we don't make any promises to the public. Whoever doesn't like it shouldn't use it."

When Tranum's boss, Helmut Wendel, was threatened with a suit by *EIR* under the Freedom of Information Act, he explained that the Fed can't release their "classified" formulas to the public, because they don't in any event derive much on the basis of the formulas—they just make the numbers up.

With the maddening logic of a Dr. Strangelove, Wendel politely explained, "We can't release the equations which we use for the PAFs, because they don't really work. We consider them preliminary, a vague guide. Mostly, we just make our own judgments, and do a lot of estimates."

Wendel gave an example of how the Fed comes up with numbers for a key industry in the IP index, the category of Metalworking Machinery, relied on as an indicator of whether production and investment in basic capital goods is taking place.

Metalworking—which includes machine tool production—is one of the industries for which the Fed has decided not to monitor real production of units of machines. They make early estimates, instead, by counting manhours worked, one week in a month. "We get in the manhour data from surveys completed by the companies, and we never really know what they mean," Wendel confided. "They don't mean much about what was really produced, but we compare them to the manhours the previous month. Say, there was a rise of 0.5 percent in July '83 manhours versus June '83—a 6 percent annual rate. Well, from that, we could *assume a 6 percent rise in production*."

Next, the Fed staff chooses the adjustment to make based on the "business cycle," an invention of the University of Chicago monetarists which says that the economy moves in yin-yang cycles. If it's falling now, it will "eventually" rise again, goes the line.

If the Fed staff decides that an "upswing" is occurring in the businesss cycle, they simply begin to adjust that 6 percent rate upwards. That is, *if they say it's a recovery, they make the numbers fit*.

"We make an upward business cycle adjustment for recovery," Wendel stated. "We assume that since it's a recovery, production per manhour must be rising, because each plant is producing more with the same number of workers. So, we add 3 percent for productivity. Then we have 3 percent plus 6 percent equals a 9 percent annual rate of growth in machine tools. But then someone might say, 'orders are down' for machine tools. So we decrease it to 7.5 percent."

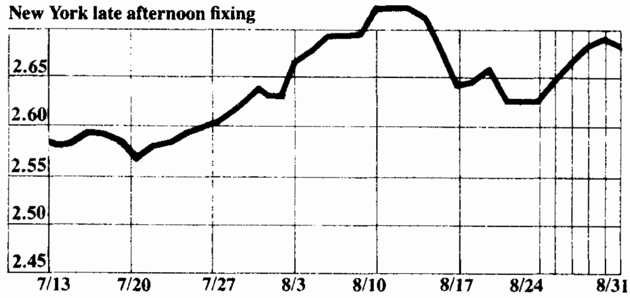
Asked where these seemingly quite precise percentages come from, Wendel replied. "You don't really use formulas. You just pull that number out of your head. You just say this first number doesn't line up with everything we know, and we just look at it and change it without even a calculation."

In this case, that is, the Fed's totally fudged PAF adjustment factor is the difference between the observed 6 percent rise in the raw data, and 7.5 percent—that is, a full 1.5 percent manufactured out of thin air.

Currency Rates

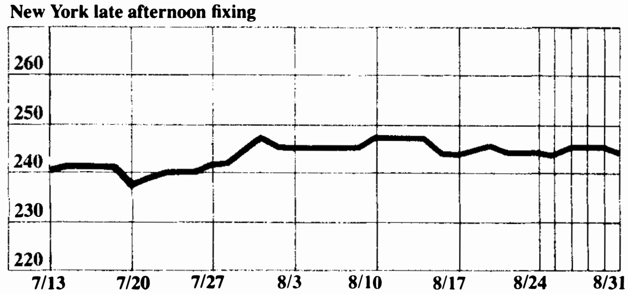
The dollar in deutschemarks

New York late afternoon fixing



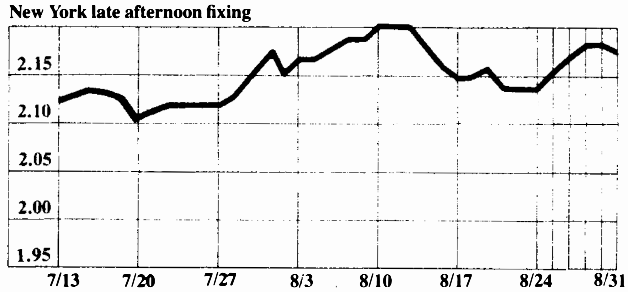
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing