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Economic Research

Economic Briefing

# US – hundreds of thousands jobs to be revised away

**In view of a possible US recession, American labor market data is currently the focus of interest. In this situation, the annual revision of the US employment data could cause quite a stir. This is because the “benchmark revision” data due to be published on Wednesday is likely to show significantly weaker job growth last year.**

## Labor market data: benchmark revision is looming

The employment data published each month is determined on the basis of surveys. The statisticians conduct two surveys for this purpose:

- A survey of around 60 thousand **private households**. This data forms the basis for the unemployment rate and an employment figure that is not normally the focus of attention.
- A survey of 119 thousand **businesses and government entities** with over 600 thousand individual worksites. This survey is the basis for nonfarm payrolls. We will focus on this figure below.

The employment data determined surveys are compared once a year with the complete figures derived primarily from state unemployment insurance tax records that nearly all employers are required to file. The preliminary data on the scope of the revision for March 2024 (March is always the “benchmark month”) will be published on August 21. However, the revised figures will only be worked into the payroll data with the employment report for January 2025.

## The revisions are normally quite small...

In the last ten years, revisions have averaged +/- 0.1%. In extreme cases, employment was revised downwards (2019) or upwards (2022) by around 500 thousand jobs. For March 2023, the survey-based values were only 187 thousand too high (chart). In view of an employment level of 154 million at the time, the error was therefore only 0.1%.

19 August 2024

Bernd Weidensteiner

### Table of contents

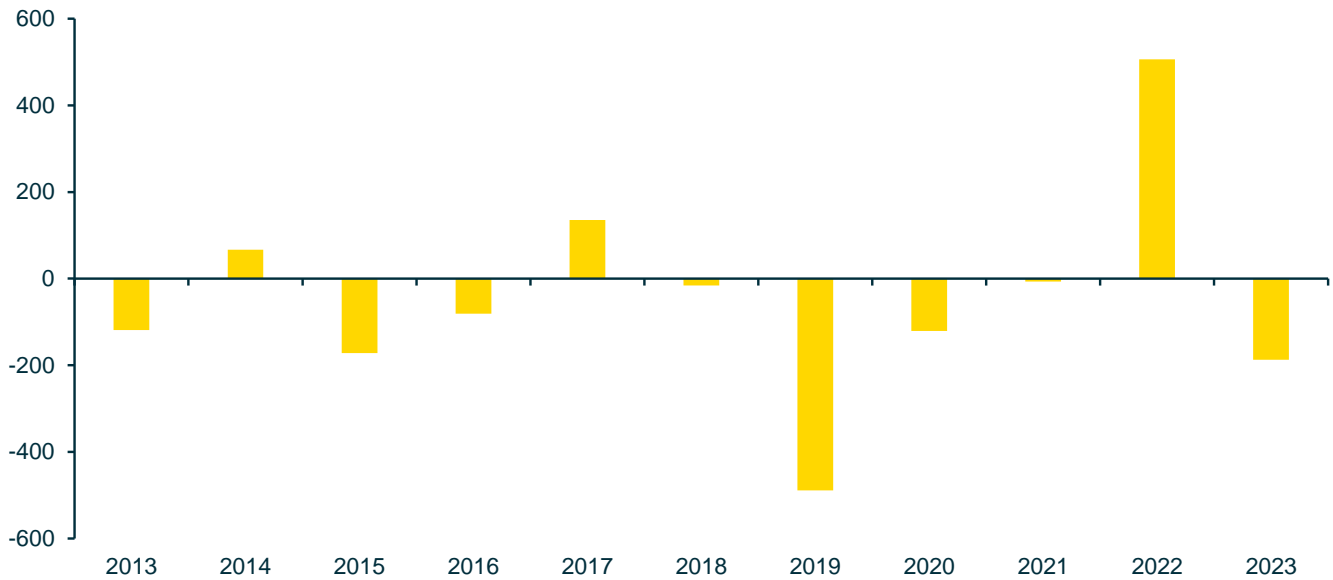
Labor market data: benchmark revision is looming	1
The revisions are normally quite small...	1
... but this year they are likely to be significantly larger	2
Why was employment overestimated?	3
... and does that change anything?	4

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**Chart 1 - Revisions mostly are not very significant**

Difference of survey-based payrolls data and benchmark derived from unemployment-insurance data, for March of respective year, in thousands.



