John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 805
April Employment and Unemployment, Money Supply M3

May 6, 2016

Negative Economic Conditions Traditionally
Weigh Heavily Against the Incumbent Party Holding the White House

Payroll and Unemployment Details Showed
Some Catch-Up in Heavily Distorted Reporting

Annual Payroll Growth Fell to a 23-Month Low

April Payroll Gain of 160,000 Jobs Was Heavily Overstated;
Full-Time Employed Dropped by 253,000 (-253,000) with
Total Employed Declining by 316,000 (-316,000)

Participation Rate and Employment-Population Ratio Declined

April 2016 Unemployment Rates Were Little Changed:
U.3 at 5.0%, U.6 at 9.7% and ShadowStats at 22.9%

Annual M3 Growth Held at 3.9% in April 2016

PLEASE NOTE: The next regular Commentary, *scheduled for Friday, May 13th will cover April Retail Sales and the Producer Price Index.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Despite Some Reporting Catch-Up, Payroll Growth Remained Massively Overstated; Monthly Unemployment Details Remained Not Comparable. Underlying reality for April 2016 U.S. labor conditions was in the realm of a 22.9% broad unemployment rate, with actual monthly payroll employment change in negative territory, and with the standard, gimmicked headline payroll change more likely to have come in around plus 100,000, instead of plus 160,000.

Discussed in the *Birth-Death/Bias-Factor Adjustment* section (*Reporting Detail*), subsequent to the downside payroll-benchmark revisions of February 2016, excessive, upwardly-revised monthly biases have been added into the headline monthly payroll detail by the Bureau of Labor Statistics (BLS). BLS use of the Birth-Death Model (BDM) artificially inflates headline month-to-month payroll gains with add-factors that currently are well in excess of 200,000 jobs per month.

The second major problem with monthly payroll-growth estimation, as well as the primary, non-definitional problem with the unemployment-related detail, is the lack of historical comparability of the seasonally-adjusted, headline numbers. Such results from the BLS using concurrent seasonal adjustment factors, a process that revises the last five years of seasonally-adjusted headline data, each and every month, but where BLS does not publish the revised historical data. Due to extraordinary seasonal-factor shifts with today's (May 6th) headline Payroll Survey reporting, the market-disappointing April payroll gain was 160,000 jobs, instead of what should have been an even-weaker 100,000 to 120,000 jobs (see the discussion in *Headline Distortions from Shifting Concurrent-Seasonal Factors* in the *Reporting Detail*).

On the Household-Survey side and with related unemployment measurement, data-quality was horrendous, as usual. While there was some catch-up to more-realistic levels with ratios such as the participation rate, that did not mean that the numbers were more accurate, other than by coincidence. The seasonally-adjusted details simply are not comparable month-to-month, where each month has been seasonally-adjusted uniquely and inconsistently with the month before. Consider that in the context of these not consistent month-to-month details, April's headline seasonally-adjusted reporting patterns usually are not seen in real-world economic activity. Employment and unemployment fundamentally tend to move in opposite directions. Yet, for the last three months, employment and unemployment counts have been crashing and surging in tandem with each other.

Nonetheless, the broad economy is turning down anew, and the employment and unemployment data are providing some indication of that. If the reporting quality were better for the labor numbers, recession recognition already would be upon us. Nonetheless, contracting business activity is evident in a number of the better economic measures, including the sentiment on Main Street, U.S.A.

Economic Conditions Weigh Heavily Against the Incumbent Party Holding the White House. With Donald Trump declared as the "Presumptive Republican Nominee" for President in 2016, it seems appropriate to revisit comments from *No. 777 Year-End Special Commentary* of December 30, 2015:

> ***Main Street U.S.A. Should Vote its Pocketbook, Again.*** Personal financial circumstances, when they are particularly negative or positive, tend to dominate national elections more than any other factor. Financial

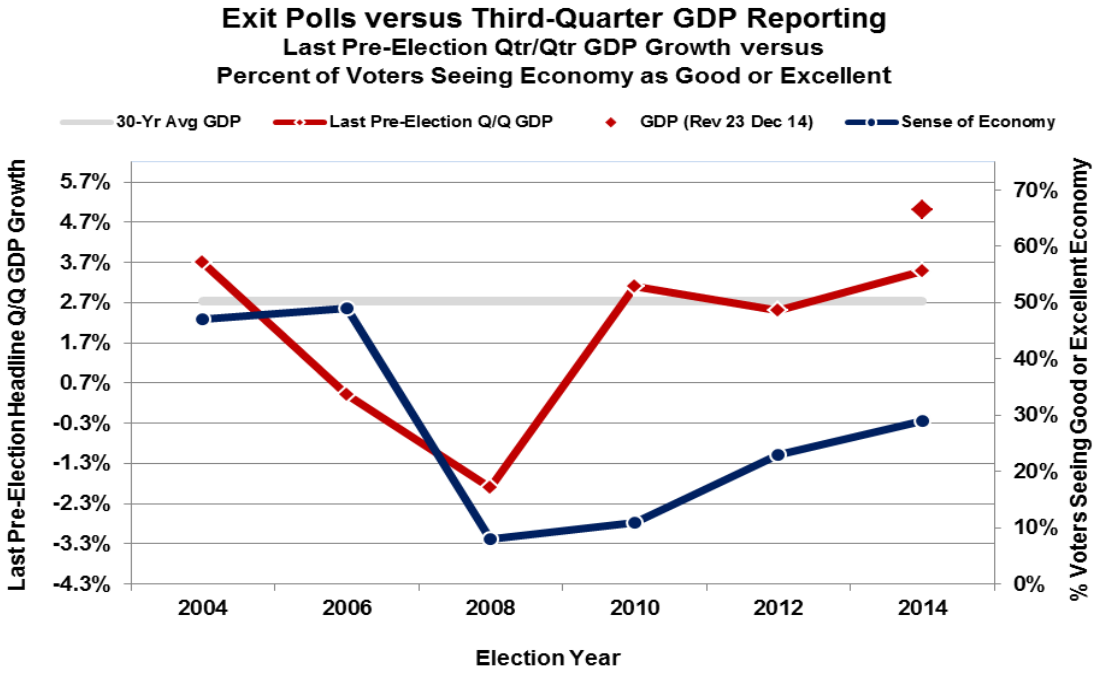
circumstances for the average voter are miserable, and that should turn voting heavily negative against the incumbents. As background, I consider myself to be [an] old-line conservative Republican with a Libertarian bent, and do my best to keep my personal politics out of my writing.

That said, Main Street U.S.A. historically has an extraordinarily good track record in recognizing underlying economic reality, as commonly reflected by electoral swings against the incumbent party holding the White House, when difficult pocketbook issues have dominated voter concerns (see *Commentary No. 672*). Also, in recent years, exit polls, such as seen in the 2014 midterm elections, generated a reading of the public's view of the third-quarter 2014 economy that was consistent with quarterly contraction, not with booming quarterly growth.

Plotted in [the accompanying graph from *No. 777*], the red line with the diamond-points and left scale represents the latest headline quarterly GDP growth rate prior to the [mid-term 2014] election, which was 3.5% in initial third-quarter 2014 GDP reporting (the single large diamond reflects the subsequent December 23rd revision of third-quarter activity to 5.0% [later revised to 4.3% in the 2015 GDP benchmarking]). The blue line with the circle points shows the exit poll reading of how voters viewed the economy. An average economy would be 50% of voters viewing the economy as good or excellent, which would be about 2.7% for the GDP (thirty-year average).

In more-normal economic times, such as seen in 2004 and early-2006, exit polls from the presidential or midterm elections of those years showed about half the voters rating the national economy as 'excellent or good,' with a 50% rating there being average. Not too surprisingly, that assessment of 'excellent or good' dropped to 8% in 2008, as the economy was collapsing, inching higher to 11% in the early-recovery period of 2010. Yet, the 'excellent or good' descriptor only recovered to 23% in 2012 and to 29% in 2014, despite the purported robust economic recovery and expansion in GDP activity (all those headline numbers were before downside [GDP] benchmark revisions in July 2015).

ECONOMY – CONSUMER/VOTER – Exit Polls versus Headline GDP Reporting (2004 - 2014)



Main Street U.S.A. was not looking at a fully-recovered and booming economy in third-quarter 2014, as of the November 4, 2014 election. The exit-poll economic rating was consistent with an outright quarter-to-quarter

contraction in real third-quarter GDP activity, a quarter that had ended on September 30th, more than one month before the election. The voters certainly did not believe the headline 3.5% third-quarter growth published the week before the election. If they did not believe that, they most likely also did not believe the 5.0% revised growth rate published on December 23rd as the third estimate, second revision to third-quarter GDP growth.

Once again, current circumstances are sharply negative for personal finances (see the *Consumer Conditions—Liquidity Issues Plague the Electorate* [again in *No. 777*]). Donald Trump's success in early polling for the Republican nomination likely reflects the disgruntlement with the economy, among other factors. Mr. Trump looks like he could take the nomination, assuming he can get through the political machinery of the Republican convention. If nominated, background economic conditions suggest that Main Street, U.S.A. would put him in the White House.

Since the preceding was written, actual economic conditions not only still have not recovered, but they have gotten worse. Again, Main Street U.S.A. has a good sense of economic reality. As noted in an Associated Press story of May 3, 2016 on the Indiana primary: "More than 9 in 10 Republican primary voters and more than 8 in 10 Democratic primary voters are either very or somewhat worried about the economy, according to early results from exit polls conducted for The Associated Press and television networks by Edison Research."

Discussed frequently here, underlying reality remains that economy has entered a "new recession," a circumstance that will not reverse before the November 8th election. Based on more than a century of economic data and election results, current actual economic conditions strongly favor a loss for the incumbent party holding the White House.

Today's *Commentary* (May 6th). The balance of these *Opening Comments* provides summary coverage of the April Employment and Unemployment Reporting.

The *Hyperinflation Watch* updates Monetary Conditions, including annual growth in the April 2016 Money Supply M3, the ShadowStats Ongoing M3 Measure. The most recent *Hyperinflation Outlook Summary* is found in *Commentary No. 783*, with *Commentary No. 799* and *No. 777 Year-End Special Commentary* as background to the currently unfolding financial circumstances. These documents will be updated shortly in a new *Special Report.*

The *Week Ahead* section previews next week's reporting of April Retail Sales and the PPI.

Employment and Unemployment—April 2016—Weaker Data Are More Realistic, But Not Necessarily of Improved Reporting Quality. The headline April labor data out of the Bureau of Labor Statistics (BLS) were much weaker than commonly expected. Yet, underlying reality remained much weaker than today's headline detail, with mounting issues of deteriorating reporting quality, as discussed in the opening paragraphs of this *Opening Comments* section.

In the context of heavy upside biases and extraordinarily-shifting seasonal factors, nonfarm payroll activity slowed to a headline monthly gain of 160,000 jobs in April 2016, from a downwardly-revised monthly gain of 208,000 in March 2016. With aggregate, monthly upside biases added into these

numbers in excess of 200,000 jobs, the actual April 2016 headline payroll change most likely was a monthly contraction. On a not-seasonally-adjusted basis, year-to-year annual growth in April 2016 slowed to 1.88%, the weakest showing since May of 2014.

Looking at headline Household Survey detail, the U.3 unemployment rate held at 5.0% in April 2016. The broader U.6 unemployment measure, encompassing those "marginally attached" to the workforce, narrowed slightly to 9.7% in April from 9.8% in March. Adding back into the total unemployed and labor force the ShadowStats estimate of the ever-growing ranks of long-term discouraged workers—effectively displaced workers—the ShadowStats-Alternate Unemployment Estimate held at 22.9% in April.

Headline 2016 Payroll Employment Activity Slowed Sharply. In the context of downside prior-period revisions, the seasonally-adjusted, headline payroll gain for April 2016 was 160,000 jobs. That followed a downwardly revised headline gain of 208,000 in March 2016, and a downwardly revised 233,000 jobs gain in February 2016. Net of the prior-period revisions, April 2016 payrolls gained 141,000.

Similar patterns were seen in slowing growth for construction payrolls, an area that likely will be a large negative contributor to the first revision of first-quarter 2016 GDP growth.

Not-seasonally-adjusted, year-to-year growth in nonfarm payrolls fell to a twenty-three month low of 1.88%, the weakest reading since May 2014. Such followed revised annual growth of 1.99% in March 2016, and an unrevised 1.90% in February 2016.

