

COMMENTARY NUMBER 361
March Employment and Unemployment

April 1, 2011

Reporting Quality Remains Abysmal for Monthly Employment and Unemployment

March Unemployment Rates: 8.8% (U.3), 15.7% (U.6), 22.0% (SGS)

Upped Birth-Death Bias Factors Both Assume and Create Jobs Growth

Broad Money Supply in an Uptick?

PLEASE NOTE: The next regularly scheduled Commentary is for Friday, April 8th, which will review general economic and liquidity conditions in a week otherwise bereft of meaningful economic releases.

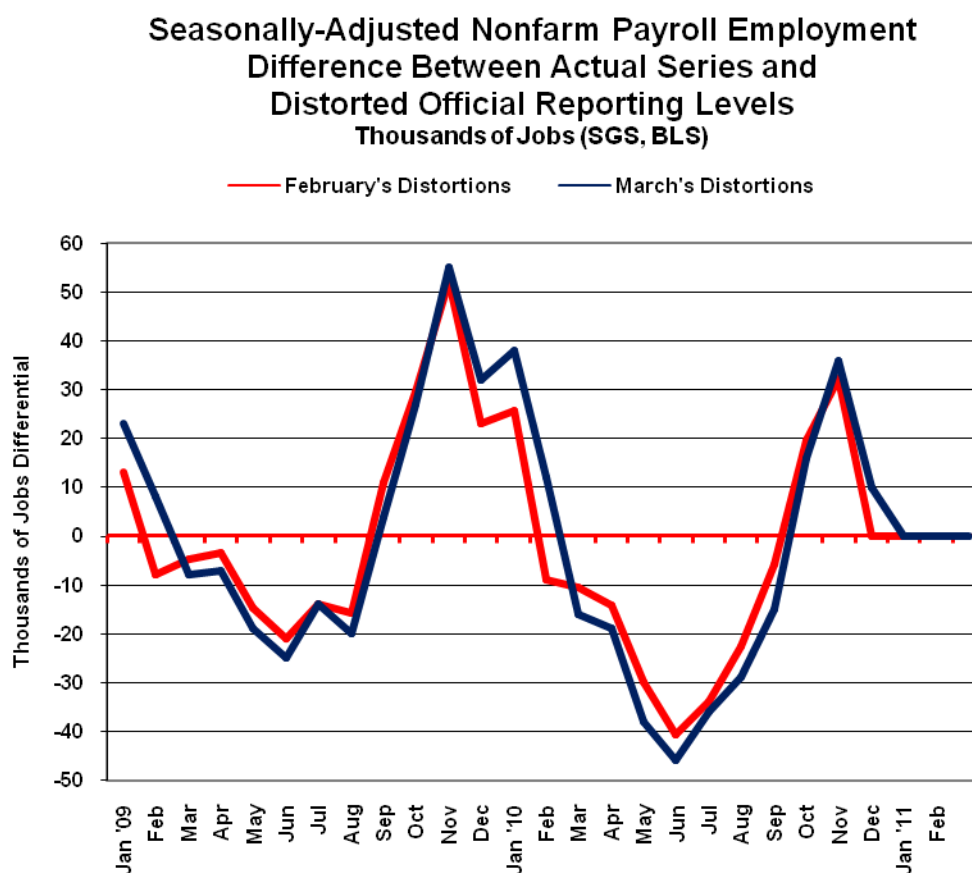
—Best wishes to all, John Williams

Openly Misleading Reporting Continues from the Bureau of Labor Statistics. As discussed in the [*Hyperinflation Special Report \(2011\)*](#), the extreme severity of the current economic downturn—both in terms of depth and duration—has distorted regular month-to-month reporting of seasonally-adjusted series, particularly the nonfarm payroll employment and the headline U.3 unemployment rate numbers.

Consider the following artifact of a broken reporting process. In today's (April 1st) reporting of March labor conditions, the Bureau of Labor Statistics (BLS) showed a seasonally-adjusted gain of 152,000 for

December 2010 versus November 2010, with January 2011's adjusted monthly increase at 68,000. Based on the BLS's monthly "concurrent seasonal adjustment" process, however, the Bureau really is looking at a 126,000 jobs gain for December, and at a 58,000 jobs gain in January; it just is not reporting the numbers, so as to avoid "confusing" people who use the data.

