

Why I Will Not Use U.S. Government Data for Three More Years



Fake Jobs Are Not Real Jobs

[Update April 20, 2014. This article was featured in James Taranto's "Best of the Web Today" column in the Wall Street Journal. [Click here to see it.](#)]

[Update May 18, 2014. In response to a comment from [larsschall.com](#), I have added a paragraph at the end explaining my three year time limit.]

For quite a few years my lovely wife has refused to believe any economic data from the U.S. government. Until recently, I have been a staunch defender of the statisticians and economists who work in various branches of the government.

The four I use most often are the Bureau of Economic Analysis (Commerce), the Bureau of Labor Statistics (Labor), the Treasury Department, and the Census Bureau (formerly in Commerce, stay tuned).

Much of the data supplied by these departments rely on Census to perform the actual survey work. Census has the tools for this and they have been in the survey business for a long time. Unfortunately, that also creates a single point of

vulnerability. As far as anyone can tell, the Obama administration successfully exploited this vulnerability and produced false survey data. The falsification itself was not at all sophisticated. One or more Census employees simply made up numbers. [John Crudele of the New York Post](#) has covered this extensively. In yet another measure of how bad the “news” industry has become, Mr. Crudele remains almost entirely the sole source of this information.

U.S. Government Data Has Been Faked

I have reluctantly concluded that I cannot believe any numbers emanating from the U.S. government. The purpose of this article is to explain why I will not use U.S. government data for three more years. The exception is long-term historical data that is harder to fudge. I remain hopeful that the next occupant of the executive branch will restore integrity to the data.

I have compiled Mr. Crudele’s articles into a single 4.7 mb pdf file. [Click here to download it.](#) I have also compiled a list of headlines and links from the oldest (November 18) to the most recent as of today (December 16). I will update this post from time to time as Mr. Crudele provides more evidence.

Those who do not believe the Obama administration is corrupt should look at Mr. Crudele’s articles. Read carefully and keep an open mind. What’s in there is devastating. I am personally heartbroken speaking as someone who has used and relied on this data since 1971.

Why Three Years?

Why three years? That’s the end of the Obama administration, the same administration that moved control of the Census Bureau from the Department of Commerce to the White House. I did not intend to make any predictions about what is likely to happen after Mr. Obama leaves the White House. I will re-

evaluate my position on this issue at that time.

Bibliography

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House probes Census over 'fake' results

<http://nypost.com/2013/11/19/house-probes-census-over-fake-results/>

Census 'Fake'gate goes back even further

<http://nypost.com/2013/11/21/census-fakegate-goes-back-even-further/>

False job numbers: Did the White House know?

<http://nypost.com/2013/11/23/cooked-census-reported-to-obama-and-rahm/>

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[Brooklyn Census Bureau also falsified data in 2010](http://nypost.com/2013/12/16/brooklyn-census-bureau-also-falsified-data-in-2010/)

<http://nypost.com/2013/12/16/brooklyn-census-bureau-also-falsified-data-in-2010/>

The Current State of the Government Debt

On Jan. 20, 2009, the national debt stood at \$10.627 trillion—or \$34,782 for every man, woman and child. As of Tuesday, it had reached \$16.435 trillion, or \$52,139 for every American. The public debt was equal to 40.8% of gross domestic product on Jan. 20, 2009. By the end of last year, it had reached 72.8% of GDP and is forecast by the nonpartisan Congressional Budget Office to hit 76.1% this year.

Today's entry was prompted by [Karl Rove's column in the Wall Street Journal](#) (Jan. 17, 2013, p. A15). Mr. Rove cites numerous statistics showing how the U.S. economy has declined in the first four years of the Obama administration. I noticed one interesting number and decided to investigate the current state of the government debt.

Mr. Rove includes a paragraph on the debt situation:

Hmmm. The key phrase is “public debt.” We economists call it the government debt. And, like most issues related to government finance, it's messy.

