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Ensuring the Quality of US Statistics

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What's At Stake: A Market Perspective

- Nonfarm payrolls – most market moving economic indicator
- From real time to revisions – 1 month to 23 months lag
- Private and social costs:
    1. Wall Street: Treasury yields reacts to real time data not revised data
    2. Financial Shock: Tightening financial conditions not due to economic fundamentals but due to data quality
    3. Monetary Policy: Policymakers delay appropriate response

Nonfarm Payrolls – Most Market Moving Indicator

Shown is reaction to the January 2024 payrolls report, printed 353k vs. 185k expected (168k surprise)

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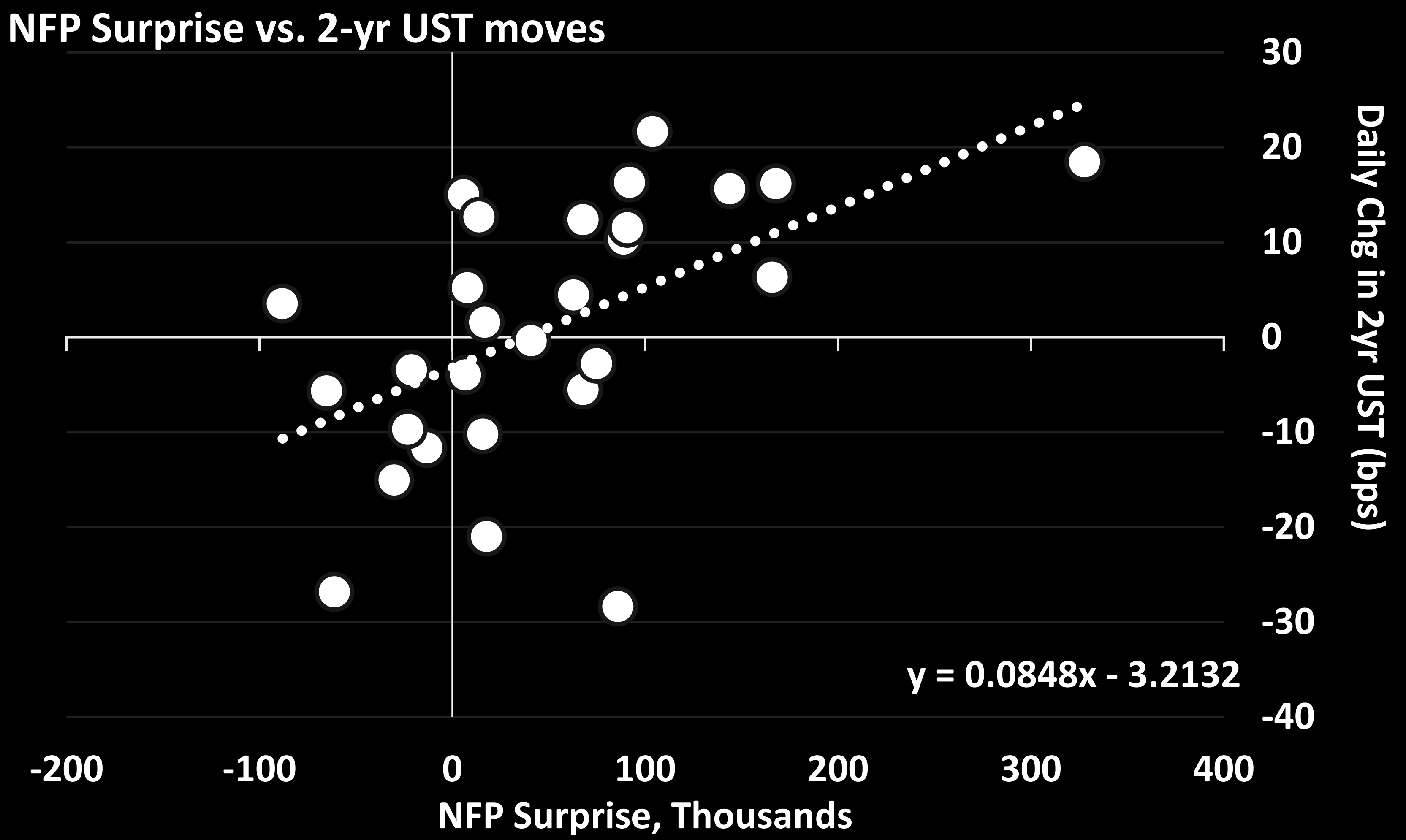
Impact of NFP Surprises

