

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

**COMMENTARY NUMBER 771**

**November Labor Conditions and M3, October Trade Deficit and Construction Spending**

**December 5, 2015**

---

**Fourth-Quarter Real Trade Deficit on Track for Worst Showing  
Since Third-Quarter 2007, Suggestive of Hit to GDP**

**Year-to-Year Payroll Growth Dropped to 18-Month Low**

**Employment Gain Was All in Part-Time for Economic Reasons;  
Full-Time Employment Was up by just 3,000**

**Broader November 2015 Unemployment Rates Increased: U.3 held at 5.0%;  
U.6 and ShadowStats Respectively Notched Higher to 9.9% and 22.9%**

**Construction Spending “Surge” Was in Rising Inflation, Not in Physical Activity**

**Broad Annual Money Supply Growth Fell to 5.2% from 5.5%**

**Rate Hike Is Far from Certain: Fed’s Primary Concerns Center on  
Risks of Severe Systemic Instabilities not on Lack of Economic Recovery**

---

*PLEASE NOTE: The next regular Commentary, scheduled for Friday, December 11th, will cover November Retail Sales and the Producer Price Index, along with an updated Hyperinflation Outlook.*

*Best wishes to all! — John Williams*

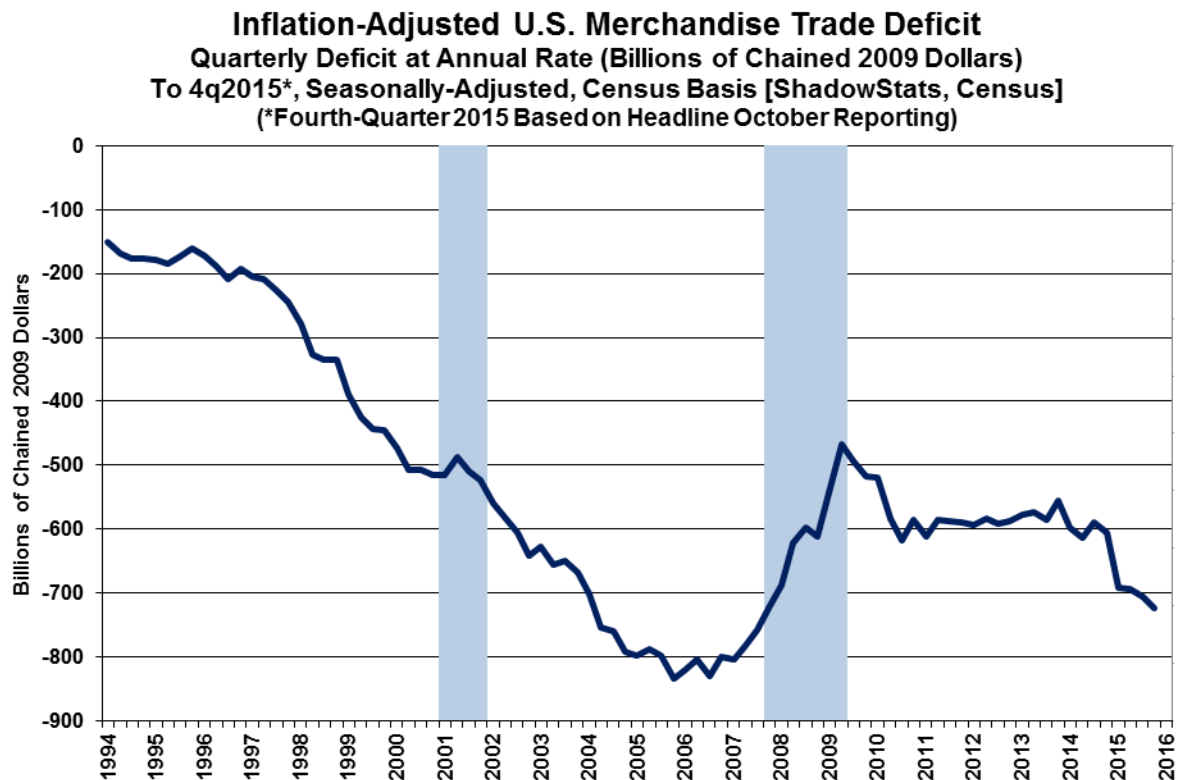
## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Nothing in the Latest Economic Reporting Supports a Rate Hike, but the Economy Is not the Fed’s Primary Concern.** The latest round of domestic economic news was not happy—suggestive of a deepening “new” recession—despite some headlines to the contrary in the popular media. On the labor front, the seasonally-adjusted November payroll gain of 211,000 was stronger than consensus, but it suffered the regular upside reporting biases and consistency issues seen with this series. That left the headline detail as a positive number for financial-media consumption, as an “excuse” for the Fed finally to tighten at its December 15th to 16th FOMC meeting, but otherwise it was of little actual significance. More meaningfully, unadjusted year-to-year growth in payrolls softened to an eighteen-month low.

The narrowly-defined, headline unemployment rate U.3 held at its “post-recession” low of 5.0%, as expected. That also was misleading, where the broader U.6 and ShadowStats measures notched higher, to 9.9% and 22.9%, respectively. The headline 5.0% rate reflected more employed and unemployed, but with no jobs growth in full-time employment. All the employment gain was in part-time employment for economic reasons, with people seeking full-time jobs having to settle for available part-time work.

Separately, Fed Chair Janet Yellen’s favorite indicator of labor market health—the Labor Force Participation Rate—showed no meaningful movement, holding near its all-time low (see *Graph 5*).

**Graph 1: Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit**



**Trade Deterioration.** The headline, merchandise-trade deficit widened in October 2015, particularly when viewed in real terms, net of inflation. As such, the fourth-quarter 2015 real trade deficit is on an early track to widen versus third-quarter 2015, which would generate an initial, negative quarterly growth contribution to fourth-quarter 2015 GDP, on January 29th. Reflected in *Graph 1*, that also would make the fourth-quarter merchandise trade deficit the worst quarterly trade shortfall since third-quarter 2007.

**Real Construction Spending Flattened Out.** Although the headline monthly gain in nominal October 2015 construction spending was a booming 1.0%, that was fully offset by a 1.0% headline monthly increase in related construction inflation. As such, real construction spending growth appears to be flattening out in fourth-quarter 2015, having boomed earlier in the year. Similar patterns have been seen in various housing measures denominated in units, rather than dollars, where housing starts and home sales all have generated early indications of a fourth-quarter 2015 quarterly downturn.

**Still-Weaker Economic Data Likely in the Weeks Ahead.** Where other series such as Real Retail Sales, Industrial Production, New Orders for Durable Goods and Housing Starts all provided early indications of a fourth-quarter 2015 contraction, based on October 2015 reporting, those patterns likely will intensify and be confirmed in pending November detail. As that unfolds, the shift in consensus outlook and forecasts towards contracting economic activity, a new recession, should continue to accelerate.

The downturn continues to be seen in nominal and real corporate revenues, in what some are calling a “revenue recession” or “sales recession.” Common usage of the term “production recession” has surfaced. If falling corporate revenues, retail sales, industrial production and a renewed downturn in construction activity do not reflect a broad economic contraction, it only is because exploding, non-productive expenditures or inflated valuations, related to factors ranging from Obamacare to intellectual property, have saved the day. Main Street U.S.A. never experienced the heavily-touted, full economic recovery and boom that followed the economic collapse into 2009, but once again it is experiencing contracting, broad economic activity.

**Fed Tightening Is Far from Certain: Concerns Center on Risks of Severe Systemic Instabilities, not on Lack of Economic Recovery.** There likely have been close to seventeen Federal Open Market Committee (FOMC) meetings in the last couple of years, where there has been some advance speculation of a Fed tightening. Prior to meetings of the current year, early conventional wisdom of a pending interest rate hike was expressed several times in terms of being a “virtual certainty,” a common view in place coming into the FOMC meeting scheduled to end on December 16th.

That said, the December meeting is as sure a bet of a rate hike by Fed as likely will be seen until sometime after the 2016 U.S. presidential election. Yet, that bet is far from sure.

With the heavily speculated over, and now hyped, “strong” November employment report in hand, how could the Fed not raise rates? Aside from the economy faltering anew, not booming into a phony recovery, the Fed’s easing excuses tied to a weak economy never were anything but a canard.

Discussed here frequently, in the wake of the Panic of 2008, with the banking system on the brink of collapse, the Fed and the U.S. Treasury did whatever they had to do to prevent outright systemic collapse, except to remedy the issues, such as the economy and fiscal conditions, that had led to the crisis (see [No. 742 Special Commentary: A World Increasingly Out of Balance, 2014 Hyperinflation Report—The End](#)

[Game Begins](#) – *First Installment Revised* and [2014 Hyperinflation Report—Great Economic Tumble](#) – *Second Installment*).

The Fed knew there was little it could do to generate an economic recovery, so it used the weak economy as political cover for the various quantitative easing programs, which were used somewhat covertly to bailout the banking system. Reversing that process now is not about the economy, and it never was. It remains about the soundness and stability of the domestic and global banking system, related financial markets and the markets for the supportive and enabling derivatives instruments. Accordingly, recent reluctance by the Fed to raise rates most likely has remained tied to concerns of financial-system stability, not specifically to current economic strength.

All the FOMC has needed to raise rates is a vote for same by the Committee; it never needed a strong economy. Instead, FOMC voting actions at recent meetings suggest that the crises tied to the Panic of 2008 continue to fester, never having been resolved fully.

Indeed, global financial and liquidity systems still appear to be far from stable. Despite recent games-playing by various Fed officials deliberately obfuscating pending actions—always hinting, though, of a dollar-supportive rate hike—chances of continued FOMC inaction appear much stronger than anticipated at present by the financial markets.

**Updated Hyperinflation Outlook.** The next *Commentary No. 772*, of December 11th, will review current economic and liquidity conditions, update the FOMC circumstance and the hyperinflation outlook. New areas will include the impact of the U.S. Treasury’s recent obfuscations of actual fiscal conditions, and implications of the International Monetary Fund (IMF) decision to add the Chinese renminbi to the limited basket of currencies comprising Special Drawing Rights (SDRs), as of October 2016.

**Today’s Commentary (December 5th).** The balance of these *Opening Comments* provides summary coverage of November Payroll Employment and Unemployment, and the October Trade Deficit and Construction Spending.

The *Hyperinflation Watch* includes the regular monthly review of *Monetary Conditions*, including the initial estimate of year-to-year growth in November 2015 Money Supply M3. In the process of being updated for the latest economic, Federal Reserve and global political developments, a revised *Hyperinflation Outlook Summary* will be posted along with the next *Commentary No. 772* of December 11th. In the interim, the latest *Summary* (written November 4, 2015) is available in [Commentary No. 768](#); the broad, general outlook has not changed.

The *Week Ahead* previews the reporting of nominal November Retail Sales and the Producer Price Index (PPI).

**Employment and Unemployment—November 2015— Headline Labor Conditions Remained Seriously Flawed.** Underlying reality for U.S. labor conditions in November 2015 was in the realm of a 22.9% broad unemployment rate, with headline payroll employment likely close to flat or minus month-to-month, as reviewed in the main text.

**Unemployment.** Reality aside, the headline (U.3) unemployment rate (Household-Survey) held even at a rounded 5.0% in November 2015 versus October. At the second decimal point, headline U.3 increased minimally to 5.05% in November, from 5.04% in October. The broader U.6 unemployment measure, including those marginally attached to the workforce (including short-term discouraged workers) and those working part-time for economic reasons, rose to 9.90% in November 2015, versus 9.81% in October.

Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of long-term discouraged workers excluded from government unemployment calculations—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate also notched higher to 22.9% in November 2015, versus 22.8% in October.

Beyond definitional issues surrounding what it means to be unemployed, the government's comparative seasonally-adjusted monthly unemployment numbers are without much meaning or significance. The headline November and October monthly details from the Household Survey simply were neither consistent nor comparable, as discussed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors* section in the *Reporting Detail*.

**Payrolls.** In terms of payroll employment (Payroll Survey), headline November jobs increased by a greater-than-expected 211,000, up by 246,000 net of prior period revisions. Much of the headline gain in payrolls reflected individuals counted multiple times holding multiple part-time jobs. In the household survey, however, an individual is counted only once, if he or she holds at least one job. On that basis, the count of those with full-time employment rose by just 3,000 in November.

The headline payroll reporting also was in the context of continued unusual shifts in seasonal-adjustment patterns, subject to the usual reporting biases and distortions, with November payrolls not comparable to reporting in September and before.

Specifically, the headline payroll survey numbers were distorted by unreported inconsistencies in the historical data, again as generated by BLS reporting policies with its concurrent seasonal-factor adjustment modeling. Separately, the jobs gains also were inflated meaningfully by the monthly add-factors in the Birth-Death Model (BDM). With the aggregate monthly upside biases well in excess of 200,000 jobs, actual November 2015 payrolls most likely were close to flat, if not minus, month-to-month. On a not-seasonally-adjusted basis, however, recent slowing in year-to-year payroll growth continued, with November annual growth at an eighteen-month low.

**Headline November 2015 Payroll Detail.** Seasonally-adjusted, the headline payroll gain for November 2015 was 211,000 jobs, up by 246, 000 net of prior-period revisions. The headline 211,000 increase in November payrolls followed an upwardly-revised gain of 298,000 in October, and an upwardly-revised, but openly-fraudulent gain of 145,000 in September payrolls.

The headline 145,000 jobs gain in September really was a 130,000 gain, on a consistent-reporting basis. Although the BLS deliberately misreported the headline detail prior to October, the actual earlier numbers can be calculated using material available from the BLS, and the differences easily can run up to 100,000 jobs per month versus official headline reporting as discussed in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section in the *Reporting Detail*. The reporting fraud comes not from the adjustment process, itself, but rather from the Bureau deliberately not publishing a consistent headline

history, where a new history is generated and available each month, along with the recalculation of the seasonal factors unique to creating the current month's headline detail.

***Annual Percent Change in Headline Payrolls—Slowing Growth.*** 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 at least are reported on a consistent basis. Yet, 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](#)).

With the 2014 benchmarked surges built into recent headline payroll activity, patterns of year-to-year growth in unadjusted payrolls also moved higher, setting a post-recession high of 2.39% in February 2015. Such was the strongest annual growth since June 2000 (another recession), but subsequent annual growth has slowed. Year-to-year nonfarm payroll growth in November 2015 slowed to 1.87%, down from a revised annual gain of 1.97% in October 2015, versus a revised 1.92% in September 2015, an unrevised 2.03% gain in August 2015, and an unrevised 2.18% gain in July 2015. The November reading was the weakest annual growth rate in the last eighteen months.

***Payroll Graphs in the Reporting Detail Section.*** Regular plots of both the level and annual change in monthly nonfarm payrolls are found in the *Reporting Detail, Graphs 14 to 15 and 19 to 20*. Also graphed and discussed there are details of the monthly construction payroll data, and comparative graphs of nonfarm payrolls and the full-employment series from the Household Survey.

***Counting All Discouraged Workers, November 2015 Unemployment Was at About 22.9%.*** Discussed frequently in these *Commentaries* on monthly unemployment conditions, what removes headline-unemployment reporting from common experience and broad, underlying economic reality, 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, not counted in the headline labor force. ShadowStats defines that group as “short-term discouraged workers,” as opposed to those who, after one year, no longer are counted by the government and enter the realm of “long-term discouraged workers,” as defined and counted by ShadowStats (see the extended comments in the *ShadowStats Alternate Unemployment Measure* in the *Reporting Detail* section).

In the ongoing economic collapse into 2008 and 2009, and the non-recovery thereafter, the broad drop in the U.3 unemployment rate from its headline peak of 10.0% in 2009, to holding at a “post-recession” low of 5.0% in November 2015, has been due largely to unemployed giving up looking for work. Those giving up looking for work are redefined out of headline reporting and the labor force, as discouraged workers. The decline in the headline unemployment rate reflects those redefinitions, much more so than unemployed finding new and gainful employment.

Headline payroll employment rose by 211,000 in November, up by 246,000 net of prior period revisions, while headline Household-Survey employment in November rose by 244,000. Where much of the gain in payrolls reflects individuals counted multiple times holding multiple part-time jobs, the household survey counts an individual only once, if he or she holds at least one job. The count of those with full-time employment rose by just 3,000 in November.



As discussed and graphed in the *Reporting Detail* section, there issues were evident again in the headline U.3 employment and unemployment detail, where the Household-Survey employment level increased by 244,000, of which 319,000 was accounted for by an increase in part-time employment for economic reasons (part-time jobs taken on because desired full-time employment was not available). Again, full-time employment for the month increased by 3,000. The balance was in part-time employment for non-economic reasons declining by 12,000 (-12,000) and the number of unemployed increasing by 29,000. Those numbers still do not add up—they never do—and they cannot be compared meaningfully, month-to-month, yet that is the official story out of the November 2015 Household-Survey numbers.

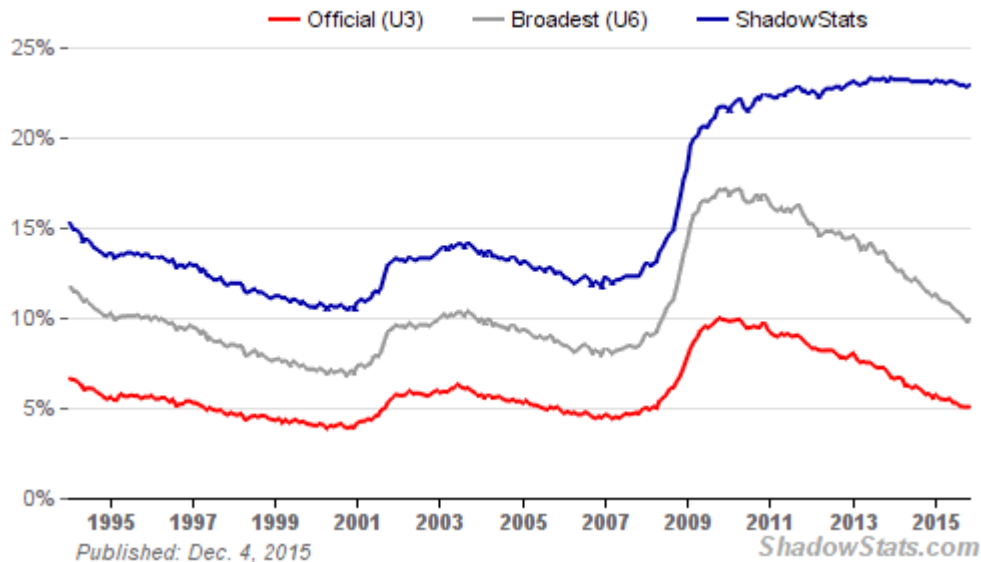
Getting back to the discouraged workers in the Household Survey, as new discouraged workers move regularly from U.3 into U.6 unemployment accounting, those who have been discouraged for one year are dropped from the U.6 measure. As a result, the U.6 measure has been declining along with U.3 for some time, but those being pushed out of U.6 still are counted in the ShadowStats-Alternate Unemployment Measure, which has remained relatively steady, at or near its historic-high rate for the last couple of years.

