

Why Lousy Jobs Numbers Look Good (And Vice Versa)

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The most important number in America might be wrong.

The unemployment rate — released on the first Friday of each month — is watched obsessively. It is both a regular reminder of the pain inflicted on millions of workers by the Great Recession, and the most important indicator of whether a recovery is taking hold.

But the unemployment number may not be a wholly accurate representation about what is happening in the labor market, let alone the overall economy.

The unemployment rate is based on the monthly Current Population Survey, which is a questionnaire sent to about 60,000 households, which translates into about 110,000 individuals. It's a far bigger survey than any conventional public opinion poll.

But it still has a substantial margin of error — higher than the government's survey of employers, which is the source for statistics about jobs gained or lost every month.

"There's always been a difference between the household survey and the payroll survey," says Daniel Mitchell, a senior fellow at the libertarian-leaning Cato Institute.

The difference between what the household survey suggests about employment growth and what the payroll survey says about the number of jobs actually created is one reason why the unemployment rate can go down substantially even when job growth is anemic.

Another reason, however, is that the unemployment rate doesn't count people who have given up looking for work.

To count as "unemployed" under the Current Population Survey, you have not only to be out of work, but also looking and available. More than a half-million people had stopped looking in January. Although it sounds bad — that they felt they had no chance at all — that actually helped bring the unemployment rate down.

Understanding The Unemployment Picture



Jobs Report: Not As Bad As It Seems (Also: Not As Good As It Seems)

The job market is neither as awful nor as promising as the latest employment report suggests.

"People think unemployment is going down, but if it's just because people are giving up, it's a little misleading," says Marisa Di Natale of Moody's Analytics, an economic research firm. "Over the past few months in particular, much of the decline in the unemployment rate is because the labor force has declined so rapidly."

The Case For EPOP

That's why some economists like another measure altogether. The Bureau of Labor



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Statistics also releases a figure known as employment to population ratio, or EPOP. Simply put, it's the share of working-age Americans who have a job.

"It gets very little pickup, which I don't understand, because it's a much broader measure of changes in the labor market," says Heidi Shierholz of the Economic Policy Institute, a liberal research group.

"If you look at what's happened to EPOP over the past year, it has not shown the substantial improvement that the unemployment rate has," she says.

Not The Whole Picture

But not all economists are crazy about EPOP. It doesn't indicate whether people have taken themselves out of the job market voluntarily. And it misses broader demographic trends, such as a spike in new parents who have decided to stay home with the kids, or aging baby boomers who have retired early.

Because people may be out of the workforce for any number of reasons, EPOP doesn't paint a broad enough picture about what is going on in the current economy, says James Sherk, senior policy analyst in labor economics at the conservative Heritage Foundation.

"If you're looking at people who are trying to find a job, the unemployment rate is actually pretty good," Sherk says.

No 'Perfect Number'

There are many other employment data that can offer up a more detailed picture about what is happening in the job market. The "underemployment" figure, which runs substantially higher than the unemployment rate because it accounts for people who want to work full time but can only find part-time jobs, has become a more prominent measurement in recent years.

Not many people, however, are labor economists with the time and inclination to pore over a lot of numbers. Most people simply want to know whether unemployment is high or getting higher.

Contrary to expectations, the unemployment rate doesn't capture that precisely. There are too many different trends for one "perfect number" to capture the strength or weakness of something as complex as the U.S. labor market, Shierholz says.

How Numbers Influence Behavior

But the unemployment rate can have a profound effect. One reason people may get discouraged is that they know that jobs are scarce — whether from their own experience or from government data.

If they've given up looking for a while, they may rely more on the unemployment rate to give them a sense that the time is ripe to try again. A



Enlarge

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Job seekers line up for a job fair at a hotel in Dallas last month. The unemployment rate can have a psychological effect on people looking for work. If the jobless numbers are high, job seekers may get discouraged.

sudden drop in the unemployment rate just might get them searching the online job listings again.

Perversely, however, that may cause the unemployment rate to go back up. Remember, people who have given up looking for a job aren't counted toward the official unemployment rate. Once they start looking again, they do get counted, which helps bring the rate back up.

That also helps explain why there's been more volatility in the unemployment rate than in the actual job market. According to Shierholz, about 5 million people have left the labor force over the past three years, whether because of job-search discouragement or any other reason.

If half of them start looking, that would bump up the unemployment rate by a point and a half.

What's needed to be certain that unemployment is really coming down in real-world terms, in other words, is not some new or more accurate measure. It's the creation of a lot more jobs.

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