- Average monthly surprise (printed – consensus expectations)
  - 2022: +79k, stdev = 8k
  - 2023: +65k, stdev = 104k
  - 2024: +30k, stdev = 14k

- On average:
  100k surprise in NFP = 5.3 bps move in 2-year UST



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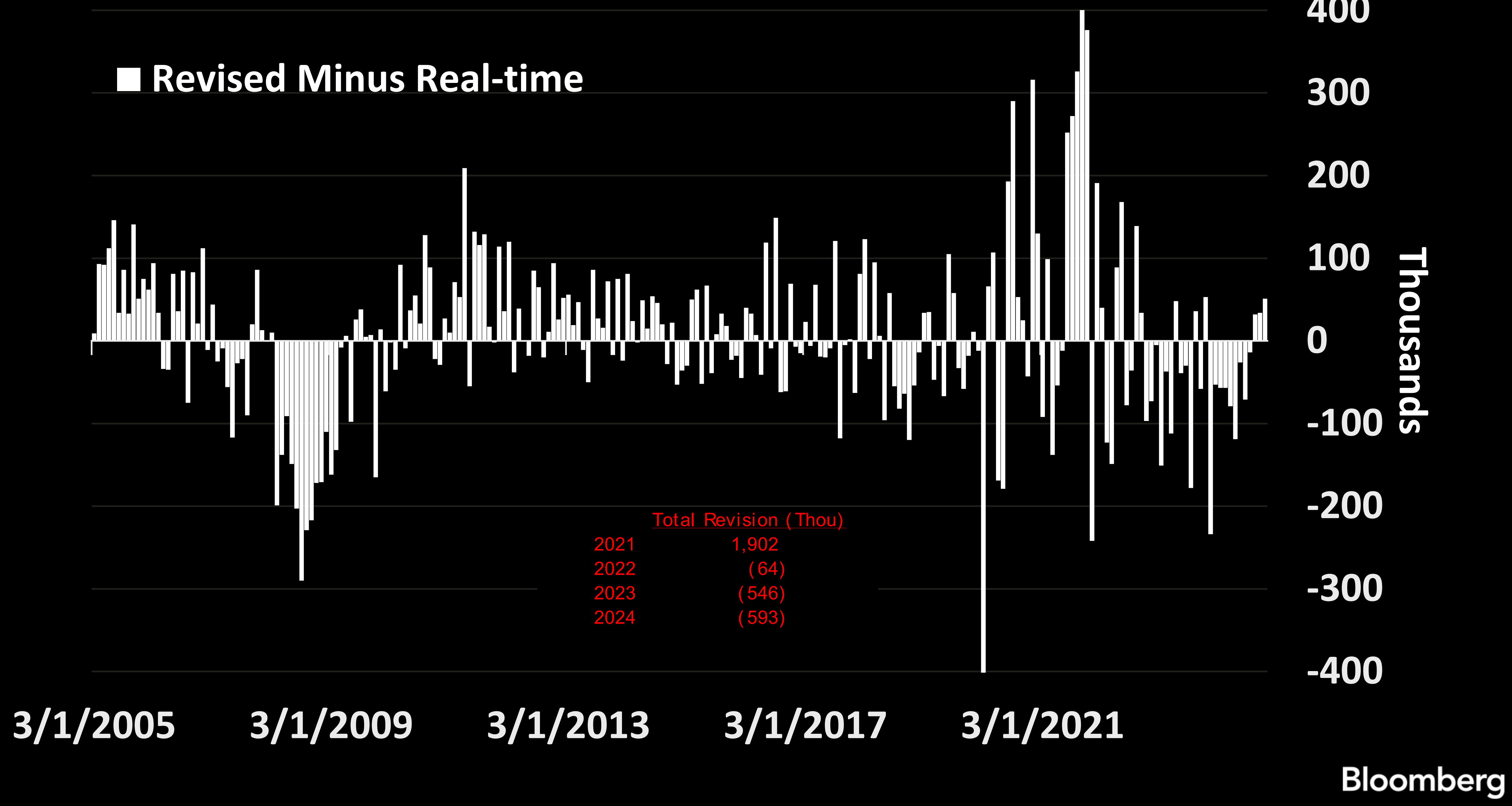
For Wall Street, A Lot At Stake

