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

ShadowStats Flash Commentary, Issue No. 1439

May 2020 Employment and Unemployment, Recession, FOMC

June 9, 2020

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May 2020 Payroll Gain and Unemployment Drop Were Not Credible

**Extreme Pandemic-Shutdown Disruptions to Labor Market Conditions, and
Surveying of Same, Heavily Distorted Bureau of Labor Statistics Reporting**

**Headline Employment and Economic Bottom Bouncing
Likely Are Still a Month or Two Away**

**Second-Quarter 2020 Real Gross Domestic Product Remains on Track for
Its Deepest Ever Annualized Contraction, Order of Magnitude 50% (-50%)**

**Third- and Fourth-Quarter GDP Could See Some Bottom Bouncing,
Depending on the Magnitude and Success of Reopening Efforts**

**Recession Began Fourth-Quarter 2019, per the National Bureau of Economic Research,
Recovery - Regaining the Pre-Recession Peak - Could Take Years, per ShadowStats**

**FOMC June 10 Press Conference: Fed Funds Likely Will Hold at 0.00% to 0.25%;
Economic Forecasts Probably Will Not Be Overly Optimistic**

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Contents – Flash Commentary (Issue No. 1439)

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Overview

In May, Another 4.9 Million Unemployed Were Misclassified as "Employed"

May Headline Labor Details Were Not Credible, Heavily Disrupted by the Pandemic

FOMC Headline Economic Review Looms on Wednesday (June 10th)

NBER Declared a Recession in Place 4q2019 (Quarterly), February 2020 (Monthly)

New- and Continuing-Claims for Unemployment Show the Economy Still In Downturn

Formal Recession in Hand Faces a Long Road to Recovery. The National Bureau of Economic Research (NBER) pronounced yesterday, June 8th, that the U.S. economy began its latest recession off a Fourth-Quarter 2019 peak, timed to a monthly peak of February 2020 (see ***NBER Recession Statement***). This was an unusual move, where the current economic collapse was triggered by the Coronavirus Pandemic shutdown of U.S. business and social functioning, an extraordinary extraneous event, not affected by regular drivers of domestic economic activity. The NBER's decision was made public one day in advance of today's opening of the Federal Reserve Board's Federal Open Market Committee's (FOMC) two-day June 2020 meeting.

Where the NBER is the defining authority on timing the U.S. Business Cycle, please note that all graphs in this ***Commentary*** that show recession bars now have a new bar on the far right-hand side of the plot. That recession bar will end when the new "Recession" hits its "Trough," which could be in the next quarter or two. The problem will be the "Recovery," defined by when the economy recovers its "Pre-Recession Peak," again Fourth-Quarter 2019 and February 2020 in the current circumstance. Given the severe structural damage already done to domestic economic and systemic stability by the Pandemic Shutdown, full recovery likely will take a number of years, perhaps much longer than the protracted 14-quarter, 3½ year "Recovery" from the Great Recession (see ***Special Hyperinflation Commentary, Issue No. 1438*** and ***Special Economic Commentary, Issue No. 1437***).

Second-Quarter 2020 GDP Still on Track for Massive 50% (-50%) Annualized Contraction. Despite the unexpected bottom-bouncing in the May 2020 headline labor statistics, based on two months of reporting, Second-Quarter 2020 Employment, reflecting the BLS-corrected estimates, is on track for a Second-Quarter 2020 annualized quarterly contraction of 54.5% (-54.5%), which is fully consistent with a Second-Quarter 2020 annualized Real GDP contraction of about 50% (-50%).

FOMC Not Likely to Alter Rates, in Context of Ongoing Economic Collapse. Tomorrow's (June 10th) FOMC Statement and Federal Reserve Chairman Powell's Press Conference, likely will indicate

unchanged Fed interest rate policy, with the targeted Federal Funds Rate holding at its current 0.00% to 0.25% range, amidst the continued provision of unlimited systemic liquidity—growth in the Money Supply. The Fed's economic outlook likely will be bleaker and more cautionary than the Administration would like to hear.

Despite Some Limited Headline Bottom-Bouncing, Collapsed May Labor Numbers and Economic Conditions Continued Amidst Explosive, Record Money Supply Growth. Also discussed in ***[Special Hyperinflation Commentary, Issue No. 1438](#)***, unrestricted money supply growth, in the context of the Pandemic-induced economic collapse, raises the risk of domestic hyperinflation. With May 2020 Money Supply showing continued, explosive record annual growth, that circumstance will be reviewed in pending ***Flash Update No. 1440***, a day or two subsequent to forthcoming FOMC announcements.

The balance of today's ***Flash Commentary, Issue No. 1439*** reviews the headline May 2020 Unemployment and Payroll Employment reporting, beginning on ***Page 5***. Unstable reporting of current Labor Market conditions primarily reflects Pandemic disruptions of and distortions to the employment/ unemployment surveying. Independent of BLS Surveying and based on actual filings, New Claims for Unemployment Insurance show the economy still in a downturn, albeit one that could be nearing a trough in activity.

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For the Benefit of Subscribers, New Circumstances, Including Breaking News, Are Highlighted in the *[Daily Update](#)*. Rapidly shifting headlines, reporting details, intervening events, unusual developments and schedule changes—all are covered in the ***Daily Update*** section of the ***[ShadowStats Home Page](#)***. For example, any unusual developments out of tomorrow's FOMC Meeting will be highlighted, with an initial assessment in the ***Daily Update***, within an hour or so of release, as will have been case (within three hours) of the morning's release of the May 2020 CPI.

For recent economic and the latest market and systemic assessments, see ***[Special Commentary, Issue No. 1429](#)*** (FOMC Panic), ***[Special Commentary, Issue No. 1430](#)*** (Systemic Solvency), ***[Flash Commentary, Issue No. 1433](#)*** (Retail Sales Benchmarking), ***[Flash Commentary No. 1434](#)*** (1q2000 GDP), ***[Flash Commentary No. 1436](#)*** (Cass Freight Index®), ***[Special Economic Commentary, Issue No. 1437](#)*** (Economic Update) and ***[Special Hyperinflation Commentary, Issue No. 1438](#)*** (Hyperinflation Risks).

Your questions and comments always are welcomed. Please call or e-mail me any time. Leave a message if your call goes to Voicemail. I shall be back to you.

