

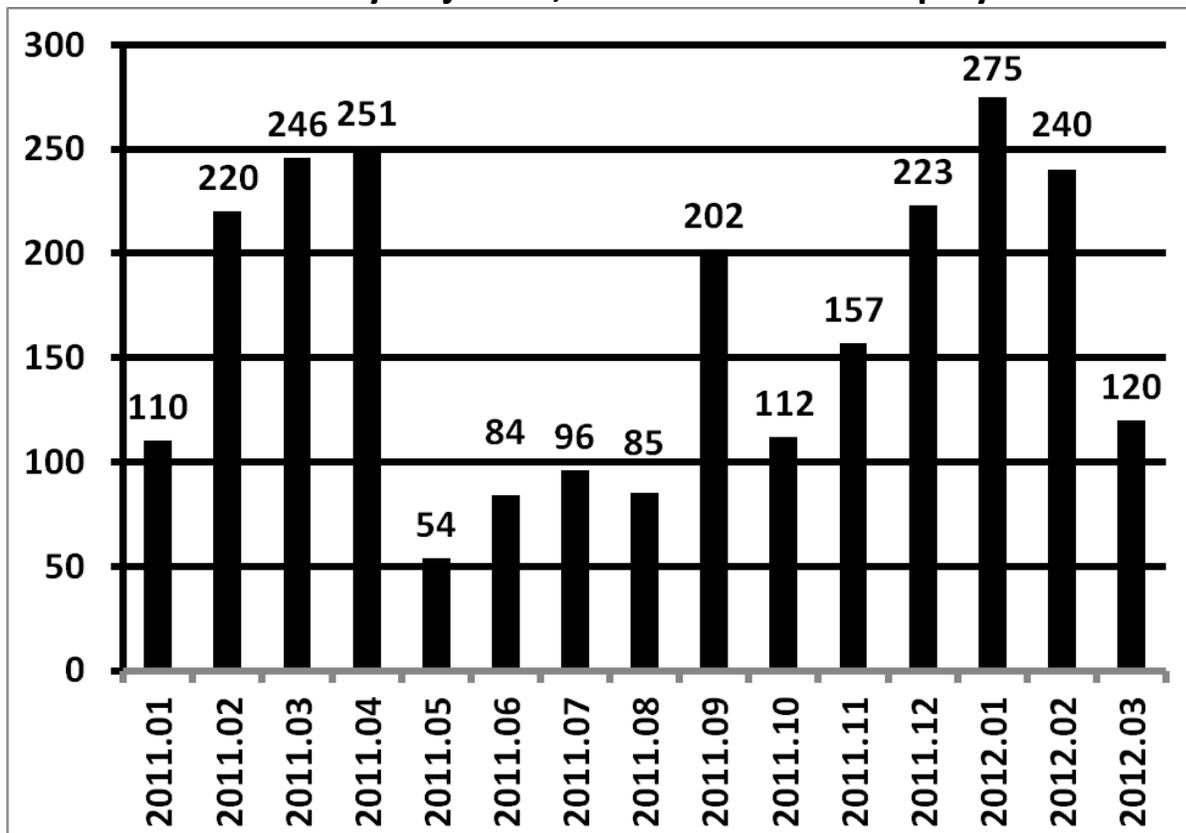
Mitchell's Musings 4-16-12: Too Much Information

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UCLA's Anderson School of Management has long had an economic forecasting project (going back to the 1950s) that presents quarterly public programs on the outlook for the U.S. and California economies. The most recent forecast took place in late March which was before the most recent labor-market press release for March was issued by the U.S. Bureau of Labor Statistics (BLS). It presented an interesting hypothesis about recent employment data.

Up to that time, analysts had noted a relatively strong trend in monthly growth in nonfarm payroll employment. However, in a presentation entitled "Curb Your Enthusiasm," senior economist David Shulman suggested that the data in the months ahead might not be as strong. Since that time, BLS has released its report through March and, indeed, job growth – while positive – fell back substantially in the most recent month. See the chart below:

