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

COMMENTARY NUMBER 616
March Employment and Unemployment

April 4, 2014

March Payroll Jobs Increase of 192,000 Was Bloated Heavily by Concealed and Constantly-Shifting Seasonal Adjustments

Payroll and Unemployment Numbers Remain of Horrendous Quality, Generally Not Comparable With Earlier Reporting

March Unemployment: 6.7% (U.3), 12.7% (U.6), 23.2% (ShadowStats)

Year-to-Year M3 Growth Rose to 3.7% in March

PLEASE NOTE: The next regular Commentary *is scheduled for Friday, April 11th, covering the March producer price index (PPI). The* Second Installment *of the* 2014 Hyperinflation *report is in its final preparation and will be posted no later than Monday, April 7th.*

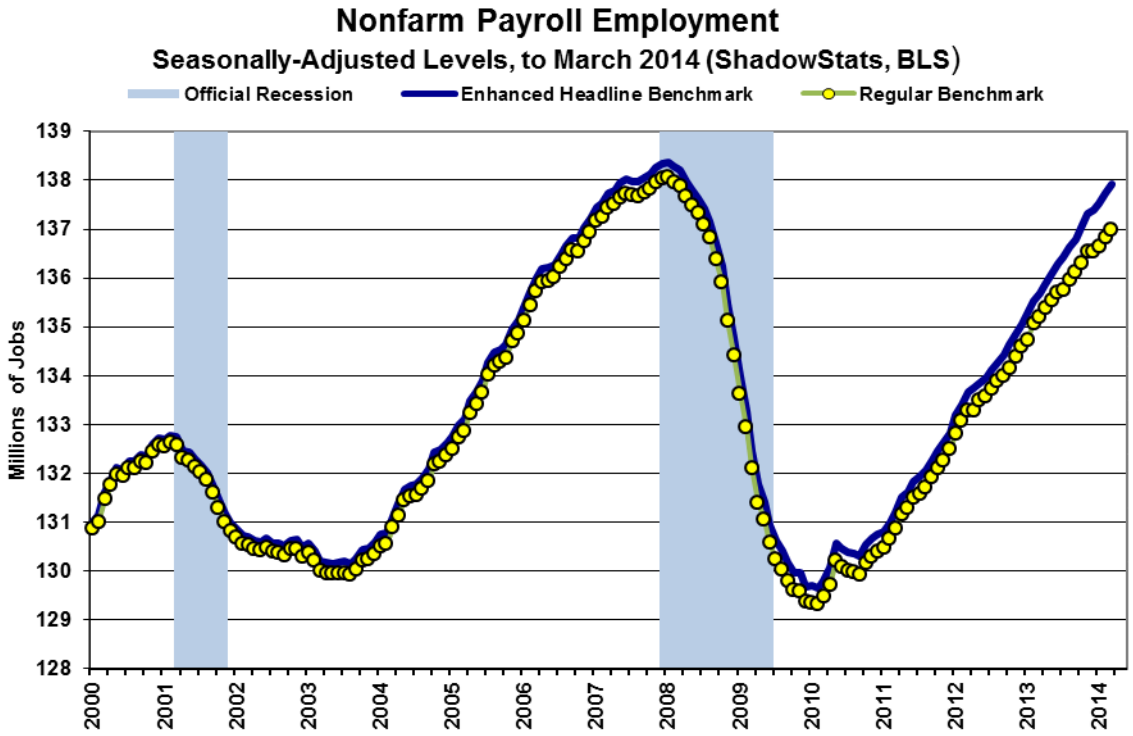
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE COMMENTARY

Monthly Changes in Headline Payroll Employment and the Unemployment Rate Remain Meaningless or Unknowable. The economy remains in deep trouble and so does the broad employment and unemployment circumstance. Today's (April 4th) reporting of headline March 2014 labor conditions—the focus of this *Commentary*—simply was not meaningful.

The Bureau of Labor Statistics (BLS) deliberately publishes its seasonally-adjusted historical payroll-employment and household-survey (unemployment) data so that the numbers are neither consistent nor comparable with current headline reporting. The upside revisions to the January and February monthly jobs gains, and the relatively strong March payroll showing, reflected nothing more than concealed, favorable shifts in underlying seasonal factors, hidden by the lack of consistent BLS reporting. In like manner, consistent month-to-month changes in the unemployment rate or labor force simply are not knowable, because the BLS cloaks the consistent and comparable numbers.

The problems here have been discussed frequently (see the *Concurrent Seasonal Factor Distortions* section). Due to data problems, today, the concurrent-seasonal-factor-related detail, which usually would be reported for March, is not available for this missive. That information will be published with the next regular *Commentary*.



Separately, ShadowStats is pleased to introduce the accompanying new graph of payroll employment levels (prepared for the *Second Installment* of the *2014 Hyperinflation* report), which plots not only the current headline payroll levels, but also what ShadowStats estimates the headline levels would be if the benchmark revision of February 7th (see *Commentary No. 598*) had been handled as a regular benchmark revision, and not as a series redefinition that introduced gimmicked, new upside biases to the headline numbers. The difference is that the headline nonfarm payroll level for March 2014 is about 950,000 jobs higher than it would have been with the regular reporting and revision procedures.

Beyond other distortions to the reporting, the point remains that the seasonally-adjusted changes in headline labor data are of little substance. Not seasonally-adjusted data, however, are free of these distortions. On a year-to-year basis, the unadjusted annual payroll growth was 1.64% in March 2014. Other than being up from the one-year low annual growth rate of 1.55% for February's payroll level, the March reading was the lowest level since April 2013. Allowing for distortions in the subsidiary series of U.3 and U.6, the ShadowStats-Alternate Unemployment Measure, held above 23% in March.

Headline Payroll Employment—March 2014. The seasonally-adjusted, month-to-month headline payroll employment gain for March was 192,000 +/- 129,000 (95% confidence interval), which was near market-consensus. The near-term stronger gain here appears to be due to heavily misleading seasonal-adjustment factors. These reporting issues suggest that a 95% confidence interval of +/- 200,000 easily could be justified. The current numbers continue to be so far out of balance as to be absolutely meaningless, again, due partially to concurrent-seasonal-factor distortions.