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May 2020 Household and Payroll Employment Surveys

Headline May U.3 of 13.3% Really Was 16.4% per the Bureau of Labor Statistics

2q2020 Household Employment on Track for Annualized 54.5% (-54.5%) Contraction

2q2020 Payroll Employment on Track for Annualized Decline of 43.6% (-43.6%)

May Payrolls Gained 2.5 Million (1.8 Million Net of Revisions)

April Payroll Employment Plunged by a Downwardly Revised 20.7 Million

May Labor Statistics Were Heavily Disrupted and Scrambled by the Pandemic Shutdown

The Unexpected Happy Jobs Gain and Unemployment Decline in May 2020 Likely Were Due to Seriously Flawed, Pandemic-Savaged Household and Payroll Surveying. Today's *Flash Commentary, Issue No. 1439* focuses on the May labor data as reported Friday, June 5th, by the Bureau of Labor Statistics (BLS). Following economic crashes in April, the headline drop in the May unemployment rate and bounce in May payroll employment broadly were unexpected, running counter to other numbers and otherwise were not credible. Some questions raised by the Administration's political opposition as to possible political manipulation are understandable, but are not realistic. I am directly and personally familiar with several instances of various direct political manipulations of headline government data, but I have never known a manipulator to publish up front that (April) 7.5 million or (May) 4.9 million unemployed people were misclassified as "employed" in an unemployment report.

Data credibility issues here are tied to Pandemic-related BLS surveying instabilities and reporting quality. The flawed headline numbers likely are within the bounds of not being statistically meaningful, but even that metric is not realistically assessable in these uncharted waters. Consider some of the issues that disrupted the headline reporting of the May 2020 Payroll and/or the Household Surveys discussed in the BLS's ***Impact of the Coronavirus-Pandemic on The Employment Situation for May 2020***.

Massive Pandemic-Driven Disruptions to BLS Household and Payroll Surveying Have Left the Headline Employment and Payroll Data Not Credible. Distortions in or Changes Made to May:

- Unusually low/declining Survey response levels in both Series (companies that have gone out of business may not answer their phones).
- Collection of data was down by 10% to 20% in the month for Construction, for example, where related jobs surged by 446,000 in the month?
- May Household Surveying was down by 15.1%, (-15.1%), deepening from 12.6% (-12.6%) in April and 9.5% (-9.5%) in May. The bad news is declining along with the level of the surveying?
- No BLS surveying visits as previously, only by phone or computer.
- Revised Methodologies (Payroll Survey Birth-Death Model was revised negatively).
- Related downside revisions to Payroll Reporting.
- Revised Seasonal Adjustments (Payroll Survey).

- Counting 4.9 million May "unemployed" as "employed" was the third consecutive month of the BLS misclassifying a large number of "unemployed," see *Table I* and *Graphs 1, 4* to *9*. Neither the BLS nor the Census Bureau is able to straighten this out.
- Headline details run meaningfully counter to New and Continuing Claims for Unemployment, despite definitional conflicts, similarly running at variance with private surveys and reporting.

Although Not Particularly Credible, Headline May 2020 Payrolls, and Employment and Unemployment Both Improved, Now Minimally Off the Historic Levels of Pandemic Deterioration. In the context of heavily disrupted economic and social and surveying conditions, the May Payroll Survey showed May Jobs "bottom-bouncing," jumping by 2.5 million, following a negatively revised record plunge of 20.7 (-20.7) million jobs [previously 20.5 (-20.5) million] in April.

The Household Survey headline U.3 Unemployment Rate narrowed to 13.26% in May, from 14.71% in April. In context of 4.9 million May Unemployed being misclassified as "Employed," versus 7.5 million so "misclassified" in April, actual May U.3 was about 16.4%, down from 19.5% in April, per the BLS. Official headline May U.6 was 21.19%, down from 22.78% in April, with the parallel headline ShadowStats Alternate Measure at 34.0%, down 35.4%, on top of the headline U.3.

Graph 1: Headline Monthly Unemployment Rate 1948 to May 2020

Headline U.S. Unemployment and Corrected May 2020
1948 to May 2020, Not Seasonally Adjusted [ShadowStats, BLS]
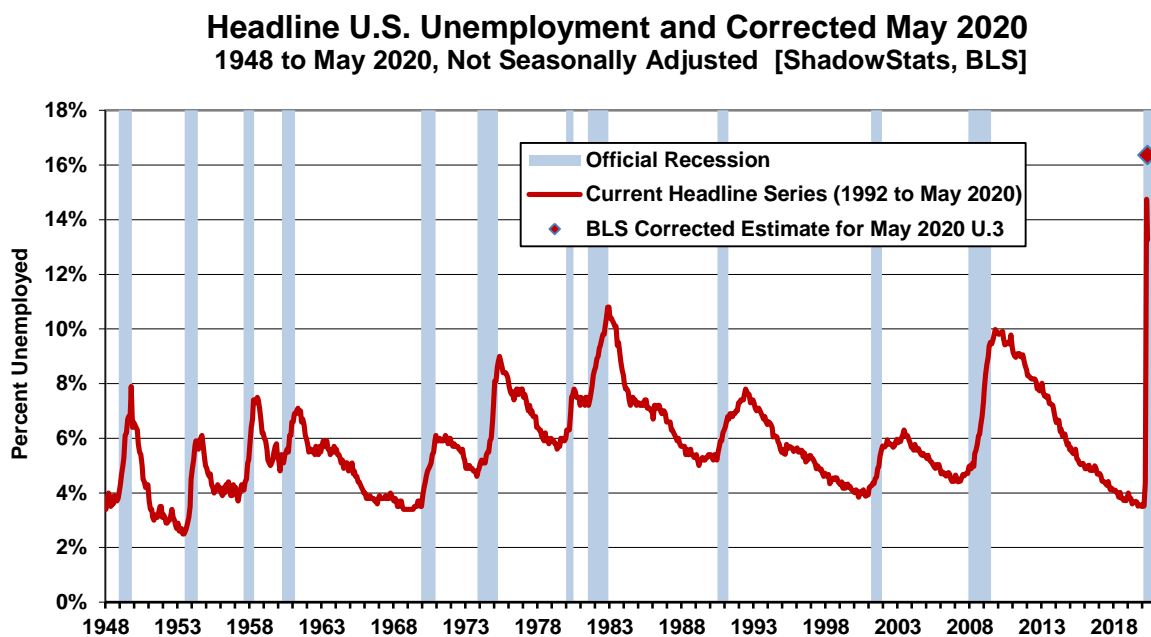
Corrected for the misclassified workers, plus marginally attached workers (including discouraged workers who have been discouraged for less than a year, and those working part-time because they cannot find a full-time job), U.6 unemployment was about 24.2% in May, down from 27.5% in April, with the May ShadowStats Alternate at 36.5%, down from 39.3% in April. Since BLS will use only the official headline rates going forward, ignoring the misclassifications, official rates and numbers will continue to be used with the *Graph* and *Table* on the *Alternate Data Tab - Inflation* on the *www.ShadowStats.com* website.

