April 15, 2024

Part-time, Adjustments, Immigration Boost Employment Headline

Economic INSIGHT

The March employment report surged past expectations, reinforcing the notion of a solid labor market and complicating the outlook for a Federal Reserve (Fed) seemingly desperate to cut rates. After all, coupled with inflation reversing course for the past three months, a tight jobs market provides little justification for a reduction in policy firming.

For now, the Fed remains patient, waiting on the sidelines and hoping for further improvement in price pressures. But, what if it fails to materialize? Or worse, what if inflation fails to retreat, and the economy, or more specifically the labor market, begins to falter?

While the latest headline rise in payrolls was more than impressive, the details suggest the labor market may not be quite as solid as the topline figures suggest. As Minneapolis Fed President Neel Kashkari remarked earlier this week, the labor market, while still tight, is no longer as tight as it once was.

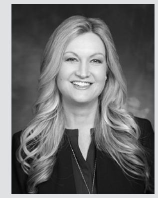
Holding rates high for too long will presumably – eventually – result in a slowdown (or downturn) in hiring and growth. Thus, the Fed has a finite window to aggressively approach inflation. Once weakness materializes, with prices still elevated, the Fed will have little ability to reinstate price stability and provide support to the broader economy.

TOPLINE STRENGTH OVERSTATED?

The latest employment figures paint a robust picture of the American labor market. Creating 303,000 payrolls, the March increase was the largest since May of last year, pulling the three-month average pace of hiring up to 276,000. Additionally, the unemployment rate dipped, albeit slightly, from 3.9% to 3.8%, marking now more than two years of below 4% joblessness, the longest stretch since the 1960s.

On the surface, it is difficult to describe the latest payroll report as anything but astonishing. The devil, however, remains in the details of somewhat conflicting reports that show perhaps a more challenging, or at least a more uneven, environment for American workers. After all, the question is not only the number of jobs being created, but also the type of positions, the skills needed to fill the job vacancies, and who is being hired.

For the answers, we turn to two different labor reports. The Household Survey, which is based on combining survey data with a census-based estimate of the population. And, the payroll survey, also known as the Establishment Survey, which is approximated based on data from businesses and government agencies, capturing anyone on the payroll of a surveyed business during that reference week, including part-time workers



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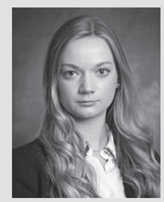

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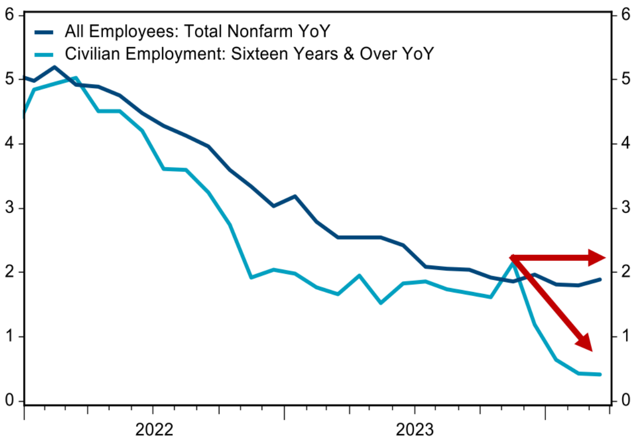
and those on paid leave.



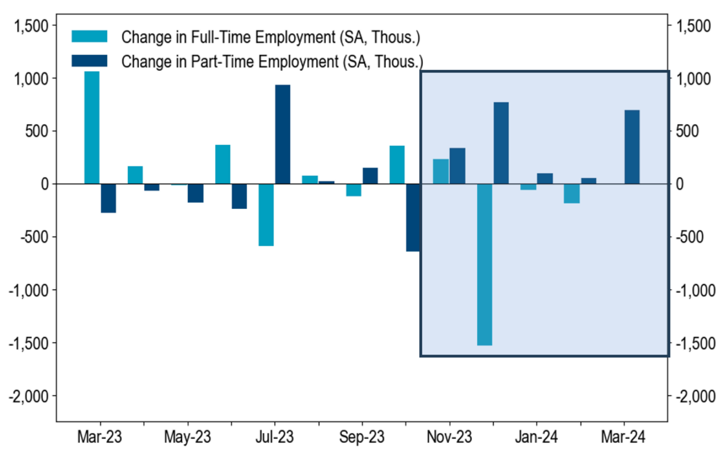
Source: Bureau of Labor Statistics/Haver Analytic

