PERSONALLY SPEAKING

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JUNE U.S. JOBS REPORT: WHAT TO LOOK FOR

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The news on the economic and financial fronts of late has been confusing and subject to several different interpretations. Many economic analysts pick and choose the data that tend to confirm their own personal convictions, some insisting that we are headed for a double dip recession, others lamenting the sluggish growth of the economy, and still others telling us perhaps cynically that we are in a second "summer of recovery." At the same time, financial market gurus do not agree as to whether we should buy, sell, or hold. Some advise bonds, others blue chips, others emerging markets, others cash only.

In the midst of all this confusion and contradiction, whom does one believe? Carefully sifting through data from the Bureau of Labor Statistics jobs report helps address that question.

The BLS monthly household survey interviews approximately 60,000 households selected at random. It follows that the survey numbers are *estimates* that are subject to sampling error. In the case of the jobless rate, the standard error for month-to-month change is 0.2 percentage points at the 90 percent confidence interval. Without exception, every estimate from that survey is subject to a standard error.

The BLS interviews 390,000 businesses every month to arrive at *estimates* of nonfarm payroll jobs. This survey too is subject to sampling error. A month-to-month change that is greater than 96,400 is regarded as statistically significant.

The household survey provides estimates of the number of persons by their labor force status while the employer survey supplies numbers on the number of jobs. One reason that the two surveys produce different estimates is that some persons are multiple jobholders. In May, for instance, their numbers were estimated at 6,939,000.

Taking into account both the May jobs data and the standard errors associated with these two BLS surveys, Mayo Research Institute in the following shows for the BIG THREE labor force indicators – jobless rate, number employed, number unemployed -- what to look for in the June numbers that point to improvement or deterioration in labor market conditions, or no change in those conditions.

1. Unemployment rate of (std error +/- 0.2 percent) …
- **8.9 percent or lower = improvement**
- **9.3 percent or higher = deterioration**
- **9.0 to 9.2 percent = no change**

2. Number of persons employed (std error +/- 436,000)…
- **increase to 140,215,000 or more = improvement**
- **decrease to 139,343,000 or less = deterioration**
- **estimate between 139,343,000 and 140,215,000 = no change**

3. Number of persons unemployed (std error +/- 283,000) …
- **decrease to 13,631,000 or less = improvement**
- **increase to 14,197,000 or more = deterioration**
- **estimate between 13,631,000 and 14,197,000 = no change**

Three other labor market indicators are especially instructive as follows.

4. Number of persons not in June labor force who want a job now (std error +/- 405,000)…
- **decrease to 6,416,000 or less = improvement**
- **increase to 7,226,000 or more = decline**
- **estimate between 6,416,000 and 7,226,000 = no change**

5. Number of payroll jobs in June (std error +/- 96,400)…
- **increase to 131,139,400 or more = improvement**
- **decrease to 130,946,000 or less = deterioration**
- **estimate between 130,946,000 and 131,139,400 = no change**

6. Number of persons unemployed in May who were employed in June (no std error available) …
- **greater than the number employed in May who were unemployed in June = improvement**
- **less than the number employed in May who were unemployed in June = deterioration**

• If all six of these indicators point to improvement and that improvement continues steadily over the next several months, the economy shows signs of recovering.

• If all of six indicators point to deterioration, given the long period of decline to date, the economy is not recovering.

• If these indicators are mixed or point to no change in labor market conditions, we cannot say for sure whether the economy is deteriorating, improving, or stalled.

The U.S. economy is a vast and complex system, subject as never before to the perennial gales

of creative destruction to borrow Schumpeter's language, whose performance is NOT reducible to a single indicator and is most difficult to ascertain when the most significant performance indicators point in different directions. For that reason, though it is very tempting if not necessary for those in the media who are called on for instant analysis of the monthly jobs numbers to provide some insight as to the direction of the economy, at times it is best to simply admit that the data are inconclusive but we expect to know more later. In the midst of confusing and contradictory evidence, believe the person who says he doesn't know rather than the one who says he does.

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