

## US Macroeconomics

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### What Is Going on With the BLS Job Adjustments?

Every month the Bureau of Labor Statistics (BLS) makes two important adjustments to nonfarm payrolls. The first adjustment is designed to reflect net business formation that is not captured in the BLS' employer survey sample. For example, **during the year, new firms are started, and existing businesses are shuttered.** The BLS attempts to account for this in its net birth/death adjustment. The series is shown in the chart below.

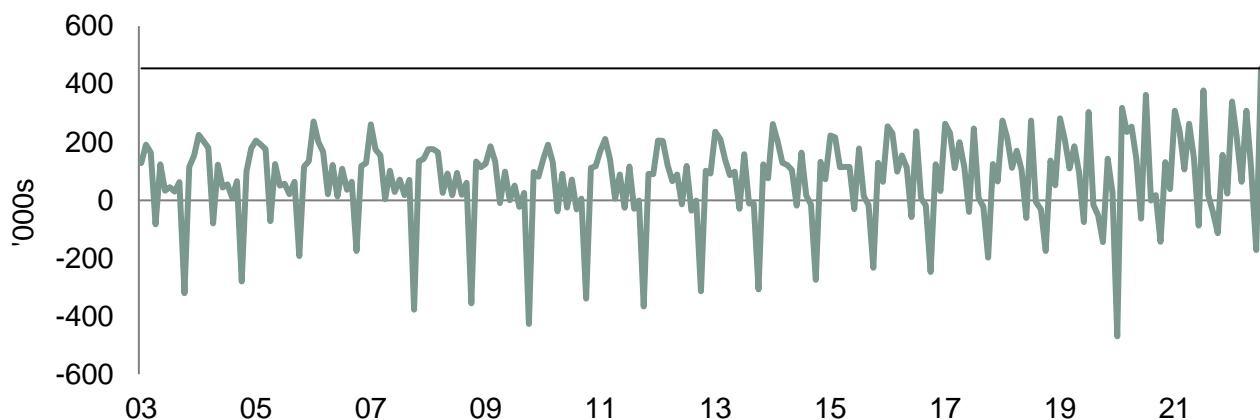
Two observations jump out. One, the data are highly seasonal, meaning in some months the economy generates more new business formations relative to business closures and vice versa. Two, **last month experienced the largest net birth reading ever recorded.** According to the BLS, net births totaled 455k in October 2022, which was 76k higher than October 2021 when the figure was 379k.

**The BLS does not know whether these adjustments are accurate until the year is complete.** At that point, government statisticians benchmark the payroll figures to detailed IRS tax data. Any discrepancies between the initial BLS assumptions and the IRS tax data show up as employment revisions, which can be sizeable.

The second adjustment is seasonal. After the BLS tallies its monthly jobs figure and applies its net birth plug factor, the government then adjusts for normal seasonal patterns in hiring/firing. Last month, **the seasonal factor totaled 911k, which was down from 982k in October 2021.** This leads us to ask a reasonable question. What would October 2022 nonfarm payrolls have been had both adjustments been the same as the previous year?

**Applying the October 2021 adjustment factors means nonfarm payrolls would have been just 114k last month not 261k.**\* If our skepticism of weak October employment is valid, then it either will be confirmed with softer payroll readings in November and beyond or through downward revisions in next year's annual benchmark. Since the latter is still sometime away, investors may have to look elsewhere for confirmation of labor market loosening.

#### Net Birth-Death Plug Factors



Sources: Federal Reserve, Haver, SMBC

\* Arithmetically, jobs are 76k lower due to a net birth adjustment of 379k compared to 455k, and they are 71k lower due to seasonal factor of 911k compared to 982k.

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