Meaningful seasonal-adjustments tend to be stable over time, without wild fluctuations every time the seasonals are re-estimated. This is true particularly for series like payroll employment and retail sales where the seasonal factors are concurrent—recalculated each month for the current month's raw data. If the payroll seasonals were stable, the lines in the following graph would be flat and coincident.

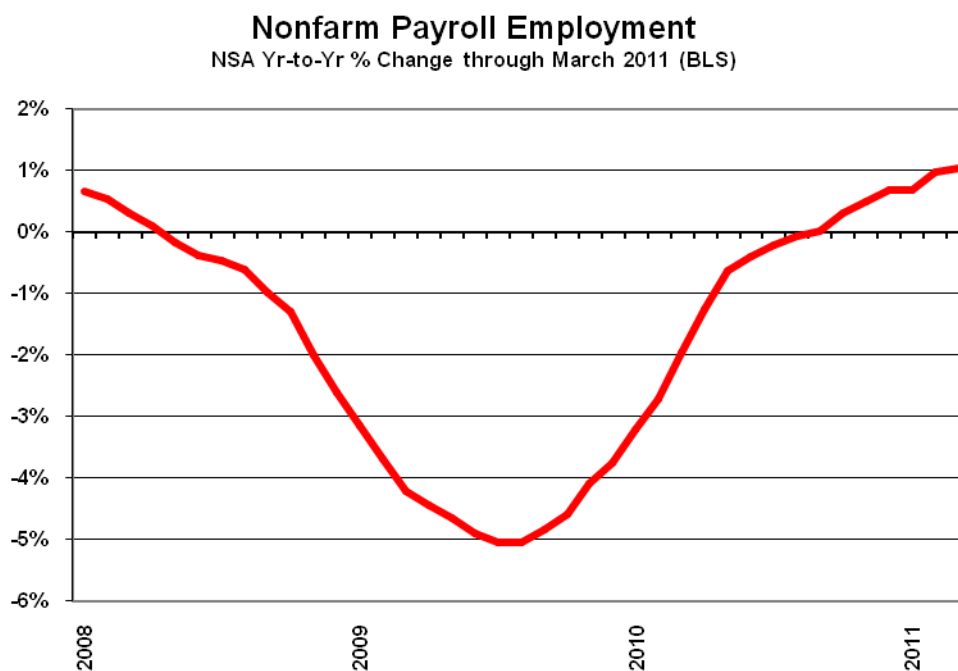


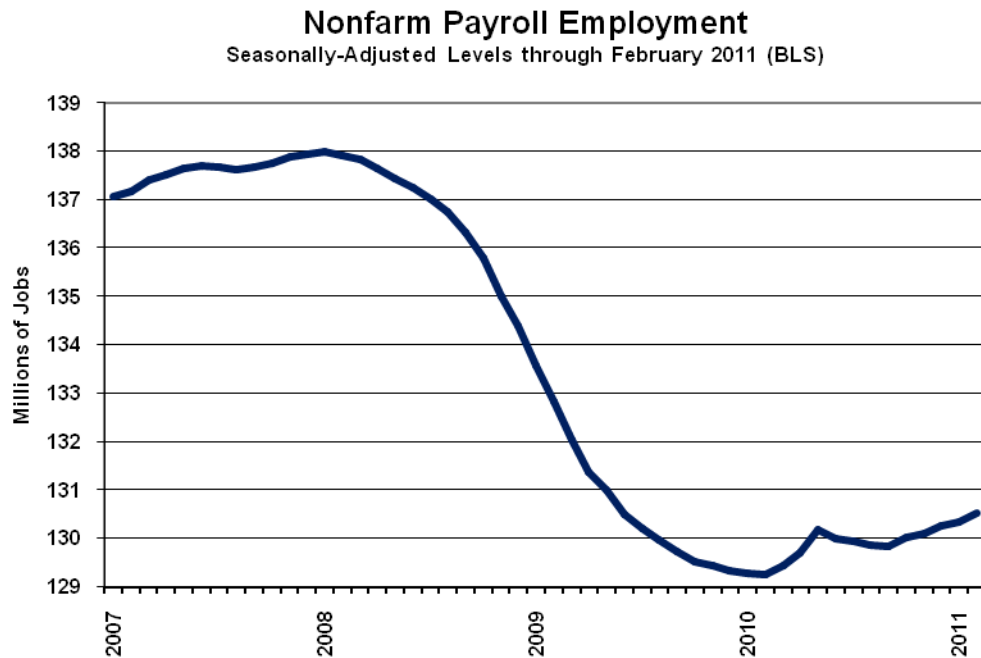
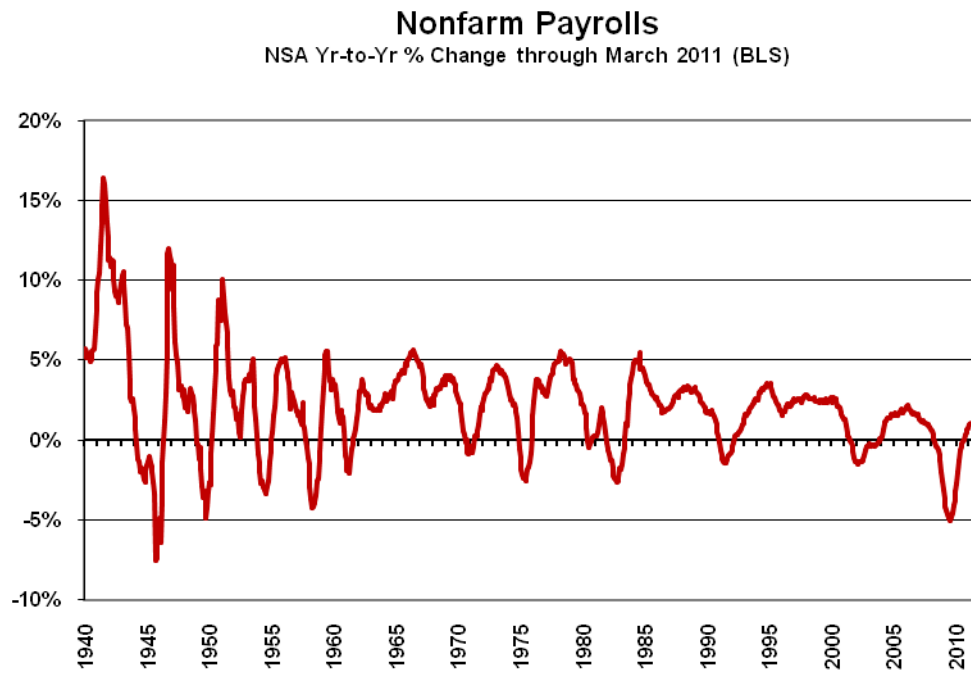
Instead, the monthly recalculations of seasonally-adjusted payroll levels show irregular revisions, with swings of plus or minus 50,000 shifting over time. To the extent the numbers affect current reporting, the differences are enough potentially to alter financial-market perceptions and reactions. The big issue, remains that the month-to-month data have become increasingly worthless, well beyond the 95% confidence interval of +/- 129,000 jobs in the reported monthly payroll change, yet the media and the markets tout the data as meaningful, usually without question or qualification.

As discussed last month in greater detail (see [Commentary No. 355](#)), when the concurrent seasonal-factor adjustments are made each month, history—consistent with current reporting—is revised back a number of years in internal BLS calculations, yet only revisions for the prior two months—January and February in today’s report—are published. December 2010 and all earlier months have been locked in place until next year’s