

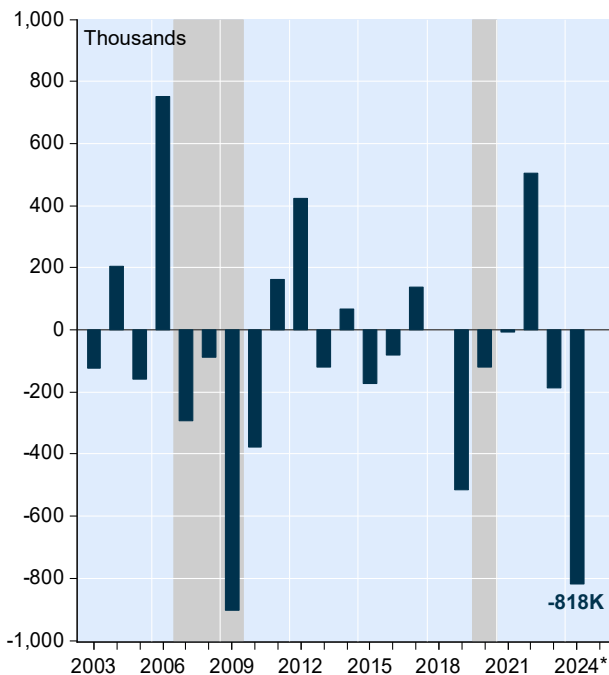
U.S. Watch

By Jocelyn Paquet

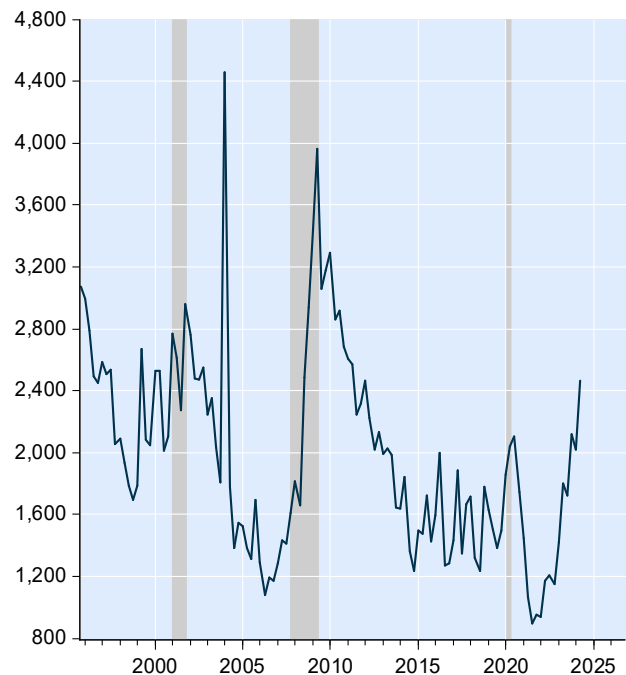
The publication of nonfarm payrolls as estimated by the establishment survey is certainly one of the most closely followed economic news items each month, as it gives an idea of the vitality of the job market. It is, however, a rather imprecise report, since it is based on responses to a survey with a fairly small sample size of around 120,000 companies and fails to reflect net business creation in a timely manner. To compensate for these methodological weaknesses, once a year, the Bureau of Labor Statistics benchmarks the level of nonfarm payrolls to a much more comprehensive employment series called the Quarterly Census of Employment and Wages (QCEW). The latter derives its job estimate not from a survey, but from tax records and cover roughly 95% of businesses in the United States. Today, the BLS published the preliminary estimate of the revision to nonfarm payrolls that will result from this process for the period from April 2023 to March 2024. It showed that, for this 12-month interval, job creation as reported by the establishment survey was overestimated by as much as 818,000 or roughly 68,000 per month. As today's Hot Chart shows, this downward revision would be the largest recorded since 2009 if confirmed in February's final print. While job creation remained solid over this period, even taking this revision into account, it was much less than initially forecast (174K per month instead of 242K). Similar downward revisions can also be expected for the most recent months' data. In part, this reflects the backward-looking nature of the birth/death model used in the establishment survey to estimate net business creation. Historically, this model has failed to reflect increases in business bankruptcies and has therefore tended to overestimate job creation at the end of business cycles. Such an overestimation is probably taking place now, as high interest rates weigh increasingly heavily on businesses. As for the Fed, today's announcement will only reinforce its conviction that the labour market is cooling, and make it more likely to cut policy rates significantly over the coming months.

U.S.: Nonfarm payrolls revised sharply downwards, more to come?

Annual benchmark revision to nonfarm payrolls



Chapter 11 business bankruptcy filings.
Last observation: 2024Q2



*Based on the preliminary benchmark revision published today. Final benchmark revisions (published in February) were used for the other years

NBF Economics and Strategy (data via Bureau of Labor Statistics and Refinitiv)



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