Initial Claims for unemployment continue to surge at a slowing pace, as do the ongoing claims. While this indicates the economy still is declining, the economy likely will bottom out in the next month or so.

Graph 2: Initial Claims for Unemployment Insurance through Week-Ended May 30, 2020

Initial Claims for Unemployment
Thousands of New Claims, Weekly to May 30, 2020
Seasonally Adjusted [ShadowStats, U.S. Department of Labor]
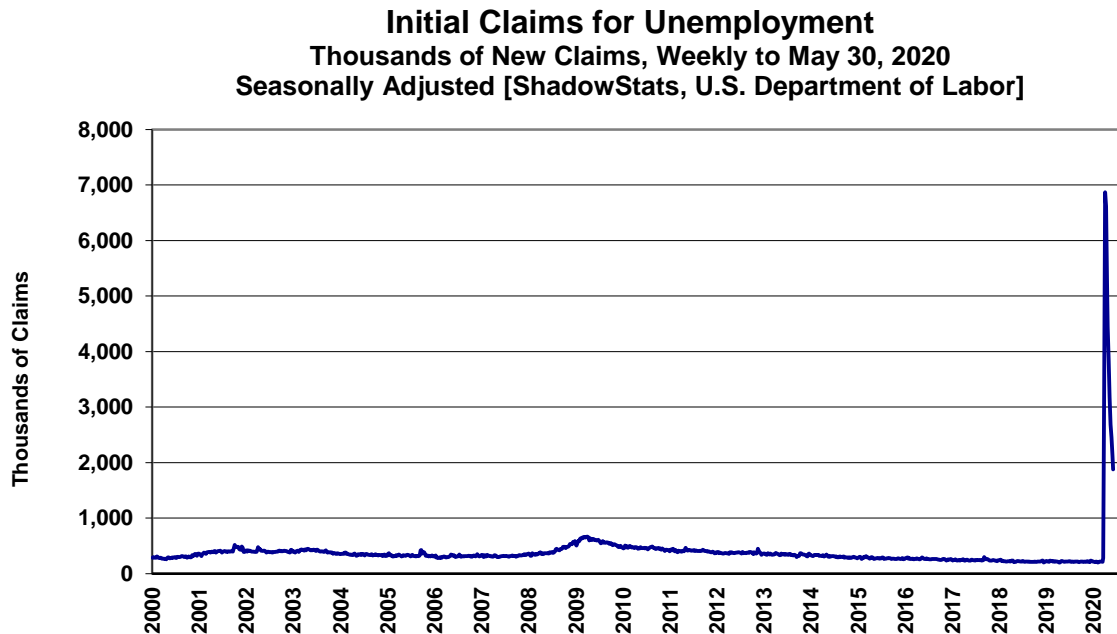
Graph 3: Year-to-Year Change in Initial Claims through Week-Ended May 30, 2020

Initial Claims for Unemployment
Year-to-Year Percent Change, Weekly to May 30, 2020
Seasonally-Adjusted [ShadowStats, Department of Labor]
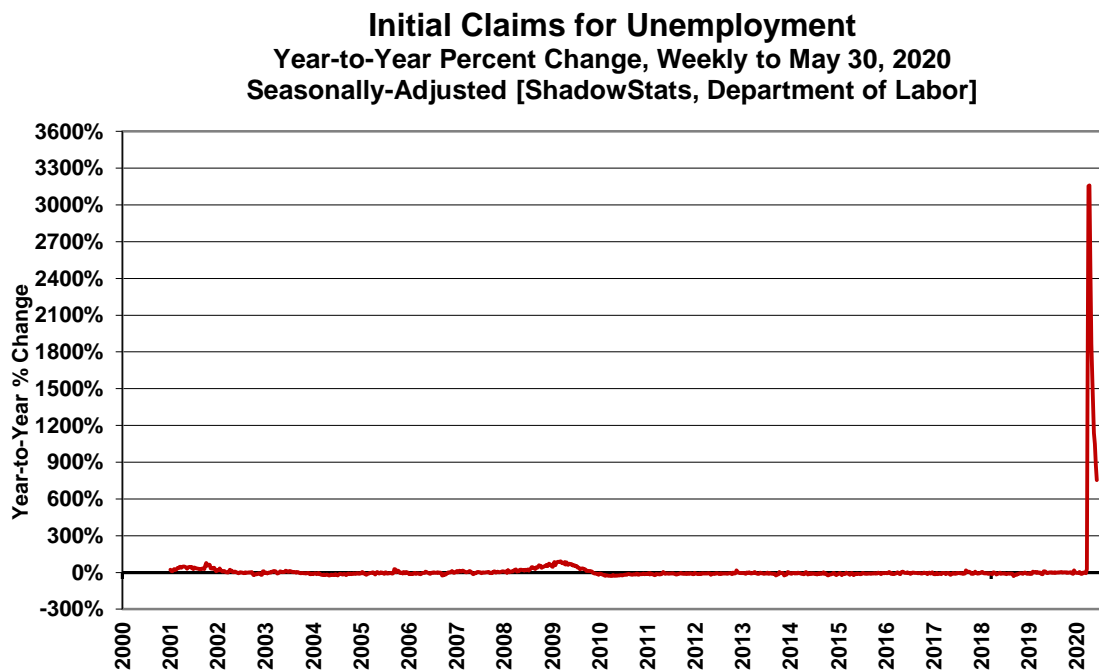
Table I shows three sets of headline U.3 unemployment rate estimates. The first line shows the headline U.3 unemployment reporting. The Bureau of Labor Statistics (BLS) has noted in its monthly press releases covering March, April and May 2020 data, that a large number of unemployed people were misclassified in headline reporting as "employed."

Per the BLS, understatement of the unemployed was 1.5 million in March, 7.5 million in April and 4.9 million in May. The BLS's corrected U-3 estimates are shown in the second row of numbers.

