Seasonal Adjustments To Economic Data Can Mislead

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WASHINGTON (AP) — At first, it seemed like cause to cheer: The number of people who sought unemployment benefits last week tumbled to a four-year low, the Labor Department said Thursday.

Did that mean the job market is surging back to health? Is the unemployment rate about to sink?

Not necessarily. Turns out, last week's drop in unemployment applications reflected mainly a strengthening auto industry — and the Labor Department's imperfect means of calculating unemployment applications. Economists who analyze the job market cautioned against reading too much into Thursday's data.

The problem involves the department's effort to account for seasonal factors in its calculations. It adjusts the data to factor in such annual trends as holiday hiring by retailers and summer layoffs by automakers. Without such adjustments, these seasonal events would distort the health of the job market.

Early in the year, the department makes its seasonal adjustments for each month. To do so, it crunches historical data to estimate how temporary trends will likely affect the coming year's data.

It doesn't always work as planned.

Often, an unexpected event will throw off the seasonal adjustments. And economists and investors who try to interpret what the data signify are left scratching their heads.

This spring, for example, auto companies decided to close fewer factories than they normally do in summer. They kept those plants open to keep up with rising demand for cars. Normally, a summer lull in production prompts many temporary plant closings and layoffs.

Ford Motor Co. said in May that it would reduce its usual two-week closing to only one week. And Chrysler announced in spring that it was canceling its normal two-week shutdowns at three factories.

The Labor Department's seasonal adjustments had anticipated more temporary auto layoffs than occurred. As a result, the department reported Thursday that applications for unemployment benefits plunged 26,000 last week to a seasonally adjusted 350,000. (Excluding the seasonal adjustment, applications rose 70,000.)

The distortion of the seasonal adjustments is likely to ease by early next month. But it means that one of the most closely watched barometers of the job market may not provide an accurate reading for perhaps three more weeks.

Some economists complain that the Labor Department's seasonal adjustments are always outdated by the time the summer auto-plant shutdowns are announced.

"I find this frustrating every July when we get to the auto shutdowns," said Carl Riccadonna, an economist at Deutsche Bank. "In a soft patch, the most important thing to watch is the job market, and the best labor market indicator is jobless claims, and every July we basically have to throw them out."

The Labor Department did not respond to requests for comment.

The department's Employment and Training Administration is in charge of the seasonal adjustments to the data on unemployment applications. It decides in January or February how to adjust each week's figures. And in March, it publishes its seasonal calculations for the year ahead.

Other Labor Department agencies calculate their seasonal adjustments each month, rather than far in advance. An example is the department's Bureau of Labor Statistics, which issues the monthly employment report. But none of the agencies try to predict future actions, such as the likelihood that auto companies will close fewer factors in summer.

To do so, the department would have to estimate how many workers would be affected at the auto companies, their suppliers — "down to the company that's making sandwiches in the cafeteria," Riccadonna said. "Logistically, it's just too complicated."

Most economists say the unemployment benefits applications report won't provide an accurate picture of the job market until at least early August.

"The drop in claims would be nice if it were true," Michael Feroli, an economist at JPMorgan Chase, wrote in a note to clients.

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