Seasonally Adjusted Jobs Numbers Offer Cold Comfort

The tradition of modifying employment data based on the weather is obsolete.

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The U.S. economy lost more than 2.7 million jobs between the middle of December and the middle of January, but the big news from the January jobs report was that the economy added 275,000 jobs during the same period.

Why the discrepancy? The Bureau of Labor Statistics touts “seasonally-adjusted” figures, which attempt to measure how recurring seasonal events affect employment. The raw figures are available to researchers, but the adjusted figures are the priority in public announcements.

Yet reporting a statistically adjusted figure as if it were original data is a mistake, and a significant distortion of reality that only adds to public distrust of the government and the media. People know that jobs were scarcer in January than in February, even if the government told them the opposite.

Seasonally adjusted figures also contribute to less effective policy-making. The Labor Department reported on Feb. 26 that applications for unemployment benefits unexpectedly rose to a six-week high. This would not have been a surprise if observers had paid attention to the drop in employment between December and January.

Seasonal-adjustment factors were developed seven decades ago for an economy that predominantly produced goods. Construction shut down in winter and automobile manufacturing closed in January. So employment fell and the monthly estimates were adjusted upward for an annual rate. Today’s economy is a service economy, with far less weather-related employment variation. For example, when seasonal adjustment began, total American employment fell almost 10% due to bad weather in the winter months. Now it is less than 2%.

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January’s seasonal adjustment implies that reduced levels of employment and output will automatically return to higher levels when spring arrives. There will be nothing automatic about the return of the almost three million jobs lost. In fact, the largest declines in employment were in retail trade and professional service, neither of which is weather related.

It is useful for policy-making purposes to adjust monthly data to an expected annual rate. But the current method needs to be updated and based on something other than the weather. Because the economy has changed so much over the decades, we don’t understand what reality, if any, current seasonal adjustment represents. Seasonal adjustment is probably a statistical reflection of underlying changes in the economics of various industries, and it is therefore distorting exactly what investors and the Fed want to know about.

Why haven’t the data been improved? The major consumers of economic data, the people who build macroeconomic forecasts, are not interested in the quality of the data they use in their models. This has been true since the first commercial models were built in the 1960s.

I once asked Harvard professor Otto Eckstein —who at the President’s Council on Economic Advisors made the first effective use of macroeconomic statistical models in the 1960s—for help in improving GDP statistics. He replied, “We just use the data. We don’t concern ourselves with its quality.” It was a classic illustration of the “garbage in; garbage out” modeling mantra that still characterizes forecasting today. The economy suffers as a result.

It is true that seasonal adjustments even out over the course of a year. But economic-policy directions are continually revised and trading decisions are made daily, not annually. So it is important to try to understand the economy’s real direction on at least a monthly basis.

The BLS should report both seasonally adjusted and actual figures each month. If the investing public demands only a single statistic for each aspect of the economy each month, then it should be the actual, raw figure. Government policy makers can then explain to people and to the capital markets how the number is too low or too high in longer-term perspective. Reporting unadjusted data would help economic policy makers deal with reality rather than with the government’s wishful thinking.

Mozart once commented that music is not in the notes but in the spaces between the notes—that is, in how the notes are played—slowly or rapidly; loudly or softly. Similarly, the condition of the economy is not indicated by individual statistics like seasonally adjusted employment numbers, but is to be found in the size of the differences between the actual and the seasonally adjusted data.

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