benchmark revisions. Even so, the seasonal factors have manufactured non-existent jobs in the last calendar year. Official reporting shows a seasonally-adjusted gain of 940,000 jobs in between December 2009 and December 2010. The concurrent history shows the gain to be 918,000. The unadjusted data, which are the closest to the real world, show a gain of 872,000 (though these numbers still are heavily biased, per the Birth-Death Model comments).

The inconsistency differences can be calculated based on the raw data and the seasonal-adjustment program available to the public on the BLS Web site. Using the BLS data, we have calculated the seasonally-adjusted numbers as the BLS should be showing them, as of the current reporting, and the differences between official reporting and the consistent seasonally-adjusted series—seasonal-factor instabilities from just two and three months of revisions—are plotted the preceding graph.

Payroll Survey Detail. The BLS reported a statistically-significant, seasonally-adjusted March 2011 jobs gain of 216,000 (an increase of 223,000 jobs before prior-period revisions) +/- 129,000 (95% confidence interval). February payrolls showed a revised 194,000 (previously 192,000) gain. In terms of year-to-year change, the unadjusted March 2011 number was reported up by 1.03% from the year before. Despite the small upside revision to the seasonally-adjusted February numbers, though, the unadjusted numbers revised lower, with the annual change for February a revised 0.97% (previously 0.98%) increase.





