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

FLASH COMMENTARY NUMBER 964-A

July Labor Numbers and Money Supply M3, June Trade Deficit and Construction Spending

August 3, 2018

July 2018 Annual Growth in the Monetary Base and Money Supply Weakened Anew, as the FOMC Attempts to Squeeze Liquidity Out of a Possible Nascent Economic Recovery

July Private Labor-Market Surveying Turned Mixed

July U.3 Unemployment Rate Dropped to 3.87% from 4.05% in June;
July U.6 Unemployment Fell to 7.54% from 7.79%; On Top of U.3 and U.6
July ShadowStats-Alternate Unemployment Declined to 21.3% from 21.5%

Labor-Market Stress Continued at High Levels, Still Consistent with Headline Unemployment Closer to a Record High than Just Off a Record Low

July Payroll Jobs Gained 157,000 (up by 216,000 Net of Revisions), but with Annual Growth of 1.65% Holding in Recession-Signal Territory

July Household Survey Gained 389,000 Employed,
With a Decline of 284,000 (-284,000) Unemployed but with an Increase of 453,000 Multiple-Job Holders

June Nominal Balance-of-Payments and Real-Merchandise Trade Deficits Widened In the Month but Narrowed in the Quarter

June Inflation-Adjusted (Real) Construction Spending, Dropped Month-to-Month, Slowed Year-to-Year, Holding Shy of Its Pre-Recession Peak by 19.8% (-19.8%)

PLEASE NOTE: Today's "Flash Coverage" of the headline July 2018 labor and June trade-deficit and construction-spending conditions will be expanded upon in Commentary No. 964-B in the next several days. In like manner, today's abbreviated coverage of July 2018 Monetary conditions will be expanded upon shortly in pending *Hyperinflation Watch – No. 3*, while *Consumer Liquidity Watch – No. 4* also will be published in the week ahead.

Commentary No. 965, also next week, will provide expanded coverage of the first estimate of Second-Quarter 2018 GDP and the Comprehensive Annual GDP Benchmark revisions back to 1929, updating the initial coverage in *Commentary No. 962*.

Links to the most-recent *Watches are here:* *Hyperinflation Watch – No. 2* (July 20th) and *Consumer Liquidity Watch – No. 3* (July 18th). The *Watches* always are available directly at www.shadowstats.com, along with your case-sensitive login and password. Updates are advised by e-mail, unless you request otherwise (send a note to johnwilliams@shadowstats.com).

Planned publication schedules, revisions to same and notes to subscribers are posted regularly in the top left hand-column (under the *Latest Commentaries* heading) of the *ShadowStats* home page.

Your comments and suggestions always are invited.

Best wishes to all, John Williams (707) 763-5786

Today's (August 3rd) ***Opening Comments*** discusses the labor numbers in the context of the June 2018 Conference Board Help-Wanted Online Advertising®.

The ***Flash Reporting Detail*** reviews the headline numbers for July 2018 employment and unemployment, the June 2018 Trade Deficit and June Construction Spending, as well as for the July Money Supply and Monetary Base. Again, extended coverage follows in *Commentary No. 964-B* and *Hyperinflation Watch – No. 3*.

The ***Week, Month and Year Ahead*** section will return with full *Commentary No. 964-B*.

Commentary No. 964-A contents, including graphs and tables, are indexed and linked on following page.

Contents – Commentary No. 964-A Major Sections and Graphs

OPENING COMMENTS

Private Surveying of Labor Demand Turned Mixed in July

July 2018 Help-Wanted Advertising Turned Mixed in the Month, Still Holding Deep in Non-Expansion Territory. The Conference Board Help-Wanted Online Advertising® (HWOL) for July 2018 rose month-to-month by 3.8%, having declined by 3.7% (-3.7%) in June, down by 2.1% (-2.1%) in May and by 1.4% (-1.4%) in April. Yet, the all-important New Ads component in July remained in month-to-month and year-to-year contraction. Relative activity in this series remains suggestive of U.S. labor market conditions not being quite as robust as indicated by the Bureau of Labor Statistics (BLS).

The "New Ads" subcomponent declined by 0.5% (-0.5%) in July 2018, having gained 2.7% in June, having plunged month-to-month by 7.6% (-7.6%) in May and following a decline of 1.0% (-1.0%) in April. The monthly patterns have continued to be irregular, with monthly gains and losses evenly split for both series in the last twelve months. The regular plot of these series is shown in *Graph OC-1*; a subsequent, experimental/alternative historical *Graph OC*-2 is shown shortly thereafter.

"Total Ads" showed a year-to-year gain of 0.9% in June 2018, following declines of 5.7% (-5.7%) in June 2018 and 3.0% (-3.0%) in May 2018, where that May hit was the first such annual drop since November 2017. That followed annual gains of 2.9% in April 2018, 3.7% in March and February 2018, 0.4% in January 2018 and 0.3% in December 2017. The November 2017 decline of 3.7% (-3.7%) was the 20th consecutive month of year-to-year decline for the aggregate series.

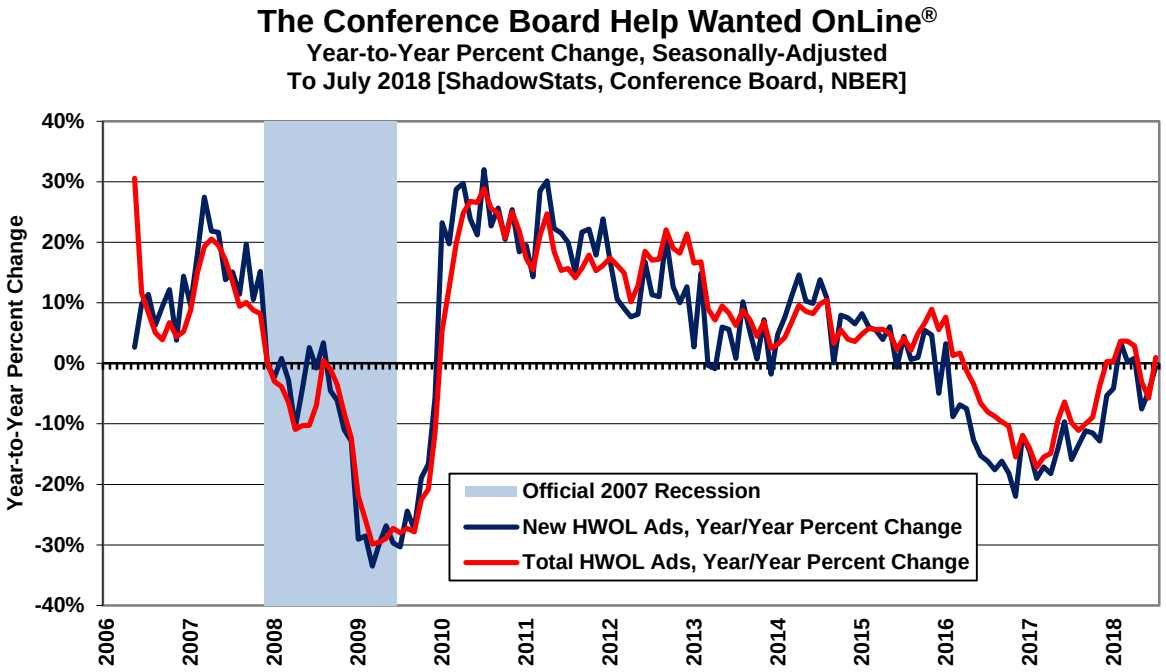
"New Ads" annual growth declined year-to-year in July 2018 by 0.5% (-0.5%), dropped by 4.6% (-4.6%) in June 2018, by 7.5% (-7.5%) in May 2018, having increased by 0.9% in April 2018, versus 0.2% in March 2018 and 3.6% year-to-year in February 2018, after having declined by 4.1% (-4.1%) year-to-year in January 2018, its 24th consecutive month of annual decline.

Having turned down for the year in May, June and July 2018, the protracted year-to-year deterioration in labor-market demand reflected in "New Ads" remains a meaningfully negative, leading indicator to broad economic activity. Against the November 2015 series peaks, May 2018 "Total Ads" were down by 18.8% (-18.8%), with "New Ads" down by 30.5% (-30.5%).

Annual growth began to slow in 2010 and turned negative year-to-year in late-2015 and early-2016. The shaded area in *Graph OC-1* reflects the formal bounds of the 2007 to 2009 recession. While the HWOL held in negative annual growth territory into early-2010, beyond the formal economic trough in June

2009, keep in mind that payroll employment—traditionally a coincident economic indicator to the general economy—did not hit its cycle trough until February 2010.

Graph OC-1: The Conference Board Help Wanted OnLine® to July 2018



Many thanks to The Conference Board for permission to publish the preceding graph of year-to-year change in its *Help Wanted OnLine®* data. The annual percentage change is plotted for two series: Total Ads (red line) and New Ads (blue line). "Total ads are all unduplicated [online] ads appearing during the reference period. This figure includes ads from the previous months that have been reposted as well as new ads." "New ads are all unduplicated ads which did not appear during the previous reference period. An online help wanted ad is counted as 'New' only in the month it first appears." Related background details and reporting are found here: The Conference Board Help Wanted OnLine®.