Counting All Discouraged Workers, April 2016 Unemployment Held at About 22.9%. Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, simply is definitional. To be counted among the headline unemployed (U.3), an individual has to have looked actively for work 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. Instead, they enter the realm of "long-term discouraged workers," those displaced by extraordinary economic conditions, including regional/local businesses activity affected negatively by trade agreements or by other factors shifting U.S. productive assets offshore, as defined and counted by ShadowStats (see the extended comments in the *ShadowStats Alternate Unemployment Measure* in the *Reporting Detail*).

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 the April 2016 headline 5.0%, has been due largely to the unemployed giving up looking for work (common in severe economic contractions and major economic displacements). Those giving up looking for work are redefined out of headline reporting and the labor force, as discouraged workers. The declines in the headline unemployment rate reflect same, much more so than the unemployed finding new and gainful employment.

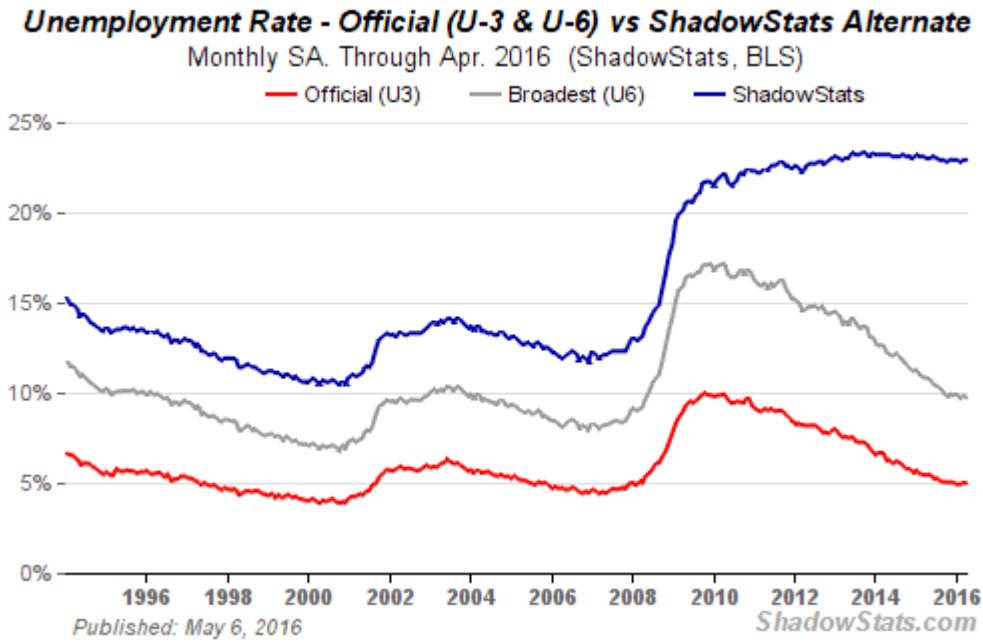
As new discouraged workers move regularly from U.3 into U.6 unemployment accounting, those who have been "discouraged" for one year are dropped from the U.6 measure. As a result, the headline U.6 measure has been declining along with headline U.3 for some time, but those being pushed out of U.6 still are counted in the ShadowStats-Alternate Unemployment Measure, which has remained relatively steady, 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—those who effectively have been displaced by circumstances beyond their control—as the BLS used to define and measure the series more broadly, 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-April 2016 unemployment rates of 5.0% (U.3) and 22.9% (ShadowStats).

Graph 1 reflects headline April 2016 U.3 unemployment at 4.98%, versus 5.00% in March 2016; headline April 2016 U.6 unemployment at 9.71%, versus 9.82% in March; and the headline April 2016 ShadowStats unemployment estimate holding at 22.9%, the same level as in March..

Graph 1: Comparative Unemployment Rates U.3, U.6 and ShadowStats

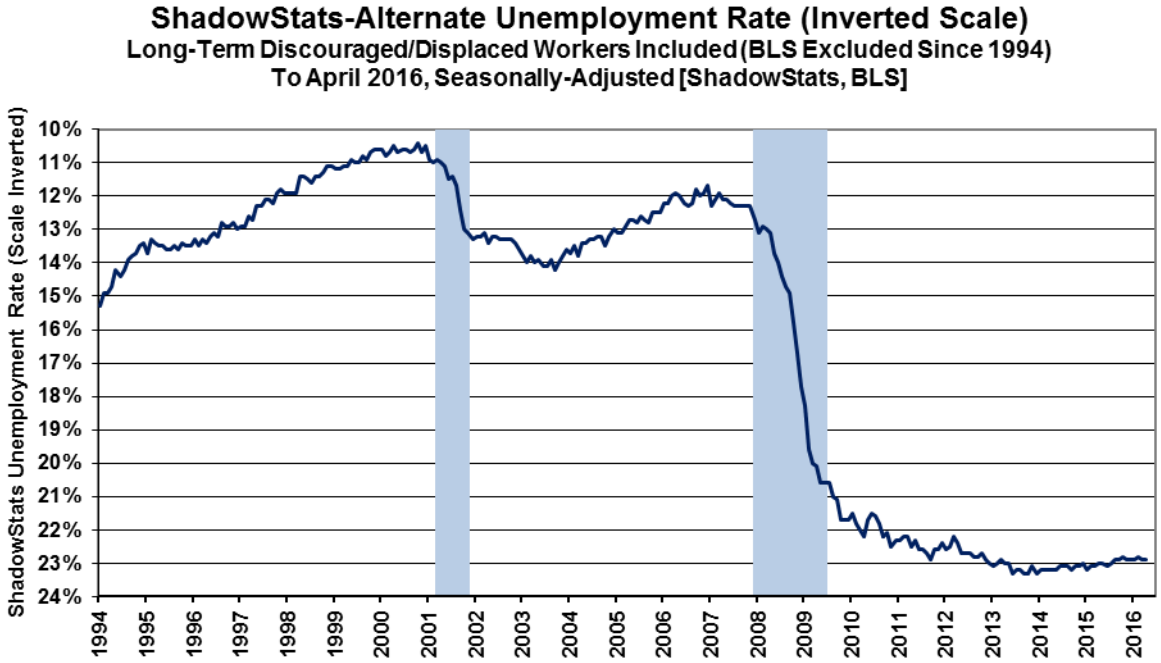


Graphs 2 to *4* reflect longer-term unemployment and discouraged-worker conditions. *Graph 2* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic 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 reversed course, turning lower in April 2016. That ratio still remains near its post-1994 record low, the historic low 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.

Graph 2: Inverted-Scale ShadowStats Alternate Unemployment Measure

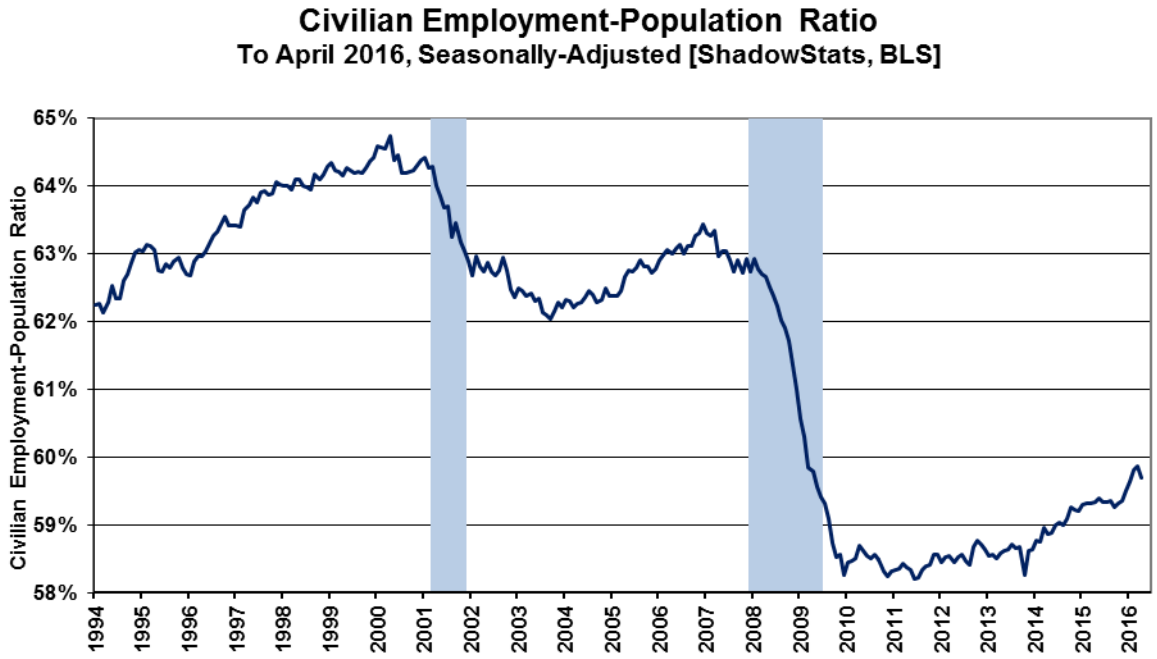


Shown in *Graph 4*, the April 2016 participation rate also reversed course and notched lower in April 2016. Both the near-term Employment-to Population Ratio and the Participation Rate appear to have suffered near-term spikes and volatility from a combination of population redefinition in January and specifically the lack of any consistency or comparability in the adjusted monthly detail from the source Household Survey so far in 2016. Unadjusted ratios for these series are running respectively about 0.5% and 0.2% below the bloated, adjusted numbers, with the difference narrowing in April. There likely was a minimal amount of corrective catch-up in the current headline detail.

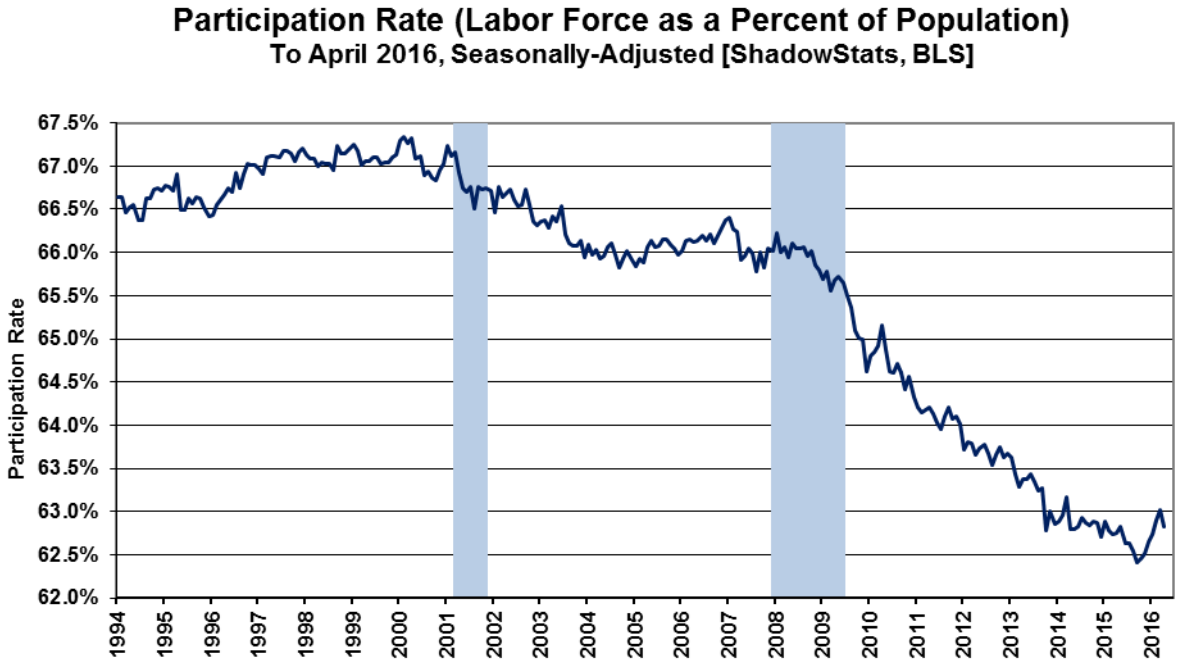
The Participation-Rate remains off the historic low hit in September 2015 (again, pre-1994 estimates are not consistent with current reporting), but it also notched lower in April, again likely some minimally-corrective pattern. The labor force used in the Participation-Rate calculation is the headline employment plus U.3 unemployment. As with *Graph 3* of employment-to-population, its holding near a post-1994 low in current reporting indicates problems with long-term discouraged workers, the loss of whom generally continues to shrink the headline (U.3) labor force, and the plotted ratio.

