

Doesn't Government Lie?

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Like a Plow Horse, the US economy keeps plodding along – GDP and payrolls keep growing. This confounds many pessimistic, debt-focused, perma-bear investors, who fall back on the belief that anything good must simply be a lie.

They claim the government is lying about jobs, lying about debt, lying about everything. Some of this is about the Obama Administration, but some of it is just general distrust. Even if there's no direct White House link, the pessimists argue that federal bureaucrats are in on the con.

We can understand some doubt about the veracity of the government, but the evidence supposedly proving that the government is lying shows that many people misunderstand the data. Exhibit A is the argument that government is lying about the federal debt – it has been stuck at \$16.74 trillion since May, despite continued budget deficits.

But this isn't a lie; it's just the way the accounting works. The US hit the debt ceiling in May and cannot issue any new debt, on net. So, in order to fund spending in excess of revenue, it's borrowing from federal worker retirement systems and issuing IOUs, which don't count toward the official debt. This is not the first time the government has done this, and it's happened under both Republicans and Democrats. All of it is recorded, it's not hidden. It's not a lie.

Another claim is that any gains in employment should be discounted because it's mostly part-time work. So far this year, 66% of the increase in employment has been part-time. Ironically, those who say we can't trust government data are willing to put aside their qualms when they find data like this.

But this is a mistaken view as well. Figures on part-timers are extremely volatile from month to month, so it's important to use these numbers over periods of at least a year. Part-timers plummeted 316,000 in the last four months of 2012, so focusing on just the eight months this year skews the results. In the past

12 months (including late 2012), part-timers have only made up 13% of job gains, which is less than usual.

Another claim is that the official unemployment rate of 7.3% is hiding discouraged workers and part-timers who want to work full-time. Including them pushes the "true" unemployment rate to 13.7%.

However, this more expansive definition of joblessness, also known as the U-6 unemployment rate, is down from a peak of 17.1% in 2009. Like the official unemployment rate, the U-6 also comes from the government and dates back to 1994. Since then, whether in good times or bad, it has generally been about 80% higher than the official rate. Right now, it's 88% higher, a little more than usual.

The bottom line is that the labor market is making progress but still far from operating at its full potential, which is the same exact message sent by the overall unemployment rate.

But the final nail in the coffin of government data conspiracy theories is that not all the reports are from the government. The two surveys from the Institute for Supply Management – one on manufacturing, the other on services – as well as auto sales, all show steady economic growth. Over the past four years, a composite of the two ISM indexes has averaged 54.2, the same as it did in 2001-05, when real GDP growth averaged 2.8%. This time around, real GDP growth has averaged 2.2%. Auto sales, compiled by the automakers themselves, show a gain of 11% in the past year. In other words, private data has been better than the government reports.

A healthy dose of skepticism is usually a good thing. But there's a big difference between reasoned skepticism and a case of denial designed to postpone confronting comfortable theories that haven't worked. The economy could be much better if government got out of the way, but it stopped getting worse more than four years ago.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-16 / 7:30 am	Empire State Mfg Survey – Sep	9.0	9.2	6.3	8.2
8:15 am	Industrial Production – Aug	+0.4%	+0.6%	+0.4%	+0.0%
8:15 am	Capacity Utilization – Aug	77.9%	78.0%	77.8%	77.6%
9-17 / 7:30 am	CPI – Aug	+0.2%	+0.2%		+0.2%
7:30 am	“Core” CPI – Aug	+0.2%	+0.2%		+0.2%
9-18 / 7:30 am	Housing Starts – Aug	0.920 Mil	0.935 Mil		0.896 Mil
9-19 / 7:30 am	Initial Claims – Sep 14	330K	342K		292K
9:00 am	Existing Home Sales – Aug	5.25 Mil	5.260 Mil		5.390 Mil
9:00 am	Leading Indicators – Aug	+0.6%	+0.6%		+0.6%
9:00 am	Philly Fed Survey – Sep	10.4	16.6		9.3