

COMMENTARY NUMBER 765
October Employment and Unemployment, Money Supply M3
November 7, 2015

**Any FOMC Rate-Boost “Certainty,” Resulting from October Jobs Reporting,
Remains More Hype than Reality, with Meaningfully-Weak Data Ahead**

**Except for Even-Softer September Annual Growth, in Revision,
October Payroll Growth Was at a 17-Month Low**

**Unusual, Unstable and Invisible Shifts in Seasonal Factors
Helped to Boost or Skew Headline Payrolls**

**Headline Decline in Unemployment from 5.1% to 5.0%
Was a Decline from 5.05% to 5.04%**

October 2015 Unemployment: 5.0% (U.3), 9.8% (U.6), 22.8% (ShadowStats)

Broad Annual Money Supply Growth Continued to Slow

PLEASE NOTE: The next regular Commentary, scheduled for Friday, November 13th, will review the October 2015 Producer Price Index and Nominal Retail Sales.

Best wishes to all! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

FOMC December Rate-Hike Hype Still Is Little More than Hype. Once again, the domestic and global financial markets are faced with a “certain” hike in interest rates by the Federal Reserve’s Federal Open Market Committee (FOMC). This time it is for the December 16th meeting. Perhaps. Yet, all the FOMC had to do to raise rates at the October 28th meeting was to vote for it.

Where the various versions of quantitative easing had been introduced under the political cover of a weak economy, looking for a sign of sustained economic recovery now as a signal for the Fed to raise interest rates is a canard. The quantitative easings were designed primarily to prop the banking system and to provide the U.S. Treasury with easy liquidity. At the same time, former Fed Chairman Ben Bernanke often admitted that there was little the Fed could do to stimulate domestic economic activity.

Discussed frequently here, FOMC reluctance to raise rates most likely still is dominated by domestic and global liquidity and systemic-solvency concerns. Current market hype that October’s strong employment report locks in a December rate hike is nonsense. Not only was the report not that strong, there still is more than one full month’s worth of weak economic reporting ahead, including a likely much-weaker November payroll employment report on December 4th, all before the December FOMC. As discussed in this *Commentary* covering the “strong” report on October 2015 labor conditions, consider:

- The headline unemployment rate dropped from 5.05% to 5.04%.
- Headline jobs growth was skewed by unusual and unstable seasonal factors, with annual growth in nonfarm payrolls holding at a seventeen-month low.
- Fed Chair Janet Yellen’s favorite employment measure, the Labor Force Participation Rate, effectively did not budge off its historic low.

Previously discussed here, with factors other than the U.S. economy driving the FOMC’s rate decision, any pending rate hike or other tightening of monetary policy likely is on hold until after the presidential election in November of 2016 (see *Hyperinflation Outlook Summary*).

Reporting of Headline October Labor Conditions Remained Seriously Flawed. Underlying reality for U.S. labor conditions in October 2015 was in the realm of a 22.8% broad unemployment rate, with headline payroll employment likely close to flat month-to-month, as reviewed in the main text.

Unemployment. Reality aside, the headline (U.3) unemployment rate “dropped” by 0.1% to 5.0% from 5.1%, but that was largely in the rounding. At the second decimal point, headline U.3 just dropped from 5.05% to 5.04%.

Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of long-term discouraged workers excluded from government unemployment calculations—a broad

unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate notched lower to 22.8% in October 2015, versus 22.9% in September.

That October ShadowStats unemployment reading was the lowest since October 2012, down by 50 basis points or by 0.5% (-0.5%) from the 23.3% series high in December 2013. In contrast, the headline October 2015 U.3 unemployment rate of 5.0% was the lowest since February of 2008, down by a full 500 basis points or 5.0% (-5.0%) from its 10.0% peak in April 2010. Again, the difference is in considering the long-term discouraged workers.

Beyond definitional issues surrounding what it means to be unemployed, the government's comparative seasonally-adjusted monthly unemployment numbers (out of the Household Survey) are without much meaning or significance. The headline October and September monthly details from the Household Survey simply 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 not comparable, completely without meaning.

Payrolls. In terms of payroll employment (Payroll Survey), headline October jobs surged by a greater-than-expected 271,000, but the headline reporting there was in the context of highly unusual shifts in seasonal-adjustment patterns, subject to the usual reporting biases and distortions, with October payrolls not comparable to reporting in August 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 October 2015 payrolls most likely were close to flat, month-to-month. On a not-seasonally-adjusted basis, however, recent slowing in year-to-year payroll growth was confirmed, with September and October growth rates at seventeen-month lows.

Today's Commentary (November 7th). The balance of these *Opening Comments* provides summary coverage of the headline October employment and unemployment.

The *Hyperinflation Watch* includes the regular monthly update on *Monetary Conditions*, including the estimate of the October ShadowStats-Ongoing M3 Measure. The *Hyperinflation Outlook* has not been changed since its November 4th update.

The *Week Ahead* provides an assessment of next Friday's likely reporting of October nominal Retail Sales and the Producer Price Index (PPI).

Employment and Unemployment—October 2015—Unstable Payroll Reporting and Unchanged Headline Unemployment. The headline October 2015 payroll reporting was skewed heavily by unstable

and shifting seasonal adjustments. The headline October 2015 decline of 0.1% (-0.1%) in the U.3 unemployment rate from 5.1% to 5.0% was due to rounding differences, where the decline was just 0.01% at the second decimal point. Suffering from ongoing month-to-month comparability and statistical-significance issues, the headline labor detail, as usual was of extremely limited quality and meaning.

Annual Growth in Payrolls Has Slowed. The headline payroll-employment data for October 2015, was published in the context of inconsistently boosted seasonal factors, and of non-comparable data that showed a false upside revision to August jobs growth and a minimal revision to September activity that actually resulted in a downside revision to September jobs growth. In short, the unstable reporting of seasonally-adjusted payroll gains was meaningless, particularly in the context of a downside revision to annual growth in September payrolls, and a low-level of annual growth in October payrolls (at the same level as initial September reporting). October 2015 year-to-year payroll growth was at a 17-month low, other than for September, which was even weaker.

That said, the seasonally-adjusted, headline payroll gain for October 2015 was a much stronger-than-expected 271,000 jobs. Net of prior-period revisions, the gain in October payroll employment was 283,000 jobs.

The headline 271,000 increase in October payrolls followed a downwardly-revised 137,000 gain September payrolls and a faux upside revision to a 153,000 gain in August payrolls. The headline 153,000 jobs gain in August was really a 138,000 gain on a consistent-reporting basis. Although the headline detail prior to September deliberately is misreported now by the BLS, the earlier actual numbers can be calculated using material available from the BLS, and the differences easily can run up to 100,000 jobs per month (see the *Reporting Detail* section).

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 October 2015 was minimally higher at 1.95%, versus a downwardly revised 1.91% in September 2015, and a minimally revised 2.03% annual gain in August 2015, and an unrevised 2.18% gain in July 2015. The October and September readings were the weakest annual growth rates in last seventeen months.

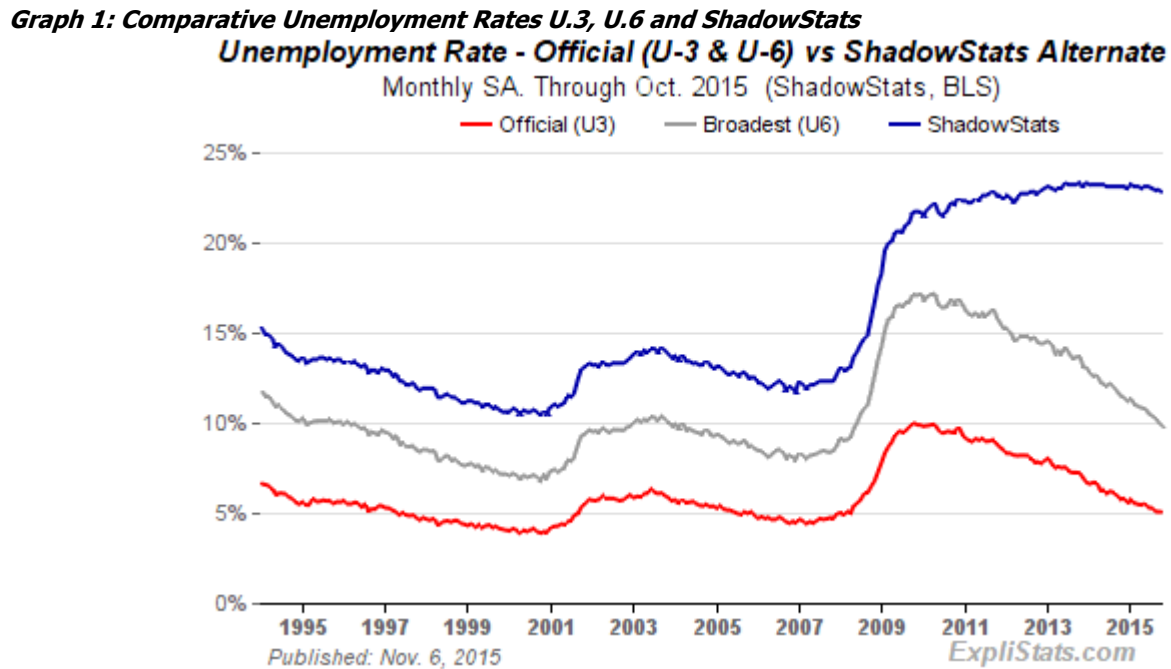
Counting All Discouraged Workers, October 2015 Unemployment Was at About 22.8%. Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, simply is definitional. To be counted 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 October’s 5.0%, 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 relatively steady, at or near its historic-high rate for the last couple of years.

