

TrimTabs versus the BLS / Treasury

For several years we have been complaining about stale data from the Bureau of Labor Statistics and the Bureau of Economic Analysis because we believe that this data is misleading and is undermining the U.S. economy by understating domestic growth. For some time, through letters as well as columns on Forbes.com and the Financial Times of London, we have been waging a campaign for government reform of these statistics.

In communicating to our subscribers, we use more current information on incomes and jobs from reliable sources. We believe that by having this better data, we give our subscribers an edge over other investors.

However, the understatement of U.S. growth hurts all of us because it leads to wrong economic decisions and faulty economic leadership. Therefore, we want to enlist your support in our campaign to urge the Bureau of Labor Statistics and the Bureau of Economic Analysis to use more current and accurate information.

What follows are the letters that Trim Tabs has written to government officials, articles in national magazines and newspapers and press releases to try to change this wrongheaded government policy. These documents set forth our reasoning as to why the government statisticians should change their data and how they can do so easily. It also includes the responses we have received.

After reading this history, we would appreciate your writing to The Honorable Henry Paulson, Secretary United States Department of the Treasury, 1500 Pennsylvania Avenue, NW Washington, D.C. 20551 and The Honorable Ben S. Bernanke, Chairman Federal Reserve Board 20th Street and Constitution Avenue, NW Washington, D.C. 20220 to express your support for our position.

March 13, 2007 Forbes.com column, Stealth Stock Boom Set To Fly

http://www.forbes.com/guruinsights/2007/03/13/pfizer-microsoft-coke-pf-guru-in_cb_0313soapbox_inl.html

In this column we explain what's wrong with the government statistics, as follows: It (the economy) is certainly growing a lot faster than data from the BEA and BLS indicate. The data produced by these bureaucracies are based on methodologies developed in the 1950s, when the U.S. was an industrial society. It gives too much weight to job growth at large corporations and government offices and too little weight to job growth at smaller companies and among the self-employed--the backbone of our new service economy.

March 22, 2007

We followed this column up with a letter to Fed Chairman Ben Bernanke and Treasury Henry Paulson alerting them to the issue and a solution., *"I am writing to propose two simple solutions to the problem of flawed economic data that has undermined the U.S. economy since it began growing rapidly again in 2004."* (full letter attached below – website should link to letter)

We alerted investors to our communication to the government officials in another column:

April 18, 2007 Forbes.com column - Dump the Data:

http://www.forbes.com/personalfinance/2007/04/17/bea-bls-inflation-pf-guru-in_cb_0417soapbox_inl.html

“Since the economy began growing rapidly in 2004, flawed government data has undermined the expansion by understating economic growth. What I propose are simple, virtually cost-free solutions to improve data that would benefit everyone. I recently wrote about this to U.S. Treasury Secretary Henry Paulson and Federal Reserve Board Chairman Ben Bernanke. For the good of this country, let's hope they listen.”

We also alerted financial and economic journalists to the flawed data in a May 4, 2007 press release that was headlined: *Warning: Bureau of Labor Statistics New Job Estimates Are Wrong and Injurious to Personal and National Economic Health (press release below)*

In another Forbes.com column, May 7, 2007 - Job Report Is A (Bad) Joke

http://www.forbes.com/personalfinance/2007/05/07/bls-jobs-treasury-pf-guru-ii-in_cb_0507soapbox_inl.html

We noted that an April 23 editorial in the *Wall Street Journal* supported our position, complaining that the monthly job numbers from the Bureau of Labor Statistics have “become unreliable,” and by underreporting job growth, the BLS is hurting the economy.”

Trim Tabs alerted the international investment community to the stale data issue in a column that appeared in the Financial Times,

May 22, 2007: FT.com – (Link to partial story online unless a subscriber) [*Insight: Government figures give clues but not all the answers*](#) **and** full article attached below

“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 Bureau of Labor Statistics responded to the column in Forbes.com by writing a letter to Forbes.com, not us, which Forbes published on May 23, 2007.

