



Rodney's Take

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Did We Add 10,500 Jobs in the Second Quarter of 2022 or Over One Million?

Following government data can be a lot like drowning in Jell-O. The data don't move fast, but there's so much of it that it overwhelms, and most government websites that report the data are studies in how to make dry statistics even more boring. This is what makes the current cage fight over data between the U.S. Bureau of Labor Statistics (BLS) and the Federal Reserve Bank of Philadelphia so interesting. Both sides are using information provided by the BLS to estimate employment changes, but the Philly Fed claims it has developed a better mousetrap for parsing out meaning. The BLS is claiming B.S. We won't know until March who is right, but the answer could mean the difference between the Fed continuing to raise rates this spring, which could force the economy into a recession, or standing aside and letting the economy land softly.

Each month, the BLS surveys established businesses with 1,000 or more employees (the establishment or Current Employment Statistics [CES] survey), and then estimates changes at smaller firms and those not covered to estimate jobs growth. The data give us something to use when estimating economic changes but are prone to revisions. In addition to the establishment survey, the BLS also conducts the household (Current Population) survey each month, in which the bureau calls 60,000 households and asks the employment status of each adult in the home. This is where the unemployment rate comes from. But, just like late night pitch ads on television, "But wait, there's more!"

The BLS collects monthly data on employment through unemployment insurance filings from cities, metro statistical areas, counties, and states each quarter to compile the Quarterly Census of Employment and Wages (QCEW) and releases this census about five months after the end of each quarter. The QCEW covers 95% of all employment in the country, which makes the data much more reliable than the samples the BLS takes each month. The BLS recognizes this and every March revises the monthly data to conform with the QCEW. That's great, but in years with potentially large revisions, this leaves investors and other decisionmakers relying on possibly misleading information. This is where the Philly Fed comes in.

Following research by the Dallas Fed, the Philly Fed noted that QCEW data are published quarterly, albeit on a lag, instead of annually. This gives the Philly Fed the ability to estimate employment changes quarterly by state on the same lag, instead of waiting for the BLS to revise its numbers once a year. Last November, the Philly Fed released its first report covering the first quarter of 2022. In its CES survey, the BLS showed that 1.616 million new jobs were created in that time frame, whereas the Philly Fed's model showed 1.696 million. In an economy of 164 million workers, the 80,000-worker difference wasn't even a rounding error. However, for the second quarter, things got more interesting.

The CES showed 1.122 million jobs created from April through June of last year, whereas the Philly Fed research showed creation of a mere 10,500 jobs, a difference of more than one million workers. That's significant. Given that the Philly model uses data that cover 95% of all workers in the nation and the BLS monthly estimates use narrow surveys and estimates, I'm guessing that the Philly Fed model is closer to correct, but we'll have to wait until March to find out for sure.

A confirmation of slower employment last year would give the Federal Reserve Open Market Committee (FOMC) one of the elements it is looking for when deciding to pause rate hikes. But if the Philly Fed is correct, we should see the same trends in other data. While the jobs numbers on Friday were a bit hotter than people thought, one part of the report came in a bit cooler, average hourly earnings, the growth rate for which has been trending lower since, amazingly, March of last year.

Average Hourly Earnings 2022



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Nothing talks like cash, so the easing growth rate of earnings looks like the best corroboration that the Philly Fed has a good bead on the employment trend. Let's hope that's the case and that the FOMC takes note of it at the next meeting.

The Federal Reserve Bank of Philadelphia produces quarterly early benchmark estimates of monthly state employment for all 50 states and the District of Columbia. The Philly Fed estimates incorporate the more-comprehensive, accurate job estimates released by the QCEW of the BLS to augment the sample data from the CES survey that are issued monthly on a timely basis.

In March of each year, the BLS issues benchmarked revisions of its monthly CES state employment estimates. However, data from the QCEW—containing much of the underlying data upon which the annual benchmarks are made—are issued quarterly. This quarterly release allows Federal Reserve Bank of Philadelphia researchers to create their own early benchmark estimates on a timelier basis. Their methodology was adapted from an approach pioneered by the Federal Reserve Bank of Dallas and modified to accommodate all 50 states.

Early benchmark estimates will be released approximately one week after QCEW data become available. The QCEW data are released just over five months after the end of each quarter.

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Got a question or comment? You can contact us at info@hsdent.com.