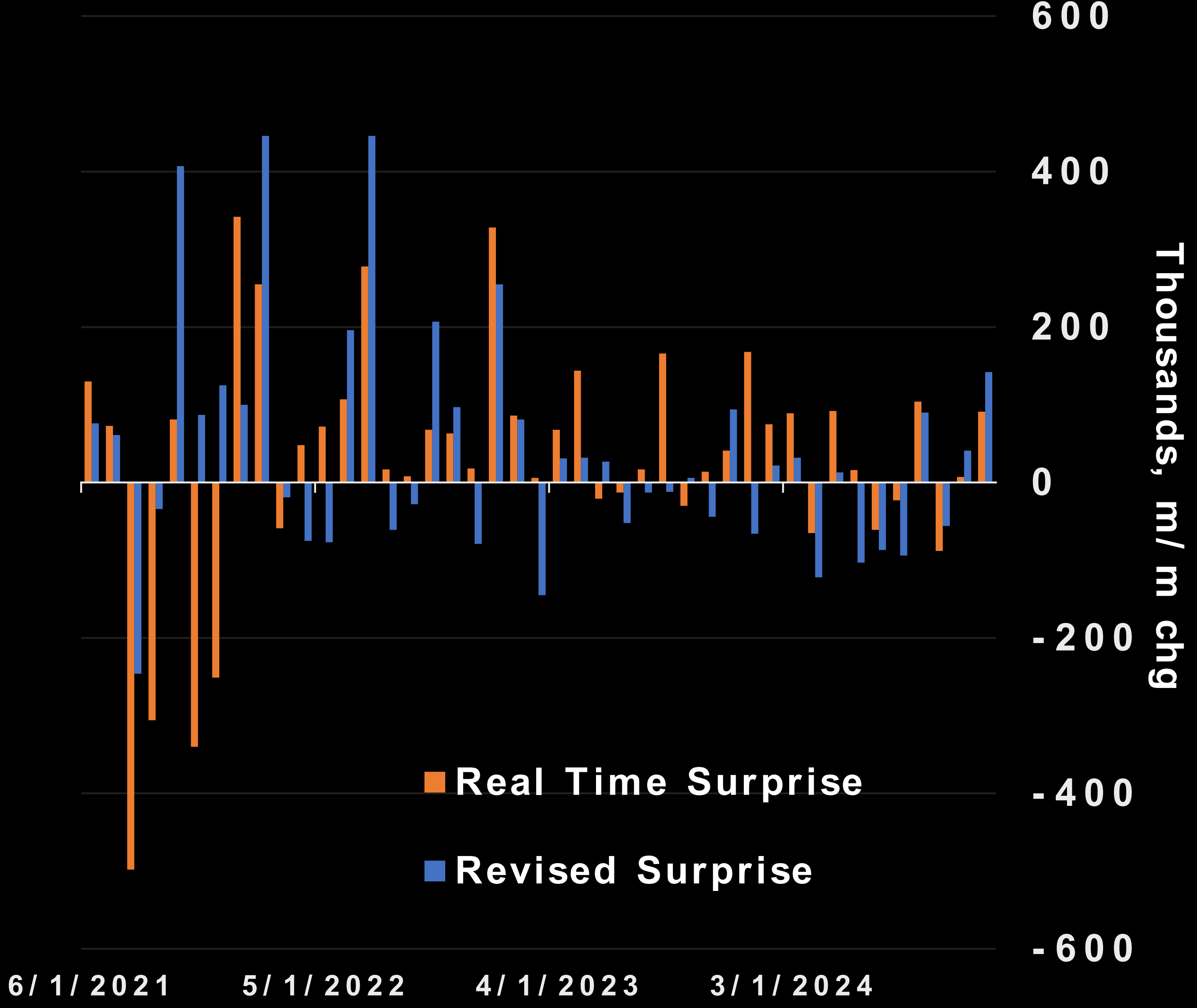
- Bonds:
  - Assume $2 trillion Wall Street direct exposure to 2-year Treasury market.
  - A 10 bps yield increase reduces the price by 0.19% = $3.8 billion losses on market value of the bonds.
  - Losses amplified via leverage and derivatives:
    - 5-10X leverage on $500 billion, losses on the effective $2.5 trillion exposure = $4.75 billion.
  - Total loss = $7.6 billion

- Broader market impact: stocks, mortgages, corporate bonds. 1% drop in equities = $450 billion market value decline.

