

**COMMENTARY NUMBER 710**  
**March Employment and Unemployment, Money Supply M3**

**April 3, 2015**

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**First-Quarter GDP Contraction Is an Increasingly Solid Bet;  
Market Sentiment Should Begin Shifting Towards "New" Recession**

**March Labor Data Fell Apart on Both the Payroll and Unemployment Fronts**

**Net of February Revisions, March Payrolls Gained Just 57,000**

**Masked by Rounding, Headline Unemployment Actually Declined by 0.1% (-0.1%),  
Due to Discouraged Workers Being Defined Out of Headline Existence,  
Not Due to the Unemployed Finding New Jobs**

**March 2015 Unemployment: 5.5% (U.3), 10.9% (U.6), 23.1% (ShadowStats)**

**Annual Growth in March 2015 Money Supply M3 Eased to 5.6%, from  
February's Revised 5-Year High of 5.8%**

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*PLEASE NOTE: The next regular Commentary, scheduled for Friday, April 10th, will be general in nature, given no major economic releases pending in the week ahead. The publication date could be earlier, depending on global political and financial-market developments.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**A Rapidly Deteriorating Economic Outlook.** Much-weaker-than-expected headline March payroll employment suggested likely negative surprises for other March economic data. Discussed in recent *Commentaries* (see [No. 707](#) and [No. 709](#), for example), the headline reporting of first-quarter 2015 already was headed for its first quarterly contraction in a year, based on underlying February economic reporting, along with strong prospects of further contraction in second-quarter 2015, which would constitute a formal recession.

Market sentiment should begin shifting quickly, first to a first-quarter GDP contraction, and then to the outlook for a "new" recession. The implications for domestic fiscal and monetary policy, and for the domestic and global financial markets, including the strength of the U.S. dollar, are not good. This has been discussed in [No. 692 Special Commentary: 2015 - A World Out of Balance](#) and is discussed in the *Hyperinflation Summary Outlook* in the *Hyperinflation Watch* section. The general outlook will be reviewed and updated in next week's *General Commentary*.

**Today's Missive (April 3rd).** The balance of today's *Commentary* concentrates on the specifics of the March labor data. The *Hyperinflation Watch* section includes the preliminary estimate of annual growth in Money Supply M3. The *Hyperinflation Outlook Summary* has not changed since *Commentary No. 706*. With no major economic releases in the next week, there is no *Week Ahead* section.

**Employment and Unemployment—March 2015—Headline Reporting Showed Labor-Market Deterioration, but Still Remained Well Shy of the Darkening Reality.** Viewed realistically, in the context of the ongoing bloating of headline employment gains and ongoing issues with the household survey numbers (see [No. 694](#) and [No. 695](#)), recent labor data have supported little of the happy jobs picture painted in the headline stories of the popular financial media. Even so, today's sharp deterioration in the headline labor reporting for March 2015 remained well shy of reality, well shy of properly reflecting the current, rapid downturn in broad U.S. economic activity. The weak reporting of March headline data was despite all the overstated, upside biases built into the current labor reporting process.

**Payroll Employment.** Along with sharp, downside revisions to January and February payroll gains, the 126,000 March 2015 payroll gain was not statistically-significant. It came in well below market expectations of 247,000 [Bloomberg], and was up by just 57,000, net of prior-period revisions. The headline March gain followed downwardly-revised gains of 264,000 in February and 201,000 in January.

**Inconsistent, Non Comparable and Fraudulent Monthly Gains for January 2015 and Before (November 2014 Now Overstated by 91,000 Jobs).** Frequently discussed here are the implications of the BLS's use of concurrent-seasonal-adjustment factors, which restates seasonally-adjusted historical monthly payroll levels each-and-every month, as the new headline number is created in its own, unique seasonally-adjusted environment. The reporting fraud comes not from the adjustment process, itself, but rather from the BLS not publishing the newly revised history each month, and by not allowing for honest comparisons of the numbers.

Using consistent seasonal adjustments, the current 201,000 headline gain in January 2015 really was 214,000; the headline 329,000 gain in December really was 327,000 (317,000 in February reporting); and the 423,000 gain in November really was 332,000 (previously 345,000 in February reporting, and 340,000 with the January seasonal adjustments).

***Annual Percent Change in Payrolls—Backing Off from Stronger Growth.*** With benchmarked surges built into recent headline payroll activity, year-to-year growth in unadjusted payrolls also moved higher, hitting a new post-recession high in February of 2.43%. The strongest growth since June 2000 (another recession), that February number just was not credible and did not survive today's revisions.

For March 2015, year-to-year or annual nonfarm payroll growth was 2.27%, down from a downwardly revised 2.38% in February 2015, a revised 2.33% in January 2015, and about even with an unrevised 2.28% in December 2014. Updated graphs of the headline levels and year-to-year changes in payrolls are found in the *Reporting Detail* section.

***Household Survey.*** The headline household survey reporting also remains virtually worthless on a month-to-month basis. Previously discussed, aside from sampling-quality issues, the numbers are highly volatile and unstable, inadequately defined—not reflecting common experience—and simply are not comparable on a month-to-month basis. The single exception is in December reporting, which, with its seasonal adjustment revisions, brings the last five years of household reporting into a comparable and consistent form, for only one month. Beginning again with the subsequent January 2015 reporting, and every thereafter, however, the BLS revises all historical data, and will keep doing so each month, resetting the headline month's seasonal factors. Yet, the BLS will not publish the new, revised and comparable historical data, leaving in place the old, non-comparable data, without comment, as it has done for years.

***Counting All Discouraged Workers, March 2015 Unemployment Was 23.1%.*** Seen again in the March 2015 headline numbers, more than anything else, what removes headline-unemployment reporting from broad underlying economic reality and common experience simply is definitional. To be counted among the headline unemployed (U.3), an individual has to have looked for work actively within the four weeks prior to the unemployment survey. If the active search for work was in the last year, but not in the last four weeks, the individual is considered a "discouraged worker" by the BLS, and not counted in the headline labor force. ShadowStats defines that group as "short-term discouraged workers," as opposed to those who become "long-term discouraged workers" after one year.

In the headline March 2015 reporting of the U.3 unemployment rate, at the second decimal point, March unemployment was down by 0.07% (-0.07%), from 5.54% in February to 5.47% in March. But for rounding differences, that usually would have been heralded as a 0.1% (-0.1%) decline in unemployment.

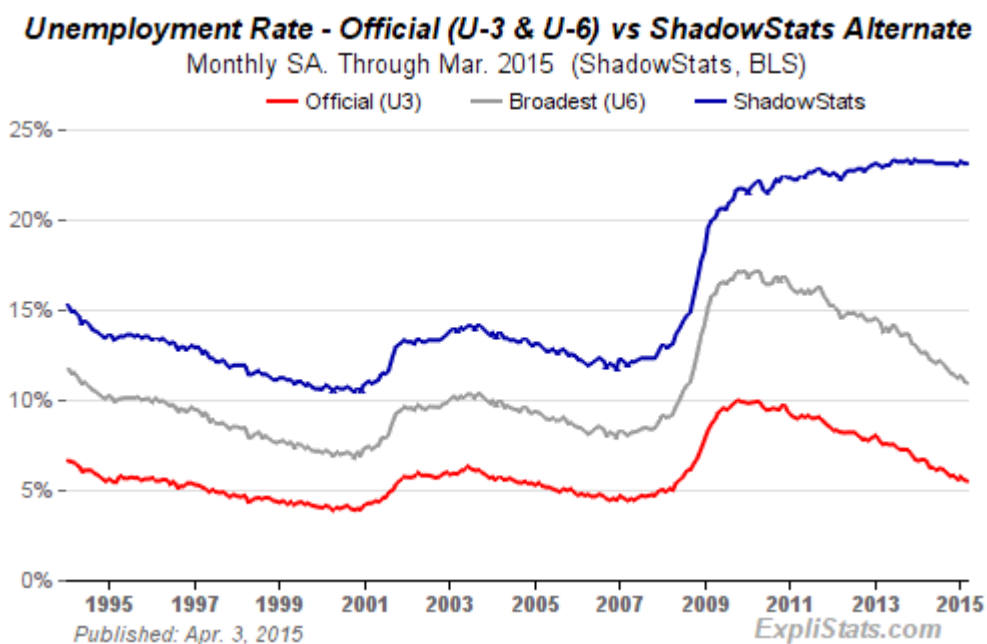
Yet, where headline unemployment declined by 130,000 in March, employment gained by only 34,000. Seen commonly in the ongoing economic collapse into 2008 and beyond, the drop in the U.3 unemployment rate from its headline peak of 10.0% in has been due largely to the unemployed giving up looking for work, being redefined out of headline reporting and the labor force [labor force was down by 96,000 (-96,000) in March 2015] as discouraged workers, not due to finding gainful employment.