Graphs 1 through *4* reflect data available in consistent detail only back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with April's Household-Survey reporting simply are not available, irrespective of any protestations to the contrary by the BLS. Separately, consider *Graph 5*, which shows the ShadowStats version of the GDP, also from 1994 but through the April 28th "advance" estimate of first-quarter 2016 activity, where the GDP plot has been corrected for the understatement of inflation used in deflating the headline GDP series (a description and related links are found in *Commentary No. 803*).

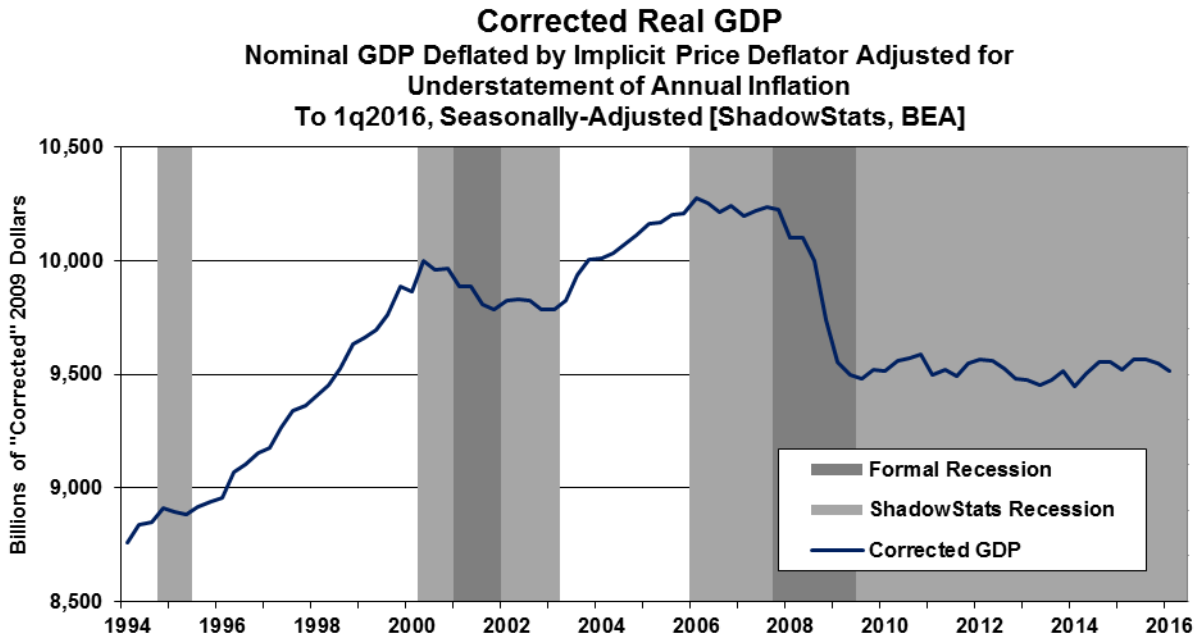
Graph 3: Civilian Employment-Population Ratio



Graph 4: Participation Rate



Graph 5: Corrected Real GDP through 1q2016, "Advance" Estimate



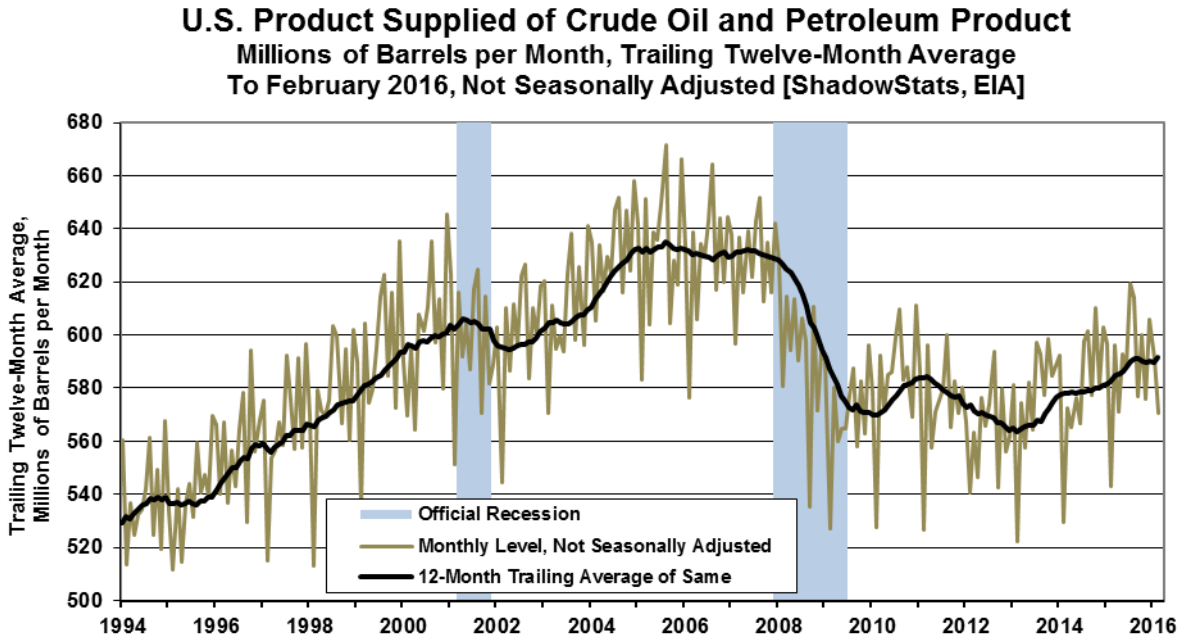
ShadowStats also regularly publishes less biased series from a variety of sources. Shown in *Graph 6*, for example, is the U.S. aggregate consumption of crude oil petroleum product, measured in physical barrel count, is an extraordinarily broad indicator of general activity. The U.S. Energy Information Agency (EIA), Department of Energy, publishes this detail on a monthly basis.

As with the CASS freight index (*Graph 7*), where the monthly data are not seasonally adjusted, ShadowStats has plotted the petroleum series using a trailing twelve-month average, through headline monthly detail of February 2016. The resulting smoothed pattern reflects the economic collapse into 2009, followed by a protracted period of variable, low-level stagnation, and an upside notch in February. Based on weekly data also published by the EIA, the trailing twelve-month average through March 2016 should notch lower. In contrast, the CASS index currently (through March 2016) is turning down anew in its twelve-month trailing average.

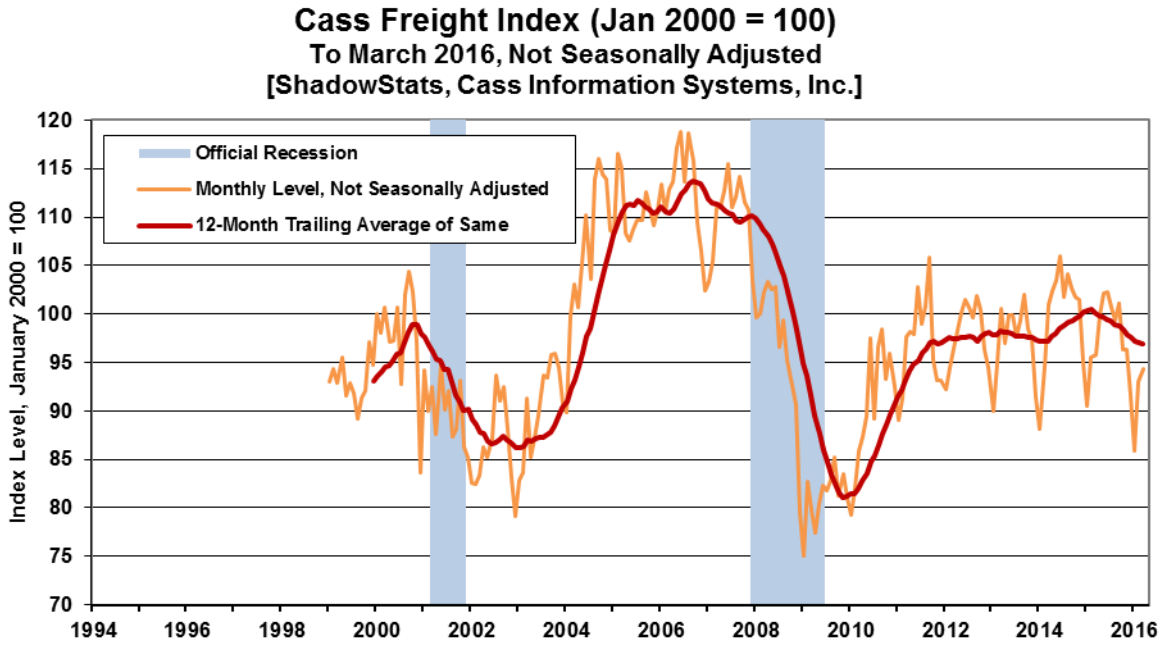
In particular, the broad patterns of activity seen in the weakened employment measures in *Graphs 2* and *3* generally are mirrored in *Graph 5* of the "corrected" GDP. They also are largely consistent with the post-1994 period shown in *Graph 6 of* petroleum consumption, *Graph 7* of the CASS Freight Index and *Graph 8* of real S&P 500 revenues, previously published in *Commentary No. 796* and *No. 777 Year-End Special Commentary*.

Introduced in *Commentary No. 782*, the graphic detail on the Cass Freight Index™, a measure of North American freight volume, is calculated by, and used with the permission of Cass Information Systems, Inc. Few measures better reflect the actual flow of goods in commerce than freight activity.

Graph 6: U.S. Petroleum Consumption to February 2016

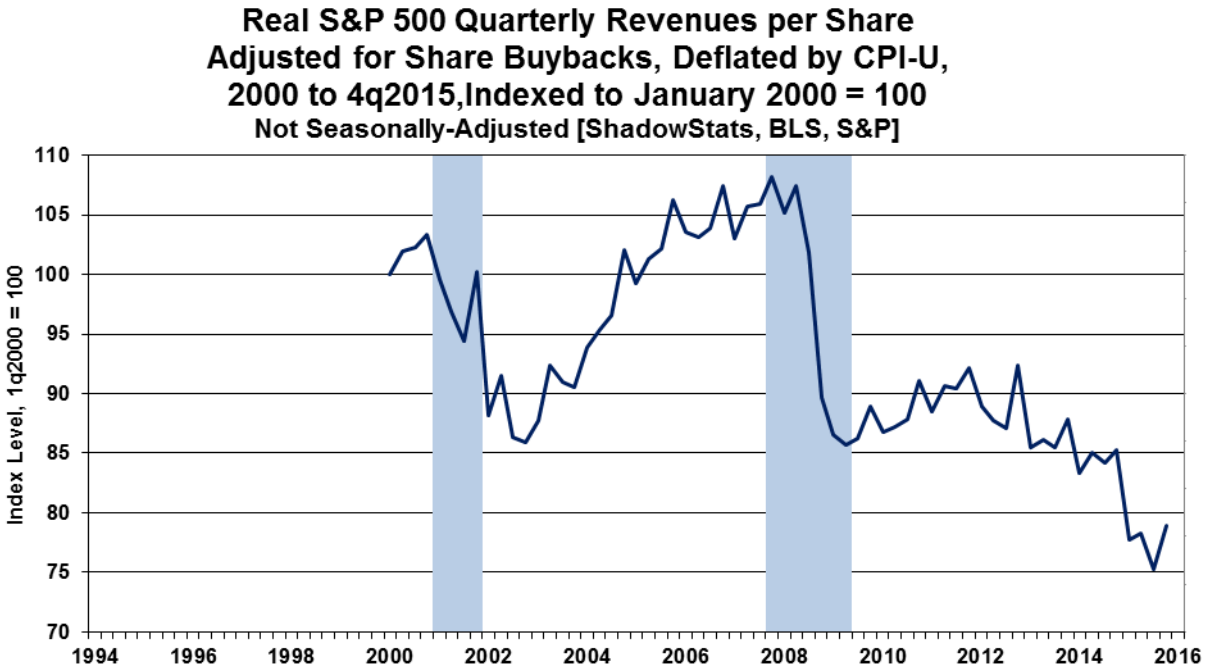


Graph 7: CASS Freight Index for North America (2000 - 2016), Indexed to January 2000 = 100



Graph 8 of S&P 500 revenues usually is plotted with quarterly data beginning in 2000, but the time scale of the plot was shifted here back to 1994 to show the S&P 500 revenue detail on roughly a comparative, coincident basis with the detail in *Graphs 2* to *6*. A similar re-plotting of the monthly time scale was used for the freight index detail in *Graph 7*. Of note, unlike *Graphs 2* to *5*, *Graphs 6* to *8* are not seasonally adjusted, although the primary plots in *Graphs 6* and *7* are trailing 12-month averages. As an aside, apparent recession-band widths in the graphs vary depending on whether the base plotting period is monthly (such as seen in *Graphs 2* to *4*, *6* and *7*) or quarterly (such as seen in *Graphs 5* and 8).

