ECONOMIC UPDATE

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August Employment Report: A Second Look At The Household Survey

Our first look at the August employment report counted the many ways in which the report was bad – a weak headline with even weaker details. Still, there were some elements of the August data, particularly from the household survey, that did not sit well with us. For instance, most accounts we have read attribute the sharp decline in the labor force to frustrated job seekers giving up and simply leaving the labor force which, given the frustratingly slow pace of the current recovery and the ongoing problem of long-term unemployment, seems a plausible if not obvious explanation. Sometimes, though, the popular explanation is not the correct explanation. Not that we did much better, as we mainly attributed the sharp decline in the labor force to the volatile nature of the household survey and moved on to the payroll survey.

Our bad. Particularly as we always point out that the real story behind any data release is found beneath the headlines in the details, sometimes in the details of the details. Along those lines, a closer look at the August household data point to two main drivers of the declines in both the labor force and the level of household employment – young adults leaving the labor force, earlier and in larger numbers, than normal, and the drought that has gripped much of the U.S. over recent months.

First, the young adults, specifically those aged 16-to-24 (note that the designation "adult" comes from the BLS, not necessarily us). As seen in the first chart below, in August the number of young adults in the labor force fell by 426,000 on a seasonally adjusted basis, more than accounting for the entire drop in the total labor force. This decline was heavily concentrated in those aged 16-to-20.

A typical year will see a surge in the numbers of young adults in the labor force and employed in June and July, an inflow which tends to be reversed over the August-September period. As these flows occur at roughly the same time each year, the seasonal adjustment factors typically do a good job of accounting for them and, as such, the seasonally adjusted data that are reported and focused on in media accounts look relatively smooth.

Since the Great Recession, however, these normal seasonal flows have been badly distorted. For instance, recent years have seen fewer young people enter the labor force in the June-July period, and those that have entered have tended to leave earlier than normal, i.e., August rather than September. This could reflect one of two things – frustration over the inability to find a job or earlier starts to the school year. While last year these flows began to look more normal, this year they were significantly out of tune, as seen in the second chart below.

On a not seasonally adjusted basis, over a million people aged 16-to-20 left the labor force in August, compared to 611,000 in 2011, and far ahead of the average number either historically or just over the past five years. The same is true of the number of these younger adults employed – the decline this year was far larger than typical, even in the wake of the Great Recession. In short, the size of these outflows overwhelmed the seasonal adjustment factors, thus contributing to the reported declines in the adjusted data. Additionally, many of these jobs were part-time jobs, which accounts for the reported decline in seasonally adjusted part-time employment. Note that these factors are behind the reported drop in the U6 measure of unemployment/underemployment.

Next, recall that in contrast to the payroll survey, the household survey includes those self-employed as well as agricultural workers. Combing through the household data for August shows declines amongst both categories, as well as those self-employed in the agricultural sector. This is a reflection of the impact of the severe drought that has weighed on overall household employment over recent months.

The outflow of young adults is more a statistical issue – albeit one that at least in part reflects poor underlying fundamentals – that will be partly reversed in the September data, when these outflows will be smaller than is normal and, as such, overly corrected for by seasonal adjustment. The impact of the drought is of more concern and will continue to linger over coming months. In both cases, however, these are factors that deserved more attention than they got last Friday, from us and others.

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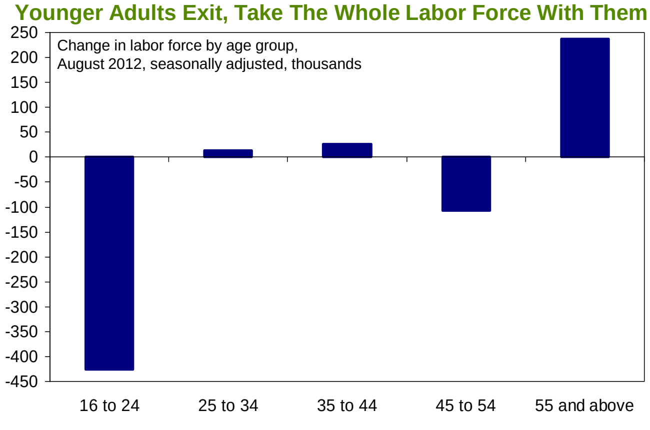
Younger Adults Exit, Take The Whole Labor Force With Them



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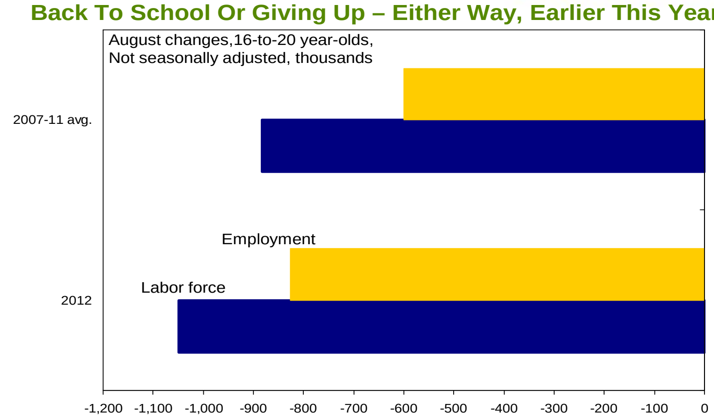
Back To School Or Giving Up – Either Way, Earlier This Year



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