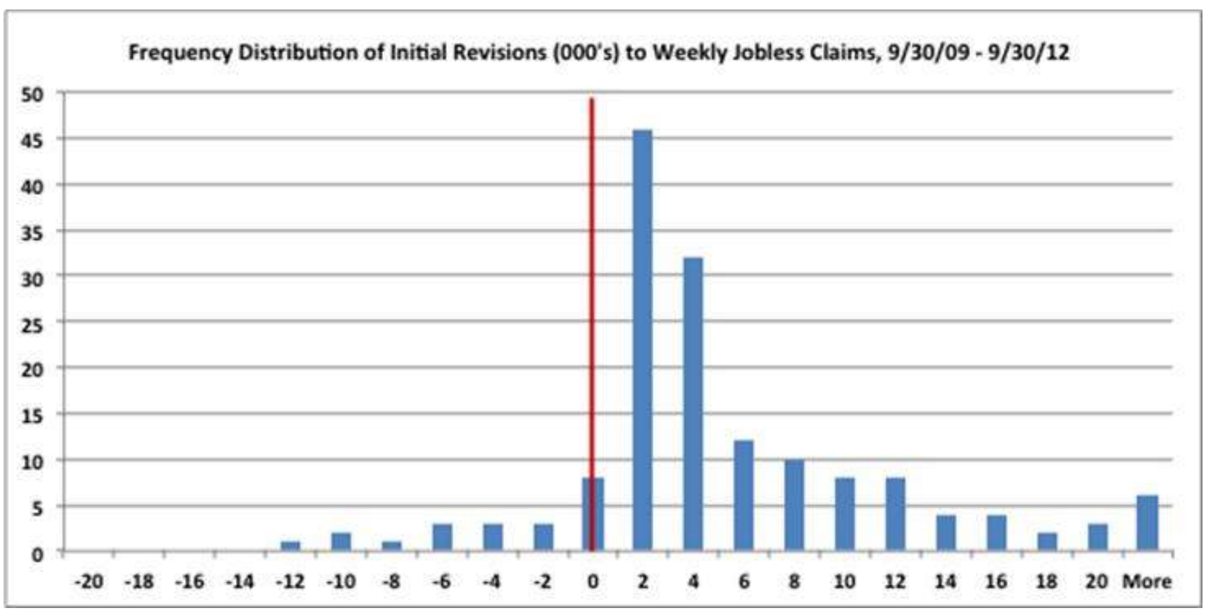
From: Ben Hunt
Sent: Monday, October 29, 2012 1:04 PM
To: Ben Hunt
Subject: Jack Welch was right, part deux

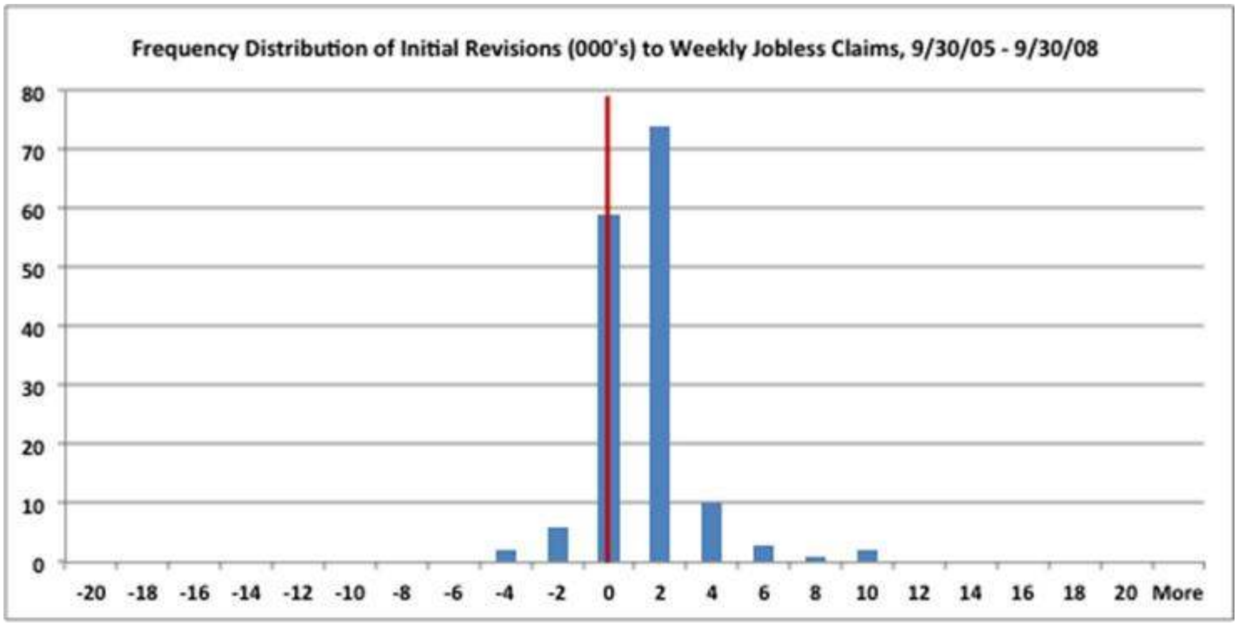
The negative responses to my original post on the systematic bias in BLS reports of initial jobless claims are running more than 2:1 over positive responses. A few recipients of that post have replied that I must be a Republican stooge for spreading such know-nothing lies and have asked to be removed from my mailing list. Done. I will continue to pursue this inquiry wherever it leads, come what may.

Not that it should matter, but let me be clear about my political bias. I believe that ALL political leaders (and this includes central bankers and CEO's of systemically important companies), regardless of political party, routinely and compulsively bend (and occasionally break) economic data in order to serve a political purpose. I believe that the people and institutions that answer to these political leaders support this massaging of the data in a thousand subtle and not-so-subtle ways. The people who work at the BLS are neither stupid nor corrupt. They are actual human beings with actual families to feed, and they know where their bread is buttered.

So I'm not surprised at data manipulation and data bias in general. What is surprising to me is the degree of data bias in the BLS under the Obama Administration. First, here is the frequency chart for initial revisions of weekly BLS jobless claims from 9/30/2009 through 9/30/2012. This is the chart that, for many readers, apparently calls my intellectual integrity into question.



And here is the same chart for initial revisions of weekly BLS jobless claims from 9/30/2005 through 9/30/2008.



I mean … I could go through all the statistics that show how the bias in BLS weekly reports has gotten enormously worse over the past three years, but this is a good example of how one picture is worth a thousand words.

In the last three years, original reports have understated initial jobless claims by 826,000 relative to initial revisions. Compared to final revisions, the original estimates look even worse, understating jobless claims by 848,000.

In the three years 9/30/2005 through 9/30/2008, on the other hand, original BLS reports understated jobless claims by 282,000 relative to initial revisions. Compared to final revisions, the original reports understated jobless claims by only 5,000 people!

And before someone writes to say that there must have been many more initial jobless claims in the past three years than in the 2005 through 2008 period … the total original jobless claims over the past three years are 65.855 million, versus total jobless claims in the three years 9/30/2005 – 9/30/2008 of 52.520 million, a 25% increase. The total errors, on the other hand, have increased almost 3x over the comparable time periods. The spread of these errors (and the skew towards under-reporting) is even more pronounced.

I'm sure that the economists and statisticians at the BLS know that they have a systematic error in their reports. It's probably due to some systematic problem in the way that the states report their information up to the BLS for aggregation. But the nice thing about obvious systematic errors is that they can be fixed with obvious statistical adjustments. The BLS adjusts raw data *all the time*. In fact, what we're looking at here is not the raw data in any event, but the seasonally-adjusted data.

So here's the Big Point – the BLS chooses not to adjust the statistical bias that is obvious and rampant in the weekly jobless claim reports, and that choice has enormous political ramifications. I don't think that there's some secret directive from the White House telling the BLS to cook the books. I am positive, however, that the BLS could provide more accurate reports if it wanted to, and I believe that the BLS continues to report data that it knows is less accurate than it could be because this error of omission is politically and institutionally self-serving.

Five years ago, no one cared about the weekly jobless claims number. It was a secondary data release at best. Today this number matters. It matters a lot. Unemployment conditions and trends are not only at the heart of the current Presidential campaign, they are also at the heart of open-ended QE. So at the same time that BLS data has taken on a political significance that is an order of magnitude greater than it had in the past, the quality of that data has significantly deteriorated. And the direction of that deterioration is consistently and unmistakably to the political benefit of the current Adminstration.

From: Ben Hunt
Sent: Saturday, October 27, 2012 11:56 AM
To: Ben Hunt
Subject: Jack Welch was right

"**Unbelievable jobs numbers … these Chicago guys will do anything … can't debate so change numbers**."
-- Jack Welch, former CEO, General Electric