Source: BLS, Commerzbank Research

**... but this year they are likely to be significantly larger**

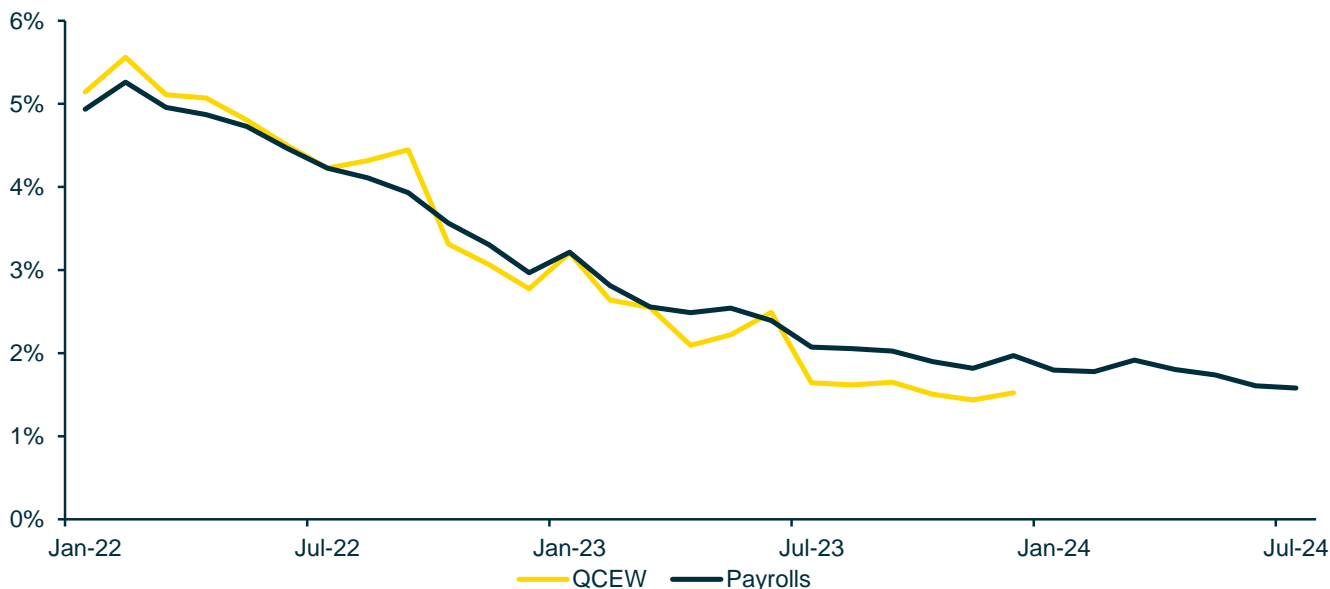
The data relevant for the benchmark revision are published with the Quarterly Census on Employment and Wages (QCEW). These contain an almost complete overview of US employment, with the mandatory reports to the unemployment insurance fund forming the main data basis.

The figures published so far indicate that, according to the QCEW, employment has risen more slowly than the payroll figures from the monthly employment report since the last benchmark revision, which corrected the data for March 2023 (Chart 2).



**Chart 2 - US employment: More complete data show slower growth**

Employment based on the quarterly census of employment and wages (QCEW) and based on employment report (non-farm payrolls), annual rates of change in %, non-seasonally adjusted data



Source: BLS, Commerzbank Research

According to the QCEW, employment in December 2023 was around 1.5% higher than the previous year, while payrolls show a growth rate of 2% (Table 1). Assuming that the gap in growth rates remained unchanged in March 2024, employment as per payrolls data would be almost 700 thousand too high. In the year to March 2024, employment would not have risen by an average of 246 thousand per month, but only by around 190 thousand. This would be the biggest revision since 2009.

