Employment Numbers Tell Us A Lot (But Not That Much)

By: Alan Greenblatt – May 3, 2013

The nation's unemployment rate hit a four-year low of 7.5 percent and the job market improved last month. Friday's news helped push the Dow Jones industrial average above 15,000 for the first time.

Was that a rational response?

Although the jobs report for April was positive, what triggered the market reaction was the fact that it was better than expected. Instead of 145,000 jobs created, as most economists predicted, the Labor Department says there were 165,000 new jobs.

But it's worth bearing in mind that we're only a few days out of April. Jobs figures for the month will be revised a couple of times. If recent history is any indication, they may be revised dramatically.

Since the start of 2007, the initial estimate and the final number have differed by an average of 70,000 jobs, notes Zach McDade, a research associate at the Urban Institute. Often, the monthly number has been revised by more than 50 percent.

"Last month's March estimate of just 88,000 new jobs was greeted with consternation and worry, and it's already been revised once to 138,000," McDade writes in a blog post.

It's just like quarterly earning reports. When a company beats analysts' expectations by a few pennies, the stock soars. When it misses, the stock goes down.

The actual numbers might not vary much. What matters is the sense that things are getting better (or worse) than expected.

"Yes, this was better than people were expecting. That's the source of the breathless, happy responses that come out right away," says Heidi Shierholz, an economist with the Economic Policy Institute. "But as you sit back and say, 'What does this say about the labor market,' it's not so good, because it remains more of the same."

The actual change in unemployment, she notes, was from 7.57 to 7.51 percent. At this rate of jobs growth, Shierholz says, it would take more than five years to get back to the pre-recession unemployment rate.

Any single month's numbers can be misleading, says Daniel Mitchell, a senior fellow at the Cato Institute — especially because drops in the headline unemployment rate could mean either more jobs are being created and filled, or more people have given up and departed the labor market.

Still, Mitchell adds, it's better to get a decent report than a bad one.

"I'm much more concerned about the long-run trend with the economy than any one month," he says, "although it's always good to have more jobs created than fewer."