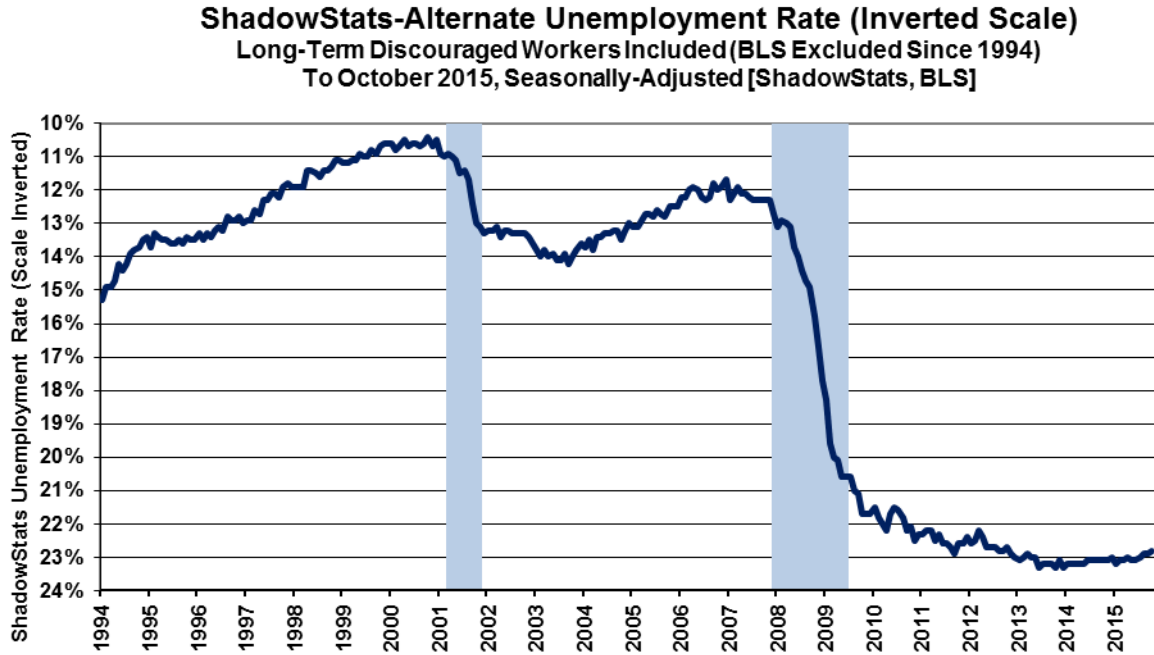
Moving on top of U.3, the broader U.6 unemployment rate—the government’s broadest unemployment measure—includes only the short-term discouraged workers (those marginally attached to the labor force). The still-broader ShadowStats-Alternate Unemployment Measure includes an estimate of all discouraged workers, including those discouraged for one year or more, as the BLS used to define and measure the series, before 1994.



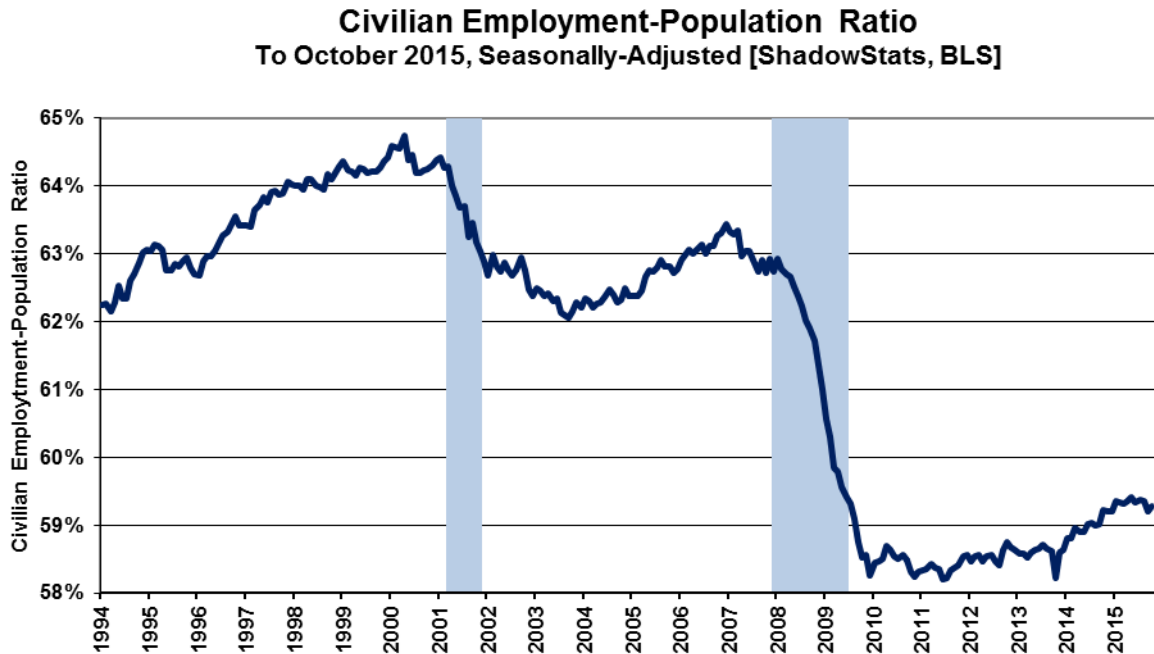
Again, when the headline unemployed become “discouraged,” they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. The resulting difference here is between headline-October 2015 unemployment rates of 5.0% (U.3) and 22.8% (ShadowStats).

Graph 1 reflects headline October 2015 U.3 unemployment at 5.04%, versus 5.05% in September; headline October U.6 unemployment at 9.81%, versus 10.01% in September; and the headline October ShadowStats unemployment estimate at 22.8%, down from 22.9% in September.

Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure



Graph 3: Civilian Employment-Population Ratio

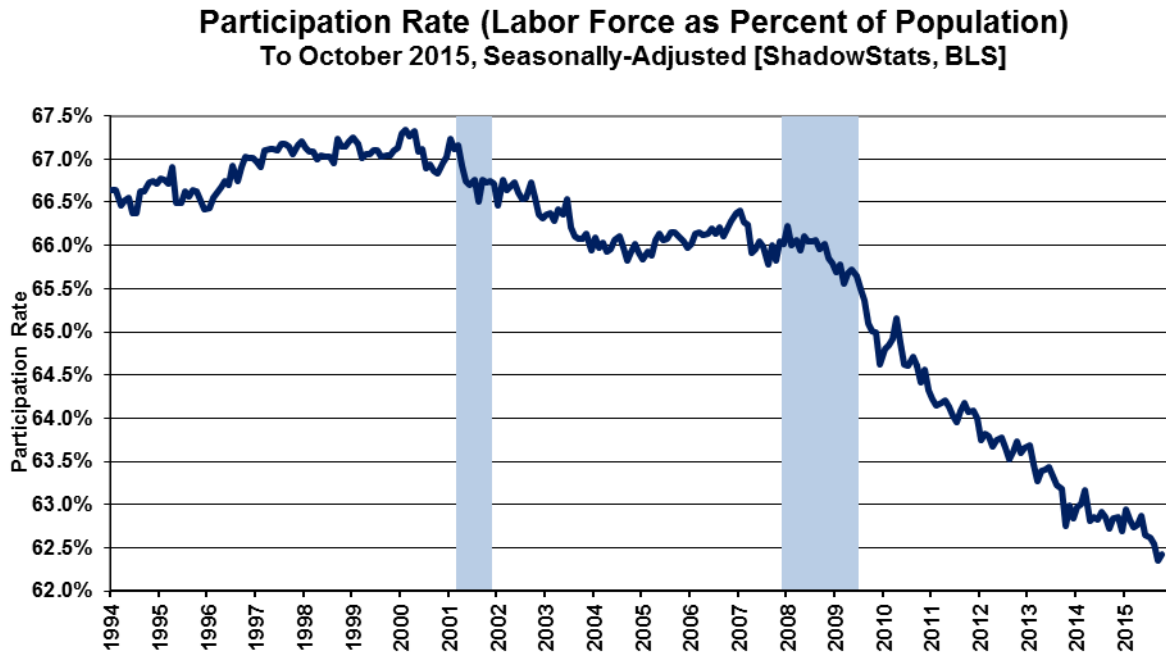


The *Graphs 2 to 4* reflect longer-term unemployment and discouraged-worker conditions. *Graph 2* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic statistics, where a lower number means a weaker economy.

The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which notched minimally higher in October 2015, though still near its low for the year and far from historic and bottom since economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), as shown in *Graph 3*. 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 remains something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

Shown in *Graph 4*, the October 2015 participation rate ticked minimally off the new historic low, hit in last month's reporting of September 2015 (again, pre-1994 estimates are not consistent with current 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



Still Nothing to Justify a December FOMC Interest Rate Hike. Fed Chair Janet Yellen has mentioned repeatedly a needed improvement in labor-market health as a precondition to raising interest rates. Such conditions still were not met by the headline details of the October labor report. Chair Yellen consistently has cited the labor-force participation rate as a meaningful indicator of the health of the labor market, one that she follows. Indeed, it is one of the few labor indicators of headline significance. The minimal uptick in the October rate, off its record low in a series consistent since 1994 means, in theory, that the

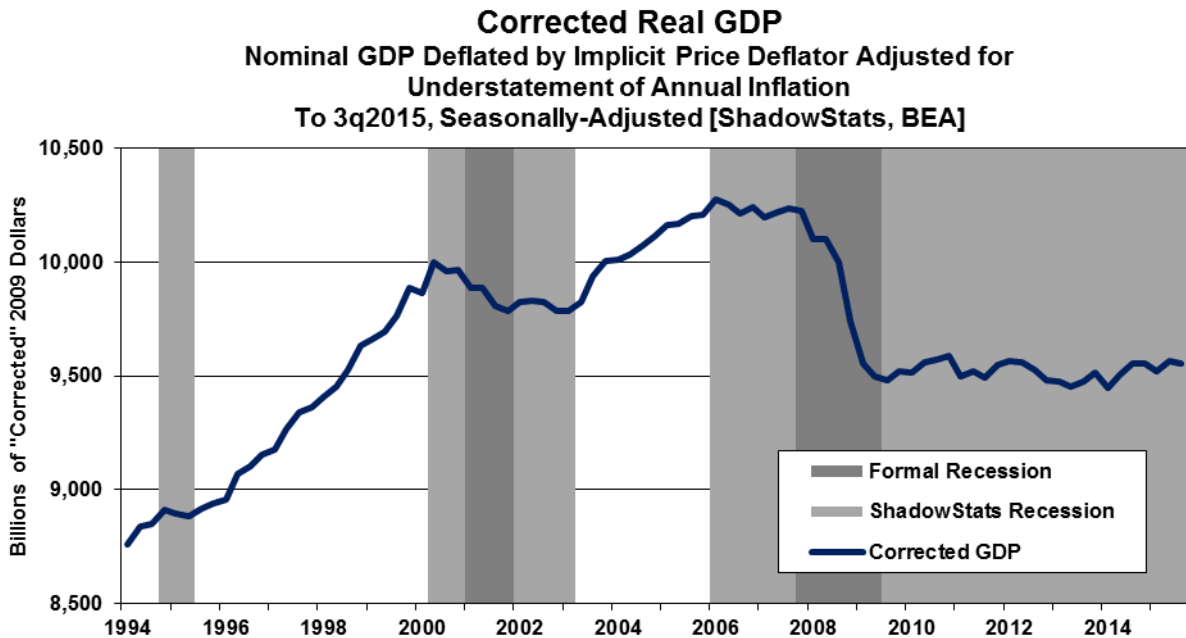
Fed is not about to tighten monetary conditions, if the Fed Chair still is to be consistent. Such is despite intense, current speculation and ongoing financial-market blather of a Fed rate hike now being “certain” in December 2015.