At the same time as these new discouraged workers have moved into U.6 unemployment accounting, those who had been discouraged for one year were dropped from the U.6 measure. As a result, the U.6

measure has been declining along with U.3 for some months, but those being pushed out of U.6 still are counted in the ShadowStats Alternate Unemployment Measure, which has remained steady.

Indeed, moving on top of U.3, the broader U.6 unemployment measure includes only the short-term discouraged workers. The still-broader ShadowStats-Alternate Unemployment Measure includes an estimate of all discouraged workers, including those discouraged for one year or more, as the BLS used to measure the series, before 1994, and as Statistics Canada still does.

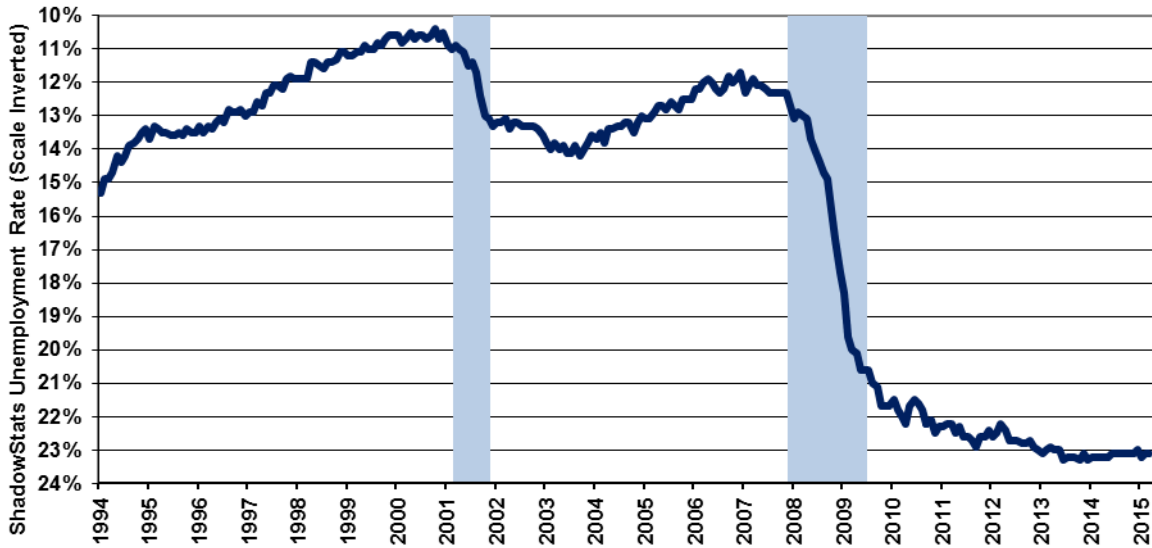
Again, when the headline unemployed become "discouraged," they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. Further detail is discussed in the *Reporting Detail* section. The resulting difference here is between headline March 2015 unemployment rates of 5.5% (U.3) and 23.1% (ShadowStats).



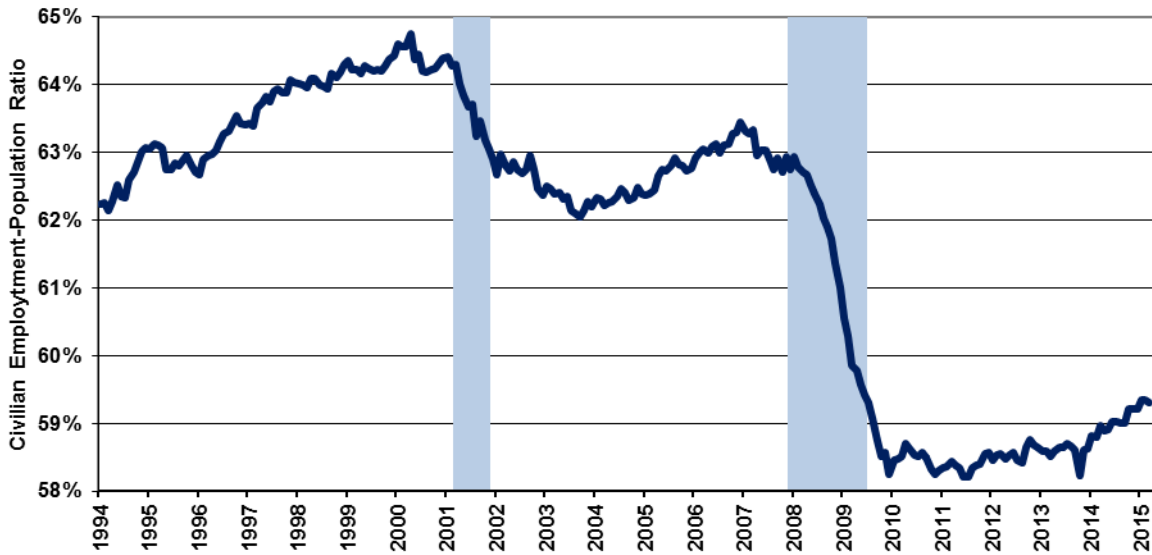
The graph immediately preceding reflects headline March 2015 U.3 unemployment at 5.47%, down from 5.54% in February; headline March U.6 unemployment at 10.91%, versus 10.99% in February; and the headline March ShadowStats unemployment measure holding at 23.1%, the same as in February. The ShadowStats series high (since 1994) was seen in 2013 at 23.3%. The ShadowStats-Alternate Unemployment series is built upon the BLS reporting of seasonally-adjusted U.3 and U.6 series, and correspondingly, is affected by the reporting and annual seasonal adjustments to those underlying series.

The three graphs that follow reflect longer-term unemployment and discouraged-worker conditions. The first graph 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.

