Are Jobs Really Disappearing?

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Article:

Mark Twain once said: "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so." One of the things we all know for sure at what is probably the start of the Recession of 2008 is that the economy is losing jobs. But it depends what you mean by that.

According to the media, however, there's no ambiguity. A typical news report from earlier this month said, "U.S. employers slashed jobs for the third straight month in March" and claimed that employment fell by 80,000 jobs. Another article talked about "the loss of nearly a quarter-million jobs so far this year." Given that, it would surprise most people to learn that more Americans were employed at the end of March than at the end of January (what happened in January is another story, as you'll see).

Average employment in January was 135.9 million; in March it was 137.0 million. Therefore, more than 1 million jobs were added to U.S. payrolls in February and March. But how can this be if employers "slashed jobs"?

The answer has to do with seasonal adjustment, an invaluable statistical tool for interpreting economic data. The rhythm of the economy is at least partly seasonal. Retail sales in December are different than in April. Youth employment generally surges in the summer when students are out of school. It wouldn't make sense to compare employment in July and September, or retail sales in April and December, without taking seasonal patterns into account.

So when the media track the economy month by month, it's good that they use seasonally adjusted figures. But they need a primer in what those figures mean.

For example, take the March employment data. The economy added 574,000 jobs in March, and that sounds great. But typically employment in March rises by more than that.

Once trends and seasonal patterns for the month were factored in, the result was that employment fell in seasonally adjusted terms. However, the only jobs we "lost" in March were jobs that were expected but didn't materialize.

The media didn't get into any of that detail. All we read was that 80,000 jobs were lost in March, and it was difficult to find any mention that this was a seasonally adjusted figure.

What about the claim that the economy has shed nearly a quarter-million jobs since the beginning of the year?

Again that's based on adjusted data. In the first three months, the seasonally adjusted level of employment fell by 232,000 jobs. In unadjusted terms, however, we've actually lost 1.9 million jobs since the beginning of the year.

But don’t worry. The economy always sheds hundreds of thousands of jobs in January as the holiday retail season comes to a close. The 3 million jobs that were lost this January were only slightly more than normal, leading to the seasonally adjusted reduction of 76,000 jobs.
None of this is to suggest that the economy is in better shape than the experts are saying. It’s certainly a bad sign that seasonally adjusted employment has fallen for three straight months. The 2001 recession started with 15 consecutive months of such declines.

So yes, to some degree this is about semantics. But the fact remains that a reduction in seasonally adjusted employment doesn’t necessarily mean that employers fired people, and an increase doesn’t necessarily mean that they hired people.

I doubt that making such mistakes can, in Twain’s words, get you into trouble. But when it comes to understanding the economy, the more clarity the better.