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Fair Game

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The Buck Has Stopped

BEN S. BERNANKE, the Federal Reserve chairman, told Congress last week that fighting off a possible recession in the United States was Job 1 for his crew. But a consumer-led recession has already begun, according to a new index that reflects how much money Americans can actually spend right now.

The new indicator comes courtesy of Charles Biderman, the founder and chief executive of TrimTabs Investment Research, a proprietary research firm in Santa Rosa, Calif. “The big picture is: the amount of money people have to spend, which includes money on real estate transactions, is plummeting, and it started to break down in October,” he said.

Consumer spending, don’t forget, accounts for about two-thirds of gross domestic product. Naturally, all eyes are on what consumers are doing with their money. Mr. Biderman said his data, in contrast to the indicators the federal number crunchers produce, are contemporaneous and offer much more insight into what is happening in the economic here and now.

He said data from the Bureau of Labor Statistics and the Bureau of Economic Analysis rely on outdated figures and outmoded methods. (Both agencies have been roundly criticized for years about these problems. They defend their practices by saying that, among other things, certain data segments that they ignore are insignificant and that their models are — of necessity — focused on past data.) Mr. Biderman’s assessment of current employment and personal income pictures, for instance, is gleaned from sources that include daily deposits of withheld income and employment taxes reported to the United States Treasury. This compares with the monthly employment analyses put out by the Bureau of Labor Statistics, which are preliminary and, Mr. Biderman says, based on flawed surveys and extrapolation of historical data.

No surprise, he says, that the initial figures from the bureau are so often adjusted significantly later on.

TrimTabs calls its new measure the Consumer Spendables Indicator, and it sensibly includes these crucial sources of consumption cash: after-tax wages; after-tax income

from nonwage sources, like capital gains, dividends, pensions, partnerships and self-employment; and net equity extraction from consumers' homes, either through property sales or mortgage refinancing.

FOR the first time since the fourth quarter of 2003, TrimTabs estimates, consumers will have less money to spend this quarter on a year-over-year basis. The firm expects this figure to fall 0.6 percent from the same period in 2007.

While that may not seem like a meaningful decline, it becomes more significant when compared with the increases the index showed during the real estate boom.

Back when homes were everybody's favorite A.T.M., mortgage equity extraction propelled the TrimTabs consumer indicator. Beginning in late 2004, quarterly comparisons with year-earlier periods shot up; they peaked at a growth rate of 17 percent in the first quarter of 2006. During that period, consumers had \$1.69 trillion to spend; equity extraction accounted for \$191 billion then, TrimTabs said, its peak amount.

"The economy surged in '04 and '05 and the early part of 2006 because of money coming out of real estate," Mr. Biderman said. "The economy was stronger than the government showed."

To build the new indicator, he collected data from as far back as the first quarter of 2002. The amounts of spendable cash that consumers had at their disposal kept growing throughout 2007, surging to \$2.2 trillion in the second quarter of that year. Even as mortgage lending slowed and real estate prices began to fall in late 2007, consumers had more money to spend, on a year-over-year basis, largely because home loans in the pipeline took some time to work through to borrowers. Now the ill effects of declining real estate values and stricter lending are hitting, ahem, home. Moreover, the Federal Reserve's recent rate-cut campaign has had little effect on consumer borrowing costs.

On Friday, the Commerce Department's consumer spending figures supported TrimTabs' view of a consumer slowdown. It said consumer purchases rose 0.4 percent in January, barely above the inflation rate of 0.3 percent. The data seemed to show that the only money being spent was going to cover increased living expenses. And if you've bought groceries lately, these costs also seem far higher than the government posits.

Indeed, Mr. Biderman is on something of a campaign to persuade the government's statistical gurus to enter the real world and junk their reliance on surveys and extrapolations of historical data that don't reflect reality.

"There is real-time data available, but they don't want to look at it," he said. "One of the reasons why the dollar sells at a discount is people have no faith in the data coming out of Washington."

And yet investors rely heavily on employment numbers — the markets gyrate when they are issued each month.

TRIMTABS, which estimates employment growth using data from an online job index and an analysis of income tax withheld versus job creation rates, has been far more accurate than the Bureau of Labor Statistics. For example, in 2006, the government's initial estimates of employment growth came in at 1.52 million jobs. But the bureau revised that data upward in February 2007, for a total of 2.24 million.

By comparison, TrimTabs' estimates of 2006 employment growth, using real-time data, totaled 2.39 million jobs. The firm reported those figures to clients contemporaneously. Last week, TrimTabs told clients it estimated that 77,000 jobs would be lost in February; Wall Street economists are calling for a gain of 30,000 for the month.

Since October 2007, TrimTabs estimates, the economy has lost about 175,000 jobs, the first sustained employment drop since early 2003. Growing job losses naturally will contribute to a weakening consumer, whose ills will affect the overall economy. And the stock market is feeling this pain as well, in Mr. Biderman's view.

“All the cash that was created, a lot of it is still in the equity market, and that is in the process of being unwound even though the overall economy might not be that fragile,” he said. “For a five-year period, no one lost any money buying anything. A lot of mischief was done, and now that mischief is being unwound.”

Stocks fell last week, and are down considerably so far this year. The Standard & Poor's 500-stock index has lost 9.4 percent since the end of 2007, while the Dow Jones industrial average is down 7.5 percent.

Happily, Mr. Biderman does not expect the recession to last much longer than the end of 2008. “I see this thing lasting longer than the bulls think but not as deep as the bears expect,” he said. “People will start feeling better late this year