

AGRON NICAJ
US Economist

Economic Research Office

T: +1 (646) 357-6180
E: anicaj@us.mufg.jp

MUFG Bank, Ltd.
A member of MUFG, a global financial group

Some mixed signals on employment growth

15 December 2022

The Bureau of Labor Statistics (BLS) released Q2 2022 employment data from the Quarterly Census of Employment and Wages (QCEW) program, and results are markedly different from the monthly payrolls derived from the Current Employment Statistics (CES) survey. In fact, national employment from QCEW showed that the US lost jobs in June 2022, which is more consistent with the contraction in real GDP than CES estimates. Differences in program structure can explain some of the discrepancies, but the CES survey may have overstated employment gains in the summer of 2022.

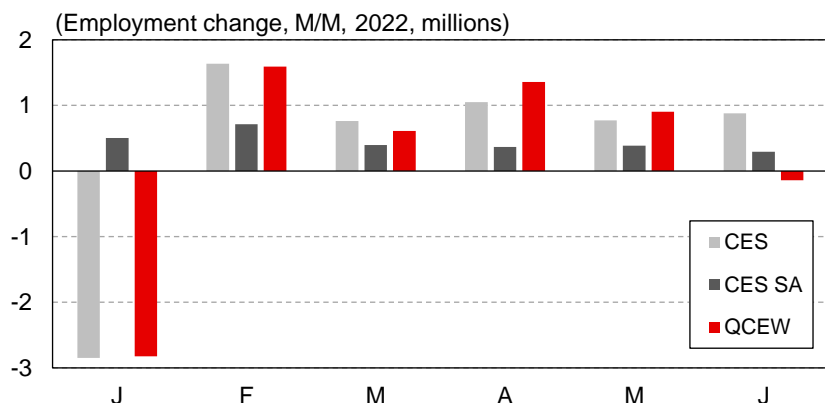
Similar universes but different results

Differences in monthly employment changes between household survey data from the Current Population Survey (CPS) and establishment survey payrolls from the Current Employment Statistics (CES) have been highlighted throughout 2022. The two sources, however, have fundamentally different universes through which data is captured and different methodologies for calculating employment. Because of this, household surveys are more suited for capturing the unemployment rate while establishment surveys are better for measuring overall employment levels.

The real mixed signals are coming from the latest employment data from the Quarterly Census of Employment and Wages (QCEW) program. Though data from QCEW is released with a significant lag (the Q2 2022 report was just released in December 2022), the program most comprehensively measures employment in the United States.

The QCEW program counts employment based on what is reported by all business covered under the Unemployment Insurance system. The CES survey draws on a sample of establishments from QCEW to estimate monthly payrolls. Historically, the series align well given the similar data source. But for June 2022, QCEW reported a loss of 142,077 jobs non-seasonally adjusted, compared to an increase of 879,000 jobs non-seasonally adjusted (293,000 seasonally adjusted) in the CES survey.

QCEW DATA SHOWED NEGATIVE EMPLOYMENT GROWTH IN JUNE



Source: BLS, MUFG Bank Economic Research

The QCEW employment change would put the US labor market at or near recession territory in June 2022. This would be more consistent with the contraction in real GDP in Q2 compared to CES estimates, but still inconsistent with the contraction in real GDP in Q1 given strong growth in employment from both QCEW and CES.

There are many unknowns in the June discrepancy, but differences in the structure between the two programs can account for some of the difference. Employment in QCEW is a count of jobs and is not subject to estimation or sampling errors. However, not all jobs are covered under the Unemployment Insurance system, which allows the CES estimates to account for “uncounted” jobs. Notably, QCEW excludes proprietors (i.e., business owners), the unincorporated self-employed, certain farm and domestic workers, and railroad workers covered by the railroad unemployment insurance system. While this difference is significant, it does not explain the full discrepancy in June 2022.

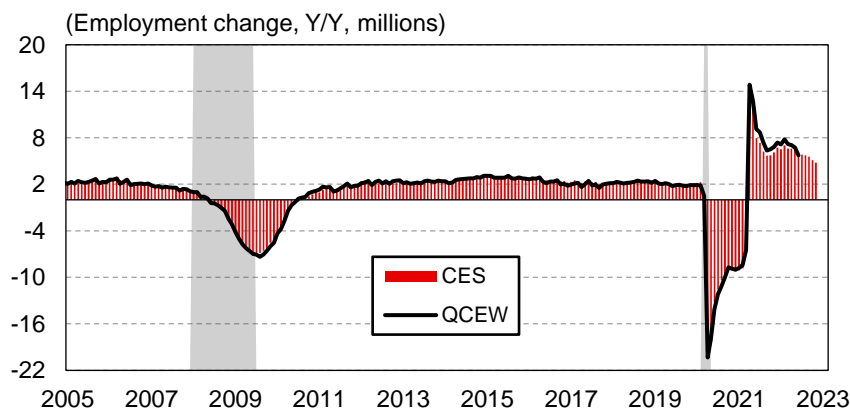
Seasonality could be an issue

The QCEW program does not publish seasonally adjusted series at a monthly level but applying common seasonal factors would see June’s employment fall even further, as seasonal factors fall below 1.0 during periods of high seasonal employment.