In turn, February payrolls rose by a revised 197,000 (previously a gain of 175,000), due largely to revised seasonal factors, versus a revised 144,000 (previously 129,000, initially 113,000) gain in January. The January gain, however, became non-comparable and inconsistent with the December data, as of the March reporting.

In addition to bogus upside bias factors, an ongoing reporting problem remains that the BLS publishes only two prior months of consistent data with the concurrent-seasonally-adjusted payrolls. Accordingly, where the published January number no longer is consistent with December reporting, related month-to-month comparisons have no meaning. This also is an issue related to the household-survey reporting of the unemployment rate, where there is no attempt to publish any comparable month-to-month numbers, except for once-per-year annual revisions to the seasonally-adjusted data in December. The problem is that subsequent to December reporting, all seasonally-adjusted data are revised each month, going back five years, but the revisions are not published, even though the headline reporting is in the context of those changes.

Annual Change in 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 are reported on a consistent basis. The recent the redefinition of the series—not the standard benchmarking process—boosted reported annual growth in the last year, as discussed and graphed in the benchmark detail of *Commentary No. 598*. For March 2014, annual growth was 1.64%, versus a revised 1.55% in February 2014, versus a revised 1.78% in January 2014, and down from a near-term peak in annual growth of 1.85% in November 2013. As an aside, had the 2013 benchmark revision been standard, not a gimmicked redefinition, year-to-year jobs growth as of March 2014 would have been about 1.3%.

Graphs of year-to-year payroll growth and the long-term graph of payroll levels are included in the *Reporting Detail* section.

With annual growth in the series since mid-2010 and the upside redefinition of payroll employment, the March 2014 level of employment is shy by 437,000 jobs, or 0.3%, in official reporting, from recovering its pre-recession high. The pre-recession high likely would be hit in the next two-to-three months, barring the economy turning lower in a renewed recession, which still it appears to be doing.

The narrowing headline gap versus the pre-recession high (with levels all favorably redefined with the January benchmarking, despite the actual benchmarking having been negative) can be seen in the shorter-term graph of payroll employment level, preceding. The yellow points reflect the ShadowStats assessment of what payroll employment would be showing with just a regular benchmarking, rather than the gimmicked redefinition and new upside biases in the series. Based on a regular benchmarking process, current employment levels still would be 1,080,000 jobs, or 0.8%, shy of recovering the pre-recession high.

Headline Unemployment Rates—March 2014. Skewed by the ongoing seasonal-adjustment issues, headline unemployment (U.3) notched lower by 0.01-percentage point to 6.71% in March 2014, versus 6.72% in February, technically a statistically-insignificant change. The official 95% confidence interval around the monthly change in the headline U.3 rate is +/- 0.23-percentage point, but that is meaningless in the context of the comparative month-to-month reporting-inconsistencies created by the use of concurrent seasonal factors.

On an unadjusted basis, the unemployment rates are not revised and are consistent in reporting methodology. March's unadjusted U.3 unemployment rate declined to 6.8%, from 7.0% in February.

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).

A seasonally-adjusted and otherwise meaningless month-to-month gain in people working part-time for economic reasons and a decline in short-term (unadjusted) discouraged workers, netted out to an increase in headline March 2014 U.6 unemployment to 12.7%, versus 12.6% in February. The unadjusted March U.6 rate dropped to 12.8%, from 13.1% in February.

ShadowStats-Alternate Unemployment Rate. Adding back into the total unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers, broad unemployment—more in line with common experience, as estimated by the ShadowStats-Alternate Unemployment Measure—held at 23.2% in March 2014, for the third month. That is down minimally from 23.4% in October, which was the series high (back to 1994). The ShadowStats estimate reflects the increasing toll of the unemployed leaving the headline labor force.

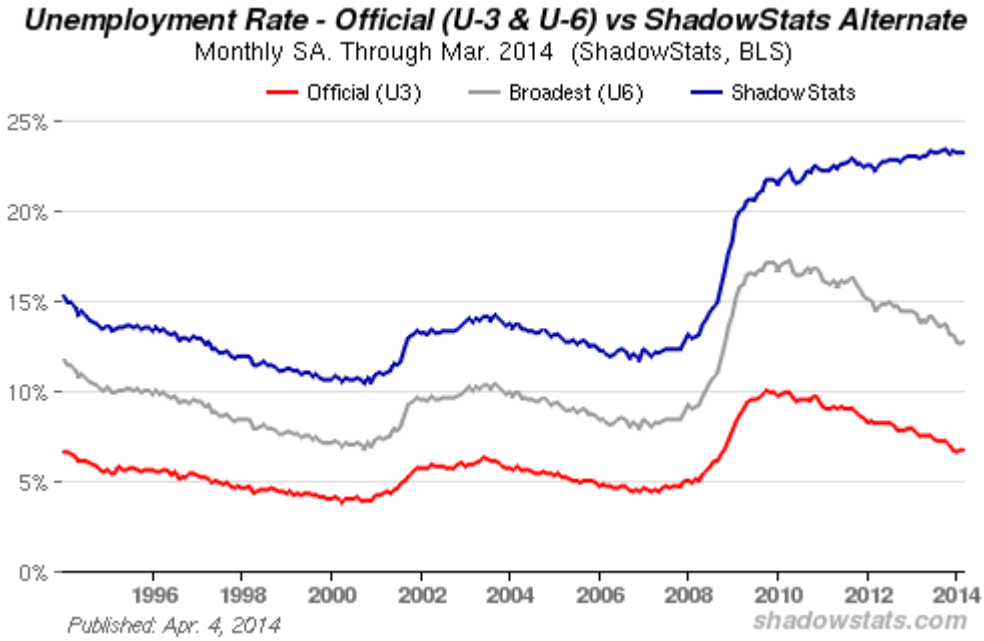
Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) was 698,000 in March 2014, versus 755,000 in February. The discouraged worker count continued to reflect an increased rollover of short-term discouraged workers into the long-term discouraged workers category.

