

John Williams'  
**Shadow Government Statistics**  
*Analysis Behind and Beyond Government Economic Reporting*

**COMMENTARY NUMBER 343**  
**Updated December Jobs Report Outlook**

**January 5, 2011**

---

**Employment and Unemployment Increasingly Should Disappoint Recovery Expectations**

---

*PLEASE NOTE: The next regular Commentary is planned for Friday, January 7th, following release of December payroll employment and unemployment release.*

*-- Best wishes to all, John Williams*

***Employment/Unemployment (December 2010)*** -- This morning's *Commentary* provides a brief update of the outlook for the December payroll employment and unemployment data release on Friday, January 7th. Consensus forecasts have been turning more positive since *Commentary No. 342*, when Briefing.com was indicating consensus forecasts for a December total nonfarm payroll gain of 111,000 versus a 39,000 jobs gain reported for November, with unemployment holding at November's level of 9.8%. As of this morning (January 5th), the consensus reportedly had moved to a 135,000 or 140,000 jobs gain (Briefing.com/Reuters), with expectations for the headline U.3 unemployment dropping to 9.7%.

Payroll expectations likely will strengthen further, given this morning's ADP estimate of private payrolls gaining a much-stronger-than-expected 297,000 in December. I have not found, however, much predictive ability in the ADP estimates versus the formal Bureau of Labor Statistics (BLS) reporting.

Generally, I still expect the numbers to be weaker than consensus, where the consensus seems to be embracing -- at least temporarily -- expectations of a developing recovery. During the first-quarter of 2011, those expectations should begin to shift rapidly back towards a double-dip recession. Keep in mind that there is a 95% confidence interval for the monthly payroll employment change of +/- 129,000, so any result within that range is statistically indistinguishable from zero growth.

Given that the annual payroll benchmark revision (a large downside revision already has been estimated by the BLS) is due with the January 2011 payroll release on February 4th, the BLS likely will massage the initial reporting of the December 2010 payroll number so that it does not show significant month-to-month revision in the benchmark reporting. If so, that should add some downside pressure to the upcoming December monthly payroll number.

The December unemployment rate remains anyone's guess, since the annual seasonal-adjustment revisions to that series also will be published on Friday (the unadjusted unemployment rate does not get revised except for population re-estimates). December's seasonally-adjusted headline U.3 unemployment will be estimated in the context of those revisions, where unemployment patterns can be shifted within the year, including a possible change to the November unemployment rate, against which December's number will be compared. Odds favor some shifting of the adjusted unemployment into more recent reporting. If that happens, chances for an increase in the December versus November U.3 unemployment are reasonably good. The broader U.6 and SGS-Alternate unemployment rates should continue to increase.

In the reporting of related series, deteriorating to stagnant labor conditions are suggested. The ISM's purchasing managers survey (manufacturing) showed the December employment diffusion index dropping to 55.7 versus 57.5 in November. The December reading was the lowest since March 2010. The ISM's purchasing managers survey (services) also showed the December employment diffusion index declining, from 52.7 in November to 50.5 in December. The December reading was the lowest since September 2010. With the diffusion indices, a reading above 50.0 indicates expansion.

On the help-wanted advertising front, the Conference Board's online index for December showed an overall decline, although the new ads -- which I view as the more meaningful indicator -- gained for the month. Total ads (includes those carried forward from prior months) declined by 0.2% in December, after increasing by 1.1% in November. New ads rose by 2.5% in December, after dropping by 2.5% in November. The December new-ads reading remained below October's level. This relatively new series will be upgraded and fully revised with next month's reporting. As this *Commentary* is posted, the November newspaper help-wanted advertising index was not available.