Moving on top of U.3, the broader U.6 unemployment rate—the government’s broadest unemployment measure—includes only the short-term discouraged workers (those marginally attached to the labor force). 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 define and measure the series, before 1994.

**Graph 2: Comparative Unemployment Rates U.3, U.6 and ShadowStats**

**Unemployment Rate - Official (U-3 & U-6) vs ShadowStats Alternate**

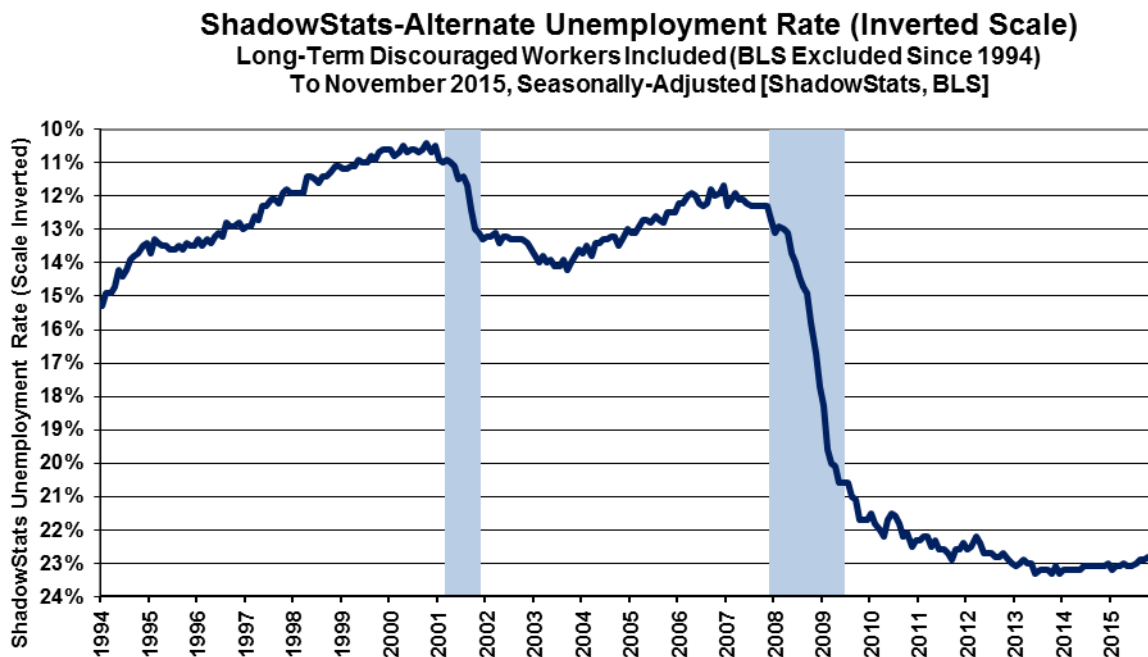
Monthly SA. Through Nov. 2015 (ShadowStats, BLS)



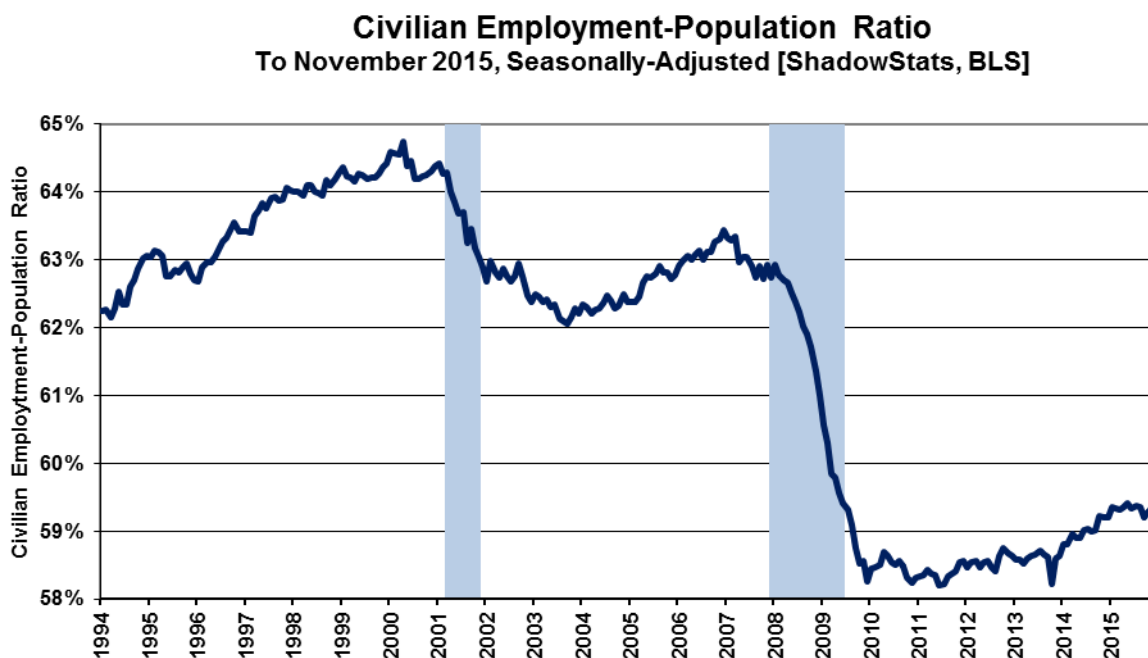
Again, when the headline unemployed become “discouraged,” they are rolled over from U.3 to U.6. As the headline, short-term discouraged workers roll over into long-term discouraged status, they move into the ShadowStats measure, where they remain. Aside from attrition, they are not defined out of existence for political convenience, hence the longer-term divergence between the various unemployment rates. The resulting difference here is between headline-November 2015 unemployment rates of 5.0% (U.3) and 22.9% (ShadowStats).

Graph 2 reflects headline November 2015 U.3 unemployment at 5.05%, versus 5.04% in October; headline November U.6 unemployment at 9.90%, versus 9.81% in October; and the headline November ShadowStats unemployment estimate at 22.9%, up from 22.8% in October.

**Graph 3: Inverted-Scale ShadowStats Alternate Unemployment Measure**



**Graph 4: Civilian Employment-Population Ratio**



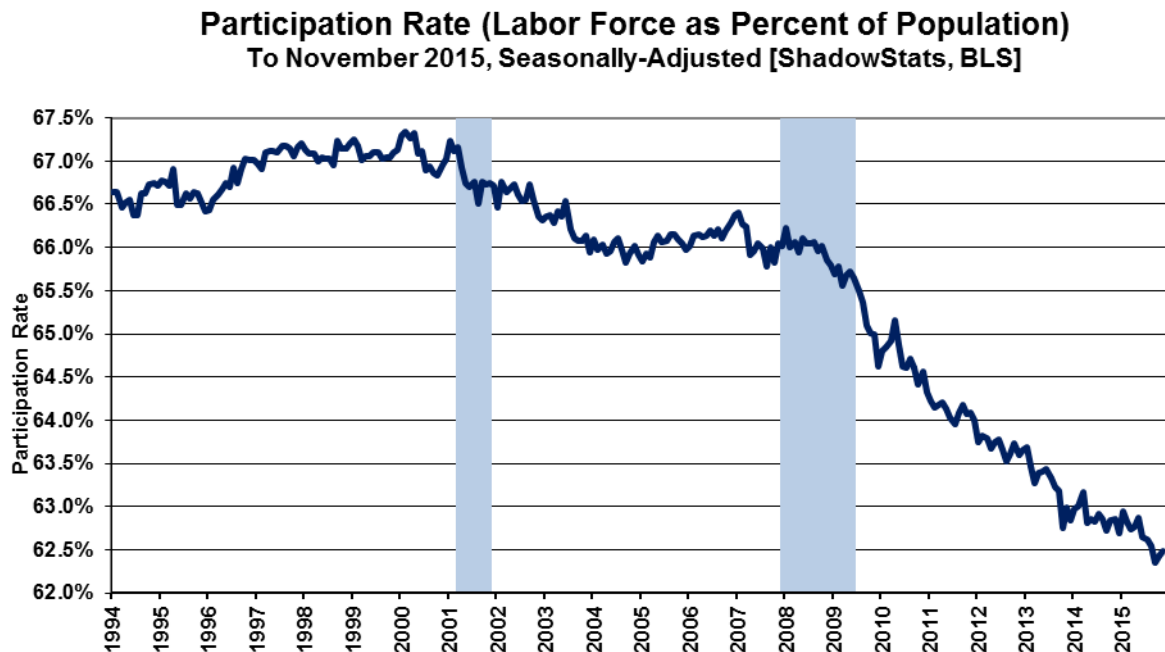


The *Graphs 3 to 5* reflect longer-term unemployment and discouraged-worker conditions. *Graph 3* is of the ShadowStats unemployment measure, with an inverted scale. The higher the unemployment rate, the weaker will be the economy, so the inverted plot tends to move in tandem with plots of most economic statistics, where a lower number means a weaker economy.

The inverted-scale of the ShadowStats unemployment measure also tends to move with the employment-to-population ratio, which notched minimally higher in November 2015, though still near its low for the year and not far from the historic low and bottom since economic collapse (only the period following the series redefinition in 1994 reflects consistent reporting), as shown in *Graph 4*. 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 remains something of a surrogate indicator of broad unemployment, and it has a strong correlation with the ShadowStats unemployment measure.

Shown in *Graph 5*, the November 2015 participation rate ticked minimally off October's level and the recent historic low, hit in the reporting of September 2015 (again, pre-1994 estimates are not consistent with current reporting). The labor force used in the participation-rate calculation is the headline employment plus U.3 unemployment. As with the *Graph 4* of employment-to-population, its holding at a post-1994 low in 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.

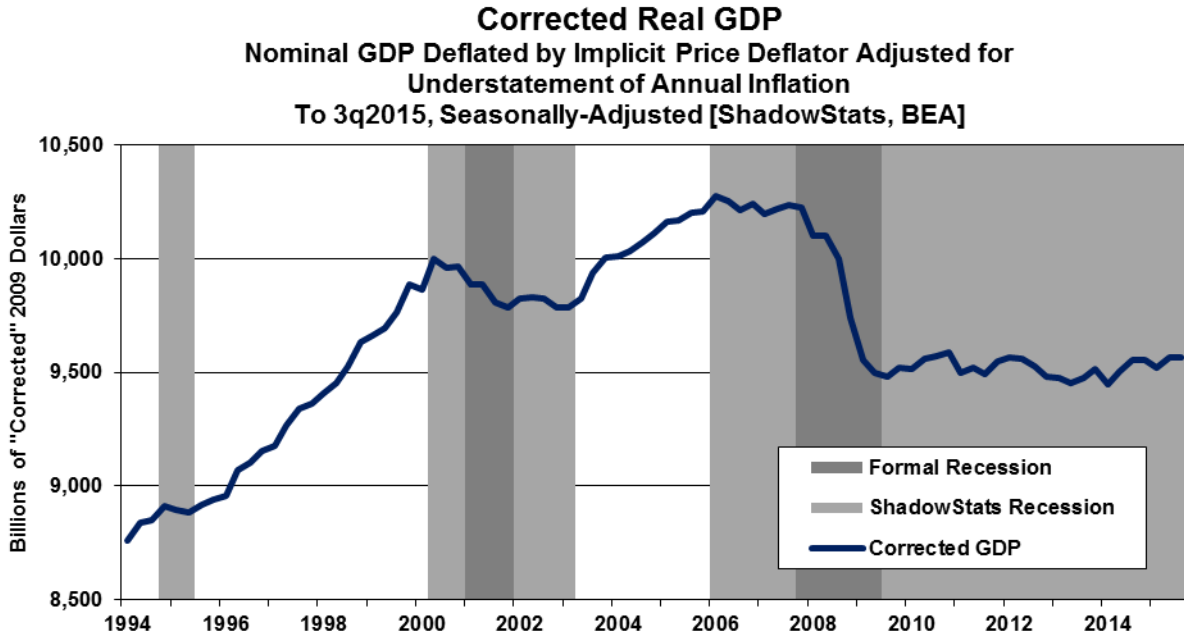
#### **Graph 5: Participation Rate**



*Graphs 2 through 5* reflect detail back to the 1994 redefinitions of the Household Survey and the related employment and unemployment measures. Before 1994, employment and unemployment data consistent with November's Household-Survey reporting simply are not available, irrespective of protestations to the contrary by the BLS. Separately, consider *Graph 6*, which shows the ShadowStats version of the GDP, also from 1994 to date, where the GDP is corrected for the understatement of inflation used in deflating

that series (a detailed description and related links are found in [Commentary No. 769](#)). In particular, the general patterns of activity seen in *Graphs 3* and *4* generally are mirrored in *Graph 6* of the “corrected” GDP.

**Graph 6: Corrected Real GDP**



**Headline Unemployment Rates.** The headline November 2015 unemployment rate (U.3) rose by 0.01-percentage point to 5.05% (a rounded headline 5.0%), from 5.04% (a rounded headline 5.0%) in October. Technically, the headline November increase in U.3 was statistically-insignificant, where the official 95% confidence interval around the monthly change in headline U.3 is +/- 0.23-percentage point.

Separately, again, the headline gain here of 0.01% in U.3 also is without meaning, given that the seasonally-adjusted month-to-month details simply are not comparable, thanks to the BLS's reporting methodology and use of concurrent-seasonal-adjustment factors (see *Headline Distortions from Shifting Concurrent Seasonal Factors* in the *Reporting Detail*). Yet, next month's annual revisions to the December household data will provide one-month's annual relief from the non-comparable headline detail, before the January 2016 reporting reverts back to the context of month-to-month non-comparability of the seasonally-adjusted numbers. Those issues remain separate from official questions raised as to falsification of the Current Population Survey (CPS), from which are derived the unemployment details.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. The November 2015 unadjusted U.3 unemployment rate eased to 4.81% versus 4.83% in October.

The near-zero increase in the seasonally-adjusted, headline November 2015 U.3 unemployment rate reflected an increase of 29,000 unemployed individuals with a gain of 244,000 employed, and an aggregate gain of 373,000 in the labor force. The increase in employment, along with an increase in unemployment likely reflects some of the issues discussed earlier as to full-time employment versus part-employment for economic reasons.

New discouraged and otherwise marginally-attached workers always are moving into U.6 unemployment accounting from U.3, while those who have been discouraged for one year continuously are 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 Estimate, 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 negligible increase in the underlying seasonally-adjusted U.3 rate, a sharp increase in the adjusted number of people working part-time for economic reasons, along with a less-than-offsetting decline in those marginally attached to the workforce (short-term discouraged workers declined for the month), headline November 2015 U.6 unemployment rose to 9.90% from 9.81% in October. The unadjusted U.6 was at 9.59% in November, versus 9.45% in October.

***ShadowStats Alternate Unemployment Estimate.*** Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate notched higher to 22.9% in November 2015, versus 22.8% in October.

Off the October 2015 near-term low, the ShadowStats November reading still was down by 40 basis points or by 0.4% (-0.4%) from the 23.3% series high in December 2013. In contrast, the headline U.3 reading for November 2015 of 5.0% was tied with the October 2015 reading as the lowest since February of 2008, down from its 10.0% peak in April 2010 by a full 500 basis points or 5.0% (-5.0%).

**Trade Deficit—October 2015—Second- and Third-Quarter Nominal Deficits Widened Sharply in Revision; Real Fourth-Quarter Deficit on Track to Be Worst in Seven Years.** With initial reporting of the inflation-adjusted October 2014 merchandise trade deficit in hand, the real fourth-quarter 2015 trade deficit is on track to be the worst since third-quarter 2007, with implications for a negative hit to the “advance” estimate of fourth-quarter 2015 GDP on January 29th, as discussed and graphed earlier in the opening paragraphs of these *Opening Comments*.

The “unexpected” widening in the nominal October 2015 trade deficit to \$43.9 billion, versus \$42.6 billion in September was in the context of significant, prior-period revisions. With negative implications for future benchmark revisions to second- and third-quarter 2015 GDP, the nominal goods-and-services deficits in in second- and third-quarter 2015 widened sharply in headline revisions. The annualized nominal pace of the second-quarter 2015 deficit in goods-and-services widened to a revised \$532.3 [previously \$520.0] billion, while the third-quarter deficit widening to \$534.8 [previously \$522.5] billion. Those details, however, have not yet flowed through to the headline, real merchandise-trade-deficit detail.

***Nominal (Not-Adjusted-for-Inflation) October 2015 Trade Deficit.*** The nominal, seasonally-adjusted monthly trade deficit in goods and services for October 2015, on a balance-of-payments basis, widened by \$1.434 billion to \$43.891 billion, versus revised, widened deficit of \$42.457 billion in September 2015.

The October 2015 nominal deficit also widened versus a non-comparable \$42.753 billion trade shortfall in October 2014 (see the *Ongoing Cautions...* section in the *Reporting Detail*).

In terms of month-to-month trade patterns, the headline \$1.434 billion widening in the October deficit reflected a decline of \$2.702 billion in monthly exports, offset by a \$1.269 billion decline in monthly imports (a difference in rounding), with the decline in imports dominated by, and the decline in exports largely reflecting still-falling oil prices.

Energy-Related Petroleum Products. For October 2015, the not-seasonally-adjusted average price of imported oil dropped to \$40.12 per barrel, versus \$42.72 per barrel in September 2015, and versus \$88.47 per barrel in October 2014. Separately, not-seasonally-adjusted, physical oil-import volume in October 2015 averaged 6.669 million barrels per day, down from 7.714 million in September 2015 and down from 7.229 million in October 2014.

***Real (Inflation-Adjusted) October 2015 Trade Deficit.*** Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the October 2015 merchandise trade deficit (no services) widened to \$60.327 billion, from a revised, slightly widened \$57.374 billion in September 2015. The October 2015 shortfall also deteriorated sharply versus a still-comparable \$49.906 billion real deficit in October 2014.

As currently reported, the annualized quarterly real merchandise trade deficit stood at \$588.6 billion for third-quarter 2014, \$605.5 billion for fourth-quarter 2014, \$692.1 billion for first-quarter 2015, and \$694.5 billion for second-quarter 2015. Widening quarter-to-quarter real trade deficits subtract growth from the quarterly real GDP estimates, while narrowing deficits boost headline GDP.

The annualized quarterly real trade shortfall in third-quarter 2015 widened minimally to \$705.8 billion and versus the second-quarter 2015 trade shortfall. Based just on the headline October 2015 detail, the fourth-quarter 2015 deficit is set at an initial annualized pace of \$723.9 billion. Not only would that be the worst quarterly real trade deficit since third-quarter 2007, it is enough worse than third-quarter 2015 to contribute meaningfully-negative growth to the first estimate of fourth-quarter 2015 GDP on January 29th (again see *Graph 1* and the discussion in the opening paragraphs of these *Opening Comments*).

**Construction Spending—October 2015— October’s Entire 1.0% Construction Spending Surge Was Accounted for by Headline Construction Inflation.** October 2015 construction nominal spending jumped a headline 1.0% month-to-month, but that was before inflation. Net of a 1.0% gain in headline construction inflation real spending was unchanged for the month. The nominal October gain also was in the context of a 0.2% upside revision to previously-reported September activity. That said, the general pattern in this highly-volatile series, net of inflation, remained one of low-level, albeit now flat-trending (not up-trending) stagnation.

Reflecting revised, full quarterly reporting, growth slowed sharply in third-quarter 2015 real construction spending (deflated by PPI construction inflation), at a revised annualized quarterly pace of 7.4% [previously 7.0%], against a revised annualized annual growth rate of 28.7% [previously up by 28.4%, up by 28.2%, up by 28.3% and initially up by 25.7%] in second-quarter 2015. Based solely on the headline October 2015 detail, initial fourth-quarter growth has slowed further to 3.0%.

*Graphs 7 to 10* in these *Opening Comments* show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public construction spending. Seen after adjustment for inflation, the aggregate series remained in low-level stagnation into first-quarter 2015. Activity spiked in recent months, but slowed again in the last couple months of reporting, with the real series turning flat in October 2015, still holding at 27.0% (-27.0%) below its pre-recession peak of March 2006.

Areas of recent relative real strength all have flattened out, net of rising construction inflation. The general pattern of real activity remains one of low-level, up-trending stagnation that now has shifted to flat-trending stagnation.

***PPI Final Demand Construction Index (FDCI).*** ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in construction-spending, with headline month-to-month broad construction inflation of 1.0% and year-to-year inflation of 2.2% in October 2015. The subsidiary private- and public-construction PPI series, used in deflating the subsidiary series, reflected similar inflation patterns. See details in the *Reporting Detail*. The nominal versus inflation-adjustment effects by construction sector follow here in *Graphs 7 to 10*.

***Headline Reporting for October 2015.*** The headline, total value of construction put in place in the United States for October 2015 was \$1,107.4 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up by a statistically-insignificant 1.0%, versus an upwardly revised \$1,096.6 billion in September 2015. Net of prior-period revisions, the headline monthly gain for October was 1.2%. In turn, September spending was up by an unrevised 0.6% versus, and an upwardly revised \$1089.8 billion in August. August spending was up by a revised 0.9% versus an unrevised \$1,080.4 billion in July spending.

Adjusted for FDCI inflation, aggregate monthly real spending in October 2015 was unchanged at 0.0%, following an unrevised September gain of 0.6% and a revised August 2015 gain of 1.0%.

On a year-to-year or annual-growth basis, October 2015 nominal construction spending rose by a statistically-significant 13.0%, versus a revised annual gain of 14.3% in September 2015 and a revised annual gain of 14.1% in August 2015.

Net of construction costs indicated by the FDCI, year-to-year gain in real spending was at 10.6% in October 2015, versus a revised 12.3% in September 2015 and a revised 12.1% in August 2015.

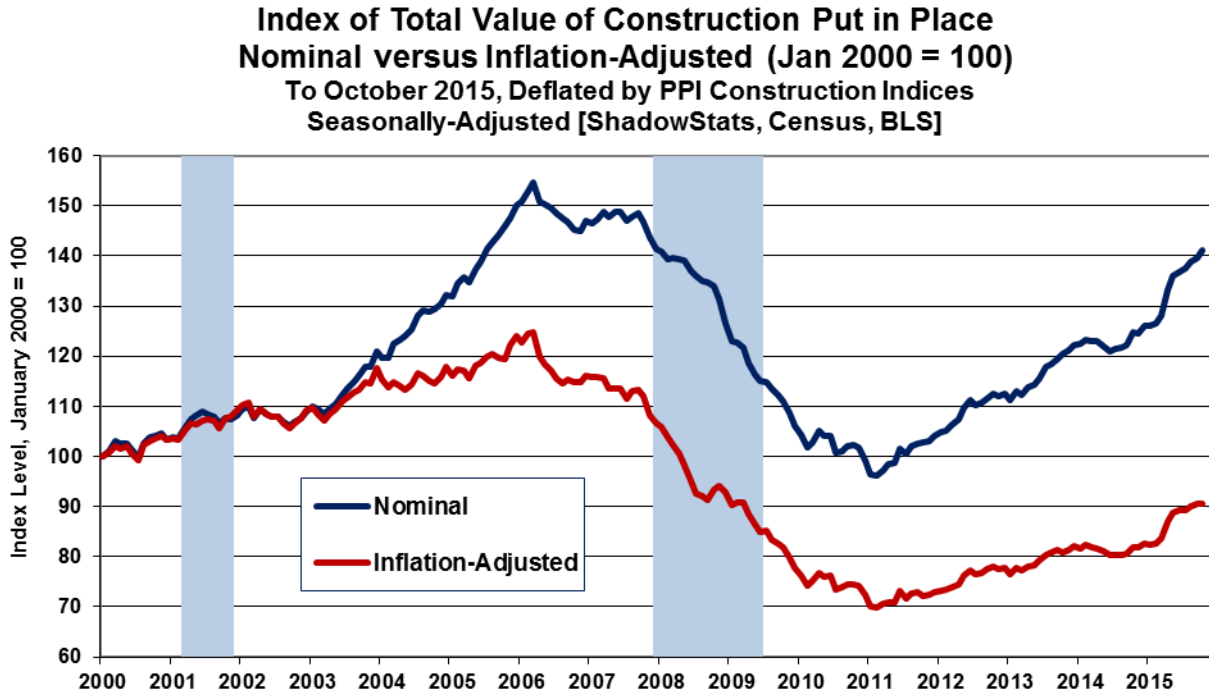
The statistically-insignificant, headline monthly nominal increase of 1.0% in aggregate nominal October 2015 construction spending, versus a 0.6% gain in September 2015 spending, included a headline monthly gain of 1.4% in October public spending, versus a decline of 0.1% (-0.1%) in September. Private spending increased by 0.8% in October, following a 0.9% gain in September. Within total private construction spending, however, the residential sector rose by 1.0% in October, versus a 1.6% gain in September, while the nonresidential sector rose by 0.06% in October, following a 0.2% gain in September. The graphs that follow here, and the more-extensive graphs in the *Reporting Detail*, reflect that extended detail. Most of the headline nominal gains by sector were offset by rising monthly inflation.

***Construction and Related Graphs.*** Despite the recent uptrend—now flattening out—the pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see [Commentary No. 769](#)). To the contrary, the latest

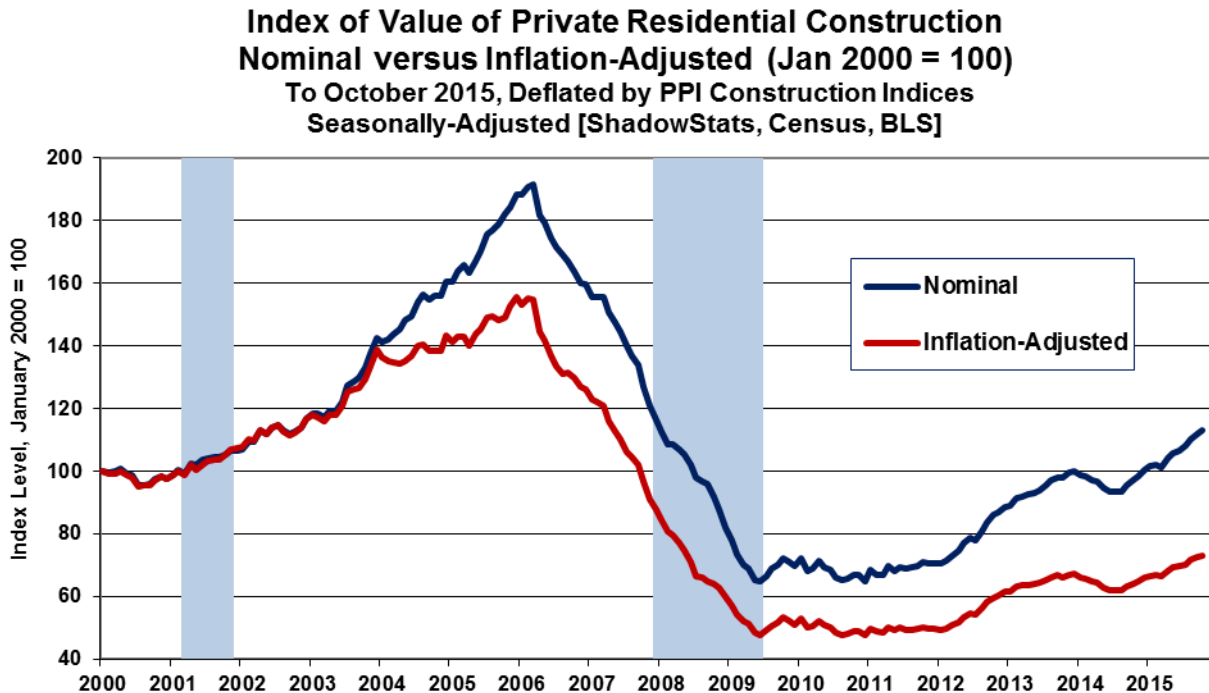


broad construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, generally still shows a pattern of low-level, variably up-trending stagnation, where activity never has recovered pre-recession highs and has flattened-out anew, adjusted for inflation.

**Graph 7: Index, Nominal versus Real Value of Total Construction**

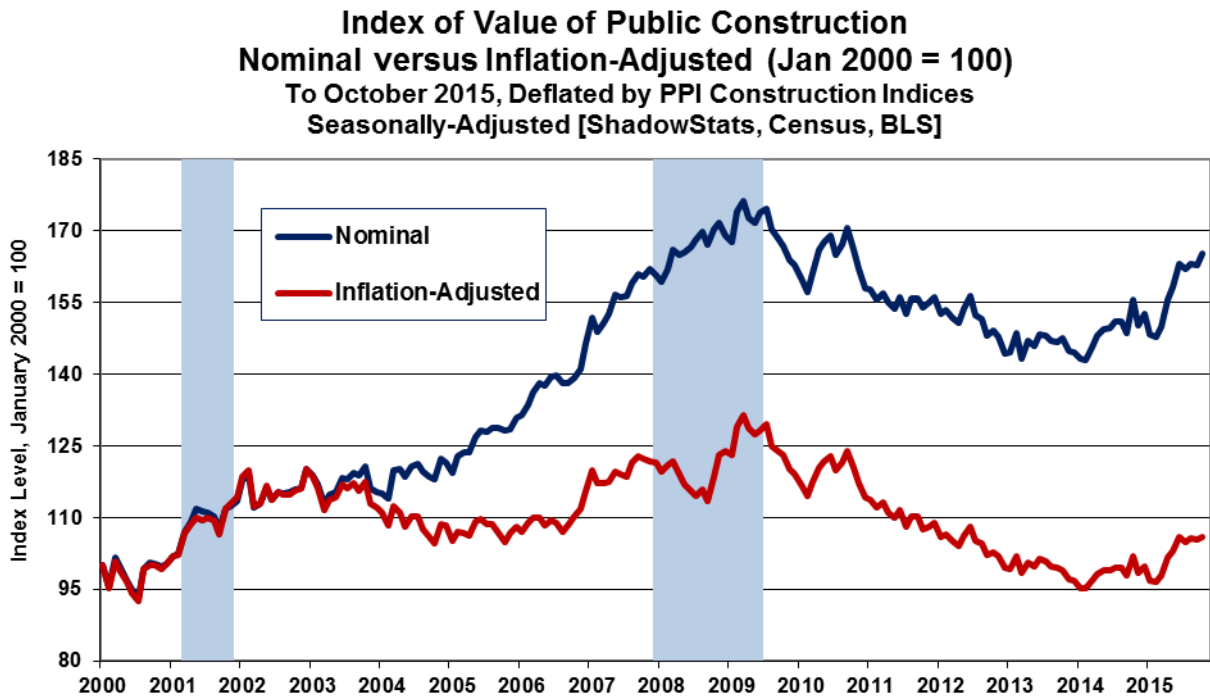


**Graph 8: Index, Nominal versus Real Value of Private Residential Construction**

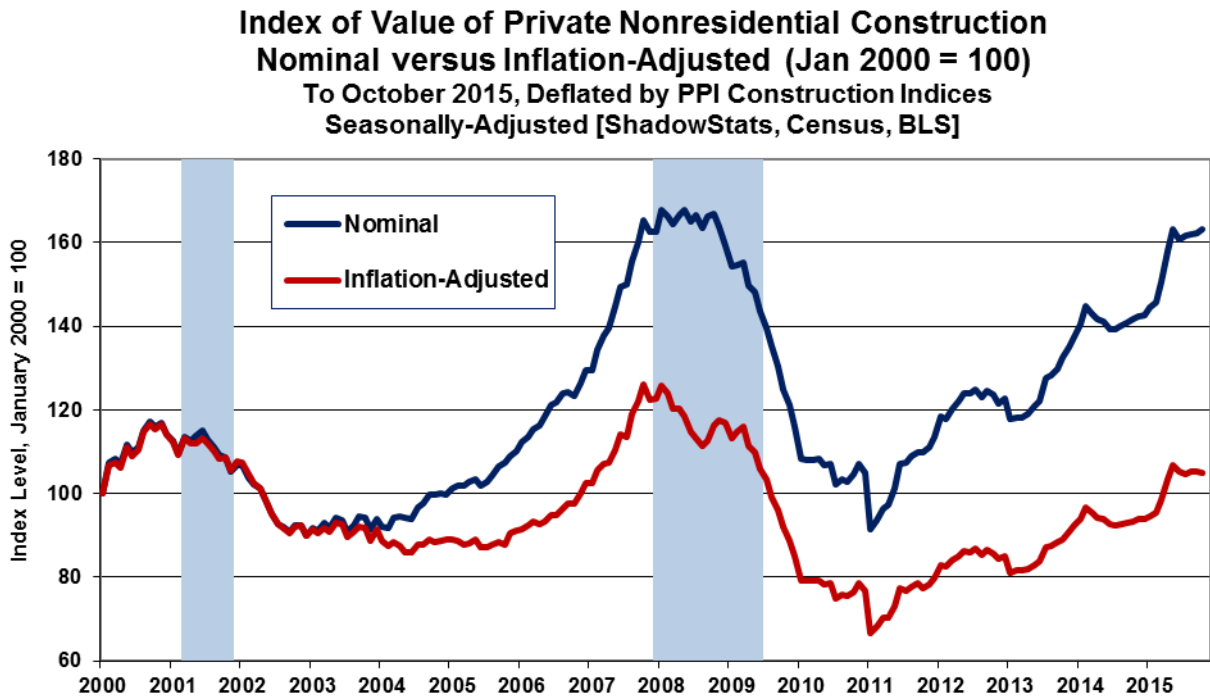




**Graph 9: Index, Nominal versus Real Value of Private Nonresidential Construction**



**Graph 10: Index, Nominal versus Real Value of Public Construction**



**Consumer Liquidity Conditions.** Consumer liquidity conditions were discussed broadly in [Commentary No. 766](#), updated briefly in the prior [Commentary No. 770](#) and will be updated fully in the next

*Commentary No. 772.* Without meaningful real (inflation-adjusted) growth in household income and without the ability or willingness to take on significant new debt, the consumer simply has not had the wherewithal to fuel a sustainable economic expansion. Impaired consumer liquidity and its direct restraints on consumption have been responsible for much of the economic turmoil of the last eight-plus years, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential construction categories of the GDP. Together, those sectors account for more than 70% of total economic activity in the United States, as measured by the Gross Domestic Product.

Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth without a fundamental upturn in consumer- and banking-liquidity conditions.

***[The Reporting Detail section includes further material on November Labor Conditions and the October Trade Balance and Construction Spending.]***

---

## HYPERINFLATION WATCH

### MONETARY CONDITIONS

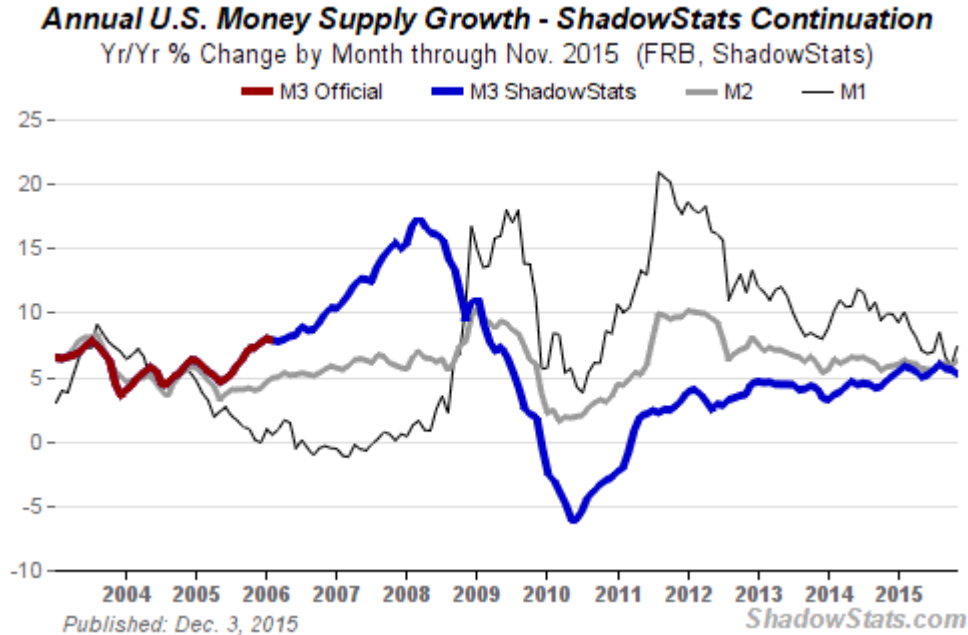
**Annual M3 Growth Continued to Slow Sharply, to 5.2% in November, with Institutional Money Funds and Long-Term Time Deposits Being Liquidated into M2.** Late in 2014, the Federal Reserve ceased net new purchases of U.S. Treasury securities as part of its quantitative easing QE3, but its holdings of Treasury securities have remained stable, near record levels, as has the monetary base during the last year—plus-or-minus 5% around the St. Louis Fed’s estimated 12-month average of \$4.0 trillion. Nonetheless, year-to-year growth in broad money supply M3, the ShadowStats-Ongoing Measure, has continued to slow sharply from its six-year high of 6.0% in August 2015, standing at a five-month low of 5.2% in November 2015.

ShadowStats estimates that annual growth in broad money supply M3 slowed to 5.2% in November 2015, down from an unrevised 5.5% in October 2015, a revised 5.6% [previously 5.7%] in September 2015 and an unrevised revised 6.0% in August 2015. Federal Reserve Board benchmark data revisions had the effect of softening recent headline year-to-year growth, but the previously surging August 2015 annual

growth rate remained the highest level since June 2009—the end of the formal 2007 recession. The November 2015 growth rate still was up from an unrevised near-term trough of 5.0% in May 2015.

