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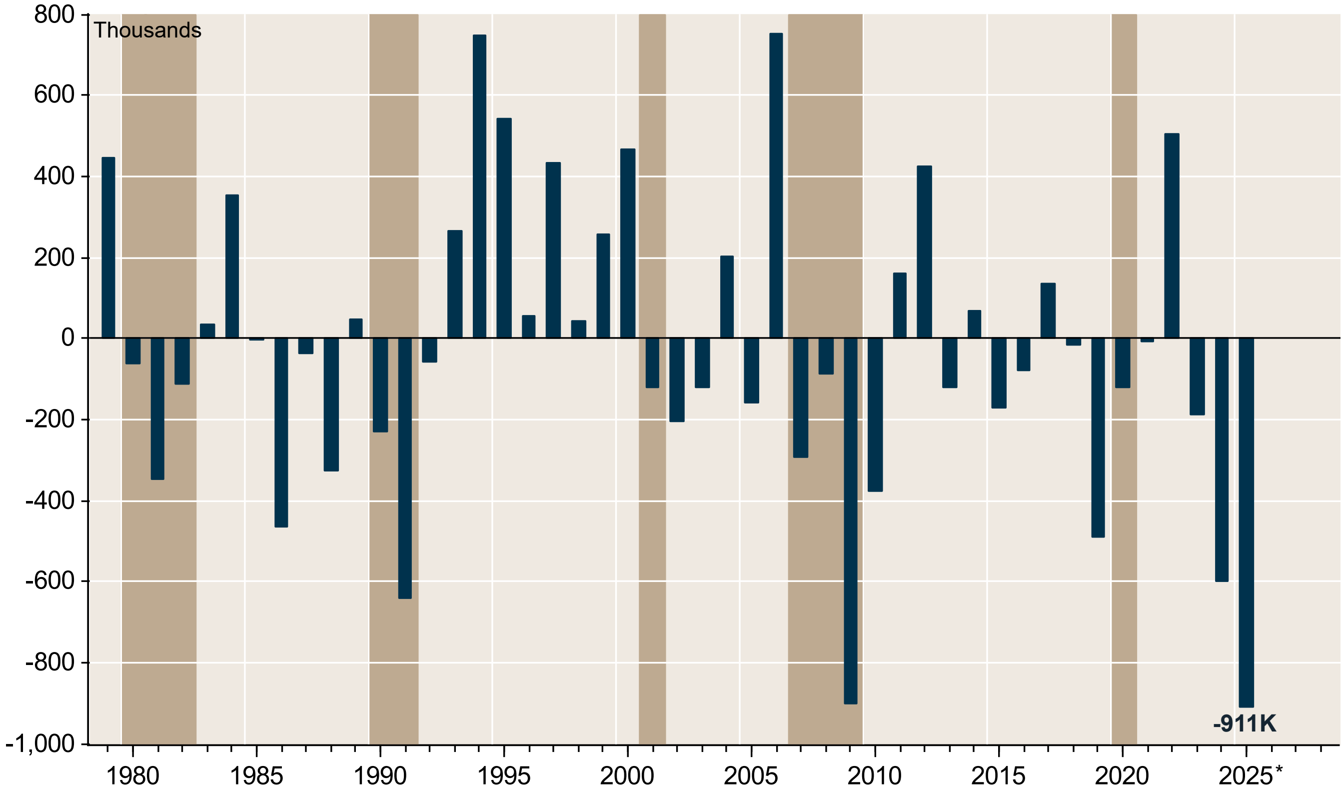
U.S. Watch

By Jocelyn Paquet

The nonfarm payroll estimate from the establishment survey is one of the most closely followed pieces of economic news each month because it provides insight into the vitality of the job market. Attention to the report has increased in recent months, with markets scrutinizing the data for signs of weakness that could lead to Federal Reserve rate cuts. However, amid the monthly frenzy, it's easy to overlook the fact that the preliminary estimate of payrolls, released on the first Friday of each month, is highly imprecise. This is because it's based on a survey of only around 120,000 companies, which fails to accurately reflect net business creation. To compensate for these methodological weaknesses, once a year, the Bureau of Labor Statistics benchmarks the level of nonfarm payrolls to a much more comprehensive employment series called the Quarterly Census of Employment and Wages (QCEW). The latter derives its job estimate not from a survey, but from tax records and cover roughly 95% of businesses in the United States. Today, the BLS published the preliminary estimate of the revision to nonfarm payrolls that will result from this process for the period from April 2024 to March 2025. It showed that, for this 12-month interval, job creation as reported by the establishment survey was overestimated by as much as 911K or roughly 0.6% of total employment. As today's Hot Chart shows, this downward revision would be the largest recorded since the late 1970s if confirmed in February's final print. While job creation remained relatively healthy during this period, even considering this revision, it was significantly lower than initially reported (71K jobs per month instead of 147K). True, this revision only applies to months far in the past, but it adds to the growing list of indicators suggesting a deterioration in labour market conditions, such as the JOLTS report and consumer confidence surveys, and should pave the way for interest rate cuts by the Federal Reserve between now and the end of the year. That said, we don't believe these benchmark revisions or other labour market data justify a larger cut (i.e., a 50-bp cut) at next week's FOMC meeting, especially since inflation remains comfortably above the central bank's target. Additionally, in our opinion, the current unemployment rate of 4.3% is not high enough to justify an aggressive pace of easing.

U.S.: Job creation much less robust than initially reported

Annual benchmark revisions to nonfarm payrolls



*Based on the preliminary benchmark revision published today. Final benchmark revisions (published in February) were used for previous years

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