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Government figures give clues, but not all the answers

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Published: May 23 2007 03:00 | Last updated: May 23 2007 03:00

Many strategists express amazement that the US stock market is rising steadily as the US economy is weakening. But what if the conventional wisdom about a US economic slowdown is wrong? If better real-time data were available, investors would realise that the US economy is booming rather than slumping.

Those who argue that the US economy is losing steam often cite initial releases from the Bureau of Economic Analysis and the Bureau of Labor Statistics. Yet these initial releases are based on surveys and the extrapolation of historic data rather than real-time information.

The initial releases from the BEA and the BLS are now doing tremendous damage to the US economy because they cause market participants to believe the economy is weaker than it is. For example, the BLS initially estimated that the economy added only 111,000 jobs in January. Then it raised this estimate to 146,000 jobs in February and 162,000 jobs in March. Such inaccuracies add up over a year. The BLS now reports that job growth in 2006 was 2.26m jobs, which is 36 per cent higher than what it originally estimated.

If investors relied on real-time tax data rather than initial releases from the BEA and the BLS, they would understand that the US economy has been accelerating after a brief slowdown in late 2006.

Based on the amount of taxes withheld from pay cheques, the wages of all salaried US workers have been rising more than 7 per cent so far this year, up from 5 per cent in the third quarter of 2006 and 5.7 per cent in the fourth quarter of 2006. Strong wage growth this year is particularly impressive because consumer debt has been growing much less rapidly. In the first quarter this year, consumer credit, revolving home equity loans, and "cash-out" refinancings combined rose by $107bn - some 35 per cent less than the growth of $165bn in the first quarter of 2006.

Of course, most investors do not realise that the US economy is growing rapidly because they treat BEA and BLS data as gospel truth. As a result, they are buying Abuse - 'anything but US equities'. Over the past year, a record $811bn poured into savings vehicles. Yet, virtually no net new money went into US equity mutual funds and more than $120bn went into equity funds that invest primarily outside the US. Corporate America has been filling the void, spending a net $3.5bn daily this year buying back shares.

What would corporate America be doing if economic data indicated that the US economy was accelerating rather than slowing? It would be spending most of that $3.5bn daily on research and development or capital expenditures, and the US economy would be better off in the long run.

To solve the problem of bad economic data, I propose two simple solutions. First, the US Treasury can require all taxpayers - individuals and corporations - to break out the types of taxes they are paying at the time they pay them. Taxpayers could simply check a box and write an amount for each type of tax they are paying.

This proposal would require no additional recordkeeping for taxpayers because they already have to know this information to pay their taxes. This data would allow everyone to know in real time the amounts and types of income Americans are generating.

Second, the US Treasury can require all employers to report how many employees are on their payrolls when they transmit withheld income and employment taxes. Also, new employers could check a box to indicate that they just started doing business.

Employers already know how many employees are on their payrolls, so this proposal would require no additional recordkeeping. And it would enable everyone to know in real time how many people in the US are receiving pay cheques and how many new companies are forming. Real-time economic data would be more appropriate for a real-time world than the snail-mail methods of the BEA and the BLS. Why should investors rely on processes developed in the mid-20th century to measure a 21st century economy?

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