**ShadowStats-Alternate Unemployment Rate (Inverted Scale)**  
 Long-Term Discouraged Workers Included (BLS Excluded Since 1994)  
 To March 2015, Seasonally-Adjusted [ShadowStats, BLS]



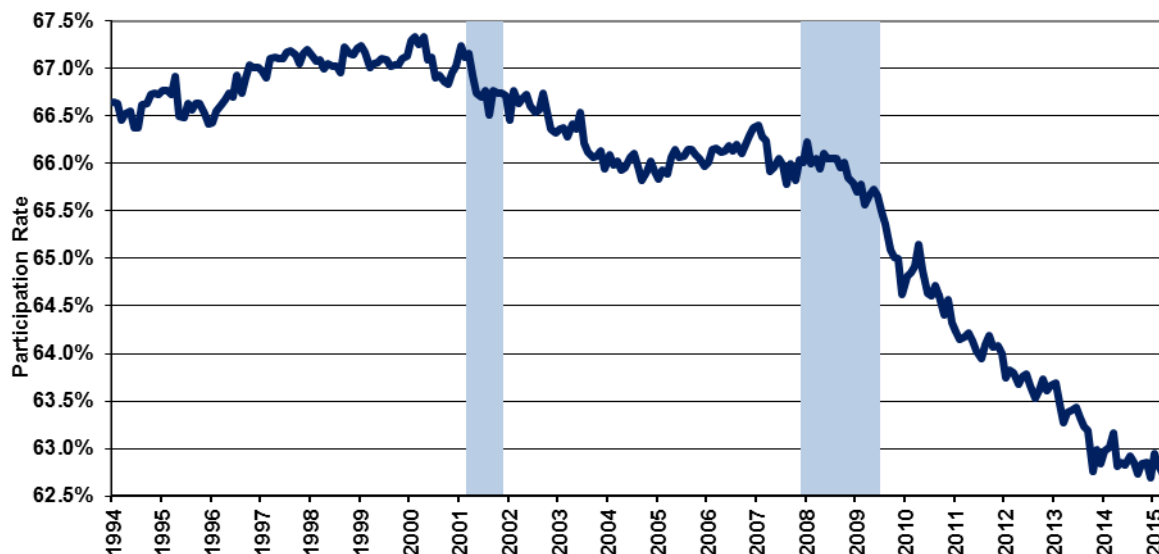
**Civilian Employment-Population Ratio**  
 To March 2015, Seasonally-Adjusted [ShadowStats, BLS]



The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which is plotted in the second graph (above). Discouraged workers are not counted in the headline labor force, which generally continues to shrink, as seen again in March 2015 reporting. 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.

**Participation Rate (Labor Force as Percent of Population)  
To March 2015, Seasonally-Adjusted [ShadowStats, BLS]**



The third graph (above) plots the labor-force participation rate (headline labor force as a percent of population), a series frequently touted by Federal Reserve Chair Janet Yellen as an indicator of the health of the labor market. She has suggested a needed improvement labor-market health as a precondition to raising interest rates. The participation rate deteriorated anew in March 2015, which, in theory, means the Fed is not about to tighten monetary conditions, if the Fed Chair is to be believed.

The labor force here is the headline employment plus U.3 unemployment. So, as with the prior graph of employment-to-population, its holding near a record low in the current reporting is another indication of problems with long-term discouraged workers, the loss of whom continues to shrink the headline (U.3) labor force, and the plotted ratio.

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

**Headline Unemployment Rates.** The headline March 2015 unemployment (U.3) rate decreased by 0.07-percentage point to 5.47% from 5.54% in February 2015. On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. March's unadjusted U.3 unemployment rate was 5.6%, versus 5.8% 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).



With a decline in the underlying seasonally-adjusted U.3 rate (viewed at the second decimal point), an increase in the number of people working part-time for economic reasons and a small increase in discouraged workers, but a decline in the total of those marginally attached to the workforce (unadjusted), headline March 2015 U.6 unemployment fell to 10.90%, from 10.99% in February. The unadjusted U.6 declined to 11.0% in March from 11.4% in February.

**ShadowStats Measure.** Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—more in line with common experience—broad unemployment, the March 2015 ShadowStats-Alternate Unemployment Measure, held at 23.1% for second month, versus 23.2% in January. That was down from the 23.3% series high in 2013 (back to 1994). The ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force. It also tends to revise with U.3 and U.6 benchmarks.

*[The Reporting Detail section contains further background material on the March labor detail. Due to technical issues compounded by the holiday, the usual various drill-down and graphics options on the headline labor data, available to subscribers at our affiliate: [www.ExpliStats.com](http://www.ExpliStats.com), will be posted early in the next week.]*

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## HYPERINFLATION WATCH

### MONETARY CONDITIONS

**March M3 Growth Backed Off Five-Year High.** The Federal Reserve Board ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, late in 2014, but its holdings of Treasury securities have remained stable, near record levels. Despite continuing high-level volatility in the monetary base during recent two-week periods, at or just below record highs, annual growth in March 2015 money supply M3 notched back, tentatively to 5.6%, versus a revised five-year high of 5.8% (previously 5.7%), which had been the strongest showing since June of 2009. These circumstances also are discussed generally in [No. 692 Special Commentary: 2015 - A World Out of Balance](#).

**Money Supply M3 Annual Growth Tentatively Eased to 5.6% in March 2015.** Year-to-year growth in March 2015 M3 (ShadowStats-Ongoing Measure) eased back to 5.6% from an upwardly-revised 5.8% (previously 5.7%) in February 2015. Revisions here reflect regular benchmark revisions by the Federal Reserve to the underlying monthly data.

Monthly year-to-year growth in M3 began to slow, after the series hit an interim near-term peak of 4.6% in each of the months of January, February and March 2013, the onset of expanded QE3. Growth then fell to a near-term trough of 3.2% in January 2014, but that period of slowing growth had reversed fully as of May 2014, with annual growth recovering to 4.6%. Annual growth pulled back to 4.4% in June 2014, but rose again to 4.6% in July, easing back to 4.2% in September and October. Growth then jumped to 4.8%, 5.0% and 5.4%, respectively, in November and December 2014, to 5.4% in January 2015, and hitting a five-year high of 5.8% in February. Again, March 2015 pulled back to 5.6%.

Formal M3 estimates and the first readings of annual growth for M2 and M1 in February 2015 will be updated on the [Alternate Data](#) tab of [www.ShadowStats.com](http://www.ShadowStats.com) by April 6th.

The seasonally-adjusted, early estimate of month-to-month change for March 2015 money supply M3 was roughly a gain of 0.3% in March 2015, versus an unrevised 0.8% gain in February 2015. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

***Growth for March M1 and M2.*** For March 2015, year-to-year and month-to-month changes follow for the narrower M1 and M2 measures (M2 includes M1; M3 includes M2). See the [Money Supply Special Report](#) for full definitions of those measures. Annual M2 growth in March 2015 eased to 6.0%, versus an unrevised 6.3% in February 2015, with a month-to-month gain of about 0.1% in March, versus an unrevised 1.0% in February. For M1 in March 2015, year-to-year growth slowed to 8.5%, from a revised 9.9% (previously 9.8%) in February 2015, with a month-to-month March decline of 0.3% (-0.3%), versus a revised gain of 2.2% (previously 2.1%) in February.

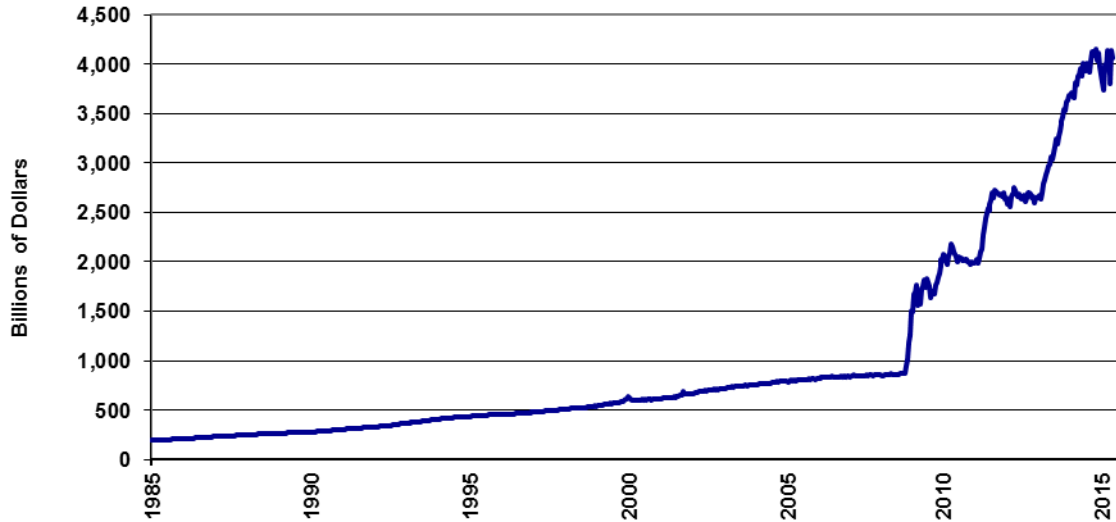
***Fed's Extreme "Quantitative Easing" Still Not Helping the Economy.*** Discussed in [No. 692 Special Commentary: 2015 - A World Out of Balance](#), the Fed's primary mission is to keep the banking system solvent and afloat, but that was not working, coming into the Panic of 2008. Quantitative easing was introduced in 2008 and went through a number of phases, as reflected in the size of, and growth in the monetary base shown in the accompanying graphs. Where normally such growth would have translated into extraordinary growth in the money supply, it has not. Only as the Fed has pulled back from aggressive assets purchases has M3 begun to show a little movement.