The third row of numbers shows the ShadowStats forecasts of U.3, based on analysis of weekly New and Continuing Claims for Unemployment Insurance, which were closer to the BLS-Corrected U.3 than the BLS Headline Reporting. The May ShadowStats U.3 forecast was well above either headline estimate.
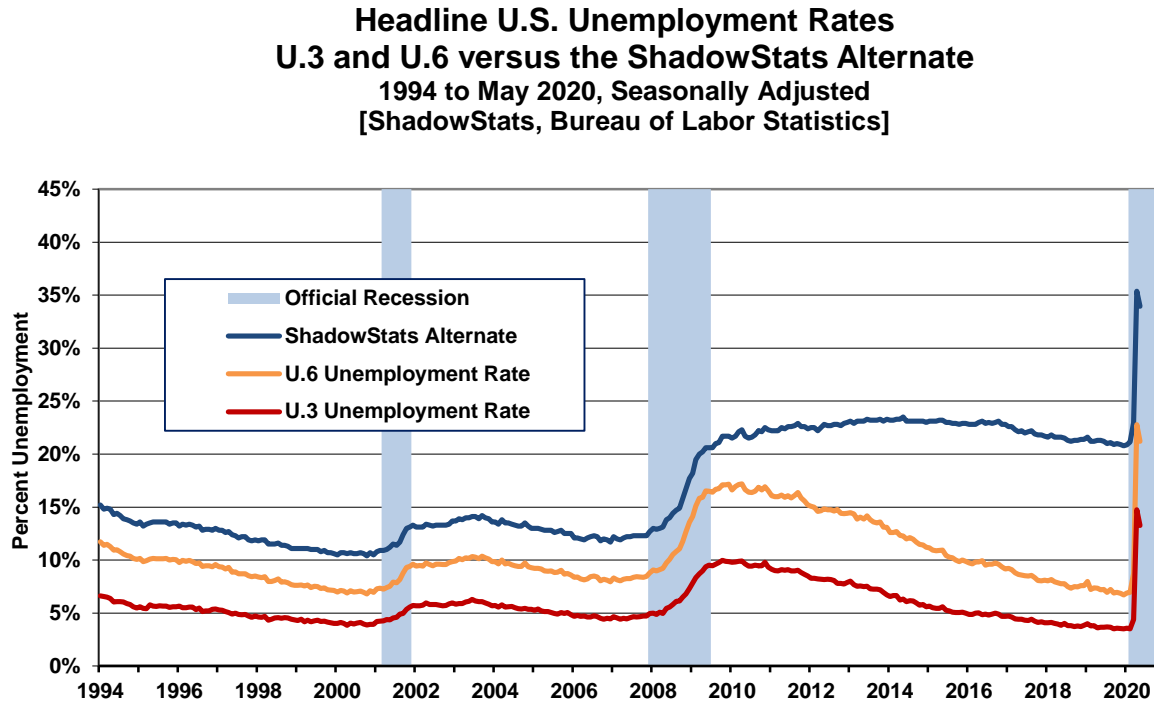
Table I: Headline, "Corrected" and New-Claims Based Unemployment Estimates

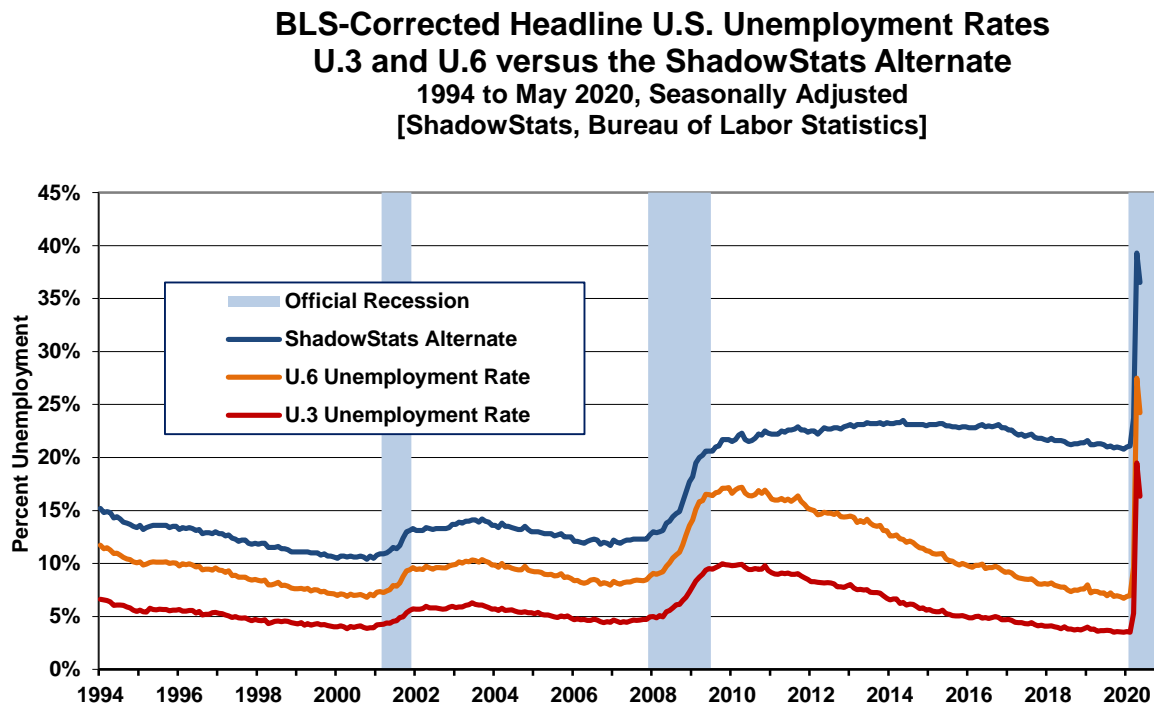| Headline Unemployment Rate vs. BLS "Corrected" Versus ShadowsTats Forecast Based on New Claims				
Measure	**Month**			
	Feb '20 Actual	**Mar '20**	**Apr '20**	**May '20**
Headline U.3	3.5%	4.4%	14.7%	13.3%
BLS-Corrected U.3	3.5%	5.3%	19.5%	16.4%
Claims-Based Forecast	3.5%	5.0%	21.0%	27.8%
Sources: Bureau of Labor Statistics, Department of Labor, ShadowStats.com				

[Graphs 4 and 5 follow on the next page.]