Noted in [Commentary No. 763](#), if the Federal Reserve is going to wait for a solid signal of healthy, domestic economic activity, before raising interest rates, nothing is going to happen for a long time. The FOMC does not need better labor circumstances to boost rates, it never did. All the FOMC needs to raise rates is a vote for same by the Committee.

Discussed in the opening paragraphs of these *Opening Comments*, with no meaningful improvement in unemployment conditions, and despite a highly-distorted, seasonally-adjusted jump in the headline employment data for October, the latest labor conditions would tend to support continued interest rate inaction by the FOMC. With FOMC rate inaction most likely tied to systemic liquidity concerns, not the economy, FOMC rate action likely is on hold through the November 2016 election (see *Hyperinflation Outlook Summary*).

Graphs 1 through *4* reflect detail back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, data consistent with October’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. 763](#)). 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 October 2015 unemployment rate (U.3) declined by 0.01-percentage point to 5.04% (a rounded headline 5.0%), from 5.05% (a rounded headline 5.1%) in

September. Technically, the headline October 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.

Again, though, the headline decline here of 0.01% (-0.01%) in U.3 is without meaning, given that the seasonally-adjusted month-to-month details simply are not comparable, thanks to 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 details are derived.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. The October 2015 unadjusted U.3 unemployment rate eased to 4.83% from 4.87% in September 2015.

The near-zero decline in the seasonally-adjusted, headline October U.3 unemployment rate reflected a decline of 7,000 (-7,000) unemployed individuals versus a gain of 320,000 employed, and a net gain of 313,000 in the labor force. It is hard to imagine a 320,000 gain in jobs with only 7,000 unemployed benefitting. More realistically, again, the headline monthly swings in the seasonally-adjusted unemployment data are heavily skewed, and month-to-month data simply are not comparable.

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 negligible decline in the underlying seasonally-adjusted U.3 rate, and a decline in the adjusted number of people working part-time for economic reasons, along with a negligible drop in those marginally attached to the workforce (short-discouraged workers increased for the month), headline October 2015 U.6 unemployment eased to 9.81%, from 10.01% in September 2015. The unadjusted U.6 was at 9.45% in October, versus 9.61% in September.

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 ShadowStats-Alternate Unemployment Estimate notched lower to 22.8% in October 2015, versus 22.9% in September.

The October ShadowStats reading was the lowest since October 2012, down by 50 basis points or by 0.5% (-0.5%) from the 23.3% series high in December 2013. In contrast, the headline October 2015 of 5.0% for U.3 reading was the lowest since February of 2008, down from its 10.0% peak in April 2010 by a full 500 basis points or 5.0% (-5.0%).

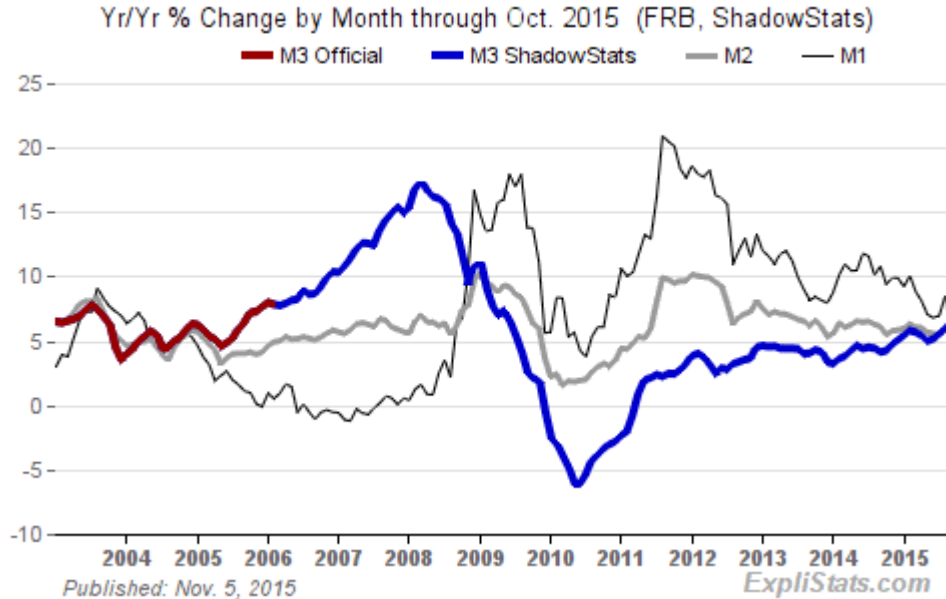
[The Reporting Detail section includes expanded material on October labor conditions.]

HYPERINFLATION WATCH

MONETARY CONDITIONS

October M3 Year-to-Year Growth Continued to Slow Sharply, with the Monetary Base Showing a Rebound. Late in 2014, the Federal Reserve ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, but its holdings of Treasury securities have remained stable, near record levels. Despite relative stability 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 September 30th two-week average had tumbled by 4.4% (-4.4%), its largest bi-weekly drop since the formal trough of the economic plunge in July 2009. The monetary base has stabilized since, rebounding by 3.0% in the subsequent October 14th period, and easing back by 0.4% (-0.4%) in the October 28th period to \$4.087 trillion, off just 1.9% from its recent high.

Graph 6: Comparative Money Supply M1, M2 and M3 Year-to-Year Change through October 2015
Annual U.S. Money Supply Growth - ShadowStats Continuation



Separately, ShadowStats estimates that annual growth in broad money supply M3 slowed to 5.5% in October 2015, from an unrevised 5.7% in September 2015 and a revised 6.0% [previously 6.1%] in

August 2015. Federal Reserve Board benchmark data revisions had the effect of softening recent headline year-to-year growth, but the previously surging August 2015 annual growth rate remained the highest level since June 2009—the end of the formal 2007 recession. On a month-to-month basis, October 2015 M3 growth notched higher, but September M3 still declined for the first time since January 2011.

Money Supply M3 Annual Growth Tentatively Eased Back to 5.5% in October, versus a 5.7% Gain in September and a 76-Month-High Annual Growth Rate of 6.0% in August. Year-to-year growth in October 2015 M3 (ShadowStats-Ongoing Measure) declined to 5.5%, from an unrevised 5.7% in September 2015 and a revised 6.0% (previously 6.1%) in August 2015, but it still was up from an unrevised near-term trough of 5.0% in May 2015. Any revisions seen in the accompanying data generally were due to frequent, regular and irregular benchmark revisions by the Federal Reserve to the underlying, seasonally-adjusted monthly detail.

October Annual Money Supply Growth in M1 and M2 turned Lower, Along with M3. Annual growth began slowing sharply for broad money supply (M3) in September and it continued in October, with annual growth in the narrower M2 and M1 measures also slowing sharply in October.

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 4.1% in September. Growth jumped anew 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. Annual growth subsequently declined to 5.0% in May, but with an upside bounce to 5.2% in June, 5.5% in July, and 6.0% in August, and now pulling back to 5.7% in September and 5.5% in October.

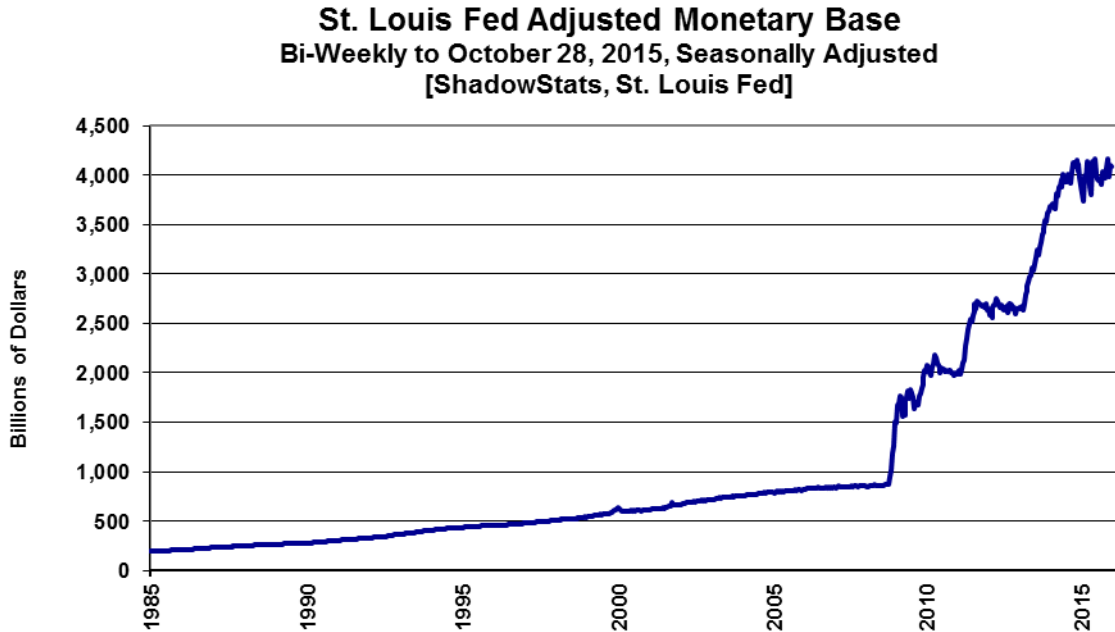
The seasonally-adjusted, early estimate of month-to-month change for October 2015 money supply M3 was roughly a gain of 0.3%, following a revised monthly decline of 0.1% (-0.1%) [previously down by 0.2% (-0.2%)] in September. The September monthly decline was the first for M3 since January 2011. Estimated 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 October 2015 have been updated on the [Alternate Data](#) tab of www.ShadowStats.com.

