John Williams'
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November Jobs Outlook, Deficit Commission, Euro Foil

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November Jobs Data Due for Some Downside Catch-Up

Deficit Commission's Primary Target Is Cash-Based Not GAAP-Based Deficit

U.S. Remains the Dominant Sovereign-Solvency Problem

PLEASE NOTE: The next regular Commentary *will be on Friday, December 3rd, following release of November employment and unemployment reporting.*

-- *Best wishes to all, John Williams*

November Unemployment Rate and Payroll Employment Reporting Should Be Weaker Than Consensus Estimates. This morning's brief *Commentary* updates the outlook for the November 2010 labor-market report and gives a heads-up on pending fiscal issues/developments closely tied to the long-term insolvency of the U.S. government and the eventual U.S. hyperinflationary great depression (the outlook and timing -- high risks of the hyperinflation beginning to unfold by mid-2011, outside timing of 2014 -- are unchanged).

Due for release on Friday, December 3rd, both the monthly change in November 2010 nonfarm payrolls (especially net of revisions) and the level of the headline U.3 unemployment remain at fair risk of showing deteriorating economic activity (an outright contraction in payrolls and an increase in the headline unemployment rate), disappointing market expectations. Briefing.com currently indicates a consensus monthly payroll gain of 130,000 (which is borderline statistically insignificant with a 95% confidence interval of +/- 129,000 jobs), versus an initial reporting of a 151,000 seasonally-adjusted gain in October. The Briefing.com consensus for the November U.3 unemployment rate is at 9.6%, unchanged from October's reported level.

Concurrent Seasonal Adjustment Distortions. The payroll data are due for some downside catch-up in revisions and/or seasonal-factor adjustments. That said, last month's reported jobs gain was boosted directly by unusual seasonal-adjustment patterns, where nonfarm payroll seasonal factors were re-calculated for the month, as they have been since 2004, on a concurrent basis. Such games could have similar impact on November's reporting.

In November reporting, for example, November 2010's numbers will be used in determining November's seasonal adjustments, and prior seasonals all will be recalculated. Yet only November and the revised September and October seasonally-adjusted results will be published. Earlier data -- revised with the new concurrent seasonal-adjustment calculations -- will not be changed in the published data. As explained by the Bureau of Labor Statistics (BLS), this is done so as not to "confuse" data users and because of publication costs (From: *Employment and Earnings, January 2004*, Tiller, Richard B. and Evans, Thomas D., "Revision of Seasonally Adjusted Labor Force Series in 2004," page 2.):

"While all previous-month seasonally adjusted estimates are revised in this [concurrent seasonal adjustment] process, BLS policy is not to revise previous months' official seasonally adjusted estimates as new data become available during the year..."

"Numerous revisions during the year, however, should be avoided, because they tend to confuse data users and substantially increase publication costs."

This reporting basis allows for the concurrent seasonal-factor process to borrow jobs from earlier months and to boost current headline reporting, while not showing the revised hit taken in the earlier period. While this misleading reporting gets corrected in annual revisions, misperceptions of ongoing economic activity often have been generated by the inflated headline number. If the November 2010 data appear to be skewed meaningfully, such will be discussed further in Friday's *Commentary*.

New Online Help-Wanted Advertising Declined in November. My continuing outlook for weaker employment and unemployment numbers is based on what appears to be a still-unrecognized intensifying downturn in broad economic activity. Where the November labor report is the first major indicator of November's economic activity, most reporting today did not support a stronger labor number.

The Conference Board reported this morning (December 1st) that new online help-wanted advertising fell by 2.6% in November versus October, where October had gained 2.3% from September. The November reading was the weakest in five months. Total ads (includes those still running from prior months) were up by 1.1% in November, following a 2.6% gain in October. The new ads number is the more meaningful one. Newspaper help-wanted advertising in October continued to hold at 10, one point off its historic low of 9.

Today's purchasing managers (ISM) manufacturing survey showed a slightly weaker employment index for November, versus October, although the level remained above 50.0, in expansion territory.

While this morning's ADP report on private payrolls was stronger than expected, the series -- which attempts to mimic BLS reporting -- appears to have limited predictive value against the BLS series, but it is nonetheless touted as one of the drivers of this morning's stock-market rally.

