A Broader Measure of Economic Performance in the States

Philadelphia Federal Reserve's Analysis Shows Wisconsin Economy Performing Poorly Compared to Other States

Are you still wondering which set of jobs data is a better indicator of how the Wisconsin economy is doing? It's a debatable proposition because each of the employment data sources has advantages and disadvantages. (See our new fact sheet, "Hard Facts on Wisconsin Jobs," for a summary of those datasets.)

A different measure updated each month by the Federal Reserve Bank of Philadelphia offers several advantages over using any one of those particular sources of jobs data. It weighs four different factors, allows timely comparisons between states, and is prepared by a trusted organization. This paper looks at that measure, referred to as the "Coincident Index," and examines what it tells us about Wisconsin's economic growth, which continues to trail the gains in other states.

The Recent Debate Over Jobs Numbers

Until recently, the primary source of information that everyone used in analyzing job growth in a state was the data released each month by the Bureau of Labor Statistics (BLS), based on a survey of employers. However, after that data showed that Wisconsin was the only state in 2011 to have a significant loss of jobs, the Walker Administration recently offered a different dataset, which it says yields a more accurate picture of employment in Wisconsin. The following are the major employment data sources and some of their advantages and disadvantages.

- **BLS employer survey**: This is by far the most commonly used set of data on job gains or losses. It is very current and allows for timely comparisons between states. However, the sample size is relatively small, and the preliminary data is often updated. Nevertheless, it continues to be the most widely used data source on jobs at the national, state and local level.

- **BLS unemployment data:** In contrast to the jobs data, the unemployment figures come from a survey of households. Like the BLS job numbers, it's very current and useful data and is widely cited. One drawback with using the unemployment rate as a proxy for a state's employment changes is that it isn't restricted to employment within the state. As a result, increases or decreases in the unemployment rate could be driven to some extent by jobs gains or losses in bordering states. More importantly, the unemployment rate often fluctuates as people enter or leave the workforce, so a decline may reflect an increase in discouraged workers who are returning to school or taking early retirement, rather than an increase in jobs.

- **Quarterly Census of Employment and Wages**: This dataset has the significant advantage that it comes from a much more comprehensive survey of employers. However, it's only reported quarterly and not until well after the end of that quarter. Although the Walker Administration recently released the Wisconsin data for the fourth quarter of 2011, the most current data for other states is from the July through September quarter.

One of the problems with any of the job measures is that a figure such as a gain or loss of 20,000 jobs over a year doesn't tell us much by itself. Depending on the broader economic trends, a gain of 20,000 jobs could be a fantastic result, or it might indicate that a state is trailing far beyond the national economic recovery. Thus, comparing how states are doing is very important, and the more useful datasets will allow timely comparisons.

An Alternative Measure: The Coincident Index

For many years, the Philadelphia Federal Reserve has prepared its own measure of economic performance in each state. It is called the Coincident Index because it combines four state-level indicators: nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements. The Coincident Index is updated every month, and it offers several advantages over reliance on any one of the other data sets:

- Because it is based on a combination of different data, it minimizes the potential that a problem in a particular dataset will yield misleading results.

- In contrast to the Quarterly Census of Employment and Wages, it provides a means of comparing state trends in recent months.
- It is produced by a trusted organization.

Like a number of other indices, such as the Consumer Confidence Index, the Coincident Index yields an abstract number that is less useful by itself than a concrete jobs figure. But it can be used to measure a state's progress over various periods of time, and the data is easy to access and analyze.

What Does the Coincident Index Tell Us about Wisconsin's Economic Performance?

The charts on the right use changes in the Coincident Index to compare Wisconsin with other states in this region and with the U.S. average. We analyzed changes in the index over three periods of time: the past three months, the current fiscal year (July 2011 through April 2012), and for all of 2011 and 2012 to date. In each time period, Wisconsin's growth lags far behind our neighbors' gains and the national average.

Conclusion

Since job gains and losses are driven by national and international trends, it doesn't tell us much to say that a state has gained 20,000 jobs or lost 20,000 jobs. Rather than looking at economic indicators in isolation from the rest of the nation or region, it makes far more sense to compare a state's economic trends with those elsewhere and to use a variety of measures for making that comparison.

The Coincident Index produced by the Philadelphia Federal Reserve has a couple of significant advantages over the job measures that been debated in Wisconsin over the last couple of weeks. It provides an impartial and timely way of comparing how states' economies have been performing. Unfortunately, it doesn't shed a very positive light on how Wisconsin's economy has been performing relative to other states in this region and across the region.

Ultimately, we need to move past arguing about data sources. We need to acknowledge that Wisconsin's economy can and should be doing considerably better, and we need to have a rational debate about what sorts of public and private sector investments can pave the way for much more robust job and income gains for Wisconsinites in the years ahead.

Jon Peacock and Tamarine Cornelius
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