The current, official discouraged-worker number reflected the flow of the unemployed—increasingly giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term "discouraged workers," net of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status. It is the long-term discouraged-worker category that defines the ShadowStats-Alternate Unemployment Measure. There appears to be a relatively heavy, continuing rollover from the short-term to the long-term category.

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 short-

term discouraged workers (those discouraged less than a year) were included in U.6. More-complete definitions—including discussion on the increasing divergence between the ShadowStats number and U.3 and U.6—are found near the end of the *Reporting Detail* section.

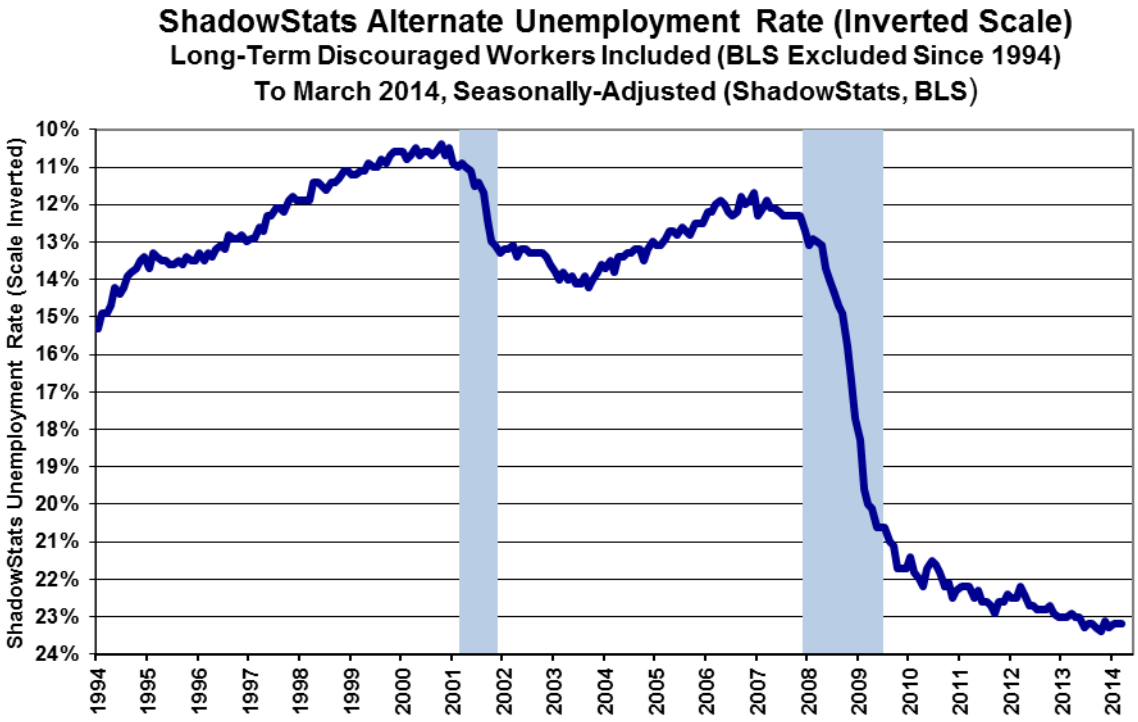
The first graph following reflects headline March 2014 U.3 unemployment at 6.7%, unchanged from February; headline U.6 unemployment at 12.7%, up from 12.6% in February; and the headline ShadowStats unemployment measure holding at 23.2% for the third month. The October 2013 ShadowStats reading of 23.4% was the series high (since 1994).

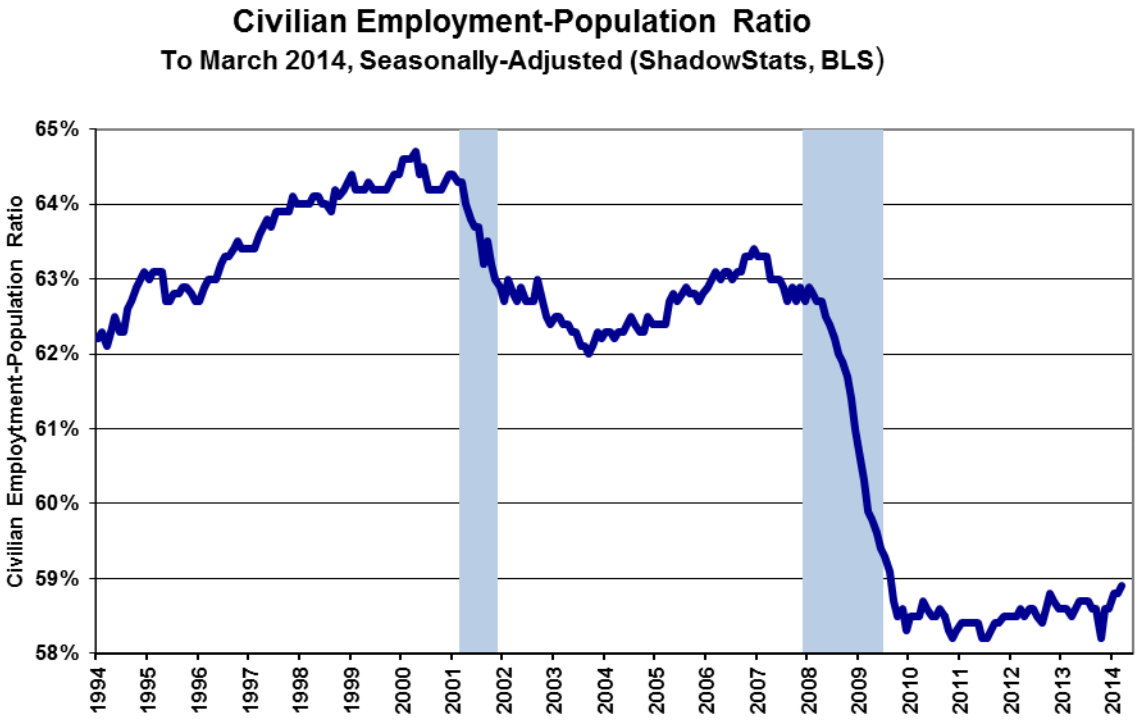


Two graphs follow. The first is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic statistics, where a lower number means a weaker economy.

