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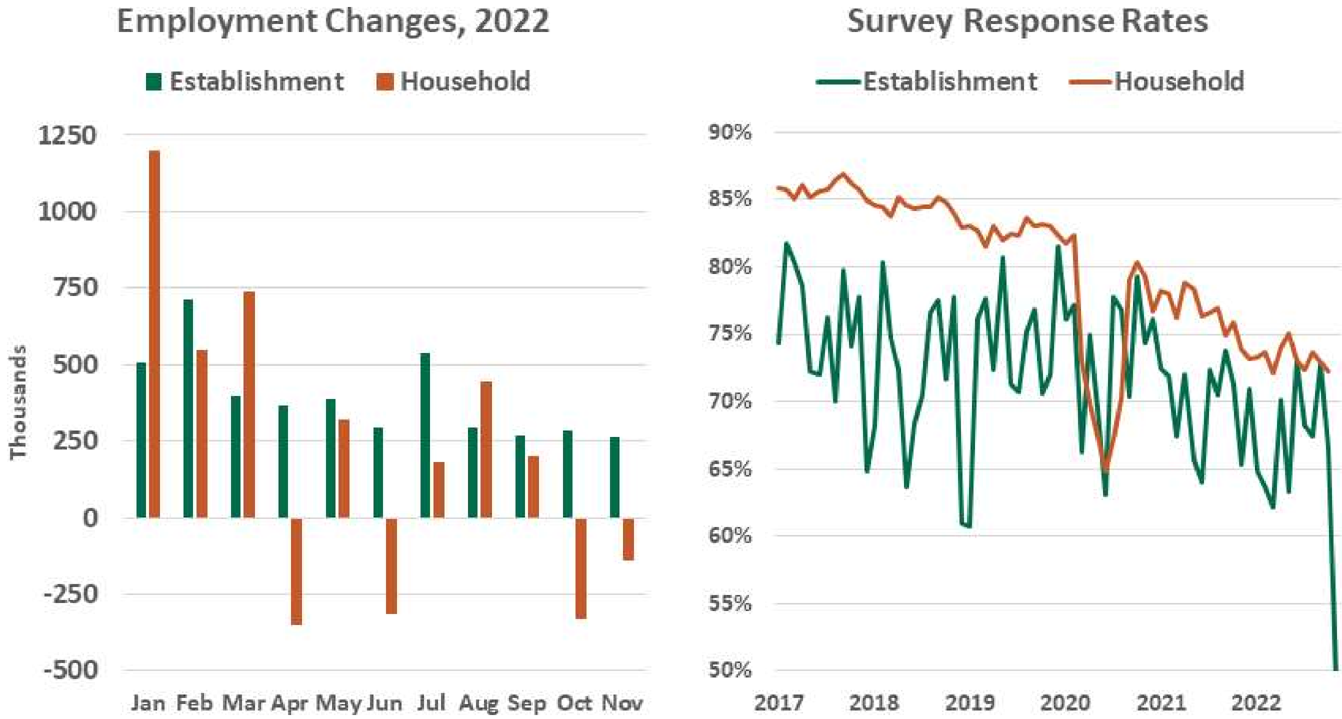
Surveying the Employment Surveys

Are there signs of weakness in the details of labor data?

By Ryan James Boyle

We have repeatedly covered the high demand for labor that led to overheated labor markets. This has been a welcome difference from the usual slow grind back to work after a recession. But any time a series looks like good news, it's fair to ask whether we're missing something. Our readers have asked questions about some potential red flags in the labor data. We believe these anomalies are worth tracking, but they don't yet change our conclusions.

First, the two most recent employment reports contained mixed messages. The survey of establishments, which directly asks employers for their payroll counts and wages, has shown two years of uninterrupted growth. The survey of households, however, has shown two months of workers reporting a decline in their own employment. This is the survey that determines the rates of unemployment and labor force participation, both of which have stopped improving.



Source: Bureau of Labor Statistics, Haver Analytics

We take some comfort that these divergences—growing establishment payrolls and falling household employment in the same month—have happened before. The two series diverged at least once per year in the healthy, tightening labor markets of 2014-2019. Fearful observers note that they diverged in 2007 as a severe recession took hold, but there have been too many false positives before and since then to consider this a reliable signal. The household survey is more volatile and not subject to revision; we do not favor it.

Skepticism is healthy, and researchers are taking all available data to check progress. A recent paper published by the Federal Reserve Bank of Philadelphia examined the latest data from the Census of Employment and Wages (CEW). They concluded that net new job growth in the second quarter of 2022 was only 10,500 jobs—practically nothing compared to the establishment survey's estimate of over one million payroll gains in the same interval.

Despite dissonance in the data, the U.S. job market still appears strong.

This conclusion hinges on a seasonal adjustment. CEW's gauge of employment in the second quarter was below expectations; but it is not clear that seasonal patterns from prior years still held in 2022. We found this report easier to ignore as it did not match the experience of most economic participants. If net hiring were zero in April through June, we would expect to see higher unemployment claims, reduced job openings and turnover, and low wage growth. None of those came to pass.

Seasonal adjustments are just one example of how the difficulty of surveyors' jobs has grown in this cycle. Response rates to all surveys have still not returned to their prior norms, opening a wider window for noise in results. Scaling sample results to the full population is difficult:

data collection for the benchmark decennial Census was challenged by the worst year of pandemic disruptions. Estimates of the current population may not yet fully reflect the excess deaths due to COVID-19 and other disruptions to medical care.

Research is important, and we watch all reports with interest. But numbers should always be viewed with context, intuition, and care.

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