Boring Stuff: Details of the Debt

The government debt is made up of two big parts: the federal government debt and total state and local debt. As of January 1, 2012 (effectively the end of calendar year 2011), the federal government debt was \$10,810.6 billion. State and local debt totaled \$2,985.0 billion. The sum of those two figures is \$13,795.6 billion. Both of these figures are from the Federal Reserve database as maintained by the [Federal Reserve Bank of St. Louis](#) in their [FRED database](#). Total government debt as stated by the Treasury department is \$15,582.1 billion (also downloaded from FRED). My guess is that the Treasury number includes debt owned by banks and

other financial institutions, while the Federal Reserve figures are government debt in the hands of the nonfinancial public (including nonfinancial businesses).

GDP numbers are from the [Bureau of Economic Analysis](#). There is a direct link from that page that downloads GDP totals (real and nominal, annual and quarterly) directly as an Excel workbook. If only Treasury would learn from BEA and BLS.

So here's the result:

Federal Government Debt as percentage of GDP (Federal Reserve)	71.71%
State & Local Government Debt as percentage of GDP (Federal Reserve)	91.51%
Federal Government Debt as percentage of GDP (U.S. Treasury Dept.)	103.36%

Mr. Rove apparently used the first figure. But that number excludes federal debt held by financial institutions. Let's assume federal debt held by financial institutions is equal to the difference between the Treasury and the Federal Reserve numbers for total government debt:

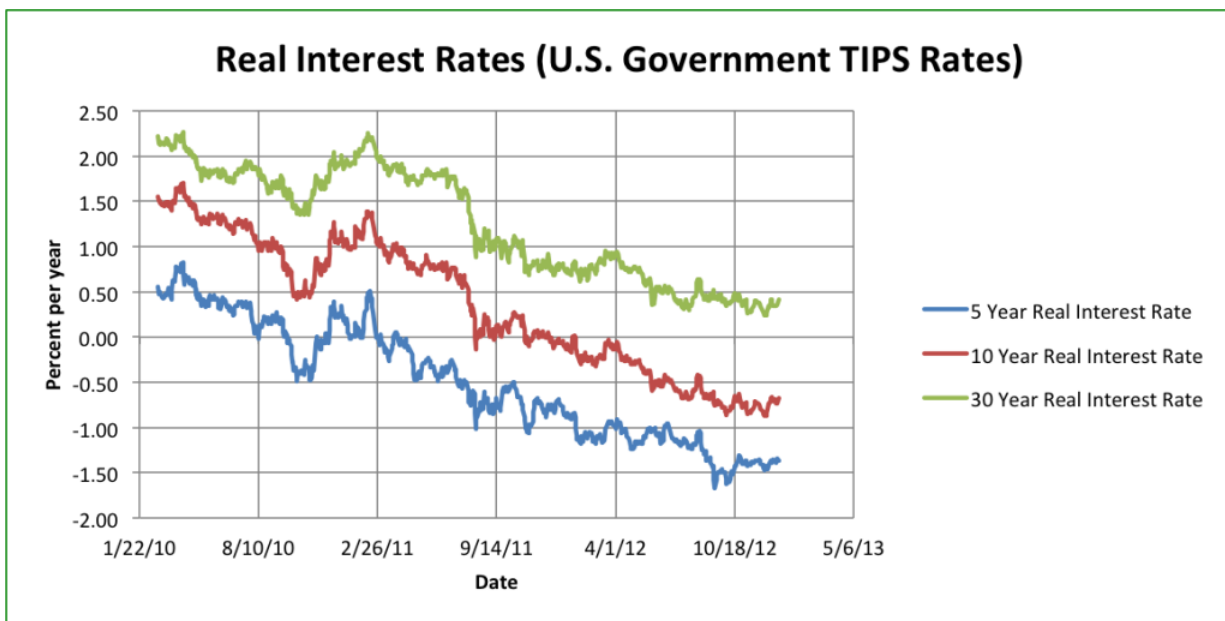
Treasury – Fed	\$1,786.47
Federal Reserve govt. debt plus Debt Held by Banks	\$12,597.08

Total Federal Debt/GDP	83.56%
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Conclusion

The debt-to-GDP ratio is too high. The U.S. is not Greece or Italy – yet. But if we stay on the current path, at some point an auction of Treasury securities will fail in the sense that there will be no bidders from the private sector. The Fed could bail out Treasury by purchasing the entire new issue.

