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WHITE HOUSE BACKS OFF CEA PREDICTION OF “AVERAGE” JOB GROWTH

Contrary to reports, CEA predicted 3.6 million — not 2.6 million — jobs would be created in 2004

By Jared Bernstein, Lee Price, and Isaac Shapiro

This short analysis underscores several points concerning recent statements by White House press secretary Scott McClellan, Treasury Secretary John W. Snow, and Commerce Secretary Donald D. Evans, indicating the Administration is backing off the just-released jobs forecasts of its own Council of Economic Advisers:¹

- The chairman of the CEA has said that its recent forecast reflects a rate of job growth “That is about average for a recovery.”² To the degree the Administration believes it will not meet this forecast, this suggests the Administration believes that the economy cannot achieve the amount of job growth that typically occurs during a recovery.
- The CEA’s prediction is being widely characterized as predicting that a total of 2.6 million jobs — or 217,000 jobs per month — will be created in 2004; *that characterization is inaccurate*. The CEA’s prediction assumed that an average of 300,000 jobs per month would be created from November 2003 through December 2004. (Just three months into that prediction, job creation has fallen 689,000 short of the CEA forecast.)
- Specifically, CEA predicted that the number of jobs in the economy would *average* 132.7 million in 2004, reflecting a 2.6 million increase from its *average* level in 2003. There are 130.2 million jobs right now; for the economy to average 132.7 million jobs in 2004, job growth would have to equal 460,000 per month.

¹ Terence Hunt, “White House Backs Off Job-Growth Forecast,” *Associated Press*, February 18, 2004; and Edmund L. Andrews, “2 Bush Officials Cautious on Job-Growth Forecast,” *The New York Times*, February 18, 2004.

² Reuters News Service, “White House advisor says sees big job gains in 2004,” February 10, 2004.

- As a recent report we released documents, the Administration has consistently been predicting that robust job growth is around the corner, and has consistently been wrong.³ In 2003, for example, the CEA predicted that the average number of jobs in 2003 would be 1.7 million higher than its average in 2002. Instead, it was 400,000 lower.

Understanding the 2.6 million prediction

On page 98 of the *Economic Report of the President* for 2004 that was released on February 9, the CEA predicts that non-farm payroll employment will *average* 132.7 million in 2004, reflecting a 2.6 million increase in jobs over its estimated *average* of 130.1 million in 2003.

There has been substantial confusion concerning this issue, with many analysts and stories incorrectly suggesting that the CEA projects a total of 2.6 million jobs to be created this year. In effect, these reports are stating that the CEA has predicted there will be 132.7 million jobs at the end of 2004 when, in fact, the CEA has predicted that the *average* number of jobs for all of 2004 will be 132.7 million. To reach this average figure, there will have to be many more jobs than 132.7 million in December 2004, as there are 2.5 million fewer jobs than that right now.

In Appendix Table A of our recent report, we estimated the job growth path that would be consistent with the CEA's projections. We found that the CEA assumed that jobs would grow at an average pace of 300,000 per month from November 2003 through December 2004. The CEA assumption is consistent with job growth patterns coming out of past recoveries.

- This assumption was consistent with total job growth of 600,000 in the last two months of 2003 ($2 \times 300,000 = 600,000$). In fact, a total of only 99,000 jobs were created in those two months.
- The assumption was also consistent with total job growth of 3.6 million in 2004 (12 months of job growth averaging 300,000 per month). In January 2004, only 112,000 jobs were created. Thus, if job growth is to average 300,000 for the entire year, job growth would need to average 317,000 for the next 11 months.
- So three months into CEA's prediction, job creation has already fallen 689,000 jobs short of the typical amount expected for a recovery period. CEA's predictions were consistent with 900,000 jobs being created by now; but only 211,000 have been.

In part because job growth has been tepid in the three months since the CEA's projections were made, to achieve the estimate of 132.7 million jobs during 2004, an average of

³ Jared Bernstein, Lee Price, and Isaac Shapiro, *Missing the Moving Target*, Center on Budget and Policy Priorities and Economic Policy Institute, February 12, 2004.

460,000 jobs a month would need to be created from February through December of 2004.⁴ In other words, about five million jobs will need to be created between now and the end of the year to hit that projection.

⁴ There has been a recent downward technical adjustment of 188,000 to October 2003 employment levels whose precise nature was unavailable to the CEA when they made their published projections. If CEA's projections are adjusted downward to take into account this technical adjustment, then it would have predicted 132.5 million jobs, on average, in 2004. To reach this average, job growth would have to average 425,000 over the next 11 months.