“Shadow Statistics”: US Government’s Fudging the Numbers on Unemployment, GDP and Inflation

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John Williams has worked as a consulting economist since getting his BA and MA from Dartmouth college in New Hampshire in 1972. He now lives in California – these paragraphs are from his biography:

> One of my early clients was a large manufacturer of commercial airplanes, who had developed an econometric model for predicting revenue passenger miles. The level of revenue passenger miles was their primary sales forecasting tool, and the model was heavily dependent on the GNP (now called the GDP) as reported by the Department of Commerce. Suddenly, their model stopped working, and they asked me if I could fix it. I realized the GNP numbers were faulty, corrected them for my client…and the model worked again, at least for a while, until GNP methodological changes eventually made the underlying data worthless.
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> For a number of years I conducted surveys among business economists as to the quality of government statistics (the vast majority thought it was pretty bad), and my results led to front page stories in 1989 in the New York Times and Investors Daily (now Investors Business Daily).

In 2004 he started Shadow Statistics and runs a blog with updates on what he calculates to be the real U.S. government statistics, you can subscribe for $175 a year. The government keeps statistics on many things; Williams focuses on only a few; unemployment, Gross Domestic Product, inflation, the value of the dollar and the money supply.

You may ask why the government would fudge the numbers. Williams found that between 1997 and 1999 the government understated inflation and as a result inflation indexed payments for social security didn’t escalate as they should have and the government saved millions. The effect is the same in many contracts where payments are inflation indexed; between retired people and pension funds, between corporations and labour unions. Lower inflation rates, real or fictitious, save many corporations money.

On his web site you can check what he says are the correct figures today; unemployment in the United States, which the government says is under 5%, he says is about 22%. One reason for the big difference is that since the ‘60’s the government no longer counts as unemployed those who could not find work.

Inflation which the government says is about 2% is slightly over 5%. That seems right to me because the Shadow Statistics rate seems closer to what I’ve experienced.

It’s not just in the United States where numbers are being fudged. When I was writing my book, a friend in England sent a note saying that it was not just in the United States where government statistics were being fudged. “you can take if from me” he wrote “that inflation in the UK was at least twice what the Government was reporting.” He knew that because he had been keeping detailed records on their family spending.

Back in America economist Paul Craig Roberts has noted:

> As I have reported on many occasions, John Williams of shadowstats.com has concluded that changes in the way that the government approaches the measurement of inflation has, in effect, defined inflation away.
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> Formerly, if a price of an item in an inflation measure rose, the inflation rate would rise by the price times the weight of the item in the index. Today, if a price of an item in an inflation measure rises, that item is removed from the index, and a lower cost item substituted in its place.

A second way that government has contrived in order to under-measure inflation is to declare price rises “quality improvements” and not count the higher price as inflation.

Using these methods, an 8% rate of inflation can, for example, be reduced to a 2% inflation rate.

And as Peter Kiekmeyer, a business writer with Sprott Money writes:

> The sharply-dressed statisticians at the U.S. Bureau of Labour Statistics, the Bureau of Economic Analysis and Statistics Canada for their part talk a good game. However, Williams is asking questions that none have been able to convincingly refute.

Until that happens, we’ll regard this rumpled, amiable, Californian … as America’s most important statistician.

Williams’ current forecast for the US economy is not good. His data of United States Gross Domestic Product which officially has been reported at about 2% for the past many months he reports as being negative for several years now. A recession is defined as two quarters of reduction in the gross national product thus according to Shadow Stats, the US is in recession and has been for many months now. His economic forecast as of Aug 15th is:

> The ShadowStats broad outlook in the weeks and months ahead remains for: (1) a rapidly intensifying U.S. economic downturn, reflected in (2) mounting selling pressure on the U.S. dollar, (3) flight to safety in precious metals, with upside pressures on gold and silver prices, and (4) increasingly high risk of extraordinarily heavy stock-market selling.

He’s not the only one in the market today raising warnings so be wary.

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