On a month-to-month basis, October and November 2015 M3 growth rates both notched higher, but September M3 still declined in the month for the first time since January 2011.

**Graph 11: Comparative Money Supply M1, M2 and M3 Year-to-Year Change through November 2015**



**November Annual Money Supply Growth in M1 and M2 Turned Higher.** Although headline annual growth continued to sink for M3, annual growth in the narrower M2 and M1 measures was relatively stronger, as funds in M3 accounts such as institutional money funds and large time deposits shrank, with some relative movement of assets into and out of M2 and M1 accounts.

After the M3 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—monthly year-to-year growth began to slow. Growth hit 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 4.5% in July, easing back to 4.1% in September. Growth jumped anew to 4.7% and 5.1%, respectively, in November and December 2014, rising to 5.4% in January 2015, and then hitting a five-year high of 5.8% in February. Annual growth subsequently declined to 5.0% in May, but with an upside bounce to 5.2% in June, 5.5% in July, and 6.0% in August, and now pulling back to 5.6% in September, 5.5% in October and 5.2% in November 2015.

The seasonally-adjusted, early estimate of month-to-month change for November 2015 money supply M3 was roughly a gain of 0.4%, following a revised gain of 0.4% [previously 0.3%] in October and a revised monthly decline of 0.2% (-0.2%) [previously down by 0.1% (-0.1%), initially down by 0.2% (-0.2%)] in September. The September monthly decline was the first for M3 since January 2011. Estimated month-to-month M3 changes, however, remain less reliable than are the estimates of annual growth.

Initial estimates for annual growth in M3, M2 and M1 for November 2015 have been updated on the [Alternate Data](#) tab of [www.ShadowStats.com](http://www.ShadowStats.com).

**November M1 and M2 Annual Growth.** November 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 November 2015 rose to 6.3%, from an unrevised October 2015 gain of 5.9%, versus and a downwardly-revised annual gain in September 2015 of 6.1% [previously up by 6.2%, initially up by 6.5%], with a month-to-month increase in November of 0.8%, versus an unrevised 0.1% gain in October and an unrevised gain of 0.6% in September. For M1, year-to-year growth also rose, jumping to 7.4% in November 2015, from a revised 5.9% [previously 5.8%] annual gain in October 2015 and a revised 6.7% [previously 6.6%, initially 6.3%] gain in September 2015, with a month-to-month increase of 2.0% in November, versus a revised monthly decline of 0.5% (-0.5%) [previously down by 0.6% (-0.6%)] in October and an unrevised monthly drop of 0.3% (-0.3%) in September.

**With the Monetary Base Still Holding Near Record Highs, “Quantitative Easing” Appears Still to Be Very Much in Play.** Discussed in [No. 742 Special Commentary: A World Increasingly Out of Balance](#) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#), the Fed’s actions have shown its primary mission to be keeping the banking system solvent and afloat—irrespective of Congressional mandates on employment and inflation—but such was not working, coming into the Panic of 2008. Introduced in 2008, quantitative easing went through a number of phases, as reflected in the size of, and growth in, the monetary base shown in the accompanying graphs. Where such monetary-base expansion normally would have translated into extraordinary growth in the money supply, it did not. Only as the Fed pulled back from aggressive asset purchases did M3 begin to show a little, fluctuating upside movement.

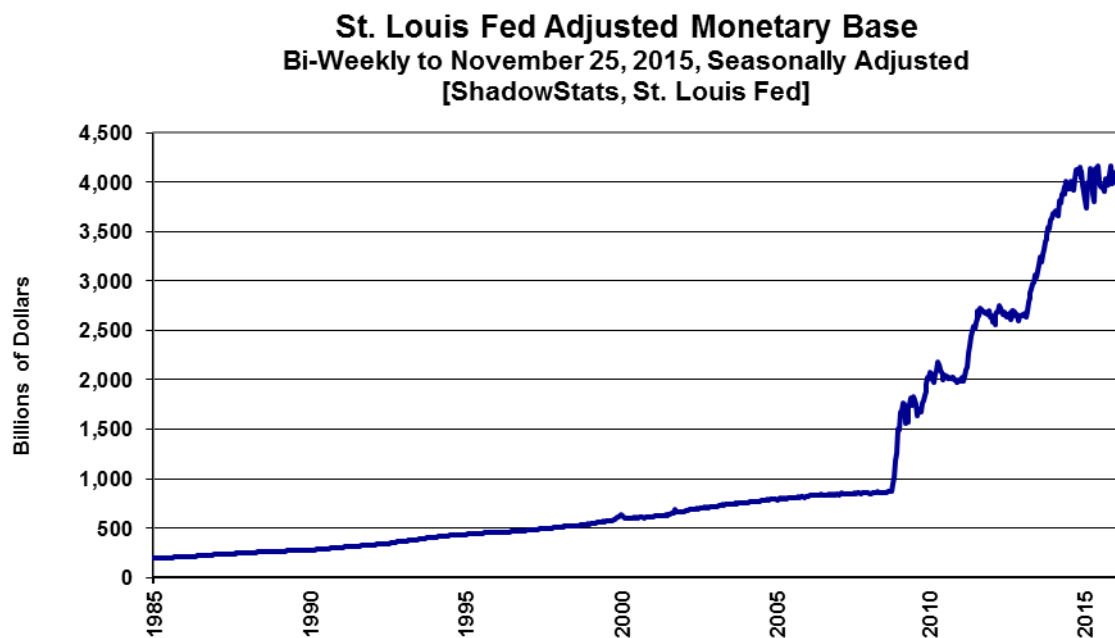
The extraordinary level of asset purchases by the Fed did not flow through to the broad economy, because banks did not lend into the normal flow of commerce, and there was no resulting significant upside movement in money supply, as a result. Instead, banks turned the funds back to the Fed as excess 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 purchases of new Treasury securities late in 2014 (maturing issues still are rolled over), the monetary base has continued its recent pattern of volatility at high-levels. Having set a record high level of \$4.167 trillion in the two-week period ended April 15, 2015, the monetary base (Saint Louis Fed measure) has fluctuated around the average twelve-month \$4.0 trillion level of the base, rising back to a five-month high of \$4.166 trillion in the two-week period ended September 16th (a hair’s breadth shy of matching the all-time high), before fluctuating lower to \$3.995 trillion in the latest two-week period, ended November 25th.

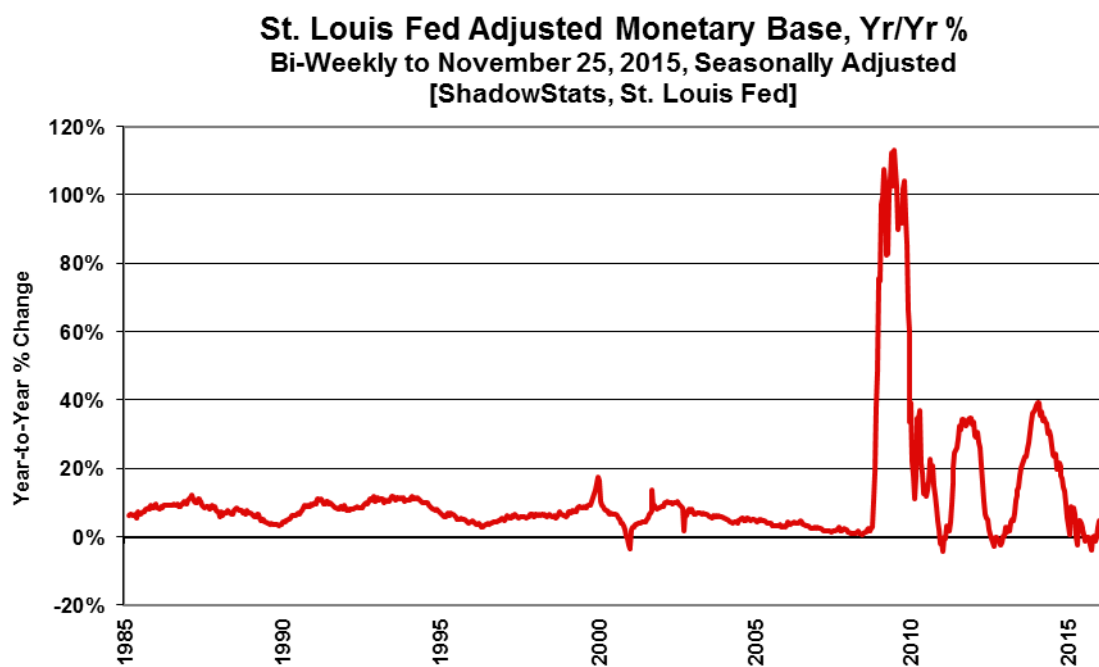
Again, the Fed’s Treasury asset holdings effectively have continued at or near an all-time high, in the context of ongoing QE3. The expressed desire by some in the Fed to push interest rates higher, to more-normal levels, combined with a failing economy that purportedly continues to provide a practical restraint to such action, is suggestive of an economic-and-monetary system that continues to move beyond

effective control of the U.S. central bank and the federal government (see the *Opening Comments* on the pending FOMC meeting).

**Graph 12: Monetary Base Level, through November 25, 2015**



**Graph 13: Monetary Base, Year-to-Year Percent Change, through November 25, 2015**



**HYPERINFLATION OUTLOOK SUMMARY.** In the process of being updated for the latest economic, Federal Reserve and global-political developments, this section will be posted anew with the next *Commentary No. 772* on December 11th. In the interim, the latest *Summary* (November 4, 2015-based) is available here: [Commentary No. 768](#).

---

## REPORTING DETAIL

### EMPLOYMENT AND UNEMPLOYMENT (November 2015)

**Employment and Unemployment—November 2015— Headline Labor Conditions Remained Seriously Flawed.** *[Note: This section, through the PAYROLL SURVEY DETAIL, largely is repeated from the Opening Comments.]* Underlying reality for U.S. labor conditions in November 2015 was in the realm of a 22.9% broad unemployment rate, with headline monthly payroll employment change likely close to flat or minus month-to-month, as reviewed in the main text.

**Unemployment.** Reality aside, the headline (U.3) unemployment rate (Household-Survey) held even at a rounded 5.0% in November 2015 versus October. At the second decimal point, headline U.3 increased minimally to 5.05% in November, from 5.04% in October. The broader U.6 unemployment measure, including those marginally attached to the workforce (including short-term discouraged workers) and those working part-time for economic reasons, rose to 9.90% in November 2015, versus 9.81% in October.

Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of long-term discouraged workers excluded from government unemployment calculations—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate also notched higher to 22.9% in November 2015, versus 22.8% in October.

Beyond definitional issues surrounding what it means to be unemployed, the government's comparative seasonally-adjusted monthly unemployment numbers are without much meaning or significance. The headline November and October monthly details from the Household Survey simply were neither consistent nor comparable, as discussed in the *Headline Distortions from Shifting Concurrent-Seasonal Factors* section.

**Payrolls.** In terms of payroll employment (Payroll Survey), headline November jobs increased by a greater-than-expected 211,000, up by 246,000 net of prior period revisions. Much of the headline gain in payrolls reflected individuals counted multiple times holding multiple part-time jobs. In the household



survey, however, an individual is counted only once, if he or she holds at least one job. On that basis, the count of those with full-time employment rose by just 3,000 in November.

The headline payroll reporting also was in the context of continued unusual shifts in seasonal-adjustment patterns, subject to the usual reporting biases and distortions, with November payrolls not comparable to reporting in September and before.

Specifically, the headline payroll survey numbers were distorted by unreported inconsistencies in the historical data, again as generated by BLS reporting policies with its concurrent seasonal-factor adjustment modeling. Separately, the jobs gains also were inflated meaningfully by the monthly add-factors in the Birth-Death Model (BDM). With the aggregate monthly upside biases well in excess of 200,000 jobs, actual November 2015 payrolls most likely were close to flat, if not minus, month-to-month. On a not-seasonally-adjusted basis, however, recent slowing in year-to-year payroll growth continued, with November annual growth at an eighteen-month low.

**PAYROLL SURVEY DETAIL.** The Bureau of Labor Statistics (BLS) published the headline payroll employment detail for November 2015 on December 4th, showing stronger growth than expected by the markets in the context of upside revisions to relative employment activity in October and September. All that gimmicked nonsense aside, the headline unadjusted payroll numbers showed year-to-year annual payroll growth slipping to an eighteen-month low.

Seasonally-adjusted, the headline payroll gain for November 2015 was 211,000 jobs +/- 129,000 (95% confidence interval). Net of prior-period revisions, the gain in November payroll employment was 246,000 jobs. The headline 211,000 increase in November payrolls followed an upwardly-revised gain of 298,000 [previously up by 271, 000] in October, and an upwardly-revised, openly-fraudulent gain of 145,000 [previously up by 137,000, initially up 142,000] in September payrolls.

The headline 145,000 jobs gain in September really was a 130,000 gain, on a consistent-reporting basis. Although the BLS deliberately misreported the headline detail prior to October, the actual earlier numbers can be calculated using material available from the BLS, and the differences easily can run up to 100,000 jobs per month versus official headline reporting.

**Inconsistent, Non-Comparable and Deliberately-Misstated Monthly Changes for September 2015 and Before.** Headline monthly payroll detail is not comparable with earlier months, back more than one month from the headline month, due to the BLS's misuse of concurrent-seasonal-factor adjustments. Discussed in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section, the reporting fraud comes not from the adjustment process, itself, but rather from the Bureau deliberately not publishing a consistent headline history, where a new history is generated and available each month, along with the recalculation of the seasonal factors unique to creating the current month's headline detail.

As a result, the headline 211,000 monthly gain in November 2015 payrolls and the revised 298,000 jobs gain in September were inconsistent with, and not comparable to, the revised headline September 2015 gain of 145,000. The gain consistent with the new headline November-based detail was 130,000 for

September, some 15,000 less than the official number. Such, though, is just a regular misstatement of historical headline payroll activity by the BLS.

Actual prior history changes each month, revised along with the new seasonal-factor calculations that determine the latest headline month's numbers, but the BLS never publishes an historically-consistent series. The nature of what would be a consistent series was explored fully in [Commentary No. 695](#). With revised differences shifting between months in 2014, as seen in *Graphs 21* and *22* in the section on *Headline Distortions from Shifting Concurrent Seasonal Factors*, parallel shifts tend to follow in the current seasonal factors for the same months in 2015, beyond what they would have been otherwise. Those shifts simply are inconsistent with the headline historical reporting, which does not get revised other than for the last two months of reporting. Most clearly seen in *Graph 22*, a shift in August 2015 seasonal adjustments led to the overstatement of headline September 2015 activity, which made current headline growth appear stronger than the weaker, but historically-consistent reality.

**Reporting Errors in Earnings and Hours Worked During the Economic Collapse.** The BLS recently posted the following notice on its payroll employment homepage: “All employee hours and earnings data and related series from March 2006 through February 2009 for total private, private service-providing, education and health, membership associations and organizations and other services have been suppressed due to a data processing error introduced during the 2009 benchmark. Corrected data will be available on February 5, 2016 [the 2015 benchmark revision].”

**Downside Payroll Benchmark Revision of 208,000 (-208,000) Looms for 2015.** The advance estimate of the 2015 benchmarking for payroll employment, announced on September 17th, indicated a downside revision of 208,000 (-208,000) jobs to the base March 2015 payroll employment levels (see [Commentary No. 753](#) and the *Birth-death Model* section). The final benchmark revision for 2015 will be published along with the January 2016 headline data on February 5, 2016 (see the *Birth-Death Model* section).

**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 modeling of the monthly headline payroll gain should be well in excess of +/- 200,000, 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.

**“Trend Model” for December 2015 Headline Payroll-Employment Change Indicates a 216,000 Jobs Gain.** Discussed in [Commentary No. 765](#) 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 an November 2015 monthly payroll gain of 237,000, based on the BLS trend model structured into the actual headline reporting of October 2015. The detail here can be calculated independently, using material available from the BLS.

Consensus estimates tend to settle around that trend, but the late-consensus expectations in November rose from earlier estimates of 180,000 to 190,000, to settle around 200,000, still below the headline gain of 211,000 number. Net of upside revisions to October detail, however, the headline November gain would have been 246,000, pretty much on trend.

December 2015 Trend Estimate. Exclusive to ShadowStats subscribers, based on headline BLS modeling for November 2015 reporting, the ExpliStats trend number calculations suggest a BLS-based headline gain of 216,000 for December 2015. December consensus expectations could be expected to settle in around that level.

***November Construction-Payroll Growth Continued to Pick-Up, Somewhat More Reflective of Headline Construction Spending Gains.*** Graph 25 of November construction payrolls is found in the *Construction Spending* section in this *Reporting Detail*. In theory, construction payroll levels should move closely with the inflation-adjusted aggregate construction spending series and the housing starts series (the latter measured in units rather than dollars). Headline month-to-month growth was 0.7% in November 2015 construction employment, versus an unrevised gain of 0.5% in October, but at an upwardly revised 0.3% (previously 0.2%) gain in September. Monthly growth here has picked up, as headline construction activity and real construction spending have started to slow anew.

The November 2015 construction-payroll level of 6.490 million, showed a headline gain of 46,000 jobs for the month, versus a revised October gain of 34,000 [previously up by 31,000] and a revised (but not comparable) September gain of 19,000 [previously up 12,000, initially up by 8,000].

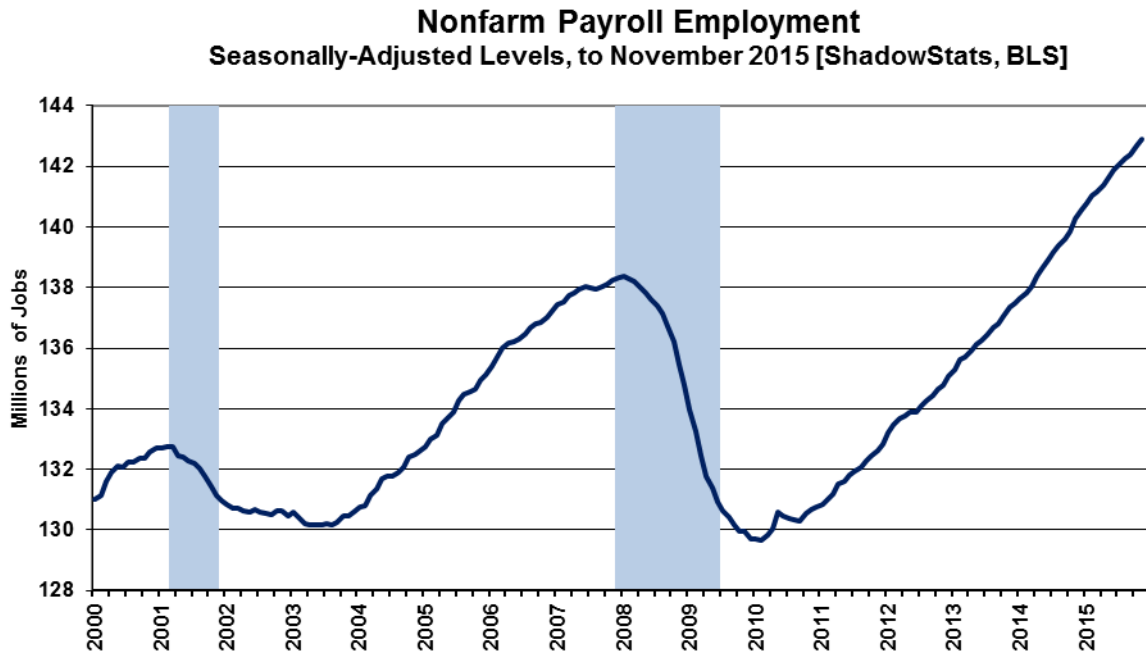
Headline construction-payroll numbers remain heavily biased to the upside (officially bloated by 6,000 jobs per month, unofficially at an order of magnitude of 20,000 jobs per month). Nonetheless, total November 2015 construction jobs remained down by 16.0% (-16.0%) from the April 2006 pre-recession series peak.