Nonfarm Payrolls Revisions



Was the initial surprise justified ex post?



Surprises = Actual – Expectations

Mean

	Real Time	Revised
2021	-132	27
2022	101	96
2023	67	22
2024	34	-16

Median

	Real Time	Revised
2021	-86	82
2022	66	39
2023	29	17
2024	46	-22

Standard Deviation

	Real Time	Revised
2021	301	287
2022	123	193
2023	103	97
2024	81	84

Sum

	Real Time	Revised
2021	-1582	320
2022	1217	1153
2023	806	260
2024	405	-188

What Could Have Been? Critical Periods

- August to December 2021 – Should Fed accelerate timetable of policy withdrawal?
  - Real time, NFP disappointed by total of 1,314k
  - Post revisions, exceed expectations 339k
- Jan to June 2024 – Should Fed cut interest rates?
  - Real time, NFP exceeded expectations by total of 375k in 1H 2024.
  - Post revisions (partially not benchmarked), disappointed by 224k. (Jan 2024: 353k vs. 119k)

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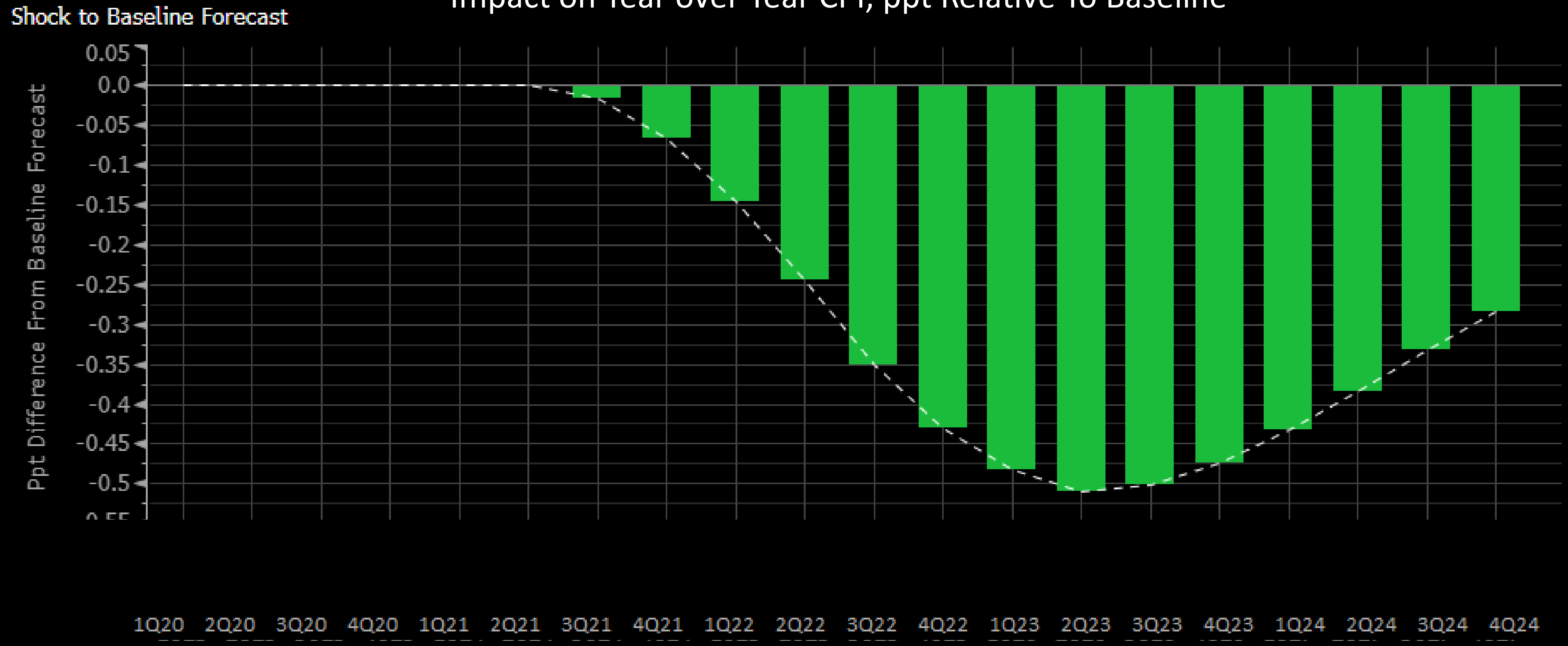
What Could Have Been?

