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The leading-indicator lies of the U.S. government

by Chris White

The government's index of leading economic indicators, made public Tuesday, March 1, is another example of the lengths the powers that be will go to maintain their own self-consoling illusions that there is no real risk of an economic recession, until after this year's presidential elections are well and truly over.

The January results showed a fall of 0.6%. However as the January results were released, revised numbers for December were also put out. The revised December numbers reversed the earlier reported decline of 0.2%, to instead offer an increase of 0.3%. The 0.5% margin of error from first to revised report could be stated as a revision of 6% on an annualized basis, about three times what the government is forecasting economic growth to be over the year as a whole.

Funnily enough in this crazy world, it wasn't the bad news, of the 0.6% decline in January that perked up enthusiasm among the pollyannas and pundits. It was the revised December figures which showed that the economy is growing.

The index of leading indicators is the government's principal economic forecasting tool. Leading indicators are those, such as unemployment claims, orders for consumer goods, plant and equipment orders, building permits, and so on, which are assumed to move in advance of changes in rates and levels of economic activity, as distinct from coincident, or lagging indicators, which are respectively assumed to move with, or after, developments in the economy as a whole. The rule of thumb employed by officialdom's pundits is that declines in the index of leading indicators for three months in a row usually mean that the economy is heading into what they are accustomed to call a depression.

That's why the revision of the December index was more important than the January numbers. If the December numbers had not been revised, the series would have declined for four months in a row: October, November, December, and January. The revision of the December figures broke the series, and now another two months will have to go by before the pundits are able to assert with confidence whether the economy is "slowing down" or heading into what they call "a recession."

If you think this all sounds like irresponsible word games, you're not too far off the mark. Behind the games, the fraud which pervades the preparation of these kinds of indices, and to which, over the years, one becomes almost habituated, has reached new levels of blatancy. The revision of the December leading indicators was necessitated because the government underestimated the amount of credit that had been extended that month. The downturn in the indicators becomes an upswing because the country's consumers went deeper into debt than was first thought to be the case.

Does this mean that the faster the economy goes deeper into debt the better it is doing? Of course not. Anyone capable of thinking sanely on the matter would readily recognize that the very reverse is actually the case. The more so because it's the month of December that is under consideration. The period from Thanksgiving to Christmas is the most important in the retail sales calendar. Over those few weeks, some estimate, about one-third of the total volume of the year's retail sales is accounted for. It was already known that the level of such sales during last year was flat relative to the year before. The increase was not even enough to offset the imputed rate of inflation from one year to the next. Now we learn that the level of credit extended during the December part of that period was sufficient to account for 0.5% of a swing in the totality of the government's index of leading indicators.

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Not too much was actually bought or sold this past Christmas time. It went on to the good old Master, Visa, or American Express card.

The thinking here is congruent with the view that the President has frequently expressed since Black Monday, Oct. 19. There is no danger of a recession, the fable goes, with the one small exception: that consumers panic, stop buying, and that produces a downturn. In this view, the question of economic policy becomes reduced to the public relations manipulators' management of the perception that "everything is really OK," so it is safe to keep on buying.

The targets of the manipulation are twofold: those who can still "consume," and the proverbial markets. In the latter case, the truth of the public relations exercise isn't so important as the perception that the powers that be still do have sufficient power to keep on churning out the lies without getting caught. Therefore, the word of the day is, "no recession in 1988, but rather, a gradual slowdown." This prognosis, the revised indicators, with their faster plunge into deeper indebtedness, are supposed to bear out. Then, if enough people, of sufficient stature, repeat the refrain often enough, and sincerely enough, the rest of us are evidently supposed to assume it to be true.

Appearance or reality

There's many a slip twixt cup and lip, the saying goes. And so it does here, too. The difference between wanting that result for 1988, and the capability to bring that result about, is immense. As the very nature of public relations activities implies, the truthfulness of the report is not so important as the appearance of truthfulness, or credibility. The issue, for these degenerates, is not what's really going on in the economy, but can appearances be kept up till after the elections in November? And, more especially, can the appearance of a solvent financial system be maintained through that time-frame?

Adjusting the indicators on the basis of increases in debt betrays the whole game. Economic capacities and potentials are being stripped out, at an accelerating rate, to maintain the appearance of solvency for the financial and banking system, when the official earnings of the banking system, at 0.16% of assets for the whole of 1987, reflect the reality that the whole shebang is actually bankrupt many times over.

The more the economy is stripped out, the less stable the bankrupt financial system becomes, since the money side of the system is ultimately only worth the production which the money can buy. In this respect, things are rapidly being brought to a new financial breaking point, by the very apparent success of maintaining the fiction that the financial system is in good shape.

The auto industry, for example, is one of the mainstays of the consumer sector, and its sales for the end of February were up 24% over the same period the year before. Production of autos is down nearly 30% over the same period. Up to 20% of the facilities of some companies are shut down. Production plans for the first part of March envisage a 30% reduction also. Sales are up because the inventories that have been built up are being run down. The run-down of inventories permits companies like Chrysler and General Motors, which are running their operations with negative operating capital, to keep going for the moment. Not too far down the road, the sector will be deprived of the buffer of excess inventories, and the reality will hit.

Housing sales and construction are not in too different a shape. New construction spending of all types is way off from the previous year. Sales of existing houses are back to the levels of official "recession" years 1981 and 1982. Further, one of the country's largest producers of small electric applianсs for the home, Armco, which owns Sunbeam and Oster, has filed for Chapter 11 bankruptcy protection, no doubt to protect itself from the strength of consumer spending.

In the steel industry, smaller companies have been running a campaign against the Commerce Department to break the government's restrictions on imports of semi-finished steel. The companies have requested that the amount of such steel imported be tripled from one year ago, up to about 800,000 tons. That's small potatoes relative to total U.S. steel consumption, but again it reflects the reality that the economy cannot produce for itself at a competitive price.

Then the currently ongoing collapse in the price of oil is throwing another wrench into the works.

The collapse of economic activity increases the amount of debt service and other speculative claims that are to be extracted from the part of the economy that is still functioning. The efforts to paper over the consequences of last October's stock market crash have made that little problem worse, to the point that some in Europe's financial circles see the next phase of the financial collapse coming by May, while others think that June or July, the end of the second quarter, is perhaps a more likely time-frame.

Reality contrasts with the public relations line that Alan Greenspan at the Fed, and James Baker at the Treasury continue to utter. Greenspan continues to insist that the economy is "slowing down" but "recession" is not in the cards. Baker now thinks that things are about right, and that includes the battered dollar. Greenspan though also insists that the key will be continuing to bring the budget deficit under control, by continuing to cut expenditures.

Meanwhile, the policies that he and his buddies are imposing are ensuring that the budget deficit will do the very opposite. It will grow faster than the Congress can ever cut the expenditure side, because Greenspan and company are destroying the economy, and therefore, the basis for tax revenue, faster than the budget can be cut.

They can therefore lie about what's going on. But sooner or later the reality of what they are doing will prove what's the truth, and what is the lie.