Like the payroll report, the Household Survey showed a sizable increase in employment, up 498,000 in March. This was, however, the first increase in the past four months, leaving the country's total employment little changed at 161 million. In fact, down from a recent peak of 161.9 million in November, household employment has seemingly plateaued, with little upward momentum for the better part of the past year. Payroll growth, meanwhile, has been more robust, consistently reaching new, all-time highs every month since a dip in December 2020.

A widening gap between the two measures suggests job creation is far outpacing the reported growth of individual employment. Part-time employment, measurement bias, and immigration appear to be the primary explanations for the startling distance between the two measures.

PART-TIME HIRING BOOST

Behind the headline gain of 498,000, the entirety of the increase last month was in part-time employment. The number of part-time jobs created surged by 691,000 in March, the most in three months, and raising the total of part-time payrolls to 28.6 million. Meanwhile, full-time positions actually fell last month, down 6,000, the fourth month of decline in the past six. As a result, the total number of full-time payrolls dropped to 132.9 million, the lowest since January 2023. In fact, over the past year, employment gains have been overwhelmingly part-time – part-time workers are up by 1.9 million and full-time workers are down 1.5 million.



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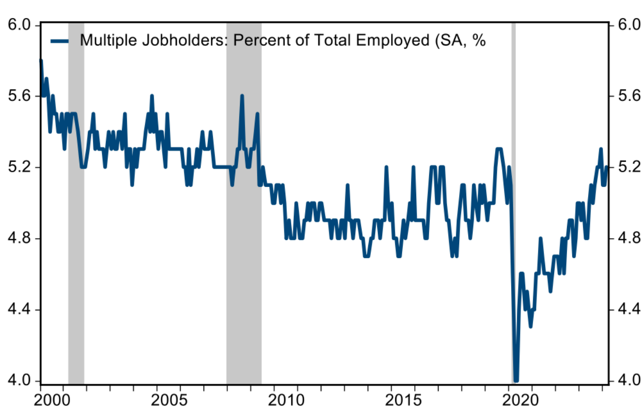

Source: Bureau of Labor Statistics/Haver Analytic

GLOSSARY

BLS – Bureau of Labor Statistics

CBO – Congressional Budget Office

NSA – Not Seasonally Adjusted

SA – Seasonally Adjusted

YoY – Year over Year

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Making no judgment on the quality of a part-time position relative to full-time employment, from a reporting standpoint, part-time workers often have multiple "gigs," or more than one part-time position. As such, a singular person will be counted numerous times in the payroll report, potentially upwardly skewing the data relative to the employment totals and painting a rosier picture than perhaps the true reality.

Seasonally adjusted full-time workers and seasonally adjusted part-time workers do not add up to seasonally adjusted total employment because total employment is seasonally adjusted independently of full-time and part-time workers.

BIAS ADJUSTMENT FACTOR

Another factor that is undoubtedly contributing to the sizable gap between payroll growth and household employment is the adjustment factor employed by the Bureau of Labor Statistics (BLS). Because the payroll report cannot survey every business, the data cannot entirely account for employment gains resulting from startups, nor can it thoroughly account for a loss of employment when businesses close. As a result, the BLS "adjusts" the data collected based on prior growth rates to account for the "birth" and "death" of businesses.

Critics have suggested this adjustment factor is biased and may "overcorrect" the sample-based estimates by potentially "inflating" the measure of payroll growth, which results in a more positive assessment of labor market conditions. While there is no perfect calculation of job creation, an adjustment factor based on prior patterns of hiring, at the very least, is unlikely to adequately anticipate or capture directional adjustments as the economy fluctuates.