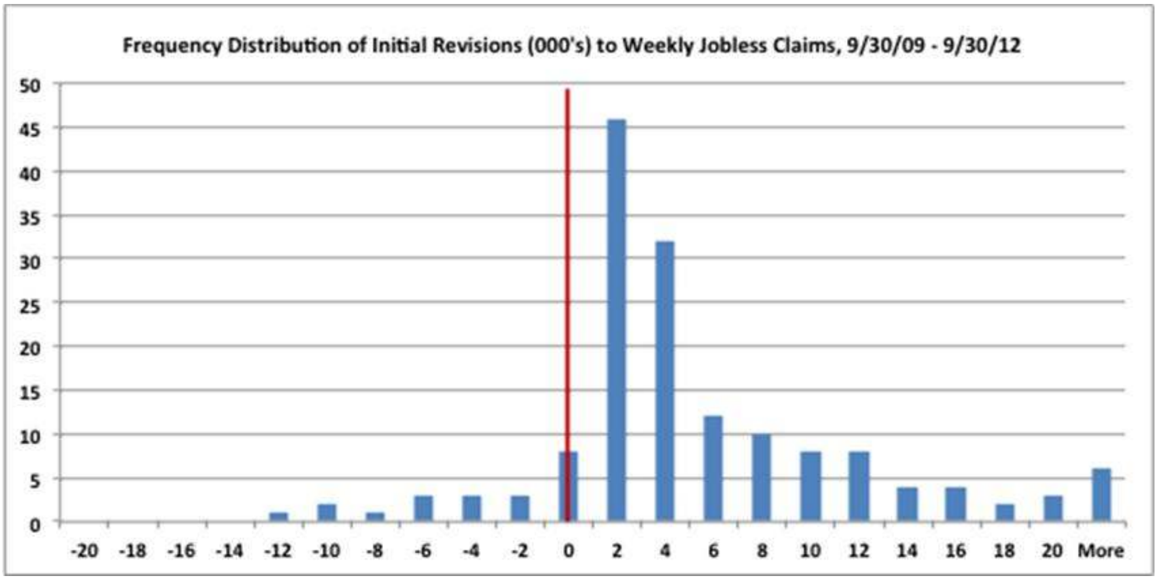
A few weeks ago, Jack Welch was roundly criticized by the media and the Powers That Be for this tweet following the release of the September jobs report on October 5th. While there is no smoking gun to confirm that this specific report was cooked to favor the Obama re-election campaign, Welch's fundamental assertion – that there is a systematic bias in the collection and reporting of unemployment data by the Bureau of Labor Statistics (BLS) in a manner that favors the White House – is well supported by an analysis of weekly initial jobless claims data.

Every Thursday morning at 8:30 am, the BLS reports a seasonally-adjusted compilation of state-by-state counts of the number of people applying for unemployment benefits for the first time during the prior week. This report is widely trumpeted by the financial media, and it can and does move the market. Over the past year (October 2011 – September 2012), 35 of these weekly reports – more than two-thirds of the total – have shown a week-to-week improvement in the number of people seeking initial jobless benefits. Good news! The labor market is "healing"!

But if you look at the initial revisions made to the originally reported data, only 23 of these weekly reports – well less than half of the total – show a true week-to-week improvement. In almost one out of every four weekly jobless reports over the past year, the "improvement" reported by the BLS and disseminated through the financial media turns out to be a lie. The labor market is not "steadily improving", as the Obama campaign narrative claims at every turn. It is, if anything, getting worse.

The same dynamic exists when you compare the original BLS reports to market expectations, as measured by the Bloomberg economist survey mean. Over the past year, 29 of the original reports – about 56% – beat expectations. More good news! A positive surprise! Relative to the revisions made just one week later, however, only 20 of the original reports – less than 40% – beat expectations.

In fact, when you take a closer look at the distribution of initial revisions around the weekly BLS reports for the past three years, there is absolutely no doubt that the originally reported numbers are systematically biased.



The vertical axis in the chart above is a count of the number of weeks over the past three years where the originally reported jobless claims report was revised by an amount corresponding to the "buckets" shown on the horizontal axis. For example, there have been 46 weeks over the past three years where the original report was revised upwards one week later by 2,000 – 3,000 claims, and 32 weeks where the original report was revised upwards in the following week by 4,000 – 5,000 claims.

Over the past three years there has been one week where the initial revision to the original report reduced the number of jobless claims by 12,000. Over that same span, there have been twenty-seven weeks where the initial revision to the original report increased the number of jobless claims by 12,000 or more. In fact, there have been 6 weeks where the upwards revision was 22,000 claims or more. There has not been a single downwards revision to the original report since February 2011. Cumulatively, the original announcements have under-reported jobless claims by 826,000 Americans over the past three years.

If the original data collection and reporting process were unbiased, we would expect revisions to that initial report to form a normal distribution (some sort of bell curve) centered on zero (marked by the red line above). Obviously this is not the case with BLS revisions, as there is an enormous skew towards upwards revisions. The equally obvious conclusion, of course, is that initial jobless claims are systematically under-reported by the BLS in their original announcements. How confident can we be that this is a systematic bias, and not simply the result of a lucky draw for the White House? I won't bore you with the statistical details, but if you're familiar with the E-Trade commercial where the baby tells the man scratching off a lottery ticket that he has a better chance of being attacked by a grizzly bear and a polar bear in the same day, you have the answer.

Please feel free to forward this analysis to anyone you please. And if anyone has Jack's email address, tell him he was right!

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