

# US Macroeconomics

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## Phantom Jobs?

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.

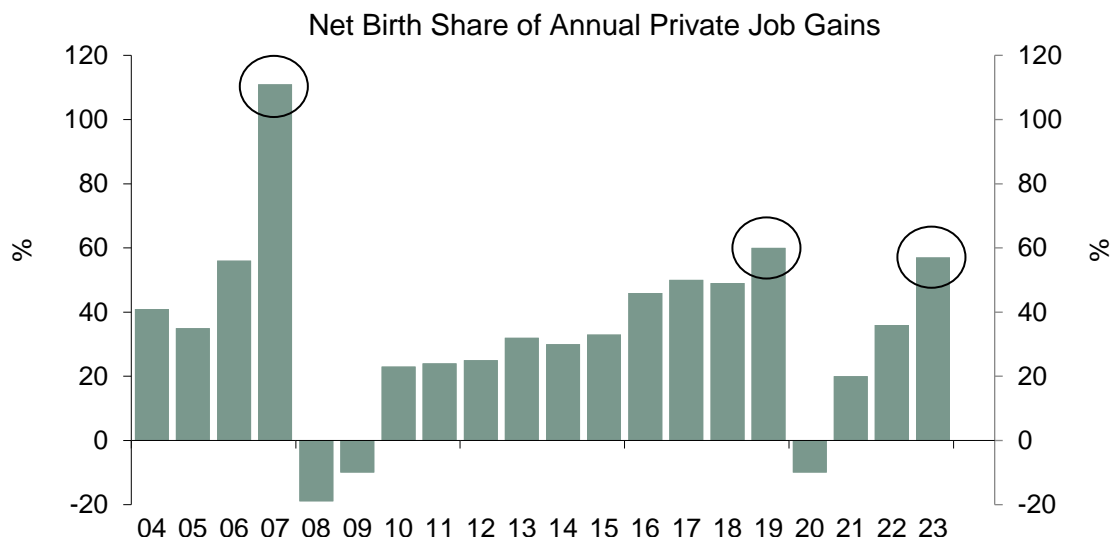
**Because the labor market grows over time, business births generally exceed business deaths over the course of the year.** In fact, there have been only three times in the 20 years since the BLS has been doing these adjustments that the annual net birth/death contribution was negative, and it was always during economic downturns.

The net birth/death adjustment was negative during the deep and long recession that spanned 2008 and 2009. And it was negative in 2020 when the government forced an economy-wide closure, thus inducing a recession. However, there are some years when the positive contribution to job growth may be excessive. And last year could have been one of those years.

In point of fact, we can see from the chart below that **the net birth/death adjustment accounted for a whopping 57% (or 1.4 million) of the 2.3 million private jobs that were created in 2023!** This was eclipsed only in 2007 (111%) and 2019 (60%). Clearly, the 2007 contribution to employment gains was excessive. How is it possible that the labor market sample was so askew that there was no job creation? Not surprisingly, the underlying health of the labor market was deteriorating quickly in 2007, but “artificial” payroll gains no doubt lulled some market participants into a false sense of security at the time. The economy experienced massive job loss in 2008 and 2009.

But what about 2019 which had a slightly larger contribution from the net birth/death model? **The BLS’ decision to add additional jobs in 2019 likely reflected a healthy labor market,** evident from low layoffs and bankruptcies. For example, announced corporate layoffs were up just 10% in 2019 versus 2018. And total business bankruptcy filings rose by less than 3 percent. Consequently, a large net birth contribution was probably justified. However, we do not understand the rationale for latest outsized jobs addition.

In 2023 corporate layoffs were up nearly 100% compared to 2022, a huge increase. Excluding the 2020 pandemic year, **2023 experienced the highest announced job cuts since 2001.** Moreover, **total business bankruptcy filings jumped 40% in 2023, the highest since the financial crisis.** Consequently, we cannot help but wonder if the BLS net birth/death adjustments have been much too optimistic. Anecdotal information does not support such ad hoc job gains. Time will tell if we are correct.



Source: BLS, Haver, SMBC Nikko

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