- 2021 Fall – 90 bps higher in 2-year UST yields on “true” surprise (1.7 million swing)

Impact on Year over Year CPI, ppt Relative To Baseline



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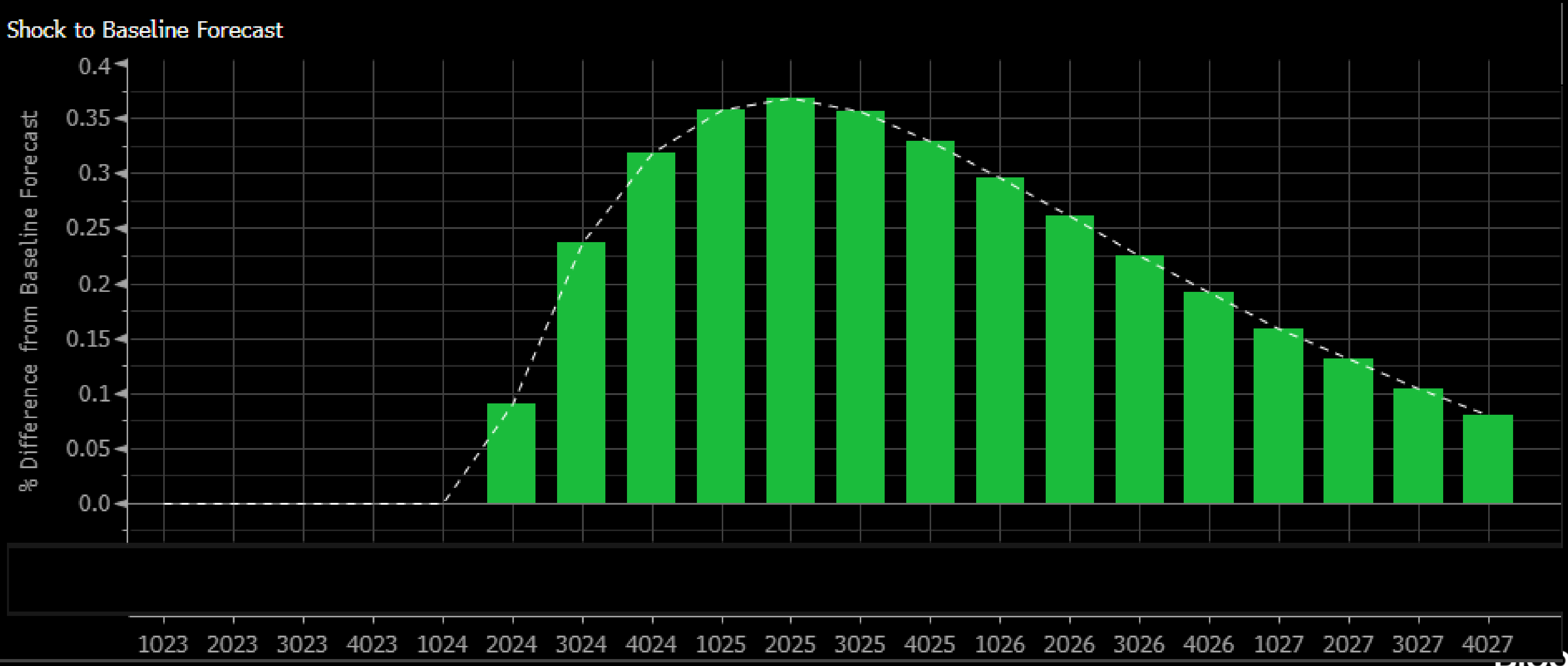
What Could Have Been?

- Jan to June 2024 – 30 bps lower in 2-year UST yields on "true" surprise (599k swing).