The inverted-scale ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which is plotted in the second graph following. Discouraged workers are not counted in the headline labor force, which generally continues to shrink. 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 tends to be something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

These graphs reflect detail back to the 1994 redefinitions of the household survey. Before 1994, data consistent with today's reporting are not available.





[For further detail on March employment and unemployment, see the* Reporting Detail *section.]

HYPERINFLATION WATCH

Money Supply M3 Annual Growth at 3.7% in March 2014. Annual growth in March 2014 M3 is on track to hit 3.7%, up from a revised 3.6% (previously 3.5%) in February. Monthly year-to-year growth began to slow after hitting a near-term peak of 4.6% in January 2013, the onset of expanded QE3, hitting a near-term trough of 3.1% in January 2014. The initial estimate of annual growth in March 2014 M3 will be posted on the Alternate Data tab of www.shadowstats.com by the end of the day on April 5th.

Any revisions in the following numbers are due to the revisions of underlying data by the Federal Reserve. The seasonally-adjusted, preliminary estimate of month-to-month change for March 2014 money supply M3 is on track for a 0.4% gain, versus an unrevised 0.6% gain in February. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

Initial Growth Estimates for March M1 and M2. For March 2014, early estimates of year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1, M3 includes M2). Full definitions of the measures are found in the *Money Supply Special Report*. M2 for March 2014 is estimated to have shown year-to-year growth of roughly 6.0%, versus an unrevised 6.3% in February, with month-to-month change estimated at roughly a 0.4% gain in March, versus an unrevised 0.9% gain in February. The early estimate of M1 for March is for year-to-year growth of roughly 11.3%, versus a revised 10.4% (previously 9.9%) in February, with a month-to-month March gain of 0.9%, versus a revised February gain of 1.8% (previously 1.3%).

Hyperinflation Summary Outlook. This section will be recast shortly following the release of the *Second Installment* of the *Hyperinflation 2014*, due to be posted by Monday, April 7th.

REPORTING DETAIL

EMPLOYMENT AND UNEMPLOYMENT (March 2014)

Comparative Headline Jobs and Unemployment Data Basically Are Meaningless. The Bureau of Labor Statistics (BLS) deliberately publishes its seasonally-adjusted historical payroll-employment and household-survey (unemployment) data so that the numbers are neither consistent nor comparable with current headline reporting, particularly on a month-to-month basis. The upside revisions to the January and February monthly jobs gains, and the relatively strong March payroll showing, all reflected favorable shifts in underlying seasonal factors, which otherwise were concealed by the lack of consistent BLS reporting. In like manner, consistent month-to-month changes in the unemployment rate or labor force simply are not knowable, because the BLS will not reveal the numbers that otherwise are consistent and comparable.

These problems have been discussed frequently (see the *Concurrent Seasonal Factor Distortions* section). Due to data problems today (April 4th), some of the concurrent-seasonal-factor-related detail for March reporting that usually would be reported here, will be published instead with the next regular *Commentary*.

Separately, ShadowStats is pleased to introduce a new graph of payroll employment levels (see the *Opening Comments* section), which plots not only the current headline payroll levels, but also the headline levels of what ShadowStats estimates headline levels would be if the benchmark revision, published February 7th, was a regular revision, and not a series redefinition that introduced gimmicked, new upside biases to the series. The difference is that the headline nonfarm payroll level for March 2014 is about 950,000 jobs higher than it would have been with regular reporting and revision procedures.

Beyond other distortions to the reporting, the point remains that the seasonally-adjusted changes in headline labor data are of little substance. Not seasonally-adjusted data, however, are free of these particular distortions. On a year-to-year basis, the unadjusted annual payroll growth was 1.64% in March 2014. Other than being up from the one-year-low annual growth rate of 1.55% in February's payroll level, the March reading was the lowest level since April 2013.

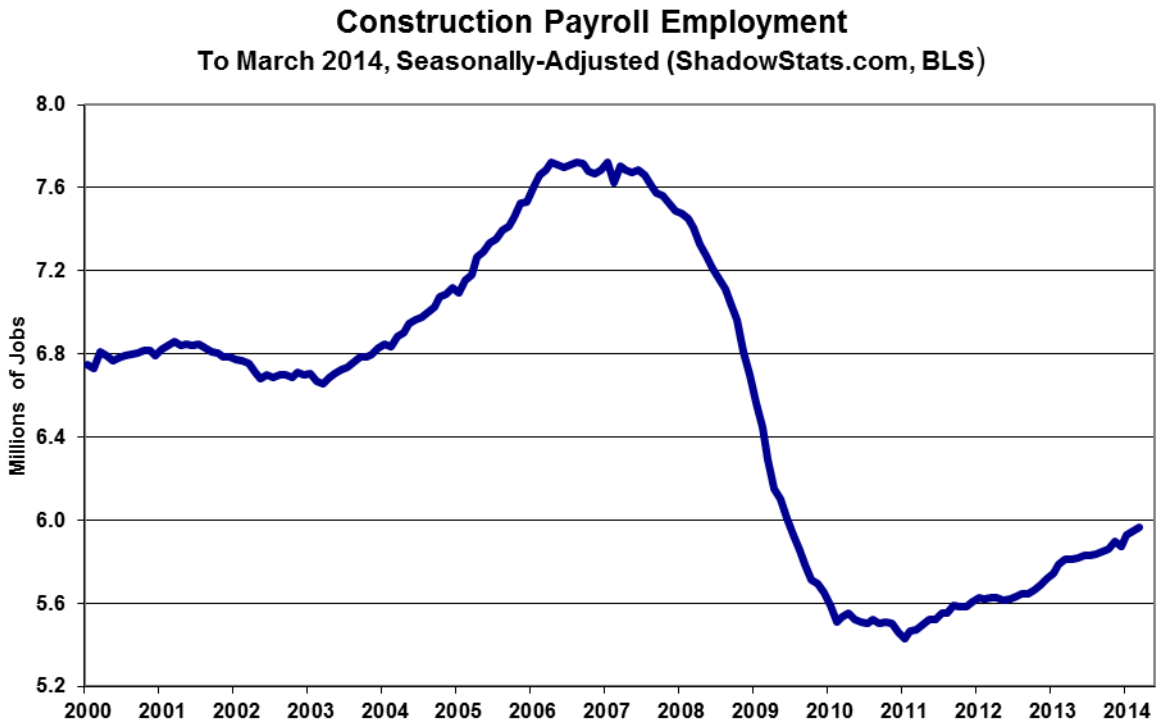
PAYROLL SURVEY DETAIL. The March 2014 payroll data were published today, April 4th, by the Bureau of Labor Statistics (BLS). The seasonally-adjusted, month-to-month headline payroll employment gain for March was 192,000 +/- 129,000 (95% confidence interval), which was near market expectations, somewhat above the BLS trend model. The near-term stronger gain here appears to be due to heavily misleading seasonal-adjustment factors. These reporting issues suggest that a 95% confidence interval of +/- 200,000 easily could be justified. The current numbers continue to be so far out of balance as to be absolutely meaningless, again, due partially to concurrent-seasonal-factor distortions.

