The Economic Recovery is a "Statistical Illusion": More Misleading Official Employment Figures

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The payroll jobs report for November from the Bureau of Labor Statistics says that the US economy created 203,000 jobs in November. As it takes about 130,000 new jobs each month to keep up with population growth, if the payroll report is correct, then most of the new jobs would have been used up keeping the unemployment rate constant for the growth in the population of working age persons, and about 70,000 of the jobs would have slightly reduced the rate of unemployment. Yet, the unemployment rate (U3) fell from 7.3 to 7.0, which is too much for the job gain. It seems that the numbers and the news reports are not conveying correct information.

As the payroll jobs and unemployment rate reports are released together and are usually covered in the same press report, it is natural to assume that the reports come from the same data. However, the unemployment rate is calculated from the household survey, not from payroll jobs, so there is no statistical relationship between the number of new payroll jobs and the change in the rate of unemployment.

It is doubtful that the differences in the two data sets can be meaningfully resolved. Consider only the definitional differences. The payroll survey counts a person holding two jobs as if it were two employed persons, while the household survey counts a person holding two jobs as one job. Also the two surveys treated furloughed government workers during the shutdown differently. They were unemployed according to the household survey and employed according to the payroll survey.

To delve into the meaning of the numbers produced by the two surveys, keep in mind that payroll jobs can increase simply because the birth-death model used to estimate the numbers of unreported business shutdowns and startups can underestimate the former and overestimate the latter.

The unemployment rate can decline simply because the definition of the work force excludes discouraged workers. Thus, an increase in the number of discouraged workers can lower the measured rate of unemployment.

Before reviewing this, let's first assume that the story of 203,000 new payroll jobs in November is correct. Where does the BLS say these jobs are? Are these the long-missing New Economy jobs that we were promised in exchange for giving China our well-paid manufacturing jobs and giving India our well-paid professional service jobs?

Unfortunately, no.

According to BLS, the jobs are mainly the same lowly-paid, part-time, nontradable domestic service jobs that I have been reporting for a decade or longer.

BLS reports that 17,000 jobs are in construction. On the surface this looks like some slight pickup in housing, but less than 5,000 of the jobs are in residential and nonresidential construction. The bulk of the claimed jobs are in "specialty trade contractors." Specialty trade contractors are involved in repairs, alterations, and maintenance, but some of the work pertains to site preparation for new construction.

The BLS also claims 27,000 jobs in manufacturing. What precisely is being manufactured? Apparently, very little. The manufacturing jobs are spread over about 23 categories.

The manufacture of wood products gained 600 jobs. (Keep in mind that we are talking about a population over 300,000,000, and a participating work force of approximately 155,000,000.) Nonmetallic mineral products experienced, according to the BLS, 2,000 new jobs. Machinery gained 300 new jobs. Computer and electronic products gained 500 new jobs. Electrical equipment and appliances gained 600 jobs. Transportation equipment gained 4,900 jobs. Furniture manufacture gained 2,100 jobs (apparently to fill the foreclosed unoccupied houses). Food manufacturing gained 7,800 jobs. Petroleum and coal products gained 1,600 jobs, chemicals gained 2,200 jobs, and plastics and rubber products gained 1,300 jobs.You can review the remaining categories on the BLS site.

Most the rest of the 203,000 jobs–152,000–were in lowly paid domestic nontradable services (nontradable means that the jobs do not produce a service that can be exported), such as retail trade with 22,300 jobs, transportation and warehousing with 30,500 jobs, temporary help services with 16,400 jobs, ambulatory health care services with 26,300 jobs, home health care services with 11,800 jobs, and the old reliable waitresses and bartenders with 17,900 jobs.

This is the jobs profile of the American super economy. It is the profile of India 30 or 40 years ago.

Are even these lowly paid part-time domestic jobs really there? Perhaps not. According to statistician John Williams (shadowstats.com), the government shutdown and reopening, the birth-death model, and concurrent-seasonal-adjustment problems can result in misstated jobs.

The unemployment rate is affected by not counting discouraged workers who cannot find employment. No discouraged unemployed worker and no person forced to work in a part-time job because he cannot find full-time employment is counted in the 7.0 unemployment rate (U3).

To be included in the U3 unemployment rate, an unemployed person has to have looked for a job in the past four weeks. Those who have looked for a job until they are blue in the face and have given up looking are not counted in the U3 rate. In November any unemployed workers, discouraged by the absence of jobs, who ceased to look for employment were dropped from the labor force that U3 considers to be the base for the measure of unemployment. Thus, if unemployed workers move into the discouraged category, the rate of unemployment falls even if not a single person finds a job.

The government has a second unemployment rate, U6, about which little is heard. This rate counts workers who have been discouraged for less than one year. This unemployment rate is 13.2 %, almost double the reported rate.

In other words, the U3 measure of unemployment can decline for two different reasons: the economy can create more employment opportunities or people become discouraged and stop looking for jobs. Discouraged workers move into the U6 category where they are counted as unemployed until they have been discouraged for more than one year when they are no longer officially considered to be part of the labor force. The U6 unemployment rate can rise as short-term discouraged workers are dropped out of the U3 measure and moved into the U6 measure, and the U6 rate can fall when the workers become long-term discouraged and are officially removed from the labor force.

Think about this for a minute. The BLS admits that the US unemployment rate that includes people who have been discouraged about finding a job for less than one year is 13.2%. The official line is that the US economy has been enjoying a recovery since June 2009. How is there a recovery when 13.2% of the population is unemployed?

This question becomes even more pointed when the long-term–more than one year–discouraged workers who cannot find a job are included in the measure of unemployment. The US government does not provide such a measure. However, John Williams (shadowstats.com) does. His estimate produces a 23.2% rate of US unemployment. An increase in the number of long-term discouraged workers is consistent with the drop in the US labor force participation rate from 66% in December 2007 to 63% in November 2013.

There is no such thing as a recovery with 23.2% unemployment.

So, if there is no economic recovery, why are stock and bond prices so high, at all-time records? The answer is simple. The Federal Reserve is printing $1,000 billion new dollars annually and the newly created money is going into the bond and stock markets, driving them to high bubble levels.

So here sits the US economy with substantial unemployment, with massive trade and budget deficits that are taxing the US dollar's credibility, with the labor force participation rate declining because there are no jobs to be found, and we are enjoying economic recovery with bond and stock prices at historic highs.

If this isn't enough of a puzzle, consider the official second estimate of third quarter GDP growth. According to this estimate, the US economy expanded at a 3.6% rate in the third quarter; yet official U6 unemployment is 13.2%.

And if you believe the government, there is no inflation either. Yes, I know, your grocery bills go up each month.

Keep in mind that many of the new November payroll jobs could reflect seasonal hiring gearing up for the Christmas sales season. Remember, the payroll survey counts one person with two part-time jobs as two jobs.

Economic recovery requires a growth in real median family income and/or an increase in consumer debt, and, except for a rise in student loan debt, there is no sign of either.

US real median household income has declined from $56,189 in 2007 to $51,371 in 2012, a decline of $4,818 or 8.6%. http://www.deptofnumbers.com/income/us/ [1]

US real per capita income has declined from $29,554 in 2007 to $27,319 in 2012, a drop of $2,235 or 7.5%.

How do consumers take on more debt in order to finance their consumption when their real incomes are falling? The growth in consumer credit outstanding is due to student loan growth.

I have not seen the establishment's explanation of how recovery can occur without growth in real purchasing power either from rising real incomes or rising consumer indebtedness.

According to the Bureau of Labor Statistics, there are 1,277,000 fewer seasonally adjusted payroll jobs in November 2013 than in December 2007.

How it is possible for the economy to have been in recovery since June 2009 (according to the National Bureau of Economic Research) and there are 1,277,000 fewer jobs today than existed six years ago prior to the recession?

How has real Gross Domestic Product recovered when jobs and real consumer incomes have not?

These are among the many questions that go unasked and unanswered.

Statistician John Williams says that the economic recovery is a statistical illusion created by deflating nominal GDP with an understated measure of inflation.

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