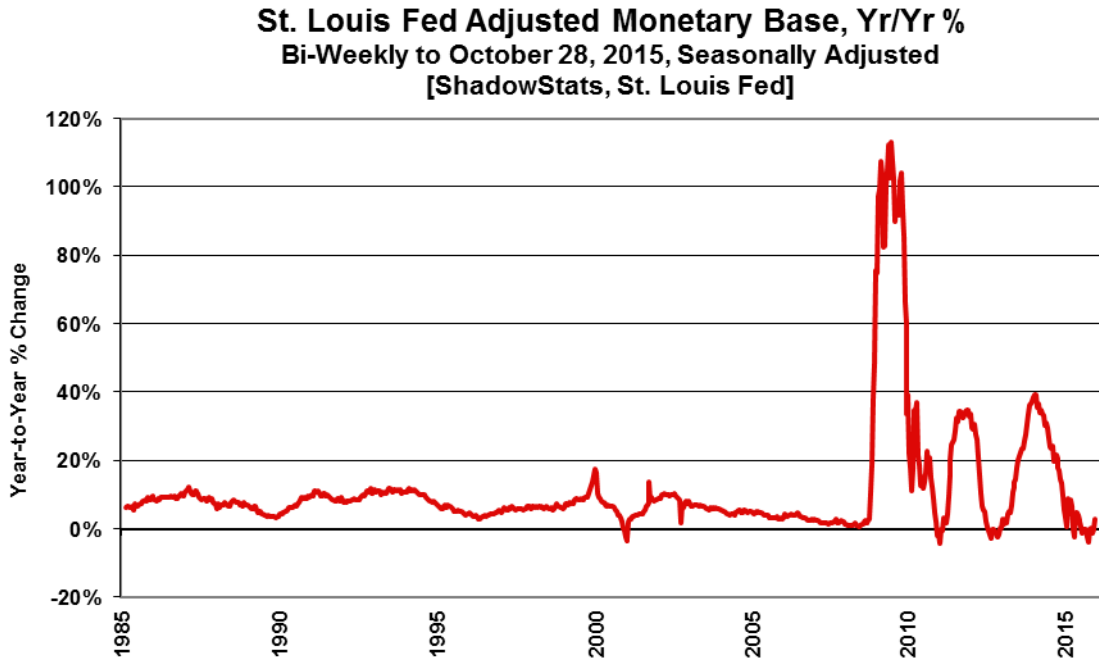
October M1 and M2 Annual Growth. October 2015 year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1; M3 includes M2). See the [Money Supply Special Report](#) for full definitions of those measures.

Annual M2 growth in October 2015 slowed to 5.9%, versus a downwardly-revised annual gain in September 2015 of 6.2% [previously up by 6.5%], with a near-stalling, month-to-month increase in October rounding up to 0.1%, versus a revised gain of 0.6% [previously up by 0.7%] in September 2015. For M1, year-to-year growth fell back to 5.8% in October 2015, from a revised 6.6% [previously up by 6.3%] in September 2015, with a month-to-month decline of 0.6% (-0.6%) in October, versus a revised monthly drop of 0.3% (-0.3%) [previously down by 0.4% (-0.4%)] in September 2015.

Graph 7: Monetary Base Level, through October 28, 2015



Graph 8: Monetary Base, Year-to-Year Percent Change, through October 28, 2015



With the Monetary Base Still Holding Near Record Highs, “Quantitative Easing” Appears Still to Be Very Much in Play. Discussed in [No. 742 Special Commentary: A World Increasingly Out of Balance](#) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), the Fed’s actions have shown its primary mission to be keeping the banking system solvent and afloat—irrespective of Congressional mandates on employment and inflation—but such 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.

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 \$4.166 trillion in the two-week period ended September 16th (a hair's breadth shy of matching the all-time high), before fluctuating lower to \$4.087 trillion in the latest two-week period, ended October 28th.

Again, 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 the *Hyperinflation Outlook Summary* and [Commentary No. 763](#)).

HYPERINFLATION OUTLOOK SUMMARY (of November 4, 2015)

U.S. Dollar Is Living on Borrowed Time. Other than for internal links and minor language corrections, this *Summary* last was updated on November 4th, covering recent developments with the Federal Reserve, with domestic political and fiscal conditions and with evolving economic conditions. There has been no fundamental shift in the broad outlook, just some general movement forward in variety of related areas. With future updates, new comments will be concentrated in the *Recent Developments* section. The prior *Hyperinflation Outlook Summary* is available in [Commentary No. 762](#).

Recent Developments. Discussed in [Commentary No. 763](#) of October 29th and [Commentary No. 764](#) of November 4th, where initial third-quarter GDP growth came in at 1.5%, slowing sharply from second-quarter activity of 3.9%, downside revisions now loom for the third-quarter number. In the context of an ongoing contraction in underlying economic reality, as seen for example with corporate revenues and industrial production, headline third-quarter GDP reporting likely will slow much further in its pending monthly revisions, accelerating the pace of broad market recognition of a "new" recession.

A widening trade deficit and slowing economic activity have significant negative implications, ranging from selling pressure on the U.S. dollar, to unexpected and additional widening of the federal budget

deficit and U.S. Treasury funding needs, to increased political volatility in what already is shaping up as an extraordinarily-significant presidential election year.

When Main Street U.S.A. suffers enough financial and other pain, the common reaction, historically, has been to dump those running the system. That pain threshold was crossed some time ago, and the year ahead assuredly will not be a happy one for many incumbents or for those who are counting on politics as usual.

That said, a heavily politics-as-usual new budget deal was just forced into place. With promised higher deficit spending, and with no debt limit to contain continuing excesses until after the election, who is going to fund the expanded spending ahead? Who is going to buy the proffered U.S. Treasury securities? Recent big buyers such as China, Japan and the Federal Reserve either are selling for a variety of reasons or otherwise are sitting on their hands.

The U.S. Dollar is living on borrowed time, and the confluence of the factors raised here remains likely to push the U.S. dollar into a heavy sell-off.

Discussed in [Commentary No. 763](#) and the *Opening Comments*, the weak economy continues as political cover for the Federal Reserve and for continued FOMC inaction, masking serious other problems in the domestic and global financial systems. One likely major concern has to be for continued stability and liquidity of the market for U.S. Treasury securities. Beyond domestic and global banks, the biggest beneficiary of QE3 was the U.S. Treasury.

As previously noted, if the FOMC were to keep holding back on its rate increase until after the economy improved, the wait for a rate hike would be quite protracted. From a practical standpoint, meaningful FOMC action still appears to be on hold until after the 2016 presidential election. In the event of any funding issues for the Treasury, however, flailing domestic economic activity still will be able to provide cover for expanded quantitative easing, and for the Fed resuming its role as buyer of last resort of an increasingly unwanted supply of U.S. Treasury securities.

Of such circumstances are currency crises created.

Nothing has changed here, including the ShadowStats broad outlook for ongoing economic stagnation and downturn, intensifying systemic instabilities and a looming massive decline in the U.S. dollar. Along with the pending dollar crisis are the ongoing implications ultimately for severe inflation, for a domestic hyperinflation.

Background Documents to this Summary. Underlying this *Summary* as general background 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 weekly *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 continues to face a massive decline in the wake of the 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, including possible Treasury-funding issues, likely are behind the 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.

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, not as stimuli for the economy. Instead, the weak economy regularly was used as political cover for the effective banking-system bailouts (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 and September, there was some temporary easing of the dollar's strength in October (see [Commentary No. 759](#)). 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 once again, 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), or now by the end of the year. Coincident, with these events, ongoing and 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. 763](#)), 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. Again, 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.

Continued inaction by the FOMC is 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 or other systemic-liquidity 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. 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 for, 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. 764](#)). Sharply-negative economic reporting shocks, versus softening consensus forecasts, remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle.
- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal “good news” comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around \$5 trillion for the annual shortfall, 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, with the White House and Congress recently having placed any official solvency concerns on hold until after the November 2016 election. What remains to be seen is for how long the concerns of the global financial markets will remain on hold.

- ***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 handling the hyperinflation crisis and [No. 742](#), for other factors afoot in the current environment.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (October 2015)

October Labor Detail Had Significant Flaws. *[Note: This section, through the PAYROLL SURVEY DETAIL, largely is repeated from the Opening Comments.]* Underlying reality for U.S. labor conditions in October 2015 was in the realm of a 22.8% broad unemployment rate, with headline payroll employment likely close to flat month-to-month. Those areas are reviewed in the main text.

Unemployment. Reality aside, the headline (U.3) unemployment rate “dropped” by 0.1% to 5.0% from 5.1%, but that was largely in the rounding. At the second decimal point, headline U.3 dropped from 5.05% to 5.04%.

Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of long-term discouraged workers excluded from government unemployment measures—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate notched lower to 22.8% in October 2015, versus 22.9% in September.

That October ShadowStats unemployment reading was the lowest since October 2012, down by 50 basis points or by 0.5% (-0.5%) from the 23.3% series high in December 2013. In contrast, the headline October 2015 U.3 unemployment rate of 5.0% was the lowest since February of 2008, down by a full 500 basis points or 5.0% (-5.0%) from its 10.0% peak in April 2010.

Beyond definitional issues surrounding what it means to be unemployed, the government's comparative seasonally-adjusted monthly unemployment numbers (out of the Household Survey) are without much meaning or significance. The headline October and September monthly details from the Household Survey simply 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.

Payrolls. In terms of payroll employment (Payroll Survey), headline October jobs surged by a greater than expected 271,000, but the headline reporting there was in the context of highly unusual shifts to seasonal-adjustment patterns, subject to the usual reporting biases and distortions, with October payrolls not comparable to reporting in August 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 October 2015 payrolls most likely were close to flat, month-to-month. On a not-seasonally-adjusted basis, however, recent slowing in year-to-year payroll growth was confirmed, with September and October growth rates at seventeen-month lows.

