If one uses the historical relationship between log differences in GDP over the 1953-2003 period to compute the forecasted employment (using the Administration’s forecast of GDP growth of 4% 4q/4q), then one obtains the top forecast ($Z_{ERP04}$). If instead one uses the 1990-2003 relationship, then one obtains the bottom line ($Z_{90_03}$). Even the “high” forecast using the 1953-2003 relationship is about 1 million jobs below the Administration’s implied forecast (here using 3% on the actual December 2003 payroll employment figures, thus giving the benefit of a doubt to the Administration). The ±2 standard error band for the 1953-2003 regression based estimate encompasses the implied end-2004 Administration forecast.

Figure 1: Nonfarm Payroll Employment, Implied Administration Forecast, and Econometric Forecasts. Sources: BEA, BLS, author’s calculations.
Underlying Regression, 1953q2-2003q4:

Dependent Variable: D(LPAYEMPL)
Method: Least Squares
Date: 03/09/04   Time: 12:53
Sample(adjusted): 1953:2 2003:4
Included observations: 203 after adjusting endpoints

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.001186</td>
<td>0.000414</td>
<td>2.862976</td>
<td>0.0046</td>
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<tr>
<td>D(LGDP96C_ERP)</td>
<td>0.435348</td>
<td>0.033454</td>
<td>13.01334</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

R-squared: 0.457266     Mean dependent var: 0.004676
Adjusted R-squared: 0.454566     S.D. dependent var: 0.006089
S.E. of regression: 0.004497     Akaike info criterion: -7.960921
Sum squared resid: 0.004065     Schwarz criterion: -7.928279
Log likelihood: 810.0335     F-statistic: 169.3471
Durbin-Watson stat: 0.865996     Prob(F-statistic): 0.000000

Underlying Regression, 1990q1-2003q4:

Dependent Variable: D(LPAYEMPL)
Method: Least Squares
Date: 03/09/04   Time: 13:02
Sample: 1990:1 2003:4
Included observations: 56

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.000692</td>
<td>0.000773</td>
<td>0.894659</td>
<td>0.3749</td>
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<tr>
<td>D(LGDP96C_ERP)</td>
<td>0.342662</td>
<td>0.083855</td>
<td>4.086355</td>
<td>0.0001</td>
</tr>
</tbody>
</table>

R-squared: 0.236191     Mean dependent var: 0.003203
Adjusted R-squared: 0.222046     S.D. dependent var: 0.003980
S.E. of regression: 0.004065     Akaike info criterion: -8.431219
Sum squared resid: 0.000665     Schwarz criterion: -8.358885
Log likelihood: 238.0741     F-statistic: 16.69830
Durbin-Watson stat: 0.551193     Prob(F-statistic): 0.000146

**Data Description:**