Graph 8: Real S&P 500 Sales Adjusted for Share Buybacks (2000 - 2015), Indexed to January 2000 = 100



Headline Unemployment Rates. At the first decimal point, the headline April 2016 unemployment rate (U.3) was unchanged at 5.0%, versus 5.0% in March. At the second decimal point, the headline April 2016 U.3 was 4.98%, versus 5.00% in March. Formally, the 0.02% decline in March U.3 was statistically-insignificant.

The headline gain in April U.3, however, also 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 (again, see *Headline Distortions from Shifting Concurrent Seasonal*). This issue remains separate from official questions raised as to falsification of the Current Population Survey (CPS), from which are derived the unemployment details (see *Note on Reporting-Quality Issues and Systemic-Reporting Biases* in the *Week Ahead* section).

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate eased to 4.68% in April 2016, versus 5.11% in March 2016.

Nonsense Monthly Changes. The effectively-unchanged, headline seasonally-adjusted April 2016 U.3 unemployment rate of 4.98% versus 5.00% in the March 2016 reflected nonsensical proportionate declines of 46,000 (-46,000) in the unemployed, and 316,000 (-316,000) in employed, with a combined drop of 362,000 (-362,000) in the headline labor force. These are nonsensical, because the unemployed count usually rises when the employed count declines, and vice versa. Accordingly, for the third month, it was unusual to have both employment and unemployment moving in the same direction, suggestive once again of the incompatibility and inconsistency of the month-to-month headline detail in the published history of the seasonally-adjusted, household-survey numbers. Discussed in the *Reporting Detail* section in *Headline Distortions from Shifting Concurrent-Seasonal Factors*, these monthly inconsistencies are deliberate misrepresentations of better-quality, consistent data that are prepared internally each month by the BLS. The inconsistencies here mean that the published, headline month-to-month changes in everything from the employed, unemployed and labor-force counts to the Employment-Population Ratio and Participation Rate simply are meaningless.

Marginally-Attached and Displaced Workers. 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 relatively stable.

The monthly count of short-term discouraged workers in April 2016 (never seasonally-adjusted) declined by 17,000 (-17,000) to 568,000, while the total, short-term marginally-attached discouraged workers declined by 5,000 (-5,000) to 1,715,000 in April. The latest, official "discouraged" number, again, 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 displaced workers—the long-term discouraged-worker category—that defines the ShadowStats-Alternate Unemployment Measure. There is a 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.

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).

On top of a virtually-unchanged, seasonally-adjusted U.3 unemployment rate, and a virtually unchanged count of marginally-attached workers, a decline in the adjusted number of people working part-time for economic reasons notched the headline April 2016 U.6 unemployment rate lower to 9.71%, versus 9.82% in March. The unadjusted U.6 unemployment rate was at 9.30% in April 2016, versus 9.95% (rounds to 9.9%) in March 2016.

ShadowStats Alternate Unemployment Estimate. Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced workers, of long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for April 2016 held at 22.9%, the same level as in March. The April 2016 reading remained down by 40 basis points or 0.4% (-0.4%) from the 23.3% series high last seen in December 2013.

In contrast, the April 2016 headline U.3 unemployment reading of 5.0% remained down by a 500 basis points or 5.0% (-5.0%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.7% in April 2016, was down from its April 2010 peak of 17.2% by 750 basis points or 7.5% (-7.5%).

[*The* Reporting Detail *section includes significant additional graphs and data related to April 2016 Labor Conditions.]*

HYPERINFLATION WATCH

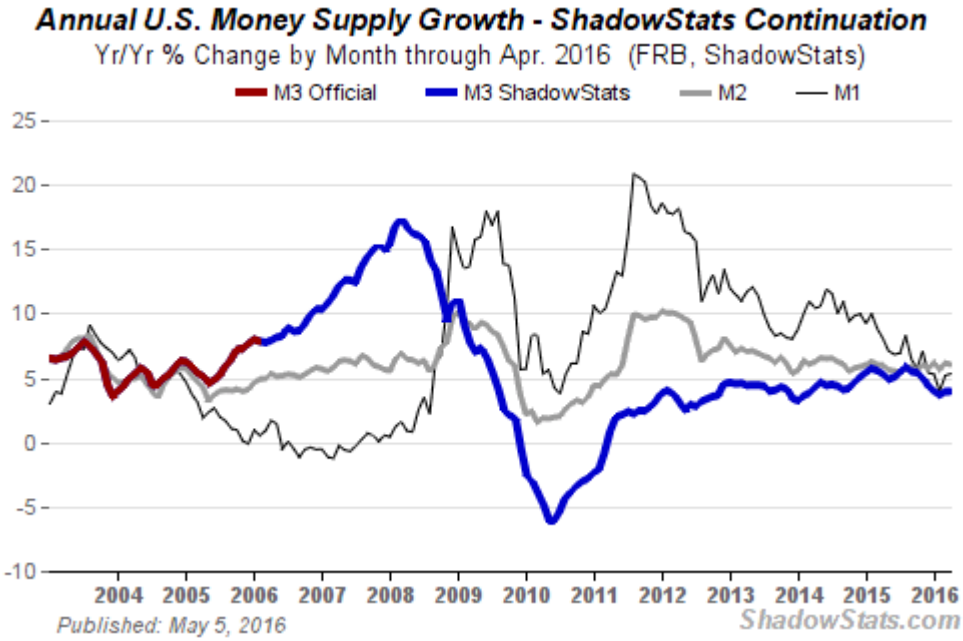
MONETARY CONDITIONS

Annual M3 Annual Growth Held at 3.9% in April. ShadowStats Ongoing M3 Money Supply annual growth held 3.9% in April 2016, the same level as in March 2016. It remained up from a two-year low of 3.7% in February 2016. Both M1 and M2 annual growth rates in April also held even with their growth rates of March.

Headline Details. In the context of continuing revisions to underlying headline data published by the Federal Reserve Board (FRB), the preliminary estimate of the year-to-year change in the ShadowStats Ongoing M3 Money Supply Measure was 3.9% in April 2016, the same level as in March 2016, remaining up from 3.7% in February 2016. The annual change had been in continual month-to-month slowing since the near-term peak growth of a revised 5.8% in August 2015, as seen in *Graph 8*. On a month-to-month basis, April 2016 M3 rose by 0.2%, versus a gain of 0.6% in March.

The relative weakness in annual M3 growth versus M2 reflects the shift over time in funds from accounts included just in M3, such as large time deposits and institutional money funds, into accounts in M2.

Graph 8: Comparative Money Supply M1, M2 and M3 Year-to-Year Changes through April 2016



Following are initial estimates of April 2016 year-to-year and month-to-month changes 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. The latest estimates of level and annual growth for April 2016 M3, M2 and M1, and for earlier periods are available on the Alternate Data tab of www.ShadowStats.com.

Annual M2 growth in April 2016 eased to 6.1% from 6.2% in March 2016, with a month-to-month increase of 0.6% in April 2016, versus a gain of 0.7% in March 2016.

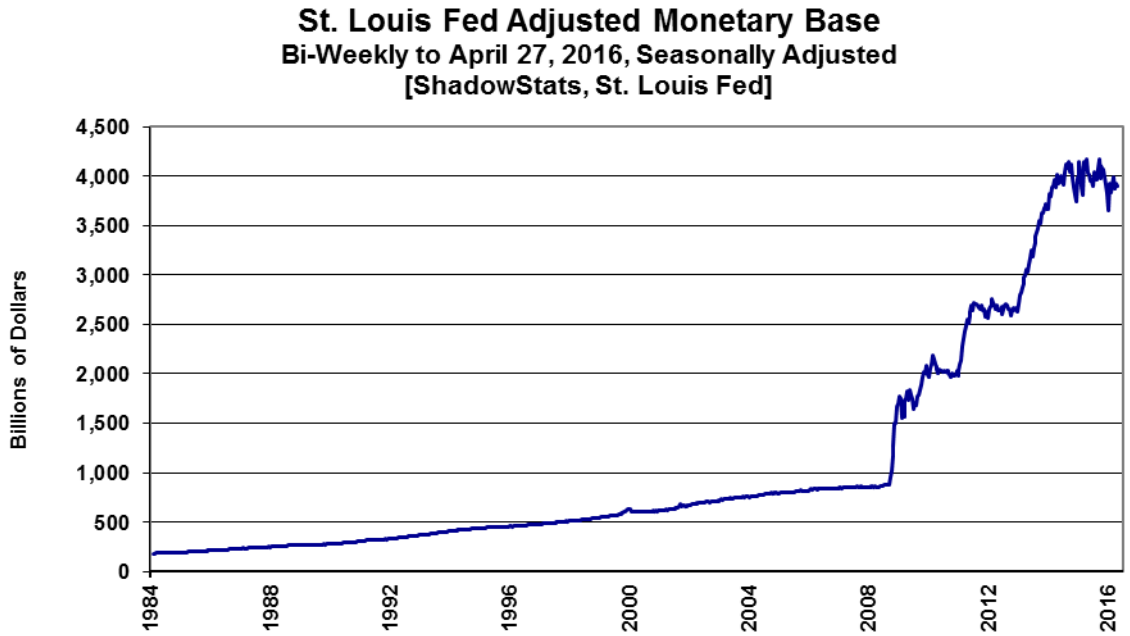
For M1, year-to-year growth rose to 5.4% in April 2016, up from a revised 5.3% [previously 5.2%] in March 2016, with a month-to-month 0.9% increase in April 2016, versus an unrevised monthly gain of 1.3% in March.

Monetary Base Has Remained Reasonably Stable in the Context of Continued Fed Waffling. In continuing follow up on the earlier *Commentary No. 800*, *No. 796*, *No. 790*, *No. 783*, *No. 779*, *No.779-A*, and *No. 784* the St. Louis Fed's monetary base appears largely to have stabilized both in terms of level and annual change, although the annual change is somewhat on the soft side, in the wake of the December 2015 rate hike. Subsequently, the Fed did not raise rates as planned in March, with no action in April. Further "tightening" appears to be on hold indefinitely.

