



JOINT ECONOMIC COMMITTEE

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A TALE OF TWO EMPLOYMENT SURVEYS

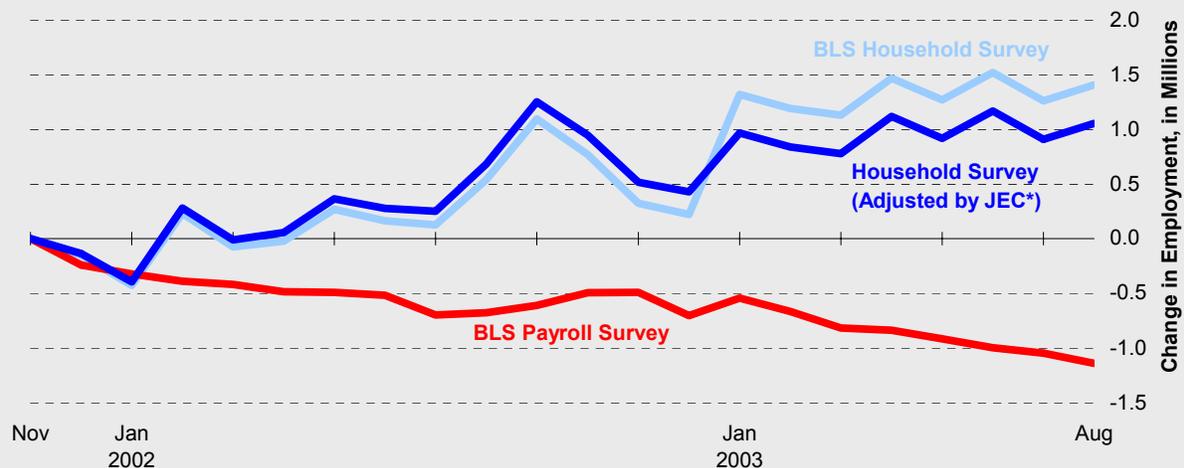
The Bureau of Labor Statistics (BLS) uses two distinct surveys to measure the number of jobs in America, a *payroll survey* that measures the number of people employers have on their payrolls and a *household survey* that measures the number of individuals who report being employed. Though analysts focus on the *payroll* estimates, the *household survey* has recently been painting a surprisingly different picture of the U.S. labor market. The often-cited payroll survey indicates that the number of jobs has *declined* by 1.1 million since the end of the recession in November 2001, while the household survey indicates that the number of employed people has *increased* by 1.4 million. Economists cannot yet fully explain this 2.5 million “jobs gap,” but small businesses and, in particular, self-employment appear to be significant factors.

Highlights

- Two surveys from the BLS tell different stories about employment during the recovery – a loss of 1.1 million *payroll survey* jobs since November 2001, and a gain of 1.4 million *household survey* workers. The jobs gap of 2.5 million is unprecedented.
- Some have suggested that a statistical revision to the household data in January 2003 is responsible for most of the reported jobs gap. Calculations by the Joint Economic Committee (JEC) indicate, however, that the revision accounts for relatively little of the gap. Controlling for the revision, the household survey still shows an increase of 1.1 million jobs since the end of the recession, and the jobs gap is still 2.2 million. (Figure 1)
- The household survey indicates that *self-employment* has grown by 626,000 jobs since the recession end. These workers are not counted by the payroll survey, so they account for a portion of the jobs gap, but two thirds of the gap remain largely unexplained. (Figure 2)
- The payroll survey is considered more stable than the household on a month-to-month basis, but is in fact subject to major monthly and annual revisions, such as occurred to 1992 data. A preliminary revision of recent payroll data will be announced on October 3, 2003.

Has Employment Increased or Decreased Since Recession's End?

Two monthly surveys paint different pictures of U.S. employment



Source: Bureau of Labor Statistics (BLS), JEC calculations

* Adjusted to reflect the January 2003 population changes.

BLS's surveys tell different stories about employment during the recovery.