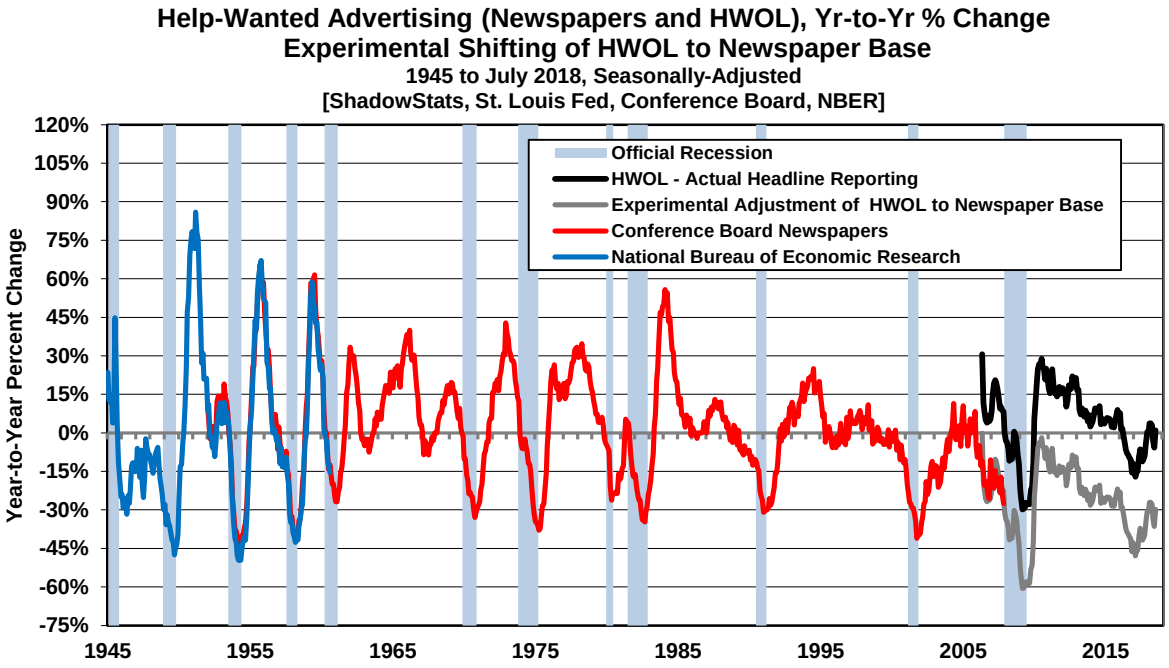
The detail of prior discussions in *Commentary No. 959-A*, *No. 852* and *No. 820*, has been updated for the July 2018 information. These comments and analysis remain those of ShadowStats alone, not those of The Conference Board, including the experimental *Graph OC-2*.

ShadowStats follows a number of business indicators—both conventional and not—looking for reliable reporting of real-world economic activity and for indications of shifting patterns in same. The HWOL is one of the best, private leading-indicator measures.

The Conference Board Help Wanted OnLine® Advertising, Historical Background. *[Please note: this section has been revised minimally from prior reporting, primarily for the monthly update to the experimental, comparative* Graph OC-2.*]* The HWOL basic concept has proven itself over the last century, in the context of the closely-paralleled tallying of help-wanted advertising in newspapers. As had been noted previously, annual growth in the current on-line series tracked the economic collapse into 2009, parallel with the last of the series based on newspaper help-wanted advertising (see *Graph OC-2*).

Although the new series tracked the newspapers with parallel shifts in annual growth, the new series relative changes were at more-positive year-to-year change levels, presumably related to the change in the nature (perhaps cost or ease) of the new advertising technology (online versus printed newspaper). As to what the new series would look like, if shifted visually to match the highly correlated, prior and coincident newspaper series, consider experimental *Graph OC-2*. The current plot would be underwater, where the black line reflects the headline HWOL series and related annual growth rates for the actual series, the gray line shows that series fit to overlay the annual growth in the newspaper series. Again, this plot is an experiment of ShadowStats, not the Conference Board.

Graph OC-2: Historical Comparisons of Help-Wanted Advertising versus Economic Activity, Post World War II



The beauty and benefit of a good leading indicator is that it provides a meaningful "advance" signal of a shift in economic activity, before that shift may become obvious in other series. Such is a particularly valuable commodity, when headline data out of the federal government increasingly are politicized and unreliable (see *Special Commentary No. 885*, *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*).

With the preceding ShadowStats comments in mind, the following caution, posted on the Conference Board's web site, speaks for itself:

> **NOTE: Recently, the HWOL Data Series has experienced a declining trend in the number of online job ads that may not reflect broader trends in the U.S. labor market. Based on changes in how job postings appear online, The Conference Board is reviewing its HWOL methodology to ensure accuracy and alignment with market trends.**

First fully covered by ShadowStats in *Commentary No. 820* of July 16, 2016, the HWOL is updated here through July 2018 (released August 1st). As a leading economic indicator, help-wanted advertising had its roots as far back in time as the initial reporting of Industrial Production, post-World War I. The Conference Board has adapted the concept to reflect the fundamental shift of help-wanted advertising

from printed newspapers to online advertising. The prior newspaper-based series simply was the best leading indicator of its day.

Back in the days when help-wanted advertising was the primary source of classified-advertising revenue for the physically-printed, folding newspapers, the Conference Board's Help-Wanted Advertising Index (newspapers) simply was the most reliable leading indicator available of broad economic activity. It was a component of the Commerce Department's Index of Leading Economic Indicators. It led activity in employment as well as the Gross National Product (GNP) and the now-headline Gross Domestic Product (GDP), which is a subcomponent of the GNP (ex-trade flows in factor income such as interest and dividend payments).

The National Bureau of Economic Research (NBER) has published detail with the St. Louis Federal Reserve on help-wanted advertising indices back to 1919. From the post-World War I era into the 2000s, year-to-year change in the various historical help-wanted series always signaled what would become recognized eventually as a formal recession, when the annual change in the index was a contraction by 15% (-15%) or more, which has happened here. Again, see *Graph OC-2* for the post-World War II era.

Since formal tracking switched to help-wanted advertising on the Internet (HWOL®), around 2005, seen with The Conference Board Help Wanted OnLine®, that series has been through only one, formally-confirmed down-cycle in the economy. The year-to-year growth plots in the accompanying graph begin with the first annual-growth rate availability in May 2006. Again, even with a limited initial history, the new series tracked that headline downturn into 2009, directly in tandem with the final several years of surveys of newspaper help-wanted online advertising (again see *Graph OC-2*), and the HWOL® has broadly tracked to the downside in an environment of what appears to be a "new," still-unfolding recession (see *Special Commentary No. 935*).

Considering the apparent recession signal generated by the HWOL®, there appears to be a formal recession missing from the headline accounting by the NBER (formal arbiter of recessions), starting at the end of 2014, as indicated also by the better-quality government or Federal Reserve economic series, specifically Industrial Production (see *Commentary No. 942-B*), although nothing related to this showed up the recent comprehensive GDP benchmark revisions back to 1929. Again, comparing the HWOL versus the prior newspaper series suggests a downside shift in the HWOL annual-change plot to put it on a consistent basis with the prior newspaper advertising growth rates, which, again, has been published on an experimental basis in *Graph OC-2*.

Time will establish new annual growth parameters that would signal a formal recession. My betting remains that they will look much like the earlier series, and much like the pattern seen in the present series in terms of year-to-year contraction. Those looking for independent confirmation of underlying economic conditions should find this series to be highly valuable. As for the BLS employment and unemployment series, they still need to catch up with the Conference Board's higher-quality, independent leading indicator, despite the ongoing, heavy upside reporting biases deliberately structured into the BLS series and expanded anew into the January 2018 payroll-survey benchmarking. See the discussions in *Special Commentary No. 885*, *Commentary No. 864* and in *Commentary No. 959-B*'s *Birth-Death/Bias-Factor Adjustment (BDM)* section of the *Supplemental Labor-Detail Background*.

FLASH REPORTING DETAIL

July 2018 Employment and Unemployment

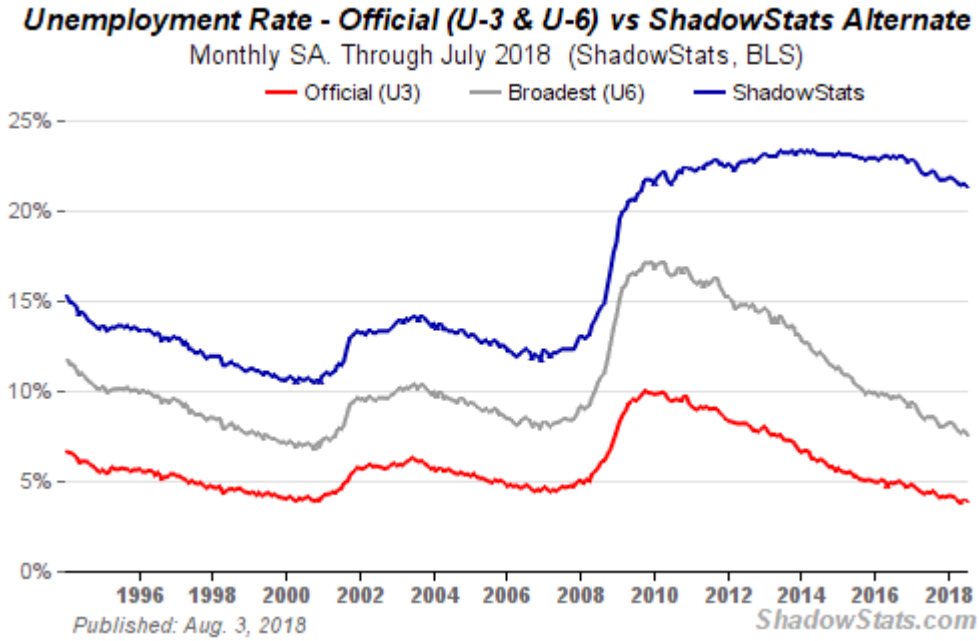
Contrary to Ongoing High-Level, Labor-Market Stress, Headline Unemployment Dropped to 3.87% from 4.05%; "Slowing" Jobs Growth of 157,000 Was 216,000 Before Prior-Period Revisions. Reported this morning (August 3rd) by the Bureau of Labor Statistics (BLS), the headline July 2018 U.3 unemployment rate dropped in line with market expectations. At the same time, the headline monthly payroll gain of 157,000 was "weaker" than expected, yet, net of upside revisions to May and June payrolls, what otherwise would have been a gain of 216,000, actually was stronger than expected.