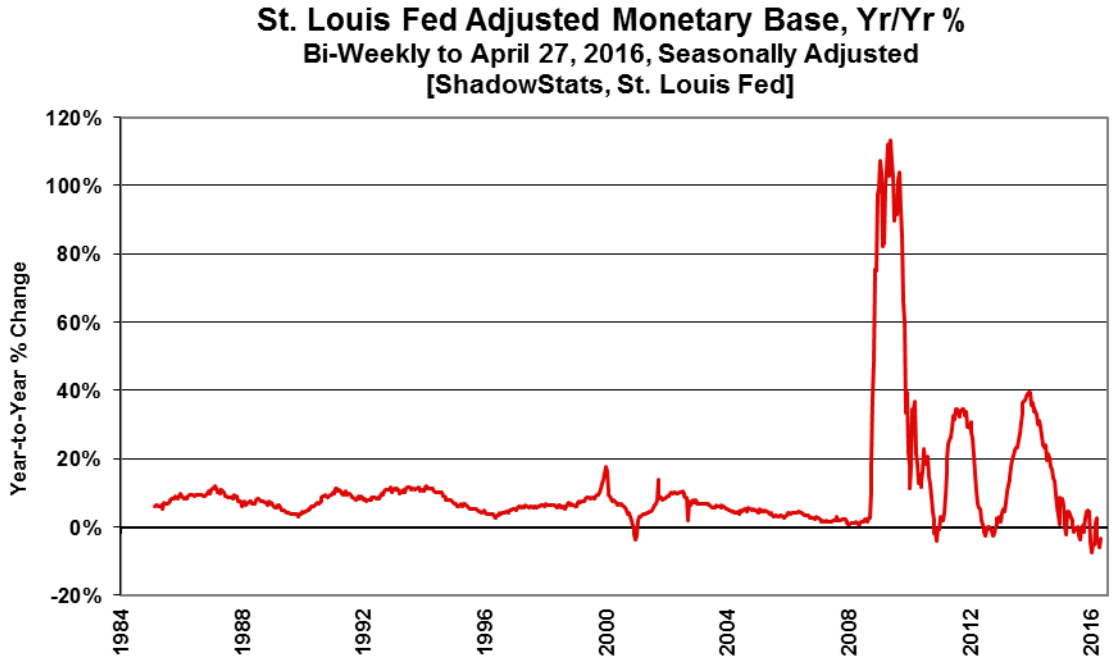
Graphs 9 and *10* show reporting of the St. Louis Fed's Monetary Base through the two-week period ended April 27th, with a level of $3.897 trillion, versus $3.923.8 trillion as of April 13th. Year-to-year growth showed a decline of 3.2% (-3.2%) in the latest period, versus an annual decline of 5.8% (-5.8%) in the prior period. That prior annual decline was second in severity only to the record 7.4% (-7.4%) drop

seen in the January 6th period, which encompassed the Fed's rate hike in December. Accordingly, those recent measures all on the deep side of normal volatility in annual change.

Graph 9: Monetary Base Level, Bi-Weekly through April 27, 2016



Graph 10: Monetary Base, Year-to-Year Percent Change, through April 27, 2016



Late in 2014, the Federal Reserve ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, but its outright holdings of Treasury securities have remained stable at $2.5

trillion, rolling over maturing issues. Discussed in the previously-referenced *Commentaries*, where the monetary base during the last year had been plus-or-minus 5% around the St. Louis Fed's estimated 12-month average of $4.0 trillion, that range was broken once, and on the downside, in the immediate post-FOMC period ended January 6th. Such was due largely to related New York Fed activities establishing the newly boosted federal funds rate. *Graphs 9* and *10* show reporting of the St. Louis Fed's Monetary Base through the two-week period ended April 27th.

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REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (April 2016)

Despite Some Catch-Up in Distortions, Payroll Growth Remained Massively Overstated; Monthly Unemployment Details Remained Not Comparable. *[Note: This section, through the* PAYROLL SURVEY DETAIL, *largely is repeated from the* Opening Comments.*]* Underlying reality for April 2016 U.S. labor conditions was in the realm of a 22.9% broad unemployment rate, with actual monthly payroll employment change in negative territory, and with the standard, gimmicked headline payroll change more likely to have come in around plus 100,000, instead of plus 160,000.

Discussed in the *Birth-Death/Bias-Factor Adjustment* section, subsequent to the downside payroll-benchmark revisions of February 2016, excessive, upwardly-revised monthly biases have been added into the headline monthly payroll detail by the Bureau of Labor Statistics (BLS). BLS use of the Birth-Death Model (BDM) artificially inflates headline month-to-month payroll gains with add-factors that currently are well in excess of 200,000 jobs per month.

The second major problem with monthly payroll-growth estimation, as well as the primary, non-definitional problem with the unemployment-related detail, is the lack of historical comparability of the seasonally-adjusted, headline numbers. Such results from the BLS using concurrent seasonal adjustment factors, a process that revises the last five years of seasonally-adjusted headline data, each and every month, but where BLS does not publish the revised historical data. Due to extraordinary seasonal-factor shifts with today's (May 6th) headline Payroll Survey reporting, the market-disappointing April payroll gain was 160,000 jobs, instead of what should have been an even-weaker 100,000 to 120,000 jobs (see the discussion in *Headline Distortions from Shifting Concurrent-Seasonal Factors* section).

On the Household-Survey side and with related unemployment measurement, data-quality was horrendous, as usual. While there was some catch-up to more-realistic levels with ratios such as the participation rate, that did not mean that the numbers were more accurate, other than by coincidence. The

seasonally-adjusted details simply are not comparable month-to-month, where each month has been seasonally-adjusted uniquely and inconsistently with the month before. Consider that in the context of these not consistent month-to-month details, April's headline seasonally-adjusted reporting patterns usually are not seen in natural or real-world activity. Employment and unemployment fundamentally tend to move in opposite directions. Yet, for the last three months, employment and unemployment counts have been crashing or surging in tandem with each other.

Unemployment. Looking at headline detail, the U.3 unemployment rate (Household-Survey) held at 5.0% in April 2016. The broader U.6 unemployment measure, encompassing those "marginally attached" to the workforce, narrowed slightly to 9.7% in April from 9.8% in March. Adding back into the total unemployed and labor force the ShadowStats estimate of the ever-growing ranks of long-term discouraged workers—effectively displaced workers—the ShadowStats-Alternate Unemployment Estimate held at 22.9% in April.

Payrolls. In the context of heavy upside biases and extraordinarily-shifting seasonal factors, nonfarm payroll activity slowed to a headline monthly gain of 160,000 jobs in April, from a downwardly-revised monthly gain of 208,000 in March 2016. With aggregate, monthly upside biases added into these numbers in excess of 200,000 jobs, the actual April 2016 headline payroll change most likely was a monthly contraction. On a not-seasonally-adjusted basis, year-to-year annual growth in April 2016 slowed to 1.88%, the weakest showing since May of 2014.

PAYROLL SURVEY DETAIL. This morning, May 6th, the Bureau of Labor Statistics (BLS) published the headline payroll-employment detail for April 2016, in the context of a downside prior-period revisions, the seasonally-adjusted, the headline payroll gain for April 2016 was 160,000 jobs +/- 129,000 [more appropriately +/- 300,000] at a 95% confidence interval. That followed a revised headline gain of 208,000 [previously 215,000] in March 2016, and a revised 233,000 [previously 245,000, initially 242,000] jobs in February 2016.

Net of prior-period revisions, April 2016 payrolls gained 141,000.

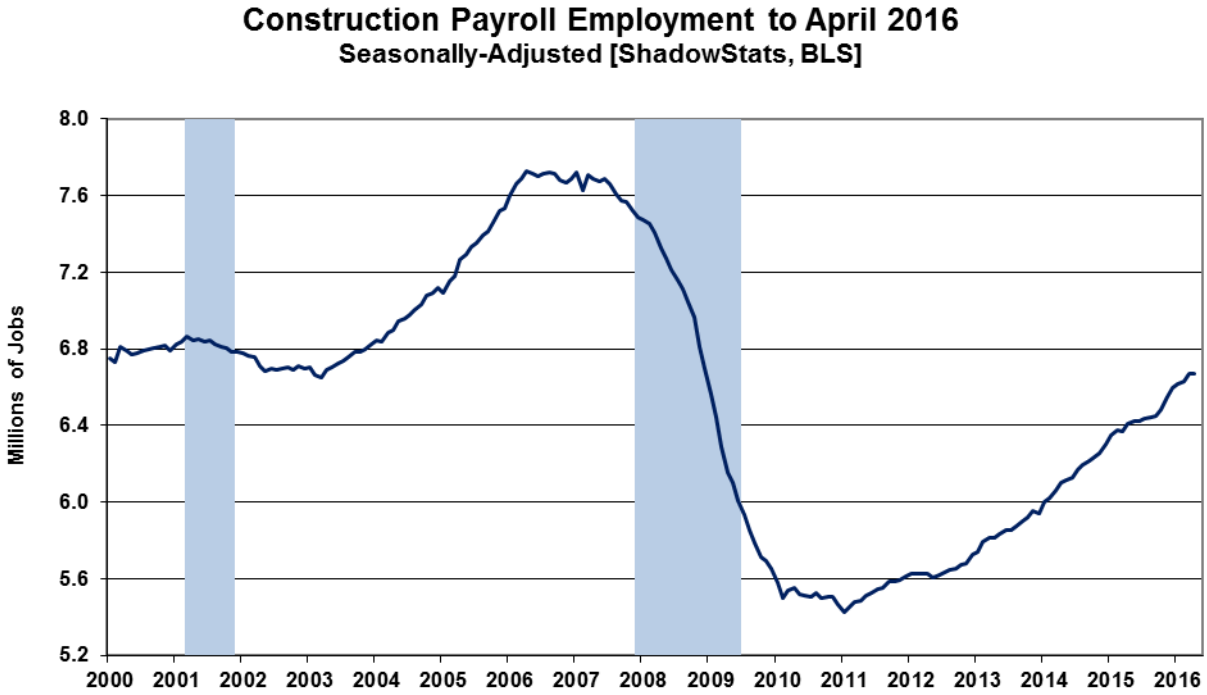
Not-seasonally-adjusted, year-to-year growth in nonfarm payrolls rose to fell to a twenty-three month low of 1.88%, the weakest growth since May 2014. Such followed revised annual growth of 1.99% [previously 1.98%] in March 2016, and an unrevised 1.90% in February 2016.

Confidence Intervals. Where the current employment levels have been spiked by misleading and inconsistently-reported concurrent-seasonal-factor adjustments, the reporting issues suggest that a 95% confidence interval around the modeling of the monthly headline payroll gain should be well in excess of +/- 200,000, instead of the official +/- 129,000. Even if the data were reported on a comparable month-to-month basis, other reporting issues would prevent the indicated headline magnitudes of change from being significant. Encompassing Birth-Death Model biases, the confidence interval more appropriately should be in excess of +/- 300,000.

Construction-Payroll Growth Has Slowed. Construction Payroll Employment growth also slowed in April 2016, in the context of prior-period downside revisions. 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). The following *Graph 11* updates *Graph 11* in prior *Commentary No. 804*.

Graph 11: Construction Payrolls to April 2016



Headline month-to-month growth in construction employment slowed to "unchanged" at 0.0% in April 2016, having gained an unrevised 0.6% in March 2016, versus a downwardly revised gain of 0.2% [previously up by 0.3%, initially up by 0.2%] in February 2016. The pace of monthly jobs growth has continued flattened out, as most headline construction activity and real construction spending have started to turn down or to stagnate.

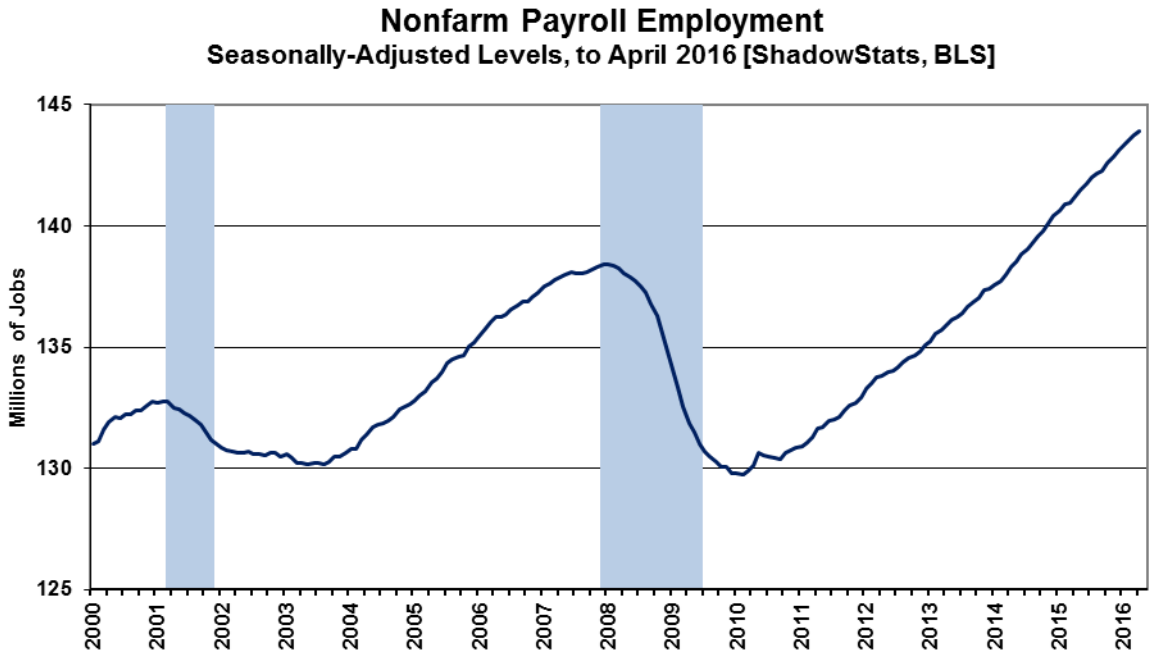
The April construction-payroll level of 6.670 million, was down by 2,000 from initial March 2016 reporting, but up by 1,000 from the revised March 2016 level 6.669 [previously 6.672] million, versus a revised 6.628 [previously 6.635, initially 6.631] million in February 2016.

Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,400 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total April 2016 construction jobs remained down by 13.7% (-13.7%) from the April 2006 pre-recession series peak, but was up by an unadjusted 4.2% from the year-ago April 2015. March 2016 was up by an unrevised 4.9%, year-to-year.

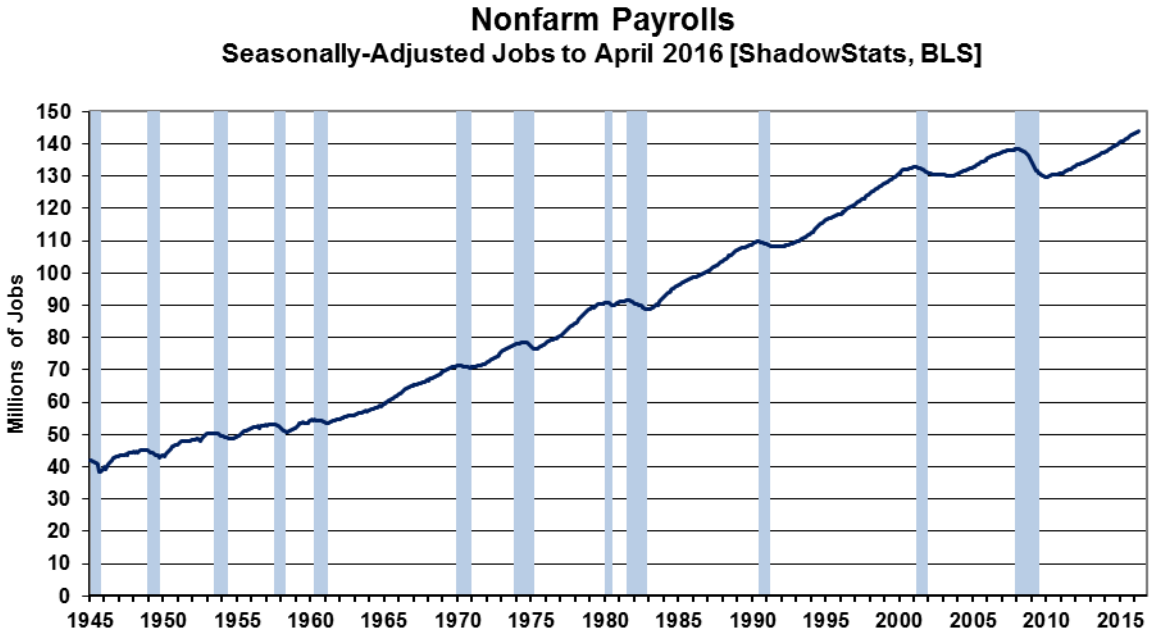
Historical Payroll Levels. Payroll employment (Payroll Survey) is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same somewhat shy of three years earlier, back in 2011. Reflected in the next two graphs, headline payroll employment moved to above its pre-recession high in May 2014, as of the 2015 benchmarking. Previously that had been April 2014, as of the 2014 benchmarking. Payroll employment has continued to rise since. Including the

headline jobs gain of 160,000 in April 2016, headline payroll employment now is about 5.5-million jobs above its pre-recession peak.

Graph 12: Nonfarm Payroll Employment to April 2016



Graph 13: Nonfarm Payroll Employment 1945 to April 2016



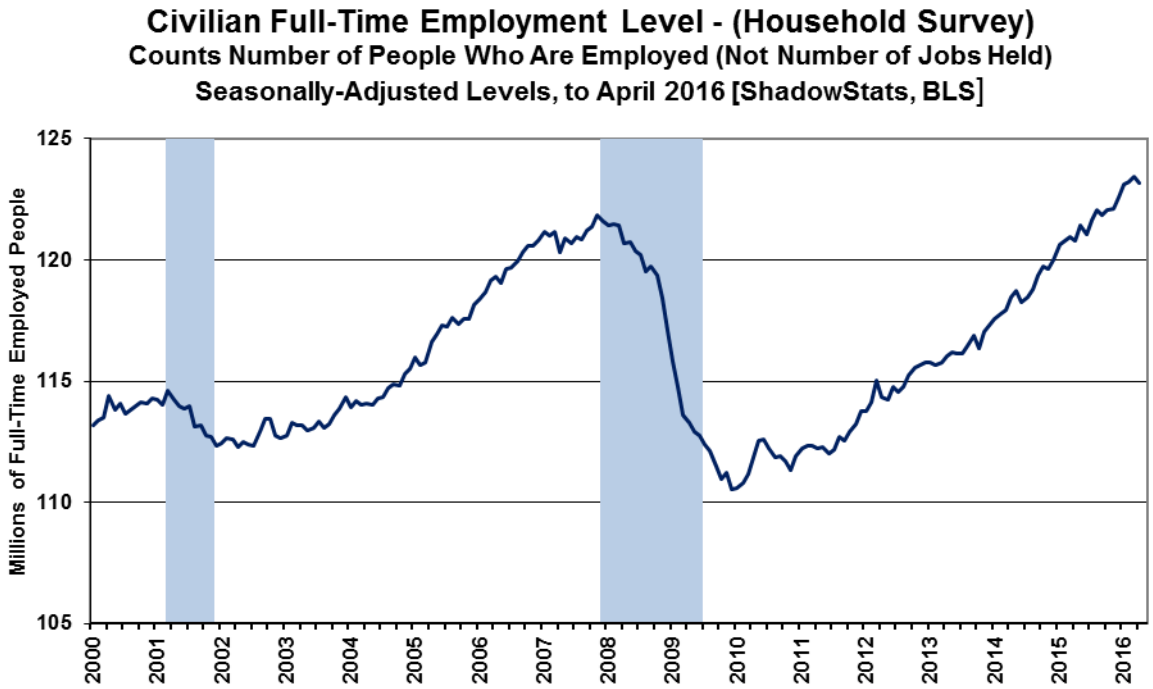
Graphs 12 and *13* show the revised headline payroll series, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

Beyond excessive upside add-factor biases built into the monthly calculations (again, 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 has been in multiple part-time jobs—many taken on for economic reasons—where full-time employment was desired but could not be found.

Full-Time Employment versus Part-Time Payroll Jobs. Shown in *Graph 14*, the level of full-time employment (Household Survey) recovered its pre-recession high in August 2015, at least temporarily. Headline April 2016 full-time employment declined by 253,000 in the month, with the detail now standing at roughly 1.3 million above that pre-recession high for the series, thanks in particular to irregularly-volatile monthly gains in the seasonally-adjusted data of recent months. That will gyrate further in the next several months, likely to drop even further from the current headline level.

Such compares with the headline payroll-employment level that now is 5.5-million above its pre-recession high, having regained its peak some 24-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.

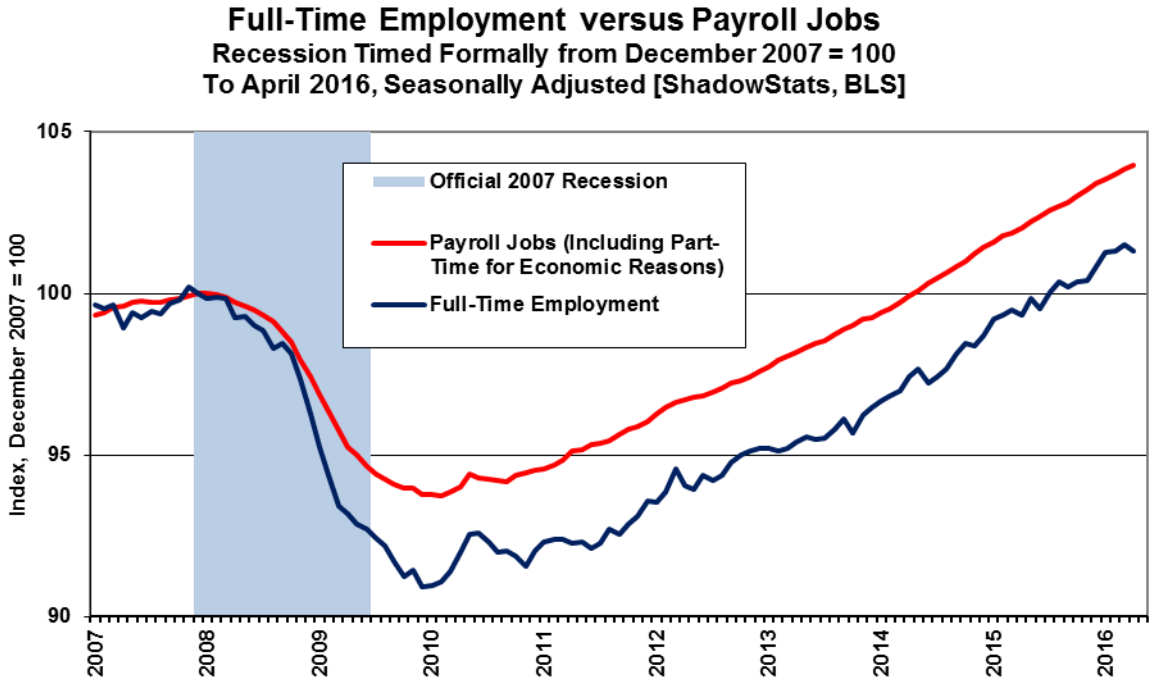
Graph 14: Full-Time Employment (Household Survey) to April 2016



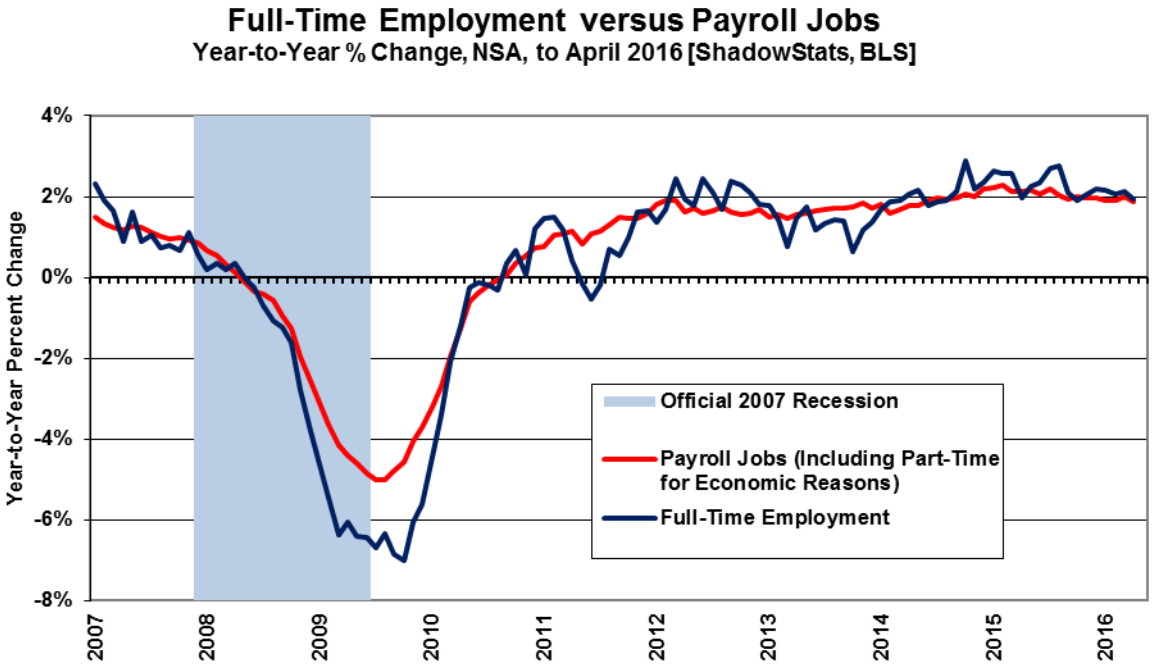
As a separate consideration and an indication of the level of nonsensical GDP reporting, employment traditionally is a coincident indicator of broad economic activity, again the GDP purportedly recovered its

pre-recession high some four years ago, more than two years before similar payroll activity, and more than four years before the likely-temporary, current but faltering recovery in full-time employment.