In turn, February payrolls rose by a revised 197,000 (previously a gain of 175,000), due largely to revised seasonal factors, versus a revised 144,000 (previously 129,000, initially 113,000) gain in January. The January gain, however, became non-comparable and inconsistent with the December data, as of the March

reporting. *[Note: Due to data problems this morning, the full detail on consistent January versus December reporting, normally provided in this section, is not available. It will be published with the next regular* Commentary, *scheduled for April 11th.]*

In addition to bogus upside bias factors, an ongoing reporting problem here remains that the BLS publishes only two prior months of consistent data with the concurrent-seasonally-adjusted payrolls. Accordingly, where the published January number no longer is consistent with December reporting, related month-to-month comparisons have no meaning, given the BLS adjustment and reporting policies discussed in *Concurrent Seasonal Factors Distortions*. This also is an issue related to the household-survey reporting of the unemployment rate, where there is no attempt to publish any comparable month-to-month numbers, except for once-per-year annual revisions to the seasonally-adjusted data in December. The problem remains that with all releases subsequent to December, the historical seasonally-adjusted data are revised every month, going back five years, but the revisions are not published, even though the headline reporting is in the context of those changes.

"Trend Model" Was Shy of Consensus on the Headline Payroll Gain. *[Note: Due to data problems this morning, the full detail normally provided in this section is not available. It will be published with the next regular* Commentary, *scheduled for April 11th.]* As discussed in *Commentary No. 605*, and as generally described in *Payroll Trends*, the trend indication from the BLS's concurrent-seasonal-adjustment model—prepared by our affiliate www.ExpliStats.com—was for a March 2014 monthly payroll gain of 178,000, based on the trend structured by BLS modeling of February's reporting. The headline gain for March was 192,000, not significantly higher than the trend, but market expectations were somewhat closer, at around 195,000 to 200,000.



Construction Payrolls. The accompanying graph of construction employment updates the graph in *Commentary No. 615*, covering February 2014 construction spending. In the context of prior-period revisions, headline March 2014 construction employment rose by 19,000 in the month, versus a revised 18,000 (previously 15,000) in February, and a revised 51,000 (previously 50,000, initially 48,000) in January. Total March construction jobs still were 22.8% shy of the pre-recession peak for the series in April 2006.

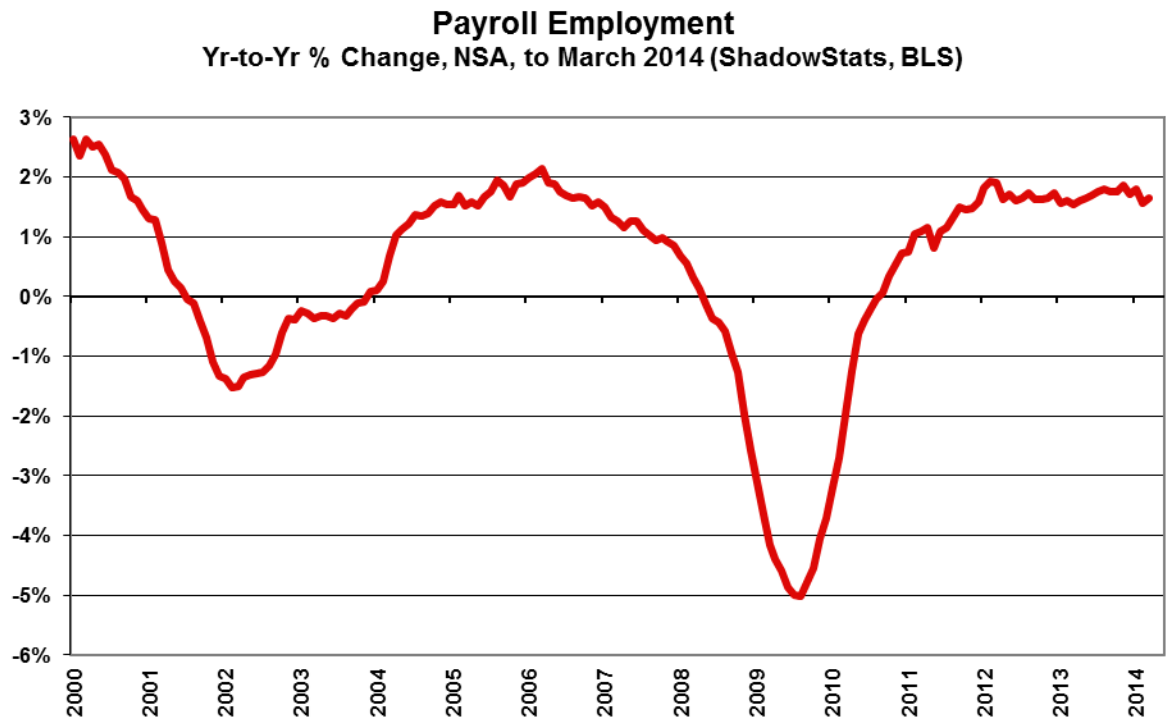
Annual Change in Payrolls. Not-seasonally-adjusted, year-to-year change in payroll employment is untouched by the concurrent-seasonal-adjustment issues, so the monthly comparisons of year-to-year change are reported on a consistent basis, although the redefinition of the series—not the standard benchmarking process—recently boosted reported annual growth in the last year, as discussed and graphed in the benchmark detail of *Commentary No. 598*. For March 2014, annual growth was 1.64%, versus a revised 1.55% (previously 1.54%) in February 2014, which was the weakest annual growth since February 2013, versus a revised 1.78% (previously 1.77%, initially 1.74%) in January 2014, and down from a near-term peak in annual growth of 1.85% in November 2013. As an aside, had the 2013 benchmark revision been standard, not a gimmicked redefinition, year-to-year jobs growth as of March 2014 would have been about 1.3%.

