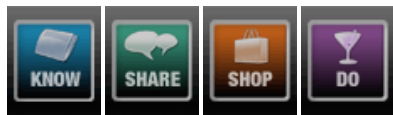


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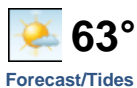
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Story



Measuring unemployment in a dynamic economy

Exchange | Business | Islands Monday, October 16, 2006 at 12:30 am



Michael Reksulak Assistant Professor of Economics at Georgia Southern University. (Photo: Scott Bryant)

Marginalia

Last week, the Nobel Prize for Economics was awarded to Professor Edmund Phelps of Columbia University.

Phelps radically changed the perception of how inflation and unemployment interact. He also extensively discussed the "natural rate of unemployment" or "equilibrium unemployment rate" towards which the labor market in an economy trends.

Forty years after these insights, the United States is experiencing an unemployment rate that - at 4.6 percent - is lower than the estimated natural rate of unemployment. If one compares this to the gloomy numbers in Europe - Germany posts an official rate of 10.6 percent - the employment situation looks rosy. However, the labor market report for September, released by the Bureau of Labor Statistics shortly before Phelps received the good news from Sweden, demonstrated how hard it is to find a consensus with regard to measuring unemployment and what the numbers signify.

On one hand, there is the 4.6 percent marker, which - seasonally adjusted - was basically unchanged from the month before and at a historically low level.

It is calculated based on the Current

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Population Survey covering about 60,000 households each month. On the other hand, the Department of Labor also reported an increase in nonfarm payroll employment of just 51,000. This estimate is based on the Current Employment Statistics survey (or establishment survey), which includes approximately 160,000 businesses with 400,000 employees.

The controversy starts when one compares the meager 51,000 uptick in the establishment survey to the 271,000 increase in employment in September, according to the household survey. One may reasonably ask which number is correct, especially in a politically charged election season.

Answering should start with the statement that both numbers are the result of intricate and well thought-out analyses. They embody the best representation of the true labor market picture we can obtain with today's methods. However, short of actually giving every person in the United States an apparatus with the buttons "unemployed" and "employed" (throwing in a "not sure" for good measure), estimates will always be that - and not perfect.

The main differences between the results from the two surveys can likely be explained by the fact that the establishment measure recurrently undercounts the payroll numbers of new businesses as well as the self-employed. The statisticians at the labor department often have to work with incomplete data for these establishments, which leads to regular (frequently upward) revisions of the count months later when payroll data is updated.

The most current report contains a warning that the numbers for the 12 months preceding March 2006 will have to be revised upwards by an unheard of 810,000. The bureau is "currently researching possible sources" for this measurement failure.

Only the magnitude of the revision is surprising. Professor Phelps himself said after receiving news about his Nobel Prize "... the free enterprise system is structured in such a way that it facilitates and stimulates dynamism." As we have just experienced - and surely not for the last time - occasionally the static numbers take time to catch up with the dynamic reality.

Dr. Michael Reksulak teaches economics and public finance in Georgia Southern University's College of Business Administration. He may be reached by e-mail at mreksula@georgiasouthern.edu.

Investors will look to earnings to guide stocks

NEW YORK - Investors will receive a mountain of earnings data this week that should help them determine whether corporate profits, one of the catalysts for the recent run-up in stocks, have held up as well as some have predicted.

Coming off another record-setting week for the Dow Jones industrial average, Wall Street will be looking for new drivers to push stocks higher and, in the case of the Dow, past the 12,000 mark. The Dow Jones industrial average crept to another record close Friday, marking the third straight week of triple-digit increases by the blue chip index.

To see whether that will continue, investors will examine economic data such as the consumer price index, which measures inflation. A dozen of the 30 stocks that make up the Dow index are scheduled to report results, including technology names like Intel Corp. and consumer companies like Johnson & Johnson. Thursday will likely be the busiest day of the busiest week of earnings season, with reports from a slew of big-name companies. Citigroup Inc. is seen as reporting a third-quarter profit of \$1.03

Coca-Cola Co. also is set to report; Wall Street expects the soft drink maker will turn in earnings of 59 cents per share for the third quarter.

Platinum Partners receives national award

Coldwell Banker Platinum Partners has been awarded the Cartus Broker Network Outstanding Achievement for Outgoing Closings.



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Eligibility for the award recognizes those brokers who are tracking, year-to-date, 100 percent or more of their closing goals for the first eight months of the calendar year. Cartus Broker Network is the nation's leading real estate referral network consisting of more than 375 principal and 600 associate brokers that serve the clients and customers of Cartus. Coldwell Banker Platinum Partners, established in 1995, is a full-service real estate firm with 13 office locations stretching from Beaufort, S.C., through the greater Savannah area to St. Simons Island.

Christy Powers

Has recently joined the sales team at Weichert Realtors - Prestige Properties as a specialist in residential sales.

Education: She earned a bachelor's degree in chemistry from the University of Pittsburgh, followed by a career as an analytical chemist.

Melissa Ferguson

Has joined the sales team at Weichert Realtors - Prestige Properties.

Background: Ferguson's work background includes working as a case manager with social services.

Education: Ferguson has a bachelor's degree in health administration from Armstrong Atlantic State University. She is pursuing a master's degree in business administration from Indiana Wesleyan University.

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