Graph 15: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)



Graph 16: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year



Graphs 15 and *16* 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.

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) and the *Opening Comments*.

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 is not close to the payroll reporting and has started to turn lower, again. 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).

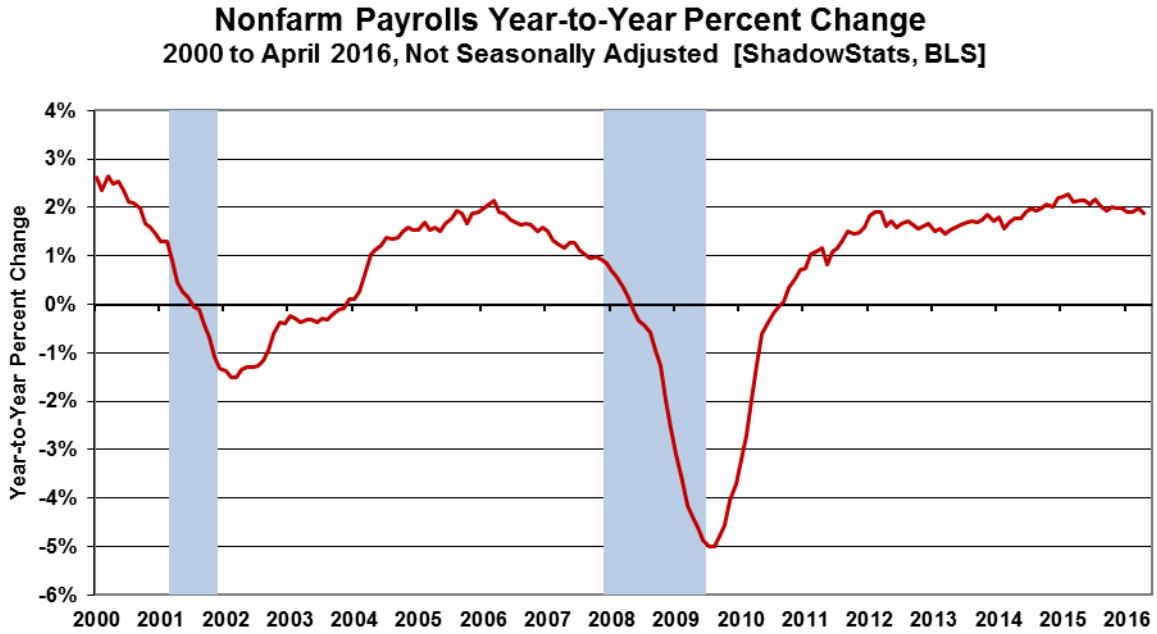
Annual Percent Changes in Headline Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change at least are reported on a consistent basis.

Year-to-year growth in unadjusted payrolls stood at a post-recession peak of 2.29% in February 2015, reflected in the headline detail of *Graphs 17* and *18*. Such remains the strongest annual growth since June 2000 (another recession), but subsequent annual growth has slowed. Year-to-year nonfarm payroll growth in April 2016 slowed to twenty-three month low of 1.88%, versus a revised 1.99% [previously 1.98%] gain in March 2016 and an 1.90% in February 2016.

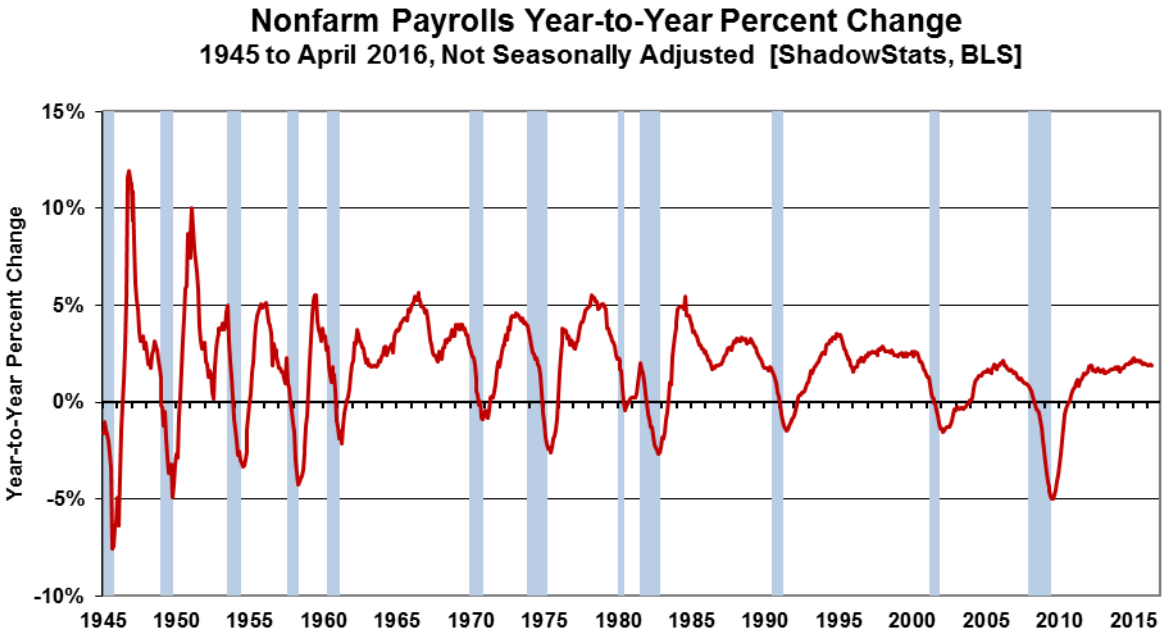
With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record benchmarked decline of 5.01% (-5.01%) seen in August 2009, as shown in the accompanying graphs. That decline remains the most severe annual contraction since the production shutdown 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.

[Graphs 17 and 18 follow on the next page]

Graph 17: Payroll Employment, Year-to-Year Percent Change, to April 2016



Graph 18: Payroll Employment, Year-to-Year Percent Change, 1945 to April 2016



Headline Distortions from Shifting Concurrent-Seasonal Factors. Discussed and graphed here, with extended commentary and the latest detail available from ShadowStats affiliate ExpliStats, there are serious and deliberate 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. A new seasonally-adjusted history is recalculated for every month, going back five years, so as to be consistent with the new seasonal patterns generated for 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 meaningfully large, as seen in the headline April 2016 detail. 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. Circumstances here again are highlighted in the today's *Opening Comments.* In the case of the published Household Survey (unemployment rate and related data), the seasonally-adjusted headline numbers usually are not comparable with the prior monthly 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 in the Household Survey is made consistent only in the once-per-year reporting of December data, with annual revisions back for five years. All historical comparability disappears, though, with the ensuing headline January reporting, and with each monthly estimate thereafter.

Consider *Graph 19*, where data are available from the BLS to calculate the month-to-month seasonal-adjustment variability in the Payroll Survey. Similar detail is not available for the Household Survey, yet the month-to-month instability likely is of similar magnitude. At least with the Payroll Survey, today's headline April 2016 payroll level was prepared on a consistent basis with the levels of March 2016 and February 2016, but not with January 2016, with the headline monthly gains consistent only for April and March. With Household Survey, however, the April 2016 detail is not comparable with any other published month, so seasonally-adjusted, month-to-month comparisons have no meaning.

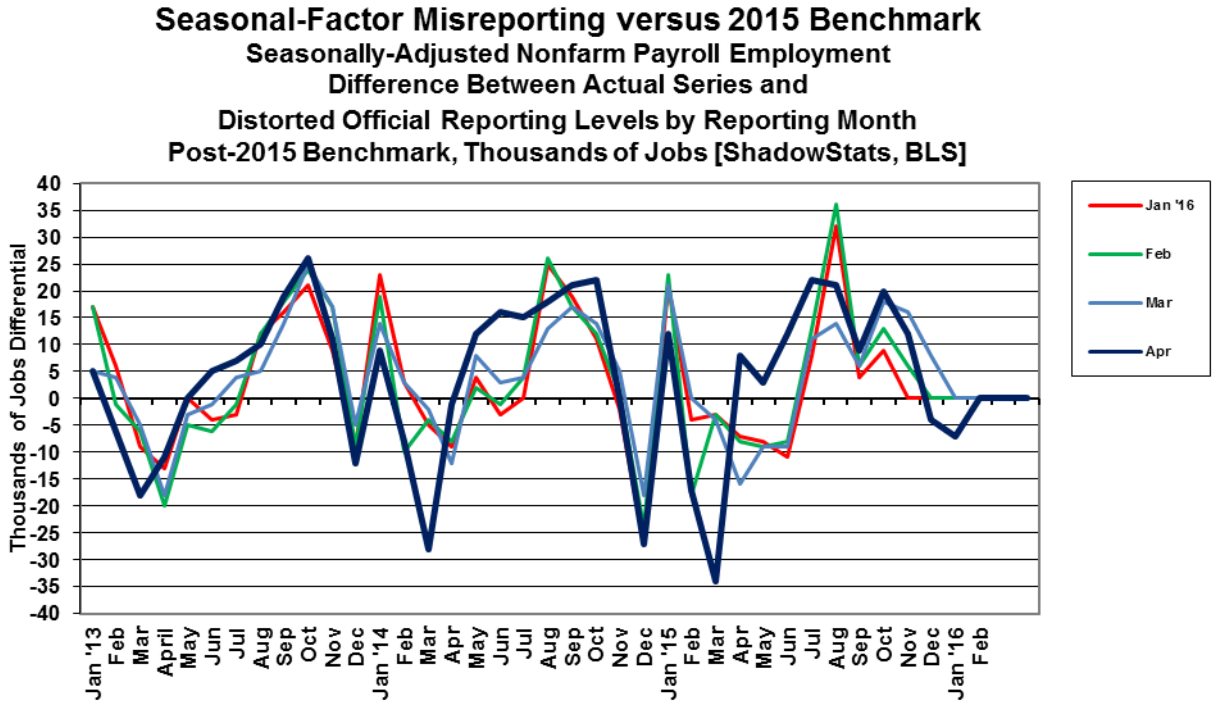
Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), the current monthly changes in the seasonally-adjusted headline data are comparable only with the prior month's month-to-month reporting, not before. Due to the BLS modeling process, the historical data never are published on a consistent basis, even with publication of the annual benchmark revision (see the comments on *Graph 19*).

Where the BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, no such accommodation has been made for the Household Survey. Again, ShadowStats affiliate ExpliStats does such third-party calculations for the payroll series, and the resulting detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are reflected here in *Graph 19.*

Consider in the latest headline payroll detail that the April 2016 monthly changes were comparable only with the headline changes in the March 2016 numbers, not with February 2016 or any earlier months. Per BLS headline reporting, seasonally-adjusted April 2016 payrolls rose month-to-month by 160,000 from March, while March payrolls rose by 208,000 from February, and February payrolls rose by 233,000 from January. That headline February monthly gain was not accurate and not comparable with the headline details for April and March, because the January payroll level was not adjusted for the new seasonal adjustments. Had the BLS published the headline January reporting on a consistent basis with April 2016, the January-to-February change would have been a comparable gain of 240,000, instead of the purported 233,000 increase. In like manner, the current headline gain of 168,000 for December 2015 versus November really was 165,000, while the current headline gain of 271,000 for November 2015 versus October really was 255,000 in the latest calculations

The differences go both ways and often are much larger, as was seen in the case of November 2014, coming out of the 2014 benchmark revision. That particular incident is detailed at the ExpliStats link, and it was discussed in the *Opening Comments* of *Commentary No. 784*.

Graph 19: Concurrent-Seasonal-Factor Irregularities - Headline Detail in March 2016 versus 2015 Benchmark



Graph 19 details how far the monthly payroll employment data already have strayed from being consistent with the actual, most-recent benchmark revision, which was in October but not published. The revised series is run in the background in October, November and December, with January being the first month where the new numbers are published. Yet, at that point, the headline detail already has three months of inconsistent seasonal adjustments in play; March makes that five. If the historical data were consistent with the headline reporting, the dark blue line would be flat and at zero. As seen here, consistent data never have been published.

