# "A Primer on Government Economic Reports -- Things You've Probably Suspected but Perhaps Were Afraid to Ask!" *- Aug. 24, 2004*

---

***Introduction***

*When it comes to government economic data, it is easy to get terribly confused. But in recent years, it has also become easy to be more and more suspicious of the numbers themselves. Enter friend and client, Walter J "John" Williams. In his guest series that begins here, John helps reduce the confusion but reinforces the suspicion!*

*John has a long, distinguished record of following and critiquing the changes occurring over the years in the government's reporting of the economic numbers that can and do influence our lives in a major way. He has written some great guest material that I currently envision presenting on the website as at least a three-installment series. This first offering deals specifically with employment data. However, the introduction section found below serves this function for the entire series. Readers will find it highly enlightening in its own right.*

*John has also agreed to field any questions or comments this piece generates. You will find this invitation at the conclusion of the article.*

*John Williams joins a growing list of guest contributors who have provided some terrific material in the short time the website has been in existence. When you have a moment, go to the website's "Guest Contributions" section on the home page (lower right-hand column) and peruse some of the other work that appears there. -- Doug Gillespie*

*(NOTE: Not all the views expressed in the following material necessarily reflect those of Gillespie Research Associates.)*

———————

**"A Primer on Government Economic Reports -- Things You've Probably Suspected but Were Perhaps Afraid to Ask!"**

**"Employment and Unemployment Reporting"**
(Installment One in a Series)

By Walter J. "John" Williams
**abeus@verizon.net**

———————

**Series Introduction**

In 1996 -- the middle of the Clinton economic miracle -- the Kaiser Foundation conducted a survey of the American public that purported to show how out of touch the electorate was with economic reality. Most Americans thought inflation and unemployment were much higher, and economic growth was much weaker, than reported by the government. The *Washington Post* bemoaned the economic ignorance of the public. The same results would be found today.

Neither the Kaiser Foundation nor the *Post* understood that there was and still is good reason for the gap between common perceptions and government reporting: government data are biased in politically correct directions and increasingly have diverged from common experience and reality since the mid-1980s. Inflation and unemployment reports are understated, while employment and other economic data are overstated,

deliberately.

For several years, I conducted surveys among business economists as to how they viewed the quality of government economic data. The following were actual comments:

· The senior economist of a major retail company told me, "Quality varies. The retail sales numbers are terrible, but money supply data are great."

· The senior economist at a major bank offered, "There's a problem with money supply, but I think retail sales are pretty good."

The point is that when an economist knows a sector well, he also recognizes the limitations and distortions of related economic reporting. Gathering and reporting accurate information on a timely (one-month) basis for components of the U.S. economy is nearly impossible. Nonetheless, most career government statisticians in Washington work diligently to provide the best information possible within the limits of the existing reporting system. A number of reporting distortions, however, are not accidental.

What follows is brief background on the reporting system and how the numbers can be viewed. Separate installments will address the specifics of employment, inflation, GDP and budget deficit reporting. Other areas will be addressed upon request.

The first regular reporting of now-popular statistics such as gross national/domestic product (GNP/GDP), unemployment and the consumer price index (CPI) began in the decade following World War II. Modern political manipulation of the government's economic data began as soon as practicable thereafter, with revisions to methodology often incorporating positive reporting biases. As a result, investors and most economists, relying on the government's data, often miss underlying economic reality. Consider:

· During the Kennedy administration, unemployment was redefined with the concept of "discouraged workers" so as to reduce the popularly followed unemployment rate.

· If Lyndon Johnson didn't like the growth that was going to be reported in the GNP, he sent it back to the Commerce Department, and he kept doing so until Commerce got it right. The Johnson administration also was responsible for gimmicking the accounting that hides most of the federal deficit.

· Richard Nixon had a highly publicized war with the Bureau of Labor Statistics on the unemployment data. Nixon wanted to report the unemployment rate as the lower of the seasonally adjusted or unadjusted number, at any given time, but not specify same to the public. While that approach was unconscionable at the time and never used, basically the same methodology was introduced in 2004 as "state-of-the-art" by the current Bush administration.

· The Carter administration was caught deliberately understating inflation.

