

National Economic Trends



Payroll Jobs and GDP

“The Employment Situation,” normally reported by the Bureau of Labor Statistics (BLS) on the first Friday of each month, is one of the most important data releases. It contains results from two surveys, the Current Population Survey (household survey) and Current Employment Statistics (establishment survey). When this report is released, however, why do the headlines trumpet news about the unemployment rate, while the financial markets move in response to payroll jobs?

The household survey provides the information used to calculate the unemployment rate. There are now about 100 million households in the United States. The Labor Department surveys about 50,000 each month, 1/20th of one percent of the total. The establishment survey gathers information about the number of people on payrolls at about 390,000 business establishments, which account for about 45 percent of total payroll employment. A single firm like General Motors has establishments in many locations. Because the establishment survey is much larger than the household survey, it gives a more reliable month-to-month reading on jobs in the economy (see the comparison of jobs data in the top panel on page 10).

The general public—and, therefore, the news media—tends to emphasize the household survey because it contains information about unemployment, an important gauge of the nation’s economic health. The unemployment statistics are, in a sense, a final product. Some legislation defines economic objectives in terms of unemployment. Popular measures such as the “misery index” sum up the unemployment rate and the inflation rate.

Economic forecasters and financial market participants usually are more interested in news about payroll employment than they are in the unemployment rate. There are several reasons for this. First, as noted above, the establishment survey has a larger sample

size—and therefore, greater accuracy—than the household survey. Second, the unemployment rate tends to lag in the business cycle, so there is little or no new information in the unemployment rate about future economic activity. Third, because payroll employment is a major input to the production process, it is conceptually closer to a measure of economic output. This can be seen in the chart, which plots growth in payroll employment and real Gross Domestic Product (GDP). As the chart shows, there is a close connection between fluctuations in jobs and GDP.

Finally, the payroll employment statistics are coincident with GDP, but they are reported much earlier. On April 3, BLS reported the labor data for March. Although the March number was down slightly, payroll employment for the entire first quarter rose at an annual rate of 3.1 percent over the fourth quarter of 1997. This rapid employment growth has led forecasters to raise their projections for GDP. For example, in January the Blue Chip survey of economic forecasters reported a consensus real GDP growth rate for the first quarter of 2.4 percent. By April, they had raised the forecast to 3 percent.

—William T. Gavin

Real GDP and Payroll Jobs
Quarterly Data, Percent Change from a Year Ago

