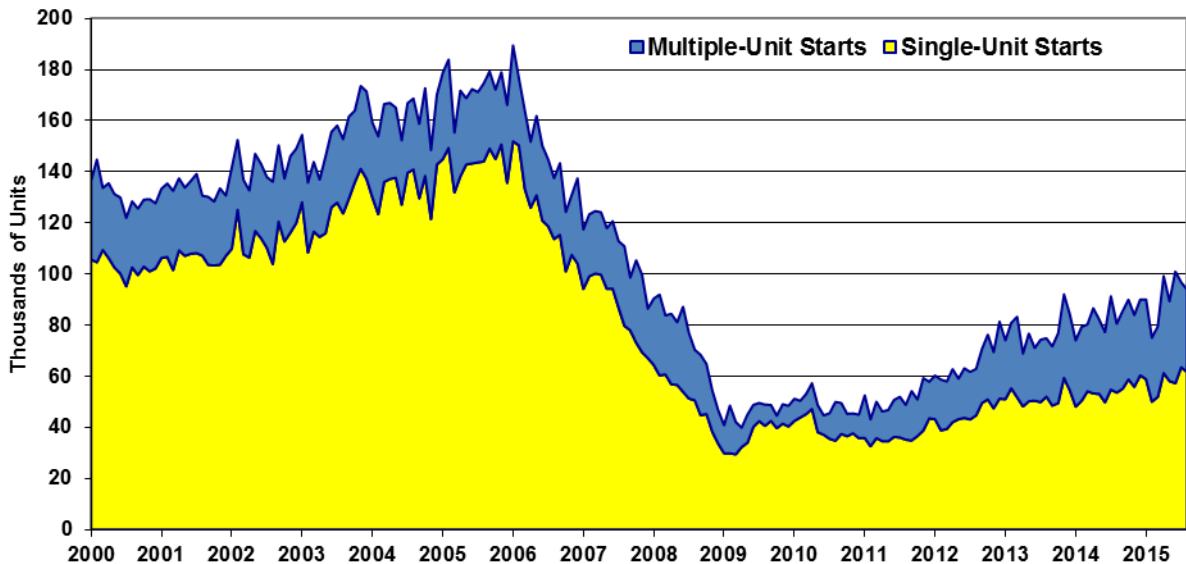
Graph 29: Nominal Private Residential Construction Spending to August 2015

Private Residential Construction to August 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Graph 30: Single- and Multiple-Unit Housing Starts to August 2015

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



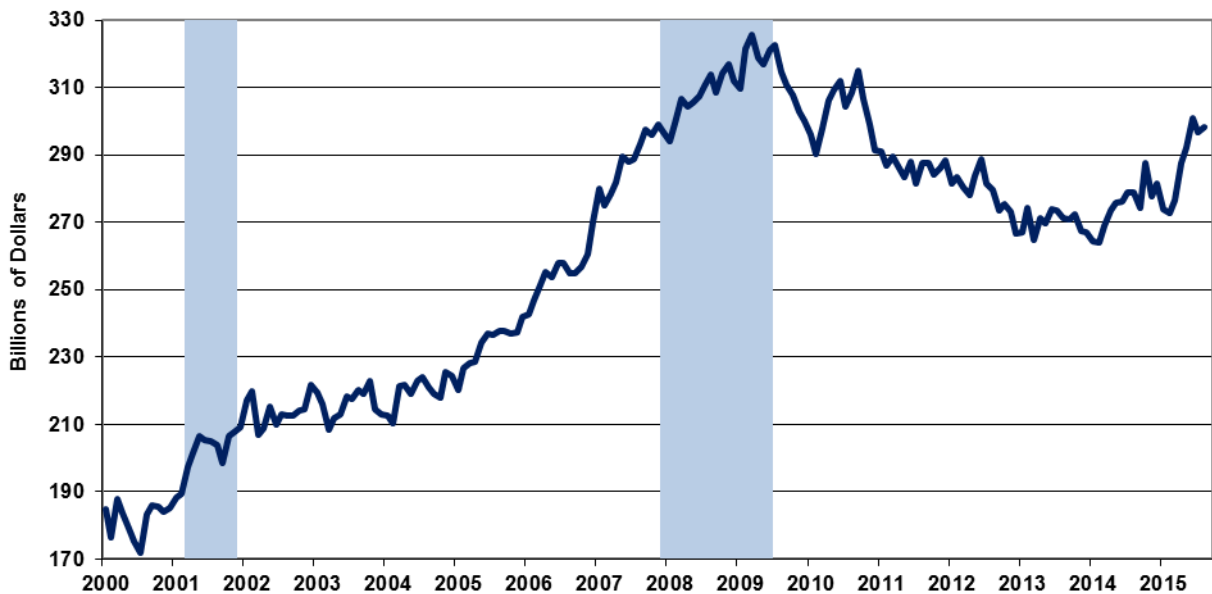
Graph 31: Nominal Private Nonresidential Construction Spending to August 2015

Private Nonresidential Construction to August 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



Graph 32: Nominal Public Construction Spending to August 2015

Public Construction to August 2015
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



WEEK AHEAD

Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices. Still in a fluctuating trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless tend to move with 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, 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 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. It turned positive in June 2015, for the first time in six months, notched somewhat higher in July and still somewhat higher in August, despite a headline monthly decline in gasoline prices and a minimal decline in the headline monthly CPI-U.

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 a 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](#), [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. 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:

U.S. Trade Balance (August 2015). The Commerce Department and Bureau of Economic Analysis (BEA) will release their full version of the August trade deficit on Tuesday, October 6th, following what was an unusually-volatile "advance" estimate published on September 29th. Based on the limited "advance" detail, the aggregate August trade deficit likely will widened sharply in nominal terms, before inflation adjustment. Implications in real terms, net of inflation, for the third-quarter net export account and related GDP reporting are meaningfully negative, and consensus expectations for third-quarter GDP growth already have tended to soften in response to the "advance" trade report. The ongoing trend here should be for deepening real monthly and quarterly deficits, with a resulting continual hammering of the regular, headline GDP estimates.
