

Datanote: ADP Employment Report, January

In one line: Poor track record suggests ADP's resilient picture should be disregarded.

- ADP reports a 183K increase in private payrolls in January, above the consensus, 150K. December's increase was revised up to 176K, from 122K.

The woeful track record of ADP's data in forecasting private payrolls

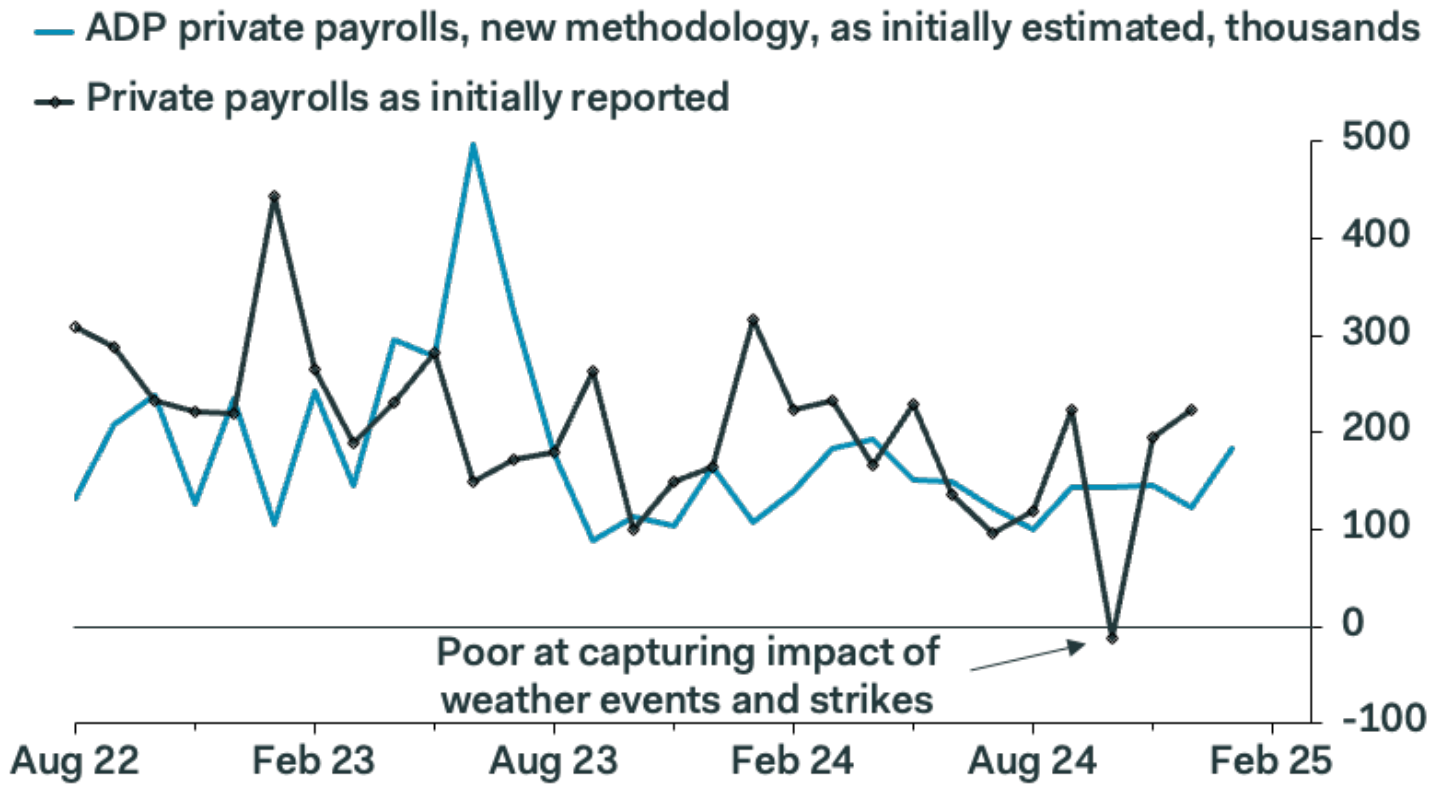
suggests that its report of robust growth in January private payrolls should be largely ignored. Since its methodology was overhauled in August 2022, ADP's forecast error, regardless of sign, has averaged a hefty 85K and been as large as 348K. Simply extrapolating forward the average change in private payrolls over the previous six months has yielded a smaller average absolute error, 79K, and a lower maximum miss of 190K.