The Bureau of Labor Statistics (BLS) has reported two different employment surveys since 1948, each offering a unique perspective. The *payroll survey* of business establishments provides information on employment, hours, and earnings in 400,000 establishments and affords a detailed look at specific industries. An alternative survey of 60,000 households, conducted by the Census Bureau on behalf of the BLS, provides a comprehensive body of information on the employment and unemployment experience of the nation's population, classified by age, sex, race, and a variety of other characteristics. The *household survey* contacts workers directly and serves as the basis for the *unemployment rate*.

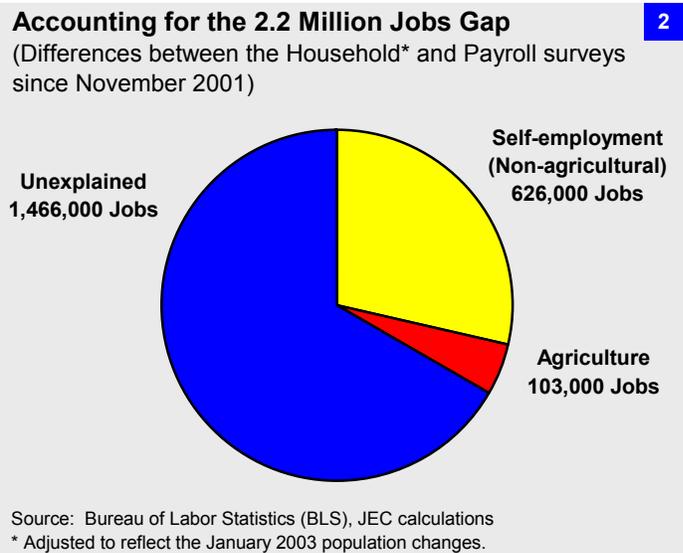
The surveys followed similar paths during the eight months of the recession in 2001, as they normally do. But the two measures parted noticeably once the recovery began in 2002 and diverged even further over the last year and a half. As shown in Figure 1, the disparity between the payroll and household estimates, as reported by BLS, has been approximately 2.2 million jobs since November 2001.

Population adjustments don't explain the jobs gap.

To estimate total employment from the data collected in the household survey, BLS relies on Census estimates of the size of the U.S. population. The employment estimates are therefore sensitive to changes in the estimated population size. For example, in January 2003 an unusually large adjustment to the estimated population added 575,000 jobs to BLS's estimate of total civilian employment.

In its reported data, BLS lumps the entire population adjustment into January 2003, rather than spreading it out over the previous thirty-six months (the period covered by the population adjustment). BLS warns that this policy makes it difficult to compare total household employment figures from before and after January 2003. However, now that the two surveys are painting distinctly different job growth pictures over an extended period, adjusting the household survey can provide important insights. Making this correction, based on JEC calculations, the household series still shows a gain of 1.1 million employed workers since the end of the recession.

(Figure 1)



Growth in self-employment explains most of the known difference.

The disparity between the two surveys since the end of the recession in November 2001 remains large at 2.2 million jobs, even after controlling for the population adjustment. Roughly one third of the remaining disparity can be explained by the growth in self-employment of 626,000 workers who are uncounted in the payroll survey. Another 103,000 new jobs are in agriculture. The remaining 1.5 million gap is unexplained.¹

Figuring out the unexplained jobs gap is a puzzle. One leading explanation is that new businesses are undercounted in the payroll survey. The payroll survey focuses on known establishments, so it takes time for new employers to be captured in the data; their employees would therefore be counted in the household survey, but not in the payroll survey. A related possibility is that an increase in contracting relationships – in which a worker works for a firm as an independent contractor rather than as an

employee – have affected how workers are captured in the two surveys. Contract workers might consider themselves employed by a firm, rather than as self-employed, even though the firm does not report them as employees. On the other hand, another possibility is that the household survey is overestimating the growth in jobs because of difficulties in measuring the size of the population. A combination of these and other factors likely explains the jobs gap, but their relative importance is impossible to judge from current data.

Payroll data are revised annually.

