Take Your Pick on Jobs Stats

BY LISA KENNEY

"Which Estimates of Metropolitan-Area Jobs Growth Should We Trust?" Joel Elvery and Christopher Vecchio, Cleveland Fed *Economic Commentary*, April 1, 2014.

When it comes to unemployment statistics, you can have them fast or you can have them accurate — take your pick. That's according to a recent *Economic Commentary* from Joel Elvery and Christopher Vecchio at the Cleveland Fed, which examines three different employment estimates across four states and six metro areas in the Fed's Fourth District to determine which one is the most accurate measure.

The estimates produced by the Bureau of Labor Statistics are the monthly State and Metro-Area Employment, Hours, and Earnings (initial SAE); the annual revision of the initial SAE (final SAE); and the Quarterly Census of Employment and Wages (QCEW).

The initial SAE is the timeliest — it is released five weeks after the end of every month — but the Cleveland Fed finds that it is the least accurate. In fact, the BLS itself cautions against using this measure for analysis because of the heavy revisions it undergoes. It also has a large margin of error and relies on a sample size that is too small to generate accurate estimates. Though it may be hard to resist data that is available so quickly, the authors caution that "wrong data can be worse than no data."

Another option is the final SAE, the second of two annual revisions of initial SAE data, released four to 15 months after the initial SAE. The final SAE covers up to September of the prior year. This tends to be the most accurate data available. It revises the initial SAE to correlate with the QCEW data and includes an estimate of other kinds of employment, such as self-employment. The authors note that sometimes the revisions are so large, they wipe out the "typical average year-over-year changes in jobs for those metro areas" that may have been reported in the initial SAE.

There is also the QCEW, released four to nine months after the end of a quarter. It is a highly accurate measure that is an actual count of employment and covers 98 percent of all employment. The QCEW has a high correlation rate with the final SAE across both metro areas and states.

In looking at the three measures for margin of error, revision size, and accuracy at both metro and state levels, Elvery and Vecchio conclude — unsurprisingly — that the final SAE is the best choice for employment data. Because the final SAE takes a much longer time to produce, however, the authors acknowledge that there may be times when the initial SAE and the QCEW are the only estimates available. In these cases, they say, "the QCEW is the better choice." And although the authors echo the BLS in advising against overreliance on the initial SAE, they note that it may have some use as an early indicator of state-level employment trends.

"The Evolution of U.S. Community Banks and its Impact on Small Business Lending," Julapa Jagtiani, Ian Kotliar, Ramain Quinn Maingi, Philadelphia Fed Working Paper No. 14-16.

In a recent working paper, Julapa Jagtiani of the Philadelphia Fed and co-authors Ian Kotliar and Ramain Quinn Maingi of Rutgers University investigate whether the decline in the number of community banks over the last decade has affected small business lending. The authors argue that this is a potential concern because of community banks' "special role in supporting small businesses in their local communities."

Between 2001 and 2012, more than 1,000 community banks were acquired by larger institutions or shuttered, while the number of large banks rose from six to 18. Jagtiani, Kotliar, and Maingi define community banks as those with less than $1 billion in total assets and large banks as having more than $100 billion in total assets.

To determine whether acquisitions have affected small business lending, the authors analyze risk characteristics of acquired community banks, compare pre- and post-acquisition performances of those banks, and examine stock market reactions to acquisitions.

So has the decline of community banks eliminated unique support for small businesses and damaged overall small business lending? In short, their answer is no.

The authors find that many of the community banks that were acquired during the 2007-2009 financial crisis had unsatisfactory ratings from regulators and were in poor condition; therefore, "mergers involving community bank targets so far have enhanced the overall safety and soundness of the overall banking system." And since large banks more than doubled their small business lending market share between 2001 and 2012, the paper finds that these mergers did not have a negative effect on small business lending. "Larger bank acquirers have tended to step in and play a larger role in SBL [small business lending]."

On a policy note, the authors conclude that policies discouraging mergers between large firms and community banks "could result in a potential unintentional effect on the supply of SBL lending." Allowing these sorts of mergers to continue will result in healthier and more efficient banks overall, they suggest, not just in regard to certain kinds of lending. **EF**