The BLS May Have a Problem

The Bureau of Labor Statistics (BLS) makes two notable adjustments to the monthly nonfarm payroll numbers. The first modification is to the net birth/death adjustment, which is an estimate of net business formation. Because the economy grows over time, the annual net birth/death figure is positive.

The second alteration is through seasonal adjustment. After the net birth/death number is added to employment, government statisticians then adjust the data to smooth out intra-year volatility or seasonality. Over a full calendar year, the seasonal adjustments are supposed to net out to zero so only the net birth figures are additive to employment. But there may be problem.

The year-to-date net birth/death adjustment is 1.021 million which means the BLS “added” 1 million jobs to its not-seasonally adjusted employment figures. Remember these are the jobs that are not being captured by the payroll sample, but the BLS eventually expects that these will show up when a complete benchmark of the data is done.

However, the year-to-date not seasonally adjusted increase in nonfarm payrolls is only 0.958 million which means that the net birth/death adjustment accounted for the entire year-to-date not-seasonally adjusted jobs and then some. Now, this is not necessarily incorrect.

While infrequent, there have been other times such as in 2018 when the net birth/death adjustment accounted for all of January to August job growth. But what makes the current episode concerning is the persistent pattern in downward revisions.

The initial nonfarm payroll figure has been revised down every month this year by a cumulative total of nearly 400k. At the same time, the BLS also announced its intention to revise down the level of March 2023 employment by another 306k in the annual benchmark. This was not the case in 2018 when both monthly employment and preliminary benchmark revisions were positive.

Our analysis suggests that BLS adjustments are masking employment weakness. If this is the case, then initial jobless claims and the unemployment rate should move higher in the months ahead. At the same time, downward revisions in payrolls should persist. Stay tuned.

![Net Birth/Death Adjustment Accounts for all of the YTD Job Gains (and Then Some)](chart.png)

Sources: BLS, Haver, SMBC Nikko
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