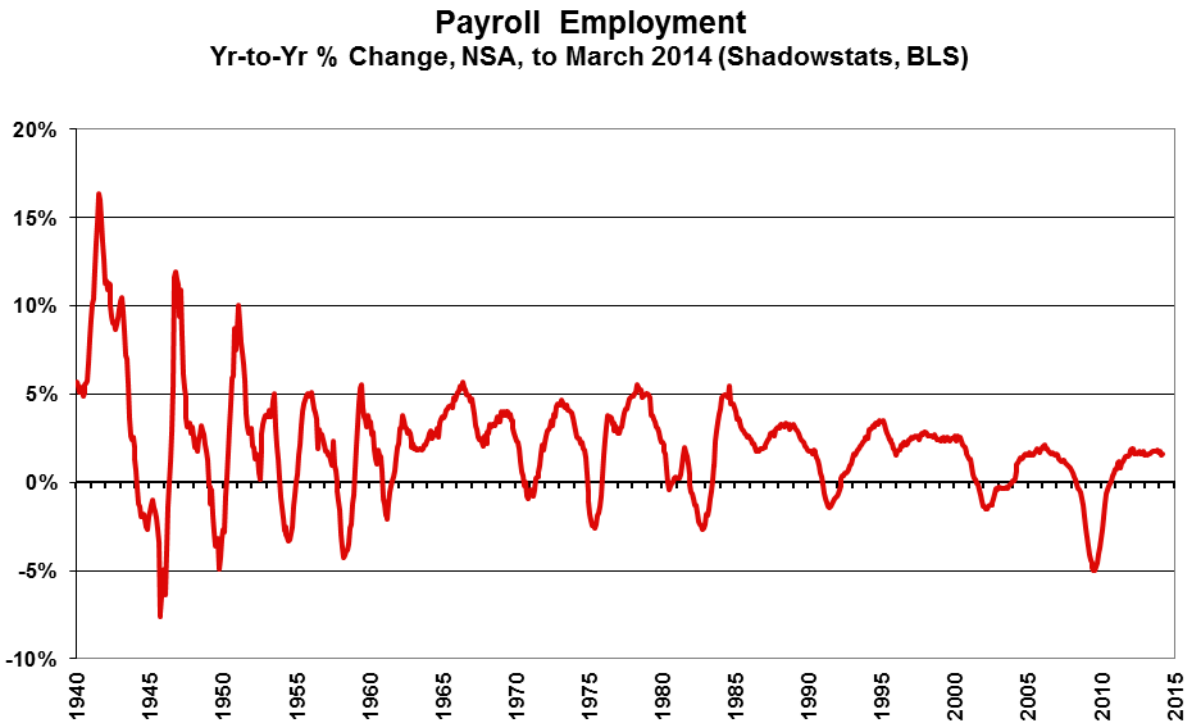
With the bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record 5.02% decline seen in August 2009, as shown in the accompanying graphs. That 5.02% decline remains the most severe annual contraction since the production shutdown at the end of World War II (a trough of a 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.

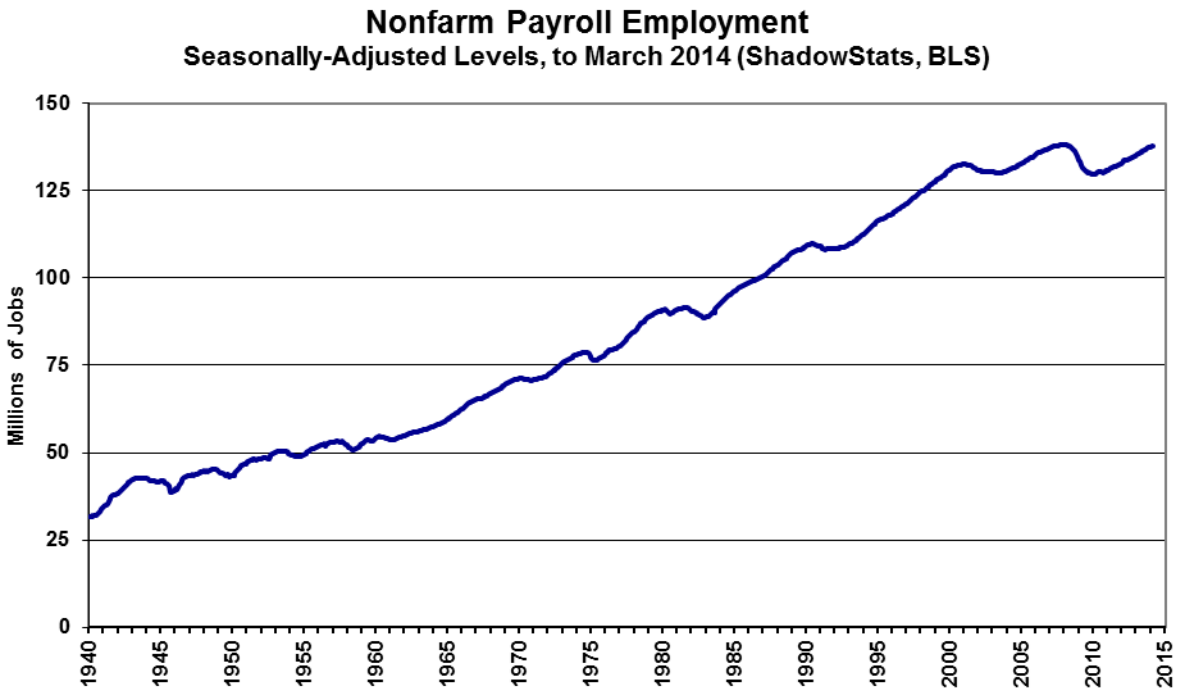
With the annual growth in the series since mid-2010 and the upside redefinition of payroll employment, the March 2014 level of employment was shy by 437,000 jobs, or 0.3%, in official reporting, from recovering its pre-recession high. The pre-recession high likely would be hit in the next two-to-three months, barring the economy turning lower in a renewed recession, which it appears to be doing.