***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 somewhat shy of three years earlier, 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, prior to the 2014 benchmark revisions published in February 2015), and it has continued to rise. Including the headline jobs gain of 211,000 in November 2015, headline payroll employment now is about 4.5-million jobs above its pre-recession peak.

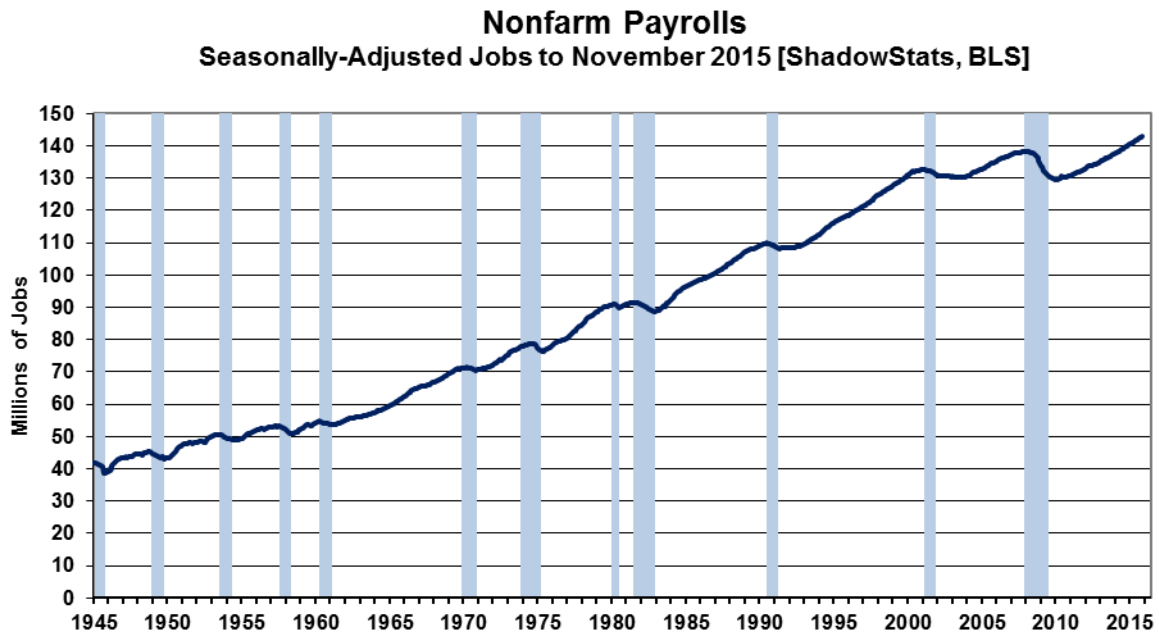
*Graphs 14 and 15* show the headline payroll series, both on a shorter-term basis, since 2000, and on a longer-term historical basis, from 1945. In perspective, the longer-term graph of the headline payroll-employment levels shows the extreme duration of what had been the official non-recovery in payrolls, the worst such circumstance of the post-Great Depression era.

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 has been desired but could not be found.

**Graph 14: Nonfarm Payroll Employment to November 2015**



**Graph 15: Nonfarm Payroll Employment 1945 to November 2015**



**Full-Time Employment versus Part-Time Payroll Jobs.** Shown in *Graph 16*, where the level of full-time employment (Household Survey) briefly recovered its pre-recession high in August 2015, it fell back to below its pre-recession peak in September, albeit shy of the peak then by just 36,000 jobs. The series

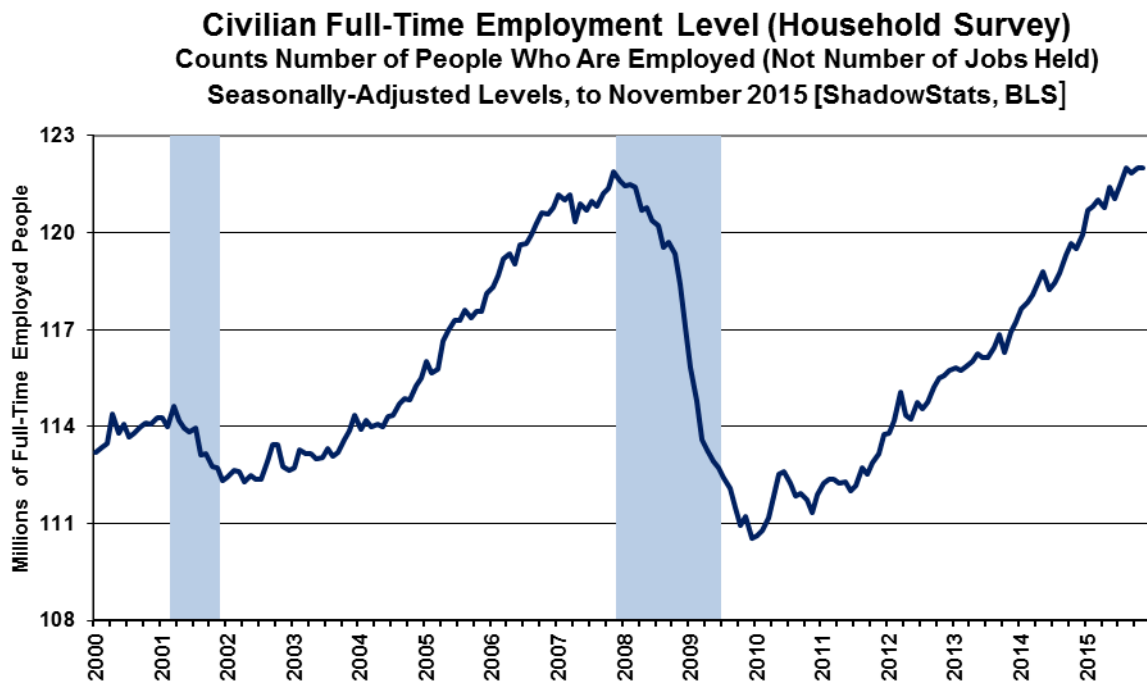
then regained its August “recovery” with headline October 2015 detail 149,000 jobs above the pre-recession high for the series. Headline November 2015 added all of another 3,000 jobs, now standing at 152,000 above the pre-recession high.

Again, such compares with the headline payroll-employment level that now is 4.5-million above its pre-recession high, having regained its peak some 19-months ago. Again, the payroll count is of jobs, not people, where much of that payroll “jobs” growth has been in part-time, and in multiple part-time jobs, many taken on for economic reasons, where full-time employment was desired but could not be found. Discussed in the *Opening Comments*, this was the circumstance with the headline November 2015 Household-Survey data.

As a separate consideration and an indication of the level of nonsensical GDP reporting, where employment traditionally is a coincident indicator of broad economic activity, again the GDP purportedly recovered its pre-recession high some four years ago, more than two years before similar payroll activity.

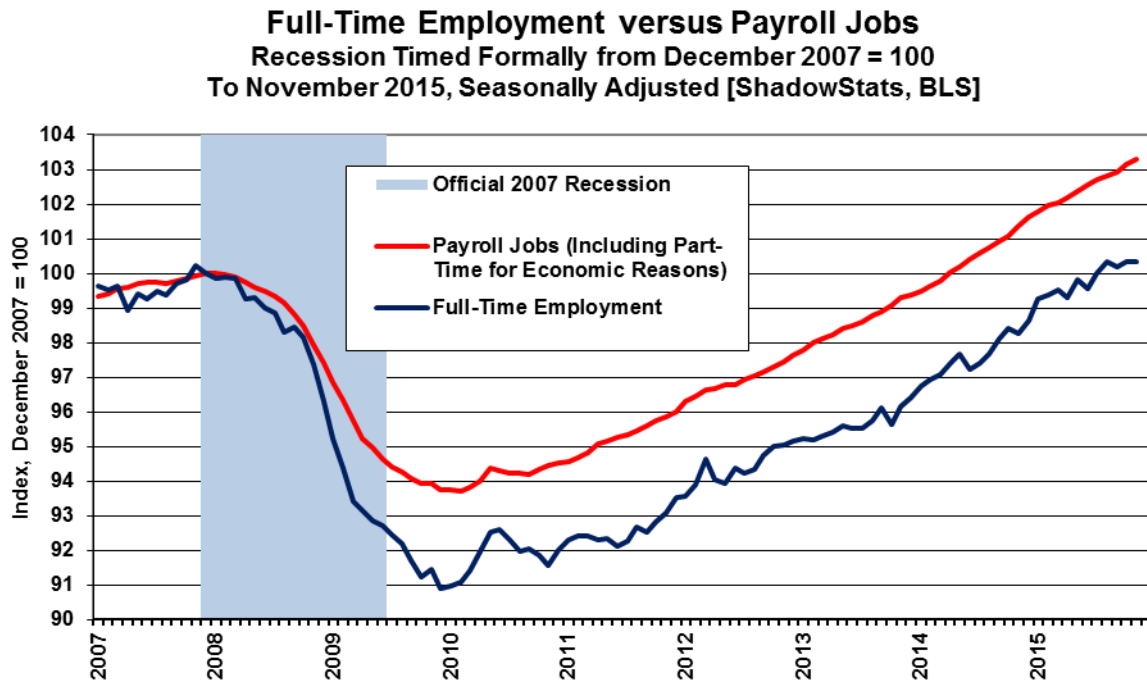
Full-time employment gained a seasonally-adjusted headline 3,000 in November 2015, following a 185,000 gain in October 2015, which reversed the drop of 185,000 (-185,000) in September, following a gain of 435,000 in August, a gain of 536,000 in July, and a decline of 349,000 (-349,000) in June. The series likely will gyrate further around its November 2007 pre-recession peak of 121.875 million, where currently it stands 0.152 million above same.

**Graph 16: Full-Time Employment (Household Survey) to November 2015**

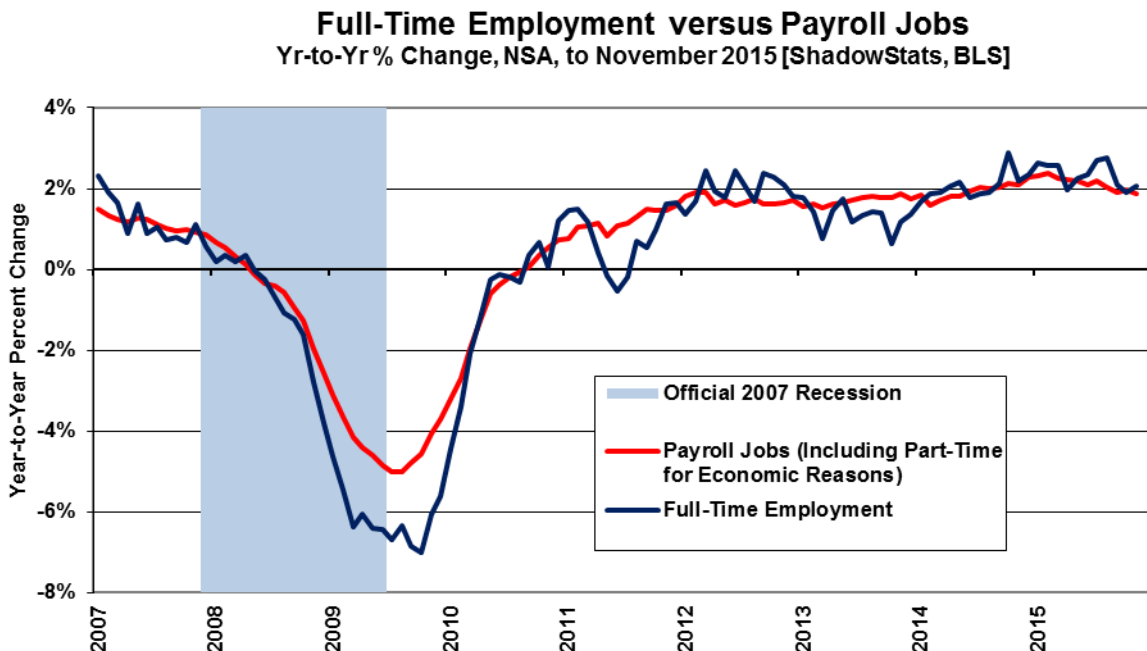


Graphs 17 and 18 plot comparisons of activity in full-time employment versus payroll jobs, post-economic collapse. Full-time employment was hit hardest, with headline employment “recovery” coming largely from individuals having to settle for part-time work.

**Graph 17: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey)**



**Graph 18: Full-Time Employment (Household Survey) versus Jobs Count (Payroll Survey), Year-to-Year**



Headline month-to-month volatility in the full-time employment reporting is more a function of the instabilities from the non-comparability of the headline, seasonally-adjusted monthly data (see the



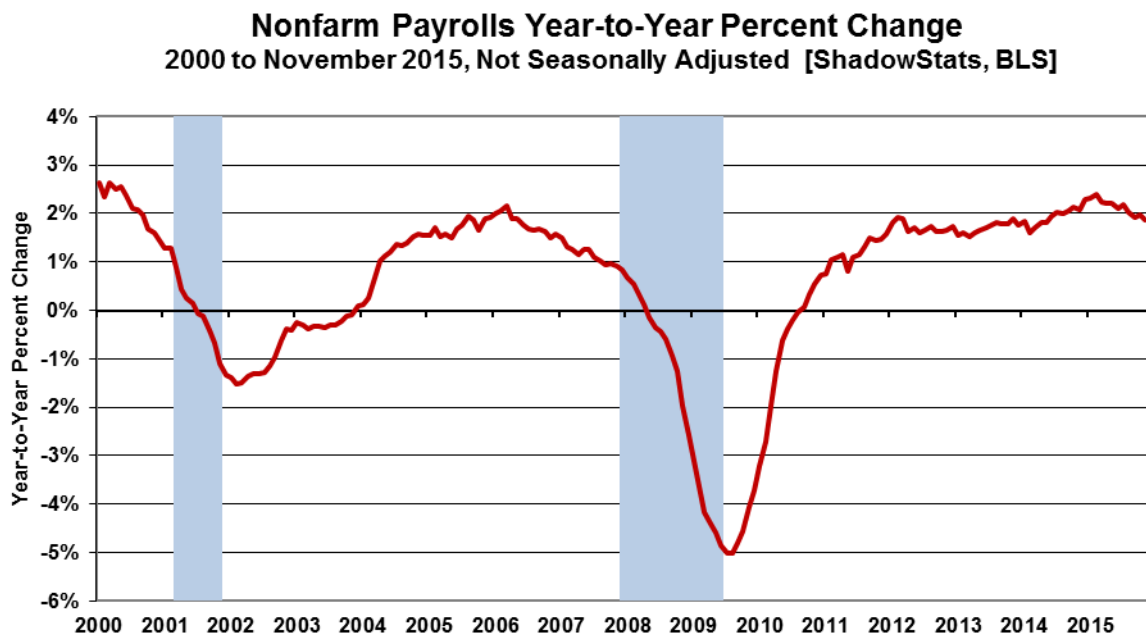
discussion in the *Headline Distortions from Shifting Concurrent Seasonal Factors* section), than it is as an indicator of actual month-to-month volatility in economic activity.

The graph of full-time employment excludes the count of those employed with only part-time jobs, one or more. Total employment, including those employed with part-time work, has recovered its pre-recession high, but it still is 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 Headline Payrolls—Slowing Growth.** 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 at least are reported on a consistent basis. Yet, 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](#)).

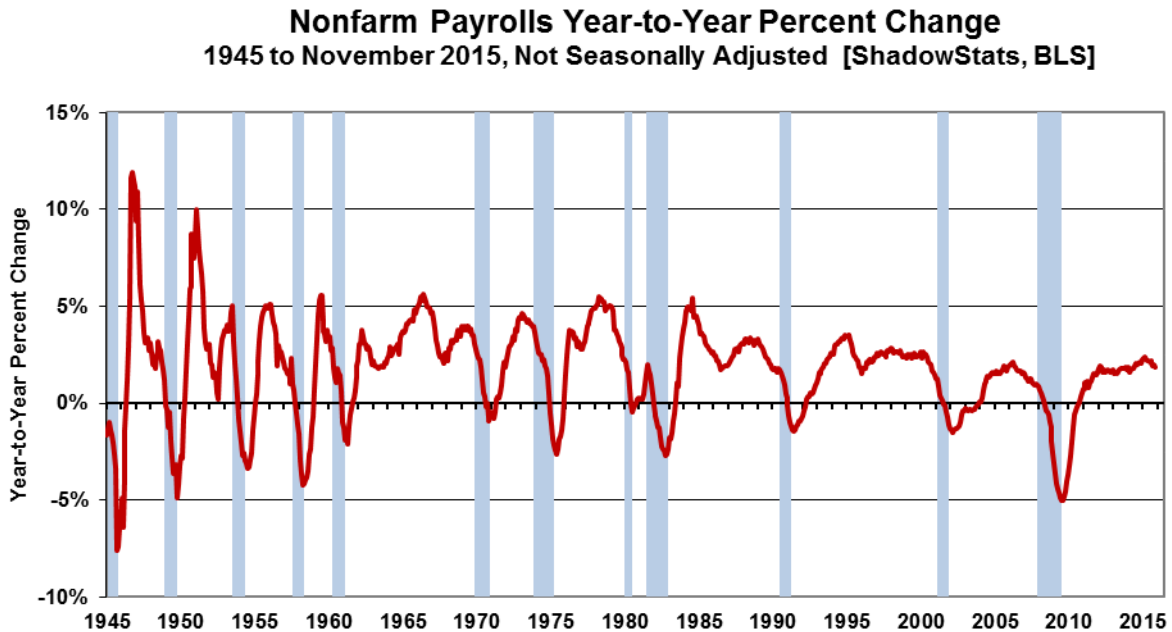
With the 2014 benchmarked surges built into recent headline payroll activity, patterns of year-to-year growth in unadjusted payrolls also moved higher, setting a post-recession high of 2.39% in February 2015. Such was the strongest annual growth since June 2000 (another recession), but subsequent annual growth has slowed. Year-to-year nonfarm payroll growth in November 2015 slowed to 1.87%, down from a revised annual gain of 1.97% [previous up by 1.95%] in October 2015, versus a revised 1.92% [previously 1.91%, initially 1.94%] in September 2015, and an unrevised 2.03% gain in August 2015, and an unrevised 2.18% gain in July 2015. The November reading was the weakest annual growth rate in the last eighteen months.