But that is a policy choice that the Fed must make. The really scary part of all this is that nobody knows the debt-to-GDP ratio at which an auction will fail. There will be warnings, however. Watch for rising interest rates on [TIPS \(Treasury Inflation Protected Securities\)](#).



Real Interest Rates

There was a hint of this in early 2011 when rates rose briefly (For a few months, all real interest rates were positive).

This was interpreted as a sign that the markets were expecting economic recovery. A much more frightening hypothesis is that the rise in interest rates was caused by investors fleeing Treasury securities because of a perceived increase in risk. All we know is that the equilibrium

interest rate rose and the equilibrium price of these bonds fell. As always, this could have been caused by shifts in either demand or supply. Assuming Treasury is reporting the yields on new-issue securities, the supply is completely controlled by the government. Therefore, demand factors as outlined earlier must be the determining factor. We can speculate all we want, but the interest rates will tell the story.

[Update Jan. 19, 2013, 15:45 GMT-8: I corrected several errors in the Excel workbook, added a new worksheet to accompany [my new article on the subject](#), and improved several explanations.]

As always, my data and methods are transparent. You can download the Excel workbook for real interest rates by [clicking here](#). And you can download the workbook for the government debt and GDP by [clicking here](#).

It's the Advance GDP Estimate, Stupid!

Happy talk media today are whooping it up because real GDP grew by 2.5% in the third quarter. News flash: it's the advance GDP estimate, stupid!

Don't take my word for it. Read the first two paragraphs of the press release from the [Bureau of Economic Analysis](#):

"Real gross domestic product – the output of goods and services produced by labor and property located in the United

States – increased at an annual rate of 2.5 percent in the third quarter of 2011 (that is, from the second quarter to the third quarter) according to the “advance” estimate released by the Bureau of Economic Analysis. In the second quarter, real GDP increased 1.3 percent.

The Bureau emphasized that the third-quarter advance estimate released today is based on source data that are incomplete or subject to further revision by the source agency (see the box on page 3). The “second” estimate for the third quarter, based on more complete data, will be released on November 22, 2011.”

Prediction: this estimate will be revised downward twice – once at the end of November and a second time just as we’re about to welcome in 2012.

Dissecting the First Quarter GDP Numbers

Friday the [Bureau of Economic Analysis](#) released the preliminary estimate of the first quarter, 2010, U.S. gross domestic product. The good news is that total production of goods and services grew 3.2% in that quarter (seasonally adjusted at an annual rate). For better or worse, nearly half that growth (1.57%) was caused by expansion of business inventories. I’m going to dig into the GDP numbers, an exercise that often puts readers to sleep. Hang in there – I promise it will be worth the effort.

Before I begin, there’s one important point to be made. This is the *preliminary* estimate for the first quarter. There will be two revisions released near the end of the next two months. Revisions are often significant. As several writers

have discovered, basing significant economic analysis on the preliminary estimate can lead to wildly incorrect conclusions.

Caveat emptor. You have been warned. Read on at your own risk!

Far and away the most interesting data for the first quarter comes from the B.E.A.'s table 1.1.2 ("Contributions to Percent Change in Real Gross Domestic Product"). From that we learn that 2.55% of the 3.24% growth came from consumer spending. About 40% of that (1.15%) was attributed to growth in consumer spending on services. This is actually a good sign. It means that consumers are, among other things, going out to restaurants and beginning to purchase services they might have performed themselves a year ago. Not surprisingly durable goods spending contributed 0.79%, down sharply from the 2009 second quarter of 1.36%. The "cash for clunkers" program did exactly what economists predicted. It shifted consumer spending from future quarters into the second quarter of 2009. Mind you, this is a good thing. The economy needs more spending sooner.[\[1\]](#)

Gross Private Domestic Investment

Far more problematic is the behavior of gross private domestic investment. Consumer spending stimulates output this year. Investment spending creates the new physical capital to increase output in the future. The overall contribution of gross private domestic spending was 1.67%. However, only 0.1% was from business fixed investment. The remaining 1.57% was growth in business inventories. Let's dissect those numbers.