· Systemic changes were introduced during the Reagan administration to boost reported GNP/GDP growth on a regular basis. The wildest manipulations, however, happened at the time of the 1987 liquidity panic. In addition to intervention in the futures markets by the New York Fed to help prop the stock market after the October 19th crash, direct and heavy manipulation of the trade deficit data, under the direction of the Federal Reserve and U.S. Treasury, was used in conjunction with massive currency intervention to help bottom the dollar and to contain the currency panic at year-end 1987.

· The first Bush Administration began efforts at the systematic reduction of the reported rate of CPI inflation, and worked an outside-the-system GDP manipulation aimed at helping with the failed 1992 reelection bid.

· As former Labor Secretary Bob Reich explained in his memoirs, the Clinton administration had found in its public polling that if the government inflated economic reporting, enough people would believe it to swing a close election. Accordingly, whatever integrity had survived in the economic reporting system disappeared during the Clinton years. Unemployment was redefined to eliminate five million discouraged workers and to lower the unemployment rate; methodologies were changed to reduce poverty reporting, to reduce reported CPI inflation, to inflate reported GDP growth, among others.

· The current Bush administration has expanded upon the Clinton era initiatives, particularly in setting the stage for the adoption of a new and lower-inflation CPI and in further redefining the GDP and the concept of seasonal adjustment.

As a result of the systemic manipulations, if the GDP methodology of 1980 were applied to today's data, the

second quarter's annualized inflation-adjusted GDP growth of 3.0% would be roughly three percent lower (effectively netting to zero percent or below). In like manner, current annual CPI inflation is understated by about 2.7% against the pre-Clinton CPI methodology (would be about 5.7%), and the unemployment rate is understated by about seven percent against its original design and what many people would consider to be actual unemployment (would be about 12.5%).

As to the financial results of federal operations, the application of accrual accounting and generally accepted accounting principles to federal operations shows an actual fiscal year 2003 deficit of $3.7 trillion, as reported by the U.S. Treasury, versus the reported cash-basis $374 billion.

**Key Factors to Consider with Any Economic Release**

Hearing or reading an economic statistic in the financial media is of little value, unless the context of the reported number is clear, detailing the type of change, any inflation adjustment, seasonal adjustment and revisions.

**Seasonal Adjustment** -- Widely followed data often are adjusted to remove patterns of distortion that recur regularly, year after year, or that are tied to business or trading days. For example, retail sales are strongest during the holiday season; February 2003 had 28 days, February 2004 had 29 days.

While seasonal adjustment is a legitimate tool for enabling month-to-month or quarter-to-quarter comparisons of data that might otherwise be biased by calendar trends, more often than not, the government has problems with its adjustments. Areas that usually do not adjust well: weekly unemployment claims and employment seasonals related to holidays and the school year.

One way to avoid many seasonality questions is to look at growth on a year-over-year basis, July 2004 versus July 2003, for example. Trends in annual growth are largely free of seasonal distortions.

Seasonal factors typically are calculated annually, based on recent years' patterns of activity. The Bureau of Labor Statistics, however, went to revising and recalculating its employment seasonal factors each month, as of January 2004.

**Inflation Adjustment** -- If inflation is up 3.0% for the year, and sales are up 2.0% for the year, then sales fell 1.0% after adjustment for inflation. Deflating dollar numbers is a legitimate approach to viewing data with the effects of inflation removed.

Terms that mean data have been adjusted for inflation include *real, constant dollars, in 2000 dollars, in chain weighted 2000 dollars.* Beyond no inflation reference, terms that mean data have not been adjusted include *nominal*, and *current dollars*.

The most popularly followed inflation-adjusted economic statistic is the GDP, which reflects the growth in dollar economic activity minus the growth in inflation. If inflation is understated, which it is, then the resulting real GDP is overstated.

**Type of Growth** -- Is the reported growth *month-to-month, year-to-year* or *annualized*? Most monthly economic releases are reported showing month-to-month change. Quarterly numbers are shown either with quarter-to-quarter growth (i.e., the Employment Cost Index) or at an annualized rate of change (GDP). (SAAR means seasonally adjusted annualized rate.)

As discussed earlier, more meaningful trends usually are seen in year-to-year change, although such patterns rarely get publicized. Year-to-year change (the way most businesses look at their sales -- How am I doing against last year?) usually eliminates seasonal distortions in unadjusted data or residual seasonal distortions in adjusted data.

