

# Weekly Economic Commentary

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### Highlights

The labor market has improved over the past three-and-a-half years, but it has not returned to “normal” where normal is defined as mid-to-late 2007, just prior to the onset of the 2007–2009 Great Recession.

The BLS’s October 2013 Employment Situation report may not provide much clarity on the job market due to data reliability and household survey calculations.

We will likely need to wait until early 2014 before we get a “distortion-free” look at the health of the labor market via the BLS’s Employment Situation report.

## Jobs: Far From “Back to Normal”

The Bureau of Labor Statistics (BLS) of the U.S. Department of Labor will release the October 2013 Employment Situation report this Friday, November 8, 2013. The report was originally slated to be released on November 1, 2013, but it was delayed due to the 16-day federal government shutdown that ended in mid-October 2013. In a press release posted on October 30, 2013, the BLS took the unusual step of detailing how the shutdown will likely impact the October employment report. That press release served notice to financial market participants and policymakers that the October jobs report would be difficult—or even impossible—to interpret. It would be equally challenging for the public to judge whether or not the labor market has returned to “normal.”

### What Are the Likely Sources of Distortion in the October Employment Report?

The government shutdown itself—and the resulting furlough of federal workers—is not likely to have a big direct impact on the nonfarm payroll job count culled from the establishment survey. The BLS notes that:

*businesses report the number of people who work or receive pay for any part of the pay period that includes the 12th of the month. Persons who work or receive pay for any part of the pay period are defined as employed. ... The legislation that ended the partial shutdown established that federal employees would be paid for the time their agencies were closed.*

This suggests that the furloughed federal workers will be counted as employed in the October 2013 employment report.

What is less certain is the indirect impact of the government shutdown on private sector employment. For example, did a private sector campground operator near the Grand Canyon have to lay off workers because the park was closed during the shutdown? Or did private sector defense contractors impacted by the shutdown have to reduce staff or staff hours, or did a restaurant near a shuttered defense plant have to reduce shifts or pay due to the shutdown? The market already has some evidence on this front, as the ADP employment report—released by the private sector payroll processing firm ADP—found that private sector employment increased by just 130,000 in October 2013, a slowdown from the 145,000 jobs added in September 2013, and the 160,000 private sector jobs created per month,



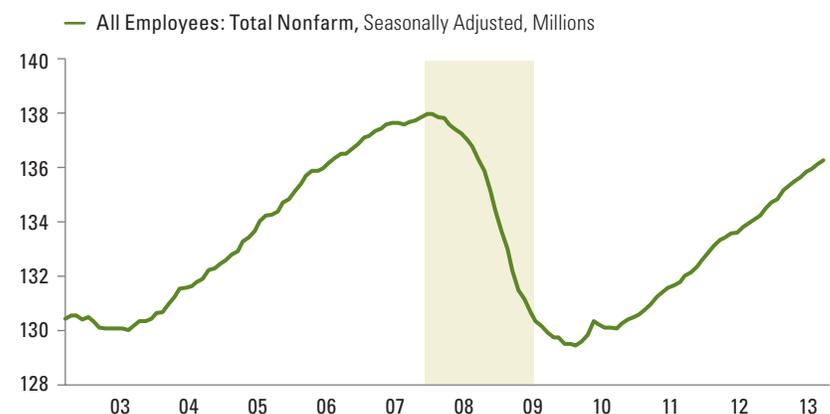
The BLS notes that workers who usually work full time, but indicate that they worked fewer than 35 hours in the reference week due to the shutdown, should be classified as employed part time for economic reasons—suggesting we will likely see a spike in part-time workers in October 2013.

on average, over the first nine months of 2013. However, because the ADP report counts workers on payrolls who are not paid, and the BLS survey does not count these same workers as employed, the ADP report likely overstated the gain in private sector employment in October 2013.

There is room for even more distortion in the other half of the Employment Situation report, the household survey, which calculates the unemployment rate and the count of full- and part-time workers. The BLS notes that the furloughed federal workers will be counted as unemployed in October 2013, and that a heretofore obscure metric in the Employment Situation report called “unemployed on temporary layoff” will capture this phenomenon in October 2013. The BLS also notes that workers who usually work full time but indicate that they had worked fewer than 35 hours in the reference week because of the shutdown should be classified as employed part time for economic reasons. This suggests that we will likely see a spike in part-time workers in October 2013.