Letter to the Editor **BLS Jobs Data Are Just Fine** By Philip L. Rones, deputy commissioner of the Bureau of Labor Statistics at the U.S. Department of Labor in Washington, D.C

In this letter, the BLS acknowledges the initial numbers on job growth have been far too low. Saying, “The Bureau of Labor Statistics is always receptive to suggestions for improvement.”

http://www.forbes.com/2007/05/23/bls-jobs-response-pf-guru-ii-in_pr_0522soapbox_inl.html

We responded to the BLS letter with another column in Forbes.com on the same day, **May 23, 2007 Jobs Data Bad for the Market**, giving the facts showing how easy it would be use more current data.

http://www.forbes.com/guruinsights/2007/05/23/bls-jobs-rebuttal-pf-guru-ii-in_cb_0522soapbox_inl.html

Again, we alerted the financial community to the likelihood that the BLS would be issuing new misleading statistics on job growth. TrimTabs is so confident of the accuracy of the data it uses on job growth that it published a press release forecasting that the BLS data would again understate job growth.

May 31st press release: TrimTabs Estimates 185,000 New Jobs in May. U.S. Economy Heads into Summer with Tremendous Momentum. If BLS Reports Anemic Job Growth Again–Ignore It: It is Wrong!

(link to press release)

Charles Biderman
Chief Executive Officer
TrimTabs Investment Research
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March 22, 2007

The Honorable Henry Paulson, Secretary
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20551

The Honorable Ben S. Bernanke, Chairman
Federal Reserve Board
20th Street and Constitution Avenue, NW
Washington, D.C. 20220

Dear Mr. Secretary and Chairman Bernanke:

I am writing to propose two simple solutions to the problem of flawed economic data that has undermined the U.S. economy since it began growing rapidly again in 2004.

When the economy is expanding as rapidly as it is now, the initial releases of the Bureau of Economic Analysis (BEA) and the Bureau of Labor Statistics (BLS) dramatically understate income growth and employment growth. The consistent weakness of this widely publicized data is harmful to the U.S. and global economies because companies and market participants consider it as they make hiring and investment decisions. While the BEA and the BLS revise their initial releases when more accurate data is available, the revisions occur well after the initial releases have done their damage.

My first proposal is that all income tax payers--employers and individuals--be required to indicate what type of taxes they are paying at the time they pay them. Employers currently submit payments for withheld income and employment taxes through their banks to the U.S. Treasury without breaking out which portions of these payments are for employment taxes, income taxes, and Medicare taxes. Since employers must calculate employment taxes, income taxes and Medicare taxes separately to make the payments, this requirement wouldn't add to the corporate paperwork burden.

Similarly, I believe individuals and partnerships paying "Other than withheld income and employment taxes" should be required to list the types of taxes they are paying at the time they pay them. These individuals and partnerships already know this information when they submit their payments, so this requirement would not necessitate any additional recordkeeping.

My second proposal is that employers be required to report how many employees received paychecks in the previous pay period. This proposal would impose little burden on employers. It would provide tremendous benefits to the U.S. economy by enabling economists and market participants to know in real time how many people in the U.S. are receiving paychecks. Moreover, the number of workers and payments could be aggregated by sector and sub-sector.

Although these types of revisions have been criticized in the past by some government officials who claim it would be expensive and impose a paperwork burden on business, this simply is not true. The cost in time and manpower is virtually nil, particularly when compared to the enormously positive effect on the U.S. and world economies.

In fact, if timely, accurate data on income growth and employment growth were available, market participants would see that the U.S. economy is strong and overall U.S. stock prices would probably be at least 20% higher. As a result, companies might stop spending \$4+ billion in cash per business day on mergers and share repurchases to support their stock prices and use their cash instead to grow their businesses.

