Economic Research

Economic Briefing

USA – alternative labor market data (shutdown update 2)

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The shutdown of many US federal agencies is about to enter its third week. This means that investors will continue to have to do without key economic data. We examine which alternative indicators describe the situation on the US labor market.

US shutdown likely to enter its third week…

Numerous US government agencies have been closed since October 1, as Congress has so far been unable to agree on a new continuing resolution, i.e. a stopgap budget bill. At least the government has found a way to pay the salaries of the 1.3 million active military personnel due on October 15. Funds from the Defense Department's research budget will be used for this purpose. However, the economic pain will increase the longer the stalemate in Congress continues.

… which is why no further economic data is being published

Statistical offices remain closed. This makes it is difficult for the Fed to assess economic developments ahead of the FOMC meeting on October 28/29. The Bureau of Labor Statistics has called back employees to publish consumer price data. This is scheduled for October 24, a week later than originally planned. However, other data will not be published until further notice. This also applies to labor market data, which would be particularly important right now given the uncertain situation on the labor market.

What alternative labor market data is available?

Many investors – and certainly the Fed – are now looking for alternatives to the official figures, of which there are at least a few at first glance. However, their informative value often leaves something to be desired:

(1) ADP

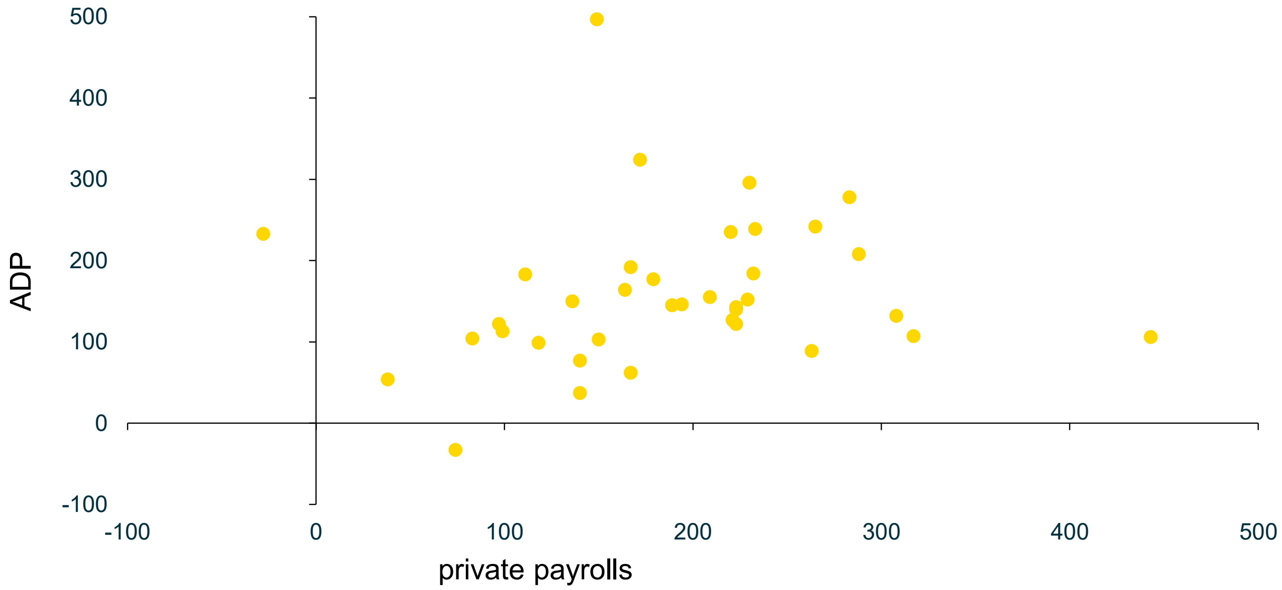
ADP, a provider of human resources management software, uses anonymized and aggregated wage and salary data from more than 26 million US employees to produce a monthly report, which is usually published on the Wednesday before the official employment report. On October 1, ADP estimated that private sector employment had increased by 33,000 in September.

At first glance, there does indeed appear to be a certain correlation between the monthly ADP figure and the official change in private sector employment. The correlation since August 2022 (when ADP switched to the current methodology) is 0.56.

