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Some mixed signals on employment growth

16 December 2022

The Bureau of Labor Statistics (BLS) released Q2 2022 employment data from the Quarterly Census of Employment and Wages (QCEW) program, and results are markedly different from the monthly payrolls derived from the Current Employment Statistics (CES) survey. In fact, national employment from QCEW showed that the US lost jobs in June 2022, which is more consistent with the contraction in real GDP than CES estimates. Differences in program structure can explain some of the discrepancies, but the CES survey may have overstated employment gains in the summer of 2022.

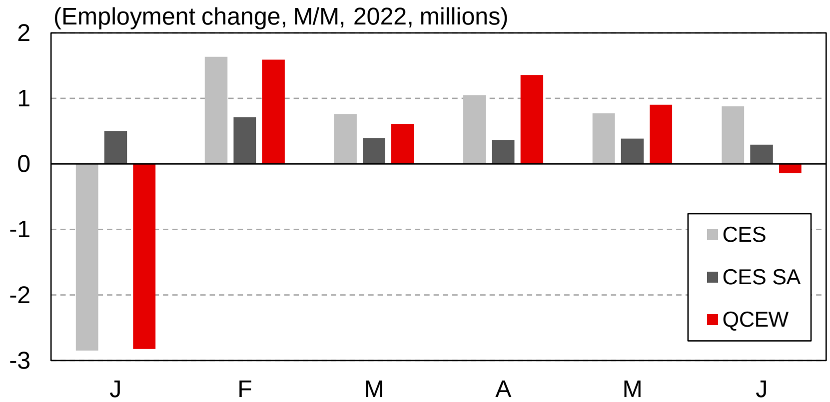
Similar universes but different results

Differences in monthly employment changes between household survey data from the Current Population Survey (CPS) and establishment survey payrolls from the Current Employment Statistics (CES) have been highlighted throughout 2022. The two sources, however, have fundamentally different universes through which data is captured and different methodologies for calculating employment. Because of this, household surveys are more suited for capturing the unemployment rate while establishment surveys are better for measuring overall employment levels.

The real mixed signals are coming from the latest employment data from the Quarterly Census of Employment and Wages (QCEW) program. Though data from QCEW is released with a significant lag (the Q2 2022 report was just released in December 2022), the program most comprehensively measures employment in the United States.

The QCEW program counts employment based on what is reported by all business covered under the Unemployment Insurance system. The CES survey draws on a sample of establishments from QCEW to estimate monthly payrolls. Historically, the series align well given the similar data source. But for June 2022, QCEW reported a loss of 142,077 jobs non-seasonally adjusted, compared to an increase of 879,000 jobs non-seasonally adjusted (293,000 seasonally adjusted) in the CES survey.

QCEW DATA SHOWED NEGATIVE EMPLOYMENT GROWTH IN JUNE



Source: BLS, MUFG Bank Economic Research

The QCEW employment change would put the US labor market at or near recession territory in June 2022. This would be more consistent with the contraction in real GDP in Q2 compared to CES estimates, but still inconsistent with the contraction in real GDP in Q1 given strong growth in employment from both QCEW and CES.

There are many unknowns in the June discrepancy, but differences in the structure between the two programs can account for some of the difference. Employment in QCEW is a count of jobs and is not subject to estimation or sampling errors. However, not all jobs are covered under the Unemployment Insurance system, which allows the CES estimates to account for “uncounted” jobs. Notably, QCEW excludes proprietors (i.e., business owners), the unincorporated self-employed, certain farm and domestic workers, and railroad workers covered by the railroad unemployment insurance system. While this difference is significant, it does not explain the full discrepancy in June 2022.

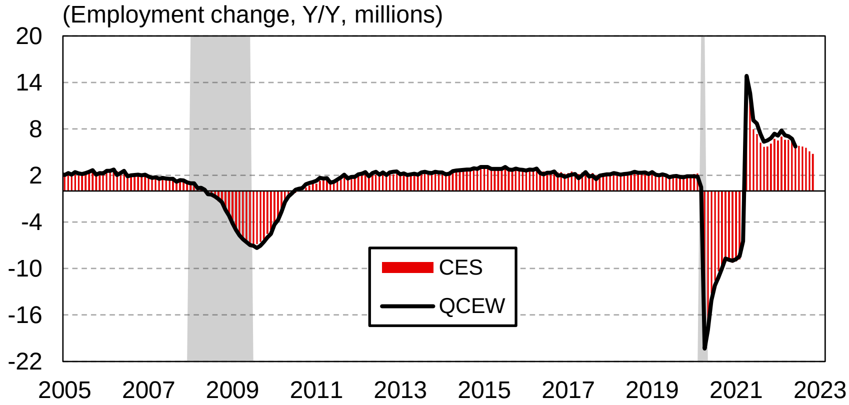
Seasonality could be an issue

The QCEW program does not publish seasonally adjusted series at a monthly level but applying common seasonal factors would see June’s employment fall even further, as seasonal factors fall below 1.0 during periods of high seasonal employment.

Seasonal adjustments rely on historical data to calculate factors that smooth out the peaks and troughs of data driven by seasonality. The problem is, consumption in the post-COVID lockdown economy has created volatility that may not follow historical seasonal patterns. Lockdowns, labor shortages, and shifting consumption between goods and services can disrupt seasonal patterns making monthly and quarterly employment changes harder to calculate.

Yearly changes, on the other hand, are much less volatile with year-over-year growth presenting a very strong labor market both in QCEW and CES. A historically low unemployment rate, along with historically high job openings, hires, and quits offer additional compelling evidence that the labor market remained strong in Q2 and continues to be strong in Q4. Short-term fluctuations in data are often noisy, but the medium- to long-term view presents the labor market as very strong relative to history in both the QCEW program and CES survey.

YEARLY EMPLOYMENT GROWTH IS STRONG BOTH IN QCEW AND CES



Source: BLS, MUFG Bank Economic Research

The QCEW program is considered to be the most reliable source of employment information in the US, which makes the latest results especially difficult to interpret, even considering noisy monthly changes. Conflicting data suggest that the labor market likely did not encounter a recession in June despite what QCEW shows, but it is possible that the CES survey overstated employment gains over the summer.

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