US Macroeconomics

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Thin Ice

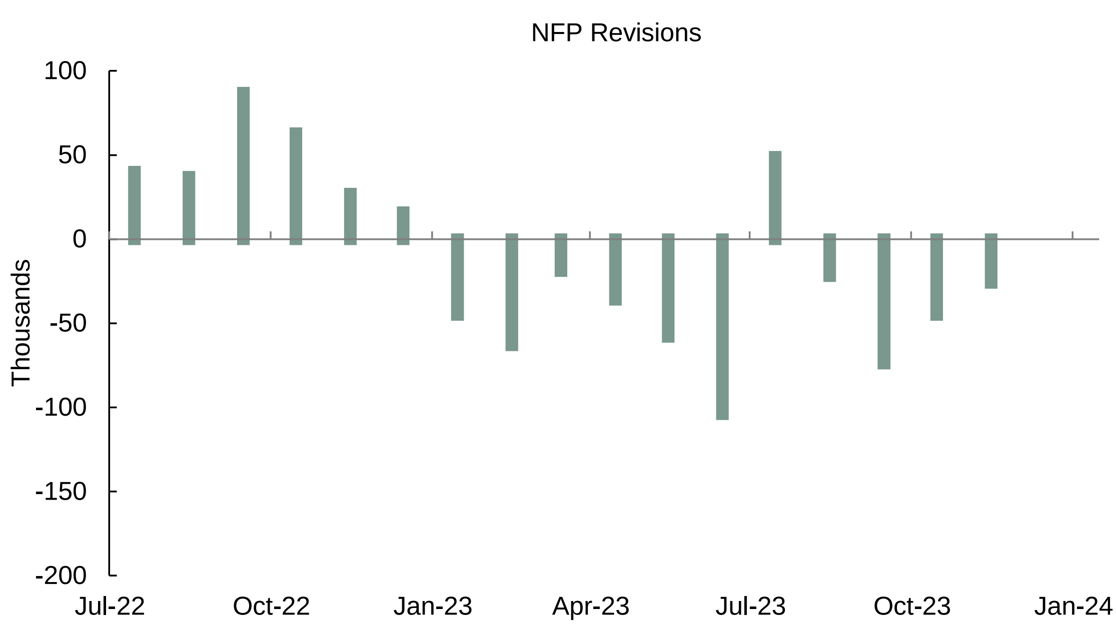
The direction of revisions tells us about the underlying health of the economy. When they are consistently negative, as they have been in the monthly establishment survey employment reports, the economy is not robust. Essentially, government statisticians are forced to lower previous assumptions that were made in the absence of a complete dataset. As we highlighted last week, **the response rate for many government reports, particularly for employment, has collapsed post-Covid**. Arguably, there is a lot more guesswork in the data compilation than before.

Nonfarm payrolls have been revised down four straight months and in 10 out of the 11 last months. The tally of current cumulative revisions is -443k which, outside of recession, is the largest 11-month total since 2002. But since November and December are susceptible to revision, we could learn that last year's job gains were even more modest that what was first reported. The current three-month moving average on nonfarm payrolls is down to 165k, its lowest reading since the 2020 pandemic recovery began. The current trend on private payrolls is even weaker at just 115k. Last year at this time, revisions were positive and underlying monthly job gains were near 300k.

Furthermore, **as a share of employment growth, the 443k in downward revisions are worth nearly 20% of all 2023 job creation**. This is the biggest tally since the 2007, which was the year before the economy entered its deepest and longest downturn since the 1930s and another anecdote for why the labor market may be on thin ice.

Where will further downward revisions occur? **Our best guess is that government statisticians are overestimating its net birth/death adjustments which accounted for 47% of last year's total job creation, a relatively large figure**. Importantly, the next employment report (due on February 2nd) could show significant revisions because it captures the BLS' annual benchmark to payrolls, hours, and earnings. Further erosion to 2023 job growth is expected.

The persistence of negative employment revisions tells us that the labor market is much weaker than the latest monthly report shows. This leaves the economy vulnerable to a downturn similar to what was the case in 2007. Stay tuned.



Source: BLS, Action Economics, Haver, SMBC Nikko

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