

September 4, 2008

Employment watch

I pity the folks on the [National Bureau of Economic Research \(NBER\) Business Cycle Dating Committee](#), burdened as they are with the task of determining if and when the U.S. economy finds itself in an officially designated "recession." While skepticism about the preliminary report on second quarter U.S. growth is [not entirely unjustified](#), it isn't so easy to square the presumption of an economy in recession with the gross domestic product (GDP) data we have in hand.

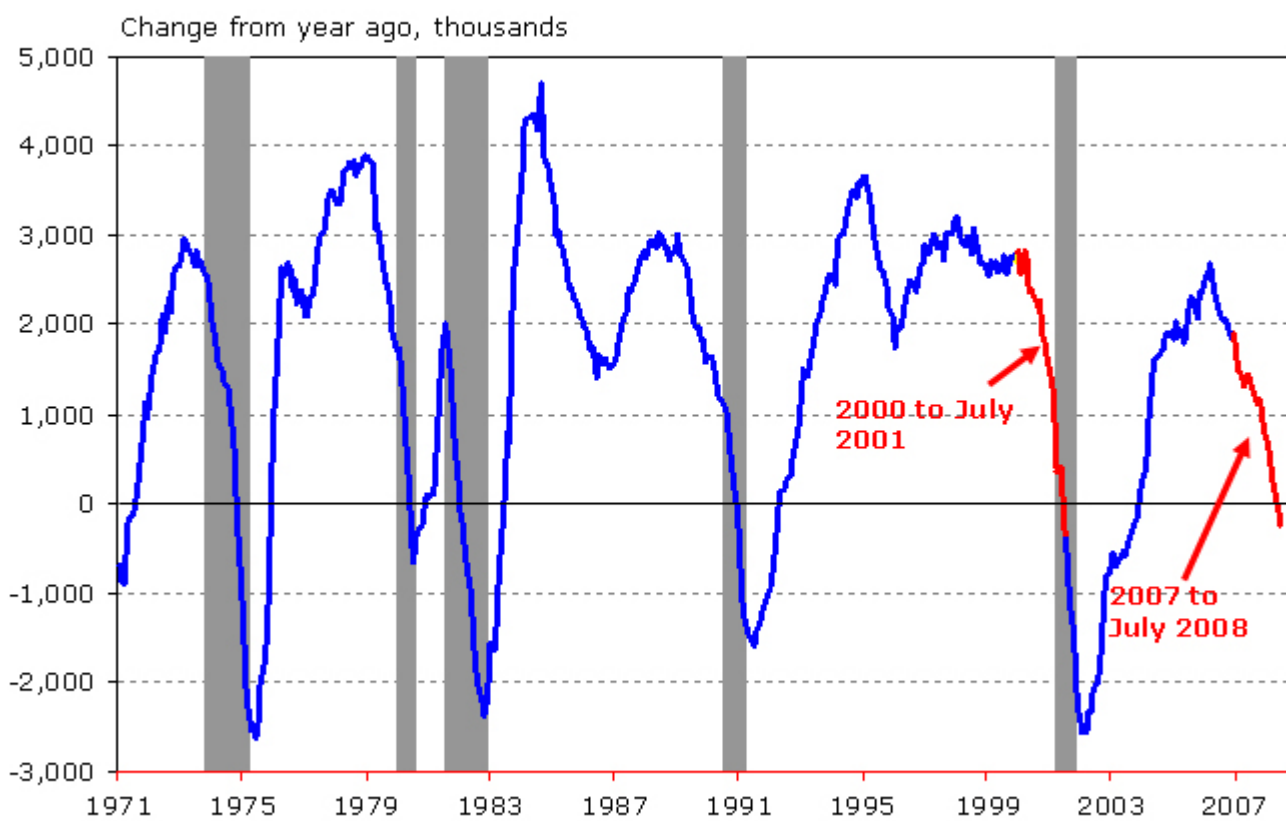
On the other hand, there is the employment picture, which I would rank high among equals on [the list of things that the NBER committee says it monitors](#) in making the recession call. A few weeks back, [Menzie Chinn noted](#).

"Over the past few months, I've heard that, while job creation is insufficient to keep unemployment rates constant, job losses have not been consistent with recession..."

"What is clear is that while the employment series might not be evidencing a severe dropoff, the hours series is [Update: this point has been made previously by [Spencer](#) at Angry Bear]. This is relevant because growth in hours is at levels consistent with at least the last two recessions."

Actually in the referenced post from Angry Bear, Spencer notes that even the employment series looks awfully recession-like:

Private Non-farm Employment



Source: Bureau of Labor Statistics

Note: Shaded bars represent recession periods

For this reason [the monthly Bureau of Labor Statistics \(BLS\) employment report](#) looms large, at least in my own thinking about the state of the economy. And today, of course, brings a sneak preview in the form of the ADP National Employment Report. The news [didn't suggest any break from the recent pattern](#):

According to Joel Prakken, chairman of Macroeconomic Advisers, LLC, "Nonfarm private employment decreased 33,000 from July to August 2008 on a seasonally adjusted basis, according to the ADP National Employment Report. The estimated change in employment from June to July was revised down from an increase of 9,000 to an increase of 1,000."