Last Wednesday, the market rally was credited to a low weekly jobless claims number. With several queries from subscribers, it appears worthwhile to revisit the weekly unemployment claims briefly. Generally, the weekly claims data have no meaning other than for market hype, since they are seasonally adjusted, and the Department of Labor never has been able to adjust the weekly data so they make sense. More often than not, big weekly changes are due to inappropriate adjustments for seasonal variations to current-period or prior-year holidays, such as Veteran's Day or Thanksgiving. Using a 17-week moving average helps in terms of assessing the series.

A lower jobless claims level could be expected, at present, in this most-protracted of post-World War II economic contractions, where fresh layoffs have tended to dwindle as the system largely has adjusted to a severe downturn that went into a bottom-bouncing mode. A renewed downturn is beginning to surface. The offset to the recent jobs losses, of course, is hiring, which is not measured directly, but which generally has not been strong enough to show solid jobs growth. Help-wanted advertising (above) is something of a surrogate for new hiring.

The President's Deficit Commission Goes to Press. The National Commission on Fiscal Responsibility and Reform published its recommendations this morning (December 1st), before taking a formal vote of its members. If 14 of the 18 Commission members back the recommendations in a vote reportedly set for Friday, the report purportedly will be taken up by Congress. There appears to be limited political will for 14 positive votes and little political will in Congress to follow through on the major recommendations.

The apparent lack of political will to resolve the extreme fiscal imbalances in the operations of the U.S. government only will reinforce the position of the United States as the dominant sovereign-solvency risk. Market concerns on various European difficulties, to certain extent, appear to be a foil aimed at distracting the global markets from the still-unfolding systemic and ongoing economic disaster in the United States.

The particulars of the Commission's report will be addressed here as the political process moves forward, but a couple of observations based on a cursory look at the report are offered. First, the main focus of the Commission was to rein-in and eventually to balance the cash-based federal deficit (except for interest payments). Unfortunately the Commission's forecasts for cash-based containment appear to be based on the same overly optimistic economic assumptions used in official deficit forecasts.

It is the GAAP-based deficit, however, that has to be balanced. The effective bankruptcy of the United States is evident when the federal deficit and obligations are viewed on a GAAP (generally accepted accounting principles) basis. Any effort to avoid an inevitable printing of dollars to meet unfundable government obligations has to slash both the Social Security and Medicare programs. Where the Commission has recommended cuts in those areas, some of the language is quite vague, and some proposals (such as raising the retirement age for Social Security) may have unintended and possibly counter-productive effects. Accordingly, it is not clear that fully-adequate cuts have been suggested.

One suggestion that is quite specific, that has been planned for a number of years, and that likely will be put into place by Congress, is the switch from the use of the CPI-W or CPI-U inflation measures for cost-of-living adjustments, etc., to the use of the Chain-Weighted-CPI-U. As recommended by the Commission:

"As with the rest of the mandatory budget and the tax code, we recommend relying on the "chained CPI" to calculate the Cost of Living Adjustment (COLA) in Social Security, rather than the standard CPI. The Bureau of Labor Statistics has stated that the chained CPI is designed to more closely approximate a cost-of-living index than the standard CPI, and experts on both sides of the aisle have supported this technical improvement to the index."

The C-CPI-U (covered regularly in the monthly inflation *Commentary*) is fully substitution-based (i.e. the reported "cost-of-living" reflects people switching to consuming more hamburger, because steak has gotten too expensive). Moving to the C-CPI completes the process started decades ago by then-Fed Chairman Alan Greenspan and Congressional leaders, whereby the consumer's cost-of-living measure will have been severed completely from the original concept of the CPI being the measure of the cost-of-living for maintaining a constant-standard-of-living. The redefinition of "cost-of-living" is of no value to anyone who looks to the inflation measure as a guide for income increases or investment returns. The redefinition is a gimmick aimed primarily at reducing the government's cost-of-living adjustments to Social Security payments, etc.

The difference between cash-based and GAAP-based accounting for the federal deficit is detailed in the *2009 GAAP-Deficit Report*. The *2010 Financial Report of the United States Government* is due for release by the U.S. Treasury on Wednesday, December 15th. (Although the 2009 report was scheduled similarly, it was delayed until February 2010.) The GAAP deficit details and *Hyperinflation Special Report* will be updated following the release of the 2010 report. *Special Commentary No. 333* also is referenced here for general background in this area and the near-term risks for hyperinflation.