Graph 4: Headline Erroneous March, April and May 2020 U.3, U.6 and ShadowStats Alternate Unemployment

Headline U.S. Unemployment Rates
U.3 and U.6 versus the ShadowStats Alternate
1994 to May 2020, Seasonally Adjusted
[ShadowStats, Bureau of Labor Statistics]

Graph 5: BLS- and ShadowStats-Corrected March, April and May U.3, U.6 and ShadowStats Alternate

BLS-Corrected Headline U.S. Unemployment Rates
U.3 and U.6 versus the ShadowStats Alternate
1994 to May 2020, Seasonally Adjusted
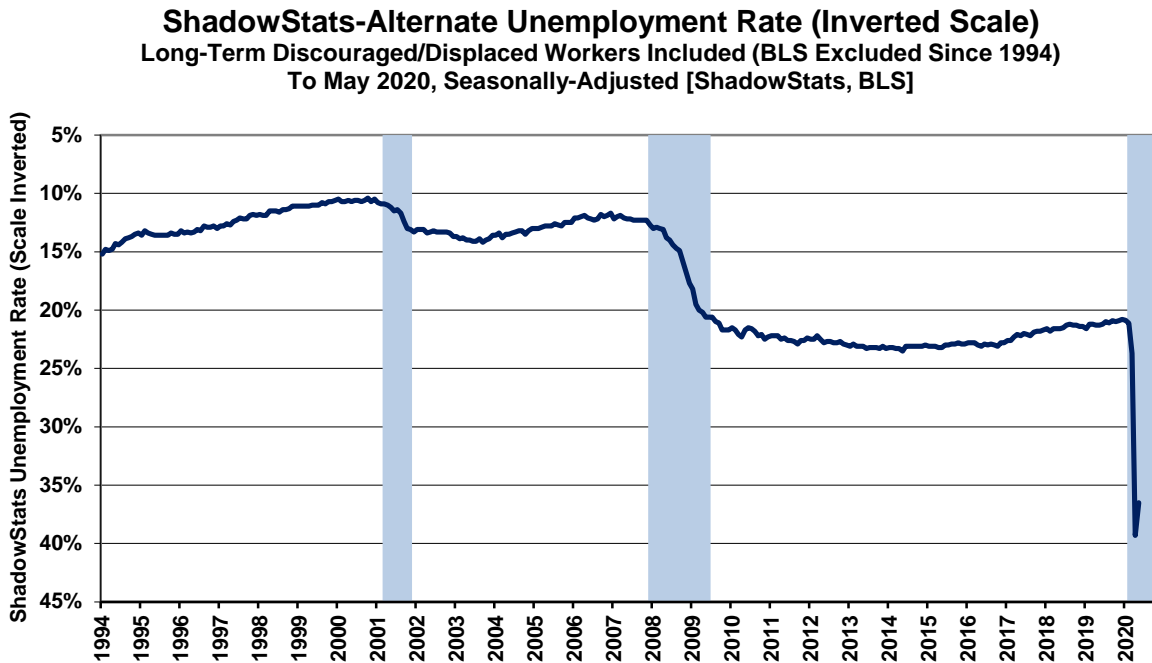### [ShadowStats, Bureau of Labor Statistics]

Shadows Alternate Unemployment Rate Still Explains Labor-Market Stresses in the Employment-Population Ratio and Participation Rate Better Than the Headline U.3. The recent (February) historically low U.3 unemployment at 3.2% (see *Graph 6*), consistent with a heavily hyped economic "boom," never was consistent with high levels of employment stress and a headline ShadowStats Alternate Unemployment over 20%, which were signaling an Economy remaining in serious trouble, pre-Pandemic, never having recovered fully from the Great Recession.

As the Pandemic crisis pummeled recent economic activity, headline ShadowStats Alternate Unemployment still has continued to reflect the pattern of mounting labor-market stresses more consistently than the heavily gimmicked headline U.3 unemployment. Such can be seen, by comparing *Graph 7* of the inverted-scale ShadowStats Alternate Unemployment Rate against *Graph 8* of the Employment-Population Ratio and *Graph 9* of the Participation Rate. Again, such is in contrast to *Graph 6* of the inverted-scale headline U.3 Unemployment Rate. The suggested underlying reality here remains that the headline economic boom into early 2020 never fully realized an economic recovery subsequent to the Great Recession**.**
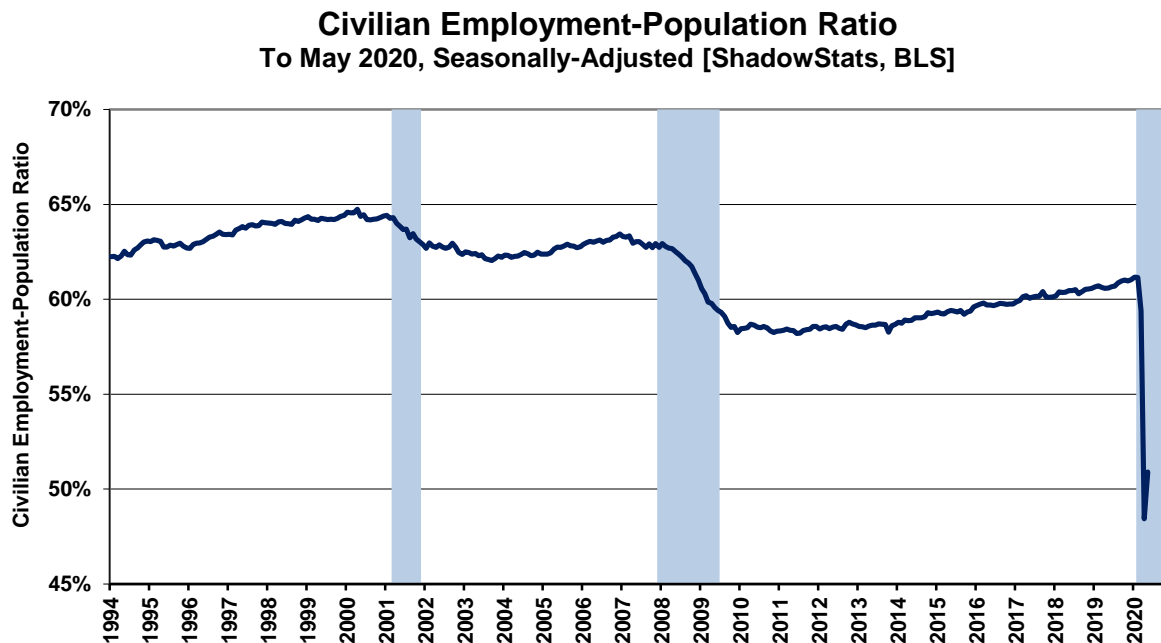
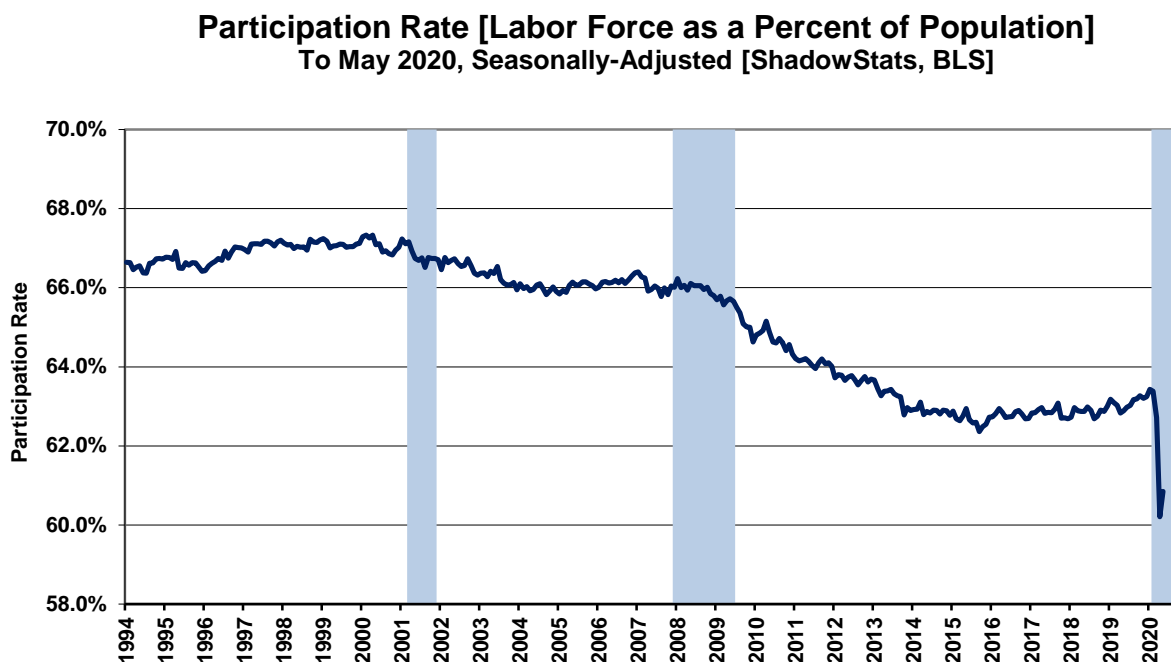*Graph 6: Headline U.3 Unemployment Rate, Inverted Scale (1994 to May 2020)*

