“Shadow Statistics”: More Phony Employment Numbers

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Statistician John Williams (shadowstats.com) calls the government’s latest jobs and unemployment reports “nonsense numbers.”

There are a number of ongoing problems with the released numbers. For example, the concurrent-seasonal factor adjustments are unstable. The birth-death model adds non-existent jobs each month that are then taken out in the annual downward benchmark revisions. Williams calculates that the job overstatement through November averages 45,000 monthly. In other words, employment gains during 2012 have been overstated by about 500,000 jobs. Another problem is that each month’s jobs number is boosted by downside revision of the previous month’s jobs number. Williams reports that the 146,000 new jobs reported for November “was after a significant downside revision to October’s reporting. Net of prior-period revisions, November’s seasonally-adjusted monthly gain was 97,000.”

Even if we believe the government that 146,000 new jobs materialized during November, that is the amount necessary to stay even with population growth and therefore could not be responsible for reducing the unemployment rate from 7.9% to 7.7%. The reduction is due to how the unemployed are counted.

The 7.7% rate is known as the “headline rate.” It is the rate you hear in the news. Its official designation is U.3.

The Bureau of Labor Statistics has another official unemployment rate known as U.6.

The difference is that U.3 does not include discouraged workers who are not currently actively seeking a job. (A discouraged worker is a person who has given up looking for a job because there are no jobs to be found.) The U.6 measure includes workers who have been discouraged for less than one year. The U.6 rate of unemployment is 14.4%, about double the headline rate.

The U.6 rate does not include long-term discouraged workers, those who have been discouraged for more than one year. John Williams estimates this rate and reports the actual rate of unemployment (known as SGS) in November to be 22.9%.

In other words, the headline rate of unemployment is one-third the actual rate.

The drop in the November headline rate of unemployment from 7.9 to 7.7 is due to a 20.4% increase in the number of short-term discouraged workers in November. In other words, unemployed people rolled out of the U.3 measure into the U.6 measure.

Similarly, a number of short-term discouraged workers roll out of the U.6 measure into John Williams' measure that includes all of the unemployed. Williams reports that "with the continual rollover, the flow of headline workers continues into the short-term discouraged workers (U.6), and from U.6 into long term discouraged worker status (a ShadowStats.com measure), at what has been an accelerating pace. The aggregate November data show an increasing rate of individuals dropping out of the headline (U.3) labor force." In other words, the headline rate of unemployment can drop even though the unemployed are having a harder time finding jobs.

The U.S. government simply lowers the unemployment rate by not counting all of the unemployed. We owe this innovation to the Clinton administration. In 1994 the Clinton administration redefined "discouraged workers" and limited this group to those who are discouraged for less than one year. Those discouraged for more than one year are no longer considered to be in the labor force and ceased to be counted as unemployed.

If the U.S. government will mislead the public about unemployment, it will also mislead about Syria, Iran, Iraq, Afghanistan, Libya, Somalia, Pakistan, Yemen, Lebanon, Palestine, Russia, China, and 9/11. The government fits its story to its agenda.

A government that wants to cut the social safety net doesn't want you to know that the unemployment rate is 22.9%. A government that wants to cut the social safety net when between one-fifth and one-fourth of the work force is out of work looks hard-hearted, mean-spirited, and foolish. But if the government reports only one-third of the unemployed and presents that rate as falling, then the government can present its cuts as prudent to avoid falling over a "fiscal cliff."

If the "free and democratic" Americans cannot even find out what the unemployment rate is, how do they expect to find out about anything?

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