**Monthly Change in Nonfarm Payroll Employment,
Seasonally Adjusted, in Thousands of Employees**

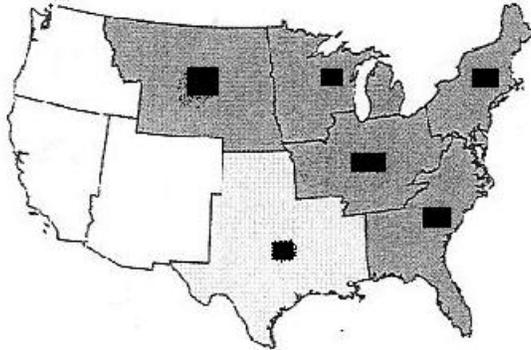


As can be seen on the chart, the March results were well below the previous three months. So what was the basis of the UCLA Anderson Forecast that appeared to come true? It was weather. The (modified) chart from the Forecast on the next page shows areas of the country by temperature where

the areas with the black rectangles had above-normal warm winters. Below that one is a chart showing areas of the country with abnormally dry weather (again, with black rectangles).

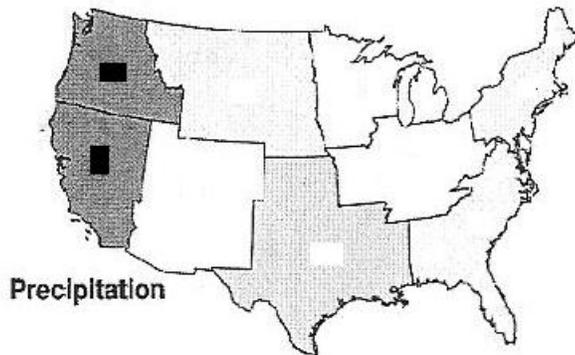
Warm Winter Weather a Big Factor

Dec 2011-Feb 2012 Regional Ranks
National Climatic Data Center/NESDIS/NOAA



Along with Dry Weather in the West

Dec 2011-Feb 2012 Regional Ranks
National Climatic Data Center/NESDIS/NOAA



Unusually warm winter weather would tend to stimulate economic activities such as construction that are normally constrained by cold and snow. It also is conducive to shopping.¹ In the otherwise winter rainy West Coast, unusually dry weather would have the same effect. The seasonal adjustment factors

¹ The UCLA Forecast noted that the impact in the rise in fuel prices that had occurred, which would normally have had a negative impact on consumers, was partly offset by lower fuel needs for heating. Note that *some* activity is stimulated by cold weather, e.g., heating fuel delivery, ski resorts. Net, however, cold winter weather is an economic depressant.

used by BLS, however, reflect an average of seasons. BLS boosts up actual activity by the amount such activity is typically depressed by winter weather. If the activity was not so depressed because temperatures were higher and precipitation was lower than typical, the seasonal factors may exaggerate the underlying pace of economic activity and net job creation.² With what is typically the worst months of winter passed, the UCLA Forecast projected a measured slowdown as winter wore off – which turned out to be what happened (at least in March). In effect, the Forecast was suggesting that the pre-March winter advance was a statistical artifact.

Time will tell if the March measured slowdown continues in subsequent months. It is also worth noting that both the March and February figures are still preliminary and may be revised (up or down), apart from the seasonal adjustments. But whatever happens, there is a lesson to be learned.

Economists, stock market analysts, and media pundits examine the month-to-month changes in employment on the assumption that critical information is being revealed. Even the prospects for the upcoming presidential election are being evaluated based on every blip in the employment data. I imagine some observers would therefore argue that BLS should refine its seasonal adjustment figures to factor in current temperature and precipitation and should not just rely on past weather history.

I draw a different lesson or rather a question. It may be that we should not focus on the monthly blips in job reports given the vagaries of seasonal adjustments and eventual revisions. Dare one ask whether - if we seem to get by fine with quarterly GDP numbers - quarterly employment numbers would also be adequate? Note that a less frequent schedule of employment data collection and data release might allow more detail in the numbers that were collected for the same expenditure.

I suspect we do the employment numbers monthly and the GDP numbers quarterly simply because that is the way it has always been done. If you really believe that monthly data on employment - as opposed to quarterly - is much better for analysis, then do you think we should collect weekly data on employment? Daily data? Hourly? There must be diminishing returns to the information. And if that is so, how do you know that those returns justify twelve releases each time the Earth goes around the Sun as opposed to four? At a time when government budgets for data collection are under strain (whether that should be so or not), it might be appropriate to ask such questions.

² Note that the seasonal adjustment is applied to the absolute monthly employment figures, not the change in employment. So while we would expect exaggerated underlying measured performance to result from good weather, exactly how that effect would play out month-to-month (i.e., January-to-February as opposed to fall-to-winter) is not clear.