Another source of uncertainty surrounding the October 2013 Employment Situation report will be the reliability of the data collected, which opens up the possibility of large revisions to the August, September, and October 2013 employment data in the coming months. In the establishment survey, which calculates the nonfarm payroll job count, data collection for a specific month begins as early as the 13th of that month. All BLS operations, including data collection for the establishment survey, were suspended from October 1 to October 16, 2013, and data collection didn’t begin until a few days after the shutdown ended on October 16. Data collection for the household survey, the data source for the unemployment rate calculation, began on October 20. Collection was originally scheduled to begin on October 13, but was delayed because of the shutdown. This also introduces the possibility of larger-than-usual revisions to the unemployment rate and other data collected in the household survey in the coming months.

## 1 The Economy Has Added Nearly Seven Million Jobs Since Early 2010, but Is Still Not Back to Normal



Source: Bureau of Labor Statistics, Haver Analytics 11/03/13

Shaded area indicates recession.



## What's Normal for the Labor Market?

With the market most likely to look past the October 2013 Employment Situation report, what else can market participants look to in order to gauge the health of the labor market? Fortunately, there are a myriad of metrics to measure the labor market, and all but a few are collected and reported by the private sector. While not all are available through October 2013, virtually every one of these indices tells the same story:

The labor market has improved over the past three-and-a-half years, but has not returned to “normal,” if normal is defined as mid-to-late 2007, just prior to the onset of the 2007–2009 Great Recession.

### 2 The Unemployment Rate Has Dropped From 10% to Near 7%, but Is Still Not Back to Normal

The labor market has improved over the past three-and-a-half years, but has not returned to “normal,” if normal is defined as mid-to-late 2007, just prior to the onset of the 2007–2009 Great Recession.



Source: Bureau of Labor Statistics, Haver Analytics 11/03/13

Shaded area indicates recession.

Aside from the nonfarm payroll job count and unemployment rate, we've identified at least 10 other indicators that can help us monitor the health of the labor market, but there are many others. We have discussed many of these in prior *Weekly Economic Commentaries*, and some we have not written about, but still monitor closely on a regular basis to inform our view of the health of the labor market and economy. While not exhaustive of all the labor market indicators available, the list includes:

- Job Openings and Labor Turnover Survey (JOLTS) quit rates
- National Federation of Business—difficulty in finding new workers
- National Federation of Business—Quality of Labor Index
- Office Vacancy Index
- Jobs easy/hard to get
- Gallup U.S. Job Creation Index



- Challenger layoff announcements
- Weekly initial claims for unemployment insurance
- ADP employment report
- Manpower Inc. Employment Index
- Rasmussen Employment Indices
- SHRM/Rutgers Recruiting Difficulty Index
- Intuit Small Business Employment Index
- American Staffing Index

Unfortunately, at a time when Federal Reserve (Fed) officials are mulling over a potential tapering of quantitative easing (QE), Congress is debating how to address our short-term and long-term fiscal needs, and market participants are attempting to gauge the impact of the recent government shutdown on the economy, the October Employment Situation report from the BLS may not provide much clarity. Indeed, it may not be until early 2014 before we get a “distortion-free” look at the health of the labor market via the BLS’s Employment Situation report. Until then, the public, market participants, and policymakers will have to rely on other metrics on the health of the labor market. Those metrics will likely continue to say that the rather tepid economic recovery that has been underway since mid-2009 has led, not surprisingly, to a tepid recovery in the labor market, and that the labor market is still a long way from being back to “normal.” ■



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The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Stock investing involves risk including loss of principal.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Quantitative easing is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

The Federal Open Market Committee (FOMC), a committee within the Federal Reserve System, is charged under the United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of U.S. Treasury securities).

The Bureau Of Labor Statistics is a government agency that produces economic data that reflects the state of the U.S. economy. This data includes the Consumer Price Index, the unemployment rate and the Producer Price Index.

This research material has been prepared by LPL Financial.

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