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Two Quibbles from Today's Data

By: Bob McTeer **June 1, 2012**

All day today, I've heard people say that there was no good news in the employment report. That is substantially true, but not totally true. For some time now, labor force drop-outs (shrinkage) have artificially lowered the official unemployment rate. Most pundits recognized that eventually that would reverse and returnees to the labor force would have the opposite effect. That happened in the May report.

In the household survey, which contains such statistics, the number of employed people increased by 422,000, far above the highly-advertised 69,000 in the establishment survey and quite a good number. The civilian labor force, however, actually increased by 642, 000, causing the increase in the unemployment rate from 8.1 percent to 8.2 percent. We've been qualifying recent drops in the unemployment rate as being aided by a declining labor force. To be fair we should acknowledge that the reversal of that is actually good news and masked a substantial increase in employment as measured by the household survey.

I can't account for the large difference in the employment gains in the two surveys, but they both should be considered together to get a complete picture. I'm not saying that the stronger household numbers trump the weaker establishment numbers, but they should not be ignored as they were today.

My second quibble has to do with repeated pronouncements today that additional quantitative easing is not called for because interest rates are so low already. I'm not necessarily calling for additional measures that would be called QE3, but I feel compelled to point out that quantitative easing was given than name because it came after interest rates had ceased to be a viable tool of monetary policy. Monetary policy involves interest rates, but it also involves increases in the quantity of money and credit. QE3 may or may not be appropriate at this point, but that question already assumes that interest rates are out of play.