The difference seen between the light-blue (March 2016) and dark-blue (April 2016) lines, indicates shifting seasonal patterns between just this month's headline detail and last month's headline detail. The extreme shifts evident in the March 2015 and April 2015 seasonals were enough to imply that April 2016 likely would have shown a headline monthly gain closer to 120,000, instead of the headline 160,000, had annual seasonal patterns been left intact for the year—on a consistent basis—rather than being recalculated just for April 2016.

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). Even with the published downside revision of 206,000 (-206,000) to March 2015 payrolls in the latest 2015 benchmarking (see *Commentary No. 784* and *Commentary No. 784-A*), the BLS has upped its annual upside-bias factors since then by 117,000 jobs. Such discrepancies, however, are not unusual for the.

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 (-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 was the excuse behind an increase then in the annual bias factor, where the new category could not be surveyed easily or regularly by the BLS. Elements here likely had impact on the unusual issues with the 2014 benchmark revision.

Abuses from the 2014 benchmarking were 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 161,000 for the year ahead.

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.

April 2016 Add-Factor Bias. The not-seasonally-adjusted April 2016 bias was a positive monthly add-factor of 233,000, versus a positive add-factor 64,000 in March 2016, and a positive add-factor of 223,000 in April 2015.

The revamped, aggregate upside bias for the trailing twelve months through April 2016 was 898,000, up by 117,000 or 15.0% from 781,000 in December 2015. That is a monthly average of 74,833, effectively 75,000, in April 2016 (versus 65,100 pre-2015 benchmarking) 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 2015 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 has been a net jobs loss, not gain, in this circumstance. Nonetheless, 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.

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. On top of that, the monthly BDM add-factors have been increased now to an average of 75,000 jobs per month for the current year. As a result, in current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month (the underlying positive base-assumption upside bias, plus the monthly Birth-Death Model add-factor).

HOUSEHOLD SURVEY DETAIL. Discussed in the *Opening Comments* and below, the continued nonsensical headline details in the counts of the employed and unemployed, from the seasonally-adjusted, month-to-month Household-Survey detail, are particularly egregious examples of the BLS misreporting practices, in its use of concurrent seasonal factors, as detailed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors*.

Separately detailed in *Commentary No. 669*, and updated in the today's *Note on Reporting-Quality Issues and Systemic-Reporting Biases* in the *Week Ahead* section, 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. The investigation continues. 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 remains open to serious question.

Headline Unemployment Rates. At the first decimal point, the headline April 2016 unemployment rate (U.3) was unchanged at 5.0%, versus 5.0% in March. At the second decimal point, the headline April 2016 U.3 was 4.98%, versus 5.00% in March. Formally, the 0.02% decline in March U.3 was statistically-insignificant.

The headline gain in April U.3, however, also 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 (again, see *Headline Distortions from Shifting Concurrent Seasonal*). This issue remains separate from official questions raised as to falsification of the Current Population Survey (CPS), from which are derived the unemployment details (see *Note on Reporting-Quality Issues and Systemic-Reporting Biases* in the *Week Ahead* section).

On an unadjusted basis, the unemployment rates are not revised and are consistent in post-1994 reporting methodology. The unadjusted U.3 unemployment rate eased to 4.68% in April 2016, versus 5.11% in March 2016.

Nonsense Monthly Changes. The effectively-unchanged, headline seasonally-adjusted April 2016 U.3 unemployment rate of 4.98% versus 5.00% in the March 2016 reflected nonsensical proportionate declines of 46,000 (-46,000) in the unemployed, and 316,000 (-316,000) in employed, with a combined drop of 362,000 (-362,000) in the headline labor force. These are nonsensical, because the unemployed count usually rises when the employed count declines, and vice versa. Accordingly, for the third month, it was unusual to have both employment and unemployment moving in the same direction, suggestive once again of the incompatibility and inconsistency of the month-to-month headline detail in the published history of the seasonally-adjusted, household-survey numbers. Discussed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors*, these monthly inconsistencies are deliberate misrepresentations of better-quality, consistent data that are prepared internally each month by the BLS. The inconsistencies here mean that the published, headline month-to-month changes in everything from the employed, unemployed and labor-force counts to the Employment-Population Ratio and Participation Rate simply are meaningless.

Marginally-Attached and Displaced Workers. 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 relatively stable.

The monthly count of short-term discouraged workers in April 2016 (never seasonally-adjusted) declined by 17,000 (-17,000) to 568,000, following a decline of 14,000 (-14,000) to 585,000 in March 2016, where the total, short-term marginally-attached discouraged workers declined by 5,000 (-5,000) to 1,715,000 in April, having declined by 83,000 (-83,000) to 1,720,000 in March 2016. The latest, official "discouraged" number, again, 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 displaced workers—the long-term discouraged-worker category—that defines the ShadowStats-Alternate Unemployment Measure. There is a 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.

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).

On top of a virtually-unchanged, seasonally-adjusted U.3 unemployment rate, and a virtually unchanged count of marginally-attached workers, a decline in the adjusted number of people working part-time for economic reasons notched the headline April 2016 U.6 unemployment rate lower to 9.71%, versus 9.82% in March. The unadjusted U.6 unemployment rate was at 9.30% in April 2016, versus 9.95% (rounds to 9.9%) in March 2016.

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 held at 22.9% in April 2016, the same level as in March.

Again, the ShadowStats unemployment estimate generally shows the toll of long-term unemployed leaving the headline labor force—effectively becoming displaced workers—as discussed in greater detail in the following section.

SHADOWSTATS-ALTERNATE UNEMPLOYMENT RATE MEASURE. In 1994, the Bureau of Labor Statistics (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. These were individuals who were and would be considered displaced workers, due to circumstances of severely-negative economic conditions or other factors such as changing industrial patterns resulting from shifting global trade patterns.

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 survey 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. In current headline reporting, 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 and undercounted "discouraged workers" category used in the U.6 (1.715 million in April 2016), those not in the labor force currently wanting a job increased to 3.956 million in April 2016 (a total of 5.671 million). That net of 3.956 million, versus 3.726 million in March 2016, 4.146 million in February 2016, 4.077 million in January 2016, 3.872 million in December 2015 and 3.608 million in November 2015 (those numbers are counted only on an unadjusted basis). While some contend that that number includes all those otherwise-uncounted discouraged workers, such is extremely shy of 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-plus 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 and S&P 500 Real Revenues (see *No. 777 Year-End Special Commentary*), the CASS Freight Index and petroleum consumption. Those economic- and labor-related series all are plotted subsequent to the 1994 overhaul of unemployment surveying (see *Graphs 2* to *8*).

Headline April 2016 Detail. Adding back into the total unemployed and labor force the ShadowStats estimate of effectively displaced workers, of long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate for April 2016 held at 22.9%, the same level as in March. The April 2016 reading remained down by 40 basis points or 0.4% (-0.4%) from the 23.3% series high last seen in December 2013.

Again, in contrast, the April 2016 headline U.3 unemployment reading of 5.0% remained down by a 500 basis points or 5.0% (-5.0%) from its peak of 10.0% in October 2009. The broader U.6 unemployment measure of 9.7% in April 2016, was down from its April 2010 peak of 17.2% by 750 basis points or 7.5% (-7.5%).

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 BLS headline unemployment measures having headed lower against what has been relatively stagnant, high-level ShadowStats number. In recent months, though, the headline U.3 and U.6 rates also have begun to show patterns of stagnation.

The reason for the longer term divergence versus the ShadowStats measure, again, is that U.6 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 accounted 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 or displaced-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 had 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 may have been ejected.

Great Depression Comparisons. 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 the double-dip recession of the early-1980s.

The Great Depression peak unemployment rate of 25% in 1933 was estimated well after the fact, with 27% of those employed then 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 Deterioration Should Intensify, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and Fed-policy waffling in

the weeks and months ahead. The broad trend in weakening expectations for business activity, and in movement towards looming recession recognition, continues, as discussed in *Commentary No. 804*, *Commentary No. 803*, *Commentary No. 802*, *Commentary No. 801*, *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796* and in *No. 777 Year-End Special Commentary*.

In response to perpetual non-recovery and an intensifying downtrend in underlying economic activity, negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices, as discussed in *Commentary No. 799*. These reactions reflect, at least in part, a solidifying sense of Federal Reserve impotence. Any further tightening by the Fed before the election is unlikely, and renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds.

Increasingly-weak headline reporting of the regular monthly economic numbers should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP). That includes high odds of an outright quarterly contraction for first-quarter 2016 GDP activity in the May 27th revision, as well as pending downside revisions to GDP history (including headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29th annual GDP benchmark revisions.

Consistent with the relatively neutral benchmark revisions to retail sales, and in line with recent downside revisions to industrial production and likely pending negative benchmark revisions to construction, durable goods orders and trade, expectations for the GDP benchmarking also should fall sharply in the weeks ahead. That GDP benchmarking now is the most-likely point at which the elements for a "formal" recession call will be in full play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline March 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise more sharply in April and May, and likely going forward, boosted by the weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Fundamental reporting issues with the headline CPI also are discussed here: *Public Commentary on Inflation Measurement*.

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 nine-to-eleven 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). That has been discussed and explored in the labor-numbers related *Supplemental Commentary No. 784-A* and *Commentary No. 695*.

Further, discussed in *Commentary No. 778*, a heretofore unheard of spate of "processing errors" has surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government's

headline economic reporting. At the same time, it indicates an openness of the involved statistical agencies in revealing the reporting-quality issues.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS 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*). John Crudele of the *New York Post* continues his investigations in reporting irregularities: *Crudele Investigation*.

PENDING RELEASES:

Nominal and Real Retail Sales (April 2016). The Census Bureau has scheduled release of April 2016 nominal (not-adjusted-for-inflation) Retail Sales for Friday, May 13th, which will be covered in *Commentary No. 806* of that date. Real (inflation-adjusted) Retail Sales for April will follow on May 17th, in ShadowStats *Commentary No. 807*, in conjunction with the publication of detail on headline April CPI-U.

With high odds of a continued monthly increase in the April CPI, there is a parallel chance for real sales growth in April to be more-negative or weaker than the headline nominal sales activity. The pace of annual CPI-U inflation also should remain positive, helping to generate a deepening recession signal in historically low-level, annual Real Retail Sales growth.

Market expectations likely will be on the plus-side of flat for the monthly change in the headline Nominal April Retail Sales, reflecting some upturn in automobile sales and from the effects of higher gasoline prices. Nonetheless, downside surprises tend to dominate consensus expectations here, while upside nominal sales gains, due to higher gasoline prices or other inflation should be offset, at least partially, in real terms, net of the headline CPI-U inflation. The headline Real Retail Sales number for April should contract month-to-month, following a first-quarter 2016 quarterly contraction in the series.

Where the April detail will be published in the context of just-released annual benchmark revisions to the series (see prior *Commentary No. 804*), downside revisions still remain a fair bet for February and March 2016 detail.

Continuing to constrain personal consumption expenditures and retail sales, the ongoing the extreme liquidity bind besetting consumers, has been updated briefly in *Commentary No. 803*, *No. 802*, *No. 801* and *No. 798*. *Consumer Conditions* last were reviewed fully in *No. 796*, and the next full update of consumer liquidity conditions should follow in *Commentary No. 806*, covering nominal retail sales for April. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

Producer Price Index—PPI (April 2016). The Bureau of Labor Statistics (BLS) will release the April 2016 PPI also on Friday, May 13th. Odds favor a headline gain in wholesale inflation, at least on the goods side of the reporting, due to a continued rebound in oil prices and related products.

Unadjusted oil prices rose sharply, again, in April 2016, along with a continued rise in gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices rose by 8.5% and 8.8%, in conjunction with a continued weakening in the U.S. dollar. That was accompanied by a 7.0% rally in unadjusted monthly-average retail-gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in April are are negative, they still should leave the adjusted Final Demand Goods component of the PPI up by about 0.2%.

The aggregate PPI number, though, likely will be hit again by some offsetting, more-negative "inflation" in the dominant services sector, reflecting counterintuitive pricing pressures from shrinking profit margins with the sharply rising oil prices (see *Inflation that Is More Theoretical than Real World?* on page 13 of *Commentary No. 798*). The final headline PPI change, combining positive-product and negative-services inflation, likely will be weaker than whatever ends up as the consensus outlook for the aggregate, thanks to instabilities in the services surveying and related guesstimation.

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