PAYROLL SURVEY DETAIL. The Bureau of Labor Statistics (BLS) published the headline employment and unemployment data for October 2015, November 6th, in the context of inconsistently boosted seasonal factors, and of non-comparable data purportedly showing an upside revision to August jobs growth and a minimal revision to September that actually resulted in a downside revision to September jobs growth. In short, the unstable reporting of seasonally-adjusted payroll gains was meaningless, particularly in the context of a downside revision to annual growth in September payrolls, and a low-level of annual growth in October payrolls (the same level as initial September reporting). October 2015 year-to-year payroll growth was at a 17-month low, other than for September, which was even weaker.

That said, the seasonally-adjusted, headline payroll gain for October 2015 was a much stronger-than-expected 271,000 jobs +/- 129,000 (95% confidence interval). Net of prior-period revisions, the gain in October payroll employment was 283,000 jobs.

The headline 271,000 increase in October payrolls followed a downwardly-revised 137,000 [previously 142,000] gain September payrolls and a faux upside revision to a 153,000 [previously 136,000, initially 173,000] gain in August payrolls. The headline 153,000 jobs gain in August, really was a 138,000 gain on a consistent-reporting basis. Although the headline detail prior to September deliberately is misreported now by the BLS, the earlier actual numbers can be calculated using material available from the BLS, and the differences easily can run up to 100,000 jobs per month.

Inconsistent, Non-Comparable and Deliberately-Misstated Monthly Changes for September 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 271,000 monthly gain in October 2015 payrolls and the revised 137,000 jobs gain in September were inconsistent with, and not comparable to, the revised headline August 2015 gain of 153,000. The gain consistent with the new headline October-based detail was 138,000 for July, some 15,000 less than the official number. Such is just a regular misstatement of historical headline payroll activity by the BLS.

Headline differences can be more significant. For example, part of the significant shifting in October seasonal factor adjustments can be seen in looking at the prior headline September 2015 reporting, where the official monthly gain for November 2014 payrolls was 423,000. While the same 423,000 gain held in October 2015 reporting, that number never was accurate, and the accurate number keeps shifting month-to-month.

That November number came out of the 2014 benchmark reporting, included in headline January 2015 detail, but the November change versus October—consistent with the headline reporting of the time—was 337,000, some 86,000 less than the headline 423,000. With intervening revisions each month, the actual aggregate November and October levels have changed some, but now consistent with the headline October 2015 reporting and recalculations, the November 2014 versus October 2014 gain was 324,000, down by 99,000 (-99,000) 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](#). With differences shifting between months in 2014, just between headline levels of consistent seasonally-adjusted data, from positive 11,000 to 22,000 in July 2014, from 18,000 to 46,000 in August 2014, from 53,000 to 90,000 in September 2014, and from 95,000 to 80,000 in October 2014. These revisions indicate an unusually large and unstable monthly shift in seasonal factors that pushed new seasonally-adjusted strength into third-quarter 2014, reflective of the changes made to third-quarter 2015 that upped the headline growth into October. Such has been plotted in *Graphs 17* and *18* in the section on *Headline Distortions from Shifting Concurrent Seasonal Factors*.

Downside Payroll Benchmark Revision of 208,000 (-208,000) Looms for 2015. 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). The final benchmark revision for 2015 will be published along with the January 2016 headline data on February 5, 2016 (see 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 November 2015 Headline Payroll-Employment Change Indicates 237,000.

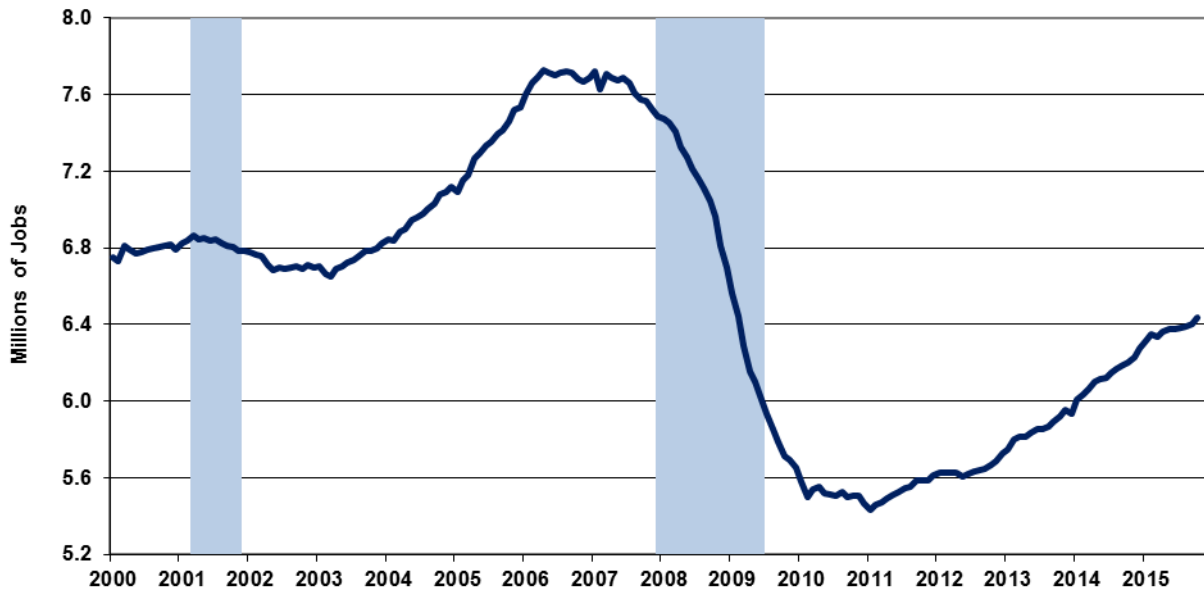
Discussed in [Commentary No. 756](#), and as described generally in [Payroll Trends](#), the trend indication from the BLS’s concurrent-seasonal-adjustment model—prepared by our affiliate www.ExpliStats.com—was for an October 2015 monthly payroll gain of 152,000, based on the BLS trend model structured into the actual headline reporting of September 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 settled into a range of 180,000 to 190,000 for October, well above trend but still well below the headline number. Unusual seasonal factors certainly were involved here, as discussed in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section

November 2015 Trend Estimate. Exclusive to ShadowStats subscribers, based on headline BLS modeling for October 2015 reporting, the ExpliStats trend number calculations suggest a BLS-based headline gain of 237,000 for November 2015. November consensus expectations could be expected to settle in around that level.

Graph 9: Construction Payroll Employment to October 2015

**Construction Payroll Employment to October 2015
Seasonally-Adjusted [ShadowStats, BLS]**



Uptick in October Construction-Payroll Growth Was Somewhat More Reflective of Headline Construction Spending Gains. Graph 9 of construction-payroll employment updates *Graph 11* in the *Reporting Detail* section of [Commentary No. 764](#), which covered September Construction Spending. 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 0.5% in October 2015 construction payrolls. Although still at a relatively tepid pace of month-to-month growth—contrasted with purported surging construction activity—it was strongest monthly showing since February 2015.

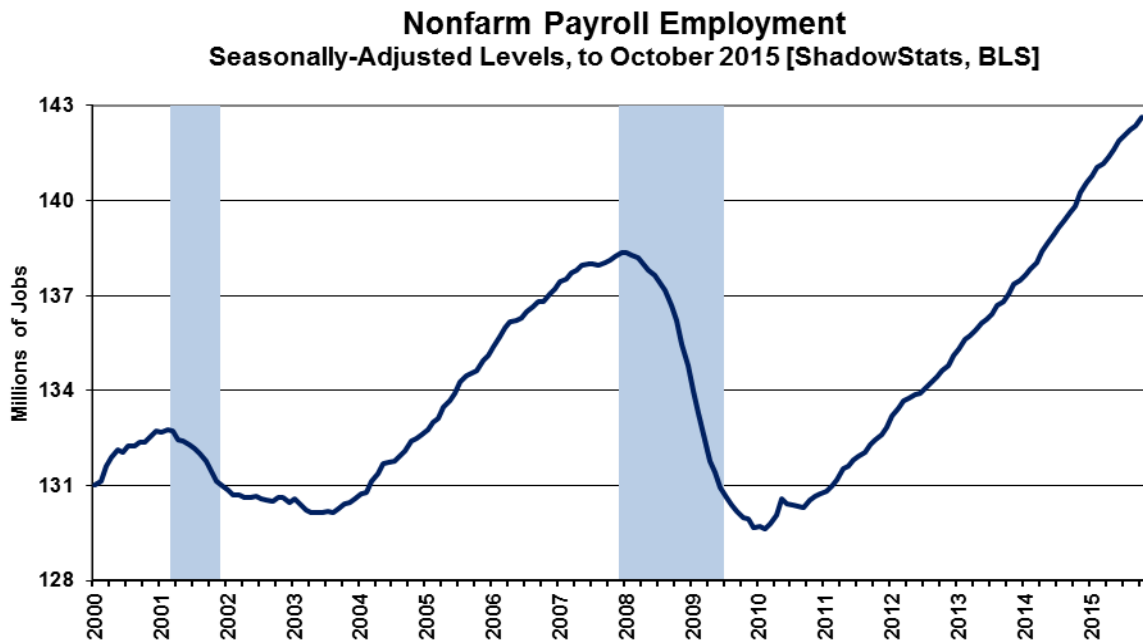
The October 2015 construction-payroll level of 6.434 million, showed a headline gain of 31,000 jobs for the month, versus a revised September gain of 12,000 [previously up by 8,000] and a revised (but not-comparable) August gain of 8,000 [previously up by 5,000, initially 3,000].

