Understanding economic data

The media love to bury us in data. Numbers are thrown at us in news articles and opinion pieces. The interpretation of the data is sometimes done quickly or incorrectly or it’s simply omitted. What’s an intelligent non-economist to do? Here are a couple of points to remember.

Real vs. nominal: Most economic data are “real,” i.e. corrected for inflation. Uncorrected data are called “nominal.” But one key indicator, retail sales, is reported in nominal terms and no one ever mentions it. This is why we occasionally read in November that Christmas sales are expected to be weak but then read in January that sales were up. Both can be correct, because a little inflation can cause an increase without it being meaningful.

Seasonality adjustment: When comparing data to the previous month rather than the same period a year ago, the raw numbers usually need to be adjusted. After all, no one would compare retail sales in December and May without noting how different those two months are. If December sales are, on average, 20 percent higher than in November, then a December rise of only 10 percent would indicate weak holiday purchases.

That’s all seasonal adjustment is, though the actual adjustment is complex and mathematical. But while federal and state-level indicators are seasonally adjusted, many county and regional indicators are not. And reporters don’t always make that clear.

If you want local and regional data that are comparable from month to month, check out the Dixon Hughes Goodman Triad Business Index, available at www.triadbusinessindex.com. The index is compiled by my colleague Don Jud, who performs his own seasonal adjustment.

Employment surveys: In the U.S., employment data are generated by two separate surveys, which are known informally as the household and establishment surveys. The household survey is how we estimate the unemployment rate. It contacts households and asks respondents if they’re employed or looking for work. Want to know the unemployment rate for white women aged 54 and up? The household survey has the answer.

The establishment survey contacts businesses, with revisions provided by state agencies like the N.C. Division of Employment Security. This survey is how we estimate payroll employment, i.e. the number of jobs. Want to know how many jobs North Carolina lost in apparel manufacturing since 2000? This is the survey to consult.

What’s confusing is that the household survey also generates an employment level. But because the household survey uses a much smaller sample than the establishment survey, the household survey’s numbers are “noisier” — they come bundled with more random error.

This doesn’t appear to be a problem when one divides numbers into each other to obtain the unemployment rate. The errors more or less cancel out. But it’s why the more stable establishment survey is taken as the authoritative source for the level of employment. Even after seasonal adjustment, the employment numbers from the household survey are suspect.

Recently, the monthly report from the state revealed that according to the household survey, employment in North Carolina had fallen from the previous month. But the establishment survey said it had risen. Which was right? There was no way to know for sure, because both numbers were estimates. But anyone who understood how the data were generated was more confident in the estimated rise than the estimated fall.

This only scratches the surface. The moral of the story is that it’s not always easy to understand and use economic data correctly. Proceed with caution.

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