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ECONOMIC TALKING POINTS

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A Terribly Misleading Jobs Report

Strange as it may seem, January's sharp drop in the jobless rate to 6.3% from December's 6.7% should evoke more alarm than cheer. Why is that? Once you scratch just a centimeter below the surface in this report, it quickly becomes apparent that the job market has in fact deteriorated, not improved.

To begin with 406,000 people abandoned the labor force in January, according to the household survey. However that figure was based on a seasonally adjusted estimate (SA). When you look at the raw, non-seasonally adjusted (NSA) data, it shows the labor force fell nearly double that number, down 783,000 in January. Remember, those who no longer actively seek out work are dropped from the labor force count--- and that alone can produce a deceptive decline in the unemployment rate.

One side question, of course, is why has the civilian labor force dropped so much? There are possible explanations: (1) Americans are disinclined to look for employment at this time because many of the unemployed receive additional state and federal income support; (2) Fear of the coronavirus has greatly complicated the task of finding new employment, so they have scaled back their search; (3) More Americans have chosen for the time being to enter the underground economy where they can earn cash under the table doing private work as carpenters, tutors, nannies, computer repairs or web designers. We last saw such a shift to the underground among the jobless during the 2008 – 2009 financial crisis.

Whatever the reason, the shrinking labor force is just the tip of the iceberg of why January was a truly awful month for the labor market.

Consider the issue of how many Americans reported they were unemployed. Here's where it gets really interesting. On a seasonally adjusted basis, those who indicated they were out of work fell by 606,000 last month, to 10.13 million! Good news at first glance.

But here's the catch. Seasonally adjusted estimates must be viewed with extra skepticism when we are in the middle of a catastrophic pandemic and a severely debilitated economy. At a minimum, economists look for some corroboration in the trend elsewhere – and when we endeavor to do so, we find exactly the opposite occurred! On a non-seasonally adjusted basis, January's unemployed did not fall---but actually *jumped* by 447,000 to 10.85 million! The end result is that instead of the unemployment rate sliding to 6.3%, we notice it *climbed* in the NSA to 6.8% in January, from 6.5% the month.

There's more disconcerting news.

What of the number of Americans who were employed in January? It rose by 201,000 on a SA basis. But the NSA figures tell a vastly different story. There were 1.23 million ***fewer*** people employed last month!

This is precisely the kind of statistical whiplash policymakers in Washington need to be aware of as they craft the next pandemic relief package.

Now let's move on to the establishment series in this report. Are there gross inconsistencies there as well?

Absolutely! There is virtually no corroboration in trends between the SA and NSA numbers. Case in point: nonfarm payrolls increased by 49,000 in January if you accept the SA numbers. However, the NSA numbers show payrolls *plummeted* by a massive 2.77 million!

These polar opposite trends can also be found in some of industry-specific sectors. We mention below the NSA data first, followed by the SA numbers in parenthesis.

--- The NSA numbers report government payrolls *fell* 416,000 (not an *increase* in 43,000 according to the SA numbers);

--- Private sector service payrolls *collapsed* by 2.01 million (not a *rise* of 10,000);

--- Workers in the goods producing industry plunged by 346,000 (not a decrease of 4,000);

--- Healthcare and services payrolls saw a drop of 159,000 (not a decline of nearly 41,000);

--- Leisure and hospitality had their payrolls shrink an additional 361,000 (not a slippage of 61,000).

When the SA and NSA numbers fail so miserably to agree, it becomes all the more eye-catching when we come across instances in the employment report where they do conform. And one data set that stands out here is the duration of time people remain unemployed. On this issue, there is no disagreement!

According to the SA series, the number people out of work for at least 27 weeks rose to 4.02 million, up from 3.95 million in December, and a hefty 67% increase from just last September. The corresponding NSA numbers actually parallels this trend with 4.07 million, up from 3.87 million in December, and also a jump of 67% since September.

Our assessment is that there is nothing in January's report that suggests the job market is healing. But then let's face it, there's nothing normal about this particular business cycle either. You don't often see household income increase when the unemployment rate is high. Nor can you easily reconcile that while manufacturing activity rose to a 13-year high in January (IHS Market's PMI), manufacturing employment is still down nearly 600,000 from its year ago level.

The pandemic brought major changes to the economic and business landscape, and in the process has made the collection and interpretation of economic indicators problematic. Without some improvement to their methodologies, I fear it will be much harder to understanding what really lies ahead for the economy.

United States

	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022	I 2023	II 2023	III 2023	IV 2023
Real Gross Domestic Product (GDP):																
%	-5.0	--31.4	33.4	4.0	1.6	2.7	4.9	5.5	3.1	6.2	5.5	4.8	2.8	3.8	3.1	2.9
Personal Consumption Expenditures:																
PCE %	-6.9	-33.2	41.0	2.5	1.4	2.8	4.7	6.3	2.4	5.2	4.1	3.9	4.0	4.1	2.8	3.5
Inflation, end of period, year-over-year:																
CPI %	1.5	0.6	1.4	1.4	1.5	2.0	2.3	2.5	2.4	2.5	2.3	2.2	2.5	2.6	2.6	2.7
Unemployment Rate (end of period):																
%	4.4	11.1	7.8	6.7	6.5	6.4	6.1	6.0	6.0	5.8	5.6	5.4	5.4	4.9	4.4	4.1
Non-farm Payrolls, monthly avg. thousand:																
	-303	-4,427	1,322	283	322	385	370	380	270	285	265	240	185	225	235	250
Treasury 10-yr Note Yield % (end of period):																
	0.63	0.65	0.68	0.91	1.17	1.29	1.48	1.70	1.82	2.02	2.11	2.15	2.15	2.20	2.20	2.16
Federal funds rate % (end of period):																
	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.38	0.88	1.13

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
US	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.5	3.7	5.2	3.2
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-8.8	3.3	2.5	2.0
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-10.3	3.9	4.2	3.1
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	2.2	0.3	0.7	-5.2	2.4	2.8	2.2
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.1	5.4	3.4	2.9
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-7.7	9.9	6.4	5.7
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.3	6.9	5.7	5.6
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-4.6	2.9	2.7	2.4
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-8.3	3.3	2.8	2.7
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-3.9	2.5	3.0	2.7
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-3.1	2.4	3.3	2.0
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.9	-3.8	4.7	4.2	3.9