

Datanote: ADP Employment Report, February

In one line: Why use a broken compass when you have GPS?

- ADP reports a 77K increase in private payrolls in January, well below the consensus, 140K. January's increase was revised up slightly to 186K, from 183K.

The abysmal record of ADP's data in forecasting private payrolls suggests that February's weak number should

be largely disregarded. ADP's forecast error, regardless of sign, has averaged a hefty 85K and has been as large as 348K since its methodology was refined in August 2022. That compares unfavorably over the same period with the average consensus forecast error of 56K, and the 78K error from simply taking the average of the first official payroll estimates from the past six months. ADP's sectoral data are just as poor as the headline estimate; the average error in forecasting payrolls for every major sector is larger than

resulting from extrapolating the six-month trend. The employment indicators from the NFIB, S&P Global and regional Fed services surveys, the Indeed data on new job postings, and the Conference Board's survey measure of job availability, all do a much better job than ADP. Averaging the prediction of these five surveys yields a 140K forecast for February private payrolls. We continue to look for a slightly bigger 150K increase, as the disruption caused by heavy snowfall in mid-January unwinds.