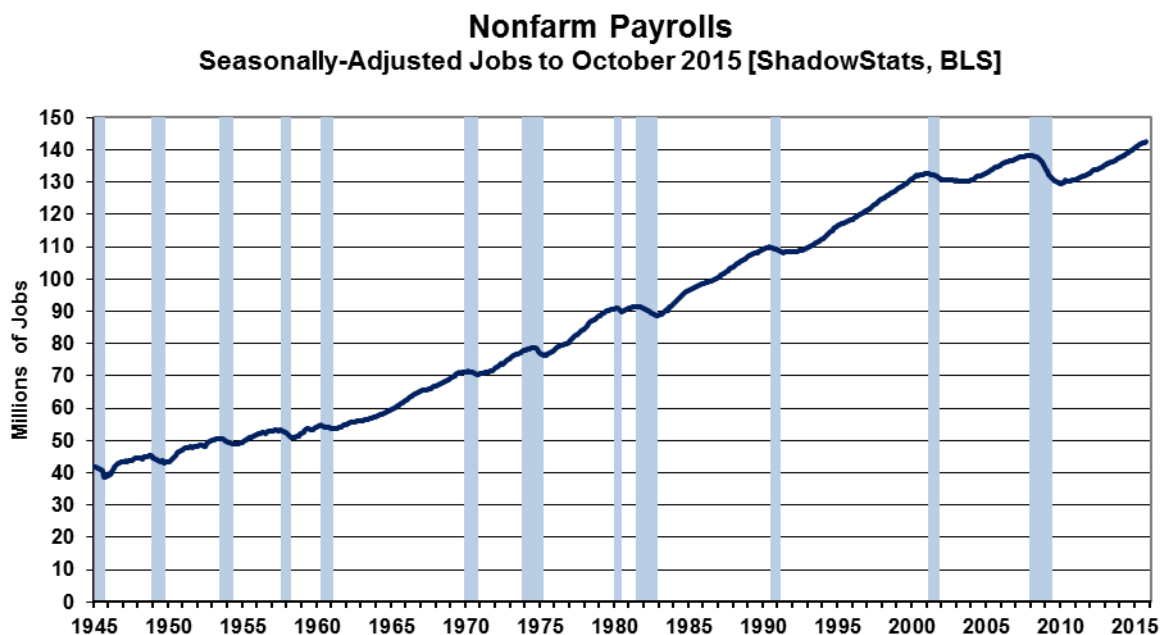
Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total October 2015 construction jobs remained down by 16.7% (-16.7%) from the April 2006 pre-recession series 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 somewhat shy of 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 271,000 in October 2015, headline payroll employment now is about 4.3-million jobs above its pre-recession peak.

Graphs 10 and 11 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 10: Nonfarm Payroll Employment to October 2015



Graph 11: Nonfarm Payroll Employment 1945 to October 2015

Beyond excessive upside add-factor biases built into the monthly calculations (see the *Birth-Death Model* section), the problem remains that payroll employment counts the number of jobs, not the number of people who are employed. Much of that payroll “jobs” growth is in multiple part-time jobs—many taken on for economic reasons—where full-time employment has been desired but could not be found.

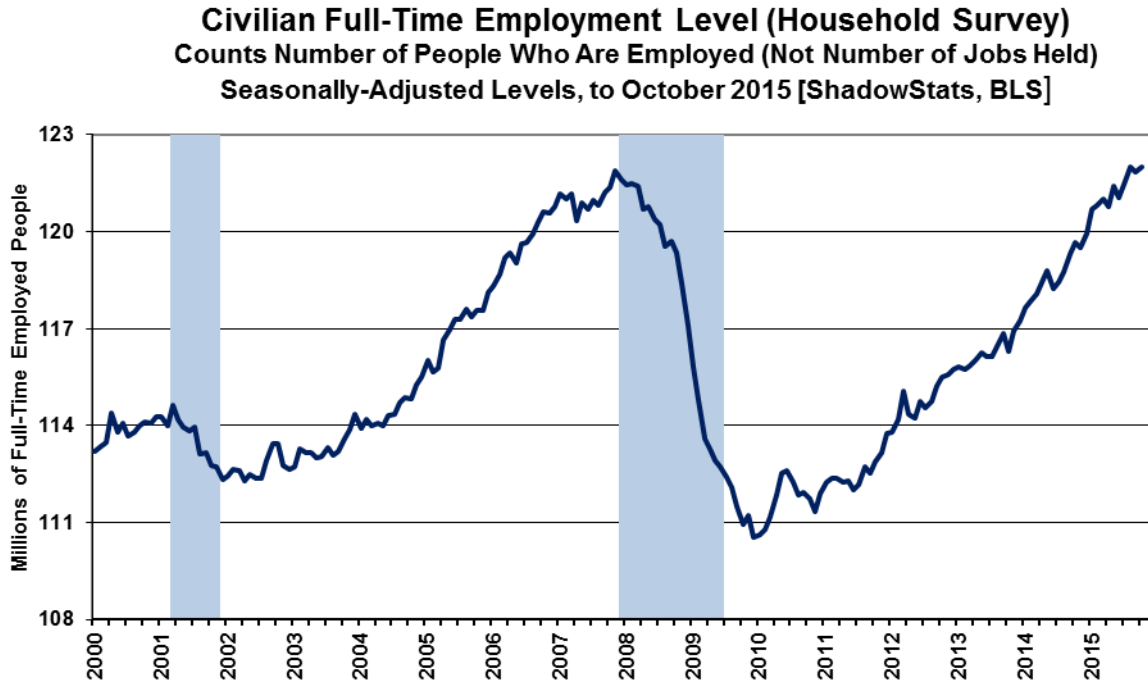
Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 12*, where the level of full-time employment (Household Survey) briefly recovered its pre-recession high in August 2015, it fell back to below its pre-recession peak in September, albeit shy of the peak then by just 36,000 jobs. The series then regained its August “recovery” level with the headline October 2015 reporting now some 149,000 jobs above the pre-recession high for the series

Such compares with the headline payroll-employment level that now is 4.3-million above its pre-recession high, having regained its peak some 18-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.

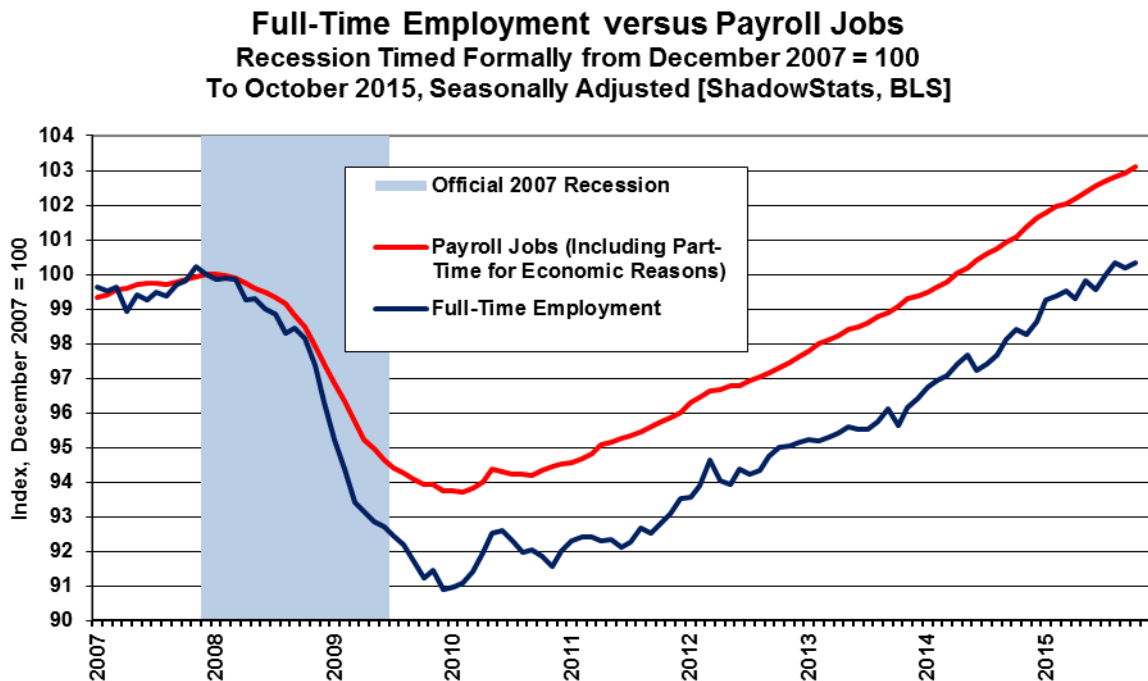
As a separate consideration and an indication of the level of nonsensical GDP reporting, where employment traditionally is a coincident indicator of broad economic activity, again the GDP purportedly recovered its pre-recession high some four years ago, more than two years before similar payroll activity.

Full-time employment gained a seasonally-adjusted headline 185,000 in October 2015, reversing its drop of 185,000 (-185,000) in September, 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 series likely will gyrate further around its November 2007 pre-recession peak of 121.875 million, where currently it stands 0.149 million above same.

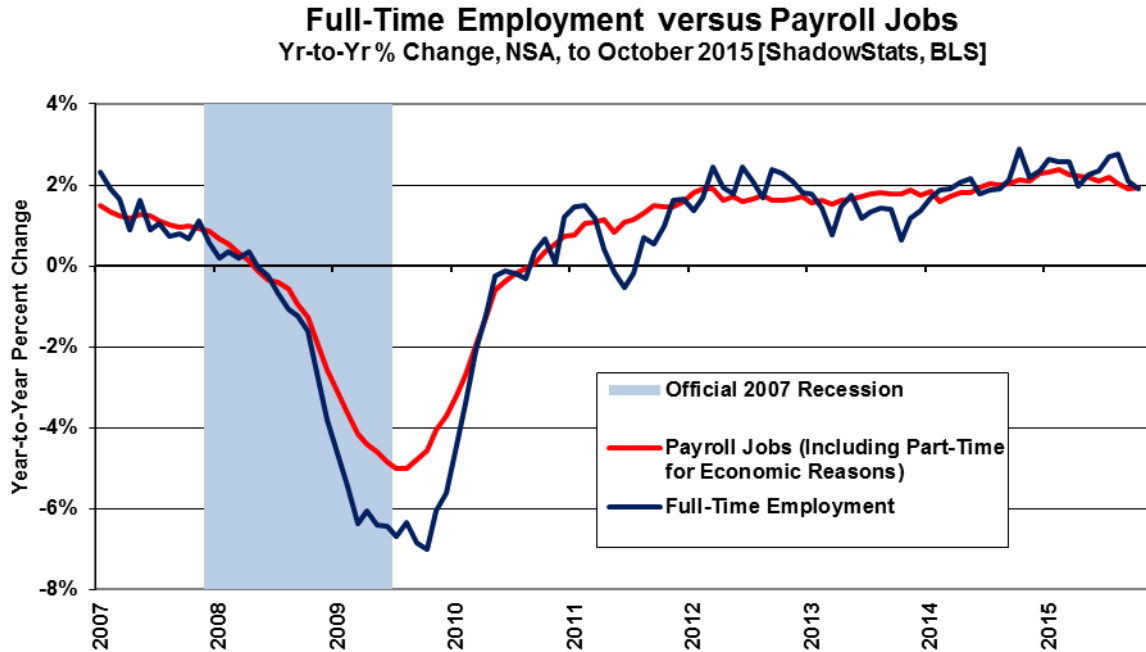
Graph 12: Full-Time Employment (Household Survey) to October 2015



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



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

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

Headline month-to-month volatility in the full-time employment reporting is more a function of the instabilities from the 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.