U.3 Unemployment Rate (Inverted Scale)
To May 2020, Seasonally-Adjusted [ShadowStats, BLS]
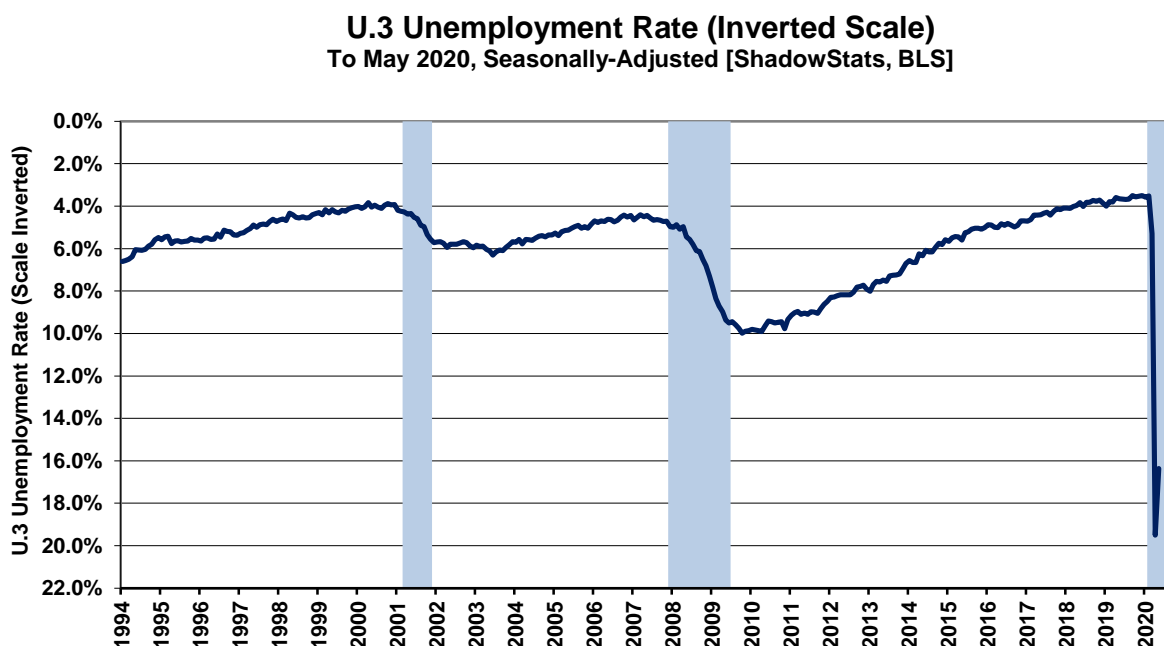
Graph 7: ShadowStats Alternate Unemployment Rate, Inverted Scale (1994 to May 2020)

ShadowStats-Alternate Unemployment Rate (Inverted Scale)
Long-Term Discouraged/Displaced Workers Included (BLS Excluded Since 1994)
To May 2020, Seasonally-Adjusted [ShadowStats, BLS]

Graph 8: Civilian Employment-Population Ratio (1994 to May 2020)

Civilian Employment-Population Ratio
To May 2020, Seasonally-Adjusted [ShadowStats, BLS]

Graph 9: Participation Rate (1994 to May 2020)

Participation Rate [Labor Force as a Percent of Population]
**To May 2020, Seasonally-Adjusted [ShadowStats, BLS]**

May Payroll Employment Rebounded 2.5 Million, Down Year-to-Year by 11.8% (-11.8%)