The narrowing headline gap versus the pre-recession high (with levels all favorably redefined with the January benchmarking, despite the actual benchmark having been negative) can be seen in the new shorter-term graph of payroll employment level (see *Opening Comments*). The yellow points reflect the ShadowStats assessment of what payroll employment would be showing, with just a regular benchmarking, rather than the gimmicked redefinition of the series, which added a new upside bias. Based on a regular benchmarking, current employment levels still would be 1,080,000 jobs, or 0.8%, shy of recovering the pre-recession high.

In perspective, the longer-term graph of the employment level—the third graph following—shows the extreme duration of the non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.


Payroll Employment
Yr-to-Yr % Change, NSA, to March 2014 (ShadowStats, BLS)
3%
2%
1%
0%
-1%
-2%
-3%
-4%
-5%
-6%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014


Payroll Employment
Yr-to-Yr % Change, NSA, to March 2014 (Shadowstats, BLS)
20%
15%
10%
5%
0%
-5%
-10%
1940
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015



Concurrent Seasonal Factor Distortion. *[Note: Due to data problems this morning, the detail normally provided in this section is not available. It will be published in the next regular* Commentary, *scheduled for April 11th.]* There are serious and deliberate reporting flaws with the government's seasonally-adjusted, monthly reporting of both employment and unemployment. Each month, the BLS uses a concurrent-seasonal-adjustment process to adjust both the payroll and unemployment data for the latest seasonal patterns. As each series is calculated, the adjustment process also revises the history of each series, recalculating prior reporting, for every month, going back five years, on a basis that is consistent with the new seasonal patterns of the headline numbers.

The BLS, however, uses the current estimate but does not publish the revised history, even though it calculates the consistent new data each month. As a result, headline reporting generally is neither consistent with, nor comparable to earlier reporting, and month-to-month comparisons of these popular numbers usually are of no substance, other than for market hyping or political propaganda.

The BLS explains that it avoids publishing consistent, prior-period revisions so as not to "confuse" its data users. No one seems to mind if the published earlier numbers are wrong, particularly if unstable seasonal-adjustment patterns have shifted prior jobs growth or reduced unemployment into current reporting, without any formal indication of the shift from the previously-published historical data.

Note: Issues with the BLS's concurrent-seasonal-factor adjustments and related inconsistencies in the monthly reporting of the historical time series are discussed and detailed further in the ShadowStats.com posting on May 2, 2012 of Unpublished Payroll Data.

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, excepted). As discussed in the benchmark detail of *Commentary No. 598*, the regular benchmark revision to March 2013 payroll employment was to the downside by 119,000, where the BLS had overestimated standard payroll employment growth. At the same time, the BLS separately redefined the payroll survey so as to include 466,000 workers who had been in a category not previously counted in payroll employment. The latter event was little more than a gimmicked, upside fudge-factor, used to mask the effects of the regular downside revisions to employment surveying, and likely is the excuse behind the increase in the annual bias factor, where the new category cannot be surveyed easily or regularly by the BLS.

Indeed, particularly unusual here is that despite the BLS modeling having overstated recent jobs creation by 119,000, adjustment to the annual upside biases added into payroll estimation process each month was increased by about 150,000 on an annual basis, instead of being reduced, which would have been expected otherwise (see short-term graph and comments on payroll levels in the *Opening Comments*).

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 effects of new business creation versus existing business bankruptcies.

March 2014 Bias. The not-seasonally-adjusted March 2014 bias was a monthly add-factor of plus 75,000, versus what had been a plus 92,000 in March 2013, versus a plus 124,000 add-factor in February 2014. The aggregate upside bias for the trailing twelve months was 769,000, as best can be estimated, from the pre-benchmark 624,000 twelve-month aggregate as of December 2013, or to a monthly average of 64,000 (52,000 pre-benchmark) jobs created out of thin air, on top of some indeterminable amount of other jobs that are lost in the economy from business closings. Those losses simply are assumed away by the BLS in the BDM, as discussed below.

Problems with the Model. The aggregated upside annual reporting bias in the BDM reflects an ongoing assumption of a net positive jobs creation by new companies versus those going out of business. Such becomes a self-fulfilling system, as the upside biases boost reporting for financial-market and political needs, with relatively good headline data, while often also setting up downside benchmark revisions for the next year, which traditionally are ignored by the media and the politicians. Where 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 just have been incorporated into the redefined payroll series, such information 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. So, if a company fails to report its payrolls because it has gone out of business (or has been devastated by a hurricane), the BLS assumes the firm still has its previously-reported employees and adjusts those numbers for the trend in the company's industry.

Further, the presumed net additional "surplus" jobs created by start-up firms are added on to the payroll estimates each month as a special add-factor. These add-factors are set now to add an average of 64,000 jobs per month in the current year. The aggregate average overstatement of employment change easily exceeds 100,000 jobs per month.

HOUSEHOLD SURVEY DETAILS. Generally, the seasonally-adjusted household-survey data are worthless. The monthly concurrent-seasonal-factor adjustment process used in generating the headline numbers regenerates all seasonal factors every month, unique to the most-recent month. Yet, the revamped and consistent historical detail is not published, except once per year, in December. All the historical data shift anew with subsequent monthly reporting, but that new detail never is published.

