

October 2, 2003

The Liscio Report

On the Economy

For John Liscio 1949-2000

Up to zero?

Our survey of state withholding tax receipts rose a bit in September, to 57% from August's 50%. The states reporting positive growth year over year held steady at 64%, just about flat with August's level of 62%. The three-month moving averages, graphed on p. 2, rose smartly.

All in all, September's landscape is looking remarkably like August's: The states seeing continuing positive growth generally fall into two categories, those with large sectors benefiting from federal contracts, and those that were exceptionally weak in the last two years. There is persistent weakness in the Midwest, with several states slipping to flat from modest growth and some downright nasty declines. The West Coast is faring quite well, although one of the largest states is concerned that growth might be a bit weaker than receipts indicate because of special payment requirements that may, unfortunately for the budget, lead to refunds in coming months. Other western states remain encouraged by several months of actual growth in their withholding collections.

- ***relief at steadiness***
- ***manufacturing continues to sag***
- ***tale of two surveys***
- ***benchmark drama***

There is little change in the South and Northeast.

While states may be understandably relieved that withholding receipts are holding steady, this flatness is exactly the problem with the current economy: the lack of any sign of improvement in employment. All manner of anecdotal evidence suggests that employment has yet to turn the corner and, no matter how you slice or spin it, a bona fide recovery cannot sustain itself unless people can find work. For states to be saying the good news is that they believe they won't have to cut their estimates yet again is not encouraging. Another unnerving bit of news from state contacts

is that initial unemployment claims are persistently high, and at some states are climbing again in the latest weeks.

The weakness in the Midwest is of real concern, and is surely tied to the continuing loss of manufacturing jobs. We may have grown to expect the monthly falls (after all, manufacturing has been dropping jobs for three years now), but that

fidarsi é bene; non fidarsi é meglio

The Liscio Report - 2

doesn't mean these losses aren't undermining the struggling consumer-led recovery. And that manufacturing employment by all measures continues to sink underscores the developing scenario in which US manufacturing jobs have moved permanently out of the country.

Data problems?

A number of our state contacts have been wondering whether the BLS's new seasonal adjustment techniques may have significant quirks; they're seeing too many discrepancies between the adjusted and raw data. But second-guessing the seasonals is a risky business, and we want to wait a few months before going there.

There's been lots of talk about how the payroll survey may have been underestimating the strength in employment, just as it did in the early 1990s. One piece of evidence that's repeatedly used to support the case is the strength in household employment. We'd thought that Alan Krueger's article in the September 18 *New York Times* was

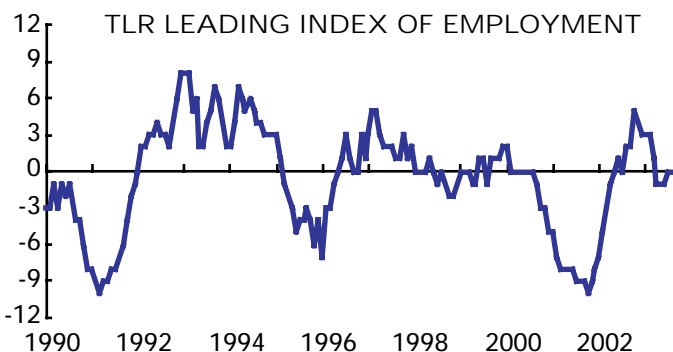
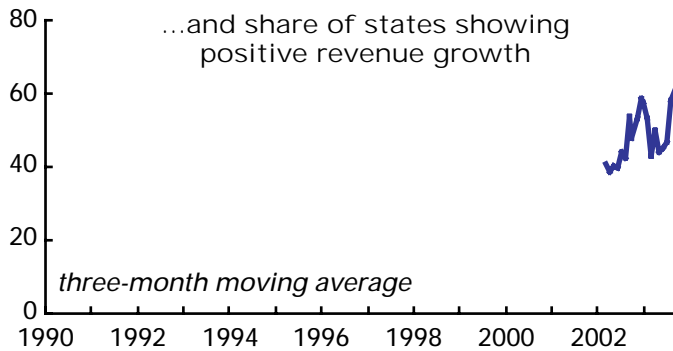
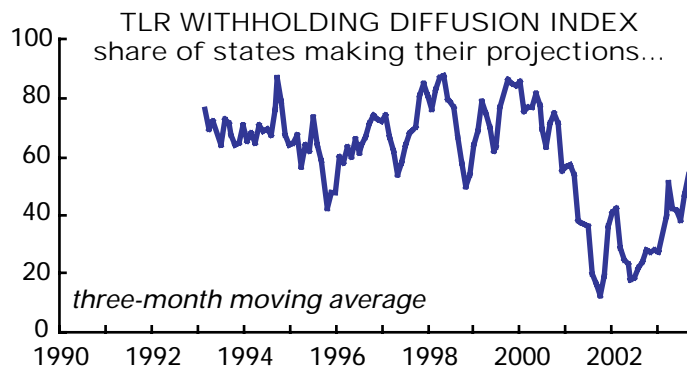
the definitive word on the issue. Krueger showed that the combination of January's one-time upward adjustment of 575,000 (a

statistical reweighting reflecting the results of the 2000 Census) and coverage differences (the household number most analysts point to includes the self-employed, who may not be employed except in name, and agricultural workers, who are excluded from the payroll count) explained almost all the discrepancy between the two surveys. But Krueger's word wasn't the last, and some economists continue to look to the household survey for comfort.