As usual, none of the heavily gimmicked numbers here were of much meaning. As will be detailed in the forthcoming, extended analysis and *Supplemental Labor-Detail Background* of *Commentary No. 964-B* (see *Commentary No. 959-B* for the latest *Supplemental Labor-Detail* ...).

Unemployment. Where the headline U.3 unemployment rate had dropped to an 18-year (or a 49-year) low in May 2018, depending on the historical base used for comparison (*Commentary No. 953-A*), the headline unemployment rate jumped by 0.30% at the second decimal point, with 3.75% unemployment in May 2018 rising to 4.05% in June 2018. U.3 fell back again, to 3.87% in July 2018

On top of the headline U.3 unemployment rate, a decline in those working part-time for economic reasons was partially offset by a monthly increase in "discouraged workers." The effect was that where the broadest headline BLS unemployment rate of U.6 had risen from 7.65% in May to 7.79% in June, it fell back to 7.54% in July 2018, its lowest level since May of 2001. Moving on top of U.6, the ShadowStats alternate unemployment rate had increased from 21.4% in May, to 21.5% in June, falling back to 21.3% in July, its lowest level since September 2009 (see *Commentary No. 959-B* for the latest *Supplemental Labor-Detail* ...).

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



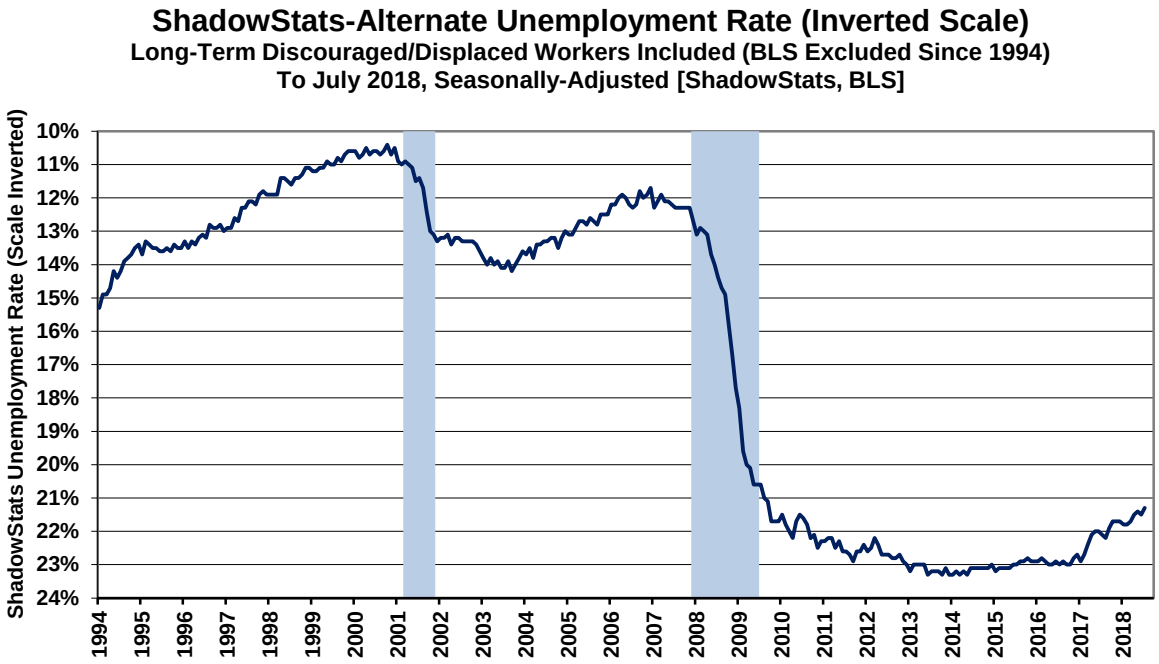
At the same time that headline July U.3 employment came in at 3.87%—historically still a very low unemployment rate—underlying reality was not so rosy. Discussed and detailed in the *Supplemental Labor-Detail Background* of *Commentary No. 959-B*, to be updated in *No. 964-B*, there are meaningful discrepancies between the near-record-low unemployment rate and extremes of near-record-high levels of labor-market stress.

Those stress measures reflect the impact of long-term discouraged and displaced workers, who no longer are counted in the headline government numbers, but they still are included in the ShadowStats unemployment estimate. While the current headline unemployment likely qualifies as "full employment," such remains unconfirmed by historically-low Employment-to-Population and Labor-Force-to-Employment (Participation) Ratios, which were little changed in July, near historically low levels (which indicate high levels of labor-market stress), more consistent with a headline unemployment rate of about 10% instead of about 4.0%.

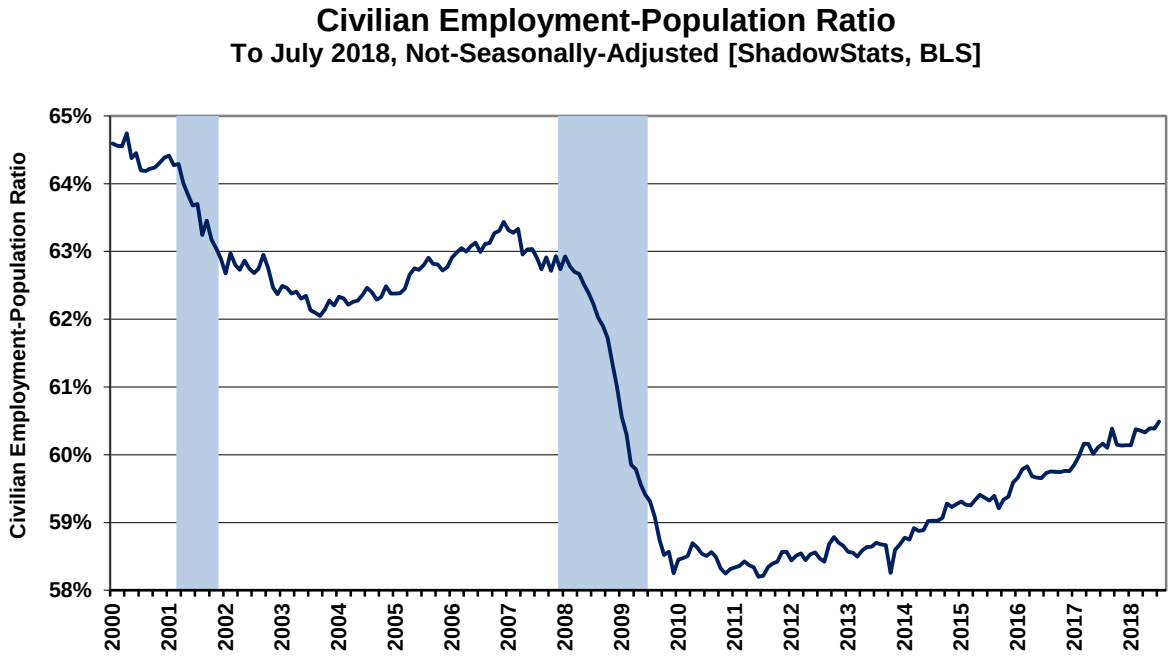
The difference is the unusually large number of discouraged and displaced workers in this cycle, not counted in the headline U.3, as well as a goodly number not included in U.6 (again, see definitions and detail in *Commentary No. 959-B*, the *Supplemental Labor-Detail Background*).

The inverted scale of the ShadowStats Alternate Unemployment Rate (*Graph 2*) is a surrogate for the magnitude of discouraged and displaced workers, who also are reflected in the accompanying *Graphs 3* and *4* of the *Civilian Employment-to-Population Ratio* and the *Labor-Force Participation Rate*.