**Table 1 - Monthly job growth lower by 60 thousand?**

Employment: annual rates of change in % and average monthly change of previous 12 months in thousands

	Mar 23	Jul 23	Sep 23	Dec 23	Mar 24
QCEW	2.5%	1.6%	1.7%	1.5%	
in thousands per month	314	313	209	194	
Payrolls	2.6%	2.4%	2.0%	2.0%	1.9%
in thousands per month	320	306	260	255	246

Source: BLS, Commerzbank Research

**Why was employment overestimated?**

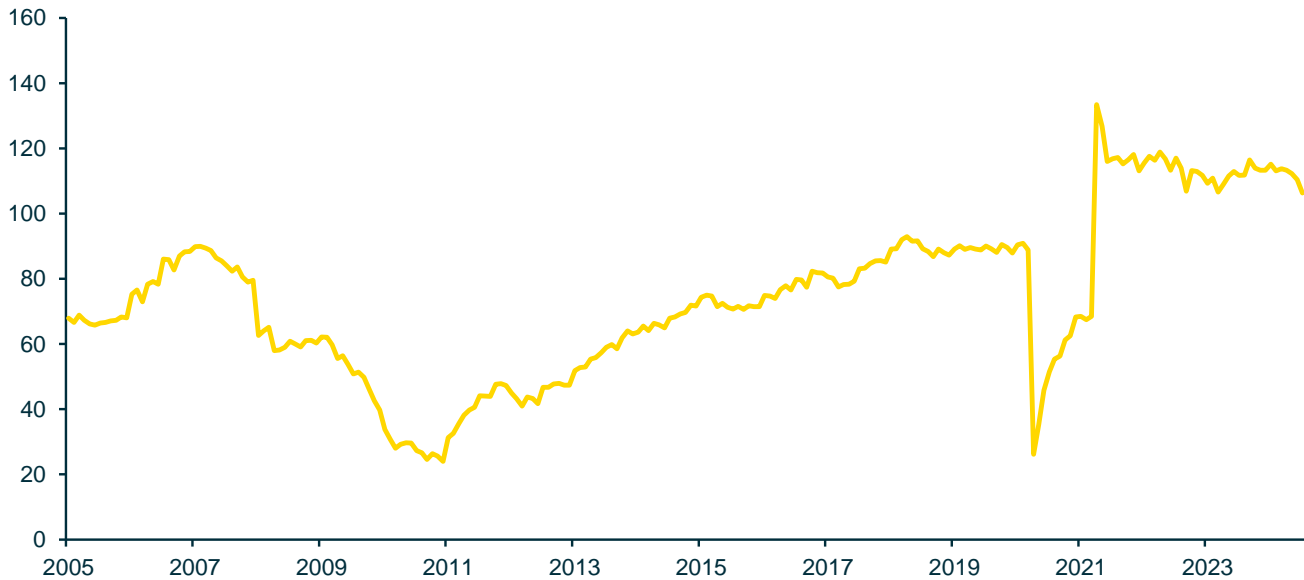
One possible reason why the increase in employment in the months up to March 2024 was probably overestimated is the influence of the statistical model which calculates the job gains from newly founded businesses (minus the job losses of companies that have exited the market). In the last twelve months, the model has calculated an average of 100 thousand new jobs per month (Chart 3). This is significantly more than before the crisis, which is fitting the observation that the number of new businesses has also increased noticeably in recent years. Nevertheless, the model, which works quite well in



normal phases (as can be seen from the mostly minor benchmark revisions), may have overestimated job growth recently.

**Chart 3 - Statistical model "caused" almost half of job gains**

Job growth according to the BLS birth/death model, 12-month averages in thousands



Source: BLS, Commerzbank Research

**... and does that change anything?**

First of all, it should be noted that the revised figures are based on the March employment level. This figure and the foreseeable change in employment dynamics in the months from April 2023 to March 2024 only allow very limited conclusions to be drawn about the current situation. And even employment gains of just under 200 thousand per month instead of 246 thousand as previously reported would be a very robust pace. After all, a slower pace would fit better with other data such as the declining wage growth or the alternative employment figures from the household survey. This does not however change the fundamental picture. We continue to expect that the US economy will avoid a recession and will “only” expand more slowly than the long-term trend over the next few quarters.



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