Business fixed investment includes nonresidential structures, nonresidential equipment and software, and residential construction. Nonresidential and residential constructions together *reduced* GDP by 0.73%. That means spending to build new structures fell compared to the fourth quarter of 2009. Blame this on the first-time homebuyer's tax credit which

shifted demand for residential structures into the last two quarters of 2009. However, these decreases were more than offset by increased spending on nonresidential equipment and software which contributed 0.83% to GDP. The net change in gross private domestic investment masks larger changes in the underlying components.

Inventory change

The 1.57% contribution of inventory growth has been hailed by many economists as evidence that businesses are rebuilding inventories anticipating higher future sales. Not so fast, folks. Let's review J.M. Keynes. He pointed out that there are two sources of inventory change: planned and unplanned. Economic analysts are assuming the inventory increase was intentional. But suppose the change was unplanned. That would mean production exceeded spending. Remember, businesses have to plan production in advance of spending. When their demand forecasts are too high, production will exceed spending and inventories will rise. But that's not a positive sign for the economy – in fact, it's a negative because businesses will have to liquidate those inventories in future quarters.

Was the inventory increase planned or unplanned? I don't know and I suspect many of the economists mentioned in the previous paragraph don't know, either.

However, another B.E.A. table contains some valuable insights. Table 5.6.6B is the "Change in Real Private Inventories by Industry, Chained Dollars." This table is in billions of constant 2005 dollars, not percentages. The growth in business inventories was \$31.1 billion. As always, inventories in some industries grew while others shrank. The main positive contributions came from Manufacturing, nondurable goods industries (\$10.3 billion), Wholesale trade, nondurable goods industries (\$10.3 billion, no this is not a typo), and Motor vehicle and parts dealers (\$23.1 billion). In other words, nondurables and vehicles were the source of

the inventory growth. The growth in motor vehicle inventories is nothing more than rebuilding depleted inventories after the end of the cash for clunkers program. Don't expect that to continue into future quarters. The two nondurable increases are largely a result of the increased consumer demand for services. (Remember, consumer spending on services includes meals eaten away from home. Restaurants hold inventories just like most businesses that make something. Consider this a bit of an anomaly in the national income accounts.)

Let's not bother with foreign trade since exports and imports are mainly included to convert total spending into production. Instead, take a look at government spending.

Government Spending

The contribution of government spending to first quarter growth was -0.37%. You read that correctly. Government spending was actually a drag on the economy.

"Wait," you're saying. "What happened to the government stimulus program?"

Good question. Once again we can look at the details to see what happened. Federal government spending contributed +0.11% to GDP growth. But state and local government spending dragged GDP growth down by 0.48%. This lends support to the calls by several economists^[2] for the federal government to bail out state governments.

That's the story. The news is good, but perhaps not as good as the media would have you believe.

^[1] See, for evidence, the failure to spend economic stimulus funds from the ARRA program at a fast enough rate.

^[2] I believe Paul Krugman has advocated this position, but I'm too lazy to look up the citation.

U.S. Retail Sales: Moving Markets by Ignoring Error Margins

“Retail sales up 0.3% in February” is what you read in the headlines. In response, U.S. stock markets moved higher. Apparently the markets hope that consumers are finally starting to spend again. Consumer spending is about 2/3 of total domestic spending, so this is a big deal – if it’s true. Let’s spend a few minutes deconstructing that number.

First, this increase is the “ADVANCE MONTHLY SALES FOR RETAIL TRADE AND FOOD SERVICES” from the Census Bureau.[\[1\]](#) The press release clearly states the margin of error is $\pm 0.5\%$. In other words, the 0.3% estimate is meaningless. All we know with any confidence is that the actual growth rate is likely between -0.2% and $+0.8\%$. Don’t bet the ranch on this estimate.

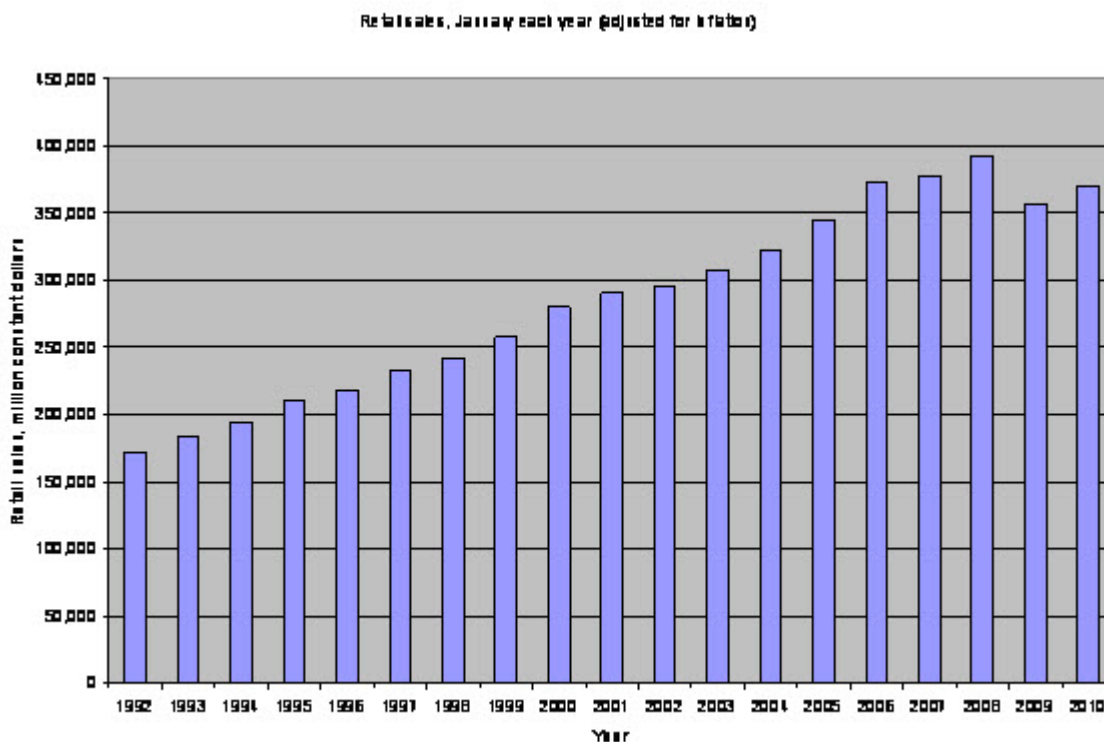
Second, and more intriguing, a good part of the February growth was caused by a downward revision in January’s estimate. The advance estimate for January was $+0.5\%$ with an error of $\pm 0.5\%$. The revised estimate was $+0.1\%$ with an error of $\pm 0.3\%$. Make January lower and February looks better. Are the numbers being fudged? Nah, folks in Washington D.C. would never do that.

Third, these figures are nominal numbers. While they are adjusted for seasonal variation, they are not corrected for inflation. Assuming inflation is about 0.2% per month (2.4% per year), the advance estimate for real growth is $+0.1\%$. Anemic.

According to the Census Bureau press release, the advance

estimates are based on a stratified sample of 5,000 retail and food service firms. The total number of these firms is over 3 million. While the sample covers 65% of the dollar volume, there's a reason the margin of error is so high: 65% is quite a distance from 100%.

The chart below gives some perspective. This is based on inflation adjusted data from the Department of Commerce Bureau of Economic Analysis for January of each year.[\[2\]](#)



U.S. retail sales 1992 - 2010

[\[1\] http://www.census.gov/retail/marts/www/retail.html](http://www.census.gov/retail/marts/www/retail.html) .
Accessed March 13, 2010.

[\[2\] http://bea.gov/national/nipaweb/nipa_underlying/DownSS2.asp?3Place=N#XLS](http://bea.gov/national/nipaweb/nipa_underlying/DownSS2.asp?3Place=N#XLS) .
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