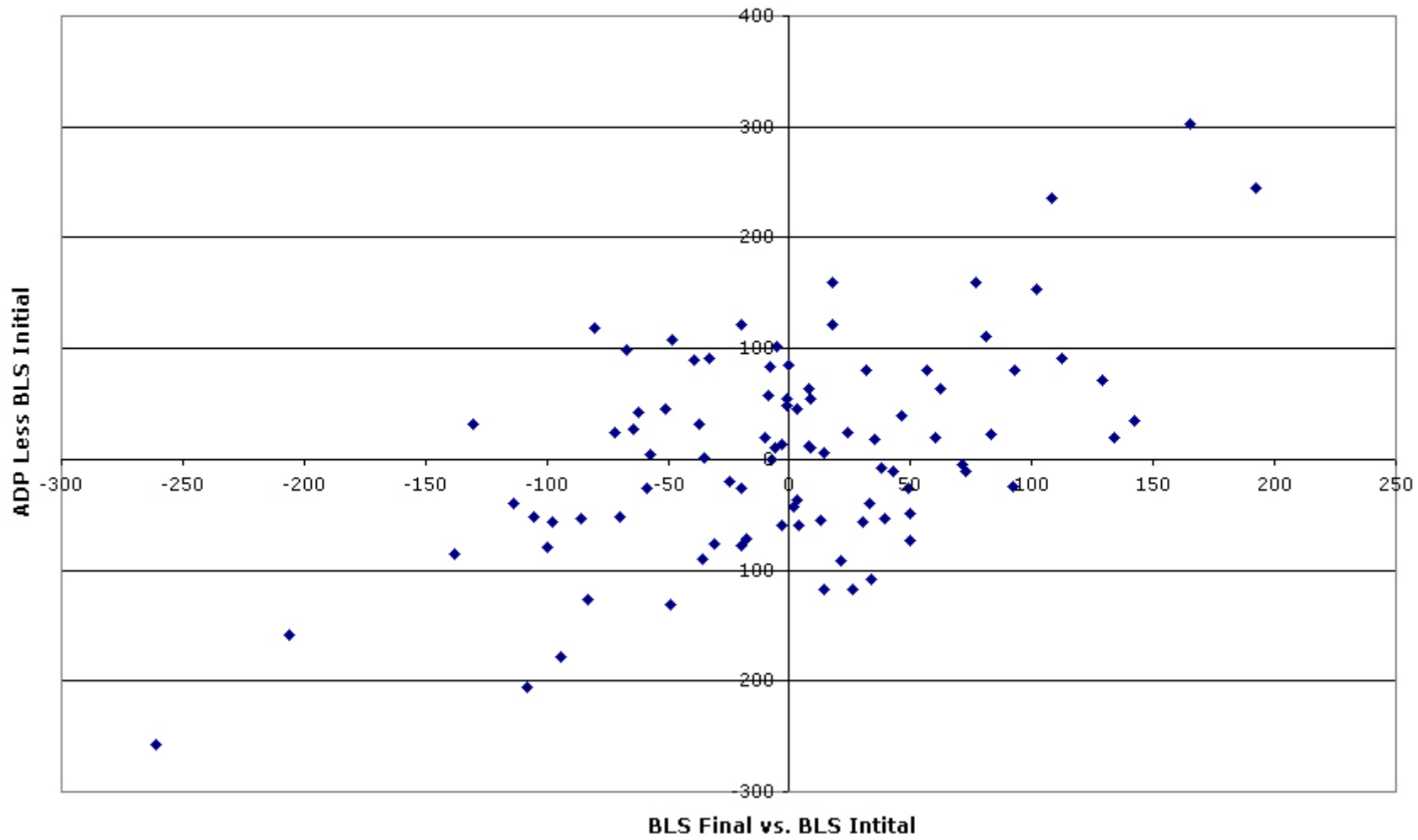
"The decline in August continues the recent trend in employment that is consistent with an economy that is growing slowly but has not fallen into recession."

If you follow these things, you know that today's ADP news is not all that likely to be confirmed by tomorrow's official BLS report. It's useful to bear in mind, however, what is one of the main [selling points of the ADP statistic](#):

“There is a very powerful statistical tendency for estimates of growth of establishment employment, as reported by the BLS after annual benchmarking, to be revised in the direction of estimates previously published in the ADP National Employment Report.”

Here's what they are talking about.

The Predictive Content of the ADP Payroll Data



In words, when the ADP stat on employment growth has exceeded the initial BLS number, there has been a tendency for ultimate revisions to the official BLS job growth number that are in the upward direction.

Today, of course, may not be like the past, but it's something to bear in mind as you process tomorrow's report.

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