**Graph 19: Payroll Employment, Year-to-Year Percent Change, to November 2015**



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

**Graph 20: Payroll Employment, Year-to-Year Percent Change, 1945 to November 2015**



**Headline Distortions from Shifting Concurrent-Seasonal Factors.** 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 re-adjustment process also revises the monthly history of each series, recalculating prior, adjusted reporting for every month, going back five years, so as to be consistent with the new seasonal patterns that generated the current headline number.

**Effective Reporting Fraud.** The problem remains that the BLS does not publish the monthly historical revisions along with the new headline data. As a result, current headline reporting is neither consistent nor comparable with prior data, and the unreported actual monthly variations versus headline detail can be large. The deliberately-misleading reporting effectively is a fraud. The problem is not with the BLS using concurrent-seasonal-adjustment factors, it is with the BLS not publishing consistent data, where those data are calculated each month and are available internally to the Bureau.

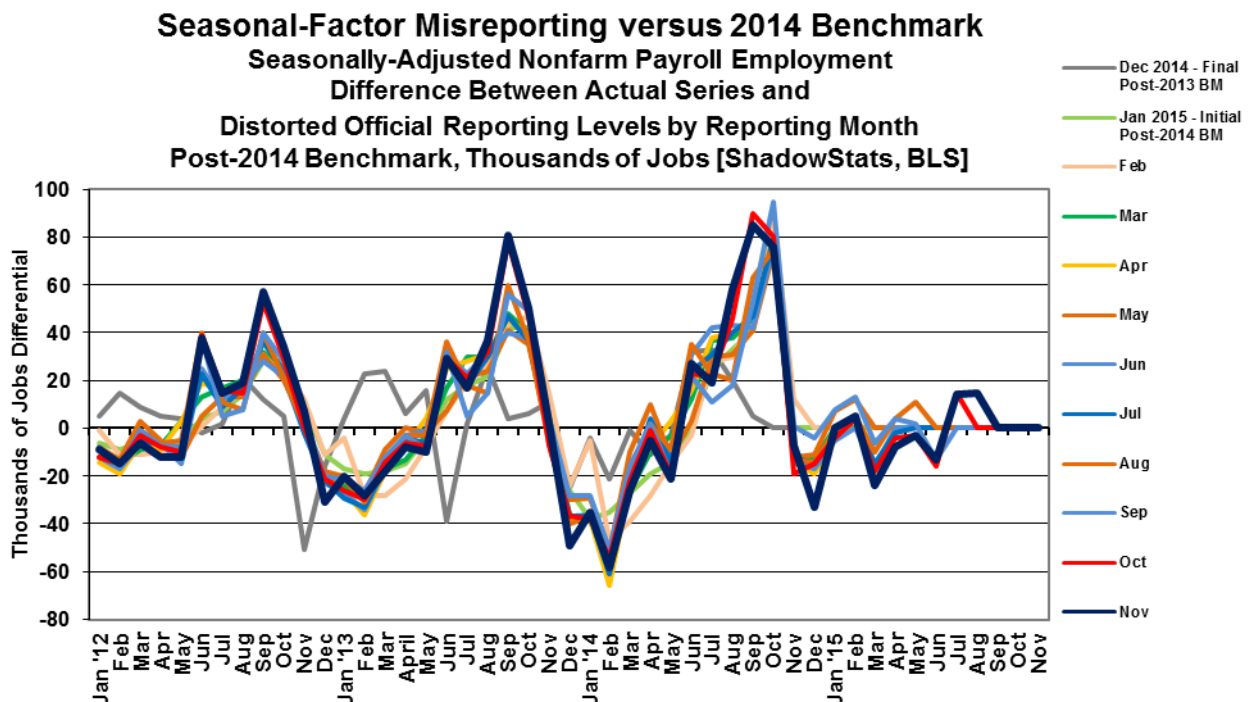
Household Survey. In the case of the published Household Survey (unemployment rate and related data), the seasonally-adjusted headline November 2015 numbers were not comparable with the prior October 2015 data or any month before. Accordingly, the published headline detail as to whether the unemployment rate was up, down or unchanged in a given month is not meaningful, and what actually happened is not knowable by the public. Month-to-month comparisons of these popular numbers are of no substance, other than for market hyping or political propaganda.

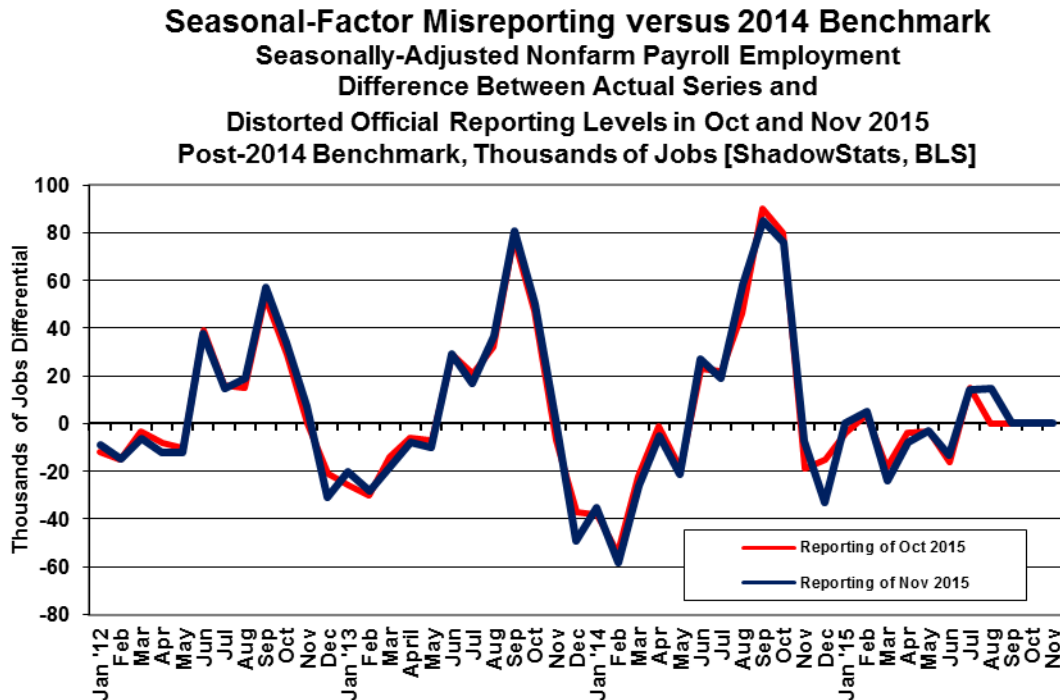
The headline month-to-month reporting is made consistent in the once-per-year reporting of December data, which will occur with next month's December 2015 reporting on January 8th, when the annual revisions to the faux "fixed" seasonal adjustments are published. All historical comparability evaporates, though, with the ensuing month's headline January reporting, and with each monthly estimate thereafter.

Payroll or Establishment Survey. In the case of the published Payroll Survey data (payroll-employment change and related detail), monthly changes in the seasonally-adjusted headline November 2015 data are comparable only with the headline changes in the October 2015 numbers, not with September 2015 or any earlier months. Due to the BLS modeling process, the historical data never are published on a consistent basis, even with publication of the annual benchmark revision, as discussed shortly.

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, as often is the case. In the current reporting, September-to-November 2015 payrolls appears to have been inflated at least partially with revamped seasonal adjustments, temporarily stealing seasonal growth from the month ahead, without any formal indication of related shifting detail in the previously-published historical data.

**Graph 21: Monthly Concurrent-Seasonal-Factor Irregularities with Monthly Payroll Employment**



**Graph 22: Monthly Concurrent-Seasonal-Factor Irregularities - Focusing on Headline Sep vs Oct 2015**

The BLS does provide modeling detail for the Payroll Survey, allowing for third-party calculations, but no such accommodation has been made for the Household Survey. ShadowStats affiliate [www.ExpliStats.com](http://www.ExpliStats.com) does such third-party calculations for the payroll series, and the detail of the differences between the current headline reporting and the constantly-shifting, consistent and comparable history are plotted in the accompanying graphs.

*Graph 21* details how far the monthly payroll employment data have strayed from being consistent with the most recent benchmark revision. The gray line shows the December 2014 pattern versus the 2013-benchmark revision, and the color-coded lines show the January to November 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.

A comparison of the heavy, dark-blue line (November 2015) with the thinner red line (October 2015), shows shifts in seasonal factors in September through December 2014 numbers, as well as a shift in August 2015 that distorted the headline revised gain in September 2015. Such is seen more easily in *Graph 22*, which plots just the isolated detail from October and November 2015.

If the headline monthly reporting were comparable and stable, month-after-month, all the lines in *Graphs 21* and *22* would be flat and at zero. Again, with the payroll series, only the headline month and the prior month are consistent in terms of month-to-month reporting detail (headline October 2015 no longer is comparable with data from September 2015 or earlier). Again, comparable with headline November and October reporting, September's current headline jobs gain of 1453,000 was overstated by 15,000 (up by 130,000 on a consistent basis). Monthly discrepancies have been as large as 100,000 jobs.

***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 understated payrolls of 67,000 (-67,000), the BLS upped its annual add-factor bias by an even greater 161,000 for the year ahead, to 892,000.

The BLS recently announced a preliminary downside revision of 208,000 (-208,000) jobs to the base March 2015 payroll employment levels (see [Commentary No. 753](#) of September 17th for details). Such had been suggested from recent shifts in existing bias factors. As has been standard BLS practice, there is no good political reason for risking a headline understatement of jobs growth, so the ultimate, actual benchmarking for 2015, to be published in February 2016, will speak for itself.

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 relative effects on payroll employment of jobs creation due to new businesses starting up, versus jobs lost due to bankruptcies or closings of existing businesses.

November 2015 Add-Factor Bias. The not-seasonally-adjusted November 2015 bias was a positive monthly add-factor of 15,000, versus a positive add-factor of 165,000 in October 2015, and a positive add-factor of 16,000 in November 2014.

The revamped, aggregate upside bias for the trailing twelve months through November 2015 was 789,000, versus 790,000 in October, 789,000 in September, 804,000 in August, 797,000 in July, 836,000 in June and 856,000 in May, but still higher than the pre-2014-benchmarked level of 731,000 in December 2014. That remain a rough-monthly average of 66,000 in November (versus 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. 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 were incorporated into the 2014 redefined payroll series. Such information simply 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 66,000 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.*** Discussed in the earlier *Headline Distortions from Shifting Concurrent Seasonal Factors* section, seasonally-adjusted data from the monthly Household Survey simply are not comparable on a month-to-month basis. In this form, headline monthly changes in the unemployment-related numbers are virtually meaningless, good only for the market- or political-hype of the moment. The seasonal-adjustment process here restates the history of each series, each month, as unique adjustment factors determine the current month's headline detail. Yet, when the BLS publishes the headline numbers, it does not publish the comparable revised history, only the headline history as published initially for each series. Only the BLS, not the public, knows the actual, comparable monthly change in the seasonally-adjusted U.3-unemployment rate. The exception comes with once-per-year revisions in the headline December reporting (next month), with all the monthly discrepancies coming back into play with the subsequent headline reporting for January.

Separately, 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 investigated by the House Committee on Oversight and Government Reform and the U.S. Congress Joint Economic Committee. Further investigation purportedly is underway in Congress. 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.



**Headline Unemployment Rates.** The headline November 2015 unemployment rate (U.3) rose by 0.01-percentage point to 5.05% (a rounded headline 5.0%), from 5.04% (a rounded headline 5.0%) in October. Technically, the headline November increase in U.3 was statistically-insignificant, where the official 95% confidence interval around the monthly change in headline U.3 is +/- 0.23-percentage point.

Again, though, the headline gain here of 0.01% in U.3 also is without meaning, because the seasonally-adjusted month-to-month details simply are not comparable, due to the BLS's reporting methodology and use of concurrent-seasonal-adjustment factors (see *Headline Distortions from Shifting Concurrent Seasonal Factors*). Those issues remain separate from official questions raised as to falsification of the Current Population Survey (CPS) results, from which are derived the unemployment details.

On an unadjusted basis, the unemployment rates are not revised and at least are consistent in reporting methodology. The November 2015 unadjusted U.3 unemployment rate eased to 4.81% versus 4.83% in October.

The near-zero increase in the seasonally-adjusted, headline November U.3 unemployment rate reflected an increase of 29,000 unemployed individuals with a gain of 244,000 employed, and an aggregate gain of 373,000 in the labor force. The increase in employment, along with an increase in unemployment likely reflects the issues discussed in the *Opening Comments* as to full-time employment versus part-employment for economic reasons and in the *Full-Time Employment versus Part-Time Payroll Jobs* section earlier in the this *Reporting Detail*. Also a factor here, again, is that the headline monthly swings in the seasonally-adjusted unemployment data are heavily skewed, and month-to-month data simply are not comparable. Next month's annual revisions to these data shall be interesting.

New discouraged and otherwise marginally-attached workers always are moving into U.6 unemployment accounting from U.3, while those who have been discouraged for one year continuously are 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 Estimate, 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 negligible increase in the underlying seasonally-adjusted U.3 rate, a sharp increase in the adjusted number of people working part-time for economic reasons, along with a less-than-offsetting decline in those marginally attached to the workforce (short-term discouraged workers declined for the month), headline November 2015 U.6 unemployment rose to 9.90% from 9.81% in October, while the unadjusted U.6 was at 9.59% in November, versus 9.45% in October.

**"Short-Term" Discouraged Workers.** The count of short-term discouraged workers in November 2015 (never seasonally-adjusted) fell by 71,000 (-71,000) to 594,000, from 665,000 in October, where the total, short-term marginally-attached discouraged workers eased to 1,717,000 in November 2015, from 1,916,000 in October. The latest, official discouraged number reflected the flow of the headline unemployed—giving up looking for work—leaving the headline U.3 unemployment category and being rolled into the U.6 measure as short-term "marginally-attached 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 is 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 redefined short-term discouraged and redefined marginally-attached workers were included in U.6.

***ShadowStats Alternate Unemployment Estimate.*** Adding back into the total unemployed and labor force the ShadowStats estimate of the still-growing ranks of excluded, long-term discouraged workers—a broad unemployment measure more in line with common experience—the ShadowStats-Alternate Unemployment Estimate notched higher to 22.9% in November 2015, versus 22.8% in October.

Off the October 2015 near-term low, the ShadowStats November reading still was down by 40 basis points or by 0.4% (-0.4%) from the 23.3% series high in December 2013. In contrast, the headline U.3 reading for November 2015 of 5.0% was tied with the October 2015 reading as the lowest level since February of 2008, down from its 10.0% peak in April 2010 by a full 500 basis points or 5.0% (-5.0%).

Again, the ShadowStats estimate generally shows the toll of long-term unemployed leaving the headline labor force, as discussed in greater detail in the following section.

***SHADOWSTATS-ALTERNATE UNEMPLOYMENT RATE MEASURE.*** In 1994, the BLS overhauled its system for estimating unemployment, including changing survey questions and unemployment definitions. In the new system, measurement of the previously-defined discouraged workers disappeared. These were individuals who had given up looking for work, because there was no work to be had. These people, who considered themselves unemployed, had been counted in the old survey, irrespective of how long they had not been looking for work.

The new survey questions and definitions had the effect of minimizing the impact on unemployment reporting for those workers about to be displaced by the just-implemented North American Free Trade Agreement (NAFTA). At the time, I had close ties with an old-line consumer polling company, whose substantial economic monthly surveys were compared closely with census-survey details. The new surveying changed the numbers, and what had been the discouraged-worker category soon became undercounted or effectively eliminated. Change or reword a survey question, and change definitions, you can affect the results meaningfully.

The post-1994 survey techniques also fell far shy of adequately measuring the long-term displacement of workers tied to the economic collapse into 2008 and 2009, and from the lack of subsequent economic recovery. The BLS has a category for those not in the labor force who currently want a job. Net of the currently-defined “marginally attached workers,” which includes the currently-defined discouraged-worker category used in the U.6, those not in the labor force currently wanting a job declined rose to 3.608 million in November 2015 versus 3.787 million in October 2015. While some will contend that

that number includes all those otherwise-uncounted discouraged workers, such is far shy of the underlying reality.

The ShadowStats number—a broad unemployment measure more in line with common experience—is my estimate. The approximation of the ShadowStats “long-term discouraged worker” category—those otherwise largely defined out of statistical existence in 1994—reflects proprietary modeling based on a variety of private and public surveying over the last two decades. Beyond using the BLS U.6 estimate as an underlying monthly base, I have not found a way of accounting fully for the current unemployment circumstance and common experience using just the monthly headline data from the BLS.

Some broad systemic labor measures from the BLS, though, are consistent in pattern with the ShadowStats measure, even allowing for shifts tied to an aging population. Shown in the *Opening Comments*, the graph of the inverted ShadowStats unemployment measure has a strong correlation with the employment-to-population ratio, in conjunction with the labor-force participation rate, as well as with the ShadowStats-Alternate GDP Estimate (see [Commentary No. 769](#)). Those series all are plotted subsequent to the 1994 overhaul of unemployment surveying (see *Graphs 3 to 6*).

**Headline November 2015 Detail.** Again, adding back into the total unemployed and labor force the ShadowStats estimate long-term discouraged workers, the November 2015 ShadowStats-Alternate Unemployment Estimate notched higher to 22.9% from 22.8% in October. The November reading was off the October 2015 near-term low, and down by 40 basis points or 0.4% (-0.4%) from the 23.3% series high in December 2013.

Again, in contrast, the November 2015 headline U.3 unemployment reading of 5.0% held at the lowest level since February 2008, down by a full 500 basis points or 5.0% (-5.0%) from its peak of 10.0% in April 2010.

As seen in the usual graph of the various unemployment measures (*Graph 2* in the *Opening Comments*), there continues to be a noticeable divergence in the ShadowStats series versus U.6 and U.3, with the headline BLS headline unemployment measures heading lower against a currently-stagnant, high-level ShadowStats number.

The reason for this is that U.6, again, only includes discouraged and marginally-attached 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” or otherwise marginally attached, 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 (the 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 they began moving increasingly 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.

**Great Depression Comparisons.** As discussed in these regular *Commentaries* covering the monthly unemployment circumstance, an unemployment rate around 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 meaningful 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 might be the Great Depression peak in the nonfarm unemployment rate in 1933 of roughly 34% to 35%.