Sincerely,

Charles Biderman
Chief Executive Officer
TrimTabs Investment Research



TrimTabs Investment Research

FOR IMMEDIATE RELEASE:

**Warning: Bureau of Labor Statistics New Job Estimates Are Wrong
And Injurious to Personal and National Economic Health**

U.S. Economy Actually Added 133,000 Jobs in April.

Santa Rosa, CA – May 4, 2007 – The Bureau of Labor Statistics (BLS) estimate of job growth for April is wrong again. As it has consistently done in the past, it has underestimated actual U.S. job growth, and is hurting the U.S. economy and the equity markets.

In reality, the U.S. economy added approximately 133,000 new jobs in April, according to Trim Tabs Investment Research, which uses daily income tax deposits to the U.S. Treasury as well as other real-time and near real-time employment indicators to calculate U.S. employment growth. In contrast, the BLS initial reports on monthly job growth is based on the results of a survey developed decades ago for a manufacturing-based economy.

Madeline Schnapp, director of TrimTabs Macroeconomic Research, noted that although highly inaccurate, the BLS numbers have potentially put the brakes on a vibrant economy during the last two years by frightening investors away from U.S. equity markets, while corporations use growing cash flow to do buyouts and buybacks instead of making capital expenditures that would create even more jobs.

“Moderate employment growth is being driven primarily by small and medium-sized corporations, which are grossly underrepresented in the BLS survey sample,” said Madeline Schnapp, Director of Macroeconomic Research. “Despite the slowdown in the housing market, the U.S. economy created far more jobs in recent months than government statistics indicate.”

The initial results of the BLS establishment survey understated employment growth in each of the past six months. For example, the BLS initially estimated that the economy added only 111,000 jobs in January. Then it upwardly revised this estimate to 146,000 jobs in February and 162,000 jobs in March. In other words, job growth in January was a whopping 46% higher than what the BLS originally estimated!

Such inaccuracies add up over the course of a year. The BLS initially estimated that the economy added 1.52 million jobs in 2006. After completing its benchmark revisions, the BLS now estimates that job growth in 2006 was 2.26 million jobs, which is 49% higher than what it originally estimated.

It is impossible for the BLS to produce accurate initial estimates of employment growth for the following reasons:

- The BLS establishment survey completely ignores self-employment and does not fully capture employment at small and medium-sized corporations.
- The BLS establishment survey is heavily biased towards manufacturing employment and government employment and does not fully reflect changes in service sector employment.
- Huge BLS seasonal adjustments often distort actual trends in employment.
- The company “birth/death” adjustments the BLS applies to its data are nothing more than guesses.
- Only 60% of the BLS establishment survey for the latest month is complete at the time the data is initially released.

The BLS corrects most of these shortcomings by benchmarking its initial results to actual payroll data a year later. By that time, however, the damage to the economy has already been done. “When the BLS understates job growth month after month, it inflicts tremendous harm on the economy,” Ms. Schnapp explained. The resulting fear about an economic slowdown causes corporate executives to scale back on hiring and capital expenditures. At the same time, it can cause global investors to invest less in the U.S. than they would otherwise.

“If more accurate data about employment growth were available, investors would realize that the U.S. economy is strong, and they would invest more here. As a result, overall U.S. stock prices would be at least 20% higher,” concluded Ms. Schnapp.

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TrimTabs Investment Research is the only independent research service that publishes detailed daily coverage of U.S. stock market liquidity, including mutual funds and exchange-traded funds, as well as weekly withheld income and employment tax collections. Founded by Charles Biderman, TrimTabs has provided institutional investors with trading strategies since 1990. For more information, please visit www.TrimTabs.com.

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FT.com site : Insight: Government figures give clues but not all the answers.

Charles Biderman, founder and chief executive officer of TrimTabs Investment Research.

718 words

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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?



