

## US Macroeconomics

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### Another Reason to Doubt Job Strength

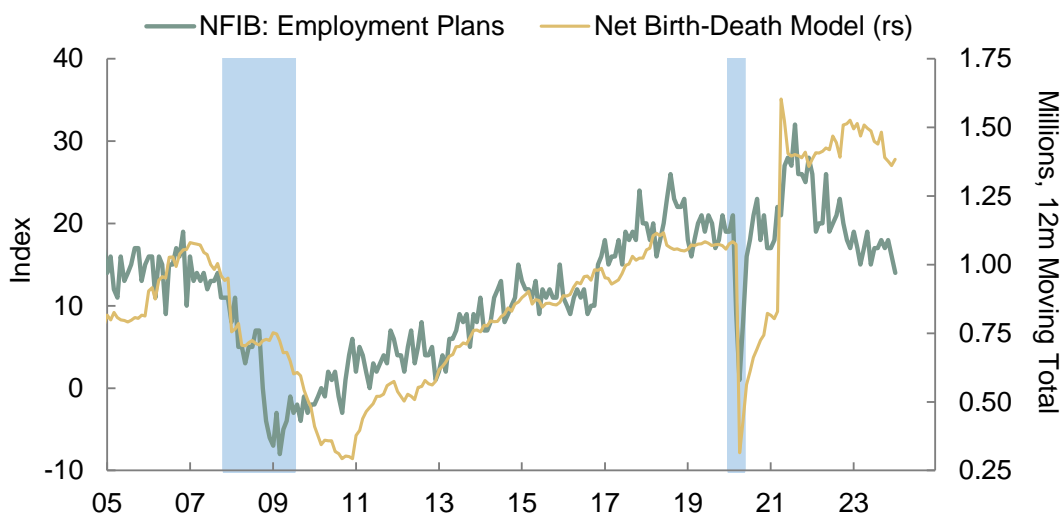
As we have written on several occasions, every month the Bureau of Labor Statistics (BLS) estimates the number of new business formations that elude its annual employment sample. These are known as net birth/death adjustments. Because the economy grows over time, business births generally exceed business deaths over the course of the year. This is obvious from the fact that there have been only three times in the 20 years since the BLS has been doing these adjustments that the annual net birth/death contribution was negative. Not surprisingly, it was always during a recession.

**Last year, the total net birth/death contribution was massive, accounting for 57% (or 1.4 million) of the 2.3 million private jobs created in 2023.** Only 2007 (111%) and 2019 (60%) were higher. But remember the economy was weakening in 2007 and entered the deepest recession since the Great Depression in the following year. In 2019, the economy was dynamic, evident from record high confidence in the small business sector, which is ostensibly the place where BLS adjustments are designed to capture net job gains not captured in its employment survey.

The fact that 2023 saw corporate layoffs up nearly 100%, and total business bankruptcy filings surge 40% compared to 2022 made us skeptical of the net birth/death adjustments. In commentary earlier this week, we highlighted that nonfarm payrolls may be overstated by nearly 900k as of last September based on the collection of tax receipts. But we have also discovered something else as it relates to small businesses.

In the chart below, we show the net percentage of small businesses planning to increase employment. The series peaked at a high 32% in August 2021 and has been slowing ever since. By last December, hiring plans had fallen to just 14%, which is the lowest (non-pandemic) reading since November 2016. Normally, hiring plans and the BLS adjustments move closely together, which makes sense. These are the firms that are initially going undetected by the government statisticians. But a historically wide gap has emerged between the two series. **If small business hiring plans are accurate, then the net birth/death adjustments are too generous.** This means that 2023 private sector job creation will eventually be revised sharply lower.

If jobs are revised down, then clearly the labor market is not as healthy as it is “officially” being reported. This makes the economy more vulnerable to the persistence of restrictive monetary policy. Moreover, it reinforces what we have seen from the income-side of the economy, which has been expanding much more slowly than what the product-side data (i.e., GDP) has been showing.



Source: NFIB, BLS, Haver, SMBC Nikko

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