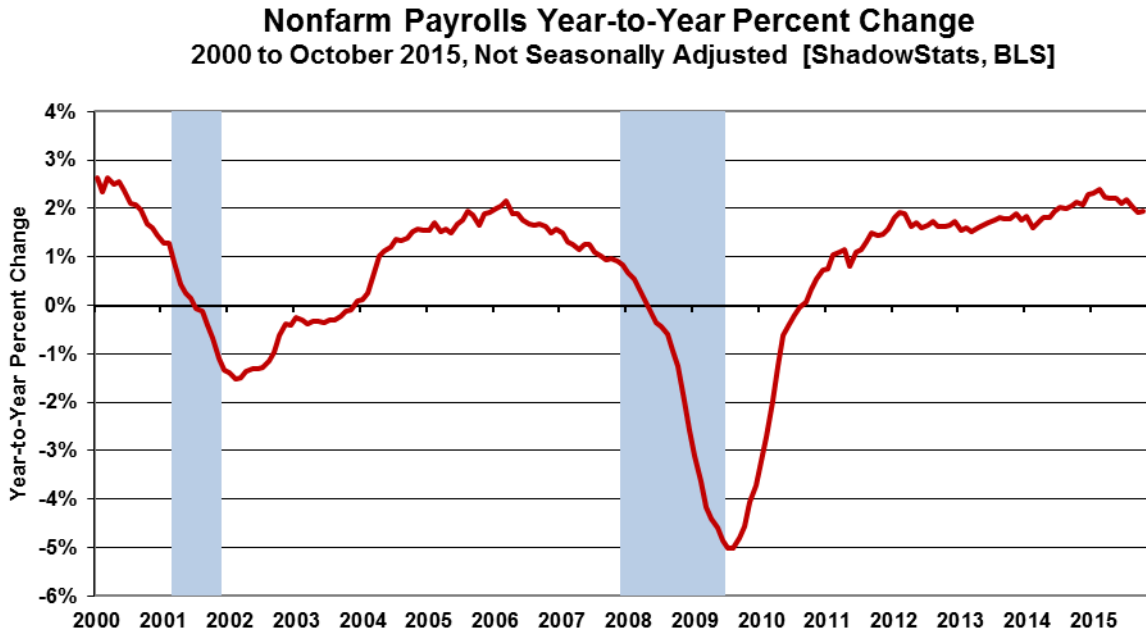
The graph of full-time employment excludes the count of those employed with only part-time jobs, one or more. Total employment, including those employed with part-time work, has recovered its pre-recession high, but it still is not close to the payroll reporting. Again, the Household Survey numbers count 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](#)).

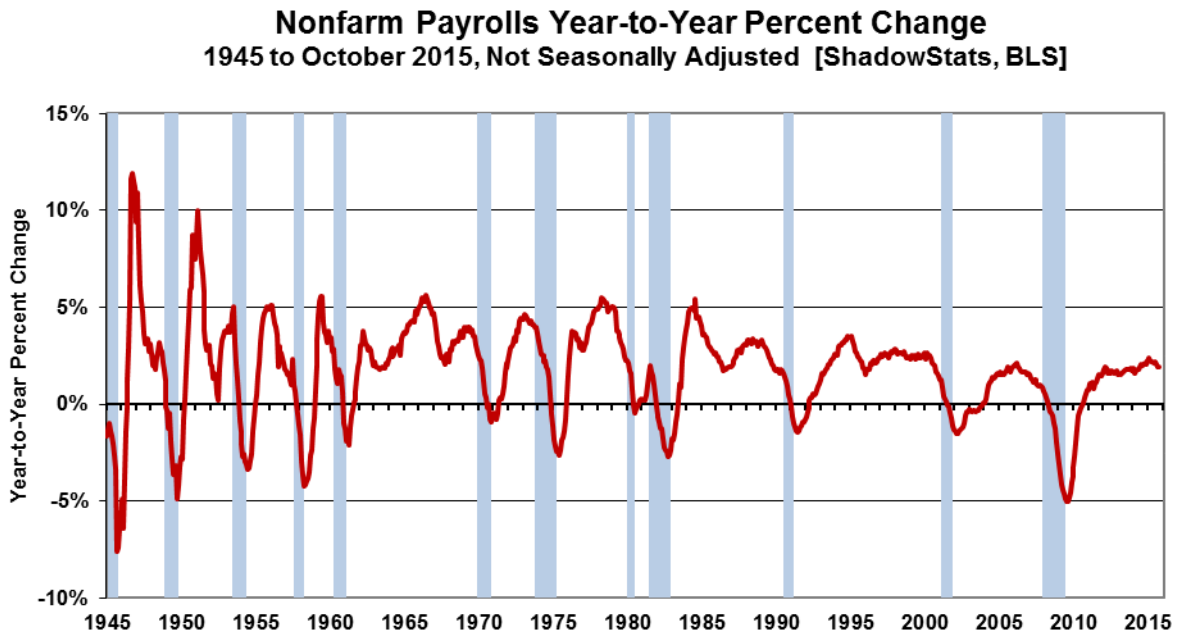
With the 2014 benchmarked surges built into recent headline payroll activity, patterns of year-to-year growth in unadjusted payrolls also moved higher, setting a post-recession high of 2.39% in February 2015. Such was the strongest annual growth since June 2000 (another recession), but subsequent annual growth has slowed. Year-to-year nonfarm payroll growth in October 2015 was minimally higher at 1.95%, versus a downwardly revised 1.91% (previously 1.94%) in September 2015, and a minimally revised 2.03% [previously 2.04%, initially 2.08%] annual gain in August 2015, and an unrevised 2.18%

gain in July 2015. The October and September readings were the weakest annual growth rates in last seventeen months.

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



Graph 16: 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.

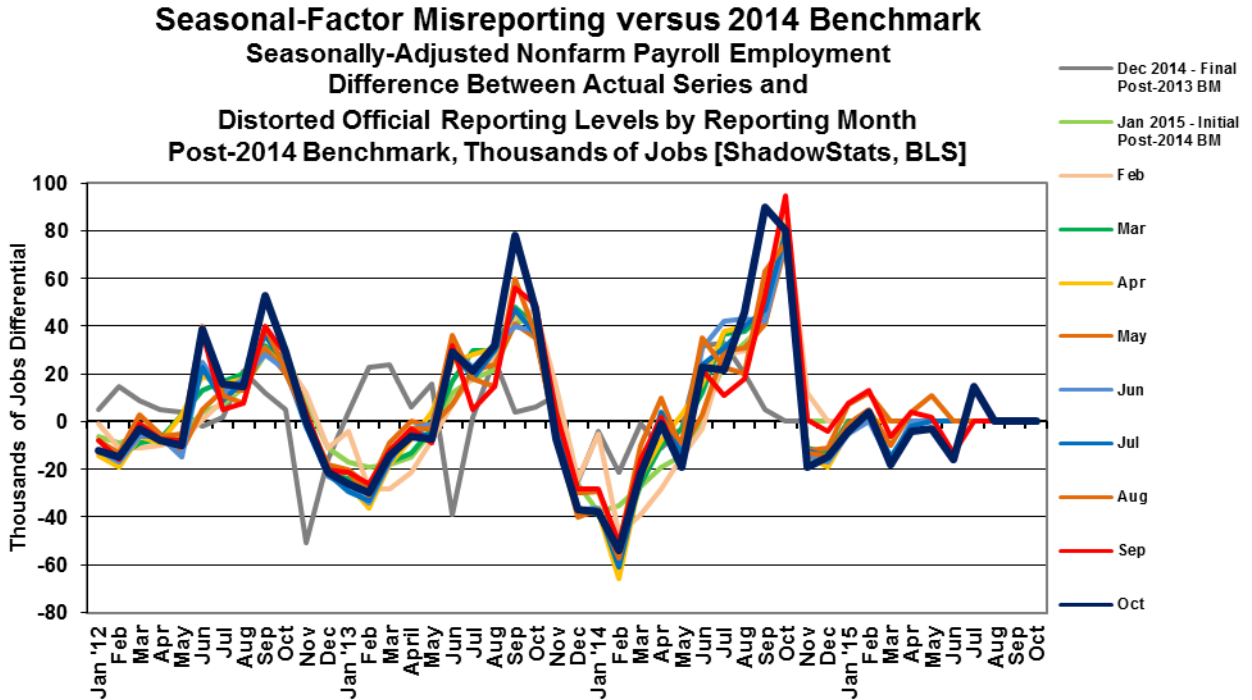
Household Survey. In the case of the published Household Survey (unemployment rate and related data), the seasonally-adjusted headline October 2015 numbers were not comparable with the prior September 2015 data or any month before. Accordingly, the published headline detail as to whether the unemployment 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.

