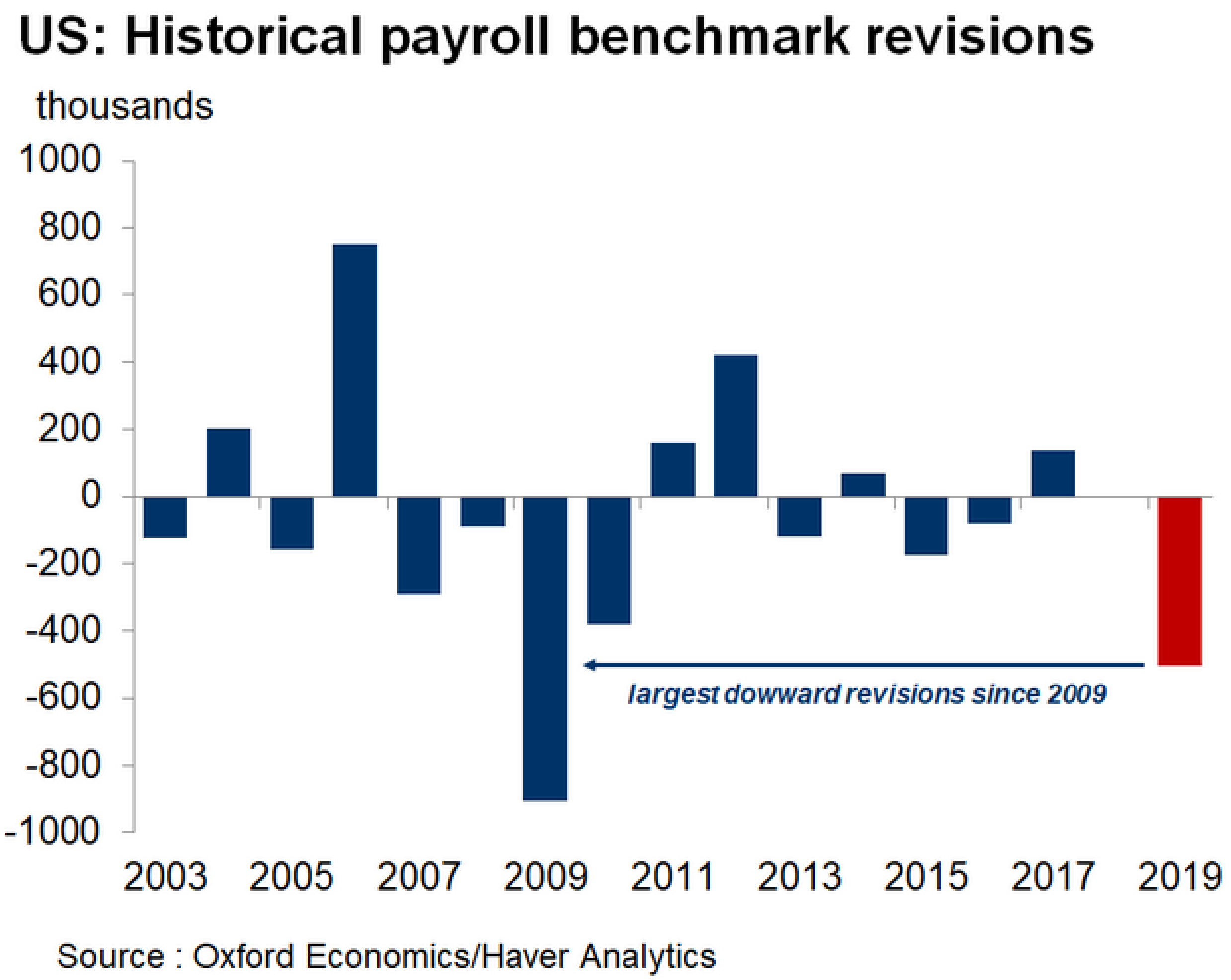
Quick Take: Revising The Data

> *?The United States economy is an extremely complex and dynamic system. Trying to measure the level and pace of economic growth, employment, inflation, and productivity are very difficult, if not impossible tasks. The various government and private agencies bearing the responsibility for such measurement do their best in what must be acknowledged as a highly imperfect effort. Initial readings are always revised, sometimes heavily, especially at key turning points in the economy.?&#2013266080; -*
> The Fed Body Count (LINK)

In the preliminary annual employment benchmark revision based on state unemployment insurance records, the Labor Department recently revised job gains recorded in the period from April 2018 through March 2019 down by 501,000. As shown below, that is the largest downward revision in the past ten years. The unusually large negative adjustment means that job growth averaged only 170,000 per month versus the previous estimate of 210,000 per month for the period.



Two of the biggest revisions came in the bellwether industries of leisure & hospitality and retail, down 175,000 and 146,000 respectively. Professional and business services employment was revised lower by 163,000. The economy needs to produce 150,000- 200,000 jobs per month in order to keep the unemployment rate from rising. What this report from the Bureau of Labor Services (BLS) suggests is that employment was significantly weaker than believed through March 2019 and the unemployment rate may not be as good as is generally believed.

That downward revision is surprising given the tax cuts, large boost to fiscal spending, and solid GDP growth throughout 2018. Unfortunately, it appears that while the tax cuts helped corporate bottom lines, few companies used their windfall towards endeavors that generate economic activity. As we have harped on in the past, stock buybacks and larger dividends have little effect on economic growth.

These labor market revisions argue that the momentum in the economy is far weaker than previously believed.

The numbers in themselves are disappointing but more importantly and as described in previous articles, such revisions tend to reveal themselves points in time when the economy is at critical turning points. For investors, economic uncertainty may be further cause for defensive posturing.

The graph below shows the cyclical nature of the unemployment rate. Importantly to today, the rate tends to level out prior to rising into a recession. Today?s unemployment rate is showing signs of leveling off but has yet to increase. These revisions coupled with slowing growth makes employment a key indicator to follow.