However, this correlation is based on the data available today after numerous revisions. To answer the question of what an ADP figure of 33,000 in September means for the official September report, one must compare the respective first releases of the ADP and the employment report, the so-called "real-time data." Here, the correlation is only 0.13, which is not statistically significant (Chart 1). We would therefore not draw any conclusions from the latest ADP figure as to what official employment figures the statisticians would have reported on October 3 if there had been no shutdown.

Chart 1 - No stable relation between ADP and official numbers

ADP estimate, change in private nonfarm payrolls, in thousands, real time data (first releases) since August 2022



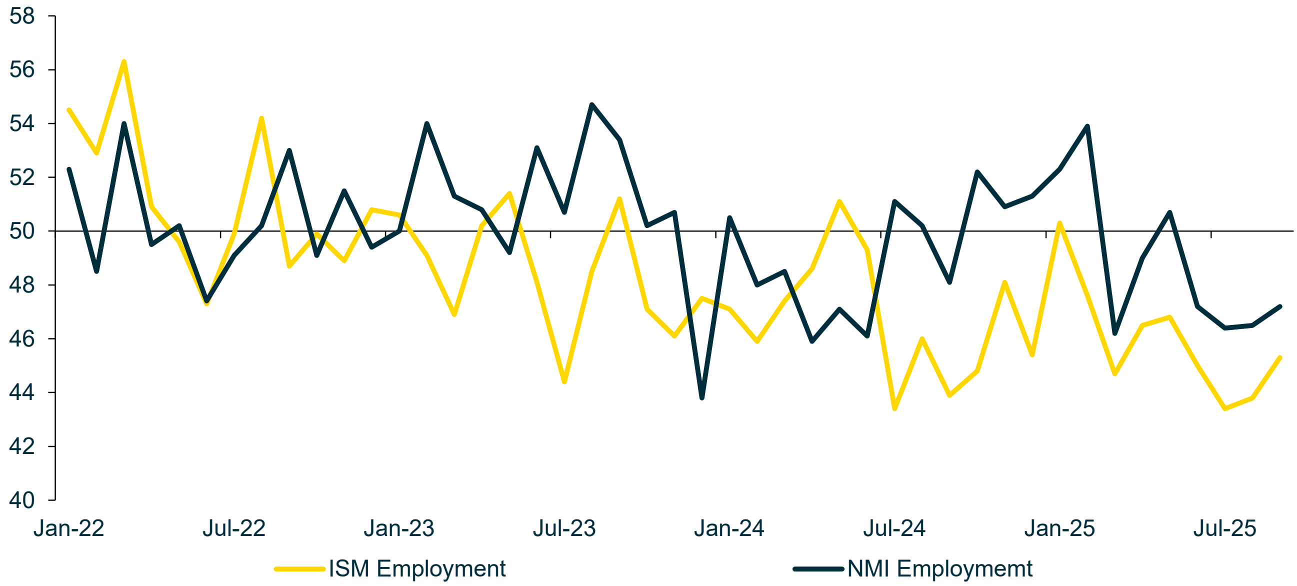
Source: ADP, BLS, Bloomberg, Commerzbank Research

(2) ISM surveys

In its monthly surveys of purchasing managers, the Institute for Supply Management (ISM) also collects data on employment trends at these companies. The survey only asks about the direction of change, i.e., whether employment has risen, fallen, or remained unchanged. The responses are used to calculate an employment index for the manufacturing and non-manufacturing sectors. Both have been below the neutral mark of 50 for some time, signaling a decline in employment (Chart 2).

Chart 2 - ISM surveys indicate a cooling labor market

Employment indexes of the manufacturing (ISM) and non-manufacturing (NMI) surveys. 50 is the neutral level



Source: ISM, S&P Global, Commerzbank Research

Here, too, we examined the correlation between monthly employment changes in the private sector and the ISM employment indices, again using real-time data. This shows that over the last three years, the index for the manufacturing sector exhibits a certain statistically significant correlation of 0.59, whereas the services index does not with a correlation of 0.11.

However, even the information contained in the manufacturing employment index is subject to a high degree of uncertainty. In September, it stood at 45.3. This is the same value as in December 2024, when an official private payrolls increase of 224,000 was reported (since revised to 287,000). However, in June, a virtually identical index of 45.0 was accompanied by an official increase in employment of only 74,000 (since revised to a decrease of 27,000).