Impact on GDP Level, ppt Relative To Baseline



Policymakers aware of problems…but still…

Jack Farley @JackFarley96 · Jun 12, 2024

Whoa - **Powell** just acknowledged the argument that the strength in job creation (non-farm **payrolls**) "may be a bit **overstated**"

24 60 247 50K

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Fed Confronts Up to a Million US Jobs Vanishing in Revision

- BLS issues preliminary benchmark employment revision Wednesday
- Economists still view job growth as healthy, albeit moderating

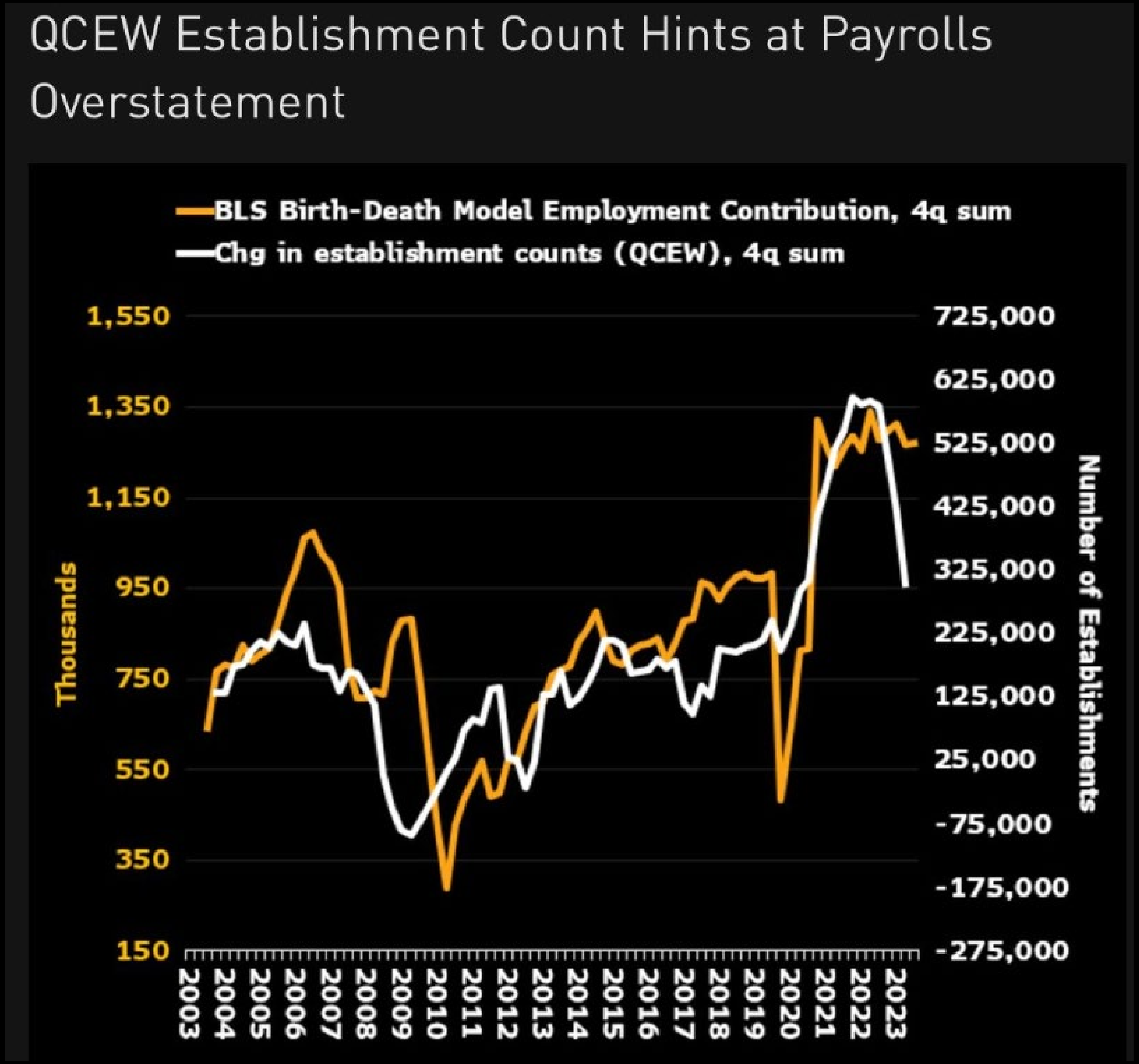
By Augusta Saraiva
August 20, 2024 at 6:00 AM EDT
Updated on August 20, 2024 at 8:45 AM EDT

Federal Reserve Board (.gov)
https://www.federalreserve.gov › cook20240625a

Speech by Governor Cook on the economic outlook

Jun 25, 2024 — These data suggest that **payroll job gains were overstated last year** and may continue to be so this year. Thus, even the robust payroll numbers ...

Net Birth-Death Model Updates



Considerations For Future

- Tradeoff: quality vs. timeliness
- Perhaps even more important: even more transparency, public engagement and communication