

## US Macroeconomics

September 6, 2023

Joseph Lavorgna, Chief US Economist | 212.893.1528 | joseph.lavorgna@smbcnikko-si.com

### 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.

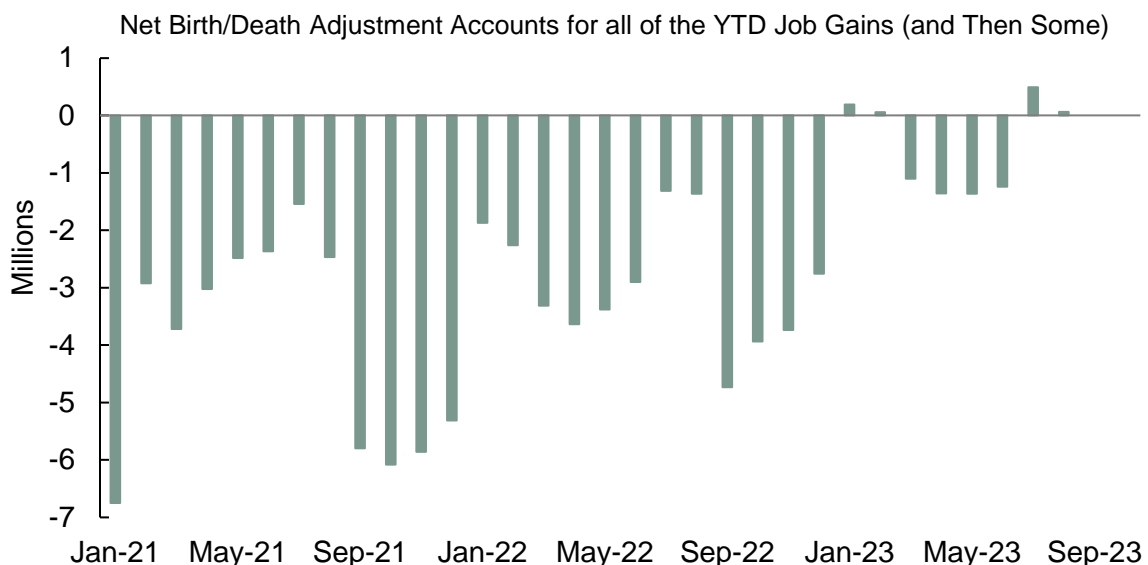
**The year-to-date net birth/death adjustment is 1.021 million which means the BLS “added” 1 million jobs to its not-seasonally adjusted employment figures.** Remember these are the jobs that are not being captured by the payroll sample, but the BLS eventually expects that these will show up when a complete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



Sources: BLS, Haver, SMBC Nikko

## Disclaimers

This document is provided by SMBC Nikko Securities America, Inc. (“SMBC Nikko”), the US-registered broker-dealer affiliate of Sumitomo Mitsui Banking Corporation, for informational purposes only. This document was prepared by SMBC Nikko’s economist(s). The views, statements, assumptions and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Nikko. It does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Nikko and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Nikko and its affiliates do not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion after conducting a careful examination of all documentation delivered prior to execution, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents, and their own independent analysis and assessment of the merits of any transaction. The financial instruments discussed may be speculative and may involve risks to principal and interest.

## Conflicts of Interest Disclosures

The views, statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Nikko or its affiliates. The trading desks of SMBC Nikko and its affiliates trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Nikko and its affiliates may conflict with those of the recipient. SMBC Nikko and its affiliates may seek to do business with the companies mentioned in this material and the trading desks may have accumulated, be in the process of accumulating, or accumulate long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to SMBC Nikko policies and procedures that apply to the globally branded research reports and research analysts of SMBC Nikko and its affiliates or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Nikko, its affiliates, and their respective directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

Distribution, possession or delivery of this document in, to or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

© 2023 SMBC Group. All rights reserved.