The extraordinary level of asset purchases by the Fed did not flow through to the broad economy. Banks did not lend into the normal flow of commerce, and there was no resulting significant upside movement in money supply, as a result. Instead, banks turned the funds back to the Fed as excess reserves, earning interest, and providing support to the stock market. As part of this process, the Fed ended up monetizing the bulk of the U.S. Treasury's funding needs during the period of active buying, paying back interest earned on the securities to the Treasury.

With the Fed having ceased purchasing new Treasury securities late in 2014 (maturing issues still are rolled over), the monetary base currently is down minimally from its all-time high \$4.150 trillion in September 2014, although it came within a hair's breadth of the high in the March 18th two-week period, at \$4.144 trillion. As shown in the accompanying graphs, the St. Louis Fed's monetary base backed off to \$4.063 trillion in the April 1st period, just ended. The Fed's Treasury asset holdings, however, effectively continue at or near an all-time high.



**St. Louis Fed Adjusted Monetary Base**  
Bi-Weekly to April 1, 2015, Seasonally Adjusted  
[ShadowStats, St. Louis Fed]



**St. Louis Fed Adjusted Monetary Base, Yr/Yr %**  
Bi-Weekly to April 1, 2015, Seasonally Adjusted  
[ShadowStats, St. Louis Fed]



## HYPERINFLATION OUTLOOK SUMMARY

**General Outlook Unchanged; Intensifying Economic Weakness Begins to Impact Fed Policy and Perceived U.S. Dollar Strength.** *[Note: The text has not been changed since [Commentary No. 706](#) of March 24th, other than for possible adjustments to internal links. It will be updated with next week's General Commentary, addressing what likely will be market expectations increasingly shifting towards a weaker economy (see the Opening Comments).]*

[No. 692 Special Commentary: 2015 - A World Out of Balance](#) of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, the long-standing hyperinflation and economic outlooks were updated with the publication of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), on April 2, 2014, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The *Opening Comments* of [No. 692](#) should be considered in terms of recent circumstances and near-term, proximal triggers for massive dollar selling. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. One other reference should be considered here, in terms of underlying economic reality, and that is the [Public Commentary on Inflation Measurement](#).

**Primary Summary.** Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis at the end of this decade into the current period. The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of that *First Installment Revised* (linked earlier). The following summarizes the underlying current circumstance and recent developments.

Consistent with the above *Special Commentaries*, the unfolding economic circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending total loss of U.S. dollar purchasing power, despite sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014 and broadly related selling pressures in the gold and silver markets.

Current relative U.S. economic strength and the relative virtuousness of Fed monetary policy versus major U.S. trading partners have been over-estimated heavily by the global markets, and structural faults have started to appear in the foundation underpinning recent U.S. dollar strength (see [Commentary No. 706](#) and [Commentary No. 705](#)). Some minor pullback in the dollar has taken place in recent days, as increasing signs of U.S. economic weakness—unanticipated by the global markets—have begun to threaten the expected near-term hiking of U.S. interest rates by the Federal Reserve.

A crash back to recognition of more-realistic domestic-economic circumstances looms, and it likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil; and related sell-offs in the domestic stock and bond markets. Further, a sharp deterioration in near-term domestic U.S. political stability

continues to intensify and is of meaningful near-term risk for providing further fuel for heavy selling of the dollar.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals.*** U.S. economic activity is turning down anew, despite overstated growth in recent GDP reporting. GDP and other major economic series face heavy downside-benchmark revisions through the end of July. Weak, underlying economic reality has begun to surface in headline reporting and should become increasingly and painfully obvious to the financial markets in the headline detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit and payroll employment.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, fully reversing the dollar's gains of the last eight months, pushing the dollar to historic lows. The nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing (see [Commentary No. 706](#)). The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—purportedly moving towards normal monetary conditions in what had been an unfolding, near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. The Panic of 2008 never was resolved, and the Fed soon will find that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; QE4 will become the near-term question.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, could become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

In the event of a QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would become a rapidly-increasing pace of domestic U.S. inflation.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal "good news" is from cash-based, not GAAP-based and accounting projections.

All these crises should combine against the U.S. dollar, likely in the very-near future, if they have not already begun to do so. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility had boosted the U.S. dollar's strength significantly in global trading and contributed to savaging the prices of oil and in weakening the prices of precious metals. That process may be reversing.

The January 2015 shift in the Swiss franc, due to the elimination of the effective pegging of the franc to the euro and, by default to the U.S. dollar, also had the effect of allowing some temporary upside movement in the dollar prices of gold and silver. Recent intensified weakness in the euro, however, had led to increasingly-negative domestic Swiss interest rates and interventions aimed at depressing the franc, prop the dollar. Such policies usually prove to be fleeting, due to significant undesired side effects on the domestic economy and in financial-market distortions. Again, these markets remain in a state of flux, with recent movement continuing against the dollar.

Strength in the U.S. dollar should continue to reverse, sharply in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, against the U.S. currency. That process, again, started with the shift in Swiss National Bank policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see [Commentary No. 702](#)). Sharply-negative economic reporting shocks, versus still-unrealistically-positive consensus forecasts, remain a heavily-favored, proximal trigger for the intensifying the unfolding dollar debacle.
- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress has not altered the systemic unwillingness to address the underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around \$5 trillion for the annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details were discussed in [Commentary No. 672](#), and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see [Commentary No. 702](#)).
- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see [Commentary No. 672](#)). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding

the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States. Renewed expansion to quantitative easing remains likely, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for new or expanded systemic accommodation in any "renewed" economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress, in addressing fundamental issues are nil. Issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues should continue to devolve, into extreme political crisis.
- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation in Ukraine versus Russia and extremely-volatile circumstances in the Middle East. U.S. response to the Ukrainian situation may be behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. The situation has yet to run its full course, and it has the potential to reverse rapidly.
- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term instabilities and a quick reversal in the dollar's strength could intensify the "dump-the-dollar" rhetoric rapidly.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation, likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, [2014 Hyperinflation Report—Great Economic Tumble](#) for detailed discussion on approaches to handling the hyperinflation

crisis and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), for other factors afoot in the current environment.