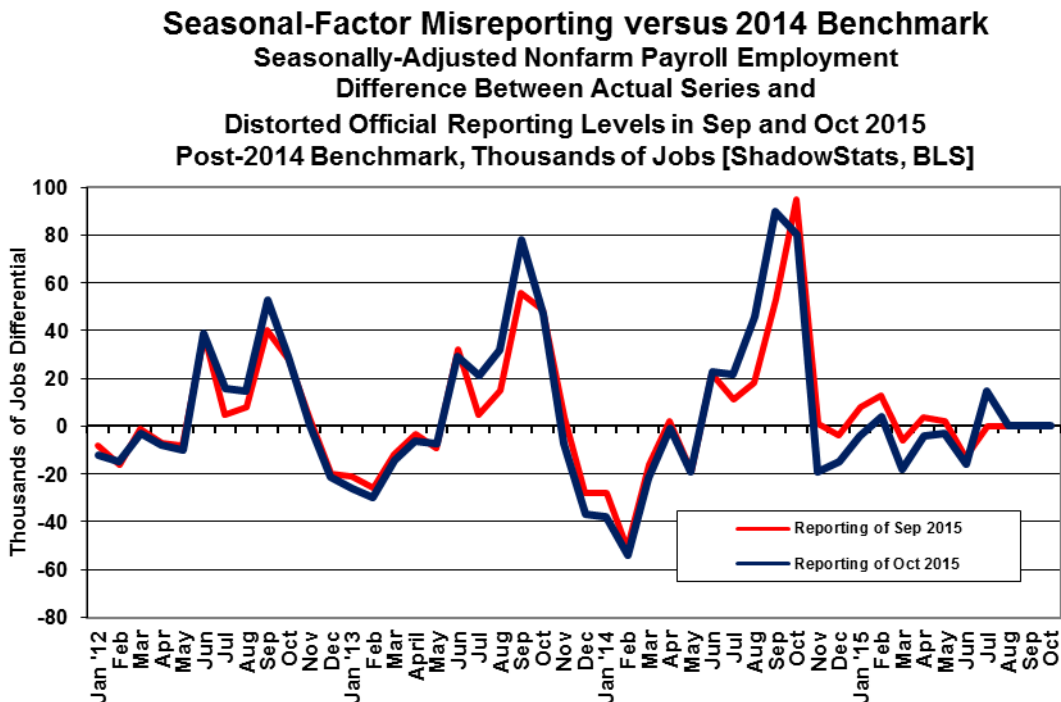
Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), monthly changes in the seasonally-adjusted headline October 2015 data are comparable only with the headline changes in the September 2015 numbers, not with August 2015 or 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, August-to-October 2015 payrolls appears to have been inflated sharply with revamped seasonals adjustments, temporarily stealing seasonal growth from the month ahead, without any formal indication of related shifting detail in the previously-published historical data.

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



Graph 18: Monthly Concurrent-Seasonal-Factor Irregularities - Focusing on Headline Sep vs Oct 2015



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 for the payroll series, and the detail of the

differences between the current headline reporting and the constantly-shifting, consistent and comparable history are plotted in the accompanying graphs.

Graph 17 details how far the monthly payroll employment data have strayed from being consistent with the most recent benchmark revision. The gray line shows the December 2014 pattern versus the 2013-benchmark revision, and the color-coded lines show the January to October 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 (October 2015) with the thinner red line (September 2015), shows dramatic upside shifts in seasonal factors in August through October 2014 numbers, with downside shifts in November and beyond. Such is seen more easily in *Graph 18*, which plots just the isolated detail from September and October 2015.

Where the headline seasonal factors shift with the current month's headline calculations, what has shifted in the August, September and October 2015 seasonals (the only headline employment levels reported consistent with October 2015) is indicated by the revisions to the same months the year before, and to a diminishing extent, two years before, etc.

What is evident is that the October calculations shifted meaningful seasonal strength from the November to May period, into the June to October period, boosting the underlying levels of seasonally-adjusted payrolls in the current period. No need to worry, though, about November payrolls being understated due to weak seasonal factors, all the seasonal factors will be re-estimated, again, along with the headline calculations for the November 2015 payrolls.

If the headline monthly reporting were comparable and stable, month-after-month, all the lines in *Graphs 17* and *18* would be flat and at zero. Again, with the payroll series, only the headline month and the prior month are consistent in terms of month-to-month reporting detail (headline September 2015 no longer is comparable with data from August 2015 or earlier). Comparable with headline October and September reporting, August's current headline jobs gain of 153,000 was overstated by 15,000 (up by 138,000 on a consistent basis). 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 recently 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 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 relative effects on payroll employment of jobs creation due to new businesses starting up, versus jobs lost due to bankruptcies or closings of existing businesses.

October 2015 Add-Factor Bias. The not-seasonally-adjusted October 2015 bias was a positive monthly add-factor of 165,000, versus a negative add-factor of 34,000 (-34,000) in September 2015, and a positive add-factor of 164,000 in October 2014.

The revamped, aggregate upside bias for the trailing twelve months through October 2015 was 790,000, versus 789,000 in September, 804,000 in August, 797,000 in July, 836,000 in June and 856,000 in May, but still higher than the pre-2014-benchmarked level of 731,000 in December 2014. That was a rough-monthly average of 66,000 in October (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 headline history as published initially for each series. 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 October 2015 unemployment rate (U.3) declined by 0.01-percentage point to 5.04% (a rounded headline 5.0%), from 5.05% (a rounded headline 5.1%) in September. Technically, the headline October 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.

Again, though, the headline decline here of 0.01% (-0.01%) in U.3 is without meaning, given that the seasonally-adjusted month-to-month details simply are not comparable, thanks to 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 details are derived.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. The October 2015 unadjusted U.3 unemployment rate eased to 4.83% from 4.87% in September 2015.

The near-zero decline in the seasonally-adjusted, headline October U.3 unemployment rate reflected a decline of 7,000 (-7,000) unemployed individuals versus a gain of 320,000 employed, and a net gain of 313,000 in the labor force. It is hard to imagine a 320,000 gain in jobs with only 7,000 unemployed benefitting. More realistically, again, the headline monthly swings in the seasonally-adjusted unemployment data are heavily skewed, and month-to-month data simply are not comparable.

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 generally has held 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, and a decline in the adjusted number of people working part-time for economic reasons, along with a negligible drop in those marginally attached to the workforce (short-discouraged workers increased for the month), headline October 2015 U.6 unemployment eased to 9.81%, from 10.01% in September 2015. The unadjusted U.6 was at 9.45% in October, versus 9.61% in September.

“Short-Term” Discouraged Workers. The count of short-term discouraged workers in October 2015 (never seasonally-adjusted) rose by 30,000 to 665,000, from 635,000 in September, where the total, short-term marginally-attached discouraged workers eased to 1,916,000 in September, versus 1,921,000 in September. The latest, official discouraged number reflected the flow of the headline 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 ShadowStats-Alternate Unemployment Estimate notched lower to 22.8% in October 2015, versus 22.9% in September.

The October ShadowStats reading was the lowest since October 2012, down by 50 basis points or by 0.5% (-0.5%) from the 23.3% series high in December 2013. In contrast, the headline October 2015 U.3

reading of 5.0% was the lowest since February of 2008, down by a full 500 basis points or 5.0% (-5.0%) from its 10.0% peak in April 2010.

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 rose to 3.787 in October 2015 versus 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 the underlying reality.

The ShadowStats number—a broad unemployment measure more in line with common experience—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, as well as with the ShadowStats-Alternate GDP Estimate (see [Commentary No. 763](#)). Those series all are plotted subsequent to the 1994 overhaul of unemployment surveying (see *Graphs 2 to 5*).

Headline October 2015 Detail. Again, adding back into the total unemployed and labor force the ShadowStats estimate long-term discouraged workers, the October 2015 ShadowStats-Alternate Unemployment Estimate notched lower to 22.8% in October 2015, versus 22.9% in September. The

October 2015 reading was the lowest since October 2012, down by 50 basis points or 0.5% (-0.5%) from the 23.3% series high in December 2013.

Again, in contrast, the October 2015 headline U.3 unemployment reading of 5.0% was the lowest since February 2008, down by a full 500 basis points or 5.0% (-5.0%) from its peak of 10.0% in April 2010.

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%.

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, general trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless can gyrate some with the latest economic hype in the popular media. That general effect holds the consensus outlook still at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Where the net trend still has been towards weakening expectations, movement towards recession recognition has been at something of an accelerating pace.

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 GNP) into 2016, including the November 24th first revision to “advance” third-quarter 2015 GDP estimate.

CPI-U consumer inflation—intermittently driven lower this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Annual CPI-U turned minimally positive in June 2015, for the first time in six months, notched somewhat higher in July and August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. Gasoline prices appear to be bottoming out, again, with a combination of temporarily-stable gasoline prices and related, positive seasonal adjustments likely to boost headline October 2015 CPI-U, as noted in the *Pending Releases* (see PPI comments).

Significant upside inflation pressures should mount anew, once oil prices rebound meaningfully. Again, that process eventually should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those 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 RELEASES:

Nominal and Real Retail Sales (October 2015). The Census Bureau has scheduled release of October 2015 nominal (not-adjusted-for-inflation) Retail Sales for Friday, November 13th, which will be covered in *Commentary No. 766* of that date. Real (inflation-adjusted) Retail Sales for October will follow in *ShadowStats Commentary No. 767* of November 17th, in conjunction with the publication of detail on headline October CPI-U. With a good chance for a headline monthly gain in October CPI inflation, there is a parallel chance for real growth in October sales to be weaker than the headline nominal sales activity.

Market expectations likely will be on the plus-side of flat for the nominal numbers. In the current environment, however, downside-reporting surprises usually are a good bet for this series, including a weaker-than-expected headline number for October and potential downside revisions to the August and September detail. An outright contraction in headline October retail sales remains a good possibility. Continued weakness in these numbers should intensify the shift in consensus expectations towards renewed economic contraction, a “new” recession.

Constraining retail sales activity, the consumer remains in an extreme liquidity bind with weakening confidence, discussed most recently in the prior [Commentary No. 764](#). A new, full review of consumer conditions will be included in *Commentary No. 766*, accompanying this October nominal retail sales reporting. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

Producer Price Index—PPI (October 2015). The Bureau of Labor Statistics (BLS) will release the October 2015 PPI also on Friday, November 13th. Odds favor positive headline wholesale inflation, perhaps around 0.5%, enough roughly to offset the monthly decline of 0.5% (-0.5%) seen in September 2015. Helping to boost the aggregate October reading should be a positive contribution from the energy sector.

Unadjusted oil prices rose again in October. Gasoline prices declined again, but not as sharply as in September. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices increased by 1.7% and 1.6% in the month. Such was accompanied by a decline of 3.0% (-3.0%) in unadjusted monthly-average retail-gasoline prices (Department of Energy). PPI seasonal adjustments for energy in October, however, generally are strongly positive and should pull the highly-volatile, seasonally-adjusted energy component of final demand goods into a positive monthly contribution for the aggregate PPI.

That said, there remain unusual dynamics at play in the margin shifts in the dominant services sector of the PPI—where higher seasonally-adjusted energy prices can translate initially into lower wholesale

margins and offsetting decreased “inflation.” Nonetheless, with some likely added monthly inflation from wholesale food and “core” goods, there is a fair chance of a positive, headline aggregate PPI at 0.5%, plus-or-minus.