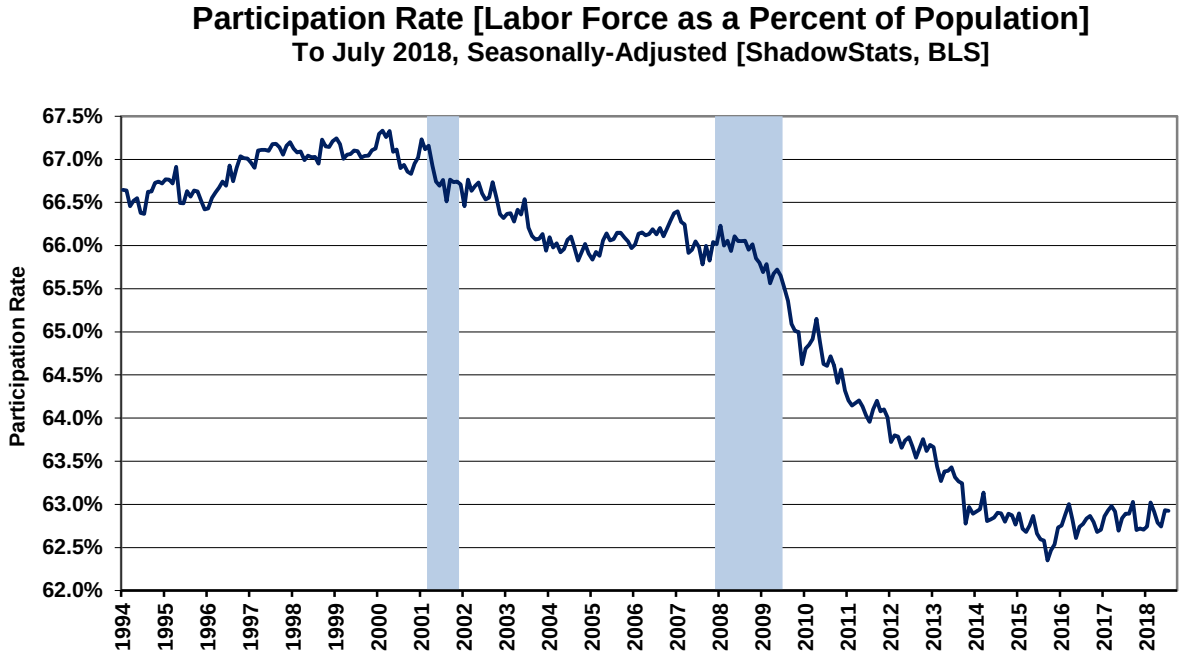
Graph 2: Inverted-Scale — ShadowStats Alternate Unemployment Measure



Graph 3: Civilian Employment-to-Population Ratio



Graph 4: Labor-Force Participation Rate



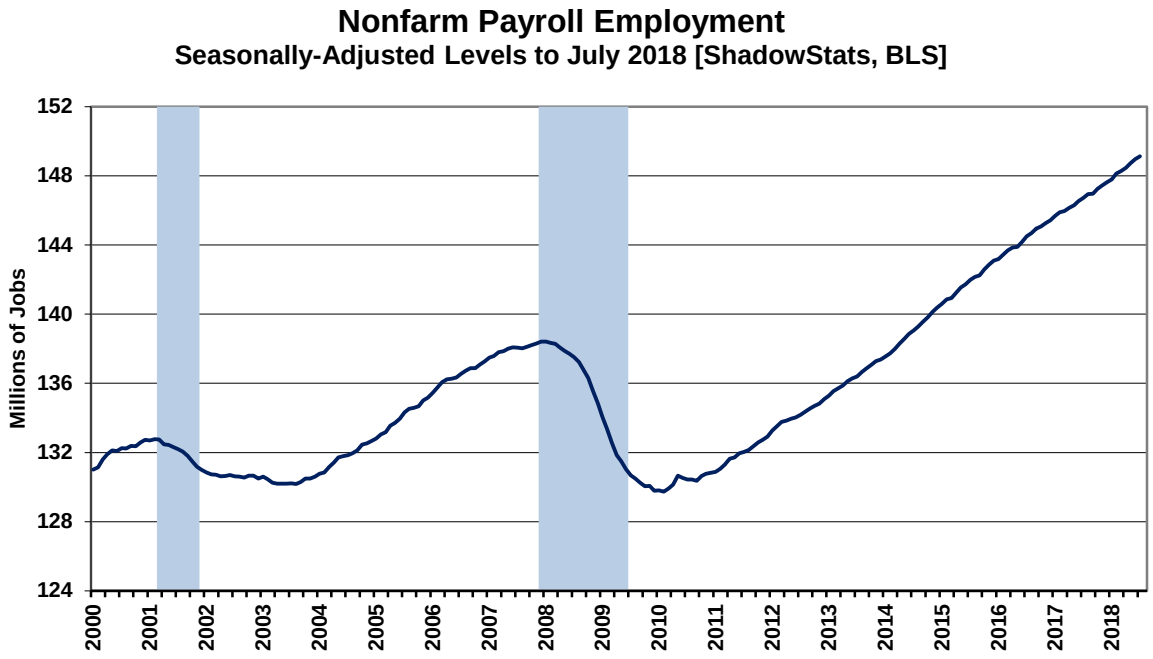
Payroll Employment. The heavily upside-biased, payroll employment series jumped by 157,000 in the month, "disappointing" expectations of about 190,000. Yet, that was 216,000 net of upside revisions to May and June activity, and only marginally significant, given the headline volatility in the series. Nonetheless, annual growth in payrolls held at 1.65% in July 2018, versus 1.68% in June 2018, still within the low-range of annual growth that often leads into recession.

Keep in mind that where the Household Survey counts an employed person only once, irrespective of how many jobs or part-time jobs he or she may hold, the Payroll Survey counts only the number of jobs, irrespective of the number of people holding those jobs. In that circumstance, a person holding two or more part-time jobs is counted as employed with each job. Odds favor the July payroll gain reflecting at least a partial increase, tied to the gain of 453,000 multiple job holders indicated in the Household Survey.

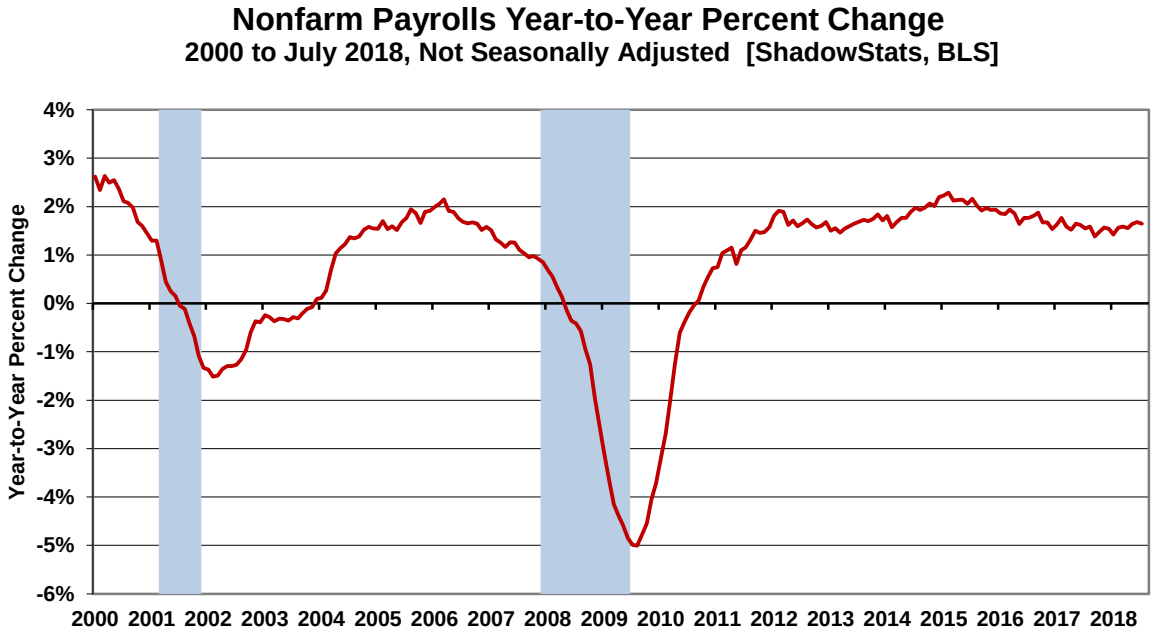
While there are a number of other differences between the Payroll and Household Surveys, such as the Payroll count excluding, and the Household count including Agriculture, the headline Payroll gain of 157,000 was against a Household Survey gain of 453,000 in full-time employed [coincidentally the same number as increased multiple-holders] plus a decline of 36,000 (-36,000) in part-time employed.

Unfortunately, the seasonally-adjusted, headline month-to-month changes here usually are not reported on a consistent basis, where inconsistent monthly seasonal adjustments are used in eleven out of twelve months (again, see details in *Commentary No. 959-B*, the *Supplemental Labor-Detail Background*, also to be updated in *No. 964-B.*)