## U.S. TRADE BALANCE (October 2015)

**Nominal Second- and Third-Quarter Trade Deficits Widened Sharply in Revision; Real Fourth-Quarter Deficit on Track to Be Worst in Seven Years.** With initial reporting of the inflation-adjusted October 2014 merchandise trade deficit in hand, the real fourth-quarter 2015 trade deficit is on track to be the worst since third-quarter 2007, with implications for a negative hit to the “advance” estimate of fourth-quarter 2015 GDP on January 29, 2016, as discussed and graphed in the opening paragraphs of the *Opening Comments*.

The “unexpected” widening in the nominal October 2015 trade deficit to \$43.9 billion, versus \$42.6 billion in September was in the context of significant, prior-period revisions. With negative implications for future benchmark revisions to second- and third-quarter 2015 GDP, the nominal goods-and-services trade deficits in second- and third-quarter 2015 widened sharply in headline revisions. The annualized nominal pace of the second-quarter 2015 deficit in goods-and-services widened to a revised \$532.3 [previously \$520.0] billion, with the third-quarter deficit widening to \$534.8 [previously \$522.5] billion. Those details, however, have not yet flowed through to the headline, real merchandise-trade-deficit detail.

The “advance” reporting of the November 2015 merchandise trade deficit on November 24th, showed virtually no headline monthly change in the monthly merchandise trade deficit. The series appears to be of limited scope and usefulness in terms of providing any meaningful indication of the “final” trade reporting that gets published one week later.

**Nominal (Not-Adjusted-for-Inflation) October 2015 Trade Deficit.** The Bureau of Economic Analysis (BEA) and the Census Bureau reported December 4th, that the nominal, seasonally-adjusted monthly trade deficit in goods and services for October 2015, on a balance-of-payments basis, widened by \$1.434 billion to \$43.891 billion, versus a revised \$42.457 [previously \$40.812] billion in September 2015. The

October 2015 nominal deficit also widened versus a non-comparable \$42.753 billion trade shortfall in October 2014 (see *Ongoing Cautions...* section).

In terms of month-to-month trade patterns, the headline \$1.434 billion widening in the October deficit reflected a decline of \$2.702 billion in monthly exports, offset by a \$1.269 billion decline in monthly imports (difference is in rounding), with declines in both sectors reflecting falling oil prices.

Energy-Related Petroleum Products. For October 2015, the not-seasonally-adjusted average price of imported oil dropped to \$40.12 per barrel, versus \$42.72 per barrel in September, and versus \$88.47 per barrel in October 2014. Separately, not-seasonally-adjusted, physical oil-import volume in October 2015 averaged 6.669 million barrels per day, down from 7.714 million in September 2015 and down from 7.229 million in October 2014.

Ongoing Cautions and Alerts on Data Quality. Potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues affect other economic releases, such as retail sales and payrolls, where the headline number reflects month-to-month change. Discussed frequently (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) for example), the extraordinary length and depth of the current business downturn and disruptions have disrupted regular seasonality patterns. Accordingly, the markets should not rely too heavily on the accuracy of the monthly headline data.

Noted in trade-related [Commentary No. 748](#), at least a three-percent understatement of the historical U.S. trade deficit awaits correction in its June 2016 benchmark revision, along with implied, subsequent downside benchmark revisions to historical GDP growth in July 2016. Such formalizes, temporarily, distortions in comparability of near-term (comparable) versus long-term (not comparable) reporting of the goods and services trade detail.

Where imports are counted on the negative side of the trade balance, a change in reporting methodology has shown that imports have been understated regularly, with the effect of underestimating the size of the U.S. trade deficit by at least three-percent. Such has negative implications for historical, broad economic growth and indeed for future GDP benchmark revisions.

Beginning with the headline reporting for July 2015, the Bureau of Economic Analysis (BEA) and the Census Bureau introduced a change in the trade-deficit calculation, now counting low-value imports, which previously neither were reported nor calculated in the monthly balance-of-payments estimates. To allow for near-term reporting consistency in recent headline data, trade detail back to January 2015 also was restated with July's and subsequent reporting to incorporate a "temporary balance of payments adjustment for low-value imports," included in the trade calculations.

Those changes, along with other regular minor revisions to the trade deficit for first-half 2015, had the net effect of widening the six-month trade deficit by 3.3%. The bulk of that was due to the new reporting approach. Even-greater trade deterioration looms with further, new detail, still to be added. Separately, as a result of the temporary restatement of historical post-December 2014 reporting, current headline balance-of-payment data no longer are consistent with earlier data, such as might be seen with year-ago comparisons.

Noted in the July 2015 trade balance [Press Release](#), "The Census Bureau will revise historical statistics in June 2016 with the annual revision release. To maintain time-series consistency for imports of goods on a



balance of payments (BOP) basis, the U.S. Bureau of Economic Analysis has applied temporary BOP adjustments to imports of goods on a Census basis beginning with January 2015 statistics. These adjustments will be removed from imports of goods on a BOP basis in June 2016 when the Census Bureau revises historical statistics.”

***Real (Inflation-Adjusted) October 2015 Trade Deficit.*** Adjusted for seasonal factors, and net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), the October 2015 merchandise trade deficit (no services) widened to \$60.327 billion, from a revised \$57.374 [previously \$57.241] billion in September 2015. The October 2015 shortfall also widened sharply versus a still-comparable \$49.906 billion real deficit in October 2014.

As currently reported, the annualized quarterly real merchandise trade deficit stood at \$588.6 billion for third-quarter 2014, \$605.5 billion for fourth-quarter 2014, \$692.1 billion for first-quarter 2015, and \$694.5 billion for second-quarter 2015. Widening quarter-to-quarter real trade deficits subtract growth from the quarterly real GDP estimates, while narrowing deficits boost headline GDP.

The annualized quarterly real trade shortfall in third-quarter 2015 widened minimally to \$705.8 [previously \$705.3] billion and versus the second-quarter 2015 trade shortfall. Based just on the headline October 2015 detail, the fourth-quarter 2015 deficit is set at an initial pace of \$723.9 billion. Not only would that be the worst quarterly deficit since third-quarter 2007, it is enough worse than third-quarter 2015 reporting to contribute negative growth to the “advance” estimate of fourth-quarter 2015 GDP on January 29th, all as discussed in the opening paragraphs of the *Opening Comments*.

## CONSTRUCTION SPENDING (October 2015)

**October’s Entire 1.0% Construction Spending Surge Was Accounted for by Headline Construction Inflation.** October 2015 construction nominal spending jumped a headline 1.0% month-to-month, but that was before inflation. Net of a 1.0% gain in headline construction inflation real spending was unchanged for the month. The nominal October gain also was in the context of a 0.2% upside revision to previously-reported September activity. That said, the general pattern in this highly-volatile series, net of inflation, remained one of low-level, albeit now flat-trending (not up-trending) stagnation.

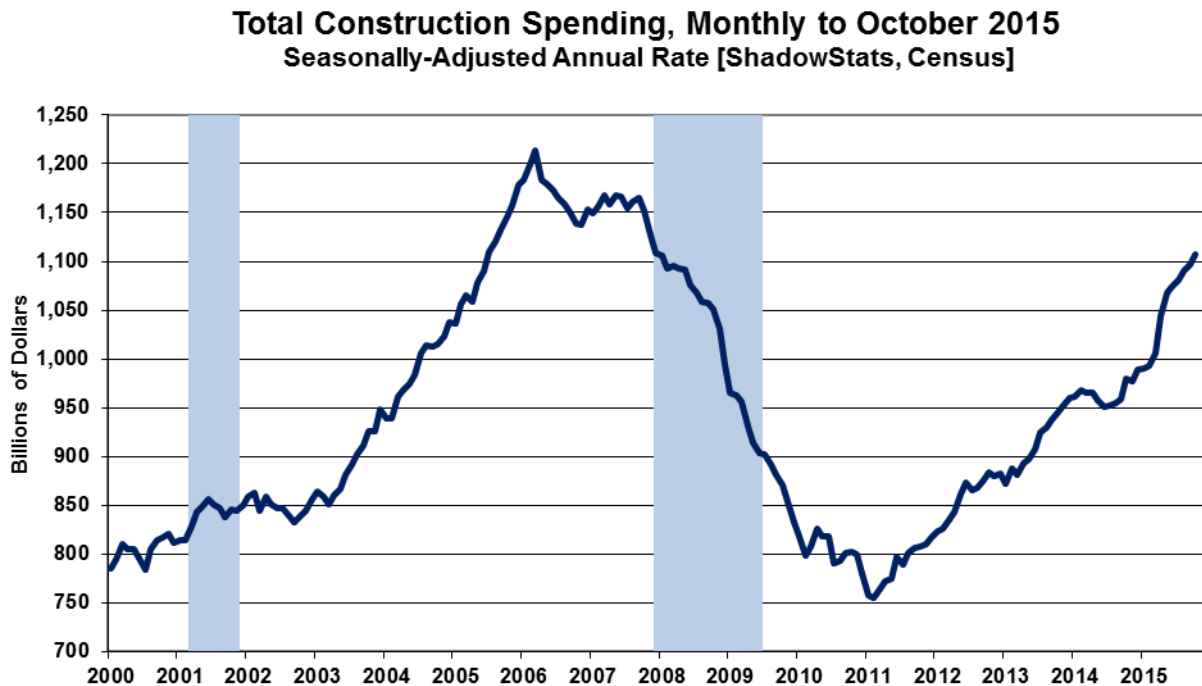
Reflecting revised, full quarterly reporting, growth slowed sharply in third-quarter 2015 real construction spending (deflated by PPI construction inflation), at a revised annualized quarterly pace of 7.4% [previously 7.0%], against a revised annualized annual growth rate of 28.7% [previously up by 28.4%, up by 28.2%, up by 28.3% and initially up by 25.7%] in second-quarter 2015. Based solely on the headline October 2015 detail, initial fourth-quarter growth has slowed further to 3.0%.

*Graphs 7 to 10* in the *Opening Comments* section show comparative nominal and real construction activity for the aggregate series as well as for private residential- and nonresidential-construction and public construction spending. Seen after adjustment for inflation, the aggregate series had remained in low-level stagnation into first-quarter 2015. It spiked in recent months, but slowed and flattened out in the last several months of reporting, with the real series in October 2015 still holding at 27.0% (-27.0%) below its pre-recession peak of March 2006. Areas of recent relative real strength all have flattened out, net of rising construction inflation. The general pattern of real activity remains one of low-level, up-

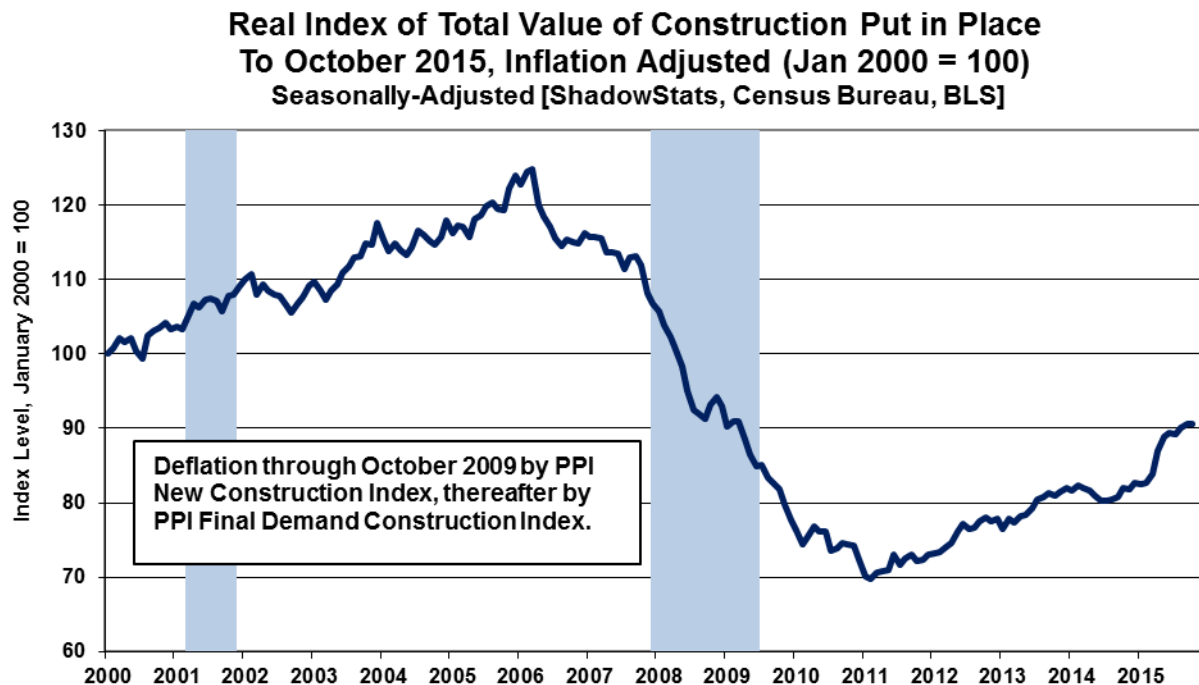


trending stagnation that now has shifted to flat-trending stagnation. The aggregate nominal detail is shown in *Graph 23* of this *Reporting Detail*, with the real detail shown in *Graph 24*.

**Graph 23: Total Nominal Construction Spending**



**Graph 24: Index of Total Real Construction Spending**



***PPI Final Demand Construction Index (FDCI).*** ShadowStats uses the Final Demand Construction Index (FDCI) component of the Producer Price Index (PPI) for deflating the current aggregate activity in the construction-spending series. The subsidiary private- and public-construction PPI series are used in deflating the subsidiary series, again, all as shown in *Graphs 7 to 10* in the *Opening Comments*.

The previously-used New Construction Index (NCI) in the PPI was so far shy of reflecting construction costs as to be virtually useless. Although closely designed to match this construction-spending series, the FDCI and subsidiary numbers have two problems. First, the historical data only go back to November 2009. Second, they generally still understate actual construction inflation. Private surveys tend to show higher construction-related inflation than is reported by the government. For example, year-to-year inflation reflected in the privately-published Building Cost Index and Construction Cost Index [Dodge Data and Analytics (McGraw Hill) [Engineering News-Record](#)] had been running well above the headline pace of annual inflation in the PPI's Final Demand Construction Index, but the annual PPI inflation measure moved about even with the private-sector measures in October 2015.

There is no perfect, publicly-available inflation measure for deflating construction. For the historical series in the accompanying graphs, the numbers are deflated by the NCI through November 2009, and by the FDCI and subsidiaries thereafter.

For October 2015, the seasonally-adjusted FDCI month-to-month inflation jumped by 0.97% (up by 1.0% at the first decimal point), having been “unchanged” at 0.00% in September. In terms of year-to-year inflation, the October 2015 FDCI was up by 2.24%, versus annual inflation of 1.80% in September 2015.

Where the subsidiary series tend to track the aggregate inflation detail over time, October 2015 headline inflation for publicly-funded construction rose by 0.97%, having declined fell by 0.09% (-0.09%) month-to-month in September, and rose by 2.15% year-to-year in October 2015, having gained 1.80% year-to-year in September 2015.

Inflation for privately-funded construction rose month-to-month by 0.98% in October 2015, having been “unchanged” at 0.00% in September 2015, with year-to-year inflation holding at 2.25% in October 2015, versus annual inflation of 1.81% in September 2015.

***Headline Reporting for October 2015.*** The Census Bureau reported December 1st that the headline, total value of construction put in place in the United States for October 2015 was \$1,107.4 billion, on a seasonally-adjusted—but not-inflation-adjusted—annual-rate basis. That estimate was up by a statistically-insignificant 1.0% +/- 2.1% (all confidence intervals are at the 95% level), versus an upwardly revised \$1,096.6 [previously \$1,094.2] billion in September 2015. Net of prior-period revisions, the headline monthly gain for October was 1.2%.

In turn, September spending was up by an unrevised 0.6% versus an upwardly revised \$1089.8 [previously \$1,087.5, initially \$1,086.2] billion in August. August spending was up by a revised 0.9% [previously up by 0.7%] versus an unrevised \$1,080.4 billion in July.

Adjusted for FDCI inflation, aggregate monthly real spending in October 2015 was unchanged at 0.0%, following an unrevised September gain of 0.6% and a revised August 2015 gain of 1.0%.

On a year-to-year or annual-growth basis, October 2015 nominal construction spending rose by a statistically-significant 13.0% +/- 2.5%, versus a revised annual gain of 14.3% [previously up by 14.1%]

in September 2015 and revised annual gain of 14.1% [previously up by 13.9%, initially up by 13.7%] in August 2015.

Net of construction costs indicated by the FDCI, year-to-year gain in real spending was at 10.6% in October 2015, versus a revised 12.3% in September 2015 and a revised 12.1% in August 2015.

The statistically-insignificant, headline monthly nominal increase of 1.0% in aggregate nominal October 2015 construction spending, versus a 0.6% gain in September 2015 spending, included a headline monthly gain of 1.4% in October public spending, versus a decline of 0.1% (-0.1%) in September. Private spending increased by 0.8% in October, following a 0.9% gain in September. Within total private construction spending, however, the residential sector rose by 1.0% in October, versus a 1.6% gain in September, while the nonresidential sector rose by 0.06% in October, following a 0.2% gain in September. The graphs that follow reflect that extended detail. Again most of the headline nominal gains by sector were offset by rising monthly inflation.