An important fact about the payroll survey, which BLS routinely notes in its press releases, is that the data are subject to two monthly revisions of the preliminary numbers, as well as annual “benchmark” revisions when it matches survey data against unemployment insurance records. The benchmark revision can be significant, and because it is only fully reported in the following May’s Employment Situation report (using data finalized in March), there is a lag of over a year before the data are settled.

One telling example comes from 1992, when payroll survey figures were cited widely in the months preceding the election. News media noted that the recovery from the 1991 recession lacked job creation, because that’s what the raw payroll data indicated. This gave rise to the notion of a “jobless recovery.” Yet the payroll survey data for 1992 were revised frequently by hundreds of thousands of jobs each month, and the twelve months prior to the ’92 election now reflect a gain of 770,000 jobs.²

It turns out that small businesses were not well understood by the survey methodology in place at the time. Estimates of new business births are confirmed (or corrected) during the March benchmark revisions, and more startups were blossoming with the emergent expansion of 1992 than anyone realized. BLS has since revised its methodology for estimating new businesses, but the potential still exists for missing sharp changes during turning points in the business cycle. Importantly, a preliminary assessment of the March 2003 benchmark will be released with the BLS Employment Situation report on Friday, October 3rd.

Does the divergence in data imply inaccuracy or a different kind of economy?

Measuring the economy is difficult in any circumstance, but nowhere is it more difficult or more important than when assessing the labor market as the nation recovers from a recession. This is especially true when the economy is undergoing structural changes, which may be happening now.

Both the payroll and the household surveys have their share of advantages and disadvantages for measuring the number of jobs. As BLS often notes, the payroll survey provides a more comprehensive estimate of the number of people on the payrolls of established organizations. However, only the household survey can tell us about the self-employed and people engaged in agriculture. At this time, the remaining disparity between the two surveys cannot be explained. It may be due to inaccuracies in the surveys, a changing economy, or both; only time will tell. For these reasons, focusing only on the payroll survey is misleading. Analysts should consider both the household and payroll surveys in trying to understand the employment situation.

¹ Some multiple jobholders are double counted in the payroll survey, and other types of workers, such as paid private household workers and unpaid family workers, are captured in the household survey. But those data cannot be compared since they are not seasonally adjusted, and estimates suggest they have little effect or even make the gap larger. An additional factor, also impossible to measure, is the importance of military reservists. When reservists are called up, they leave company payrolls, thus lowering payroll employment (unless they are replaced with a new worker); they also leave the civilian labor force, the focus of the household survey.

² The original release of this report stated the payroll survey data for 1992 was revised upwards by 1.5 million jobs in 1993. However, the 1992 data was revised upwards by about a half of a million jobs in 1993 and 1994.

Committee Publications

JEC publications released this month:

- “A Tale of Two Employment Surveys,” September 26, 2003. Explains how two employment surveys from the same monthly report paint a surprisingly different picture – one survey shows job losses, while the other shows job gains.
- “The Tax Reform Act of 1986: A Primer,” September 17, 2003. Outlines the major changes of the Tax Reform Act of 1986, as well as the current state of the tax code, in order to promote a better understanding of that often-cited tax reform.
- “Constant Change: A History of Federal Taxes,” September 12, 2003. Highlights major trends in the U.S. tax system since the beginning of the income tax to show how we arrived at the current system (first in a series of reports on tax simplification and reform).
- “Recent Economic Developments: The Economy Builds Momentum,” September 10, 2003. Reviews key economic data from the past month and indications for future economic growth.
- “Understanding Today’s Deficits,” September 3, 2003. Update of previous JEC report using new budget estimates made by the Congressional Budget Office.

Recent JEC hearings include:

- “The Employment Situation,” September 9, 2003.
- “Technology, Innovation, and the Costs of Health Care,” July 9, 2003.
- “Transforming Iraq’s Economy,” June 11, 2003.

Copies of the above publications can be found on-line at the committee’s website at jec.senate.gov. Publications issued by the vice-chair and ranking member can be accessed via the same website.