Graph 5: Nonfarm Payroll Employment 2000 to Date



Graph 6: Payroll Employment, Year-to-Year Percent Change, 2000 to Date

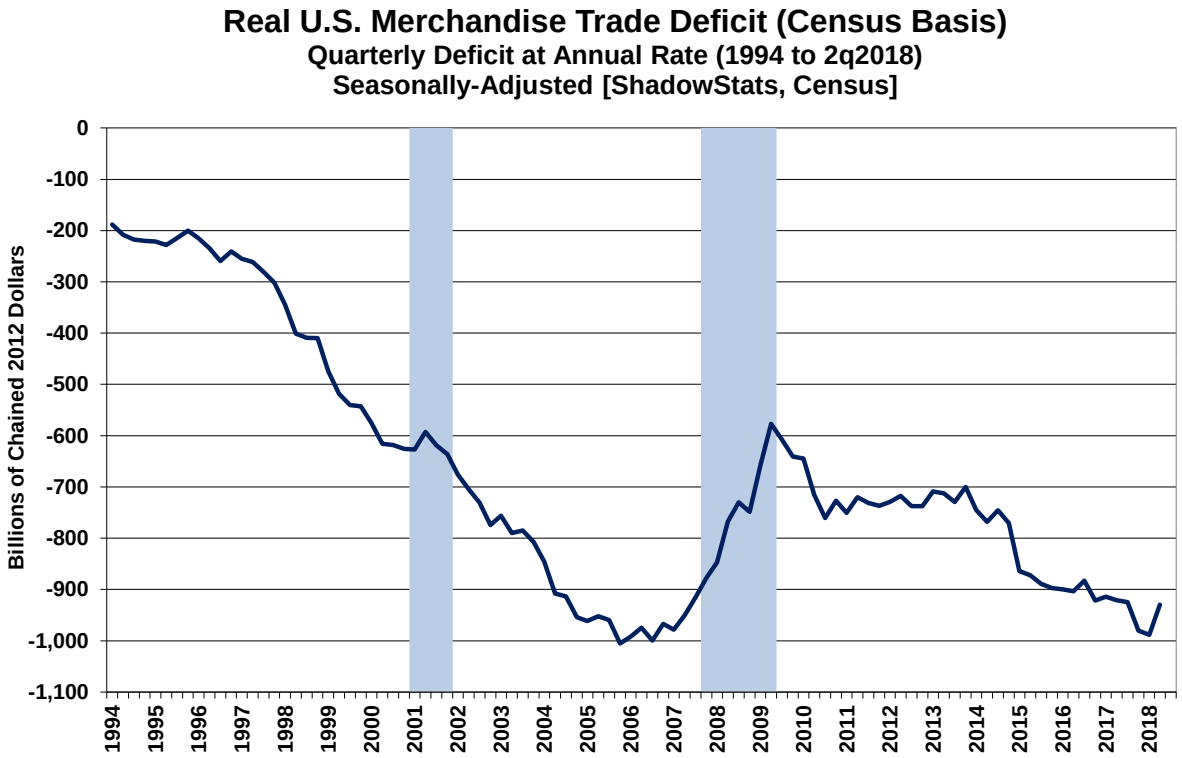


June 2018 U.S. Trade Deficit

Both the Nominal Balance of Payments and Real Merchandise Trade Deficits Widened Sharply in June, Having Narrowed in Each of the Three Preceding Months. The Census Bureau and the Bureau of Economic Analysis reported this morning (August 3rd), that the monthly Balance of Payments trade deficit widened to $46.4 billion in June 2018, versus a revised $43.2 [previously $43.1] billion in May 2018 and $46.1 billion in April 2018, also up from $44.8 billion in June 2017. The monthly deficit deterioration was the first setback in a positive-deficit trend since February 2018. Irregularly timed exports of commercial aircraft and soybeans had boosted export activity in recent months.

Real Merchandise Trade Deficit - June 2018. Reporting detail for the Real Merchandise Trade Deficit is plotted in *Graph 7* on a quarterly basis. The initial full detail on the second-quarter 2018 real merchandise trade deficit, narrowed sharply to $929.6 billion (2012 dollars), versus $988.5 billion in first-quarter 2018. The second-quarter deficit was the smallest since third-quarter 2017. On top of narrowed deficit revisions to real monthly activity in first-quarter 2018, along with revised deeper deficits in April and May 2018 reporting, the June 2018 deficit widened by 5.1% against the revised deeper deficit reported for May 2018. As with the nominal trade balance of payments deficit, the monthly trade shortfall narrowed in each of last three months, and also against May 2017. The June 2018 real merchandise trade deficit widened by 4.2% versus the headline deficit in June 2017. Full and extended detail on the June 2018 trade-deficit reporting will follow in pending *Commentary No. 964-B*.

Graph 7: Quarterly Real Merchandise Trade Deficit (1994-2018)

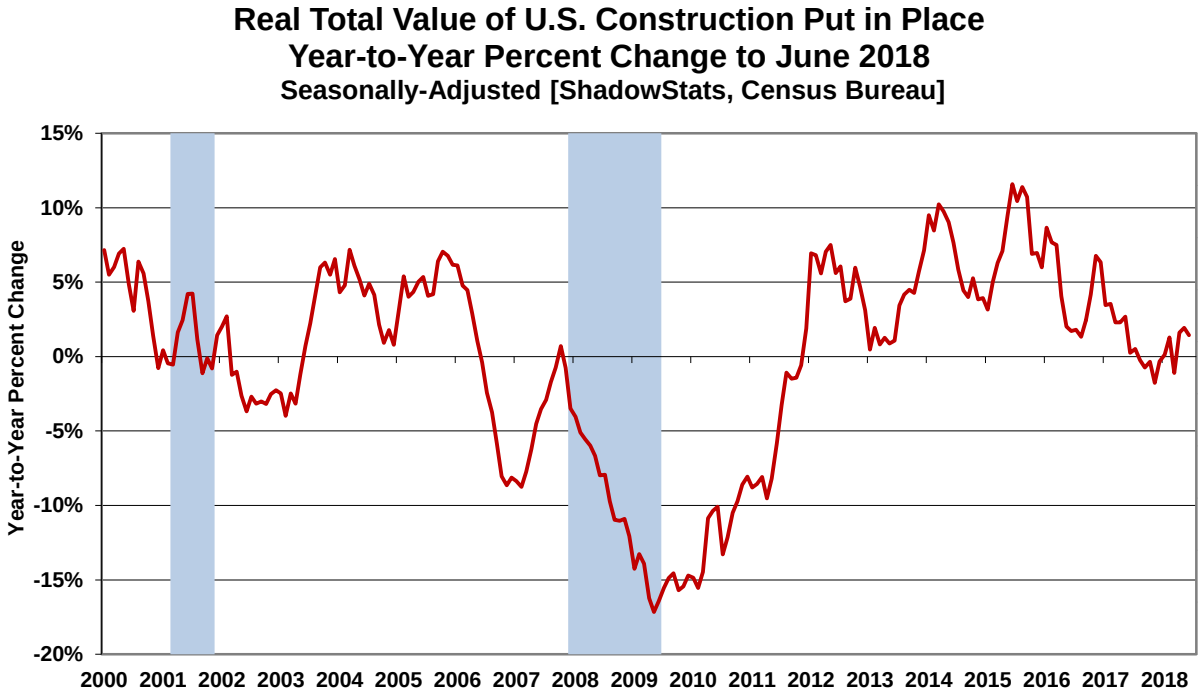


June 2018 Construction Spending

In the Context Large Upside Revisions to April and May Activity, June Spending Declined, While Inflation-Adjusted Activity Held Shy by 19.8% (-19.8%) of Recovering Its Pre-Recession High. Last month, the Commerce Department published its initial estimate of May 2018 Construction Spending along with annual benchmark revisions to the series (see *Commentary No. 958*). The underlying not-seasonally-adjusted data were restated back to January 2016, while the seasonally-adjusted data were revised back to January 2011. Despite that, the headline June Construction Spending detail, released on August 1st, was accompanied by large upside revisions to April and May 2018 activity.

Before inflation adjustment, nominal June 2018 Construction Spending declined month-to-month by 1.1% (-1.1%), versus revised gains of 1.3% [previously 0.4%] in May and 1.7% [previously 0.9%] in April, and against an unrevised March decline of 0.9% (-0.9%). Year-to-year, the nominal gains were 6.1% in June 2018, versus a revised 6.3% [previously 4.5%] in May 2018, 5.8% [previously 5.0% in April 2018] and an unrevised 2.9% in March 2018.

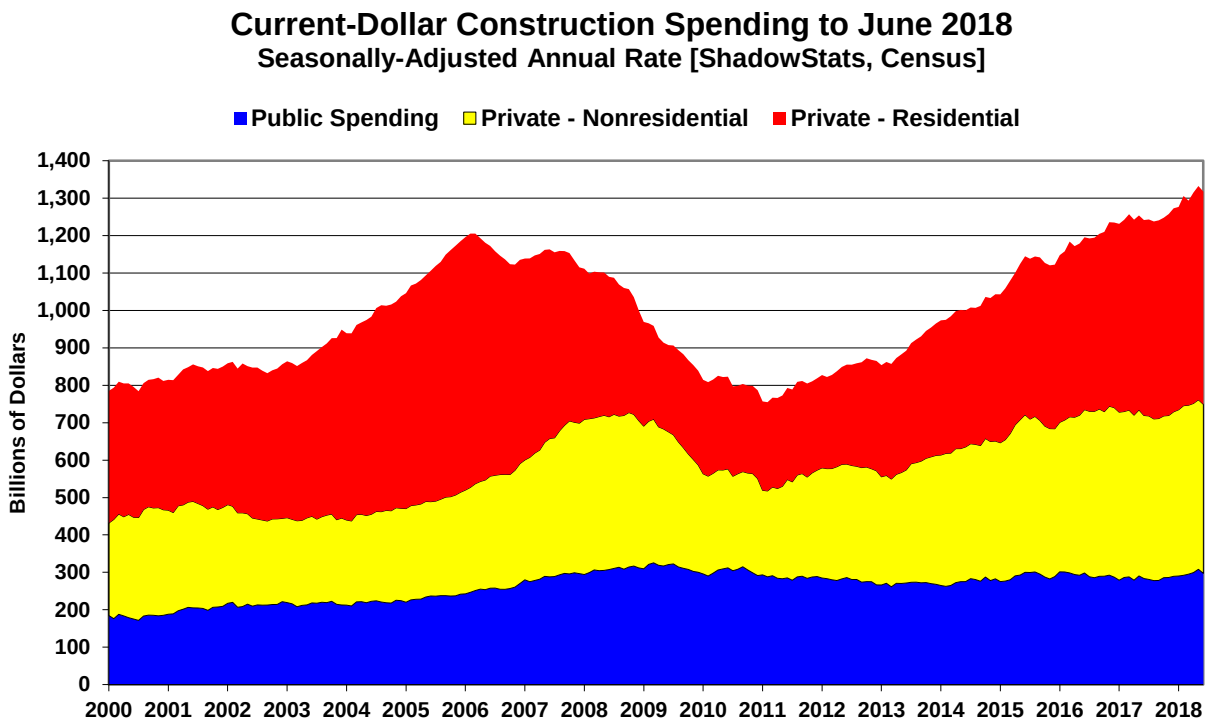
Graph 8: Year-to-Year Change in Total Real Construction Spending