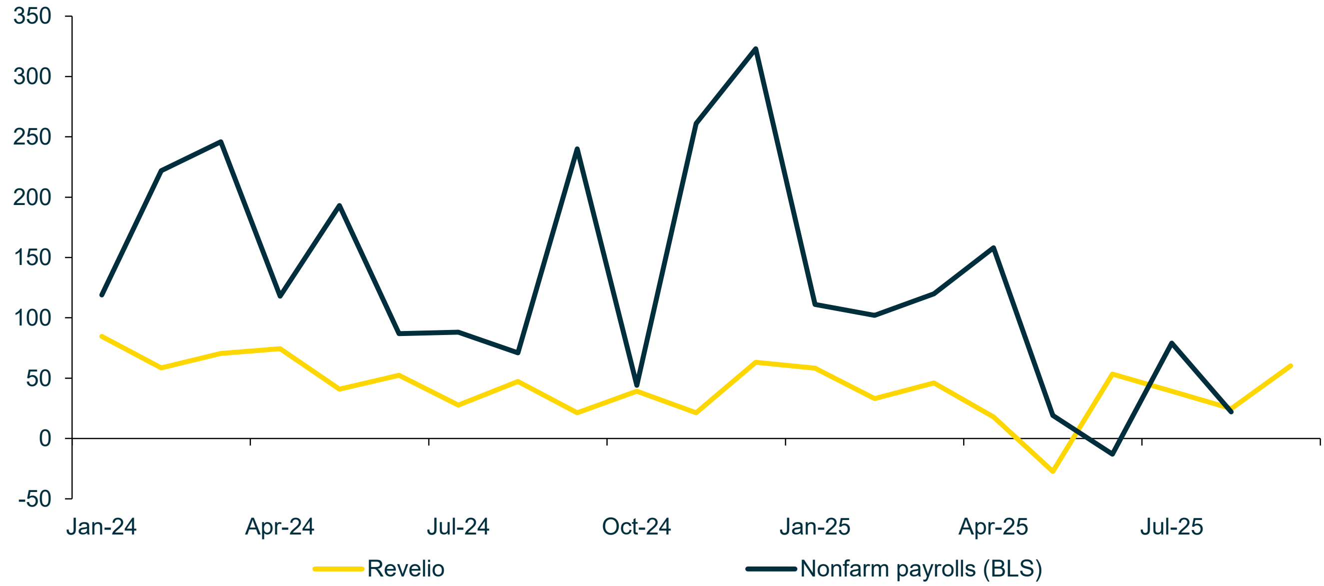
(3) Revelio

Revelio Labs, a company that analyzes labor market data, publishes its own monthly labor market report. This report uses data from online professional profiles on platforms such as LinkedIn, which provides information on current and previous employment relationships. Revelio also attempts to compensate for any delays resulting from the fact that many online profiles are not updated in a timely manner. According to the company, the data set comprises 104 million profiles, covering nearly two-thirds of US employees.

Revelio estimates an increase in employment of 60,000 for September. Revelio's approach is quite new. In August, its estimate (50,000) was very close to the official figures. However, due to the lack of a long history of real-time data, it is difficult to assess how reliable this model is. The Revelio figures available today are almost all below the official figures (Chart 3). Of course, the official figures could also overestimate the trend. For example, statisticians have already announced downward revisions of the data until March 2025. On the other hand, the Revelio data do not show a downward trend. They therefore do not indicate that the labor market is currently collapsing (as some fear).

Chart 3 - Online profiles indicate a rather stable labor market

Monthly changes of payrolls based on Revelio data and on the BLS's employment report, in thousands