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## REPORTING DETAIL

### EMPLOYMENT AND UNEMPLOYMENT (March 2015)

**March Headline Payroll and Unemployment Reporting Showed Labor-Market Deterioration, but Remained Well Shy of Reflecting the Darkening Reality.** Viewed realistically, in the context of the ongoing bloating of headline employment gains and ongoing issues with the household survey numbers (see [Commentary No. 694](#) and [Commentary No. 695](#)), recent labor data have supported little of the happy jobs picture painted in recent months, by the headline stories of the popular financial media. Even so, today's (April 3rd) sharp deterioration in the headline labor reporting of March 2015 remained well shy of reality, well shy of properly reflecting the current, rapid downturn in broad U.S. economic activity. The much-weaker-than expected payroll gain was despite all the upside biases still built into the series.

Frequently discussed in these *Commentaries* for the monthly labor data releases, payroll employment is bloated by significant and unnecessary upside biases (see the *Birth-Death Model* section), with monthly changes distorted by the manner in which the Bureau of Labor Statistics (BLS) reports its payroll numbers using concurrent seasonal adjustments (see related section). Separately, much of the payroll employment growth of recent years has been due to growth in part-time jobs for economic reasons, where not all those seeking full-time employment can find it. As of March 2015, the level of full-time employment still was 800,000 shy of its pre-recession peak.

Discussed in the household-survey detail, a decline 0.1% (-0.1%) in the headline unemployment rate—masked by rounding differences—was due once again to the loss of labor force, not to rising employment. With "short-term" discouraged workers moving from the headline U.3 unemployment rate to U.6, and with "long-term" discouraged workers moving from U.6 to the broader ShadowStats-Alternate Unemployment Measure, U.3 and U.6 unemployment rates declined (U.6 on top of U.3), while the ShadowStats measure—encompassing all discouraged workers—held steady, just shy of its historic high.

Separately, issues remain as to the falsification of the household survey by employees of the Census Bureau, who conduct the underlying Current Population Survey. Details on the related Congressional investigation were discussed in [Commentary No. 669](#).



**PAYROLL SURVEY DETAIL.** In the context of sharp, downside revisions to January and February payroll employment, the seasonally-adjusted, headline payroll-employment gain for March 2015 was 126,000 jobs +/- 129,000 (95% confidence interval), formally not statistically-significant and well below market expectations. Published this morning, April 3rd, by the Bureau of Labor Statistics (BLS), the March jobs gain was up by just 57,000, net of prior-period revisions.

The headline March employment gain of 126,000 followed a downwardly-revised gain of 264,000 (previously 295,000) in February, and a downwardly-revised gain of 201,000 (previously 238,000, initially 257,000) in January 2015.

***Inconsistent, Non-Comparable and Fraudulent Monthly Gains for January 2015 and Before (November 2014 Now Overstated by 91,000 Jobs).*** Frequently discussed here are the implications of the BLS's use of concurrent-seasonal-adjustment factors, which restates seasonally-adjusted historical monthly payroll levels each-and-every month, as the new headline number is created in its own, unique seasonally-adjusted environment. The reporting fraud comes not from the adjustment process, itself, but rather from the BLS not publishing the newly revised history each month, and by not allowing for honest comparisons of the numbers.

Using consistent seasonal adjustment, the current 201,000 headline gain in January 2015 really was 214,000; the headline 329,000 gain in December really was 327,000 (317,000 in the February reporting); and the 423,000 gain in November really was 332,000 (previously 345,000 in February reporting, and 340,000 with the January seasonal adjustments). The consistent series is explored fully in [Commentary No. 695](#).

***“Trend Model” for April 2015 Headline Payroll Employment Gain.*** Discussed in [Commentary No. 702](#) and as described generally in [Payroll Trends](#), the trend indication from the BLS's concurrent-seasonal-adjustment model—prepared by our affiliate [www.ExpliStats.com](http://www.ExpliStats.com)—was for a March 2015 monthly payroll gain of 243,000, based on the BLS trend model structured into February 2015 actual reporting.

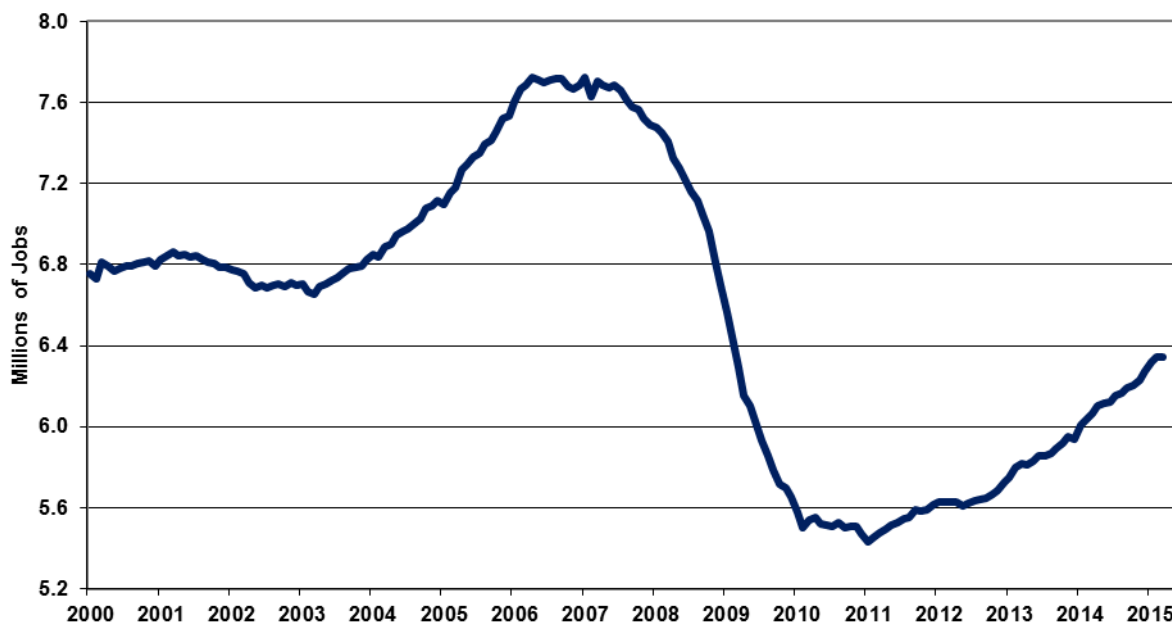
The late-consensus for March 2015 reporting was 247,000 [Bloomberg], where the headline gain came in at 126,000, well below the trend and the consensus.

**April 2015 Trend Estimate.** Exclusive to ShadowStats subscribers, based on March 2015 reporting, the ExpliStats trend number calculations suggested a headline gain of 237,000 for April 2015.

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

***Construction Payrolls.*** The graph of current construction payrolls that follows, updates the plot of the February detail shown in prior [Commentary No. 709](#), in the *Reporting Detail* section covering February construction spending.