The graphs of long-term year-to-year unadjusted payroll change show a recent increase in annual growth, which primarily reflects the still-protracted bottom-bouncing in the payroll series. With the bottom-bouncing, current annual growth has recovered from the post-World War II record 5.06% decline in August 2009, which was the most severe annual contraction seen since the production shutdown at the end of World War II (a trough of a 7.59% annual contraction in September 1945). Disallowing the post-war shutdown as a normal business cycle, the August 2009 annual decline remains the worst since the Great Depression, and the current level of employment is far from any recovery.

As shown in graph of seasonally-adjusted payroll levels (as reported by the BLS), however, the current level of nonfarm payrolls shows no recovery to pre-recession highs. The data continue to reflect bouncing along a plateau of low-level activity, with the latest payroll level still well below where it was a decade ago, even though the U.S. population has increased by 10% in the same period.

Birth-Death/Bias Factor Adjustment. Despite the ongoing and regular overstatement of monthly payroll employment—as evidenced by the regular and massive, annual downward benchmark revisions to the reported payroll numbers—the BLS keeps upping its monthly biases in post-benchmark reporting. For March 2011, there was a positive monthly bias used of 117,000 jobs, up from the revised estimate of 81,000 used in March 2010. In February, the net bias was a boost of 112,000 jobs. These upside biases reflect an ongoing assumption of a net positive jobs creation by new companies versus those going out business. Such becomes a self-fulfilling system, as the upside biases boost financial-market and political needs with relatively good headline data, while also setting up the next year's downside benchmark revisions, which traditionally are ignored by the media and the politicians.

Where the BLS cannot measure the impact of jobs loss and jobs creation from employers starting up or going out of business, on a timely basis (within at least five years, if ever), such information is estimated by the addition of a bias-factor generated by the Birth-Death Model (a model of the effects of new business creation and old business bankruptcies). The fundamental defects of the Birth-Death Model are discussed as usual in the ensuing paragraphs.

Positive assumptions—commonly built into government statistical reporting and modeling—can become self-fulfilling prophecies, with “stronger” economic data being reported as a result of happy guesstimates, or underlying assumptions of ongoing economic recovery. Indeed, historically, the Birth-Death Model biases have tended to overstate payroll employment levels—to understate employment declines—during recessions. There is a faulty underlying premise here that jobs created by start-up companies in this downturn have more than offset jobs lost by companies going out of business. So, if a company fails to report its payrolls because it has gone out of business, the BLS assumes it still has its previously-reported employees and adjusts those numbers for the trend in the company's industry.

Further, presumed additional “surplus” jobs, created by start-up firms, get added on to the payroll estimates each month as a special add-factor. These add-factors likely are running now above 30,000 per month (seasonally-adjusted). I still estimate this monthly bias should be negative by 200,000 or so, on average. Since it is not, the BLS continues regularly to overestimate monthly growth in payroll employment by roughly 230,000 jobs. Much of that misreporting, which was not picked up in the 2010 benchmarking, now will not be corrected until at least the 2011 benchmark revision (based on the upcoming March 2011 benchmarking) to be published in February 2012.

Household Survey. The usually statistically-sounder household survey, which counts the number of people with jobs, as opposed to the payroll survey that counts the number of jobs (counting multiple job holders more than once), showed a March 2011 employment gain of 291,000 from February. In turn February had been reported up by 250,000 from January. Nonetheless, issues with seasonal factors also cloud the significance of the reported monthly levels in the adjusted headline U.3 unemployment rate and other adjusted household-survey numbers. Again, adjusted data have been moved by highly unstable seasonal factors that are artifacts of the severe and extraordinarily protracted downturn in U.S. economic activity, not from changing seasonal patterns.

The March 2011 seasonally-adjusted headline (U.3) unemployment rate declined by a statistically-insignificant 0.09 percentage point to 8.83% +/- 0.23% (95% confidence interval), from 8.92% in February. Not-seasonally-adjusted, March's U.3 unemployment fell to 9.2% from 9.5% in February.

The March U.6 unemployment rate declined to a seasonally-adjusted 15.7% from 15.9% in February, again suffering from seasonal-maladjustment, and seeing some of the unadjusted short-term discouraged workers in U.6 rolling into the long-term discouraged workers in the SGS measure. The unadjusted U.6 rate fell to 16.2% in March, from 16.7% in February. The broadest unemployment rate published by the BLS, U.6 includes accounting for those marginally attached to the labor force (including short-term discouraged workers) and those who are employed part-time for economic reasons (they cannot find a full-time job).