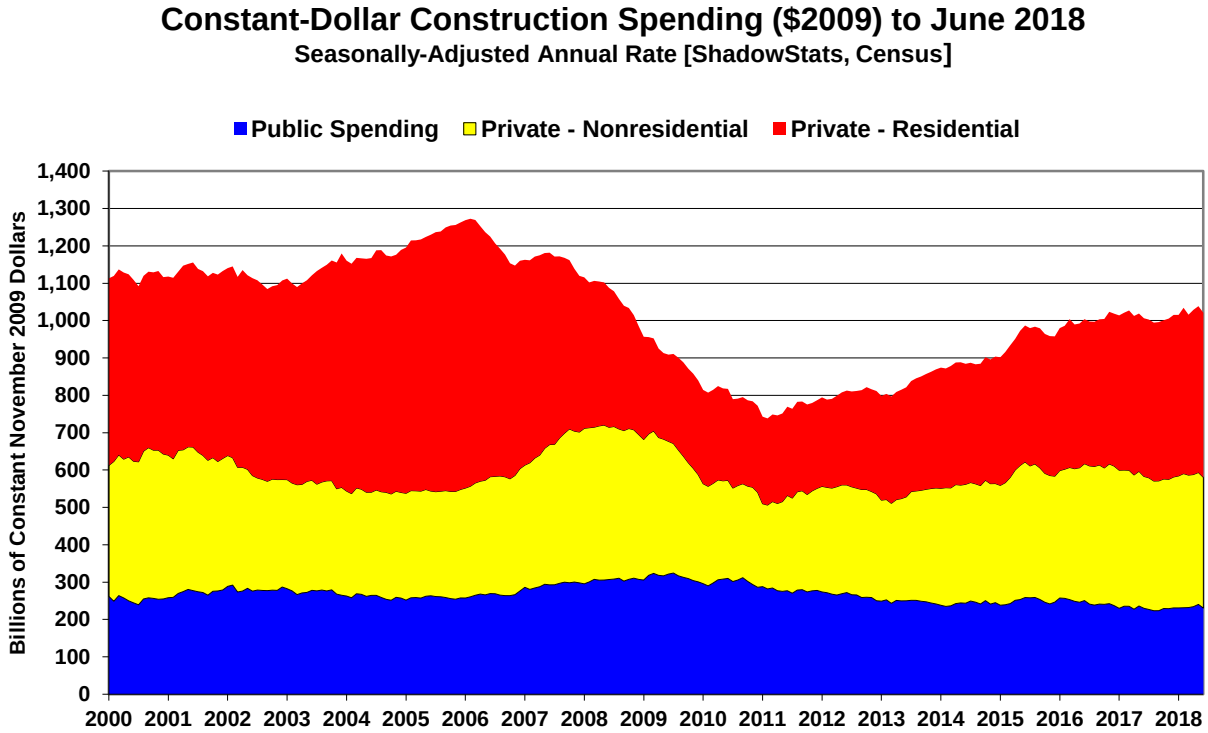
Net of the ShadowStats Composite Construction Deflator (CCD, see *Commentary No. 958*), real June 2018 Construction Spending declined monthly by 1.7% (-1.7%), versus gains of 1.0% in May, 1.3% in April, and a decline of 1.8% (-1.8%) in March. Shown in *Graph 8*, year-to-year real gains were 1.4% in June 2018, 1.9% in May 2018, 1.6% in April 2018, and a contraction of 1.1% (-1.1%) in March 2018. Those annual patterns remain broadly consistent with those seen leading into the 2006 housing collapse.

Construction Spending - Aggregate Headline Detail

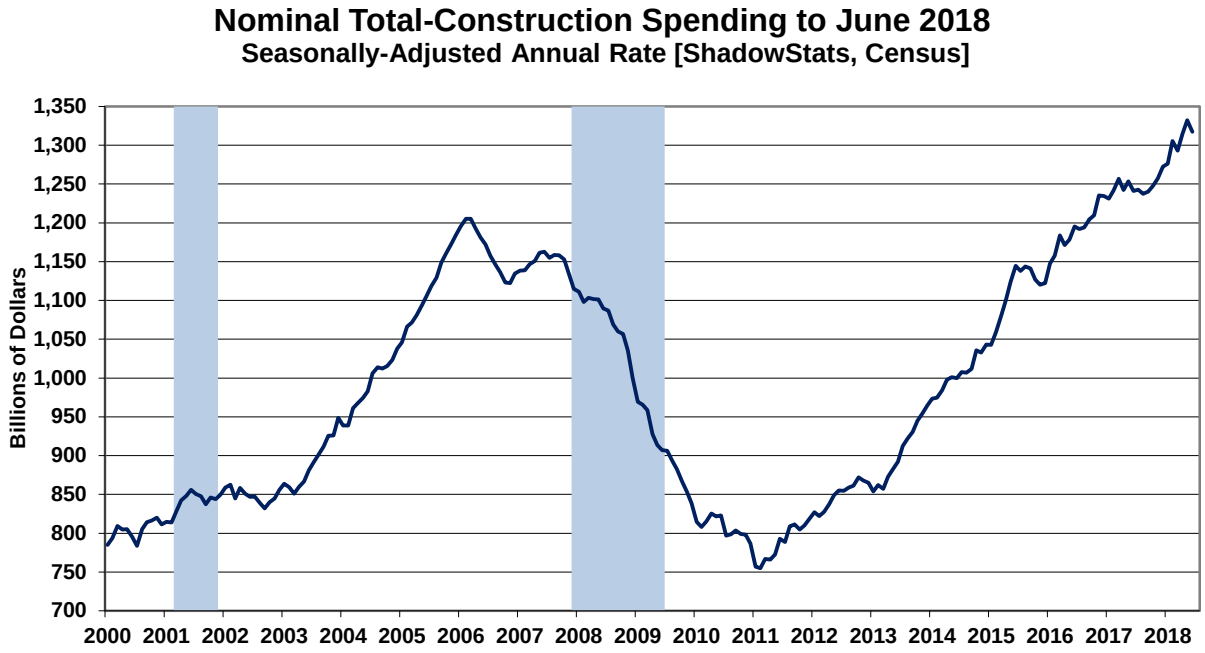
Graph 9: Aggregate Nominal Construction Spending by Major Sector to Date



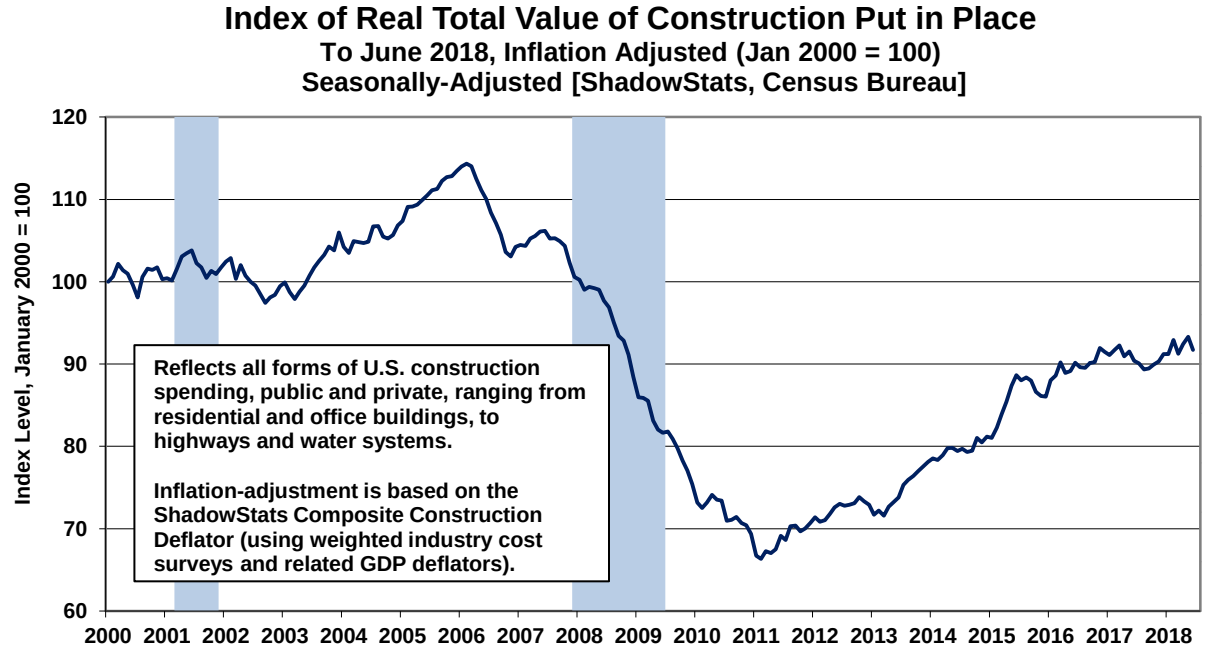
Graph 10: Aggregate Real Construction Spending by Major Sector