**Construction Payroll Employment-Revised**  
To March 2015, Seasonally-Adjusted [ShadowStats, BLS]



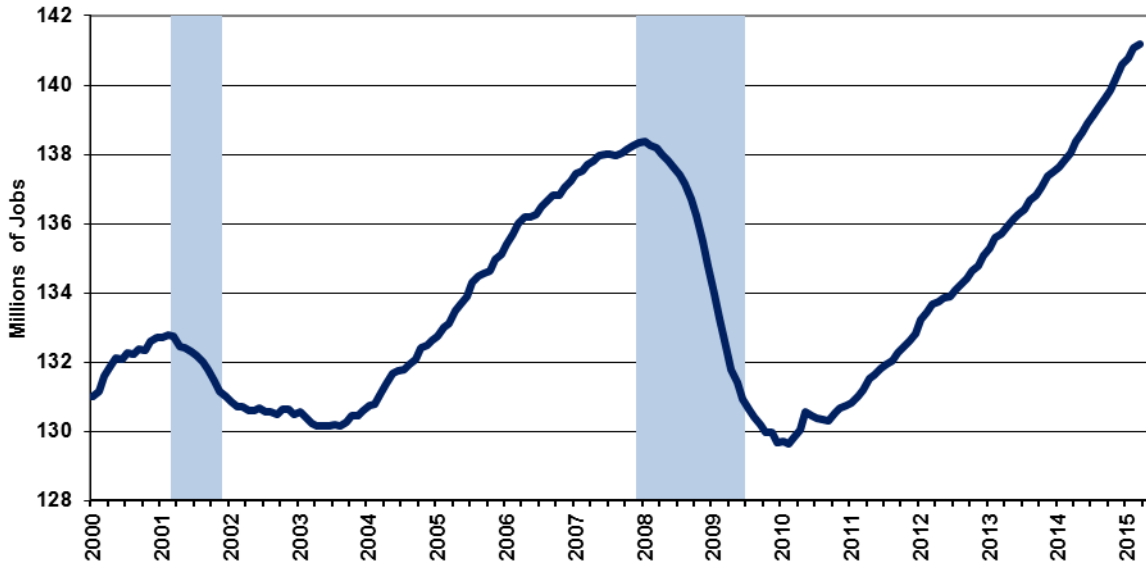
In the context of downside revisions to February and January activity, headline March 2015 construction payrolls came in at 6.344 million jobs, down by 1,000 (-1,000) from February, which showed an unrevised 29,000 gain versus January, and a revised monthly gain of 41,000 (previously up by 49,000, initially a gain of 39,000) jobs versus December. Net of prior-period revisions, March 2015 construction payrolls lost 9,000 (-9,000) jobs in the month.

The still-ongoing relative strength in headline construction jobs growth runs counter to all other indications of flat-to-down construction activity. The construction payroll numbers are heavily biased to the upside (officially bloated by 6,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total March 2015 construction jobs still were down by 17.9% (-17.9%) from the pre-recession peak for the series in April 2006.

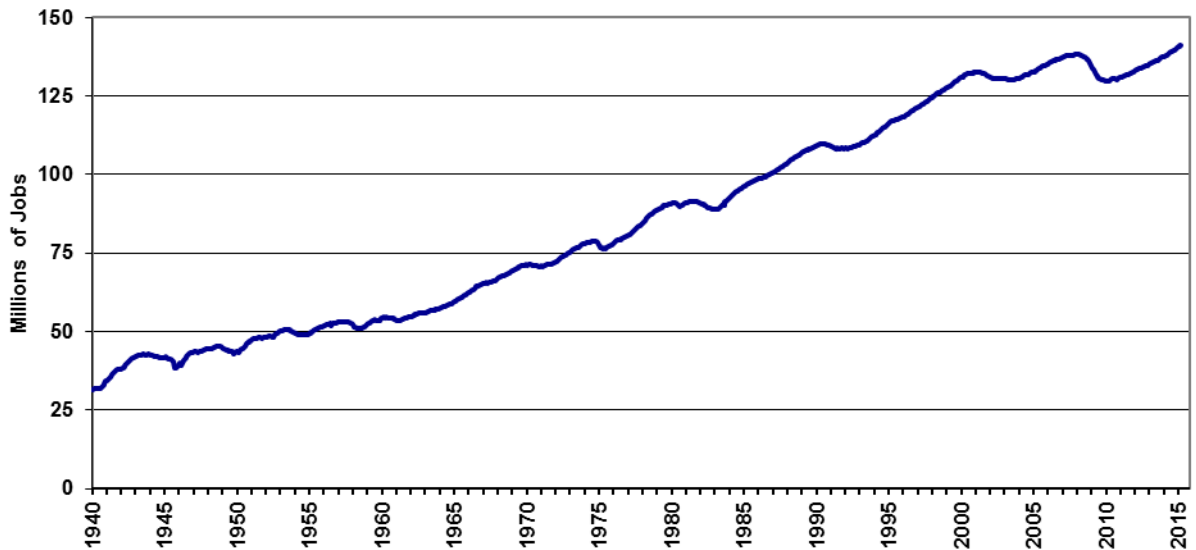
**Historical Payroll Levels.** Payroll employment is a coincident indicator of economic activity, and irrespective of all the reporting issues with the series, payroll employment formally regained its pre-recession high in 2014, despite the GDP purportedly having done the same back in 2011. Reflected in the next two graphs, headline payroll employment moved to above its pre-recession high in April 2014 (it had happened in May 2014 pre-benchmarking), and it has continued to rise, now about 2.8 million jobs above the pre-recession peak.

The first two graphs show the headline payroll series, both on shorter-term basis since 2000, and on a longer-term historical basis from 1940. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

**Nonfarm Payroll Employment**  
 Seasonally-Adjusted Levels, to March 2015 [ShadowStats, BLS]



**Nonfarm Payroll Employment**  
 Seasonally-Adjusted Levels, to March 2015 [ShadowStats, BLS]



Beyond excessive upside, add-factor biases built into the monthly calculations (see the *Birth-Death Model* section), the problem remains that payroll employment counts the number of jobs, not the number of people who are employed. Much of that payroll "jobs" growth is in multiple part-time jobs, many taken on for economic reasons, where full-time employment was desired but could not be found.

**Civilian Full-Time Employment Level (Household Survey)**  
**Counts Number of People Who Are Employed (Not Number of Jobs Held)**  
**Seasonally-Adjusted Levels, to March 2015 [ShadowStats, BLS]**



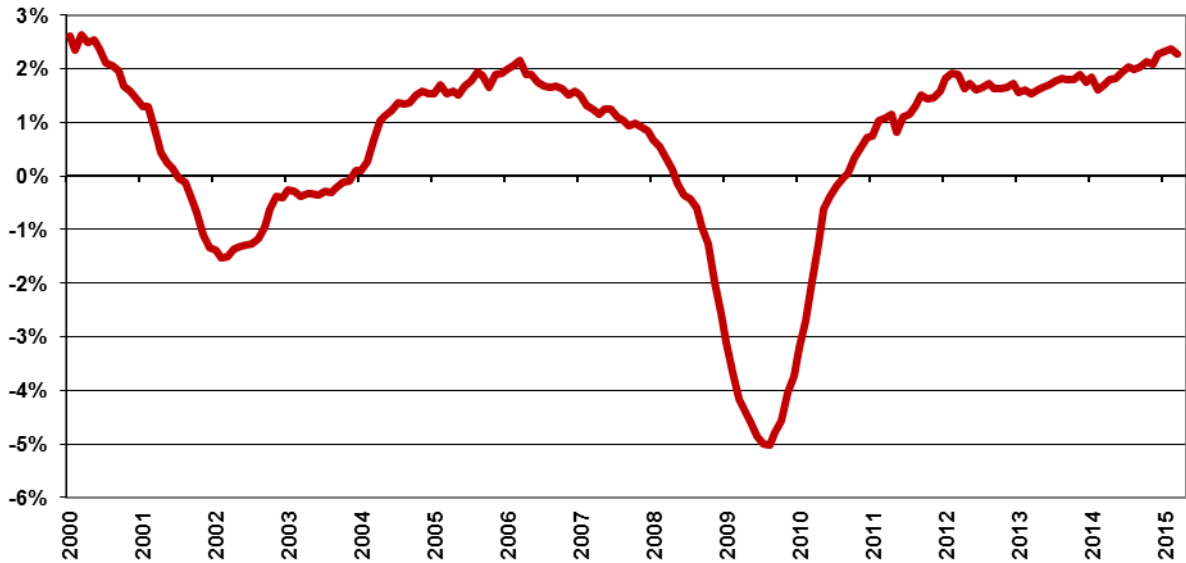
***Full-Time Employment versus Part-Time Payroll Jobs.*** As shown in the accompanying graph, as of March 2015, the level of full-time employment—from the household survey—still was 800,000 shy of its precession high. As an aside, that shortfall would be even greater, except for the regular annual games the BLS plays with its "population adjustments." ShadowStats continues to work on an alternate measure for the employment numbers from both the household and payroll series. More will be forthcoming on this shortly.

