

Mitchell's Musings 5-7-12: Told You So

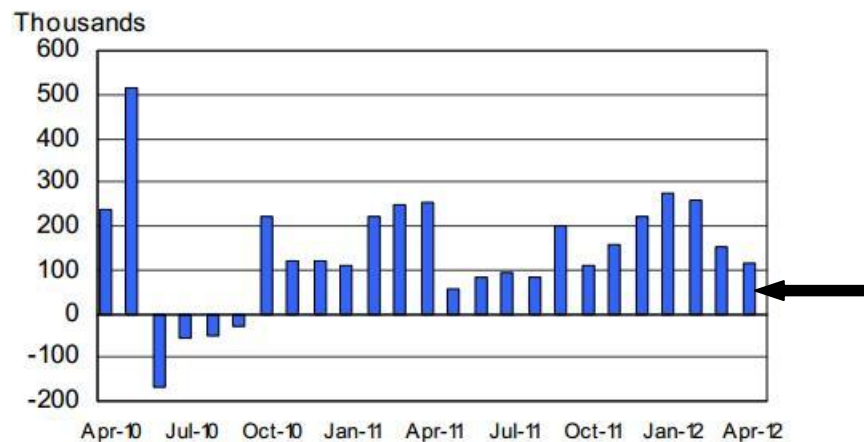
Daniel J.B. Mitchell



The Mitchell's Musings of 4-16-12 noted that the good winter weather which didn't match the seasonal adjustments made by the U.S. Bureau of Labor Statistics (BLS) could be exaggerating winter employment growth.¹ In turn, subsequent employment growth might appear weak. It was also noted that entirely too much is commonly made of short-term blips in economic data. As the news headline above illustrates, my cautions had no effect on anyone's behavior.

Now the April job report anticipated in the headline above has been released by BLS. Below is a chart from that release which shows – no surprise – that April's employment growth, seasonally adjusted, looks weak.

Nonfarm payroll employment over-the-month change, seasonally adjusted, April 2010 – April 2012



¹ <http://www.employmentpolicy.org/sites/www.employmentpolicy.org/files/field-content-file/pdf/Daniel%20J.B.%20Mitchell/MitchellMusings%204-16-12.pdf>

So let's take a look at what the seasonal adjustment factors do to the actual employment numbers (all reported below in thousands of jobs):

000s	Not Seasonally Adjusted	Seasonally Adjusted	Effect of Adjustment
Dec	132965	132186	-779
Jan	130297	132461	2164
Feb	131210	132720	1510
Mar (p)	132071	132874	803
Apr (p)	132967	132989	22

(p) = preliminary

The purpose of seasonal adjustment is to take out the transient impact of weather and other timing within a given year of economic activity. Since there are Christmas sales in December, the seasonal factor "expects" that activity will be high relative to the underlying norm and so pulls down the actual figure by 779,000. Winter is expected to discourage various activities such as construction and, of course, the Christmas sales are gone. So the factor pushed up the actual numbers in January, February, and March by 2,164,000, 1,510,000, and 803,000 respectively. April is expected to be a relatively neutral month relative to some underlying norm so there is little adjustment (22,000 which is essentially zero).

Let's even put aside the fact that the data for the last two months shown on the table above are preliminary and could be revised. Prediction: The seeming job slowdown will be used to explain stock market gyrations and pundits will evaluate its impact on the November presidential election. I actually typed the words in the previous sentence *before* looking at the stock market – which had dropped on the "news" when I did look. I then looked at the New York Times account of the numbers and found:

*The recent trajectory in the jobs numbers has not worked in the president's favor. "We had a run of great numbers earlier in the year, and then we get a clear softening in the last couple of months," said Ian Shepherdson, chief United States economist at High Frequency Economics.*²

The title of my earlier Mitchell's Musing was "Too Much Information." Now do you see what I mean?

² <http://www.nytimes.com/2012/05/05/business/economy/us-added-only-115000-jobs-in-april-rate-is-8-1.html>.

The Musing you are now reading was written in the morning of 5-3-12, and posted then, despite its official date of 5-7-12.