FOR IMMEDIATE RELEASE:

**TrimTabs Estimates 185,000 New Jobs in May.
U.S. Economy Heads into Summer with Tremendous Momentum.**

If BLS Reports Anemic Job Growth Again—Ignore It: It is Wrong!

Santa Rosa, CA – May 31, 2007 – The U.S. economy added approximately 185,000 new jobs in May, according to Trim Tabs Investment Research, which uses data based on daily income tax deposits to the U.S. Treasury as well as other real-time and near real-time employment indicators to calculate U.S. employment growth.

In contrast, the Bureau of Labor statistics (BLS), for its initial reports on monthly employment growth, uses survey results that have proven to be highly inaccurate. The upward revisions the BLS makes to its data months later prove that, Trim Tabs noted.

“So beware of low numbers, and ignore them,” said Trim Tabs’ chairman Charles Biderman. “These anemic, inaccurate economic reports have been bad for the economic health of investors and are putting the brakes on the U.S. economy.”

It is likely, Trim Tabs said, that the BLS will on Friday report anemic, inaccurate employment growth well below the 150,000 new jobs necessary to absorb population growth, and that’s considerably below the real numbers, TrimTabs said.

“That’s because the BLS initial reports on monthly job growth are based on the results of a survey that is artificially biased towards growth in government employment and growth in employment in large corporations and is missing the vibrant employment growth that is occurring amongst the self-employed and small and medium sized corporations, said Madeline Schnapp, director of TrimTabs Macroeconomic Research.

These highly inaccurate reports of employment growth combined with equally misleading anemic reports from the US Bureau of Economic Analysis (BEA), are dangerous because although inaccurate, they are frightening investors away from U.S. equity markets, while corporations use growing cash flow to do buyouts and buybacks instead of making capital expenditures that would create even more jobs, Schnapp explained.

“Moderate employment growth is being driven primarily by growth in self-employment and by healthy job creation in small and medium-sized corporations, which are grossly underrepresented in the BLS survey sample,” said Schnapp. “Despite the slowdown in

the housing market, the U.S. economy has created far more jobs in recent months than government statistics indicate.”

The initial results of the BLS establishment survey have grossly understated employment growth for the last year and a half. For example, the BLS initially estimated that the economy added only 1.66 million jobs in 2006. Then it upwardly revised this estimate to 2.26 million new jobs a year later. In other words, job growth in 2006 was a whopping 36% higher than what the BLS originally estimated! So far this year, the BLS has estimated that job growth has been an anemic 517,000 new jobs, or 129,000 new jobs per month. In reality, according to our estimates, job growth has been closer to 700,000 new jobs, or 175,000 new jobs per month. The difference between the two estimates is the difference between an economy that is shrinking versus an economy that is growing.

It is impossible for the BLS to produce accurate initial estimates of employment growth for the following reasons:

- The BLS establishment survey completely ignores self-employment and does not fully capture employment at small and medium-sized corporations.
- The BLS establishment survey is heavily biased towards manufacturing employment and government employment and does not fully reflect changes in service sector employment.
- Huge BLS seasonal adjustments often distort actual trends in employment.
- The company “birth/death” adjustments the BLS applies to its data are nothing more than statistical guesses.
- Only 60% of the BLS establishment survey for the latest month is complete at the time the data is initially released.

The BLS corrects most of these shortcomings by benchmarking its initial results to actual payroll data a year later. By that time, however, the damage to the economy has already been done. “When the BLS understates job growth month after month, it inflicts tremendous harm on the economy,” Ms. Schnapp explained. The resulting fear about an economic slowdown causes corporate executives to scale back on hiring and capital expenditures. At the same time, it can cause global investors to invest less in the U.S. than they would otherwise.

“If more accurate data about employment growth were available, investors would realize that the U.S. economy is not only strong but is actually gaining momentum heading into summer, and they would invest more here. As a result, overall U.S. stock prices would be at least 20% higher,” concluded Ms. Schnapp.

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