This graph of full-time employment excludes the count of those employed with one-or-more part-time jobs. Total employment, including those employed with part-time work, also has recovered its pre-recession high, but not close to the payroll reporting. Again, the household survey numbers count the number of people who have at least one job. The payroll survey simply counts the number of jobs (see [Commentary No. 686](#) for further detail).

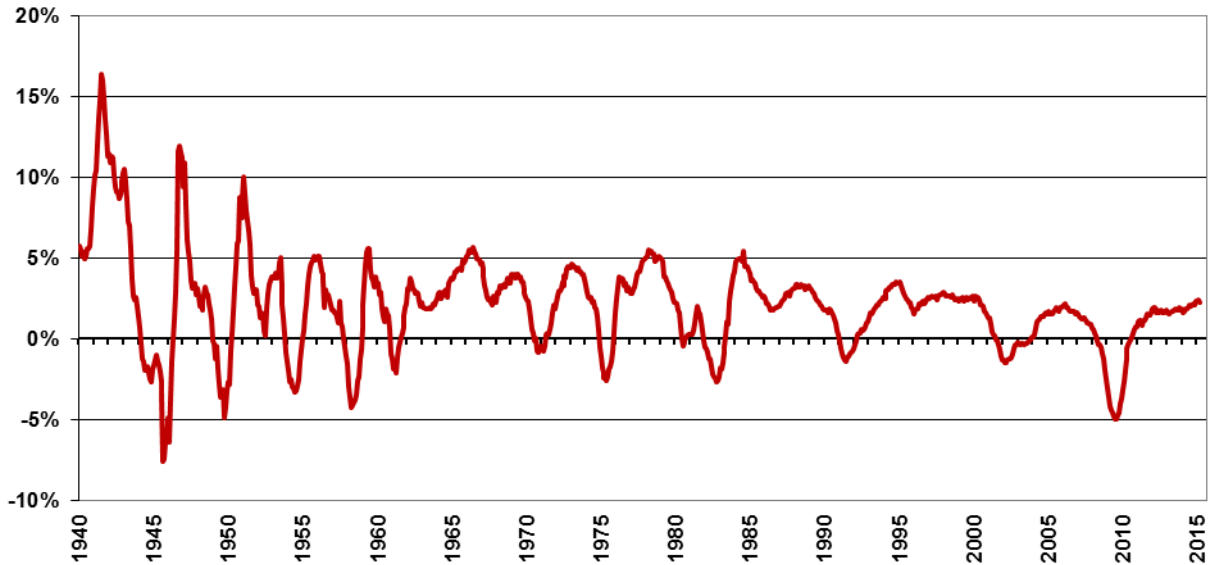
***Annual Percent Change in Payrolls—Backing Off from Stronger Growth.*** With the benchmarked surges built into recent headline payroll activity, year-to-year growth of unadjusted payrolls also moved higher as a result of the benchmarking, hitting a new post-recession high in February. The strongest growth since June 2000 (another recession), that February number was not credible and did not survive today's revisions.

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 a possible new redefinition of the series—not the standard benchmarking process in 2014—appears to be in play, on top of the prior distortions from the 2013 benchmarking (see [Commentary No. 598](#)).

**Payroll Employment**  
Yr-to-Yr % Change, NSA, to March 2015 [ShadowStats, BLS]



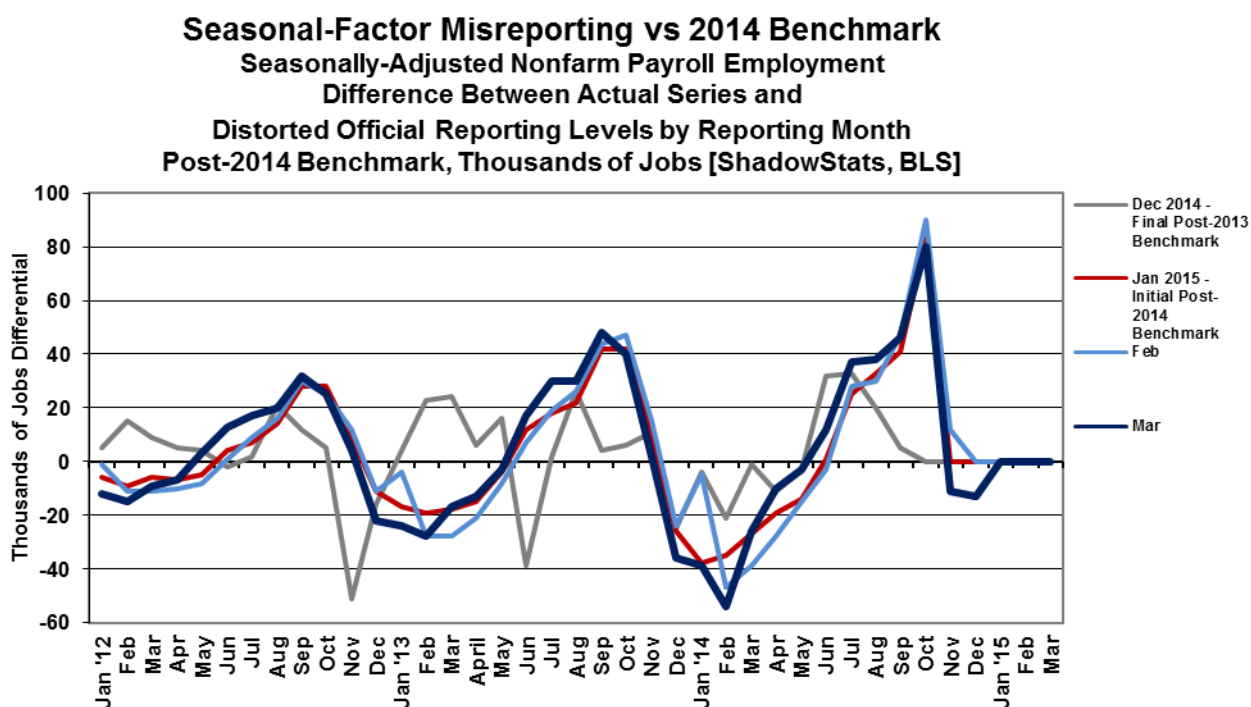
**Payroll Employment**  
Yr-to-Yr % Change, NSA, to March 2015 [ShadowStats, BLS]



For March 2015, year-to-year or annual nonfarm payroll growth was 2.27%, down from a revised 2.38% (previously 2.43%) in February 2015 and from a revised 2.33% (previously 2.32%, initially 2.37%) in January 2015, and about even with an unrevised 2.28% in December 2014.

With bottom-bouncing patterns of recent years, current headline annual growth has recovered from the post-World War II record 5.02% (-5.02%) decline seen in August 2009, as shown in the accompanying graphs. That 5.02% (-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% (-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.

**Shifting Concurrent-Seasonal-Factors—The Graph.** Detailed in [Commentary No. 694](#) and [Commentary No. 695](#), 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 new headline data are seasonally-adjusted for each series, the adjustment process also revises the monthly history of each series, recalculating prior, adjusted reporting for every month, going back five years, consistent with the new seasonal patterns of the headline number. The BLS provides modeling detail for the payroll survey, allowing for third-party calculations (as done by ShadowStats affiliate ExpliStats); no such accommodation has been made by the BLS for the household survey.



The BLS uses and publishes the current headline estimate, but it 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.