Where, for example, the seasonally-adjusted headline unemployment rate for March 2014 of 6.71% was based on a set of seasonal adjustments unique to March 2014, and the adjusted unemployment rate for February was revised along with the March seasonal-adjustment calculations, the new historical result for February was not published. The prior headline reporting of 6.72% for the February 2014 unemployment rate remained in place, although it was inconsistent with and no longer comparable to the March 2014 number. This is true for every month going back for at least five years of BLS accounting, and it is done deliberately by the BLS, even though consistent, historical data are calculated by and known to the Bureau.

Headline Household Employment. The household survey counts the number of people with jobs, as opposed to the payroll survey that counts the number of jobs (including multiple job holders more than once). On that basis, headline March 2014 employment rose by 476,000, versus a 42,000 gain in February. Again, the household-survey numbers simply are not comparable month-to-month on a meaningful basis.

Headline Unemployment Rates. Skewed by ongoing issues with seasonal adjustments, headline unemployment (U.3) notched lower by 0.01-percentage point to 6.71% in March 2014, versus 6.72% in February, technically a statistically-insignificant change. The official 95% confidence interval around the monthly change in the headline U.3 rate is +/- 0.23-percentage point. That is absolutely meaningless, however, in the context of the comparative month-to-month reporting-inconsistencies created by the concurrent seasonal factors.

On an unadjusted basis, the unemployment rates are not revised and are consistent in reporting methodology. March's unadjusted U.3 unemployment rate declined to 6.8%, from 7.0% in February.

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).

A seasonally-adjusted and otherwise meaningless month-to-month gain in people working part-time for economic reasons, and a decline in short-term (unadjusted) discouraged workers, netted out to an increase in headline March 2014 U.6 unemployment to 12.7%, versus 12.6% in February. The unadjusted March U.6 rate dropped to 12.8%, from 13.1% in February.

Discouraged Workers. The count of short-term discouraged workers (never seasonally-adjusted) was 698,000 in March 2014, versus 755,000 in February. The discouraged worker count continued to reflect an increased rollover of short-term discouraged workers into the long-term discouraged workers category.

The current, official discouraged-worker number reflected the flow of the unemployed—increasingly giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term "discouraged workers," net of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status. It is the long-term discouraged-worker category that defines the ShadowStats-Alternate Unemployment Measure. There appears to be a relatively heavy, continuing rollover from the short-term to the long-term category.

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 short-term discouraged workers (those discouraged less than a year) were included in U.6.

ShadowStats-Alternate Unemployment Rate. Adding back into the total unemployed and labor force the ShadowStats estimate of the growing ranks of excluded, long-term discouraged workers, broad unemployment—more in line with common experience, as estimated by the ShadowStats-Alternate Unemployment Measure—held at 23.2% in March 2014, for the third month. That is down minimally from 23.4% in October, which was the series high (back to 1994). The ShadowStats estimate reflects the increasing toll of unemployed leaving the headline labor force. Where the ShadowStats-alternate estimate generally is built on top of the official U.6 reporting, it tends to follow its relative monthly movements and its annual revisions. Accordingly, the alternate measure often will suffer some of the same seasonal-adjustment woes that afflict the base series, including underlying annual revisions.

As seen in the usual graph of the various unemployment measures (in the *Opening Comments*), there continues to be a noticeable divergence in the ShadowStats series versus U.6, and the ShadowStats series and U.6 versus U.3. The reason for this is that U.6, again, only includes discouraged 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" and moving into the U.6 category also accounts for the early divergence between the U.6 and U.3 categories.

With the continual rollover, the flow of headline workers continues into the short-term discouraged workers category (U.6), and from U.6 into long-term discouraged worker status (a 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 into long–term discouraged status, hence the lack of earlier divergence between the series. The movement of the discouraged unemployed out of the headline labor force has been accelerating. While there is attrition in long-term discouraged numbers, there is no set cut off where the long-term discouraged workers cease to exist. See the *Alternate Data* tab for historical detail.

Generally, where the U.6 largely encompasses U.3, the ShadowStats measure encompasses U.6. To the extent that the decline in U.3 reflects unemployed moving into U.6, or the decline in U.6 reflects short-term discouraged workers moving into the ShadowStats number, the ShadowStats number continues to encompass all the unemployed, irrespective of the series from which they otherwise may have been ejected.

Two further related graphs found in the *Opening Comments* section are of the ShadowStats-Alternate Unemployment Measure, with an inverted scale, the employment-to-population ratio, which has a high correlation with the inverted ShadowStats measure.

Great Depression Comparisons. As discussed in previous writings, an unemployment rate above 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 the reporting inconsistencies created by the BLS when it revamped unemployment reporting at that time. Nonetheless, as best estimated, the current ShadowStats level likely is about as bad as the peak actual unemployment seen in the 1973-to-1975 recession and in the double-dip recession of the early-1980s.

The Great Depression unemployment rate of 25% was estimated well after the fact, with 27% of those employed working on farms. Today, less that 2% of the employed work on farms. Accordingly, a better measure for comparison with the ShadowStats number would be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

WEEK AHEAD

Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by continuing, downside corrective revisions and continued, disappointing headline economic activity. The initial stages of that process have been seen in the recent headline reporting of most major economic series.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding "new" recession receives general recognition.

Stronger inflation reporting remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing global political instabilities. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. and global political conditions (see *Hyperinflation 2014—The End Game Begins (Updated)*). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last eight years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Producer Price Index—PPI (March 2014). The March 2014 PPI is scheduled for release on Friday, April 11th, by the Bureau of Labor Statistics (BLS). A small month-to-month gain is likely.

Depending on the oil contract followed, not-seasonally-adjusted monthly-average oil prices were flat to minus 1.1% for the month of March, along with a 5.0% increase in average retail gasoline prices. PPI negative seasonal adjustments for energy in March still should leave a minimal gain in energy inflation. Although the new PPI series is less dependent on the increasingly "antiquated" concepts of oil, food and "core" (ex-food and energy) inflation, services costs should be seeing some inflationary pressures from the rising prices in the hard economy That likely will help to keep the headline March PPI in minimally-positive territory.