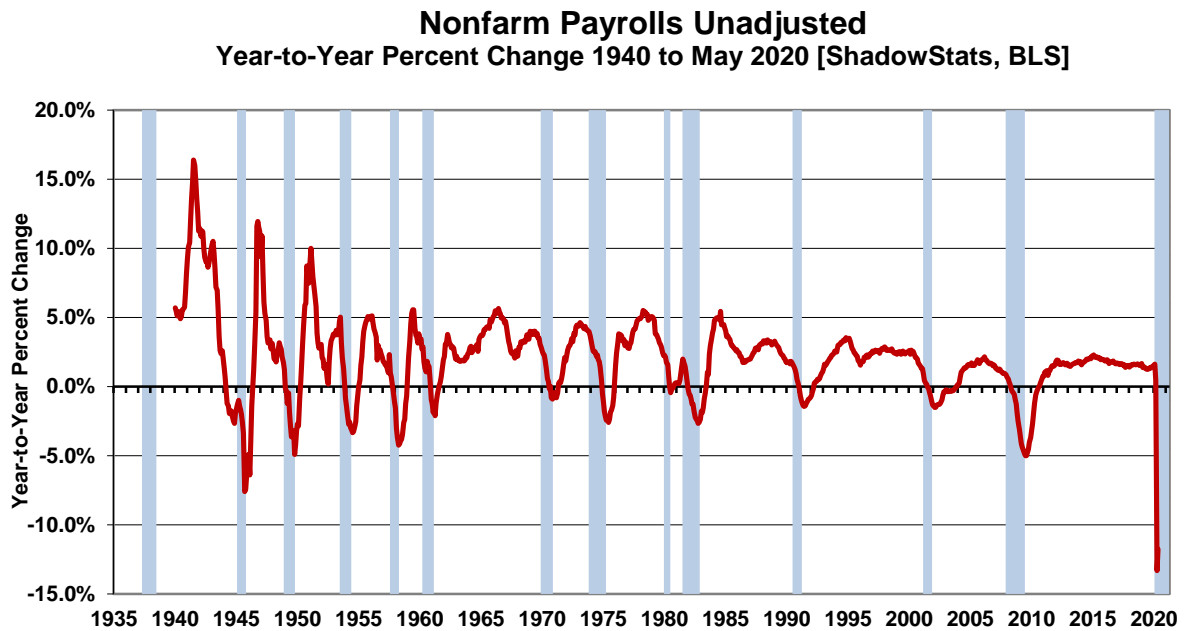**Downwardly Revised April Plunge of 20.7 (20.7) Million Was Worst Ever**

Payroll Survey Birth-Death Revisions Showed Weaker Near-Term Growth

In Context of Negative Payroll-Survey Birth-Death Model Revisions, Pandemic-Induced April Payroll Plunge of 20.7 (-20.7) Million was Followed by a 2.5 Million Bounce in May. The downwardly revised April 2020, steepest-ever decline in Payroll Employment activity, was followed by a 2.5 Million jobs bounce, as plotted here in *Graphs 13* to *18.* While the May bounce was too small to be visible in the full historical *Graphs 13* and *14*, it does show in *Graphs 15* and *16*, and *Graphs 17* and *18*. *Graphs 17* and *18* also plot the net revisions to the Birth-Death Model, where benchmarked lines are the lower and lighter colored ones.
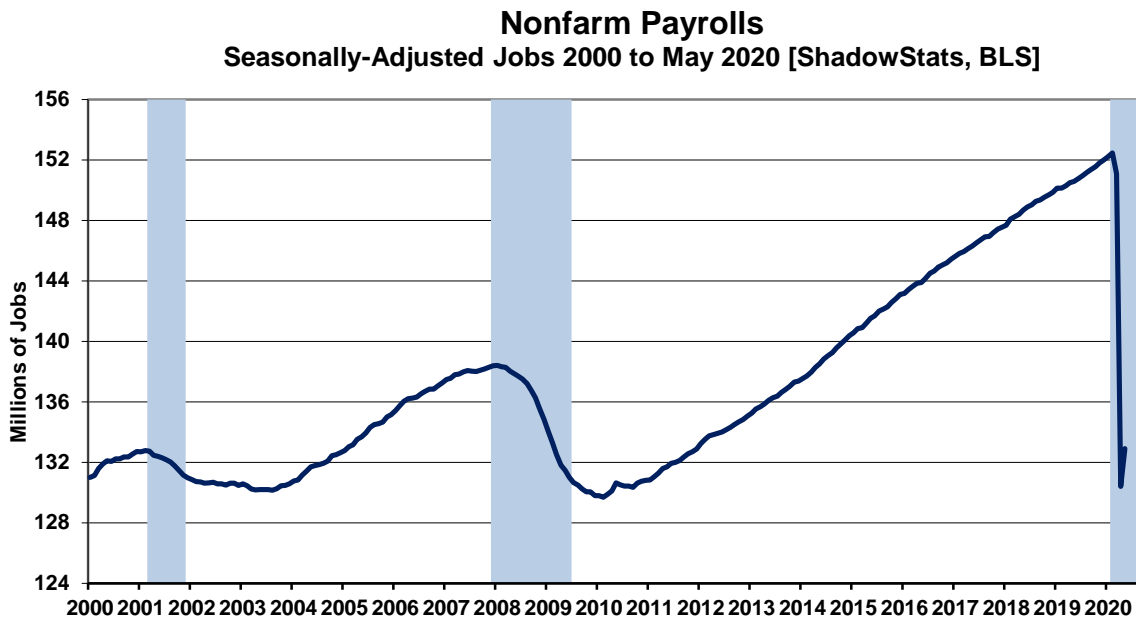
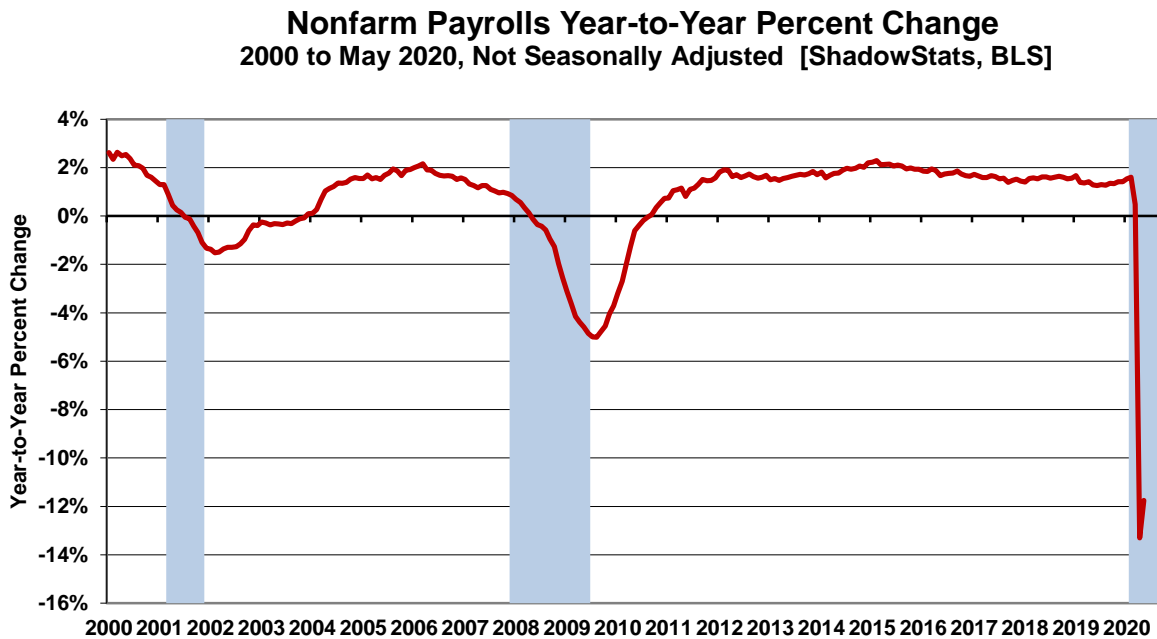**Graph 13: Headline Nonfarm Payroll Employment 1939 to May 2020**