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.

The preceding graph shows how far the monthly payroll employment data have strayed from being consistent with the recently-published benchmark revision. The gray line shows that December 2014 pattern versus the 2013-benchmark revision, and the respective red light-blue and dark-blue lines show the January, February and March 2015 patterns of distortion versus the 2014-benchmark. Due to several months of testing of the model, before the benchmark release, the BLS never publishes the historical data on a consistent basis.

If the reporting were comparable and stable, month-after-month, all the lines in the graph would be flat and at zero. With the payroll series, only the headline month and the prior month are consistent in terms of month-to-month reporting detail (headline January 2014 detail no longer is consistent with December 2014), prior data are not comparable.

In terms of the household survey, none of the month-to-month reporting is consistent, except in the once-per-year reporting of December data, when the annual revisions to seasonal adjustments are published. All historical comparability evaporates with the ensuing monthly headline January reporting and with each monthly estimate thereafter.

***Birth-Death/Bias-Factor Adjustment.*** Despite the ongoing, general overstatement of monthly payroll employment, the BLS adds in upside monthly biases to the payroll employment numbers. The continual overstatement is evidenced usually by regular and massive, annual downward benchmark revisions (2011 and 2012 and 2014 excepted). 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.

With the March 2013 revision, though, the BLS separately redefined the payroll survey so as to include 466,000 workers who had been in a category not previously counted in payroll employment. The latter event was little more than a gimmicked, upside fudge-factor, used to mask the effects of the regular downside revisions to employment surveying, and likely is the excuse behind the increase in the annual bias factor, where the new category cannot be surveyed easily or regularly by the BLS. Elements tied to this likely had impact on the unusual issues with the 2014 benchmark revisions.

Abuses from the 2014 benchmarking are detailed in [Commentary No. 694](#) and [Commentary No. 695](#). With the headline benchmark revision for March 2014 showing a jobs understatement of 67,000, the BLS upped its annual add-factor bias by an even greater 161,000 for the year ahead, to 892,000. As has been standard BLS practice, there is no good political reason for risking a headline understatement of jobs growth.

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 2015 Bias. The not-seasonally-adjusted March 2015 bias was a positive monthly add factor of 72,000, versus a positive monthly add-factor of 132,000 in February 2015, and versus a pre-benchmark positive monthly add-factor of 75,000 in March 2014.

The revamped aggregate upside bias for the trailing twelve months through March 2015 was 897,000, from the pre-benchmarked 731,000 in December 2014, or a monthly average of 75,000 (61,000 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. Recent studies have suggested that there is a net jobs loss, not gain, in this circumstance. 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 75,000 jobs per month in the current year. In current reporting, the aggregate average overstatement of employment change easily exceeds 200,000 jobs per month.

***HOUSEHOLD SURVEY DETAIL. Data Remain of Questionable Quality.*** *Continued warning [unchanged from prior Commentary]:* Detailed in [Commentary No. 669](#), significant issues as to falsification of the data gathered in the monthly Current Population Survey (CPS), conducted by the Census Bureau, have been raised in the press and have been under investigation by the House Committee on Oversight and Government Reform and the U.S. Congress Joint Economic Committee. The CPS is the source of the household survey used by the BLS in estimating monthly unemployment, employment, etc. Accordingly, the statistical significance of the headline reporting detail here is open to serious question.

***Concurrent Seasonal Adjustments at the BLS.*** Beyond potential quality issues of the CPS surveying process for the household survey, the BLS already has had in place reporting practices to make the seasonally-adjusted household-survey data virtually meaningless in terms of month-to-month change or comparison. 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, seasonally-adjusted, historical household survey detail is not published, except once per year, in December. All the historical data shifted anew with the headline January 2015 reporting, and again with all subsequent months through November of the next year, but what would be new historical detail, consistent with the current reporting never will be published.

***Headline Unemployment Rates.*** The headline March 2015 unemployment (U.3) rate decreased by 0.07-percentage point to 5.47% from 5.54% in February 2015. Technically that was a statistically-insignificant change, where the official 95% confidence interval around the monthly change in headline U.3 is +/- 0.23-percentage point. That is meaningless, though, in the context of the comparative month-to-month reporting-inconsistencies created by the concurrent-seasonal factors, let alone new questions as to general survey accuracy and significance.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. March's unadjusted U.3 unemployment rate was 5.6%, versus 5.8% in February.

Headline U.3 Continued to Collapse as Unemployed Gave Up Looking for Work. Allowing for the preceding issues, again, at the second decimal point, headline March 2015 U.3 unemployment rate fell by 0.07% (-0.07%), from 5.54% in February to 5.47% in March. But for rounding differences, that usually would have been heralded as a 0.1% (-0.1%) headline drop in unemployment.

Yet, where the headline unemployed declined by 130,000, employment gained by only 34,000. As has been seen here commonly in the ongoing economic collapse into 2008 and 2009, the drop in U.3 unemployment from its peak 10.0% reading is due primarily to the unemployed giving up looking for work, being redefined out of the headline reporting and the labor force [down by 96,000 (-96,000) in March], as discouraged workers, not due to the unemployed finding gainful employment.

At the same time as these new discouraged workers move into U.6 unemployment accounting, those who have been discouraged for one year were dropped from the U.6 measure. As a result, the U.6 measure has been easing along with U.3, for a while, but those being pushed out of U.6 still are counted in the ShadowStats Alternate Unemployment Measure, which has remained stable.

***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).

With a decline in the underlying seasonally-adjusted U.3 rate (viewed at the second decimal point), an increase in the number of people working part-time for economic reasons and a small increase in discouraged workers, but a decline in the total of those marginally attached to the workforce (unadjusted), headline March 2015 U.6 unemployment fell to 10.90%, from 10.99% in February. The unadjusted U.6 declined to 11.0% in March from 11.4% in February.

**"Short-Term" Discouraged Workers.** The count of short-term discouraged workers in March 2015 (never seasonally-adjusted) increased to 738,000, from 732,000 in February, versus 682,000 in January, 740,000 in December 2014, 698,000 in November and 770,000 in October. The latest, 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 the further increase in the number of those moving from short-term discouraged-worker status into the netherworld of long-term discouraged-worker status.

It is the 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, with the ShadowStats measure encompassing U.6 and the short-term discouraged workers, plus the long-term discouraged workers.

In 1994, “discouraged workers”—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been “discouraged” for less than a year. This time qualification defined away a large number of long-term discouraged workers. The remaining short-term discouraged workers (those discouraged less than a year) were included in U.6.

**ShadowStats-Alternate Unemployment Rate Measure.** Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—more in line with common experience—broad unemployment, the March 2015 ShadowStats-Alternate Unemployment Measure, held at 23.1% for second month, versus 23.2% in January. That was down from the 23.3% series high in 2013 (back to 1994).

The ShadowStats estimate generally shows the toll of long-term 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 particularly its annual revisions. Accordingly, the alternate measure often will suffer some of the same seasonal-adjustment woes that afflict the base series, again, including underlying annual revisions.

*[The remaining text in this Household Survey section is unchanged from last month's Commentary covering the February 2015 labor data.]* 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 a decline in U.3 reflects unemployed moving into U.6, or a decline in U.6 reflects short-term discouraged workers moving into the ShadowStats number, the ShadowStats number continues to encompass all the unemployed, irrespective of the series from which they otherwise may have been ejected.

Three further related graphs, also 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, and participation rate, a measure commonly touted by Federal Reserve Chair Janet Yellen.

***Great Depression Comparisons.*** As discussed in the regular *Commentaries* covering the monthly unemployment circumstance, 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 than 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%.

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**WEEK AHEAD—There Are No Major Economic Releases in the Week Ahead**

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