Source: BLS, Revelio, Commerzbank Research

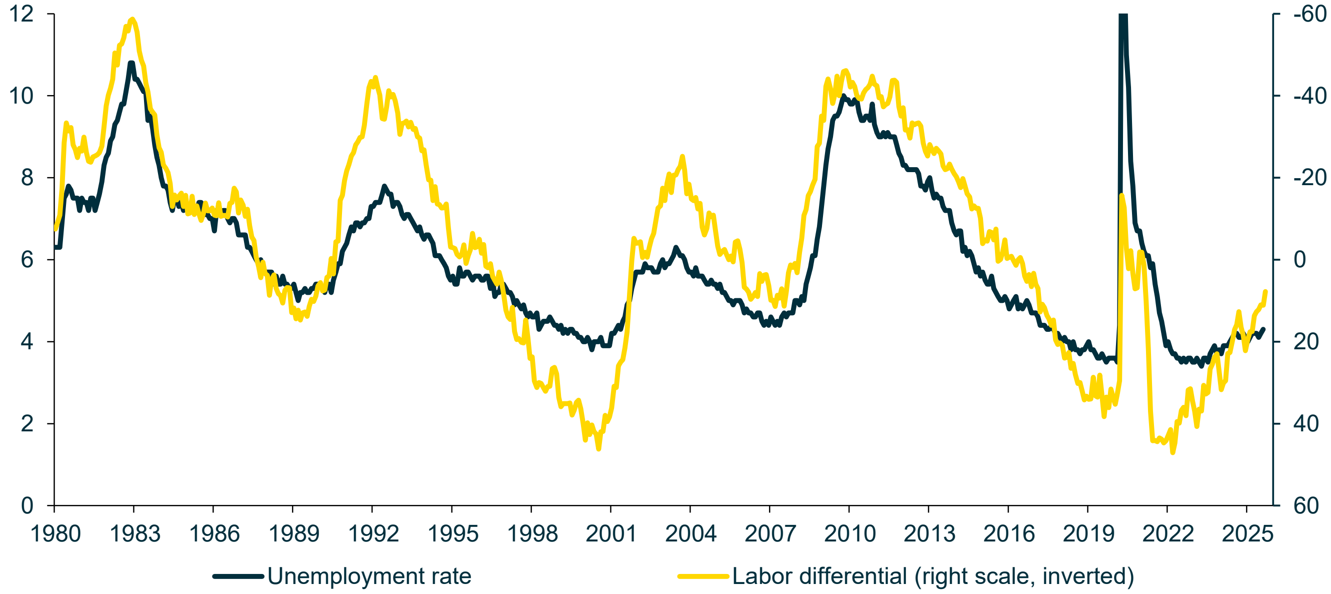
(4) Conference Board: "Labor market differential"

Analyzing the current situation on the US labor market is currently complicated by the fact that significantly more restrictive immigration policies are noticeably reducing the supply of labor. At the same time, demand for labor appears to be steadily cooling, as can be seen from figures on job vacancies and job changes. It is now apparent that significantly less job growth is needed to keep the labor market in balance. In such a situation, the unemployment rate is a better measure of the labor market situation.

Which private data allow conclusions to be drawn about the unemployment rate? Here, for example, the consumer confidence data released by the Conference Board can be used. The survey also asks whether respondents believe there are enough jobs available or whether they find it difficult to find new jobs. The difference between these answers (the percentage of those who believe there are enough jobs available minus the percentage of those who believe jobs are hard to find) correlates quite closely with the unemployment rate (Chart 4). For some time now, consumers have been assessing the situation on the labor market as less favorable. Although the unemployment rate has only risen slightly so far, this shift in sentiment could indicate worse times ahead on the labor market.

Chart 4 - Consumers' views on the labor market are worsening

Labor differential (percentage of respondents viewing jobs as plentiful minus percentage of those believing jobs are hard to get) and unemployment rate



Source: Conference Board, BLS, Commerzbank Research

(5) Chicago Fed labor market indicators

The Chicago Fed publishes a forecast of the unemployment rate based on a range of private and public data. A preliminary estimate is published around two weeks before the BLS employment report, and a final forecast a few days before. The Chicago Fed's labor market indicators are still being published during the shutdown, but the accuracy of the model estimates is suffering somewhat as a result.

The Chicago Fed's forecast for the unemployment rate in September, which has not yet been published due to the shutdown, is 4.34%. This would mean that the unemployment rate would have changed very little; in August, it stood at 4.32%.

The Chicago Fed had already made a similar attempt in the spring, which was spot on in the first month but pointed in the wrong direction in the second month, whereupon the model was withdrawn and revised. It is not yet possible to assess whether this new approach is significantly better.

Alternative data cannot replace official figures

In the absence of official figures, alternative labor market data is certainly helpful at present. However, it cannot replace the official figures, which have a decades-long history and are methodologically very transparent, even if employment data in particular has recently caused a stir due to major revisions. At best, analyzing alternative indicators can help reduce the current uncertainty somewhat. The trend points to relatively weak employment dynamics, but not to a slump in the labor market.

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