Nonfarm Payrolls
Seasonally-Adjusted Jobs 1939 to May 2020 [ShadowStats, BLS]
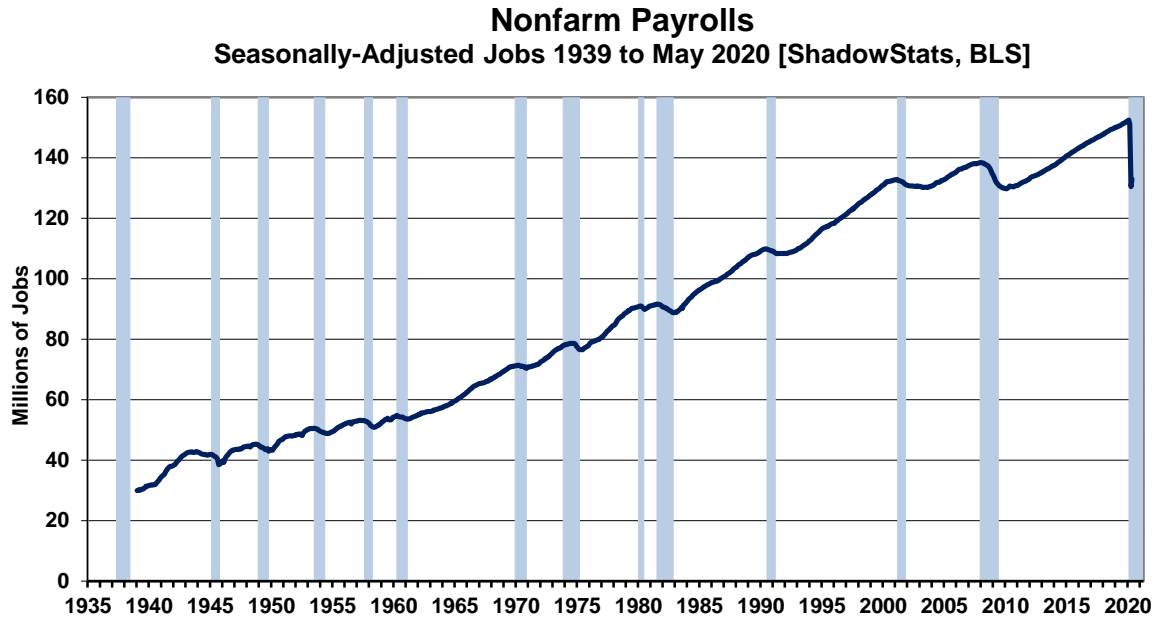
Graph 14: Headline Nonfarm Payroll Employment 1939 to May 2020, Year-to-Year Change

Nonfarm Payrolls Unadjusted
Year-to-Year Percent Change 1940 to May 2020 [ShadowStats, BLS]

Graph 15: Headline Nonfarm Payroll Employment 2000 to May 2020

Nonfarm Payrolls
Seasonally-Adjusted Jobs 2000 to May 2020 [ShadowStats, BLS]

Graph 16: Headline Nonfarm Payroll Employment 2000 to May 2020, Year-to-Year Change

Nonfarm Payrolls Year-to-Year Percent Change
2000 to May 2020, Not Seasonally Adjusted [ShadowStats, BLS]

Graph 17: Birth-Death Model Net Revisions (Lower, Lighter Blue Line)

Nonfarm Payrolls Revision
Seasonally-Adjusted Jobs 2000 to May 2020 [ShadowStats, BLS]
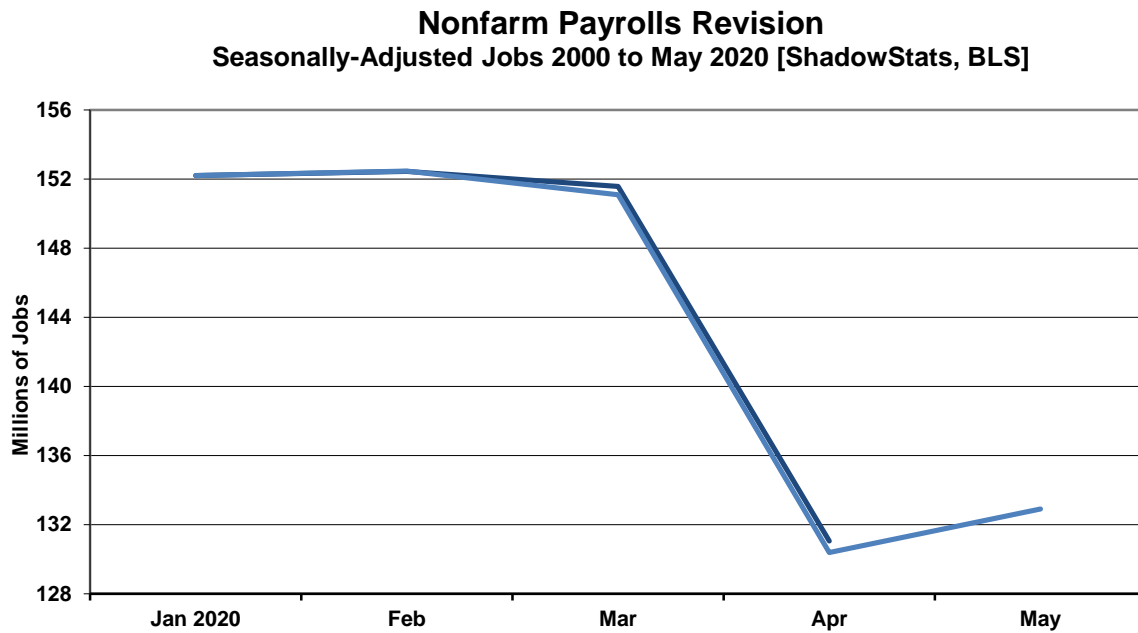
Graph 18: Birth-Death Model Net Revisions (Lower, Lighter Orange Line)

Nonfarm Payrolls Year-to-Year Percent Change
2000 to May 2020, Not Seasonally Adjusted [ShadowStats, BLS]

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