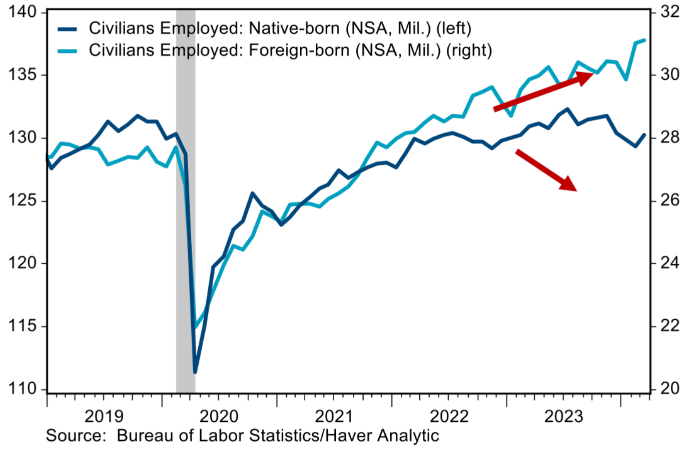
Since October, as the economy began to slow from an outsized rise of activity in Q3, the birth/death factor has adjusted the data upwards of 380,000 on a non-seasonally adjusted basis (NSA) and accounts for more than 100% of the payrolls growth in the NSA data. While the birth/death adjustment did turn negative in the latest March report, subtracting 21,000 from the NSA data, the February adjustment of roughly 150,000 more than offset last month's reduction.

IMMIGRATION AND EMPLOYMENT

According to the New York Fed, while the gap between the household and payroll data may be the result of multiple job holdings and upward adjustments to data in the payroll report, one of the largest contributing factors is likely an undercount of working-age adults who have found employment. Since the Household Survey is based on a census estimate of the population, an undercount of the population will understandably result in relatively lower figures.

The Household Survey's tie to the census data poses several limitations. First and foremost, is its lack of frequency. With the survey conducted only once every ten years, this leaves the BLS relying on data that becomes rapidly outdated. More importantly, however, the census has routinely strained to accurately account for the working-age population, a challenge that has only grown in more recent times amid a sizable increase in immigration. According to Fed analysis, the census has undercounted the working-age population by estimates upwards of 2-3% over the past several decades. Thus, while an undercounting is certainly nothing new, the recent surge of immigration suggests the miss may be materially larger in today's economy.

According to the Congressional Budget Office (CBO) and Bureau of Labor Statistics (BLS), net immigration increased by 3.3 million in 2023 alone, and 5.1 million since the last census in 2020, taking the total foreign-born population to 48 million, roughly a 7% and 12% increase, respectively. According to many reports and analysis, while a sizable gain on a nominal basis and relative to earlier estimates, the latest tally may still be falling considerably short of the true flows, particularly given the rise in both illegal immigration as well as foreign-born employment.



Source: Bureau of Labor Statistics/Haver Analytic

In March, for example, foreign-born employment rose by 112,000, bringing the total number of foreign-born workers to a new record high of 31.1 million. Employment of native-born workers, meanwhile, rose by 929,000 in March, the first monthly increase since November. Despite the more meaningful rise last month, native-born employment in the last four months dropped by 125,000. In fact, since reaching a recent peak in July 2023, native-born employment has fallen by more than 2 million.

POLICY ADJUSTMENTS

The latest read on employment suggests the U.S. labor market remains strong, although such strength may be emanating from different sectors, or for different reasons than previously anticipated. Nevertheless, a solid labor market and more broadly positive economic growth continue to support a still "spendy" consumer, at least for now, further justifying a position on the sidelines as inflation remains unruly, pushing higher for the past three months.

That being said, momentum in the economy is waning. Consumers are still spending, and businesses are still investing, but they are doing so at a noticeably slower pace. Equally, the labor market remains tight, but appears to be noticeably less tight than in prior quarters. As a result, while still positive, growth will expectedly remain relatively muted nearer 2% in the current year. The question remains, however, where do we go from here?

If the economy begins to show more material signs of fatigue, the Fed will be inclined to cut rates to provide support. However, with inflation still elevated well above the 2% target and momentum trending to the upside, a reduction in policy firming would risk sending the U.S. economy into an unstable period of stagflation. Thus, the Fed has a very important window to tackle inflation now before weakness encroaches into the labor market and more broadly into the U.S. economy.

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