Note that ADP's data completely failed to register the hit to payrolls in October 2024 from hurricanes and strikes. In

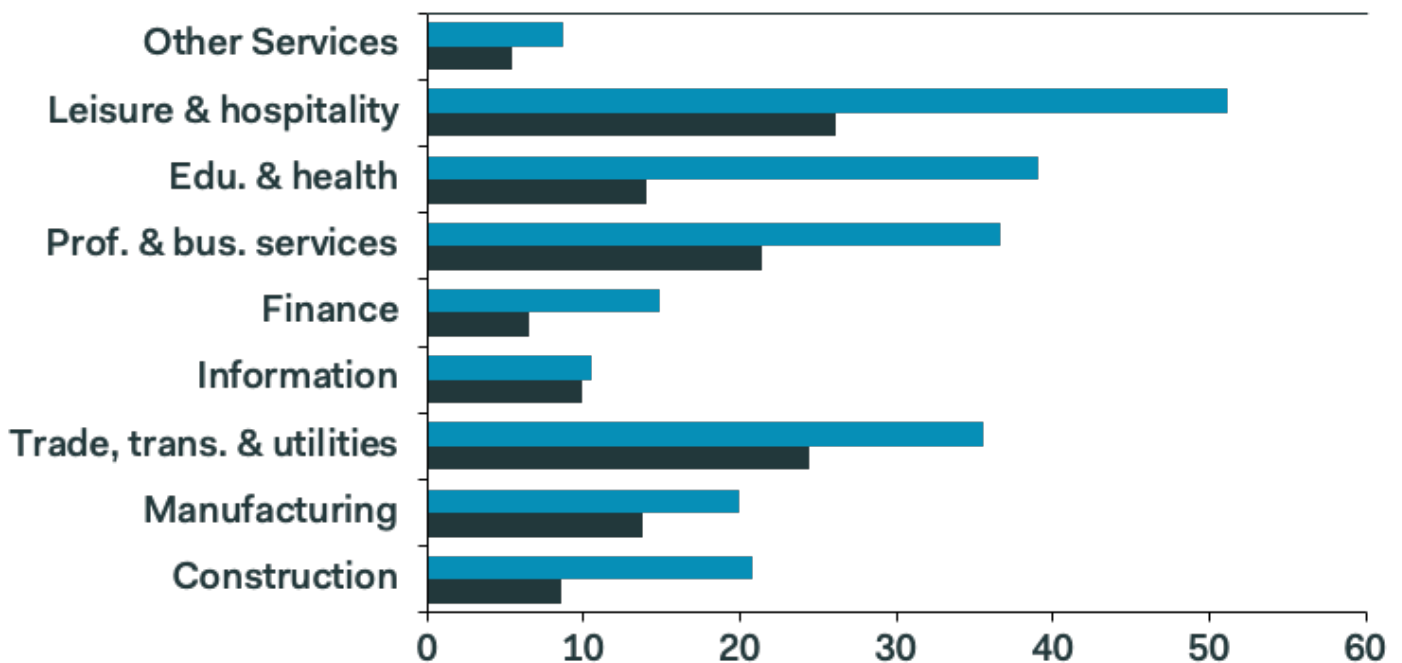
a similar vein, the data probably now are understating the adverse impact on employment from bad weather and strikes. Average temperatures were below normal for the time of year and snow cover was more widespread than usual during the calendar week containing the 12th of the month. In addition, the BLS Strike Report shows that the number of workers on strike during the reference pay period for the establishment survey increased by 4.8K from December. Accordingly, we are sticking with our below-consensus

forecast of a 125K increase in payrolls, with private jobs up just 100K.

The industry breakdown is similarly uninformative, with ADP data for every sector yielding a larger average forecast error than naively projecting forward the six-month average growth rate of the official data. The data do show, however, that employment at small businesses is continuing to stagnate, supporting our view that SMEs remain under more financial pressure than larger firms.



■ ADP average absolute forecast error for payrolls, Jan. 2023 to Dec. 2024, K
 ■ Average error from assuming average change in prior six months



ADP private payrolls by size of business, y/y%, three-month average

- Small businesses (49 or fewer employees)
- Medium businesses (50-to-499 employees)
- Large businesses (500 or more employees)