Seasonal adjustments rely on historical data to calculate factors that smooth out the peaks and troughs of data driven by seasonality. The problem is, consumption in the post-COVID lockdown economy has created volatility that may not follow historical seasonal patterns. Lockdowns, labor shortages, and shifting consumption between goods and services can disrupt seasonal patterns making monthly and quarterly employment changes harder to calculate.

Yearly changes, on the other hand, are much less volatile with year-over-year growth presenting a very strong labor market both in QCEW and CES. A historically low unemployment rate, along with historically high job openings, hires, and quits offer additional compelling evidence that the labor market remained strong in Q2 and continues to be strong in Q4. Short-term fluctuations in data are often noisy, but the medium- to long-term view presents the labor market as very strong relative to history in both the QCEW program and CES survey.

YEARLY EMPLOYMENT GROWTH IS STRONG BOTH IN QCEW AND CES



Source: BLS, MUFG Bank Economic Research

The QCEW program is considered to be the most reliable source of employment information in the US, which makes the latest results especially difficult to interpret, even considering noisy monthly changes. Conflicting data suggest that the labor market likely did not encounter a recession in June despite what QCEW shows, but it is possible that the CES survey overstated employment gains over the summer.

Analyst Certification

The views expressed in this report solely reflect the personal views of Agron Nicaï, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and such views may not necessarily reflect the thoughts and opinions of MUFG Bank, Ltd. and its affiliates or management team. No part of such analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

Disclaimers

The information and views contained herein are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject MUFG Bank, Ltd. (collectively with its various offices and affiliates, "MUFG Bank") to any registration requirement within such jurisdiction or country. The information and views contained herein are provided for general informational purposes only, are subject to change, and are not intended to be, nor should be used, or considered, as an offer, or the solicitation of an offer, to sell or to buy or to subscribe to or for securities or any other financial instruments, and do not constitute specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of MUFG or its management team. Neither this nor any other communication prepared by MUFG Bank should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective and it does not take into account the specific investment objectives, financial situation, or the particular needs of any specific person who may receive this information. Any information relating to performance contained herein is illustrative and no assurance is given that any indicative returns, performance or results, whether historical or hypothetical, will be achieved. Before entering into any particular transaction, you should consult an independent financial, legal, accounting, tax, or other advisor as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting, or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFG Bank believes that any relevant factual statements contained herein, and any assumptions on which such statements are based, are in each case accurate, neither the authors nor MUFG have independently verified its accuracy, and such information may be incomplete or condensed. The information is provided "AS IS". The authors and MUFG do not warrant the accuracy of the materials provided herein, either expressly or implied, for any particular purpose and expressly disclaims any warranties of merchantability or fitness for a particular purpose. The authors and MUFG cannot and do not guarantee the accuracy, validity, timeliness or completeness of any information or data made available to you for any particular purpose. MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information and views contained herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention.

© 2022, MUFG Bank, Ltd. All Rights Reserved.

About Mitsubishi UFJ Financial Group, Inc.'s U.S. Operations including MUFG Americas Holdings Corporation

The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's leading financial groups, has total assets of \$332.4 billion at March 31, 2022. As part of that total, MUFG Americas Holdings Corporation (MUAH), a financial holding company, bank holding company, and intermediate holding company, has total assets of \$159.2 billion at March 31, 2022. MUAH's main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc. MUFG Union Bank, N.A. provides a wide range of financial services to consumers, small businesses, middle-market companies, and major corporations. As of March 31, 2022, MUFG Union Bank, N.A. operated 297 branches, consisting primarily of retail banking branches in the West Coast states. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, domestic and foreign debt and equities securities transactions, private placements, collateralized financings, and securities borrowing and lending transactions. MUAH is owned by MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. MUFG Bank, Ltd., a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc., has offices in Argentina, Brazil, Chile, Colombia, Peru, Mexico, and Canada. Visit www.unionbank.com or www.mufgamericas.com for more information.

About MUFG

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with approximately 2,500 locations in more than 50 countries. The Group has about 170,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges. For more information, visit <https://www.mufg.jp/english>.