Graph 11: Nominal Private Residential Construction Spending



Graph 12: Level of Inflation-Adjusted (Real) Total Construction Spending

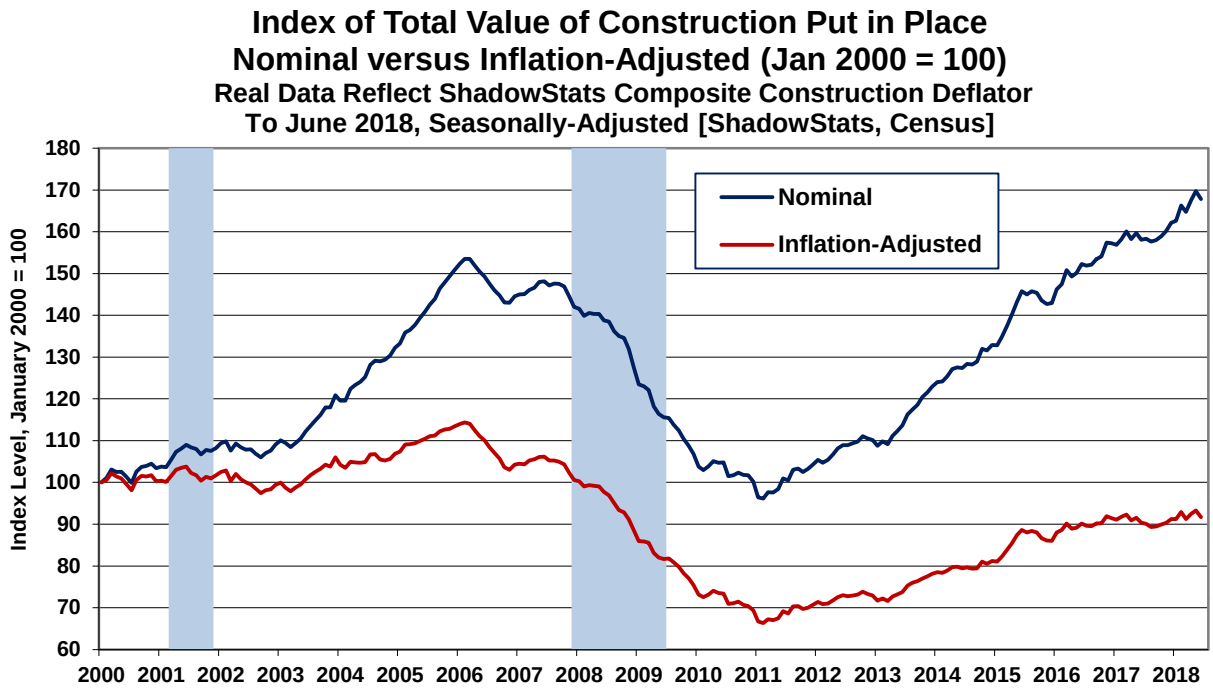


Construction Spending—June 2018—Headline Activity by Sector. Consider that the nominal monthly decline of 1.1% (-1.1%) in aggregate June 2018 Construction Spending, versus the gain of 1.3% in May, included a decline of 3.5% (-3.5%) in June Public Construction versus a gain of 3.0% in May. Private Construction Spending declined by 0.4% (-0.4%) in June, versus a gain of 0.9% in May. Within total Private Construction Spending, Residential Construction declined by 0.5% (-0.5%) in June, versus a gain

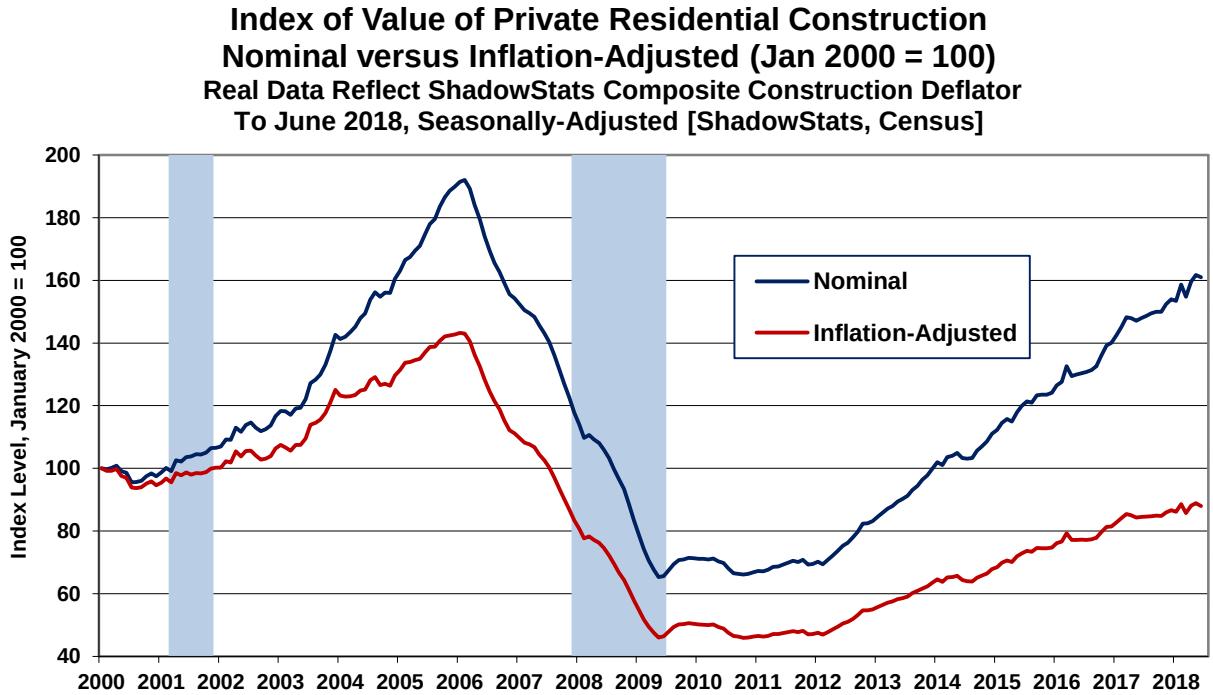
of 1.3% in May, while Nonresidential Construction declined by 0.3% (-0.3%) in June, having gained 0.2% in May. This detail is reflected in *Graphs 9* and *10*, and *13* to *16*.

Patterns of Nominal and Real Construction Activity Compared Across Sectors

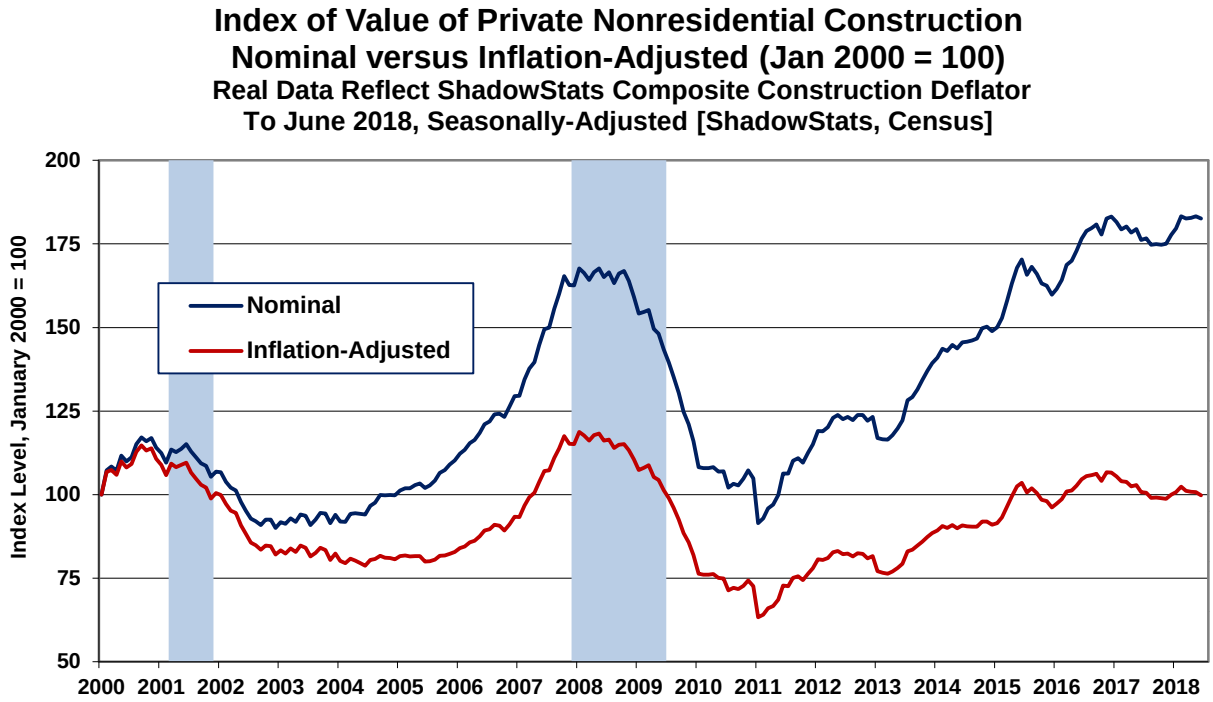
Graph 13: Indexed Nominal versus Real Value of Total Construction