But other data series offer no support for the hidden strength thesis. Graphed on p. 5 are three important measures of

the job market during the last recession/recovery period and the recent one. The series are initial claims, expressed as a percentage of total employment; the Conference Board's help wanted index; and the jobs hard to get component of the Board's confidence survey. All three

three leading indicators of employment



The Liscio Report - 3

charts begin a year before the official onset of recession and run for thirty months past the peak—running, that is, from 7/89–1/93 and 3/00–9/03. (Since both recessions were eight months long, the troughs on the two graphs also coincide.) Note that in all three cases, the performance since the end of the recent recession has been considerably worse than that of the 1992–93 period, when the job market was quietly accelerating—an acceleration that the establishment survey was missing. This time, rather than improving, claims are flat, and the help wanted index and the jobs hard to get series have deteriorated. Unfortunately, our withholding index only begins in

January 1993, so we can't include it in the charts, but it averaged 70% in 1993, compared with 45% this year. So aside from the household survey, there's little evidence for hidden strength in the job market.

Friday's release will include the BLS's estimate of the size of the benchmark revision—the number of jobs that will be added to or subtracted from the March 2003 total, based on a complete review of the so-called ES-202 state unemployment insurance records. (The monthly survey covers about a third of employers; the benchmark revision is based on near-100% coverage.) Those revisions were large in the early 1990s, when the monthly estimates were missing the recovery, mainly because of startup firms that weren't included in the survey universe. After that, the BLS changed its techniques to try to draw a better bead on the startups. The size of the forthcoming

benchmark revision will be a good measure of how well the new techniques are working. If it's large, the hidden strength argument will gain some force; if it's small, it should be buried.

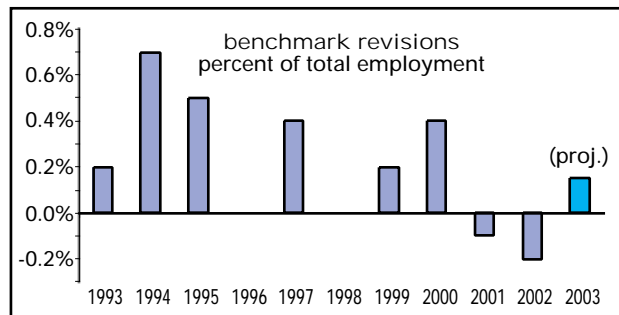
We're expecting it to be small, and not only for the reasons we've just outlined. Last Tuesday, the BLS unleashed a whole new set of data on the world. The monthly employment numbers are net figures, the difference between job gains and job losses. The new series, which are based on the ES-202 records, report gross gains and gross losses as well as establishment births and deaths. These figures

suggest an upward revision to the March benchmark of 200,000, which, as the nearby chart shows, is quite modest by the standards of the last decade. Such a revision would not change the "job loss" recovery

story very much; let's hope we're wrong. (There were no revisions in 1996 and 1998.)

Friday's numbers

There are a number of reasons to suspect that the August payroll figure was dragged down by some unseen quirk. Our survey of withholding receipts for August doesn't support a drop as steep as -93,000. August was well below trend, so some bounceback is likely. It's also possible that the blackout had some effect. (The BLS has rerun their series excising the blackout areas and saw no statistical difference. But, since one-third of the population of the fifty largest metropolitan areas was affected by the blackout, it



The Liscio Report - 4

may be that there's an effect none of us has identified.) We believe that the employment trend remains discouragingly flat to down. But we might get a slight bounce up to zero in September.

We expect Friday's payroll report to show no significant improvement in employment. There's a danger that the number will be skewed to the upside by some bounceback from August, but the internals should show that's all it is. Our model suggests a decline of 30,000 in manufacturing, and all indications are that the public sector continues to shed workers. Private services will have to work pretty hard to offset those negatives. The BLS believes that they captured weakness in hours worked caused by the blackout, so the workweek should bounce back to 33.7, with the danger to an unusual two-tenths increase to 33.8. Hourly earnings should rise 0.2, but strength here could indicate weakness in lower-paid jobs more than overall strength in wages. We're looking for no change in the unemployment rate, especially as it will get no boost from rounding, though a rise to 6.2% wouldn't be a shocker.

by **Philippa Dunne and Doug Henwood**

**comparing two
recessions/recoveries**



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The Liscio Report - 5

comparing two recoveries