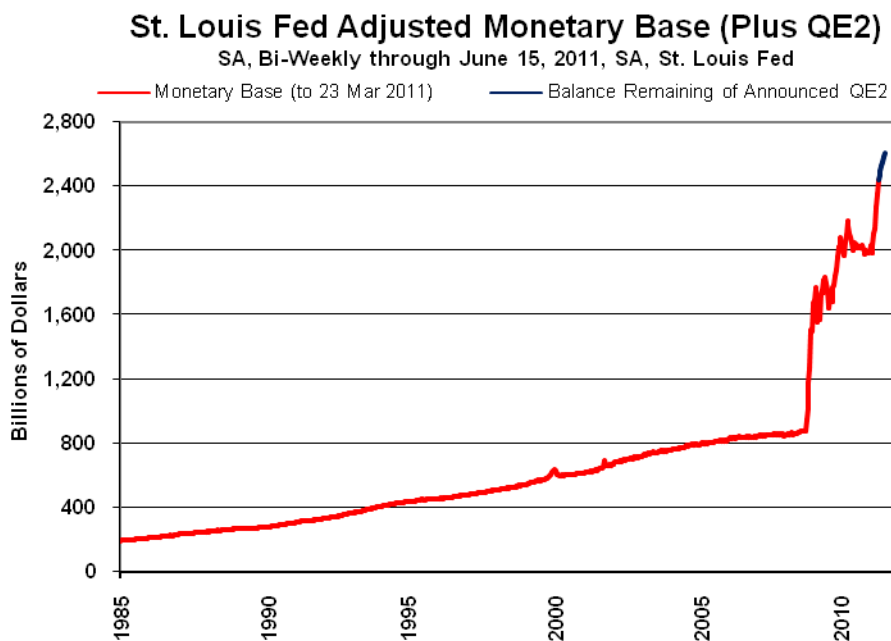
In 1994, during the Clinton Administration, “discouraged workers”—those who had given up looking for a job because there were no jobs to be had—were redefined so as to be counted only if they had been “discouraged” for less than a year. This time qualification defined away the long-term discouraged workers. The remaining short-term discouraged workers (less than one year) are included in U.6.

Adding the SGS estimate of excluded long-term discouraged workers back into the total unemployed and labor force, unemployment—more in line with common experience as estimated by the SGS-Alternate Unemployment Measure—notched lower to about 22.0% in March, from 22.1% in February. The SGS estimate generally is built on top of the official U.6 reporting, and tends to follow its relative monthly movements. Accordingly, it will suffer some of the current seasonal-adjustment woes afflicting the base series. See the [Alternate Data](#) tab for a graph and more detail.

As discussed in previous writings, while an unemployment rate around 22% might raise questions in terms of a comparison with the purported peak unemployment in the Great Depression (1933) of 25%, the SGS level likely is about as bad as the peak unemployment seen in the 1973 to 1975 recession. The Great Depression unemployment rate was estimated well after the fact, with 27% of those employed working on farms. Today, less than 2% work on farms. Accordingly, for purposes of a Great Depression comparison, I would look at the estimated peak nonfarm unemployment rate in 1933 of 34% to 35%.

SGS Ongoing-M3 March Estimate Could Show an Uptick. The preliminary estimate for the SGS Ongoing-M3 Estimate for March will be published tomorrow (April 2nd) in the [Alternate Data](#) section, following late data releases. The measure appears to be on track for the strongest monthly gain in at least seven months, and for a narrowing of the annual rate of contraction to about 1.0%, from a 2.2% year-to-year contraction in February.

This does not change the economic outlook at all. The nature of the Fed's QE2—monetizing U.S. Treasury debt—could be expected to boost broad money growth, but the numbers here are too tentative and early to confirm such a shift. As shown in the following graph, the monetary base (which is not part of the money supply see [Money Supply Special Report](#)) has exploded in line with the promised “easing” as the Fed works hard at propping up the banking system. Current liquidity circumstance will be updated in the next *Commentary*.



Week Ahead. Though not yet commonly recognized, there is both an intensifying double-dip recession and a rapidly escalating inflation problem. Until such time as financial-market expectations catch up with underlying reality, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the month and months ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions, benchmark or otherwise.

There are no meaningful economic releases in the week ahead.