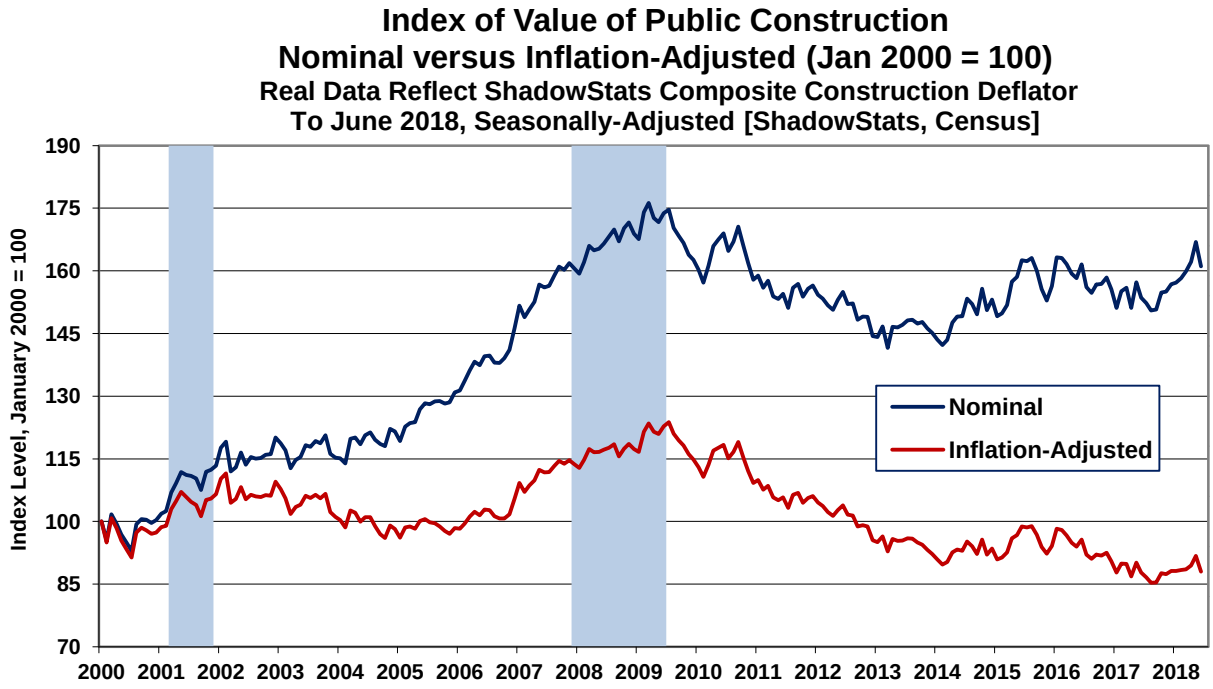
Graph 14: Indexed Nominal versus Real Value of Private Residential Construction



Graph 15: Indexed Nominal versus Real Value of Private Nonresidential Construction



Graph 16: Indexed Nominal versus Real Value of Public Construction

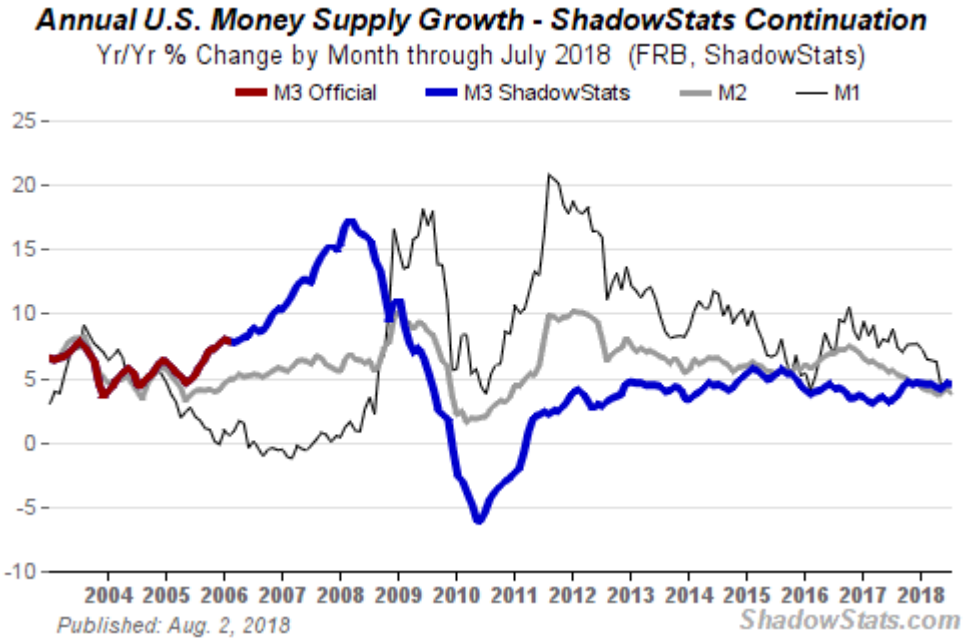


July 2018 Money Supply and the Monetary Base

Annual Growth in the Money Supply and Monetary Base Is Slowing or Deepening in Downturn. Just as a quick update, with summary numbers and graphs, and with full detail following shortly in pending *Hyperinflation Watch – No. 3*, annual growth rates in Money Supply M1, M2 and the ShadowStats Ongoing Estimate of M3 are slowing anew, based on detail reported late on August 2nd by the Federal Reserve Board. The Saint Louis Fed's Adjusted Monetary Base estimate, where the Monetary Base traditionally has been the FOMC's tool for targeting growth in the Money Supply (and inflation and economic activity) also was released last night for the two-week period ended August 1st. It showed a deepening annual contraction.

Money Supply M1, M2 and M3 in July 2018. Reflected in *Graph 17*, and detailed on the Alternate Data tab of www.ShadowStats.com. In terms of monthly average annual growth in July 2018, M3 growth dropped a notch to 4.49%, from a near-term peak in June, but M2 July 2018 annual growth just slowed to 3.91%, its lowest level since December 2010, while M1 July 2018 annual growth just slowed to 3.88%, its lowest level since June 2008 (M2 includes M1; M3 includes M2, see the *Money Supply Special Report* for full definitions of those measures).

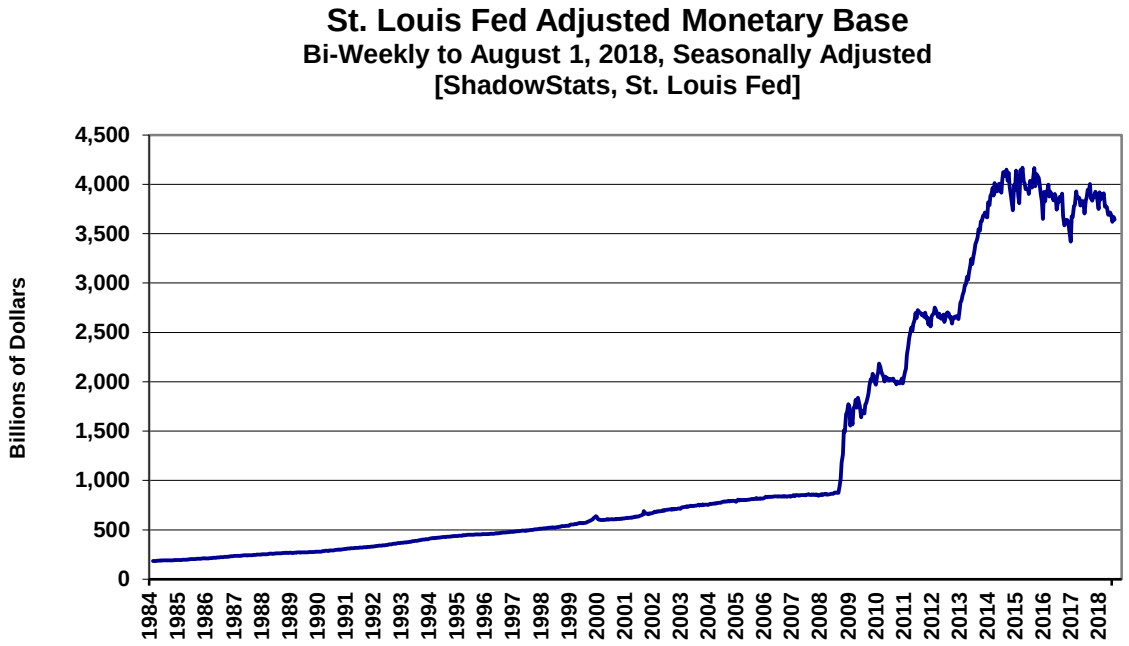
Graph 17: Comparative Money Supply M1, M2 and M3 Yr-to-Yr Changes through July 2018



Annual Growth in the Saint Louis Fed's Adjusted Monetary Based Is Down 5.9% (-5.9%) Year-to-Year. For the two weeks ended August 1st, the Saint Louis Fed's Monetary Base was down year-to-year by 5.92% (-5.92%), its steepest annual decline since January 2017, and a solid indicator of the Federal Reserve Board's Federal Open Market Committee (FOMC) actions to tighten domestic liquidity. The

Money supply measures and the U.S. economy likely will follow in downturn (see *Graphs 18* and *19*). Again, more detail will follow shortly in the pending *Hyperinflation Watch – No. 3*.

Graph 18: Saint Louis Fed Monetary Base, Billions of Dollars (1984 to August 1, 2018)



Graph 19: Year-to-Year Percent Change, Saint Louis Fed Monetary Base (1985 to August 1, 2018)