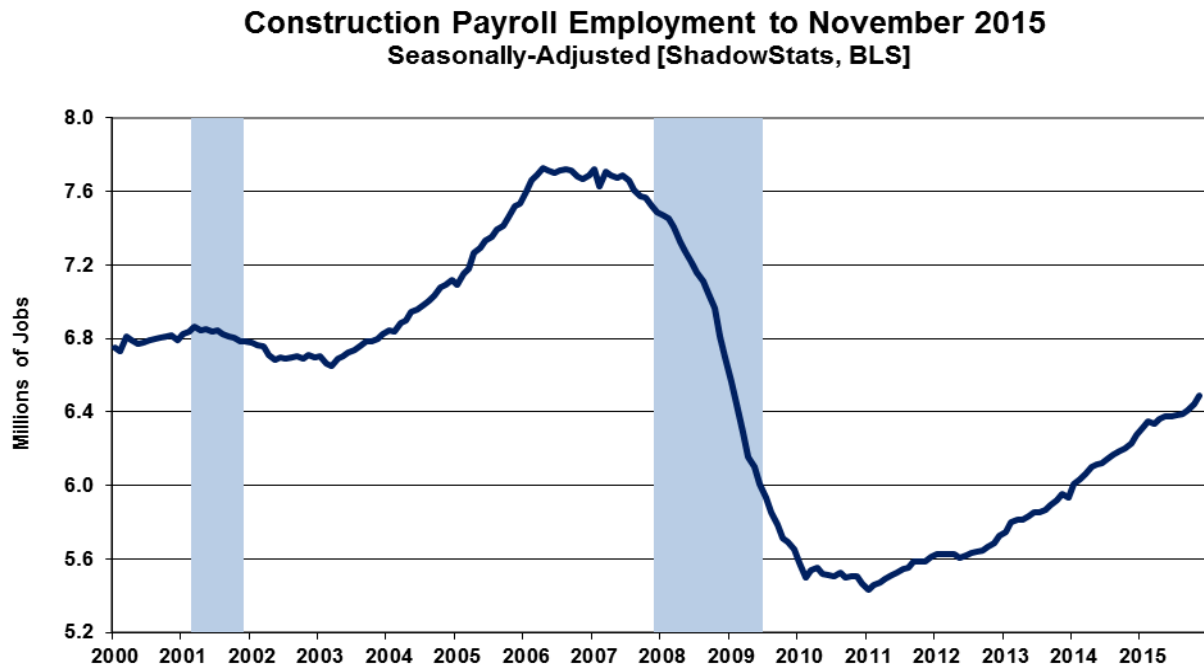
***Construction and Related Graphs.*** The earlier *Graphs 23* and *24* reflected total construction spending through October 2015, both in the headline nominal dollar terms, and in real terms, after inflation adjustment. The inflation-adjusted graph is on an index basis, with January 2000 = 100.0. Adjusted for the PPI's NCI measure through October 2009 and the PPI's Final Demand Construction Index thereafter, real aggregate construction spending showed the economy slowing in 2006, plunging into 2011, then turning minimally higher in an environment of low-level stagnation, trending lower from late-2013 into mid-2014, in a low-level uptrend into 2015, with a recent spike that slowed and now has flattened out.

Despite the recent uptrend, the pattern of inflation-adjusted activity here—net of government inflation estimates—does not confirm the economic recovery indicated by the headline GDP series (see [Commentary No. 769](#)). To the contrary, the latest broad construction reporting, both before (nominal) and, more prominently, after (real) inflation adjustment, generally still shows a pattern of low-level, variably up-trending stagnation, where activity never has recovered pre-recession highs and has flattened-out anew, adjusted for inflation.

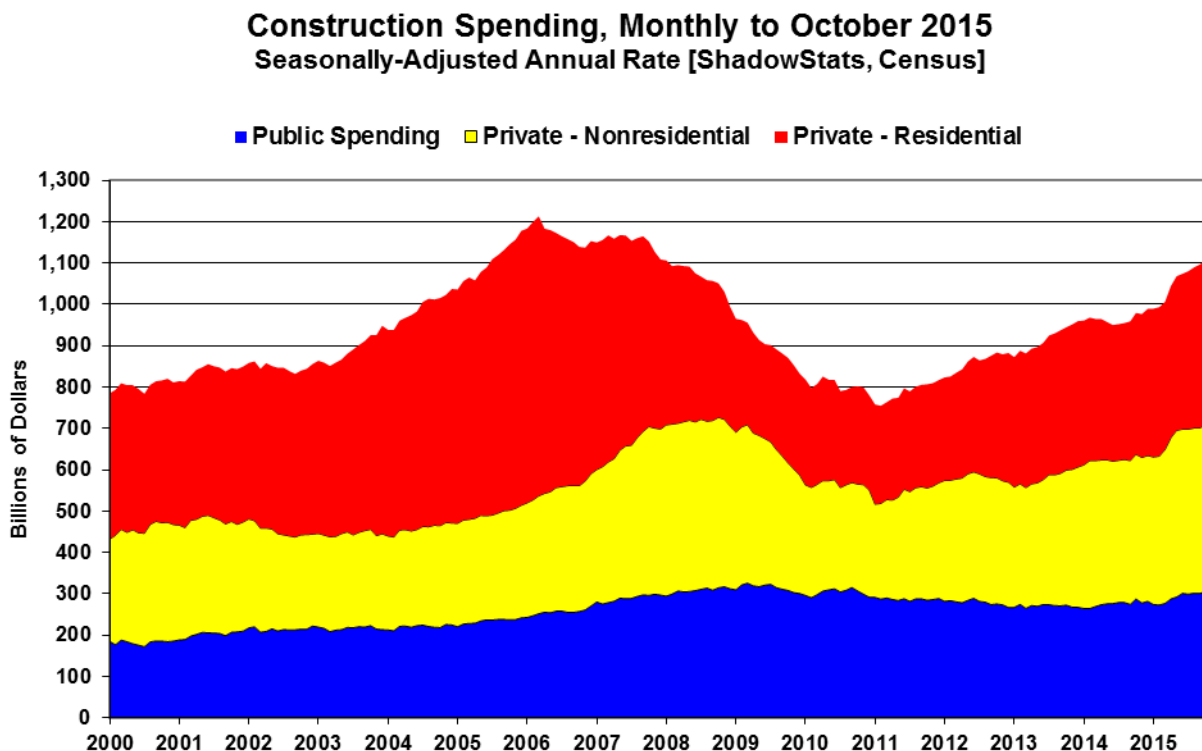
*Graph 25* shows November 2015 construction employment, as discussed and detailed in the coverage of headline November 2015 payroll employment in this *Reporting Detail*. In theory, payroll levels should move more closely with the inflation-adjusted aggregate series, where the nominal series reflects the impact of costs and pricing, as well as a measure of the level of physical activity. Growth in construction payrolls has shown some recent strength at the same time that broad construction activity—measured in terms of units or in real, inflation-adjusted dollars—has begun to slow or turn down anew.

*Graph 26* shows total nominal construction spending, broken out by the contributions from total-public (blue), private-nonresidential (yellow) and private-residential (red) spending.

**Graph 25: Construction Payroll Employment to Date**



**Graph 26: Aggregate Nominal Construction Spending by Major Category to Date**

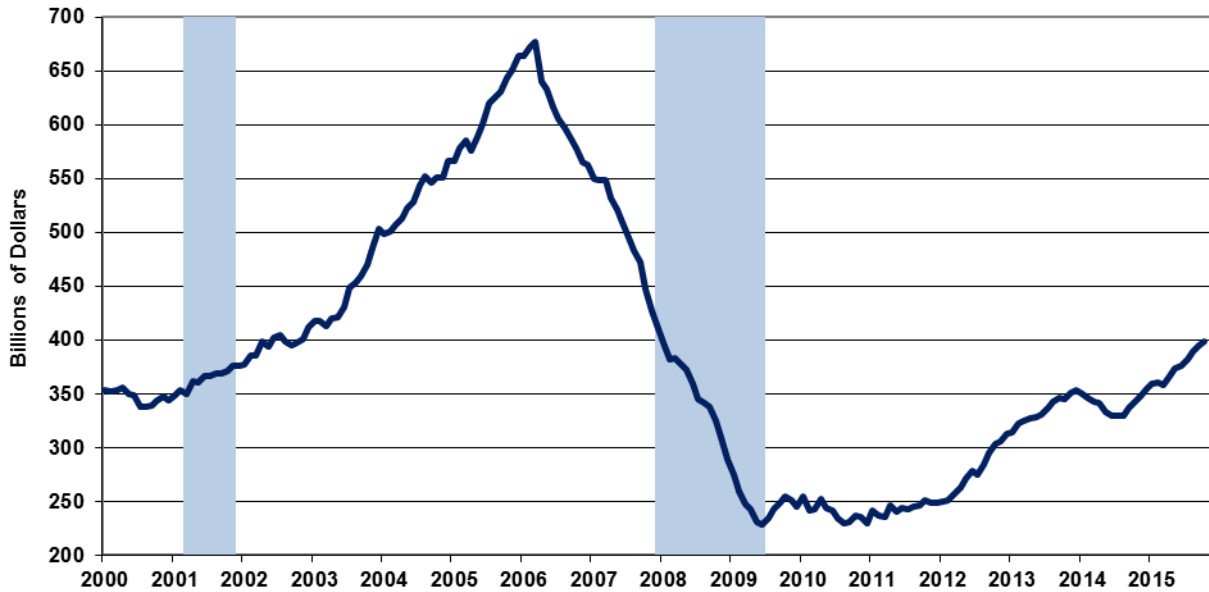


The next two graphs (*Graph 27* and *28*) cover private residential construction along with housing starts (combined single- and multiple-unit starts) for October 2015 (see [Commentary No. 768](#)). Keep in mind

that the construction spending series is in nominal terms, while housing starts reflect unit volume, which should be parallel with the inflation-adjusted series shown in *Graph 8* of the *Opening Comments* section and presumably with the headline construction payroll data in *Graph 25*.

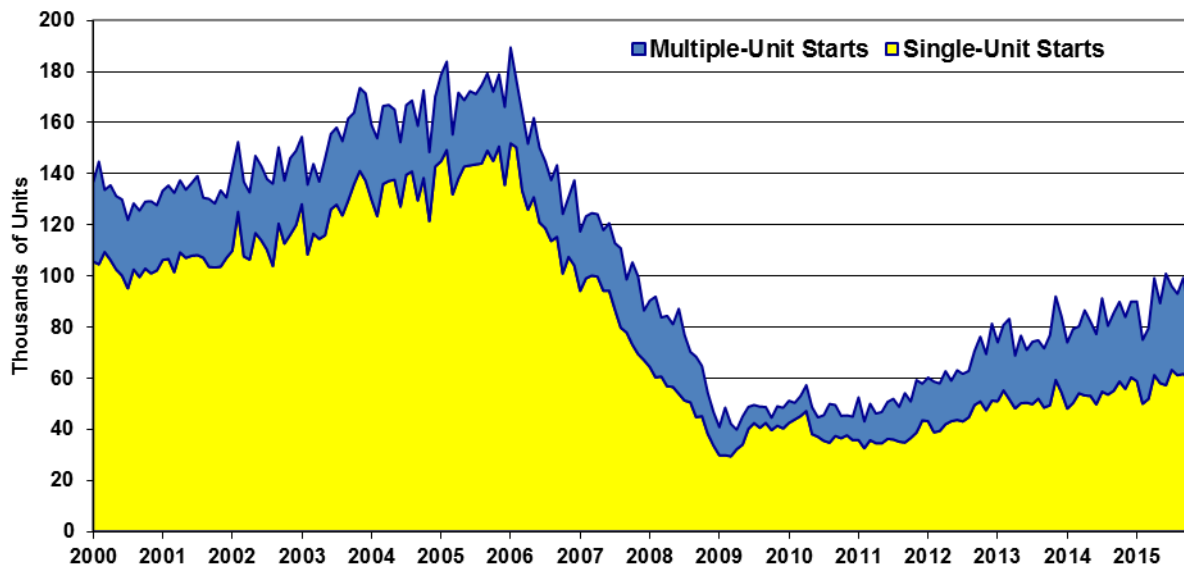
**Graph 27: Nominal Private Residential Construction Spending to Date**

**Private Residential Construction to October 2015**  
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



**Graph 28: Single- and Multiple-Unit Housing Starts to Date**

**Single- and Multiple-Unit Housing Starts (Monthly Rate)**  
To October 2015, Seasonally-Adjusted [ShadowStats, Census]



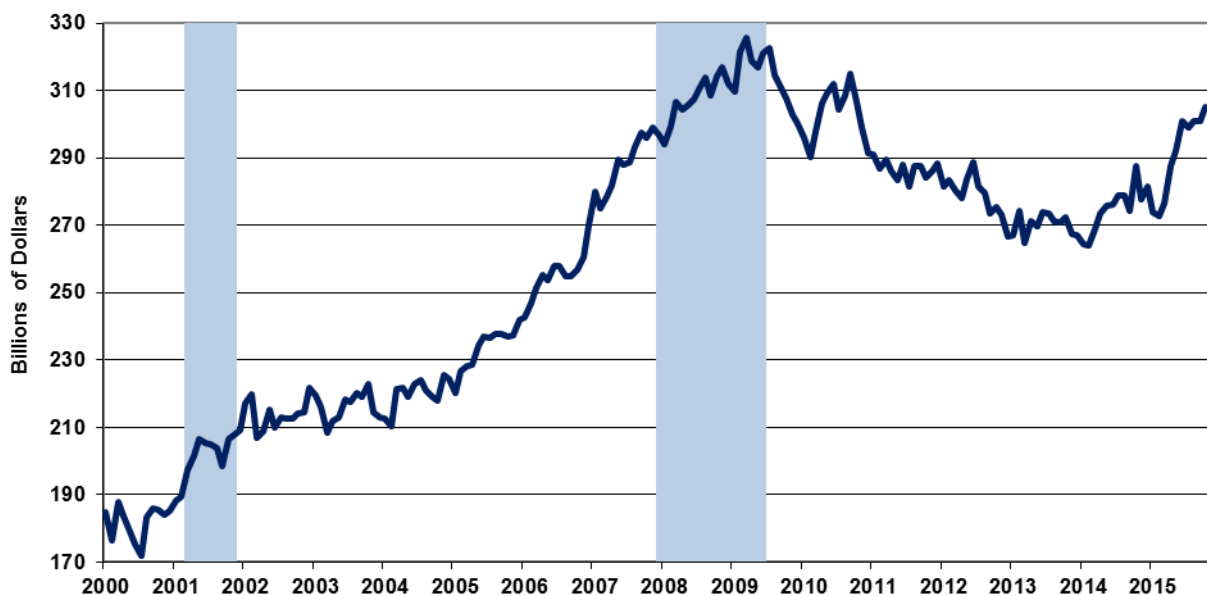
**Graph 29: Nominal Private Nonresidential Construction Spending to Date**

**Private Nonresidential Construction to October 2015**  
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



**Graph 30: Nominal Public Construction Spending to Date**

**Public Construction to October 2015**  
Seasonally-Adjusted Annual Rate [ShadowStats, Census]



The final set of two graphs (*Graphs 29 and 30*) shows the patterns of the monthly level of activity in private nonresidential-construction spending and in public-construction spending. The spending in



private-nonresidential construction remains off its historic peak, but it recently has been closing in on the pre-recession high, rallying sharply. Public construction spending, which is 98% nonresidential, had continued in a broad downtrend, with intermittent bouts of fluttering stagnation and then some upturn in growth in the last year or so. Both series appear stalled shy of their pre-recession peaks, particularly as viewed net of inflation, as shown in *Graphs 9* and *10*.

---

## WEEK AHEAD

**Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices.** Still in a fluctuating, general trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless can gyrate some with the latest economic hype in the popular media. That general effect holds the consensus outlook still at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Where the net trend still has been towards weakening expectations, movement towards recession recognition remains at something of an accelerating pace.

Headline reporting of the regular monthly economic numbers increasingly should continue to turn lower in the weeks and months ahead, along with likely downside revisions and otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GNP) into 2016. That includes the December 22nd second revision to the third-quarter 2015 GDP estimate, and early signals for a headline contraction in fourth-quarter 2015 GDP, to be released at the end of January 2016 (see GDP comments).

CPI-U consumer inflation—intermittently driven lower this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Annual CPI-U turned minimally positive in June 2015, for the first time in six months, notched somewhat higher in July and August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. Gasoline prices appear to be bottoming out, again, with a combination of relatively stable gasoline prices and related, positive seasonal adjustments helping to boost headline October 2015 CPI-U annual inflation to 0.2%, and likely to hold gasoline-price impact at roughly neutral month-to-month on headline inflation for the November CPI-U, but with a further notch or two high for November year-to-year inflation.

Significant inflation pressures should mount anew, once oil prices rebound meaningfully. Again, that process eventually should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those areas, the general economic outlook and longer range reporting trends were reviewed broadly, recently, in [\*No. 742 Special Commentary: A World Increasingly Out of Balance\*](#), and

[\*No. 692 Special Commentary: 2015 - A World Out of Balance\*](#) and in the *Hyperinflation Outlook* Summary of [\*Commentary No. 768\*](#).

**Note on Reporting-Quality Issues and Systemic-Reporting Biases.** Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data, discussed and explored in the labor-numbers related [\*Commentary No. 695\*](#)).

Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see [\*Commentary No. 669\*](#)).

Noted in the *Payroll Employment* section of the *Reporting Detail*, the BLS just has suspended reporting of key earnings data from the period of economic collapse, due to reporting errors. More will follow there, along with the indicated downside benchmark revisions to 2015 payroll employment in February 2016.

#### **PENDING RELEASES:**

**Nominal and Real Retail Sales (November 2015).** The Census Bureau has scheduled release of November 2015 nominal (not-adjusted-for-inflation) Retail Sales for Friday, December 11th, which will be covered in *Commentary No. 772* of that date. Real (inflation-adjusted) Retail Sales for November will follow in *ShadowStats Commentary No. 773* of December 15th, in conjunction with the publication of detail on headline November CPI-U. With a fair chance for a flat-to-minimally-positive headline monthly gain in November CPI inflation, there is a parallel chance for real growth in November sales to be minimally weaker than the headline nominal sales activity. The pace of annual CPI-U inflation, however, should increase, sharply intensifying the recession signal currently generated by annual real growth in retail sales.

Market expectations likely will be on the plus-side of flat for the nominal numbers, again. In the current environment, however, downside-reporting surprises remain a good bet for this series, including a weaker-than-expected headline number for the first of the big holiday-shopping-season months in November, and for potential downside revisions to the September and October detail. An outright contraction in headline November retail sales remains a good possibility. Continued weakness in these numbers again should intensify the shift in consensus expectations towards renewed economic contraction, a “new” recession.

Constraining retail sales activity, the consumer remains in an extreme liquidity bind with weakening confidence, discussed broadly in [\*Commentary No. 766\*](#) and updated briefly in the prior [\*Commentary No.\*](#)

[770](#). A new, full review of consumer conditions will be included in *Commentary No. 772*, accompanying this November nominal retail sales reporting on December 11th. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

**Producer Price Index—PPI (November 2015).** The Bureau of Labor Statistics (BLS) will release the November 2015 PPI also on Friday, December 11th. Odds favor negative headline wholesale inflation, perhaps down by 0.3% (-0.3%) or so for the month. Helping to depress the aggregate November reading should be a meaningfully negative contribution from the energy sector.

Unadjusted oil prices fell in November, as did gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices declined by 8.3% (-8.3%) and by 8.6% (-8.6%). Such was accompanied by a decline of 5.2% (-5.2%) in unadjusted monthly-average retail-gasoline prices (Department of Energy). While PPI seasonal adjustments for energy in November generally are strongly positive, they are not strong enough to pull the energy sector into a positive monthly contribution for the aggregate PPI.

That said, there remain the unusual, counter-intuitive and otherwise non-real-world dynamics at play in the headline margin shifts in the dominant services sector of the PPI—where lower seasonally-adjusted energy prices can translate initially into higher wholesale margins, defined as increased “inflation.” Allowing for some possible upside pricing pressures from wholesale food and “core” goods, there still remains a good chance of a headline aggregate PPI decline of 0.3% (-0.3%), plus-or-minus. The aggregative monthly inflation number occasionally may match real-world experience, but only on a random, coincidental basis.

---