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Misdirection on Jobs

The Bureau of Labor Statistics (BLS) is set in its ways. Each February, and not any earlier, it completes a thorough cleansing of its payroll employment data, updating it by using the latest State Unemployment Insurance data. These data allow the BLS to benchmark its survey for jobs at new start-up businesses that it might have missed with its technique of surveying existing business payrolls.

Right now, payroll employment is benchmarked to corporate unemployment insurance data from the second quarter of 2003. This was a "war quarter." The data reflect the economy before the boom in M&A and IPO activity, before robust self-employment growth and small business starts, and before the unemployment rate started to fall. The third quarter was much better – real GDP was up 8.2%, corporate profits and stock prices surged.

In the past month, third quarter corporate unemployment insurance filings became available. These new data reflect a much better "post-war, post-tax-cut" picture of the economy. The Bureau of Economic Analysis utilized this new data to revise personal income up by $49 billion in January. Wages and salaries for private workers were also upwardly revised by almost $29 billion in January, a 0.7% increase from their original estimate.

Given that the BEA was able to revise its personal income data with a more accurate set of statistics, common sense suggests that the BLS should also incorporate the same data into its estimates of employment. GKST Economics estimates that if the BLS were to do this, non-farm payroll job growth between July 2003 and January 2004 would be upwardly revised by 734,000. In other words, we believe that the payroll data underestimated jobs by roughly 100,000 per month in the second half of last year.

In numerous conversations with BLS statisticians, we were told that this would not happen. The BLS will not incorporate the third quarter unemployment insurance data until February 2005. If this is truly the case, then the payroll data will continue to underestimate payroll employment.

However, this does not mean that the jobs numbers (March is due tomorrow) will remain as weak as they have in recent months. The March ISM employment index hit a 17-year high and initial claims remain very low. Between 1994 and 1997, initial claims averaged 343,000 per week. During that same time period, non-farm payrolls expanded an average 253,00 per month. The latest data have initial claims near 340,000 over the past four weeks and we suspect that non-farm payrolls are due for an upside surprise.

Nonetheless, like diehard Chicago Cubs fans, we have become accustomed to having our hopes dashed. No matter how much underlying economic conditions have improved and no matter how relevant new data has become, the BLS finds a way to disappoint. Eventually, this will no longer be true and we have high expectations for both jobs and the Cubs in the coming year.

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