**Revisions** -- Most economic series go through regular and often significant revisions, typically for the next several releases and then annually in some form of a *benchmark revision*, as the government gets better or more complete data. A monthly number can appear to be strong or weak due solely to prior period revisions.

Two series that do not get revised on a not seasonally adjusted basis are the CPI and the unemployment rate, unless a mistake is made or the series is redefined. In such instances, often the new series is not comparable to the old series, but the financial media rarely pay any attention to those details.

———

**Installment One**

**"Employment and Unemployment Reporting"**

The Bureau of Labor Statistics (BLS), U.S. Department of Labor, conducts two monthly surveys of U.S. employment and unemployment. Results usually are released on the first Friday of the month following the survey:

**Household Survey** (also **Current Population Survey**) -- The household survey generates the unemployment rate from a statistically designed monthly sampling of roughly 60,000 households. Other surveys, such as the annual poverty survey, often are piggybacked on the employment questions. The survey measures the number of people who have jobs.

**Payroll Survey** (also **Establishment** or **Current Employment Statistics Survey**) -- The payroll survey generates an estimate of the number of nonfarm jobs in the U.S. economy, based on a monthly non-random sampling of payroll tax filings of about 160,000 U.S. corporations and government agencies. The survey measures the number of jobs (some individuals hold more than one job).

The household survey is conducted during the week that includes the 12th of the month. The payroll survey is conducted as of the payroll period that includes the 12th of the month. Other than for seasonal factors, the household survey gets revised only with series or population redefinition. The payroll series is revised for two months following the initial release and then again in an annual benchmark revision.

Where the household survey includes farm workers, the self-employed and workers in private homes, the payroll survey does not. The payroll survey counts jobs, making no adjustment for multiple jobholders. Yet, adjusting for all differences, the BLS never has been able to reconcile the two series within one million jobs.

Conventional wisdom in the financial community is that the payroll survey is more accurate, given its larger sampling base. To the contrary, the household is scientifically designed, and the error can be estimated to any degree desired. The payroll data are haphazard at best, and the BLS has no idea of potential reporting error.

The BLS estimates a 90% confidence interval for a change in the unemployment rate of ±0.22%, and a 90% confidence interval for the monthly change in payrolls of ±108,000. The BLS, however, admits the payroll survey's confidence interval is not solid, given built in biases and the lack of randomness in the monthly sample.

The payroll survey used to include a regular monthly bias factor of about +150,000 jobs. Those jobs were added each month for good measure, as an estimate of jobs created by new companies. Companies that went out of business generally were assumed to be employing the same number of people as before they went out of business.

In the last couple of years, the BLS has modeled and seasonally adjusted its bias factor; there is no more guesstimation. Accordingly, new monthly bias factors have ranged from -321,000 to +270,000 during the last year. This, combined with continuous seasonal adjustment revisions, has added to the volatility of recent monthly reporting.

Suggesting that the household survey is more accurate than the payroll survey, however, does not mean household survey accurately depicts unemployment. While its measures have definable statistical accuracy, the accuracy is related only to the underlying questions surveyed and to the universe of people surveyed.

The popularly followed unemployment rate was 5.5% in July 2004, seasonally adjusted. That is known as U-3, one of six unemployment rates published by the BLS. The broadest U-6 measure was 9.5%, including discouraged and marginally attached workers.

Up until the Clinton administration, a discouraged worker was one who was willing, able and ready to work but had given up looking because there were no jobs to be had. The Clinton administration dismissed to the non-reporting netherworld about five million discouraged workers who had been so categorized for more than a year. As of July 2004, the less-than-a-year discouraged workers total 504,000. Adding in the netherworld takes the unemployment rate up to about 12.5%.

The Clinton administration also reduced monthly household sampling from 60,000 to about 50,000, eliminating significant surveying in the inner cities. Despite claims of corrective statistical adjustments, reported unemployment among people of color declined sharply, and the piggybacked poverty survey showed a remarkable reversal in decades of worsening poverty trends.

Somehow, the Clinton administration successfully set into motion reestablishing the full 60,000 survey for the benefit of the current Bush administration's monthly household survey.

While the preceding concentrates on the numbers that tend to move the markets, the household survey also measures employment. The payroll survey also surveys average hourly and weekly earnings and average workweek.

==========

Comments and questions are invited:

Walter J. "John" Williams
**abeus@verizon.net**

---